

## Investment Committee

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

**Tuesday, July 23, 2013 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 Preliminary Monthly Portfolio Performance Report for the Period Ending June 30, 2013
  - 6.2 Discussion and Approval of Asset Classes/Mixes to be used in Asset Liability Study Simulations
  - 6.3 Discussion and Approval of Clifton Overlay Manager Investment Guidelines
  - 6.4 Report on Value Equity Manager Annual Reviews
  - 6.5 Report on Growth Equity Manager Annual Reviews
  - 6.6 Presentation of Performance Report Concerning Certain Existing Alternative Investments (To be heard by the full Board only)
  - 6.7 Report on Alternative Investment Transaction (To be heard by the full Board only)
  - 6.8 Discussion and Approval of Proposed Alternative Investment (To be heard by the full Board only)
- 7.0 Other Business
- 8.0 Chief Investment Officer's Report
- 9.0 Adjournment

Michael Coultrip, Chief Investment Officer



Printed: 7/17/13

**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 160,**  
WHICH IS LOCATED ON THE SE CORNER OF TWIN DOLPHIN & MARINE PARKWAY IN REDWOOD CITY.  
Detailed directions are available on the "Contact Us" page of the website [www.samcera.org](http://www.samcera.org)  
*Free Parking is available in all lots in the vicinity of the building.*

# Notice of a Public Meetings



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

*How to Find Us:*

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

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

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

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

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

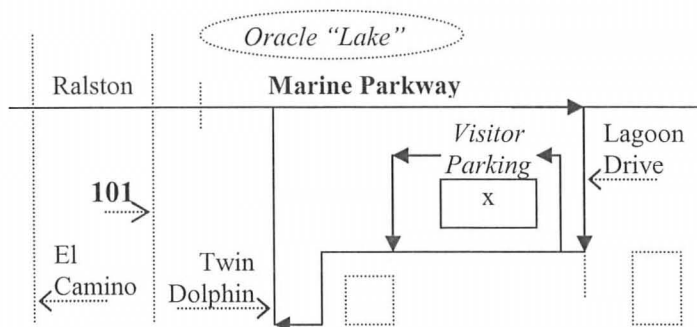
**From Marine Parkway turn Right on Lagoon Drive and then immediately take the next two Right turns into our parking lot.**

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

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

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

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



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

July 23, 2013

Agenda Item 5.0

**February 26, 2013 – Investment Committee Agenda**

**PUBLIC SESSION**

- 1.0 Call to Order
- 2.0 Roll Call
- 3.0 Oral Communications From the Committee
- 4.0 Oral Communications From the Public
- 5.0 Approval of the Minutes
- 6.0 Investment Management Services - the Investment Committee Shall Review & Discuss
  - 6.1 Preliminary Monthly Portfolio Performance Report
  - 6.2 Discussion and Approval of Alternative Asset Opportunity - D.E. Shaw 130/30 Manager Request for Information Responses (to be heard in Closed Session)
  - 6.3 Discussion and Review of Overlay Management – Further Discussion
  - 6.4 Approval of Annual Review Questionnaires for International Managers
  - 6.5 Approval of Large-Cap Growth Manager Finalist Candidates
  - 6.6 Approval of Changes to Fixed Income Policy Benchmark
  - 6.7 Discussion on Proposed Changes to the Investment Policy
- 7.0 Other Business
- 8.0 Chief Investment Officer's Report
- 9.0 Adjournment

**MINUTES OF SAMCERA's Investment Committee Meeting – February 26, 2013**

- 1.0 **Call to Order:** Mr. David called the Public Session of the Investment Committee of the Board of Retirement to order at 10:03 a.m. February 26, 2013, in SamCERA's Board Room, Suite 160, 100 Marine Parkway, Redwood City, California.
- 2.0 **Roll Call:**  
*Present:* Ms. Lauryn Agnew, Mr. Ben Bowler, Mr. Al David, and Ms. Michal Settles.  
*Alternates present:* Mr. John Murphy and Mr. Christopher Miller.  
*Staff:* Mr. David Bailey, Mr. Michael Coultrip, Ms. Brenda Carlson, Ms. Lilibeth Dames, Ms. Gladys Smith and Ms. Kristina Perez.  
*Consultants:* Mr. Jonathan Brody and Mr. Patrick Thomas, of Strategic Investment Solutions.
- 3.0 **Oral Communications From the Committee.** Ms. Agnew reported her attendance at the CALAPRS Advanced Board Leadership Institute, at the UCLA Anderson School of Management January 29-31, 2013. Mr. David reported attending the NCPERS Legislative Conference, in Washington D.C. on January 26 – 28, 2013.
- 4.0 **Oral Communications From the Public:** None.
- 5.0 **Approval of the Minutes:** Mr. David asked if there were any corrections or changes to the minutes, and none were noted.  
**Action:** Ms. Settles moved to approve the Investment Committee minutes from October 23, 2012. The motion was seconded by Mr. Bowler and carried unanimously.
- 6.1 **Monthly Portfolio Performance Report:** Mr. Coultrip presented the report and stated it was a strong month with SamCERA's overall portfolio up 3.1%, and he reviewed and discussed the different asset classes with the Board.  
**Action:** This agenda item was informational. It did not require committee action.

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

Item 6.3 was taken out of order, and Item 6.2 was postponed until later in the meeting.

- 6.3 **Discussion and Review of Overlay Management – Further Discussion:** Mr. Coultrip explained the State Street report and analysis showing the estimated results of implementing an overlay program, and the Committee discussed.  
**Action:** Ms. Agnew moved to recommend Board approval to continue the process and return to the Board with a list of overlay management candidates. The motion was seconded by Mr. Bowler and carried unanimously.
- 6.4 **Approval of Annual Review Questionnaires for International Managers:** Mr. Coultrip reviewed the annual review process with the Committee, and let them know that the questionnaires will be sent to the managers once approved by the Board. Mr. Coultrip noted that ESG factor questions were added.  
**Action:** Ms. Agnew moved to recommend Board approval of the proposed annual review questionnaires for SamCERA's International Managers. The motion was seconded by Mr. Bowler and carried unanimously.
- 6.5 **Approval of Large-Cap Growth Manager Finalist Candidates:** Mr. Coultrip explained the search process with the Committee and stated that RFIs had been sent to six candidates, and all six had responded. John Nicolini of SIS, reviewed the selection criteria, and discussed each of the six finalists with the Committee.  
**Action:** Ms. Settles moved to recommend Board approval to invite the selected three large cap growth manager candidates, Brown Advisory, Delaware and TCW, to SamCERA for interviews. The motion was seconded by Mr. Bowler and carried unanimously.
- 6.6 **Approval of Changes to Fixed Income Policy Benchmark:** Mr. Coultrip discussed changes proposed to the fixed income benchmark. He went over the structure changes and compared the current target with the proposed target.  
**Action:** Ms. Agnew moved to recommend Board approval of the proposed fixed income benchmark. The motion was seconded by Ms. Settles and carried unanimously.
- 6.7 **Discussion on Proposed Changes to the Investment Policy:** This item will be discussed before the full Board of Retirement at the regular meeting.
- The Chair returned to item 6.2 at this time, and it was determined that this item would be heard in open session, not in closed session as agendaized.
- 6.2 **Discussion and Approval of Alternative Asset Opportunity - D.E. Shaw 130/30 Manager Request for Information Responses:** Mr. Coultrip and Patrick Thomas discussed and reviewed information provided by DE Shaw regarding their 130/30 strategy, with the Committee. Mr. Coultrip explained that D.E. Shaw had previously presented before the Board; and additional reports analyzing D.E. Shaw in comparison to other 130/30 managers were given to the Board last month.  
**Action:** Ms. Settles moved to recommend Board approval to transition SamCERA's current long-only strategy with D.E. Shaw to a 130/30 strategy, after appropriate due diligence is conducted. The motion was seconded by Ms. Agnew and carried unanimously.
- 7.0 **Other Business:** None
- 8.0 **Chief Investment Officer's Report:** None
- 9.0 **Adjournment:** There being no further business, Mr. David adjourned the committee meeting at 11:32 a.m.

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ALBERT DAVID  
INVESTMENT COMMITTEE CHAIR

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KRISTINA PEREZ  
RETIREMENT EXECUTIVE SECRETARY

## The Board of Retirement of the San Mateo County Employees' Retirement Association will meet on **Tuesday, July 23, 2013, at 1:00 p.m.**

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

**1. Call to Order, Roll Call and Miscellaneous Business**

- 1.1 Administration of Oath of Office to Newly Elected Trustees
- 1.2 Ad Hoc Nominating Committee Report and Election of 2013-2014 Board Officers
- 1.3 Announcement of the Appointment of Board Committees

**2. Oral Communications**

- 2.1 Oral Communications From the Board
- 2.2 Oral Communications From the Public

**3. Approval of the Minutes**

**4. Approval of the Consent Agenda**

(Any 4.1 items removed from the Consent Agenda will be taken up under closed session; all other items removed from the Consent Agenda will be taken up under Item 5.1.)

**4.1 Disability Retirements**

- Stacey Adleson
- Carol Bello
- Robert Belmont
- John Flahavan
- Susan Hartmann
- Dennis Mayer
- Debra McGlynn
- Jasmeet Singh
- Pamela Thompson

Service Retirements  
Continuances

**Deferred Retirements**

Member Account Refunds  
Member Account Rollovers

**4.2 Approval of Questions for the Annual Review of SamCERA's Actuarial Firm – Milliman, Inc.**

**4.3 Approval of Topics for the Annual Review of SamCERA's Financial Auditing Firm – Brown-Armstrong Accountancy Corporation**

**4.4 Ratification of Responses to 2012-2013 Civil Grand Jury Report**

**4.5 Acceptance of Semi-Annual Compliance Certification Statements for period ending June 30, 2013**

**5. Benefit & Actuarial Services**

- 5.1 Consideration of Agenda Items, if any, Removed From the Consent Agenda

**6. Investment Services (The Investment Committee will meet at 10:00 a.m. on July 23, 2013)**

- 6.1 Preliminary Monthly Portfolio Performance Report for the Period Ending June 30, 2013
- 6.2 Discussion and Approval of Asset Classes/Mixes to be used in Asset Liability Study Simulations
- 6.3 Discussion and Approval of Clifton Overlay Manager Investment Guidelines
- 6.4 Report on Value Equity Manager Annual Reviews
- 6.5 Report on Growth Equity Manager Annual Reviews
- 6.6 Presentation of Performance Report Concerning Certain Existing Alternative Investments (Confidential Under Gov. Code §6254.26, to be heard in Closed Session, C2)
- 6.7 Report on Alternative Investment Transaction (Confidential Under Gov. Code §54956.81 and §6254.26, to be heard in Closed Session, C3)
- 6.8 Discussion and Approval of Proposed Alternative Investment (Confidential Under Gov. Code §54956.81 and §6254.2, to be heard in Closed Session, C4)

**7. Board & Management Support Services**

- 7.1 Presentation of Monthly Financial Report
- 7.2 Presentation of Quarterly Budget Report

# Notice of Public Meeting

## Page 2 of 2

- 7.3 Adoption of Resolution Reaffirming SamCERA's Conflict of Interest Code
- 7.4 Approval of SamCERA's 2013-14 Strategic Plan Update
- 7.5 Approval of Amendments to Resolutions Providing Signature Authority for SamCERA Manual Checks
- 7.6 Update on Information Technology Project Progress

### 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
- C2 Presentation of Performance Report Concerning Certain Existing Alternative Investments (Confidential Under Gov. Code §6254.26)
- C3 Report on Alternative Investment Transaction (Confidential Under Gov. Code §54956.81 and §6254.26)
- C4 Discussion and Approval of Proposed Alternative Investment (Confidential Under Gov. Code §54956.81 and §6254.2)
- C5 Conference with Legal Counsel - Existing Litigation: Pursuant to subdivision (a) of Government Code Section 54956.9. One case: Montisano v. The San Mateo County Employees' Retirement Association et al, San Mateo Superior Court Case No. 522614

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

### 10. Adjournment in Memory of the Following Deceased Members:

Ganley, Kathleen	May 1, 2013	Ben. of William Ganley
Bushway, Harry	May 11, 2013	Sheriff's Department
Piasentin, Linda	May 14, 2013	Probation
Lish, Frances	May 17, 2013	Social Services
Meyer, Max	May 25, 2013	Public Works
Sprague, Dewitt	May 30, 2013	Public Works
Murphy, John G.	June 1, 2013	Planning
Willis, Evelyn	June 4, 2013	Ben. of Beauford Willis
Mallon, Richard T.	June 9, 2013	Probation
Gaviola, Violetta	June 19, 2013	Courts
Breen, Robert	June 19, 2013	Parks
Johnson, Doris	June 21, 2013	Ben. of Phillip Johnson
Sullivan, Lawrence	June 21, 2013	General Services
Lloyd, Patricia	June 28, 2013	Child Protective Services
Johnson, Ida Lee	June 29, 2013	Ben. of Esau Johnson
Flahavan, John Stephen	July 10, 2013	Sheriff's Department

  
David Bailey, Chief Executive Officer

Printed: 7/17/13

**THE BOARD MEETS AT 100 MARINE PARKWAY, SUITE 160,**

WHICH IS LOCATED ON THE SE CORNER OF TWIN DOLPHIN & MARINE PARKWAY IN REDWOOD CITY.

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*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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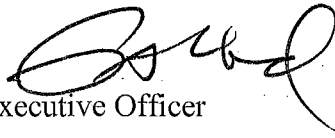
SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

July 23, 2013

Agenda Item 1.1

**TO:** Board of Retirement

**FROM:** Scott Hood, Assistant Executive Officer



**SUBJECT:** Administration of the Oath of Office to Newly Elected Trustees

In this agenda item, the Trustee Oath of Office will be given to:


- Third Member, **Natalie Kwan-Lloyd**, reelected by the General Membership;
- Eighth Member, **Paul Hackleman**, reelected by the Retiree Membership;
- Eighth Member Alternate, **Alma Salas**, Newly Elected by the Retiree Membership.



SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

July 23, 2013

Agenda Item 1.2

**TO:** Board of Retirement   
**FROM:** Scott Hood, Assistant Executive Officer  
**SUBJECT:** Ad Hoc Nominating Committee Report and Election of 2012-2013  
Board Officers

**Staff Recommendation**

Staff recommends that under this agenda item the Board Chair:

- Ask for a report from the chair of the ad hoc committee,
- Ask for a motion and a second to place the committee's slate of candidates in nomination,
- Open the floor to additional nominations,
- Conduct a vote for the officer positions.

**Background**

Pursuant to the Regulations of the Board of Retirement, an election of board officers is to be held at the first meeting of each fiscal year. The board regulations regarding the election of officers are reprinted on the following page.

At the May 28, 2013, meeting, Board Chair Sandie Arnott appointed the following committee:

**Ad Hoc Nominating Committee for Board Officers**

Michal Settles, Chair,  
Sandie Arnott,  
Al David

At the July 23, 2013, meeting, the committee chair will report on the recommendations of the committee and place in nomination the names of the trustees the committee recommends for the three board officer positions.

**EXCERPT FROM THE  
REGULATIONS OF THE BOARD OF RETIREMENT**

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


**1.2. Election Of Vice Chair:** At the first regular meeting in July, the Board of Retirement shall elect one of its members vice chair for a term of one year or until his or her successor is duly elected and qualified. In the Chair's absence or inability to act, the Vice Chair shall take the place and perform the duties of that office.

**1.3. Election Of Secretary:** At the first regular meeting in July, the Board of Retirement shall elect one of its members secretary for a term of one year or until his or her successor is duly elected and qualified. The Secretary shall attest to Resolutions and other such documents for the Board. In the Chair's and Vice Chair's absence or inability to act, the Secretary shall take the place and perform the duties of the Chair.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

July 23, 2013

Agenda Item 1.3

**TO:** Board of Retirement   
**FROM:** Scott Hood, Assistant Executive Officer  
**SUBJECT:** Announcement of the Appointment of Board Committees

**Staff Recommendation**

Staff recommends the Chair announce appointments to the Investment Committee, the Audit Committee, and the Ad Hoc Succession Planning Committee as the Chair deems appropriate.

**Background**

The Board Chair is authorized by the Regulations of the Board of Retirement to appoint all committees.

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

Committee assignments for FY12-13 were as follows:

- Investment Committee- Ben Bowler, Lauryn Agnew, Michal Settles and Albert David, Chair
- Audit Committee- Paul Hackleman, Natalie Kwan Lloyd, Sandie Arnott and Eric Tashman, Chair
- Ad Hoc Succession Planning Committee- Al David, Michal Settles, Ben Bowler, Paul Hackleman, Chair

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

July 23, 2013

Agenda Item 3.0

**May 28, 2013 – Special Meeting Agenda**

**PUBLIC SESSION** – The Board will hold a special meeting in Public Session at 9:00 A.M. at 30 Twin Pines Lane, Belmont, CA

- 1 Call to Order**
- 2 Roll Call**
- 3 Oral Communications from the Public**
- 4 Interview Finalists for SamCERA's Strategic Overlay Manager (Regular Agenda Item 6.5)**
  - 9:00 a.m. Black Rock
  - 10:00 a.m. Clifton Group
  - 11:00 a.m. State Street
- 5 Discussion and Selection of Strategic Overlay Manager (Regular Agenda Item 6.6)**
- 6 Adjournment**

**May 28, 2013 – Special Meeting Minutes**

- 1 Call to Order:** Ms. Sandie Arnott, Chair, called the Special Meeting of the Board of Retirement to order at 9:05 a.m.
- 2 Roll Call:**

*Present:* Sandie Arnott, Lauryn Agnew, Ben Bowler, Albert David, Natalie Kwan Lloyd, Michal Settles, and David Spinello

*Excused:* Paul Hackleman and Eric Tashman

*Alternates Present:* Christopher Miller and John Murphy (for Paul Hackleman)

*Staff:* David Bailey, Michael Coultrip, Brenda Carlson, Gladys Smith, and Kristina Perez.
- 3 Oral Communications from the Public:** None
- 4 Interview Finalists for SamCERA's Strategic Overlay Manager (Regular Agenda Item 6.5)**

Each of the finalists appeared before the Board of Retirement, for approximately 60 minutes each, in the order listed below. The finalists gave presentations about their respective strategies and answered questions from Board members.

**BlackRock** - Anthony Freitas (Managing Director) and Timothy Murray (Director) represented Black Rock.

**Clifton Group** - Jack Hanson (CIO), and Ben Lazarus, (Director-Institutional Relationships) represented the Clifton Group

**State Street** - Megan Hart (Senior Relationship Manager), Ola Folarin (PM), Jerry Holly (PM), and Jay Doherty (Vice President – Portfolio Solutions) represented State Street.

The presentations from the finalists concluded at 12:05 p.m., at which time Ms. Arnott adjourned the meeting for a lunch break and reconvened at 12:35 p.m.

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

**5 Discussion and Selection of Strategic Overlay Manager (Regular Agenda Item 6.6)**

The Board discussed the selection of a strategic overlay manager, and the attributes of each finalist.

**Action:** A motion was made by Mr. David to eliminate BlackRock as a candidate. The motion was seconded by Ms. Kwan Lloyd and approved unanimously.

Discussion continued regarding the selection of the Clifton Group or State Street.

**Action:** Ms. Agnew moved to select the Clifton Group as SamCERA's Strategic Overlay Manager and authorize the Chief Executive Officer to enter into an agreement with the Clifton Group contingent upon the completion of staff's due diligence and finalization of the terms of the agreement. The motion was seconded by Mr. David and carried unanimously.

**6 Adjournment:** With no further business, Ms. Arnott adjourned the special meeting at 1:00 p.m.

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David Bailey  
Chief Executive Officer

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Kristina Perez  
Retirement Executive Secretary

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

July 23, 2013

Agenda Item 3.0

**May 28, 2013 – 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 Nominating Committee for Board Officers

**2. Oral Communications**

- 2.1 Oral Communications From the Board
- 2.2 Oral Communications From the Public
- 2.3 Recognition of Service of John Murphy

**3. Approval of the Minutes**

**4. Approval of the Consent Agenda**

Disability Retirements

- Irma Barriga
- Clarita Bundalian
- Jeffrey Edralin
- Jenny Foster
- Desiree Martinez

Service Retirements

Continuances

Deferred Retirements

Member Account Refunds

Member Account Rollovers

- 4.2 Trustee Conference Request

- 4.3 Approval of Annual Manager Review  
Questionnaires for Growth Managers

- 4.4 Approval to Revise Mission and Goals  
Statement

**5. Benefit & Actuarial Services**

- 5.1 Consideration of Agenda Items, if any, Removed From the Consent Agenda
- 5.2 Approval of Actuarial Assumptions for the June 30, 2013, Actuarial Valuation

**6. Investment Services**

- 6.1 Preliminary Monthly Portfolio Performance Report
- 6.2 Quarterly Investment Performance Report for the Period Ending March 31, 2013
- 6.3 Report on Core Equity Manager Annual Reviews
- 6.4 Approval of Asset Liability Study Project Kick-off and Time Line
- 6.5 Interview Strategic Overlay Managers (Special Meeting Item #4)
- 6.6 Discussion and Approval of Strategic Overlay Manager (Special Meeting Item #5)
- 6.7 Approval of Real Duration Hedging Proposal

**7. Board & Management Support Services**

- 7.1 Presentation of Monthly Financial Report
- 7.2 Discussion and Approval of SamCERA 2013-2014 Budget
- 7.3 Overview of Annual Financial Audit
- 7.4 Approval of Audit Engagement Letter
- 7.5 Approval of Fiduciary Insurance
- 7.6 Approval of Board of Retirement's Response to 2012-13 Grand Jury Report
- 7.7 Approval to Reschedule the July Meeting of the Board of Retirement

**8. Management Reports**

- 8.1 Chief Executive Officer's Report

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

- 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:**

Hamby, Dorothy	March 30, 2013	Manpower
Imada, Sue	April 2, 2013	Social Services
Royer, William	April 8, 2013	Board of Supervisors
Aguilera, Virginia	April 17, 2013	Board of Supervisors
Gunderson, Barbara	April 17, 2013	Sheriff's Department
Shroyer, Chester	April 10, 2013	Veterans Services
Olson, Stanley	April 15, 2013	Def'd. from Schools
Jamison, Erma	April 20, 2013	Def'd from Housekeeping
Jones, Joyce	April 25, 2013	Probation
Wespieser, Howard	April 27, 2013	Mental Health
Sprowl, Alvina	April 29, 2013	Ben. of Sprowl, Harvey

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

**May 28, 2013– Board Minutes**

1305.1 **Call to Order, Roll Call and Miscellaneous Business**

**Call to Order:** Ms. Sandie Arnott, Chair, called the Public Session of the Board of Retirement to order at 1:00 p.m. The Board met at 30 Twin Pines Lane, Belmont, CA.

**Roll Call:**

**Present:** Sandie Arnott, Lauryn Agnew, Ben Bowler, Albert David, Natalie Kwan Lloyd, Michal Settles, David Spinello, John Murphy (sat in for Paul Hackleman) and Eric Tashman.

**Excused:** Paul Hackleman

**Alternates:** Christopher Miller

**Staff:** David Bailey, Michael Coultrip, Brenda Carlson, Gladys Smith, Tariq Ali, Mable Wong and Kristina Perez.

1305.1.1 **Appointment of Ad Hoc Nominating Committee for Board Officers:** Ms. Arnott announced the appointments to the Ad-Hoc Nominating Committee. The committee will include Ms. Arnott and Mr. David, with Ms. Settles as the Chair.

1305.2.1 **Oral Communications From the Board:**

Ms. Arnott reported her attendance at the SACRS Spring Conference, which was held May 12-17, 2013 in Napa. The SACRS conference was also attended by Mr. David, Ms. Settles, Ms. Agnew, and Mr. Spinello. Ms. Agnew reported her attendance, and participation as a featured speaker at the "Impact Investing in the Bay Area" conference, on May 7, 2013 in San Francisco. The conference was also attended by Ms. Arnott and Ms. Kwan Lloyd.

1305.2.2 **Oral Communications From the Public:** Mr. Miller also reported his attendance at SACRS.

1305.2.3 **Recognition of Service of John Murphy:** Mr. Bailey presented Mr. Murphy with a certificate of appreciation, and thanked him on behalf of the Board, members and staff for his service to SamCERA. The certificate stated that Mr. Murphy was the first Retired Alternate ever to serve in the position, which was created by the Board of Retirement in 2006. Mr. Murphy first served beginning with the July 25, 2006 meeting, and attended his last Board meeting as Retired Alternate on May 28, 2013.

1305.3.0 **Approval of the Board Meeting Minutes:**

**Action:** Ms. Agnew moved to approve the minutes from the Board meeting held on April 23-24, 2013. The motion was seconded by Mr. Spinello and carried unanimously.

1305.4.0 **Approval of the Consent Agenda:** The Chair asked if there were any items to be removed from the Consent Agenda, and the consideration of disability retirement for Clarita Bundalian and Jenny Foster were taken off.

**Action:** Mr. Tashman moved to approve the remaining items on the Consent Agenda, and the motion was seconded by Mr. David and carried unanimously.

1305.4.1

**Consent Agenda**

**Disability Retirements**

1. The Board found that Irma Barriga is (1) disabled from performing her usual and customary duties as a Benefits Analyst II, (2) found that her disability was a result of an injury arising out of and in the course of her employment and (3) granted her application for a service-connected disability retirement.



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

1305.4.1

**Consent Agenda**

**Disability Retirements**

2. The Board found that Jeffrey Edralin is (1) permanently incapacitated for the performance of his duties as an Associate Systems Engineer, (2) found that his disability was not a result of an injury arising out of and in the course of his employment and (3) denied his application for a service-connected disability retirement.
  
3. The Board found that Desiree Martinez is (1) disabled from performing her usual and customary duties as a Public Service Specialist, (2) found that her disability was a result of an injury arising out of and in the course of her employment and (3) granted her application for a service-connected disability retirement.

1305.4.1

**Service Retirements**

The Board ratified the actions as listed below for the following members regarding service retirements:

Aines, Cheryl	March 28, 2013	Sheriff's Office
Armstrong, Debra	April 1, 2013	First Five
Battad, Ambrosia	March 30, 2013	Hospital
Benton, Timothy	March 30, 2013	Courts
Briones, Danilo	March 2, 2013	Def'd. from Controller
Broman, Nancie	March 2, 2013	Human Services
Buckwalter, Marcia	March 31, 2013	Hospital
Buhs, Joanne	March 31, 2013	Human Services Agency
Butler, Toni	March 29, 2013	Hospital
Cattich, Betty	March 30, 2013	Sheriff's Office
Chun, Terrence	March 30, 2013	Environmental Health
Coe, Scott	March 31, 2013	Housing
Conley, John	March 30, 2013	Public Health
Contreras, Antonio	March 30, 2013	Hospital
Cupman, Margaret	December 29, 2012	Def'd. from Libraries
Dawson, Marlene	March 30, 2013	Aging & Adult Services
Diehl, Virginia	March 30, 2013	Planning Department
Enriquez, Preciosa	March 30, 2013	Child Support Services
Fernandez, Rosario	March 30, 2013	Planning Dept.
Frey, Lance	March 31, 2013	Mental Health
Giannini, Alfred	March 31, 2013	District Attorney's Office
Grivas, Emely	March 30, 2013	Hospital
Grizzle, Mary	March 30, 2013	ISD
Harrison, Lynn	March 30, 2012	Human Services
Hirsch, Kathleen	March 24, 2013	Def'd. from Hospital
Kalber, Yvonne	March 30, 2013	Probation
Kastell, Frank	March 30, 2013	Sheriff's Office
Katsuranis, Nancy	March 29, 2013	Library
Lehmkuhl, Catherine	March 31, 2013	Hospital

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

**Consent Agenda**

1305.4.1 **Service Retirements**

Liu, Peggy	March 30, 2013	Hospital
Lumm, George	March 30, 2013	Human Services Agency
Martinez-Brown, Carol	March 30, 2013	Human Services
McKague, Donald	March 31, 2013	Sheriff's Office
Moerman, Matthew	April 1, 2013	Sheriff's Office
Nelson, Deborah	December 29, 2012	Def. from Planning
Noyer, Pamela	March 31, 2013	Public Works
Ojeda, Josephine	March 31, 2013	Probation
Orzal, Alfredo	March 17, 2013	Controller's Office
Parnala, Rodrigo	March 30, 2013	Aging & Adult Services
Pendergrass, Bruce	March 30, 2013	Human Services Agency
Powers, Matthew	March 29, 2013	Sheriff's Office
Pummer, Ronald	March 30, 2013	Ag. Weights & Measures
Quilici, Elena	March 2, 2012	Medical Center
Quines, Carlota	March 31, 2013	Hospital
Razak, Margaret	March 30, 2013	Sheriff's Office
Rich, Debra	March 29, 2013	Def'd. from Hospital
Rider, Bruce	March 30, 2013	Human Services Agency
Rink, Richard	March 30, 2013	Aging and Adult Services
Rivera, Marciano	March 30, 2013	Public Works
Rodriguez, Carmenza	March 30, 2013	Behavioral Health
Rogers, Susan	March 31, 2013	Human Services Agency
Salas, Alma	March 30, 2013	Probation
Schofield, Daren	March 31, 2013	Sheriff's Office
Shanks, Michael	March 30, 2013	Sheriff's Office
Singh, Ratnesh	April 1, 2013	Sheriff's Office
Somerville, Linda	April 1, 2013	Hospital
Swope, Virgil III	March 4, 2013	County Counsel
Tanner, James	March 30, 2013	Sheriff's Office
Ten, Mona	March 30, 2013	Sheriff's Office
Tocchini, Peter	March 29, 2013	Human Resources
Tweedie-Hardman, Judith	March 22, 2013	Sheriff's Office
Vanderhorst, Gloria	March 29, 2013	Human Services Agency
Villaluna, Marilou	March 16, 2013	Public Works
Volis, Michael	March 30, 2013	Human Services
Watkins, Joanne	March 30, 2013	Public Health
Weinberg, Tara	March 17, 2013	Def'd. from Courts

**Continuances**

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

<b>Survivor's Name</b>	<b>Beneficiary of</b>
Stephens, Philip	Stephens, Cherie
Gunderson, Martin	Gunderson, Barbara

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

1305.4.1 **Deferred Retirements**

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

<b>Member Name</b>	<b>Retirement Plan Type</b>
Lara, Henry	G3 Vested – Auto Defer
Meynard, C. E	G4 Vested – Auto Defer
Castro, Roschelle	G4 Vested
Hartman, Celia	G4 Vested
Wong, Athena	G4 Vested
Cardoza, Teresa	G2 Vested
Schofield, Georgette	G2 Vested
Reimche, Craig	G4 Vested with incoming reciprocity
Guillen, Rey	G4 Vested with incoming reciprocity

1305.4.1 **Member Account Refunds**

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

<b>Member Name</b>	<b>Retirement Plan Type</b>
Hatt, Brandon	S4 Vested
Petelo, Steven	P4 Non-vested
Bautista, Joel	G4 Vested
McCarthy, Shannon	G4 Non-vested
Robinson, Sarah	G5
Dearman-Seeney, Jo Ann	G4 Non-vested

**Member Account Rollovers**

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

<b>Member Name</b>	<b>Retirement Plan Type</b>
Degliantoni, Angela	G4 Non-vested
Ramirez de Cartagena, Michael	G4 Non-vested
Boyd, Penny	G4 Vested

1305.5.1 **Consideration of Agenda Items, if any, Removed From the Consent Agenda:** Ms. Arnott adjourned the meeting into closed session at 1:08 p.m. to consider the application of Clarita Bundalian for service-connected disability retirement.

The member was not present but was represented by counsel Stephen Booth. After hearing presentations and argument from Mr. Booth and Kathryn Meola, Deputy County Counsel, a motion was made and seconded to accept the findings and recommendation of the Hearing Officer and to deny the application for service-connected disability. The motion was approved unanimously.

The Board met in closed session in regard to the application of Jenny Foster for service-connected disability retirement. Ms. Settles recused herself and left the room as she knew the applicant.

The member was present. A motion was made and seconded to refer the matter to a Hearing Officer for findings and recommendation. The motion was approved unanimously.

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

The Board reconvened in open session at 1:45 p.m. Ms. Carlson reported that application of Clarita Bundalian for service-connected disability retirement was denied, and the application of Jenny Foster for service-connected disability retirement was referred to a hearing officer for findings and recommendation.

- 1305.5.2 **Approval of Actuarial Assumptions for the June 30, 2013, Actuarial Valuation:** Mr. Bailey introduced Nick Collier, of Milliman, Inc. who reviewed the actuarial assumptions and demographics with the Board. Mr. Collier went through Milliman's report page by page and answered questions from the Board. Discussion topics included lowering the assumed rate of return; the effect of the assumption rate on contributions; the schedule of amortization of the unfunded liability; and affects of prepayments and lump sum payments from the County. Reyna Farrales from the County Manager's Office commented, as did Michael Barber from Supervisor Pine's Office and Jim Saco, Budget Director. **Action:** Ms. Agnew moved to approve the economic and demographic actuarial assumptions to be used in the June 30, 2013, actuarial valuation, including maintaining the actuarial assumed rate of return at 7.5%. The motion was seconded by Ms. Settles and carried unanimously.
- 1305.6.0 **Investment Services**
- 1305.6.1 **Preliminary Monthly Portfolio Performance Report:** Mr. Coultrip presented the report. This item was for discussion only and no action was taken.
- 1305.6.2 **Quarterly Investment Performance Report for the Period Ending March 31, 2013:** Patrick Thomas of SIS reviewed the quarterly investment performance report with the Board, noting that new pages and additional information have been added to the report. This item was for discussion only and no action was taken.
- 1305.6.3 **Report on Core Equity Manager Annual Reviews:** Mr. Coultrip reported on the annual manager reviews for BlackRock and D.E. Shaw that were held on May 2, 2013. Recent changes to the investment team at D.E. Shaw were discussed. This item was for discussion only and no action was taken.
- 1305.6.4 **Approval of Asset Liability Study Project Kick-off and Time-line:** Mr. Coultrip reviewed and discussed with the Board the benefits of the proposed asset liability study, the reasons for undertaking this project, and the anticipated time-line for implementing the study. **Action:** Mr. David moved to approve the launching of a new Asset Liability Study and the associated time line. The motion was seconded by Ms. Kwan Lloyd and carried unanimously.
- 1305.6.5 **Interview Strategic Overlay Managers (Special Meeting Item #4):** This item was heard in the Special Meeting held before the Regular meeting.
- 1305.6.6 **Discussion and Approval of Strategic Overlay Manager (Special Meeting Item #5):** This item was heard in the Special Meeting held before the Regular meeting.
- 1305.6.7 **Approval of Real Duration Hedging Proposal:** Mr. Coultrip reviewed the analysis provided by Brown Brothers Harriman regarding hedging a portion of SamCERA's TIPS portfolio. The Board discussed the report. **Action:** Mr. David moved to approve authorizing the Chief Investment Officer to direct Brown Brothers Harriman to hedge a portion of SamCERA's TIPS portfolio. The motion was seconded by Ms. Agnew and carried unanimously.

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

Ms. Arnott adjourned the meeting for a break at 3:15 p.m., and the Board reconvened at 3:25 p.m. The next item was taken out of order.

- 1305.8.1 **Chief Executive Officer's Report:** Mr. Bailey reported that the Request for Proposal for the PASS system was close to release. Tariq Ali, Chief Technology Officer and Will Morrow, LRWL Project Manager, gave the Board an update on the technology project, including a status report on the enterprise content management project, and reviewed the project completion schedule.
- 1305.7.0 **Board & Management Support Services**
- 1305.7.1 **Monthly Financial Report:** Ms. Wong presented the monthly financial report to the Board. This item was informational only and no action was taken.
- 1305.7.2 **Discussion and Approval of SamCERA 2013-2014 Budget:** Ms. Wong reviewed the 2013-2014 budget with the Board and answered questions.  
**Action:** Mr. David moved to adopt a resolution approving SamCERA's 2013-2014 budget. The motion was seconded by Mr. Spinello and carried unanimously.
- 1305.7.3 **Overview of Annual Financial Audit:** Ms. Wong reviewed the schedule and the structure of the financial audit process with the Board. This item was informational only and no action was taken.
- 1305.7.4 **Approval of Audit Engagement Letter:** Ms. Wong discussed the audit engagement letter with the Board, which is signed annually by the CEO and Chair of the Audit Committee, and outlines the expectations and responsibilities of the audit firm Brown Armstrong.  
**Action:** Mr. Spinello moved to authorize the Chief Executive Officer and the Audit Committee Chair, Mr. Tashman, to execute the Audit Engagement Letter for June 30, 2013, Financial Statement Audit, upon approval by legal counsel. The motion was seconded by Mr. Bowler and carried unanimously.
- 1305.7.5 **Approval of Fiduciary Insurance:** Ms. Smith discussed fiduciary liability insurance with the Board. She stated that the current level is \$10 million in coverage. She explained that coverage for trustees and certain staff was included, at the same rate as last year of \$25 per person.  
**Action:** Ms. Settles moved to authorize the County's Risk Manager to renew fiduciary liability coverage with ACORD through May 27, 2014. The motion was seconded by Mr. David and carried unanimously.
- 1305.7.6 **Approval of Board of Retirement's Response to 2012-13 Grand Jury Report:** Ms. Carlson discussed the proposed response to the Grand Jury report with the Board. Board members asked questions and gave comments.  
**Action:** Ms. Settles moved to approve the Board of Retirement's responses to the applicable findings and recommendations contained in the San Mateo County 2012-13 Grand Jury Report, with additional edits and discretionary changes to be reviewed and approved by Mr. Tashman, prior to delivery. The motion was seconded by Ms. Agnew and carried unanimously.
- 1305.7.7 **Approval to Reschedule the July Meeting of the Board of Retirement:** Mr. Bailey discussed a date change for the July meeting with the Board. No additional available dates could be found, and no motion was made. The July 23, 2013, meeting will be held as previously scheduled.
- 1305.8.0 **Management Reports**
- 1305.8.1 **Chief Executive Officer's Report:** Mr. Bailey reported that staff was currently working on a new logo for SamCERA and he would bring it before the Board at a future meeting.

San Mateo County Employees' Retirement Association  
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- 1305.8.2 **Assistant Executive Officer's Report:** Ms. Smith gave an update on the elections, stating the ballots had been mailed out and the election day is June 10, 2013. Ms. Smith announced that Scott Hood would be returning to his duties as Assistant Executive Officer in June, and she thanked Mr. Bailey for the opportunity to serve in Mr. Hood's absence.
- 1305.8.3 **Chief Investment Officer's Report:** Mr. Coultrip reported attending the CIO breakout session at SACRS.
- 1305.8.4 **Chief Legal Counsel's Report:** Ms. Carlson reported that Contra Costa County is still in litigation regarding AB197, and she will keep the Board posted on that issue.
- 1305.9 **Report on Actions Taken in Closed Session:** See item 5.1
- 1305.10 **Adjournment:** With no further business, Ms. Arnott adjourned the meeting at 4:52 p.m. in memory of the following deceased members:

Hamby, Dorothy	March 30, 2013	Manpower
Imada, Sue	April 2, 2013	Social Services
Royer, William	April 8, 2013	Board of Supervisors
Aguilera, Virginia	April 17, 2013	Board of Supervisors
Gunderson, Barbara	April 17, 2013	Sheriff's Department
Shroyer, Chester	April 10, 2013	Veterans Services
Olson, Stanley	April 15, 2013	Def'd. from Schools
Jamison, Erma	April 20, 2013	Def'd from Housekeeping
Jones, Joyce	April 25, 2013	Probation
Wespieser, Howard	April 27, 2013	Mental Health
Sprowl, Alvina	April 29, 2013	Ben. of Sprowl, Harvey

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David Bailey  
Chief Executive Officer

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Kristina Perez  
Retirement Executive Secretary

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

July 23, 2013

Agenda Item 4.1 (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. The Board find that **Stacey Adleson** is (1) permanently incapacitated for the performance of her duties as a Nurse Practitioner, (2) find that her disability was a result of an injury arising out of and in the course of her employment and (3) grant her application for a service-connected disability retirement.
2. The Board find that **Carol Bello** is (1) permanently incapacitated for the performance of her usual and customary duties as a Criminal Records Technician, (2) find that her disability was not a result of an injury arising out of and in the course of her employment and (3) grant her application for a non-service-connected disability retirement.
3. The Board find that **Robert Belmont** is (1) permanently incapacitated for the performance of his usual and customary duties as a Deputy Sheriff, (2) find that his disability was a result of an injury arising out of and in the course of his employment and (3) grant his application for a service-connected disability retirement.
4. The Board find that **John Flahavan** is permanently disabled from the duties of a Sheriff Sergeant and grant survivor benefits, pursuant to Government Code Section 31762, to the member's spouse, Jennifer Flahavan.
5. The Board find that **Susan Hartmann** is (1) permanently incapacitated for the performance of her usual and customary duties as an Office Assistant, (2) find that her disability was not a result of an injury arising out of and in the course of her employment, (3) deny her application for a service-connected disability retirement and (4) grant her a non-service-connected disability.
6. The Board find that **Dennis Mayer** is (1) permanently incapacitated for the performance of his usual and customary duties as an Deputy Sheriff, (2) find that his disability was not a result of an injury arising out of and in the course of his employment, (3) deny his application for a service-connected disability retirement and (4) grant him a non-service-connected disability.
7. The Board find that **Debra McGlynn** is (1) permanently incapacitated for the performance of her usual and customary duties as a Communication Dispatcher, (2) find that her disability was not a result of an injury arising out of and in the course of her employment,

(3) deny her application for a service-connected disability retirement and (4) grant her a non-service-connected disability.

8. The Board find that **Jasmeet Singh** is (1) permanently incapacitated for the performance of his duties as Registered Nurse, (2) find that his disability was a result of an injury arising out of and in the course of his employment and (3) grant his application for a service-connected disability retirement.
9. The Board find that **Pamela Thompson** is (1) permanently incapacitated for the performance of her duties as Revenue Collector II, (2) find that her disability was a result of an injury arising out of and in the course of her employment and (3) grant her application for a service-connected disability retirement.

### Service Retirements

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

<b>Member Name</b>	<b>Effective Retirement Date</b>	<b>Department</b>
Fernandez, Anaquilina	May 1, 2013	Def'd. Assessor's Office
Gherman, Maria	April 4, 2013	Hospital
Jones-Kazan, Denise	May 1, 2013	Mental Health
Medrano, Guadalupe	April 22, 2013	Def'd. Community Wkr.
Travis, Wilda	May 1, 2012	Def'd. from EPS
Peck, Julie	February 1, 2013	Def'd. from Health Services
Overton, Marti	March 29, 2013	Sheriff's Office
Karwatt, Carol	May 30, 2013	Def'd. from Courts
Grosshauser, Ivan	May 14, 2013	District Attorney's Office
Fricke, Alfred	May 20, 2013	Def'd. from Mental Health
Flint Rank, Eleanor	May 20, 2013	Def'd. from Courts
Enrique, Barbara	May 15, 2013	Hospital
Domingo, Maria	June 1, 2013	Recorder's Office
Parent, Darlene	June 1, 2013	Def'd. from DAO's Office
Patterson, Cheryl	May 6, 2013	Def'd. from Medical Ctr.
Richards-Reiss, Diane	May 9, 2013	Def'd. from Social Services
Sever, Anna	June 1, 2013	Corrections
Strand, Sheila	May 13, 2013	Def'd. from Admin. Svs.



### **Continuances**

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

<b>Survivor's Name</b>	<b>Beneficiary of:</b>
Harding, Dorothy	Harding, Don
Shroyer, Nancy	Shroyer, Chester
Wespieser, Eleanor	Wespieser, Howard
Berrier, Arel	Berrier, Ellen
Olson, Lorna	Olson, Stanley

### **Deferred Retirements**

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

<b>Member Name</b>	<b>Retirement Plan Type</b>
Marty, Michael	G4/S4 Vested
Sunders-Sui, Diane	G4 Vested
Matthews, Sherry	G4 Vested
Wang, Shu-Pei (Patricia)	G4 Non-vested - Reciprocity
Bresler, Lorelei	G4-G5 Non-vested - Reciprocity
Wanzong, Laura	G4 Vested - Reciprocity
San Mame's, Carmelo	G4 Vested - Reciprocity
Bozek, Evelina	G4 Vested – Auto Defer
Medina, Ed	G4 Vested – Auto Defer
Wong, Sandy	G4 Vested – Auto Defer

### **Member Account Refunds**

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

<b>Member Name</b>	<b>Retirement Plan Type</b>
Gurrola Ibarra, Guadalupe	G4 Non-vested
McClure, Talia	P4 Vested
Ponitini, Litia	G4 Vested
Grajo, Efren	G4 Non-vested

King, Roberta	P4 Vested
Aniana David, Eileen	G2 Vested

**Member Account Rollovers**

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

Gregg, Anuja	P4 Non-vested
Leonor, Cheryl	G4 Vested
Lin, Shulin	G4 Non-vested
Bander, Laith	G7
Olearczyk, Adam	G5
Lintvedt, Inga	G4 Non-vested
Knapp, Michele	G4 Non-vested

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

July 23, 2013

Agenda Item 4.2

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer



SUBJECT: Approval of Questions for Annual Review of SamCERA's Actuarial Firm –  
Milliman, Inc.

**Staff Recommendation**

Staff recommends the board review, suggest changes, and then approve the questions in the attached document entitled, "Questions for Annual Actuarial Consultant Evaluation."

**Summary**

The questions in the attached document will be submitted to SamCERA's actuary, Milliman Inc., prior to the annual review, which will be scheduled for the September 24, 2013, board meeting.

An additional part of the annual review will be the result of a survey of trustees, staff and actuary regarding the performance of the actuarial firm. This year the survey will be in electronic form. You will receive an email with a link to complete the survey. We hope this will make completion more convenient. If you'd like a hard copy of the survey, please let us know.

Staff will provide Milliman's responses to the questionnaire as well as the survey results at the September meeting.

**Attachment**

The questions in the attached document will be submitted to SamCERA's actuary, Milliman Inc.

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

**Questions for Annual Actuarial Consultant Evaluation**  
**Fiscal Year 2012-13**

**Organizational Update**

- 1) What is the ownership structure of your firm? Identify all owners with 5% ownership or more.
- 2) Provide an update on your firm's organization, with particular emphasis on (a) changes to your management structure over the past eighteen months, and (b) clients gained or lost in the past eighteen months. All significant changes should be accompanied by an explanation. An organizational chart should accompany this response.
- 3) Provide a list of services available through your firm, including the number of staff supporting those services.
- 4) What are your firm's philosophy and current policy regarding new business?
- 5) Specify separately the individuals (up to five) who you feel are key to the success of your firm. If the list has changed in the last eighteen months, identify and explain the change(s).
- 6) Update all significant personnel changes or expected changes to the "SamCERA Team".
- 7) Has your firm or any of its employees been involved in regulatory or litigation actions related to your business in the past eighteen months?
- 8) Has an actuarial audit been performed on any of your firm's actuarial products in the past eighteen months? If yes, discuss the audit and the findings. Any material findings or recommendations must be accompanied by an explanation.
- 9) Describe the levels of insurance coverage maintained by your firm. E-mail a current certification of insurance to [mwong@samcera.org](mailto:mwong@samcera.org).
- 10) Do you have a written policy on ethics? If so, please e-mail the policy to [mwong@samera.org](mailto:mwong@samera.org).
- 11) Describe the relative strength and longevity of your staff. Are any of your operations outsourced? If the answer is yes, provide details regarding the firm(s) with which your firm has contracted.
- 12) What are your mission critical systems? Has your firm experienced any problems with these systems in the past eighteen months? When were these systems implemented and when were they last upgraded? Do you anticipate any changes to these systems in the next eighteen months?
- 13) Provide an overview of your firm's business continuity plan.

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

**Actuarial Process**

- 14) Provide a description, in detail, of your actuarial process.
- 15) Describe your peer review procedures in detail.
- 16) Does your firm engage in peer review with other actuarial firms?

**Outlook**

- 17) What issues are other clients concerned with in regards to products, services, education and governance?
- 18) Describe your assessment of the relationship between your firm and *SamCERA*. How can *SamCERA* better assist you in accomplishing the goals it has established for your firm? How can we better utilize your firm's capabilities?
- 19) What is your firm's outlook and readiness regarding implementation of the enacted changes in GASB 67 and 68 accounting standards relative to the pension industry? Please list and discuss each proposal separately.

**Conclusion**

- 20) Is there any information that would be timely pursuant to *SamCERA's* contract and this annual review?
- 21) Are your clients making significant changes in their asset mixes or economic and non-economic assumptions or other structural changes to the actuarial overview of their plans? Describe these changes.
- 22) What actuarial related changes should *SamCERA* consider?
- 23) Relative to your expertise, what trends are occurring in the retirement industry that *SamCERA* should be tracking?

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

July 23, 2013

Agenda Item 4.3

To: Board of Retirement



From: Mabel Wong, Retirement Finance Officer

Subject: Approval of Questions for Annual Review of SamCERA's Independent Financial Auditor – Brown Armstrong Accountancy Corporation

**Staff Recommendation**

Staff recommends the board review, suggest changes, and then approve the questions in the attached document entitled, "Questions for Annual Independent Auditor Evaluation."

**Summary**

The questions in the attached document will be submitted to SamCERA's independent auditor, Brown Armstrong Accountancy Corporation, prior to the annual review, which will be scheduled for the October 22, 2013, board meeting.

An additional part of the annual review will be the result of a survey of trustees, staff and auditor regarding the performance of the audit firm. This year the survey will be in electronic form. You will receive an email with a link to complete the survey. We hope this will make completion more convenient. If you'd like a hard copy of the survey, please let us know.

Staff will provide Brown Armstrong's responses to the questionnaire as well as the survey results at the October meeting.

**Attachment**

The questions in the attached document will be submitted to SamCERA's independent financial auditor, Brown Armstrong Accountancy Corporation.

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

**Questions for Annual Independent Auditor Evaluation**  
**Fiscal Year 2012-2013**

**Organizational Update**

- 1) What is the ownership structure of your firm? Identify all owners with 5% ownership or more.
- 2) Provide an update on your firm's organization, with particular emphasis on (a) changes to your management structure over the past eighteen months, and (b) public clients gained or lost in the past eighteen months. All significant changes should be accompanied by an explanation. An organizational chart should accompany this response.
- 3) Provide a list of services available through your firm, including the number of staff supporting those services.
- 4) What are your firm's philosophy and current policy regarding new business?
- 5) Specify separately the individuals (up to five) who you feel are key to the success of your firm. If the list has changed in the last eighteen months, identify and explain the change(s).
- 6) Update all significant personnel changes to the "SamCERA Team."
- 7) Has your firm or any of its employees been involved in regulatory or litigation actions related to your business in the past eighteen months?
- 8) Has a peer review been performed on any of your firm's audit products? If yes, discuss the review and the findings. Any material findings or recommendations must be accompanied by an explanation.
- 9) Describe the levels of insurance coverage maintained by your firm. E-mail a current certification of insurance to [mwong@samcera.org](mailto:mwong@samcera.org).
- 10) Do you have a written policy on ethics? If so, please e-mail the policy to [mwong@samera.org](mailto:mwong@samera.org).
- 11) Describe the relative strength and longevity of your staff. Are any of your operations outsourced? If the answer is yes, provide details regarding the firm(s) with which your firm has contracted.
- 12) What are your mission critical systems? Has your firm experienced any problems with these systems in the past eighteen months? When were these systems implemented and when were they last upgraded? Do you anticipate any changes to these systems in the next eighteen months?
- 13) Provide an overview of your firm's business continuity plan.

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

**Audit Process**

- 14) Provide a description, in detail, of your audit process.
- 15) What changes to the process resulted from going paperless?
- 16) Describe your internal peer review procedures in detail.
- 17) Does your firm engage in peer review with other audit firm? Please provide details.

**Outlook**

- 18) What issues are other clients concerned with in regards to products, services, education and governance?
- 19) What is your firm's outlook and readiness regarding implementation of the enacted changes in GASB 67 and 68 accounting standards relative to the pension industry? Please list and discuss each proposal separately.
- 20) Describe your assessment of the relationship between your firm and SamCERA. How can SamCERA better assist you in accomplishing the goals it has established for your firm? How can we better utilize your firm's capabilities?

**Conclusion**

- 21) Is there any information that would be timely pursuant to SamCERA's contract and this annual review?
- 22) Are your clients making significant changes in their asset mixes or economic and non-economic assumptions? Describe these changes.
- 23) What audit related changes should SamCERA consider?
- 24) Relative to your expertise, what trends are occurring in the retirement industry that SamCERA should be tracking?



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

July 23, 2013

Agenda Item 4.4

**TO:** Board of Retirement

**FROM:** David Bailey, Chief Executive Officer



**SUBJECT:** Ratification of Responses to the 2012-13 Civil Grand Jury Report

**Staff Recommendation**

Ratify the final version of the Board of Retirement's responses to the applicable findings and recommendations contained in the San Mateo County 2012-13 Civil Grand Jury Report.

**Background**

On April 15, 2013, the Civil Grand Jury filed its report regarding SamCERA's unfunded liability. The Board of Retirement is statutorily required to submit to the Court its responses to findings and recommendations pertaining to matters under the control of the Board by July 15<sup>th</sup>. At the May 23<sup>rd</sup> Board meeting, the Board approved the draft responses, directed staff to work on edits and to have Mr. Tashman approve the changes prior to timely submitting the final version to the Court.

**Discussion**

Pursuant to the Board's direction, edits were made and approved by Mr. Tashman. During this process additional responses were added for two recommendations. These also were approved by Mr. Tashman. The final version of the report was submitted to the Court. Although staff was not directed to return the final version of the report to the Board for approval, staff is seeking the Board's approval of the final version. If further changes are needed, an amended response can be filed.

**Attachment**

"Responses of the San Mateo County Employees' Retirement Association Board of Retirement to Findings and Recommendations of the San Mateo County Civil Grand Jury In Its Report: SamCERA's Unfunded Liability: The Elephant In The Room."

**RESPONSES**  
**OF THE SAN MATEO COUNTY EMPLOYEES' RETIREMENT**  
**ASSOCIATION**  
**BOARD OF RETIREMENT**  
**TO FINDINGS AND RECOMMENDATIONS OF THE SAN MATEO**  
**COUNTY**  
**2012-13 CIVIL GRAND JURY REPORT:**  
**SAMCERA'S UNFUNDED LIABILITY: THE ELEPHANT IN THE**  
**ROOM**

FINDINGS

**F1. Board of Supervisors has failed adequately to address SamCERA's unfunded liability because it has not (i) properly monitored the performance of SamCERA's investment portfolio, (ii) made contributions sufficient to cause SamCERA's funding to be sound or (iii) taken steps to reduce the County's retirement costs significantly.**

Board of Retirement Response To F1: Disagree.

(i) The County and SamCERA have worked collaboratively and aggressively to manage retirement costs in the wake of the recession. In fact, the County has exceeded funding requirements and continues its unwavering commitment to meet or exceed its actuarial and legal commitments to the plan.

(ii) SamCERA works with an independent firm to annually perform an actuarial valuation of the fund. The valuation is conducted in compliance with the Actuarial Standards of Practice of the Actuarial Standards Board. Pursuant to Government Code section 31453, this actuarial valuation covers the mortality, service, and compensation experience of the members and beneficiaries, and evaluates the assets and liabilities of the retirement fund. The actuary makes a recommendation of the contribution rates for the employer and employees to ensure the soundness of the system.

In collaboration with the County, for the last two years the Board of Retirement has held the County's average contribution rate at a level higher than called for by the actuarial process, thereby paying down the unfunded liability faster and further strengthening the fund. The County contributed an additional \$11.5 million in the 2011-12 fiscal year and is contributing a projected additional \$12.7 million in the 2012-13 fiscal year.

In addition:

- SamCERA employs a 15-year amortization period for its unfunded liability. No California plan has a shorter fixed amortization period. The County is supportive of the amortization period.
- SamCERA has one of the lowest assumed earnings rates of California plans. When SamCERA lowered its assumed earnings rate, the rate was reviewed and approved

by the Board of Supervisors. The rate is reviewed annually and will continue to receive attention as the U.S. and world economies evolve following the recession.

- In a recent actuarial study of California public pension plans, SamCERA ranked third most conservative in its funding approach. This was mainly due to SamCERA's conservative assumed earnings rate and the shortness of its amortization period for unfunded liabilities (15 years).

(iii) In 2011, the County adopted lower benefit formulas for new employees, reducing long-term costs.

In 2013, the statewide PEPR plan was made effective for new SamCERA members, again reducing plan costs.

Since the recession, the County has eliminated approximately 10% of its workforce, lowering the costs of the pension plan as well as other compensation costs.

The Public Pension Coordinating Council presented SamCERA its *Public Pension Standards Award* for 2012. The award recognizes that SamCERA has met professional standards for plan funding and administration as set forth in the Public Pension Standards of the Council. The standards judge retirement systems on their Funding Adequacy, Comprehensive Benefit Program, Actuarial Valuation, Independent Audit, Investments and Communications.

**F2. SamCERA's Board of retirement has not adequately addressed SamCERA's unfunded liability in that it has adopted an assumed rate of return that does not sufficiently recognize the guaranteed status of its participants' benefits.**

Board of Retirement Response To F2: Disagree.

SamCERA, the County and other SamCERA employers will recognize the "guaranteed status" of SamCERA benefits in their accounting reports, as required by new statements from the Government Accounting Standards Board. But the GASB statements are not intended to have any impact on SamCERA's assumed rate of return.

GASB has made it clear that its new statements are not to effect pension funding decisions and that such decisions should continue to be determined by the plans and their actuaries using actuarial standards of practice. In announcing its new accounting statements GASB noted, emphasis added:

"It should be emphasized up front that these new Statements relate only to accounting and financial reporting—that is, how pension costs and obligations are measured and reported in audited external financial reports. **The new pronouncements do not address how governments approach pension plan funding—their policy regarding how much money to contribute to a pension plan each year.** While for some time there has been a close relationship between how governments fund pensions and how they account for them, the new Statements decisively shift from a funding-based approach to an accrual accounting-based approach."

The Actuarial Standards Board issues guidance regarding actuarial standards. SamCERA bases its funding on Actuarial Standards of Practice as well as California Law governing

the pension plan. Pursuant to Government Code section 31453, an actuarial valuation is made by an actuary and covers the mortality, service, and compensation experience of the members and beneficiaries, and evaluates the assets and liabilities of the retirement fund. The actuary makes a recommendation of the contribution rates for the employer and employees to ensure the soundness of the system.

Upon the basis of the investigation, valuation, and recommendation of the actuary, the Board of Retirement recommends to the Board of Supervisors the changes in the rates of interest, in the rates of contributions of members, and in county and district appropriations as are necessary. As previously stated, SamCERA has one of the lowest assumed earnings rates of California plans.

**F3. SamCERA’s unfunded liability is materially greater than \$962,282,000 as reported in the SamCERA CAFR for FY2012, and is probably closer to \$2 billion.**

Board of Retirement Response To F3: Disagree.

Again, this is a misunderstanding of the intent of GASB’s new accounting statements. One calls for a measure of the unfunded liability at a bond rate in order to recognize the guaranteed nature of SamCERA benefits in a way similar to other guaranteed government debt. This accounting measure will be shown along with all other accounting data in future annual financial reports. It is not to be used for pension funding purposes and will not have an influence on the costs of the retirement system. GASB has attempted to make that clear. (See response to F2 above.)

For the Grand Jury’s finding to be true, the entire SamCERA fund would have to be invested only in bonds. SamCERA manages a diversified portfolio of which, as of April 30, 2013, only about 20% is in bonds. The remainder is in asset classes expected to earn higher amounts than bonds over the long term.

Moreover, if SamCERA took the Grand Jury’s approach of estimating its liability as if the fund were only in bonds, SamCERA would be in violation of California law.

Government Code section 7503 provides that, “All state and local public retirement systems shall prepare an annual report in accordance with generally accepted accounting principles.”

The primary source of these principles is GASB, which provides that: “... the investment return assumption (discount rate) should be based on an estimated long-term investment yield for the plan, with consideration given to **the nature and mix of current and expected plan investment** ....” (GASB 25, paragraph 36c, emphasis added.) GASB 67, which will be effective in 2014, amends GASB 25, and as summarized by GASB, provides that:

“To the extent that a pension plan’s net position and projected contributions associated with active and inactive employees, including retirees, is expected to fully cover projected benefit payments for those individuals, the long-term expected rate of return will be used. **If there comes a point in the projections when plan net position and contributions related to active and inactive employees is no longer projected to be greater than**

**or equal to projected benefit payments related to those employees and administrative expenses, then from that point forward a government would be required to discount the projected benefit payments using a municipal borrowing rate—a tax-exempt, high-quality (an average rating of AA/Aa or higher, including equivalent ratings) 20-year general obligation bond index rate.”** (Emphasis added.)

SamCERA has not reached, nor is it anticipated to reach a point when plan net position and contributions related to active and inactive employees are no longer projected to be greater than or equal to projected benefit payments related to those employees and administrative expenses. Therefore, the long-term expected rate of return will continue to be used, in accordance with GASB.

Nor could SamCERA’s actuary use the approach taken by the Grand Jury. Actuarial Standards of Practice No. 27, paragraph 3.6 regarding the Selection of Economic Assumptions for Measuring Pension Obligations provides:

**“The investment return assumption reflects anticipated returns on the plan’s current and future assets. The discount rate is used to determine the present value of expected future plan payments. Generally, the appropriate discount rate is the same as the investment return assumption.”** (Emphasis added.)

As reflected above, the current standards set by GASB and the Actuarial Standards Board prevent SamCERA from using the approach on which the Grand Jury bases its finding. Moreover, even if the law allowed using a bond-based assumption, it would be illogical to do so considering that bonds make up only a minority portion of the SamCERA portfolio.

**F4. SamCERA’s assumed rate of return of 7.5% is unrealistic given the actual rate of return of SamCERA’s investments over the past 10 years (5.54%) and the discount rate (4%) used by the 100 largest public companies in calculating their unfunded liabilities.**

Board of Retirement Response To F4: Disagree.

As of March 31, 2013, the fund had earned a net preliminary return of 7.6% over the prior ten years (including the recession). These are the most recent quarterly figures available and exceed the current assumed earnings rate of 7.5%.

The discount rates for corporate pension plan liabilities are calculated under a separate set of federal laws and accounting rules designed to consider the risks of business-supported pension plans. Public sector pension plans operate under a different set of rules. (See the response to F3 above.)

**F5. SamCERA’s investment performance over the past 10-year period has been poor.**

Board of Retirement Response To F5: Disagree.

As of March 31, 2013, the fund had earned a net preliminary return of 7.6% over the prior ten years (including the recession). These are the most recent quarterly figures available and exceed the current assumed earnings rate of 7.5%.

SamCERA has been nominated for Small Plan of the Year two out of the last three years, due to the repositioning of its portfolio (adding alternative investments and further diversifying the fixed income and international equity portfolios. in recognition of the changes in the U.S. economy following the recession. Only three plans out of more than 100 nationwide are nominated. The awards program is sponsored by *Money Management Letter*. Below is an excerpt from the 2012 nomination statement:

“The \$2.36 billion San Mateo (Calif.) Employees Retirement Association restructured its equities portfolio this year, significantly bolstering international exposure and cutting U.S. equities costs. As a result, it delivered returns of 11.74% as of Sept. 30, beating its peer group which returned on average 10.7% for the same period, according to the Independent Consultants Cooperative’s universe of funds over \$100 million.”

**F6. SamCERA’s Board of Retirement can create liabilities that are required by law to be paid by the Board of Supervisors.**

Board of Retirement Response To F6: Disagree.

Pension liabilities are created by members earning pension benefits in accordance with the Government Code based on plans approved by the Board of Supervisors and/or mandated by state law. These costs are paid for by member contributions, employer contributions and investment earnings.

**F7. County taxpayers, not SamCERA’s beneficiaries, bear the economic burden of SamCERA’s investment performance because reduced County services, tax increases, or both, are required to pay SamCERA’s unfunded liability.**

Board of Retirement Response To F7: This finding should more appropriately be addressed by the County. Therefore, SamCERA submits no response.

**F8. There is no assurance that SamCERA’s change in investment strategy to include a significant allocation to alternative investments will produce better returns than the previous strategy or reduce the risk of its portfolio.**

Board of Retirement Response To F8: Agree.

There is no assurance regarding any diversified investment strategy. But investing the assets of the fund has significantly increased the value of the fund over the long term and thereby provided assets available to pay benefits that would otherwise have had to be

contributed by employers and members. Investing the assets of the fund lowers the cost of benefits.

In order to continue to help pay for benefits with investment returns, it is the role of the Retirement Board to determine the most appropriate investments for the fund. Working with its investment staff and investment-consulting firm, the Board has determined that an allocation of a portion of the fund to alternative assets will provide the best return for a reasonable level of risk.

**F9. The Board of Supervisors has not committed to using any portion of Measure A sales tax revenues to increase contributions to SamCERA to pay down SamCERA's unfunded liability.**

Board of Retirement Response To F9: This finding is not directed to the Board of Retirement, and as such the Board of Retirement submits no response to this finding.

**F10. The effects of the 2011 Changes and the adoption of PEPRA, both intended to reduce retirement costs, are minimal, apply principally to new hires, and will not yield significant savings when compared to the size of SamCERA's unfunded liability.**

Board of Retirement Response To F10: Partially Agree.

The words "minimal" and "significant" are subjective. It is unclear at what point in time these subjective conclusions are to be made. The Board cannot agree with the statement as worded.

(The county's changes were only in effect for approx. one year before PEPRA, and those changes did not include elimination of airtime.)

That being said, as the 2011 Changes and the adoption of PEPRA will largely affect only new employees, the Board agrees that it will take time before the benefits of these changes become significant relative to the retirement system's current unfunded liability. The reduction in retirement costs due to PEPRA and the 2011 changes will begin at a lower level and increase every year as the percentage of employees with these lower benefit plans increases.

**F11. The longer the Board of Supervisors delays in eliminating SamCERA's unfunded liability, the greater the cost will be to do so, and the more the burden of doing so will fall on the next generation.**

Board of Retirement Response To F11: Disagree.

The Grand Jury's statement is premised on an opinion that there has been a "delay" by the Board of Supervisors in eliminating the unfunded liability.

This has not been the case. The Board of Supervisors has made timely and appropriate payments to the system as recommended by the actuary and it has taken steps to reduce costs.

The statement also fails to consider the contributions of all employers taking part in the SamCERA system or that unfunded liabilities are eliminated by a combination of employer contributions and investment earnings.

**F12. The financial reporting in the SamCERA PAFR can be improved.**

Board of Retirement Response To F12: Agree.

SamCERA strives for continuous improvement. That said SamCERA is proud of its Popular Annual Financial Report (PAFR). The Government Finance Officers Association has honored the SamCERA PAFR with its Award for Outstanding Achievement in Popular Annual Financial Reporting for nine consecutive years.

**RECOMMENDATIONS**

The Grand Jury recommends that SamCERA’s Board of Retirement do the following:

**R1. Adopt a policy to reduce SamCERA’s assumed rate of return by 0.25% per year until such time as it has achieved a funded ratio of 90%.**

Board of Retirement Response To R1: The recommendation will not be implemented because it is not warranted and is not reasonable.

The Retirement Board sets the assumed earnings rate based on what the Board, in consultation with its actuarial and investment advisors and staff, projects the assets of the fund to earn in the future. The recommendation calls for an arbitrary rate, designed to manipulate contributions to the fund, unrelated to the Board’s projection of earnings.

In addition, actuarial and accounting rules prudently prevent such an arbitrary approach. As reflected by provisions cited in response to Finding 3 above, the current standards set by GASB (“the investment return assumption should be based on an estimated long-term investment yield for the plan, with consideration given to the nature and mix of current and expected plan investment”) and the Actuarial Standards Board (“The investment return assumption reflects anticipated returns on the plan’s current and future assets”) prevent SamCERA from taking the approach that the Grand Jury has recommended.

**R2. Once a funded ratio of 90% has been achieved, establish SamCERA’s assumed rate of return each year by taking into consideration the guaranteed nature of its participants’ benefits and relevant macro-economic factors while disregarding (i) the effect, if any, the assumed rate of return will have on required contributions to SamCERA and (ii) the assumed rates of return of other public pension funds.**

Board of Retirement Response To R2: The recommendation will not be implemented because it is not warranted and is not reasonable.

Using a rate that reflects the guaranteed nature of the retirement benefits is an accounting measure recommended by the Government Accounting Standards Board for accounting purposes only. GASB has recommended an accounting change to show the unfunded



liability of pension funds based on an assumed earnings rate commensurate with other guaranteed government debts. GASB has made it clear that this is an accounting change only.

As reflected by provisions cited in response to Finding 3 above, the current standards set by GASB (“the investment return assumption should be based on an estimated long-term investment yield for the plan, with consideration given to the nature and mix of current and expected plan investment”) and the Actuarial Standards Board (“The investment return assumption reflects anticipated returns on the plan’s current and future assets”) prevent SamCERA from taking the approach that the Grand Jury has recommended.

Moreover, establishing the assumed earnings rate at a rate lower than what the Retirement Board actually believes the fund is likely to earn would drive up employer contribution rates to levels that would not be considered necessary or prudent.

Finally, in regards to the statement that the assumed rate should be established by “taking into consideration the guaranteed nature of its participants’ benefits and relevant macro-economic factors,” by statute, SamCERA’s actuarial valuation is conducted in compliance with the Actuarial Standards Board and state law. Pursuant to Government Code section 31453, this actuarial valuation covers the mortality, service, and compensation experience of the members and beneficiaries, and evaluates the assets and liabilities of the retirement fund.

**R3. Include in the SamCERA CAFR and SamCERA PAFR, the following information in tabular form:**

**a. For each of the past one, three, five, and ten fiscal years:**

- i. Its annual investment earnings (or losses) stated as a percentage and in dollars, both net of investment costs**
- ii. Its actual rates of return as compared with its assumed rates of return**
- iii. Its peer rankings**
- iv. The peer rankings of each of its investment managers for which such rankings are available**
- b. The unfunded liability amount for each of the past 10 years**
- c. The amount contributed by the County to SamCERA attributable solely to its unfunded liability for each of the past 10 years**
- d. The number of beneficiaries receiving annual benefits for each of the past five years in the following amounts:**
  - i. \$100,000 - \$149,999**
  - ii. \$150,000 - \$199,999**
  - iii. \$200,000 and up**
- e. The average and median annual benefit paid to SamCERA beneficiaries for the past five years**

Board of Retirement Response To R3: The recommendation will not be implemented because it is not warranted.

SamCERA provides information in its CAFR and PAFR in compliance with the recommendations of the Government Accounting Standards Board, an organization of financial professionals. SamCERA also produces a Monthly Financial Report, a Monthly Portfolio Performance Report, a Quarterly Portfolio Performance Report, a Comprehensive Annual Financial Report, and an annual Actuarial Valuation Report. Much of the information in the above recommendation is included in these reports as well as other significant data and information. All the reports are available to the public through SamCERA's website or other means as requested

**R4. Replicate on SamCERA's website, modified to apply to SamCERA, CalPERS "Facts at a Glance."**

Board of Retirement Response To R4: The recommendation will not be implemented because it is not warranted or reasonable.

Nearly all the information in the "Facts at a Glance" is produced regularly by SamCERA and is available on the SamCERA website.

**R5. Employ only investment managers for its alternative assets that rank in the top 10% of their peer group for at least the past five years.**

Board of Retirement Response To R5: The recommendation will not be implemented because it is not warranted and is not reasonable.

SamCERA reviews a vastly greater amount of information in making investment manager selections. Relying only on past performance and peer group rankings when selecting managers, especially within the alternatives universe, is a sub-optimal way to manage an investment portfolio. Instead, SamCERA, in addition to historical performance, also investigates such items as organization history, the quality and consistency of the team, investment process, sourcing of ideas, risk controls, etc. in order to assess the sustainability of future performance. Certain managers perform better in certain economic markets and such performance is not necessarily a predictor of performance in current or future markets. Historical performance is considered, but it is one of many factors used to determine whether or not to invest with a certain investment manager.

**The Grand Jury recommends that SamCERA's Board of Retirement and the County's Board of Supervisors do the following:**

**R14. Acknowledge that the reported unfunded liability of \$962,282,000 is materially understated if either a risk free rate of return or SamCERA's actual rate of return over the past 10 years is used in its calculation.**

Board of Response to R14. The recommendation will not be implemented because it is not warranted and is not reasonable.

SamCERA states its unfunded liability in accordance with the applicable standards of the Actuarial Standards Board and GASB. The recommendation is not in accordance with those standards. Accordingly, it would not be appropriate for the Board to state its unfunded liability using a different standard.

**R15. Annually compare SamCERA’s unfunded liability calculated in accordance with GASB Statement 68 with its unfunded liability calculated utilizing a risk free rate of return and SamCERA’s actual rate of return over the past 10 years.**

Board of Retirement Response To R15: The recommendation will not be implemented because it is not warranted and is not reasonable.

Comparing an accounting measure of future liability using the “risk-free rate” to a past period of investment earnings would not provide significant insights nor serve any purpose for the Board of Retirement.

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

July 23, 2013

Consent Agenda Item 4.5

**TO:** Board of Retirement  
**FROM:** *Lilibeth Dames*  
Lilibeth Dames, Investment Analyst  
**SUBJECT:** Acceptance Of Semi-Annual Compliance Certification Statements For Period  
Ending June 30, 2013

**Staff Recommendation:**

Staff recommends that the Board review and accept the semi-annual Compliance Certification Statements for SamCERA's non-alternative investment managers, as of June 30, 2013.

**Background:**

The Compliance Certification Statement sets forth the status of certain pertinent guideline issues and provisions in SamCERA's Investment Policy. In accordance with the policy and as part of SamCERA's ongoing due diligence, the Compliance Certification Statement is completed by each of the association's non-alternative investment managers on a semi-annual basis to attest its compliance with the policy's provisions.

**Discussion:**

The attached Compliance Certification Statements report that SamCERA's investment managers are in compliance with SamCERA's Investment Policy as of June 30, 2013. No firm reported significant developments in portfolio construction, investment approach, firm ownership or organizational structure. Nor were there any notable issues regarding industry or regulatory actions that impact SamCERA. The managers were also requested to provide data regarding the characteristics and composition of each of their portfolios. No prominent issues arose during the review. Any items that raise concern will be brought to the manager's attention and will be thoroughly vetted by staff.

Please note that Compliance Certification Statements for Brigade and D.E. Shaw were not received in time to be included in the mailing, but they will be included in the day-of folder for the July meeting or in the August board packet.

**Attachments:**

*Compliance Certification Statements (15)*

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

- A. Domestic Equity: Barrow Hanley, BlackRock, Brown Advisory, Chartwell, The Boston Company
- B. International Equity - Developed: Baillie Gifford, Mondrian, Pyramis
- C. Emerging Market Equity: Eaton Vance Parametric
- D. Domestic Fixed Income: Angelo Gordon, Brown Brothers Harriman, Pyramis, Western
- E. Global Fixed Income: Franklin Templeton
- F. Real Estate: INVESCO

## ***Barrow Hanley Diversified Large Cap Value – June 30, 2013***

### *Compliance Certification Statement*

#### *San Mateo County*

#### *Employees' Retirement Association*

For 6-month period ended June 30, 2013

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 ([Investments@samcera.org](mailto:Investments@samcera.org)) by Monday, July 15, 2013.

### **General Compliance Issues**

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (Section 19.4(a)) Yes/No: \_\_\_ If no, please explain. **Yes.**
2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: \_\_\_ If no, please explain. **Yes.**
3. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: \_\_\_ If no, please explain. **Yes.**
4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (Section 6.0) Yes/No: \_\_\_ If yes, please explain. **No.**
5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: \_\_\_ If yes, please explain. **No.**
6. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: \_\_\_ If yes, please explain. **No.**
7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (Section 9.1) Yes/No: \_\_\_ If yes, please explain. **No.**
8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: \_\_\_ If yes, please explain. **No.**
9. Have there been any investment guideline breaches during the prior 6 months? If so, please provide more detail. **No.**
10. 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? (Section 22.0) Yes/No: \_\_\_ If no, please explain. **Yes.**

## Investment Management Fees

1. Is *SamCERA's* investment management fee schedule higher than those charged other institutional clients who hold an account investment substantially similar to ours? If yes, please explain. **No.**

## Derivative Investments

1. Are derivatives used in the management of the investment strategy? Yes/No: \_\_\_ If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section. **N/A. We do not utilize derivatives.**
2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: \_\_\_ If no, please explain.
3. 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.
4. 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.
5. 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.
6. 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? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month?
7. Are the investment purposes for a derivative investment consistent with the four purposes stated in *SamCERA's* policies? (Appendix C(6)) Yes/No: \_\_\_ If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: \_\_\_ If yes, please explain.
8. 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.

9. 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))
10. 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.
11. 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.
12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))
13. 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.
14. 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? (Section 5.0) Yes/No: \_\_\_ If no, please explain. **Yes.**
2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: \_\_\_ If yes, please explain. **No.**

### **Cash & Equivalents**

1. Does the firm directly invest in short term fixed income investments? Yes/No: \_\_\_ If yes, do the investments comply with the policies? (Section 11.0) Yes/No: \_\_\_ If no, please explain. **No. We do not manage cash for our clients.**

### **Domestic Equity Portfolios (Large, Mid & Small)**

1. Please state the percentage of the portfolio held in each of the following types of securities (Section 19.4 j)

**At June 30, 2013, the portfolio held the following:**

Cash	1.4%
Common Stock	98.6%
Preferred Stock	0%
Convertible Stock	0%



2. Specify the large, mid and small capitalization exposure of the portfolios? (Section 19.4 j)  
Please specify percentages.

At December 31, 2012, the firm's allocation within equities is below:

Large Caps	79%
Mid Caps	9%
Small Caps	4%
International*	9%

\*Includes Global & Emerging Markets

3. Specify the percentage of the portfolio that is invested in American Depository Receipts (ADR's). (Section 19.4 j) Also, specify the percentage of the portfolio invested in ADR securities that are 144A securities. If greater than 10%, explain why.

At June 30, 2013, the portfolio held 6.24% ADR's and none were 144A securities. (Cash positions are not used in the calculation).

3. Does the portfolio invest in emerging and/or frontier markets? Yes/No: \_\_\_ If yes, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets **No**.

4. What is the largest percentage of the portfolio represented by a single security? (Section 19.4 j)  
Specify the name of the security and percentage amount. If any securities were above 5% at the time of purchase, please list and explain why.

At June 30, 2013, the largest security holding was Capital One Financial Corp. with a weighting of 2.93%. (Cash positions are not used in the calculation).

5. Based on NAICS codes, what is the largest percentage of the portfolio represented by a single industry? (Section 10.3 a). Specify the industry and percentage amount. Please specify all industries above 15%.

BHMS uses the GICS classification system for our portfolio analysis. At June 30, 2013, the largest industry weighting was Consumer Finance, which held an 8.3% weighting. (Cash positions are not used in the calculation).

Signed by: Patricia B. Andrews

Title: Chief Compliance Officer

Dated: July 5, 2013

Name of Firm: Barrow, Hanley, Mewhinney & Strauss LLC

**BlackRock S&P 500 Index – June 30, 2013**

**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 ([Investments@samcera.org](mailto:Investments@samcera.org)) by Monday, July 15, 2013.

**General Compliance Issues**

- 1. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: Yes If no, please explain.**
- 2. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: Yes If yes, please explain.**

BlackRock announced on 10 January 2013 that it has entered into a definitive agreement to acquire Credit Suisse's Exchange-Traded Fund ("ETF") franchise, a European ETF platform with funds domiciled in Switzerland, Ireland and Luxembourg that will complement the existing iShares offering. The combined iShares platform will comprise 264 ETFs and \$157.6 billion in assets under management as of December 2012. Following the appropriate regulatory approvals and satisfaction of customary closing conditions, the deal is expected to close in the second quarter of 2013.

- 3. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: No If yes, please explain.**
- 4. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: No If yes, please explain.**

From time to time, BlackRock and its affiliates (collectively, "BlackRock") are subject to examinations and inspections by the SEC, DOL, FINRA and the CFTC, among others. Our regulators routinely provide us with comment letters as a result of these examinations in which they request that BlackRock correct or modify certain of our practices. In all such instances, BlackRock has addressed these requests promptly to ensure that it continues to operate in compliance with applicable laws, statutes and regulations.

Additionally, from time to time, BlackRock receives subpoenas or requests for information in connection with regulatory inquiries and/or investigations by its various regulators, some of which are ongoing. Other than as noted below or as disclosed in the applicable Form ADVs of our various U.S.-registered advisers, none of these regulatory matters have resulted in any formal proceedings or any other sort of discipline against BlackRock that has had any adverse impact on our ability to manage our clients' assets.

On 8 March 2012, BlackRock Institutional Trust Company, N.A. ("BTC") entered into an Offer of Settlement (the "Agreement") with the CFTC and consented to the entry of an Order, which makes findings and imposes remedial sanctions against BTC. Without admitting or denying wrongdoing, BTC agreed to the imposition of a \$250,000 penalty and the entry of the Order to resolve allegations by the CFTC that two trades by BTC violated Section 4c(a)(1) of the Commodity Exchange Act and CFTC Regulation 1.38(a). BTC also agreed to refrain from any further violations of the above-mentioned statutory provisions. The CFTC did not allege that any clients of BTC, BlackRock or any related affiliate were harmed in any way in the execution of these two trades.

5. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA*? Yes/No: Yes If no, please explain. Please provide a copy of your firm's proxy policy to [Investments@samcera.org](mailto:Investments@samcera.org).

### Investment Management Fees

1. Is *SamCERA*'s investment management fee schedule less favorable than those charged other institutional clients who hold an account investment substantially similar to ours? Yes/No: \_\_\_ If yes, please explain.

Per BlackRock's agreement with SamCERA, SamCERA's investment management marginal pricing fee schedule is more favorable than those charged other institutional clients who hold an account investment that is substantially similar.

### Derivative Investments

This section is not applicable as derivatives are not used in the portfolios BlackRock managers for SamCERA.

1. Are derivatives used in the management of the investment strategy? Yes/No: \_\_\_ If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.
2. Are derivative investments in compliance with *SamCERA*'s investment policies? (Appendix C) Yes/No: \_\_\_ If no, please explain.
3. 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.
4. 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.
5. 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.
6. 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? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month?
7. 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.
8. 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.

9. 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))
10. 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.
11. 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.
12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))
13. 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.
14. 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.

#### Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? Yes/No: No If yes, do the investments comply with the policies? (Section 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 (Section 19.4 j)

Please note that BlackRock manages the Equity Index Fund (benchmarked to the S&P 500 Index) for SamCERA. The breakdown by security type is provided below.

<b><i>Common Stock</i></b>	<b>98%</b>
<b><i>Unit investment trust</i></b>	<b>2%</b>
<b><i>Preferred Stock</i></b>	<b>0%</b>
<b><i>Convertible Securities</i></b>	<b>0%</b>
<b><i>Cash &amp; Equivalents</i></b>	<b>0%</b>

2. Specify the large, mid and small capitalization exposure of the portfolios? (Section 19.4 j) Please specify percentages.

The Equity Index Fund is comprised of large cap stocks.

<b>Large-Cap</b>	<b>100%</b>
<b>Mid-Cap</b>	<b>0%</b>
<b>Small-Cap</b>	<b>0%</b>

3. **Specify the percentage of the portfolio that is invested in American Depository Receipts (ADR's). (Section 19.4 j) Also, specify the percentage of the portfolio invested in ADR securities that are 144A securities. If greater than 10%, explain why.**

None

4. **Does the portfolio invest in emerging and/or frontier markets? Yes/No: No If yes, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets**
5. **What is the largest percentage of the portfolio represented by a single security? Please specify the security and percentage amount. (Section 19.4 j) If any securities were above 5% at the time of purchase, please list and explain why.**

Exxon Mobil – 2.81% (as of 6/30/13). Please note that the Equity Index Fund is passively managed and seeks to replicate the return of the S&P 500 Index. Exxon Mobil is the largest holding in the S&P 500 Index.

6. **Based on NAICS codes, what is the largest percentage of the portfolio represented by a single industry? Specify the name of the industry and percentage amount (Section 10.3 a). Please specify all industries above 15%.**

Information technology – 17.79% (as of 6/30/13). Please note that the Equity Index Fund is passively managed and seeks to replicate the return of the S&P 500 Index. Information technology is the largest sector in the S&P 500 Index.

Signed by: Vickie Chan  
Dated: 7/16/2013  
Name of Firm BlackRock

***Brown Advisory Large Cap Growth – June 30, 2013***

*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 ([Investments@samcera.org](mailto:Investments@samcera.org)) by Monday, July 15, 2013.

**General Compliance Issues**

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (Section 19.4(a)) Yes/No: **YES** If no, please explain.
2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: **YES (R1G)** If no, please explain.
3. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: **YES** If no, please explain.
4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (Section 6.0) Yes/No: **NO** If yes, please explain.
5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: **NO** If yes, please explain.
6. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: **NO** If yes, please explain.
7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (Section 9.1) Yes/No: **NO** If yes, please explain.
8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: **NO** If yes, please explain.
9. Have there been any investment guideline breaches during the prior 6 months? If so, please provide more detail. **NONE**
10. 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? (Section 22.0) Yes/No: **YES** If no, please explain.

## Investment Management Fees

1. Is *SamCERA's* investment management fee schedule higher than those charged other institutional clients who hold an account investment substantially similar to ours? If yes, please explain. **NO**

## Derivative Investments

1. Are derivatives used in the management of the investment strategy? Yes/No: **NO** If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.
2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: \_\_\_ If no, please explain.
3. 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.
4. 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.
5. 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.
6. 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? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month?
7. Are the investment purposes for a derivative investment consistent with the four purposes stated in *SamCERA's* policies? (Appendix C(6)) Yes/No: \_\_\_ If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: \_\_\_ If yes, please explain.
8. 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.

9. 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))
10. 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.
11. 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.
12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))
13. 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.
14. 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? (Section 5.0) Yes/No: **YES** If no, please explain.
2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: **NO** If yes, please explain.

### **Cash & Equivalents**

1. Does the firm directly invest in short term fixed income investments? Yes/No: **NO** If yes, do the investments comply with the policies? (Section 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 (Section 19.4 j)



<i>Common Stock</i>	<i>97.5%</i>
<i>Preferred Stock</i>	<i>0%</i>
<i>Convertible Securities</i>	<i>0%</i>
<i>Cash &amp; Equivalents</i>	<i>2.5%</i>

2. Specify the large, mid and small capitalization exposure of the portfolios? (Section 19.4 j) Please specify percentages.

<i>Large-Cap</i>	<i>83.5%</i>
<i>Mid-Cap</i>	<i>16.5%</i>
<i>Small-Cap</i>	<i>0%</i>

3. Specify the percentage of the portfolio that is invested in American Depository Receipts (ADR's). (Section 19.4 j) **0.00% - There are no ADRs currently in the portfolio.** Also, specify the percentage of the portfolio invested in ADR securities that are 144A securities. If greater than 10%, explain why.
4. Does the portfolio invest in emerging and/or frontier markets? Yes/No: **NO** If yes, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets
5. What is the largest percentage of the portfolio represented by a single security? (Section 19.4 j) Specify the name of the security and percentage amount. **Google, Inc. (GOOG) at 4.4%.** If any securities were above 5% at the time of purchase, please list and explain why.
6. Based on NAICS codes, what is the largest percentage of the portfolio represented by a single industry? (Section 10.3 a). Specify the industry and percentage amount. Please specify all industries above 15%. **Brown Advisory uses GICS (Global Industry Classification Standard) classifications to define sector and industry weightings. Based on GICS, as of 6/30/13, the largest industry was IT Services (9.9%).**



Signed by: **Brett D. Rogers**

Dated: **July 15, 2013**

Name of Firm: **Brown Advisory, LLC**

***Chartwell Investment Partners Small Cap Growth – June 30, 2013***

***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 ([Investments@samcera.org](mailto:Investments@samcera.org)) by Monday, July 15, 2013.

**General Compliance Issues**

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (Section 19.4(a)) Yes/No: Yes If no, please explain.
2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: Yes If no, please explain.
3. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: Yes If no, please explain.
4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (Section 6.0) Yes/No: No If yes, please explain.
5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: No If yes, please explain.
6. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: No If yes, please explain.
7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (Section 9.1) Yes/No: No If yes, please explain.
8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: No If yes, please explain.
9. Have there been any investment guideline breaches during the prior 6 months? If so, please provide more detail.

**There have been no investment guideline breaches during the prior 6 months.**

10. 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? (Section 22.0) Yes/No: **Yes** If no, please explain.

### **Investment Management Fees**

1. Is *SamCERA's* investment management fee schedule higher than those charged other institutional clients who hold an account investment substantially similar to ours? If yes, please explain.

**No.**

### **Derivative Investments**

1. Are derivatives used in the management of the investment strategy? Yes/No: **No** If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.
2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: \_\_\_ If no, please explain.

**Not applicable.**

3. 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.

**Not applicable.**

4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: \_\_\_ If yes: Do the counter-parties have investment grade debt? Yes/No: \_\_\_ Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: \_\_\_ If no, please explain.

**Not applicable.**

5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: \_\_\_ If yes: Do the counter-parties have investment grade debt? Yes/No: \_\_\_ Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: \_\_\_ If no, please explain.

**Not applicable.**

6. 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? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month?

**Not applicable.**

7. Are the investment purposes for a derivative investment consistent with the four purposes stated in *SamCERA's* policies? (Appendix C(6)) Yes/No: \_\_\_ If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: \_\_\_ If yes, please explain.

**Not applicable.**

8. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. Yes/No: \_\_\_ If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.

**Not applicable.**

9. 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))

**Not applicable.**

10. 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.

**Not applicable.**

11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: \_\_\_ If no, please explain.

**Not applicable.**

12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))

**Not applicable.**

13. 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.

**Not applicable.**

14. 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.

**Not applicable.**

**Investment Manager Guidelines**

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

**Cash & Equivalents**

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

**The portfolio’s custodian, State Street Bank invests the cash in their money market fund as instructed by San Mateo County.**

**Domestic Equity Portfolios (Large, Mid & Small)**

1. Please state the percentage of the portfolio held in each of the following types of securities (Section 19.4 j)

<i>Common Stock</i>	<i>98.25%</i>
<i>Preferred Stock</i>	<i>0%</i>
<i>Convertible Securities</i>	<i>0%</i>
<i>Cash &amp; Equivalents</i>	<i>1.75%</i>

2. Specify the large, mid and small capitalization exposure of the portfolios? (Section 19.4 j) Please specify percentages.

<i>Large-Cap</i>	<i>0%</i>
<i>Mid-Cap</i>	<i>0%</i>
<i>Small-Cap</i>	<i>98.25%</i>

3. Specify the percentage of the portfolio that is invested in American Depository Receipts (ADR's). (Section 19.4 j) Also, specify the percentage of the portfolio invested in ADR securities that are 144A securities. If greater than 10%, explain why.

**The percentage of the portfolio invested in ADR's is 3.0%. There are no 144A securities in the portfolio.**

4. Does the portfolio invest in emerging and/or frontier markets? Yes/No: No If yes, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets
5. What is the largest percentage of the portfolio represented by a single security? (Section 19.4 j) Specify the name of the security and percentage amount. If any securities were above 5% at the time of purchase, please list and explain why.

**The largest percentage of the portfolio represented by a single security is 2.71%.**

6. Based on NAICS codes, what is the largest percentage of the portfolio represented by a single industry? (Section 10.3 a). Specify the industry and percentage amount. Please specify all industries above 15%.

**The largest percentage of the portfolio represented by a single industry is 6.26% in the Regional Banks industry.**

Signed by: 

LuAnn Molino, Principal, Compliance & Client Administration

Dated: 7/5/13

Name of Firm: Chartwell Investment Partners

*The Boston Company Small Cap Value – June 30, 2013*

*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 ([Investments@samcera.org](mailto:Investments@samcera.org)) by Monday, July 15, 2013.

**General Compliance Issues**

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (Section 19.4(a)) Yes/No: \_\_\_ If no, please explain. **YES**
2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: \_\_\_ If no, please explain. **YES, the Russell 2000 Value remains the appropriate benchmark for the strategy of this portfolio.**
3. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: \_\_\_ If no, please explain. **YES, Please see attached insurance matrix.**
4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (Section 6.0) Yes/No: \_\_\_ If yes, please explain. **NO**
5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: \_\_\_ If yes, please explain. **NO**
6. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: \_\_\_ If yes, please explain. **NO**
7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (Section 9.1) Yes/No: \_\_\_ If yes, please explain. **NO**
8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: \_\_\_ If yes, please explain. **NO**
9. Have there been any investment guideline breaches during the prior 6 months? If so, please provide more detail. **NO**

10. 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? (Section 22.0) Yes/No: \_\_\_ If no, please explain. **YES**

### **Investment Management Fees**

1. Is *SamCERA's* investment management fee schedule higher than those charged other institutional clients who hold an account investment substantially similar to ours? If yes, please explain. **NO**

### **Derivative Investments**

1. Are derivatives used in the management of the investment strategy? Yes/No: \_\_\_ If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section. **NA there were no derivatives in this portfolio.**
2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: \_\_\_ If no, please explain. **NA there were no derivatives in this portfolio.**
3. 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. **NA there were no derivatives in this portfolio.**
4. 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. **NA there were no derivatives in this portfolio.**
5. 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. **NA there were no derivatives in this portfolio.**
6. 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? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month? **NA there were no derivatives in this portfolio.**
7. Are the investment purposes for a derivative investment consistent with the four purposes stated in *SamCERA's* policies? (Appendix C(6)) Yes/No: \_\_\_ If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: \_\_\_ If yes, please explain. **NA there were no derivatives in this portfolio.**



8. 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. **NA there were no derivatives in this portfolio.**
9. 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)) **NA there were no derivatives in this portfolio.**
10. 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. **NA there were no derivatives in this portfolio.**
11. 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. **NA there were no derivatives in this portfolio.**
12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b)) **NA there were no derivatives in this portfolio.**
13. 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. **NA there were no derivatives in this portfolio.**
14. 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. **NA there were no derivatives in this portfolio.**

### **Investment Manager Guidelines**

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

## Cash & Equivalents

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

## Domestic Equity Portfolios (Large, Mid & Small)

1. Please state the percentage of the portfolio held in each of the following types of securities (Section 19.4 j)

<i>Common Stock</i>	<i>99.20%</i>
<i>Preferred Stock</i>	<i>0%</i>
<i>Convertible Securities</i>	<i>0%</i>
<i>Cash &amp; Equivalents</i>	<i>.61%</i>

2. Specify the large, mid and small capitalization exposure of the portfolios? (Section 19.4 j) Please specify percentages.

<i>Mkt Cap \$1.5 B to \$5.0 B</i>	<i>54.03%</i>
<i>Mkt Cap &lt; \$1.5 B</i>	<i>45.36%</i>
<i>Cash</i>	<i>.61%</i>

3. Specify the percentage of the portfolio that is invested in American Depository Receipts (ADR's). (Section 19.4 j) Also, specify the percentage of the portfolio invested in ADR securities that are 144A securities. If greater than 10%, explain why. **NONE**
4. Does the portfolio invest in emerging and/or frontier markets? Yes/No: \_\_\_ If yes, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets **NO**
5. What is the largest percentage of the portfolio represented by a single security? (Section 19.4 j) Specify the name of the security and percentage amount. If any securities were above 5% at the time of purchase, please list and explain why. **The largest holding as of June 30, 2013 is 1.76% of the portfolio. No securities were above 5% at the time of purchase.**
6. Based on NAICS codes, what is the largest percentage of the portfolio represented by a single industry? (Section 10.3 a). Specify the industry and percentage amount. Please specify all industries above 15%. **We do not use NAICS codes. We use GICS for sector and industry. The largest GICS industry as of June 30, 2013 was 13.12% in Regional Banks.**

Signed by: Krisanne Padovani, Compliance Analyst  
Dated: July 12, 2013  
Name of Firm The Boston Company Asset Management, LLC

***Baillie Gifford Overseas International Growth – June 30, 2013***

*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 ([Investments@samcera.org](mailto:Investments@samcera.org)) by Monday, July 15, 2013.

**General Compliance Issues**

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (Section 19.4(a)) Yes/No: Yes if no, please explain.
2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: Yes If no, please explain.
3. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: Yes if no, please explain.
4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (Section 6.0) Yes/No: No If yes, please explain.
5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: No If yes, please explain.

As of 1 March 2013, Lindsay Gold assumed the role of Chief Compliance Officer for Baillie Gifford Overseas Limited, in addition to his role as CCO of Baillie Gifford & Co. Lindsay replaced Graham Laybourn, the Head of Legal and Regulatory Risk however Graham remains with Baillie Gifford and retains oversight of the Compliance function.

On May 1<sup>st</sup> 2013 there were three promotions to the Partnership. Following these promotions, and the retirement of Angus McLeod (Director in the Clients Department responsible for clients in Asia and the Middle East), the total number of Partners increased to 39. The firm is wholly owned and managed by its Partners, all of whom work full time in the business.

The three new Partners are Kathrin Hamilton, Spencer Adair and Graham Laybourn. Kathrin is a Director in our Clients Department responsible for North American clients, Spencer is an Investment Manager for one of our Global equity strategies, and Graham Laybourn is our Director of Legal & Regulatory Risk.

None of the above changes have any direct effect on the management of your portfolio.

6. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: No If yes, please explain.
7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (Section 9.1) Yes/No: No If yes, please explain.
8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: No If yes, please explain.
9. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA* and in a manner consistent with the Board's proxy policies? (Section 22.0) Yes/No: Yes If no, please explain.

#### **Derivative Investments**

1. Are derivatives used in the management of the investment strategy? Yes/No: No If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.
2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: \_\_\_ If no, please explain.
3. 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.
4. 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.
5. 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.
6. 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? Please specify the name of the counter-party and the amount of exposure. Have there been

any changes to the investment manager's list of approved counter-parties over the past month?

7. 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.
8. 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.
9. 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))
10. 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.
11. 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.
12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))
13. 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.
14. 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? (Section 5.0) Yes/No: Yes If no, please explain.
2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: No If yes, please explain.

## Cash & Equivalents

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

## International Equity Portfolios - Developed

1. Specify the percentage of the portfolio held in each of the following types of securities. (Section 19.4 j):

<i>Foreign Ordinary Shares</i>	<i>91.0%</i>
<i>Domestic Ordinary Shares*</i>	<i>1.3%</i>
<i>ADR's &amp; GDR's</i>	<i>5.3%</i>
<i>Cash &amp; Equivalents (Foreign)</i>	<i>0.9%</i>
<i>Cash &amp; Equivalents (Domestic)</i>	<i>1.5%</i>

\*The weighting in Domestic Ordinary Shares relates to a holding in CocaCola Enterprises. Coca Cola Enterprises is a bottling company that focuses solely on business from Western Europe. While it remains listed in the US, 100% of its revenues are generated in Western Europe.

2. Specify the large, mid and small capitalization exposure of the portfolios. (Section 19.4 j)

<i>Large-Cap</i>	<i>49.2%</i>
<i>Mid-Cap</i>	<i>43.1%</i>
<i>Small-Cap</i>	<i>5.3%</i>

3. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio? (Section 19.4 j) Yes/No: Yes If no, please explain.
4. Does the portfolio invest in emerging and/or frontier markets? Yes/No: Yes If yes, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets

Emerging Markets            8.5% of Fund  
Frontier Markets            0.0% of Fund

5. Does the portfolio currently employ a currency hedging strategy? Yes/No: No

Signed by: *Inverlari J. Miller*  
Dated: July 4<sup>th</sup> 2013  
Name of Firm    Baillie Gifford

***Mondrian Investment Partners International Value – June 30, 2013***

*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 ([Investments@samcera.org](mailto:Investments@samcera.org)) by Monday, July 15, 2013.

**General Compliance Issues**

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (Section 19.4(a)) Yes/No: **Yes** If no, please explain.
2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: **Yes** If no, please explain.
3. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: **Yes** If no, please explain.
4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (Section 6.0) Yes/No: **No** If yes, please explain
5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: **No** If yes, please explain.
6. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: **No** If yes, please explain
7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (Section 9.1) Yes/No: **No** If yes, please explain.
8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: **No** If yes, please explain.
9. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA* and in a manner consistent with the Board's proxy policies? (Section 22.0) Yes/No: **Yes** If no, please explain.



## Derivative Investments

1. Are derivatives used in the management of the investment strategy? Yes/No: **Yes** If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.
2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: **Yes** If no, please explain.
3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: **Yes** If no, please explain.
4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: **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.
5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: **Yes** If yes: Do the counter-parties have investment grade debt? Yes/No: **Yes** Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: **Yes** If no, please explain.
6. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: **No** If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month?  
*Derivatives exposure is only by way of Forward FX positions, which are currently traded exclusively with your custodian.*
7. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies? (Appendix C(6)) Yes/No: **Yes** If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: \_\_\_ If yes, please explain.
8. 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: **N/A** 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.

9. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: **No**  
If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))
10. 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: **N/A** If no, please explain.
11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: **Yes** If no, please explain.
12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b)) **N/A**
13. 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.  
*Mondrian only uses defensive forward currency contracts in an unleveraged and fully covered manner for the Fund. There should be no issues with liquidity with these instruments.*
14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g)) Yes/No: **No** If yes, please explain.

### **Investment Manager Guidelines**

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

### **Cash & Equivalents**

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

## International Equity Portfolios - Developed

1. Specify the percentage of the portfolio held in each of the following types of securities. (Section 19.4 j):

<i>Foreign Ordinary Shares</i>	71.49%
<i>ADR's</i>	2.22%
<i>Delaware Pooled Trust</i>	23.08%
<i>Cash &amp; Equivalents (Foreign)</i>	1.18%
<i>Cash &amp; Equivalents (Domestic)</i>	2.03%

2. Specify the large, mid and small capitalization exposure of the portfolios. (Section 19.4 j)  
\*Including securities held in DPT units

<i>Large-Cap &gt; 11bn</i>	82.2%
<i>Mid-Cap 3.5 – 11 bn</i>	11.2%
<i>Small-Cap &lt; 3.5bn</i>	2.1%

3. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio? (Section 19.4 j) Yes/No: Yes If no, please explain
4. Does the portfolio invest in emerging and/or frontier markets? Yes/No: Yes If yes, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets. 23.07% in emerging markets via Delaware Pooled Trust units
5. Does the portfolio currently employ a currency hedging strategy? Yes/No: Yes

Signed by: John L Barrett

Dated: 12/07/2013

Name of Firm: Mondrian Investment Partners Limited

## Pyramis Select International Small Cap – June 30, 2013

*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 ([Investments@samcera.org](mailto:Investments@samcera.org)) by Monday, July 15, 2013.

### GENERAL COMPLIANCE ISSUES

1. Are SamCERA's market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: Yes. If no, please explain.
2. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: Yes. If no, please explain.
3. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: No. If yes, please explain.

No. However, with respect to personnel, the following organizational changes took place within Pyramis in the first quarter of 2013:

- Effective January 7, 2013, Pam R. Holding joined Pyramis as Head of Portfolio Management. In this newly created role, Pam leads many of the equity portfolio teams and oversee strategy and implementation of institutional clients' investments. Pam joined Pyramis from Putnam Investments, where she was most recently managing director, global value equities. Prior to that, she was associate director, head of European research in Putnam's London office.
4. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: No If yes, please explain.
  5. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: \_\_\_ If yes, please explain.

From time to time, in the regular course of its business, PGATC (including any officer or principal thereof) may be involved in legal proceedings (including, but not limited to, litigation, arbitration, bankruptcy, receivership, or similar proceedings). There are no material legal proceedings currently pending against PGATC that might affect the investment management services contemplated herein.

In the regular course of its business, PGATC may also receive inquiries (including subpoenas and voluntary requests for information) from regulatory authorities or law enforcement; a regulator may conduct an on-site examination; or a regulator may commence an investigation.

The Firm does not make public comment about such inquiries, examinations, or investigations unless and until enforcement proceedings are initiated. To the extent that PGATC's securities affiliates have been sanctioned, fined, or cited by the Securities and Exchange Commission (SEC), Financial Industry Regulatory Authority

(FINRA), or any other regulatory body, any such sanction, fine, or citation has been disclosed in its affiliates' Forms BD and/or Forms ADV in accordance with the requirements of such forms.

We note that the FDIC issued a civil money penalty of \$1,564.08 against PGATC in connection with an allegation that PGATC failed to ensure that authorized withdrawal limits on PGATC's designated account as of June 30, 2009, were appropriately set to take into account PGATC's increased deposit insurance assessment for the quarter ending March 31, 2009.

6. **Have proxy ballots been voted in accordance with the best economic interest of SamCERA? (Section 22.0) Yes/No: Yes.** All proxies have been answered in a manner consistent with the Pyramis proxy voting guidelines.

**If no, please explain. Please provide a copy of your firm's proxy policy to Investments@samcera.org.**

## DERIVATIVE INVESTMENTS

1. **Are derivatives used in the management of the investment strategy? Yes/No: No. If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.**

The portfolio may make limited use of derivative instruments to manage and invest cash inflows. They are not used for hedging purposes. The Select International Small Cap Plus portfolio did not hold any derivative instruments as of June 30, 2013.

2. **Are derivative investments in compliance with SamCERA's investment policies? (Appendix C) Yes/No:     If no, please explain.**
3. **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.**
4. **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.**
5. **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.**
6. **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? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month?**

7. 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.
8. 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.
9. 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))
10. 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.
11. 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.
12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))
13. 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.
14. 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? (Section 5.0) Yes/No: Yes. If no, please explain.
2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: N/A. If yes, please explain.

### CASH & EQUIVALENTS

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

**INTERNATIONAL EQUITY PORTFOLIOS - DEVELOPED**

1. Specify the percentage of the portfolio held in each of the following types of securities (Section 19.4 j)

FOREIGN ORDINARY SHARES	97.93%
ADR'S	0.00%
CASH & EQUIVALENTS (FOREIGN)	0.68%
CASH & EQUIVALENTS (DOMESTIC)	1.39%

2. Specify the large, mid and small capitalization exposure of the portfolios. (Section 19.4 j)

The Select International Small Cap Plus portfolio's market capitalization allocation as of June 30, 2013 is provided in the table below. Please note the data provided excludes cash.

	WEIGHT (%)
>10b	0.32
5b to 10b	7.78
2b to 5b	43.72
1b to 2b	29.58
0.5b to 1b	13.78

3. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio? (Section 19.4 j) Yes/No: Yes. If no, please explain.

4. Does the portfolio invest in emerging and/or frontier markets? Yes/No: Yes. If yes, please specify the allocation of the portfolio invested in emerging and/or frontier markets

The portfolio invests in emerging markets. As of June 30, 2013, the portfolio's allocation to emerging markets was 19.9%.

5. Does the portfolio currently employ a currency hedging strategy? Yes/No: No.

Signed by: 

Dated: 7/15/13

Name of Firm: Pyramis Global Advisors



***Eaton Vance Parametric Emerging Markets – June 30, 2013***

***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 ([Investments@samcera.org](mailto:Investments@samcera.org)) by Monday, July 15, 2013.

**General Compliance Issues**

1. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: N If no, please explain.

**An appropriate benchmark for the Emerging Markets portfolio is the MSCI Emerging Markets (net of dividend withholding taxes) Total Return Index.**

2. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: Y If no, please explain.
3. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: N If yes, please explain.
4. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: N If yes, please explain.
5. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: N If yes, please explain.
6. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA*? Yes/No: Y If no, please explain. Please provide a copy of your firm's proxy policy to [Investments@samcera.org](mailto:Investments@samcera.org).

**Derivative Investments**

1. Are derivatives used in the management of the investment strategy? Yes/No: Y If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.
2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: Y If no, please explain.

3. 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: Y If no, please explain.

4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: Y If yes:

Do the counter-parties have investment grade debt? Yes/No: Y

Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: Y If no, please explain.

5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: Y If yes:

Do the counter-parties have investment grade debt? Yes/No: Y

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: Y If no, please explain.

6. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: Y If no, please explain.

What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure. **The largest single counter-party is HSBC Bank, PLC. The exposure to this counter-party is 0.83% of the portfolio's weight.**

Have there been any changes to the investment manager's list of approved counter-parties over the past month? N

7. Are the investment purposes for a derivative investment consistent with the four purposes stated in *SamCERA's* policies? (Appendix C(6)) Yes/No: Y If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: N If yes, please explain.

8. 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: N/A (none) 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.

9. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: N 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))
10. 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: N/A (none) If no, please explain.
11. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b)) N/A
12. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

**The portfolio's use of derivatives is limited to equity-substitution securities (also known as participation notes, or "p-notes") for the purpose of gaining underlying equity exposures only where the portfolio is unable to invest directly in the local market. The liquidity of these instruments is directly correlated to the liquidity of the underlying security, as the derivative's pricing and return characteristics are driven by the transactions on the underlying stock.**

**As the equity-substitution securities (p-notes) are used as a replacement for the purchasing of local shares, and not to hedge or gain leveraged positions in the accounts, no additional material legal or regulatory risks are incurred beyond the normal course of portfolio management for this asset class.**

13. 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: N If yes, please explain.

### **Investment Manager Guidelines**

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

### **Cash & Equivalents**

1. Does the firm directly invest in short term fixed income investments? Yes/No: Y\*

**\*The firm invests directly in short term fixed income investments, however the Fund does not.**

### **International Equity Portfolios - Emerging**

1. Specify the percentage of the portfolio held in each of the following types of securities (Section 19.4 j):

Foreign Ordinary Shares	90.25%
ADR's	8.82%
Cash & Equivalents (Foreign)	0.45%
Cash & Equivalents (Domestic)	0.48%

2. Specify the large, mid and small capitalization exposure of the portfolios. (Section 19.4 j)

Market Cap	Weight
> 50000.0	8.99
15000.0 - 50000.0	23.09
10000.0 - 15000.0	13.15
7500.0 - 10000.0	7.48
7000.0 - 7500.0	2.53
5000.0 - 7000.0	7.92
2000.0 - 5000.0	19.47
1500.0 - 2000.0	3.87
1000.0 - 1500.0	5.55
750.0 - 1000.0	1.94
500.0 - 750.0	2.78
400.0 - 500.0	0.56
0.0 - 400.0	2.68

3. Specify the allocation to frontier markets and to non-benchmark holdings in the portfolio (list both by country).

As of 6/30/13, the Fund's allocation to frontier markets was approximately 16%. Approximately 34% of portfolio holdings were not held by the benchmark.

4. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio? (Section 19.4 j) Yes/No: Y If no, please explain.
5. Does the portfolio currently employ a currency hedging strategy? Yes/No: N

Signed by:

*Emily Keime*

Dated: 7/15/13

Name of Firm Eaton Vance

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*Angelo Gordon STAR Fund – June 30, 2013*

*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 ([Investments@samcera.org](mailto:Investments@samcera.org)) by Monday, July 15, 2013.

**Please note that SAMCERA is invested in a co-mingled limited partnership and not a separately managed account.**

**General Compliance Issues**

1. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: N/A If no, please explain. *The Fund targets an absolute return; not a return relative to a bench mark.*
2. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: Yes If no, please explain.
3. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: No If yes, please explain.
4. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: No If yes, please explain.
5. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: No If yes, please explain.

**Derivative Investments**

1. Are derivatives used in the management of the investment strategy? Yes/No: Yes If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.
2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: Yes If no, please explain. ~~Yes, to the best of our understanding of the policy.~~
3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: Yes If no, please explain.

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4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: **Yes** If yes: Do the counter-parties have investment grade debt? Yes/No: **Yes** \_\_\_ Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: **Yes** \_\_\_ If no, please explain.

**We may not be trading directly with the broker-dealer.**

5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: **Yes** If yes: Do the counter-parties have investment grade debt? Yes/No: **Yes** Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: **Yes** If no, please explain.
6. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: **Yes** If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month?
7. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies? (Appendix C(6)) Yes/No: **Yes** If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: **No** If yes, please explain.
8. 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: **Yes** 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.

(based on % of long market value)

**IOs:**

CMBS 23322BCX4: 0.01%

CMBS 23322BFC7: 0.04%

CMBS 43786YAPO: 0.03%

RMBS 25157GDP4: 1.35%

**POs:**

RMBS 30261TAU1: 1.86%

RMBS 36156NAF2 0.93%

RMBS 74966D207: 1.37%

RMBS 74966EAA4: 1.84%

RMBS 74966E205: 0.40%

RMBS (no CUSIP) RMAT 2013 REO/LOAN: 0/12%

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These positions fall within our strategy guidelines.

9. 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))

**There are no inverse floating rate notes and bonds. There are no structured notes; the Fund does have positions in CDOs.**

10. 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: **Yes** If no, please explain.
11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: **Yes** If no, please explain. **Yes, to the best of our understanding of the policy.**
12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b)) **Attached please find the Firm's Valuation Policy.**
13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives. **The fund invests in interest rate swaps which are generally very liquid.**
14. 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. **New regulations that impact the use of derivatives have been proposed or finalized but we do not believe there has been a material change to legal and regulatory risk.**

### **Investment Manager Guidelines**

1. Are portfolio holdings well-diversified, and made in liquid securities? (Section 5.0) **Yes**/No: \_\_\_ If no, please explain. **We believe it is well diversified within the mandate of the fund.**
2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: **Yes** If yes, please explain. *The Fund has the ability to use leverage.*

### **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? (Section 11.0) Yes/No: \_\_\_ If no, please explain. **To the best of our understanding of the policy, the short term investments comply.**

### **Domestic Fixed Income Portfolios**



1. State the percentage of the portfolio held in each of the following types of securities (Section 11.3):

<i>Certificates of Deposit</i>	%
<i>Commercial Paper</i>	%
<i>Other High Grade Short-term securities</i>	%
<i>U.S. Government &amp; Agency securities</i>	%
<i>Corporate Bonds</i>	%
<i>Mortgage- and asset-backed securities</i>	100%
<i>Yankee bond securities</i>	%

**The fund also maintains positions in cash and interest rate swaps.**

2. Is the firm monitoring its active investment management decisions relative to the Retirement Association's investment benchmark? (Section 6.3) Yes/No: **No**. If no, please explain. *As noted earlier, the focus is on an absolute return, not a return relative to a benchmark.*
3. Does the firm conduct horizon analysis testing? (Section 19.4 j) Yes/No: \_\_\_ If no, please explain. **N/A**.
4. Are any holdings below investment grade? (Section 11.3(b)) If yes, why are they held in the portfolio? **Yes, the Fund's investment guidelines do permit investments in below investment grade assets.**

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: **Yes** (Section 11.3(b)) Please specify the bond issue and percentage amount. 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 the name of the industry and percentage amount. **N/A**.

RMBS 36156NAA3: 6.16% (based on percentage of LMV)

5. What percentage of the portfolio is held in Rule 144A securities? (Section 11.3(c))  
**42% (approximately – based on percentage of LMV).**

Signed by:



Adam Freedman  
 Deputy Chief Compliance Officer and Associate General Counsel

Dated: July 16, 2013

Name of Firm: Angelo, Gordon & Co.

***Brown Brothers Harriman Inflation Indexed Securities – June 30, 2013***

*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 ([Investments@samcera.org](mailto:Investments@samcera.org)) by Monday, July 15, 2013.

**General Compliance Issues**

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (Section 19.4(a)) Yes/No: **YES** If no, please explain.
2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: **YES** If no, please explain.
3. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: **YES** If no, please explain.
4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (Section 6.0) Yes/No: **NO** If yes, please explain.
5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: **NO** If yes, please explain.

**Through discussions with Michael Coultrip, CIO, we implemented a duration hedge through the use of Treasury futures to reduce the portfolio duration by approximately 3 years. We have agreed to maintain a duration consistent with the Barclays US Aggregate going forward.**

6. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: **NO** If yes, please explain.
7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (Section 9.1) Yes/No: **NO** If yes, please explain.

8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: **NO** If yes, please explain.

### **Derivative Investments**

1. Are derivatives used in the management of the investment strategy? Yes/No: **YES** If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.
2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: **YES** If no, please explain.
3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: **YES** If no, please explain.
4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: **YES** If yes: Do the counter-parties have investment grade debt? Yes/No: **YES** Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: **YES** If no, please explain.
5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: **YES** If yes: Do the counter-parties have investment grade debt? Yes/No: **YES** Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: **YES** If no, please explain.
6. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: **YES** If no, please explain. What is the largest exposure to a single counter-party within the portfolio? **Our only extended counterparty exposure is in currency forwards and the capital at risk, which would be any gains on the contract, is typically less than 1%.** Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month? **Please see the counterparty list below.**

Legal Name	Legal Name
Barclays Capital Inc.	First Southwest Company
Citigroup Global Markets Inc.	FTN Financial Securities Corp.
Deutsche Bank Securities Inc.	G.X. Clarke & Co.
Goldman Sachs & Co.	Jefferies & Co.
HSBC Securities (USA), Inc	Loop Capital Markets, LLC
JP Morgan Securities LLC	Piper Jaffray & Co.
Merrill Lynch, Pierce, Fenner & Smith Inc.	PNC Capital Markets LLC
Morgan Stanley & Co. LLC	Raymond James & Associates, Inc.
RBS Securities Inc	Stifel, Nicolaus & Company, Inc.
BNP Paribas Securities Corp	SunTrust Robinson Humphrey, Inc.
BNY Mellon Capital Markets, LLC	TD Securities (USA) LLC
Credit Suisse Securities (USA) LLC	Robert W. Baird & Co., Inc.
Mizuho Securities USA Inc, & Subsidiaries	Janney Montgomery Scott LLC.
Nomura Securities International, Inc.	KGS-Alpha Capital Markets
RBC Capital Markets LLC	Southwest Securities Inc.
SG Americas Securities, LLC	Susquehanna Financial Group, LLLP
UBS Financial Services Inc.	Guggenheim Securities LLC
Wells Fargo Securities LLC	Siebert Brandford Shank & Co. LLC
BB&T Capital Markets	US Bancorp Investments, Inc.
BMO Capital Markets GKST Inc.	KeyBanc Capital Markets Inc.
Cantor Fitzgerald & Co.	Samuel A. Ramirez & Co., Inc.
CIBC World Markets Inc.	

7. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies? (Appendix C(6)) Yes/No: **YES** If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: **NO** If yes, please explain.
  
8. 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.

**We have not invested in "limited allocation derivative investments" in the SamCERA portfolio.**

9. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: **NO**  
If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))
10. 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.

**We have not invested in "limited allocation derivative investments" in the SamCERA portfolio.**

11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: **YES** If no, please explain.
12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))

**We have not invested in "limited allocation derivative investments" in the SamCERA portfolio.**

13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

**The foreign exchange market is highly liquid with several trillion dollars of currency traded daily and a wide variety of active market participants worldwide. Within the foreign exchange market, the currencies of the forwards used in the SamCERA portfolio are among the most actively traded.**

**Hedging activity or use of forward currency contracts may reduce the risk of loss from currency revaluations, but also may reduce or limit the opportunity for gain and involves counter party risk, which is the risk that the contracting party will not fulfill its contractual obligation to deliver the currency contracted for at the agreed upon price. Because typically no money changes hands at the outset of a forward currency contract, the counter party risk is limited to the profit or loss on the contract, it is not the notional value of the contract.**

14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g)) Yes/No: **NO** If yes, please explain.

### Investment Manager Guidelines

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

### Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? Yes/No: **NO** If yes, do the investments comply with the policies? (Section 11.0) 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 (Section 11.3)

Cash/Receivable	4.56%
Certificates of deposit	0.00%
Commercial paper	0.00%
High grade short-term securities	0.00%
US Government & Agency Sec.	93.06%
Corporate Bonds	0.00%
MBS & ABS	0.00%
Yankee Bonds	0.00%
Non-US Sovereign Debt	2.38%

1. Is the firm monitoring its active investment management decisions relative to the Retirement Association's investment benchmark? (Section 6.3) Yes/No: **YES** If no, please explain.
2. Does the firm conduct horizon analysis testing? (Section 19.4 j) Yes/No: **NO** If no, please explain.

**We largely manage the portfolio in line with the index duration and as a result do not conduct horizon analysis testing.**

3. Are any holdings below investment grade? **NO** (Section 11.3(b)) If yes, why are they held in the portfolio?
4. 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: **NO** (Section 11.3(b)) Please specify the bond issue and percentage amount. 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 the name of the industry and percentage amount. **NO**
5. What percentage of the portfolio is held in Rule 144A securities? (Section 11.3(c)) **0.00%**



Signed by: John Ackler

Dated: 7/3/13

Name of Firm: Brown Brothers Harriman & Co.

## Pyramis Global Advisors U.S. Core Bonds – June 30, 2013

*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 ([Investments@samcera.org](mailto:Investments@samcera.org)) by Monday, July 15, 2013.

### GENERAL COMPLIANCE ISSUES

1. Are SamCERA's market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: Yes. If no, please explain.
2. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: Yes If no, please explain.
3. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: No. If yes, please explain.

No. However, with respect to personnel, the following organizational changes took place within Pyramis in the first quarter of 2013:

- Effective January 7, 2013, Pam R. Holding joined Pyramis as Head of Portfolio Management. In this newly created role, Pam leads many of the equity portfolio teams and oversee strategy and implementation of institutional clients' investments. Pam joined Pyramis from Putnam Investments, where she was most recently managing director, global value equities. Prior to that, she was associate director, head of European research in Putnam's London office.
4. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: No If yes, please explain.
  5. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: \_\_\_ If yes, please explain.

From time to time, in the regular course of its business, PGATC (including any officer or principal thereof) may be involved in legal proceedings (including, but not limited to, litigation, arbitration, bankruptcy, receivership, or similar proceedings). There are no material legal proceedings currently pending against PGATC that might affect the investment management services contemplated herein.

In the regular course of its business, PGATC may also receive inquiries (including subpoenas and voluntary requests for information) from regulatory authorities or law enforcement; a regulator may conduct an on-site examination; or a regulator may commence an investigation.

The Firm does not make public comment about such inquiries, examinations, or investigations unless and until enforcement proceedings are initiated. To the extent that PGATC's securities affiliates have been sanctioned, fined, or cited by the Securities and Exchange Commission (SEC), Financial Industry Regulatory Authority



(FINRA), or any other regulatory body, any such sanction, fine, or citation has been disclosed in its affiliates' Forms BD and/or Forms ADV in accordance with the requirements of such forms.

We note that the FDIC issued a civil money penalty of \$1,564.08 against PGATC in connection with an allegation that PGATC failed to ensure that authorized withdrawal limits on PGATC's designated account as of June 30, 2009, were appropriately set to take into account PGATC's increased deposit insurance assessment for the quarter ending March 31, 2009.

## DERIVATIVE INVESTMENTS

1. Are derivatives used in the management of the investment strategy? Yes/No: Yes. If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.
2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: Yes. If no, please explain.
3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: Yes. If no, please explain.
4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: Yes. If yes: Do the counter-parties have investment grade debt? Yes/No: Yes. Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: Yes. If no, please explain.
5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: Yes. If yes: Do the counter-parties have investment grade debt? Yes/No: Yes. Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: Yes. If no, please explain.
6. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: Yes. If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure.  
5% (please note this refers to the exposure for each participant of the pool).

Have there been any changes to the investment manager's list of approved counter-parties over the past month? No.

7. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies? (Appendix C(6)) Yes/No: Yes. If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: No. If yes, please explain.
8. 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: Yes 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.

INTEREST RATE SWAP	% MKT VALUE
CMEC IRS 3ML 7/05/23	-0.31
CMEC IRS 3ML 7/05/23	0.31
CMEC IRS 2.395% 7/05/23	-0.3
CMEC IRS 2.395% 7/05/23	0.31
CMEC IRS 1.3125% 6/13/18	-0.25
CMEC IRS 3ML 6/13/18	0.25
CMEC IRS 1.225% 6/07/18	-0.09
CMEC IRS 3ML 6/07/18	0.09
CMEC IRS 3ML 6/07/43	-0.07
CMEC IRS 3ML 6/07/43	0.07
CMEC IRS 3.2275% 6/07/43	-0.07
CMEC IRS 3.2275% 6/07/43	0.07
CMEC IRS 2.3125% 6/07/23	-0.07
CMEC IRS 3ML 6/07/23	0.07

As a participant in the Broad Market Duration pool, SamCERA will have a small amount of exposure to derivatives from time to time. As of 6/30/13 this exposure was comprised entirely of interest rate swaps. The portfolio held 14 interest rate swaps with an average notional of 0.2% of the portfolio and a total net exposure of 0.02%.

9. State if any restricted derivative investments are held in SamCERA's portfolios. Yes/No: No. If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))
  
10. 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: Yes. If no, please explain.
  
11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: Yes. If no, please explain.
  
12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))

Fidelity Pricing & Cash Management Services (FPCMS) utilizes a combination of sources for derivatives pricing. Wall Street brokers are our primary sources for swaps. Bloomberg is our primary pricing source for futures.

**13. 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.**

All derivative instruments used in the portfolio are liquid. Given the minimal role they play in the portfolio and the extensive research conducted by the Pyramis Counterparty Risk team and the large team of in-house and external lawyers that support these efforts we feel the legal and regulatory risks are minimal.

**14. 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: Yes. If yes, please explain.**

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) was adopted in 2010 to create a more effective regulatory structure, address a number of regulatory gaps, and increase market transparency and accountability in the financial system. Dodd-Frank was intended, among other things, to create a comprehensive regulatory framework for derivative instruments, and to increase market accountability and transparency in the financial system. Regulatory implementation of a number of important rules has taken effect during the first half of 2013. In particular, certain derivatives transaction that customarily traded over-the-counter must now trade through a clearinghouse. This migration to clearing has had a meaningful impact on market access, pricing, reporting, and counterparty risk. We have taken the necessary steps on behalf of our clients to accommodate the current rules changes and will continue to work to prepare for future regulatory changes.

### INVESTMENT MANAGER GUIDELINES

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

### CASH & EQUIVALENTS

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

**DOMESTIC FIXED INCOME PORTFOLIOS**

1. State the percentage of the portfolio held in each of the following types of securities (Section 11.3):

CERTIFICATES OF DEPOSIT	N/A %
COMMERCIAL PAPER	N/A %
OTHER HIGH GRADE SHORT-TERM SECURITIES	1.2%
U.S. GOVERNMENT & AGENCY SECURITIES	36.4%
CORPORATE BONDS	24.5%
MORTGAGE- AND ASSET-BACKED SECURITIES	37.9%
YANKEE BOND SECURITIES	N/A %

2. Is the firm monitoring its active investment management decisions relative to the Retirement Association's investment benchmark? (Section 6.3) Yes/No: Yes.

3. Does the firm conduct horizon analysis testing? (Section 19.4 j) Yes/No: Yes.

4. Are any holdings below investment grade? (Section 11.3(b)) If yes, why are they held in the portfolio?

As of 6/30/13, 0.95% of the portfolio was allocated to below investment grade securities. These positions were purchased as investment-grade, but were subsequently downgraded to below investment-grade. The portfolio will continue to hold them until the risk/return profile of the securities no longer meets our fundamental research or relative value standards.

5. 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: No. (Section 11.3(b)) Please specify the bond issue and percentage amount. 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. No. Please specify the name of the industry and percentage amount.

6. What percentage of the portfolio is held in Rule 144A securities? (Section 11.3(c))

As of 6/30/13, 3.1% of the portfolio was allocated to 144A securities.

Signed by: 

Dated: 7/16/13

Name of Firm: Pyramis Global Advisors

***Western Asset Management U.S. Core Plus – June 30, 2013***

***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 ([Investments@samcera.org](mailto:Investments@samcera.org)) by Monday, July 15, 2013.

**General Compliance Issues**

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (Section 19.4(a)) Yes/No: **Yes** If no, please explain.
2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: **Yes** If no, please explain.
3. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: **Yes** If no, please explain.
4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (Section 6.0) Yes/No: **No** If yes, please explain.
5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: **Yes** If yes, please explain.

In June of 2013 Mr. Paul Jablansky, Western Asset's Head of Structured Products, left the Firm. His duties are being covered on an interim basis by Mr. Dennis J. McNamara, CFA.

6. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: **No** If yes, please explain.
7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (Section 9.1) Yes/No: **No** If yes, please explain.
8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: **No** If yes, please explain.

## Derivative Investments

1. Are derivatives used in the management of the investment strategy? Yes/No: **Yes** If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.
2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: **Yes** If no, please explain.
3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: **Yes** If no, please explain.
4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: **Yes** If yes: Do the counter-parties have investment grade debt? Yes/No: **Yes** Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: **Yes** If no, please explain.
5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: **Yes** If yes: Do the counter-parties have investment grade debt? Yes/No: **Yes** Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: **Yes** If no, please explain.

Western Asset's Broker Review Committee ("the Committee") maintains an Approved List of counterparties for client transactions. Each counterparty is reviewed by members of Western Asset's credit group prior to approval. Credit review includes analysis of the counterparty's capital adequacy, profitability, liquidity and other factors as may be appropriate. In addition to the credit review, counterparties are evaluated on execution capability, pricing, responsiveness, specialist credentials, research and back-office capabilities. The Committee reviews additions to the Approved Lists quarterly with a thorough re-evaluation of all counterparties annually.

The majority of Western Asset's trades involve limited counterparty credit risk. Once a trade is done and settled the Firm's exposure to the broker is over. Counterparty credit risk is only created when Western Asset relies on the broker to make future payments or forward settle a trade beyond the normal period. While this is obvious for multi-year swaps transactions, there are other transactions that also create counterparty credit risk. When aggregating Western Asset's total credit exposure to each counterparty, it is important to also take into account all of these transactions.

Western Asset seeks to reduce risk and promote diversification in its use of counterparties when using credit default swaps as in all areas of investment. The use of multiple counterparties lends itself to a more competitive bidding process, and therefore

promotes best execution. Counterparty creditworthiness is a key factor that Western Asset's front office reviews before entering into a derivative agreement.

Subsequent to a trade, Western Asset's Swaps Team monitors swap exposure on a periodic basis (e.g., daily, weekly) based on the terms of the credit support annex (CSA) and instructs cash and/or security movements via the custodian bank to satisfy the collateral requirements in order to mitigate counterparty risk.

Western Asset has a CSA with each counterparty with whom the Firm trades. The CSA protects the client's marked-to-market exposure against each counterparty for amounts exceeding the minimum collateral transfer threshold. The minimum transfer amount established in each CSA varies by counterparty but generally ranges from \$250,000 to \$750,000.

6. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: **No**  
If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counterparties over the past month?

Counterparty selection is a balance of diversification versus best execution. The lack of counterparty diversification in the SamCERA portfolio can be attributed to the relatively small amount of exposure on the whole, seven basis points of the portfolio's market value. This can lead to one position making up the majority of the counter party risk. With that said, we are concerned about concentration risks that breach 3% of the portfolio's MV, and currently the largest exposure is only five basis points of the MV.

The portfolio has the largest exposure to the Royal Bank of Scotland Group, PLC.

In the past month (6/1/2013 – 6/30/2013) there were no changes to our approved counter-party list.

7. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies? (Appendix C(6)) Yes/No: **Yes** If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: **No** If yes, please explain.
8. 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: **Yes** 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.

Please see the limited allocation derivatives file attached to find all limited derivatives as of 6/30/2013.

Western Asset uses derivatives only when allowed by client guidelines. The Firm's derivatives strategy is overseen by the Broad Market Committee under the oversight of the Chief Investment Officer, utilizing reporting provided by the Risk Management Department. Derivative risk is addressed through avoiding leverage and limiting exposure. Under no circumstances does Western Asset use leverage in its derivatives strategy. The Legal & Compliance Department monitors derivative usage and their adherence to guidelines continuously. Notional exposure limits are monitored daily. Western Asset uses industry-leading Charles River Development's ComplianceMaster (CRD) as well as PCR, an in house derivative position monitoring system, to monitor derivative quantitative limits. Where an issue is identified, it is escalated to the portfolio manager and the client service executive assigned to the account. In addition, the Risk Management Department frequently monitors the extent of derivatives used by the Firm. Exposure limitations are addressed in the standard Derivatives Philosophy and Guidelines attached.

9. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: **No** If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))
10. 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: **Yes** If no, please explain.

Stress testing, as part of Western Asset's ongoing risk management process, is performed continuously to its portfolios in order to assess their behavior under a variety of interest rate and spread scenarios. The correlation assumptions used in these simulations are continually revised on the basis of historical experience and the judgment of senior investment professionals. Correlations can also be equal to one in certain scenarios. The objective of scenario analysis is to help ensure that portfolio risk is well-diversified and that tracking error will not exceed expectations. Scenario analyzes include a full revaluation of all securities. This is to help Investments professionals to understand the behavior of the portfolios under different tail metrics. Portfolio managers receive a report which estimates the likely performance behavior of all portfolios under their supervision under a variety of what-if scenarios (e.g., if interest rates rise 50 or 100 bps, if the yield curve steepens or flattens, if spreads widen by 50 bps).

11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: **Yes** If no, please explain.
12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))



Pricing sources for derivatives vary depending upon the specific derivative instrument. Exchange traded futures and options are priced using closing prices from the primary exchange where they are traded, using closing levels pulled from Bloomberg. Over-the-counter (OTC) options are priced by obtaining current prices from broker/dealers or a Bloomberg model. Interest rate swaps and credit default swaps where possible are priced by a pricing vendor, Markit, otherwise Bloomberg swaps models or dealer quotations are used.

Most OTC derivative instruments are priced using external vendor Markit, otherwise Bloomberg swaps models or dealer quotations are used.

Interest Rate Swaps	Markit
IR Swaptions	Markit
Credit Default Swaps	Markit
<ul style="list-style-type: none"> <li>• except ARMS, ABX, ABS</li> </ul>	Counterparty Statement
Credit Swaptions	Counterparty Statement
Total Return Swaps	Bloomberg Model
Currency Options	Bloomberg Model

At the time of trade input, Western Asset captures the information for both the derivative and its underlying instrument. The Firm updates the price and analytics (duration, yield, etc) for the underlying instrument on a daily basis, even if it is not held, to ensure the quality of data for the derivative position. The risks of the derivative and its underlying physical are monitored concurrently using various reports.

Once Western Asset is satisfied it has highly accurate data at security level, the Firm commences the process of producing the various holdings, exposure, concentration, benchmark comparison and other risk management reports used by the Firm's portfolio and risk management professionals on a daily basis. These reports show the net effects of derivatives on a portfolio. Such reports would show term structure, convexity, interest rate and spread sensitivity breakdown by sectors or maturity buckets. Western Asset's portfolio management and risk management teams also coordinate with the compliance department to make sure that net exposure to derivatives are in line with a client's investment guidelines.

13. 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.

Western Asset's management style focuses on adding incremental value without taking on excessive risk. Consequently, the Firm's guidelines adhere to a value at risk of no

more than 25 basis points or less at risk in any derivatives investment. To ensure that its use of derivative investments is consistent with this investment philosophy, Western Asset has developed internal guidelines – listed below along with a brief description of their rationale – which form the basis of every decision to employ derivatives in investment portfolios, and which are used as a starting point for developing standard guidelines.

- Generally, the net duration contribution to the portfolio for long futures and interest rate swaps will not exceed 20% of the underlying portfolio duration. Net short positions, typically a hedge against other security holdings, will also be limited to a duration contribution of not more than 20% of the portfolio. In no case will the use of futures or swaps bring the portfolio's duration outside of the 80%-120% band.
- Index and credit default swaps will count their full notional value as exposure to the underlying asset. Concentration limits for a particular name or asset class will apply based on the sum of its cash and derivative security holdings.
- Short (written) options positions will always be hedged, either with current security holdings, other options or futures positions. Mortgage derivatives with significant short option characteristics will not exceed 5% of the portfolio, and will generally be a) offset by positions in other mortgage derivatives, or b) offset by other portfolio positions.
- Options positions will be limited so that under a reasonable range of market scenarios the portfolio's duration will not change by more than +/- 20%
- Structured notes with significant short option positions or increasing leverage will not be purchased, and in no case will structured notes exceed 5% of portfolio value.
- Futures and options contracts will be limited to liquid instruments actively traded on major exchanges, or, if over the counter, executed with major dealers.
- No more than 5% of the portfolio will be invested in original futures margin and options premiums, exclusive of any in the money portion of the premiums.
- Under no circumstances will the combination of derivative positions change the characteristics of the portfolio so that it violates any guideline set forth in the Investment Management Agreement.

14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g)) Yes/No: **No** If yes, please explain.

### **Investment Manager Guidelines**

1. Are portfolio holdings well-diversified, and made in liquid securities? (Section 5.0) Yes/No: **Yes** If no, please explain.

2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: **No** If yes, please explain.

As of 6/30 there were no short positions held in the portfolio nor were there any investments in commodities. Short (sold) options are allowed in accordance to the Investment Management Agreement; Exhibit C dated October 25, 2004.

Western Asset's standard approach to leverage is to cover forward securities and the mark-to-market value of interest rate swaps with cash and cash equivalent securities. Next the Firm's investment professionals look to cover short and long futures, short puts, short calls and the notional value short credit default swaps with any excess cash not covering forwards, offsetting derivatives or investment grade liquid assets in the account. This methodology of determining leverage/coverage is consistent with the standards used for monitoring coverage requirements as prescribed under Section 18 of the Investment Company Act of 1940. Western Asset has used derivatives in portfolios since 1988, and most of the Firm's clients allow for derivatives authority.

### **Cash & Equivalents**

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

This is in accordance to the Investment Management Agreement; Exhibit C dated October 25, 2004.

### **Domestic Fixed Income Portfolios**

1. State the percentage of the portfolio held in each of the following types of securities (Section 11.3)

<b>Category</b>	<b>% of Portfolio</b>
<b>Cash &amp; Cash Equivalents</b>	<b>-4.40%</b>
Certificates of Deposit	8.31%
Commercial Paper	0.00%
Other high grade short-term securities	0.96%
Trade Date Cash	-13.67%
<b>US Government and Agencies</b>	<b>14.30%</b>
<b>Corporate Bonds</b>	<b>37.30%</b>
<b>Mortgage &amp; Asset Backed</b>	<b>46.60%</b>
<b>Yankee Bonds</b>	<b>6.20%</b>

2. Is the firm monitoring its active investment management decisions relative to the Retirement Association's investment benchmark? (Section 6.3) Yes/No: **Yes** If no, please explain.
3. Does the firm conduct horizon analysis testing? (Section 19.4 j) Yes/No: **Yes** If no, please explain.

Western Asset's investment management team estimates horizon excess returns under various market scenarios, including best, worst and likely cases. Particular attention is paid to diversifying strategies under each scenario. The horizon for risk management is the same as that for investment management, as the risk effort is closely integrated into the investment process. The firm's tracking error model calculates predicted tracking errors based on 18 months of historical data. Western Asset also generates scenario analysis results daily for representative accounts. These results estimate horizon durations given various interest rate shocks. The horizon is generally instantaneous as Western Asset evaluates one day extreme movements in rates for duration hedging purposes. The Firm's systems allow for any time horizon and can output a wide array of horizon performance or analytics related statistics.


Western Asset does not place a time frame on any of the Firm's strategies or underlying security holdings. As value investors, Western Asset monitors positions regularly to insure that they are consistent with views of value within the context of a particular portfolio's risk profile.

4. Are any holdings below investment grade? (Section 11.3(b)) If yes, why are they held in the portfolio?

Yes, total exposure to BIG @ 9.043%. Held per Exhibit C dated 10/25/2004

5. 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: **No** (Section 11.3(b)) Please specify the bond issue and percentage amount. 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. Yes/No: **No** Please specify the name of the industry and percentage amount.
6. What percentage of the portfolio is held in Rule 144A securities? (Section 11.3(c))

As of 6/30/2013 6.86% of the portfolio's MV was held in Rule 144A securities.

Signed by:   
Dated: 7/15/2013  
Name of Firm: Western Asset Management Co.

RESPONSE TO COMPLIANCE CERTIFICATION STATEMENT FROM

## San Mateo County Employees' Retirement Association

Franklin Templeton Global Multi-Sector Plus

***Review Period: January 1, 2013 – June 30, 2013***

July 16, 2013

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<p>Bill Deakyn, CFA, AIF Vice President – Institutional Relationship Manager Franklin Templeton Institutional Tel: (650) 312-2270 Email: <a href="mailto:BDeakyn@frk.com">BDeakyn@frk.com</a></p>
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FRANKLIN TEMPLETON  
INSTITUTIONAL

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**APPENDIX 1**

Franklin Advisers, Inc. Regulatory Summary

**APPENDIX 2**

Below Investment Grade List

**GENERAL COMPLIANCE ISSUES**

1. **Has the firm acted as a fiduciary and invested its assets for the sole benefit of SamCERA? (Section 19.4(a))**

Yes       No

If no, please explain.

2. **Are SamCERA's market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3)**

Yes       No

If no, please explain.

The benchmark for the SamCERA portfolio is the Barclays Capital Multiverse Index.

There is no benchmark that perfectly captures Franklin Templeton Global Multi Sector Plus' benchmark unconstrained approach to global fixed income investing. The Barclays Capital Multiverse Index benchmark is used for performance comparison, the calculation of risk statistics, but not for portfolio construction. While it is recognized that the strategy will be compared to a benchmark for performance and risk measurement, from a portfolio construction standpoint, the strategy is benchmark unconstrained. The indifference to the benchmark implies an absolute return approach whereby the strategy will invest only in countries or securities that are deemed attractive.

3. **Has the firm's insurance coverage been sustained? (Section 19.4(c))**

Yes       No

If no, please explain.

4. **Does the firm consider any of SamCERA's investment objectives unreasonable? (Section 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? (Section 19.4(j))**

Yes       No

If yes, please explain.

**Portfolio Developments**

There have been no significant developments to the SamCERA portfolio over the last six months ending June 30, 2012.

### **Firm Ownership**

There have been no material changes to the ownership structure of the firm during the past six months ending June 30, 2013.

### **Organizational Structure**

The following changes have taken place in the Franklin Templeton business organization since January 1, 2013:

In June 2013, Franklin Templeton completed its acquisition of alternative investments specialist Pelagos Capital Management, LLC, which began in November 2010. Pelagos, an independent investment advisor, was founded in 2005 and is based in Boston, Massachusetts. Pelagos, whose mission is to create alternative investment solutions that enhance overall returns and lower portfolio volatility, manages three distinct alternative investment capabilities, including a commodity strategy, a managed futures strategy, and a hedge fund replication strategy.

### **Senior Management**

The following changes have taken place in the senior management structure of Franklin Templeton in the last six months ending June 30, 2013.

#### ***Chief Executive Officer and Chairman***

From 1957 until 2013, Charles B. Johnson led Franklin Templeton Investments as its President, CEO and/or Chairman (or similar variation). Greg Johnson became co-CEO in 2004 and has proven his ability to lead the company. For more than a quarter of a century, Greg Johnson has had experience in all major aspects of Franklin Templeton's business, including distribution and investment management.

In 2013, upon the retirement of Charles B. Johnson as Chairman, Greg Johnson was named Chairman. As Chairman of the Board, CEO and President, Mr. Johnson has full responsibility for leading the organization, devising the high-level strategy for the company and directing the group's day-to-day business operations. He oversees all aspects of the organization working closely with the Board.

### **Personnel**

The lead portfolio managers of the SamCERA portfolio are Dr. Michael Hasenstab and Canyon Chan, CFA. The lead portfolio managers are supported by the investment resources of the larger Franklin Templeton Fixed Income Group and more specifically, the Franklin Templeton Global Bond Team. There have been no changes to the lead portfolio managers over the past six months ending June 30, 2013.



6. Have there been any changes in the firm's investment approach? (Section 19.4(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? (Section 9.1)

Yes  No

If yes, please explain.

8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a))

Yes  No

If yes, please explain.

No. During the past six months ended June 30, 2013, Franklin Advisers, Inc. (FAV), was not the subject of any *investment-related proceedings, findings or orders* brought or made by any U.S. federal or state regulatory agency, *foreign financial regulatory authority* or *self-regulatory organization*. For a summary of *investment-related proceedings, findings or orders* brought or made by any U.S. federal or state regulatory agency, *foreign financial regulatory authority* or *self-regulatory organization* against FAV and/or certain of its *advisory affiliates* in the past 10 years ended March 31, 2013, as well as certain other regulatory matters, please see Appendix 1 Franklin Advisers, Inc. Regulatory Summary. From time to time, FAV and its *advisory affiliates* receive subpoenas and inquiries from regulators, including requests for documents or information, and also may become the subject of governmental or regulatory examinations or investigations. *Findings or orders* resulting from such subpoenas, inquiries, examinations or investigations if any, will be reported, to the extent required and permitted by law, on FAV's Form ADV filed with the U.S. Securities and Exchange Commission. (Italicized terms are as defined on Form ADV.)

**DERIVATIVE INVESTMENTS**

1. Are derivatives used in the management of the investment strategy?

Yes       No

If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.

2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C)

Yes       No

If no, please explain.

3. 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.

4. 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.

5. 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.

6. 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? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month?

The largest exposure to a single counter-party is Deutsche Bank AG, exposure is below 2.5%.

There have been no changes to the approved counter-parties list over the previous six months ending June 30, 2013.

7. Are the investment purposes for a derivative investment consistent with the four purposes stated in *SamCERA's* policies? (Appendix C(6))

Yes       No

If no, please explain.

Has the firm developed any new purposes for derivative investments?

Yes       No

If yes, please explain.

8. 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.

Not applicable. No limited allocation derivative investments are held in the SamCERA Portfolio.

State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.

Not applicable.

9. 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))

10. 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.

Not applicable. No limited allocation derivative investments are held in the SamCERA portfolio.

11. 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.

12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))

Not applicable. No limited allocation derivative investments are held in the SamCERA portfolio.

13. 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.

It is the policy of the Franklin Templeton Fixed Income Group, the investment platform of the SamCERA portfolio, to use derivatives only when client guidelines permit. Derivatives may be an efficient way to implement fixed income investment views on a particular sector in one transaction and also as a tool to help isolate risk exposures. Compared with cash bonds, derivatives can be more flexible and more liquid, and may have lower transaction costs. In those strategies that employ derivative instruments, or when clients request the use of derivatives to achieve certain investment objectives, we may also seek to gain exposure through the use of exchange-traded and/or over-the-counter derivatives.

As an opportunistic strategy, the Franklin Templeton Global Multi Sector Plus strategy (the investment strategy of the SamCERA portfolio) utilizes a wide variety of instruments to gain exposure to various fixed income sectors and achieve strategy objectives. For example, foreign exchange forward contracts are frequently used for hedging purposes and to express currency views. We may also engage in cross hedging as an efficient method of implementing the portfolio's optimal currency structure. Interest rate futures and swaps may be used to implement views on interest rates, quickly adjust portfolio duration, or efficiently handle cash flows. Total return swaps can quickly add or reduce bond market exposure.

Franklin Templeton's proprietary risk management systems enable us to properly model derivative instruments and fully understand portfolio risk. Derivatives are used only when portfolio guidelines permit and are not used to generate alpha.

14. 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? (Section 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.

The Global Multi Sector Plus strategy does not engage in short selling, employ leverage or margins.

**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? (Section 11.0)

Yes       No

If no, please explain.

**GLOBAL FIXED INCOME PORTFOLIOS**

**1. State the percentage of the portfolio held in each of the following types of securities (please sub-total each by region) (Section 11.3):**

The following table shows the sector weightings for the SamCERA portfolio as of June 30, 2013. Please note the specific sector weightings for the categories listed above are not available.

Types of Securities	Investment Objective	Percentage of Portfolio (%)
<b>Cash &amp; Cash Equivalents</b>		<b>6.04</b>
<b>Corporate Bonds</b>		<b>14.59</b>
	Investment Grade	0.32
	Non-Investment Grade	14.26
<b>International Government/Agency Bonds</b>		<b>68.61</b>
	Investment Grade	59.80
	Non-Investment Grade	8.81
<b>Others</b>		<b>0.13</b>
<b>Sovereign Bonds</b>		<b>10.63</b>
	Investment Grade	3.80
	Non-Investment Grade	6.83
<b>Total</b>		<b>100.00</b>

The following table represents the regional breakdown of the SamCERA portfolio as of June 30, 2013.

Americas	24.44
Asia	29.06
Europe/Africa	40.45
Cash and Cash Equivalents	4.83
Other	1.22
<b>Total</b>	<b>100%</b>



2.

Sector	Region	MV%
Certificates of Deposit (by region)	-	-
Cash & Cash Equivalents	-	6.04%
Preferred Stock	-	0.13%
Commercial Paper (by region)	-	-
Other high grade short-term securities (by region)	-	-
Government securities (by region)	Africa	3.10%
	Asia	27.61%
	EMU	8.94%
	Europe NonEMU	17.60%
	L. America/Caribbean	13.49%
	Mid-East	4.01%
	North America	2.45%
Agency Securities (by region)	Australia/NZL	0.22%
	Europe NonEMU	1.82%
Investment Grade Corporate Bonds (by region)	Europe NonEMU	0.23%
	North America	0.09%
High Yield Corporate Bonds (by region)	Africa	1.28%
	Asia	0.12%
	Australia/NZL	0.21%
	EMU	1.71%
	Europe NonEMU	2.64%
	L. America/Caribbean	0.18%
North America	8.10%	
Mortgage and asset-backed securities (by region)	-	-
Certificates of Deposit (by region)	-	-
Commercial Paper (by region)	-	-

3. Is the firm monitoring its active investment management decisions relative to the Retirement Association's investment benchmark? (Section 6.3)

Yes       No

**If no, please explain.**

There is no benchmark that perfectly captures Franklin Templeton Global Multi Sector Plus' benchmark unconstrained approach to global fixed income investing. The Barclays Capital Multiverse Index benchmark is used for performance comparison, the calculation of risk statistics, but not for portfolio construction. While it is recognized that the strategy will be compared to a benchmark for performance and risk measurement, from a portfolio construction standpoint, the strategy is benchmark unconstrained. The indifference to the benchmark implies an absolute return approach whereby the strategy will invest only in countries or securities that are deemed attractive.

**4. Please list any holdings that are below investment grade or not-rated (Section 11.3(b))**

Please refer to Appendix 2: *Below Investment Grade List*.

**5. Excluding U. S. Government and Agency bond holdings, did any individual bond issue represent more than 5% of the market value of the portfolio? (Section 11.3(b))**

Yes       No

Please specify the bond issue and percentage amount.

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 the name of the industry and percentage amount.

Yes       No

**6. What percentage of the portfolio is held in Rule 144A securities? (Section 11.3(c))**

The percentage of 144A securities held in the account as of June 30, 2013 is 16.79%.

**Signed By:**



**Name:**

Breda Beckerle

**Title:**

Chief Compliance Officer

**Dated:**

Monday, July 15, 2013

**Name of Firm:**

Franklin Advisers, Inc. (FAV)

## IMPORTANT NOTES

This response (the Response) is based on the information provided in the Due Diligence Questionnaire (the Questionnaire). To the extent any such information in the Questionnaire is incomplete or inaccurate, Franklin Templeton reserves the right to alter, amend or delete any information it has provided in the Response. Franklin Templeton has prepared the Response in good faith and, to the best of its knowledge, all information provided in the Response is accurate as of the date submitted. Information, including all data, provided in the Response is unaudited, unless otherwise indicated. Any information from third-party sources is believed to be reliable, but Franklin Templeton cannot guarantee its accuracy or completeness. Information set forth in the Response is subject to change and Franklin Templeton does not undertake any duty to update the Response after its issuance. Responses may include a general description of the types of services Franklin Templeton may provide to its clients and may not be applicable or tailored to the Questionnaire.

The information contained in the Response is solely for the purpose of responding to the Questionnaire, shall be treated as confidential, and shall be distributed internally on an as-needed basis only. It shall not be distributed or otherwise communicated to third parties (other than any consultant engaged by the issuer of the Questionnaire to assist in connection therewith) without the prior written consent of Franklin Templeton. Any such consultant shall likewise be obligated to treat the Response as confidential.

Investing may involve a high degree of risk. The issuer of the Questionnaire is deemed to be an experienced institutional investor or consultant and is expected to make its own independent assessment of the appropriateness and the associated risks of investing. Franklin Templeton shall not be held liable for any losses or damages arising out of any person's reliance upon the information contained in the Response. Except as expressly provided in the Response, no person, firm, or corporation has been authorized to give any information or to make any representation other than those contained in the Response.

All investors should inform themselves as to the legal requirements applicable to them with respect to any investments, holdings, and/or disposition of any investments. Franklin Templeton takes no responsibility for informing or advising investors of any applicable laws or regulations.

Views or opinions expressed in the Response do not constitute investment, legal, tax, financial or other advice. The Response is neither an offer for a particular security nor a recommendation to purchase any investments. The way Franklin Templeton implements its investment strategies and the resulting portfolio holdings may change depending on a variety of factors such as market and economic conditions, as well as client account guidelines and restrictions, if applicable. The information provided in the Response is not a complete analysis of every aspect of any market, country, industry, security, or portfolio. Past performance does not guarantee future results and results may differ over future time periods.

By accepting these materials, you confirm your acceptance of the above terms.

## ***INVESCO Core Real Estate – June 30, 2013***

### ***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 ([Investments@samcera.org](mailto:Investments@samcera.org)) by Monday, July 15, 2013.

### **General Compliance Issues**

1. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) **Yes/No:** \_\_\_ If no, please explain.
2. Has the firm's insurance coverage been sustained? (Section 19.4(c)) **Yes/No:** \_\_\_ If no, please explain.
3. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (Section 6.0) **Yes/No:** \_\_\_ If yes, please explain.
4. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) **Yes/No:** \_\_\_ If yes, please explain.
5. Have there been any changes in the firm's investment approach? (Section 19.4(e)) **Yes/No:** \_\_\_ If yes, please explain.
6. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) **Yes/No:** \_\_\_ If yes, please explain.

### **Investment Manager Guidelines**

1. Are portfolio holdings well-diversified? (Section 5.0) **Yes/No:** \_\_\_ If no, please explain.
2. Has the firm used leverage? **Yes/No:** \_\_\_ If yes, please explain.

**Yes. The maximum leverage amount for the Fund is 35%. As of March 31, 2013, the Fund's leverage was 20.7%.**

## Cash & Equivalents

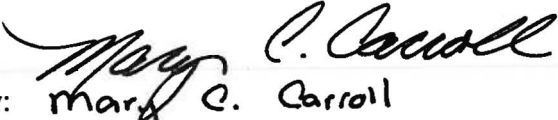
1. Does the firm directly invest in short term fixed income investments? Yes/No: \_\_\_ If yes, do the investments comply with the policies? (Section 11.0) Yes/No: \_\_\_ If no, please explain.

## Real Estate Portfolios

1. Is the portfolio diversified as to region, property type, industry, and economic base? (12.3(a)2) Yes/No \_\_\_ If no, do the investments comply with the policies?
2. Is the portfolio achieving a total time-weighted rate of return, net of fees, which equals or exceeds, the NFI ODCE index? (12.2) Yes/No \_\_\_ If no, please explain.

The Fund's net returns exceed the net NFI ODCE index on a 3-year, 5-year and since inception basis.

3. Does the core fund concentration exceed 40% (by value) in any single property type or 35% in any single metropolitan statistical area, determined as of the date of the acquisition of the property? (12.3(a)2) Yes/No \_\_\_ If yes, please explain.
4. Is the portfolio leverage within the 35% of overall loan to value guideline (12.3(d)) Yes/No \_\_\_ If no, please explain.

  
Signed by: Mary C. Carroll  
Dated: 7/15/13  
Name of Firm: Invesco Real Estate

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

July 23, 2013

Agenda Item 6.1

**TO:** Board of Retirement

**FROM:** Michael Coultrip, Chief Investment Officer

**SUBJECT:** Preliminary Monthly Portfolio Performance Report for the Period Ending June 30, 2013



**Staff Recommendation:**

Review the preliminary performance report dated June 30, 2013.

**Background:**

This preliminary report is intended to provide a high-level view of the portfolio and its trends. It is not intended to provide short-term performance upon which the Board would act. As discussed previously, preliminary performance estimates are now included for Angelo Gordon's PPIP, AQR's risk parity, and AQR's hedge fund portfolios. The quarterly performance metrics are not yet available for the Angelo Gordon STAR Fund and our private equity and real estate portfolios. The performance for these portfolios will be reflected in the quarterly performance report generated by SIS.

The attached performance report now shows both net and gross of fee returns for the total plan on page one, with net composite returns (pages 2-3) and net manager returns (pages 4-8) also shown.

**Discussion:**

The fund's net preliminary return for June was -2.1%, while the preliminary trailing twelve month return (and fiscal-year return ending June 2013) was +13.5% net (+13.8% gross). The twelve-month net return is higher than SamCERA's Total Plan Policy Benchmark return of 12.7% and above the Actuarial Assumed Earnings Rate of 7.50%. As a reminder, SamCERA should expect performance to vary substantially from that of the Total Plan Policy Benchmark in the initial stages of its private equity implementation.

June was a risk-off month as stocks, bonds, and commodities were all down due to market fear around the Federal Reserve's plans to 'taper' their bond purchases as conditions warrant. This led to a substantial increase in interest rates, with the yield on the 10 year bond higher by 36 basis points, bringing the combined yield increase over May and June to 82 basis points. This in turn led to an unwinding of levered 'risk-on' bets in emerging markets and credit markets.

Economic activity continued to muddle along in June, with continued strength in the housing sector offset by lackluster jobs data and a downward revision in the final GDP estimate for the 1<sup>st</sup> quarter.

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

The S&P 500 was down -1.3% during the month. While most domestic equity indices were down across the board, smaller-capitalization stocks outperformed their larger-cap peers (but were still down on the month).

International equity indices were also lower on the month, with developed markets (as measured by MSCI EAFE) down by -3.5% and emerging markets down by -6.3%.

As a result of higher across-the-board rates and wider credit spreads, the general fixed income market declined -1.6%. Riskier assets fared worse, with high yield bonds down -2.6% and emerging market bonds down -5.0% on the month.

Commodities were down -4.7% on continued concerns around lower demand coming from weaker global economic activity. The rout in gold continued in June, with gold prices down -12%, resulting in a -27% loss for the year as investors placed less of a premium on the 'crisis insurance' role that gold has traditionally offered.

**Attachments:**

SIS Market Update

State Street Performance Report



## U.S. EQUITY

The Federal Reserve said risks to the outlook for the U.S. economy and job market have eased since last fall, but said it would keep buying bonds given the still high level of unemployment.

Domestic equity markets were lower across the board in June, with large cap stocks leading the decline. The Russell 1000 Growth Index was down -1.88% for the month and the Russell 1000 Value Index was down -0.88%. The Russell 2000 Growth Index was down -0.62% and the Russell 2000 Value was down -0.41%. The S&P 500 Index ended the month down -1.34%. The Russell 3000 Index was up +14.06% through the first two quarters of calendar year 2013.

The S&P 500 Index has a trailing P/E ratio of 18.4 and a forward 12-month estimate P/E ratio of 14.6 and dividend yield of 2.1%.

Corporate merger highlights for the month included:

Dell's board of directors unanimously recommended an offer from Michael Dell and Silver Lake Partners to take the company private for \$24.4 billion; Heinz received all regulatory approvals needed to sell itself to Berkshire Hathaway and private equity firm 3G Capital for \$23.2 billion; AstraZeneca will buy U.S. respiratory drug specialist Pearl Therapeutics for \$1.15 billion; Travelers will buy Dominion of Canada General Insurance Co. for about \$1.1 billion; Google is finalizing a deal to acquire Israeli based online mapping company Waze for \$1.3 billion; Business information provider IHS plans to acquire R.L. Polk, owner of Carfax, for \$1.4 billion; Softbank agreed with Sprint Nextel to raise its offer for the U.S. wireless carrier to \$21.6 billion to fend off a counter bid by Dish Network; Apollo Tyres will acquire Cooper Tire & Rubber for \$2.5 billion; Gannett will buy TV station owner Belo for \$2.2 billion in a deal that will make Gannett the USA's fourth largest owner of major network affiliates; U.S.-bill acquire Germany's largest cable operator Kabel Deutschland for \$10 billion; U.S. -based Royalty Pharma dropped a hostile bid worth up to \$8 billion for Irish drug maker Elan; Rosneft plans to sign a deal to supply China with oil worth \$60 billion, according to Vladimir Putin, as ties between Russia and China become tighter; Tenet Healthcare will buy smaller rival Vanguard Health for \$1.7 billion; and, LifeLabs Medical Laboratory will acquire rival CML HealthCare in a deal valued at about \$900 million.

## FIXED INCOME

The Commerce Department reported that gross domestic product expanded at 1.8% annual rate in the 1<sup>st</sup> quarter, revised down from a previously estimated 2.4% pace. The quality of growth was also poorer, with final sales, a measure of momentum, revised down from 1.8% to 1.2%, as lower consumer spending and business fixed investment easily offset higher housing, government purchases and net exports.

The economy added 195,000 jobs in June, however this figure was not enough lower the unemployment rate which remains at 7.6%, according to the Bureau of Labor Statistics. The core consumption deflator, the Fed's favorite measure of inflation, rose 0.1% in May, leaving the year-over-year increase unchanged at 1.1%, well below the Fed's 2.0% target.

The yield on the bellwether 10-year Treasury note soared to 2.52% at the close of June, up sharply from 2.16% at the close of May. At month-end, the 30-year bond yield was 3.52% with the 3-month T-bill remaining at 0.04%. The Barclays Capital US Aggregate Index was down by -1.55% in June reflecting the rise in yields. Non-US Bonds were down again with the JPM Non-US GBI Unhedged falling -0.32% and the JPM Emerging Markets Bond Index + down -5.30% for the month. US High Yield bonds followed suit as the Merrill Lynch HY Master II Index was down by -2.64%. Longer dated bonds were also down for the month with the U.S. Government Long Index falling -3.30%.

On the economic front, the following key data was released in June:

### THE GOOD

\*The Commerce Dept. reported that construction spending rose 0.5% in May, compared with April, when spending rose by 0.1%.

\*New orders for durable goods jumped 3.6% in May, following an upwardly revised 3.6% increase in April.

\*The federal government ran a budget deficit of \$512 billion from October 2012 through June 2013, according to CBO's estimates. That amount is almost \$400 billion less than the shortfall recorded during the same period last year because revenues have risen significantly, while the government's spending has declined.

\*The Conference Board's consumer confidence index jumped to 81.4 in June, the best reading since January 2008 and up from 74.3 in May.

\*The median price of new homes rose to \$263,000, up 3.3% from a year ago.

\*The number of people who signed contracts to buy U.S. homes jumped in May to the highest level in six years.

\*Personal income rose a slightly faster than expected 0.5% in May.

## THE NOT SO GOOD

\*The 30-year fixed mortgage rate surged to 4.46%, the highest rate in two years.

\*The U.S. trade gap swelled more than 12% to \$45.0 billion in May, the biggest month-to-month increase in two years.

\*U.S. consumers increased their debt in May by a seasonally adjusted \$19.6 billion, up from a \$10.9 billion gain in April and the largest amount in a year.

\*The Institute for Supply Management reported that its index of service sector growth for June fell to 52.2 from 53.7 in May, its lowest level since February 2010.

\*The Univ. of Michigan's consumer sentiment index fell 0.4 points to 84.1, still hovering near its six-year high.

\*The Markit U.S. manufacturing purchasing managers index was 51.9 in June, the slowest rate of growth since last October and down from a reading of 52.3 in May.

## NON-U.S. MARKETS

Recent economic data suggested that the British economy is recovering more robustly than had been thought. Indices of activity in manufacturing and services increased by the fastest rate in two years; a measure of business confidence was at its highest level since 2007; and a survey of credit conditions found a rise in demand for mortgages. Sober heads suggest the recovery is fragile and point to the lack of investment.

The Eurozone PMI rose 0.4 points to 48.7, still a bit below the 50.0 mark that differentiates between expansion and contraction but well up from last summer's low of 44.0 to the highest since February 2012.

Unemployment across the 17 European Union countries that use the euro hit another all-time high, rising 0.1% to 12.1% in May. April's unemployment rate was initially estimated to be 12.2%, but was revised down to 12.0% thanks to new data, particularly from France.

Broad money growth for the overall Eurozone continues to slow. M3 grew just 2.9% year-over-year in May, the sixth time that it has decelerated over the last seven months.

Japan's all-industry activity index – one of the more reliable cyclical indicators – rose 0.4% to 96.7 in April, suggesting that the economy is recovering from its export-led swoon in the second half of last year.

China's trade surplus fell 14.0% in June as imports and exports both dropped unexpectedly, suggesting a further slowdown in the Chinese economy.

Non-U.S. equities were lower in May. The MSCI ACWI Ex-U.S. was down -4.30 % (US dollars) in June. Developed stocks (EAFE) were down -3.53% while Emerging Markets lost -6.32% for the month.

## CONCLUSION

Markets have shuddered at simply the talk of the US Federal Reserve tapering quantitative easing programs. Bond funds tracked by popular data providers have dumped massive amounts of bonds and even emerging market debt funds saw record redemptions. Spreads in Latin American, eastern European and Asian names whipsawed violently. Bid-ask spreads in China – one of the more liquid sovereigns – doubled.

Three Fed officials tried to calm investors by assuring them the Fed won't start trimming its bond purchases until the economy has strengthened. They emphasized that any pullback in quantitative easing will hinge on the economy, not a calendar date.

Even with central banks playing down the effect of their statements and actions, it seems likely that further volatility lies ahead.

## Monthly Market Update

### US Equity Indices Trailing Performance

Annualized Performance to Date: Ending Jun-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
Russell 3000 Index	-1.30	2.69	14.06	21.46	12.31	18.63	7.25	5.84	7.81
Russell TOP 200 Index	-1.43	2.85	13.25	19.53	13.11	18.24	6.68	5.44	6.56
Russell TOP 200 Growth Index	-2.15	1.74	10.66	14.85	12.24	18.44	7.52	7.04	6.65
Russell TOP 200 Value Index	-0.74	3.92	15.81	24.29	13.94	17.99	5.75	3.81	6.47
S&P 500 Index	-1.34	2.91	13.82	20.60	12.77	18.45	7.01	5.66	7.30
Russell 1000 Index	-1.36	2.65	13.91	21.24	12.49	18.63	7.12	5.85	7.67
Russell 1000 Growth Index	-1.88	2.06	11.80	17.07	11.27	18.68	7.47	6.99	7.40
Russell 1000 Value Index	-0.88	3.20	15.90	25.32	13.62	18.51	6.67	4.57	7.79
Russell Mid-Cap Index	-1.21	2.21	15.45	25.41	11.06	19.53	8.28	6.92	10.65
Russell Mid-Cap Growth Index	-1.22	2.87	14.70	22.88	9.18	19.53	7.61	7.10	9.94
Russell Mid-Cap Value Index	-1.19	1.65	16.10	27.65	12.77	19.53	8.87	6.45	10.92
Russell 2000 Index	-0.51	3.08	15.86	24.21	10.28	18.67	8.77	5.82	9.53
Russell 2000 Growth Index	-0.62	3.74	17.44	23.67	9.69	19.97	8.89	6.89	9.62
Russell 2000 Value Index	-0.41	2.47	14.39	24.76	10.89	17.33	8.59	4.64	9.30
DJ US REIT Index	-1.76	-4.55	2.16	4.13	8.61	16.76	6.26	3.61	10.31
DJ-UBS US Commodity Index TR	-4.71	-9.45	-10.47	-8.01	-11.22	-0.26	-11.61	-3.38	2.39
DJ-UBS US Gold Index TR	-12.15	-23.38	-27.22	-24.26	-10.39	-1.29	4.82	9.28	12.50

### Non-US Indices Trailing Performance

Annualized Performance to Date: Ending Jun-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
MSCI AC World Index ex USA	-4.30	-2.90	0.27	14.14	-1.01	8.48	-0.34	2.64	9.09
MSCI AC World Index	-2.88	-0.23	6.38	17.21	4.99	12.96	2.86	4.06	8.14
MSCI EAFE Index	-3.53	-0.73	4.47	19.14	1.58	10.55	-0.16	1.85	8.16
MSCI Emerging Markets index	-6.32	-7.95	-9.40	3.23	-6.70	3.72	-0.11	6.13	14.02
ML Global Government Bond Ex. U.S. Index	0.05	-4.88	-9.45	-10.93	-4.00	1.30	3.25	4.88	4.67
Euro	0.30	1.23	-1.41	2.43	-5.31	2.00	-3.77	0.24	1.25
Japanese Yen	1.65	-5.35	-12.96	-19.68	-9.83	-3.78	1.31	2.03	1.91
UK Pound Sterling	0.04	-0.12	-6.69	-3.30	-2.80	0.46	-5.29	-2.79	-0.84

### US Fixed Income Indices Trailing Performance

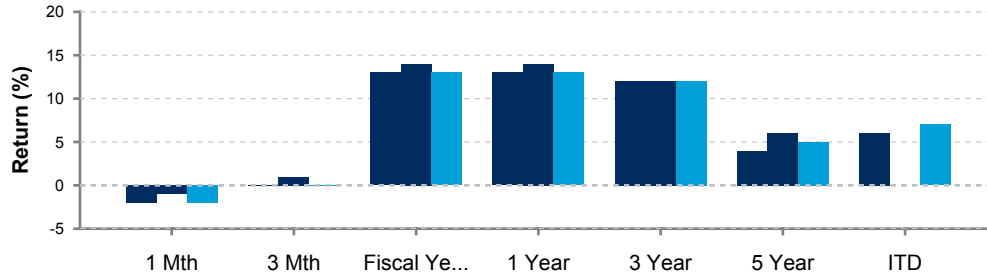
Annualized Performance to Date: Ending Jun-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
ML 3-month T-bill Total Return Index	0.01	0.02	0.04	0.11	0.08	0.11	0.29	1.45	1.72
BarCap Aggregate Bond Index	-1.55	-2.33	-2.44	-0.69	3.31	3.51	5.19	5.60	4.52
ML U.S. Corp/Govt Master Index	-1.87	-2.68	-2.83	-0.67	3.92	3.91	5.24	5.64	4.43
ML U.S. Corporate Master Index	-2.76	-3.36	-3.31	1.75	5.39	5.80	7.17	6.50	5.18
BarCap Mortgage Backed Securities Index	-0.96	-1.96	-2.01	-1.10	1.89	2.51	4.84	5.48	4.70
ML U.S. High Yield Master Index	-2.64	-1.37	1.46	9.44	8.02	10.40	10.49	8.77	8.65
JPM EMBI Global	-5.03	-6.06	-8.22	1.25	5.96	7.85	8.63	8.54	8.85

# San Mateo County Total Fund Characteristics

June 30, 2013



## Total Fund Performance

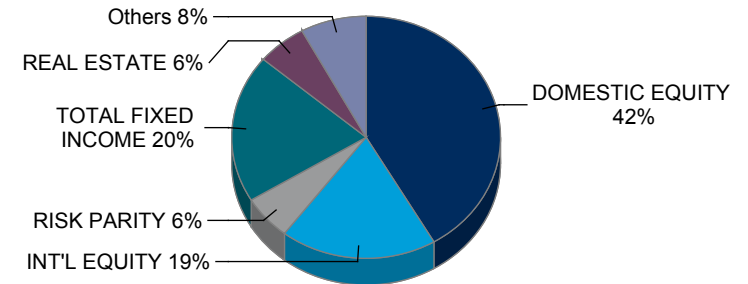


■ TOTAL FUND - Net Mgr 
 ■ TOTAL FUND - Total Invested  
■ SAMCERA TOTAL PLAN POLICY BENCHMARK

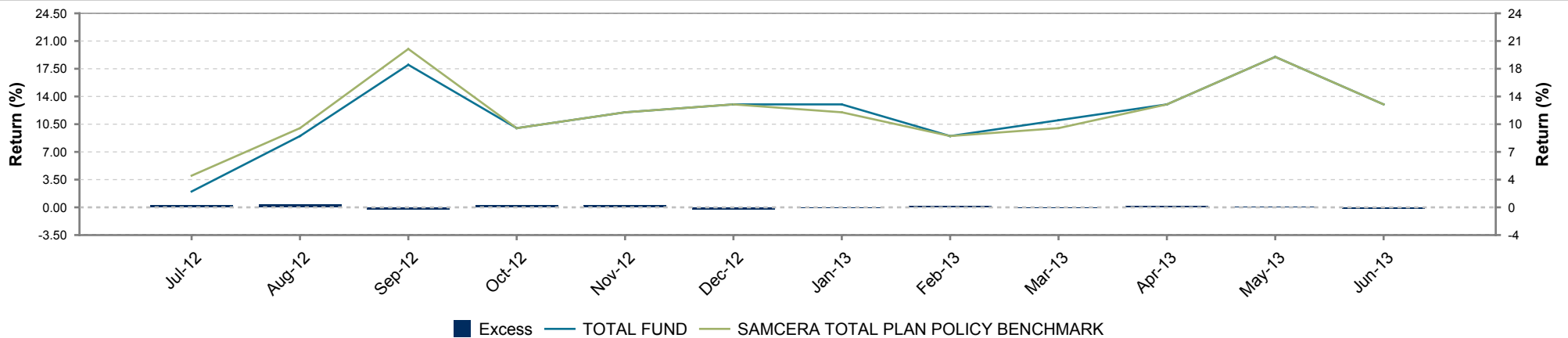
	1-Mth	3-Mth	Fiscal YTD	1-Yr	3-Yr	5-Yr	10-Yr	ITD
TOTAL FUND - Gross	-2.07	-0.18	13.75	13.75	12.10	4.59	6.62	6.51
TOTAL FUND - Net Mgr	-2.07	-0.19	13.45	13.45	11.72	4.33	6.47	6.42
SAMCERA TOTAL PLAN POLICY BENCHMARK	-1.95	-0.26	12.65	12.65	12.38	5.35	7.35	6.75
Excess	-0.11	0.07	0.80	0.80	-0.67	-1.02	-0.88	-0.32

## Asset Allocation

	Ending Market Value (\$)	Allocation (%)
DOMESTIC EQUITY	1,143,517,954	42.0
INTERNATIONAL EQUITY	508,379,795	18.7
PRIVATE EQUITY	64,792,829	2.4
RISK PARITY	157,492,213	5.8
HEDGE FUND	74,140,266	2.7
COMMODITIES	69,083,062	2.5
FIXED INCOME	547,073,866	20.1
REAL ESTATE	158,833,035	5.8
CASH	2,246,234	0.1
TOTAL FUND	2,725,559,255	100.0

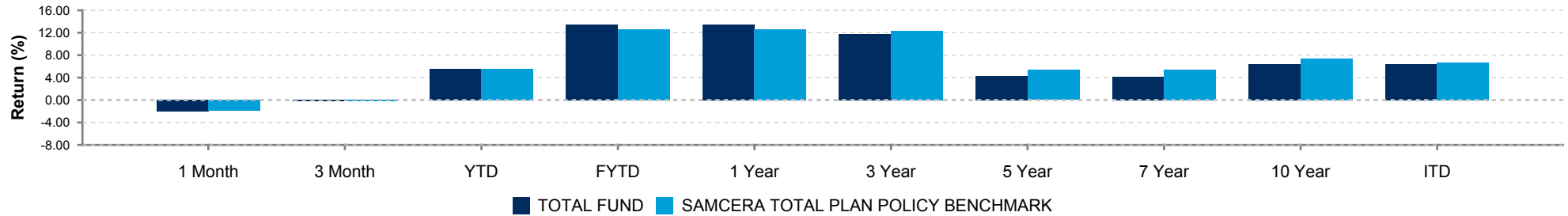


## Cumulative Returns



June 30, 2013

Return Comparison



Composite Returns (Net)

	Market Value (\$)	1 Mth	3 Mth	YTD	FYTD	1 Year	3 Year	5 Year	7 Year	10 Year	ITD
Total Fund	2,725,559,255	-2.07	-0.19	5.61	13.45	13.45	11.72	4.33	4.16	6.47	6.42
SAMCERA TOTAL PLAN POLICY BENCHMARK		-1.95	-0.26	5.53	12.65	12.65	12.38	5.35	5.41	7.35	6.75
Excess		-0.11	0.07	0.08	0.80	0.80	-0.67	-1.02	-1.25	-0.88	-0.32
Total Equity	1,651,897,749	-1.91	1.62	10.17	19.55	19.55	14.68	3.67	3.25	6.88	7.20
SAMCERA TOTAL EQUITY BENCHMARK		-2.23	0.84	9.44	19.32	19.32	15.16	4.92	4.76	8.07	7.62
Excess		0.33	0.78	0.73	0.23	0.23	-0.48	-1.25	-1.51	-1.19	-0.42
Total Fixed Income	547,073,866	-2.36	-3.05	-1.68	4.57	4.57	6.55	6.93	6.14	5.06	5.98
SAMCERA TOTAL FIXED INCOME BENCHMARK		-2.11	-3.41	-3.95	-1.19	-1.19	3.77	5.35	5.71	4.60	5.54
Excess		-0.26	0.36	2.27	5.76	5.76	2.78	1.58	0.43	0.47	0.44
Total Risk Parity	157,492,213	-6.52	-10.07	-6.11	3.19	3.19					5.17
RISK PARITY BENCHMARK		-1.40	0.67	7.23	12.18	12.18					8.15
Excess		-5.12	-10.74	-13.34	-8.99	-8.99					-2.98
Hedge Funds	74,140,266	0.03	2.87	3.44	6.94	6.94					2.56
LIBOR + 4%		0.34	1.03	2.08	4.22	4.22					4.24
Excess		-0.31	1.84	1.36	2.73	2.73					-1.68
Private Equity	64,792,829	1.37	1.44	3.55	2.57	2.57					-58.72
PRIVATE EQUITY BENCHMARK		-1.05	3.44	15.72	25.05	25.05					18.11
Excess		2.42	-2.00	-12.17	-22.48	-22.48					-76.83

# San Mateo County Composite Return Summary



June 30, 2013

## Composite Returns (Net)

	Market Value (\$)	1 Mth	3 Mth	YTD	FYTD	1 Year	3 Year	5 Year	7 Year	10 Year	ITD
Commodities	69,083,062	-3.85	-6.78	-7.71	-1.34	-1.34					-4.54
DJ-UBS COMMODITY		-4.72	-9.46	-10.49	-8.08	-8.08					-13.10
Excess		0.87	2.69	2.78	6.74	6.74					8.55
Total Real Estate	158,833,035	0.00	0.00	3.04	8.78	8.78	13.34	-1.29	2.06	6.71	7.45
SAMCERA NCREIF NFI ODCE EW (Gross)		0.00	0.00	2.57	8.11	8.11	13.25	-0.65	3.12	6.76	7.67
Excess		0.00	0.00	0.48	0.68	0.68	0.09	-0.64	-1.06	-0.05	-0.22
Total Cash	2,246,234	0.05	0.11	0.25	0.49	0.49	0.74	0.09	1.24	1.77	2.43
91 DAY TREASURY BILL		0.01	0.02	0.04	0.11	0.11	0.11	0.29	1.46	1.74	2.35
Excess		0.04	0.09	0.21	0.38	0.38	0.63	-0.20	-0.22	0.03	0.08

# San Mateo County Manager Return Summary

June 30, 2013



<b>Manager Returns (Net)</b>											
	<b>\$ EMV</b>	<b>1 Mth</b>	<b>3 Mth</b>	<b>FYTD</b>	<b>Cal YTD</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>	<b>7 Year</b>	<b>10 Year</b>	<b>ITD</b>
TOTAL EQUITY	1,651,897,749	-1.91	1.62	19.55	10.17	19.55	14.68	3.67	3.25	6.88	7.20
SAMCERA TOTAL EQUITY BENCHMARK		-2.23	0.84	19.32	9.44	19.32	15.16	4.92	4.76	8.07	7.62
Excess		0.33	0.78	0.23	0.73	0.23	-0.48	-1.25	-1.51	-1.19	-0.42
TOTAL DOMESTIC EQUITY	1,143,517,954	-0.97	3.26	21.66	13.78	21.66	17.92	6.21	4.20	7.03	7.67
SAMCERA DOMESTIC EQUITY BENCHMARK		-1.19	2.75	21.85	14.30	21.85	18.68	7.51	5.89	8.09	8.02
Excess		0.22	0.51	-0.19	-0.53	-0.19	-0.75	-1.29	-1.69	-1.06	-0.35
LARGE CAP COMPOSITE	944,486,112	-1.08	3.42	21.39	13.93	21.39	17.60	5.80	4.40	6.92	8.26
RUSSELL 1000 INDEX		-1.36	2.65	21.24	13.91	21.24	18.63	7.12	5.85	7.67	8.82
Excess		0.29	0.76	0.15	0.02	0.15	-1.04	-1.32	-1.44	-0.75	-0.56
DE SHAW INVESTMENT MGT, LLC	147,656,290	-1.09	3.36	22.67	15.23	22.67	19.26				16.47
RUSSELL 1000 INDEX		-1.36	2.65	21.24	13.91	21.24	18.63				16.00
Excess		0.27	0.71	1.43	1.33	1.43	0.63				0.47
BARROW HANLEY	155,045,478	-0.51	6.00	27.06	17.83	27.06	19.10				16.21
Russell 1000 Value Index		-0.88	3.20	25.32	15.90	25.32	18.51				16.18
Excess		0.37	2.80	1.74	1.93	1.74	0.59				0.03
BLACKROCK S&P 500	494,989,252	-1.34	2.92								8.22
S&P 500		-1.34	2.91	8.22							8.22
Excess		0.00	0.01								0.00
SMALL CAP COMPOSITE	199,031,842	-0.45	2.60	24.54	14.97	24.54	19.83	8.04	3.42	7.45	5.86
RUSSELL 2000 INDEX		-0.51	3.08	24.21	15.86	24.21	18.67	8.77	5.82	9.53	6.97
Excess		0.06	-0.49	0.33	-0.89	0.33	1.16	-0.73	-2.40	-2.08	-1.11
BOSTON COMPANY ASSET MGT, LLC	99,516,259	-0.54	2.65	25.86	14.84	25.86	17.73				16.65
RUSSELL 2000 VALUE INDEX		-0.41	2.47	24.76	14.39	24.76	17.33				16.38
Excess		-0.13	0.18	1.10	0.45	1.10	0.40				0.27

# San Mateo County Manager Return Summary

June 30, 2013



<b>Manager Returns (Net)</b>											
	<b>\$ EMV</b>	<b>1 Mth</b>	<b>3 Mth</b>	<b>FYTD</b>	<b>Cal YTD</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>	<b>7 Year</b>	<b>10 Year</b>	<b>ITD</b>
CHARTWELL INVESTMENT MGMT	99,515,228	-0.36	2.54	24.94	15.73	24.94	23.00	8.55	6.72		7.65
RUSSELL 2000 GROWTH		-0.62	3.74	23.67	17.44	23.67	19.97	8.89	6.89		7.26
Excess		0.26	-1.20	1.27	-1.71	1.27	3.03	-0.33	-0.17		0.39
TOTAL INTERNATIONAL EQUITY	508,379,795	-3.96	-1.97	14.78	2.63	14.78	7.60	-2.02	1.21	7.10	5.36
MSCI AC WORLD ex US (GROSS)		-4.30	-2.90	14.14	0.27	14.14	8.48	-0.34	2.64	9.09	5.38
Excess		0.34	0.93	0.64	2.36	0.64	-0.88	-1.68	-1.43	-2.00	-0.01
BAILLIE GIFFORD OVERSEAS LIMITED	173,645,759	-4.31	-1.46	19.94	5.92	19.94					10.34
MSCI ACWI ex US GROWTH (GROSS)		-4.00	-2.81	14.75	1.64	14.75					5.94
Excess		-0.31	1.35	5.19	4.28	5.19					4.40
EATON VANCE MANAGEMENT	58,909,468	-5.54	-6.23	5.25	-6.21	5.25					-2.18
MSCI Em Markets (USD) GDR		-6.32	-7.95	3.23	-9.40	3.23					-4.69
Excess		0.78	1.73	2.02	3.19	2.02					2.51
MONDRIAN INVESTMENT PARTNERS	218,452,071	-3.28	-0.98	13.04	2.78	13.04	9.35	0.39	2.63		5.58
MSCI ACWI EX US VALUE (GROSS)		-4.60	-2.98	13.51	-1.10	13.51	7.84	-0.04	2.20		5.48
Excess		1.32	2.00	-0.47	3.88	-0.47	1.51	0.43	0.43		0.10
PYRAMIS	54,701,719	-4.02	-2.81	18.28	2.64	18.28					6.24
MSCI ACWI ex US Small Cap Gross		-5.04	-4.27	16.36	2.05	16.36					4.89
Excess		1.02	1.47	1.93	0.59	1.93					1.35
TOTAL FIXED INCOME	547,073,866	-2.36	-3.05	4.57	-1.68	4.57	6.55	6.93	6.14	5.06	5.98
SAMCERA TOTAL FIXED INCOME BENCHMARK		-2.11	-3.41	-1.19	-3.95	-1.19	3.77	5.35	5.71	4.60	5.54
Excess		-0.26	0.36	5.76	2.27	5.76	2.78	1.58	0.43	0.47	0.44
ANGELO GORDON GECC PPI FUND	19,363	0.00	10.78	42.90	20.30	42.90	23.60				24.22
Barclays BA Intermediate High Yield Index		-2.65	-1.87	7.02	0.06	7.02	9.61				9.99
Excess		2.65	12.65	35.88	20.25	35.88	13.99				14.23



# San Mateo County Manager Return Summary

June 30, 2013



<b>Manager Returns (Net)</b>											
	<b>\$ EMV</b>	<b>1 Mth</b>	<b>3 Mth</b>	<b>FYTD</b>	<b>Cal YTD</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>	<b>7 Year</b>	<b>10 Year</b>	<b>ITD</b>
<b>ANGELO GORDON MANAGEMENT</b>	28,799,465	-0.37	5.09		5.69						5.69
Barclays BA Intermediate High Yield Index		-2.65	-1.87		0.06						1.11
Excess		2.28	6.96		5.64						4.58
<b>PYRAMIS GLOBAL ADVISORS</b>	145,588,189	-1.83	-2.48	0.27	-2.32	0.27	4.69	6.60	5.97		5.55
Barclays Aggregate Bond		-1.55	-2.32	-0.69	-2.44	-0.69	3.51	5.19	5.60		5.17
Excess		-0.28	-0.16	0.96	0.12	0.96	1.19	1.41	0.37		0.38
<b>WESTERN ASSET MGMT</b>	116,391,104	-2.30	-3.07	1.17	-2.74	1.17	5.73	6.91	5.99		5.30
Barclays Aggregate Bond		-1.55	-2.32	-0.69	-2.44	-0.69	3.51	5.19	5.60		4.71
Excess		-0.75	-0.74	1.86	-0.30	1.86	2.22	1.73	0.39		0.58
<b>BRIGADE CAPITAL MANAGEMENT</b>	59,579,235	-2.61	-1.05	10.81	2.18	10.81					9.71
Barclays BA Intermediate High Yield Index		-2.65	-1.87	7.02	0.06	7.02					8.63
Excess		0.04	0.82	3.79	2.13	3.79					1.08
<b>BROWN BROTHERS HARRIMAN &amp; CO</b>	77,483,932	-3.75	-7.34	-4.54	-7.57	-4.54					4.93
Barclays US TIPS Index		-3.77	-7.39	-5.16	-7.84	-5.16					4.78
Excess		0.02	0.05	0.61	0.27	0.61					0.15
<b>FRANKLIN TEMPLETON INVESTMENTS</b>	119,210,851	-2.47	-3.62	12.15	-0.22	12.15					6.97
Barclays Multiverse		-1.26	-2.73	-1.69	-4.63	-1.69					2.18
Excess		-1.21	-0.90	13.85	4.41	13.85					4.78
<b>TOTAL PRIVATE EQUITY</b>	64,792,829	1.37	1.44	2.57	3.55	2.57					-58.72
PRIVATE EQUITY BENCHMARK		-1.05	3.44	25.05	15.72	25.05					18.11
Excess		2.42	-2.00	-22.48	-12.17	-22.48					-76.83
<b>TOTAL RISK PARITY</b>	157,492,213	-6.52	-10.07	3.19	-6.11	3.19					5.17
RISK PARITY BENCHMARK		-1.40	0.67	12.18	7.23	12.18					8.15
Excess		-5.12	-10.74	-8.99	-13.34	-8.99					-2.98

# San Mateo County Manager Return Summary

June 30, 2013



<b>Manager Returns (Net)</b>											
	<b>\$ EMV</b>	<b>1 Mth</b>	<b>3 Mth</b>	<b>FYTD</b>	<b>Cal YTD</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>	<b>7 Year</b>	<b>10 Year</b>	<b>ITD</b>
AQR GLOBAL RISK PREM III LP	157,492,213	-6.52	-10.07	3.19	-6.11	3.19					5.17
RISK PARITY BENCHMARK		-1.40	0.67	12.18	7.23	12.18					8.15
Excess		-5.12	-10.74	-8.99	-13.34	-8.99					-2.98
HEDGE FUND COMPOSITE	74,140,266	0.03	2.87	6.94	3.44	6.94					2.56
LIBOR + 4%		0.34	1.03	4.22	2.08	4.22					4.24
Excess		-0.31	1.84	2.73	1.36	2.73					-1.68
AQR DELTA FUND II, L.P.	74,140,266	0.03	2.87	6.94	3.44	6.94					2.56
LIBOR + 4%		0.34	1.03	4.22	2.08	4.22					4.24
Excess		-0.31	1.84	2.73	1.36	2.73					-1.68
TOTAL COMMODITIES	69,083,062	-3.85	-6.78	-1.34	-7.71	-1.34					-4.54
DJ-UBS COMMODITY		-4.72	-9.46	-8.08	-10.49	-8.08					-13.10
Excess		0.87	2.69	6.74	2.78	6.74					8.55
SSGA MULTISOURCE ACT COMM NL	69,083,062	-3.85	-6.78	-1.34	-7.71	-1.34					-4.54
DJ-UBS COMMODITY		-4.72	-9.46	-8.08	-10.49	-8.08					-13.10
Excess		0.87	2.69	6.74	2.78	6.74					8.55
TOTAL REAL ESTATE	158,833,035	0.00	0.00	8.78	3.04	8.78	13.34	-1.29	2.06	6.71	7.45
SAMCERA NCREIF NFI ODCE EW (Gross)		0.00	0.00	8.11	2.57	8.11	13.25	-0.65	3.12	6.76	7.67
Excess		0.00	0.00	0.68	0.48	0.68	0.09	-0.64	-1.06	-0.05	-0.22
INVESCO REAL ESTATE	158,833,035	0.00	0.00	8.78	3.04	8.78	13.34	-1.29	2.06		5.82
SAMCERA NCREIF NFI ODCE EW (Gross)		0.00	0.00	8.11	2.57	8.11	13.25	-0.65	3.12		6.10
Excess		0.00	0.00	0.68	0.48	0.68	0.09	-0.64	-1.06		-0.28
TOTAL CASH	2,246,234	0.05	0.11	0.49	0.25	0.49	0.74	0.09	1.24	1.77	2.43
91 DAY TREASURY BILL		0.01	0.02	0.11	0.04	0.11	0.11	0.29	1.46	1.74	2.35
Excess		0.04	0.09	0.38	0.21	0.38	0.63	-0.20	-0.22	0.03	0.08

# San Mateo County Manager Return Summary

June 30, 2013



## Manager Returns (Net)

	\$ EMV	1 Mth	3 Mth	FYTD	Cal YTD	1 Year	3 Year	5 Year	7 Year	10 Year	ITD
SAMCERA GENERAL ACCOUNT	1,186,036	0.01	0.02	0.17	0.07	0.17	0.26	0.46	1.70	1.93	2.47
SAMCERA TREASURY & LAIF	1,060,197	0.05	0.14	0.66	0.29	0.66	0.92	0.00	1.19	1.67	
TOTAL FUND	2,725,559,255	-2.07	-0.19	13.45	5.61	13.45	11.72	4.33	4.16	6.47	6.42
SAMCERA TOTAL PLAN POLICY BENCHMARK		-1.95	-0.26	12.65	5.53	12.65	12.38	5.35	5.41	7.35	6.75
Excess		-0.11	0.07	0.80	0.08	0.80	-0.67	-1.02	-1.25	-0.88	-0.32

**San Mateo County  
Accounting Change in Market Value Details**

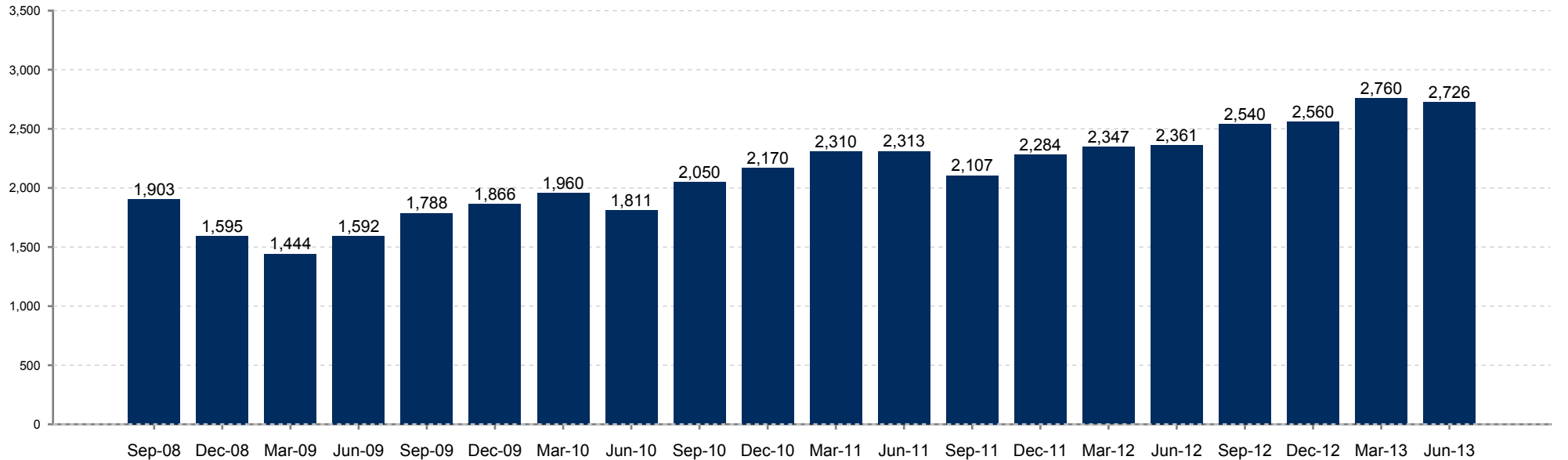
June 30, 2013



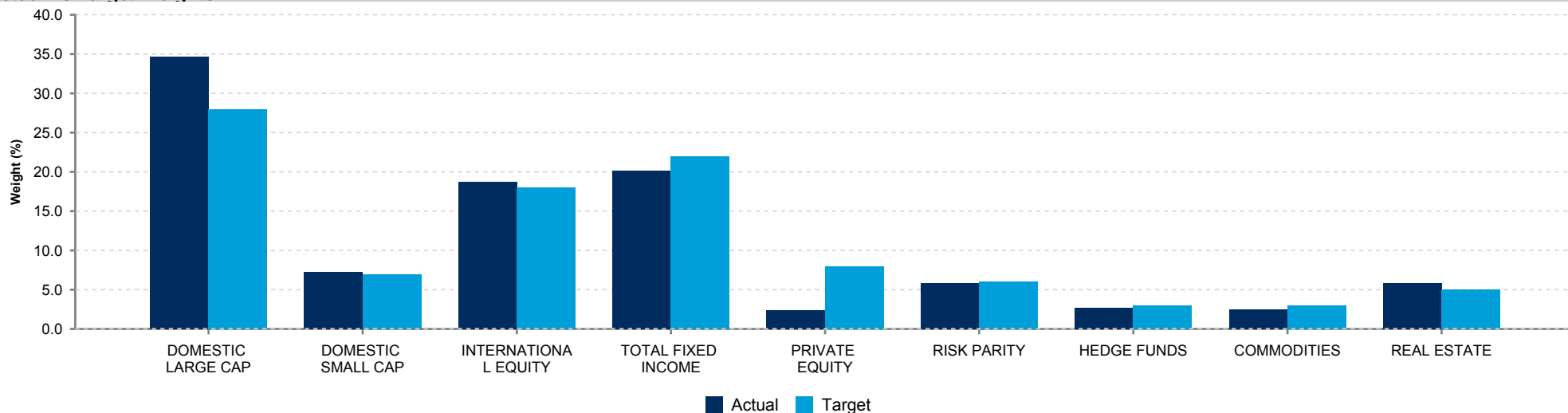
**Record of Asset Growth**

	One Quarter	One Year
TOTAL FUND		
Beginning Market Value	2,759,804,472	2,360,606,535
Contributions	328,307,644	2,353,863,180
Withdrawals	357,043,947	2,519,883,451
Income Received	11,146,570	43,902,349
Gain/Loss	-16,655,485	287,837,300
Ending Market Value	2,725,559,255	2,725,559,255

**Net Asset Values over Time (\$000)**



Actual vs Target Weights



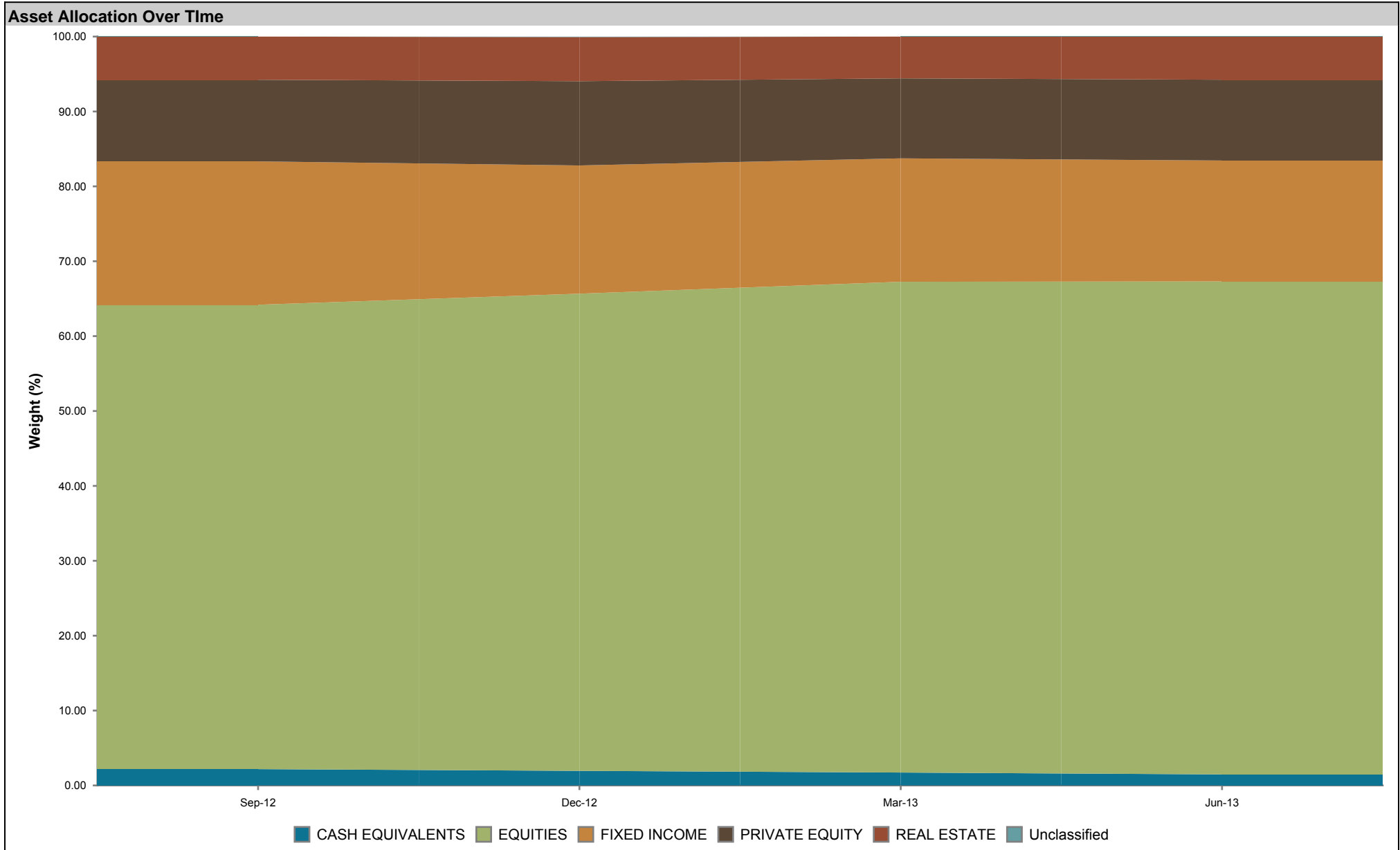
% Portfolio Weight

	Min	Actual	Target	Deviation	Max
<b>DOMESTIC LARGE CAP</b>	26.0	34.7	28.0	6.7	30.0
BLACKROCK S&P 500	10.3	18.2	12.3	5.9	14.3
DE SHAW INVESTMENT MGT, LLC	3.3	5.4	5.0	0.4	7.3
BARROW HANLEY	3.3	5.7	5.1	0.6	7.3
<b>DOMESTIC SMALL CAP</b>	5.0	7.3	7.0	0.3	9.0
BOSTON COMPANY ASSET MGT, LLC	1.5	3.7	3.5	0.2	5.5
CHARTWELL INVESTMENT MGMT	1.5	3.7	3.5	0.2	5.5
<b>INTERNATIONAL EQUITY</b>	15.0	18.7	18.0	0.7	21.0
BAILLIE GIFFORD OVERSEAS LIMITED	3.0	6.4	6.0	0.4	9.0
EATON VANCE MANAGEMENT	0.0	2.2	2.3	-0.1	5.3
MONDRIAN INVESTMENT PARTNERS	5.0	8.0	8.0	0.0	11.0
PYRAMIS	0.0	2.0	1.8	0.3	4.8
<b>TOTAL FIXED INCOME</b>	19.0	20.1	22.0	-1.9	25.0

<b>% Portfolio Weight</b>	<b>Min</b>	<b>Actual</b>	<b>Target</b>	<b>Deviation</b>	<b>Max</b>
ANGELO GORDON	0.0	1.1	1.8	-0.7	3.8
BRIGADE CAPITAL MANAGEMENT	0.0	2.2	1.8	0.4	3.8
BROWN BROTHERS HARRIMAN & CO	1.1	2.8	3.1	-0.3	5.1
FRANKLIN TEMPLETON INVESTMENTS	2.4	4.4	4.4	-0.0	6.4
WESTERN ASSET MGMT	2.4	4.3	4.4	-0.1	6.4
PYRAMIS GLOBAL ADVISORS	4.6	5.3	6.6	-1.3	8.6
<b>PRIVATE EQUITY</b>	8.0	2.4	8.0	-5.6	8.0
<b>RISK PARITY</b>	6.0	5.8	6.0	-0.2	6.0
AQR GLOBAL RISK PREM III LP	6.0	5.8	6.0	-0.2	6.0
HEDGE FUNDS	3.0	2.7	3.0	-0.3	3.0
AQR DELTA FUND II, L.P.	3.0	2.7	3.0	-0.3	3.0
<b>COMMODITIES</b>	3.0	2.5	3.0	-0.5	3.0
SSGA MULTISOURCE ACT COMM NL	3.0	2.5	3.0	-0.5	3.0
<b>REAL ESTATE</b>	3.0	5.8	5.0	0.8	7.0
INVESCO REAL ESTATE	3.0	5.8	5.0	0.8	3.0

# San Mateo County Asset Allocation Over Time

June 30, 2013

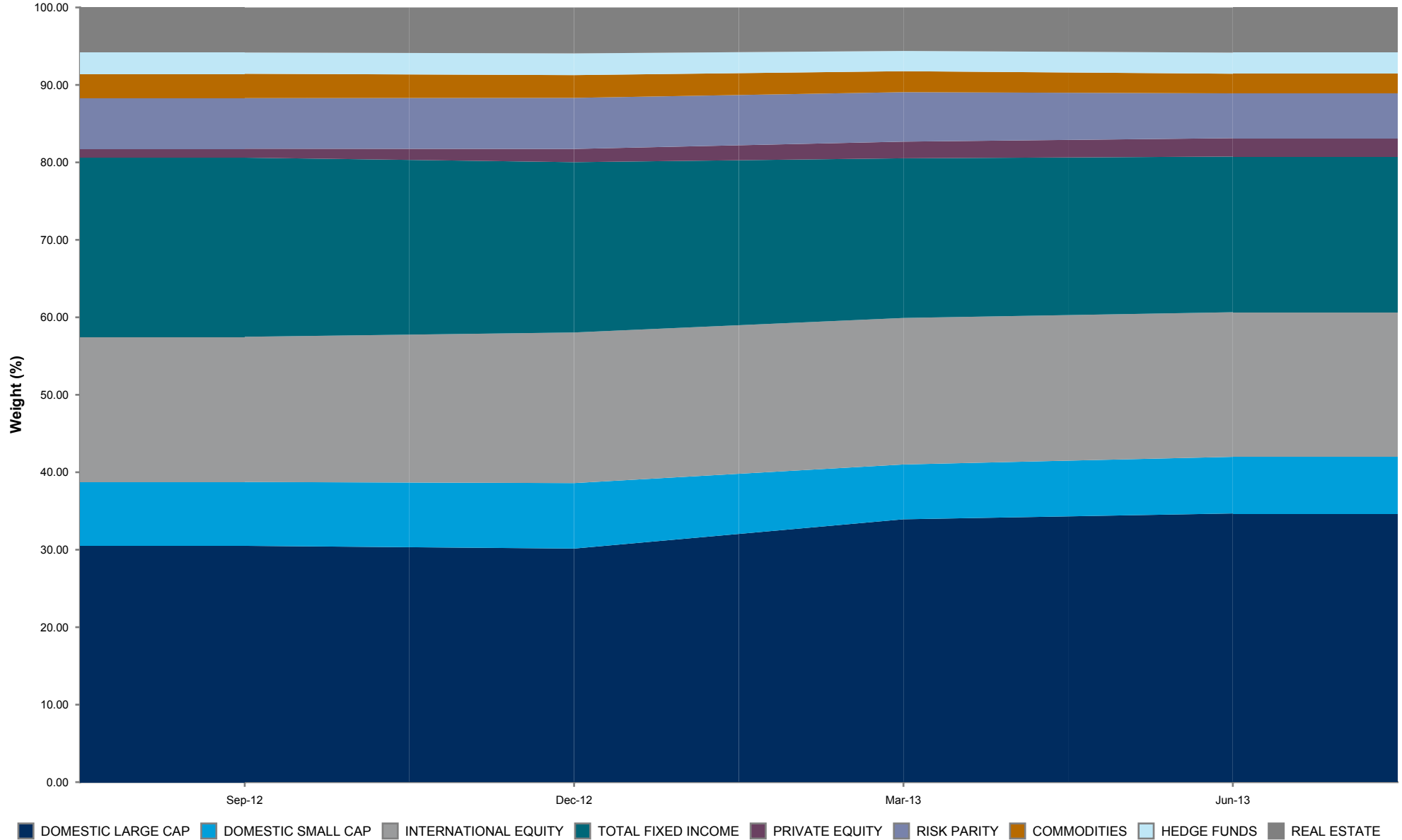


# San Mateo County Sub-Asset Class Allocation Over Time

June 30, 2013



Sub-Asset Class Allocation Over Time





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

July 23, 2013

Agenda Item 6.2

**TO:** Board of Retirement



**FROM:** Michael Coultrip, Chief Investment Officer

**SUBJECT:** Discussion and Approval of Asset Classes/Mixes to be used in Asset Liability Study Simulations

**Staff Recommendation:**

Approve asset classes and portfolio mixes to be used in Asset Liability simulations.

**Background:**

In May the Board approved initiating a new Asset Liability Study to assess potential new asset classes, incorporate updated capital market assumptions and liability profiles, and to analyze new portfolio combinations.

**Discussion:**

Marcel Gesell and Patrick Thomas from SIS will review asset-liability basics, summarize the capital market assumptions to be used in the study, and present various asset classes/mixes for Board approval to be used in the next phase of the study.

**Asset Liability Study Timeline:**

August Board meeting: Review asset-liability simulation results and identify potential revised asset mix scenarios.

September Board meeting: If necessary, review additional asset mix scenarios and recommendations.

October Board meeting: Approve revised asset mix. Complete update of Investment Policy Statement.

**Attachments:**

- A. *Asset-Liability Study Part II*

SamCERA  
2013 Asset-Liability Study Part II  
July 23, 2013

Marcel Gesell, CFA  
Vice President

Patrick Thomas, CFA  
Senior Vice President

**STRATEGIC INVESTMENT SOLUTIONS, INC.**

**333 BUSH STREET SUITE 2000  
SAN FRANCISCO 94104  
[www.sis-sf.com](http://www.sis-sf.com)  
415 362 3484**

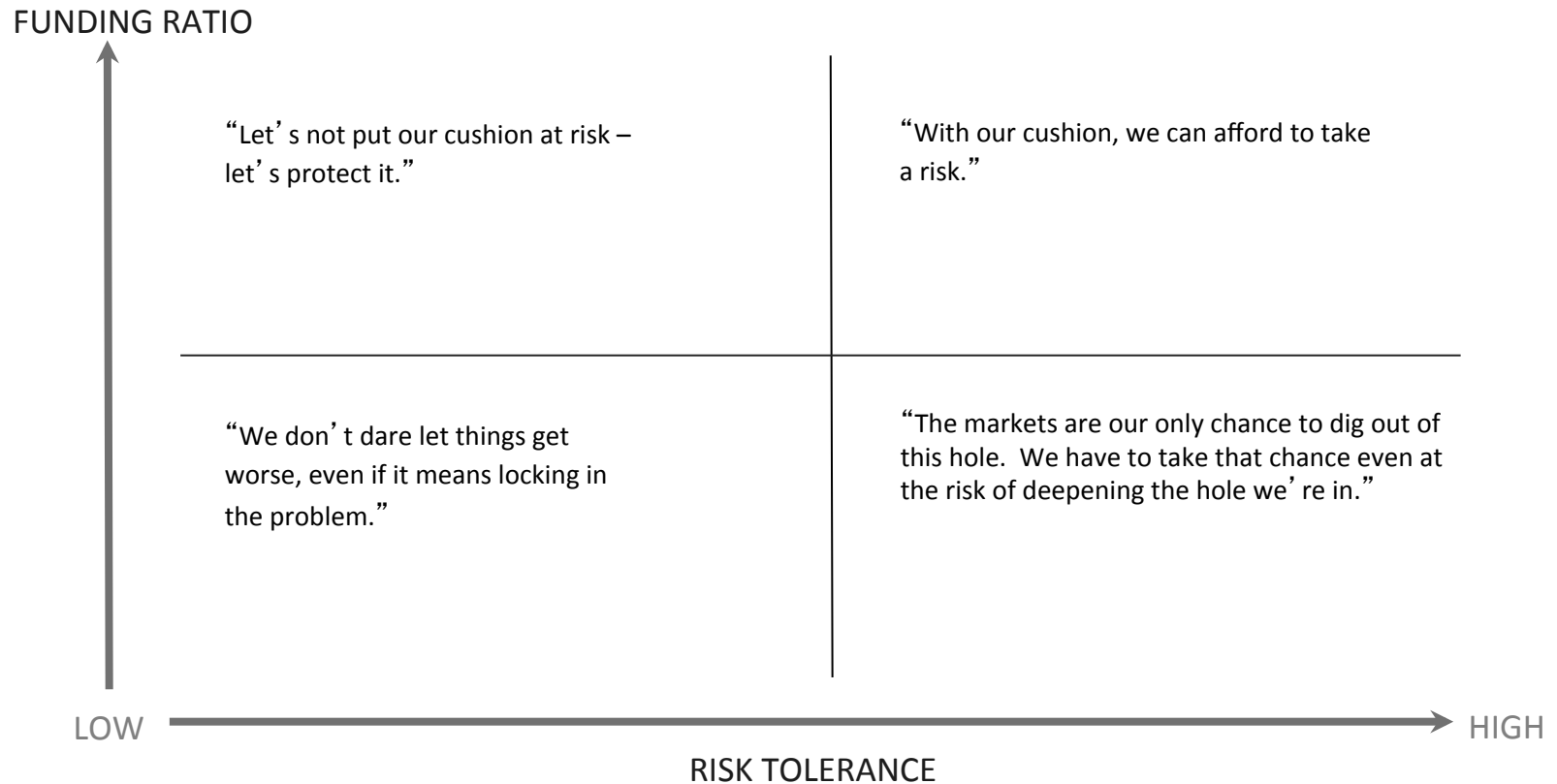
## Study Progress

- I. Introduction (complete!)
- II. **Asset Allocation (today)**
- III. Asset-Liability Integration

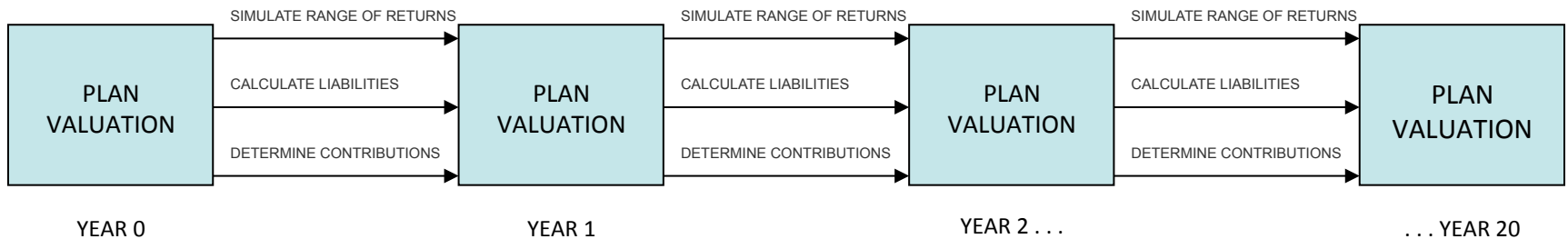
## Possible Policy Objectives

- Things to Achieve
  - 100% Funded Status
  - Low Cost/Average Contribution Rate
  - Assumed Earnings Rate Return (Currently 7.5%)
  - Intergenerational Equity
  
- Things to Avoid
  - Minimum Funded Status Over the Short-Term
  - High Cost/Average Contribution Rate
  - Large Changes in Contribution Rates Over Short-Term
  - Significant Negative Cash Flow or Liquidity Problems
  
- Unacceptable Outcomes
  - Funded Status?
  - Contribution Level?
  - Changes in Contribution Level?

# Risk Options

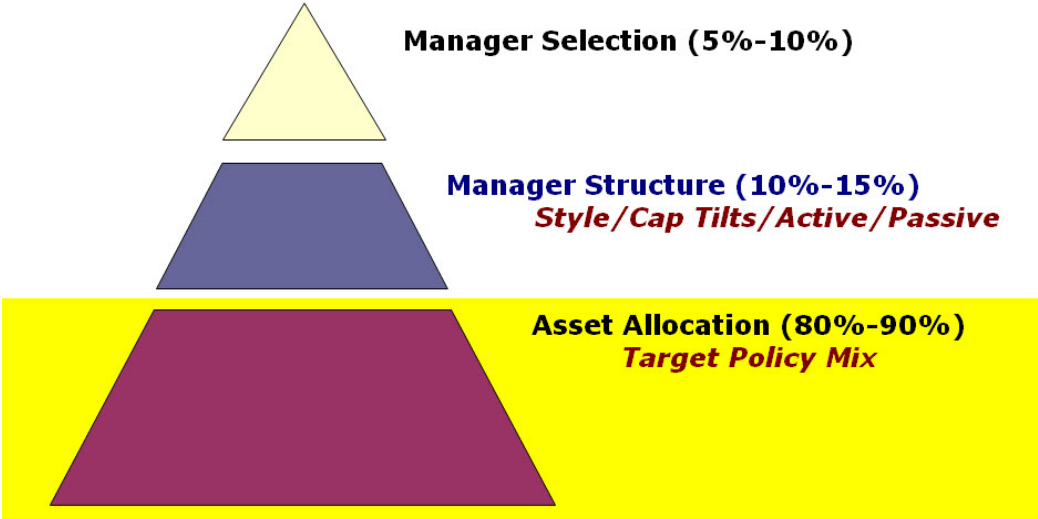


# Asset/Liability Modeling



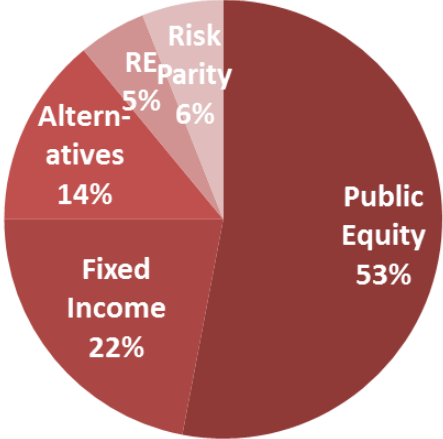
- Asset Simulations
  - Monte Carlo – 1000 “Random” Investment Outcomes Per Year
- Liability Simulations/Contribution Determinations
  - Based on Range of Investment Results
  - Annual Valuation for Range of Outcomes
  - Year-by-Year, NOT Straight-Line Projection

# Impact of Asset Allocation on Investment Risk



Asset Allocation is the primary driver of investment results.

SamCERA Target Allocations



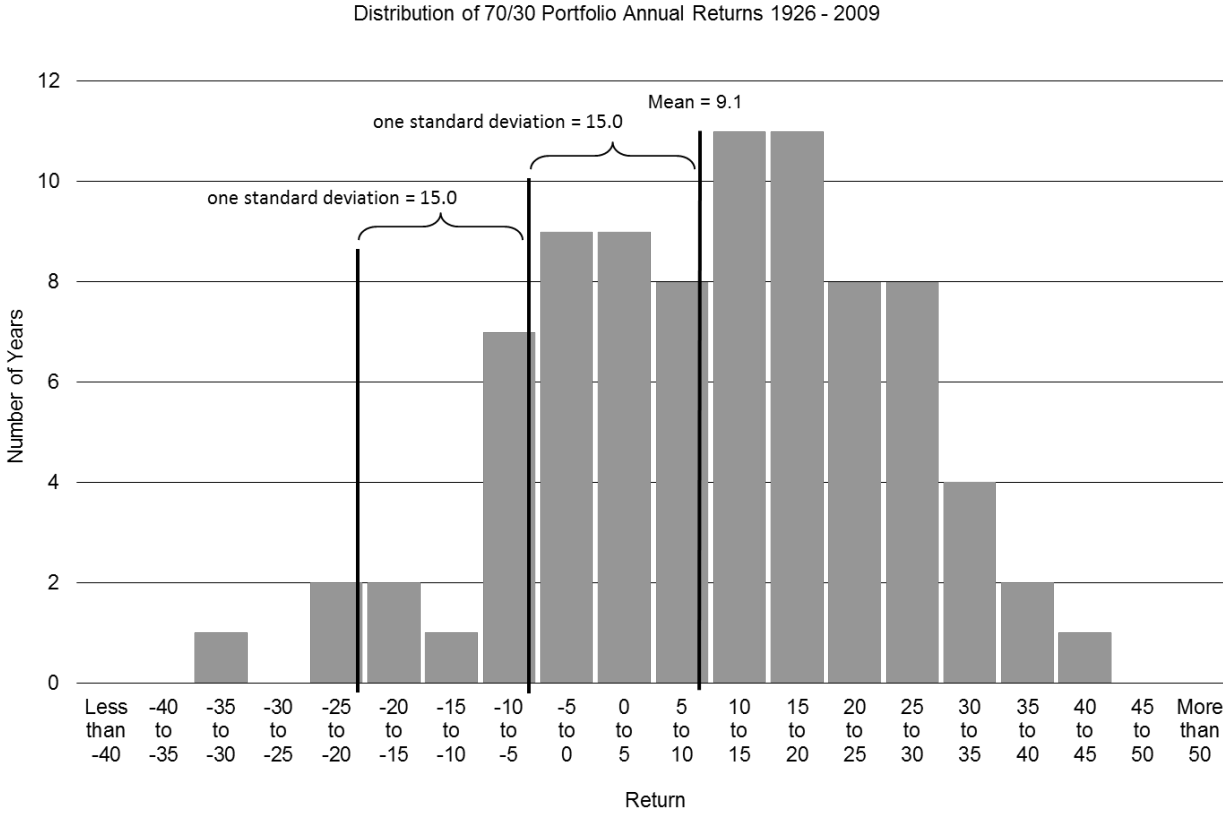
## Asset Mix Optimization\*

- Three Inputs (In Order of Importance)
  - Return (Geometric\*; Annual Growth Rate)
  - Risk (Standard Deviation Around Expectation)
  - Correlation (Degree to Which Assets Move Together)
- Determining Inputs
  - How Are You Going to Use Them? Tactically or Strategically?
  - Extrapolate Trends, Mean Reversion\* or Full History?
- Output
  - Certain Assets Are Difficult to Price and Model in Mean Variance Optimization
  - Efficient Frontier\* — Lowest Level of Risk Per Unit of Return; Highest Available Return Per Unit of Risk

\* See Appendix for Glossary of Terms



# How Do We Measure Investment Risk?



## Current SIS Expected Return & Risk

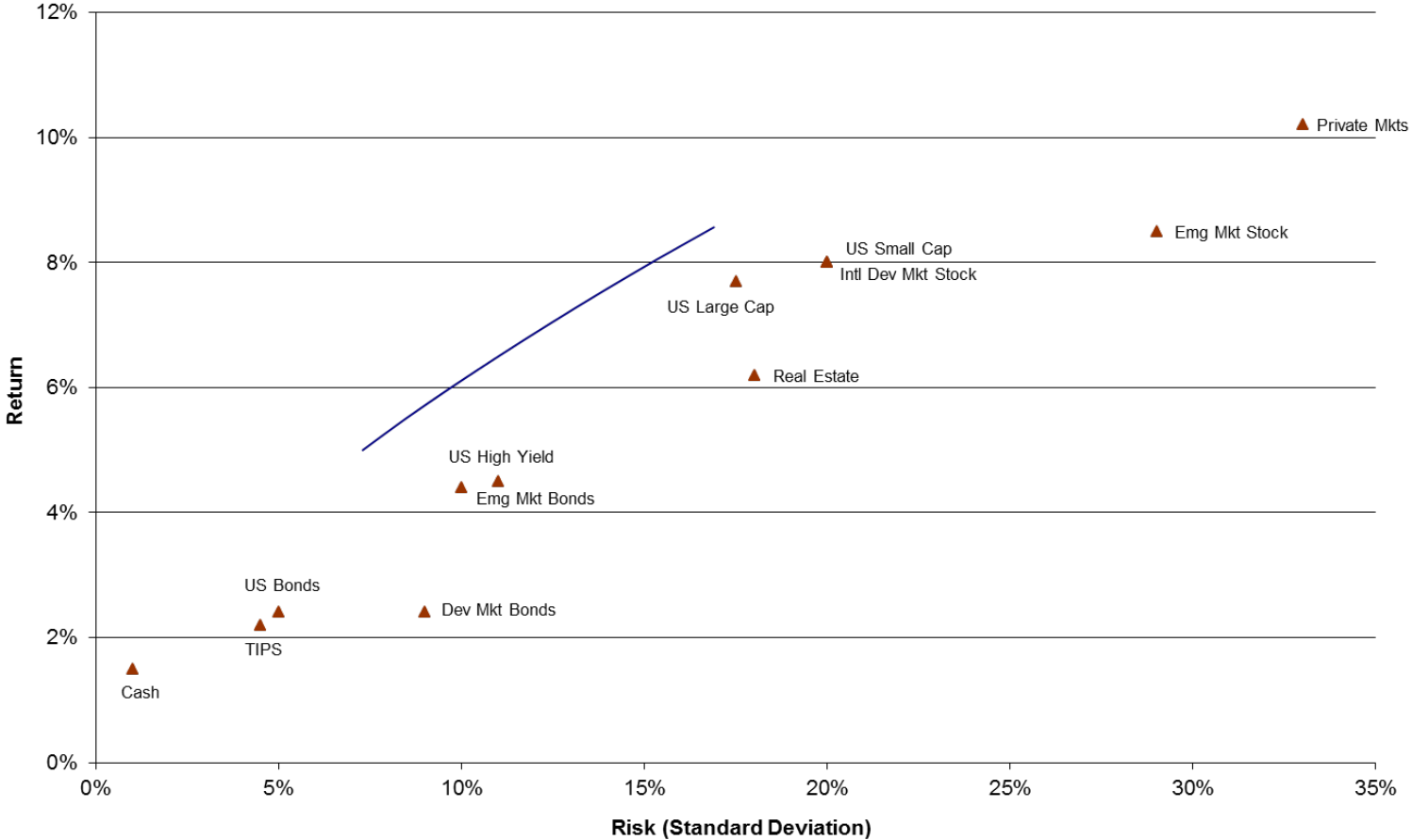
	Expected Return	Standard Deviation		Expected Return	Standard Deviation
<b>Public Equity</b>			<b>Alternatives</b>		
US Lrg Cap	7.7	17.5	Priv Equity	10.2	33.0
US Sml Cap	8.0	20.0	Hedge Funds	5.5	11.8
Intl Stock			Commod	4.0	30.0
Dev Mkt	8.0	20.0	Real Assets		
EM	8.5	29.0	Infrast	6.5	24.0
<b>Fixed Income</b>			<b>Real Est</b>	6.2	18.0
US Fixed	2.4	5.0	<b>Risk Parity</b>	7.6	14.7
Intl Bond	2.4	9.0			
TIPS	2.2	4.5			
Opp Credit					
High Yield	4.5	11.0			
EM Debt	4.4	10.0			

## Current SIS Expected Correlations

	US Lrg Cap	US Sml Cap	US Fixed	Intl Stock	EM Stock	Intl Bond	Real Est	Priv Eqty	Hdg Funds	High Yield	EM Debt	TIPS	Comm od	Infrast	Risk Parity
US Lrg Cap	1.00	0.86	0.17	0.77	0.58	0.11	0.64	0.68	0.59	0.70	0.50	0.12	0.27	0.51	0.76
US Sml Cap	0.86	1.00	0.09	0.72	0.66	0.02	0.65	0.65	0.52	0.73	0.50	0.08	0.29	0.53	0.72
US Fixed	0.17	0.09	1.00	0.07	-0.09	0.47	0.16	-0.07	0.27	0.35	0.37	0.63	-0.06	0.43	0.42
Intl Stock	0.77	0.72	0.07	1.00	0.71	0.36	0.56	0.55	0.67	0.60	0.43	0.07	0.30	0.49	0.72
EM Stock	0.58	0.66	-0.09	0.71	1.00	0.13	0.50	0.54	0.51	0.59	0.55	0.08	0.38	0.44	0.61
Intl Bond	0.11	0.02	0.47	0.36	0.13	1.00	0.00	0.01	0.24	0.29	0.14	0.42	0.10	0.22	0.34
Real Est	0.64	0.65	0.16	0.56	0.50	0.00	1.00	0.32	0.39	0.69	0.43	0.27	0.28	0.63	0.73
Priv Eqty	0.68	0.65	-0.07	0.55	0.54	0.01	0.32	1.00	0.42	0.53	0.38	-0.07	0.17	0.23	0.44
Hdg Funds	0.59	0.52	0.27	0.67	0.51	0.24	0.39	0.42	1.00	0.34	0.60	0.25	0.46	0.59	0.67
High Yield	0.70	0.73	0.35	0.60	0.59	0.29	0.69	0.53	0.34	1.00	0.49	0.32	0.11	0.61	0.71
EM Debt	0.50	0.50	0.37	0.43	0.55	0.14	0.43	0.38	0.60	0.49	1.00	0.40	0.44	0.52	0.67
TIPS	0.12	0.08	0.63	0.07	0.08	0.42	0.27	-0.07	0.25	0.32	0.40	1.00	0.42	0.37	0.54
Commod	0.27	0.29	-0.06	0.30	0.38	0.10	0.28	0.17	0.46	0.11	0.44	0.42	1.00	0.24	0.57
Infrast	0.51	0.53	0.43	0.49	0.44	0.22	0.63	0.23	0.59	0.61	0.52	0.37	0.24	1.00	0.66
Risk Parity	0.76	0.72	0.42	0.72	0.61	0.34	0.73	0.44	0.67	0.71	0.67	0.54	0.57	0.66	1.00

# Plotting Return vs. Risk

Expected Risk/Return



## The Basis for these Expectations

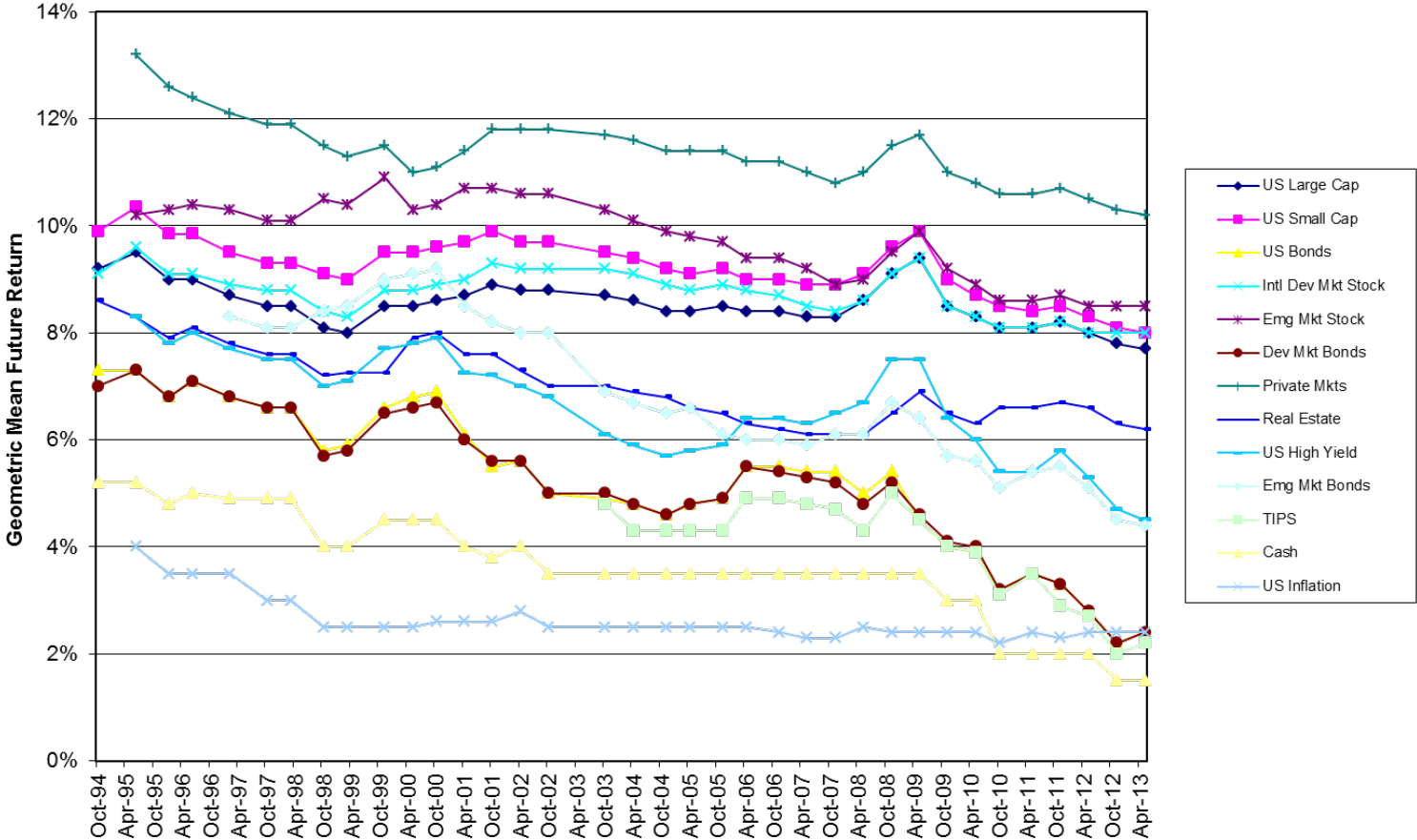
- Long-Term Looking Forward (2-3 Market Cycles)
- Based on Available Histories
- Tendency to Utilize Mean Reversion
- Must “Behave” in an Optimization
  - Reasonable Portfolios
  - Stable Frontier
- CAPM Used to Price Difficult Assets
- Starting Points
  - Inflation: Blue Chip Long-Term Consensus
  - U.S. Fixed Income: yield on BC Aggregate Bond Index
- Economic Forecasts
- Investment Policy Committee
- Risk Estimates (Standard Deviation)
  - Monthly Observations Since 1976
  - Monthly Observations Since 1985 (Smoothed)
- Correlation Estimates
  - Monthly Observations Since 1985 (Smoothed)

## A Systematic Process for Developing Expected Returns

ASSET CLASS	DERIVATION
<b>Inflation</b>	Consensus of Economists' Forecasts, TIPS
<b>Cash</b>	Inflation + 1% to 2% Premium
<b>US Large Cap</b>	CAPM, 3% to 6% Equity Premium, Macroeconomic DDM
<b>US Fixed</b>	Yield to Worst on Aggregate (Compare to Historic Bond Risk Premium, Adjust if Necessary)
<b>US Small Cap</b>	CAPM, (Beta of ~1.2)
<b>Private Markets</b>	CAPM, (Beta of ~1.6)
<b>International Equity</b>	Weighted Sum of Local Market Premium + Local Risk Free Rate
<b>International Bond</b>	US Fixed Return, Adjusted for Quality and Duration (Potential Currency Effects Based on PPP)
<b>Real Estate</b>	Historical Behavior of Equity REITs; Current Appraisal Cap Rates; CAPM
<b>High Yield</b>	Historical Ratio: Spread of High Yield Over US Fixed Income Divided By Spread of Large Cap Over US Fixed Income

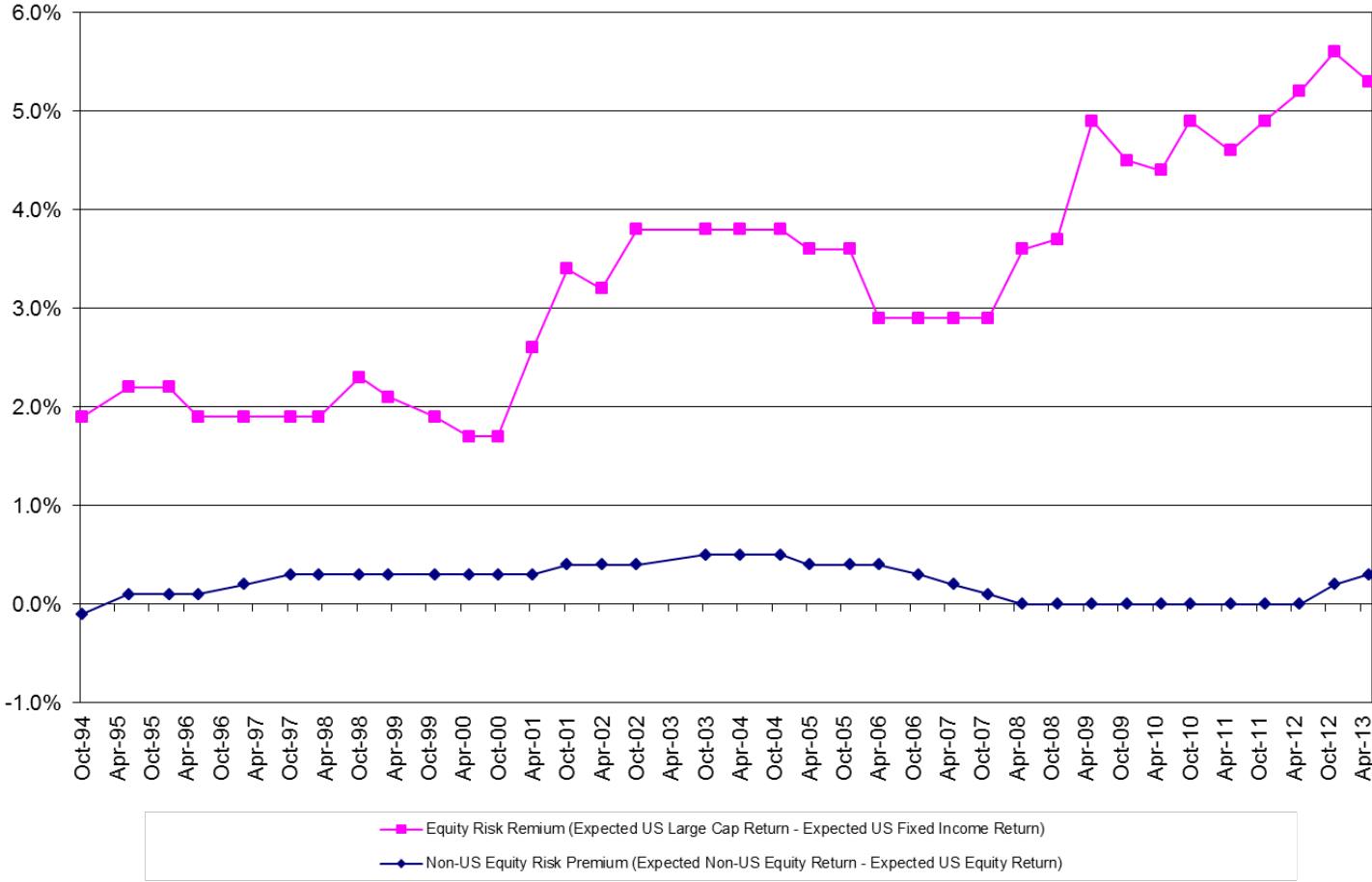
# A History of Our Expected Returns

## Expected Returns



# Key Relationships

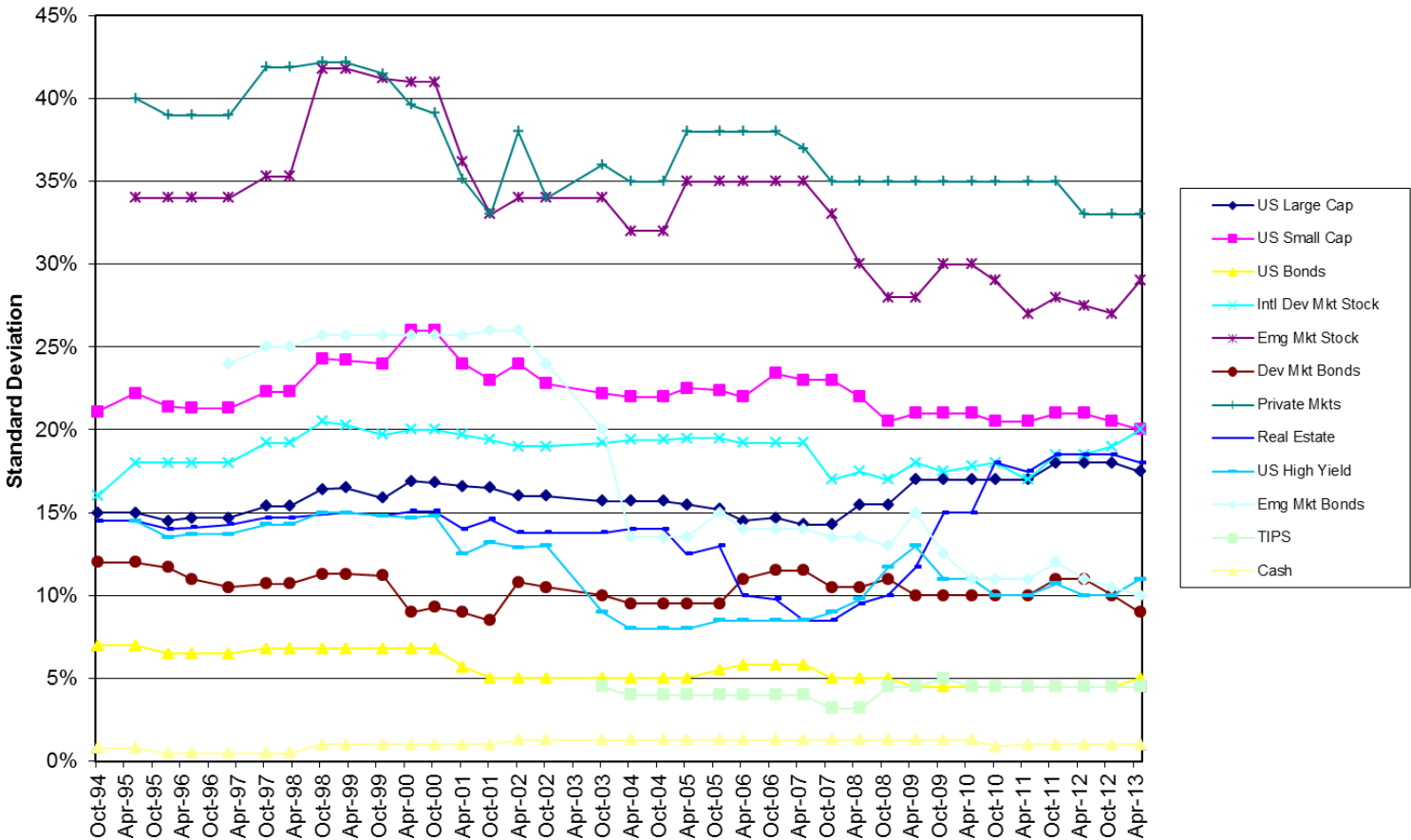
Expected Risk Premiums





# A History of Our Expected Risks

Expected Risks



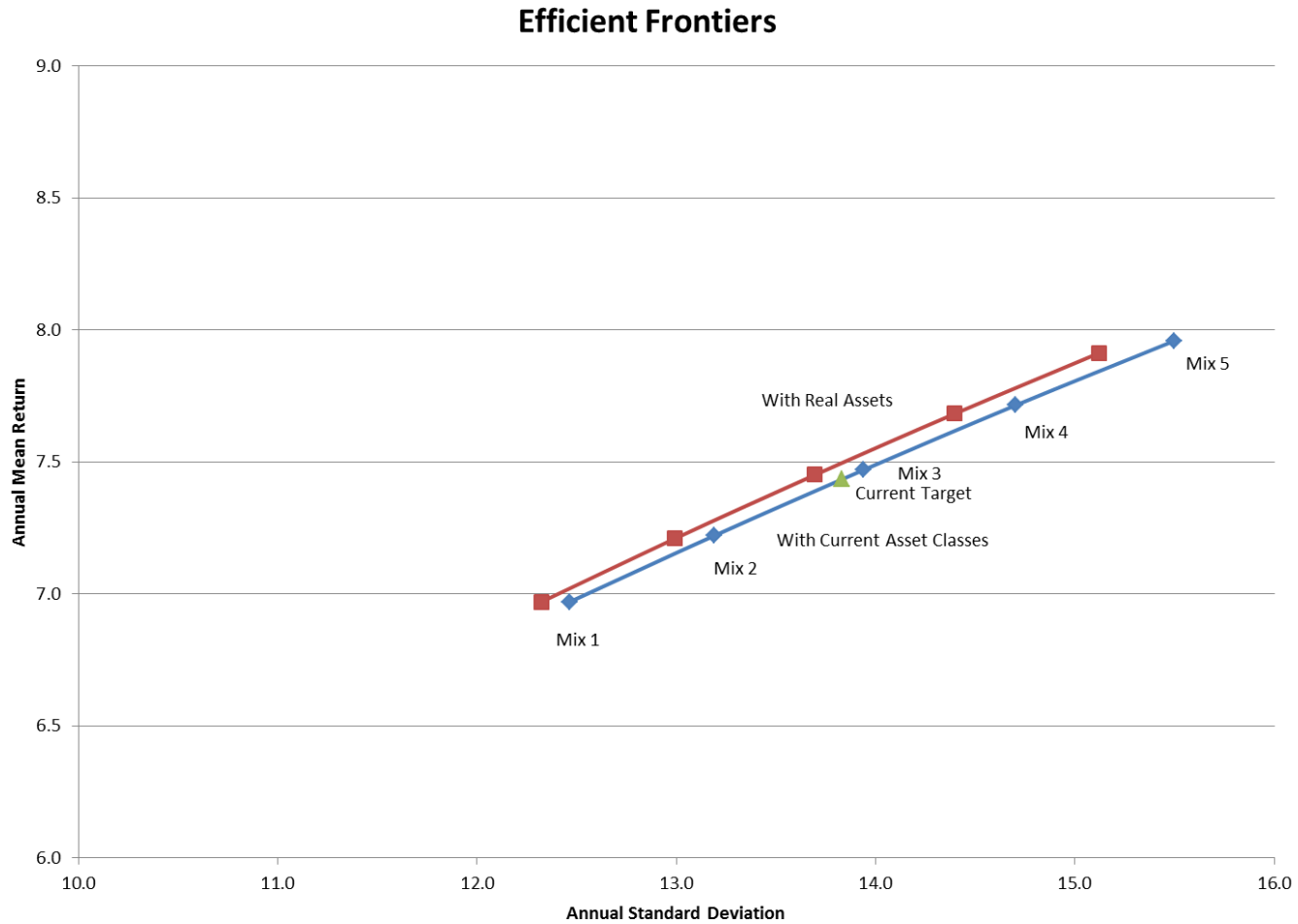
## Basic Asset Mix Optimization

	Current Policy	Lower Risk		Higher Risk		
		Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
US Lrg Cap	28	23	26	29	32	34
US Sml Cap	7	6	7	7	8	9
Intl Stock	18	15	16	18	20	22
<b>Public Equity</b>	<b>53</b>	<b>44</b>	<b>49</b>	<b>54</b>	<b>60</b>	<b>65</b>
US Fixed	13	17	15	12	9	6
Intl Bond	3	4	3	3	2	1
TIPS	3	5	4	3	2	2
Opp Credit	3	5	4	3	2	2
<b>Fixed Income</b>	<b>22</b>	<b>31</b>	<b>26</b>	<b>21</b>	<b>15</b>	<b>11</b>
Priv Equity	8	8	8	8	8	8
Hedge Funds	3	3	3	3	3	3
Commod	3	3	3	3	3	3
<b>Alternatives</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>Real Est</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>4</b>
<b>Risk Parity</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>
Expected Return	7.4	7.0	7.2	7.5	7.7	8.0
Total Risk	13.8	12.5	13.2	13.9	14.7	15.5

## Asset Mix Optimization from SIS/Staff Discussions

	Current Policy	Lower Risk		Higher Risk			Mix 3 Variation
		Mix 1	Mix 2	Mix 3	Mix 4	Mix 5	
US Lrg Cap	28	19	21	24	26	29	24
US Sml Cap	7	5	5	6	7	7	6
Intl Stock	18	13	15	17	18	20	17
<b>Public Equity</b>	<b>53</b>	<b>37</b>	<b>41</b>	<b>47</b>	<b>51</b>	<b>56</b>	<b>47</b>
US Fixed	13	15	13	10	8	5	10
Intl Bond	3	5	4	3	2	2	3
TIPS	3	3	3	2	2	1	2
Opp Credit	3	8	6	5	4	3	5
<b>Fixed Income</b>	<b>22</b>	<b>31</b>	<b>26</b>	<b>20</b>	<b>16</b>	<b>11</b>	<b>20</b>
Priv Equity	8	7	7	7	7	7	7
Hedge Funds	3	5	5	5	5	5	4
Commod	3	3	3	3	3	3	3
Real Assets	0	2	3	3	3	3	3
<b>Alternatives</b>	<b>14</b>	<b>17</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>17</b>
<b>Real Est</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>7</b>
<b>Risk Parity</b>	<b>6</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>
Expected Return	7.4	7.0	7.2	7.5	7.7	7.9	7.5
Total Risk	13.8	12.3	13.0	13.7	14.4	15.1	13.8

# Graphing the Optimizations



## Request

Committee approval to use these asset mixes in asset-liability simulations?

## Next Steps

- I. Introduction (complete!)
- II. Asset Allocation (complete!)
- III. **Asset-Liability Integration**

# Definitions

## STRATEGIC ASSET ALLOCATION

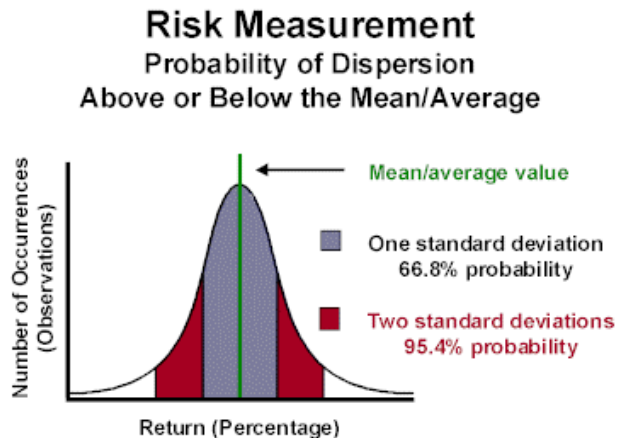
The discipline used to determine which assets and what proportion among those assets meet an investor's cash flow requirements, planning horizon, and attitude toward risk.

## EXPECTED RATE OF RETURN

The expected value or mean of a probability distribution of returns. In our case, the expected return is the compounded annual return which is the same as the geometric mean. After tax expected return nets out the expected income and capital gains taxes paid by the trust.

## STANDARD DEVIATION

A statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. The square root of the variance. When returns are normally distributed, an individual return will fall within one standard deviation of the mean about two-thirds of the time. For example, if a portfolio had an expected return of 5% and an expected risk (standard deviation) of 13, then:



One Standard Deviation      68% of the time, returns can be expected to fall between -8.0% and +18%

Two Standard Deviations      95% of the time, returns can be expected to fall between -21% and +31%

Standard deviation is a useful historical measure of the variability of return earned by an investment portfolio. In performance measurement, it is generally assumed that a larger degree of dispersion implies that greater risk was taken to achieve the return.

## Definitions

### CORRELATION COEFFICIENT

Correlation coefficient ( $r$ ) is a measure of the degree of **correlation** between two quantities or variables, such as the rates of return on stocks and on bonds. A negative coefficient of correlation indicates an inverse or negative relationship, whereas a positive value indicates a direct or positive relationship. The range of values is from -1 to +1 inclusive. A zero (0) value indicates that no correlation exists. Correlation coefficients are useful in **asset class** identification and portfolio **diversification**.

**Correlation Coefficient**  
Shows Strength & Direction of Correlation





## Glossary

- **Asset Allocation** – (1) The way investments are distributed and weighted among different asset classes. (2) The distribution of investments among categories of assets, such as equities, fixed income, cash equivalents, and real estate.
- **CAPM** – Capital Asset Pricing Model. A system of equations that describes the way prices of individual [assets](#) are determined in efficient markets, that is, in markets where information is freely available and reflected instantaneously in asset prices. According to this model, prices are determined in such a way that [risk premiums](#) are proportional to systematic risk, measured by the [beta coefficient](#), which cannot be eliminated by diversification. CAPM provides an explicit expression of the expected returns for all assets. Basically, the model holds that if investors are risk averse, high-risk stocks must have higher expected returns than low-risk stocks. CAPM maintains that the expected return of a security or a portfolio is equal to the rate on a risk-free investment plus a risk premium.
- **Correlation** – A relationship between two quantities, such that when one changes, the other does. A measure (ranging in value from 1.00 to -1.00) of the association between a dependent variable (fund, portfolio) and one or more independent variables (index). Correlation is a measure, not necessarily of causality, but rather of the strength of a relationship. A [correlation coefficient](#) of 1.00 implies that the variables move perfectly in lockstep; a correlation coefficient of -1.00 implies that they move inversely in lockstep; and a coefficient of 0.00 implies that the variables as calibrated are uncorrelated.
- **Efficient Frontier** – A set of optimal portfolios, one for each level of expected return, with minimum risk.
- **Expected Return** -- Estimate of the return of an investment or portfolio from a probability distribution curve of all possible rates of return; statistically, it is the mean (either geometric mean or arithmetic mean) of the distribution or the "most likely" outcome.
- **Factor Model** – Regression-based mathematical calculation used to determine the extent to which macroeconomic factors or other explanatory variables affect the value or price movement of a specific security or portfolio.

## Glossary

- **Geometric Return** – Similar to the arithmetic mean, which is what most people think of with the word "average", except that instead of adding the set of returns and then dividing the sum by the number of return observations (N), the numbers are multiplied and then the Nth root of the resulting product is taken. Also known as compound return.
- **Mean Reversion** – Statistical phenomenon stating that the greater the deviation of a given observation (e.g. a quarterly or annual return) from its mean, the greater the probability that the next measured observation will deviate less far. In other words, an extreme event is likely to be followed by a less extreme event.
- **Monte Carlo Simulation** – Uses stochastic processes to simulate the various sources of uncertainty that affect the value of the instrument, portfolio or investment in question, and calculates a representative value or distribution of possible outcomes given the simulated values of the underlying inputs.
- **Optimization** – Process of determining the portfolio composition such that expected return is maximized for a given risk level, or risk is minimized for a given expected return level. Other optimizations could target risk of shortfall, maximization of Sharpe ratio, or minimization of tracking error.
- **Sharpe Ratio** – A ratio of return to volatility, useful in comparing two portfolios or stocks in terms of risk-adjusted return. The higher the Sharpe Ratio, the more sufficient are returns for each unit of risk. It is calculated by first subtracting the risk free rate from the return of the portfolio, then dividing by the standard deviation of the portfolio.
- **Treasury Inflation-Protected Securities (TIPS)** – Inflation-indexed bonds issued by the U.S. Treasury. The principal is adjusted to the Consumer Price Index (CPI), the commonly used measure of inflation. The coupon rate is constant, but generates a different amount of interest when multiplied by the inflation-adjusted principal, thus protecting the holder against inflation. TIPS are currently offered in 5-year, 10-year and 20-year maturities. Beginning in February 2010, the U.S. Treasury will once again offer 30-year TIPS bonds.

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

July 23, 2013

Agenda Item 6.3

**TO:** Board of Retirement

**FROM:** Michael Coultrip, Chief Investment Officer



**SUBJECT:** Discussion and Approval of Clifton Overlay Manager Investment Guidelines

**Staff Recommendation:**

Review and approve Clifton investment guideline parameters.

**Background:**

During the May 2013 Board meeting the Clifton Group was chosen by the Board to provide overlay investment management services for SamCERA, including total fund cash equitization, manager cash equitization, and portfolio rebalancing.

Given the unique nature of this mandate, even though the Chief Executive Officer has the authority to execute any and all documentation to implement this strategy, staff thought it prudent to obtain the Board's approval for the Clifton Group Exhibit B Investment Guidelines of the Investment Management Agreement.

**Discussion:**

There are five discussion points that staff would like to address with the Board:

- 1) Appendix A – Cash Securitization – Fund Level: Asset classes included in the overlay program.
- 2) Appendix A – Cash Securitization – Fund Level: Treatment of private equity allocation.
- 3) Appendix A – Position Monitoring: Inclusion of 10% gross overlay position threshold of total plan assets.
- 4) Appendix B – Exposure Maintenance Including Rebalancing: Rebalancing methodology
- 5) Appendix B – Exposure Maintenance Including Rebalancing: Rebalancing bands

**Attachments:**

- A. *Exhibit B: Clifton Investment Guidelines*

## Exhibit B

### Guidelines

**Benchmark:** Custom benchmark based on Investment Strategy

**Investment Objectives and Guidelines:**

SamCERA may seek to securitize fund level cash in a manner consistent with the stated benchmark(s) and methodology as defined in Appendix A. To the extent possible, SamCERA will notify MANAGER in advance of any material cash flows into or out of fund accounts which are used to determine required overlay positions.

SamCERA may seek to securitize cash held in designated manager portfolios as defined in Appendix A. Cash will be securitized as specified in Appendix A. SamCERA will notify MANAGER in the event changes to the manager cash overlay component are desired.

SamCERA may seek to adjust market exposures or to rebalance the fund's liquid asset class exposures. The specifics of how portfolio exposure changes or how rebalancing moves will be made are defined in Appendix B.

SamCERA may seek to manage gaps in market exposure resulting from transition events including, but not limited to: A) change in managers, B) change in asset allocation, C) fund contribution or distributions, D) or other related temporary fund disruptions. The specific parameters related to each "transition event" are defined in Appendix C. Each transition event will be reviewed individually and clear written instructions must be provided to MANAGER by SamCERA before each transition MANAGER is asked to participate.

**Portfolio Monitoring**

On a daily basis, MANAGER will seek to obtain relevant information from State Street Global Services ("Custodian") regarding the market value of the SamCERA's designated cash and/or external manager portfolios ("Information") involved in the Investment Strategy. In the case of commingled funds (e.g. mutual funds) or other assets where a daily market value is not available, a proxy pricing methodology may be established for the designated portfolio as defined in Appendix D.

Subject to the foregoing, where electronic interfacing is reasonably available for the purposes set forth herein, MANAGER will be responsible for establishing a communication link and electronic interface methodology enabling the transfer of Information from the Custodian. SamCERA acknowledges and agrees that MANAGER will rely on Information provided by these methods without further investigation or confirmation. From time to time, such communication link may be unavailable due to system outages or other technical issues outside of MANAGER's reasonable control, which include, but are not limited to internet problems, hardware or software issues. In the event that Information cannot be

transferred on any given day, regardless of the reason, MANAGER will attempt to receive Information through an alternative method. SamCERA will reasonably assist MANAGER in obtaining Information.

If, as part of the Investment Strategy, MANAGER is required to monitor SamCERA assets beyond Overlay Portfolio, MANAGER will review the asset data in an attempt to verify its accuracy but it makes no assurances in this regard.

### **Execution Guidelines**

In accordance with these guidelines, MANAGER has the authority to execute trades which are intended to achieve Investment Strategy objectives and are consistent with the structure as described herein.

A Daily Tracking Report (“DTR”) will be generated by MANAGER using information as described above, subject to certain limitations. If transactions are not executed due to uncontrollable events (e.g. trading halts), the MANAGER will contact SamCERA to discuss alternatives.

A margin pool will be established in a designated Custodian account for MANAGER to provide the initial and variation margin necessary to support and manage overlay positions required by all Investment Strategies. The size of the margin pool will be a function of the size of overlay positions as well as SamCERA’s desire to increase the level of overall fund liquidity. MANAGER is responsible for providing SamCERA’s representative(s) with an estimate of the initial margin required to support the overlay positions as specified by the exchange on which the overlay positions are traded; recommended variation margin, or liquidity buffer, required to meet ongoing mark-to-market obligations; and margin pool level for the Investment Strategy on a daily basis via Investment Manager’s website: [www.theMANAGERgroup.com](http://www.theMANAGERgroup.com). MANAGER will seek to contact SamCERA’s representative if the margin pool moves to a level requiring the addition of variation margin or if margin pool balance has grown to a level estimated to be significantly beyond recommended levels.

While margin is regarded as a form of leverage, SamCERA agrees that PIOS® is not regarded as a levered strategy as positions are managed to align with underlying collateral. However, due to market factors, timing differences, and/or actions taken by SamCERA outside the control of the Investment Manager; or during periods of trading activity by MANAGER required to achieve Overlay Program objectives, there may be periods where the notional value of the Overlay Portfolio exceeds that of the underlying collateral.

### **Permissible Instruments:**

The permissible instruments for the Investment Strategy include:

- Domestic and international equity futures
- Domestic and international fixed income futures
- Commodity futures
- Foreign currency futures
- Exchange Traded Funds (ETFs)
- U.S. Treasury Securities

MANAGER will have discretion to employ permissible instruments to seek to achieve the Investment Strategy(ies) consistent with the Investment Objectives and consistent with these guidelines. SamCERA recognizes that this process may produce tracking error with the Benchmark(s).

**Notification Procedures:**

SamCERA acknowledges that Investment Manager's positions may be directly related to the underlying physical investments of the fund. Therefore it is critical that SamCERA notify MANAGER prior to any material changes in the fund's underlying physical positions. These changes could include, but are not limited to: distributions, contributions, physical rebalancing or reallocations, and manager terminations/additions.

All investment-related items will be provided by SamCERA to MANAGER by email to: [TCG@TheCliftonGroup.com](mailto:TCG@TheCliftonGroup.com). For all actions deemed actionable or substantive, SamCERA should not consider an email received until MANAGER responds with an email confirmation. If SamCERA does not receive the confirmation email, SamCERA must call MANAGER at 612.870.8800. SamCERA is responsible for informing Investment Manager, at its earliest opportunity, of any changes in any managers, manager capital allocations or when asset class assignments are revised.

**Reporting:**

In addition to the reporting requirement set forth in Section 3, the MANAGER will provide the SamCERA with the following:

- If desired by SamCERA, a DTR summarizing the fund's allocations, manager values, overlay positions, and other key Investment Strategy parameters. SamCERA will be able to access the DTR through Investment Manager's website: [www.theCliftonGroup.com](http://www.theCliftonGroup.com).
- A monthly performance summary report describing the performance of the Investment Strategy.
- A monthly accounting report reconciled to SamCERA's Custodian statement.
- Access to key employees of Investment Manager's team to address questions or clarify activity.
- Annual performance reviews, or more frequently at SamCERA's request.

**Special Considerations and Risks:**

**Market Risk:** The potential that the market moves in an adverse manner causing a loss.

**Liquidity Risk:** To the extent the overlay position generates a loss in excess of the margin balance or collateral available, the fund will require liquid assets to satisfy any outstanding commitments or experience liquidation of positions.

**Margin Pool Risk:** The fund may experience losses on the margin pool in addition to potential losses on the index market exposure overlaying these assets.

**Options Risks:** Client has received, read and understood the Characteristics and Risks of Standardized

Options published by The Options Clearing Corporation which includes option sensitivity risk. Unlike a futures-based hedge which immediately removes market exposure on a one-for-one basis, options contracts with time remaining before expiration are less sensitive to changes in market prices. Therefore, prior to expiration, the gain (loss) in the value of the hedge positions will likely be less than the loss (gain) in the underlying portfolio.

**OCC Counterparty Risk:** The Options Clearing Corporation (“OCC”) guarantees that all obligations of the contracts that the OCC clears are fulfilled. The OCC and the options markets have broad discretion in their rules to take a variety of actions in particular circumstances and no party should assume that the OCC or other option market participant will exercise its discretion in a particular way in any particular circumstance. The OCC may experience a negative credit event that would limit or eliminate its ability to satisfy any outstanding obligations to the Account Assets thus causing a loss to the Client.

**Futures Clearinghouse Counterparty Risk:** The Futures Clearinghouse guarantees that all obligations of the contracts that the Futures Clearinghouse clears are fulfilled. The Futures Clearinghouse and the futures markets have broad discretion in their rules to take a variety of actions in particular circumstances and no party should assume that the Futures Clearinghouse or other futures market participant will exercise its discretion in a particular way in any particular circumstance. The Futures Clearinghouse may experience a negative credit event that would limit or eliminate its ability to satisfy any outstanding obligations to the Account Assets thus causing a loss to the Client.

**Information Risks:** As described above, Investment Manager will maintain index market exposures based on designated values provided by one or more third party (ies). The Investment Manager cannot verify these values but will rely on this information as being reflective of true fund values. If actual fund values are different from the values provided by such third parties, losses may result from over or under exposure to the desired index.

**Benchmark Exposure Risk:** In the implementation of the Investment Strategy(ies), Investment Manager believes there may be tracking error between the actual Overlay Portfolio and benchmark allocations described in these Guidelines. For example, futures contracts may not exist for certain indices. To attempt to track such index results, a blend of futures contracts is utilized. This blend of futures contracts may or may not track the performance of the actual index. This is a form of tracking error. Tracking error could be material. Other sources for tracking error may include, among others:

- Execution value versus previous day's closing index value
- Change in relative futures premiums
- Imprecise benchmark replication
- Mid-day information flows
- Time differences between futures and local market closes
- Transaction and synthetic financing costs

**Tracking Error:** Exposure Maintenance using the PIOS® synthetic index approach, by gaining or reducing exposure to various asset classes, will modify the systematic or market risk associated with Client’s total

fund. The non-systematic risk, or tracking error that the individual managers exhibit relative to the asset class benchmark, is not changed by application of PIOS®. Trading error related to Exposure Maintenance component may create significant losses to the Client.

**Leverage Risk:** Notional exposure in excess of portfolio capital or fund collateral may produce a significant loss to the fund. Futures, options, swaps, and related derivative instruments have the potential to create leverage. In certain situations, Client's Overlay Portfolio, on a temporary or permanent basis, may be exposed to leverage in part by having a notional value of overlay positions which is more than the value of the underlying margin pool which may produce a significant loss the fund. Leverage introduces special risks and will change the volatility of Client's underlying assets (manager portfolios). If the Overlay Portfolio does create leverage, adverse moves in the overlay positions can require Client to post additional margin beyond those amounts initially deposited. Failure to maintain sufficient margin may result in the closing out of overlay positions in a manner not consistent with these Guidelines.

**Market Exposure Timing:** In order to achieve anticipated cash level change or desired risk exposure, Investment Manager may trade at the market close one business day before anticipated each level change or other market exposures changes. To the extent that any unanticipated change occur after trades are executed and before other adjustments are made, trades may need to be reversed and Client may experience an unexpected economic outcome.

**(Signature page follows)**



**There can be no assurance Client will achieve its objective through the use of PIOS®. For all Investment Strategies, Investment Manager seeks to execute transactions on a best efforts basis but makes no assurances in this regard. Past performance does not guarantee future results. Investment Manager does not warrant any rate of return or level of tracking error relative to the Benchmarks.**

**Completed and Reviewed by Client:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Date: \_\_\_\_\_

List of Authorized Client Representatives are set forth in Exhibit D.

**Completed and Reviewed by Investment Manager:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Date: \_\_\_\_\_

**CASH SECURITIZATION – Fund Level**

Client will designate specific fund level cash accounts to the overlaid by Investment Manager. These assets will be overlaid as described below:

<b><u>Asset Class</u></b>	<b><u>Target %</u></b>	<b><u>Benchmark Index</u></b>
Domestic Equity Large Cap	40.74%	Russell 1000
Domestic Equity Small Cap	10.19%	Russell 2000
International Equity	22.08%	MSCI ACWI ex US
Fixed Income	<u>26.99%</u>	Barclay’s Aggregate
	100%	

The Private Equity asset class target has been allocated proportionally across Domestic Equity Large Cap and Domestic Equity Small Cap based upon the unadjusted target allocation for each asset class. The remaining asset class targets (Commodities, Risk Parity, Hedge Funds, & Real Estate) have been allocated proportionally across Domestic Equity Large Cap, Domestic Equity Small Cap, International Equity, and Fixed Income based upon the unadjusted target allocation for each asset class.

**CASH SECURITIZATION – Manager Level**

Investment Manager will invest Manager cash on a best efforts basis in the asset classes as described below. It is Client’s responsibility to communicate to Investment Manager which managers should be included in the manager cash overlay for each asset class.

<b><u>Asset Class</u></b>	<b><u>Benchmark Index</u></b>
Domestic Equity Large Cap	Russell 1000
Domestic Equity Small Cap	Russell 2000
International Equity	MSCI ACWI ex US

**POSITION MONITORING**

Clifton will monitor the overlay position size on a best effort basis, and will notify the Client in the event that the gross index overlay positions, excluding any transition exposure requested by Client, exceed 10% of total fund assets.

**EXPOSURE MAINTENANCE INCLUDING REBALANCING**

<u>Asset Class</u>	<u>Target %</u>	<u>Benchmark Index</u>
Domestic Equity Large Cap	28.00%	Russell 1000
Domestic Equity Small Cap	7.00%	Russell 2000
International Equity	18.00%	MSCI ACWI ex US
Fixed Income	22.00%	Barclay's Aggregate
Commodities	3.00%	Dow Jones - UBS Commodity
Private Equity	8.00%	N/A
Risk Parity	6.00%	N/A
Hedge Funds	3.00%	N/A
Real Estate	<u>5.00%</u>	N/A
	100%	

It is Client's responsibility to establish and revise as necessary the asset class categories.

The Private Equity asset class will be considered fully invested at target levels with the difference between the long term target allocation and the actual allocation being allocated proportionally across the Domestic Equity Large Cap and Domestic Equity Small Cap asset classes.

The Commodities, Risk Parity, Hedge Funds, & Real Estate asset classes will be considered fully invested at target levels with the difference between the long term target allocation and the actual allocation being proportionally allocated across Domestic Equity Large Cap, Domestic Equity Small Cap, International Equity, & Fixed Income.

As an example, the calculations for the Adjusted Target Allocations are shown in the table below for the following hypothetical asset class imbalances:

- 1) If the actual allocation to Private Equity is 6%, and the target allocation is 8%, the difference (2%) is allocated as shown in the Proportional Adjustment #1 column.
- 2) If the actual allocations to Commodities, Risk Parity, Hedge Funds, & Real Estate are 16%, and the total target allocation is 17%, the difference (1%) is allocated as shown in the Proportional Adjustment #2 column. For example, the adjustment to Fixed Income is equal to  $\frac{22\% \div 75\%}{100\%} = 0.29\%$ .

<u>Asset Class</u>	<u>Unadjusted Target Allocation</u>	<u>Proportional Adjustment #1</u>	<u>Proportional Adjustment #2</u>	<u>Adjusted Target Allocation</u>
Domestic Equity Large Cap	28.00%	1.60%	0.38%	29.98%
Domestic Equity Small Cap	7.00%	0.40%	0.09%	7.49%
International Equity	18.00%		0.24%	18.24%
Fixed Income	22.00%		0.29%	22.29%
<b>Total</b>	<b>75.00%</b>	<b>2.00%</b>	<b>1.00%</b>	<b>78.00%</b>

Investment Manager will monitor fund asset allocations relative to the following variation bands:

<b><u>Asset Class</u></b>	<b><u>Proportional Variation Band %</u></b>	<b><u>Rebalancing Approach</u></b>
Domestic Equity Large Cap	± 5.0% of Adjusted Target Allocation	Futures Based
Domestic Equity Small Cap	± 5.0% of Adjusted Target Allocation	Futures Based
International Equity	± 5.0% of Adjusted Target Allocation	Futures Based
Fixed Income	± 5.0% of Adjusted Target Allocation	Futures Based

Investment Manager is authorized to adjust overlay positions back to adjusted targets, after fund asset class exposures have exceeded one or more exposure variation bands as monitored and estimated by Investment Manager. When rebalancing positions are implemented, asset class short exposure may be initiated.

**Appendix C**

**Date of last update:**

Transition Exposure Management

\_\_\_\_\_ Transition Form

SamCERA: \_\_\_\_\_

	Distribution/Termination	Contributions/New Hire
Manager Name:		
Asset Class:		
Dollar Value:		
Manager Account Type: (check one)	<input type="checkbox"/> Separate Account <input type="checkbox"/> Commingled	<input type="checkbox"/> Separate Account <input type="checkbox"/> Commingled
TCG Action:	<input type="checkbox"/> Buy <input type="checkbox"/> Sell <input type="checkbox"/> None	<input type="checkbox"/> Buy <input type="checkbox"/> Sell <input type="checkbox"/> None
Trade Date:		
Information as to when MANAGER should trade: (check one)	<input type="checkbox"/> Market Close (NAV) <input type="checkbox"/> Contact Manager – <input type="checkbox"/> Through Download <input type="checkbox"/> Other	<input type="checkbox"/> Market Close (NAV) <input type="checkbox"/> Contact Manager <input type="checkbox"/> Through Download <input type="checkbox"/> Other
Index Exposure to Sell/Buy: (check one)	<input type="checkbox"/> Policy Mix: <input type="checkbox"/> Index: <input type="checkbox"/> Other:	<input type="checkbox"/> Policy Mix: <input type="checkbox"/> Index: <input type="checkbox"/> Other:
Contact for Transition: (i.e. manager, transition manager)	Name: Phone: E-mail:	Name: Phone: E-mail:
Other Comments:		

Authorized Party: \_\_\_\_\_

Date: \_\_\_\_\_

Transition positions may create the need for additional margin in Investment Manager’s account to support overlay exposure.

If incomplete information is provided by SamCERA or outside party, MANAGER will work on a best efforts basis to complete necessary transition transaction in a manner which maintains market exposure in an unlevered manner. If incorrect information is provided, leverage or lack of full market exposure may result.

**Appendix D**

**Date of last update:** \_\_\_\_\_

**OTHER OVERLAID ASSETS**

It will be the responsibility of MANAGER to request regular updates on the value of the designated alpha pool or other overlaid assets for which values are not received from the Custodian. Because MANAGER does not control these managers, it is possible that MANAGER will not receive information in a timely manner from such managers. It is also possible that this information will not be accurate. SamCERA agrees that MANAGER may rely on such information as provided by the source without further investigation or confirmation.

<u>Manager</u>	<u>Frequency</u> *	<u>Method of Update</u> **	<u>Benchmark Index</u>	<u>Index Btick</u>

As more managers are added, it will be SamCERA’s responsibility to contact MANAGER and assist in developing a method for updating values for each new manager.

[\*insert daily, weekly, monthly, whatever is applicable]

\*\*Unaudited value downloaded, Receive email, Unaudited NAV, Receive value from SamCERA, whatever is applicable]

**Approved and Confirmed Changes to the Guidelines**

**Date**

**Guidelines Change**

**Verified by**

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

July 23, 2013

Agenda Item 6.4

**TO:** Board of Retirement

*Lilibeth Dames*

**FROM:** Lilibeth Dames, Investment Analyst

**SUBJECT:** Report on Value Equity Manager Annual Reviews (Barrow Hanley, Mondrian and The Boston Company)

**Staff Recommendation:**

Review the report on the annual review of SamCERA's Value Equity Managers.

**Background:**

On June 6<sup>th</sup>, SamCERA staff and consultant held annual review meetings in SamCERA's office for our value equity managers.

Each meeting lasted approximately 1.5 hours, and consisted of a firm/organizational update, investment process review, performance review and attribution, and current positioning/market outlook.

**Discussion:**

Barrow Hanley's Diversified Large Cap Value Equity product, which employs a bottom-up value investment strategy, was reviewed first. Next, Mondrian's All Countries World ex-US strategy, which is a value-oriented international equity approach, was reviewed. Lastly, The Boston Company's US Small Cap Value Equity strategy was reviewed. This strategy conducts a bottom-up fundamental research style approach. Trading philosophy and transaction costs were reviewed and discussed.

There were no significant concerns identified during the portfolio reviews. Attached you will find meeting notes from SIS summarizing the findings from these annual reviews.

**Attachments:**

- A. *Barrow Hanley Diversified Large Cap Value Equity Annual Review Meeting Notes*
- B. *Mondrian All Countries World ex-US Annual Review Meeting Notes*
- C. *The Boston Company US Small Cap Value Equity Annual Review Meeting Notes*



*Date of meeting: 6/6/2013*

*Location: SamCERA Office*

Manager Representative(s)

Mark Giambrone (Client Service), Matt Egenes (PM)

SIS Representative(s)

Jonathan Brody

Client Representative(s)

Mike Coultrip (CIO), David Bailey (CEO), Lilibeth Dames (Analyst)

### **Product Description**

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

### **Meeting Notes**

#### **Organization**

Assets at BHMS are now \$75 billion. Of this, \$2 billion is invested in the Diversified Large Cap Value strategy. The strategy has been attracting some new clients and some flows from existing clients.

BHMS continues to repurchase its equity from its parent company, Old Mutual. Employees currently own 22% of the equity, and the expectation is that by this time next year they will own 25%. Employee ownership is broad based with 43 of 74 employees owning equity.

Vanguard has been a client for 20 years and has \$28 billion invested with BHMS. BHMS's fee schedule applies to all of its clients, including Vanguard.

Mike asked about the use of soft dollars. According to Mark Giambrone, some clients limit the use of soft dollars, but almost no clients prohibit them from using soft dollars.

#### **Investment Team**

In the firm's 34 year history, they have never lost an investment professional to a competitor. Next year, Bob Chambers, one of the firm's portfolio managers, is planning to retire. The firm has hired three new analysts in the

past year. Two were recruited externally, but one was been with BHMS for seven years in operations and trading.

### **Investment Strategy**

The Diversified Large Cap Value Equity strategy is a 70 stock portfolio that takes the best ideas from BHMS's Large Cap Value and Mid Cap Value Equity strategies. The basic approach is to buy solid companies experiencing temporary problems. Generally they are looking for companies that can grow faster than the market, earn reasonable returns, have clean balance sheets and pay a dividend. The team's experience in understanding what steps companies need to take to solve their problems is the primary source of value added. An essential step in the process is meeting with company management to hear how they plan to address their issues. If BHMS is not convinced that the management team has a good strategy, they move on. The process does not consider price momentum or earnings momentum.

The structure of the portfolio and the investment team allows for deep research. With a portfolio of 70 stocks, 25% turnover, and a research team of more than 20 analysts and portfolio managers, they do not need to generate a large number of new ideas.

### **Performance & Positioning**

2012 was a difficult environment for BHMS and for active management generally. Only 14% of the stocks in the S&P 500 outperformed the index. The success of active management in the large cap value space tends to be cyclical.

As of the end of May, for the trailing one-year period the strategy returned 33.31%, which was 60 bps ahead of the benchmark on a gross basis. Technology has been an area of difficulty for the portfolio. They are invested in the sector because valuations are low and cash flows are solid. But it is not clear that low P/E and high dividend yield is an effective approach to investing in the technology sector. One stock in the sector that really has worked well for BHMS is IBM.

BHMS owns both Carnival and Royal, and these cruise operators have detracted materially from performance. These stocks are so beaten down that BHMS has added slightly to their positions.

Overall, they have increased the concentration of the portfolio because they believe that correlations, which have been high, are declining. They have also been selling some of the higher yielding names in the portfolio that have appreciated and no longer look cheap.

The portfolio is approximately neutral weighted in financials, but within financials overweight the consumer side of lending and underweight REITs and brokers. Although they will own REITs at appropriate prices, they don't want to own them at the current valuations.

*Date of meeting: 6/6/2013*

*Location: SamCERA Office*

Manager Representative(s)

Andrew Porter (PM), Jim Brecker (Client Service),  
Kimberly Aspenleider (Client Service, Delaware)

SIS Representative(s)

Jonathan Brody

Client Representative(s)

Mike Coultrip (CIO), David Bailey (CEO)

## **Product Description**

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

## **Meeting Notes**

### **Organization**

Mondrian currently manages \$68 billion. The ACWI ex US strategy is \$4 billion and is closed to new accounts. Net flows at the firm have been positive, with strong client interest particularly in Emerging Markets Small Cap and Emerging Market Debt. There has been gradual geographical diversification of the firm's client base. In the past, 90% of Mondrian's assets were managed for U.S. based clients. That number has declined to 75%.

Mondrian is 100% employee owned with approximately half the employees owning equity and no single employee with more than 15%. The firm continues to pay down the debt associated with the employee buyout, which has declined from \$400 million to \$300 million.

The emerging markets portion of the strategy is invested in a Delaware mutual fund sub-advised by Mondrian. The representative from Delaware, Kimberly Aspenleider, stated that there have been no recent organizational changes at Delaware since they were acquired by Macquarie.

### **Investment Team**

In April 2013 Bob Akester, an emerging markets portfolio manager, retired from Mondrian on his 65th birthday.

Mondrian pre-announced this in 2012 and has been planning the transition for some time. They have also recently hired an additional research person for emerging markets small cap.

### **Investment Strategy**

Mondrian employs a long term dividend discount model for all of the firm's equity strategies. The approach focuses on long term dividend growth after inflation. For each company they conduct a scenario analysis, looking at expected, best and worst case outcomes. The emphasis is on the downside risk and they prefer a narrow, to a broad, range of outcomes. They are looking for at least a 5% real return from owning a stock for the long term.

The DDM is constructed with 10 years of detailed forecasts and then a long term assumption out to year 50. The discount rate used is 5% and is not adjusted for risk because this is captured in the scenario analysis.

The research process involves company meetings in which discussion with management focuses on long term strategy. They will also meet with strategists and central bankers in order to learn more about the prospects of a given local market. Mondrian conducts PPP analysis on currencies in order to be able to bring everything into a common currency for comparison purposes. They will hedge currencies defensively when the analysis identifies extreme over-valuation.

The approach yields a portfolio with lower volatility than the benchmark and most peers. The emphasis is on capital preservation and excess return is usually generated by outperforming in declining markets.

### **Performance & Positioning**

In 2012 Mondrian protected well when the market declined, but participated less on the upside than they would have expected. Two thirds of the underperformance for the year is attributable to sector allocation, particularly the underweight to financials and overweight to telecom. But stock selection was also challenged with names such as TESCO disappointing market expectations and lagging the benchmark.

Mondrian is not making large country bets currently because their expectations are relatively narrowly clustered across countries. But they are overweight France and Japan, because they have found bottom up opportunities in these countries. Mondrian is also slightly overweight the emerging markets because of attractive relative valuations.

They have had a full position in Japan for a number of years because of opportunities in the export oriented companies. Mondrian's view is that Abenomics has mostly just increased the range of outcomes in Japan.

Mondrian is slightly overweight the Eurozone and they have found some attractive values, particularly in France and Spain. Their view is that investors have sold these markets indiscriminately, without much attention to the bottom up circumstances of individual companies. Northern Europe, however, looks expensive.

The Australian dollar exposure remains hedged.

Because Mondrian has been cautious about the economic environment since the financial crisis, they have had full allocations to defensive sectors such as consumer staples and health care. And they continue to have a large underweight to financials. Although they have been looking at some opportunities, overall they expect negative earnings growth for banks.

*Date of meeting: 6/6/2013*

*Location: SamCERA Office*

Manager Representative(s)

Joe Corrado (PM), Jerry Navarrete (Client Service)

SIS Representative(s)

Jonathan Brody

Client Representative(s)

Mike Coultrip (CIO), David Bailey (CEO), Lilibeth Dames (Analyst)

### **Product Description**

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

### **Meeting Notes**

#### **Organization**

TBC's firm-wide assets are \$44 billion. In 2012 they did not bring on many new clients. Assets in the U.S. Small Cap Value Equity strategy are \$2.3 billion. Because they believe their capacity to be approximately \$2.5 billion, the product is effectively closed to new accounts.

Under Bart Grenier, who is in his second year as CEO of the firm, TBC has made a big push to become more of a global firm and move to a global research platform. The central research platform has shifted from covering only U.S. large cap companies, to covering large cap companies globally. This change does not have a great impact on the small cap value team, but they do participate in global sector meetings.

#### **Investment Team**

The three most senior members of the team, Joe Corrado, Ed Walters and Stephanie Brandaleone, have been managing the product together for more than 15 years, since their days at Standish, Ayer & Wood. These three each have more than 20 years of investment experience.

**Investment Strategy**

The approach is bottom up and value oriented. Portfolio construction is relatively benchmark sensitive. This is particularly the case when it comes to sector weightings which, with the exception of financials which is a 10% underweight, are quite close to the benchmark.

It is the responsibility of each analyst covering a sector to develop a screening process for his or her universe. The idea is to look for stocks trading at below median valuations with above median prospects. Analysts need to be able to answer the question "when is this stock going to work?" They are looking for company specific catalysts. The process involves many company meetings.

Portfolio turnover is generally in the range of 70%. But because they trade around positions, name turnover is generally closer to 50%. Although positions are generally sold when they hit the \$3 billion market cap level, there are currently a couple of names in the \$3 - \$3.5 billion range. This strategy generally will not buy stocks with market caps above \$2 billion.

The portfolio holds approximately 140 names, many of which have market caps below \$1 billion. Joe Corrado observed that there has been a continuous decline in liquidity in the small cap market, particularly at the lower end of the market cap spectrum. Their approach to trading is not to seek to buy a security at a particular price, but to build a position over time. The tendency is to buy stocks after they have bottomed and have already begun to tick up. They may spend weeks or months, building a position ten basis points at a time. This makes their trading costs look very high. Joe estimated that their impact cost at 150 basis points.

**Performance & Positioning**

The underweight to financials is primarily due to an underweight position in REITs. The portfolio actually has material exposure to banks. In general this portfolio is overweight healthcare because it has such a small representation in the benchmark. The weighting in consumer discretionary tends to fluctuate some because of the cycle of consumer sentiment. Most of the other sectors are close to neutral.

The portfolio is currently underexposed to yield. This is primarily a function of not owning REITs or the higher yielding utilities.

Stock selection in technology has been a big driver of performance.

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

July 23, 2013

Agenda Item 6.5

**TO:** Board of Retirement

**FROM:**   
Lilibeth Dames, Investment Analyst

**SUBJECT:** Report on Growth Equity Manager Annual Reviews (Baillie Gifford Overseas and Chartwell Investment Partners)

**Staff Recommendation:**

Review the report on the annual review of SamCERA's Growth Equity Managers.

**Background:**

On July 9<sup>th</sup>, SamCERA staff and consultant held annual review meetings in SamCERA's office for our growth equity managers.

Each meeting lasted approximately 1.5 hours, and consisted of a firm/organizational update, investment process review, performance review and attribution, and current positioning/market outlook.

**Discussion:**

Staff and consultant first reviewed Baillie Gifford's EAFE Plus Focus portfolio. The product is a fundamental growth strategy, organized primarily by regional teams with research contributions from four global sector groups. Chartwell's Small Cap Growth Equity strategy was reviewed next. This strategy seeks to invest in stocks with solid fundamentals that are well positioned for rapid growth. Recent changes in the investment analyst team were discussed, including the departure of the group's consumer analyst.

There were no significant concerns identified during the portfolio reviews. Attached you will find meeting notes from SIS summarizing the findings from both annual reviews.

**Attachments:**

- A. *Baillie Gifford Overseas Ltd EAFE Plus Focus Annual Review Meeting Notes*
- B. *Chartwell Investment Partners Small Cap Growth Equity Annual Review Meeting Notes*

*Date of meeting: 7/9/2013*

*Location: SamCERA Office*

Manager Representative(s)

Anne-Marie Gillon (Client Service), Richard Gall (Client Service)

SIS Representative(s)

Jonathan Brody

Client Representative(s)

Mike Coultrip (CIO), Scott Hood (Assistant Executive Officer)

### **Product Description**

EAFE Plus Focus is a fundamental growth strategy. Research is organized primarily by regional teams, and each member of the EAFE Plus Focus Portfolio Construction Group is a member of a different regional team. Four global sector groups also contribute research. Baillie Gifford conducts approximately 2000 company meetings annually both in Edinburgh and onsite. Companies are evaluated on their growth opportunity relative to the average company, their ability to execute on that opportunity, and the degree to which probability of future success is already valued by the market. Baillie Gifford's basic philosophy is that share prices ultimately follow earnings. They believe that the stock market has a recurring tendency to under-appreciate the value of long-term compound growth. The process seeks to add value through use of proprietary fundamental research to identify companies exhibiting some combination of sustained above average growth and attractive financial characteristics. The portfolio generally holds 80-100 stocks. This strategy can invest opportunistically in the emerging markets, but historically this exposure has been below 10%.

### **Meeting Notes**

#### **Organization**

Baillie Gifford remains an independent partnership with no external owners. Currently there are 39 full time partners. Over the past year the firm has experienced growth in assets, clients and staff. There have been ten additions to the investment team in the past year, which is a slightly higher than the normal rate of growth. Baillie Gifford generally hires people toward the beginning of their career, often recent graduates. The recruiting strategy focuses on hiring people who are inquisitive, and not necessarily people with degrees in finance. For the first two years at the firm, these trainees rotate among different investment functions. Baillie Gifford has also recently hired four new client service trainees. These people tend to come in with a bit more experience.

In April the area of Edinburgh where Baillie Gifford is headquartered experienced a power outage. The back-up generators provided by the building's owner functioned for the trading group, but power was out for the remainder of the firm for approximately three hours. Baillie Gifford has a back-up site with 150 seats located 20 miles from Edinburgh which was fully functional and could have been used by the firm if the outage had continued.

Baillie Gifford has dedicated resources for ESG and corporate governance research. The firm employs six corporate governance/ESG analysts who conduct research on the firm's holdings and communicate that research to the investment team. In connection with this, they mentioned that they had engaged with Olympus and made several public announcements regarding the company and its governance.



## Investment Team

There have been no recent changes to the four member portfolio construction group that oversees the EAFE Plus Focus strategy.

## Investment Strategy

The investment philosophy and process remains unchanged. Baillie Gifford seeks to identify companies with strong long term growth prospects and take substantial positions in them. The investment horizon is at least 3-5 years. Baillie Gifford summarizes their investment criteria with the following four questions:

Will this company be significantly larger in five years?

Are management sensible guardians of our clients' capital?

Why is this growth not reflected in the current share price?

What would make us sell?

With approximately \$5.5 billion in the strategy, Baillie Gifford believes that they still have ample capacity remaining in International Focus. According to their calculations, less than 5% of SamCERA's portfolio is illiquid. Assuming a participation rate of no more than 25% of average daily volume in any stock, and using the last 30 days trading as the current benchmark for market liquidity, the SamCERA portfolio could be liquidated in nine days with 96% of the portfolio could being liquidated in the first day. Mike Coultrip requested that they calculate this using a more conservative 20% of average daily volume assumption.

The Focus strategy is the only international equity strategy open to new clients at Baillie Gifford. The strategy was recently selected by Harbor Capital to sub-advise a mutual fund. Harbor has reserved additional capacity.

Baillie Gifford has recently requested that clients approve changes to their internal guidelines. They would like to raise the country guideline from +/- 6% relative to the index, to +/- 10%. They also request eliminating the industry (but not the sector) constraint entirely and raising the individual stock limit from +/- 4% to +/-5%. These changes would have no impact on the constraints specified in SamCERA's IMA. Baillie Gifford will continue to adhere to SamCERA's limit of 5% in any one issuer.

## Performance & Positioning

The strategy is approximately 200 basis points ahead of the benchmark from the inception of SamCERA's account through the end of May. June was a difficult month, and it is expected that the since-inception excess return will be lower as of the end of June.

Anne-Marie and Richard reviewed a number of holdings that have contributed to performance and some that have detracted. Among the contributors is Asos, a UK based online fashion retailer, which has performed well, but still has potential for more growth. Finnish elevator company Kone has also been a contributor and remains attractive to Baillie Gifford because of the sticky customer base and servicing model. Another holding that has done well recently, and from which SamCERA has benefited is Olympus. The stock was punished due to an accounting scandal, but has been performing under new management. Baillie Gifford likes the endoscope, but not the camera, business.

Detractors from performance include Li & Fung and Kazakhmys. Li & Fung functions as an intermediary between manufacturers and retailers. Recently they have been under pressure because of weaker structural demand. Baillie Gifford regards this as temporary and they have been buying more shares. Kazakhmys is a UK listed copper producer whose 20% stake in another company caused a decline in its stock price. The investment team is still discussing this

holding.

Recent new positions include Imagination Technologies and Trade Me. Imagination Technologies produces chips designed for specific Apple and other devices. Trade Me is an e-commerce company focused on the New Zealand market.

Date of meeting: 7/9/2013

Location: SamCERA Office

Manager Representative(s)

John Heffern (PM), Mike McCloskey (Marketing) [Via conference call]

SIS Representative(s)

Jonathan Brody

Client Representative(s)

Mike Coultrip (CIO), Scott Hood (Assistant Executive Officer)

### Product Description

Chartwell seeks to invest in stocks with solid fundamentals that are well positioned for rapid growth. These businesses typically demonstrate strong increases in earnings per share. The strategy involves initiating positions opportunistically when stocks are attractively valued. Chartwell's style falls somewhere between the momentum-oriented small growth managers on the aggressive end of the spectrum, and the more defensive growth-at-a-reasonable price managers. Portfolios contain 50-70 stocks with market capitalizations between \$200 million and \$2.5 billion at purchase. Meetings with management are an important part of the investment process.

### Meeting Notes

#### Organization

Chartwell's firm-wide assets were approximately \$6.2 billion as of the end of the second quarter. Recent growth has been driven both by market appreciation and by new business. Demand has been quite strong both for the firm's small cap value product and for a niche short duration high yield strategy. Small Cap Value is quite close to closing to new client accounts.

Chartwell currently has 48 employees.

There have been no recent changes in the firm's ownership structure. All the members of the Small - Mid Cap Growth team have equity in the firm.

#### Investment Team

After only a few months at Chartwell, David Neiderer, the group's consumer analyst, left the firm. According John Heffern, David had been with Chartwell for such a short period of time that he had had virtually no impact on the portfolio. John's explanation for the departure was that the demands of the job, and the travel involved, were more than David had anticipated. He left to join Conestoga, another Philadelphia area small cap manager. John Heffern will take over responsibility for the consumer sector.

We spent some time discussing David's departure because he is the fourth consumer analyst to depart from the firm since 2009. John provided a different explanation for each of the departures, but also hypothesized that generally there have been so many promising companies in this space that it is possible that analysts covering it have been somewhat overwhelmed.

Chartwell's founder, Ed Antoian, is also listed as covering consumer and healthcare stocks for the group. But his role is really more as a generator of ideas, rather than as an analyst who maintains coverage of portfolio holdings. Ed also manages a hedge fund, but the rest of the Small - Mid Growth team has no involvement with the hedge fund. Chartwell does not market this fund and most of the investors are Ed's family and friends. This arrangement has been in place since the founding of the firm.

The Small - Mid Growth team also hired an additional analyst to cover technology a few months ago, Kevin Shea.

### **Investment Strategy**

Assets in the strategy are approximately \$1.3 billion. Chartwell believes that they have capacity for an additional \$500 million. John Heffern has discretion to decide at what level to close the product. He is not yet, at the current level of assets, feeling constraints on liquidity or trading.

The basic investment philosophy and process is unchanged. Chartwell takes the view that earnings drive stock price performance. They look to invest in companies with growing revenue, margins and profits. The portfolio is constructed to have characteristics similar to the benchmark. The idea is to beat the benchmark by owning companies with catalysts and superior execution. Face-to-face meetings with company managements are a central component of the research process. Team has met with approximately 175 companies in the past two months.

Turnover tends to be in the 70%-135% range. A portion of this turnover are trims and adds as positions converge and diverge from target prices.

Although the process has not changed fundamentally, it has been tightened up since 2008. Decision making responsibility is now more centralized in the portfolio manager. Analysts have less direct control over the portfolio. The team has become more disciplined about establishing and maintaining target prices. Coverage responsibility has also been made more precise so that there is now no ambiguity about who covers which stocks.

### **Performance & Positioning**

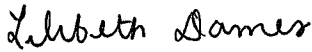
John noted that the strategy has only had one year of poor performance since 2004, and that was 2008. Year-to-date through the day prior to the meeting, the portfolio is approximately 130 basis points behind the benchmark.

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

July 23, 2013

Agenda Item 6.6

**TO:** Board of Retirement

**FROM:**   
Lilibeth Dames, Investment Analyst

**SUBJECT:** Presentation of Performance Report Concerning Certain Existing Alternative Investments (to be heard in Closed Session)

**Staff Recommendation:**

Staff recommends that the Board accept and review the performance report concerning certain existing alternative investments as of December 31, 2012.

**Background:**

In August 2010, the Board of Retirement approved the implementation of SamCERA's private equity program, with a target policy allocation of 8.0%. At the December 2012 board meeting, Faraz Shooshani of SIS provided a report of SamCERA's private equity program as of June 30, 2012. Today, Mr. Shooshani will be present to provide a confidential due diligence report of these assets as of December 31, 2012.

**Discussion:**

As of December 31, 2012, SamCERA's private equity portfolio had a total market value of \$44.6 million. For calendar year 2012, SamCERA committed to five new funds for a total of \$103 million. This brought the sum of private equity funds in the portfolio to nine with \$163 million in committed capital.

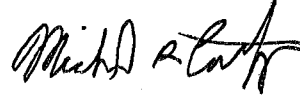
Mr. Shooshani will review the performance report concerning certain existing alternative investments under closed session which will be provided to the board under a separate confidential memo.

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

July 23, 2013

Agenda Item 6.7

**TO:** Board of Retirement



**FROM:** Michael Coultrip, Chief Investment Officer

**SUBJECT:** Report on Alternative Investment Transaction (to be heard in Closed Session, C3)

**Staff Recommendation:**

Staff recommends the Board review and accept the report for the purchase of alternative investment Cevian Capital II.

**Background:**

Pursuant to Resolution 12-13-04, which authorizes the Chief Executive Officer, in consultation with the Board Chair or Vice Chair, and one member of the Investment Committee, to make investment decisions for alternative investments of \$25 million or less if such decision must be made prior to the date of the next regularly scheduled Board meeting, the CEO authorized an investment into a private equity opportunity in order to make the fund's closing on July 1st. Given that the July Board meeting is after the close date, Resolution 12-13-04 was utilized to execute an investment in the fund.

**Discussion:**

On June 24th, the Chief Executive Officer, consistent with Resolution 12-13-04, called an ad-hoc conference call to discuss a potential private equity opportunity. Present on the call were the Board Vice Chair (Natalie Kwan Lloyd), two members of the Investment Committee (Michal Settles & Lauryn Agnew), Staff (David Bailey, Mike Coultrip, Brenda Carlson, and Lilibeth Dames), and SIS (Faraz Shooshani).

In closed session, Faraz Shooshani (SIS) will provide a confidential due diligence report of this purchase.

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

July 23, 2013

Agenda Item 6.8

**TO:** Board of Retirement

*Michael R. Coultrip*

**FROM:** Michael Coultrip, Chief Investment Officer

**SUBJECT:** Discussion and Approval of Proposed Alternative Investment  
(to be heard in Closed Session, C4)

**Staff Recommendation:**

Staff recommends the Board consider the alternative investment opportunity, and if approved, adopt a resolution authorizing the Chief Executive Officer to execute all necessary paperwork to perfect the investment and to take all actions necessary to initiate, implement, and monitor the investment.

**Background:**

The Board has received a confidential due diligence report concerning an alternative investment opportunity. The information contained in this report is confidential pursuant to Government Code section 6254.26.

**Discussion:**

The investment would offer the opportunity to participate in a portfolio of middle market growth companies.

Faraz Shooshani (SIS) and a representative from the general partner will present this agenda item, including an oral review of the firm and investment process.

**Attachments:**

- A. Recommendation of Alternative Investment Opportunity
- B. Presentation Book on Alternative Investment Opportunity

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

July 23, 2013

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 June 30, 2013

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 \$2,738,665,391.

**Statement of Changes in Fiduciary Net Assets**

Net assets held in trust for pension benefits decreased by approximately \$59M million, month over month. The decrease is due to the market depreciation in assets for the month of June 2013.

The following reports are attached to this agenda item:

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Statement of Fiduciary Net Assets (Year to Year YTD Comparative)	2
Statement of Changes in Fiduciary Net Assets (Year to Year YTD Comparative)	3
Cash Flow Statements	4-5
Statement of Fiduciary Net Assets (YTD Monthly Comparative)	6
Statement of Changes in Fiduciary Net Assets (YTD Monthly Comparative)	7



**San Mateo County Employees' Retirement Association**  
**Statement of Fiduciary Net Assets - YTD Comparative**  
**June 2013**  
**PRELIMINARY**

	June 2013	June 2012
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS	39,422,862	49,733,227
SECURITIES LENDING CASH COLLATERAL	128,298,742	199,380,508
<b>TOTAL CASH</b>	<u>167,721,604</u>	<u>249,113,735</u>
<b>RECEIVABLES</b>		
Contributions	3,573,048	3,702,233
Due from Broker for Investments Sold	139,326,517	125,066,558
Investment Income	4,891,379	5,414,934
Securities Lending Income	60,596	97,138
Other Receivable	113,477	113,496
<b>TOTAL ACCOUNTS RECEIVABLES</b>	<u>147,965,017</u>	<u>134,394,359</u>
PREPAID EXPENSE	7,669	7,669
<b>INVESTMENTS AT FAIR VALUE</b>		
Domestic Fixed Income Securities	427,380,751	453,960,203
International Fixed Income Securities	112,393,585	100,544,203
Domestic Equities	1,135,855,622	902,422,401
International Equities	494,577,129	408,832,756
Real Estate	158,833,035	146,917,122
Private Equities	64,361,172	19,404,901
Risk Parity	177,788,373	152,628,991
Hedge Funds	74,140,269	68,994,760
Commodities	69,083,062	69,902,427
Held for Securities Lending	0	0
Other Investment	0	0
	<u>2,714,412,999</u>	<u>2,323,607,764</u>
FIXED ASSETS	0	0
LESS ACCUMULATED DEPRECIATION	0	0
	<u>0</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<u><b>3,030,107,288</b></u>	<u><b>2,707,123,527</b></u>
<b>LIABILITIES</b>		
Investment Management Fees	3,415,746	2,533,960
Due to Broker for Investments Purchased	154,293,081	141,487,676
Collateral Payable for Securities Lending	128,298,742	199,380,508
Other	5,434,328	3,417,729
<b>TOTAL LIABILITIES</b>	<u><b>291,441,897</b></u>	<u><b>346,819,873</b></u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>2,738,665,391</b>	<b>2,360,303,654</b>

7/23/2013

**San Mateo County Employees' Retirement Association**  
**Statement of Changes in Fiduciary Net Assets - YTD Comparative**  
**June 2013**  
**Preliminary**

	June 2013	June 2012	
ADDITIONS			
CONTRIBUTIONS			
Employer Contribution	144,277,150	150,949,761	(6,672,612)
Employee Contribution	55,400,752	49,687,136	5,713,616
<b>TOTAL CONTRIBUTIONS</b>	<u>199,677,901</u>	<u>200,636,897</u>	<u>(958,996)</u>
INVESTMENT INCOME			
Interest and Dividends	57,705,420	61,653,951	(3,948,531)
Net Appreciation (Depreciation) in fair value of investments	302,107,088	(51,737,514)	353,844,603
Less Investment Expense	(21,979,794)	(20,940,955)	(1,038,838)
Less Asset Management Expense	0	0	0
<b>NET INVESTMENT INCOME</b>	<u>337,832,714</u>	<u>(11,024,519)</u>	<u>348,857,233</u>
SECURITIES LENDING INCOME			
Earnings	402,803	452,442	(49,639)
Less: Securities Lending Expenses	219,089	268,777	(49,688)
<b>NET SECURITIES LENDING INCOME</b>	<u>621,892</u>	<u>721,219</u>	<u>(99,327)</u>
OTHER ADDITIONS			
	72,282	29,025	43,257
<b>TOTAL ADDITIONS</b>	<u>538,204,790</u>	<u>190,362,623</u>	<u>347,842,168</u>
DEDUCTIONS			
ASSOCIATION BENEFITS			
Service Retirement Allowance	131,638,612	122,541,648	9,096,964
Disability Retirement Allowance	16,705,247	15,532,365	1,172,882
Survivor, Death and Other Benefits	687,818	1,133,577	(445,759)
<b>TOTAL ASSOCIATION BENEFITS</b>	<u>149,031,676</u>	<u>139,207,590</u>	<u>9,824,086</u>
REFUND OF MEMBER CONTRIBUTIONS			
	5,989,241	3,627,492	2,361,749
ADMINISTRATIVE EXPENSE	4,792,451	5,033,047	(240,596)
OTHER EXPENSE	29,685	(33,331)	63,016
<b>TOTAL DEDUCTIONS</b>	<u>159,843,053</u>	<u>147,834,798</u>	<u>12,008,255</u>
<b>NET INCREASE</b>	<b>378,361,738</b>	<b>42,527,825</b>	<b>335,833,913</b>
Net Assets Held in Trust for Pension Benefits:			
Beginning of Period	2,360,303,654	2,317,775,829	
End of Period	2,738,665,391	2,360,303,654	





7/23/2013

**San Mateo County Employees' Retirement Association  
Statement of Fiduciary Net Assets - Monthly Comparative  
For the Month Ending June 30, 2013**

	June 2013	May 2013	Increase/(Decrease)	% of Incr/Decr
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS	39,422,862	54,035,527	(14,612,665)	-27.04%
SECURITIES LENDING CASH COLLATERAL	128,298,742	128,298,742	0	0.00%
<b>TOTAL CASH</b>	<b>167,721,604</b>	<b>182,334,269</b>	<b>(14,612,665)</b>	<b>-8.01%</b>
<b>RECEIVABLES</b>				
Contributions	3,573,048	0	3,573,048	N/A
Due from Broker for Investments Sold	139,326,517	128,875,267	10,451,249	8.11%
Investment Income	4,891,379	5,547,857	(656,478)	-11.83%
Securities Lending Income	60,596	53,245	7,351	13.81%
Other Receivable	113,477	113,477	0	0.00%
<b>TOTAL ACCOUNTS RECEIVABLES</b>	<b>147,965,017</b>	<b>134,589,847</b>	<b>13,375,170</b>	<b>9.94%</b>
PREPAID EXPENSE	7,669	7,669	0	0.00%
<b>INVESTMENTS AT FAIR VALUE</b>				
Domestic Fixed Income Securities	427,380,751	436,345,681	(8,964,929)	-2.05%
International Fixed Income Securities	112,393,585	114,663,782	(2,270,197)	-1.98%
Domestic Equities	1,135,855,622	1,153,969,533	(18,113,911)	-1.57%
International Equities	494,577,129	516,037,287	(21,460,157)	-4.16%
Real Estate	158,833,035	158,833,035	0	0.00%
Private Equity	64,361,172	55,709,408	8,651,763	15.53%
Risk Parity	177,788,373	177,788,373	0	0.00%
Hedge Funds	74,140,269	74,140,269	0	0.00%
Commodities	69,083,062	71,847,636	(2,764,573)	-3.85%
Held for Securities Lending	0	0	0	N/A
Other Investment	0	0	0	N/A
	<b>2,714,412,999</b>	<b>2,759,335,003</b>	<b>(44,922,005)</b>	<b>-1.63%</b>
FIXED ASSETS	0	0	0	N/A
LESS ACCUMULATED DEPRECIATION	0	0	0	N/A
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00%</b>
<b>TOTAL ASSETS</b>	<b>3,030,107,288</b>	<b>3,076,266,788</b>	<b>(46,159,500)</b>	<b>-1.50%</b>
<b>LIABILITIES</b>				
Investment Management Fees	3,415,746	2,613,040	802,706	30.72%
Due to Broker for Investments Purchased	154,293,081	146,961,284	7,331,797	4.99%
Collateral Payable for Securities Lending	128,298,742	128,298,742	0	0.00%
Other	5,434,328	676,236	4,758,092	703.61%
<b>TOTAL LIABILITIES</b>	<b>291,441,897</b>	<b>278,549,302</b>	<b>12,892,595</b>	<b>4.63%</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>2,738,665,391</b>	<b>2,797,717,486</b>	<b>(59,052,095)</b>	<b>-2.11%</b>

7/23/2013

**San Mateo County Employees' Retirement Association  
Statement of Changes in Fiduciary Net Assets - Monthly Comparative  
For the Month Ending June 30, 2013**

	June 2013	May 2013	
ADDITIONS			
CONTRIBUTIONS			
Employer Contribution	144,277,150	144,684,910	(407,760)
Employee Contribution	55,400,752	51,011,696	4,389,056
<b>TOTAL CONTRIBUTIONS</b>	<u>199,677,901</u>	<u>195,696,605</u>	<u>3,981,296</u>
INVESTMENT INCOME			
Interest and Dividends	57,705,420	54,768,417	2,937,003
Net Appreciation (Depreciation) in fair value of investments	302,107,088	351,668,870	(49,561,781)
Less Investment Expense	(21,979,794)	(19,348,783)	(2,631,011)
Less Asset Management Expense	0	0	0
<b>NET INVESTMENT INCOME</b>	<u>337,832,714</u>	<u>387,088,503</u>	<u>(49,255,789)</u>
SECURITIES LENDING INCOME			
Earnings	402,803	381,816	20,987
Less: Securities Lending Expenses	219,089	177,206	41,884
<b>NET SECURITIES LENDING INCOME</b>	<u>621,892</u>	<u>559,021</u>	<u>62,871</u>
OTHER ADDITIONS			
	72,282	63,438	8,845
<b>TOTAL ADDITIONS</b>	<u>538,204,790</u>	<u>583,407,568</u>	<u>(45,202,777)</u>
DEDUCTIONS			
ASSOCIATION BENEFITS			
Service Retirement Allowance	131,638,612	120,231,552	11,407,059
Disability Retirement Allowance	16,705,247	15,227,394	1,477,853
Survivor, Death and Other Benefits	687,818	629,769	58,048
<b>TOTAL ASSOCIATION BENEFITS</b>	<u>149,031,676</u>	<u>136,088,715</u>	<u>12,942,961</u>
REFUND OF MEMBER CONTRIBUTIONS	5,989,241	5,613,635	375,606
ADMINISTRATIVE EXPENSE	4,792,451	4,261,919	530,531
OTHER EXPENSE	29,685	29,465	220
<b>TOTAL DEDUCTIONS</b>	<u>159,843,053</u>	<u>145,993,735</u>	<u>13,849,318</u>
<b>NET INCREASE</b>	<b>378,361,738</b>	<b>437,413,833</b>	<b>(59,052,095)</b>
Net Assets Held in Trust for Pension Benefits:			
Beginning of Period	2,797,717,486	2,360,303,654	
End of Period	2,738,665,391	2,797,717,486	

San Mateo County Employees' Retirement Association  
Board of Retirement

July 23, 2013

Agenda Item 7.2

To: Board of Retirement



From: Chezelle Milan, Retirement Senior Accountant  
Mabel Wong, Finance Officer

Subject: Preliminary 4th Quarter Budget Report

**DISCUSSION**

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

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 June 30, 2013, is approximately 45.8 basis points versus the expected fee of 55.6 basis points. Actual to budget expenditures are on track as projected.

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. Year-to-date through the fourth quarter, SamCERA expended 78.3% of the approved appropriations. Under **Salaries & Benefits** SamCERA budgets all positions and benefits. Savings reflect vacancies during the year. Under **Services & Supplies** the association budgets all overhead and operational expenditures. This year's budget has not allocated any appropriation for **Capital Assets**.

**SamCERA's Administrative Budget**

	Adopted Budget	YTD Preliminary
Salaries & Benefits	\$3,895,420	\$3,129,480
Services & Supplies	\$1,496,380	\$1,091,384
Capital Assets	<u>\$ 0</u>	<u>\$ 0</u>
Total	\$5,391,800	\$4,220,865

**Attachment Three** provides a review of the line item technology appropriations versus the preliminary expenditures. Staff has selected LRWL, Inc. as the consultant to assist *SamCERA* in its information technology modernization project and BCS Systems, Inc. for electronic content management project. Work is progressing on both projects and expenses will be realized on appropriations that fall under IT Infrastructure.

**SamCERA's Technology Budget**

	Adopted Budget	YTD Preliminary
Property & Equipment	\$48,000	\$14,037
IT Infrastructure	<u>\$2,039,200</u>	<u>\$557,549</u>
IT Total	\$2,087,200	\$571,586



San Mateo County Employees' Retirement Association  
**Board of Retirement**

July 23, 2013  
 Attachment One

Fourth Quarter Analysis  
 6-30-2013

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)	2012-2013 YTD EXPENSE (ACCRUED)	2012-2013 ESTIMATE
Milliman	Actuarial Consulting	0.3 bps	\$89,600	\$50,000
Strategic Investment Solutions	Investment Consulting	1.4 bps	\$404,608	\$400,000
State Street Bank & Trust	Global Custody	0.6 bps	\$168,039	\$200,000
SUB-TOTAL NON INVESTMENT MANAGER CONTRACTUAL FEES			\$662,247	\$650,000
<i>Estimated Market Value 06-30-2013</i>			\$2.8 Billion	\$2.7 Billion
Average Basis Points (2)			2.4 bps	2.4 bps

(1) The Actuary, Custodian and Investment Consultant are compensated on a flat fee basis. Fees on this scheduled are fees expressed in basis points (or fractions thereof) and utilize total assets while the Investment Manager calculations utilize assets under management.  
 (2) The calculation utilizes a market value of \$2,755 million.

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

CONTRACTOR	SERVICE	FEE	2012-2013 YTD EXPENSE (ACCRUED)	2012-2013 ESTIMATE
BlackRock – Russell 1000, S&P 500 & Russell 1000 Growth Index Funds	Domestic Large Cap and Growth Equity	2.5 bps	\$101,850	\$80,000
D.E. Shaw Investment Management,	Domestic Large Cap Enhanced	49.4 bps	\$667,540	\$700,000
T. Rowe Price Associates	Domestic Large Cap Enhanced	35.0 bps	\$240,184	\$480,000
Barrow, Hanley, Mewhinney & Strauss	Domestic Large Cap Value	45.1 bps	\$711,508	\$820,000
BlackRock Capital Management	Domestic Large Cap Growth	55.0 bps	\$197,444	\$880,000
The Boston Company	Domestic Small Cap Equity	82.5 bps	\$604,235	\$500,000
Brown Advisory	Domestic Large Cap Growth	44.1 bps	\$112,842	\$115,000
Chartwell Investment Partners	Domestic Small Cap Equity	75.0 bps	\$585,084	\$540,000
Jennison Associates	Domestic Small Cap Equity	90.0 bps	\$404,520	\$800,000
Baillie Gifford	International Equity	47.2 bps	\$789,014	\$800,000
Eaton Vance – Parametric	International Equity	101.2 bps	\$638,969	\$640,000
Mondrian Investment Partners	International Equity	17.8 bps	\$296,128	\$400,000
Pyramis Select International	International Equity	90.0 bps	\$465,257	\$440,000
ABRY Advanced Securities Fund II (3)	Private Equity	N/A	\$303,478	\$300,000
ABRY Partners VII (3)	Private Equity	N/A	\$107,690	\$400,000
General Catalyst Group (3)	Private Equity	N/A	\$351,000	\$450,000
Regiment Capital Fund IV (3)	Private Equity	N/A	\$148,551	\$300,000
Sheridan Production Partners (3)	Private Equity	N/A	\$300,008	\$300,000
Sycamore Partners (3)	Private Equity	N/A	\$375,000	\$400,000
AQR Risk Parity	Risk Parity	38.4 bps	\$669,003	\$600,000
AQR Delta Hedge Fund	Hedge Fund	97.8 bps	\$716,515	\$800,000
SSgA/SSARIS Commodities	Commodities	60.0 bps	\$429,739	\$400,000
Aberdeen Asset Management	Domestic Fixed Income	27.3 bps	\$99,035	\$360,000
Angelo Gordon (PIIP)	Domestic Fixed Income	100.0 bps	\$350,000	\$340,000
Angelo Gordon (STAR)	Domestic Fixed Income	150.0 bps	\$287,143	\$350,000
Brigade Capital Management	Domestic Credit Opportunity Fixed Income	45.0 bps	\$453,921	\$460,000
Brown Brothers Harriman	Treasury Inflation Protection Securities	15.0 bps	\$124,095	\$120,000
Franklin Templeton	Global Fixed Income	38.1 bps	\$455,842	\$440,000
Pyramis Global Advisors	Domestic Fixed Income	15.9 bps	\$214,840	\$180,000
Western Asset Management	Domestic Fixed Income	30.0 bps	\$320,265	\$280,000
INVESCO Realty Advisors	Real Estate Management	41.9 bps	\$630,214	\$700,000
SUB-TOTAL INVESTMENT MANAGERS			\$12,150,914	\$14,375,000
Average Basis Points (1)			43.4 bps	53.2 bps
SUB-TOTAL NON- INVESTMENT MANAGERS (FROM PREVIOUS PAGE)			\$518,683	\$650,000
Average Basis Points (2)			2.5 bps	2.4 bps
TOTAL ESTIMATED CONTRACT FEES			\$12,813,161	\$15,025,000
<i>Estimated Market Value 06-30-2013</i>			\$2.8 Billion	\$2.7 Billion
Average Basis Points (2)			45.8 bps	55.6 bps

- (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 \$2,755 million.
- (3) Investment strategies not originally budgeted for in FY2012-2013 Budget. Estimated amounts are based on SamCERA's current management fee structure.

SamCERA's  
Administrative Budget  
Fiscal Year 2012-2013  
4th Quarter  
as of June 30, 2013  
PRELIMINARY  
ATTACHMENT II

	<b>Budget Allotment (as Amended)</b>	Year to Date Expenditures	Percentage Expended	Remaining Balance	Remaining Percentage
Salaries	\$2,584,060	\$1,986,244	76.9%	\$597,816	23.1%
Benefits	\$1,311,360	\$1,143,236	87.2%	\$168,124	12.8%
<b>Salaries &amp; Benefits</b>	<b>\$3,895,420</b>	<b>\$3,129,480</b>	<b>80.3%</b>	<b>\$765,940</b>	<b>19.7%</b>
Board Expense	\$10,500	\$8,800	83.8%	\$1,700	16.2%
Insurance	\$80,000	\$68,434	85.5%	\$11,566	14.5%
Medical Evaluation	\$100,000	\$60,849	60.8%	\$39,151	39.2%
Member Education	\$45,000	\$44,578	99.1%	\$422	0.9%
Education & Conference	\$103,858	\$47,782	46.0%	\$56,076	54.0%
Transportation and Lodging	\$158,297	\$64,492	40.7%	\$93,805	59.3%
Property & Equipment	\$22,500	\$17,857	79.4%	\$4,643	20.6%
General Office Supplies	\$33,500	\$20,355	60.8%	\$13,145	39.2%
Postage & Printing	\$125,000	\$49,615	39.7%	\$75,385	60.3%
Leased Facilities	\$366,200	\$304,527	83.2%	\$61,673	16.8%
County Services	\$406,025	\$339,710	83.7%	\$66,315	16.3%
Audit Services	\$45,500	\$42,090	92.5%	\$3,410	7.5%
Other Administration	\$0	\$22,294	0.0%	-\$22,294	0.0%
<b>Services &amp; Supplies</b>	<b>\$1,496,380</b>	<b>\$1,091,384</b>	<b>72.9%</b>	<b>\$404,996</b>	<b>27.1%</b>
<b>Capital Assets</b>	<b>\$0</b>	<b>\$0</b>	<b>0.0%</b>	<b>\$0</b>	<b>0.0%</b>
<b>Depreciation</b>		<b>\$0</b>			
<b>Grand Total</b>	<b>\$5,391,800</b>	<b>\$4,220,865</b>	<b>78.3%</b>	<b>\$1,170,935</b>	<b>21.7%</b>

SamCERA's  
Information Technology Budget  
Fiscal Year 2012-2013  
4th Quarter  
as of June 30, 2013  
PRELIMINARY  
ATTACHMENT III

	<b>Budget Allotment (as Amended)</b>	Year to Date Expenditures	Percentage Expended	Remaining Balance	Remaining Percentage
Property & Equipment	\$48,000	\$14,037	29.2%	\$33,963	70.8%
IT Infrastructure	\$2,039,200	\$557,549	27.3%	\$1,481,651	72.7%
<b>IT Total</b>	<b>\$2,087,200</b>	<b>\$571,586</b>	<b>27.4%</b>	<b>\$1,515,614</b>	<b>72.6%</b>

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

July 23, 2013

Agenda Item 7.3

To: Board of Retirement

From: David Bailey, Chief Executive Officer



Subject: Adoption Of Resolution Reaffirming SamCERA's Conflict Of Interest Code

**Staff Recommendation**

Staff recommends that the Board approve a resolution reaffirming SamCERA's Conflict of Interest Code.

**Background**

In September 2011 and March 2012, the Board approved significant revisions to the SamCERA Conflict of Interest Code to assure compliance with the most recent versions of Government Code §87300 and §87306.5, and California Fair Political Practices Commission ("FPPC") Regulation 18730.

Staff now recommends that the Board reaffirm the current Conflict of Interest Code. No changes to the code are recommended.

Every other year, the FPPC sets the annual gift limit. The gift limit effective for calendar year 2013 and 2014 is \$440. That means that Board members and designated filers are prohibited from receiving a gift or gifts totaling more than \$440 in a calendar year from certain sources. For Board members, the prohibition is applicable to gifts from any source, although there are exceptions (for example, gifts from family members). The reportable limit remains \$50 aggregate per calendar year from any single source, unless an exception applies.

**Board of Retirement**

RESOLUTION 13-14-\_\_

**REAFFIRMING THE  
CONFLICT OF INTEREST CODE**

**WHEREAS**, the Board has adopted a Code of Fiduciary Conduct which requires, among other things, that Trustees, the Chief Executive Officer, other SamCERA staff, Consultants, Investment Managers and other professionals retained by the Board shall comply with the provisions of the California Constitution; the Political Reform Act of 1974, as amended and all other laws pertinent to the conduct of public pension fund fiduciaries; and

**WHEREAS**, Government Code §87300 mandates the adoption of a Conflict of Interest Code by independent public agencies; and

**WHEREAS**, the Board, by Resolution 96-97-03, adopted the Conflict of Interest Code provisions of the California Fair Political Practices Commission (FPPC) Regulation 18730; and

**WHEREAS**, Government Code §87306.5 mandates that the Board review its designation of employees and disclosure categories from time to time. Therefore, be it

**RESOLVED** that the Board hereby instructs the Chief Executive Officer to provide annual disclosure Form 700s to all trustees and all individuals in the *Designated Positions*. Each individual receiving said form must file the original Form 700 with the Chief Executive Officer who must make and retain a copy and forward the original to the County Clerk. Form 700 must be filed at the times and on the forms prescribed by law. Failure to file statements on time may result in penalties, including but not limited to late fines. Be it further

**RESOLVED** that the Board hereby instructs the Chief Executive Officer to implement a program to provide reasonable assurance that foreseeable potential conflict of interest situations will be disclosed and prevented and to provide each affected person with a clear and specific statement of his or her duties under the Conflict of Interest Code. Be it further

**RESOLVED** that the Board hereby instructs the Chief Executive Officer to supply the necessary forms and manuals, to monitor timely and complete filing compliance, to take action regarding late filings and to report apparent violations of the Conflict of Interest Code to the Board.

**RESOLVED** that the Board hereby defines SamCERA's List of Designated Individuals and Disclosure Categories per FPPC Regulation 18730, to read as follows:

**Board of Retirement**

**SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
CONFLICT OF INTEREST CODE**

The Fair Political Practices Commission (FPPC) has adopted a regulation (2 Cal. Code of Regs. 18730), which contains the terms of a standard conflict of interest code, which may be amended from time to time. The terms of 2 Cal. Code of Regs. 18730, and any amendments to it duly adopted by the FPPC, are hereby incorporated into this Conflict of Interest Code.

Each person holding any position listed below must file FPPC Form 700--Statement of Economic Interests disclosing the kinds of financial interest shown for the designated employee's position. Statements must be filed at the times and on the forms prescribed by law. Failure to file statements on time may result in penalties including but not limited to late fines. Each person holding a position who must file Statements of Economic Interest in accordance with Government Code section 87200 *et seq* and California Code of Regulations shall file in accordance with those statutes, with the proviso that the original statements will be filed with *SamCERA* and with a copy to the County Clerk. The County Clerk does not need to forward the Statement of Economic Interest to the Fair Political Practices Commission.

**LIST OF DESIGNATED POSITIONS AND APPLICABLE DISCLOSURE CATEGORIES**

**Government Code section 87200 filers:** the following positions which manage public investments for purposes Government Code section 87200, shall, *in addition* to the disclosures required by Government Code section 87200 *et seq.* and California Code of Regulations, disclose:

	Disclosure Category
Trustees and Alternate Trustees	1, 2, 3
Chief Executive Officer	1, 2, 3
Chief Investment Officer	1, 2, 3

**Government Code section 87100 filers:** Designated *SamCERA* employee positions and employees of consultants, who shall file in accordance with Government Code section 87100:

	Disclosure Category
Assistant Executive Officer	1, 2, 3
Chief Legal Counsel	1, 2, 3
Chief Technology Officer	2
Benefits Manager	2
Finance Officer	2
Investment Consultants*	4
Other Consultants	*

\* "*Investment Consultants*" are those investment managers and investment consultants who have been determined by the Chief Executive Officer to perform the same or substantially the same functions as *SamCERA*'s Chief Investment Officer, which includes, but is not limited to directing or approving investment transactions, formulating or approving investment policies, and establishing guidelines for asset allocation. "*Other Consultants*" are those contractors who have been determined by the Chief Executive Officer to perform the functions of a *SamCERA* employee who pursuant to California Code of regulations section 18700 (a)(2) are required to file statements of economic interests. The Chief Executive Officer shall further determine the applicable disclosure categories.

**Board of Retirement**

**DESCRIPTION OF FINANCIAL DISCLOSURE CATEGORIES**

**Category 1:** Persons in this category shall disclose all interest in real property within the boundaries of the County of San Mateo or within two miles outside the boundaries of the County of San Mateo and property located within two miles of any land owned or used by *SamCERA*. Persons are not required to disclose property, such as a home or vacation cabin, used exclusively as a personal residence.

**Category 2:** Persons in this category shall disclose all business positions, investments in, or income (including gifts and loans) received from business entities that manufacture, provide or sell service and/or supplies of a type utilized by *SamCERA*.

**Category 3:** Persons in this category shall disclose all business positions and investments in business entities that are the type in which *SamCERA*'s trust funds may be invested (include securities, real estate and business entities), all income (including gifts and loans) from such business entities, and all interests in real estate co-owned with or purchased from such *SamCERA* business entities.

**Category 4:** This category includes those investment consultant firms ("consultant") under contract with *SamCERA* that have been determined by the Chief Executive Officer to have a requirement to file. Such consultant shall designate those employees who have influence over the investment decisions pertaining to *SamCERA*'s portfolio. Employees designated by the consultant will disclose all investments in business entities that are the type in which *SamCERA*'s portfolio may be invested by that consultant (including securities, real estate and business entities) which may foreseeably be materially affected by their decision making on behalf of *SamCERA*, all income (including gifts and loans) from such business entities, and all interests in real estate co-owned with or purchased from such *SamCERA* business entities.

ADOPTED by unanimous vote, February 23, 1999

AMENDED by unanimous vote, February 22, 2000

AMENDED by unanimous vote, February 27, 2001

AMENDED by unanimous vote, February 26, 2002

AMENDED by unanimous vote, March 25, 2003

AMENDED by unanimous vote, February 22, 2005

AMENDED by unanimous vote, January 24, 2006

AMENDED by unanimous vote, February 26, 2008

AMENDED by unanimous vote, July 28, 2009

AMENDED by unanimous vote, March, 2010

AMENDED by unanimous vote, September 2011

AMENDED BY unanimous vote, March 2012

ATT: GOVERNMENT CODE SECTION 87314 APPENDIX



SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Board of Retirement**

**Government Code Section 87314 Appendix**

Agency Positions that Manage Public Investments  
For purposes of Section 87200 of the Government Code

The following positions manage Public Investments for purposes of Section 87200 of the Government Code:

Trustees and Alternate Trustees

Chief Executive Officer

Chief Investment Officer

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

July 23, 2013

Agenda Item 7.4

**TO:** Board of Retirement

**FROM:** David Bailey, Chief Executive Officer



**SUBJECT:** Approval SamCERA's 2013-14 Strategic Plan Update

**Staff Recommendation**

Staff recommends the Board approve the attached update to the SamCERA Strategic Plan.

**Background**

The Strategic Plan is the product of staff's annual retreat and subsequent discussions. It represents the best thinking of staff regarding those tasks that staff should undertake during the 2013-14 fiscal year in order to fulfill the mission and goals of SamCERA.

**Mission:**

SamCERA exists to serve as loyal fiduciary for its members and as prudent administrator of the retirement system.

**Goals:**

- Provide caring, fair, accurate, timely and knowledgeable professional services and information to members and other stakeholders.
- Prudently manage the assets in order to appropriately fund the actuarial liabilities of the retirement system to ensure the ability to pay all earned benefits while minimizing the costs to employers.
- Constantly improve the effectiveness of SamCERA's services and the efficiency of its operations.

This year's document is an update to the Strategic Plan, rather than a full redraft. The update mainly concerns the Action Matrix, which is a list of the tasks to be undertaken.

Each of the tasks in the SamCERA Action Matrix is tied to the achievement of one of the above goals. Please see the Executive Summary in the attached Strategic Plan Update for a summary of the major tasks today associated with these goals.



*San Mateo County Employees' Retirement Association*

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# **Strategic Plan**

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*2013-14 UPDATE*

## Executive Summary

This is an update of SamCERA's Strategic Plan, which was first developed for the 2005-06 fiscal year. This update covers the fiscal year 2013-14.

This update includes this summary and the Action Matrix, which lists and describes the projects staff will pursue during the year.

All the steps in the strategic planning process leading up to the writing of this report were conducted as in past years. All staff held a retreat in March 2013 and reviewed the Mission and Goals and discussed the strengths, weaknesses, opportunities and threats facing SamCERA. Staff reviewed annual statistics, point-of-service survey results and Employee Engagement Survey results. The Action Matrix below was developed as an outcome of these discussions.

During the 2013-14 fiscal year, SamCERA will continue to pursue its three major goals, all of which are derived from and consistent with SamCERA's Mission and Goals statement.

### Asset Management Goal

***Prudently manage the assets in order to appropriately fund the actuarial liabilities of the retirement***

***system to ensure the ability to pay all earned benefits while minimizing the costs to employers.***

Major projects under this goal include continuing to prudently build out the private equity portfolio, completing an Asset Liability Modeling study, and assuring that SamCERA properly implements new Government Accounting Standards Board statements.

### Customer Services Goal

***Provide caring, fair, accurate, timely and knowledgeable professional services and information to members and other stakeholders.***

Over the coming years, meeting this goal will involve providing input to the Enterprise Content Management (ECM) and Pension Administration Software System (PASS) vendors in order to assure that the new systems provide users and members with new tools that improve efficiency, accuracy and customer service.

### Operations Goal

***Constantly improve the effectiveness and efficiency of SamCERA's operations.***

This will include taking the next steps to upgrade SamCERA's core technologies. It will also include

modernizing the SamCERA website to allow more efficient updates of information and beginning the process of securing sufficient SamCERA office space for the foreseeable future.

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Each goal has a number of specific projects designed to help achieve it. Some projects were developed during the 2013 Board/Staff Retreat. Others arose from the 2013 All Staff Retreat. Still others are carried over from prior years.

The 2013-14 plan is SamCERA's eighth under the Government Finance Officers Association Strategic Planning approach. There are now 41 projects for the staff to initiate and/or complete during the 2013-14 fiscal year. That said, the count of 41 tasks broadly understates the tasks ahead for the staff during the next few years as SamCERA embarks on its Technology Modernization Project.

During the previous plan year, the staff completed 25 projects. Projects that were not completed but still relevant were moved to the 2013-14 Plan. In the previous 8 years, staff completed a total of 151 projects, all over and above their day-to-day duties.

## 2013-14 Action Plan Matrix

Ranking: A=Must be completed. B=Should be completed. C=Would be nice to complete.

ID#	GOAL	RANK	ISSUES	ACTIONS	LEAD DIV	TIMING / STATUS
1	Ops.	A	SamCERA's lease on its current office space will end December 31, 2014. Space costs will likely go up due to market conditions, whether SamCERA remains in its current location or moves.	Plan for the termination of our current lease.	Admin.	<i>Begin discussions with building management in fall of 2013.</i>
2	Ops./Cust. Serv.	A	San Mateo County is making plans to become an "Agile Organization." This will involve outsourcing of some duties that would have been performed by new employees. How will the changes challenge SamCERA?	SamCERA needs to remain in conversation with County leadership as the plans evolve. A key issue involves which individuals must by law be members of the retirement system.	Legal, Bens.	<i>Some discussions with County HR already held. Keep lines of communications open.</i>

<i>ID#</i>	<i>GOAL</i>	<i>RANK</i>	<i>ISSUES</i>	<i>ACTIONS</i>	<i>LEAD DIV</i>	<i>TIMING / STATUS</i>
<b>3</b>	<i>Ops.</i>	<i>A</i>	A tax determination letter response will likely be received in 2013-14. May include compliance correction requirements.	Continue interactions with other California plans as well as the tax counsel.	<i>Legal, Fin., Bens.</i>	<i>Update received at spring SACRS. All 37 Act systems may receive responses at same time.</i>
<b>4</b>	<i>Ops.</i>	<i>B</i>	AEO returning to job after one-year deployment.	Plan to re-orientate AEO to current PEPRA, investments, IT, etc. status.	<i>Admin</i>	<i>Set meetings for after June 17, 2013.</i>
<b>5</b>	<i>Ops.</i>	<i>A</i>	CEO will retire in March 2015.	Bring appointment of a Succession Planning Committee to the Board in July. Also suggest a schedule of events.	<i>Admin.</i>	<i>Appointment of Succession Planning Committee will be placed on July agenda.</i>
<b>6</b>	<i>Ops.</i>	<i>B</i>	Staff salary growth is limited due to the absence of COLA increases and the low turnover at SamCERA.	Look at salaries in other systems to determine if SamCERA remains competitive. Look at other ways to make the work environment pleasant.	<i>Admin.</i>	<i>AEO will lead salary research.</i>
<b>7</b>	<i>Ops.</i>	<i>B</i>	Staff should always know the location of the fire alarms in the office.	Ask the Emergency Committee (Celedonia Amacker, Gladys Smith, Mike Coultrip, Tariq Ali) to put forth ideas to assure that all employees know where the fire extinguishers are located as well as the fire alarms.	<i>Admin.</i>	<i>Assigned to Emergency Committee.</i>

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<b>8</b>	<i>Ops.</i>	<i>C</i>	The County's software that reminds employees to take task breaks, does not work well on SamCERA computers.	Look for other available solutions.	<i>I.T.</i>	<i>Assigned to IT.</i>
<b>9</b>	<i>Ops.</i>	<i>B</i>	Past MOUs have contained provisions that have been difficult for SamCERA to implement or administer.	SamCERA should work with negotiators and get information early in the process to help avoid mistakes in new MOUs and allow SamCERA to properly advise negotiators. Work with County HR to set a process going forward. Suggest a Technical Committee to include SamCERA representation.	<i>Admin.</i>	<i>Plan meeting with HR in July 2013.</i>
<b>10</b>	<i>Ops.</i>	<i>B</i>	SamCERA's Website is well appreciated by members, but could be improved. Website data is hard to update and design is out of date. Navigation could be improved.	Create new website with Web Member Services integrated. Add site map to website (during website redesign). Use focus group to inform design? Work on technology and procedures to allow web updates from staff.	<i>IT/Comm.</i>	<b><i>Continue in FY 13-14. Staff considering hiring outside firm to begin working with Colin Bishop regarding design, look and feel.</i></b>



<i>ID#</i>	<i>GOAL</i>	<i>RANK</i>	<i>ISSUES</i>	<i>ACTIONS</i>	<i>LEAD DIV</i>	<i>TIMING / STATUS</i>
11	Ops.	A	Employees of SamCERA believe that SamCERA is a very good place to work.	Staff should define the aspects of SamCERA's culture and work environment that make it a good place to work. Develop comments into a SamCERA Values Statement.	Admin.	<b>Continue in FY 13-14.</b> <i>A values statement has been drafted for review at a future staff meeting.</i>
12	Ops.	C	The national date for the Take Our Daughters And Sons To Work® program is fourth Thursday in April. Staff would like to participate in the order to give their children a better understanding of what they do.	Plan a program to allow staff to bring their children to work.	Admin.	<b>Continue in 2013-14.</b> <i>A family event is set for Aug. 10.</i>

<i>ID#</i>	<i>GOAL</i>	<i>RANK</i>	ISSUES	ACTIONS	<i>LEAD DIV</i>	<i>TIMING / STATUS</i>
13	Ops.	B	Today SamCERA retirees receive paper advices each month with the amount of their monthly payment and deductions. This is a costly method of supplying this information.	Consider methods to convert to provision of monthly payment information via an electronic method. Will look at putting advice information on web member services. Plan is that after implementation: <ul style="list-style-type: none"> <li>• Current retirees will opt in;</li> <li>• New retirees will opt out;</li> <li>• Each retiree will receive a minimum of one paper advice per year and whenever a change takes place</li> </ul>	Admin.	<b>Continue in FY 2013-14.</b> To be completed by fall 2013. LRS has been asked to create an on-screen pay advice that looks like a typical pay advice.

ID#	GOAL	RANK	ISSUES	ACTIONS	LEAD DIV	TIMING / STATUS
14	Ops.	A	SamCERA must be prepared to react to all types of emergencies that might affect the ability of the association to fulfill its responsibilities.	<p>Staff will:</p> <ul style="list-style-type: none"> <li>Create a committee to meet every two months to review and recommend steps to improve safety and emergency preparedness</li> <li>Annually review and update the Safety and Emergency Plans.</li> <li>Continue to hold table-top exercises at Staff Meetings</li> <li>Document the technology emergency plan (for PensionGold, backups, etc.)</li> <li>Document the retiree payroll plan (PensionGold, moving funds, creating and sending files)</li> <li>Keep the emergency contacts information up to date</li> </ul>	Admin.	<b>Continue in FY 13-14.</b> <i>Created a Safety and Emergency Planning Committee in fall 2012.</i>
15	Ops.	B	SamCERA currently has 21 staff positions and there is only a limited amount of backup for members who retire or otherwise terminate.	Update the Staffing Plan. Continue developing succession plans for all management staff. Work with the Board's Succession Planning Committee.	Admin.	<b>Continue in FY 13-14.</b> <i>Succession planning discussions to replace CEO will begin in fall 2013. Include development of succession plans for all managers as part of this process.</i>

ID#	GOAL	RANK	ISSUES	ACTIONS	LEAD DIV	TIMING / STATUS
16	Ops.	A	<p>SamCERA's pending technology projects present opportunities to improve efficiency and accuracy while avoiding the generation of errors that could occur as the current systems age. These opportunities will only be realized with an excellent project management firm. To help assure the firm SamCERA has hired is qualified for the task, the contract with the firm includes a decision point, following the requirements development phase, at which SamCERA will determine whether to continue with the firm or seek another.</p>	<p>Develop a plan and process to fully evaluate LRWL for continued service as the project manager for the implementation phase of SamCERA's technology projects.</p>	I.T.	<p><b>Continue in FY 13-14.</b>  <i>Staff conducted a survey of all SamCERA staff to assess whether or not to continue with its Project Management firm. LRWL. Contract ends Sept. 2013 Action will be brought to the Board in August.</i></p>

<i>ID#</i>	<i>GOAL</i>	<i>RANK</i>	ISSUES	ACTIONS	<i>LEAD DIV</i>	<i>TIMING / STATUS</i>
17	Ops.	B	Web Member Services allows members with access to the County Intranet to view information about their accounts. To date, security concerns have prevented SamCERA from making this information also available to retired members via the Internet.	Proceed with tests of security protections for WMS provided via the Internet.	I.T.	<b>Continue in FY 13-14.</b> Currently working on implementation. Completion expected in August. Updated WMS was rolled-out in June. Member response has been strong, with a nearly 20-fold increase in hits to the WMS site. After just a few weeks, more than 10% of members have logged in and created member accounts.

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18	Ops.	A	SamCERA's major I.T. projects, scheduled for the next few years, will require a significant level of staff time to assure that the products produced are effective for staff user and their member clients. This raises the potential for a decrease in the levels of customer service.	SamCERA's IT Project Manager, LWRL, Inc., will produce a two-phase staffing plan to recommend staffing actions/changes during project development as well as after the projects are complete.	I.T./Admin.	<b>Continue in FY 13-14.</b> Phase I of IT staffing report finished by LRWL in fall 2012 and IT position request approved by Retirement Board in Sept. Awaiting Phase II report regarding post-PASS staffing.
19	Ops.	A	"Pension reform" legislation passed the California Legislature August 31, 2012. It was soon after signed by the Governor and went into effect January 1, 2013. Corrective legislation is being drafted and court cases are being pursued.	SamCERA must keep staff informed about corrective legislation, must monitor all related court actions, and must continue to work with employers to assure that the PEPR law is implemented properly.	Legal/Bens.	<b>Continue in FY 13-14.</b> Monitoring and communications are ongoing.

ID#	GOAL	RANK	ISSUES	ACTIONS	LEAD DIV	TIMING / STATUS
20	Cust. Serv.	A	To achieve the best service for members who apply for disability retirement, staff must balance the need to accurately determine each applicant's legal and medical qualifications for disability with the need for timely processing of applications.	Review and update board disability regulations, application forms and form letters. Identify which steps in the process take the most time. The new PASS will support this effort. Update the Disability pamphlet. Use workflow as tool to facilitate processing. The new PASS will support this effort.	Bens.	<b>Continue in FY 13-14.</b> Backlog has been reduced and processing more streamlined. Additional work continuing and will include tools in PASS to assist these efforts.
21	Cust. Serv.	B	With new plans and tiers of members, the complexity of benefits processing has increased significantly. Forms used for benefits processing is one area where better form control will be needed.	All forms are to have bar codes.	Comm./ Bens./Legal	<b>Continue in FY 13-14.</b> Bar coding added to process of scanning all member documents.

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<b>22</b>	<i>Asset Mgmt., Cust. Serv.</i>	A	IRS may finalize its guidance regarding Normal Retirement Age.	If new guidance is issued, SamCERA must review and possibly adjust its current normal retirement ages.	<i>Legal</i>	<i>Monitoring.</i>
<b>23</b>	<i>Asset Mgmt., Cust. Serv.</i>	A	The IRS is expected to issue guidance on rollovers into public DB plans. The focus is expected to be on how an administrator should verify that rollovers are eligible for continued pre-tax treatment.	If new guidance is issued, SamCERA must review and possibly adjust its rules and procedures regarding rollovers.	<i>Legal</i>	<i>Monitoring.</i>



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24	Asset Mgmt., Cust. Serv.	A	The IRS may issue guidance on the refundability of picked-up amounts. There is also uncertainty on the allowability of using picked-up amounts to purchase permissive service credit, which the IRS guidance may address.	If new guidance is issued, SamCERA must review and possibly adjust its rules and procedures regarding refunds of member accounts as well the use of picked-up amounts for purchases.	Legal	Monitoring.
25	Asset Mgmt.	B	A market correction could occur.	Consider the impacts of a correction and approaches that make investments more nimble during the Asset/Liability Study. Also, consider use of a cash overlay.	Inv.	Asset-Liability Study scheduled to begin in July 2013.
26	Asset Mgmt.	B	SamCERA has contracted with Zeno for one year of trade cost analysis services. How can SamCERA best utilize the results?	The information will provide an additional data set for the Board and staff in analysis of manager performance.	Inv.	<b>Continue in FY 13-14.</b> Zeno under contract. Will discuss with Board at July meeting whether or not to continue contract.

ID#	GOAL	RANK	ISSUES	ACTIONS	LEAD DIV	TIMING / STATUS
27	Asset Mgmt.	A	SamCERA has significantly increased the diversification of its fund resulting in an increase in investment management firms from 10 in 2009 to 33 as of 2012. Additional firms will be added as SamCERA builds out its private equity portfolio. The addition of firms and the introduction of private equity firms has increased the need for staff interaction, monitoring and review of each firm's activities.	Staff will analyze the staffing of the Investment Division and make a recommendation to the Board.	INV.	<b>Continue in FY 13-14.</b> Funds for an additional investment analyst will be included in the 2013-14 budget. A decision on whether and if so when to add new staff will likely be brought to the board for final approval in fall 2013.

ID#	GOAL	RANK	ISSUES	ACTIONS	LEAD DIV	TIMING / STATUS
28	Asset Mgmt.	A	<p>SamCERA's best option to assure that actuarial rates are calculated within actuarial standards and that all benefit costs are included in the calculated rates is to employ a separate actuarial firm to audit the work of SamCERA's retained actuarial firm. With the negotiation of new benefit plans and tiers in 2011 and the new tiers that have resulted from Pension Reform legislation, it is even more important that SamCERA assure the accuracy of its actuarial calculations through independent audits.</p>	<p>Plan to increase the frequency of actuarial audits from once every six years to once every two to three years. Determine whether it is feasible to audit every two years or whether holding audits in conjunction with each triennial experience study is more appropriate.</p>	Fin./Admin.	<p><b>Continue in FY 13-14.</b> At March 2013 meeting, Board opined to support performance of an actuarial audit as of June 30, 2014.</p>

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29	Asset Mgmt.	A	SamCERA's Investment Policy has not had a significant review for several years.	The CIO will work with the Retirement Board to review the Investment Policy.	Inv.	<b>Continue in FY 13-14.</b> CIO Mike Coultrip working with Board to revise policy. Process will continue following completion of Asset-Liability Study.
30	Asset Mgmt.	B	SamCERA's last Asset/Liability Study was done in 2010 at which time the Board approved an alternatives allocation. SamCERA typically performs such a study every three years.	Staff and investment consultant will review the process of conducting an Asset/Liability Modeling Study during the April 2013 retreat.	Inv.	A schedule for the study was approved at the May 2013 board meeting.
31	Asset Mgmt.	B	SamCERA's staff and Board could benefit from increased knowledge of private equity investments.	Continue bi-weekly calls with SIS and ongoing monitoring of the plan, continued education by SIS, attend PE conferences.	Inv.	Ongoing.

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<b>32</b>	<i>Asset Mgmt.</i>	<i>B</i>	The expected increase in retirement due to the retirement of the baby boomers was delayed somewhat due to the recession. How will the increase likely occur and what impacts will it have on SamCERA's workload?	Ask the actuary to again project retirements as part of the June 30, 2013, actuarial valuation.	<i>Fin.</i>	<i>Make formal request in June 2013.</i>

ID#	GOAL	RANK	ISSUES	ACTIONS	LEAD DIV	TIMING / STATUS
33	Asset Mgmt.	A	<p>The Government Accounting Standards Board has issued new statements that affect retirement plans including SamCERA. Statement No. 67, <i>Financial Reporting for Pension Plans</i>, revises existing guidance for the financial reports of most pension plans. Statement No. 68, <i>Accounting and Financial Reporting for Pensions</i>, revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits.</p>	<p>Per GASB, “The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014.” SamCERA must work with its actuarial and auditing firms, as well as the County of San Mateo, to make sure that implementation of these new rules is performed in an accurate and timely manner.</p>	Fin.	<p><b>Continue in FY 13-14.</b> <i>The June 30, 2013, actuarial valuation will include at least one calculation required by GASB 68, i.e. Net Pension Liability, because the rates from that valuation will go into effect in the 2014-15 FY, when GASB 68 is to be implemented. SamCERA’s first annual report under the new Statement 67 will be issued in the fall of 2014 to cover the 2013-14 fiscal year. The County’s first annual report under Statement 68 will be issued in the fall of 2015 to cover the 2014-15 fiscal year.</i></p>

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34	Asset Mgmt.	B	The IRS is looking at whether or not pension plans are properly withholding for pensions paid to retirees residing outside the U.S.	Look at the withholding of income taxes for non-U.S. retirees and beneficiaries and make any changes needed.	Legal, Fin.	<i>Address this in fall 2013.</i>
35	Asset Mgmt.	A	San Mateo County is implementing a new payroll system. SamCERA receives data from the system with each bi-weekly payroll issuance. It is important that the new payroll system integrate well with SamCERA's current and future technology.	Ensure SamCERA is kept in the loop regarding the implementation of the new payroll system. Ensure that programming rules are kept intact. Ensure existing files don't change. Consider the impact of coordinating the timing of development and implementation of the new payroll system and the SamCERA PASS.	I.T./Fin.	<b><i>Continue in FY 13-14.</i></b> <i>SamCERA was invited to the vendor demonstrations for the County's new HR/Payroll System. SamCERA is also included in the bi-weekly PIPS Solution Committee meetings. Staff will continue to monitor until new payroll system is implemented.</i>

<i>ID#</i>	<i>GOAL</i>	<i>RANK</i>	<i>ISSUES</i>	<i>ACTIONS</i>	<i>LEAD DIV</i>	<i>TIMING / STATUS</i>
36	Cust. Serv.	C	Forms are difficult to make user friendly.	Make it a practice to review forms with staff after new forms have been in use for some time to see if there are frequent errors. Change forms accordingly. Ultimately want PASS to audit forms as the member fills them out.	Commun/Bens./Le gal	A survey of retirees, actives and staff who have used forms is in the works as of July 2013.



<i>ID#</i>	<i>GOAL</i>	<i>RANK</i>	ISSUES	ACTIONS	<i>LEAD DIV</i>	<i>TIMING / STATUS</i>
37	<i>Cust. Serv.</i>	C	General members are less knowledgeable about their benefits than some other groups.	<ul style="list-style-type: none"> <li>● Set-up Offsite Drop-In <ul style="list-style-type: none"> <li>- Locations</li> <li>County Campus</li> <li>Medical Center</li> <li>Health Services</li> <li>Alameda de las Pulgas (Family Health)</li> <li>Fair Oaks</li> <li>HSA – 1 Davis Dr.</li> </ul> </li> <li>● Article in newsletter about Drop-Ins for departments</li> <li>● Wellness/Safety – Inform group about availability to do presentation at departments</li> <li>➤ Every other month in a different location</li> <li>➤ Reserve Room – <ul style="list-style-type: none"> <li>- Medical Center (July) – Sue (call training unit/Wanda S.)</li> <li>- Health Services (September) – Gladys</li> <li>- Family Health (November) – Gladys</li> <li>- Fair Oaks (January) – Gladys</li> <li>- HSA (March) – Gladys</li> </ul> </li> </ul>	<i>Bens./Comm.</i>	<b><i>Begin in July 2013</i></b>

<i>ID#</i>	<i>GOAL</i>	<i>RANK</i>	<i>ISSUES</i>	<i>ACTIONS</i>	<i>LEAD DIV</i>	<i>TIMING / STATUS</i>
<b>38</b>	<i>Cust. Serv.</i>	<i>B</i>	Member education is a key to successful retirement planning and the most effective use of SamCERA benefits. Many members are without financial management knowledge.	Develop Member Education Master Plan to continue strengthening member education programs. Include: Regular attendance at training/meetings of payroll clerks, use of website and advices to notify members of new information, update of the Survivor Handbook, use of more focus groups for publications, web site, etc.	<i>Comm./ Bens.</i>	<b><i>Finalize in September 2013</i></b>
<b>39</b>	<i>Cust. Serv.</i>	<i>C</i>	Members at older ages may not understand their beneficiary designations or their beneficiary's rights and benefits.	Develop Q&A and include in newsletter.	<i>Bens./Comm.</i>	<b><i>Include in Fall newsletter</i></b>

<i>ID#</i>	<i>GOAL</i>	<i>RANK</i>	<i>ISSUES</i>	<i>ACTIONS</i>	<i>LEAD DIV</i>	<i>TIMING / STATUS</i>
<b>40</b>		<i>B</i>	Mosquito & Vector Control District employees appear less aware of their benefits than County or Court employees.	<p>Mosquito employees tend to serve for shorter periods of time compared to employees of other employers. So they are less concerned about their retirement. SamCERA should identify those Mosquito employees that have the most service and assure that they have opportunities to better understand their benefits. Determine how to increase outreach?</p> <ul style="list-style-type: none"> <li>• Mini-Benefit Fair – (Cele) <ul style="list-style-type: none"> <li>- Contacting M&amp;VCD &amp; Setting up a date</li> <li>- Gathering booklets &amp; forms for fair</li> <li>- Going to M&amp;VCD</li> </ul> </li> </ul>	<i>Bens.</i>	<b><i>Finalize in October 2013</i></b>
<b>41</b>	<i>Ops</i>	<i>A</i>	The replacement of SamCERA's key technologies is essential to continued accurate, efficient and timely administration of the retirement system.	There are numerous tasks required to complete the Technology Modernization Project—too many to list in this plan. A list of the major projects in Phase I is included below.	<i>Admin.</i>	<b><i>See chart below.</i></b>

I.D.#	Technology Modernization Project Task Name (Phase One)	Duration	Start	Finish	Percent Complete
1	Manage SamCERA IT Modernization Projects	436 days?	Tue 4/17/12	Tue 12/17/13	58%
2	Phase 0 - Initiate	400 days?	Tue 4/17/12	Mon 10/28/13	68%
7	Phase 1 - Analyze	105 days	Mon 4/23/12	Fri 9/14/12	100%
17	Phase 2 - Procure Solutions	327 days?	Mon 9/17/12	Tue 12/17/13	75%
18	Task A.2 - Revise Project Plans	222 days	Mon 10/1/12	Tue 8/6/13	67%
25	Task D.2 - Procure ECM Solution	125 days	Mon 9/17/12	Fri 3/8/13	100%
30	Task E.2 - Procure PASS Solution	247 days?	Mon 1/7/13	Tue 12/17/13	53%
31	Prepare PASS RFP	116 days?	Mon 1/7/13	Mon 6/17/13	91%
32	Complete RFP Workbooks	70 days	Mon 1/7/13	Fri 4/12/13	92%
33	Create RFP	28 days	Mon 4/15/13	Wed 5/22/13	100%
34	Issue RFP	1 day?	Mon 6/17/13	Mon 6/17/13	100%
35	Select PASS Vendor	131 days	Tue 6/18/13	Tue 12/17/13	0%
36	Prepare WB13: RFP Evaluation	5 days	Tue 6/18/13	Mon 6/24/13	0%
37	Vendor Q&A	14 days	Tue 6/18/13	Fri 7/5/13	0%
38	Proposers Conference & Questions	5 days	Mon 7/8/13	Fri 7/12/13	0%
39	Proposals Due	0 days	Thu 8/29/13	Thu 8/29/13	0%
40	Evaluate Proposals	19 days	Tue 9/3/13	Fri 9/27/13	0%
41	Evaluate Product Demonstrations	10 days	Mon 9/30/13	Fri 10/11/13	0%
42	Evaluate Site Visits	4 days	Tue 10/15/13	Fri 10/18/13	0%
43	Recommendation to CEO	1 day	Mon 10/28/13	Mon 10/28/13	0%
44	CEO Announcement	1 day	Tue 10/29/13	Tue 10/29/13	0%
45	Post Proposals & Manage Protests	10 days	Tue 10/29/13	Mon 11/11/13	0%
46	Board Ratifies Contract	1 day	Tue 12/17/13	Tue 12/17/13	0%
47	Phase 3 - Manage Projects	245 days?	Mon 1/7/13	Fri 12/13/13	32%
48	Task B.3 - Manage Quick Hits	80 days?	Mon 1/7/13	Fri 4/26/13	62%
49	Task C.3 - Manage Data Cleansing	26 wks	Mon 6/17/13	Fri 12/13/13	0%
50	Task D.3 - Manage ECM Implementation	150 days?	Mon 2/25/13	Fri 9/20/13	41%
51	ECM Phase 1	21 wks	Mon 2/25/13	Fri 7/19/13	70%
52	ECM Phase1 Go-Live	1 day?	Mon 7/22/13	Mon 7/22/13	0%
53	Perform Backfile Conversion	8 wks	Mon 5/20/13	Fri 7/12/13	3%
54	ECM Phase 2	7 wks	Mon 8/5/13	Fri 9/20/13	0%
55	Change Orders	160 days	Mon 1/7/13	Fri 8/16/13	28%

<b>I.D.#</b>	<b>Technology Modernization Project Task Name (Phase One)</b>	<b>Duration</b>	<b>Start</b>	<b>Finish</b>	<b>Percent Complete</b>
56	Investments BPR	4 wks	Mon 6/3/13	Fri 6/28/13	3%
57	Change Management	160 days	Mon 1/7/13	Fri 8/16/13	29%

## Completed Projects from FY 2012-13

ID#	GOAL	RANK	ISSUES / LINKS	ACTIONS	LEAD DIV	TIMING / STATUS
	<i>Asset Mgmt.</i>	<i>A</i>	Active members as a percentage of the membership are declining compared to retirees. Will this pose any risk to the fund's ability to remain fully invested or impact the proper degree of liquidity for SamCERA's investments?	Ask the actuary to look at this subject as part of the June 30, 2013, actuarial valuation.	<i>Fin.</i>	<i>COMPLETED. Actuary discussed at the May 2013 board meeting. Liquidity not an issue for SamCERA for at least a decade or likely more unless asset allocation changes significantly. Nevertheless, continue to monitor this issue with each valuation.</i>
	<i>Ops.</i>	<i>B</i>	It would improve member service to have a formal over-the-phone authentication procedure prior to the provision of member information.	<i>Create Authentication Procedure that allows members to verify their identity over the phone by providing certain information such as SSN, address, DOB of member/spouse/children, Department / Pony number, home phone.</i>	<i>Bens.</i>	<i>COMPLETED</i>
	<i>Cust. Serv.</i>	<i>B</i>	Some drivers can't find SamCERA. Redwood Shores is not in GPS devices because it is not an official city.	<i>Change all uses of the address to read Redwood City instead of Redwood Shores.</i>	<i>Comms.</i>	<i>COMPLETED</i>

ID#	GOAL	RANK	ISSUES / LINKS	ACTIONS	LEAD DIV	TIMING / STATUS
	<i>Cust. Serv.</i>	<i>C</i>	Some persons assume they will receive a continuance but are not eligible.	<i>Update beneficiary forms, "Ready to Retire," Retirement applications, Presentations, "First Things First" booklets</i>	<i>Bens./Comms.</i>	<b>COMPLETED</b> <i>June 2013</i>
	<i>Ops.</i>	<i>A</i>	The Enterprise Content Management (ECM) Project (imaging of documents) will require several preparatory steps.	<ul style="list-style-type: none"> <li>• <i>Backfile Project</i> <ul style="list-style-type: none"> <li>- <i>Copy of Forms (Completed)</i></li> <li>- <i>Preparing active and deferred files (Completed)</i></li> <li>- <i>Creation of List (Completed)</i></li> </ul> </li> <li>• <i>Correspondence</i> <ul style="list-style-type: none"> <li>- <i>Verification of complete list (Completed)</i></li> <li>- <i>Condense names (Completed)</i></li> </ul> </li> </ul>	<i>Bens.</i>	<b>COMPLETED</b>
2	<i>Asset Mgmt.</i>	<i>A</i>	Actuarial assumptions for early retirement calculations may need adjustment due to changes in member demographics.	<i>Review early retirement calc assumptions with actuary along with Arc. Ask actuary if still should be same as ARC.</i>	<i>Fin.</i>	<b>COMPLETED: Reviewed during 2011 experience study. Were adjusted.</b>
3	<i>Asset Mgmt.</i>	<i>A</i>	Actuarial assumptions for ARC may need adjustment due to changes in member demographics.	<i>Now that SamCERA has ARC experience, review ARC assumptions with actuary.</i>	<i>Admin.</i>	<b>COMPLETED: Reviewed during 2011 experience study. ARC applications no longer accepted as of Dec. 31, 2012 due to PEPRA.</b>

ID#	GOAL	RANK	ISSUES / LINKS	ACTIONS	LEAD DIV	TIMING / STATUS
6	Asset Mgmt.	B	SamCERA's auditing of county payroll data must be enhanced to comply with new sections of the CERL and for improved compliance with IRS requirements.	<i>Continue auditing county payroll data, retiree health insurance deductions, eligibility data etc. at a deeper level including membership eligibility and spiking identification. Determine if Board Regulations are necessary to set forth the new auditing procedure.</i>	Fin./Bens.	<b>COMPLETED:</b> Board approved procedure for auditing county data at 2/26/13 meeting. Make this effective with the June 30, 2013, year-end audit. SamCERA and its audit firm to work with county HR and its independent auditor to develop a plan to verify data. <b>COMPLETED:</b> Health Insurance Deductions--Mabel and Brenda drafted certification and process form for HR/Benefits to complete monthly.
8	Asset Mgmt.	A	The annual financial audit of the retirement system is always done on a tight timeline. The audit of the FY 11-12 financial records will be even more challenging with the addition of several investment managers as well as the complexity of the private equity investments.	<i>Staff must schedule tasks appropriately and coordinate in detail with the auditing firm in order to meet all deadlines. Staff will also continue to work with investment managers, auditors and actuaries to provide the most recent information for the audit.</i>	Fin.	<b>COMPLETED,</b> but revisit timelines and communications issues before next audit. 2012 Audit concluded and presented at the October 2012 board meeting. Comprehensive Annual Financial Report finalized in October 2012.
8	Asset Mgmt.	A	The annual financial audit of the retirement system is always done on a tight timeline. The audit of the FY 11-12 financial records will be even more challenging with the addition of several investment managers as well as the complexity of the private equity investments.	<i>Staff must schedule tasks appropriately and coordinate in detail with the auditing firm in order to meet all deadlines. Staff will also continue to work with investment managers, auditors and actuaries to provide the most recent information for the audit.</i>	Fin.	<b>COMPLETED,</b> but revisit timelines and communications issues before next audit. 2012 Audit concluded and presented at the October 2012 board meeting. Comprehensive Annual Financial Report finalized in October 2012.



ID#	GOAL	RANK	ISSUES / LINKS	ACTIONS	LEAD DIV	TIMING / STATUS
9	Asset Mgmt.	A	The passage of pension reform legislation will require new payroll reporting changes by all SamCERA employers.	<i>Work with SamCERA employers to assure that appropriate and timely changes are made to payroll reporting.</i>		<b>COMPLETED.</b> All necessary procedures in place by Jan. 1, 2013.
11	Asset Mgmt.	B	The reporting of performance results for alternative investments is often delayed for a longer period than for traditional investments. This has created a need to develop a policy regarding interest crediting to member accounts because, in order to perform the crediting process in a timely manner, it may be necessary to use preliminary performance data or estimated data.	<i>Staff will work with the Board and its Audit Committee to review what changes may need to be made to the Interest Crediting Policy.</i>	Fin./Admin.	<b>COMPLETED.</b> Interest Crediting Policy amended to address issue and assure members that crediting will occur by certain dates each year.
12	Asset Mgmt.	B	SamCERA deducts the cost of health insurance premiums from retiree benefit payments and passes these amounts on to the county and its health insurance providers. SamCERA has a responsibility to assure that all such deductions are accurate.	<i>Continue to explore methods to assure the accuracy of health insurance deductions with the County Benefits Division.</i>	Fin./Legal	<b>COMPLETED.</b> Benefits Division is now certifying all benefit deductions.

ID#	GOAL	RANK	ISSUES / LINKS	ACTIONS	LEAD DIV	TIMING / STATUS
15	Cust. Serv.	A	Communications with SamCERA's plan sponsors is good but must be a focus in order to be maintained and improved.	<p><i>Reach out to Mosquito &amp; Vector Control District members more often and assure that they are invited to workshops</i></p> <p><i>Communicate with county leadership regarding budgeted positions, CIO search, Assumed Rate, GASB Changes</i></p> <p><i>Communicate concerns about BENESYST</i></p> <p><i>Work with County to set standards for SamCERA involvement and communications during union negotiations</i></p>	Admin./Bens.	<p><b>COMPLETED.</b></p> <p><i>In May 2012, The CEO and AEO noted in discussion with the County Manager that additional positions may be requested. They also garnered county manager support for lowering the assumed rate. As of May 2012, the County Controller and SamCERA are in agreement that GASB changes should be implemented for the 2013-14 CAFRs.</i></p> <p><i>The county leadership was involved in the CIO search and in discussions regarding the lowering of the assumed earnings rate.</i></p> <p><i>CEO made presentations in January 2013 with Mosquito staff and board regarding PEPR.</i></p>

ID#	GOAL	RANK	ISSUES / LINKS	ACTIONS	LEAD DIV	TIMING / STATUS
17	Cust. Serv.	A	The County had eliminated 500 positions due to the recession through the end of FY 2011-12 and is likely to eliminate at least 200 more positions during FY 2012-13.	SamCERA is prepared to address the service needs of these employees.	Bens.	<b>COMPLETED.</b> The 200 employees of the Burlingame Long-term Care Center were laid off in July 2012. Staff provided assistance to HR on early retirement offers, conducted on-site counseling, answered questions via email or by phone and processed refunds and rollovers in a timely manner. Completed August 2012.
18	Cust. Serv.	A	Members who want to sign up for financial training classes sponsored by SamCERA often have difficulty doing so.	Assist members who have difficulty signing up. Consider methods to improve the sign-up process. Work with the administrators of the LMS system to facilitate signups.	Comm.	<b>ONGOING:</b> Staff has brought up LMS issues to HR's training division and in the meantime, staff continues to assist members. The County is currently conducting a study of LMS.
19	Cust. Serv.	B	SamCERA has seen an increase in the number of members applying for disability retirements.	Monitor the disability retirement statistics to determine if this is a trend expected to continue and plan accordingly. The new pension administration software system will have workflow capabilities to help better track the various disability processes. In the meantime, staff will research tools to assist with this process	Comm./Bens.	<b>COMPLETED.</b> Increase not seen as a trend. No further changes required, although higher # of EEs in Safety will likely result in more apps.

ID#	GOAL	RANK	ISSUES / LINKS	ACTIONS	LEAD DIV	TIMING / STATUS
20	Cust. Serv.	A	The Annual SamCERA Customer Services Survey has revealed much about what SamCERA members think of the services provided, but has not yielded much new information for the last few years.	<i>Replace the annual survey with point-of-service surveys.</i>	Comm./Bens.	<b>COMPLETED:</b> Point-of-service surveys were created for on-site visits (June 2012) and email/phone call inquiries (July 2012).
24	Ops.	B	It is important to preserve and have the ability to access and transfer institutional knowledge.	<i>Implement and train on using Confluence as a database. Person by person or section by Section? Put together schedule to use Confluence as a database going forward, for procedures, decisions made internally.</i>	IT/Bens.	<b>COMPLETE:</b> Gradually being utilized as a repository of information.
26	Ops.	B	In FY 10-11 SamCERA staff acquired electronic copies of all Board of Supervisors' and Mosquito resolutions and made them readily available. Now as new resolutions from these entities are passed, SamCERA needs access to them as well.	<i>Develop an ongoing procedure to keep copies of employer resolutions up to date and readily available. Determine what documents are needed from Courts and Mosquito.</i>	Admin. / Legal	<b>COMPLETED.</b> Ongoing procedure was developed in fall 2012 regarding management of electronic copies of resos. Exec Secretary to check BOS Agendas. Develop procedure. Subscribe to lists and check minutes of Mosquito District for retirement resos.
28	Ops.	A	SamCERA's Chief Investment Officer has retired after 23 years of service. Orientation for the new CIO will be substantial in order to replace the lost institutional knowledge.	<i>Develop an Orientation Plan for the new CIO.</i>	Admin.	<b>COMPLETED.</b> As of August 2012 the new CIO was on board and had gone through several hours of orientation. Additional meetings with SamCERA's investment consultant and custodian are scheduled.

ID#	GOAL	RANK	ISSUES / LINKS	ACTIONS	LEAD DIV	TIMING / STATUS
29	Ops.	C	SamCERA benefits from the long-term safety and wellness of its employees.	<i>Staff should consider all opportunities to promote a healthy and safe work environment and life styles.</i>	Admin.	<i>Ongoing. Sue Thompson is SamCERA's wellness champion. She attends regular wellness committee meetings and shares information she receives.</i>
30	Ops.	C	The Executive Secretary drafted a list of SamCERA's commonly used acronyms. This is a potentially valuable resource for new employees and trustees.	<i>Staff should continue building out the acronyms list.</i>	Admin.	<i>Ongoing. Continue in FY 13-14.</i>
31	Ops.	B	If additional staffing and temporary contractors are necessary due to the IT projects, and if new positions are required in the Investments and Benefits Divisions, where would they be located?	<i>Staff should start investigating whether it can accommodate any new staff within its current office space or if additional space would be needed.</i>	Admin.	<i>COMPLETE. Additional space not needed now. Will review further as needs arise.</i>
34	Ops.	B	There are occasional misunderstandings about the requirements of the SamCERA Travel Policy.	<i>Staff will develop a "Travel Tips" brochure for the use of trustees and staff.</i>	Admin./ Legal	<i>COMPLETED. A Travel Tips brochure was issued in August 2012.</i>

ID#	GOAL	RANK	ISSUES / LINKS	ACTIONS	LEAD DIV	TIMING / STATUS
35	Ops.	A	The County's negotiations with its 10 bargaining units resulted in the addition of several additional retirement plans and tiers in the SamCERA plan, significantly increasing the complexity of the system in the areas of benefit communications, counseling, enrollment, data processing and accounting. In addition, the number of retirements per year is increasing.	<i>Staff will work with LRWL regarding whether additional staffing and/or cross training will be required. Staff will also develop a naming scheme for all plans/tiers.</i>	Admin./Legal	<i>COMPLETED. Communications booklets have been written for all plans as of May 2012. The staffing plan update is partially complete, but must now take into account the issues of recent pension reform legislation. Task is part of the Technology Modernization Project.</i>
38	Ops.	B	As SamCERA moves forward with its technology update projects, it may be possible to leverage some of the capabilities of the County's technology systems.	<i>Utilize ATKS and/or LMS data to integrate with new pension software and/or web member services. As the IT Modernization projects progress, SamCERA will work with the County's HR Department and Controller's Office. Research whether a single password would be possible.</i>	I.T.	<i>COMPLETED.. In January chose to use same ECM software and implementation vendor as county.</i>

## Conclusion

This update of the SamCERA Strategic Plan builds on the work of past plans beginning in 2005 and continues the efforts to improve operations, financial management, and customer services.

By pursuing the tasks summarized in this plan, SamCERA will move forward with the need to modernize its technology, further diversify its assets, and improve communications and services to members.

By achieving the goals of this plan, SamCERA will continue to fulfill its mission:

*To serve as loyal fiduciary for its members and as prudent administrator of the retirement system.*


San Mateo County Employees' Retirement Association  
Board of Retirement

July 23, 2013

Agenda Item 7.5

To: Board of Retirement

From: David Bailey, Chief Executive Officer  
Mabel Wong, Retirement Finance Officer



Subject: Approval of Amendments to Resolutions Providing Signature Authority for SamCERA Manual Checks

### Staff Recommendation

Staff recommends that the Board amend the provisions setting forth signatures required on certain checks drawn on the retirement fund as set forth in Resolution 95-96-16 adopting SamCERA's Internal Controls Policy and as set forth in Resolution 95-96-15 implementing Assembly Bill 1021.

### Summary

The recommended changes will end the use of the Board Secretary's signature stamp as one of three signatures needed to approve SamCERA manual checks. Instead, the signature of the Assistant Executive Officer must be provided, along with that of the CEO and the County Controller, for approval of all such checks.

### Background

Government Code §31590 (a) provides in pertinent part that: "All warrants, checks, and electronic fund transfers drawn on the retirement fund shall be signed or authorized by at least two board officers or employees, designated by the board or by the treasurer if designated by the board."

In April 1994, the Board adopted its Delegation of Authority to the Chief Executive Officer. In that delegation of authority, the Board reserved unto itself all powers regarding the approval of the system of internal controls. (The adoption of the attached resolution retains such authority with the Board.) In February of 1996, the Board adopted two resolutions. One established the Internal Controls (Resolution 95-96-16), which currently provides that:

"5. All other checks drawn on the retirement fund shall bear the signature of the Chief Executive Officer or a staff member he has delegated and the facsimile signature of the Board Secretary & County Controller in accordance with Government Code §31590 & Board Resolution 95-96-15."

Resolution 95-96-15 implemented the provisions of Assembly Bill 1021 regarding the financial authority and functions of the Board and which, among other items, delegated signature authority



to the Chief Executive Officer, Board Secretary and Controller “for the functions specified in Government Code §31590.”

### **Discussion**

The type of checks impacted by the recommended change are mostly refunds to members who are withdrawing their accounts or to their beneficiaries in the event of death—about 12 per month. Lost checks and stale-dated checks are re-issued with manual checks. These average about 3 per month.

Staff recommends that for checks drawn on the retirement fund, other than for retirement payroll, rather than using the facsimile signature of the Board Secretary in addition to the signature of the Chief Executive Officer, the policy should be amended to provide that signatures be required of both the Chief Executive Officer and Assistant Executive Officer.

It is anticipated that in the vast majority of cases, both the CEO and AEO will be available to sign the manual checks. In the event that one or the other is unavailable, the resolution allows that one of the signatures must be “original,” the other can be a facsimile with written authorization from the signatory. Each signatory will retain the stamp of the other in a locked drawer. The use of a stamp will be authorized for use by the owner, either the Chief Executive Officer or the Assistant Chief Executive Officer, upon receipt of written authorization from the signatory. The Retirement Finance Officer will be copied on all authorizations. The facsimile of the Controller’s signature will continue to be required on these checks.

The proposed language revising the signature requirement is set forth in the attached amendments to Resolution 95-96-15 and Resolution 95-96-16.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Internal Controls - Disbursements from the Retirement Fund**  
RESOLUTION 95-96-16, as amended

*THIS RESOLUTION, adopted by the Board of Retirement (Board)  
of the San Mateo County Employees' Retirement Association (SamCERA),  
adopts Internal Controls for the disbursement of monies from the Retirement Fund.*

**WHEREAS**, Government Code §31520 vests the management of the Association in the Board; and §31525 empowers the Board to adopt regulations; and

**WHEREAS**, Government Code §31590 provides specific guidance for disbursements from the Retirement Fund; and

**WHEREAS**, Section 17 of Article XVI of the Constitution of the State of California states that *the retirement board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for the...administration of the system;* and

**WHEREAS**, The Board has appointed a Chief Executive Officer pursuant to Government Code §31522.2 and & has resolved to delegate specific powers and duties to the Chief Executive Officer, including the duty to provide for an effective system of internal controls; and

**WHEREAS**, The Chief Executive Officer has recommended the following controls to help assure that the assets of the Fund cannot be compromised. Therefore be it

**RESOLVED** that the Chief Executive Officer will implement the following internal controls for the disbursement of moneys from the retirement fund.

1. The retirement payroll checks shall bear the signature of the County Controller. The Board delegates safekeeping of the retirement payroll check stock to the County Controller.
2. Changes to the retirement payroll may only be performed by designated retirement staff.
3. SamCERA shall utilize the accounts payable system of the County Controller for operational expenditures. The accounts payable checks are from the Controller's check stock and shall bear the signature of the County Controller.
4. Preparation and approval of operational expense documents &and transactions may only be performed as referred to below.

~~5. All other checks drawn on the retirement fund shall bear the signature of the Chief Executive Officer or a staff member he has delegated and the facsimile signature of the Board Secretary & County Controller in accordance with Government Code §31590 & Board Resolution 95-96-15.~~

5. In accordance with Government Code §31590 and Board Resolution 95-96-15, all other checks drawn on the retirement fund shall bear the signature of both the Chief Executive Officer and the Assistant Executive Officer. One of the signatures can be a facsimile with written authorization from the signatory. The facsimile signature of the County Controller will also be on the checks.

6. The Board delegates safekeeping of the blank check stock to the ~~Retirement~~ Finance Officer. The ~~Chief Investment Finance~~ Officer is hereby prohibited from initiating or granting final approval for retirement disbursements via check stock. Blank check stock shall not be released to a staff member authorized to approve disbursements. The ~~Chief Investment Finance~~ Officer shall maintain a log, which documents inventory released, date, amount, stated intent of the disbursement and require a signature or initial from the staff member receiving the blank stock.

7. The County Controller shall not honor any journal entries, claims, purchase orders, transmittals, appropriation transfer requests, or other charges against the retirement fund without the written or electronic approval of the Chief Executive Officer or, in his absence, his designee.
8. The Treasurer shall not honor any claims, transmittals, or other charges against the retirement fund without the approval of the Chief Executive Officer or, in his absence, his designee.
9. The Chief Executive Officer's or, in his absence, his designee's approval shall be evidenced by his signature or initials on the document initiating the transaction. The document may be any standard form, including, but not limited to, a register authorizing electronic funds transfers.
10. Pursuant to his Delegation of Authority, the Chief Executive Officer shall delegate to staff the task of preparing the documents and & transactions referred to above, and shall supervise &and audit staff's work.
11. Pursuant to his Delegation of Authority, the Chief Executive Officer ~~shall~~ may delegate to the County Controller the task of reconciling the bank statement to SamCERA's general ledger. ~~The Controller shall provide SamCERA with a timely outstanding checks reconciliation report.~~ SamCERA's staff shall promptly resolve any discrepancies. The ~~Retirement~~ Finance Officer shall supervise &and audit the bank reconciliation process.
12. The Chief Executive Officer and his designee are hereby prohibited from having access to check stock or performing the functions required to prepare any and all documents and transactions which allow disbursement of moneys from the retirement fund, but shall audit the work of others prior to granting approval. Document approval is specified in number 9 above. ~~Check approval from the blank stock will be further evidenced by the appropriate signature and affixing the facsimile signature of the Board Secretary prior to forwarding it to the County Controller for his signature.~~
- ~~13. The board delegates safekeeping of the Board Secretary's facsimile signature to the Chief Executive Officer.~~
13. The Board delegates safekeeping of the Chief Executive Officer's facsimile signature stamp to the Assistant Executive Officer and delegates safekeeping of the Assistant Executive Officer's signature stamp to the Chief Executive Officer. Each stamp shall be kept by the delegated keeper in a locked drawer. Each stamp may be used for the approval of manual checks upon receipt of authorization from the signatory by the keeper.
- ~~14. The Chief Executive Officer may delegate disbursement approval and check signing authority to one employee of the association, who may act only in the absence of the Chief Executive Officer. That employee is prohibited from having access to the blank check stock. In acting for the Chief Executive Officer the employee agrees to all responsibilities and prohibitions stated above.~~
145. Pursuant to his Delegation of Authority, the Chief Executive Officer shall report to the Board regularly on matters of significance related to the Association's Internal Controls.

ADOPTED by unanimous vote, February 22, 1996

AMENDED, by unanimous vote, March 28, 1996

AMENDED, by unanimous vote, March 27, 2001

AMENDED by unanimous vote, May 28, 2002

AMENDED by unanimous vote, April 22, 2003

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Implementation of Assembly Bill 1021**  
RESOLUTION 95-96-15

*THIS RESOLUTION, adopted by the Board of Retirement (Board) of the San Mateo County Employees' Retirement Association (SamCERA), implements the provisions of Assembly Bill 1021.*

WHEREAS, Section 17 of Article XVI of the Constitution of the State of California states that *the retirement board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for the investment of monies and administration of the system; and*

WHEREAS, Chapter 584, Statutes of 1995 (Assembly Bill 1021), empowers the Board to delegate functions to *the treasurer or other entity authorized by the board*. Therefore, be it

RESOLVED that the Board hereby designates the financial records of SamCERA to be the official books of record for the functions specified in Government Code §§31588, 31589 and 31599. Be it further

RESOLVED that the Board hereby (1) delegates signature authority to the following two positions: Chief Executive Officer and the Assistant Executive Officer and (2) designates the County's paying agent bank as paying agent for the functions specified in §31590. Be it further

RESOLVED that the Board hereby designates the fiduciaries under contract to SamCERA ~~and the California Local Agency Investment Fund~~, to carry out the functions specified in §§31595.1 and 31596, subject to coordination of their activities by the ~~Retirement Administrator~~ Chief Executive Officer pursuant to his Delegation of Authority. The Board designates the Treasurer to safely keep and invest funds on deposit with the County, pending transfer by the ~~Retirement Administrator~~ Chief Executive Officer to one of the Board's contract fiduciaries ~~or the Local Agency Investment Fund~~ pursuant to his Delegation of Authority. Be it further

RESOLVED that the Board hereby reserves unto itself responsibility for filing annual financial statements with the county auditor and board of supervisors, for the relevant functions specified in §§31597, 31597.1 and 31597.2. Be it further

RESOLVED that the Board hereby designates the Retirement Administrator as *the other entity authorized by the Board* for the functions specified in §§31452.5, 31452.6, 31452.65, 31485.6 and 31628.


ADOPTED by unanimous vote, February 22, 1996

Attest:

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

July 23, 2013

Agenda Item 7.6

**TO:** Board of Retirement  
**FROM:** Tariq Ali, Chief Technology Officer   
**SUBJECT:** Update on Information Technology Project Progress

**Staff Recommendation**

Staff recommends that the board accept staff's oral report on the status of current IT Projects.

**Background**

The Chief Technology Officer, Tariq Ali will introduce the newest addition to the IT Staff and provide a brief update on current projects and goals for the coming year including the SamCERA.org website; Web Member Services updates; IT Infrastructure upgrades; Accounting software upgrade; Board packet management software.

Will Morrow from LRWL will provide a status update on the IT Modernization Project including updates on the Electronic Content Management effort; Pension Administration Software System procurement; Data Cleansing; Investments Business Process Re-engineering; and Change Management.

**Attachments: LRWL Project Status Slides**



*Moving Retirement Systems Forward*

# SamCERA IT Modernization Project Status

July 23, 2013

# Project Schedule

ID	Task Name	Start	Finish	% Complete	2012			2013				
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	
1	BPR and Analysis	4/17/2012	9/14/2012	100%								
2	Enterprise Content Management	9/17/2012	9/20/2013	80%								
3	PASS Procurement	1/7/2013	12/17/2013	70%								
4	Business Quick Hits	1/7/2013	4/26/2013	70%								
5	Data Cleaning	4/29/2013	10/25/2013	5%								
6	Investments BPR	6/3/2013	6/28/2013	70%								
7	Change Management	1/7/2013	8/16/2013	40%								

# Enterprise Content Management

- Scope

- Phase 1 (Benefits)
  - Implement Autonomy Worksite, Kofax Capture, and BCS iConnect for SamCERA
  - Provides capability to scan all incoming paper documents, store them in electronic member folders, and retrieve them from PensionGold
- Phase 2
  - Analyze the ECM needs for other SamCERA departments (Executive, Legal, Investments, Finance, Board)
- Backfile Conversion
  - Convert all paper member records into PDF files and loaded into ECM solution

- Status

- Phase 1
  - UAT complete
  - August implementation
- Phase 2
  - Scheduled for 8/5 through 9/20
- Backfile
  - Onsite work complete
  - Overall 51% complete



# PASS Procurement

- Scope

- Develop & Publish RFP
- Award Contract
  - Vendor Questions
  - Proposers Conference
  - Evaluate Proposals
  - Product Demonstrations & Presentations
  - Customer Site Visits
  - Recommendation to CEO
  - CEO Announcement
  - Protests
  - Contract Negotiation
  - Board Approval

- Status

- RFP Released June 17
- 39 vendor questions from four vendors resulted in five RFP amendments
- Proposers' Conference July 11 with 6 vendors
- Second round of questions due July 29
- Proposals due August 29
- CEO announcement 10/29
- Board approval 12/16

PASS Project planned to begin January 2014 and finish late 2016

# Data Cleaning

- Scope

- Led by LRWL, quantify and resolve known data quality issues that cannot be assigned to the PASS vendor (16 of the 20 identified)

- Status

- Data Team and infrastructure setup has started
- Prioritization of data issues will follow

# Investments BPR

- Scope
  - Analyze and make recommendations for improvement for 4 Investments business processes
- Status
  - As-is document delivered
  - To-be sessions being scheduled

# Change Management

- Scope

- Phase 1: Plan and Assess
- Phase 2: Internal Change Readiness
- Phase 3: External Stakeholders

- Status

- Phase 1
  - Readiness report delivered
- Phase 2
  - Meeting in June was held to plan for implementation of Phase 1 recommendations
- Phase 3
  - Follows Phase 2

# Issues and Risks

- Issues
  - None
- Risks
  - Limited PASS proposals and/or poor quality > Re-issue RFP later or delay release
  - PASS proposals exceed budget
  - Parallel execution of data cleansing and PASS procurement

# Questions