

Notice of Special Meeting



The Board of Retirement

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

Tuesday, December 13, 2011, at 8:00 A.M. (Note New Start Time)

Please take notice that the Chair of the Board of Retirement, acting pursuant to the authority of Government Code §54956, hereby calls a special meeting to take place on December 13, 2011, at 8:00 a.m. in SamCERA's Board Room. The special meeting is for the purpose of discussing and transacting the following business:

1. Call to order
2. Roll Call
3. Public Comment
4. Interview Finalists for SamCERA's International Small Cap Manager Mandate (Regular Agenda Item 6.3)
 - 6.3 a Dimensional Fund Advisors: International Small Company Strategy
 - 6.3 b Pyramis Global Advisors: Select International Small Cap
 - 6.3 c Wells Capital Management Incorporated: Berkeley Street International Small Cap Equity
5. Discussion and Selection of SamCERA's International Small Cap Manager (Regular Agenda Item 6.4)
6. Adjournment

Pursuant to Government Code §54954.3, members of the public, to the extent required by law, will have the opportunity to directly address the Board concerning the above-mentioned business.

This notice is to be delivered to each member of the Board of Retirement and to each local newspaper of general circulation and radio or television station requesting notice in writing. The notice shall be delivered personally or by other means, and shall be received at least 24 hours before the time of the meeting as specified in this notice.

Dated: Dec. 12, 2011


Chair, Board of Retirement

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 160, 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 Free Parking is available in all lots in the vicinity of the building.

A copy of the Board of Retirements' open session agenda packet is available for review at the SamCERA offices and on our website unless the writings are privileged or otherwise exempt from disclosure under the provisions of the California Public Records Act. Office hours are Monday through Thursday 7 a.m. – 6 p.m.



The Board of Retirement

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

Tuesday, December 12, 2011, 1:00 p.m.

ADDENDUM

The following has been added to the matters set on the agenda:

1.2 Approval of Resolution Honoring the Substantial and Remarkable Contributions of Lee Buffington.

The Board of Retirement of the San Mateo County Employees' Retirement Association will meet on Tuesday, December 13, 2011, at 1:00 P.M.

PUBLIC SESSION – The Board will meet in Public Session at 1:00 P.M.

1. Call to Order, Roll Call and Miscellaneous Business
 - 1.1 Appointment of Ad Hoc Succession Planning Committee
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
 - Clarita Bundalian
 - Barbara Greenberg
 - Jane Morgan
 - Michael Pugliese
 - Service Retirements
 - Continuances
 - Deferred Retirements
 - Member Account Refunds
 - Member Account Rollovers
 - Approval of FY 2011-12 Contribution Rates
5. Benefit & Actuarial Services
 - 5.1 Consideration of agenda items, if any, removed from the Consent Agenda
 - 5.2 Approval of Amendment to Agreement with Milliman, Inc.
6. Investment Services
 - 6.1 Presentation of the Monthly Portfolio Performance Report
 - 6.2 Quarterly Investment Performance Analysis for period ended September 30, 2011
 - 6.3 Interview Finalists for *SamCERA's* International Small Cap Manager Mandate (Special Meeting Item 4)
 - 6.4 Discussion and Selection of *SamCERA's* International Small Cap Manager (Special Meeting Item 5)
 - 6.5 Report on Semi-Annual Capital Market & Inflation Assumption Review
 - 6.6 Report on the Annual Review of *SamCERA's* Real Estate, Hedge Fund and Risk Parity Portfolios
 - 6.6 a Invesco Real Estate – Invesco Core Real Estate U.S.A., L.P.
 - 6.6 b AQR Capital Management – Global Risk Premium Fund
 - 6.6 c AQR Capital Management – AQR Delta Fund
 - 6.7 Discussion of Private Equity Investment – General Catalyst Group VI
 - 6.8 Review of *SamCERA's* Draft Template Agreement for Investment Management Services
7. Board & Management Support Services
 - 7.1 Presentation of the Monthly Financial Report
 - 7.2 Discussion of Board/Staff Retreat Agenda, Scheduled for **April 24 & 25, 2012**
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

[Continued on page 2 – Printed 12/07/11]

***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

Page 2 of 2



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 Evaluation of Chief Executive Officer pursuant to Government Code Section 54957

9. Report on Actions Taken in Closed Session

10. Adjournment in memory of the following deceased members:

| | | |
|------------------|------------------|--------------------------|
| Mihalcik, Helen | October 2, 2011 | Probation |
| Gahob, Luisa | October 6, 2011 | Crystal Springs |
| Huston, Robert | October 10, 2011 | Assessor's Office |
| Loughran, Mary | October 13, 2011 | Social Services |
| Erickson, George | October 16, 2011 | Sheriff's Office |
| Wong, Robert | October 18, 2011 | Sheriff's Office |
| Giannini, Roland | October 21, 2011 | Assessor's Office |
| Olsson, Maxine | October 21, 2011 | Crystal Springs |
| Reams, Dorothy | October 22, 2011 | Ben of Reams, James |
| Narverud, Ruth | October 23, 2011 | San Mateo Medical Center |
| Perrin, Robert | October 30, 2011 | Sheriff's Office |
| Runels, Robert | October 30, 2011 | Dept. of Argiculture |



David Bailey, Chief Executive Officer

Printed: 12/7/11

THE BOARD MEETS AT 100 MARINE PARKWAY, SUITE 160,

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

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

December 13, 2011

Agenda Item 6.2

October 25, 2011 – Special Board Agenda

PUBLIC SESSION – The Board will meet in Public Session at 8:00 a.m.

1. Call to Order and Roll Call
2. Roll Call
3. Public Comment
4. Interview Finalists for *SamCERA*'s Emerging Market Manager Mandate (Regular Agenda Item 6.2)
 - 6.2a Dimensional Fund Advisors: Emerging Markets Core Equity Portfolio
 - 6.2b Eaton Vance Management (Parametric): Structured Emerging Markets Equity
 - 6.2c Schroeder Investment Management: Emerging Markets Equity
5. Discussion & Selection of *SamCERA*'s Emerging Market Manager (Regular Agenda Item 6.3)
6. Adjournment

October 25, 2011 – Special Board Minutes

1. **Call to Order:** Mr. David, Chair, called the Public Session of the Board of Retirement's Special Meeting to order at 8:09 a.m., October 25, 2011, in *SamCERA*'s Board Room, 100 Marine Parkway, Suite 160, Redwood Shores, California.
2. **Roll Call:** Ms. Arnott, Mr. David, Ms. Kwan Lloyd, Mr. Tashman, Mr. Bowler, Ms. Agnew, Mr. Spinello, Mr. Murphy for Mr. Hackleman and Ms. Settles. *Excused:* Ms. Salas. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Carlson, Mr. Hood, and Ms. Meitz. *Consultants:* Mr. Brody and Mr. Thomas, Strategic Investment Solutions. *Retirees:* 0, Public: 0.
3. **Public Comment:** Mr. Bailey asked the chair for approval to place agenda item 4.0, Approval of Trustee Education Attendance, on that day's consent agenda. A two-third vote of members present is required.

Motion by Tashman, second by Arnott, carried unanimously to place agenda item 4.0, Approval of Trustee Education Attendance, on the October 25, 2011, consent agenda.
4. **Interview Finalists for *SamCERA*'s Emerging Market Manager Mandate (Regular Agenda Item 6.2):** Before the interviews, Mr. Brody and Mr. Thomas, from SIS, gave a short overview of the three candidates.
 - 6.2a **Dimensional Fund Advisors: Emerging Markets Core Equity Portfolio:** Mr. Clifton welcomed the presenters and introduced them to the board members. Mr. Joseph Chi, CFA, Portfolio Manager and Vice President, and Mr. Joseph Young, CFA, Vice President, of Dimensional Fund Advisors, provided a 45-minute presentation and responded to trustees' questions and concerns.

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

- 6.2b **Eaton Vance Management (Parametric): Structured Emerging Markets Equity:** Mr. Clifton welcomed the Eaton Vance Management team and introduced them to the board members. Mr. Ruben Butler, Director, International Portfolio Manager, Brian Langstraat, Chief Executive Officer of Parametric Portfolio Associates, and Mr. Rodrigo Soto, Institutional Business Development, of Eaton Vance Management, provided a 45-minute presentation and responded to trustees' questions and concerns.
- 6.2c **Schroeder Investment Management: Emerging Markets Equity:** Mr. Clifton welcomed the Schroeder Investment Management team and introduced them to the board members. Robert Davy, Deputy Head of Global Emerging Markets, and Mr. Jamie MacMillan, United States Institutional Business Development Director, of Schroeder Investment Management, provided a 45-minute presentation and responded to trustees' questions and concerns.
5. **Discussion & Selection of *SamCERA*'s Emerging Market Manager (Regular Agenda Item 6.3):** After reviewing the pros and cons of the three finalists, the Board of Retirement selected Eaton Vance Management (Parametric).
- Motion** by Agnew, second by Bowler, carried unanimously to select Eaton Vance Management (Parametric), as *SamCERA*'s Emerging Market Manager.
6. **Adjournment:** There being no further business, Mr. David adjourned the meeting at 12:31 p.m.

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

December 13, 2011

Agenda Item 3.0

October 25, 2011 – Board Agenda

PUBLIC SESSION – The Board will meet in Public Session at 1:00 p.m.

1. Call to Order, Roll Call and Miscellaneous Business
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
 - Gene Palo
 - Service Retirements
 - Continuances
 - Deferred Retirements
 - Member Account Refunds
 - Member Account Rollovers
 - Placement Agent Policy
5. Benefit & Actuarial Services
 - 5.1 Consideration of agenda items, if any, removed from the Consent Agenda
 - 5.2 Approval of Fiscal Year 2012-13 Contribution Rates for New Plans
 - 5.3 Approval of Amendment to Agreement with Milliman, Inc.
6. Investment Services
 - 6.1 Presentation of the Monthly Portfolio Performance Report
 - 6.2 Interview Finalists for *SamCERA*'s Emerging Market Manager Mandate (Special Meeting Item 4)
 - 6.3 Discussion and Selection of *SamCERA*'s Emerging Market Manager (Special Meeting Item 5)
 - 6.4 Selection of Finalists to Interview for *SamCERA*'s International Small Cap Manager Search
 - 6.5 Report on the Annual Review of *SamCERA*'s Bond "Strategy" Portfolios
 - 6.5 a Angelo Gordon & Company – AG GECC Public-Private Investment Fund
 - 6.5 b Brigade Capital Management -
 - 6.5 c Brown Brothers Harriman - Treasury Inflation Protected Securities (TIPS)
 - 6.5 d Franklin Templeton Institutional – Global Multi-Sector Plus
 - 6.6 Presentation of Private Equity Investment Opportunity
7. Board & Management Support Services
 - 7.1 Presentation of the Monthly Financial Report
 - 7.2 Approval of the Financial Audit Report for the Period Ended June 30, 2011
 - 7.3 Approval of the Comprehensive Annual Financial Report (CAFR) for the Period Ended June 30, 2011
 - 7.4 Annual Review of *SamCERA*'s Independent Auditor
 - 7.5 Discussion and Approval of *SamCERA*'s Internal Control Structure
 - 7.6 Presentation of Quarterly Budget Report for Period Ended September 30, 2011
 - 7.7 Discussion of Items for the Fall SACRS Business Meeting
 - 7.8 Discussion of Board/Staff Retreat Agenda, Scheduled for **April 24 & 25, 2012**
 - 7.9 Appointment of Ad Hoc CEO Review Committee

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

- 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 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 Conference with Legal Counsel-Existing Litigation Frias v. Dendreon Corp. et al
U.S.D.C. Western District of Washington, Seattle Office
2:11-CV-01291
- 9. Report on Actions Taken in Closed Session
 - 10. Adjournment in memory of the following deceased members:

October 25, 2011 – Board Minutes

0811.1 **Call to Order:** Mr. David, Chair, called the Public Session of the Board of Retirement to order at 1:01 p.m., October 25, 2011, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 160, Redwood Shores, California.

Roll Call: Ms. Arnott, Mr. David, Ms. Kwan Lloyd, Mr. Tashman, Mr. Bowler, Ms. Agnew, Mr. Spinello, Mr. Murphy for Mr. Hackleman and Ms. Settles. *Excused:* Ms. Salas. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Carlson, Mr. Hood, Ms. Wong, Ms. Smith and Ms. Meitz. *Consultants:* Mr. Brody and Mr. Thomas, Strategic Investment Solutions. *Retirees:* 0, *Public:* 0.

0811.2.1 **Oral Communications From the Board:** Mr. Spinello reported attending a very informative CALAPRS Roundtable, and mentioned it being one of the best trustee sessions he ever attended. He noted being interested in attending an upcoming panel that will address the future of the pension system. Mr. Bailey mentioned Ms. Carlson is monitoring proposed "pension reform" legislation, and is planning on submitting a report to the board. Mr. David also reported attending the CALAPRS Roundtable and agreed it was most informative. He also noted he would be interested in attending the next session.

0811.2.2 **Oral Communications From the Public:** None.

0811.3 **Approval of the Minutes:** Ms. Arnott submitted the following corrections to the minutes: 0811.5.3 ~~future~~ corrected to read future, 0811.5.4 Be ~~if~~ further, corrected to read Be it further, 0811.6.5- 6.5a ~~Aberdeen asset~~, **corrected** to read Aberdeen Asset, 0811.6.7 ~~Would authorize~~, corrected to read Would authorize, and 0811.5.4 ~~in accordance with the~~ was deleted.

Motion by Settles, second by Kwan Lloyd, carried unanimously to approve the board minutes of the September 27, 2011, meeting, as amended.

0811.4 **Approval of the Consent Agenda:** Mr. David pulled the disability application of Gene Palo from the day's consent agenda to be taken up under closed session. Please see agenda item 9.0 for Report on Actions Taken in Closed Session.

Motion by Spinello, second by Kwan Lloyd, carried unanimously to approve the day's Consent Agenda, as amended, as follows:

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

Service Retirements:

| Member Name | Effective Retirement Date | Department |
|--------------------|----------------------------------|------------------------------|
| Miskel, Jeanne | July 26, 2011 | Def'd from District Attorney |
| Mix, Evangeline | August 1, 2011 | QDRO of Steven Freedman |
| Venzor-Dunn, Maria | August 4, 2011 | Def'd from SMMC |
| Larcina, Teresita | August 6, 2011 | Environmental Health |
| Moreno, Celia | August 8, 2011 | Behavioral Health |
| Noble, Candice | August 8, 2011 | Building and Planning |
| Coffman, Douglas | August 13, 2011 | Environmental Health |
| Romero, Felipe | August 17, 2011 | Def'd from Public Works |
| Paulo, Ronald | August 20, 2011 | Human Services Agency |
| Gatto, Tim | August 21, 2011 | Probation |
| Pierrie, Herbert | August 31, 2011 | Def'd from Public Health |
| Vura-Weis, Dorothy | August 31, 2011 | Public Health |
| Bygdnes, Jodi | September 1, 2011 | Def'd from SMMC |
| Kim, Solomon | September 1, 2011 | Def'd from SMMC |
| Sapling, Ana | September 1, 2011 | Information Services |

Continuances

| Survivor's Name | Beneficiary of: |
|------------------------|------------------------|
| Fronberg, Dorothy | Fronberg, Raymond |

Deferred Retirements:

| Member Name | Retirement Plan Type |
|--------------------|-----------------------------|
| Edwards, Michael | G4 Vested |
| Grimley, Diana | G4 Vested |
| Sibbring, Justin | G4 Vested - Reciprocity |
| Kremer, Diana | G4 Non-vested - Reciprocity |
| Eugenio, Angelo | G4 Vested - Reciprocity |

Member Account Refunds

| Member Name | Retirement Plan Type |
|--------------------|-----------------------------|
| Carr, Rahsaan | G4 Non-vested |
| Dorman, Jefferson | G4 Non-vested |
| Gonzalez, Anamaria | G4 Non-vested |
| Gutierrez, Nestor | G4 Non-vested |
| Nand, Kajal | Ben of Kaliappan, Madu |
| Nand, Navneel | Ben of Kaliappan, Madu |
| Serafica, Anthony | G4 Non-vested |
| Yumang, Ma | G4 Non-vested |

Member Account Rollovers

| Member Name | Retirement Plan Type |
|--------------------|-----------------------------|
| Bodin, Gregory | G4-Non-vested |
| Drake, Carole | G2-Non-vested |
| Geller, Elizabeth | G4-Non-vested |
| Samaro, Louis | G4 Non-vested |

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

Approval of Amendments to *SamCERA's* Policy Regarding Placement Agents: Mr. Bailey reported that Government Code section 7513.85, enacted in 2010, requires all public pension systems to adopt a policy regarding "placement agents." The Board adopted a policy in compliance with this requirement. Since its enactment, the law has been amended twice, with the most recent amendment occurring on October 9, 2011, with the chaptering of SB 398. This latest amendment, which is urgency legislation, modifies the statutory definition of "External Manager", "Investment Vehicle", and "Placement Agent." *SamCERA's* policy needs to be amended to reflect these changes. Mr. Bailey also noted that the changes are for clarification purposes and will not affect the implementation of *SamCERA's* policy.

Motion by Spinello, second by Kwan Lloyd, carried unanimously to approve and adopt **Resolution** 11-12-10, amending Policy Requiring Disclosure of Placement Agent Fees, Gifts, and Campaign Contributions.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

RESOLUTION 11-12-10

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
**RESOLUTION AMENDING POLICY REQUIRING DISCLOSURE OF
PLACEMENT AGENT FEES, GIFTS, AND CAMPAIGN CONTRIBUTIONS**

WHEREAS, Government Code §7513.85 requires the board to develop and implement, a policy requiring the disclosure of payments to placement agents in connection with system investments in or through external managers; and

WHEREAS, Government Code §7513.85 mandates that the policy include certain requirements and this board has read the attached policy "Requiring Disclosure of Placement Agent Fees, Gifts, and Campaign Contributions" and determined that all such requirements are included in the policy; and

WHEREAS, Government Code §7513.8 was amended in October 9, 2011, to change certain definitions; and

WHEREAS, this board has determined that adopting this amendment to the current policy is consistent with its fiduciary responsibilities; now, therefore be it

RESOLVED that the board hereby adopts the attached "Policy Requiring Disclosure of Placement Agent Fees, Gifts, and Campaign Contributions."

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



SamCERA Policy

DISCLOSURE OF PLACEMENT AGENT FEES, GIFTS, AND CAMPAIGN CONTRIBUTIONS

***Adopted by the Board of Retirement
December 14, 2010, last amended October 25, 2011***

This policy is effective immediately upon adoption. This policy is intended to supplement any applicable provisions of state or federal law.

I. PURPOSE

This Policy sets forth the circumstances under which the San Mateo County Employees' Retirement Association (*SAMCERA*) shall require the disclosure of payments to *Placement Agents*, as that term is defined by Government Code section 7513.8, in connection with *SAMCERA* investments in or through *External Managers*, as that term is defined by Government Code section 7513.8. This Policy is intended to apply broadly to all of the types of investment partners with whom *SAMCERA* does business, including the general partners, managers, investment managers and sponsors of hedge funds, private equity funds, real estate funds and infrastructure funds, as well as investment managers retained pursuant to a contract. *SAMCERA* adopts this Policy to require broad, timely, and updated disclosure of all Placement Agent relationships, compensation and fees. The goal of this Policy is to help ensure that *SAMCERA* investment decisions are made solely on the merits of the investment opportunity by individuals who owe a fiduciary duty to *SAMCERA*.

II. APPLICATION

This Policy applies to all agreements with External Managers that are entered into after the date this Policy is adopted. This Policy also applies to existing agreements with External Managers if, after the date this Policy is adopted, the agreement is amended in any way to continue, terminate, or extend the term of the agreement or the investment period, increase the commitment of funds by *SAMCERA* or increase or accelerate the fees or compensation payable to the External Manager (Referred to hereafter as "Amendment".) In the case of an Amendment, the disclosure provisions of this Policy shall apply to the Amendment and not to the original agreement.

IV. RESPONSIBILITIES

- A. The Board is responsible for:
1. not entering into any agreement with an External Manager that does not agree in writing to comply with this policy.

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

2. not entering into any agreement with an External Manager who has violate this policy within the previous five years. However, this prohibition may be reduced by a majority vote of the board at a public session upon a showing of good cause.
- B. Each External Manager is responsible for:
1. Providing a statement in writing that the External Manager will comply with this policy.
 2. Providing the following information to the *SAMCERA* Investment Staff within 45 days of the time investment discussions are initiated by the External Manager, but in any event, prior to the completion of due diligence. In the case of Amendments, the Placement Agent Information Disclosure is require prior to execution of the Amendment.
 - a. Disclosure of payments or compensation by the External Manager or any of its principals, employees, agents or affiliates, directly or indirectly, to any person or entity to act as a Placement Agent in connection with *SAMCERA* investments.
 - b. A resume for each officer, partner, principal of the Placement Agent detailing the person's education, professional designations, regulatory licenses and investment and work experience. If any such person is a current or former *SAMCERA* Board Member, employee or Consultant or a member of the immediate family of any such person, this fact shall be specifically noted.
 - c. A description of any and all compensation of any kind provided or agreed to be provided to a Placement Agent, including the nature, timing and value thereof. Compensation to Placement Agents shall include, but not be limited to, compensation to third parties as well as employees of the External Manager who solicit or market investments to *SAMCERA* or who are paid based upon investment commitments secured by such employees.
 - d. A description of the services to be performed by the Placement Agent and a statement as to whether the Placement Agent is utilized by the External Manager with all prospective clients or only with a subset of the External Manager's prospective clients.
 - e. A written copy of any and all agreements between the External Manager and the Placement Agent.

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

- f. A statement whether the placement agent, or any of its affiliates, are registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association, or any similar regulatory agent in a country other than the United States, and the details of that registration or explanation as to why no registration is required.
 - g. A statement whether the placement agent, or any of its affiliates, is registered as a lobbyist with any state or national government.
 - h. The names of any current or former *SAMCERA* Board Members, employees, or Consultants who suggested the retention of the Placement Agent.
- 4. Providing an update of any changes to any of the information provided pursuant to section B.2 above within 14 calendar days of the date that the External Manager knew or should have known of the change in information.
 - 5. Representing and warranting the accuracy of the information described in section B.2 above.
 - 6. Causing its engaged Placement Agent to disclose, prior to acting as a Placement Agent to *SAMCERA*,
 - a. all campaign contributions made by the Placement Agent to any publicly elected *SAMCERA* Board Member during the prior 24-month period. Additionally, any subsequent campaign contribution made by the Placement Agent to any publicly elected *SAMCERA* Board Member during the time the Placement Agent is receiving compensation in connection with a *SAMCERA* investment shall also be disclosed.
 - b. all gifts, as defined in Government Code Section 82028, given by the Placement Agent to any *SAMCERA* Board Member during the prior 24-month period. Additionally, any subsequent gift made by the Placement Agent to any *SAMCERA* Board Member during the time the Placement Agent is receiving compensation in connection with a *SAMCERA* investment shall also be disclosed.
 - 7. *SAMCERA* reserves the right to deem the failure to disclose the information required by 5(a) and 5(b) as a material breach of the agreement with the External Manager.
- D. *SAMCERA* Investment Staff (“Staff”) are responsible for:
- 1. Providing External Managers with a copy of this Policy at the time that discussions are initiated with respect to a prospective investment or

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

engagement.

2. Confirming that the information in section B above has been received within 45 days of the time investment discussions are initiated, but in any event, prior to the completion of due diligence and any recommendation to proceed with the contract or Amendment.
3. For new contracts and amendments to contracts existing as of the date of the initial adoption of this Policy, securing the agreement of the External Manager in the final written agreement between *SAMCERA* and the External Manager to provide in the event that there was or is an intentional material omission or inaccuracy in the Placement Agent Information Disclosure or any other violation of this Policy, *SAMCERA* is entitled to the greater of the reimbursement of any management or advisory fees paid by *SAMCERA* for the prior two years or an amount equal to the amounts paid or promised to be paid to the Placement Agent as a result of the *SAMCERA* investment; and
4. Prohibiting any External Manager or Placement Agent from soliciting new investments from *SAMCERA* for five years after they have committed a material violation of this Policy; *provided, however*, that *SAMCERA*'s Board, by majority vote at a noticed, public meeting, may reduce this prohibition upon a showing of good cause.
5. Providing a quarterly report to the Board containing (a) the names and Amount of compensation agreed to be provided to each Placement Agent by each External Manager as reported in the Placement Agent Information Disclosures and (b) any material violations of this Policy; and maintaining the report as a public record.

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

DEFINITIONS:

The following definitions are current as of October 9, 2011. Should the legislature subsequently amend the definitions below, the definition of these terms as amended shall supersede the definitions contained in this policy.

As defined in California Government Code section 7513.8 “**External Manager**” means either of the following: (1) a Person who is seeking to be, or is, retained by a board or an Investment Vehicle to manage a portfolio of securities or other assets for compensation; (2) a Person who manages an Investment Fund and who offers or sells, or has offered or sold, an ownership interest in the Investment Fund to a board or an Investment Vehicle. (All code section references are to the Government Code, unless otherwise noted.)

As defined in section 7513.8, “**Person**” means an individual, corporation, partnership, limited partnership, limited liability company, or association, either domestic or foreign.

As defined in section 7513.8, “**Investment Vehicle**” means a corporation, partnership, limited partnership, limited liability company, association, or other entity, either domestic or foreign, managed by an External Manager in which a board is the majority investor and that is organized in order to invest with, or retain the investment management services of, other External Managers.

As defined in section 7513.8, “**Investment Fund**” means a private equity fund, public equity fund, venture capital fund, hedge fund, fixed income fund, real estate fund, infrastructure fund, or similar pooled investment entity that is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, owning, holding, or trading securities or other assets. Notwithstanding the preceding sentence, an investment company that is registered with the Securities and Exchange Commission pursuant to the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.) and that makes a public offering of its securities is not an Investment Fund.

As defined in section 7513.8, “**Placement Agent**” means any Person directly or indirectly hired, engaged, or retained by, or serving for the benefit of or on behalf of, an External Manager or an Investment Fund managed by an External Manager, and who acts or has acted for compensation as a finder, solicitor, marketer, consultant, broker or other intermediary in connection with the offer or sale to a board or an Investment Vehicle either of the following: in the case of an External Manager as defined in subpart (1) of the definition of an External Manager, the investment management services of the External Manager; in the case of an External Manager as defined in subpart (2) of the definition of an External Manager, an ownership interest in an Investment Fund managed by the External Manager. Notwithstanding the preceding sentence, an individual who is an employee, officer, director, equityholder, partner, member, or trustee of an External Manager and who spends one-third or more of his or her time, during a calendar year, managing the securities or assets owned, controlled, invested, or held by the External Manager is not a Placement Agent.

0811.5 **Benefit & Actuarial Services**

0811.5.1 **Consideration of Agenda Items, if any, removed from the Consent Agenda:** Please see agenda item 9.0 for Report on Actions Taken in Closed Session.

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

0811.5.2 **Approval of Fiscal Year 2012-13 Contribution Rates for New Plans:** Mr. Bailey recommended that the board adopt a resolution amending “Resolution number 11-12-09, ‘Accepting Contribution Rates To Recommend To The Board of Supervisors for the 2012-2013 Fiscal Year.’ ” Mr. Bailey reported that at the September meeting, the board accepted the 2011 Actuarial Valuation and approved the 2012-2013 employer and employee contribution rates for most general and safety employees. With the adoption of this amendment, the resolution will contain all employer and member contribution rates, for members in old plans and new plans that will go into effect in July 2012.

Motion by Agnew, second by Kwan Lloyd, carried unanimously to amend **Resolution 11-12-09**, as follows:

RESOLUTION 11-12-11

RESOLUTION AMENDING RESOLUTION 11-12-09 ACCEPTING CONTRIBUTION RATES TO RECOMMEND TO THE BOARD OF SUPERVISORS FOR THE 2012-2013 FISCAL YEAR.

WHEREAS, Government Code §31453 mandates the periodic actuarial valuation of the Retirement Fund and requires that the Board...”shall, at least 45 days prior to the beginning of the succeeding fiscal year, 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 Board has received and accepted the June 30, 2011, valuation report from its Actuarial firm, Milliman, Inc.; and

WHEREAS, maintaining payment of the 2011-12 employer rates will lower the level of expected future increases and help keep *SamCERA* on a path toward greater fiscal strength; and

WHEREAS, on September 27, 2011, this board adopted Resolution 11-12-09 Accepting Contribution Rates to Recommend to the Board of Supervisors for the 2012-2013 Fiscal Year for members hired prior to the implementation of new benefit formulas in 2011 and 2012; and

WHEREAS, Milliman, Inc. has provided employer and employee contribution rates to recommend to the Board of Supervisors for those hired after implementation of new benefit formulas in 2011 and 2012; and

WHEREAS, this board now desires to amend the resolution in order to add the 2012-13 employer and employee rates for all general and safety members hired after the implementation of new benefit formulas in 2011 and 2012; and

WHEREAS, the Chief Executive Officer has recommended, in agreement with Milliman, Inc., the rates necessary to assure the actuarial soundness of the Retirement Fund,

Therefore, be it

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

RESOLVED that the Board hereby accepts the employer and member contribution rates as set forth in the attached schedules and letters from Milliman, Inc. for the fiscal year 2012-2013.

Be it further

RESOLVED that the Board of Retirement hereby recommends that the Board of Supervisors Adopt the recommended entry age member contribution rates for members hired prior to the implementation of new benefit formulas in 2011 and 2012 of the County of San Mateo, the San Mateo Superior Court and the San Mateo County Mosquito & Vector Control District in accordance with the schedules set forth in the attachments provided by Milliman, Inc., entitled "Exhibit D-2: Basic Plus Cost-Sharing Member Contribution Rates (Attachment 1), and "Exhibit D-3: Basic Plus Cost-Sharing Member Contribution Rates, With 25% COLA Share" (attachment 2), as a percentage of covered salaries, effective July 1, 2012;

RESOLVED that the Board recommends that the Board of Supervisors adopt the recommended employer contribution rates for members hired prior to the implementation of new benefit formulas in 2011 and 2012 for the County of San Mateo, the San Mateo Superior Court and the San Mateo County Mosquito & Vector Control District in accordance with the schedules provided by Milliman, Inc. in a letter of September 26, 2011, to David Bailey, Chief Executive Officer, Re: "Update to County Contribution Rates for Fiscal Year Beginning July 1, 2012" as a percentage of covered salaries, effective July 1, 2012; (Attachment 3) and

Be it further

RESOLVED that the Board recommends that the Board of Supervisors adopt the recommended employer contribution rates for members hired after the implementation of new benefit formulas in 2011 and 2012 for the County of San Mateo, the San Mateo Superior Court and the San Mateo County Mosquito & Vector Control District in accordance with schedules provided by Milliman, Inc. in a letter of October 18, 2011, to David Bailey, Chief Executive Officer, Re: "June 30, 2011 Actuarial Valuation Addendum – New Plans" as a percentage of covered salaries, effective July 1, 2012; (Attachment 4) and,

Be it further

RESOLVED that the Board of Retirement hereby recommends that the Board of Supervisors adopt the recommended entry age member contribution rates for members hired after the implementation of new benefit formulas in 2011 and 2012 of the County of San Mateo, the San Mateo Superior Court and the San Mateo County Mosquito & Vector Control District in accordance with the schedules set forth in the attachments provided by Milliman, Inc., entitle "in accordance with schedules provided by Milliman, Inc. in a letter of October 18, 2011, to David Bailey, Chief Executive Officer, Re: "June 30, 2011 Actuarial Valuation Addendum – New Plans" as a percentage of covered salaries, effective July 1, 2012; (Attachment 4) and;

Be it further

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

RESOLVED that the Chief Executive Officer is hereby authorized to transmit these rates and recommendations to the Board of Supervisors and to take all actions necessary to provide for their implementation effective July 1, 2012.

INDEX OF
ATTACHMENTS
TO RESOLUTION AMENDING RESOLUTION 11-12-09 ACCEPTING
CONTRIBUTION RATES TO RECOMMEND TO THE
BOARD OF SUPERVISORS
FOR THE 2012-2013 FISCAL YEAR.

1. **“Exhibit D-2: Basic Plus cost-Sharing Member Contribution Rates**

(Member contribution rates for members hired prior to the implementation of new Benefit formulas in 2011 and 2012.)
2. **“Exhibit D-3: Basic Plus Cost-Sharing Member contribution Rates, With 25% COLA Share” as a percentage of covered salaries, effective July 1, 2012”**

(Member contribution rates for members hired prior to the implementation of new benefit formulas in 2011 and 2012.)
3. **Letter of September 26, 2011, to David Bailey, Chief Executive Officer, Re: “Update to County Contribution Rates for Fiscal Year Beginning July 1, 2012”**

(Employer contribution rates for members hired prior to the implementation of new Benefit formulas in 2011 and 2012.)
4. **Letter of October 18, 2011, to David Bailey, Chief Executive Officer, Re: “June 30, 2011 Actuarial Valuation Addendum – New Plans” as a percentage of covered salaries, effective July 1, 2012.**

(Employer and member contribution rates for members hired after the implementation of new benefit formulas in 2011 and 2012.)

0811.5.3 **Approval of Amendment to Agreement with Milliman, Inc.:** Mr. Bailey reported discussions with Milliman, Inc. regarding the extension of the actuarial contract that will end on December 31, 2011. A three-year extension is being negotiated, with a proposed increase in fees to account for the additional work related to newly implemented benefit formulas, member contributions, and the anticipated services related to the implementation of rule changes by the Government Accounting Standards Board (GASB). Although all Milliman’s projects have been well received by the board and staff, Mr. Bailey said there were ongoing discussions regarding the wording of some contract clauses. Ms. Carlson also noted that she was not comfortable with the legal language in the agreement. After an extensive discussion, no action was taken and Mr. David decided to move this agenda item to the board meeting in December.

0811.6 **Investment Service**

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

0811.6.1 **Presentation of the Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* -5.60% Total Fund Return for the month out-performed the Total Plan Policy Benchmark return of -6.24% by 64 basis points. The out performance may be attributed to the underweight to equities and the larger than normal cash balance. He went on to mention that after a dismal first quarter for the fiscal year, the fund's return for the trailing twelve months has suffered. The return at 1.37% is 638 basis points (bps) below the Actuarial Discount Rate of 7.75%. For the same period, the total fund return is 68 basis points ahead of *SamCERA's* Total Plan Policy Benchmark of 0.69%. Even though *SamCERA* out-performed the policy benchmark for the month and the trailing twelve months, the board should remember that the plan is expected to underperform the Total Plan Policy Benchmark in the initial stages of its private equity implementation. A discussion ensued regarding preliminary reports verses actual. This topic will be continued at the next investment meeting.

| Asset Class | Market Value | 1-Month | 1-year TTWRR* | 5-year TTWRR* |
|-----------------------------|----------------------|---------------|---------------|---------------|
| <i>Domestic Equity</i> | 736,910,846 | -8.10% | -0.69% | -2.49% |
| <i>International Equity</i> | <u>336,482,613</u> | -10.35% | -10.97% | -2.82% |
| Total Equity | 1,073,393,458 | -8.82% | -4.01% | -2.63% |
| Private Equity | 11,105,153 | 0.96% | N/A | N/A |
| Risk Parity | 146,355,440 | -2.59% | N/A | N/A |
| Hedge Fund | 69,042,470 | -0.81% | N/A | N/A |
| Fixed Income | 572,210,079 | -2.07% | 4.03% | 5.66% |
| Real Estate Aggregate | 135,475,106 | 0.00% | 16.15% | -0.31% |
| Commodities | 67,006,505 | -8.32% | N/A | N/A |
| Cash Equivalents | 43,626,850 | 0.03% | 0.91% | 1.34% |
| TOTAL FUND | 2,118,215,061 | -5.60% | 1.37% | 0.44% |
| Benchmark | | -6.24% | 0.69% | 1.62% |

0811.6.2 **Interview Finalists for *SamCERA's* Emerging Market Manager Mandate:** See minutes of October 25, 2011, Special Board Meeting.

0811.6.3 **Discussion and Selection of *SamCERA's* Emerging Market Manager:** Mr. Clifton reported that there were ten firms that passed the board's screening criteria for the mandate. From that field, the board invited three firms to interview: Dimensional Fund Advisors, Eaton Vance Management (Parametric), and Schroder Investment Management. The board discussed the merits of the three finalists and selected Eaton Vance Management (Parametric) at the 8:00 a.m. Special Meeting of the Board of Retirement.

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

- 0811.6.4 **Selection of Finalists to Interview for *SamCERA*'s International Small Cap Manager Search:** Mr. Brody of Strategic Investment Solutions, Inc. (SIS) performed an overview of the RFI (Request for Information) process for the international small cap manager search. He reported sending out 9 RFI packets. SIS then reviewed and ranked the responses based on the main search criteria. Mr. Brody said that there were several strong candidates, but based on the information gathered from the responses to the RFI, SIS in conjunction with staff, recommended the following four candidates: (1) Dimensional Fund Advisors, (2) Franklin Templeton Investments, (3) Pyramis Global Advisors, and (4) Wells Capital Management Incorporated.

After discussing the pros and cons of each candidate, the board chose three of the four finalists to interview at the December 13, 2011, meeting of the Board of Retirement.

Motion by Spinello, second by Settles, carried unanimously to invite: (1) Dimensional Fund Advisors, (2) Pyramis Global Advisors, and (3) Wells Capital Management Incorporated, to interview at the December 13, 2011, Board of Retirement meeting.

- 0811.6.5 **Reports on the Annual Reviews of *SamCERA*'s Bond "Strategy" Portfolios**

6.5a Angelo Gordon & Company- AG GECC Public-Private Investment Fund: Mr. Thomas provided an overview of Angelo Gordon's annual review on October 6, 2011. Those present were: Lauryn Agnew, *SamCERA* Trustee; Ben Bowler, *SamCERA* Trustee; Patrick Thomas, SIS; Steve Masarik, SIS; David Bailey, *SamCERA*'s Chief Executive Office; Andrew L. Solomon, Angelo Gordon & Company- Portfolio Manager, Managing Director, and Ruth Gitlin, Angelo Gordon & Company – Managing Director, Client Services. Staff and consultants reviewed *SamCERA*'s special strategy bond managers in *SamCERA*'s building conference room. Mr. Thomas gave a short informational report on Angelo Gordon's strategy and investment performance, and later answered questions from the board.

6.5b Brigade Capital Management: Mr. Thomas provided an overview of Brigade Capital Management's annual review held on October 6, 2011. Those present were: Lauryn Agnew, *SamCERA* Trustee; Ben Bowler, *SamCERA* Trustee; Patrick Thomas, SIS; Steve Masarik, SIS; David Bailey, *SamCERA*'s Chief Executive Officer; Don Morgan, Brigade Capital Management, CFA, Portfolio Manager, Managing Partner (Don was on the telephone), Gregory Soeder, Brigade Capital Management – CFA, Director, Product Specialist, and Rob Brady, Brigade Capital Management – Director of Institutional Sales. Mr. Thomas gave a short informational report on Brigade's strategy and investment performance, and later answered questions from the board.

6.5c Brown Brothers Harriman – Treasury Inflation Protected Securities (TIPS): Mr. Thomas provided an overview of Brown Brothers' annual review on October 6, 2011. Those present were: Lauryn Agnew, *SamCERA* Trustee; Ben Bowler, *SamCERA* Trustee; Patrick Thomas, SIS; Steve Masarik, SIS; David Bailey, *SamCERA*'s Chief Executive Officer, and John P. Nelson, Managing Director. Mr. Thomas gave a short informational report on Brown Brothers' strategy and investment performance, and later answered questions from the board.

6.5d Franklin Templeton Institutional – Global Multi-Sector Plus: Mr. Thomas provided an overview of Franklin Templeton's annual review, held on October 6, 2011. Those present were Lauryn Agnew, *SamCERA* Trustee; Ben Bowler, *SamCERA* Trustee; Patrick Thomas, SIS; Steve Masarik, SIS; David Bailey, *SamCERA*'s Chief Executive Officer; Brian Henry, CFA –

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

Vice President, Institutional Portfolio Manager, and Thomas J. Dickson, Senior Vice President, Client Services. Mr. Thomas gave a short informational report on Franklin Templeton's strategy and investment performance, and later answered questions from the board.

0811.6.6 **Presentation of Private Equity Investment Opportunity:** Moved to December's Agenda.

0811.7 **Board & Management Support Services**

0811.7.1 **Presentation of the Monthly Financial Report:** In an informational report, Ms. Wong reported that *SamCERA's* Net Assets Held in Trust for Pension Benefits as of September 30, 2011, totaled \$2,121,737,332. Net assets held in trust for pension benefits decreased by approximately \$126.4 million, month over month. The decrease is primarily due to market depreciation in assets.

0811.7.2 **Approval of the Financial Audit Report for the Period Ended June 30, 2011:** Ms. Wong welcomed and introduced Mr. Andrew Paulden, *SamCERA's* Independent Auditor, of Brown Armstrong Accountancy Corporation. Mr. Paulden began his report by first providing an overview of how the audit is conducted. On the **Independent Auditor's Report**, he noted conformity with accounting principles generally accepted in the United States of America. On the **Auditor's Report on Internal Control over Financial Reporting**, he said there were no matters involving the internal control over financial reporting and its operation that they considered to be material weaknesses. On the **Required Communications to the Audit Committee**, he stated that the communication provided an overview of the auditor's responsibility under the U.S. Generally Accepted Auditing Standards. The report provided the reader with useful information to assist in understanding the audit process and accounting policies utilized to complete the audit. 4) On the **Report to Management**, this report had two current year findings: a) timely reconciliation of the securities lending account, and b) reconciliation of certain alternative asset manager's statements with the custodian's postings. In conclusion, Mr. Paulden said it was a clean report. A short discussion ensued regarding the audit process

Motion by Arnott, second by Kwan Lloyd, and unanimously carried to approve the Financial Audit Report for the Period Ended June 30, 2011.

0811.7.3 **Approval of Comprehensive Annual Financial Report (CAFR) for the Period Ended June 30, 2011:** Ms. Wong introduced *SamCERA's* Comprehensive Annual Financial Report for the period ended June 30, 2011. She thanked Mr. Colin Bishop, *SamCERA's* new Communications Specialist, for his efforts in updating the look. It was also noted that for the fourteenth consecutive year, the Government Finance Officers Association (GFOA) awarded *SamCERA* its Certificate of Achievement for Excellence in Financial Reporting.

Motion by Bowler, second by Kwan Lloyd, and unanimously carried to approve the Comprehensive Annual Financial Report (CAFR) for the Period Ended June 30, 2011.

0811.7.4 **Annual Review of *SamCERA's* Independent Auditor:** Mr. Andrew Paulden provided a summary of Brown Armstrong's organizational update, answering questions from an audit services questionnaire and responded to board questions and comments. It was noted that the staff and trustees are pleased with the quality of advice and services provided by Brown Armstrong Accountancy Corporation.

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

0811.7.5 **Discussion and Approval of *SamCERA's* Internal Control Structure:** Mr. Clifton noted that at the conclusion of the June 30, 2006, audit, the Audit Committee opined that staff should develop and implement an internal controls system to identify and asses *SamCERA's* risks. Five internal control standards, issued by the United States General Accounting Office, were addressed. Mr. Clifton noted that the purpose of the controls is to guide *SamCERA's* management in carrying out its goals and objectives. This guidance is not intended to take the place of management's judgment or to dictate how management chooses to carry out its responsibilities.

Motion by Tashman, second by Settles, and carried unanimously to approve *SamCERA's* Internal Control Structure.

0811.7.6 **Presentation of Quarterly Budget Report for Period Ended September 30, 2011:** Mr. Clifton reported the preliminary First Quarter Budget Reports. He said that the adopted administrative budget by category, versus the preliminary fiscal expenditures is shown in the table below. *SamCERA* expended 19.9% of the appropriations. The administrative budget expenditures are not linear. Many of the appropriations will be expended later in the fiscal year. In prior years, *SamCERA* separated administrative expenditures and asset management expenditures. Those two budgets have been combined beginning this fiscal year. Under Salaries & Benefits, *SamCERA* budgets all positions and benefits. Under Service & Supplies, the association budgets all overhead and operational expenditures. This year's budget has not allocated any appropriation for Capital Assets.

***SamCERA's* Administrative Budget**

| | Adopted Budget | YTD Preliminary |
|---------------------|--------------------|--------------------|
| Salaries & Benefits | \$3,465,963 | \$627,245 |
| Services & Supplies | \$1,268,237 | \$316,664 |
| Capital Assets | <u>\$ 0</u> | <u>\$ 0</u> |
| Total | \$4,734,200 | \$ 943,909 |

This Technology Budget provides a review of the line item technology appropriations versus the preliminary expenditures. Most of the appropriations for this budget will occur later in the fiscal year.

***SamCERA's* Technology Budget**

| | Adopted Budget | YTD Preliminary |
|----------------------|--------------------|--------------------|
| Property & Equipment | \$60,000 | \$15,263 |
| IT Infrastructure | \$1,806,000 | \$120,278 |
| IT Total | \$1,866,000 | \$135,541 |

0811.7.7 **Discussion of Items for the Fall SACRS Business Meeting:** Mr. Bailey reported that at the September 27th board meeting, the board selected its Fall SACRS Business Meeting voting delegates. The delegates were: Mr. David, as the Voting Delegate, Mr. Spinello as the First Delegate Alternate, and Mr. Bailey as the Second Delegate Alternate. Ms. Carlson reviewed and discussed the proposals recommended by the Legislative Committee for 2012 SACRS

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

Sponsorship. Those topics included: Electronic Signature, Group Dental Plan, 1937 Act Trustee Continuing Education, and Heart Illness Rebuttable Presumption.

08117.8 **Discussion of Board/Staff Retreat Agenda, Scheduled for April 24 & 25, 2012:** Mr. Bailey asked the board for input and direction for the 2012 Board/Staff Retreat to be held on April 24 & 25th. He provided a draft handout entitled Agenda & Presenters and reviewed the contents. After a lengthy discussion on different topics, Mr. Bailey said he would return at the December meeting with an updated agenda.

08117.9 **Appointment of Ad Hoc CEO Review Committee:** Mr. Bailey recommended that the board chair appoint a committee to conduct the annual CEO performance review. That committee will report its conclusions to the full board after the first of the year. Mr. David appointed Ms. Settles to head the committee. To assist Ms. Settles, Mr. David appointed Mr. Bowler and Mr. Spinello. Mr. David encouraged the new committee members to reach out to Ms. Agnew and Ms. Arnott, prior committee chairs, for assistance, if needed.

0811.8 **Management Reports**

0811.8.1 **Chief Executive Officer's Report:** None

0811.8.2 **Assistant Executive Officer's Report:** Mr. Hood reported slow moving progress, but anticipates completion of the office spaces by the December board meeting.

0811.8.3 **Chief Investment Officer's Report:** Mr. Clifton thanked his staff for a job well done on the CAFR report, and briefly reminded the board of upcoming interviews.

0811.8.4 **Chief Legal Counsel's Report:** Ms. Carlson had nothing to report.

0811.9 **Report on Actions Taken in Closed Session:** Ms. Carlson reported that Mr. David took the board meeting into closed session (item C1) to discuss the disability application of Gene Palo. The board unanimously approved staff's recommendation to grant her application for a service-connected disability.

Mr. David adjourned the closed session and took up agenda item 5.2

The board also went into closed session for item C2. No reportable action was taken.

0811.10 **Adjournment in Memory of Deceased Members:** There being no further business, Mr. David adjourned the meeting at 4.05 p.m., in memory of the following deceased members:

| | | |
|-----------------------|--------------------|----------------------------|
| Eisenberg, Esther | August 24, 2011 | Chope Hospital |
| Morse, Robert | September 2, 2011 | District Attorney's Office |
| Hocking, Bonnie | September 5, 2011 | Library |
| Clark, Marjorie | September 8, 2011 | Health Services |
| Nance, E. Jean | September 10, 2011 | Mental Health Dept. |
| Stiefelmaier, Charles | September 20, 2011 | Parks Dept. |
| McMillan, Robert | September 23, 2011 | Social Services |
| Carey, Sally | September 25, 2011 | Library |
| Tibbs, Jacqueline | September 29, 2011 | General Hospital |

AL DAVID, CHAIR

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

December 13, 2011

Agenda Item 1.1

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer



SUBJECT: Appointment of Ad Hoc Succession Planning Committee

Staff Recommendation


Staff recommends the board chair appoint an Ad Hoc Succession Planning Committee to identify, discuss and make recommendations to the full board regarding the transition of the Chief Investment Officer position and other agency leadership positions.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

December 13, 2011

Agenda Item 4.0

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer 

SUBJECT: Approval of Fiscal Year 2011-12 Contribution Rates

Staff Recommendation

Staff recommends the board approve the attached resolution adopting current year contribution rates for categories of employees that have resulted from newly negotiated benefit provisions.

Summary

The board approved all of the rates included with this memo, except rates for two new member categories, at the May 24, 2011, meeting. Events concluded after that approval now require the board's approval of contribution rates for the two additional categories. The attached resolution covers all employer and employee rates that must be implemented during the current fiscal year as the result of new benefit provisions. This will consolidate all such rates into one resolution that can, after the board's approval, be forwarded to the Board of Supervisors.

Background

The county now has new labor agreements with bargaining units representing all its employees. These agreements include changes to benefit formulas and place additional contribution requirements on new employees and in one case on current employees.

The board approved employer and employee contribution rates to be implemented in the current fiscal year for four new member categories at its May 24, 2011, meeting. Since that time, negotiations have concluded with the remaining bargaining units and a fifth category, hired during the current fiscal year, now exists. This category is being called, "Safety/non PDA Plan 6 (2% @ 50). The contribution rates requested for it would apply to any safety management employees hired on or after January 8, 2012, and prior to the beginning of the 2012-13 fiscal year when other new rates, already approved, will go into effect. It was not expected that the county would hire any members that would be members of this category prior to the coming fiscal year. However, negotiations between the county and area cities to absorb police services could result in the county absorbing police officers from such cities that could fit into this category.

A sixth member category has also been added. This includes current CNA members hired prior to August 7, 2011. Beginning January 8, 2012, these members are to begin paying 25% of the actuarial cost of the COLA.

The employer and employee contribution rates required during the current fiscal year have been calculated by Milliman, Inc. and are included in the attached letter of October 18, 2011, from Nick J. Collier of Milliman to David Bailey, *SamCERA* CEO. The letter updates all contribution rates to be paid during the current 2011-12 fiscal year that have resulted from approval of new benefit provisions.

Fiscal Year 2011-2012 Contribution Rates for New Benefit Provisions

RESOLUTION 11-12-__

THIS RESOLUTION, adopted by the Board of Retirement (Board) of the San Mateo County Employees' Retirement Association (SamCERA), recommends contribution rates to the Board of Supervisors, effective for the 2011-2012 fiscal year.

WHEREAS, Government Code §31453 mandates the periodic actuarial valuation of the Retirement Fund and requires that the Board 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 County of San Mateo and its bargaining units have entered into agreements to make certain benefit formulas and contribution options of the 1937 Act effective during the 2011-12 fiscal year, and

WHEREAS, these agreements create additional plans of benefits and contributions that differ based on hire date and category of employee, and

WHEREAS, contribution rates should be consistent with the actuarial assumptions regarding the accrual of benefits and assets, and

WHEREAS, the Board has received the recommended employer and employee contribution rates for members hired during specific time periods designated for each category of employee from its actuarial firm, Milliman, Inc., and

WHEREAS, the Chief Executive Officer has recommended, in agreement with Milliman, Inc., the contribution rates necessary to assure the actuarial soundness of the Retirement Fund.

Therefore, be it

RESOLVED that the Board hereby approves the employer and employee contribution rates as set forth in the attached letter dated October 18, 2011, from Nick J. Collier, Consulting Actuary, Milliman, Inc., to David Bailey, Chief Executive Officer, San Mateo County Employees Retirement Association and entitled, “Re: Fiscal Year Beginning 2011 Contribution Rates – Updated.”

Be it further

RESOLVED that the Board of Retirement hereby recommends that the Board of Supervisors adopt the recommended contribution rates for the county of San Mateo and its employees as designated for each entry age and time period of hire;

Be it further

RESOLVED that the Chief Executive Officer is hereby authorized to transmit these rates and recommendations to the Board of Supervisors and to take all actions necessary to provide for their implementation.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

December 13, 2011

Agenda Item 5.2

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer



SUBJECT: Approval of Amendment to Agreement with Milliman, Inc.

Staff Recommendation

Staff recommends the board adopt a resolution authorizing the Chair to execute the “Second Amendment to the Agreement with Milliman Inc. for Actuarial Services”.

Summary

SamCERA's contract for actuarial services with Milliman, Inc. will end December 31, 2011, unless extended. At the time of the October board meeting the language of a proposed three-year amendment was still being negotiated. Staff discussed with the board the proposed increase in fees to account for additional work related to newly implemented benefit formulas and member contributions and the anticipated services related to implementation of Government Accounting Standards Board (GASB) changes. Staff and Milliman have since completed their negotiations and a proposed agreement is now ready for the board's approval.

Background

Milliman, Inc. became *SamCERA*'s consulting actuarial firm in January 2006 and has performed several major projects. Its June 30, 2011, valuation and experience studies were the subject of audits by the Segal Co. No significant findings resulted from the audits. All of Milliman's projects have been well received by the board and staff. Milliman has demonstrated a commitment to timeliness, quality, accuracy and clear communications. Annual reviews by the board and staff have been consistently outstanding.

As a result, board members have indicated an interest in retaining Milliman as the association's actuarial firm. To achieve that end, the board must amend and extend the current contract. The significant provisions of the amended agreement are summarized below.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

Limitation of Liability. Under the current agreement, Milliman’s liability is limited to \$10 million for an action *brought by SamCERA* against Milliman under any theory of law including but not limited to negligence, tort, breach of contract or otherwise. There is no limit in liability in a cases involving Milliman’s intentional fraud or willful misconduct. This provision remains the same under the proposed agreement.

There is a change, however, in Milliman’s liability in cases *brought by third parties* (e.g. the county or a member) against *SamCERA* in relation to Milliman’s actuarial services. Under the current agreement, Milliman will defend, indemnify and hold *SamCERA* harmless for actions brought against *SamCERA* by third parties up to \$10 million in cases involving general negligence, with no limit in cases involving Milliman’s intentional fraud or willful misconduct. Under the proposed agreement, Milliman will defend, indemnify and hold harmless *SamCERA* only in cases brought by third parties involving fraud, willful misconduct, grossly negligent performance of services, grossly negligent acts or omissions. There is no limit to Milliman’s liability in such cases. The agreement also contains language regarding Milliman’s intent under the agreement to entities who are not parties to the agreement. Staff will provide additional comment on these provisions at the meeting.

Extension of the Term. In order to coordinate with timing of the performance of the triennial experience study, staff recommends a three-year extension with the standard 30-day termination clause. If the board agrees to such an extension, Milliman will have been with *SamCERA* for nine years at the end of 2014. As discussed last month, toward the end of this nine year period, consideration should be given to issuing a request for proposals to gather information about the providers and services available.

Increase in Fees. Milliman performs one actuarial valuation each year and an experience study every third year. They receive a quarterly retainer. Milliman is asking for price increases as shown in the chart below.

| Service | 1/1/08 through 12/31/11 | 1/1/12 through 12/31/14 | \$ Annual Increase |
|-----------------------------|-------------------------|-------------------------|--------------------|
| Quarterly Retainer | \$2,500 | \$3,750 | \$5,000 |
| Investigation of Experience | \$27,500 | \$30,000 | \$834* |
| Actuarial Valuation | \$49,000 | \$54,000** | \$5,000 |
| Total Increase | | | \$10,834 |

*Because investigation of experience studies are only performed every third year, the amount shown is divided by three to show the annual cost increase.

**The GASB changes for SamCERA will not be implemented until 2013. For the 2013 valuation the charge will be \$60,500 and for 2014 the charge will be \$62,000.

Any special projects not covered under the standard services of the contract, are charged at hourly rates. Additional visits to *SamCERA*, above the two required in the contract, are also charged at special rates. Both the special project hourly rates and the additional visit rates are lower in Milliman’s proposed amendment. However, these reductions are not

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

expected to have a significant impact on the total cost of services since special visits and special projects are infrequent. Special projects and their costs must be approved by the retirement board.

| Service | 1/1/08 through 12/31/11 | 1/1/12 through 12/31/14 |
|---|------------------------------------|------------------------------------|
| In Person Visits (2 included at no charge) | \$2,750 | \$2,500 |
| Hourly Rate: Nick Collier, Supervision Actuary | \$370 | \$325 |
| Hourly Rate: Craig Glide, Primary Support Actuary | \$335 | \$280 |
| Hourly Rate: Jennifer Sorenson, Second Support Actuary | --- | \$240 |
| Actuarial Analyst | \$180-\$275 | \$160-\$230 |
| Support Staff | \$95-\$145 | \$75-\$125 |

Staff believes the requested increases are reasonable considering the increased complexity of the *SamCERA* plan and the additional requirements that will come with the implementation of the GASB changes. For the past several years, *SamCERA* had 13 total employer contribution rates broken out by employer and plan. As of this fiscal year, *SamCERA* will have 18. For members, in the past, *SamCERA* had 12 separate member rate groups. As of this fiscal year, *SamCERA* will have 21. These numbers reflect the level of the required actuarial work as well as its complexity.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

**SECOND AMENDMENT TO THE AGREEMENT WITH MILLIMAN INC.
FOR PROFESSIONAL SERVICES**

Regarding the agreement entered into on the 1st day of January 2006, by and between the San Mateo County Employees' Retirement Association (hereinafter "SamCERA") and MILLIMAN INC. (herein after "Consultant"),

W I T N E S S T H

WHEREAS, January 1, 2006, the parties hereto entered into an agreement (hereinafter referred to as the "Original Agreement") for the furnishing of certain services by Consultant to SamCERA as set forth in that Original Agreement; and

WHEREAS, on October 28, 2008, the parties entered into a first amendment to the agreement and extended the Original Agreement; and

WHEREAS, it is now the mutual desire and intent of the parties hereto to further amend that Original Agreement;

NOW, THEREFORE, IT IS HEREBY AGREED between the parties that the Original Agreement is further amended as follows:

Section I, Paragraph C. 1.b. is hereby amended to read as follows:

b. Valuation reports (30 paper copies and 1 electronic copy) shall be delivered to SamCERA by the CONSULTANT, no later than ten (10) weeks after June 30th of that year, providing that SamCERA has delivered complete data for the analyses to the CONSULTANT within two weeks of June 30th of that year, except for the 2008, 2011 and 2014 valuations, when the final valuation report will be delivered within six (6) weeks after the BOARD adopts any recommended changes based on the June 30, 2008, June 30, 2011 or June 30, 2014 Experience Analysis for that year.

Section I Paragraph C. 6. is hereby amended to read as follows :

6. Each valuation report shall contain the following certification executed by CONSULTANT: "This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices, including Actuarial Standards of Practice (ASOPs) Nos. 4, 27 and 35. In particular, it reflects the actuary's responsibility under Section 3.13 of ASOP No. 4 for assessing the implications of overall results, in terms of short- and long-range benefit security and expected costs progression."

Section I, paragraph C. 8. is hereby amended to read as follows:

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

8. CONSULTANT agrees as part of this Agreement to provide all historical information, including a description of any actuarial methodologies employed and actuarial calculations performed in performing the services under this Agreement to any successor CONSULTANT retained by the BOARD. Said transfer shall be completed within fifteen (15) business days of CONSULTANT's receipt of BOARD's written request for the transfer. If the work required of CONSULTANT to complete the transfer request exceeds eight (8) hours, CONSULTANT will be paid for the time needed to comply with the BOARD'S request based on the hourly rates specified in Section III G, even if such request occurs after the termination of this contract. In order to ensure the smooth, efficient and prompt transfer of information to any successor actuary, a retention account shall be used. Ten percent of each payment due CONSULTANT for completion of each Valuation and each Experience Analysis only will be placed in an interest bearing account upon the date payment is tendered. Interest in said account will be simple interest paid monthly at the San Mateo County Treasurer's pooled interest rate. The money in said account as of December 31, 2014, will be released to CONSULTANT and paid no later than 30 days after approval of the CONSULTANT's bill for December 2014. The retention account will recommence on January 1, 2015. If the Agreement is terminated and or not renewed, the monies in the retention account will be released to CONSULTANT upon the completion of the transfer of requested information to the successor actuary.

Section III is hereby amended to read as follows:

III. Payments:

A. In consideration of the services provided by CONSULTANT in accordance with all terms, conditions and specifications set forth herein, BOARD shall make payment to CONSULTANT in the manner specified below. The BOARD reserves the right to withhold payment if the BOARD determines that the quantity or quality of the work performed is unacceptable. BOARD shall make payments within 30 days after approval of invoice.

B. In consideration for the routine services provided under Section I.A., excluding the visits in Section I.A.13, the BOARD shall pay the CONSULTANT the sum of \$3,750.00 per quarter for Consulting Services provided after January 1, 2012. The quarterly sum shall be \$2,500 per quarter after January 1, 2009 and prior to December 31, 2011. CONSULTANT shall submit a quarterly invoice for services.

C. In consideration for the services provided under Section I.B., the BOARD shall pay the CONSULTANT the sum of \$30,000.00 for the 2014 Experience Analysis and \$27,500 for the 2011 Experience Analysis. CONSULTANT shall submit an invoice subsequent to the delivery of each Experience Analysis Report.

D. In consideration for the services provided under Section I.C., the BOARD shall

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

pay the CONSULTANT the sum of \$59,000 for the 2012 Actuarial Valuation. For the 2013 valuation the fee will be \$60,500, and for the 2014 valuation the fee will be \$62,000. CONSULTANT shall submit an invoice subsequent to the delivery of the Actuarial Valuation Report.

E. In consideration for the services provided under Section I.D. relating to review of the assumptions and results of the June 30, 2005, actuarial valuation, the BOARD shall pay CONSULTANT an amount not to exceed \$60,000.

F. CONSULTANT shall make a trip to the SamCERA offices to present the results of each Valuation and another trip to present the results of each Experience Study at no additional charge. CONSULTANT agrees to make up to three additional one-day visits to SamCERA offices per year as described under Section I.A.13 at a charge of \$2,500.00 per visit after January 1, 2012. If the meetings associated with these trips exceed one day, each additional day shall be charged to SamCERA at \$2,000.00 per day per person.

G. In consideration of the non-routine services provided under Section 1D, excluding the review of the assumptions and results of the June 30, 2005, actuarial valuation, the BOARD shall pay to the CONSULTANT an agreed upon fee based upon the following hourly rates. CONSULTANT guarantees that the hourly rates for the three-year contract beginning January 1, 2012:

| | After 12/31/2011 |
|---|---------------------|
| Nick Collier, Supervising Actuary | \$325.00 |
| Craig Glyde, Primary Support Actuary | \$280.00 |
| Jennifer Sorensen, Second Support Actuary | \$240.00 |
| Actuarial Analyst | \$160.00 - \$230.00 |
| Support Staff | \$75.00 - \$125.00 |
| * Per hour. | |

CONSULTANT shall submit an in-progress invoice at the end of each month for any such services.

H. Work not specified in this contract performed by CONSULTANT on behalf of SamCERA must be pre-approved by the BOARD. Such work must be described in a cost estimate and a statement of work describing the scope of the work.

I. CONSULTANT shall invoice BOARD upon completion of services in accordance with the rates and charges specified and prices in accordance with Sections III. A, B, C, D, and E. All billings shall clearly reflect and provide reasonable detail of the services and other sources of payment for which claim is made. BOARD shall pay CONSULTANT within a reasonable period of time following receipt of a complete and correct billing statement.

J. CONSULTANT agrees that BOARD or any duly authorized representative(s), excluding competitor actuaries or actuarial firms, shall have access to and the right to

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

examine, audit, excerpt, copy or transcribe any pertinent transaction, activity time cards or other records related to CONSULTANT's billing. Any such audit or examination shall take place during ordinary business hours and upon reasonable advance notice.

Section VI is hereby amended to read as follows:

VI. **Contract Term:** The Agreement shall be effective as of January 1, 2006, covering the valuation periods ending 6/30/2006, 6/30/2007, 6/30/2008, 6/30/2009, 6/30/2010, 6/30/2011, 6/30/2012, 6/30/2013, and 6/30/2014, and Investigations of Experience as of 6/30/2008, 6/30/2011, and 6/30/2014, and will continue for a term of nine (9) years ending 12/31/2014 or earlier if terminated by either party. The parties agree that the standard of care provisions set forth above shall survive the expiration or termination of the Agreement.

Section VII is hereby amended to read as follows:

VII. **Termination:** This Agreement may be terminated by either party at any time upon thirty (30) days written notice prior to the effective date of termination. In the event of termination, the CONSULTANT shall be paid compensation for services performed prior to the effective date of termination. As for any phase partially performed but for which the applicable portion of the CONSULTANT's compensation has not become due, the CONSULTANT shall be paid the reasonable value of its services. In the event this Agreement is terminated pursuant to the terms recited above, all finished documents and other materials prepared by CONSULTANT directly and exclusively for the BOARD pursuant to this Agreement shall, at the option of the BOARD, be delivered to the BOARD. CONSULTANT has advised that it will include the following legend on any work product produced hereunder: "Milliman's work product was prepared exclusively for the use or benefit of the San Mateo County Employees' Retirement Association (*SamCERA*) for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning *SamCERA*'s operations, and uses *SamCERA* data, which Milliman has not audited. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs." The BOARD agrees that it will retain such restrictive legend affixed by the CONSULTANT.

Consultant does not authorize SAMCERA to include Consultant's name or reports in any investment offering, prospectus, securities filing, or solicitation of investment without Milliman's prior written consent. All reports, data, and other materials prepared directly and exclusively under this Agreement that are submitted to the BOARD shall become the exclusive property of the BOARD upon completion of this Agreement. CONSULTANT agrees as part of this Agreement to provide all historical information regarding the Retirement System to any successor CONSULTANT retained by the BOARD.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

Notwithstanding anything to the contrary contained in this Agreement, it is understood and agreed that CONSULTANT shall retain all of its methodologies and methods of analysis, ideas, concepts, expressions, know how, methods, techniques, skills, knowledge and experience possessed by CONSULTANT prior to, or acquired by CONSULTANT during, the performance of this Agreement and CONSULTANT shall not be restricted in any way with respect thereto.

Section VIII is hereby amended to read as follows:

VIII. Indemnification of SamCERA.

A: For services rendered after December 31, 2011, CONSULTANT shall indemnify SamCERA as set forth below.

1. Definitions. As used in this Paragraph A:

(a) "Claims" means any claim described in (i) or (ii) below, whether based on contract, tort, or any other legal or equitable theory:

(i) any and all third party liabilities, losses, injuries, suits, costs, charges, judgments, fines, penalties, expenses (including, without limitation, defense costs, expert witness fees and reasonable attorneys' fees), causes of action, claims, demands, recoveries, settlements, or damages of any nature arising out of, related to, or in connection with CONSULTANT's fraud, willful misconduct, grossly negligent performance of services hereunder or CONSULTANT's grossly negligent acts or omissions; and

(ii) any and all liabilities, losses, injuries, suits, costs, charges, judgments, fines, penalties, expenses (including, without limitation, defense costs, expert witness fees and reasonable attorneys' fees), causes of action, claims, demands, recoveries, settlements, or damages for bodily injury, death, personal injury, or property damage, arising out of, related to, or in connection with CONSULTANT's performance of, or failure to perform, services hereunder.

(b) "SamCERA Covered Persons" means SamCERA, its officers, trustees, fiduciaries, employees and agents, but does not include CONSULTANT's Personnel.

(c) "CONSULTANT Personnel" means CONSULTANT, its officers, directors, shareholders, employees, servants, agents, and subcontractors.

2. Obligation to Defend and Indemnify. CONSULTANT will defend, at its expense, the SamCERA Covered Persons from and against any and all Claims. CONSULTANT will indemnify, save and hold harmless the SamCERA Covered Persons from and against any and all Claims, but only to the extent of the percentage of fault attributable to CONSULTANT Personnel.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

B. For services rendered through December 31, 2011, CONSULTANT shall indemnify, defend and hold harmless the BOARD, its present and former members, officers and employees and San Mateo County, its elected representatives, officers, and employees from any and all claims, losses, liabilities or damages, demands and actions, including payment of reasonable attorneys fees, resulting from or arising out of performance of this Agreement by CONSULTANT and which are caused in whole or in part by any negligent omission, willful misconduct or a breach of its duties by CONSULTANT, its officers, or employees or anyone directly or indirectly acting at the direction of CONSULTANT regardless of whether caused in part by a party indemnified hereunder. In the event the BOARD or San Mateo County and their respective officers and employees are partly responsible for the claim, loss, liability, damage, demand or action the liability of CONSULTANT shall be calculated in accordance with the principles of comparative fault.

C. **Survival of Obligation to Defend and Indemnify.** CONSULTANT's obligations to defend and indemnify shall survive the termination of this Agreement.

D. **Notice of Claim.** SamCERA will give CONSULTANT prompt written notice of any Claim for which any SamCERA Covered Person is entitled to indemnification pursuant to this Section. CONSULTANT shall control the defense or settlement of the Claim; but, no such settlement or compromise shall be entered into unless, as part of such settlement or compromise, the third party executes a full and complete release of the SamCERA Covered Persons without recourse to the SamCERA Covered Persons for any amount, claim or other obligation whatsoever respecting such Claim. CONSULTANT will not have the right to settle or compromise any such Claim without the consent of the SamCERA Covered Persons, which consent can be withheld for any reason or no reason, if such settlement or compromise involves the issuance of injunctive or other nonmonetary relief binding upon any of the SamCERA Covered Persons or a plea of guilty or nolo contendere on the part of any of the SamCERA Covered Persons in any criminal or quasi-criminal proceeding, or which involves any admission of liability or culpability on the part of the SamCERA Covered Persons, or which has any collateral estoppel effect on any of the SamCERA Covered Persons.

Section X is amended to read as follows:

X. **Limitation of Liability and Third Party Beneficiaries:**

A. **Limitation of Liability.** CONSULTANT shall perform all services in accordance with applicable professional standards. The parties agree that CONSULTANT, its officers, directors, agents and employees, shall not be liable to SamCERA, under any theory of law including negligence, tort, breach of contract or otherwise, for any damages in excess of Ten Million Dollars. The foregoing limitations shall not apply in the event of (i) the gross negligence, fraud, or willful misconduct of CONSULTANT's Personnel (defined in Section VIII, Indemnification of SamCERA or (ii) CONSULTANT's obligations set forth in Section VIII.A above.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

BOARD has had the opportunity to review the foregoing Limitation of Liability provision with legal counsel. BOARD understands that this clause limits BOARD's ability to recover damages from CONSULTANT, including damages caused by CONSULTANT's negligence. On the advice of counsel BOARD believes and agrees that this clause is enforceable under California law and intends to be bound by same.

_____ BOARD initials _____ CONSULTANT initials

B. Third Party Beneficiary Rights. CONSULTANT explicitly states that it does not intend to create in any other individual or entity the status of third party beneficiary. Consultant does not intend to benefit or to have any legal duty to participating employers or any other third party recipient of its work product. CONSULTANT acknowledges that the provisions of California Government Code sections 31453 and 31454 are effective in San Mateo County.

Section IX is hereby amended to read as follows:

IX. Insurance: The CONSULTANT will provide and maintain at its own expense during the term of this Agreement the following program(s) of insurance covering its operations herein in accordance with industry standards and as incorporated as Exhibit A. Such insurance (i) will be primary to and not contributing with any other insurance maintained by BOARD and/or the County of San Mateo for claims arising from CONSULTANT's provision of services hereunder, (ii) with respect to Commercial General Liability insurance shall name BOARD as an additional insured with respect to the BOARD's vicarious liability arising from the CONSULTANT's performance hereunder, and (iii) will be provided by insurer(s) rated A-VII or better by A.M. Best & Company or otherwise approved in writing by BOARD, which approval shall not be unreasonably withheld. Evidence of such insurance, in a certificate form will be delivered to the BOARD within sixty (60) days of commencement of this contract and in June of each subsequent year. Certificate evidence will include a written statement that (30) days written notice will be given in advance of cancellation of any policy of insurance, except for non-payment of the premium where ten (10) days will apply. Failure on the part of CONSULTANT to procure or maintain insurance shall constitute a material breach upon which BOARD may immediately terminate this Agreement.

Exhibit A programs of insurance is amended to read as follows:

Exhibit A program(s) of Insurance

1. Commercial General Liability

Such Commercial General Liability insurance will be primary to and not contributing with any other insurance maintained by *SamCERA* and/or the County of San Mateo for claims arising from the Consultant's provisions of service hereunder. Such insurance provides coverage liability to members of the public arising out of premises and operations including Personal Injury with a per occurrence limit of two million dollars

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

(\$2,000,000) per occurrence and four million dollars (\$4,000,000) aggregate (including excess policies).

This insurance is maintained through the following company(s): Federal Insurance Company.

The AM Best Rating(s) for this/these companies is a minimum of A-VII.

2. Workers' Compensation

A program of Workers' Compensation Insurance with statutory limits and Employers Liability with limits of two million dollars (\$2,000,000) per accident will be secured protecting all Consultant employees, including all persons providing services by or on behalf of Consultant.

This insurance is maintained through the following company(s): Chubb Group of Insurance Companies.

The AM Best Rating(s) for this/these companies is a minimum of A-VII.

3. Crime Coverage

A Commercial Crime Policy with the following insuring agreements and limits (i) three million dollars (\$3,000,000) Employee Dishonesty Coverage-Form, (ii) three million dollars (\$3,000,000) Depositors Forgery Coverage, (iii) three million dollars (\$3,000,000) Computer Theft Coverage.

This insurance is maintained through the following company(s): Federal Insurance Company.

The AM Best Rating(s) for this/these companies is a minimum of A-VII.

4. Professional Liability/Errors and Omissions

A Professional Liability Policy covering Consultant's employees and agents of not less than ten million dollars (\$10,000,000).

This insurance is maintained through the following company(s): Indian Harbor and Various Insurance Companies

The AM Best Rating(s) for this/these companies is a minimum of A-VII

CONSULTANT shall notify BOARD promptly of any change in the insurance companies CONSULTANT uses to maintain the required coverages noted above

NOW, THEREFORE, IT IS AGREED BY THE PARTIES that:

1. This Second Amendment is hereby incorporated and made a part of the Original Agreement and the first Amended Agreement subject to all provisions therein.
2. All provisions of the Original Agreement and first Amended Agreement shall be binding on all the parties hereto.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

NOW, THEREFORE, IT IS AGREED BY THE PARTIES that the Agreement of January 1, 2006, and the October 28, 2008 Amendment to the Agreement be amended accordingly.

IN WITNESS WHEREOF, the parties hereto, by their duly authorized representatives, have affixed their hand on the day and year first above written.

Milliman, Inc.

By: _____
Nick Collier
Principal & Consulting Actuary

Date: _____

San Mateo County Employees' Retirement Association

By: _____
Albert David
Chair, Board of Retirement

Date: _____

RESOLUTION 11-12-__

**RESOLUTION AUTHORIZING THE CHAIR OF THE BOARD OF RETIREMENT TO
EXECUTE THE SECOND AMENDMENT TO THE AGREEMENT
WITH MILLIMAN INC. FOR ACTUARIAL SERVICES**

WHEREAS, in January 2006, the Board authorized an Agreement with Milliman Inc. to provide actuarial services for the period from January 1, 2006, through December 31, 2008; and

WHEREAS, on October 28, 2008, the Board authorized an amendment to extend the term of the Agreement by three years through December 31, 2011, and to amend the fees allowable for the services rendered after December 31, 2008; and

WHEREAS, the Board has determined that it is in the best interest of *SamCERA* to extend the agreement by three years through December 31, 2014, and this Second Amendment to the Agreement has been presented to this Board for its consideration and acceptance, and the Board has approved it as to form and content and desires to enter into it; and now, therefore, be it

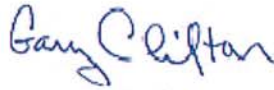
RESOLVED, that the Chair of the Board of Retirement be and is hereby authorized and directed to execute said Second Amendment to the Agreement for and on behalf of the San Mateo County Employees' Retirement Association.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

December 13, 2011

Agenda Item 6.1

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

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

COMMENT: SamCERA's 6.09% Total Fund Return for the month under-performed the Total Plan Policy Benchmark return of 7.92% by 181 basis points. The under-performance may be attributed to the underweight to equities and the larger than normal cash balance.

A sense of optimism grew over the month as it appeared increasingly likely that Eurozone leaders were making actual progress toward reaching a comprehensive agreement that would effectively dampen the continent's ongoing sovereign debt crisis. A credible, better-than-expected plan finally emerged, although specific details had yet to be finalized. Markets responded enthusiastically as Europe, at last, seemed to be retreating from the brink of contagion. As anxieties eased, volatility began to retreat toward non-crisis levels. US Treasury yields inched upward as investors were less inclined to grasp for safety.

After falling for five straight months through the end of September, U.S. stocks rebounded in October and turned in one of the strongest one-month gains on record. The S&P 500 Index posted its largest monthly advance since December 1991, and October was the first month since October 2006 that the index has gone without two consecutive down days, according to the Wall Street Journal.

The Commerce Department reported that the U.S. economy grew at an annualized rate of 2.5% during the third quarter, its fastest pace in a year. The news was a welcome relief for investors following annualized growth of less than 1% in the first half of the year. That being said, economic growth is likely to moderate in the final quarter of the year due to a higher savings rate and reduced spending by consumers. Despite the good economic news, consumer sentiment in October fell to its lowest level since March 2009, reflecting concerns about poor employment prospects.

Looking ahead, Federal Reserve Chairman Ben Bernanke said the U.S. economy is growing more slowly than he would like, but the U.S. does not appear to be headed into another recession. The results of the October Philadelphia Federal Reserve business outlook survey dispelled fears of an immediate recession thanks to sharp rebounds in orders and shipments, which outweighed a drop in inventories. As economic activity begins to pick up, the usual tradeoff is higher inflation in the months ahead. Still, Bernanke said that historically low short-term rates are likely to remain in place until at least mid-2013 given anticipated economic conditions.

| | <u>Report Details</u> | <u>Page</u> |
|--|-----------------------|-------------|
| Executive Summary | | 1 |
| Return Flash Report | | 2 |
| State Street Performance Report | | 3-6 |
| Portfolio Summary | | 7 |
| Change in Portfolio & Asset Allocation | | 8 |
| Aggregate Performance | | 9 |
| Manager Performance | | 10 |
| Realized & Unrealized Gain / (Loss) | | 11 |
| Cash Flows | | 12 |
| Professional Services Fees | | 13 |
| Blended Benchmark Detail | | 14 |

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 | 11.21% | -3.00% | -7.75% | 8.07% |
| D.E. Shaw Investment Management, LLC | 10.97% | -4.28% | -7.51% | 7.70% |
| T. Rowe Price Associates | 11.24% | -2.50% | -6.84% | 8.71% |
| Barrow, Hanley, Mewhinney & Strauss | 12.12% | -3.44% | -10.08% | 7.86% |
| BlackRock Capital Management, Inc. | 10.59% | -6.69% | -11.75% | 1.58% |
| Large Cap Aggregate | 11.23% | -4.18% | -9.17% | 6.39% |
| The Boston Company | 15.66% | -4.54% | -12.35% | 5.42% |
| Chartwell Investment Partners | 17.08% | -6.01% | -12.53% | 12.92% |
| Jennison Associates | 15.05% | -4.92% | -11.12% | 11.72% |
| Small Cap Aggregate | 15.75% | -5.10% | -11.74% | 10.62% |
| Artio Global Investors | 10.82% | -13.82% | -18.64% | -9.86% |
| Mondrian Investment Partners | 8.77% | -6.16% | -9.70% | -0.43% |
| International Aggregate | 9.73% | -9.94% | -14.15% | -5.12% |
| Total Equity | 11.48% | -6.20% | -11.23% | 3.21% |
| Aberdeen Asset Management | 0.43% | 1.41% | 3.71% | 5.59% |
| Angelo Gordon | 0.00% | -10.26% | -16.56% | -4.09% |
| Brigade Capital Management | 2.76% | -1.38% | -0.06% | 6.31% |
| Brown Brothers Harriman | 1.64% | 5.86% | 8.37% | 9.28% |
| Franklin Templeton | 6.49% | -3.36% | -3.19% | N/A |
| Pyramis Global Advisors | 0.35% | 1.72% | 4.22% | 5.63% |
| Western Asset Management | 0.69% | 1.46% | 3.78% | 5.96% |
| Total Fixed Income | 1.83% | -0.20% | 1.25% | 4.70% |
| Private Equity (1) | 0.54% | 3.43% | -8.02% | -90.59% |
| AQR's Global Risk Premium (Risk Parity) | -5.06% | -7.52% | -5.64% | N/A |
| AQR's Delta Fund (Hedge Fund) | -3.76% | -4.54% | N/A | N/A |
| SSgA/SSARIS Commodity | 3.46% | -7.56% | N/A | N/A |
| Total Alternative Investments | N/A | N/A | N/A | N/A |
| Invesco Realty Advisors | 0.00% | 2.12% | 9.20% | 18.62% |
| Cash | 0.02% | 0.14% | 0.39% | 0.80% |
| Total Portfolio | 6.09% | -4.23% | -6.56% | 4.59% |

(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 October 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 |
|--|-------------|------------|-------|-----------------|--------|--------|---------|---------|---------|---------|-------------|-------|-----------------|
| DOMESTIC EQUITY | | | | | | | | | | | | | |
| BLACKROCK RUSSELL 1000 INDEX FUND | 111,297,365 | 11.21 | -3.00 | -7.75 | -5.10 | 8.07 | 12.81 | 12.30 | -2.71 | 0.62 | 4.21 | 7.88 | 04/01/1995 |
| DE SHAW INVESTMENT MGT, LLC | 105,784,260 | 10.97 | -4.28 | -7.51 | -5.55 | 7.70 | 12.24 | | | | | 13.32 | 08/01/2009 |
| <i>RUSSELL 1000</i> | | 11.21 | -3.01 | -7.78 | -5.12 | 8.01 | 12.74 | 12.22 | -2.78 | 0.54 | 4.17 | | |
| T. ROWE PRICE ASSOCIATES | 105,635,359 | 11.24 | -2.50 | -6.84 | -4.19 | 8.71 | 12.02 | | | | | 13.10 | 08/01/2009 |
| <i>S&P 500</i> | | 10.93 | -2.47 | -7.11 | -4.45 | 8.09 | 12.22 | | | | | 13.44 | |
| BARROW HANLEY | 148,961,302 | 12.12 | -3.44 | -10.08 | -8.02 | 7.86 | 12.53 | | | | | 13.03 | 08/01/2009 |
| <i>RUSSELL 1000 VALUE</i> | | 11.45 | -3.40 | -9.49 | -6.61 | 6.16 | 10.83 | | | | | 12.41 | |
| BLACKROCK | 157,873,452 | 10.59 | -6.69 | -11.75 | -7.92 | 1.58 | 11.80 | | | | | 12.85 | 08/01/2009 |
| <i>RUSSELL 1000 GROWTH</i> | | 10.97 | -2.63 | -6.02 | -3.60 | 9.92 | 14.68 | | | | | 15.40 | |
| LARGE CAP AGGREGATE | 629,551,739 | 11.23 | -4.18 | -9.17 | -6.48 | 6.39 | 11.84 | 11.02 | -3.61 | -0.87 | 3.71 | 7.59 | 04/01/1995 |
| <i>RUSSELL 1000</i> | | 11.21 | -3.01 | -7.78 | -5.12 | 8.01 | 12.74 | 12.22 | -2.78 | 0.54 | 4.17 | 7.86 | |
| BOSTON COMPANY ASSET MGT, LLC | 46,135,616 | 15.66 | -4.54 | -12.35 | -7.59 | 5.42 | 13.10 | | | | | 13.05 | 08/01/2009 |
| <i>RUSSELL 2000 VALUE</i> | | 14.41 | -7.09 | -13.94 | -10.16 | 3.54 | 13.51 | | | | | 13.23 | |
| CHARTWELL INVESTMENT MGMT | 55,343,982 | 17.08 | -6.01 | -12.53 | -8.58 | 12.92 | 24.45 | 18.54 | -1.68 | 2.91 | | 5.47 | 12/01/2004 |
| <i>RUSSELL 2000 GROWTH</i> | | 15.86 | -6.24 | -13.56 | -9.92 | 9.84 | 18.88 | 16.31 | -0.56 | 2.68 | | 4.62 | |
| JENNISON ASSOCIATES | 96,368,673 | 15.05 | -4.92 | -11.12 | -8.52 | 11.72 | 20.97 | 20.11 | | | | 6.47 | 04/01/2008 |
| SMALL CAP AGGREGATE | 197,848,272 | 15.75 | -5.10 | -11.74 | -8.32 | 10.62 | 19.98 | 17.96 | -2.23 | -1.34 | 5.54 | 4.56 | 07/01/1999 |
| <i>RUSSELL 2000</i> | | 15.14 | -6.67 | -13.76 | -10.04 | 6.71 | 16.22 | 12.87 | -1.36 | 0.68 | 7.02 | 5.34 | |
| DOMESTIC EQUITY AGGREGATE | 827,400,011 | 12.28 | -4.43 | -9.82 | -6.95 | 7.21 | 13.43 | 12.32 | -3.29 | -0.91 | 4.11 | 6.80 | 07/01/1995 |
| <i>SAMCERA DOMESTIC EQUITY BENCHMA</i> | | 12.11 | -3.83 | -9.16 | -6.24 | 7.64 | 13.40 | 12.37 | -2.48 | 0.60 | 4.78 | | |

San Mateo County
 Summary of Fund Performance With 4 Years
 Rates of Return Total
 Periods Ending October 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 |
|---------------------------------------|---------------|------------|--------|-----------------|--------|--------|---------|---------|---------|---------|-------------|--------|-----------------|
| INTERNATIONAL EQUITY | | | | | | | | | | | | | |
| ARTIO GLOBAL INVESTOR | 174,345,668 | 10.82 | -13.82 | -18.64 | -14.52 | -9.86 | -0.23 | 5.61 | -11.24 | -3.76 | | 3.21 | 12/01/2004 |
| <i>MSCI ACWI ex US GROWTH (GROSS)</i> | | 11.13 | -10.71 | -14.75 | -11.21 | -3.80 | 5.59 | 13.36 | -6.56 | 0.73 | | 5.73 | |
| MONDRIAN INVESTMENT PARTNERS | 194,870,116 | 8.77 | -6.16 | -9.70 | -7.14 | -0.43 | 4.97 | 10.54 | -5.57 | 0.03 | | 5.84 | 12/01/2004 |
| <i>MSCI ACWI EX US VALUE (GROSS)</i> | | 9.96 | -9.52 | -15.25 | -11.43 | -4.74 | 2.50 | 13.46 | -7.06 | -0.61 | | 5.46 | |
| TOTAL INTERNATIONAL EQUITY | 369,215,784 | 9.73 | -9.94 | -14.15 | -10.78 | -5.12 | 2.42 | 8.11 | -8.39 | -1.84 | 5.61 | 5.45 | 10/01/1996 |
| <i>MSCI AC WORLD ex US (GROSS)</i> | | 10.54 | -10.12 | -15.00 | -11.32 | -4.25 | 4.06 | 13.43 | -6.79 | 0.08 | 8.05 | 5.29 | |
| TOTAL EQUITY AGGREGATE | 1,196,615,795 | 11.48 | -6.20 | -11.23 | -8.18 | 3.21 | 9.82 | 11.10 | -4.85 | -1.23 | 4.41 | 6.64 | 04/01/1995 |
| <i>SAMCERA TOTAL EQUITY BENCHMARK</i> | | 11.58 | -6.00 | -11.16 | -7.98 | 3.59 | 10.32 | 12.70 | -3.80 | 0.38 | 5.50 | | |
| PRIVATE EQUITY | | | | | | | | | | | | | |
| ABRY ADVANCED SEC II LP | 5,351,900 | -0.00 | 0.25 | | 0.19 | | | | | | | -12.13 | 06/01/2011 |
| ABRY PARTNERS VII LP | 1,368,325 | 0.00 | | | | | | | | | | 11.09 | 09/01/2011 |
| REGIMENT CAPITAL FUND | 2,854,034 | 2.24 | 2.24 | | | | | | | | | 2.24 | 08/01/2011 |
| SHERIDAN PRODUCTION PARTNERS | 2,231,001 | 0.00 | 14.89 | 8.97 | 14.89 | -88.97 | | | | | | -88.97 | 11/01/2010 |
| <i>RUSSELL 3000 + 3%</i> | | 11.76 | -2.59 | -6.90 | -4.58 | 11.12 | | | | | | 11.12 | |
| TOTAL PRIVATE EQUITY | 11,805,259 | 0.54 | 3.43 | -8.02 | 0.94 | -90.69 | | | | | | -90.69 | 11/01/2010 |
| <i>PRIVATE EQUITY BENCHMARK</i> | | 11.76 | -2.59 | -6.90 | -4.58 | 11.12 | | | | | | | |
| RISK PARITY | | | | | | | | | | | | | |
| AQR GLOBAL RISK PREM III LP | 138,950,280 | -5.06 | -7.52 | -5.64 | -4.58 | | | | | | | -0.74 | 03/01/2011 |

San Mateo County

Summary of Fund Performance With 4 Years

Rates of Return Total

Periods Ending October 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 |
|--|-------------|------------|--------|-----------------|--------|--------|---------|---------|---------|---------|-------------|-------|-----------------|
| TOTAL RISK PARITY | 138,950,280 | -5.06 | -7.52 | -5.64 | -4.58 | | | | | | | -0.74 | 03/01/2011 |
| <i>RISK PARITY BENCHMARK</i> | | 6.95 | -0.80 | -2.87 | -1.54 | 7.19 | | | | | | | |
| HEDGE FUND | | | | | | | | | | | | | |
| AQR DELTA FUND II, L.P. | 66,445,750 | -3.76 | -4.54 | | -5.06 | | | | | | | -5.08 | 06/01/2011 |
| <i>LIBOR + 4%</i> | | 0.35 | 1.05 | | 1.39 | | | | | | | 1.74 | |
| HEDGE FUND COMPOSITE | 66,445,750 | -3.76 | -4.54 | | -5.06 | | | | | | | -5.08 | 06/01/2011 |
| <i>LIBOR + 4%</i> | | 0.35 | 1.05 | | 1.39 | | | | | | | 1.74 | |
| COMMODITIES | | | | | | | | | | | | | |
| SSGA MULTISOURCE ACT COMM NL | 69,326,995 | 3.46 | -7.56 | | | | | | | | | -7.56 | 08/01/2011 |
| TOTAL COMMODITIES | 69,326,995 | 3.46 | -7.56 | | | | | | | | | -7.56 | 08/01/2011 |
| <i>DJ-UBS COMMODITY</i> | | 6.62 | -8.19 | | | | | | | | | -8.19 | |
| DOMESTIC FIXED INCOME | | | | | | | | | | | | | |
| ABERDEEN ASSET MANAGEMENT | 106,046,892 | 0.43 | 1.41 | 3.71 | 3.15 | 5.59 | 8.64 | 10.70 | 4.50 | 4.64 | 4.90 | 6.08 | 06/01/2000 |
| ANGELO GORDON GECC PPI FUND | 33,389,147 | 0.00 | -10.26 | -16.56 | -11.62 | -4.09 | | | | | | 13.79 | 12/01/2009 |
| PYRAMIS GLOBAL ADVISORS | 106,843,316 | 0.35 | 1.72 | 4.22 | 3.35 | 5.63 | 8.13 | 12.03 | 7.51 | 6.63 | | 6.48 | 02/01/2006 |
| WESTERN ASSET MGMT | 104,782,324 | 0.69 | 1.46 | 3.78 | 3.00 | 5.96 | 9.33 | 14.04 | 6.85 | 6.34 | | 5.86 | 11/01/2004 |
| <i>BC AGGREGATE</i> | | 0.11 | 2.31 | 4.98 | 3.93 | 5.00 | 6.50 | 8.87 | 6.67 | 6.41 | 5.46 | | |
| BRIGADE CAPITAL MANAGEMENT | 49,928,940 | 2.76 | -1.38 | -0.06 | -0.42 | 6.31 | | | | | | 8.66 | 08/01/2010 |
| <i>BC BA INTERMEDIATE HIGH YIELD INDEX</i> | | 4.98 | -0.24 | 1.16 | 1.14 | 5.29 | | | | | | 8.68 | |
| BROWN BROTHERS HARRIMAN & CO | 76,973,634 | 1.68 | 2.86 | 8.37 | 6.88 | 9.28 | | | | | | 11.62 | 08/01/2010 |
| <i>BARCLAYS US TIPS INDEX</i> | | 1.87 | 2.61 | 7.95 | 6.76 | 9.31 | | | | | | 11.74 | |

San Mateo County

Summary of Fund Performance With 4 Years

Rates of Return Total

Periods Ending October 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 |
|---|---------------|------------|-------|-----------------|-------|--------|---------|---------|---------|---------|-------------|------|-----------------|
| INTERNATIONAL FIXED INCOME | | | | | | | | | | | | | |
| FRANKLIN TEMPLETON INVESTMENTS | 103,440,666 | 6.49 | -3.36 | -3.19 | -2.55 | | | | | | | 3.47 | 01/01/2011 |
| <i>BC MULTIVERSE</i> | | 1.51 | 0.15 | 2.14 | 2.17 | | | | | | | 6.71 | |
| TOTAL FIXED INCOME | | | | | | | | | | | | | |
| TOTAL FIXED INCOME AGGREGATE | 581,404,920 | 1.83 | -0.20 | 1.25 | 1.20 | 4.70 | 8.66 | 12.23 | 6.28 | 5.87 | 5.44 | 6.06 | 01/01/1996 |
| <i>SAMCERA TOTAL FIXED INCOME BENCH</i> | | 0.97 | 1.87 | 4.97 | 4.13 | 5.79 | 7.18 | 9.34 | 7.01 | 6.68 | 5.59 | 6.00 | |
| REAL ESTATE | | | | | | | | | | | | | |
| INVESCO REAL ESTATE | 138,282,516 | 0.00 | 2.12 | 9.20 | 2.12 | 18.62 | 12.76 | -6.28 | -3.31 | 0.11 | | 5.65 | 10/01/2004 |
| TOTAL REAL ESTATE AGGREGATE | 138,282,516 | 0.00 | 2.12 | 9.20 | 2.12 | 18.62 | 12.76 | -6.28 | -3.31 | 0.11 | 6.85 | 7.50 | 01/01/1997 |
| <i>SAMCERA NCREIF NFI ODCE EW (Gross)</i> | | 0.00 | 3.30 | 7.36 | 3.30 | 17.10 | 11.49 | -6.22 | -3.46 | 0.37 | 6.23 | 7.39 | |
| CASH EQUIVALENTS | | | | | | | | | | | | | |
| SAMCERA GENERAL ACCOUNT | 25,721,667 | 0.01 | 0.03 | 0.30 | 0.03 | 0.41 | 0.30 | 0.42 | 1.11 | 1.98 | 2.17 | 2.79 | 07/01/1999 |
| SAMCERA TREASURY & LAIF | 9,486,479 | 0.07 | 0.27 | 0.56 | 0.34 | 1.06 | 1.08 | 1.28 | 0.33 | 1.16 | 2.13 | 3.43 | 07/01/1994 |
| TOTAL CASH AGGREGATE | 35,208,146 | 0.02 | 0.14 | 0.39 | 0.21 | 0.80 | 0.93 | 1.17 | 0.47 | 1.27 | 2.09 | 2.68 | 07/01/1999 |
| <i>91 DAY T-BILL</i> | | 0.00 | 0.03 | 0.04 | 0.02 | 0.13 | 0.12 | 0.18 | 0.81 | 1.66 | 1.99 | 2.64 | |
| TOTAL FUND | | | | | | | | | | | | | |
| TOTAL FUND | 2,238,039,860 | 6.09 | -4.23 | -6.56 | -4.88 | 4.59 | 9.63 | 9.78 | -1.44 | 1.07 | 5.11 | 6.02 | 01/01/1996 |
| <i>SAMCERA TOTAL PLAN POLICY BENCHM</i> | | 7.92 | -2.85 | -5.52 | -3.57 | 5.86 | 10.30 | 11.39 | -0.21 | 2.66 | 5.96 | 6.32 | |
| <i>ACTUARIAL DISCOUNT RATE</i> | | 0.62 | 1.88 | 3.80 | 2.52 | 7.75 | 7.75 | 7.75 | 7.75 | 7.75 | 7.91 | | |

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

Actual versus Target Allocation

| Portfolio | Market Value | Allocation | | Percentage Off Target | Rebalance Range |
|--------------------------------------|------------------------|----------------|----------------|-----------------------|-----------------|
| | | Current | Target * | | |
| BlackRock Russell 1000 | \$111,297,366 | 4.97% | 6.50% | -1.53% | ±3% |
| D.E. Shaw Investment Management, LLC | \$105,784,260 | 4.73% | 4.25% | 0.48% | ±3% |
| T. Rowe Price Associates | \$105,635,359 | 4.72% | 4.25% | 0.47% | ±3% |
| Barrow, Hanley, Mewhinney & Strauss | \$148,961,302 | 6.66% | 6.50% | 0.16% | ±3% |
| BlackRock Capital Management, Inc. | \$157,873,452 | 7.05% | 6.50% | 0.55% | ±3% |
| Large Cap Aggregate | \$629,551,739 | 28.13% | 28.00% | 0.13% | |
| The Boston Company | \$46,135,616 | 2.06% | 1.75% | 0.31% | ±3% |
| Chartwell Investment Partners | \$55,343,982 | 2.47% | 1.75% | 0.72% | ±3% |
| Jennison Associates | \$96,368,673 | 4.31% | 3.50% | 0.81% | ±3% |
| Small Cap Aggregate | \$197,848,271 | 8.84% | 7.00% | 1.84% | |
| Artio Global Investors | \$174,345,668 | 7.79% | 9.00% | -1.21% | ±3% |
| Mondrian Investment Partners | \$194,870,116 | 8.71% | 9.00% | -0.29% | ±3% |
| International Aggregate | \$369,215,784 | 16.50% | 18.00% | -1.50% | ±3% |
| Total Equity | \$1,196,615,794 | 53.46% | 53.00% | 0.46% | |
| Aberdeen Asset Management | \$106,046,892 | 4.74% | 3.75% | 0.99% | ±2% |
| Angelo Gordon | \$33,389,147 | 1.49% | 1.63% | -0.13% | ±2% |
| Brigade Capital Management | \$49,928,940 | 2.23% | 1.63% | 0.61% | ±2% |
| Brown Brothers Harriman | \$76,973,634 | 3.44% | 3.00% | 0.44% | ±2% |
| Franklin Templeton | \$103,440,666 | 4.62% | 4.50% | 0.12% | ±2% |
| Pyramis Global Advisors | \$106,843,316 | 4.77% | 3.75% | 1.02% | ±2% |
| Western Asset Management Company | \$104,782,324 | 4.68% | 3.75% | 0.93% | ±2% |
| Total Fixed Income | \$581,404,919 | 25.98% | 22.00% | 3.98% | |
| Private Equity | \$11,955,259 | 0.53% | 8.00% | -7.47% | N/A |
| AQR Global Risk Premium | \$138,950,280 | 6.21% | 6.00% | 0.21% | N/A |
| AQR Delta Fund (Hedge Fund) | \$66,445,750 | 2.97% | 3.00% | -0.03% | N/A |
| SSGA/SSARIS Multisource Commodities | \$69,326,995 | 3.10% | 3.00% | 0.10% | N/A |
| Alternative Investments | \$286,678,284 | 12.81% | 20.00% | -7.19% | |
| INVESCO Realty Advisors | \$138,282,516 | 6.18% | 5.00% | 1.18% | ±2% |
| Cash | \$35,208,146 | 1.57% | 0.00% | 1.57% | |
| Total | \$2,238,189,659 | 100.00% | 100.00% | | |

* 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 Association
Monthly Performance Review
Period Ending October 31, 2011

Change in Portfolio Market Value by Manager

| Portfolio | Current Month | Prior Month | % Change (1) | Prior Year | % Change (1) |
|--------------------------------------|------------------------|------------------------|--------------|------------------------|---------------|
| BlackRock Russell 1000 | \$111,297,366 | \$100,079,852 | 11.2% | \$243,716,295 | -54.3% |
| D.E. Shaw Investment Management, LLC | \$105,784,260 | \$95,327,500 | 11.0% | \$98,220,854 | 7.7% |
| T. Rowe Price Associates | \$105,635,359 | \$94,958,552 | 11.2% | \$97,167,841 | 8.7% |
| Barrow, Hanley, Mewhinney & Strauss | \$148,961,302 | \$132,858,509 | 12.1% | \$147,189,596 | 1.2% |
| BlackRock Capital Management, Inc. | \$157,873,452 | \$142,761,986 | 10.6% | \$155,410,411 | 1.6% |
| Large Cap Aggregate | \$629,551,739 | \$565,986,398 | 11.2% | \$741,704,998 | -15.1% |
| The Boston Company | \$46,135,616 | \$39,889,688 | 15.7% | \$43,763,799 | 5.4% |
| Chartwell Investment Partners | \$55,343,982 | \$47,269,973 | 17.1% | \$49,013,762 | 12.9% |
| Jennison Associates | \$96,368,673 | \$83,764,787 | 15.0% | \$101,593,029 | -5.1% |
| Small Cap Aggregate | \$197,848,271 | \$170,924,448 | 15.8% | \$194,370,590 | 1.8% |
| Artio Global Investors | \$174,345,668 | \$157,330,190 | 10.8% | \$212,212,963 | -17.8% |
| Mondrian Investment Partners | \$194,870,116 | \$179,152,423 | 8.8% | \$214,151,315 | -9.0% |
| International Aggregate | \$369,215,784 | \$336,482,613 | 9.7% | \$426,364,279 | -13.4% |
| Total Equity | \$1,196,615,794 | \$1,073,393,458 | 11.5% | \$1,362,439,867 | -12.2% |
| Aberdeen Asset Management | \$106,046,892 | \$105,594,595 | 0.4% | \$144,773,469 | -26.7% |
| Angelo Gordon | \$33,389,147 | \$33,861,618 | -1.4% | \$30,896,705 | 8.1% |
| Brigade Capital Management | \$49,928,940 | \$49,134,510 | N/A | \$46,964,115 | 6.3% |
| Brown Brothers Harriman | \$76,973,634 | \$75,700,230 | N/A | \$47,476,910 | 62.1% |
| Franklin Templeton | \$103,440,666 | \$97,134,054 | N/A | \$0 | N/A |
| Pyramis Global Advisors | \$106,843,316 | \$106,471,139 | 0.3% | \$171,360,687 | -37.7% |
| Western Asset Management Company | \$104,782,324 | \$104,862,078 | -0.1% | \$178,766,869 | -41.4% |
| Total Fixed Income | \$581,404,919 | \$572,758,224 | 1.5% | \$620,238,754 | -6.3% |
| Private Equity | \$11,955,259 | \$11,105,153 | 7.7% | \$250,000 | 4682.1% |
| Risk Parity | \$138,950,280 | \$146,355,440 | -5.1% | \$0 | N/A |
| Hedge Funds | \$66,445,750 | \$69,042,470 | -3.8% | \$0 | N/A |
| Comodities | \$69,326,995 | \$67,006,505 | N/A | \$0 | N/A |
| Alternative Investments | \$286,678,284 | \$293,509,568 | -2.3% | \$250,000 | N/A |
| INVESCO Realty Advisors | \$138,282,516 | \$135,475,106 | 2.1% | \$1,170,668,313 | -88.2% |
| Cash | \$35,208,146 | \$43,626,459 | -19.3% | \$7,522,030 | 368.1% |
| Total | \$2,238,189,659 | \$2,118,762,816 | 5.6% | \$3,160,868,964 | -29.2% |

Change in Asset Allocation by Asset Class

| | Current Month | Prior Month | Absolute Change | Prior Year | Absolute Change |
|-------------------------|---------------|---------------|-----------------|---------------|-----------------|
| Total Equity | 53.5% | 50.7% | 2.8% | 43.1% | 10.4% |
| Total Fixed Income | 26.0% | 27.0% | -1.1% | 19.6% | 6.4% |
| Alternative Investments | 12.8% | 13.9% | -1.0% | 0.0% | 12.8% |
| Real Estate | 6.2% | 6.4% | -0.2% | 37.0% | -30.9% |
| Cash | 1.6% | 2.1% | -0.5% | 0.2% | 1.3% |
| Total | 100.0% | 100.0% | | 100.0% | |

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

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 |
|---|-----------------|----------------|-----------------------|---------------------|------------------------|-------------------------|---------------|---------------|---------------|---------------|
| | | | | | | Four Months | | | | |
| Equity Aggregate | \$1,196,615,794 | 11.48% | -6.20% | -11.23% | 3.21% | -8.18% | 9.82% | 11.10% | -1.23% | 4.41% |
| Equity Composite Benchmark | | 11.58% | -6.00% | -11.16% | 3.59% | -7.98% | 10.32% | 12.70% | 0.38% | 5.50% |
| Variance | | -0.10% | -0.20% | -0.07% | -0.38% | -0.20% | -0.50% | -1.60% | -1.61% | -1.09% |
| Private Equity Aggregate | \$11,955,259 | 0.54% | 3.43% | -8.02% | -90.69% | 0.94% | N/A | N/A | N/A | N/A |
| Private Equity Composite Benchmark | | 11.76% | -2.59% | -6.90% | 11.12% | -4.58% | N/A | N/A | N/A | N/A |
| Variance | | -11.22% | 6.02% | -1.12% | N/A | 5.52% | N/A | N/A | N/A | N/A |
| Risk Parity Aggregate | \$138,950,280 | -5.09% | -7.52% | -5.64% | N/A | -4.58% | N/A | N/A | N/A | N/A |
| Risk Parity Benchmark (60/40 Portfolio) | | -6.95% | -0.80% | -2.87% | N/A | -1.54% | N/A | N/A | N/A | N/A |
| Variance | | -12.04% | -6.72% | -2.77% | N/A | -3.04% | N/A | N/A | N/A | N/A |
| Hedge Fund Aggregate | \$66,445,750 | -3.76% | -4.54% | N/A | N/A | -5.06% | N/A | N/A | N/A | N/A |
| Hedge Fund Benchmark (LIBOR + 4%) | | 0.35% | 1.05% | N/A | N/A | 1.39% | N/A | N/A | N/A | N/A |
| Variance | | -4.11% | -5.59% | N/A | N/A | -6.45% | N/A | N/A | N/A | N/A |
| Commodities | \$69,326,995 | 3.46% | -7.56% | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| DJ - UBS Commodity Benchmark | | 6.62% | -8.19% | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Variance | | -3.16% | 0.63% | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Fixed Income Aggregate | \$581,404,919 | 1.83% | -0.20% | 1.25% | 4.70% | 1.20% | 8.66% | 12.23% | 5.87% | 5.44% |
| Fixed Income Composite Benchmark | | 0.97% | 1.87% | 4.97% | 5.79% | 4.13% | 7.18% | 9.34% | 6.68% | 5.59% |
| Variance | | 0.86% | -2.07% | -3.72% | -1.09% | -2.93% | 1.48% | 2.89% | -0.81% | -0.15% |
| Real Estate Aggregate (2) | \$138,282,516 | 0.00% | 2.12% | 9.20% | 18.62% | 2.12% | 12.76% | -6.28% | 0.11% | 6.85% |
| NCREIF NFI ODCE EW (Gross) | | 0.00% | 3.30% | 7.36% | 17.10% | 3.30% | 11.49% | -6.22% | 0.37% | 6.23% |
| Variance | | 0.00% | 0.00% | 1.84% | 1.52% | -1.18% | 1.27% | -0.06% | -0.26% | 0.62% |
| Cash Aggregate | \$35,208,146 | 0.02% | 0.14% | 0.39% | 0.80% | 0.21% | 0.93% | 1.17% | 1.27% | 2.09% |
| 91 Day Treasury Bill | | 0.00% | 0.03% | 0.04% | 0.13% | 0.02% | 0.12% | 0.18% | 1.66% | 1.99% |
| Variance | | 0.02% | 0.11% | 0.35% | 0.67% | 0.19% | 0.81% | 0.99% | -0.39% | 0.10% |
| Total Fund Returns | \$2,238,189,659 | 6.09% | -4.23% | -6.56% | 4.59% | -4.88% | 9.63% | 9.78% | 1.07% | 5.11% |
| Total Plan Policy Benchmark | | 7.92% | -2.85% | -5.52% | 5.86% | -3.57% | 10.30% | 11.39% | 2.66% | 5.96% |
| Variance | | -1.83% | -1.38% | -1.04% | -1.27% | -1.31% | -0.67% | -1.61% | -1.59% | -0.85% |

Performance versus Actuarial Discount Rate

| | | | | | | | | | | |
|-------------------------|-----------------|--------------|---------------|----------------|---------------|---------------|--------------|--------------|---------------|---------------|
| Total Fund Returns | \$2,238,189,659 | 6.09% | -4.23% | -6.56% | 4.59% | -4.88% | 9.63% | 9.78% | 0.44% | 4.74% |
| Actuarial Discount Rate | | 0.62% | 1.88% | 3.80% | 7.75% | 2.52% | 7.75% | 7.75% | 7.75% | 7.91% |
| Variance | | 5.47% | -6.11% | -10.36% | -3.16% | -7.40% | 1.88% | 2.03% | -7.31% | -3.17% |

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

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

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

Manager & Benchmark Performance

| Portfolio | Manager Performance | | | | | (1) | | | | | | |
|--------------------------------------|---------------------|-----------------------|---------------------|------------------------|---------------------------------|----------------|---------------|---------------|---------------|----------------|--------------|--|
| | One Month | Trailing Three Months | Trailing Six Months | Trailing Twelve Months | Fiscal Year to Date Four Months | One Year | Two Years | Three Years | Four Years | Five Years | Ten Years | |
| BlackRock Russell 1000 | 11.21% | -3.00% | -7.75% | 8.07% | -5.10% | 8.07% | 12.81% | 12.30% | -2.71% | 0.92% | 4.21% | |
| D.E. Shaw Investment Management, LLC | 10.97% | -4.28% | -7.51% | 7.70% | -5.55% | 7.70% | 12.24% | N/A | N/A | N/A | N/A | |
| T. Rowe Price Associates | 11.24% | -2.50% | -6.84% | 8.71% | -4.19% | 8.71% | 12.02% | N/A | N/A | N/A | N/A | |
| Barrow, Hanley, Mewhinney & Straus | 12.12% | -3.44% | -10.08% | 7.86% | -8.02% | 7.86% | 12.53% | N/A | N/A | N/A | N/A | |
| BlackRock Capital Management, Inc. | 10.59% | -6.69% | -11.75% | 1.58% | -7.92% | 1.58% | 11.80% | N/A | N/A | N/A | N/A | |
| Large Cap Aggregate | 11.23% | -4.18% | -9.17% | 6.39% | -6.48% | 6.39% | 11.84% | 11.02% | -3.61% | -0.87% | 3.71% | |
| The Boston Company | 15.66% | -4.54% | -12.35% | 5.42% | -7.59% | 3.42% | 13.10% | N/A | N/A | N/A | N/A | |
| Chartwell Investment Partners | 17.08% | -6.01% | -12.53% | 12.92% | -8.58% | 12.92% | 24.45% | 18.54% | -1.68% | 2.91% | N/A | |
| Jenison Associates | 15.05% | -4.92% | -11.12% | 11.72% | -8.52% | 11.72% | 20.97% | 20.11% | N/A | N/A | N/A | |
| Small Cap Aggregate | 15.75% | -5.10% | -11.74% | 10.82% | -8.32% | 10.62% | 19.98% | 17.96% | -2.23% | -1.34% | 5.54% | |
| Artio Global Investors | 10.82% | -13.82% | -18.64% | -9.86% | -14.52% | -9.86% | -0.23% | 5.61% | -11.24% | -3.76% | N/A | |
| Mondrian Investment Partners | 8.77% | -6.16% | -9.70% | -0.43% | -7.14% | -0.43% | 4.97% | 10.54% | -5.57% | 0.03% | N/A | |
| International Aggregate | 9.73% | -9.94% | -14.15% | -5.12% | -10.78% | -5.12% | 2.42% | 8.11% | -8.39% | 184.00% | 5.61% | |
| Total Equity | 11.48% | -6.20% | -11.23% | 3.21% | -8.18% | 3.21% | 9.82% | 11.10% | -4.85% | -1.23% | 4.41% | |
| Aberdeen Asset Management | 0.43% | 1.41% | 3.71% | 5.59% | 3.15% | 5.59% | 8.64% | 10.70% | 4.50% | 4.64% | 4.90% | |
| Anglo Gordon | 0.00% | -10.26% | -16.56% | -4.09% | -11.62% | -4.09% | N/A | N/A | N/A | N/A | N/A | |
| Brigade Capital Management | 2.76% | -1.38% | -0.06% | 6.31% | -0.42% | 6.31% | N/A | N/A | N/A | N/A | N/A | |
| Brown Brothers Harriman | 1.64% | 3.86% | 3.37% | 9.28% | 6.88% | 9.28% | N/A | N/A | N/A | N/A | N/A | |
| Franklin Templeton | 6.49% | -3.36% | -3.19% | N/A | -2.55% | N/A | N/A | N/A | N/A | N/A | N/A | |
| Pyramis Global Advisors | 0.35% | 1.72% | 4.22% | 5.63% | 3.35% | 5.63% | 8.13% | 12.03% | 7.51% | 6.63% | N/A | |
| Western Asset Management Company | 0.69% | 1.46% | 3.78% | 5.96% | 3.00% | 5.96% | 9.33% | 14.04% | 6.85% | 6.34% | N/A | |
| Total Fixed Income | 1.83% | -0.20% | 1.25% | 4.70% | 1.20% | 4.70% | 8.66% | 12.23% | 6.28% | 3.87% | 5.44% | |
| Private Equity | 0.54% | 3.43% | -8.02% | -90.59% | 0.94% | -90.59% | N/A | N/A | N/A | N/A | N/A | |
| Risk Parity | -5.06% | -7.52% | -5.64% | N/A | -4.58% | N/A | N/A | N/A | N/A | N/A | N/A | |
| Hedge Funds | -3.76% | -4.54% | N/A | N/A | -5.06% | N/A | N/A | N/A | N/A | N/A | N/A | |
| Commodities | 3.46% | -7.56% | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | |
| Alternative Investments | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | |
| INVESCO Realty Advisers | 0.00% | 2.12% | 9.20% | 18.82% | 2.12% | 18.82% | 12.76% | -6.28% | -3.31% | 0.11% | 6.85% | |
| Cash | 0.02% | 0.14% | 0.39% | 0.80% | 0.21% | 0.80% | 0.93% | 1.17% | 0.47% | 1.27% | 2.09% | |
| Total | 6.09% | -4.23% | -6.56% | 4.59% | -4.88% | 4.59% | 9.63% | 9.78% | -1.44% | 0.44% | 4.74% | |

| Benchmark Performance | | | | | | | | | | | |
|---|--------|---------|---------|--------|---------|--------|--------|--------|--------|--------|-------|
| Russell 1000 | 11.21% | -3.01% | -7.78% | 8.01% | -5.12% | 8.01% | 12.74% | 12.22% | -2.78% | 0.54% | 4.17% |
| S&P 500 | 10.93% | -2.47% | -7.11% | 8.09% | -4.45% | 8.09% | 12.22% | N/A | N/A | N/A | N/A |
| Russell 1000 Value | 11.45% | -3.40% | -9.49% | 6.16% | -6.61% | 6.16% | 10.83% | N/A | N/A | N/A | N/A |
| Russell 1000 Growth | 10.97% | -2.63% | -6.02% | 9.92% | -3.60% | 9.92% | 14.68% | N/A | N/A | N/A | N/A |
| Russell 2000 | 15.14% | -6.67% | -13.76% | 6.71% | -10.04% | 6.71% | 16.22% | 12.87% | -1.36% | 0.68% | 7.02% |
| Russell 2000 Value | 14.41% | -7.09% | -13.94% | 3.54% | -10.16% | 3.54% | 13.51% | N/A | N/A | N/A | N/A |
| Russell 2000 Growth | 15.86% | -6.24% | -13.56% | 9.84% | -9.92% | 9.84% | 18.88% | 16.31% | -0.56% | 2.68% | N/A |
| MSCI ACWI ex US (Gross) | 10.54% | -10.12% | -15.00% | -4.25% | -11.32% | -4.25% | 4.06% | 13.43% | -6.79% | 0.09% | 8.05% |
| MSCI ACWI ex US Growth (Gross) | 11.13% | -10.71% | -14.75% | -3.80% | -11.21% | -3.80% | 5.59% | 13.56% | -6.56% | 0.73% | N/A |
| MSCI ACWI ex US Value (Gross) | 9.96% | -9.52% | -15.23% | -4.74% | -11.43% | -4.74% | 2.50% | 13.46% | -7.06% | -0.61% | N/A |
| Russell 3000 + 3% (Private Equity) | 11.76% | -2.59% | -6.90% | 11.12% | -4.58% | 11.12% | N/A | N/A | N/A | N/A | N/A |
| 60% Russell 3000 / 40% Barclays Aggregate (Risk Parity) | 6.95% | -0.80% | -2.87% | 7.19% | -1.54% | 7.19% | N/A | N/A | N/A | N/A | N/A |
| LIBOR +4% (Hedge Fund) | 0.35% | 1.05% | N/A | N/A | 1.99% | N/A | N/A | N/A | N/A | N/A | N/A |
| DJ - UBS Commodities Index | 6.62% | -8.19% | N/A | N/A | -8.19% | N/A | N/A | N/A | N/A | N/A | N/A |
| Barclays Capital Aggregate | 0.11% | 2.31% | 4.98% | 5.00% | 3.93% | 5.00% | 6.50% | 8.87% | 6.67% | 6.41% | 5.46% |
| Barclays U.S. TIPS Index | 1.87% | 2.61% | 7.95% | 9.31% | 6.76% | 9.31% | N/A | N/A | N/A | N/A | N/A |
| BC BA Intermediate High Yield Index | 4.98% | -0.24% | 1.16% | 5.29% | 1.14% | 5.29% | N/A | N/A | N/A | N/A | N/A |
| Barclays Capital Multiverse Index | 1.51% | 0.15% | 2.14% | N/A | 2.17% | N/A | N/A | N/A | N/A | N/A | N/A |
| NCREIF NFI ODCE EW (Gross) | 0.00% | 3.30% | 7.36% | 17.10% | 3.30% | 17.10% | 11.49% | -6.22% | -3.46% | 0.37% | 6.23% |
| 91 Day Treasury Bill | 0.00% | 0.03% | 0.04% | 0.13% | 0.02% | 0.13% | 0.12% | 0.18% | 0.81% | 1.66% | 1.99% |
| SumCERA Plan Policy Benchmark | 7.92% | -2.85% | -5.52% | 5.86% | -3.57% | 5.86% | 10.30% | 11.39% | -0.21% | 2.66% | 5.96% |
| SumCERA Actuarial Discount Rate | 0.62% | 1.88% | 3.80% | 7.75% | 2.52% | 7.75% | 7.75% | 7.75% | 7.75% | 7.75% | 7.91% |

(1) SumCERA 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 October 31, 2011

Realized & Unrealized Gain / (Loss)

| Portfolio | Beginning | (1) Realized | Contributions/ (Withdrawals) | Ending | Prior Years | FYTD | Ending |
|-------------------------------------|----------------------------------|-------------------------------|---------------------------------|----------------------------------|---|------------------------------|----------------------------------|
| | Book Balance As of 07/01/2011 | Gain / (Loss) for the FYTD | for the FYTD | Book Balance As of 10/31/2011 | Accumulated Unrealized Gains / (Loss) | Unrealized Gains / (Loss) | Market Value As of 10/31/2011 |
| BlackRock Russell 1000 | \$116,239,675.42 | 4,747,118 | (25,000,000) | \$95,986,793.01 | \$25,789,141 | (\$13,614,875) | \$108,161,059 |
| D.E. Shaw Investment Management LLC | \$104,437,429.03 | (516,651) | | \$103,920,777.83 | \$7,566,467 | (\$5,702,984) | \$105,784,260 |
| T. Rowe Price Associates | \$90,671,733.96 | 1,552,286 | | \$92,224,020.38 | \$19,588,947 | (\$6,177,608) | \$105,635,359 |
| Barrow Hanley | \$137,062,910.95 | 1,867,175 | (10,000,000) | \$128,930,085.52 | \$35,541,811 | (\$15,510,595) | \$148,961,302 |
| BlackRock | \$137,507,026.05 | (742,302) | | \$136,764,724.37 | \$33,938,711 | (\$12,829,983) | \$157,873,452 |
| The Boston Company | \$42,422,535.09 | 248,505 | | \$42,671,040.01 | \$7,503,042 | (\$4,038,466) | \$46,135,616 |
| Chartwell Investment Partners | \$49,714,955.60 | 43,519 | | \$49,758,474.59 | \$10,820,841 | (\$5,235,333) | \$55,343,982 |
| Jennison Associates | \$96,873,436.26 | 1,339,388 | (15,000,000) | \$83,212,824.13 | \$27,187,483 | (\$14,031,634) | \$96,368,673 |
| Artio Global Investors | \$176,118,388.38 | (4,169,826) | | \$171,948,562.15 | \$27,844,377 | (\$25,447,272) | \$174,345,668 |
| Mondrian Investment Partners | \$199,643,052.25 | 1,385,546 | | \$201,028,597.87 | \$10,221,090 | (\$16,379,572) | \$194,870,116 |
| Aberdeen Asset Management | \$121,263,066.81 | 4,127,682 | (20,000,000) | \$105,390,749.01 | \$1,082,815 | (\$426,672) | \$106,046,892 |
| Angelo Gordon | \$30,056,249.00 | | (945,000) | \$29,111,249.00 | \$8,809,096 | (\$4,531,198) | \$33,389,147 |
| Bridge Capital Management | \$45,000,000.00 | | | \$45,000,000.00 | \$5,141,745 | (\$212,805) | \$49,928,940 |
| Brown Brothers Harriman | \$47,586,488.24 | 1,452,392 | 25,000,000 | \$74,038,880.54 | \$958,745 | \$1,976,009 | \$76,973,634 |
| Franklin Templeton Investments | \$102,493,815.00 | 2,364,967 | | \$104,858,781.50 | \$3,650,077 | (\$5,068,192) | \$103,440,666 |
| Pyramis Global Advisors | \$81,745,258.37 | 2,979,775 | (10,000,000) | \$74,725,033.69 | \$31,162,641 | \$955,641 | \$106,843,316 |
| Western Asset Management Company | \$116,975,047.04 | 2,780,662 | (15,000,000) | \$104,755,708.67 | (\$601,561) | \$628,177 | \$104,782,324 |
| Private Equity (Sheridan & ABRY) | \$3,586,327.00 | 145,877 | 8,223,055 | \$11,955,258.84 | \$0 | \$0 | \$11,955,259 |
| AQR's Global Risk Premium | \$140,000,000.00 | | | \$140,000,000.00 | \$0 | (\$1,049,720) | \$138,950,280 |
| AQR's Delta Fund (Hedge Fund) | \$70,000,000.00 | | | \$70,000,000.00 | \$0 | (\$3,554,250) | \$66,445,750 |
| SSGA/SSARIS Multisource Commodities | \$0.00 | | 75,000,000 | \$75,000,000.00 | \$0 | -\$5,673,004.76 | \$69,326,995 |
| INVESCO Core US Real Estate Fund | \$136,831,829.92 | 1,191,967 | | \$138,023,797.32 | \$0 | \$258,719 | \$138,282,516 |
| Cash | \$5,273,627.54 | | | \$35,208,145.73 | \$0 | \$0 | \$35,208,146 |
| Total | \$2,051,502,851.91 | \$20,798,078.87 | \$12,278,055.19 | \$2,114,513,504.16 | \$256,205,466.60 | -\$135,665,617.72 | \$2,235,053,353.04 |

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

San Mateo County Employees' Retirement Association
Monthly Performance Review
Period Ending October 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 10/31/2011 | 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 | -5.10% | -5.12% |
| D.E. Shaw Investment Management, LLC | \$104,437,429 | -\$516,651 | \$0 | \$103,920,778 | -5.55% | -5.12% |
| T. Rowe Price Associates | \$90,671,734 | \$1,552,286 | \$0 | \$92,224,020 | -4.19% | -4.45% |
| Barrow, Hanley, Mewhinney & Strauss | \$137,062,911 | \$1,867,175 | -\$10,000,000 | \$128,930,086 | -8.02% | -6.61% |
| BlackRock Capital Management, Inc. | \$137,507,026 | -\$742,302 | \$0 | \$136,764,724 | -7.92% | -3.60% |
| The Boston Company | \$42,422,535 | \$248,505 | \$0 | \$42,671,040 | -7.59% | -10.16% |
| Chartwell Investment Partners | \$49,714,956 | \$43,519 | \$0 | \$49,758,475 | -8.58% | -9.92% |
| Jennison Associates | \$96,873,436 | \$1,339,388 | -\$15,000,000 | \$83,212,824 | -8.52% | -10.04% |
| Artio Global Investors | \$176,118,388 | -\$4,169,826 | \$0 | \$171,948,562 | -14.52% | -11.21% |
| Mondrian Investment Partners | \$199,643,052 | \$1,385,546 | \$0 | \$201,028,598 | -7.14% | #REF! |
| Aberdeen Asset Management | \$121,263,067 | \$4,127,682 | -\$20,000,000 | \$105,390,749 | 3.15% | 3.93% |
| Angelo Gordon | \$30,056,249 | \$0 | -\$945,000 | \$29,111,249 | -11.62% | 1.14% |
| Brigade Capital Management | \$45,000,000 | \$0 | \$0 | \$45,000,000 | -0.42% | 1.14% |
| Brown Brothers Harriman | \$47,586,488 | \$1,452,392 | \$25,000,000 | \$74,038,881 | 6.88% | 6.76% |
| Franklin Templeton | \$102,493,815 | \$2,364,967 | \$0 | \$104,858,782 | -2.55% | N/A |
| Pyramis Global Advisors | \$81,745,258 | \$2,979,775 | -\$10,000,000 | \$74,725,034 | 3.35% | 3.93% |
| Western Asset Management Company | \$116,975,047 | \$2,780,662 | -\$15,000,000 | \$104,755,709 | 3.00% | 3.93% |
| Private Equity | \$3,586,327 | \$145,877 | \$8,223,055 | \$11,955,259 | 0.94% | N/A |
| AQR Global Risk Premium | \$140,000,000 | \$0 | \$0 | \$140,000,000 | -4.58% | N/A |
| AQR Delta Fund (Hedge Fund) | \$70,000,000 | \$0 | \$0 | \$70,000,000 | -5.06% | N/A |
| SSGA/SSARIS Multisource Commodities | \$0 | \$0 | \$75,000,000 | \$75,000,000 | N/A | N/A |
| INVESCO Realty Advisors | \$136,831,830 | \$1,191,967 | \$0 | \$138,023,797 | 2.12% | 3.30% |
| Cash | \$5,273,628 | \$0 | \$0 | \$5,273,628 | 0.21% | 0.02% |
| Total | \$2,051,502,852 | \$20,798,079 | \$12,278,055 | \$2,084,578,986 | -4.88% | -3.57% |

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

San Mateo County Employees' Retirement Association

Monthly Performance Review

Period Ending October 31, 2011

Professional Services Fees

| Investment Management Fees | Market Value As of 10/31/2011 | For the Quarter Ending | | | | Fiscal Year 2010 / 2011 | Estimated Annual Fee (1) |
|--|----------------------------------|-------------------------|------------------|------------|------------|----------------------------|--------------------------------|
| | | Estimated 09/30/2010 | 12/31/2010 | 03/31/2011 | 06/30/2011 | | |
| BlackRock Russell 1000 | \$ 111,297,366.00 | \$16,800 | \$5,600 | | | \$22,400 | \$95,000 |
| D.E. Shaw Investment Management, LLC | \$ 105,784,260.00 | \$139,500 | \$46,500 | | | \$186,000 | \$475,000 |
| T. Rowe Price Associates | \$ 105,635,359.00 | \$94,800 | \$31,600 | | | \$126,400 | \$350,000 |
| Barrow, Hanley, Mewhinney & Strauss | \$ 148,961,302.00 | \$92,700 | \$30,900 | | | \$123,600 | \$650,000 |
| BlackRock Capital Management, Inc. | \$ 157,873,452.00 | \$194,100 | \$64,700 | | | \$258,800 | \$675,000 |
| The Boston Company | \$ 46,135,616.00 | \$102,900 | \$34,300 | | | \$137,200 | \$375,000 |
| Chartwell Investment Partners | \$ 55,343,982.00 | \$110,400 | \$36,800 | | | \$147,200 | \$350,000 |
| Jennison Associates | \$ 96,368,673.00 | \$229,200 | \$76,400 | | | \$305,600 | \$775,000 |
| Artio Global Investors | \$ 174,345,668.00 | \$246,600 | \$82,200 | | | \$328,800 | \$975,000 |
| Mondrian Investment Partners | \$ 194,870,116.00 | \$97,200 | \$32,400 | | | \$129,600 | \$50,000 |
| Aberdeen Asset Management | \$ 106,046,892.00 | \$82,800 | \$27,600 | | | \$110,400 | \$375,000 |
| Angelo Gordon | \$ 33,389,147.00 | N/A | N/A | | | N/A | \$350,000 |
| Brigade Capital Management | \$ 49,928,940.00 | N/A | N/A | | | N/A | \$225,000 |
| Brown Brothers Harriman | \$ 76,973,634.00 | \$18,900 | \$6,300 | | | \$25,200 | \$75,000 |
| Franklin Templeton | \$ 103,440,666.00 | \$105,300 | \$35,100 | | | \$140,400 | N/A |
| Pyramis Global Advisors | \$ 106,843,316.00 | \$50,700 | \$16,900 | | | \$67,600 | \$275,000 |
| Western Asset Management Company | \$ 104,782,324.00 | \$81,900 | \$27,300 | | | \$109,200 | \$425,000 |
| Private Equity | \$ 11,955,259.00 | N/A | N/A | | | N/A | N/A |
| AQR' Global Risk Premium (Risk Parity) | \$ 138,950,280.00 | N/A | N/A | | | N/A | N/A |
| AQR's Delta Fund (Hedge Fund) | \$ 66,445,750.00 | N/A | N/A | | | N/A | N/A |
| Ssga/SSARIS Commodities | \$ 69,326,995.00 | N/A | N/A | | | N/A | N/A |
| INVESCO Realty Advisors | \$ 138,282,516.00 | \$155,700 | \$51,900 | | | \$207,600 | \$650,000 |
| Sub-Total | \$2,202,981,513 | \$1,819,500 | \$606,500 | \$0 | \$0 | \$2,426,000 | \$7,145,000 |
| Investment Consultant Fees | | | | | | | |
| Strategic Investment Solutions | | \$99,999 | \$33,333 | | | \$133,332 | \$400,000 |
| Global Custodian Fees | | | | | | | |
| State Street Bank & Trust | | \$54,000 | \$18,000 | | | \$72,000 | \$125,000 |
| Actuarial Consultant Fees | | | | | | | |
| Milliman, Inc. | | \$32,750 | \$5,000 | | | \$37,750 | \$60,000 |
| Sub-Total | | \$186,749 | \$56,333 | \$0 | \$0 | \$243,082 | \$585,000 |
| Total | | \$2,006,249 | \$662,833 | \$0 | \$0 | \$2,669,082 | \$7,730,000 |

**San Mateo County
Benchmark History**

| | | | | | | | | |
|-----------------------------------|------------------|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Total Plan Policy | 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% | 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% |
| US Equity | 1/1/2011 | 6/1/2000 | 3/1/1999 | 9/1/1998 | 7/1/1996 | 1/1/1995 | | |
| 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% | 12.5% | 17% | | |
| Russell 1000 Value | | | 12% | 12.5% | | | | |
| | 100% | 100% | 100% | 100.0% | 100.0% | 100% | | |
| International Equity | 6/1/2000 | 1/1/1996 | | | | | | |
| MSCI ACWI -ex US | 100% | | | | | | | |
| MSCI EAFE | | 100% | | | | | | |
| | 100% | 100% | | | | | | |
| Total Equity | 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% | | |
| 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% | | |
| US Fixed Income | 1/1/2011 | 10/1/2010 | 7/1/1996 | | | | | |
| Barclays Aggregate | 62.4% | 73.7% | 100% | | | | | |
| Barclays BBB | 18.8% | 9.1% | | | | | | |
| Barclays TIPS | 18.8% | 17.2% | | | | | | |
| | 100.0% | 100.0% | 100% | | | | | |
| Global Fixed Income | 10/1/2010 | | | | | | | |
| Barclays Multiverse | 100% | | | | | | | |
| Total Fixed Income | 1/1/2011 | 10/1/2010 | 6/1/2000 | 3/1/1999 | 7/1/1996 | | | |
| 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% | | | |
| Real Estate | 1/1/2009 | 6/1/2000 | 7/1/1996 | | | | | |
| NCREIF ODCE | 100% | | | | | | | |
| NCREIF Property | | 100% | | | | | | |
| Citigroup 10 Yr Treasury + 2% | | | 100% | | | | | |
| Private Equity | 10/1/2010 | | | | | | | |
| Russell 3000 + 3% | 100% | | | | | | | |
| Risk Parity | 10/1/2010 | | | | | | | |
| Russell 3000 | 60% | | | | | | | |
| Barclays Aggregate | 40% | | | | | | | |
| | 100% | | | | | | | |
| Hedge Fund | 10/1/2010 | | | | | | | |
| LIBOR + 4% | 100% | | | | | | | |
| Commodities | 10/1/2010 | | | | | | | |
| DJ UBS Commodity | 100% | | | | | | | |

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Board of Retirement

December 13, 2011

Agenda Item 6.2

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

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

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

| | Last Quarter | | One Year | | Last 3 Years | |
|---------------------------------------|--------------|------|----------|------|--------------|------|
| | Return | Rank | Return | Rank | Return | Rank |
| <i>Composite Fund</i> | -10.61 | 85 | 0.98 | 67 | 2.73 | 82 |
| <i>Policy Index</i> | -10.64 | 85 | 0.91 | 69 | 3.44 | 66 |
| BlackRock Russell 1000 Index Fund | -14.67 | 50 | 0.95 | 49 | 1.67 | 30 |
| D.E. Shaw | -14.89 | 54 | 0.82 | 51 | N/A | N/A |
| <i>Russell 1000 Index</i> | -14.68 | -51 | 0.91 | 49 | 1.61 | 32 |
| T. Rowe Price | -13.88 | 35 | 1.33 | 20 | N/A | N/A |
| <i>S&P 500 Index</i> | -13.87 | 30 | 1.14 | 40 | N/A | N/A |
| Barrow Hanley | -17.96 | 64 | -1.08 | 38 | N/A | N/A |
| <i>Russell 1000 Value Index</i> | -16.2 | 37 | 1-1.89 | 47 | N/A | N/A |
| BlackRock | -16.73 | 80 | -2.27 | 87 | N/A | N/A |
| <i>Russell 1000 Growth Index</i> | -13.14 | 32 | 3.78 | 32 | N/A | N/A |
| <i>Large Cap Composite</i> | -15.92 | 61 | -0.35 | 61 | 0.53 | 72 |
| <i>Russell 1000 Index</i> | -14.68 | 46 | 0.91 | 48 | 1.61 | 46 |
| Jennison Associates | -20.48 | 36 | 1.70 | 9 | 4.65 | 12 |
| <i>Russell 2000 Index</i> | -21.87 | 68 | -3.53 | 62 | -0.37 | 87 |
| The Boston Company | -20.10 | 27 | -7.10 | 78 | N/A | N/A |
| <i>Russell 2000 Value Index</i> | -21.47 | 28 | -5.99 | 66 | N/A | N/A |
| Chartwell Investment Partners | -21.91 | 60 | 0.55 | 63 | 2.73 | 71 |
| <i>Russell 2000 Growth Index</i> | -22.95 | 68 | -1.12 | 73 | 2.07 | 77 |
| <i>Small Cap Composite</i> | -20.79 | 46 | -0.64 | 42 | 1.56 | 63 |
| <i>Russell 2000 Index</i> | -21.87 | 64 | -3.53 | 67 | -0.37 | 87 |
| <i>U.S. Equity Composite</i> | -17.12 | 64 | -0.58 | 66 | 0.74 | 84 |
| Artio Global Investors | -22.86 | 89 | -16.55 | 91 | -4.94 | 94 |
| <i>MSCI ACWI-ex US Growth Index</i> | -20.1 | 58 | -10.61 | 65 | 0.81 | 44 |
| Mondrian Investment Partners | -14.63 | 14 | -5.43 | 21 | 1.22 | 38 |
| <i>MSCI ACWI-ex US Value Index</i> | -19.45 | 45 | -10.28 | 61 | 1.12 | 39 |
| <i>International Equity Composite</i> | -18.69 | 31 | -10.97 | 56 | -1.80 | 83 |
| <i>MSCI ACWI-ex US Index Free</i> | -19.78 | 46 | -10.42 | 50 | 0.98 | 47 |
| <i>Total Equity Composite</i> | -17.64 | N/A | -3.95 | N/A | 0.03 | N/A |

| | Last Quarter | | One Year | | Last 3 Years | |
|---------------------------------------|---------------|------------|--------------|------------|--------------|------------|
| | Return | Rank | Return | Rank | Return | Rank |
| Aberdeen Asset Management | 2.71 | 55 | 5.79 | 20 | 8.00 | 79 |
| Angelo Gordon GECC PPI Fund | -11.62 | N/A | 0.13 | N/A | N/A | N/A |
| Pyramis Global Advisors | 2.99 | 46 | 5.96 | 16 | 10.34 | 24 |
| Western Asset Management | 2.30 | 67 | 5.94 | 16 | 11.29 | 9 |
| <i>BC Aggregate Index</i> | <i>3.82</i> | <i>21</i> | <i>5.26</i> | <i>40</i> | <i>7.97</i> | <i>80</i> |
| Brigade Capital Management | -3.10 | N/A | 5.87 | N/A | N/A | N/A |
| <i>BC BBB Credit</i> | <i>2.42</i> | <i>N/A</i> | <i>4.87</i> | <i>N/A</i> | <i>N/A</i> | <i>N/A</i> |
| Brown Brothers Harriman | 5.11 | 7 | 9.78 | 39 | N/A | N/A |
| <i>BC U.S. TIPS</i> | <i>4.51</i> | <i>61</i> | <i>9.87</i> | <i>18</i> | <i>N/A</i> | <i>N/A</i> |
| Franklin Templeton Investments | -8.49 | 94 | N/A | N/A | N/A | N/A |
| <i>BC Multiverse</i> | <i>0.65</i> | <i>48</i> | <i>N/A</i> | <i>N/A</i> | <i>N/A</i> | <i>N/A</i> |
| <i>Total Fixed Income Composite</i> | <i>-0.62</i> | <i>70</i> | <i>3.88</i> | <i>54</i> | <i>9.34</i> | <i>52</i> |
| <i>Total Fixed Income Index</i> | <i>3.08</i> | <i>31</i> | <i>5.65</i> | <i>25</i> | <i>8.10</i> | <i>64</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>-2.85</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>-14.64</i> | <i>N/A</i> | <i>N/A</i> | <i>N/A</i> | <i>N/A</i> | <i>N/A</i> |
| AQR Delta Fund | -4.82 | 60 | N/A | N/A | N/A | N/A |
| <i>Total Hedge Fund Index</i> | <i>1.04</i> | <i>11</i> | <i>N/A</i> | <i>N/A</i> | <i>N/A</i> | <i>N/A</i> |
| AQR Risk Parity | -4.48 | N/A | N/A | N/A | N/A | N/A |
| <i>Total Risk Parity Index</i> | <i>-7.93</i> | <i>N/A</i> | <i>N/A</i> | <i>N/A</i> | <i>N/A</i> | <i>N/A</i> |
| AQR Risk Parity | -4.48 | N/A | N/A | N/A | N/A | N/A |
| <i>Total Risk Parity Index</i> | <i>-7.93</i> | <i>N/A</i> | <i>N/A</i> | <i>N/A</i> | <i>N/A</i> | <i>N/A</i> |
| SSgA Multisource | N/A | N/A | N/A | N/A | N/A | N/A |
| <i>Commodity Composite</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> |
| <i>NCREIF ODCE – Equal Weight</i> | <i>3.48</i> | <i>33</i> | <i>18.03</i> | <i>39</i> | <i>-5.97</i> | <i>42</i> |
| State Street General Account | 0.03 | 30 | 0.43 | 18 | 0.48 | 37 |
| San Mateo County Treasury Account | 0.26 | 8 | 1.09 | 11 | 1.3 | 13 |
| <i>Cash Composite</i> | <i>0.19</i> | <i>9</i> | <i>0.9</i> | <i>12</i> | <i>1.21</i> | <i>14</i> |
| <i>91 Day T-Bill Index</i> | <i>0.02</i> | <i>38</i> | <i>0.14</i> | <i>43</i> | <i>0.22</i> | <i>76</i> |

INVESTMENT PERFORMANCE SUMMARY

- The composite fund returned -10.6% in the third quarter of 2011 and ranked 85th among other public funds greater than \$100 million. The median fund return was -9.0%. The composite return matched the policy index return at -10.6%. The one-year return of 1.0% was ahead of the policy index return of 0.9% and ranked in the 67th percentile of the universe. Longer term, the three- and five-year returns of 2.7% (82nd percentile) and 0.4% (96th percentile), respectively, were below median among large public plans (4.2% and 2.0%).
- Third quarter results were enhanced by the following factors:
 1. The BlackRock Russell 1000 Index Fund, -14.7%, ranked in the 50th percentile among large cap core managers, median of -14.7%, and matched its benchmark.

2. T. Rowe Price, -13.9%, matched the S&P 500 Index and led its peer median of -14.7%. Security selection in the Info Tech sector helped performance; Utilities investments hurt.
 3. Jennison (-20.5%) ranked in the 36th percentile among its small cap core peers (median of -21.1%) and led its benchmark. The Russell 2000 Index returned -21.9%. Above par Healthcare (Caliper Life Sciences, Catalyst Health Solutions) and Industrials (Waste Connections, Huron Consulting Group, Clean Harbors) and its intra-quarter trading were contributors to relative performance.
 4. The Boston Company returned -20.1%, versus -21.5% for the Russell 2000 Value Index, and ranked in the 26th percentile among its peers (median -21.4%). Positive attribution was derived from stock selection in the Industrials (Huron Consulting Group, Mueller Industries, Lancaster Colony) and Consumer Discretionary (Children's Place, BJ's Wholesale Club) sectors and portfolio turnover.
 5. Chartwell lost less value, -21.9%, but performed better than the Russell 2000 Growth Index, -22.2%. Chartwell ranked in the 60th percentile among small cap growth managers (median of -20.8%). Positive alpha was mainly derived from its Energy stock selection (Rex Energy) and portfolio turnover.
 6. Mondrian returned -14.6% and beat the MSCI AC World -ex US Value Index (-19.5%) and ranked in the 14th percentile among its peers. The portfolio was boosted by its underweights to Germany and emerging markets and defensive currency hedges out of the Australian dollar and Swiss franc. Stock selection in Japan, China, France and the UK also were beneficial.
 7. Brown Brothers Harriman gained 5.1%. It beat the Barclays US TIPS Index (4.5%) and ranked in the top quartile among Inflation Linked Bond accounts (median of 4.5%). The tactical use of nominal Treasury bonds, UK linker positions and its yield curve positioning added to performance during the quarter.
 8. Risk parity manager AQR was down 4.5% while its custom benchmark was - 7.9%.
 9. Commodities manager SSgA Multisource was fund July-end. Two full months-to-date, the manager led its benchmark, DJ UBS Commodities Index (-10.7% vs. -13.9%).
 10. Private Equity investments depreciated 2.9% for the quarter. The Russell 3000 + 3% Index was down 14.6%.
 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.
- Third quarter results were hindered by the following factors:
1. DE Shaw's return of -14.9% ranked in the third quartile among large cap core managers (median -14.7%), and was behind its benchmark, the Russell 1000 Index (-14.7%). Investments in the Healthcare sector and its portfolio turnover dampened quarterly results.
 2. Barrow Hanley's return of -18.0% was behind the Russell 1000 Value Index (-16.2%) and ranked in the third quartile among large cap value managers (median of -16.9%). The portfolio was

primarily driven down by its security selection in the Consumer Discretionary (Royal Caribbean Cruises, Stanley Black + Decker) and underweight to the Utilities sectors.

3. BlackRock-US Equity (-16.7%) lagged the Russell 1000 Growth Index (-13.1%), and the median large growth manager (-14.6%). It ranked in the bottom quartile among its peers. BlackRock was hurt by its overall stock selection, especially in Healthcare (Covance) and Info Tech (NetApp, Altera) investments.
4. The Artio Global quarterly result of -22.9% was below the MSCI ACWI -ex US Growth Index (-20.1%), and ranked in the 89th percentile among international equity managers. Artio's stock selection in the consumer staples and financial sectors, plus its emerging markets exposure, detracted from performance.
5. Aberdeen Asset (2.7%) lagged the Barclays Aggregate Index (3.8%) and ranked below the median core bond manager (2.9%). Aberdeen holdings in corporate bonds and high yield stalled relative performance.
6. The Pyramis Broad Market Duration Fund gained 3.0% and ranked in the 46th percentile among core bond managers (median of 2.9%). However, the Barclays Aggregate Index was up 3.8% for the quarter. Sector overweight to financial corporate bonds and CMBS while underweight to government agency debt and Treasuries, proved detrimental.
7. Western Asset Management's quarter was below par. It carried a return of 2.3% and ranked under the core bond manager median of 2.9%. The Barclays Aggregate Index returned 3.8%. Its overweight to the corporate sector and shorter-than-benchmark duration caused negative performance alpha.
8. The Angelo Gordon GECC PPIP Fund depreciated 11.6% while the Barclays Aggregate was up 3.8%. The Fund carries approximately 47% RMBS and 53% CMBS assets.
9. The intermediate high yield manager, Brigade Capital, trailed its benchmark, the Barclays BBB Credit Index (-3.1% vs. 2.4%). Long high yield, loan and high grade positions were detractors during the quarter.
10. Franklin Templeton depreciated 8.5% and ranked in the bottom quartile among global bond managers. The Barclays Multiverse Index was up 0.7%. Long exposure to the Polish zloty and Hungarian forint), net-negative position in the Japanese yen and a large sell off in Asian -ex Japan currencies detracted from performance.
11. The Invesco Core Real Estate-USA Fund returned 2.1% for the quarter, positioned below the NCREIF ODCE (3.5%), and ranked in the second quartile among real estate investments. There was an overall unleveraged gross write up of \$42.0 million or 1.0%.
12. In its first full quarter of performance, hedge fund strategy AQR Delta Fund II trailed the LIBOR + 4% (-4.8% vs. 1.0%). It ranked in the third quartile among hedge fund strategies (median of -3.9%). Emerging market currencies and developed currencies were the main detractors in AQR strategies.

GENERAL COMMENTS

Worldwide equity markets faltered in August and September, closing their worst quarter since the collapse of Lehman Brothers in 2008. Investors' flight from equity was driven by uncertainty surrounding the debt crisis in Europe, potential inflation and slowing GDP (Gross Domestic Production) in Asia, and double dip recession fears domestically.

In August, Standard & Poor's removed the United States Government from its list of risk free borrowers. "The downgrade reflects our view that the effectiveness, stability, and predictability of America policymaking and political institutions have weakened at a time of ongoing fiscal and economic challenge," the company said in a statement. Investors were pragmatic about the downgrade, with some claiming expectations of its inevitability for quite some time.

The Federal Reserve announced "Operation Twist" on September 21st. The widely expected stimulus policy is designed to sell \$400 billion in short term Treasuries by the end of June 2012 and use the proceeds to buy longer term Treasuries. The program is not necessarily designed to pump money back into the economy, but rather to lower yields on longer term bonds. "This program should put downward pressure on longer term interest rates and help make broader financial conditions more accommodative" the Fed said in its official statement. Markets initially reacted poorly to the announcement, focusing on the Fed's statement, "there are significant downside risks to the economic outlook."

Overall market health indicators have been mixed. Oil prices have fallen to \$83.1 per barrel, which is down 12.6% during the third quarter, and down 26.5% from its peak of \$113.0 per barrel on April 29th. Gold prices peaked in early September, hitting an all-time high of \$1,896.5 an ounce and are up 8.0% this quarter and 62.0% over the past year. Unemployment remains a disappointing 9.1%, a slight improvement from September 2010's level of 9.6%.

For the period ending 9/30/2011, the one quarter return for the NAREIT index was 14.71%, the one-year return was 0.98%, and the three-year return was 1.97%. For the NCREIF Property Index as of 9/30/2011 (one quarter lagged), the one quarter return was 3.94%, the one year return was 16.73%, and the three-year return was 2.57%.

Concerns about the Euro and Europe as a whole have dominated world news with problems at European banks potentially spreading to the United States. In the U.S., the major concern as of the end of the third quarter was whether or not the economy was headed toward recession, the proverbial double dip. If the economy is headed toward recession, the high unemployment rate should continue which will impact real estate as an asset class.

At the same time, the supply of new real estate is at historic lows, with construction loans performing poorly for banks, it will be a while before lending returns for speculative construction projects.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

December 13, 2011

Agenda Item 6.3 a

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: International Small Cap Equity Manager Interview: Dimensional Fund Advisors – International Small Company

COMMENT: Attached to this agenda item is the manager presentation booklet.

8:15 a.m. Interview Dimensional Fund Advisors – International Small Company

Below are the presenters:

Joseph H. Chi – Portfolio Manager and Vice President

Joseph L. Young – CFA and Vice President

The following is an overview of the firm and the product.

General Firm Information

Firm Legal Name: Dimensional Fund Advisors L.P.

Firm Headquarters: 6300 Bee Cave Road, Building One
Austin, Texas 78746

Main Phone | Main Fax: 512.306.7400 | 512.306.7499

Year Firm Founded: 1981

Registered Investment Advisor: Yes

Firm Website Address: www.dfaus.com

Firm Background

Dimensional Fund Advisors, a registered investment advisor has been managing taxable and tax-exempt assets since 1981. Headquartered in Austin, Dimensional has grown into a global organization with offices in Santa Monica, London, Sydney, Vancouver, and Berlin.

Ownership

Dimensional Fund Advisors is a private corporation owned primarily by employees and directors.

Joint Ventures

Subsidiaries include a broker/dealer and their incorporated overseas offices as follows:

Dimensional Fund Advisors Ltd., London, (DFAL) is a wholly-owned subsidiary registered as an investment advisor both in the US and the UK. Incorporated in December of 1990, DFAL serves as the sub advisor for United Kingdom, Continental Europe and certain Emerging Markets portfolios.

DFA Australia Limited (DFA Australia) is a wholly-owned subsidiary registered in the US and Australia. Opened in December 1994, DFA Australia serves as the sub-advisor for Japanese, Pacific Rim and certain Emerging Market portfolios.

Dimensional Fund Advisors Canada ULC. (DFAC) is a wholly-owned subsidiary registered as an investment advisor with the British Columbia Securities Commission. Incorporated in 2003, DFAC serves as the advisor for the Canadian mutual funds, each of which is registered in each province, with Dimensional acting as the sub-advisor for the funds.

DFA Securities LLC. is a limited purpose broker/dealer that supervises the distribution of mutual fund shares. Dimensional does not trade any assets through this entity.

Dimensional Smartnest - Dimensional has acquired Smartnestin 2010. It is a Defined Contribution solution for plan sponsors and participants.

Prior or Pending Litigation

None

Additional Comments

In 2006 Dimensional Fund Advisors Inc., a Delaware corporation ("Dimensional Inc."), converted its legal name and organizational form to Dimensional Fund Advisors LP, a Delaware limited partnership ("Dimensional LP"). There was no material change in control of Dimensional Inc. due to this change of legal structure. The stockholders of Dimensional Inc. continued to control Dimensional LP through one or more holding companies. All business processes continued unaffected by the conversion. There are no pending plans for significant ownership changes in the foreseeable future.

During 2008, the subsidiaries Dimensional Fund Advisors Ltd. and DFA Australia Limited became wholly owned subsidiaries of Dimensional Fund Advisors LP.

For tax purposes Dimensional Fund Advisors Canada Inc. was converted to Dimensional Fund Advisors Canada ULC.

General Product Information

Product Narrative

Research & Screening Process

Dimensional's research efforts center on analyzing the characteristics of risk and return of the capital markets and, more specifically, the study of the systematic factors that drive expected returns. This

factor approach finds its roots in the practical application of academic theory and research. Dimensional's close ties to academia and its deep working relationships with leading financial economists have allowed them to pioneer many strategies and consulting technologies now taken for granted in the industry.

The Research Team is led by Dimensional's Head of Research, Gerard O'Reilly. Research personnel are generalists who work on a team basis across multiple strategies and are not assigned to a particular sector, asset class, or market segment. Research team members work collaboratively with the Portfolio Management and Trading teams on research projects. In addition, some projects are coordinated between internal staff and external academics.

As part of Dimensional's study of the risk and return characteristics of global asset classes, the Research Team collects and organizes vast amounts of data to classify and screen large baskets of securities to capture the desired risk factors. Additional research efforts include the analysis of securities price momentum, the maintenance of a proprietary universe of securities, and the development of proprietary trading algorithms.

Research on individual holdings includes the assignment of proprietary security status codes which are used during portfolio construction to reduce the investible universe by eliminating companies that are not representative of the asset class. Data received via external sources is evaluated to assess which particular status code applies to each security eligible for investment.

Examples of status codes are: liquidity filters, merger activity, and earnings reports due.

Portfolio Construction & Risk Control Methodology

Portfolio construction process includes country selection criteria, country weighting guidelines, size considerations and our quantitative and qualitative screening process.

Country Selection and Weighting

Country selection is similar to those countries included in the MSCI World ex-US Index. Regional and country allocations are a by-product of the investment process. Target country weights are based on market capitalization weighted (free-float adjusted) by country.

Market Capitalization

The International Small Company strategy seek to invest in approximately the smallest 10-15% of each country's market universe, which may vary by country and region over time with a float adjusted market capitalization floor of \$50 million.

Screening Process

Exclusion screens replace companies with certain characteristics with others with more desirable behavior. Examples are: (1) Asset class concerns such as real estate investment trusts and highly regulated utilities, (2) Companies that may expose Dimensional to a high degree of asymmetric

information such as recent IPOs or companies that are in extreme distress, (3) Companies which may be difficult to trade efficiently in live portfolios

Momentum

Proprietary momentum tests are applied in an effort to minimize the negative effects of downward momentum and potentially benefit from upward momentum.

Security Weighting

Security weightings are based on free-float adjusted market capitalization and eligibility criteria. Current maximum security weighting is 5% at time of purchase.

Sector/Industry Weights

Sector/Industry diversification is a residual of the security selection process. They do not make an active decision to time or weight sectors or industries. Currently they do limit industry sectors as defined by four-digit Standard Industrial Classification (SIC) code, to a maximum of 25%. When looking at broader aggregate categories, however, the weighting may be more than 25%. Broader aggregate categories, defined by Global Industry Classification (GIC) sectors (i.e., finance, energy etc.) are limited to 45%.

Portfolio risk is managed by measuring adherence to the structured investment approach that is designed to control risk through diversification. Several reviews are made throughout the investment process as a means to mitigate portfolio risk: (1) During portfolio construction, a series of screens are applied that incorporate investment guidelines and client requirements. (2) All approved orders are tested against pre-trade compliance rules with Charles River, Dimensional's order management system, to confirm compliance with investment guidelines. (3) Post trade compliance controls in Charles River assure that portfolios are being managed properly on an ongoing basis. (4) The compliance status of all portfolios are reported to the Investment Committee twice per month.

Buy/Sell Discipline

The main goal of the portfolio management function is to ensure that portfolios continually seek the sources of higher expected returns. Portfolio Managers are constantly rebalancing the portfolios to ensure that Dimensional sells securities that no longer have higher expected return than the portfolios are designed to deliver as they have already delivered those returns, and to purchase new securities that do have those higher expected returns. While this may sound like the portfolio would experience high turnover, it is not necessarily the case. A good portfolio design can achieve those goals while minimizing turnover and the costs associated with it.

Buy discipline

Portfolio managers utilize software tools to generate an order capacity for each account which contains appropriate candidates for buying and/or selling. Account specific limitations and any restricted securities are factored into the candidate list. Quantitative screens are incorporated, drawing boundaries for eligible companies such as market capitalization criteria and book-to market

value where applicable. After size and value criteria are met, securities are then run through the portfolio exclusion rules. Once an eligible universe has been determined, when buying or selling for the portfolio, proprietary momentum tests are applied.

Sell Discipline

A security becomes a sell candidate once it no longer fits the market capitalization, book-to-market or other criteria. In addition, securities may be sold as a result of a corporate action or client redemption. Dimensional's Portfolio Management System incorporates the costs of trading – including commissions, market impact, and the effect of momentum – versus the benefits – such as matching the target weights, maintaining the desired size and value tilt, and maximizing diversification. The sell criterion is designed to provide consistent exposure to the asset class while maintaining low trading costs and low portfolio turnover.

Rather than implementing automatic sale thresholds, Dimensional makes use of hold ranges and price momentum considerations. These techniques add value by decreasing excess turnover and trading costs that can be associated with short term volatility and price movement.

Trading Strategy

Dimensional conducts its trading using a highly patient and price-conscious technique. Traders are allowed substantial discretion on the timing, venue and price of trades. The broad diversification of strategies is designed not just for diversification of security risk, but to provide our traders with the flexibility necessary to execute at only the best possible prices. This flexibility, discussed in greater detail below, is a defining feature of Dimensional's approach.

Dimensional focuses on the overall characteristics of a portfolio, as opposed to focusing on a precise number of shares for a precise number of companies; therefore, portfolio managers can treat stocks that have similar characteristics and belong to the same asset class as close substitutes for one another. That facilitates trading because a trader will have more chances to trade opportunistically and take advantage of favorable trading conditions if he is, within certain diversification limits, indifferent as to stock A or stock B, than if he has to hold a specific number of shares of stock A and of stock B or needs to trade that specific number of shares at a particular point in time. This ability to substitute names and number of shares is what allows them to have flexible and patient trading strategies, which in turn minimizes trading costs.

The goal of the traders is to capture temporary liquidity shocks that allow them to trade at great execution prices. In fact, that is one of the reasons for which the portfolio holds so many stocks in the strategies.

Dimensional is constantly re-evaluating and fine-tuning global direct market access (DMA) trading strategies to take advantage of changes in trading micro structures around the globe (e.g., proliferation of dark pools and crossing networks, evolving order handling rules such as Regulation NMS (National Market System) and MIFID (Markets in Financial Instruments Directive).)

Dimensional has recently implemented a customized version of CRIMS (Charles River Investment Management System) as the firm's primary Order Management System (OMS). Pre- and post-trade

compliance testing, fixed income, foreign exchange and global equity order handling functions have been incorporated into this OMS.

In regards to soft dollars, Section 28(e) of the Securities Exchange Act provides a legal framework for the use of commissions to pay for both brokerage and research. The provisions of this section provide investment managers with a safe harbor for using soft dollars to the extent that an investment manager determines in good faith that commission charges are reasonable in relation to the brokerage and research services provided by the broker, even though client accounts pay more than the lowest available commission rate. Dimensional Fund Advisors explicitly applies the standard set forth in Section 28(e) to its soft dollar practices.

Dimensional has agreements with firms related to “soft dollar” arrangements. These “soft dollars” are used to pay for data services and equipment that benefits the portfolios it manages such as Compustat, Bridge, and Bloomberg. The Investment Committee at Dimensional sets the soft dollar policy with the primary objective to uphold the interests of the portfolio’s beneficial holders; that is, to protect and enhance the value of portfolio assets. It also approves all soft dollar issues, including selection of brokers, commission rates, and research purchased.

Additional Comments

Dimensional uses a combined or team approach in managing client's assets. The Investment Committee sets the policy and procedures for all portfolios. The portfolio managers implement the established policies and procedures and make daily decisions regarding the portfolios. Dimensional's Investment Committee is composed of senior management and the senior portfolio manager from each of the disciplines.

Their international equity investment/trading group manages the International Small Company Portfolio on a daily basis. The Portfolios are continuously monitored and actively managed for adherence to internal investment guidelines including company size requirements. The strategy does not permit portfolio managers to deviate from its principles. On a daily basis all trades are reviewed to ensure that they meet the objectives of the portfolio. Dimensional's investment objectives are consistent and incorporate a clear and disciplined stock selection process which assures that client's investment goals are met.

Use of Derivatives

Derivatives Used in Managing This Product: None



San Mateo County Employees Retirement Association

December 13, 2011

Joseph H. Chi, CFA, Portfolio Manager and Vice President

Joseph L. Young, CFA, Vice President

This information is provided for institutional investors and registered investment advisors, and is not intended for public use.

Dimensional Fund Advisors is an investment advisor registered with the Securities and Exchange Commission.

Consider the investment objectives, risks, and charges and expenses of the Dimensional funds carefully before investing. For this and other information about the Dimensional funds, please read the prospectus carefully before investing. Prospectuses are available by calling Dimensional Fund Advisors collect at (512) 306-7400 or at www.dimensionalfund.com.

Dimensional funds are distributed by DFA Securities LLC.

Agenda

San Mateo County Employees Retirement Association

December 13, 2011

1. Dimensional
2. Investment Philosophy and Process
3. Portfolio Construction
4. Performance and Summary

Dimensional

- Delivers investment solutions that seek to provide continuous access to the sources of higher expected returns in a cost-efficient way that adds value over benchmarks and peers
- Partners with our clients to understand their long-term needs and be a resource to their success

Advantages of Using Dimensional

Focused Global Experience

- Investment management is our sole business.
- Independent, Dimensional is controlled by employees and directors.
- Trading offices in Austin, Santa Monica, London, and Sydney give us 24-hour trading capability.
- 30 years providing value-added strategies for institutional investors.
- Investment Committee members average 17 years of investment experience.

Scientific Orientation

- Investment philosophy rooted in rigorous academic research
- Research focuses on the sources of risk and return, and minimizing systemic frictions
- Strong ties to academic community and interaction with respected financial economists

Reliable and Proven

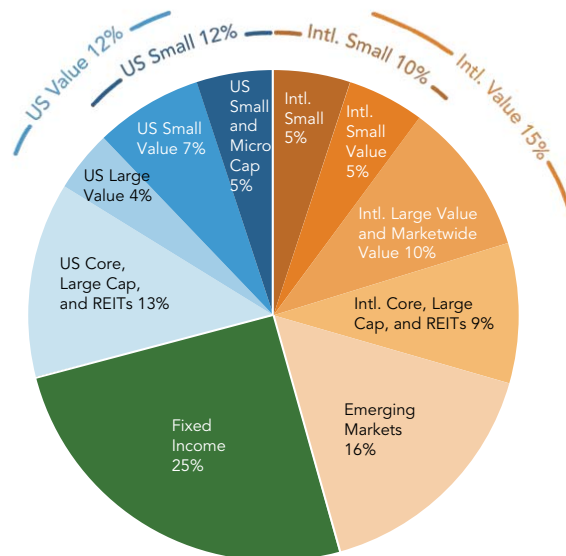
- Broadly diversified and consistent exposure to asset classes worldwide
- Process-driven approach using quantitative and qualitative screens
- Implementation using cutting-edge execution with flexible and cost-conscious trading
- Track record of outperformance

Assets under Management

\$195 Billion as of September 30, 2011

BY STRATEGY (BILLIONS)

| US Equities | | International Equities | |
|-----------------------------|---------------|--------------------------------------|---------------|
| | \$57.5 | | \$88.5 |
| Micro Cap | \$3.2 | Developed | \$56.4 |
| Small Cap | \$6.7 | Small Cap | \$9.3 |
| Small Cap Value | \$14.3 | Small Cap Value | \$10.0 |
| Large Cap | \$3.6 | Large Cap | \$5.5 |
| Large Cap Value | \$8.7 | Large Cap Value | \$10.1 |
| Marketwide | \$4.6 | Marketwide Value | \$10.0 |
| Real Estate | \$2.8 | Real Estate | \$1.4 |
| Core | \$13.5 | Core | \$10.1 |
| | | Emerging | \$32.0 |
| Fixed Income | \$49.2 | Small Cap | \$1.7 |
| Short-Term (0–5.0 years) | \$42.6 | Large Cap | \$2.8 |
| Intermediate (5.1–10 years) | \$4.7 | Value | \$20.8 |
| Municipal | \$1.9 | Core | \$6.8 |
| Commodities | \$0.2 | Global Portfolios¹ | \$2.9 |



1. Global Portfolios assets are for information only; these assets are an aggregate of underlying funds and are not counted in totals. All assets in US dollars. Numbers may not total 100% due to rounding. Assets are preliminary and may be revised.

Partial List of Clients

Corporate

AT&T Inc.
Boeing Corporation
Citigroup
Energy East Corporation
Exchange Bank
Furniture Brands
Kellogg Company
Lubrizol Corporation
Merck
MLC
PepsiCo, Inc.
PPG Industries, Inc.
Sandia Corporation
Sprint Corporation
Talbots, Inc.
The Timken Company
Tribune Company
Verizon Communications, Inc.
WellPoint, Inc.

Nonprofit Organizations

Baptist Foundation of Alabama
California Institute of Technology
California Wellness Foundation
Carnegie Mellon University
Chicago Community Foundation
Gonzaga University
Idaho Community Foundation
J. Paul Getty Trust
Kansas Health
Lucile Packard Foundation for Children's Health
Misericordia Home Endowment
New Haven Community Foundation
The New Jersey Education Association
Nova Scotia Association of Health Organization
The Pennsylvania State University
Public Policy Institute of California
Saint John's Hospital and Health Center
San Francisco Foundation
Simon Fraser University
Toledo Community Foundation
United Way of Palm Beach County
University of Miami
University of Pittsburgh Medical Center
Wallace Foundation
Western Michigan University Foundation
Winnipeg Foundation

Public

Arizona State Retirement System
California Public Employees' Retirement System
City and County of Kalamazoo
City and County of San Francisco
City of Baton Rouge
City of San Diego
City of Seattle
Illinois Municipal Retirement Fund
Indiana Public Employees' Retirement Fund
Marin County Employees' Retirement Association
Maryland State Retirement Agency
Montana Board of Investments
Nebraska Investment Council
Oregon Office of the State Treasurer
South Dakota Investment Council
St. Paul Teachers' Retirement Fund Association
Utah State Retirement Systems
Victorian Funds Management Corporation

Taft-Hartley

Bakery & Confectionary Union and Industry International Pension Fund
District 9 I.A.M. & A.W. Pension
IBEW Pacific Coast Pension Fund
Indiana State Council of Plasterers and Cement Masons Pension Fund
IUE-CWA Pension Fund
Laborers' District Council & Contractors' Pension Fund of Ohio
Local 813 Affiliated Trust Funds
Local Union #226
National Automatic Sprinkler Industry Pension Fund
National Electrical Benefit Fund
Plumbers Union Local 210
Southern Nevada Culinary & Bartenders Pension Fund
Toledo Roofers Local #134
Union Electrical Industry Master Trust
UNITE General Fund & ILGWU Funds
Western Pennsylvania Teamsters and Employers

As of March 31, 2011.

This partial list shows some of Dimensional's better-known clients who have given consent to be included.

Clients in bold have been with Dimensional for 10 or more years. This list should not be construed as an expression of any client's experience with Dimensional, or a suggestion that one client's past experience is in any way indicative of another client's future experience with Dimensional.

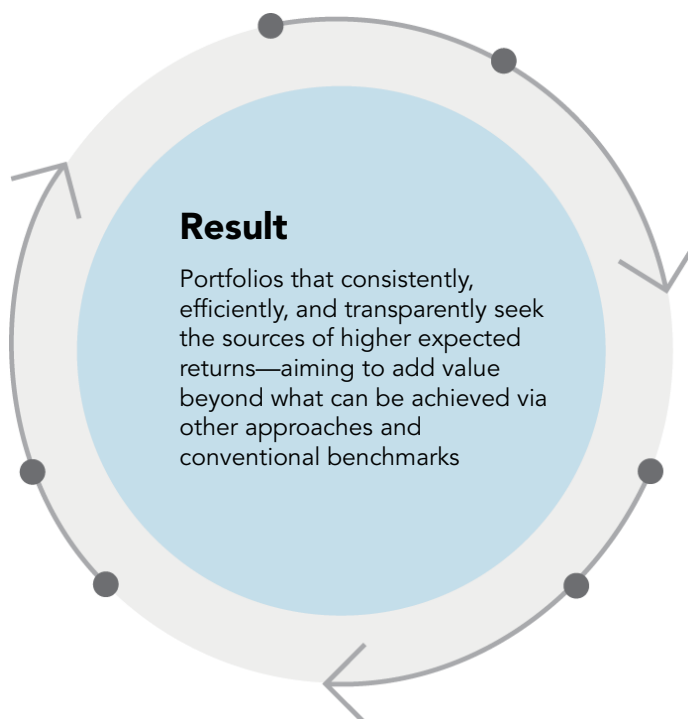
How Dimensional Does It

Our dynamic investment process creates value-added portfolios

Portfolio Design

Identifies sources of higher expected returns through rigorous research

Excludes securities that may not deliver the desired value-add



Result

Portfolios that consistently, efficiently, and transparently seek the sources of higher expected returns—aiming to add value beyond what can be achieved via other approaches and conventional benchmarks

Portfolio Implementation

Manages market frictions (i.e., momentum, transaction costs)

Uses flexibility in the process so value can be added in trading

Portfolio Management

Maintains strategy consistently while constantly seeking new opportunities

Minimizes excessive portfolio turnover by design

Experienced Team Works Together around the World

Average 18 Years Experience

Investment Committee

Stephen Clark, Chairman
Head of Portfolio Management

David Booth
Chairman and Co-Chief Executive Officer

Eduardo Repetto
Director, Co-Chief Executive Officer, and
Chief Investment Officer

Joseph H. Chi
Portfolio Manager

Robert Deere
Investment Director and Senior Portfolio Manager

Jed S. Fogdall
Portfolio Manager

Henry Gray
Head of Global Equity Trading

Gerard O'Reilly
Head of Research

David Plecha
Senior Portfolio Manager, Fixed Income

Karen Umland
Head of Investment Strategies Group and
Senior Portfolio Manager

Average 13 Years Experience

Portfolio Management

Austin
Stephen Clark, Head of Portfolio Management
Iwona Hill, Portfolio Manager
Stephen Quance, Portfolio Manager
Ted Randall, Portfolio Manager
Lukas Smart, Portfolio Manager
Jed Fogdall, Portfolio Manager
Daniel Ong, Portfolio Manager
Joseph Kolerich, Portfolio Manager
Travis Meldau, Portfolio Manager
Pamela Noble, Portfolio Manager

Santa Monica
Robert Deere, Investment Director and Senior
Portfolio Manager
Karen Umland, Senior Portfolio Manager
David Plecha, Senior Portfolio Manager
Arthur Barlow, Portfolio Manager
David Kershner, Portfolio Manager
Grady Smith, Portfolio Manager
Brian Walsh, Portfolio Manager
Joseph Chi, Portfolio Manager
Allen Pu, Portfolio Manager
Anna Kovzik, Portfolio Manager
John Law, Portfolio Manager
Mali Pollard, Portfolio Manager

London
Andrew Cain, Senior Portfolio Manager
Akbar Ali, Senior Portfolio Manager
Nathan Lacaze, Portfolio Manager
Adam Ward, Portfolio Manager

Sydney
Graham Lennon, Head of International Portfolio
Management and Senior Portfolio Manager
Murray Cockerell, Portfolio Manager
Stephen Garth, Portfolio Manager
Robert Ness, Portfolio Manager
Thomas Reif, Portfolio Manager

Average 12 Years Experience

Trading

Austin
Carl Snyder, Senior Trader
David LaRusso, Senior Trader
Wazhma Noorzayee, Trader
Erhan Oktay, Trader
Chris Rink, Trader
Santa Monica
Henry Gray, Head of Global Equity Trading
Ryan Wiley, Senior Trader
Le Tran, Trader
Claudette Higdon, Trader

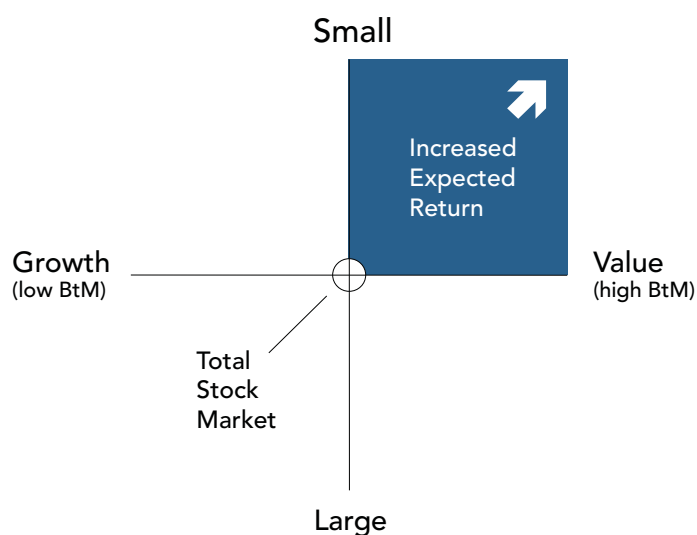
London
John Romiza, Head of International Equity Trading
Christian Gunther, Senior Trader
William Letheren, Trader
James Simpson, Trader
Scott Van Pelt, Trader

Sydney
Jason Lapping, Head of Asia Pacific Trading
Sam Willis, Senior Trader
Matthew Fuentes, Trader
Jonathan Smith, Trader
David Vrolyk, Trader
Richard Mar, Trader

The Dimensions of Stock Returns

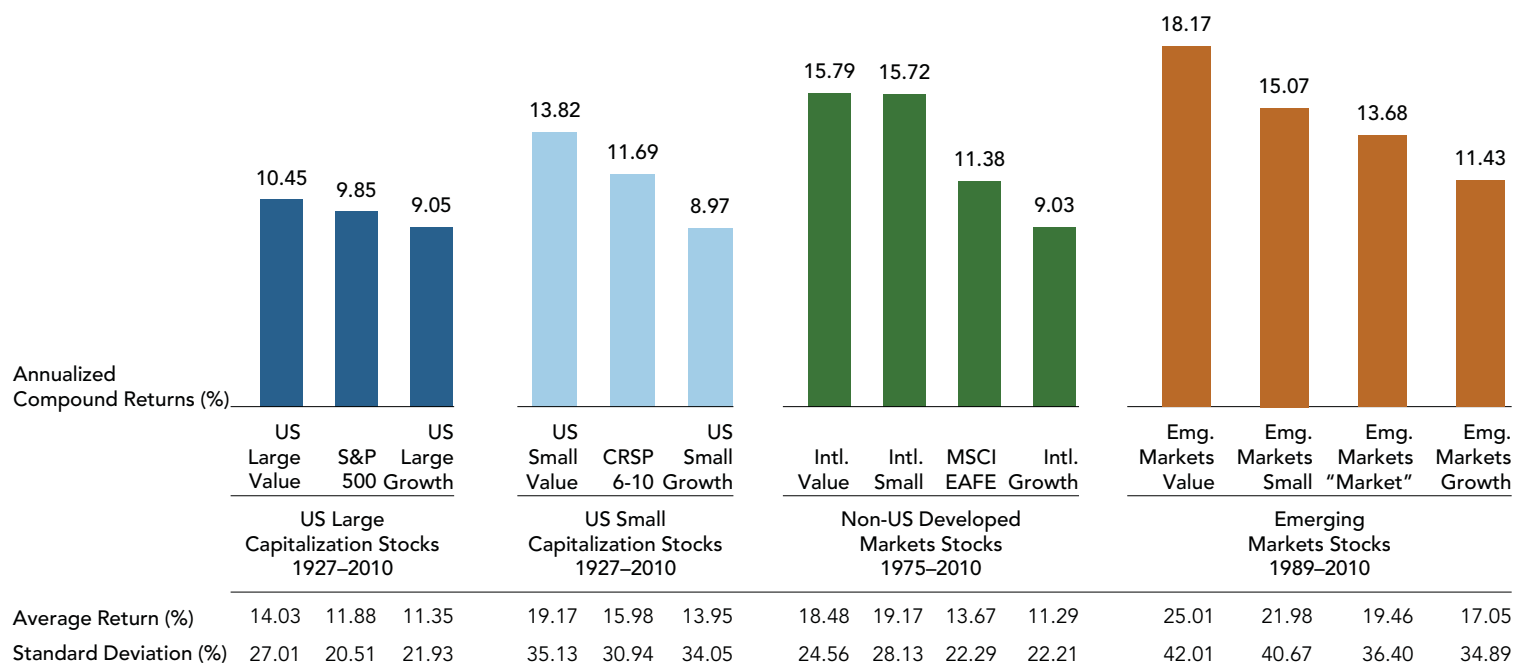
THREE DIMENSIONS AROUND THE WORLD

- **Equity Market**
(complete value-weighted universe of stocks)
Stocks have higher expected returns than fixed income.
- **Company Size**
(measured by market capitalization)
Small company stocks have higher expected returns and risk than large company stocks.
- **Company Price**
(measured by ratio of company book value to market equity)
Lower-priced "value" stocks have higher expected returns and risk than higher-priced "growth" stocks.



Size and Value Effects Are Strong around the World

Annual Index Data



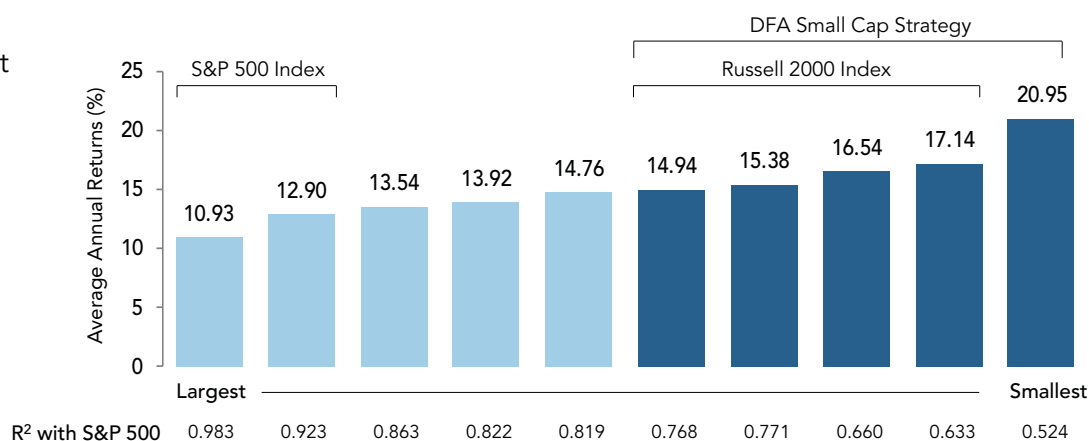
In US dollars. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. US value and growth index data (ex utilities) provided by Fama/French. The S&P data are provided by Standard & Poor's Index Services Group. CRSP data provided by the Center for Research in Security Prices, University of Chicago. International Value and Growth data provided by Fama/French from Bloomberg and MSCI securities data. International Small data compiled by Dimensional from Bloomberg, StyleResearch, London Business School, and Nomura Securities data. MSCI EAFE Index is gross of foreign withholding taxes on dividends; copyright MSCI 2011, all rights reserved. Emerging Markets index data simulated by Fama/French from countries in the IFC Investable Universe; simulations are free-float weighted both within each country and across all countries.

The Size Effect

Market Cap Deciles

Annual: 1926–2010

- Historically, smaller market capitalization deciles have outperformed larger market cap deciles.
- The correlation between each decile and the S&P 500 is significantly lower for smaller market capitalization stocks.
- Portfolio structure can be improved by adding asset classes with low correlation and higher expected returns.



Market cap decile data provided by the Center for Research in Security Prices, University of Chicago. The S&P data are provided by Standard & Poor's Index Services Group. Russell data copyright © Russell Investment Group 1995–2011, all rights reserved.

Access to Dimensions of Risk and Higher Expected Returns

Dimensional has been investing in international small companies since April 1986. The strategies are built on specific core principles.

- Targeting the factors that generate expected returns:
 - Market exposure
 - Size exposure
 - Value exposure
- Broad diversification across and within countries
- Disciplined and transparent stock selection process
- Low costs—both explicit and implicit

International Small Company Strategy

- September 30, 1996, fund-of-funds inception
- Invested in 23 countries
- Targets small companies in each country
- Approximately 4,800 holdings

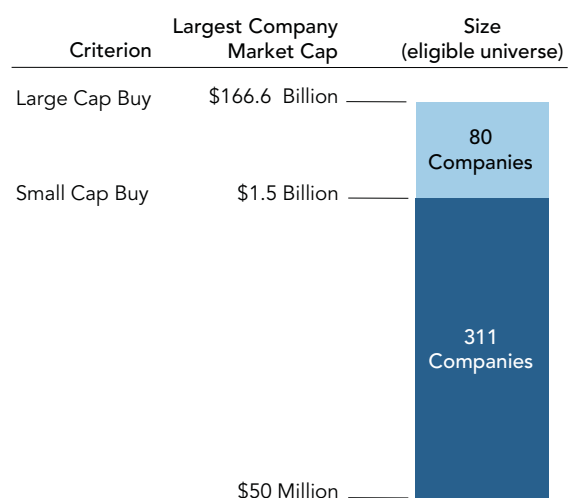
Portfolio Construction

An Individual Country Example: Australia

As of September 30, 2011

- Size is defined at the country level except in the European Monetary Union. The EMU is defined as a region.

Australia



| | Weighted Average Market Cap (millions) |
|---------------------------------------|--|
| International Small Company Portfolio | \$1,336 |
| MSCI World ex USA Small Cap Index | \$1,470 |

Non-US Portfolio Exclusion Rules

Asset Class Exclusions

- REITs
- Investment funds

Pricing Exclusions

- Recent IPO
- Foreign restrictions or premiums
- In extreme distress or bankruptcy
- Suspended or delisted
- Merger or target of acquisition

Trading Exclusions

- Exchange consideration
- Insufficient liquidity
- Short trading history
- Insufficient float

Miscellaneous

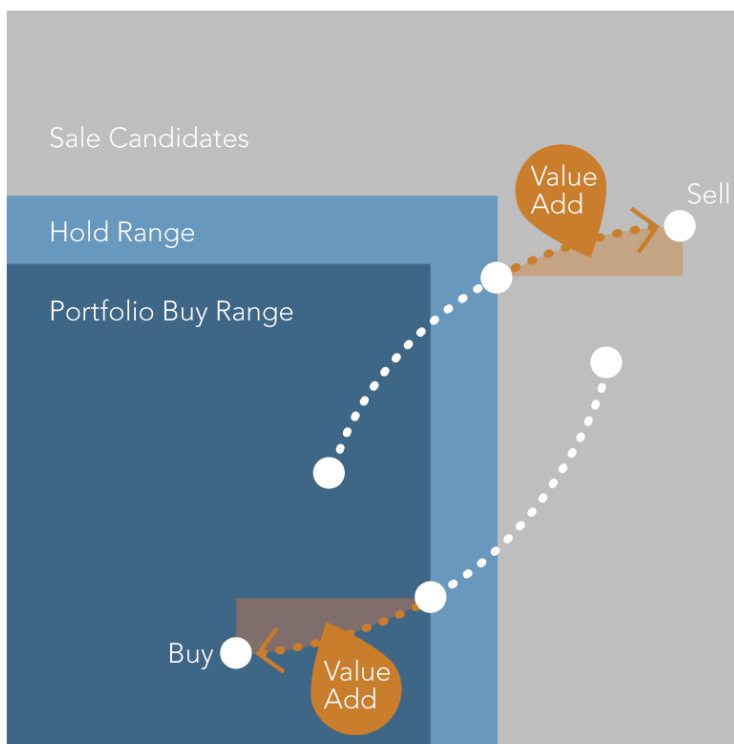
- Under consideration/inadequate data

- Exclusion rules keep the strategies precisely focused on the higher expected return dimensions.

Managing around Momentum

Portfolio managers consider the tradeoff of competing premiums and costs.

- Stocks with large outperformance tend to have positive excess returns in the next period.
- Stocks with large underperformance tend to have negative excess returns in the next period.
- Dimensional’s hold range can immunize against downward momentum or capture a momentum premium as securities move out of the buy range.



Dimensional's Trading Strategy Minimizes Implicit Costs

Focusing on aggregate investment characteristics enables opportunistic implementation

Patient and flexible trading principles:

- Integrate Portfolio Management and Trading functions.
- Customize trade routines for opportunistic executions in the market.
- Provide liquidity instead of seeking it.

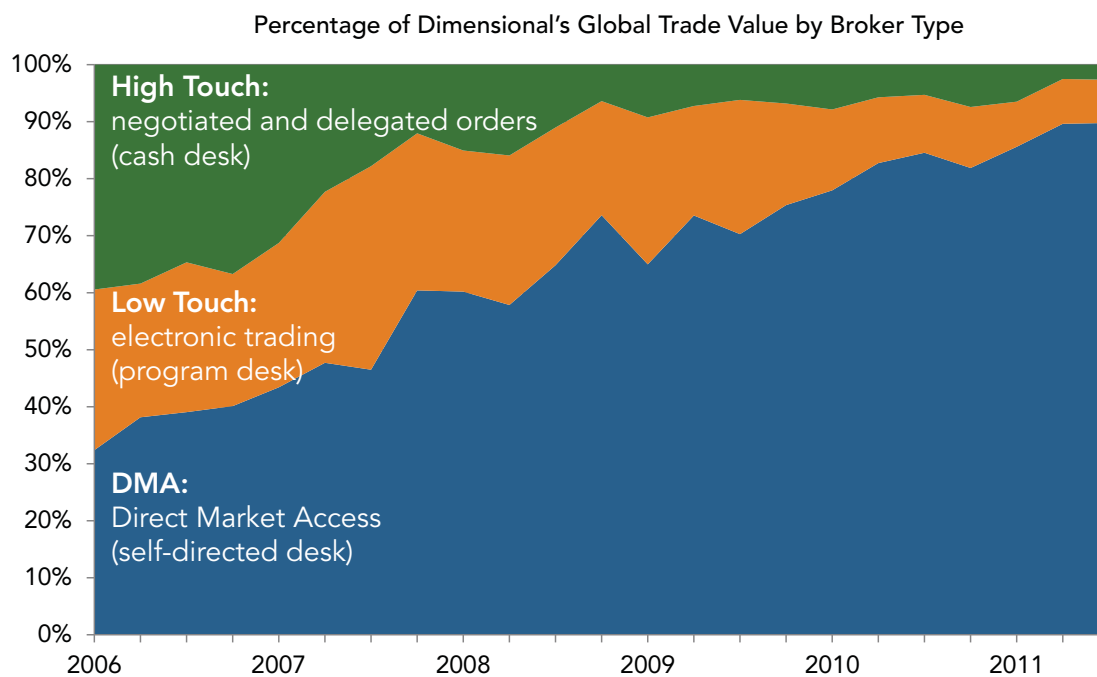
Distinctive trading approach:

- Capture bid/offer spread.
- Identify temporary component of price changes.

Dimensional's Progressive Approach to Trading

Trading utilizes technology and internal resources to maximize opportunities and control costs

Quarterly: January 2006–September 2011



Source: Dimensional. Chart data based on all equity agency trades, globally.

Dimensional's Value Added through Trading

Third-Party Trade Cost Analysis Results across All Segments of the Market

1 Year Ending June 30, 2011

| ITG Post-Trade Analytics™ Alpha Capture SM | Trading Costs (gain/loss) | | Dimensional Rank ¹ |
|---|---------------------------|-------------|-------------------------------|
| | Median Peer | Dimensional | |
| US Large Cap Trading | -28 bp | +28 bp | 100% |
| US Small Cap Trading | -63 bp | +89 bp | 98% |
| All Developed Markets Trading ² | -44 bp | +164 bp | 100% |
| All Emerging Markets Trading | -57 bp | +57 bp | 100% |

- Third-party trading cost metrics show Dimensional adds value compared to its median peers.
- Dimensional's trading cost results are at the top of its peer groups.

1. Percent of peer universe Dimensional outperforms in terms of trading costs.

2. US Trading included in results only for portfolios with global mandates.

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Broadly Diversified Portfolios Provide Complete Country Coverage

Portfolio Weights (%)

As of September 30, 2011

| | International Small Company Portfolio | MSCI World ex USA Small Cap Index |
|---------------------------|--|--------------------------------------|
| Canada | 11.9 | 13.0 |
| Continental Europe | 30.8 | 28.4 |
| Austria | 0.8 | 1.0 |
| Belgium | 1.1 | 1.3 |
| Denmark | 1.0 | 1.2 |
| Finland | 2.1 | 1.2 |
| France | 3.7 | 3.6 |
| Germany | 4.7 | 4.6 |
| Greece | 0.7 | 0.5 |
| Ireland | 1.0 | 0.9 |
| Italy | 2.7 | 2.3 |
| Netherlands | 1.7 | 1.7 |
| Norway | 1.0 | 1.7 |
| Portugal | 0.3 | 0.2 |
| Spain | 1.9 | 1.4 |
| Sweden | 2.8 | 3.1 |
| Switzerland | 5.3 | 4.0 |
| Japan | 25.6 | 27.1 |
| Asia Pacific | 12.3 | 13.1 |
| Australia | 7.5 | 7.9 |
| Hong Kong | 2.4 | 2.6 |
| New Zealand | 0.9 | 0.5 |
| Singapore | 1.5 | 2.1 |
| Middle East | 0.9 | 0.8 |
| Israel | 0.9 | 0.8 |
| United Kingdom | 18.5 | 17.7 |
| Totals | 100.0 | 100.0 |

Numbers may not total 100% due to rounding.
MSCI data copyright MSCI 2011, all rights reserved.

Portfolio Characteristics

As of September 30, 2011

| | International Small Company Portfolio | MSCI World ex USA Small Cap Index |
|---|--|--------------------------------------|
| Market Characteristics | | |
| Total Value of Eligible Universe (millions) | \$1,202,580 | \$1,478,147 |
| Number of Holdings | 4,799 | 2,650 |
| Average Price/Share | \$40.96 | \$89.57 |
| Size Characteristics | | |
| Wtd. Average Market Cap (millions) | \$1,336 | \$1,470 |
| Median Market Cap (millions) | \$265 | \$604 |
| Valuation Characteristics | | |
| Wtd. Average Book-to-Market | 0.95 | 0.91 |
| Median Book-to-Market | 1.04 | 0.93 |
| Price/Earnings (excludes negatives) | 10.8 | 11.3 |
| Wtd. Average Dividend-to-Price | 3.02% | 3.05% |

Sector Allocations

Portfolio Weights (%)

As of September 30, 2011

| | International Small Company Portfolio | MSCI World ex USA Small Cap Index |
|-----------------------------|--|--------------------------------------|
| Consumer Discretionary | 18.2 | 16.5 |
| Consumer Staples | 6.8 | 6.4 |
| Energy | 6.3 | 7.4 |
| Financials | 13.5 | 13.9 |
| Health Care | 5.4 | 5.2 |
| Industrials | 24.5 | 21.0 |
| Information Technology | 8.8 | 7.7 |
| Materials | 12.7 | 13.5 |
| REITs | 0.0 | 4.9 |
| Telecommunications Services | 1.2 | 1.0 |
| Utilities | 2.5 | 2.5 |
| Total | 100.0 | 100.0 |

Numbers may not total 100% due to rounding.
 Sectors defined by MSCI. MSCI data copyright MSCI 2011, all rights reserved.
 The REITs industry, a member of the Financials sector, is shown separately to illustrate its exclusion from certain funds.

Performance

As of October 31, 2011

| Average Annual Total Returns (%) | Year to Date | 1 Year | 3 Years | 5 Years | 10 Years | Since 10/96 Portfolio Inception |
|---|--------------|--------|---------|---------|----------|---------------------------------|
| International Small Company Portfolio | -9.97 | -2.92 | 17.57 | 0.35 | 11.53 | 6.22 |
| MSCI World ex USA Small Cap Index (net dividends) | -9.60 | -2.01 | 19.89 | -0.43 | 10.42 | — |
| MSCI World ex USA Small Cap Index (price-only) | -11.45 | -4.23 | 17.16 | -2.61 | 8.20 | 3.27 |

| Calendar Year Returns (%) | International Small Company Portfolio | MSCI World ex USA Small Cap Index (net dividends) | MSCI World ex USA Small Cap Index (price-only) |
|---------------------------|---------------------------------------|---|--|
| 2001 | -10.52 | -10.63 | -12.35 |
| 2002 | 1.91 | -7.42 | -9.11 |
| 2003 | 58.78 | 61.81 | 58.44 |
| 2004 | 30.92 | 29.40 | 26.95 |
| 2005 | 21.96 | 25.04 | 22.89 |
| 2006 | 24.88 | 19.46 | 17.56 |
| 2007 | 5.66 | 3.28 | 1.49 |
| 2008 | -43.87 | -48.03 | -49.33 |
| 2009 | 41.96 | 50.82 | 47.20 |
| 2010 | 23.91 | 24.51 | 21.95 |

Performance data shown represents past performance and is no guarantee of future results. Current performance may be higher or lower than the performance shown. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. To obtain the most current month-end performance data, visit www.dimensionalfund.com. Returns for periods shorter than one year are not annualized. Portfolio inception returns from first full month. MSCI data copyright MSCI 2011, all rights reserved. See "Appendix: Standardized Performance Data & Disclosures" to learn how to obtain complete information on performance, investment objectives, risks, advisory fees, and expenses of Dimensional's funds.

Fees

| | Management Fee | Other Expenses | Net Expense Ratio |
|--|-------------------|-------------------|----------------------|
| International Small Company Portfolio ¹ | 0.40% | 0.16% | 0.56% |

As of October 31, 2010.

1. The International Small Company portfolio is a fund of funds. The other expenses shown include 0.10% management fees derived from the underlying funds. Other Expenses (custody, transfer fees, etc.) are estimated based on prior year's experience. Net Expense Ratio includes waiver/recovery.

Summary

- Dimensional has been managing institutional client assets for 30 years. Investment Committee averages over 17 years of experience with the firm.
- Deliberate and continuous exposure to securities and asset classes shown to deliver higher returns.
- Portfolios are engineered and decisions are made factoring in turnover and trading costs.
- Four trading and portfolio management desks, combined with state-of-the-art trading systems, allow for real-time monitoring and interaction with global equity markets and counterparties.

Standardized Performance Data and Disclosures

Securities of small companies are often less liquid than those of large companies. As a result, small company stocks may fluctuate relatively more in price.

Performance data shown represents past performance. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. To obtain performance data current to the most recent month end, access our website at www.dimensional.com.

Dimensional Fund Advisors is an investment advisor registered with the Securities and Exchange Commission. Consider the investment objectives, risks, and charges and expenses of the Dimensional funds carefully before investing. For this and other information about the Dimensional funds, please read the prospectus carefully before investing. Prospectuses are available by calling Dimensional Fund Advisors collect at (512) 306-7400 or at www.dimensional.com. Dimensional funds are distributed by DFA Securities LLC.

Prior to April 1, 2002, the following reimbursement fees may have been charged to purchasers of the respective portfolios: Intl. Small Company Portfolio 0.675%; Continental Small Company Portfolio 1.00%; Japanese Small Company Portfolio 0.50%; Pacific Rim Small Company Portfolio 1.00%; Intl. Small Cap Value Portfolio 0.675%; Emerging Markets Small Cap Portfolio 1.00%; Emerging Markets Value Portfolio 0.50%; Emerging Markets Portfolio 0.50%. Prior to April 1998, the reimbursement fees were as follows: Intl. Small Company Portfolio 0.70%; Intl. Small Cap Value Portfolio 0.70%. Prior to July 1995, the reimbursement fees were as follows: Intl. Small Cap Value Portfolio 1.00%; Continental Small Company Portfolio 1.50%; Japanese Small Company Portfolio 1.00%; Asia Pacific Small Company Portfolio 1.50%; UK Small Company Portfolio 1.50%; Emerging Markets Portfolio 1.50%. Returns for these portfolios are presented net of these reimbursement fees.

All reimbursement fees are based on the net asset value of the shares purchased. The standardized returns presented reflect deduction, where applicable, of the reimbursement fees for the portfolios. Non-standardized performance data reported by Dimensional Fund Advisors does not reflect deduction of the reimbursement fee. If reflected, the fee would reduce the performance quoted.

The implementation and management of Dimensional's "Sustainability" portfolios, including without limitation, the following portfolios, are protected by US Patent Nos. 7,596,525 B1 and 7,599,874 B1:

- US Sustainability Core 1 Portfolio
- International Sustainability Core 1 Portfolio

Investments in foreign issuers are subject to certain considerations that are not associated with investments in US public companies. Investments of the foreign equity portfolios and the global fixed income portfolios are denominated in foreign currencies. Changes in the relative values of these foreign currencies and the US dollar, therefore, may affect the value of investments in these portfolios. However, the global fixed income portfolios may utilize forward currency contracts to minimize these changes. Further, foreign issuers are not generally subject to uniform accounting, auditing, and financial reporting standards comparable to those of US public corporations and there may be less publicly available information about such companies than comparable US companies. Also, legal, political, or diplomatic actions of foreign governments, including expropriation, confiscatory taxation, and limitations on the removal of securities, property, or other assets of the portfolios could adversely affect the value of the assets of these portfolios.

Standardized Performance Data and Disclosures

| As of September 30, 2011 Average Annual Total Returns (%) | 1 Year | 5 Years | 10 Years | Since Inception | Net Expense Ratio ¹ (%) | Inception Date |
|--|--------|---------|----------|--------------------|---------------------------------------|-------------------|
| US Core Equity 1 Portfolio | -0.79 | -0.79 | — | 0.94 | 0.20 | 9/15/2005 |
| US Core Equity 2 Portfolio | -2.22 | -1.52 | — | 0.47 | 0.23 | 9/15/2005 |
| US Sustainability Core 1 Portfolio | -1.15 | — | — | -1.37 | 0.37 | 3/12/2008 |
| US Social Core Equity 2 Portfolio | -2.25 | — | — | -6.22 | 0.33 | 10/1/2007 |
| TA US Core Equity 2 Portfolio | -1.95 | — | — | -5.19 | 0.25 | 10/4/2007 |
| US Vector Equity Portfolio | -4.11 | -2.33 | — | -0.31 | 0.33 | 12/30/2005 |
| US Micro Cap Portfolio | -1.61 | -1.58 | 7.55 | 11.01 | 0.52 | 12/23/1981 |
| US Small Cap Portfolio | -1.83 | 0.21 | 7.33 | 8.80 | 0.37 | 3/19/1992 |
| US Small Cap Value Portfolio | -5.44 | -2.86 | 8.39 | 10.33 | 0.52 | 3/2/1993 |
| US Targeted Value Portfolio | -6.09 | -2.03 | 8.44 | 9.07 | 0.38 | 2/23/2000 |
| US Large Cap Value Portfolio | -3.86 | -3.69 | 4.40 | 7.93 | 0.28 | 2/19/1993 |
| US Large Company Portfolio | 1.07 | -1.10 | 2.81 | 0.78 | 0.10 | 9/23/1999 |
| Enhanced US Large Company Portfolio | 1.41 | -0.85 | 2.92 | 5.55 | 0.26 | 7/2/1996 |
| Real Estate Securities Portfolio | 1.63 | -2.83 | 9.01 | 9.17 | 0.33 | 1/5/1993 |
| International Core Equity Portfolio | -10.26 | -2.53 | — | 1.14 | 0.40 | 9/15/2005 |
| International Sustainability Core 1 Portfolio | -10.27 | — | — | -7.02 | 0.57 | 3/12/2008 |
| TA World ex US Core Equity Portfolio | -13.14 | — | — | -5.16 | 0.48 | 3/6/2008 |
| International Vector Equity Portfolio | -10.01 | — | — | -2.43 | 0.54 | 8/14/2008 |
| International Small Company Portfolio | -6.27 | -0.35 | 11.13 | 5.74 | 0.56 | 9/30/1996 |
| Continental Small Company Portfolio | -14.88 | -2.71 | 11.86 | 8.67 | 0.59 | 4/15/1988 |
| Japanese Small Company Portfolio | 13.05 | 0.00 | 7.87 | — | 0.57 | 1/31/1986 |
| Asia Pacific Small Company Portfolio | -14.81 | 6.32 | 15.95 | 8.59 | 0.63 | 1/5/1993 |
| United Kingdom Small Company Portfolio | -5.11 | -1.96 | 9.89 | — | 0.60 | 3/4/1986 |
| International Small Cap Value Portfolio | -8.37 | -1.77 | 11.91 | 6.26 | 0.70 | 12/29/1994 |
| International Value Portfolio | -13.35 | -3.79 | 7.72 | 5.82 | 0.45 | 2/15/1994 |
| Large Cap International Portfolio | -10.10 | -2.83 | 5.15 | 4.92 | 0.30 | 7/17/1991 |
| International Real Estate Securities Portfolio | -3.78 | — | — | -9.50 | 0.41 | 3/1/2007 |
| Global Real Estate Securities Portfolio | -0.76 | — | — | -4.49 | 0.41 | 6/4/2008 |
| Emerging Markets Core Equity Portfolio | -18.32 | 6.72 | — | 10.24 | 0.65 | 4/5/2005 |
| Emerging Markets Social Core Equity Portfolio | -19.00 | 6.12 | — | 6.06 | 0.67 | 8/31/2006 |
| Emerging Markets Small Cap Portfolio | -19.47 | 8.24 | 19.41 | 13.31 | 0.78 | 3/5/1998 |
| Emerging Markets Value Portfolio | -22.16 | 6.08 | 19.91 | 12.88 | 0.60 | 4/1/1998 |
| Emerging Markets Portfolio | -14.67 | 5.86 | 16.00 | 7.56 | 0.60 | 4/25/1994 |

1. As of October 31, 2010. Includes waiver/recovery.

Standardized Performance Data and Disclosures

| As of September 30, 2011 Average Annual Total Returns (%) | 1 Year | 5 Years | 10 Years | Since Inception | Net Expense Ratio ¹ (%) | Inception Date |
|--|--------|---------|----------|--------------------|---------------------------------------|-------------------|
| World ex US Value Portfolio | -15.18 | — | — | -6.24 | 0.90 | 8/23/2010 |
| One-Year Fixed Income Portfolio | 0.68 | 2.83 | 2.71 | 5.54 | 0.17 | 7/25/1983 |
| Two-Year Global Fixed Income Portfolio | 0.93 | 3.02 | 2.90 | 4.08 | 0.18 | 2/9/1996 |
| Short-Term Government Portfolio ² | 2.42 | 4.67 | 4.37 | 6.03 | 0.23 | 6/1/1987 |
| Five-Year Global Fixed Income Portfolio | 3.17 | 4.95 | 4.55 | 6.26 | 0.28 | 11/6/1990 |
| Intermediate Government Fixed Income Portfolio | 5.40 | 7.41 | 6.11 | 7.40 | 0.13 | 10/19/1990 |
| Inflation-Protected Securities Portfolio | 10.32 | 7.50 | — | 7.64 | 0.13 | 9/18/2006 |
| Short-Term Municipal Bond Portfolio | 1.46 | 2.82 | — | 2.42 | 0.23 | 8/20/2002 |
| California Short-Term Municipal Bond Portfolio | 1.39 | — | — | 2.92 | 0.24 | 4/2/2007 |
| Selectively Hedged Global Fixed Income Portfolio | 1.61 | — | — | 1.37 | 0.20 | 1/9/2008 |
| Short-Term Extended Quality Portfolio | 2.14 | — | — | 6.10 | 0.22 | 3/4/2009 |
| Intermediate-Term Extended Quality Portfolio | 4.77 | — | — | 6.42 | 0.22 | 7/20/2010 |
| Investment Grade Portfolio | — | — | — | 7.25 | — | 3/7/2011 |
| Global 25/75 Portfolio | 1.37 | 3.79 | — | 4.35 | 0.29 | 12/24/2003 |
| Global 60/40 Portfolio | -1.69 | 1.64 | — | 4.47 | 0.31 | 12/24/2003 |
| Global Equity Portfolio | -5.93 | -1.52 | — | 4.17 | 0.33 | 12/24/2003 |
| Commodity Strategy Portfolio | — | — | — | -8.13 | — | 11/9/2010 |
| Tax-Managed US Small Cap Portfolio | -1.82 | -2.09 | 5.88 | 6.40 | 0.53 | 12/15/1998 |
| After Taxes on Distributions | -1.98 | -2.48 | 5.64 | 6.20 | | |
| After Taxes on Distributions and Sale of Fund Shares | -1.09 | -1.75 | 5.16 | 5.67 | | |
| Tax-Managed US Targeted Value Portfolio | -4.83 | -3.54 | 6.59 | 7.20 | 0.45 | 12/11/1998 |
| After Taxes on Distributions | -4.98 | -4.13 | 6.06 | 6.74 | | |
| After Taxes on Distributions and Sale of Fund Shares | -3.03 | -2.90 | 5.85 | 6.42 | | |
| Tax-Managed US Equity Portfolio | 1.00 | -1.05 | 3.13 | 3.37 | 0.22 | 9/25/2001 |
| After Taxes on Distributions | 0.54 | -1.37 | 2.88 | 3.12 | | |
| After Taxes on Distributions and Sale of Fund Shares | 0.81 | -0.94 | 2.66 | 2.87 | | |
| Tax-Managed US Marketwide Value Portfolio | -3.23 | -3.38 | 3.41 | 3.28 | 0.38 | 12/14/1998 |
| After Taxes on Distributions | -3.61 | -3.71 | 3.16 | 2.97 | | |
| After Taxes on Distributions and Sale of Fund Shares | -1.95 | -2.87 | 2.92 | 2.76 | | |
| Tax-Managed International Value Portfolio | -13.07 | -3.31 | 7.68 | 4.91 | 0.55 | 4/16/1999 |
| After Taxes on Distributions | -13.88 | -4.02 | 7.06 | 4.37 | | |
| After Taxes on Distributions and Sale of Fund Shares | -8.24 | -2.51 | 6.91 | 4.37 | | |

1. As of October 31, 2010. Includes waiver/recovery.

2. Formerly the Five-Year Government Portfolio.

Biographies

Joseph H. Chi, CFA

Portfolio Manager and Vice President

Joseph Chi joined Dimensional in 2005 as a portfolio manager on the international equity team. Together with Jed Fogdall, Joe coordinates the efforts of Dimensional's international equity portfolio management team in the US and oversees the day-to-day management of all US-domiciled international equity strategies. He is also a member of Dimensional's Investment Committee and head of the Corporate Governance group. Previously a securities and finance attorney, Joe specialized in venture capital, public offerings, and mergers and acquisitions.

Joe earned his MBA from the Anderson School of Management at the University of California, Los Angeles, in 2005 with a concentration in finance. He is a CFA Charterholder who also holds a JD from the University of Southern California, and a BS in electrical engineering from UCLA.

Joseph L. Young, CFA

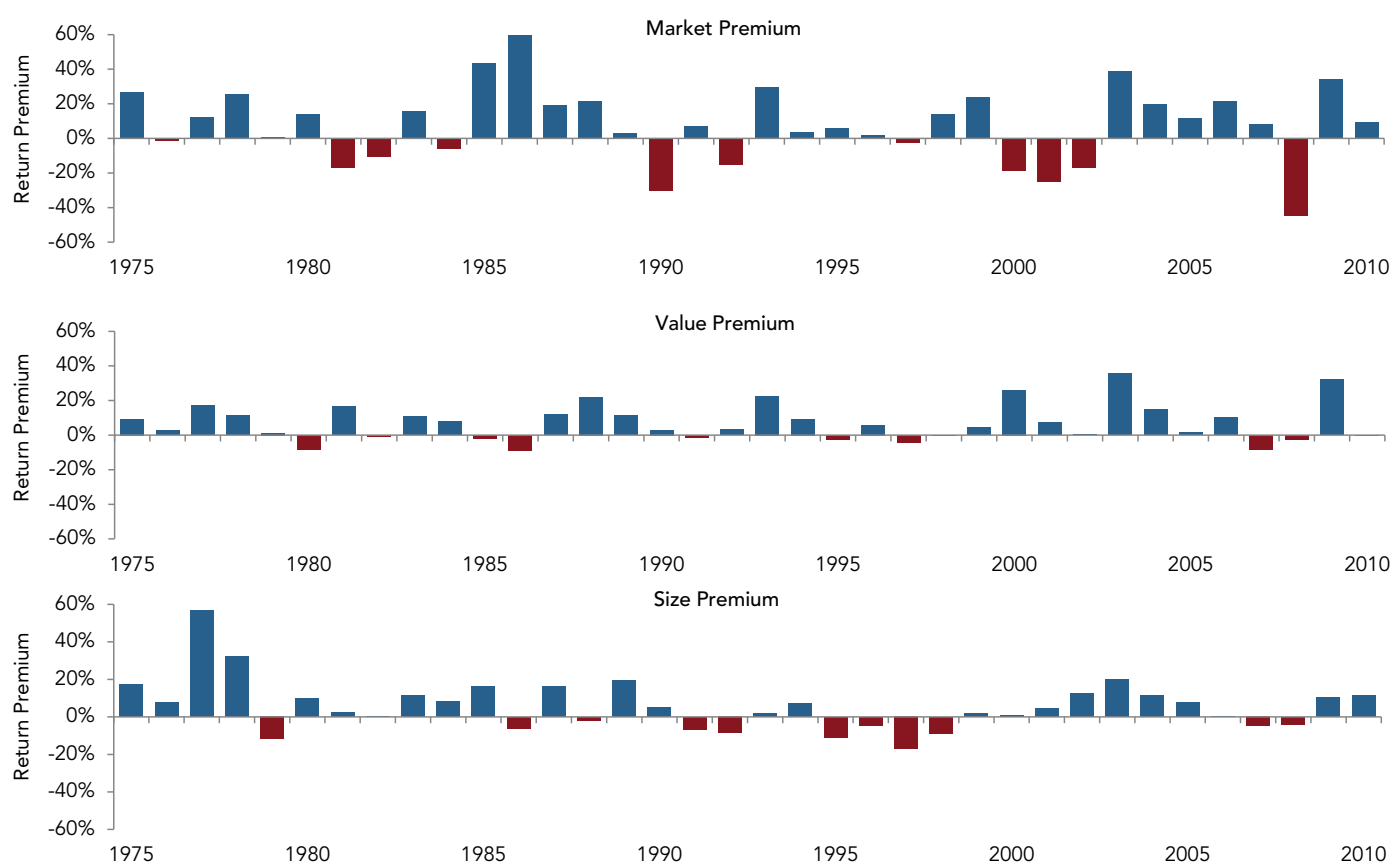
Vice President

Joseph Young is a vice president responsible for developing and maintaining relationships with public pension funds, foundations, endowments, Taft-Hartley plan sponsors, and corporate pension and defined contribution plans.

Joe began his career with Dimensional in February 2002 focusing on consultant relations. Prior to joining Dimensional, he worked as a project management analyst at Global Crossing. He is an active member of the CFA Society of Austin, National Society of Institutional Investment Professionals, CALAPRS, and the Texas Association of Public Employee Retirement Systems (TEXPERS). He is a guest lecturer for the College of Business at Colorado State University. Joe received a BS in finance from the University of Idaho and is a CFA Charterholder.

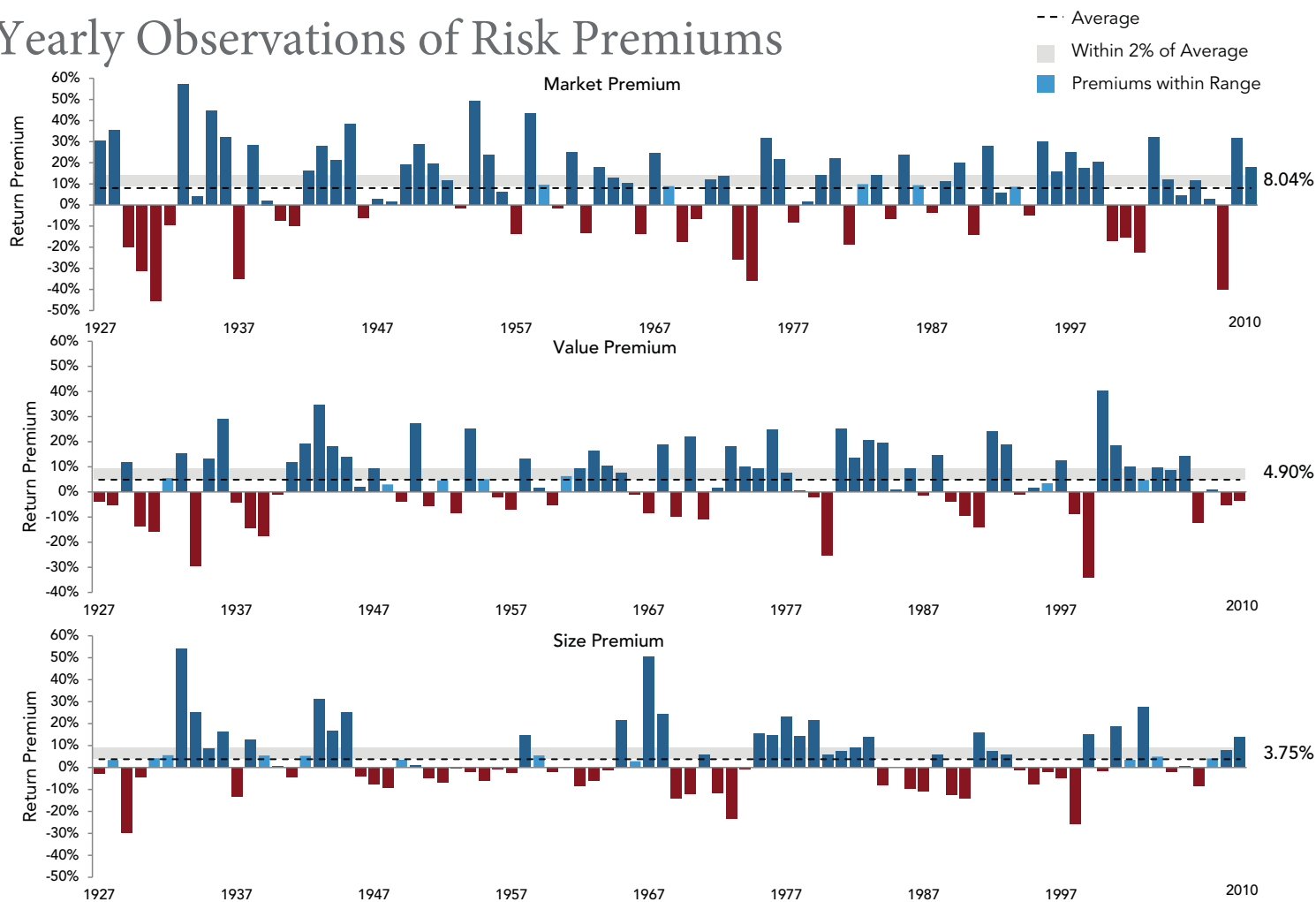
The Market, Value, and Size Effects in International Markets

1975–2010



International Market: MSCI World ex USA Index (gross dividends) minus One-Month US Treasury Bills. International HmL data (the twenty-one EAFE countries) provided by Fama/French. International HmL: Fama/French International Value Index minus Fama/French International Growth Index. International SMB includes the twenty-one EAFE countries. International SMB: Dimensional International Small Cap Index minus MSCI World ex USA Index (gross dividends). MSCI data copyright MSCI 2011, all rights reserved.

Yearly Observations of Risk Premiums



Data provided by Fama/French. SmB and HmL research factors.

Summary of Portfolio Risk Controls

Non-US Developed Markets Strategies

Risk Management

| | |
|----------------------------|--|
| Concentration Risk | <ul style="list-style-type: none"> • Highly diversified across countries • Country diversification leads to diversification across multiple currencies • Sector target weights typically capped at their approximate weight in a broadly diversified, sector-neutral universe plus an additional 10% • Industry groups generally capped at 25% • Guidelines target a maximum 5% per issue at time of purchase |
| Implementation Risk | <ul style="list-style-type: none"> • Team managed • Approved exchanges only; ongoing evaluation of listing requirements, liquidity, and settlement mechanism |
| Operational Risk | <ul style="list-style-type: none"> • Charles River customized Order Management System • Comprehensive pre- and post-trade compliance • Independent accountant, custodian bank, and auditors • Independent mid-office in charge of trade processing • Independent SAS 70 Level II audit performed annually • Firm and subsidiary regulators include SEC, FINRA, FSA, ASIC, BCSC, MSC, BaFin, and OSC |
| Style Risk | <ul style="list-style-type: none"> • Monitor characteristics of individual securities and overall strategy to prevent style drift |

- Provides diversification and broad oversight with minimal style drift

Dimensional's Investment Committee is responsible for creating investment guidelines specific to each portfolio. The Investment Committee considers the investment objectives and limitations set forth in each portfolio's governing agreements when addressing risk, and investment guidelines may be distinct between Dimensional managed portfolios.

Detailed Attributions by Size

International Small Company Portfolio vs. MSCI World ex USA Small Cap Index (net dividends)

Year to Date: October 31, 2011

| MCap Range | Portfolio Average Weights | Benchmark Average Weights | Portfolio Return | Benchmark Return | Allocation | Composition | Interaction | Total |
|------------------------|---------------------------|---------------------------|------------------|------------------|---------------|--------------|--------------|---------------|
| Large | 0% | 0% | 19.18% | 0.00% | 0.00% | 0.02% | 0.00% | 0.01% |
| 2 | 23% | 25% | -8.53% | -8.97% | -0.06% | -0.03% | 0.02% | -0.08% |
| 3 | 30% | 37% | -10.19% | -8.64% | -0.06% | -0.45% | 0.02% | -0.50% |
| 4 | 21% | 22% | -8.37% | -10.31% | 0.01% | 0.42% | 0.01% | 0.44% |
| Small | 25% | 16% | -8.76% | -12.20% | -0.31% | 0.93% | 0.00% | 0.63% |
| Other Country | 0% | 0% | -23.75% | 0.00% | 0.00% | -0.01% | 0.00% | -0.02% |
| Cash | 0% | 0% | 0.11% | 0.00% | 0.04% | 0.00% | 0.00% | 0.04% |
| Estimated Total | 100% | 100% | -8.82% | -9.35% | -0.38% | 0.88% | 0.04% | 0.53% |
| Expenses and Fees | | | -0.42% | 0.00% | | | | -0.42% |
| Other | | | -0.73% | -0.24% | | | | -0.49% |
| Total | | | -9.97% | -9.60% | | | | -0.38% |

Performance data shown represents past performance and is no guarantee of future results. Current performance may be higher or lower than the performance shown. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. To obtain the most current month-end performance data, visit www.dimensionalfund.com.

The above market cap ranges represent dynamic size ranges from largest to smallest stocks (lowest to highest number of buckets) and change over time. The ranges in million (USD) for the month ending 10/31/11 are: (Large) > 10,180; (2) 10,180-2,187; (3) 2,187-1,071; (4) 1,071-550; and (Small) < 550.

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See "Appendix: Standardized Performance Data & Disclosures" to learn how to obtain complete information on performance, investment objectives, risks, advisory fees, and expenses of Dimensional's funds.

Detailed Attributions by Sector

International Small Company Portfolio vs. MSCI World ex USA Small Cap Index (net dividends)

Year to Date: October 31, 2011

| | Portfolio Average Weights | Benchmark Average Weights | Portfolio Return | Benchmark Return | Allocation | Composition | Interaction | Total |
|----------------------------|---------------------------------|---------------------------------|---------------------|---------------------|---------------|--------------|--------------|---------------|
| Consumer Discretionary | 18% | 16% | -8.11% | -7.47% | 0.02% | -0.15% | 0.01% | -0.12% |
| Consumer Staples | 6% | 6% | -2.47% | -1.37% | 0.04% | -0.06% | 0.00% | -0.02% |
| Energy | 7% | 8% | -11.87% | -13.56% | 0.04% | 0.14% | 0.00% | 0.18% |
| Financials | 13% | 13% | -11.20% | -10.60% | 0.00% | -0.07% | 0.00% | -0.07% |
| Health Care | 5% | 5% | -5.20% | -6.41% | 0.01% | 0.06% | 0.00% | 0.07% |
| Industrials | 24% | 21% | -7.54% | -9.82% | -0.02% | 0.60% | 0.01% | 0.59% |
| Information Technology | 9% | 8% | -11.25% | -13.85% | -0.06% | 0.27% | 0.00% | 0.21% |
| Materials | 14% | 15% | -13.57% | -13.30% | 0.01% | -0.10% | 0.01% | -0.08% |
| REIT | 0% | 5% | 13.88% | -3.35% | -0.31% | 0.00% | 0.00% | -0.30% |
| Telecommunication Services | 1% | 1% | 2.33% | 1.98% | 0.02% | 0.00% | 0.00% | 0.03% |
| Utilities | 2% | 2% | 6.50% | 5.14% | 0.00% | 0.03% | 0.00% | 0.03% |
| Other Industry | 0% | 0% | -18.31% | 23.35% | 0.01% | -0.02% | 0.00% | -0.01% |
| Other Country | 0% | 0% | -23.75% | 0.00% | 0.00% | -0.01% | 0.00% | -0.02% |
| Cash | 0% | 0% | 0.11% | 0.00% | 0.04% | 0.00% | 0.00% | 0.04% |
| Estimated Total | 100% | 100% | -8.82% | -9.35% | -0.19% | 0.69% | 0.04% | 0.53% |
| Expenses and Fees | | | -0.42% | 0.00% | | | | -0.42% |
| Other | | | -0.73% | -0.24% | | | | -0.49% |
| Total | | | -9.97% | -9.60% | | | | -0.38% |

Performance data shown represents past performance and is no guarantee of future results. Current performance may be higher or lower than the performance shown. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. To obtain the most current month-end performance data, visit www.dimensionalfund.com.

Sectors defined by MSCI. MSCI data copyright MSCI 2011, all rights reserved. REITs are an industry subsector of Financials. They are included to illustrate the potential impact of their portfolio exclusion.

See "Appendix: Standardized Performance Data & Disclosures" to learn how to obtain complete information on performance, investment objectives, risks, advisory fees, and expenses of Dimensional's funds.

Detailed Attributions by Country

International Small Company Portfolio vs. MSCI World ex USA Small Cap Index (net dividends)

Year to Date: October 31, 2011

| | Portfolio Average Weights | Benchmark Average Weights | Portfolio Return | Benchmark Return | Allocation | Composition | Interaction | Total |
|-------------------|------------------------------|------------------------------|---------------------|---------------------|------------|-------------|-------------|---------------|
| Australia | 8% | 8% | -8.18% | -7.42% | -0.01% | -0.08% | 0.01% | -0.08% |
| Austria | 1% | 1% | -17.29% | -18.62% | 0.02% | 0.02% | 0.00% | 0.03% |
| Belgium | 1% | 1% | -13.52% | -11.36% | 0.01% | -0.03% | 0.00% | -0.02% |
| Canada | 13% | 14% | -13.01% | -10.51% | 0.00% | -0.41% | 0.01% | -0.40% |
| China | 0% | 0% | -20.13% | 0.00% | 0.00% | -0.01% | 0.00% | -0.01% |
| Denmark | 1% | 1% | -18.77% | -16.45% | 0.01% | -0.03% | 0.00% | -0.02% |
| Finland | 2% | 1% | -21.35% | -25.04% | -0.15% | 0.09% | 0.00% | -0.06% |
| France | 4% | 4% | -6.02% | -8.22% | -0.05% | 0.09% | 0.00% | 0.04% |
| Germany | 5% | 5% | -9.80% | -11.17% | -0.03% | 0.06% | 0.00% | 0.04% |
| Greece | 1% | 1% | -48.29% | -49.34% | -0.12% | 0.03% | 0.00% | -0.09% |
| Hong Kong | 3% | 3% | -21.78% | -20.28% | 0.01% | -0.04% | 0.00% | -0.03% |
| Ireland | 1% | 1% | 4.37% | -7.18% | 0.00% | 0.12% | 0.00% | 0.12% |
| Israel | 1% | 1% | -19.42% | -24.34% | -0.02% | 0.06% | 0.00% | 0.04% |
| Italy | 3% | 3% | -11.36% | -15.10% | -0.04% | 0.13% | 0.00% | 0.10% |
| Japan | 21% | 22% | -0.83% | -2.68% | -0.16% | 0.41% | -0.01% | 0.24% |
| Malaysia | 0% | 0% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Netherlands | 2% | 2% | -19.29% | -21.03% | 0.00% | 0.04% | 0.00% | 0.04% |
| New Zealand | 1% | 0% | 3.31% | 0.71% | 0.03% | 0.02% | 0.00% | 0.06% |
| Norway | 1% | 2% | -19.69% | -21.41% | 0.12% | 0.02% | 0.00% | 0.14% |
| Portugal | 0% | 0% | -36.67% | -33.62% | -0.02% | -0.01% | 0.00% | -0.04% |
| Singapore | 2% | 2% | -15.32% | -15.02% | 0.02% | -0.02% | 0.00% | 0.01% |
| Spain | 2% | 1% | -7.99% | -11.05% | 0.00% | 0.06% | 0.00% | 0.06% |
| Sweden | 3% | 3% | -9.19% | -8.67% | 0.00% | -0.01% | 0.00% | -0.01% |
| Switzerland | 6% | 4% | -13.69% | -14.40% | -0.04% | 0.03% | 0.00% | -0.01% |
| United Kingdom | 18% | 18% | -3.96% | -5.75% | 0.00% | 0.33% | 0.01% | 0.34% |
| US | 0% | 0% | -12.96% | 0.00% | 0.00% | -0.01% | 0.00% | -0.01% |
| Cash | 0% | 0% | 0.11% | 0.00% | 0.04% | 0.00% | 0.00% | 0.04% |
| Estimated Total | 100% | 100% | -8.82% | -9.35% | -0.36% | 0.85% | 0.04% | 0.53% |
| Expenses and Fees | | | -0.42% | 0.00% | | | | -0.42% |
| Other | | | -0.73% | -0.24% | | | | -0.49% |
| Total | | | -9.97% | -9.60% | | | | -0.38% |

Performance data shown represents past performance and is no guarantee of future results. Current performance may be higher or lower than the performance shown. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. To obtain the most current month-end performance data, visit www.dimensionalfund.com.

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See "Appendix: Standardized Performance Data & Disclosures" to learn how to obtain complete information on performance, investment objectives, risks, advisory fees, and expenses of Dimensional's funds.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

December 13, 2011

Agenda Item 6.3 b

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: International Small Cap Equity Manager Interview: Pyramis Global Advisors – Select International Small Cap

COMMENT: Attached to this agenda item is the manager presentation booklet.

9:45 a.m. Interview Pyramis Global Advisors – Select International Small Cap

Below are the presenters:

Robert Feldman – Portfolio Manager, CFA
Art Greenwood – Relationship Manager

The following is an overview of the firm and the product.

General Firm Information

Firm Legal Name: Pyramis Global Advisors
Firm Headquarters: 900 Salem Street
Mailzone OT3N1
Smithfield, Rhode Island 02917
Main Phone: 401.292.5840|
Year Firm Founded: 2005
Registered Investment Advisor: No
Firm Website Address: <http://www.pyramis.com/>

Firm Background

FMR LLC (“Fidelity Investments”), one of the largest privately held financial services firm in the United States, established Pyramis Global Advisors (“Pyramis”) in 2005 as a separate business unit to focus on institutional clients. The Pyramis group of companies includes two U.S. investment management companies, Pyramis Global Advisors Trust Company, an FDIC insured, New Hampshire non-depository limited purpose trust company (“PGATC”) and Pyramis Global Advisors, LLC, an investment adviser registered with the Securities and Exchange Commission, the Ontario Securities Commission and the Australian Securities Investment Commission (“ASIC”) pursuant to a Class Order Exemption (“PGA LLC”). The Pyramis group of companies also includes, Pyramis Canada ULC, an Ontario-registered investment adviser (“Pyramis Canada”), Pyramis Global Advisors UK) Limited, a UK limited company registered with the Financial Services Authority (“PGA UK”), Pyramis Global Advisors (Hong Kong) Limited, a Hong Kong limited company registered with the Securities and Futures Commission and with ASIC pursuant to a Class

Order Exemption (“PGA HK”), Pyramis Distributors Corporation LLC, a broker-dealer registered with the financial Industry Regulatory Authority, and Fidelity Investments Canada ULC, an adviser and mutual fund dealer registered in all provinces of Canada. Investment services are provided by PGA LLC, PGATC, PGA UK, PGA HK and Pyramis Canada by offering active and risk-controlled domestic equity, international equity, fixed-income, high-yield, real estate debt, REIT, and alternative strategies, including equity market neutral and 130/30 disciplines and asset allocation to meet specific client investment objectives.

Pyramis serves corporate and public employee pension and retirement funds, endowments and foundations and other institutional investors, as well as non-U.S. investors. Pyramis offers its investment strategies through a variety of investment vehicles, including commingled pools, separate accounts and privately offered funds in limited liability companies and limited partnerships, U.S. and non-U.S. domiciled alternative funds, Canadian and other non-U.S. mutual funds, and acts as a sub-adviser to certain U.S. mutual funds. Pyramis is able to draw upon significant resources for the benefit of its clients through its own investment team as well as the resources of its affiliates.

Joint Ventures

FMR LLC (“Fidelity”) established Pyramis Global Advisors (“Pyramis”) in 2005 as a separate business unit to focus on institutional clients. The Pyramis group of companies is wholly owned by Fidelity under Pyramis Global Advisors Holdings Corp. (PGAHC), a directly held subsidiary of FMR LLC and therefore is affiliated with the Fidelity group of companies. Pyramis does not have any joint ventures.

Prior or Pending Ownership Changes

There are no ownership changes anticipated.

Prior or Pending Litigation

Explanation of Litigation

From time to time, in the regular course of its business, the firm (including directors, officers, partners, trustees, affiliates and/or subsidiaries thereof) may be involved in legal proceedings (including, but not limited to, bankruptcy, receivership or similar proceedings). There are no material legal proceedings pending against the firm that might affect the firm's provision of investment management services.

Additional Comments

Effective April 1, 2007, Pyramis Global Advisors (Pyramis) has updated the methodology with which the firm calculates assets under management and client account data. The updated methodology reflects assets for which Pyramis is the named advisor on the investment management contract. Historical AUM (Assets Under Management) and client account figures will not be impacted.

General Product Information

Product Narrative

Research & Screening Process

Fundamental in-house company research has always been the basis of the Select International Small Cap investment process. The majority of the research efforts are devoted to bottom-up research.

Organization of Research

Fidelity's equity research analysts and associates are organized according to seven sector teams in each investment office worldwide (244 in Boston; 97 in London; 35 in Tokyo; and 26 in Hong Kong as of March 31, 2010). Working in regional offices enables the analysts to gain knowledge of and insight into local customs and practices. The analysts then apply their local perspective to the construction of financial models and have the autonomy to be flexible in their construction, not constrained by a specific firm method.

Within these sector teams, analysts cover stocks across a range of market capitalization. In addition, Fidelity analysts located in Boston, London, and Tokyo provide dedicated research coverage of small-cap stocks. Information is shared throughout the research teams so that an analyst covering a small-cap stock may benefit from relevant information gained via competitors, suppliers, and customers of any market cap.

In addition, aligning analysts according to common sectors promotes the cross-fertilization of ideas between regions and facilitates communication throughout Fidelity's global research organization. Analysts know and interact with their counterparts in other regions and work as a team to analyze the factors that drive the performance of stocks within their industry.

Sources of Research

Fidelity's bottom-up research focuses on a company's fundamental prospects relative to other companies and relative to expectations. To gain insight into a company's business prospects, analysts perform research through company reports and balance sheet analysis and meet with a company's suppliers, distributors, and competitors. In most cases, Pyramis already has other analysts covering these companies. On average, Fidelity analysts conduct 3,500 company meetings in Europe, Japan, and Hong Kong every year.

Being one of the largest investment management firms in the industry enables their investment professionals to have unparalleled access to company management. Analysts meet with both senior management and middle level company management. Visits with larger companies occur frequently—sometimes as often as monthly. With some of these companies, analysts are in daily contact via telephone and/or e-mail.

Outputs of Research

The key output from the meetings and the quantitative company analysis is the research note and company rating. The analysts cover more than 3,500 international companies and write/update detailed research notes throughout the year for each company. All research notes follow a standard global format and contain the analyst's financial model used to evaluate a company. The model forms the basis of their research ratings. In rating securities on a 1 to 5 scale, analysts indicate their views of whether or not stocks are likely to outperform the regional index on a 12–18-month time frame.

Hard copy versions of all research notes are circulated daily to the portfolio manager. Any change in a stock rating is communicated to portfolio managers immediately through voice mail.

External Research Sources

The external research sources, which account for approximately 10% of the research effort, provide a wide range of information. For example, Pyramis, either directly or through Fidelity, has retainer contracts with various university professors and medical doctors. These experts add insights into specific sectors in the research process. For information on more mainstream areas, such as earnings estimates, Pyramis draws on all of the providers in a given area. Overall, these efforts give the analysts the ability to compare and contrast information and to use the vendors they feel have the best data for the companies they cover.

Portfolio Construction & Risk Control Methodology

The objective of the portfolio construction process is to consistently deliver a portfolio of long-term, high-conviction, bottom-up, fundamental, forward-looking, stock-specific investment ideas in the international small cap opportunity set found attractive by analysts on the global research team. This objective is accomplished through an on-going systematic review of research ideas in order to a) identify potential new high conviction ideas for inclusion in the portfolio; b) monitor current holdings to ensure their continued attractiveness; and c) exit positions as they near long term fundamental fair value target price or experience deterioration in their fundamental outlook.

Analysts' highest conviction investment ideas are systemically identified in proprietary reports highlighting buy-rated stocks (rated 1 or 2) and stocks held in analyst-managed industry portfolios (AMPs) within the international small cap space. A broad suite of reports are used to review portfolio holdings and new internal research generated on a daily basis across the international small cap opportunity set. The investment manager also meets regularly with analysts to review existing holdings, potential new international small cap ideas and performance in each analyst's sector/geographic area of responsibility. In evaluating analyst ideas for inclusion in the portfolio, the investment manager reviews factors such as the investment thesis, absolute upside to long term fundamental fair value, relative upside/downside, longer-term return potential, likelihood of thesis coming to fruition, event risk, liquidity and fit with other holdings in the portfolio. The assessment of fair-value (or target price) is typically based on proprietary, forward looking fundamental analysis of items such as expected revenues, margins, earnings, balance sheet, competitive environment, as well as the appropriate valuation for those fundamentals.

On a daily basis, the portfolio is reviewed to identify opportunities to increase exposure to the highest potential stock ideas and reduce exposure to investment opportunities which have reached

their target prices or experienced deterioration in their fundamental outlook. A variety of systematic processes are employed to highlight prospective trades to maximize the portfolio's exposure to the most attractive stocks relative to the targeted risk level. The investment manager is the ultimate decision maker for all securities added or removed from the portfolio, taking into consideration trading costs and liquidity.

Constraints on the maximum and minimum positions relative to the benchmark weight at the country, sector, and individual security level are defined to ensure that the risks taken in the portfolio are commensurate with the performance target and guidelines and to focus the largest component of active risk on stock selection.

The portfolio's regional and sector exposures are similar to the fund's benchmark. The final portfolio is expected to have minimal active regional exposures and modest country and industry active exposures. The result is, the investment manager believes, a well-diversified portfolio with characteristics similar to a benchmark index, but one that seeks to achieve consistent incremental returns through active stock selection.

Buy/Sell Discipline

The investment strategy seeks to buy new high conviction ideas for the portfolio with significant upside potential to long-term fundamental fair value.

In evaluating analyst ideas for inclusion in the portfolio, the investment manager reviews factors such as the investment thesis, absolute upside to long-term fundamental fair value, relative upside/downside, longer-term return potential, likelihood of thesis coming to fruition, event risk, liquidity and fit with other holdings in the portfolio. The assessment of fair-value (or target price) is typically based on proprietary, forward looking fundamental analysis of items such as expected revenues, margins, earnings, balance sheet, competitive environment, as well as the appropriate valuation for those fundamentals.

The investment strategy seeks to exit positions as they approach fair value/target price and exits positions due to a change in fundamentals or better potential elsewhere as well.

The portfolio management team works closely with the analyst team in evaluating buy/sell ideas. Final buy/sell decisions are made by the lead portfolio manager.

Trading Strategy

Fidelity's trading capabilities are extensive, due to both dedicated and experienced trading staff and their "Portfolio Management Ordering System" that links portfolio managers and traders online.

Portfolio managers input their trading orders into the system which are then sent directly to the trading desk. This seamless process, coupled with daily interaction between PM's and traders, results in optimal communication and trading execution. This system automatically aggregates buys and sells continuously throughout the day to assist traders in knowing the extent of the buy/sell activity in any given security and in achieving best execution on all transactions. In addition to their internal

resources, Fidelity traders have direct links to Wall Street firms that communicate indication of interest ("IOI's") as well as market color and liquidity.

Fidelity achieves low transaction costs through varied types of execution capabilities including basket (program) trades, electronic crossing networks (ECNs) or direct access to liquidity centers. The worldwide network of traders also makes it possible to trade directly with global and local brokers, minimizing the cost of intermediaries. Fidelity limits price movement in the security by using crossing networks and also be monitoring their share of daily volume to ensure that they do not distort the price of a security.

In selecting brokers for specific transactions, they evaluate and classify individual brokers into various categories according to a rating criteria on areas such as trading capability, creditworthiness, security coverage and back office resources. This enables them to select the "best" broker for each part of our business.

Soft Dollar Policy

Pyramis or its affiliates may execute portfolio transactions with brokers that provide products and services that assist them in fulfilling their investment management responsibilities ("Research and Brokerage Services") in accordance with applicable law. Research and Brokerage Services may include: economic, industry, company, municipal, sovereign (U.S. and non-U.S.), legal, or political research reports; market colors; and investment recommendations. Pyramis or its affiliates may request that a broker provide a specific proprietary or third-party product or service.

Some of these Research and Brokerage Services supplement Pyramis' or its affiliates' own research activities in providing investment advice to their clients.

In addition, Research and Brokerage Services may include those that assist in the execution, clearing and settlement of securities transactions; as well as other incidental functions (including, but not limited to, communication services related to trade execution, order routing and algorithmic trading, post-trade matching, exchange of messages among brokers, custodians and institutions, and the use of electronic confirmation and affirmation of institutional trades).

In addition to receiving these Research and Brokerage Services via written reports and computer delivered services, such reports may also be provided by telephone and in personal meetings with securities analysts, corporate and industry spokespersons, economists, academicians and government representatives and others with relevant professional expertise. Although Pyramis or its affiliates do not use client commissions to pay for products or services that do not qualify as Research and Brokerage Services, they may use commission dollars to obtain certain products or services that are not used exclusively in Pyramis' or its affiliates' investment decision-making process. In those circumstances, Pyramis or its affiliates will make a good faith judgment to evaluate the various benefits and uses to which they intend to put the product or service, and will pay for the functions that do not qualify as Research and Brokerage Services with their own resources (referred to as "hard dollars").

To the extent permitted by applicable law, brokers who execute client transactions may receive compensation in recognition of their Research and Brokerage Services that are in excess of the

amount of compensation that other brokers might have charged. Before causing the client to pay a particular level of compensation, Pyramis or its affiliates will make a good faith determination that the compensation is reasonable in relation to the value of the Research and Brokerage Services provided to Pyramis or its affiliates, viewed in terms of the particular client transaction for the client or Pyramis' or its affiliates' overall responsibilities to that client or their other clients. While Pyramis or its affiliates may take into account the Research and Brokerage Services provided in determining whether compensation paid is reasonable, neither Pyramis, its affiliates, nor their respective clients incur an obligation to the broker or third-party to pay for all or a portion of such Research and Brokerage Services by generating a specific amount of compensation or otherwise. Typically, these Research and Brokerage Services assist Pyramis or its affiliates in terms of their overall investment responsibilities to their clients or Pyramis' or its affiliates' clients. Certain client accounts may use brokerage commissions to acquire Research and Brokerage Services that may also benefit other client accounts managed by Pyramis or its affiliates.

Pyramis' or its affiliates' expenses likely would be increased if they attempted to generate these additional Research and Brokerage Services through their own efforts or if they paid for these Research and Brokerage Services themselves. Certain of the Research and Brokerage Services that Pyramis or its affiliates receive are furnished by brokers on their own initiative, either in connection with a particular transaction or as part of their overall services. Some of these Research and Brokerage Services might not have an explicit cost associated with them. In addition, Pyramis or its affiliates may request a broker to provide a specific proprietary or third party product or service, certain of which third-party products or services may be provided by a broker that is not a party to a particular transaction and is not connected with the transacting broker's overall services. Pyramis or its affiliates have arrangements with certain brokers whereby Pyramis or its affiliates may pay with hard dollars for all or a portion of the cost of research products and services purchased from such brokers through whom Pyramis or its affiliate's effects client trades.

Even with such hard dollar payments, Pyramis or its affiliates may cause the client to pay more for execution than the lowest commission rate available from the broker providing research products and services to Pyramis or its affiliates, or that may be available from another broker. Pyramis or its affiliates view their hard dollar payments for research and products and services as likely to reduce the client's total commission costs even though it is expected that in such hard dollar arrangements the commissions available for recapture and used to pay client expenses, as described below, will decrease. Pyramis' determination to pay for research products and services separately (e.g., with hard dollars), rather than bundled with client account commissions, is wholly voluntary on Pyramis' part and may be extended to additional brokers or discontinued with any broker participating in this arrangement.

Additional Comments - None

Use Of Derivatives

Derivatives Used in Managing This Product: None

Pyramis Global Advisors®

Select International Small Cap

December 13, 2011

San Mateo County Employees' Retirement Association



Robert Feldman, CFA
Portfolio Manager

Art Greenwood
Relationship Manager
401-292-4729
art.greenwood@pyramis.com

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Table of Contents

1. Pyramis Overview
2. Global Investment Resources
3. Pyramis Select International Small Cap
4. Investment Performance
5. Summary
6. Appendix
 - A. Select International Small Cap Plus
 - B. Important Information
 - C. GIPS Composite Performance Data
 - D. Biographies

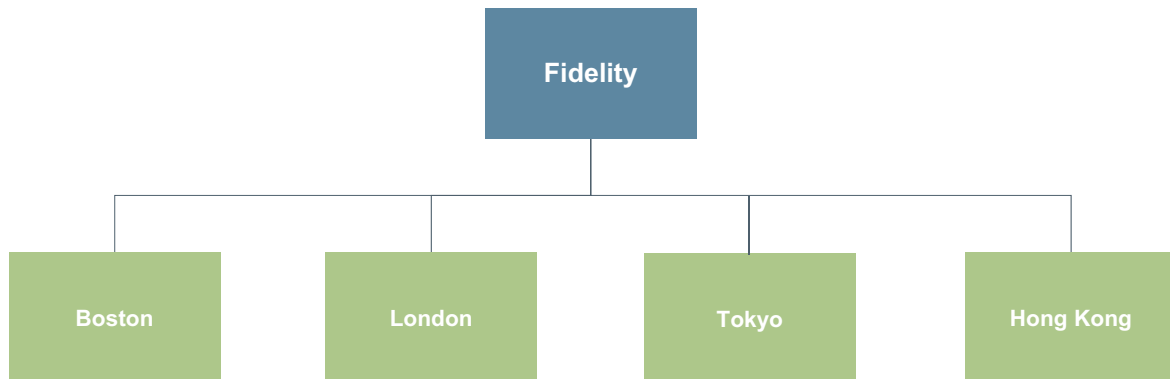
See "Important Information" for a discussion of performance data, some of the principal risks related to any of the investment strategies referred to in this presentation and other information related to this presentation.

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Pyramis Overview

Fidelity—Key Strengths



- Private ownership
- Investment offices strategically located around the world
- Extensive research and investment management resources

Resources depicted reflect the combined resources of Pyramis, Fidelity Investments and FIL Limited as of September 30, 2011.

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Significant Institutional Commitment and Experience

As of September 30, 2011

Representative Clients

| Municipal/Public | Corporate | Taft-Hartley |
|--|----------------------------|--|
| California Public Employees' Retirement System | Agilent Technologies | Building Trades United Pension Fund |
| California State Teachers' Retirement System | Alcoa | Ironworkers Local 549-550 Pension Plan |
| El Paso Fireman & Policemen's Pension Fund | BASF Corporation | New York State United Teachers |
| Illinois Municipal Retirement Fund | Caterpillar | PacifiCorp/IBEW Local Union 57 |
| Kansas City Firefighter's Pension Fund | Chevron Corporation | Pipeline Industry Benefit Fund |
| Kern County Employees' Retirement Association | Coca-Cola Company | Sheet Metal Workers Local No. 19 |
| Marin County Employees' Retirement Association | El Paso Corporation | |
| Minnesota State Board of Investment | Energy Insurance Mutual | |
| New Mexico Educational Retirement Board | GATX Corporation | Endowment/Foundation |
| Orange County Employees' Retirement System | General Motors | Casey Family Programs |
| Oregon Investment Council | Lexmark International | Massachusetts Taxpayers Foundation |
| Rhode Island Employees' Retirement System | Nuclear Electric Insurance | Shriners Hospital |
| San Francisco Employees' Retirement System | PPL Corporation | |
| San Mateo County Employees' Retirement Association | Verizon | |
| St. Louis Public School Retirement System | | |
| State of Alabama | | |
| State of Connecticut | | |
| State of Michigan Retirement System | | |
| Tulare County Employees' Retirement Association | | |

Represents International Equity Clients

The list is made up of Pyramis accounts, chosen through a combination of geographic location, size, and plan type, who have consented to disclosing their name. It is not known whether the listed clients approve or disapprove of Pyramis or of the advisory services provided.



Global Investment Resources



Philosophy:

We believe that international small-cap is an inefficient, under-covered, asset class which presents frequent opportunities to purchase individual equities at a significant discount to their long-term fundamental fair value. We believe these inefficiencies are best exploited through fundamental, bottom-up, forward-looking stock-specific research.

Objective:

The Select International Small Cap strategy seeks to systematically capture best fundamental ideas from our proprietary global research platform in a portfolio focused on our core competency, stock selection.

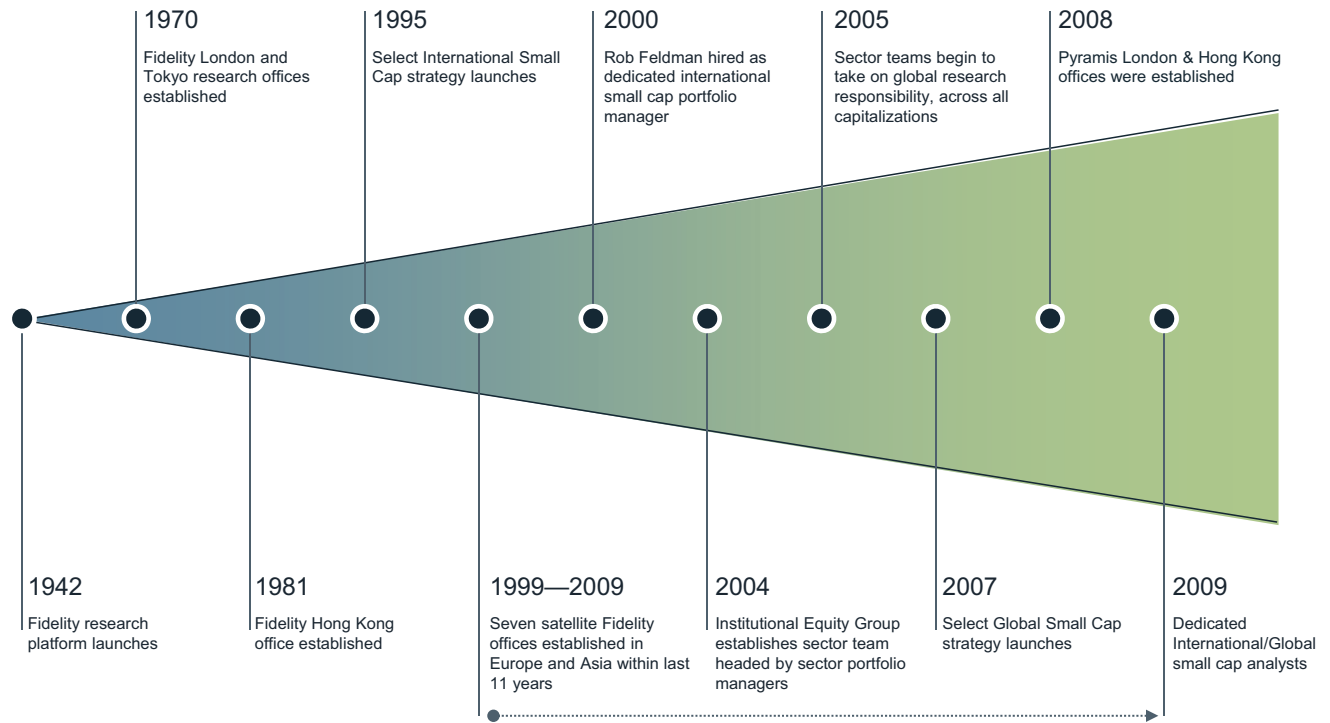
Research resources described herein include the combined resources of Pyramis, Fidelity Investments, and FIL Limited.

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Fidelity Asset
Management*

Pyramis International/Global Small Cap Platform Timeline



Resources depicted reflect the combined resources of Pyramis, Fidelity Investments and FIL Limited as of September 30, 2011.
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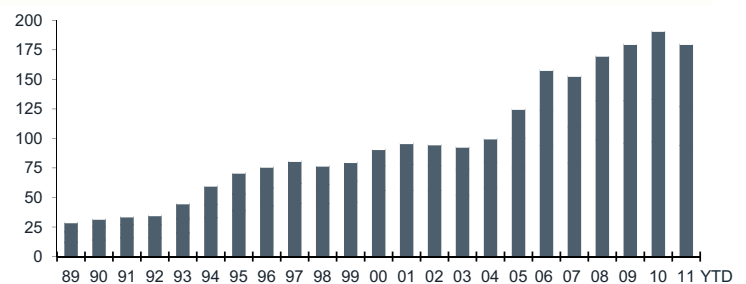
Fidelity's Global Research Resources

- Local market coverage
- Proprietary research
- Research Professionals manage industry / country funds
- Main investment offices in London, Tokyo, Hong Kong & Boston with sub-investment offices in Paris, Frankfurt, Mumbai, Seoul, Singapore & Sydney



| Equity Research Professionals* | |
|--------------------------------|------------|
| Europe | 94 |
| Japan | 33 |
| Pacific Ex-Japan | 53 |
| Total International | 180 |
| Americas | 188 |
| Total Worldwide | 368 |

International Equity Research Professionals**
Since 1989



* Source: FMR LLC, Pyramis Global Advisors, FIL Limited as of June 30, 2011.

** These figures reflect the combined resources of Pyramis, Fidelity Investments, and FIL Limited.

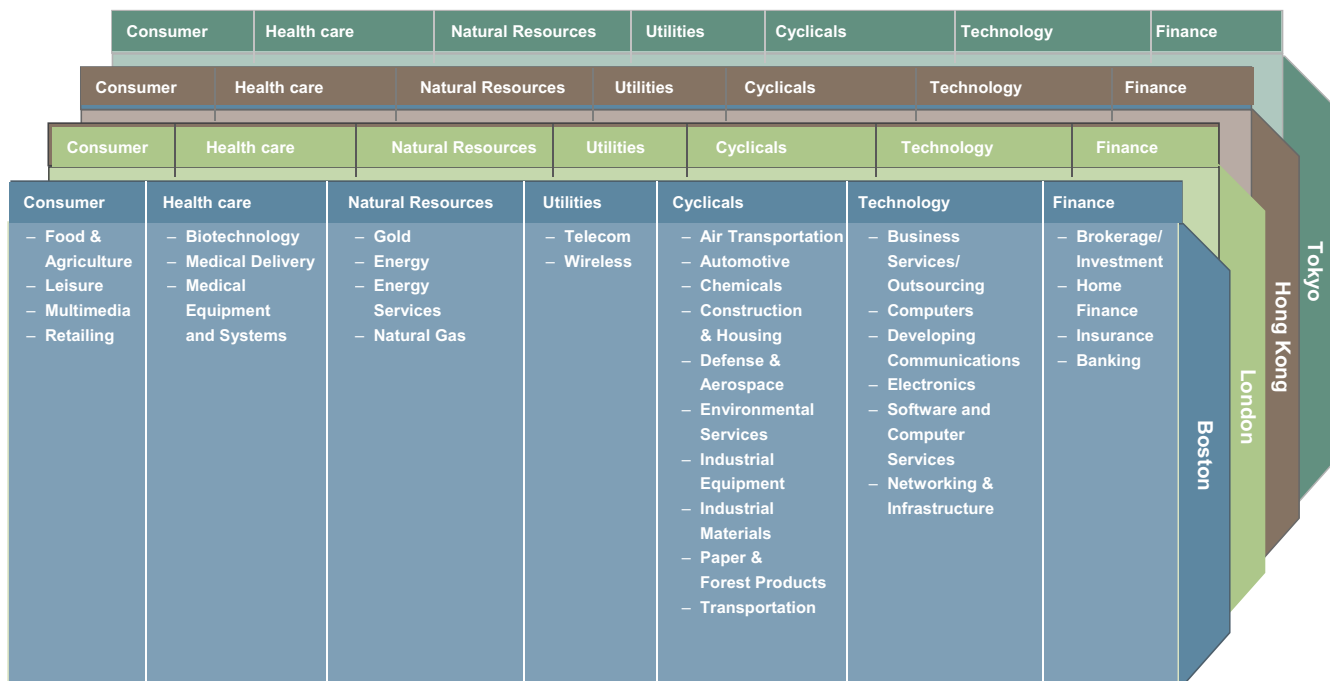
NB: Teams France, Germany and Italy are constituents of the Pan European total. Teams India, Korea, Singapore & Australia are constituents of the Pacific ex-Japan total.

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Global Research Team Structure

Facilitates Cross Fertilization of Ideas Among Industry Specialists and Across Regions



Research resources described herein include the combined resources of Pyramis, Fidelity Investments, and FIL Limited.



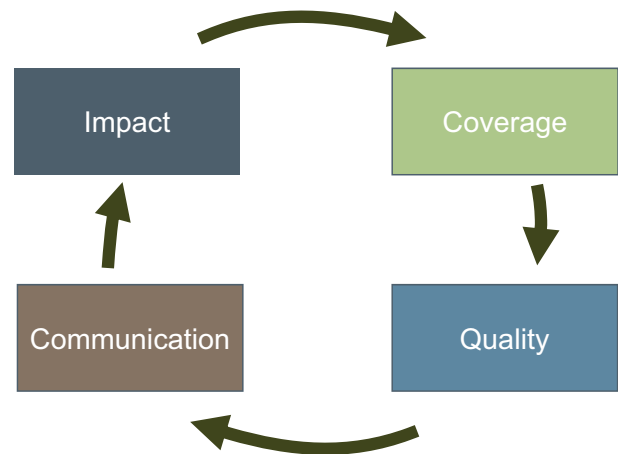
Fidelity Asset Management*

The Principles of Research

Our goal is to consistently deliver high quality research ideas to our portfolio managers

When assessing the performance of our analysts, we use 4 main measures:

1. Coverage
 - Seek to provide superior coverage for investment ideas
 - Coverage breadth
 - Idea discovery
 - 95% of Market Cap coverage
2. Quality
 - Possesses conviction
 - Accuracy on stock picks
 - Position in Analyst Managed Portfolios
 - Value added to portfolios
3. Communication
 - Proprietary research distribution system
 - Industry reviews
 - Analyst hosted company meetings
 - Face to face meetings
4. Impact
 - Ensuring our research is incorporated by our portfolio managers in their portfolios
 - Contribution to fund returns
 - Portfolio Manager surveys



► **High quality, comprehensive measurement systems are required to measure performance accurately**

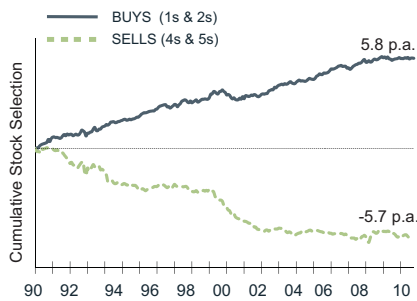
Research resources include the combined resources of Pyramis, Fidelity Investments and FIL Limited.

Research Adds Value

Both Buy and Sell Decisions Add Value

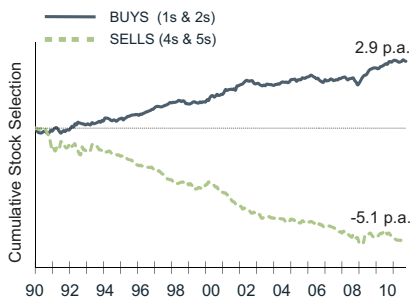
Europe Ex UK Analysts' Ratings

January 31, 1990—September 30, 2011



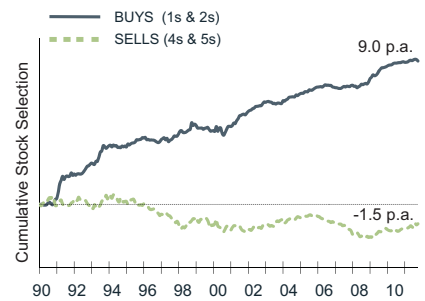
UK Analysts' Ratings

January 31, 1990—September 30, 2011



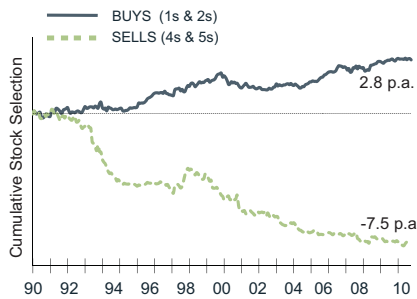
Canada Analysts' Ratings

January 31, 1990—September 30, 2011



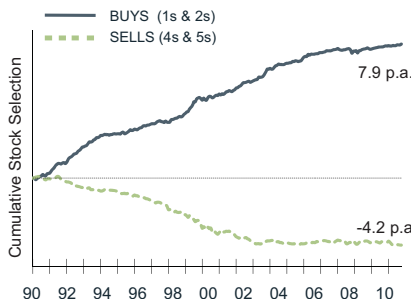
Pacific Ex Japan Analysts' Ratings

January 31, 1990—September 30, 2011



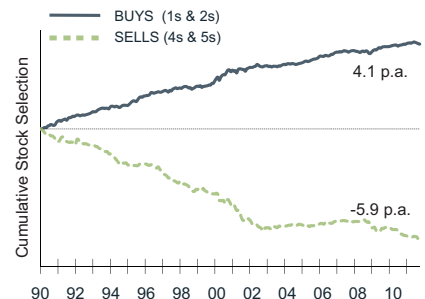
Japan Analysts' Ratings

January 31, 1990—September 30, 2011



US Analysts' Ratings

January 31, 1990—September 30, 2011



Analyst ranking: 1 = strong buy 2 = buy 3 = hold 4 = sell 5 = avoid

p.a. = % Per Annum. The charts above show the cumulative performance of periodic "buy" and "sell" ratings for stocks covered by FMR and FIL Limited analysts after making adjustments using a BARRA® model, for the time period shown. The universe of stocks rated by FMR and FIL Limited analysts fluctuated from time to time based on a variety of factors, such as a change in coverage. BARRA® data was used to perform risk decomposition and performance attribution analysis on the rated stocks to control for certain factors such as market return, industry affiliations and market capitalization when representing those stocks' performance. Performance does not relate to a specific portfolio or portfolios. The information above should not be viewed as an indication of any strategy's performance and should not be relied upon as such. Past performance is no guarantee of future results.



Pyramis Select International Small Cap

Select International Small Cap—Investment Team

As of September 30, 2011

Rob Feldman
Portfolio Manager

Responsibilities:
Portfolio Manager for the
International Small Cap strategies

Experience:
11 Years at Fidelity/Pyramis
14 Years Industry

Lance McInerney
Institutional Portfolio Manager

Responsibilities:
Institutional Portfolio Manager for the
International Small Cap strategies

Experience:
6 Years at Fidelity/Pyramis
17 Years Industry

Chris Steward
Institutional Portfolio Manager

Responsibilities:
Institutional Portfolio Manager for the
International Small Cap strategies

Experience:
5 Years at Fidelity/Pyramis
23 Years Industry

Pyramis Global Sector Teams

As of September 30, 2011

| Industrials | Financials | Consumer Staples | Health Care | Energy | Consumer Discretionary | Information Technology |
|--|--|--|---|---|--|---|
| | | Utilities | | Materials | | Telecom Services |
| Chad Colman Sector Portfolio Manager 12 years industry experience | Thorsten Becker Sector Portfolio Manager 14 years industry experience | Andrew Burzumato Sector Portfolio Manager 8 years industry experience | Chandler Willett Sector Portfolio Manager 12 years industry experience | Jody Simes Sector Portfolio Manager 17 years industry experience | Arun Daniel Sector Portfolio Manager 19 years industry experience | Vince Rivers Sector Portfolio Manager 13 years industry experience |
| Charles Ackerman Research Analyst | Mohammed Ali Research Analyst | Hamish Clark Research Analyst London | Ryan Salomone Research Analyst | Todd Haggerty Research Analyst | Phillip Clark Research Analyst London | Amit Baid Research Analyst |
| Jonathan Cummins Research Analyst London | Katherine O'Donovan Research Analyst London | Morgan Lackenbauer Research Analyst | Andrew Swanson Research Analyst | James Burdass Research Analyst London | Stig Zarle Research Analyst | Benny Lo Research Analyst Hong Kong |
| | William Seddon Research Analyst | Edward Paik Research Analyst | Samuel Cox Research Analyst | Shahrum Badkoubei Research Analyst Hong Kong | Alison Law Research Analyst Hong Kong | Jack Tse Research Analyst Hong Kong |
| | Yoshinari Yamada Research Analyst Hong Kong | | Karim Suwvan de Felipe Research Analyst | Drew Gellert Research Analyst | Scott Utzinger Research Analyst | Ed Field Research Analyst London |
| | Neil MacKay Research Analyst Hong Kong | | | Sandeep Gupta Research Analyst | Robert Lee Research Analyst Hong Kong | Julian Albornoz Research Analyst |
| | Shankha Mitra Research Analyst Hong Kong | | | Janet Yoo Research Analyst | Volkan Gulan Research Analyst | Jethro Townsend Research Analyst |
| | Melissa Warneck Research Analyst | | | | Chip Perrone Research Analyst | Adam Benjamin Research Analyst |

Dedicated Small Cap Specialists

| | |
|---|--|
| Yogesh Borkar Research Analyst International | Kenneth Kubec Research Analyst US |
| Shawn Kumar Research Analyst International | Sam Sianissian Research Analyst International |



Fidelity Asset Management*

Select International Small Cap—Overview

We do:

- Use an active strategy
- Combine qualitative stock selection with quantitative risk management
- Leverage Fidelity's extensive global research resources**
- Employ a team approach to investment management

Target Alpha = 300bps*

Tracking Error = 4-6%

We do not:

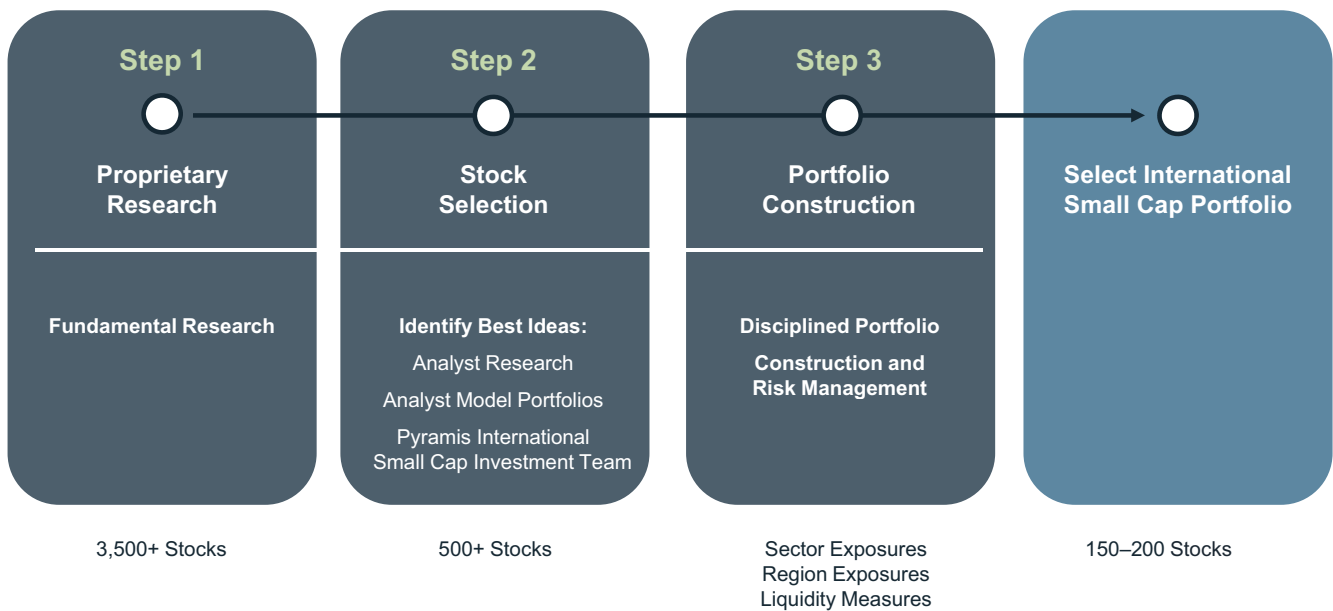
- Hedge
- Make top-down bets

Objective:

Consistent
value-added

*Target alpha is presented gross of fees and expenses, including advisory fees, which when deducted will reduce returns. Although Pyramis believes it has a reasonable basis for any gross target alpha, there can be no assurance that actual results will be comparable. Actual results will depend on market conditions over a full market cycle and any developments that may affect these investments and will be reduced by the deduction of any fees and expenses associated with the investment.
** Resources described reflect the combined resources of Pyramis, Fidelity Investments and FIL Limited

Select International Small Cap—Investment Process



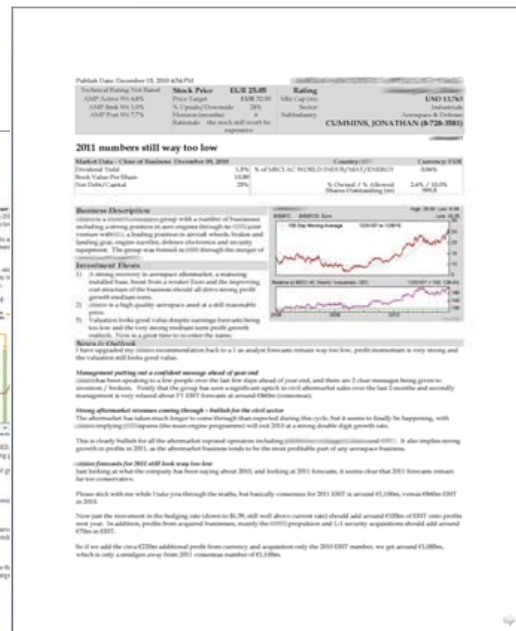
For illustrative purposes only.
Research resources depicted include the combined resources of Pyramis, Fidelity Investments and FIL Limited as of September 30, 2011.

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Step 1: Proprietary Research

Fundamental Research

- Company meetings
- Written notes
- Face-to-face
- Analyst ratings
- Analyst model portfolio



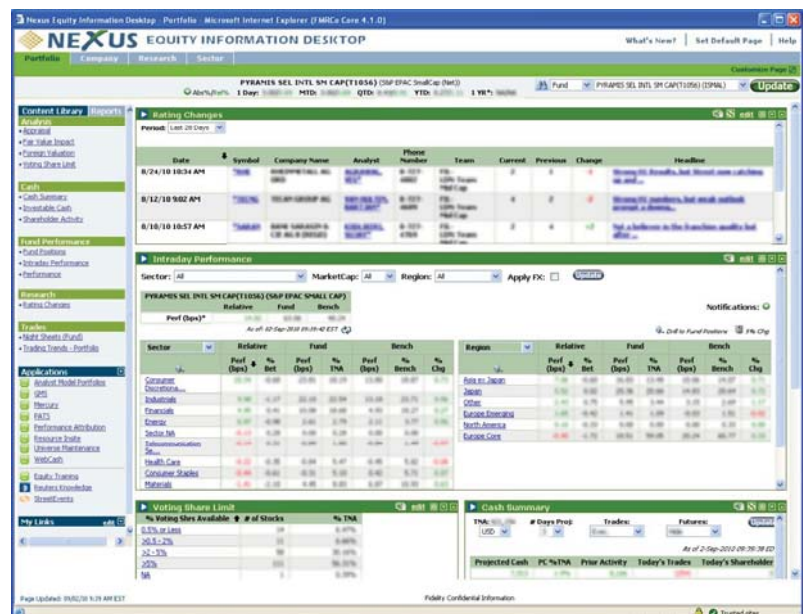
For illustrative purposes only.
 Research resources depicted include the combined resources of Pyramis, Fidelity Investments and FIL Limited as of September 30, 2011.
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Step 2: Stock Selection

Identify Best Ideas

Selection Process:

- Total return target based on proprietary 2–3 yr forward earnings potential and target valuation metrics
- Fundamental prospects:
 - Top line growth: volume, pricing
 - Operating profit margin evolution
 - Porter Competitive Analysis
 - Secular story tied to company
 - Potential for increasing cash flow
 - Management quality and use of capital
 - Balance sheet strength
 - Strategy and economics of M&A
 - Ownership structure
- Target valuation metrics for company fundamentals



For illustrative purposes only. Research resources depicted include the combined resources of Pyramis, Fidelity Investments and FIL Limited as of September 30, 2011.

Step 3: Portfolio Construction

Disciplined Portfolio Construction and Risk Management

Buy/Sell Discipline:

- 150–200 stocks
- Region, sector and liquidity exposures
- Return potential to target price = “upside”
- Seek to exit positions when full valuations are reached, investment thesis deteriorates or better potential elsewhere
- Monitor investment thesis
- Realization of catalysts
- Monitor liquidity and trade execution

| Short Name | TE % | Beta | Fund Bas... | Market Capit... | ROA | LT Debt/Capital |
|------------|-------|-------|-------------|---------------------|--------|-----------------|
| ISMAL | 4.90% | 0.97% | USD | | | |
| FOEP | 1.46% | 0.98% | USD | 40,839,007,458.7057 | 4.6996 | 35.8479 |
| FCISC | 3.53% | 0.98% | CAD | 1,724,474,848.1426 | 5.0154 | 22.8263 |
| CHEVGRP | 1.78% | 0.98% | USD | 42,015,566,237.1832 | 5.4190 | 35.5692 |

| Trade | Risk Decomp | Risk Factor Model | GICS Sector | GICS Industry Group | GICS Industry | GICS Sub-Indu |
|---|-------------|-------------------|-------------|---------------------|------------------|---------------|
| Fund Factor Return & Exposure View: Risk Model - GEM2 | | | | | | |
| Factor | Fund Exp | Long Fund Exp | BM Exp | Rel Exp | Factor Returns % | |
| Momentum | 0.1243 | 0.1243 | 0.1511 | -0.0268 | -0.0224 | |
| Volatility | 0.0615 | 0.0615 | 0.1153 | -0.0538 | 0.267 | |
| Value | -0.0865 | -0.0865 | -0.1893 | 0.1028 | -0.6610 | |

| Trade | Risk Decomp | Risk Factor Model | GICS Sector | GICS Industry Group | GICS Industry | GICS Sub-Indu |
|----------------------------|--------------|-------------------|-------------|---------------------|---------------|----------------|
| Fund GICS Sector View | | | | | | |
| GICS Sector | Fund Stoc... | BM Stoc... | Fund % | BM % | Rel % | Fund Ctr... Re |
| Energy | 12 | 172 | 4.41 | 5.79 | -(1.38)% | -(0.03)% |
| Materials | 27 | 414 | 11.71 | 13.12 | -(1.41)% | -(0.19)% |
| Industrials | 43 | 736 | 21.02 | 22.68 | -(1.66)% | -(0.20)% |
| Consumer Discretionary | 35 | 583 | 17.83 | 17.66 | 0.16% | -(0.22)% |
| Consumer Staples | 12 | 195 | 7.15 | 5.36 | 1.78% | -(0.06)% |
| Health Care | 10 | 191 | 5.92 | 5.55 | 0.37% | -(0.04)% |
| Financials | 32 | 535 | 16.88 | 17.03 | -(0.14)% | -(0.14)% |
| Information Technology | 19 | 358 | 9.88 | 9.18 | 0.70% | -(0.04)% |
| Telecommunication Services | 3 | 28 | 1.35 | 1.32 | 0.03% | -(0.01)% |
| Utilities | 6 | 68 | 2.99 | 2.20 | 0.79% | -(0.02)% |
| Undefined | 0 | 9 | 0.00 | 0.09 | -(0.09)% | 0.00% |
| Cash | 1 | 0 | 0.85 | 0.00 | 0.85% | 0.00% |

For illustrative purposes only.

Research resources depicted include the combined resources of Pyramis, Fidelity Investments and FIL Limited as of September 30, 2011.

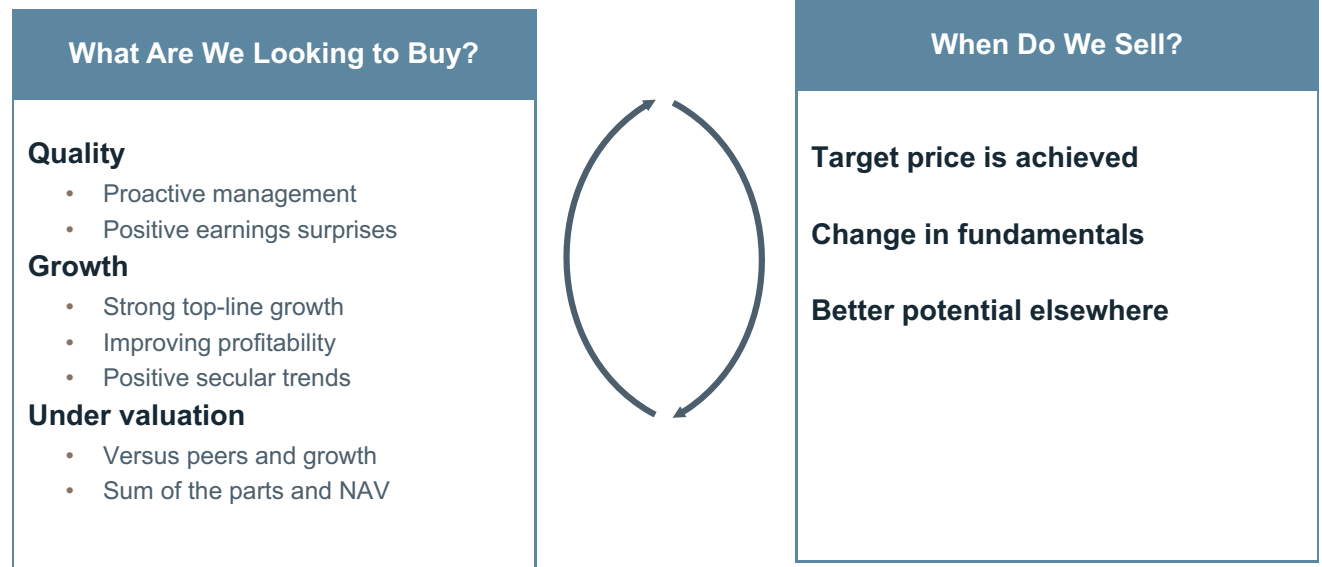
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Fidelity Asset Management

Rigorous Investment Process—Clear Buy and Sell Disciplines

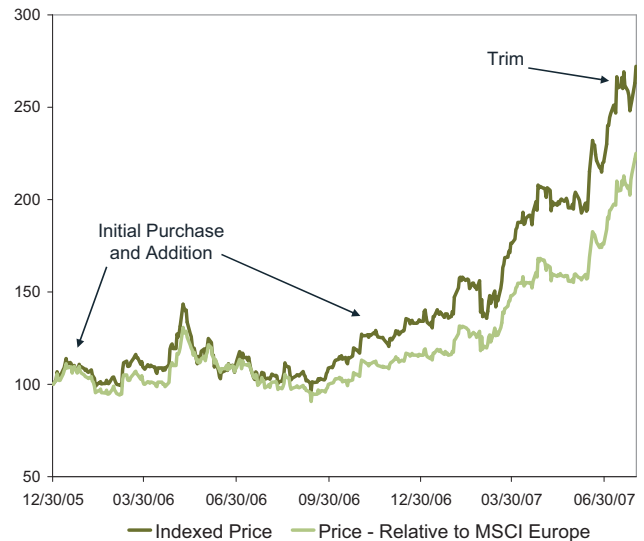


Stock Example: Large Materials Manufacturer

Company manufactures carbon, graphite and composite materials. Primary product is carbon and graphite electrodes for electric arc furnaces for steel production

Thesis: Revenue & Margin Upside

- Bottleneck in the Supply Chain
 - Strong demand conditions for graphite electrodes
 - Full capacity utilization and limited global capacity adds leading to strong pricing.
 - Global GDP growth driving demand for steel
- Improved profitability in carbon fibre
 - Exposure to Aerospace industry
 - Secure supply of raw materials
- Strengthening Balance Sheet
- Attractive Valuation in late 2005



Example of investment research process is shown for illustrative purposes only and is not representative of manager's entire portfolio or all recommendations for time periods shown. Not a recommendation or offer to buy or sell any securities. Past performance of investment research process is no guarantee of future results.

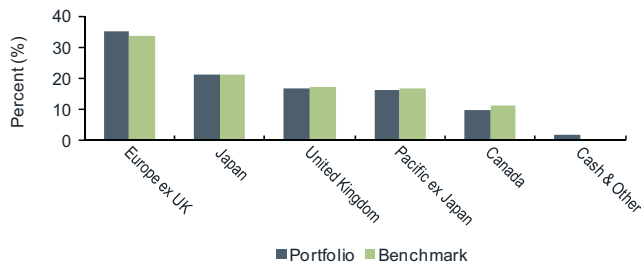
Select International Small Cap—Investment Parameters

| Factors | Parameters |
|------------------|------------------------------------|
| Regional weights | Benchmark neutral (fully invested) |
| Country weights | Benchmark weight \pm 3% |
| Sector weights | Benchmark weight \pm 3% |
| Security weights | Benchmark weight \pm 2% |

Select International Small Cap—Portfolio Characteristics

As of September 30, 2011

Regional Weights



Sector Weights



Country Weights



Representative account information is shown. Supplemental information is complemented by the GIPS Composite Performance Data.
 Benchmark is S&P Developed Ex-US Small Cap Index (N).
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Select International Small Cap—Portfolio Characteristics

As of September 30, 2011

| Characteristics | Portfolio | S&P Developed Ex-US Small Cap Index (N) |
|--------------------------------|-----------|---|
| Beta | 1.0 | 1.0 |
| Dividend Yield | 2.9% | 3.5% |
| Avg. Market Cap (US\$ billion) | 1.9 | 1.8 |
| P/E Ratio (trailing) | 11.6x | 11.6x |
| P/E Ratio (forward)* | 10.2x | 10.6x |
| P/BV Ratio | 1.4x | 1.2x |
| P/CE Ratio | 8.2x | 7.8x |
| Return on Equity | 10.2% | 7.4% |
| Number of Issues | 199 | 3,881 |
| Weight in Benchmark Names | 85% | 100% |
| Predicted Active Risk** | 2.1% | - |

* IBES forecast

** Predicted active risk, also known as ex ante tracking error is predicted tracking error of the portfolio using MSCI Barra modeling. Representative account information is shown. Supplemental information is complemented by the GIPS Composite Performance Data.

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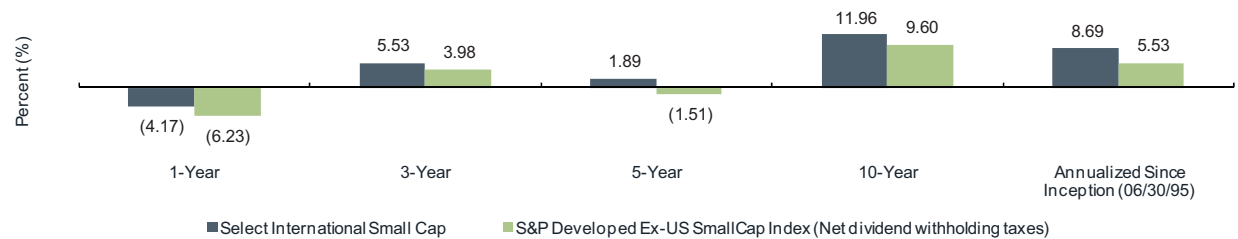


Investment Performance

Select International Small Cap—Composite Performance

As of September 30, 2011

Annualized Performance (\$USD Gross)



| Year | Portfolio (Gross) | Benchmark | Active Return |
|-------|-------------------|-----------|---------------|
| 1996 | 9.37 | 6.55 | 2.82 |
| 1997 | (2.38) | (11.40) | 9.02 |
| 1998 | 12.88 | 15.05 | (2.17) |
| 1999 | 26.63 | 21.57 | 5.06 |
| 2000 | (3.78) | (10.05) | 6.27 |
| 2001 | (15.31) | (17.06) | 1.75 |
| 2002 | (5.07) | (8.73) | 3.66 |
| 2003 | 50.94 | 53.45 | (2.51) |
| 2004 | 29.59 | 28.35 | 1.24 |
| 2005 | 25.14 | 21.70 | 3.44 |
| 2006 | 28.99 | 28.99 | 0.00 |
| 2007 | 18.42 | 6.99 | 11.43 |
| 2008 | (47.37) | (47.91) | 0.54 |
| 2009 | 46.07 | 44.36 | 1.71 |
| 2010 | 23.23 | 21.50 | 1.73 |
| 2011* | (15.09) | (15.81) | 0.72 |

* Returns of less than one year are not annualized.

Performance shown is gross of any fees and expenses, including advisory fees, which when deducted will reduce returns. See the GIPS Composite Performance Data for annual performance figures that are net of the maximum investment advisory fee charged any client employing this strategy. Past performance is no guarantee of future results. Benchmark is S&P Developed Ex-US SmallCap Index (Net dividend withholding taxes).

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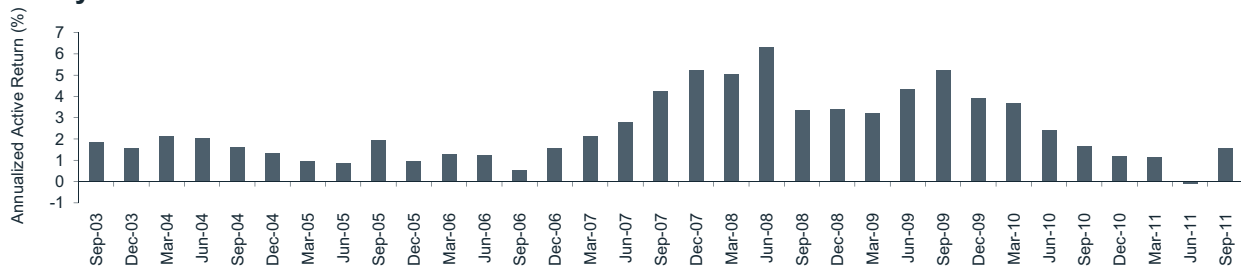
Select International Small Cap—Performance Consistency

As of September 30, 2011

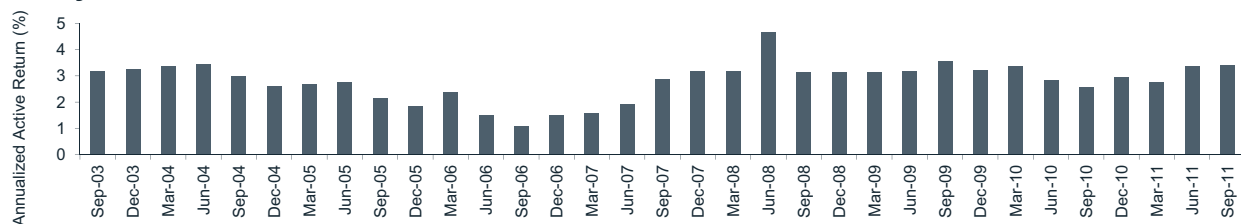
Quarterly Rolling Observations (Gross)

(September 2003—September 2011)

3-year



5-year



Performance shown is gross of any fees and expenses, including advisory fees, which when deducted will reduce returns. See the GIPS Composite Performance Data for annual performance figures that are net of the maximum investment advisory fee charged any client employing this strategy. Past performance is no guarantee of future results. Benchmark is S&P Developed Ex-US SmallCap Index (N).



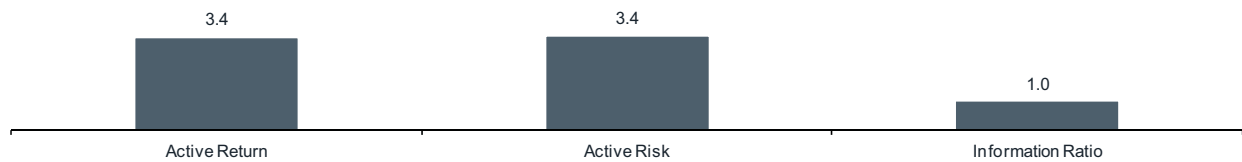
Fidelity Asset Management*

Select International Small Cap—Risk/Return Measures

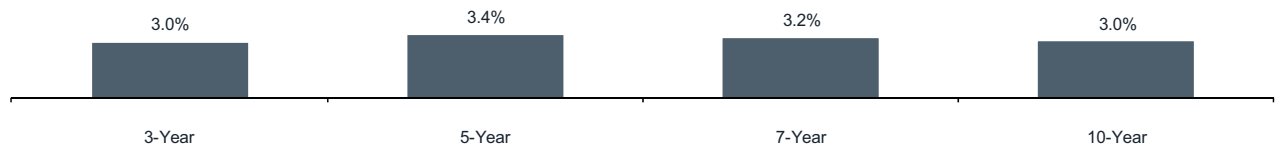
As of September 30, 2011

Active Return and Risk (Gross)

Five Years Ended September 30, 2011



Tracking Error



Past performance is no guarantee of future results. Performance is shown gross of any fees and expenses, including advisory fees, which when deducted will reduce returns. See the GIPS Composite Performance Data for annual performance figures that are net of the maximum investment advisory fee charged any client employing this strategy. Benchmark is S&P Developed Ex-US SmallCap Index (N) Index.



Summary

Why Select International Small Cap?

- **Stable investment team and process**
 - Stable investment team and consistent process since inception
- **Pure play on one of the world's largest buy-side research platform**
 - Extensive depth and breadth of fundamental research coverage
 - More than 3,500 names under coverage
 - Uniquely positioned to add value via stock selection in an inefficient marketplace
- **Long-term, consistent outperformance of benchmark**
 - Select International Small Cap has an extensive track record across a variety of market environments
 - Outperformed its benchmark in 12 out of the past 14 calendar years (Gross)*

* Gross of fees and expenses.

Slide describes the combined resources of Pyramis, Fidelity Investments and FIL Limited as of September 30, 2011.
Past performance is no guarantee of future results.

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Appendix

Select International Small Cap—Top Active Holdings by Region As of September 30, 2011

| Europe ex UK | Portfolio Weight | Benchmark Weight | Active Weight | Sector |
|---------------------------|------------------|------------------|---------------|------------------------|
| Ingenico | 1.3% | 0.1% | 1.2% | Information Technology |
| Eurocommercial Properties | 1.1 | 0.1 | 1.0 | Financials |
| Alten | 1.0 | 0.0 | 1.0 | Information Technology |
| Banque Cantonale Vaudoise | 1.0 | 0.1 | 0.9 | Financials |
| Bank Sarasin & Cie | 0.9 | 0.1 | 0.9 | Financials |
| Japan | | | | |
| Sho-Bond Holdings | 1.3% | 0.0% | 1.3% | Industrials |
| FP | 0.9 | 0.0 | 0.9 | Materials |
| Yamazen | 0.9 | 0.0 | 0.9 | Industrials |
| Exedy | 0.9 | 0.1 | 0.9 | Consumer Discretionary |
| Nagaileben | 0.8 | 0.0 | 0.8 | Health Care |
| United Kingdom | | | | |
| Catlin Group | 1.0% | 0.1% | 0.9% | Financials |
| Travis Perkins | 0.9 | 0.1 | 0.7 | Industrials |
| Britvic | 0.8 | 0.1 | 0.7 | Consumer Staples |
| Hikma Pharmaceuticals | 0.7 | 0.1 | 0.7 | Health Care |
| Resolution | 0.9 | 0.3 | 0.7 | Financials |
| Pacific ex Japan | | | | |
| Korea Reinsurance | 0.8% | 0.1% | 0.8% | Financials |
| Dominos Pizza | 0.7 | 0.0 | 0.7 | Consumer Discretionary |
| Raffles Medical Group | 0.8 | 0.0 | 0.7 | Health Care |
| MApp Group | 0.7 | 0.0 | 0.7 | Industrials |
| Hyundai Department Stores | 0.7 | 0.0 | 0.7 | Consumer Discretionary |
| Canada | | | | |
| Trican Well Service | 0.7% | 0.0% | 0.7% | Energy |
| Detour Gold | 0.7 | 0.0 | 0.7 | Materials |
| Open Text | 0.7 | 0.0 | 0.7 | Information Technology |
| Trinidad Drilling | 0.7 | 0.0 | 0.6 | Energy |
| Quadra FNX Mining | 0.7 | 0.1 | 0.6 | Materials |
| Total | 21.6% | 1.3% | 20.3% | |

Representative account information is shown. Supplemental information is complemented by the GIPS Composite Performance Data. Benchmark is S&P Developed Ex-US SmallCap Index (N). Not representative of manager's entire portfolio or all recommendations. Not a recommendation or offer to buy or sell securities.

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Select International Small Cap—Top 10 Holdings

As of September 30, 2011

| Security | Country | Sector | Portfolio Weight |
|---------------------------------------|----------------|------------------------|------------------|
| Sho-Bond Holdings Co Ltd | Japan | Industrials | 1.3% |
| Ingenico | France | Information Technology | 1.3 |
| Eurocommercial Properties NV | Netherlands | Financials | 1.1 |
| Baloise Hlds Regd | Switzerland | Financials | 1.0 |
| Alten | France | Information Technology | 1.0 |
| Banque Cantonale Vaudoise (BR) | Switzerland | Financials | 1.0 |
| Catlin Group Ltd | United Kingdom | Financials | 1.0 |
| Gea Group (Mg Tec Metallgesellschaft) | Germany | Industrials | 1.0 |
| Fp Corp | Japan | Materials | 0.9 |
| Resolution Ltd | United Kingdom | Financials | 0.9 |
| Total | | | 10.5% |

Representative account information is shown.
 Supplemental information is complemented by the GIPS Composite Performance Data.
 Benchmark is S&P Developed Ex-US SmallCap Index (N).
 Not representative of manager's entire portfolio or all recommendations.
 Not a recommendation or offer to buy or sell securities.

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Select International Small Cap Plus

Select International Small Cap Plus—Composite Performance

As of September 30, 2011

Annualized Performance (\$USD Gross)



| Year | Portfolio (Gross) | Benchmark | Active Return |
|-----------|-------------------|-----------|---------------|
| 2008†* | (35.68) | (37.79) | 2.11 |
| 2009 | 61.99 | 62.91 | (0.92) |
| 2010 | 25.10 | 25.21 | (0.11) |
| 2011 YTD* | (19.42) | (18.83) | (0.59) |

† The inception of this composite is August 29, 2008; performance is presented for the period September 01, 2008 through December 31, 2008.

* Returns of less than one year are not annualized.

Returns are in US Dollars. Performance shown is gross of any fees and expenses, including advisory fees, which when deducted will reduce returns. See the GIPS Composite Performance Data for annual performance figures that are net of the maximum investment advisory fee charged any client employing this strategy. Past performance is no guarantee of future results. Benchmark is MSCI All Country World Small Cap ex US Index (Net dividend withholding taxes).

Select International Small Cap Plus—Portfolio Characteristics

As of September 30, 2011

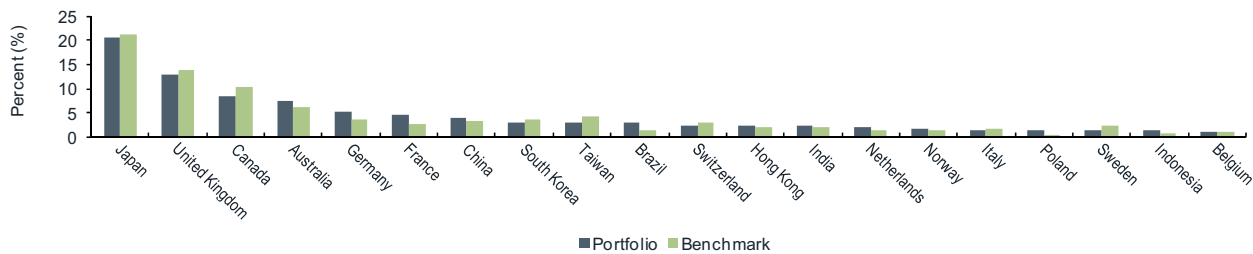
Regional Weights



Sector Weights



Country Weights



Representative account information is shown. Supplemental information is complemented by the GIPS Composite Performance Data.

Benchmark is MSCI All Country World Small Cap ex US Index (N).

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Fidelity Asset Management

Select International Small Cap Plus—Portfolio Characteristics

As of September 30, 2011

| Characteristics | Portfolio | MSCI All Country World Small Cap ex US (N) |
|--------------------------------|-----------|--|
| Beta | 1.0 | 1.0 |
| Dividend Yield | 2.8% | 3.5% |
| Avg. Market Cap (US\$ billion) | 1.5 | 1.3 |
| P/E Ratio (trailing) | 12.6x | 13.2x |
| P/E Ratio (forward)* | 9.9x | 10.6x |
| P/BV Ratio | 1.4x | 1.2x |
| P/CE Ratio | 8.3x | 8.1x |
| Return on Equity | 9.9% | 6.9% |
| Number of Issues | 220 | 4,613 |
| Weight in Benchmark Names | 82% | 100% |
| Predicted Active Risk** | 2.3% | - |

* IBES forecast

** Predicted active risk, also known as ex ante tracking error is predicted tracking error of the portfolio using MSCI Barra modeling.
Representative account information is shown. Supplemental information is complemented by the GIPS Composite Performance Data.

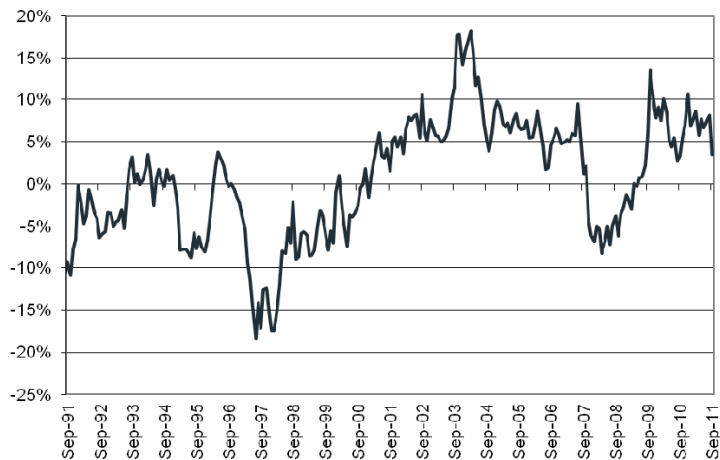
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Periods of Outperformance

As of September 30, 2011

Small Caps have had periods of outperformance relative to large caps.

Rolling 1 Year Relative Performance
EPAC Small Cap minus Large Cap



Source: Standard & Poor's S&P/Citigroup Global Equity Indices in US\$

Past performance is no guarantee of future results.

Index performance does not reflect the deduction of advisory fees, transaction charges and other expenses, which would reduce performance. Investing directly in an index is not possible.

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Fidelity Asset Management*

Small Caps May Offer More Attractive Valuations

As of September 30, 2011

S&P EPAC Index Valuations—Large versus Small Caps

| | Price/ Book | Price/Sales |
|--|-------------|-------------|
| Large Cap Indicator - EPAC-Large Mid Cap | 1.11 | 0.72 |
| Small Cap Indicator - EPAC-Small Cap | 1.03 | 0.53 |

Source: Standard & Poor's S&P/Citigroup Global Equity Indices in US\$
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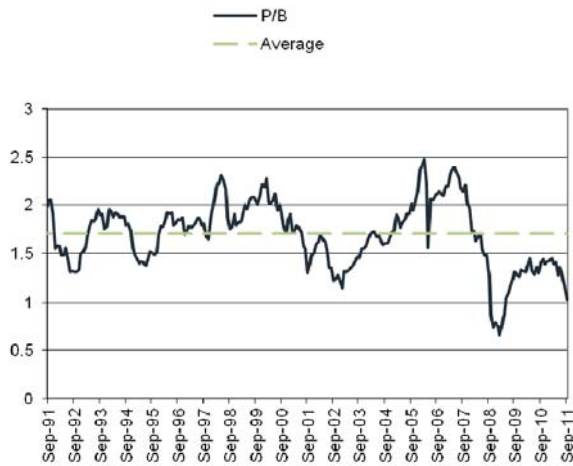


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Management*

Small Caps at Low Valuations

As of September 30, 2011

EPAC SmallCap Price to Book Ratios



EPAC SmallCap Price to Sales Ratios



Source: Standard & Poor's S&P/Citigroup Global Equity Indices in US\$
Past Performance is no guarantee of future results.

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Fidelity Asset Management*

Pyramis Select International Small Cap: Fee Schedule

Standard Fee Schedule (in USD)

| | Separate Account | Commingled Pool |
|-------------------------------|------------------|-----------------|
| % on first \$25 million | 0.80% | 0.80% |
| % on next \$25 million | 0.80% | 0.80% |
| % on next \$50 million | 0.80% | 0.80% |
| % on next \$100 million | 0.80% | 0.80% |
| % on \$200 million or greater | 0.80% | 0.80% |
| Minimums | | |
| Account Size | \$50 million | \$5 million |
| Annual Fee | \$400,000 | \$40,000 |

Month-End Market Values

Fees are calculated based on the average month end assets at market value during the quarter as calculated by Pyramis Global Advisors at an annual rate specified above, and are billed quarterly in arrears. In the event of intra-month contributions or withdrawals in excess of \$5 million or 10% of the net assets of the portfolio, month end assets used for purpose of fee calculations shall be prorated on a calendar-day basis. All fees are payable in U.S. Dollars.

Invoicing

Pyramis Global Advisors issues quarterly bills for quarters ending March 31, June 30, September 30, and December 31. The quarterly fees will be pro-rated at account start-up and termination.

Investment Management Fees

The rate schedule indicated above applies to investment management services only. If other special services are required, rates will be quoted upon request.

Pyramis Select International Small Cap Plus: Fee Schedule

Standard Fee Schedule (in USD)

| | Separate Account | Commingled Pool |
|-------------------------------|------------------|-----------------|
| % on first \$25 million | 1.00% | 0.90% |
| % on next \$25 million | 1.00% | 0.90% |
| % on next \$50 million | 0.90% | 0.90% |
| % on next \$100 million | 0.90% | 0.90% |
| % on \$200 million or greater | 0.90% | 0.90% |
| Minimums | | |
| Account Size | \$50 million | \$5 million |
| Annual Fee | \$500,000 | \$45,000 |

Month-End Market Values

Fees are calculated based on the average month end assets at market value during the quarter as calculated by Pyramis Global Advisors at an annual rate specified above, and are billed quarterly in arrears. In the event of intra-month contributions or withdrawals in excess of \$5 million or 10% of the net assets of the portfolio, month end assets used for purpose of fee calculations shall be prorated on a calendar-day basis. All fees are payable in U.S. Dollars.

Invoicing

Pyramis Global Advisors issues quarterly bills for quarters ending March 31, June 30, September 30, and December 31. The quarterly fees will be pro-rated at account start-up and termination.

Investment Management Fees

The rate schedule indicated above applies to investment management services only. If other special services are required, rates will be quoted upon request.

Important Information

Read this important information carefully before making any investment. Speak with your relationship manager if you have any questions.

Risks

Past performance is no guarantee of future results. An investment may be risky and may not be suitable for an investor's goals, objectives and risk tolerance. Investors should be aware that an investment's value may be volatile and any investment involves the risk that you may lose money. Performance results for individual accounts will differ from performance results for composites and representative accounts due to factors such as portfolio size, account objectives and restrictions, and factors specific to a particular investment structure.

The value of a strategy's investments will vary day to day in response to many factors, including in response to adverse issuer, political, regulatory, market or economic developments. The value of an individual security or a particular type of security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole.

Stock markets and issuers of small and mid cap companies are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Investments in smaller companies may involve greater risks than those in larger, better known firms. The value of securities of smaller issuers may be more volatile than those of larger issuers. Smaller issuers can have more limited product lines, markets, and financial resources.

The performance of international strategies depends upon currency values, political and regulatory environments, and overall economic factors in the countries in which they invest. Foreign markets, particularly emerging markets, can be more volatile than the U.S. market due to increased risks of adverse issuer, political, regulatory, market, or economic developments and can perform differently from the U.S. market. The risks are particularly significant for strategies that focus on a single country or region.

Derivatives may be volatile and involve significant risk, such as credit risk, currency risk, leverage risk, counterparty risk and liquidity risk. Using derivatives can disproportionately increase losses and reduce opportunities for gains in certain circumstances. Investments in derivatives may have limited liquidity and may be harder to value, especially in declining markets.

Some investment strategies may be offered to certain qualified investors in the form of interests in a privately-offered fund offered by Pyramis Distributors Corporation LLC. Such interests will not generally be transferable, listed on any exchange and it is not anticipated that they will be tradable. Such interests may also be subject to certain collateral risks. Before investing, any potential investors should receive and read a copy of such fund's confidential private placement memorandum.

These materials contain statements that are "forward-looking statements," which are based on certain assumptions of future events. Forward-looking statements are based on information available on the date hereof, and Pyramis does not assume any duty to update any forward-looking statement. Actual events may differ from those assumed. There can be no assurance that forward-looking statements, including any projected returns, will materialize or that actual market conditions and/or performance results will not be materially different or worse than those presented.

Important Information

Performance Data

Performance data is generally presented gross of any fees and expenses, including advisory fees, which when deducted will reduce returns. See the GIPS® Composite Performance Data for performance figures that are net of the maximum investment advisory fee charged any client employing this strategy. Some clients may request a performance fee arrangement, which if imposed will also reduce returns when deducted. See Pyramis' Form ADV for more information about advisory fees if Pyramis Global Advisors, LLC is the investment manager to the account. For additional information about advisory fees related to other Pyramis advisory entities, speak with your relationship manager. All results reflect realized and unrealized appreciation and the reinvestment of dividends and investment income, if applicable. Taxes have not been deducted. In conducting its investment advisory activities, Pyramis utilizes certain assets, resources and investment personnel of FMR Co., which does not claim compliance with the Global Investment Performance Standards (GIPS®).

Representative account information is based on an account in the subject strategy's composite that generally reflects that strategy's management and is not based on performance of that account. An individual account's performance will vary due to many factors, including inception dates, portfolio size, account guidelines and type of investment vehicle. Index or benchmark performance shown does not reflect the deduction of advisory fees, transaction charges and other expenses, which if charged would reduce performance. Investing directly in an index is not possible.

The business unit of Pyramis Global Advisors (Pyramis) consists of: Pyramis Global Advisors Holdings Corp., a Delaware corporation; Pyramis Global Advisors Trust Company, a non-depository limited purpose trust company (PGATC); Pyramis Global Advisors, LLC, a U.S. registered investment adviser (PGA LLC); Pyramis Global Advisors (Canada) ULC, an Ontario registered investment adviser; Pyramis Global Advisors (UK) Limited, a U.K. registered investment manager (Pyramis-UK); Pyramis Global Advisors (Hong Kong) Limited, a Hong Kong registered investment adviser (Pyramis-HK); Pyramis Distributors Corporation LLC, a U.S. registered broker-dealer; and Fidelity Investments Canada ULC, an Alberta corporation (FIC). Investment services are provided by PGATC, PGA LLC, Pyramis Global Advisors (Canada) ULC, Pyramis-UK and/or Pyramis-HK.

"Fidelity Investments" refers collectively to FMR LLC, a US company, and its subsidiaries, including but not limited to Fidelity Management & Research Company (FMR Co.) and Pyramis. "FIL Limited" refers collectively to FIL Limited, a non-US company, and its subsidiaries. "Fidelity" refers collectively to Pyramis and Fidelity Investments.

Products and services presented here are managed by the Fidelity Investments companies of Pyramis Global Advisors, LLC, a registered investment adviser, or Pyramis Global Advisors Trust Company, a non-depository limited purpose trust company. Pyramis products and services may be presented by Fidelity Investments Institutional Services Company, Inc., Fidelity Investments Canada ULC, FIL Limited, Fidelity Brokerage Services, LLC, Member NYSE, SIPC, all non-exclusive financial intermediaries that are affiliated with Pyramis.

Certain data and other information in this presentation have been supplied by outside sources and are believed to be reliable as of the date of this document. Data and information from third-party databases, such as those sponsored by eVestment Alliance and Callan, are self-reported by investment management firms that generally pay a subscription fee to use such databases, and the database sponsors do not guarantee or audit the accuracy, timeliness or completeness of the data and information provided including any rankings. Rankings or similar data reflect information at the time rankings were retrieved from a third-party database, and such rankings may vary significantly as additional data from managers are reported. Pyramis has not verified and cannot verify the accuracy of information from outside sources, and potential investors should be aware that such information is subject to change without notice. Information is current as of the date noted.

Pyramis has prepared this presentation for, and only intends to provide it to, institutional, sophisticated and/or qualified investors in one-on-one or comparable presentations. Do not distribute or reproduce this report.

All trademarks and service marks included herein belong to FMR LLC or an affiliate, except third-party trademarks and service marks, which belong to their respective owners. Pyramis does not provide legal or tax advice and we encourage you to consult your own lawyer, accountant or other advisor before making an investment.

Not FDIC Insured · No Bank Guarantee · May Lose Value



GIPS Composite Performance Data

Select International Small Cap Composite (USD) Versus S&P Developed Ex-US SmallCap (N)/Custom EMI Link As of September 30, 2011

| Period | Composite Return (Gross%) | Composite Return (Net%) | Benchmark Return (%) | Value Added (%)* | Number of Portfolios | Total Composite Assets End of Period (\$M) | Composite 3 Year Standard Deviation (%) | Benchmark 3 Year Standard Deviation (%) | Asset Weighted Standard Deviation (%) | Percent of Firm's Assets |
|-------------|---------------------------|-------------------------|----------------------|------------------|----------------------|--|---|---|---------------------------------------|--------------------------|
| 2011 YTD | (15.09) | (15.61) | (15.81) | 0.72 | less than 5 | 390 | 28.53 | 28.11 | N/A | less than 1% |
| 2010 Annual | 23.23 | 22.26 | 21.50 | 1.73 | less than 5 | 450 | 30.61 | 29.60 | N/A | less than 1% |
| 2009 Annual | 46.07 | 44.94 | 44.36 | 1.71 | less than 5 | 220 | 28.26 | 27.27 | N/A | less than 1% |
| 2008 Annual | (47.37) | (47.82) | (47.91) | 0.54 | less than 5 | 151 | 25.15 | 23.18 | N/A | less than 1% |
| 2007 Annual | 18.42 | 17.49 | 6.99 | 11.43 | less than 5 | 291 | 13.39 | 11.84 | N/A | less than 1% |
| 2006 Annual | 28.99 | 27.98 | 28.99 | 0.00 | less than 5 | 268 | 12.53 | 11.04 | N/A | less than 1% |
| 2005 Annual | 25.14 | 24.16 | 21.70 | 3.44 | less than 5 | 255 | 12.37 | 12.21 | N/A | less than 1% |
| 2004 Annual | 29.59 | 28.58 | 28.35 | 1.24 | less than 5 | 190 | 14.99 | 15.42 | N/A | less than 1% |
| 2003 Annual | 50.94 | 49.78 | 53.45 | (2.51) | less than 5 | 144 | 17.90 | 18.28 | N/A | less than 1% |
| 2002 Annual | (5.07) | (5.84) | (8.73) | 3.66 | less than 5 | 30 | 16.34 | 16.85 | N/A | less than 1% |
| 2001 Annual | (15.31) | (15.99) | (17.06) | 1.75 | less than 5 | 70 | 15.36 | 15.47 | N/A | less than 1% |

* Value Added is calculated by taking the gross composite return less the benchmark return.

Notes

Definition of the "Firm"

For GIPS purposes, the "Firm" includes all of the portfolios managed by the investment management units of the Pyramis Global Advisors group of companies ("Pyramis") and portfolios managed by Pyramis' affiliates, Fidelity Management & Research Company ("FMR Co.") and/or Fidelity Investments Money Management, Inc. ("FIMM"), that are substantially similar to institutional mandates advised by Pyramis and managed by the same portfolio management team.

Changes to Definition of the "Firm"

Effective January 1, 2009, the definition of the Firm was revised to exclude Pyramis' management of funds that invest in real estate and exclude other affiliated advisers or divisions no longer held out to the public as a part of Pyramis. Effective January 1, 2011, the definition of the Firm was revised to include substantially similar investment strategies managed by FMR Co. and/or FIMM and the same portfolio management team.

Basis of Presentation

The Firm claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. The Firm has been independently verified for the periods January 1, 1990 through December 31, 2010. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all of the composite requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. The Firm's list of composite descriptions is available upon request. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

Returns

Gross composite returns do not reflect the deduction of investment advisory ("IA"), administrative or custodial fees, but do include trading expenses. Net composite returns are calculated by deducting the maximum standard IA fee that could have been charged to any client employing this strategy during the time period shown, exclusive of performance fee or minimum fee arrangements. IA fees paid by a client vary depending upon a variety of factors, including portfolio size and the use of any performance fee or minimum fee arrangement. Actual returns will be reduced by the IA fee and any administrative, custodial, or other fees and expenses incurred. Returns could be higher or lower than those shown. A client's fees are generally calculated based on the average month-end assets at market value during the quarter as calculated by the Firm, and are billed quarterly in arrears. More information regarding fees is available upon request. These investment performance statistics were calculated without a provision for United States income taxes.

Composite Description

The investment objective of this composite is to provide consistent, superior returns above the S&P Developed Ex-US SmallCap Index (Net), utilizing international and Canadian small capitalization equities, while maintaining similar portfolio characteristics to the benchmark. The composite is composed of all fee-paying discretionary accounts that are managed by the Firm in this style.

Composite Creation Date

This composite was created in 1995.

Benchmark Change

Currently the Index is the S&P Developed Ex-US SmallCap Index (Net). From May of 2003 to June 2007, we had reported the gross version of the CG EMI World Ex US Index. Once the net of withholding taxes version became available, we switched to the net version as we deem it a more applicable index. Prior to May of 2003, the Index was comprised of the country-level returns of the Citigroup Extended Market Indices gross of withholding taxes weighted according to InterSec's average country exposure for the EAFE manager universe. Estimated net returns were then calculated by taking the difference between the MSCI EAFE Small Cap Indices net and gross returns and subtracting the difference from the custom benchmark. This benchmark was calculated on a monthly basis.

Fee Schedule

The maximum scheduled investment advisory fee for this strategy is 80 basis points, which may be subject to certain decreases as assets under management increase. The investment advisory fee applicable to a portfolio depends on a variety of factors, including but not limited to portfolio size, the level of committed assets, service levels, the use of a performance fee or minimum fee arrangement, and other factors.

Effect of Investment Advisory Fee

Returns will be reduced by the investment advisory fee and any other expenses incurred in the management of the portfolio. For example, an account with a compound annual return of 10% would have increased by 61% over five years. Assuming an annual advisory fee of 80 basis points, the net return would have been 55% over five years.

Derivative Exposure

Typically, portfolios may make limited use of derivative instruments to manage and invest cash inflows of underlying accounts within the composite. They are not used for hedging purposes. Derivative instruments are only used when and as client guidelines permit.

Known Inconsistencies in Exchange Rates

The composite base currency is U.S. Dollar (USD). One or more of the current or historic constituent portfolios have a base currency that differs from the composite and uses a valuation point that differs from other constituent portfolios.

Past performance is no guarantee of future results.

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GIPS Composite Performance Data

Select International Small Cap Plus Composite (USD) Versus MSCI All Country World Small Cap ex US (Net) As of September 30, 2011

| Period | Composite Return (Gross%) | Composite Return (Net%) | Benchmark Return (%) | Value Added (%)* | Number of Portfolios | Total Composite Assets End of Period (\$M) | Composite 3 Year Standard Deviation (%) | Benchmark 3 Year Standard Deviation (%) | Asset Weighted Standard Deviation (%) | Percent of Firm's Assets |
|----------------|---------------------------|-------------------------|----------------------|------------------|----------------------|--|---|---|---------------------------------------|--------------------------|
| 2011 YTD | (19.42) | (20.04) | (18.83) | (0.59) | less than 5 | 438 | 29.26 | 28.77 | N/A | less than 1% |
| 2010 Annual | 25.10 | 24.06 | 25.21 | (0.11) | less than 5 | 184 | N/A | N/A | N/A | less than 1% |
| 2009 Annual | 61.99 | 60.75 | 62.91 | (0.92) | less than 5 | 102 | N/A | N/A | N/A | less than 1% |
| 2008 Partial** | (35.68) | (35.87) | (37.79) | 2.11 | less than 5 | 65 | N/A | N/A | N/A | less than 1% |

* Value Added is calculated by taking the gross composite return less the benchmark return.

** The inception of this composite is August 29, 2008; performance is presented for the period September 01, 2008 through December 31, 2008.

Notes

Definition of the "Firm"

For GIPS purposes, the "Firm" includes all of the portfolios managed by the investment management units of the Pyramis Global Advisors group of companies ("Pyramis") and portfolios managed by Pyramis' affiliates, Fidelity Management & Research Company ("FMR Co.") and/or Fidelity Investments Money Management, Inc. ("FIMM"), that are substantially similar to institutional mandates advised by Pyramis and managed by the same portfolio management team.

Changes to Definition of the "Firm"

Effective January 1, 2009, the definition of the Firm was revised to exclude Pyramis' management of funds that invest in real estate and exclude other affiliated advisers or divisions no longer held out to the public as a part of Pyramis. Effective January 1, 2011, the definition of the Firm was revised to include substantially similar investment strategies managed by FMR Co. and/or FIMM and the same portfolio management team.

Basis of Presentation

The Firm claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. The Firm has been independently verified for the periods January 1, 1990 through December 31, 2010. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all of the composite requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. The Firm's list of composite descriptions is available upon request. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

Returns

Gross composite returns do not reflect the deduction of investment advisory ("IA"), administrative or custodial fees, but do include trading expenses. Net composite returns are calculated by deducting the maximum standard IA fee that could have been charged to any client employing this strategy during the time period shown, exclusive of performance fee or minimum fee arrangements. IA fees paid by a client vary depending upon a variety of factors, including portfolio size and the use of any performance fee or minimum fee arrangement. Actual returns will be reduced by the IA fee and any administrative, custodial, or other fees and expenses incurred. Returns could be higher or lower than those shown. A client's fees are generally calculated based on the average month-end assets at market value during the quarter as calculated by the Firm, and are billed quarterly in arrears. More information regarding fees is available upon request. These investment performance statistics were calculated without a provision for United States income taxes.

Composite Description

The investment objective of this composite is to provide consistent, superior returns above the MSCI All Country World ex US Small Cap Index (Net), utilizing international and Canadian small capitalization equities, while maintaining similar portfolio characteristics to the benchmark. The strategy will also invest in emerging market equities. The composite is composed of all fee-paying discretionary accounts that are managed by the Firm in this style.

Pool Portfolio/Fair Valuation of Securities

The composite contains a pool portfolio that is presented net of custody and audit fees. Investment security transactions for the pool portfolio are accounted for on trade date-plus-one. Pools are subject to Pyramis' market timing policy, which for days with material market movement between the local market close and 4:00 pm Eastern Standard time, requires the pool's net asset value to be determined using securities valuations at 4:00 pm EST. Separate accounts are not subject to this policy and use securities valuations provided at the close of that international security's particular market. As a result, the performance of the pool may be different (higher or lower) from the performance of other accounts in this composite and may have a material impact on the performance of the overall composite.

Composite Creation Date

This composite was created in 2008

Composite Name Change

The composite name changed in 2009 from Select International Small Cap ACWI ex US to Select International Small Cap Plus to better reflect the underlying investments in the portfolios.

Fee Schedule

The maximum scheduled investment advisory fee for this strategy is 100 basis points, which may be subject to certain decreases as assets under management increase. The investment advisory fee applicable to a portfolio depends on a variety of factors, including but not limited to portfolio size, the level of committed assets, service levels, the use of a performance fee or minimum fee arrangement, and other factors.

Effect of Investment Advisory Fee

Returns will be reduced by the investment advisory fee and any other expenses incurred in the management of the portfolio. For example, an account with a compound annual return of 10% would have increased by 61% over five years. Assuming an annual advisory fee of 100 basis points, the net return would have been 54% over five years.

Derivative Exposure

Typically, portfolios may make limited use of derivative instruments to manage and invest cash inflows of underlying accounts within the composite. They are not used for hedging purposes. Derivative instruments are only used when and as client guidelines permit.

Past performance is no guarantee of future results.

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Biographies

Robert Feldman, CFA

Portfolio Manager

Robert Feldman is vice president and portfolio manager at Pyramis Global Advisors, a unit of Fidelity Investments. In this role, he is responsible for managing international and global small cap portfolios on behalf of institutional investors.

Prior to joining Fidelity in 2000, Rob held positions at PanAgora Asset Management as both a research manager and a portfolio manager in the global equities group. He has more than 14 years of investments industry experience.

Rob earned a Bachelor of Science degree in Economics and Computer Science from Duke University and a Master's degree in Business Administration from The Fuqua School of Business at Duke University. He is a Chartered Financial Analyst charterholder and a member of the Boston Security Analysts Society.

Chris Steward, CFA

Institutional Portfolio Manager

Chris Steward is an institutional portfolio manager at Pyramis Global Advisors, a unit of Fidelity Investments. He is a member of the portfolio management teams for the Pyramis International Growth and Concentrated International Small Cap strategies.

Prior to joining Pyramis in 2006, Chris was a vice president and portfolio advisor at Wellington Management. In that role, he conducted investment reviews with prospects and clients on a broad range of equity, fixed income, and asset allocation products. Chris also worked with the global asset allocation group at Putnam Investments, served as a portfolio manager for five years in the global bond group at Scudder, Stevens & Clark, and was an analyst in various capacities with the Federal Reserve Bank of New York for five years.

Chris earned a Bachelor of Arts degree from Vassar College and a Master of Arts degree in Economics from Cambridge University in England. In addition to being a Chartered Financial Analyst charterholder, Chris also has authored and co-authored numerous texts on international investing, one of which is a required reading for Level III of the CFA program.

Biographies

Lance McInerney, CFA

Institutional Portfolio Manager

Lance McInerney is an institutional portfolio manager at Pyramis Global Advisors, a unit of Fidelity Investments. In this role, he is a member of the Select International portfolio management team.

Lance joined Pyramis in 2005. Prior to joining Pyramis, he was a senior product specialist for the global & US equity teams at Fortis Investments. Lance also served at Credit Suisse Asset Management as a product specialist/strategist. In addition, he was a senior consultant, investor relations at Thomson Financial. He began his career as an investor relations consultant at The Carson Group.

Lance earned a Bachelor of Science degree from the University of Maryland and a Master's degree in Business Administration from Vanderbilt University. He is a Chartered Financial Analyst charterholder and a member of the Boston Security Analysts Society.

Arthur J. Greenwood

Senior Vice President, Relationship Manager

Art Greenwood is a Senior Vice President and Relationship Manager at Pyramis Global Advisors, a unit of Fidelity Investments. In this role, Art is responsible for overall management of institutional client relationships including many large public and corporate pension funds.

Prior to assuming his current role, he was a Vice President at Fidelity Investments Institutional Services Company, focused on developing institutional relationships with state and local government investors. Art joined Fidelity in 1986. He has over 20 years experience in the financial services industry.

Art earned a Bachelor of Science degree in Finance and Accounting from Lehigh University. He holds the Financial Industry Regulatory Authority (formerly NASD) Series 6, 7, 24, and 63 licenses and is a member of the Association of Investment Management Sales Executives (AIMSE).

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Board of Retirement

December 13, 2011

Agenda Item 6.3 c

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: International Small Cap Equity Manager Interview: Wells Capital Management – Berkeley Street International Small Cap Equity

COMMENT: Attached to this agenda item is the manager presentation booklet.

11:00 a.m. Interview Wells Capital Management – Berkeley Street International Small Cap Equity

Below are the presenters:

Francis X. Claró – CFA, Senior Portfolio Manager, Berkeley Street Int'l Small Cap Equity

Christopher A. Alders – Manager Director, Business Development, Wells Capital Management

The following is an overview of the firm and the product.

General Firm Information

General Firm Information

Firm Legal Name: Wells Capital Management Incorporated

Firm Headquarters: 525 Market Street, 10th Floor

San Francisco, California 94105

Main Phone | Main Fax: 415.396.8000 | 415.975.6430

Year Firm Founded: 1981

Registered Investment Advisor: Yes

Firm Website Address: www.wellscap.com

Firm Background

Wells Capital Management is an institutional asset management firm that is registered with the U.S. Securities and Exchange Commission in accordance with the Investment Advisers Act of 1940.

Wells Capital Management is a wholly owned subsidiary of Wells Fargo Bank, N.A, which in turn is wholly owned by Wells Fargo & Company, a publicly listed company.

Wells Capital Management became a subsidiary of Wells Fargo Bank in 1996 and was formed from existing institutional investment management teams that had been in place since 1981.

Since 1998, Wells Capital Management's evolution has been attributable primarily to a series of successful mergers and acquisitions that have enhanced the breadth and depth of the investment

offerings for Wells Capital Management's institutional clients and reinforced the firm's commitment to continuously improving its capabilities to meet the needs of institutional investors.

In November 1998, Norwest Corporation merged with Wells Fargo Bank. Consequently, the institutional asset management practices of the respective firms were combined under Wells Capital Management.

In January 2003, Wells Capital Management and Wells Fargo Bank acquired the core investment products of Montgomery Asset Management, LLC, including Montgomery Core Fixed Income, Montgomery U.S. Small Cap Growth Equity, and Montgomery Emerging Markets Equity.

In November 2003, Wells Capital Management and Wells Fargo Bank acquired Benson Associates, LLC, a Portland (OR)-based equity value manager and its investment team and staff members.

On December 31, 2004, Wells Fargo & Company acquired \$29 billion in assets and hired eight investment teams from Strong Financial Corporation. These investment teams joined Wells Capital Management.

The acquisition of Wachovia Corporation by Wells Fargo & Company was completed on January 1, 2009, which expanded the product breadth at Wells Capital Management to include additional domestic U.S. equity strategies, international and emerging markets equity strategies, and global and international fixed income strategies.

The headquarters are in San Francisco, with additional offices located throughout the country. Investment management teams reside in Minneapolis, Los Angeles, Denver, Walnut Creek (CA), Helena (MT), Lake Oswego (OR), Menomonee Falls (WI), New York, Indianapolis, Boston, Charlotte, London (England), Newport Beach (CA), Philadelphia, and Richmond (VA).

Wells Fargo & Company also owns other registered advisers with different areas of client segment focus (e.g. private clients) and/or investment product focus. These include specialty managers such as Peregrine Capital Management, Galliard Capital Management, Golden Capital Management, and Lowry Hill Investment Advisors.

Joint Ventures

Wells Fargo & Company and its subsidiary banks own other registered investment advisers some of which are investment management firms similar to Wells Capital Management (WellsCap). A list of these affiliated registered investment advisory firms is presented below:

Affiliated Investment Advisers

- * Alternative Strategies Group, Inc.
- * European Credit Management Limited
- * First International Advisors, LLC#
- * Galliard Capital Management, Inc.
- * Golden Capital Management, LLC
- * H.D. Vest Advisory Services, Inc.

- * Lowry Hill Investment Advisers, Inc.
- * Metropolitan West Capital Management, LLC #
- * Nelson Capital Management, LLC
- * Overland Advisors
- * Pangaea Asset Management, LLC
- * Peregrine Capital Management, Inc.
- * Structured Asset Investors, LLC
- * Structure Credit Partners, LLC
- * Wealth Enhancement Advisory Services, LLC
- * Wells Fargo Advisors, LLC
- * Wells Fargo Advisors Financial Network, LLC
- * Wells Fargo Alternative Asset Management, LLC
- * Wells Fargo Funds Management, LLC *
- * Wells Fargo Insurance Service Investment Advisors, Inc.
- * Wells Fargo Investments, LLC

Additional Foreign Affiliated Registered Investment Advisors

- * European Credit Management Limited
- * First International Advisors, LLC
- * Metropolitan West Capital Management, LLC
- * Wachovia Advisors International Limited
- * Wachovia Financial Services Private Limited
- * Wells Fargo Securities Asia Limited
- * Wells Fargo Securities (Japan) Co., Ltd.

WellsCap is not a broker-dealer, but is affiliated with other broker-dealers through its parent, Wells Fargo & Company. WellsCap maintains strict policies that restrict the firm from trading with any affiliated broker-dealer. A list of these affiliated registered broker-dealers is provided below.

Affiliated Broker-Dealer List

- * Alternative Strategies Brokerage Services, Inc.
- * First Clearing, LLC
- * H.D. Vest Investment Securities, Inc. d/b/a H.D. Vest Investment Services
- * Wells Fargo Advisors, LLC
- * Wells Fargo Advisors Financial Network, LLC
- * Wells Fargo Funds Distributor, LLC
- * Wells Fargo Institutional Securities, LLC
- * Wells Fargo Insurance Service Investment Advisors, Inc.
- * Wells Fargo Investments, LLC
- * Wells Fargo Securities, LLC
- * Wealth Enhancement Brokerage Services, LLC

Additional Foreign Affiliated Registered Broker-Dealers

- * European Credit Management Limited
- * Wells Fargo Securities, LLC
- * Wells Fargo Securities Limited (3)
- * Wells Fargo Securities Asia Limited
- * Wells Fargo International Limited
- * Wells Fargo Securities (Japan) Co., Ltd.

Wells Fargo Securities Limited is a non-FINRA member brokerage firm established in the UK that handles transactions for US clients.

Wells Capital Management Incorporated September 30, 2011

Prior or Pending Ownership Changes

Some of the following information was also provided in the previous description of the firm.

In November 1998, Norwest Corporation merged with Wells Fargo Bank. Consequently, the institutional asset management practices of the respective firms were combined under Wells Capital Management.

In January 2003, Wells Capital Management and Wells Fargo Bank acquired the core investment products of Montgomery Asset Management, LLC, including Montgomery Core Fixed Income, Montgomery U.S. Small Cap Growth Equity, and Montgomery Emerging Markets Equity.

In November 2003, Wells Capital Management and Wells Fargo Bank acquired Benson Associates, LLC, a Portland (OR)-based equity value manager and its investment team and staff members.

On December 31, 2004, Wells Fargo & Company acquired \$29 billion in assets and hired eight investment teams from Strong Financial Corporation. These investment teams joined Wells Capital Management.

On December 31, 2008, Wells Fargo & Company acquired Wachovia Corporation. This recent event brought together the collective capabilities of the Wells Fargo Asset Management Group (Funds Management Group and Wells Capital Management) and Evergreen Investments.

Prior or Pending Litigation - None

Additional Comments

Firm Competitive Advantages

Wells Capital Management has the unique combination of financial resources associated with a large financial services parent company coupled with independent investment team management that leaves the portfolio managers unencumbered from overall firm administrative management. Wells Capital Management is a multi-boutique asset management firm focused on institutional clients. The diverse and autonomous teams provide a broad range of investment solutions. Why have a multi-boutique structure? Wells Capital management believes that:

- Independent, focused investment teams generate alpha.
- Investment teams should focus on investing for the clients without the distractions of operating a business.
- Risk management oversight should be independent from the investment teams to ensure they consistently meet client objectives.

The Firm's Edge

- Talented Investment Teams: The multi-boutique model promotes best-in-class investment management teams and preserves independent thinking.
- Entrepreneurial Culture: They foster a culture of empowerment that attracts and motivates successful investment professionals.
- Business Continuity: The multi-boutique model and decentralized structure create an operational advantage, flexibility and business continuity.

General Product Information

Product Narrative

Research & Screening Process

The Berkeley Street team believes that in-depth fundamental research is the cornerstone of successful investing and seeks to add alpha primarily through stock selection. However, top-down macroeconomic influences are examined as important factors in the investment thesis and overall process. Sector and country weights are largely the residual of the stock-selection decisions.

The overall process platform is carried out in four distinct steps, with risk management overlay embedded within each step and also applied at the firm level. The four steps are:

- Idea Generation
- In-depth Fundamental Research
- Portfolio Construction
- Monitoring and Sale

Idea Generation

Idea Generation is comprised of various elements and sources including single and multi-factor screens, research trips, meetings with managements, conference attendances, internal idea lab forums and feedback loops from the monitoring process. Ideas generated at this stage are subjected to initial preliminary scrutiny designed to filter out unpromising investments and focus analysts' time only on companies that have a higher probability of obtaining above-market returns. Companies that merit further examination are then subjected to further preliminary fundamental analysis which can last from several hours to one week. This work is the final step in determining which stocks move on to in-depth fundamental research. The team believes that the combination of quantitative and qualitative screening provides an edge in identifying superior investment opportunities for further consideration. The identification of companies in this phase is discussed

among the analyst and the portfolio manager, whose approval is required before a stock moves to the next phase of the process.

In-depth Fundamental Research

This element of the process involves rigorous, in-depth fundamental research and analysis conducted by the relevant analyst. This work, typically lasting four weeks or more, is designed to give a high level of insight and understanding of the target company's operations, including its financial, competitive, product or service and management strengths. The work results in the completion of a detailed and comprehensive research study. In this work, high emphasis is placed on information quality and reliability, valuations, upside/downside potential and expected values. The analysts focus on opportunities where fundamental research points to a very strong improvement in the company's financial and/or operational standing. Companies are valued on an absolute and relative basis, through different economic cycles, using a range of techniques depending on the specific company in question. Analysts also take top-down considerations into account in their individual stock research and their work and opinions are augmented by meetings and discussions with company management as well as by conversations with competitors, suppliers, industry experts and other experts of relevance.

The team seeks to invest in companies where there is an identifiable catalyst to unlock value which will be then recognized by the market. They also seek companies that are undervalued relative to their growth potential.

The portfolio manager maintains a dialogue with the analyst monitoring the progress of the research thus building his own understanding and insight to the company and providing a platform for the analyst to test his developing views and opinions. If they come to believe that the stock was not as attractive as originally believed, the work could be halted and shelved. On completion of the research effort, analysts submit their research study and recommendations to the full team at weekly scheduled research meetings. These meetings provide the platform for discussion on the recommendations among team members and provide the portfolio manager with additional insights. The meetings also provide an opportunity for interdependence among sectors to be discussed and reviewed. For example, a recommendation on a packaging company could include insight from our analysts covering both beverages and energy.

Portfolio Construction & Risk Control Methodology

Portfolio Construction

Portfolio construction responsibility lies with the portfolio manager, who is influenced by, among other factors, the ongoing dialogue he has with the analysts throughout the idea generation, the research and the monitoring stages; the conviction and the relative attractiveness of the analysts' recommendations; the overall, sector, geographic and risk structures of the portfolio; and the current market and economic environment. Among the top-down factors considered are macroeconomic forecasts, real economic growth prospects, fiscal and monetary policy, currency issues, and demographic and political risks. These top-down considerations provide a deeper level of understanding of how each company is positioned in the fluctuating market environment.

Risk Management Overlay

They approach risk management as an integrated element that is part of each distinct step of the investment process that has been described above together with the daily, monthly and quarterly reviews that are carried out by the risk management team and senior management. The controls within the strategy are:

- (i) In the Idea Generation phase, risk management tasks include an assessment of the visibility and forecastability of data. They also consider the broad historical characteristics of each stock and its potential impact on the portfolio,
- (ii) During the In-depth Research phase, rigorous fundamental research and valuation techniques enable the team to further refine the visibility and reduce the likelihood of large errors. By ensuring a low valuation entry point and an identifiable catalyst, they seek to select investments with a high margin of safety.
- (iii) Risk management is also integrated in the Portfolio Construction component of the process, through several metrics such as diversification parameters, stock and portfolio characteristics, as well as attribution analysis.
- (iv) The Monitoring phase is closely associated with risk management as they re-evaluate and track the investment thesis and valuation of the companies within the portfolios, making sales as appropriate.
- (v) During stock trading, risk management systems, which are embedded in the trading platform, enable the team to ensure compliance with relevant policies and guidelines.

At the firm wide level, there is a risk management overview carried out by the office of the Chief Investment Officer and the risk management team with the goals of ensuring that each portfolio strategy applies a well-defined investment process and that the portfolio structures are consistent with the stated investment philosophy, style and risk profile.

Buy/Sell Discipline

Monitoring and Sale

Monitoring is comprised of both internal and external monitoring. Internal covers continued discussions and meetings with management similar to what analysts have undertaken in their initial research. External monitoring is comprised of the ongoing examination of conditions, information and other indicators that are not directly attributed to the portfolio company, but that may provide early insights to changes in its operating environment. It may include review of direct competitors, and relevant industry and economic variables that may affect the investment. It is the team's opinion that extensive monitoring provides a sound understanding of when to exit an investment.

Trading Strategy

It is policy, consistent with investment considerations, to seek the most favorable price and execution for brokerage orders. Most favorable execution is a combination of commission rates and

prompt, reliable execution. For relatively large trades involving difficult executions, commission rates are not usually a major factor in achieving most favorable price and execution. When selecting a brokerage firm, the team considers its execution capabilities, including block positioning, financial stability, ability to maintain confidentiality, delivery and ability to obtain best price execution. Commissions on all brokerage transactions are subject to negotiation. Negotiated commissions take into account the difficulty involved in execution, the time taken to conclude the transaction, the extent of the broker's commitment, if any, of its own capital and the amount involved in the transaction. On relatively smaller trades involving little difficulty of execution, commission rates can be a major factor in achieving most favorable price and execution. Brokers may be paid an above-average commission for superior or difficult execution.

Consistent with the policy of seeking the most favorable price and execution, the team may consider the research capabilities of various brokerage firms, including the reputation and standing of their analysts, and their investment strategies, timing, accuracy of statistical information and idea generation.

The firm's trading process is continuously monitored internally through the Abel/Noser trading program and the firm's trading committee to review their best execution practices. Wells Capital Management uses soft dollars to acquire research related products and services in accordance with Section 28(e) of the Securities and Exchange Act. Typical services include market data, pricing, news, company and industry analysis, and other products.

Additional Comments

Sources of value added varies, and there can be a small contribution from time to time from currency hedging activity.

Key Competitive Advantages:

- Portfolio Manager professional history and tenure;
- Depth, experience and cultural diversity of investment team
- Centralized international investment team; interaction with peers across the firm
- Strong link with Emerging Markets equity team
- Dedicated international equity trading team
- Proven Idea Generation approach with strong depth and breadth
- Rigorous Fundamental Research and Analysis:
- Disciplined Monitoring process with feedback loops to Idea Generation
- Integrated Risk Management approach within process and firm
- Flexible investment approach within a disciplined process
- Solid history of competitive returns through cycles

Use of Derivatives

Derivatives Used in Managing This Product: None

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

December 13, 2011

Agenda Item 6.4

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

SUBJECT: Discussion and Selection of Manager for *SamCERA's* International Small Cap Mandate.

STAFF RECOMMENDATION: Staff recommends that the board discuss the merits of the three finalists then select one. Following the selection of a manager, the board should direct staff to perform further due diligence and initiate negotiations for an investment management agreement for the international small cap mandate.

COMMENT: A thorough discussion of the search process for an international small cap manager appears in the materials for today's agenda item 6.3. That discussion notes nine firms passed the board's screening criteria for the mandate. From that field the board invited three firms to interview before the board at today's special meeting.

Those firms and products are:

- **Dimensional Fund Advisors – International Small Company Strategy**
- **Pyramis Global Advisors – Select International Small Cap**
- **Wells Capital Management – Berkeley Street International Small Cap Equity**

Agenda item 6.3 has a review booklet that provides individual data on each manager. It also provides manager comparisons for vital statistics. The review booklet along with the interviews will provide a basis for the board's decision.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

December 13, 2011

Agenda Item 6.5

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Report on Strategic Investment Solutions' (SIS) Capital Market Outlook

COMMENT: The following data is excerpted from SIS' Capital Market Outlook. The outlook allows *SamCERA* to semi-annually view the expectations for capital market returns.

The SIS process for developing the Capital Market Outlook involves extensive analysis of historical results, calculating realized returns, standard deviations, correlations, and return premia. Results are examined over many different time periods. Information is gleaned from the historical results and used in SIS's capital market projection process. SIS projections utilize a variety of information and models. For example, inflation forecasts, risk premiums, term structure yields, GDP growth rates, expected currency movements, the Capital Asset Pricing Model (CAPM), and comparison with other projections by leading investors and economists are all built into the models and process used by SIS. Under return, the outlook provides a thorough discussion of SIS' initial projections for all asset classes.

Below are SIS' capital market expectations as of 11/2011, asset class correlations, a sampling of efficient frontier mixes, and lastly a comparison of the current capital market (CAPM), standard deviation, and Sharpe ratio expectations compared to the expectations as of 5/2011.

Capital Market Expectations - 11/2011

| | Expected Return | Standard Deviation | Sharpe Ratio |
|--------------------------|-----------------|--------------------|--------------|
| U.S. Inflation | 2.3% | ----- | ----- |
| U.S. Large Cap Stock | 8.2% | 18.0% | 0.344 |
| U.S. Small Cap Stock | 8.5% | 21.0% | 0.310 |
| U.S. Fixed Income | 3.3% | 4.5% | 0.289 |
| Int'l Develop Mkt Stock | 8.2% | 18.5% | 0.335 |
| Emerging Mkt Stock | 8.7% | 28.0% | 0.239 |
| Int'l Fixed Income | 3.3% | 11.0% | 0.118 |
| Private Markets | 10.7% | 35.0% | 0.249 |
| Real Estate | 6.7% | 18.5% | 0.254 |
| U.S. High Yield | 5.8% | 10.7% | 0.355 |
| Emerging Mkt Debt | 5.5% | 12.0% | 0.292 |
| U.S. TIPS | 2.9% | 4.5% | 0.200 |
| Int'l ILB | 3.2% | 4.0% | 0.300 |
| Floating Rate Bank Loans | 5.2% | 8.0% | 0.400 |
| Infrastructure | 7.4% | 25.0% | 0.216 |
| Hard Asset Equity | 7.9% | 28.0% | 0.211 |
| Commodities | 4.3% | 30.0% | 0.077 |
| Hedge Funds | 5.5% | 10.0% | 0.350 |
| Cash | 2.0% | 1.0% | 0.000 |

Correlations

| | U.S. Lrg Cap Stk | US Sml Cap Stk | U.S. FI | Int'l Dev Stk | Emerg Mkt Stk | Int'l FI | Private Eqty | Real Est | High Yield | EM Debt | TIPS | FR BK Loan | Intl ILB | Abs Return | Commod | Infrastr | Hard Asset | Cash |
|----------------------|---------------------|-------------------|---------|------------------|------------------|----------|-----------------|----------|---------------|---------|------|---------------|----------|---------------|--------|----------|---------------|------|
| U.S. Large Cap Stock | 1.00 | | | | | | | | | | | | | | | | | |
| U.S. Small Cap Stock | 0.86 | 1.00 | | | | | | | | | | | | | | | | |
| U.S. Fixed Income | 0.18 | 0.10 | 1.00 | | | | | | | | | | | | | | | |
| Int'l Stock | 0.78 | 0.72 | 0.08 | 1.00 | | | | | | | | | | | | | | |
| Emerging Mkt Stock | 0.58 | 0.66 | -0.09 | 0.71 | 1.00 | | | | | | | | | | | | | |
| Int'l Fixed Income | 0.11 | 0.01 | 0.46 | 0.34 | 0.11 | 1.00 | | | | | | | | | | | | |
| Private Equity | 0.63 | 0.60 | -0.08 | 0.56 | 0.55 | 0.00 | 1.00 | | | | | | | | | | | |
| Real Estate | 0.63 | 0.63 | 0.17 | 0.57 | 0.51 | 0.00 | 0.31 | 1.00 | | | | | | | | | | |
| U.S. High Yield | 0.68 | 0.72 | 0.36 | 0.59 | 0.58 | 0.30 | 0.50 | 0.70 | 1.00 | | | | | | | | | |
| Emerging Mkt Debt | 0.50 | 0.52 | 0.35 | 0.45 | 0.53 | 0.13 | 0.35 | 0.43 | 0.50 | 1.00 | | | | | | | | |
| U.S. TIPS | 0.11 | 0.10 | 0.58 | 0.10 | 0.11 | 0.43 | -0.08 | 0.27 | 0.31 | 0.37 | 1.00 | | | | | | | |
| FR BK Loan | 0.60 | 0.60 | 0.16 | 0.58 | 0.54 | 0.10 | 0.39 | 0.60 | 0.74 | 0.40 | 0.27 | 1.00 | | | | | | |
| Intl ILB | 0.46 | 0.32 | 0.59 | 0.47 | 0.15 | 0.49 | 0.27 | 0.26 | 0.42 | 0.29 | 0.52 | 0.34 | 1.00 | | | | | |
| Absolute Return | 0.59 | 0.50 | 0.30 | 0.65 | 0.48 | 0.23 | 0.36 | 0.39 | 0.34 | 0.60 | 0.32 | 0.45 | 0.43 | 1.00 | | | | |
| Commodities | 0.27 | 0.28 | -0.06 | 0.29 | 0.36 | 0.08 | 0.20 | 0.28 | 0.15 | 0.44 | 0.46 | 0.24 | 0.18 | 0.47 | 1.00 | | | |
| Infrastructure | 0.51 | 0.53 | 0.42 | 0.47 | 0.42 | 0.20 | 0.30 | 0.64 | 0.62 | 0.49 | 0.40 | 0.57 | 0.17 | 0.57 | 0.22 | 1.00 | | |
| Hard Asset | 0.49 | 0.58 | 0.04 | 0.59 | 0.58 | 0.07 | 0.30 | 0.55 | 0.40 | 0.43 | 0.34 | 0.44 | 0.32 | 0.46 | 0.68 | 0.44 | 1.00 | |
| Cash | 0.17 | 0.10 | 0.34 | 0.08 | -0.03 | 0.03 | 0.03 | -0.15 | -0.15 | 0.24 | 0.11 | -0.08 | 0.13 | 0.55 | 0.18 | 0.29 | 0.03 | 1.00 |

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

Efficient Frontier Mixes

Unconstrained Optimization Results Using SIS Projections

| | | | | | | | | |
|-------------|-------|-------|-------|--------|--------|--------|--------|--------|
| US Lrg Cap | 6.2% | 8.9% | 11.1% | 13.0% | 14.8% | 18.0% | 19.3% | 16.9% |
| US Sml Cap | 3.6% | 4.0% | 3.1% | 3.2% | 3.3% | 3.5% | 2.6% | 5.0% |
| US Fixed | 41.4% | 43.9% | 41.1% | 33.5% | 24.4% | 15.3% | 11.8% | 0.0% |
| Intl Stock | 7.0% | 8.6% | 11.0% | 13.0% | 14.3% | 14.0% | 17.2% | 21.9% |
| EM Stock | 5.9% | 6.7% | 6.8% | 6.8% | 6.8% | 6.9% | 6.8% | 5.9% |
| Intl Bond | 0.4% | 1.6% | 0.4% | 0.4% | 1.0% | 2.7% | 0.8% | 0.0% |
| Real Est | 0.3% | 1.2% | 1.8% | 2.6% | 5.6% | 5.8% | 9.7% | 2.9% |
| Priv Eqty | 3.3% | 4.3% | 5.2% | 6.5% | 8.2% | 9.8% | 12.0% | 14.1% |
| Abs Ret | 8.9% | 8.7% | 9.3% | 8.3% | 8.1% | 6.5% | 2.9% | 4.7% |
| High Yield | 0.0% | 0.7% | 4.2% | 4.5% | 2.7% | 2.7% | 0.4% | 7.9% |
| EM Debt | 0.9% | 1.0% | 1.8% | 2.8% | 3.9% | 5.3% | 4.9% | 5.3% |
| Real Ret FI | 21.3% | 8.3% | 0.4% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Real Ret Eq | 0.7% | 2.1% | 3.7% | 5.4% | 7.0% | 9.4% | 11.6% | 15.2% |
| | | | | | | | | |
| % Equities | 27.0% | 35.8% | 42.7% | 50.5% | 59.9% | 67.4% | 79.2% | 82.0% |
| | | | | | | | | |
| Exp. Return | 5.75% | 6.20% | 6.66% | 7.12% | 7.60% | 8.03% | 8.48% | 8.94% |
| Exp. Risk | 7.40% | 8.60% | 9.83% | 11.14% | 12.59% | 13.94% | 15.42% | 17.00% |

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

December 13, 2011

Agenda Item 6.6 a

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Annual Investment Manager Review – Invesco Realty Advisors – Invesco Core Real Estate, U.S.A. Fund

STAFF RECOMMENDATION: Staff recommends that the board review Invesco's responses to *SamCERA's* review questions, and Invesco's presentation materials.

STAFF COMMENTS: The board instructed *SamCERA's* staff and investment consultant to perform annual reviews of *SamCERA's* investment managers and report back to the board. On November 3, 2011, staff interviewed Invesco, *SamCERA's* core fund real estate manager, in the building's conference room at 100 Marine Parkway.

Invesco was interviewed at approximately 9:00 a.m. Those present were:

Ben Bowler – *SamCERA* Trustee

David Bailey – *SamCERA's* Chief Executive Officer

Scott Hood – *SamCERA's* Assistant Executive Officer

Gary Clifton – *SamCERA's* Chief Investment Officer

Patrick Thomas – Strategic Investment Solutions' Investment Consultant

Bill Grubbs – Portfolio Manager for Invesco Core Real Estate, U.S.A. Fund

Chris Cole – Acquisition Officer for Invesco Core Real Estate, U.S.A. Fund

Attached to this agenda item are the presentation materials used by Invesco for the review and Invesco's response to *SamCERA's* annual questionnaire.

BACKGROUND: *SamCERA's* relationship with Invesco began in January 1997 when the association engaged Invesco Realty Advisors under a separate property real estate mandate. On September 30, 2004, *SamCERA* and four additional founding investors contributed their separate properties to the Invesco Core Real Estate – U.S.A. Fund (ICRE). Currently Invesco Real Estate has \$27.8 billion under management with over 740 properties and 231 employees worldwide.

DISCUSSION: As of September 30, 2011, ICRE's net return for the trailing twelve months is 18.62% gross and 17.67% net. All four property sectors have declined from the peak value to the current value. Office is down 23.1%. Industrial is down 23.0%. Value-Added is down 17.6%. Retail is down 20.7%. Apartment is off 11.5%.

As of September 30, 2010, the ICRE consists of 56 investments ranging in size from \$7.9 million to \$413 million. The largest multi property portfolio investment is \$213 million. The fund's gross asset value of \$4,352.6 million has debt to total fund assets of 23.8%.

The fund's long-term investment strategy is to overweight the industrial and multi-family sectors, and underweight the retail and office sectors (all relative to the NCREIF Property Index.) The fund

is currently underweight office and multi-family, and overweight industrial and retail. The fund pursues a neutral weighting with NCREIF regions, but favors those regions with metro areas having the most favorable real estate fundamentals. The fund is currently overweight the West and underweight the South, Midwest and East.

As of September 30th, Invesco managed \$135.5 million or 6.39% of *SamCERA's* \$2,118.8 million portfolio. The assets are managed in the commingled Invesco Core Real Estate – U.S.A. Fund.

SamCERA



Invesco Core Real Estate – U.S.A.

November 3, 2011

INVESCO REAL ESTATE

North America: Dallas • San Francisco • Newport Beach • New York • Atlanta
Europe: London • Paris • Munich • Prague • Madrid • Luxembourg
Asia: Hong Kong • Shanghai • Tokyo • Seoul • Singapore



Table of Contents

1. Invesco Overview
2. ICRE Portfolio Strategy & Results
3. Market Update
4. Appendix

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While all material is compiled from sources believed to be reliable and current, accuracy cannot be guaranteed. It is not our intention to state, indicate or imply in any manner that current or past results are indicative of future profitability or expectations. As with all investments there are associated inherent risks. Please obtain and review all financial materials carefully before investing. This publication may contain confidential and proprietary information of Invesco Advisers, Inc. and/or Invesco Ltd. Circulation, disclosure or dissemination of all or any part of this material to any unauthorized persons is prohibited. Unauthorized reproduction or distribution of all or any part of this material is prohibited. For one on one institutional investor use only.

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Section 1

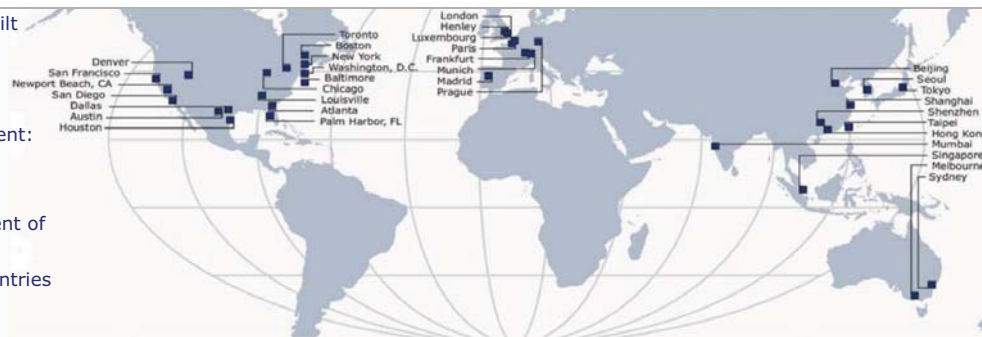
Invesco Overview



Helping Investors Worldwide Achieve Their Financial Objectives

Our “investors first” approach is built on our commitment to investment excellence, depth of investment capabilities and organizational strength. We dedicate all of our resources to investment management:

- More than 600 investment professionals
- Global assets under management of \$653.7 billion
- Investment expertise in 11 countries
- More than 6,000 employees worldwide



| | | | | | |
|--|--|---|--|--|--|
| <p>Invesco Asia-Pacific</p> <p>Investment Focus:</p> <ul style="list-style-type: none"> • Asia ex-Japan • Greater China • Japan • Australia <p>Locations: Beijing, Hong Kong, Melbourne, Shenzhen, Sydney, Taipei, Tokyo</p> | <p>Invesco Fundamental Equities</p> <p>Investment Focus:</p> <ul style="list-style-type: none"> • U.S. growth equity • U.S. core equity • U.S. value equity • International and global growth equity • Sector equity • Balanced portfolios <p>Locations: Austin, Houston, San Francisco</p> | <p>Invesco Perpetual</p> <p>Investment Focus:</p> <ul style="list-style-type: none"> • Global and regional equities, including U.K., European, Asian, Japanese and emerging markets • Fixed income <p>Location: Henley, U.K.</p> | <p>Invesco Private Capital</p> <p>Investment Focus:</p> <ul style="list-style-type: none"> • Private equity funds of funds • Customized portfolios <p>Locations: London, New York, San Francisco</p> | <p>Invesco Trimark</p> <p>Investment Focus:</p> <ul style="list-style-type: none"> • Canadian, regional, sector and global equity • Canadian and global fixed income • Balanced portfolios <p>Location: Toronto</p> | <p>Atlantic Trust</p> <p>Investment Focus:</p> <ul style="list-style-type: none"> • High-net-worth wealth management • U.S. equities; master limited partnerships (MLPs) • Multi-manager investment program <p>Locations: Atlanta, Austin, Baltimore, Boston, Chicago, Denver, Houston, New York, Newport Beach, San Francisco, Washington, D.C.</p> |
| <p>Invesco Fixed Income</p> <p>Investment Focus:</p> <ul style="list-style-type: none"> • Global money markets and cash management • Stable value • Global and U.S. broad fixed income • Global alternatives and bank loans <p>Locations: Chicago, Hong Kong, Houston, London, Louisville, Melbourne, New York, Palm Harbor, San Diego, Tokyo</p> | <p>Invesco Global Strategies</p> <p>Investment Focus:</p> <ul style="list-style-type: none"> • Global equity (global, non-U.S., and emerging market equities) • Canadian equities • Global quantitative equity (quantitative active, enhanced and long/short strategies) • Global asset allocation (global macro, risk parity, commodities and active balanced solutions) <p>Locations: Atlanta, Boston, Frankfurt, Melbourne, New York, Tokyo, Toronto</p> | <p>Invesco PowerShares</p> <p>Investment Focus:</p> <ul style="list-style-type: none"> • Index-based ETFs and ETNs and actively managed ETFs • Domestic and international equity • Taxable and tax-free fixed income • Commodities and currencies <p>Location: Chicago</p> | <p>Invesco Real Estate</p> <p>Investment Focus:</p> <ul style="list-style-type: none"> • Global direct real estate investing • Global public real estate investing <p>Locations: Atlanta, Dallas, Hong Kong, London, Luxembourg, Madrid, Munich, New York, Newport Beach, Paris, Prague, San Francisco, Seoul, Shanghai, Singapore, Tokyo</p> | <p>Invesco Unit Investment Trusts</p> <p>Investment Focus:</p> <ul style="list-style-type: none"> • Equity trusts • Closed-end trusts • Tax-free fixed-income trusts • Taxable fixed income trusts <p>Location: Chicago</p> | <p>WL Ross & Co.</p> <p>Investment Focus:</p> <ul style="list-style-type: none"> • Distressed and restructuring private equities • Energy private equities <p>Locations: Beijing, Mumbai, New York, Tokyo</p> |

Source: Invesco. Client related data, investment professional and employee data as of June 30, 2011. Invesco Ltd. AUM is as of June 30, 2011, and includes all assets under advisement, distributed and overseen by Invesco, including those of its affiliates Invesco Distributors, Inc. and Invesco PowerShares Capital Management LLC, which have an agreement with Deutsche Bank to provide certain marketing services for the PowerShares DB products. Invesco PowerShares Capital Management LLC is the sponsor for the PowerShares QQQ and BLDRS products and unit investment trusts. ALPS Distributors, Inc. is the distributor of PowerShares QQQ, BLDRS Funds and the PowerShares DB Funds. Invesco PowerShares Capital Management LLC and Invesco Distributors, Inc. are wholly-owned, indirect subsidiaries of Invesco Ltd. Invesco Distributors, Inc. is the U.S. distributor for Invesco Ltd.'s retail products. Invesco Ltd. is not affiliated with ALPS Distributors, Inc. or Deutsche Bank. The listed centers do not all provide products or services that are available in all jurisdictions, nor are their products and services available on all platforms. The entities listed are each wholly owned, indirect subsidiaries of Invesco Ltd., except ALPS Distributors, Inc., Deutsche Bank and Invesco Great Wall in Shenzhen, which is a joint venture between Invesco and Great Wall Securities, and the Huaneng Invesco WLR Investment Consulting Company Ltd. in Beijing, which is a joint venture between Huaneng Capital Services and WL Ross & Co. Please consult your Invesco representative for more information.



Invesco Real Estate

As of September 30, 2011

\$43.7 Billion Under Management
322 Employees Worldwide; 16 Offices

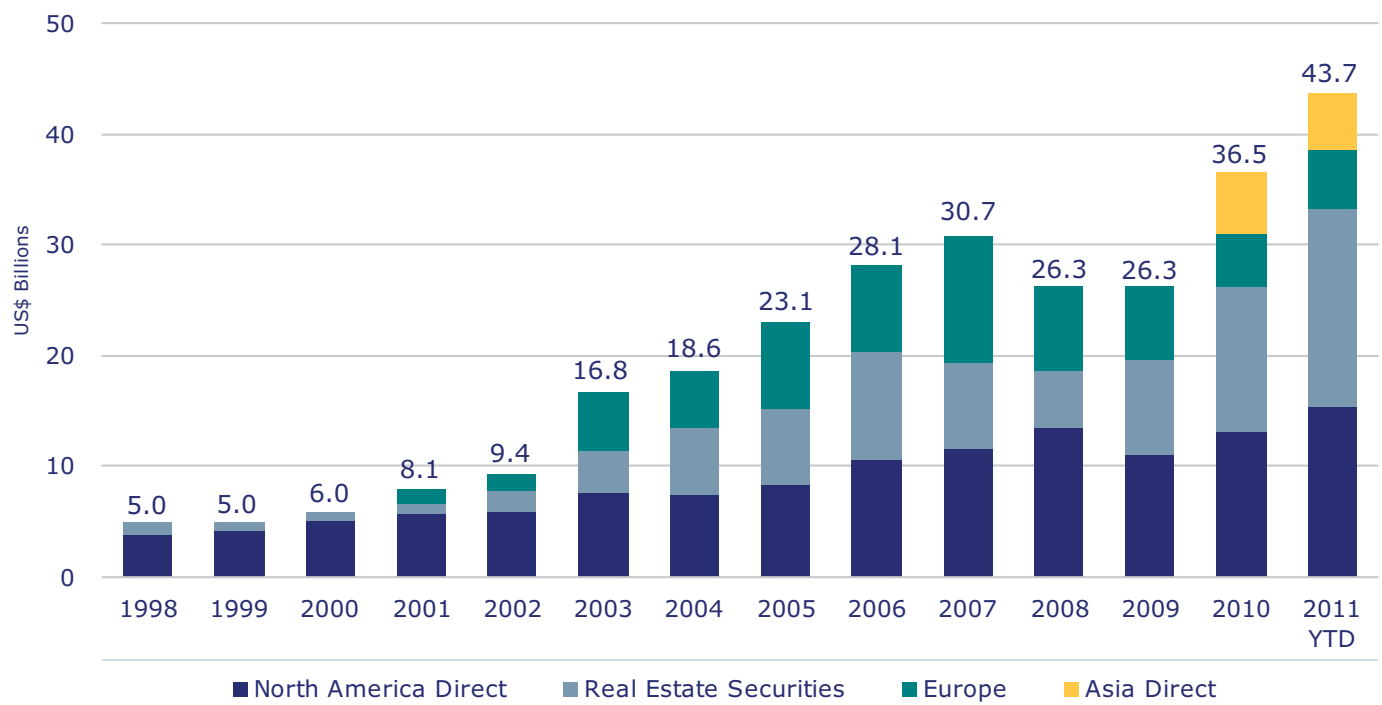


Total employees and assets under management as of September 30, 2011

- **North American Direct Real Estate Investments**
— \$15.4 BN Under Management
— Since 1983
- **Real Estate Securities Management**
— \$17.8 BN Under Management
— Since 1988
- **European Direct Real Estate Investments**
— \$5.3 BN Under Management
— Since 1996
- **Asian Direct Real Estate Investments**
— \$5.2 BN Under Management
— Since 2006

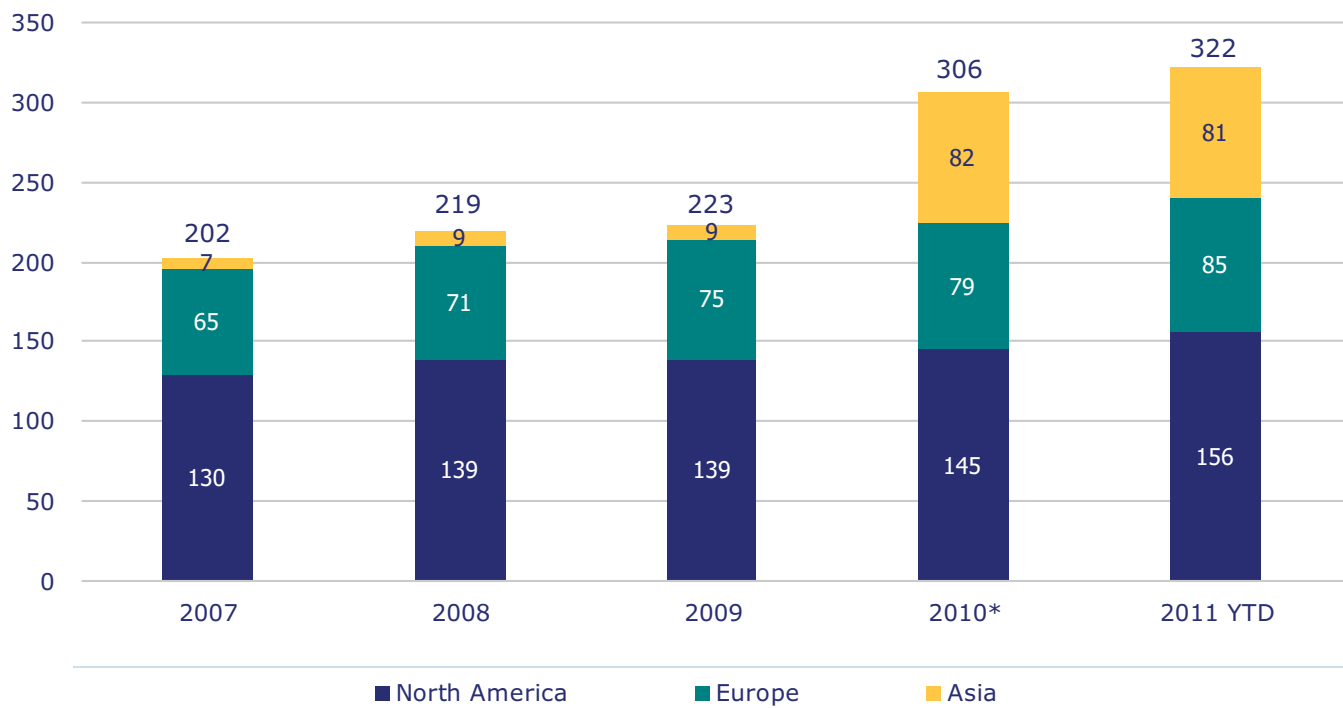
Growth in Our Assets Under Management

As of September 30, 2011



Invesco Real Estate Employees

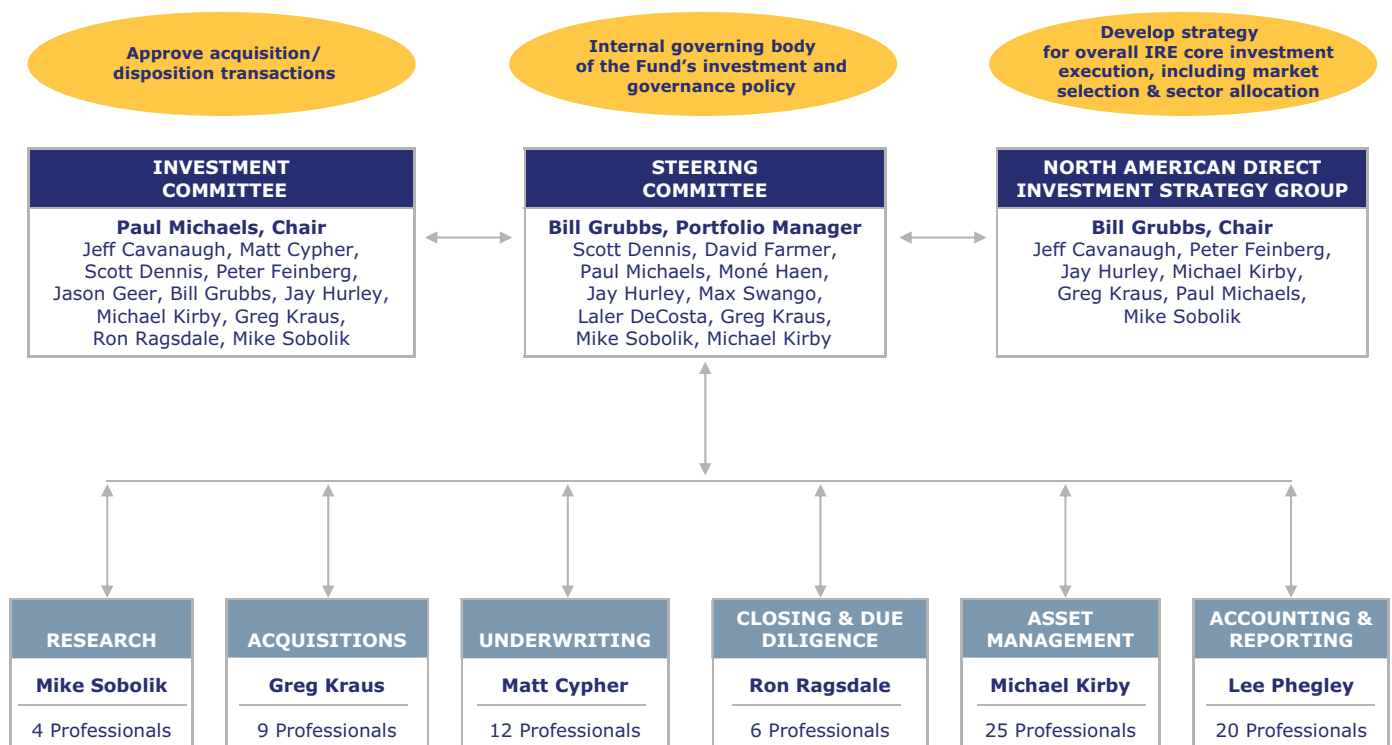
Total Employees as of September 30, 2011



* The figures above reflect the addition of 72 employees (as of January 1, 2011) that have joined Invesco Real Estate through the acquisition of the Asia and Japan fund and asset management business of AIG Global Real Estate Investment Corp.



Invesco Core Real Estate – U.S.A. Team



Source: Invesco Real Estate as of October 10, 2011

Section 2

ICRE Portfolio Strategy & Results



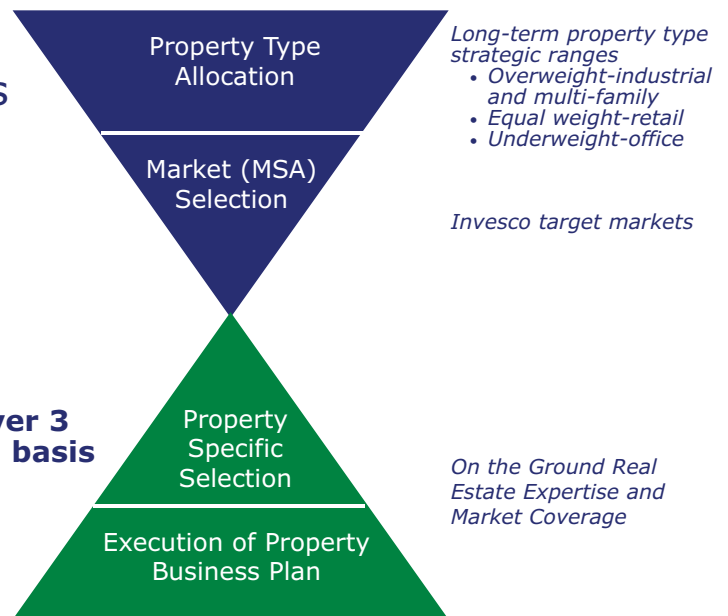
Invesco Core Real Estate-U.S.A.

PORTFOLIO STRATEGY

- Invesco House View core real estate strategy
- Diversified portfolio of institutional quality properties
- 35% maximum leverage

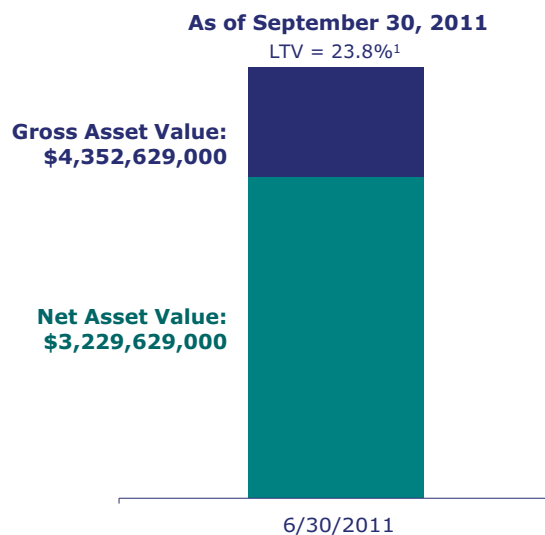
Objective:

- **Equal or Exceed NCREIF/ ODCE over 3 and 5 year rolling basis**



Invesco Core Real Estate – U.S.A.

PORTFOLIO SUMMARY AS OF SEPTEMBER 30, 2011



Number of Investments: 56

Size Range of Investments: \$7.9 MM – \$413 MM ²

Portfolio Occupancy: 92.2% (core portfolio = 92.7%)

Cash as Percentage of NAV: 1.7%

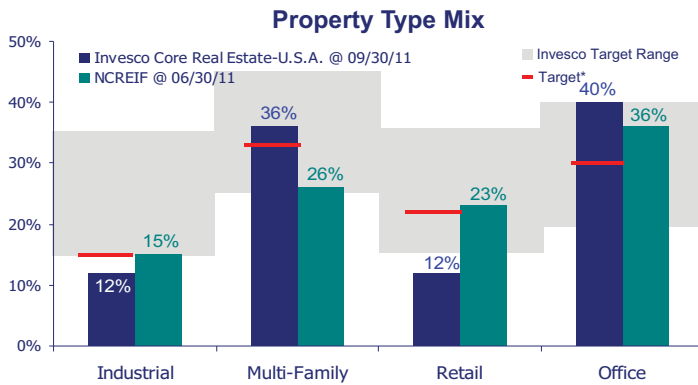
¹ Based on debt value marked to market as of September 30, 2011. There were no outstanding borrowings on the short term line of credit.

² \$413 MM = largest individual property investment; largest multi property portfolio investment = \$241 MM

Source: Invesco Real Estate Accounting, internal, unaudited results as of 09/30/11

ICRE Portfolio Diversification

AS OF SEPTEMBER 30, 2011

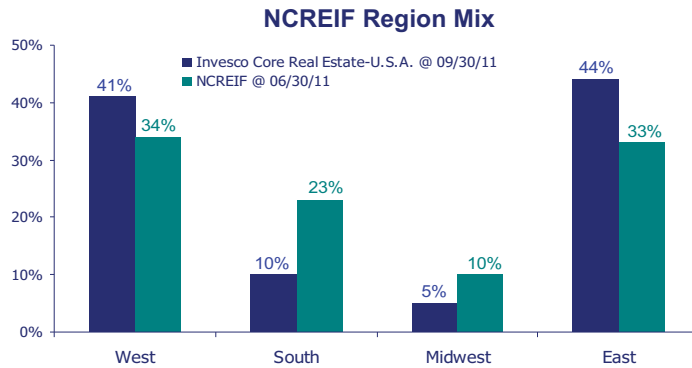


56 Owned Investments

* Target diversification may change based on changing market conditions.

Source: NCREIF Index as of 06/30/11

This analysis represents the ICRE portfolio as of 09/30/11 using gross property value. Regional allocation versus NCREIF allocation is shown for informational purposes only and does not reflect any specific regional allocation decision. Information is taken from sources believed to be reliable, but accuracy cannot be guaranteed.



ICRE Top 10 Markets

AS OF SEPTEMBER 30, 2011



Oakesdale Commerce Center • Seattle, WA



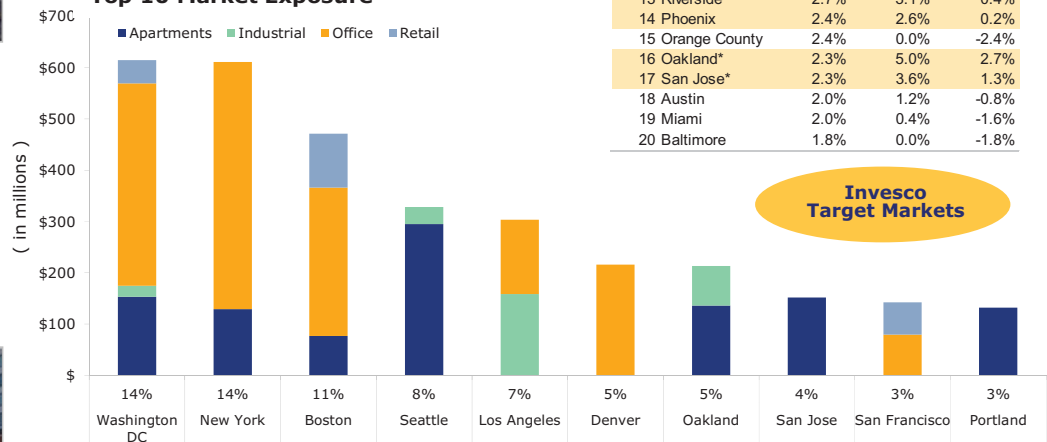
10 Brookline Place • Boston, MA



The Beacon • San Francisco, CA

• **Total Returns of ICRE Top 10 Markets Have Outperformed the NPI over Long Term** ¹

Top 10 Market Exposure²



| NCREIF Top 20 MSA Weights | | | |
|---------------------------|-------|----------|------------|
| MSA | NPI* | ICRE USA | Difference |
| 1 Washington DC | 11.1% | 14.4% | 3.3% |
| 2 New York | 9.7% | 14.4% | 4.7% |
| 3 Los Angeles | 8.2% | 7.1% | -1.1% |
| 4 Chicago | 7.4% | 2.7% | -4.7% |
| 5 Boston | 4.7% | 11.1% | 6.4% |
| 6 Houston | 4.2% | 1.8% | -2.4% |
| 7 Atlanta | 4.1% | 0.7% | -3.4% |
| 8 Dallas | 4.0% | 3.0% | -1.0% |
| 9 Seattle | 3.8% | 7.7% | 3.9% |
| 10 San Francisco* | 3.6% | 3.3% | -0.3% |
| 11 San Diego | 3.1% | 0.6% | -2.5% |
| 12 Denver | 3.0% | 5.1% | 2.1% |
| 13 Riverside | 2.7% | 3.1% | 0.4% |
| 14 Phoenix | 2.4% | 2.6% | 0.2% |
| 15 Orange County | 2.4% | 0.0% | -2.4% |
| 16 Oakland* | 2.3% | 5.0% | 2.7% |
| 17 San Jose* | 2.3% | 3.6% | 1.3% |
| 18 Austin | 2.0% | 1.2% | -0.8% |
| 19 Miami | 2.0% | 0.4% | -1.6% |
| 20 Baltimore | 1.8% | 0.0% | -1.8% |

Invesco Target Markets

*The combined San Francisco Bay Area markets represent 11.9% of the portfolio

**The NPI data reflected is as of 6/30/2011

Source: Invesco Core Real Estate-U.S.A. internal reporting as of 09/30/11. The markets shown are all Invesco Target markets as outlined in our House View.

¹ Note: Aggregate NPI total returns for the markets/property types represented in the ICRE's "Top 10" metropolitan areas outperformed the overall NPI by 121 basis points over the past 15 years and by 63 basis points over the past 10 years. These calculations are based on the weighted average subindex performance for the 10 markets comprising the greatest exposure to the ICRE portfolio in 2Q 2011 according to their respective property type weights. Returns for these 10 metro areas were aggregated based on the 22 distinct market/property type combinations represented in the ICRE portfolio. The 10-year and 15-year aggregate returns exclude certain market/property type combinations at certain periods due to the absence of NPI subindex data.

² Based on gross real estate value of ICRE



ICRE Operating Statistics

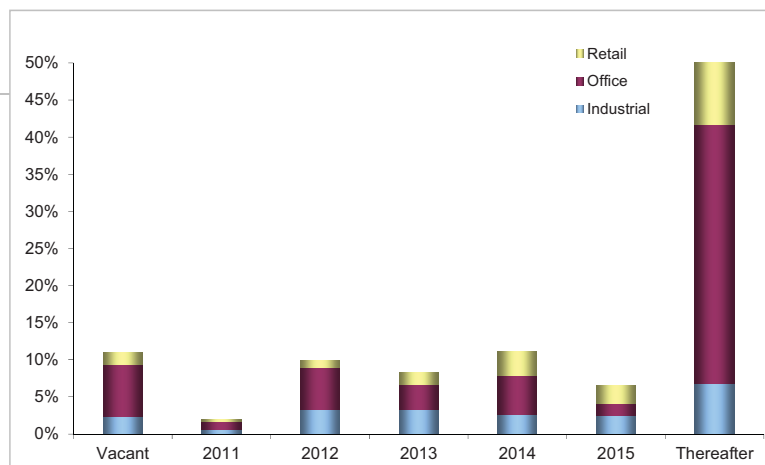
Occupancy

| TOTAL PORTFOLIO OCCUPANCY | Q3 11 | Q3 10 | Change |
|---------------------------|--------------|--------------|--------------|
| Apartments | 95.8% | 95.4% | 0.4% |
| Industrial | 90.7% | 90.4% | 0.3% |
| Office | 87.7% | 88.2% | -0.5% |
| Retail | 94.3% | 95.4% | -1.1% |
| Core Portfolio | 92.7% | 93.1% | -0.4% |
| Value-Add Portfolio | 66.8% | 51.6% | 15.2% |
| Total Portfolio | 92.2% | 92.2% | 0.0% |

Source: Invesco Real Estate as of September 30, 2011

Commercial Lease Rollover (as % of base rental revenue)

30% of Fund revenue is derived from the apartment portfolio



Source: Invesco Real Estate analysis of underlying contractual lease expirations as of September 30, 2011



ICRE Debt Summary

AS OF SEPTEMBER 30, 2011

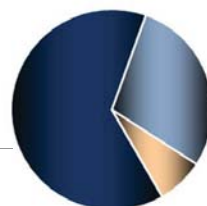
Debt to Total Assets ^{1, 2}

- 23.8% Including line of credit²
- 23.8% Excluding line of credit²

Total Outstanding Principal – \$995.7 M¹

Fixed Rate – 97%
 • Weighted average interest rate – 5.1%
 Floating Rate (excluding line of credit) – 3%

Joint Venture Secured Debt – 63.8%



ICRE Secured Debt – 28.7%

Unsecured Term Debt – 7.5%

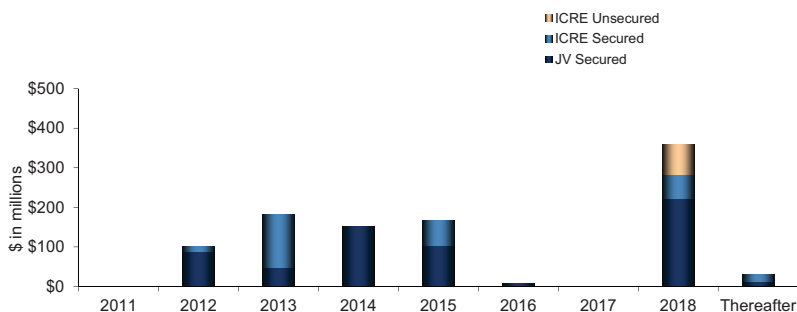
Unsecured Line of Credit – 0%²

\$0.0 M Outstanding at September 30, 2011

\$175 M total committed

Maturity Schedule ^{1, 2}

(Total Outstanding Principal – \$995.7 M¹)



¹ Includes non-consolidated joint venture debt at ICRE's pro rata share

² Includes short term line of credit balance. As of September 30, 2011, there was no balance outstanding.

ICRE – 2011 Q3 Update

STATUS OF ICRE AS OF OCTOBER 1, 2011

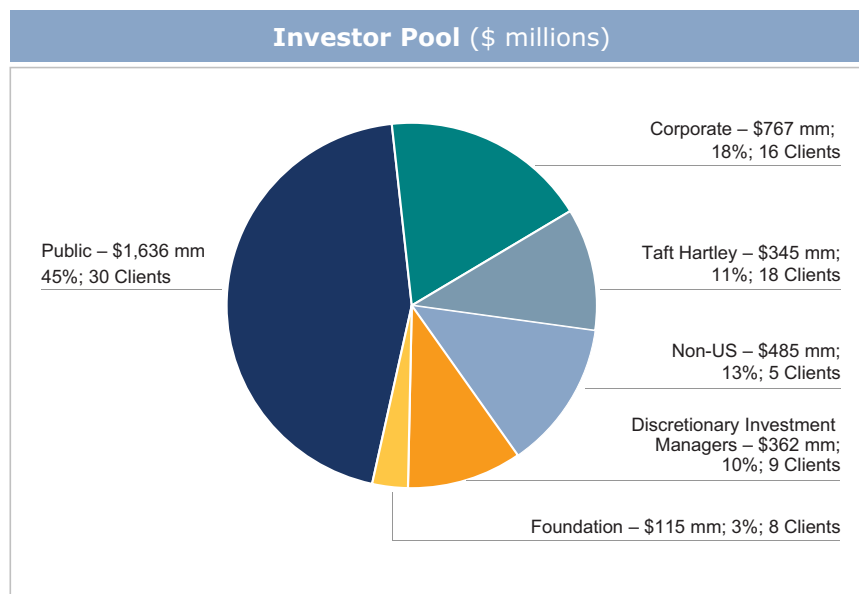
| | Net Asset Value | Investors |
|--|-------------------------------|-----------|
| Current Net Asset Value | | |
| September 30, 2011 | \$ 3,229,629,000 | 78 |
| October 1, 2011 Capital Call | 273,800,000 | 6 (new) |
| | <u>\$ 3,503,429,000</u> | <u>84</u> |
| Investor Commitments | | |
| Signed | \$ 137,700,000 | 2 (new) |
| Fully Invested NAV ¹ | <u>\$3,641,129,000</u> | 86 |

¹ At Current Valuations

Source: Invesco Real Estate Core Fund internal reporting.

ICRE Investor Composition

AS OF SEPTEMBER 30, 2011



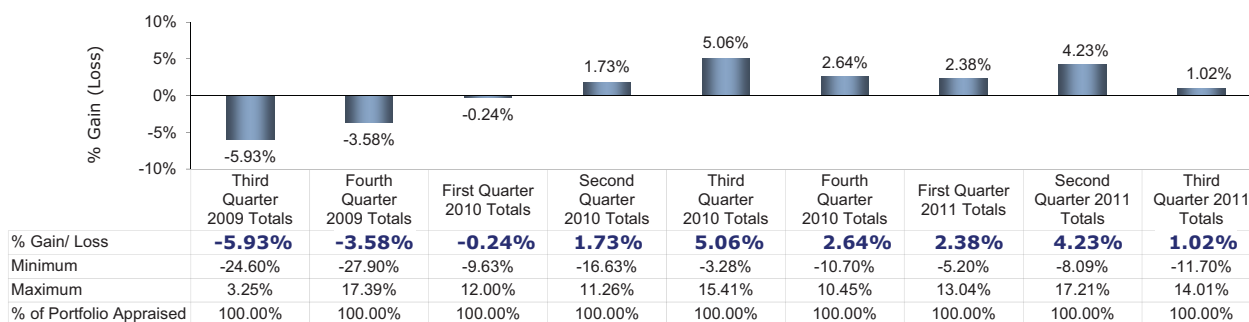
Note: This illustration represents all invested and committed but un-invested investors. Based on initial commitment amount - does not include any post investment valuation adjustments.

Source: Invesco Real Estate internal unaudited amounts for illustrative purposes only as of 09/30/11.

ICRE Property Valuation Changes

AS OF SEPTEMBER 30, 2011

By Quarter - Trailing Nine Quarters¹



By Property Type - Peak Value to Current Value¹

| Property Type | % Gain/Loss |
|---------------|---------------|
| Industrial | -23.01 |
| Office | -23.08 |
| Retail | -17.76 |
| Apartments | -11.53 |
| Value-Add | -19.50 |
| Total | -17.31 |

¹ Peak to trough was -32.92% with same store portfolio only as of 3Q 11

ICRE Valuation Summary

AS OF SEPTEMBER 30, 2011

Key Valuation Metrics

| SUMMARY OF KEY VALUATION METRICS - SEPTEMBER 30, 2011 | | | | | | |
|---|--|---------------------|--|------------------------------------|--|-------------------------------------|
| Property Type | Weighted Average Implied Year 1 Cap Rate | Stabilized Cap Rate | Weighted Average 10 Year Discount Rate | Weighted Average 5 Year NOI Return | Weighted Average 10 Year Exit Cap Rate | Weighted Average 5 Year Rent Growth |
| CORE APARTMENTS | | | | | | |
| Apartment Portfolio Total | 5.02% | 5.44% | 7.59% | 5.67% | 6.02% | 4.29% |
| CORE INDUSTRIAL | | | | | | |
| Industrial Portfolio Total | 6.49% | 7.53% | 8.34% | 7.30% | 7.67% | 3.52% |
| CORE OFFICE | | | | | | |
| Office Portfolio Total | 4.93% | 6.11% | 7.59% | 5.84% | 6.49% | 4.47% |
| CORE RETAIL | | | | | | |
| Retail Portfolio Total | 6.13% | 6.79% | 7.91% | 6.85% | 7.13% | 3.05% |
| CORE PORTFOLIO | | | | | | |
| Core Portfolio Total | 5.29% | 6.09% | 7.71% | 6.06% | 6.51% | 4.11% |
| Property Type | Weighted Average 5 Year Discount Rate | Stabilized Cap Rate | Weighted Average 10 Year Discount Rate | Weighted Average 5 Year NOI Return | Weighted Average 10 Year Exit Cap Rate | Weighted Average 5 Year Rent Growth |
| VALUE ADD | | | | | | |
| Value Add Portfolio Total | 6.60% | 7.06% | 8.17% | 5.39% | 6.92% | 2.93% |
| PORTFOLIO TOTAL | | | | | | |
| | | 6.14% | 7.73% | 6.03% | 6.53% | 4.05% |

- Year 1 cap rate reweighted to NPI weights = 5.45% on Core

Current Valuations

| | Price Per Square Foot/Unit* | Replacement Cost PSF/Unit** | % Premium (Discount)** | Peak Value PSF/Unit* | % Decline From Peak* |
|------------------------|-----------------------------|-----------------------------|------------------------|----------------------|----------------------|
| Industrial | \$67 | \$79 | -15.1% | \$85 | -23.0 |
| Office | \$478 | \$671 | -28.8% | \$428 | -23.1 |
| Retail | \$233 | \$236 | -1.7% | \$268 | -17.6 |
| Apartments | \$149,630 | \$181,836 | -17.7% | \$131,991 | -11.5 |
| Total Core | | | -20.2% | | -17.1% |
| Value-Added | \$508 | \$779 | -34.8% | \$631 | -19.5% |
| Total Portfolio | | | -21.1% | | -17.3% |

Source: Invesco Real Estate as of September 30, 2011

*Represents the Same Store Portfolio

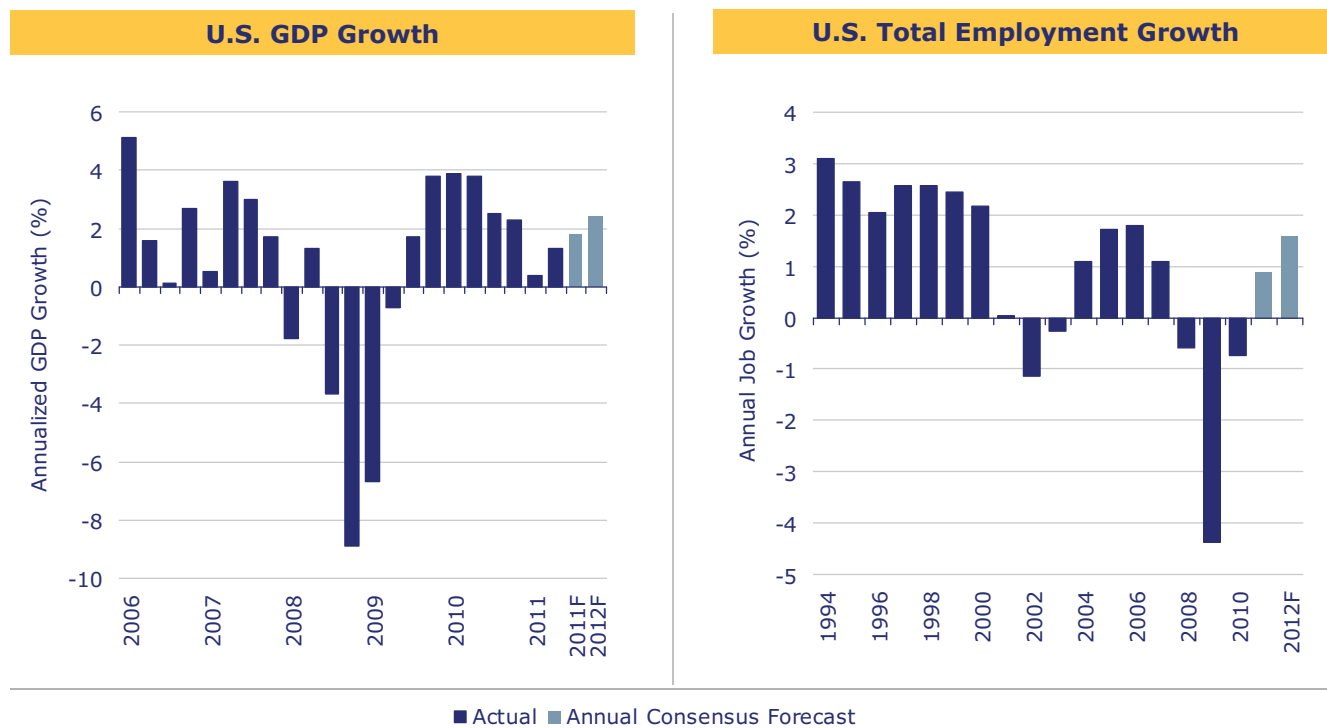
**Represents the Entire Current Portfolio

Section 3

Market Update

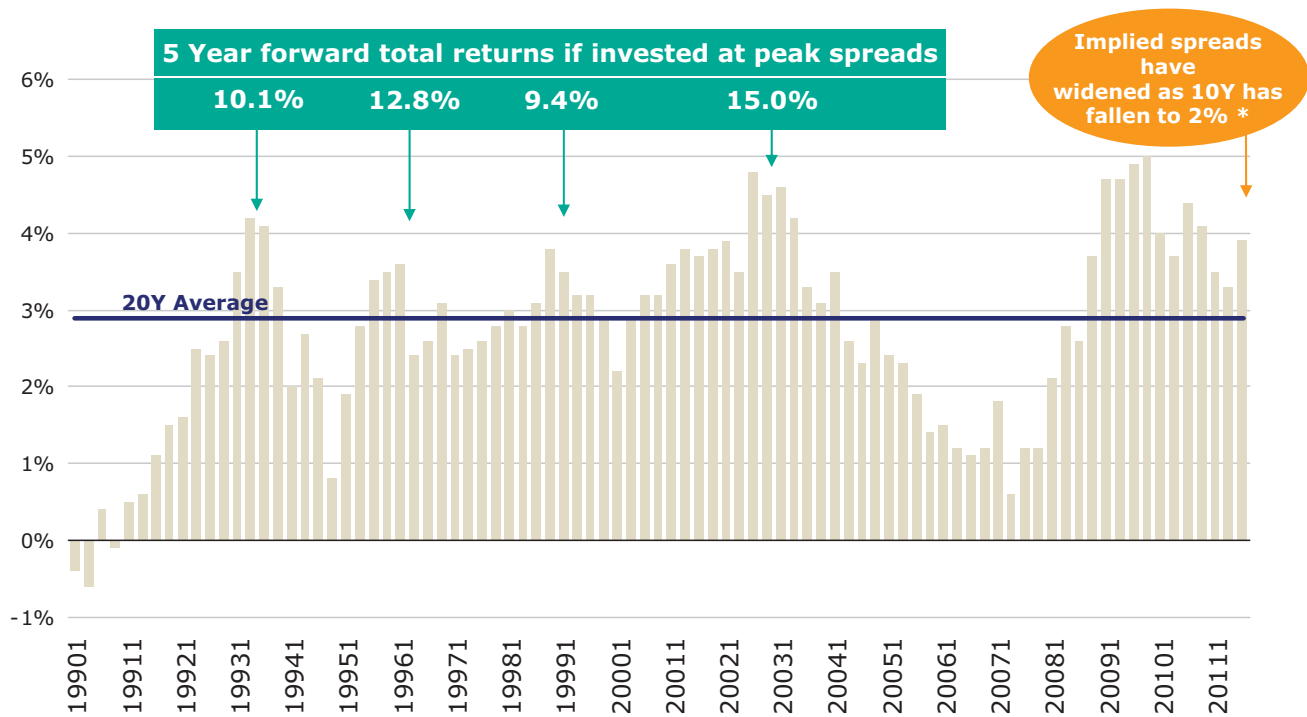


Tight Credit and Weak Housing Sector Should Act Along with Government as Drags on U.S. Economy, Leading to Modest Growth



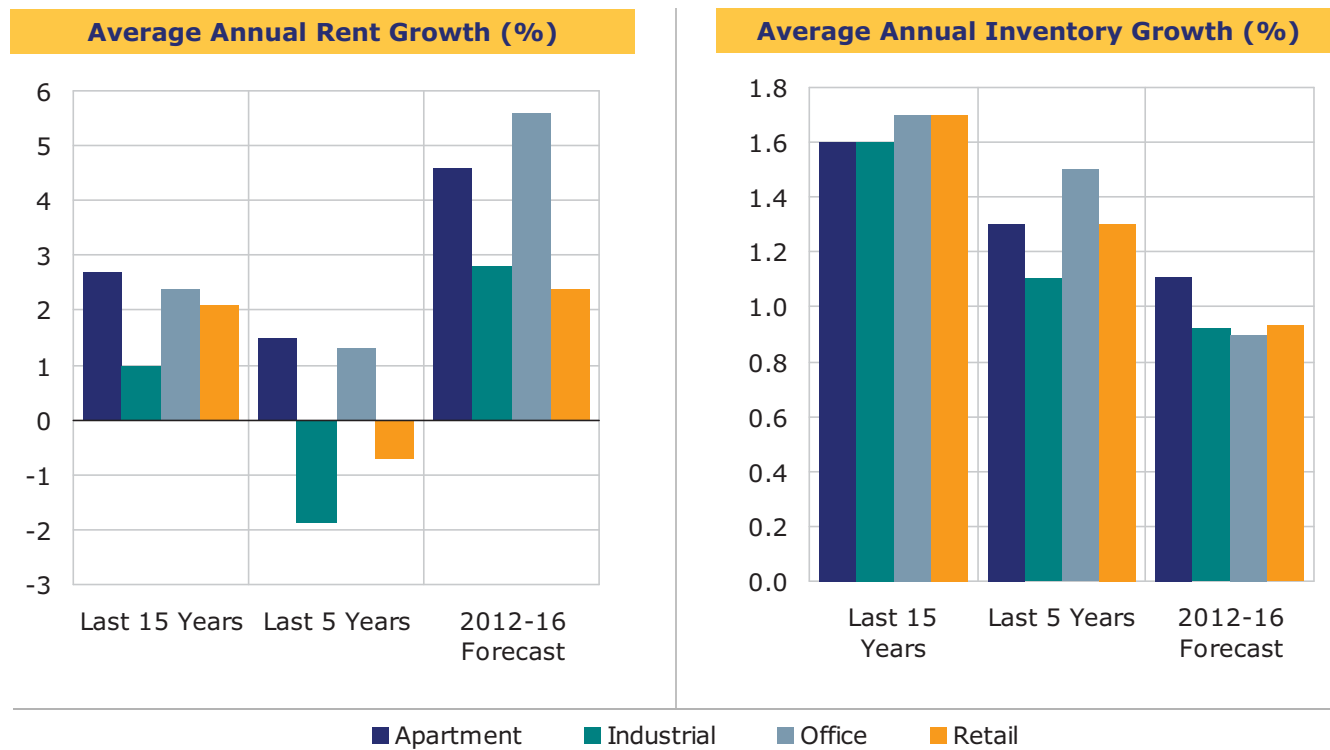
Sources: Invesco Real Estate using underlying data provided by Moody's Analytics and Consensus Economics as of August 2011.

With Decline of 10-year Treasury, Yield Spreads Have Moved Wider And Remain Well Above Long-term Trends



* 3Q11 estimate - assumes transaction cap rate falls to 6.33% and 10-Year Treasury for 3Q11 averages 2.42%
 NCREIF annualized return since inception (4Q-1977) = 8.99%; 20-year annualized return = 7.43%.
 Source: Invesco Real Estate using underlying data provided by NCREIF 2Q 2011.

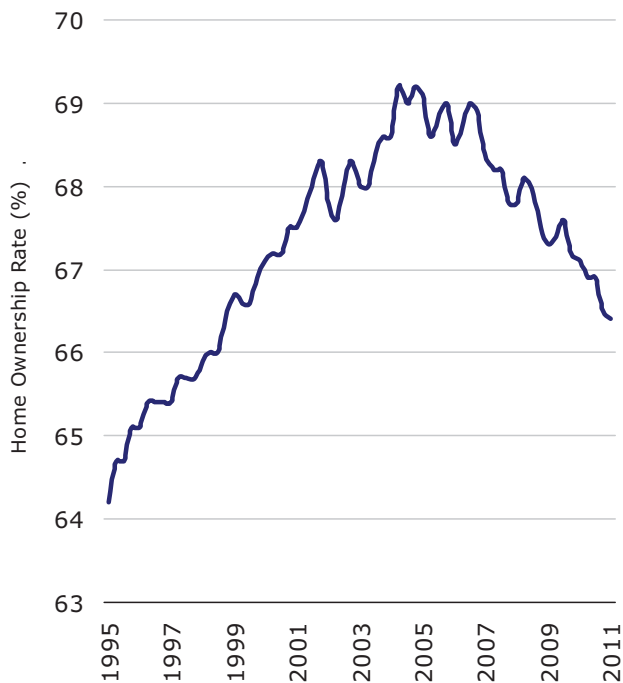
Even With Temperate Economic Growth, Rent Growth Should Exceed Long-Term Averages, Aided by Limited New Construction



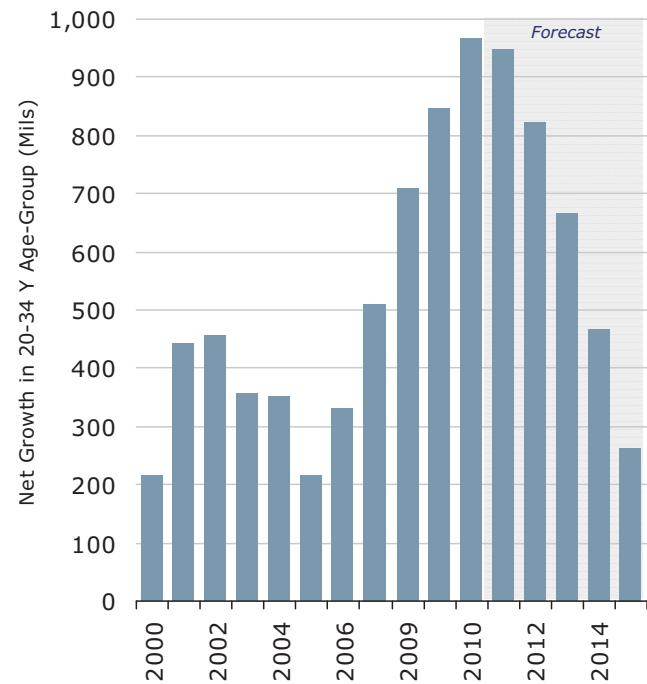
Source: Invesco Real Estate using underlying data provided by CBRE-Econometric Advisors as of August 2011

Apartment Demand Expected to Push Occupancy; Peak Rent Growth Expected in 2012-2013 as Construction Delivers and Foreclosures Slow

Housing Tenure Shifts Favor Renting



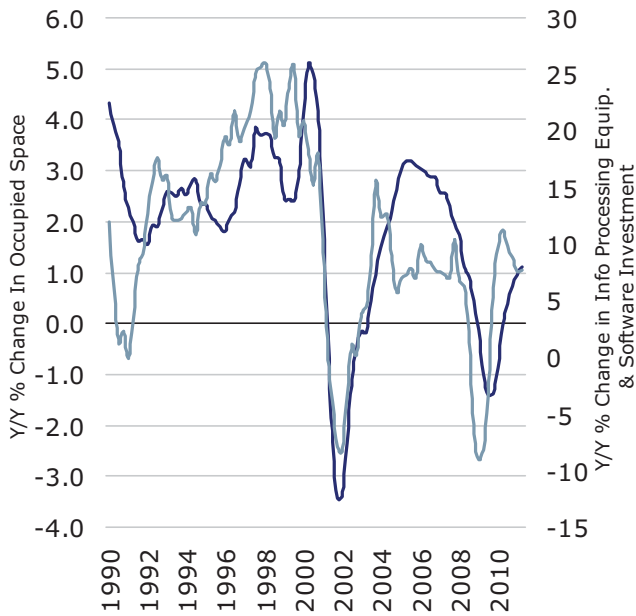
Renter-Age Population Expanding



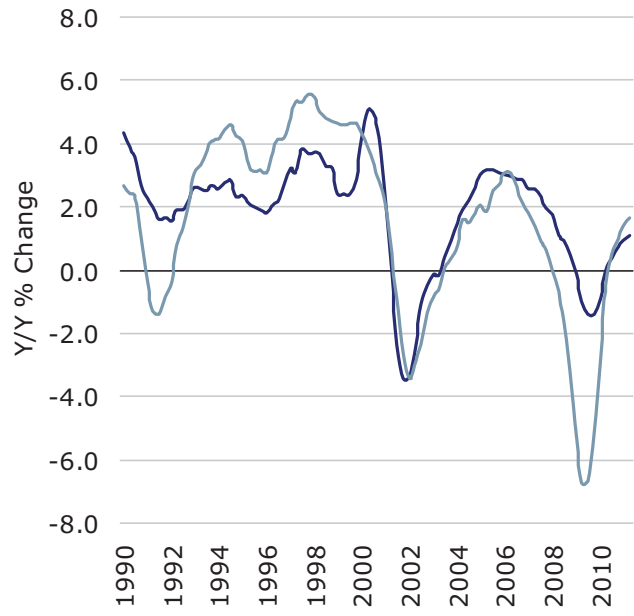
Sources: Moody's Analytics; Invesco Real Estate

Business Investment Started to Generate Office Tenant Demand, But Slowdown is Expected Due to Macro Risks; Excess Space Also Persists

Business Investment & Space Demand



Office-Using Job Growth & Space Demand

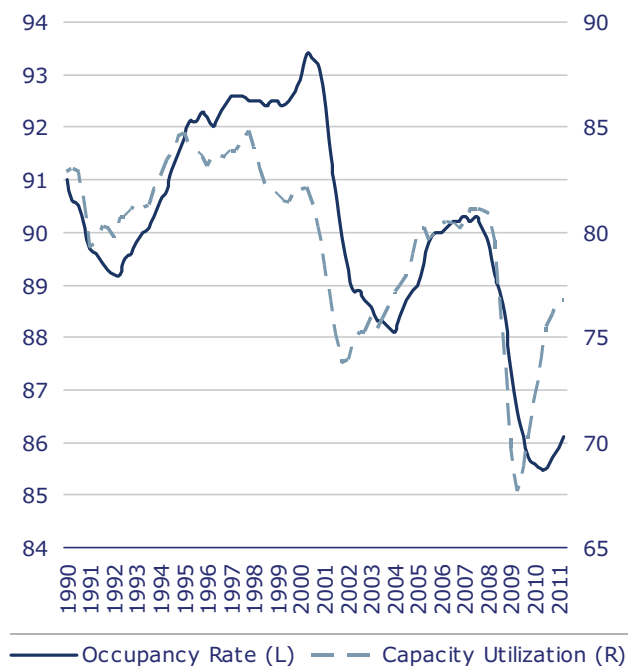


— Occupied Space — Business Investment

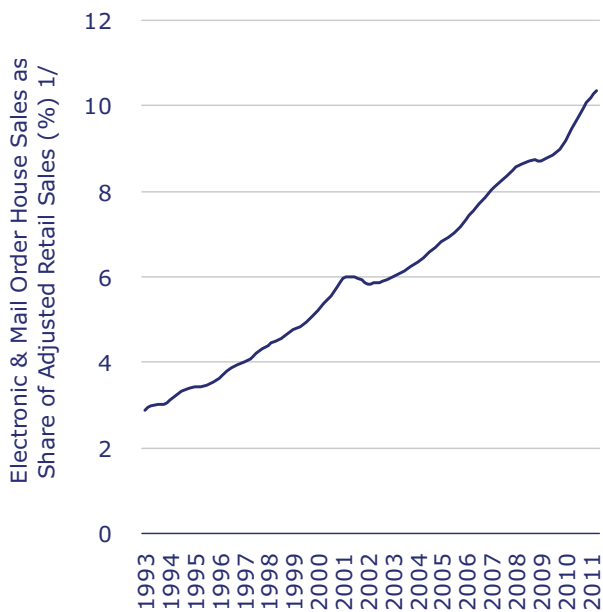
Source: Invesco Real Estate using underlying data provided by Moody's Analytics and CBRE-Econometric Advisors as of August 2011.

Occupancy Gains May Take a Break if Capacity Tightening Stalls; Internet Commerce Structural Shift Favors Industrial in Long Term

U.S. Occupancy Rate (%) and Capacity Utilization (%)



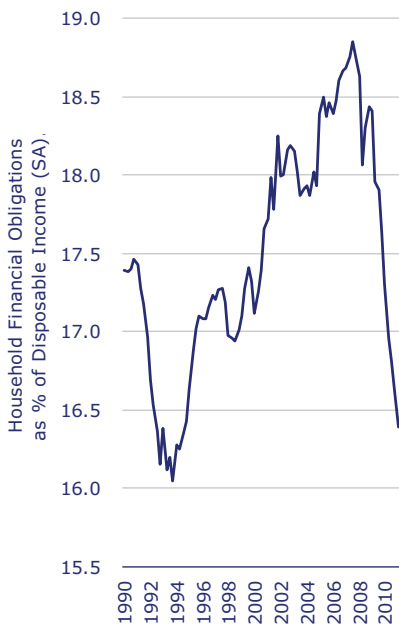
Internet Shopping is Shifting Some Tenant Demand from Retail to Industrial



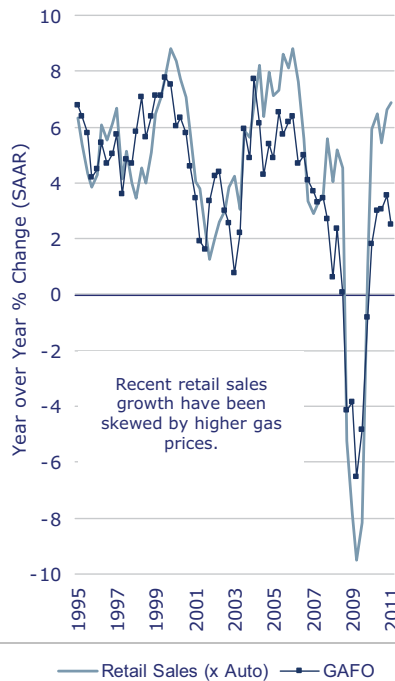
Source: Invesco Real Estate using underlying data provided by CBRE-Econometric Advisors as of August 2011.

Mild job growth and debt payment reductions have spurred modest rise in retail sales, but record high vacancy rates require a focused strategy

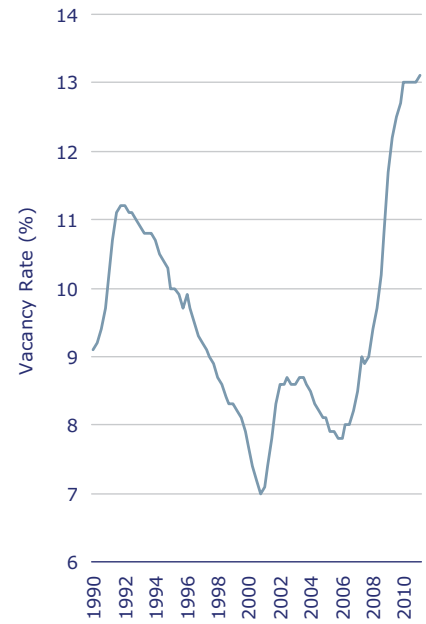
Household De-Leveraging Makes Room for Spending



Retail Sales Have Improved Moderately



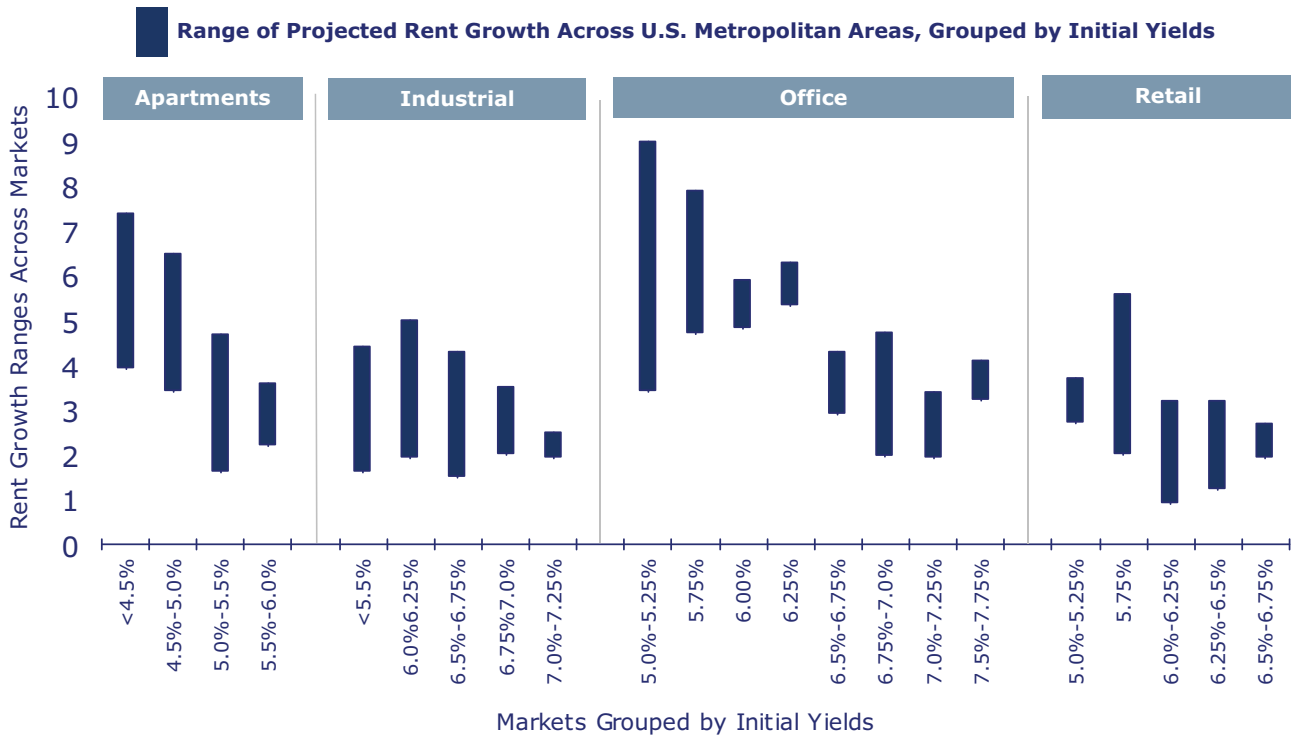
But Vacancy Remains at Record Highs



Source: Invesco Real Estate as of August 2011 using underlying data provided by Moody's Analytics, CBRE-EA, and CoStar.
 Note: GAFO includes the following store types: furniture & home furnishings; electronic & appliances; clothing & accessories; sporting goods, hobby, book, & music; general merchandise (dept. stores, warehouse clubs, and superstores); office supplies & gift stores.



Projections of Annual Rent Growth Across U.S. Metros, 2012-2016 Markets Grouped by Initial Yields for Prime Assets



Sources: Rent growth forecasts by Invesco Real Estate as of August 2011 based on data from CBRE-Econometric Advisors and Moody's Analytics. Initial yields estimated by Invesco Real Estate as of July 2011. Markets represented above account for approximately 87% of total market value in the NCREIF Property Index.



Appendix 1

ICRE Most Recent Investments

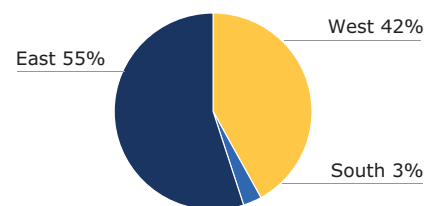
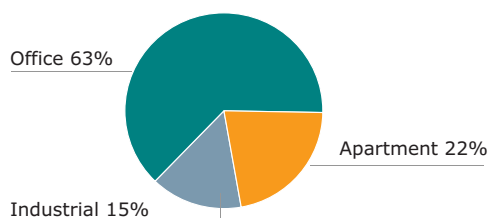


ICRE 2011 Acquisitions

STATUS AS OF SEPTEMBER 30, 2011

| Acquisitions* | |
|---|------------------|
| Gross Volume: | \$956.1 M |
| Net Equity: | \$707.6 M |
| Weighted Avg. Unlevered 10-Yr IRR: | 8.25% |

* Based on gross acquisitions price



| | Property Location | Property Type | Closing Quarter | Gross Acquisition Price | Equity | Debt | 10 Year Unlevered IRR ¹ | |
|----------------------------|-----------------------------------|--------------------|-----------------|-------------------------|-----------------------|-----------------------|------------------------------------|--------------|
| Closed Transactions | | | | | | | | |
| | Steeplechase 95 | Washington, DC | Industrial | 1Q 11 | \$ 21,000,000 | \$ 21,000,000 | \$ - | 7.66% |
| | 1800 Larimer | Denver, CO | Office | 1Q 11 | \$ 213,000,000 | \$ 213,000,000 | \$ - | 7.82% |
| | Trade Center III & V | Dallas, TX | Industrial | 1Q 11 | \$ 26,400,000 | \$ 26,400,000 | \$ - | 7.87% |
| | Legacy Fountain Plaza | San Jose, CA | Apartments | 1Q 11 | \$ 91,200,000 | \$ 91,200,000 | \$ - | 8.27% |
| | The Elektra | New York, NY | Apartments | 1Q 11 | \$ 122,500,000 | \$ 52,500,000 | \$ 70,000,000 | 7.41% |
| | Total 1Q11 (Weighted Avg.) | | | | \$ 474,100,000 | \$ 404,100,000 | \$ 70,000,000 | 7.80% |
| | 230 Park Avenue | New York, NY | Office | 2Q 11 | \$ 387,000,000 | \$ 208,500,000 | \$ 178,500,000 | 8.93% |
| | Total 2Q11 (Weighted Avg.) | | | | \$ 387,000,000 | \$ 208,500,000 | \$ 178,500,000 | 8.93% |
| | IE Logistics | San Bernardino, CA | Industrial | 3Q 11 | \$ 95,000,000 | \$ 95,000,000 | \$ - | 7.74% |
| | Total 3Q11 (Weighted Avg.) | | | | \$ 95,000,000 | \$ 95,000,000 | \$ - | 7.74% |
| | Total 2011 (Weighted Avg.) | | | | \$ 956,100,000 | \$ 707,600,000 | \$ 248,500,000 | 8.25% |

¹ Projected

ICRE 2011 Dispositions

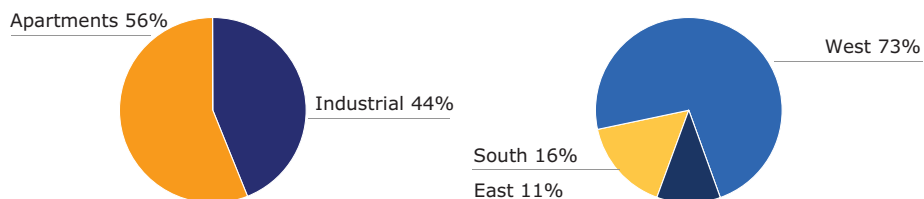
STATUS AS OF SEPTEMBER 30, 2011

Dispositions*

Gross Volume: \$127.5 M

No. of Sales Closed: 3

* Based on gross sales price



| | Property Location | Property Type | Closing Quarter | Gross Sales Price | Carry at Sale |
|--------------------------------------|-------------------|---------------|-----------------|----------------------|-----------------------|
| Closed Sales | | | | | |
| Auburn Warehouse | Auburn, WA | Industrial | 1Q 11 | 43,000,000 | 41,000,000 |
| Boca Colony | Boca Raton, FL | Apartments | 2Q 11 | 21,600,000 | 20,400,000 |
| Otis St. Industrial | Boston, MA | Industrial | 2Q 11 | 12,760,000 | 14,600,000 |
| Total 1Q11 | | | | \$ 77,360,000 | \$ 76,000,000 |
| Pending Sales | | | | | |
| Kimberly Woods | San Jose, CA | Apartments | N/A | 56,000,000 * | 51,500,000 |
| Total Pending (Weighted Avg.) | | | | \$ 56,000,000 | \$ 51,500,000 |
| TOTAL (Weighted Avg.) | | | | | \$ 127,500,000 |

*Suggested gross minimum sales price

Lake Pointe Village

RETAIL • SUGAR LAND (HOUSTON), TX



Transaction Highlights (Closed 10/11)

- Acquisition of a 162,263 square foot (96% leased) retail center located prominently at the intersection of U.S. 59 and Highway 6. This premier retail location within Sugar Land has 240,000 vehicles per day pass through its intersection.
- The center is anchored by Whole Foods with 16 years remaining on its lease.
- Strong demographics surround the property with 3-mile median household income of nearly \$94,000 and estimated population of over 88,000. Population growth in excess of 15% is forecast for this area over the next 5 years.

Key Statistics

- Purchase Price: \$53.9 million
- Price per SF: \$332
- Going-in Cap Rate: 5.94%
- 5-Yr Average Income Return: 6.35%
- Year 10 Unleveraged IRR: 7.60%

Source: Invesco Real Estate as at October 11, 2011. For illustrative purposes only. It does not constitute recommendation or advice. Returns stated are underwriting forecasts.



IE Logistics

INDUSTRIAL • SAN BERNARDINO, CA



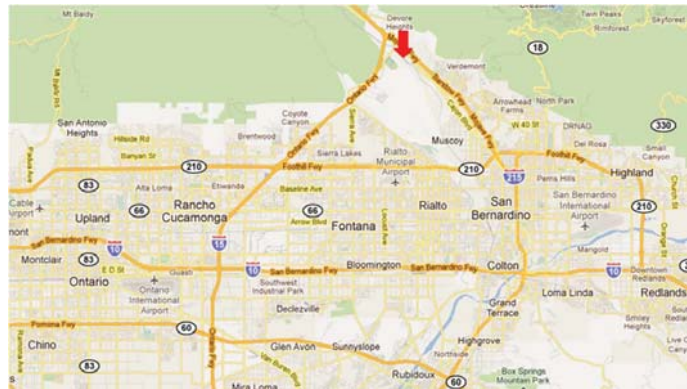
Transaction Highlights (Closed 9/11)

- Two state-of-the-art, "Class A" cross dock distribution buildings totaling 1,402,825 square feet, strategically located at the interchange of two major highways in the Inland Empire of southern California.
- The buildings are 100% occupied by Hewlett Packard through March of 2019. These distribution facilities will be HP's flagship location and serve as an important node in HP's overall North American distribution strategy.
- The strong industrial market fundamentals of the Inland Empire combined with the very limited supply of buildings over 500,000 square feet creates a strategic property profile within a top rated industrial market in IRE's "House View".

Key Statistics

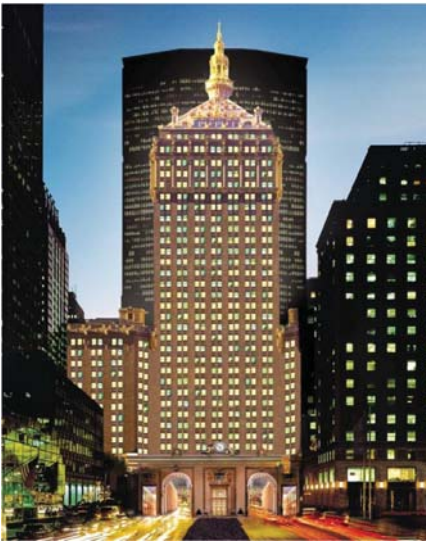
- Purchase Price: \$95 million
- Price per Square Foot: \$68
- Stabilized Cap Rate: 5.49%
- 5-Yr Average Income Return: 5.69%
- Year 10 Unleveraged IRR: 7.74%

Source: Invesco Real Estate as at September 22, 2011. For illustrative purposes only. It does not constitute recommendation or advice. Returns stated are underwriting forecasts.



230 Park Avenue

OFFICE • NEW YORK, NEW YORK



Key Statistics

- Purchase Price: \$760 million
- Price per SF: \$542/sf
- Percent Leased: 85%
- Going-in Cap Rate: 4.14%
- Year 5 Unleveraged IRR: 10.86%
- 51/49 joint venture with an Invesco advised separate account client

Source: Invesco Real Estate as at June 9, 2011. For illustrative purposes only. It does not constitute a recommendation or advice. Returns stated are underwriting forecasts.

Transaction Highlights (Closed 06/11)

- Recapitalization of a premier New York City office building in one of the most desirable locations within the top office submarket of Manhattan through an off-market transaction.
- The asset was last acquired in 2007 at the U.S. market peak for approximately \$1.2 billion. IRE's acquisition price is a 45% discount to the previous owner's basis and a significant discount from the estimated replacement cost of \$1,200/SF.
- The building has attained a LEED-EB-Gold designation.
- Monday Properties (a well-respected owner and manager of high quality office assets in NYC and Washington, DC) will remain in the investment as the operating partner.
- The building has migrated from a high of 400 smaller tenants to approximately 90 tenants today. The tenant consolidation strategy is expected to continue, which will also coincide with moving average building rents closer to market as they are roughly 20% below currently.
- A new loan for \$350 million at a fixed rate of 4.50%, interest-only for 7 years was funded at close.



The Elektra

APARTMENTS • NEW YORK, NY



Transaction Highlights (Closed 03/11)

- The Elektra represents an off-market acquisition of a recently renovated and fully stabilized, Class-A apartment tower in Manhattan's Gramercy Park neighborhood.
- The 32-story building was fully renovated in 2007/2008. High-end finishes include custom stone bathrooms, hardwood plank flooring, slate kitchen countertops and track lighting. The property was initially conceived as a condominium, designed and renovated with purchasers in mind. The floor-to-ceiling windows offer excellent city views, and 80% of the units offer terraces.
- The asset is not subject to rent stabilization or a tax abatement program. The opportunity to acquire a fully "market-rate" building with no municipal or state regulation is rare in Manhattan.
- With immediate access to the subway, the property's location offers a convenient mid-point between the commerce centers of Midtown and the Financial District.

Key Statistics

- | | |
|-------------------------------|------------------|
| • Purchase Price: | \$ 122.5 million |
| • Price per Unit: | \$ 737,952 |
| • Going-in Cap Rate: | 3.84% |
| • 5-Yr Average Income Return: | 4.50% |
| • Year 10 Unleveraged IRR: | 7.41% |

Source: Invesco Real Estate as at March 17, 2011. For illustrative purposes only. It does not constitute recommendation or advice. Returns stated are underwriting forecasts.



1800 Larimer

OFFICE • DENVER, CO



Transaction Highlights (Closed 02/11)

- Acquisition of a Class "AA" core office building in an "A" CBD location.
- The building is currently 88% leased with 69% occupied by Public Service Company of Colorado (Xcel Energy), a credit-rated tenant on a 15-year lease.
- LEED Platinum certified property and the only high-rise office building completed in the core of the Denver CBD in the last 25 years.
- The building features an underfloor air distribution system with movable diffusers located in each office and employee work area allowing individuals to control their own heating and cooling.

Key Statistics

| | |
|-------------------------------|---------------|
| • Purchase Price: | \$213 million |
| • Price per SF: | \$430 |
| • Stabilized Cap Rate: | 6.65% |
| • 5-Yr Average Income Return: | 6.64% |
| • Year 10 Unleveraged IRR: | 7.82% |



Source: Invesco Real Estate as at February 15, 2011. For illustrative purposes only. It does not constitute a recommendation or advice. Returns stated are underwriting forecasts.

Trade Center III & V

INDUSTRIAL • DALLAS, TX



Transaction Highlights (Closed 02/11)

- Two Class "A" industrial buildings located adjacent to the Dallas/Fort Worth International Airport.
- Buildings are 95% occupied with an average lease term of 7.2 years.
- Great visibility along Highway 114 and 121 which provides access to the entire Dallas/Ft. Worth Metroplex.
- Simmons, the bedding company, manufactures "made-to-order" mattresses in Trade Center V for distribution across Texas and the southwestern United States.
- TS Sports manufactures high-end video displays and scoreboards. They constructed the scoreboard for the American Airlines Center in downtown Dallas.

Key Statistics (as of 02/03/11)

- Purchase Price: \$26.4 million
- Price per SF: \$54
- Going-in Cap Rate: 6.53%
- 5-Yr Average Income Return: 7.51%
- Year 10 Unleveraged IRR: 7.87%

Source: Invesco Real Estate as at February 3, 2011. For illustrative purposes only. It does not constitute recommendation or advice. Returns stated are underwriting forecasts.



Legacy Fountain Plaza

MULTI-FAMILY • SAN JOSE, CALIFORNIA



Transaction Highlights (Closed 01/11)

- Acquisition of a class A, 367-unit apartment property located in downtown San Jose that was completed in 2004.
- IRE projects a very strong recovery in the San Jose apartment market over the next 2-3 driven by high demand, average occupancy of 97% and limited new supply.
- The property is built to a very high standard with above-average unit and project amenities including a best-in-class swimming pool and clubhouse.

Key Statistics (as of 01/27/11)

- | | |
|-------------------------------|----------------|
| • Purchase Price: | \$91.2 million |
| • Price per Unit: | \$248,501 |
| • Going-in Cap Rate: | 4.61% |
| • 5-Yr Average Income Return: | 5.39% |
| • Year 10 Unleveraged IRR: | 8.27% |

Source: Invesco Real Estate as at January 27, 2011. For illustrative purposes only. It does not constitute recommendation or advice. Returns stated are underwriting forecasts.



Steeplechase 95 International Business Park

INDUSTRIAL • WASHINGTON, DC



Transaction Highlights (Closed 01/11)

- Two newly constructed class "A" industrial properties located in the Steeplechase 95 International Business Park in Capitol Heights, MD.
- 100% leased and occupied with an average term remaining of 6 years. This investment provides excellent stability and predictable cash flow.
- Excellent access to I-95 and Washington, DC via Route 50.
- High visibility location with first class ancillary retail nearby.

Key Statistics (as of 01/06/11)

| | |
|-------------------------------|--------------|
| • Purchase Price: | \$21 million |
| • Price per SF: | \$111 |
| • Going-in Cap Rate: | 6.68% |
| • 5-Yr Average Income Return: | 6.76% |
| • Year 10 Unleveraged IRR: | 7.66% |

Source: Invesco Real Estate as at January 6, 2011. For illustrative purposes only. It does not constitute recommendation or advice. Returns stated are underwriting forecasts.



910 Lincoln Road

RETAIL • MIAMI, FL



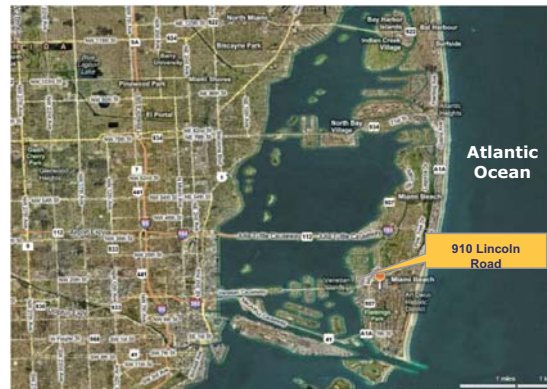
Transaction Highlights (Closed 12/10)

- Class A+, single tenant retail building located in the prestigious area known as Lincoln Road Mall in Miami's South Beach neighborhood.
- The Lincoln Road Mall Corridor is an eight block urban shopping, restaurant and cultural center and also one of Miami's top tourist destinations. The pedestrian only corridor is home to well known national and international retailers, restaurants, theaters and the Miami Beach Convention Center.
- The building is 100% leased to the UK based men's and women's fashion retailer All Saints through 2024, providing stable, attractive annual income returns.
- 910 Lincoln represents an opportunity to acquire a fully leased retail asset in a trophy location, with over 14 years of term remaining on the in-place lease.

Key Statistics (as of 12/29/10)

- Purchase Price: \$15.8 million
- Price per SF: \$1,801
- Going-in Cap Rate: 5.74%
- 5-Yr Average Income Return: 6.06%
- Year 10 Unleveraged IRR: 7.64%

Source: Invesco Real Estate as at December 29, 2010. For illustrative purposes only. It does not constitute recommendation or advice. Returns stated are underwriting forecasts.



Ladd Tower

MULTIFAMILY • PORTLAND, OR



Transaction Highlights (Closed 11/10)

- Class A, 332-unit apartment tower located in the Portland, OR central business district.
- The tower was completed in August 2009 and certified LEED Gold and is considered to be best-in-class and the highest quality apartment project in Downtown Portland.
- The 23-story property provides for excellent access to several amenities and is a short walking distance to the Financial District, Pioneer Place Mall, Portland State University, the Pearl District and numerous cultural amenities including the Portland Art Museum and the Portland Center for the Performing Arts. The property has excellent access to public transportation with streetcar and light rail stops within 1-2 blocks.

Key Statistics

| | |
|-------------------------------|--------------|
| • Purchase Price: | \$79 million |
| • Price per Unit: | \$239,000 |
| • Price per SF: | \$310 |
| • Going-in Cap Rate: | 4.62% |
| • 5-Yr Average Income Return: | 5.51% |
| • Year 10 Unleveraged IRR: | 8.18% |

Source: Invesco Real Estate as at November 22, 2010. For illustrative purposes only. It does not constitute a recommendation or advice. Returns stated are underwriting forecasts.



1111 Pennsylvania

OFFICE • WASHINGTON DC



Transaction Highlights (Closed 10/10)

- The property is a Class A, 14 story office property with a prestigious Pennsylvania Avenue location.
- 100% leased on a long term NNN basis to an international law firm through 2017. The lease is currently 34% below current market rents which provides for considerable upside upon expiration.
- Property is positioned in an irreplaceable A+ location with only nine privately owned buildings located on Pennsylvania Avenue between the White House and Capitol.
- One block from the Metro affording easy access to tenants, one block from the National Mall and two blocks from the White House.
- The downtown Washington D.C. office consistently outperforms due to durable demand drivers and high barriers to entry.

Key Statistics

- Purchase Price: \$220 million
- Price PSF: \$665
- Going-in Cap Rate: 4.90%
- Year 10 Unleveraged IRR: 8.04%
- Stabilized Market Cap Rate: 6.95%

Source: Invesco Real Estate as at October 7, 2010. For illustrative purposes only. It does not constitute recommendation or advice. Returns stated are underwriting forecasts.



Westbank Market – 3300 Bee Cave Road

RETAIL • AUSTIN, TX



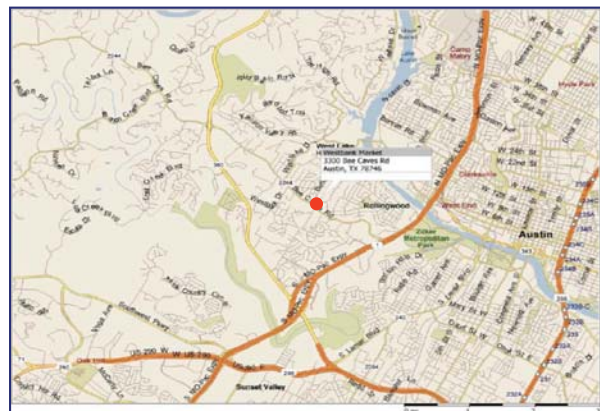
Transaction Highlights (Closed 9/2010)

- Randall's anchored neighborhood shopping center built in 1988 and renovated in 1998. The property is 100% leased to 35 tenants and has a strong history of occupancy and sales. Randall's is the second most dominant grocer in central Texas and this location is reportedly a top performer among all Austin area locations.
- Strong demographic consumer base with median household income of \$106,329 and home value of \$477,403 within one mile of the center.
- Located at the intersection of Bee Cave Road and Walsh Tarlton Lane, Westbank Market is in the heart of Westlake Hills, Austin's most affluent suburb. Approximately 33,000 vehicles per day pass the center on its main frontage, Bee Cave Road.

Key Statistics

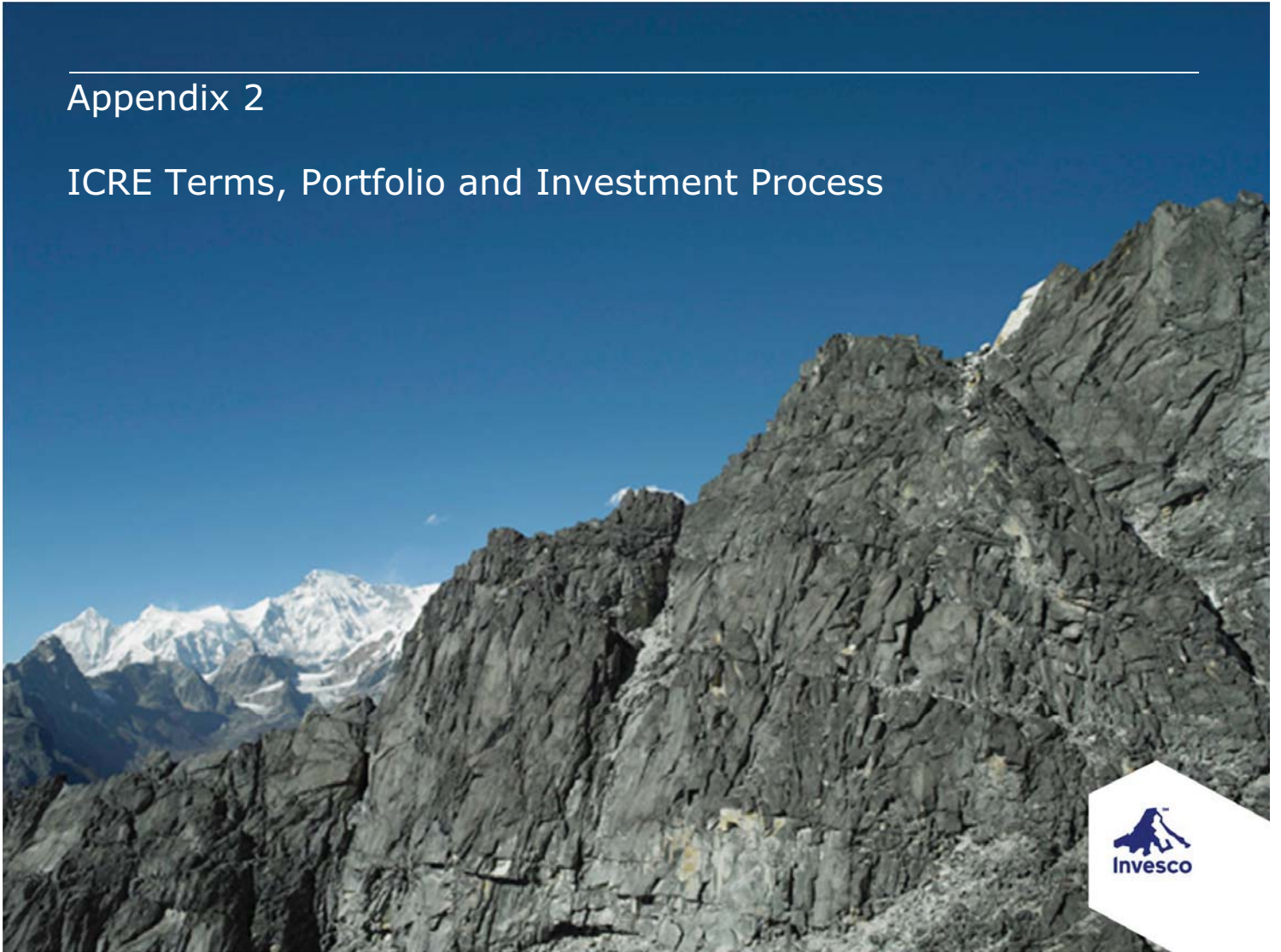
- Purchase Price: \$40 million
- Rentable SF: 138,422
- Price PSF: \$289
- Cap Rate: 6.63%
- Year 10 Unleveraged IRR: 8.47%

Source: Invesco Real Estate as at September 30, 2010. For illustrative purposes only. It does not constitute recommendation or advice. Returns stated are underwriting forecasts.



Appendix 2

ICRE Terms, Portfolio and Investment Process



Invesco Core Real Estate–U.S.A., L.P.

TERMS

Investment Strategy:

Core Real Estate (Multi-Family, Retail, Industrial, Office)

Geographic Focus:

Major metropolitan areas within the United States

Leverage:

Maximum of 35% loan-to-value

Structure:

A Delaware limited partnership; open-ended

Eligible Investors:

Public Pension Funds, Corporate Pension Funds, Jointly Trusteed Benefit Plans, Foundations, Endowments, Banks, Insurance Companies, Charitable Trusts, High Net Worth Individuals and Foreign Investors

Minimum Investment:

\$10,000,000

*Investment Management Fee:**

For investors whose subscription is:

- Greater than \$25 million – 0.9% of NAV
- \$15 million to \$25 million – 1.0% of NAV
- \$0 million to \$15 million – 1.1% of NAV

* Please see PPM for a more complete description of fees.

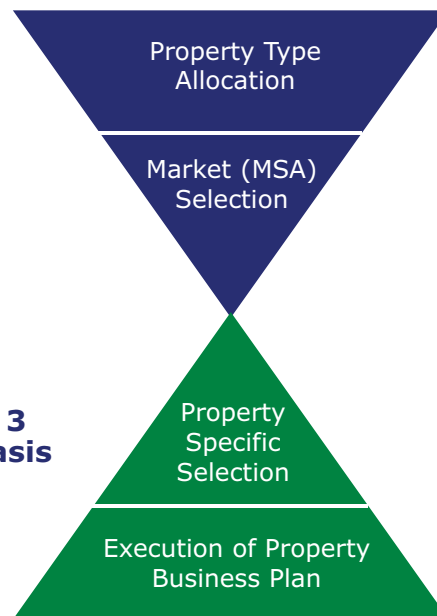
Invesco Core Real Estate – U.S.A.

PORTFOLIO STRATEGY

- Invesco House View core real estate strategy
- Diversified portfolio of institutional quality properties
- 35% maximum leverage

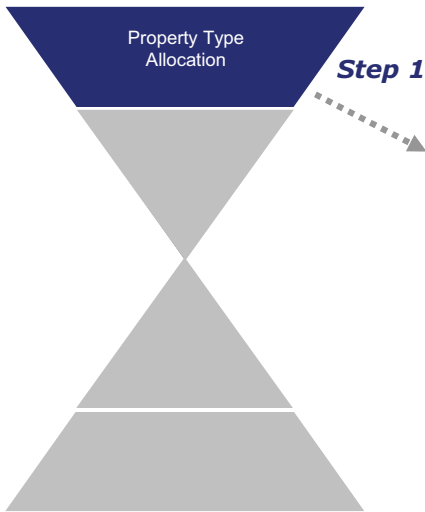
Objective:

- **Equal or Exceed NCREIF/ ODCE over 3 and 5 year rolling basis**



Invesco Core Real Estate – U.S.A.

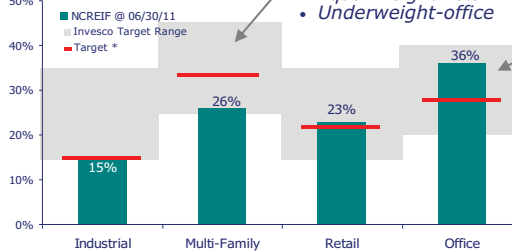
PORTFOLIO STRATEGY



| Best Performing Sector | | | | Worst Performing Sector | | | | | | |
|------------------------|------------|-------|------------|-------------------------|------------|-------|------------|-------|------------|-------|
| 77-82 | Office | 19.3% | Apartments | 19.2% | NPI | 16.1% | Industrial | 15.3% | Retail | 10.6% |
| 78-83 | Apartments | 19.6% | Office | 17.5% | NPI | 15.5% | Industrial | 15.0% | Retail | 11.2% |
| 79-84 | Office | 16.1% | Apartments | 16.0% | NPI | 14.2% | Industrial | 13.9% | Retail | 12.3% |
| 80-85 | Apartments | 14.6% | Industrial | 13.1% | NPI | 12.8% | Office | 12.8% | Retail | 12.6% |
| 81-86 | Apartments | 13.2% | Retail | 12.9% | Industrial | 11.4% | NPI | 11.2% | Office | 9.9% |
| 82-87 | Retail | 14.0% | Apartments | 11.4% | Industrial | 11.4% | NPI | 10.9% | Office | 8.7% |
| 83-88 | Retail | 14.2% | Industrial | 10.8% | NPI | 10.2% | Apartments | 9.8% | Office | 7.4% |
| 84-89 | Retail | 13.3% | Industrial | 9.9% | NPI | 9.0% | Apartments | 8.9% | Office | 5.8% |
| 85-90 | Retail | 11.6% | Industrial | 7.8% | Apartments | 7.8% | NPI | 7.2% | Office | 3.7% |
| 86-91 | Retail | 8.6% | Apartments | 6.0% | Industrial | 5.2% | NPI | 4.3% | Office | 0.1% |
| 87-92 | Retail | 5.6% | Apartments | 5.0% | Industrial | 2.3% | NPI | 1.8% | Office | -2.3% |
| 88-93 | Apartments | 4.7% | Retail | 3.7% | Industrial | 0.2% | NPI | 0.2% | Office | -4.2% |
| 89-94 | Apartments | 5.3% | Retail | 2.5% | Industrial | 0.0% | NPI | -0.1% | Office | -4.3% |
| 90-95 | Apartments | 6.4% | Retail | 2.1% | Industrial | 2.0% | NPI | 0.9% | Office | -2.7% |
| 91-96 | Apartments | 9.1% | Industrial | 5.4% | NPI | 4.1% | Retail | 3.4% | Office | 2.2% |
| 92-97 | Apartments | 11.4% | Industrial | 9.6% | NPI | 7.8% | Office | 7.4% | Retail | 5.6% |
| 93-98 | Industrial | 13.0% | Apartments | 12.5% | Office | 12.3% | NPI | 10.8% | Retail | 7.2% |
| 94-99 | Office | 14.0% | Industrial | 13.9% | Apartments | 12.4% | NPI | 11.8% | Retail | 7.9% |
| 95-00 | Office | 15.4% | Industrial | 14.2% | NPI | 12.8% | Apartments | 12.7% | Retail | 8.7% |
| 96-01 | Office | 13.9% | Industrial | 13.3% | Apartments | 12.2% | NPI | 12.2% | Retail | 9.1% |
| 97-02 | Industrial | 11.5% | Apartments | 11.4% | Office | 10.8% | NPI | 10.7% | Retail | 10.1% |
| 98-03 | Retail | 10.9% | Apartments | 10.3% | Industrial | 10.0% | NPI | 9.3% | Office | 8.1% |
| 99-04 | Retail | 13.5% | Apartments | 10.6% | Industrial | 10.0% | NPI | 9.9% | Office | 8.1% |
| 00-05 | Retail | 16.0% | Apartments | 12.2% | NPI | 11.4% | Industrial | 11.2% | Office | 9.1% |
| 01-06 | Retail | 17.4% | NPI | 13.3% | Apartments | 13.2% | Industrial | 12.7% | Office | 11.6% |
| 02-07 | Retail | 17.3% | Office | 15.2% | NPI | 15.1% | Industrial | 14.4% | Apartments | 13.7% |
| 03-08 | Retail | 12.7% | Office | 12.2% | NPI | 11.7% | Industrial | 11.3% | Apartments | 10.1% |
| 04-09 | Retail | 5.7% | Office | 5.2% | NPI | 4.8% | Industrial | 4.6% | Apartments | 3.4% |
| 05-10 | Retail | 4.4% | Office | 3.8% | NPI | 3.5% | Apartments | 2.9% | Industrial | 2.6% |
| 06-2Q11 | Retail | 4.3% | Office | 3.7% | NPI | 3.5% | Apartments | 2.9% | Industrial | 2.5% |

Long-term property type strategic ranges

- Overweight-industrial and multi-family
- Equal weight-retail
- Underweight-office



Tactical Targets-based on current market cycle

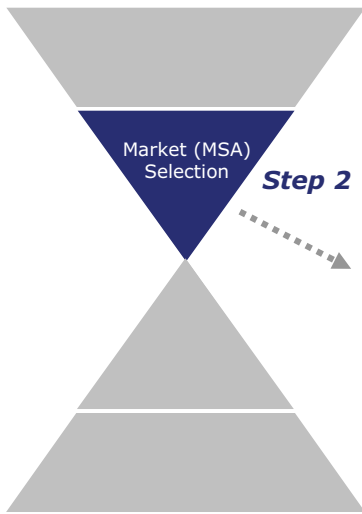
* Target diversification may change based on changing market conditions.

Source: NCREIF, Invesco Real Estate (Q2 11). This chart is intended for illustrative purposes only. It compares the returns of the four real estate sectors that are the primary focus of the Invesco Core Real Estate-U.S.A. strategy. Data is shown on a rolling five year basis going back over twenty years to capture several real estate market cycles. All data is provided by NCREIF.



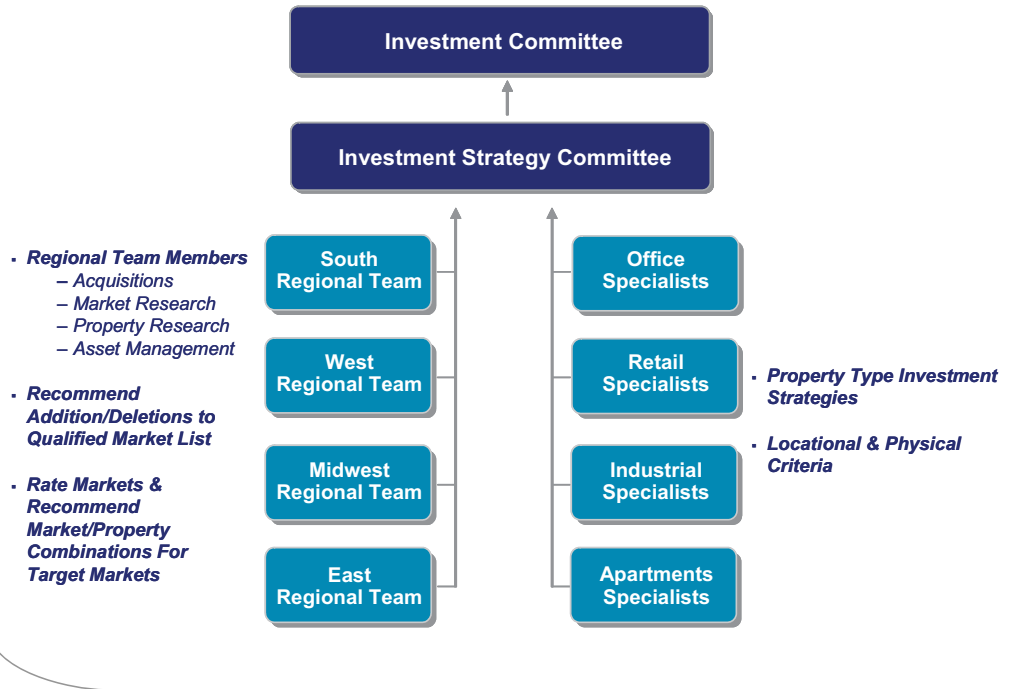
Invesco Core Real Estate – U.S.A.

PORTFOLIO STRATEGY



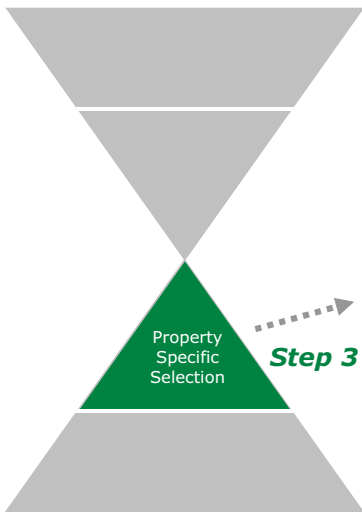
Invesco Qualified Market Rankings

Integrated Strategy Process – A Team Approach

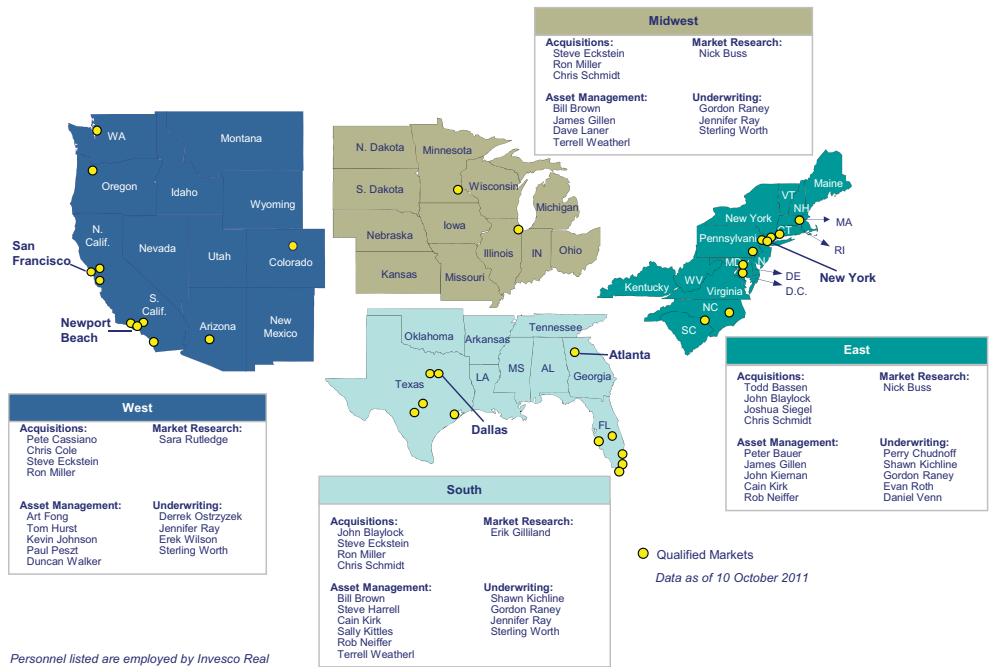


Invesco Core Real Estate – U.S.A.

PORTFOLIO STRATEGY



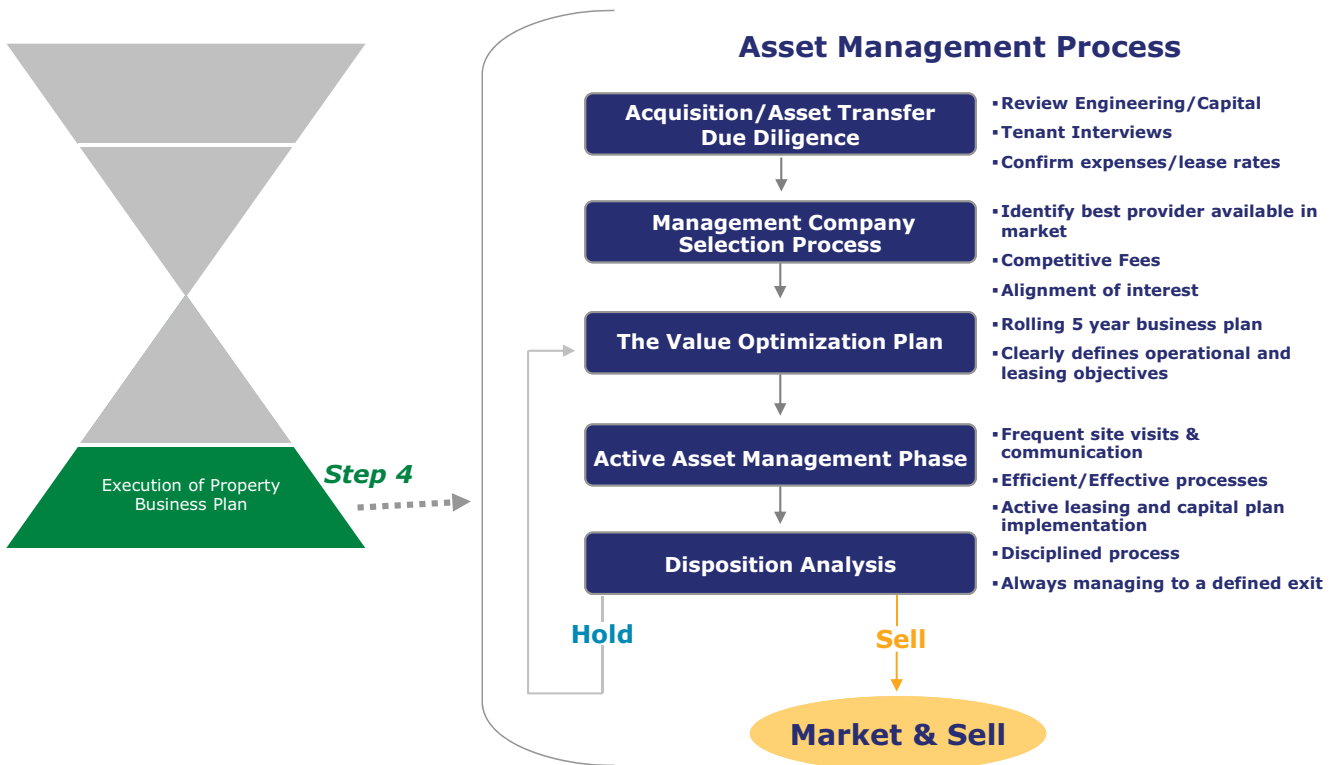
On the Ground Real Estate Expertise and Market Coverage



Personnel listed are employed by Invesco Real Estate and provide these areas of coverage on behalf of all real estate clients.

Invesco Core Real Estate – U.S.A.

PORTFOLIO STRATEGY



Review Questionnaire – Invesco Real Estate

Organizational Update

1) Provide an update on Invesco Real Estate (a) changes to structure, (b) growth and acquisition of assets under management, and (c) clients gained or lost in the past year. The responses to (b) and (c) should address changes in separate accounts and the core fund. All significant changes should be accompanied by an explanation.

- a) There have been no changes to the structure of Invesco Real Estate (IRE). IRE is an investment center for Invesco Advisers, Inc., which is an indirect wholly-owned subsidiary of Invesco Ltd.
- b) The chart below depicts IRE's growth in assets under management during the past year.

| Assets Under Management (in millions) | | |
|--|----------------------------|----------------------------|
| | As of June 30, 2010 | As of June 30, 2011 |
| Invesco Core Real Estate – USA | \$2,514.8* | \$4,243.9 |
| U.S. Direct Real Estate | \$8,370.9 | \$10,082.8 |
| European Direct Real Estate | \$4,490.7 | \$5,690.5 |
| High Yield Debt | \$0.0 | \$20.0 |
| Asian Direct Real Estate | \$83.0 | \$5,955.4 |
| U.S. Real Estate Securities | \$5,371.4 | \$5,833.2 |
| Global Real Estate Securities | \$3,460.1 | \$13,531.5 |
| Total AUM | \$24,290.9 | \$45,357.3 |

On December 31, 2010, Invesco acquired the Asia and Japan fund and asset management business of AIG Global Real Estate Investment Corp. (AIGGRE). The acquisition of AIGGRE enables Invesco Real Estate to accelerate the growth of the firm's Asian initiatives.

- c) The chart below depicts clients gained and lost during the past year.

| | Clients Gained since June 30, 2010 | Clients Lost since June 30, 2010 |
|--------------------------------------|---|---|
| Invesco Core Real Estate -- USA | 26 | 0 |
| U.S. Direct Real Estate | 0 | 0 |
| European Direct Real Estate | 36 | 0 |
| High Yield Debt | 0 | 0 |
| Invesco Asia Real Estate Fund I & II | 47* | 2 |
| U.S. Real Estate Securities | 1 | 5 |
| Global Real Estate Securities | 2 | 2 |
| Total Clients Gained | 112 | 9 |

**In 2010, Invesco acquired the Asia and Japan fund and asset management business of AIG Global Real Estate Investment Corp. (AIGGRE).*

2) What is Invesco's philosophy and current policy regarding acquisition of new business?

A critical element to the success of our firm is our ability to manage our growth, and IRE believes that we have developed a business model with a platform that allows us to do this effectively. While we do not have specific targets related to the number of client relationships or assets under management, IRE is dedicated to prudently managing our growth in terms of investment allocations as well as client relationships. IRE is consistently monitoring our business and ensuring adequate resources are in place to effectively execute our investment strategies for our clients, as well as portfolio administration and client servicing. We will add professionals as necessary to enhance the team and ensure appropriate support in all areas of the organization. We utilize a capacity matrix system for each department to control the workload of our staff and to ensure quality of execution and consistency of

performance. Senior management utilizes the capacity matrix for each group to determine the need for additional staff.

IRE is confident that we can achieve our business plan by maintaining strong performance, maintaining adequate resources, providing excellent client service and having a high level of client satisfaction. Since our firm was founded in 1983, we have embraced a culture of focusing on our clients and our team as the keys to our long-term success.

- 3) Update all significant personnel changes to the "SamCERA team".

There have been no changes to the SamCERA team.

- 4) Please specify separately the individuals (up to ten) who you feel are key to the success of Invesco Real Estate.

Individuals key to the success of IRE are depicted in the chart below. Complete biographies for each individual are attached. **See Attachment A**

| Name | Title |
|----------------|---|
| David Ridley | Executive Chairman |
| Scott Dennis | Chief Executive Officer |
| David Farmer | Chief Operating Officer |
| Paul Michaels | Managing Director of North American Direct Real Estate |
| Max Swango | Director of Client Portfolio Management |
| Michael Kirby | Director of North American Real Estate Operations and U.S. Asset Management |
| Greg Kraus | Director of Acquisitions |
| Joe Rodriguez | Director of Real Estate Securities |
| Jeff Cavanaugh | Director of Portfolio Management |
| Bill Grubbs | Portfolio Manager, Invesco Core Real Estate – USA |

- 5) Please specify separately the individuals (up to five) who you feel are key to the success of the Invesco Core Real Estate – U.S.A., LP.

Individuals key to the success of Invesco Core Real Estate – U.S.A., LP are depicted in the chart below. Complete biographies for each individual are attached. **See Attachment B**

| Name | Title |
|--------------|---|
| Bill Grubbs | Lead Portfolio Manager, Invesco Core Real Estate – USA |
| Mone Haen | Associate Portfolio Manager, Invesco Core Real Estate – USA |
| Greg Kraus | Director of Acquisitions |
| Mike Sobolik | Regional Director of Research, North America |
| Max Swango | Director of Client Portfolio Management |

- 6) Describe your firm's management succession plan. Have dates been established regarding succession on any key personnel, specifically those in the preceding questions? In which corporate document may the succession plan be found?

Succession planning and talent development are operating priorities for Invesco to ensure continuity of leadership, maintain a high level of employee engagement, and ultimately, to focus on performance excellence for our clients.

Supported by a strong performance management process and culture, each year Invesco conducts a companywide talent review for leaders at all levels, including investment professional leaders. These reviews include an assessment of individuals' current performance and career potential and include an evaluation of any retention risks. The discussions then center on creating development plans to ensure each leader receives personalized support to perform optimally and to continue to advance their career at Invesco. Additionally, to retain high performing, high potential and critical impact leaders, Invesco aligns compensation, including long-term tools such as stock/equity awards, in a thoughtful and deliberate way and selectively has

agreements in place to ensure adequate advance notice for retirements or transitions of key leaders.

Specifically for IRE, one of the most important factors in the success of our business has been our ability to plan for and control the growth of our firm. Putting the right people in the right roles has always been critical in allowing us to focus on our client's success. Our observation is that the most successful, enduring businesses spend a good deal of time planning for succession, and management spends considerable time ensuring appropriate succession plans for our key team members. For example, in 2010, IRE executed on a lengthy transition of the CEO role to Scott Dennis followed by David Ridley, our former CEO, becoming Executive Chairman of the organization. This plan was announced to IRE clients and staff two and a half years prior, at which time, Scott moved to work alongside David on a daily basis to ensure a smooth transition. IRE will continue to execute on planned, thoughtful succession planning throughout the senior management team as appropriate, and our commitment to this process allows us to minimize any impact to our clients. At this time, there are not established succession dates for IRE's key personnel discussed in the preceding questions. The succession plan is not within a specific corporate document.

- 7) 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.

Neither IRE nor Invesco has been involved in any type of regulatory or litigation action in the past eighteen months. In the ordinary course of its business and from time to time, Invesco is a party to private civil litigation. There are no legal proceedings pending against Invesco that are expected to be material to its business or operations.

A copy of Invesco's ADV Parts I and II has been e-mailed to Gary Clifton as requested.

- 8) When did the Securities & Exchange Commission, Attorney General, or the NASD last audit your firm? Please note any material findings or recommendations.

As background, Invesco consolidated the businesses of five of its U.S. based investment advisers under Invesco Advisers, Inc. After the close of business on December 31, 2009, the following advisers merged into Invesco Institutional (N.A.), Inc., which was renamed Invesco Advisers, Inc.:

- Invesco Aim Advisors, Inc.
- Invesco Aim Capital Management, Inc.
- Invesco Aim Private Asset Management, Inc.
- Invesco Global Asset Management (N.A.), Inc.

Invesco Advisers, Inc. has two divisions that represent the current lines of our retail and institutional businesses. It is important to note that the investment teams did not change as a result of this consolidation, nor the level or degree of service provided to our clients. The consolidation also does not change any employee's individual roles, responsibilities or reporting lines.

Given the consolidation, we have discussed the most recent routine SEC exam for three of the consolidated Advisers.

In September 2009, the SEC commenced a routine examination of Invesco Institutional (N.A.), Inc. and Invesco Global Asset Management (N.A.), Inc. The on-site work was completed September 18, 2009 and we received a final letter from the

SEC on Dec 30th with one comment that related to code of ethics. At this time, we do not anticipate the SEC taking any further action.

In July 2008, the SEC conducted an examination which focused on proxy solicitation of the AIM Fund Complex, Regulation S transactions for fixed income funds and risk management and internal controls for AIM for the period October 1, 2007 through June 30, 2008. The examination was concluded on July 18, 2008. Invesco Aim received the SEC response on January 23, 2009 and responded to the SEC regarding these items; it is our understanding that the SEC is taking no further action on these items.

It is our policy not to provide communications with regulators, such as letters associated with routine exams, unless they are public documents.

- 9) 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.

| Insurance Type | Lead Carrier | Dollar Coverage | Expiration Date |
|----------------------|---------------------------|------------------------------|-----------------|
| Fidelity Bond | Lloyd's of London | \$25mm | 6/30/12 |
| Errors & Omissions | Lloyd's of London | \$25mm | 6/30/12 |
| Directors & Officers | Lloyd's of London | \$25mm | 6/30/12 |
| ERISA Bonding | Federal Insurance Company | \$1 Million maximum per plan | 04/01/12 |

- 10) Do you have a written policy on ethics? If so, please e-mail the policy to gclifton@samcera.org.

Yes. A copy of Invesco's Code of Ethics has been e-mailed to Gary Clifton as requested.

- 11) What are the current technologies utilized in supporting the investment and back-office processes? -

All IRE employees have either a desk top or lap top computer that is connected to the firm's network. For the past 11 years, IRE has utilized a software called YARDI. YARDI is an accounting, asset management and property management tool. It is essentially a database that contains a wealth of information on all investments. YARDI provides numerous reports used to manage and evaluate investments. Further, it has the ability to generate custom reports based on the evolving needs of the company. Argus is a lease analysis software that is used to help value prospective investments as well as investments in the portfolio.

In addition to YARDI and Argus, IRE employs numerous other software solutions in the operation of the firm. The bulk of these support financial analysis, research, budgeting, underwriting, asset management, portfolio management, accounting and securities disciplines. In addition, we have a proprietary real estate market database that provides critical statistics on occupancy, rent growth, supply, demand and demographics for property/market combinations across the US.

Technology enhancements that will improve our operations and efficiency continue to be a focus at IRE.

- 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.

IRE's U.S. professionals are located in the following offices as of September 30, 2011:

| Address | Investment Activity |
|--|---|
| Three Galleria Tower, Suite 500 13155 Noel Road Dallas, TX 75240 | Real Estate Investment Management Headquarters* |
| 101 California Street, Suite 1900 San Francisco, CA 94111 | U.S. Real Estate Acquisitions, Underwriting, and Portfolio Management |
| 4675 MacArthur Court, Suite 1150 Newport Beach, CA 92660 | U.S. Real Estate Portfolio Management, Acquisitions, Underwriting, and Asset Management |
| Two Peachtree Pointe 1555 Peachtree Street NE, Suite 1800 Atlanta, GA 30309 | Trading and U.S. Real Estate Portfolio Management |
| 1166 Avenue of the Americas 26th Floor New York, NY 10036-2708 | U.S. Real Estate Acquisitions, Underwriting, Portfolio Management, and Asset Management |

**Activities include: Research, Acquisitions, Underwriting, Closing Services, Asset Management, Accounting, Product Management, Portfolio Management, Real Estate Securities Management and Administration*

IRE's back-office team is responsible for the financial oversight and reporting for all of the separate account and pooled investment funds managed by IRE for direct real estate clients. The team is comprised of accounting staff, controllers, and directors. The majority of IRE's accounting professionals employed are Certified Public Accountants who have experience in both public accounting and real estate. This team of experienced accounting personnel provide an oversight function over the third-party property management companies. They are a resource to the property managers and are responsible for reviewing monthly financial information for each. The group has very high standards for internal controls and risk management and conducts annual audits of the internal controls of a sample of the third party property managers we utilize.

As part of a global investment management firm with offices around the world, IRE leverages the resources of affiliates, as well as sub-contractors and/or other external service providers, as needed. We do not currently outsource any significant function.

IRE's fund has a dedicated Fund Controller and three dedicated senior and staff level accountants. These individuals provide an oversight and review function as well as Fund level accounting and financial reporting. This group reviews the financial information for each property from the property manager and keeps the books and records for the Fund as well as its individual investments. In addition, this team, along with the assistance of the Portfolio Management and Asset Management teams, provide the Fund reporting for Investors.

- 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?

Please refer to the attached file for an overview and discussion of Invesco's mission critical systems.

- 14) Provide an overview of your firm's business continuity plan. How often is it reviewed and tested?

IRE maintains a written disaster recovery/business continuity plan. Each night we create tape back-ups of all of our critical databases, such as client portfolio positions and transaction history, as well as the databases necessary for our portfolio management process. These tapes are stored off-site. The Houston data center, which hosts our portfolio accounting, trading and investment management applications, backs up daily and stores their backup tapes at our central backup site in Austin. In the event of a disaster, we would be able to access the information necessary to continue managing client portfolios on the following day.

A key component of our business continuity plan is the utilization of Invesco Ltd's business recovery center in Houston. The business recovery center is outfitted with desks, workstations, telephones, fax machines, copiers, etc. Key employees, such as traders and portfolio managers, would be relocated to our Houston recovery facilities until normal operations could be re-established.

Invesco and Invesco Ltd exercise their respective business recovery plans and perform periodic tests at our back-up sites each year. Test results are used to adjust processes as needed. See Attachment – Invesco BCP Overview

Performance

- 15) Is the performance composite constructed for *SamCERA's* portfolio in compliance with Global Investment Performance Standards (GIPS)?

IRE calculates performance returns for Invesco Core Real Estate – U.S.A. on a quarterly basis using an automated, proprietary software system that is directly tied to the general ledger accounting system. The returns are investment level, leveraged returns calculated using the Modified Dietz methodology, which is in accordance with the National Council of Real Estate Investment Fiduciaries (NCREIF) policy for Fund Level returns.

The return is the sum of income and appreciation for the quarter, divided by the time weighted equity. The time weighted equity looks at the beginning market value of equity plus contributions to the investment less distributions from the investment, both prorated for days in the Fund to determine a basis for the return. The formula is:

NOI + Appreciation

Beginning MV of Equity + Time-Weighted Contributions – Time-Weighted Distributions

With respect to internal controls over performance, the Accounting Manager reviews that the data inputs agree to the general ledger and an independent quality assurance check is performed by the Performance Specialist to test data integrity. The system generated returns are reviewed by the Fund Controller and the Performance Specialist for any unusual or unexpected results, which are investigated and verified for accuracy. These processes ensure the consistency and integrity of the return process.

IRE is part of the larger organization of Invesco Worldwide for purposes of the annual Global Investment Performance Standards (GIPS®) verification. Invesco Worldwide engages an independent accounting firm to perform an annual GIPS® verification on the organization as a whole.

Additionally, Invesco Real Estate's GIPS Composite is also specifically examined by the independent accounting firm. The verification process is intended to assess: (1)

External Valuation Process:

The Fund's valuation process is fundamentally based upon quarterly external valuations. Each investment is valued by a third party (non Altus) appraiser at least once annually, but may be done so more frequently at the discretion of the Fund. External appraisers are selected by Fund management and are rotated off a property following the third consecutive valuation. During the quarters where the properties are not appraised by non Altus third parties, Altus will provide a limited restricted updated appraisal.

Following receipt of the appraiser's draft report, the information is summarized into report form (i.e. exit cap rate, discount rate, rent growth, etc). This report is then distributed to the Fund's portfolio management personnel, along with the acquisition officer and asset manager in the market where the externally valued asset resides. This group then analyzes the assumptions utilized by the appraiser and synthesizes these thoughts into a list of comments that are then conveyed to Altus. Altus then conveys the comments along with their own comments to the individual (non Altus) appraisers for their consideration. If further discussion is necessary, Altus facilitates a phone conversation between IRE and the appraiser. For the quarterly valuations completed by Altus, Invesco will review those appraisals and convey their comments to Altus for consideration.

In either event, the valuation is then booked with Invesco accounting following agreement from all parties. Final appraisal reports are sent to Invesco and kept on file. Invesco has the right to override an appraisal, only if it believes the fair market value of an asset is lower than the reconciled third party appraised value. This has not occurred since the inception of the Fund, however, Invesco will notify the Advisory Committee and other investors as deemed appropriate if and when this authority is utilized

Fair Value Compliance:

The external valuation process that occurs in conjunction with Altus is consistent with ASC Topic 820 in that the final valuation is as close to "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" as possible without the ability to actually engage in a transaction.

The nature of real estate makes the ability to rely on observable inputs (Levels 1 & 2 under the provisions of ASC 820) difficult or impossible as assets are rarely identical, nor are prices quoted. As such, valuations will tend to fall within Level 3 as inputs are often unobservable, but do reflect the best assumptions available based upon thorough market due diligence and intelligence. Use of discounted cash flow models and comparable sales analysis are the primary means of valuing real estate assets with the preponderance of weight given to the discounted cash flow method (Income Approach). The cost approach is rarely used as this is an extraordinarily unreliable valuation technique beyond the valuation of new development. Finally, all external valuations are consistent with USPAP, the Appraisal Standards Board and the Appraisal Foundation.

All properties will continue to be appraised on a quarterly basis.

- 18) Discuss the INVESCO Core Real Estate - U.S.A. performance calculation. Identify internal controls that are employed when calculating performance. Is the performance audited by an independent source?

IRE calculates performance returns for Invesco Core Real Estate – U.S.A. on a quarterly basis using an automated, proprietary software system that is directly tied to the general ledger accounting system. The returns are investment level,

leveraged returns calculated using the Modified Dietz methodology, which is in accordance with the National Counsel of Real Estate Investment Fiduciaries (NCREIF) policy for Fund Level returns.

The return is the sum of income and appreciation for the quarter, divided by the time weighted equity. The time weighted equity looks at the beginning market value of equity plus contributions to the investment less distributions from the investment, both prorated for days in the Fund to determine a basis for the return. The formula is:

NOI + Appreciation

Beginning MV of Equity + Time-Weighted Contributions - Time-Weighted Distributions

With respect to internal controls over performance, the Accounting Manager reviews that the data inputs agree to the general ledger and an independent quality assurance check is performed by the Performance Specialist to test data integrity. The system generated returns are reviewed by the Fund Controller and the Performance Specialist for any unusual or unexpected results, which are investigated and verified for accuracy. These processes ensure the consistency and integrity of the return process.

IRE is part of the larger organization of Invesco Worldwide for purposes of the annual Global Investment Performance Standards (GIPS®) verification. Invesco Worldwide engages an independent accounting firm to perform an annual GIPS® verification on the organization as a whole.

Additionally, Invesco Real Estate's GIPS Composite is also specifically examined by the independent accounting firm. The verification process is intended to assess: (1) compliance with composite construction requirements as predicated in the GIPS®; and, (2) that the processes and procedures to calculate and present performance results are in compliance with the GIPS®.

- 19) Discuss the real estate market and SamCERA/INVESCO's relative success or failure in the current market.

The seasons have turned rapidly for the U.S. economy and the institutional real estate market. Following the official end of the recession in June 2009, the spring of 2010 brought rising employment levels, giving investors enough confidence to extend their exposures beyond the safe havens of government bonds and precious metals. Institutional real estate has been a key benefactor with values rising by more than 11% from 1Q 2010 to 2Q 2011. All the while, the European sovereign debt crisis and rising U.S. government debt levels have lingered, threatening to derail the recovery. The two unwanted guests have certainly made this economic recovery more plodding and less robust than past recoveries, and this summer's debt ceiling debate in the U.S. and escalated fears of a Euro debt default intensified concerns, but investors, consumers, and businesses in large part cautiously stayed the course.

The debt rating downgrade of the U.S. Government by Standard & Poors in August 2011 struck a psychological blow to the world's largest economy, and subsequent fears just days later that France might lose its AAA credit rating redefined the potential magnitude of European contagion beyond the on-going angst over Greece. While the jury is out on how consumers, businesses, and investors may respond to these issues in the coming months, the initial reaction has been sharp risk aversion as investors ironically bolted for U.S. Treasury bonds and have pushed the yield on the 10-year bond to an historic low below 2%.

As a result, our outlook for economic growth, though already low relative to past recoveries, has been reduced further, and the risk of a double dip recession has

increased. But whether the economy sees slow growth or another recession, we believe that the effects of either scenario upon institutional real estate performance would vary chiefly by magnitude, and the strategies we would implement in response are similar.

- We believe that rising economic uncertainty and historically low Treasury yields translate into reduced near-term investment return expectations across most asset classes, including real estate.
- Hence, the preservation of capital and security of income are primary considerations. Incremental returns and yields should be secondary considerations.

The following summarizes the various factors underlying this central theme and our targeted investment strategies:

Economy

- **Lack of confidence borne of uncertainty slows the growth outlook.** Real GDP growth in 2012 is expected at below-trend levels. Improvement starting in 2013 is expected at +/- 2.5%.
- **Sovereign debt risks threaten sustainability of economic recovery.** Negative events in either Europe or the U.S. could trigger another recession.
- **Slow growth means low Treasury yields.** Federal Reserve action is likely to keep government bond yields low for some time.

Pricing and Relative Value

- **Investment performance expectations diminish across most asset classes, including institutional real estate.** Average total returns of +/- 6.5% are expected for institutional real estate over the next five years, which is likely to be marginally lower than stocks and higher than bonds.
- **Getting pricing right is challenging with record low Treasury yields.** Policy and macro risks have arguably made Treasury yields artificially low, creating challenges for assets like real estate priced off a "risk-free" rate.
- **But other comparison metrics provide assurance on current pricing.** Favorable cap rate spreads to commercial real estate mortgage rates and Baa Corporate bond yields in addition to Treasuries support pricing. Absolute cap rate levels today remain above pre-recession lows.
- **Above-average cap rate spreads currently provide further assurance.** Cap rate spreads today remain above long-term average spreads, leaving room for spreads to compress once economic uncertainty diminishes and long-term bond yields rise.
- **It's all about quality; pricing bifurcation persists.** A stable income strategy means an asset selection bias for strong locations, low lease expiration exposures in the near term, and durable tenant credit.

Sector Allocation

- **Apartments offer best near-term opportunity for revenue growth.** Apartment pricing is tightest of all sectors, but record occupancy projections mean apartment income growth should dominate other sectors in the next two years and provide stability in the event of an economic shock. Sector is targeted at 33%, overweight to the NCREIF Property Index (NPI) (27%).
- **Office offers best mid-term opportunity for revenue growth.** Office is expected to see uneven performance across markets, yet as a sector is anticipated to outperform in 3-5 years when below-market rents on expiring leases roll-up to market rates. We continue to move our office allocation upward to 30% in anticipation of this expectation while maintaining an underweight position relative to the NPI (36%).

- **Retail and Industrial: close to neutral allocation.** Expected bifurcated performance leads us to slightly underweight retail at 22% relative to the NPI (23%). Near-term economic headwinds and long-term shifts in demographics, use of consumer credit, and on-line retailing are expected to challenge the sector, causing us to focus on stellar locations. Industrial is expected to see weak near-term income trends as leasing pauses, but should improve as economic uncertainty diminishes. On-line shopping should draw some tenant demand away from retail. Industrial is targeted at 15%, just above the weight in the NPI (14%).
- **It's a "stock picker's game" over the next two years.** All sectors are challenged when job growth slows. Thus, asset selection may trump the importance of sector allocation in the near term, particularly among the commercial sectors, as best locations and low near-term exposure to lease expirations are likely to produce better relative performance.

In this current environment, the Fund remains focused on 1) execution at the property level in order to maximize cash flow and returns, 2) transactional execution - buying and selling the right properties and 3) continuing to manage the balance sheet to insure ample liquidity and favorable debt terms and structure.

Since inception, the Fund has outperformed the NFI-ODCE on a 3, 5-year and since inception basis which is considered a meaningful time period for private real estate. During the past seven years the Fund's overweight to multi-family and underweight to office has somewhat worked against the Fund's performance as office outperformed during 2006 and 2007. However, the Fund still achieved outperformance over this time period. Given the current economic environment, the overweight to multi-family has and will continue to benefit the Fund's performance on a material basis going forward.

We continue to believe that real estate will positively contribute to a diversified investment portfolio. Our objective, of course, is to exceed the performance of the overall core market. We will continue to seek to achieve that objective through the consistent application of IRE's research driven investment process.

20) Provide an attribution analysis for INVESCO's performance *versus* the NFI-ODCE Index.

The ODCE does not report total returns by property sectors or geographic areas as the NPI does. As such, the NPI is utilized for purposes of attribution analysis. Since assets included in the ODCE index report returns on an unleveraged basis into the NPI, the NPI is believed to be a reasonable proxy to analyze attribution for decisions related to property sector allocation, regional allocation and overall selection. Sub-indices of the NPI in many cases can also provide insight into decisions related to market selection.

The Fund's overall gross since inception return through June 30, 2011 is 5.61%, which underperformed the NPI by 164 basis points when compared to the NPI's same period return of 7.25%.

The Fund's performance relative to the NPI is comprised of:

- Excess performance from superior asset selection within the apartment sector.
- Underperformance from property asset selection within the office and industrial sectors.
- The impact of leverage, cash balances, and investment-level expenses.

Please see the response to Question 26(b) below for a detailed presentation of the Funds' attribution compared to the NPI.

21) Is the NFI-ODCE Index appropriate as a benchmark for the Invesco Core Real Estate - U.S.A.?

Given that the ODCE is comprised of 18 U.S. open-end commingled core funds and has been published for a meaningful period of time, we believe that the respective index is a more appropriate benchmark. The ODCE is a fund-level capitalization and equal-weighted index that provides returns inclusive of property performance, leverage, cash balances, and fund level expenses. It includes performance only from properties held within commingled funds and not separate accounts. There are currently 18 Funds that contribute to the ODCE Index, including Invesco Core Real Estate – U.S.A. The ODCE provides a return series starting in 1978 and currently represents approximately \$90.5 billion in gross assets and \$66.5 billion in net assets. At the end of the second quarter of 2011, the ODCE Index reported performance of 1,802 assets.

We believe, as do many of our clients, that it is more appropriate to measure a manager's performance against the ODCE over time periods that reflect full market cycles versus an annual comparison. As such, we recommend using NFI over rolling three and five year periods as a benchmark for performance.

22) Please provide detailed explanations of the NFI-ODCE –Capital Weighted & NFI-ODCE – Equal Weighted Indexes.

In addition to the information provided in the previous question, the table below highlights the performance characteristics between the capital-weight and equal-weight composites of the NFI-ODCE Index. The capital-weight index is the official NFI-ODCE index. The equal-weight index is computed by a simple average of the returns of each fund within the NFI-ODCE.

| Performance Period | Total Returns | | Risk (Standard Deviation) | |
|--------------------|----------------|--------------|---------------------------|--------------|
| | Capital Weight | Equal Weight | Capital Weight | Equal Weight |
| 1 Year | 20.48% | 20.37% | | |
| 5 Year | 0.01% | -0.46% | 19.36% | 19.60% |
| 10 Year | 5.64% | 5.24% | 14.90% | 15.00% |

Specific definitions for each method are as follows:

Equal Weighted Index: An equal-weight index considers all portfolios on an equal basis, regardless of individual portfolio size.

Capital Weighted Index: A Capital-weight index includes the relative weighting when calculating the index return. For example, a single portfolio that represents 30% of the index weight will contribute 30% of the return percentage.

Investment Strategy and Process

- 23) Provide an update on the capital redemption queue. When was the last capital redemption and by which plan sponsor.

The Fund does not have a redemption queue. The last redemption was paid on July 1st and was a partial redemption.

| Redemptions | |
|-------------|------------|
| Guggenheim | 10,000,000 |

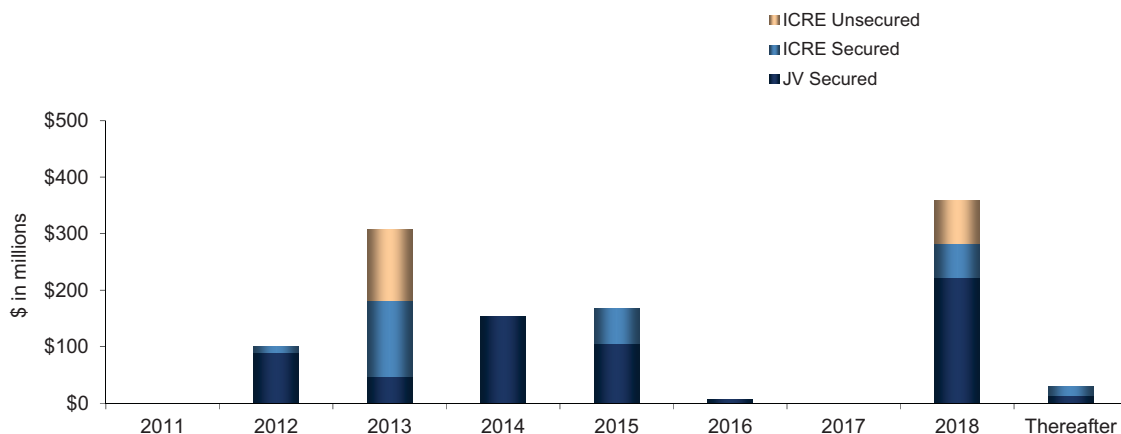
- 24) Discuss the dividend payment process.

At the end of each quarter a dividend is declared for the Fund which is allocable between each investor's ownership position in the Fund. Dividends are distributed the beginning of the following quarter. Alternatively an investor may elect to have the distribution reinvested whereby each investor's interest is adjusted to reflect the contribution of additional capital.

- 25) Discuss the core funds leverage. Please include a debt maturity schedule.

The Fund's leverage limit is 35%. The long term target range for the Fund is 20% to 25%. As of June 30, 2011, the LTV was 27.0%; however, the LTV decreased to 24.1% after the line of credit was paid off shortly after the end of 2Q 2011. At the end of 3Q 2011, the LTV for the Fund was 23.8% with a continued zero balance on the line. Approximately 67% of the portfolio is unencumbered. The prudent use of debt consistent with the core investment philosophy will continue to be part of the strategy to enhance returns and diversification.

Below is the debt maturity schedule for the Fund as of the end of second quarter 2011.

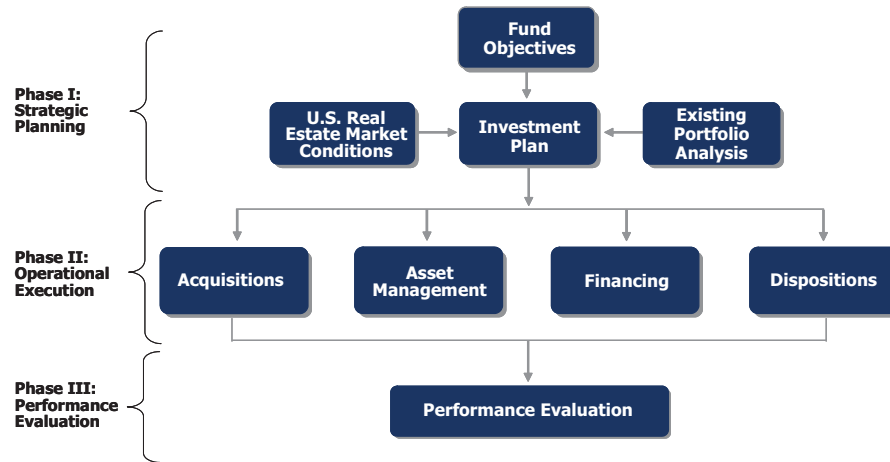


- 26) Provide a full review of the investment process, including (a) who is responsible for various stages of the process

IRE's objective in constructing portfolios is to generate consistent and predictable performance and avoid capital loss, while increasing the opportunity for capital appreciation. Over the years, IRE has developed a disciplined, team-based system

that yields consistent results that can be reproduced over varying phases of the real estate investment cycle.

Our investment strategy has three interactive phases as illustrated below: Strategic Planning, Operational Execution and Performance Evaluation.



Phase I: Strategic Planning

House View: The starting point for achieving our investment objective is to develop a house view of the real estate markets (the "U.S. House View"). The U.S. House View is IRE's collective belief of the way our firm should invest in the institutional real estate market to achieve our clients' investment objectives.

The major components of the U.S. House View are:

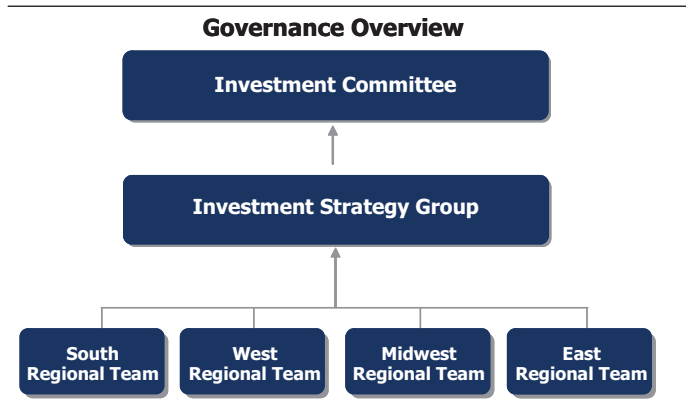
- Target weightings by property type for IRE's model portfolio
- Market ratings for each qualified market
- Investment strategies for each market targeted for investment

The system for developing the U.S. House View is dependent on the input and participation of all of IRE's investment professionals. Every member of the Research, Acquisitions, Underwriting, Asset Management and Portfolio Management groups is involved. This team-based approach ensures clarity in understanding the current opportunities and risks in the market along with providing the team a specific plan upon which to execute to achieve the objectives.

As mentioned, the system is team-based rather than departmental. Each team consists of a cross-section of investment professionals from the various disciplines. The various teams have specific responsibilities and work product requirements that move through the system for additional debate and perspective.

The flow of information and recommendations is illustrated below. Descriptions of each team follow:

U.S. House View Development



Investment Committee:

- Composition: Senior investment professionals from, Acquisitions, Underwriting, Research, Asset Management, Portfolio Management, Dispositions, and Closing Services.
- Objectives:
- Approve U.S. House View
 - Approve investment transactions consistent with the Fund’s investment plan

| IRE'S DIRECT INVESTMENT COMMITTEE | | |
|--|-----------------------|----------------------------------|
| Name | Years with IRE | Total Years of Experience |
| Jeff Cavanaugh | 9 | 28 |
| Matt Cypher | 6 | 8 |
| Scott Dennis | 19 | 30 |
| Peter Feinberg | 1 | 26 |
| Jason Geer | 13 | 20 |
| Bill Grubbs | 6 | 21 |
| Jay Hurley | 16 | 24 |
| Michael Kirby | 18 | 27 |
| Greg Kraus | 11 | 30 |
| Paul Michaels (Chair) | 28 | 29 |
| Ron Ragsdale | 21 | 28 |
| Mike Sobolik | 12 | 26 |

Investment Strategy Group:

- Composition: Members represent various disciplines within Invesco including Portfolio Management, Research, Acquisitions, Underwriting, Asset Management and Securities.

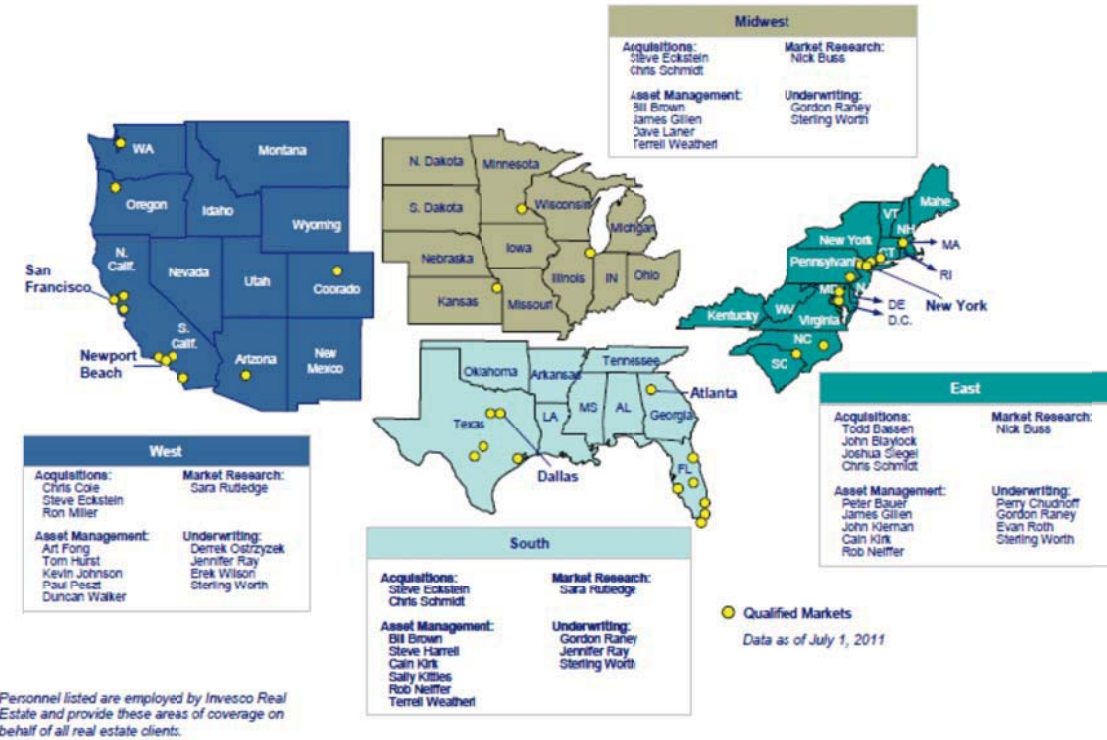
Objectives:

Develop the U.S. House View – Compiled semi-annually by the Investment Strategy Group with input from the Regional Teams and submitted to the Investment Committee for approval.

| IRE'S NORTH AMERICAN INVESTMENT STRATEGY GROUP | | |
|--|----------------|---------------------------|
| Name | Years with IRE | Total Years of Experience |
| Mark Blackburn | 13 | 24 |
| Jeff Cavanaugh | 9 | 28 |
| Peter Feinberg | 1 | 26 |
| Bill Grubbs (Chair) | 6 | 21 |
| Jay Hurley | 16 | 24 |
| Michael Kirby | 18 | 27 |
| Greg Kraus | 11 | 30 |
| Paul Michaels | 28 | 29 |
| Mike Sobolik | 12 | 26 |

Regional Teams:

IRE's Regional Teams are organized by NCREIF region. The following graphic gives a breakdown of the make-up of these Teams:



Market Selection: IRE’s investment research is an applied discipline. The research group concentrates on top-down issues primarily affecting property sector allocation and market selection. The economic outlook is one of the key drivers of these recommendations. IRE believes the key drivers for real estate at both the national and local levels are business and consumer confidence, demographic shifts, employment growth and interest rate levels. Combined, these factors affect the relative value for each property sector.

IRE’s research professionals are charged with regularly gathering and assessing these trends and combining them with local intelligence to formulate well-founded opinions on the underlying investment potential on a market-by-market basis for each property type.

Equally important, the research group is responsible for integrating its top-down market evaluations with the bottom-up expertise of acquisition, asset management and disposition professionals. Professionals in each of these disciplines contribute to the research process in an effort to develop an in-depth understanding of local markets.

IRE's market selection process involves two steps:

- *Qualified Markets* – The first step in our market rating system is to identify “qualified markets.” This is a screening process based on market size (both inventory and institutional investment) and other qualitative factors to ensure tenant depth, investor liquidity for exit and information availability. IRE currently tracks 118 qualified property/ market combinations. The qualified market selection process is guided by four fundamental beliefs.
 - Many metropolitan areas possess embedded characteristics that support predictable, sustained demand for certain property types. Embedded characteristics include a city's location, transportation infrastructure, employment base, political environment and quality of life.
 - All real estate markets experience cyclical supply-and-demand fluctuations that cause values to vary.
 - Investor emotion and overreaction to market cycles contribute to and exaggerate price fluctuations.
 - Values within markets possessing embedded characteristics correct themselves more efficiently.
- *Target Markets* – The second step is to identify the markets that have the greatest potential for income growth. The drivers for growth vary by property type and combine both “top down” macroeconomic data and “bottom up” market factors such as leasing activity and new supply.



Investment Plan: We spend considerable time formulating an investment plan, in which specific performance objectives are outlined. For the Fund, we combine the House View with the Fund's guidelines and overlay the Fund's existing portfolio to develop an investment plan that will maximize the overall performance of the Fund. The Investment Plan is used to strategically guide all of the investment operations of the Fund – acquisitions, asset management, financing and dispositions.

Phase II: Operational Execution

The processes and distinguishing characteristics of each of the operational areas involved with the execution of the Investment Plan are Acquisitions, Asset Management, Financing and Dispositions.

Acquisitions

Bottom-up Acquisition/Disposition Process: IRE's “bottom-up” property selection/disposition process complements its “top-down” market selection process. Once a target market list has been developed, IRE draws upon our established relationships to uncover investment opportunities and provide information useful to the due diligence process.

IRE has been an active investor in institutional-quality real estate with more than \$16.2 billion invested in core and value-added transactions since 1992. IRE currently has a staff of seven senior acquisition professionals in the U.S. located in four regional offices (Dallas, New York, San Francisco and Newport Beach). IRE possesses the in-depth knowledge of the markets, properties and people necessary to source high-quality investment opportunities.

Underwriting/ Contract Negotiation/ Due Diligence: Before executing a contract, IRE establishes a transaction team comprised of professionals from Acquisitions, Underwriting, Asset Management, Research, Closing Services and Portfolio Management. This transaction team is led by a senior professional so that underwriting standards are consistently applied. Members of this team perform their functions independently to provide a system of checks and balances and each team member, including the Fund's portfolio manager, has the ability to veto the acquisition at any time during due diligence.



During the formal underwriting phase, IRE's underwriting and asset management professionals subject the asset to a comprehensive physical, financial and market analysis. This analysis includes the property's historical performance, lease terms and rollover/tenant credit, and the investment's anticipated future returns.

Before making the acquisition decision, the transaction team prepares a detailed investment proposal that defines the major investment issues. Simultaneously, the asset manager develops a Value Optimization Plan (property-level business plan) with the assistance of established contacts at local management and leasing firms to assess market and operational issues. This business plan identifies key strategies necessary to maximize value. An important aspect of this plan is the disposition strategy, which identifies the market and property characteristics expected to generate the optimum sales price.

Based on findings during the due diligence period, the transaction team incorporates any necessary adjustments into the original underwriting before final approval is sought. This proposal is presented to the Investment Committee for approval. Unanimous approval is required to acquire the asset.

Closing Services: IRE's standard purchase and sale agreement provides ample time for property inspection. During this period, Closing Services professionals conduct an evaluation of engineering, legal, environmental liability and risk management issues utilizing independent consultants. They are responsible for anticipating and mitigating potential problems and keeping third-party costs at a minimum. If the Investment Committee approves the asset for purchase, Closing Services professionals finalize the transaction according to the terms and conditions of the contract, making any price adjustments required as a result of the due diligence.

Asset Management

Each asset manager has responsibility for a defined region of the country and is supported by research analysts and valuation and disposition specialists. IRE's asset management process is characterized by three major competitive advantages.

- Integrated Investment Process
- Use of Independent Third-Party Property Managers
- Integrated Financial Systems

Financing

When evaluating if leverage should be used, and if so in what form, consideration is given to the following factors to ensure the goal of using leverage is achieved and to preserve maximum flexibility for the investment:

- Investment strategy and expected holding period of the investment being considered to secure the loan,
- Projected financial performance of the investment to insure that an adequate premium is achieved commensurate with the risk of financing,
- Loan provisions – term of the loan, fixed or floating rate, substitution of collateral and assumption rights – and
- The portfolio objectives and leverage guidelines.

Dispositions

Developing an effective disposition strategy for each property begins with prudent market and property selection. By limiting investments to high-quality properties in qualified markets, IRE is better positioned to implement a proactive disposition strategy. Before acquisition, the firm formulates a preliminary disposition strategy and a target disposition date based upon expected market and property performance. Annually, and as special conditions warrant, a disciplined hold/sell analysis is performed for each asset.

In determining the timing of property dispositions, IRE evaluates:

- Market cycles (e.g., macroeconomic conditions and anticipated supply/demand);
- Property considerations (e.g. competitive position, leasing status, tenant rollover, loan maturity, physical condition and capital improvement costs);
- Capital market conditions (e.g. capitalization and discount rates, debt markets and investor demand); and
- The Fund's return objectives (e.g. diversification, risk profile and the Fund's overall objectives).

Phase III: Performance Evaluation

Just as we expect our clients to grade our performance, we internally grade the success of the strategy and its implementation. As we have found over the years, historical relationships can change given the complexity of the U.S. economy along with real estate's role in the economy. Therefore, to achieve investment excellence in a consistent and predictable manner, we continually strive to evaluate the success of our strategy through performance evaluation.

(b) a performance attribution which reflects your assessment of the value added by your investment discipline,

Our investment discipline actively attempts to achieve excess performance with equal or less risk through three key approaches: property sector allocation, market selection, and asset selection. We control for risk by maintaining a neutral weight to regional allocation in order to achieve broad diversification. Our discipline also observes the prudent use of leverage as an additional means of enhancing investment performance.

The value-added by an investment discipline can be identified through performance attribution. Please note that attribution analysis of the Fund relative to the ODCE or the NPI present separate sets of challenges. Total returns for the Fund and the ODCE can be compared on an apples-to-apples basis since both reflect the same

investment-level returns calculation methodology (and both utilize leverage). However, the ODCE provides no metrics for attributing the value added by the investment manager since sub-indices for property sectors and geographies for the ODCE are not published to date. And while such sub-indices are published for the NPI, they are stated for property-level returns on an unleveraged basis, which presents an apples-to-oranges comparison to the investment-level returns calculated for the Fund.

Given the challenges of both approaches, the attribution analysis that follows compares the investment-level returns of the ICRE Fund to the property-level returns of the NPI. This approach presents the impact of the Fund's property allocation and asset selection in combination with the value added of leverage and investment-level factors.

On this basis, the following table shows that the Fund's property sector allocation resulted in a -97 basis point underperformance relative to the NPI. Apartment asset selection has resulted in the most significant source of alpha (+155 basis points). The most notable area of underperformance is related to our office asset selection (-177 basis points on a since inception basis). Industrial asset selection has also led to underperformance of -76 basis points.

IRE's office exposure has historically resulted in noteworthy alpha even though today the since inception allocation to office is fairly return neutral. Moreover, IRE prefers to maintain a strategic underweight to the office sector relative to the NPI. While this strategic underweight can result in some underperformance when the office sector is performing well, the underweight also establishes stability to the portfolio when the office cycle deteriorates.

Attribution Analysis: ICRE Fund vs. NPI
***Since-Inception Total Returns 4Q 2004 - 2Q 2011**
Property Allocation and Asset Selection

| SINCE INCEPTION 6/30/2011 | | | | | | |
|--|----------------------------|------------|--------------------|-------------------|--------------------|-------------------|
| ICRE Fund Property Sector Attribution SI | Investment Weights | | Investment Returns | | Results | |
| | Manager Sector | NPI Sector | Manager Sector | NPI Sector Return | Allocation Effects | Selection Effects |
| Property Sector | <i>Use only as a guide</i> | | | | | |
| Office | 27.27% | 36.79% | 2.62% | 7.29% | -0.05% | -1.77% |
| Retail | 20.43% | 22.15% | 8.67% | 8.19% | 0.00% | 0.12% |
| Industrial | 21.05% | 16.16% | 4.07% | 6.54% | -0.04% | -0.76% |
| Apartments | 31.25% | 22.81% | 9.75% | 6.85% | -0.05% | 1.55% |
| Hotel | 0.00% | 2.10% | 0.00% | 6.34% | 0.02% | 0.00% |
| Totals | 100.00% | 100.00% | 6.27% | 7.25% | -0.13% | -0.86% |

Manager: Investment Level weights (NAV) and Investment Level returns

Benchmark: Property Level weights and returns (NPI)

* Note: The difference between the Fund's investment-level returns constructed attribution (as shown on this table, 6.27%) and the actual investment-level returns (5.61%) represent the effects of cash drag and fund-level expenses.

(c) your assessment of the risks associated with the core fund,

The Core Fund is a portfolio of institutional quality properties that is diversified by both property type and geography. The top down portfolio construction of the Fund is driven by the Invesco U.S. House View, and provides a long-term overweight to apartment and industrial properties, a long-term underweight to office, and equal weight to retail properties as compared to the NCREIF Property Index (NPI). This portfolio construction strategy is meant to provide the Fund with out-performance

relative to both the NPI as well as the ODCE over meaningful time periods, while mitigating volatility and downside risk.

Property values have continued to increase over the past year in all sectors but currently appear to be leveling off. Fundamentals have seen very modest improvement, yet still remain challenging in the office, industrial and retail sectors. Any acceleration of improvement for fundamentals continues to be dependent on the recovery of the overall economy.

The three primary areas of risk associated with the Core Fund and commercial real estate in general are execution with challenging fundamentals, capital market valuation risk and risks associated with debt maturities.

Real estate operating fundamentals continue to be challenging. The apartment sector is improving as evidenced by the noted increase in demand for apartment properties, increases in occupancies and the beginning of increased rental rates. Industrial occupancy has also increased modestly on a year over year basis, however office and retail occupancies remain under pressure.

Valuation risk driven by a combination of changes in the real estate capital markets as well as the impact of declining fundamentals also remains a risk for the Fund. The Fund has experienced an approximately 18.3% decline in property values from peak valuations (on a gross un-leveraged basis as of June 30, 2011). As mentioned above, property values have increased substantially over the past year as the decline as of June 30, 2010 was 30.4%. Values now appear to be leveling off. The view for continued valuation increases is cautiously optimistic.

Managing the Fund's debt maturities and balance sheet has and continues to be a primary focus of the portfolio team. The real estate debt markets have become more liquid over the past four quarters and the Fund has successfully dealt with its loan maturities by prudently managing the balance sheet. There are no debt maturities until 2012, however the Fund team is proactively planning and managing for those maturities. Due to a significant improvement in market pricing, the unsecured line of credit was renewed in October 2011 for an additional three-year term with two, one-year extension options. The Fund will continue to be proactive in addressing debt maturities well in advance.

Current priorities are summarized as follows:

- Execution at the property level - maintaining occupancy and increasing cash flow
- Transactional focus – buying and selling the right properties to insure good performance going forward
- Proactively managing the balance sheet – lowering the cost of debt and having an advantageous maturity schedule.

(d) what methodologies are employed to evaluate risk, including a description of the software you have in place and

We have several methodologies and systems in place to manage risk. The first process is our House View (please refer to Question 26(a) above for a discussion of our House View process). On a semi-annual basis, our investment teams undertake a formal review of our House View and submit this to the investment committee for approval. The House View combines the empirical and anecdotal evidence from our investment disciplines, Research, Asset Management and Acquisitions and sets forth where we see the best relative value from both a property type allocation and market selection standpoint – two very key decisions in providing strong relative

returns. Portfolio Management then incorporates the House View into the clients'/funds' investment plans and is charged with implementation.

Secondly, we follow through and execute portfolio strategy according to the House View. In the case of the Fund, we establish strategic and tactical ranges for each property sector. We also rate markets and determine where we should not only invest, but where we should divest of assets, subject to client objectives. To develop our strategic ranges, we undertake a periodic review of portfolio construction to determine the optimal weights in a portfolio given market conditions. We utilize Ibbotson optimization software and performance indices from NCREIF to support this effort.

In addition to the "top down, bottom" up research driven process identified above, we also have developed and implemented several operational processes to minimize risk. The "asset management" of the Fund's portfolio is driven by highly experienced real estate professionals who are in continual communication with portfolio management and all other members of the real estate investment team to assure complete market and property knowledge is brought to bear on key decisions at the asset level. This ensures proactive and effective decision making throughout several areas: property management and leasing, valuations, hold/sell decisions – all areas that impact investment performance from a "ground up" standpoint.

Finally, risk is managed throughout our acquisition process through a series of checks and balances. An acquisition team is formed for every potential acquisition consisting of members from each of our investment disciplines – Portfolio Management, Research, Acquisitions, Underwriting, Closing and Due Diligence, and Asset Management. Each member of the team evaluates each opportunity from the point of view of their expertise. Each member must approve the acquisition before it is presented to the investment committee for Fund approval. Asset specific risks evaluated by this team include (but are not limited to) financial, operational, tenant, environmental, structural, lease, title, and legal.

The Fund has a series of custom reports that assist the portfolio management team in managing the Fund. These reports provide clarity and insight on the current position of the Fund in addition to providing the ability to forecast and develop pro forma positions going forward.

(e) which parts of your investment process are not functioning as well as you would expect?

A significant effort is made by IRE to continually review our investment process to ensure it is as effective as possible. This starts at the strategy development level all the way to execution during ownership.

At this point we believe that our investment process is working effectively. Particular attention is paid to the day-to-day asset management of our portfolios. In order to ensure effective and timely execution that is particularly essential in this environment, all disciplines of the firm, including Research, Acquisitions and Underwriting, work in conjunction with Asset Management to make sure that the Fund is as proactive as possible when issues arise.

- 27) Detail your firm’s policy regarding portfolio diversification and quality. What is your firm’s investable universe for the core fund?

Property Type Allocation

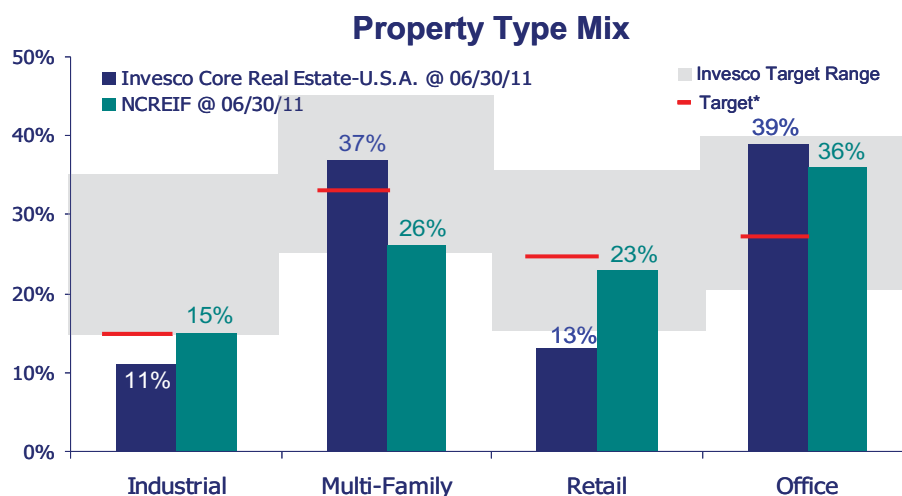
The Fund will invest in office, logistics (industrial), retail, and multi-family properties.

Property types generally react as a group nationally to changing market conditions. These movements have a strong correlation to the national economic cycle. Based on these observable capital market and property market fluctuations, we can capitalize on these observations by varying our mix of property types over a full market cycle and expect a significant portion of our alpha to come from an active discipline of managing the investment portfolio's property type weightings.

Through empirical analysis using historical NCREIF index data, we analyzed numerous scenarios based on varying property type weightings over a long time series. The general conclusions led us to set the following long-term strategic ranges for our model portfolio mix. By allowing the property type mix to fluctuate within these constraints, our model produced returns that were consistently at or above the overall index with less volatility.

| Property Type | Lower Limit | Upper Limit |
|---------------|-------------|-------------|
| Industrial | 15% | 35% |
| Multifamily | 25% | 45% |
| Retail | 15% | 35% |
| Office | 20% | 40% |

The following chart depicts the Fund’s sector weightings vs. NCREIF as of 6/30/11:



* Target diversification may change based on changing market conditions.

Geographic Allocation

We do not expect regional allocation to be a meaningful source of alpha. Enhancing returns through a strategy based on regional allocation is difficult to execute due to the wide variations in the behavior of individual markets within a region and the differences in property type weightings between regions, which creates a regional performance bias based on property type performance. We have found no

consistent, observable trends or factors that would support an actively managed regional allocation strategy. To limit risk, we will strive to maintain regional weightings within a reasonable range around the regional weights of the NCREIF index to reduce risk and focus on property type allocation along with market and asset selection to achieve excess performance.

IRE only invests in properties that meet pre-established physical and location attributes. Special-use and low-quality properties are avoided. Investment efforts are focused on medium and large core commodity investments. As a result, the Fund is better positioned within an institutional resale market to implement an effective exit strategy.

The maximum investment in any single MSA is 25%.

Investable Universe

The Fund focuses on core real estate investment opportunities throughout the United States, emphasizing current stable income and quality properties and locations. Investments will be made in existing, substantially leased industrial, multifamily, retail and office properties in metropolitan areas that exhibit reasonable economic diversification and provide quality and design characteristics commensurate with the local market.

- 28) What drives the decision making process which governs the selection of properties for acquisition into the core fund? Who are the individuals involved with the selection process?

IRE has been an active investor in institutional-quality real estate with more than \$16.2 billion invested in core and value-added transactions since 1992. With the corporate office centrally located in Dallas and regional offices in Atlanta, New York, San Francisco and Newport Beach, IRE is able to effectively source superior acquisition opportunities nationwide. Drawing upon our national presence and the expertise of our senior acquisition professionals located in four regional offices, IRE possesses the in-depth knowledge of the markets, properties and people necessary to source high-quality investment opportunities.

Our continued access to proprietary deal flow can be credited to our approach to the acquisition process. Our process involves the efforts of each of our disciplines: Research, Acquisitions, Underwriting, Asset Management, Legal & Closing Services and Portfolio Management. At many firms, an acquisitions officer is not only responsible for sourcing transactions but is also required to negotiate the contract, review leases, perform tenant interviews, coordinate third-party due diligence and close the transaction. At IRE, our team approach incorporates the expertise of each of our specialties to evaluate the risks associated with an investment. Given this level of professional support, our acquisition officers are unencumbered to focus on their expertise – to source quality investment opportunities by building relationships with sellers and brokers of high quality assets. This process allows our acquisition officers to cover markets effectively while also allowing them to respond in a timely fashion to opportunities.

Our acquisition officers maintain constant contact with sources of investment opportunities in each of IRE's Qualified Markets. Once a target market list has been developed, IRE draws upon our established relationships to uncover investment opportunities and provide information useful to the due diligence process. IRE has developed a proprietary database of property sources for investment opportunities. The database contains over 2,000 contacts including banks, life insurance companies, syndicators, REITs, family trusts, property managers, brokers, mortgage bankers, and individual owners. Our acquisition specialists are close to the markets

and relationships necessary to secure superior investment opportunities for our clients.

The following chart depicts IRE's Acquisition team as well as the regions they cover:

Invesco Real Estate – Acquisition Group

| | | | |
|---|--|---|--|
| <p>Greg Kraus Acquisition Group Head 13155 Noel Road, Suite 500 Dallas, TX 75240 Phone: (972) 715-5837 Fax: (972) 715-5814 greg.kraus@invesco.com</p> | | | |
| <p>Peter Cassiano 4675 MacArthur Court, Suite 1150 Newport Beach, CA 92640 Phone: (949) 222-6396 Fax: (949) 222-6376 peter.cassiano@invesco.com</p> <ul style="list-style-type: none"> • Southern California • Arizona • Hawaii | <p>Steve Eckstein 13155 Noel Road, Suite 500 Dallas, TX 75240 Phone: (972) 715-7423 Fax: (972) 715-5814 steve.eckstein@invesco.com</p> <ul style="list-style-type: none"> • Minnesota • Colorado • Kansas • Florida | <p>Todd Bassen 1166 Avenue of the Americas 27th Floor New York, NY 10036-2728 Phone: (212) 278-9654 Fax: (212) 278-9657 todd.bassen@invesco.com</p> <ul style="list-style-type: none"> • New York • Washington DC • Maryland • Virginia | <p>John Blaylock 11155 Noel Road, Suite 500 Dallas, TX 75240 Phone: (972) 715-5804 Fax: (972) 715-5814 john.blaylock@invesco.com</p> <ul style="list-style-type: none"> • Eastern US • Joint Ventures • Programmatic Investing |
| <p>Chris Cole 101 California Street Suite 1900 San Francisco, CA 94111 Phone: (415) 445-7581 Fax: (415) 445-7542 chris.cole@invesco.com</p> <ul style="list-style-type: none"> • Washington • Oregon • Northern California | <p>Chris Schmidt 13155 Noel Road, Suite 500 Dallas, TX 75240 Phone: (972) 715-5819 Fax: (972) 715-5814 chris.schmidt@invesco.com</p> <ul style="list-style-type: none"> • Texas • Georgia • North Carolina • Illinois | <p>Joshua Siegel 1166 Avenue of the Americas 27th Floor New York, NY 10036-2728 Phone: (212) 278-9128 Fax: (212) 278-9418 joshua.siegel@invesco.com</p> <ul style="list-style-type: none"> • Massachusetts • New Hampshire • Rhode Island • Connecticut • Pennsylvania • New Jersey | <p>Ron Miller 11155 Noel Road, Suite 500 Dallas, TX 75240 Phone: (972) 715-7445 Fax: (972) 715-5814 ron.miller@invesco.com</p> <ul style="list-style-type: none"> • Western US • Joint Ventures • Programmatic Investing |

As of 07/01/11



Our Acquisitions department reviews approximately 350 property submissions each month. Once a property submission is received, it is recorded in the property submission database. A form is completed for each submission summarizing the property investment from a qualitative and quantitative perspective. This process forces the acquisitions officer to immediately evaluate each submission in order to respond to the property source on a timely basis and, more importantly, to begin pursuit of those properties that meet client specific investment criteria. Additionally, this property submission database serves to prevent broker conflicts and to allow the Acquisitions department to track the locations, property types, and prices of properties being submitted.

For each acquisition, IRE establishes a transaction team led by a senior professional so that underwriting standards are consistently applied. Members of this team perform their functions independently to provide a system of checks-and-balances and each team member, including the portfolio manager, has the ability to veto the acquisition at any time during due diligence.

During the formal underwriting phase, IRE's Underwriting and Asset Management professionals subject the asset to a comprehensive physical, financial and market analysis. This analysis includes the property's historical performance, lease terms and rollover/tenant credit, and the investment's anticipated future returns.

Before making the acquisition decision, the transaction team prepares a detailed investment proposal that defines the major investment issues. Simultaneously, the asset manager develops a Value Optimization Plan (property-level business plan) with the assistance of established contacts at local management and leasing firms to assess market and operational issues. This business plan identifies key strategies necessary to maximize value. An important aspect of this plan is the disposition

strategy, which identifies the market and property characteristics expected to generate the optimum sales price.

The transaction team will present the investment to the Investment Committee in a preliminary meeting, which will allow the team to proceed with the detailed due diligence process. Based on findings during the due diligence period, the transaction team incorporates any necessary adjustments into the original underwriting package before final approval is sought. This proposal is presented to the Investment Committee for final approval. The Investment Committee is comprised of senior investment professionals from each investment discipline-Portfolio Management, Research, Acquisitions, Underwriting, Dispositions, Asset Management and Closing Services. Unanimous approval is required to acquire the asset.

IRE's standard purchase and sale agreement provides ample time for property inspection. During this period, Closing Services professionals conduct an evaluation of engineering, legal, environmental liability and risk management issues utilizing independent consultants. They are responsible for anticipating and mitigating potential problems and keeping third-party costs at a minimum. If the Investment Committee approves the asset for purchase, Closing Services professionals finalize the transaction according to the terms and conditions of the contract, making any price adjustments required as a result of the due diligence.

- 29) What drives the decision making process which governs the selection of properties for disposition from the core fund? Who are the individuals involved with the selection process?

Developing an effective disposition strategy for each property begins with prudent market and property selection. By limiting investments to high-quality properties in qualified markets, IRE is better positioned to implement a proactive disposition strategy. Before acquisition, the firm formulates a preliminary disposition strategy and a target disposition date based upon expected market and property performance. Annually, and as special conditions warrant, a disciplined hold/sell analysis is performed for each asset.

Disposition Analysis

Making the hold/sell decision traditionally has been more of an art than a science. Although the list of considerations needed to conduct a hold/sell analysis is short, a great deal of thought and subjectivity is needed to develop the information necessary to complete the analysis. There are four critical elements that IRE evaluates in making the hold/sell decision: market considerations, property level considerations, alternative real estate investments and the Fund's portfolio objectives.

Market Considerations

At the metropolitan and submarket level, the area's economic, employment, governmental and transportation characteristics must be understood and monitored for change. This information is overlaid against a real estate supply and demand analysis, as well as a review of capital flows for specific property types. IRE's research database is continually being updated and on a property-specific basis, the metropolitan and submarket considerations are formally evaluated and documented at least annually and more frequently if the asset manager or research identifies intermediate changes that warrant a mid-year review.

A separate analysis for each property type is essential because each type responds differently and at a different pace to underlying fundamentals. Under most circumstances, the optimum time to sell a property will coincide with metropolitan market occupancy peaks for that specific property type.

Property Level Considerations

At the micro level, considerations such as capital improvements, major tenant rollovers and the property's competitive position influence the disposition timetable. Property level factors can alter the optimum time to sell a property. An example may be where heavy tenant rollovers are anticipated to occur during a market peak. Without a long-term remedial plan, the significant leasing risk may impair the future marketability of a property during a market peak.

Alternative Real Estate Investments

A decision to hold a satisfactorily performing property must be evaluated against the opportunity cost of not investing in another property with similar risk characteristics which may produce a significantly higher expected return. One of the flaws of using the internal rate of return analysis is that it fails to consider potential returns from the re-deployment of funds. Put simply, if an investor can make more money without adding risk, then it is time to sell and re-invest.

Fund's portfolio objectives

Different portfolio factors, including the Fund's current property type exposure in relation to the Fund's target property type weights (as defined in IRE's "House View"), or the current composition of the Fund's portfolio in relation to the Fund's strategic outlook for each property type. As an example, over the last 24 months the Fund's office portfolio has experienced a transformation from a largely suburban located portfolio to a more urban, CBD focused office portfolio. As a part of that transformation, the Fund was taking part in select acquisitions of strategic assets that provided additional exposure to urban, infill locations in gateway markets, while simultaneously disposing of suburban assets that were identified as non-strategic for the Fund on a long term basis moving forward. Currently, as the Fund's office exposure is overweight to its target weight, the Fund team is focused on the optimal timing/execution for the disposition of select office assets, in order to reduce the Fund's overall office exposure and rebalance to its target weight. These portfolio objective concerns enter the hold/sell outlook on an ongoing basis.

Disposition Decision

All dispositions require unanimous approval by IRE's Investment Committee. The Portfolio Management team, working with members from Asset Management, Acquisitions, and Research, conducts hold/sell analysis and presents each recommended disposition to the Investment Committee. IRE has a dedicated dispositions team and closing team that is then responsible for the execution of the disposition of assets after receiving Investment Committee approval.

- 30) What role do real estate brokers play in the acquisition and disposition process? Provide an overview of your firm's broker relationships and the brokerage commission structure.

Acquisitions Real estate brokers are vital to the overall transaction process. While IRE's acquisitions staff seeks to identify off-market transactions dealing directly with the seller, this has become very difficult, particularly with core investment opportunities, as the seller wishes to expose an asset to the overall capital market. This is typically accomplished by utilizing a broker to assure adequate market exposure for an asset. With this in mind, IRE seeks to establish strong working relationships with leading brokers in all of the major markets to assure that its offers are favorably received with respect to all the intangible elements, beyond basic pricing and terms. These intangible points and the relationship side of the equation will often break "the tie" in the bid process. The broker recommendation is of vital importance to the seller in determining the most credible buyer that is offering the most certainty of closure, when economic pricing is compressed in a narrow band. By proactively working with the brokerage community and having

established relationships, IRE is able to position itself to be favorably considered during this process.

Dispositions Real estate brokers play a vital role in the disposition process as well. Specifically, because of the wide diversity of capital sources in the market today, brokers are the best medium for assuring an asset garners the greatest market exposure, and consequently, the most efficient pricing and terms. IRE's general approach to broker selection is to utilize the strongest local product/market expert for disposition assignments. This is in contrast to utilizing either (1) a generalist broker (e.g. broker who does not specialize in one product type) or (2) a multi-market broker who may not have the market-specific expertise necessary for best execution. Additionally, IRE carefully coordinates brokerage relationships so that disposition assignments are given to those brokers who are actively marketing institutional quality assets and sourcing acquisition business to the firm (e.g. bringing investment opportunities to IRE that are not widely marketed, giving strong endorsements to sellers as they assess the quality of IRE as a buyer versus other options, etc.). Brokerage fees are market-based, and since IRE has significant disposition volume, it is able to ascertain the most aggressive fee structure available in the market.

31) Provide an overview of how assets in the fund are held in custody.

Invesco Core Real Estate – U.S.A. is an open-end commingled private real estate equity fund. Investors in the Fund hold Units in the Fund that represent their ownership interest in the Fund. The custody of these Units is the responsibility of the each particular investor, and with the exception of the required reporting and coordination, IRE is not involved in the custody of an investor's units.

As an operating entity, the Fund manages and holds its primary assets – property and cash in the following manner:

Cash – The Fund actively seeks to manage its cash in order to maintain adequate liquidity for its operational and investment activity. In order to not dilute returns from its property portfolio, the Fund seeks to keep cash balances below 5% of Net Asset Value. Invesco utilizes a combination of Demand Deposit accounts (i.e. checking accounts) and interest bearing Money Market accounts to maintain Fund level cash positions. The majority of the cash is held with Wells Fargo. The Fund also has an unsecured revolving line of credit, that is a key tool in ensuring liquidity and both meeting its commitments as well as minimizing overall cash balances.

Title

The Fund expects to hold title to its properties through single asset entities that are generally LP's or other appropriate entities depending on the property type and jurisdiction. These property level entities are in turn wholly-owned subsidiaries of the Fund's REIT subsidiary - ICRE REIT Holdings. ICRE REIT Holdings is in turn held by the Fund – Invesco Core Real Estate - U.S.A., LP. Investors in the Fund in turn hold units in Invesco Core Real Estate - U.S.A., LP.

32) Provide a general discussion on industry standards regarding the use of leverage within a core fund. How does your firm evaluate the risks associated with the use of leverage?

The only true established standards are those provided in the policy for the NCREIF NFI-ODCE Index (pronounced "odyssey"). The ODCE represents 18 open-end funds in the institutional real estate market. The policy guidelines for this index restrict leverage to no more than 40%. At the end of the second quarter of 2011, the average amount of leverage utilized by these funds was 25.1%. The range allowed

by the ODCE index is the generally accepted amount of leverage used in the institutional industry for core portfolios.

The Fund's leverage at June 30, 2011 was 27.0% versus 29.9% as of June 30, 2010. Shortly after quarter end, the Fund's line of credit was paid off bringing the loan to value ratio down to 24.1%. At the end of third quarter 2011, the Fund's leverage has further decreased to 23.8%.

The use of leverage allows a Fund to enhance both portfolio returns as well as increase the overall diversification (potentially reducing risk) of a Fund's property portfolio. Generally speaking, increasing levels of leverage can also add volatility to a real estate portfolio. The objective of minimizing volatility is the key reason that the overall range of leverage for core funds falls into a conservative range of between 20% and 40%. The Fund's long term objective is to maintain a debt level between 20% and 25%.

The following criteria combine to provide an overall framework guiding the execution of the Fund's leverage strategy:

Investment Decision vs. Financing Decision – The investment decision is separated from the financing decision through the use of unleveraged returns in analyzing individual real estate investments. This strips away any “financial engineering” and allows an apples-to-apples comparison of investments based on the actual returns provided by the real estate.

Real Estate Return Expectations Compared to Cost of Debt – There needs to be a favorable overall positive spread between the cost of debt and the current and expected returns on the Fund's real estate portfolio. IRE evaluates both the portfolio's current level of income and cash flow as well as the overall total return expected in comparison to the cost of debt.

Maximize Flexibility / Minimize Cost – The Fund executes its leverage strategy from a “portfolio” perspective rather than on an asset by asset basis. The cost and flexibility of real estate debt varies greatly depending on the property type, whether the debt is fixed rate or floating rate and other factors. In order to maximize the Fund's flexibility, the Fund uses a combination of floating rate and fixed rate, secured and unsecured financing. The Fund's current debt structure includes both a short – term “revolving” line of credit that is primarily used for transactional and cash management purposes, as well long-term (generally five to ten years) fixed rate debt that is used more a “permanent” part of its capital structure, to attain the dual objectives of enhanced return as well as diversification over time. Since fixed rate real estate debt generally has significant prepayment penalties, consideration is given to ensure it is deployed in a manner that does not inhibit flexibility needed to execute a property's strategy during its hold period or lessen its attractiveness on sale. The Fund also seeks to manage its refinancing risk by have a balanced maturity schedule for its fixed rate debt.

Also, we view leverage as a way to enhance risk-adjusted returns versus a means to justify the return thresholds of an investment. Indeed, when acquiring an asset, we place greater importance on the unleveraged returns. When evaluating leverage, consideration will be given to 1) the expected holding period of the investments, 2) the projected financial performance of the investment, 3) the terms of the leverage and 4) the Fund's real estate portfolio objectives. Leverage will be structured with non-recourse terms and flexible assumption or pre-payment provisions so as to not restrict the sale of the asset or unwinding the leverage. Fixed rate and variable rate debt will be considered. If variable rate debt is employed, we consider acquiring interest rate caps which helps to reduce risk in the event there is an abrupt or unexpected increase in interest rates.

33) Describe the role of real estate in a diversified portfolio.

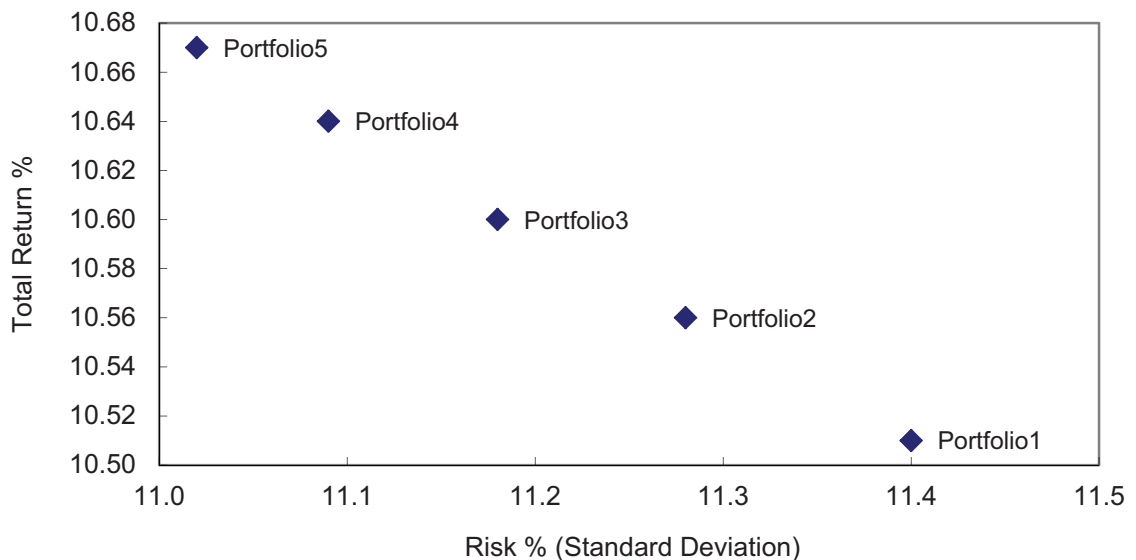
It has been demonstrated that the role of real estate in a multi-asset portfolio serves to reduce risk and produce more consistent performance while also enhancing returns. To show this simply, the following graphic reflects the performance of a multi-asset portfolio using the S&P 500 index, the Barclay's Capital US Aggregate Bond Index (f.k.a. Lehman Brothers aggregate bond index) and the NCREIF Index. As shown in the table, a portfolio comprised of 60% stocks and 40% bonds would have produced a total return of 10.51% with a portfolio standard deviation of +/- 11.40% (the timeframe used for this analysis covers January 1978 through June 2011). At the opposite end of the spectrum, a portfolio which is comprised of 60% stocks, 20% bonds and 20% direct real estate would have increased returns 16 basis points and reduced risk by 38 basis points. This demonstrates both the return enhancing and risk reducing benefits of real estate.

Portfolio Risk/Return Benefits of Real Estate

| Portfolio | Asset Class Weights Equity/Bonds/Real Estate | Portfolio Risk* | Portfolio Return |
|-----------|---|-----------------|------------------|
| 1 | 60/40/0 | 11.40% | 10.51% |
| 2 | 60/35/5 | 11.28% | 10.56% |
| 3 | 60/30/10 | 11.18% | 10.60% |
| 4 | 60/25/15 | 11.09% | 10.64% |
| 5 | 60/20/20 | 11.02% | 10.67% |

* Does not measure liquidity or event risk

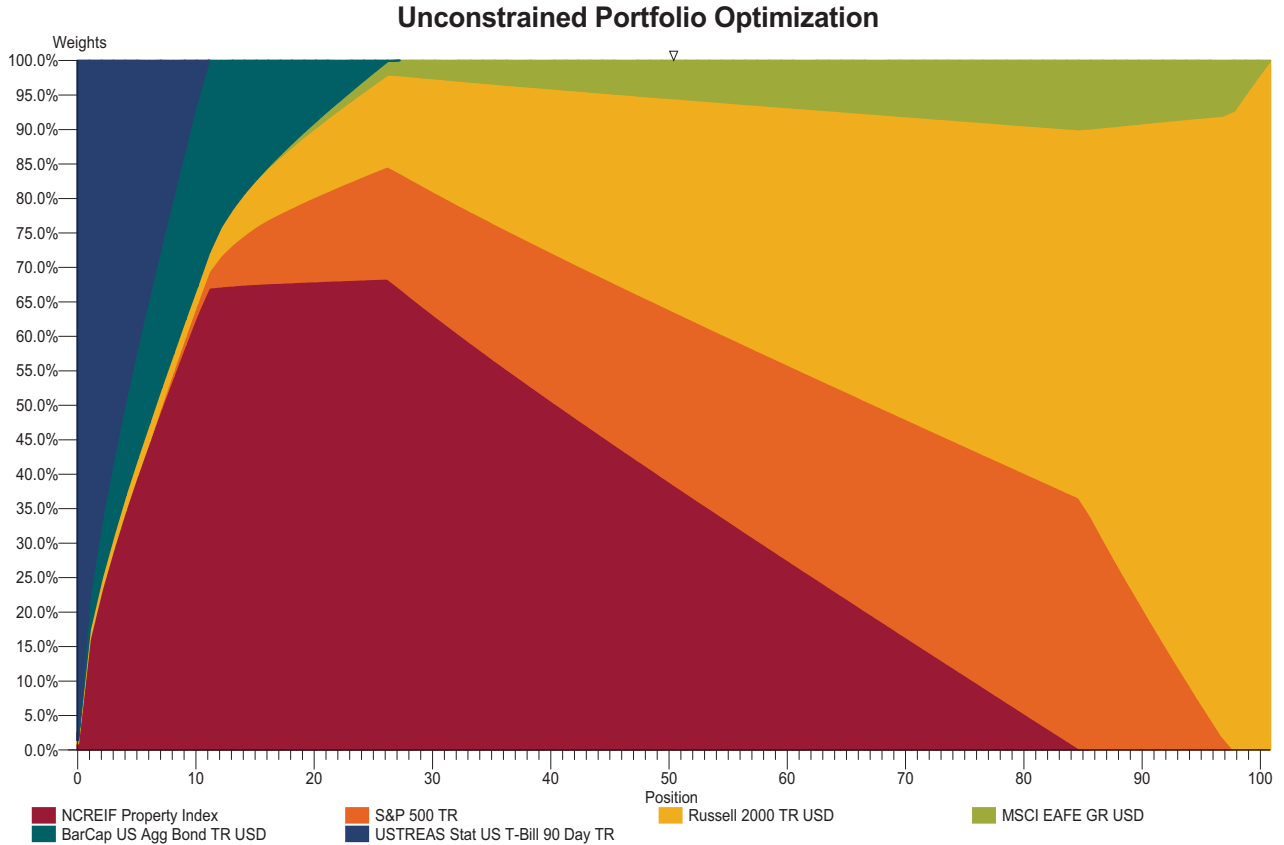
Equities, Bonds, and Real Estate Portfolio Return & Risk



34) What is the appropriate allocation to real estate in a diversified portfolio? Please provide statistical data.

Strategic allocations across all asset classes are dependent upon the investor's return objectives and risk tolerances. However, through mean-variance optimization,

a possible allocation plan can be constructed. In an unconstrained portfolio optimization, private real estate typically garners a significant share of a diversified portfolio. As can be seen in the graph below, real estate's share ranges from 0%-65% of an unconstrained portfolio, depending upon the level of risk assumed. Specifically, at very low levels of risk and return, real estate comprises a meaningful percentage of the portfolio due to its income characteristics. As investors' appetite for risk increases, the weight to bonds and real estate starts to decline and the allocation to equities increases.



This asset allocation assumes the following inputs:

| Asset Class | Return | Risk |
|----------------------------|--------|--------|
| NCREIF Property Index | 8.99% | 4.83% |
| S&P 500 | 11.44% | 17.87% |
| Russell 2000 | 11.77% | 24.40% |
| MSCI EAFE | 10.69% | 21.43% |
| Barclays US Aggregate Bond | 8.23% | 7.17% |
| U.S. 90 Day T-Bill | 4.84% | 1.43% |

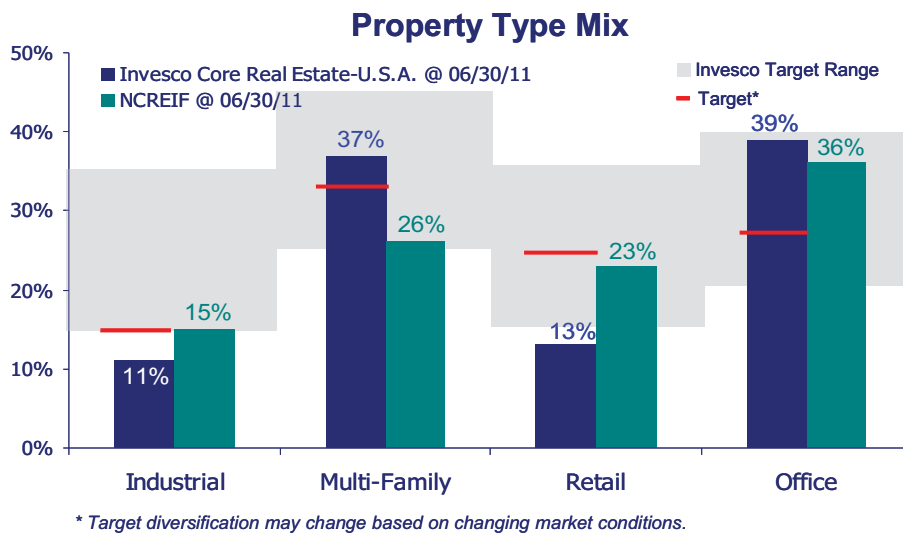
An allocation to real estate exceeding 25% defies a certain degree of reasonability, and there are valid arguments against using the historical risk figure in real estate's historical returns (i.e., appraisal smoothing can result in understated volatility statistics)¹. Therefore, it is likely that a real estate allocation above 25%, despite the output from the optimization analysis, is too large for most investors. Various constraints can be constructed to alter the outcome of the optimization, but the direct approach is to simply consider the current allocation trend across plan

¹ The annualized quarterly standard deviation for the NCREIF property index (NPI) since inception (1Q-1978) is 4.83%. In comparison, the standard deviation based on one-year rolling returns of quarterly data has been 8.21%, rising to 11.79% over the past 10 years. This increase likely reflects better valuation practices exhibited in the real estate industry over recent years, resulting in higher sector volatility than the long-term historical trend.

sponsors. The average target allocation to real estate has trended up over the last fifteen years from a typical average of 5-10% to a current typical portfolio of 8-15%. The 2010 Institutional Plan Sponsor Survey by Kingsley Associates reports that current target allocations average 10.3%, approximate to 2010.

35) What changes are anticipated in the construction of the core fund over the next eighteen months?

The portfolio construction of the Fund is driven by IRE’s “House View” investment strategy. This strategy is reviewed extensively twice a year – in the Spring and in the Fall, and can be adjusted based on current property and capital market conditions. The Fund’s “top-down” portfolio construction strategy involves a combination of long-term property sector allocations ranges, combined with what the current tactical target within that range should be based on current conditions. The following chart represents our current positions and targets within these long term strategic ranges:



From a geographic perspective – the Fund’s objective is to be roughly even weight to the broad NCREIF Regions. However, within those regions we will seek to focus our investment activity on those markets with the combination of the most attractive current and long –term conditions. This “market selection” is a key part of the House View Process, and drives not only where the Fund would focus on placing new investments, but also where it should sell existing assets.

As you can see from the prior chart above, in relation to its current tactical targets, the Fund generally is currently seeking to add to its industrial and retail portfolios. However given the capital available to the fund and projected sales and acquisitions, the Fund is able to acquire any of the four property types that fit the IRE House View objectives. For example, this year, the Fund has recently acquired two high quality office assets in conjunction with three industrial properties in strategic markets and two Class A multifamily properties in strategic markets. These targets are based on a combination of IRE’s view of both fundamentals and relative pricing for property types. In aggregate this totals \$956.1 million on a gross basis for 2011 and \$707.6 million in equity.

Specifically, while not necessarily changes, the following provides our focus by property type:

Industrial – port and trade oriented near primary population centers; generally multi-tenant
Multi-Family – Class A, urban, transit oriented, infill locations
Retail – grocery anchored, necessity oriented and/or unique location; potential regional mall
Office – fewer markets, CBD and other urban assets

Any changes to the current portfolio construction strategy as presented above will be made through the consistent application of the IRE House View research process.

36) Discuss the industry availability of cash for investment versus quality properties available for acquisition. How much investable client cash does INVESCO have in the queue?

There is currently an incoming queue of \$137.7 million and verbal commitments of \$236.0 million. The October 1st capital call was \$273.8 million. The priority is to prudently invest the capital consistent with our practices in the past.

On a forward looking basis, the competition for quality properties is high; however, we believe we will be effective for the following reasons:

- Know what we are looking for (House View - Strategy)
- Resources – Invesco has a strong and experienced acquisition, underwriting and closing process
- Relationships – Invesco has deep and lasting relationships with market participants based on dependable market participation
- Processes in place to be effective in acquisitions as evidenced by the recent four transactions
-

All of the above make IRE an attractive reliable buyer to institutional quality sellers which allows for us to have an above average reputation in the market.

37) What percentage of each of the following does the core fund represent? Please estimate if exact figures are not available or disclosed.

- | | |
|--------------------------|-----------|
| A) Firm assets | 10.0% |
| B) Firm revenue | 11.2% |
| C) Firm profit | NA _____% |
| D) Total firm work hours | NA _____% |

*Percentage based on Invesco Global Real Estate figures
Firm profit and total firm work hours are not delineated

Outlook

38) What is INVESCO's outlook for Apartment, Industrial, Office and Retail Sectors of the market? How does the outlook within a sector differ by region?

In each section below, we highlight the current conditions within each property sector along with the strategies we expect to pursue in light of sector conditions and performance distinctions across markets.

Apartments

Tenant demand for apartment units remains elevated, although it is expected to slow on the margin as the pace of job growth slows. But the declining rate of homeownership, driven by continued foreclosures, evictions, and stricter loan criteria for home purchases, should remain a powerful demand driver over the next two years. With current levels of apartment completions close to historic lows, new supply is not an immediate impediment to strengthening fundamentals. Yet, with occupancy rates rising and rent growth now gaining pace, construction activity is ramping up quickly across many markets. For this reason we expect sector fundamentals to moderate starting in 2014.

Conditions and Implications

Strong near-term revenue growth. We continue to believe that elevated levels of tenant demand and an immediate lack of new supply should support strong revenue growth over the next two years.

- ***Foreclosures and declining homeownership.*** Pending foreclosures and late-stage delinquencies remain significant (although slowed by procedural and regulatory issues) and are likely to boost rental housing demand through at least 2013.
 - With 3.4 million households currently in the foreclosure process or seriously delinquent (90+ days), the homeownership rate could slip from 65.9% in 2Q 2011 to well below 65% for the first time since the early 1990s.
 - Every 1% decline in the national homeownership rate represents 1 million households transferring to rentership, and a potential +2% impact on the apartment occupancy rate.²
- ***Prime apartment renters.*** Job growth, albeit at a more moderate pace, continues to support new household formation and the unbundling of households, particularly amongst the rapidly expanding key renter demographic (20 to 34 year olds).
 - If the economy backtracks, this trend could reverse as younger renters revert to doubling-up or moving back into the family home.
 - Yet, weaker economic conditions could further accelerate the shift from homeownership, providing more stable income in apartments relative to the commercial sectors.
- ***Home buying not drawing away tenants.*** Tenant retention rates remain higher today than prior to the recession, largely because move-outs due to homebuying are much lower today. Single-family home sales remain anemic, despite historically low mortgage rates and record affordability levels. Stricter loan criteria make access to mortgage capital more challenging. This is not expected to change materially over the short term.
- ***Construction not a concern in near term.*** New apartment deliveries remain historically subdued and are expected to remain so for another 18-24 months.

Together, these drivers should continue to support strong fundamentals across most apartment markets in 2012. As occupancy approaches all time highs in the best markets, landlords may trade rent for occupancy in order to maximize revenue growth.

² According to the Census Bureau's American Community Survey, from 2006 to 2010, rental structures with 5+ units captured 33% of net new rental demand. This would imply that for every 1 million households transferring from ownership to rentership, apartments would capture about 330,000 households. The current inventory of rental structures with 5+ units is approximately 17 million units. Therefore, all else being equal, a shift of 330,000 households to apartments could potentially impact the occupancy rate by 2%.

Emerging risks over mid term. Beyond the strong revenue growth we anticipate from the apartment sector in the near term, we see risks over the mid term that later could lead us toward a more neutral stance on apartments.

- *Absolute pricing is competitive.* Although wide cap rate spreads to Treasury yields and mortgage rates implies attractive pricing for apartments, absolute cap rates have decreased in recent quarters with the best assets in the best markets now trading at or below 4%. Unit pricing is also rising, and in select cases, surpassing pre-recession peaks. An unexpected upward shift in cap rates could adversely affect apartment values.
- *Construction a concern in mid term.* While still sparse today, rising construction activity remains a growing mid-term concern. Permit issuance is starting to accelerate across many markets, setting the stage for an escalation of apartment deliveries starting in 2013 and gaining pace in 2014.
- *Lack of household income growth could limit rent growth in some markets.* With a slow growth economy burdened by high unemployment, limited gains in household income could constrain a second wave of rent growth in some markets.
- *Single-family rentals could encroach upon apartment demand.* The emergence of a more organized single-family rental market could adversely impact demand for institutional apartments.
 - Private investors are aggregating single-family homes into rental portfolios using local property management teams. Rental yields for this product generally range from 8% to 12%.³
 - The government is looking at ways to turn Fannie Mae's, Freddie Mac's and the Federal Housing Authority's inventory of some 250,000 foreclosed homes into rental properties that could be managed by private enterprises or sold in bulk. Timing remains uncertain, but material movement in this direction could add to the mid-term supply of rental housing.
 - This risk appears geographically focused on the formerly robust housing markets of California, Arizona, Florida, and Nevada, as well as some Midwestern states.

Strategies

- Invesco intends to target markets where occupancy is expected to approach historic peaks in the next two years, and where household incomes relative to rent do not constrain rent growth. These markets include San Francisco, San Jose, Seattle, Portland, Denver, New York City, and Boston. Within these tightest target markets, Invesco will:
 - Focus on well-located Class A and B+ assets.
 - Selectively consider assuming more leasing risk.
 - Consider well-located Class B assets in the strongest locations to take advantage of high occupancy rates and the spread to Class A rents.
 - Selectively consider development and renovation value-added opportunities in the most durable supply-constrained locations.
 - Seek to raise rents for both new leases and tenant renewals.
- Invesco also intends to selectively target assets in markets with better relative job growth and where occupancy is expected to surpass local long-term averages. These markets include Dallas, Austin, Orange County, Miami, and Minneapolis. In these target markets:

³ Zelman & Associates, *August 2011 Apartment Survey*, August 10, 2011.

- Invesco prefers Class A and B+ assets in prime locations which should see comparatively higher occupancy rates and lower capital expenditures.
- While new construction over the next two years will likely be delivered at levels below local long-term averages, these markets could see construction ramp up in the next 3-5 years. Thus, we strongly prefer locations with comparatively lower exposure to on-coming mid-term construction.
- We will consider dispositions:
 - Of assets requiring higher levels of capital improvements in order to manage cash, particularly older assets in less-than-best locations.
 - Of non-strategic assets proximate to micro locations where new construction is expected to rise materially. Markets where mid-term construction could ramp up more quickly include Washington DC, Houston, Dallas, Austin, Orange County, and Seattle.
- Invesco has underweighted markets with a greater potential for single-family rental inventory and comparatively lower housing costs (e.g., Tampa, West Palm Beach, Phoenix, Riverside).

Office

Tenant demand has turned positive since mid-2010, but concerns over macro risks could cause companies to pull back temporarily on expansion and leasing. Renewed layoffs in the bank sector, postponed IPOs, expected slowing of tech spending, and the impact of federal, state, and local government budget reductions plans all mean that leasing could slow broadly. Rent trends that had been rising in primary markets may flatten until macro risks subside. New construction is largely absent in most markets, with few indications that this will change materially over the near term.

Conditions and Implications

Office fundamentals have improved, but at a relatively slow pace.

- National occupancy has improved just 60 basis points over the past year since bottoming at 83.2% as of mid-year 2010.
- Tenants continue to reduce space requirements upon lease expirations, shedding formerly leased but unoccupied space ("grey space") and/or moving to more efficient buildings.
- Business investment in equipment and software, historically a leading indicator for office tenant demand, continues to grow at an elevated pace. Yet, its rate of growth may decelerate materially if near-term economic growth pauses.
- Corporate profits remain strong and businesses are reportedly sitting on record levels of cash, yet economic uncertainty continues to limit hiring, the primary driver of space demand. Also, corporate profits have recently been utilized for mergers and acquisitions which tend to contract employment on a near-term basis, subsequently affecting office tenant demand.
- Private sector office-using job growth has outpaced overall job growth through the first half of 2011. However, office-using job growth has been driven mostly by temporary workers, which demonstrates the tentative nature of the recovery to-date. Finance and information sectors continue to show year-on-year job declines.
- Construction remains muted. Nationally, annual deliveries in both 2011 and 2012 may not exceed 10 million square feet, which would be two of the lowest years on record, with few indications this pace could increase in 2013.

Fundamentals improvement varies by market segment.

- Demand recovery has been uneven across markets, with large primary business centers and tech markets accounting for the majority of net absorption.
- Class A space has dominated demand as tenants have taken advantage of depressed rents to trade up in quality – Class A occupancy has improved 120 basis points, while Class B/C occupancy has continued to decline.
- The occupancy gap between downtown and suburban markets remains wide at 500 basis points as companies continue to show a preference for urban locations in order to tap a broader talent pool of employees.
- Occupancy gains have supported rent growth in only a select set of markets (primary and tech) and segments (Class A, urban, tech). Rents generally remain well below prior peaks. Continued lease turnover will push down near-term NOI.

Current macro conditions could further delay recovery in the office sector.

- Fragile business confidence hurts all office demand segments and could result in a broad slowdown in leasing.
- If the economy falters, grey space could increase again, leading to a rise in sublease availability and the potential to put downward pressure on rents and absorb initial demand when recovery takes hold.
- Primary markets, while not immune to the impacts of a slowdown, are expected to retain better fundamentals. With the exception of Los Angeles, all of the primary office markets (New York, Washington, DC, San Francisco, and Boston) have occupancy rates at least 300 basis points higher than the nation.
- Washington, DC may be the most vulnerable primary market in the near term, the only one that experienced negative net absorption in the first half of 2011. Moreover, the market added nearly one-half million square feet of new inventory in the same period. Depending on the composition and extent of pending Federal budget cuts, conditions in DC could see further erosion.

Yet, office demand could re-emerge quickly as confidence is restored.

- Preconditions for improving tenant demand in the form of strong corporate balance sheets and investment growth in business technology are generally in place. While these drivers are expected to slow in the face of near-term economic challenges, their eventual recovery will provide early signals of an impending recovery in the office sector.
- Taken together, mildly positive rent growth is expected over the next year, driven principally by the primary and tech markets. National occupancy is anticipated to surpass the long-term average rate in 2013, unimpeded by new construction.

Strategies

Given a near-term macro economic backdrop of slow, uneven growth, Invesco intends to:

- Acquire assets in dominant locations of primary business centers, with limited lease expirations over the next two years.
- Acquire assets selectively in tech markets (e.g. San Jose, San Francisco, Austin, Seattle, Boston, and New York) to take advantage of structural shifts in technology (e.g. social media, cloud computing, green-tech, life-sciences) and be positioned for recovery.
- Sell non-strategic assets in primary business centers, particularly Washington, DC.

- Focus on higher quality, Class A assets in urban locations since occupancy recovery has progressed further in these segments and they are expected to continue to be favored by occupiers in recovery.
- Selectively consider Class B space in tech markets where supported by tenant demand.
- Position existing assets for stable income performance over the next two years. This may involve seeking early renewals for leases soon to expire.

Retail

Retail occupancy is at record lows today and tenants face considerable short-term challenges in addition to long-term structural shifts in the way consumers shop. While retail has historically provided a measure of stability during economic downturns due to long-term leases on anchor space and the ability of most tenants to endure through the cycle, we believe the traditional benefits of retail will not be broad-based in this economic slowdown. Thus, only the most competitive assets are likely to deliver the stable attributes normally expected from the sector.

Conditions & Implications

- Recent improvement in consumer activity. Retail sales strengthened in the summer with 8.5% year-over-year growth in July, which represents a post-recession high. Improved consumer balance sheets and the payroll tax cut are clearly supporting spending amid multiple headwinds, although spending is very selective with prices playing a role and the strongest growth recorded by gasoline stations (24%) and non-store retailers (14%).
- Short-term headwinds. While consumers have made significant progress in de-leveraging and increasing their savings, stock market volatility has struck a blow to wealth effects.
 - De-leveraging and low interest rates have brought the household financial obligations ratio down below 16.5% of income, which hasn't occurred since the early 1990s. Yet, by dollar value, debt burdens are nearly double that of a decade ago.
 - To repair their balance sheets, consumers increased savings, pushing the savings rate over 5% in late 2008 for the first time in nearly a decade and have maintained the 5% to 5.5% range since then.
 - Wealth rebuilding early in the recovery supported spending as households recovered \$7.8 trillion of net worth through 3Q 2010, nearly half of the recessionary losses. However, renewed economic uncertainty, falling confidence among businesses and consumers, and persistent declines in home prices have dragged household net worth down 5.9% through 2Q 2011, which is the latest data available and does not account for 3Q stock market volatility.
 - The most significant headwind for spending is still the labor market. Unemployment remains high, nearly half of those unemployed have been so for six months or longer and the labor force is shrinking, all of which should keep wage growth limited.
- Long-term risks. The three D's of demographics, debt, and digital pose formidable challenges to retail tenant demand over the coming decade.
 - Aging boomers, still the largest population segment, will likely slow their spending as they move into retirement. The cohort moving into their peak income-producing years (40-59 years old) through 2020 has 1 million less people than it did in the last decade.

- The use of credit will not likely fuel spending as it did in the credit boom. In addition to high existing debt burdens, home equity has lost its allure and credit access has become more difficult.
- Internet retailing and mobile devices are cutting deeply into brick-and-mortar space demand and changing the way people shop. Rapid growth in e-commerce has shifted spending away from most "soft goods" categories. Discretionary retailers are responding with smaller store formats and marketing strategies that utilize social media and mobile applications to drive traffic.

Strategies

- Invesco will only seek to acquire assets in outstanding locations. We believe anything less bears outsized risk.
- Densely infill grocery-anchored centers, fortress malls, and high street retail are expected to compete best. Power centers and periphery grocery-anchored centers that compete more directly with warehouse clubs should be more challenged.
- Internet marketing, property access/egress, and store layouts will take on heightened importance as shoppers use mobile devices to find merchandise and the best prices.
- Invesco prefers tenants who are savvy in utilizing the internet to generate in-store traffic.

Industrial

Tenant demand reemerged for industrial space with large warehouse users leading the way, moving occupancy higher, although it remains near its historic low. Growth in consumer spending, industrial production, and inventories fueled the initial improvement in fundamentals, but the outlook for sales and manufacturing has muddied since mid-year. Thus, we expect occupancy gains to slow in the second half of 2011. The industrial sector, however, also faces favorable structural changes in how consumers spend that mitigate the impact on leasing from slower economic growth over the medium term. These conditions lead Invesco to prefer the most durable markets and assets positioned to take advantage of e-commerce driven logistics.

Conditions & Implications

- Industrial occupancy has edged up steadily from its historical low last year, reaching 86.1% in 2Q 2011 with net absorption concentrated in key national and regional distribution centers.
- Occupancy remains highest in major port markets (Los Angeles/Orange County, Houston, Seattle, New York/Newark, and Miami), while distribution hubs with large regional populations (Riverside and Dallas/Fort Worth) are experiencing better relative occupancy growth.
- Yet, slower economic growth and fears of a double-dip recession are inhibiting business expansion and leading consumers to delay purchases, which slows production and reduces inventories.
 - The ISM manufacturing index has trended down for much of 2011 and approached its neutral threshold of 50 in August, reaching 50.6, which is the lowest level in two years. Also, for the first time since 2009, new orders have been below inventories since June, signaling a manufacturing contraction.
 - Strong industrial production growth this summer reflects the recovery in auto production, which is now back where it was before the supply disruptions related to the disaster in Japan. As a result, capacity utilization has recovered

about 75% of its recessionary losses. However, production growth outside of the auto and utilities sectors has softened as weak sales have caused inventories to edge up.

- Retail inventories remain historically lean with an inventory-to-sales ratio of 1.34 in 2Q 2011, well above the pre-recession range of 1.45 to 1.6. With consumer spending slowing, retailers will likely remain hesitant to bring on additional inventory.
- Trade was expected to benefit U.S. growth and, in turn, support industrial demand. Yet, the pause in U.S. growth coincides with a weaker outlook for Europe and China's actions to curb inflation, resulting in lowered expectations.
 - Global trade contracted in June for a flat 2Q⁴, even with the rapid recovery of flows in Japan. In fact, the Japanese recovery has been strong enough to keep global industrial production positive amid the Euro area contraction and slow growth in the U.S.
 - The U.S. trade balance widened sharply in the 2Q, per the Bureau of Economic Analysis. Early in the quarter, oil prices were driving the imbalance, but, as prices eased, the gap widened further on a sharp decline in exports that outpaced a modest decline in imports.
 - On net, trade patterns are expected to benefit West Coast markets most on a relative basis, while the Gulf Coast retail importer base has been broadening on the relative strength of the Texas economy and nearly complete Panama Canal expansion. East Coast locations closest to major ports should still hold up well, but periphery locations may underperform due to slower trade with Europe.
- Technology shifts may be a structural trend that transcends slower production and trade and tight retail inventories. The rising penetration rate of mobile devices and emergence of cloud computing are part of a structural shift in how consumers buy and how businesses transact and operate.
 - Online shopping growth has outpaced offline shopping by a factor of three since the mid-1990s, bringing this segment from 3% of retail sales in 1994 to over 10% today. Each 1% shift to online sales represents sales that would support about 75 million SF of occupied retail space.⁵ Thus, consumer access to these goods will continue to shift from retail shelves to an internet fulfillment warehouse.
 - This shift is expected to continue with support from demographics (by 2020, 50% of the U.S. population will be comprised of persons born since 1980 – the “digital age”) and continued growth in internet penetration⁵ and mobile internet usage.⁶

Strategies

- From an asset management perspective, Invesco intends to position assets for stable income performance over the next two years, including seeking early renewals for leases soon to expire.
- Given their durable demand characteristics, Invesco will seek to acquire assets in major port markets serving large populations, such as Los Angeles/Orange County, Riverside, Houston and New York/New Jersey.
- Invesco will also consider warehouse opportunities in tech-oriented markets, namely Oakland and San Jose, for assets with low to no near-term lease expirations.

⁴ Source: CPB Netherlands Bureau for Economic Policy Analysis, *World Trade Monitor*, August 22, 2011.

⁵ According to Internet World Stats, using underlying data from Nielson Online and ITU, the penetration rate for internet usage by the U.S. population in 2010 is estimated at 75%.

⁶ According to Barclays Capital, mobile internet usage across the U.S. population in 2011 is estimated at 35%.

39) What issues are other clients concerned with in regards to products, markets, education and governance?

1. Clients remain focused on GOVERNANCE today. Elements of governance receiving focus include: alignment of interest, fees, liquidity, performance, style drift, transparency, communication, the appropriate use of leverage and manager stability. Many funds have lost significant equity value and managers are being tested in their ability to respond to investor demands in these areas. 2009 was a year of underwriting and evaluating the health and survival of funds and their managers. 2010 was a year when investors returned to the market rewarding strong managers with new capital commitments. 2011 has seen continued allocations that have slowed recently as values have recovered and concern over the economy has investors worried about its impact on real estate.
2. In 2009, we discussed, related to governance and PRODUCTS, a shift toward wanting more control over investments either through separate accounts, co-investments (or "club" investing), joint ventures and more control over fund structures. This has not made much of an impact as investors returned to the market in 2010 & 2011 in largely the same structures as before (with the added focus of improved governance and manager due diligence).

In 2009, we commented that as some managers experience organizational issues, we are seeing some consolidation of managers, a trend that could continue. The trend has continued into 2010 & 2011.

Prior to 2008, the product focus was on taking more risk in order to try to achieve higher returns. The focus was on absolute returns. This has changed as now the focus has shifted to risk-adjusted returns. While two years ago value-added, opportunistic and non-U.S. investments were in favor, in 2010 & early 2011, the focus has been on core. Today, concern over core pricing is slowing core allocations and causing some investors to move out the risk/return spectrum where many investors feel the best risk-adjusted returns may lie. A conflicting motivation of "de-risking" their overall portfolio still creates a focus on managing overall risk taking. This is translating into more focus on fund terms.

There is discussion and hope for distressed investing. More opportunities are beginning to find their way out of financial institutions today. We are seeing some re-capitalization opportunities as mortgages come due.

3. In regards to EDUCATION, transparency and communication at the fund and property level are more important than ever. Investors want to know where the risks are.

The level of due diligence being done by prospective investors has never been higher.

40) What is on the horizon for INVESCO's business plan?

2011-2012 is business as usual for Invesco Real Estate. The Global Real Estate platform and investment strategies have largely been put in place. The firm has benefited from asset transfer and new allocations to both its direct and real estate securities business allowing us to continue to add resources to our business to support our existing client base.

In 2011/2012, we will offer:

- Invesco Core Real Estate - USA
- Invesco US Value-Added Real Estate Fund III
- Invesco Pan-Asia Open Ended Core+ Fund
- Invesco Asia Fund III (Value-Added/Opportunistic)
- Invesco Pan-European Fund (Core)
- Invesco European Office Fund (Value-added)
- Global Real Estate Securities

41) Describe your assessment of the relationship between INVESCO and *SamCERA*. How can we better benefit from your firm's services?

Invesco has long enjoyed its relationship with SamCERA beginning with the inception of the separate account in 1996. SamCERA was one of the founding investors in the Fund and as a result has enjoyed better than benchmark performance. IRE is committed to dedicating significant resources, time and effort to successfully manage assets through any market cycle and economic climate. Given the long term relationship, coupled with being a founding investor of the Core Fund, IRE believes that SamCERA is an integral relationship to the firm as demonstrated by the inclusion of SamCERA on the Advisory Committee of the Core Fund. Furthermore, the Fund's portfolio management team is readily accessible given its location in San Francisco, adding to the ease of communication, manager accountability and availability.

As a global investment management firm, Invesco is well positioned to offer its current clients real estate investment management services with products across the globe and risk spectrum. SamCERA could potentially benefit from products that are currently attractive including a value-added real estate or Pan Asian fund. SamCERA can also continue to benefit from the large amount of research and market insight available throughout the Invesco platform. We strongly believe that our current platform positions us to serve our clients currently and moving forward.

Conclusion

42) Is there any information that would be timely pursuant to *SamCERA's Investment Policy*, the *SamCERA/INVESCO Agreement*, and this annual review?

Values are increasing from a decline of 32%. While the fundamentals are returning and values continue to increase and stabilize, we are seeing consistent improvement in the multi-family sector. The commercial sector is improving as well; however, fundamentals are not as consistent as in the multi-family sector.

The Fund has an incoming queue. The Fund has acquired seven investments in 2011 with a cumulative value of \$956 million. This is more than double the acquisition volume closed as of the same time in 2010.

If history is any indication, we believe the current period for the asset class going forward is positive based on fund metrics including spreads to treasuries, a lack of new supply and valuations still dramatically below replacement cost and the peak. Invesco as an organization is committed to the asset class and continues to add resources that will allow it to manage assets in the best possible manner in order to

best preserve value. Ultimately, core real estate will return to providing income oriented returns that provide a solid contribution to a diversified portfolio.

One additional item to mention is that the Fund was successfully converted from a limited liability company to a limited partnership after close of business on Friday, July 1, 2011. While there was no impact on existing investors, the conversion is beneficial to a category of potential investors for the Fund, particularly non-U.S. investors.

- 43) Are your clients making significant changes in the structure of their real estate portfolios? Please describe these changes.

No significant changes are occurring in our clients' real estate portfolios. However, as real estate values have recovered, some investors are concerned about core pricing. Most capital in 2010 flowed to lower risk core investments. Today, investors are interested in non-core strategies - value-added, opportunistic, Asia, debt and non-traditional property types.

- 44) What market opportunities should *SamCERA* consider?

Two years ago, we commented that, "Given SamCERA's 6% allocation to real estate is at the lower end of the range of its peers, now may be a good time to consider raising it to take advantage of current pricing." That would have worked well as real estate performance has been very good since then. An increased allocation would get SamCERA closer to peers who average 10% real estate exposure.

In today's environment, SamCERA could benefit by:

1. Committing to a value-added fund for strategy diversification, to attempt to increment returns and take advantage of the current market. Distress creates opportunities and \$300 billion of commercial real estate loans originated at the peak of the market are now coming due each year.
2. Investing in a Pan-Asia Fund to take advantage of the growth opportunities and diversification benefits offered in that region.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

December 13, 2011

Agenda Item 6.6 b

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Investment Manager Review – AQR Capital Management – Global Risk Premium
Strategy – Scaled to 10% Volatility

STAFF COMMENTS: The board instructed *SamCERA*'s staff and investment consultant to perform annuals review of *SamCERA*'s investment managers and report back to the board. On November 3, 2011, staff interviewed AQR, *SamCERA*'s risk parity manager, in the building's conference room at 100 Marine Parkway.

The AQR Global Risk Premium Strategy, 10% volatility, was interviewed at approximately 10:15 a.m. Those present were:

Ben Bowler – *SamCERA* Trustee

David Bailey – *SamCERA*'s Chief Executive Officer

Scott Hood – *SamCERA*'s Assistant Executive Officer

Gary Clifton – *SamCERA*'s Chief Investment Officer

Patrick Thomas – Strategic Investment Solutions' Investment Consultant

Michael Mendelson – Partner and Portfolio Manager of Global Risk Premium Fund at AQR
Capital Management

Ronen Israel - Partner and Portfolio Manager of the Delta Fund at AQR Capital Management

Joey Lee – Associate, Client Strategies and Portfolio Solutions at AQR Capital Management

Attached to this agenda item are the presentation materials used by AQR for the review and AQR's due diligence questionnaire (DDQ) for the Global Risk Premium product.

BACKGROUND: At the August 24, 2010, board meeting the trustees concluded an asset liability modeling study. The outcome was to further diversify the overall portfolio by adding a 20% allocation to alternative investments. The alternatives would be 8% private equity, 6% risk parity, 3% hedge funds and 3% commodities. This additional allocation came by reducing equities from 67% to 53%, fixed income from 27% to 22% and real estate from 6% to 5%. The board determined that the process to implement risk parity could begin immediately and directed Strategic Investment Solutions to develop criteria and initiate a manager search for the risk parity mandate.

In October, SIS used the initial screening criteria detailed below to determine a short list of five candidates for consideration. The criteria used were:

1. Total universe of risk parity managers known to SIS. (eight managers)
2. Identified those strategies with true risk parity approaches which are appropriate in light of *SamCERA*'s investment objectives. (five managers)

3. Required assets of at least \$200 million as of 6/30/2010. (five managers)

The short list of candidates was:

- AQR Capital Management: Global Risk Premium Strategy 10% Volatility
- BlackRock: Market Advantage
- Bridgewater: All Weather Strategy
- First Quadrant: Essential Beta
- PanAgora: Risk Parity

Following deliberation the board directed staff to invite AQR Capital Management, Bridgewater Associates, and PanAgora Asset Management to appear before the board on December 14, 2010, to interview for *SamCERA's* risk parity mandate. At the conclusion of the interviews, the board awarded the mandate to AQR. The mandate was funded with \$140 million on March 1, 2011.

DISCUSSION: Immediately below is information provided by Strategic Investment Solutions at the time of the board's initial interview with AQR Asset Management. That information is followed by current firm and product information, starting with general firm information.

PERSONNEL DEDICATED TO PRODUCT

The Global Risk Premium (GRP) strategy is overseen by Portfolio Managers Brian Hurst, Michael Mendelson, and Yao Hua Ooi. Additional oversight is provided by the GRP Investment Committee, which includes investment, risk and trading professionals from several areas of AQR. As a firm we are organized around investment strategies/asset classes rather than specific products and our investment committees allows expertise from many of the areas to contribute to strategy management. Portfolio managers are supported by the Global Asset Allocation team which has 17 researchers and 7 portfolio management members along with our Global Trading team of 9 and 3 person independent Risk Management team. In total, there are more than 30 investment professionals who support the investment management efforts for the Global Risk Premium strategy.

EXPECTED RETURN AND STANDARD DEVIATION

We offer this strategy at three different volatility levels in commingled funds: 10%, 12%, and 25%. We can also tailor to a client's desired level of volatility since our funds are run in a master-feeder structure.

Over the long-term, we expect the 10% volatility fund to outperform its informal 60/40 benchmark with balanced contributions across the four main asset classes. On a forward looking basis, the expected return for the strategy will depend on the risk premia available across the markets we trade and the returns from those markets.

BENCHMARK

There are many ways to benchmark GRP. We tend to differentiate between the notions of a risk equivalent benchmark and a long-term excess return target.

A risk benchmark should be something of equivalent risk that will have similar magnitude short term movements. For instance, we generally use a 60/40 stock/bond portfolio as an appropriate benchmark for the 10% volatility target option as that has realized a similar volatility level. It also happens to be the policy portfolio for many plans looking to diversify away their equity risk by allocating some exposure to the GRP strategy.

FEES

For our 10% volatility feeder we charge a management fee of 40 bps. Audit fees, Admin fees, and other miscellaneous fees will be approximately 8.8 bps for a \$50 Million investment, and the fee difference for a \$100 Million investment will be marginal due to the scale of the fund.

Please note that for different volatility offerings the management fee of 40 bps scales linearly with volatility.

General Firm Information

Firm Legal Name: AQR Capital Management LLC
Firm Headquarters: 2 Greenwich Plaza, 3rd Floor
Greenwich, Connecticut 06830
Main Phone | Main Fax: 203.742.3600 | 203.742.3100
Year Firm Founded: 1998
Registered Inv't Advisor: Yes
Firm Website Address: www.aqrcapital.com
Geographic Areas of Interest: United States

Firm Background

AQR Capital Management, LLC is an independently owned investment management firm employing a disciplined multi-asset, global research process. The company's investment products are provided through a limited set of collective investment vehicles and separate accounts that deploy all or a subset of the company's investment strategies. These investment products span from aggressive high volatility market-neutral hedge funds, to low tracking error benchmark-driven traditional products. Investment decisions are made using a series of global asset allocation, arbitrage, and security selection models, and implemented using proprietary trading and risk-management systems. AQR believes that a systematic and disciplined process is essential to achieve long-term success in investment and risk management. In addition, models must be based on solid economic principles, not simply built to fit the past, and must contain as much common sense as they do statistical firepower. The principals of the firm have been pursuing this research since the late 1980s, and have been implementing this research in one form or another for approximately nine years. The research of AQR's principals is internationally renowned and has resulted in numerous published papers in a variety of professional journals since 1991.

The firm's founding principals, Clifford S. Asness, Ph.D., David G. Kabiller, CFA, Robert J. Krail, and John M. Liew, Ph.D., and several colleagues started AQR in January 1998. Each of the firm's principals was formerly at Goldman Sachs, & Co., where Asness, Krail, and Liew, comprised the senior management of the Quantitative Research Group at Goldman Sachs Asset Management (GSAM). At GSAM, the team managed both traditional (managed relative to a benchmark) and non-traditional (managed seeking absolute returns) mandates. The principals formed AQR to build upon the success achieved at GSAM while enabling key professionals to devote a greater portion of their time to research and investment product development. AQR manages assets for some of the largest institutional investors from the United States, Europe and Asia.

Joint Ventures

AQR has a joint venture with CNH Partners. AQR has a 50% ownership stake in CNH. CNH researches arbitrage related strategies.

Prior or Pending Ownership Changes

Affiliated Managers Group (AMG) bought a minority interest of less than 25% in AQR.

Prior or Pending Litigation

None

AQR's Global Risk Premium Fund – 10% Volatility

General Product Information

Research & Screening Process

AQR's investment process encompasses the following aspects:

- Select Universe of Risk Premia
- Determine Risk Allocations
- Construct the Portfolio

Select Universe of Risk Premia

The Global Risk Premium (GRP) strategy focuses on the highest liquidity exposures in the universe.

The main criteria for risk premia to be included are:

- Positive expected returns or significant diversification benefit or both
- Sufficient liquidity
- Ease of financing

The GRP strategy is risk balanced between four main asset classes: equities, bonds, inflation and credit/default as described below. There are more than 70 individual exposures in this strategy.

1. Equity risk, which benefits from long-term economic growth, including global developed and emerging equities, U.S. large, mid cap and small cap equities
2. Nominal interest rate risk, which can provide attractive returns during periods of stress and/or deflation, including global developed and emerging bonds
3. Inflation risk, which can provide protection from price inflation, including commodities (production weighted and volatility weighted) and global inflation-linked bonds
4. Credit/Default risk, which offer diversifying returns with somewhat greater stability than equities, including U.S. and European high yield and investment grade credit emerging currencies, commercial mortgage backed securities, and emerging sovereign credit spreads.

Determine Risk Allocation

Empirical data shows that the long-term risk-adjusted returns are similar across each of these asset classes, and so expected portfolio risk-adjusted return is maximized by equal risk weighting as opposed to equal cap weighting.

Construct the Portfolio

The portfolio is constructed by calculating the exposures that meet AQR's risk targets. They impose exposure limits based on stress-testing scenarios which are focused on potential stress losses. AQR uses a broad range of asset class types that provide wide coverage with low trading costs.

Portfolio Construction & Risk Control Methodology

The GRP strategy targets equal risk contributions from four major asset class categories: equity risk, nominal interest rate risk, inflation risk, and credit/default risk, and its objective is to generate positive returns from a broad, risk diversified portfolio of liquid global asset class exposures. The instruments used for this strategy are: Futures, Government Bonds, Swaps, and Currency Forwards.

To achieve desired risk weights they use an implementation approach that blends:

- Historical volatilities and correlations of different asset classes
- Forecasted volatility and correlations
- Stress-tested scenarios focused on potential drawdown levels

AQR trades using low-cost techniques, including using electronic and algorithmic execution where feasible. They place great emphasis on trading and implementation research and analysis. Transaction costs are modeled on a market by market basis. Because portfolio performance is affected by implementation and execution capabilities, AQR invests significant resources in this area.

Within each of the four equal risk weighted buckets, the weighting of the underlying individual assets is determined by balancing the diversification benefit available, and the relative liquidity

of the instruments traded. For instance, in equities where the correlations between markets are high and the diversification benefit is low, they place a greater emphasis on tilting exposures to the more liquid and lower transaction cost markets. But, within commodities where the cross-correlations are modest giving a higher diversification benefit, they balance the emphasis between equal risk allocation and liquidity. From a risk management perspective, they construct the portfolio by calculating the exposures that meet the risk targets. AQR imposes exposure limits based on stress testing scenarios which are focused on potential losses.

Buy/Sell Discipline

AQR only trades or rebalances the portfolio when it drifts meaningfully away from the target portfolio, which is determined by their models that are run on a daily basis. The target portfolio is a collection of asset class exposures that: 1) generates the desired level of overall portfolio volatility and, 2) maintains equal risk allocation across the four major asset class categories.

Trading Strategy

AQR places great emphasis on trading and implementation. While commissions and economic impact are critical components of trade decisions, AQR's implementation process is designed to maximize the factor view/signal content of resulting portfolios.

AQR trades electronically through direct connections to exchanges in all markets where this option exists. Direct exchange connections and the avoidance of soft dollar arrangements allow the firm to employ internally-developed proprietary algorithms that place its trades in a liquidity-providing manner. By trading passively and providing liquidity to the market, AQR can reduce market impact and greatly reduce total trading costs. Additionally, their algorithms allow them to perform real-time risk control and monitoring and also provide direct feedback into the portfolio construction process. As AQR has developed its algorithmic trading capability, first applied to equity markets in 2001 and later applied to futures markets in 2006, they have seen a significant reduction in overall transactions costs. Over time, the firm will look to extend these capabilities to all markets as electronic venues develop more broadly.

Clients' guidelines are incorporated directly into the portfolio optimization process and senior members of the portfolio management team review all trades prior to sign off to prevent guideline violations. Automated, proprietary risk management systems produce daily reports to ensure post-trade and ongoing guideline compliance. The firm also uses the Charles River trading system to enhance pre-trade controls. Since the trading operation is highly automated, traders have limited ability to act outside of their pre-determined parameters.

Additional Comments

Competitive Advantages

- Economically Intuitive Approach: GRP framework does not rely on foresight about future market environments or asset class returns, which are very difficult to forecast

- Risk Diversified: They actively manage risk to provide consistent exposure to a broad set of global asset classes, including credit and real estate
- Low Cost Implementation: Algorithmic electronic trading, exchange memberships, and highly competitive methods keep transaction costs low. Extensive use of liquid market instruments
- Disciplined Risk Management: Systematic drawdown control process reduces risk during market turmoil, preserving risk diversification. An alternative to abrupt, subjective, and usually adverse shifts in allocation
- Low Fees and Full Transparency: 40 basis points fixed fee. Monthly/quarterly reporting of risk and returns

Use Of Derivatives

Derivatives Used in Managing This Product: Yes

Explanation of How Derivatives Are Utilized in Managing This Product:

GRP is implemented using derivatives instruments because AQR feels it is the most efficient way to gain market exposure. In order to manage exposures properly, they place great emphasis on strong counterparties, focus on simple arrangements and prioritize stability. For most exposures, they will use exchange traded futures to implement the portfolio. For those instruments without exchange traded choices or greater OTC liquidity, they will use swap exposures, including interest rate swaps (for certain bond markets) and credit default swaps (for corporate/mortgage credit). In a few cases, AQR will use repurchase financing (e.g. inflation linked government bonds). They continually assess new instruments for possible use in the portfolio construction. Foreign currency exposure will be fully hedged, except for the explicit allocation to emerging currencies which provides a unique beta exposure.

Global Risk Premium Fund

AQR Capital Management

Due Diligence Questionnaire

Second Quarter 2011

A. MANAGER PROFILE

1. Company Info

AQR Capital Management, LLC (“AQR”, the “Company” or the “Firm”)
2 Greenwich Plaza, 3rd Floor
Greenwich, CT 06830
T: (203) 742-3600
F: (203) 742-3100
Email: info@aqr.com
Website: www.aqrcapital.com

2. Provide a brief overview of the firm’s history.

AQR was founded in January 1998. Each of the founding principals was formerly at Goldman Sachs, & Co. Three of the four, Cliff Asness, Robert Krail, and John Liew comprised the senior management of the Quantitative Research Group at Goldman Sachs Asset Management (GSAM). The principals formed AQR to build upon the success achieved at GSAM while enabling key professionals to devote a greater portion of their time to research and investment product development.

Today, AQR has 225 employees and manages over \$41 billion in private funds, separate accounts and mutual funds all run in systematic and process driven strategies. Our diversified product line ranges across aggressive high volatility market-neutral hedge funds, to risk parity asset allocation strategies to low tracking error benchmark-oriented traditional products.

AQR believes that a systematic and disciplined process is essential to achieve long-term success in investment and risk management. In addition, models must be based on solid economic principles, not simply built to fit the past, and must contain as much common sense as they do statistical firepower. The principals of the firm have been pursuing this research since the late 1980s, and have been implementing this research in one form or another since the early 1990s. The research of AQR's principals is internationally recognized and has resulted in numerous published papers in a variety of professional journals since 1991.

3. Describe the basic capital structure of the Company.

AQR is independently owned and operated. AQR’s sixteen principals hold majority interest in the firm (greater than 75%). In November 2004, Affiliated Managers Group (AMG) bought a minority interest (less than 25%) in AQR Capital Management. AQR remains employee operated and has preserved full independence in operations and managing our investment process.

CNH Partners is a 50% owned affiliate of AQR. For all practical purposes the group is seamlessly integrated into AQR. Mark Mitchell, formerly a professor at Harvard, and Todd Pulvino, formerly a professor at Northwestern, are our CNH partners. CNH’s objective is to build analytical datasets and insights into arbitrage related strategies.

4. How many employees are working for the Company?

As of 6/30/2011, AQR had approximately 225 full-time employees.

5. Provide a brief description of the Global Risk Premium (GRP) Fund.

The AQR Global Risk Premium Fund (“GRP”) is a risk parity strategy. Global Risk Premium is an innovative strategy which is based on AQR principals’ original research beginning with “Why Not 100% Equities” published by AQR founding principal Cliff Asness in The Journal of Portfolio Management in 1996. GRP’s objective is to efficiently deliver exposure to a broadly diversified set of global risk premia. Following basic financial theory, AQR designed the GRP Fund based on what we believe to be the most optimal liquid portfolio of global market betas, and we offer that same portfolio at various levels of leverage to target a desired amount of risk as approximated by ex ante volatility. This process is in contrast to most investment portfolios whereby the asset mix is altered to achieve a desired level of risk/volatility. By changing the asset mix, we believe investors forego the benefit of risk diversification.

The concept of diversifying risk is not equivalent to diversifying capital since asset classes have varying levels of risk/volatility, return patterns and correlations to each other. In many cases, investors will forego risk diversification for traditional capital allocation to achieve expected returns. However, this may lead to a traditionally oriented portfolio which is dominated by equity risk. In fact, we estimate that a traditional 60% equity / 40% fixed income portfolio is over 90% equity risk.

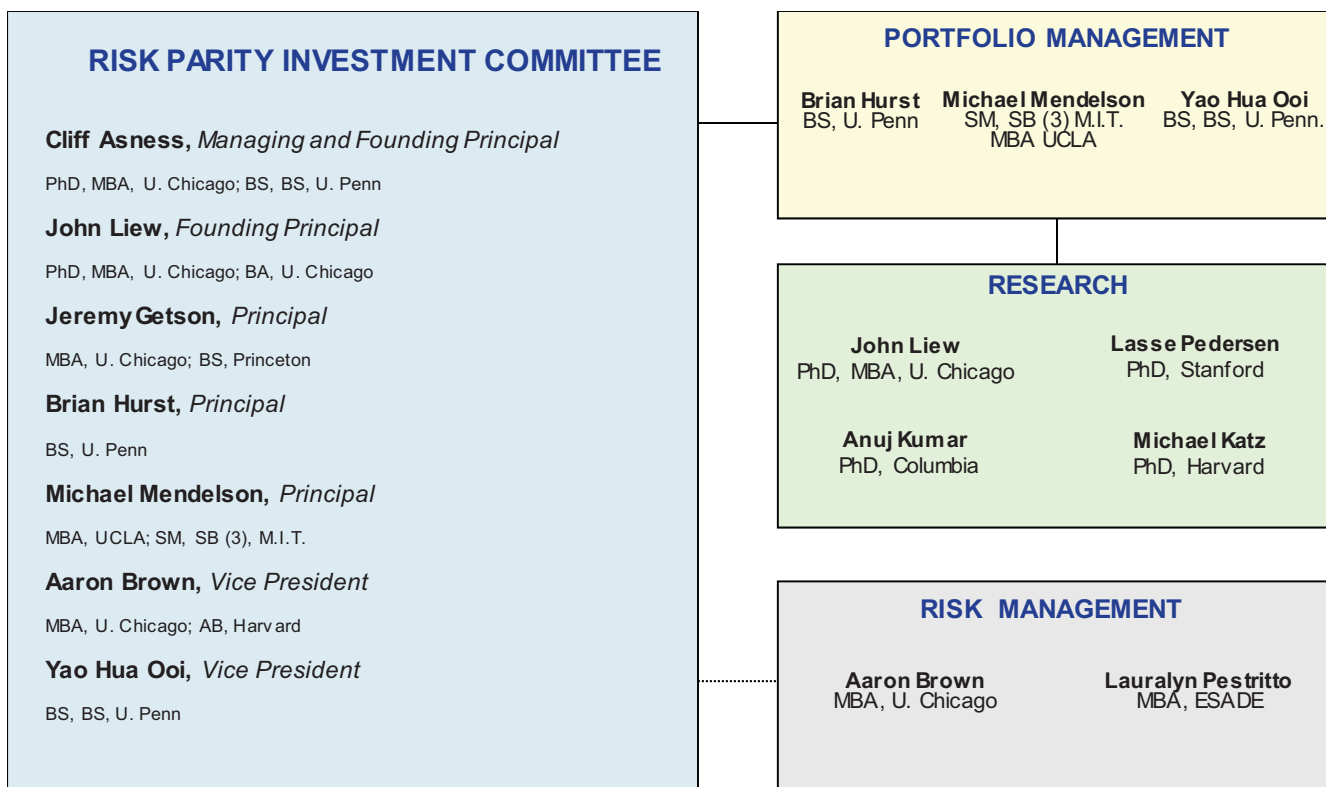
Analyzing a portfolio in terms of its risk allocation should be a crucial step in asset allocation. The AQR Global Risk Premium Fund is designed within four groups of risk premia (Equity Risk, Nominal Interest Rate Risk, Inflation Risk, Credit/Default risk).

Advantages of the Fund:

- *Economically Intuitive Approach:* GRP framework does not rely on foresight about future market environments or asset class returns, which are very difficult to forecast
- *Risk Diversified:* We actively manage risk to provide consistent exposure to a broad set of global asset classes, including credit and real estate
- *Low Cost Implementation:* Algorithmic electronic trading, exchange memberships, and highly competitive methods keep transaction costs low. Extensive use of liquid market instruments
- *Disciplined Risk Management:* Systematic drawdown control process reduces risk during market turmoil, preserving risk diversification. An alternative to abrupt, subjective, and usually adverse shifts in allocation
- *Low Fees and Full Transparency:* 40 basis points fixed fee for our 10 % volatility target strategy (fees scale with volatility). Monthly/quarterly reporting of risk and returns

6. *Provide biographies for key personnel.*

Below is an organizational chart of the GRP Investment Committee.



Biographies for the above investment professionals are below:

Clifford S. Asness, Ph.D., Managing and Founding Principal

Prior to co-founding AQR Capital Management, Cliff was at Goldman, Sachs & Co. where he was a Managing Director and Director of Quantitative Research for the Asset Management Division. Cliff and his team at Goldman were responsible for building quantitative models to add value in global equity, fixed income and currency markets for Goldman clients and partners. Cliff has authored articles on many financial topics including multiple publications in the Journal of Portfolio Management and the Financial Analysts Journal. He has received the best paper award from the Journal of Portfolio Management twice (2001, 2003). From the Financial Analysts Journal he has received the Graham and Dodd Award for the year’s best paper (2003), a Graham and Dodd Excellence Award (2000), the award for the best perspectives piece (2004), and the Graham & Dodd Readers' Choice Award (2005). In addition, the CFA Institute has awarded Cliff the James R. Vertin Award which is periodically given to individuals who have produced a body of research notable for its relevance and enduring value to investment professionals. He is on the editorial board of the Journal of Portfolio Management, the editorial board of the Financial Analysts Journal, the governing board of the Courant Institute of Mathematical Finance at NYU, the Board of the International Rescue Committee, and is a trustee of the Manhattan Institute and the Atlas Society. Cliff received a

BS in Economics from the Wharton School and a BS in Engineering from the Moore School of Electrical Engineering, both graduating summa cum laude at the University of Pennsylvania. He received an MBA with high honors and a Ph.D. in Finance from the University of Chicago where he was Eugene Fama's student and teaching assistant for two years (he is still respectfully scared of Gene).

John M. Liew, Ph.D., Founding Principal

John Liew is a co-founder of AQR Capital Management and heads the Global Asset Allocation team. Prior to co-founding AQR, John worked at Goldman, Sachs & Co. as a portfolio manager in the Asset Management Division where he developed and managed quantitative strategies to trade stock index futures, bond futures and currencies globally. At Goldman, these strategies were used to manage proprietary capital, a hedge fund, institutional separate accounts and retail mutual funds. Prior to joining Goldman, John worked at Trout Trading Company where he developed and implemented global quantitative market-neutral stock selection strategies. John has published articles on the topics of global asset allocation and stock selection in the Journal of Portfolio Management and the Financial Analysts Journal. John is a member of the Board of Trustees of the University of Chicago where he received a Ph.D. in Finance in 1995 and an MBA in 1994 from the Booth School of Business and graduated Phi Beta Kappa with a BA in economics in 1989.

Jeremy M. Getson, CFA, Principal

Jeremy is a Vice President in the Client Strategies team. Jeremy joined AQR in September 2004 upon graduation from the University of Chicago Graduate School of Business, where he graduated with high honors and concentrations in Analytic Finance and Economics. Before business school, Jeremy was a product manager and VP of investments for Allstate Financial where he led the due diligence efforts of Allstate's sub-advised funds team. Prior to that he was a field consultant with Mercer Investment Consulting, advising pension plans on asset allocation and manager selection decisions. Jeremy's background also includes work experience with a real estate firm, a non-profit organization, and in Illinois statewide politics. Jeremy was selected as Siebel Scholar in 2003, one of 25 MBA students in America to receive the distinction. Jeremy graduated Cum Laude from Princeton with an AB in Politics.

Brian K. Hurst, Principal

Brian Hurst has been with AQR Capital Management since its inception in 1998. He has over 15 years of experience managing money for institutional investors in both traditional and alternative investment strategies. He is currently the head of the Global Trading Strategies group. He was a founding member of the Global Asset Allocation team, which focuses on macro strategies. Prior to AQR, Brian worked at Goldman, Sachs & Co. in the Asset Management Division's Quantitative Research Group. As one of the original members of this group, he was responsible for building the core infrastructure and developing the quantitatively based models that were used to manage over \$7 billion in assets. Brian received his BS in Economics from the Wharton School of the University of Pennsylvania.

Michael Mendelson, Principal

Michael joined AQR Capital Management in 2005. Prior to joining AQR, Michael worked at Goldman Sachs where he was Managing Director and Head of Quantitative Trading. Prior to

founding that effort, he was Head of US Program Trading. At Goldman Sachs, Michael served on the Equities Division Risk Committee and was co-chair of the Systems Risk Taskforce. He began his career at Goldman serving pension funds and endowments in the Fixed Income Division and the Pension Services Group. Michael received an S.M. in Chemical Engineering from MIT along with an S.B. in Chemical Engineering, and S.B. in Mathematics, and an S.B. in Management. He also has an MBA from the University of California at Los Angeles.

Lasse H. Pedersen, Ph.D., Principal

Lasse joined AQR in July 2007. Lasse is also a Chaired Professor of Finance at the NYU Stern School of Business, serves on the Economic Advisory Boards of NASDAQ OMX and FTSE, and has been an academic consultant for the NY Federal Reserve Bank among other places. He earned his Ph.D. in Finance from Stanford University and his B.S. and M.S. degrees in Mathematics-Economics from the University of Copenhagen. Lasse's research has focused on asset pricing and liquidity risk, studying the markets for equities, currencies, commodities, bonds, futures, options, and sovereign CDS. He has published in the leading academic finance journals, served as associate editor for Journal of Finance and Journal of Economic Theory, is a research associate at National Bureau of Economic Research and Centre for Economic Policy Research, and has won several awards including the Fama/DFA Prize.

Aaron Brown, Vice President

Aaron Brown joined AQR in June of 2007 as a Risk Manager. He came to us from Morgan Stanley where he was an executive director in Risk Methodology. Aaron has taught Finance at both Fordham Business School and Yeshiva University and serves on the editorial board of the Global Association of Risk Professionals, is a regular columnist for Wilmott Magazine and has been elected to the National Book Critics Circle. He is also the author of The Poker Face of Wall Street (Wiley 2006, selected among ten best books of 2006 by Business Week). Aaron earned his SB in Applied Mathematics, cum laude from Harvard University, and an MBA in Finance and Statistics from the University of Chicago.

Yao Hua Ooi, Vice President

Yao Hua joined AQR in 2004 and is currently a Vice President in the Global Asset Allocation team. Prior to joining AQR, he was a summer analyst in the Fixed Income group at UBS, where he structured and marketed interest rate derivative products to regional private banks. Yao Hua graduated from the Jerome Fisher Program in Management and Technology at the University of Pennsylvania. He received a BS in Economics from the Wharton School and a BS in Engineering from The School of Engineering and Applied Science, with majors in Finance and Computer Engineering, both graduating summa cum laude.

7. *List the regulatory organizations that oversee your company and products.*

- U.S. Securities and Exchange Commission
- Commodity Futures Trading Commission / National Futures Association
- U.S. Department of Labor
- Securities and Exchange Board of India
- Australian Securities & Investment Commission
- Ontario, Quebec, Saskatchewan, and Alberta Securities Commissions

8. *Describe how your company is classified by the regulatory organizations (registered investment advisor, broker dealer, commodity pool operator, futures commission merchant etc).*

AQR is registered with the Securities and Exchange Commission (“SEC”) as an investment adviser under the Investment Advisers Act of 1940. AQR is also registered with the Commodity Futures Trading Commission (“CFTC”) as a commodity pool operator and a commodity trading adviser and is a member of the National Futures Association (“NFA”). AQR qualifies as a Qualified Professional Asset Manager as defined in Prohibited Transaction Exemption 84-14 promulgated by the U.S. Department of Labor (“PTE 84-14”).

AQR is registered as a Foreign Institutional Investor with the Securities and Exchange Board of India. In Canada, AQR is registered as an Exempt Market Dealer and Investment Fund Manager with the Ontario, Quebec, Saskatchewan, and Alberta Securities Commissions. AQR Pty Ltd, an affiliate of AQR, is registered with the Australian Securities & Investments Commission.

B. INVESTMENT STRATEGY & STYLE

1. *Describe the development of your investment approach?*

Investment Objective

The objective of GRP is to generate excess returns from a risk diversified portfolio of asset exposures. We believe that our approach maximizes the diversification benefit across a broad range of economic environments. In many institutional portfolios, equity risk is the predominant risk, a concentration driven by the need for high expected return that cannot be satisfied in a well-diversified un-levered portfolio. GRP is a much more 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. We believe our approach, which leverages a lower risk, broadly diversified portfolio meets expected return objectives without the significant concentration risks of the equity dominated portfolio.

In this strategy we:

1. Construct a more optimal combination of betas by including greater exposure to lower risk betas than traditional allocation approaches favor
2. Utilize the technique of leveraging this more optimal combination of betas to a desired risk level without sacrificing risk-adjusted returns

AQR’s Asset Allocation Philosophy

Our 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, we expect a portfolio that is diversified equally by risk to perform better.

Not only are long-term risk adjusted returns across asset classes similar, but it is very hard to accurately forecast asset class returns and the cost of misallocation is high if an investor seeks to “time” asset class performance but does so incorrectly. Both mathematical and empirical observations show that risk forecasting should be more accurate than return forecasting. Risk forecasting makes it reasonable for risk balancing to reduce the likelihood that an investor’s portfolio risk is too high when markets are volatile – which is often the case in declining markets.

GLOBAL RISK PREMIUM FUND (GRP)

In order to implement a risk balancing asset allocation framework effectively, the Global Risk Premium portfolio requires:

- Active management to maintain risk diversification and steady portfolio risk
- Sophisticated trading capabilities to keep the transaction costs low

2. *Describe your process. Describe how investment ideas are generated.*

Investment Process

Our investment process encompasses the following aspects:

- Select Universe of Risk Premia
- Determine Risk Allocations
- Construct the Portfolio
- Monitor and Trade

Select Universe of Risk Premia Assets

Our Global Risk Premium strategy focuses on the highest liquidity exposures in the universe.

The GRP strategy is risk balanced between four main asset classes: equities, bonds, inflation and credit/default hedges as described below. This product is broadly diversified representing over 70 individual exposures.

1. Equity risk, which benefit from long-term economic growth, including global developed and emerging equities, U.S. large, mid cap and small cap equities
2. Nominal interest rate risk, which can provide attractive returns during periods of stress and/or deflation, including global developed
3. Inflation risk, which can provide protection from price inflation, including commodities (production weighted and volatility weighted)
4. Credit/Default risk, which offer diversifying returns with somewhat greater stability than equities, including U.S. and European high yield and investment grade credit, global swap spreads, emerging currencies, commercial mortgage backed securities, and emerging sovereign credit spreads.

The main criteria for risk premia to be included are:

- Positive expected returns or significant diversification benefit or both
- Sufficient liquidity
- Easily financed

Risk Allocation

1) Equity Risk (*21 exposures*) 25%

- Global developed equities
- Global emerging equities
- U.S. mid cap equities
- U.S. small cap equities

2) Nominal Interest Rate Risk (*12 exposures*) 25%

GLOBAL RISK PREMIUM FUND (GRP)

- Global developed bonds
- Global emerging bonds

3) Inflation Risk (26 exposures) 25%

- GSCI Commodity Index (production weighted)
- AQR Commodity Index (volatility weighted)
- Global TIPS

4) Credit/Default Risk (14 exposures) 25%

- U.S. high yield corporate credit
- European high yield corporate credit
- U.S. investment grade corporate credit
- European investment grade corporate credit
- U.S. commercial mortgage spreads
- Emerging currencies
- Emerging sovereign credit spreads

Equal risk weightings mean that the Fund’s exposure – its “risk premia” – to each of the four categories is approximately the same. While the weightings within each risk category may change over time (e.g. based on future research, capacity constraints, market liquidity, and the availability of new betas) we do not vary these bets tactically to express a view that one asset will have a higher or lower risk adjusted return than any other in GRP. Portfolio construction, risk control and dynamic rebalancing are the key value added inputs in maintaining our equal risk budget, which we describe in the following sections.

To achieve desired equal risk weights we use an implementation approach that blends:

- Historical volatilities and correlations of different asset classes
- Forecasted volatility and correlations
- Stress-tested scenarios focused on potential drawdown levels

We determine the risk allocations to each of the assets by using the historical and forecasted risk estimates along with the stress tested scenarios to estimate each asset’s contribution to risk. Once we have the risk estimates at the individual asset level, we aggregate those up to the portfolio level.

Portfolio Construction

We construct the portfolio by calculating the exposures that meet our risk targets. We impose exposure limits based on stress-testing scenarios which are focused on potential stress losses. We use a broad range of asset class types that provide wide coverage with low trading cost. We generally gain market exposures using exchange traded futures, vanilla fixed-floating interest rate swaps (for certain bond markets), credit default index swaps (for corporate/mortgage credit), and in a few cases, we will use repo financing of cash bonds (e.g. inflation linked government bonds).

GLOBAL RISK PREMIUM FUND (GRP)

We trade using low-cost techniques including using electronic and algorithmic execution where feasible. We place great emphasis on trading and implementation research and analysis. Transaction costs are modelled on a market by market basis. Because our portfolio performance is affected by our implementation and execution capabilities, we continue to invest resources to strengthen our effort.

Monitor and Rebalance

The long-term success of the strategy depends on maintaining diversified risk exposure. Market movements will cause our exposures to change over time, requiring routine monitoring and rebalancing. In addition, evolution in the underlying volatility, correlation and stress test estimates will lead us to adjust positions.

For the GRP strategy, we employ a rigorous program to monitor the portfolio, which includes:

- Daily assessment of individual asset risk forecasts and ex-ante risk budget to:
 - Captures changes in the underlying risks of the portfolio holdings
 - Minimize transaction costs. We monitor daily but rebalance only when the assessment shows meaningful drift away from our target risk budget
- Systematic drawdown control process based portfolio returns and tail risk assessment
 - Adjusts notional exposures according to our risk forecasts
 - Overlays fund risk models with external measurement and control on portfolio risk
- Strict oversight of counterparties by AQR Counterparty and Risk Committees
 - Collateral management program mitigates exposures to counterparties
 - Majority of fund capital is held in cash instruments away from trading and financing counterparties

3. Is your investment approach technical, fundamental or a combination? Who exercises discretion?

We view ourselves as fundamental investors who use quantitative tools to build diversified portfolios based upon sound economic ideas. This product is passive with respect to risk; however, the portfolio requires active exposure management in order to keep the risk weightings equal. This can occur from varying performance between asset classes as well as evolution in the risk estimates for the underlying exposures.

4. List instruments used when employing your GRP Fund?

Our investment universe is grouped into four categories containing individual exposures to specific assets/indices: Equities, Nominal Interest Rate, Inflation Linked, and Credit/Default exposures.

Equity exposure is generally achieved through index futures, and for Switzerland, swaps on futures.

GLOBAL RISK PREMIUM FUND (GRP)

Fixed income exposure is achieved through 10-year government bond futures for developed markets and 5-year simple fixed-floating interest rate swaps for emerging markets.

Inflation-linked bond exposure is achieved through direct holding of bonds that are financed through repurchase agreements (repo). We divide our exposure between 5 and 10 year issues (except in the UK, where only the more liquid 10 year maturities are held.)

Commodity exposures are obtained through futures.

Credit exposures are gained through credit default index swaps on investment grade, high yield and CMBS.

Emerging market currency exposure is through forwards.

5. How frequently are changes made to your approach?

Equal risk is our strategic allocation. However, we are continually researching additional exposures that meet our liquidity and financing criteria for inclusion in the portfolio.

C. INVESTMENT PERFORMANCE

1. Provide returns for your GRP Fund.

We would be willing to supply these upon request.

2. What is the preferred benchmark for this product?

There is not a natural benchmark for the GRP Fund. The GRP Fund is a diversified portfolio of passive exposures to a broad range of asset classes. Assigning a single asset class benchmark to judge performance against it would be misleading. Instead, depending on GRP's use in an investor's portfolio, the fund may be considered benchmarked, over the long term, against asset classes of similar volatility. We offer the GRP Fund at various volatility levels. For the Fund at equity-like volatility, it may be useful to compare against an equity index, while at the same time, the Fund at a lower, more bond-like volatility, may be compared against a bond index. In essence, the thesis behind GRP is that over the long-run the diversified portfolio will outperform a single asset or less diversified portfolio of similar volatility.

D. RISK MANAGEMENT SYSTEMS

1. What are your general views on risk?

Risk Management Process:

We adopt a quantitative and qualitative approach to market risk management (e.g., empirical estimation of expected volatility and correlation of our assets, and implicitly of our entire fund). On a daily basis, our independent risk management team monitors the following:

- Value-at-Risk (Historical Simulation and Bayesian, at 95% and 99% levels, over one-day and ten-day horizons) Forecasted volatility (using multiple robust estimates)

GLOBAL RISK PREMIUM FUND (GRP)

- Liquidity (the time schedule over which a Fund's positions could be liquidated under normal trading conditions with minimal market impact)
- Fund and strategy drawdowns
- Forecasted correlation between securities and between strategies
- Event analysis (i.e., what happened to these positions in Aug-1998, etc.)
- Position limits (to enforce diversification)
- Real-time P/L monitoring
- Worst and best case analysis
- Skewness
- Kurtosis
- Correlation and beta to risk factors
- Counterparty current and potential exposure, and creditworthiness
- Operational risk management and controls (see below for more)
- Judgmental risk control

Fund returns are monitored, down to the position level, through our P&L system which is able to capture live the returns on the dominant portion of our positions. To maximize consistency and efficiency of risk reporting across the wide range of asset classes that we trade, we keep the number of risk systems we employ to a minimum.

Counterparty Oversight:

Counterparty risk at AQR is directly overseen by AQR's credit risk officer and the AQR Counterparty Committee, comprised of principals of the firm and representatives from Risk Management, Compliance, Legal, Operations and Accounting. The Counterparty Committee meets monthly on a formal basis and approves all new counterparties, conducts annual reviews of existing counterparties and maintains a list of approved counterparties. On a daily basis, we systematically monitor the credit ratings, credit spreads, and stock prices of our trading counterparties. Should the Committee be concerned about a particular counterparty or situation, we meet on an ad hoc basis to discuss the matter.

All new counterparties are reviewed by the Committee prior to trading and all current counterparties are reviewed by the Committee on a periodic basis. A request to trade with a new counterparty is initiated by the trading desk or portfolio manager by contacting a Committee member.

As part of the review process, we obtain and review the following information:

- Copies of the proposed counterparty's most recent audited financial statements and/or interim financial statements, if available.
- Rating agency write-ups on the counterparty or its parent company, where applicable.
- Disclosures of disciplinary actions and arbitrations via regulatory websites, where available. These include www.finra.org, www.fsa.gov.uk and www.nfa.futures.org
- Other information obtained from the counterparty or other sources as deemed useful or necessary by the Counterparty Committee (such as internet and news searches in Bloomberg or Lexis/Nexis).

GLOBAL RISK PREMIUM FUND (GRP)

Generally, a credit review will be prepared and presented to the Committee prior to granting an approval for new trading activity.

Each review is approached on a case-by-case basis. The scope of the review will be dependent upon the products traded and the associated risk involved. In general, the credit review will contain the following information:

- Counterparty name
- Guarantor, if applicable
- Address and website
- Ratings
- Requestor and reason requested
- Trading agreements, if applicable
- Regulatory history
- Credit analysis – A fundamental analysis of the creditworthiness of the counterparty including company background, business profile, financial review (covering asset quality, liquidity and funding, capitalization and profitability)
- Recent news and developments

Since AQR is registered as a Commodity Pool Operator (“CPO”) and Commodity Trading Advisor (“CTA”) with the National Futures Association (“NFA”), we may not transact futures-related business with an entity that is not registered under the Commodity Exchange Act (“CEA”) and is not a member pursuant to NFA by-law 1101. As part of the regulatory section of the review, the Committee will confirm that any entity in which AQR transacts futures-related business is registered under the CEA and an NFA member prior to engaging in such business.

All credit reviews, supporting documentation and Committee minutes are stored electronically and backed-up.

Drawdown Policy:

We also employ a drawdown control process that is designed to reduce the fund’s target risk level under sufficiently adverse circumstances. We believe that when a fund’s performance is meaningfully negative and market risks high, it is prudent to gradually reduce portfolio risk targets, but, such decisions are best made through a pre-defined process that is designed and tested before stressful market events, rather than in the heat of the moment.

Our drawdown control process is designed to reduce the likelihood of, though not completely prevent, very large portfolio losses. AQR’s independent CRO is responsible for design and implementation of the process. Upon triggering of the process’ risk reduction targets, the CRO implements across-the-board position reductions in the fund. A similar symmetric process for reestablishing risk is an equally important element to our approach.

We believe a pre-planned systematic and gradual drawdown response engenders better, more deliberate risk decisions while avoiding drastic and costly portfolio shifts when portfolio risks and transaction costs are high. It helps us attempt to reduce risk earlier and increase risk again sooner than we likely could do if we did not follow such a pre-defined plan.

2. *How do you calculate the risk of each trade/position?*

The investment process for GRP aims for a constant risk contribution from each asset class. We will adjust position sizes in response to changes to our forecasted volatility, which are detected through our proprietary risk estimation process that blends a high emphasis on short-term data with longer horizon information. This process preserves diversification across assets and controls the overall portfolio level of volatility. We augment our constant risk process with exposure caps at the portfolio, asset class, and sub-strategy level to limit our model-risk and in acknowledgement of the other dimensions of risk not fully captured by volatility. Our drawdown control process, detailed above, will also serve to reduce the risk of any single trade/position by creating a framework for systematic and gradual position reduction.

3. What transparency is available to your investors?

We provide transparency regarding returns, risk targets and exposures. GRP investors will receive monthly risk reports that provide extensive details regarding many of these measures. In addition, we are happy to work with investors in the Fund to provide them with a level of transparency, in terms of strategy and position level detail, that fit our investor's needs.

E. SPECIFIC INVESTMENT AND TRADING PRACTICES

1. What is a normal level of leverage used as specified in your disclosure documents?

Total exposures and leverage will vary in response to our volatility estimation process. We are seeking a specific risk contribution from each asset and we size our exposure to each based on our volatility forecast. In periods of high risk – either systematically or specific to an asset – our exposures will be lower. Conversely, in low risk periods our exposures will increase, though only up to limits derived from stress tests.

In recognition of the increase in risk from the greater exposures of a leveraged fund, we place exposure caps on both the overall portfolio and the asset class and sub-strategy. This greater sensitivity to estimation error at higher leverage levels is in recognition that an input to our sizing is our forecast of asset volatility and that forecast may be wrong.

For our 10% volatility strategy, our leverage (longs + shorts/capital) is capped at 350%. That is, our max gross notional exposure on \$100 NAV will be \$350. This level of leverage scales (up or down) proportionally with amount of desired targeted volatility (from 10% to a max of 25%).

2. How many positions do you normally maintain?

The GRP Fund currently encompasses over 70 individual exposures across 13 different asset classes.

F. OPERATIONS

1. How do you keep track of individual exposures and portfolio allocations?

GLOBAL RISK PREMIUM FUND (GRP)

We utilize several locations to store our positions. First, we have a live front-office P&L system, which keeps track of positions broken down by strategy. This allows us to track performance and realized versus expected risk of each strategy separately. Secondly, we keep our positions in our accounting system Geneva. In addition to our Greenwich main headquarters locations, we have offsite backup of our data. Our prime brokerage and clearing counterparties also have a record of our positions, as well as our offshore administrator.

2. *Who can manage the fund in the absence of the main principal, either temporarily or permanently?*

GRP is a systematic, process driven approach not dependent on any single person.

3. *What are your policies in relation to brokerage? What is your arrangement with broker-dealers and futures commission merchants regarding soft dollars?*

Although AQR does communicate trades to brokers through broker provided interfaces it currently does not have soft-dollar arrangements. For additional information on our Soft Dollar policy, please refer to the Investment Management Supplement of our Compliance Manual.

4. *Do you have any systems or methods in place to make funds available for redemptions?*

Investors in the Fund are required to notify AQR 30 days in advance of any redemption. Given that the Fund generally trades liquid markets, 30 days is sufficient to reduce positions to accommodate redemptions. Furthermore, the Fund generally maintains a relatively large free cash position that can cover most redemption amounts that occur in the normal course of business.

G. FINANCIAL/TREASURY/SYSTEMS

1. *Does your pricing come from an independent source? Indicate your source(s) and identify if it is possible for us to be on-line with them.*

GRP is administered by International Fund Services (IFS), which provides independent pricing of the portfolio. On a monthly basis, AQR's accounting group, operations group, investment management team, the counterparties and the Administrator will value and reconcile the Funds. Discrepancies among the reconciling teams will be documented and resolved. The Administrator will also independently reconcile asset values and returns between the counterparties (i.e. Prime Brokers) and AQR's back office prior to finalizing month end net asset values.

2. *Describe how your securities and commodities are valued (i.e. bid, ask, mean of bid/ask, etc.).*

We have a formal Valuation Policy that covers all of the instruments we trade available upon request.

3. *How often do you value your securities and commodities?*

Daily (intraday)

4. *Are your accounting records kept on a cash basis (e.g., coupon securities, expenses, fees, etc.)?*

Our accounting records are kept on an accrual basis in conformity with accounting principles generally accepted in the United States of America.

5. *Any changes in accounting methods?*

Since the inception of AQR, there have been no significant changes in accounting methods.

6. *Do you rely upon an outside accounting firm or maintain your accounting data? Do you have unusual policies as compared to the industry?*

AQR Capital Management, LLC maintains an internal back office to handle all accounting functions across the firm's product base.

7. *If you have an administrator, do they independently compute the Net Asset Value?*

All fund structures have an external administrator. The administrator independently calculates Net Asset Value in accordance with their internal quality control procedures. Administrator Contact Information:

International Fund Services (Ireland) Limited
Bishops Square
Third Floor
Redmond's Hill
Dublin 2, Ireland
Attn: Susan Byrne
Phone #: 011-35-31-707-5013
Fax #: 011-35-31-707-5113

8. *Describe the methodology the fund administrator uses to review position prices and to independently value positions.*

The Administrator independently records and reviews all transactions and positions to broker statements. As part of this independence, the brokers would send statements directly to the administrator. At month-end the administrator and AQR reconcile their records and resolve any variances.

9. *Length of service of your auditors. Reasons given for replacement of predecessor auditors, if applicable.*

PricewaterhouseCoopers, LLP has been our auditor since the Fund's inception in 2006.

- 10. *Is your approach maintained manually or on computer? If the approach is maintained on computer, who owns the computer? the software? the written documentation relating thereto?***

AQR owns all of the relevant hardware and software that drives our core approach.

- 11. *Is your system supported by computer back-up? If the computers were non-operational, what kind of back-up would be available?***

Our data backup system provides continuous storage both in our office and offsite at all times.

- 12. *What is the process for wiring money out of your accounts?***

Each fund/account has certain thresholds that when crossed trigger that we owe money to a particular counterparty. These thresholds vary by fund/account and vary by counterparty. Each fund/account custodian has an incumbency certificate on file showing the names and signatures of all AQR representatives who are permitted to authorize money transfers. All transfer orders for cash leaving an account must be signed by two authorized AQR representatives. In addition, there are designated predetermined locations where money can be wired to.

H. REGULATORY & COMPLIANCE

- 1. *Who is responsible for regulatory and compliance? How many people work in the compliance department? Do they maintain all required books and records? What procedures are followed to ensure compliance?***

Abdon Bolivar, our Chief Compliance Officer (“CCO”), is responsible for AQR’s Compliance program. He reports directly to Founding and Managing Principal Cliff Asness.

AQR’s books and records are maintained at the departmental level and are governed by AQR’s Books and Record policy. The Compliance department periodically reviews adherence to the Books and Records policy.

- 2. *Describe any past, threatened, or pending customer or other complaints, litigation, arbitration, reparations, or administrative (whether criminal, civil, or administrative) proceedings.***

None to our knowledge.

- 3. *With whom are you registered or a member?***

AQR is registered with the SEC as a registered investment adviser. AQR is also registered with the NFA/CFTC as a commodity pool operator and a commodity trading adviser. Furthermore, AQR is registered with the DOL (Department of Labor) as a qualified plan asset manager.

- 4. *Any investigations, private or public, by the SEC, NASD, CFTC, NFA, exchange, state authority, foreign authority, or other governmental or regulatory authority?***

None, to our knowledge.

5. *Any correspondence with the SEC, NASD, CFTC, or NFA other than routine registration matters? Any audits?*

None, to our knowledge.

6. *Have all filing requirements been met for Blue Sky purposes?*

According to our attorneys they have all been met.

7. *Have there been any regulatory actions taken against the firm?*

None, to our knowledge.

I. TERMS

1. *Comment on the fees associated with this product?*

Fees scale linearly with volatility. For the lowest volatility level (targeting 10% volatility), the management fee is 40 bps.

2. *Comment on the liquidity terms for this product?*

There is no lock-up, with monthly subscriptions and redemptions. Notice period for redemptions is 30 business days. Please see the Fund's PPM for more information on terms.



CAPITAL
MANAGEMENT

AQR GLOBAL RISK PREMIUM STRATEGY

*Review Prepared Exclusively for
San Mateo County Employees' Retirement Association*

PRIVATE AND CONFIDENTIAL

Third Quarter 2011

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AQR Capital Management, LLC | Two Greenwich Plaza, Third Floor | Greenwich, CT 06830 | T: 203.742.3600 | F: 203.742.3100 | www.aqr.com

Introduction: Risk Parity Strategy

Make Everything Matter, But Nothing Matter Too Much

Create a Risk Diversified Portfolio

- Seeks better risk adjusted returns
- Motivated by one of the strongest principles in finance – the power of diversification
- Less Risk in stocks, more in everything else

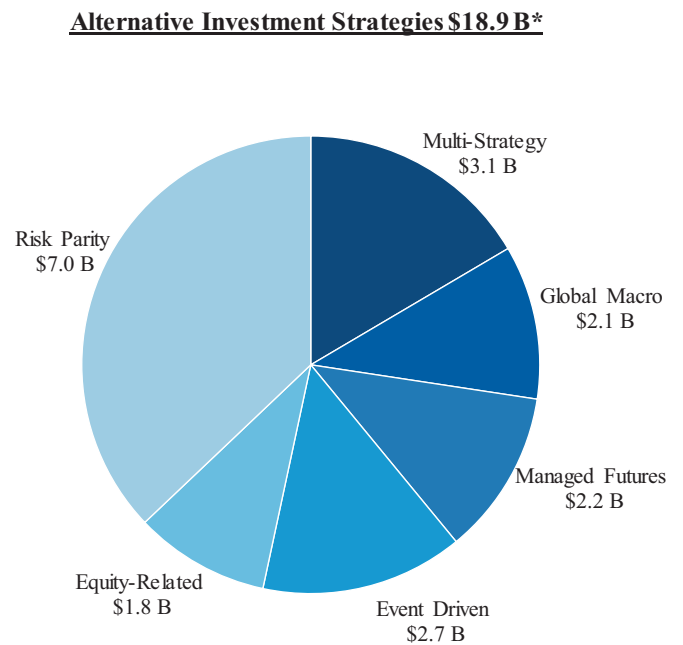
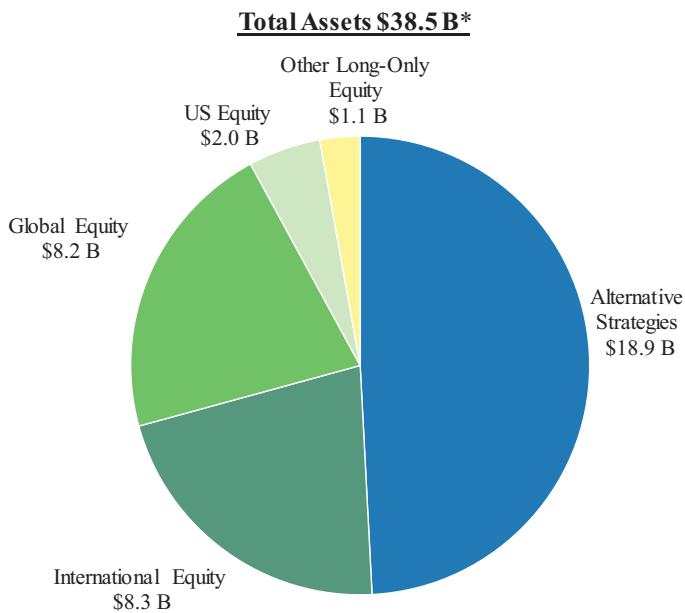
Keep the Portfolio Diversified and Maintain Steady Risk

- Actively managed to maintain risk balance
- Keep total portfolio risk as steady as possible

Please see the Appendix for important disclosures and risk information.

Introduction: Assets Under Management

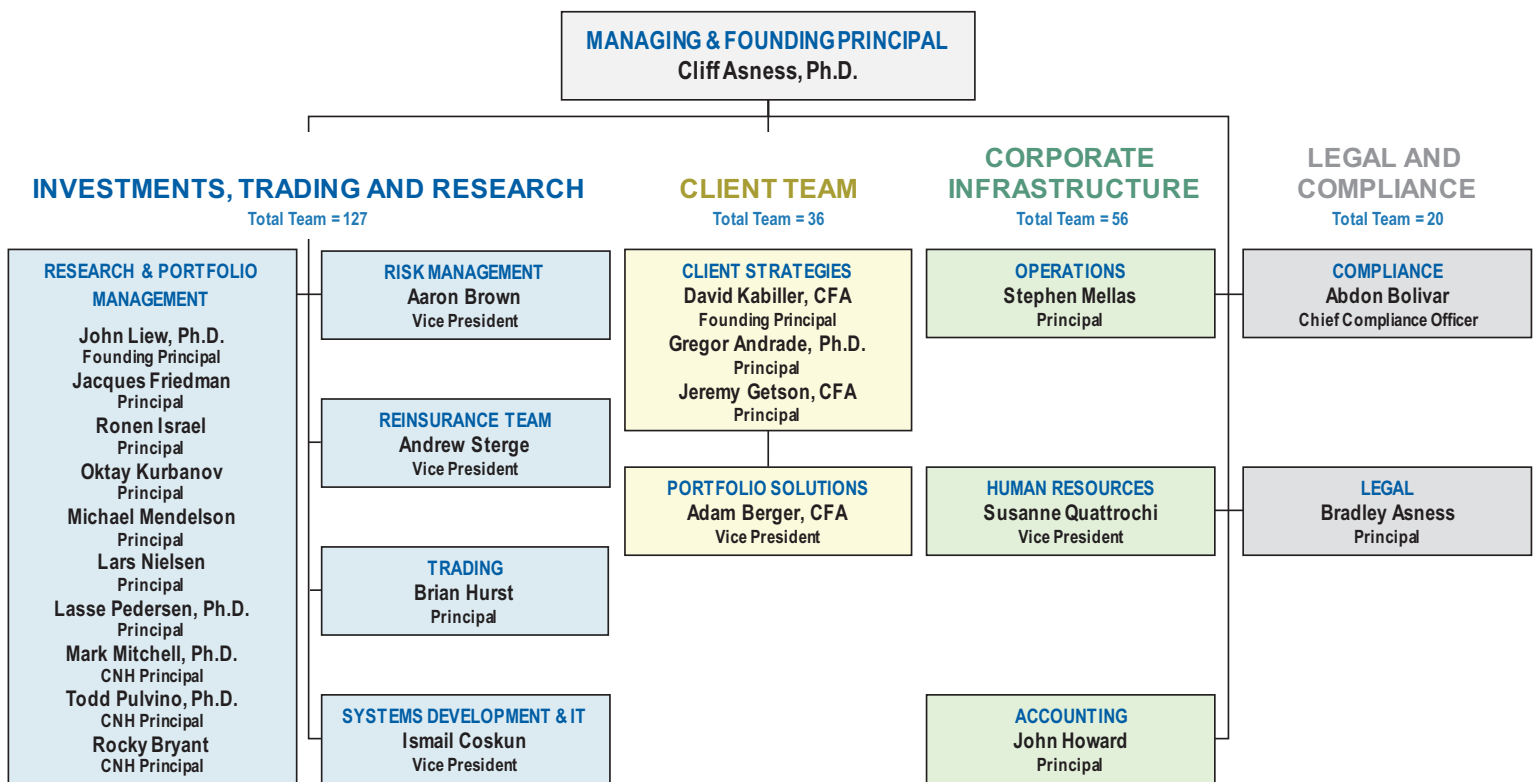
AQR's Business Model Combines Traditional And Alternative Investment Strategies



* Approximate as of 9/30/11, includes assets managed by CNH Partners, an affiliate of AQR.

Introduction: AQR Organizational Structure

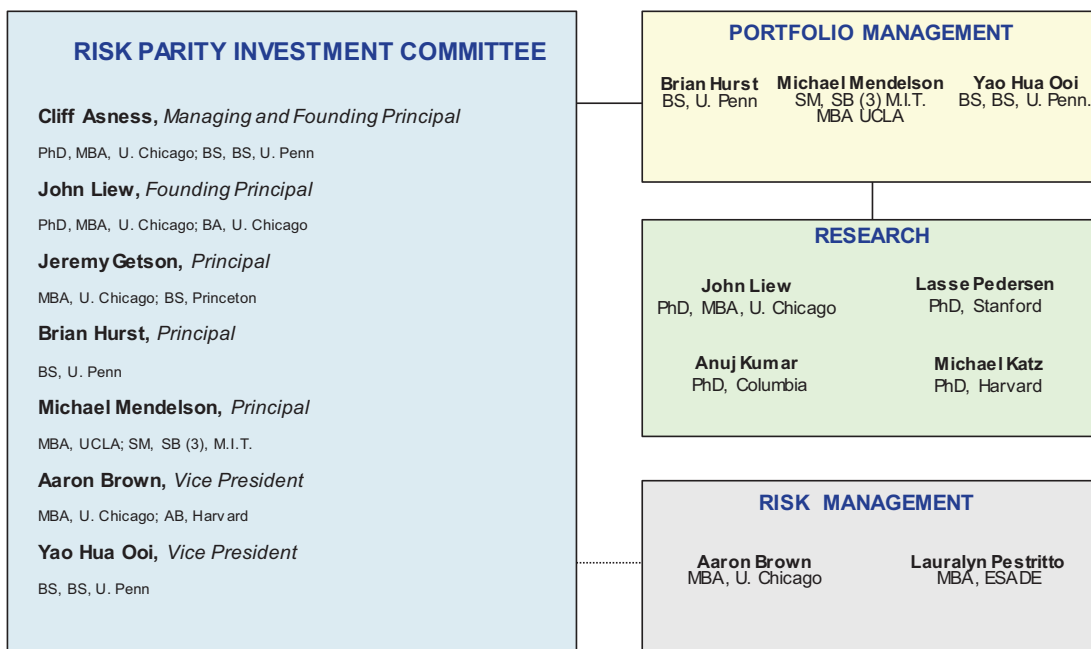
AQR's Investment Team Is Supported By A Strong Corporate Infrastructure



Personnel as of 9/30/2011

Introduction: GRP Strategy Management

AQR Launched The Global Risk Premium Fund In January Of 2006



Personnel as of 9/30/2011

Philosophy

Risk Parity Seeks The Diversification Benefits You Can Achieve With A Multi-Asset Class Portfolio

Traditional Objectives

Diversify Broadly

Include many asset types

Diversify Globally

Allocate across global markets within each asset class

Risk Parity Improvements

Diversify Risk

Seek to Improve risk/reward tradeoff with better risk balancing

Diversify Through Time

Maintain risk level and diversified exposure in all market environments

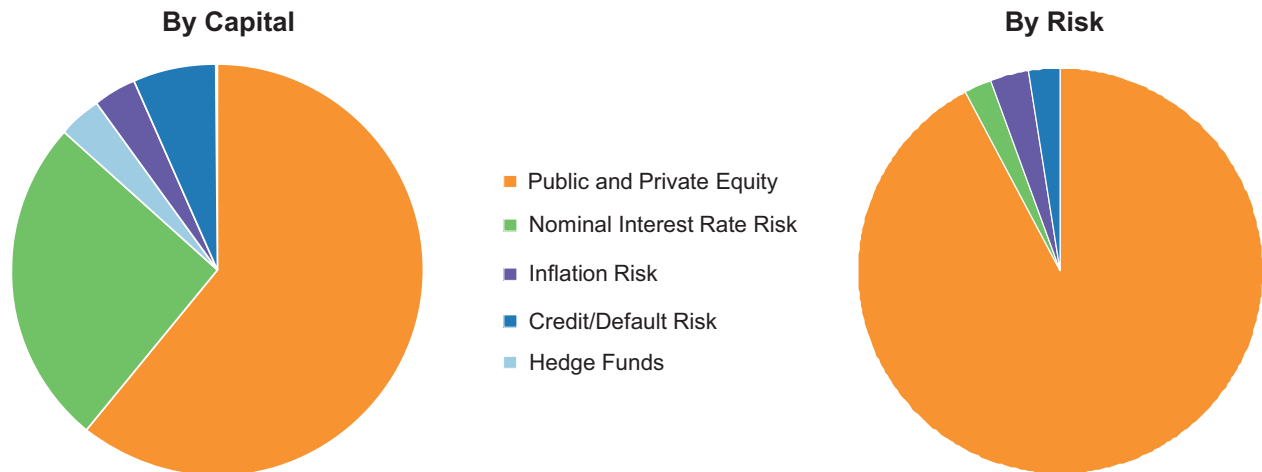
Diversification does not eliminate the risk of experiencing investment losses.

Philosophy: Motivation

Risk Allocation Tends To Vary Considerably From Capital Allocation

- Traditional capital allocation foregoes risk diversification to achieve expected returns
 - Equity risk usually dominates what many investors consider a traditionally diversified portfolio
 - Analyzing risk allocation should be a crucial step in asset allocation

Traditional Allocation



Charts are for illustrative purposes only. Based on AQR volatility and correlation estimates. Please see risk disclosures in the Appendix. The Hedge Fund Risk is attributed across the four other risk categories, we have allocated 80% of the risk to equities and 20% of the risk to Credit/Default Risk. Diversification does not eliminate the risk of expecting investment losses.

Philosophy: Diversify Risk

GRP Preserves Risk Diversification While Improving Expected Returns

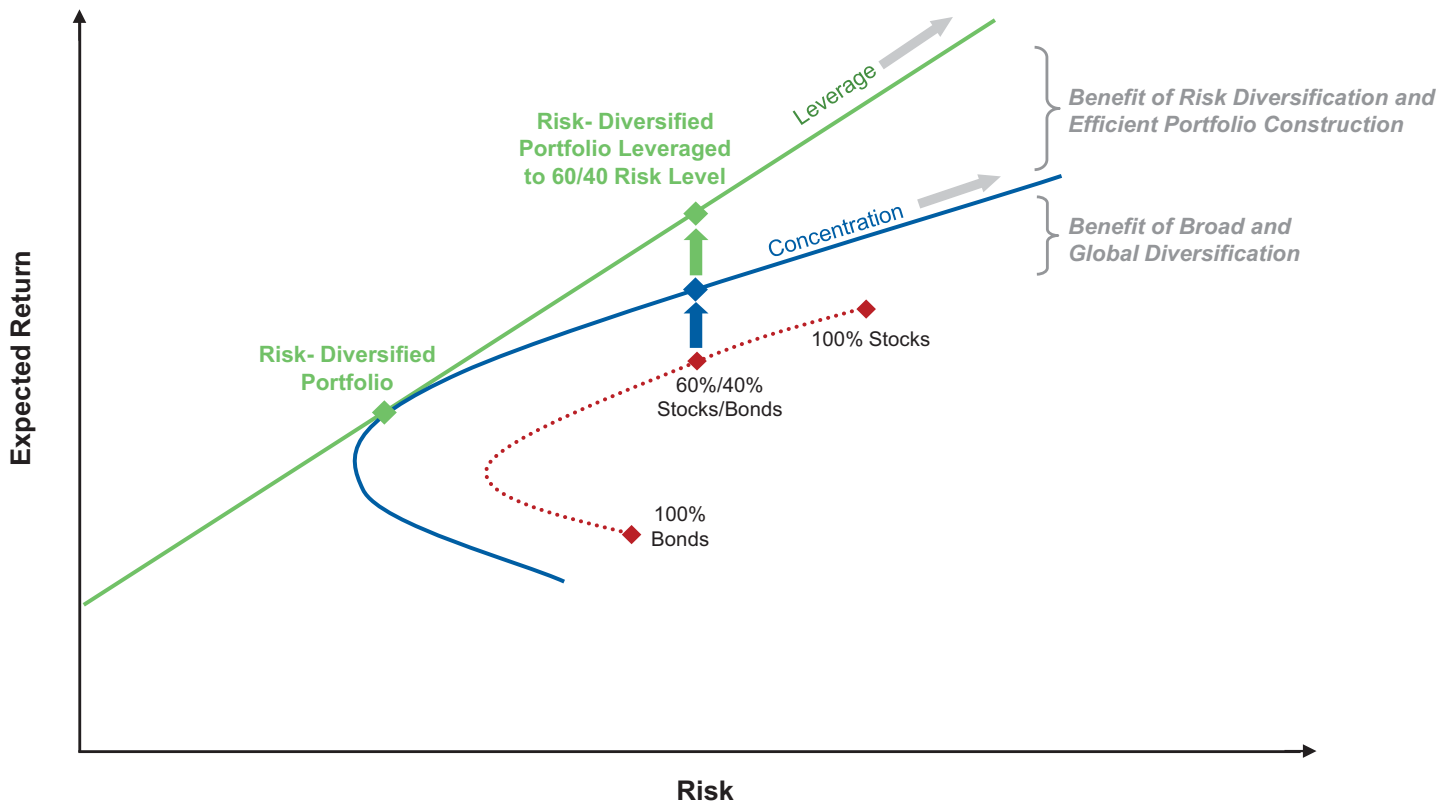


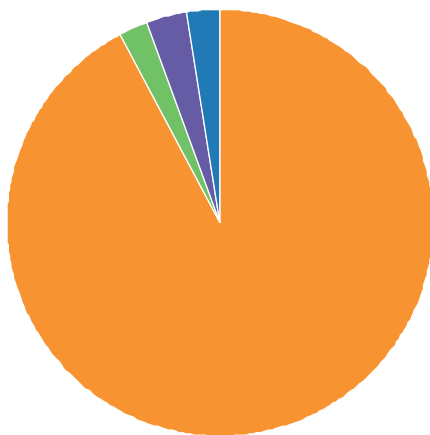
Chart is for illustrative purposes only and does not represent the performance of an actual portfolio. Please see important risk disclosures in Appendix. Diversification does not eliminate the risk of experiencing investment losses.

Philosophy: Why Equal Risk Weight?

*GRP Takes Equal Risk Weight Across The Four Risk Premia Groups**

Risk Allocation

Traditional



➤ Highly concentrated in equity risk

Global Risk Premium Strategy

■ Equity Risk
■ Nominal Interest Rate Risk
■ Inflation Risk
■ Credit/Default Risk



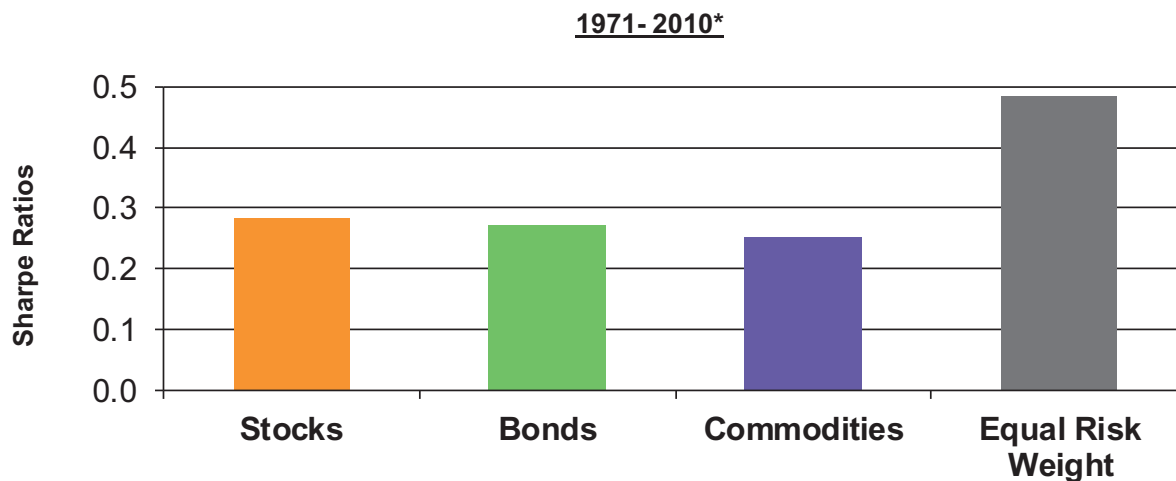
➤ Diversified risk allocation that considers correlations across asset classes

*Charts are for illustrative purposes only. Exposures are subject to change without notice. Diversification does not eliminate the risk of experiencing investment losses. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy in the Appendix. Please see important risk disclosures in the Appendix.

Philosophy: Why Equal Risk Weight?

Asset Class Performance Is Similar, So Allocations Should Be, Too

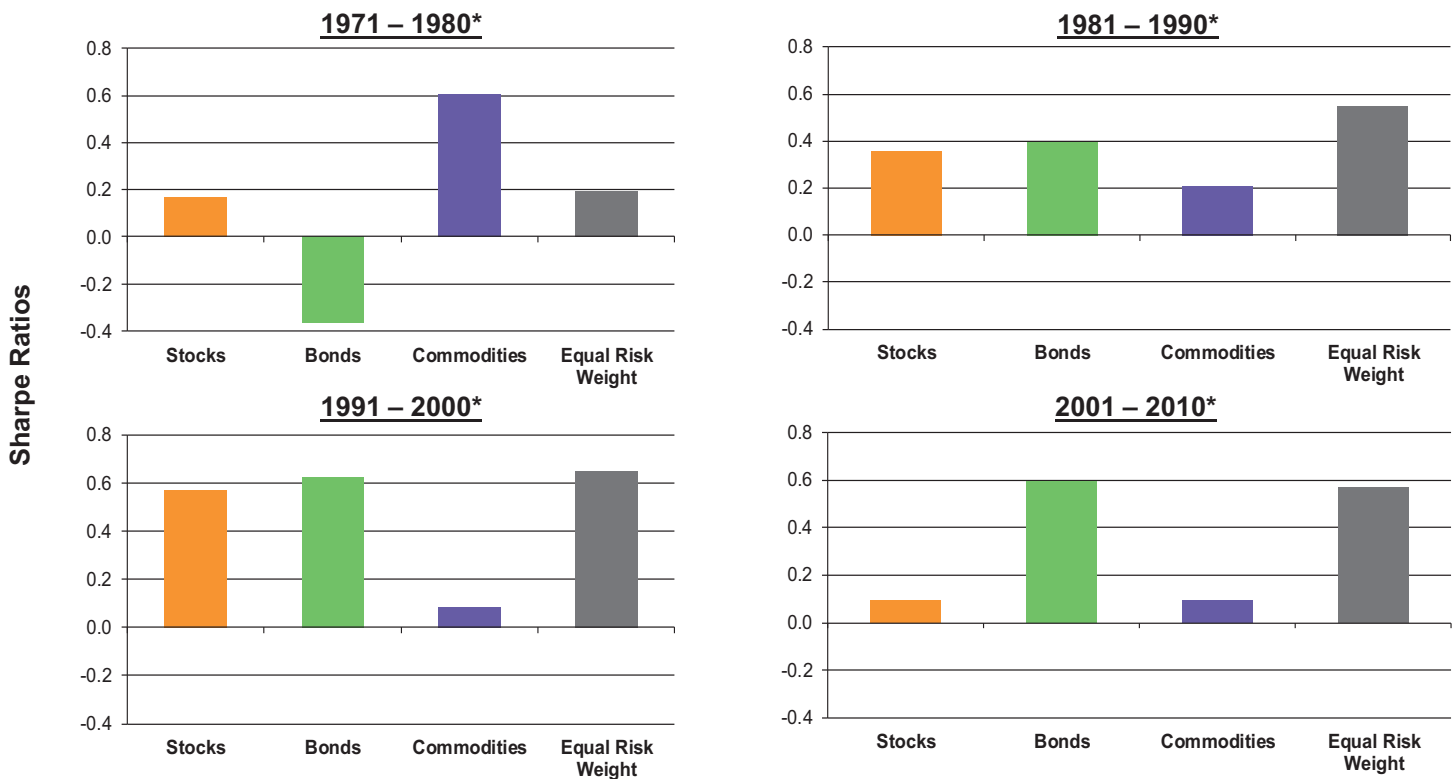
- ▶ Over the long-term, realized risk-adjusted returns across asset classes are fairly similar, so we expect a portfolio diversified equally by risk to perform best
- ▶ This leads us to risk parity



* These are the realized Sharpe Ratios based on monthly returns in excess of the 3 month T-bill returns for the MSCI World Index (stocks), the Barclays US Aggregate Government Bond Index (bonds), and the S&P GSCI Index (commodities). We begin in 1971, as that is when all three data series are available. The Equal Risk Weight Strategy is a simulated portfolio based on the MSCI World Index, the Barclays US Aggregate Government Index, and the S&P GSCI Index, representing exposures to equities, bonds, and commodities, respectively. This simulated portfolio targets an equal amount of volatility from each asset class every month. Please see important risk disclosures in the Appendix. Diversification does not eliminate the risk of experiencing investment losses.

Philosophy: Why Equal Risk Weight?

Asset Class Performance Is Highly Variable, So Allocation Errors Are Costly



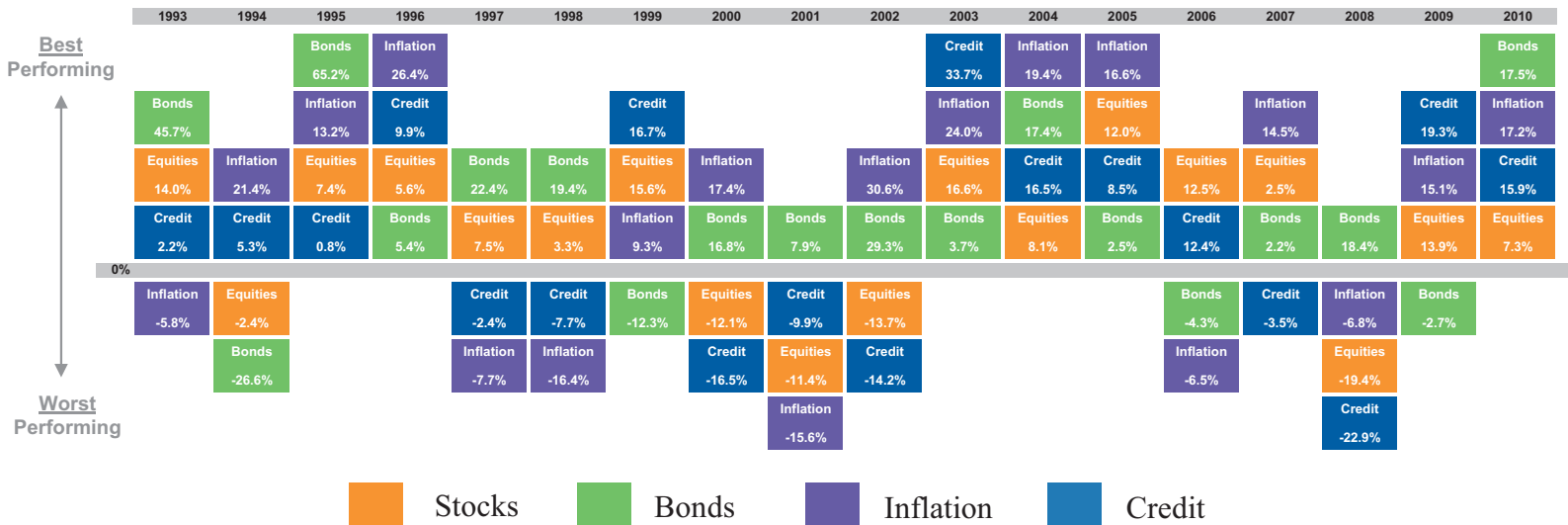
These are the realized Sharpe Ratios based on monthly returns in excess of the 3 month T-bill returns for the MSCI World Index (stocks), the Barclays US Aggregate Government Bond Index (bonds), and the S&P GSCI Index (commodities). We begin in 1971, as that is when all three data series are available. The Simple Risk Parity Strategy is a simulated portfolio based on the MSCI World Index, the Barclays US Aggregate Government Index, and the S&P GSCI Index, representing exposures to equities, bonds, and commodities, respectively. This simulated portfolio targets an equal amount of volatility from each asset class every month. Please see important risk disclosures in the Appendix.

Philosophy: Why Equal Risk Weight?

Yearly Asset Class Returns Are All Over the Map

- Over the long term all asset classes tend to have positive returns
- Forecasting yearly performance can be very difficult and costly if mistaken

**Hypothetical Gross Excess Annual Returns Over Cash Of The Four
Primary Asset Classes Scaled To Target 10% Volatility**



Hypothetical annual performance for each of the four primary asset classes in GRP are shown above. Each asset class bucket is managed to target the same long-term risk level. The data begins in 1993, the first full year when all asset classes are available. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy in the Appendix. Please see important risk disclosures in the Appendix.

Philosophy: Why Equal Risk Weight?

*Volatility Adjusted Actual Performance – Yearly Gross Of Fee Returns**

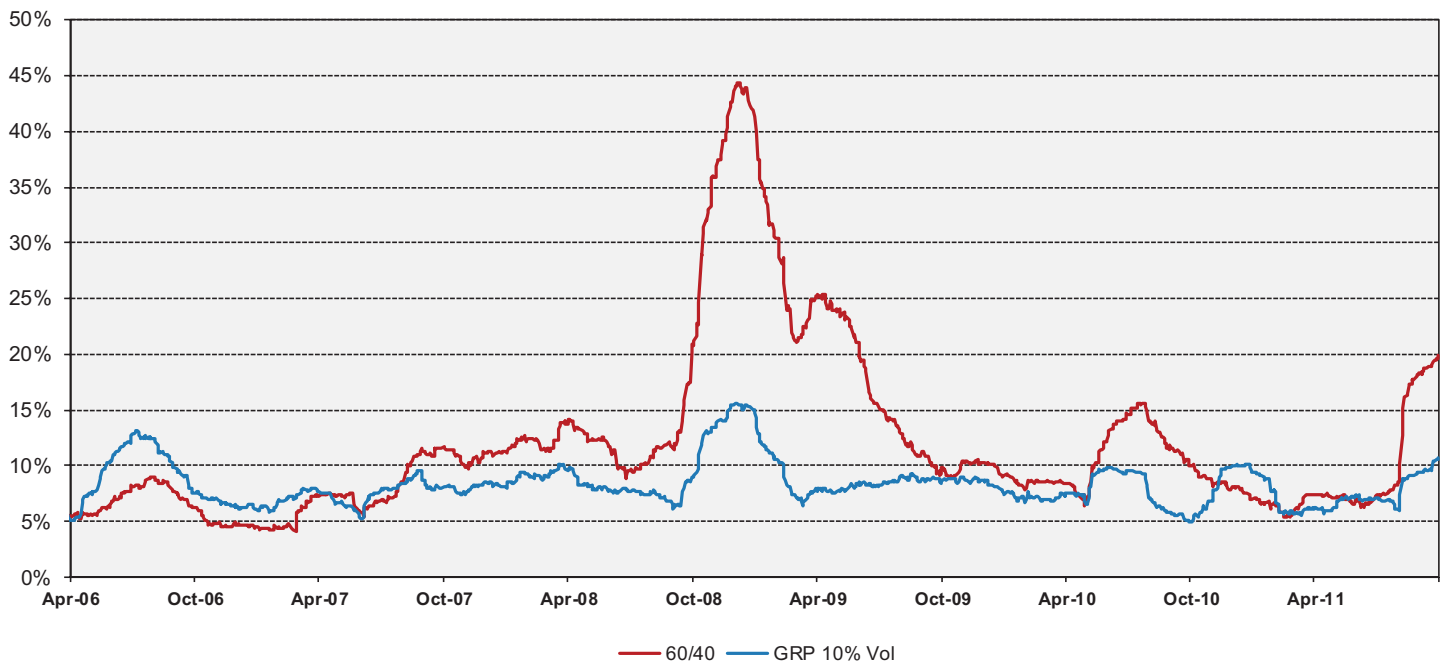
| January 2006 - September 2011 | | | |
|------------------------------------|---------------|---------------------------|----------------------------------|
| | GRP (10% vol) | 60/40 S&P/Barclays Agg | Excess GRP 10% vol Over 60/40 |
| 2006 | 7.9% | 11.1% | -3.2% |
| 2007 | 6.8% | 6.2% | 0.5% |
| 2008 | -14.8% | -22.1% | 7.3% |
| 2009 | 17.9% | 18.4% | -0.4% |
| 2010 | 24.7% | 12.1% | 12.6% |
| 2011 YTD | 1.8% | -2.7% | 4.5% |
| Annualized Returns | 6.9% | 3.1% | 3.9% |
| Cumulative Return | 47.0% | 18.9% | 28.1% |
| Realized Volatility | 9.5% | 10.6% | |
| Sharpe Ratio | 0.5 | 0.1 | |
| Credit Crunch (7/07 - 3/09) | -10.2% | -26.0% | 15.8% |

* Performance from January 2006 through January 2007 represents adjusted performance by taking only a percentage (10/25) of the 25% target volatility master Global Risk Premium Fund actual performance and scaling it down to match the 10% target volatility as the lower volatility target feeder was not launched during this time. Performance for the month ending September 30, 2011 is estimated and subject to change. Please see the Appendix for performance disclosures and risk information. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy in the Appendix.

Process: GRP is Risk Controlled

GRP's Risk Targeting May Provide A More Consistent Level Of Realized Portfolio Volatility

Realized Volatility of GRP 10%* vs. a 60/40 Portfolio
Rolling 60 Day Volatility Using Daily Returns



*Source: AQR. Daily returns from January 2006 through September 2011. Performance from January 2006 through January 2007 represents adjusted performance by taking only a percentage (10/25) of the 25% target volatility master Global Risk Premium Fund actual performance and scaling it down to match the 10% target volatility as the lower volatility target feeder was not launched during this time. Please see disclosures in the Appendix.

Process

Select Universe

- Select universe of risk premia
- Globally diversified with over 70 individual exposures



Determine Risk Targets

- Forecast volatility and correlations
- Assign risk allocations for each holding in the portfolio



Construct Portfolio

- Calculate exposures that meet risk targets
- Use broad range of asset types that provide wide coverage with low trading cost
- Impose exposure limits determined by stress testing



Monitor and Trade

- Continuously monitor positions; rebalance when desired changes are meaningful
- Use electronic and algorithmic execution strategies, exchange memberships, and competitive bidding to keep tight control on transaction costs

Instruments used to gain market exposure may be subject to change at any time. Please see important risk disclosures in the Appendix.

Process: Investment Universe

*Globally Diversified – Represents Over 70 Individual Exposures Across Many Asset Classes**

Equity Risk

Developed

- Australia
- Spain
- Japan
- France
- Germany
- Italy
- Netherlands
- Hong Kong
- Switzerland
- United Kingdom
- United States
- Canada

Mid Cap

- United States

Small Cap

- United States

Emerging

- Brazil
- China
- India
- South Korea
- Russia
- South Africa
- Taiwan

Nominal Interest Rate Risk

Developed

- Australia
- Germany
- United Kingdom
- Japan
- United States

Emerging

- Czech Republic
- Hong Kong
- Hungary
- South Korea
- Poland
- Singapore
- South Africa

Inflation Risk

Inflation Linked Bonds

- France
- United Kingdom
- United States

Commodities

- Corn
- Wheat
- Copper
- Lead
- Nickel
- Zinc
- Gold
- Silver
- Cocoa
- Coffee
- Cotton
- RBOB Gasoline
- Soybeans
- Aluminum
- Crude Oil
- Brent Oil
- Gas Oil
- Heating Oil
- Natural Gas
- Live Cattle
- Feeder Cattle
- Lean Hogs
- Sugar

Credit/Default Risk

Credit Spreads

- United States – Investment Grade
- Europe – Investment Grade
- United States – High Yield
- Europe – High Yield
- Emerging – Sovereign

Emerging Currencies

- Brazil
- Israel
- Mexico
- Turkey
- South Korea
- South Africa
- Singapore
- Taiwan

Commercial Mortgage Spreads

- United States

Instruments Used: Futures, Government Bonds, Swaps, and Currency Forwards

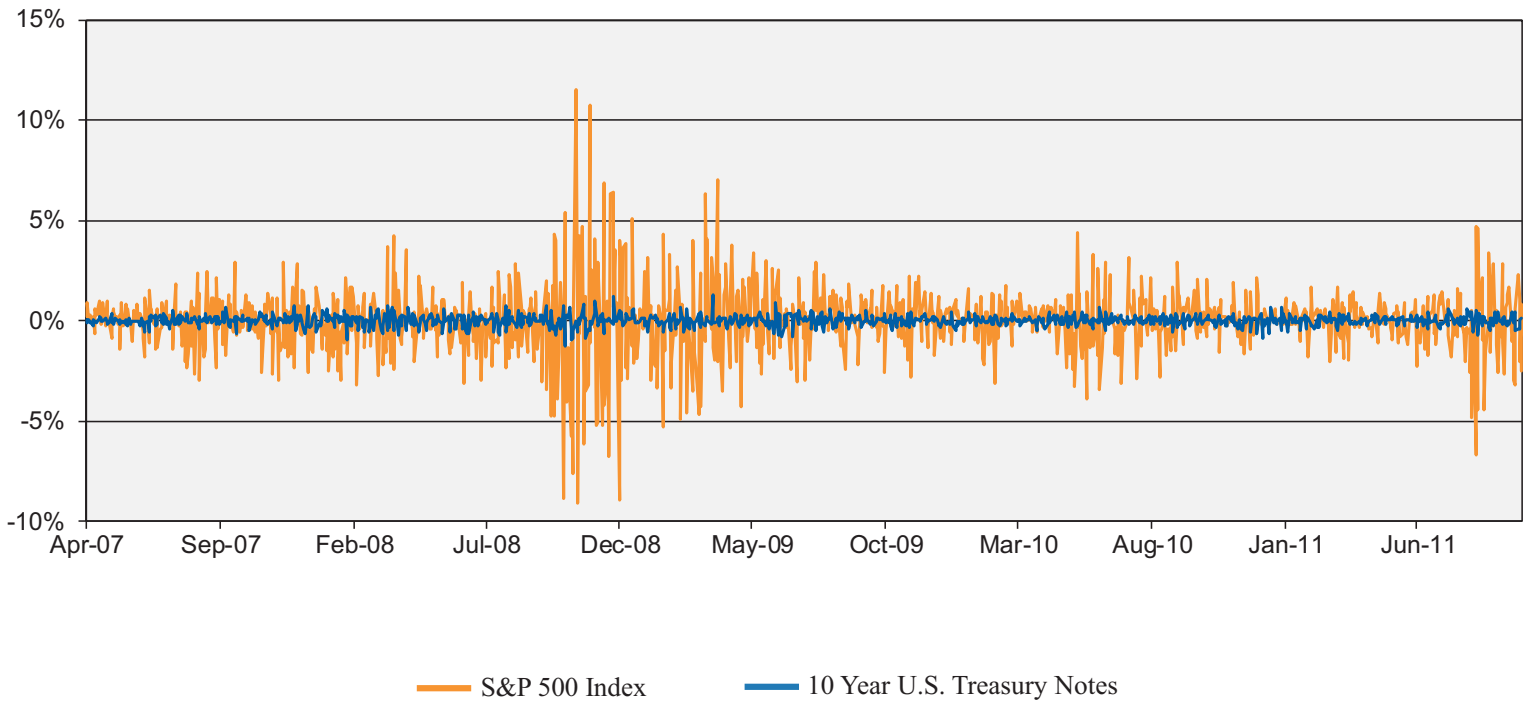
* Exposures are subject to change at any time without notice. Diversification does not eliminate the risk of experiencing investment losses.

Process: Calculation Of Asset Exposures

Low Volatility Assets Have Higher Weights, High Volatility Assets Lower Weights

Daily Returns

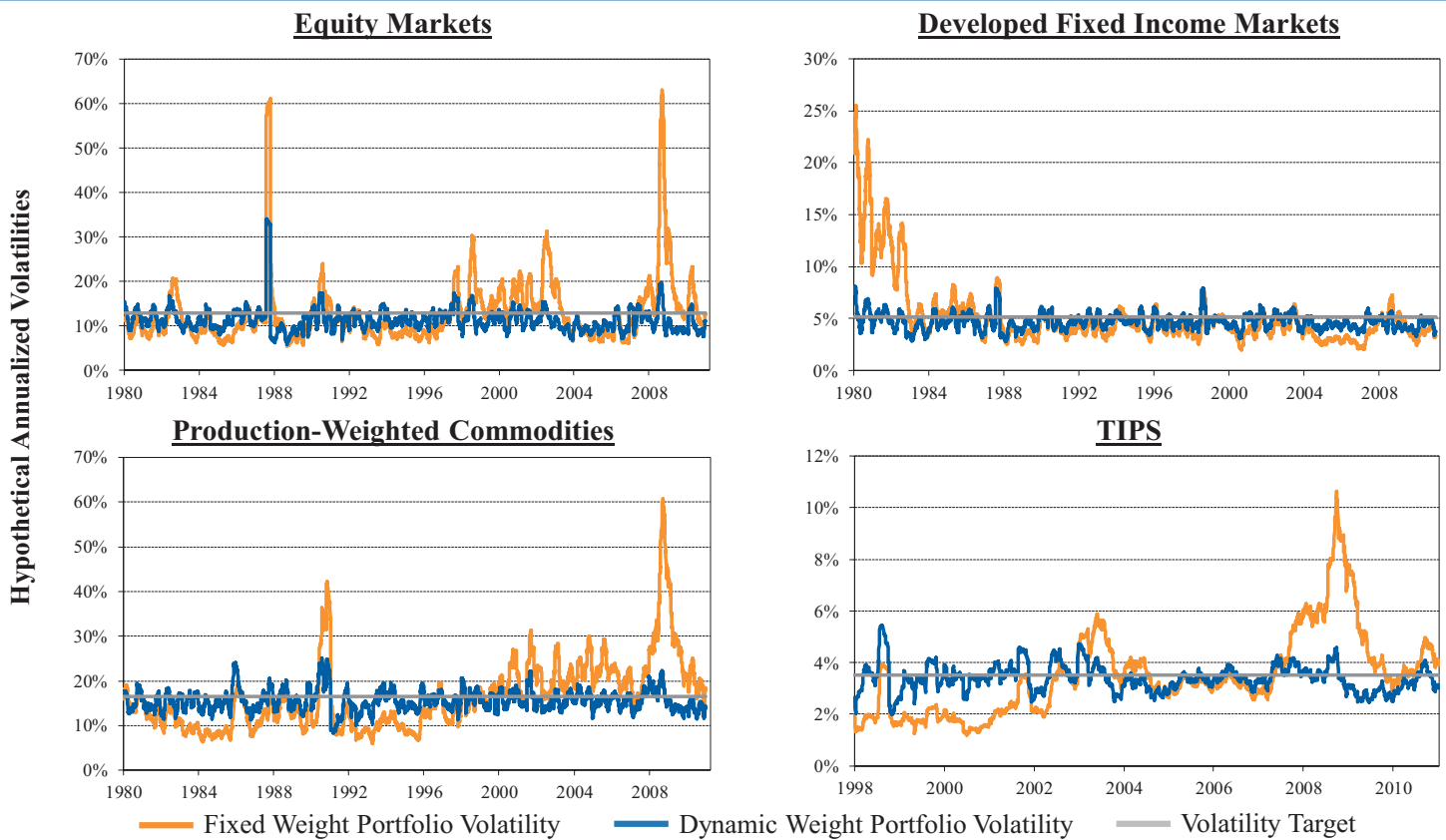
April 2, 2007 – September 30, 2011



Source: AQR. The above figure is based on market information and AQR models and is for illustrative purposes only. Please see disclosures in the Appendix.

Process: Allocations Vary With Risk

Regular Exposure Adjustment Is Needed To Maintain Steady Portfolio Volatility



Source: AQR. The above figure is based on market information and AQR models and is for illustrative purposes only. While the constant notional exposure portfolio is based on the ex-ante volatility of the full sample period, the constant volatility portfolio is based on a shorter term methodology that looks back over 10 years, but weights the more recent volatility more heavily. Please see disclosures in the Appendix.

Process: Calculation Of Asset Exposures

Portfolio Weights For The Risk Parity Allocation Are Calculated From Volatility Forecasts

| | Asset Volatility Target | | Volatility Forecast for Asset | | Position Size as % of Strategy |
|------------------------------|-------------------------|---|-------------------------------|---|--------------------------------|
| Total Portfolio | 10% | | | | 259% |
| Stock Weight | 3.9% | ÷ | 15% | = | 26% |
| Bond Weight | 4.2% | ÷ | 4% | = | 105% |
| Credit Weight | 3.9% | ÷ | 5% | = | 78% |
| Inflation Risk Weight | 4.0% | ÷ | 8% | = | 50% |

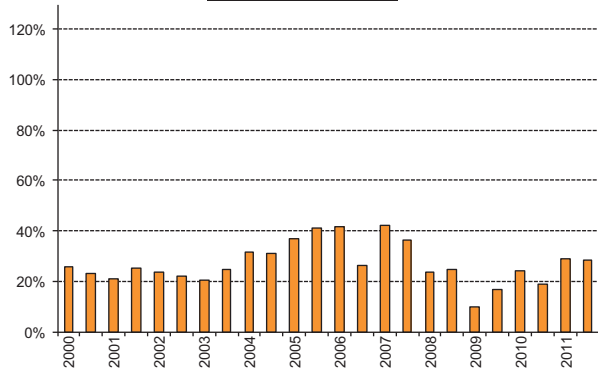
Asset class weights change as risk forecasts change

For illustration purposes only and is subject to change. Assumes no correlation between stocks and bonds. Please see important risk disclosures in the Appendix. Investment process is subject to change at any time.

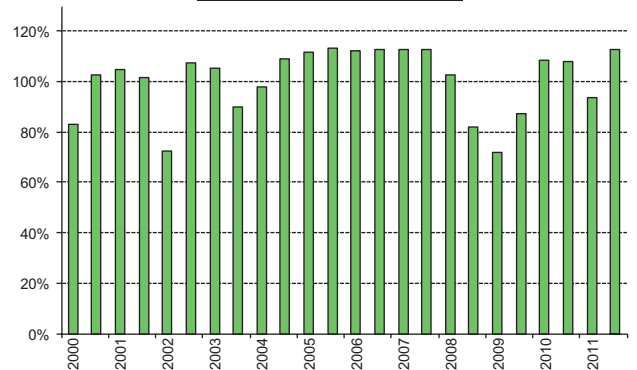
Process: Importance of Rebalancing

Active Exposure Management Reduces The Risk That One Volatile Period Dominates Performance

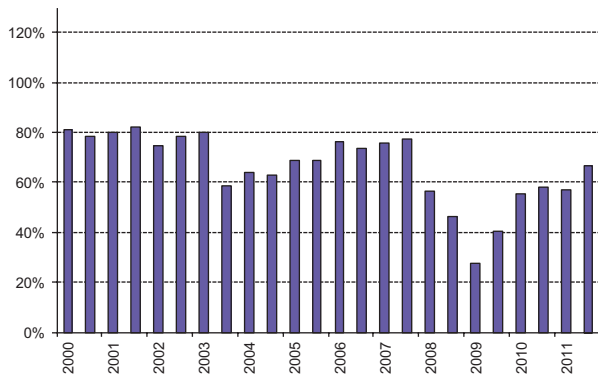
Equity Exposures



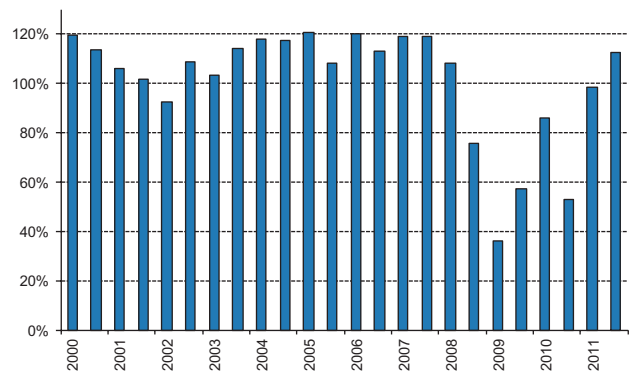
Fixed Income Exposures



Inflation Exposures



Credit Exposures

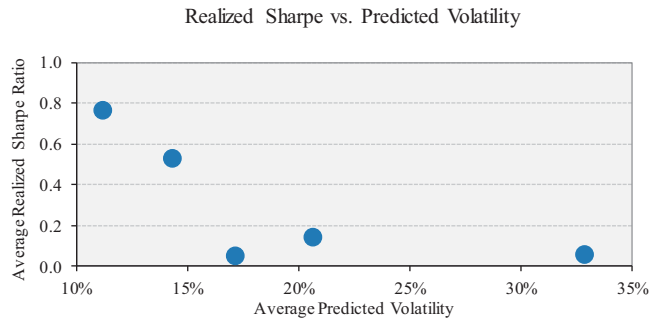
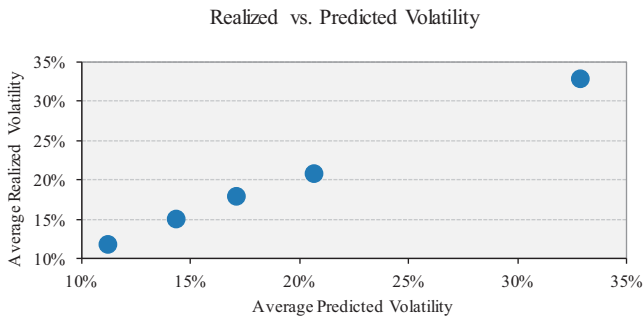


Source: AQR. The above figure is based on market information and AQR models and is for illustrative purposes only.

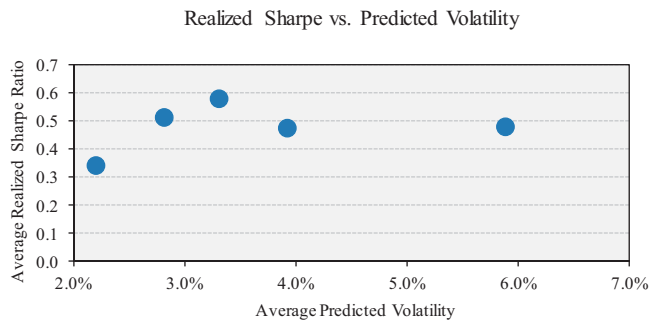
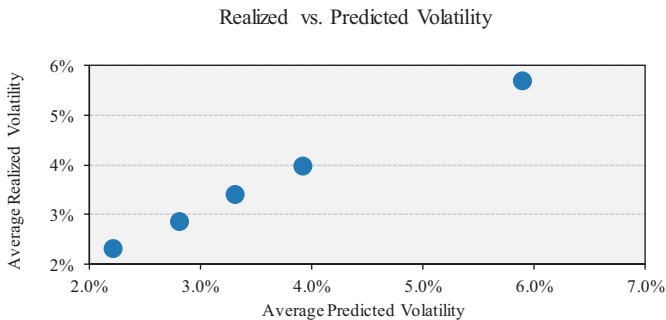
Process: Rebalancing Isn't Selling On The Lows

Perhaps Surprisingly, Asset Class Performance Does Not Improve When Volatility Is High

Equities



Fixed Income



Equity Source: Average of country equity index returns taken from Datastream and Bloomberg from January 1, 1980 through December 31, 2010. Fixed Income Source: Average of country 10 year government bond returns taken from Datastream and Bloomberg from January 1, 1980 through December 31, 2010. The Average Predicted Volatility is based on AQR's proprietary risk model. These are not the returns of a portfolio or fund and are for illustrative purposes only. Please read important disclosures at the end of this presentation.

Process: Exposure Limits

Exposures Are Capped Within Each Asset Class And For The Portfolio As A Whole

- Exposure caps are established to mitigate the risks of leverage and fat-tailed distributions
- Exposures to asset types are limited by adherence to stress loss limits
- We also impose a portfolio-wide exposure cap of 350% (for 10% volatility target portfolio)

The above data represent the exposure caps for the 10% volatility fund. The figures above are subject to change without notice. Please read important risk disclosures in the Appendix.

Risk Management: Drawdown Control

Drawdown Control Process Seeks To Reduce The Magnitude Of Large Drawdowns

- We seek to preserve capital through a systematic approach that does not rely on ad hoc decision making while markets and the portfolio are under extreme stress

- Method:
 - Continuously assess the probability of a tail event that would send the portfolio value below a target minimum
 - As that probability increases beyond a threshold, reduce the target risk level of the overall portfolio
 - Return the portfolio to its normal target risk level as the probability declines

- Process is designed to be transparent, explicit, and objective

- Drawdown control overseen by firm-wide Risk Manager independent of the portfolio management team

- Process is based primarily on return realizations; less dependent on portfolio volatility forecasts

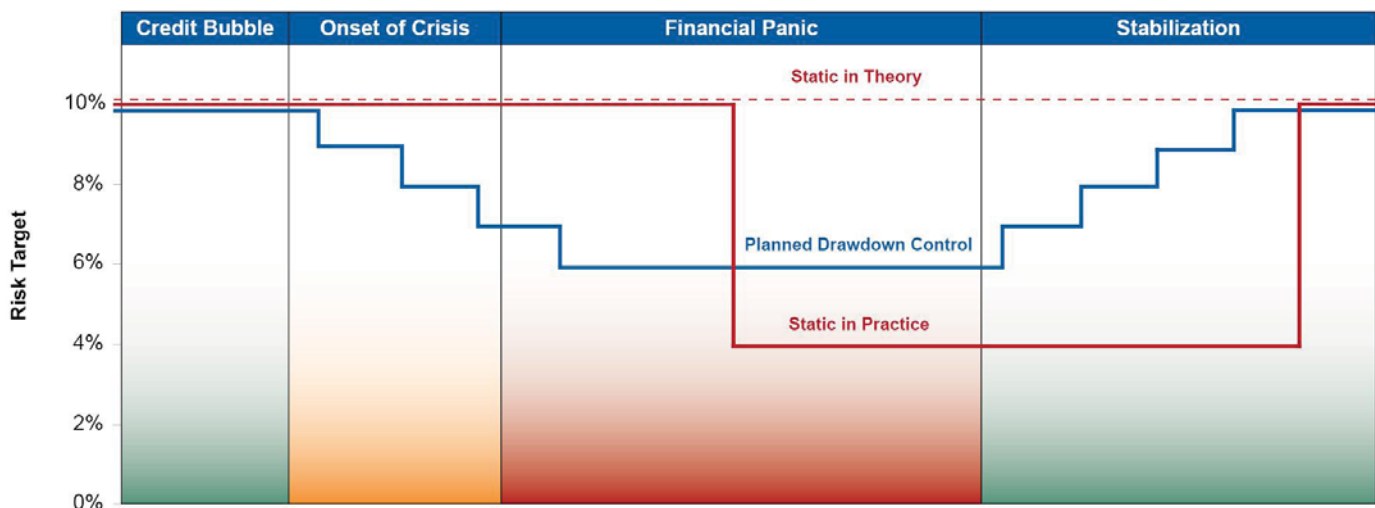
The drawdown control system described herein will not always be successful at controlling a fund's risk or limiting portfolio losses. Investment process is subject to change at any time.

Risk Management: Drawdown Control

When Markets Are Under Substantial Stress, Investors Will Reduce Risk

- There is always the possibility that performance and the market environment make risk reduction the best path, better to do this gradually and systematically, then suddenly, after there is no alternative

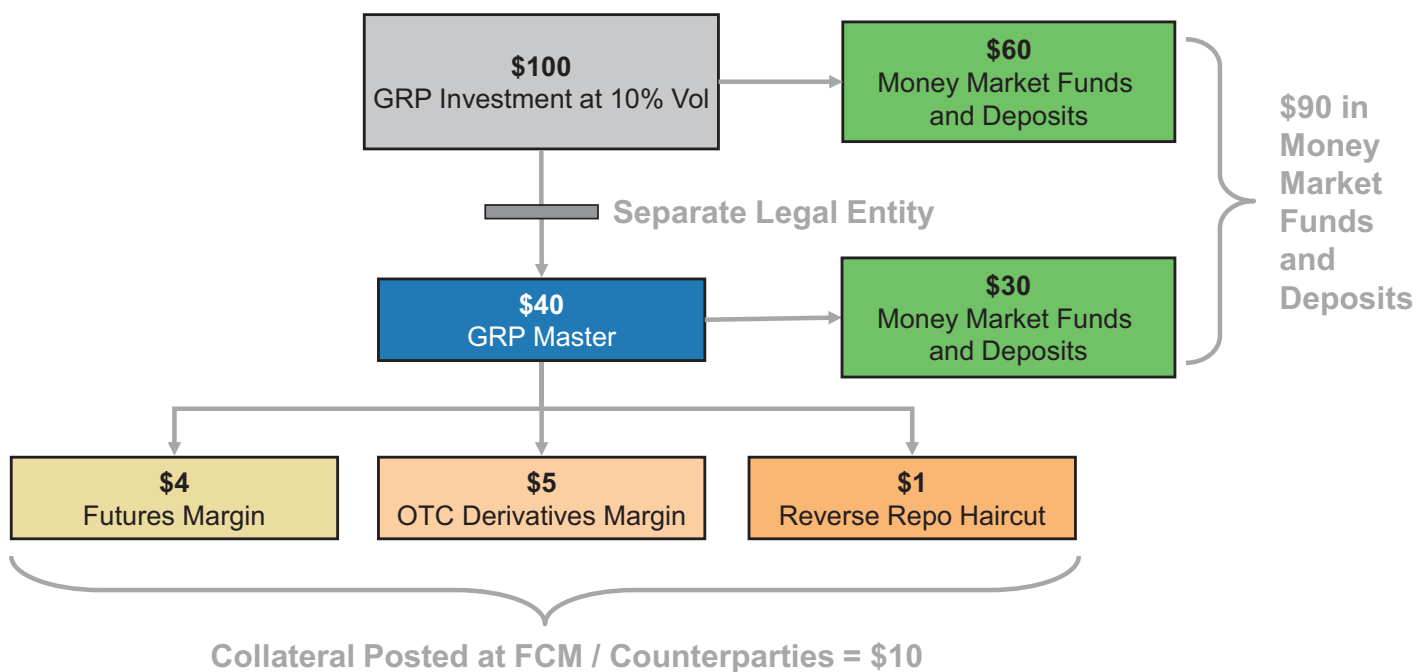
Two Types of Risk Management in a Crisis



A drawdown control policy may not always be successful at controlling a fund's risk or limiting portfolio losses. Source: AQR. For illustrative purposes only.

Risk Management: Maintain High Cash Levels

GRP Maintains Very High Levels Of Unencumbered Cash



The example above is for illustrative purposes only. Please see important risk disclosures in the Appendix.

Risk Management: Leverage

An Investment In GRP Is An Un-leveraged Investment In A Limited Liability, Leveraged Fund

EXPOSURE RISK

Risk of incorrect market risk assessments combined with larger exposures

- Emphasize portfolio and asset level risk measurement, particularly tail risk assessment, and recognize the potential for model error
- Cap asset exposures and total portfolio exposure to reduce reliance on risk models
- Independent drawdown control policy to mitigate severe outcomes
- Construct a portfolio of liquid assets to enable adjustment of risk level
- Continuously monitor important risk measures – e.g. volatility, VaR, and economic exposures

FINANCING RISK

Inadequate access to cash; loss of financing or the changing of its terms; counterparty risk

- Maintain high level of Fund creditworthiness
- Maintain portfolio cash levels easily sufficient to meet margin calls and maintain an operational capability to transfer that cash
- Use exchange traded instruments for most exposures
- Diversify financing sources and control magnitude of counterparty exposures
- Maintain strict counterparty credit quality standards
- Seek stable financing relationships and emphasize relationships built on trust and experience
- Negotiate trading and financing documents that seek to protect the Fund

Please see important risk disclosures in the Appendix.

Risk Management: Firm-Wide Infrastructure

AQR Devotes Substantial Resources To Market, Financial, And Operational Risk Management

Independent Risk Management

- Monitoring and risk measurement external to portfolio management; Reports to Managing Principal
- Controls a systematic drawdown process that reduces notional exposures as a function of tail risk estimates and portfolio losses
- Firm-wide Risk Committee reviews portfolio risks, liquidity, and trading instruments

Counterparty Credit Monitoring Process

- Full-time management of counterparty exposures and credit relationships
- Collateral management program controls exposures to counterparties
- Firm-wide Counterparty Credit Committee reviews counterparty quality and exposure

Strong Operations and Legal Infrastructure

- Review and control procedures
- Controlled wire process
- Experienced Compliance and Legal Departments
- Clear business continuity plan

Investment process is subject to change at any time.

Performance: SamCERA's Performance

GRP 10% Volatility Fund – Monthly Gross of Fee Returns and Exposures Since SamCERA's Investment*

| Date | Total Fund Returns (Gross) | Performance Attribution | | | | 60/40 S&P 500 / Barclays Aggregate |
|----------------|----------------------------|-------------------------|----------------------------|----------------|----------------------|------------------------------------|
| | | Equity Risk | Nominal Interest Rate Risk | Inflation Risk | Credit/Currency Risk | |
| March-11 | 0.7% | -0.1% | 0.0% | 0.5% | 0.3% | 0.0% |
| April-11 | 4.6% | 0.6% | 1.3% | 1.6% | 1.0% | 2.3% |
| May-11 | 0.3% | -0.4% | 1.7% | -0.7% | -0.3% | -0.2% |
| June-11 | -1.3% | -0.6% | 0.3% | -0.7% | -0.3% | -1.1% |
| July-11 | 3.2% | -0.7% | 2.2% | 1.8% | -0.2% | -0.6% |
| August-11 | -2.5% | -2.2% | 2.4% | -0.1% | -2.7% | -2.7% |
| *September-11 | -5.0% | -1.0% | 0.7% | -2.1% | -2.5% | -3.9% |
| Since 3/1/2011 | -0.4% | -4.5% | 8.8% | 0.1% | -4.8% | -6.1% |

| Date | Total Long Exposure | Long Exposure By Bucket | | | |
|---------------|---------------------|-------------------------|----------------------------|----------------|----------------------|
| | | Equity Risk | Nominal Interest Rate Risk | Inflation Risk | Credit/Currency Risk |
| March-11 | 295% | 25% | 107% | 60% | 104% |
| April-11 | 316% | 29% | 112% | 65% | 111% |
| May-11 | 327% | 30% | 112% | 66% | 119% |
| June-11 | 319% | 28% | 115% | 63% | 113% |
| July-11 | 280% | 26% | 98% | 61% | 96% |
| August-11 | 231% | 15% | 91% | 51% | 72% |
| *September-11 | 214% | 14% | 96% | 49% | 55% |

* Performance and exposures for the month ending September 30, 2011 is estimated and subject to change.

Note: All performance attribution and exposures are estimated. Please see the Appendix for performance disclosures and risk information. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentations compliant for these strategies in the Appendix.

Performance: SamCERA's Performance

GRP 10% Volatility Fund – Estimated Third Quarter Returns, Exposures, and Long Term Risk Allocation

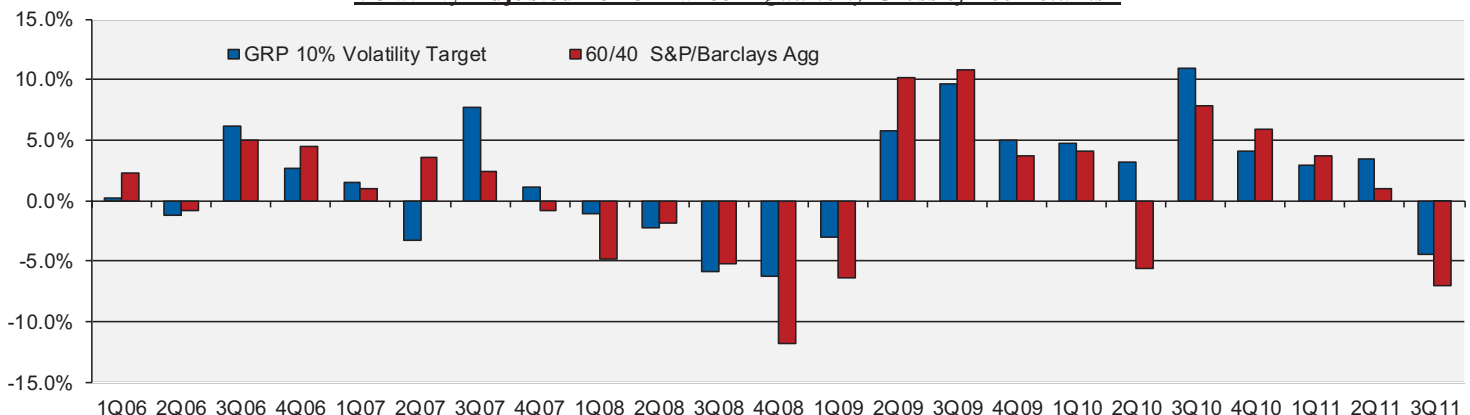
| | Q3 2011 P&L (Jul 01, 2011 - Sep 30, 2011) | Long Exposure (percentage of NAV) | Risk Allocation* |
|---|---|---|------------------|
| Equity Risk | | | |
| Global Developed Equities | -2.6% | 10% | 17.5% |
| Global Emerging Equities | -0.9% | 3% | 5.0% |
| U.S. Mid Cap Equities | -0.2% | 1% | 1.3% |
| U.S. Small Cap Equities | -0.2% | 1% | 1.3% |
| Total Equity Risk | -3.9% | 14% | 25.0% |
| Nominal Interest Rate Risk | | | |
| Global Developed Bonds | 4.5% | 79% | 20.0% |
| Global Emerging Bonds | 0.9% | 17% | 5.0% |
| Total Nominal Interest Rate Risk | 5.3% | 96% | 25.0% |
| Inflation Risk | | | |
| Commodities - Production Weighted | -0.9% | 6% | 8.3% |
| Commodities - Volatility Weighted | -0.9% | 8% | 8.3% |
| Global Inflation-Linked Bonds | 1.4% | 35% | 8.3% |
| Total Inflation Risk | -0.4% | 49% | 25.0% |
| Credit/Currency Risk | | | |
| Global High Yield Spread | -1.9% | 11% | 8.8% |
| Global Corporate Credit Spread | -1.0% | 24% | 4.4% |
| Emerging Credit Spread | -0.3% | 4% | 1.9% |
| Emerging Currencies | -1.9% | 15% | 5.6% |
| Commercial Mortgage-Backed Spreads | -0.4% | 1% | 4.4% |
| Total Credit/Currency Risk | -5.4% | 55% | 25.0% |
| Total Fund Return/Exposure/Risk | -4.4% | 214% | 100.0% |

* Performance and exposures for the month ending September 30, 2011 is estimated and subject to change. The Risk Allocation is meant to give an approximate breakdown of how the risk of the Fund is allocated across its strategies. There is no guarantee that the targeted risk levels will be achieved. Realized risk or volatility could come in above or below the targets and the relative risk allocation estimations. Please see the Appendix for performance disclosures and risk information. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentations compliant for these strategies in the Appendix.

Performance: Gross Adjusted GRP Fund

| January 2006 - September 2011 | | | |
|-------------------------------|---------------|---------------------------|----------------------------------|
| | GRP (10% vol) | 60/40 S&P/Barclays Agg | Excess GRP 10% vol Over 60/40 |
| 2006 | 7.9% | 11.1% | -3.2% |
| 2007 | 6.8% | 6.2% | 0.5% |
| 2008 | -14.8% | -22.1% | 7.3% |
| 2009 | 17.9% | 18.4% | -0.4% |
| 2010 | 24.7% | 12.1% | 12.6% |
| 2011 YTD | 1.8% | -2.7% | 4.5% |
| Annualized Returns | 6.9% | 3.1% | 3.9% |
| Cumulative Return | 47.0% | 18.9% | 28.1% |
| Realized Volatility | 9.5% | 10.6% | |
| Sharpe Ratio | 0.5 | 0.1 | |
| Credit Crunch (7/07 - 3/09) | -10.2% | -26.0% | 15.8% |

Volatility Adjusted Performance – Quarterly Gross of Fee Returns*



* Performance from January 2006 through January 2007 represents adjusted performance by taking only a percentage of the 25% target volatility master Global Risk Premium Fund actual performance and scaling it down to match the 10% target volatility as the lower volatility target feeder was not launched during this time.. Performance for the month ending September 30, 2011 is estimated and subject to change. Please see the Appendix for performance disclosures and risk information. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentations compliant for these strategies in the Appendix.

Performance: Hypothetical Gross GRP

*Hypothetical GRP Outperforms The 60/40 Portfolio Over The Sample Period**

- Hypothetical GRP's diversification proves fruitful in many different market environments, particularly in extreme environments, such as the tech bust

| Hypothetical Gross GRP Performance | | | |
|--|--|---|--------------------------------------|
| | Global Risk Premium (10% Vol) | 60/40 S&P/Barclays Agg | Excess GRP 10% Over 60/40 |
| January 1990 - September 2011 | | | |
| Annualized Return | 13.3% | 7.8% | 5.5% |
| Std Deviation | 8.4% | 9.4% | |
| Sharpe Ratio | 1.1 | 0.4 | |
| Select Periods - cumulative returns | | | |
| Bond Market Rally (10/92 - 1/94) | 31.5% | 16.3% | 15.2% |
| Surprise Fed Rate Hike (2/94 - 3/94) | -7.5% | -5.8% | -1.6% |
| Russia Default, LTCM (5/98 - 8/98) | -6.8% | -6.6% | -0.1% |
| Post-LTCM (9/98 - 12/98) | 7.4% | 18.0% | -10.6% |
| Tech Bubble (1/99 - 3/00) | 19.5% | 14.7% | 4.8% |
| Tech Bust (4/00 - 2/03) | 21.3% | -17.6% | 38.9% |
| Credit Rally (8/02 - 3/04) | 65.1% | 21.8% | 43.3% |

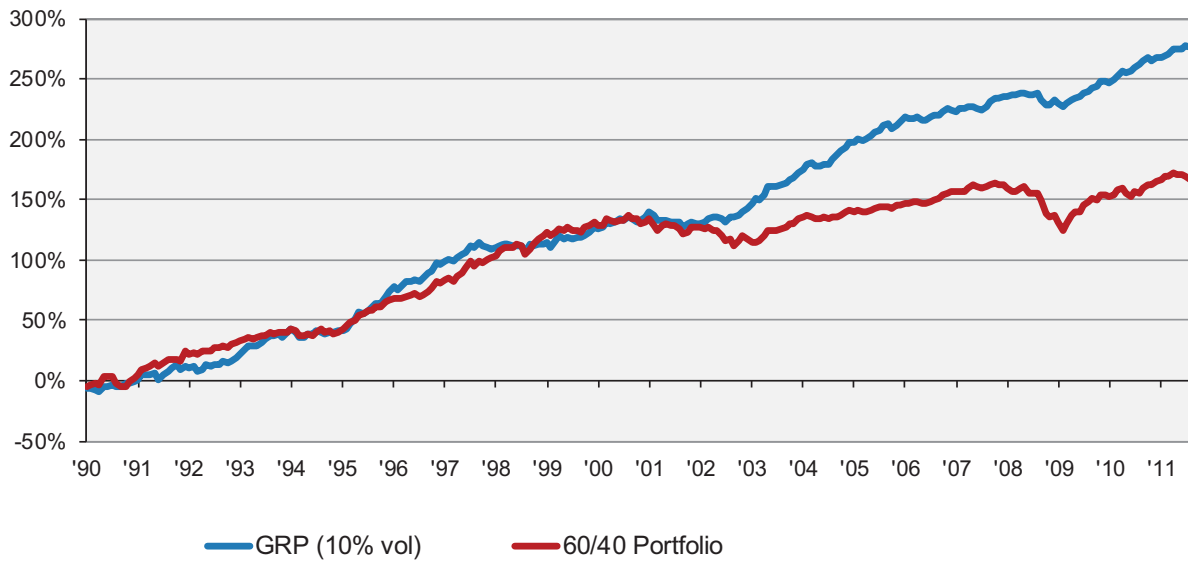
* Please see the Appendix for information on risks and disclosures relating to hypothetical and gross performance returns. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy in the Appendix.

Performance: Hypothetical Gross GRP

*Hypothetical GRP Has Outperformed A 60/40 Portfolio (S&P 500 / Barclays Aggregate Bond Index)**

Growth of \$100 Investment in Hypothetical GRP vs. 60/40 Portfolio

January 1990 – September 2011

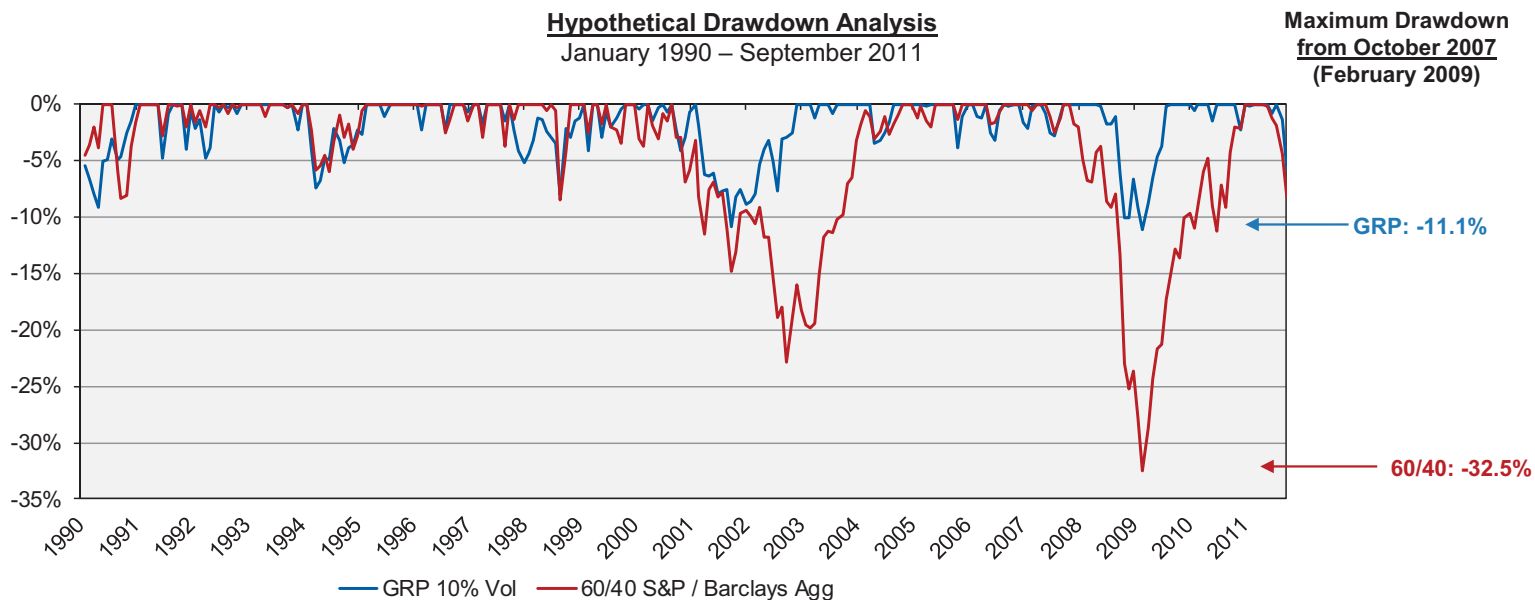


* Based on hypothetical gross performance of the GRP 10% volatility fund through September 30, 2011 presented in logarithmic scale. 60/40 Portfolio consists of 60% S&P, 40% Barclays Aggregate Bond Index. Actual volatility calculated over this period was 9.1% for a hypothetical GRP (10% volatility Fund) backtest and 9.5% for the 60/40 Portfolio. The full set of risk premia data becomes available in March 1997. Please see the Appendix for information relating to hypothetical performance and risks. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy in the Appendix.

Performance: Outcome

Hypothetical GRP vs. Traditional 60/40 Portfolio

- Hypothetical GRP at a 10% volatility target realizes less severe drawdowns than the 60/40 portfolio*
 - Especially true in more recent periods when the full set of risk premia are available in our backtests
 - Full set of risk premia is in backtest from 1997 onward when returns for Global TIPS become available



* Please see the Appendix for information on risks and disclosures relating to hypothetical performance. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy in the Appendix. A drawdown control policy may not always be successful at controlling a fund's risk or limiting portfolio losses.

Does Risk Parity Equate Risk With Volatility?

No, But We Must Carefully Consider This Essential Measure Of Risk

- We agree that risk is not volatility but rather the possibility of losing money

- However, while volatility is not perfect, it is one very important and available measure of risk
 - We also look at VAR, drawdowns, stress tests, liquidity, and ease of financing
 - We limit the size of all exposures and the total exposure of the Fund

- In GRP, we manage volatility risk and drawdowns more actively than traditional portfolios by
 - targeting a more constant portfolio volatility
 - actively rebalancing exposures to each asset class to maintain diversification across asset classes
 - implementing a systematic drawdown control policy to preserve capital

Does Leverage Increase Left Tail Risk?

Leverage Creates A Risk; We Design GRP To Make That Risk Manageable

- Investment in risk parity is an un-leveraged investment in a limited liability leveraged fund

- Investors face a choice between leverage risk and concentration risk
 - Adding risk parity means trading off concentration risk that you can't manage for leverage risk that you can
 - Adding risk parity means trading off a risk you don't get paid enough to bear for one that you do

- Leverage risk can be managed
 - Don't leverage illiquidity
 - Maintain significant free cash
 - Cap exposures within each asset class and for the portfolio as a whole
 - Use systematic drawdown control
 - Maintain appropriate risk management, counterparty management, and operating systems

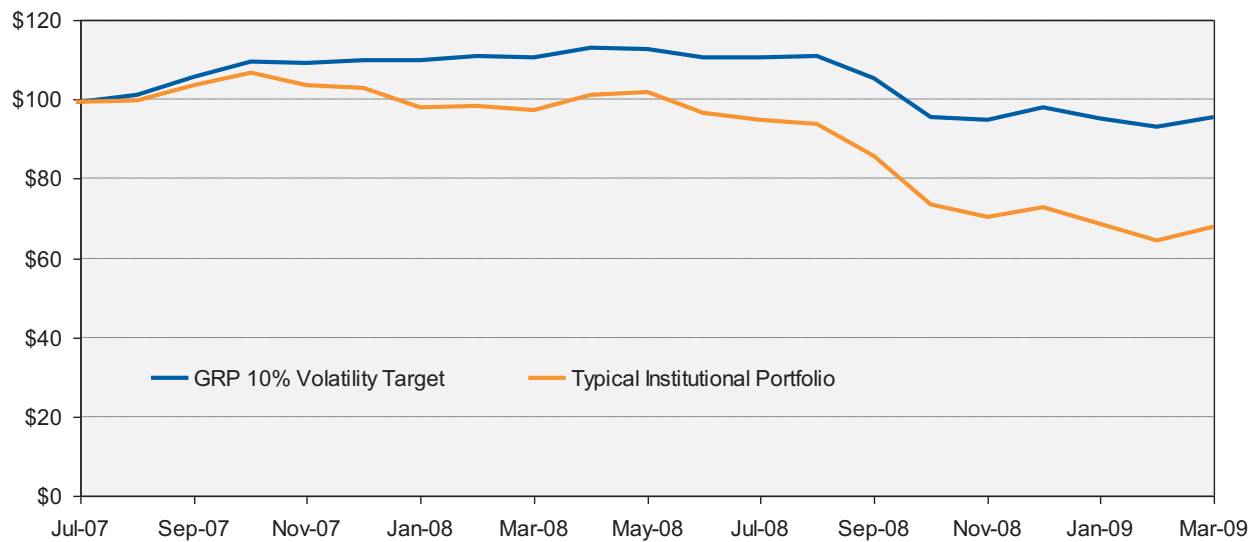
Please see important risk disclosures in Appendix.

Does Leverage Increase Left Tail Risk?

Risk Parity Helped Mitigate Tail Risks During The Great Deleveraging Crisis

- ▶ During the credit crisis, despite being leveraged, a well constructed risk parity portfolio exhibited significantly lower downside, due to better diversification

Hypothetical Wealth Preservation During the Credit Crisis (July 2007 – March 2009)*



* The Risk Parity Portfolio is based on hypothetical AQR Global Risk Premium Fund (10% volatility feeder) gross performance. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy in the Appendix. Asset allocation from Wilshire TUCS for public plans >\$1bil AUM at the end of 1Q2010. Allocation simulated using: 59% MSCI World, 29% Barclays Capital Aggregate, 3% Cash, 6% DJ RESI, 3% HFRI FOF Composite. Charts are for illustrative purposes only. Please read the disclosures relating to hypothetical performance and risks in the Appendix.

Is Risk Parity Just Leveraging Bonds?

Risk Parity Means Allocation Less To Equities And More To Everything Else

- We are in an historically low interest rate environment, but many are too sure that low interest rates mean bonds will under-perform
 - Markets have already priced in considerable expectations of rising rates
- What do you give up by avoiding bond exposure?
 - Bonds offer significant diversification benefits
 - Bonds explicitly protect against economic downturns which every other risk asset is exposed too
- Risk parity is about allocating risk, not capital
 - In a bond bear market the volatility of bonds tends to increase and our portfolio reduces notional exposure to bonds
- Whether the starting point is risk parity of a traditional allocation, tactical insight is still valuable
- Risk parity portfolios are broadly diversified, so they will almost always include a meaningful allocation to at least one asset class that is widely viewed as unattractive or out of favor. Today it's bonds!

Conclusion

- Offers a rational and efficient way to access a diversified portfolio of global market risk premia for investors seeking to achieve the highest risk-adjusted return

Broad Market Exposure

Globally diversified representing approximately 70 individual exposures across many asset classes

Risk Budgeting Approach

Weighted to maximize diversification

Implemented Efficiently

Using liquid, low-cost instruments

Rebalanced Continuously

Using a systematic risk-management process

Innovative strategy

Ongoing research to add new exposures as appropriate

- GRP's diversified market exposure can be combined with various alpha sources or a tactical overlay

Diversification does not eliminate the risk of experiencing investment losses.

A1. GRP Fund Details

- ▶ **Volatility Target Options:** 10%, 12% and 25%

- ▶ **Management Fee:** 0.40% fixed fee for 10% volatility target (Fee scales proportionately with volatility target)

- ▶ **Liquidity:** Monthly with 30 day notice; no lock-up

- ▶ **Investment Minimum:** \$5 Million

- ▶ **Service Providers**
 - Administrator: International Fund Services (A State Street Company)
 - Auditor: PricewaterhouseCoopers

- ▶ **Reporting**
 - Quarterly letter and attribution helps put fund results and overall market environment into context
 - Monthly report with returns, attribution and risk allocation

A1. Client Strategies Team

| <u>Employee/Title</u> | <u>Education</u> | <u>Former Position</u> |
|---|---|--|
| David Kabiller, CFA <i>Founding Principal</i> | M.B.A., Northwestern University B.A., Northwestern University | Vice President Goldman, Sachs & Co. |
| Client Strategies Group | | |
| Gregor Andrade <i>Principal</i> | Ph.D., University of Chicago B.S., Massachusetts Institute of Technology | Finance Professor Harvard Business School |
| Jeremy Getson, CFA <i>Principal</i> | M.B.A., University of Chicago A.B., Princeton University | Associate Mercer Investment Consulting |
| Matt Chilewich <i>Vice President</i> | M.B.A., Duke University B.A., University of Michigan | Vice President J.P. Morgan Asset Management |
| Jeff Dunn <i>Vice President</i> | B.S., B.B., Queensland University of Technology | Queensland Investment Corporation |
| Brian Crowell, CFA <i>Vice President</i> | M.B.A., University of Chicago B.A., Dartmouth College | Summer Associate UBS Global Asset Management |
| Bill Latimer, CFA <i>Vice President</i> | B.A., Boston University | Product Manager The Rohatyn Group |
| Christopher Palazzolo, CFA <i>Vice President</i> | M.B.A., Harvard Business School B.A., Amherst College | Summer Associate The Blackstone Group |
| Simon Wills <i>Vice President</i> | M. App. Fin., Macquarie University B.B., Queensland University of Technology | Vice President Deutsche Asset Management |
| Michael Angwin <i>Associate</i> | B.C., University of Western Sydney | Head of Distribution van Eyk Research |
| Maisie Hughes <i>Associate</i> | A.B., Brown University | Analyst Goldman Sachs Asset Management |
| Joey Lee <i>Associate</i> | M.B.A., University of Chicago B.A., Yale University | Summer Associate Goldman, Sachs & Co. |
| Portfolio Solutions Group | | |
| Adam Berger, CFA <i>Vice President</i> | M.B.A., University of Pennsylvania A.B., Harvard College | Vice President Goldman Sachs Asset Management |
| Bradley Kay <i>Associate</i> | M.B.A., University of Chicago B.A., University of Cambridge | Associate Director Morningstar |
| London Thomson-Thurm <i>Associate</i> | A.B., Barnard College | Analyst Merrill Lynch & Co. |
| Daniel Villalon <i>Associate</i> | M.B.A., University of Chicago B.S., Pomona College | Summer Associate AQR Capital Management |

A1. Principal Biographies

Clifford S. Asnes, Ph.D., *Managing and Founding Principal* Prior to co-founding AQR Capital Management, Cliff was at Goldman, Sachs & Co. where he was a Managing Director and Director of Quantitative Research for the Asset Management Division. Cliff and his team at Goldman were responsible for building quantitative models to add value in global equity, fixed income and currency markets for Goldman clients and partners. Cliff has authored articles on many financial topics including multiple publications in the Journal of Portfolio Management and the Financial Analysts Journal. He has received the best paper award from the Journal of Portfolio Management twice (2001, 2003). From the Financial Analysts Journal he has received the Graham and Dodd Award for the year's best paper (2003), a Graham and Dodd Excellence Award (2000), the award for the best perspectives piece (2004), and the Graham & Dodd Readers' Choice Award (2005). In addition, the CFA Institute has awarded Cliff the James R. Vertin Award which is periodically given to individuals who have produced a body of research notable for its relevance and enduring value to investment professionals. He is on the editorial board of the Journal of Portfolio Management, the editorial board of the Financial Analysts Journal, the governing board of the Courant Institute of Mathematical Finance at NYU, the Board of the International Rescue Committee, and is a trustee of the Manhattan Institute and the Atlas Society. Cliff received a BS in Economics from the Wharton School and a BS in Engineering from the Moore School of Electrical Engineering, both graduating summa cum laude at the University of Pennsylvania. He received an MBA with high honors and a Ph.D. in Finance from the University of Chicago where he was Eugene Fama's student and teaching assistant for two years (he is still respectfully scared of Gene).

David G. Kabiller, CFA, *Founding Principal* As Founding Principal and Head of Client Strategies at AQR, David Kabiller is responsible for managing new and existing client relationships, as well as overseeing new product and strategic initiatives. Prior to co-founding AQR Capital Management, David worked at Goldman, Sachs & Co. At Goldman Sachs, he was a Vice President in the Pension Services Group where he established and maintained relationships with the chief investment officers of many of the largest pension and endowment funds in North America and assisted them in accessing the resources of the firm appropriate to developing and implementing global investment and capital markets strategies. Before joining the Pension Services Group, he was in the Institutional Fixed Income Division and in the Private Client Services Department. While at Goldman, David was involved with the structuring and development of products and investment strategies unique to ESOP investors. He was the creator of Goldman's Pension & Endowment Forum in which he co-authored research topics on derivatives, enhanced indexation, securities lending, insurance-linked securities and hedge funds. He co-authored "Hedge Funds Demystified: Are They Appropriate Investments for Institutional Investors?" David is a member of the Board of Trustees at Northwestern University, and has been a periodic lecturer at the Kellogg Graduate School of Management. He is a member of the Kellogg Alumni Advisory Board, as well as a member of the Board of Trustees for the Terra Foundation. He holds a BA in Economics and an MBA from Northwestern University. While at Northwestern, David received an athletic scholarship for tennis and was voted to the all academic "Big Ten" team.

Robert J. Krail*, *Founding Principal* Bob Krail is a Founding Principal of AQR Capital Management. Prior to co-founding AQR Capital Management, Bob worked at Goldman, Sachs & Co. as a Vice President and portfolio manager in the Asset Management Division where he developed and managed quantitative stock selection and asset allocation strategies. At Goldman, these strategies were used to manage proprietary capital, a hedge fund, institutional separate accounts and retail mutual funds. In particular, Bob was the senior portfolio manager responsible for Global Alpha, a global market-neutral hedge fund. Prior to joining Goldman, Bob worked at Trout Trading Company where he managed Trout Trading's global market-neutral stock selection effort. He developed, implemented and managed these strategies in the U.S., U.K. and Japan. Prior to that, Bob was in the Ph.D. program in Finance at the University of Chicago Graduate School of Business researching quantitative stock selection strategies. Prior to that, Bob was a corporate finance Analyst at Dean Witter Reynolds. Bob received a BS in Engineering with distinction from Harvey Mudd College in 1989.

John M. Liew, Ph.D., *Founding Principal* John Liew is a co-founder of AQR Capital Management and heads the Global Asset Allocation team. Prior to co-founding AQR, John worked at Goldman, Sachs & Co. as a portfolio manager in the Asset Management Division where he developed and managed quantitative strategies to trade stock index futures, bond futures and currencies globally. At Goldman, these strategies were used to manage proprietary capital, a hedge fund, institutional separate accounts and retail mutual funds. Prior to joining Goldman, John worked at Trout Trading Company where he developed and implemented global quantitative market-neutral stock selection strategies. John has published articles on the topics of global asset allocation and stock selection in the Journal of Portfolio Management and the Financial Analysts Journal. John is a member of the Board of Trustees of the University of Chicago where he received a Ph.D. in Finance in 1995 and an MBA in 1994 from the Booth School of Business and graduated Phi Beta Kappa with a BA in economics in 1989.

*Currently on medical leave

A1. Principal Biographies

Gregor Andrade, Ph.D., Principal Gregor joined AQR Capital Management in May 2003 and he is a member of the Client Strategies team. Prior to joining AQR, Gregor was a finance professor at Harvard Business School. He taught Corporate Financial Management, an advanced Corporate Finance and Valuation course in the MBA program, as well as in various Executive Education programs. While at Harvard, Gregor's research focused on corporate restructuring events, particularly mergers and acquisitions and financial distress. His paper "How Costly is Financial (not Economic) Distress? Evidence from Highly Leveraged Transactions That Became Distressed" won the 1998 Smith Breeden Prize for best paper in the *Journal of Finance*. Gregor has a BS in Economics from MIT and a Ph.D. in Finance from the University of Chicago's Graduate School of Business. Before entering graduate school, he was a Mergers and Acquisitions analyst at the investment banking firm of Wasserstein Perella.

Brad Asnes, Principal & Chief Legal Officer Brad joined AQR Capital Management at its inception in 1998 and is Co-General Counsel. Prior to joining AQR, Brad worked at Donaldson, Lufkin & Jenrette (DLJ) in the real estate finance division. At DLJ, Brad worked on public and private debt and equity offerings, asset sales, and mergers & acquisitions transactions for real estate investment trusts and home building companies. Brad received a BA from Brandeis University in 1991 and a JD from New York Law School in 1994 where he was a member of the law review. He received an MBA with distinction in 2003 from the Stern School of Business at New York University where he co-majored in finance and entrepreneurship. Brad is a licensed attorney and a member of the New York State Bar.

Jacques A. Friedman, Principal Jacques joined AQR Capital Management at its inception in 1998 and is Head of Global Stock Selection. Prior to joining AQR Capital Management, Jacques worked at Goldman, Sachs & Co. as an Associate in the Asset Management Division's Quantitative Equity Group. There, he was a member of the portfolio management team, developing and researching quantitative stock selection strategies used to manage over \$10 billion in institutional separate accounts and retail mutual funds. Prior to joining Goldman, Jacques was in the Ph.D. program in Applied Mathematics at the University of Washington, where his research interests ranged from mathematical physics to quantitative methods for sports handicapping. He received an MS in Applied Mathematics from the University of Washington and a BS in Applied Mathematics from Brown University.

Jeremy M. Getson, CFA, Principal Jeremy joined AQR in September 2004 upon graduation from the University of Chicago Graduate School of Business, where he graduated with high honors and concentrations in Analytic Finance and Economics. Before business school, Jeremy was a product manager and VP of investments for Allstate Financial where he led the due diligence efforts of Allstate's sub-advised funds team. Prior to that he was a field consultant with Mercer Investment Consulting, advising pension plans on asset allocation and manager selection decisions. Jeremy's background also includes work experience with a real estate firm, a non-profit organization, and in Illinois statewide politics. Jeremy was selected as Siebel Scholar in 2003, one of 25 MBA students in America to receive the distinction. Jeremy graduated Cum Laude from Princeton with an AB in Politics.

John B. Howard, Principal John is our Chief Financial Officer and Chief Operating Officer. He joined AQR in August 2007, and left the firm for about a year to serve as Chief Financial Officer of AllianceBernstein, rejoining AQR in February 2011. Prior to AQR, John was Chief Financial Officer at Knight Capital Group. From 1998 to 2003, he held various senior financial positions at Knight, including Group Controller and CFO of Knight Equity Markets International Ltd. based in London. John was a Senior Manager in Securities Industry Practice at Price Waterhouse LLP from 1991 to 1998. He is a CPA and received his BS in Accounting from Lehigh University in 1991.

Brian K. Hurst, Principal Brian Hurst has been with AQR Capital Management since its inception in 1998. He has over 15 years of experience managing money for institutional investors in both traditional and alternative investment strategies. He is currently the head of the Global Trading Strategies group. He was a founding member of the Global Asset Allocation team, which focuses on macro strategies. Prior to AQR, Brian worked at Goldman, Sachs & Co. in the Asset Management Division's Quantitative Research Group. As one of the original members of this group, he was responsible for building the core infrastructure and developing the quantitatively based models that were used to manage over \$7 billion in assets. Brian received his BS in Economics from the Wharton School of the University of Pennsylvania.

Ronen Israel, Principal Ronen joined AQR Capital Management in 1999. Prior to joining AQR, Ronen was a Senior Analyst at Quantitative Financial Strategies, Inc., a quantitative investment management firm, specializing in currencies and global macro strategies, with \$2.5 billion under management. Before that, he worked as a management consultant, specializing in building out financial systems for financial services firms. Ronen received an MA in Mathematics, specializing in mathematical finance, from Columbia University, a BS in Economics from The Wharton School at the University of Pennsylvania and a BAS in Biomedical Science from the School of Engineering and Applied Science at the University of Pennsylvania.

Oktay Kurbanov, Principal Oktay joined AQR Capital Management at its inception in 1998. Prior to joining AQR Capital Management, Oktay worked at Goldman, Sachs & Co. as an Analyst in the Asset Management Division's Quantitative Research Group. At Goldman Sachs, he was one of the assistant portfolio managers for asset allocation accounts managed versus various benchmarks, including global strategic partners mandates. In addition, Oktay co-developed the financial modeling code used to research and implement quantitative trading strategies. Oktay received a BS in Physics and Mathematics from the University of Michigan and an MBA degree with concentration in finance and statistics from the Stern School of Business at New York University.

A1. Principal Biographies

Stephen Mellas, *Principal* Steve joined AQR in March 2005 as the Head of Operations. Prior to joining AQR, Steve worked for Goldman Sachs. He joined Goldman in 1997 as a Managing Director in the Investment Management Division with responsibility for Asset Management Operations worldwide. Prior to joining Goldman Sachs, Steve had been with Morgan Stanley from 1985 to 1997 where he managed fixed income trading operations. Steve was a founding member of the Asset Manager's Forum and acted as Chairperson of the Operations Steering Committee from 2002 to 2004. In addition to his responsibilities at AQR, Steve is a faculty member of NYU's Stern School of Business where he teaches an advanced topics course in management communication. Steve graduated with a B.A. from Villanova University and holds an M.B.A. from Pace University.

Michael Mendelson, *Principal* Michael joined AQR Capital Management in 2005. Prior to joining AQR, Michael worked at Goldman Sachs where he was Managing Director and Head of Quantitative Trading. Prior to founding that effort, he was Head of US Program Trading. At Goldman Sachs, Michael served on the Equities Division Risk Committee and was co-chair of the Systems Risk Taskforce. He began his career at Goldman serving pension funds and endowments in the Fixed Income Division and the Pension Services Group. Michael received an S.M. in Chemical Engineering from MIT along with an S.B. in Chemical Engineering, and S.B. in Mathematics, and an S.B. in Management. He also has an MBA from the University of California at Los Angeles.

Lars N. Nielsen, *Principal* Lars joined AQR Capital Management in 2000. Prior to joining AQR, Lars was a visiting graduate student in the economics department at Cornell University where his research interests were in financial econometrics and statistics. Before that, Lars worked as an Analyst in the Quantitative Research Group at Danske Invest, the largest asset management firm in Denmark. At Danske Invest Lars was responsible for developing the company's macro based stock selection models. He received a B.Sc. and an M.Sc. in Economics from the University of Copenhagen, Denmark.

Lasse H. Pedersen, Ph.D., *Principal* Lasse started working with AQR in July 2006. Lasse is also a Chaired Professor of Finance at the NYU Stern School of Business, serves on the Board of Directors of the American Finance Association, the Economic Advisory Boards of NASDAQ OMX and FTSE, and has been an academic consultant for the NY Federal Reserve Bank among other places. He earned his Ph.D. in Finance from Stanford University and his B.S. and M.S. degrees in Mathematics-Economics from the University of Copenhagen. Lasse's research has focused on dynamic trading and liquidity risk, studying the markets for equities, currencies, commodities, bonds, futures, options, and sovereign CDS. He has published in the leading academic finance journals, served as associate editor for Journal of Finance and Journal of Economic Theory, is a research associate at National Bureau of Economic Research and Centre for Economic Policy Research, and has won several awards including the Fama/DFA Prize.

CNH Partners

Mark Mitchell, Ph.D. Prior to co-founding CNH Partners (affiliate of AQR) in 2001, Mark was a finance professor at University of Chicago (1990-1999) and Harvard University (1999-2003). In academia, Mark authored numerous research papers about mergers & acquisitions and investment management. Four of his papers received paper-of-the-year awards: Smith-Breedon Prize from Journal of Finance for "Limited Arbitrage in Equity Markets"; Merton Miller Prize from Journal of Business for "Managerial Decisions and Long-Term Stock Price Performance"; Graham and Dodd Scroll from Financial Analysts Journal for "The Value of Corporate Takeovers"; and Roger Murray Prize from Institute for Quantitative Research in Finance for "Do Bad Bidders Become Good Targets?". Mark also received five teaching awards at the University of Chicago. He is co-author of the book Mergers, Restructuring and Corporate Governance. Mark is on the board of directors at TD-Ameritrade where he chairs the M&A Committee. He is also a member of the Executive Advisory Board of Clemson University's College of Business & Behavioral Science. In February 2007, Mark served as an emissary of the U.S. State Department to discuss M&A with policymakers, business leaders, academics and reporters in Japan. During 1996-2005, Mark was a board member of Ameritrade Corporation where he chaired the Special Committee (oversaw the merger with TD Waterhouse in 2005) and the Nominating Committee. He was also a member of the NASDAQ Quality of Markets Committee during 2003-2005, and was a founding member of the NASD Economic Advisory Board during 1996-1998. During 1987-1990, Mark worked in the Office of the Chief Economist at the Securities & Exchange Commission where he authored several research papers on M&A. He also worked on merger regulations and led the development of applying financial economics to assist the SEC's enforcement efforts in insider trading cases. Mark holds a Ph.D. and M.A. in Economics from Clemson University and B.B.A. in Economics from University of Louisiana at Monroe.

Todd Pulvino, Ph.D. Todd Pulvino is a co-founder and principal at CNH Partners, the merger arbitrage and convertible arbitrage affiliate of AQR Capital Management. Todd has served on the finance faculties of Northwestern University's Kellogg School of Management and Harvard Business School. His research is published in top academic finance journals including The Journal of Finance, the Journal of Financial Economics, and the American Economic Review. Todd holds Ph.D. and A.M. degrees in Business Economics from Harvard University, an M.S. degree in Mechanical Engineering from the California Institute of Technology, and a B.Sc. degree in Mechanical Engineering from the University of Wisconsin-Madison. Prior to completing his doctoral work at Harvard, Todd worked as a design engineer in the aerospace industry.

Rocky Bryant Rocky joined CNH Partners in July 2002 as an analyst to work on the merger arbitrage portfolio and build out a convertible bond database. Since then, Rocky has helped develop several new strategies through database formation and empirical back-testing as well as working on the event-driven desk which he now heads. Prior to joining the CNH team Rocky worked at Harvard Business School as a Research Associate for finance professors Lisa Meulbroek and Erik Stafford. Rocky graduated from MIT in 2001 with a BS in Computer Science and Electrical Engineering.

A2. Performance Disclosures

All performance figures contained herein reflect the reinvestment of dividends and all other earnings and represent unaudited estimates of realized and unrealized gains and losses prepared by AQR Capital Management, LLC. There is no guarantee as to the above information's accuracy or completeness. **PAST PERFORMANCE IS NOT AN INDICATION OF FUTURE PERFORMANCE.**

The Fund's targets may be subject to change and there is no guarantee that they will be met. There is no guarantee, express or implied, that long-term return and/or volatility targets will be achieved. Realized returns and/or volatility may come in higher or lower than expected.

Gross performance results do not reflect the deduction of investment advisory fees, which would reduce an investor's actual return. For example, assume that \$1 million is invested in an account with the Firm, and this account achieves a 10% compounded annualized return, gross of fees, for five years. At the end of five years that account would grow to \$1,610,510 before the deduction of management fees. Assuming management fees of 1.00% per year are deducted monthly from the account, the value of the account at the end of five years would be \$1,532,886 and the annualized rate of return would be 8.92%. For a ten-year period, the ending dollar values before and after fees would be \$2,593,742 and \$2,349,739, respectively. AQR's asset based fees may range up to 2.85% of assets under management, and are generally billed monthly or quarterly at the commencement of the calendar month or quarter during which AQR will perform the services to which the fees relate. Performance fees are generally equal to 20% of net realized and unrealized profits each year, after restoration of any losses carried forward from prior years. In addition, AQR funds incur expenses (including start-up, legal, accounting, audit, administrative and regulatory expenses) and may have redemption or withdrawal charges up to 2% based on gross redemption or withdrawal proceeds. Please refer to the Fund's Private Offering Memoranda and AQR's ADV Part 2A for more information on fees. Consultants supplied with gross results are to use this data in accordance with SEC, CFTC, NFA or the applicable jurisdiction's guidelines.

Hypothetical performance results (e.g., quantitative backtests) have many inherent limitations, some of which, but not all, are described herein. No representation is being made that any fund or account will or is likely to achieve profits or losses similar to those shown herein. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently realized by any particular trading program. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can adversely affect actual trading results. The hypothetical performance results contained herein represent the application of the quantitative models as currently in effect on the date first written above and there can be no assurance that the models will remain the same in the future or that an application of the current models in the future will produce similar results because the relevant market and economic conditions that prevailed during the hypothetical performance period will not necessarily recur. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of hypothetical performance results, all of which can adversely affect actual trading results. Discounting factors may be applied to reduce suspected anomalies. This backtest's return, for this period, will vary depending on the date it is run. Hypothetical performance results are presented for illustrative purposes only.

There is a risk of substantial loss associated with trading commodities, futures, options, derivatives and other financial instruments. Before trading, investors should carefully consider their financial position and risk tolerance to determine if the proposed trading style is appropriate. Investors should realize that when trading futures, commodities, options, derivatives and other financial instruments one could lose the full balance of their account. It is also possible to lose more than the initial deposit when trading derivatives or using leverage. All funds committed to such a trading strategy should be purely risk capital.

A2. Performance Disclosures

AQR Capital Management, LLC
Global Risk Premium - Low Volatility Composite
1/31/07 – 12/31/10

| Year | Total Return Gross of Fees % | Total Return Net of Fees % | Benchmark*Return % | Number of Portfolios | Dispersion % | Composite Assets End of Period (\$ M) | Total Firm Assets (\$ M) | % of Firm Assets |
|------|---------------------------------|-------------------------------|--------------------|-------------------------|--------------|--|-----------------------------|---------------------|
| 2007 | 7.71 | 7.32 | 4.57 | 1 | N/A | 63.86 | 34,495.05 | 0.19 |
| 2008 | -14.81 | -15.16 | 2.06 | 1 | N/A | 91.23 | 19,207.22 | 0.47 |
| 2009 | 17.95 | 17.49 | 0.21 | 1 | N/A | 469.85 | 23,571.55 | 1.99 |
| 2010 | 24.71 | 24.22 | 0.13 | 1 | N/A | 1,093.84 | 32,701.24 | 3.34 |

* Merrill Lynch 3 Month Treasury Bill Index

AQR Capital Management, LLC (“AQR”) has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

This presentation cannot be used in a general solicitation or general advertising to offer or sell interest in its Funds. As such, this information cannot be included in any advertisement, article, notice or other communication published in any newspaper, magazine, or similar media or broadcast over television or radio; and cannot be used in any seminar or meeting whose attendees have been invited by any general solicitation or general advertising.

Notes:

Firm Information:

AQR is a Connecticut based investment advisor registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. AQR conducts trading and investment activities, specializing in global asset allocation and global stock selection involving a broad range of instruments, including, but not limited to, individual equity and debt securities, currencies, futures, commodities, fixed income products and other derivative securities.

For purposes of Firm wide compliance and Firm wide total assets, AQR defines the “Firm” as entities controlled by AQR that are registered as investment advisors with the Securities and Exchange Commission. The Firm is comprised of AQR and CNH Partners, LLC (“CNH”).

Upon request AQR will make available a complete list and description of all of Firm composites.

Past performance is not an indication of future performance.

A2. Performance Disclosures

Fees: AQR's asset based fees for portfolios within the composite may range up to .40% of assets under management, and are generally billed monthly or quarterly at the commencement of the calendar month or quarter during which AQR will perform the services to which the fees relate, and are negotiable for some accounts in certain circumstances. In addition, AQR funds incur administrative fees and may have a redemption charge of 2% based on gross redemption proceeds may be charged upon early withdrawals.

Please refer to the Fund's Private Offering Memoranda and AQR's ADV Part II, Schedule F for more information on fees.

Composite Characteristics: The Global Risk Premium – Low Volatility composite (the "Composite") was created in February 2007. The accounts included invest a portion of their assets in the AQR Global Risk Premium Master Account Ltd. ("Master Account"). The remainder is generally invested in interest bearing money market accounts or treasury bills. The composite benchmark is the Merrill Lynch 3 Month Treasury Bill Index.

Generally, accounts in the Composite do not engage in leverage or derivative transactions. However, the Master Account does engage in leverage and derivative transactions. The Master Account frequently engages in swap transactions and other derivative contracts. In general, a derivative contract typically involves leverage, i.e., it provides exposure to potential gain or loss from a change in the level of the market price of a security, currency or commodity (or a basket or index) in a notional amount that exceeds the amount of cash or assets required to establish or maintain the derivative contract.

Consequently, an adverse change in the relevant price level can result in a loss of capital that is more exaggerated than would have resulted from an investment that did not involve the use of leverage inherent in the derivative contract. Many of the derivative contracts used by the Master Account are privately negotiated in the over-the-counter market. These contracts also involve exposure to credit risk since contract performance depends in part on the financial condition of the counter-party. These transactions are also expected to involve significant transaction costs. The risks inherent to the strategies employed by the Master Account are set forth in the applicable offering documents and other information provided to potential subscribers.

Calculation Methodology: Valuations and returns are computed and stated in U.S. dollars, and individual portfolios are revalued monthly. The firm uses the Modified Dietz formula to calculate monthly returns and links these returns geometrically to produce an accurate time-weighted rate of return. Composite returns are asset-weighted. Prior to January 1, 2010, gross of fees returns are calculated net of transaction costs and feeder specific expenses. Beginning January 1, 2010, gross of fees returns are calculated net of transaction costs. Returns are calculated net of all withholding taxes on foreign dividends. Accruals for fixed income and equity securities are included in calculations. Net of fees returns assume net of management fees of .40%. Dispersion is not considered meaningful for periods shorter than one year or for periods during which the composite contains five or fewer accounts for the full period.

Additional information regarding policies for calculating and reporting returns is available upon request.

Other Disclosures: AQR has received a firm-wide GIPS verification for the period August 1998 through 12/31/2010. A copy of the verification report is available upon request. For consistency purposes, AQR in October of 2009 historically revised its source for the Composite's benchmark data. None of these changes have resulted in any material differences.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

December 13, 2011

Agenda Item 6.6 c

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Investment Manager Review – AQR DELTA Fund

STAFF COMMENTS: The board instructed *SamCERA's* staff and investment consultant to perform annual reviews of *SamCERA's* investment managers and report back to the board. On November 3, 2011, staff interviewed AQR, *SamCERA's* hedge fund manager, in the building's conference room at 100 Marine Parkway.

The AQR DELTA Fund product was interviewed at approximately 11:15 a.m. Those present were:

Ben Bowler – *SamCERA* Trustee

David Bailey – *SamCERA's* Chief Executive Officer

Scott Hood – *SamCERA's* Assistant Executive Officer

Gary Clifton – *SamCERA's* Chief Investment Officer

Patrick Thomas – Strategic Investment Solutions' Investment Consultant

Michael Mendelson – Partner and Portfolio Manager of Global Risk Premium Fund at AQR
Capital Management

Ronen Israel - Partner and Portfolio Manager of the DELTA Fund at AQR Capital Management

Joey Lee – Associate, Client Strategies and Portfolio Solutions at AQR Capital Management

Attached to this agenda item are the presentation materials used by AQR for the review and AQR's due diligence questionnaire (DDQ) for the DELTA Fund product.

BACKGROUND: At the August 24, 2010, board meeting the trustees concluded an asset liability modeling study. The outcome was to further diversify the overall portfolio by adding a 20% allocation to alternative investments. The alternatives would be 8% private equity, 6% risk parity, 3% hedge funds and 3% commodities. This additional allocation came by reducing equities from 67% to 53%, fixed income from 27% to 22% and real estate from 6% to 5%.

The board requested additional education before determining how to implement the hedge fund strategy. On January 25, 2011, Strategic Investment Solutions' Steve Masarik and Patrick Thomas provided an overview of hedge fund strategies. Since the hedge fund concept is still relatively new to the board, parts of that overview are presented below.

Hedge funds are defined in part as an investment style that pursues flexible trading/investment strategies with very broad mandates that utilize a wide range of financial instruments, which often use some amount of leverage to enhance returns. Hedge funds have fewer if any constraints compared to traditional investments. That includes the ability to establish short positions for both profit generation and hedging purposes. Many hedge funds provide low to

moderate transparency, although transparency is increasing. Strategy types and individual funds differ greatly across several key dimensions.

The primary Hedge fund strategies are:

Arbitrage/Relative Value

Seeks to profit from perceived mispricing, often small and temporary, between related financial instruments, while hedging out exposures to market movements and broad risk factors.

Credit

Achieve returns by identifying fundamental opportunities expressed through either long or short opportunities in the credit instruments of corporations, sovereign entities, mortgage/asset backed securities, etc.

Equity

Attempts to identify undervalued (long) and overvalued (short) stocks using a range of disciplines including fundamental bottom-up, quantitative, top-down thematic, technical analysis, or some combination thereof.

Event-Driven

Designed to capture price movements stemming from a significant corporate event such as a merger, spin-off, restructuring, liquidation, bankruptcy or reorganization.

Global Macro

Directional positions in global equities, bonds, currencies and commodities markets, often using a top-down thematic approach that focuses on economic developments and the impact of government policies.

The presentation also discussed hedge fund structure, fees and terms for both direct investments and fund of funds investments. Rather than review all of those options, I will remind the board that it chose a transparent “multi-strategy” like product that is liquid and has a low fixed fee structured.

The SIS presentation also addressed the investment rationale then the risks and considerations.

They are outlined as:

Investment Rationale

- Potential for lower risk than equities at similar levels of return, but not a replacement for stocks, since hedge funds have no embedded risk premium or long-term exposure to economic growth, corporate profitability, etc.

- Potential for higher returns than bonds at similar levels of risk, but not a replacement for high-quality bonds, since they will not provide the same amount of downside protection when equity markets decline
- Moderate correlation to both equities and fixed income
 - Portfolio diversification benefits
 - Smaller drawdown during broad market declines
 - Potential for higher portfolio Sharpe ratio than traditional stock/bond mix if meaningful allocations are made
- Gain exposure to a variety of investments not available to long-only managers (e.g., illiquid assets, arbitrage situations that require shorting and leverage)
- Efficient method for plan sponsors to incorporate a tactical/opportunistic element into their long-term strategic allocations via “outsourcing” these types of decisions

Risks & Key Considerations

- Veritable laundry list of risks:
 - Market
 - Manager/business
 - Leverage
 - Liquidity
 - Co-investor (i.e., “hot money”)
 - Complexity/non-linear returns
 - Valuation
 - Headline
 - Operational
 - Regulatory
- Performance evaluation also more challenging than long-only products
 - Flawed benchmarks – overstate returns and understate volatility
 - Survivorship bias
 - Self-selection bias
 - Backfill or “instant history” bias
 - Appropriate peer groups difficult to construct/maintain
 - Separation of alpha from beta to discern true manager skill much more challenging
- Proper due diligence/monitoring requires significant resources and specialized knowledge

The presentation concludes by stating that hedge fund prospects have improved post-2008 and the industry has stabilized. More of the hedge funds are of “institutional quality.” The top firms have increased transparency and adopted of a number investor friendly best practices. Capacity constraints and access to top-tier firms has also improved.

As part of the hedge fund implementation process the board vetted five different methods for implementing *SamCERA*'s hedge fund mandate. The board quickly eliminated index replication strategies as not providing an adequate alpha. Multi-strategy managers, and direct investment managers were also eliminated as a first step in implementing the mandate. Those two were dismissed primarily because *SamCERA* lacks adequate experience with the various hedge funds

strategies. Without that experience, it would be difficult to select the multi-strat manager or a direct investment manager with the best strategies for *SamCERA's* portfolio. Either of those strategies may be considered at a future date as an augmentation to *SamCERA's* hedge fund program. The methodologies that the board believes are most promising for a first step in implementing a hedge fund mandate are fund of hedge funds manager or a hedge fund beta product.

On April 26, 2011, the board received additional information on implementing a hedge fund mandate through a fund of hedge funds manager or a manager with a hedge fund beta product. The board considered both methodologies as viable methods for a first step in implementing a hedge fund program. As a first step, the implementation and ongoing investment of either strategy will provide the board with an efficient method to gain a greater understanding of hedge fund strategies and providers. In March, the board discussed fund of hedge fund implementation with representatives from Aetos Capital and the use of a beta product to implement a hedge fund program with representatives from AQR Capital Management, LLC. The board opined to go with AQR's beta product as the first step in implementing a hedge fund mandate. AQR's DELTA Fund was funded on June 1, 2012, with \$70 million.

DISCUSSION: Below is current firm and product information.

General Firm Information

Firm Legal Name: AQR Capital Management LLC
Firm Headquarters: 2 Greenwich Plaza, 3rd Floor
Greenwich, Connecticut 06830
Main Phone | Main Fax: 203.742.3600 | 203.742.3100
Year Firm Founded: 1998
Registered Inv't Advisor: Yes
Firm Website Address: www.aqrcapital.com
Geographic Areas of Interest: United States

Firm Background

AQR Capital Management, LLC is an independently owned investment management firm employing a disciplined multi-asset, global research process. The company's investment products are provided through a limited set of collective investment vehicles and separate accounts that deploy all or a subset of the company's investment strategies. These investment products span from aggressive high volatility market-neutral hedge funds, to low tracking error benchmark-driven traditional products. Investment decisions are made using a series of global asset allocation, arbitrage, and security selection models, and implemented using proprietary trading and risk-management systems. AQR believes that a systematic and disciplined process is essential to achieve long-term success in investment and risk management. In addition, models must be based on solid economic principles, not simply built to fit the past, and must contain as much common sense as they do statistical firepower. The principals of the firm have been pursuing this research since the late 1980s, and have been implementing this research in one form or another for approximately nine years. The research of AQR's principals is internationally

renowned and has resulted in numerous published papers in a variety of professional journals since 1991.

The firm's founding principals, Clifford S. Asness, Ph.D., David G. Kabiller, CFA, Robert J. Krail, and John M. Liew, Ph.D., and several colleagues started AQR in January 1998. Each of the firm's principals was formerly at Goldman Sachs, & Co., where Asness, Krail, and Liew, comprised the senior management of the Quantitative Research Group at Goldman Sachs Asset Management (GSAM). At GSAM, the team managed both traditional (managed relative to a benchmark) and non-traditional (managed seeking absolute returns) mandates. The principals formed AQR to build upon the success achieved at GSAM while enabling key professionals to devote a greater portion of their time to research and investment product development. AQR manages assets for some of the largest institutional investors from the United States, Europe and Asia.

Joint Ventures

AQR has a joint venture with CNH Partners. AQR has a 50% ownership stake in CNH. CNH researches arbitrage related strategies.

Prior or Pending Ownership Changes

Affiliated Managers Group (AMG) bought a minority interest of less than 25% in AQR.

Prior or Pending Litigation

None

AQR's DELTA Fund

Research & Screening Process

Research ideas come from a wide range of sources. AQR's insights come from monitoring current events, from following markets on a daily basis, and from speaking to other market participants – including fellow managers, prime brokers, and investors. They stay on top of research and news from academic and industry publications. They also benefit from the depth and diversity of experience of their in-house research team, both their work at AQR and elsewhere. In addition, they have put together an Advisory Board for the AQR DELTA Fund. This board is comprised of leading industry professionals (from former fund of funds executives to former institutional hedge fund investors) and provides AQR with due diligence on the industry. AQR consults with members of the Advisory Board on a regular basis to make sure they have a thorough understanding of the strategies other hedge funds are employing and also to keep abreast of new ideas or approaches so that they can evaluate them for inclusion in the AQR DELTA Fund.

Adding a new hedge fund strategy to the AQR DELTA Fund is a multi-step process. Any potential new strategy must meet several key criteria. The strategy must:

- Be pursued by some subset of the hedge fund universe;
- Have a long-term return that can a) be explained using intuitive economic principles and b) offer added diversification relative to the existing DELTA strategies;
- Have sufficient barriers to entry for most investors (i.e. not available through simple buy and hold exposure);
- Be uncorrelated with the typical assets held by institutional investors;
- Not require onerous use of leverage; and
- Trade instruments that offer a reasonable amount of market liquidity.

Ultimately, the researchers pursuing any new strategy make a formal presentation to the DELTA Investment Committee, including both the economic rationale for the strategy, evidence of its use in hedge fund portfolios, and whatever empirical evidence is available. The Investment Committee makes the final decision with respect to whether the strategy should be included in the fund and, if so, at what size.

Portfolio Construction & Risk Control Methodology

The DELTA Fund is constructed to provide investors with truly diversifying returns. DELTA is broadly diversified across 9 sub-strategies and well-diversified within each sub-strategy, holding thousands of positions across a range of global markets. Through this bottom-up approach, AQR feels they are able to capture the risk premiums of numerous hedge fund styles, while controlling for traditional equity market exposure.

Strategy Level:

The nine strategies underlying the AQR DELTA Fund are as follows:

- Long/Short Equity
- Equity Market Neutral
- Global Macro
- Emerging Markets
- Convertible Arbitrage
- Managed Futures
- Dedicated Short Bias
- Event Driven
- Fixed Income Relative Value

Each of the above strategies is constructed using a bottom-up systematic process. In contrast to the overall DELTA Fund, which is designed to be equity market neutral, some underlying strategies may allow some directionality. For example, the Long/Short Equity strategy will typically have a slightly long equity market exposure (depending dynamically on the market's recent performance), while the Dedicated Short Bias strategy has a slightly negative equity market exposure. The Equity Market Neutral strategy on the other hand is built to be truly equity market neutral at all times. On net, the equity exposures from all the underlying strategies should cancel out at the portfolio level, and when they do not AQR's exposure control policy will mitigate the residual equity market exposure.

Portfolio Level:

Each strategy is individually constructed. AQR then aggregates all strategies into a single portfolio. The DELTA Fund uses a long-term, strategic risk weighting process as well as a shorter-term, tactical risk weighting process to determine the allocation across the nine underlying strategies. The strategic allocation is well-balanced, starting at equal risk weighting and making some adjustments based on each strategy's diversification, liquidity and leverage characteristics. In addition, marginal tactical tilts are incorporated to take advantage of conditional attractiveness/unattractiveness of certain strategies. While they believe the real value add of the portfolio construction process is the well-balanced strategic allocation, they believe they can provide additional value through incorporating tactical views at the margin.

Finally, from a risk management perspective the systematic drawdown control process is designed to reduce the Fund's target risk level under sufficiently adverse circumstances and to restore risk levels when markets normalize. AQR believes this drawdown control process will lead to a better behaved portfolio; that is, smaller and less frequent drawdowns. Also, the exposure control process is structured to mitigate any residual equity market exposure, thus helping to maintain the Fund's neutrality to stock market returns.

Buy/Sell Discipline

While AQR runs their investment models daily, they only trade or rebalance the portfolio when it drifts meaningfully away from the target allocation. The threshold to trade is when the transaction costs required to rebalance are more than offset by the increase in expected return, or the increase in expected alpha generated by the desired portfolio.

Trading Strategy

AQR places great emphasis on trading and implementation. While commissions and economic impact are critical components of trade decisions, AQR's implementation process is designed to maximize the factor view/signal content of resulting portfolios.

AQR trades electronically through direct connections to exchanges in all markets where this option exists. Direct exchange connections and the avoidance of soft dollar arrangements allow the firm to employ internally-developed proprietary algorithms that place its trades in a liquidity-providing manner. By trading passively and providing liquidity to the market, AQR can reduce market impact and greatly reduce total trading costs. Additionally, algorithms allow them to perform real-time risk control and monitoring and also provide direct feedback into the portfolio construction process. As AQR has developed its algorithmic trading capability, first applied to equity markets in 2001 and later applied to futures markets in 2006, they have seen a significant reduction in overall transactions costs. Over time, the firm will look to extend these capabilities to all markets as electronic venues develop more broadly.

Clients' guidelines are incorporated directly into the portfolio optimization process and senior members of the portfolio management team review all trades prior to sign off to prevent guideline violations. Automated, proprietary risk management systems produce daily reports to ensure post-trade and ongoing guideline compliance. The firm also uses the Charles River

trading system to enhance pre-trade controls. Since the trading operation is highly automated, traders have limited ability to act outside of their pre-determined parameters.

AQR DELTA Fund

AQR Capital Management

Due Diligence Questionnaire

Second Quarter 2011

Introduction: The AQR DELTA Fund

1. Please provide a brief history/timeline of the firm's growth and development since inception.

AQR Capital Management, LLC is an investment management firm employing a disciplined multi-asset, global research process. AQR is located in Greenwich, CT. The firm's founding principals, Clifford S. Asness, Ph.D., David G. Kabiller, CFA, Robert J. Krail, and John M. Liew, Ph.D., and several colleagues established AQR in January 1998. Each of the founding principals was formerly at Goldman Sachs, & Co., where Asness, Krail, and Liew, comprised the senior management of the Quantitative Research Group at Goldman Sachs Asset Management (GSAM). At GSAM, the team managed both traditional (managed relative to a benchmark) and non-traditional (managed seeking absolute returns) mandates. The principals formed AQR to build upon the success achieved at GSAM while enabling key professionals to devote a greater portion of their time to research and investment product development.

Beginning with a single hedge fund strategy, the firm has grown to more than \$36 billion in assets under management across traditional, alternative and hybrid strategies. We are and will remain focused on investment management. As our assets under management have grown over time, we have expanded and enhanced our trading knowledge, techniques, infrastructure and human capital. We anticipate growth over the next several years to continue at a measured pace.

2. Provide a brief description of the AQR DELTA Fund and its underlying strategies.

The AQR DELTA Strategy seeks to efficiently capture a diversified set of classic hedge fund strategies and deliver them to investors in a transparent and liquid vehicle with little or no correlation to traditional asset classes. Using a bottom-up, clearly defined investment process, the AQR DELTA Strategy provides exposure to more than sixty “hedge fund risk premiums” across nine broad strategy groups with a dynamic and disciplined investment process that aims to provide risk-balanced exposure to the underlying strategies. The result is a high risk-adjusted expected return stream with low correlation to traditional asset classes.

Underlying strategies of the AQR DELTA Fund include:

Long/Short Equity: This strategy provides diversified long and short exposures to global equities using primarily a combination of individual equities, total return swaps and stock index futures. This strategy is currently employed for equities in the following countries/regions: U.S., U.K., Continental Europe and Japan.

Equity Market Neutral: This strategy provides exposure to a well-diversified, market neutral portfolio of equities. This strategy is implemented using primarily a combination of individual equities, total return swaps and stock index futures. This strategy is currently employed for equities in the following countries/regions: U.S., U.K., Continental Europe and Japan.

Global Macro: This strategy provides long and short currency exposure to developed markets, using primarily forward contracts; and long and short exposure to developed country bond markets, using primarily bond futures and/or interest rate swaps; long and short exposure to developed country equity markets, using primarily stock index futures, options and/or swaps.

Emerging Markets: This strategy provides long and short exposure to emerging country equity markets, using primarily swaps and other derivative instruments; long and short currency exposure to emerging markets, using primarily forward and non-deliverable forward contracts; long and short exposure to a liquid basket of emerging and developed equity markets; and long and short exposure to a diversified portfolio of emerging equities, using primarily a combination of individual equities, total return swaps and stock index futures.

Convertible Arbitrage: This strategy takes positions in various global convertible debt and preferred securities and an offsetting position in various global equities directly linked to the convertible securities. This strategy will be implemented using primarily individual convertible securities and equities, but may also utilize total return equity swaps, credit default swaps, high-yield debt portfolios, bond futures, interest rate futures, stock index futures, currency forwards, and options.

Managed Futures: This strategy provides long and short exposure to commodities using primarily commodity futures, swaps, forwards and options; long and short exposure to developed country equity markets, using primarily stock index futures, options and/or swaps; long and short exposure to emerging country equity markets, using primarily swaps and other derivative instruments; long and short exposure to developed country bond markets, using primarily bond futures and/or interest rate swaps; and long and short currency exposure to developed markets, using primarily forward contracts.

Dedicated Short Bias: This strategy provides long and short exposure to a diversified portfolio of equities, primarily to capture stocks whose returns are likely to go down in the future while attempting to hedge common factor exposures. This strategy is implemented using primarily a combination of individual equities, total return swaps and stock index futures. This strategy is currently employed for equities in the following countries/regions: U.S., U.K., Continental Europe, and Japan.

Event Driven: This strategy attempts to capitalize on price discrepancies and returns generated by corporate activity. An example is merger arbitrage which will attempt to employ a diversified, disciplined strategy to capture the returns from holding a long/short portfolio of stocks of companies involved in mergers. This strategy will be implemented using primarily individual equities, but may also utilize total return equity swaps, stock index futures, currency forwards, convertible bonds and options. This strategy provides long and short exposure to developed country bond markets, using primarily bond futures and/or interest rate swaps; long and short currency exposure to developed markets, using primarily forward contracts; and long and short exposure to broad investment grade credit markets, using the Dow Jones CDX credit default swap indices.

3. What is your competitive advantage or edge? What makes the investment team, organization, or investment strategy unique?

We believe the AQR DELTA Fund is a unique approach to hedge fund investing and has the following advantages:

A True Alternative Investment

- High risk-adjusted expected return
- Relatively low volatility
- Low correlation to other assets

Unique Investment Process

- *Research:* AQR's experience in identifying hedge fund risk premiums is unique with more than 25 years research in the hedge fund universe
- *Security Selection:* AQR's proven skill in selecting securities and building portfolios to capture hedge fund risk premiums
- *Portfolio Construction:* DELTA's portfolio is constructed using a long-term strategic risk allocation and a tactical risk allocation
- *Implementation:* AQR's ability to implement the portfolio construction through efficient trading techniques and systematic risk management processes

An Alternative to Alternatives

- Greater transparency, better liquidity
- Better diversified, more efficient capital allocations
- Flexibility to be opportunistic
- Fee and position netting, lower cost to investors
- Low correlation to other assets

Leveraging the Best of AQR

- More than a decade of experience managing complex hedge funds
- Practical application of research to better capture market anomalies
- Low-cost trading capabilities, efficient portfolio construction
- Extensive operational capability
- Thoughtful risk management with independent oversight

DELTA Investment Personnel

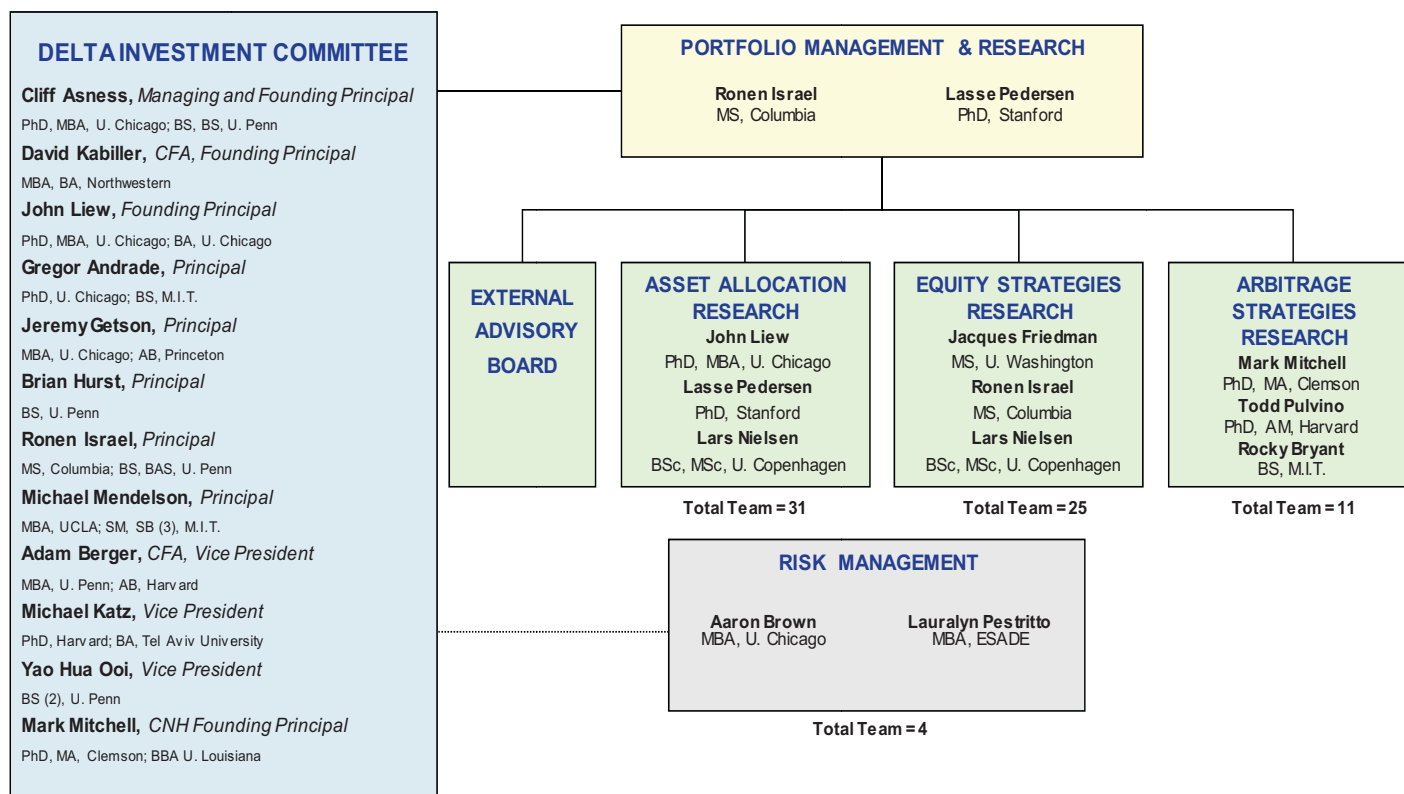
1. Does the Fund have an Investment Committee?

The DELTA Investment Committee is comprised of 11 senior members of the firm including:

- Cliff Asness, Founding & Managing Principal
- David Kabiller, Founding Principal
- John Liew, Founding Principal
- Gregor Andrade, Principal
- Jeremy Getson, Principal
- Brian Hurst, Principal
- Ronen Israel, Principal
- Michael Mendelson, Principal
- Adam Berger, Vice President
- Michael Katz, Vice President
- Yao Hua Ooi, Vice President
- Mark Mitchell, CNH Founding Principal

The Investment Committee is directly supported by 31 asset allocation team members, 25 equity strategies team members and 11 arbitrage team members as shown below.

DELTA Fund Management



2. *How is the investment committee structured?*

The investment research teams oversee research, including the refinement of existing strategies, and the pursuit of new hedge fund premium strategies for possible addition to the fund. Of those members, Ronen Israel directly oversees the portfolio management, strategy research, and industry research of the product with Lasse Pederson also overseeing the strategy and industry research of the product. Both are Principals of AQR.

The Investment Committee meets semi-monthly to cover such items as performance, risk management, tactical and strategic positioning, research on existing DELTA strategies and research on new hedge fund strategies. The two members listed above meet even more frequently with their teams, and work on a day-to-day basis to manage the positioning, construction and risk management of the fund.

The ultimate responsibility for the fund's investment strategy decisions rests with the Fund's Investment Committee, which includes a cross-section of investment professionals from across AQR who have extensive experience in hedge fund investments (please see investment personnel section). The committee is able to convene (in person or electronically) on very short notice to make critical decisions when necessary. The fund's positions and strategies are also overseen by AQR's independent Counterparty Committee and Risk Committee.

DELTA also has an advisory board that consists of independent industry experts. This board strategically evaluates the DELTA Fund on a long-term basis through intelligence gathering on the hedge fund industry. These industry experts keep us abreast of industry trends and developments and offer insight into widely used hedge fund strategies that are not yet incorporated into DELTA. The advisory board helps keep us focused on the world outside AQR and promotes innovative thinking when it comes to continually improving the DELTA Fund.

3. *Please provide detailed academic and professional biographies of key investment professionals for the product.*

Please see below for the biographies of the Investment Committee, portfolio manager, key research personnel and risk management team.

Clifford S. Asness, Ph.D., Managing and Founding Principal

Prior to co-founding AQR Capital Management, Cliff was at Goldman, Sachs & Co. where he was a Managing Director and Director of Quantitative Research for the Asset Management Division. Cliff and his team at Goldman were responsible for building quantitative models to add value in global equity, fixed income and currency markets for Goldman clients and partners. Cliff has authored articles on many financial topics including multiple publications in the Journal of Portfolio Management and the Financial Analysts Journal. He has received the best paper award from the Journal of Portfolio Management twice (2001, 2003). From the Financial Analysts Journal he has received the Graham and Dodd Award for the year's best paper (2003), a Graham

and Dodd Excellence Award (2000), the award for the best perspectives piece (2004), and the Graham & Dodd Readers' Choice Award (2005). In addition, the CFA Institute has awarded Cliff the James R. Vertin Award which is periodically given to individuals who have produced a body of research notable for its relevance and enduring value to investment professionals. He is on the editorial board of the Journal of Portfolio Management, the editorial board of the Financial Analysts Journal, the governing board of the Courant Institute of Mathematical Finance at NYU, the Board of the International Rescue Committee, and is a trustee of the Manhattan Institute and the Atlas Society. Cliff received a BS in Economics from the Wharton School and a BS in Engineering from the Moore School of Electrical Engineering, both graduating summa cum laude at the University of Pennsylvania. He received an MBA with high honors and a Ph.D. in Finance from the University of Chicago where he was Eugene Fama's student and teaching assistant for two years (he is still respectfully scared of Gene).

David G. Kabiller, CFA, Founding Principal

As Founding Principal and Head of Client Strategies at AQR, David Kabiller is responsible for managing new and existing client relationships, as well as overseeing new product and strategic initiatives. Prior to co-founding AQR Capital Management, David worked at Goldman, Sachs & Co. At Goldman Sachs, he was a Vice President in the Pension Services Group where he established and maintained relationships with the chief investment officers of many of the largest pension and endowment funds in North America and assisted them in accessing the resources of the firm appropriate to developing and implementing global investment and capital markets strategies. Before joining the Pension Services Group, he was in the Institutional Fixed Income Division and in the Private Client Services Department. While at Goldman, David was involved with the structuring and development of products and investment strategies unique to ESOP investors. He was the creator of Goldman's Pension & Endowment Forum in which he co-authored research topics on derivatives, enhanced indexation, securities lending, insurance-linked securities and hedge funds. He co-authored "Hedge Funds Demystified: Are They Appropriate Investments for Institutional Investors?" David is a member of the Board of Trustees at Northwestern University, and has been a periodic lecturer at the Kellogg Graduate School of Management. He is a member of the Kellogg Alumni Advisory Board, as well as a member of the Board of Trustees for the Terra Foundation. He holds a BA in Economics and an MBA from Northwestern University. While at Northwestern, David received an athletic scholarship for tennis and was voted to the all academic "Big Ten" team.

John M. Liew, Ph.D., Founding Principal

John Liew is a co-founder of AQR Capital Management and heads the Global Asset Allocation team. Prior to co-founding AQR, John worked at Goldman, Sachs & Co. as a portfolio manager in the Asset Management Division where he developed and managed quantitative strategies to trade stock index futures, bond futures and currencies globally. At Goldman, these strategies were used to manage proprietary capital, a hedge fund, institutional separate accounts and retail mutual funds. Prior to joining Goldman, John worked at Trout Trading Company where he developed and implemented global quantitative market-neutral stock selection strategies. John has published articles on the topics of global asset allocation and stock selection in the Journal of Portfolio Management and the Financial Analysts Journal. John is a member of the Board of Trustees of the University of Chicago where he received a Ph.D. in Finance in 1995 and an MBA in 1994

from the Booth School of Business and graduated Phi Beta Kappa with a BA in economics in 1989.

Ronen Israel, Principal

Ronen joined AQR Capital Management in 1999. Prior to joining AQR, Ronen was a Senior Analyst at Quantitative Financial Strategies, Inc., a quantitative investment management firm, specializing in currencies and global macro strategies, with \$2.5 billion under management. Before that, he worked as a management consultant, specializing in building out financial systems for financial services firms. Ronen received an MA in Mathematics, specializing in mathematical finance, from Columbia University, a BS in Economics from The Wharton School at the University of Pennsylvania and a BAS in Biomedical Science from the School of Engineering and Applied Science at the University of Pennsylvania.

Brian K. Hurst, Principal

Brian has been with AQR Capital Management since its inception in 1998. He has over 15 years of experience managing money for institutional investors in both traditional and alternative investment strategies. He is currently the head of the Global Trading Strategies group. He was a founding member of the Global Asset Allocation team, which focuses on macro strategies. Prior to AQR, Brian worked at Goldman, Sachs & Co. in the Asset Management Division's Quantitative Research Group. As one of the original members of this group, he was responsible for building the core infrastructure and developing the quantitatively based models that were used to manage over \$7 billion in assets. Brian received his Bachelor's degree from the Wharton School of the University of Pennsylvania.

Gregor Andrade, Ph.D., Principal

Gregor joined AQR Capital Management in May 2003 and he is a member of the Client Strategies team. Prior to joining AQR, Gregor was a finance professor at Harvard Business School. He taught Corporate Financial Management, an advanced Corporate Finance and Valuation course in the MBA program, as well as in various Executive Education programs. While at Harvard, Gregor's research focused on corporate restructuring events, particularly mergers and acquisitions and financial distress. His paper "How Costly is Financial (not Economic) Distress? Evidence from Highly Leveraged Transactions That Became Distressed" won the 1998 Smith Breeden Prize for best paper in the "Journal of Finance". Gregor has a BS in Economics from MIT and a Ph.D. in Finance from the University of Chicago's Graduate School of Business. Before entering graduate school, he was a Mergers and Acquisitions analyst at the investment banking firm of Wasserstein Perella.

Jeremy M. Getson, CFA, Principal

Jeremy is a Principal in the Client Strategies team. Jeremy joined AQR in September 2004 upon graduation from the University of Chicago Graduate School of Business, where he graduated with high honors and concentrations in Analytic Finance and Economics. Before business school, Jeremy was a product manager and VP of investments for Allstate Financial where he led the due diligence efforts of Allstate's sub-advised funds team. Prior to that he was a field consultant with Mercer Investment Consulting, advising pension plans on asset allocation and manager selection decisions. Jeremy's background also includes work experience with a real estate firm, a non-profit organization, and in Illinois statewide politics. Jeremy was selected as Siebel Scholar in 2003,

one of 25 MBA students in America to receive the distinction. Jeremy graduated Cum Laude from Princeton with an AB in Politics.

Michael Mendelson, Principal

Michael joined AQR Capital Management in 2005. Prior to joining AQR, Michael worked at Goldman Sachs where he was Managing Director and Head of Quantitative Trading. Prior to founding that effort, he was Head of US Program Trading. At Goldman Sachs, Michael served on the Equities Division Risk Committee and was co-chair of the Systems Risk Taskforce. He began his career at Goldman serving pension funds and endowments in the Fixed Income Division and the Pension Services Group. Michael received an S.M. in Chemical Engineering from MIT along with an S.B. in Chemical Engineering, and S.B. in Mathematics, and an S.B. in Management. He also has an MBA from the University of California at Los Angeles.

Adam Berger, CFA, Vice President

Adam Berger joined AQR Capital Management in February 2007 after eleven years with Goldman Sachs. Prior to joining AQR, Adam served as a senior research strategist for Goldman Sachs Asset Management, working with GSAM's largest institutional investors on strategic investment policy issues. His custom work for clients has addressed topics such as asset allocation, risk budgeting, and asset-liability management. Adam has also authored a number of white papers on topics as diverse as liability-driven investment, pension regulation, and real estate investment strategy. Prior to joining GSAM, Adam worked in the Equities Division of Goldman Sachs and in the firm's Pension Services Group. Adam graduated magna cum laude from Harvard College with an AB in Philosophy. He received an MBA from the Wharton School of Business at the University of Pennsylvania, where he graduated with Honors and was named a Palmer Scholar. Adam is a CFA charterholder.

Michael Katz, Ph.D., Vice President

Michael Katz joined AQR Capital in September of 2007 as a researcher in our Global Asset Allocation group. Prior to joining AQR, he was a Teaching Fellow at Harvard University. Michael also worked as a Research Assistant at Harvard University and Tel Aviv University and acted as a Business & Economic Consultant for Trigger LTD. He graduated from Tel Aviv University with his BA in Economics and the History of the Middle East and earned his Ph.D. in Economics from Harvard University.

Yao Hua Ooi, Vice President

Yao Hua joined AQR in September 2004 and is currently a Vice President in the Global Asset Allocation team, which focuses on macro related strategies, portfolio management, research and infrastructure. Prior to joining AQR, he was a summer analyst in the Fixed Income group at UBS, where he structured and marketed interest rate derivative products to regional private banks. Yao Hua graduated from the Jerome Fisher Program in Management and Technology at the University of Pennsylvania. He received a BS in Economics from the Wharton School and a BS in Engineering from The School of Engineering and Applied Science in 2004, with majors in Finance and Computer Engineering, both graduating summa cum laude.

Lasse H. Pedersen, Ph.D., Principal

Lasse joined AQR in July 2007. Lasse is also a Chaired Professor of Finance at the NYU Stern School of Business, serves on the Economic Advisory Boards of NASDAQ OMX and FTSE, and has been an academic consultant for the NY Federal Reserve Bank among other places. He earned his Ph.D. in Finance from Stanford University and his B.S. and M.S. degrees in Mathematics-Economics from the University of Copenhagen. Lasse's research has focused on asset pricing and liquidity risk, studying the markets for equities, currencies, commodities, bonds, futures, options, and sovereign CDS. He has published in the leading academic finance journals, served as associate editor for *Journal of Finance* and *Journal of Economic Theory*, is a research associate at National Bureau of Economic Research and Centre for Economic Policy Research, and has won several awards including the Fama/DFA Prize.

Todd Pulvino, Ph.D.

Todd Pulvino is a co-founder and principal at CNH Partners, the arbitrage affiliate of AQR Capital Management. In addition, Todd was a member of the finance faculty at Northwestern University's Kellogg School of Management, where his research focused on the risks and returns in event arbitrage. Todd worked as a consultant for Collins Associates and Grosvenor Capital Management where he evaluated event-driven hedge Funds. He has also served on the finance faculty at Harvard Business School. Todd's research is published in top academic finance journals including the *Journal of Finance* and the *Journal of Financial Economics*. Todd received the Smith-Breeden First Prize for the best paper ("Limited Arbitrage in Equity Markets", co-authored with Mark Mitchell and Erik Stafford) published in the *Journal of Finance* in 2002 and he received the Smith-Breeden Distinguished Paper Award ("Do Asset Fire-Sales Exist? Empirical Evidence from Commercial Aircraft Transactions") from the *Journal of Finance* in 1998. He holds Ph.D. and A.M. degrees in Business Economics from Harvard University, an M.S. degree in Mechanical Engineering from the California Institute of Technology, and a B.Sc. degree in Mechanical Engineering from the University of Wisconsin-Madison. Prior to completing his doctoral work at Harvard, Todd worked as a design engineer in the aerospace industry.

Mark Mitchell, Ph.D.

Prior to co-founding CNH Partners in 2001, Mark was a finance professor at University of Chicago (1990-1999) and Harvard University (1999-2003). In academia, Mark authored numerous research papers about mergers & acquisitions and investment management. Four of his papers received paper-of-the-year awards: Smith-Breeden Prize from *Journal of Finance* for "Limited Arbitrage in Equity Markets"; Merton Miller Prize from *Journal of Business* for "Managerial Decisions and Long-Term Stock Price Performance"; Graham and Dodd Scroll from *Financial Analysts Journal* for "The Value of Corporate Takeovers"; and Roger Murray Prize from Institute for Quantitative Research in Finance for "Do Bad Bidders Become Good Targets?". Mark also received five teaching awards at the University of Chicago. He is co-author of the book *Mergers, Restructuring and Corporate Governance*. Mark is on the board of directors at TD-Ameritrade where he chairs the M&A Committee. He is also a member of the Executive Advisory Board of Clemson University's College of Business & Behavioral Science. In February 2007, Mark served as an emissary of the U.S. State Department to discuss M&A with policymakers, business leaders, academics and reporters in Japan. During 1996-2005, Mark was a board member of Ameritrade Corporation where he chaired the Special Committee (which oversaw the merger with TD Waterhouse in 2005) and the Nominating Committee. He was also a

member of the NASDAQ Quality of Markets Committee during 2003-2005, and was a founding member of the NASD Economic Advisory Board during 1996-1998. During 1987-1990, Mark worked in the Office of the Chief Economist at the Securities & Exchange Commission where he authored several research papers on M&A. He also worked on merger regulations and led the development of applying financial economics to assist the SEC's enforcement efforts in insider trading cases. Mark holds a Ph.D. and M.A. in Economics from Clemson University and B.B.A. in Economics from University of Louisiana at Monroe.

Jacques A. Friedman, Principal

Jacques joined AQR Capital Management at its inception in 1998 and is Head of Global Stock Selection. Prior to joining AQR Capital Management, Jacques worked at Goldman, Sachs & Co. as an Associate in the Asset Management Division's Quantitative Equity Group. There, he was a member of the portfolio management team, developing and researching quantitative stock selection strategies used to manage over \$10 billion in institutional separate accounts and retail mutual funds. Prior to joining Goldman, Jacques was in the Ph.D. program in Applied Mathematics at the University of Washington, where his research interests ranged from mathematical physics to quantitative methods for sports handicapping. He received an MS in Applied Mathematics from the University of Washington and a BS in Applied Mathematics from Brown University.

Aaron Brown, Vice President

Aaron Brown joined AQR in June of 2007 as a Risk Manager. He came to us from Morgan Stanley where he was an executive director in Risk Methodology. Aaron has taught Finance at both Fordham Business School and Yeshiva University and serves on the editorial board of the Global Association of Risk Professionals, is a regular columnist for Wilmott Magazine and has been elected to the National Book Critics Circle. He is also the author of *The Poker Face of Wall Street* (Wiley 2006, selected among ten best books of 2006 by Business Week). Aaron earned his SB in Applied Mathematics, cum laude from Harvard University, and an MBA in Finance and Statistics from the University of Chicago.

Lauralyn Pestrutto

Lauralyn Pestrutto joined AQR in January 2007. She came to us from Amaranth where she worked as a VP in the Credit Department. Prior to that she worked at UBS as an assistant VP in Credit Risk Control, and at AIG as an Assistant VP in Credit Risk Management. Lauralyn earned her BA in International Economics and Politics and her MBA from ESADE in Barcelona, Spain.

Investment Philosophy and Process

1. Return and Volatility Targets

The Fund seeks to achieve a net Sharpe ratio of at least 0.8 over a complete market cycle with low correlation to traditional asset class returns. We have our regular volatility feeder fund which targets a volatility roughly comparable to a multi-strategy hedge fund. We also have our half volatility target feeder fund which targets volatility which can be comparable to hedge fund indices or hedge funds of funds.

2. Briefly describe current investment philosophy and process.

The AQR DELTA Fund aims to deliver efficient exposure to a well-diversified portfolio of hedge fund strategies, including the following: Convertible Arbitrage, Event Driven (includes Merger Arbitrage), Fixed Income Relative Value, Equity Market Neutral, Long/Short Equity, Dedicated Short Bias, Global Macro, Managed Futures, and Emerging Markets. The approach taken within the fund is to deliver exposure to relative value risk premia, which we consider to be “hedge fund risk premiums.”

What are “hedge fund risk premiums”? While individual hedge funds hold unique portfolios, AQR 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 returns from equity investing, hedge fund risk premiums can explain the returns from investing in hedge funds. While the equity risk premium is generally viewed as compensation for bearing the risk of uncertain future cash flows, hedge fund risk premiums can represent compensation for bearing specific risks (such as liquidity) or compensation for taking advantage of market anomalies. Importantly, while compensation for equity risk is dependent on economic growth, hedge fund risk premiums are largely unrelated to economic activity.

AQR’s approach to capturing hedge fund risk premiums requires broad skill and expertise and the infrastructure of a sophisticated multi-strategy hedge fund, both in defining the range of available strategies as well as in selecting the specific securities to be held in each strategy. Successful implementation also necessitates a global trading platform, low cost trading systems, and robust risk management to effectively trade and manage shorting, leverage and derivatives. The DELTA Fund will ordinarily hold a diversified portfolio with more than two thousand individual positions.

Below is an example of the intuition behind and implementation of one strategy, Merger Arbitrage. We would be happy to share information about other strategies upon request.

Investment Example: Merger Arbitrage

AQR DELTA Fund

The basic intuition behind a merger arbitrage strategy is to capture a liquidity and deal risk (insurance) premium. Once a merger is announced, arbitrageurs buy the company being acquired and short the acquirer. In so doing, they provide liquidity to stockholders who often seek to sell the target of a merger after a deal is announced. The risk premium for merger arbitrage is compensation for the risk that announced mergers fail to close or close with less favorable terms. Individual arbitrageurs may try to pick the “best” deals (those most likely to close), but tend to be long the target and short the acquirer across *many* announced deals with a small weight in any one deal. As a result, their returns are driven more by the aggregate risk of deal failure and less by their skill in assessing particular deals. To capture the essence of a merger arbitrage strategy (the “hedge fund risk premium”), the AQR DELTA Fund generally holds a broadly-diversified portfolio of mergers, subject to liquidity and risk management constraints. The portfolio will generally hold anywhere from 50-150 mergers (long the target and – in stock-for stock mergers – short the acquirer), depending on market conditions.

The merger arbitrage strategies included in our Event Driven bucket are based on the work of our colleagues Mark Mitchell and Todd Pulvino. They began researching merger arbitrage independently – Mitchell at the Securities and Exchange Commission and then the University of Chicago, Pulvino at Northwestern University and through consulting work for hedge Funds of Funds. Ultimately, Mitchell and Pulvino collaborated on a groundbreaking academic paper (titled “Characteristic of Risk and Return in Risk Arbitrage”, published in the Journal of Finance in December 2001) that built a 30-year comprehensive, empirical test of the strategy and delved into the economic intuition behind its returns. Their research, coupled with AQR’s experience in trading and implementing portfolios, led to the strategy that is included in the AQR DELTA Fund.

Background

AQR has developed a thorough understanding of many of the strategies employed across the alternative investment industry from managing numerous hedge fund strategies for nearly 15 years (and studying and analyzing strategies for two decades). While we understand that there is some subjectivity that goes into defining hedge fund risk premium strategies, we feel we are particularly well positioned to be able to provide institutional investors with efficient, well-constructed hedge fund risk premiums. In addition, our robust systems, infrastructure and risk management allow us to efficiently build and manage a dynamic, diversified portfolio of these unique and powerful risk exposures. By constructing each of our strategies from the bottom up, security by security, we feel we are better able to capture the fundamental insights and measure the conditional attractiveness of each strategy.

Investment Process

The AQR DELTA Fund attempts to capture the risk premiums of classic relative value hedge fund strategies by using a rigorous, dynamic investment process to build a diversified portfolio of global securities. Underlying strategies of the AQR DELTA Fund include Long/Short Equity, Equity Market Neutral, Global Macro, Emerging Markets, Convertible Arbitrage, Managed Futures, Dedicated Short Bias, and Event Driven.

As a whole, the DELTA Fund brings many important characteristics of a portfolio:

- Dynamic, with a bottom-up construction of dynamic trading

AQR DELTA Fund

- Economically Intuitive, investing in strategies that are based on sound economic principles and years of empirical study
- Liquid, with an emphasis on liquid securities that can be traded at low cost and strategies that require limited leverage
- Transparent, with a well-defined investment process that we share openly with investors
- Alternative, capturing the core return drivers of hedge funds, but with low correlation to traditional assets

3. *How is the AQR DELTA Fund different from Hedge Fund Replication?*

Most hedge fund replication products attempt to mimic the returns of popular hedge fund indices, but these indices themselves can be noisy, sub-optimally constructed and highly correlated to equity markets. The AQR DELTA Fund aims to deliver efficient exposure to a well-diversified portfolio of hedge fund betas, which capture the fundamental insights of most hedge fund strategies and have little correlation to equities.

The table below summarizes the main differences between the AQR DELTA Fund and hedge fund replication.

| | The AQR DELTA Fund | Hedge Fund Replication |
|-----------------------------------|--|--|
| <i>PRIMARY OBJECTIVE:</i> | Maximize diversifying returns | High correlation to hedge fund indices |
| <i>STRATEGY CONSTRUCTION:</i> | Bottom-up | Top-down |
| <i>INVESTMENT APPROACH:</i> | Dynamic strategies using current information | Regression using prior returns |
| <i>BUILDING BLOCKS:</i> | Individual securities | Broad indices |
| <i>TRADITIONAL BETA EXPOSURE:</i> | Tactical and kept at modest limits | Potentially large |
| <i>STRATEGY ALLOCATION:</i> | Risk-weighted | Supply-based |

4. *Describe the development of your investment approach.*

Since 1998 our constant pursuit of providing excess risk-adjusted returns for our investors has enabled us to advance our understanding of a wide range of different hedge fund strategies. In turn, over the course of our twelve year history we have developed unique skills and capabilities pertaining to the implementation of these investment techniques. While we believe AQR's hedge funds provide investors with excess risk-adjusted returns that are not associated with common risk factors (i.e., we believe our hedge funds provide alpha), we also believe that a large portion of the returns available to hedge fund investors, in aggregate, can be explained as compensation for bearing certain common risk factors. We believe the latter category of returns (hedge fund

risk premiums) can be captured in a systematic fashion. This is the primary objective of the AQR DELTA Fund.

5. *How are investment candidates identified? (For example, are quantitative screens, models, outside consultant research, etc. used?)*

Research ideas come from a wide range of sources. Our insights come from monitoring current events, from following markets on a daily basis, and from speaking to other market participants – including fellow managers, prime brokers, and investors. We stay on top of research and news from academic and industry publications. We also benefit from the depth and diversity of experience of our in-house research team, both their work at AQR and elsewhere. In addition, we have built an Advisory Board for the AQR DELTA Fund. This board is comprised of leading industry professionals (from former Fund of Funds executives to former institutional hedge fund investors) and provides AQR with due diligence on the industry. We consult with members of our Advisory Board on a regular basis to make sure we have a firm grasp of the strategies other hedge funds are employing and also to keep abreast of new ideas or approaches so that we can evaluate them for inclusion in the Fund.

Adding a new hedge fund beta to the DELTA portfolio is a multi-step process. Any potential new strategy must meet several key criteria. The strategy must:

- Be pursued by some subset of the hedge fund universe;
- Have a long-term return that can a) be explained using intuitive economic principles and b) offer added diversification relative to the existing DELTA strategies;
- Have sufficient barriers to entry for most investors (i.e. not available through simple buy and hold exposure)
- Be uncorrelated with the typical assets held by institutional investors;
- Not require onerous use of leverage; and
- Trade instruments that offer a reasonable amount of market liquidity.

Once we have identified a potential strategy, we attempt to test the strategy using empirical data for support. Our experience with empirical research in this area has taught us that it is dangerously easy to find trading strategies that appear to have worked historically. Thus, excessive reliance on past data can lead to the formation of trading strategies based on spurious historical relations. Of course, this is not to say that we do not believe we can learn from the past. Empirical support provides an important discipline. Moreover, out-of-sample tests and other testable implications are important inputs to determining the efficacy of a strategy.

Ultimately, the researchers pursuing any new strategy make a formal presentation to the DELTA Investment Committee, including both the economic rationale for the strategy, evidence of its use in hedge fund portfolios, and whatever empirical evidence is available. The Investment Committee makes the final decision with respect to whether the strategy should be included in the fund and, if so, at what size.

6. *To what extent does the Fund manage its exposure to the broader equity markets?*

The overall AQR DELTA Fund is constructed to have a very low correlation with equity and credit markets, and we closely monitor the Fund's exposures. We have an exposure control policy, whereby we will look to hedge exposures to the equity market if our exposure breaches certain threshold levels.

Portfolio Construction & Risk Management

1. How is the portfolio constructed?

Portfolio Construction

The AQR DELTA Fund is constructed, at both the strategy level and the portfolio level, to provide investors with truly diversifying returns. The Fund is broadly diversified, holding a large number of positions across a range of global markets. We are diversified across 9 sub-strategies, and well-diversified within each sub-strategy. Through this bottom up approach, we feel that we are able to capture the risk premiums of different hedge fund styles. In addition, we specifically control for traditional equity market beta because we do not feel that investors want this type of risk premium (not because it is not valuable, but because it is available elsewhere at a much lower price). Therefore, we control for equity market beta exposure at overall portfolio level, while at times allowing some minor systematic risk at the individual strategy level.

Strategy Level

As we build the portfolio, we evaluate our universe of global securities and asset classes including:

- Long/Short Equity in the U.S., U.K., Continental Europe and Japan;
- Equity Market Neutral in the U.S, U.K., Continental Europe and Japan;
- Global Macro, providing currency exposure to developed equity and bond markets;
- Emerging Markets, providing stock, currency and country exposure;
- Convertible Arbitrage;
- Managed Futures;
- Dedicated Short Bias;
- Event Driven; and
- Fixed Income Relative Value providing long/short exposure to developed bond markets

Each of the above strategies is constructed using our bottom up systematic process. In contrast to the overall AQR DELTA Fund, which is designed to be equity market neutral, at the sub-strategy level, the fund may allow some directionality. For example, the equity long/short strategy will typically have a slightly long equity market exposure (depending dynamically on the market's recent performance), while the dedicated short bias strategy has a slightly negative equity market exposure. Our equity market neutral strategy on the other hand is built to be truly equity market neutral at all times. On net, the equity exposures from the sub-strategies all should cancel out at the portfolio level, and when they do not our exposure control policy will kick in.

Portfolio Level

Once each strategy has been individually constructed, we combine them into a single portfolio, the AQR DELTA Fund using a long term strategic risk weighting process and a tactical risk allocation. By combining these two methods, we feel we can achieve our long-term goals while opportunistically taking advantage of attractive strategies. That being said, our portfolio construction process focuses on adding value through roughly equal risk weighting the strategies in the fund over the long-term. The output of our risk-weighting process is a volatility target for

each strategy in the fund. Using that volatility target and a proprietary risk model, our investment teams are able to size the positions they want to hold in each strategy bucket.

In terms of portfolio holdings, we feel that the only way to truly capture the risk premiums, and more importantly the returns, of individual hedge fund styles is to build each strategy from the ground up. Our ultimate portfolio is well diversified, holding a large number of small positions. In general, the AQR DELTA Fund will hold more than two thousand individual positions in a wide range of global securities and asset classes.

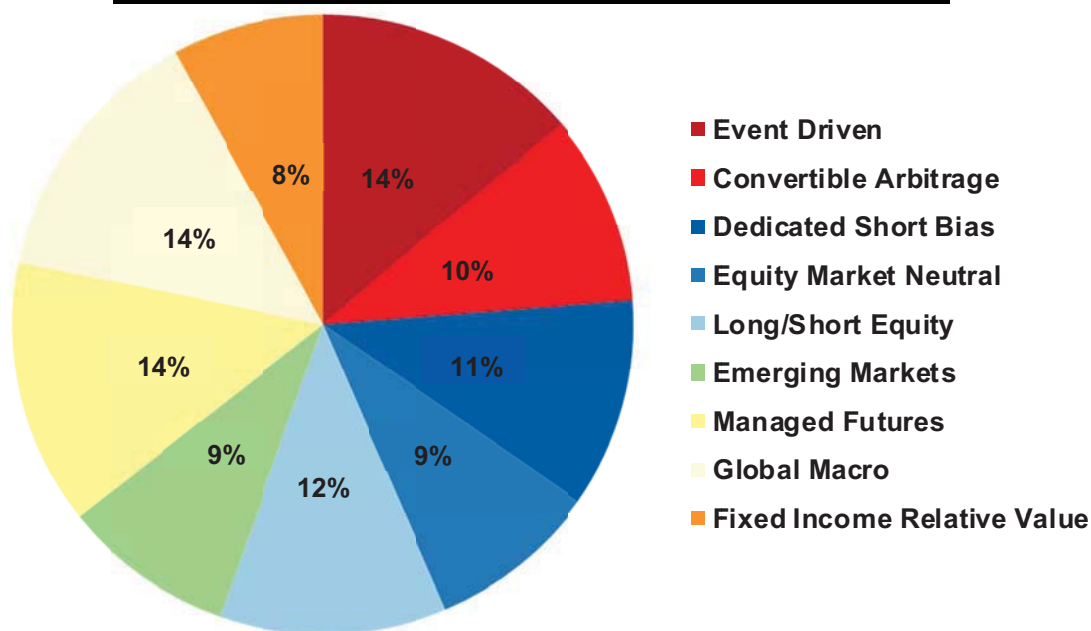
2. *Describe how positions are sized. What portion of the portfolio is comprised of “core” positions versus “trading” positions? How does level of conviction factor into position sizing?*

The AQR DELTA Fund is a dynamically constructed portfolio that leans towards long-term equal risk weighting. Investors in aggregate and many hedge fund indices hold market cap-weighted hedge fund portfolios, which we believe is sub-optimal. Cap-weighting leads investors to allocate disproportionate amounts towards “crowded strategies” and leaves investors over-exposed to the performance of strategies that have performed well recently. We believe that the AQR DELTA Fund’s equal risk weighting provides a beneficial, “contrarian” approach that helps investors stay diversified while avoiding overcrowded strategies. In setting our strategic weights, we also incorporate each strategy’s liquidity and leverage requirements (all else equal we give less weight to a strategy that requires more leverage and/or has less liquidity).

We also recognize that the attractiveness of individual strategies varies over time. For instance, hedge fund strategies that become overcrowded tend to offer smaller prospective returns. As a result, DELTA includes a dynamic allocation of capital and risk, so that the portfolio takes marginally more exposure to strategies and risks that are likely to have a higher risk-adjusted return over the intermediate term.

In addition to the long-term strategic risk allocation, the AQR DELTA Fund employs a tactical risk allocation. The DELTA Investment Committee will tactically over/underweight each of the underlying strategies based on the conditional attractiveness of each strategy. However, this tilting will be modest. We generally will not increase the position size of any strategy by more than 20% of its strategic weight, so a strategy with a 10% risk weight might be sized to target a 12% risk weight. Our tactical limits are asymmetric for risk control purposes so we can reduce our exposure by more than 20% if we feel this is necessary given a lack of opportunity in any one strategy. We feel that, although we can add value tactically, the majority of value added in portfolio construction comes from our long-term strategic risk weighting.

The AQR DELTA Fund Strategic Risk Allocation



With over \$15 billion in alternative strategies and over 17 years of experience managing hedge fund strategies, AQR has unique skills, capabilities and insights into the optimal market environment for each strategy. Furthermore, dynamic risk allocation is embedded in our investment process. AQR will exercise judgment utilizing both quantitative and qualitative inputs such as the information flows on market conditions and industry trends at the strategy level. Our Investment Committee provides experienced oversight and determines changes to the tactical risk weighting of the Fund (based on a range of inputs) and is responsible for managing risk, enhancing existing strategies, developing new strategies and maintaining discipline in our investment process.

Ultimately, the size of positions in each strategy will be determined by the risk weight assigned to that strategy and the volatility of the assets being traded. We use proprietary risk models to size positions appropriately so that the fund can achieve its volatility target over time.

3. *Describe subjective decisions that must be made. For example, size of order, timing of order entry, splitting orders, rolling positions forward, selecting contract months, selecting market, reversing and liquidating positions. Factors used in making timing decisions and other subjective decisions (e.g., exchange rate differences)?*

Size of order: The overall size of the orders is not a subjective decision; it is based on our portfolio construction methodology described above. During trading, however, the size of the orders can often be varied through time to disguise the overall trade in order to minimize market impact.

Timing of order entry: The timing of the order entry is primarily based on two criteria, (1) liquidity (we prefer to execute in liquid markets and not around any significant announcements i.e., payroll report, etc.), and (2) market neutrality (we strive to maintain market neutrality over the long term).

Splitting orders: Through trading, we build up information on how much can be traded and at what expected level of market impact. Once we determine how much can reasonably be traded in a given day, we limit ourselves to that amount in the normal course of trading. Depending on the type of security or derivative being traded, it is sometimes better to split up a large order into many small orders and execute throughout a trading period. In other situations, it's better to competitively bid out a larger order to the market and take advantage of differences in positioning or inventory across the market.

Rolling positions: Traders have discretion in timing the roll. They generally try to forecast the direction of the rolls through the roll period.

Selecting contract months: We generally trade in the most liquid contract.

Selecting markets: In general we seek to trade in the most liquid markets.

Reversing and liquidating positions: This is generally not a subjective decision; it comes from our investment process.

Market timing decisions: We use several methods to gauge the conditional attractiveness of each of the nine broad underlying hedge fund strategies in The AQR DELTA Fund. Taking these more quantitative measures, along with a qualitative assessment of the market based on our conversations with counterparties and other market participants, we tactically weight the Fund accordingly. This tactical weighting is one of the primary responsibilities of the Investment Committee.

4. Please describe how any tactical or dynamic weights are decided.

Specifically the Fund will utilize three approaches to dynamically weigh the underlying strategies;

1. Timing

Our timing strategies utilize time series data to determine the conditional attractiveness of a given strategy. Empirically, these timing strategies have shown that investing in periods of high conditional attractiveness has led to superior risk-adjusted returns.

Timing is used as an input to the weighting of Emerging Equities, Fixed Income Relative Value, Global Macro and Managed Futures strategies.

2. Agreement

Agreement is referring to the alignment of underlying signals within a strategy. When several of our factors align and provide the same buy/sell recommendation, a strategy has 'high conviction.'

Conversely, when the signals compete in direction, the strategy has ‘low conviction.’ All else equal, we will take more risk in a strategy with factor alignment as it has empirically shown to lead to higher risk-adjusted returns going forward.

Agreement is used as an input to the weighting of Emerging Equities, Fixed Income Relative Value, Managed Futures and Global Macro strategies.

3. Spreads

Spread refers to the level of price dispersion, which we are trying to capture. For example, in convertible bonds it is the overall cheapness of the bonds relative to the value of the components, for mergers it is a reference to deal spreads. When spreads become wide, all else equal, we will take more risk exposure to a given strategy. Much like factor agreement, investing when spreads are wide has empirically led to higher risk-adjusted returns.

Spreads are used as an input to the weighting of Convertible Arbitrage, Equity Market Neutral, Equity Long/Short, Emerging and Event Driven strategies.

5. *Describe the decision-making process. Who is ultimately responsible for making key investment decisions?*

The ultimate responsibility for the Fund's investment strategy decisions rests with the Fund's Investment Committee, which includes a cross-section of investment professionals from across AQR who have extensive experience in hedge fund investments (please see investment personnel section). The committee is able to convene (in person or electronically) on very short notice to make critical decisions when necessary. The Fund's positions and strategies are also overseen by AQR's independent Counterparty Committee and Risk Committee.

6. *What types of securities does the fund invest in (physicals, futures, forwards, swaps, etc.)?*

The AQR DELTA Fund invests primarily using the following types of securities: Individual equities, convertible securities, futures, forward and non-deliverable forward contracts, currency forwards, swaps, high-yield debt portfolios, options, other derivative instruments and cash.

7. *What indices or group of peer investment managers are most appropriate for understanding the market dynamics of the strategy?*

Given that we try to capture a diversified set of hedge fund strategies, we think that the indices most appropriate for comparison are hedge fund of funds indices appropriately adjusted to comparable volatility.

8. *What are your general views on risk?*

Background

Our risk management process, while essentially stable, has evolved continuously over 10+ years and we expect this evolution to continue. We adopt a quantitative and qualitative approach to market risk management (e.g., empirical estimation of expected volatility and correlation of all

our assets, and implicitly of our entire fund). However, much of the evolution over time has been in the direction of making such a quantitative system more “robust”. These robustness enhancements cover three main areas: robust estimation of our portfolio’s volatility, the ability to take down risk, and the related use of stop-loss type strategies. We will lower risk in our portfolio if for whatever reason we do not think our formal quantitative estimate accurately portends the immediate future. This is not symmetrical, as we will not take risk up in the same manner.

Risk Management Process

On a daily basis, our independent risk management team monitors the following:

- Value-at-Risk (historical simulation and Bayesian, at 95% and 99% levels, over one-day and ten-day periods);
- Overall risk levels;
- Portfolio positions;
- Portfolio returns;
- Drawdowns;
- Liquidity, both market and portfolio;
- Counterparty exposure;
- Position and Strategy correlations;
- Realized volatilities of strategies, portfolios, and underlying market assets and benchmarks;
- Systematic exposures;
- Stress tests; and
- Scenario analyses.

Fund returns are monitored, position by position, through our P&L system which is able to capture live the returns on the dominant portion of our positions. To maximize consistency and efficiency of risk reporting across the wide range of asset classes that we trade, we keep the number of risk systems we employ to a minimum.

In addition, we closely monitor the Fund’s beta with the broader equity markets. Since investors typically desire The AQR DELTA Fund to provide unique correlation characteristics in association with their overall portfolios, we limit the Fund’s exposure to the broader equity markets, such that the equity beta (as measured by the beta of the Fund to the S&P 500 Index) will typically not be larger than 0.1

On a monthly basis, risk reports displaying fund volatility, cash position, leverage, and strategy volatility are distributed to our clients and counterparties. We seek to maximize the transparency of our risks without subjecting ourselves to the risks associated with external knowledge of our actual positions or strategies.

We are disciplined followers of our investment process. One area that has a judgmental component however is the area of risk. We will judgmentally lower risk in our portfolio if for whatever reason we do not think our formal quantitative estimate described above accurately portends the immediate future. This is not symmetrical, as we will not take risk up in the same manner. One, of many, key inputs into this decision is described above, how we look at risk over many different periods. If one period stands out as far riskier than the final point estimate (the

combination of multiple periods), and our judgment is that this period is particularly relevant for current times, we may override our model and use this higher estimates of volatility (i.e., this leads to taking positions and risk down).

We will still not take positions completely off if they are being hurt, but we will lower positions subject to strict guidelines, in accordance with The AQR DELTA Fund drawdown policy, if an individual security or strategy, is suffering unacceptable losses at a quicker pace than we consider tolerable.

Our Focus on Risk Management

Two particularly important risks that we face are the risks of exceptionally large market moves and the continuity of our financing and ability to maintain a positive cash position. While these risks are not coincident, they can be related and so we also monitor the impact of large losses from extreme market movements on our cash position. We have developed de-leveraging plans designed to reduce portfolio risk and de-leveraging plans designed to most quickly raise cash. As part of this effort we also have developed alternative trading methods more appropriate for situations where de-leveraging becomes essential. We also maintain liquidity funds segregated from our financing sources and seek to maintain appropriate cash balances.

Counterparty Risk Management:

We also seek favorable and stable margin terms from our prime brokers, futures commission merchants, and derivatives counterparties. In addition to our extensive efforts to negotiate sound documentation for our financing relationships, we believe that it is essential that the intermediaries that provide us with credit understand our investment philosophy, our risks, and ourselves as fiduciaries for our client's assets. Toward that end, we have a formal program for communicating with our counterparties, offering them the tools they need to make intelligent financing decisions about AQR funds. We also examine the risks we face from our counterparty credit exposure. We manage this risk, first and foremost, by selecting our counterparties from the highest credit quality institutions available. The Counterparty Committee and our Credit Officer monitor daily counterparty exposures, stock prices, credit spreads, and credit ratings. We also seek to have the best guarantees from our counterparties and structure our exposures to them in a manner consistent with minimizing our exposure to them.

Operational Risk:

Operational risks, whether created from trade execution, confirmation, settlement, record keeping, or accounting, portfolio construction of portfolios with specific guidelines, human errors, data processing system errors, data feed errors, and external non-market events, require careful management. Our Process Integrity Group reviews process issues, both when they result in errors and when they merely had the potential to result in errors. That group also reviews systems risks, evaluating the sources of potential systems risks across our portfolio management, trading, back office, and record keeping systems. New systems and changes to existing systems undergo a review of their risks by this group. Errors are recorded by our Compliance department and reviewed by the Process Integrity Group.

An important mitigator of many forms of risk is the incentive system under which the Firm's employees operate. With no specific attribution of a P&L to any individual, incentives to assume imprudent risk are reduced.

9. Describe your formal risk management processes?

The Fund does not have a formal stop-loss in place, but two risk-management measures serve a related function.

First, we target a certain level of risk for the overall fund. If our performance is poor over a given period, our trading capital (NAV) will drop. All else equal, this drop in capital will cause us to lower our economic exposures in order to maintain the same level of risk.

Second, the AQR DELTA Fund employs a formal drawdown policy that lowers the Fund's overall targeted risk exposure when the Fund suffers a period of unusually poor performance. The drawdown (as well as the drawup that returns the Fund to its normal risk level) is based on several measures of past performance over different time horizons. We believe this policy will not meaningfully reduce the Fund's long-term expected return, but we think it should change the pattern of the Fund's returns to reduce the number of steep losses realized in the portfolio over time.

In addition to these two policies, we reserve the right to override our investment process for risk control purposes. We will judgmentally take down risk simply as a function of our belief that volatility going forward will substantially exceed that forecasted by our model (e.g., if the world seemed to be entering a liquidity crisis). This is difficult to quantify as it's inherently judgmental, but it is rare, and only exists as a backstop to our daily management of the Fund.

10. How do you calculate the risk of each trade/position?

AQR has internally built a risk matrix of all the assets that we trade, taking into account the cross-correlations between them. In addition, we look at returns over different horizons, as financial markets can often go through different "states."

With these covariance matrices we construct, we then calculate the volatility and correlation of our current exposures with one another. We also analyze how each portfolio performed during prior periods of market "crises."

We have an independent system for aggregating risk at the strategy and fund levels. It is designed to capture negative tail risk (the potential for losses larger than would be expected from the volatility of the positions). We estimate Value-at-Risk by simulating the daily returns of current positions if held over the last year (Historical Simulation VaR) and independently in a Bayesian algorithm that begins with a prior based on long-term volatility and correlation, and adjusts it daily for market movements.

11 What is your view toward liquidity as it relates to risk?

Liquidity is important in regards to risk on two fronts. First, if assets are not liquid, it may be difficult to reduce risk or get out of positions cheaply in times where lowering risk is prudent. Secondly, with investments in illiquid securities, as these securities do not frequently trade, their most recently traded price may not be indicative of their true value. We tend to hold positions for which there is substantial market data history, instruments which also tend to be more liquid. So, our investment strategies typically generate highly liquid portfolios. Nevertheless, we monitor liquidity, and maintain cash levels designed to accommodate the risks of less liquid positions.

12. What transparency is available to your investors?

We generally provide transparency regarding returns, risk targets and exposures. The AQR DELTA Fund investors will receive monthly risk reports that provide extensive details regarding many of these measures. In addition, we are happy to work with investors in the Fund to provide them with a level of transparency, in terms of strategy and position level detail, that fit our investor's needs.

Investment Performance

1. Provide a performance track record for this product.

We would be happy to supply the hypothetical performance of the AQR DELTA Fund since January 1990 and actual performance beginning October 1, 2008 upon request.

Since the AQR DELTA Fund employs a systematic investment approach we are able to use data to observe how the strategy may have performed historically. Bear in mind, that while the AQR DELTA Fund did not launch until October 1, 2008, AQR has been running variants of these strategies for nearly a decade. Moreover, while the backtest is based on maintaining our long term strategic weights to the nine underlying hedge fund strategies, it does not incorporate our tactical weighting component, which we feel will add value to the Fund over the long term.

Trading Information

1. Does your firm use soft dollars? If yes, explain how soft dollars are used.

AQR does not currently participate in any soft-dollar arrangements though AQR does communicate trades to exchanges through broker provided interfaces. For more information, please refer to Section 9 of our Investment Management policy document available upon request.

2. Is employee trading for personal accounts allowed? If yes, explain when employees are allowed to trade for personal accounts.

AQR's Personal Trading Policies require employees to obtain specific permission from the Compliance Department to maintain a personal securities account at any brokerage firm. If permission is granted, employees are required to notify their brokerage firm to provide duplicate copies of trade confirmations, statements and other information concerning the account directly to the Compliance Department. Employees must report all accounts in which they have beneficial interest and hold reportable securities. AQR requires each employee to obtain permission from the Compliance Department prior to effecting any transaction in stock, affiliated mutual funds, margin transactions, and private placements. This does not include the stock in unaffiliated closed-end funds, unit trusts, and exchange traded index funds. In addition, employees are prohibited from: trading a security that is "being considered for purchase or sale"; purchasing or selling securities, while possessing material nonpublic information; engaging in short sales; purchasing and selling, or selling and purchasing, the same or equivalent (i.e. another derivation of the same issuer's equity) stock within 30 calendar days; engaging in equity options or security futures; acquiring any securities in an initial public offering.

3. Who has the authority to trade and make execution decisions? Does this person have a designated back-up?

We have a fully staffed 24 hour trading desk that is managed by Brian Hurst. Each region (Asia, Europe, Americas) has multiple traders to cover situations when specific traders are unavailable.

4. Please describe the trade allocation policy among different funds and separate accounts when new capital needs to be deployed.

AQR's Senior Investment personnel and analysts communicate at least once during each trading day with the trading and research staff to review the status of, and to provide instructions or guidance concerning pending transactions for each Client account. The level of review and guidance provided by AQR's Senior Investment personnel and analysts varies based upon circumstances specific to individual transactions. Senior Investment personnel, no less frequently than monthly, conduct a review of each Client's portfolio.

Trade Allocation Policy

AQR DELTA Fund

As an investment adviser registered with the SEC and a fiduciary, AQR must exercise due care to ensure that investment opportunities are allocated equitably among all client accounts. It is AQR's policy to provide consistent treatment of client accounts with similar investment guidelines when possible. Our trade allocation process has two general principles: fair allocation of trade opportunities and the fair allocation of price. The trade opportunities for which an account will participate are determined by AQR's investment models, as they prescribe the specific appetites for individual securities. The modeling process tempers the account's investment objectives with its specified account restrictions. Upon completion of the modeling process, the defined investment appetites translate into a set of transactions that are either traded in aggregate with other accounts or individually. When AQR determines that it would be appropriate for one or more sponsored funds, series funds or other clients, including its own proprietary accounts, to participate in an investment opportunity, AQR will seek to execute orders for all of the participating accounts and its own account, on an equitable basis. Specifically, if AQR has determined to invest at the same time for more than one of the accounts, AQR may place combined orders for all such accounts simultaneously (aggregate or bunch trade) and if any order is not filled at the same price, it may average the prices paid similarly, if an order on behalf of more than one account cannot be fully executed under prevailing market conditions, AQR may allocate the securities traded among the different accounts on the basis in which it considers equitable. In these circumstances, each account would generally pay, in connection with the acquisition of securities by more than one account, the average price per unit acquired, which may be higher than if it had acted alone, and it may otherwise not be able to execute an investment decision as effectively as it could have if it had acted alone.

As previously noted, AQR may buy, sell or hold securities for a client or proprietary account while entering into a different or opposite investment decision for other client or proprietary accounts. AQR will allocate investment opportunities and trades fairly. When AQR transacts in securities for more than one account, the investment opportunities and trades must be allocated in a manner consistent with our fiduciary duties.

As noted above, AQR may aggregate ("bunch") transactions in the same security on behalf of more than one client to facilitate best execution and to possibly reduce the price per share and/or other costs. For those accounts that incur ticket charges for orders placed, aggregated orders will not reduce those costs. AQR effects the aggregated transactions in a manner designed to ensure that no participating client is favored over any other client. Also accounts in which AQR may have an interest (or sole interest) may be included with client accounts in bunched orders eligible for post-execution allocation (i.e., aggregated transactions). With respect to the aggregated order, each client will participate at the average share price; at the price as close as possible to the average as determined by the broker for all of AQR's transactions in that security at the time of the order; or in a manner AQR determines to be in good faith to be a fair and equitable allocation. When possible, securities bought or sold in an aggregated transaction are allocated pro-rata to the participating client account in proportion to the size of the orders placed for each account. Under certain circumstances, AQR may increase or decrease the amount of securities allocated to each account if necessary to avoid holding odd lot or small numbers of shares for particular clients.

For additional information on participation or interest in client transactions please refer to AQR's ADV Part 2A.

5. *How are trading limits enforced and monitored?*

Investment guidelines and constraints are input into the portfolio modeling programs prior to trade generation. Members of the portfolio management team review all trades prior to execution. The level of review and guidance provided by AQR's investment personnel and analysts varies based upon circumstances specific to individual transactions. Investment personnel and analysts are dedicated to the review of all client accounts.

Charles River Compliance is utilized by Compliance to monitor relevant guidelines on a daily basis (T+1). Manual ad hoc tests are also periodically performed to monitor compliance. Compliance also reviews Best Execution reports on a periodic basis.

6. *What types of orders are placed to initiate positions (e.g., market, limit, stops)? How long are orders good for? Are trailing stops used on existing positions? How frequently are these adjusted?*

We utilize all types of order instructions to execute our trades. The methodology of trading varies by instrument being traded as well as the intent of the trade (short term vs. medium or longer term). Most of our orders are day orders. We do not implement "trailing stops" as this can often harm overall execution. Most trades are small rebalances of larger portfolios, and therefore these types of "stops" are not applicable.

7. *When and how are investment orders placed? Are bulk orders placed? Are large orders broken up? Are personal or proprietary orders included in bulk orders?*

Much of the trading is handled by our trading staff. We typically will aggregate together orders for a given security with the same execution instruction (market open, etc.) and execute ourselves via either electronic connection to various exchanges globally wherever markets allow. Depending on the intention of the trade, and the type of security or derivative being traded it is sometime optimal to either trade it as a bulk order competitively or to break the order into very small pieces and work passively throughout a trading session.

Proprietary Accounts and Personal Trading

We sometimes start up small funds which are funded by the principals of the firm. The intention of these funds is to incubate them for a period before marketing them to our clients. Since they only consist of principals' money, they would be considered proprietary in nature. Trading these funds is done in the same manner as every other fund/account we manage, in that orders that are the same and bunched get executed and priced similarly. For more information, please refer to AQR's ADV Part 2A.

AQR' Personal Trading Policies cover the pre-clearance of transactions, trading prohibitions and reporting requirements. The Personal Trading Policies requires AQR's officers, principals, and employees and their members of household (collectively "Staff") to obtain specific permission

from the Compliance Department to maintain a personal securities account at an AQR-approved brokerage firm. If permission is granted, Staff members are required to notify their brokerage firm to provide duplicate copies of trade confirmations, statements and other information concerning the account directly to the Compliance Department. Staff must report all accounts in which they have beneficial interest and hold reportable securities. AQR requires each Staff member to obtain permission from the Compliance Department prior to effecting certain transactions as set forth in the Compliance Manual.

8. How do you keep track of individual positions and portfolio allocations?

We utilize several locations to store our positions. First, we have a live front-office P&L system, which keeps track of positions broken down by strategy. This allows us to track performance and realized versus expected risk of each strategy separately. Secondly, we keep our positions in our accounting system Geneva. In addition to our Greenwich main headquarters locations, we have offsite backup of our data. Our prime brokerage and clearing counterparties also have a record of our positions, as well as our offshore administrator.

9. When a new investment is made, how do you enter the market or instrument (e.g., wait for equity dip, partial leverage or all positions, wait for a trend)?

As most of our strategies seek to add value by making relative performance trades (i.e. one portfolio of investments versus another portfolio of investments), our main priorities when implementing or changing allocation of exposures is (1) to keep our total exposure market neutral and (2) to take advantage of market liquidity. At the same time, we are averse to volatility during execution. As such, we vary when we execute trades and take every advantage of multiple sources of liquidity for each particular traded asset.

10. Does your pricing come from an independent source? Indicate your source(s) and identify if it is possible for us to be on-line with them.

Currently, AQR utilizes Bloomberg and Reuters for independent pricing as well as broker marks. For our hedge fund products we also use IFS (our administrator) as an independent source.

11. Describe how your securities and commodities are valued (i.e. bid, ask, mean of bid/ask, etc.).

We have a formal valuation policy that covers all of the instruments we trade available upon request.

12. How often do you value your securities and commodities?

Daily (intraday).

13. Are your accounting records kept on a cash basis (e.g., coupon securities, expenses, fees, etc.)?

Our accounting records are kept on an accrual basis in conformity with U.S. Generally Accepted Accounting Principles.

14. If you have an administrator, do they independently compute the Net Asset Value?

All fund structures have an external administrator, International Fund Services. The administrator independently calculates Net Asset Value in accordance with their internal quality control procedures.

Fund Details

Details on the DELTA Fund:

As of June 30, 2011:

| | |
|---|--|
| <i>Vehicle Structure (Commingled Fund, Mutual Fund, Ltd Partnership, LLC, etc.)</i> | The onshore funds are organized as Delaware Limited Partnerships. The offshore funds are organized as Cayman Islands Exempted Companies. |
| <i>Minimum Investment</i> | \$5 million |
| <i>Redemption Frequency</i> | Monthly |
| <i>Lock-Ups</i> | None |
| <i>Gates</i> | None |
| <i>Redemption Schedule</i> | 60 calendar days notice |
| <i>Fees and Expenses:</i> <i>Management (%)</i> <i>Incentive (%)</i> | 1% Fixed Fee OR 0.5% Fixed Fee and 10% Performance Fee <i>(Note: These fees are for the half volatility feeder. We also offer our normal volatility feeder; fees scale with volatility.)</i> <i>Correlation-Based Fee Option:</i> investors can choose an incentive fee that varies based on the Fund's one-year correlation to global equities, with a one year lock-up. |
| <i>Early Redemption (%) (Payable to Fund?)</i> | None. |
| <i>Hurdle Rate</i> | ML 3-month U.S. Treasury Bill Index |
| <i>High Watermark (Y/N)</i> | Yes |

1. *In the proposed strategy, what is the current asset under management?*

As of June 30, 2011, there was approximately \$1.5 billion in DELTA strategy assets.

2. *What is the capacity of the strategy?*

We estimate capacity for the strategy to be approximately \$4-5 billion.

This is a multi-strategy product, and therefore the first consideration for assessing the total capacity of the product is dictated by the number of strategies, and the capacity of each. We would not run the Fund at a level where we believe it would materially erode our ability to capture high risk-adjusted returns.

3. *List all reports and correspondence usually sent to your clients.*

At the beginning of each month, AQR sends an estimated return report for the previous month's performance to all investors. That is followed up shortly by an official NAV report from our administrator around the 15th business day each month. Also on a monthly basis, The AQR DELTA Fund risk reports will be distributed to investors. Finally, on a quarterly basis we send investors a detailed report that includes performance attribution and Fund positioning as well as an assessment of the hedge fund market in general.

4. *Have any of your investment professionals or key staff members ever been disciplined by or settled enforcement actions of any sort with regulatory authorities? Have any of your investment professionals or key staff members ever been involved in a lawsuit related to their business activities?*

Not to the best of our knowledge.

5. *Describe how the firm defines leverage and the firm's philosophy and strategy related to the use of leverage. How much leverage can the strategy use based on its policies?*

Moderate levels of leverage are required to achieve the expected returns. We define leverage as the total notional exposure in the Fund (long plus short, gross) relative to the invested capital. Many of the hedge fund strategies included in the Fund typically use leverage. However, the AQR DELTA Fund, a well-diversified multi-strategy fund, is designed to run at a moderate level of leverage, which means we down-weight certain strategies that require significant leverage. In general, the amount of leverage we take depends on the volatility of the asset we are investing in. For higher volatility assets, our leverage will be lower, and for lower volatility assets, our leverage will tend to be higher.

Leverage will vary based on the current market environment but is expected to be approximately 4-5x gross notional exposures per side. The half volatility feeder fund will be roughly half that (2-2.5x per side).

6. *How does the firm limit its (non-prime broker) counterparty risk? Do you have a report summarizing counterparty risk exposures? What is the minimum credit rating for counterparties? What is your typical exposure to non-broker counterparties as a percentage of assets?*

Counterparty risk at AQR is directly overseen by AQR's Credit Officer and the AQR Counterparty Committee, comprised of principals of the firm and representatives from Risk Management, Compliance, Legal, Operations and Accounting. The Counterparty Committee meets monthly on a formal basis and approves all new counterparties, conducts annual reviews of existing counterparties and maintains a list of approved counterparties. On a daily basis, we systematically monitor the credit ratings, credit spreads, and stock prices of our trading

counterparties. Should the Committee be concerned about a particular counterparty or situation, we meet on an ad hoc basis to discuss the matter.

On a daily basis, we produce a Counterparty Report which details the current and potential exposure to each of our counterparties (using a 99% 10 day Historical Simulation VaR with a 3 year look-back) as well as stock price information, Credit Default Swap spreads and credit ratings on each of our counterparties. In the event that we become concerned about the creditworthiness of a particular counterparty, the Committee would place them on a Watch List and decide to limit certain types of trading and/or monitor events closely with respect to this entity. In addition, we seek to mitigate counterparty risk by limiting excess margin held by our counterparties using separate liquidity funds, negotiating favorable margin and documentation terms and entering into bilateral collateral arrangements with low collateral threshold amounts.

We monitor and manage counterparty diversification at the firm and fund level. Counterparty diversification may vary from fund to fund since, for many asset types, there are only a limited number of appropriate counterparties. Given the range of strategies traded in the DELTA Fund, we consider it to be broadly diversified in terms of its counterparty base and execution counterparties.

Approving New Counterparties: All new counterparties will be reviewed by the Committee prior to trading and all current counterparties will be reviewed by the Committee on a periodic basis. A request to trade with a new counterparty will be initiated by the trading desk or portfolio manager by contacting a Committee member.

As part of the review process, we will obtain and review the following information:

- Copies of the proposed counterparty's most recent audited financial statements and/or interim financial statements, if available.
- Rating agency write-ups on the counterparty or its parent company, where applicable.
- Disclosures of disciplinary actions and arbitrations via regulatory websites, where available. These include www.finra.org, www.fsa.gov.uk and www.nfa.futures.org
- Other information obtained from the counterparty or other sources as deemed useful or necessary by the Counterparty Committee (such as internet and news searches in Bloomberg or Lexis/Nexis).

Generally, a credit review will be prepared and presented to the Committee prior to granting an approval for new trading activity. Each review is approached on a case-by-case basis. The scope of the review will be dependent upon the products traded and the associated risk involved. In general, the credit review will contain the following information:

- Counterparty name
- Guarantor, if applicable
- Address & website
- Ratings
- Requestor and reason requested
- Trading agreements, if applicable
- Regulatory history

AQR DELTA Fund

- Credit analysis – A fundamental analysis of the creditworthiness of the counterparty including company background, business profile, financial review (covering asset quality, liquidity and funding, capitalization and profitability)
- Recent news and developments

Since AQR is registered as a Commodity Pool Operator (“CPO”) and Commodity Trading Advisor (“CTA”) with the National Futures Association (“NFA”), we may not transact futures-related business with an entity that is required to be registered under the Commodity Exchange Act (“CEA”) and is not a member pursuant to NFA by-law 1101. As part of the regulatory section of the review, the Committee will confirm that any entity in which AQR transacts futures-related business is registered under the CEA and an NFA member prior to engaging in such business.

All credit reviews, supporting documentation and Committee minutes are stored electronically and backed-up.

Approval Process: Each counterparty will be presented to the Committee for consideration and can approved for trading at three risk levels (High, Moderate and Low) based on the type of risk that we are taking with a particular counterparty. The chart on the following page sets forth the required Committee member approval.

In the event that a counterparty approval is denied by the Committee, the requestor is notified and all pertinent information is retained on file for reference.

Establishing and Monitoring Credit Limits: It should be noted that AQR acts as investment manager for certain accounts which may have specific counterparty requirements including minimum rating standards, limits, reporting, etc. If applicable, these requirements are typically set forth in the Investment Management Agreement with the account and are monitored and coded into our compliance process.

At this time, AQR has determined not to establish formal limits at the firm or fund level or place any additional requirements at the account level. That said, when approving counterparties, the Committee takes into consideration potential trading volumes and the nature of risks associated with the products traded.

Ongoing Monitoring: On an ongoing basis AQR’s Credit Officer monitors any changes in credit ratings as well as observes changes to credit spreads and stock market prices, where applicable, for our counterparty base. A report containing this information is distributed to the Committee members on a daily basis. Any rating downgrades are reported to the Committee as soon as practical. Market and event risks that may affect the credit standing of our counterparties are also monitored and discussed on an ad hoc basis.

Firm Information/Manager Profile

1. Provide a brief overview of the firm's history.

AQR Capital Management, LLC is an investment management firm employing a disciplined multi-asset, global research process. The Company's investment products are provided through a limited set of collective investment vehicles and separate accounts that deploy all or a subset of the Company's investment strategies. These investment products span from aggressive high volatility market-neutral hedge funds, to low volatility benchmark-driven traditional products. Investment decisions are made using a series of global asset allocation, arbitrage, and security selection models, and implemented using proprietary trading and risk-management systems. AQR believes that a systematic and disciplined process is essential to achieve long-term success in investment and risk management. In addition, models must be based on solid economic principles, not simply built to fit the past, and must contain as much common sense as they do statistical firepower. The principals of the firm have been pursuing this research since the late 1980s, and have been implementing this research in one form or another since the early 1990s. The research of AQR's principals is internationally renowned and has resulted in numerous published papers in a variety of professional journals since 1991.

The firm's founding principals, Clifford S. Asness, Ph.D., David G. Kabiller, CFA, Robert J. Krail, and John M. Liew, Ph.D., and several colleagues established AQR in January 1998. Each of the founding principals was formerly at Goldman Sachs, & Co., where Asness, Krail, and Liew, comprised the senior management of the Quantitative Research Group at Goldman Sachs Asset Management (GSAM). At GSAM, the team managed both traditional (managed relative to a benchmark) and non-traditional (managed seeking absolute returns) mandates. The principals formed AQR to build upon the success achieved at GSAM while enabling key professionals to devote a greater portion of their time to research and investment product development. AQR manages assets for some of the largest institutional investors from the United States, Europe and Asia.

2. How many employees are working for the Company?

As of 6/30/2011, AQR had approximately 225 full-time employees.

3. Describe the firm's current ownership structure and any changes over the past three years.

At inception of the firm in 1998, AQR was owned by its founding principals: Cliff Asness, John Liew, David Kabiller, and Robert Krail. Since 2003, ownership was expanded to include Gregor Andrade, Brad Asness, Jacques Friedman, Jeremy Getson, John Howard, Brian Hurst, Ronen Israel, Oktay Kurbanov, Lars Nielsen, Michael Mendelson, Steve Mellas, and Lasse Pedersen. In November 2004, Affiliated Managers Group (AMG) bought a minority interest in AQR. AQR principals/employees continue to own a majority of AQR (i.e., greater than 75%) and maintain independence of the investment process and the management of the firm.

4. List the regulatory organizations that oversee your company and products.

- U.S. Securities and Exchange Commission
- Commodity Futures Trading Commission / National Futures Association
- U.S. Department of Labor
- Securities and Exchange Board of India
- Australian Securities & Investment Commission
- Ontario, Quebec, Saskatchewan, and Alberta Securities Commissions

5. Describe how your company is classified by the regulatory organizations (registered investment advisor, broker dealer, commodity pool operator, futures commission merchant etc).

AQR is registered with the Securities and Exchange Commission (“SEC”) as an investment adviser under the Investment Advisers Act of 1940. AQR is also registered with the Commodity Futures Trading Commission (“CFTC”) as a commodity pool operator and a commodity trading adviser and is a member of the National Futures Association (“NFA”). AQR qualifies as a Qualified Professional Asset Manager as defined in Prohibited Transaction Exemption 84-14 promulgated by the U.S. Department of Labor (“PTE 84-14”).

AQR is registered as a Foreign Institutional Investor with the Securities and Exchange Board of India. In Canada, AQR is registered as an Exempt Market Dealer and Investment Fund Manager with the Ontario, Quebec, Saskatchewan, and Alberta Securities Commissions. AQR Pty Ltd, an affiliate of AQR, is registered with the Australian Securities & Investments Commission.

6. List the people responsible for compliance, with their functions.

We have an eight person Compliance Department headed by our Chief Compliance Officer, Abdon Bolivar. The group is responsible for designing, developing, and implementing all aspects of compliance. Main functions of the Compliance Department include, but are not limited to:

- Create & disseminate the AQR Compliance Manual;
- Advice on compliance matters;
- Analysis of legislation and regulations;
- Overall risk management and risk assessment function;
- Review client guidelines;
- Provide senior management with reports on all exceptions, conflicts, errors and inappropriate actions;
- Education and training seminars and materials;
- Preparation or review of marketing materials, standard forms and questionnaires.

AQR’s compliance program is pervasive. It addresses all the key areas in the investment management process. To provide management with a reasonable level of assurance, the compliance program incorporates reviews of policies and procedures, generates exception reports, requests reports, and performs tests of controls. AQR reviews its policies and procedures annually to determine their adequacy and the effectiveness of their implementation. The review considers any compliance matters that arose during the previous year, any changes in AQR’s business activities or of its affiliates, and any changes in the Advisers Act or applicable

regulations that might suggest a need to revise the policies or procedures. The Chief Compliance Officer reports directly to the Founding Principals of the Firm.

7. *Indicate whether there are any material criminal, civil or administrative proceedings, pending or threatened against the company or any of its key investment decision-makers, or whether there have been any in the past. If so, describe in detail.*

None, to our knowledge.

8. *List related entities including broker/dealers, futures commission merchants, introducing brokers, investment advisors or commodity pool operators.*

We are not related to any broker/dealers, futures commission merchants or commodity pool operators. However, while AQR is majority owned by our Principals, Affiliated Managers Group (NYSE: AMG) does have a minority stake in the firm, which they purchased in November 2004. AQR principals continue to own the majority of AQR (i.e., greater than 75%) and maintain independence of the investment process and the management of the firm.

In addition, CNH Partners is a 50% owned affiliate of AQR. For all practical purposes the group is seamlessly integrated into AQR. Mark Mitchell, formerly a professor at Harvard, and Todd Pulvino, formerly a professor at Northwestern, are our partners. CNH's objective is to build analytical datasets and insights into arbitrage related strategies.

9. *Describe the firm's compensation structure.*

Our firm's philosophy is to compensate people and incentivize them in a manner consistent with our client's objectives. We believe that to generate optimal performance we must reward financial innovation, which is best created through a team approach. Employees are compensated based on AQR's overall performance – not individual P&L, as detailed below. We believe that this fosters a culture of teamwork and shared goals.

- Our principals, including all of our portfolio managers, the head of business development, head of operations, and general counsel are compensated through defined direct ownership stakes.
- Our analysts and traders, as well as client service personnel, are rewarded based on innovative contributions, work ethic, and team commitment in a subjective salary plus bonus compensation structure.

Since inception we have grown in a methodical way, seeking to achieve high risk-adjusted revenue streams. While the structure and philosophy of our compensation has not changed, we have substantially grown the value of our partnership. We continue to strive to create meaningful career paths for our employees, including promoting from within and encouraging cross-

fertilization of ideas and teamwork. We believe that there is an intangible reward in being part of an innovative team, especially when combined with a culture that is committed to seeking alpha.

We expect to expand direct ownership by selectively naming new principals over the coming years as a reward for those who make outstanding and long-lasting contributions to the firm, while exemplifying the team culture that we seek to preserve. The path to becoming an owner is a function of value added, shared cultural values, commitment, and tenure. Employees who demonstrate financial innovation and creativity, a well-managed ego, integrity, and a team approach to research will be well rewarded. We believe our partnership has unique and substantial value and is a meaningful incentive to retain outstanding talent.

10. Briefly describe back-up systems and disaster recovery plans in place.

AQR has implemented infrastructure in the Greenwich headquarters to guard against disaster. In addition, we have deployed technology at a disaster recovery facility.

The headquarters facility has multiple telecom vendors that provide resilient fiber service; circuits are balanced across these vendors. There are redundant AC systems in the datacenter, which lead-lag weekly. Our space is supported by an uninterruptible power supply (UPS) including user workstations. A private generator, which is tested weekly, is also available. Power outage simulations are conducted throughout the year. All computer systems are deployed with a high degree of redundancy and resiliency. The headquarters facility is capable of sustaining business operations during a majority of potential disasters.

If the Greenwich facility is unavailable, our disaster recovery facility provides business continuity. The site is accessible remotely and provides telephone service, data replication, and e-mail service. These services have been successfully tested in recent months. In addition, a third facility is being prepared for key staff to use if necessary.

Every business day data is backed up on tape, picked up and stored offsite. Monthly tape archives are stored for 7 years. Restore procedures are frequently tested. All of the firm's e-mail content is archived as well. In addition, all file server and e-mail data are replicated in real-time to our DR facility. The links connecting our HQ to DR are dual, diversely routed 10Gig dark fiber links that provide us with multiple 10Gig paths using multiple light waves. The file servers and e-mail systems at the DR site are monitored and have been tested successfully.

In the event that our office is unavailable, key AQR staff has the ability to remotely access our DR site through VPN to access critical data and e-mail service. Technology infrastructure is deployed at both AQR datacenters which run active-active¹. Data is replicated between the datacenters and mission critical applications are operational from both datacenters. As a result, our technology infrastructure is always being tested at both locations. Applications that have been deployed to both datacenters have been formally tested and documented. A formal testing log is

¹ An active/active system is a network of independent processing nodes, each having access to a common replicated database, so that all nodes participate in a common application.

maintained and is available upon request. To date there have been no adverse findings as to the components of the plan. Any findings are reviewed and recommended improvements implemented as part of our ongoing maintenance.

In addition, AQR has an online Business Continuity Plan (BCP) consisting of standard guidelines and policies that provide AQR employees with the essential instructions regarding what to do in the event of an emergency.

12. Has the firm established a Code of Ethics and/or formal compliance procedures? Please explain and provide copies of the documents if available.

AQR recognizes the importance of addressing conflicts of interest and that a written code of ethics and compliance manual are absolutely necessary in order to promote and maintain the highest standards of professionalism and a culture of compliance. AQR has established a Compliance Manual, which encompasses AQR's Code of Ethics (the "Code"), among other policies that address key areas in the investment management process that all AQR employees are required to adhere to in order to maintain an ethical firm environment.

AQR's officers, principals, and employees and their members of household must abide by AQR's Code.

AQR has adopted the Code of Ethics (the "Code") to achieve the highest level of ethical standards and compliance with federal securities laws. AQR's Code is comprised of the General Standards, the Personal Trading Policy, and the Policy to Prevent the Misuse of Material Non-Public Information. The Code is designed to reasonably prevent any covered person from;

- Employing a device, scheme or artifice to defraud any person;
- Making to any person any untrue statement of a material fact or omit to state to a fund or any client a material fact necessary in order to make the statements made, in light of the circumstances in which they are made, not misleading;
- Engaging in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person;
- Engaging in a manipulative practice with respect to a any client; in connection with purchase or sale of a security held or to be acquired by any person; and
- Violating federal and state securities laws.

As a fiduciary, AQR owes its clients more than honesty and good faith alone. AQR has an affirmative duty to act in the best interests of its clients and to make full and fair disclosure of all material facts, particularly where AQR's interests may conflict with those of its clients.

Regulatory and Compliance

- 1. Who is responsible for regulatory and compliance? How many people work in the compliance department? Do they maintain all required books and records? What procedures are followed to ensure compliance?***

Abdon Bolivar, our Chief Compliance Officer (“CCO”), is responsible for AQR’s Compliance program. He reports directly to the Founding Principals.

As previously stated, we have an eight person Compliance Department, which designs, develops, and implements all aspects of compliance. AQR’s compliance program addresses all the key areas in the investment management process by reviewing policies and procedures, generating exception reports, and performing tests of controls. AQR reviews its policies and procedures annually to determine their adequacy and the effectiveness of their implementation.

The Compliance team utilizes Charles River Compliance to monitor relevant client guidelines on a daily basis (T+1). The Compliance department also reviews daily MS Excel-based guideline reports for many accounts an additional level of guideline assurance. These Excel-based reports are also reviewed by the investment management team. Furthermore, manual ad hoc tests are periodically performed to monitor compliance. Compliance also uses CTI Examiner to monitor employee personal trading, including pre-clearance and reporting, as well as to perform testing to oversee employees’ adherence to AQR’s code of ethics. In addition to these systems, Compliance Accelerator – KVS is used for monitoring employee emails for adherence to AQR’s code of ethics. Finally, Bridger Insight by LexisNexis is used by Compliance to monitor AQR’s clients, employees, counterparties and investment universe against the U.S. Department of Treasury OFAC SDN list and various other government sponsored restricted persons/entities lists.

AQR’s books and records are maintained at the individual departmental level and are governed by AQR’s Books and Record policy. The Compliance department periodically reviews adherence to the Books and Records policy.

- 2. Describe any past, threatened, or pending customer or other complaints, litigation, arbitration, reparations, or administrative (whether criminal, civil, or administrative) proceedings. Have there been any regulatory actions taken against the firm?***

None to our knowledge.

- 3. Any investigations, private or public, by the SEC, NASD, CFTC, NFA, exchange, state authority, foreign authority, or other governmental or regulatory authority? Any correspondence with the SEC, NASD, CFTC, or NFA other than routine registration matters? Any audits?***

The Securities and Exchange Commission (SEC) conducted two routine examinations, one in 2000 and one in 2003. AQR took the necessary actions to rectify these findings. AQR is currently

undergoing a routine examination being conducted by the SEC, which commenced on April 25, 2011.

The National Futures Association (NFA) conducted four routine examinations in 2004, 2007, 2008, and 2010. There were no material findings from the 2004, 2008, and 2010 examinations; the finding from the 2007 exam was corrected prior to the conclusion of the exam.

In June 2009, AQR received a request letter from the U.S. Department of Labor (“DOL”) for an investigative review and they were onsite June 8, 2009. We have yet to receive a final letter or notification of any deficiencies from the DOL.

4. Please describe any potential conflicts of interest faced by the organization or its investment professionals and how the potential conflicts are managed.

AQR’s only business is asset management and does not provide other services or generates revenue from other sources such as brokerage.

AQR does not currently have an affiliated broker/dealer or investment banking activities. As with all other investment advisers, AQR has inherent conflicts of interest as relates to its ordinary course of business. Situations may occur where a client could be disadvantaged because of the activities conducted by AQR for other accounts. Such situations may be based on but not limited to: legal restrictions on the combined size of positions which may be taken for all accounts managed by AQR; the difficulty of liquidating an investment for more than one account where the market cannot absorb the sale of the combined positions or the timing of rebalances among multiple accounts; or the determination that a particular investment is warranted only if hedged with an option and there is a limited availability of such options. Instances also may arise where AQR determines an investment opportunity to be suitable for more than one account but the market is too illiquid to enable each to participate to the extent advisable. In the above situations, or in other situations in which conflicts arise, AQR will endeavor to allocate investment opportunities fairly; nevertheless, from time to time as any given conflict situation arises, such conflict may be resolved in a manner detrimental to a particular client. Reasons for non-pro rata allocations may include different investment objectives, restrictions and risk characteristics, varying cash flows, portfolio composition at the time of the trade and tax considerations.

Subject to applicable laws and/or client restrictions, AQR may buy, sell or hold securities for a client or proprietary account while entering into a different or opposite investment decision for other client or proprietary accounts. Hence, AQR may purchase or sell the same securities for more than one advisory client (or proprietary account) account on the same day (including at the same time) in the same direction, the opposite direction or a combination of the two directions. There may be potential disadvantages when more than one client account simultaneously seeks to buy or sell commonly held securities and other investment positions. Also, clients may hold securities whose issuers are subject to a merger or are issuing convertible securities and subsequently invested in by sponsored funds managed by both CNH and AQR. In general, clients may take an opposite investment position (i.e., a long position versus a short position) in the same security held by other clients. AQR will allocate investment opportunities and trades fairly. “Fair”

AQR DELTA Fund

treatment does not mean identical treatment of all clients. Rather, it means that AQR does not discriminate on an impermissible basis against one client or group of clients. When AQR transacts in securities for more than one account, the investment opportunities and trades must be allocated in a manner consistent with our fiduciary duties.

As part of our best execution review, AQR's Trade Monitoring Group (TMG) reviews commission rates by broker, by region, by investment type, per client. In addition, AQR utilizes the following exception reports, among other means of testing, to monitor potential conflicts of interest as it relates to best execution:

Price Deviation Report (Daily) - This report displays price deviations in excess of 1% of the same investments made on the same day on the same algorithm.

Wash Trade Report (Monthly) - This report displays instances in which there was a purchase and a sale of the same investment on the same day for the same account.

Cross Trading Report (Monthly) - This report displays instances in which there was a purchase of an investment in one account, and a sale of the same investment in another account on the same day.

Any issues identified in the exception reports listed above or by other Compliance Department tests are investigated in a timely fashion. If an issue is identified it is reported to AQR's Process Integrity Group. For additional information on potential conflicts of interest please refer to AQR's ADV Part 2A.



CAPITAL
MANAGEMENT

THE AQR DELTA FUND
*Review Prepared Exclusively for
San Mateo County Employees' Retirement Association*

Third Quarter 2011

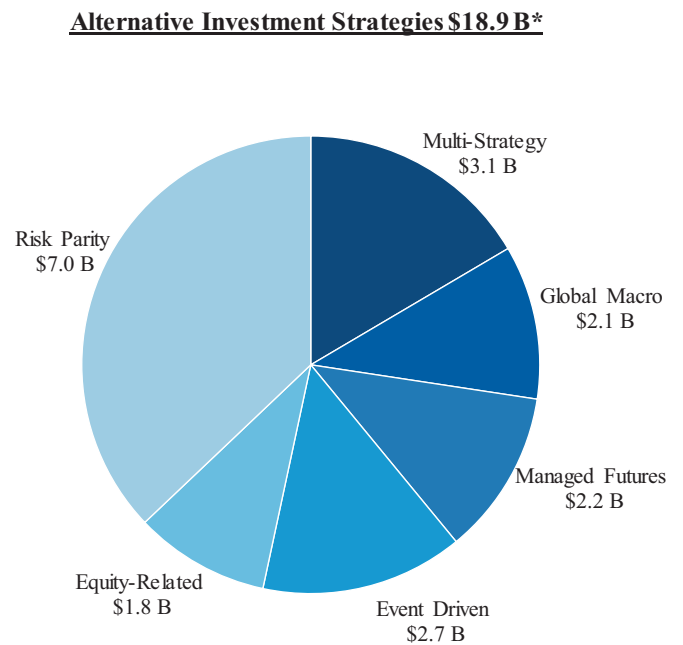
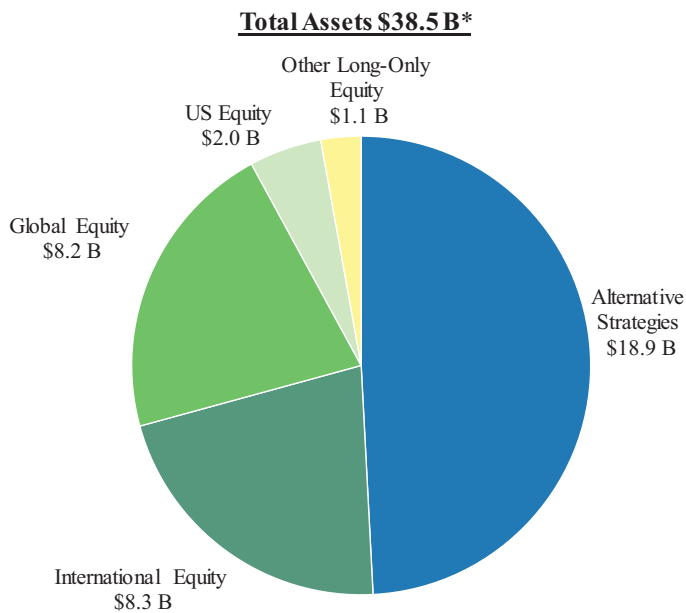
PRIVATE AND CONFIDENTIAL

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Assets Under Management

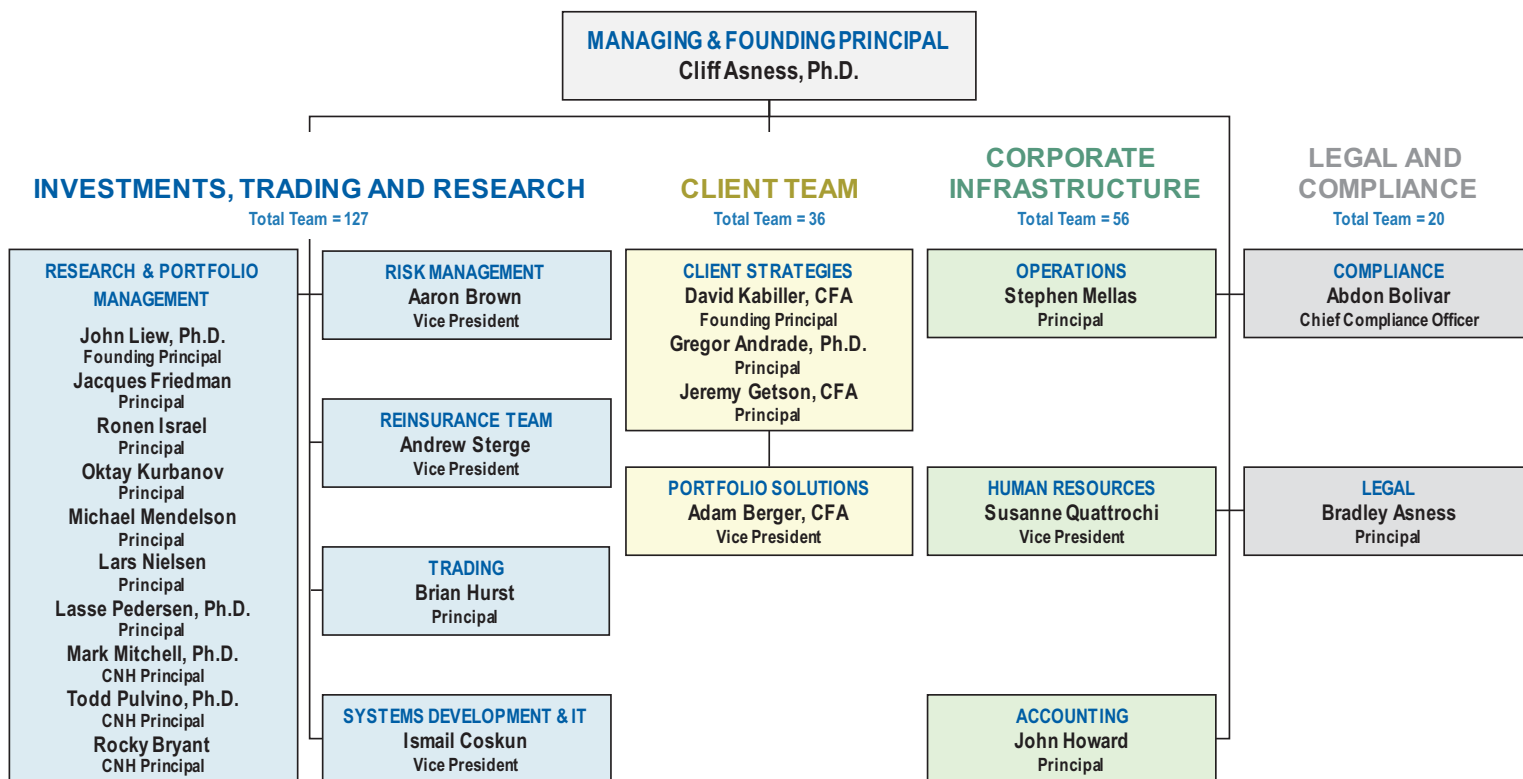
AQR's Business Model Combines Traditional And Alternative Investment Strategies



* Approximate as of 9/30/11, includes assets managed by CNH Partners, an affiliate of AQR.

AQR Organizational Structure

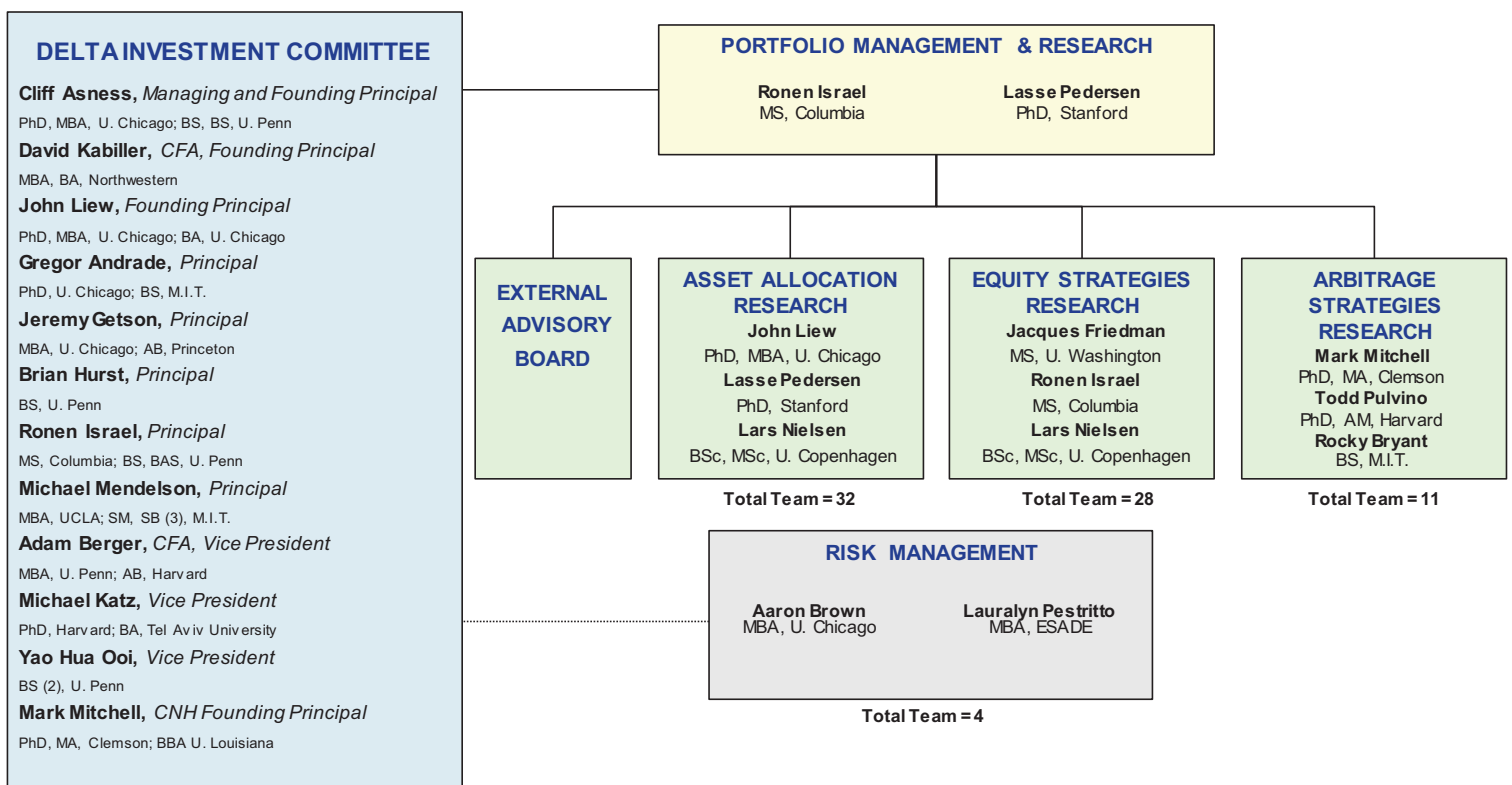
AQR's Investment Team Is Supported By A Strong Corporate Infrastructure



Personnel as of 9/30/2011

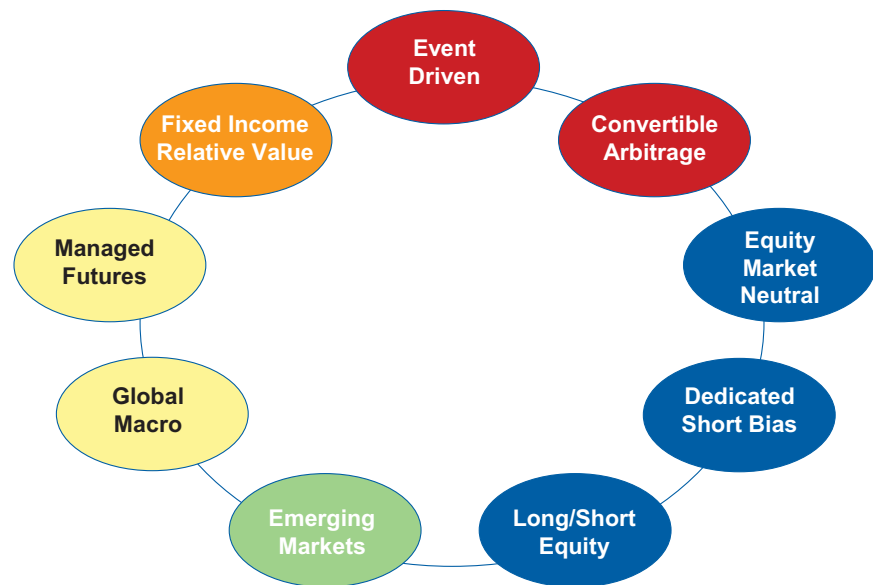
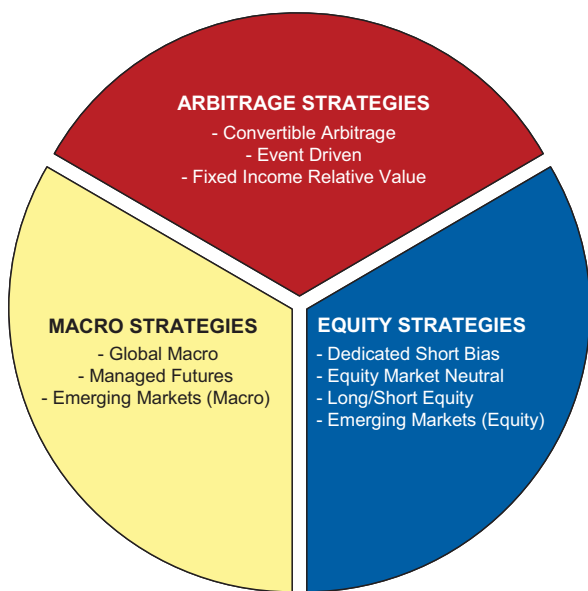
DELTA Fund Management

An Active Research and Portfolio Management Team



* As of 9/30/2011

Strategies Diversified Across 9 Broad Strategy Classes



Arbitrage Strategies

Capture relative mispricing between two related assets.

Equity Oriented Strategies

Take advantage of market inefficiencies that cause specific stocks to be under- or over-priced.

Macro Strategies

Profit from dislocations in global equity, bond, currency and commodity markets, including those driven by investors' behavioral biases.

* Strategies are subject to change at any time without notice. Please see important disclosures in the Appendix.

Arbitrage Strategies

Event Driven

- Seeks to capture spread between current value of merger targets and value when deal is completed
- Diversify exposure to single names, sectors, and deal types (e.g. deals with greater systematic risks); hedge by shorting shares of acquirer in mergers with a stock payment component and, when appropriate, using a broad market hedge
- Generally hold 50-150 mergers, depending on market conditions
- In addition to mergers, other event driven strategies, such as split-offs, spin-offs and other capital structure transactions are included, with a partial hedge of the associated market exposure.

Convertible Arbitrage

- Seeks to capture discount between current price of convertible bonds and their fundamental value as a bond plus an equity call option
- Hedge direct stock exposure, as well as residual interest rate and credit risk across the portfolio
- Broadly diversified portfolio focusing on more liquid names trading in-the-money, at-the-money or near at-the money; generally hold 100-300 bonds, depending on market conditions

Fixed Income

- Seeks to take advantage of opportunities and mis-pricings in a range of global fixed income securities, with a focus on strategies that can be implemented with relatively low leverage and generally liquid securities
- Identify opportunities based on valuation, economic conditions and expectations, performance trends and current income (carry)
- Strategy includes long-short relative value positions in developed market bonds and currencies, as well as a tactical credit market timing strategy
- Generally 10-20 positions on average are held to implement this strategy

Strategies are subject to change at any time without notice. Please read important risk disclosures in the Appendix.

Equity Strategies

Equity Market Neutral

- Seeks to take advantage of short- and medium-term relative value opportunities by making peer-to-peer comparisons within industries and utilizing both short and longer time horizons
- Identify opportunities based on differences in fundamentals, including valuation, earnings quality, financial stability, performance trends
- Global developed stock portfolio which targets market neutrality at all times by balancing long and short positions
- Generally 1000 – 2000 securities on average are held to implement this strategy

Long/Short Equity

- Seeks to take advantage of a range of relative value and timing opportunities in global equity markets
- Strategy combines individual stock selection based on GARP-like characteristics (growth at a reasonable price), industry rotation based on performance trends and an equity market timing strategy
- Global developed stock portfolio with long and short positions; may take tactical views on exposure to specific industries and overall market exposure
- Generally 1000 – 2000 securities on average are held to implement this strategy

Dedicated Short Bias

- Seeks to capture market inefficiencies due in part to a general long-bias orientation and structural limitations in shorting
- Shorting decisions are based on sentiment indicators such as shorting data and options pricing, balanced by a long portfolio that hedges aggregate characteristics of the short portfolio
- Global developed stock portfolio with long and short positions
- Generally 1000 – 2000 securities on average are held to implement this strategy

Emerging Markets

- Equity strategies described above, but trading emerging equities
- Portfolio of long positions offset by a portfolio hedge
- Generally 250-300 securities on average are held to implement this strategy

Strategies are subject to change at any time without notice. Please read important risk disclosures in the Appendix.

Macro Strategies

Global Macro

- Seeks to exploit mis-pricings in a range of global asset classes and markets
- Identify opportunities based on valuations, market fundamentals, performance trends and current income (carry)
- Strategy includes long-short relative value positions in developed equity markets and developed currencies as well as tactical allocation strategies in global stock and bond markets
- Generally 20-30 securities on average are held to implement this strategy

Managed Futures

- Pursue trend-following strategies in equities, interest rates, currencies and commodities
- Seeks to take advantage of short-, medium- and long-term trends, while limiting exposure to trends that may have become over-extended
- Portfolio takes long and short positions, but should average a beta of zero over time
- Generally strategy trades more than 120 different assets

Emerging Markets

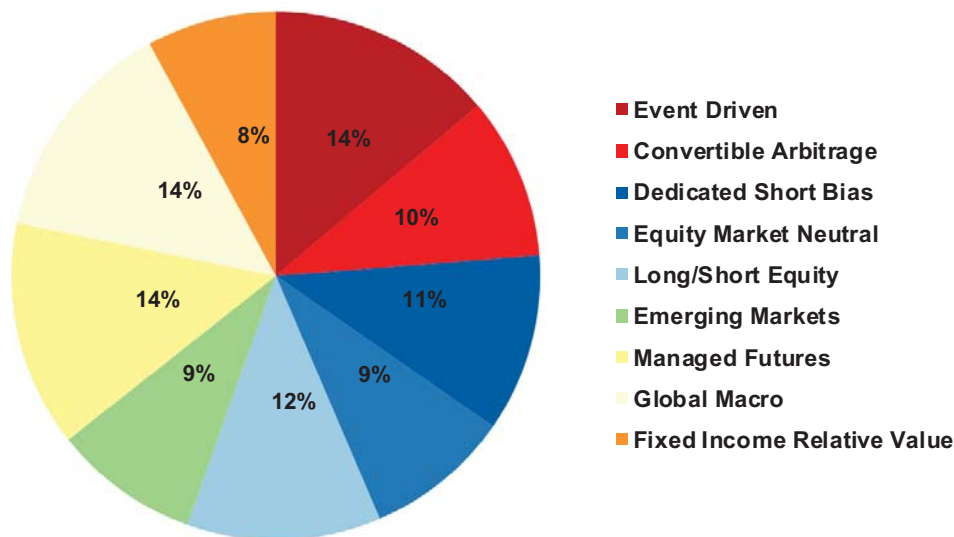
- Macro strategies described above, but trading emerging equity markets and currencies
- Strategy includes trend following and long-short relative value positions of emerging equity markets and currencies
- Generally 20-30 securities on average are held to implement this strategy

Strategies are subject to change at any time without notice. Please read important risk disclosures in the Appendix.

Long-Term Strategic Risk Allocation

- ▶ The AQR DELTA Fund's portfolio construction leans towards equal risk weighting but makes adjustments to reflect the leverage, liquidity and expected efficacy of each strategy
 - We believe this provides a beneficial, “contrarian” approach that helps avoid overcrowded strategies
 - This should also decrease exposure to strategies more prone to left-tail events

The AQR DELTA Fund Strategic Risk Allocation*



* Example above is for illustrative purposes only. Does not represent actual exposures, but the long-term strategic target allocations of the Fund, and does not include all strategies that are or may be employed in the Fund. Risk exposures are subject to change. Please see important information in the Appendix. This information is supplemental to the GIPS® presentation compliant for this strategy in the Appendix.

Performance Summary

➤ **The AQR DELTA Fund was down -4.8%* in the third quarter of 2011**

- Most of the negative performance came in the month of September
- The Fund posted positive performance from four of the nine strategy groups
- Main contributors were Dedicated Short Bias (+0.8%) and Convertible Arbitrage (+0.5%)
- The main detractors in the third quarter were Global Macro (-3.0%) and Emerging Markets (-2.0%)

➤ **Year to date, the Fund is down -3.3%***

- The largest contributions were from Event Driven (+1.9%) and Convertible Arbitrage (+1.2%) while the largest detractors were Global Macro (-2.9%) and Emerging Markets (-2.3%)

➤ **The AQR DELTA Fund has had strong performance since its inception 3 years ago**

- The Fund is up +44.4%* cumulatively over the three year period (+13.0% annualized)
- All nine of the strategy groups have had positive performance since inception, led by the Event Driven strategy (+13.8%) and the Convertible Arbitrage strategy (+12.2%)

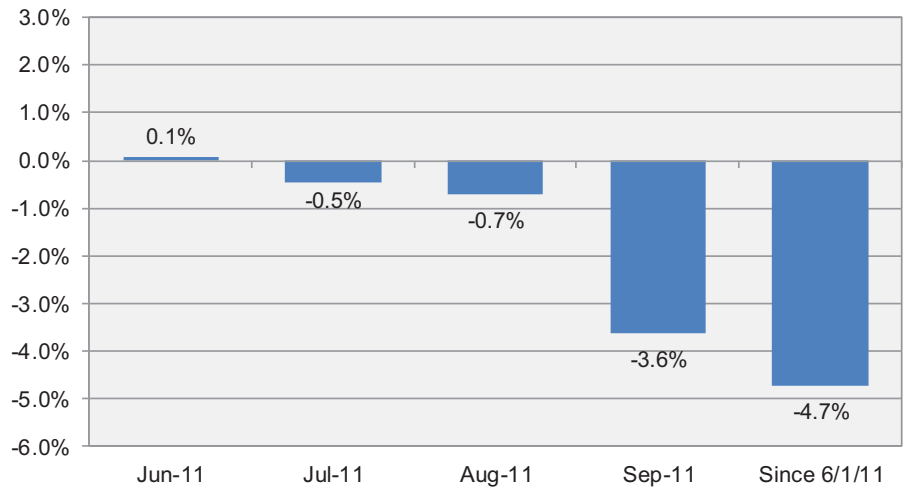
* AQR DELTA Fund gross returns. Please see important disclosures in the Appendix.

Actual Performance

AQR DELTA Fund Performance – Monthly Gross of Fee Returns Since SamCERA’s Investment*

Third Quarter AQR DELTA Fund Performance*

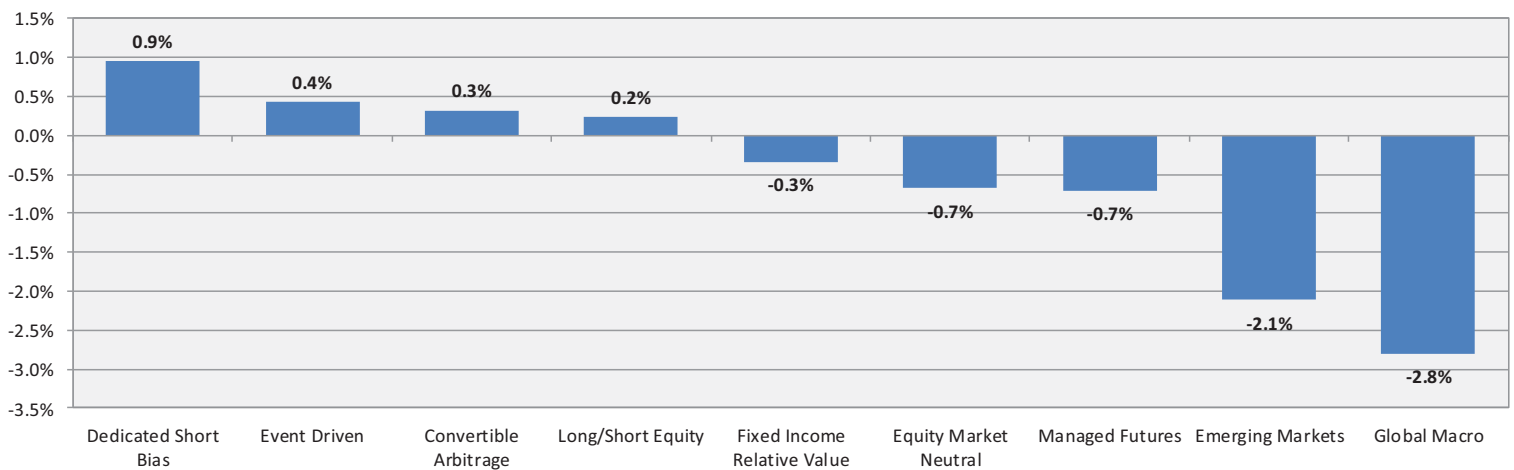
| AQR DELTA Fund (Gross) | |
|-----------------------------------|--------------|
| June 2011 | 0.1% |
| July 2011 | -0.5% |
| August 2011 | -0.7% |
| September 2011 | -3.6% |
| Cumulative Return | -4.7% |



* Estimated return data for month ending 9/30/11. Please see important performance disclosures in the Appendix. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy.

Performance Attribution

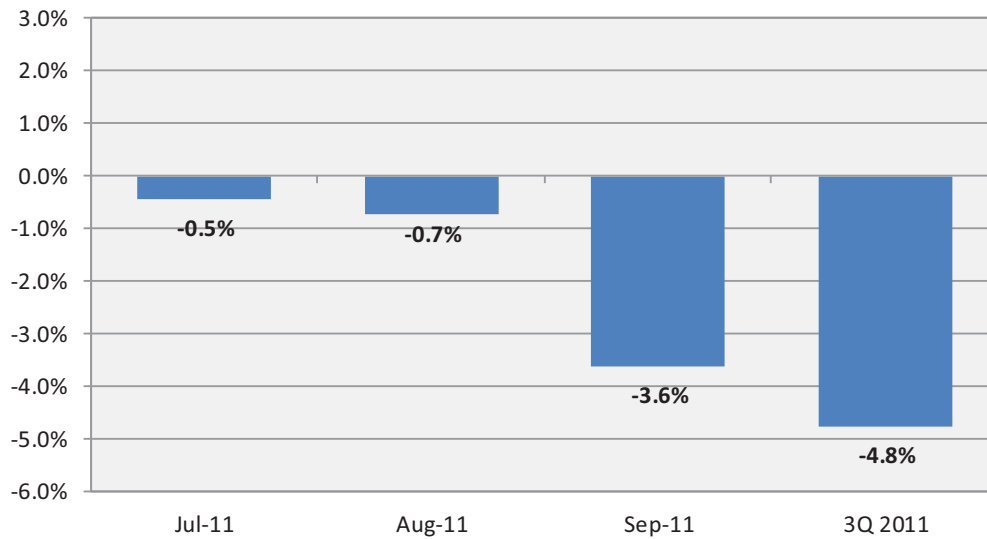
AQR DELTA Fund Sub-Strategy Performance Since 6/1/11*



* AQR DELTA Fund gross returns. Please see important disclosures in the Appendix. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy.

Performance Summary – Third Quarter

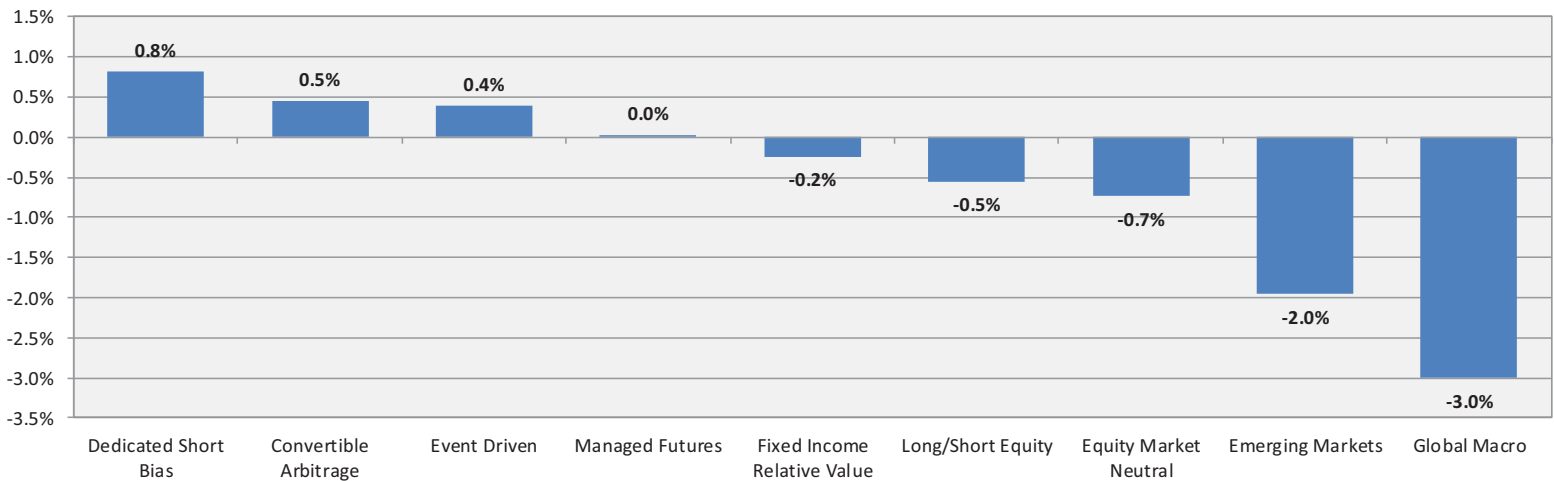
Third Quarter AQR DELTA Fund Performance*



* AQR DELTA Fund gross returns. Please see important disclosures in the Appendix. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy.

Performance Attribution – Third Quarter

Third Quarter AQR DELTA Fund Sub-Strategy Performance*



* AQR DELTA Fund gross returns. Please see important disclosures in the Appendix. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy.

Performance Attribution – Third Quarter

Third Quarter Sub-Strategy Performance*

Winners

1. **Dedicated Short Bias** (+0.8%)

The Fund made money from shorting stocks based on investor sentiment in Japanese and US markets. Additionally, the dedicated short bias strategy profited from a modest short position on the US stock market throughout the quarter.

2. **Convertible Arbitrage** (+0.5%)

Themes in the quarter were a low issuance of new bonds, an increase in volatility, and a general widening of bond spreads. DELTA posted a gain due in part to the high-money names held in the portfolio, which made money from their embedded optionality. By the end of the quarter, deals spreads were moderately attractive, but expected new issuance remains low, which reduces the potential diversification within convertible portfolios.

Detractors

1. **Global Macro** (-3.0%)

The primary source of underperformance in the third quarter was from developed currencies, which saw a sharp carry unwind driven by massive flows into safe-haven currencies like the Swiss Franc and Japanese Yen. Relative value strategies across developed equity markets also performed poorly in the third quarter, as cheaper markets like Germany and France underperformed more expensive ones like Australia, which reported higher than expected GDP growth in August. Going into the fourth quarter, value spreads remain high across developed stock markets, even when accounting for exposure to Greek, Portuguese, Italian, Spanish, and Irish debt, and when excluding financials altogether.

2. **Emerging Markets** (-2.0%)

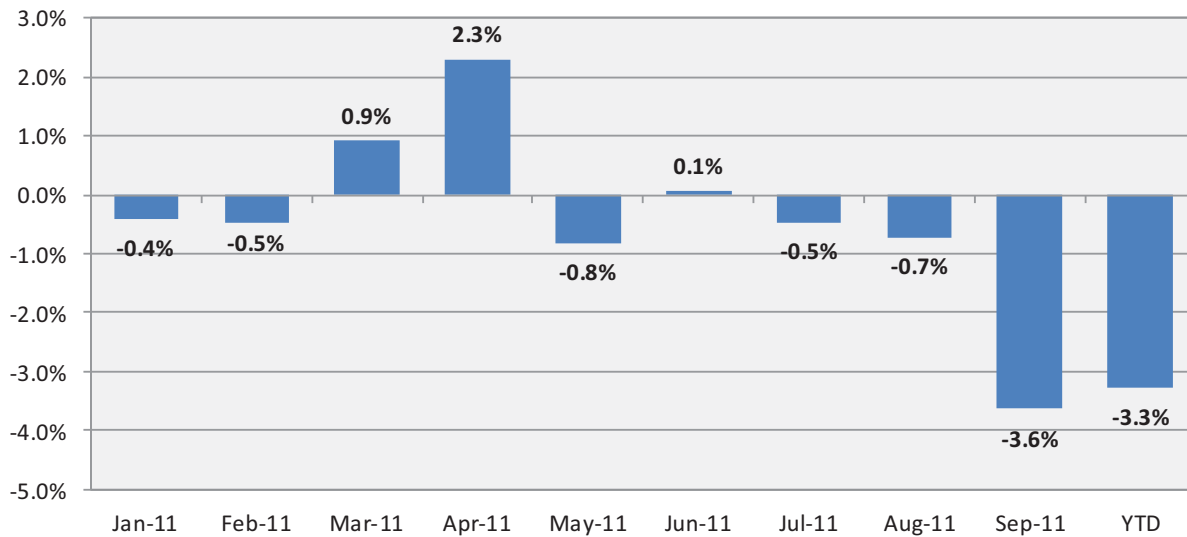
Currencies were the main detractor in emerging market strategies. Currencies that began the quarter relatively cheap, offering good carry, and showing signs of improvement such as the Polish Zloty underperformed in response to renewed sovereign debt concerns in Europe. Short positions in Russia paid off as weaker commodity prices hurt the Ruble, and a short position in the Turkish Lira made money as that country's central bank's credibility was weakened following a rate cut. In emerging equities, relatively expensive countries generally outperformed in the flight to quality, with some, such as South Africa, benefitting from its gold industry.

* AQR DELTA Fund gross returns. Please see important disclosures in the Appendix.

Performance Summary – Year to Date

Year to Date AQR DELTA Fund Performance*

January 2011 – September 2011

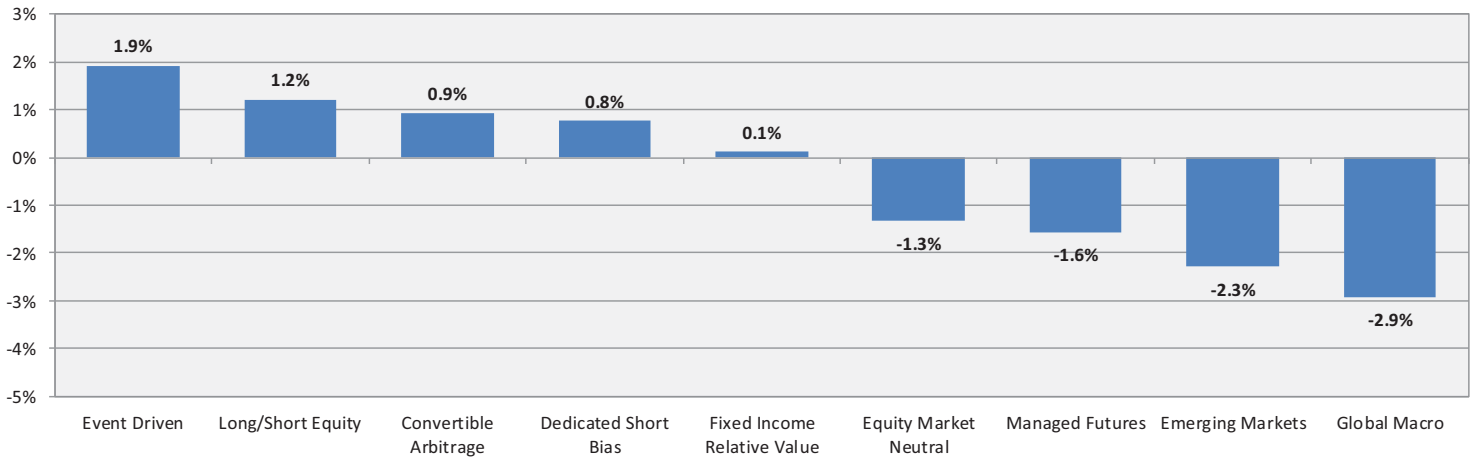


* AQR DELTA Fund gross returns. Please see important disclosures in the Appendix. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy.

Performance Attribution – Year to Date

Year to Date AQR DELTA Fund Sub-Strategy Performance*

January 2011 – September 2011

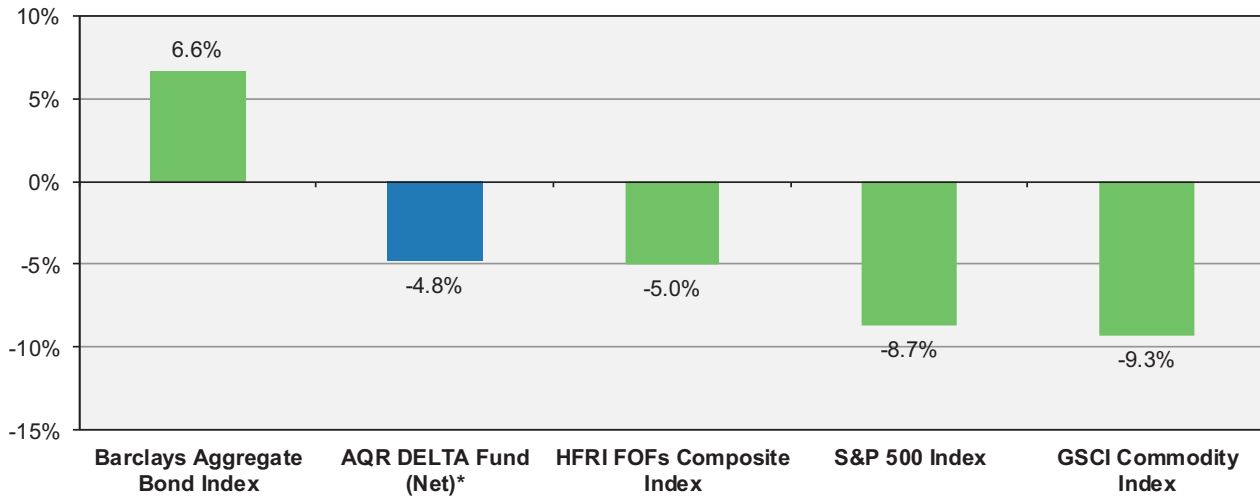


* AQR DELTA Fund gross returns. Please see important disclosures in the Appendix. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy.

Performance Comparison - Year to Date

Year to Date Performance Comparisons

January 2011 – September 2011

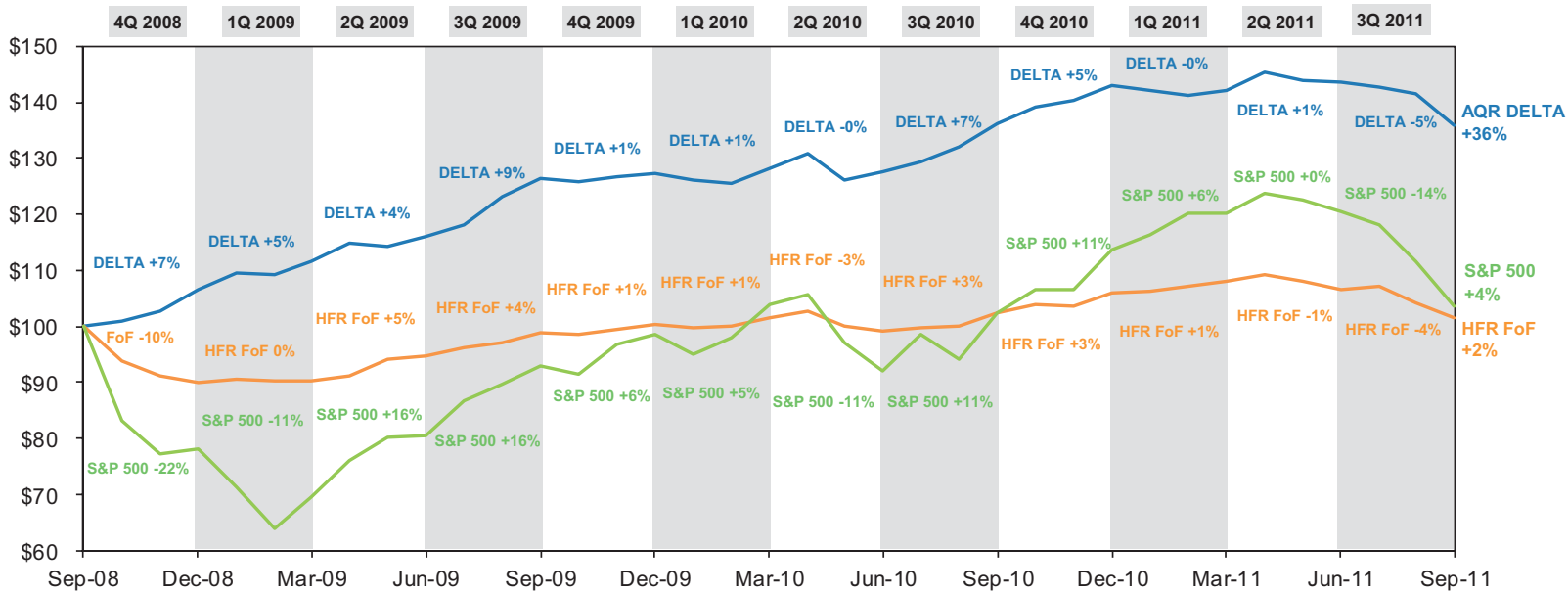


*The AQR DELTA Fund net returns are calculated using a 2% management fee. Please see important disclosures in the Appendix. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy.

Performance Comparison – Since Inception

AQR DELTA Fund*, HFR FOFs and S&P 500

October 2008 – September 2011



* The AQR DELTA Fund net returns are calculated using a 2% management fee. Please see important disclosures in the Appendix. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy.

Quarterly Performance - Since Inception

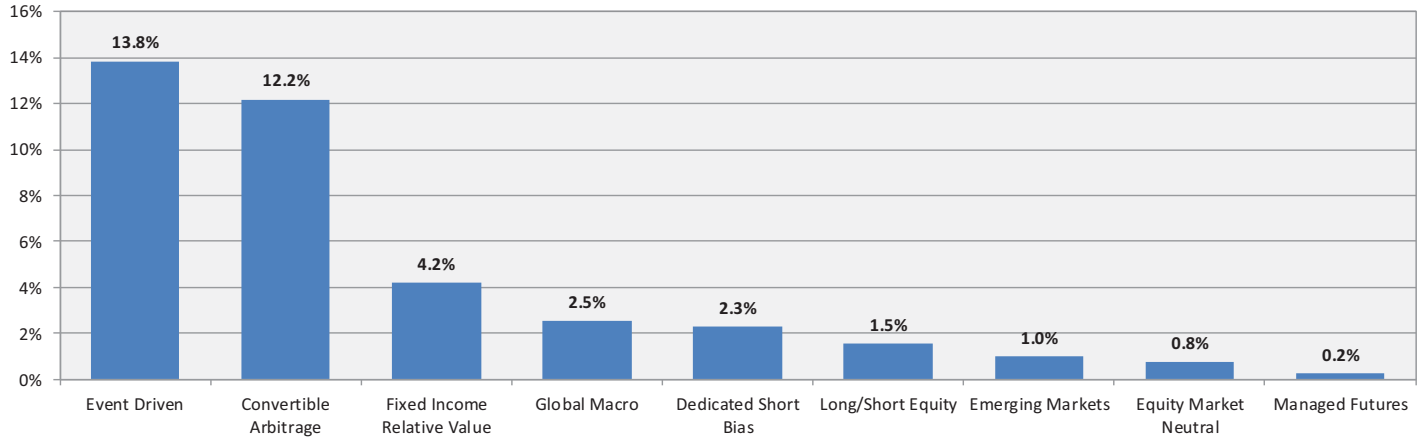
| | AQR DELTA Fund (Net) | AQR DELTA Fund (Gross) |
|--|-------------------------|---------------------------|
| Q4 2008 | 6.6% | 7.1% |
| Q1 2009 | 4.5% | 5.1% |
| Q2 2009 | 4.0% | 4.6% |
| Q3 2009 | 8.8% | 9.4% |
| Q4 2009 | 0.7% | 1.2% |
| Q1 2010 | 0.7% | 1.3% |
| Q2 2010 | -0.4% | 0.1% |
| Q3 2010 | 6.6% | 7.1% |
| Q4 2010 | 5.0% | 5.5% |
| Q1 2011 | -0.5% | 0.0% |
| Q2 2011 | 1.0% | 1.5% |
| Q3 2011 | -5.3% | -4.8% |
| 2009 Return | 19.1% | 21.6% |
| 2010 Return | 12.2% | 14.6% |
| 2011 YTD Return | -4.8% | -3.3% |
| Annualized Return Since Inception | 10.7% | 13.0% |

* Estimated return data for month ending 9/30/11. The AQR DELTA net returns above are calculated using a 2% management fee. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy.

Performance Attribution – Since Inception

Since Inception AQR DELTA Fund Sub-Strategy Performance*

October 2008 – September 2011



* AQR DELTA Fund gross returns. Please see important disclosures in the Appendix. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy.

Appendix – Performance Disclosures

All performance figures contained herein reflect the reinvestment of dividends and all other earnings and represent unaudited estimates of realized and unrealized gains and losses prepared by AQR Capital Management, LLC. There is no guarantee as to the above information's accuracy or completeness. Please refer to the monthly statements provided by your custodian or administrator for actual returns.

PAST PERFORMANCE IS NOT AN INDICATION OF FUTURE PERFORMANCE.

Gross performance results do not reflect the deduction of investment advisory fees, which would reduce an investor's actual return. For example, assume that \$1 million is invested in an account with the Firm, and this account achieves a 10% compounded annualized return, gross of fees, for five years. At the end of five years that account would grow to \$1,610,510 before the deduction of management fees. Assuming management fees of 1.00% per year are deducted monthly from the account, the value of the account at the end of five years would be \$1,532,886 and the annualized rate of return would be 8.92%. For a ten-year period, the ending dollar values before and after fees would be \$2,593,742 and \$2,349,739, respectively. AQR's asset based fees may range up to 2.85% of assets under management, and are generally billed monthly or quarterly at the commencement of the calendar month or quarter during which AQR will perform the services to which the fees relate. Performance fees are generally equal to 20% of net realized and unrealized profits each year, after restoration of any losses carried forward from prior years. In addition, AQR funds incur expenses (including start-up, legal, accounting, audit, administrative and regulatory expenses) and may have redemption or withdrawal charges up to 2% based on gross redemption or withdrawal proceeds. Please refer to the Fund's Private Offering Memoranda and AQR's ADV Part 2A for more information on fees. Consultants supplied with gross results are to use this data in accordance with SEC, CFTC, NFA or the applicable jurisdiction's guidelines.

There are many risks associated with convertible securities including but not limited to liquidity risk, equity risk, interest rate risk, and credit risk of the underlying bond. Convertible bond securities may be considered illiquid securities, which cannot be sold or disposed of in the ordinary course of business at approximately the prices at which they are valued. Difficulty in selling securities may also result in a loss or may be costly to the portfolio.

There is a risk of substantial loss associated with trading commodities, futures, options, derivatives and other financial instruments. Before trading, investors should carefully consider their financial position and risk tolerance to determine if the proposed trading style is appropriate. Investors should realize that when trading futures, commodities, options, derivatives and other financial instruments one could lose the full balance of their account. It is also possible to lose more than the initial deposit when trading derivatives or using leverage. All funds committed to such a trading strategy should be purely risk capital.

A5. Performance Disclosures

AQR Capital Management, LLC

DELTA Full Vol. Composite

9/30/08 – 12/31/10

| Year | Total Return Gross of Fees % | Total Return Net of Fees % | Benchmark* Return % | Number of Portfolios | Dispersion | Composite Assets End of Period (\$ M) | Total Firm Assets (\$ M) | % of Firm Assets |
|------|---------------------------------|-------------------------------|------------------------|-------------------------|------------|--|-----------------------------|---------------------|
| 2008 | 7.13 | 6.61 | 0.22 | 1 | N/A | 37.56 | 19,207.22 | 0.20 |
| 2009 | 21.60 | 19.23 | 0.21 | 1 | N/A | 60.48 | 23,571.55 | 0.26 |
| 2010 | 14.61 | 12.36 | 0.13 | 1 | N/A | 909.77 | 32,701.21 | 2.78 |

* Merrill Lynch 3 Month Treasury Bill Index

AQR Capital Management, LLC ("AQR") has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

This presentation cannot be used in a general solicitation or general advertising to offer or sell interest in its Funds. As such, this information cannot be included in any advertisement, article, notice or other communication published in any newspaper, magazine, or similar media or broadcast over television or radio; and cannot be used in any seminar or meeting whose attendees have been invited by any general solicitation or general advertising.

Notes:

Firm Information:

AQR is a Connecticut based investment advisor registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. AQR conducts trading and investment activities, specializing in global asset allocation and global stock selection involving a broad range of instruments, including, but not limited to, individual equity and debt securities, currencies, futures, commodities, fixed income products and other derivative securities.

For purposes of Firm wide compliance and Firm wide total assets, AQR defines the "Firm" as entities controlled by AQR that are registered as investment advisors with the Securities and Exchange Commission. The Firm is comprised of AQR and CNH Partners, LLC.

Upon request AQR will make available a complete list and description of all of Firm composites.

Past performance is not an indication of future performance.

Fees: AQR's asset based fees for portfolios within the composite may range up to 2.00% of assets under management, and are generally billed monthly or quarterly at the commencement of the calendar month or quarter during which AQR will perform the services to which the fees relate. In addition, AQR funds incur administrative fees and may have a redemption charge of 2% based on gross redemption proceeds may be charged upon early withdrawals.

Please refer to the Fund's Private Offering Memoranda and AQR's ADV Part II, Schedule F for more information on fees.

A5. Performance Disclosures

Composite Characteristics: The Delta Full Vol. Composite (the “Composite”) was created in October 2008. The accounts included invest all of their assets in the AQR Delta Master Account, L.P. (“Master Account”). The composite benchmark is the Merrill Lynch 3 Month Treasury Bill Index. Investments in the Composite vary substantially from those in the benchmark. The Composite is comprised solely of the Master Account.

The Master Account engages in leverage and derivative transactions. The Master Account frequently engages in swap transactions and other derivative contracts. In general, a derivative contract typically involves leverage, i.e., it provides exposure to potential gain or loss from a change in the level of the market price of a security, currency or commodity (or a basket or index) in a notional amount that exceeds the amount of cash or assets required to establish or maintain the derivative contract

Consequently, an adverse change in the relevant price level can result in a loss of capital that is more exaggerated than would have resulted from an investment that did not involve the use of leverage inherent in the derivative contract. Many of the derivative contracts used by the Master Account are privately negotiated in the over-the-counter market. These contracts also involve exposure to credit risk since contract performance depends in part on the financial condition of the counter-party. These transactions are also expected to involve significant transaction costs. The risks inherent to the strategies employed by the Master Account are set forth in the applicable offering documents and other information provided to potential subscribers.

Calculation Methodology: Valuations and returns are computed and stated in U.S. dollars, and individual portfolios are revalued monthly. Portfolios also are revalued intra-month when cash flows occur. The firm links returns geometrically to produce an accurate time-weighted rate of return. Composite returns are asset-weighted. Gross of fees returns are calculated gross of management, administrative, and custodial fees and net of transaction costs. Returns are calculated net of all withholding taxes on foreign dividends. Accruals for fixed income and equity securities are included in calculations. Net of fees returns are net of management fees of 2.00%. The dispersion measure is the equal-weighted standard deviation of accounts in the composite for the entire year. Dispersion is not considered meaningful for periods shorter than one year or for periods during which the composite contains five or fewer accounts for the full period.

Additional information regarding policies for calculating and reporting returns is available upon request.

Other Disclosures: AQR has received a firm-wide GIPS verification for the period August 1998 through 12/31/2010. A copy of the verification report is available upon request. For consistency purposes, AQR in October of 2009 historically revised its source for the Composite’s benchmark data. None of these changes have resulted in any material differences.

**The Composite was formerly known as the DELTA Full Vol. Composite. The name change took place on January 26, 2011.

In March of 2011 AQR historically revised the Composite’s management fee calculation from quarterly to monthly. This has not resulted in any material differences.

Exhibit A
Investment Policy

SamCERA's Investment Policy
Approved By The BOARD of Retirement
Date
As Attached

Exhibit B

**NOTE: THIS IS REPRESENTATIVE OF EXHIBIT B.
THIS EXHIBIT WILL CHANGE WITH EACH MANAGER.**

Investment Objectives, Guidelines, and Restrictions

The following investment objectives, guidelines, and restrictions shall apply to the portfolio (the "Portfolio") of the San Mateo County Employees' Retirement Association (hereinafter referred to as the "BOARD") that is managed by Managers Name

Investment Objectives

The Portfolio shall be treated as a tax-exempt portfolio. As a result, the tax consequences of individual transactions shall not be considered as part of Artio Global Management's purchase and sales decisions.

The primary objective of the portfolio will be long-term capital appreciation. Current income will be considered only as part of total return, and will not be emphasized. Acceptable risk levels will be maintained through the use of mainly high-quality equity securities. Within the parameters of the Investment objectives, the allocation of funds between equities and the equity reserve shall be determined by the judgement of the investment manager after taking into consideration the fundamental economic and investment environment, an appraisal of individual company prospects, and relative stock valuation levels which would pertain to these prospects. Artio Global Management May make changes in equity allocation if it thinks it is prudent to reduce exposure. Additional considerations governing equity investments shall include:

- A. Exceed the insert appropriate benchmark over a market cycle. the BOARD's Investment Policy 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%). Or
 - (2) 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.
 - (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.

B. Reasonable diversification among industries, companies, and countries should be maintained, subject to reasonable limitations on the number of total holdings.

Guidelines

Eligible Securities

The following types of securities will be eligible for investment:

1. Common stocks and convertible securities of international companies typically trading on international stock exchanges, including corporate warrants, rights, futures and debt instruments convertible into equity securities.
2. Common stocks and convertible securities of companies within the emerging markets, including corporate warrants, rights, futures and debt instruments convertible into equity securities. Emerging markets to range from 0 – 35% of the market value of the portfolio.
3. American Depository Receipts (ADRs), Global Depository Receipts (GDRs) and International Depository Receipts (IDRs).
4. Exchange-traded funds to range in aggregate from 0-20% of the market value of the portfolio. Any single issue may range from 0-10% of the market value of the portfolio.
5. Fixed income investments may be utilized to gain exposure to countries in emerging market regions where specific stock investment choices and opportunities may be limited. Fixed income investments may range from 0-5% of the market value of the portfolio.
6. Cash or short-term cash equivalents denominated in domestic or foreign currencies up to 10% of the Portfolio.
7. Currencies of MSCI ACWI ex-U.S countries as well as emerging markets.
8. Forward foreign currency contracts and currency futures are permitted for the purpose of hedging currency risk associated with securities in the account and in connection with the settlement of transactions. Forward foreign currency transactions may also be used where there are cash

balances in the portfolio to maintain foreign currency exposure and for hedging to the benchmark. Investment Manager may execute trades using a foreign exchange broker to be selected subject to the Investment Manager's discretion.

9. Notes, baskets or warrants which replicate the performance of an underlying security or dividend for which investment in the local market or in ADRs or GDRs would be difficult and/or costly. Notes, baskets or warrants may range from 0-5% of the portfolio.

C. Diversification

The Investment Manager is expected to diversify the portfolio in a manner consistent with prudent person guidelines. The Investment Manager may incorporate cash equivalents in a range of 0 – 10% of the market value of the portfolio. The Investment Manager has discretion to reduce the equities to not lower than 90% of the market value of the portfolio. Should there be a recommendation to reduce equities to below 90%, the Investment Manager would need to discuss the matter with the BOARD.

D. Investment Limitations

The Investment Manager shall not invest more than 5 percent at cost of the assets of any portfolio in common stock, preferred stock and other obligations of any one issuing corporation, with the exception of exchange-traded funds where the Investment Manager shall not invest more than 10% in an individual exchange-traded fund at cost.

The aggregate investment by the Investment Manager, on behalf of all of its discretionary accounts, in any one issuing corporation, shall not exceed 5 percent of the outstanding capital stock of that corporation.

The following investments are prohibited:

1. Commodities and loans
2. Short sales and the use of margin accounts
3. Put and call options of any type
4. Private placements with the exception of 144A securities
5. Direct participations
6. Real Estate

EXHIBIT C
SAMCERA'S PLACEMENT AGENT POLICY

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

December 13, 2011

Agenda Item 6.8

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

SUBJECT: Review of *SamCERA*'s Draft for a New Boilerplate Investment Management Agreement

STAFF RECOMMENDATION: Staff recommends that the board review with staff the first draft of a new boilerplate investment manager agreement (IMA) and make suggested amendments, if required.

BACKGROUND: Shortly after *SamCERA* hired a professional administrator in 1994, the association began aggressively diversifying the portfolio. The first step in diversification was with passive investment strategies. The investment agreements for those assets were usually rigid and the terms dictated by the investment managers. When active investments were incorporated into the portfolio, staff and county counsel developed a boilerplate agreement. The boilerplate agreement was later adapted for various asset classes as they came on board.

It has been years since *SamCERA* reviewed its investment manager agreements. *SamCERA*'s counsel and staff believe it to be prudent to begin a thorough review of the agreements and incorporate some of the current stipulations

DISCUSSION: Counsel and staff will review with the board the new draft of the IMA and make comparisons to the old IMA. Both of which are attached to this agenda item.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

December 13, 2011

Agenda Item 7.1

To: Board of Retirement



From: Chezelle Milan, Retirement Senior Accountant
Mabel Wong, Finance Officer

Subject: Preliminary Monthly Financial Report for the Period Ending October 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 \$2,234,806,832.

Statement of Changes in Fiduciary Net Assets

Net assets held in trust for pension benefits increased by approximately \$129.1 million, month over month. The increase is primarily due to market appreciation in assets.

The following reports are attached to this agenda item:

| | Page |
|---|------|
| Table of Contents | |
| 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 |
| Statement of Fiduciary Net Assets (YTD Monthly Comparative) | 5 |
| Statement of Changes in Fiduciary Net Assets (YTD Monthly Comparative) | 6 |

**San Mateo County Employees' Retirement Association
Statement of Fiduciary Net Assets - YTD Comparative
October 2011
PRELIMINARY**

| | October 2011 | October 2010 |
|--|----------------------|----------------------|
| ASSETS | | |
| CASH AND CASH EQUIVALENTS | 93,307,175 | 47,732,705 |
| SECURITIES LENDING CASH COLLATERAL | 202,231,041 | 169,475,224 |
| TOTAL CASH | 295,538,216 | 217,207,930 |
| RECEIVABLES | | |
| Contributions | 0 | 0 |
| Due from Broker for Investments Sold | 230,925,008 | 105,530,456 |
| Investment Income | 5,017,251 | 5,952,612 |
| Securities Lending Income | 48,794 | 85,995 |
| Other Receivable | 113,513 | 113,472 |
| TOTAL ACCOUNTS RECEIVABLES | 236,104,567 | 111,682,535 |
| PREPAID EXPENSE | 7,669 | 7,669 |
| INVESTMENTS AT FAIR VALUE | | |
| Domestic Fixed Income Securities | 567,242,894 | 616,906,412 |
| Domestic Equities | 814,456,072 | 924,167,788 |
| International Equities | 354,878,596 | 421,666,431 |
| Real Estate | 138,282,516 | 117,068,313 |
| Private Equities | 12,368,811 | 250,000 |
| Risk Parity | 138,950,310 | 0 |
| Hedge Funds | 66,445,731 | 0 |
| Commodities | 69,326,995 | 0 |
| Held for Securities Lending | 0 | 0 |
| Other Investment | 0 | 0 |
| | 2,161,951,925 | 2,080,058,944 |
| FIXED ASSETS | 0 | 0 |
| LESS ACCUMULATED DEPRECIATION | 0 | 0 |
| | 0 | 0 |
| TOTAL ASSETS | 2,693,602,377 | 2,408,957,077 |
| LIABILITIES | | |
| Investment Management Fees | 3,272,513 | 2,278,118 |
| Due to Broker for Investments Purchased | 252,736,487 | 137,942,223 |
| Collateral Payable for Securities Lending | 202,231,041 | 169,475,224 |
| Other | 555,504 | 756,656 |
| TOTAL LIABILITIES | 458,795,544 | 310,452,221 |
| NET ASSETS HELD IN TRUST FOR PENSION BENEFITS | 2,234,806,832 | 2,098,504,855 |

San Mateo County Employees' Retirement Association
Statement of Changes in Fiduciary Net Assets - YTD Comparative
October 2011
Preliminary

| | October 2011 | October 2010 | |
|---|----------------------|--------------------|----------------------|
| ADDITIONS | | | |
| CONTRIBUTIONS | | | |
| Employer Contribution | 69,932,875 | 76,981,191 | (7,048,316) |
| Employee Contribution | 13,632,083 | 13,912,520 | (280,437) |
| TOTAL CONTRIBUTIONS | <u>83,564,958</u> | <u>90,893,711</u> | <u>(7,328,753)</u> |
| INVESTMENT INCOME | | | |
| Interest and Dividends | 14,914,466 | 11,013,420 | 3,901,046 |
| Net Appreciation (Depreciation) in fair value of investments | (129,004,405) | 227,444,618 | (356,449,023) |
| Less Investment Expense | (4,527,173) | (2,672,012) | (1,855,161) |
| Less Asset Management Expense | 0 | (184,824) | 184,824 |
| NET INVESTMENT INCOME | <u>(118,617,111)</u> | <u>235,601,202</u> | <u>(354,218,313)</u> |
| SECURITIES LENDING INCOME | | | |
| Earnings | 133,714 | 211,134 | (77,420) |
| Less: Securities Lending Expenses | 36,986 | (62,599) | 99,586 |
| NET SECURITIES LENDING INCOME | <u>170,700</u> | <u>148,535</u> | <u>22,165</u> |
| OTHER ADDITIONS | 1,127 | 26,285 | (25,158) |
| TOTAL ADDITIONS | <u>(34,880,327)</u> | <u>326,669,733</u> | <u>(361,550,060)</u> |
| DEDUCTIONS | | | |
| ASSOCIATION BENEFITS | | | |
| Service Retirement Allowance | 40,003,330 | 37,315,857 | 2,687,473 |
| Disability Retirement Allowance | 5,051,539 | 4,762,295 | 289,243 |
| Survivor, Death and Other Benefits | 240,499 | 251,141 | (10,642) |
| TOTAL ASSOCIATION BENEFITS | <u>45,295,368</u> | <u>42,329,293</u> | <u>2,966,074</u> |
| REFUND OF MEMBER CONTRIBUTIONS | 1,230,143 | 734,736 | 495,407 |
| ADMINISTRATIVE EXPENSE | 1,505,327 | 975,190 | 530,137 |
| OTHER EXPENSE | 57,832 | 22,113 | 35,719 |
| TOTAL DEDUCTIONS | <u>48,088,669</u> | <u>44,061,332</u> | <u>4,027,337</u> |
| NET INCREASE | (82,968,996) | 282,608,400 | (365,577,397) |
| Net Assets Held in Trust for Pension Benefits: | | | |
| Beginning of Period | 2,317,775,829 | 1,815,896,455 | |
| End of Period | 2,234,806,832 | 2,098,504,855 | |

San Mateo County Employees' Retirement Association
 CHANGES IN FIDUCIARY NET ASSETS - TRAILING FOUR MONTHS
 For the Month Ending October 31, 2011
 PRELIMINARY

| | July 2011 | August 2011 | September 2011 | October 2011 | YTD |
|--|-------------------|----------------------|----------------------|--------------------|---------------------|
| ADDITIONS | | | | | |
| CONTRIBUTIONS | | | | | |
| Employee Contribution | 2,796,875 | 3,502,213 | 3,674,023 | 3,658,973 | 13,632,083 |
| Employer Contributions - Regular | 5,858,439 | 7,315,021 | 7,338,753 | 7,336,610 | 27,848,823 |
| Employer Contributions - COLA | 3,261,580 | 4,069,393 | 4,080,186 | 4,079,143 | 15,490,302 |
| Employer Prefunded Contribution | 60,704,948 | (11,323,486) | (11,387,916) | (11,399,796) | 26,593,750 |
| TOTAL CONTRIBUTIONS | 72,621,842 | 3,563,141 | 3,705,046 | 3,674,930 | 83,564,958 |
| INVESTMENT INCOME | | | | | |
| Interest and Dividends | 2,674,939 | 4,171,591 | 4,363,867 | 3,704,070 | 14,914,466 |
| Net Appreciation (Depreciation) in fair value of investments | (16,965,881) | (110,856,042) | (135,778,761) | 134,597,405 | (129,003,278) |
| Securities Lending Income | 36,093 | 29,250 | 32,457 | 35,914 | 133,714 |
| Other Additions | | | | | 0 |
| Other Investment Related Expense | (465,397) | (474,387) | (270,222) | (12,306) | (1,222,313) |
| Securities Lending Expense | 3,410 | (4,157) | 17,788 | 19,945 | 36,986 |
| TOTAL ADDITIONS | 57,905,005 | (103,570,606) | (127,929,824) | 142,019,958 | (31,575,467) |
| DEDUCTIONS | | | | | |
| ASSOCIATION BENEFITS | | | | | |
| Retiree Annuity | 2,577,870 | 2,603,168 | 2,606,554 | 2,607,079 | 10,394,671 |
| Retiree Pension | 6,081,746 | 6,213,436 | 6,141,097 | 6,173,786 | 24,610,066 |
| Retiree COLA | 2,583,422 | 2,567,502 | 2,563,624 | 2,561,767 | 10,276,315 |
| Retiree Death and Modified Work Benefit | 3,579 | 3,579 | 3,579 | 3,579 | 14,316 |
| Active Member Death Benefit | 0 | 0 | 0 | 0 | 0 |
| Voids and Reissue | 0 | 0 | 0 | 0 | 0 |
| TOTAL ASSOCIATION BENEFITS | 11,246,618 | 11,387,685 | 11,314,854 | 11,346,211 | 45,295,368 |
| REFUND OF MEMBER CONTRIBUTIONS | 193,618 | 323,124 | 398,836 | 314,565 | 1,230,143 |
| ACTUARIAL FEES | | | | | |
| ACTUARIAL FEES | 32,750 | 111,250 | (2,500) | 2,250 | 143,750 |
| CONSULTANT FEES - INVESTMENT (SIS) | 33,333 | 33,333 | 33,333 | 33,333 | 133,333 |
| CUSTODIAN FEES - STATE STREET | 18,000 | 18,000 | 18,000 | 18,000 | 72,000 |
| INVESTMENT MANAGEMENT FEE - R1000 INDEX | 5,628 | 5,470 | 5,405 | 5,566 | 22,069 |
| INVESTMENT MANAGEMENT FEE - ABERDEEN | 27,574 | 23,680 | 25,719 | 24,813 | 101,786 |
| INVESTMENT MANAGEMENT FEE - PYRAMIS | 16,867 | 15,879 | 16,411 | 16,195 | 65,353 |
| INVESTMENT MANAGEMENT FEE - BROWN BROTHERS | 6,306 | 10,512 | 8,411 | 9,622 | 34,850 |
| INVESTMENT MANAGEMENT FEE - FRANKLIN TEMPLETON | 35,092 | 34,924 | 32,659 | 34,194 | 136,868 |
| INVESTMENT MANAGEMENT FEE - CHARTWELL | 36,804 | 31,200 | 30,945 | 34,590 | 133,538 |
| INVESTMENT MANAGEMENT FEE - D E SHAW | 46,529 | 42,946 | 41,605 | 44,717 | 175,797 |
| INVESTMENT MANAGEMENT FEE - T ROWE PRICE | 31,601 | 29,143 | 28,311 | 30,810 | 119,865 |
| INVESTMENT MANAGEMENT FEE - BLACKROCK | 64,729 | 58,521 | 57,473 | 60,958 | 241,681 |
| INVESTMENT MANAGEMENT FEE - BARROW HANLEY | 60,870 | 53,054 | 53,621 | 56,364 | 223,909 |
| INVESTMENT MANAGEMENT FEE - THE BOSTON COMPANY | 34,303 | 30,503 | 29,627 | 32,840 | 127,273 |
| INVESTMENT MANAGEMENT FEE - JENNISON ASSOCIATES | 76,350 | 58,429 | 63,029 | 64,851 | 262,659 |
| INVESTMENT MANAGEMENT FEE - MONDRIAN | 32,441 | 30,065 | 28,417 | 35,043 | 125,966 |
| INVESTMENT MANAGEMENT FEE - ARTIO | 82,213 | 73,789 | 69,364 | 73,716 | 299,082 |
| INVESTMENT MANAGEMENT FEE - WESTERN ASSET | 27,267 | 24,934 | 26,191 | 25,598 | 103,990 |
| INVESTMENT MANAGEMENT FEE - INVESCO CORE | 51,937 | 51,937 | 51,937 | 55,082 | 210,893 |
| INVESTMENT MANAGEMENT FEE - SHERIDAN PRODUCTIONS | 0 | 0 | 0 | 150,000 | 150,000 |
| INVESTMENT MANAGEMENT FEE - ABRY ADVANCED | 0 | 0 | 0 | 0 | 0 |
| INVESTMENT MANAGEMENT FEE - AQR GLOBAL RISK PARITY | 48,540 | 50,082 | 48,785 | 0 | 147,407 |
| INVESTMENT MANAGEMENT FEE - AQR DELTA FUND | 58,322 | 58,004 | 57,535 | 0 | 173,861 |
| INVESTMENT MANAGEMENT FEE - SSGA MULTISOURCE | 26,087 | 25,200 | 23,529 | 24,114 | 98,929 |
| TOTAL PROFESSIONAL FEE | 853,543 | 870,856 | 747,804 | 832,657 | 3,304,860 |
| ADMIN EXPENSE - SALARIES & BENEFITS | | | | | |
| ADMIN EXPENSE - SALARIES & BENEFITS | 151,218 | 236,478 | 239,549 | 240,481 | 867,726 |
| ADMIN EXPENSE - SERVICES & SUPPLIES | 155,314 | 109,526 | 194,865 | 177,895 | 637,601 |
| TOTAL ADMINISTRATIVE EXPENSES | 306,532 | 346,004 | 434,415 | 418,376 | 1,505,327 |
| INTEREST FOR PREPAID CONTRIBUTION | 0 | 0 | 0 | 0 | 0 |
| OTHER DEDUCTIONS | 31,671 | 13,151 | 3,037 | 9,973 | 57,832 |
| TOTAL DEDUCTIONS | 12,631,982 | 12,940,820 | 12,898,945 | 12,921,781 | 51,393,529 |
| NET INCREASE | 45,273,023 | (116,511,426) | (140,828,770) | 129,098,176 | (82,968,996) |

**San Mateo County Employees' Retirement Association
Statement of Fiduciary Net Assets - Monthly Comparative
For the Month Ending October 31, 2011**

| | October 2011 | September 2011 | Increase/(Decrease) | % of Incr/Decr |
|--|----------------------|----------------------|---------------------|----------------|
| ASSETS | | | | |
| CASH AND CASH EQUIVALENTS | 93,307,175 | 94,207,448 | (900,273) | -0.96% |
| SECURITIES LENDING CASH COLLATERAL | 202,231,041 | 204,148,309 | (1,917,268) | -0.94% |
| TOTAL CASH | 295,538,216 | 298,355,757 | (2,817,540) | (0) |
| RECEIVABLES | | | | |
| Contributions | 0 | 0 | 0 | N/A |
| Due from Broker for Investments Sold | 230,925,008 | 178,432,160 | 52,492,848 | 29.42% |
| Investment Income | 5,017,251 | 5,947,744 | (930,493) | -15.64% |
| Securities Lending Income | 48,794 | 43,181 | 5,613 | 13.00% |
| Other Receivable | 113,513 | 113,542 | (29) | -0.03% |
| TOTAL ACCOUNTS RECEIVABLES | 236,104,567 | 184,536,627 | 51,567,940 | 27.94% |
| PREPAID EXPENSE | 7,669 | 7,669 | 0 | 0.00% |
| INVESTMENTS AT FAIR VALUE | | | | |
| Domestic Fixed Income Securities | 567,242,894 | 561,753,096 | 5,489,798 | 0.98% |
| Domestic Equities | 814,456,072 | 724,752,507 | 89,703,565 | 12.38% |
| International Equities | 354,878,596 | 326,819,125 | 28,059,470 | 8.59% |
| Real Estate | 138,282,516 | 135,475,106 | 2,807,410 | 2.07% |
| Private Equity | 12,368,811 | 11,518,706 | 850,106 | 7.38% |
| Risk Parity | 138,950,310 | 138,950,310 | 0 | N/A |
| Hedge Funds | 66,445,731 | 66,445,731 | 0 | N/A |
| Commodities | 69,326,995 | 67,006,505 | 2,320,491 | 3.46% |
| Held for Securities Lending | 0 | 0 | 0 | N/A |
| Other Investment | 0 | 0 | 0 | N/A |
| | 2,161,951,925 | 2,032,721,085 | 129,230,840 | 6.36% |
| FIXED ASSETS | 0 | 0 | 0 | N/A |
| LESS ACCUMULATED DEPRECIATION | 0 | 0 | 0 | N/A |
| | 0 | 0 | 0 | 0.00% |
| TOTAL ASSETS | 2,693,602,377 | 2,515,621,137 | 177,981,240 | 7.08% |
| LIABILITIES | | | | |
| Investment Management Fees | 3,272,513 | 2,505,395 | 767,117 | 30.62% |
| Due to Broker for Investments Purchased | 252,736,487 | 202,448,180 | 50,288,307 | 24.84% |
| Collateral Payable for Securities Lending | 202,231,041 | 204,148,309 | (1,917,268) | -0.94% |
| Other | 555,504 | 810,597 | (255,093) | -31.47% |
| TOTAL LIABILITIES | 458,795,544 | 409,912,481 | 48,883,064 | 11.93% |
| NET ASSETS HELD IN TRUST FOR PENSION BENEFITS | 2,234,806,832 | 2,105,708,656 | 129,098,176 | 6.13% |

San Mateo County Employees' Retirement Association
Statement of Changes in Fiduciary Net Assets - Monthly Comparative
For the Month Ending October 2011

| | October 2011 | September 2011 | |
|---|----------------------|----------------------|--------------------|
| ADDITIONS | | | |
| CONTRIBUTIONS | | | |
| Employer Contribution | 69,932,875 | 69,916,918 | 15,957 |
| Employee Contribution | 13,632,083 | 9,973,110 | 3,658,973 |
| TOTAL CONTRIBUTIONS | <u>83,564,958</u> | <u>79,890,028</u> | <u>3,674,930</u> |
| INVESTMENT INCOME | | | |
| Interest and Dividends | 14,914,466 | 11,210,396 | 3,704,070 |
| Net Appreciation (Depreciation) in fair value of investments | (129,004,405) | (263,601,578) | 134,597,173 |
| Less Investment Expense | (4,527,173) | (3,682,209) | (844,963) |
| Less Asset Management Expense | 0 | 0 | 0 |
| NET INVESTMENT INCOME | <u>(118,617,111)</u> | <u>(256,073,391)</u> | <u>137,456,280</u> |
| SECURITIES LENDING INCOME | | | |
| Earnings | 133,714 | 97,800 | 35,914 |
| Less: Securities Lending Expenses | 36,986 | 17,041 | 19,945 |
| NET SECURITIES LENDING INCOME | <u>170,700</u> | <u>114,841</u> | <u>55,859</u> |
| OTHER ADDITIONS | 1,127 | 894 | 233 |
| TOTAL ADDITIONS | <u>(34,880,327)</u> | <u>(176,067,628)</u> | <u>141,187,301</u> |
| DEDUCTIONS | | | |
| ASSOCIATION BENEFITS | | | |
| Service Retirement Allowance | 40,003,330 | 29,990,011 | 10,013,320 |
| Disability Retirement Allowance | 5,051,539 | 3,777,772 | 1,273,766 |
| Survivor, Death and Other Benefits | 240,499 | 181,374 | 59,125 |
| TOTAL ASSOCIATION BENEFITS | <u>45,295,368</u> | <u>33,949,157</u> | <u>11,346,211</u> |
| REFUND OF MEMBER CONTRIBUTIONS | 1,230,143 | 915,578 | 314,565 |
| ADMINISTRATIVE EXPENSE | 1,505,327 | 1,086,950 | 418,376 |
| OTHER EXPENSE | 57,832 | 47,860 | 9,973 |
| TOTAL DEDUCTIONS | <u>48,088,669</u> | <u>35,999,545</u> | <u>12,089,124</u> |
| NET INCREASE | (82,968,996) | (212,067,173) | 129,098,177 |
| Net Assets Held in Trust for Pension Benefits: | | | |
| Beginning of Period | 2,105,708,656 | 2,317,775,829 | |
| End of Period | 2,234,806,832 | 2,105,708,656 | |

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

December 13, 2011

Agenda Item 7.2

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer



SUBJECT: Discussion of Board/Staff Retreat Agenda, Scheduled for April 24 & 25, 2012

Staff Recommendation

Staff recommends the board discuss and provide input and/or direction to staff regarding the topics and schedule for the 2012 Board/Staff Retreat.

Summary

We last discussed the retreat agenda at the October meeting. Based on board input at that time, staff changed the draft agenda to set aside a total of two hours on the first morning to hear from and discuss the *SamCERA* portfolio with SIS and *SamCERA* staff. This meant the elimination of a presentation from an economist, which we believe was consistent with the board's priorities and comments noted at the October meeting. This item on the December 13 agenda is to give the board another opportunity to discuss the proposed retreat topics. Following this meeting, staff will begin in earnest to schedule presenters.

Background

The April 24 & 25, 2011, *SamCERA* Board/Staff Retreat is scheduled along the same lines as the 2011 retreat:

| | |
|-------------------|---|
| Days: | Two consecutive days |
| Timing: | Leave time in between speakers for discussion |
| Location: | In the <i>SamCERA</i> boardroom |
| Speakers: | Draw speakers from outside professionals as well as <i>SamCERA</i> 's consultants and staff |
| Regular Business: | Conduct the board's regular monthly business during the afternoon on Tuesday of the retreat |
| Dates: | Tuesday, April 24, and Wednesday, April 25. |

PLEASE NOTE: The dates of the retreat were listed incorrectly on a previous memo. Please check your calendars to assure that you have the dates entered correctly.

Attached is a draft agenda for the retreat.

Staff will bring the topics and agenda for the retreat before the board a few more times as the details evolve toward finalization.

Agenda & Presenters

Board / Staff Retreat

April 24 & 25, 2012



San Mateo County Employees' Retirement Association

SamCERA

BOARD / STAFF RETREAT AGENDA
Day One—Tuesday, April 24, 2012

| <u>TIME</u> | <u>TOPIC</u> | <u>SPEAKER</u> |
|------------------|--|--|
| 8:30 a.m. | <ul style="list-style-type: none"> • Coffee and Refreshments | |
| 9:00 a.m. | <ul style="list-style-type: none"> • Welcome | David Bailey, Chief Executive Officer, <i>SamCERA</i> |
| 9:15 a.m. | <ul style="list-style-type: none"> • SamCERA Portfolio Update. Review of current investment goals and objectives and how other retirement systems are evolving. What risks do each of our investments address? Do any mandates deserve a larger or smaller allocation? Have our expectations for the performance of the current allocation been born out in recent bull and bear markets? What can we expect the near and long term futures to hold? | Gary Clifton Chief Investment Officer, <i>SamCERA</i> Patrick Thomas & _____ Strategic Investment Solutions |
| 10:30 a.m. | <ul style="list-style-type: none"> • Break | |
| 11:15 a.m. | <ul style="list-style-type: none"> • Continuation of SamCERA Portfolio Update. | |
| 12 Noon | <ul style="list-style-type: none"> • Lunch | |
| 1:00 p.m. | <ul style="list-style-type: none"> • Ethics and California Public Pension Plans • Legislation that May Affect SamCERA | Brenda Carlson, Chief Deputy County Counsel, San Mateo County Gladys Smith <i>SamCERA</i> Benefits Manager Dr. Henry Brodkin <i>SamCERA</i> Medical Advisor |
| 2:00 p.m. | <ul style="list-style-type: none"> • Processing and Evaluating SamCERA Disabilities | |
| 3:00 p.m. | <ul style="list-style-type: none"> • Break | |
| 3:15 p.m. | <ul style="list-style-type: none"> • Beginning of Regular Board Meeting Agenda | |
| 5 p.m. (approx.) | <ul style="list-style-type: none"> • End of Day One | |

BOARD / STAFF RETREAT AGENDA
DAY TWO—WEDNESDAY, APRIL 25, 2012

| <u>TIME</u> | <u>TOPIC</u> | <u>SPEAKER</u> |
|-------------|---|--|
| 8:30 a.m. | <ul style="list-style-type: none"> • Coffee and Refreshments | |
| 9 a.m. | <ul style="list-style-type: none"> • Assumed Earnings Rates • How GASB Changes will Affect <i>SamCERA</i> and Its Employers | Nick Collier, Principal, Consulting Actuary, Milliman, Inc. |
| 10:15 a.m. | <ul style="list-style-type: none"> • Break | |
| 10:30 a.m. | <ul style="list-style-type: none"> • Infrastructure Investing. Global, domestic and local. Educational presentation and discussion. | ??? |
| 11:30 a.m. | <ul style="list-style-type: none"> • Open Discussion | |
| 12 noon | <ul style="list-style-type: none"> • Lunch (Board and <i>SamCERA</i> Staff) | |
| 1:15 p.m. | <ul style="list-style-type: none"> • Trading Costs Report | ??? |
| 2:15 p.m. | <ul style="list-style-type: none"> • Open Discussion | |
| 2:30 p.m. | <ul style="list-style-type: none"> • Status of <i>SamCERA's</i> Tax Determination Letter | Bob Blum, Hanson-Bridgett??? |
| 3:30 p.m. | <ul style="list-style-type: none"> • Break | |
| 3:45 p.m. | <ul style="list-style-type: none"> • Status of <i>SamCERA's</i> Technology Transitions | Tariq Ali, <i>SamCERA</i> Chief Technology Officer, ??? Project Management Team Leader |
| 4:45 p.m. | <ul style="list-style-type: none"> • End of Retreat | |