



## Investment Committee

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

**100 Marine Parkway, Suite 160, Redwood Shores**

**Tuesday, October 23, 2012, 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 Monthly Portfolio Performance Report
  - 6.2 Annual Review of Commodities, Hedge Fund, Risk Parity and Real Estate Managers (SSGA Multisource Commodities, AQR Delta Fund II, AQR Risk Parity, Invesco)
  - 6.3 Approval of Angelo Gordon Securitized Asset Recovery Fund L.P. (Presentation at Investment Committee Meeting)
  - 6.4 Approval of Screening Criteria and Schedule for Large Cap Growth Fund Search
  - 6.5 Discussion Regarding Real Rate Hedging Within TIPS Portfolio
- 7.0 Other Business
- 8.0 Chief Investment Officer's Report
- 9.0 Adjournment

Michael Coultrip, Chief Investment Officer

Printed: 10/18/12

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

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

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

**THE COMMITTEE MEETS IN 100 MARINE PARKWAY, SUITE 160,**  
WHICH IS LOCATED ON THE SE CORNER OF TWIN DOLPHIN & MARINE PARKWAY IN REDWOOD SHORES.  
Detailed directions are available on the "Contact Us" page of the website [www.samcera.org](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 Shores, CA 94065**

### How to Find Us:

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

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

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

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

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

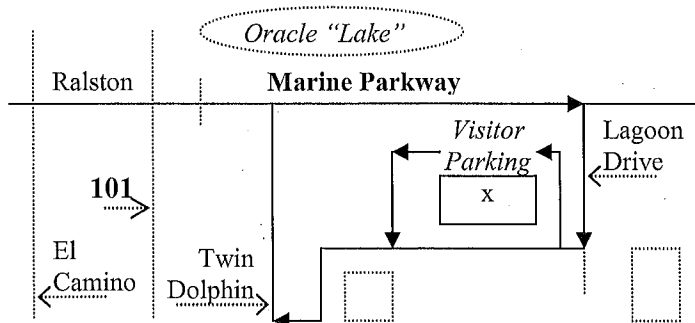
**From Marine Parkway turn Right on Lagoon Drive and then immediately take the next two Right turns into our parking lot.**

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

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

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

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



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

October 23, 2012

Agenda Item 5.0

**August 28, 2012 – 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 Annual Review, Revision & Reaffirmation of the Investment Committee Charter
  - 6.3 Discussion of SamCERA's Investment Policy Redraft Process
  - 6.4 Quarterly Investment Performance Report for the Period Ending June 30, 2012
  - 6.5 Report on the Annual Review of SamCERA's Core Bond Portfolio Managers (Aberdeen Asset Management, Pyramis Global Advisors, Western Asset Management
  - 6.6 Approval of Private Equity Investment Opportunity
  - 6.7 Discussion of Delegation of Authority to Execute Documents and Take Certain Actions In Relation to Agreements on Behalf of the Board
- 7.0 Other Business
- 8.0 Chief Investment Officer's Report
- 9.0 Adjournment

**MINUTES OF SAMCERA's Investment Committee Meeting - August 28, 2012**

- 1.0 **Call to Order:** Mr. David called the Public Session of the Investment Committee of the Board of Retirement to order at 10:04 a.m. August 28, 2012, in SamCERA's Board Room, Suite 160, 100 Marine Parkway, Redwood Shores, California.
- 2.0 **Roll Call:**  
*Present:* Ms. Lauryn Agnew, Mr. Ben Bowler, Mr. Al David, and Ms. Michal Settles.  
*Other Board Members present:* Mr. Paul Hackleman, Mr. David Spinello, and Mr. Christopher Miller.  
*Staff:* Mr. David Bailey, Mr. Michael Coultrip, Ms. Brenda Carlson, Ms. Lilibeth Dames and Ms. Kristina Perez.  
*Consultants:* Mr. Jonathan Brody and Mr. Patrick Thomas, of Strategic Investment Solutions.  
  
Mr. Bailey announced that new committee assignments had been made by Board Chair Sandie Arnott, and the new Investment Committee consists of Albert David, Chair, and members Lauren Agnew, Ben Bowler and Michal Settles. The Audit Committee's members are Natalie Kwan Lloyd, Sandie Arnott, Paul Hackleman and Eric Tashman, Chair.
- 3.0 **Oral Communications From the Committee.** None.
- 4.0 **Oral Communications From the Public:** None.
- 5.0 **Approval of the Minutes:** The May meeting of the Investment Committee lacked a quorum and there were no minutes to approve.
- 6.1 **Presentation of the Preliminary Monthly Portfolio Performance Report:** Mr. Coultrip presented the Preliminary Monthly Portfolio Performance report and noted asset classes were up 1% or more, with the exception of small cap, and the SamCERA portfolio was up overall. Mr. Coultrip let the Committee know that

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

three accounts that do not appear in the one-month preliminary reports, would be included going forward. Mr. Coultrip noted that State Street has the ability to generate higher-level reports and he would return to the Committee to review samples of the new reports.

**Action:** This agenda item was informational. It did not require committee action.

- 6.2 **Annual Review, Revision & Reaffirmation of the Investment Committee Charter:** Mr. Coultrip discussed the Charter with the Investment Committee. There was discussion regarding the revision to the Investment Policy and whether the Charter should be affirmed after changes to the policy had been made.  
**Action:** Ms. Settles moved to recommend that the Board reaffirm the Investment Committee Charter and to revisit the Charter after the Investment Policy is revised, specifically to address risk. Mr. Bowler seconded the motion and it carried unanimously.
- 6.3 **Discussion of SamCERA's Investment Policy Redraft Process:** Mr. Coultrip opened the discussion with the committee regarding the Investment Policy. Committee members talked about the process of the redraft of the Investment Policy. It was suggested to begin the redraft process by brainstorming principles, objectives, philosophies and beliefs with the full Board, and reviewing other plans' investment policies.  
**Action:** This agenda item was informational. It did not require committee action.
- 6.4 **Quarterly Investment Performance Report for the Period Ending June 30, 2012:** Mr. Thomas presented the report and reviewed the quarterly performance of the various markets with the Committee. The Committee and Mr. Thomas discussed an allocation index and ranking managers by their contributions. Performance shortfalls of certain managers were discussed and SIS will return to the Board with a recommendation.  
**Action:** This agenda item was informational. It did not require committee action.
- 6.5 **Report on the Annual Review of SamCERA's Core Bond Portfolio Managers (Aberdeen Asset Management, Pyramis Global Advisors, Western Asset Management):** Mr. Thomas reported that staff and SIS met with the three managers for an hour each. He noted personnel changes at Aberdeen, and stated that all are normalizing and there wasn't much news. Committee members asked to receive a calendar of upcoming manager meetings.  
**Action:** This agenda item was informational. It did not require committee action.
- 6.6 **Approval of Private Equity Investment Opportunity:** Held over for discussion with the full Board.
- 6.7 **Discussion of Delegation of Authority to Execute Documents and Take Certain Actions In Relation to Agreements on Behalf of the Board:** Held over for discussion with the full Board.
- 7.0 **Other Business:** None
- 8.0 **Chief Investment Officer's Report:** Presented to the full Board
- 9.0 **Adjournment:** There being no further business, Mr. David adjourned the committee meeting at 11:58 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, October 23, 2012, at 1:00 P.M.**

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

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

- 1.1 Appointment of Ad Hoc CEO Annual Performance Review Committee

**2. Oral Communications**

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

**3. Approval of the Minutes**

**4. Approval of the Consent Agenda**

*(Items removed from the Consent Agenda will be taken up during the Regular Agenda under Item 5.1 and in the order determined by the Board Chair.)*

- Disability Retirement Applications
  - Robert Belmont
  - Liz Cervantes
  - Rosemary Grady
  - Dhurup Maharaj
  - Louis Williams
- Service Retirements
- Continuances
- Deferred Retirements
- Member Account Refunds
- Member Account Rollovers
- Approval of Addendum to June 30, 2012, Actuarial Valuation – Probation Rates

**5. Benefit & Actuarial Services**

- 5.1 Consideration of Agenda Items, if any, Removed From the Consent Agenda  
5.2 Approval of Amendment to Regulation 4.14 Required Break In Service Prior to Post Retirement Employment  
5.3 Approval of Resolution Defining Compensation Earnable Pursuant to Government Code §31461  
5.4 Approval of Resolution Defining Pensionable Compensation Pursuant to Government Code §7522.34

**6. Investment Services**

*(The Investment Committee will meet at 10 a.m., October 23, in the SamCERA Boardroom.)*

- 6.1 Monthly Portfolio Performance Report  
6.2 Annual Review of Commodities, Hedge Fund, Risk Parity and Real Estate Managers (SSGA Multisource Commodities, AQR Delta Fund II, AQR Risk Parity, Invesco)  
6.3 Approval of Angelo Gordon Securitized Asset Recovery Fund L.P. (Presentation at Investment Committee Meeting)  
6.4 Approval of Screening Criteria and Schedule for Large Cap Growth Fund Search  
6.5 Discussion Regarding Real Rate Hedging Within TIPS Portfolio

# Notice of Public Meeting

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## 7. Board & Management Support Services

- 7.1 Monthly Financial Report
- 7.2 Quarterly Budget Report
- 7.3 Report on Meeting of the Audit Committee of the Board of Retirement  
*(The Audit Committee will meet at 12 noon, October 23, in the SamCERA Conference Room.)*
- 7.4 Approval of the Auditor's Report on the Financial Audit for the Period Ended June 30, 2012
- 7.5 Approval of the Comprehensive Annual Financial Report (CAFR)
- 7.6 Annual Review of Independent Auditor—Brown Armstrong
- 7.7 Update on Technology Modernization Project
- 7.8 Approval to Establish Retirement Information Technology Position
- 7.9 Approval of Amendments to the SamCERA Education Policy
- 7.10 Discussion of Issues to be Considered at the SACRS Fall 2012 Business Meeting
- 7.11 Approval to Cancel the November Meeting and Reschedule the December Meeting of the Board of Retirement

## 8. Management Reports

- 8.1 Chief Executive Officer's Report
- 8.2 Assistant Executive Officer's Report
- 8.3 Chief Investment Officer's Report
- 8.4 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

## 9. Report on Actions Taken in Closed Session

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

McVay, Helen	August 30, 2012	Public Works
Hart, Travis	September 1, 2012	Public Works
Odenheimer, John	September 1, 2012	Behaviorial Health
Waldron, Russell	September 2, 2012	San Mateo Medical Center
Warner, Walter	September 2, 2012	General Services
Weston, John	September 4, 2012	Ben of Weston, Elaine
Sorensen, Robert	September 7, 2012	General Services
Harrigan, Helen	September 9, 2012	Public Health
Redmond, Carmen	September 11, 2012	Def'd from General Services

A blue ink signature of David Bailey, Chief Executive Officer, is written over a horizontal line.

David Bailey, Chief Executive Officer

Printed: 10/17/12

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

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

Detailed directions are available on the "Contact Us" page of the website [www.samcera.org](http://www.samcera.org)

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

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

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SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

October 23, 2012

Agenda Item 1.1

**TO:** Board of Retirement

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



**SUBJECT:** Appointment of Ad Hoc CEO Annual Performance Review Committee

**Staff Recommendation**

Staff recommends the Board Chair appoint an ad hoc committee to conduct the annual CEO performance review and ask the committee to report its conclusions to the full board after the first of the new year.

**Background**

A clause in the CEO's employment contract states that, "Annually, the Chief Executive Officer shall present to the board a schedule for an evaluation of his performance."

In past years the chair has appointed a committee that has performed a "360 Degree" review with responses requested from board members, staff, county manager's office, and consultants. The committee has performed its review on a calendar year basis and reported to the full board early in the calendar year following the year under review.



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

October 23, 2012

Agenda Item 3.0

**September 25, 2012 – Special Meeting Agenda**

**PUBLIC SESSION** – The Board will hold a special meeting in Public Session at 10:00 A.M.

**A Call to Order**

**B Roll Call**

**C Public Comment**

**D Investment Services**

- 6.1 Preliminary Monthly Portfolio Performance Report
- 6.2 Review of SamCERA's Securities Lending Program
- 6.3 Report on the Annual Review of SamCERA's Bond Strategy Managers (Angelo Gordon, Brown Brothers Harriman, Brigade Capital Management)
- 6.4 Approval of Change to Management Structure in the Large Cap Allocation
- 6.5 Approval of Change to Management Structure in the Core Bond Portfolio
- 6.6 Approval of Topics for Investment Consultant Review – Strategic Investment Solutions
- 6.7 Discussion Regarding Investment Objectives Section of SamCERA's Investment Policy

**E Adjournment**

**September 25, 2012 – Special Meeting Minutes**

**A Call to Order:** Ms. Sandie Arnott, Chair, called the Special Meeting of the Board of Retirement to order at 10:02 a.m.

**B Roll Call:**

*Present:* Sandie Arnott, Lauryn Agnew, Paul Hackleman, Michal Settles, David Spinello and Eric Tashman.

*Excused:* Natalie Kwan Lloyd, Ben Bowler, Albert David

*Alternates Present:* Christopher Miller (for Natalie Kwan Lloyd)

*Staff:* David Bailey, Michael Coultrip, Brenda Carlson, Gladys Smith, Lilibeth Dames and Kristina Perez.

*Consultants:* Patrick Thomas and Jonathan Brody, SIS

**C Public Comment:** Ms. Agnew commented on a recent conference she attended. There were no comments from the public.

**D Investment Services:** *(Numbering for this section's agenda items is consistent with the regular meeting numbering system.)*

**6.1 Preliminary Monthly Portfolio Performance Report:** Mr. Coultrip discussed the report for August with the Board. He stated that performance in August was strong with the total portfolio returning 2%. This item was informational and no action was taken.

**6.2 Review of SamCERA's Securities Lending Program:** Ms. Dames presented SamCERA's securities lending report for FY 2011-2012. This item was informational and no action was taken.

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

- 6.3 Report on the Annual Review of SamCERA's Bond Strategy Managers (Angelo Gordon, Brown Brothers Harriman, and Brigade Capital Management):** Patrick Thomas, SIS, and Mr. Coultrip discussed the annual reviews of three non-core bond managers with the Board; evaluating each manager's annual performance and noting successes and concerns. Mr. Thomas stated that Angelo Gordon met with staff on September 13, 2012, and that the Angelo Gordon PPIP strategy was one of the strongest performers of all PPIP managers. A potential follow-on investment with Angelo Gordon was previewed for a discussion at a future Board meeting. Brown Brothers Harriman met with staff on September 11, 2012, and Mr. Thomas reported they have performed well. A discussion ensued regarding the vulnerability of the strategy to higher real interest rates. Brigade Capital met with staff on September 13, 2012. Mr. Thomas and Mr. Coultrip reported they were pleased with Brigade's performance and mandate. This report was informational only and no action was taken.
- 6.4 Approval of Change to Management Structure in the Large Cap Allocation:** Mr. Thomas discussed performance and personnel concerns about the BlackRock Fundamental Large Cap Growth fund, citing loss of confidence in the team and the strategy. Mr. Coultrip recommended the Board terminate the Blackrock Fundamental Large Cap Growth strategy and give a 30-day notice to Blackrock. He stated that staff would return to the Board with a proposal to search for a new manager.  
**Action:** Mr. Tashman moved to terminate the large cap allocation with BlackRock, and direct staff to initiate a search for a U.S. large-cap growth equity strategy; the motion was seconded by Mr. Spinello and carried unanimously.
- 6.5 Approval of Change to Management Structure in the Core Bond Portfolio:** Mr. Thomas discussed concerns regarding organizational changes, significant personnel changes, and sizable client and asset losses have resulted in reduced conviction for the Aberdeen Core Bond strategy. Mr. Thomas stated that SamCERA has recouped most of the losses from Aberdeen's 2008 underperformance. Mr. Coultrip recommended the Board terminate the Aberdeen Core Bond strategy and give a 30-day notice to Aberdeen. He stated that the assets would be redeployed to higher-conviction existing managers in the asset class  
**Action:** It was moved by Mr. Spinello, and seconded by Ms. Settles to terminate the Core Bond Portfolio account with Aberdeen. The motion carried unanimously.
- 6.6 Approval of Topics for Investment Consultant Review – Strategic Investment Solutions:** Mr. Coultrip discussed the annual review of SIS with the Board, asking for Board member comments to the list of questions proposed to be submitted to SIS. Board members gave comments about the questions. Topics included: risks and actuarial assumptions; sustainability in investments; long term (5-year and 10-year) work plan of SIS; inclusion of conflict of interest code and code of conduct questions; proxy voting; and suggested educational opportunities for trustees.  
**Action:** Mr. Hackleman moved to approve the topics for the Investment Consultant review, and to include changes as per Board member's comments. The motion was seconded by Ms. Agnew and carried unanimously.

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

**6.7 Discussion Regarding Investment Objectives Section of SamCERA's Investment Policy:** Mr. Coultrip opened up the discussion and asked the Board for their input regarding the types of investment objectives that should be included in the Investment Policy. The dialogue about the objectives section of SamCERA's Investment Policy included these topics and comments: Board members liked the examples of other funds' objectives; discussion of length of amortization of the unfunded liability; setting the funding policy; inclusion of asset allocation; reviewing the policy annually; desire to shorten the length of the document; reinforce the desire for long-term market moves; addressing risk in the policy; evaluation of fee structures; diversity; passive vs. active investing; transitional portfolio with a non-traditional augmentation; private equity; and the monitoring of the growing number of managers. Mr. Coultrip thanked the Board members for their input. This item was for discussion only and no action was taken.

**E Adjournment:** With no further business, Ms. Arnott adjourned the Special Meeting at 11:36 a.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**

October 23, 2012

Agenda Item 3.0

**September 25, 2012 – Board Agenda**

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

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

**2. Oral Communications**

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

**3. Approval of the Minutes**

**4. Approval of the Consent Agenda**

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

- Disability Retirement Applications
  - Heikoti Fakava
  - Herlin Gomez
  - Fereshteh Harirchi
- Service Retirements
- Continuances Deferred Retirements
- Member Account Refunds
- Member Account Rollovers
- Approval of Western Asset Request to Implement Emerging-Debt Allocation via Commingled Fund
- Revision of the Minutes of the May 22, 2012 Board of Retirement Meeting

**5. Benefit & Actuarial Services**

- 5.1 Consideration of Agenda Items, if any, Removed From the Consent Agenda
- 5.2 Presentation of the June 30, 2012, Actuarial Valuation Report by Milliman, Inc.
- 5.3 Acceptance of the Fiscal Year 2013-2014 Employer and Member Contribution Rates and Recommendations
- 5.4 Annual Review of SamCERA's Actuarial Services Firm, Milliman, Inc.
- 5.5 Presentation Regarding AB 340 and AB 197 Legal and Actuarial Impacts

**6. Investment Services** (Investment items were considered at the Sept. 25 Special Meeting.)

**7. Board & Management Support Services**

- 7.1 Monthly Financial Report
- 7.2 Report on Status of the Annual Financial Audit for Fiscal Year 2011-12
- 7.3 Approval of Authorization for the Chief Executive Officer to Execute Documents and Take Certain Actions In Relation to Investments and Certain Securities Litigation Matters
- 7.4 Approval of SamCERA's Strategic Plan Update
- 7.5 Approval of Voting Delegate and Alternates for the SACRS Fall 2012 Business Meeting

**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



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

**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:**

Bruch, Gloria	August 12, 2012	Library
Cookson, Paul	August 9, 2012	Crystal Springs
Goff, Linda	August 2, 2012	Superior Court
Jones, Carmen	August 5, 2012	Social Services
Joy, Eleanor	August 26, 2012	Social Services
Julian, L J	August 9, 2012	Crystal Springs
Larsen, Alfred	August 24, 2012	Fire Warden
Smith, Roderick	August 4, 2012	District Attorney
Wallace, Marjorie	August 12, 2012	Library

*David Bailey, Chief Executive Officer*

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

**September 25, 2012– Board Minutes**

0912.1 **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 1:02 p.m.

**Roll Call:**

*Present:* Sandie Arnott, Lauryn Agnew, Albert David, Paul Hackleman, Michal Settles, David Spinello and Eric Tashman.

*Excused:* Natalie Kwan Lloyd, Ben Bowler, John Murphy

*Alternates Present:* Christopher Miller (for Natalie Kwan Lloyd)

*Staff:* David Bailey, Michael Coultrip, Brenda Carlson, Gladys Smith, Mabel Wong, Lilibeth Dames and Kristina Perez.

0912.2.1 **Oral Communications From the Board:** Ms. Arnott thanked the members of the Board for selecting her as the Chair for this term.

0912.2.2 **Oral Communications From the Public:** There were no comments from the public.

0912.3 **Approval of the Minutes:** Ms. Arnott asked if there were any changes to the minutes. A typographical error was noted, as well as a clarification to item 0812.5.1.

**Action:** Mr. David moved to approve the minutes from the regular meeting held on August 28, 2012, with the corrections as discussed. The motion was seconded by Ms. Agnew, and carried unanimously.

0912.4 **Approval of the Consent Agenda:** Ms. Arnott asked if there were any items to be taken off the Consent Agenda, and none were removed.

**Action:** Mr. Hackleman moved to approve the Consent Agenda items as listed below. The motion was seconded by Mr. Spinello and carried unanimously.

0912.4 **Consent Agenda**

**Disability Retirements**

The Board found that Heikoti Fakava is (1) permanently incapacitated for the performance of his duties as Deputy Sheriff, (2) found that his disability was a result of an illness arising out of and in the course of his employment and (3) granted his application for a service-connected disability retirement filed on his behalf.

The Board found that Herlin Gomez is (1) permanently incapacitated for the performance of her duties as a Medical Services Assistant II, (2) found that her disability was not a result of an illness arising out of and in the course of her employment and (3) granted her application for a non-service-connected disability retirement.

The Board found that Fereshteh Harirchi is (1) not permanently incapacitated for the performance of her duties as a Staff Nurse and (2) denied her application for a service-connected disability retirement.

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

0912.4

**Consent Agenda (con't)**

**Service Retirements**

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

<b>Member Name</b>	<b>Effective Retirement Date</b>	<b>Department</b>
Petrini, Martha	June 30, 2012	Def'd from Food Services
Louie, Allan	July 3, 2012	Behavioral Health
Chi, Adrian	July 12, 2012	Information Services
Laurentz, Elena	July 12, 2012	Aging and Adult Services
Najdawi, Nena	July 12, 2012	San Mateo Medical Center
Welling, Patricia	July 12, 2012	San Mateo Medical Center
Hafalia, Sol	July 15, 2012	San Mateo Medical Center
Garcia, Toni	July 17, 2012	Human Service Agency
Mulkerin, Mary	July 17, 2012	Def'd from Probation
Newcomb, Carmen	July 21, 2012	Planning and Building
Dionisio, Erlinda	July 25, 2012	San Mateo Medical Center
Purcell, Sheila	July 28, 2012	Superior Court

**Continuances**

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

<b>Survivor's Name</b>	<b>Beneficiary of:</b>
Garrett, Shellie	Garrett, Anne
Peterson, Stewart	Stivala, Mary
Vincent, Elaine	Vincent, John

**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>
Pearson, Kimberly	G2, 3 Vested - Reciprocity
Blakely, Michelle	G4 Vested
Lucero, Ruben	G4 Vested
Siapno, Ofelia	G4 Vested
Andres, Adeline	G4 Vested
Garza, Alvaro	G4 Vested
Vite, Emie	G4 Vested
Gacayan, Cres	G4 Vested
Epler, Frances	G4 Vested
Saggese, Amy	G4 Vested – Auto Defer
Bissada, Phillip	G4 Vested – Auto Defer
Lorenzini, Joseph	G4 Vested – Auto Defer
Jacobs, Matthew	G4 Vested – Auto Defer
Gonzalez, Laura	G4 Vested – Auto Defer
Freirez, Elena	G4 Vested – Auto Defer
Ruiz, Raymond	G4 Vested – Auto Defer
Kelley, Janinie	G4 Vested – Auto Defer
Jacobson, Adam	G4 Vested – Auto Defer

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

0912.4 **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>
Arzadon, Alexander	G4 Vested
Balbuena, Paul	G4 Vested
Boccone-Gallo, Juliet	Beneficiary of Smylie, Alice
Bresler, Lorelei	G4 Non-vested
Cruz, Marilou	G4 Non-vested
Cuadra, Virginia	G4 Vested
Estipona, Anastacia	G4 Vested
Fononga, Kalala	G4 Vested
Goff, LaFaidra	Beneficiary of Goff, Linda
Goff, Shelton	Beneficiary of Goff, Linda
Goff, Stanley	Beneficiary of Goff, Linda
Govind, Angeline	G4 Non-vested
Hom, Richard	G5 Non-vested
Johnson, Janet	G4 Vested
Julian, David	Beneficiary of Julian, LJ
Larsen, Jamie	G4 Non-vested
Mansueto, Mansueto	G4 Vested
McShan, Monique	G4 Vested
Osorio, Maria	G4 Vested
Puapuaga, Alofaaga	G4 Vested
Reisinger, Judith	G4 Vested
Segun-Abugan, Ibukun	G4 Non-vested
Silva, Mary	G4 Non-vested
Taumua, Ofeira	G4 Vested
Tonga, Veisia	G4 Non-vested
Trinidad, Maria	G5 Non-vested
Uluave, Feiva	G4 Vested
Uy, Joyce	G4 Non-vested
Vara, Rosaleen	G4 Non-vested
Wells, Marjeana	G4 Non-vested
Wild, Gregory	G4 Non-vested
Wong, Peter	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>
Abinader, Stephanie	G4 Non-vested
Agiewich, Eve	G4 Non-vested
Blackmore, Craig	G4 Non-vested
Castillo, Ana	G4 Non-vested
Cesista, Luz	G4 Vested
Corbin, Danielle	G4 Non-vested
Isip, Teresa	G4 Non-vested
Lam, Mei	G4 Non-vested
Lee, Tiffany	G4 Non-vested

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

**Member Account Rollovers (con't)**

<b>Member Name</b>	<b>Retirement Plan Type</b>
Lokotui, Silia	G4 Vested
Malacaman, Maria	G4 Non-vested
Martinez, Aracely	G4 Non-vested
Palconit, Elizabeth	G4 Non-vested
Prudente, Ana	G4 Vested
Ramos, Arnel	G4 Vested

- 0912.4 **Approval of Western Asset Request to Implement Emerging-Debt Allocation via Commingled Fund:** The Board authorized staff to execute the required fund subscription forms for the Western Asset Opportunistic Emerging Markets Portfolio, L.L.C.

**Revision of the Minutes of the May 22, 2012, Board of Retirement Meeting:** The Board approved changes to the May 22<sup>nd</sup> meeting minutes as recommended by Milliman, Inc. The changes add a detailed list of actuarial assumptions that were approved at the May 22, 2012, meeting.

- 0912.5.1 **Consideration of Agenda Items, if any, Removed From the Consent Agenda:** None.
- 0912.5.2 **Presentation of the June 30, 2012, Actuarial Valuation Report by Milliman, Inc.:** Mr. Nick Collier, from Milliman Inc., presented the Actuarial Valuation report. Mr. Collier discussed each slide and explained changes from last year. Bargaining unit negotiations resulted in an amendment to the report, and a revised exhibit will be created. Mr. Bailey stated rates reflecting pension reform changes will be returned to for Board review prior to year-end.  
**Action:** This item was for discussion only and no action was taken.
- 0912.5.3 **Acceptance of the Fiscal Year 2013-2014 Employer and Member Contribution Rates and Recommendations:** Mr. Bailey presented the staff report and recommended that the Board adopt a resolution accepting the contribution rates as presented by Mr. Collier. Board members discussed changing demographics in the County's workforce; the number of active and retired members and the corresponding effects on cash flow.  
**Action:** Mr. Hackleman moved to adopt a resolution accepting contribution rates and a rate of interest to recommend to the County Board of Supervisors for the 2013-2014 fiscal year. The motion was seconded by Mr. David and carried unanimously.
- 0912.5.4 **Annual Review of SamCERA's Actuarial Services Firm, Milliman, Inc.:** Mr. Bailey discussed the findings from the review of SamCERA's actuarial services firm, Milliman, Inc. Mr. Bailey stated Milliman's ratings were high and the comments received were positive. He had no concerns and was complimentary of the good relationship SamCERA has with Milliman.  
**Action:** This item was for discussion only and no action was taken.
- 0912.5.5 **Presentation Regarding AB 340 and AB 197 Legal and Actuarial Impacts:** Ms. Carlson gave a comprehensive presentation on recent legislation, AB 340 and AB 197. She reviewed the multiple changes that would be required by the new law by January 2013, and detailed impacts on new and existing members.  
**Action:** This item was informational and no action was taken.

San Mateo County Employees' Retirement Association  
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Ms. Arnott adjourned the meeting for a break at 2:24 p.m., and the meeting reconvened at 2:35 p.m.

0912.6 **Investment Services** (Investment items were considered at the Sept. 25 Special Meeting)

0912.7 **Board & Management Support Services**

0912.7.1 **Monthly Financial Report:** Ms. Wong presented the preliminary report and noted that both contributions and the market value had increased.

**Action:** This item was informational and no action was taken.

0912.7.2 **Report on Status of the Annual Financial Audit for Fiscal Year 2011-12:** Ms. Wong reported on the status of the audit. She reviewed two potential findings with the Board and discussed corrective actions taken by staff. Ms. Wong noted that the term of the auditor's contract was expiring, and the final audit would be brought to the Board in October.

**Action:** This item was informational and no action was taken.

0912.7.3 **Approval of Authorization for the Chief Executive Officer to Execute Documents and Take Certain Actions In Relation to Investments and Certain Securities Litigation Matters:** Mr. Bailey presented the staff report and reviewed situations where time limitations would require this type of authorization. Board members and staff discussed several points including: limits on authority; alternative approaches to handling time constraints in closing of funds; notification of the Board Chair and Investment Committee Chair; and review of Brown Act restrictions. Board members suggested a change in the resolution to require that the Chief Executive Officer consult with the Board Chair, or if the Chair is not available, the Vice Chair, and one member of the Investment Committee to make investment decisions for those Alternative Investments of \$25 million or less, if a decision must be made before the date of the next regularly scheduled Board meeting.

Ms. Carlson discussed securities litigation with the Board, and affirmed that active litigation is directed by the Board and this item addresses passive litigation. Board members requested an annual report from counsel to detail time and money spent on litigation.

Note: Two actions were taken on this item.

**Action:** Mr. Hackleman moved to approve a resolution authorizing the Chief Executive Officer to execute documentation for investments, with additional language regarding consultation as discussed. The motion was seconded by Mr. David and carried by the following vote:

**AYES:** Arnott, Agnew, David, Hackleman, Settles, Tashman and Miller (For Kwan Lloyd)

**NOES:** Spinello

**ABSENT:** Bowler

**Action:** Mr. Hackleman moved to approve the amendment to the Securities Litigation policy to authorize the Chief Executive Officer to file claims in certain routine asset recovery matters, if the Chief Executive Officer, in consultation with the Chief Legal Counsel and Chief Investment Officer, determines that it is in the best interest of SamCERA to do so. The motion was seconded by Mr. David, and carried unanimously.

0912.7.4 **Approval of SamCERA's Strategic Plan Update:** Mr. Bailey reviewed the progress of SamCERA's strategic plan with the Board, noting that more items will be added due to pension reform legislation. Board members asked questions, discussed and provided opinions

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

regarding disability retirement processing and the use of sub rosa video.

**Action:** Ms. Agnew moved to approve the Strategic Plan Update. The motion was seconded by Ms. Settles and carried unanimously.

0912.7.5 **Approval of Voting Delegate and Alternates for the SACRS Fall 2012 Business Meeting:** Mr. Bailey presented the proposed slate of voting delegates for SACRS. Following past years' practice, the highest-ranking Board member in attendance at the conference is selected as SamCERA's voting delegate, with the next senior Board member as the alternate. The CEO typically serves as the second alternate.

**Action:** Mr. Spinello moved to approve Ms. Kwan Lloyd as the voting delegate; Ms. Agnew as the alternate; and Mr. Bailey as the second alternate. The motion was seconded by Mr. David and carried unanimously.

0912.8 **Management Reports**

0912.8.1 **Chief Executive Officer's Report:** Mr. Bailey said he would bring a request to the Board in October to postpone the November meeting until December 11, and cancel the December meeting as it falls on Christmas. He stated that a request to hire an IT tech would come before the board in October, and reported that Susan Fong joined SamCERA's Finance Division. He informed the Board that Tariq Ali was voted to the board of PRISM, a nationwide organization. Mr. Bailey let the Board know of new babies recently born to employees' families, and sadly reported on the passing of Peter Mingo, husband of Chezelle Milan.

0912.8.2 **Assistant Executive Officer's Report:** Ms. Smith reported that member statements were going out soon, and they were slightly late due to interest crediting.

0912.8.3 **Chief Investment Officer's Report:** Mr. Coultrip had nothing to report.

0912.8.4 **Chief Legal Counsel's Report:** Ms. Carlson had nothing to report.

0912.9 **Report on Actions Taken in Closed Session:** None.

0912.10 **Adjournment:** With no further business Ms. Arnott adjourned the meeting at 4:05 p.m. in memory of Peter Mingo, and the following deceased members:

Bruch, Gloria	August 12, 2012	Library
Cookson, Paul	August 9, 2012	Crystal Springs
Goff, Linda	August 2, 2012	Superior Court
Jones, Carmen	August 5, 2012	Social Services
Joy, Eleanor	August 26, 2012	Social Services
Julian, L J	August 9, 2012	Crystal Springs
Larsen, Alfred	August 24, 2012	Fire Warden
Smith, Roderick	August 4, 2012	District Attorney
Wallace, Marjorie	August 12, 2012	Library
Bruch, Gloria	August 12, 2012	Library
Cookson, Paul	August 9, 2012	Crystal Springs
Stafford, Arlene	July 30, 2012	Aging and Adult Services

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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**

October 23, 2012

Agenda Item 4.0 (a)

To: Board of Retirement

From: Gladys Smith, Acting Assistant Executive Officer



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 **Robert Belmont** is (1) disabled from performing his usual and customary duties as a Deputy Sheriff, (2) find that his disability is not service-connected, (3) deny his application for a service-connected disability and (4) grant him a non-service-connected disability retirement.
2. The Board (1) approve and adopt the proposed findings and recommendations of the Hearing Officer, John Simonson and (2) deny **Liz Cervantes'** application for a service-connected disability retirement.
3. The Board find that **Rosemary Grady** is (1) disabled from performing her usual and customary duties as a Lead Health Benefits Analyst II, (2) find that her disability is service-connected and (3) grant her application for a service-connected disability retirement.
4. The Board find that **Dhurup Maharaj** is (1) not permanently incapacitated for the performance of his duties as a Financial Services Manager I and (2) deny his application for a service-connected disability retirement.
5. The Board find that **Louis Williams** is (1) disabled from performing his usual and customary duties as a Utility Worker II, (2) find that his disability is service-connected and (3) grant his 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, Jose	July 28, 2012	San Mateo Medical Center
Alexander, Susan	August 6, 2012	QDRO of Dean Johnson
Reed, Edward	August 6, 2012	Def'd from Behavioral Health
Mah, Rita	August 7, 2012	Def'd from Superior Court



Klein, Janice	August 8, 2012	Def'd from Behavioral Health
Carey, Betsi	August 9, 2012	Def'd from Correctional Health
Baert, Gwendolyn	August 11, 2012	Def'd from Environmental Health
Onate, Joseph	August 14, 2012	Def'd from Family Health
Levy, Cheroyal	August 20, 2012	Def'd from Social Services
Gershan, David	August 28, 2012	Public Health
Brown, William	August 31, 2012	Library
Cuadra, Manuel	August 31, 2012	Public Health
Gibson, Dayna	September 1, 2012	Human Services Agency

### **Continuances**

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

<b>Survivor's Name</b>	<b>Beneficiary of:</b>
Cookson, Florence	Beneficiary of Cookson, Paul
Gardini, Lona	Gardini, John
Remedios, Beatrice	Remedios, Roy
Smith, Margaret	Beneficiary of Smith, Roderick

### **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>
Saludes, Marissa	G4 Vested
Navarro, Christian	G4 Vested
Prehn Despota, Cara N.	G4 Vested
Swaroop, Asha	G4 Vested
Clipper, Marguerite	G4 Vested
Leong, Ligi	G4 Vested
Lavilla, Florentino	G4 Vested
Estipona, Lino	G4 Vested
Garcia, Myla	G4 Vested - Reciprocity

### **Member Account Refunds**

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

<b>Member Name</b>	<b>Retirement Plan Type</b>
Gotinga, Rosa	G4 Vested
Kanaga, Gregory	G4 Non-vested
Marelich, Jessica	G4 Non-vested
Soto, Rubi	G4 Non-vested
Torres, Sandra	G4 Non-vested
Vakaliwaliwa, Ruci	G4 Non-Vested
Vunipola, Ana	G4 Vested
Walker, David	G5
Woods-Williams, Catherine	G4 Vested

### **Member Account Rollovers**

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

<b>Member Name</b>	<b>Retirement Plan Type</b>
Blackmer, Alexis	<b>G5 Non-vested</b>

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

October 23, 2012

Agenda Item 4.0

**TO:** Board of Retirement

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

**SUBJECT:** Approval of Addendum to June 30, 2012, Actuarial Valuation-Probation Rates

**Staff Recommendation**

Staff recommends the Board approve the attached resolution incorporating the attached exhibits regarding rates for Probation members as an addendum to the June 30, 2012, Actuarial Valuation.

**Background**

It came to the attention of the staff and the actuary after the completion of the June 30, 2012, Actuarial Valuation, that a change was required to the contribution rates to reflect that probation members have agreed by Memorandum of Understanding to pay 25% of the actuarial rate for Cost of Living Adjustments (COLAs). This change is discussed in the attached letter from Milliman, Inc. and is reflected in the attached resolution and exhibits.

Upon approval of the attached resolution by the Board of Retirement, these exhibits will be incorporated into the June 30, 2012, Actuarial Valuation and forwarded to the Board of Supervisors for adoption, effective for the 2013-2014 fiscal year.

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

RESOLUTION 12-13-\_\_

**RESOLUTION AMENDING RESOLUTION 12-13-05 ACCEPTING  
CONTRIBUTION RATES AND A RATE OF INTEREST TO RECOMMEND  
TO THE BOARD OF SUPERVISORS FOR THE 2013-2014 FISCAL YEAR.**

**WHEREAS**, Government Code §31453 mandates the periodic actuarial valuation of the Retirement Fund and requires that the Board...” *shall, at least 45 days prior to the beginning of the succeeding fiscal year, recommend to the Board of Supervisors such changes in the rates of interest, in the rates of contributions of members, and in the county and district appropriations as are necessary...*” and

**WHEREAS**, the Board has received and accepted the June 30, 2012, valuation report from its actuarial firm, Milliman, Inc., and

**WHEREAS**, on September 23, 2012, the Board accepted the employer and member contribution rates as recommended by Milliman, Inc. in its June 30, 2012, Actuarial Valuation of the San Mateo County Employees’ Retirement Association effective for the fiscal year 2013-2014, and

**WHEREAS**, the Chief Executive Officer has now recommended, in agreement with Milliman, Inc., a change to the contribution rates for probation members to reflect the payment by these members of 25% of the actuarial cost for the Cost of Living Adjustments.

*Therefore, be it*

**RESOLVED** that the Board hereby accepts the rates in the revised exhibits and the additional exhibit listed below and hereby amends resolution 12-13-05 to include the revised and additional exhibit in place of the identified original exhibits, with all other provisions of resolution 12-13-05 remaining in full force and effect. The exhibits are:

1. “D-6 Safety Member D-7 Contribution Rates (Including COLA Sharing and Cost Sharing)
2. “D-7 Probation Member Contribution Rates (Including COLA Sharing and Cost Sharing)
3. “Exhibit 11f Employer Contributions- June 30, 2012”
4. “Exhibit 16 History of Employer Contribution Rates”



1301 Fifth Avenue  
Suite 3800  
Seattle, WA 98101-2605  
USA

Tel +1 206 624 7940  
Fax +1 206 623 3485

milliman.com

October 9, 2012

Board of Retirement  
San Mateo County Employees' Retirement Association  
100 Marine Parkway, Suite 125  
Redwood Shores, CA 94065-5208

Re: June 30, 2012 Actuarial Valuation Addendum – Revised Probation Contribution Rates

Dear Members of the Board:

We have previously provided you an actuarial valuation report for the San Mateo County Employees' Retirement Association (*SamCERA*) as of June 30, 2012. Our valuation report was completed and dated September 18, 2012. Subsequent to that date, we were informed of changes that were recently bargained that affect probation member contribution rates. The purpose of this addendum to the valuation is to recommend revised employer and member contribution rates for the fiscal year beginning July 1, 2013 for probation members that reflects the change.

### **Change Reflected in the Addendum**

Under the Memorandum of Understanding (MOU), all current probation employees under Plans 1, 2 and 4 will pay 25% of the retirement COLA cost effective in 2013 (for purposes of this addendum, we have assumed the effective date will be July 1, 2013). Our valuation report assumed these members made no contributions toward the COLA cost, except for in special cases of transfers and rehires.

### **Member Contribution Rates**

Probation member contribution rates are shown on the attached Exhibit D-7. The exhibit shows the total member contribution rate (basic plus cost-sharing plus COLA) for probation employees. Note that only Plans 1, 2 and 4 have been revised from the valuation. In each case, the difference is the addition of the 25% COLA cost sharing. For example, the contribution rate for a probation Plan 4 member who entered *SamCERA* at age 30 increases from 10.57% to 12.01% of pay with the addition of the 25% COLA cost sharing.

We have also included a new Exhibit D-6 which shows member contribution rates for safety members. There have been no changes to safety member contribution rates. The only change to the exhibit is that we have removed probation member rates from this exhibit and put them on the new Exhibit D-7.

This work product was prepared solely for *SamCERA* for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.

**Results – Employer Contribution Rates Effective July 1, 2013**

Employer contribution rates for probation members are shown in the attached Exhibit 11f. The exhibit shows the total Normal Cost rate, the members' share of the Normal Cost and the employer's contribution to the Unfunded Actuarial Accrued Liability (UAAL). Note that only Plans 2 and 4 have been revised from the valuation. In each case the difference is the addition of the 25% COLA cost sharing, which affects both the total Normal Cost rate and the members' contribution. Overall, the employer contribution rate for the fiscal year beginning July 1, 2013 for all probation members decreases from 46.70% to 45.18% of pay due to the majority of probation members participating in the 25% COLA cost sharing. Note that there is no change to Plan 1, as there is only one member left in this plan, and since the member has more than 30 years of service, the only contributions being made are for cost sharing.

We are also providing a revised Exhibit 16, which shows a summary of historical contribution rates for the Comprehensive Annual Financial Report (CAFR).

***De minimus* Impact Excluded**

We are only providing revised exhibits for situations where we felt there was a material impact on the valuation due to the inclusion of the 25% COLA sharing for probation members. For example, in the valuation report we show an aggregate employer contribution rate of 35.49%. If the change had been reflected, this figure would be slightly lower. However, contribution rates are made by plan, so reflecting the change in the aggregate rate would not affect the amount the employers or members actually pay.

The increase in the contribution rate for probation members would also have a small impact on the Actuarial Accrued Liability (AAL) and therefore would also have a small impact on the UAAL. We do not believe the impact is material, so we have made no change in the AAL, UAAL or the UAAL contribution rate reported in the valuation.

**Certification**

This addendum is based on our valuation report dated September 18, 2012, and all caveats disclosed in that valuation continue to apply. All plan provisions, assumptions and method are the same as that valuation, except for the addition of the 25% COLA sharing for current probation members as specified in this letter.

Milliman's work is prepared solely for the internal business use of *SamCERA*. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release.

This work product was prepared solely for SamCERA for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.



No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

Sincerely,

A handwritten signature in black ink that reads "Nick Collier".

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

NJC/nlo

Enclosures

## San Mateo County Employees' Retirement Association

### Exhibit 11f: Employer Contributions - June 30, 2012

	Probation **					
	Plan 1 *	Plan 2	Plan 4	Plan 5	Plan 6	Total
<b>A. <u>Gross Normal Cost</u></b>						
Service Retirement	28.90%	28.19%	25.05%	23.39%	21.33%	25.86%
Disability Retirement	1.81%	1.99%	1.99%	2.13%	2.14%	1.97%
Death while Active	1.05%	0.93%	0.87%	0.96%	1.00%	0.88%
Termination (No Refund)	1.45%	1.37%	1.35%	1.17%	1.01%	1.34%
Refund of Member Contributions	0.49%	0.66%	0.65%	0.73%	0.54%	0.64%
<b>Total</b>	<b>33.70%</b>	<b>33.14%</b>	<b>29.91%</b>	<b>28.38%</b>	<b>26.02%</b>	<b>30.69%</b>
<b>B. Member Contributions</b>	<b>(3.50)%</b>	<b>(12.73)%</b>	<b>(12.04)%</b>	<b>(13.46)%</b>	<b>(9.98)%</b>	<b>(12.22)%</b>
<b>C. Employer Normal Cost Rate (A) - (B)</b>	<b>30.20%</b>	<b>20.41%</b>	<b>17.87%</b>	<b>14.92%</b>	<b>16.04%</b>	<b>18.47%</b>
<b>D. <u>Total Employer Contribution Rate</u></b>						
Basic Normal Cost	14.59%	11.60%	12.09%	9.54%	11.05%	11.97%
COLA Normal Cost	15.61%	8.81%	5.78%	5.38%	4.99%	6.50%
Employer Normal Cost Rate	30.20%	20.41%	17.87%	14.92%	16.04%	18.47%
UAAL Contribution Rate	26.71%	26.71%	26.71%	26.71%	26.71%	26.71%
<b>Total Employer Contribution Rate</b>	<b>56.91%</b>	<b>47.12%</b>	<b>44.58%</b>	<b>41.63%</b>	<b>42.75%</b>	<b>45.18%</b>
<b>E. Total Employer Contribution Rate (prior year)</b>	<b>51.11%</b>	<b>43.19%</b>	<b>40.42%</b>	<b>35.59%</b>	<b>36.07%</b>	<b>41.14%</b>
<b>F. Change in Total Employer Contribution Rate as a percentage of payroll (D) - (E)</b>	<b>5.80%</b>	<b>3.93%</b>	<b>4.16%</b>	<b>6.04%</b>	<b>6.68%</b>	<b>4.04%</b>

\* Only one active member remains in Probation Plan 1. The member is assumed to retire immediately; therefore, there is no normal cost calculated for the upcoming year. The Normal Cost Contribution Rate is set equal to the prior year's rate, with an adjustment for changes in assumptions. The member rate is set equal to the cost-sharing rate, since the basic member rate has been "shut off."

\*\* Probation members of Plans 1, 2, or 4 hired before July 10, 2011 contribute 25% of the cost of COLA, in addition to regular member rates and cost sharing. All other Probation members contribute 50% of the cost of COLA.

This work product was prepared solely for SamCERA for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.



## San Mateo County Employees' Retirement Association

### Exhibit 16: History of Employer Contribution Rates (Dollars in Thousands)

County Rates <sup>(1)(5)</sup>												
Valuation Year	General County & Court Members (excluding Nurses)			General Member (Nurses) <sup>(3)</sup>			Safety Member			Probation Member		
	Normal	UAAL	Total	Normal	UAAL	Total	Normal	UAAL	Total	Normal	UAAL	Total
2003	11.00%	4.60%	15.60%	Same as County General			21.99%	12.74%	34.73%	23.45%	8.10%	31.55%
2004	9.76%	8.25%	18.01%	Same as County General			15.34%	24.82%	40.16%	16.17%	15.28%	31.45%
2005	10.36%	10.38%	20.74%	Same as County General			20.43%	32.02%	52.45%	21.10%	16.43%	37.53%
2006	10.49%	9.97%	20.46%	Same as County General			20.18%	30.52%	50.70%	21.59%	14.85%	36.44%
2007	10.19%	9.46%	19.65%	Same as County General			19.94%	29.32%	49.26%	20.83%	14.06%	34.89%
2008	10.16%	9.81%	19.97%	Same as County General			19.32%	27.31%	46.63%	20.05%	12.81%	32.86%
2009	10.11%	18.40%	28.51%	Same as County General			19.21%	51.83%	71.04%	19.92%	23.84%	43.76%
2010	10.05%	16.35%	26.40%	Same as County General			19.01%	44.50%	63.51%	19.85%	21.62%	41.47%
2011	9.71%	16.41%	26.12%	8.70%	16.41%	25.11%	18.87%	41.75%	60.62%	19.50%	22.30%	41.80%
2012	9.98%	20.17%	30.15%	8.96%	20.17%	29.13%	19.05%	48.51%	67.56%	18.47%	26.71%	45.18%

Rates for Mosquito and Vector Control District <sup>(2)</sup>			
Valuation Year	General Member		
	Normal	UAAL	Total
2006	8.76%	8.18%	16.94%
2007	8.50%	7.76%	16.26%
2008	8.55%	8.04%	16.59%
2009	8.25%	15.09%	23.34%
2010	11.70%	16.35%	28.05%
2011	11.97%	16.41%	28.38%
2012	11.68%	20.17%	31.85%

- (1) Information for years prior to 2005 reported by prior actuaries.
- (2) Beginning with the 2010 actuarial valuation, the Mosquito and Vector Control District adopted the same benefit formula and member contribution rates as Plans 1, 2 & 4 General County members (excluding cost sharing on member rates).
- (3) Beginning with the 2011 actuarial valuation, Plans 1, 2, and 4 members of the California Nurses Association contribute 25% of the cost of COLA, in addition to current member rates and cost sharing.
- (4) Beginning with the 2012 actuarial valuation, Plans 1, 2, and 4 Probation members contribute 25% of the cost of COLA, in addition to current member rates and cost sharing.
- (5) Contribution rates shown are those calculated in the corresponding actuarial valuation. In some cases, actual contributions were higher.

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**San Mateo County Employees'  
Retirement Association**

**Exhibit D-6: Safety Member Contribution Rates (Including COLA Sharing and Cost Sharing)**

Entry Age <sup>(1)</sup>	Safety <sup>(2) (4)</sup>				
	Plan 1	Plan 2	Plan 4	Plan 5	Plan 6 <sup>(3)</sup>
16	16.61%	15.71%	14.11%	12.92%	8.70%
17	16.83%	15.92%	14.27%	13.08%	8.86%
18	17.04%	16.12%	14.44%	13.25%	9.02%
19	17.27%	16.33%	14.62%	13.42%	9.19%
20	17.48%	16.52%	14.79%	13.59%	9.35%
21	17.71%	16.73%	14.97%	13.77%	9.53%
22	17.95%	16.96%	15.16%	13.95%	9.71%
23	18.18%	17.17%	15.35%	14.13%	9.88%
24	18.43%	17.39%	15.53%	14.31%	10.06%
25	18.67%	17.62%	15.72%	14.50%	10.24%
26	18.91%	17.84%	15.92%	14.69%	10.43%
27	19.17%	18.08%	16.12%	14.89%	10.62%
28	19.43%	18.32%	16.32%	15.08%	10.81%
29	19.69%	18.56%	16.53%	15.29%	11.01%
30	19.97%	18.82%	16.73%	15.49%	11.20%
31	20.23%	19.06%	16.95%	15.71%	11.42%
32	20.52%	19.33%	17.17%	15.91%	11.62%
33	20.80%	19.58%	17.39%	16.14%	11.84%
34	21.11%	19.87%	17.63%	16.37%	12.07%
35	21.40%	20.14%	17.86%	16.59%	12.28%
36	21.73%	20.44%	18.10%	16.82%	12.51%
37	22.03%	20.72%	18.33%	17.06%	12.74%
38	22.36%	21.02%	18.57%	17.29%	12.97%
39	22.67%	21.31%	18.80%	17.51%	13.18%
40	22.98%	21.59%	19.02%	17.74%	13.40%
41	23.27%	21.86%	19.24%	17.94%	13.60%
42	23.56%	22.13%	19.42%	18.13%	13.78%
43	23.84%	22.39%	19.61%	18.31%	13.96%
44	24.08%	22.61%	19.76%	18.45%	14.10%
45	24.33%	22.84%	19.87%	18.57%	14.21%
46	24.50%	23.00%	19.94%	18.63%	14.27%
47	24.65%	23.14%	19.94%	18.63%	14.27%
48	24.72%	23.20%	20.45%	19.13%	14.76%
49	24.72%	23.20%	21.00%	19.67%	15.29%
50	24.72%	23.20%	21.00%	19.67%	15.29%

- <sup>(1)</sup> For Safety members entering after age 50, the rate equals the rate at age 50.
- <sup>(2)</sup> Safety members (except Deputy Sheriffs) participate in cost sharing at a rate of 5% (Plans 1, 2 and 4) and 4% (Plan 5). Deputy Sheriffs participate in cost sharing at a lower variable level, as described in Appendix B.
- <sup>(3)</sup> Safety Plan 6 members do not participate in cost sharing.
- <sup>(4)</sup> Rehired Safety members on or after January 8, 2012, and all Safety Plans 5 and 6 members participate in COLA sharing at a 50% level.

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**San Mateo County Employees'  
Retirement Association**

**Exhibit D-7: Probation Member Contribution Rates (Including COLA Sharing and Cost Sharing)**

Entry Age <sup>(1)</sup>	Probation before July 10, 2011 <sup>(2)</sup>		Probation on or after July 10, 2011 <sup>(3)</sup>			
	Plans 1&2	Plan 4	Plans 1&2	Plan 4	Plan 5	Plan 6 <sup>(4)</sup>
16	11.01%	10.11%	12.80%	11.23%	11.02%	7.32%
17	11.14%	10.23%	12.96%	11.37%	11.16%	7.45%
18	11.28%	10.35%	13.14%	11.51%	11.30%	7.59%
19	11.43%	10.47%	13.32%	11.65%	11.43%	7.72%
20	11.57%	10.60%	13.50%	11.81%	11.58%	7.87%
21	11.72%	10.74%	13.68%	11.96%	11.73%	8.01%
22	11.86%	10.87%	13.86%	12.12%	11.89%	8.16%
23	12.02%	11.00%	14.05%	12.27%	12.04%	8.31%
24	12.18%	11.13%	14.25%	12.43%	12.19%	8.46%
25	12.34%	11.28%	14.44%	12.59%	12.35%	8.62%
26	12.49%	11.41%	14.64%	12.75%	12.50%	8.76%
27	12.66%	11.55%	14.85%	12.92%	12.67%	8.92%
28	12.82%	11.71%	15.04%	13.10%	12.84%	9.10%
29	12.99%	11.86%	15.25%	13.27%	13.01%	9.26%
30	13.16%	12.01%	15.47%	13.45%	13.19%	9.43%
31	13.35%	12.17%	15.69%	13.64%	13.37%	9.60%
32	13.53%	12.32%	15.92%	13.82%	13.54%	9.78%
33	13.71%	12.49%	16.15%	14.02%	13.74%	9.96%
34	13.91%	12.66%	16.39%	14.21%	13.93%	10.15%
35	14.11%	12.83%	16.64%	14.41%	14.12%	10.34%
36	14.30%	13.00%	16.88%	14.61%	14.31%	10.52%
37	14.51%	13.17%	17.14%	14.80%	14.50%	10.71%
38	14.71%	13.34%	17.38%	15.00%	14.69%	10.90%
39	14.91%	13.50%	17.63%	15.20%	14.89%	11.08%
40	15.12%	13.67%	17.89%	15.40%	15.08%	11.27%
41	15.32%	13.82%	18.13%	15.56%	15.24%	11.43%
42	15.50%	13.96%	18.36%	15.73%	15.41%	11.59%
43	15.67%	14.09%	18.57%	15.89%	15.56%	11.74%
44	15.84%	14.20%	18.78%	16.02%	15.68%	11.86%
45	15.98%	14.29%	18.96%	16.11%	15.78%	11.95%
46	16.10%	14.34%	19.11%	16.17%	15.83%	12.00%
47	16.19%	14.34%	19.22%	16.17%	15.83%	12.00%
48	16.23%	14.71%	19.27%	16.61%	16.26%	12.42%
49	16.23%	15.11%	19.27%	17.07%	16.71%	12.86%
50	16.23%	15.11%	19.27%	17.07%	16.71%	12.86%

<sup>(1)</sup> For Probation members entering after age 50, the rate equals the rate at age 50.

<sup>(2)</sup> Probation members hired before July 10, 2011 will participate in COLA sharing at a 25% level, effective in 2013.

<sup>(3)</sup> Rehired Probation members on or after July 10, 2011, and all Plans 5 and 6 members participate in COLA sharing at a 50% level.

<sup>(4)</sup> Probation Plan 6 members do not participate in cost sharing.


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SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

October 23, 2012

Agenda Item 5.2

**TO:** Board of Retirement

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

**SUBJECT:** Amendment of the Board of Retirement Regulation 4.14 "Required Break In Service Prior to Post Retirement Employment."

**STAFF RECOMMENDATION**

Staff recommends the Board approve a resolution amending Board of Retirement Regulation "4.14 Required Break In Service Prior to Post Retirement Employment" to be consistent with newly enacted Government Code section 7522.

**BACKGROUND:**

IRS regulations and current state law include three requirements that must be met (with some exceptions, see below) for retirees to return to work as Extra Help employees:

1. The IRS requires a "bona fide" break in service between when an employee retires and when they come back to work. The IRS has not defined a specific time period as "bona fide." A break in service of 90 days is most often assumed to meet the IRS standard.
2. A further IRS requirement is that there cannot be any prearrangement for the retiree to come back to work, either verbally or in writing. Arrangements for a retiree to return to work cannot be made until some period of time after the retirement has occurred.
3. The retiree may work no more than 960 hours per year on reemployment.

There is an exception to the first two requirements for employees who retire at or after reaching "Normal Retirement Age." By resolution, the Board set the Normal Retirement Age for safety members at 53 and for general members at 60. In 2008, the Board approved changes to its Regulations to establish Post-Retirement Employment regulations and Normal Retirement Ages. In doing so, the Board adopted Regulation 4.14 which currently reads as follows:

**4.14 Required Break In Service Prior to Post Retirement Employment:** A member who retires at an age younger than normal retirement age, as defined in section 4.12, must have at least a continuous 90-day break in service from the date of the member's retirement prior to being reemployed while retired by the County or from any other employer whose employees are members of SamCERA.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

**DISCUSSION:**

As discussed below, the newly enacted California Public Employees' Pension Reform Act ("PEPRA"/AB340) mandates a 180-day break in service, regardless of whether the employee retires at an age above or below the Normal Retirement Age.

Newly added Government Code section 7522 provides that a retiree shall not serve, be employed by, or be employed through a contract directly by, an employer in the same public retirement system from which the retiree receives the benefit without reinstatement from retirement or "loss or interruption of benefits provided by the retirement system" unless one of two conditions applies: "during an emergency to prevent stoppage of public business"; or "because the retired employee has skills needed to perform work of limited duration."

In addition there must be a 180-day waiting period until re-employment unless:

- Employer certifies necessity and governing body approves the employment in public meeting (not on a consent calendar)
- Retiree is a public safety officer

The above exceptions do not apply if the retiree accepted a retirement incentive upon retirement. And, there is a 12-month waiting period if the retiree received unemployment insurance compensation arising out of his or her prior employment with the public employer during the 12 months prior to reemployment. Finally, the retiree "shall certify in writing to the employer upon accepting an offer of employment that he or she is in compliance with [the above] requirement."

The proposed amendment to Board regulation 4.14 reflects both the Internal Revenue Code and the new state law requirements that must be met in order to allow SamCERA retirees to return to work as Extra Help for the County (or any other employer whose employees are members of SamCERA).

**4.14 Required Break In Service Prior to Post Retirement Employment.** Regardless of a member's age, every member who is reemployed by a SamCERA employer consistent with the terms of Government Code section 7522.56, or any amendments thereto, shall have a 180-day break in service from the date of retirement to the commencement of the reemployment. If a member is reemployed within the 180 days pursuant to Government Code section 7522.56, and the member retired at an age younger than normal retirement age, as defined in section 4.12, there must be at least a continuous 90-day break in service from the date of the member's retirement prior to such reemployment unless such reemployment is to respond to an emergency declared by a government agency or an emergency that may prevent the stoppage of public business.

**Board of Retirement**

RESOLUTION APPROVING AMENDMENT OF REGULATION 4.14  
OF ARTICLE IV OF THE BOARD OF RETIREMENT REGULATIONS  
REQUIRED BREAK IN SERVICE PRIOR TO POST RETIREMENT EMPLOYMENT

RESOLUTION 12-13\_\_\_\_\_

**WHEREAS**, Government Code §31525 provides that this Board, with the approval of the Board of Supervisors, may establish regulations that govern the operation of *SamCERA* that are not inconsistent with the California Employees' Retirement Law of 1937; and

**WHEREAS**, Board of Retirement regulation 4.14 sets forth certain requirements for SamCERA members who wish to return to employment with a *SamCERA* employer after retirement; and

**WHEREAS**, the provisions contained in regulation 4.14 requiring a break in service reflect certain requirements as set forth by the Internal Revenue Service; and

**WHEREAS**, in 2012, the California Public Employees' Pension Reform Act was enacted and it mandates additional requirements that must be met prior to a retired member becoming reemployed by a SamCERA employer, and regulation 4.14 has been amended to reflect such requirements; and

**WHEREAS**, the Board has reviewed the amendment to regulation 4.1 which incorporates these changes in state statute and desires to adopt such amendment; Therefore be it

**RESOLVED** that the Board hereby amends regulation 4.14 of Article 4 of the Regulations of the Board of Retirement to read as follows:

**4.14 Required Break In Service Prior to Post Retirement Employment.** Regardless of a member's age, every member who is reemployed by a SamCERA employer consistent with the terms of Government Code section 7522.56, or any amendments thereto, shall have a 180-day break in service from the date of retirement to the commencement of the reemployment. If a member is reemployed within the 180 days, pursuant to Government Code section 7522.56, and the member retired at an age younger than normal retirement age, as defined in section 4.12, there must be at least a continuous 90-day break in service from the date of the member's retirement prior to such reemployment unless such reemployment is to respond to an emergency declared by a government agency or an emergency that may prevent the stoppage of public business.


SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

October 23, 2012

Agenda Item 5.3

**TO:** Board of Retirement

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



**SUBJECT:** Approval of Resolution Defining Compensation Earnable Pursuant to Government Code §31461.

**STAFF RECOMMENDATION**

Staff recommends the Board approve a resolution defining compensation earnable to be effective January 1, 2013, pursuant to Government Code §31461 for members who are not subject to Government Code §7522.34.

**BACKGROUND:**

Under the 1937 Act, compensation earnable is used to: (1) calculate a member's final compensation in order to determine a member's pension benefit and (2) to calculate the ongoing contributions to be paid by the member and the employer. Pursuant to Government Code §31461, the Board of Retirement determines which elements of compensation are to be included in compensation earnable and which elements are not.

This resolution represents no changes to the pay codes currently accepted as compensation earnable for current members. However, SamCERA should replace the resolution currently in place to clarify that these pay codes apply to members hired prior to January 1, 2013, and other members as specified in recently passed pension legislation.

**DISCUSSION:**

The benefit formulas and limits on calculating compensation earnable contained in the new California Public Employees' Pension Reform Act ("PEPRA") do not apply to current employees of SamCERA or those future members that are exempt from those provisions (i.e. new members who are eligible for reciprocity.) However, the provisions of newly enacted AB 197 do apply.

AB 197 amended Government Code §31461 to clarify what is excluded from compensation earnable, and excluded compensation determined by the Board to have been paid to enhance a member's retirement benefit.

Due to the existing compensation practices of SamCERA's participating employers and the Board's current determination of which of these pay elements constitute compensation earnable as set forth in Resolution 03-04-07, no further determinations need to be made. Staff does recommend, however, that resolution 03-04-07 be rescinded and replaced with the proposed resolution in order to have the resolution language consistent with newly amended Government Code §31461. In addition, the resolution has been reformatted for easier reference by members, employers and SamCERA staff.



SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
RESOLUTION 12-13-\_\_

**RESOLUTION DEFINING COMPENSATION EARNABLE  
PURSUANT TO GOVERNMENT CODE §31461 FOR MEMBERS  
WHO ARE NOT SUBJECT TO GOVERNMENT CODE §7522.34.**

**WHEREAS**, for those current members who became active members prior to January 1, 2013, and those members who became active members on or after January 1, 2013, but who are not subject to Government Code §7522.34 of the California Public Employees' Pension Reform Act, the determination of compensation earnable for remuneration earned by those members is governed by Government Code §31461; and

**WHEREAS**, Government Code §31461 provides that compensation earnable by a member means the average compensation as determined by the Board, for the period under consideration upon the basis of the average number of days ordinarily worked by persons in the same grade or class of positions during the period, and at the same rate of pay; and

**WHEREAS**, Government Code §31461 provides that this Board determine which items of remuneration earned by members shall constitute "compensation earnable"; and

**WHEREAS**, the Board has reviewed the current pay items and has determined which of those items are to be included in "compensation earnable" and which items are not to be included; and

**WHEREAS**, it is necessary for this Board from time to time to amend its determinations of compensation earnable due to changes in the compensation schedules of SamCERA employers or changes in the law; Therefore be it

**RESOLVED** that effective January 1, 2013, resolution number 03-04-07 as amended is rescinded, and pursuant to Government Code §31461 as interpreted by the courts, the Board hereby makes the following determinations to be effective January 1, 2013, as to what is included in "compensation earnable" and items of remuneration that are not included:

1. Compensation earnable shall include:

Pay Code	Description
(001)	Regular hours worked
(006)	84/12 Plan (Sheriff)
(013)	Night shift differential
(014)	Special night shift differential
(015)	Special duty hours
(019)	Charge nurse shift differential
(020)	Split shift
(021)	Bilingual pay
(022)	Staffing differential
(023)	Weekend pay
(027)	On-call hours
(033)	Bomb squad [flight/observer/pilot]



<i>Continuation of pay codes included in compensation earnable</i>	
Pay Code	Description
(035)	Sick leave with pay
(041)	Vacation hours with pay
(043)	Holiday hours regular pay
(044)	Holiday worked at 1.5
(045)	Holiday hours worked at straight time
(048)	Accumulated holiday hours taken
(052)	Comp time hours used
(054)	Administrative leave
(055)	Jury duty with pay
(056)	Military leave with pay
(057)	Educational leave with pay
(058)	Other leave with pay
(059)	Disability leave with pay
(064)	Management overtime used
(080)	Uniform/tool allowance
(081)	Transportation allowance
(087)	Bi-weekly special pay
(088)	Miscellaneous special pay
(090)	Voluntary time off used
(093)	Furlough w/o pay used with payment of contributions
(100)	Sergeant differential
(102)	Annual in-service management administrative leave cash-outs
(104)	LTC wage pass through
(110)	Compulsory time off
(112)	Bereavement leave
(306)	LC4850 WC 84/12 plan-SHF
(313)	LC4850 night shift differential
(315)	LC4850 special duty
(359)	LC4850 disability with pay

2. Compensation earnable, at a minimum, shall not include, in any case, the following pay items.

A. The following pay codes are not included:

Pay code	Description
(007)	E.H. relief nurse shift differential
(009)	E.H. relief nurse shift differential
(025)	Call back pay
(026)	Part-time double shift differential
(028)	On call E.H. relief nurse
(029)	Part-time double shift differential
(037)	Layoff sick leave
(040)	Terminal vacation
(046)	Holiday hours accrued
(047)	Holiday hours accrued at 1.5

	<i>Continuation of pay codes not included in compensation earnable</i>
(049)	Terminal holiday pay
(050)	Terminal compensatory pay
(051)	Comp Time Earned at 1.5
(053)	Comp time earned at straight time
(060)	Absent without leave
(061)	Leave without pay
(062)	Disability leave without pay
(063)	Terminal MOT Pay
(065)	Overtime training hours
(066)	Overtime at time and one-half
(069)	Overtime special duty desk officer
(070)	Overtime special duty
(073)	Overtime special duty night shift
(075)	Overtime night shift premium hours
(076)	Rest period differential
(079)	Overtime special shift differential
(083)	Worker's compensation payment
(084)	Employee incentives
(085)	Disability payment
(086)	Taxable benefits-DP
(091)	Terminal VTO pay
(096)	County Deferred Comp Contribution
(097)	Miscellaneous terminal pay
(098)	Miscellaneous benefit refund
(101)	LTD payments
(103)	FMLA earnings
(105)	Miscellaneous subsidies
(106)	FSLA adjustments
(107)	Overtime at straight time
(108)	Comp hours earned at straight time (OT)
(111)	Terminal compulsory time off
(383)	LC4850 worker's compensation payment

B. Payments associated with the provision of insurance benefits, or other third party payments such as professional membership dues, that are not received in cash by a member.

C. Payments by a SamCERA employer of member-required contributions to the retirement system under Government Code sections 31581.1, 31630, 31639.85 or under a memorandum of understanding (MOU) between members (or their representatives) and the SamCERA employer.

3. Pursuant to Government Code §31461(b) compensation earnable, shall not include in any case the following:

A. Any compensation determined by the Board to have been paid to enhance a member's retirement benefit under that system. That compensation may include:

(1) Compensation that had previously been provided in kind to the member by the employer or paid directly by the employer to a third party other than the retirement system for the benefit of the member, and which was converted to and received by the member in the form of a cash payment in the final average salary period.

(2) Any one-time or ad hoc payment made to a member, but not to all similarly situated members in the member's grade or class.

(3) Any payment that is made solely due to the termination of the member's employment, but is received by the member while employed, except those payments that do not exceed what is earned and payable in each 12-month period during the final average salary period regardless of when reported or paid.

B. Payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off, however denominated, whether paid in a lump sum or otherwise, in an amount that exceeds that which may be earned and payable in each 12-month period during the final average salary period, regardless of when reported or paid.

C. Payments for additional services rendered outside of normal working hours, whether paid in a lump sum or otherwise.

D. Payments made at the termination of employment, except those payments that do not exceed what is earned and payable in each 12-month period during the final average salary period, regardless of when reported or paid.

4. Pursuant to Government Code §31641(c), the terms listed above in paragraph 3 are intended to be consistent with and not in conflict with the holdings in *Salus v. San Diego County Employees Retirement Association* (2004) 117 Cal.App.4th 734 and *In re Retirement Cases* (2003)110 Cal.App.4th 426.

**FURTHER RESOLVED** that the above listed determinations by the Board of what is included or not included in compensation earnable, shall be in effect until such time as action taken by the Board or action by the Legislature or the Courts as a matter of law requires a different determination.

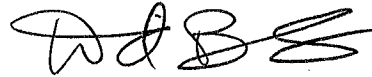
SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

October 23, 2012

Agenda Item 5.4

To: Board of Retirement

From: David Bailey, Chief Executive Officer



Subject: Approval of Resolution Defining Pensionable Compensation Pursuant to Government Code §7522.34

**STAFF RECOMMENDATION:** Staff recommends the Board approve a resolution defining pensionable compensation to be effective January 1, 2013, pursuant to Government Code §7522.34 for members who are not subject to Government Code §31461.

**BACKGROUND:** Like “compensation earnable,” under the new California Public Employees’ Pension Reform Act (“PEPRA”), “pensionable compensation” will be used to: (1) calculate a member’s final compensation in order to determine a member’s pension benefit and (2) to calculate the ongoing contributions to be paid by the member and the employer. Pursuant to Government Code §7522.34, the Board determines which elements of compensation are to be included in pensionable compensation and which elements are not.

**DISCUSSION:** For those new members hired on or after January 1, 2013, who will be subject to the calculation of pensionable compensation contained in PEPRA, the Board needs to adopt a resolution setting forth which pay elements will be included or excluded from pensionable compensation consistent with §7522.34.

Staff has reviewed §7522.34 and has determined that there will be only a few differences between what is included in “compensation earnable” as compared to “pensionable compensation.” Staff recommends that the following pay elements, which are included in compensation earnable for current members, be excluded from the pensionable compensation: (027) on call hours; (080) uniform tool allowance; (081) transportation allowance; (088) miscellaneous special pay; and (102) annual in service cash out of management administrative leave.

Staff’s determination is based §7522.34’s mandated exclusion of: payments for additional services rendered outside of normal working hours, employer-provided allowances for, including, but not limited to, vehicles or uniforms; and payments for, among other items, unused annual leave however denominated, whether paid in a lump sum or otherwise, regardless of when reported or paid.

In addition to the exclusion of these five pay items, certain provisions in the proposed resolution differ from the resolution setting compensation earnable. The language difference stems of the language contained in §7522.34 (PEPRA) and §31461 (CERL).

**SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**RESOLUTION 12-13-**

***RESOLUTION DEFINING PENSIONABLE COMPENSATION  
PURSUANT TO GOVERNMENT CODE §7522.34 FOR MEMBERS  
WHO ARE NOT SUBJECT TO GOVERNMENT CODE §31461***

**WHEREAS**, for those members who became active members on or after January 1, 2013, and who are subject to the California Public Employees' Pension Reform Act contained in Government Code §7522 et seq., the determination of their pensionable compensation is governed by Government Code §7522.34; and

**WHEREAS**, the pensionable compensation for those employee members who are subject to Government Code §7522.34 shall be the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours, pursuant to publicly available pay schedules; and

**WHEREAS**, the Board has reviewed the current pay items and has determined which of those items are to be included in "pensionable compensation" and which items are not to be included; and

**WHEREAS**, it will be necessary for this Board, from time to time, to amend its determinations of pensionable compensation due to changes made by SamCERA employers in their compensation schedules as well as changes in the law; Therefore be it

**RESOLVED**, pursuant to Government Code §7522.34, the Board hereby makes the following determinations to be effective January 1, 2013, as to what is included in "pensionable compensation" and items of remuneration that are not included:

1. Pensionable compensation shall include:

Pay Code	Description
(001)	Regular hours worked
(006)	84/12 Plan (Sheriff)
(013)	Night shift differential
(014)	Special night shift differential
(015)	Special duty hours
(019)	Charge nurse shift differential
(020)	Split shift
(021)	Bilingual pay
(022)	Staffing differential
(023)	Weekend pay

<i>Continuation of pensionable compensation pay codes</i>	
Pay Code	Description
(033)	Bomb squad [flight/observer/pilot]
(035)	Sick leave with pay
(041)	Vacation hours with pay
(043)	Holiday hours regular pay
(044)	Holiday worked at 1.5
(045)	Holiday hours worked at straight time
(048)	Accumulated holiday hours taken
(052)	Comp time hours used
(054)	Administrative leave
(055)	Jury duty with pay
(056)	Military leave with pay
(057)	Educational leave with pay
(058)	Other leave with pay
(059)	Disability leave with pay
(064)	Management overtime used
(087)	Bi-weekly special pay
(090)	Voluntary time off used
(093)	Furlough w/o pay used with payment of contributions
(100)	Sergeant differential
(104)	LTC wage pass through
(110)	Compulsory time off
(112)	Bereavement leave
(306)	LC4850 WC 84/12 plan-SHF
(313)	LC4850 night shift differential
(315)	LC4850 special duty
(359)	LC4850 disability with pay

2. Pensionable compensation, at a minimum, shall not include, in any case, the following pay items.

A. The following pay codes are not included:

Pay Code	Description
(007)	E.H. relief nurse shift differential
(009)	E.H. relief nurse shift differential
(025)	Call back pay
(026)	Part-time double shift differential
(027)	On-call hours
(028)	On call E.H. relief nurse
(029)	Part-time double shift differential
(037)	Layoff sick leave
(040)	Terminal vacation
(046)	Holiday hours accrued

<i>Continuation of pensionable compensation pay codes not included</i>	
Pay code	Description
(047)	Holiday hours accrued at 1.5
(049)	Terminal holiday pay
(050)	Terminal compensatory pay
(051)	Comp Time Earned at 1.5
(053)	Comp time earned at straight time
(060)	Absent without leave
(061)	Leave without pay
(062)	Disability leave without pay
(063)	Terminal MOT Pay
(065)	Overtime training hours
(066)	Overtime at time and one-half
(069)	Overtime special duty desk officer
(070)	Overtime special duty
(073)	Overtime special duty night shift
(075)	Overtime night shift premium hours
(076)	Rest period differential
(079)	Overtime special shift differential
(080)	Uniform/tool allowance
(081)	Transportation allowance
(083)	Worker's compensation payment
(084)	Employee incentives
(085)	Disability payment
(086)	Taxable benefits-DP
(088)	Miscellaneous special pay
(091)	Terminal VTO pay
(096)	County Deferred Comp Contribution
(097)	Miscellaneous terminal pay
(098)	Misc benefit refund
(101)	LTD payments
(102)	Annual in-service management administrative leave cash-outs
(103)	FMLA earnings
(105)	Miscellaneous subsidies
(106)	FSLA adjustments
(107)	Overtime at straight time
(108)	Comp hours earned at straight time (OT)
(111)	Terminal compulsory time off
(383)	LC4850 worker's compensation payment

- B. Pursuant to Government Code §7522.34, pensionable compensation does not include the following:
- 1) Any compensation determined by the Board to have been paid to increase a member's retirement benefit.
  - 2) Compensation that had previously been provided in kind to the member by the employer or paid directly by the employer to a third party other than the retirement system for the benefit of the member and which was converted to and received by the member in the form of a cash payment.
  - 3) Any one-time or ad hoc payments made to a member.
  - 4) Severance or any other payment that is granted or awarded to a member in connection with or in anticipation of a separation from employment, but is received by the member while employed.
  - 5) Payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off, however denominated, whether paid in a lump sum or otherwise, regardless of when reported or paid.
  - 6) Payments for additional services rendered outside of normal working hours, whether paid in a lump sum or otherwise.
  - 7) Any employer-provided allowance, reimbursement, or payment, including, but not limited to, one made for housing, vehicle, or uniforms.
  - 8) Compensation for overtime work, other than as defined in Section 207(k) of Title 29 of the United States Code.
  - 9) Employer contributions to deferred compensation or defined contribution plans.
  - 10) Any bonus paid in addition to the compensation described in subdivision (a) of Government Code §7522.34 .
  - 11) Any other form of compensation the Board determines is inconsistent with the requirements of subdivision (a).
  - 12) Any other form of compensation that this Board determines should not be pensionable compensation.



3. Pursuant to Government Code §7522.10, whenever pensionable compensation, as defined in §7522.34, is used in the calculation of a benefit, the pensionable compensation shall be subject to the monetary limitations set forth in subdivision §7522.10.

**BE IT FURTHER RESOLVED**, that the above listed determinations by the Board of what is included or not included in pensionable compensation, shall be in effect until such time as this Board, the Legislature, or the Courts take action that as a matter of law requires a different determination.

\* \* \* \* \*

*Regularly passed and adopted, by the San Mateo County Employees' Retirement Association, Board of Retirement, on October 23, 2012.*

*Ayes, Trustees:*

*Noes, Trustees:*

*Absent, Trustees:*

*Abstain, Trustees:*

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*Lauryn Agnew, Board Secretary  
SamCERA*

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

October 23, 2012

To: Board of Retirement

Agenda Item 6.1

From: Michael Coultrip, Chief Investment Officer



Subject: Preliminary Monthly Portfolio Performance Report for the Period Ending **September 30, 2012**

COMMENT: The fund's preliminary return for the trailing twelve months is 18.2%. The twelve-month return is above the Actuarial Discount Rate of 7.50% but below SamCERA's Total Plan Policy Benchmark rate of 19.5%. 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.

September was another 'risk-on' month as the markets responded to announcements from the European Central Bank and the U.S. Federal Reserve aimed at stimulating economic growth. Earlier in the month the European Central Bank announced that they are prepared to purchase short-term sovereign bonds from qualifying countries in order to stabilize bond yields in the weaker Eurozone economies. This was followed by the U.S. Federal Reserve announcement of the third round of quantitative easing (QE3), which entails purchasing \$40 billion in mortgage bonds per month with no end-date specified. Most of the domestic equity benchmarks that SamCERA tracks posted strong returns ranging from 2 to 3%. International equity indices were mostly 3% or higher, with the exception of emerging markets, which were up over 6%. Shorter-term interest rates in the U.S. were slightly lower during the month, while longer-term interest rates were slightly higher, with the 10-year note now yielding 1.65%, an increase of 28 bps from the end of June. The BC Aggregate Index was up 0.14% with high yield and emerging market debt indices providing higher returns as credit outperformed in the risk rally.

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 our private equity and real estate portfolios. The performance for these portfolios will be reflected in the quarterly performance report generated by SIS.

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Below is an overview of the investment manager performance for selected periods ending **September 30, 2012**:

Portfolio	Trailing One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
BlackRock Russell 1000	2.57%	6.31%	3.02%	30.11%
D.E. Shaw Investment Management, LLC	2.31%	6.13%	2.41%	33.52%
T. Rowe Price Associates	2.62%	6.58%	3.05%	30.82%
Barrow, Hanley, Mewhinney & Strauss	2.69%	6.13%	2.03%	29.54%
BlackRock Capital Management, Inc.	2.82%	7.92%	0.26%	24.57%
<b>Large Cap Aggregate</b>	<b>2.62%</b>	<b>6.65%</b>	<b>2.06%</b>	<b>29.28%</b>
The Boston Company	3.41%	5.70%	2.08%	38.05%
Chartwell Investment Partners	3.05%	5.65%	-0.16%	36.49%
Jennison Associates	3.14%	4.51%	-0.33%	26.98%
<b>Small Cap Aggregate</b>	<b>3.18%</b>	<b>5.17%</b>	<b>0.35%</b>	<b>32.29%</b>
Baillie Gifford	3.43%	8.64%	N/A	N/A
Eaton Vance – Parametric Emerging Equity	5.03%	6.38%	-1.67%	N/A
Mondrian Investment Partners	2.38%	5.71%	-0.89%	11.69%
Pyramis Global Advisors – Int’l Small-Cap	4.66%	9.65%	0.21%	N/A
<b>International Aggregate</b>	<b>3.30%</b>	<b>7.14%</b>	<b>0.09%</b>	<b>13.52%</b>
<b>Total Equity</b>	<b>2.92%</b>	<b>6.59%</b>	<b>1.19%</b>	<b>24.85%</b>
Aberdeen Asset Management	0.67%	2.87%	5.27%	9.03%
Angelo Gordon	3.95%	13.15%	15.58%	35.07%
Brigade Capital Management	1.55%	4.74%	6.61%	15.90%
Brown Brothers Harriman	0.58%	2.47%	5.99%	9.75%
Franklin Templeton	2.95%	7.84%	6.39%	17.77%
Pyramis Global Advisors	0.35%	2.18%	4.72%	7.34%
Western Asset Management	0.77%	3.21%	5.56%	9.68%
<b>Fixed Income Aggregate</b>	<b>1.31%</b>	<b>4.40%</b>	<b>6.20%</b>	<b>12.38%</b>
Private Equity	N/A	N/A	5.59%	-2.21%
AQR’s Global Risk Premium (Risk Parity)	1.98%	8.17%	8.24%	19.17%
AQR’s Delta Fund (Hedge Fund)	-1.55%	0.49%	2.52%	5.12%
SSgA/SSARIS Commodity	1.26%	13.54%	10.44%	18.44%
<b>Alternative Investments Aggregate</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Invesco Realty Advisors	N/A	N/A	1.70%	6.71%
Cash	0.06%	0.16%	0.33%	0.64%
<b>Total Portfolio</b>	<b>1.95%</b>	<b>5.60%</b>	<b>3.04%</b>	<b>18.21%</b>

## U.S. EQUITY

Risky assets have performed well over the past couple of months following the policy shift by the European Central Bank and the announcement of further stimulation by the U.S. Federal Reserve. Financial markets are likely discounting low but positive real growth rates in developed countries, minimal long-term real earnings growth and negative real interest rates for many years forward, as well as inflation rates that are close to central bank targets.

September was another positive month for equities as U.S. stocks were up 2-3% for the month. Within the U.S. markets, Value outperformed Growth and small caps outperformed large caps. The Russell 1000 Growth Index was up +2.0% for the month and the Russell 1000 Value Index was up +3.2%. The Russell 2000 Growth Index was up +3.0% and the Russell 2000 Value was up +3.6%. The S&P 500 Index ended the month up +2.6%.

The S&P 500 Index has a current P/E ratio of 12.8. This P/E ratio is below the forward 12-month average which over the past 10 years is at 14.3.

The third quarter earnings season begins in the second week of October. The estimated earnings growth rate for Q3 2012 according to Factset is -2.6%. If the third quarter is negative, it will mark the end of an eleven-quarter streak of earnings growth for the S&P 500 Index. For Q3 2012, 83 companies in the S&P 500 have issued negative EPS guidance and 21 positive.

Corporate merger highlights for the month included:

Realty Income will buy American Realty Capital Trust for \$1.9 billion; Dutch financial services company ING Groep will sell its entire stake in Capital One Financial for about \$3 billion; Glencore International sweetened its offer for Xstrata to salvage the \$36 billion merger with the large mining company; Plains Exploration & Production will acquire BP's stake in some deep-water Gulf of Mexico wells for \$5.5 billion; Chesapeake Energy will sell most of its gas fields and pipelines in the Permian Basin to Royal Dutch Shell and Chevron for about \$6.9 billion; FirstMerit will buy Citizens Republic Bancorp in a deal valued at roughly \$950 million; A Thai billionaire made a \$7.2 billion bid for Fraser and Neave potentially derailing Heineken's bid for full control of F&N's beer business; Government ownership of AIG has dropped from 53% to 16%; the government has

recouped \$197 billion from its initial \$182 billion bailout; Waste Connections will acquire subsidiaries of R360 Environmental Solutions for about \$1.3 billion; Russia will sell its 7.6% stake in Sberbank in a deal valued at \$5 billion; Dole Food sold its worldwide packaged foods division and Asia fresh produce unit to Japan's Itochu for \$1.7 billion; China's Alibaba Group bought back half the stake Yahoo owned in the company for about \$7.6 billion; Blackstone Group will buy home security provider Vivint for \$2 billion; Advent International made a \$1 billion offer to buy Dutch pharmacy chain Mediq; American Greetings received an offer from a group led by its CEO valuing the company at \$580 million; and, Tempur-Pedic International will buy rival mattress maker Sealy Corp. in a deal valued at \$1.3 billion.

## FIXED INCOME

The Federal Reserve announced additional easing actions in September that met market expectations. First, the Fed will immediately begin purchasing agency mortgage-backed securities (MBS) at a rate of \$40 billion per month with an open-ended timeline. Second, it has extended "Operation Twist" through year end. Lastly, it has prolonged its "extended period" language, promising "exceptionally low" interest rates through "at least mid-2015." As a result of these aggressive measures, the Fed believes growth will be higher in 2013 than previously forecasted (2.5% - 3.0% versus 2.2% - 2.8%). The Federal Reserve was reacting to the U.S. economy growing at a mediocre pace the last few months with recent growth rates of about 1.5% that has been insufficient to reduce unemployment rates at an adequate pace. Ben Bernanke hopes its latest plan will stimulate the economy but what if it only stimulates stocks and other risky assets?

Gross domestic product grew at an annual rate of 1.3% in the 2<sup>nd</sup> quarter, slower than the 1.7% rate reported in late August.

The Labor Dept. reported that employers added a disappointing 96,000 jobs in August and the unemployment rate fell to 8.1% from July's 8.3%.

Long-term interest rates rose in the month of September. The bellwether 10-year Treasury note ended the month yielding 1.65% up from 1.57% at the close of August. At month-end, the 30-year bond yield was 2.82% with the 3-month T-bill at 0.09%. The Barclays Capital US

Aggregate Index was up by 0.14% in September. EM Debt was the best performing sector as the JPM GBI-EM Global Diversified Unhedged Index returned 2.6% for the month.

On the economic front, the following key data was released in September, including weaker manufacturing and encouraging housing statistics:

## THE GOOD

\*Chrysler's U.S. vehicle sales jumped 14% in August, Ford's increased 13%, GM's rose 10%, Toyota's surged 46% and Honda's skyrocketed 60%.

\*The ISM non-manufacturing index rose to 53.7% in August, slightly ahead of analysts' expectations of 53.0% and from a reading of 52.6% in July.

\*Worker productivity increased at a revised annual rate of 2.2% in the 2<sup>nd</sup> quarter after declining at a 0.5% pace in the 1<sup>st</sup> quarter.

\*The Federal Housing Finance Agency reported that more mortgages were refinanced in the first seven months of 2012 than in all of 2011. The average rate on the 30-year fixed rate mortgage loan held steady at 3.55% in September.

\*The Federal Reserve reported that U.S. consumer credit shrank by \$3.28 billion in July as Americans reduced credit card debt.

\*Retail sales in the U.S. increased by 0.9% in August, the most in six months, boosted by demand for automobiles.

\*The National Association of Home Builders/Wells Fargo builder sentiment index rose to 40 from 37 in August.

\*The median existing home price rose 9.5% year-on-year to \$187,400 in August. Sales on existing homes jumped 7.8% to a seasonally adjusted annual rate of 4.82 million in August, the highest level in more than two years.

\*The median price of a new home increased a record 11.2% to \$256,000, the highest level since March 2007.

Consumer confidence improved in September. The Conference Board reported that its index of consumer attitudes rose to 70.3 in September from an upwardly revised 61.3 in August and was at the highest level since February. The University of Michigan-Thomson Reuters' consumer sentiment gauge final reading rose to 78.3 in September from 74.3 in August and the highest level since May.

## THE NOT SO GOOD

\*The Commerce Dept. reported that construction spending plunged 0.9% in July after a 0.4% gain in June.

\*The Institute of Supply Management Supply's manufacturing index held steady at 49.6 in August, slightly below June's reading of 49.8.

\*The U.S. trade deficit widened slightly in July to \$42 billion versus a downwardly revised \$41.9 billion in June.

\*Premiums for employer-sponsored health plans grew 4% to \$15,745 in 2012, eclipsing a general inflation rate of 2.3% and wages that rose just 1.7%.

\*The Commerce Dept. reported that wholesale inventories climbed 0.7% in July to \$485.2 billion, the largest increase in five months.

\*The Census Bureau reported that the median household income, after adjustments for inflation, declined -1.5% to \$50,100 in 2011.

\*The Labor Dept. reported that its seasonally adjusted producer price index increased 1.7% in August, the largest gains since June 2009, after rising 0.3% in July.

\*Industrial production dropped 1.2% last month compared to July, the biggest setback since a 1.7% decline in March 2009 when the country was in recession.

\*Consumer prices rose a seasonally adjusted 0.6% in August, the first increase since March; higher gas prices accounted for 80% of that increase.

\*The Empire State index of manufacturing activity decreased to -10.4 in September from -5.9 in August and marked the lowest level since November 2010.

\*The U.S. current account deficit, that measures the flow of goods, services and investments into and out of the U.S., narrowed to \$117.4 billion in the 2<sup>nd</sup> quarter.

\*The Commerce Dept. reported that August housing starts increased a less-than-expected 2.3% to a seasonally adjusted annual rate of 750,000 units.

\*The Purchasing Managers index on manufacturing averaged 51.5 in the 3<sup>rd</sup> quarter, below the 54.2 registered in the 2<sup>nd</sup> quarter and the worst showing since the 3<sup>rd</sup> quarter of 2009.

\*The Business Roundtable's CEO Economic Outlook Index tumbled to 66 in the 3<sup>rd</sup> quarter from 89.1 in the 2<sup>nd</sup> quarter.



## NON-U.S. MARKETS

The Bank of Canada left its policy rate unchanged in September as expected. The Bank has now been on hold for two years since raising the overnight rate target to 1.00%. Year-over-year, GDP rose +1.9% to the end of July.

The Bank of England left its policy rate unchanged at 0.50%. Moreover, it kept the size of the asset purchase program unchanged at £375 billion. Industrial production was a positive surprise as overall output in July gained +2.9%. GDP fell by -0.4% in the second quarter.

The European Central Bank left its three administered rates unchanged in September, keeping the minimum bid rate at 75 basis points, the marginal lending rate at 1.50% and the deposit rate at zero. Overall euro zone GDP was -0.2% in the second quarter, unrevised from the preliminary estimate. The ECB staff revised their forecast for growth and inflation. They now project that euro zone GDP will contract by -0.4% in 2012 and grow 0.5% in 2013 (down from 1.0%). Meanwhile consumer inflation should run at 2.5% in 2012 and 1.9% in 2013.

The ECB bond buying program was a necessary step towards alleviating the stress in the government bond markets (particularly Spain and Italy). However, it will only be effective if member countries agree upon the conditions and apply for aid. Spain will most likely be required to abide by the ECB's conditionality to receive assistance funds. Europe will also decide shortly whether Greece will receive the €33.5 billion installment of the €130 billion bailout package pledged in October 2011.

The preliminary prints of the manufacturing purchasing managers' indexes (PMI) for September were mixed in the euro zone suggesting that Germany is rebounding quite robustly, the overall euro zone is improving modestly, while France is weakening.

The Bank of Japan unexpectedly joined the U.S. Federal Reserve in the "monetary-easing game" in mid-September. While it left the policy rate unchanged at 0-10 basis points, the Bank expanded its asset purchase program by ¥10 trillion up to ¥55 trillion. Industrial production fell by -1.3% in August, the fourth decline in the last five months, leaving it down by -5.1% since April.

China's top economic planner approved projects to build roads, rail and other infrastructure worth \$157 billion. Economic analysts believe the double-digit economic growth days are firmly in the past with the forecast of new economic growth in a wide range of 7.0 to 9.5%.

Non-U.S. equities were up for the month of September. The MSCI ACWI Ex-U.S. was up +3.8% (US dollars) in September. Developed stocks (EAFE) were up +3.0% while Emerging Markets gained +6.1% for the month.

## CONCLUSION

In the middle of September, the Federal Reserve gave the markets an open-ended quantitative easing policy. The Fed decided not only to continue Operation Twist at its current level but to also buy an additional \$40 billion a month of agency mortgage bonds. This latter easing policy will continue "if the outlook for the labor markets does not improve substantially."

Total easing will equal \$85 billion per month to year-end, which equates to almost \$500 billion a year going forward. The balance sheet of the Federal Reserve is now up to \$1.5 trillion. Fed Chairman Bernanke proposes to raise that amount by half a trillion dollars a year until an acceptable rate of unemployment is achieved. The question is will more Quantitative Easing have any meaningful effect upon employment?

The Federal Reserve has a dual mandate to maintain price stability (i.e. inflation) while promoting full employment. These goals can often conflict with one another. For now, the goal of higher employment is taking precedence over the need to stem inflation. The fact that we are in a deleveraging type of environment certainly makes it easier for the Federal Reserve to continue their policy of quantitative easing given that short-term inflationary pressures seem to be under control.

When asked at the last FOMC press conference, Federal Chairman Bernanke would not overtly state the definition of an acceptable level of unemployment. However, Federal Reserve Bank of Minneapolis President Kocherlakota said in a recent speech that the Fed should hold the main interest rate near zero, "As long as the FOMC is continuing to satisfy its price stability mandate, it should keep the fed funds rate extraordinarily low until the unemployment rate has fallen below 5.5 percent."

To put that in perspective, it takes roughly 125,000 new jobs per month just to keep up with population growth and maintain the unemployment level. The U.S. needs 250,000 new jobs per month for a year to drop the unemployment rate by about 1.0%. The economy would need to grow at a rate of 3% per year for that to happen. This means that we might reach 5.5% unemployment three years from now if the economy started to grow at a 3% annualized GDP rate. The Fed has clearly stated it intends to keep rates at near zero for another three years.

The other side of the Federal Reserve equation is price inflation. The Fed likes to look at PCE inflation (Personal Consumption Expenditures) and not just the headline Consumer Price Inflation. The number that Kocherlakota targeted for PCE is 2.25%. It appears that Kocherlakota is saying that he will continue to support the current Fed's quantitative easing as long as inflation is lower than 2.25%. The PCE index today is just below 2.0%.

## Monthly Market Update

### US Equity Indices Trailing Performance

Annualized Performance to Date: Ending Sep-12	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
Russell 3000 Index	2.63	6.23	16.13	30.20	14.42	13.26	1.30	4.60	8.49
Russell TOP 200 Index	2.76	6.61	17.22	30.87	15.35	12.89	0.85	4.31	7.33
Russell TOP 200 Growth Index	1.95	6.41	17.97	30.18	17.05	14.85	3.60	5.95	7.71
Russell TOP 200 Value Index	3.59	6.81	16.46	31.59	13.68	10.94	-1.91	2.67	6.99
S&P 500 Index	2.58	6.35	16.44	30.20	14.76	13.20	1.05	4.48	8.01
Russell 1000 Index	2.57	6.31	16.28	30.06	14.56	13.27	1.22	4.60	8.35
Russell 1000 Growth Index	1.96	6.11	16.80	29.19	15.79	14.73	3.24	5.80	8.41
Russell 1000 Value Index	3.17	6.51	15.75	30.92	13.33	11.84	-0.90	3.28	8.17
Russell Mid-Cap Index	2.12	5.59	14.00	28.03	12.65	14.26	2.24	5.38	11.18
Russell Mid-Cap Growth Index	2.00	5.35	13.88	26.69	13.00	14.73	2.54	5.66	11.11
Russell Mid-Cap Value Index	2.23	5.80	14.03	29.28	12.35	13.86	1.73	4.84	10.96
Russell 2000 Index	3.28	5.25	14.23	31.91	12.81	12.99	2.21	4.68	10.17
Russell 2000 Growth Index	3.00	4.84	14.08	31.18	13.89	14.19	2.96	5.52	10.55
Russell 2000 Value Index	3.56	5.67	14.37	32.63	11.66	11.72	1.35	3.74	9.68
DJ US REIT Index	-1.97	-0.38	14.47	32.06	15.98	20.52	1.60	5.34	11.28
DJ-UBS US Commodity Index TR	1.71	9.69	5.63	5.99	2.97	5.26	-3.03	-0.86	5.20
DJ-UBS US Gold Index TR	5.12	10.28	12.41	8.42	15.58	19.84	17.76	19.71	17.53

### Non-US Indices Trailing Performance

Annualized Performance to Date: Ending Sep-12	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
MSCI AC World Index ex USA	3.77	7.49	10.86	15.04	1.51	3.63	-3.67	3.79	10.32
MSCI AC World Index	3.19	6.97	13.39	21.67	7.20	7.78	-1.54	4.13	9.16
MSCI EAFE Index	2.99	6.98	10.59	14.33	2.04	2.59	-4.77	2.33	8.69
MSCI Emerging Markets index	6.05	7.89	12.33	17.33	-0.66	5.96	-0.98	8.97	17.37
ML Global Government Bond Ex. U.S. Index	1.10	3.43	2.68	3.23	5.13	6.10	8.31	7.21	7.44
Euro	2.06	1.38	-0.90	-4.11	-2.93	-4.17	-1.98	0.93	2.67
Japanese Yen	0.64	2.56	-1.11	-0.93	3.62	4.79	8.13	5.52	4.58
UK Pound Sterling	1.66	2.96	3.91	3.66	1.23	0.32	-4.54	-1.30	0.27

### US Fixed Income Indices Trailing Performance

Annualized Performance to Date: Ending Sep-12	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	0.03	0.07	0.07	0.11	0.11	0.72	1.89	1.82
BarCap Aggregate Bond Index	0.14	1.59	3.99	5.16	5.21	6.19	6.53	5.92	5.32
ML U.S. Corp/Govt Master Index	0.07	1.80	4.65	5.86	5.45	6.60	6.61	5.93	5.37
ML U.S. Corporate Master Index	0.74	3.98	9.04	10.98	7.41	9.13	7.87	6.68	6.52
BarCap Mortgage Backed Securities Index	0.21	1.13	2.80	3.71	4.63	4.99	6.35	5.90	5.24
ML U.S. High Yield Master Index	1.40	4.58	11.91	18.82	9.74	12.57	8.97	8.63	10.61
JPM EMBI Global	1.47	6.75	14.71	20.58	10.51	12.27	10.32	9.55	12.51



# San Mateo County

Summary of Fund Performance With 4 Years

Rates of Return Total

Periods Ending September 30, 2012



STATE STREET

	MKT VAL	1 Month	QTR	6 Month s	FYTD	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	ITD	INCEPT. DATE
<b>DOMESTIC EQUITY</b>													
BLACKROCK RUSSELL 1000 INDEX FUND	168,679,362	2.57	6.31	3.02	6.31	30.11	14.61	13.34	8.14	1.29	8.40	8.42	04/01/1995
DE SHAW INVESTMENT MGT, LLC	127,280,272	2.31	6.13	2.41	6.13	33.52	16.03	13.52				15.88	08/01/2009
<i>RUSSELL 1000</i>		2.57	6.31	2.99	6.31	30.06	14.56	13.27	8.07	1.22	8.35		
T. ROWE PRICE ASSOCIATES	124,221,529	2.62	6.58	3.05	6.58	30.82	15.13	13.09				14.88	08/01/2009
<i>S&amp;P 500</i>		2.58	6.35	3.43	6.35	30.20	14.76	13.20				15.06	
BARROW HANLEY	172,104,056	2.69	6.13	2.03	6.13	29.54	13.20	12.82				14.19	08/01/2009
<i>Russell 1000 Value Index</i>		3.17	6.51	4.16	6.51	30.92	13.33	11.84				14.34	
BLACKROCK	177,838,527	2.82	7.92	0.26	7.92	24.57	10.34	11.12				13.15	08/01/2009
<i>Russell 1000 Growth Index</i>		1.96	6.11	1.84	6.11	29.19	15.79	14.73				16.16	
LARGE CAP AGGREGATE	770,123,745	2.62	6.65	2.06	6.65	29.28	13.49	12.38	7.04	0.42	7.81	8.10	04/01/1995
<i>RUSSELL 1000</i>		2.57	6.31	2.99	6.31	30.06	14.56	13.27	8.07	1.22	8.35	8.40	
BOSTON COMPANY ASSET MGT, LLC	55,067,635	3.41	5.70	2.08	5.70	38.05	13.25	12.87				15.39	08/01/2009
<i>RUSSELL 2000 VALUE</i>		3.56	5.67	2.49	5.67	32.63	11.66	11.72				14.46	
CHARTWELL INVESTMENT MGMT	64,516,890	3.05	5.65	-0.16	5.65	36.49	17.15	18.68	10.29	2.76		6.89	12/01/2004
<i>RUSSELL 2000 GROWTH</i>		3.00	4.84	0.71	4.84	31.18	13.89	14.19	8.68	2.96		5.73	
JENNISON ASSOCIATES	88,494,494	3.14	4.51	-0.33	4.51	26.98	13.64	15.43	9.83			7.45	04/01/2008
SMALL CAP AGGREGATE	208,079,019	3.18	5.17	0.35	5.17	32.29	14.65	15.78	8.49	1.25	8.60	5.30	07/01/1999
<i>RUSSELL 2000</i>		3.28	5.25	1.60	5.25	31.91	12.81	12.99	6.87	2.21	10.17	6.04	
DOMESTIC EQUITY AGGREGATE	978,202,764	2.74	6.32	1.68	6.32	30.06	13.71	13.06	7.38	0.62	8.01	7.34	07/01/1995
<i>SAMCERA DOMESTIC EQUITY BENCHMA</i>		2.71	6.10	2.72	6.10	30.46	14.24	13.27	7.90	1.48	8.77		

# San Mateo County

Summary of Fund Performance With 4 Years

Rates of Return Total

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STATE STREET

	MKT VAL	1 Month	QTR	6 Month s	FYTD	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	ITD	INCEPT. DATE
<b>INTERNATIONAL EQUITY</b>													
ARTIO GLOBAL INVESTOR	2,771,328												12/01/2004
<i>MSCI ACWI ex US GROWTH (GROSS)</i>		3.51	7.22	-0.59	7.22	15.80	1.75	4.98	4.36	-3.43		5.59	
BAILLIE GIFFORD OVERSEAS LIMITED	156,734,645	3.43	8.64		8.64							1.73	05/01/2012
<i>MSCI ACWI ex US GROWTH (GROSS)</i>		3.51	7.22		7.22							-0.05	
EATON VANCE MANAGEMENT	59,542,166	5.03	6.38	-1.67	6.38							-1.67	04/01/2012
<i>MSCI Em Markets (USD) GDR</i>		6.05	7.89	-1.57	7.89							-1.57	
MONDRIAN INVESTMENT PARTNERS	203,926,263	2.38	5.71	-0.89	5.71	11.69	2.77	3.63	3.75	-3.16		5.49	12/01/2004
<i>MSCI ACWI EX US VALUE (GROSS)</i>		4.03	7.77	-0.31	7.77	14.24	1.24	2.27	4.25	-3.96		5.32	
PYRAMIS	50,372,439	4.66	9.65	0.21	9.65							0.21	04/01/2012
<i>MSCI ACWI ex US Small Cap Gross</i>		5.10	8.64	-0.90	8.64							-0.90	
TOTAL INTERNATIONAL EQUITY	473,346,842	3.30	7.14	0.09	7.14	13.52	0.53	2.12	1.83	-5.21	8.07	5.35	10/01/1996
<i>MSCI AC WORLD ex US (GROSS)</i>		3.77	7.49	-0.44	7.49	15.04	1.51	3.63	4.32	-3.67	10.32	5.24	
TOTAL EQUITY AGGREGATE	1,451,549,606	2.92	6.59	1.19	6.59	24.85	9.51	9.56	5.73	-1.14	7.90	6.98	04/01/1995
<i>SAMCERA TOTAL EQUITY BENCHMARK</i>		3.09	6.56	1.65	6.56	25.15	9.80	9.99	6.68	-0.20	8.95		
<b>PRIVATE EQUITY</b>													
ABRY ADVANCED SEC II LP	8,083,854	0.00	1.90	14.87	1.90	8.48						-3.53	06/01/2011
ABRY PARTNERS VII LP	2,310,353	0.00	4.33	11.35	4.33	5.38						15.68	09/01/2011
EMERGENCE CAPITAL PARTNERS III, LP	174,721	0.00	-27.20		-27.20							-27.20	07/01/2012
GENERAL CATALYST GROUP	694,214	0.00	-20.93	-92.99	-20.93							-92.99	02/01/2012
NEW ENTERPRISE ASSOCIATES 14, LP	1,372,451	0.00	-3.03		-3.03							-3.03	06/01/2012
REGIMENT CAPITAL FUND	4,813,359	-0.00	1.07	1.94	1.07	4.95						4.23	08/01/2011
SYCAMORE PARTNERS LP	8,257,234	0.00										-0.00	08/01/2012

# San Mateo County

Summary of Fund Performance With 4 Years

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STATE STREET

	MKT VAL	1 Month	QTR	6 Month s	FYTD	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	ITD	INCEPT. DATE
SHERIDAN PRODUCTION PARTNERS	3,526,998	0.00	-13.46	-11.80	-13.46	-32.53						-73.10	11/01/2010
<i>RUSSELL 3000 + 3%</i>		2.87	7.00	4.41	7.00	34.02						16.20	
TOTAL PRIVATE EQUITY	29,233,185	0.00	-0.60	5.59	-0.60	-2.21						-71.29	11/01/2010
<i>PRIVATE EQUITY BENCHMARK</i>		2.87	7.00	4.41	7.00	34.02							
<b>RISK PARITY</b>													
AQR GLOBAL RISK PREM III LP	161,788,871	1.98	8.17	8.24	8.17	19.17						11.34	03/01/2011
TOTAL RISK PARITY	161,788,871	1.98	8.17	8.24	8.17	19.17						11.34	03/01/2011
<i>RISK PARITY BENCHMARK</i>		1.63	4.36	3.31	4.36	19.89							
<b>HEDGE FUND</b>													
AQR DELTA FUND II, L.P.	70,421,858	-1.55	0.49	2.52	0.49	5.12						0.09	06/01/2011
<i>LIBOR + 4%</i>		0.34	1.04	2.10	1.04	4.26						4.25	
HEDGE FUND COMPOSITE	70,421,858	-1.55	0.49	2.52	0.49	5.12						0.09	06/01/2011
<i>LIBOR + 4%</i>		0.34	1.04	2.10	1.04	4.26						4.25	
<b>COMMODITIES</b>													
SSGA MULTISOURCE ACT COMM NL	79,365,774	1.26	13.54	10.44	13.54	18.44						4.97	08/01/2011
TOTAL COMMODITIES	79,365,774	1.26	13.54	10.44	13.54	18.44						4.97	08/01/2011
<i>DJ-UBS COMMODITY</i>		1.70	9.66	4.65	9.66	5.92						-7.58	
<b>DOMESTIC FIXED INCOME</b>													
ABERDEEN ASSET MANAGEMENT	115,132,656	0.67	2.87	5.27	2.87	9.03	7.40	9.24	8.25	5.45	5.01	6.33	06/01/2000
ANGELO GORDON GECC PPI FUND	27,408,655	3.95	13.15	15.58	13.15	35.07	16.29					21.37	12/01/2009

# San Mateo County

Summary of Fund Performance With 4 Years

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STATE STREET

	MKT VAL	1 Month	QTR	6 Month s	FYTD	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	ITD	INCEPT. DATE
PYRAMIS GLOBAL ADVISORS	93,325,966	0.35	2.18	4.72	2.18	7.34	6.65	8.16	9.58	7.44		6.64	02/01/2006
WESTERN ASSET MGMT	92,977,451	0.77	3.21	5.56	3.21	9.68	7.79	9.85	10.88	7.47		6.31	11/01/2004
<i>Barclays Aggregate Bond</i>		0.14	1.58	3.68	1.58	5.16	5.21	6.19	7.26	6.53	5.33		
BRIGADE CAPITAL MANAGEMENT	56,313,270	1.55	4.74	6.61	4.74	15.90	10.77					10.90	08/01/2010
<i>Barclays BA Intermediate HY Index</i>		1.17	4.15	6.39	4.15	17.18	9.54					10.39	
BROWN BROTHERS HARRIMAN & CO	83,080,109	0.58	2.47	5.99	2.47	9.75	9.76					10.38	08/01/2010
<i>Barclays US TIPS Index</i>		0.52	2.18	5.65	2.18	9.43	9.81					10.21	
<b>INTERNATIONAL FIXED INCOME</b>													
FRANKLIN TEMPLETON INVESTMENTS	114,391,209	2.95	7.84	6.39	7.84	17.77						8.03	01/01/2011
<i>Barclays Multiverse</i>		1.25	3.38	4.01	3.38	5.57						6.15	
<b>TOTAL FIXED INCOME</b>													
TOTAL FIXED INCOME AGGREGATE	582,629,318	1.31	4.40	6.20	4.40	12.38	8.07	9.79	10.12	7.22	5.78	6.35	01/01/1996
<i>SAMCERA TOTAL FIXED INCOME BENCH</i>		0.55	2.45	4.53	2.45	6.97	6.33	6.94	7.83	6.98	5.55	6.02	
<b>REAL ESTATE</b>													
INVESCO REAL ESTATE	146,917,122	0.00	0.00	1.70	0.00	6.71	12.51	10.71	-3.19	-1.39		5.84	10/01/2004
TOTAL REAL ESTATE AGGREGATE	146,917,122	0.00	0.00	1.70	0.00	6.71	12.51	10.71	-3.19	-1.39	7.44	7.49	01/01/1997
<i>SAMCERA NCREIF NFI ODCE EW (Gross)</i>		0.00	0.00	2.66	0.00	8.74	12.84	10.56	-2.69	-1.14	6.53	7.52	
<b>CASH EQUIVALENTS</b>													
SAMCERA GENERAL ACCOUNT	11,182,503	0.01	0.07	0.11	0.07	0.18	0.30	0.27	0.40	1.01	2.01	2.61	07/01/1999
SAMCERA TREASURY & LAIF	3,525,963	0.06	0.16	0.38	0.16	0.83	0.97	0.99	1.20	0.49	1.87	3.30	07/01/1994

# San Mateo County

Summary of Fund Performance With 4 Years

Rates of Return Total

Periods Ending September 30, 2012



STATE STREET

	MKT VAL	1 Month	QTR	6 Month s	FYTD	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	ITD	INCEPT. DATE
TOTAL CASH AGGREGATE	14,708,466	0.06	0.16	0.33	0.16	0.64	0.78	0.84	1.08	0.57	1.89	2.54	07/01/1999
91 DAY T-BILL		0.01	0.03	0.06	0.03	0.07	0.11	0.11	0.18	0.73	1.84	2.48	
<b>TOTAL FUND</b>													
TOTAL FUND	2,536,614,200	1.95	5.60	3.04	5.60	18.21	9.20	9.58	6.37	1.34	7.30	6.34	01/01/1996
SAMCERA TOTAL PLAN POLICY BENCHM		2.14	5.16	2.89	5.16	19.47	9.83	9.89	7.25	2.37	8.21	6.62	
ACTUARIAL DISCOUNT RATE		0.60	1.82	3.74	1.82	7.69	7.72	7.73	7.73	7.74	7.86		

San Mateo County Employees' Retirement Association

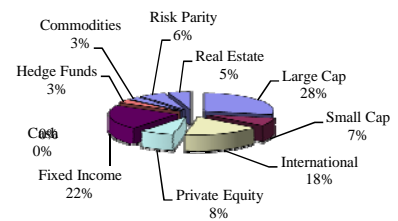
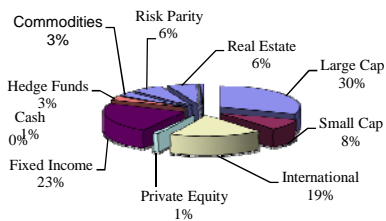
Monthly Performance Review

Period Ending September 30, 2012

Actual versus Target Allocation

Portfolio	Market Value	Allocation		Percentage Off Target	Rebalance Range
		Current	Target *		
BlackRock Russell 1000	\$168,679,362	6.65%	6.50%	0.15%	±3%
D.E. Shaw Investment Management, LLC	\$127,280,272	5.02%	4.25%	0.77%	±3%
T. Rowe Price Associates	\$124,221,529	4.90%	4.25%	0.65%	±3%
Barrow, Hanley, Mewhinney & Strauss	\$172,104,056	6.78%	6.50%	0.28%	±3%
BlackRock Capital Management, Inc.	\$177,838,527	7.01%	6.50%	0.51%	±3%
<b>Large Cap Aggregate</b>	<b>\$770,123,746</b>	<b>30.36%</b>	<b>28.00%</b>	<b>2.36%</b>	
The Boston Company	\$55,067,635	2.17%	1.75%	0.42%	±3%
Chartwell Investment Partners	\$64,516,890	2.54%	1.75%	0.79%	±3%
Jennison Associates	\$88,494,494	3.49%	3.50%	-0.01%	±3%
<b>Small Cap Aggregate</b>	<b>\$208,079,019</b>	<b>8.20%</b>	<b>7.00%</b>	<b>1.20%</b>	
Artio Global	\$2,771,328	0.11%	0.00%	0.11%	±3%
Baillie Gifford	\$156,734,645	6.18%	6.00%	0.18%	±3%
Eaton Vance - Parametrics Emerging Markets	\$59,542,166	2.35%	2.25%	0.10%	±3%
Mondrian Investment Partners	\$203,926,263	8.04%	8.00%	0.04%	±3%
Pyramis Global Advisors - Int'l. Small Cap	\$50,372,439	1.99%	1.75%	0.24%	±3%
<b>International Aggregate</b>	<b>\$473,346,841</b>	<b>18.66%</b>	<b>18.00%</b>	<b>0.66%</b>	±3%
<b>Total Equity</b>	<b>\$1,451,549,606</b>	<b>57.22%</b>	<b>53.00%</b>	<b>4.22%</b>	
Aberdeen Asset Management	\$115,132,656	4.54%	3.75%	0.79%	±2%
Angelo Gordon	\$27,408,655	1.08%	1.63%	-0.54%	±2%
Brigade Capital Management	\$56,313,270	2.22%	1.63%	0.60%	±2%
Brown Brothers Harriman	\$83,080,109	3.28%	3.00%	0.28%	±2%
Franklin Templeton	\$114,391,209	4.51%	4.50%	0.01%	±2%
Pyramis Global Advisors	\$93,325,966	3.68%	3.75%	-0.07%	±2%
Western Asset Management Company	\$92,977,451	3.67%	3.75%	-0.08%	±2%
<b>Total Fixed Income</b>	<b>\$582,629,316</b>	<b>22.97%</b>	<b>22.00%</b>	<b>0.97%</b>	
Private Equity	\$29,233,185	1.15%	8.00%	-6.85%	N/A
AQR Global Risk Premium	\$161,788,871	6.38%	6.00%	0.38%	N/A
AQR Delta Fund (Hedge Fund)	\$70,421,858	2.78%	3.00%	-0.22%	N/A
SSGA/SSARIS Multisource Commodities	\$79,365,774	3.13%	3.00%	0.13%	N/A
<b>Alternative Investments</b>	<b>\$340,809,688</b>	<b>13.44%</b>	<b>20.00%</b>	<b>-6.56%</b>	
INVESCO Realty Advisors	\$146,917,122	5.79%	5.00%	0.79%	±2%
Cash	\$14,708,466	0.58%	0.00%	0.58%	
<b>Total</b>	<b>\$2,536,614,198</b>	<b>100.00%</b>	<b>100.00%</b>		

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



San Mateo County Employees' Retirement Association  
Monthly Performance Review  
Period Ending September 30, 2012

Change in Portfolio Market Value by Manager

Portfolio	Current Month	Prior Month	% Change One Month	Prior Year	% Change One Year
BlackRock Russell 1000	\$168,679,362	\$164,448,083	2.6%	\$100,079,852	68.5%
D.E. Shaw Investment Management, LLC	\$127,280,272	\$124,411,363	2.3%	\$95,327,500	33.5%
T. Rowe Price Associates	\$124,221,529	\$121,045,111	2.6%	\$94,958,552	30.8%
Barrow, Hanley, Mewhinney & Strauss	\$172,104,056	\$167,589,011	2.7%	\$132,858,509	29.5%
BlackRock Capital Management, Inc.	\$177,838,527	\$172,952,669	2.8%	\$142,761,986	24.6%
<b>Large Cap Aggregate</b>	<b>\$770,123,746</b>	<b>\$750,446,237</b>	<b>2.6%</b>	<b>\$565,986,398</b>	<b>36.1%</b>
The Boston Company	\$55,067,635	\$53,249,947	3.4%	\$39,889,688	38.0%
Chartwell Investment Partners	\$64,516,890	\$62,607,388	3.0%	\$47,269,973	36.5%
Jennison Associates	\$88,494,494	\$85,800,128	3.1%	\$83,764,787	5.6%
<b>Small Cap Aggregate</b>	<b>\$208,079,019</b>	<b>\$201,657,463</b>	<b>3.2%</b>	<b>\$170,924,448</b>	<b>21.7%</b>
Baillie Gifford - Funded on April 3rd	\$156,734,645	\$151,530,120	3.4%	\$0	N/A
Eaton Vance - Parametrics Emerging Markets	\$59,542,166	\$56,691,830	5.0%	\$0	N/A
Mondrian Investment Partners	\$203,926,263	\$199,176,410	2.4%	\$179,152,423	13.8%
Artio Global Investor- Mgr Terminated 3-20-2012	\$2,771,328	\$2,713,445	2.1%	\$157,330,190	-98.2%
Pyramis Global Advisors - Int'l. Small Cap	\$50,372,439	\$48,131,401	4.7%	\$0	N/A
<b>International Aggregate</b>	<b>\$473,346,841</b>	<b>\$458,243,206</b>	<b>3.3%</b>	<b>\$336,482,613</b>	<b>40.7%</b>
<b>Total Equity</b>	<b>\$1,451,549,606</b>	<b>\$1,410,346,906</b>	<b>2.9%</b>	<b>\$1,073,393,458</b>	<b>35.2%</b>
Aberdeen Asset Management	\$115,132,656	\$114,371,538	0.7%	\$105,594,595	9.0%
Angelo Gordon	\$27,408,655	\$30,930,579	-11.4%	\$33,861,618	-19.1%
Brigade Capital Management	\$56,313,270	\$55,456,200	1.5%	\$49,134,510	14.6%
Brown Brothers Harriman	\$83,080,109	\$82,598,511	0.6%	\$75,700,230	9.7%
Franklin Templeton	\$114,391,209	\$111,115,672	2.9%	\$97,134,054	17.8%
Pyramis Global Advisors	\$93,325,966	\$92,998,671	0.4%	\$106,471,139	-12.3%
Western Asset Management Company	\$92,977,451	\$92,266,889	0.8%	\$104,862,078	-11.3%
<b>Total Fixed Income</b>	<b>\$582,629,316</b>	<b>\$579,738,060</b>	<b>0.5%</b>	<b>\$572,758,224</b>	<b>1.7%</b>
Private Equity	\$29,233,185	\$29,499,336	-0.9%	\$11,105,153	163.2%
Risk Parity	\$161,788,871	\$161,788,872	0.0%	\$146,355,440	10.5%
Hedge Funds	\$70,421,858	\$70,421,831	0.0%	\$69,042,470	2.0%
Commodities	\$79,365,774	\$78,377,533	1.3%	\$67,006,505	18.4%
<b>Alternative Investments</b>	<b>\$340,809,688</b>	<b>\$340,087,572</b>	<b>0.2%</b>	<b>\$293,509,568</b>	<b>16.1%</b>
INVESCO Realty Advisors	\$146,917,122	\$146,917,122	0.0%	\$135,475,106	8.4%
Cash	\$14,708,466	\$21,973,282	-33.1%	\$43,626,459	-66.3%
<b>Total</b>	<b>\$2,536,614,198</b>	<b>\$2,499,062,942</b>	<b>1.5%</b>	<b>\$2,118,762,816</b>	<b>19.7%</b>

Change in Asset Allocation by Asset Class

	Current Month	Prior Month	Absolute Change	Prior Year	Absolute Change
Total Equity	57.2%	56.4%	0.8%	50.7%	6.6%
Total Fixed Income	23.0%	23.2%	-0.2%	27.0%	-4.1%
Alternative Investments	13.4%	13.6%	-0.2%	13.9%	-0.4%
Real Estate	5.8%	5.9%	-0.1%	6.4%	-0.6%
Cash	0.6%	0.9%	-0.3%	2.1%	-1.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>		<b>100.0%</b>	

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Aggregate Performance

	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months	Fiscal Year to Date (1)	Two Years	Three Years	Five Years	Ten Years
						Three Months				
Equity Aggregate	\$1,451,549,606	2.92%	6.59%	1.19%	24.85%	6.59%	9.51%	9.56%	-1.14%	7.90%
Equity Composite Benchmark		3.09%	6.56%	1.65%	25.15%	6.56%	9.80%	9.99%	-0.20%	8.95%
<b>Variance</b>		<b>-0.17%</b>	<b>0.03%</b>	<b>-0.46%</b>	<b>-0.30%</b>	<b>0.03%</b>	<b>-0.29%</b>	<b>-0.43%</b>	<b>-0.94%</b>	<b>-1.05%</b>
Private Equity Aggregate	\$29,233,185	N/A	-0.60%	5.59%	-2.21%	-0.60%	N/A	N/A	N/A	N/A
Private Equity Composite Benchmark		N/A	7.00%	4.41%	34.02%	7.00%	N/A	N/A	N/A	N/A
<b>Variance</b>		<b>N/A</b>	<b>-7.60%</b>	<b>1.18%</b>	<b>-36.23%</b>	<b>-7.60%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Risk Parity Aggregate	\$161,788,871	1.98%	8.17%	8.24%	19.17%	8.17%	N/A	N/A	N/A	N/A
Risk Parity Benchmark (60/40 Portfolio)		1.63%	4.36%	3.31%	19.89%	4.36%	N/A	N/A	N/A	N/A
<b>Variance</b>		<b>0.35%</b>	<b>3.81%</b>	<b>4.93%</b>	<b>-0.72%</b>	<b>3.81%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Hedge Fund Aggregate	\$70,421,858	-1.55%	0.49%	2.52%	5.12%	0.49%	N/A	N/A	N/A	N/A
Hedge Fund Benchmark (LIBOR + 4%)		0.34%	1.04%	2.10%	4.26%	1.04%	N/A	N/A	N/A	N/A
<b>Variance</b>		<b>-1.89%</b>	<b>-0.55%</b>	<b>0.42%</b>	<b>0.86%</b>	<b>-0.55%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Commodities	\$79,365,774	1.26%	13.54%	10.44%	18.44%	13.54%	N/A	N/A	N/A	N/A
DJ - UBS Commodity Benchmark		1.70%	9.66%	4.65%	5.92%	9.66%	N/A	N/A	N/A	N/A
<b>Variance</b>		<b>-0.44%</b>	<b>3.88%</b>	<b>5.79%</b>	<b>12.52%</b>	<b>3.88%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Fixed Income Aggregate	\$582,629,316	1.31%	4.40%	6.20%	12.38%	4.40%	8.07%	9.79%	7.22%	5.78%
Fixed Income Composite Benchmark		0.55%	2.45%	4.53%	6.97%	2.45%	6.33%	6.94%	6.98%	5.55%
<b>Variance</b>		<b>0.76%</b>	<b>1.95%</b>	<b>1.67%</b>	<b>5.41%</b>	<b>1.95%</b>	<b>1.74%</b>	<b>2.85%</b>	<b>0.24%</b>	<b>0.23%</b>
Real Estate Aggregate (2)	\$146,917,122	N/A	N/A	1.70%	6.71%	N/A	12.51%	10.71%	-1.39%	7.44%
NCREIF NFI ODCE EW (Gross)		N/A	N/A	2.66%	8.74%	N/A	12.84%	10.56%	-1.14%	6.53%
<b>Variance</b>		<b>N/A</b>	<b>N/A</b>	<b>-0.96%</b>	<b>-2.03%</b>	<b>N/A</b>	<b>-0.33%</b>	<b>0.15%</b>	<b>-0.25%</b>	<b>0.91%</b>
Cash Aggregate	\$14,708,466	0.06%	0.16%	0.33%	0.64%	0.16%	0.78%	0.84%	0.57%	1.89%
91 Day Treasury Bill		0.01%	0.03%	0.06%	0.07%	0.03%	0.11%	0.11%	0.73%	1.84%
<b>Variance</b>		<b>0.05%</b>	<b>0.13%</b>	<b>0.27%</b>	<b>0.57%</b>	<b>0.13%</b>	<b>0.67%</b>	<b>0.73%</b>	<b>-0.16%</b>	<b>0.05%</b>
Total Fund Returns	\$2,536,614,198	1.95%	5.60%	3.04%	18.21%	5.60%	9.20%	9.58%	1.34%	7.30%
Total Plan Policy Benchmark		2.14%	5.16%	2.89%	19.47%	5.16%	9.83%	9.89%	2.37%	8.21%
<b>Variance</b>		<b>-0.19%</b>	<b>0.44%</b>	<b>0.15%</b>	<b>-1.26%</b>	<b>0.44%</b>	<b>-0.63%</b>	<b>-0.31%</b>	<b>-1.03%</b>	<b>-0.91%</b>

Performance versus Actuarial Discount Rate

Total Fund Returns	\$2,536,614,198	1.95%	5.60%	3.04%	18.21%	5.60%	9.20%	9.58%	1.34%	7.30%
Actuarial Discount Rate		0.60%	1.82%	3.74%	7.69%	1.82%	7.72%	7.73%	7.74%	7.86%
<b>Variance</b>		<b>1.35%</b>	<b>3.78%</b>	<b>-0.70%</b>	<b>10.52%</b>	<b>3.78%</b>	<b>1.48%</b>	<b>1.85%</b>	<b>-6.40%</b>	<b>-0.56%</b>

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

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



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Manager & Benchmark Performance

Portfolio	Manager Performance (1)									
	One	Trailing	Trailing	Fiscal Year	One	Two	Three	Five	Ten	
	Month	Three	Six	to Date	Year	Years	Years	Years	Years	
	Months	Months	Three Months							
BlackRock Russell 1000	2.57%	6.31%	3.02%	6.31%	30.11%	14.61%	13.34%	1.29%	8.40%	
D.E. Shaw Investment Management, LLC	2.31%	6.13%	2.41%	6.13%	33.52%	16.03%	13.52%	N/A	N/A	
T. Rowe Price Associates	2.62%	6.58%	3.05%	6.58%	30.82%	15.13%	13.09%	N/A	N/A	
Barrow, Hanley, Mewhinney & Strauss	2.69%	6.13%	2.03%	6.13%	29.54%	13.20%	12.82%	N/A	N/A	
BlackRock Capital Management, Inc.	2.82%	7.92%	0.26%	7.92%	24.57%	10.34%	11.12%	N/A	N/A	
<b>Large Cap Aggregate</b>	<b>2.62%</b>	<b>6.65%</b>	<b>2.06%</b>	<b>6.65%</b>	<b>29.28%</b>	<b>13.49%</b>	<b>12.38%</b>	<b>0.42%</b>	<b>7.81%</b>	
The Boston Company	3.41%	5.70%	2.08%	5.70%	38.05%	13.25%	12.87%	N/A	N/A	
Chartwell Investment Partners	3.05%	5.65%	-0.16%	5.65%	36.49%	17.15%	18.68%	2.76%	N/A	
Jennison Associates	3.14%	4.51%	-0.33%	4.51%	26.98%	13.64%	15.43%	N/A	N/A	
<b>Small Cap Aggregate</b>	<b>3.18%</b>	<b>5.17%</b>	<b>0.35%</b>	<b>5.17%</b>	<b>32.29%</b>	<b>14.65%</b>	<b>15.78%</b>	<b>1.25%</b>	<b>8.60%</b>	
Baillie Gifford	3.43%	8.64%	N/A	8.64%	N/A	N/A	N/A	N/A	N/A	
Eaton Vance - Parametrics Emerging Markets	5.03%	6.38%	-1.67%	6.38%	N/A	N/A	N/A	N/A	N/A	
Mondrian Investment Partners	2.38%	5.71%	-0.89%	5.71%	11.69%	2.77%	3.63%	-3.16%	N/A	
Pyramis Global Advisors - Int'l. Small Cap	4.66%	9.65%	0.21%	9.65%	N/A	N/A	N/A	N/A	N/A	
<b>International Aggregate</b>	<b>3.30%</b>	<b>7.14%</b>	<b>0.09%</b>	<b>7.14%</b>	<b>13.52%</b>	<b>0.53%</b>	<b>2.12%</b>	<b>-5.21%</b>	<b>8.07%</b>	
<b>Total Equity</b>	<b>2.92%</b>	<b>6.59%</b>	<b>1.19%</b>	<b>6.59%</b>	<b>24.85%</b>	<b>9.51%</b>	<b>9.56%</b>	<b>-1.14%</b>	<b>7.90%</b>	
Aberdeen Asset Management	0.67%	2.87%	5.27%	2.87%	9.03%	7.40%	9.24%	5.45%	5.01%	
Angelo Gordon	3.95%	13.15%	15.58%	13.15%	35.07%	16.29%	N/A	N/A	N/A	
Brigade Capital Management	1.55%	4.74%	6.61%	4.74%	15.90%	10.77%	N/A	N/A	N/A	
Brown Brothers Harriman	0.58%	2.47%	5.99%	2.47%	9.75%	9.76%	N/A	N/A	N/A	
Franklin Templeton	2.95%	7.84%	6.39%	7.84%	17.77%	N/A	N/A	N/A	N/A	
Pyramis Global Advisors	0.35%	2.18%	4.72%	2.18%	7.34%	6.65%	8.16%	7.44%	N/A	
Western Asset Management Company	0.77%	3.21%	5.56%	3.21%	9.68%	7.79%	9.85%	7.47%	N/A	
<b>Total Fixed Income</b>	<b>1.31%</b>	<b>4.40%</b>	<b>6.20%</b>	<b>4.40%</b>	<b>12.38%</b>	<b>8.07%</b>	<b>9.79%</b>	<b>7.22%</b>	<b>5.78%</b>	
Private Equity	N/A	-0.60%	5.59%	-0.60%	-2.21%	N/A	N/A	N/A	N/A	
Risk Parity	1.98%	8.17%	8.24%	8.17%	19.17%	N/A	N/A	N/A	N/A	
Hedge Funds	-1.55%	0.49%	2.52%	0.49%	5.12%	N/A	N/A	N/A	N/A	
Commodities	1.26%	13.54%	10.44%	13.54%	18.44%	N/A	N/A	N/A	N/A	
Alternative Investments	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
<b>INVESTCO Realty Advisors</b>	<b>N/A</b>	<b>N/A</b>	<b>1.70%</b>	<b>N/A</b>	<b>6.71%</b>	<b>12.51%</b>	<b>10.71%</b>	<b>-1.39%</b>	<b>N/A</b>	
<b>Cash</b>	<b>0.06%</b>	<b>0.16%</b>	<b>0.33%</b>	<b>0.16%</b>	<b>0.64%</b>	<b>0.78%</b>	<b>0.84%</b>	<b>0.57%</b>	<b>1.89%</b>	
<b>Total</b>	<b>1.95%</b>	<b>5.60%</b>	<b>3.04%</b>	<b>5.60%</b>	<b>18.21%</b>	<b>9.20%</b>	<b>9.58%</b>	<b>1.34%</b>	<b>7.30%</b>	

Russell 1000	2.57%	6.31%	2.99%	6.31%	30.66%	14.56%	13.27%	1.22%	8.35%	
S&P 500	2.58%	6.35%	3.43%	6.35%	30.20%	14.76%	13.20%	N/A	N/A	
Russell 1000 Value	3.17%	6.51%	4.16%	6.51%	30.92%	13.33%	11.84%	N/A	N/A	
Russell 1000 Growth	1.96%	6.11%	1.84%	6.11%	29.19%	15.79%	14.73%	N/A	N/A	
Russell 2000	3.28%	5.25%	1.60%	5.25%	31.91%	12.81%	12.99%	2.21%	10.17%	
Russell 2000 Value	3.56%	5.67%	2.49%	5.67%	32.63%	11.66%	11.72%	N/A	N/A	
Russell 2000 Growth	3.00%	4.84%	0.71%	4.84%	31.18%	13.89%	14.19%	2.96%	N/A	
MSCI ACWI ex US (Gross)	3.77%	7.49%	-0.44%	7.49%	15.04%	1.51%	3.63%	-3.67%	10.32%	
MSCI ACWI ex US Growth (Gross)	3.51%	7.22%	N/A	7.22%	N/A	N/A	N/A	N/A	N/A	
MSCI ACWI ex US Value (Gross)	4.03%	7.77%	-0.31%	7.77%	14.24%	1.24%	2.27%	-3.96%	N/A	
MSCI Em Markets (USD)	6.05%	7.89%	-1.57%	7.89%	N/A	N/A	N/A	N/A	N/A	
MSCI ACWI ex US Small Cap Gross	5.10%	8.64%	-0.90%	8.64%	N/A	N/A	N/A	N/A	N/A	
Russell 3000 + 3% (Private Equity)	N/A	7.00%	4.41%	7.00%	34.02%	N/A	N/A	N/A	N/A	
60% Russell 3000 / 40% Barclays Aggregate (Risk Parity)	1.63%	4.36%	3.31%	4.36%	19.89%	N/A	N/A	N/A	N/A	
LIBOR +4% (Hedge Fund)	0.34%	1.04%	2.10%	1.04%	4.26%	N/A	N/A	N/A	N/A	
DJ - UBS Commodities Index	1.70%	9.66%	4.65%	9.66%	5.92%	N/A	N/A	N/A	N/A	
Barclays Capital Aggregate	0.14%	1.58%	3.68%	1.58%	5.16%	5.21%	6.19%	6.53%	5.33%	
Barclays U.S. TIPS Index	0.52%	2.18%	5.65%	2.18%	9.43%	9.81%	N/A	N/A	N/A	
BC BA Intermediate High Yield Index	1.17%	4.15%	6.39%	4.15%	17.18%	9.54%	N/A	N/A	N/A	
Barclays Capital Multiverse Index	1.25%	3.38%	4.01%	3.38%	5.57%	N/A	N/A	N/A	N/A	
NCREIF NFI ODCE EW (Gross)	N/A	N/A	2.66%	N/A	8.74%	12.84%	10.56%	-1.14%	6.53%	
91 Day Treasury Bill	0.01%	0.03%	0.06%	0.03%	0.07%	0.11%	0.11%	0.73%	1.84%	
SamCERA Plan Policy Benchmark	2.14%	5.16%	2.89%	5.16%	19.47%	9.83%	9.89%	2.37%	8.21%	
SamCERA Actuarial Discount Rate	0.60%	1.82%	3.74%	1.82%	7.69%	7.72%	7.73%	7.74%	7.86%	

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

(2) Refer to page 13 for benchmark details

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Realized & Unrealized Gain / (Loss)

Portfolio	Beginning Book Balance As of 07/01/2012	(1) Realized Gain / (Loss) for the FYTD	Contributions/ (Withdrawals) for the FYTD	Ending Book Balance As of 09/30/2012	Prior Years Accumulated Unrealized Gains / (Loss)	FYTD Unrealized Gains / (Loss)	Ending Market Value As of 09/30/2012
BlackRock Russell 1000	\$127,522,003.00	1,716,998	5,000,000	\$134,239,000.80	\$30,209,780	\$4,230,580	\$168,679,362
D.E. Shaw Investment Management LLC	\$111,596,763.76	3,396,843		\$114,993,606.33	\$10,947,200	\$1,339,466	\$127,280,272
T. Rowe Price Associates	\$96,280,828.30	1,658,211		\$97,939,038.83	\$23,564,611	\$2,717,880	\$124,221,529
Barrow Hanley	\$132,934,814.16	2,342,866		\$135,277,679.76	\$32,989,235	\$3,837,141	\$172,104,056
BlackRock	\$140,210,523.86	384,049		\$140,594,573.23	\$32,857,520	\$4,386,434	\$177,838,527
The Boston Company	\$47,157,390.99	334,813		\$47,492,203.70	\$6,073,120	\$1,502,312	\$55,067,635
Chartwell Investment Partners	\$53,353,681.05	3,006,415		\$56,360,095.88	\$7,347,989	\$808,805	\$64,516,890
Jennison Associates	\$73,442,059.06	1,478,328		\$74,920,386.89	\$11,204,328	\$2,369,779	\$88,494,494
Artio Global Investors	\$3,881,475.33	(19,585)	(1,119,627)	\$2,742,263.31	(\$28,906)	\$57,971	\$2,771,328
Baillie Gifford	\$150,718,166.74	(870,785)	5,000,000	\$154,847,382.17	(\$3,165,446)	\$5,052,708	\$156,734,645
Eaton Vance - Parametrics	\$55,000,000.00		5,000,000	\$60,000,000.00	(\$3,308,171)	\$2,850,336	\$59,542,166
Mondrian Investment Partners	\$204,956,669.00	(473,137)	10,002,069	\$214,485,600.89	(\$14,326,715)	\$3,767,377	\$203,926,263
Pyramis Global Advisors - Int'l Small Cap	\$45,000,000.00		5,000,000	\$50,000,000.00	(\$1,868,599)	\$2,241,039	\$50,372,439
Aberdeen Asset Management	\$110,872,478.55	1,908,331		\$112,780,809.83	\$2,190,346	\$161,501	\$115,132,656
Angelo Gordon	\$20,805,749.00		(6,461,000)	\$14,344,749.00	\$11,627,546	\$1,436,361	\$27,408,655
Bridage Capital Management	\$45,000,000.00			\$45,000,000.00	\$10,456,200	\$857,070	\$56,313,270
Brown Brothers Harriman	\$77,611,879.07	498,447		\$78,110,326.11	\$4,700,233	\$269,550	\$83,080,109
Franklin Templeton Investments	\$107,284,238.06	4,094,759		\$111,378,996.89	\$510,254	\$2,501,959	\$114,391,209
Pyramis Global Advisors - Core Bond	\$61,020,021.70			\$61,020,021.70	\$31,978,649	\$327,295	\$93,325,966
Western Asset Management Company	\$88,241,048.16	1,594,215		\$89,835,262.79	\$3,088,775	\$53,414	\$92,977,451
Private Equity	\$18,717,962.60	(30,511)	10,109,603	\$28,797,055.03	\$0	\$436,130	\$29,233,185
AQR's Global Risk Premium	\$151,925,153.00	2,379,922		\$154,305,075.00	\$6,220,982	\$1,262,814	\$161,788,871
AQR's Delta Fund (Hedge Fund)	\$70,577,270.00	(1,600,949)		\$68,976,321.00	\$2,104,899	(\$659,362)	\$70,421,858
SSGA/SSARIS Multisource Commodities	\$75,000,000.00			\$75,000,000.00	3,377,533	\$988,241.18	\$79,365,774
INVESCO Core US Real Estate Fund	\$140,195,340.86	1,264,750		\$141,460,090.58	\$5,457,031	\$0	\$146,917,122
Cash	\$5,986,311.18	(811,701)	9,533,443	\$14,708,053.37	\$0	\$412	\$14,708,466
<b>Total</b>	<b>\$2,215,291,827.43</b>	<b>\$22,252,277.22</b>	<b>\$42,064,488.44</b>	<b>\$2,279,608,593.09</b>	<b>\$214,208,392.16</b>	<b>\$42,797,214.51</b>	<b>\$2,536,614,199.76</b>

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

San Mateo County Employees' Retirement Association  
Monthly Performance Review  
Period Ending September 30, 2012

Cash Flows and Fiscal Year to Date Return

Portfolio	Beginning Market Value Balance As of 07/01/2012	(1) Earnings / (Loss) for the FYTD	Contributions/ (Withdrawals) for the FYTD	Ending Market Value Balance As of 09/30/2012	Fiscal Year to Date Return (Portfolio)	Fiscal Year to Date Return (Benchmark)
BlackRock Russell 1000	\$127,522,003	\$1,716,998	\$5,000,000	\$168,679,362	6.31%	6.31%
D.E. Shaw Investment Management, LLC	\$111,596,764	\$3,396,843	\$0	\$127,280,272	6.13%	6.31%
T. Rowe Price Associates	\$96,280,828	\$1,658,211	\$0	\$124,221,529	6.58%	6.35%
Barrow, Hanley, Mewhinney & Strauss	\$132,934,814	\$2,342,866	\$0	\$172,104,056	6.13%	6.51%
BlackRock Capital Management, Inc.	\$140,210,524	\$384,049	\$0	\$177,838,527	7.92%	6.11%
The Boston Company	\$47,157,391	\$334,813	\$0	\$55,067,635	5.70%	5.67%
Chartwell Investment Partners	\$53,353,681	\$3,006,415	\$0	\$64,516,890	5.65%	4.84%
Jennison Associates	\$73,442,059	\$1,478,328	\$0	\$88,494,494	4.51%	5.25%
Artio Global	\$3,881,475	-\$19,585	-\$1,119,627	\$2,771,328	N/A	N/A
Baillie Gifford	\$150,718,167	-\$870,785	\$5,000,000	\$156,734,645	8.64%	7.22%
Eaton Vance - Parametrics Emerging Markets	\$55,000,000	\$0	\$5,000,000	\$59,542,166	6.38%	7.89%
Mondrian Investment Partners	\$204,956,669	-\$473,137	\$10,002,069	\$203,926,263	5.71%	7.77%
Pyramis Global Advisors - Int'l. Small Cap	\$45,000,000	\$0	\$5,000,000	\$50,372,439	9.65%	8.64%
Aberdeen Asset Management	\$110,872,479	\$1,908,331	\$0	\$115,132,656	2.87%	1.58%
Angelo Gordon	\$20,805,749	\$0	-\$6,461,000	\$27,408,655	13.15%	1.58%
Brigade Capital Management	\$45,000,000	\$0	\$0	\$56,313,270	4.74%	4.15%
Brown Brothers Harriman	\$77,611,879	\$498,447	\$0	\$83,080,109	2.47%	2.18%
Franklin Templeton	\$107,284,238	\$4,094,759	\$0	\$114,391,209	7.84%	3.38%
Pyramis Global Advisors	\$61,020,022	\$0	\$0	\$93,325,966	2.18%	1.58%
Western Asset Management Company	\$88,241,048	\$1,594,215	\$0	\$92,977,451	3.21%	1.58%
Private Equity	\$18,717,963	-\$30,511	\$10,109,603	\$29,233,185	-0.60%	7.00%
AQR Global Risk Premium	\$151,925,153	\$2,379,922	\$0	\$161,788,871	8.17%	4.36%
AQR Delta Fund (Hedge Fund)	\$70,577,270	-\$1,600,949	\$0	\$70,421,858	0.49%	1.04%
SSGA/SSARIS Multisource Comodities	\$75,000,000	\$0	\$0	\$79,365,774	13.54%	9.66%
INVESCO Realty Advisors	\$140,195,341	\$1,264,750	\$0	\$146,917,122	N/A	N/A
Cash	\$5,986,311	-\$811,701	\$9,533,443	\$14,708,466	0.16%	0.03%
<b>Total</b>	<b>\$2,215,291,827</b>	<b>\$22,252,277</b>	<b>\$42,064,488</b>	<b>\$2,536,614,200</b>	<b>5.60%</b>	<b>5.16%</b>

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

San Mateo County Employees' Retirement Association

Monthly Performance Review

Period Ending September 30, 2012

Professional Services Fees

	Market Value As of 09/30/2012	Actual 9/30/212	12/31/2012	3/31/2013	6/30/2013	Actual Fiscal Year 2012/2013	Estimated Annual Fee
<b>Investment Management Fees</b>							
BlackRock Russell 1000	\$ 168,679,362.00	\$19,294				\$19,294	\$80,000
D.E. Shaw Investment Management, LLC	\$ 127,280,272.00	\$155,731				\$155,731	\$700,000
T. Rowe Price Associates	\$ 124,221,529.00	\$105,987				\$105,987	\$480,000
Barrow, Hanley, Mewhinney & Strauss	\$ 172,104,056.00	\$185,450				\$185,450	\$820,000
BlackRock Capital Management, Inc.	\$ 177,838,527.00	\$197,444				\$197,444	\$880,000
The Boston Company	\$ 55,067,635.00	\$112,699				\$112,699	\$500,000
Chartwell Investment Partners	\$ 64,516,890.00	\$116,855				\$116,855	\$540,000
Jennison Associates	\$ 88,494,494.00	\$175,349				\$175,349	\$800,000
Baillie Gifford	\$ 156,734,645.00	\$181,511				\$181,511	\$800,000
Eaton Vance - Parametrics Emerging Markets	\$ 59,542,166.00	\$146,453				\$146,453	\$640,000
Mondrian Investment Partners	\$ 203,926,263.00	\$84,192				\$84,192	\$400,000
Pyramis Global Advisors - Int'l. Small Cap	\$ 50,372,439.00	\$98,274				\$98,274	\$440,000
Aberdeen Asset Management	\$ 115,132,656.00	\$78,212				\$78,212	\$360,000
Angelo Gordon	\$ 27,408,655.00	\$87,500				\$87,500	\$340,000
Brigade Capital Management	\$ 56,313,270.00	\$107,533				\$107,533	\$460,000
Brown Brothers Harriman	\$ 83,080,109.00	\$31,052				\$31,052	\$120,000
Franklin Templeton	\$ 114,391,209.00	\$108,552				\$108,552	\$440,000
Pyramis Global Advisors	\$ 93,325,966.00	\$43,839				\$43,839	\$180,000
Western Asset Management Company	\$ 92,977,451.00	\$69,296				\$69,296	\$280,000
Private Equity	\$ 29,233,185.00	\$526,111				\$526,111	N/A
AQR Global Risk Premium (Risk Parity)	\$ 161,788,871.00	\$157,302				\$157,302	\$600,000
AQR Delta Fund (Hedge Fund)	\$ 70,421,858.00	\$176,845				\$176,845	\$800,000
Ssga/SSARIS Commodities	\$ 79,365,774.00	\$106,578				\$106,578	\$400,000
INVESCO Realty Advisors	\$ 146,917,122.00	\$154,035				\$154,035	\$700,000
<b>Sub-Total</b>	<b>\$2,519,134,404</b>	<b>\$3,226,096</b>		<b>\$0</b>	<b>\$0</b>	<b>\$3,226,096</b>	<b>\$11,760,000</b>
<b>Investment Consultant Fees</b>							
Strategic Investment Solutions		\$100,000				\$100,000	\$400,000
<b>Global Custodian Fees</b>							
State Street Bank & Trust		\$50,968				\$50,968	\$200,000
<b>Actuarial Consultant Fees</b>							
Milliman, Inc.		\$13,750				\$13,750	\$74,000
<b>Sub-Total</b>		<b>\$164,718</b>		<b>\$0</b>	<b>\$0</b>	<b>\$164,718</b>	<b>\$674,000</b>
<b>Total</b>		<b>\$3,390,445</b>		<b>\$0</b>	<b>\$0</b>	<b>\$3,390,445</b>	<b>\$12,434,000</b>

**Total Plan Policy Benchmark**

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

**Total Equity Benchmark**

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

**Domestic Equity Benchmark**

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

**International Equity Benchmark**

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

**Total Fixed Income Benchmark**

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

**Domestic Fixed Income Benchmark**

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

**International Fixed Income Benchmark**

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

**SamCERA's Real Estate Benchmark**

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

**Alternative Investment Benchmark**

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

San Mateo County Employees' Retirement Association  
**Board of Retirement**


October 23, 2012

Agenda Item 6.2

TO: Board of Retirement

FROM: Michael Coultrip, Chief Investment Officer

SUBJECT: Annual Review of Commodities, Hedge Fund, Risk Parity and Real Estate Managers (SSgA Multi-Source Commodities, AQR Delta Fund II, AQR Risk Parity, Invesco)



A report from SIS is attached to this memo summarizing the recent annual reviews conducted for the Commodities, Hedge Fund, Risk Parity, and Real Estate Managers.

In summary, the SSgA Commodities strategy is a quantitative-based strategy that provides exposure to the commodities market via a 'core' pool of positions and a more 'tactical' pool of positions. The AQR Delta Fund is a unique multi-strategy absolute return fund that seeks to provide systematic exposure to a diversified set of hedge fund risk premia. The AQR Risk Parity strategy aims to deliver efficient market exposure across four broad asset classes in a risk-balanced manner. The Invesco Real Estate Fund is a core fund that invests in core properties in the United States with a focus on investments with stable income in quality locations.

Patrick Thomas from SIS will present this report.

# AQR Capital Management

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*Specific Strategy Discussed: Global Risk Parity  
Reason for Meeting: SamCERA Manager Annual Review*

## MEETING OVERVIEW

### Client Representative

David Bailey  
Michael Coultrip  
Lilbeth Dames  
Steven Seagal

### Manager Representatives

Ronen Israel, Principal Portfolio Management and Research  
Joey Lee, Principal, Institutional Client Service

### SIS Representative

Patrick Thomas

## Purpose of Meeting

On October 4, 2012, SamCERA staff and SIS conducted an annual review meeting with AQR Capital Management (AQR) in SamCERA's offices. Our meeting was a standard review of AQR's Global Risk Parity Fund that SamCERA originally invested in in March of 2011. This report contains a brief summary of our findings.

## Organization and Personnel

AQR was founded in January 1998 by four founding principals formerly with Goldman Sachs, & Co. Three of the four, Cliff Asness, Robert Krail and John Liew, comprised the senior management of the Quantitative Research Group at Goldman Sachs Asset Management (GSAM). AQR now has over 200 employees and manages approximately \$57 billion in private funds, separate accounts and mutual funds all run in systematic and process-driven strategies for a diverse and global client base.

AQR is independently owned and operated with fourteen principals holding a majority interest (greater than 75%) in the firm. In November 2004, Affiliated Managers Group (AMG) bought a minority interest (AQR will only disclose that it is less than 25%) in AQR Capital Management. Since AMG's ownership share is a percentage of top-line revenue, AQR remains employee operated and has preserved independence in the management of its investment process. CNH Partners, an affiliate largely devoted to merger and convertible arbitrage strategies, is 50% owned by AQR and 50% owned by CNH's two principals (for all practical purposes, it is integrated into AQR). Mark Mitchell, formerly a professor at Harvard, and Todd Pulvino, formerly a professor at Northwestern, are the CNH principals. SIS believes that AQR's largely partnership-oriented ownership structure aligns its principals' interests with those of its clients and that the AMG ownership stake is small enough (probably approximately 10 to 15%) that it does not meaningfully dilute this favorable characteristic.

The Global Risk Premium (GRP) strategy is overseen by Portfolio Managers Brian Hurst, Michael Mendelson, and Yao Hua Ooi. Additional oversight is provided by the GRP Investment Committee, which includes investment, risk and trading professionals from several areas of AQR. The firm is organized around investment strategies/asset classes rather than specific products and the investment committees allows expertise from many of the areas to contribute to strategy management.

Portfolio managers are supported by the Global Asset Allocation team which has 17 researchers and 7 portfolio management members along with the Global Trading team of 9 and 3 person independent Risk Management team. In total, there are more than 30 investment professionals who support the investment management efforts for the Global Risk Premium strategy.

# AQR Capital Management

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## Global Risk Parity Process Review

The objective of GRP is to generate excess returns from a risk diversified portfolio of asset exposures. AQR believes that its approach maximizes the diversification benefit across a broad range of economic environments. For many institutional portfolios, equity risk has historically been the predominant risk and the source of most return expectations since equities offer higher expected returns to compensate for their high risk. AQR's research suggests that investor preference for and concentration in equities has been driven by their expected return needs, which cannot be satisfied in a well-diversified unlevered portfolio.

GRP is a diversified portfolio that can be scaled to similar levels of risk as a portfolio concentrated in equities, but with a higher expected return resulting from diversification across asset class risk. The approach in GRP helps do away with the compromise of concentrating in high risk assets to meet high return needs. Consistent with portfolio theory, the GRP strategy is designed to maximize diversification across a broad spectrum of liquid global risk premia to create a portfolio with higher expected risk-adjusted returns. Research shows that risk-adjusted returns across asset classes are similar over the long-term. Since realized risk-adjusted returns across asset classes are similar, we expect a portfolio that is diversified equally by risk to perform better. The Global Risk Premium strategy aims to deliver efficient market exposure across four broad asset classes in a risk balanced fashion.

The Global Risk Premium strategy focuses on the highest liquidity and most hedgable exposures in the universe. The GRP strategy is risk balanced among four main asset classes: equities, bonds, inflation and credit/default hedges as described below. This product is broadly diversified representing over 70 individual exposures.

1. Equity risk, which benefit from long-term economic growth, including global developed and emerging equities, U.S. large, mid cap and small cap equities
2. Nominal interest rate risk, which can provide attractive returns during periods of stress and/or deflation, including global developed
3. Inflation risk, which can provide protection from price inflation, including commodities (production weighted and volatility weighted)
4. Credit/Default risk, which offer diversifying returns with somewhat greater stability than equities, including U.S. and Europe high yield and investment grade credit, global swap spreads, emerging currencies, commercial mortgage backed securities, and emerging sovereign credit spreads.

To achieve desired equal risk weights the team uses an implementation approach that blends:

- Historical volatilities and correlations of different asset classes
- Forecasted volatility and correlations
- Stress-tested scenarios focused on potential drawdown levels

Equal risk weightings mean that the Fund's exposure – its "risk premia" – to each of the four categories is approximately the same. While the weightings within each risk category may change over time (e.g. based on future research, capacity constraints, market liquidity, and the availability of new betas) AQR does not vary these bets tactically to express a view that one asset will have a higher or lower risk adjusted return than any other in GRP. Portfolio construction, risk control and dynamic rebalancing are the key value added inputs in maintaining the equal risk budget.

## Status of the Fund / Investment Results

SamCERA's experience with the Delta fund is still very short as the June, 2011 inception date with the product was only 1.25 years ago. The return for SamCERA over the period with GRP is 7.1%, which compares favorably with the Risk Parity benchmark (60% S&P 500 / 40% Barclays Aggregate) return of 5.2%.

## Key Considerations

- The 6% total allocation target to Risk Parity is a strong contributor to SamCERA's effort to diversify its portfolio and reduce its reliance on the Equity Risk Premium.



## AQR Capital Management

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- AQR's risk parity portfolio is highly diversified with over 70 distinct individual investment exposures represented.
- Though the investment period is quite short, the AQR GRP portfolio has been performing as expected, and in addition to providing diversification benefits, has been adding value to the total portfolio.
- Given capacity constraints, AQR is in the process of limiting new capital into this product. If SamCERA wants to increase its exposure to this product, it will have to make the request to AQR within the several months.

## **MEETING OVERVIEW**

### **Client Representative**

David Bailey  
Michael Coultrip  
Lilibeth Dames  
Steven Seagal

### **Manager Representatives**

Bill Grubbs, Lead Portfolio Manager  
Tracey Luke, Portfolio Manager

### **SIS Representative**

Patrick Thomas

## **Purpose of Meeting**

On October 4, 2012, SamCERA staff and SIS conducted an annual review meeting with Invesco Real Estate in SamCERA's offices. Our meeting was a standard review of Invesco's Core Real Estate open end fund in which SamCERA invests. This report contains a brief summary of our findings.

## **Organization and Personnel**

Invesco Real Estate ("IRE") was established in 1983 to provide real estate investment management services to tax-exempt institutional clients. IRE began working with US investors in 1983 and began working with non-US investors in 1995. Originating as part of the Lomas & Nettleton organization, the firm was purchased by Invesco Ltd. in April 1990 and became Invesco Real Estate.

IRE is an investment center for Invesco Advisers, Inc. ("Invesco"), which is an indirect, wholly owned subsidiary of Invesco Ltd. Invesco Ltd. is a publicly owned company whose shares are listed on the New York Stock Exchange under the symbol "IVZ" and is a constituent of the S&P 500. Employees and employee trusts represent the single largest shareholder group holding approximately 8% of the shares in Invesco Ltd.

As of June 30, 2012, IRE's assets under management represented approximately 7.7% of Invesco Ltd.'s total assets under management. Of the \$646.6 billion in assets managed by Invesco Ltd. worldwide, IRE manages \$49.6 billion in direct real estate and publicly traded real estate securities portfolios globally.

IRE's Investment Committee is charged with setting the strategic course for the firm's investment activities through consideration and approval of IRE's US House View report, the starting point for all investment planning. The Investment Committee is also responsible for ensuring that the firm's investment operations are executed consistently with the strategic direction through approval of all transactions, including both acquisitions and dispositions. The Investment Committee is comprised of senior investment professionals from each investment discipline—Portfolio Management, Research, Acquisitions, Underwriting, Dispositions, Asset Management and Closing Services. Unanimous consent is required for Investment Committee approval.

## **Core Real Estate Process Review**

IRE's investment objective is to generate consistent and predictable performance and avoid capital loss, while increasing the opportunity for capital appreciation. To achieve its investment objective, the Fund will invest in core properties located in the United States with a focus on investments with stable income in quality locations. Core style investments include existing, substantially leased (typically 70% or greater occupancy at the time of investment) income-producing industrial,

## Invesco Real Estate

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multifamily, retail and office properties located principally in metropolitan areas that exhibit reasonable economic diversification. Core properties demonstrate predictable and stable income flows with a high proportion of anticipated total return arising from current income and cash flow (appreciation is expected to contribute 33% or less to the total return). Core properties also require quality construction and design features. Furthermore, core properties are those properties whose type and location provide assurance of a pool of qualified potential purchasers upon the sale of the property. The Fund may invest up to 15% of its gross assets in "value added" type real estate investment opportunities.

### Status of the Fund / Investment Results

The fund's returns are shown in the table below.

	PERFORMANCE (%) AS OF JUNE 30, 2012					
	QTR	1 YEAR	2 YEAR	3 YEARS	5 YEARS	8 YEARS (INCEPTION)
Invesco Core RE	1.7	9.0	16.6	8.0	-0.8	6.0
Real Estate Index	2.6	12.4	16.4	8.4	-0.0	6.1

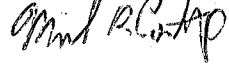
### Key Considerations

- The fund has had a tough period during the last 12 months and as a result, its three year return has fallen below the ODCE Index for the first time in several years. Its three year, and longer period, trailing returns do however remain in the top half of its core real estate universe peers.
- The team uses a conservative approach that tends to systematically overweight Apartments and underweight Office properties relative to the index, and to peers.
- Although it has a 15% target allocation to "Value Add" within its mandate statement, Invesco has been conservative and has not invested nearly to that allocation in the space. The team is currently prospecting the Value Add area for investment opportunities.

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

October 23, 2012

Agenda Item 6.3

To: Board of Retirement   
From: Michael Coultrip, Chief Investment Officer  
Subject: Approval of the Angelo Gordon Securitized Asset Recovery Fund L.P.

**STAFF RECOMMENDATION:** Adopt a resolution for an investment in Angelo Gordon Securitized Asset Recovery Fund, L.P.

**BACKGROUND:** During our annual review with Angelo Gordon, one of our opportunistic credit managers, Angelo Gordon also presented a recently launched fund called the AG Securitized Asset Recovery Fund, L.P. (STAR). The rollout of the STAR fund coincides with the end of the investment period of the PPIP fund, which is set to occur on October 31, 2012. After this date the PPIP fund will no longer be able to make new purchases, principal and interest cash flows will be used to wind down the fund's leverage on an accelerated schedule, and the fund will have effectively entered runoff mode. Despite the recovery of the securitized fixed income markets, Angelo Gordon believes that these markets still represent a compelling investment opportunity.

**DISCUSSION:** Staff and SIS view an allocation to the STAR fund as essentially an alternative 're-up' to our existing allocation to Angelo Gordon, as it represents an effort to maintain continuity with an existing investment, with the same team operating in the same general areas of the market. Also, a full search was completed when Angelo Gordon was initially selected in 2009. As a result, staff and SIS believe that SamCERA does not need to go through a formal search process for this investment.

A report from SIS is attached to this memo summarizing the AG Securitized Asset Recovery Fund, L.P. In addition, Jonathan Lieberman from Angelo Gordon will present the STAR Fund to the Investment Committee. SIS will present a summary of this discussion to the Board.

**SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**RESOLUTION 12-13-**

***RESOLUTION AUTHORIZING AN INVESTMENT IN  
ANGELO GORDON SECURITIZED ASSET RECOVERY FUND, L.P.***

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

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

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

**WHEREAS**, in 2009, after this Board completed a formal search and selection process, it determined to invest with Angelo Gordon and now this Board has determined that for this further investment with Angelo Gordon a new search process is not necessary or warranted; and

**WHEREAS**, this Board has determined that it is in the best interest of the fund that continuity in investment with Angelo Gordon be maintained so that as the Angelo Gordon PPIP fund investment period ends on October 31, 2012 that this investment be ultimately replaced by a \$25 million commitment in the Angelo Gordon Securitized Asset Recovery Fund L.P.;

**THEREFORE, BE IT RESOLVED** that this Board hereby authorizes a \$25 million investment into the Angelo Gordon Securitized Asset Recovery Fund L.P.

\* \* \* \* \*

*Regularly passed and adopted, by the San Mateo County Employees' Retirement Association, Board of Retirement, on October 23, 2012.*

*Ayes, Trustees:*

*Noes, Trustees:*

*Absent, Trustees:*

*Abstain, Trustees:*

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*Lauryn Agnew, Board Secretary  
SamCERA*

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

October 23, 2012

Agenda Item 6.4

To: Board of Retirement



From: Michael Coultrip, Chief Investment Officer

Subject: Approval of Screening Criteria and Schedule for Large Cap Growth Fund Search

STAFF RECOMMENDATION: Staff recommends that the Board review and approve Strategic Investment Solutions' criteria and schedule for SamCERA's manager search.

COMMENT: Staff will discuss the following proposed schedule and criteria for the manager search. The initial criteria will be used to screen the SIS database for available managers.

**SamCERA: Large-Cap Growth Manager Search**

**TIMELINE:**

- October 2012:** SIS develops search criteria and timeline.  
*Deliverables:* Screening criteria and search timeline.  
*Desired Output from the Meeting:* Approve criteria and process.
- December 2012:** SIS performs screening, develops draft of Request for Information (RFI) and sends out RFI after the meeting.  
*Deliverables:* List of products passing screens, summary data on passing products, draft of RFI.  
*Desired Output from the Meeting:* Identify semi-finalist candidates to receive RFI and make any necessary adjustments to the RFI.
- January 2013:** SIS will receive and begin reading RFI responses.  
*Deliverables:* None from SIS, managers deliver completed RFI responses to SIS.  
*Desired Output from the Meeting:* No official agenda related to this search.
- February 2013:** Finish reading RFI responses and prepare summary material.  
*Deliverables:* SIS produces statistics sheet and pros and cons (bullet points) for semi-finalists based on RFI responses.  
*Desired Output from the Meeting:* Select finalists for interviews.
- March 2013:** Prepare for interviews  
*Deliverables:* Search book with comparative analysis and statistics for finalist candidates.  
*Desired Output from the Meeting:* Interview finalists in San Mateo. Select manager.

### **INITIAL SCREENING CRITERIA:**

1. Starting Universe: eVestmentAlliance Large Cap Growth Equity.
2. Strategy's track record must have a minimum length of five years.
3. Performance: Above universe median rank on a rolling risk-adjusted basis.
4. Strategy must be open to new accounts.
5. Strategy must have minimum assets of \$600 million as of the end of Q3 2012. (At this level or above, after funding, the SamCERA account would represent less than 20% of product assets.)
6. Strategy's growth style must be confirmed by returns based style analysis.
7. Strategies may be eliminated for being excessively concentrated, tax managed, open only as a mutual fund, having many small accounts, recent portfolio manager changes, and for various other reasons.

We would expect these screening steps to yield a large opportunity set from which to select semi-finalist candidates.

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

October 23, 2012

Agenda Item 6.5

To: Board of Retirement  
 From: Michael Coultrip, Chief Investment Officer  
 Subject: Discussion Regarding Real Rate Hedging Within TIPS Portfolio



**STAFF RECOMMENDATION:** Staff recommends that the Board review the return scenarios for various levels of changes in real interest rates to determine if potentially hedging a part of the TIPS portfolio's real rate duration while maintaining exposure to break-even inflation rates should be considered. This item is raised for discussion only at this board meeting.

**BACKGROUND:** Since the initial funding of the SamCERA TIPS portfolio on July 28, 2010, real yields have fallen 190 basis points, resulting in dramatic positive returns for the portfolio. With this large move down in rates, there seems to be a higher probability that TIPS now may be very vulnerable to the possibility of higher real rates and negative price returns.

**COMMENT:** Subsequent to our annual review with Brown Brothers Harriman, staff asked them to provide data showing various interest rate scenarios and the expected performance of our current TIPS portfolio compared to one that had ½ of its interest rate exposure hedged. The table below shows this analysis.

**Return Comparison Under Various Changes in Real Interest Rates  
 Assuming a 2.5% Inflation Rate**

Change (in basis points) in Real Rates	-100 bps	-75 bps	-50 bps	-25 bps	Unchanged	+25 bps	+50 bps	+75 bps	+100 bps
Return on TIPS Portfolio: Duration 8.76 yrs	11.1%	8.7%	6.3%	4.0%	1.7%	-0.4%	-2.5%	-4.5%	-6.4%
Return on 50% Hedged TIPS Portfolio: Duration 4.38 yrs	5.7%	4.4%	3.2%	2.0%	0.9%	-0.2%	-1.2%	-2.1%	-3.1%
Return Differential Between Unhedged and Hedged Portfolios	5.4%	4.2%	3.1%	2.0%	0.8%	-0.2%	-1.3%	-2.3%	-3.3%



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

October 23, 2012

Agenda Item 7.1

To: Board of Retirement



From: Chezelle Milan, Retirement Senior Accountant  
Mabel Wong, Finance Officer

Subject: Preliminary Monthly Financial Report for the Period Ending September 30, 2012

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 \$2,528,422,813.

**Statement of Changes in Fiduciary Net Assets**

Net assets held in trust for pension benefits increased by approximately \$36.3 million, month over month. The increase is due to the slight market appreciation in assets for the month of September 2012.

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
Statement of Fiduciary Net Assets (YTD Monthly Comparative)	5
Statement of Changes in Fiduciary Net Assets (YTD Monthly Comparative)	6

**San Mateo County Employees' Retirement Association**  
**Statement of Fiduciary Net Assets - YTD Comparative**  
**September 2012**  
**PRELIMINARY**

	September 2012	September 2011
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS	61,263,379	94,207,575
SECURITIES LENDING CASH COLLATERAL	198,602,805	204,148,309
<b>TOTAL CASH</b>	<b>259,866,185</b>	<b>298,355,884</b>
<b>RECEIVABLES</b>		
Contributions	0	0
Due from Broker for Investments Sold	126,428,470	178,432,160
Investment Income	5,494,548	5,947,744
Securities Lending Income	56,199	43,181
Other Receivable	113,437	113,542
<b>TOTAL ACCOUNTS RECEIVABLES</b>	<b>132,092,654</b>	<b>184,536,627</b>
PREPAID EXPENSE	101,931	7,669
<b>INVESTMENTS AT FAIR VALUE</b>		
Domestic Fixed Income Securities	461,757,535	470,743,687
International Fixed Income Securities	105,339,536	91,009,409
Domestic Equities	962,649,487	724,752,507
International Equities	462,362,243	326,819,125
Real Estate	146,917,122	135,475,106
Private Equities	28,251,785	11,518,706
Risk Parity	161,788,871	138,950,310
Hedge Funds	70,421,832	66,445,731
Commodities	79,365,774	67,006,505
Held for Securities Lending	0	0
Other Investment	0	0
	2,478,854,184	2,032,721,085
FIXED ASSETS	0	0
LESS ACCUMULATED DEPRECIATION	0	0
	0	0
<b>TOTAL ASSETS</b>	<b>2,870,914,954</b>	<b>2,515,621,265</b>
<b>LIABILITIES</b>		
Investment Management Fees	2,592,900	2,505,395
Due to Broker for Investments Purchased	140,566,542	202,448,180
Collateral Payable for Securities Lending	198,602,805	204,148,309
Other	729,894	810,597
<b>TOTAL LIABILITIES</b>	<b>342,492,141</b>	<b>409,912,481</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>2,528,422,813</b>	<b>2,105,708,784</b>

**San Mateo County Employees' Retirement Association**  
**Statement of Changes in Fiduciary Net Assets - YTD Comparative**  
**September 2012**  
**Preliminary**

	September 2012	September 2011	
ADDITIONS			
CONTRIBUTIONS			
Employer Contribution	71,532,537	69,916,918	1,615,620
Employee Contribution	10,389,152	9,973,110	416,042
<b>TOTAL CONTRIBUTIONS</b>	<b>81,921,690</b>	<b>79,890,028</b>	<b>2,031,661</b>
INVESTMENT INCOME			
Interest and Dividends	12,000,365	11,210,396	789,969
Net Appreciation (Depreciation) in fair value of investments	117,300,398	(263,601,578)	380,901,976
Less Investment Expense	(4,151,430)	(3,682,209)	(469,220)
Less Asset Management Expense	0	0	0
<b>NET INVESTMENT INCOME</b>	<b>125,149,334</b>	<b>(256,073,391)</b>	<b>381,222,725</b>
SECURITIES LENDING INCOME			
Earnings	128,088	97,800	30,288
Less: Securities Lending Expenses	44,016	17,168	26,848
<b>NET SECURITIES LENDING INCOME</b>	<b>172,103</b>	<b>114,968</b>	<b>57,135</b>
OTHER ADDITIONS	843,268	895	842,373
<b>TOTAL ADDITIONS</b>	<b>208,086,394</b>	<b>(176,067,500)</b>	<b>384,153,894</b>
DEDUCTIONS			
ASSOCIATION BENEFITS			
Service Retirement Allowance	32,371,085	29,990,011	2,381,075
Disability Retirement Allowance	4,063,922	3,777,772	286,149
Survivor, Death and Other Benefits	172,566	181,374	(8,808)
<b>TOTAL ASSOCIATION BENEFITS</b>	<b>36,607,573</b>	<b>33,949,157</b>	<b>2,658,416</b>
REFUND OF MEMBER CONTRIBUTIONS	2,320,163	915,578	1,404,585
ADMINISTRATIVE EXPENSE	1,021,223	1,086,950	(65,727)
OTHER EXPENSE	18,275	47,860	(29,584)
<b>TOTAL DEDUCTIONS</b>	<b>39,967,235</b>	<b>35,999,545</b>	<b>3,967,690</b>
<b>NET INCREASE</b>	<b>168,119,160</b>	<b>(212,067,045)</b>	<b>380,186,204</b>
Net Assets Held in Trust for Pension Benefits:			
Beginning of Period	2,360,303,654	2,317,775,829	
End of Period	2,528,422,813	2,105,708,784	

San Mateo County Employees' Retirement Association  
 CHANGES IN FIDUCIARY NET ASSETS - TRAILING THREE MONTHS  
 For the Month Ending September 30, 2012  
 PRELIMINARY

	July 2012	August 2012	September 2012	YTD
<b>ADDITIONS</b>				
<b>CONTRIBUTIONS</b>				
Employee Contribution	2,820,513	4,100,889	3,467,750	10,389,152
Employer Contributions - Regular	5,227,912	6,787,153	6,846,971	18,862,036
Employer Contributions - COLA	3,066,756	4,108,293	4,143,138	11,318,186
Employer Prefunded Contribution	63,167,221	(10,867,076)	(10,947,830)	41,352,314
<b>TOTAL CONTRIBUTIONS</b>	<b>74,282,402</b>	<b>4,129,259</b>	<b>3,510,029</b>	<b>81,921,690</b>
<b>INVESTMENT INCOME</b>				
Interest and Dividends	2,146,243	5,715,491	4,138,631	12,000,365
Net Appreciation (Depreciation) in fair value of investments	31,216,046	43,176,516	43,751,103	118,143,666
Securities Lending Income	46,312	41,612	40,164	128,088
Other Additions				0
Other Investment Related Expense	(422,424)	(291,493)	(47,067)	(760,984)
Securities Lending Expense	13,766	11,940	18,310	44,016
<b>TOTAL ADDITIONS</b>	<b>107,282,345</b>	<b>52,783,324</b>	<b>51,411,170</b>	<b>211,476,839</b>
<b>DEDUCTIONS</b>				
<b>ASSOCIATION BENEFITS</b>				
Retiree Annuity	2,806,579	2,818,038	2,832,582	8,457,199
Retiree Pension	6,585,517	6,636,640	6,644,559	19,866,716
Retiree COLA	2,764,110	2,755,009	2,753,454	8,272,573
Retiree Death and Modified Work Benefit	3,579	3,579	3,579	10,737
Active Member Death Benefit	0			0
Voids and Reissue	0	348		348
<b>TOTAL ASSOCIATION BENEFITS</b>	<b>12,159,785</b>	<b>12,213,614</b>	<b>12,234,174</b>	<b>36,607,573</b>
<b>REFUND OF MEMBER CONTRIBUTIONS</b>	<b>360,892</b>	<b>630,225</b>	<b>1,329,046</b>	<b>2,320,163</b>
<b>ACTUARIAL FEES</b>				
ACTUARIAL FEES	1,250	1,250	11,250	13,750
<b>CONSULTANT FEES - INVESTMENT (SIS)</b>				
CONSULTANT FEES - INVESTMENT (SIS)	33,333	33,333	33,333	100,000
<b>CUSTODIAN FEES - STATE STREET</b>				
CUSTODIAN FEES - STATE STREET	14,968	18,000	18,000	50,968
<b>OTHER PROFESSIONAL FEES</b>				
OTHER PROFESSIONAL FEES	0	0	0	0
INVESTMENT MANAGEMENT FEE - R1000 INDEX	6,182	6,631	6,482	19,294
INVESTMENT MANAGEMENT FEE - ABERDEEN	25,974	26,091	26,147	78,212
INVESTMENT MANAGEMENT FEE - PYRAMIS	14,584	14,611	14,645	43,839
INVESTMENT MANAGEMENT FEE - ANGELO GORDON	29,167	29,167	29,167	87,500
INVESTMENT MANAGEMENT FEE - BROWN BROTHERS	10,342	10,319	10,391	31,052
INVESTMENT MANAGEMENT FEE - BRIGADE CAPITAL	35,844	35,844	35,844	107,533
INVESTMENT MANAGEMENT FEE - FRANKLIN TEMPLETON	35,509	36,313	36,730	108,552
INVESTMENT MANAGEMENT FEE - CHARTWELL	37,402	39,705	39,747	116,855
INVESTMENT MANAGEMENT FEE - D E SHAW	50,916	52,172	52,644	155,731
INVESTMENT MANAGEMENT FEE - T ROWE PRICE	34,450	35,590	35,947	105,987
INVESTMENT MANAGEMENT FEE - BLACKROCK	63,847	66,697	66,900	197,444
INVESTMENT MANAGEMENT FEE - BARROW HANLEY	60,540	62,216	62,695	185,450
INVESTMENT MANAGEMENT FEE - THE BOSTON COMPANY	36,320	38,004	38,374	112,699
INVESTMENT MANAGEMENT FEE - JENNISON ASSOCIATES	57,011	58,841	59,498	175,349
INVESTMENT MANAGEMENT FEE - MONDRIAN	28,186	28,792	27,214	84,192
INVESTMENT MANAGEMENT FEE - ARTIO	(369)	0	0	(369)
INVESTMENT MANAGEMENT FEE - PYRAMIS SELECT	24,396	37,770	36,108	98,274
INVESTMENT MANAGEMENT FEE - EATON VANCE	45,207	50,619	50,627	146,453
INVESTMENT MANAGEMENT FEE - BAILLIE GIFFORD	57,923	61,928	61,660	181,511
INVESTMENT MANAGEMENT FEE - WESTERN ASSET	22,985	23,094	23,217	69,296
INVESTMENT MANAGEMENT FEE - INVESCO CORE	51,345	51,345	51,345	154,035
INVESTMENT MANAGEMENT FEE - SHERIDAN PRODUCTIONS	25,008	25,000	25,000	75,008
INVESTMENT MANAGEMENT FEE - ABRY ADVANCED	72,320	0	0	72,320
INVESTMENT MANAGEMENT FEE - ABRY PARTNERS	98,470	0	0	98,470
INVESTMENT MANAGEMENT FEE - REGIMENT	0	0	73,551	73,551
INVESTMENT MANAGEMENT FEE - GENERAL CATALYST	37,500	37,500	37,500	112,500
INVESTMENT MANAGEMENT FEE - SYCAMORE PARTNERS	31,250	31,250	31,250	93,750
INVESTMENT MANAGEMENT FEE - SYCAMORE SIDECAR	171	171	171	512
INVESTMENT MANAGEMENT FEE - AQR GLOBAL RISK PART	50,876	53,213	53,213	157,302
INVESTMENT MANAGEMENT FEE - AQR DELTA FUND	58,053	59,396	59,396	176,845
INVESTMENT MANAGEMENT FEE - SSGA MULTISOURCE	32,976	37,445	36,158	106,578
<b>TOTAL PROFESSIONAL FEE</b>	<b>1,183,936</b>	<b>1,062,307</b>	<b>1,144,202</b>	<b>3,390,445</b>
<b>ADMIN EXPENSE - SALARIES &amp; BENEFITS</b>				
ADMIN EXPENSE - SALARIES & BENEFITS	166,062	221,855	228,953	616,870
<b>ADMIN EXPENSE - SERVICES &amp; SUPPLIES</b>				
ADMIN EXPENSE - SERVICES & SUPPLIES	148,663	106,051	149,640	404,354
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>314,724</b>	<b>327,906</b>	<b>378,593</b>	<b>1,021,223</b>
<b>INTEREST FOR PREPAID CONTRIBUTION</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>OTHER DEDUCTIONS</b>	<b>6,067</b>	<b>1,589</b>	<b>10,619</b>	<b>18,275</b>
<b>TOTAL DEDUCTIONS</b>	<b>14,025,405</b>	<b>14,235,642</b>	<b>15,096,633</b>	<b>43,357,680</b>
<b>NET INCREASE</b>	<b>93,256,940</b>	<b>38,547,683</b>	<b>36,314,537</b>	<b>168,119,160</b>



**San Mateo County Employees' Retirement Association  
Statement of Fiduciary Net Assets - Monthly Comparative  
For the Month Ending September 30, 2012**

	September 2012	August 2012	Increase/(Decrease)	% of Incr/Decr
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS	61,263,379	69,351,854	(8,088,475)	-11.66%
SECURITIES LENDING CASH COLLATERAL	198,602,805	198,602,805	0	0.00%
<b>TOTAL CASH</b>	<b>259,866,185</b>	<b>267,954,660</b>	<b>(8,088,475)</b>	<b>(0)</b>
<b>RECEIVABLES</b>				
Contributions	0	0	0	N/A
Due from Broker for Investments Sold	126,428,470	118,660,785	7,767,685	6.55%
Investment Income	5,494,548	5,299,200	195,348	3.69%
Securities Lending Income	56,199	51,277	4,922	9.60%
Other Receivable	113,437	113,437	0	0.00%
<b>TOTAL ACCOUNTS RECEIVABLES</b>	<b>132,092,654</b>	<b>124,124,699</b>	<b>7,967,955</b>	<b>6.42%</b>
PREPAID EXPENSE	101,931	133,352	(31,421)	-23.56%
<b>INVESTMENTS AT FAIR VALUE</b>				
Domestic Fixed Income Securities	461,757,535	457,323,618	4,433,917	0.97%
International Fixed Income Securities	105,339,536	102,654,956	2,684,580	2.54%
Domestic Equities	962,649,487	938,949,436	23,700,051	2.52%
International Equities	462,362,243	448,931,016	13,431,227	2.99%
Real Estate	146,917,122	146,917,122	0	0.00%
Private Equity	28,251,785	28,712,989	(461,205)	-1.61%
Risk Parity	161,788,871	161,788,871	0	N/A
Hedge Funds	70,421,832	70,421,832	0	N/A
Commodities	79,365,774	78,377,533	988,241	1.26%
Held for Securities Lending	0	0	0	N/A
Other Investment	0	0	0	N/A
	<b>2,478,854,184</b>	<b>2,434,077,374</b>	<b>42,092,231</b>	<b>1.73%</b>
FIXED ASSETS	0	0	0	N/A
LESS ACCUMULATED DEPRECIATION	0	0	0	N/A
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00%</b>
<b>TOTAL ASSETS</b>	<b>2,870,914,954</b>	<b>2,826,290,084</b>	<b>41,940,291</b>	<b>1.48%</b>
<b>LIABILITIES</b>				
Investment Management Fees	2,592,900	2,458,727	134,173	5.46%
Due to Broker for Investments Purchased	140,566,542	132,500,760	8,065,781	6.09%
Collateral Payable for Securities Lending	198,602,805	198,602,805	0	0.00%
Other	729,894	619,515	110,379	17.82%
<b>TOTAL LIABILITIES</b>	<b>342,492,141</b>	<b>334,181,808</b>	<b>8,310,333</b>	<b>2.49%</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>2,528,422,813</b>	<b>2,492,108,277</b>	<b>33,629,957</b>	<b>1.35%</b>

**San Mateo County Employees' Retirement Association**  
**Statement of Changes in Fiduciary Net Assets - Monthly Comparative**  
**For the Month Ending September 30, 2012**

	September 2012	August 2012	
ADDITIONS			
CONTRIBUTIONS			
Employer Contribution	71,532,537	71,490,259	42,278
Employee Contribution	10,389,152	6,921,402	3,467,750
<b>TOTAL CONTRIBUTIONS</b>	<u>81,921,690</u>	<u>78,411,661</u>	<u>3,510,029</u>
INVESTMENT INCOME			
Interest and Dividends	12,000,365	7,861,734	4,138,631
Net Appreciation (Depreciation) in fair value of investments	117,300,398	73,603,390	43,697,008
Less Investment Expense	(4,151,430)	(2,960,160)	(1,191,269)
Less Asset Management Expense	0	0	0
<b>NET INVESTMENT INCOME</b>	<u>125,149,334</u>	<u>78,504,964</u>	<u>46,644,370</u>
SECURITIES LENDING INCOME			
Earnings	128,088	87,924	40,164
Less: Securities Lending Expenses	44,016	25,706	18,310
<b>NET SECURITIES LENDING INCOME</b>	<u>172,103</u>	<u>113,629</u>	<u>58,474</u>
OTHER ADDITIONS			
	843,268	789,172	54,096
<b>TOTAL ADDITIONS</b>	<u>208,086,394</u>	<u>157,819,426</u>	<u>50,266,968</u>
DEDUCTIONS			
ASSOCIATION BENEFITS			
Service Retirement Allowance	32,371,085	21,579,134	10,791,952
Disability Retirement Allowance	4,063,922	2,679,105	1,384,816
Survivor, Death and Other Benefits	172,566	115,160	57,406
<b>TOTAL ASSOCIATION BENEFITS</b>	<u>36,607,573</u>	<u>24,373,399</u>	<u>12,234,174</u>
REFUND OF MEMBER CONTRIBUTIONS	2,320,163	991,117	1,329,046
ADMINISTRATIVE EXPENSE	1,021,223	642,631	378,593
OTHER EXPENSE	18,275	7,657	10,619
<b>TOTAL DEDUCTIONS</b>	<u>39,967,235</u>	<u>26,014,803</u>	<u>13,952,431</u>
<b>NET INCREASE</b>	<b>168,119,160</b>	<b>131,804,623</b>	<b>36,314,537</b>
Net Assets Held in Trust for Pension Benefits:			
Beginning of Period	2,492,108,277	2,360,303,654	
End of Period	2,528,422,813	2,492,108,277	

San Mateo County Employees' Retirement Association  
Board of Retirement

October 23, 2012

Agenda Item 7.2

To: Board of Retirement



From: Chezelle Milan, Retirement Senior Accountant  
Mabel Wong, Finance Officer

Subject: Preliminary First Quarter Budget Report

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

Professional Services Budget - Attachment One provides an overview of the accrued professional services expenditures. Investment management fees are driven by contractual agreements and based on total assets under management. Fees for the actuarial services, investment consulting services and global custodian services are based on services detailed in the contractual agreements. The preliminary annualized aggregate professional services fee as of September 30, 2012, is approximately 44.60 basis points versus the expected fee of 38.04 basis points. The increase is due primarily to private equity fees and alternative investment fees which were not originally budgeted. Due to the nature of private equity investments, fees are difficult to budget because there is no set schedule for capital calls.

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. During the first quarter, SamCERA expended 16.3% of the approved appropriations. Most of the appropriations will be expended later in the fiscal year. Under **Salaries & Benefits** SamCERA budgets all positions and benefits. Those expenditures are on pace with expectations. Under **Services & Supplies** the association budgets all overhead and operational expenditures. 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	\$616,870
Services & Supplies	\$1,496,380	\$262,071
Capital Assets	\$ 0	\$ 0
Total	\$5,391,800	\$878,940

**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*

its information technology modernization project. Work has begun on this project and expenses will be realized on appropriations that fall under IT Infrastructure.

**SamCERA's Technology Budget**

	Adopted Budget	YTD Preliminary
Property & Equipment	\$48,000	\$9,429
IT Infrastructure	<u>\$2,039,200</u>	<u>\$134,664</u>
IT Total	\$2,087,200	\$144,093



San Mateo County Employees' Retirement Association  
**Board of Retirement**

October 23, 2012  
 Attachment One

First Quarter Analysis  
 09-30-2012

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 (3)	Actuarial Consulting	0.1 bp	\$13,750	\$50,000
Strategic Investment Solutions	Investment Consulting	0.4 bp	\$100,000	\$400,000
State Street Bank & Trust	Global Custody	0.2 bp	\$50,968	\$200,000
SUB-TOTAL NON INVESTMENT MANAGER CONTRACTUAL FEES			\$164,718	\$650,000
<i>Estimated Market Value 06-30-2013</i>			\$2.5 Billion	\$2.7 Billion
Average Basis Points (2)			2.2 bps	2.4 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 \$2.6 billion
- (3) The YTD expenses for Milliman included charges from Segal Company for actuarial audit.

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

CONTRACTOR	SERVICE	FEE	2012-2013 YTD EXPENSE (ACCRUED)	2012-2013 ESTIMATE
BlackRock – Russell 1000 Index Fund	Domestic Large Cap Equity	4.8 bps	\$19,294	\$80,000
D.E. Shaw Investment Management,	Domestic Large Cap Enhanced	50.0 bps	155,731	700,000
T. Rowe Price Associates	Domestic Large Cap Enhanced	35.0 bps	105,987	480,000
Barrow, Hanley, Mewhinney & Strauss	Domestic Large Cap Value	44.3 bps	185,450	820,000
BlackRock Capital Management	Domestic Large Cap Growth	45.8 bps	197,444	880,000
The Boston Company	Domestic Small Cap Equity	84.7 bps	112,699	500,000
Chartwell Investment Partners	Domestic Small Cap Equity	75.0 bps	116,855	540,000
Jennison Associates	Domestic Small Cap Equity	81.6 bps	175,349	800,000
Baillie Gifford	International Equity	48.3 bps	181,511	800,000
Eaton Vance – Parametric	International Equity	25.0 bps	146,453	640,000
Mondrian Investment Partners	International Equity	22.2 bps	84,192	400,000
Pyramis Select International	International Equity	90.0 bps	98,274	440,000
ABRY Advanced Securities Fund II	Private Equity	N/A	72,320	300,000
ABRY Partners VII	Private Equity	N/A	98,470	400,000
General Catalyst Group	Private Equity	N/A	112,500	450,000
Regiment Capital Fund IV	Private Equity	N/A	73,551	300,000
Sheridan Production Partners	Private Equity	N/A	75,008	300,000
Sycamore Partners	Private Equity	N/A	94,263	400,000
AQR Risk Parity	Risk Parity Portfolio	38.9 bps	157,302	600,000
AQR Delta Hedge Fund	Hedge Fund	100.4 bps	176,845	800,000
SSgA/SSARIS Commodities	Commodities	53.7 bps	106,578	400,000
Aberdeen Asset Management	Domestic Fixed Income	27.3 bps	78,212	360,000
Angelo Gordon (PPIP)	Domestic Fixed Income	100.0 bps	87,500	340,000
Brigade Capital Management	Domestic Credit Opportunity Fixed Income	45.0 bps	107,533	460,000
Brown Brothers Harriman	Treasury Inflation Protection Securities	15.0 bps	31,052	120,000
Franklin Templeton	Global Fixed Income	40.0 bps	108,552	440,000
Pyramis Global Advisors	Domestic Fixed Income	18.8 bps	43,839	180,000
Western Asset Management	Domestic Fixed Income	30.0 bps	69,296	280,000
INVESCO Realty Advisors	Real Estate Management	41.9 bps	154,035	700,000
SUB-TOTAL INVESTMENT MANAGERS			\$3,226,095	\$13,910,000
Average Basis Points (1)			50.9 bps	53.9 bps
SUB-TOTAL NON- INVESTMENT MANAGERS (FROM PREVIOUS PAGE)			\$164,718	\$650,000
Average Basis Points (2)			2.2 bps	2.4 bps
TOTAL ESTIMATED CONTRACT FEES			\$3,390,813	\$14,560,000
<i>Estimated Market Value 06-30-2013</i>			\$2.5 Billion	\$2.7 Billion
Average Basis Points (2)			53.5 bps	53.9 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 \$2.6 billion

SamCERA's  
Administrative Budget  
Fiscal Year 2011-2012  
4th Quarter  
as of June 30, 2012  
PRELIMINARY

	<b>Budget Allotment (as Amended)</b>	Year to Date Expenditures	Percentage Expended	Remaining Balance	Remaining Percentage
Salaries	\$2,584,060	\$389,601	16.8%	\$2,194,459	83.2%
Benefits	\$1,311,360	\$227,269	19.8%	\$1,084,091	80.2%
<b>Salaries &amp; Benefits</b>	<b>\$3,895,420</b>	<b>\$616,870</b>	<b>17.8%</b>	<b>\$3,278,550</b>	<b>82.2%</b>
Board Expense	\$10,500	\$1,600	15.2%	\$8,900	84.8%
Insurance	\$80,000	\$19,250	25.0%	\$60,750	75.0%
Medical Evaluation	\$100,000	\$22,067	5.6%	\$77,933	94.4%
Member Education	\$45,000	\$0	0.0%	\$45,000	100.0%
Education & Conference	\$103,858	\$9,074	6.1%	\$94,784	93.9%
Transportation and Lodging	\$158,297	\$6,200	4.9%	\$152,097	95.1%
Property & Equipment	\$22,500	\$1,810	0.0%	\$20,690	0.0%
General Office Supplies	\$33,500	\$4,082	16.3%	\$29,418	83.7%
Postage & Printing	\$125,000	\$9,940	8.0%	\$115,060	92.0%
Leased Facilities	\$366,200	\$74,710	25.3%	\$291,490	74.7%
County Services	\$406,025	\$76,853	23.3%	\$329,172	76.7%
Audit Services	\$45,500	\$19,640	43.2%	\$25,860	56.8%
Other Administration	\$0	\$16,844	N/A	-\$16,844	N/A
<b>Services &amp; Supplies</b>	<b>\$1,496,380</b>	<b>\$262,071</b>	<b>17.5%</b>	<b>\$1,234,309</b>	<b>82.5%</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>\$878,940</b>	<b>16.3%</b>	<b>\$4,512,860</b>	<b>83.7%</b>

SamCERA's  
Information Technology Budget  
Fiscal Year 2011-2012  
4th Quarter  
as of June 30, 2012  
PRELIMINARY

	<b>Budget Allotment (as Amended)</b>	Year to Date Expenditures	Percentage Expended	Remaining Balance	Remaining Percentage
Property & Equipment	\$48,000	\$9,429	19.6%	\$38,571	80.4%
IT Infrastructure	\$2,039,200	\$134,664	6.6%	\$1,904,536	93.4%
<b>IT Total</b>	<b>\$2,087,200</b>	<b>\$144,093</b>	<b>6.9%</b>	<b>\$1,943,107</b>	<b>93.1%</b>

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

October 23, 2012

Agenda Item 7.3

To: Board of Retirement



From: Mabel Wong, Finance Officer

Subject: Report on Meeting of the Audit Committee of the Board of Retirement

STAFF RECOMMENDATION: Staff recommends the Board accept the Audit Committee Chair's oral report of the Audit Committee meeting.

**San Mateo County Employees' Retirement Association  
The Board of Retirement**

October 23, 2012

Agenda Item 7.4

To: Board of Retirement



From: Mabel Wong, Finance Officer

Subject: Approval of Auditor's Report on the Financial Audit for the Period Ended June 30, 2012

STAFF RECOMMENDATION: Staff recommends the Board approve the auditor's report on the financial audit for the period ended June 30, 2012.

BACKGROUND: Attached to this agenda item are presentation materials for the audit review. Immediately following this cover memorandum is an agenda that **Andrew J. Paulden** will employ as he reviews with the Board the following reports:

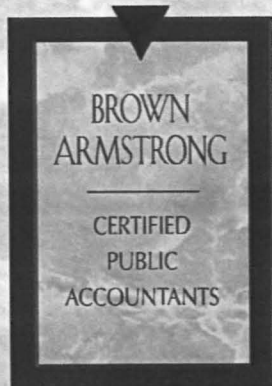
1. Independent Auditor's Report
2. Required Communications to the Members of the Board of Retirement in Accordance with Professional Standards
3. Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Governmental Auditing Standards.
4. Agreed Upon Conditions Report Designed to Increase Efficiency, Internal Controls and/or Financial Reporting.

The Independent Auditor's Draft Report... provides an unqualified opinion. It states, "In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of SamCERA as of June 30, 2012, and 2011, and its changes in fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America."

The Required Communications to the Board of Retirement ... in accordance with professional standards provides an overview of the auditor's responsibility under the U.S. Generally Accepted Auditing Standards. The report goes on to provide the reader with useful information to assist in understanding the audit process and accounting policies utilized to complete the audit.

In the Independent Auditor's Report on Internal Control over Financial Reporting..., the auditor notes no instances of noncompliance that are required to be reported under *Government Auditing Standards*. The auditor also notes no matters involving the internal control over financial reporting and its operation that they consider to be material weaknesses.

The Agreed Upon Conditions Report to Management... is designed to increase efficiency, internal controls and/or financial reporting. There are three current year findings. The findings address a final average salary issue for a retiree, current year retirees' applications filed more than 60 days before retirement, and journal entries review and authorization. Management provided responses to the findings and will discuss the responses at the board meeting.



## BROWN ARMSTRONG

*Certified Public Accountants*

***San Mateo County Employees' Retirement Association***  
**Board of Retirement presentation**  
**of the June 30, 2012 audit results**  
**By: Andrew J. Paulden, CPA**  
**Brown Armstrong Accountancy Corporation**  
**Date: October 23, 2012**

1. Purpose of the Audit
2. The Audit Process
  - a. Timeline coordination with SamCERA staff
  - b. Understanding and evaluation of SamCERA internal controls through inquiry and observation
  - c. Confirmations with independent third parties
  - d. Interim testing
  - e. Final fieldwork testing
  - f. Report presentation
3. Significant Audit Areas/Scope of Audit Work
  - a. Risk based approached
  - b. Investments and related earnings
  - c. Participant data and actuarial information
  - d. Employee and employer contributions
  - e. Benefit payments
4. Audit Reports
  - a. Types of audit opinions
  - b. CAFR
    - i. Independent Auditor's Report (opinion) on Financial Statements – unqualified ("clean") opinion
  - c. Report to the Board of Retirement
    - i. Required Communication to the Members of the Board of Retirement in Accordance with Professional Standards
    - ii. Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
    - iii. Agreed Upon Conditions Report Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting
5. Financial Statement Highlights
6. Questions and/or Comments?

**MAIN OFFICE**

**4200 TRUXTUN AVENUE**

SUITE 300  
BAKERSFIELD, CA 93309  
TEL 661.324.4971  
FAX 661.324.4997  
EMAIL info@bacpas.com

**560 CENTRAL AVENUE**

SHAFTER, CALIFORNIA 93263  
TEL 661.746.2145  
FAX 661.746.1218

**8050 N. PALM AVENUE**

SUITE 300  
FRESNO, CALIFORNIA 93711  
TEL 559.476.3592  
FAX 559.476.3593

**790 E. COLORADO BLVD.**

SUITE 9088  
PASADENA, CALIFORNIA 91101  
TEL 626.240.0920  
FAX 626.240.0922

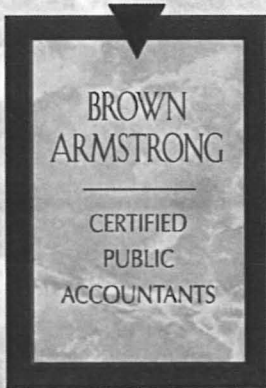
**5250 CLAREMENT AVENUE**

SUITE 237  
STOCKTON, CA 95207  
TEL 209.451.4833



REGISTERED with the Public Company  
Accounting Oversight Board and  
MEMBER of the American Institute of  
Certified Public Accountants





# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

Board of Retirement  
San Mateo County Employees' Retirement Association

We have audited the accompanying Statement of Fiduciary Net Assets of the San Mateo County Employees' Retirement Association (SamCERA) as of June 30, 2012 and 2011, and the related Statement of Changes in Fiduciary Net Assets for the years then ended. These financial statements are the responsibility of SamCERA management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of SamCERA as of June 30, 2012 and 2011, and its changes in fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### MAIN OFFICE

#### 4200 TRUXTUN AVENUE

SUITE 300

BAKERSFIELD, CA 93309

TEL 661.324.4971

FAX 661.324.4997

EMAIL [info@bacpas.com](mailto:info@bacpas.com)

#### 560 CENTRAL AVENUE

SHAFTER, CALIFORNIA 93263

TEL 661.746.2145

FAX 661.746.1218

#### 8050 N. PALM AVENUE

SUITE 300

FRESNO, CALIFORNIA 93711

TEL 559.476.3592

FAX 559.476.3593

#### 790 E. COLORADO BLVD.

SUITE 908B

PASADENA, CALIFORNIA 91101

TEL 626.240.0920

FAX 626.240.0922

#### 5250 CLAREMENT AVENUE

SUITE 237

STOCKTON, CA 95207

TEL 209.451.4833



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The Other Supplementary Information, as listed in the table of contents, and the Investment, Actuarial, Statistical, and Compliance sections are presented for purposes of additional analysis and are not a required part of the financial statements of SamCERA. The Other Supplementary information as listed in the table of contents has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. We did not audit the information contained in the Investment, Actuarial, Statistical, and Compliance sections and express no opinion or provide any assurance on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012, on our consideration of SamCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
October 15, 2012

**SAN MATEO COUNTY EMPLOYEES'  
RETIREMENT ASSOCIATION**

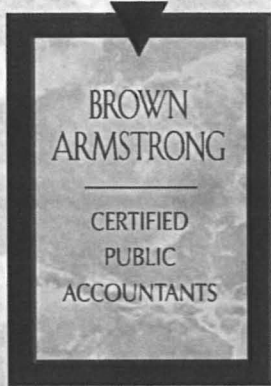
**REPORT TO THE BOARD OF RETIREMENT**

**FOR THE YEAR ENDED JUNE 30, 2012**

**SAN MATEO COUNTY EMPLOYEES'  
RETIREMENT ASSOCIATION**

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III. Agreed Upon Conditions Report Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting .....	5



# BROWN ARMSTRONG

*Certified Public Accountants*

## **REQUIRED COMMUNICATION TO THE MEMBERS OF THE BOARD OF RETIREMENT IN ACCORDANCE WITH PROFESSIONAL STANDARDS**

To the Board of Retirement of the  
San Mateo County Employee's Retirement Association

We have audited the financial statements of San Mateo County Employee's Retirement Association (SamCERA) for the year ended June 30, 2012, and have issued our report dated October 15, 2012. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 14, 2012. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by SamCERA are described in Note 2, Summary of Significant Accounting Policies, to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by SamCERA during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting SamCERA's financial statements was the fair market value of investments:

Management's estimate of the fair market value of investments was derived by various methods as detailed in Note 2, Summary of Significant Account Policies. We evaluated the key factors and assumptions used to develop the fair market value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosures for deposits and investments in Notes 2 and 3 to the financial statements, Summary of Significant Accounting Policies and Deposits and Investment Risk Disclosures, respectively, were derived from SamCERA's investment policy. Management's estimate of the fair market value of investments was derived by various methods as detailed in the notes.

#### **MAIN OFFICE**

##### **4200 TRUXTUN AVENUE**

SUITE 300  
BAKERSFIELD, CA 93309  
TEL 661.324.4971  
FAX 661.324.4997  
EMAIL [info@bacpas.com](mailto:info@bacpas.com)

##### **560 CENTRAL AVENUE**

SHAFTER, CALIFORNIA 93263  
TEL 661.746.2145  
FAX 661.746.1218

##### **8050 N. PALM AVENUE**

SUITE 300  
FRESNO, CALIFORNIA 93711  
TEL 559.476.3592  
FAX 559.476.3593

##### **790 E. COLORADO BLVD.**

SUITE 908B  
PASADENA, CALIFORNIA 91101  
TEL 626.240.0920  
FAX 626.240.0922

##### **5250 CLAREMONT AVENUE**

SUITE 237  
STOCKTON, CA 95207  
TEL 209.451.4833



REGISTERED with the Public Company  
Accounting Oversight Board and  
MEMBER of the American Institute of  
Certified Public Accountants

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 15, 2012.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to SamCERA's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as SamCERA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Other Matters*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

\*\*\*\*\*

This information is intended solely for the use of the Board of Retirement and management of SamCERA and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
October 15, 2012

BROWN  
ARMSTRONG

CERTIFIED  
PUBLIC  
ACCOUNTANTS

BROWN ARMSTRONG

*Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Retirement of the  
San Mateo County Employee's Retirement Association

We have audited the financial statements of the San Mateo County Employee's Retirement Association (SamCERA), as of and for the year ended June 30, 2012, and have issued our report thereon dated October 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of SamCERA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered SamCERA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SamCERA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SamCERA's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SamCERA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**MAIN OFFICE**

**4200 TRUXTUN AVENUE**

SUITE 300  
BAKERSFIELD, CA 93309  
TEL 661.324.4971  
FAX 661.324.4997  
EMAIL info@bacpas.com

**560 CENTRAL AVENUE**

SHAFTER, CALIFORNIA 93263  
TEL 661.746.2145  
FAX 661.746.1218

**8050 N. PALM AVENUE**

SUITE 300  
FRESNO, CALIFORNIA 93711  
TEL 559.476.3592  
FAX 559.476.3593

**790 E. COLORADO BLVD.**

SUITE 908B  
PASADENA, CALIFORNIA 91101  
TEL 626.240.0920  
FAX 626.240.0922

**5250 CLAREMENT AVENUE**

SUITE 237  
STOCKTON, CA 95207  
TEL 209.451.4833



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We noted certain matters that we reported to management of SamCERA in a separate letter dated October 15, 2012.

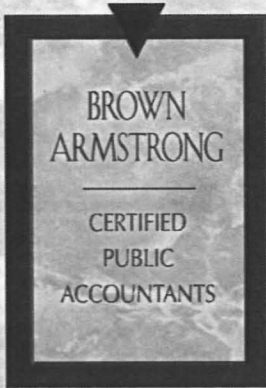
This report is intended solely for the information and use of the Board of Retirement and management of SamCERA and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
October 15, 2012





# BROWN ARMSTRONG

*Certified Public Accountants*

## **AGREED UPON CONDITIONS REPORT DESIGNED TO INCREASE EFFICIENCY, INTERNAL CONTROLS, AND/OR FINANCIAL REPORTING**

To the Board of Retirement of the  
San Mateo County Employee's Retirement Association

We have audited the financial statements of the San Mateo County Employee's Retirement Association (SamCERA) for the year ended June 30, 2012, and have issued our report dated October 15, 2012. In planning and performing our audit of the financial statements of SamCERA, we considered its internal control structure over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SamCERA's internal control. Accordingly, we do not express an opinion on the effectiveness of SamCERA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we considered to be material weaknesses.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The recommendations that are listed in this letter summarize our comments and suggestions regarding these matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various SamCERA personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

### **MAIN OFFICE**

#### **4200 TRUXTUN AVENUE**

SUITE 300  
BAKERSFIELD, CA 93309  
TEL 661.324.4971  
FAX 661.324.4997  
EMAIL [info@bacpas.com](mailto:info@bacpas.com)

#### **560 CENTRAL AVENUE**

SHAFTER, CALIFORNIA 93263  
TEL 661.746.2145  
FAX 661.746.1218

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SUITE 300  
FRESNO, CALIFORNIA 93711  
TEL 559.476.3592  
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#### **790 E. COLORADO BLVD.**

SUITE 908B  
PASADENA, CALIFORNIA 91101  
TEL 626.240.0920  
FAX 626.240.0922

#### **5250 CLAREMENT AVENUE**

SUITE 237  
STOCKTON, CA 95207  
TEL 209.451.4833



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## Current Year Agreed Upon Conditions and Recommendations

### Agreed Upon Condition 1 – Final Average Salary

During our recalculation of fifteen (15) retirees monthly benefit payments we noted that one (1) member's final average salary used in the calculation of their base benefit payment was incorrect. This error resulted in an original discrepancy in monthly pension payment in the amount of \$3.36. SamCERA has contacted the member, notifying them that they had adjusted their pension accordingly with the member receiving their first corrected payment on their August 31<sup>st</sup> payment. The member has also received a one-time retro adjustment to cover the difference since they retired in 2002 in the amount of \$518.30.

### Recommendation

We recommend that management research this oversight further to determine if there could be other members with similar discrepancies in their final average salary.

### Management Response

SamCERA recognizes the importance of using accurate highest final average compensation (FAC) in benefit calculations. A program upgrade was implemented in Pension Gold, the pension administration system, in March 2006 to allow staff to identify the highest FAC and associated period with a single click. We believe that retirees since March 2006 should not have any FAC issue.

Prior to 2006, impending retirees were asked during the retirement interview if they had earned a higher salary prior to the latest salary period, and staff would do additional research to determine the highest FAC. Management will conduct further research to determine if this was an isolated incident. The research will focus on retirees who retired between 1999 and March 2006, and retirees with variable earning codes, such as safety members in the selected sample. FAC and benefits for retirees in 1998 and prior were reviewed and adjusted in the Ventura settlement completed in March 2005. Management will work with the Board of Retirement's Audit Committee to review the results of research and plan any needed corrections.

### Agreed Upon Condition 2 – Current Year Retirees

The County Employees Retirement Law of 1937 notes that a participant must "file with the board a written application setting forth the date upon which he or she desires his or her retirement to become effective which shall be not more than 60 days after the date of filing the application." During our testing of twenty-eight (28) current year retirees we noted thirteen (13) participants whose applications for retirement were not submitted within 60 days.

### Recommendation

We recommend that SamCERA management create procedures to ensure that all applications for retirement are submitted to the Board of Retirement in accordance with the requirements of the County Employees Retirement Law of 1937.

### Management Response

SamCERA's Benefits Division has taken steps to ensure that it is in compliance with the County Employees Retirement Law of 1937 with regards to the 60-Day submission timeframe of when a member can file his/her retirement application with SamCERA.

The actions taken were:

- Creating a new retirement application, which states on the form that a member's retirement date must be no more than 60 days after the date the form is filed.
- Updating the retirement counseling check-off list so that members are informed about this provision during their one-on-one retirement counseling sessions.

- Updating SamCERA's communication booklets such as the Ready to Retire booklet.
- Adding an additional step in the retirement application review process to ensuring compliance with the 60-Day government code provision

#### Agreed Upon Condition 3 – Journal Entry Review and Authorization

During our testing of ten (10) journal entries we noted that four (4) entries had no indication of a secondary review performed by a supervisor, other than the preparer, prior to posting to the accounting system.

#### Recommendation

We recommend that management enforce journal entry authorization policy so that all journal entries that are entered into the accounting system have been approved and authorized by a supervisor that was not responsible for preparing the journal entry. Also, a hard copy should be maintained on file with both the preparer and the supervisor's signature.

#### Management Response

SamCERA's management will ensure that all journal entries entered into Great Plains have been reviewed and approved by the department's approving supervisor. The preparer's initial will also be included on each journal entry.

We note that the financial statements go through multiple review and accounts are reconciled to various secondary sources before the preliminary financial statements are presented to the Board of Retirement. The Senior Accountant prepares several preliminary account reconciliations to ensure that the preliminary numbers are sound. The Finance Officer reviews the financials and signs off on the financial board agenda item. The Senior Accountant, the Investment Analyst, and the Finance Officer are aware of any issues encountered in the month that affect the financials. If there is a material item that impacts the monthly financial report, the AEO and CEO are also advised.

The review of the monthly journal entries is important and we will ensure that all journal entries have supervisory approval. However, several reviews are done at a higher level to ensure that the preliminary financials produced are accurate.

## Status of Prior Year Agreed Upon Conditions and Recommendations

### Agreed Upon Condition 1 – Security Lending Monthly Reconciliation

During our audit procedures of securities lending transactions, we noted a discrepancy between SamCERA's general ledger balance and the investment manager's balance as of June 30, 2011. Per further inquiry of SamCERA staff it was noted that a journal entry had been posted incompletely to the general ledger in October 2010. Although the discrepancy did not have an effect on SamCERA's Net Asset Value, inadequate review and reconciliation of this particular security lending account left this discrepancy unnoticed until discovered during our audit procedures.

#### Recommendation

We recommend that SamCERA management review general ledger entries to securities lending accounts in a timely and consistent manner to ensure that all securities lending transactions are entered correctly.

#### Management Response

SamCERA management will examine its current procedures for reviewing and reconciling this particular security lending account between custodial statements and its general ledger. Although SamCERA staff was still in the process of reconciling general ledger accounts during Brown Armstrong's final fieldwork, SamCERA management agrees that procedures should be put in place that would ensure reconciliation of the account in a timely manner. Due to the nature of this particular account, SamCERA would also like to note that the discrepancy had no effect on SamCERA's financial statements.

#### Current Year Status

Quarterly reconciliation on securities lending general ledger accounts is now being done by the Senior Accountant.

### Agreed Upon Condition 2 – Alternative Investments

During our analysis of income generated by SamCERA's alternative investments we noted that SamCERA staff was receiving limited information from alternative investment managers on a monthly basis. Due to the limited information received on a monthly basis, an adequate reconciliation between custodian and investment manager statements was not feasible. This resulted in an inaccurate classification of investment income in the general ledger.

#### Recommendation

SamCERA should request detailed monthly statements from alternative investment managers to ensure that income generated from these alternative investments are classified correctly in the financial statements and accounted for completely and accurately in the general ledger.

#### Management Response

SamCERA began investing in alternative investments in the past fiscal year, management was not aware that the information provided by SamCERA's alternative investment managers to staff and custodian were considered inadequate. Per Brown Armstrong's recommendation, SamCERA has begun requesting detailed monthly or quarterly statements from alternative investment managers to more accurately reflect income generated from these investments. Although it has always been SamCERA's policy to book investment activity per custodial statements, SamCERA has since changed its policy for alternative investment managers. As of fiscal year ending June 30, 2011, SamCERA's financial statements are booked per investment manager statements in the alternative investment asset class.

Current Year Status

SamCERA has asked their alternative investment managers to provide monthly or quarterly detailed financial reports. SamCERA books general ledger transactions based on these reports. As SamCERA continues to diversify its investment portfolio and hire additional alternative investment managers, staff continues to work with the investment managers to obtain the reports that are needed for the month-end close.

\*\*\*\*\*

This communication is intended solely for the information and use of the Board of Retirement and management of SamCERA and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
October 15, 2012

San Mateo County Employees' Retirement Association  
**The Board of Retirement**

October 23, 2012

Agenda Item 7.5

To: Board of Retirement



From: Mabel Wong, Finance Officer

Subject: Approval of SamCERA's *Comprehensive Annual Financial Report* for the period ended June 30, 2012

STAFF RECOMMENDATION: Staff recommends the Board approve SamCERA's *Comprehensive Annual Financial Report* for the period ended June 30, 2012.

BACKGROUND: Attached is a soft copy of the final draft of the *Comprehensive Annual Financial Report* (CAFR) for the period ended June 30, 2012 for your review and approval. You will note the format is enhanced from 2011. Staff and Management wish to thank SamCERA's Communications Specialist, Colin Bishop, for his continued efforts in updating the look and feel of the CAFR.

For the fifteenth consecutive year, the Government Finance Officers Association (GFOA) has awarded *SamCERA* its Certificate of Achievement for Excellence in Financial Reporting. This award is in recognition of *SamCERA's* Comprehensive Annual Financial Report for the year ended June 30, 2011.

Staff will provide an oral report presenting the CAFR as a useful reference for trustees, staff, and interested parties. Staff will provide an overview of the six sections: Introductory, Financial, Investment, Actuarial, Statistical and Compliance.

# *SamCERA*

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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## COMPREHENSIVE **ANNUAL FINANCIAL REPORT**

For the Fiscal Year Ended June 30, 2012

A Pension Trust Fund of the County of San Mateo and Participating Employers  
Redwood City, State of California

# 2012



On the cover:  
Sweeney Ridge Trail, San Bruno

San Mateo County Employees' Retirement Association  
A Pension Trust Fund of the County of San Mateo and Participating Employers

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the year ended June 30, 2012

C. David Bailey  
Chief Executive Officer

Mabel Wong  
Finance Officer

Michael Coultrip  
Chief Investment Officer

SamCERA  
100 Marine Parkway, Suite 125  
Redwood City, California 94065



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# INTRODUCTORY SECTION



Hikers at Edgewood Park & Natural Preserve

## **SAMCERA'S MISSION**

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SamCERA exists to serve as loyal fiduciary for its members and as prudent administrator of the retirement system.

## **SAMCERA'S GOALS**

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Provide caring, fair, accurate, timely and knowledgeable professional service to SamCERA's clients and the public. Prudently manage the assets in order to appropriately fund the actuarial liabilities of the retirement system and assure the ability to pay all earned benefits while minimizing the costs to its employers. Constantly improve the effectiveness of SamCERA's services and the efficiency of its operations.

## ADMINISTRATOR'S LETTER OF TRANSMITTAL

---



**SamCERA**  
SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

San Mateo County Employees' Retirement Association | 100 Marine Parkway, Suite 125 | Redwood City, CA 94065  
Phone: 650-599-1234 | Toll Free: 1-800-339-0761 | Fax: 650-591-1488 | [samcera@samcera.org](mailto:samcera@samcera.org)



C. David Bailey  
SamCERA  
Chief Executive Officer

Board of Retirement  
San Mateo County Employees' Retirement Association

Dear Trustees:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the San Mateo County Employees' Retirement Association (SamCERA) for the fiscal years ending June 30, 2012, and June 30, 2011.

SamCERA's management is responsible for the accuracy of the data; the complete, full disclosure of all matters of material consequence and the fairness of the presentation. Management's discussion and analysis of the data may be reviewed on pages 24-33.

SamCERA's management is also responsible for establishing and maintaining appropriate internal controls designed to provide reasonable assurance that SamCERA's assets are protected from loss, theft, or misuse. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management. Sufficient internal controls exist to provide reasonable assurance regarding the safekeeping of assets and the fair presentation of the financial statements and supporting schedules. As



Chief Executive Officer, I hereby certify that SamCERA's system of internal controls is adequate and that this report accurately, completely, fully and fairly discloses all matters of material consequence.

The Brown Armstrong Accountancy Corporation provides audit services to SamCERA. The financial audit ensures that SamCERA's financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatements. Internal controls are reviewed to ensure that SamCERA's operating policies and procedures are being adhered to and that the controls are sufficient to ensure accurate and reliable financial reporting and to safeguard SamCERA's assets. This report has been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

SamCERA's financial statements are prepared on the accrual basis of accounting. Revenues are taken into account when earned, regardless of the date of collection. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Investments are reported at fair value. The Financial Section of this report contains SamCERA's financial statements, required supplementary schedules, and supporting schedules.

SamCERA's funding goal is to prudently manage plan assets in order to appropriately fund the actuarial liabilities of the retirement system and assure the ability to pay all

earned benefits while minimizing the costs to employers.

SamCERA engages an independent actuarial consulting firm, Milliman, Inc., to conduct an annual actuarial valuation of the plan. The purpose of the valuation is to reassess the magnitude of the benefit commitments in comparison with the assets expected to be available to support those commitments so that employer and employee contribution rates can be adjusted accordingly. Every third year SamCERA instructs its actuarial firm to perform an actuarial experience study. SamCERA strives to provide the most recent financial and actuarial data in its annual report. Therefore, the actuarial valuation of June 30, 2012, is used in this CAFR.

### **Authority, Responsibilities & Duties**

SamCERA was created by the Board of Supervisors in 1944, pursuant to the provisions of California's County Employees Retirement Law of 1937 (the '37 Act) and County Ordinance 564.

SamCERA provides retirement, disability and death benefits for its eligible members in accordance with the provisions of Section 17 of Article XVI of the Constitution of the State of California, the County Employees Retirement Law of 1937 commencing at Government Code Section 31450 as well as applicable statutes, regulations and case law.

The Board of Retirement (the Board) serves as fiduciary for all of SamCERA's members. The Board is responsible for administering the provisions of the '37 Act that the Board of Supervisors has made applicable to San

Mateo County. The Board of Retirement has adopted its *Mission & Goals; Statement of Strategic Services; Regulations of the Board of Retirement; SamCERA's Investment Policy; SamCERA's Sources, Uses and Budget Report; Conflict of Interest Code; Code of Fiduciary Conduct and Delegation of Authority, et al* to document the Board's policies. In addition, the Board has executed contracts for the professional services of an actuary, investment consultant, investment managers, a global custodian and a medical advisor to help the Board fulfill its duties. The Board's professional consultants are highlighted in the organizational chart on page 20.

SamCERA's Chief Executive Officer (the CEO) is responsible for the day-to-day operations of the association. The CEO serves at the pleasure of the Board of Retirement and manages SamCERA's operations in accordance with the Board's *Delegation of Authority* and all applicable laws, regulations, resolutions and rules. SamCERA's staff of twenty full-time employees is responsible for assuring that the needs of the members, employers and Board are met in accordance with the high standards set forth in SamCERA's *Mission & Goals* statement. SamCERA's staff is sworn to carry out its fiduciary duties in accordance with staff's *Code of Fiduciary Conduct* and the staff's own high *Performance Standards*.

SamCERA's members include all permanent employees of the County of San Mateo, the San Mateo County Mosquito and Vector Control District, the Superior Court of the County of San Mateo, all vested former employees who elected deferred retirement, and all current retirees and benefit recipients. More than 85% of SamCERA's

members are classified as General Members. General Members are covered by the applicable provisions set forth in the '37 Act and the laws and rules governing federal Social Security benefits. The remainder of SamCERA's members are law enforcement employees classified as Safety Members or Probation Safety Members. These members are covered by specific Safety Member provisions of the '37 Act but are not covered by Social Security.

I encourage you to review the following narrative introduction as well as the Management's Discussion and Analysis beginning on page 24.

## Looking Backward and Forward

### Trustees

The officers for the Board of Retirement at the end of the 2011-2012 fiscal year were **Al David**, Chair; **Sandie Arnott**, Vice Chair; and **Natalie Kwan Lloyd**, Secretary. These officers were first elected in October 2010 and, thus, initially served less than a full year term. They were reelected to full terms for the 2011-2012 fiscal year.

Other members of the 2011-2012 Board were: **Eric Tashman**, **David Spinello**, **Paul Hackleman**, **Ben Bowler**, **Michal Settles**, and **Lauryn Agnew**. Alternate trustees were **Alma Salas**, Safety Alternate, and **John Murphy**, Retiree Alternate.

Each Board term is three years. The SamCERA Board of Retirement consists of nine members. Four positions are appointed by the Board of Supervisors. Four members are elected from the membership.



The County Treasurer is a member of the Board by virtue of her office.

### Appointments and Elections

**Eric Tashman**, a Public Finance Partner in the San Francisco office of law firm Sidley Austin LLP, was reappointed by the Board of Supervisors to the Fourth Member seat. He was first appointed in 2009. **Lauryn Agnew**, a Principal at Seal Cove Financial and Chair of the Investment Committee at United Way of the Bay Area, was reappointed to the Sixth Member seat. Her current term commenced in 2009. She has served on the Board on prior occasions.

The County Elections Division conducted an election on behalf of the retirement association on June 11, 2012, for the Safety Member seat on the Board of Retirement. As part of the Safety Member Election, an Alternate Safety Member was also elected.

**David Spinello**, a Deputy with the San Mateo County Sheriff's Office, was elected for the second time to the Safety Member seat (the Seventh Member). He has been with the Sheriff's Office for 10 years. He was first elected to the Retirement Board in 2009. **Christopher Miller** was elected as the Safety Alternate. Mr. Miller is a Group Supervisor II and a Probation Department Association (PDA) representative for the Juvenile Hall Staff. He has been with the county since 2005.

With Mr. Miller's election, Alma Salas gave up her seat on the Board. Ms. Salas served as either the Safety Member or Safety Alternate for 11 years.

One of two General Member seats on the Board (the Second Member seat) was also up for election at the end of 2011-2012.

Incumbent **Al David** ran unopposed and was, therefore, deemed elected. Mr. David is Director of Administrative and Information Services for the San Mateo County Human Services Agency (HSA). He is also a retired Army Reserve Lieutenant Colonel. He was first elected to the Retirement Board in 2008.

### Investments

The Board of Investments adopted and annually reviews an Investment Policy that provides a framework for the management of SamCERA's investments. This policy details SamCERA's investment policies and objectives and defines the principal investment responsibilities of the Board, the investment staff, investment managers, master custodian, and consultants. A pension fund's strategic asset allocation policy, implemented in a consistent and disciplined manner, is generally recognized to have the most impact on a fund's investment performance. The asset allocation process determines a fund's optimal long-term asset mix (target allocation), which is expected to achieve a specific set of investment objectives. Diversification of the investments is designed to lower the volatility of returns while optimizing the expected return for the level of risk taken. SamCERA pursues an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

After strong returns of approximately 13% and 24%, respectively, in fiscal years 2009-

2010 and 2010-2011, in fiscal year 2011-2012 SamCERA's returns were flat, ending the year up 0.03%. A downgrade of the credit rating for the U.S. government and a continuing debt crisis in Europe were the main drags to performance for institutional investors.

## Staffing

SamCERA began a nationwide search for a Chief Investment Officer (CIO) in 2011-2012. Toward the end of the year, **Michael Coultrip** accepted SamCERA's offer to become the association's next CIO. Prior to coming to SamCERA, Mr. Coultrip was Director, Pensions and Investments, for the \$15 billion defined benefit plan of the Raytheon Corp.

**Gary Clifton**, former CIO, retired after a 23-year career with SamCERA in June 2012.

## Actuarial Valuation

In consultation with its actuarial services consultant, Milliman, Inc., in May 2012, the SamCERA Retirement Board lowered its investment earnings assumption from 7.75% to 7.50%, beginning with the 2012-2013 fiscal year. The decision was based in part on a review of the capital market projections of several top investment consulting firms in the U.S. SamCERA conducts an actuarial valuation every year and will continue to make the earnings assumption a focus of its annual actuarial work.

## Legislation and Plan Changes

San Mateo County concluded negotiations with its bargaining units during the fiscal

year. The resulting agreements reduced retirement formulas for new hires and shifted some costs. SamCERA staff created new forms for new hires, revised publications and reprogrammed its pension system software. As of September 2012, new statewide legislation was passed that will require a similar effort.

## Cost of Living Allowance

SamCERA members who retired on or before April 1, 2012, received a Cost of Living Adjustment (COLA) of between 2.0% and 2.5%. The COLA amount for Plan 1 and Plan 2 was 2.5%, while the Plan 4 COLA was 2.0%. Plan 3 provisions do not provide for a COLA.

## Information Technology

SamCERA embarked on a multi-year Technology Modernization Project during the fiscal year. The project includes business process reengineering, implementation of an imaging system and replacement of SamCERA's aging pension administration system. LRWL is the project management firm. These projects are expected to be complete in three to five years.

SamCERA completed a number of budgeted technology improvement projects during the fiscal year, including server infrastructure upgrades, addition of more backup power supplies, upgrade of the WiFi network, addition of a documentation server to centrally store user manuals, documentation and emergency procedures. The association also implemented a number of pension software enhancements required by the

addition of new benefit formulas for certain new employees.

### Strategic Planning

The SamCERA staff held a retreat in May 2012 and reviewed the Mission and Goals, discussed the strengths and weaknesses and opportunities and threats facing SamCERA. The result of these discussions was an update of the Strategic Plan Action Matrix. Staff will conduct a full review and update of the plan for the 2013-2014 fiscal year.

During the 2012-2013 fiscal year SamCERA will continue to pursue its three major goals, all of which are derived from and consistent with SamCERA's mission statement:

#### 1. 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 and assuring that staffing is adequate during the projects and after they are complete. It will also include preparing for and implementing new pension tiers due to the passage of pension reform legislation.

#### 2. ASSET MANAGEMENT GOAL

*Prudently manage the assets in order to appropriately fund the actuarial liabilities of the retirement association.*

Major projects under this goal include continuing to build out the private equity portfolio, welcoming and orienting a new

Chief Investment Officer, and assuring that the contribution rates for all new tiers are accurately actuarially assessed.

#### 3. CUSTOMER SERVICES GOAL

*Provide caring, fair, accurate, timely and knowledgeable professional services to SamCERA's clients and the public. Constantly improve the effectiveness of SamCERA's services.*

This goal will include the development of a Comprehensive Communications Plan to take into account increasing member needs for education and working closely with the County staff to assure that new tiers and other system changes resulting from pension reform are implemented properly.

Each goal has a number of specific projects designed to achieve it. The projects incorporate ideas generated during all seven staff retreats beginning in 2005. The plan follows the recommended steps for strategic planning from the Government Finance Officers Association.

### Certificate of Achievement and Acknowledgements

For the fifteenth consecutive year, the Government Finance Officers Association (GFOA) has awarded SamCERA its Certificate of Achievement for Excellence in Financial Reporting. This award was in recognition of SamCERA's CAFR for the year ended June 30, 2011. The certificate is reproduced on page 16.

SamCERA is also the recipient of the GFOA Award for Outstanding Achievement in

Popular Annual Financial Reporting (PAFR) for the ninth year running. The association received this honor for the PAFR for the fiscal year ended June 30, 2011.

These awards recognize contributions to the practice of government finance exemplifying outstanding financial management; in doing so, they stress practical, documented work that offers leadership to the profession.

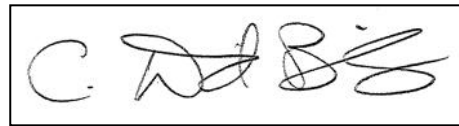
The Public Pension Coordinating Council (the Council) presented SamCERA its Public Pension Standards Award for 2011. The award recognizes that SamCERA has met professional standards for plan funding and administration as set forth in the Public Pension Standards of the Council. The standards judge retirement systems on their Funding Adequacy, Comprehensive Benefit Program, Actuarial Valuation, Independent Audit, Investments and Communications. The award is reproduced on page 17.

The compilation of the Comprehensive Annual Financial Report in a timely manner reflects the combined efforts of SamCERA's

staff under the leadership, dedication and support of the Board of Retirement.

The association continues to maintain the highest financial reporting standards while providing quality services to its members. I am sincerely grateful to the SamCERA Board of Retirement and staff who perform so diligently to ensure the successful operation and financial soundness of SamCERA.

Respectfully submitted,

A rectangular box containing a handwritten signature in black ink. The signature is cursive and appears to read 'C. David Bailey'.

C. David Bailey  
Chief Executive Officer  
October 15, 2012

## GFOA CERTIFICATE OF ACHIEVEMENT

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Mateo County  
Employees' Retirement Association  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Linda C. Davison*

President

*Jeffrey R. Emer*

Executive Director

**PPCC PUBLIC PENSION STANDARDS AWARD**

---



Public Pension Coordinating Council

***Public Pension Standards Award  
For Funding and Administration  
2011***

Presented to

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

In recognition of meeting professional standards for  
plan funding and administration as  
set forth in the Public Pension Standards.

*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle  
Program Administrator



## MEMBERS OF THE BOARD OF RETIREMENT

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**Sandie Arnott**  
*Ex Officio per the 1937 Act,  
First Member*

Sandie Arnott is the San Mateo County Treasurer/Tax Collector. She first began serving in this office in January 2011. She served as Assistant County Treasurer for many years during which she was also active on the Retirement Board. Currently she is the Board Vice Chair. Her current term as Treasurer/Tax Collector runs through the end of 2014.



**Albert David**  
*Elected by the General  
Members, Second Member*

Albert David is Director of Administrative and Information Services for the San Mateo County Human Services Agency (HSA). He is also a retired Army Reserve Lieutenant Colonel. He was first elected to the Retirement Board in 2008 and serves as Board Chair. He was re-elected for a second full term in 2012. His term will expire June 30, 2015.



**Natalie Kwan Lloyd**  
*Elected by the General  
Members, Third Member*

Natalie Kwan Lloyd is an Appraiser in the San Mateo County Assessor's Office. She joined the board in July 2008 to serve out the unexpired term of Tom Bryan. She is currently the Board Secretary. In June 2010 she was elected to a full term which will expire June 30, 2013.



**Eric Tashman**  
*Appointed by the Board of  
Supervisors, Fourth  
Member*

Eric Tashman is a public finance partner in the San Francisco office of law firm Sidley Austin LLP, where he is head of the firm's West Coast public finance practice group. He was appointed by the Board of Supervisors in 2009, and reappointed in 2012. He is a member of the Audit Committee. His term expires June 30, 2015.



**Benedict J. Bowler**  
*Appointed by the Board of  
Supervisors, Fifth Member*

Benedict Bowler is the Treasurer of Matson, Inc. He was appointed in August 2008 to fill the unexpired term of Scott Lee. He is Chair of the Investment Committee. In June 2010 he was reappointed to a full term, which will expire June 30, 2013.



**Lauryn Agnew**  
*Appointed by the Board of  
Supervisors, Sixth Member*

Lauryn Agnew is a Principal at Seal Cove Financial and Chair of the Investment Committee at United Way of the Bay Area. She was appointed by the Board of Supervisors in 2009, and reappointed in 2012. She is a member of the SamCERA Investment Committee. Her term expires June 30, 2015.



### David Spinello

*Elected by the Safety Members, Seventh Member*

David Spinello is a Deputy with the San Mateo County Sheriff's Office. He was elected to the board in 2009 and reelected in 2012. He is a member of the Audit Committee. His term expires on June 30, 2015.



### Paul Hackleman

*Elected by the Retired Members, Eighth Member*

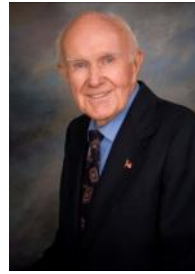
Paul Hackleman was elected in June 2010 to serve as the Retired Member of the Board of Retirement. Paul served as the county Benefits Manager from 1982 through March 2008. Today he is the head of I.C. Benefits Consulting. His term will expire June 30, 2013.



### Michal Settles

*Appointed by the Board of Supervisors, Ninth Member*

Michal Settles is a business professor at the City College of San Francisco. Her teaching experience also includes The University of San Francisco, Saint Mary's College, and San Francisco State University. For more than 10 years she served as the chair of the San Francisco Bay Area Rapid Transit District (BART) Investment Plans Committee. She was appointed by the Board of Supervisors in June 2011. Her term will expire June 30, 2013.



### John Murphy

*Elected by the Retired Members, Retiree Alternate*

John Murphy was appointed by the Board of Retirement in July 2006 to serve as the Retiree

Alternate. He was elected to the alternate position in June 2007 and again in 2010. He substitutes in the absence of the Eighth Member and his term will expire June 30, 2013.



### Alma Salas

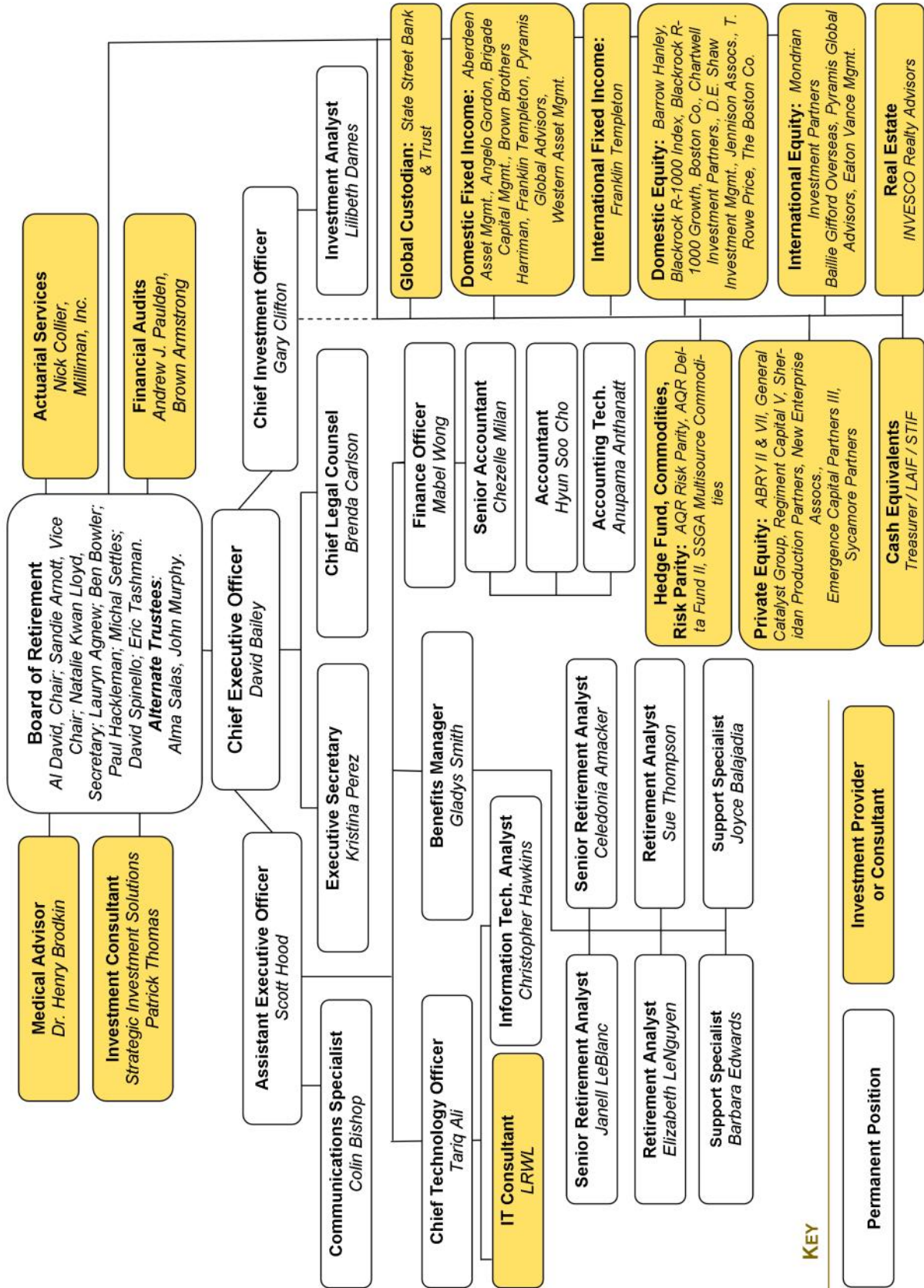
*Elected by the Safety Members, Safety Alternate*

Alma Salas is a Probation Services Manager with San Mateo County. Alma joined the board in May of 2001. She served as Board Chair during the 2004 - 2005 fiscal year. She was elected to serve as the Safety Alternate beginning July 2006. In this role she will substitute in the absence of the Second, Third, or Seventh Member. Her term expires on June 30, 2012.



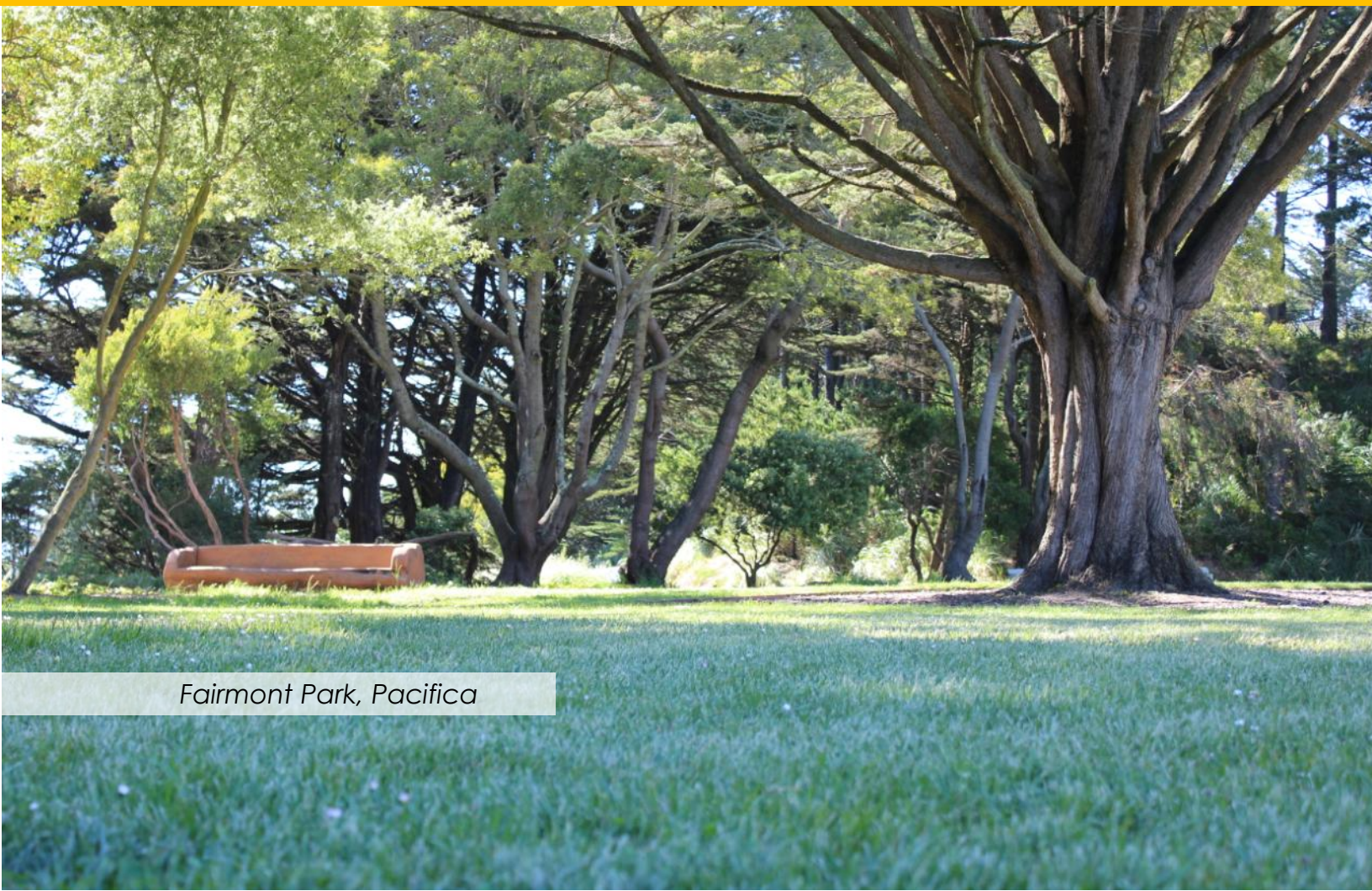
SAMCERA 2011-2012 ORGANIZATIONAL CHART

as of June 30, 2012





# FINANCIAL SECTION



*Fairmont Park, Pacifica*



## INDEPENDENT AUDITOR'S REPORT

**BROWN ARMSTRONG**  
CERTIFIED PUBLIC ACCOUNTANTS

**MAIN OFFICE**  
**4200 TRUXTON AVENUE**  
SUITE 300  
BAKERSFIELD, CA 93309  
TEL. 661.324.4971  
FAX 661.324.4997  
EMAIL info@bacpas.com

**560 CENTRAL AVENUE**  
SHAFER, CALIFORNIA 93263  
TEL. 661.746.2145  
FAX 661.746.1218

**8050 N. PALM AVENUE**  
SUITE 300  
FRESNO, CALIFORNIA 93711  
TEL. 559.476.3592  
FAX 559.476.3593

**790 E. COLORADO BLVD.**  
SUITE 908B  
PASADENA, CALIFORNIA 91101  
TEL. 626.240.0920  
FAX 626.240.0922

**5250 CLAREMENT AVENUE**  
SUITE 237  
STOCKTON, CA 95207  
TEL. 209.451.4833

**PKF**  
North America  
a member of the  
PricewaterhouseCoopers network

REGISTERED with the Public Company Accounting Oversight Board and  
MEMBER of the American Institute of Certified Public Accountants

## BROWN ARMSTRONG

*Certified Public Accountants*

### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Retirement of the  
San Mateo County Employee's Retirement Association

We have audited the financial statements of the San Mateo County Employee's Retirement Association (SamCERA), as of and for the year ended June 30, 2012, and have issued our report thereon dated October 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

Management of SamCERA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered SamCERA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SamCERA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SamCERA's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether SamCERA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of SamCERA in a separate letter dated October 15, 2012.

This report is intended solely for the information and use of the Board of Retirement and management of SamCERA and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
October 15, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2011-2012

---

As fiduciaries of the San Mateo County Employees' Retirement Association (SamCERA), we offer readers of SamCERA's financial statements this narrative overview and analysis of its financial position and results of operation for the fiscal years ended June 30, 2012, and 2011. The information presented here, in conjunction with the Notes to the Financial Statements beginning on page 36, provides a clear picture of SamCERA's overall financial status and activities.

### Financial Highlights

- \$2.36 billion in net assets as of June 30, 2012, are held in trust for pension benefits. All of the assets are available to meet SamCERA's ongoing obligation to plan participants and their beneficiaries.
- SamCERA's total net assets held in trust for pension benefits increased by \$42.5 million or 1.8% primarily as a result of contributions received.
- SamCERA's funding objective is to meet long-term benefits obligations through contributions and investment income. As of June 30, 2012, the actuarial funded ratio for SamCERA decreased from 74.1% to 72.0%. The decrease is primarily due to the recognition of prior years' asset losses under the asset smoothing method. The current year's actuarial loss and a 0.25% reduction of the assumed earnings rates adopted in May 2012, also contributed to the ratio decrease.
- Revenues (Additions to Fiduciary Net Assets) for the year were \$190.4 million

which includes employer contributions of \$150.9 million, member contributions of \$49.7 million, investment gains of \$9.9 million (excluding investment expense of \$20.9 million), security lending income of \$721,219 and other additions of \$29,025. The 70% decrease in additions to net assets over the prior year is mainly due to FY 2012's flat investment gains compared to the exceptional returns of FY 2011.

- Expenses (Deductions in Fiduciary Net Assets) increased from \$135.9 million to \$147.8 million over the prior year, or approximately 8.81%. The fiscal year 2012 expenses include \$139.2 million in benefit payments, \$3.6 million in member refunds, \$5.0 million in administrative expenses and -\$33,331 for other expenses. The majority of this increase was due to an increase in the amount of benefits paid in the fiscal year.
- SamCERA's actuarial value of assets had \$120.0 million of unrecognized investment losses as of June 30, 2012, a 37% increase compared to \$87.4 million in the prior year.

### Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to SamCERA's financial statements, which are comprised of these components:

1. Comparative Statements of Fiduciary Net Assets
2. Comparative Statements of Changes in Fiduciary Net Assets
3. Notes to the Financial Statements
4. Required Supplementary Information
5. Other Supplementary Information

Please note, however, that this report also contains clarifying information to supplement the basic financial statements listed above.

**The Comparative Statement of Fiduciary Net Assets** is a snapshot of account balances at year-end. It discloses the assets available for future payments to retirees and their beneficiaries and any current liabilities that are owed as of June 30, 2012. The net assets, which are assets less liabilities, reflect the funds available for future use.

**The Comparative Statement of Changes in Fiduciary Net Assets** provides a view of all the activities that occurred during the fiscal year and shows the impact of those activities as additions and deductions to the plan. Both statements are in compliance with Governmental Accounting Standards Board (GASB) pronouncements.

The Comparative Statement of Fiduciary Net Assets and the Comparative Statement of Changes in Fiduciary Net Assets report information about SamCERA's activities. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current fiscal year's revenues and expenses are recognized when they are incurred, regardless of when cash is received or paid. All investment purchases and sales are reported as of the trade date, not the settlement date. Investments are reported at current fair value. Both realized and unrealized investment gains and losses are recognized. Each component of capital assets is depreciated over its useful life.

These two statements report SamCERA's

net assets held in trust for pension benefits as one way to measure the plan's financial position. Over time, increases and decreases in SamCERA's net assets are one indicator of whether its financial position is improving or deteriorating. Other factors, such as market conditions, should be considered in measuring SamCERA's overall financial position. The increase in SamCERA's plan net assets for the year ended June 30, 2012, was 1.83%. This slight increase is due to contributions received. SamCERA's total gross fund return of 0.03% underperformed SamCERA's 7.75% actuarial assumed interest rate. The net deferred investment losses from the past five years increased from -\$87.4 million in FY 2011 to -\$120.0 million in FY 2012, which reflects the addition of the current year's actuarial loss. Deferred investment losses will be spread over the next five years.

SamCERA's Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets appear on pages 34 and 35.

**Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes provide detailed discussion of key policies, programs, and activities that occurred during the year. Notes to the Financial Statements appear on pages 36-60.

**Required Supplementary Information** follows the notes and provides additional information and detail concerning SamCERA's progress in funding its obligations to provide pension benefits to members, the trend of employers' contributions, pertinent actuarial

information as of the latest valuation, and notes to the schedules of trend information. The postemployment benefit program is administered by the plan sponsor, San Mateo County (please refer to the County's CAFR for additional information). Required Supplementary Information appears on page 61.

**Other Supplementary Information** includes the schedules of administrative expenses, schedule of investment expenses, and schedule of payments to consultants. These schedules are presented immediately following the Required Supplementary Information on page 63.

### Financial Analysis

Tables 1, 2, 3, 4 and 5 summarize and compare SamCERA's financial results for current and prior periods.

SamCERA's Fiduciary Net Assets held in trust for pension benefits as of June 30, 2012, totaled \$2.36 billion which represents an increase of \$42.5 million or 1.83% over the period. The slight increase during the fiscal year is due to contributions received. All of the net assets are available to meet SamCERA's ongoing obligations to plan participants and their beneficiaries.

In Table 1, total assets are comprised of investments at fair value and "other" assets. The other assets are cash and deposits, security lending cash collateral, receivables, prepaid expense and capital assets. The decrease in other assets from FY 2011 to FY 2012 is due to fluctuations in cash transactions for the security lending program as well as the amount of receivables from brokers for investments sold. The increase in other assets from FY 2010 to FY 2011 is also

### SAMCERA'S NET ASSETS (CONDENSED): TABLE 1

*For the Years Ended June 30, 2012 and 2011*

	2012	2011	Amount Increase/Decrease	Percent Increase/Decrease
Investments at Fair Value	\$2,323,607,764	\$2,271,145,860	\$52,461,904	2.31%
Other Assets	\$383,515,763	\$426,668,536	(\$43,152,773)	(10.11%)
Total Assets	\$2,707,123,527	\$2,697,814,396	\$9,309,131	0.35%
Total Liabilities	\$346,819,873	\$380,038,567	(\$33,218,694)	(8.74%)
<b>Net Assets</b>	<b>\$2,360,303,654</b>	<b>\$2,317,775,829</b>	<b>\$42,527,825</b>	<b>1.83%</b>

*For the Years Ended June 30, 2011 and 2010*

	2011	2010	Amount Increase/Decrease	Percent Increase/Decrease
Investments at Fair Value	\$2,271,145,860	\$1,753,167,629	\$517,978,231	29.55%
Other Assets	\$426,668,536	\$352,017,057	\$74,651,479	21.21%
Total Assets	\$2,697,814,396	\$2,105,184,686	\$592,629,710	28.15%
Total Liabilities	\$380,038,567	\$289,288,231	\$90,750,336	31.37%
<b>Net Assets</b>	<b>\$2,317,775,829</b>	<b>\$1,815,896,455</b>	<b>\$501,879,374</b>	<b>27.64%</b>



attributable to the same reasons. The total liabilities referred to in Table 1 are the following payables: investment management fees, due to broker for investments purchased, collateral payable for security lending and other miscellaneous payables. The decrease in total liabilities for FY 2012 is due to a decrease in the amount due to brokers for investments purchased as well as collateral payable for security lending. The increase in total liabilities from FY 2010 to FY 2011 is also attributable to the same reasons.

Despite recent market volatility and enriched retirement benefits, SamCERA remains in a good financial position to meet its obligations to plan participants and beneficiaries.

### Capital Assets

As of June 30, 2012, the balance of SamCERA's capital assets (net of accumulated depreciation and amortization)

remained at \$0. The capital expenditures in the fiscal year ended June 30, 2012 were for various technology infrastructure. The purchases were generally less than \$15,000 and expensed in the fiscal year.

### Reserves

The statement of SamCERA's reserves as shown in Table 2 indicates how SamCERA's fiduciary net assets have accumulated in the current fiscal year. SamCERA's reserves are established from employer and member contributions and the accumulation of investment earnings, after deducting investment and administrative expenses (see Table 2). When a member retires, the fiduciary net assets attributable to that member are transferred to the Retiree Reserves from the Member Reserves and County Advanced Reserves. During the past several years the following significant Board of Retirement actions have impacted the reserve accounts:

SAMCERA'S RESERVES: TABLE 2

	2012	2011	2010
<b>VALUATION RESERVES</b>			
Member Reserves	\$498,568,652	\$485,125,877	\$449,354,818
Employer Advanced Reserves	\$361,197,981	\$310,568,622	\$264,507,768
Retiree Reserves	\$858,440,088	\$765,312,626	\$693,630,776
Cost of Living Reserves	\$843,061,707	\$760,505,829	\$682,673,956
<b>NON-VALUATION RESERVES</b>			
Unallocated Earnings	(\$80,997,723)	\$83,655,373	\$88,908,428
Market Stabilization Account	(\$119,967,051)	(\$87,392,498)	(\$363,179,291)
<b>Net Reserves Held in Trust for Pension Benefits</b>	<b>\$2,360,303,654</b>	<b>\$2,317,775,829</b>	<b>\$1,815,896,455</b>



- The adoption of the GASB Pronouncement No. 25, which mandates that investments be stated at fair value, effective in fiscal year 1995-1996.
- The creation of the Market Stabilization Account as recommended by William M. Mercer, SamCERA's actuary at that time.
- The Board of Retirement adopted a policy in 2002 which states that the amount of investment earnings added or subtracted from the Market Stabilization Account cannot exceed 20% of the investment return. If it does, then the excess is allocated to the Valuation Reserves.

In December and June of each year, the actuarial assumed investment returns are credited to each of the Valuation Reserves. When actual investment returns differ from the actuarial assumed investment returns, the surplus or deficit is recorded in the Market Stabilization Account. The balance of the account is allocated to the Valuation Reserves over a five-year period. This process reduces the volatility of annual contribution rates for the employers. This year SamCERA's Market Stabilization Account decreased by \$32.8 million to -\$120.0 million of deferred loss to be recognized over the next five years.

### **Additions to Fiduciary Net Assets**

The primary sources of funding for SamCERA member benefits are employer contributions, member contributions, and net investment income. Total additions to fiduciary net assets for the fiscal years ended June 30, 2012, and 2011 were \$190.4 million and \$637.7 million, respectively. The decrease in FY 2012 is primarily due to

the flat market return of assets. Employer and member contributions were flat compared to FY 2011. The increase in total additions to fiduciary assets from FY 2010 to FY 2011 was primarily due to market appreciation of assets, employer contributions, and a result of the asset allocation changes that the Board of Retirement implemented during the fiscal year.

Employer contributions for FY 2012 were \$150.9 million, an increase of \$474,889 over the prior year. Member contributions were \$49.7 million. The \$674,109 increase over FY 2011 is due to an increase in member optional service credit purchases. The relatively even level of contributions was due to a continuing hiring freeze for the primary Employer. The increase from FY 2010 to FY 2011 was primarily a result of a substantial increase in the County's required contribution rate to finance the Unfunded Actuarial Accrued Liability (UAAL) over fifteen years. The required total contribution rate increased from 23.62% to 34.00% of payroll and was almost entirely due to the recognition of accumulated asset losses.

SamCERA's total membership in 2012 was the same as 2011. However, there was a shift in the type of member. Active members decreased 2.9% from 5,245 to 5,095, retired members increased 3%, from 4,147 to 4,275, and inactive members increased almost 2% from 1,190 to 1,212. Total membership increased from FY 2010 to FY 2011. The increase was a combination of a 1.9% decrease in both active and deferred members, and a 3.6% increase in retired members.

**ADDITIONS TO FIDUCIARY NET ASSETS (CONDENSED): TABLE 3**

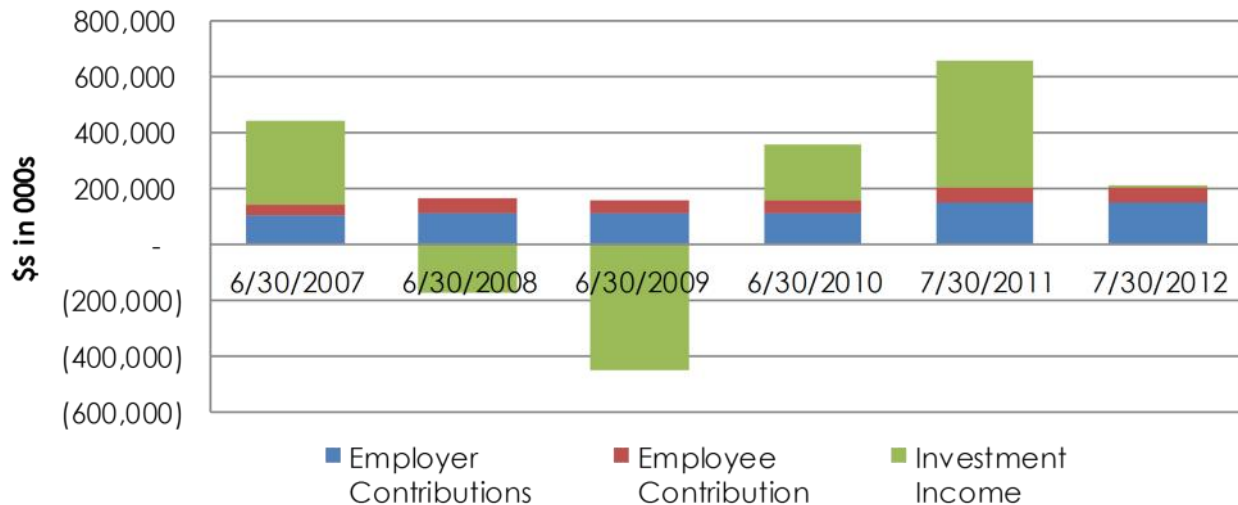
For the Years Ended June 30, 2012 and 2011

	2012	2011	Amount Increase/Decrease	Percent Increase/Decrease
Employer Contributions	\$150,949,761	\$150,474,872	\$474,889	0.32%
Member Contributions	\$49,687,136	\$49,013,027	\$674,109	1.38%
Investment Income/(Loss)	\$9,916,437	\$454,254,572	(\$444,338,135)	(97.82%)
Less Investment Expense	(\$20,940,955)	(\$16,596,601)	(\$4,344,354)	26.18%
Security Lending Income	\$721,219	\$530,311	\$190,908	36.00%
Other Additions	\$29,025	\$73,305	(\$44,280)	(60.40%)
<b>Total</b>	<b>\$190,362,623</b>	<b>\$637,749,486</b>	<b>(\$447,386,863)</b>	<b>(70.15%)</b>
Current Membership	10,582	10,582	0	0.00%

For the Years Ended June 30, 2011 and 2010

	2011	2010	Amount Increase/Decrease	Percent Increase/Decrease
Employer Contributions	\$150,474,872	\$106,265,329	\$44,209,543	41.60%
Member Contributions	\$49,013,027	\$50,318,477	(\$1,305,450)	(2.59%)
Investment Income/(Loss)	\$454,254,572	\$204,317,017	\$249,937,555	122.33%
Less Investment Expense	(\$16,596,601)	(\$8,905,477)	(\$7,691,124)	86.36%
Security Lending Income	\$530,311	\$742,936	(\$212,625)	(28.62%)
Other Additions	\$73,305	\$41,474	\$31,831	76.75%
<b>Total</b>	<b>\$637,749,486</b>	<b>\$352,779,756</b>	<b>\$284,969,730</b>	<b>80.78%</b>
Current Membership	10,582	10,556	26	0.25%

**ADDITIONS TO FIDUCIARY NET ASSETS**



## Deductions from Fiduciary Net Assets

SamCERA was created to provide lifetime retirement annuities, survivor benefits, and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments as designated by the plan, refund of contributions to terminated members, and the cost of administering the system. Deductions for the fiscal year ended June 30, 2012, totaled \$147.8 million, an increase of 8.8% over the prior fiscal year (refer to Table 4).

Retirement annuities, survivor benefits, and permanent disability benefits were \$139.2 million in 2012, an increase of \$9.4 million or 7.2% over 2011. The growth in benefit payments was due to the combined effects of the following: (1) the net increase in the number of retirees and beneficiaries for the year and (2) the increase in the average retirement allowance of those who were added to the retirement payroll. Retiree benefits in 2011 totaled \$129.8 million, which is a \$7.7 million, or 6.3%, increase over FY 2010. The sharp increase was due to the same trend. There has been a steady increase in the number of retirees, an 11.3% increase over the last five years.

Member refunds were \$3.6 million in 2012, a increase of \$1.2 million or 46.6% over 2011. Member refunds increased in fiscal year 2012, due to a higher amount of terminated members that requested withdrawals as well as a higher amount of death benefits refunded to beneficiaries. In an effort to reduce its structural deficit, the County offered financial incentives for voluntary separation under certain job classifications. Terminated members with a few years of service often withdraw from

their accounts.

Administrative expense was \$5.0 million for 2012. Administrative expense covers the basic costs of operating the retirement system. These include staffing, office expense, information technology systems, depreciation, and miscellaneous expenses. Approximately half of the administrative expense is for staffing (wages, fringe benefits, and temporary labor).

The system's administrative expenses increased by \$1.5 million or 41.7% in fiscal year 2012. In FY 2011, staff and expenses related to investment activities were recorded as part of the Asset Management budget and included as an investment expense. Beginning in 2012, staff and direct expenses were no longer separated. An increase in staffing during fiscal year 2012 also added to the increase in administrative expenditure. The \$178,631 or 5.3% increase from fiscal year 2010 to fiscal year 2011, was mostly attributable to the increase in staffing. SamCERA hired three new employees during FY 2011.

Expenses for SamCERA's professional services are included with investment expense. For the fiscal year ended June 30, 2012, the expenditures for actuarial services, custodian services and investment consultant services increased by \$111,204 compared to 2011. This increase is due to higher actuarial fees as a result of hiring a second actuarial firm to perform an actuarial audit of the association's triennial experience study and actuarial valuation. Investment management fees are driven by contractual agreements and based on total fair market value of assets under management. The combination of the implementation of alternative investments (private equity, hedge

**DEDUCTIONS IN FIDUCIARY NET ASSETS: TABLE 4**

For the Years Ended June 30, 2012 and 2011

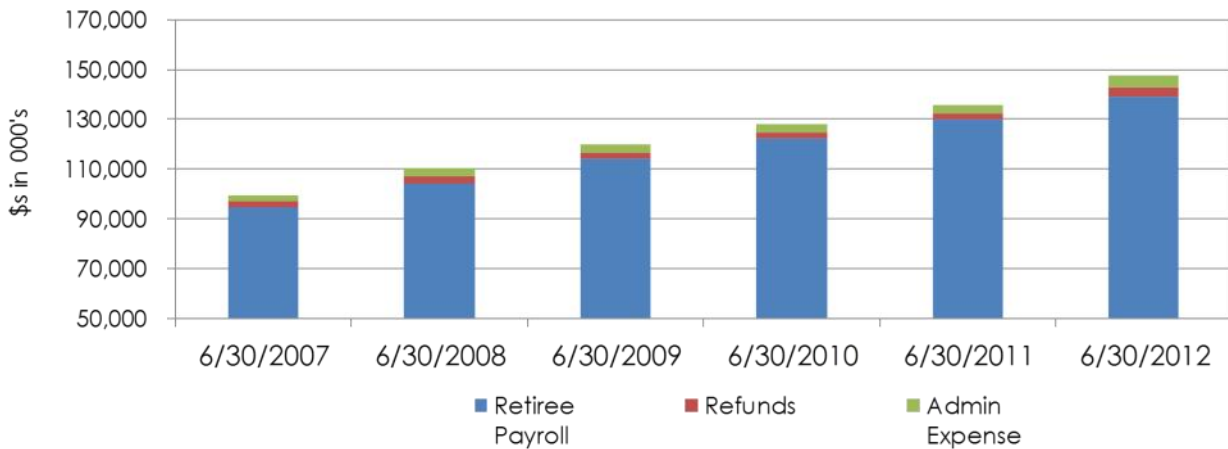
	2012	2011	Amount Increase/Decrease	Percent Increase/Decrease
Retiree Benefits	\$139,207,590	\$129,834,540	\$9,373,050	7.22%
Member Refunds	\$3,627,492	\$2,474,445	\$1,153,047	46.60%
Administrative Expenses	\$5,033,047	\$3,551,598	\$1,481,449	41.71%
Other Expenses	(\$33,331)	\$9,529	(\$42,860)	(449.79%)
<b>Total</b>	<b>\$147,834,798</b>	<b>\$135,870,112</b>	<b>\$11,964,686</b>	<b>8.81%</b>
Benefit Recipients	4,275	4,147	128	3.09%

For the Years Ended June 30, 2011 and 2010

	2011	2010	Amount Increase/Decrease	Percent Increase/Decrease
Retiree Benefits	\$129,834,540	\$122,141,091	\$7,693,449	6.30%
Member Refunds	\$2,474,445	\$2,736,025	(\$261,580)	(9.56%)
Administrative Expenses	\$3,551,598	\$3,372,967	\$178,631	5.30%
Other Expenses	\$9,529	\$32,776	(\$23,247)	(70.93%)
<b>Total</b>	<b>\$135,870,112</b>	<b>\$128,282,859</b>	<b>\$7,587,253</b>	<b>5.91%</b>
Benefit Recipients	4,147	4,002	145	3.62%

**DEDUCTIONS TO FIDUCIARY NET ASSETS**

FY 2007-2012



funds, commodities and risk parity) as well as market appreciation of assets resulted in higher investment management fees in 2012.

Deductions of \$147.8 million are slightly less than additions of \$190.4 million, resulting in an increase of \$42.5 million in fiduciary net assets for the fiscal year ended June 30, 2012.

The change in fiduciary net assets consists of total additions reduced by total deductions. Table 5 below shows condensed information about this financial activity. Fiduciary net

assets increased by \$42.5 million for the year ended June 30, 2012. This modest increase is due to the contributions received during the fiscal year. Fiduciary net assets increased by \$501.9 million from FY 2010 to FY 2011. The magnitude of this increase is due to the appreciation of investment assets.

#### CHANGES IN FIDUCIARY NET ASSETS (CONDENSED): TABLE 5

*For the Years Ended June 30, 2012 and 2011*

	2012	2011	Amount Increase/Decrease	Percent Increase/Decrease
Beginning Plan Net Assets	\$2,317,775,829	\$1,815,896,455	\$501,879,374	27.64%
Total Additions	\$190,362,623	\$637,749,486	(\$447,386,863)	(70.15%)
Total Deductions	\$147,834,798	\$135,870,112	\$11,964,686	8.81%
<b>Ending Plan Net Assets</b>	<b>\$2,360,303,654</b>	<b>\$2,317,775,829</b>	<b>\$42,527,825</b>	<b>1.83%</b>

*For the Years Ended June 30, 2011 and 2010*

	2011	2010	Amount Increase/Decrease	Percent Increase/Decrease
Beginning Plan Net Assets	\$1,815,896,455	\$1,591,399,558	\$224,496,897	14.11%
Total Additions	\$637,749,486	\$352,779,756	\$284,969,730	80.78%
Total Deductions	\$135,870,112	\$128,282,859	\$7,587,253	5.91%
<b>Ending Plan Net Assets</b>	<b>\$2,317,775,829</b>	<b>\$1,815,896,455</b>	<b>\$501,879,374</b>	<b>27.64%</b>

### New Accounting Standards

In June 2012, the Governmental Accounting Standards Board (GASB), which sets Generally Accepted Accounting Principles (GAAP) for governments, including SamCERA, approved major changes to the pension accounting and reporting framework. The new pension accounting and financial reporting standards, GASB 67 and 68 represent the most significant fundamental changes in reporting requirements for pension plans and plan sponsors in over a decade. The standards require plan sponsors to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The standards also enhance accountability and transparency through revised and new note disclosures and required supplementary information. For plans, the standards build upon the existing framework for financial reports, enhance the note disclosures and required supplementary information, and require the presentation of new information about annual money-weighted rates of return in the notes to the financial statements. GASB 67 provisions for plans are effective for financial statements for periods beginning after June 15, 2013, and GASB 68 for plan sponsors, are effective for fiscal years beginning after June 15, 2014. SamCERA's board and management, working with professional consultants will evaluate and implement these new requirements as prescribed.

### SamCERA's Fiduciary Responsibilities

SamCERA's Board of Retirement and management staff are fiduciaries of the pension trust fund. Under the California

Constitution and the County Employees Retirement Law of 1937, assets of the retirement system can only be used for the exclusive benefit of plan participants and their beneficiaries.

### Requests for Information

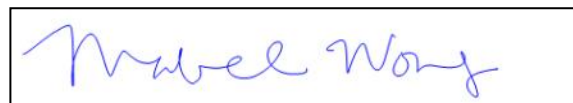
This financial report is designed to provide the SamCERA's board, membership, participating employers, taxpayers, and other interested parties with a general overview of SamCERA's financial condition and to show accountability for the funds it receives.

Additional information is available on our website at [www.samcera.org](http://www.samcera.org).

Questions regarding this report, or requests for additional financial information should be addressed to:

San Mateo County Employees'  
Retirement Association  
100 Marine Parkway, Suite 125  
Redwood City, CA 94065  
Telephone: (650) 599-1234  
Facsimile: (650) 591-1488

Respectfully submitted,



Mabel Wong  
Finance Officer  
October 15, 2012

## STATEMENT OF FIDUCIARY NET ASSETS

For the Years Ended June 30, 2012 and 2011

	2012	2011
<b>ASSETS</b>		
Cash and deposits	\$49,733,227	\$62,694,785
Security lending cash collateral	199,380,508	199,438,881
Total cash	249,113,735	262,133,666
Receivables		
Contributions	3,702,233	10,470,382
Due from broker for investments sold	125,066,558	148,074,596
Investment income	5,414,934	5,800,573
Security lending income	97,138	67,915
Other receivables	113,496	113,735
Total Receivables	134,394,359	164,527,201
Prepaid Expense	7,669	7,669
Investments, at fair value		
Domestic fixed income securities	453,960,203	481,753,079
International fixed income securities	100,544,203	103,539,324
Domestic equities	902,422,401	932,277,233
International equities	408,832,756	398,753,172
Real estate	146,917,122	135,475,106
Private Equities	19,404,901	3,740,976
Risk parity	152,628,991	145,620,699
Hedge funds	68,994,760	69,986,272
Commodities	69,902,427	0
Total Investments	2,323,607,764	2,271,145,860
<b>Total Assets</b>	<b>2,707,123,527</b>	<b>2,697,814,396</b>
<b>LIABILITIES</b>		
Payables		
Investment management fees	2,533,960	1,869,336
Due to broker for investments	141,487,676	175,192,142
Collateral payable for securities	199,380,508	199,438,881
Other	3,417,729	3,538,208
<b>Total Liabilities</b>	<b>346,819,873</b>	<b>380,038,567</b>
<b>Net Assets Held in Trust For Pension Benefits</b>	<b>\$2,360,303,654</b>	<b>\$2,317,775,829</b>

The accompanying Notes to the Financial Statement beginning on page 36 are an integral part of these financial statements.



## STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the Years Ended June 30, 2012 and 2011

	2012	2011
<b>ADDITIONS</b>		
Contributions (Note 3)		
Employer	\$150,949,761	\$150,474,872
Member	49,687,136	49,013,027
Total Contributions	200,636,897	199,487,899
Investment Income		
Interest and dividends	61,653,951	50,758,044
Net appreciation in fair value of investments	(51,737,514)	403,496,528
	9,916,437	454,254,572
Less investment expense	(20,940,955)	(16,596,601)
Net Investment Income	(11,024,518)	437,657,971
Security Lending Income		
Earnings	452,442	558,768
Less security lending expense	268,777	(28,457)
Net Security Lending Income	721,219	530,311
Other Additions	29,025	73,305
<b>Total Additions</b>	<b>190,362,623</b>	<b>637,749,486</b>
<b>DEDUCTIONS</b>		
Association benefits		
Service retirement allowance	122,541,648	114,422,667
Disability retirement allowance	15,532,365	14,552,927
Survivor, death and other benefits	1,133,577	858,946
Total Association Benefits	139,207,590	129,834,540
Refunds of members' contributions	3,627,492	2,474,445
Administrative expense (Note 3)	5,033,047	3,551,598
Other Expense	(33,331)	9,529
<b>Total Deductions</b>	<b>147,834,798</b>	<b>135,870,112</b>
<b>Net Increase</b>	<b>42,527,825</b>	<b>501,879,374</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>		
Beginning of year	2,317,775,829	1,815,896,455
<b>End of Year</b>	<b>\$2,360,303,654</b>	<b>\$2,317,775,829</b>

The accompanying Notes to the Financial Statement beginning on page 36 are an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENT

### Note 1: Plan Description

The following description of the San Mateo County Employees' Retirement Association (the Association or SamCERA) is provided for general information purposes. The Association is governed by the California Constitution, the County Employees Retirement Law of 1937 (the 1937 Act – a component of the California Government Code) and the bylaws, procedures and policies adopted by the Board of Retirement.

#### General

The Association is a cost-sharing multiple-employer, defined benefit pension plan established to provide pension benefits for substantially all permanent employees of the County of San Mateo (Primary Employer), the San Mateo County Mosquito and Vector Control District, and the Superior Courts of County of San Mateo. The Association is a Pension Trust Fund of the primary and participating employers. Management of the Association is vested in the Board of Retirement consisting of nine members. The 1937 Act states one member shall be the County Treasurer; the second and third members shall be general members of the Association elected by their peers; the fourth, fifth, sixth and ninth members shall be qualified electors of the county and shall be appointed by the Board of Supervisors; the seventh member shall be elected by and be a member of the Association's safety membership; and the eighth member shall be a retired member elected from the retired membership.

The Association has six tiers, which cover members classified as general, safety or probation. Members hired on or before July

6, 1980, became members of Tier 1. Members hired after July 6, 1980, and before July 13, 1997, became members of Tier 2. Members hired on or after July 13, 1997, become members of Tier 4, until Tier 5 and Tier 6 became effective in FY 2011-2012. New General Members may also elect membership under Tier 3, a non-contributory plan. New employees appointed to positions of active law enforcement become safety members under Tier 5 or 6. In 1990, probation officers were given the choice of remaining in the general plan or electing safety status for future service under a new probation plan. All new probation officers then became members under Tier 2 for probation officers. From January 1, 1993, general members in Tier 3 with five years of continuous service have the option to change to the plan they were eligible for at entry date. Former Tier 3 members are authorized to purchase service credit in their current plan. Earned Tier 3 service credit is forfeited in an amount equivalent to the purchase.

The County of San Mateo implemented a number of new tiers for new hires beginning in fiscal year 2011-2012. The new tiers are mostly pension formulas prior to the adoption of enhanced formulas in the middle of the last decade with some cost shifting. Existing plans closed simultaneously.

General employees hired on or after August 7, 2011, choose between an existing non-contributory plan or a 2% @ 61.25 contributory plan, Tier 5. Newly hired Safety members subsequent to January 8, 2012 are enrolled in a 3% @ 55 Tier 5, or a 2% at 50 Tier 6, contributory plan. New Probation members hired after July 10,

ASSOCIATION MEMBERSHIP PROFILE

For the Year Ended June 30, 2012

	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Total
<b>RETIREES AND BENEFICIARIES CURRENTLY RECEIVING BENEFITS</b>							
General	1,910	1,489	110	210	0	0	3,719
Safety	285	126	0	17	0	0	428
Probation	72	46	0	10	0	0	128
Subtotal	2,267	1,661	110	237	0	0	4,275
<b>TERMINATED MEMBERS ENTITLED TO BUT NOT RECEIVING BENEFITS (DEFERRED)</b>							
General	26	449	117	508	0	0	1,100
Safety	1	30	0	36	0	0	67
Probation	0	20	0	25	0	0	45
Subtotal	27	499	117	569	0	0	1,212
<b>CURRENT MEMBERS</b>							
<b>Vested</b>							
General	49	994	72	2,207	0	0	3,322
Safety	4	114	0	219	0	0	337
Probation	1	70	0	202	0	0	273
<b>Non-Vested</b>							
General	0	1	67	817	154	0	1,039
Safety	0	0	0	84	14	0	98
Probation	0	0	0	22	3	1	26
Subtotal	54	1,179	139	3,551	171	1	5,095
<b>Total</b>	<b>2,348</b>	<b>3,339</b>	<b>366</b>	<b>4,357</b>	<b>171</b>	<b>1</b>	<b>10,582</b>

2011, are offered the option to choose between the 3% @ 55 formula with an additional cost-share contribution of 3.5% of pay, Tier 5, or a 2% @ 50 formula with no cost-share provision, Tier 6. All new hires in these bargaining units also pay half the actuarial cost of Cost of Living Adjustments (COLA).

The Association is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

As of June 30, 2012, the Association

membership is shown in the table above.

**Benefit Provisions**

The Association provides service retirement, disability and death benefits based on defined benefit formulas, which use final average compensation, years of service, and age factors to calculate benefits payable. In addition, the Association provides annual cost of living adjustments upon retirement for members of Tiers 1, 2, 4, 5 and 6. The benefits of Tier 3 are reduced by a portion of Social Security benefits received by the member. The 1937 Act vests the Board of

Supervisors with the authority to initiate benefits, while Government Code Section 31592.2 empowers the Board of Retirement to provide certain ad hoc benefits when the Section 31592 reserve exceeds 1% of assets.

Members with 10 years of continuous service (permanent part-time employees need equivalent of 5 years of full-time service and 10 years of membership) are eligible to retire at the following minimum ages:

<b>Tier One</b>	Age 50
<b>Tier Two</b>	Age 50
<b>Tier Three</b>	Age 55
<b>Tier Four</b>	Age 50
<b>Tier Five</b>	Age 50
<b>Tier Six</b>	Age 50

General members in Tiers 1, 2, 4, 5 and 6 may retire at any age after 30 years of service. Safety members and Probation members may retire at any age after 20 years of service.

A member who leaves county service may withdraw his or her contributions, plus any accumulated interest.

Members with five years of service or permanent part-time employees who have the equivalent of five years of full-time service or non-contributory members (Tier 3) with 10 years of service who terminate their employment with the county may elect a deferred retirement.

**Note 2: Summary of Significant Accounting Policies**

**Basis of Accounting**

The Association follows the accounting principles and reporting guidelines as set

forth by the Governmental Accounting Standards Board (GASB). The financial statements are prepared using the accrual basis of accounting and reflect the overall operations of SamCERA. Investment income is recognized when it is earned, and expenses are recognized when they are incurred. Employer and member contributions are recognized in the period in which the contributions are due, and benefits and refunds are recognized when payable in accordance with the terms of each tier.

SamCERA is an independent public employee retirement system with its own governing board. SamCERA’s financial statements are included in the County of San Mateo’s financial statements as a pension trust fund of the county. Maintaining appropriate controls and preparing the Association’s financial statements are the responsibility of SamCERA’s management.

**Cash and Investments**

The Board of Retirement has exclusive control of the investments of the Association. Government Code Section 31595 of the 1937 Act authorizes the board to invest, or delegate the authority to invest, the assets of the Association in any investment allowed by statute and deemed prudent in the informed opinion of the board.

Cash is pooled with other funds of the county or custodians, when appropriate, so as to earn a higher rate of return than could be earned by investing the funds individually. All highly liquid investments with maturities of three months or less when purchased, in addition to the pooled cash

with the county and custodians, are considered cash equivalents.

**Investments:** The Association records investment transactions on the trade date. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. By contract, an independent appraisal is obtained once every quarter to determine the fair market value of the real estate assets.

Interest income is recognized as it accrues. Dividend income is recognized when the dividends are declared. Realized gains and losses and unrealized gains and losses on investments are combined and reported together as the net appreciation (depreciation) in the fair value of investments.

### Security Lending Activity

Security lending transactions are short-term collateralized loans of SamCERA securities for the purpose of generating additional investment income. For each lending transaction, SamCERA receives either cash collateral or non-cash collateral.

The underlying securities out on loan are reported on SamCERA's statement of fiduciary net assets as if the lending transaction had not occurred.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, cash collateral held (or any security that can be sold or pledged without a default by the borrower) is separately reported on the statement of

fiduciary net assets among the current assets. A corresponding liability of an equal amount (the obligation to return the cash collateral) is reported as a liability.

Non-cash collateral held is not reported on the statement of fiduciary net assets nor is there a corresponding liability reported on this statement. Note 4 - Deposit and Investment Risk Disclosure discloses the amount of securities lending non-cash collateral.

### Income Taxes

The Internal Revenue Service has ruled that plans such as SamCERA qualify under Section 401(a) of the Internal Revenue Code and are not subject to tax under present income tax laws. On January 6, 1988, the Internal Revenue Service issued a favorable Tax Determination Letter. Accordingly, no provision for income taxes has been made in the accompanying basic financial statements, as the Plan is exempt from federal and state income taxes under provisions of the Internal Revenue Code, Section 401, and the California Revenue and Taxation Code, Section 23701, respectively.

### Receivables

Receivables consist primarily of interest, dividends, investments in transition, i.e., traded but not yet settled, and contributions owed by the employing entities as of June 30, 2012, and 2011.

### Property, Plant and Equipment

Capital assets are valued at historical cost, net of accumulated depreciation. Capital assets with an initial cost of more than \$3,000 and an estimated useful life in excess of three years are capitalized and depreciated. Depreciation is calculated using

the straight-line method over the estimated useful lives of the depreciable assets. The estimated useful lives for the assets in each category are as follows: office furniture – seven years; office equipment – five years; business continuity assets – three years; computer hardware – three years; and computer software – three years.

### Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results may differ from those estimates.

### Foreign Currency Transactions

Gains earned and losses incurred resulting from foreign currency transactions during the year are recorded as a component of investment income. Gains and losses from translation of international investments at fiscal year-end rates of exchange are included in investment income.

Forward currency contracts are used by our investment managers to control currency exposure and facilitate the settlement of international security purchase and sale transactions. These contracts are agreements to exchange different currencies at specified rates and settlement dates. Differences between the contract and market exchange rates at settlement result in gains or losses, which are included in net investment income. Risks may arise from the possible inability of counterparties to meet the terms of their contracts and from movements in exchange and interest rates.

### Reclassification

Certain financial statement items from the prior year's financial statements have been reclassified for comparative purposes. Such reclassifications had no effect on previously reported net plan assets.

### Summarized Prior Year Information

The accompanying financial statements include certain prior year summarized information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America.

Accordingly, such information should be read in conjunction with SamCERA financial statements as of and for the year ended June 30, 2011, from which the summarized information was derived.

### Note 3: Contributions, Administrative Expenses and Reserves

#### Contributions

The 1937 Act establishes the basic obligations for employers and members to make contributions to the pension trust fund. The employer and member contribution rates are based on recommendations made by an independent actuary and adopted by the Board of Retirement. The employer and member rates are based on membership type (General, Safety, Safety/Probation) and tier (Tier 1, Tier 2, Tier 3, Tier 4, Tier 5 and Tier 6). The funding objective of the plan is to establish employer and member contribution rates which, over time, will remain level as a percentage of payroll, unless plan benefit provisions change.

For Tiers 1, 2, 4, 5 and 6 active members are required by statute to contribute toward their retirement benefits. Tier 3 is a non-contributory plan. The member contribution rates are formulated on the basis of age at the date of entry and the actuarially calculated benefits. Member contributions along with credited interest are refundable upon termination of membership.

Interest Crediting is explained in this Note under Reserves & Accounts. The Association’s Tier 3 is a non-contributory plan for members. For the other tiers, the member basic contribution rates are based on age at entry into the Association and are a percentage of covered compensation. Under a Memorandum of Understanding with San Mateo County, its General Members contribute an additional 3.0% of covered salary to help offset benefits. San Mateo County Mosquito and Vector Control District implemented the enhanced benefits formula effective July 1, 2010, but the employees do not make additional contributions.

The participating employers are required by statute to contribute the amounts necessary to fund the estimated benefits accruing to SamCERA members not otherwise funded by member contributions or expected investment earnings. Employer contribution rates for each tier are determined pursuant to Government Code Section 31453 of the 1937 Act. Contribution rates are actuarially determined using the entry age normal method and consist of an amount for normal cost (the estimated amount necessary to finance benefits earned by members during the current year) and an amount required to amortize the unfunded actuarial

accrued liability (UAAL). Beginning with the June 30, 2008 actuarial valuation, SamCERA converted to the 15-year layered amortization methodology. Under this methodology, the original unfunded amount (UAAL) is amortized over 15 years as of the valuation date. Future actuarial gains and losses are amortized over new 15-year periods. Details of the funding progress, annual required member contribution and employer contribution, and the latest actuarial valuation are presented in the Required Supplementary Information Schedules.

The normal cost and UAAL contribution rates are shown in the following table.

**NORMAL COST AND UAAL RATES**

	<b>2012</b>	<b>2011*</b>	<b>Change</b>
Normal Cost	11.52%	11.25%	0.27%
UAAL Amortization	23.97%	22.75%	1.22%
<b>Total Contribution Rate</b>	<b>35.49%</b>	<b>34.00%</b>	<b>1.49%</b>

\*For 6/30/2011, the Board of Retirement voted on September 27, 2011 to retain the contribution rate from the June 30, 2009 actuarial valuation for the second consecutive year rather than the 30.97% calculated in the June 30, 2011 valuation. The 30.97% is composed of 11.25% normal cost and 19.72% UAAL.



**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<b>Year Ended June 30</b>	<b>Annual Required Contribution (unit \$000)</b>	<b>Percentage Contributed</b>
2012	\$150,950	100%
2011	\$150,475	100%
2010	\$106,265	100%

Effective May 2, 2010, the county reduced from 100% to 75% the percentage it pays of management employees’, unrepresented attorneys’ and sheriff’s sergeants’ contributions. Effective April 23, 2006, the county pays 20% of Safety/Probation contributions on a non-refundable basis.

For the fiscal year ended June 30, 2012, the county paid its employer contributions owed to SamCERA in two semi-annual prepayments in July 2011 and January 2012. The prepayment is based on the adopted actuarial contribution rates and the estimated remaining covered payroll by tier discounted by the actuarial assumption rate. Throughout the rest of the year, the prepayment was reduced by actual contributions owed reflective of actual payroll. At fiscal year-end, there is a true-up based on the actual contributions owed. At the end of the 2011-2012 fiscal year, the prepayment account had an excess balance of \$2,822,540 which included a credit to the county of \$127,818 for the replacement benefits program. The excess in the prepayment account will be credited towards the 2012-2013 fiscal year employer contribution.

The county will continue with the semi-annual prepayment in FY 2012-2013.

**Administrative Expenses**

The SamCERA Board of Retirement annually adopts the operating budget for the administration of SamCERA. The administrative expenses are charges against earnings of the retirement fund and are limited to twenty-one hundredth of 1 percent (0.21%) of the accrued actuarial liability as set forth under Government Code Section 31580.2. SamCERA’s policy is to assess compliance with the limitation based on the prior year accrued actuarial liability as determined in the latest annual valuation. SamCERA’s administrative expenses totaled 0.15% of accrued actuarial liability for the fiscal year ended June 30, 2012.

The passage of Assembly Bill 609 in October 2010 changed the 1937 Act system administration expense limit from 23 basis points of total assets to 21 basis points of Accrued Actuarial Liability. Since the system’s liability is more consistent from year to year and not affected by capital market volatility, the change will allow SamCERA to manage its administrative expenses more effectively. With the implementation of Government Code Section 31580.2, SamCERA no longer classifies internal investment related expenses to asset management. Asset Management Expenses will be reclassified and combined with Administrative Expense. Under the new limit, information technology expenses are not included in administrative expense. Hence, there is a separate information technology budget that started in fiscal year 2012.

Administrative costs of the Association are financed through employer and member

contributions and investment earnings. Administrative costs reported in the statement of changes in plan net assets include:

**ADMINISTRATIVE BUDGET**

	2012	2011*
Salaries and member benefits	\$3,493,963	\$3,190,000
Services and supplies	1,240,237	2,773,700
<b>Administrative Expenditures</b>	<b>\$4,734,200</b>	<b>\$5,963,700</b>

\*2011 restated to include Asset Management budget for comparison.

**Asset Management Expenses**

SamCERA’s Asset Management Budget contains in-house expenses that directly relate to the investment and management of SamCERA’s investment portfolio. Those expenses include staff salary and benefits, as well as administrative expenses directly tied to investment. Since the implementation of Government Code Section 31580.2, SamCERA no longer tracks asset management expenses separately.

**BUDGET TO ACTUAL ANALYSIS OF ADMINISTRATIVE EXPENSE**

*As of June 30, 2012 and 2011 (Amounts in Thousands)*

	2012	2011
Actual Accrued Liability at Prior Year-End	\$3,247,000	N/A
Projected Net Asset Base at Fair Value	N/A	\$2,275,000
Maximum Limit in Basis Point	21 bp	23 bp
Maximum Admin Expense	\$6,819	\$5,233
Operating Budget	\$4,734	\$5,963*
Actual Administrative	\$4,708	\$4,242*
<b>Under-expended Operating Budget</b>	<b>\$26</b>	<b>\$1,721</b>

\* Includes asset management expenses for comparative purposes.

**ASSET MANAGEMENT BUDGET**

	2012	2011
Salaries and member benefits	\$0	\$550,000
Services and supplies	0	430,700
<b>Asset Mgmt. Expenditures</b>	<b>\$0</b>	<b>\$980,700</b>

**New Information Technology Budget**

Government Code section 31580.2 excludes any computer related expenses from the Administrative Budget. The Information Technology budget includes projected expenses for computer software, hardware, property, and equipment, as well as program maintenance and upgrades. It also includes projected expenses for technology modernization projects, oversight project management and consultant expenses. The Information Technology budget is approved by the Board.

**INFORMATION TECHNOLOGY BUDGET**

	2012	2011*
Property and Equipment	\$60,000	\$0
IT Infrastructure	1,806,000	0
<b>IT Expenditure</b>	<b>\$1,866,000</b>	<b>\$0</b>

\* Information Technology was included with Administrative in 2011.

**BUDGET TO ACTUAL ANALYSIS OF INFORMATION TECHNOLOGY EXPENSE**

*As of June 30, 2012 and 2011*

	2012	2011*
Property and Equipment	\$61,989	\$0
IT Infrastructure	263,432	0
<b>IT Expenditure</b>	<b>\$325,421</b>	<b>\$0</b>

\* Information Technology was included with Administrative in 2011.

## Reserves and Accounts

The reserves represent the components of SamCERA's net assets. Reserves are established from employer and member contributions and the accumulation of investment income after satisfying investment and administrative expenses. The reserves do not represent the present value of assets needed, as determined by actuarial valuation, to satisfy retirements and other benefits as they become due. SamCERA's major classes of reserves are valuation and non-valuation. The valuation reserves will be credited interest at the assumed actuarial interest rate. The interest crediting and allocation process will be discussed below. The valuation reserves are as follows:

**Member Deposit Reserve:** This reserve represents the total accumulated member contributions of current active and inactive (deferred) members. Additions include member contributions and credited interest. Deductions include refunds to members and transfers to Retired Member Reserve made at the time the member retires.

**Employers' Advance Reserve:** This reserve represents the total accumulated employer contributions for future retirement payments to active and deferred members. Additions include contributions from the employers and credited interest. Deductions include lump-sum death benefit payments to member's survivors, supplementary disability payments, and transfers to the Retired Member Reserve made at the time each member retires. When a terminating member elects to receive a refund of member contributions, there is no corresponding effect on the balance of the Employers' Advance Reserve because the

employers' contribution rates are based on an actuarial assumption that takes into account the expected rate of member terminations.

**Retired Member Reserve:** This reserve represents funds accumulated to pay retirement benefits for retired members. Additions include the total accumulated transfers from the Member Deposit Reserve, the Employers' Advance Reserve (both made at the time each member retires) and credited interest. Deductions include payments to retired members, beneficiaries and survivors.

**Cost of Living Adjustment Reserve:** This reserve represents the total accumulated employer contributions for future cost of living adjustments under provisions of the 1937 Act. Additions include contributions from employers and credited interest. Deductions include payments to retired members, beneficiaries and survivors. Effective April 1 of each year, for those members retired on or prior to April 1, the board adjusts the retirement allowances by a percentage of the total allowance to approximate the nearest one-half of one percent of the percentage of the annual increase in the cost of living for the preceding calendar year. The cost of living increase is based on that shown by the Bureau of Labor Statistics Consumer Price Index (CPI) for All Urban Consumers in the San Francisco, Oakland, and San Jose Bay Area. The increase is capped at 5.0% for Tier 1 (Probation/Safety Tier 1 is 3.0%), 3.0% for Tier 2 and 2.0% for Tier 4, 5 and 6. Tier 3 has no cost of living adjustment.

## SamCERA's Non-Valuation Reserves and Accounts

### Reserves

**Contingency Reserve:** This reserve represents reserves accumulated for future earnings deficiencies, investment losses, and other contingencies. Additions include investment income and other revenues. Deductions include investment expenses, administrative expenses, and interest allocated to other reserves. The Contingency Reserve is used to satisfy the California Government Code requirement to reserve at least 1% of total assets against future earnings deficiencies.

### Accounts

Generally Accepted Accounting Principles do not allow for a negative reserve. Therefore, the Board of Retirement adopted two policies that establish accounts that may have a negative balance. The non-valuation accounts are the Contingency Account and the Market Stabilization Account.

Effective January 1, 1993, the Board of Retirement provided for the implementation of Actuarial Standards Board Standard of Practice No. 4 and adopted five-year smoothing of all returns for valuing actuarial assets and calculating the unfunded actuarial accrued liability. Effective June 30, 1997, the board provided for the implementation of GASB Statement No. 25 and authorized the creation of a Market Stabilization Account to reconcile differences between the market value of assets and the actuarial value of assets. Effective retroactive to June 30, 2002, the board amended its Market Stabilization Account policy to limit the difference between the market value of assets

and the actuarial value of assets to not more than  $\pm 20\%$  of the market value. The board's objective in adopting this policy is to minimize the impact of short-term volatility in the market value of the retirement fund on employer and member contribution rates by smoothing market returns over a five-year period. All of the board's prior decisions regarding the Market Stabilization Account were assembled into a single policy decision as Resolution 03-04-01, which was adopted by the board on August 26, 2003.

On June 22, 2004, the Board of Retirement adopted Resolution 03-04-17, *Statement of Interest Crediting Policy*. This policy was amended on September 28, 2004, to establish an Unallocated Earnings / (Loss) Account.

**Contingency Account:** This account was established to facilitate the mandates of the interest crediting policy, which specifies the manner in which interest is credited to the reserves semi-annually. When there are insufficient allocable earnings to credit the reserves as specified in the policy, the Contingency Account may be debited by the amount required. However, in no event may the total of the non-valuation reserves be allowed to drop lower than 1% of the market value of assets.

**Market Stabilization Account:** This account represents the deferred balance of investment earnings not yet credited to the reserves. This balance arises from the five-year actuarial smoothing process for investment earnings described below. The Market Stabilization Account balance thus represents the difference between (1) the aggregate amounts initially deferred (smoothed) from the ten most recent semi-

annual periods and (2) the amounts subsequently recognized for semi-annual interest crediting from these same ten periods.

**Actuarial Smoothing:** Net investment income reported on the Statement of Changes in Fiduciary Net Assets affects the reserves indirectly through an actuarial “smoothing” process approved by the Board of Retirement. This process operates semi-annually with calculation periods ending December 31 and June 30. It involves spreading the difference between actual and expected market return over ten successive semi-annual periods.

**Semi-Annual Interest Crediting:** SamCERA updates reserve balances on a semi-annual basis as of December 31 and June 30 each year. At these times, SamCERA carries out a multi-step process to calculate new reserve balances as specified in Article 5 of the 1937 Act. The amount of “net earnings” to be credited for the semi-annual period is calculated based on the actuarial smoothing process described above. To the extent that net earnings are available, interest is credited to all reserves, except the Member Deposit Reserves, at the actuarial assumed interest rate of 3.875% semi-annually for the fiscal year ended June 30, 2012, to specific components of reserves in a prescribed sequence. Pursuant to the Board of Retirement’s interest crediting policy, Member Deposit Reserves are credited at the lesser of the actuarial smoothed earnings rate or the actuarial assumed interest rate, but the rate credited cannot be less than zero.

**Allocation of Earnings to Reserves:** For the year ended June 30, 2012, SamCERA’s distributed allocation of earnings to reserves

of \$181.9 million and resulted in -\$81.0 million as unapplied interest crediting. Earnings on average, resulting from the five-year smoothing process, were sufficient to provide credits to the reserves at the actuarial assumed interest rate in effect during the year, 3.875% semi-annually. The actuarial smoothed interest rate was 0.44% and 0.26% at December 31, 2011, and June 30, 2012, respectively.

Reserves are restricted to specific purposes. Member contributions are credited to the Member Deposit Reserve. County contributions are credited to County Advance Reserve and the Cost of Living Adjustment Reserve. At retirement, a member’s accumulated contributions plus interest and the related county contributions are transferred to the Retiree Reserve. The Retiree Reserve and the Cost of Living Adjustment Reserve represent amounts set aside for retirement benefits promised under the plan less benefits paid.

The reserves required by Section 31592 of the 1937 Act represent earnings in excess of the total interest credited to contributions and reserves. The 1937 Act requires that the excess earnings remain in the retirement fund as a reserve against any deficiencies in interest earnings in other years, losses on investments and other contingencies. However, excess earnings exceeding one percent of the total assets of the Association may be transferred into the County Advance Reserve for payment of benefits described under the 1937 Act.

GASB Statement No. 25 mandates the recognition of unrealized gains and losses in the current period. However, on the recommendation of its actuary, SamCERA

utilizes a Market Stabilization Account to account for unrealized actuarial investment gains and losses, which are calculated as the difference between the actual market return and the return that would have been generated if earnings had been at the actuarial interest rate. The Market Stabilization Account is designed to smooth the impact on employer annual contribution rates due to volatility in investment returns. Balances in the Market Stabilization Account are amortized over five years in accordance with a schedule established by the actuary.

greater than or less than the Actuarial Interest Rate. An Undistributed Earnings / Losses Account was established to account for periods when Actual Earnings do not equal the Actuarial Interest Rate.

The June 30, 2012, balance in the Market Stabilization Account of -\$120.0 million reflects the balance of the current year's and previous four years' net deferred returns.

On June 26, 2004, SamCERA adopted an Interest Crediting Policy which mandates Actuarial Valuation Reserves be credited at the Actuarial Interest Rate. The policy acknowledges that actual earnings may be

**RESERVES REQUIRED FOR REPORTING PURPOSES BY THE 1937 ACT**

	<b>2012</b>	<b>2011</b>
Member Deposit Reserve	498,568,652	\$485,125,877
Employers' Advance Reserve – Current Service	361,197,981	310,568,622
Retiree Member Reserve	858,440,088	765,312,626
Cost-of-Living Adjustment Reserve	843,061,707	760,505,829
Total Allocated Reserves	2,561,268,428	2,321,512,954
Unallocated Earnings / Losses Account	(80,997,723)	83,655,373
Market Stabilization Account	(119,967,051)	(87,392,498)
<b>Net Assets Held in Trust for Pension Benefits</b>	<b>\$2,360,303,654</b>	<b>\$2,317,775,829</b>



#### Note 4: Deposit and Investment Risk Disclosure

The County Employees Retirement Law of 1937 vests the Board of Retirement with exclusive control over SamCERA's investment portfolio. Except as otherwise expressly restricted by the California Constitution and by law, the board may, in its discretion, invest, or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the board.

The board established an investment policy statement in accordance with applicable local, state and federal laws. The trustees exercise authority and control over the management of SamCERA's assets by setting the policy. The board oversees and guides the plan subject to the following fiduciary responsibilities:

- Solely in the interest of, and for the exclusive purpose of, providing economic benefits to participants and their beneficiaries.
- With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like objectives.
- Shall diversify the investments of the plan as to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so. Diversification is applicable to the deployment of the assets as a whole.

#### Deposits

Operational cash consists of deposits with financial institutions as well as deposits held in a pooled account with the County of San Mateo. All operational cash is in interest bearing instruments. Deposits with financial institutions are swept into a pooled money market fund, which invests in repurchase agreements and U.S. Treasury bills and notes. All participants in the treasury pool share earnings and losses. The short-term investments consist of cash held in money market accounts and securities readily convertible to cash. All deposits are carried at cost, which approximates fair value.

#### Investments

The Association's investments are managed by independent investment management firms subject to the guidelines and controls specified in the investment plan and contracts executed with the board. The board utilizes a third party institution to be an independent custodian over the plan's assets.

The board approved its first comprehensive investment plan on September 29, 1994. The plan specified an asset allocation target of 50% equities, 40% fixed income securities, and 10% real estate. On August 24, 2010, the Board of Retirement concluded an asset/liability modeling study and adopted a new asset allocation, consisting of 53% equities, 22% fixed income, 5% real estate and a new allocation of 20% to alternative investments. The alternatives portfolio consists of 40% private equity, 30% risk parity, 15% commodities and 15% hedge funds. Funding for alternative investments comes from reducing equities from 67% to 53%, fixed income from 27% to 22% and real estate from 6%



to 5%. SamCERA does not have a policy allocation to cash. As of June 30, 2012, actual asset allocation was 56.5% equities, 23.9% fixed income, 13.2% alternative investments, 6.2% real estate and 0.2% in cash.

For financial reporting purposes, the Association's investments are categorized to give an indication of the risk assumed by the Association as of June 30, 2012. The Governmental Accounting Standards Board (GASB) Statement No. 3 established custodial credit risk categories. The GASB Statement No. 40 and Statement No. 53 update the custodial credit risk disclosure requirements of Statement No. 3 and establish and modify disclosure requirements related to investment risk, credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk.

SamCERA has chosen to manage the investment risks described by GASB Statements No. 40 and 53 by contractually requiring each portfolio investment manager to abide by restrictive investment guidelines specifically tailored to that investment manager rather than adopting across the board investment policies with respect to manager risk. The investment guidelines stipulate the investment style, performance objective, performance benchmarks, and portfolio characteristics.

Each manager is likewise subject to a "manager standard of care" that establishes a fiduciary relationship requiring the manager to act prudently and solely in the best interest of the Association. Separately SamCERA's guidelines also require manager's investment return performance to

compare favorably with performance of a relative passive market index over specific periods.

SamCERA's investment consultant and investment staff continually monitor all investment managers for compliance with respective guidelines.

### Derivatives

SamCERA implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Investments*, for the fiscal year ended June 30, 2010. Further disclosure on the derivative positions held at fiscal year-end are contained in the table below. In comparison to SamCERA's total investments at fair value, the fair value of SamCERA's derivative positions as of June 30, 2012 is not material.

SamCERA's investments contain various derivative positions as of and for the year ended June 30, 2011, primarily in swaps and foreign currency forward positions. As of June 30, 2012, SamCERA held derivatives with a notional amount of \$101,527,003 and a fair value of \$1,897,657. Changes in fair value during fiscal year 2012 are reported in the statement of changes in fiduciary net assets as a component of investment income. No derivatives were held that would be classified as hedging derivatives – all are classified as investment derivatives.

The fair value of the derivatives are determined using a pricing service and validated by SamCERA's custodians. Management of SamCERA accepts these valuations.

The fair values of currency forward contracts

are determined using a proprietary pricing service, which uses published foreign exchange rates as the primary source. The fair values of credit rate swaps, interest rate swaps, warrants, and To Be Announced (TBA) transactions, are determined using the custodian pricing vehicles.

As of June 30, 2012, SamCERA's derivatives were not subject to custodial credit risk. However, they are subject to other risks.

**Interest Rate Risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is the measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of the portfolio, the greater its price sensitivity to changes in interest rates.

SamCERA has investments in seven fixed

income portfolios containing individual debt securities as well as investments in external investment pools containing debt securities. SamCERA's Investment Policy does not have a formal policy that limits investment duration as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the Association's active bond portfolios that reside in separate accounts are generally managed to duration limits that are within a narrow band (typically +/- 20% or +/- 1 year) to their respective benchmark.

**Credit Risk – Derivatives:** SamCERA is exposed to credit risk on investment derivatives that are traded over the counter and are reported in asset positions. Derivatives exposed to credit risk include credit default and interest rate swaps, currency forward contracts, rights, warrants and TBA transactions. To minimize credit risk exposure, SamCERA's investment managers continuously monitor credit rating of counterparties. Should there be a

## INVESTMENT DERIVATIVES

For the Year Ended June 30, 2012

	<b>Notional Value</b>	<b>Fair Value</b>
Credit Default Swaps Bought	\$1,380,101	\$139,031
Credit Default Swaps Written	\$637,000	\$(43,235)
Fixed Income Futures Long	\$6,250,000	\$0
Fixed Income Futures Short	\$(14,650,000)	\$0
Fixed Income Options Bought	\$1,584,000	\$10,443
Fixed Income Options Written	\$(1,584,000)	\$(3,170)
Futures Options Bought	\$273,000	\$16,988
Futures Options Written	\$(320,000)	\$(7,363)
FX Forwards	\$107,651,784	\$1,784,417
Rights	\$305,064	\$0
Warrants	\$53	\$546
<b>Grand Total</b>	<b>\$101,527,002</b>	<b>\$1,897,657</b>

counterparty failure, SamCERA would be exposed to the loss of fair value of derivatives that are in asset positions and any collateral provided to the counterparty, net of the effect of applicable netting arrangements. SamCERA has no general investment policy with respect to netting arrangements or collateral requirements. Netting arrangements legally provide SamCERA with a right of offset in the event of bankruptcy or default by the counterparty.

**Custodial Credit Risk – Deposits:** The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, SamCERA will not be able to recover deposits nor be able to recover collateral securities that are in the possession of an outside party. SamCERA has no general policy on custodial credit risk for deposits.

SamCERA maintains operation cash deposits to support day-to-day cash management requirements. As of June 30, 2012, cash held with a financial institution in a pooled money market fund totaled \$3.4 million. As of June 30, 2011, cash held with a financial institution totaled \$3.0 million. Cash held in the San Mateo County Treasurer's investment pool was \$2.6 million and \$2.5 million as of June 30, 2012 and 2011, respectively. These deposits are uninsured and uncollateralized, and subject to custodial credit risk.

**Custodial Credit Risk – Investments:** The custodial credit risk for investments is the risk that, in the event of the failure of a counterparty to a transaction, SamCERA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The

individual investment guidelines for each investment manager require that managed investments be held in the name of SamCERA. The master custodian may rely on sub-custodians. The custodial requirement does not apply to investments in pools. As of June 30, 2012, SamCERA had no investments that were exposed to custodial risk. SamCERA does not have a general policy addressing custodial credit risk, but it is the practice of the Association that all investments are insured, registered, or held by the plan or its agent in the Association's name. Deposits are to be insured, registered or collateralized with securities held at fiscal agents in SamCERA's name.

**Custodial Credit Risk – Derivatives:** As of June 30, 2012, SamCERA's investments did not include collateral associated with derivatives activity.

**Concentration of Credit Risk:**

Concentration of credit risk is the risk of loss attributed to the magnitude of SamCERA's investment in a single issuer of securities. SamCERA's Investment Policy states no investment shall constitute more than 5% of investable assets.

As of June 30, 2012, the Association had the investments categorized for interest rate and credit risk shown in the table on the following page.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. SamCERA's Investment Policy seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within the asset class.

To control credit risk, credit quality guidelines have been established for our separately managed accounts. SamCERA's Investment Policy has three requirements addressing fixed income quality. First, the minimum average rating of the total portfolio of fixed income assets under a manager's supervision must be "A" or better (Standard & Poor's or Moody equivalent), dollar weighted at market value. Second, the minimum quality rating eligible for the portfolio must be "B" or better (as rated by Standard & Poor's or Moody's equivalent). The third requirement is that no more than 10% of SamCERA's fixed income assets under a manager's supervision shall be

invested in securities with a rating below "Baa3," "BBB-," "P-1" or "A-1." The Association's core plus fixed income manager was given an exemption and may hold more than 10% in assets rated below BBB.

On June 30, 2012, the quality breakdown of the Association's investments in bonds were rated as indicated in the table on the following page.

**ACTIVE FIXED INCOME PORTFOLIO CHARACTERISTICS**

*Aberdeen Asset Management, Brigade Capital Management, Brown Brothers Harriman, Franklin Templeton, Pyramis Global Advisors & Western Asset Management Bond Portfolios Combined*

<b>Investment Type</b>	<b>Fair Value</b>	<b>Coupon</b>	<b>Weighted Average Maturity (Years)</b>	<b>Effective Duration (Years)</b>
Agency	\$6,210,868	5.55%	14.76	8.80
Asset Backed Securities	11,795,001	2.05%	3.90	2.26
Commercial Mortgage-Backed Securities	10,917,705	5.33%	3.34	2.91
Collateralized Mortgage Obligations	31,844,192	2.81%	5.60	3.91
Commingled Funds	35,678,972	0.00%	0.00	0.00
Corporate Bonds	129,121,386	6.51%	8.87	5.51
Foreign	75,699,972	4.79%	3.51	2.81
Mortgage Pass Through	64,984,085	4.37%	6.60	3.55
Taxable Municipal Bonds	6,025,855	4.33%	20.43	6.38
Preferred Stock	191,062	0.00%	0.88	0.96
United States Treasuries	132,591,680	2.02%	11.78	7.20
Yankee	18,855,375	5.03%	13.70	8.26
<b>Total / Average</b>	<b>\$523,916,153</b>	<b>4.25%</b>	<b>8.47</b>	<b>5.25</b>

**COMMINGLED FIXED INCOME PORTFOLIO CHARACTERISTICS**

*Angelo Gordon PPIP Portfolio*

<b>Investment Type</b>	<b>Fair Value</b>	<b>Coupon</b>	<b>Weighted Average Maturity (Years)</b>	<b>Effective Duration (Years)</b>
Angelo Gordon	\$30,588,253	5.00%	28.02	3.92

**QUALITY BREAKDOWN FOR SAMCERA'S INVESTMENTS IN BONDS**

*For the Year Ended June 30, 2012*

<b>Credit Risk</b>	<b>Active Management</b>	<b>Commingled Management</b>
AAA	34.79%	0.10%
AA	2.58%	2.40%
A	1.47%	1.30%
BBB	45.17%	5.00%
Less than BBB	7.52%	89.50%
NR	8.47%	1.70%
	<b>100.00%</b>	<b>100.00%</b>

**Foreign Currency Risk:** Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair values of an investment or deposit. SamCERA's international equity and global bond managers are permitted to invest in authorized countries. SamCERA's Investment Policy states forward currency contracts and currency futures are permitted for defensive currency hedging to mitigate foreign currency risk on the portfolio.

The foreign currency risk analysis schedule on the following page shows the fair value of investments that are exposed to foreign currency risk by investment type and currency denomination. The schedule offers the magnitude of risk for each foreign currency. The foreign currency positions are denominated in U.S. dollars. They are not denominated in their native currencies.

**Foreign Currency Risk – Foreign Exchange Contracts:** Foreign currency contracts are subject to foreign currency risk. Foreign exchange contracts include forward contracts and spot contracts. Currency forward contracts are derivatives and generally serve to hedge or offset the impact of foreign currency exchange rate fluctuations on the reported U.S. dollar fair value of investments denominated in foreign currencies. Spot contracts are generally used when SamCERA is required to make or receive payments in a foreign currency. Spot contracts are agreements to buy or sell a certain amount of foreign currency at the current market rate, for settlement in two business days.

There was no dollar impact from foreign exchange contracts on foreign exchange currency risk as of June 30, 2012.

**Security Lending Collateral Credit Risk:** All of the cash collateral received for securities lending is invested in the State Street Navigator Securities Lending Prime Portfolio, which is not rated by credit rating agencies. All investments will qualify as “eligible securities” within the meaning of Rule 2(a)-7 of the Investment Companies Act of 1940. The portfolio seeks to maintain a stable net asset value per share of \$1.00 by valuing its portfolio using an amortized cost method and will comply with the requirements of Rule 2(a)-7.

**Security Lending Collateral Interest Rate Risk:** Cash collateral from loans of securities are invested in the State Street Navigator Securities Lending Prime Portfolio. Its average effective duration is restricted to 90 days or less. As of June 30, 2012, and 2011, the actual effective duration was 26 days and 31 days, respectively.

### Securities Lending Activity

Beginning on July 1, 2007, the Board of Retirement authorized SamCERA to participate in a securities lending program. Securities lending transactions are short-term collateralized loans of SamCERA securities for the purpose of generating additional investment income. SamCERA has a securities lending agreement in place that authorizes the securities lending agent to lend SamCERA securities to broker-dealers and banks pursuant to a loan agreement. For each securities loan, SamCERA receives either cash or non-cash collateral. SamCERA invests the cash and receives earnings on it in exchange for paying a loan rebate fee to the borrower. In the case of non-cash collateral, the borrower also pays SamCERA a loan premium.

## FOREIGN CURRENCY RISK

For the Year Ended June 30, 2012

Local Currency	Common Stock	Corporate Bonds	Foreign Currency	Government Issues	Preferred Stock	Rights	Depository Receipts	Total
AUSTRALIAN DOLLAR	\$ 15,729,968.76		125,823.38	299,422.33				\$16,155,214.47
BRAZILIAN REAL			21,351.38	3,046,864.08				3,068,215.46
CANADIAN DOLLAR	2,338,971.01		47,699.01					2,386,670.02
CZECH KORUNA								0
DANISH KRONE	7,606,523.49		52,872.40					7,659,395.89
EGYPTIAN POUND			5.31					5.31
EURO CURRENCY	71,124,501.54	833,024.10	819,610.61	12,013,201.17			1,523,107.65	86,313,445.07
GHANA CEDI			4,932.30	2,250,490.02				2,255,422.32
HONG KONG DOLLAR	6,020,644.97		3,061.81					6,023,706.78
HUNGARIAN FORINT			730.75	5,083,323.37				5,084,054.12
INDIAN RUPEE								0
INDONESIAN RUPIAH			-	5,490,178.33				5,490,178.33
ISRAELI SHEKEL			1,352.34	4,511,538.08				4,512,890.42
JAPANESE YEN	51,569,923.54		312,580.52					51,882,504.06
MALAYSIAN RINGGIT			6,950.39	9,501,952.28				9,508,902.67
MEXICAN PESO			44,483.36	6,208,746.74				6,253,230.10
NEW BULGARIA LEV	220,986.51		55,678.99					76,665.50
NEW ROMANIAN LEU								0
NEW TAIWAN DOLLAR			2,589,764.40					2,589,764.40
NEW ZEALAND DOLLAR			0.11					0.11
NORWEGIAN KRONE	1,969,253.39							1,969,253.39
PHILIPPINE PESO			461.95	5,379,732.60				5,380,194.55
POLISH ZLOTY				4,141,414.91				4,141,414.91
POUND STERLING	56,869,137.63		282,076.01	2,226,648.86				59,377,862.50
SINGAPORE DOLLAR	6,949,769.03		53,328.07					7,003,097.10
SOUTH AFRICAN RAND	1,575,196.70							1,575,196.70
SOUTH KOREAN WON			14,200.62	15,162,070.07				15,176,270.69
SWEDISH KRONA	9,631,358.91		158,373.94					9,789,732.85
SWISS FRANC	22,064,078.56		59,015.40					22,123,093.96
TURKISH LIRA	1,789,720.52		0.11					1,789,720.63
UKRAINE HRYVNA		1,928,358.80						1,928,358.80
URUGUAYAN PESO				2,820,218.56				2,820,218.56
<b>TOTAL</b>	<b>\$255,460,034.56</b>	<b>2,761,382.90</b>	<b>4,654,353.16</b>	<b>78,135,801.40</b>	<b>0</b>	<b>0</b>	<b>1,523,107.65</b>	<b>\$342,534,679.67</b>



For the year ended June 30, 2012, on behalf of SamCERA, the securities lending agent lent SamCERA securities to borrowers under the securities lending agreement and SamCERA received cash, securities issued or guaranteed by the United States government, and sovereign debt or irrevocable bank letters of credit as collateral.

SamCERA did not have the ability to pledge or sell collateral securities delivered absent a borrower default therefore, such non-cash collateral is not reported on the statements of plan net assets.

Borrowers were required to deliver collateral for each loan (margin) equal to:

- Loaned securities denominated in U.S. dollars or sovereign debt issued by foreign governments, with a margin of at least 102% of the market value of the loaned securities; and

- Loaned securities not denominated in U.S. dollars, or whose primary trading market was not located in the United States, with a margin of at least 105% of the market value of the loaned securities.

Moreover borrowers were required to maintain the designated margin percentage of collateral on a daily basis.

SamCERA did not impose any restrictions for the year ended June 30, 2012, on the amount of loans that the securities lending agent made on its behalf. The securities lending agent indemnified SamCERA by agreeing to purchase replacement securities or supplement the amount of cash collateral in the event the borrower failed to return

the loaned securities and the collateral was inadequate to replace the securities lent or the borrower failed to pay SamCERA for any income distributions on loaned securities. There were no losses during the year ended June 30, 2012, resulting from a default of the borrowers or the securities lending agent.

SamCERA and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders in a short-term investment pool managed by the securities lending agent. As of June 30, 2012, this investment pool had an average duration of 26 days, and an average weighted maturity of 39 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. For the year ended June 30, 2012, SamCERA had no credit risk exposure to borrowers because, for each borrower, the value of borrower collateral held exceeded the value of the securities on loan to the borrower.

As of June 30, 2012, SamCERA had securities on loan with a total value of \$199.7 million and the cash and other collateral held against the loaned securities of \$205.1 million.

### **Note 5: Risk Management**

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. SamCERA manages and finances these risks by purchasing commercial insurance and

through the County of San Mateo's self-insurance program.

SamCERA is covered by the County of San Mateo's self-insurance program for general liability and workers' compensation coverage. For general liability coverage, the county maintains a self-insurance retention of \$1,000 per occurrence for claims occurring from May 27, 2012 through May 27, 2013. For workers' compensation coverage, the county maintains a self-insured retention of \$1,000 per occurrence. Excess coverages for both of the above are provided by commercial companies that are limited to the following:

- Real and personal property in excess of \$1,000 per incident, but limited to a maximum of \$500,000.
- Earthquake in excess of \$250 or 5.0% of the replacement value, whichever is more per incident, but limited to a maximum of \$25,000 in aggregate.
- Flood damage in excess of 5.0% of the replacement value per location, but limited to a maximum of \$25,000 in aggregate.
- General liability in excess of \$1,000 per incident, but limited to a maximum of \$55,000.
- Workers' compensation in excess of \$1,000 per incident, but limited to a statutory amount.
- Auto liability in excess of \$1,000 per incident, but limited to a maximum of \$55,000.
- Malpractice in excess of \$500 per incident, but limited to a maximum of \$25,000 per claim and aggregate.

Settled claims have not exceeded the commercial coverage in any of the past three fiscal years and there was a slight increase in coverage in fiscal year 2012.

SamCERA pays for risk management administration via a Memorandum of Understanding with the county's Human Resources Department and via a pro-rata share of certain insurances based on the number of employees.

The Board of Retirement purchases separate Fiduciary Liability coverage for actual or alleged breach of fiduciary duties through a policy provided by Travelers. Limits of coverage are \$10,000,000 annual aggregate with a \$50,000 deductible.

### Note 6: Actuarial Valuation

Pursuant to provisions in the County Employees Retirement Law of 1937, SamCERA engages an independent actuarial firm, Milliman, Inc., to perform an annual actuarial valuation to monitor its funding status and funding integrity. The purpose of the valuation is to reassess the magnitude of SamCERA's benefit commitments in comparison with the assets expected to be available to support those commitments so employer and member contribution rates can be adjusted accordingly. For the pension plan, the actuarial assumptions have been selected in order to estimate as closely as possible what the actuarial cost of the plan will be so as to permit an orderly method for setting aside contributions today to provide benefits in the future, and to maintain equity among generations of participants and taxpayers.

Milliman, Inc. completed the actuarial

valuation as of June 30, 2011, and June 30, 2012, and determined the funding status (the ratio of system assets to system liabilities) to be 74.1% and 72.0%, respectively. The June 30, 2012, funding status was established based on entry age normal actuarial cost methods, an assumed 7.5% investment return, an assumed 3.75% annual total payroll growth rate, an inflation rate of 3.25% and an actuarial value on assets using a five-year smoothed method based on the difference between expected and actual market value of the assets as of the valuation date.

The most recent actuarial valuation is June 30, 2012. The valuation discloses the actuarial value of asset at \$2.480 billion with an actuarial accrued liability of \$3.443 billion for a funded ratio of 72.0%. The unfunded actuarial accrued liability is \$962.3 million, which is 229% percent of

the \$419.8 million covered payroll. The employer contribution rate, which has an effective date of June 30, 2013, was set equal to 23.97% of payroll for the amortization of the UAAL over the new 15 years, plus the normal cost rate of 11.52% for a total contribution rate of 35.49% of payroll. A schedule of SamCERA's funding progress may be found in the required supplementary information on page 61. The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

Additional information regarding the actuarial methods and significant assumptions used as of the latest actuarial valuation of plan assets and liabilities is shown below.

#### LATEST ACTUARIAL VALUATION OF PLAN ASSETS AND LIABILITIES

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	Original unfunded amount (UAAL) as of June 30, 2008, is amortized over 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new 15-year periods (including the change in UAAL as of June 30, 2012). This is referred to as 15-year layered amortization.
Asset Valuation Method	5-year smoothed market with 20% corridor
<b>ACTUARIAL ASSUMPTIONS</b>	
Investment Rate of Return	7.50%
Price Inflation (CPI)	3.25%
Payroll Increases	3.75%
Average Projected Salary Increases	4.95%
Attributed to Inflation	3.75%
Attributed to Adjustments for Merit and Longevity	1.20%

Statement No. 50 of the Governmental Accounting Standards Board, *Pension Disclosures*, mandates that the above information regarding actuarial methods and significant assumptions appear in the notes to the financial statements. Historically this information appeared in the required supplementary information section following the notes.

### Cost of Living Adjustments

The maximum increase in retirement allowance is 5% for Tier 1 (Probation/Safety Tier 1 is 3.0%), 3% for Tier 2 and 2% for Tier 4, Tier 5 and Tier 6. The annual adjustments are based on the change in the Consumer Price Index for the Bay Area.

### Note 7: Capital Commitments

During the course of the fiscal year, SamCERA added \$53 million of additional commitments to four new private equity managers. As of June 30, 2012, the Association's private equity portfolio consisted of eight fund managers with a total capital commitment amount reaching \$163 million. SamCERA is still in its initial stages in developing its private equity portfolio and intends to make additional capital commitments over the duration of the next few years.

### Note 8: Related Party Transactions

By necessity, SamCERA is involved in various business transactions with the County of San Mateo, the primary plan sponsor. SamCERA funds the county for the cost of services provided by the following departments: County Counsel, Auditor-Controller, Purchasing, Human Resources,

Information Services and the Department of Hospitals and Clinics. In addition, SamCERA reimburses the county for the salary and benefits of SamCERA staff members paid through the county and the costs of services in the areas of reprographics, telecommunications, and the Board of Retirement elections.

### Note 9: Contingent Liability

SamCERA is subject to legal proceedings and claims, which arise in the ordinary course of its business. There are currently no such actions to be adjudicated or reported.

### Note 10: Subsequent Events

Subsequent events are those events or transactions that occur subsequent to the effective date of the financial statements, but prior to the issuance of final reports, which may have a material effect on the financial statements or disclosures contained therein.

### Public Employees' Pension Reform Act of 2013

On September 12, 2012, the California Public Employees' Pension Reform Act of 2013 became law and it will be effective January 1, 2013. SamCERA is in the process of reviewing the impact of the statutory changes to the benefits of current and future members of SamCERA's retirement system as well as impacts to the required contributions of its members and employers.

### Investment Managers

As part of SamCERA's ongoing implementation of its private equity

program, the Board of Retirement approved a \$40 million capital commitment to Warburg Pincus Private Equity XI, L.P. at the August 28, 2012, board meeting. The board has also subsequently terminated two investment mandates after fiscal year end. At its September 25, 2012, meeting, the board terminated agreements with Aberdeen Asset Management and BlackRock Capital Management and the assets will be redeployed within their respective asset class.

### Financial Disclosures

Subsequent to June 30, 2012, and through October 15, 2012, the date through which management evaluated subsequent events and on which the financial statements were issued, SamCERA did not identify any subsequent financial events that required disclosure.

**REQUIRED SUPPLEMENTARY INFORMATION**

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SCHEDULE OF FUNDING PROGRESS

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(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/07	\$1,976,731	\$2,555,504	\$578,773	77.40%	\$407,812	141.92%
6/30/08	\$2,218,937	\$2,806,222	\$587,285	79.10%	\$416,243	141.09%
6/30/09	\$1,909,679	\$2,987,712	\$1,078,033	63.90%	\$436,424	247.02%
6/30/10	\$2,179,076	\$3,098,453	\$919,377	70.30%	\$428,559	214.53%
6/30/11	\$2,405,140	\$3,246,727	\$841,587	74.10%	\$424,061	198.46%
6/30/12	\$2,480,271	\$3,442,553	\$962,282	72.00%	\$419,779	229.24%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

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(in thousands)

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2007	\$100,550	100%
2008	\$105,340	100%
2009	\$106,123	100%
2010	\$106,265	100%
2011	\$150,475	100%
2012	\$150,950	100%

## NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

The Association provides the valuation of plan assets and liabilities, which is normally carried out as of June 30 of each year, and contribution requirements resulting from such valuations become effective on July 1st of the next fiscal year.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation of plan assets and liabilities is on the following page.

### Cost of Living Adjustments

The maximum increase in retirement allowance is 5% for Tier 1 (Probation/Safety Tier 1 is 3%), 3% for Tier 2 and 2% for Tier 4, Tier 5 and Tier 6. The annual adjustments are based on the change in the Consumer Price Index for the Bay Area.

### Schedule of Funding Progress

A schedule of funding progress presents a consolidated snapshot of a retirement system's ability to meet current and future liabilities with the assets of the plan. Of particular interest to most is the funded status ratio. This ratio quickly conveys a retirement system's level of assets to liabilities which is important in determining the financial health of a retirement system. The greater a system's funded ratio, the better position it will be in to meet all of its future liabilities.

As of June 30, 2012, the date of the last actuarial valuation, the San Mateo County Employees' Retirement Association had a 72.0% funded status. Overall, the financial condition of SamCERA continues to be

sound in accordance with the actuarial principles of entry age normal cost funding.

SamCERA currently has a UAAL, resulting from actuarial accrued liabilities (AAL) exceeding the actuarially determined value of assets. With the actuarial valuation of June 30, 2008, SamCERA is converted to the 15-year layered amortization methodology, which is explained above.

### Schedule of Employers' Contributions

The sources of revenues that fund a retirement system are employer contributions, member contributions, and investment earnings on plan assets. Each year, SamCERA's actuary determines the amount of employer contributions required to fund a given schedule of benefits (current and future liabilities). The calculation for the benefit schedule is based on the following factors: (1) the Association's benefit structure, (2) statistical data about members of the system, and (3) current and predicted future retirees and beneficiaries of SamCERA. Assumptions must be made to estimate how many members terminate employment, leave on a disability retirement or service retirement, and the average ages of members at retirement and at mortality. Finally, the preceding data is combined with an actuarially assumed investment rate of return and assumed salary increases of SamCERA's members. All of this information taken together is presented in an annual actuarial valuation in which the actuary recommends an employer contribution rate (percentage) to the participating employers. This contribution rate percentage is applied to the valuation payroll for each of the participating members. The resulting dollar amounts, as



depicted in the Schedule of Employer Contributions above, are the actuarially calculated required employer contributions necessary to fund the promised benefits to SamCERA’s members.

contains six years of historical information with respect to SamCERA’s actuarially calculated, required contributions versus the actual employer contributions made on an annual basis. Over the past six years, the employer has contributed 100% percent of the amount recommended by the actuary.

The employers’ contribution schedule

**LATEST ACTUARIAL VALUATION OF PLAN ASSETS AND LIABILITIES**

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	Original unfunded amount (UAAL) as of June 30, 2008, is amortized over 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new 15-year periods (including the change in UAAL as of June 30, 2012). This is referred to as 15-year layered amortization.
Asset Valuation Method	5-year smoothed market with 20% corridor

**ACTUARIAL ASSUMPTIONS**

Investment Rate of Return	7.50%
Price Inflation (CPI)	3.25%
Payroll Increases	3.75%
Average Projected Salary Increases	4.95%
Attributed to Inflation	3.75%
Attributed to Adjustments for Merit and Longevity	1.20%

**OTHER SUPPLEMENTARY INFORMATION**

**SCHEDULE OF ADMINISTRATIVE EXPENSES**

*For the Years Ended June 30, 2012 and 2011*

	<b>2012*</b>	<b>2011**</b>
Salaries and Member Benefits	\$3,329,128	\$2,839,810
Services and Supplies	1,378,497	1,402,023
<b>Total Administrative Expense</b>	<b>\$4,707,625</b>	<b>\$4,241,833</b>

\* As defined in Government Code section 31580.2, excludes Information Technology expenses.

\*\* 2011 restated with Asset Management expenses for comparison.

## ADMINISTRATIVE BUDGET ANALYSIS

Budget to Actual Expenditures as of June 30, 2012

	Budget Allotment (As Amended)	Fiscal Year Expenditures	Percentage Expended
Salaries	\$2,341,000	\$2,174,982	92.91%
Benefits	1,152,963	1,154,146	100.10%
<b>Salaries &amp; Benefits</b>	<b>3,493,963</b>	<b>3,329,128</b>	<b>95.28%</b>
Board Expenses	10,500	7,600	72.38%
Insurance	77,000	64,168	83.34%
Medical Evaluation	45,000	104,724	232.72%
Member Education	45,000	53,280	118.40%
Education & Conference	148,700	75,309	50.64%
Transportation & Lodging	126,500	94,102	74.39%
Technology Infrastructure	0	0	0.00%
Property & Equipment	0	3,545	0.00%
General Office Supplies	25,000	24,969	99.88%
Postage, Printing & Copying	75,000	59,846	79.79%
Leased Facilities	295,000	512,736	173.81%
County Service	347,037	315,569	90.93%
Audit Services	45,500	44,229	97.21%
Other Administration	0	18,420	0.00%
<b>Services &amp; Supplies</b>	<b>1,240,237</b>	<b>1,378,497</b>	<b>111.15%</b>
<b>Capital Assets</b>	<b>0</b>	<b>0</b>	<b>0.00%</b>
<b>Depreciation</b>	<b>0</b>	<b>0</b>	<b>0.00%</b>
<b>Grand Total</b>	<b>\$4,734,200</b>	<b>\$4,707,625</b>	<b>99.44%</b>

## SCHEDULE OF INFORMATION TECHNOLOGY EXPENSES

For the Years Ended June 30, 2012 and 2011

	2012	2011*
Property and Equipment	\$61,989	\$0
IT Infrastructure	263,432	0
<b>Total Information Technology Expense</b>	<b>\$325,421</b>	<b>\$0*</b>

\* 2011 Information Technology Expense was included with Administrative Expense.

## SCHEDULE OF INVESTMENT EXPENSES

For the years ended June 30, 2012 and 2011

	2012	2011
<b>INVESTMENT MANAGER</b>		
Aberdeen Asset Management	\$304,308	\$343,853
Artio Global Management	636,613	1,027,524
Barrow, Hanley, Mewhinney, & Strauss	698,400	707,566
BlackRock Capital Management	820,646	834,773
The Boston Company	416,251	401,617
Chartwell Investment Partners	436,802	402,670
D.E. Shaw Investment Management	565,252	526,081
Invesco Realty Advisors	609,125	568,140
Jennison Associates	763,935	865,082
Mondrian Investment Partners	349,958	446,594
Pyramis Global Advisors	189,408	230,119
Angelo Gordon PPIP	350,000	350,000
Brown Brothers Harriman	114,254	65,146
Brigade	394,157	323,122
Franklin Templeton	412,142	210,795
State Street Global Advisors	364,337	0
T. Rowe Price Associates	384,809	365,744
Western Asset Management	297,280	365,642
Sheridan Production Partners	300,029	225,000
ABRY Advanced Sec II	292,149	101,111
ABRY Partners	162,391	0
AQR Global	592,477	191,921
AQR Delta Fund	687,333	58,333
Pyramis Select International	107,769	0
Eaton Vance Parametrics	140,751	0
Baillie Gifford	164,982	0
Regiment Capital	339,177	0
General Catalyst	130,000	0
Sycamore Partners	363,542	0
Sycamore Sidecar	1,396	0
<b>GLOBAL CUSTODIAN</b>		
State Street Bank	226,521	236,793
Investment & Actuarial Consultants	571,810	435,334
Sub-total Professional Expense	12,188,004	9,282,960
Asset Management Expense	0	694,307
Other Investment Related Expense	0	3,758,980
Interest Paid on Prepaid Contribution	0	2,864,426
<b>Total Investment Expense</b>	<b>\$12,188,004</b>	<b>\$16,600,673</b>

**SCHEDULE OF PAYMENTS TO CONSULTANTS**

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*For the years ended June 30, 2012 and 2011*

	<b>2012</b>	<b>2011</b>
Investment Consultant Expense		
Strategic Investment Solutions	\$400,000	\$366,667
Actuarial Consultant Expense		
Milliman, Inc., and Segal	156,810	68,667
<b>Total Consultant Expense</b>	<b>\$556,810</b>	<b>\$435,334</b>

**NOTES TO THE OTHER  
SUPPLEMENTARY INFORMATION**

**Administrative Services Budget**

The passage of Assembly Bill 609 in October 2010 changed the 1937 Act system administration expense limit from 23 basis points of total assets to 21 basis points of Accrued Actuarial Liability. Since the system’s liability is more consistent from year to year and not affected by capital market volatility, the change will allow SamCERA to manage its administrative expenses more effectively. With the implementation of Government Code Section 31580.2, SamCERA no longer classifies internal investment related expenses to asset management. Asset Management Expenses will be reclassified and combined with Administrative Expense. Under the new limit, information technology expenses are not included in administrative expense. Hence, there is a separate information technology budget that started in fiscal year 2012.

**Professional Services Budget**

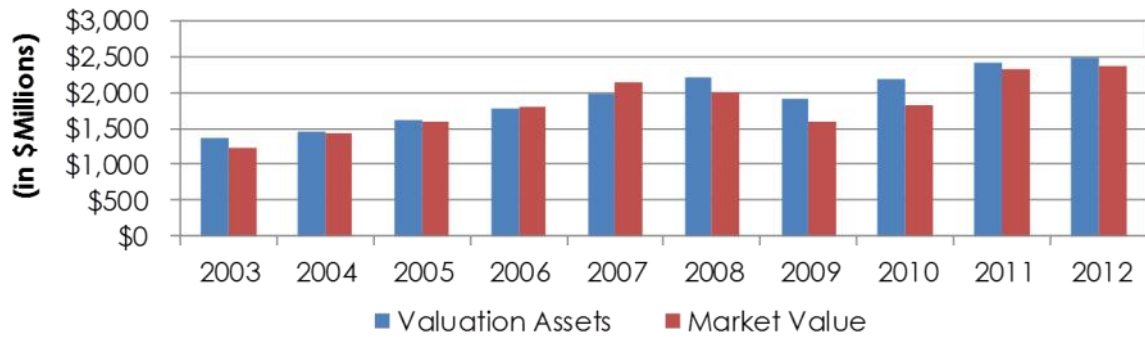
Government Code §31596.1 states that “The expenses of investing its money shall be borne solely by the system. The following types of expenses shall not be considered a cost of administration of the retirement system, but shall be considered a reduction in earnings from those investments or a charge 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.”

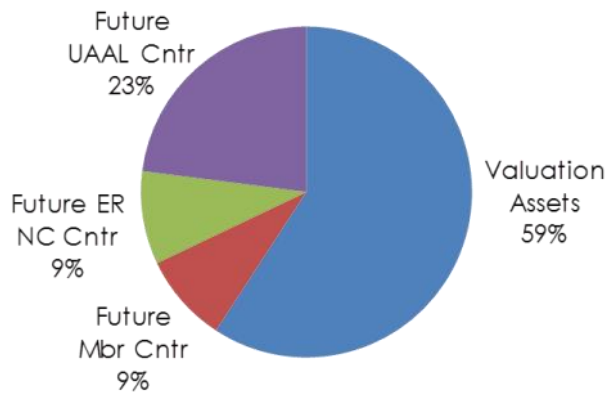
SamCERA’s professional services budget is driven by contractual agreements with its actuary, custodian, investment consultant, and investment managers.

APPLICABLE VALUATION ASSETS

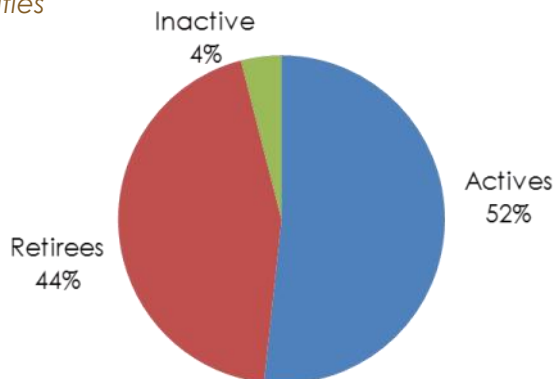


ACTUARIAL RESOURCES AND LIABILITIES

Resources



Liabilities



# INVESTMENT SECTION

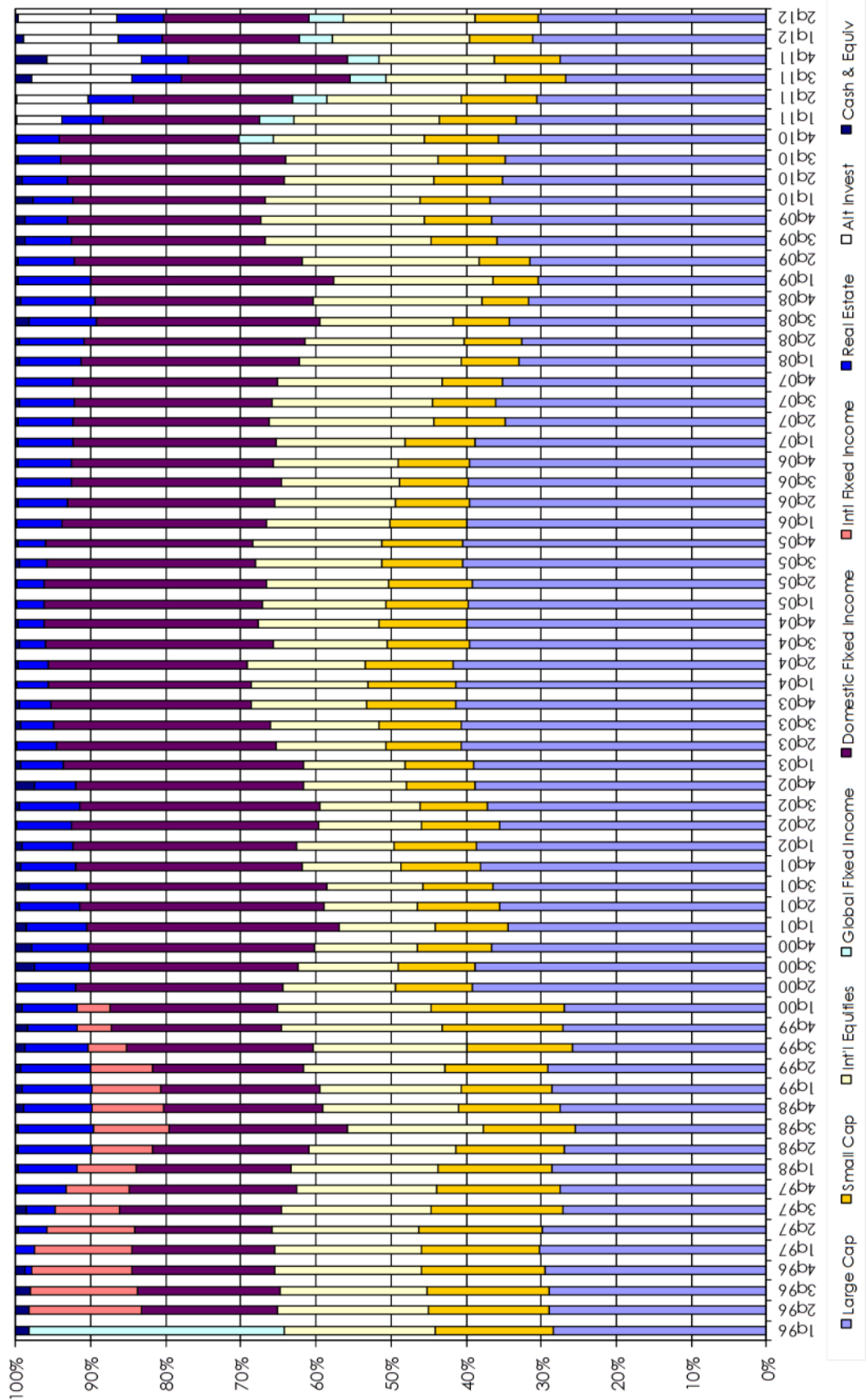


*Crystal Springs Reservoir*



ACTUAL HISTORICAL QUARTERLY ASSET ALLOCATION

Period ending June 30, 2012



## CHIEF INVESTMENT OFFICER'S REPORT

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**SamCERA**  
SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

San Mateo County Employees' Retirement Association | 100 Marine Parkway, Suite 125 | Redwood City, CA 94065  
Phone: 650-599-1234 | Toll Free: 1-800-339-0761 | Fax: 650-591-1488 | [samcera@samcera.org](mailto:samcera@samcera.org)



Michael Coultrip  
SamCERA  
Chief Investment Officer

Board of Retirement  
San Mateo County Employees' Retirement Association

Dear Trustees:

On behalf of SamCERA's investment operations, I am pleased to present reports on the pension fund's investments and portfolio performance for the period ended June 30, 2012. This data was compiled by SamCERA's investment staff, its investment consultant Strategic Investment Solutions, and the master custodian State Street Bank & Trust. The reported performance is presented in accordance with Global Investment Performance Standards (GIPS).

After experiencing positive double digit returns for the past two fiscal years ending in June, SamCERA's portfolio return was essentially flat for the most recent fiscal year ending June 2012. Macro concerns emanating from Europe and slowing global growth resulted in higher volatility and more modest returns across asset classes than we experienced during the prior two fiscal years. The composite portfolio return of 0.03% places the association's performance at the 82nd percentile of peer retirement systems. SamCERA's two-year performance of 11.3% ranks the association in the 46th percentile for peer systems.

The net portfolio market value increased slightly to \$2.360 billion, as the combination of positive investment income and negative portfolio appreciation

added approximately \$9.9 million to the fund.

It was a mixed year for asset class returns. For equities, more risky assets performed worse than less risky assets as investors reacted to the negative news coming from Europe and the resulting potential impacts on global growth. The Fed's actions to keep interest rates low resulted in positive returns across most fixed income segments with investors searching far and wide for yield, which bid up prices for yield-generating investments. Everything from dividend-focused equity strategies, real estate, Master Limited Partnerships (MLPs), and corporate fixed income investments generally performed well as investors searched for yield.

Real estate was SamCERA's best performing asset class composite this fiscal year, up 8.98%, as the commercial property market continued its recovery from the 2008/2009 crisis lows aided by investor thirst for yield-generating assets.

SamCERA's fixed-income portfolio composite benefited from lower interest rates (bond prices generally move in the opposite direction of interest rates) and returned 6.97% for the year. The Federal Reserve continued to take extraordinary measures to support the fragile domestic economic recovery. After two rounds of Quantitative Easing (QE), this fiscal year the Federal Reserve began "Operation Twist", announced on September 21, 2011. This action was designed to lower yields on longer-term bonds by selling \$400 billion in shorter-term Treasuries by the end of June

2012 and using the proceeds to buy longer-term Treasuries. The program worked as longer-term interest rates declined by over 1% for both 10- and 30-year Treasury bonds. With this move down in rates, the Barclays Aggregate Index, which is a common benchmark for core fixed income, returned an attractive 7.47% on the year. SamCERA's fixed income portfolio had a lower return than its custom index (which, in addition to the Aggregate Index, also includes sub-sector indices covering global bonds, inflation-indexed securities, and corporate/credit securities), as underperformance from SamCERA's global bond manager and two credit managers versus their respective benchmarks overwhelmed the outperformance by the Treasury Inflation Protected Securities (TIPS) manager and the three core bond managers.

As previously mentioned, equities were a mixed bag during the year. The flight to quality could be seen in U.S. large-capitalization stocks, which had higher returns than both U.S. small-capitalization and international stocks.

SamCERA's Domestic Equity composite returned 1.4% for the fiscal year. SamCERA's large-cap portfolio composite returned 1.93%, while the small-cap portfolio composite returned -0.37%. Larger-capitalization stocks led the way, with the largest 200 stocks by market capitalization, as measured by the Russell Top 200 Index, returning 7.04% for the year, with smaller-cap stocks (as measured by the Russell 2000 Index) actually down -2.08%. Within the U.S. equity markets, there were large deviations in

performance across sectors, with more defensive sectors performing the best (Consumer Staples up 13.5%, Telecom Services up 13.1%, and Utilities up 13%, while the sectors tied more to economic activity had negative returns (Energy down -9.5%, Materials down -7.3%, and Industrials down -2.7%). SamCERA's large-capitalization equity portfolio underperformed its benchmark and was driven primarily by one manager, who had a difficult year. SamCERA's small-cap equity portfolio outperformed its benchmark, as two managers had positive return numbers while the benchmark was negative for the fiscal year.

International stocks had negative returns in every quarter during the fiscal year. The MSCI EAFE Index (a common benchmark for developed markets international equity) was down -13.38% for the year. Europe contributed most of this decline as concerns emanating from the Euro-zone countries weighed on the stock markets in those countries. European stocks were down a whopping -21.2% for the year, and contributed just under 2/3 of the total loss of the EAFE Index. Some of this loss is attributable to the Euro currency weakness versus the U.S. Dollar. The Euro declined -12.5% on the year as worries over a Greek exit from the Eurozone and concerns about other periphery countries like Spain and Italy caused investors to seek the safe haven of the U.S. Dollar. SamCERA's international equity portfolio declined -13.85% during the year, which resulted in slight outperformance on a relative basis to the portfolio benchmark (the MSCI All-Country World ex-US Index, which includes both developed and emerging market equities), which was down -14.15% over the

same period.

Portfolio actions during the year focused on further diversifying the association's international equity program and continuing the implementation of its alternatives program. Allocations to two new international equity strategies were approved during the year. The trustees hired a manager to manage smaller-capitalization international equities. This is a core strategy that utilizes the manager's deep fundamental research team to add value via fundamental stock selection. The association also hired a manager to manage a dedicated emerging market equity strategy. This strategy uses a structured, rules-based approach to build a portfolio that is designed to produce a more diversified portfolio than the index with less volatility. The association also replaced an under-performing international growth manager with a new manager in May. The new manager utilizes a fundamental growth strategy to identify international companies that exhibit some combination of sustained above average growth combined with attractive financial characteristics.

The Trustees adopted a new asset allocation last fiscal year which allows for 20% of the portfolio to be invested in alternative investments. The components of the alternative portfolio are 8% private equity, 6% risk parity, 3% commodities and 3% hedge funds. The risk parity and hedge fund allocation were fully implemented last fiscal year. The commodity allocation was implemented this year when the board funded a new commodity strategy. In addition, commitments to four new private equity partnerships were approved, totaling \$53 million. This brings total commitments

for the program to \$123 million, of which just under \$20 million has been funded as of June 30, 2012. The private equity allocation will take multiple years to fully implement to ensure proper diversification across sub-categories and vintage years.

The extreme volatility and mixed performance across asset classes further reinforces the importance of maintaining a diversified investment portfolio. The association has made great strides in enhancing the diversification of SamCERA's portfolio over the past few years and this should help weather the uncertainty in the financial markets that seems bound to continue over the foreseeable future.

Respectfully Submitted,



Michael Coultrip  
Chief Investment Officer  
October 15, 2012

## INVESTMENT CONSULTANT'S REPORT ON INVESTMENT ACTIVITIES

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### STRATEGIC INVESTMENT SOLUTIONS, INC.

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

TEL 415/362-3484 ■ FAX 415/362-2752

October 15, 2012  
Board of Retirement  
San Mateo County Employees' Retirement Association  
100 Marine Parkway, Suite 125  
Redwood Shores, CA 94065

Dear Board Members:

After posting healthy asset gains and experiencing strong post-crisis recoveries in fiscal years 2010 and 2011, in fiscal year 2012 US pension funds witnessed a recurrence of difficult times. The fiscal year started with a crisis surrounding the downgraded credit rating of the US government, and ended with what may prove to be a near-term climax to the ongoing European sovereign debt crisis. More benign times for risk assets in the middle of the year provided some relief, but were not enough to overcome these crises, producing an overall tough year for pensions.

It was a particularly tough year for plans that were global in their outlook and, accordingly, held European exposures in their portfolios. Global Equities produced a wide range of returns, with European equities strongly negative for the year, while larger cap US stocks actually posted a positive return amid the generally negative sentiment. The broad US Equity market, as measured by the Russell 3000 Index, returned 3.8% during the year. The Russell 1000 large cap component of US Equity gained 4.4%, while the small cap Russell 2000 lost 2.1%. International Equity investments were hit hard with negative returns: the Developed Markets index lost 13.4%, while Emerging Markets, a star performer in recent years, lost even more, posting a -15.7% return. Investment Grade US Bonds (Barclays Aggregate) provided their traditional safe haven in turbulent times, and returned 7.5% for the year. High yield bonds returned 6.6%, their underperformance relative to investment grade bonds reflecting an environment of investor preference for safety. The real estate asset class continued to perform well during the year, as the NCREIF ODCE Index of institutional Real Estate posted a 12.4% return.

## PLAN INVESTMENT RESULTS

In this somewhat volatile capital market environment, the SamCERA portfolio was essentially flat for fiscal 2012. The San Mateo County Employees' Retirement Association (the Association) total Plan returned .03%, well below the Association's 7.75% actuarial return expectation (the actuarial return expectation will be reduced to 7.50% in fiscal 2013). The plan also trailed its peer group, performing 1.5% behind the Independent Consultants Cooperative (ICC) Large Public Fund Universe median plan return of 1.5%.

The Association's US Equity portfolio underperformed its US equity policy benchmark by 1.5% during the fiscal year, which placed it in the 52nd percentile of the universe. Within the US Equity asset class, the large cap managers as a group returned 1.9% for the year, lagging the Russell 1000 index by 244 basis points and the median institutional large cap composite median, which returned 3.2%, by 128 basis points. The managers in aggregate performed in the 63rd percentile of the peer universe. Among the large cap managers, noteworthy performance was achieved by the one of the core managers, DE Shaw, which bested its benchmark by 2.7% during fiscal 2012. Unfortunately this was more than offset by the poor performance of BlackRock, the large growth manager, which underperformed its benchmark by 9.6%. In contrast to the aggregate weak showing of the US large cap managers, the Small Cap Composite's -4% return was 171 basis points ahead of the Russell 2000 Index, placing it in the 28th percentile of the peer group universe. The small cap value manager, The Boston Company, enjoyed top decile performance, beating the Russell 2000 Value 579 basis points.

The International Equity Composite returned -13.8%, slightly ahead of the benchmark's return of -14.1%, but trailed the median peer return of -12.7% by 129 basis points, and performed in the 65th percentile of the peer universe. Mondrian, the international value strategy, outperformed its benchmark by a comfortable 480 basis points and was ranked in the 28th percentile of its peer group. However, Artio, the international growth manager, underperformed for the first half of the fiscal year, the period during which it remained in the portfolio. As discussed elsewhere in this letter, SamCERA completed the restructuring of its international equity portfolio in second half of fiscal 2012.

The Plan's Total Fixed Income Composite return of 7.0% trailed both the Barclays Aggregate Index's 7.5% return, and the plan's hybrid total Fixed Income Benchmark return of 7.6%, for the fiscal year. All three of SamCERA's core bond managers continued to perform above their benchmarks, consistent with their performance in fiscal 2011. The Association's PPIP Fund managed by Angelo Gordon, created to participate in the US Government's Public-Private Investment Program, generated a more muted return of 5.5%. SamCERA's new Opportunistic Credit, Unconstrained Global, and TIPS strategies completed their first fiscal year in the portfolio. Of the three managers, the TIPS manager, Brown Brothers Harriman, generated the strongest results on an absolute and relative basis, returning 12.6%, more than 90 basis points ahead of the Barclays U.S. TIPS index and the median manager in the TIPS universe. The composite's 7.0% return for the fiscal year was in the 56th percentile, and 40 basis points behind



the median peer in the Independent Consultants' Cooperative (ICC) Large Public Fund Universe.

For the year ended June 2012, the INVESCO Real Estate fund's 9.0% return was well behind the 12.4% return of the NCREIF ODCE index. The real estate manager's return placed it in the 58th percentile overall among its peers.

## ASSET ALLOCATION AND MANAGER STRUCTURE

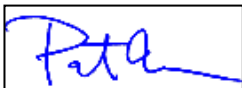
During fiscal 2012 SamCERA continued its strategic initiative to broaden the portfolio through the introduction of substantial allocations to Private Equity, Commodities, Hedge Funds and other Alternative Investments, which matured substantially during the year. The funding of the Private Equity portfolio, which commenced in 2011, is approximately one fourth of the way to completion.

During fiscal 2012 SamCERA also completed a restructuring of its International Equity portfolio that entailed the introduction of new dedicated small cap and emerging markets mandates to the portfolio. During fiscal 2012, manager searches for both of these mandates were completed and the new International Equity portfolio is now funded with new managers in place.

During fiscal 2012 SamCERA progressed in its long-term initiative to increase the diversification of the portfolio in order to produce high returns in a risk averse, cost effective, and prudent fashion. The SamCERA plan has capitalized on its strengths and, through much hard work, has taken advantage of the investment opportunities made available to it by the recent market crisis. SIS firmly believes that the many strategic enhancements that the Association has recently completed will enable it to continue to serve its participants and produce strong results for years to come.

Sincerely,

Strategic Investment Solutions



Patrick Thomas

Senior Vice President

\* NOTE: Returns for periods greater than one year are annualized. Monthly return calculations are time-weighted, and market value based. The performance calculation methodology is consistent with the CFAI Global Investment Performance Standards®.

## **INVESTMENT PHILOSOPHY, OBJECTIVES, AND POLICIES**

SamCERA's Investment Policy sets forth the board's investment policy, from which the following extracts have been drawn. The full plan may be viewed on SamCERA's web site at [www.samcera.org](http://www.samcera.org).

### **Investment Philosophy**

The board acknowledges the historical data demonstrating that the most successful strategy for minimizing risk, while capturing market returns, is a prudently diversified portfolio. Therefore, the retirement fund should be invested across the spectrum of institutional grade asset classes. The board acknowledges that the asset allocation targets reflect a long-term view of the market and that professional management of the retirement fund will add value to the portfolio, by capitalizing on inefficiencies in the markets.

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

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

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

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

### **Investment Objectives**

It is the investment objective of the Board of Retirement to:

Generate portfolio returns which, over the long-term, exceed the rate of inflation by not less than 3.25%, by generating market returns within each asset class.

Generate portfolio returns not less than the returns of a commitment-weighted aggregate of the performance benchmarks specified for the individual investment managers.

Provide for the full funding of the Pension Benefit Obligation.

Stabilize the employer contribution rate, as a percentage of payroll, for the present configuration of benefits, to the extent that the Board of Retirement has control.

Structure an investment program such that the short-term volatility of returns does not induce the board to alter its long-term asset allocation strategies, by striving for an annualized tracking error around the aggregate benchmark of  $\pm 3\%$ .

Calculations for compliance with these objectives will be prepared using a time-weighted rate of return based on the market rate of return in accordance with the Global Investment Performance (GIP) standards.

### **Investment Policies**

It is the Investment Policy of the Board of Retirement to pursue an investment strategy

which reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

The board retains the most qualified investment managers with demonstrated expertise in the management of institutional pension funds. Objectives have been adopted which encourage the investment managers to maximize their performance relative to their individual investment style benchmark. They are delegated full discretion in management of their portfolio. The board monitors the performance of the investment managers, relative to their assigned custom benchmarks, to assure their conformance with the provisions of the board's investment policy.

The board discourages the use of cash equivalents, except for liquidity purposes, and refrains from dramatically shifting asset class allocations over short time spans.

## ASSET ALLOCATION AS A PERCENTAGE OF FAIR VALUE

ASSET CLASS	Allocation	June 30 actual
Equity	53.0%	56.5%
Bonds	22.0%	23.9%
Alternatives	20.0%	13.2%
Real Estate	5.0%	6.2%
Cash	0.0%	0.2%
Total	100.0%	100.0%
<b>EQUITY MANAGEMENT STYLE</b>	<b>Allocation</b>	<b>June 30 actual</b>
Domestic Large Cap		
Indexed	6.5%	6.5%
Actively Managed	21.5%	23.9%
	28.0%	30.4%
Domestic Small Cap (Actively Managed)	7.0%	8.4%
International Equities (Actively Managed)	18.0%	17.7%
Total Equity	53.0%	56.5%
<b>BOND MANAGEMENT STYLE</b>	<b>Allocation</b>	<b>June 30 actual</b>
Domestic Bond Managers (Actively Managed)	17.5%	19.4%
Global Bond Managers (Actively Managed)	4.5%	4.5%
Total Bonds	22.0%	23.9%
<b>ALTERNATIVE INVESTMENT MANAGEMENT STYLE</b>	<b>Allocation</b>	<b>June 30 actual</b>
Private Equity (Actively Managed)	8.0%	0.8%
Hedge Fund (Actively Managed)	3.0%	2.9%
Commodities (Actively Managed)	3.0%	3.0%
Risk Parity (Actively Managed)	6.0%	6.5%
Total Alternative Investment	20.0%	13.2%
<b>REAL ESTATE MANAGEMENT STYLE</b>	<b>Allocation</b>	<b>June 30 actual</b>
Actively Managed	5.0%	6.2%
Total Real Estate	5.0%	6.2%
<b>TOTAL CASH &amp; CASH EQUIVALENT</b>	<b>0.0%</b>	<b>0.2%</b>
<b>Total Assets</b>	<b>100.0%</b>	<b>100.0%</b>

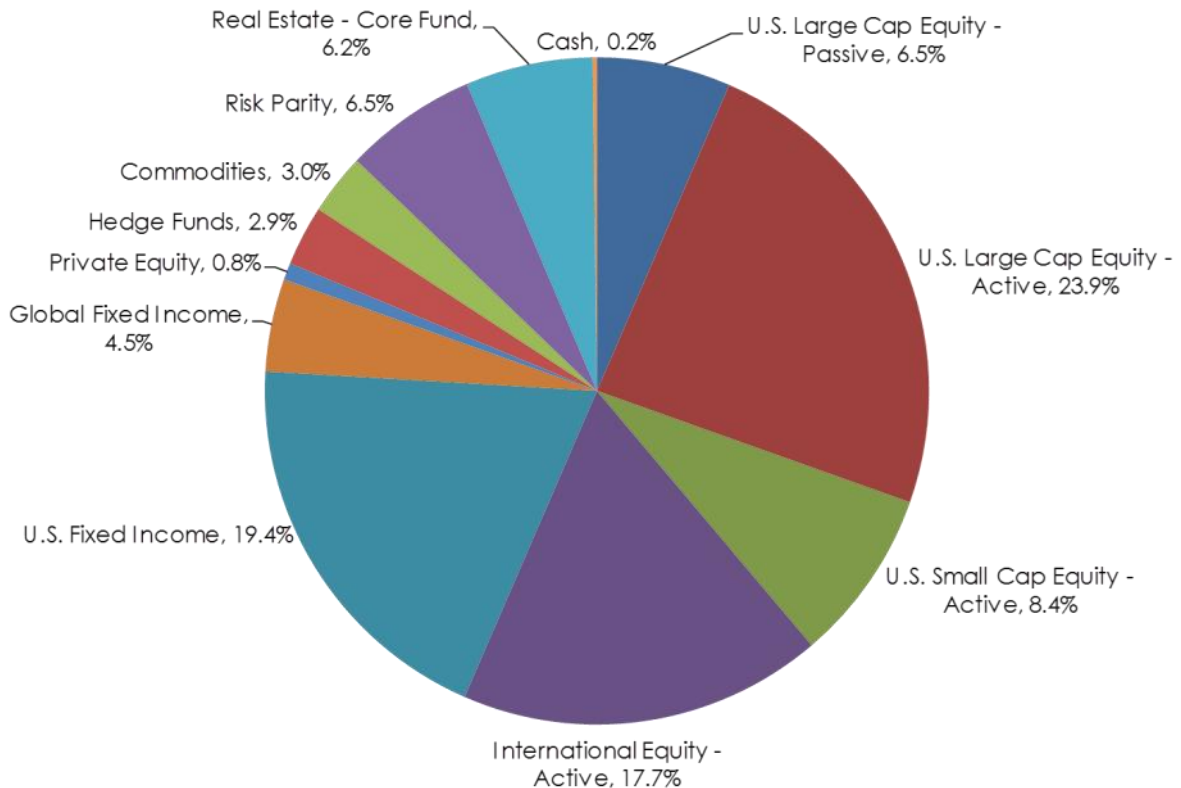
MARKET VALUE OF ASSET ALLOCATION

ASSET ALLOCATION	Market Value
Large Capitalized Domestic Equities	\$709,755,952
Small Capitalized Domestic Equities	\$192,666,449
International Equities	\$408,832,756
<b>TOTAL EQUITIES</b>	<b>\$1,311,255,157</b>
Domestic Bonds	\$453,960,203
Global Bonds	\$100,544,203
<b>TOTAL BONDS</b>	<b>\$554,504,406</b>
Alternative Investments	\$310,931,079
Real Estate	\$146,917,122
Cash & Cash Equivalent	\$36,695,890
<b>Total Assets</b>	<b>\$2,360,303,654</b>

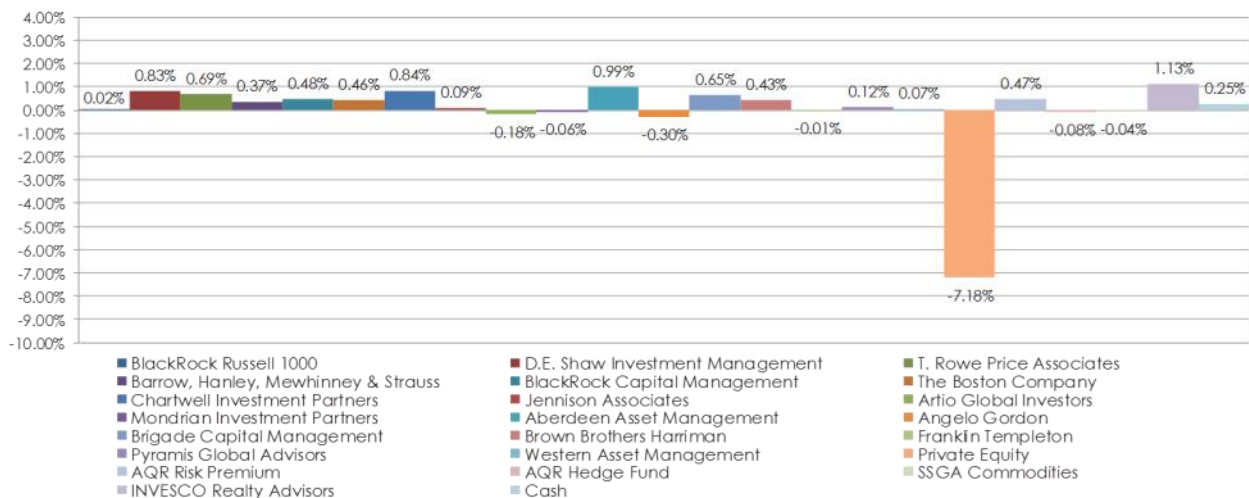
\* Value includes investment receivables and payables. For market value without receivables and payable, refer to detailed schedule by managers on page 84.

ASSET ALLOCATION

As of June 30, 2012



PERCENT OF DEVIATION FROM ASSET ALLOCATION



## SCHEDULE OF PORTFOLIO RETURNS

Performance as of June 30, 2012

Asset Category	One Year	Two Years	Three Years	Five Years
<b>DOMESTIC EQUITY</b>				
<b>Large Cap</b>				
BlackRock Russell 1000	4.43%	17.40%	16.70%	0.46%
D.E. Shaw Investment Management, LLC	7.07%	18.18%	N/A	N/A
T. Rowe Price Associates	5.70%	17.41%	N/A	N/A
Barrow, Hanley, Mewhinney & Strauss	0.14%	15.83%	N/A	N/A
BlackRock Capital Management, Inc.	(3.88%)	13.47%	N/A	N/A
Large Cap Composite	1.93%	16.16%	15.28%	(0.90%)
<b>Small Cap</b>				
The Boston Company	4.35%	14.85%	N/A	N/A
Chartwell Investment Partners	0.88%	22.96%	22.61%	2.20%
Jennison Associates	(3.38%)	17.60%	20.58%	N/A
Small Cap Composite	(0.37%)	18.44%	20.80%	(1.32%)
<b>INTERNATIONAL EQUITY</b>				
Mondrian Investment Partners	(9.81%)	7.76%	7.60%	(3.87%)
Eaton Vance Management	N/A	N/A	N/A	N/A
Baillie Gifford	N/A	N/A	N/A	N/A
Pyramis Select	N/A	N/A	N/A	N/A
International Composite	(13.85%)	4.52%	5.67%	(6.16%)
Total Equity Composite	(3.54%)	12.77%	12.97%	(2.51%)
<b>BONDS</b>				
<b>Core</b>				
Aberdeen Asset Management	8.87%	7.72%	10.99%	5.35%
Pyramis Global Advisors	8.20%	7.12%	9.53%	7.32%
Western Asset Management	8.67%	8.30%	11.57%	7.20%
<b>Credit</b>				
Angelo Gordon GECC PPI Fund	5.51%	15.26%	N/A	N/A
Brigade Capital Management	7.23%	N/A	N/A	N/A
<b>Treasury Inflation Protected Securities</b>				
Brown Brothers Harriman	12.58%	N/A	N/A	N/A
<b>Global</b>				
Franklin Templeton Investments	(0.06%)	N/A	N/A	N/A
Total Bond Composite	6.97%	7.82%	10.80%	6.70%
<b>ALTERNATIVE INVESTMENTS</b>				
<b>Private Equity</b>				
ABRY Advanced Security Fund II, L.P.	6.66%	N/A	N/A	N/A
ABRY Partners VII, L.P.	N/A	N/A	N/A	N/A
Emergence Capital Partners III	N/A	N/A	N/A	N/A
General Catalyst Group	N/A	N/A	N/A	N/A
New Enterprise Associates 14, L.P.	N/A	N/A	N/A	N/A
Regiment Capital Special Situations Fund V, LP	N/A	N/A	N/A	N/A
Sheridan Production Partners II-B, L.P.	(0.09%)	N/A	N/A	N/A
<b>Hedge Fund</b>				
AQR Delta Hedge Fund	(0.43%)	N/A	N/A	N/A
<b>Risk Parity</b>				
AQR Global Risk Premium	5.24%	N/A	N/A	N/A
<b>Commodities</b>				
SSGA/SSARIS Multisource Commodities	N/A	N/A	N/A	N/A
Total Alternative Composite	N/A	N/A	N/A	N/A
<b>REAL ESTATE</b>				
Invesco Realty Advisors Core Fund	8.98%	16.62%	8.03%	(0.79%)
Total Real Estate Composite	8.98%	16.62%	8.03%	(0.79%)
<b>CASH</b>				
Cash Composite	0.67%	0.85%	0.84%	0.77%
<b>TOTAL FUND</b>				
Composite Investment Portfolio	0.03%	11.32%	11.81%	0.33%
Policy Benchmark	1.54%	12.24%	12.27%	1.83%

Return calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with the Global Investment Performance Standards (GIPS).



## SCHEDULE OF INVESTMENT PORTFOLIO BY ASSET CLASS AND MANAGER

As of June 30, 2012

Investment Manager	Asset Class	Assets Under Management
<b>DOMESTIC EQUITY</b>		
BlackRock Russell 1000	Russell 1000 Index Fund	\$153,943,731
D.E. Shaw Investment Management, LLC	Large Cap Core	\$119,692,361
T. Rowe Price Associates	Large Cap Core	\$115,894,325
Barrow, Hanley, Mewhinney & Strauss	Large Cap Value	\$157,966,738
BlackRock Capital Management, Inc.	Large Cap Growth	\$162,258,796
The Boston Company	Small Cap Value	\$51,665,503
Chartwell Investment Partners	Small Cap Growth	\$58,783,432
Jennison Associates	Small Cap Core	\$82,217,515
	Total Domestic Equity	\$902,422,401
<b>INTERNATIONAL EQUITY</b>		
Artio Global Management	Large Cap Growth	(\$49,052)
Baillie Gifford Overseas	Large Cap Growth	\$137,219,409
Mondrian Investment Partners	Large Cap Value	\$179,593,688
Eaton Vance Management	Emerging Markets	\$50,987,331
Pyramis Select	Small Markets	\$41,081,380
	Total International Equity	\$408,832,756
	Total Equity	\$1,311,255,157
<b>DOMESTIC BONDS</b>		
Aberdeen Asset Management	Core Bonds	\$110,188,726
Angelo Gordon GECC PPI Fund	Credit Opportunity Bonds	\$30,588,253
Brigade Capital Management	Credit Opportunity Bonds	\$53,766,657
Brown Brothers Harriman	Treasury Inflation Protection Securities	\$79,539,738
Pyramis Global Advisors	Enhanced Bond Index	\$91,338,815
Western Asset Management	Core Plus Bonds	\$88,538,014
	Total Domestic Bonds	\$453,960,203
<b>GLOBAL BONDS</b>		
Franklin Templeton	Global Bonds	\$100,544,203
	Total Global Bonds	\$100,544,203
	Total Bonds	\$554,504,406
<b>ALTERNATIVE INVESTMENTS</b>		
ABRY Advanced Security Fund II, L.P.	Private Equity	\$8,309,775
ABRY Partners VII, L.P.	Private Equity	\$2,331,868
Emergence Capital Partners III	Private Equity	\$240,000
General Catalyst Partners	Private Equity	\$243,000
New Enterprise Associates 14, L.P.	Private Equity	\$900,000
Regiment Capital Special Situations Fund V, LP	Private Equity	\$5,413,540
Sheridan Production Partners II-B, L.P.	Private Equity	\$1,966,718
Sycamore Partners L.P.*	Private Equity	-
AQR Delta Fund	Hedge Fund	\$68,994,760
AQR Global Risk Premium	Risk Parity	\$152,628,991
SSGA/SSARIS Multisource Commodities	Commodities	\$69,902,427
	Total Alternative Investment	\$310,931,079
<b>REAL ESTATE</b>		
Invesco Realty Advisors	U.S. Core Real Estate Fund	\$146,917,122
Unequitized Cash		\$249,113,735
Receivables & Prepaid Expenses		\$134,402,028
less Current Liabilities		\$346,819,873
<b>Net Portfolio as of June 30, 2012</b>		<b>\$2,360,303,654</b>

\* SamCERA has signed agreements and made capital commitments as of June 30, 2012.

## SCHEDULE OF TOP TEN EQUITIES AND FIXED INCOME SECURITIES

As of June 30, 2012

## Top 10 Equity Securities\*

Shares	Exchange	Ticker	Company Name	Market Value
41,400	NASDAQ	AAPL	APPLE INC	\$ 24,177,600
395,400	NYSE	MSFT	MICROSOFT CORP	\$ 12,095,286
429,792	NYSE	PFE	PFIZER INC	\$ 9,885,216
169,000	NYSE	QCOM	QUALCOMM INC	\$ 9,409,920
260,700	NYSE	WFC	WELLS FARGO + CO	\$ 8,717,808
108,200	NYSE	BA	BOEING CO/THE	\$ 8,039,260
32,200	NYSE	AMZN	AMAZON.COM INC	\$ 7,352,870
107,000	NYSE	JNJ	JOHNSON + JOHNSON	\$ 7,228,920
89,800	NYSE	KO	COCA COLA CO/THE	\$ 7,021,462
108,300	NYSE	SWK	STANLEY BLACK + DECKER INC	\$ 6,970,188

\*Some Domestic Equity Securities are owned in the Russell 1000 Index Fund managed by BlackRock Capital Management.

## Top 10 Fixed Income Securities

Par/Book Value	Security	Coupon	Maturity	Rating S&P	Rating-Moodys	Issue ID	Market Value
\$13,671,290	TSY INFL IX N/B	2.375	01/15/2017	AA+	Aaa	912828GD6	\$15,777,488
\$10,235,015	TSY INFL IX N/B	1.875	07/15/2019	AA+	Aaa	912828LA6	\$12,241,283
\$8,280,346	TSY INFL IX N/B	2.375	01/15/2025	AA+	Aaa	912810FR4	\$10,904,802
\$7,953,389	TSY INFL IX N/B	1.875	07/15/2015	AA+	Aaa	912828EA4	\$ 8,649,310
\$5,352,043	TSY INFL IX N/B	2.125	02/15/2041	AA+	Aaa	912810QP6	\$ 7,638,382
\$8,500,000,000	KOREA TREASURY BOND	3.750	06/10/2013	NR	Aa3	B3P1NMI12	\$ 7,453,224
\$8,500,000,000	KOREA TREASURY BOND	4.250	12/10/2012	NR	Aa3	B4YV20115	\$7,452,259
\$5,737,149	TSY INFL IX N/B	2.000	01/15/2026	AA+	Aaa	912810FS2	\$ 7,321,577
\$50,000,000,000	INDONESIA RETAIL BOND	7.950	08/15/2013	BB+	Baa3	B564HTI14	\$ 5,490,178
\$5,077,000	US TREASURY N/B	3.125	02/15/2042	AA+	Aaa	912810QU5	\$ 5,453,003

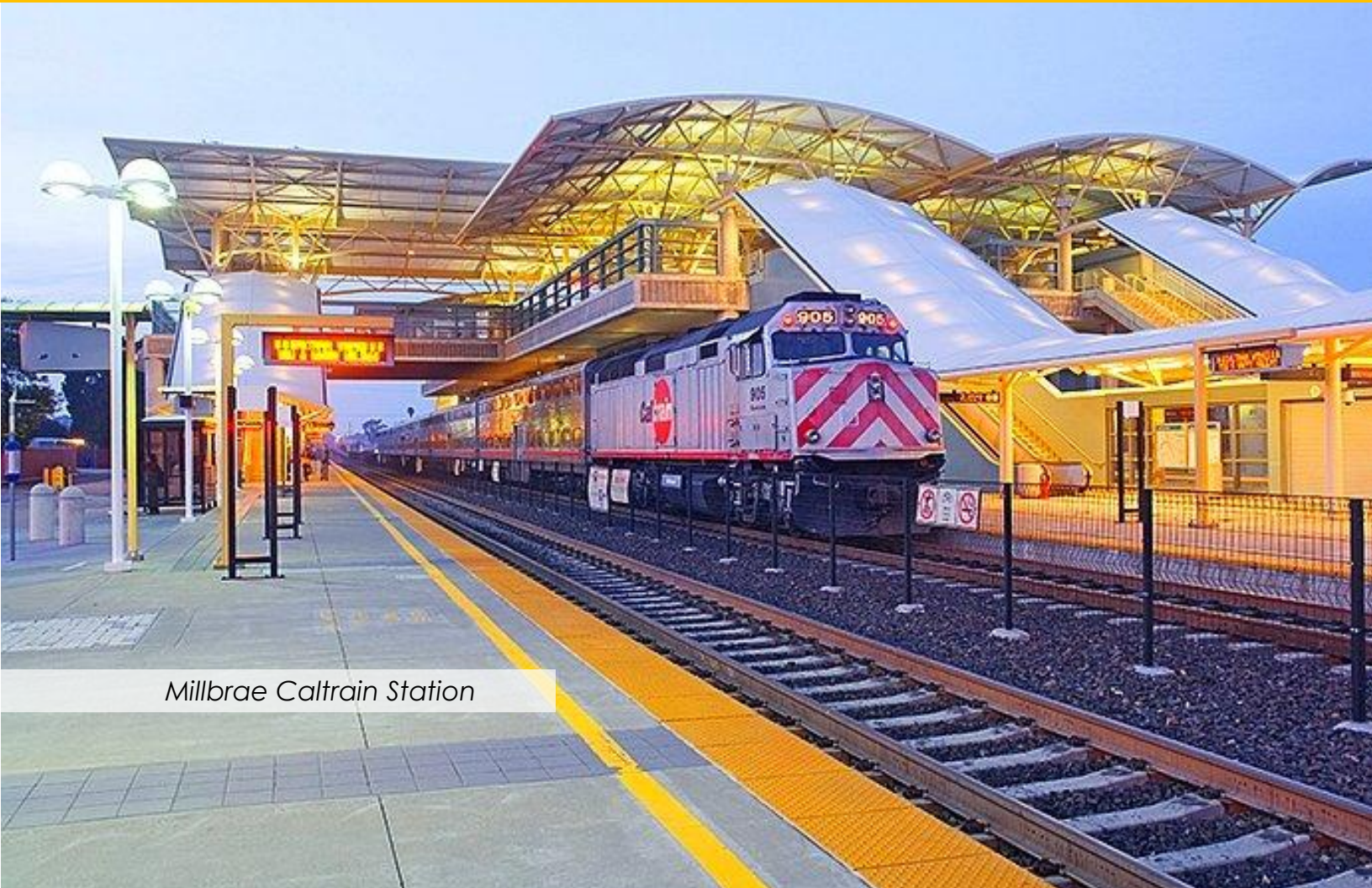
A complete list of the portfolio holdings is available through the San Mateo County Employees' Retirement Association.

## SCHEDULE OF PROFESSIONAL SERVICES AND FEES

As of June 30, 2012 and 2011

	2012	2011
<b>INVESTMENT MANAGERS</b>		
Aberdeen Asset Management	\$304,308	\$343,853
ABRY Fund II	\$292,149	\$101,111
ABRY Fund VII	\$162,391	N/A
Angelo Gordon	\$350,000	\$350,000
AQR Delta Fund	\$687,333	\$58,333
AQR Global Risk Premium	\$592,477	\$191,921
Artio Global Management	\$636,613	\$1,027,524
Baillie Gifford Overseas	\$164,982	N/A
Barrow, Hanley, Mewhinney, & Strauss	\$698,400	\$707,566
BlackRock Capital Management (Index)	\$72,047	\$89,096
BlackRock Capital Management (Growth)	\$748,599	\$745,677
Brigade Capital Management	\$394,157	\$323,122
Brown Brothers Harriman	\$114,254	\$65,146
Chartwell Investment Partners	\$436,802	\$402,670
D.E. Shaw investment Management, LLC	\$565,252	\$526,081
Eaton Vance Management	\$140,751	N/A
Franklin Templeton	\$412,142	\$210,795
General Catalyst Partners	\$130,000	N/A
Invesco Realty Advisors	\$609,125	\$568,140
Jennison Associates	\$763,935	\$865,082
Mondrian Investment Partners	\$349,958	\$446,594
Pyramis Global Advisors	\$189,408	\$230,119
Pyramis Select	\$107,769	N/A
Regiment	\$339,177	N/A
Sheridan Production Partners	\$300,029	\$225,000
State Street Global Advisors	\$364,337	N/A
Sycamore Partners	\$364,938	N/A
T. Rowe Price Associates	\$384,809	\$365,744
The Boston Company	\$416,251	\$401,617
Western Asset Management	\$297,280	\$365,642
Total	\$11,389,673	\$8,610,833
<b>INVESTMENT CONSULTANT</b>		
Strategic Investment Solutions	\$400,000	\$366,667
Actuarial Consulting		
Milliman	\$96,810	\$43,667
Segal Company	\$60,000	\$25,000
Total	\$156,810	\$68,667
<b>MASTER CUSTODIAN</b>		
State Street Bank and Trust Company	\$226,521	\$236,793
<b>TRADE COST CONSULTANT</b>		
Zeno Consulting Group	\$15,000	N/A
<b>Total Professional Services</b>	<b>\$12,188,004</b>	<b>\$9,282,960</b>

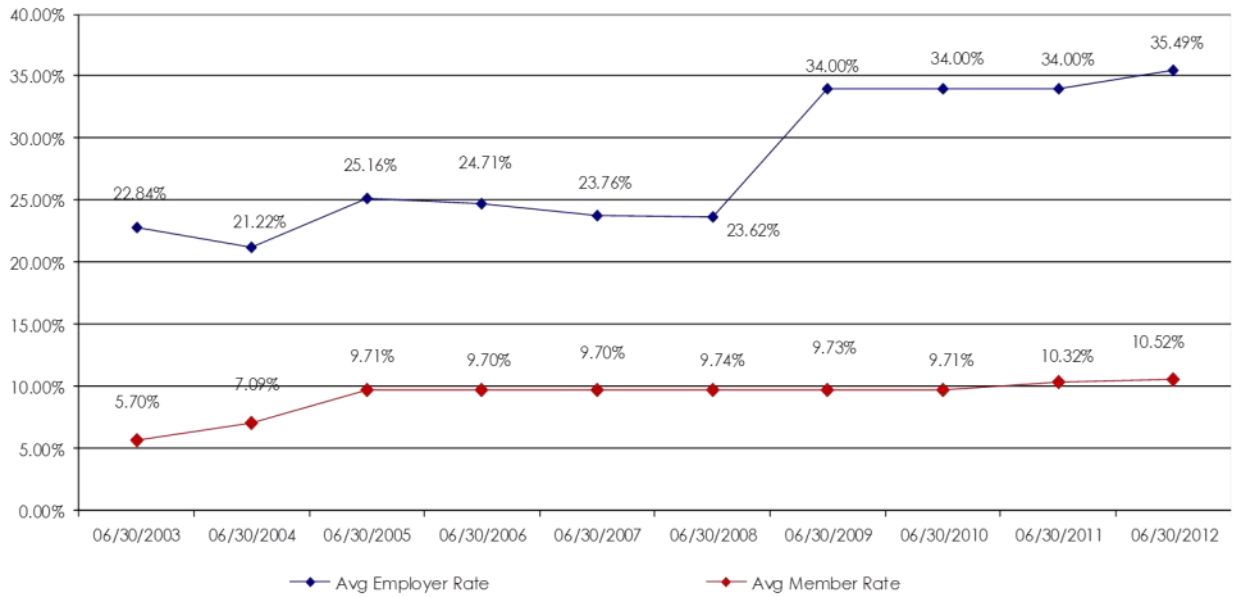
# ACTUARIAL SECTION



Millbrae Caltrain Station



### HISTORY OF EMPLOYER AND MEMBER CONTRIBUTION RATES



### SCHEDULE OF ACTUARIAL ASSETS VS. LIABILITIES





1301 Fifth Avenue  
 Suite 3800  
 Seattle, WA 98101-2605  
 USA

Tel +1 206 624 7940  
 Fax +1 206 623 3485

milliman.com

October 15, 2012

Board of Retirement  
 San Mateo County Employees' Retirement Association  
 100 Marine Parkway, Suite 125  
 Redwood Shores, CA 94065-5208

Dear Members of the Board:

*SamCERA's* basic financial goal is to establish contributions which fully fund the System's liabilities and which, as a percentage of payroll, remain level for each generation of active members. Annual actuarial valuations measure the progress toward this goal, as well as test the adequacy of the contribution rates.

*SamCERA* measures its funding status as the ratio of the actuarial value of valuation assets over the actuarial accrued liabilities. The funding status based on the past three actuarial valuations is shown below:

Valuation Date	Funded Status
June 30, 2010	70.3%
June 30, 2011	74.1%
June 30, 2012	72.0%

The funded ratio decreased in the last year primarily due to investment returns that were less than assumed.

It is our opinion that *SamCERA* will continue to maintain a sound financial condition as of June 30, 2012 and later, as long as employer contributions are made based on a sound financial policy, such as the current funding policy. Under this policy, the County's contributions are set equal to the normal cost rate plus the amortization payment of any Unfunded Actuarial Accrued Liability (UAAL). The amortization of the initial UAAL as of June 30, 2008 is funded over a closed period ending June 30, 2023. The amortization of any future changes in the UAAL is funded over separate closed 15-year layers which are determined annually. It should be noted that the 2012 valuation results defer a net market loss on assets. Thus, the funded ratio is expected to be lower once those market losses are reflected in the 2012 and later valuations, unless earnings exceed the assumed rate.

The June 30, 2012 valuation results are based on the membership data and the asset information provided by *SamCERA*. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes, although we have not audited the data at the source. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is found to be materially inaccurate or incomplete, our calculations will need to be revised.

The valuation is also based on our understanding of *SamCERA's* current benefit provisions as of June 30, 2012. It should be noted that recent legislation was adopted that will impact nearly all California public retirement systems. Any potential changes to *SamCERA* have not been reflected in the June 30, 2012 valuation as the legislation is not effective until January 1, 2013. We would expect these legislative changes would initially have a small impact on the actuarial valuation results, but could ultimately have a material impact.

This work product was prepared solely for *SamCERA* for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.

Offices in Principal Cities Worldwide



Board of Retirement  
October 15, 2012  
Page 2

The actuarial assumptions which were last reviewed and adopted by the Board in 2012. The demographic assumptions were based on the triennial investigation of experience study report as of April 30, 2011 and re-adopted in May of 2012. New economic assumptions were adopted by the Board in May of 2012.

The actuarial computations presented in the valuation report are for purposes of determining the recommended funding amounts for *SamCERA* consistent with our understanding of their funding requirements and goals. The liabilities are determined by using the entry age normal funding method. The actuarial assets are determined by using a five-year smoothed recognition method of asset gains and losses, determined as the difference of the actual market value to the expected market value. The actuarial assets are restricted to not vary more than 20% from the market value. We believe the actuarial assumptions and methods are internally consistent, reasonable and meet the parameters of Governmental Accounting Standards Board Statement No. 25 for fulfilling financial accounting requirements. Nevertheless, the emerging costs will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions. Future actuarial measurements may differ significantly from the current measurements as presented in the valuation report due to many factors. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

Our valuation report and this letter have been prepared exclusively for *SamCERA* for a specific and limited purpose. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. It is a complex, technical analysis that assumes a high level of knowledge concerning *SamCERA's* operations, and uses *SamCERA's* data, which Milliman has not audited. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

We assisted *SamCERA* staff in preparing the supporting schedules in this section and the trend tables in the financial section are based on information supplied in prior actuarial reports, as well as our June 30, 2012 actuarial valuation report. In particular, it should be noted that many of the June 30, 2005 and earlier statistics were provided by the prior actuary and were on a different basis than we are using. This may affect the comparability between the years prior to 2006 shown in the data summaries and those shown in 2006 and later.

We certify that the June 30, 2012 valuation was performed in accordance with the Actuarial Standards Board (ASB) standards of practice and by qualified actuaries. We are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Sincerely,

A handwritten signature in black ink that reads 'Nick Collier'.

Nick J. Collier, ASA, EA, MAAA  
Consulting Actuary  
NJC/nlo

This work product was prepared solely for *SamCERA* for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.



## ACTUARIAL ASSUMPTIONS AND COST METHOD

The actuary assumptions used in the valuations are intended to estimate the future experience of the members of SamCERA and of SamCERA itself in areas that affect the projected benefit flow and anticipated investment earnings. The actuarial assumptions used to determine the liabilities for the June 30, 2012, valuation are based on the results of the actuarial experience study for the period July 1, 2008, through April 30, 2012. The study retained the current economic assumptions and updated demographic assumptions and mortality rates; the study was adopted by the Board of Retirement on July 26, 2011.

### Entry Age Actuarial Cost Method

Entry Age is the age at the member's date of entry. Actuarial accrued liability is calculated on an individual basis and is based on costs allocated as a level percentage

of compensation. The normal cost is calculated by summing the normal cost for each individual and dividing this amount by the total payroll for current members expected to earn a benefit during the year. This normal cost rate is then multiplied by the total current salaries. The total UAAL as of June 30, 2008 was amortized over a declining 15-year period. Future changes in the UAAL, including the change in UAAL as of June 30, 2012 is amortized over new 15-year periods, referred to as 15-year layered amortization.

### Actuarial Asset Valuation Method

The assets are valued using a five-year smoothed method based on the difference between the expected market value and the actual market value of the assets as of the valuation date. The expected market value, with a five-year smoothing valuation basis for all assets, was adopted effective for the June 30, 1995, valuation.

## ACTUARIAL ASSUMPTIONS AND COST METHOD

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	Original unfunded amount (UAAL) as of June 30, 2008, is amortized over 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new 15-year periods (including the change in UAAL as of June 30, 2012). This is referred to as 15-year layered amortization.
Asset Valuation Method	5-year smoothed market with 20% corridor
<b>ACTUARIAL ASSUMPTIONS</b>	
Investment Rate of Return	7.50%
Price Inflation (CPI)	3.25%
Payroll Increases	3.75%
Average Projected Salary Increases	4.95%
*Attributed to Inflation	3.75%
*Attributed to Adjustments for Merit and Longevity	1.20%

### Investment Rate of Return

A new investment return assumption rate of 7.50% was adopted in May 2012 and effective with the June 30, 2012 actuarial valuation. Future investment earnings are assumed to accrue at an annual rate of 7.50%, compounded annually, net of both investment and administrative expenses.

### Projected Salary Increase

The rate of annual salary increases assumed for the purpose of the valuation is 4.95%. It is comprised of two components, inflation and merit and longevity increases. The inflation for payroll is 3.75%. The merit and longevity component on average is 1.20%. This rate was adopted effective for the June 30, 2012, valuation along with other inflation-based projections.

### Cost-of-Living Adjustments

Post-retirement benefit increases depend upon the tier into which a member is enrolled and the Consumer Price Index for the San Francisco Bay Area. The maximum increase in retirement allowance is 5% for General and Safety Tier 1, 3% for Probation Tier 1 and Tier 2 for all Classes, and 2% for Tier 4, 5 and 6 Members. Members do not contribute towards the cost of living benefit. Tier 3 benefits are not eligible for post-retirement increases.

### Post-retirement Mortality Rates

The same post-retirement mortality rates are used in the valuation for active members, members retired for service, and beneficiaries. Beneficiary mortality is assumed to be the same assumption as

healthy members. Beneficiaries are assumed to be of the opposite sex, and have the same mortality as General members.

### Post-retirement Mortality – Service Retirement

*General Males:* RP-2000 Healthy Annuitant Mortality Table for Males with adjustment for white collar workers. Ages are set back three years.

*Safety Males:* Same as General.

*General Females:* RP-2000 Healthy Annuitant Mortality Table for Females with adjustment for white collar workers. Ages are set back three years.

*Safety Females:* Same as General.

### Post-retirement Mortality – Disability Retirement

*General Males:* RP-2000 Healthy Annuitant Mortality Table for Males with adjustment for white collar workers and no minimum rate. Ages are set back three years.

*Safety Males:* RP-2000 Healthy Annuitant Mortality Table for Males with adjustment for white collar workers and minimum 1.00% rate. Ages are not adjusted.

*General Females:* RP-2000 Healthy Annuitant Mortality Table for Females with adjustment for white collar workers and no minimum rate. Ages are set back three years.

*Safety Females:* RP-2000 Healthy Annuitant Mortality Table for Females with adjustment for white collar workers and minimum 0.40% rate. Ages are not adjusted.

### Separation from Active Status

The probabilities of separation from active status are shown on page 101.

### PROJECTED SALARY INCREASE

Actuarial Assumption	06/30/12	06/30/11	Change
Annual Inflation Rate	3.25%	3.50%	(0.25%)
Annual Investment Return	7.50%	7.75%	(0.25%)
Average Annual Salary Increases	4.95%	5.20%	(0.25%)

## SUMMARY OF PLAN PROVISIONS

The Association provides basic retirement, disability, and death benefits based on a defined benefit formula which uses final average compensation, years of service, and age to calculate benefits payable and, in addition, provides annual cost of living adjustments upon retirement for members of Tiers 1, 2, 4, 5 and 6. The benefits of Tier 3 are reduced by Social Security benefits received by the member.

The plan sponsor has established fifteen defined benefit tiers based on a member's date of entry into SamCERA. Tiers 1, 2 & 4 are closed to County and Courts new members in FY 2011-2012. Depending on their entry date and membership class (General, Safety or Probation/Safety), new members hired in FY 2011-2012 may enter Tier 5 or Tier 6. General members hired on and after August 7, 2011, enter Tier 5. Probation members hired on or after July 10, 2011, enter Tier 5 or Tier 6. Safety members hired on or after January 8, 2012, enter Tier 5 or Tier 6. Only General members are eligible for Tier 3.

Employees of the San Mateo County Mosquito and Vector Control District are eligible for participation in all General Tiers, except Tier 3. New hires enter Tier 4.

### Eligibility for Tiers is dependent upon the following entry dates

*Tier 1* – Employees hired on July 6, 1980, and earlier.

*Tier 2* – Employees hired after July 6, 1980, but on or before July 12, 1997.

*Tier 3* – General members may elect to participate in Tier 3. After five years of service, Tier 3 members hired before August 7, 2011 may elect membership under the

*Tier 4.* Tier 3 members hired on and after August 7, 2011 may elect membership in the open contributory tier after 10 years of service. Members currently working in a contributory tier with Tier 3 service may purchase an upgrade of their Tier 3 service. *Tier 4* – Tier 4 is closed for County and Superior Court new employees simultaneously with the implementation of Tier 5 and Tier 6.

*Tier 5 General* – County and Superior Courts General members hired after August 6, 2011.

*Tier 5 and 6 Safety* – Safety members hired after January 7, 2012.

*Tier 5 and 6 Probation* – Probation members hired after July 9, 2011.

### Eligibility for service retirement allowance is dependent upon the following

*General Members Tiers 1, 2, 4, & 5:* Age 50 with 10 years of service; Any age with 30 years of service; or Age 70 regardless of service.

*Safety & Probation Members Tiers 1, 2, 4, 5 & 6:* Age 50 with 10 years of service; Any age with 20 years of service.

*Tier 3:* Age 65 with 10 years of service. A reduced benefit is also payable at age 55 with 10 years of service.

### Final Compensation

*Tiers 1 & 2:* Monthly average of a member's highest twelve consecutive months of compensation.

*Tiers 3, 4, 5 & 6:* Monthly average of a member's highest three twelve consecutive months of compensation.

### Monthly Allowance

*General Members Tiers 1, 2, 4 & 5:*  $1/60 \times$  Final Compensation  $\times$  General Age Factor  $\times$

Years of Service.

*Safety & Probation Members Tier 1, 2 & 4:* 3% x Final Compensation x Safety Age Factor x Years of Service.

*Safety & Probation Members Tier 5:* 2.29% at Age 50, 3% at Age 55 x Final Compensation x Safety Age Factor x Years of Service.

*Safety & Probation Members Tier 6:* 2% at Age 50, 2.62% at Age 55 x Final Compensation x Safety Age Factor x Years of Service.

*Tier 3 General members:* (a)+(b)-(c) where

- (a) 2% x Final Compensation x Years of Service (up to 35 years), plus
- (b) 1% x Final Compensation x Years of Service in excess of 35 years (up to 10), minus
- (c) Estimated Primary Insurance Amount (PIA) x Years of Covered Service (up to 35 years) divided by 35.

The PIA is calculated based on certain assumptions specified by statute, and an assumed Social Security retirement age of 65.

If retirement occurs prior to age 65, benefit amount is adjusted by an actuarial equivalent factor.

A member who leaves county service may withdraw the contributions made by the member to the Association, plus

accumulated interest.

Members with five years of service or permanent part-time employees who have the equivalent of five years of full-time service or non-contributory members with 10 years of service who terminate their employment with the county may elect to leave their accumulated contributions, if any, with the Association and choose a deferred retirement.

The 1937 Act vests the Board of Supervisors with the authority to initiate benefits. However, Government Code Section 31592.2 empowers the Board of Retirement to provide health benefits when the Section 31592 reserve exceeds 1% of assets.

It should be noted that the 35.49% Total Employer Rate is a weighted average for all SamCERA tiers. The actual percent of payroll to be contributed by the county varies by plan. For fiscal year 2011, on September 27, 2011, the Board of Retirement voted to retain the contribution rate of 34.00% from the June 30, 2009, actuarial valuation for a second year rather than the lower rate of 30.97% calculated in the June 30, 2011, valuation. A history of employer rates by class is on Page 98.

## SUMMARY OF RECOMMENDATIONS

### EMPLOYER CONTRIBUTION RATES

	06/30/12	06/30/11	Change
Normal Cost Rate	11.52%	11.25%	0.27%
Rate of Contribution to Unfunded Actuarial Accrued Liability	23.97%	22.75%	1.22%
Total Employer Rate	35.49%	34.00%	1.49%

It should be noted that the 35.49% Total Employer Rate is a weighted average for all SamCERA tiers. The actual percent of payroll to be contributed by the county varies by plan. For fiscal year 2011, on September 27, 2011, the Board of Retirement voted to retain the contribution rate of 34.00% from the June 30, 2009, actuarial valuation for a second year rather than the lower rate of 30.97% calculated in the June 30, 2011, valuation. A history of employer rates by class is on Page 98.

## MEMBER CONTRIBUTION RATES

		07/01/2012	07/01/11	Change <sup>(3)</sup>		
<b>GENERAL MEMBERS – COUNTY AND COURTS<sup>(1),(2)</sup></b>						
Tier 1 & Tier 2	Age 25	9.19%	9.06%	0.13%	(1) The San Mateo County and Courts employer and member contribution rates for Tiers 1, 2, and 4 include cost sharing. The San Mateo County Mosquito and Vector Control District does not have cost sharing. Does not include members of the California Nurses Association, who will also contribute 25% of the cost of COLA beginning with the 2011 actuarial valuation.	
	35	10.42%	10.25%	0.17%		
	45	11.91%	11.71%	0.20%		
Tier 4	Age 25	8.94%	8.80%	0.14%		
	35	10.12%	9.94%	0.18%		
	45	11.51%	11.29%	0.22%		
Tier 5	Age 25	6.21%	6.10%	0.11%		
	35	7.45%	7.30%	0.15%		
	45	8.94%	8.76%	0.18%		
<b>GENERAL MEMBERS – SMCM&amp;VCD <sup>(4)</sup></b>						
Tier 1 & Tier 2	Age 25	6.19%	6.06%	0.13%	(2) Does not include members of the California Nurses Association, who will also contribute 25% of the cost of COLA beginning with the 2011 actuarial valuation.	
	35	7.42%	7.25%	0.17%		
	45	8.91%	8.71%	0.20%		
Tier 4	Age 25	5.94%	5.80%	0.14%		
	35	7.12%	6.94%	0.18%		
	45	8.51%	8.29%	0.22%		
<b>SAFETY MEMBERS – OTHER THAN DEPUTY SHERIFF <sup>(5)</sup></b>						
Tier 1 & Tier 2	Age 25	13.41%	13.21%	0.20%		(3) The change represents the rates effective 07/01/2013 (based on the 6/30/12 valuation) minus the 07/01/2012 rates (based on the 6/30/11 valuation).
	35	15.09%	14.85%	0.24%		
	45	16.89%	16.59%	0.30%		
Tier 4	Age 25	13.07%	12.86%	0.21%		
	35	14.68%	14.43%	0.25%		
	45	16.20%	15.90%	0.30%		
Tier 5	Age 25	14.50%	14.26%	0.24%		
	35	16.59%	16.31%	0.28%		
	45	18.57%	18.22%	0.35%		
Tier 6	Age 25	10.24%	9.97%	0.27%		
	35	12.28%	11.96%	0.32%		
	45	14.21%	13.83%	0.38%		
<b>PROBATION MEMBERS (REFLECTS EMPLOYER PICK-UP)</b>						
Tier 1 & Tier 2	Age 25	12.34%	10.07%	2.27%	(4) Beginning with the 6/30/2010 actuarial valuation, all current and future Mosquito and Vector Control District members contribute the same basic member rates as General County members.	
	35	14.11%	11.38%	2.73%		
	45	15.98%	12.77%	3.21%		
Tier 4	Age 25	11.28%	9.79%	1.49%		
	35	12.83%	11.04%	1.79%		
	45	14.29%	12.22%	2.07%		
Tier 5	Age 25	12.35%	12.16%	0.19%		
	35	14.12%	13.88%	0.24%		
	45	15.78%	15.51%	0.27%		
Tier 6	Age 25	8.62%	8.38%	0.24%		
	35	10.34%	10.04%	0.30%		
	45	11.95%	11.61%	0.34%		

## SUMMARY OF SIGNIFICANT ACTUARIAL STATISTICS AND MEASURES

<b>ASSOCIATION MEMBERSHIP</b>	<b>6/30/12</b>	<b>6/30/11</b>	<b>Change</b>
<b>ACTIVE MEMBERS</b>			
Number of Members	5,095	5,245	(2.9%)
Average Age	46.0	45.7	0.7%
Average Credited Service	10.9	10.6	2.8%
Total Active Payroll in Thousands	\$427,650	\$432,542	(1.1%)
Average Monthly Salary	\$6,995	\$6,872	1.8%
<b>RETIRED MEMBERS</b>			
Number of Members			
Service Retirement	3,355	3,242	3.5%
Disability Retirement	374	370	1.1%
Beneficiaries	546	535	2.1%
Average Age	71.2	71.3	(0.1%)
Total Retiree Payroll in Thousands	\$139,208	\$129,835	7.2%
Average Monthly Pension	\$2,823	\$2,706	4.3%
<b>INACTIVE VESTED MEMBERS</b>	1,212	1,190	1.8%
<b>ASSET AND LIABILITY VALUES</b>			
<b>ASSET VALUES</b>			
Market Value in Thousands	\$2,360,304	\$2,317,776	1.8%
Return on Market Value	(0.40%)	23.70%	(2410 bps)
Valuation Assets in Thousands	\$2,480,271	\$2,405,140	3.1%
Return on Valuation Assets	0.7%	7.2%	(650 bps)
<b>LIABILITY VALUES</b>			
Actuarial Accrued Liability in Thousands	\$3,442,553	\$3,246,727	6.0%
Unfunded Actuarial Accrued Liability in Thousands	\$962,282	\$841,587	14.3%
Deferred Asset (Gains)/Losses	\$119,967	\$87,647	36.9%
<b>REQUIRED COUNTY CONTRIBUTION RATE FOR ALL PLANS AS A PERCENTAGE OF TOTAL PAYROLL</b>			
Gross Normal Cost	22.04%	21.57%	47 bps
Less: Member Contributions	10.52%	10.32%	20 bps
County Normal Cost	11.52%	11.25%	27 bps
UAAL Amortization	23.97%	22.75%	122 bps
Total County Rate <sup>(1)</sup>	35.49%	34.00%	149 bps
<b>FUNDED RATIO</b>			
<b>GASB Statement Number 25 <sup>(2)</sup></b>	72.00%	74.10%	(2.10%)

(1) For 6/30/2011, the Board of Retirement voted on September 27, 2011 to retain the contribution rate from the June 30, 2009 actuarial valuation for the second consecutive year rather than the 30.97% calculated in the June 30, 2011 valuation.

(2) Based on actuarial value of assets for June 30, 2012, and June 30, 2011, respectively.



The table below compares the Actuarial Value of Assets to the types of Actuarial Accrued Liabilities, applying them first to Active Member contributions, then to retirees and beneficiaries, and then the remaining amount to the Active Member benefits.

#### SHORT-TERM SOLVENCY TEST (IN THOUSANDS)

Valuation Date	Valuation Assets	Active Member Contributions (A)	Retirees and Beneficiaries <sup>(1)</sup> (B)	Active Members (Employer Financed Portion) (C)	Portion of Accrued Liability Covered by Valuation Assets		
					(A)	(B)	(C)
6/30/03	\$1,353,941	\$202,551	\$858,273	\$915,108	100%	100%	32%
6/30/04	\$1,452,621	\$259,731	\$942,765	\$718,832	100%	100%	35%
6/30/05	\$1,615,585	\$281,231	\$1,133,351	\$763,177	100%	100%	26%
6/30/06	\$1,769,021	\$317,521	\$1,234,005	\$793,623	100%	100%	27%
6/30/07	\$1,976,731	\$359,484	\$1,348,013	\$848,007	100%	100%	32%
6/30/08	\$2,218,937	\$385,300	\$1,550,875	\$870,047	100%	100%	32%
6/30/09	\$1,909,679	\$412,147	\$1,670,547	\$905,018	100%	90%	0%
6/30/10	\$2,179,076	\$449,355	\$1,745,146	\$903,952	100%	99%	0%
6/30/11	\$2,405,140	\$485,126	\$1,866,219	\$895,382	100%	100%	6%
6/30/12	\$2,480,271	\$498,569	\$2,022,791	\$921,193	100%	98%	0%

(1) Includes deferred vested.

#### SCHEDULE OF FUNDING PROGRESS (IN THOUSANDS)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Ratio of Assets to Actuarial Accrued Liability	Annual Active Member Compensation	UAAL as a Percentage of Covered Payroll
6/30/03	\$1,353,941	\$1,781,544	\$427,603	76.00%	\$323,896	132.02%
6/30/04	\$1,452,621	\$1,921,328	\$468,707	75.60%	\$365,385	128.28%
6/30/05	\$1,615,585	\$2,177,759	\$562,174	74.20%	\$334,315	168.16%
6/30/06	\$1,769,021	\$2,345,149	\$576,128	75.40%	\$368,972	156.14%
6/30/07	\$1,976,731	\$2,555,504	\$578,773	77.40%	\$407,812	141.92%
6/30/08	\$2,218,937	\$2,806,222	\$587,285	79.10%	\$416,243	141.09%
6/30/09	\$1,909,679	\$2,987,712	\$1,078,033	63.90%	\$436,424	247.02%
6/30/10	\$2,179,076	\$3,098,453	\$919,377	70.30%	\$428,559	214.53%
6/30/11	\$2,405,140	\$3,246,727	\$841,587	74.10%	\$424,061	198.46%
6/30/12	\$2,480,271	\$3,442,553	\$962,282	72.00%	\$419,779	229.24%

**Funded Ratio** is a measurement of the funded status of the plan. The Funded Ratio is calculated by dividing the Valuation Assets by the Actuarial Accrued Liability. In the table above, SamCERA's Funded Ratio indicates assets are approximately 30% less than liabilities. The Funded Ratio has increased considerably from June 30, 2009. The most significant reasons for the increase in the funded ratio have been the market appreciation of investments and contributions by the employer and employee.



## HISTORY OF EMPLOYER CONTRIBUTION RATES

**Normal Cost** is that portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

**Actuarial Present Value** is the value of an amount or series of amounts payable or receivable at various times, determined as of a given date by application of a particular set of Actuarial Assumptions.

**Actuarial Cost Method** employed by SamCERA is the Entry Age Normal Method. The actuarial accrued liability is calculated on an individual basis and is based on costs allocated as a level percentage of compensation.

**Unfunded Actuarial Accrued Liability** is the excess, if any, of the Actuarial Accrued Liability over the Actuarial Value of Assets.

**Actuarial Accrued Liability** is that portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of

pension plan benefits and expenses which is not provided for by the future Normal Costs.

**Actuarial Value of Assets** is the value of cash, investments and other property belonging to a pension plan, as used by the actuary for purposes of an Actuarial Valuation.

**Actuarial Valuation** is the determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a pension plan.

### HISTORY OF EMPLOYER CONTRIBUTION RATES: SAN MATEO COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Year	General Member		
	Normal	UAAL	Total
2008	8.55%	8.04%	16.59%
2009	8.25%	15.09%	23.34%
2010	11.70%	16.35%	28.05%
2011*	11.97%	16.41%	28.38%
2012	11.68%	20.17%	31.85%

\*Revised by actuary in 2012.

### HISTORY OF EMPLOYER CONTRIBUTION RATES: COUNTY

Year	General Member (excluding Nurses)			General Member Nurses			Safety Member			Probation Member		
	Normal	UAAL	Total	Normal	UAAL	Total	Normal	UAAL	Total	Normal	UAAL	Total
2003	11.00%	4.60%	15.60%	Same as General			21.99%	12.74%	34.73%	23.45%	8.10%	31.55%
2004	9.76%	8.25%	18.01%	Same as General			15.34%	24.82%	40.16%	16.17%	15.28%	31.45%
2005	10.36%	10.38%	20.74%	Same as General			20.43%	32.02%	52.45%	21.10%	16.43%	37.53%
2006	10.49%	9.97%	20.46%	Same as General			20.18%	30.52%	50.70%	21.59%	14.85%	36.44%
2007	10.19%	9.46%	19.65%	Same as General			19.94%	29.32%	49.26%	20.83%	14.06%	34.89%
2008	10.16%	9.81%	19.97%	Same as General			19.32%	27.31%	46.63%	20.05%	12.81%	32.86%
2009	10.11%	18.40%	28.51%	Same as General			19.21%	51.83%	71.04%	19.92%	23.84%	43.76%
2010	10.05%	18.46%	28.51%	Same as General			19.01%	52.03%	71.04%	19.85%	21.62%	41.47%
2011	9.71%	18.80%	28.51%	8.70%	19.81%	28.51%	18.97%	52.07%	71.04%	19.50%	22.30%	41.80%
2012	9.98%	20.17%	30.15%	8.96%	20.17%	29.13%	19.05%	48.51%	67.56%	18.47%	26.71%	45.18%

## ACTIVE MEMBER VALUATION DATA

Valuation Date		Members <sup>(1)</sup>	Annual Salary	Average Annual Salary	% Change Average Salary
<b>2003</b>	General	4,213	\$267,150,000	\$63,408	5.30%
	Safety	434	\$37,973,000	\$87,492	9.60%
	Probation	290	\$18,773,000	\$64,740	6.50%
	Total	4,937	\$323,896,000	\$65,964	5.90%
<b>2004</b>	General	4,487	\$303,786,879	\$67,700	6.80%
	Safety	411	\$40,796,852	\$99,202	13.40%
	Probation	288	\$20,800,813	\$72,225	11.60%
	Total	5,186	\$365,384,544	\$70,448	6.80%
<b>2005</b>	General	4,411	\$304,289,437	\$68,984	1.80%
	Safety	409	\$39,999,593	\$97,799	(1.40%)
	Probation	278	\$20,123,863	\$72,388	0.20%
	Total	5,098	\$364,412,893	\$71,482	1.40%
<b>2006</b>	General	4,614	\$312,934,324	\$67,823	(1.70%)
	Safety	428	\$41,407,772	\$96,747	(1.10%)
	Probation	313	\$22,009,210	\$70,317	(1.60%)
	Total	5,355	\$376,351,306	\$70,280	(1.70%)
<b>2007</b>	General	4,767	\$346,319,017	\$72,649	7.10%
	Safety	443	\$45,386,411	\$102,452	5.90%
	Probation	329	\$24,364,268	\$74,056	5.30%
	Total	5,539	\$416,069,696	\$75,116	6.90%
<b>2008</b>	General	4,743	\$353,518,525	\$74,535	2.60%
	Safety	432	\$46,326,906	\$107,238	4.70%
	Probation	325	\$24,741,003	\$76,126	2.80%
	Total	5,500	\$424,586,434	\$77,198	2.80%
<b>2009</b>	General	4,777	\$370,760,830	\$77,614	4.10%
	Safety	436	\$48,120,081	\$110,367	2.90%
	Probation	330	\$26,270,802	\$79,608	4.60%
	Total	5,543	\$445,151,713	\$80,309	4.00%
<b>2010</b>	General	4,609	\$363,305,740	\$78,825	1.60%
	Safety	425	\$48,576,912	\$114,299	3.60%
	Probation	313	\$25,247,595	\$80,663	1.30%
	Total	5,347	\$437,130,248	\$81,752	1.80%
<b>2011</b>	General	4,494	\$355,876,715	\$79,189	0.50%
	Safety	446	\$52,073,940	\$116,758	2.20%
	Probation	305	\$24,591,392	\$80,628	0.00%
	Total	5,245	\$432,542,046	\$82,468	0.90%
<b>2012</b>	General	4,361	\$351,965,689	\$80,708	1.90%
	Safety	435	\$51,129,267	\$117,539	0.70%
	Probation	299	\$24,554,583	\$82,122	1.90%
	Total	5,095	\$427,649,539	\$83,935	1.80%

(1) Numbers prior to 2006 were reported on a different basis.

## DEMOGRAPHIC ACTIVITY OF RETIREES AND BENEFICIARIES

Retirees and Beneficiaries <sup>(1)</sup>									
Year	At Beginning Of Year	Addition	Withdrawal	At End of Year	Annual Payroll Increase (in 000s)	Annual Payroll Decrease (in 000s)	Total Retiree Payroll (in 000s)	Percent Increase In Payroll	Average Annual Allowance
6/30/03	3,309	128	115	3,322	N/A	N/A	\$69,451	3.7%	\$20,112
6/30/04	3,466	193	120	3,539	N/A	N/A	\$75,493	8.7%	\$21,336
6/30/05	3,539	238	95	3,682	N/A	N/A	\$84,183	11.5%	\$22,860
6/30/06	3,519	206	112	3,613	N/A	N/A	\$91,006	8.1%	\$25,188
6/30/07	3,613	155	74	3,694	N/A	N/A	\$98,790	8.6%	\$26,748
6/30/08	3,694	218	70	3,842	N/A	N/A	\$109,616	11.0%	\$28,536
6/30/09	3,842	159	66	3,935	\$12,717	\$3,281	\$119,052	8.6%	\$30,252
6/30/10	3,935	163	96	4,002	\$9,076	\$3,240	\$124,888	4.9%	\$31,212
6/30/11 <sup>(2)</sup>	4,002	209	64	4,147	\$12,703	\$2,916	\$134,675	7.8%	\$32,472
6/30/12	4,147	218	90	4,275	\$14,379	\$4,209	\$144,845	7.6%	\$33,876

(1) For 6/30/2004 and 6/30/2005, retirees/beneficiaries who are entitled to multiple benefits are counted more than once. The 6/30/06 beginning of year count was revised to reflect only one retiree per benefit in 6/30/2006. Prior to 6/30/2004 retirees/beneficiaries who are entitled to multiple benefits are only counted once.

(2) Revised from 2011 valuation for corrections.

## ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE (\$000)

### Summary of (Gains) / Losses

### Change In Liability

	2012	2011	2010	2009	2008
Unfunded Liability as of July 1	\$841,587	\$919,377	\$1,078,033	\$587,285	\$578,773
Expected Change in UAAL	(\$39,621)	(\$31,508)	\$27,388	(\$11,786)	(\$31,649)
Salary (Gain) / Loss	(\$45,526)	(\$51,831)	(\$43,598)	(\$10,081)	(\$19,946)
Retiree COLA more / (less) than expected	(\$11,756)	(\$27,561)	(\$41,258)	\$1,080	\$937
Assets (Gain) / Loss	\$171,268	\$12,548	(\$88,485)	\$522,444	(\$20,078)
Change due to Assumption Changes	\$36,443	\$19,402			\$61,011
Miscellaneous Experience	\$9,887	\$1,160	(\$12,703)	(\$10,909)	\$18,237
Change Due to New Formula					
Unfunded Liability as of June 30	\$962,282	\$841,587	\$919,377	\$1,078,033	\$587,285

## RATES OF SEPARATION FROM ACTIVE SERVICE

*Service Retirement:* Member retires after meeting age and service requirements for reasons other than disability.

*Withdrawal:* Member terminates and elects a refund of member contributions, or a deferred vested retirement benefit.

*Service Disability:* Member receives disability retirement; disability is service related.

*Ordinary Disability:* Member receives disability retirement; disability is not service related.

*Service Death:* Member dies before retirement; death is service related.

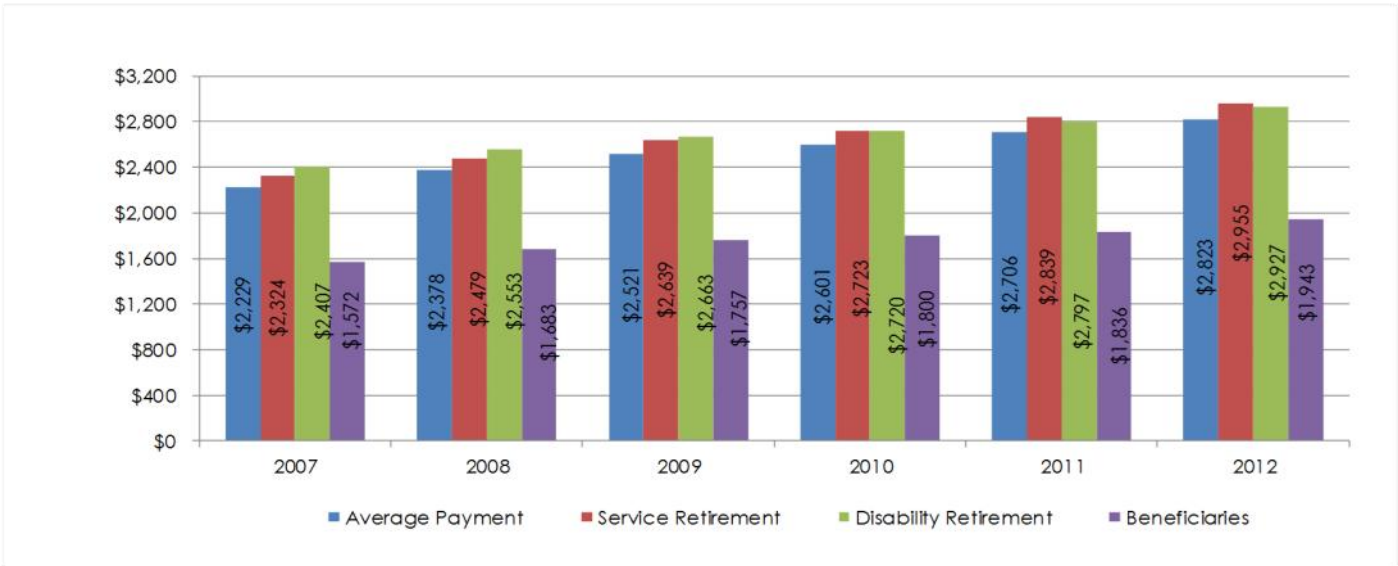
*Ordinary Death:* Member dies before retirement; death is not service related.

In the table below each rate represents the probability that a member will separate from service at each age due to a particular cause.

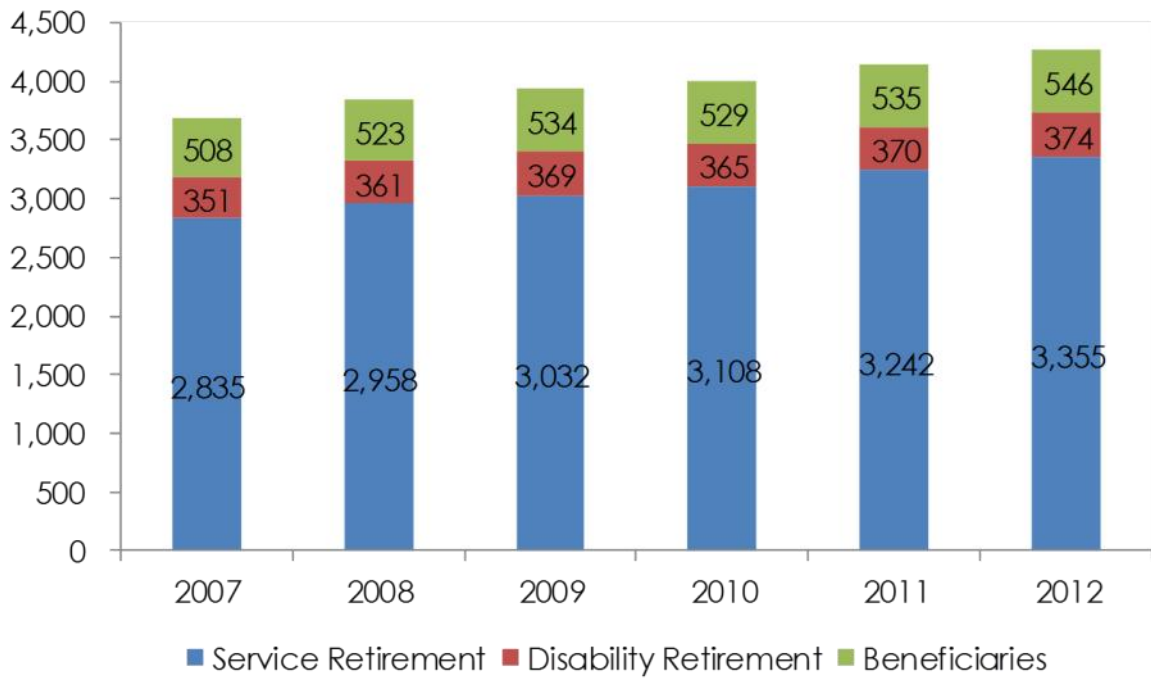
### PROBABILITY OF SEPARATION DURING ACTIVE SERVICE

Years of Service	Other Terminations		Age	Disability		Death while Active		Service Retirement
	Ordinary	Vested		Ordinary	Service	Ordinary	Service	
<b>General Plan 1, 2, 4, &amp; 5 Male Members</b>								
0	0.1300	0.0000	20	0.0002	0.0004	0.0003	0.0000	0.0000
5	0.0285	0.0348	30	0.0003	0.0004	0.0004	0.0000	0.0000
10	0.0172	0.0238	40	0.0006	0.0010	0.0009	0.0000	0.0000
15	0.0099	0.0191	50	0.0010	0.0016	0.0017	0.0000	0.0500
20	0.0040	0.0150	60	0.0015	0.0022	0.0036	0.0000	0.1500
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0000	0.0000	1.0000
<b>General Plan 1, 2, 4 &amp; 5 Female Members</b>								
0	0.1200	0.0000	20	0.0002	0.0003	0.0002	0.0000	0.0000
5	0.0285	0.0348	30	0.0002	0.0004	0.0002	0.0000	0.0000
10	0.0153	0.0212	40	0.0004	0.0007	0.0006	0.0000	0.0000
15	0.0088	0.0172	50	0.0012	0.0017	0.0013	0.0000	0.0400
20	0.0040	0.0150	60	0.0019	0.0029	0.0030	0.0000	0.1500
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0000	0.0000	1.0000
<b>General Plan 3 Male Members</b>								
0	0.1300	0.0000	20	0.0000	0.0000	0.0003	0.0000	0.0000
5	0.0285	0.0348	30	0.0000	0.0000	0.0004	0.0000	0.0000
10	0.0172	0.0238	40	0.0000	0.0000	0.0009	0.0000	0.0000
15	0.0099	0.0191	50	0.0000	0.0000	0.0017	0.0000	0.0000
20	0.0040	0.0150	60	0.0000	0.0000	0.0036	0.0000	0.0300
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0000	0.0000	1.0000
<b>General Plan 3 Female Members</b>								
0	0.1200	0.0000	20	0.0000	0.0000	0.0002	0.0000	0.0000
5	0.0285	0.0348	30	0.0000	0.0000	0.0002	0.0000	0.0000
10	0.0153	0.0212	40	0.0000	0.0000	0.0006	0.0000	0.0000
15	0.0088	0.0172	50	0.0000	0.0000	0.0013	0.0000	0.0000
20	0.0040	0.0150	60	0.0000	0.0000	0.0030	0.0000	0.0400
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0000	0.0000	1.0000
<b>Safety and Probation Plan 1, 2, 4, &amp; 5 Male Members</b>								
0	0.0700	0.0000	20	0.0000	0.0015	0.0003	0.0010	0.0000
5	0.0082	0.0151	30	0.0000	0.0018	0.0004	0.0010	0.0000
10	0.0050	0.0105	40	0.0000	0.0028	0.0009	0.0010	0.0000
15	0.0016	0.0094	50	0.0000	0.0044	0.0017	0.0010	0.1500
20 & Above	0.0000	0.0000	60	0.0000	0.0000	0.0036	0.0010	1.0000
			70	0.0000	0.0000	0.0000	0.0000	1.0000
<b>Safety and Probation Plan 1, 2, 4, &amp; 5 Female Members</b>								
0	0.0700	0.0000	20	0.0000	0.0015	0.0002	0.0010	0.0000
5	0.0082	0.0151	30	0.0000	0.0018	0.0003	0.0010	0.0000
10	0.0050	0.0105	40	0.0000	0.0028	0.0007	0.0010	0.0000
15	0.0016	0.0094	50	0.0000	0.0044	0.0017	0.0010	0.1500
20 & Above	0.0000	0.0000	60	0.0000	0.0000	0.0039	0.0010	1.0000
			70	0.0000	0.0000	0.0000	0.0000	1.0000
<b>Safety and Probation Plan 6 Male Members</b>								
0	0.0700	0.0000	20	0.0000	0.0015	0.0003	0.0010	0.0000
5	0.0082	0.0151	30	0.0000	0.0018	0.0004	0.0010	0.0000
10	0.0050	0.0105	40	0.0000	0.0028	0.0009	0.0010	0.0000
15	0.0016	0.0094	50	0.0000	0.0044	0.0017	0.0010	0.0500
20 & Above	0.0000	0.0000	60	0.0000	0.0000	0.0036	0.0010	1.0000
			70	0.0000	0.0000	0.0000	0.0000	1.0000
<b>Safety and Probation Plan 6 Female Members</b>								
0	0.0700	0.0000	20	0.0000	0.0015	0.0002	0.0010	0.0000
5	0.0082	0.0151	30	0.0000	0.0018	0.0003	0.0010	0.0000
10	0.0050	0.0105	40	0.0000	0.0028	0.0007	0.0010	0.0000
15	0.0016	0.0094	50	0.0000	0.0044	0.0017	0.0010	0.0500
20 & Above	0.0000	0.0000	60	0.0000	0.0000	0.0039	0.0010	1.0000
			70	0.0000	0.0000	0.0000	0.0000	1.0000

AVERAGE MONTHLY BENEFIT PAYMENT



RETIREES BY CATEGORY



# STATISTICAL SECTION



*View of Pacifica from Daly City*

## INTRODUCTION TO THE STATISTICAL SECTION

This section provides additional detailed information for a more thorough understanding of the financial statements, note disclosures and required supplemental information. The schedules presented on the following pages show trends in changes of plan net assets, revenues and expenses by category, detailed active member salary and retiree benefit information, as well as general membership populations over the past ten years. Most of the information presented is compiled by the actuary based on information from the pension administration system.

### CHANGE IN PENSION PLAN NET ASSETS LAST TEN FISCAL YEARS

as of June 30 (in thousands of dollars)

	2012	2011	2010	2009	2008
<b>Additions</b>					
Employer Contributions	\$150,950	\$150,475	\$106,265	\$106,123	\$105,340
Member Contributions	49,687	49,013	50,319	50,372	60,111
Total Contributions	200,637	199,488	156,584	156,495	165,451
Investment Income (net of expenses)	(11,024)	437,654	195,412	(457,309)	(178,379)
Security Lending Income	721	530	743	1,631	1,699
Miscellaneous Additions	29	73	41	(16)	181
Total Additions (Declines)	190,363	637,745	352,780	(299,199)	(11,048)
<b>Deductions</b>					
Retiree Benefits	139,208	129,835	122,141	113,991	103,970
Member Refunds	3,627	2,474	2,736	2,795	3,075
Administrative Expenses	5,033	3,547	3,373	3,287	2,774
Other Expenses	(33)	10	33	67	8
Total Deductions	147,835	135,866	128,283	120,140	109,827
<b>Change in Pension Plan Net Assets</b>	<b>\$42,528</b>	<b>\$501,879</b>	<b>\$224,497</b>	<b>\$(419,339)</b>	<b>\$(120,875)</b>

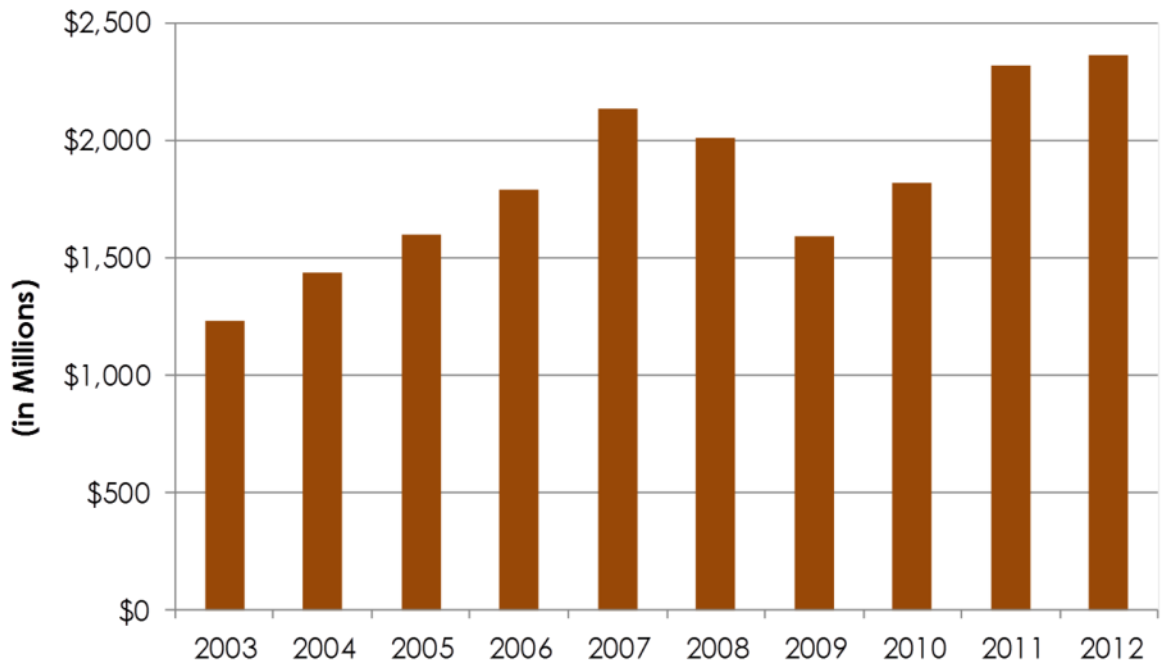


## CHANGE IN PENSION PLAN NET ASSETS LAST TEN FISCAL YEARS (CONTINUED)

as of June 30 (in thousands of dollars)

	2007	2006	2005	2004	2003
<b>Additions</b>					
Employer Contributions	\$100,550	\$76,090	\$76,931	\$60,042	\$36,070
Member Contributions	42,696	39,962	33,647	27,094	22,650
Total Contributions	143,246	116,052	110,578	87,136	58,720
Investment Income (net of expenses)	298,260	166,826	140,132	193,107	39,142
Security Lending Income	0	0	0	0	0
Miscellaneous Additions	26	49	79	226	8
Total Additions (Declines)	441,532	282,927	250,789	280,469	97,870
<b>Deductions</b>					
Retiree Benefits	94,788	87,915	83,182	74,016	68,989
Member Refunds	2,244	2,258	1,458	1,734	1,206
Administrative Expenses	2,582	2,086	2,235	1,912	1,887
Other Expenses	201	40	4	719	0
Total Deductions	99,815	92,299	86,879	78,381	72,082
<b>Change in Pension Plan Net Assets</b>	<b>\$341,717</b>	<b>\$190,628</b>	<b>\$163,910</b>	<b>\$202,088</b>	<b>\$25,788</b>

TOTAL PLAN NET ASSETS



SCHEDULE OF EMPLOYER CONTRIBUTIONS

(in thousands of dollars)

Year End	Actuarially Required Contributions (ARC)	Contributions Made As a % of ARC
06/30/2003	\$36,070	100%
06/30/2004	\$60,042	100%
06/30/2005	\$76,931	100%
06/30/2006	\$76,090	100%
06/30/2007	\$100,550	100%
06/30/2008	\$105,340	100%
06/30/2009	\$106,123	100%
06/30/2010	\$106,265	100%
06/30/2011	\$150,475	100%
06/30/2012	\$150,950	100%

## SCHEDULE OF REVENUE BY SOURCE

(in thousands of dollars)

Year End	Employee Contribution	Employer Contribution	Investment Income	Total
06/30/2003	\$22,650	\$36,070	\$39,150	\$97,870
06/30/2004	\$27,094	\$60,042	\$193,333	\$280,469
06/30/2005	\$33,647	\$76,931	\$140,211	\$250,789
06/30/2006	\$39,963	\$76,090	\$166,874	\$282,927
06/30/2007	\$42,696	\$100,550	\$298,286	\$441,532
06/30/2008	\$60,111	\$105,340	(\$176,043)	(\$10,592)
06/30/2009	\$50,372	\$106,123	(\$455,694)	(\$299,199)
06/30/2010	\$50,319	\$106,265	\$196,196	\$352,780
06/30/2011	\$49,013	\$150,475	\$438,257	\$637,745
06/30/2012	\$49,687	\$150,950	(\$10,274)	\$190,363

## SCHEDULE OF EXPENSES BY TYPE

(in thousands of dollars)

Year End	Administrative Expenses	Other Expenses	Retirement Benefits Paid	Member Refunds	Total
06/30/2003	\$1,887	\$0	\$68,989	\$1,206	\$72,082
06/30/2004	\$1,912	\$719	\$74,016	\$1,734	\$78,381
06/30/2005	\$2,235	\$4	\$83,182	\$1,458	\$86,879
06/30/2006	\$2,086	\$40	\$87,915	\$2,258	\$92,299
06/30/2007	\$2,582	\$201	\$94,788	\$2,244	\$99,815
06/30/2008	\$3,231	\$8	\$103,970	\$3,075	\$110,284
06/30/2009	\$3,287	\$67	\$113,991	\$2,795	\$120,140
06/30/2010	\$3,373	\$33	\$122,141	\$2,736	\$128,283
06/30/2011	\$3,547	\$10	\$129,835	\$2,474	\$135,866
06/30/2012*	\$5,033	(\$33)	\$139,208	\$3,627	\$147,835

\* Administrative expenses related to investments were classified as investment expense in 2008-2011. Effective 6/30/2012 these expenses are included as Administrative Expenses.

## SUMMARY OF RETIRED BENEFITS, REFUNDS, AND INACTIVE MEMBERS

RETIRED MEMBERS	2012	2011	2010	2009	2008
<b>Service Retirement</b>					
Number	3,355	3,242	3,108	3,032	2,958
Annual Allowance					
Basic Only	\$94,234,000	\$87,254,000	\$79,007,000	\$73,038,000	\$66,704,000
COLA	\$24,748,000	\$23,212,000	\$22,542,000	\$22,964,000	\$21,289,000
Total	\$118,982,000	\$110,466,000	\$101,549,000	\$96,002,000	\$87,993,000
Average Monthly Payment	\$2,955	\$2,839	\$2,723	\$2,639	\$2,479
<b>Disability Retirement</b>					
Number	374	370	365	369	361
Annual Allowance					
Basic Only	\$9,909,000	\$9,414,000	\$8,988,000	\$8,722,000	\$8,214,000
COLA	\$3,225,000	\$3,005,000	\$2,926,000	\$3,070,000	\$2,847,000
Total	\$13,134,000	\$12,419,000	\$11,914,000	\$11,792,000	\$11,061,000
Average Monthly Payment	\$2,927	\$2,797	\$2,720	\$2,663	\$2,553
<b>Beneficiaries</b>					
Number	546	535	529	534	523
Annual Allowance					
Basic Only	\$7,235,000	\$6,672,000	\$6,309,000	\$6,052,000	\$5,757,000
COLA	\$5,494,000	\$5,118,000	\$5,116,000	\$5,206,000	\$4,805,000
Total	\$12,729,000	\$11,790,000	\$11,425,000	\$11,258,000	\$10,562,000
Average Monthly Payment	\$1,943	\$1,836	\$1,800	\$1,757	\$1,683
<b>Total Retired Members</b>					
Number	4,275	4,147	4,002	3,935	3,842
Annual Allowance					
Basic Only	\$111,378,000	\$103,340,000	\$94,304,000	\$87,812,000	\$80,675,000
COLA	\$33,467,000	\$31,335,000	\$30,584,000	\$31,240,000	\$28,941,000
Total	\$144,845,000	\$134,675,000	\$124,888,000	\$119,052,000	\$109,616,000
Average Monthly Payment	\$2,823	\$2,706	\$2,601	\$2,521	\$2,378
<b>Type of Refund*</b>					
General	\$3,399,000	\$2,379,790	\$2,623,439	N/A	N/A
Safety	\$228,329	\$94,655	\$112,586	N/A	N/A
Total Refund	\$3,627,492	\$2,474,445	\$2,736,025	\$2,794,916	\$3,074,453
INACTIVE MEMBERS	1,190	1,207	1,230	1,225	1,151

For 6/30/2004 and 6/30/2005 retirees/beneficiaries who are entitled to multiple benefits are counted more than once. Beginning in 6/30/2006, a retiree is counted only once even if that retiree has multiple benefits from different tiers.

The data in the table above originates from PensionGold, SamCERA's retirement benefit administration system. For the years 2001 through 2005 it also appears in SamCERA's actuarial valuation reports. The total payroll above will differ from the actual payroll due to a last month projection used by the actuary.

\* Type of Refund not available prior to FY 2009-2010.

## SUMMARY OF RETIRED BENEFITS, REFUNDS, AND INACTIVE MEMBERS (CONTINUED)

RETIRED MEMBERS	2007	2006	2005	2004	2003
<b>Service Retirement</b>					
Number	2,835	2,783	2,865	2,706	2,638
Annual Allowance					
Basic Only	\$59,687,000	\$54,942,000	\$49,760,000	\$41,723,000	\$36,260,000
COLA	\$19,382,000	\$18,188,000	\$17,759,000	\$17,502,000	\$16,668,000
Total	\$79,069,000	\$73,130,000	\$67,519,000	\$59,225,000	\$52,928,000
Average Monthly Payment	\$2,324	\$2,190	\$1,964	\$1,824	\$1,672
<b>Disability Retirement</b>					
Number	351	342	334	339	316
Annual Allowance					
Basic Only	\$7,571,000	\$6,915,000	\$6,575,000	\$6,164,000	\$5,061,000
COLA	\$2,569,000	\$2,356,000	\$2,205,000	\$2,172,000	\$2,049,000
Total	\$10,140,000	\$9,271,000	\$8,780,000	\$8,336,000	\$7,110,000
Average Monthly Payment	\$2,407	\$2,259	\$2,191	\$2,049	\$1,875
<b>Beneficiaries</b>					
Number	508	488	483	494	477
Annual Allowance					
Basic Only	\$5,220,000	\$4,659,000	\$4,084,000	\$4,250,000	\$3,548,000
COLA	\$4,361,000	\$3,946,000	\$3,800,000	\$3,682,000	\$3,388,000
Total	\$9,581,000	\$8,605,000	\$7,884,000	\$7,932,000	\$6,936,000
Average Monthly Payment	\$1,572	\$1,469	\$1,360	\$1,338	\$1,212
<b>Total Retired Members</b>					
Number	3,694	3,613	3,682	3,539	3,431
Annual Allowance					
Basic Only	\$72,478,000	\$66,516,000	\$60,419,000	\$52,137,000	\$44,869,000
COLA	\$26,312,000	\$24,490,000	\$23,764,000	\$23,356,000	\$22,105,000
Total	\$98,790,000	\$91,006,000	\$84,183,000	\$75,493,000	\$66,974,000
Average Monthly Payment	\$2,229	\$2,099	\$1,905	\$1,778	\$1,627
<b>Type of Refund*</b>					
General	N/A	N/A	N/A	N/A	N/A
Safety	N/A	N/A	N/A	N/A	N/A
Total Refund	\$2,243,677	\$2,257,849	\$1,458,227	\$1,734,939	\$1,205,576
INACTIVE MEMBERS	1,151	1,089	872	877	833

## SCHEDULE OF AVERAGE MONTHLY SALARY OF ACTIVE MEMBERS

(by tier and membership type)

	2012	2011	2010	2009	2008
General Tier 1	\$7,843	\$7,630	\$7,543	\$7,534	\$7,252
General Tier 2	\$7,340	\$7,208	\$7,193	\$7,120	\$6,872
General Tier 3	\$6,138	\$5,968	\$5,818	\$5,791	\$5,619
General Tier 4	\$6,580	\$6,398	\$6,348	\$6,212	\$5,914
General Tier 5	\$5,799	N/A	N/A	N/A	N/A
General Tier Total	\$6,726	\$6,599	\$6,569	\$6,468	\$6,211
Safety Tier 1	\$12,624	\$12,073	\$11,578	\$10,889	\$11,113
Safety Tier 2	\$10,892	\$10,789	\$10,548	\$10,135	\$9,612
Safety Tier 4	\$9,351	\$9,230	\$8,931	\$8,610	\$8,349
Safety Tier 5	\$9,667	N/A	N/A	N/A	N/A
Safety Tier 6	N/A	N/A	N/A	N/A	N/A
Safety Tier Total	\$9,795	\$9,730	\$9,525	\$9,197	\$8,937
Probation Tier 1	\$6,618	\$7,533	\$8,922	\$9,751	\$9,791
Probation Tier 2	\$7,454	\$7,349	\$7,393	\$7,341	\$6,960
Probation Tier 4	\$6,686	\$6,505	\$6,456	\$6,291	\$5,978
Probation Tier 5	\$4,949	N/A	N/A	N/A	N/A
Probation Tier 6	\$5,239	N/A	N/A	N/A	N/A
Probation Tier Total	\$6,844	\$6,719	\$6,722	\$6,634	\$6,344
<b>Average Monthly Salary</b>	<b>\$6,995</b>	<b>\$6,872</b>	<b>\$6,813</b>	<b>\$6,692</b>	<b>\$6,433</b>

## SCHEDULE OF AVERAGE MONTHLY SALARY OF ACTIVE MEMBERS (CONTINUED)

(by tier and membership type)

	2007	2006	2005	2004	2003
General Tier 1	\$7,175	\$6,749	\$6,582	\$6,514	\$6,070
General Tier 2	\$6,688	\$6,148	\$6,045	\$5,980	\$5,573
General Tier 3	\$5,287	\$4,988	\$5,216	\$5,101	\$4,747
General Tier 4	\$5,714	\$5,315	\$5,476	\$5,281	\$4,886
General Tier 5	N/A	N/A	N/A	N/A	N/A
General Tier Total	\$6,054	\$5,652	\$5,747	\$5,642	\$5,284
Safety Tier 1	\$10,212	\$10,019	\$9,701	\$9,516	\$8,500
Safety Tier 2	\$9,299	\$8,585	\$8,482	\$8,530	\$7,518
Safety Tier 4	\$7,882	\$7,403	\$7,564	\$7,582	\$6,465
Safety Tier 5	N/A	N/A	N/A	N/A	N/A
Safety Tier 6	N/A	N/A	N/A	N/A	N/A
Safety Tier Total	\$8,538	\$8,062	\$8,150	\$8,267	\$7,291
Probation Tier 1	\$8,522	\$7,735	\$7,216	\$6,856	\$6,548
Probation Tier 2	\$6,899	\$6,479	\$6,390	\$6,291	\$5,800
Probation Tier 4	\$5,766	\$5,444	\$5,741	\$5,711	\$4,924
Probation Tier 5	N/A	N/A	N/A	N/A	N/A
Probation Tier 6	N/A	N/A	N/A	N/A	N/A
Probation Tier Total	\$6,171	\$5,860	\$6,032	\$6,019	\$5,395
<b>Average Monthly Salary</b>	<b>\$6,260</b>	<b>\$5,857</b>	<b>\$5,955</b>	<b>\$5,871</b>	<b>\$5,467</b>

The data in the table above originates from PensionGold, SamCERA's retirement benefit administration system. For the years 2001 through 2005 it also appears in SamCERA's actuarial valuation reports.

SCHEDULE OF PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS

	2012	2011	2010	2009	2008
COUNTY OF SAN MATEO					
General Members	4,078	4,476	4,589	4,758	4,718
Safety Members	435	446	425	436	432
Safety/Probation Members	299	305	313	330	325
Total	4,812	5,227	5,327	5,524	5,475
SAN MATEO COUNTY SUPERIOR COURTS*					
General Members Total	268	N/A	N/A	N/A	N/A
SAN MATEO COUNTY MOSQUITO & VECTOR CONTROL DISTRICT					
General Members Total	15	18	20	19	25
<b>Total Active Membership</b>	<b>5,095</b>	<b>5,245</b>	<b>5,347</b>	<b>5,543</b>	<b>5,500</b>

\* San Mateo County Superior Courts Members were included in County of San Mateo prior to 2012.

SCHEDULE OF PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS (CONTINUED)

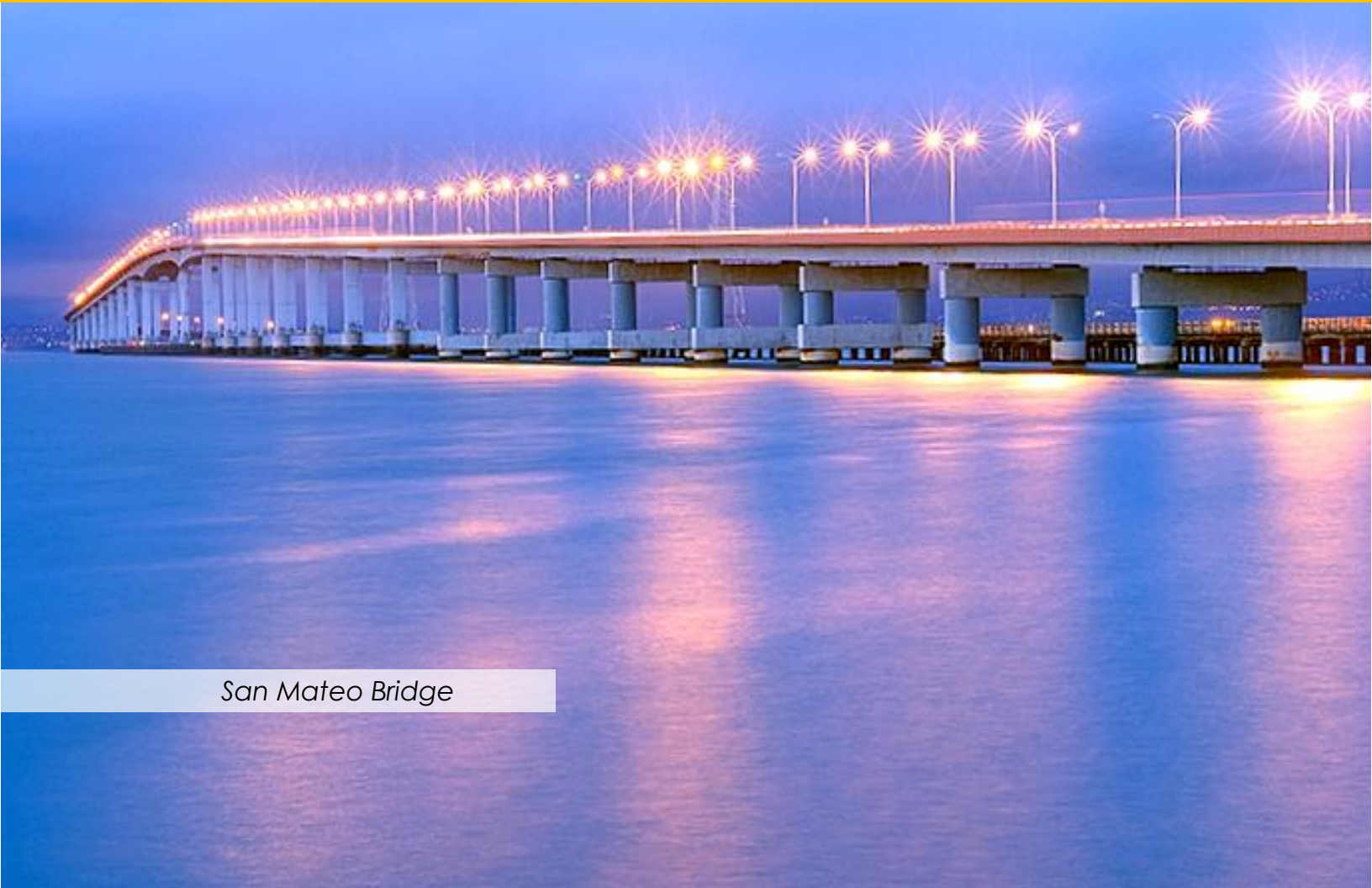
	2007	2006	2005	2004	2003
COUNTY OF SAN MATEO					
General Members	4,742	4,594	4,391	4,474	4,202
Safety Members	443	428	409	411	434
Safety/Probation Members	329	313	278	288	290
Total	5,514	5,335	5,078	5,173	4,926
SAN MATEO COUNTY SUPERIOR COURTS*					
General Members Total	N/A	N/A	N/A	N/A	N/A
SAN MATEO COUNTY MOSQUITO & VECTOR CONTROL DISTRICT					
General Members Total	25	20	20	13	11
<b>Total Active Membership</b>	<b>5,539</b>	<b>5,355</b>	<b>5,098</b>	<b>5,186</b>	<b>4,937</b>

\* San Mateo County Superior Courts Members were included in County of San Mateo prior to 2012.



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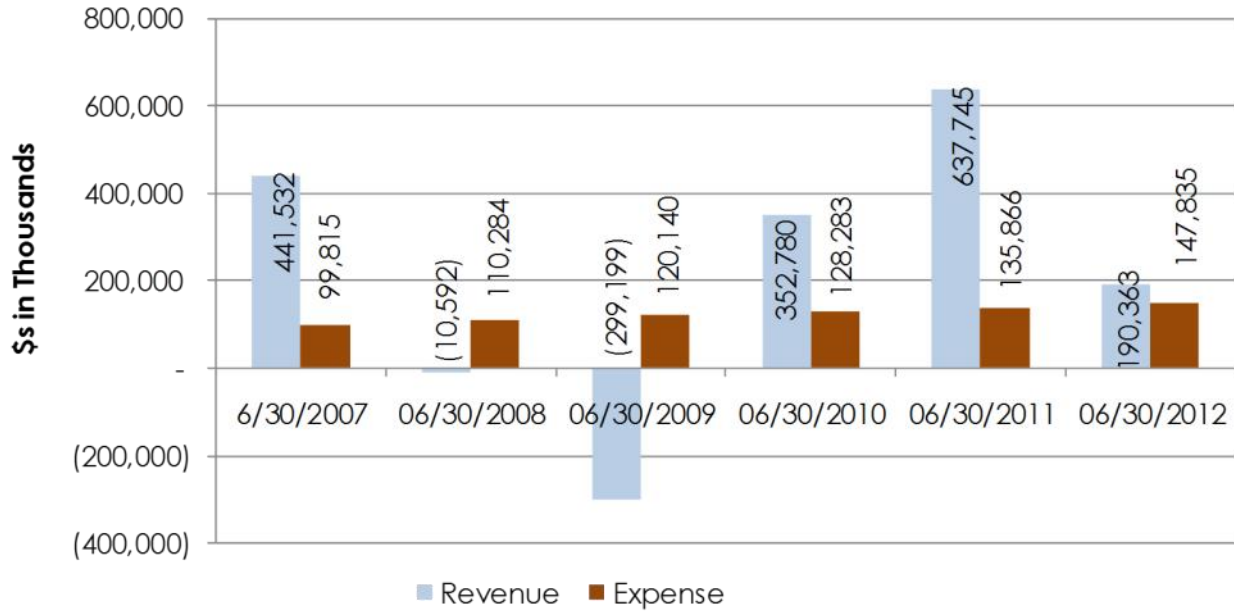
COMPLIANCE SECTION



*San Mateo Bridge*

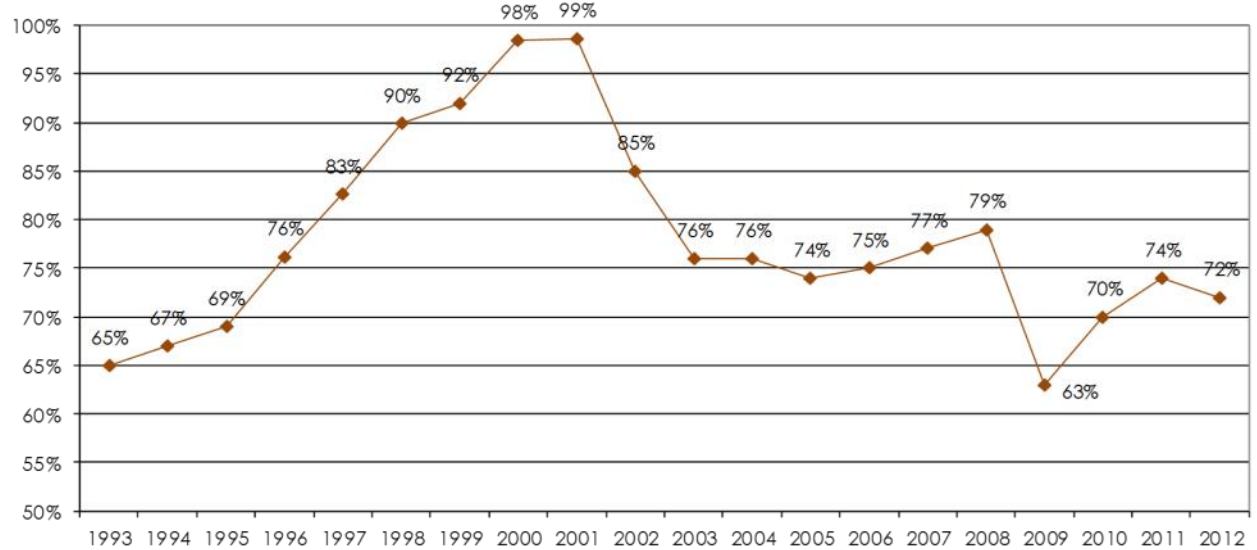
### SAMCERA'S REVENUE AND EXPENSE

FY 2007-2012



### SAMCERA'S FUNDING RATIO (GASB 25 BASIS)

FY 1993-2012



**BROWN ARMSTRONG**  
 CERTIFIED PUBLIC ACCOUNTANTS

**MAIN OFFICE**  
**4200 TRUXTUN AVENUE**  
 SUITE 300  
 BAKERSFIELD, CA 93309  
 TEL. 661.324.4971  
 FAX 661.324.4997  
 EMAIL info@pacpas.com

**560 CENTRAL AVENUE**  
 SHAFER, CALIFORNIA 93263  
 TEL 661.746.2145  
 FAX 661.746.1218

**8050 N. PALM AVENUE**  
 SUITE 300  
 FRESNO, CALIFORNIA 93711  
 TEL 559.476.3592  
 FAX 559.476.3593

**790 E. COLORADO BLVD.**  
 SUITE 908B  
 PASADENA, CALIFORNIA 91101  
 TEL 626.240.0920  
 FAX 626.240.0922

**5250 CLAREMENT AVENUE**  
 SUITE 237  
 STOCKTON, CA 95207  
 TEL 209.451.4833

**PKF**  
 BROWN ARMSTRONG  
 A member of PKF

REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

**BROWN ARMSTRONG**  
*Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT**

Board of Retirement  
 San Mateo County Employees' Retirement Association

We have audited the accompanying Statement of Fiduciary Net Assets of the San Mateo County Employees' Retirement Association (SamCERA) as of June 30, 2012 and 2011, and the related Statement of Changes in Fiduciary Net Assets for the years then ended. These financial statements are the responsibility of SamCERA management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of SamCERA as of June 30, 2012 and 2011, and its changes in fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



The Other Supplementary Information, as listed in the table of contents, and the Investment, Actuarial, Statistical, and Compliance sections are presented for purposes of additional analysis and are not a required part of the financial statements of SamCERA. The Other Supplementary information as listed in the table of contents has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. We did not audit the information contained in the Investment, Actuarial, Statistical, and Compliance sections and express no opinion or provide any assurance on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012, on our consideration of SamCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive style.

Bakersfield, California  
October 15, 2012

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### Order Information

To order your own copy of SamCERA's *2012 Comprehensive Annual Financial Report*, contact SamCERA at:

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

You can also find this report on SamCERA's website, [www.samcera.org](http://www.samcera.org).

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



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# *SamCERA*

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

100 Marine Parkway, Suite 125 | Redwood City, CA 94065  
Phone: 650-599-1234 | Toll Free: 1-800-339-0761 | Fax: 650-591-1488  
[samcera@samcera.org](mailto:samcera@samcera.org)

San Mateo County Employees' Retirement Association  
**The Board of Retirement**

October 23, 2012

Agenda Item 7.6

To: Board of Retirement



From: Mabel Wong, Retirement Finance Office

Subject: Annual Review of Independent Auditor – Brown Armstrong Accountancy Corporation.

**STAFF RECOMMENDATION:** Staff recommends that the Board review the information summarizing Brown Armstrong Accountancy Corporation's performance as SamCERA's independent auditor and comment accordingly during this agenda item.

**SUMMARY:** Brown Armstrong received above average to high marks from the Board and staff for the services they provide to SamCERA. Ratings were slightly below those of the last few years due to timeliness of certain communications. All comments were constructive and helpful. Staff recommends that the Board listen to the oral presentation provide by Brown Armstrong and staff regarding the annual review.

**BACKGROUND:** The annual evaluation of the SamCERA's independent auditor has three parts:

1. A survey completed by trustees, staff and the auditor with comments
2. Responses to questions submitted to the auditor
3. A discussion at the Board meeting to present the findings of the survey and question responses.

1. Survey

This year the survey was provided online. Results were collected from six trustees, five staff members and three auditors. Ratings from staff and trustees are above average to high. On a scale of 1 through 5, with 5 being the highest rating, staff gave the firm an average rating of 3.80; trustees rated the firm 4.52 and auditors rated themselves at 4.63. Please see the attached summary sheet for rating details and selected supplemental comments for additional information.

2. Responses to Questions

Brown Armstrong responded to a series of questions about the firm. SamCERA's audit partner, **Andrew (Andy) Paulden**, will highlight attached responses to the questions.

3. Discussion at Board Meeting

SamCERA's audit partner, **Andrew (Andy) Paulden**, will be available to respond to any questions or comments regarding the audit services relationship.

In general, staff and trustees are pleased with the quality of advice and services provided by Brown Armstrong Accountancy Corporation.

## Summary of Independent Auditor Performance Survey Results

October 23, 2012

Q1-Q8: 1= Low, 2=Below Average, 3=Average, 4=Above Average, 5=High

Q9-Q15: 1=Strongly Disagree, 2= Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree

Survey Questions	Trustee Results	Staff Results	Auditor Results	Average
1. How would you rate the firm's understanding of the system's goals and objectives?	4.80	4.40	5.00	4.73
2. How would you rate the firm's ability to custom tailor services?	4.25	3.50	5.00	4.25
3. How would you rate the firm's ability to respond to plan sponsor needs?	4.80	3.80	5.00	4.53
4. How would you rate the firm's ability to communicate effectively?	4.67	3.40	4.30	4.12
5. How would you rate the firm's responsiveness to questions and requests?	4.80	3.60	5.00	4.47
6. How would you rate the adequacy of information provided by the firm?	4.67	3.60	4.30	4.19
7. How would you rate the firm's knowledge in their substantive audit expertise areas?	4.80	4.30	4.00	4.37
8. How would you rate the effectiveness of the firm's educational presentations?	4.80	5.00	4.30	4.70
9. The firm provides practical and effective advice.	4.67	3.60	4.30	4.19
10. The firm provides creative solutions to difficult problems.	4.20	3.25	4.30	3.92
11. The firm achieves results that meet your expectations.	4.50	3.80	4.67	4.32
12. The firm keeps you informed about the progress of your matters.	3.60	3.00	4.67	3.76
13. The firm keeps you informed about changes in the law that could affect the plan.	4.00	3.70	5.00	4.23
14. The actuary demonstrates a high standard of ethics and integrity.	4.70	4.60	5.00	4.77
15. What is your overall opinion of the firm?	4.50	3.40	4.67	4.19
Average	4.52	3.80	4.63	4.32

## **Selection of Trustee and Staff Comments**

### **Q1. How would you rate the auditor's understanding of the system's goals and objectives?**

1. Brown Armstrong is a service provider to several 37 Act retirement systems and is committed to that business; they are highly knowledgeable regarding issues that impact these retirement systems.

### **Q2. How would you rate the auditor's ability to custom-tailor services?**

1. They are about as flexible as we would want them to be.  
2. Auditor was able to accommodate a change in our audit schedule this year, and was flexible with reviewing draft versions of CAFR.

### **Q4. How would you rate the auditor's ability to communicate effectively?**

1. Andy always does a very good job of providing details of our audit clearly and concisely.  
2. Brown Armstrong has always been fairly communicative in the past; I feel that there was a decline in the amount of effective communication during this past audit, namely regarding the status of open items.  
3. There was some miscommunication in regards to booking private equity/alternative managers' from last fiscal year FY11 to this fiscal year FY12. The miscommunication created confusion for staff.

### **Q8. How would you rate the effectiveness of the auditor's educational presentations?**

1. Andy Paulden is a clear communicator regarding auditing methods and techniques.  
2. Always well-done and informative.

### **Q10. The auditor provides creative solutions to difficult problems.**

1. We don't want them to be too creative.

### **Q11. The auditor achieves results that meet your expectations.**

1. Presuming the results meet our expectations - in timeliness perhaps? What other expectations? Accuracy should go without saying...

### **Q12. The auditor keeps you informed about the progress of your matters.**

1. We felt that this most recent audit had a few open items that SamCERA thought was resolved since the auditor did not further follow up with the items in question. We wish that the auditors had informed SamCERA earlier so that we would be able to pursue or fix the items immediately.

### **Q14. The auditor demonstrates a high standard of ethics and integrity.**

1. Andy has always presented himself professionally and intelligently.

### **Q15. What is your overall opinion of the auditor?**

1. SamCERA has a good relationship with Brown Armstrong. They provide a great service to the system and work well with staff.  
2. Seems like the staff works well with them, they produce results on time and they are generally accurate.  
3. We regard Brown Armstrong to be a highly reputable, knowledgeable and effective auditor. However, I felt that there was a decline in the amount of service for the most recent audit.  
4. Brown Armstrong is very knowledgeable in their expert area, and is a great resource for staff.

### **Q16. Do you have other comments, questions, or concerns?**

1. I like our auditors. I enjoy working with them and appreciate their input. This year, I felt as if they were rushing and the quality of service that they provided were not in the same level as the previous years.

**Questions for Annual Independent Auditor Evaluation  
Fiscal Year 2011-2012**

**Organizational Update**

- 1) What is the ownership structure of your firm? Identify all owners with 5% ownership or more. We continue to be a Subchapter C corporation owned by partner/shareholders. Of our 12 owners, the following 9 own 5% or more:

Andrew J. Paulden	16.51%
Burton H. Armstrong	14.54%
Steven R. Starbuck	10.49%
Christina M. Thornburgh	6.23%
Eric H. Xin	12.56%
Richard L. Halle	10.90%
Diana H. Branthoover	6.85%
Thomas M. Young	5.30%
Jay K. Porter	5.61%

- 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.
- (a) We retired one partner during the last eighteen months.
- (b) WE have gained the following in the past 18 months: Proteus Energy, Farmers Cooperative Almond Huller, M. Caratan, Inc., Pasadena Civic Auditorium / Convention Center, Kern Health Systems, Riverside County Habitat Conservation Agency, Pasadena Chamber of Commerce, Resmark Equity Partners, Arvin Community Services District, County of San Joaquin RDA AUP, Bakersfield Homeless Center, National Test Pilot School, Resmark Equity Partners AUP, County of Stanislaus RDA AUP, County of Riverside RDA AUP, County of Ventura RDA AUP, County of Merced RDA AUP, City of Merced RDA AUP, Solano County Transit, Southern California Regional Rail Authority (Metrolink), Bakersfield ARC, Inland Valley Development Agency, County of Fresno, Taft College, Seven Oaks Country Club, MMI Services 401(k) Profit Sharing Plan, Los Angeles Fire & Police Pension, Santa Barbara County Employees' Retirement System, GEO Drilling Fluids, City of Bakersfield RDA Due Diligence AUP, City of Visalia RDA Due Diligence AUP, City of Tulare RDA Due Diligence AUP, City of Lindsay RDA Due Diligence AUP, City of Pasadena RDA Due Diligence AUP, County of Merced RDA Due Diligence AUP, County of Santa Barbara RDA Due Diligence AUP, County of Kings RDA Due Diligence AUP, County of Stanislaus RDA Due Diligence AUP, and Inland Valley Development Agency Due Diligence AUP. We have lost California Association of County Treasurers and Tax Collectors, City of Fresno RDA, Creative Realty Mortgage, Fruitvale School District, Jim Burke Ford, Marina RL, Tri-Valley, Ventura County LTF, and Ventura County PFA.
- (c) Our firm is managed by a managing partner that is elected by the shareholders every four years. Please see our current organizational chart attached.
- 3) Provide a list of services available through your firm, including the number of staff supporting those services.



We are a full service accounting firm offering traditional accounting services. We currently have 96 employees, 50 of those provide services to local governments.

- 4) What are your firm's philosophy and current policy regarding new business?

We engage only new clients that have the highest ethical standards, and only after we are certain we can provide high quality, timely service.

- 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).

All partners and managers are integral to the continued success of our firm, particularly those under 50.

- 6) Update all significant personnel changes to the "SamCERA Team."

There were no significant changes in the "SamCERA Team" in the current year.

- 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?

No.

- 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.

Previously provided to SamCERA Management was Brown Armstrong Accountancy Corporation's most recent external quality control review (peer review.) Please see attached. This quality control review included a review of specific government engagements. Only one instance of our over one hundred government engagements and only once in our entire firm history has our firm encountered a deficiency in practice. To mitigate this deficiency, we have instituted quality control procedures that surpass the highest standard. Every engagement is reviewed in detail by the Engagement Manager, the Engagement Partner and a completely separate Partner who has no attachment to the engagement. We use AICPA checklists and other practice aids. Any detail that has an open question or concern will halt production on the engagement until the matter is cleared to the reviewing Partner's satisfaction. If we cannot solve the problem, we can draw upon resources unmatched in the industry for guidance from the global resources of PKF to the United States General Accountability Office, the White House Office of Management and Budget and the GASB. We have increased our testing and documentation regimen so that they surpass professional standards. Finally, we have subjected ourselves to an accelerated review be finalized on or before April 30, 2013. Our profession is headed toward audit quality at the highest level due to recent failures by several notable firms. At Brown Armstrong Accountancy Corporation, we take engagement quality as our primary responsibility and are leading the way into this new era.

- 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).



See attached certificate.

- 10) Do you have a written policy on ethics? If so, please e-mail the policy to [mwong@samera.org](mailto:mwong@samera.org).

We do not have a written policy. We conform to AICPA standards.

- 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.

We have very good employee retention. The only outsourcing we do is for Information Technology consultations.

- 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?

Our network and data storage are reviewed by a consultant at least twice a year for safety and soundness and appropriate and correction action is taken immediately. Also, before 2012 year-end we have plans to upgrade our storage device and implement a virtual server in early 2013.

- 13) Provide an overview of your firm's business continuity plan.

We have buy-sell and deferred compensation agreements with all partners. All partners that reach the age of 65 are mandatorily retired unless approved annually to continue as a partner. New partners meeting applicable standards, are admitted to ownership to ensure continuity.

#### **Audit Process**

- 14) Provide a description, in detail, of your audit process.

Timeline establishment, risk assessment, internal control evaluation, substantive audit procedures, and Board Presentation.

- 15) What changes to the process resulted from going paperless?

Brown Armstrong has been paperless for multiple years. Regarding the audit process mentioned at #14, there were no material changes to this process.

- 16) Describe your internal peer review procedures in detail.

As discussed in #8, every engagement is reviewed in detail by the Engagement Manager, the Engagement Partner and a completely separate Partner who has no attachment to the engagement. We use AICPA checklists and other practice aids. Any detail that has an open question or concern will halt production on the engagement until the matter is cleared to the reviewing Partner's satisfaction.

- 17) Does your firm engage in peer review with other audit firm? Please provide details.

Please see #8.

## Outlook

- 18) What issues are other clients concerned with in regards to products, services, education and governance?

Our other clients are concerned with obtaining training and implementation guidance relating to both new and proposed accounting/pension standards.

- 19) What is your firm's outlook and position regarding the current enacted or proposed changes in accounting standards relative to the pension industry? Please list and discuss each proposal separately.

Our firm works closer than most other firms with standard setting bodies. The most important standard that has been released as of the date of this response are as follows:

### GASB Statement No. 67 Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25

This statement (and the related GASB Statement No. 68 - Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, contain the most pervasive changes to defined benefit pension accounting and financial reporting since 1998. For SAMCERA, the standards will require allocating the net pension liability, annual expenditures and deferred inflows and outflows of resources to the sponsoring governments. There are many other changes including the basic calculation of annual expense, discount rate calculation and disclosure that we would be pleased to brief management and the Board about at your earliest convenience and to present a model for success.

### GASB Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position

This standard will change SAMCERA financial statements in 2013. New titles and captioning will be used. Upon implementation of GASB-67 and 68, new elements of accounting will be presented.

### Pending Exposure Draft on Fair Value Measurement and Application

Within the next three or four months, the GASB will release a proposal on fair value accounting. If approved, the proposed standards will look very similar to for-profit standards and may have a pervasive effect on the investment valuation operations of SAMCERA as standards that are currently in place at for-profit entities with regard to fair value will be largely implemented for governmental entities like the Association. Disclosure and valuation are proposed to be very different for alternative investments including private equity and similar investments. An exposure draft is expected to be issued before February 2013 with a final standard expected by December 2013. Implementation would be expected by 2015.

### Other changes with respect to auditing include:

#### The so-called "Clarified" audit standards

Beginning on December 15, 2012, the audit report for SAMCERA as well as audit programs will completely change. This is due to the finalization of a multi-year program



to modernize and clarify auditing standards so that the average user will understand what an audit is and what an audit report is saying. Included in these new standards is an updated framework for group audits, requiring our firm to work more closely with the various auditors of the sponsors in terms of timeline, workpaper preparation, materiality and other aspects.

#### Updated Government Auditing Standards (Yellow Book)

As discussed herein, updated Government Auditing Standards will also be implemented on December 15, 2012. New standards present an updated framework for auditor independence, continuing professional education, reporting and documentation of skills, knowledge and education of our clients.

- 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?

We have a very good relationship with SamCERA. No noted areas for improvement.

#### **Conclusion**

- 21) Is there any information that would be timely pursuant to SamCERA's contract and this annual review?

None noted.

- 22) Are your clients making significant changes in their asset mixes or economic and non-economic assumptions? Describe these changes.

None noted.

- 23) What audit related changes should SamCERA consider?

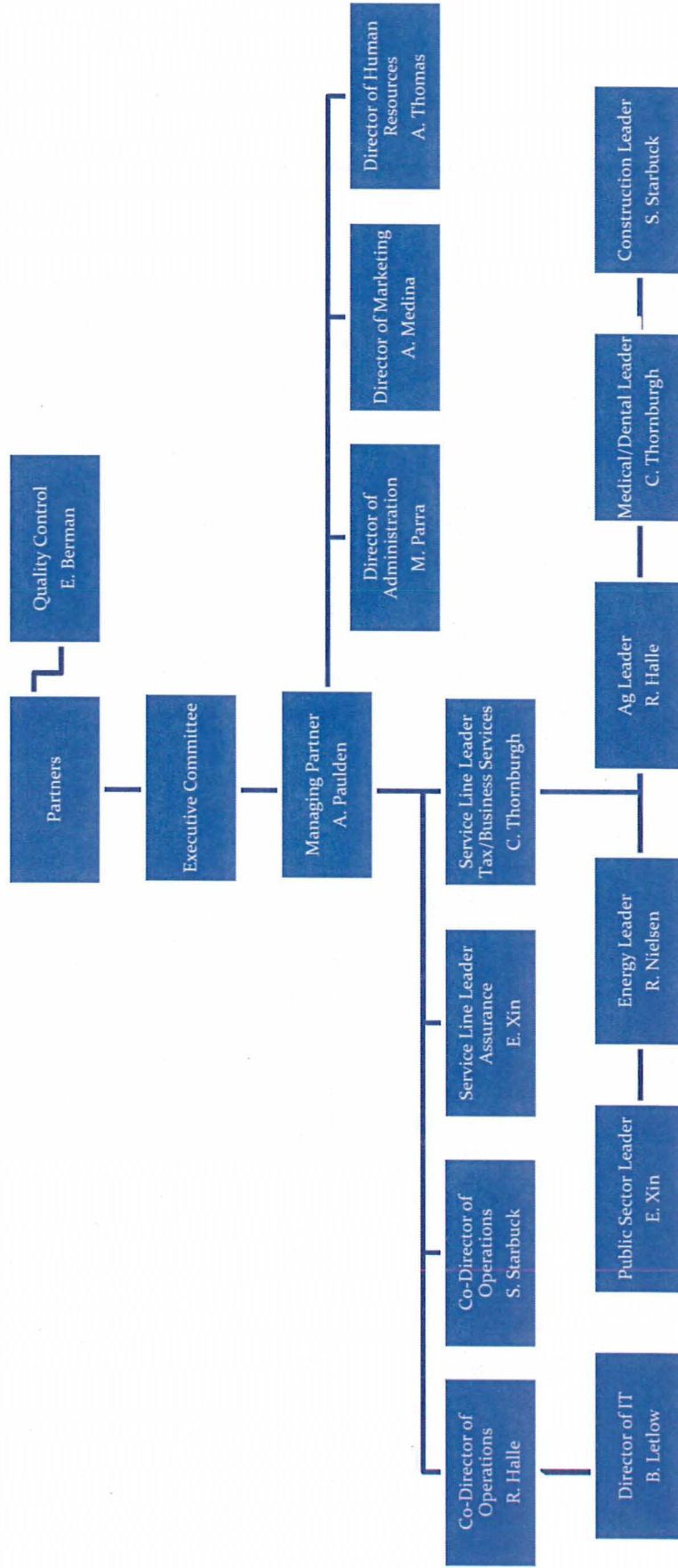
None noted.

- 24) Relative to your expertise, what trends are occurring in the retirement industry that SamCERA should be tracking?

Relative to defined benefit pension plans, the recent pension reform legislation passed by the State of California and signed by the Governor is probably the largest change that should be tracked. The bill reflects nationwide trends of curtailment, changing of plan provisions and economics of defined benefit plans.

# Brown Armstrong Accountancy

## Corporation – Organization Chart



Revised 10/27/2011



## System Review Report

To the Shareholders of  
Brown Armstrong Accountancy Corporation  
and the National Peer Review Committee of the AICPA

We have reviewed the system of quality control for the accounting and auditing practice of Brown Armstrong Accountancy Corporation (the firm) applicable to non SEC issuers in effect for the year ended October 31, 2011. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based upon our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, and audits of carrying broker-dealers.

We noted the following deficiency during our review:

Deficiency – The firm's quality control policies and procedures require the engagement partner, as well as an engagement quality control reviewer, to review the audit documentation, financial statements and firm's reports prior to issuance. Our review noted instances where such review was not carefully performed. As a result, the firm issued reports that failed to include all of the language/elements required by professional standards or the circumstances. In certain instances, the firm had to recall and reissue the correct report and, in one instance, perform additional audit procedures. In other instances, the reporting deficiencies were not of such significance to require additional action by the firm. Rather, these deficiencies will be corrected on the subsequent engagement with which we concur.

Recommendation - The firm should reemphasize to its engagement reviewers the need to carefully review the firm's reports to ensure they are in compliance with professional standards. The firm should develop a means to ensure required engagement quality control reviews are performed by qualified individuals selected by the principal in charge of firm quality control, and the results of such reviews are appropriately monitored.

In our opinion, except for the deficiency described above, the system of quality control for the accounting and auditing practice of Brown Armstrong Accountancy Corporation applicable to non SEC issuers in effect for the year ended October 31, 2011, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a

rating of *pass*, *pass with deficiency(ies)* or *fail*. Brown Armstrong Accountancy Corporation has received a peer review rating of *pass with deficiency*.

A handwritten signature in cursive script that reads "Weaver and Tidwell, LLP".

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
January 27, 2012

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

October 23, 2012

Agenda Item 7.7

**TO:** Board of Retirement  
**FROM:** David Bailey, Chief Executive Officer  
**SUBJECT:** Update on Technology Modernization Project



During this agenda item, the Board will hear an update on SamCERA's Technology Modernization Project from LRWL Project Manager Will Morrow.



**Status Report for the Period Ending 9/30/2012  
San Mateo County Employees' Retirement Association (SamCERA)**

Project Status Dashboard

PROJECT DIMENSION	RATING	TREND	LRWL COMMENT
<b>OVERALL</b>	GREEN	=	Phase 1 deliverables nearing completion and SamCERA has selected an approach for Enterprise Content Management (ECM) and backfile that will reduce cost, time, and effort.
<b>Schedule</b>	GREEN	=	The overall project is on schedule. The schedule has been revised (and shortened) to reflect the ECM approach.
<b>Budget</b>	GREEN	=	The LRWL invoices and hours are within budget.
<b>Scope</b>	GREEN	=	No change orders have been requested.

**KEY:**

OVERALL RATING = the lowest rating for all dimensions

OVERALL TREND = LRWL judgment based on trends for each project dimension

RATING: Green = within 2% of target

Yellow = within 10% of target

Red = more than 10% away from target

TREND: + means the Rating has moved closer to target in this period

= means the Rating has not changed since last period

- means the Rating has moved farther from the target in this period

PROJECT TASK STATUS	
TASK	% COMPLETE
Project Management	33%
BPR	99%
Data Cleansing	13%
ECM	18%
PASS	4%
Staffing Study	75%
Oversight Project Management	
<b>TOTAL PROJECT</b>	<b>22%</b>

**Progress September 2012**

1. Delivered BPR As-Is Session Draft Documents (34 of 34)
2. Facilitated PASS vendor demonstrations (6)
3. Delivered draft ECM Analysis
4. Obtained support from San Mateo County Information Systems Division for ECM recommendations
5. Scheduled Autonomy ECM demonstration
6. Established Technology Modernization Steering Team
7. Revised project schedule (planned completion now September 2013)
8. Reciprocity Automation Presentation to CALAPRS Benefits Roundtable

**Planned Progress October 2012**

1. Draft BPR Report
2. Draft Phase 1 Analysis Report (ECM, PASS, Staffing Study)
3. Draft ECM contract
4. Estimate of effort for Investments BPR
5. Proposal for Strategic Change Management Services

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

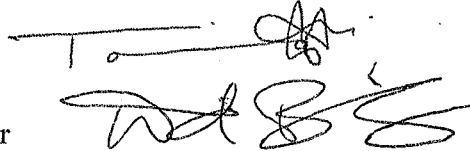
October 23, 2012

Agenda Item 7.8

**TO:** Board of Retirement

**FROM:** Tariq Ali, Chief Technology Officer

David Bailey, Chief Executive Officer



**SUBJECT:** Approval to Establish Retirement Information Technology Position

**Staff Recommendation**

Staff recommends the Board authorize staff to work with the County Human Resources Department and the County Manager to establish one additional *Retirement Systems Technologist* position at SamCERA.

**Summary**

SamCERA's technology staff has built a technology infrastructure for the association that is highly supportive of staff's work providing member services as well as, accounting and retiree payroll, investing, legal analysis and all the other tasks and services SamCERA provides. One additional technology support position is needed to help with the workload to maintain the current infrastructure, move forward with SamCERA's plans to replace its PensionGold System, implement an Enterprise Content Management (ECM) system, and make progress on other initiatives in support of SamCERA's mission.

**Background**

SamCERA is heavily dependent on its technology to provide a high level of service to members, and to support its accounting, investing, legal, actuarial, auditing and communications responsibilities. Every SamCERA employee actively completes their work by relying on various hardware and software tools.

Over the last several years, SamCERA's technical infrastructure has evolved and expanded. Today, all servers are virtualized; we utilize a microwave data connection to the County of San Mateo; we work with GroupWise (email and calendaring), Great Plains (accounting), MS Office, DropBox, Confluence, PCs, laptops, iPads, mobile phones, in-office Wi Fi, the SamCERA website, and network functions that allow us to access our desktops remotely. All this infrastructure supports better services, but also requires maintenance.

Over the next few years, SamCERA will replace its core software program, PensionGold, and the database that it relies upon with a new Pension Administration Software System (PASS).

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

multiple times and has reached the point in its lifecycle where additional alterations—such as to implement new legislation—pose an increasing risk of unintended consequences, i.e. changes to member data that are inaccurate and not planned.

SamCERA will also implement an Enterprise Content Management (ECM) System, mainly in order to convert its paper member files to electronic format. This will backup important forms and information and facilitate workflow processes that will support accurate and consistent benefits processing and cross training.

The implementation of the PASS and ECM systems are in addition to the work of the SamCERA IT staff to maintain current systems and also move forward with other initiatives. These initiatives include: implementation of new PensionGold features and contribution rate tables for additional retirement tiers resulting from 2011 bargaining unit negotiations and 2012 passage of PEPRA legislation, a Web Redesign to improve staff ability to keep information current, rollout of Web Member Services on the Internet (including penetration testing), Dynamics Great Plains (accounting software) upgrade and enhancement, Board Packet Management Software.

As a part of SamCERA's Information Technology Modernization Project, LRWL is conducting a comprehensive staffing study. When complete, the study will make recommendations regarding SamCERA's staffing needs during and after completion of the Technology Modernization Project. Because of current and future needs in the IT division, SamCERA asked LRWL to proceed with the IT staffing portion of the study. This study portion is attached.

### **Discussion**

The new *Retirement Systems Technologist* (RST) position will be important to the successful implementation of the new PASS and ECM systems. The position will also be important to allow progress on the other IT initiatives noted above and free up more technology staff time for maintenance of current systems.

In the SamCERA organization chart, the additional RST would report to the Chief Technology Officer (CTO). The CTO would then have two direct reports, both RSTs.

The RST classification salary is \$6899 to \$8624 per month. Funds were approved by the Board in the current budget for the creation and hiring of this position.

The current RST would continue to focus on support for PensionGold, Great Plains, SamCERA website, GroupWise and desktop applications. The new position would focus on new technology systems development, installation and eventually maintenance. However, there would be substantial cross training to allow sharing of duties and backup.

LRWL believes it is appropriate to add this position. The report states that, "LRWL agrees with the proposed position description and logic for this staffing need. It makes sense to have a staff member with the specialized skillsets to administer these IT assets...Having a network specialist would permit the CTO and [current] IT analyst to focus on other functions."

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

LRWL has recommended that hiring the position later, after the ECM and PASS solutions have been selected, would allow SamCERA to match the skill set of the position more closely with the new technologies. However, they also state that, "...if SamCERA has determined the existing workload requires additional personnel now, a position description could be developed that would increase the likelihood that the new person's skills would align with the support needs for ECM and PASS, and there may be advantages to having a new person participate in the ECM and PASS acquisition and implementation."

Staff believes that the advantages of creating this position now outweigh those of doing so later. There is a need to spread the current workload for IT staff and thus allow continued progress with long term initiatives along with the IT Modernization project.

Adding a position now would allow time for the new hire to be trained and brought up to speed with SamCERA's current environment, and allow the new hire to be involved in the selection and direction of the new systems that will be implemented at SamCERA. This is important because the new hire will likely bear most of the responsibility of maintaining and supporting the new systems.

The position would support implementation of an IT governance model as also recommended in the IT Staffing Study.

Staff believes it is important to begin the position approval and hiring now, because it can be a lengthy process, encompassing several months. If approved by the Board, staff will work with County HR to finalize a position description consistent with the RST job classification, gain approval from the County Manager and the Board of Supervisors, advertise, interview and hopefully fill the position after the first search.

LRWL notes that the typical number of IT staff for a total staff of 25 is two to three. SamCERA has a staff of 20. Considering that SamCERA is embarking on several significant IT improvement projects, that the association has several new benefit tiers to maintain or implement, and that SamCERA's IT tools are essential to the day-to-day provision of quality customer services, staff believes the position is well justified.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

October 23, 2012

Agenda Item 7.9

**TO:** Board of Retirement  
**FROM:** David Bailey, Chief Executive Officer  
**SUBJECT:** Amendment of the Board's Education Policy



**Staff Recommendation**

Staff recommends the Board adopt a resolution amending the Education Policy to be consistent with newly enacted Government Code section 31522.8.

**Background**

The Board's current Education Policy needs to be amended to conform to the requirements of Government Code section 31522.8, passed in 2012 by the California Legislature. It becomes effective January 1, 2013.

Section 31522.8 reads as follows:

*"A board of retirement and a board of investments subject to this article shall adopt a policy for providing education to board members. The policy, at a minimum, shall do the following:*

*(a) Identify appropriate topics for board member education, which may include, but is not limited to, the following:*

- (1) Fiduciary responsibilities.*
- (2) Ethics.*
- (3) Pension fund investments and investment program management.*
- (4) Actuarial matters.*
- (5) Pension funding.*
- (6) Benefits administration.*
- (7) Disability evaluation.*
- (8) Fair hearings.*
- (9) Pension fund governance.*
- (10) New board member orientation.*

*(b) Establish a means for determining the programs, training, and educational sessions that qualify as board member education. Educational seminars sponsored by the state or national public pension fund organizations and seminars sponsored by accredited academic institutions shall be deemed to meet board member education requirements.*

*(c) Require that all board members receive a minimum of 24 hours of board member education within the first two years of assuming office and for every subsequent two-year period the board member continues to hold membership on the board.*



SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

*(d) Require each board to maintain a record of board member compliance with the policy. The policy and an annual report on board member compliance shall be placed on the Internet Web site of the retirement system.”*

The staff's proposed amendments to the Education Policy, as shown in the attached resolution, will accomplish the required changes to the policy.

The matrix below shows the amendments to each resolve clause of the Education Policy and the corresponding elements of the new law prompting the amendments or other reasons for the recommended changes.

<b>Resolve Clause</b>	<b>Reason for Change</b>
All	numbered for clarity
3	31522.8 (a)
4	31522.8 (b)
5	31522.8 (b)
6	31522.8 (c)
7	31522.8 (d)
10	reworded for clarity
12	edited for consistency with the Board's Travel Policy, which states that trustees, "... <b>shall</b> provide a brief report..."
13	edited consistent with the spirit of 31522.8
16	wording modernized

Staff will keep track of board member training throughout each year and consult each board member prior to the posting of each annual trustee education report.



SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Education Policy**

Resolution 98-99-12, as amended January 27, 2009

**WHEREAS**, Article XVI, §17(c) of the Constitution of the State of California states in part that

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

**WHEREAS**, Government Code §31520 vests the management of SamCERA in the Board; and

**WHEREAS**, the Board acknowledges the vital importance of making informed judgments on all matters which come before it and has adopted a *Code of Fiduciary Conduct* to guide its actions; and

**WHEREAS**, Associations and institutes exist which offer specialized training for pension fund trustees and staff; and

**WHEREAS**, the Board wishes to encourage its trustees and staff to become as expert as is cost-effective in the matters of pension fund investments, service and disability retirements and plan administration; and

**WHEREAS, as of January 1, 2013, newly enacted Government Code §31522.8, requires that the Board's Education Policy set forth a minimum number of required hours of requisite training and reporting on Board member compliance with the policy; now, therefore, be it**

**1. RESOLVED**, that the Board hereby stipulates that all trustees and staff shall participate to the fullest extent possible in approved educational activities, and that each trustee and staff member shall be expected to complete at least three endorsed educational activities each year; Be it further

**2. RESOLVED**, that the Board hereby encourages all trustees and staff to participate to the fullest extent possible in approved electronic delivery of educational opportunities; Be it further

**3. RESOLVED, the following are appropriate topics for board member education, which may include, but is not limited to, the following: (1) fiduciary responsibilities; (2) ethics; (3) pension fund investments and investment program management; (4) actuarial matters; (5) pension funding; (6) benefits administration; (7) disability evaluation; (8) fair hearings; (9) pension fund governance and (10) new board member orientation; Be it further,**

**4. RESOLVED, that this board has determined that a board member's attendance at and/or viewing of recordings of one or more programs listed below shall satisfy the required education for the subject matters presented at such programs and the required educational hours for the length of the program; Be it further**

**5. RESOLVED, that this Board has further determined that training provided by the Chief Executive Officer, Chief Investment Officer, Chief Legal Counsel, and other SamCERA staff, the Board's Medical Advisor, Actuary, Investment Consultant, Investment Managers shall satisfy the required education for the subject matters presented at such training and the required educational hours for the length of the training; Be it further**

**6. RESOLVED, that all Board members receive a minimum of 24 hours of board member education within the first two years of assuming office and for every subsequent two-year period the Board member continues to hold membership on the Board; Be it further**

**7. RESOLVED, that staff shall maintain a record of Board member compliance with this policy and that this policy and an annual report on board member compliance shall be**

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placed on SamCERA's website in accordance with Government Code §31522.8; Be it further

**8. RESOLVED**, that the Board hereby authorizes the participation of trustees and staff in the educational activities of the State Association of County Retirement Systems (SACRS), the California Association of Public Retirement Systems (CALAPRS), the Government Finance Officers Association (GFOA), the Institute for Fiduciary Education (IFE), International Foundation of Employee Benefit Plans (IFEBP), the California Retired County Employees' Association, the Pacific Pension Institute (PPI), the Pension Real Estate Association (PREA) and the Wharton program for pension fiduciaries, to the extent that the budget provides funds for such participation; Be it further

**9. RESOLVED**, that the Board hereby approves the following recommended progression of courses for new trustees to complete within their first three-year term: (1) SACRS Fall or Spring Conference &/or CALAPRS General Assembly, (2) CALAPRS' Trustee Roundtables, (3) CALAPRS @ Stanford Principles of Pension Management, (4) SACRS Public Pensions Investment Management Program (5) IFEBP Certificates of Achievement in Public Plan Policy and (6) Wharton Pension Fund and Investment Management Program; Be it further

**10. RESOLVED**, that the Board hereby also approves the following programs for trustees with the recommendation that trustees complete the programs listed directly above ~~in the 3<sup>rd</sup> Resolve Clause~~ prior to participation in the following: Fiduciary Institute @ Stanford, IFEBP Public Funds Annual Conference, GFOA Annual Conference, Pension Real Estate Association Annual Conference and US-based programs of IFEBP & PPI; Be it further

**11. RESOLVED**, that the Board hereby authorizes the participation of trustees and staff in the educational activities of the CFA Institute (including membership dues), the Institute for International Research, the Public Pension Fund Forum, Investors Press, the Investment Risk Institute, the Institutional Investor Institute, the Information Management Network, Opal Financial Group, Frank Russell Company, Milliman USA, The Pension Bridge and Callan Associates, to the extent that the budget provides funds for such participation; Be it further

**12. RESOLVED**, that at the next regularly scheduled meeting of the Board following the board member's participation in an educational activity, the board member participants shall~~may~~ provide the Board with a summary oral report on the content of educational activities, including a recommendation regarding SamCERA's participation in future activities offered by the same sponsor; Be it further

**13. RESOLVED**, that, in addition to the organizations listed above, other educational activities which may be counted for up to three hours per year of the Board's educational requirement are subscriptions to *Pensions & Investments*, the *Public Retirement Journal*, or other pension, investment or financial publications; completion of recommended readings from SACRS or SamCERA reading lists; participation in due diligence activities to meet with and monitor service providers; and/or participation in SACRS or SamCERA sponsored mentoring programs; Be it further,

**14. RESOLVED**, that the Board authorizes the Chief Executive Officer to enroll SamCERA as a pension fund member of the organizations set forth above and the National Conference of Public Employees Retirement Systems and to submit recommendations to the Board for additional educational activities, to the extent that the budget provides funds for such activities; Be it further,

- | **15. RESOLVED**, that the Board hereby authorizes the Chief Executive Officer to allocate \$15,000 for each new trustee's education during each of his or her first two years in office and \$7,500 for each trustee's education during each subsequent year. Trustees who wish to exceed these allocations may request board approval for their participation in additional educational activities when placed on the agenda of a public meeting of the Board. The cost of attending events sponsored by SACRS and CALAPRS will be paid by the association and not charged against the individual's education allocation; Be it further
- | **16. RESOLVED**, that the board hereby authorizes the ~~Chairman~~ to approve the participation and associated travel for trustees, the Treasurer's Constitutional alternate, the Safety Member alternate, the Retired Member alternate, and the chief executive officer in the educational activities of the organizations set forth above, to the extent that the budget provides funds for such activities; Be it further,
- | **17. RESOLVED**, that the Board hereby authorizes the chief executive officer to approve a progression of courses for staff, to approve the participation and associated travel of staff in the educational activities of the organizations set forth above, to the extent that the chief executive officer finds that such participation will contribute to the staff member's ability to perform her or his duties and the budget provides funds for such activities; Be it further
- | **18. RESOLVED**, that the Board may approve participation in additional educational activities when placed on the agenda of a public meeting of the Board.

ADOPTED by unanimous vote November 24, 1998  
AMENDED by unanimous vote March 27, 2001  
AMENDED by unanimous vote March 26, 2002  
AMENDED by unanimous vote May 28, 2002  
AMENDED by unanimous vote November 26, 2002  
AMENDED by unanimous vote March 25, 2003  
AMENDED by unanimous vote July 27, 2004  
AMENDED by unanimous vote September 28, 2004  
AMENDED by unanimous vote February 22, 2005  
AMENDED by unanimous vote February 27, 2007  
AMENDED by unanimous vote January 27, 2009  
AMENDED by unanimous vote April 27, 2010  
AMENDED by unanimous vote August 24, 2010  
AMENDED by unanimous vote March 29, 2011

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

October 23, 2012

Agenda Item 7.10

**TO:** Board of Retirement  
**FROM:** David Bailey, Chief Executive Officer  
**SUBJECT:** Items to Be Considered at SACRS Fall 2012 Business Meeting-Proposed Legislation



**Staff Recommendation:**

Staff recommends that the Board provide input to the SamCERA delegate to the SACRS Fall Conference on three SACRS legislative proposals. One is an amendment to the 1937 Act, regarding authorizing telephone transactions with members, and the other two would amend the Brown Act and Public Records Act in regards to alternative investments.

**Discussion:**

The SACRS Legislative Committee has reviewed legislative proposals for consideration as SACRS sponsored bills for the 2013 legislative session. Attached are three of the proposals and the Committee's recommendations. These proposals do not include any clean-up to the recently enacted California Public Employees' Pension Reform Act ("AB 340"), which continues to be examined for areas that may require modification for proper implementation.

The proposals below, as well as any proposed AB 340 clean up legislation, will be considered at the Friday business meeting at the November SACRS Conference. Our SamCERA delegate will vote on those proposals on behalf of SamCERA. Staff believes that there is merit to each of the proposals.

LACERA #1.....Telephone Transactions

**Amendment to Government Code section 31527**

Section 31527 sets forth what the Board of Retirement is authorized to provide for in its regulations. This proposed legislation would allow the Board, at its discretion, to add a regulation authorizing members to make transactions affecting the member's account via a recorded telephone communication providing that there are procedures to protect the system and the members. These protective procedures would include validating and authenticating the member's identity and a permanent recording of the phone call.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

LACERA #2.....Disclosure of Real Estate Investments

**Amendment to Government Code section 6254.26**

Currently, Government Code section 6254.26 sets forth the types of records regarding Alternative Investments that are subject to disclosure under the California Public Records Act as well those records that are exempt. LACERA's proposed legislation would amend the definition of "Alternative investment" to include "non-publicly traded direct or indirect real estate investments" and "alternative investment vehicle" to include "non-publicly traded real estate."

SAN JOAQUIN #1.Alternative Investment Disclosure Rules

**Amendment to Government Code section 54957.5**

A section in the Brown Act, Government Code Section 54957.5 (a), provides that agenda material distributed to members of the Board is a public record. It further provides that this does not include any writing exempt from public disclosure under specific listed sections of the Public Records Act.

This list does not include Government Code section 6254.26 regarding the exemption of certain records concerning Alternative Investments. The proposed legislation would add section 6254.26 to the list of records that need not be disclosed under section 54957.5 of the Brown Act.

**Amendment to Government Code section 54956.81**

Another section of the Brown Act, Government Code section 54956.81, authorizes the Board to hold a closed session to consider the purchase or sale of particular, specific pension fund investments. The proposed legislation would amend that section to specify that the Board could meet in closed session to consider "the information specified in subdivision (a) of Government Code Section 6254.26."

As discussed above, Government Code section 6254.26 is part of the Public Records Act. Subdivision (a) of that section exempts the following records from public disclosure: (1) due diligence materials that are proprietary to the public investment fund or the alternative investment vehicle; (2) quarterly and annual financial statements of alternative investment vehicles; (3) meeting materials of alternative investment funds; (4) records containing information regarding the portfolio positions in which alternative investment funds vehicles invest; (5) capital call and distribution notices and (6) alternative investment agreements and all related documents.

**SACRS LEGISLATIVE PROPOSAL**

Title of Issue: Telephone Transactions  
Association: Los Angeles County Employees Retirement Association  
Contact Person: Robert S. Van Der Volgen, Jr.  
Phone No.: 626-564-2340  
Fax No.: 626-564-2336

1. **Description of problem:** Effective January 1, 2013, a county retirement system may adopt, at their election, regulations allowing for the use and acceptance of a member's digital signature with the same force and effect as a manual signature, provided it is submitted using electronic technology that the board determines sufficient to ensure its integrity, security and authenticity.

While many members are computer literate, there are many who currently do not have access to or choose not to perform transactions over the web. Additionally, some members need assistance navigating through difficult transactions and are seeking help by telephone.

Allowing members to perform transactions over the telephone with the same force and effect as a manual signature not only results in greater service delivery to system members, but also increases efficiency and reduces costs to the systems' administration. Procedures adequate to protect the systems and members, including method(s) to validate and authenticate the member's identity and the permanent retention of the recorded communication, would be approved by each respective board.

2. **Recommended solution:** Amend existing Government Code Section 31527 of the County Employees Retirement Law (CERL) to allow county retirement systems to adopt, at their election, regulations allowing for the secure processing of member requests by telephone with the same force and effect as a manual signature.
3. **Why should the proposed legislation be sponsored by SACRS rather than by your individual retirement association?** If enacted, the proposed legislation would be applicable to all '37 Act systems.
4. **Do you anticipate that the proposed legislation would create any major problems, such as conflicting with Proposition 162 or creating a problem with any of the other 19 SACRS retirement associations?** No.
5. **Who will support or oppose this proposed change in law?** Unknown.
6. **Who will be available from your association to testify before the legislature?** Robert S. Van Der Volgen, Jr., Chief Counsel, LACERA.

LACERA #1: Telephone Transactions  
GC Section 31527

Existing Government Code Section 31527 is amended to read:

31527. In its regulations, the board may include the following provisions:

- (a) From what warrants deductions of members' contributions shall be made.
- (b) For a period of time longer than one year during which a member may redeposit in the retirement fund an amount equal to all of the accumulated normal contributions that he or she has withdrawn, plus regular interest thereon from the date of return to service.
- (c) For a period of time longer than one year during which a member brought within the field of membership may pay into the retirement fund the amount equal to the contributions he or she would have made plus interest, if he or she had been a member from the date of its organization, or from the date of his or her entrance into service, whichever is later.
- (d) For a withdrawal charge against a member who withdraws his or her accumulated contributions. The withdrawal charge shall not exceed the interest credited to the member subsequent to the effective date of the regulation.
- (e) For the exemption or exclusion from membership as a peace officer member or as a safety member or from membership altogether, in the discretion of the board, of persons whose tenure is temporary, seasonal, intermittent, or for part time only, or persons whose compensation is fixed at a rate by the day or hour.
- (f) For the periodic physical examination, at county expense, of safety members.
- (g) The amount of additional deductions from the salaries or wages of members pursuant to Article 15.5 (commencing with Section 31841) or Article 16 (commencing with Section 31861). Such a provision may be adopted in anticipation of, and prior to Article 15.5 (commencing with Section 31841) or Article 16 (commencing with Section 31861) becoming operative in the particular county.
- (h) The day upon which each person becomes a member of the association if it is to be other than the first day of the calendar month after his or her entrance into service. However, that day shall be no later than 12 weeks after his or her entrance into service, or the day upon which the member terminates service credited by the association, and that the day shall be no earlier than 12 weeks prior to the member's termination from employment.
- (i) Notwithstanding any other law, for the use and acceptance of a document requiring a signature that is submitted by a member using an electronic signature, if the document and electronic signature are submitted using technology the board deems sufficient to ensure its integrity, security, and authenticity. A document submitted pursuant to the regulation shall be given the same force as a signed, valid original document.
- (j) Notwithstanding any other law, for member authorization of transactions affecting the member's account via recorded telephone communications, provided procedures adequate to protect the system and members, including method(s) to validate and authenticate the member's identity and the permanent retention of the recorded communication, are approved by the board.



**SACRS LEGISLATIVE PROPOSAL**

Title of Issue: Disclosure of Real Estate Investments  
Association: Los Angeles County Employees Retirement Association  
Contact Person: Robert S. Van Der Volgen, Jr.  
Phone No.: 626-564-2340  
Fax No.: 626-564-2336

1. **Description of problem:** The California Public Records Act (CPRA) provides for inspection and/or disclosure of governmental records to the public upon request, unless exempted by law.

In balancing the public's right to access public records with the recognized individual right of privacy and the need for public agencies to be able to competently perform their duties, the Legislature has established certain categories of records which may be exempt from public disclosure under Government Code Sections 6254 and 6275 et seq.

In addition, the CPRA allows an agency with the discretion to claim an exemption from public disclosure for records, which do not qualify for a specific exemption, if "the public interest served by not disclosing the record clearly outweighs the public interest served by disclosure of the record."

Existing Government Code Section 6254.26 provides that "alternative investments" in which public investment funds invest are exempt from disclosure, unless the information has already been publicly released by the keeper of the information. As defined under this section, "alternative investment" includes investments in a private equity fund, venture fund, hedge fund, or absolute return fund. However, this definition does not include real estate investments.

LACERA's Investment staff believes that real estate investments should be added to the list of alternative investments exempt from public disclosure. Many real estate investments share the same elements of market sensitivity as private equity transactions. Indeed, disclosure of certain material terms of these investments could put the investment at a competitive disadvantage and hinder or reduce return on investment. By including real estate in the present alternative investment exemption, the public would be given access to information necessary to monitor fund performance with reduced risk of impeding return.

2. **Recommended solution:** Amend Government Code Section 6254.26 to include non-publicly traded real estate investments.

In addition, a minor technical change to Section 6254.26(a)(4) is proposed to provide consistency within the statute.

3. **Why should the proposed legislation be sponsored by SACRS rather than by your individual retirement association?** If enacted, the proposed legislation would be applicable to all California pension systems, including all '37 Act systems.
4. **Do you anticipate that the proposed legislation would create any major problems, such as conflicting with Proposition 162 or creating a problem with any of the other 19 SACRS retirement associations?** No.
5. **Who will support or oppose this proposed change in law?** Public agencies with investments in real estate are likely to support this. We may also expect support from real estate investment interests and opposition from public access groups such as the Newspaper Publishers.
6. **Who will be available from your association to testify before the legislature?** Robert S. Van Der Volgen, Jr., Chief Counsel, LACERA.

**Proposal for Amending California Public Records Act  
to Include Real Estate Investments as Exemption**

Existing Government Code Section 6254.26 is amended to read:

6254.26. (a) Notwithstanding any provision of this chapter or other law, the following records regarding alternative investments in which public investment funds invest shall not be subject to disclosure pursuant to this chapter, unless the information has already been publicly released by the keeper of the information:

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

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

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

(9) The dollar amount of cash profit received by public investment funds from each alternative investment vehicle on a fiscal year-end basis.

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

(1) "Alternative investment" means an investment in a private equity fund, venture fund, hedge fund, or absolute return fund, or non-publicly traded direct or indirect real estate investments.

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

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

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

## YEAR 2013 SACRS LEGISLATIVE PLATFORM WORKSHEET

Title of Issue: SJCERA #1 - Alternative Investments and Public Disclosure

Association: San Joaquin County Employees' Retirement Association

Contact Person: Annette St. Urbain, CEO

Phone #: (209) 468-2163

Fax #: (209) 468-0480

### 1. Description of Issues.

The Ralph M. Brown Act (California Government Code sections 54950-54963) generally requires that deliberations and actions of public local agencies be conducted in an open forum. The Brown Act also specifies exemptions allowing certain matters to be discussed and acted upon by a local agency in closed session.

The California Public Records Act, or CPRA, (Government Code sections 6250-6276.48) generally requires that records of public agencies be available for inspection and copying by the public. The CPRA also specifies exemptions allowing certain types of records or information to be withheld from disclosure under the CPRA.

#### Issue 1:

Subdivision (a) of Section 54957.5 of the Brown Act states the general rule that, despite any protections offered under the CPRA, agendas of public meetings and any other writings distributed to a majority of the members of a legislative body of a local agency in connection with an open session become subject to disclosure under CPRA. This subdivision then provides that this section of the Brown Act does not apply to any writing exempt from public disclosure under specified sections of the CPRA. The list of exceptions does not include 6254.26 of the CPRA, which exempts from disclosure specified records regarding alternative investments in which a public investment fund has invested.

SJCERA proposes that the failure to include in Section 54957.5 (a) of the Brown Act a reference to Section 6254.26 of the CPRA is likely to have been an oversight, rather than a deliberate policy choice by the Legislature.

The effect of the inconsistency in current law is that while certain information regarding a board of retirement's alternative investments is exempt from disclosure under the CPRA, if the information is provided to a majority of board members in connection with periodic reporting or due diligence reviews as part of an open session, that same information becomes subject to disclosure under the Brown Act.

#### Issue 2:

Section 54956.81 of the Brown Act allows a local agency that invests pension funds to hold a closed session to consider the **purchase or sale** of particular, specific pension fund investments. With regard to alternative investments, it is common for boards of retirement, as limited partner investors, to consider and act on amendments to limited partnership agreements quite some time after the board's initial decision to "purchase" or invest in the alternative investment vehicle was made in closed session. Subdivision (a) of Section 6254.26 of the CPRA specifies the alternative investments records that are not subject to disclosure, including alternative investment agreements and all related documents.

A board of retirement should have the authority to hold a closed session to consider information regarding its alternative investments that is exempt from public disclosure under the CPRA.

**2. Recommended solution.**

Issue 1:

Add a reference to CPRA section 6254.26 to the list of code sections specified in Section 54957.5(a) of the Brown Act to correct this oversight and ensure that information regarding a board of retirement's alternative investments that is exempt from disclosure under the CPRA would also be exempt from disclosure under the Brown Act.

Issue 2:

Amend Section 54956.81 of the Brown Act to authorize a local agency to hold a closed session to consider actions regarding alternative investments that relate to documents or information that is exempt from disclosure as specified in CPRA Section 6254.26 (a).

**3. Specific statutory language that you would like changed or added.**

Please see attached.

**4. Why should the proposed legislation be sponsored by SACRS rather than by your individual retirement association?**

The Brown Act and the CPRA apply to all SACRS member systems.

**5. Do you anticipate that the proposed legislation would create any major problems, such as conflicting with Proposition 162 or create a problem with any of the other 19 SACRS retirement associations?**

No.

**6. Who will support or oppose this proposed change in the law?**

All public agencies subject to these provisions that have alternative investments would likely support the proposed changes.

Issue 1:

If failure to include a reference to CPRA Section 6254.26 was, or is perceived as, a deliberate policy choice rather than an oversight, there could be opposition to this proposed change, most likely from the newspaper publishers.

Issue 2:

Allowing public local agencies to hold a closed session to consider information regarding alternative investments that is exempt from disclosure under the CPRA would correct an inconsistency in current law. To the extent this is perceived as an infringement on the public's access to the conduct of the people's business in an open forum, there could be opposition to this proposed change, most likely from the newspaper publishers.

**7. Who will be available from your association to testify before the Legislature?**

Annette St. Urbain, CEO

**Amend Government Code Section 54957.5 (a) to read:**

54957.5. (a) Notwithstanding Section 6255 or any other provisions of law, agendas of public meetings and any other writings, when distributed to all, or a majority of all, of the members of a legislative body of a local agency by any person in connection with a matter subject to discussion or consideration at an open meeting of the body, are public records subject to disclosure under the California Public Records Act (Chapter 3.5 (commencing with Section 6250) of Division 7 of Title 1), and shall be made available upon request without delay. However, this section shall not include any writing exempt from public disclosure under Section 6253.5, 6254, 6254.3, 6254.7, 6254.15, 6254.16, ~~or 6254.22~~, **or 6254.26**.

**Amend Government Code Section 54956.81 to read:**

54956.81. Notwithstanding any other provision of this chapter, a legislative body of a local agency that invests pension funds may hold a closed session to consider the purchase or sale of particular, specific pension fund investments **or the information specified in subdivision (a) of Section 6254.26**. All investment transaction decisions made during the closed session shall be made by rollcall vote entered into the minutes of the closed session as provided in subdivision (a) of Section 54957.2.

## CPRA Section 6254.26 - Current Statute (Included for Reference Only)

6254.26. (a) Notwithstanding any provision of this chapter or other law, the following records regarding alternative investments in which public investment funds invest shall not be subject to disclosure pursuant to this chapter, unless the information has already been publicly released by the keeper of the information:

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

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

- (1) The name, address, and vintage year of each alternative investment vehicle.
- (2) The dollar amount of the commitment made to each alternative investment vehicle by the public investment fund since inception.
- (3) The dollar amount of cash contributions made by the public investment fund to each alternative investment vehicle since inception.
- (4) The dollar amount, on a fiscal yearend basis, of cash distributions received by the public investment fund from each alternative investment vehicle.
- (5) The dollar amount, on a fiscal yearend basis, of cash distributions received by the public investment fund plus remaining value of partnership assets attributable to the public investment fund's investment in each alternative investment vehicle.



(6) The net internal rate of return of each alternative investment vehicle since inception.

(7) The investment multiple of each alternative investment vehicle since inception.

(8) The dollar amount of the total management fees and costs paid on an annual fiscal yearend basis, by the public investment fund to each alternative investment vehicle.

(9) The dollar amount of cash profit received by public investment funds from each alternative investment vehicle on a fiscal year-end basis.

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

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

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

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

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

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

October 23, 2012

Agenda Item 7.11

**TO:** Board of Retirement

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



**SUBJECT:** Approval to Cancel the November Meeting and Reschedule the December Meeting of the Board of Retirement

**Staff Recommendation**

Staff recommends that the Board:

- cancel the November 27, 2012, meeting of the Board of Retirement
- reschedule the December 25, 2012, meeting of the Board of Retirement to a new date of December 11, 2012, and a new time: 10 a.m.
- direct the Chief Executive Officer to make all appropriate communications to notify the public and all interested parties of these changes

**Background**

The Board of Retirement's regular meetings are scheduled on the fourth Tuesday of each month. However, it is common to cancel or reschedule the November and December meetings due to conflicts with other events.

This year, the timing of the regular November meeting is difficult. The the Fall SACRS Conference will be held two weeks prior to the regular November meeting, and the Thanksgiving holiday will be during the week just prior to the regular November meeting. The two-week period prior to each board meeting is normally needed to prepare board packets for that meeting.

The timing of the December meeting is also a problem. In December, the fourth Tuesday falls on December 25, Christmas Day.

Because of these conflicts, the staff recommends cancelation of the November meeting and rescheduling of the December meeting to Tuesday, December 11. The recommended start time would be 10 a.m. to assure there is sufficient time to conduct the business of the board, particularly regarding the approval of items possibly needed to conform to the recently passed pension legislation.

The Board has the authority to schedule meetings other than on its normal meeting day and time. Per the Regulations of the Board of Retirement:

2.4 Regular Meetings: ...The Board may cancel and or approve a change in the date, time and/or location of meetings within the County, if the proposed change is included on the agenda of a regular meeting.