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

May 24, 2011 – Board Agenda

PUBLIC SESSION – The Board will meet in Public Session at 1 p.m.
1. Call to Order and Roll Call
2. Oral Communications
   2.1 Oral Communications From the Board
   2.2 Oral Communications From the Public
3. Approval of the Minutes
4. Approval of the Consent Agenda
   (Any items removed from the Consent Agenda for discussion will be inserted into the Regular Agenda and considered in the order chosen by the board chair.)
   • Disability Retirements
     o Liz Cervantes
     o Cathleen O’Brien
     o Neal Ferguson
   • Continuances
   • Deferral Retirements
   • Member Account Refunds
   • Member Account Rollovers
5. Benefit & Actuarial Services
   5.1 Consideration of Benefit & Actuarial Items, if any, removed from the Consent Agenda
6. Investment Services
   6.1 Monthly Portfolio Performance Report
   6.2 Quarterly Investment Performance Analysis for Period Ended March 31, 2011
   6.3 Proposed Changes to the INVECSO Core Real Estate – U.S.A. Operating Agreement
   6.4 Selection of Investment Manager Finalists for SamCERA’s Commodities Mandate
   6.5 Approval of Action Regarding SamCERA’s International Equity Structure
   6.6 Review of SamCERA’s Private Equity Program and Most Current Investment
   6.7 Approval of Board Chair to Execute Alternative Investment Documentation
7. Board & Management Support Services
   7.1 Monthly Financial Report
   7.2 Approval of Contribution Rates for Newly Adopted Tiers
   7.3 Approval of Actuarial Audit Services Provider and Contract for Actuarial Audit Services
   7.4 Educational Presentation - Actuarial Audit Process
   7.5 Consideration and Adoption of Assumptions for June 30, 2011, Actuarial Valuation
   7.6 Acceptance of Report Regarding the Acquisition of Fiduciary Insurance Policy
   7.7 Approval of SamCERA’s Strategic Plan
   7.8 Approval of SamCERA’s Sources, Uses & Budget for Fiscal Year 2011/2012
   7.9 Approval to Reschedule the June 28th Board Meeting to June 21st
8. Management Reports
   8.1 Chief Executive Officer’s Report
   8.2 Assistant Executive Officer’s Report
   8.3 Chief Investment Officer’s Report
   8.4 County Counsel’s Report

CLOSED SESSION – The board will meet in closed session prior to adjournment
C1 Consideration of disability items, if any, removed from the Consent Agenda and appropriate for closed session
9. Report on Actions Taken in Closed Session
10. Adjournment
Call to Order: Mr. David, Chair, called the Public Session of the Board of Retirement to order at 1:00 p.m., May 24, 2011, in SanCERA’s Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.

Roll Call: Ms. Arnott, Ms. Agnew, Mr. Bowler, Mr. David, Mr. Murphy for Mr. Hackleman, Ms. Kwan Lloyd, Mr. Spinello and Mr. Tashman. Other Board Members in Attendance: Ms. Salas. Staff: Mr. Bailey, Mr. Hood, Ms. Dames, Mr. Clifton, Ms. Wong, Ms. LeBlanc, Ms. Smith and Mr. Bishop. Consultants: Ms. Carlson, Dr. Fracchia, Mr. Brody, Mr. Nicolini and Mr. Thomas. Retirees: 0, Public: 2.

Oral Communications From the Board: Ms. Arnott reported that she attended the SACRS Spring 2011 Conference and found it informative. Ms. Agnew also attended the SACRS conference and found the event worthwhile. Mr. Spinello reported that he attended the Wharton Investment Strategies and Portfolio Management program. He said the course was very educational and informative.

Oral Communications From the Public: None.

Mr. David then took up agenda item 7.4.

Approval of the Minutes: Motion by Spinello, second by Kwan Lloyd, carried unanimously to approve the minutes from the April 25 and 26, 2011, board meetings, as submitted.

Mr. David then took up agenda item 6.6

Approval of the Consent Agenda: Mr. David pulled the disability application of Neal Ferguson from the day’s consent agenda to be taken into consideration at a future board meeting per the member’s request. Mr. David also pulled the disability application of Liz Cervantes from the day’s consent agenda to be taken under consideration under agenda item 5.1 in closed session.

Motion by Tashman, second by Spinello, carried unanimously to adopt the day’s consent agenda, as amended, as follows:

Disability Retirements:
The board approved and adopted the proposed findings and the recommendation of the Hearing Officer, George Carmerlengo, found Cathleen O’Brien disabled from performing her usual and customary duties as a Deputy Public Administrator, found that her disability is service-connected and granted her application for a service-connected disability retirement.

Service Retirements:

<table>
<thead>
<tr>
<th>Member Name</th>
<th>Effective Retirement Date</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Choy, Eugene</td>
<td>March 3, 2011</td>
<td>TNV from Health Services</td>
</tr>
<tr>
<td>Werner, Hans</td>
<td>March 3, 2011</td>
<td>Deferred from Human Services Agency</td>
</tr>
<tr>
<td>Patla, Robert</td>
<td>March 12, 2011</td>
<td>Behavioral Health</td>
</tr>
<tr>
<td>Kerrigan, Kelly</td>
<td>March 14, 2011</td>
<td>QDRO of John Beall</td>
</tr>
<tr>
<td>Stone, Louisa</td>
<td>March 15, 2011</td>
<td>Deferred from Behavioral Health</td>
</tr>
</tbody>
</table>
Botha-Harvey, Gillian  March 17, 2011  Deferred from San Mateo Medical
Dragonryder, Mary Lou March 19, 2011  Superior Court
Gomes, John March 19, 2011  Public Works
Gray, Irene March 19, 2011  Superior Court
Murphy, Michael March 20, 2011  County Counsel
Sugano, Brian March 21, 2011  Deferred from Information Services
Paulin, Thomas March 26, 2011  District Attorney
Spangler, Linda March 26, 2011  San Mateo Medical Center
Calderhead, Charles March 29, 2011  Sheriff’s Office
McGlynn, Debra March 29, 2011  Public Safety Commission
Belmont, Robert March 30, 2011  Sheriff’s Office
Burkhart, Timothy March 31, 2011  Parks Department
Burkhart, Vilma March 31, 2011  Superior Court
Charbakshi, Stella March 31, 2011  Information Services
Colombet, Janet March 31, 2011  Sheriff’s Office
Dupre, Steve March 31, 2011  Information Services
Gallant, Sharon March 31, 2011  Superior Court
Li, Maria March 31, 2011  Public Health
Loo, Rebecca March 31, 2011  Superior Court
Luisotti, Kathleen March 31, 2011  Information Services
MacDonald, Joanne March 31, 2011  Public Health
Webb, Mary March 31, 2011  San Mateo Medical Center
Bean, Roderick April 1, 2011  Behavioral Health
Brown, Catherine April 1, 2011  Behavioral Health
Butts, Georganna April 1, 2011  Assessor
Cruz, Mel April 1, 2011  San Mateo Medical Center
Estrada, Luz April 1, 2011  Sheriff’s Office
Good, Richard April 1, 2011  District Attorney
Guidotti, Michael April 1, 2011  Sheriff’s Office
Lawson, Paula April 1, 2011  San Mateo Medical Center
Lilles, Leonardo April 1, 2011  Treasurer
Martin, Virginia April 1, 2011  San Mateo Medical Center
Mills, Virginia April 1, 2011  San Mateo Medical Center
Ratcliffe, James April 1, 2011  Sheriff’s Office
Swanson, Ruth April 1, 2011  Human Services Agency
Tremaine, Laurel April 1, 2011  Aging & Adult Services
Ventura, Shirley April 1, 2011  Public Health
Weaver-Fritz, Lynn April 1, 2011  Deferred from Parks Dept.
Wise, John April 1, 2011  Public Works

**Continuance of Benefits:**

**Member Name**  
**Beneficiary of:**

Brumm, Judith  
Brumm, Brian
Ferrando, Orlene  
Ferrando, Richard
Gagliani, Clarence  
Gagliani, Josephine
Gomes, Donald  
Gomes, Eltha
Lamb, Marguerite  
Lamb, Richard
Llantino, Jovita  
Llantino, Adriano
Lombardo, Joseph  
Lombardo, Grace
Deferred Retirements:

<table>
<thead>
<tr>
<th>Member Name</th>
<th>Retirement Plan Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orbeta, Jorge</td>
<td>G4-vested</td>
</tr>
<tr>
<td>Slone, Fred</td>
<td>G4-vested</td>
</tr>
<tr>
<td>Lopez, Visnja</td>
<td>G4 Non-vested Reciprocity</td>
</tr>
<tr>
<td>Wiggins, Vanessa</td>
<td>G4 Non-vested Reciprocity</td>
</tr>
</tbody>
</table>

Member Account Refunds:

<table>
<thead>
<tr>
<th>Member Name</th>
<th>Retirement Plan Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Garcia, Kristoffer</td>
<td>G4 Non-vested</td>
</tr>
<tr>
<td>Sandoval, Lilia</td>
<td>G2 Non-vested</td>
</tr>
</tbody>
</table>

Member Account Rollovers:

<table>
<thead>
<tr>
<th>Member Name</th>
<th>Retirement Plan Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsen, Erika</td>
<td>Ben of Reeves, Claire</td>
</tr>
<tr>
<td>Joaquin, John</td>
<td>G4 Non-vested</td>
</tr>
<tr>
<td>Robles, Erwin</td>
<td>G2 Non-vested</td>
</tr>
<tr>
<td>Stevens, Gary</td>
<td>G4 Non-vested</td>
</tr>
<tr>
<td>Talkoff, Karla</td>
<td>G2 Vested</td>
</tr>
</tbody>
</table>

1105.5 Benefit & Actuarial Services

1105.5.1 Consideration of Benefit & Actuarial Items, if any, removed from the Consent Agenda:

See agenda item 9.0.

1105.6 Investment Services

1105.6.1 Monthly Portfolio Performance Report: Mr. Clifton reported that SanCERA’s 2.72% Total Fund Return for the month slightly underperformed the Total Plan Policy Benchmark return of 2.85%. The fund’s return for the trailing twelve months and twenty-four months are 16.00% and 21.68% respectively. The twelve-month period is 825 basis points (bps) above the Actuarial Discount Rate of 7.75%. However, for the same period the total fund return is 72 basis points behind SanCERA’s Total Plan Policy Benchmark of 16.72%. As a reminder, Mr. Clifton said that SanCERA should expect to underperform the Total Plan Policy Benchmark for some time while its alternative allocation, specifically private equity, is being fully implemented. In addition, the aforementioned numbers do not reflect the performance of all portfolios in April. Performance for Angelo Gordon’s PPIP and AQR’s risk parity were unavailable as of the day of the board meeting.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Market Value</th>
<th>1-Month</th>
<th>1-year TTWRR*</th>
<th>5-year TTWRR*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity</td>
<td>$1,021,740,323</td>
<td>2.89%</td>
<td>19.47%</td>
<td>1.95%</td>
</tr>
<tr>
<td>International Equity</td>
<td>471,202,944</td>
<td>5.26%</td>
<td>17.59%</td>
<td>2.16%</td>
</tr>
<tr>
<td>Total Equity</td>
<td>1,492,943,267</td>
<td>3.62%</td>
<td>18.89%</td>
<td>1.98%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>1,555,000</td>
<td>0.00%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Risk Parity</td>
<td>140,894,740</td>
<td>0.00%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
Quarterly Investment Performance Analysis for Period Ended March 31, 2011: Mr. Thomas and Mr. Brody of Strategic Investment Solutions performed a brief overview of the quarterly investment performance report for the period ended March 31, 2011. Mr. Clifton said that SIS performed a thorough presentation of the report at the investment committee meeting. The composite fund returned 4.5% in the first quarter of 2011 and ranked 23rd among other public funds greater than $100 million (median of 4.1%). It beat the policy index return of 4.3%. The one year return of 14.5% was behind the policy index return of 15.0% and ranked in the 37th percentile of the universe. Longer term, the three- and five-year returns of 2.6% (81st percentile) and 3.1% (94th percentile), respectively, were below median among large public plans (3.7% and 4.4%).

Proposed Changes to the INVESCO Core Real Estate – U.S.A. Operating Agreement: Mr. Clifton said that INVESCO is requesting approval for two amendments to the INVESCO Core Real Estate – U.S.A. Operating Agreement. The member consent form would approve (1) the conversion of the fund from a limited liability company to a limited partnership and (2) shorten the redemption period from 90 days to 45 days. If approved, the name of the fund would be changed from “INVESCO Core Real Estate – U.S.A., LLC” to “INVESCO Core Real Estate – U.S.A., LP”. INVESCO believes the changes will have no impact on current existing investors but will be beneficial to a category of potential investors to the fund, particularly non-U.S. clients. INVESCO Real Estate will be responsible for all costs related to the conversion of the fund.

Motion by Bowler, second by Arnott, carried unanimously to authorize the board chair to execute the member consent form regarding the proposed changes to the INVESCO Core Real Estate – U.S.A. Operating Agreement.

Mr. David then took up agenda item 8.4.

Selection of Investment Manager Finalists for SamCERA’s Commodities Mandate: John Nicolini of Strategic Investment Solutions presented SIS’ recommended semi-finalists for the commodities manager search. Mr. Nicolini said that SIS received nine RFP responses for the commodities mandate. He then highlighted the main evaluation criteria of the responses. After SIS’ review of the qualifications of the nine firms, Mr. Nicolini recommended that four of them be invited to present their capabilities at the board meeting: (1) Gresham Investment Management: Enhanced Tangible Asset Program, (2) Cargill Risk Management: ProAlpha Index, (3) INVESCO: Balanced Risk Commodities and (4) State Street Global Advisors: Multisource Active Commodity Strategy. Mr. Nicolini then gave a brief overview of the four finalists.

A detailed discussion regarding the commodities search criteria and SIS’ evaluation of all nine responses was conducted at the investment committee meeting. Mr. Clifton reported that the committee unanimously recommended that the board approve SIS’ recommended list of finalists.
Motion by Murphy, second by Kwan Lloyd, carried unanimously to accept the investment committee’s recommendation and select (1) Gresham Investment Management: Enhanced Tangible Asset Program, (2) Cargill Risk Management: ProAlpha Index, (3) INVESCO: Balanced Risk Commodities and (4) State Street Global Advisors: Multisource Active Commodity Strategy, as finalists for SamCERA’s Commodities mandate. The interviews will take place at SamCERA’s June board meeting.

Approval of Action Regarding SamCERA’s International Equity Structure: Mr. Clifton said that at the last board meeting, the trustees initiated a high level review of SamCERA’s international equity structure as a result of the board’s concern regarding the performance of the fund’s international equity portfolio and more specifically its international growth manager, Artio Global Investors. During the discussion, SIS noted that there would be a limited number of qualified international growth managers. Upon further discussion, staff determined that a more detailed review of the international structure may be warranted.

SIS provided a draft proposal for restructuring SamCERA’s international equity portfolio. Mr. Brody discussed SIS’ proposed international equity structure. He said that an ACWI ex US manager may lack breadth and diversification in emerging markets and in many cases is likely to hold mainly large cap names from larger markets. He discussed the pros and cons of implementing a pure emerging markets strategy in addition to SamCERA’s international growth and value equity structure. Mr. Brody reminded the board that SamCERA’s international value manager, Mondrian, also has emerging markets exposure. SIS opined that the potential benefits of a dedicated emerging markets manager outweigh the disadvantages. In response to a question from Ms. Agnew, Mr. Brody said that the pure emerging markets manager will also include frontier markets.

Mr. Brody also said that some SIS clients have changed their international benchmark from the ACWI ex US to the ACWI ex US IMI (“Investable Market Index”). SIS’ recommends switching to the ACWI ex US IMI and making an explicit allocation to international small cap. SIS’ proposed international equity structure would consist of 44% international value, 33% international growth, 10% international small cap and 13% dedicated emerging markets. The international value portfolio will also have emerging markets exposure.

Mr. Thomas said that the recommended change to SamCERA’s international structure is irrespective of Artio Global’s underperformance. He said it is a structure that SIS is also recommending to its other clients. Mr. Clifton reported that the investment committee unanimously recommended that the board adopt SIS’ proposed international structure and to direct staff and consultant to initiate the required searches. In response to a question from Ms. Agnew, Mr. Thomas said that Artio Global Investors should be reconsidered at the finals of the international growth manager search.

Motion by Murphy, second by Spinello, carried unanimously to adopt SIS’ recommended international equity structure of 44% international value, 33% international growth, 10% international small cap and 13% emerging markets and adopting ACWI ex US IMI, an index inclusive of small cap, as the asset class benchmark, and to initiate the required manager searches.

Review of SamCERA’s Private Equity Program and Most Current Investment: Mr.
Shooshani of Strategic Investment Solutions was present to review SamCERA’s private equity program. He reminded the board of the original implementation strategy and road map schedule. He then discussed each of SamCERA’s three current private equity investments (Sheridan Production Partners II, ABRY Partners VII, and ABRY Advanced Securities Fund II) and each firm’s fit in SamCERA’s overall private equity structure. Mr. Shooshani then said that SIS recommended a fourth private equity fund opportunity to SamCERA and that the documentation had been executed and submitted for the fund’s closing the previous week. The private equity fund focuses on CleanTech and IT startups. He then discussed the fund’s investment thesis, management, and pros and cons of the strategy.

Mr. Shooshani notified the board that three days before, the fund’s lawyers notified staff and SIS that SamCERA was not included in the fund’s closing. They cite that the issue is with the new SEC regulations limit on their firm’s ability to make political contributions if they accept monies from public entities where public officials they may directly or indirectly support could have influence. The private equity firm is located in San Mateo County. The fund’s lawyers said they will attempt to find an acceptable solution to the issue.

Mr. David then took up agenda item 7.6.

Approval of Board Chair to Execute Alternative Investment Documentation: Mr. Clifton said that this agenda item was a housekeeping measure and memorializes the board’s actions. The board has determined that the time between sourcing alternative investments and the need to execute a commitment, including all documentation, cannot be achieved within the board’s meeting schedule. The board opined that it is in the best interest of the fund for documents on alternative investment opportunities to be executed in a timely manner. Therefore, the board has routinely authorized the board chair to execute alternative investment documentation based upon review and approval of staff and counsel.

Motion by Murphy, second by Agnew, carried unanimously to adopt Resolution 10-11-21, formally delegating the authorities required to facilitate the board’s desire to timely execute documentation and take advantage of investment opportunities, as follows:

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

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

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

“WHEREAS, in August, 2010, the Board completed an asset-liability study, which designated 20.0% of the total portfolio to be allocated to alternative investments; and

“WHEREAS, the Board’s agreement with Strategic Investment Solutions (SIS) delegates to SIS discretion to source private equity investments; and

“WHEREAS, the Board has determined that the time between sourcing alternative investments and the need to execute a commitment, including all documentation, cannot be achieved in the Board’s meeting schedule and often would not allow for the board to notice a meeting and approve the documentation and further that it is in the best
interest of the fund for such documents to be executed in a timely manner; Therefore, be it

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

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

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

1105.7 Board & Management Support Services

1105.7.1 Monthly Financial Report: Mr. Clifton reported that SamCERA’s Net Assets Held in Trust for Pension Benefits as of April 30, 2011, totaled $2,359,079,088. Net assets held in trust for pension benefits increased by approximately $50.5 million, month over month. The increase is primarily due to an appreciation in assets.

1105.7.2 Approval of Contribution Rates for Newly Adopted Tiers: Mr. Bailey reported that the county has approved agreements with bargaining units representing the vast majority of its employees. These agreements include changes to benefit formulas and place additional contribution requirements on employees. Nearly all the retirement benefit and contribution changes will be only for those employees hired on or after July 10, 2011.

Mr. Bailey said that the board accepted the Fiscal Year 2011-2012 contribution rates for current employees at its September 2010 meeting. He then presented a memo from Milliman, detailing the recommended contribution rates to be applied for members of the new plans.

Mr. Bailey reported that some unions representing smaller groups of employees have yet to reach agreement. In the event that inconsistent benefit formulas or other changes are negotiated, staff will return to the board for acceptance of additional contribution rates.

Motion by Spinello, second by Bowler, carried unanimously to adopt Resolution 10-11-23, approving the Fiscal Year 2011-2012 contribution rates for the newly adopted benefit plans, as follows:

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

“WHEREAS, the County of San Mateo and its bargaining units have entered into agreements to make certain benefit formulas and contribution options of the 1937 Act effective

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for new employees hired on or after June 10, 2011, or when administratively feasible if later, and

“WHEREAS, these agreements create additional plans of benefits and contributions that differ from the benefit and contribution plans in effect for the County and its employees hired prior to the effective hiring date of these new plans, and

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

“WHEREAS, the Board has received the recommended employer and employee contribution rates for members hired on or after the effective date of the new plans from its actuarial firm, Milliman, Inc., and

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

Therefore, be it

“RESOLVED that the Board hereby accepts the employer and employee contribution rates as set forth below for the specified plans and entry ages for the fiscal year 2011-2012;

Be it further

“RESOLVED that the Board of Retirement hereby recommends that the Board of Supervisors adopt the recommended contribution rates for the county of San Mateo and the member contribution rates for members of General Member Plan 5, Safety/non-PDA Plan 5, PDA Plan 5 and PDA Plan 6 for employee members of the County of San Mateo hired on or after July 10, 2011, or the date administratively feasible if later, in accordance with tables and exhibits set forth in the attached letter dated May 18, 2011, from Nick Collier, Consulting Actuary, Milliman, Inc., to David Bailey, Chief Executive Officer, San Mateo County Employees Retirement Association;

Be it further

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

Approval of Actuarial Audit Services Provider and Contract for Actuarial Audit Services: Mr. Clifton said that staff issued a Request of Proposal to conduct an independent audit to validate the appropriateness of the actuarial assumptions and methodologies employed by the board’s actuary. The last actuarial audit was performed in 2005. The RFP was sent to seven actuarial firms. Mr. Clifton reported that SamCERA received five responses and that the Audit Committee evaluated these responses on May 5th. He said the committee decided unanimously to recommend to the board that SamCERA engage The Segal Company for actuarial audit services.

Motion by Spinello, second by Agnew, carried unanimously to adopt Resolution 10-11-22, approving selecting The Segal Company to perform an actuarial audit of the June 30, 2011, Triennial Experience Study and Actuarial Valuation Report compiled by Milliman, as follows:

“WHEREAS, Article XVI, §17 (e) of the Constitution of the State of California vests the Board with “The sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the...system”; and
“WHEREAS, Government Code §31453 requires periodic valuations of SamCERA’s actuarial soundness and §31596.1(a) provides for the payment of “the costs, as approved by the Board, of actuarial valuations and services rendered pursuant to §31453”; and

“WHEREAS, on March 29, 2011, the Board opined it is prudent to issue a Request for Proposal to conduct an independent audit to validate the appropriateness of the actuarial assumptions and methodologies employed by the Board’s actuary; and.

“WHEREAS, CHEIRON, EFI Actuaries, Gabriel, Roeder, Smith & Co. and The Segal Company responded to the RFP; and

“WHEREAS, the Board opined that The Segal Company best met the criteria of the Request for Proposal. Now, therefore, be it

“RESOLVED, that the Board hereby approves the fees as specified in the contract and authorizes the disbursement of funds as provided for in GC§31596.1 in accordance with SamCERA’s internal controls. Be it further

“RESOLVED, that the Board hereby authorizes the Chair, to execute the contract on behalf of the Board. Be it further

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

Educational Presentation - Actuarial Audit Process: Mr. Clifton introduced Paul Angelo and Andy Yeung of The Segal Company. Mr. Angelo and Mr. Yeung provided an educational presentation on the actuarial audit process. They discussed the Segal team members that will be engaged in the audit, the firm’s 1937 Act experience, the services they will perform for SamCERA and an outline of the audit process. Mr. Angelo also discussed variations in actuarial methods and results that the firm has encountered when performing actuarial audits for other systems. Mr. Angelo then reviewed the possible actions the board may make once the audit has been completed and dependent on audit findings.

Mr. Bailey then introduced SamCERA’s newest employee, Colin Bishop, Retirement Communications Specialist.

Mr. David then took up agenda item 4.0.

Consideration and Adoption of Assumptions for June 30, 2011, Actuarial Valuation: Mr. Bailey presented a memo from Nick Collier of Milliman, Inc. previewing the assumptions to be used in the June 30, 2011, actuarial valuation and experience study. Mr. Collier had presented these assumptions to the board at SamCERA’s board/staff retreat in April. In the memo, Mr. Collier provided a brief summary of his discussion with the board regarding economic assumptions from that meeting. The final assumptions will come before the board for adoption at the July board meeting. This report was informational.
Acceptance of Report Regarding the Acquisition of Fiduciary Insurance Policy: Scott Johnson, County Risk Manager, was present to conduct a presentation on fiduciary liability insurance and its role in indemnifying the retirement fund from bearing the cost of potential litigation. Staff, with the assistance from Mr. Johnson, solicited a proposed renewal of SamCERA’s current fiduciary liability insurance. Staff accepted the proposed insurance coverage with the holder of its current policy with a resultant savings of approximately $5,000. The insurance will be in effect from May 27, 2011, until May 27, 2012. Mr. Clifton said that in order to purchase a fiduciary liability insurance waiver of recourse, trustees must submit a check in the amount of twenty-five dollars to SamCERA.

Mr. David then took up agenda item 6.1.

Approval of SamCERA’s Strategic Plan: Mr. Bailey reviewed SamCERA’s Fiscal Year 2011-2012 Strategic Plan with trustees. The Strategic Plan is a result of SamCERA’s strategic planning process in which each SamCERA staff member helps develop the plan through his or her input at its annual retreat. Staff identifies, prioritizes and plans for projects in order to achieve the board-established mission and goals for the association. Mr. Bailey then discussed the major projects for the upcoming fiscal year, including building out the fund’s alternatives portfolio, taking the next steps to upgrade SamCERA’s core technologies, and developing a Comprehensive Communications Plan. He said that SamCERA management discusses and monitors the status of projects listed on the Strategic Plan on a regular basis.

Motion by Tashman, second by Kwan Lloyd, carried unanimously to approve SamCERA’s Fiscal Year 2011-2012 Strategic Plan.

Approval of SamCERA’s Sources, Uses & Budget for Fiscal Year 2011/2012: Mr. Clifton presented SamCERA’s Budgets for Fiscal Year 2011/2012. He said that there are four independent components to next fiscal year’s budget: (1) an administrative budget and (2) an information technology budget authorized by Government Code §31580.2, and (3) an asset management budget and (4) a professional services budget authorized by Government Code §31596.1. Recently approved state legislation states that administrative expenses should not exceed twenty-one basis points of the accrued actuarial liability of the retirement system and excludes information technology expenses from the administrative cap. He discussed the line items of all four budgets and answered trustees questions and concerns.

Motion by Spinello, second by Arnott, carried unanimously to adopt Resolution 10-11-24, SamCERA’s FY2011-2012 Administrative Budget, Resolution 10-11-25, SamCERA’s FY2011-2012 Information Technology Budget, and Resolution 10-11-26, SamCERA’s FY2011-2012 Asset Management Budget, as follows:

**Fiscal Year 2011-2012 Administrative Budget**

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

“WHEREAS, Government Code §31580.2 requires that... (a) In counties in which the board of retirement, or the board of retirement and the board of investment, have appointed personnel pursuant to Section 31522.1, 31522.5, or 31522.7, the respective board or
boards shall annually adopt a budget covering the entire expense of administration of the retirement system which expense shall be charged against the earnings of the retirement fund. The expense incurred in any year may not exceed the greater of either of the following: (1) Twenty-one hundredths of 1 percent of the accrued actuarial liability of the retirement system. (2) Two million dollars ($2,000,000), as adjusted annually by the amount of the annual cost-of-living adjustment computed in accordance with Article 16.5 (commencing with Section 31870). (b) Expenditures for computer software, computer hardware, and computer technology consulting services in support of these computer products shall not be considered a cost of administration of the retirement system for purposes of this section.

“WHEREAS, the retirement fund had Actuarial Accrued Liabilities of $3,098,453,000 on June 30, 2010; and

“WHEREAS, the Chief Executive Officer has recommended an administrative budget for the next fiscal year, which the board has reviewed and revised as necessary. Therefore, be it

“RESOLVED, that the Board hereby adopts the following Budget to cover the entire expense of the administration of the retirement system for the period specified, which expenses shall be charged against the earnings of the retirement fund:

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Fiscal 2011-2012</th>
<th>Basis Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Benefits</td>
<td>$2,897.0</td>
<td></td>
</tr>
<tr>
<td>Services &amp; Supplies</td>
<td>1,062.0</td>
<td></td>
</tr>
<tr>
<td>Capital Assets</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,959.0</strong></td>
<td>~12.8 bps Estimate</td>
</tr>
</tbody>
</table>

“RESOLVED, that the Chief Executive Officer is hereby authorized to implement the expenditure of funds authorized by this approved budget in accordance with his Delegation of Authority; be it further

“RESOLVED, that, his Delegation of Authority notwithstanding, the Chief Executive Officer is hereby specifically authorized to approve the expenditure of funds from this budget for the purchase of fiduciary liability insurance coverage with the assistance of the County’s Risk Manager; be it further

“RESOLVED, that the Controller or the Custodian is hereby authorized to disburse funds on behalf of the Board for expenditures which are in accordance with this adopted budget.”

Fiscal Year 2011-2012 Information Technology Budget

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

“WHEREAS, Government Code §31580.2 requires that ... (a) In counties in which the board of retirement, or the board of retirement and the board of investment, have appointed
personnel pursuant to Section 31522.1, 31522.5, or 31522.7, the respective board or boards shall annually adopt a budget covering the entire expense of administration of the retirement system which expense shall be charged against the earnings of the retirement fund. The expense incurred in any year may not exceed the greater of either of the following: (1) Twenty-one hundredths of 1 percent of the accrued actuarial liability of the retirement system. (2) Two million dollars ($2,000,000), as adjusted annually by the amount of the annual cost-of-living adjustment computed in accordance with Article 16.5 (commencing with Section 31870). (b) Expenditures for computer software, computer hardware, and computer technology consulting services in support of these computer products shall not be considered a cost of administration of the retirement system for purposes of this section.

“WHEREAS, the retirement fund had Actuarial Accrued Liabilities of $3,098,453,000 on June 30, 2010; and

“WHEREAS, the Chief Executive Officer has recommended an administrative budget for the next fiscal year, which the board has reviewed and revised as necessary. Therefore, be it

“RESOLVED, that the Board hereby adopts the following Budget to cover the entire expense of computer software, computer hardware, and computer technology consulting services in support of these computer products for the retirement system for the period specified, which expenses shall be charged against the earnings of the retirement fund:

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Fiscal 2011-2012 (000)</th>
<th>Basis Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Benefits</td>
<td>$000.0</td>
<td></td>
</tr>
<tr>
<td>Services &amp; Supplies</td>
<td>1,866.0</td>
<td></td>
</tr>
<tr>
<td>Capital Assets</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$1,866.0</td>
<td>~6.0 bps Estimate</td>
</tr>
</tbody>
</table>

“RESOLVED, that the Chief Executive Officer is hereby authorized to implement the expenditure of funds authorized by this approved budget in accordance with his Delegation of Authority; be it further

“RESOLVED, that, his Delegation of Authority notwithstanding, the Chief Executive Officer is hereby specifically authorized to approve the expenditure of funds from this budget for the annual maintenance and enhancement of PensionGold Version 1; be it further

“RESOLVED, that, his Delegation of Authority notwithstanding, the Chief Executive Officer is hereby specifically authorized to approve the expenditure of funds from this budget for the purchase of fiduciary liability insurance coverage with the assistance of the County’s Risk Manager; be it further

“RESOLVED, that the Controller or the Custodian is hereby authorized to disburse funds on behalf of the Board for expenditures which are in accordance with this adopted Budget.”

Fiscal Year 2011-2012 Asset Management Budget
“WHEREAS, Government Code §31595 vests authority in the Board of Retirement to . . . exclusive control of the investment of the employees retirement fund. The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system. Except as otherwise expressly restricted by the California Constitution and by law, the board may, in its discretion, invest, or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the board. The board and its officers and employees shall discharge their duties with respect to the system: (a) Solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. (b) With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims. (c) Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so; and

“WHEREAS, Government Code §31596.1 requires that . . . The expenses of investing its moneys 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 as 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 Section 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 Section 31607 or legal representation rendered pursuant to Section 31529.1.; and

“WHEREAS, the retirement fund had Actuarial Accrued Liabilities of $3,098,453,000 on June 30, 2010; and

“WHEREAS, the Chief Executive Officer has recommended a budget for the next fiscal year, which the board has reviewed and revised as necessary. Therefore, be it

“RESOLVED, that the Board hereby adopts the following Budget to cover the expense of asset management of the retirement system for the period specified, which expenses shall be charged against the earnings of the retirement fund:

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>Fiscal 2011-2012 (000)</th>
<th>Basis Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Benefits</td>
<td>$564.0</td>
<td></td>
</tr>
</tbody>
</table>

Fiscal Year 2010-2011 page 130
San Mateo County Employees' Retirement Association
Minutes of the Meeting of the Board of Retirement

Services & Supplies  211.2
Capital Assets  0.0
Total  $775.2  ~2.5 bps Estimate

“RESOLVED, that the Chief Executive Officer is hereby authorized to implement the expenditure of funds authorized by this approved budget in accordance with his Delegation of Authority; be it further

“RESOLVED, that the Controller or the Custodian is hereby authorized to disburse funds on behalf of the Board for expenditures which are in accordance with this adopted Budget.”

1105.7.9  Approval to Reschedule the June 28th Board Meeting to June 21st: Mr. Bailey said that staff is asking that the board change the date of the June 2011 meeting of the Board of Retirement to June 21st. The change is requested because of a scheduling conflict. Motion by Spinello, second by Agnew, carried unanimously to change the date of the June 2011 board meeting from June 28th to June 21st.

1105.8  Management Reports

1105.8.1  Chief Executive Officer’s Report: Mr. Bailey said that he was notified that the Board of Supervisors has recommended a candidate for the vacant seat on the Board of Retirement. She is anticipated to be able to attend the June board meeting. Mr. Bailey said there is a new reimbursement form uploaded to Dropbox now available for trustees to download.

1105.8.2  Assistant Executive Officer’s Report: Mr. Hood said that SamCERA needs to make programming changes to PensionGold as a result of the retirement structure changes approved with recent union negotiations. Some union negotiations are still ongoing. Mr. Hood then said that the construction of the new SamCERA board room has been delayed slightly but should be ready by the July board meeting.

1105.8.3  Chief Investment Officer’s Report: Mr. Clifton reported that BlackRock will buy out the remaining stake that Bank of America Corp. holds in the firm. As a founding investor and member of the INVESCO advisory committee for the INVESCO Core Fund, Mr. Clifton provided an update on a matter regarding a potential real estate co-investment with one of INVESCO’s sovereign fund investors.

1105.8.4  County Counsel’s Report: Ms. Carlson provided an update on a previous public records request for names of retirees and their pension amounts, which SamCERA complied with. She said that in cases involving other counties, courts have consistently ruled that the information requested is, in fact, a matter of public record and must be released. Ventura and San Bernardino counties were affected by this as part of the litigation.

Ms. Carlson then distributed the language from the Brown Act that authorizes the use of teleconferences for public meetings. She discussed the requirements for teleconferencing set forth by the government section code. She said the restrictions and requirements apply to all standing committees.

Mr. David then took up agenda item 6.4
Report on Actions Taken in Closed Session: Dan Maguire of Spector Roseman Kodroff & Willis reported that Mr. David took the board meeting into closed session, with all trustees present for roll call in attendance. The disability applicant, Ms. Cervantes, and her attorney, were also present. Ms. Carlson, Chief Deputy County Counsel, was not present for the consideration of this disability application.

The board unanimously found that Liz Cervantes is not disabled from performing her usual and customary duties as a Legal Secretary II and denied her application for a service-connected disability retirement.

Mr. David then adjourned the closed session and took up agenda item 7.4.

Adjournment in Memory of Deceased Members: There being no further business, Mr. David adjourned the meeting at 4:34 p.m., in memory of the following deceased members:

<table>
<thead>
<tr>
<th>Name</th>
<th>Date</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Llantino, Adriano</td>
<td>April 1, 2011</td>
<td>Aging &amp; Adult Services</td>
</tr>
<tr>
<td>Unger, Elsa</td>
<td>April 1, 2011</td>
<td>Superior Court</td>
</tr>
<tr>
<td>Ferrando, Richard</td>
<td>April 3, 2011</td>
<td>Superior Court</td>
</tr>
<tr>
<td>Brumm, Brian</td>
<td>April 6, 2011</td>
<td>Environmental Health Services</td>
</tr>
<tr>
<td>Pizarro, Dorothy</td>
<td>April 6, 2011</td>
<td>General Services</td>
</tr>
<tr>
<td>Darrough, Mary</td>
<td>April 16, 2011</td>
<td>District Attorney’s Office</td>
</tr>
<tr>
<td>Irwin, Winifred</td>
<td>April 16, 2011</td>
<td>Probation Dept.</td>
</tr>
<tr>
<td>Leija, Dolores</td>
<td>April 20, 2011</td>
<td>San Mateo Medical Center</td>
</tr>
<tr>
<td>Corning, Melba</td>
<td>April 22, 2011</td>
<td>Beneficiary of Corning, Betram</td>
</tr>
<tr>
<td>Mendiola, Guadalupe</td>
<td>April 22, 2011</td>
<td>Beneficiary of Mendiola, Lorenzo</td>
</tr>
<tr>
<td>Crenshaw, Barbara</td>
<td>April 23, 2011</td>
<td>Probation Dept.</td>
</tr>
<tr>
<td>Birchess, Bernice</td>
<td>April 28, 2011</td>
<td>Mental Health</td>
</tr>
<tr>
<td>Newton, Mildred</td>
<td>April 30, 2011</td>
<td>San Mateo Medical Center</td>
</tr>
</tbody>
</table>

AL DAVID, CHAIR