

Notice of Public Meeting



Investment Committee

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

100 Marine Parkway, Suite 125, Redwood Shores

Tuesday, January 24, 2011, at 10:00 a.m.

- 1.0 Call to Order
- 2.0 Roll Call
- 3.0 Oral Communications From the Committee
- 4.0 Oral Communications From the Public
- 5.0 Approval of the Minutes
- 6.0 Investment Management Services - the Investment Committee Shall Review & Discuss
 - 6.1 Presentation of the Preliminary Monthly Portfolio Performance Report
 - 6.2 Approval of *SamCERA's* Template Investment Management Agreement
 - 6.3 Approval of *SamCERA's* Updated Investment Policy
 - 6.4 Discussion and Direction to Staff as to Process for Alternative Investment Review
- 7.0 Other Business
- 8.0 Chief Investment Officer's Report
- 9.0 Adjournment

A handwritten signature in blue ink that reads "Gary Clifton".

Gary Clifton, Chief Investment Officer

Printed: 1/18/12

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

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

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

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

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

How to Find Us:

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

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

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

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

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

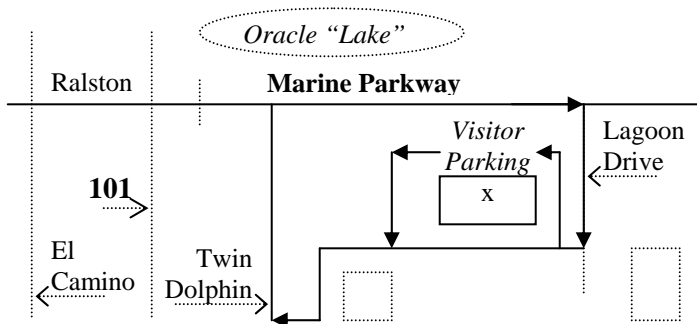
From Marine Parkway turn Right on Lagoon Drive and then immediately take the next two Right turns into our parking lot.

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

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

SamCERA’s Telephone Number: (650) 599-1234
From a County Extension: Dial 1234
From Outside the 650 Area Code: (800) 339-0761
Web Site: www.samcera.org

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



The Board of Retirement of the San Mateo County Employees' Retirement Association will meet on Tuesday, January 24, 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
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
 - David Lewis
 - Service Retirements
 - Continuances
 - Deferred Retirements
 - Member Account Refunds
 - Member Account Rollovers
 - Placement Agent Disclosure Report
5. Benefit & Actuarial Services
 - 5.1 Consideration of agenda items, if any, removed from the Consent Agenda
 - 5.2 Adoption of Cost of Living Adjustments (COLAs) for 2012
6. Investment Services (The Investment Committee will meet on January 24 at 10 a.m.)
 - 6.1 Presentation of the Preliminary Monthly Portfolio Performance Report
 - 6.2 Approval of SamCERA's Template Investment Management Agreement
 - 6.3 Approval of SamCERA's Updated Investment Policy
 - 6.4 Discussion and Direction to Staff as to Process for Alternative Investment Review
7. Board & Management Support Services
 - 7.1 Presentation of the Monthly Financial Report
 - 7.2 Quarterly Budget Report
8. Management Reports
 - 8.1 Chief Executive Officer's Report
 - 8.2 Assistant Executive Officer's Report
 - 8.3 Chief Investment Officer's Report
 - 8.4 Chief Legal Counsel's Report

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

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

Bangal, Fernand
Kristensen, Kaare
Quey, Betty

June 14, 2011
October 21, 2011
October 24, 2011

Hospital
Ben of Kristensen, Ruth
District Attorney

[Continued on page 2 – Printed 01/18/12]

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

Notice of Public Meeting

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Glueck, Mary	November 3, 2011	Mental Health
Nugent Patricia	November 3, 2011	Social Services
Cohenour, Olive	November 5, 2011	Sheriff's Office
Floyd, Carol	November 9, 2011	Chope
Meyer, Virginia	November 14, 2011	Ben of Meyer, Alexander
Jordan, Charlotte	November 17, 2011	Human Services Agency
Lynds, Ada,	November 17, 2011	Ben of Lynds, Robert
Espanola, Angel	November 18, 2011	Public Works
Morrison, Barbara	November 20, 2011	Library
Sumner, Aimee	November 20, 2011	Mental Health
Morris, Travoyie	November 27, 2011	Environmental Health
Honda, Namiko	November 30, 2011	Sheriff's Office
Mack, Joan	November 30, 2011	Information Services
Gonzalez, Maria	December 5, 2011	Controller
Wallis, Georgette	December 6, 2011	Sheriff's Office
Buffington, Lee	December 7, 2011	Tax Collector
Day, Nora	December 12, 2011	Probation
Frederick, Corieann	December 18, 2011	Human Service Agency
Manzo, Mary	December 19, 2011	District Attorney
Little, Mary	December 20, 2011	Elections
O'Brien, Marjorie	December 22, 2011	Hospital
Feldheym, Betty	December 25, 2011	Public Health
Majors, Amanda	December 25, 2011	Canyon Hospital
Andersen, John	December 29, 2011	Assessor

Scott Hood, Assistant Executive Officer

Printed: 1/18/12

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 Retirement's 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.

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

January 24, 2012

Agenda Item 3.0

December 13, 2011 – Special Board Agenda

PUBLIC SESSION – The Board will meet in Public Session at 9:00 a.m.

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

December 13, 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 8:04 a.m., December 13, 2011, in *SamCERA*'s Board Room, 100 Marine Parkway, Suite 160, Redwood Shores, California.
2. **Roll Call:** Ms. Arnott, Mr. David, Mr. Tashman, Mr. Bowler, Ms. Agnew, Mr. Spinello, Mr. Hackleman and Ms. Settles. *Excused:* Ms. Kwan Lloyd, and Ms. Salas. *Other Board Members in Attendance:* Mr. Murphy. *Staff:* Mr. Bailey, Mr. Clifton, Mr. Hood, and Ms. Meitz. *Consultants:* Mr. Brody and Mr. Thomas, Strategic Investment Solutions. *Retirees:* 0, Public: 0.

Mr. Bailey announced the arrival of Natalie Kwan Lloyd's daughter, Veronica Kate Elise, born November 17, 2011. He also introduced Mr. Hyun Soo Cho, *SamCERA*'s new Retirement Accountant, to the board.
3. **Public Comment:** None
4. **Interview Finalists for *SamCERA*'s International Small Cap Manager Mandate (Regular Agenda Item 6.3):** Before the interviews, Mr. Brody and Mr. Thomas, from SIS, both gave a short overview of the three candidates.
 - 6.3a **Dimensional Fund Advisors: International Small Company Strategy:** Mr. Thomas welcomed the presenters and introduced them to the board members. Mr. Joseph Young, CFA and Vice President, and Mr. Joseph Chi, Portfolio Manager and Vice President, of Dimensional Fund Advisors, provided a 45-minute presentation and responded to trustees' questions and concerns.

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Minutes of the Meeting of the Board of Retirement

- 6.3 b **Pyramis Global Advisors: Select International Small Cap:** Mr. Thomas welcomed Mr. Robert Feldman, Portfolio Manager, CFA, and Mr. Art Greenwood, Relationship Manager, of Pyramis Global Advisors. They provided a 45-minute presentation and responded to trustees' questions and concerns.
- 6.2c **Wells Capital Management Incorporated: Berkeley Street International Small Cap Equity:** Mr. Thomas welcomed Mr. Francis Claró, CFA, Senior Portfolio Manager, Berkeley Street Int'l Small Cap Equity, and Mr. Christopher Alders, Manager Director, Business Development, of Wells Capital Management. They provided a 45-minute presentation and responded to trustees' questions and concerns.
5. **Discussion and Selection of *SamCERA's* International Small Cap Manager (Regular Agenda Item 6.4):** After reviewing the pros and cons of the three finalists, the Board of Retirement selected Pyramis Global Advisors.
- Motion** by Hackleman, second by Settles, carried unanimously to select Pyramis Global Advisors, as *SamCERA's* International Small Cap Manager.
6. **Adjournment:** There being no further business, Mr. David adjourned the meeting at 12:19 p.m.

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

January 24, 2012

Agenda Item 3.0

December 13, 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
 - 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
 - Placement Agent Policy
 - Approval of FY 2011-12 Contributions 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

San Mateo County Employees' Retirement Association
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- 8 Management Reports
 - 8.1 Chief Executive Officer's Report
 - 8.2 Assistant Executive Officer's Report
 - 8.3 Chief Investment Officer's Report
 - 8.4 County Counsel's Report

CLOSED SESSION – The board 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

December 13, 2011 – Board Minutes

1211.1 **Call to Order:** Mr. David, Chair, called the Public Session of the Board of Retirement to order at 1:09 p.m., December 13, 2011, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 160, Redwood Shores, California.

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

1211.1.1 **Appointment of Ad Hoc Succession Planning Committee:** Mr. Bailey recommended the board chair appoint an Ad Hoc Succession Planning Committee to identify, discuss and make recommendations regarding the transition of the Chief Investment Officer position and other agency leadership positions.

Mr. David appointed Mr. Hackleman as Chair, Ms. Settles and himself to the Succession Planning Committee.

San Mateo County Employees' Retirement Association
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1211.1.2 **Approval of Resolution Honoring the Substantial and Remarkable Contributions of Lee Buffington:** Mr. Bailey announced the passing of Lee Buffington, and requested approval of Resolution 11-12-12.

Motion by Arnott, second by Bowler, carried unanimously to adopt **Resolution** 11-12-12, Honoring the Substantial and Remarkable Contributions of Lee Buffington.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

RESOLUTION HONORING THE SUBSTANTIAL AND REMARKABLE CONTRIBUTIONS

OF

LEE BUFFINGTON

Resolution 11-12-12

WHEREAS, Lee Buffington served as the Administrator of The San Mateo County Employees' Retirement Association (SamCERA) for 9 years, and

WHEREAS, Lee Buffington served for more than 25 years as a Trustee of the San Mateo County Employees' Retirement Association, and

WHEREAS, Lee Buffington, was appointed to the Office of Treasurer-Tax Collector of San Mateo County, California in October 1985 and was re-elected continuously from that time until his retirement on January 3, 2011, having then served in the office for more than 25 years, and

WHEREAS, during Lee Buffington's tenure as a Trustee of the Board of Retirement, the SamCERA fund increased in value from just over a quarter of a million dollars to more than two billion dollars, and

WHEREAS, during Lee Buffington's tenure as a Trustee of the Board of Retirement, SamCERA's membership increased from approximately 6,000 to more than 10,500, and

WHEREAS, Lee Buffington dedicated a substantial portion of his life and efforts to strengthening the retirement fund and its administration in order to secure the earned benefits of the members of the San Mateo County Employees' Retirement Association;

NOW, THEREFORE,

BE IT RESOLVED that the Trustees of the Board of Retirement of the San Mateo County Employees' Retirement Association, State of California, on December 13, 2011, hereby recognize the substantial and remarkable contributions of Lee Buffington to the success of SamCERA and the County of San Mateo.

December 13, 2011

Al David, Chair, Board of Retirement

San Mateo County Employees' Retirement Association
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1211.2.1 **Oral Communications From the Board:** Ms. Agnew reported attending the SACRS Fall Conference and said it was good. Mr. David thought the discussion on the proposed pension reform was interesting and useful. Mr. Spinello agreed and noted it was fantastic. Ms. Settles also enjoyed the conference and found the legislative updates interesting and informative. Ms. Settles also reported attending the AIF meeting, held before the SACRS conference, and voiced her disappointment. Mr. Clifton said he anticipated the AIF meeting to be geared more toward trustees acquiring information rather than giving of information.

1211.2.2 **Oral Communications From the Public:** None.

1211.3 **Approval of the Minutes: Motion** by Arnott, second by Bowler, carried unanimously to approve the minutes from the October 25, 2011, board meeting, as submitted.

1211.4 **Approval of the Consent Agenda: Motion** by Hackleman, second by Spinello, carried unanimously to approve the day's consent agenda, as submitted, as follows:

Disability Retirements:

The board found that Clarita Bundalian is able to perform her duties as a Licensed Vocational Nurse, and denied her application for a service-connected disability.

The board found that Barbara Greenberg is able to perform her duties as Cook II, and denied her application for a service-connected disability retirement.

The board found that Jane Morgan is unable to perform her duties as a Gardner, and that her disability is service-connected and granted her application for a service-connected disability retirement.

The board found that Michael Pugliese is permanently unable to perform his duties as a Deputy Sheriff, found the heart presumption contained in Government code section 31720.5 applies, and further found that there is not sufficient evidence to rebut the presumption and, therefore, granted his application for a service-connected disability retirement.

Service Retirements:

Member Name	Effective Retirement Date	Department
Weisgal, Richard	July 30, 2011	Def'd from Behavioral Health
Allen, Barbara	September 3, 2011	San Mateo Medical Center
Yang, Mei	September 3, 2011	Aging & Adult Services
Skau, Henry	September 10, 2011	Def'd from Admin & Em Med
Carlile, Alison	September 19, 2011	QDRO of Douglas Jukich
Pettit, Vikki	September 21, 2011	Def'd from Probation
Carbone, David	September 24, 2011	Building and Planning
Orbeta, Jorge	September 26, 2011	Def'd from Human Services Agency
Tielborg, Bernard	September 28, 2011	Def'd from Probation
Alvarenga, Teresa	October 1, 2011	San Mateo Medical Center
Campbell, Sally	October 1, 2011	Human Services Agency
Moe, Taavaoga	October 1, 2011	San Mateo Medical Center
William, Wells	October 1, 2011	Def'd from Human Services Agency
Morrill, Christy	October 2, 2011	Probation
O'Donnell, Duane	October 5, 2011	Def'd from Environmental Health

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Lonergan, James	October 6, 2011	Def'd from San Mateo Medical
Ye, Peiling	October 12, 2011	Sheriff's Office
Clausen, Peter	October 14, 2011	Parks
Symons, Linda	October 15, 2011	Probation
Nath, Mukesh	October 22, 2011	Sheriff's Office
Sharma, Kamlesh	October 22, 2011	Def'd from Superior Court
Baron, Cathy	November 1, 2011	San Mateo Medical Center

Continuances

Survivor's Name

Beneficiary of:

Carey, Amos	Carey, Sally
Erickson, Anita	Erickson, George
Gahob, Rich	Gahob, Luisa
Huston, Nobuko	Huston, Robert
Jackson, James	Jackson, Barbara
Machhi, Chimambhai	Machhi, Hemlataben
McMillan, Constance	McMillan, Robert
Morse, Priscilla	Morse, Robert
Perrin, Ellen	Perrin, Robert
Roth, Julius	Roth, Barbara
Stiefelmaier,	Stiefelmaier, Charles
Wider, Mary	Wider, Frederick

Deferred

Member Name

Retirement Plan Type

Bazo, Eve	G4 Vested
Soria, Gloria	G4 Vested
Bottjer, Jeffrey	G2 Vested
Prothro, Janyce	G4 Vested - Reciprocity

Member Account Refunds

Member Name

Retirement Plan Type

Brito, Rachel	G4 Vested
Burke, Anabelle	G2 Non-vested
Conover, Tammy	QDRO of Conover, Mark
Contreras, Carolina	G4 Vested
Johnson, William	G4 Non-vested
Loggins, Darriel	G4 Non-vested
Raft, Brian	G4 Non-vested
Taylor, Al	G4 Non-vested

Member Account Rollovers

Member Name

Retirement Plan Type

Cobb, Mary	G4 Non-vested
Patel, Shalini	G4 Non-vested
Pickett, Erin	G4 Non-vested
Pires, John	G4 Vested

San Mateo County Employees' Retirement Association
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Approval of Fiscal Year 2011-12 Contribution Rates:

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

Fiscal Year 2011-2012 Contribution Rates for New Benefit Provisions

RESOLUTION 11-12-13

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

San Mateo County Employees' Retirement Association
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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.

1112.5 **Benefit & Actuarial Services**

1112.5.1 **Consideration of Agenda Items, if any, removed from the Consent Agenda:** None

1112.5.2 **Approval of Amendment to Agreement with Milliman, Inc.** Mr. Bailey reported that *SamCERA's* contract for actuarial services with Milliman, Inc. will end December 31, 2011. At the time of the October board meeting, the language of a proposed three-year amendment was still being negotiated. Staff and Milliman have since completed their negotiations and a proposed agreement is now ready for the board's approval. Mr. Bailey recommended the board adopt a resolution authorizing the Chair to execute the "Second Amendment to the Agreement with Milliman, Inc., for Actuarial Services".

Motion by Tashman, second by Arnott, carried unanimously to approve **Resolution** 11-12-14, approving the Second Amendment to the Agreement with Milliman, Inc. for Professional Services.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION Board of Retirement

RESOLUTION 11-12-14

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
Minutes of the Meeting of the Board of Retirement

1112.6 **Investment Service**

1112.6.1 **Presentation of the Monthly Portfolio Performance Report:** Mr. Clifton briefly presented the October 23, 2011, preliminary monthly portfolio performance report to the board.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	827,400,011	12.28%	7.21%	-0.91%
<i>International Equity</i>	<u>369,215,784</u>	9.73%	-5.12%	-1.84%
Total Equity	1,196,615,795	11.48%	3.21%	-1.23%
Private Equity	11,805,259	0.54%	-90.69%	N/A
Risk Parity	138,950,280	-5.06%	N/A	N/A
Hedge Fund	66,445,750	-3.76%	N/A	N/A
Fixed Income	581,404,920	1.83%	4.70%	5.87%
Real Estate Aggregate	138,282,516	0.00	18.62%	0.11%
Commodities	69,326,995	3.46%	N/A	N/A
Cash Equivalents	35,208,146	0.02%	0.80%	1.27%
TOTAL FUND	2,238,039,660	6.09%	4.59%	1.07%
Benchmark		7.92%	5.86%	2.66%

1112.6.2 **Quarterly Investment Performance Analysis for period ended September 30, 2011:** Mr. Clifton and Mr. Thomas, SIS, briefly presented an overview of the quarterly investment performance for the period ended September 30, 2011. 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%).

1112.6.3 **Interview Finalists for *SamCERA's* International Small Cap Manager Mandate:** See minutes of December 13, 2011, Special Board Meeting.

1112.6.4 **Discussion and Selection of *SamCERA's* International Small Cap Manager:** Mr. Clifton reported nine firms that passed the board's screening criteria. Based on information gathered from the responses to the RFI questions, the board opined to invite the following three firms to interview: Dimensional Fund Advisors, Pyramis Global Advisors, and Wells Capital Management Incorporated. The board discussed the merits of the three finalists and selected Pyramis Global Advisors at the 8:00 a.m. Special Meeting of the Board of Retirement

Motion by Hackleman, second by Settles, and carried unanimously to select Pyramis Global Advisors, as *SamCERA's* International Small Cap Manager.

1112.6.5 **Report on Semi-Annual Capital Market & Inflation Assumption Review:** Mr. Brody reviewed SIS' Capital Market Outlook. The outlook allows *SamCERA* to semi-annually view the expectations for capital market returns. Mr. Brody noted that SIS projections utilize a variety of information and models. Some examples were: 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

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

into the models and process used by SIS. The report was informational.

1112.6.6 **Report on the Annual Review of *SamCERA's* Real Estate, Hedge Fund and Risk Parity Portfolios**

6.6a Invesco Real Estate – Invesco Core Real Estate U.S.A., L.P.: Mr. Thomas provided an overview of Invesco's annual review on November 3, 2011. 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, SIS; Bill Grubbs, Portfolio Manager for Invesco Core Real Estate, U.S.A. Fund, and Chris Cole, Acquisition Officer for Invesco Core Real Estate, U.S.A. Fund. Staff and consultants interviewed Invesco, *SamCERA's* core fund real estate manager, in the building's conference room at 100 Marine Parkway. Mr. Thomas gave a short informational report and shared Invesco's responses to *SamCERA's* annual questionnaire with the board. Mr. Thomas concluded his report by answering questions from the board.

6.6b AQR Capital Management - Global Risk Premium Strategy – Scaled to 10% Volatility: Mr. Thomas provided an overview of AQR's annual review on November 3, 2011. 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, SIS; 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, and Joey Lee, Associate, Client Strategies and Portfolio Solutions at AQR Capital Management. Staff and consultants interviewed AQR, *SamCERA's* risk parity manager, in the building's conference room at 100 Marine Parkway. Mr. Thomas gave a short informational report and shared AQR's due diligence questionnaire for the Global Risk Premium product. Mr. Thomas concluded his report by answering questions from the board.

6.6c AQR Capital Management – AQR Delta Fund: Mr. Thomas provided an overview of AQR's annual review on November 3, 2011. Those present were: Ben Bowler, *SamCERA's* Trustee; David Bailey, *SamCERA's* Chief Executive Officer; Scott Hood, *SamCERA's* Assistant Executive Officer; Gary Clifton, *SamCERA's* Chief Investment Officer; Patrick Thomas, SIS; 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, and Joey Lee, Associate, Client Strategies and Portfolio Solutions at AQR Capital Management. Staff and consultants interviewed AQR, *SamCERA's* hedge fund manager, in the building's conference room at 100 Marine Parkway. Mr. Thomas gave a short informational report and shared AQR's due diligence questionnaire for the Delta Fund product. Mr. Thomas concluded his report by answering questions from the board.

1112.6.7 **Discussion of Private Equity Investment – General Catalyst Group VI:** Mr. Clifton began his report by first reminding the board of the adopted **Resolution 10-11-21**, formally delegating the authorities required to facilitate the board's desire to timely execute documentation and take advantage of alternative investment opportunities. The resolution states in part:

“**WHEREAS**, the Board has determined that the time between sourcing alternative investments and the need to execute a commitment, including all documentation, cannot be achieved in the Board's meeting schedule and often would not allow for the board to notice a meeting and

San Mateo County Employees' Retirement Association
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approve the documentation and further that it is in the best interest of the fund for such documents to be executed in a timely manner; Therefore, be it

“**RESOLVED** that the Board hereby delegates to staff and legal counsel full discretionary authority for all tasks relevant to the approval of documents necessary to effectuate the alternative investment. Be it further

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

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

Mr. Shooshani, of Strategic Investment Solutions, provided an informational review of *SamCERA's* latest private equity investment, General Catalyst Group VI. The fund will be directed by General Catalyst's management team, led by nine Managing Directors based in the firm's Cambridge, New York, and Palo Alto offices. The Managing Directors have an aggregate of more than 150 years of senior operating, entrepreneurial, and venture capital investing experience and have served as CEOs and senior leaders of numerous companies.

1112.6.8 **Review of *SamCERA's* Draft Template Agreement for Investment Management Services:** Mr. Clifton reported that 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. 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.

1112.7 **Board & Management Support Services**

1112.7.1 **Presentation of the Monthly Financial Report:** In an informational report, Mr. Clifton reported that *SamCERA's* Net Assets Held in Trust for Pension Benefits as of month end, totaled \$2,234,806,832. 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.

1112.7.2 **Discussion of Board/Staff Retreat Agenda, Scheduled for April 24 & 25, 2012:** Mr. Bailey reported updating the Board/Staff Retreat Agenda, and gave the board another opportunity to discuss proposed retreat topics. At the October meeting, staff changed the draft agenda to set aside a total of two hours, on the first morning, to hear from and discuss *SamCERA's* portfolio with SIS and *SamCERA* staff. This meant the elimination of a presentation from an economist.

1112.8 **Management Reports**

San Mateo County Employees' Retirement Association
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- 1112.8.1 **Chief Executive Officer's Report:** Mr. Bailey clarified discussions regarding per diem when attending conferences and requesting reimbursements. There is no per diem reimbursement process in *SamCERA's* Travel Policy. He explained that the CONUS per diem amounts were used as appropriate reimbursement amounts when receipts were not available. Going forward, receipts will be needed for reimbursement purposes. A copy of *SamCERA's* Travel Policy was distributed to all board members.
 Mr. Bailey turned the board's attention to the completed octagon board table and commended Mr. Hood and Ms. Smith for a job well done.
 Mr. Bailey reported on the SACRS Business Meeting and the RV Kuhn's report, showing data regarding investment performance and asset allocations of the 37 Act funds, posted on the SACRS website.
- 0811.8.2 **Assistant Executive Officer's Report:** Mr. Hood reported a few finishing touches are needed before the office construction is finalized. He mentioned the scheduling of more Financial Knowledge classes for next year, and an RFP for Information Technology Consultant. The two consultants who responded to the RFP were: Linea Solutions and Leon R. Wechsler.
- 0811.8.3 **Chief Investment Officer's Report:** Mr. Clifton reported attending site visits with Mondrian Investment Partners and Baillie Gifford & Co. He also noted that the next Investment Committee meeting will be in March.
- 0811.8.4 **Chief Legal Counsel's Report:** Ms. Carlson provided a brief report on the four hour Pension Reform forum she attended. She also reminded the board of the FPPC's gift limits and regulations. Gifts valued at \$50.00 or more are reportable on the 700 form, and \$420.00 is the limit per year.
- 0811.9 **Report on Actions Taken in Closed Session:** Mr. David took the board meeting into closed session (item C2) to discuss the evaluation of Chief Executive Officer Pursuant to Government Code Section 54957. The board unanimously approved staff's request of extended leave time for the CEO, from approximately January 16 to April 16, 2012.
- 0811.1 **Adjournment in Memory of Deceased Members:** There being no further business, Mr. David
 0 adjourned the meeting at 3:32 p.m., 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

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Perrin, Robert
Runels, Robert

October 30, 2011
October 30, 2011

Sheriff's Office
Dept. of Agriculture

David Bailey, Chief Executive Officer

DRAFT

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 24, 2012

Agenda Item 4.0 (a)

To: Board of Retirement

From: Gladys Smith, Retirement Benefits Manager



Subject: Approval of Consent Agenda

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

Disability Retirements

1. Board finds David Lewis is permanently disabled from the duties of a Community Program Specialist II and grant survivor benefits, pursuant to Government Code Section 31762, to the member's spouse, Margaret Lewis.

Service Retirements

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

Member Name	Effective Retirement Date	Department
Romero, Barbara	October 26, 2011	Correctional Health
Carbonel, Marisol	November 10, 2011	Def'd from Mental Health
Clare, Ronald	November 10, 2011	Human Services Agency
Blanchard, Larry	December 1, 2011	Aging & Adult Services
Buckwalter, Katherine	December 1, 2011	Probation
Jernigan, Deborah	December 1, 2011	San Mateo Medical Center
Prentiss, Diane	December 1, 2011	Def'd from San Mateo Medical Center

Continuances

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

Survivor's Name	Beneficiary of:
Jordan, Charles	Jordan, Charlotte
Morris, Peggy	Morris, Travoyie

Deferred Retirements

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

Member Name	Retirement Plan Type
Boesch, David	Vested with Incoming Reciprocity
Bollentini, Danielle	G4 Vested
Guerrero, Ignacio	G2 Vested - Reciprocity
Filia, Richard	G4 Non Vested - Reciprocity
Ferris, Stephanie	G4 Non Vested - Reciprocity
Welch, Carolyn	G4 Vested - Reciprocity
Hansell, Mary	G2 Vested - Reciprocity
Guerrero, Ignacio	G2 Vested - Reciprocity
Siu, Wing-Yin	G4 Non Vested - Reciprocity
Alton, Angela	G2 Vested - auto defer Government Code §31700
Burg, Nadine	G4 Vested - auto defer Government Code §31700
Chiu, Deborah	G4 Vested - auto defer Government Code §31700
Schrader, Sarah	G4 Vested - auto defer Government Code §31700

Member Account Refunds

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

Member Name	Retirement Plan Type
Eguilos, Teofilo	G4 Vested
Franchi, Shenay	G4 Non-vested
Francisco-Harra, Imee	G4 Non-vested
Granados, Michelle	G4 Vested
Hicks, Schynell	P4 Vested
Idea, Mateo	G4 Vested
Muckel, Eric	G4 Vested
Nau, Vaimoana	G4 Non-vested
Rios, Joline	G4 Non-vested

Member Account Rollovers

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

Member Name	Retirement Plan Type
Alsadir, Sadick	G4 Non-vested
Caldwell, Damion	G4 Non-vested
Campbell, Loretta	G4 Non-vested
Jardon, Gloria	G4 Non-vested

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 24, 2012

Agenda Item Consent

To: Board of Retirement

From: Brenda B. Carlson, Chief Legal Counsel *BBC*

SUBJECT: Placement Agent Disclosure Forms report

ISSUE: SamCERA's Placement Agent Policy provides that staff is present a quarterly report of information received on Placement Agent Disclosure Forms.

BACKGROUND: The board's Placement Agent Policy states that staff should provide 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 Placement Agent Policy. The policy applies to all managers in who entered into new or amended agreements commencing in 2011. This report should be maintained as a public record.

DISCUSSION: For all managers in who entered into new or amended agreements in 2011, the following information was disclosed the Placement Agent Disclosure Forms:

External Manager	Placement Agent	Compensation
General Catalyst	Shannon Advisors LLC	Retainer fee \$250,000 Commitments > \$500,000: \$118,875 Advisory Fee \$110,000
State Street Bank & Trust Co	Christopher Hawkins	base salary plus discretionary bonus
State Street Bank & Trust Co	Linda Ng	base salary plus discretionary bonus
State Street Bank & Trust Co	Jeffrey Trencher	base salary plus discretionary bonus

Staff is not aware of any material violations of the Placement Agent Policy.

STAFF RECOMMENDATION: Staff recommends that the board accept the report of information from the Placement Agent Information Disclosure forms. Staff further recommends that this report be placed on the consent agenda each month to ensure a timely reporting of this information to the board.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 24, 2012

Agenda Item 5.2
(Amended)

TO: Board of Retirement

FROM: Scott Hood, Acting Chief Executive Officer 

SUBJECT: Adoption of Cost of Living Adjustments (COLAs) for 2012

Issue

Pursuant to the 1937 Act, each year the board, based upon recommendation from the actuary, adopts Cost of Living Adjustments (COLAs), if any, to be applied to member benefits. Milliman, Inc. has calculated the annual COLAs for each retirement category for approval by the board. A letter from Milliman is attached.

Background

Annual COLAs are calculated based on statutes in the 1937 Act which require that they be based on the change in the Consumer Price Index for the Bay Area provided by the U.S. Bureau of Labor Statistics and rounded to the nearest one half of one percent. Milliman reports that the CPI increased 2.60% during 2011. Rounded to the nearest one half of one percent, this yields a COLA for nearly all members who retire before April 2, 2012, equal to 2.5%.

All COLAs will be paid beginning with the April 2012 benefit payments.

The attached letter from Milliman, Inc. provides details of the COLA recommendation.

Staff Recommendation

Approve the attached resolution adopting the cost of living adjustments as recommended by Milliman, Inc.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

Cost of Living Adjustments effective April 1, 2012

RESOLUTION 10-11-___

THIS RESOLUTION, adopted by the Board of Retirement (Board) of San Mateo County Employees Retirement Association (SamCERA), approves cost of living adjustments effective April 1, 2012.

WHEREAS, Government Code §31870, §31870.1, §31870.2 and §31874.4 empower the Board to grant cost of living adjustments on an annual basis to recipients of *SamCERA* benefits; and

WHEREAS, the Board has retained Milliman, Inc. to provide actuarial services to the Board; and

WHEREAS, Milliman, Inc., by its letter dated January 20, 2012, and accompanying exhibits has reported the appropriate annual cost of living adjustments for members based on each member's retirement tier, date of retirement; and the applicable rules of the 1937 Act, therefore, be it

RESOLVED, that the Board adopts the schedules of cost of living adjustments set forth in the Milliman, Inc. letter dated January 20, 2012, addressed to Chief Executive Officer David Bailey from Milliman Consulting Actuary Nick J. Collier, and the letter's accompanying exhibits entitled "*Plan 1 COLA Bank Accumulations, General and Safety*" and "*Plan 1 COLA Bank Accumulations, Probation.*" Be it further

RESOLVED, that the Board hereby adopts said cost of living adjustments effective April 1, 2012. Be it further

RESOLVED, that the Chief Executive Officer is hereby empowered to take all actions necessary to provide for the payment of cost of living adjustments in accordance with the adopted schedules.



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January 20, 2012

Mr. David Bailey
Chief Executive Officer
San Mateo County Employees' Retirement Association
100 Marine Parkway, Suite 125
Redwood Shores, CA 94065-5208

Re: Annual COLA Payable in 2012

Dear Dave:

The San Mateo County Employees' Retirement Association (*SamCERA*) provides a Cost-of-Living Adjustment (COLA) to retirees and beneficiaries who retired on or before April 1 of each year in accordance with Article 16.5 of the County Employees' Retirement Law of 1937 (CERL). This letter outlines the COLA percentage and changes to the COLA Bank to be adopted by the Board and effective in April of 2012.

Inflation Index

The first step in the calculation process is the measurement of inflation. The calculation of the annual COLA is specified in the CERL. For Plan 1 General and Safety members, the COLA is governed by Section 31870.2. For Plan 1 Probation and all Plan 2 members, the details of the COLA are provided under Section 31870.1. For Plan 4 members, the COLA is governed by Section 31870. Plan 3 members do not receive any COLA under Article 16.5 of the CERL.

Section 31870.2 says that the COLA should be calculated using...

...the cost of living as of January 1st of each year as shown by the then current Bureau of Labor Statistics Consumer Price Index for All Urban Consumers for the area in which the county seat is situated...

Identical language appears in Sections 31870 and 31870.1 of the CERL. The Retirement Board has adopted the Annual Average Consumer Price Index for All Urban Consumers (CPI-U) for the San Francisco-Oakland-San Jose area (Base Period: 1982-84=100) as the basis for making the annual adjustments. This index increased by 2.60% during the 2011 calendar year, from an index value of 227.469 in 2010 to an index value of 233.390 in 2011.

COLA and COLA Bank

The annual COLA that *SamCERA* retirees and beneficiaries are eligible for is based on the change in the consumer price index rounded to the nearest one-half of one percent (subject to

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the maximum COLAs specified in relevant sections of the CERL). We recommend that the SamCERA Board adopt the following items to take effect in April 2012:

- COLA percentage
 - Plan 1. Each retiree and beneficiary who retired on or before April 1, 2012 will receive a Cost-of-Living Adjustment in accordance with the following table.

Date of Retirement	General	Safety	Probation
All Dates	2.5%	2.5%	2.5%
 - Plan 2. Each retiree and beneficiary who retired on or before April 1, 2012 will receive a Cost-of-Living Adjustment of 2.5%.
 - Plan 4. Each retiree and beneficiary who retired on or before April 1, 2012 will receive a Cost-of-Living Adjustment of 2.0%.
- Decrease in COLA Bank. COLA Banks are unchanged for all Plan 1 retirees and beneficiaries. The COLA Bank may not be reduced below 0.0%; after the payment of the April 2012 COLA, all Plan 1 retirees and beneficiaries will have COLA Bank balances of 0.0%. The COLA Bank accumulations for Plan 1 retirees and beneficiaries through April 1, 2012 are shown in the attached Exhibits, alongside the accumulations from the previous year. Retirees and beneficiaries in Plan 2 and Plan 4 do not accumulate COLA Banks in accordance with Section 31874.4 of the CERL.

Certification

Milliman's work product was prepared exclusively for the use or benefit of SamCERA for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning SamCERA's operations. It is not for the use or benefit of any third party for any purpose. 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.

I, Nick Collier, am a member of the American Academy of Actuaries and an Associate of the Society of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Please let us know if you have any questions or need any additional information.

Sincerely,



Nick J. Collier, ASA, EA, MAAA
Consulting Actuary

NJC/nlo

Enclosures

San Mateo County Employees' Retirement Association
Plan 1 COLA Bank Accumulations
General and Safety

Based on the Consumer Price Index for All Urban Consumers (CPI-U) for the
San Francisco-Oakland-San Jose area (Base Period: 1982-84=100)

Retirement during 12-month period ended April 1	Accumulated COLA Bank April 1, 2012	Accumulated COLA Bank April 1, 2011	2012 Annual COLA
1969 or earlier	0.0%	0.0%	2.5%
1970	0.0%	0.0%	2.5%
1971	0.0%	0.0%	2.5%
1972	0.0%	0.0%	2.5%
1973	0.0%	0.0%	2.5%
1974	0.0%	0.0%	2.5%
1975	0.0%	0.0%	2.5%
1976	0.0%	0.0%	2.5%
1977	0.0%	0.0%	2.5%
1978	0.0%	0.0%	2.5%
1979	0.0%	0.0%	2.5%
1980	0.0%	0.0%	2.5%
1981	0.0%	0.0%	2.5%
1982	0.0%	0.0%	2.5%
1983	0.0%	0.0%	2.5%
1984	0.0%	0.0%	2.5%
1985	0.0%	0.0%	2.5%
1986	0.0%	0.0%	2.5%
1987	0.0%	0.0%	2.5%
1988	0.0%	0.0%	2.5%
1989	0.0%	0.0%	2.5%
1990	0.0%	0.0%	2.5%
1991	0.0%	0.0%	2.5%
1992	0.0%	0.0%	2.5%
1993	0.0%	0.0%	2.5%
1994	0.0%	0.0%	2.5%
1995	0.0%	0.0%	2.5%
1996	0.0%	0.0%	2.5%
1997	0.0%	0.0%	2.5%
1998	0.0%	0.0%	2.5%
1999	0.0%	0.0%	2.5%
2000	0.0%	0.0%	2.5%
2001	0.0%	0.0%	2.5%
2002	0.0%	0.0%	2.5%
2003	0.0%	0.0%	2.5%
2004	0.0%	0.0%	2.5%
2005	0.0%	0.0%	2.5%
2006	0.0%	0.0%	2.5%
2007	0.0%	0.0%	2.5%
2008	0.0%	0.0%	2.5%
2009	0.0%	0.0%	2.5%
2010	0.0%	0.0%	2.5%
2011	0.0%	0.0%	2.5%
2012	0.0%	0.0%	2.5%

This work product was prepared solely for *SamCERA* for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.



San Mateo County Employees' Retirement Association

Plan 1 COLA Bank Accumulations

Probation

Based on the Consumer Price Index for All Urban Consumers (CPI-U) for the San Francisco-Oakland-San Jose area (Base Period: 1982-84=100)

Retirement during 12-month period ended April 1	Accumulated COLA Bank April 1, 2012	Accumulated COLA Bank April 1, 2011	2012 Annual COLA
1990 or earlier	0.0%	0.0%	2.5%
1991	0.0%	0.0%	2.5%
1992	0.0%	0.0%	2.5%
1993	0.0%	0.0%	2.5%
1994	0.0%	0.0%	2.5%
1995	0.0%	0.0%	2.5%
1996	0.0%	0.0%	2.5%
1997	0.0%	0.0%	2.5%
1998	0.0%	0.0%	2.5%
1999	0.0%	0.0%	2.5%
2000	0.0%	0.0%	2.5%
2001	0.0%	0.0%	2.5%
2002	0.0%	0.0%	2.5%
2003	0.0%	0.0%	2.5%
2004	0.0%	0.0%	2.5%
2005	0.0%	0.0%	2.5%
2006	0.0%	0.0%	2.5%
2007	0.0%	0.0%	2.5%
2008	0.0%	0.0%	2.5%
2009	0.0%	0.0%	2.5%
2010	0.0%	0.0%	2.5%
2011	0.0%	0.0%	2.5%
2012	0.0%	0.0%	2.5%

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SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 24, 2012

Agenda Item 6.1

To: Board of Retirement

From: Gary Clifton, Chief Investment Officer

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

COMMENT: As of the second mailing the performance reports for the period ended December 31, 2011 are not available. A shortened version will be e-mailed when available. The regular 6.1 agenda item will be distributed the day of the meeting.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 24, 2012

Agenda Item 6.2

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer
Brenda Carlson, Chief Legal Counsel

SUBJECT: Proposed Template Agreement for Investment Managers

ISSUE: *SamCERA's* template agreement for investment manager services should be periodically reviewed and updated.

STAFF RECOMMENDATION: Staff recommends that the board approve the attached draft investment management agreement.

BACKGROUND: Shortly after *SamCERA* hired a professional administrator in 1994, *SamCERA* 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 template agreement. This agreement was later modified 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 thought it prudent to initiate a thorough review of the agreements and incorporate some of the recent statutory requirements and current best business practices. Staff presented the first draft to the trustees at the December 13, 2011 board meeting.

DISCUSSION: Counsel and staff will briefly review with the board the proposed final draft of the template agreement. To reiterate, the new agreement incorporates language from the template currently in use and incorporates language for new statutory requirements. Both the current template and the proposed template are attached to this memo. As reflected in the attachments, in addition to a more user-friendly format, the proposed template includes the following notable new provisions:

- An “evergreen term”, subject to termination by the Board or the Manager, rather than the set 3 year term.
- Sets forth the initial investment amount in the agreement.
- Contains a certification regarding Placement Agent Disclosure and prohibits gratuities
- Contains a refined and more detailed prohibition relating to Financial Conflicts of Interest
- Incorporates ERISA fiduciary definitions as a standard of care
- Specifies that seminars, training programs and client conferences are included in the fees.



SamCERA

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION'S

AGREEMENT

WITH



FOR

INVESTMENT MANAGEMENT SERVICES

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INVESTMENT MANAGER AGREEMENT

This Agreement is made and entered into as of [REDACTED], 20[REDACTED], in Redwood City, California, by and between the SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (hereinafter referred to as the "SamCERA") and [REDACTED] (hereinafter referred to as "MANAGER").

WHEREAS, SamCERA was created pursuant to the County Employees Retirement Law of 1937 (hereinafter referred to as the " '37 ACT") and is administered by the BOARD of Trustees (hereinafter referred to as the "BOARD"); and

WHEREAS, pursuant to California Government Code Section 31595, the BOARD, "may in its discretion, invest, or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment . . . with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims." (California Government Code Section 31595 combined with the California Constitution, Section XVI, § 17 and California Government Code Section 31594, shall hereinafter be referred to as the "STANDARD OF CARE"); and

WHEREAS, MANAGER is qualified to be an "investment manager" as that term is defined in Section 3(38) of the Employee Retirement Income Security Act of 1974, as amended (hereinafter referred to as "ERISA") and is an investment advisor registered under the Investment Advisers Act of 1940, as amended (hereinafter referred to as the "'40 ACT"), has held itself out to the BOARD as experienced in the matters charged to its care under this Agreement, and has undertaken to provide the services contemplated by this Agreement as a fiduciary of the SamCERA and in accordance with the Standard of Care; and

NOW, THEREFORE, in consideration of the premises, the mutual covenants and conditions hereinafter set forth, and other good and valuable consideration, the parties hereby do agree as follows:

SECTION 1

MANAGEMENT OF THE PORTFOLIO ACCOUNT

1.1 Delegation and Acceptance of Authority. The BOARD hereby delegates to MANAGER the authority and MANAGER hereby accepts and assumes responsibility to invest the assets assigned to the management of MANAGER under this Agreement as an investment manager to SamCERA consistent with SamCERA's investment policy as set forth in Exhibit "A", herein after referred to as the "Investment Policy". In performing its management services, MANAGER will act as SamCERA's fiduciary; will exercise at all times a standard of care no less stringent than the Standard of Care; and will at all times act in compliance with SamCERA's Investment Policy, the '37 Act and all other applicable laws and regulations.

1.2 Assets Under Management; Custodians. The initial amount allocated to this MANAGER is approximately [REDACTED] dollars (\$[REDACTED],000,000.00); provided however, that the BOARD may increase or decrease the amount of Assets Under Manager at any time. SamCERA will place such assets in an account in SamCERA's designated custodian bank (hereinafter referred to as "custodian") under the management and investment authority of MANAGER. Such sum, as well as any earnings and capital growth thereon, is referred to herein as the "Assets Under Management" or "Assets." SamCERA shall at all times be maintained as the owner of the Assets Under Management, but management and investment authority over the Assets Under Management will be vested in MANAGER, in accordance with the terms of this Agreement. MANAGER shall not take possession, title or ownership of any of the Assets Under Management. SamCERA shall have sole discretion to designate the custodian bank and all accounts set up to hold the Assets Under Management shall be established and maintained in the name of SamCERA. The initial custodian for the Assets Under Management shall be State Street Bank and Trust Company. SamCERA may from time to time replace custodian and shall give notice of such change to MANAGER.

1.3 Compliance with Exhibits A and B. MANAGER shall have full authority and discretion to purchase, sell or exchange the Assets Under Management, except as limited by the terms of this Agreement including Exhibit "A", "Investment Policy", and Exhibit "B", "Investment Objectives, Guidelines and

Restrictions.” MANAGER understands that SamCERA may, from time to time, revise Exhibit A and Exhibit B which revisions shall be effective upon receipt by MANAGER, unless otherwise specified by SamCERA in writing.

1.4 Placing of Orders. MANAGER shall place all orders for the Assets Under Management. In exercising such authority, MANAGER shall take reasonable care to ensure that orders are placed with reputable and qualified brokers/dealers, taking into consideration such matters as brokers/dealers' credit worthiness and execution capabilities. Such brokers or dealers shall be duly licensed under the laws of the jurisdiction in which such brokers or dealers perform services and, with respect to United States brokers and dealers, shall be duly registered pursuant to all applicable United States laws and U.S. Department of Labor and Securities and Exchange Commission rules. MANAGER shall not place SamCERA's orders with any broker/dealer affiliated with MANAGER, or with any broker/dealer, which SamCERA has by written notification instructed MANAGER to not utilize for SamCERA trades. All orders shall be based upon "best execution." MANAGER shall report all details regarding trades executed for the Assets Under Management to SamCERA in the format, manner and time frame mutually agreed upon by SamCERA and MANAGER.

1.5 Acting as Principal. MANAGER shall not act as principal in sales and/or purchases regarding the Assets Under Management, unless MANAGER has received prior written approval from the Chief Investment Officer (“CIO”) or his or her designee for each such transaction.

1.6 Acting on Illegal Information. MANAGER shall not place orders to purchase and/or sell any of the Assets Under Management on the basis of any material non-public information obtained or utilized by MANAGER in violation of the securities laws of the United States or other international regulatory agency regulating securities of any country in which manager is doing business.

1.7 Seminars, Training Programs and Client Conferences. As part of the fees paid for the investment services, in the event MANAGER conducts seminars, training sessions, client conferences or similar events, which are generally made available to MANAGER's customers, SamCERA shall be invited to attend upon the same terms and conditions as such other public pension plan customers subject to applicable law. In the event MANAGER offers to pay the cost of such events and/or the travel or lodging expenses incurred by its customers in connection with attending such

events, MANAGER shall cover the cost or reimburse SamCERA for such expenses on the same basis as MANAGER reimburses the expenses of its customers. Any such invitation to SamCERA shall be addressed to “SamCERA” and sent to the attention of the SamCERA Chief Executive Officer. It shall not be addressed to any individual member of the BOARD or SamCERA staff member.

1.8 Proxy Voting and Consents. MANAGER shall provide to the BOARD every quarter, a written report with respect to the voting of proxies by the MANAGER on behalf of the BOARD. MANAGER shall provide such additional reports to the BOARD concerning the voting of proxies as shall be reasonably requested. Proxies shall in all instances be voted in accordance with SamCERA’s Investment Policy. Proxy votes for commingled assets are subject to the written policy governing those assets.

SECTION 2

INVESTMENT MANAGEMENT FEES

2.1 Investment Management Fees. The fees shall be payable to MANAGER at the completion of each calendar quarter. Such fees will be one-quarter of the annual management fee schedule (or pro-rated portion for a period of time less than a calendar quarter) computed on the market value of the Assets Under Management as determined by the custodian as of the end of the each quarter for which such fee is paid, using an average of the end of month values for the three months comprising the quarter. The annual management fee schedule is as follows:

Value of Securities and Cash	Fee Schedule
On the first \$20 million	0.00% per annum
On the next \$20 million.	0.00% per annum
On the next \$60 million.	0.00% per annum
On the remaining amount	0.00% per annum

SECTION 3

INFORMATION AND REPORTS

3.1 Information and Reports. Within ten (10) calendar days from month end, the MANAGER shall provide the BOARD with reports concerning the status

of Assets Under Management. Reports shall include, but not be limited to, a daily acquisition and disposition report, a monthly transaction summary, a monthly statement of changes to cash, a monthly statement of changes to net assets, a monthly statement of assets as of month end reflecting cost and fair market value, and monthly and quarterly statements of asset performance. The performance reports shall provide performance over various standard periods, attribution analysis, and a commentary. Also by the tenth calendar day the MANAGER shall reconcile the monthly asset holding statement from the custodian and resolve all discrepancies. A report reconciling the MANAGER'S accounting record to those of the custodian shall be forwarded to the BOARD monthly. All accounting type reports shall use historic average cost as a basis for carrying value. All reports submitted shall be certified as to accuracy and consistency with this Agreement and SamCERA's Investment Policy. Each of these reports must be signed by a responsible executive officer of the MANAGER.

The BOARD and representatives of the MANAGER shall meet at such times as the BOARD may reasonably request to present MANAGER'S opinions and advice concerning the economic and investment outlook and to update the BOARD as to the MANAGER'S current and future investment strategy. MANAGER shall be available to answer questions by the BOARD from time to time as needed, without charge.

The BOARD shall instruct the custodian to provide the Manager with periodic reports concerning the status of the Assets Under Management, and with such information as the MANAGER may reasonably request from time to time.

SECTION 4

COMPLIANCE WITH GOVERNMENTAL REGULATIONS AND FIDUCIARY RESPONSIBILITY

4.1 Manager's Representations, Warranties and Covenants.

MANAGER acknowledges, represents, warrants, and agrees that:

4.1.1 It is qualified to be an "investment manager," as that term is defined in Section 3(38) of ERISA, and acknowledges that it is a fiduciary with respect to the Assets Under Management hereunder, and that it will maintain that status as long as this Agreement remains in effect;

4.1.2 It has complied with and, when required, will comply

with, all regulations, registrations, filings, approvals, authorizations, consents or examinations required by any governmental authority having jurisdiction over its activities hereunder or the acts contemplated by this Agreement, including, without limitation, any applicable state securities commissions, the United States Securities and Exchange Commission (hereinafter referred to as the "SEC") and the United States Department of Labor and applicable international regulatory agencies.

4.1.3 The personnel of MANAGER who will be responsible for carrying out this Agreement are individuals experienced in the performance of the various functions contemplated by this Agreement and have not been convicted of any crime or found liable in a civil or administrative proceeding or pleaded nolo contendere or agreed to any consent decree with respect to any matter involving breach of trust or fiduciary duty, fraud, securities law violations, bankruptcy law regulations or any act or omission involving moral turpitude.

4.1.4 There are no complaints, disciplinary actions, or investigations filed or pending against MANAGER or any investment professional employed by it who had performed any service with respect to SamCERA's account in the twenty-four (24) preceding months by the SEC, the New York Stock Exchange the American Stock Exchange, the Financial Industry Regulatory Authority (hereinafter referred to as "FINRA"), any Attorney General or any regulatory agency of any state of the United States, any department or agency of the government of the United States, or any governmental agency regulating securities or transactions in real property of any country in which MANAGER is doing business;

4.1.5 MANAGER will promptly notify SamCERA in the event that any of the foregoing acknowledgments, representations, warranties or agreements has been breached or is no longer true.

4.1.6 MANAGER shall promptly notify SamCERA in writing of any investigation, examination, complaint, disciplinary action or other proceeding relating to or affecting MANAGER's ability to perform its duties under this Agreement or involving any investment professional employed by MANAGER who has performed any service with respect to SamCERA's account in the twenty-four (24) preceding months, which is commenced by any of the following: (A) the SEC, (B) the New York Stock Exchange, (C) the American Stock Exchange, (D) FINRA, (E) any Attorney General or any regulatory agency of any state of the United States, (F) any U.S. Government

department or agency, or (G) any governmental agency regulating securities of any country in which MANAGER is doing business. Except as otherwise required by law, SamCERA will maintain the confidentiality of all such information until the investigating entity makes the information public;

4.1.7 The foregoing acknowledgments, representations, warranties and agreements are understood to be relied upon by SamCERA and the BOARD and to constitute a material inducement to the decision of SamCERA and the BOARD to enter into this Agreement.

4.2 Conflict of Interest. It is understood that MANAGER performs investment advisory services for various other clients. MANAGER and its officers may act and continue to act as an investment manager for other clients, and nothing in this Agreement shall in any way be deemed to restrict the right of MANAGER to perform investment management or other services for any other client. SamCERA further acknowledges and understands the risks and conflicts of interest disclosures related to the foregoing as well as MANAGER's other activities as a registered investment advisor, as more fully described in MANAGER's Form ADV. However, nothing in this section shall be construed to relieve MANAGER of any of its duties or obligations as set forth in or arising under the other provisions of this Agreement.

4.3 Permitted Dealings. There shall be no dealings between MANAGER and its affiliates and associates, including, without limitation, the purchase of securities from and/or the sale of securities to affiliates or associates or to other accounts managed by MANAGER, will be permitted with respect to the Assets Under Management without the prior written consent of SamCERA given after full written disclosure of the nature of the affiliation and the facts and circumstances of the transaction. In addition, MANAGER may not act in any capacity in any transaction involving SamCERA on behalf of any person whose interests are known by MANAGER to be adverse to SamCERA, or receive any consideration from any party in connection with a transaction involving SamCERA's assets.

4.4 Gratuities. MANAGER warrants that no gratuities in the form of entertainment, gifts, or otherwise, were offered or given by MANAGER, or any agent or representative of MANAGER, to any officer, fiduciary, advisor, or employee of SamCERA or the County of San Mateo with a view toward securing this Agreement or securing favorable treatment with respect to the awarding or the making of any

determination with respect to this Agreement. MANAGER covenants that no such gratuities will be given to any such person with a view towards securing favorable treatment with respect to the making of any determination with respect to the performance, termination and/or continuation of this Agreement. MANAGER shall review and become familiar with the conflict of interest and reporting provisions applicable to SamCERA, contained in California Government Code Sections 1090 to 1097 inclusive, 31528, 82030, 87100 to 87103.

4.5 Certification Concerning Placement Agent Policy.

MANAGER confirms that no placement fees have been paid by MANAGER or any affiliate in connection with this agreement. MANAGER acknowledges that it has received SamCERA's Placement Agent Disclosure Policy, adopted pursuant to the California Government Code, and attached hereto as Exhibit C and agrees to comply with this policy. MANAGER further acknowledges that it has completed SamCERA's Placement Agent Information Disclosure Form (the "Form"), and represents and warrants to the accuracy of the information that MANAGER has provided on the Form. If any information provided by MANAGER on the Form changes, MANAGER agrees to update SamCERA within 14 calendar days of the date that MANAGER knew or should have known of the change in information.

4.6 Certification Concerning Financial Contacts or Solicitation.

MANAGER represents and warrants that to the best of its knowledge no employee of SamCERA or fiduciary whose position in SamCERA enables such person to influence the award of this Agreement or any competing agreement, and no spouse or economic dependent of such person is or will be employed in any capacity by MANAGER herein. MANAGER further represents and warrants that, to its actual knowledge, neither it nor any of its members, affiliates, officers, employees, agents (including any placement agent) or representatives has paid or will pay, has given or will give, any remuneration or things of value directly or indirectly to SamCERA or any of its members, officers, employees or agents in connection with SamCERA's allocation to MANAGER or otherwise, including finder's fee, cash solicitation fee, or a fee for consulting, lobbying or otherwise.

4.7 Warranty regarding Contingent Fees. MANAGER warrants

that no person or selling agency has been employed or retained directly or indirectly by MANAGER to solicit or secure this Agreement upon any agreement or understanding

for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide established commercial or selling agencies maintained by MANAGER for the purpose of securing business. If MANAGER maintains a relationship with such commercial or selling agencies, then MANAGER shall disclose the name of such agency or agencies and if MANAGER pays a commission, percentage, brokerage, or contingency fee, then such fee shall not be paid from SamCERA's allocation to MANAGER.

SECTION 5

TERM AND TERMINATION

5.1 Term. Subject to the termination provisions set forth herein, the term of this Agreement will commence on the date first set forth above and will continue in full force and effect until terminated.

5.2 Termination By Board. The BOARD reserves the right to terminate the Agreement without cause at any time by giving MANAGER written notice, as detailed below in Section 7.10 Notices, sent at least thirty (30) calendar days prior to the date on which termination is to become effective.

5.3 Termination By Manager. MANAGER reserves the right to terminate the Agreement without cause at any time by giving the BOARD written notice as detailed below in Section 7.10 Notices, sent at least one hundred twenty (120) days prior to the date on which termination is to become effective.

5.4 Consummation of Transactions. Any termination notice given by either party shall not affect or preclude the consummation of any transaction initiated prior to the receipt by one party of the other's termination notice, or, if MANAGER continues to act in accordance with its fiduciary obligations under this Agreement, any transaction initiated during the period during which MANAGER so continues to act.

5.5 Duty to Cooperate. Following notice of termination, MANAGER shall (i) cooperate fully with the BOARD in securing the Assets Under Management; (ii) deliver all funds, property, books, records, and documents of SamCERA in MANAGER's safekeeping to third parties designated by the BOARD and after such delivery, MANAGER shall have no further investment management

responsibility for the Assets Under Management; (iii) submit a full accounting of the Assets Under Management within forty-five days of the effective date of termination; and (iv) make all employees of affiliates of MANAGER available for interviews by SamCERA.

:

SECTION 6

INSURANCE AND INDEMNIFICATION

6.1 Insurance. Without in any way affecting the indemnity sections herein provided and in addition thereto, MANAGER will provide and maintain at its own expense during the term of this Agreement the following program(s) of insurance, enumerated within, covering its operations hereunder against claims for injuries to persons or damage to property which may arise from or in connection with the performance of the work hereunder by MANAGER, its agents, representatives or employees. Such insurance will, in each case set forth in this Section 6.1, be primary to and not contributing with any other insurance maintained by SamCERA and/or the County of San Mateo. Such insurance will be provided by insurer(s) rated A or better by an industry recognized rating agency or otherwise approved in writing by SamCERA, and evidence of such insurance, in a form satisfactory to SamCERA, will be delivered to SamCERA on or before the effective date of this Agreement. Such evidence will be accompanied by a written statement from the insurer that SamCERA is to be given at least thirty (30) days written notice in advance of any material modification or termination of any policy of insurance. MANAGER has supplied certificates of insurance which substantially comply with the requirements of this section. SamCERA retains the right at any time to review the coverage, form, and amount of the insurance required hereby. If in the opinion of SamCERA the insurance provisions in these requirements do not provide adequate protection for SamCERA and its members, SamCERA and MANAGER shall meet to discuss insurance coverage, sufficient in form and amount to provide adequate protection.

6.1.1 Commercial General Liability. MANAGER shall maintain a policy of commercial general liability for bodily injury and property damage arising out of MANAGER's services under this Agreement. Such policy shall include endorsements for property damage, premises-operations, products/completed operations, contractual, and personal injury with a limit of two million dollars

(\$2,000,000) per occurrence and an annual aggregate of five million dollars (\$5,000,000).

6.1.2 Workers' Compensation. MANAGER shall bear sole responsibility and liability for furnishing Workers' Compensation benefits to MANAGER's employees for injuries arising from or connected with any services provided to SamCERA under this Agreement. MANAGER shall provide and maintain a program of Workers' Compensation and Employer's Liability insurance, in an amount and form to meet all applicable statutory requirements, to cover all of MANAGER's employees.

6.1.3 Errors and Omissions, Directors' and Officers' Liability. MANAGER shall maintain insurance to cover MANAGER and its directors, officers, employees, agents, representatives, or subcontractors for errors and omissions losses arising from the services provided under this Agreement. Such policy shall have a limit of seventy-five million dollars (\$75,000,000) per occurrence and an annual aggregate of seventy-five million dollars (\$75,000,000). In lieu of naming SamCERA as an additional insured, such policy shall be endorsed as follows: "Insurance afforded by this policy shall apply also to the liability assumed by the insured under the contract with SamCERA for investment management services, provided such liability results from an error, omission or negligent act of the insured, its directors, officers, employees, agents, representatives, or subcontractors. All other provisions of this policy remain unchanged.

6.1.4 Fraud and Dishonesty. MANAGER shall maintain throughout the term of this Agreement a fidelity or financial institution bond policy with at least the following insuring agreements: (1) Employee Dishonesty Coverage - Form 24 - Ten Million Dollars and (2) Computer Theft Coverage - One Million Dollars. Such policy shall provide protection to SamCERA against loss by reason of fraud or dishonesty on the part of MANAGER, and shall be in an amount meeting the bonding requirements of Section 412(a) of ERISA, or in an amount of one hundred and fifty million dollars (\$150,000,000), whichever is greater. Coverage is to be fixed at the effective date of this Agreement and at the anniversary of the effective date of this Agreement for each successive one- year period that this agreement remains in effect.

6.1.5 Claims Made Professional Liability Insurance. If professional liability coverage is written on a Claims Made form: (1) the "Retro Date" must be shown, and must be on or before the date of the contract or the beginning of

contract work; (2) if coverage is canceled or non-renewed, and not replaced with another Claims Made policy form with a "Retro Date" prior to the contract effective date, MANAGER must purchase "extended reporting" coverage for a minimum of five (5) years after termination of this Agreement; and (3) a copy of the claims reporting requirements must be submitted to SamCERA for review.

6.1.6 Waiver and Subrogation. MANAGER shall cause each insurance policy obtained by it affording bodily injury or property coverage with respect to this Agreement to provide that the insurer waives all right of recovery by way of subrogation against SamCERA and against the trustees, officers, and employees of SamCERA, in connection with any claims of bodily injury or property damage covered under such policy, and such waiver shall be indicated in any insurance certificate to be provided pursuant to this Agreement. If any insurance policy required under this Agreement is obtainable only by the payment of an additional premium charge (i.e., above that charged by the insurer for such policy without a waiver of subrogation), MANAGER shall have the option to either pay the additional premium for a waiver of subrogation from such insurer or to place the insurance with another insurance company that meets the requirements set forth in this section and will issue the aforementioned waiver of subrogation free of charge.

6.2 Indemnification. MANAGER shall defend and hold the BOARD, SamCERA and its employees harmless from and indemnify the BOARD, SamCERA and its employees against any and all liability, loss, damages, court costs and reasonable expenses (including reasonable attorneys' fees) which the BOARD, SamCERA and its employees may incur or suffer under applicable law as a direct result of any breach by MANAGER of its fiduciary responsibility with respect to the Assets Under Management or the breach by MANAGER of any of the acknowledgments, representations, warranties or agreements made in this Agreement or as otherwise provided herein. MANAGER shall have no obligation to indemnify the BOARD arising out of any action of any person or entity other than MANAGER (including any custodian, broker-dealer or other agent of SamCERA or the BOARD.)

SECTION 7
MISCELLANEOUS

7.1 Governing Law and Venue. This Agreement shall be governed by, construed, regulated and administered in accordance with the applicable Federal laws and, to the extent that Federal laws are not applicable, the laws of the State of California. Any action brought to enforce the terms of this Agreement shall be brought in United States District Court located in the County of San Francisco or Superior Court of the State of California located in the County of San Mateo.

7.2 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original.

7.3 Successors and Assigns. Neither this Agreement nor MANAGER's rights or duties hereunder may be assigned by MANAGER without the prior written consent of SamCERA, which may be withheld for any reason or no reason at all in the sole and absolute discretion of SamCERA.

7.4 Resignation of Key Personnel, Commitment and Other Changes. After the date hereof, if any portfolio manager or investment analyst of MANAGER that works on SamCERA's account should be released from the employment of MANAGER, or for any reason terminates his investment responsibilities for MANAGER or becomes unable to maintain his investment responsibilities for MANAGER, SamCERA shall (a) be notified by MANAGER in no event more than three (3) business days from the date of such release and (b) be provided the right to redeem all of its allocation to MANAGER as promptly as reasonably possible without any payment of penalty, subject to MANAGER'S fiduciary obligations to other investors.

MANAGER acknowledges that the key personal will devote a substantial portion of their time to the investment of SamCERA's allocation to MANAGER.

In the event that there is any material change to (a) the back-office operations personnel or (b) third-party service providers contracted by MANAGER, MANAGER hereby agrees that SamCERA shall be notified of such changes within twenty (20) Business Days.

7.5 Public Information: The BOARD and its investments are subject to the provisions of California's Public Records Act. Requests from third parties for information relating to this Agreement or the Assets Under Management should be

immediately forwarded to SamCERA's Chief Executive Officer for response.

7.6 Section and Paragraph Headings. The section and paragraph titles of this Agreement are inserted for convenience of reference. They constitute no part of this Agreement and are not to be considered in its construction.

7.7 Independent Contractor. MANAGER will at all times be acting in the capacity of independent contractor. MANAGER will be considered to be representing SamCERA to the extent it is acting within the scope of this Agreement, but this Agreement is not intended, and will not be construed, to create the relationship of agent, servant, employee, partner, joint venturer, or association, as between SamCERA and MANAGER. MANAGER understands and agrees that all persons furnishing services to SamCERA pursuant to this Agreement are employees solely of MANAGER and not of SamCERA.

All services performed with respect to the work will be performed by MANAGER with its own forces, except with the written approval of the CIO. Except for broker/dealers utilized in accordance with this Agreement who are not contractors of MANAGER, no performance of this Agreement or any portion thereof may be contracted by MANAGER without the express written consent of the CIO. Except for broker/dealers utilized in accordance with this Agreement who are not contractors of MANAGER, MANAGER will be solely liable and responsible for any and all payments and other compensation to any contractor, and SamCERA will have no direct liability to any contractor.

7.8 Record Retention and Inspection of Manager's Records. MANAGER will furnish to SamCERA and its authorized representatives, on reasonable notice (which in no event need ever be more than five (5) business days) and during ordinary business hours, full access to these records maintained by MANAGER with respect to this Agreement. MANAGER will retain any and all ledgers, books of account, invoices, vouchers and canceled checks, as well as other records or documents evidencing or relating to charges for services, expenditures or disbursements charged to SamCERA, in its possession with respect to this Agreement for a minimum period of seven (7) calendar years, or any longer period required by law, from the date the records were created. MANAGER will retain any and all documents and records in its possession, which demonstrate performance under this Agreement for a minimum period of seven (7) calendar years, or any longer period required by law, from the date

of termination or completion of this Agreement.

7.9 Authorized Personnel. SamCERA shall give MANAGER a list of persons, with specimen signatures, authorized to give instructions and notices, and otherwise act on SamCERA's behalf under this Agreement. Any changes to the list shall be made in writing to MANAGER and signed by the CIO. Until receipt of notice of any such change, MANAGER, without liability, may rely upon and act in accordance with instructions and notices received from authorized persons identified on the current list furnished by SamCERA.

7.10 Notices. Notices provided pursuant to this Agreement shall be in writing and may be delivered personally or by registered, certified mail or any acceptable overnight carrier. In the event a notice is given by facsimile or e-mail it must be followed by a written notice delivered pursuant to the above means. Notices will be effective upon receipt or rejection thereof, to the following addresses:

- (A) To BOARD:
BOARD of Retirement
San Mateo County Employees' Retirement Association
100 Marine Parkway, Suite 125
Redwood City, California 94065-5802
Attention: Chief Investment Officer samcera@samcera.org
Attention: Chief Executive Officer samcera@samcera.org

- (B) To MANAGER:
Investment Manager Name
Street Address, Suite Number
City, State, Zip
Attention: Title of Individual Authorized to Receive Notices

7.11 Assurance of Compliance Equal Opportunity Laws. MANAGER hereby agrees and represents that it is an equal opportunity employer. All employment decisions and personnel actions of MANAGER are administered without regard to race, color, religion, creed, national origin, ancestry, sex, age (40 and above), qualified mental or physical disability, sexual orientation, genetic carrier status, any veteran status, any military service, any application for any military service, or any other category or class protected by federal, state or local laws. All employment decisions

and personnel actions, such as hiring, promotion, compensation, benefits, and termination, are and will continue to be administered in accordance with, and to further the principle of, equal employment opportunity.

7.12 Validity. The invalidity in whole or in part of any provision of this Agreement shall not void or affect the validity of any other provision

7.13 Waiver. No waiver of a breach of any provision of this Agreement by either party shall constitute a waiver of any other breach of said provision or any other provision of this Agreement. No waiver will be enforceable unless it is a written agreement executed by the party granting the waiver, making specific reference to this Agreement and reciting the parties' intention that it constitute a waiver. Failure of either party to enforce at any time, or from time to time, any provisions of this Agreement shall not be construed as a waiver thereof. The remedies herein reserved shall be cumulative and additional to any other remedies in law or equity.

7.14 Attorney Fees. In the event of any litigation regarding this Agreement, the prevailing party as determined by the appropriate court shall be entitled to recover reasonable attorney's fees.

7.15 Avoidance of Unrelated Business Taxable Income. MANAGER acknowledges that SamCERA under Section 501(c)(25) of the Internal Revenue Code and Section 23701u of the California Revenue & Taxation Code could be adversely affected by the receipt of income not permitted by those sections, and agrees:

(i) to exercise its duties and responsibilities under this Agreement so as to not cause SamCERA, without the prior written consent of SamCERA, to realize any income not permitted under such sections; and

(ii) not to take or refrain from taking any action which would cause SamCERA, without the prior written consent of SamCERA, to lose or fail to qualify for exemption from taxation under such sections, or any successor sections thereto of which notice is provided by SamCERA to MANAGER; provided, however, that MANAGER shall be permitted to rely upon the written advice of tax counsel acceptable to SamCERA as to whether any action proposed to be taken or omitted would be likely to result in the realization of any income not permitted under such sections or the loss or failure to qualify for such exemption from taxation, and may proceed with such proposed activity in reliance on such opinion where such tax counsel

opines that it is not likely that such results would occur. SamCERA will have responsibility for the making of any elections or filings required to bring about and maintain such tax exempt status.

7.16 Consultants. MANAGER agrees to cooperate with such consultants and advisors as SamCERA may retain from time to time to assist SamCERA in the administration of this Agreement.

7.17 Merger. This Agreement, and the Exhibits attached hereto, will constitute the complete and exclusive statement of understanding between the parties, superseding all previous agreements, written or oral, and all other previous communication between the parties relating to the subject matter of this Agreement.

7.18 Changes and Amendments. SamCERA and MANAGER reserve the right to amend any such terms and conditions of this Agreement, which may become necessary. Any revisions hereto will be accomplished by written agreement executed by both of the parties making specific reference to this Agreement and reciting the parties' intention that it constitutes an amendment.

EXECUTED AND AGREED TO by the parties as of the date first written above by their duly authorized representatives:

SAN MATEO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION

[INSERT MANAGER NAME]

Chair, Board of Retirement Title

Date: _____ Date: _____

Exhibit A

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

INVESTMENT MANAGER NAME

INVESTMENT MANAGEMENT AGREEMENT

This Agreement, effective as of September 30, 2010, entered into by San Mateo County Employees' Retirement Association ("*SamCERA*"), (hereinafter referred to as the "Board") having its principal office at 100 Marine Parkway, Suite 125, Redwood Shores, California 94065-5802 and Artio Global Management LLC (hereinafter referred to as "Investment Manager") with its principal office at 330 Madison Avenue, New York, New York 10017.

WITNESSETH:

WHEREAS, San Mateo County Employees' Retirement Association was established by the Board of Supervisors for the County of San Mateo on July 1, 1944; and

WHEREAS, the Board is vested with "sole and exclusive fiduciary responsibility" for *the Board's* assets, pursuant to Article XVI of the Constitution of the State of California and the County Employees Retirement Law of 1937 (commencing with Government Code Section 31450); and

WHEREAS, the Board has determined pursuant to Government Code Section 31595 and related provisions of law that it is in the best interest of *the Board*, its members and beneficiaries to contract with Investment Manager to manage and invest certain assets of *the Board*; and

WHEREAS, the Board and the Investment Manager wish to enter into the Agreement for the purpose of retaining the Investment Manager to manage certain assets of the Board (the "Assets"), and the Board has designated State Street Bank & Trust (the "Custodian") as agent for that portion of the assets to be managed by the Investment Manager.

WHEREAS, *SamCERA* and the Investment Manager entered into an Investment Management Agreement dated September 30, 2007 which included a term of three years (the "Prior Agreement");

WHEREAS, *SamCERA* and the Investment Manager desire to replace the Prior Agreement with this Agreement dated September 30, 2010.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Board and Investment Manager do hereby agree as follows:

1. **APPOINTMENT:**

- (a) The Board hereby appoints Artio Global Management LLC as Investment Manager, to provide the services and fulfill the duties and obligations set forth in this agreement (the "Agreement"). The Board represents that it has the authority to so appoint such Investment Manager to manage including the power to acquire and dispose of, certain of the Assets. The Board reserves the right to increase or decrease the Assets under management upon 30 days written notice sent in compliance with the notice provision contained in Section 16 of this Agreement.

- (b) The Investment Manager, by its execution of this Agreement, (i) agrees to serve as fiduciary for the Assets on behalf of the Board; (ii) agrees to be bound by all applicable provisions of *the Board's* Investment Plan (the "Plan") and the Equity Investment Objectives, Guidelines, Restrictions and Fee Agreement, as incorporated as Exhibit A and Exhibit C, respectively, and as they may be amended from time to time, and to exercise the Board's delegation of authority in accordance with the Plan. In the event of any conflict between Exhibit A and Exhibit C, Exhibit C shall govern; (iii) accepts the delegation of investment management authority and agrees to execute its duties and obligations under this Agreement in accordance with the standards of fiduciary conduct set forth in Section 17 of Article XVI of the Constitution of the State of California, Government Code Section 31595, all other applicable laws and the Board's Code of Fiduciary Conduct as set forth in the Plan; (iv) accepts responsibility for the diversification of the Assets which the Board allocates to the Investment Manager; (v) accepts the responsibility to review and become familiar with the conflict of interest and reporting provisions applicable to *the Board*, contained in Government Code Sections 1090 to 1097 inclusive, 31528, 82030, 87100 to 87103, the Fair Political Practices Commission Regulations issued with respect thereto, and (vi) waives the right to assert any claim of estoppel against the Board, where the Board's claim is based upon breach of fiduciary duty, breach of contract or breach of duty of care on the part of the Investment Manager.

2. DUTIES AND POWERS OF THE INVESTMENT MANAGER:

During the term of its appointment, the Investment Manager shall:

- (a) have the power and obligation to manage the securities, funds and other property which constitute the Assets in its sole and absolute discretion, subject to its fiduciary obligations and in a manner consistent with the objectives, restrictions and policies of the Board which may be expressed in the Plan.
- (b) establish and implement an ongoing investment program with respect to the Assets.
- (c) without limiting the generality of the foregoing, have the following duties and powers:
- (i) The Investment Manager shall have complete discretion, subject to the Plan and subject to applicable law, in the investment and reinvestment of the Assets, without distinction between principal and income, in such securities, with full power and authority to effect (or to authorize, direct and supervise the Custodian or one or more brokerage firms selected by the Investment Manager to effect) such purchases, sales, exchanges, conversions, and otherwise trade in shares, stocks, bonds, notes, and other obligations issued or incurred by governmental bodies, corporations, mutual funds trusts, associations or firms, in trade acceptances and other commercial paper, in loans and deposits at interest on call or on time, and exercise rights and warrants to subscribe for stock or securities therein as the Investment Manager may deem prudent and appropriate. In providing its services, Investment Manager may rely on the financial information, governing documents and amendments thereto provided by the Board to Investment Manager without Investment Manager having any duty or obligation to investigate the accuracy or completeness of the information, documents

or amendments. In the event the Investment Manager discovers any inaccuracy or incompleteness of information given by the Board, Investment Manager will promptly notify the Board. Investment Manager does not guarantee the investment performance of any investment in the custodian account.

(ii) The Investment Manager shall appraise and review the securities, funds and other property, which constitute the Assets. The Investment Manager shall collect information pertaining to investments, securities, economies, and other matters pertinent to making the determinations required of it herein. Such reviews shall be conducted to determine, in the Investment Manager's sole discretion based on the information available to it (including any information given to it by the Board pursuant to the Plan), the advisability of the following: (1) retaining some or all of such securities, funds and other property constituting the Assets, (2) selling, exchanging, redeeming, liquidating or disposing of some or all of the Assets, or (3) investing some or all of the proceeds from such sale, exchange, redemption, liquidation or disposition in other securities, funds or property.

(iii) The Investment Manager shall place all orders for the Assets including selection of broker-dealers to effect acquisitions or dispositions of the Assets, and the terms and conditions on which such acquisitions or dispositions shall be made. Where the Investment Manager places orders for the execution of portfolio transactions for the Assets, the Investment Manager may allocate such transactions to such broker-dealers for execution on such markets, at such prices and at such commission rates as, in the good faith judgment of the Investment Manager, are prudent and consistent with the Agreement, the Plan, applicable securities laws, and the Securities and Exchange Commission ("SEC") rules and regulations.

(iv) In the selection of broker-dealers with whom to place orders for the purchase or sale of securities for the Assets, the primary objective of the Investment Manager shall be to obtain best execution consistent with the investment objectives. The Investment Manager's selection of a broker-dealer shall take into account such relevant factors as (1) price and/or commission; (2) the broker-dealer's facilities, reliability and financial responsibility; and (3) the ability of the broker-dealer to effect securities transactions, particularly with respect to such aspects as timing, order size, execution of orders and the ability to complete a transaction through clearance, settlement and delivery. Such selection of broker-dealers shall be in accordance with the Investment Advisors Act of 1940, and the Securities Exchange Act of 1934, each as amended, (and with the rules, regulations and reporting requirements thereunder). The Investment Manager or any of its affiliates will not receive compensation from the counter party in any transaction executed for the Board.

(v) The Investment Manager is authorized and empowered to exercise any conversion privilege or subscription right, and any other right to make an investment decision available with respect to the Assets as from time to time the Investment Manager in its discretion believes advisable in the interest of the value of the Assets. The Investment Manager shall give the Custodian such instructions or directions as may be necessary.

(vi) The Investment Manager shall have the power to make, execute, acknowledge and deliver any and all documents of transfer and conveyance and any and all other instruments that may be necessary or appropriate to carry out the powers granted to it under this

Agreement.

(vii) The Board and the Investment Manager shall from time to time certify to each other the name or names of the person or persons authorized to act on their behalf hereunder, and shall furnish each other with a specimen of their signatures. Any individual so certified shall be deemed to be an authorized representative and shall cease to be an authorized representative only on written notice of the fact to the other party. However, until the other party receives such notice, it may continue to treat such person as an authorized representative.

3. STANDARD OF CARE:

The Investment Manager shall discharge its duties under this Agreement with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent expert acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

4. PROCEDURES:

All transactions authorized by this Agreement shall be consummated by payment to, or delivery by the Custodian of all funds, securities, or other property due to or from the Assets. Instructions of the Investment Manager to the Custodian shall be made via an electronic medium to minimize manual intervention and promote straight through processing (STP). The Investment Manager shall instruct all broker-dealers executing orders on behalf of the Assets to forward to the Custodian copies of all brokerage confirmations promptly after execution of transactions. Trade confirmations and affirmations shall be communicated via electronic medium.

5. MEETINGS, REPORTS AND ACCOUNTING:

- (a) The Board and representatives of the Investment Manager shall meet at such times as the Board may reasonably request to present Investment Manager's opinions and advice concerning the economic and investment outlook and to update the Board as to the Investment Manager's current and future investment strategy. Investment Manager shall be available to answer questions by the Board from time to time as needed, without charge.
- (b) The Board shall instruct the Custodian to provide the Investment Manager with periodic reports concerning the status of the Assets, and with such other information as the Investment Manager may reasonably request from time to time.
- (c) Within ten (10) calendar days from month end, the Investment Manager shall provide the Board with reports concerning the status of the Assets. Reports shall include but not be limited to, a daily acquisition and disposition report, a monthly transaction summary, a monthly statement of changes to cash, a monthly statement of changes in net assets, a monthly statement of assets as of month end reflecting cost and fair market value, and monthly and quarterly statements of asset performance. The performance reports shall provide performance over various standard periods, attribution analysis, and a commentary. Also by the tenth calendar day the Investment Manager shall reconcile the monthly asset

holdings statement to the statement from the Custodian and resolve all discrepancies. A report reconciling the managers accounting records to those of the Custodian shall be forwarded to the Board monthly. All accounting type reports shall use historical average cost as a basis for carrying value. All reports submitted shall be certified as to accuracy and consistency with the Plan and signed by a responsible executive officer of the Investment Manager.

- (d) The Investment Manager shall keep accurate and detailed accounts of all investments, receipts, disbursements, and other transactions hereunder, or any broker fee, commission or payment made or received with respect thereto. Investment Manager shall maintain those records for a period of at least three (3) years after the stated term of this Agreement. At any time during normal business hours, the Board or its designated auditors or accountants may inspect upon reasonable notice any such record during the period of mandatory retention. The Board shall provide the Investment Manager with five (5) business days notice of its intention to make an inspection as described herein.

6. PUBLIC INFORMATION:

The Board and its investments are subject to the provisions of California's Public Records Act. All public inquires for information shall be directed to the Board's Retirement Chief Executive Officer (CEO) for response in a manner consistent with the CEO's duties as a fiduciary. The parties agree that information, which may affect the outcome of an investment decision, will not be disclosed until it is appropriate to do so. All official inquires from regulatory agencies shall be directed to the Investment Manager for response as the Board's registered investment advisor. Investment Manager is authorized to mention the Board in its list of clients.

7. SERVICES TO OTHER CLIENTS:

- (a) The Investment Manager may act and continue to act as an investment manager for others and nothing in this Agreement shall in any way be deemed to restrict the right of the Investment Manager to perform investment management or other services for any other person or entity, and the performance of such services for others shall not be deemed to violate or give rise to any duty or obligation of the Board. The Board understands that transactions in a specific security may not be accomplished for all clients at the same time and at the same price.
- (b) Nothing in this Agreement shall limit or restrict the Investment Manager or any of its officers, affiliates or employees from buying, selling or trading in any securities for its or their own account or other accounts. The Board acknowledges that the Investment Manager and its officers, affiliates and employees, and its other clients may at any time have, acquire, increase, decrease or dispose of positions in investments which are at the same time being acquired or disposed of under this Agreement. The Investment Manager shall have no obligation to acquire with respect to the Assets a position in any investment which the Investment Manager, its officers, affiliates or employees may acquire for its or their own accounts or for the account of another client, if in the sole discretion of the Investment Manager, it is not feasible or desirable to acquire a position in such investment under this Agreement.

- (c) Nothing in this section shall be construed to relieve the Investment Manager of any of its duties or obligations as set forth in or arising under other provisions of this Agreement.

8. EXECUTION OF TRANSACTIONS:

The Board hereby acknowledges that Investment Manager may aggregate transactions on behalf of the Board with like transactions for the benefit of other clients of Investment Manager. Securities purchased through aggregated transactions will be divided and registered in the name of the Board upon delivery to the broker. This will be done only when it would provide an efficient means of executing the transaction and will not be done if such action would adversely affect the Board. The cost of any such aggregated transaction shall be divided pro rata among the Investment Manager client participants, to the extent possible.

9. FEE AGREEMENT:

The compensation of the Investment Manager for its services rendered hereunder shall be payable in accordance with the provisions of Exhibit C hereto. This shall constitute the sole investment advisory fees payable by the Board by reason of the Investment Manager's services under this agreement.

10. REPRESENTATIONS OF MANAGER:

The Investment Manager expressly acknowledges, represents, warrants and agrees that:

- (a) It is registered in good standing as an investment advisor under the Investment Advisers Act of 1940 and has provided the Board with Form ADV, Parts I & II and will provide the Board with annual updates to Form ADV, Part II. Investment Manager shall immediately notify the Board if at any time during the term of this agreement it is not so registered or if its registration is suspended.
- (b) It has completed, obtained or performed and, when required, will complete obtain or perform all registrations, filings, approvals, authorizations, consents or examinations required by applicable law (or any government or governmental authority) for the performance of the acts contemplated by the Agreement and, during the term of the Agreement, it shall comply with all existing, new or amended statutes of the United States (and any other government or governmental authority) having jurisdiction over the Investment Manager's activities which are applicable to its performance under the Agreement.
- (c) It has, by appropriate corporate (or other) action, duly authorized the execution and implementation of the Agreement; such authorization or execution does not violate any obligation by which the Investment Manager is bound or any applicable law; and the Agreement has been executed on behalf of the Investment Manager by a person (or persons) authorized to transact business on behalf of the Investment Manager in accordance with its

terms.

- (d) It is ready and able to carry out the provisions of this Agreement, the personnel responsible for carrying out the Investment Manager's responsibilities under this Agreement are individuals experienced in the performance of the various functions contemplated by the Agreement, the necessary internal controls as well as an internal control review process are in place and a bond has been obtained, which provides the Assets with protection against fraud or dishonesty (either directly or through connivance with others) on the part of the Investment Manager, its officers, directors, employees.
- (e) The personnel of the Investment Manager who will be responsible for providing services pursuant to this Agreement have not, to the best knowledge of the Investment Manager, been convicted of any crime or found liable in a civil or administrative proceeding or pleaded *nolo contendere* or agreed to any consent decree with respect to any matter involving breach of fiduciary duty, fraud, securities law violations, bankruptcy law regulations or any act or omission involving moral turpitude, as defined by California Courts.
- (f) It shall defend and hold the Board harmless from and indemnify the Board against any and all liability, loss, damages, court costs or reasonable expenses (including reasonable attorneys' fees) which the Board may incur or suffer under applicable law as a direct result of any breach by the Investment Manager of its fiduciary responsibility with respect to the Assets or the breach by the Investment Manager of any of the acknowledgments, representations, warranties or agreements made in this Agreement or as otherwise provided herein.
- (g) It shall immediately notify the Board in the event that any of the acknowledgments, representations, warranties and agreements shall no longer be true.
- (h) It shall immediately notify the Board in writing of any changes in executive management and in key personnel within the organization.
- (i) It shall immediately advise the Board in the event of the bankruptcy, insolvency, or any material change in control of, or corporate form of the Investment Manager.
- (j) It shall immediately advise the Board in writing of any complaints or disciplinary actions filed against it, or any subsidiary or affiliate which provides investment management services, or any investment professional employed by it, who has performed any service with respect to the Board's account in the twenty-four (24) preceding months, by the Securities and Exchange Commission of the United States, the New York Stock Exchange, the American Stock Exchange, the National Association of Securities Dealers, any Attorney General or any regulatory agency of any state of the United States, any department or agency of the Government of the United States or by any governmental agency regulating securities of any Country in which Investment Manager or a subsidiary or affiliate is doing business.
- (k) The Investment Manager will provide and maintain at its own expense during the term of this Agreement program(s) of insurance and/or bonds covering its operations herein in accordance with industry standards and as incorporated as Exhibit B. 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 Investment Manager's provision of services hereunder, and (ii) with respect to Professional Liability/Errors and Omissions insurance shall name the Board as an additional insured with respect to the Board's vicarious liability arising from the Investment Manager's performance hereunder, and (iii) will be provided by insurer(s) rated A-X or better by A.M. Best & Company or otherwise approved in writing by the Board. Evidence of such insurance, in a form reasonably satisfactory to the Board, will be delivered upon execution of this agreement and in April of each subsequent year. Such evidence will be accompanied by a written statement from the insurer that Board be given thirty (30) days written notice in advance of termination of any policy of insurance, except for non-payment of the premium where ten (10) days will apply. Such insurance shall include General Liability Insurance, Workers' Compensation, Professional Liability Insurance (Errors and Omissions) and Bonds/Crime Insurance. Investment Manager shall immediately notify the Board of any changes in the bond or insurance coverage.

- (l) The foregoing acknowledgments, representations, warranties and agreements are understood to be relied upon by the Board, and, at the request of the Board, the Investment Manager will furnish such evidence as may reasonably be requested by the Board that such acknowledgments, representations, warranties and agreements continue to be true.

11. REPRESENTATIONS OF THE BOARD:

The Board expressly acknowledges, represents, warrants and agrees that:

- (a) The Board has by appropriate action duly authorized the appointment of the Investment Manager and the execution and implementation of the Agreement, which has been executed on behalf of the Board by a person (or persons) authorized to do so and, at the request of the Investment Manager shall deliver such evidence of such authority as the Investment Manager shall reasonably request.
- (b) True and complete copies of each amendment to *the Board's* Investment Plan shall be delivered to the Investment Manager as immediately as practicable after the adoption thereof. The Investment Manager's responsibility for compliance with any change or amendment will commence upon written receipt of such change or amendment.
- (c) If another entity should be substituted as the Custodian of the Assets, the Investment Manager shall be notified of such substitution and the substituted entity will thereafter be deemed to be the Custodian for purposes of the Agreement.

12. AMENDMENT AND TERMINATION:

- (a) No provision of this Agreement may be changed, altered, amended or waived except by written instrument executed by the parties.
- (b) The Agreement is in full force and effect as of the date of signatures and shall continue for a term of three (3) years or until modified or terminated by either party.
- (c) The Board reserves the right to terminate the Agreement without cause at any time by giving

the Investment Manager written notice by registered mail sent at least thirty (30) calendar days prior to the date on which termination is to become effective.

- (d) The Investment Manager reserves the right to terminate the Agreement without cause at any time by giving the Board written notice by registered mail sent at least one hundred twenty (120) days prior to the date on which termination is to become effective.
- (e) Any termination notice given by either party shall not affect or preclude the consummation of any transaction initiated prior to the receipt by one party of the other's termination notice, or, if the Investment Manager continues to act in accordance with its fiduciary obligations under this Agreement, any transaction initiated during the period the Investment Manager so continues to act.
- (f) Following notice of termination, Investment Manager shall (i) cooperate fully with the Board in securing the Assets; (ii) deliver any funds, property, books, records, and documents of *the Board* in Investment Managers safekeeping to third parties designated by the Board and after such delivery, Investment Manager shall have no further investment management responsibility for the Assets; (iii) submit a full accounting of the Assets within forty-five days of the effective date of termination; and (iv) make those employees that have a direct involvement in the management of the account available for interviews by *the Board*.

13. NON-ASSIGNABILITY:

This Agreement shall not be assigned by either party without the prior written consent of the other party.

14. PROXIES:

The Investment Manager shall provide the Board every quarter, a written report with respect to the voting of proxies by Investment Manager on behalf of the Board. The Investment Manager shall provide such additional reports to the Board concerning the voting of proxies as shall be reasonably requested. Proxies shall in all instances be voted in accordance with Investment Manager's proxy voting policies and procedures ("Policies and Procedures"). The Board recognizes that Investment Manager out-sources its proxy voting to Institutional Shareholder Services (ISS) and has adopted and will generally vote in accordance with their policies and procedures. However, Investment Manager will not vote in "blocking nations" since Investment Manager does not believe it is in the best interest of its clients to participate in proxies where voting restricts client's ability to sell or otherwise dispose of their equity interest. Investment Manager will report on all proxies voted but will not report on instances in which voting does not occur. The Policies and Procedures are incorporated as Exhibit D.

15. ELECTRONIC DELIVERY:

The Board hereby consents to receiving the following (hereinafter the "Documents") via electronic mail ("e-mail") during the term of this Agreement with Investment Manager:

- account statements;

- Part I & Part II of Form ADV and other disclosure documents;
- ad-hoc financial analysis;
- other correspondence pertaining to the Board's account;

Investment Manager will be expected to deliver electronic correspondence to the following e-mail address:

gclifton@samcera.org

With an electronic carbon copy sent to the following e-mail address:

ldames@samcera.org

This electronic delivery will be provided by Investment Manager at no cost to the Board. The Board may request to receive a hard copy of any of the Documents by contacting Investment Manager at (212) 297-3791.

In order for the Board to withdraw consent to receive Documents in electronic form, the Board must send signed written notice, via first class, courier or express mail, or facsimile with confirmation of transmission to the Investment Manager at:

Artio Global Management LLC
 330 Madison Avenue
 New York, NY 10017
 Attention: Hien Nguyen
 Fax: 212-808-5564

16. NOTICES:

Notices provided pursuant to this Agreement shall be in writing and may be delivered personally or by registered, certified mail or any acceptable overnight carrier. In the event a notice is given by facsimile or e-mail it must be followed by a written notice delivered pursuant to the above means. Notices will be effective upon receipt or rejection thereof, to the following addresses:

- (a) To the Board:

San Mateo County Employees' Retirement Association
 Attention: Chief Investment Officer
 100 Marine Parkway, Suite 125
 Redwood Shores, California 94065-5803

- (b) To the Manager:

Artio Global Management LLC
 10877 Wilshire Boulevard
 Suite 1100
 Los Angeles, CA
 Attention: Melvin Lindsey/Hien Nguyen
 Phone (310) 824-1107

Fax (310) 824-1134

Cc: Artio Global Management LLC
330 Madison Avenue
New York, NY 10017
Attention: Hendricus Bocxe
Phone (212) 297-3923
Fax (212) 972-0601

or to such other addresses as either of the parties shall subsequently furnish in writing by notice to the other party.

17. CONSTRUCTION AND INTERPRETATION:

This Agreement contains the entire agreement of the parties. No other agreement, statement, or promise made on or before the effective date of this agreement will be binding on the parties. This agreement may be modified by subsequent agreement of the parties only by an instrument in writing signed by both of them. If any provision of this agreement is held in whole or in part to be unenforceable for any reason, the remainder of that provision and of the entire Agreement will be severable and remain in effect.

18. TITLES:

The titles set forth in the Agreement are for convenience only and shall not be considered as part of the Agreement in any respect, nor shall they in any way affect the substance of any provisions contained in the Agreement.

19. INUREMENT:

The Agreement shall inure to the benefit of the Board and its successors and assigns.

20. LITIGATION:

If the Investment Manager or the Board commences litigation against the other party arising out of this Agreement, the prevailing party shall be entitled to recover its reasonable attorney's fees in addition to any other damages.

21. APPLICABLE LAW:

This Agreement shall be governed by, construed, regulated and administered in accordance with the applicable Federal laws and, to the extent that Federal laws are not applicable, the laws of the State of California. Any action brought to enforce the terms of this Agreement shall be brought in United States District Court located in the County of San Francisco or Superior Court of the State of California located in the County of San Mateo.

IN WITNESS WHEREOF, the parties hereto have executed the Agreement effective the date first herein written

Artio Global Management LLC :

By:

Name: Tony Williams

Title: Chief Operating Officer

**San Mateo County Employees'
Retirement Association:**

By:

Name: Margaret Jadallah

Title: Board Chair

EXHIBIT A
INVESTMENT PLAN

SamCERA's Investment Policy
Approved By the Board of Retirement
As Revised January 22, 2008
As Attached

EXHIBIT B

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 *the Board* and/or the County of San Mateo for claims arising from the Manager'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 and per location limit of two million dollars (\$2,000,000) per occurrence and four million dollars (\$4,000,000) aggregate.

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 Investment Manager employees, including all persons providing services by or on behalf of Investment Manager.

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.

4. **PROFESSIONAL LIABILITY/ERRORS AND OMISSIONS**

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

Exhibit C

EQUITY INVESTMENT OBJECTIVES, GUIDELINES, RESTRICTIONS AND FEE AGREEMENT

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 Artio Global Management LLC

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 Morgan Stanley Capital International All Country World Index ex U.S. (MSCI ACWI ex-U.S.) over a market cycle. *the Board's* Investment Plan defines underperformance as:
 - (1) Four cumulative quarters in which the manager's performance (gross of fees) falls below the style based benchmark return times 0.8 (for example, if the benchmark return is 10%, the manager's return would be less than 8.0%). 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

Fees

A. The fees shall be payable to the Investment Manager at the completion of each calendar quarter. Such fees will be one-quarter of the Annual Management Fee Schedule (or pro-rated portion for a period of time less than a calendar quarter) computed on the market value of the Assets as determined by the Custodian as of the end of each quarter for which such fee is paid, using an average of the end of month values for the three months comprising the quarter.

B. Annual Management Fee Schedule:

On the first \$20 million	0.80% per annum
On the next \$20 million.	0.60% per annum
On the next \$60 million.	0.50% per annum
Thereafter.	0.40% per annum

**Artio Global Management LLC
(Investment Manager)**

**San Mateo County Employees
Retirement Association (Board)**

**By:
Name:
Title:**

**By:
Name: Margaret Jadallah
Title: Board Chair**

Exhibit D

Artio Global Management's Proxy Voting Policies and Procedures

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 24, 2012

Agenda Item 6.3

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Initial Rewrite of *SamCERA*'s Investment Policy.

STAFF RECOMMENDATION: Staff recommends that the Investment Committee review, provide input and approve *SamCERA*'s current investment policy.

COMMENT: The Investment Committee's work plan calls for an annual review of *SamCERA*'s Investment Policy. That annual review was suspended due to multiple changes to the portfolio structure that the board has undertaken. *SamCERA*'s Investment Policy was last reviewed in July 2008. Today's agenda item is intended to approve amendments to *SamCERA*'s existing investment policy. Those amendments will allow the association to attach an updated investment policy to the upcoming investment management agreements that will be distributed for the new international mandates.

At this meeting, the committee's attention should be mainly focused on approving language for Section 13 - Alternative Investments. The language should be formatted to conform to that of other sections on asset classes.

Attached to this agenda item is *SamCERA*'s current Investment Policy.

The following is language that may be considered when thinking about formatted language for Section 13.

ALTERNATIVE INVESTMENTS

Alternative investment managers typically must have significant latitude in the strategies and investments they make and the leverage they introduce into a portfolio. As a result, it is generally not feasible to impose guidelines and restrictions on such Managers. Instead, the committee may choose to terminate a manager, subject to the manager's liquidation policy, if they are dissatisfied with the manager and/or his strategy.

PRIVATE EQUITY INVESTMENTS

a) Capitalization:

Any private capital pool shall have a minimum total capitalization of \$25 million.

b) Diversification:

Any pool shall be well diversified with a minimum of five investments to be made in five different companies or ventures, preferably over various sectors.

c) Management Oversight:

The management of any pooled investment shall have an established track record of managed private pools of the type to be considered, with a positive rate of return to previous investors. The return from previous pools should be equal to the average “accepted” returns that were available over a like period of time to those investors.

HEDGE FUND INVESTMENTS

a) Capitalization:

Any hedge fund pool shall have a minimum total capitalization of \$100 million.

b) Prior Performance:

It is understood that past performance is no guarantee of future results. However, any hedge or pooled fund to be considered by the Investment Committee shall exhibit performance, risk and other characteristics deemed appropriate by the Committee.

PRIVATE EQUITY FUND

The Private Equity Fund will not exceed 8% of the total portfolio. The Investment Committee will not consider providing monies for individual private capital projects or developmental projects of any type in any type of industry. Pooled, well-diversified venture capital projects will be considered on a case-by-case basis.

Private Equity investments shall be defined as follows:

1. Venture Capital Pools
2. Research and Development Pools
3. Leveraged Buyout Pools
4. Special Situations like Distressed Securities
5. Funds of Private Equity Funds

6. Any other special investment categories not listed here may be considered as a private equity investment upon a majority vote of the Investment Committee.

HEDGE FUNDS

The Hedge Fund Portfolio shall not exceed 3% of the total portfolio. Pooled, well-diversified hedged strategy portfolios will be considered on a case-by-case basis.

Hedge Fund investments shall be defined as follows:

1. Directional Strategies (such as long/short equity, short-biased Managers or global macro Managers)
2. Event Driven Strategies (such as merger arbitrage or distressed securities)
3. Relative Value Strategies (such as equity market neutral, convertible arbitrage, or fixed income arbitrage)
4. Funds of Hedge Funds \
5. Any other special investment categories not listed here may be considered a hedge fund investment upon a majority vote of the Investment Committee.

COMMODITIES POLICY

SamCERA has made an allocation to commodities in order to diversify its portfolio. Commodities have historically exhibited low correlation with stocks and bonds, so an investment in commodities is expected to reduce the risk of *SamCERA*'s total fund. A secondary benefit of investing in commodities is that they are positively correlated with inflation, so they can provide an inflation hedge.

Investment Approach

SamCERA employs commodities managers to implement diverse, risk-controlled active strategies that are expected to deliver consistent out-performance relative to the commodities benchmark. For example, managers have the discretion to execute futures rolls at the most opportune time. They also have the flexibility to invest collateral in a portfolio of fixed income securities expected to outperform the 3-month T-Bill assumed in the index.

SamCERA implements its commodities exposure by employing active management strategies and expects the commodities composite to outperform its benchmark, net of fees, over rolling five-to-seven year periods. Targets for expected return and risk are: Excess return over benchmark: 50 – 100 bps Tracking error relative to benchmark: 3% - 4%

Benchmark

SamCERA's benchmark for commodities market performance is the Dow Jones –UBS Commodity index (DJ-UBS). This index consists of futures contracts on physical commodities across the energy, metals, agriculture, and livestock markets. The DJ-UBS index construction rules manage diversification, risk and liquidity by imposing minimum and maximum sector weights.

Derivatives Use

The DJ-UBS index is comprised of futures contracts for physical commodities. The index weights are based on liquidity and the market value of each commodity produced.

SamCERA's managers will use derivatives in order to gain exposure to this index, and **at no time will the managers take physical delivery of commodities.** *SamCERA's* managers will invest in derivatives such as futures, swaps, and options to gain exposure to commodities markets. The managers may also employ derivatives to manage the underlying collateral (a portfolio of fixed income securities). All managers investing in derivatives must comply with *SamCERA's* Derivatives Investment Policy, for which risk management is the primary objective. Index rules ensure that related commodities within a single sector (e.g., energy) constitute no more than 33% of the index at its annual reconstitution. Also, no single commodity may constitute less than 2% or more than 15% of the index.

SamCERA's Investment Policy

Part One

POLICY PERSPECTIVES

1.0 INTRODUCTION

SamCERA was created by San Mateo County Ordinance No. 564 adopted by the Board of Supervisors, effective July 1, 1944.

The nine-member Board of Retirement is composed of the County Treasurer, four trustees appointed by the Board of Supervisors and four trustees elected from the membership. The trustees' three-year terms are staggered to provide for continuity in the management of the association.

SamCERA was organized in accordance with the provisions of California's County Employees' Retirement Law of 1937. The powers and duties of the board are set forth in the '37 Act and in Article XVI of the State Constitution.

Included among the board's duties are the mandate to assure the association's actuarial soundness and the prudent investment of the assets of the retirement fund.

This Investment Policy incorporates the board's policies, objectives, strategies, implementation programs and procedures for fulfilling its fiduciary obligation to manage the assets of the retirement fund with *the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.*

Appendix A is a chronological account of *SamCERA's* investment program since 1981.

2.0 ACTUARIAL LIABILITIES

- Under GASB 25, investments are stated at fair market value instead of cost and include the recognition of unrealized gains and losses in the current period. These gains and losses are held in the Market Stabilization Account, an account established in 1996, as recommended by William M. Mercer, *SamCERA's* actuary. Initially, these gains and losses were only allocated to the Market Stabilization Account until the actual gains and losses were realized by the sale of the investment asset. However, with the implementation of the five-year smoothing methodology, a portion of these unrealized gains and losses is recognized and allocated to all other reserves.

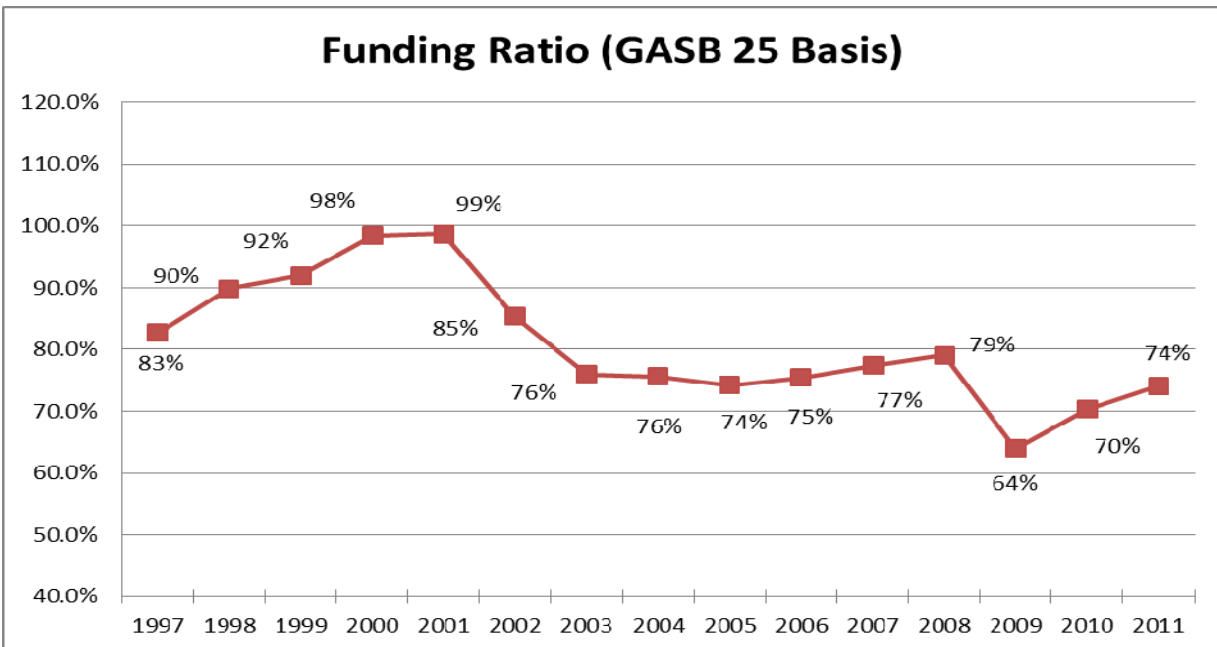
To prevent the smoothed value from deviating significantly from the actual market value, the Board of Retirement adopted a policy in 2002 that the smoothed value cannot be less than 80% nor greater than 120% of market value. If the smoothed value is greater than 120%, then the market losses (or market gain if less than 80%) have to be recognized immediately.

- A schedule of funding progress presents a consolidated snapshot of a retirement system's ability to meet current and future liabilities with the assets of the plan. Of particular interest to most is the funded status ratio. This ratio quickly conveys a retirement system's level of assets to liabilities, which is important in determining the financial health of a retirement system. The closer a retirement system is to a 100% funded status, the better position it will be in to meet all of its future liabilities. *SamCERA* currently has an unfunded actuarial accrued liability (UAAL), resulting from actuarial accrued liabilities (AAL) exceeding the actuarially determined value of assets. *SamCERA* is funding the UAAL over a 20-year amortization period, which began July 1, 2002.

- In this environment, it is essential that the retirement fund be fully diversified across the full-range of institutional investment grade assets and that opportunities to achieve capital appreciation be pursued and captured. It continues to be critical for the board to focus on optimizing investment return vs. risk.

SamCERA's Funding Ratio History

June 30 th	Actuarial Value of Assets/ Actuarial Accrued Liability (GASB 25)
2011	74.1%
2010	70.3%
2009	63.9%
2008	79.1%
2007	77.4%
2006	75.4%
2005	74.2%
2004	75.6%
2003	76.0%
2002	85.3%
2001	98.6%
2000	98.4%
1999	92.0%
1998	89.9%
1997	82.6%
1996	75.6%
1995	68.9%
1994	67.3%



3.0 ACCEPTABLE RISK

SamCERA adheres to the twenty recommendations of the Risk Standards Working Group (See Appendix B) that are appropriate for a pension fund with *SamCERA*'s profile.

A prudent fiduciary wants to sleep well at night. "Sleeping well" can be articulated as one's comfort level in the face of an uncertain future. The board has defined its comfort level as an annualized tracking error of $\pm 3\%$ around the aggregate target rate of return. "Tracking error" means the excess standard deviation of return between the actual performance of the fund and the performance of the aggregate target benchmark. This level of conservatism is in line with other public pension plans of comparable size. *SamCERA*'s actuarial realities require that the board confront the challenges before it. To the fullest extent possible, this investment policy incorporates the concerns of each of *SamCERA*'s nine trustees. The risk-adjusted return assumptions behind this investment policy represent the best thinking of experts in the various asset classes, tempered by the trustees' contributions to each element of the policy.

The adopted asset allocation set forth in Section 8.0 encompasses the board's conclusions regarding the proper mix of assets to minimize risk for the targeted rate of expected returns. The mix of asset classes and styles outlined in the asset allocation defines the aggregate target benchmark for the entire plan. This "aggregate target" has its own risk/return profile, which over the long run is appropriate for the San Mateo County Employees' Retirement Association.

Historical analysis indicates that for the vast majority of pension funds, the asset allocation decision is the single most important decision that trustees can make. The asset allocation decision is likely to predetermine as much as 90% of a portfolio's real return.*

Consequently, the board conducts periodic asset liability modeling studies, which evaluate the expected returns vs. expected risk of each asset class and then generate a series of potential optimum portfolios along the efficient risk/return frontier. The most recent study was accepted by the board in January 2007.

STRATEGIC INVESTMENT SOLUTIONS PROJECTED PORTFOLIO EXPECTATIONS

Portfolio	Return	Standard Deviation	Cash	Large Stocks	Small Stocks	Int'l Stocks	Real Estate	US Bonds	Global Bonds	Private Equity	Commodities	Hedge Fund	Risk Parity
<i>Prior</i>	7.6	12.3	0	37	9	21	6	27	0	0	0	0	0
CURRENT	8.0	13.8	0	28	7	18	5	17.5	17.5	4.5	3	3	6
Return			2.0	8.2	8.5	8.7	6.7	3.3	3.4	10.7	4.3	6.0	8.4
Standard Deviation			1.0	18.0	21.0	18.5	18.5	4.5	7.6	35.0	30.0	12.0	14.4

* *Determinants of Portfolio Performance II: An Update*, Gary P. Brinson, Brian D. Singer and Gilbert Beebower, *Financial Analysts Journal*, May/June 1991. The article is an update of an earlier study by Gary P. Brinson, L. Randolph Hood and Gilbert Beebower that was published in the July/August 1986 issue of the same journal.

Reverse Optimization Allocation Analysis

SamCERA's Portfolio Asset Allocation
Accepted August 24, 2010

Asset Class	Former	Current
Large Cap Equity	37.0	28.0
Small Cap Equity	9.0	7.0
International Equity	21.0	18.0
Domestic Bonds	27.0	17.5
Global Bonds	0.0	4.5
Private Equity	0.0	8.0
Commodities	0.0	3.0
Hedge Funds	0.0	3.0
Risk Parity	0.0	6.0
Real Estate	6.0	5.0
Cash	0.0	0.0
Expected Return	7.6	8.13
Expected Risk	12.3	11.24

4.0 INVESTMENT PHILOSOPHY

4.1 The board acknowledges the historical data demonstrating that the most successful strategy for minimizing risk, while capturing market returns, is a prudently diversified portfolio.

4.2 Therefore, the retirement fund should be invested across the spectrum of institutional grade Asset Classes.

4.3 The board acknowledges that the asset allocation targets reflect a long-term view of the market.

4.4 The board acknowledges that professional management of the retirement fund is expected to add value to the portfolio, by capitalizing on inefficiencies in the markets.

4.5 The board takes responsibility for allocating across asset classes and across styles within asset classes, but does not substitute its judgment for the professional judgment of those managers it retains.

4.6 The board believes that interest, dividends and capital appreciation must be pursued and captured, if the actuarial funding objectives of the retirement fund are to be achieved.

4.7 The board is not a market-timer (shifting asset class allocations dramatically over short time spans), because it realizes this strategy is seldom successful and has the potential for dramatic losses and opportunity costs.

4.8 The board views short-term cash equivalents as insignificant contributors to real returns in the long run.

4.9 The board is responsible for keeping the lines of communication open and the *Investment Policy* on target.

Part Two

PORTFOLIO MANAGEMENT

5.0 INVESTMENT POLICY

It is the Investment Policy of the Board of Retirement to:

5.1 Pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes, as provided for in Section 7 of this Investment Plan.

5.2 Adopt an asset allocation target to guide the structure of the investment portfolio, as provided for in Section 8.

5.3 Reevaluate the asset allocation study at least once every three-years, except as provided for in Section 17.

5.4 Retain the most qualified investment managers with demonstrated expertise in the management of institutional pension funds, as provided for in Part Three.

5.5 Delegate full discretion to each investment manager, to the extent authorized in Parts Three & Four.

5.6 Adopt objectives which encourage the investment managers to maximize their performance, within acceptable risk parameters, relative to their individual investment style benchmark, as set forth in Part Three.

5.7 Refrain from dramatically shifting asset class allocations over short time spans.

5.8 Discourage the use of cash equivalents, except for liquidity purposes, as provided for in Part Three.

5.9 Monitor the performance of its investment managers, relative to their assigned custom benchmarks to assure their conformance with the provisions of the board's investment policy, as provided for in Section 16.

6.0 INVESTMENT OBJECTIVES

6.1 It is the **Primary Investment Objective** of the board to structure an investment program such that the short term volatility of returns does not induce the board to alter its long term asset allocation strategies.

In keeping with the aforementioned, the following specific objectives are established:

6.1.1 Generate portfolio returns that, over the long-term, exceed the actuarial interest assumption of 8.00%, net of fees.

6.1.2 Generate a total fund return equal to or greater than the aggregate return of the asset allocation Target benchmarks.

6.1.3 Provide for the full funding of the Pension Benefit Obligation by the year 2022 based on GASB 25.

6.2 It is the **Secondary Investment Objective** of the board to stabilize the employer contribution rate, as a percentage of payroll for the present configuration of benefits.

6.3 It is the **Tertiary Investment Objective** of the board to generate total time-weighted rates of return which equal or exceed the benchmark indices, for the asset class assigned to the individual manager, as specified in the contract (net of fees in the case of active managers):

ASSET CLASS	BENCHMARK INDEX
Large Capitalization Domestic Equity	Russell 1000
	Russell 1000 Growth
	Russell 1000 Value
	S&P 500
Small Capitalization Domestic Equity	Russell 2000
	Russell 2000 Growth
	Russell 2000 Value
International Equity	MSCI All Country World ex US
	MSCI ACWI Free ex US Growth
	MSCI ACWI Free ex US Value
Private Equity	Russell 3000 + 3.0%
Domestic Fixed Income - Core & Core-Plus	Barclays Capital (BC) Aggregate Bond Index
	BC BA Intermediate High Yield Index
	BC US TIPS Index
Global Fixed Income	Barclays Capital Multiverse Index
Commodities	DJ-UBS Commodity
Hedge Funds	LIBOR + 4.0%
Risk Parity	60% Russell 3000 & 40% BC Aggregate
Real Estate	NCREIF ODCE
Cash	91 Day T-Bill

6.4 The board's policy regarding investment benchmarks and investment benchmark modifications appears in Appendix E.

7.0 INVESTMENT STRATEGY

The investment strategy of the Board of Retirement seeks to:

7.1 Diversify the fund in a manner which minimizes the risk of loss and maximizes the probability of achieving the investment objective;

7.2 Structure an asset allocation based on the long-term historical behavior of asset classes coupled with assumptions regarding the next three to five years.

7.3 Allocate the assets of the fund cost-efficiently by distinguishing a "passive" and an "active" component, as set forth in Section 8.

7.4 Establish performance objectives (specifically tailored benchmarks) & Guidelines for each investment management style, as set forth in Part Three.

7.5 Retain investment managers representative of the relevant and distinct investment management styles within each asset class, as set forth in Part Three.

7.6 Delegate responsibility for attaining the investment performance objectives to investment managers.

7.7 Monitor the performance of the investment managers to assure compliance with the Investment Policy and attainment of their performance objectives, as set forth in Section 16.

7.8 Rebalance the component portfolios, as set forth in Section 20.

7.9 Evaluate the asset allocation target at least once every three years, except that the board may adopt an annual investment strategy, as set forth in Section 17.

8.0 ASSET ALLOCATION

In the overall development of the asset allocation and manager structure policies of the investment plan, the Board of Retirement shall follow these philosophies:

- The overall active manager structure for domestic equities will not possess any significant biases in terms of investment style, and
- For those asset classes evidencing market efficiencies, the manager structure will favor the employment of passive strategies

8.1 The Assets of the Fund shall be allocated, as follows:

ASSET CLASS	ALLOCATION	REBALANCE RANGE
Equity	53%	±3%
Fixed Income	22%	±2%
Alternative Assets * (includes Private Equity)	20%	±2%
Real Estate *	5%	±2%

* Recognizing the illiquidity of the asset class, rebalancing will be considered over six to twelve month periods.

8.2 The Equity Assets shall be allocated to managers reflecting the following investment styles:

EQUITY MANAGEMENT STYLE	ALLOCATION	REBALANCE RANGE
Large Capitalization Domestic	28.00%	
Passive Core	6.50%	±3%
Active Core	8.50%	±3%
Growth	6.50%	±3%
Value	6.50%	±3%
Small Capitalization Domestic	7.00%	
Core	3.50%	±3%
Growth	1.75%	±3%
Value	1.75%	±3%
International	18.00%	

Growth	6.00%	±3%
Value	7.75%	±3%
Small Capitalization	2.00%	±3%
Emerging Market	2.25%	±3%
TOTAL EQUITY (EXCLUDING PE)	53.00%	±3%

8.3 The Fixed Income Assets shall be allocated to managers reflecting the following investment styles:

FIXED INCOME MANAGEMENT STYLE	ALLOCATION	REBALANCE RANGE
Domestic Core	7.50%	±2%
Domestic Core Plus	3.75%	±2%
Domestic Opportunistic	3.25%	±2%
Domestic Inflation Protection	3.00%	±2%
Global Bonds	4.50%	±2%
TOTAL FIXED INCOME	22.00%	±2%

8.4 The Alternative Assets shall be allocated to managers reflecting the following investment styles:

ALTERNATIVE ASSET MANAGEMENT STYLE	ALLOCATION	REBALANCE RANGE
Private Equity	8.00%	±2%
Hedge Fund	3.00%	±2%
Commodities	3.00%	±2%
Risk Parity	6.00%	±2%
TOTAL ALTERNATIVE ASSETS *	20.00%	±2%

* Recognizing the illiquidity of the asset class, rebalancing will be considered over six to twelve month periods.

8.5 The Real Estate Assets shall be allocated to managers reflecting the following investment styles:

REAL ESTATE MANAGEMENT STYLE	ALLOCATION	REBALANCE RANGE
Core Separate Account	5.00%	±2%
TOTAL REAL ESTATE *	5.00%	±2%

* Recognizing the illiquidity of the asset class, rebalancing will be considered over six to twelve month periods.

Part Three

INVESTMENT GUIDELINES

9.0 GENERAL INVESTMENT PERFORMANCE GUIDELINES

The overall performance objectives for the various asset classes are set forth in Section 6.3 of this document. The individual performance objectives for each investment manager will be established within the investment management agreement (IMA) with each firm.

The Board of Retirement expects to measure investment performance quarterly and will generally follow prudent time horizons when evaluating short term, intermediate term, and long term performance of its investment managers. Investment managers are advised that the board intends to track the interim progress toward multi-year goals. If there is a clear indication that performance is so substandard and severe that reasonable hope of recovery to the Plan's target performance level in the remaining time horizon period would require either high risk or good fortune, then the board will not feel constrained by this policy to avoid an "early" decision to take corrective action.

9.1 MANAGER'S ADHERENCE TO ITS PUBLISHED INVESTING STYLE

As stated in other parts of this *Investment Plan*, the board will have little or no tolerance for an inconsistent investment approach. Therefore, the board will carefully monitor their investment managers on several key indicators of possible inconsistency, such as:

- (a) Changes in portfolio managers, and general personnel turnover.
- (b) Surges in portfolio trading volume.
- (c) Evidence that actual portfolio characteristics deviate from the published investing style.
- (d) Performance patterns not logically explainable in terms of the published style, or performance out-of-step with manager's style peer group. This situation would cover significant performance deviation from the benchmark.
- (e) Material *Investment Plan* or guideline exceptions.

None of these indicators will be taken as conclusive evidence of inconsistency. Such a finding would be based upon the facts and circumstances of each situation.

9.2 UNDERPERFORMANCE IS DEFINED AS EITHER:

- (a) Four cumulative quarters in which the manager's performance (gross of fees) falls below the style based benchmark return times 0.8 (for example, if the benchmark return is 10%, the manager's return would be less than 8.0%). Or
- (b) Performance (gross of fees) below the 50th percentile for equity managers and 60th percentile for fixed income managers in a universe of the managers' peers over any consecutive 8-quarter period. Below median performance on a risk adjusted basis will also be a guiding tool in the evaluation of the investment manager. Or
- (c) Cumulative annualized performance (net of fees) over a three-year period below a broad market based benchmark return times 0.9, or five year return (net of fees) below the broad market based benchmark return, subject to the paragraph above which discusses interim progress toward multi-year objectives. Or
- (d) Performance will be evaluated in light of the manager's stated style and discipline.

9.3 THE BOARD'S EVALUATION

The board will evaluate any manager who fails to comply with the general terms and conditions of this Investment Plan and specifically the above issues. The board understands that the dynamics of the markets can render a portfolio to be non-compliant with these investment guidelines. In such cases, the manager will be given 30 days to bring the portfolio back into compliance. In the case of underperformance and non-compliance an extensive review of the manager and its performance will be conducted. Expectations on the future likelihood of the manager's ability to meet the terms and performance goals will be determined. If the board determines the manager is unlikely (without undue risk or style drift) to meet the requirements, the manager will be terminated.

In the case of material guideline exceptions, each occurrence will be evaluated on the merits. In most cases, the manager will be required to bring the portfolio into immediate compliance. However, the board is cognizant of those situations where, in the judgment of the investment manager, immediate compliance could prove detrimental to the return of the portfolio.

In the case of key professional turnover, the firm must show a depth of staff within the organization and be prepared to demonstrate the sustainability of their track record.

9.4 ACTION STEPS BY BOARD

The board may decide to review an investment manager or place same on the "watch list" for a number of reasons including but not limited to:

- (a) Sustained underperformance of any of the manager's goals;
- (b) Deviation from stated investment approach;
- (c) Failure to comply with all investment guidelines; or
- (d) Turnover of key professionals.

When a firm is reviewed, an intensive review of their process and approach will occur. The firm will be required to explain to the board or the board's representative reasons for such occurrences and be available for meetings with the board.

10.0 EQUITY

10.1 EQUITY PERFORMANCE OBJECTIVES: As set forth in Section 6.3 and within the individual investment manager's contract.

10.2 ACTIVE EQUITY INFORMATION RATIOS: The investment manager(s) retained for each active management style shall be accountable for maintaining positive information ratios consistent with their investment management style, as shall be defined in their individual contracts.

10.3 EQUITY GUIDELINES: The responsibility for securities selection and purchase and sale decisions is delegated to the equity investment managers in Section 15.4, *et seq.* Those managers, however, shall adhere to the following investment guidelines covering (a) diversification, (b) quality, (c) restricted transactions and (d) exemptions:

(a) Diversification:

10.3.a.1: No individual security shall constitute more than 10% of the market value of *SamCERA's* assets under a manager's supervision, nor shall *SamCERA's* investment constitute more than 5% of the

company's outstanding equity. When measuring this aspect of compliance the board will consider its ownership in relation to the “free float” of a particular security.

10.3.a.2: In evaluating the industry risk component of individual manager portfolios, the board will be cognizant of the industry structure of same. With the exception of any special equity portfolios, the board expects active managers to maintain a reasonable degree of portfolio diversification. Extreme industry deviations from a manager’s benchmark are subject to inquiry. Industry groups are defined by the North American Industry Classification System (NAICS).

(b) Quality

10.3.b.1: Securities must be traded on a major stock exchange or listed on the NASDAQ.

10.3.b.2: Securities in the international portfolio must be included within the Morgan Stanley Capital International database, or the *Financial Times* database.

(c) Restricted Transactions:

10.3.c.1: All transactions shall be consistent with the provisions of the Code of Fiduciary Conduct as set forth in Section 14 and the Delegation of Authority to Investment Managers as set forth in Section 15.3.

10.3.c.2: No funds shall be borrowed.

10.3.c.3: No short sales or margin sales shall be made.

10.3.c.4: No letter stock shall be purchased.

10.3.c.5: Futures and options may be utilized only as specified in the investment manager's contract.

10.3.c.6: Currency forward contracts, futures and options may be used to hedge an equity or fixed income portfolio as specified in the investment manager's contract and Appendix C.

(d) Exemptions: The investment manager must request prior approval from the Board of Retirement for permission to deviate from the provisions of these guidelines.

11.0 FIXED INCOME

11.1 FIXED INCOME PERFORMANCE OBJECTIVES: As set forth in Section 6.3.

11.2 ACTIVE FIXED INCOME INFORMATION RATIOS: The investment manager(s) retained for each active management style shall be accountable for maintaining positive information ratios consistent with their investment management style, as shall be defined in their individual contracts.

11.3 FIXED INCOME GUIDELINES: The responsibility for fixed income securities selection and purchase and sale decisions is delegated to the fixed income investment managers in Section 15.4, *et seq.* Those managers, however, shall adhere to the following investment guidelines covering (a) diversification, (b) quality, (c) restricted transactions and (d) exemptions:

(a) Diversification:

11.3.a.1: No individual security shall constitute more than 5% of the market value of *SamCERA's* assets under a manager's supervision, with the following exceptions: (1) no individual securities issued or guaranteed by a sovereign government included in the Barclays Capital Aggregate or Barclays Capital Global Aggregate Index or issued or guaranteed by such sovereign government's agencies or instrumentalities shall constitute more than 10% of the market value of the portfolio; (2) there are no limits on the use of securities issued or guaranteed by the United States government or its agencies or instrumentalities.

(b) Quality:

11.3.b.1: The minimum average rating of the total portfolio of fixed income assets under a manager's supervision must be "A" or better (Standard & Poor's or Moody equivalent), dollar weighted at market value.

11.3.b.2: The minimum quality rating eligible for the portfolio is "B" or better (as rated by Standard & Poor's or Moody's equivalent)

11.3.b.3: No more than 10% of *SamCERA's* fixed income assets under a manager's supervision shall be invested in securities with a rating below Baa3, BBB-, P-1 or A-1.

11.3.b.4: Eligible non-US fixed income securities are limited to those issued in countries utilized in the Salomon Brothers World Government Bond Index, with the following exception for emerging markets:

11.3.b.5: If a security is downgraded below Baa *or* BBB, the manager must notify the Investment & Finance Manager.

(c) Restricted Transactions:

11.3.c.1: All transactions shall be consistent with the provisions of the Code of Fiduciary Conduct as set forth in Section 14 and the Delegation of Authority to Investment Managers as set forth in Section 15.4, *et seq.*

11.3.c.2: No funds shall be borrowed.

11.3.c.3: No short sales or margin sales shall be made.

11.3.c.4: No tax-exempt security shall be purchased or retained, unless, on a comparable quality basis, it provides a return superior to that of a like taxable security.

11.3.c.5: No private placements shall be purchased without the prior notification of the Investment & Finance Manager & the Chair, with the exception of Rule 144(a) securities.

11.3.c.6: Currency forward contracts, futures and options may be used to hedge the non-US dollar fixed income securities as specified in the investment manager's contract and Appendix C.

(d) Exemptions: The investment manager must request prior written approval from the Board of Retirement for permission to deviate from the provisions of these guidelines.

12.0 REAL ESTATE PROPOSED

12.1 INVESTMENT OBJECTIVES: *SamCERA* has determined that over the long term, inclusion of equity real estate investments will enhance the risk/return characteristics of its portfolio. Real estate investments occur in an inefficient market and will be designed to provide returns in excess of the industry benchmarks. Active management, value creation and opportunistic strategies, as well as prudent use of third party debt, are approved methods of generating excess return. A secondary objective will be to improve the diversification of the overall investment portfolio.

12.1.a: Completion of due diligence entails staff, consultant, and counsel to review the investment structure and associated legal documents.

12.1.b: Investment structures will be monitored quarterly to evaluate investment performance and to ensure compliance with vehicle documents.

12.2 REAL ESTATE PERFORMANCE OBJECTIVES: The investment manager(s) retained by *SamCERA* shall be accountable for generating total time-weighted rates of return (TTWRR), net of fees, which equal or exceed, the NPI ("NCREIF Property Index").

12.3 REAL ESTATE GUIDELINES: The responsibility for real estate selection and purchase and sale decisions is delegated to the real estate manager(s) in Section 15.4, *et seq.* The manager, however, shall adhere to the following investment guidelines covering (a) diversification, (b) quality, (c) restricted transactions, (d) leverage, (e) special conditions, (f) annual plan and (g) exemptions.

(a) Diversification:

12.3.a.1: The board will employ a commingled fund vehicles account investment structure.

12.3.a.2: The commingled fund vehicle may not exceed a concentration of 40% (by value) in any single property type or 25% in any single metropolitan statistical area, determined as of the date of the acquisition of a property.

12.3.a.3: Commingled fund vehicles shall be diversified as to region, property type, industry and economic base.

(b) Quality: All assets must be of institutional quality as evidenced by tax-exempt institutional investment in similar properties, high quality construction and design, a market with underlying fundamental strengths and a strong location.

(c) Restricted Transactions:

12.3.c.1: All transactions shall be consistent with the provisions of the Code of Fiduciary Conduct as set forth in Section 14 and the Delegation of Authority to Investment Managers as set forth in Section 15.4, *et seq.*

12.3.c.2: No properties shall be purchased outside of the boundaries of the United States.

12.3.c.3: No single-purpose, specialized properties (e.g. hotels, medical facilities, land, etc.) shall be purchased unless the criteria are specified in the investment manager's contract.

(d) Leverage: The use of leverage is permitted only for the purpose of enhancing returns and is limited to no more than 30% of overall loan to value, with a target of 15% of the aggregate portfolio.

(e) Special Conditions:

12.3.e.1: The commingled fund vehicles shall include specific provisions governing reporting, due diligence, property valuations, property management, insurance, unrelated business income tax and property specific environmental evaluations and environmental liabilities.

12.3.e.2: No transaction shall be entered into that does not meet the unique compliance requirements outlined in the collective vehicle's private placement memorandum.

(f) Exemptions: The commingled fund vehicle manager(s) must request prior written approval from the Board for permission to deviate from the provisions of these guidelines.

(g) Annual Plan: The commingled fund vehicle manager(s) must provide the board with a strategic plan review on an annual basis. Some of the items to be provided in the annual plan include: (1) Organizational Review, (2) Leasing Status, (3) Operating Income, (4) Distributed Income, (5) Operating Expenses, (6) Capital Expenses, (7) Fees, (8) Buy/Sell Analysis by Property and (9) Strategy for Coming Year.

12.4 COMMINGLED FUND VEHICLE OVERSITE: The board has determined that engagement is the best course to implement change.

12.4.a. Whenever possible, *SamCERA's* Chief Executive Officer or delegate will secure a seat on the commingled fund vehicle's advisory committee and attend its meetings.

12.4.b. Whenever possible, *SamCERA's* Chief Executive Officer or delegate will attend the commingled fund vehicle's annual meeting.

13.0 ALTERNATIVE ASSETS

13.1 ALTERNATIVE ASSET PERFORMANCE OBJECTIVES: As set forth in Section 6.3.

13.2 ACTIVE INFORMATION RATIOS: The investment manager(s) retained for each active management style shall be accountable for maintaining positive information ratios consistent with their investment management style, as shall be defined in their individual contracts.

13.3 ALTERNATIVE ASSET GUIDELINES: The responsibility for alternative asset securities selection and purchase and sale decisions is delegated to the alternative asset investment managers in Section 15.4, *et seq.* Those managers, however, shall adhere to the following investment guidelines covering (a) diversification, (b) quality, (c) restricted transactions and (d) exemptions:

(a) Diversification:

13.3.a.

(b) Quality:

13.3.b.1:

13.3.b.2:

13.3.b.3: .

13.3.b.4:

13.3.b.5:

(c) Restricted Transactions:

13.3.c.1:

13.3.c.2:

13.3.c.3:

13.3.c.4:

13.3.c.5:

13.3.c.6:

(d) Exemptions: The investment manager must request prior written approval from the Board of Retirement for permission to deviate from the provisions of these guidelines.

Part Four

CONTROLS

14.0 CODE OF FIDUCIARY CONDUCT

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

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

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

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

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

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

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

WHEREAS, Chief Judge Benjamin Cardozo, in 1928, set forth the standard for fiduciary conduct, as follows:

“A trustee is held to something stricter than the morals of the market place. Not honesty alone, but the punctilio of an honor the most sensitive, is then the standard of behavior. As to this there has developed a tradition that is unbending and inveterate. Uncompromising rigidity has been the attitude of courts of equity when petitioned to undermine the rule of undivided loyalty by the "disintegrating erosion" of particular exceptions. Only thus has the level of conduct for fiduciaries been kept at a level higher than that trodden by the crowd ... ; “ and

WHEREAS, the Political Reform Act of 1974 sets forth specific circumstances which require public officials to disqualify themselves from making, participating in, or attempting to influence governmental decisions which may affect any of their financial interests. Therefore, Be it

RESOLVED that the board hereby adopts the following Code of Fiduciary Conduct:

1. The trustees, chief executive officer, consultants, investment managers, other professionals retained by the board and *SamCERA* staff shall comply with the provisions of the California Constitution; the Political Reform Act of 1974, as amended; the Ralph M. Brown Act, relating to public meetings, as

amended; Government Code §1090, *et seq*, as amended; and all other California laws pertinent to the conduct of public pension fund fiduciaries.

2. The trustees, chief executive officer, consultants, investment managers, other professionals retained by the board and *SamCERA* staff shall execute their duties as set forth in the County Employees' Retirement Law of 1937, as amended, with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

3. The trustees will not authorize the making of any investment, which is not contemplated in *SamCERA's* Investment Plan. The Investment Plan may be amended at any properly noticed meeting of the board, but only after considering the written recommendations and comments of the chief executive officer, consultants and investment managers, which shall be promptly submitted upon request of the trustees.

4. The investment authority vested in the board shall not be delegated to any committees of the board, except by formal resolution. Such resolutions shall specify the limits of the authority delegated and require that all actions be reported to the board for approval.

5. Investment signature authority shall be limited to individuals identified by formal resolution, which shall specify the limits of the authority delegated and require that all actions be reported to the board for ratification.

6. Due diligence shall be completed prior to the execution of any board initiated investment transaction. Due diligence will be performed in accordance with established guidelines and procedures by persons with expertise relevant to the transaction under evaluation. The board's due diligence checklist is set forth in Appendix D.

7. Direct equity investments and other alternative asset investments shall be made only after considering the written recommendations and comments of the chief executive officer and consultants. Investments in this area shall be done only after the development and adoption of an alternative investment policy by the Board of Retirement.

8. In keeping with the provisions of the Government Code, a member or employee of the board shall not become an endorser, surety, or obligor on, or have any personal interest, direct or indirect, in the making of any investment for the board, or in the gains or profits accruing there from. These persons are prohibited from having any financial interest in any contract made by them in their official capacity and from making or influencing official decisions in which they have a financial interest.

9. Trustees, the chief executive officer, consultants, investment managers, other professionals retained by the board and *SamCERA* staff shall be accountable for recognizing a potential conflict of interest and for disqualifying themselves from making, participating in, or attempting to influence board decisions which may affect any of their financial interests. They shall disclose their potential conflict, either in writing to the Chairman of the Board, with a copy to all trustees and the chief executive officer, or during a noticed meeting of the board or its committees, and shall explain their conflict of interest and refrain from participating in any further deliberations on the matter.

10. The Board shall pursue all of its legal remedies against any who violate the provisions of this code.

15.0 DELEGATION OF AUTHORITY

15.1 THE BOARD SHALL:

(a) Discharge its duties in conformance with the Code of Fiduciary Conduct.

- (b) Make investment decisions in accordance with the adopted Investment Plan, or make properly noticed revisions thereto; and may adopt an annual investment strategy to amplify or clarify progress towards the attainment of the investment objectives, as set forth in Section 17.
- (c) Employ investment consultants and investment manager services, as needed, to ensure that the retirement fund is invested effectively and to safeguard the assets of the retirement fund; and may enter into agreements setting forth management and performance expectations.
- (d) Delegate to its investment managers full discretionary investment authority consistent with the provisions of the Investment Plan and the individual investment manager contracts.
- (e) Monitor the performance of its investment managers at least quarterly, as set forth Section 16.
- (f) Meet with its investment managers annually to review performance in accordance with the criteria set forth in Section 15 and manager specific issues identified by the board.
- (g) Dismiss investment managers who fail to perform acceptably in accordance with the terms of the contract or the applicable provisions of Sections 9, 10, 11,12 and 15.4. The decision to retain or dismiss a manager shall consider the evaluation criteria set forth in Section 9 and the recommendations of the investment consultant and the Investment & Finance Manager.

15.2 THE CHIEF EXECUTIVE OFFICER SHALL:

- (a) Discharge his duties in conformance with the Code of Fiduciary Conduct.
- (b) (i) Support the board in the development & approval of the Investment Plan, (ii) implement & monitor the Plan & (iii) report monthly on investment activity & other matters of significance.
- (c) Provide for the collection & investment of contributions & investment income, the disbursement of benefits & refunds, the payment of budgeted expenditures, the maintenance of accounting & internal control systems, the estimating & monitoring of retirement fund cash flows (including the management of all float & daily cash sweep accounts) & report on matters of significance.
- (d) Ensure that investment managers conform to the terms of their contracts and that the performance monitoring systems are sufficient to provide the board with timely, accurate and useful information.
- (e) (i) Provide for the voting of proxies, (ii) seek board guidance on nonfinancial issues & (iii) report on matters of significance.

15.3 THE INVESTMENT CONSULTANT SHALL:

Provide the board with relevant and timely information with respect to the total portfolio and the investment managers. Generally, the investment consultant will provide the following services for the board:

- (a) Assist the board in the development of the Investment Plan
- (b) Assist the board in the oversight, monitoring and selection of investment managers
- (c) Provide educational sessions and insights into recent developments within the financial markets
- (d) Provide quarterly investment performance reports

15.4 THE INVESTMENT MANAGERS SHALL:

- (a) Discharge their duties in conformance with the Code of Fiduciary Conduct, the Investment Plan and their individual contracts and be liable for any investment decision not made in accordance therewith. The members of the investment management firm's research and portfolio teams are expected to comply with the AIMR Standards of Practice and Code of Ethics. Any industry or regulatory disciplinary action taken against members of the firm's investment staff must be immediately reported in writing to the Board.
- (b) Provide the board with written agreement to invest within the guidelines established in the Investment Plan.
- (c) Provide the board with proof of liability and fiduciary insurance coverage upon the inception of the investment management agreement and annually thereafter.
- (d) Be SEC Registered Investment Advisors recognized by the Investment & Finance Manager as providing substantial years of demonstrated expertise in (i) the management of pension funds and (ii) an investment specialty.
- (e) Adhere to the investment management style concepts and principles for which they were retained, including, but not limited to, (i) develop portfolio strategy; (ii) perform research; (iii) develop buy, hold, and sell lists; (iv) purchase and sell securities; and (v) vote proxies as set forth in Section 18.
- (f) Execute all transactions for the benefit of the retirement fund with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the retirement fund.
- (g) Facilitate the recapture of commissions, on a best execution basis, on behalf of the fund when provided for in the contract. Managers are expected to exercise diligence when trading for the portfolio. The board will authorize any directed trading for the portfolio and such should not occur without the board's consent in writing. Managers are expected to follow the principles of best price and execution when conducting trades within the portfolio.
- (h) Define and adhere to a dollar-value or percent-of-market limit to the amount of assets the firm will manage under the investment style specified in the contract.
- (i) Provide a semi-annual compliance checklist to staff and the investment consultant that sets forth the status of all pertinent policy and guideline issues.
- (j) Maintain frequent and open communication with the Board of Retirement, through the Investment & Finance Manager, on all significant matters pertaining to the Investment Plan, including, but not limited to the following: (i) Inform the board of major changes in the investment manager's investment outlook, investment strategy and portfolio structure; (ii) inform the board of any significant changes in ownership, organizational structure, financial condition or senior personnel; (iii) inform the board of any changes in the portfolio manager assigned to the retirement fund; (iv) inform the board of all pertinent issues which the investment manager deems to be of significant interest or material importance; (v) provide the board with monthly transaction and valuation reports and quarterly performance reports, as specified in Section 15; (vi) meet with the board as specified in the contract. The investment manager is generally expected to inform the board, in writing, of any significant changes discussed above and any other changes that might impact the portfolio or the manager's ability to manage the portfolio. Such notification shall be done no later than 30 days from the date of the change or from the date of the manager's knowledge of the impending change and shall be submitted to Investment & Finance Manager and the board's consultant; (viii) report any discrepancies between the manager's portfolio accounting records and those received by the manager from the board's custodian.

15.5 THE GLOBAL CUSTODIAN SHALL:

- (a) Provide Global Custody Services.
- (b) Provide safekeeping for securities purchased by managers on behalf of the board.
- (c) Provide for timely settlement of securities transactions.
- (d) Maintain short-term investment vehicles for investment of cash not invested by the managers and sweep all manager accounts daily to ensure that all available cash is invested.
- (e) Collect interest, dividend and principal payments as soon as they become available.
- (f) Price all securities regularly and post transactions daily.
- (g) Pursuant to authority and direction from the board, manage a securities lending program to enhance income
- (h) Provide electronic access to accounting and performance reporting systems.
- (i) Provide monthly, quarterly and annual accounting reports for posting to the retirement fund's general ledger.
- (j) Provide other services, as required, that assist with the monitoring of managers and investments.

16.0 QUARTERLY INVESTMENT PERFORMANCE REPORTING:

The quarterly investment performance reports will be designed as a risk management tool and will afford the board the opportunity to timely identify potential risk issues within the portfolio and to assess the relative performance of the investment managers.

The report will provide sufficient information to assess the following:

16.1 Adherence to the investment style for which the manager is retained, as measured by the quarterly risk adjusted active return (deviation of the manager's performance from the specified performance benchmark) over the last quarter, six months and year, including updates from previous quarterly reports regarding adherence to the style for which the firm was retained;

16.2 Ability of the active manager to demonstrate consistently positive information ratios, including updates from previous quarterly reports regarding the firm's information ratios;

16.3 Growth in assets under management and how the firm plans to minimize the adverse impact which the additional assets will have on its investment discipline relative to the depth of the investment team and professionals, including updates from previous quarterly reports regarding assets under management;

16.4 Client retention, in terms of the names of tax-exempt clients, which terminate their relationship with the investment manager and the reasons given;

16.5 Changes in senior investment professional staff and how the firm plans to minimize the adverse impact the changes will have on its investment discipline, including updates from previous quarterly reports regarding personnel;

16.6 Quarterly, annual, three-and-five-year total time-weighted returns relative to the specified performance benchmark;

16.7 Performance attribution, direct and indirect transaction costs, and turnover;

16.8 Items which the manager has brought to the board's attention pursuant to Section 15.4(j).

17.0 ANNUAL INVESTMENT STRATEGY

17.1 Annually, the board shall convene an investment strategy session with the objective of addressing strategic investment policy issues and to deliberate any policies that could benefit the performance of the retirement funds. The agenda for these sessions should include (but is not limited to) the following information:

- (a) Compare the fund's actual investment performance for the prior fiscal year against the investment objectives set forth in Section 9 and evaluate the relative success or failure of the prior year's performance; specific commentary to this objective shall be an integral part of the performance measurement process.
- (b) Compare each investment manager's actual investment performance for the prior fiscal year against the performance criteria set forth in the applicable sections of Part III and their individual contracts, and evaluate the relative success or failure of their prior year's performance;
- (c) Compare the fund's actual investment performance for the prior ten fiscal years against the actuarial assumptions and other actuarial expectations and evaluate the relative success or failure of the investment performance and the appropriateness of maintaining or altering the current actuarial assumptions and other actuarial expectations;
- (d) Compare the market-value-weighted percentages of the assets invested in each class of assets against the asset allocation targets set forth in Section 8 and evaluate the appropriateness of maintaining or altering the current allocation;
- (e) Evaluate the appropriateness of allocating additional assets to managers who have demonstrated rigid adherence to the investment discipline for which they were retained, but whose sector has lagged the market during the prior fiscal year;
- (f) Evaluate the fund's liquidity requirements for the current and next fiscal years;
- (g) Authorize the Investment & Finance Manager to prepare an annual investment strategy to implement the changes proposed by the board during its deliberations on Sections (a) through (f), for formal approval at a regularly scheduled meeting of the board.

17.2 The board may review and amend the annual investment strategy during its quarterly monitoring deliberations, as set forth in Section 16, so long as the amendments are approved during a regularly scheduled meeting of the board.

17.3 The Investment & Finance Manager shall inform all investment managers of actions taken by the board in connection with the annual investment strategy, and shall implement all necessary changes.

18.0 PROXIES

The Investment & Finance Manager shall provide for the voting of proxies by the investment managers, as set forth in Sections 15.2(e)(i) and 15.4(e)(v), subject to the following guidelines:

18.1 All proxies shall be voted in the best interest of the shareholders, but in no instance shall the economic interests of the retirement fund be subordinated to any other interest.

18.2 The investment managers shall be accountable for alerting, in a timely manner, the Investment & Finance Manager to proxy issues that have aroused concern among institutional investors. The Investment & Finance Manager shall solicit advice and recommendations from institutional investors and proxy advisory services and request direction from the board at its next regularly scheduled meeting.

18.3 Unless the board provides specific direction, proxies concerning the election of directors, ratification of auditors, amendments to the articles of incorporation, name changes, employee stock purchase or ownership plans, stock option plans, incentive plans and increases in the number of authorized shares of common stock, shall be voted with management.

18.4 Unless the board provides specific direction, proxies concerning mergers, acquisitions, restructuring, reincorporation and changes in capitalization shall be voted as provided for in Section 18.1.

18.5 Unless the board provides specific direction, proxies concerning social, environmental, and political issues shall be voted as provided for in Section 18.1.

18.6 Unless the board provides specific direction, votes shall be cast against proxies which would limit management's accountability to the shareholders or otherwise restrict shareholder's ability to realize the full value of their investment, such as proposals creating super-majorities, elimination of cumulative or preemptive rights, creation of dual-class voting rights, greenmail, poison pills, golden parachutes, and excessive compensation for management when earnings are declining.

18.7 Investment managers shall provide the board with quarterly reports on all proxies cast, in a mutually acceptable format.

19.0 SECURITIES LENDING

SamCERA reinstated a securities lending program Effective July 1, 2007, for the actively managed component of the portfolio. The board's standards with respect to this type of program are hereby promulgated within this document.

19.1 Pursuant to Section 15.5(g), the master custodian(s) shall manage a securities lending program to enhance income in accordance with the terms and conditions set forth in a mutually acceptable securities lending agreement and guaranty.

19.2 The board reserves exclusive authority to approve the securities lending agreement prior to the commencement of securities lending activity.

19.3 Unless otherwise specified in the agreement(s),

(a) All loans shall be marked-to-market daily,

(b) Collateral on each loan shall be maintained daily at 102% of loan value for domestic securities and 105% of loan value for international securities,

(c) Acceptable collateral shall be in the form of cash or marketable fixed income securities with maturities not greater than one year, including (1) Commercial Paper with quality ratings of P-1 and/or A-1 by Moody's Investors Services or Standard & Poor's Corporation, or their equivalents; (2) Banker's acceptances, certificates of deposits and time deposits; (3) United States Treasury and Government Agency short-term obligations; (4) Repurchase Agreements with United States Treasury Securities and Agencies of the United States Government as collateral; and (5) Money market or short-term investment funds.

(d) If rated, borrowers shall be rated AA, Aa or higher by Moodys or Standard & Poors.

19.4 The Investment & Finance Manager shall be responsible for monitoring the securities lending program and recommending changes as appropriate.

20.0 REBALANCING

20.1 The Investment & Finance Manager shall rebalance the portfolio quarterly or as needed in conformance with the asset allocation tactical ranges set forth in Section 8. All rebalancing activity shall be reported to the board in writing at the next scheduled meeting.

20.2 The Investment & Finance Manager shall issue instructions to managers to sell or transfer securities for reallocation to other managers or other asset classes when necessary to rebalance the portfolio.

20.3 All interest, dividends, net operating revenue and capital gains shall be reinvested by the investment manager accountable for the underlying investment.

20.4 On a monthly basis, the Investment & Finance Manager shall prorate net positive cash flows, in increments of not less than \$1 million, to asset classes that are below the target allocation. The proration shall take into account the asset class' percentage of the total portfolio and the magnitude of the deviation from the target.

20.5 When all asset classes are within their target allocation, the Investment & Finance Manager shall prorate net positive cash flows, in increments of not less than \$1 million, to each asset class on a rotating basis in order of the asset class' percentage of the total portfolio.

20.6 Pursuant to Section 17.1 (d), the board shall review the allocation of assets to each investment manager as part of the board's annual investment strategy.

APPENDIX A

SamCERA Investment Policy Chronology

1981: Three decades ago, *SamCERA's* investment portfolio consisted of stocks, bonds and short-term securities. Changes in the board's membership, coupled with a decade of below average returns for the stock market, led to a decision to abandon the stock market in 1981. At that time, the board apparently determined that the securities of the United States Government were the only prudent investment. Consequently, *SamCERA* did not participate in the significant returns captured by most pension funds during that decade.

1992: With the assistance of a pension consultant, the Board of Retirement approved an asset allocation target and implemented a \$10 million per month investment in a commingled fund which mirrored the performance of the S&P 500 Index.

1994: The board adopted *SamCERA's Investment Plan* and launched the implementation of its new asset allocation program.

1996: The board accepted Wyatt Investment Consulting's *Asset Liability Modeling Study* which provided the basis for the asset allocation in the first revision to *SamCERA's Investment Plan*.

1997: The board revised the active:passive ratio from 40:60 to 60:40 for those asset classes where perceived market inefficiencies provided opportunities for successful active management.

1998: The board eliminated two of its passive allocations and replaced them with active allocations where new investment managers were hired for small cap value domestic equity and for international equity assignments. In addition, the board replaced its active large cap core equity allocation and manager with a large cap value equity allocation and manager.

1999: The board collaborated with Watson Wyatt Investment Consulting to reevaluate the *Asset Liability Modeling Study*. The resulting asset allocation reduced the real estate allocation, increased the equities allocation, restated the proportion of international versus domestic fixed income and added emerging markets as an asset class. The board opined to delay implementation of the emerging market allocation. Following a thorough review process, the board selected State Street Bank & Trust Company as its Global Custodian transferring assets on July 1, 1999.

2000: Following a two-day planning retreat, the board established an investment committee charged with evaluating *SamCERA's Investment Plan*. The committee undertook a reverse optimization analysis that led the committee to recommend and the board to approve a new allocation closer to the "median" corporate fund. Consequently the board reduced its allocation to small cap and international stocks and eliminated its allocation to international fixed income. The board also decided to embrace emerging market investing within the risk controlled limitations pertinent to its overall international equity portfolio. The board's overall fixed income portfolio will have the authority to encompass country, currency, and credit quality diversification in a risk-controlled fashion. The board also increased its use of passive index funds and terminated its contracts with four active investment managers.

2001: Strategic Investment Solutions was selected to succeed Gray & Co as *SamCERA's* investment consultant.

2002: *SamCERA* established a process of investment manager due diligence that includes monthly, quarterly, semi-annually and annually review and reporting.

2003: San Mateo County granted an enriched benefit structure for *SamCERA's* Tiers One, Two, and Four. The board accepted Strategic Investment Solutions' *Asset Liability Modeling Study* which reaffirmed *SamCERA's* asset allocation. *SamCERA's* due diligence policy was formalized

2004: The board collaborated with Strategic Investment Solutions' to complete a study of *SamCERA's* manager structure. Consequently, the board increased the plan's allocation to active management from 32% to 50%.

2005: The board approved a futures agreement with Goldman Sachs Asset Management (GSAM) to allow GSAM to equitize the cash position of their small cap enhanced index mandate.

2006: The board with Strategic Investment Solutions' assistance reviewed *SamCERA's* fixed income manager structure, which was mandated as follows: 1/3 in a passively managed Lehman Brothers Aggregate Bond Index Fund (now known as the Barclays Capital Bond Index), 1/3 active core management and 1/3 active core plus management. The passive 1/3 was replaced by an active enhance index fund. Fidelity Trust Management Company (later renamed Pyramis Global Advisors) was hired in February 2006 to manage the enhanced index mandate.

2007: The board collaborated with Strategic Investment Solutions' to complete an asset liability study in January. The asset allocation was amended as noted in the table below. The study was followed by a review of *SamCERA's* manager structure, which was completed in April. The large cap equity mandate was amended from a 50%/50% split to a split of 80% in the Russell 1000 Alpha Tilts Fund and 20% in the Russell 1000 Index Fund both still managed by Barclay's Global Index.

SamCERA's Portfolio Asset Allocation
Accepted January 23, 2007

Asset Class	Former	Adopted
Large Cap Equity	40	37
Small Cap Equity	10	9
International Equity	15	21
Domestic Bonds	29	27
Real Estate	6	6
Expected Return	8.23	8.13
Expected Risk	11.74	11.24

2008: There were no significant structural changes to *SamCERA's* portfolio in 2008. However the year saw the beginning of a deep and prolonged recession.

The financial crises started early in the year. We saw the Federal Deposit Insurance Corporation (FDIC) took over the failed IndyMac Bank. The Treasury and Federal Reserve took steps to rescue Fannie Mae and Freddie Mac. Foreclosures reached record levels and home prices fell dramatically. Crude oil prices were near a record-setting \$140 a barrel. Consumer confidence dropped to a 16-year low.

The following events occurred in rapid chronological order in late August through mid-October. Commerzbank AG agrees to purchase Allianz SE's Dresdner Bank in Germany's biggest banking takeover in three years. The U.S. government seizes control of Fannie Mae and Freddie Mac. Lehman Brothers Holdings Inc. files for bankruptcy. Bank of America agrees to acquire Merrill Lynch. AIG (American International Group, Inc.) accepts an \$85 billion loan from the Federal Reserve to avert the worst financial collapse in history, and the government takes over the company. Lloyds TSB Group Plc. agrees to buy HBOS Plc., Britain's largest mortgage lender.

Goldman Sachs Group Inc. and Morgan Stanley receive approval to become commercial banks regulated by the Federal Reserve. Washington Mutual Inc. is seized by government regulators and its branches and assets sold to JPMorgan Chase in the biggest U.S. bank failure in history. Fortis, the largest Belgian financial-services firm, receives an 11.2 billion-euro rescue from Belgium, the Netherlands, and Luxembourg. The House of Representatives rejects a \$700 billion plan to rescue the U.S. financial system causing the Dow Jones Industrial Average to plunge. Citigroup agrees to acquire the banking operations of Wachovia Corporation. The House and Senate pass a revised version of the rescue plan. Wells Fargo agrees to buy all of Wachovia trumping Citigroup's government-assisted offer. BNP Paribas SA will take control of Fortis's units after an earlier government rescue failed. U.S. Treasury Secretary, Henry Paulson, indicates that pumping funds into banks is a priority. European leaders agree to guarantee bank borrowing trying to stop the financial hemorrhage and stave off a recession. The Federal Reserve leads an unprecedented push by central banks to flood the financial system with dollars. Fear, panic, depression and distrust are four emotions that are quite evident amongst participants in that market environment. Against this backdrop *SamCERA*'s portfolio returned -20.9% for the first four months of fiscal year 2008-2009, which is very much in line with its peers.

2009: The last calendar year was unprecedented for the global economy and global capital markets, which resulted in negative trailing returns for most plan sponsors, including *SamCERA*.

As a first step to reduce portfolio risk, the Board of Retirement moved in a methodical manner to initiate a program to diversify *SamCERA*'s large cap equity portfolio. The board also opined to begin measuring the large and small cap growth and value mandates against the Russell 1000 or 2000 Growth or Value Indexes.

Next, a study of the fixed income structure was completed. The board opined to add a Public-Private Investment Program (PPIP) mandate, a U.S. Treasury Inflation Protected Securities (TIPS) mandate, a Credit Opportunities mandate and a Global Bond mandated, all of which nicely added to the diversification of the fixed income portfolio.

2010: The board reaffirmed its best practices procedure of periodically testing the market for service providers when it issued an Investment Consultant Request for Proposal late in 2009. The process concluded in May 2010 with retaining Strategic Investment Solutions (SIS) as the general investment consultant and expanding their duties to include alternative investments.

The board commissioned an asset liability modeling study in August. The study resulted in an asset allocation which adds alternative investments to the portfolio.

Asset Class	Former	Current
Large Cap Equity	37.0	28.0
Small Cap Equity	9.0	7.0
International Equity	21.0	18.0
Domestic Bonds	27.0	17.5
Global Bonds	0.0	4.5
Private Equity	0.0	8.0
Commodities	0.0	3.0
Hedge Funds	0.0	3.0
Risk Parity	0.0	6.0
Real Estate	6.0	5.0
Cash	0.0	0.0
Expected Return	7.6	8.13
Expected Risk	12.3	11.24

The board approved an implementation plan for the private equity mandate. The first two private equity managers were engaged.

2011: The Board of Retirement entered into agreement with managers for the recently approved hedge fund mandate, risk parity mandate, and commodities mandate. The board reaffirmed the private equity implementation process and approved two additional private equity investment opportunities.

The board reviewed the structure of its international equity portfolio, which comprises 18% of the total portfolio. The current structure of 9% international value and 9% international growth was diversified. Two new mandates were added and managers selected. As a percentage of the total portfolio, the new mandates are 2.25% in a dedicated emerging markets mandate and 1.75% in an international small cap mandate. The existing mandate and manager for international value was reduced to 8.0%. The international growth manager and mandate were replaced. The new manager is given the mandate of international develop markets growth with 6.0% of the total portfolio.

APPENDIX B

Evaluation of SamCERA's Risk Management Practices as Promulgated by the Risk Standards Working Group

(As amended January 2008)

RISK STANDARD		CURRENT STATUS	NEXT STEPS	DANGERS
Management				
1	Acknowledgment of Fiduciary Responsibility	<ul style="list-style-type: none"> • Board Identification of Fiduciary Duties & Delegations are Well Documented • Staff Delegations & Code implemented 	<ul style="list-style-type: none"> • Review Investment Guidelines & Contracts • Continue Board & Staff Annual Acknowledgment of Fiduciary Duty 	<ul style="list-style-type: none"> • Failure to Define & Communicate Risk Controls
2	Approved Written Policies, Definitions, Guidelines & Investment Documentation	<ul style="list-style-type: none"> • Board Policies & Guidelines are Well Documented • Investment Contracts are explicit • Staff procedures are well documented 	<ul style="list-style-type: none"> • IFM continues review of definitions of permitted & prohibited transactions • CEO directs staff in continual updating of Procedure manuals • IFM & CEO continue review of internal procedures for compliance with Board Policies & Guidelines 	<ul style="list-style-type: none"> • Unauthorized investment or benefit transaction due to ambiguity in Policies & Guidelines
3	Independent Risk Oversight, Checks & Balances, Written Procedures and Controls	<ul style="list-style-type: none"> • Managers & Staff must further document internal controls • Audit Committee & Auditor provide opportunity for a fresh perspectives 	<ul style="list-style-type: none"> • CEO conducts formal Inventory of Critical Investment, Benefit & Financial Procedures • CEO continues Checks & Balances Reviews • • Sarbanes Oxley will provide guidance to attest SamCERA's risk oversight or internal controls 	<ul style="list-style-type: none"> • Internal Controls difficult in small organization; errors & fraud may go undetected
4	Clearly Defined Organizational Structure & Key Roles	<ul style="list-style-type: none"> • Human Resources Plan & Delegations implemented • Manager Structure not yet systematically analyzed by risk standards 	<ul style="list-style-type: none"> • Board & CEO continue to Monitor Staff Performance • IFM continues to refine due diligence regarding service providers 	<ul style="list-style-type: none"> • Inadequate checks & balances to insure compliance with risk standards, policies and procedures
5	Consistent Application of Risk Policies	<ul style="list-style-type: none"> • Cross checks have worked well • HR Plan resolved most issues • All Positions Filled & In Training AEO is currently mobilized on military leave 	<ul style="list-style-type: none"> • CEO continues to schedule quarterly staff reviews of internal control practices 	<ul style="list-style-type: none"> • Inadequate checks & balances to insure compliance with risk standards, policies and procedures

RISK STANDARD	CURRENT STATUS	NEXT STEPS	DANGERS
	<ul style="list-style-type: none"> • CEO set <i>PensionGold</i> security levels 		
6 Adequate Education, Systems & Resources, Back-up & Disaster Recovery Plans	<ul style="list-style-type: none"> • Trustees & Staff have access to full range of relevant educational forums • Budget provides sufficient resources for optimal cost-effective risk control operations • Informal Disaster Recovery Plans 	<ul style="list-style-type: none"> • CEO issues formal Disaster Recovery Plan • CEO conducts test of DRP within next 12 months 	<ul style="list-style-type: none"> • Excessive risk accepted as a result of inadequate education • Disaster results in failure to perform fiduciary duties
7 Identification and Understanding of Key Risks	<ul style="list-style-type: none"> • Board Regulations, Plans and Policy Resolutions address all identified traditional risks 	<ul style="list-style-type: none"> • CEO conducts regular reviews of each staff procedure to ascertain that all essential functions are being performed and that all procedures are executed in conformance with sound internal control practices 	<ul style="list-style-type: none"> • Failure to realize that an essential function is not being performed. • Failure to realize that an unidentified risk exists.
8 Setting Risk Limits	<ul style="list-style-type: none"> • <i>Investment Plan, Regulations, Contracts, Budget and Policies</i> define current limits 	<ul style="list-style-type: none"> • Audit Committee monitors CEO's & IFM's efforts to identify, define and recommend limits for each risk identified per Standard #7 	<ul style="list-style-type: none"> • Failure to take reasonable steps to manage individual risks in a timely manner.
9 Routine Reporting, Exception Reporting & Escalation Procedures	<ul style="list-style-type: none"> • Monthly portfolio report provides performance and asset allocation check • Quarterly performance reports include essential risk characteristics of portfolio • Annual Manager Compliance Certification Statement attests adherence to the Investment Plan • Managers provide exception reports to the IMF 	<ul style="list-style-type: none"> • Board & CEO increases scrutiny of overall risk measures • IFM expands monthly portfolio report to include measures of risk • Consultant focuses on assessment of risks in quarterly reports and annual reviews. 	<ul style="list-style-type: none"> • Failure to initiate appropriate action when risk levels are approaching unacceptable range

Measurement				
10	Valuation Procedures	<ul style="list-style-type: none"> • Current securities valuation by Custodian is adequate for pension assets • Valuation triggers Rebalancing • Actuarial Valuation & Experience Study is adequate for pension liabilities 	<ul style="list-style-type: none"> • IFM determines if any additional valuation techniques are advisable for investment portfolios [This is a more significant issue for securities firms with leveraged capital at risk on a daily basis] • Board will review the actuarial valuation & experience study process. 	<ul style="list-style-type: none"> • Incorrect information leads to Asset Allocation imbalance and opportunity costs • Incorrect information leads to incorrect contribution rates
11	Valuation Reconciliation, Bid/Offer Adjustments & Overrides	<ul style="list-style-type: none"> • Managers reconcile to Custodian records 	<ul style="list-style-type: none"> • IFM reviews all exceptions & reports behavior outside of the norm to CEO & Board 	<ul style="list-style-type: none"> • Risk characteristics and return of securities in portfolio differ from manager's representations
12	Risk Measurement & Risk/Return Attribution Analysis	<ul style="list-style-type: none"> • <i>Investment Plan</i> & contracts set forth key investment risk concerns 	<ul style="list-style-type: none"> • Custodian reports on all exceptions • Consultant expands risk analysis in quarterly performance reports 	<ul style="list-style-type: none"> • Manager's build portfolios inconsistent with <i>Investment Plan</i> & alter total Fund exposure
13	Risk-Adjusted Return Measures	<ul style="list-style-type: none"> • Consultant provides quarterly risk-adjusted return analysis 	<ul style="list-style-type: none"> • Board and staff devote additional time to reviewing and understanding the analysis 	<ul style="list-style-type: none"> • Style drift alters asset allocation and generates more volatility than expected
14	Stress Testing	<ul style="list-style-type: none"> • Integral to Asset Liability Modeling Study • Integral to Actuarial Assumptions 	<ul style="list-style-type: none"> • Board continuing to critique Consultant's model • Review Actuarial Assumptions during current fiscal year 	<ul style="list-style-type: none"> • Asset allocation generates more volatility than expected
15	Back Testing			
16	Assessing Model Risk	<ul style="list-style-type: none"> • Triennial Experience Study (2005) • Asset Liability Modeling Study (2003) • Annual Valuations (annual) • Actuarial Audit (1999) 	<ul style="list-style-type: none"> • Compare results of Actuarial studies with comparable plans • IMF compares results of Asset Liability Modeling Study with comparable plans' asset allocation & assumptions 	<ul style="list-style-type: none"> • Asset allocation generates more volatility than expected • Incorrect information leads to incorrect contribution rates

Oversight				
17	Due Diligence, Policy Compliance & Guideline Monitoring	<ul style="list-style-type: none"> • Board reviews all policies & guidelines annually. • Staff & managers review quarterly 	<ul style="list-style-type: none"> • Board reviews its due diligence monitoring procedures for managers, consultants & staff • 	<ul style="list-style-type: none"> • Non compliance activities resulting in direct losses or opportunity costs
18	Comparison of Manager Strategies to Compensation and Investment Activity	<ul style="list-style-type: none"> • Manager stipulates to compliance with contract 	<ul style="list-style-type: none"> • Strengthen holdings-based Risk/Return Attribution Analysis program to evaluate stated strategy, results and compensation 	<ul style="list-style-type: none"> • Style drift or unearned compensation result in under performance & Asset Allocation discontinuities
19	Independent Review of Methodologies, Models & Systems	<ul style="list-style-type: none"> • Independent Actuary ['99 Audit] • Independent Consultant [2003 ALM Study] • Independent Counsel • Independent Auditor • Independent Investment Managers • Independent Global Custodian • Participate in Kuhn & CEM data bases 	<ul style="list-style-type: none"> • Evaluate Actuarial Triennial Experience Study & Valuation • Ongoing review of all benefit policies & procedures with other '37 Act Systems • Continue to evaluate Asset Liability Modeling Study comparisons 	<ul style="list-style-type: none"> • Perpetuation of policies or practices which are inconsistent with generally accepted fiduciary standards
20	Review Process for New Activities	<ul style="list-style-type: none"> • Board, Consultant, or Staff proposes new activity • Consultant or Staff evaluates proposal • Board approves new activity based on all relevant considerations 	<ul style="list-style-type: none"> • Maintain adherence to current process for initiating new activities in accordance with <i>Code of Fiduciary Conduct</i> Resolution 	<ul style="list-style-type: none"> • Initiating an activity which falls outside of the Board's normal risk parameters, without assessment of risk-return tradeoffs

APPENDIX C

Derivatives Investment Policy

1) Introduction

There is a genuine need to allow *SamCERA's* managers to evaluate new securities and introduce them into their portfolios, given that the investment process followed by the investment managers complies with the subsequent provisions of this policy statement. This policy statement allows *SamCERA's* investment managers to exercise reasonable investment freedom, while minimizing the possibility of adverse implications for the Board.

2) Derivative Definition

"A 'derivative' commonly is defined as a financial instrument whose performance is derived, at least in part, from the performance of an underlying asset (such as a security or an index of securities)." (1)

3) Types of Securities Included or Excluded

Since the derivative sector of the market is likely to experience considerable change, provision must be made for the general characteristics of a derivative security, its evaluation and monitoring. Therefore, it is most appropriate to not attempt to definitively list all of the derivative securities that are covered by *SamCERA's Investment Plan*. Instead, what will be explicitly stated is the investment process that governs derivative investments and the evaluation and monitoring requirements of this investment process?

4) Approach to Policy

An approach has been developed which states allowable derivative investments, limited allocation derivative investments and restricted derivative investments.

Derivative securities not specified in the above three groups of securities must be evaluated in accordance with the following section entitled Derivative Investment Process. If the security meets these provisions and the spirit of these policies, the manager may establish a prudent position in the instrument. However, the manager must be able to demonstrate the appropriateness of such an investment in light of *SamCERA's* guidelines.

5) Counter-Party Evaluation

When entering into a non-exchange traded derivative investment, the investment manager must fully evaluate the other side of the derivative transaction--the counter-parties to the trade. Due to the possibility of counter-party default, *SamCERA's* investment managers must evaluate the risks associated with the counter-party as if an investment were being made in the traditional securities issued by the counter-party.

At a minimum, the investment manager must evaluate the counter-party's following criteria:

- a) Corporate earnings stream
- b) Corporate asset quality
- c) Capitalization
- d) Corporate liquidity
- e) Moody's and Standard & Poor's debt ratings

(1)"Investments in Derivatives by Registered Investment Companies", August, 1994, Investment Company Institute, page 2. This document states the requirements of mutual funds regarding the investment in and oversight of derivative securities.

f) Other fundamental investment and risk characteristics.

For those counter-parties that are broker/dealers, they must:

- a) Have investment grade (Moody's and S&P rated) debt
- b) Be registered with the SEC
- c) Have significant net capital to protect against potential adverse market circumstances.

For those counter-parties that are financial institutions (banks), they must have:

- a) Investment grade (Moody's and S&P rated) debt
- b) Total assets in excess of \$1 billion
- c) Significant net capital to protect against potential adverse market circumstances.

The investment manager must monitor individual investment and total portfolio exposure to counter-parties. Individual counter-party exposure must be well diversified and not concentrated in a small number of organizations.

6) Purposes for Derivatives

The acceptable investment purposes for the use of derivatives are as follows:

- a. Appropriate to use futures, options and forward currency contracts to assist investment managers in mitigating portfolio risk.
- b. Useful substitute for an existing, traditional investment. In certain circumstances it may be cheaper, quicker or easier to invest in a derivative instrument or security rather than transacting in the cash or traditional security market.
- c. Provides investment value to the portfolio, while being consistent with *SamCERA's* overall and specific investment policies.
- d. Obtains investment exposure that is appropriate with the manager's investment strategy *SamCERA's* investment guidelines, but could not be made through traditional investment securities.

Given that one or more of these investment purposes are clearly met, it is the responsibility of the investment manager to explain and demonstrate how derivative investments impact portfolio risk and the context of the investment within the overall portfolio.

Any other derivative investment purpose is not allowed. Derivatives may not be introduced into the portfolio to create economic leverage or to create investment exposures that are otherwise excluded by *SamCERA's Investment Plan*. However, if a manager develops an investment purpose other than those listed above which he/she feels is legitimate and consistent with the spirit of *SamCERA's* guidelines, this purpose should be proposed in writing to the Board.

7) Investment Restrictions and Derivatives Policy

For the purpose of these guidelines, convertible debt, traditional zero coupon bonds, mortgage pass-through securities and asset-backed securities are not viewed as derivatives. Based upon the factors enumerated in the above section entitled Approach to Policy, the following guidelines have been established:

Allowable derivative investments

- a. Stable and well-structured mortgage CMO's (collateralized mortgage obligations)
- b. Financial futures (if exchange traded)
- c. Currency forward contracts and currency options (exchange and OTC traded)

Derivative investments with allocation limits

- a. Interest only mortgage CMO's
- b. Principal only mortgage CMO's
- c. Options (if exchange traded)
- d. Caps and floors as they apply to the above stated allowable derivative investments

Derivative investments with allocation limits, as listed above, may not represent more than 5% of the individual portfolio manager's assets (based on market value) managed for *SamCERA*. At the same time, derivative investments with allocation limits in aggregate may not expose the individual manager's portfolio to losses in excess of 5% of the manager's total assets. In addition, the use of options, caps and floors may be used only for defensive investment purposes.

Managers investing in the above-defined limited allocation derivative instruments should ensure that portfolio exposure is maintained within the stated constraints and communicate the assumptions and model used to estimate VAR (Value at Risk and/or other reasonable risk measurement procedures) annually to the Boards.

Restricted derivative investments

- a. Inverse floating rate notes and bonds
- b. Structured notes

Restricted derivatives cannot be held in *SamCERA's* portfolios at any time.

8) Risk Analysis and Monitoring of Derivatives

For those securities that are classified as derivative investments with allocation limits, the investment managers are required to test and measure derivative investment sensitivities to changes in key risk factors. These risk factors are as follows:

- a. Extreme changes in interest rates, volatility, liquidity, credit quality, and cash market prices

These risk factors will be assessed prior to initial investment and on a quarterly basis. Results of such risk testing on derivative investments with allocation limits will be supplied to *SamCERA* on an annual basis (December 31). If the investment manager identifies additional risks that should be evaluated, these other risk factors should be added to the list and handled in a manner consistent with the previously stated approach.

9) Derivative Investment Process

Investment managers are expected to cover the following issues before purchasing a derivative instrument or security, whether specifically stated as an allowable derivative investment, a derivative investment with allocation limits, or a derivative not specifically discussed in the Investment Restrictions and Derivatives Policy section above.

- a. Determine if the purpose for investing in a derivative security is consistent with one or more of the purposes in the previous section entitled Purposes for Derivatives.
- b. Determine where the security fits into the classification system, if at all, stated in the Investment Restrictions and Derivatives Policy.
- c. Evaluate, at a minimum, the counter-party risk and the risks stated in the Risk Analysis and Monitoring section of the derivatives policy.

- d. Evaluate the derivative in a comparably thorough manner as the firm would any other traditional investment opportunity.

10) Reporting Requirements

It is the responsibility of *SamCERA's* investment managers to certify and demonstrate that their portfolios are in compliance with *SamCERA's* overall guidelines as well as those that apply to derivative investments. On an annual basis (December 31), *SamCERA's* investment managers will provide the following minimum monitoring information on all derivative securities.

- a. A general statement from the manager that his/her portfolio is in compliance with the Retirement Trust's derivatives policy.
- b. When stating the market value of the derivative exposure, the manager will specify the security pricing sources. The pricing source must be exchange-listed.
- c. A statement of the risks (credit risk--an evaluation of potential counter-party default on obligations, market risk--percent of portfolio invested in derivatives, and any other relevant risks) associated with the derivative investments.
- d. Potential adverse impact on market values if extreme adverse market movements occur.
- e. A statement regarding the liquidity of the derivative investments.
- f. Summary comments and the firm's list of approved counter-parties, ratings, and a statement regarding any changes to this list.
- g. An overall statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

APPENDIX D

Compliance Certification Statement San Mateo County Employees' Retirement Association

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office and investment consultant no later than 10 days after the end of each reporting period. (15.3(i))

General Compliance Issues

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (15.4(a))
Yes/No: ___ If no, please explain.
2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (6.3)
Yes/No: ___ If no, please explain.
3. Has the firm's insurance coverage been sustained? (15.4(c)) Yes/No: ___ If no, please explain.
4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (6.0) Yes/No: ___ If yes, please explain.
5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (15.4(j)) Yes/No: ___ If yes, please explain.
6. Have there been any changes in the firm's investment approach? (15.4(e)) Yes/No: ___ If yes, please explain.
7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (9.1) Yes/No: ___ If yes, please explain.
8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (15.4(a))
Yes/No: ___ If yes, please explain.
9. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA* and in a manner consistent with the Board's proxy policies? (18.0) Yes/No: ___ If no, please explain.
10. For domestic equity managers, has the firm supported *SamCERA's* commission recapture program? (15.4(g)) Yes/No: ___ If no, please explain.

Derivative Investments

1. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: ___ If no, please explain.

2. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: ___ If no, please explain.
3. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: ___ If no, please explain.
4. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: ___ If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Have there been any changes to the investment manager's list of approved counter-parties over the past month?
5. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies? (Appendix C(6)) Yes/No: ___ If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: ___ If yes, please explain.
6. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. Yes/No: ___ If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.
7. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: ___ If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))
8. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) Yes/No: ___ If no, please explain.
9. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: ___ If no, please explain.
10. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))
11. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.
12. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g)) Yes/No: ___ If yes, please explain.

Investment Manager Guidelines

1. Are portfolio holdings well-diversified, and made in liquid securities? (5.0) Yes/No: ___ If no, please explain.
2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: ___ If yes, please explain.

Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? Yes/No: ___ If yes, do the investments comply with the policies? (11.0) Yes/No: ___ If no, please explain.

Domestic Equity Portfolios (Large, Mid & Small)

1. Please state the percentage of the portfolio held in each of the following types of securities: common stock; preferred stock; convertible securities; and, cash & equivalents. (15.4 j)
2. What is the firm's market value allocation to large, mid and small stocks? (15.4 j) Please specify percentages.
3. Specify the percentage of the portfolio that is invested in American Depository Receipts (ADR's). (15.4 j) Also, specify the percentage of the portfolio invested in ADR securities that are 144A securities. If greater than 10%, explain why.
4. What is the largest percentage of the portfolio represented by a single security? (15.4 j) If any securities were above 5% at the time of purchase, please list and explain why.
5. Based on NAICS codes, what is the largest percentage of the portfolio represented by a single industry? (10.3 a). Please specify all industries above 15%.

International Equity Portfolios - Developed

1. Specify the percentage of the portfolio held in each of the following types of securities: foreign ordinary shares; ADR's; cash & equivalents (foreign or domestic). (15.4 j)
2. Specify the large, mid and small capitalization exposure of the portfolios. (15.4 j)
3. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio? (15.4 j) Yes/No: ___ If no, please explain.
4. Does the portfolio currently employ a currency hedging strategy? Yes/No: ___ Is the firm in compliance with the Retirement Association's derivatives investment policy? (Appendix C) Yes/No: ___ If no, please explain.

Domestic Fixed Income Portfolios

1. State the percentage of the portfolio held in each of the following types of securities: certificates of deposit; commercial paper; other high grade short-term securities; U. S. Government and Agency securities; corporate bonds; mortgage- and asset-backed securities; and, Yankee bond securities. (11.3)
2. Is the firm monitoring its active investment management decisions relative to the Retirement Association's investment benchmark? (6.3) Yes/No: ___ If no, please explain.

3. Does the firm conduct horizon analysis testing? (15.4 j) Yes/No: ____ If no, please explain.
4. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: ____ If no, please explain.
5. Are any holdings below investment grade? (11.3(b)) If yes, why are they held in the portfolio?
6. Excluding U. S. Government and Agency bond holdings, did any individual bond issue represent more than 5% of the market value of the portfolio? Yes/No: ____ (11.3(b)) Please specify. At the time of purchase, was there any single industry, based on NAICS codes, which represented more than 15% of the market value of the account. Please specify.
7. What percentage of the portfolio is held in Rule 144A securities? (11.3(c))

Separate Property Real Estate Portfolios

1. What is the current product type and geographic diversification of the portfolio?
2. Is the portfolio achieving a TTWRR equal to the specified NCREIF benchmark? Yes/No: ____ If no, please explain
3. Does any individual asset constitute more than 20% of the market value in the real estate portfolio?
4. Is the portfolio leverage within the 30% guideline?

Signed by:
Dated:
Name of Firm

APPENDIX E

The purpose of a benchmark is “To facilitate the periodic reporting to the Investment Committee and to provide a relative measure to gauge success, custom performance benchmarks are approved by the Board.”

BENCHMARK POLICY

1. The investment Committee approved performance benchmarks are used in the asset allocation process for modeling purposes. The approved benchmarks are contained in the Investment Plan.
2. There are four characteristics identified as desirable in the selection of an appropriate benchmark.
 - (A) Unambiguous – The names and weights of the securities in the benchmark should be clearly defined.
 - (B) Investable – The securities contained in the benchmark should represent tradable positions. Ideally, the benchmark should be constructed with low turnover (companies should not change too much over time) to minimize transactions costs.
 - (C) Measurable – The pricing of the benchmark should be transparent making it possible to track the benchmark’s performance. The benchmark will, whenever practical, be calculated independently and available to the public on a daily basis (applies to public traded asset classes only)
 - (D) Appropriate – As part of the investment planning/policy process the Investment Committee will adopt an asset class benchmark (reference portfolio) that reflects the board risk and return characteristics of the asset class. The benchmark will be the reference portfolio against which the aggregate active and passive portfolios within the asset class will be measured.
3. As a matter of practice the approved benchmark will be reviewed by the Investment Committee on an annual basis to assure that it continues to reflect the risk/return characteristics of the asset class in a cost-effective manner. Strategic asset allocation assumptions will be based upon expected risk, return, and correlation coefficients of the approved benchmark.

BENCHMARK MODIFICATION POLICY

1. Asset class benchmarks may be modified when it is in the economic interest of the System.
2. Benchmark modification indicators are identified as:
 - A. When a more cost efficient (expenses such as trading costs or transaction fees) alternative is available that captures the risk return characteristics of the asset class.
 - B. When an industry or sector (component) of the benchmark is exposed to economic risks that are of such a degree that the future economic viability of that industry or sector is in doubt. Specific indicators are:

- (1) The industry, not an individual company, shares common exposure to product liability judgments (including, but not, limited to, potential judgments involving overwhelming punitive damage awards), settlements and ongoing litigation that have the potential to exceed the industry's net worth.
 - (2) Significant threat of industry-wide bankruptcy filings.
 - (3) Regulatory and/or legislative actions that have the potential to substantially impair industry-wide earnings.
 - (4) Policy actions in the institutional investor community that, in aggregate, have the potential to have a deleterious effect on industry-wide share prices.
- C. In the event that 2A or at least three of the indicators referenced in 2B are evidenced the staff or a member of the Investment Committee may bring the matter before the Investment Committee for due diligence and consideration. This due diligence will include:
- (1) Analysis by the staff and/or third-party experts that the indicators are evidenced and have the potential to adversely impact the specific industry.
 - (2) Identification and listing of the individual companies in the specific industry based upon the definition adopted by the Investment Committee.
 - (3) Analysis of the impact the benchmark modification is expected to have upon total portfolio risk/return characteristics.
 - (4) Analysis of the expected costs associated with implementation of the benchmark modification.
 - (5) A timetable for review of the benchmark modification.

APPENDIX F

DUE DILIGENCE POLICY

MANUAL

AUTHORITY

The San Mateo County Employees' Retirement Association (*SamCERA*) Board of Retirement (Board) is responsible for the management of the Association's assets under authority granted by Article XVI, Section 17 of the California Constitution.

Article XVI, Section 17(c) of the California Constitution provides that "the members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aim."

POLICY

SamCERA's due diligence process requires (i) staff to perform regular due diligence monitoring and report on same, (ii) investment consultants and managers to make regularly scheduled due diligence presentations to the Board and staff in *SamCERA's* offices, (iii) the board and staff to make on-site visitations to the investment consultant's and investment managers' offices and (iv) to attend client conferences that discuss the consultant's and managers' business plans, investment processes and practices.

PURPOSE

To discharge the fiduciary responsibilities of the Board of Retirement and staff, regular due diligence with the San Mateo County Employees' Retirement Association investment managers and real estate properties are essential to the Board of Retirement's ability to effectively monitor the performance of its investment professionals and to the prudent discharge of the board's fiduciary duty to the beneficiaries of this multi-billion dollar retirement system.

F.01 – Due Diligence Monitoring

Individual investment managers will be monitored monthly, quarterly and annually. The managers' organizations and operations will be qualitatively monitored on a continual basis.

The Investment & Finance Manager (IFM) will prepare a monthly investment activity and compliance report. The report will note individual investment manager statistical compliance to their investment guidelines, objectives and portfolio restrictions. The IFM will review the investment managers' purchases and sales for each month, and note in the report any deviations from the investment guidelines and restrictions, as outlined by the investment manager agreement. The report will also note any significant changes in the following:

- ✿ portfolio composition
- ✿ portfolio turnover
- ✿ changes in market value
- ✿ sector weights
- ✿ general trading activity
- ✿ changes in cash position

The Investment & Finance Manager, with assistance from the investment consultant, will present an investment performance report to the Board on a quarterly basis, as specified in Section 16.0 Quarterly Investment Performance Reporting. Performance will be measured for the total portfolio as well as individual components such as equities, fixed income and real estate portfolios. In addition, the performance of each component will be broken down into individual portfolios.

Comparisons will be made against market indices defined in this document. A variance from the stated performance objective will be calculated each quarter. Additionally, the portfolios' actual investment approach will be monitored against the required investment style to determine whether the manager is adhering to its acknowledged investment style.

The quarterly investment performance report will compare the total fund, each asset class and individual portfolio return to appropriate market indices and a representative peer group of similar funds or similar style investment managers. The report will note significant changes in the attribution of investment manager performance.

Every six months, the Investment and Finance Manager, with the assistance of the investment consultant, will provide the board with a review of one of the three major asset categories of the total investment portfolio in detail. Therefore, during a eighteen-month period the IFM and the investment consultant will conduct a detailed review of each of the three asset categories in which *SamCERA* invests.

Annually, the Investment and Finance Manager will request and review the Investment Manager's ADV Part II form and inform the board of significant changes in the firm or apparent conflicts of interest. In addition the IFM will request an annual insurance certification from each professional service provider. Where appropriate a Statement of Auditing Standards #70 will be obtained and reviewed. (The SAS-70 audit report describes the control structure as it relates to its fiduciary and custodial activities and is prepared in accordance with the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards Number 70, entitled "Reports on the Processing of Transactions by Service Organizations" as amended by AICPA Statement on Auditing Standards Number 78, entitled "Consideration of Internal Control in a Financial Statement Audit.")

F.02 – Due Diligence Presentations

SamCERA's Investment consultants and investment managers that are under contract with the board to provide services will make a presentation to the board at a public board meeting at least once a year. The presentation shall include, but not be limited to, an update on the manager's organization and business plan, changes to the investment process and investment performance. The board may request presentations more frequently as circumstances demand. The investment managers will provide on a semi-annual basis a completed Compliance Certification Statement (Appendix D) and in depth response to a list of questions submitted by the board.

F.03 – Evaluation and Education

On-site meetings provide board and staff with opportunities to:

1. Evaluate an investment manager's staff and observe how they jointly carry out their fiduciary responsibility to *SamCERA*.
2. Interview individuals who directly manage *SamCERA's* account.
3. Evaluate the significance of personnel shifts or other organizational changes that may affect *SamCERA's* portfolio.
4. Observe the systems and controls utilized to handle *SamCERA's* investments.
5. Hold in-depth reviews regarding an investment manager's philosophy, style and approach to investing *SamCERA's* assets.
6. Develop a better understanding of the significance of short-term periods of good or bad performance.

F.04 – Asset Categories

On-site meetings will be grouped by asset categories. This approach enables the board and staff to readily compare and contrast investment approaches, systems, and controls utilized by the investment managers. It will also allow for a better evaluation of the existing asset diversification.

F.05 – Domestic – International Investment Managers

Regular due diligence evaluations shall be scheduled with traditional domestic and international equity and fixed income managers on a three-year rotational basis. Evaluations may be necessary on a more frequent basis if there have been significant personnel changes, a deterioration of returns, or unresolved issues relating to the style drift with a manager.

F.06 – Real Estate Managers

Regular due diligence evaluations with real estate managers shall be scheduled on at least a three-year rotational basis. These due diligence evaluations shall include on-site inspections of properties held in *SamCERA's* portfolio. The investment manager and the individual property manager will accompany staff and board members on these visits.

F.07–Investment Committee Chair Responsibilities

The Investment Committee chair shall, at the first meeting of the committee in each calendar year, place before the committee a proposed outline of all due diligence trips to be performed in the following fiscal year. Once voted on by the committee, that schedule will be placed on the Board of Retirement’s agenda for approval at the next regular meeting.

F.08 - Official Due Diligence Trip

An official due diligence trip shall consist of at least two members of the Investment Committee or in the event committee members are not available, two board members who are available; along with the Investment & Finance Manager or his/her designee and the investment consultant. When deemed necessary by the Chief Executive Officer the IFM and investment consultant may meet with an investment manager on an interim basis.

F.09 – Coordination of Due Diligence

The Investment Committee will coordinate with the Chief Executive Officer and the Investment & Finance Manager on all planned due diligence. The IFM will be responsible for coordinating each scheduled evaluation visit with the appropriate investment manager.

F.10– Chief Executive Officer

The Chief Executive Officer, at the discretion or direction of the board chair or the Investment Committee Chair, may be directed to accompany an official *SamCERA* due diligence evaluation visit. The Chief Executive Officer may decline to accompany an official *SamCERA* due diligence trip for good cause. Nothing in this section is intended to prevent the Chief Executive Officer from participating in any due diligence performed by the Board of Retirement or any of its committees.

F.11 – Manager Selection Due Diligence

The board, with the assistance of the investment consultant and staff select investment managers to manage the assets of the system. The board authorizes staff and consultant to initiate a search for a manager either to replace a manager or to fill a new mandate approved by the board. The investment consultant and staff will conduct the search in accordance with criteria established for the search. The search criteria will include the scope of the mandate, the investment style, benchmark, and the minimum qualifications for candidates. The investment consultant and staff will perform on-site due diligence on final candidates prior to them being interviewed by the board.

The board will require any investment manager being considered as provider of professional services for *SamCERA* to make a formal presentation to it at a public board meeting. The presentation shall include, but not be limited to, (i) the consultant’s or manager’s organization and its staff, (ii) investment philosophy and process, (iii) the resources available to provide the service, (iv) proposed fees and (iv) if an investment manager, their performance.

F.12 – Limitation on Board Due Diligence

The Board of Retirement will not participate in any due diligence trip being conducted on any new service provider, investment manager, or others.

F.13 – Policy Review

The Due Diligence Policy Manual shall be reviewed every three years and updated as necessary.



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.
 2. not entering into any agreement with an External Manager who has violated 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 required 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.
 - 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.
3. 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.
 4. Representing and warranting the accuracy of the information described in section B.2 above.
 5. 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.
 6. *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 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.

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.



**SAN MATEO COUNTY EMPLOYEES RETIREMENT ASSOCIATION
PLACEMENT AGENT DISCLOSURE AND SEC COMPLIANCE FORM**

The Board of Retirement (“Board”) of the San Mateo County Employees Retirement Association (“SamCERA”) has adopted a Placement Agent Policy (“Policy”), a copy of which is attached as Attachment No.1. For the purposes of compliance with the Policy and the proper completion of this form, please refer to the definitions of “*External Manager*”, “*Person*”, “*Placement Agent*”, “*Investment Fund*”, “*Investment Vehicle*”, and “*Compensation*” as set forth in California Government Code section 7513.8 and reflected in the attached Policy. Under the Policy, each External Manager must complete and deliver this Disclosure Form to SamCERA prior to SamCERA investing any money with that manager.

For purposes of this disclosure, “you” means the External Manager identified below and its affiliates, including the External Manager’s and affiliates’ respective officers, directors, partners, members, employees, contractors, and agents.

Name of External Manager: _____

Contact information for External Manager:

Address: _____

Contact Person: _____

Contact Information: _____
 (email/phone/fax) _____

PART ONE: USE OF PLACEMENT AGENTS

1. Have you used a Placement Agent in connection with the Proposed Investment?

Yes _____ No _____

2. Will a Placement Agent receive compensation from you if SamCERA invests in the Proposed Investment?

Yes _____ No _____

If you answer “Yes” to either question, complete the remainder of the Disclosure Form. If you answer “No” to both questions, go to directly to PART TWO.

3. The name of the Placement Agent is:

4. Please describe the relationship between you and the Placement Agent.

5. Please attach a resume for each officer, partner, or principal of the Placement Agent detailing the person’s education, professional designations, regulatory licenses, and investment and work experience. Please identify below all persons whose resumes are attached.

6. Please describe any and all compensation of any kind provided, or agreed to be provided, to the Placement Agent or to a third party at the behest of the Placement Agent, in connection with the Placement Agent’s work for the External Manager on the Proposed Investment or as a result of SamCERA investing in the Proposed Investment.

7. Please describe in detail the services to be performed by the Placement Agent in connection with the Proposed Investment.

8. a. Is the External Manager solely responsible for payment of the Placement Agent’s fee, or providing the compensation if not a monetary fee?

Yes _____ No _____

If “No”, explain:

b. Will any part of the fee or other compensation be paid or provided directly or indirectly by SamCERA, the Investment Vehicle, the Investment Fund, or any investor(s) in the Investment Vehicle or in the Investment Fund?

Yes _____ No _____

If "Yes", explain:

9. Please list the name(s) of all current and former Board members, employees, and consultants and member(s) of the immediate family of any such person that are either employed or receiving compensation of any kind provided, or agreed to be provided, directly or indirectly from the Placement Agent in connection with the Proposed Investment or as a result of SamCERA investing in the Proposed Investment. If none, enter "none" below.

10. Please list the name(s) of any current or former Board members, employees, and consultants who suggested the retention of the Placement Agent in connection with the Proposed Investment. If none, enter "none" below.

11. Please confirm that the Placement Agent, and any affiliates, as applicable, is/are registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association or any similar state regulatory agency, or any similar regulatory agency in a country other than the United States. Please describe the details of each registration. If the Placement Agent is not registered with any regulatory agency, please explain why no registration is required.

Any External Manager or Placement Agent that violates the Policy shall not solicit new investments from SamCERA for five years after the violation was committed. However, this prohibition may be reduced by a majority vote of the Board at a public session upon a showing of good cause.

Your attention is drawn to Sections 7513.87 and 7513.9 of the California Government Code relating to Placement Agents. Please note, there may be other laws relevant to Placement Agents, and you and any

Placement Agent you engage with respect to managing or seeking to manage SamCERA assets are strongly encouraged to consult your own legal counsel. *Please note that San Mateo County does not have a policy or ordinance regarding lobbyist registration.*

Please further note that these statutes may be amended from time to time and the language below is law as it reads as of October 9, 2011.

California Government Code section 7513.87:

(a) A person acting as a placement agent in connection with any potential system investment made by a local public retirement system shall file any applicable reports with a local government agency that requires lobbyists to register and file reports and shall comply with any applicable requirements imposed by a local government agency pursuant to Section 81013.

(b) This section does not apply to either of the following:

(1) An individual who is an employee, officer, director, equity holder, partner, member, or trustee of an external manager 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.

(2) An employee, officer, or director of an external manager, or of an affiliate of an external manager, if all of the following apply:

(A) The external manager is registered as an investment adviser or a broker-dealer with the Securities and Exchange Commission or, if exempt from or not subject to registration with the Securities and Exchange Commission, any appropriate state securities regulator.

(B) The external manager is participating in a competitive bidding process, such as a request for proposals, or has been selected through that process and is providing services pursuant to a contract executed as a result of that competitive bidding process.

(C) The external manager, if selected through a competitive bidding process described in subparagraph (B), has agreed to a fiduciary standard of care, as defined by the standards of conduct applicable to the retirement board of a public pension or retirement system and set forth in Section 17 of Article XVI of the California Constitution, when managing a portfolio of assets of a public retirement system in California

California Government Code section 7513.89:

(a) Any placement agent, prior to acting as a placement agent in connection with any potential system investment, shall disclose to the board all campaign contributions made by the placement agent to any elected member of the board during the prior 24-month period. Additionally, any subsequent campaign contribution made by the placement agent to an elected member of the board during the time the placement agent is receiving compensation in connection with a system investment shall also be disclosed.

(b) Any placement agent, prior to acting as a placement agent in connection with any potential system investment, shall disclose to the board all gifts, as defined in Section 82028, given by the placement agent to any member of the board during the prior 24-month period. Additionally, any subsequent gift given by the placement agent to any member of the board during the time the placement agent is receiving compensation in connection with a system investment shall also be disclosed.

PART TWO: SEC COMPLIANCE

You are expected to comply with all applicable laws, ordinances, rules, and regulations pertaining to investment advisers and the use of placement agents.

The U.S. Securities and Exchange Commission (“SEC”) has adopted rules governing political contributions by certain investment advisors to certain officials”. “Official” is defined in 17 CFR 275.206(4)-5 as “any person (including any election committee for the person) who was, at the time of the contribution, an incumbent, candidate or successful candidate for elective office of a government entity, if the office: (i) is directly or indirectly responsible for, or can influence the outcome of, the hiring of an investment adviser by a government entity; or (ii) has authority to appoint any person who is directly or indirectly responsible for, or can influence the outcome of, the hiring of an investment adviser by a government entity.”²

Six members of SAMCERA’s Board are elected by various member constituencies (two by general members, one by safety members, one alternate for safety members, one by retired member and one retiree alternate).

The San Mateo County Board of Supervisors, who are elected by the electorate of the County of San Mateo, appoint four members of the Board. The County Treasurer Tax Collector is elected by the electorate of the County of San Mateo.

Generally, investment advisers are prohibited from providing investment advisory services for compensation within two years after making a political contribution to an official in violation of the SEC rule. SAMCERA could be adversely affected if you or a covered associate made a prohibited political contribution.

1. Have you or a “covered associate” made a political “contribution” to an “official”, as the quoted terms are defined in 17 CFR 205.206(4)-5 (the “Regulation”) that would make it unlawful under the Regulation for you to provide investment advisory services for compensation to SAMCERA?

Yes _____ No _____

If “Yes”, explain:

_____.

Please note, there are other relevant SEC compliance issues apart from political contributions. You are encouraged to consult your own legal counsel.

By signing below, you are certifying you are in compliance with all SEC rules and regulations relating to investment advisers and placement agents.

² 17 CFR 275.206(4)-5(f)(6)

PART THREE: CERTIFICATION

This form, completed and signed by you, will be incorporated into and made a part of any contract or other agreement pursuant to which you manage assets for SAMCERA.

By signing below, you represent and warrant that the information set forth herein, and attached hereto, is true and correct. Furthermore, you understand that SAMCERA is relying upon your representations and warranties in determining whether to engage you to provide investment advisory services to SAMCERA. You agree to update this information in writing within ten days of any happenings that render your responses untrue or inaccurate.

The execution and delivery of this form has been duly authorized by all necessary action by the undersigned.

Name of External Manager: _____

By: _____
Name: _____
Title: _____
Date: _____

Glossary

Active Information Ratio	<i>Active Information Ratio</i> means the monthly difference between the gross return and the benchmark return divided by the standard deviation of the monthly differences. If considered over rolling three to five year periods, the ratio provides an indication of the success or failure of "Active Management". See "Information Ratio".
Active Management	<i>Active management</i> means that the investment manager uses various disciplines and strategies to select securities to buy and sell in a manner intended to add active returns over those which will be produced by the benchmark. See "Alpha".
Active Return	<i>Active return</i> equals a portfolio's return minus its benchmark's return.
Actuarial Funding Objectives	The <i>Actuarial Funding Objectives</i> for SamCERA are to fully fund the Pension Benefit Obligation by the Year 2022, to stabilize the employer contribution rate, and to minimize employer contributions to the extent it is prudent to do so.
Actuarial Accrued Liability	The <i>Actuarial Accrued Liability</i> is an estimate of the amount of money that should be on deposit today which, when combined with future investment earnings, should be sufficient to pay for a member's retirements benefits for life, based upon service credit up to this point in time.
Actuarial Value of Assets	The <i>Actuarial Value of Assets</i> for SamCERA is computed using a five-year weighted smoothing of market values. It is used to dampen the impact of market price swings on the annual actuarial valuation.
Actuary	An <i>actuary</i> is a mathematician who is specially trained to evaluate member experience (deaths, terminations, disabilities & retirements at various ages, etc.), recommend economic assumptions (inflation, investment returns, salary and payroll increases, etc.), calculate actuarial liabilities (forecast of how much will have to be paid out in benefits in future years, etc.) and rates (such as contribution, pension, annuity, <i>et al</i>).
Aggregate Target Benchmark	The <i>Aggregate target benchmark</i> represents the cumulative sum of the returns generated by the performance benchmark for each investment style multiplied by the percentage of the portfolio which has been invested in each style.
Alpha	<i>Alpha</i> is the portfolio's risk-adjusted return. <i>Alpha</i> is the active return in excess of what would be expected from a diversified portfolio with the same exposure to fluctuations in market prices. A stock with a positive alpha is undervalued relative to other stocks with the same systematic risk. A portfolio with a positive <i>alpha</i> is one which has reaped an extraordinary reward through successful active management.
Alternate Asset	<i>Alternate Asset</i> is a term used to define special situation investments which pension funds utilize to add incremental return to a portfolio which has already been well diversified across the other asset classes. <i>Alternate Assets</i> are characterized as private placements having low liquidity, requiring intense due diligence and monitoring and significant active returns if and when the investment matures. Management buy outs, corporate restructuring and venture capital are examples of alternate assets.
AIMR Compliant Returns	The Association for Investment Management and Research (AIMR) is the outgrowth of the merger of the two associations representing financial analysts. AIMR provides professional certification programs and promulgates standards and guidelines for professional conduct. AIMR's standards for the measurement of investment returns are considered the most stringent of the cost-effective means for evaluating portfolio performance. In essence, the

extensive standards strive to produce (1) full disclosure, (2) fair representations and (3) comparable performance results. The standards dictate the methods to be employed and the data to be included in the analysis, as well as the disclosures which must be detailed.

Annualized Rate of Return	The <i>annualized rate of return</i> is similar to the compound rate of interest which would have produced the same increase (or decrease) in the value of an asset over the course of one year, including unrealized capital gains (or losses) and investment income, but excluding any additional contributions or withdrawals.
Appreciation	<i>Appreciation</i> is any increase in the value of an asset.
Asset Allocation	<i>Asset allocation</i> is the process of assigning investments across broad categories of investments. Categories typically include stocks, bonds, real estate and international investments. The <i>asset allocation</i> process usually sets percentage targets for each category of investment in an effort to position the portfolio on the "efficient frontier".
Asset	An asset is anything having commercial or exchange value that is owned by a business, institution or individual.
Asset Class	An <i>asset class</i> is a broadly defined generic group of financial assets, such as stocks, bonds, or real estate. Each broad class may be subdivided into subclasses which share identifiable characteristics, such as large capitalization vs. small capitalization stocks.
Baa, BBB, P-1, A-1	See "Bond Rating". P-1, A-1 are "Commercial Paper" ratings.
Basis Point	A <i>basis point</i> is one one-hundredth of one percent (0.0001 or 0.01%).
Bear Market	A <i>bear market</i> is a prolonged period of falling prices. A bear market in stocks is usually brought on by the anticipation of declining economic activity, and a bear market in bonds is caused by rising interest rates.
Benchmark	A <i>benchmark</i> is a standard against which to judge the performance of an investment manager or portfolio. Typical <i>benchmarks</i> are the S&P 500 Index for U.S. stocks and the Barclays Capital Corporate-Government Bond Index for U.S. bonds.
Beta	<i>Beta</i> measures the systematic risk of the portfolio. It indicates how much the value of the portfolio can be expected to increase or decrease as the value of a given market portfolio changes. For example, if the S&P 500 is assigned the Beta coefficient of 1, then a portfolio with a Beta of 1.2 will be expected to increase or decrease in value 20% more than any given increase or decrease in the value of the S&P 500 (If the portfolio = 100; then, when S&P=110, portfolio=112; when S&P=90, portfolio=88).
Bond Rating	A <i>bond rating</i> is a method for evaluating the probability of default by the issuer of a bond. Standard & Poor's and Moody's Investors Services are two firms which analyze the financial strength of each bond's issuer. For example, S&P rates bonds from AAA, if they are very unlikely to default, to D, if they are in default. A bond with a rating of BB, Ba, or below is considered to be below investment grade by most institutional investors.
Bond	A <i>bond</i> is any interest-bearing or discounted government or corporate security that obligates the issuer to pay the bondholder a specified sum of money, usually at specified intervals, and to repay the principal amount of the loan at maturity. Bondholders have an IOU from the issuer, but they have no corporate ownership privileges. A convertible bond entitles the bondholder to exchange the bond for other securities of the issuer at some future date and under prescribed conditions.

Book Value	<i>Book value</i> is the value at which an asset is carried on the balance sheet. It reflects the price paid for a security adjusted for the amortization of any premiums or the accretion of any discounts included in the purchase price.
Bull Market	A <i>bull market</i> reflects a prolonged rise in the prices of stocks, bonds, or commodities. Bull markets usually last several months and are characterized by high trading volume.
Business Cycle	A <i>business cycle</i> is a recurrence of periods of expansion and contraction in economic activity which have effects on inflation, growth and employment. One cycle extends from a low point, as measured by Gross National Product, through the next high point and the subsequent decline to the next low point.
Capital Markets	The <i>capital markets</i> are where debt and equity funds are traded. The definition includes organized markets and exchanges, over-the-counter markets and sources of private placement financing.
Capital Appreciation	<i>Capital Appreciation</i> is any increase in the market value of the amount invested in an asset.
Capital Loss	<i>Capital loss</i> is the negative difference between an asset's purchase and selling prices. An <i>unrealized capital loss</i> means that the market value is lower than the book value, but that the asset is still held in the portfolio.
Capital Asset Pricing Model	The <i>CAPM</i> seeks to define the relationship between expected risk and expected return. It breaks return down into a risk-free return plus a risk premium return. <i>CAPM</i> implies that an asset's total return should equal the risk-free return plus the product of <i>beta</i> times the expected market excess return.
Capital Gain	<i>Capital gain</i> is the positive difference between an asset's purchase and selling prices. It does not include dividends, coupons, or the amortization of discounts, which are treated as investment income in the year in which they are accrued. An <i>unrealized capital gain</i> means that the market value is higher than the book value, but that the asset is still held in the portfolio.
Cash Equivalents	The Financial Accounting Standards Board defines <i>Cash equivalents</i> as all highly liquid securities with a known market value and a maturity-at-acquisition of less than three months.
Collateral	<i>Collateral</i> is any asset pledged to a lender until a loan is repaid.
Commercial Paper	Commercial paper encompasses short-term obligations of banks, corporations and other borrowers with maturities of 2 to 270 days.
Commingled Fund	A <i>commingled fund</i> is essentially a mutual fund for institutional investors, in which each institution owns a share of the total fund.
Commission Recapture	<i>Commission recapture</i> refers to programs offered by certain brokers. In return for the broker being given an opportunity to make an offer on individual transactions, commission recapture programs turn back (to the investment portfolio) an agreed upon percentage of the commission dollars which are generated from the purchase and sale of stocks for the portfolio,
Commitment-Weighted Aggregate	The <i>commitment-weighted aggregate</i> represents the cumulative sum of the returns from each asset class multiplied by the percentage of the portfolio which has been invested in each of the classes.

Common Stock	<i>Common stock</i> reflect units, or shares, of ownership in a public corporation. The price is usually determined in the capital markets and increases or decreases in value based upon investor perceptions and the ability of buyers and sellers to agree upon a value for the stock. Owners are typically entitled to vote for directors and to receive dividends on their investment. In the event of liquidation, common stock claims are settled after the claims of creditors, bondholders and preferred stockholders.
Consultant	A <i>consultant</i> , as used in the <i>Investment Plan</i> , is a firm with professionals who specialize in providing pension fiduciaries with background, research, advice, recommendations, due diligence and monitoring services regarding the management of pension assets.
Consumer Price Index	The <i>Consumer Price Index</i> , or <i>CPI</i> is the measure of the rate of changes in prices which are used by pension funds to measure inflation. CPI is based on a U.S. Department of Labor Statistics monthly survey of consumer goods and services, including housing costs, food, transportation, electricity, <i>et al.</i>
Core	See "Passive Management".
Correlation	<i>Correlation</i> is a statistical term explaining the strength of the relationship between two variables. Values can range from +1, meaning that every change in the first variable produces a predictable equivalent change in the second variable; to -1, meaning that every change in the first variable produces a predictable opposite change in the second variable. A correlation of 0 means that the two variables have no linear relationship. Correlation is used to measure relationships between price movements in the various categories of assets.
Currency Futures	A <i>currency future</i> is a contract for delivery of a major currency of a specified amount on a specified date and is used by pension funds to reduce the volatility of international investments. See "Futures".
Current Yield	<i>Current yield</i> equals the annual interest receivable on a bond divided by its market price.
Custodian	A <i>custodian</i> is a depository for the safekeeping of securities. The custodian may collect income and dividends and do simple reporting on the assets.
Custom Benchmarks	A <i>custom benchmark</i> is designed to reflect as accurately as possible the unique performance objectives of a specific pension fund or investment portfolio. It can be as simple as the blending of two or more common indices, or as complex as a proprietary computer simulation.
Debt Service	<i>Debt service</i> is the cash required in a given period for payments of interest and current maturities of principal on outstanding debt.
Debt Instrument	A <i>debt instrument</i> is a written promise to repay a debt; such as a bill, note, bond, banker's acceptance, certificate of deposit, or commercial paper.
Deep Discount	A <i>deep discount</i> bond typically sells for more than 20% below its face value, with a below market coupon. Deep discount bonds are expected to appreciate rapidly as interest rates fall, or drop in value faster as interest rates rise.
Depression	A <i>depression</i> in an economic condition characterized by falling prices, reduced purchasing power, an excess of supply over demand, rising unemployment, accumulating inventories, deflation, plant contraction, public fear and caution, and a general decrease in business activity.
Derivative	A <i>derivative</i> is any financial instrument whose value is based on another security. For

example, an option is a derivative whose value derives from an underlying stock, stock index, or future.

- Devaluation *Devaluation* is the lowering of the value of a country's currency relative to the currencies of other nations.
- Diligence *Diligence* characterizes the act of being persevering and careful in work; hardworking; done with careful, steady effort; painstaking. A fiduciary is responsible for exercising prudent due diligence in all trust duties.
- Discount The *discount* is the negative difference between a debt security's current market price and its redemption value, and typically represents the adjustment in price necessary to compensate for the difference between current market interest rates and the security's coupon rate.
- Disinflation *Disinflation* is the slowing down of the rate at which prices increase--usually during a recession, when sales drop and retailers are not able to pass on higher prices. [Prices actually drop during *deflation*.]
- Disinvestment *Disinvestment* is the reduction in capital investment which may result from closing or disposing of plants, equipment and other facilities, or the failure to replace capital assets as they are consumed or depleted, or become obsolete.
- Diversification *Diversification* is the spreading of risk among a number of different investment opportunities. *Diversification* is the reduction in risk that is obtained by investing wealth in assets which are not perfectly positively correlated. Since the assets are not perfectly correlated, losses in any one asset may be offset by gains on other assets. In this manner, the risk of a portfolio will be less than the risk of its individual assets.
- Dividend A *dividend* is a distribution of earnings to shareholders by a corporation. A dividend may be paid in cash, stock or other form. Dividends are set by the corporation's board of directors and are usually paid quarterly.
- Domestic *Domestic* refers to a U.S. based company or capital market. However, many companies with foreign headquarters are now traded in the U.S. capital markets. Consequently, they may be included in domestic portfolios if they are included in the S&P 500, R 1000, et al.
- Dual Class Voting Rights *Dual class voting rights* refers to a strategy employed by the board of directors of certain corporations to deny shareholders full participation in shareholder votes. Typically one class of stock with voting rights is issued in small amounts to corporate insiders. A second class of stock without voting rights is issued in abundant amounts for the public. The strategy usually requires an amendment to the bylaws of the corporation and, therefore, usually requires ratification by the shareholders.
- Due Diligence *Due Diligence* is the process used to ascertain that things are as they appear to be. For example, *due diligence* is performed on prospective investment managers to make certain that they are who they say they are; that their client's report that they have fulfilled their commitments; that their disciplines, procedures & internal controls are well documented and are monitored for compliance. See "Diligence".
- Econometrics *Econometrics* is the use of computer analysis and modeling techniques to describe in mathematical terms the relationship between key variables and to test their relationships under various economic scenarios.
- Efficient The *efficient market* theory states that capital market prices reflect the knowledge and

Market	expectations of all investors; therefore, one is unlikely to be able to consistently outperform the market. This is one of the theories used by those who support "passive management".
Efficient Frontier	The <i>efficient frontier</i> describes a set of optimal portfolios which balance returns with various levels of tolerance for risk. The portfolios on the efficient <i>frontier</i> offer the highest possible expected return at each specific level of risk, and conversely, the lowest level of risk for each expected level of return.
Entry Normal Funding Method	The <i>Entry Age Normal Funding Method</i> is an actuarial technique which projects an estimate of future benefit payments to a member (based on numerous actuarial probabilities) and then calculates a level percentage of payroll which (if paid in regularly over the member's career as salaries increase) should fully fund the present value of the future benefit payments by the time of retirement.
Equity	<i>Equity</i> is a general term for instruments which are highly sensitive to the total value of a business enterprise. Common stock is one form of equity.
ERISA	The <i>Employee Retirement Income Security Act</i> of 1974 governs private sector and Taft-Hartley pension plans. While it does not apply to government sponsored pension plans, its fiduciary standards are regularly cited as the guiding principles for the administration of public pension plans.
Event Risk	<i>Event risk</i> is the possibility that a bond will suddenly decline in credit quality and warrant a lower rating.
Excess Return	<i>Excess return</i> is that over a risk-free rate, such as a 90-day T-bill.
Expected Return	The <i>expected return</i> is the average (mean of the probability distribution) investment return.
Fiduciary Responsibility	The California Constitution defines the Fiduciary responsibility of the board members as follows: "The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty."
<i>Financial Times</i> Data Base	Great Britain's <i>Financial Times Data Base</i> includes information on most investment grade equities in the world. If a security is not included in the data base it suffers from at least one of the following conditions: too small an issue, too illiquid, too risky, too small a capital market, et al.
Free Float	<i>Free Float</i> is the amount of outstanding shares available for public trading with due consideration to shares held in cross-ownership and shares held or subject to employee benefit, and other employee compensation schemes. A small float implies stock price will be more volatile.
Full Discretion	<i>Full discretion</i> means that the investment manager does not have to check back with the pension fund before making investment decisions, so long as the pension fund's investment guidelines are followed. The manager reports on all investment transactions after the fact.
Futures	<i>Futures</i> contracts are agreements to buy or sell a specific amount of a commodity or financial instrument at a specific price on a specific future date.

GIC	A <i>GIC</i> or <i>Guaranteed Income Contract</i> is an agreement, usually issued by an insurance company, which guarantees a specific rate of return for a specific period of time. While the insurance company assumes all risk on the underlying portfolio of securities, it also keeps all returns in excess of the guaranteed rate.
Global	<i>Global</i> is an all inclusive term which covers all of the world's major capital markets. It usually excludes emerging markets in third world countries.
Hedge	A <i>hedge</i> is a strategy used to offset investment risk. A <i>hedge</i> is a form of insurance. Futures contracts are frequently used as <i>hedgies</i> to protect against significant market volatility.
High Yield	<i>High yield</i> usually refers to below investment grade bonds selling at a significant discount. Also called "junk bonds". See "Deep Discount" & "Bond Rating".
Index	An <i>Index</i> is a statistical composite that measures changes in the economy or the capital markets. See Barclays Capital Aggregate, S&P 500, R1000, R2000, MSCI..., & SB World.
Indexed	See "Passive Management"
Industry Group	See "Sector"
Inefficiencies	<i>Inefficiencies</i> is used to describe opportunities to find mispriced securities in the capital markets. See "Efficient Market". If the market as a whole is efficient, then the active investor must be on the lookout for temporary or dynamic inefficiencies which have the potential to produce active returns.
Inflation	<i>Inflation</i> reflects a rise in the prices of goods and services, as happens when demand increases faster than supply. See "Consumer Price Index".
Information Ratios	The <i>information ratio</i> is a measure of risk-adjusted portfolio returns. It is equal to "active return" divided by the "active risk", where active risk equals the standard deviation of the active return.
Institutional Grade Investment	An <i>institutional grade investment</i> refers to assets suitable for inclusion in any institutional portfolio. Such investments are generally recognized as being of sufficiently high quality as to minimize the likelihood of catastrophic loss or default. <i>Investment grade</i> bonds are those rated BBB and higher.
Institutional Pension Funds	<i>Institutional pension funds</i> refers to tax exempt pension plans with a long-term funding horizon and a statistically significant membership. Their investment objectives and funding requirements differ from those of an individual or taxable entity.
International	<i>International</i> refers to securities and capital markets which are not part of the U.S. capital markets.
Investment Discipline	<i>Investment discipline</i> refers to an investment manager's explicit mission statement, philosophy, goals, objectives, policies, procedures and controls which are used to research, select, purchase, retain and sell securities for inclusion in portfolios which reflect the investment manager's style(s).
Investment Manager	An <i>investment manager</i> is a firm with professionals who specialize in making investment decisions for pension funds. Those decisions must be consistent with the terms and conditions of their contract. They are fiduciaries for the assets under their control.

Large Capitalization	<i>Large capitalization</i> refers to stocks issued by the largest corporations in a specific market. For instance, the S&P 500 index includes the 500 largest corporations in the domestic stock market.
Barclays Capital Aggregate	The <i>Barclays Capital Aggregate</i> refers to the index which measures the composite return of all investment grade domestic fixed income securities.
Liquidity	<i>Liquidity</i> is a relative measure of the ease with which a willing seller can find a willing buyer. The more liquid a security, the easier it is to execute significant transaction volumes without significantly impacting the price.
Margin Sales	A <i>margin sale</i> is one in which the purchaser is permitted to buy securities with the equivalent of a down payment. The <i>Investment Plan</i> prohibits <i>margin sales</i> .
Marked-to-Market	<i>Marked-to-Market</i> refers to the process of determining the current value of individual assets in the capital markets and then recording those values for the individual assets held in a portfolio, in order to establish the current market value of the portfolio.
Market Returns	<i>Market returns</i> are the total returns generated by all of the securities in a particular sector of the market; for example, the capital appreciation and reinvested dividends for all domestic large capitalization stocks as measured by the S&P 500 during the past three months.
Market-Timers	<i>Market-timers</i> are investors who actively seek to anticipate the highs and lows of prices for individual securities, sectors, or asset classes and to buy and sell securities at the most opportune time to capture active returns.
Monitor	<i>Monitor</i> is the process whereby fiduciaries periodically review the actions of those to whom they have delegated authority to insure that the terms of the delegation have been fulfilled and that all fiduciary obligations are being faithfully executed. <i>Monitoring</i> provides assurance that all parties are adhering to the provisions of the Investment Plan and individual contracts.
MSCI Data Base	The <i>MSCI Data Base</i> refers to the Morgan Stanley Capital International data bases which includes information on most investment grade equity securities in the world.
MSCI World ex US Unhedged	The <i>MSCI World ex US Unhedged</i> refers to Morgan Stanley Capital International which measures the composite returns of all relatively liquid stocks worldwide. It does not include U.S. stocks. <i>Unhedged</i> means that the total return of the index (in \$ terms) is fully exposed to currency fluctuations.
NASDAQ	<i>NASDAQ</i> refers to the National Association of Securities Dealers Automated Quotation System which is the over-the-counter market place for the trading of more than 5,000 securities listed on the system.
Net Cost	<i>Best net cost</i> , as used in the Investment Plan, means that investment managers are expected to execute transactions that are as favorable for the Retirement Fund as is prudent. Commissions and spreads should be less than the average for similar transactions. Soft dollar relationships should not be used as excuses for not obtaining best execution.
Net Operating Revenue	<i>Net operating revenue</i> , as used in the Investment Plan, refers to income on real estate and alternate asset investments generated in the course of business through the active management of the asset.
Objectives	<i>Objectives</i> , as used in the <i>Investment Plan</i> , refers to specific performance targets which can

be used by the Board of Retirement to monitor the relative success of the *Investment Plan* and investment managers in making progress towards the funding target.

Options	<i>Options</i> are contracts between two investors in which one grants the other the right to buy (or sell) a specific asset at a specific price within a specified time period. Whereas as a "future" includes a commitment to execute the transaction, an <i>option</i> does not have to be exercised (though a fee will be forfeited by the purchaser of the option).
Passive Management	<i>Passive Management</i> refers to the investment of assets in a pool of securities designed to replicate the characteristics of all of the securities included in a specified universe (such as the "R1000"). The passive manager is not expected to attempt to outperform the index which measures the return on the specified universe. <i>Passive management</i> reflects the most common technique for the implementation of the "Efficient Market" theory.
Pension Benefit Obligation	The <i>Pension Benefit Obligation</i> is an accounting standard used to characterize and compare the strength of the actuarial funding of two or more pension plans. The pension benefit obligation is the present value of the theoretical amount which should be on deposit today to pay for all service rendered to date. It includes factors for future salary increases up to the date of retirement and cost-of-living allowances thereafter. See "Unfunded Actuarial Liability".
Performance Attribution	<i>Performance attribution</i> refers to the techniques used to break down an investment manager's or portfolio's return into component parts. Through the use of computer models and actual market data, the return is dissected. Portions of the return will result from the overall direction of the market, individual asset classes (<i>i.e.</i> : stocks vs. bonds), asset subclasses (<i>i.e.</i> : domestic large capitalization growth stocks), sectors (<i>i.e.</i> : automotive stocks) and security selection (<i>i.e.</i> : General Motors). Consultants find performance attribution useful in tracking a manager's adherence to a specific investment discipline; while, investment managers often view it as a way to validate backtested strategies.
Plenary	<i>Plenary</i> authority is granted to the Board of Retirement by the State Constitution. <i>Plenary</i> means complete, entire, perfect, not deficient in any element or respect, absolute, unqualified.
Portfolio	A <i>portfolio</i> is the combined holding of more than one stock, bond, and/or other assets to reduce the investor's risk through diversification.
Private Placement	A <i>private placement</i> is an investment which is not traded in the security markets. Returns are expected to be higher to compensate for the lack of liquidity.
Proxy	A <i>proxy</i> is a written power of attorney given by shareholders of a corporation authorizing a specific vote on their behalf at a corporate meeting. A <i>proxy</i> usually identifies a slate of candidates for the board of directors and resolutions submitted to the shareholders for action.
Prudence	<i>Prudence</i> is the practice of acting wisely in the handling of practical matters and the exercising of good judgment or common sense; possessing sufficient knowledge of a matter and discerning the most appropriate course of action.
Punctilio	<i>Punctilio</i> , as used by Chief Judge Cardozo, means the highest point or apex of a standard of honor and the strictest observance of the highest standard of performance.
R-Squared	"R-Squared" (r^2) is the square of the correlation coefficient. r^2 describes the percentage of the change in a dependent variable that is related to a change in the independent variable in a simple linear regression model. For example, an r^2 of .85 for Mutual Fund A would

indicate that 85% of the excess return of Mutual Fund A could be explained by movement in the excess return of the S&P 500. Conversely, 15% of the excess return for Mutual Fund A could not be explained away by changes in the S&P 500.

R1000	<i>R1000</i> standards for the Russell 1000 stock index which measures the composite returns of the 1,000 largest market capitalization domestic stocks.
R2000	<i>R2000</i> stands for the Russell 2000 stock index which measures the composite returns of the 2,000 next largest market capitalization domestic stocks which are not included in the R1000. (The Russell 3000 equals the R1000 plus the R2000.) See "Small Capitalization".
Real Return	<i>Real return</i> equals total return less an adjustment for inflation.
Rebalance	<i>Rebalance</i> is the term used to describe the process of bringing a portfolio back into conformance with its asset allocation targets. When an asset class exceeds its "tactical range", assets must be sold and the proceeds redeployed to other asset classes; conversely, if an asset class falls below its "tactical range", other assets must be sold and the proceeds redeployed to the class which is out of conformance.
REIT	<i>REIT</i> stands for Real Estate Investment Trust. <i>REIT</i> 's are typically publicly traded securities whose underlying assets are invested in real estate. Shareholders participate in the income stream of the underlying real estate portfolio.
Return	<i>Return</i> means the increase (or decrease) in the market value of an asset plus income (such as coupons or dividends) divided by its cost. <i>Return</i> is measured over a period of time, such as one month, last quarter, last year; and annualized three, five and ten years.
Risk	<i>Risk</i> is the uncertainty that an investment will produce the expected return. In pension portfolios <i>risk</i> is measured by the "volatility" of the returns expected from each of the separate asset classes which make up the diversified portfolio. Individual securities have a wide range of specific risk exposures. By combining a mix of securities which different risk profiles into a portfolio, the overall risk to the total portfolio is significantly reduced.
Risk-Adjusted Return	<i>Risk-adjusted return</i> refers to techniques used to determine if a portfolio or investment manager is producing active returns commensurate with the associated risk profile. A manager with exceptional returns may be taking exceptional risks. By adjusting returns to reflect risk, a fiduciary can judge the effectiveness of the investment strategy.
S&P 500	<i>S&P 500</i> stands for the Standard & Poors 500 stock index which measures the composite returns of the 500 largest market capitalization domestic stocks. (Most of the S&P 500 stocks are included in the "R1000".)
SB World Unhedged	<i>SB World Unhedged</i> stands for the Salomon Brothers World Bond Index which measures the composite returns of most relatively liquid government bonds in the world. <i>Unhedged</i> means that the total return of the index (in \$ terms) is fully exposed to currency fluctuations.
SEC Registered Investment Advisors	The Securities and Exchange Commission serves as a registry of investment advisors. The principal value of the registration process is the extensive disclosure requirements imposed by the SEC. Pension funds frequently require that their "investment managers" be SEC Registered Investment Advisors as the first step in the due diligence process.
Sector	<i>Sector</i> refers to a group of stocks identified with a particular industry. Portfolio managers tend to classify stocks by industry and use those classifications as one of the factors in assembling portfolios. A well diversified portfolio is invested across many <i>sectors</i> .

Security Lending	<i>Security lending</i> refers to the practice of loaning assets under the custodian's care to brokers for a fee. The loan is secured by collateral provided to the custodian by the borrower.
Short Sales	<i>Short sales</i> refers to the sale of a security which the seller does not own. The <i>Investment Plan</i> prohibits <i>short sales</i> .
Small Capitalization	<i>Small capitalization</i> refers to stocks issued by corporations which are excluded by size from being considered as large capitalization stocks in a specific market. For instance, the "R2000" index encompasses the 2,000 smallest corporations in the R3000 list of domestic stocks. Smaller capitalization stocks are typically less liquid than large capitalization stocks.
Special Situations	See "Alternate Assets".
Standard Deviation	<i>Standard deviation</i> is the statistical measurement of dispersion around the Mean. For instance, if a series of active returns have a normal (bell-shaped) distribution, they will be spread out such that 68.26% of the occurrences will fall within 1 <i>Standard Deviation</i> of the Mean; 95.46% within 2 <i>Standard Deviations</i> ; and 99.73% within 3 <i>Standard Deviations</i> .
Styles	<i>Styles</i> is a term used to describe the investment discipline adhered to by an investment manager. Consultants classify investment managers by their style. Typical classifications for stock managers include growth style vs. value style broken down by large capitalization vs. small capitalization styles.
Tactical Range	<i>Tactical range</i> defines the upper and lower limits which the current market value of an individual asset class must not exceed, in terms of its percentage of the total portfolio. Once the percentage falls outside of the limits, the portfolio is to be "rebalanced".
Tax exempt security	A <i>tax exempt security</i> is an obligation whose interest is exempt from taxation by one or more taxing authorities. Tax exempt securities provide tax free income to an investor and, therefore, usually provide lower interest coupons than a comparable taxable security. Pension funds do not pay taxes. Consequently such securities are not usually attractive to pension funds.
Total Time-Weighted Rate of Return	<i>Total time-weighted rate of return</i> is the most common measurement used to compare the performance of one investment manager or portfolio against another. <i>TTWRR</i> calculates investment performance (income and price changes) as a percentage of capital invested over a specific period of time. <i>TTWRR</i> eliminates the effects of additions and withdrawals of capital and their timing (factors which distort comparisons based on dollar-weighted rates of return).
Tracking Error	<i>Tracking error</i> is a statistical measure of how closely an investment manager or portfolio adhere to a specific performance objective. Specifically, <i>tracking error</i> is the standard deviation of the difference between actual performance and the performance of a specified benchmark. Tracking error is a synonym for "active risk".
Trustee	A <i>trustee</i> is one who is responsible for the stewardship of another's assets, including the responsibility for collecting contributions, safekeeping the assets, investing the assets productively, paying earned benefits in a timely fashion and other acts expected of a prudent fiduciary.
TUCS	<i>TUCS</i> stands for the Trust Universe Comparison Service which provides comparative analysis of total time-weighted rates of return for approximately 286 master trust portfolios, including approximately 38 state and local government pension portfolios.

Unfunded Actuarial Liability	The <i>Unfunded Actuarial Liability</i> is the difference between the assets on hand today and the present value of earned benefit payments which are projected to be payable in the future. There are as many measures of the unfunded actuarial liability as there are actuarial funding methods. SamCERA utilizes the "Entry Age Normal Funding Method". Utilizing that method, the appropriate calculation is to subtract the "Actuarial Accrued Liability" from the "Actuarial Value of Assets".
Volatility	<i>Volatility</i> is a measure of fluctuations in returns. <i>Volatility</i> is one standard deviation of the dispersion of returns around the average return. Pension funds use <i>volatility</i> as a proxy for "risk".


Sources: The entries have been generated by *SamCERA* staff. Many of the entries are based on definitions offered in the following sources: BARRA's *Glossary, Investment and Portfolio Theory*; Barron's *Dictionary of Finance and Investment Terms*; Sharpe & Alexander's *Investments, Fourth Edition*; Winklevoss' *Pension Mathematics*; Ibbotson & Brinson's *Global Investing*; Arnott & Fabozzi's *Asset Allocation, A Handbook of Portfolio Policies, Strategies & Tactics*. Recommended additions, changes and corrections should be submitted to the Retirement Administrator for inclusion in the next edition of *SamCERA's Investment Policy*.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 24, 2012

Agenda Item 6.4

To: Board of Retirement

From: Brenda B. Carlson, Chief Legal Counsel 

SUBJECT: Process to be used for Alternative Investment Review

ISSUE: The Board has options for the distribution of due diligence materials and related discussions in regards to alternative investments. Staff would like direction from the Board as to which approach to use.

BACKGROUND: Due to the nature of alternative investments, the public release and or discussion of information in due diligence reports may have an impact on the investment. Consequently, the Legislature has provided options for retirement boards manner in which the board considers certain specific investments. Staff will discuss the following two provision of the Government Code with the board.

The Brown Act provides:

§54956.81 "... a legislative body of a local agency that invests pension funds may hold a closed session to consider the purchase or sale of particular, specific pension fund investments. All investment transaction decisions made during the closed session shall be made by roll call vote entered into the minutes of the closed session as provided in subdivision (a) of Section 54957.2."

The Public Records Act provides (emphasis added):

§ 6254.26. Alternative investments of public investment funds; records exempt from disclosure

(a) Notwithstanding any provision of this chapter or other law, **the following records regarding alternative investments in which public investment funds invest shall not be subject to disclosure pursuant to this chapter, unless the information has already been publicly released by the keeper of the information:**

- (1) Due diligence materials that are proprietary to the public investment fund or the alternative investment vehicle.
- (2) Quarterly and annual financial statements of alternative investment vehicles.
- (3) Meeting materials of alternative investment vehicles.
- (4) Records containing information regarding the portfolio positions in which alternative investment funds invest.
- (5) Capital call and distribution notices.
- (6) Alternative investment agreements and all related documents.

(b) Notwithstanding subdivision (a), the following information contained in records described in subdivision (a) regarding alternative investments in which public investment funds invest **shall be subject to disclosure pursuant to this chapter and shall not be considered a trade secret exempt from disclosure:**

- (1) The name, address, and vintage year of each alternative investment vehicle.
- (2) The dollar amount of the commitment made to each alternative investment vehicle by the public investment fund since inception.
- (3) The dollar amount of cash contributions made by the public investment fund to each alternative investment vehicle since inception.
- (4) The dollar amount, on a fiscal yearend basis, of cash distributions received by the public investment fund from each alternative investment vehicle.
- (5) The dollar amount, on a fiscal yearend basis, of cash distributions received by the public investment fund plus remaining value of partnership assets attributable to the public investment fund's investment in each alternative investment vehicle.
- (6) The net internal rate of return of each alternative investment vehicle since inception.
- (7) The investment multiple of each alternative investment vehicle since inception.
- (8) The dollar amount of the total management fees and costs paid on an annual fiscal yearend basis, by the public investment fund to each alternative investment vehicle.
- (9) The dollar amount of cash profit received by public investment funds from each alternative investment vehicle on a fiscal year-end basis.

(c) For purposes of this section, the following definitions shall apply:

(1) "Alternative investment" means an investment in a private equity fund, venture fund, hedge fund, or absolute return fund.

(2) "Alternative investment vehicle" means the limited partnership, limited liability company, or similar legal structure through which the public investment fund invests in portfolio companies.

(3) "Portfolio positions" means individual portfolio investments made by the alternative investment vehicles.

(4) "Public investment fund" means any public pension or retirement system, and any public endowment or foundation.

DISCUSSION: At the meeting, Staff will discuss the application and interrelationship of the two Government Code sections cited above.

STAFF RECOMMENDATION: After receiving input from the Board, Staff will make a recommendation at the meeting as to the process to be used in regards the distribution of due diligence material and board discussions on specific alternative investments.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 24, 2012

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 December 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 \$2,278,621,900.

Statement of Changes in Fiduciary Net Assets

Net assets held in trust for pension benefits increased by approximately \$70.9 million, month over month. The increase is primarily due the county prepayment contribution received on December 30, 2011 in the amount of \$77.5 million.

The following reports are attached to this agenda item:

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San Mateo County Employees' Retirement Association
Statement of Fiduciary Net Assets - YTD Comparative
December 2011
PRELIMINARY

	December 2011	December 2010
ASSETS		
CASH AND CASH EQUIVALENTS	147,869,454	91,583,013
SECURITIES LENDING CASH COLLATERAL	174,157,880	160,028,095
TOTAL CASH	322,027,335	251,611,107
RECEIVABLES		
Contributions	0	0
Due from Broker for Investments Sold	174,667,401	217,923,941
Investment Income	5,355,823	4,566,120
Securities Lending Income	63,238	91,816
Other Receivable	113,047	113,315
TOTAL ACCOUNTS RECEIVABLES	180,199,509	222,695,191
PREPAID EXPENSE	7,669	7,669
INVESTMENTS AT FAIR VALUE		
Domestic Fixed Income Securities	568,432,553	602,986,338
Domestic Equities	818,034,999	983,781,199
International Equities	336,265,213	429,700,043
Real Estate	138,282,516	122,302,877
Private Equities	12,020,736	250,000
Risk Parity	142,768,824	0
Hedge Funds	68,338,058	0
Commodities	65,911,934	0
Held for Securities Lending	0	0
Other Investment	0	0
	2,150,054,834	2,139,020,456
FIXED ASSETS	0	0
LESS ACCUMULATED DEPRECIATION	0	0
	0	0
TOTAL ASSETS	2,652,289,347	2,613,334,424
LIABILITIES		
Investment Management Fees	2,457,524	1,862,348
Due to Broker for Investments Purchased	196,186,073	282,844,978
Collateral Payable for Securities Lending	174,157,880	160,028,095
Other	865,970	659,487
TOTAL LIABILITIES	373,667,447	445,394,908
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	2,278,621,900	2,167,939,516

San Mateo County Employees' Retirement Association
Statement of Changes in Fiduciary Net Assets - YTD Comparative
December 2011
Preliminary

	December 2011	December 2010	
ADDITIONS			
CONTRIBUTIONS			
Employer Contribution	149,016,334	78,901,535	70,114,799
Employee Contribution	22,944,450	23,587,673	(643,223)
TOTAL CONTRIBUTIONS	171,960,784	102,489,209	69,471,576
INVESTMENT INCOME			
Interest and Dividends	24,862,992	18,835,032	6,027,960
Net Appreciation (Depreciation) in fair value of investments	(155,603,977)	303,211,343	(458,815,320)
Less Investment Expense	(8,419,048)	(5,977,223)	(2,441,824)
Less Asset Management Expense	0	(322,568)	322,568
NET INVESTMENT INCOME	(139,160,033)	315,746,584	(454,906,617)
SECURITIES LENDING INCOME			
Earnings	208,767	322,650	(113,883)
Less: Securities Lending Expenses	81,918	(78,403)	160,321
NET SECURITIES LENDING INCOME	290,685	244,248	46,437
OTHER ADDITIONS	1,757	54,266	(52,509)
TOTAL ADDITIONS	33,093,193	418,534,306	(385,441,113)
DEDUCTIONS			
ASSOCIATION BENEFITS			
Service Retirement Allowance	60,006,311	56,081,080	3,925,231
Disability Retirement Allowance	7,590,911	7,191,400	399,511
Survivor, Death and Other Benefits	358,750	376,466	(17,716)
TOTAL ASSOCIATION BENEFITS	67,955,972	63,648,946	4,307,026
REFUND OF MEMBER CONTRIBUTIONS	1,722,038	1,175,896	546,142
ADMINISTRATIVE EXPENSE	2,482,476	1,626,253	856,223
OTHER EXPENSE	86,636	40,149	46,486
TOTAL DEDUCTIONS	72,247,121	66,491,245	5,755,877
NET INCREASE	(39,153,929)	352,043,061	(391,196,990)
Net Assets Held in Trust for Pension Benefits:			
Beginning of Period	2,317,775,829	1,815,896,455	
End of Period	2,278,621,900	2,167,939,516	

San Mateo County Employees' Retirement Association
 CHANGES IN FIDUCIARY NET ASSETS - TRAILING SIX MONTHS
 For the Month Ending December 31, 2011
 PRELIMINARY

	July 2011	August 2011	September 2011	October 2011	November 2011	December 2011	YTD
ADDITIONS							
CONTRIBUTIONS							
Employee Contribution	2,796,875	3,502,213	3,674,023	3,658,973	3,659,268	5,653,099	22,944,450
Employer Contributions - Regular	5,858,439	7,315,021	7,338,753	7,336,610	7,360,524	11,055,264	46,264,611
Employer Contributions - COLA	3,261,580	4,069,393	4,080,186	4,079,143	4,087,841	6,138,083	25,716,225
Employer Prefunded Contribution	60,704,948	(11,323,486)	(11,387,916)	(11,399,796)	(11,399,337)	61,841,085	77,035,498
TOTAL CONTRIBUTIONS	72,621,842	3,563,141	3,705,046	3,674,930	3,708,296	84,687,530	171,960,784
INVESTMENT INCOME							
Interest and Dividends	2,674,939	4,171,591	4,363,867	3,980,798	4,299,476	5,372,321	24,862,992
Net Appreciation (Depreciation) in fair value of investments	(16,965,881)	(110,856,042)	(135,778,761)	141,339,198	(28,574,223)	(4,766,512)	(155,602,221)
Securities Lending Income	36,093	29,250	32,457	35,914	39,947	35,107	208,767
Other Additions							0
Other Investment Related Expense	(465,397)	(474,387)	(270,222)	(197,381)	(513,027)	(132,845)	(2,053,261)
Securities Lending Expense	3,410	(4,030)	17,788	3,166	26,387	35,196	81,918
TOTAL ADDITIONS	57,905,005	(103,570,478)	(127,929,824)	148,836,624	(21,013,145)	85,230,797	39,458,980
DEDUCTIONS							
ASSOCIATION BENEFITS							
Retiree Annuity	2,577,870	2,603,168	2,606,554	2,607,079	2,615,376	2,644,026	15,654,073
Retiree Pension	6,081,746	6,213,436	6,141,097	6,173,786	6,206,238	6,119,178	36,935,482
Retiree COLA	2,583,422	2,567,502	2,563,624	2,561,767	2,541,841	2,526,785	15,344,942
Retiree Death and Modified Work Benefit	3,579	3,579	3,579	3,579	3,579	3,579	21,475
Active Member Death Benefit	0	0	0	0	0	0	0
Voids and Reissue	0	0	0	0	0	0	0
TOTAL ASSOCIATION BENEFITS	11,246,618	11,387,685	11,314,854	11,346,211	11,367,035	11,293,569	67,955,972
REFUND OF MEMBER CONTRIBUTIONS	193,618	323,124	398,836	314,565	159,181	332,715	1,722,038
ACTUARIAL FEES							
ACTUARIAL FEES	32,750	111,250	(2,500)	2,250	2,250	2,250	148,250
CONSULTANT FEES - INVESTMENT (SIS)	33,333	33,333	33,333	33,333	33,333	33,333	199,999
CUSTODIAN FEES - STATE STREET	18,000	18,000	18,000	18,000	26,836	18,000	116,836
INVESTMENT MANAGEMENT FEE - R1000 INDEX	5,628	5,470	5,405	5,566	5,559	5,579	33,208
INVESTMENT MANAGEMENT FEE - ABERDEEN	27,574	23,680	25,719	24,813	24,776	25,000	151,563
INVESTMENT MANAGEMENT FEE - PYRAMIS	16,867	15,879	16,411	16,195	16,324	16,124	97,801
INVESTMENT MANAGEMENT FEE - BROWN BROTHERS	6,306	10,512	8,411	9,622	9,733	9,688	54,271
INVESTMENT MANAGEMENT FEE - FRANKLIN TEMPLETON	35,092	34,924	32,659	34,194	32,460	33,483	202,811
INVESTMENT MANAGEMENT FEE - CHARTWELL	36,804	31,200	30,945	34,590	35,387	34,942	203,867
INVESTMENT MANAGEMENT FEE - D E SHAW	46,529	42,946	41,605	44,717	44,797	45,259	265,853
INVESTMENT MANAGEMENT FEE - T ROWE PRICE	31,601	29,143	28,311	30,810	30,634	30,986	181,485
INVESTMENT MANAGEMENT FEE - BLACKROCK	64,729	58,521	57,473	60,958	59,684	59,739	361,104
INVESTMENT MANAGEMENT FEE - BARROW HANLEY	60,870	53,054	53,621	56,364	56,386	56,970	337,265
INVESTMENT MANAGEMENT FEE - THE BOSTON COMPANY	34,303	30,503	29,627	32,840	33,686	33,816	194,775
INVESTMENT MANAGEMENT FEE - JENNISON ASSOCIATES	76,350	58,429	63,029	64,851	65,953	64,307	392,919
INVESTMENT MANAGEMENT FEE - MONDRIAN	32,441	30,065	28,417	35,043	29,484	29,561	185,011
INVESTMENT MANAGEMENT FEE - ARTIO	82,213	73,789	69,364	73,716	72,260	70,261	441,602
INVESTMENT MANAGEMENT FEE - WESTERN ASSET	27,267	24,934	26,191	25,598	25,490	25,716	155,196
INVESTMENT MANAGEMENT FEE - INVESCO CORE	51,937	51,937	51,937	55,082	52,723	52,723	316,339
INVESTMENT MANAGEMENT FEE - SHERIDAN PRODUCTIONS	0	0	0	150,000	0	0	150,000
INVESTMENT MANAGEMENT FEE - ABRY ADVANCED	0	0	0	0	0	0	0
INVESTMENT MANAGEMENT FEE - AQR GLOBAL RISK PARITY	48,540	50,082	48,785	46,317	48,177	0	241,901
INVESTMENT MANAGEMENT FEE - AQR DELTA FUND	58,322	58,004	57,535	55,371	56,331	0	285,563
INVESTMENT MANAGEMENT FEE - SSGA MULTISOURCE	26,087	25,200	23,529	24,114	23,444	23,093	145,466
TOTAL PROFESSIONAL FEE	853,543	870,856	747,804	934,345	785,707	670,832	4,863,086
ADMIN EXPENSE - SALARIES & BENEFITS							
ADMIN EXPENSE - SALARIES & BENEFITS	151,218	236,478	239,549	240,481	243,659	362,097	1,473,481
ADMIN EXPENSE - SERVICES & SUPPLIES	155,314	109,526	194,865	177,895	191,007	180,387	1,008,995
TOTAL ADMINISTRATIVE EXPENSES	306,532	346,004	434,415	418,376	434,666	542,483	2,482,476
INTEREST FOR PREPAID CONTRIBUTION	0	0	0	0	0	1,502,700	1,502,700
OTHER DEDUCTIONS	31,671	13,151	3,037	9,973	17,966	10,837	86,636
TOTAL DEDUCTIONS	12,631,982	12,940,820	12,898,945	13,023,469	12,764,555	14,353,137	78,612,908
NET INCREASE	45,273,023	(116,511,298)	(140,828,770)	135,813,155	(33,777,699)	70,877,661	(39,153,929)

**San Mateo County Employees' Retirement Association
Statement of Fiduciary Net Assets - Monthly Comparative
For the Month Ending December 31, 2011**

	December 2011	November 2011	Increase/(Decrease)	% of Incr/Decr
ASSETS				
CASH AND CASH EQUIVALENTS	147,869,454	83,860,564	64,008,890	76.33%
SECURITIES LENDING CASH COLLATERAL	174,157,880	174,157,880	0	0.00%
TOTAL CASH	322,027,335	258,018,445	64,008,890	0
RECEIVABLES				
Contributions	0	0	0	N/A
Due from Broker for Investments Sold	174,667,401	224,258,320	(49,590,920)	-22.11%
Investment Income	5,355,823	6,316,733	(960,909)	-15.21%
Securities Lending Income	63,238	59,268	3,970	6.70%
Other Receivable	113,047	113,413	(366)	-0.32%
TOTAL ACCOUNTS RECEIVABLES	180,199,509	230,747,734	(50,548,225)	-21.91%
PREPAID EXPENSE	7,669	7,669	0	0.00%
INVESTMENTS AT FAIR VALUE				
Domestic Fixed Income Securities	568,432,553	561,514,091	6,918,462	1.23%
Domestic Equities	818,034,999	814,954,110	3,080,890	0.38%
International Equities	336,265,213	340,385,545	(4,120,332)	-1.21%
Real Estate	138,282,516	138,282,516	0	0.00%
Private Equity	12,020,736	11,561,540	459,197	3.97%
Risk Parity	142,768,824	142,768,824	0	N/A
Hedge Funds	68,338,058	68,338,058	0	N/A
Commodities	65,911,934	67,882,162	(1,970,228)	-2.90%
Held for Securities Lending	0	0	0	N/A
Other Investment	0	0	0	N/A
	2,150,054,834	2,145,686,845	4,367,989	0.20%
FIXED ASSETS	0	0	0	N/A
LESS ACCUMULATED DEPRECIATION	0	0	0	N/A
	0	0	0	0.00%
TOTAL ASSETS	2,652,289,347	2,634,460,693	17,828,654	0.68%
LIABILITIES				
Investment Management Fees	2,457,524	2,232,412	225,112	10.08%
Due to Broker for Investments Purchased	196,186,073	249,577,058	(53,390,986)	-21.39%
Collateral Payable for Securities Lending	174,157,880	174,157,880	0	0.00%
Other	865,970	749,103	116,867	15.60%
TOTAL LIABILITIES	373,667,447	426,716,454	(53,049,007)	-12.43%
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	2,278,621,900	2,207,744,240	70,877,660	3.21%

**San Mateo County Employees' Retirement Association
Statement of Changes in Fiduciary Net Assets - Monthly Comparative
For the Month Ending December 2011**

	December 2011	November 2011	
ADDITIONS			
CONTRIBUTIONS			
Employer Contribution	149,016,334	69,981,903	79,034,431
Employee Contribution	22,944,450	17,291,351	5,653,099
TOTAL CONTRIBUTIONS	<u>171,960,784</u>	<u>87,273,254</u>	<u>84,687,530</u>
INVESTMENT INCOME			
Interest and Dividends	24,862,992	19,490,671	5,372,321
Net Appreciation (Depreciation) in fair value of investments	(155,603,977)	(150,836,835)	(4,767,142)
Less Investment Expense	(8,419,048)	(6,112,670)	(2,306,378)
Less Asset Management Expense	0	0	0
NET INVESTMENT INCOME	<u>(139,160,033)</u>	<u>(137,458,835)</u>	<u>(1,701,198)</u>
SECURITIES LENDING INCOME			
Earnings	208,767	173,660	35,107
Less: Securities Lending Expenses	81,918	46,722	35,196
NET SECURITIES LENDING INCOME	<u>290,685</u>	<u>220,382</u>	<u>70,303</u>
OTHER ADDITIONS	1,756	1,127	629
TOTAL ADDITIONS	<u>33,093,192</u>	<u>(49,964,072)</u>	<u>83,057,264</u>
DEDUCTIONS			
ASSOCIATION BENEFITS			
Service Retirement Allowance	60,006,311	50,018,105	9,988,206
Disability Retirement Allowance	7,590,911	6,344,673	1,246,238
Survivor, Death and Other Benefits	358,750	299,624	59,125
TOTAL ASSOCIATION BENEFITS	<u>67,955,972</u>	<u>56,662,403</u>	<u>11,293,569</u>
REFUND OF MEMBER CONTRIBUTIONS	1,722,038	1,389,323	332,715
ADMINISTRATIVE EXPENSE	2,482,476	1,939,993	542,483
OTHER EXPENSE	86,636	75,798	10,837
TOTAL DEDUCTIONS	<u>72,247,121</u>	<u>60,067,517</u>	<u>12,179,605</u>
NET INCREASE	(39,153,929)	(110,031,589)	70,877,660
Net Assets Held in Trust for Pension Benefits:			
Beginning of Period	2,207,744,240	2,317,775,829	
End of Period	2,278,621,900	2,207,744,240	

San Mateo County Employees' Retirement Association
Board of Retirement

January 24, 2012

Agenda Item 7.2

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Preliminary Second Quarter Budget Report

DISCUSSION: *SamCERA's* budget consists of three components, an administrative budget and a technology budget authorized by Government Code §31580.2, and a professional services budget authorized by Government Code §31596.1.

Professional Services Budget - **Attachment One** provides an overview of the accrued professional services expenditures. Investment management fees are driven by contractual agreements and based on total assets under management. Fees for the actuarial services, investment consulting services and global custodian services are based on services detailed in the contractual agreements. The preliminary annualized aggregate professional services fee as of December 31, 2011, is approximately 39.6 basis points versus the expected fee of 43.1 basis points.

SamCERA's Administrative Budget –The adopted administrative budget by category, versus the preliminary fiscal expenditures is shown in the table below.

Attachment Two provides a review of the line item administrative appropriations versus the preliminary expenditures. Through the second quarter, *SamCERA* expended 49.0% of the approved appropriations. Under **Salaries & Benefits** *SamCERA* budgets all positions and benefits. Those expenditures are on pace with expectations. Under **Services & Supplies** the association budgets all overhead and operational expenditures. Staff wishes to point out that Medical Evaluations and Leased Facilities expenditures are over their appropriation. The need for medical evaluations varies from year to year and the original appropriation is an estimate based on prior experience. In fiscal year 2011-2012 *SamCERA* is experiencing a higher than average need for evaluations. The overage in Leased Facilities is a result of the acquisition of additional space. It includes the preparation of the new space and reconfiguration of existing space. Regarding **Capital Assets**, *SamCERA* prefers to expense as much of its expenditures as possible. Therefore, there has not been an allocation for **Capital Assets** in this fiscal year's budget.

***SamCERA's* Administrative Budget**

	Adopted Budget	YTD Preliminary
Salaries & Benefits	\$3,465,963	\$1,473,481
Services & Supplies	\$1,268,237	\$ 847,134
Capital Assets	<u>\$ 0</u>	<u>\$ 0</u>
Total	\$4,734,200	\$2,320,615

Attachment Three provides a review of the line item technology appropriations versus the preliminary expenditures. Staff is in the process of evaluating a Request For Proposal (RFP) to select a consultant to assist *SamCERA* in its information technology modernization project. Once the RFP is completed, work will begin and expenses will be realized on appropriations that fall under IT Infrastructure.

SamCERA's Technology Budget

	Adopted Budget	YTD Preliminary
Property & Equipment	\$60,000	\$21,505
IT Infrastructure	\$1,806,000	\$120,355
IT Total	\$1,866,000	\$161,860

San Mateo County Employees' Retirement Association
Board of Retirement

January 24, 2012
 Attachment One

Second Quarter Analysis
 12-31-2011

Agenda Item 7.2

PROFESSIONAL SERVICES BUDGET: Government Code §31596.1 states that, *“The expenses of investing its money shall be borne solely by the system. The following types of expenses shall not be considered a cost of administration of the retirement system, but shall be considered a reduction in earnings from those investments or a charge against the assets of the retirement system as determined by the board:*

- (a) The costs, as approved by the board, of actuarial valuations and services rendered pursuant to §31453.*
- (b) The compensation of any bank or trust company performing custodial services.*
- (c) When an investment is made in deeds of trust and mortgages, the fees stipulated in any agreement entered into with a bank or mortgage service company to service such deeds of trust and mortgages.*
- (d) Any fees stipulated in an agreement entered into with investment counsel for consulting or management services in connection with the administration of the board's investment program, including the system's participation in any form of investment pools managed by a third party or parties.*
- (e) The compensation to an attorney for services rendered pursuant to §31607 or legal representation rendered pursuant to §31529.1.”*

The board has entered into the following contracts pursuant to §31596.1:

CONTRACTOR	SERVICE	FEE (1)	2011-2012 YTD EXPENSE (ACCRUED)	2011-2012 ESTIMATE
Milliman (3)	Actuarial Consulting	0.1 bp	\$148,500	\$150,000
Strategic Investment Solutions	Investment Consulting	0.4 bp	\$200,000	\$400,000
State Street Bank & Trust	Global Custody	0.1 bp	\$116,800	\$200,000
SUB-TOTAL NON INVESTMENT MANAGER CONTRACTUAL FEES			\$465,300	\$750,000
<i>Estimated Market Value 06-30-2012</i>			\$2.6 Billion	\$2.6 Billion
Average Basis Points (2)			2.7 bp	2.9 bp

- (1) The Actuary, Custodian and Investment Consultant fees expressed in basis points utilize total assets while the Investment Manager calculations utilize assets under management.
- (2) The calculation utilizes a market value of \$2.3 billion
- (3) The YTD expenses for Milliman included charges from Segal Company for actuarial audit.

The contractual fee schedule for investment managers appears on the following page.

CONTRACTOR	SERVICE	FEE	2011-2012 YTD EXPENSE (ACCRUED)	2011-2012 ESTIMATE
BlackRock – Russell 1000 Index Fund	Domestic Large Cap Equity	4.1 bp	\$33,200	\$100,000
D.E. Shaw Investment Management,	Domestic Large Cap Enhanced	49.5 bp	\$265,900	\$700,000
T. Rowe Price Associates	Domestic Large Cap Enhanced	35.0 bp	\$181,500	\$500,000
Barrow, Hanley, Mewhinney & Strauss	Domestic Large Cap Value	43.0 bp	\$337,300	\$850,000
BlackRock Capital Management	Domestic Large Cap Growth	45.1 bp	\$361,100	\$900,000
The Boston Company	Domestic Small Cap Equity	84.4 bp	\$191,800	\$500,000
Chartwell Investment Partners	Domestic Small Cap Equity	75.0 bp	\$203,900	\$500,000
Jennison Associates	Domestic Small Cap Equity	75.0 bp	\$392,900	\$1,050,000
Artio Global Investors	International Equity	47.2 bp	\$441,600	\$600,000
Mondrian Investment Partners	International Equity	27.0 bp	\$185,000	\$600,000
Aberdeen Asset Management	Domestic Fixed Income	24.3 bp	\$151,600	\$300,000
Angelo Gordon (PIIP)	Domestic Fixed Income	100.0 bp	\$150,000	\$350,000
Brigade Capital Management	Domestic Credit Opportunity Fixed Income	43.8 bp	\$130,000	\$250,000
Brown Brothers Harriman	Treasury Inflation Protection Securities	15.0 bp	\$54,300	\$125,000
Franklin Templeton	Global Fixed Income	39.3 bp	\$202,800	\$425,000
Pyramis Global Advisors	Domestic Fixed Income	17.6 bp	\$97,800	\$200,000
Western Asset Management	Domestic Fixed Income	27.6 bp	\$155,200	\$350,000
AQR Risk Parity	Risk Parity Portfolio	40.0 bp	\$241,900	\$450,000
AQR Delta Hedge Fund	Hedge Fund	100.0 bp	\$285,500	\$500,000
SSgA/SSARIS Commodities	Commodities	75.0 bp	\$145,000	\$325,000
ABRY II	Private Equity	N/A	N/A	N/A
ABRY VII	Private Equity	N/A	N/A	N/A
Regiment Capital	Private Equity	N/A	N/A	N/A
Sheridan Production Partners	Private Equity	1.50 bp	\$150,000	\$300,000
INVESCO Realty Advisors	Real Estate Management	14.3 bp	\$316,000	\$590,000
SUB-TOTAL INVESTMENT MANAGERS			\$4,678,100	\$10,465,000
Average Basis Points (1)			36.0 bp	40.3 bp
SUB-TOTAL NON- INVESTMENT MANAGERS (FROM PREVIOUS PAGE)			\$465,300	\$750,000
Average Basis Points (2)			2.7 bp	2.9 bp
TOTAL ESTIMATED CONTRACT FEES			\$5,143,400	\$11,215,000
<i>Estimated Market Value 06-30-2012</i>			\$2.6 billion	\$2.6 billion
Average Basis Points (2)			39.6 bp	43.1 bp

- (1) The Actuary, Custodian and Investment Consultant fees expressed in basis points utilize total assets while the Investment Manager calculations utilize assets under management.
- (2) The calculation utilizes a market value of \$2.6 billion

San Mateo County Employees' Retirement Association
Board of Retirement

January 24, 2012
Attachment Two

Agenda Item 7.2

San Mateo County Employees' Retirement Association
Preliminary Report
Fiscal Year 2011-2012
Second Quarter Analysis
Line Item Administrative Budget

	Budget Allotment	Year to Date Expenditures	Percentage Expended	Remaining Balance	Remaining Percentage
Salaries	\$2,313,000	\$967,072	41.8%	\$1,345,928	58.2%
Benefits	\$1,152,963	\$506,409	43.9%	\$646,554	56.1%
Salaries & Benefits	\$3,465,963	\$1,473,481	42.5%	\$1,992,482	57.5%
Board Expense	\$10,500	\$3,500	33.3%	\$7,000	66.7%
Insurance	\$77,000	\$38,500	50.0%	\$38,500	50.0%
Medical Evaluation	\$45,000	\$62,509	138.9%	-\$17,509	-38.9%
Member Education	\$45,000	\$20,519	45.6%	\$24,481	54.4%
Education & Conference	\$148,700	\$33,519	22.5%	\$115,181	77.5%
Transportation and Lodging	\$126,500	\$35,896	28.4%	\$90,604	71.6%
Property & Equipment	\$0	\$2,895	0.0%	-\$2,895	0.0%
General Office Supplies	\$25,000	\$20,977	83.9%	\$4,023	16.1%
Postage & Printing	\$125,000	\$35,914	28.7%	\$89,086	71.3%
Leased Facilities	\$295,000	\$353,642	119.9%	-\$58,642	-19.9%
County Services	\$325,037	\$196,675	60.5%	\$128,362	39.5%
Audit Services	\$45,500	\$40,819	89.7%	\$4,681	10.3%
Other Administration	\$0	\$1,770	0.0%	-\$1,770	0.0%
Services & Supplies	\$1,268,237	\$847,134	66.8%	\$421,103	33.2%
Capital Assets	\$0	\$0	\$0	\$0	\$0
Depreciation	\$0	\$0	\$0	\$0	\$0
Grand Total	\$4,734,200	\$2,320,615	49.0%	\$2,413,585	51.0%

San Mateo County Employees' Retirement Association
Board of Retirement

January 24, 2012
Attachment Three

Agenda Item 7.2

**San Mateo County Employees' Retirement Association
Preliminary Report
Fiscal Year 2011-2012
Second Quarter Analysis
Line Item Information Technology Budget**

	Budget Allotment	Year to Date Expenditures	Percentage Expended	Remaining Balance	Remaining Percentage
Property & Equipment	\$60,000	\$21,505	35.8%	\$38,495	64.2%
IT Infrastructure	\$1,806,000	\$140,355	7.8%	\$1,665,645	92.2%
Information Technology Total	\$1,866,000	\$161,860	8.7%	\$1,704,140	91.3%