



Notice of Public Meeting

Audit Committee

of the San Mateo County Employees' Retirement Association will meet at
100 Marine Parkway, Suite 125, Redwood City

Tuesday, October 28, 2014, at 9:00 a.m.

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

A. Call to Order and Roll Call

B. Oral Communications

Oral Communications From the Committee

Oral Communications From the Public

C. Review and Discussion of the Following Board of Retirement Agenda Items (from the Regular Meeting, Tuesday, October 28, 2014, at 10:00 a.m.)

5.2 Acceptance of Milliman, Inc. Report on GASB 67 and 68 Disclosures For FY 2013-14

7.2 Acceptance of Financial Audit Management Reports and Findings

7.3 Approval of SamCERA's 2014 Comprehensive Annual Financial Report

7.4 Annual Review of Independent Auditor, Brown Armstrong

D. Finance Officer's Report

E. Adjournment

Mabel Wong, Finance Officer

Posted: October 22, 2014

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

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

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

**THE COMMITTEE MEETS IN 100 MARINE PARKWAY, SUITE 125,
WHICH IS LOCATED ON THE SE CORNER OF TWIN DOLPHIN & MARINE PARKWAY IN REDWOOD CITY**

[Continued on page 2 – Posted 10/22/2014]

Detailed directions are available on the "Contact Us" page of the website www.samcera.org
Free Parking is available in all lots in the vicinity of the building.

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

How to Find Us:

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

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

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

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

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

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

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

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

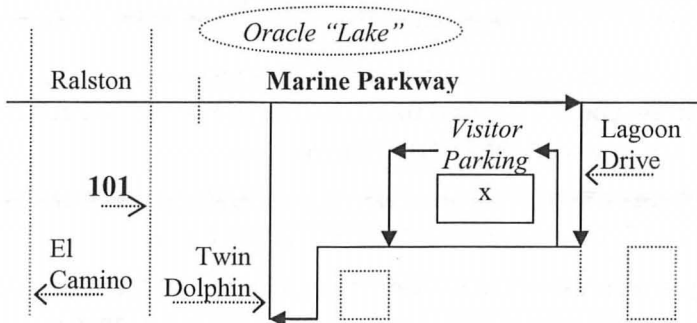
SamCERA's Telephone Number: (650) 599-1234

From a County Extension: Dial 1234

From Outside the 650 Area Code: (800) 339-0761

Web Site: www.samcera.org

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





Notice of Public Meeting

The Board of Retirement of the San Mateo County Employees' Retirement Association will meet on **Tuesday, October 28, 2014, at 10:00 A.M.**

PUBLIC SESSION – The Board will meet in Public Session at 10:00 a.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**
 - 3.1 Approval of Regular Board Meeting Minutes from September 30, 2014
- 4. Approval of the Consent Agenda***

4.1 Disability Retirements	4.4 Deferred Retirements
• Maria Gomez	4.5 Member Account Refunds
• Deborah Howard	4.6 Member Account Rollovers
• Elsy Osorio	4.7 Approval of Trustee Education Request
4.2 Service Retirements	4.8 Review and Reaffirm SamCERA's Internal
4.3 Continuances	Controls Policy
- 5. Benefit & Actuarial Services**
 - 5.1 Consideration of Agenda Items, if any, Removed from the Consent Agenda
 - 5.2 Acceptance of Milliman, Inc. Report on GASB 67 and 68 Disclosures for FY 2013-14
 - 5.3 Approval of Resolution to Extend Agreement with Milliman, Inc. for Actuarial Services
- 6. Investment Services**
 - 6.1 Preliminary Monthly Portfolio Performance Report for the Period Ending September 30, 2014
 - 6.2 Review of SamCERA's Securities Lending Program
 - 6.3 Update on SamCERA's Real Asset Program
 - 6.4 Approval of Opportunistic Credit Manager Shortlist Candidates
- 7. Board & Management Support**
 - 7.1 Quarterly Budget Report for Period Ending September 30, 2014
 - 7.2 Acceptance of Financial Audit Management Reports and Findings
 - 7.3 Approval of SamCERA's 2014 Comprehensive Annual Financial Report (CAFR)
 - 7.4 Annual Review of Independent Auditor, Brown Armstrong
 - 7.5 Approval to Establish Retirement Investment Analyst Position
 - 7.6 Approval to Establish Retirement Financial Analyst Position
 - 7.7 Discussion of SACRS Business Meeting Topics

Notice of Public Meeting

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- 7.8 Approval of Resolution Authorizing CEO Employment Agreement with Scott Hood
- 7.9 Administration of the Oath of Office to the Chief Executive Officer

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:

McGrady, Lois	September 10, 2014	Health
Youdovitch, Rosalie	September 22, 2014	Probation
Rutenberg, Harvey	September 24, 2014	Sheriff's Office
Daugherty, Donald	September 25, 2014	Probation
Morris, Theodore	September 26, 2014	Civil Service Commission
Breidenbach, Sue	September 27, 2014	Election Department
Beegle, Paz	September 30, 2014	Health Services
Meyer, James	October 1, 2014	Sheriff's Office
Lewis, Mary Sue	October 8, 2014	Public Works



David Bailey, Chief Executive Officer

Posted: October 22, 2014

(* 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. ANY 4.1 ITEMS REMOVED FROM THE CONSENT AGENDA WILL BE TAKEN UP UNDER CLOSED SESSION; ALL OTHER ITEMS REMOVED FROM THE CONSENT AGENDA WILL BE TAKEN UP UNDER ITEM 5.1.)

THE BOARD MEETS AT 100 MARINE PARKWAY, SUITE 160, WHICH IS LOCATED ON THE SE CORNER OF TWIN DOLPHIN & MARINE PARKWAY IN REDWOOD CITY. Detailed directions are available on the "Contact Us" page of the website www.samcera.org. 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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Posted 10/22/2014

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

October 28, 2014

Agenda Item 3.1

September 30, 2014 – Board Agenda

PUBLIC SESSION – The Board will meet in Public Session at 10:00 a.m.

- 1. Call to Order, Roll Call and Miscellaneous Business**
 - 1.1 Appointment by Chair of Board Committees
 - 1.2 Appointment by Chair of Ad Hoc Committee to Review the Medical Advisor
- 2. Oral Communications**
 - 2.1 Oral Communications From the Board
 - 2.2 Oral Communications From the Public
- 3. Approval of the Minutes**
 - 3.1 Approval of Special Board Meeting Minutes, from August 26, 2014
- 4. Approval of the Consent Agenda * (Set for 10:00 a.m. time certain)**

4.1 Disability Retirements	4.5 Member Account Refunds
4.2 Service Retirements	4.6 Member Account Rollovers
4.3 Continuances	4.7 Approval of Resolution Closing SamCERA's IRC 401(h) Account
4.4 Deferred Retirements	4.8 Approval of Trustee Training Request
- 5. Benefit & Actuarial Services *(Set for 1:00 p.m. time certain)**
 - 5.1 Consideration of Agenda Items, if any, Removed from the Consent Agenda
 - 5.2 Presentation of the June 30, 2014, Actuarial Valuation Report by Milliman, Inc.
 - 5.3 Presentation of June 30, 2014, Actuarial Valuation Audit by Segal Company
 - 5.4 Approval of Resolution Accepting the Fiscal Year 2015-2016 Employer and Member Contribution Rates and Recommendations
 - 5.5 Annual Review of SamCERA's Actuarial Services Firm, Milliman, Inc.
- 6. Investment Services**
 - 6.1 Preliminary Monthly Portfolio Performance Report for the Period Ending August 31, 2014
 - 6.2 Approval of Resolution Amending the Investment Policy Securities Lending Provisions
 - 6.3 Acceptance of Report on the Fixed Income Manager Annual Reviews
- 7. Board & Management Support**
 - 7.1 Approval of Resolution Authorizing the CEO to Amend the Contract with Vitech, Inc. to Add the Vitech V3 Imaging Solution to the PASS Project
 - 7.2 Approval of SACRS Voting Delegate and Alternates for the SACRS Fall 2014 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

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

- C1 Consideration of Disability Items, if any, Removed from the Consent Agenda
- C2 Public Employee Appointment in Accordance With Government Code Section 54957.
Title: Chief Executive Officer
- C3 Conference with Labor Negotiators in Accordance with Government Code Section 54957.6
Designated Representatives: Brenda B. Carlson and Lisa Yapching
Employee Position: Chief Executive Officer

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

9. Report on Actions Taken in Closed Session

10. Adjournment in Memory of the Following Deceased Members:

Aguiar, Josephine	July 23, 2014	Human Services Agency
Gibson, Marquez	June 16, 2014	Parks
Greer, Donald	July 17, 2014	Probation
Heurlin, Margaret	June 17, 2014	Probation
Kidd, Joan	July 25, 2014	Crystal Springs Rehab. Center
McCune, John	July 4, 2014	Beneficiary of McCune, Helen
Norman, Barbara	July 4, 2014	Probation
Savoca, Josephine	July 23, 2014	Libraries
Schmiedel, Frank	July 5, 2014	Beneficiary of Schmiedel, Selma
Soppa, Lawrence	July 23, 2014	General Services
Torburn, Zora-Mae	July 28, 2014	General Services

SEPTEMBER 30, 2014 – REGULAR BOARD MEETING MINUTES

1409.1 **Call to Order, Roll Call and Miscellaneous Business**

Call to Order: Ms. Lauryn Agnew, Chair, called the Regular Meeting of the Board of Retirement to order at 10:02 a.m.

Roll Call:

Present: Lauryn Agnew, Sandie Arnott, Ben Bowler, Albert David, Paul Hackleman, Natalie Kwan Lloyd (arrived at 12:15 p.m.), Michal Settles, David Spinello (arrived at 10:15 a.m.), and Eric Tashman.

Alternates present: Alma Salas and Christopher Miller.

Staff: David Bailey, Scott Hood, Michael Coultrip, Brenda Carlson, Mabel Wong, Lilibeth Dames and Kristina Perez.

Consultants: Patrick Thomas (*SIS*); Paul Angelo and Andy Yeung (*Segal*); Nick Collier and Craig Glyde (*Milliman*).

Miscellaneous Business:

Mr. Bailey requested a change be made to Item C3, Conference with Labor Negotiators in Accordance with Government Code Section 54957.6, to reflect the replacement of Lisa Yapching with Donna Vaillancourt as one of the Designated Representatives.

Action: Mr. Hackleman moved to approve the change in the agenda to reflect Ms. Vaillancourt as a Designated Representative. The motion was seconded by Mr. David and carried with a vote of 8-0, with trustees Agnew, Arnott, Bowler, David, Hackleman, Miller (for Spinello), Settles, Tashman all in favor; none opposed.

1409.1.1 **Appointment by Chair of Board Committees:** Ms. Agnew stated that the current committee members would remain on their respective Board committees for FY 2014-15, as follows:

Audit Committee: Paul Hackleman, Natalie Kwan Lloyd Sandie Arnott and Eric Tashman, Chair.

Investment Committee: Michal Settles, Lauryn Agnew, Ben Bowler and Al David, Chair.

Ad Hoc Succession Planning: Al David, Michal Settles, Ben Bowler, and Paul Hackleman, Chair.

1409.1.2 **Appointment by Chair of Ad Hoc Committee to Review the Medical Advisor:** Ms. Agnew stated the current members of the Ad Hoc Committee, which annually reviews SamCERA's Medical Advisor (Natalie Kwan Lloyd, Lauryn Agnew, Christopher Miller and Sandie Arnott, Chair), would remain on the committee for the duration of FY 2014-15.

1409.2.1 **Oral Communications From the Board:** Ms. Agnew reported her attendance at the P3 Summit, "Transforming Cities through Public-Private Partnerships" in San Francisco on September 23, 2014. Ms. Arnott, Mr. David and Ms. Settles reported their attendance at the Future of Corporate Reform Conference, sponsored by GMI Ratings, held in San Diego, from September 1-4, 2014. Ms. Settles also attended the Investment Trends Summit, sponsored by Opal Financial Group, in Santa Barbara, on September 8-10, 2014.

1409.2.2 **Oral Communications From the Public:** Ms. Salas reported her attendance at the Future of Corporate Reform Conference, sponsored by GMI Ratings, held in San Diego, from September 1-4, 2014.

1409.3.1 **Approval of Minutes:** Ms. Agnew asked if there were any changes to the minutes, and there were none.

Action: Mr. David made a motion to approve the regular meeting minutes from August 26, 2014, and the motion was seconded by Ms. Arnott. The motion carried with a vote of 8-0, with trustees Agnew, Arnott, Bowler, David, Hackleman, Miller (for Spinello), Settles, Tashman all in favor; none opposed.

Mr. Spinello arrived at this time, and took his seat on the dais. Mr. Miller then served as the alternate for Ms. Kwan Lloyd.

1409.4.0 **Approval of the Consent Agenda:** Ms. Agnew asked if there were any items to be removed from the Consent Agenda, and none were removed.

Action: Mr. Hackleman moved to approve all the items on the Consent Agenda, and the motion was seconded by Ms. Settles. The motion carried with a vote of 9-0, with trustees Agnew, Arnott, Bowler, David, Hackleman, Miller (for Kwan Lloyd), Settles, Spinello and Tashman all in favor; none opposed.

1409.4.1 **Disability Retirements:** There were no disability retirement applications to consider at this meeting.

1409.4.2 **Service Retirements**

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

Member Name	Effective Retirement Date	Department
Barrett, Dori	August 28, 2014	QDRO
Bloomstine, John P	August 2, 2014	Health Services Agency
Davenport, Charles	August 25, 2014	Human Resources
Dorrance, Adriana Oseguera	July 12, 2014	Hospital
Galvis, Sheila	August 1, 2014	Behavioral Health
Gay, Robert B	August 30, 2014	Mosquito
Jacquemet, Jean F	August 16, 2014	Hospital
Kelly, Patricia E.	August 30, 2014	District Attorney's Office
Leong, Elizabeth H	August 6, 2014	Deferred from Public Health
Marquez, Diane	August 28, 2014	Behavioral Health
Netz, Warren W	August 30, 2014	Libraries
Pelter, Neil E.	August 9, 2014	Courts
Salazar, Ana M	August 23, 2014	Medical Center
Shirley, Harold L	August 8, 2014	Deferred from Assessor's Office

1409.4.3 **Continuances**

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

Survivor's Name	Beneficiary of
Soppa, Ruth	Soppa, Lawrence

1409.4.4 **Deferred Retirements**

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

Member Name	Retirement Plan Type
Eustaquio, Darwin	G4 Vested
Gill, Gurpreet S.	P4 Vested
Molina, Juan	G7 Vested
Pachmayer, Karen	G4 Vested
Sagar, Sunita	G2 Vested
Sugiyama, Glen	P4 Vested
Sonn, Michael K.	G4 Vested – Auto Defer
Weese, Danell S.	G4 Vested – Auto Defer

1409.4.5 **Member Account Refunds**

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

Member Name	Retirement Plan Type
Adan, Sandra	G4, Vested
Bankhead, Allyson	G7, Non-vested
Berlanga, Leah	G2, Vested
Caldera, Doris	G7, Non-vested
Martinez, Lisette	G7, Non-vested
McFarland, Holly	G7, Non-vested
McKendrick, Donovan	G5, Non-vested
Otiniano, Marjorie	G7, Non-vested
Theodule, Myleah	G7, Non-vested
Valdez, Cynthia	G4, Vested
Watson, Geraldine	G7, Non-vested
Perez, Arturo	G7, Non-vested
Salada, Claudia	G4, G5, Non-vested

1408.4.6 **Member Account Rollovers**

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

Member Name	Retirement Plan Type
Battista, Anthony	G4, Non-vested
Bos, Karen	G4, Non-vested
Burns, April	G4, Non-vested
Cherrix, Erica	G4, Non-vested
DeCristofano, Matthew	G5, Non-vested
Kelly, Mark	G5, Non-vested
Nguyen, Thu	G4, Non-vested
Sanders, Mark	G7, Non-vested
Vaishya, Akhila	G5, Non-vested
Van Olst, Deborah	G7, Non-vested
Yao, Lily	G4, Non-vested
Skangos, Stephanie	G4, Non-vested
Guiney, Pamela	G4, Non-vested

1409.4.7 **Approval of Resolution Closing SamCERA's IRC 401(h) Account:** The Board approved the resolution closing the Medicare Part B and IRC 401(h) account.

1409.4.8 **Approval of Resolution Revising the Board's Regulations:** The Board approved the resolution amending its regulations in order that the regulations are consistent with the Internal Revenue Code ("IRC") and Treasury regulations.

1409.4.9 **Approval of Trustee Training Request:** The Board ratified the request of Lauryn Agnew to attend the P3 Summit, held on September 23, 2014.

1409.5.1 **Consideration of Agenda Items, if any, Removed From the Consent Agenda:** None.

- 1409.5.2 **Presentation of the June 30, 2014, Actuarial Valuation Report by Milliman, Inc.:** Nick Collier, and Craig Glyde of Milliman, Inc., presented the Actuarial Valuation Report. They gave a detailed review of the report, and highlighted the way the County's supplemental lump sum contribution was included in the valuation. Board members asked questions; Mr. Collier and Mr. Glyde discussed the increase in SamCERA's funded ratio (from 73.3% to 78.8%), and the effects over time of the amortization of the unfunded liability. There was no action taken; this item was for discussion and information only.
- 1409.5.3 **Presentation of June 30, 2014, Actuarial Valuation Audit by Segal Consulting:** Mr. Paul Angelo and Andy Yeung of Segal Consulting presented their report and discussed the findings of the actuarial valuation audit with the Board. Segal determined the methodology used by Milliman was consistent with industry practice and Segal was in agreement with the results submitted by Milliman to the Board. There was no action taken, this item was for discussion and information only.
- 1409.5.4 **Approval of Resolution Accepting the Fiscal Year 2015-2016 Employer and Member Contribution Rates and Recommendations:** After discussing both the actuarial valuation, and the audit of the valuation, Board members were ready to take action.
Action: Mr. Hackleman moved to approve a resolution to 1) accept the employer and member contribution rates as recommended in the June 30, 2014 Actuarial Valuation, and 2) recommend approval of these rates by the Board of Supervisors. The motion was seconded by Mr. David and carried by a vote of 9-0, with trustees Agnew, Arnott, Bowler, David, Hackleman, Miller (for Kwan Lloyd), Spinello, Settles, and Tashman all in favor; none opposed.
- 1409.5.5 **Annual Review of SamCERA's Actuarial Services Firm, Milliman, Inc.:** Mr. Bailey presented the results of the annual review of Milliman's services. The results were similar to last year's review, with trustees and staff rating Milliman's services highly, with scores of 4.65 to 4.74 out of 5. Staff expressed their gratitude to Milliman for their responsiveness to staff; and for their valuable assistance and collaboration while working to meet the new GASB 67/68 requirements, creating secure accounting structures for the proper utilization of the County's supplemental contributions, and for implementing changes to the interest crediting policy. There was no action taken, this item was for discussion only.

The Board took a short break, adjourning at 11:38 a.m., and reconvening at 11:45 a.m. The next item 6.2 was heard out of order.

- 1409.6.2 **Approval of Resolution Amending the Investment Policy Securities Lending Provisions:** Mr. Coultrip reviewed how the Investment Policy was silent on the issue of "split-ratings" and did not address incidences when the two leading rating agencies showed differences in a borrower's credit rating. He stated this amendment will stipulate that in a case of a split-rating, the higher rating would be the one utilized by SamCERA. Board members and Mr. Coultrip discussed the risks and benefits of this amendment. A change in the resolution was suggested to require a minimum rating of A- .
Action: Mr. Tashman moved to approve the resolution amending the Investment Policy with the added criteria of a minimum of an A- rating, and the motion was seconded by Ms. Settles and carried by a vote of 9-0, with trustees Agnew, Arnott, Bowler, David, Hackleman, Miller (for Kwan Lloyd), Spinello, Settles, and Tashman all in favor; none opposed.
- 1409.6.1 **Preliminary Monthly Performance Report for the Period Ending August 31, 2014:** Mr. Coultrip discussed the preliminary monthly performance report with the Board. He reported that SamCERA's net preliminary return for August was + 1.75%, and the 12-month trailing was +15.9% (+16.3% gross). This item was informational only and no action was taken.

- 1409.6.3 **Acceptance of Report on the Fixed Income Manager Annual Reviews:** Mr. Coultrip reviewed the meetings staff had with SamCERA's Fixed Income Managers. Mr. Coultrip stated there were no areas of concern with any of the managers, and as a composite, the asset class was performing well. He and Mr. Thomas spoke about each fixed income manager and detailed each manager's strategies and performance to the Board. This item was informational only and now action was taken.

The Board adjourned for lunch at 12:16 p.m. and reconvened at 12:45 p.m.
Ms. Kwan Lloyd arrived during the lunch break and took her seat on the dais.

- 1409.7.1 **Approval of Resolution Authorizing the CEO to Amend the Contract with Vitech, Inc. to Add the Vitech V3 Imaging Solution to the PASS Project:** Mr. Bailey presented the staff report detailing the staff's recommendation to contract with Vitech for an imaging solution from Vitech, as opposed to internally programming the new PASS to integrate with the County's SharePoint imaging solution. The cost is \$200,000.

Action: Mr. David moved to approve the resolution authorizing the CEO to amend the contract with Vitech to add the imaging solution. The motion was seconded by Mr. Bowler and carried with a vote of 9-0, with trustees Agnew, Arnott, Bowler, David, Hackleman, Kwan Lloyd, Spinello, Settles, and Tashman all in favor; none opposed.

- 1409.7.2 **Approval of SACRS Voting Delegate and Alternates for the SACRS Fall 2014 Business Meeting:** Board members Lauryn Agnew and David Spinello were recommended as SamCERA's voting delegate and alternate, with David Bailey listed as the second alternate to cast votes on SamCERA's behalf at the SACRS Fall 2014 Business meeting.

Action: Mr. David moved to approve the voting slate as listed above. The motion was seconded by Ms. Kwan Lloyd and carried by a vote of 9-0, with trustees Agnew, Arnott, Bowler, David, Hackleman, Kwan Lloyd, Spinello, Settles, and Tashman all in favor; none opposed.

- 1409.8.1 **Chief Executive Officer's Report:** Mr. Bailey reported that he had received a call from the press, for a public records request regarding retirees whose pensions were greater than \$200k per year, as well as those who earn more than \$100k. SamCERA has received 15 California Public Records Act (PRA) requests in the calendar year. Mr. Bailey announced that Margaret Jadallah has returned to work at SIS.

- 1409.8.2 **Assistant Executive Officer's Report:** Mr. Hood called attention to the calendar of events that was included in the Board members' folders, noting that an Audit Committee meeting is scheduled for October 28. He reported that staff was working on file integration in the PASS program, and Brown Armstrong was finishing up the financial audit tasks. Mr. Hood said SamCERA staff would be participating in the County's "Great Shake Out," an earthquake preparedness drill, on October 16, 2014.

- 1409.8.3 **Chief Investment Officer's Report:** Mr. Coultrip reported on rebalancing adjustments made in the past month to SamCERA's portfolio.

- 1408.8.4 **Chief Legal Counsel's Report:** Ms. Carlson gave a brief legislative report, of the new statues amending CERL and PEPR. She further noted that the Trial Court determined that the Ventura initiative would not be on the ballot.

Ms. Agnew took the Board meeting into closed session at 1:10 p.m. to consider the following items. The meeting was reconvened to open session at 4:07 p.m. and action taken on the closed session items was reported as follows:

1409.C2 **Public Employee Appointment in Accordance With Government Code Section 54957.** Title: Chief Executive Officer
Report on Action: Mr. Bailey reported that the Board met in closed session to interview candidates for the CEO position. Following the interviews, a motion was made by Mr. Hackleman to offer the CEO position to candidate Scott Hood. The motion was seconded by Ms. Kwan Lloyd and carried by a vote of 9-0, with trustees Agnew, Arnott, Bowler, David, Hackleman, Kwan Lloyd, Spinello, Settles, and Tashman all in favor; none opposed. This appointment is effective November 9, 2014.

1409.C3 **Conference with Labor Negotiators in Accordance with Government Code Section 54957.6,** Designated Representatives: Brenda B. Carlson and Lisa Yaping Donna Vaillancourt, Employee Position: SamCERA’s Chief Executive Officer
Report on Action: Ms. Carlson reported that no reportable action was taken.

1409.10 **Adjournment:** Ms. Agnew adjourned the meeting at 4:10 p.m. in memory of the following deceased members:

Aguiar, Josephine	July 23, 2014	Human Services Agency
Gibson, Marquez	June 16, 2014	Parks
Greer, Donald	July 17, 2014	Probation
Heurlin, Margaret	June 17, 2014	Probation
Kidd, Joan	July 25, 2014	Crystal Springs Rehab. Center
McCune, John	July 4, 2014	Beneficiary of McCune, Helen
Norman, Barbara	July 4, 2014	Probation
Savoca, Josephine	July 23, 2014	Libraries
Schmiedel, Frank	July 5, 2014	Beneficiary of Schmiedel, Selma
Soppa, Lawrence	July 23, 2014	General Services
Torburn, Zora-Mae	July 28, 2014	General Services

David Bailey
 Chief Executive Officer

Kristina Perez
 Retirement Executive Secretary

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 28, 2014

Agenda Items 4.1- 4.6

To: Board of Retirement

From: Gladys Smith, Retirement Benefits Manager



Subject: Approval of Consent Agenda Items 4.1 – 4.6

4.1 Disability Retirements

- a) The Board find that **Deborah Howard** is (1) permanently incapacitated for the performance of her usual and customary duties as a Cook II, (2) find that her disability was a result of an injury arising out of and in the course of her employment and (3) grant her application for a service-connected disability retirement.
- b) The Board find that **Maria Gomez** is (1) permanently incapacitated for the performance of her usual and customary duties as a Benefits Analyst II, (2) find that her disability was a result of an injury arising out of and in the course of her employment and (3) grant her application for a service-connected disability retirement.
- c) The Board find that **Elsy Osorio** is (1) permanently incapacitated for the performance of her usual and customary duties as a Lead Patient Services Assistant, (2) find that her disability was a result of an injury arising out of and in the course of her employment and (3) grant her application for a service-connected disability retirement.

4.2 Service Retirements

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

Member Name	Effective Retirement Date	Department
Benjamin, Gail J	July 1, 2014	Libraries
Claire, Evelyn I	June 7, 2014	Family Health
Cleveland, Susan	June 26, 2014	Deferred from Vocational Rehab.
Cruz, Mary L	June 23, 2014	Deferred from Hospital
Declaro, Jocelyn D	June 17, 2014	Hospital
Estevez, Vivian	June 26, 2014	Human Services Agency
Fitch, Robert James	June 4, 2014	Public Works
Jarquín, Arnaldo A	June 7, 2014	Public Works
Jones, John D	June 2, 2014	Courts
Kenney, David M	July 1, 2014	Deferred from HSA
Mc Donald, Michael W	July 1, 2013	County Manager

McGrath-Dupre, Yadira G	June 30, 2014	Hospital
Ramey, Alexis	June 10, 2014	Agricultural Commission
Ramirez, Victoria Naomi	June 10, 2014	Hospital
Tealdi, Leo Elia	June 9, 2014	Deferred from Sheriff's Office

4.3 Continuances

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

Survivor's Name	Beneficiary of:
Jung, Claire C	Jung, Fred
Murphy, Gayle	Murphy, Michael

4.4 Deferred Retirements

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

Member Name	Retirement Plan Type
Sanchez, Marian	Vested G4 – Auto
Lal, Suresh	Vested G4
Van Nes, Mary	Non Vested G7 – Reciprocity
Patel, Vatsal	Non Vested G5 – Reciprocity
Gentry, Laura	Non Vested G2 – Reciprocity
Nolte, Deborah	Vested G2 – Reciprocity
Grissom, Pauline	Non Vested G7 – Reciprocity
Spaulding, Marcy	Non Vested G5 – Reciprocity

4.5 Member Account Refunds

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

Member Name	Retirement Plan Type
Reyes, Libby	G7, Non-vested
Munoz, Manuel	G7, Non-vested
Kochak, Thomas	G7, Non-vested
Oprendek, Michael (FBO: Tine Oprendek)	G4, Non-vested

Leija, Dolores (FBO: Maria Del Carmen Ledezma Nieblas)	G4, Vested
Bell, Patrice	G7, Non-vested

4.6 Member Account Rollovers

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

Member Name	Retirement Plan Type
Xie, Sally	G4, Non-vested
Wu, Sandra	G2, Vested
Curincita, Sandra (QDRO)	G4, Non-vested

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 28, 2014

Agenda Item 4.7

TO: Board of Retirement
FROM: David Bailey, Chief Executive Officer
SUBJECT: Trustee Request for Conference Approval



Staff Recommendation

Staff recommends approval of Trustee Lauryn Agnew's attendance at the educational events described below.

Background

The *SamCERA* Education Policy allows trustees to attend a certain number events for continuing education sponsored by organizations approved in the policy. The policy also states that, "the board may approve participation in additional educational activities..."

Board of Retirement Trustee, Lauryn Agnew, is requesting to attend the following events, in the Bay Area.

November 4, 2014 - Silicon Valley Community Foundation and the Northern California Planned Giving Council hosts a luncheon program in San Jose, addressing growing client interest in Impact Investing. Cost \$55

November 19, 2014 – Sustainable Silicon Valley, hosts the WEST (Water Energy Smart Technology) Summit, in Palo Alto. Cost \$120

2014 WEST Summit & Showcase of Solutions

AGENDA

Pioneering the Green Economy for a Sustainable Future:

The Need | The Challenge | The Opportunity

WEST SUMMIT 2014: NET POSITIVE CALL TO ACTION – NOVEMBER 19, 2014	
12:00 Noon - 1:00 PM	REGISTRATION AND EXPO
1:00 PM - 1:15 PM	WELCOME ADDRESS AND INTRODUCTION <i>Gil Friend, Chief Sustainability Officer, City of Palo Alto (confirmed)</i> <i>Mariana Grossman, Executive Director, Sustainable Silicon Valley</i>
1:15 PM - 1:35 PM	CLIMATE SCIENCE UPDATE <i>Dr. Steve Hipskind, Chief, Earth Science Division, NASA-Ames Research Center (confirmed)</i>
1:35 PM - 2:15 PM	ECONOMIC OPPORTUNITIES UPDATE: FINANCING GREEN INFRASTRUCTURE <i>Kish Rajan, Director, Governor's Office of Business and Economic Development (GO-Biz), State of California (invited); Jeffrey Hamel, California Executive, GE Power and Water (invited); John Stufflebean, Director Environmental Services, City of Sunnyvale (invited); Jonathan Lanciani</i>
2:15 PM - 3:15 PM	SOLUTIONS LAUNCH PAD <i>Moderator: Drew Clark, Director Strategy, IBM Venture Capital Group (confirmed)</i> <i>Panel of Judges (invited); Jim Morgenson, VP Linked in (confirmed); Mohanjit Jolly, Partner, DFJ (invited); Bill Reichert, Managing Director, Garage Technology Ventures (invited)</i>
3:15 PM - 3:45 PM	BREAK AND EXPO
3:45 PM - 4:30 PM	INSPIRATION FOR ACTION <i>Mayor R. Rex Parris, Lancaster, CA (confirmed)</i> PRIZES/WINNERS FOR CALL FOR SOLUTION <i>Kish Rajan, Director, GO-Biz Director, State of California (invited)</i>

4:30 PM - 5:15 PM	<p>NET POSITIVE BAY AREA LAUNCH</p> <p>Net Positive Bay Area by 2050 Program Overview <i>Director, Sustainable Silicon Valley</i></p> <p>Net Positive Bay Area Projects:</p> <ul style="list-style-type: none">• NASA-Ames Research Park: Protocols for Building and Technical Systems <i>Dr. Rosalind Grymes, Deputy Director, NASA-Ames Research Center (invited)</i>• East Palo Alto Neighborhood: Community Engagement and Offset Funding <i>Brent Butler, Community Planning, City of East Palo Alto (invited)</i>• SF Bay Area Superbowl 50 in 2016: Sustainable Transportation and Consumption <i>Neill Duffy, Chair, NFL Host Committee San Francisco Bay Area Super Bowl 50 (Feb. 2016) (confirmed)</i>
5:15 PM - 6:30 PM	<p>THEMED DISCUSSIONS, RECEPTION and EXPO <i>Facilitated Break-out Discussions and Reception</i></p>
6:30 PM	<p>SUMMIT ENDS</p>

Kristina Perez - Fwd: FW: Join the discussion on Impact Investing, Oct. 28 or Nov. 4

From: Kristina Perez

Subject: Fwd: FW: Join the discussion on Impact Investing, Oct. 28 or Nov. 4

Kdykj#urxed#ylnz lqj#k l#hp d1B#Fdfn#k:huh#



Silicon Valley Community Foundation and the Northern California Planned Giving Council invite you to attend one of two luncheon programs addressing growing client interest in **Impact Investing**. The experts on this panel will each offer their unique perspectives in how they are working with their organizations and clients to implement impact investing strategies. The panel will discuss current trends in the sector, why demand is growing and practical ways to assist clients who are interested in impact investing. There will also be a time for Q&A at the end.

Panelists:

[Ed Diener](#), General Counsel for Skoll Foundation

[Julia Sze](#), CFA, Managing Director of Sonen Capital LLC4

[Blaine Townsend](#), CIMC, CIMA, Partner of Nelson Capital

Moderator:

[Bert Feuss](#), Vice President of Investments, Silicon Valley Community Foundation

Select either:

Date: Tuesday, October 28, 2014
Time: 11:30 a.m. to 1:30 p.m
Location: [The City Club of San Francisco](#)
 155 Sansome Street, 11th Floor, San Francisco
Cost: \$55 - Lunch provided

OR

Date: Tuesday, November 4, 2014
Time: 11:30 a.m. to 1:30 p.m.
Location: [The Fairmont San José](#)
 170 South Market Street, San José

Cost: \$55 - Lunch provided

Each Event will cost \$55 and lunch will be provided. CE credit available for CPAs and attorneys; CE credit (pending approval) for CFPs and CFREs.

Please [RSVP online](#). For questions, contact us at 650.450.5517 or donate@siliconvalleycf.org. You can pay online via credit card or by check payable to "Silicon Valley Community Foundation" with SVCF/NCPGC Luncheon in the memo line. For offline registration please fill out and include this [PDF](#). Please mail checks to:

Silicon Valley Community Foundation
ATTN: Gifts Administration
2440 West El Camino Real, Suite 300
Mountain View, CA 94040

Thank you to our event sponsor:

ABBOT DOWNING

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 28, 2014

Agenda Item 4.8

TO: Board of Retirement

FROM: Mabel Wong, Finance Officer



SUBJECT: Review and Reaffirm SamCERA's Internal Control Structure

Staff Recommendation

Review and reaffirm SamCERA's Internal Control Structure.

Background

Government Code §31520 vests management of the association to the Board of Retirement. Pursuant to Government Code §31522.2 the Board appointed the Administrator as Chief Executive Officer. In April 1994 the Board adopted its Delegation of Authority to the Chief Executive Officer. In that delegation, the Board reserved unto itself all powers regarding the approval of the system of internal controls.

At the conclusion of the June 30, 2006, audit, the Audit Committee, staff and independent auditor discussed the possibility of an internal controls audit. The committee was reminded that an internal controls audit covers only those controls attested to by management. After a lengthy discussion, the committee opined that staff should develop and implement an internal controls system to identify and assess SamCERA's risks.

From time to time the Board has reviewed and approved the guidelines for SamCERA's internal control structure. The most recent Board review and approval was in October of 2013. The guidelines begin below.

Discussion

The internal control guidelines that appear below are SamCERA's framework for implementing an effective and efficient internal control system.

In addition to the guidelines, there is a compilation of SamCERA's identified risks. The identification process drew heavily upon work completed by Brown Armstrong, SamCERA's independent audit firm. A staff project will be to expand the areas of risk identification. The following step in the process will be to develop a risk manual that lists the identifiable risks, and then details the procedure(s) in place to mitigate each specific risk.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

Internal Control Guidelines

There are five internal control standards issued by the United States General Accounting Office. *SamCERA* will address these standards when documenting its internal controls. The purpose of the controls is to guide *SamCERA*'s management in carrying out its goals and objectives. This guidance is not intended to take the place of management's judgment or to dictate how management chooses to carry out its responsibilities.

One definition of internal control or an internal control system is the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its mission and objectives.

This definition establishes that:

- internal control impacts every aspect of an organization: all of its people, processes and physical structures;
- internal control is a basic element that permeates an organization - not a feature that is added on;
- internal control incorporates the qualities of good management;
- internal control is dependent upon people and will succeed or fail depending on the attention people give to it;
- internal control is effective when all of the people and the surrounding environment work together;
- internal control provides a level of comfort to an organization; controls do not guarantee success; and
- internal control helps an organization achieve its goals and objectives.

As stated in the above definition, internal control is a means for achieving an organization's goals and objectives. More specifically, there are four purposes of internal control:

- to promote orderly, economical, efficient and effective operations and to produce quality products and services consistent with the organization's mission;
- to safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud;
- to ensure adherence to laws, regulations, contracts and management directives; and
- to develop and maintain reliable financial and management data, and to accurately present that data in a timely manner.

If *SamCERA* addresses each of these four purposes in developing its internal control system, it will most likely achieve its goals and objectives. Failure to adequately address any one of these purposes may put the organization at risk.

The first internal control standard is Control Environment.

Control environment is the attitude toward internal control and control consciousness established and maintained by the management and the employees of *SamCERA*. It is a product of management's philosophy, style and supportive attitude, as well as the competence, ethical values, integrity, and morale of its people. *SamCERA*'s structure and accountability relationships are key factors in the control environment.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

SamCERA will establish and maintain a positive and supportive attitude towards the achievement of its objectives. While management sets the tone for the work environment, all employees have input into the control environment. Over the years, studies have found that there are two effective ways to reduce fraud. One way is to lock up everything in your workplace and the other way is to surround yourself with ethical people. Employees make internal controls work. The values in place at SamCERA determine its ethical tone.

The second internal control standard is Risk Assessment.

Risks are events that threaten the accomplishment of objectives. They ultimately impact SamCERA's ability to accomplish its mission. Risk assessment is the process of identifying, evaluating and determining how to manage these events. At every level within SamCERA there are both internal and external risks that could prevent the accomplishment of established objectives. Ideally, management should seek to prevent these risks. However, sometimes management cannot prevent the risk from occurring. In such cases, management should decide whether to accept the risk, reduce the risk to acceptable levels, or avoid the risk. To have reasonable assurance that the organization will achieve its objectives, management should ensure each risk is assessed and handled properly.

Risk identification occurs as a result of findings from audits, evaluations and other testing or assessments. Risk analysis includes estimating the likelihood and frequency of occurrence of each risk and determining whether it falls into the low, medium, or high-risk category. Once risk is identified, the potential impact on programs should be measured and additional controls should be developed. Risk is not another thing to manage, but a way of managing.

SamCERA will perform a risk assessment on an annual basis. This involves a review and analysis of program operations to determine where risk exists, and what those risks are. These risks are then measured towards the impact on our operations. A risk assessment also allows SamCERA to target high-risk areas or programs and focus on where the greatest exposure exists. Management will reassess risk as a result of changing conditions, both internal and external, in the workplace.

The third internal control standard is Control Activities.

Control activities are tools - both manual and automated - that help prevent or reduce the risks that can impede accomplishment of SamCERA's objectives and mission. SamCERA will establish control activities to effectively and efficiently accomplish its objectives and mission.

SamCERA will use methods to reduce risk identified during the risk assessment process to ensure that SamCERA's decisions and objectives are carried out. Methods used to control activities include policies, procedures, networking, auditing and investigations. Control activities can include both pre-payment and/or post payment mechanisms to manage any improper payments.

SamCERA will have in place detection techniques to quickly identify and correct improper payments. Detection techniques play a large role in identifying improper payments and also provide information on why these payments were made so that corrections in our process can be made. Management will ensure that there is a proper segregation of duties, divided among different people to reduce error, waste, or fraud. No one individual will be allowed to control all

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

key aspects on a transaction or event. The internal control activities will be flexible, weighing costs and benefits, to allow SamCERA to tailor these activities to fit its special needs. Once in place, control activities will provide useful information to meet SamCERA's objectives.

The fourth internal control standard is Information and Communications.

Communication is the exchange of useful information between and among people and organizations to support decisions and coordinate activities. Within SamCERA, information should be communicated to management and other employees who need it in a form and within a time frame that helps them to carry out their responsibilities. Communication also takes place with outside parties such as members, departments of the county, outside professional staff and regulators.

For SamCERA to run and control its operations, it will foster fast, reliable and accurate information. Also, it will make sure that the types of communications are broad-based and that information technology management assures useful, reliable and continuous communications.

How SamCERA communicates is as important as what it communicates. Effective communication should occur in a broad sense with information flowing down, across, and up SamCERA's organization. By asking questions, management will treat feedback from employees as another way to consider if the internal controls are effective.

The fifth internal control standard is Monitoring.

Monitoring is the review of SamCERA's activities and transactions to assess the quality of performance over time and to determine whether controls are effective. Management should focus monitoring efforts on internal control and achievement of organizational objectives. For monitoring to be most effective, all employees need to understand the organization's mission, objectives, responsibilities, and risk tolerance levels.

Monitoring performance is a critical tool to success. When risk is identified, internal control monitoring will be put in place to measure the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. SamCERA will implement continuous monitoring activities as well as specific events, such as audits, special reviews or evaluations to monitor internal controls.

SamCERA's monitoring includes policies and procedures for tracking audit findings and other reviews brought to the attention of management to see they are promptly resolved. Specific evaluations are a great method to look at internal controls by focusing on a specific event and time. Proper monitoring and review allows SamCERA to track the progress of improvements and determine if deficiencies are corrected.

Monitoring activities will be ongoing to aid in reducing improper payments. SamCERA's monitoring process will include procedures for ensuring that results are communicated to the necessary people so that they can be promptly resolved. Using data from monitoring not only improves operations; it allows management ways to identify areas needing further attention or a shift in focus.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 28, 2014

Agenda Item 5.2

TO: Board of Retirement



FROM: Scott Hood, Assistant Executive Officer

SUBJECT: Acceptance of Milliman, Inc.'s Report on GASB 67 and 68 Disclosures for FY 2013-14

Recommendation

Accept Milliman, Inc.'s report on GASB 67 and 68 disclosures.

Summary

Nick Collier will present Milliman, Inc.'s report on GASB 67 and 68 disclosures. Key schedules of the report are included in this year's Comprehensive Annual Financial Report. Two schedules are of particular note. Shown below and on page 6 of the report is the Net Pension Liability (NPL):

Schedule of Net Pension Liability			
Net Pension Liability		June 30, 2014	June 30, 2013
Total pension liability		\$3,703,341,222	\$3,506,515,307
Fiduciary net position		<u>3,291,693,954</u>	<u>2,727,825,332</u>
Net pension liability		411,647,268	778,689,975
Fiduciary net position as a % of total pension liability		88.88%	77.79%
Covered payroll		422,021,990	406,921,529
Net pension liability as a % of covered payroll		97.54%	191.36%

Shown below and on page 14 of the report is the schedule of Employer's Allocations and Proportionate Share. The methodology used to determine each employer's share is determined from the actuarial determined contributions:

Employer's Allocations and Proportionate Share				
Employer	Fiscal Year Ending June 30, 2014			
	Actuarially Determined Contributions	Actual Employer Contributions	Employer Allocation Percentage ¹	Net Pension Liability
County of San Mateo	\$146,708,770	\$ 196,708,770	95.97%	\$ 395,057,883
San Mateo Superior Courts	5,704,224	5,704,224	3.73%	15,354,443
Mosquito & Vector Control District	464,368	464,368	0.30%	1,234,942
	<u>\$ 152,877,362</u>	<u>\$ 202,877,362</u>	<u>100%</u>	<u>\$ 411,647,268</u>

¹ Employer Allocation Percentage (or Proportionate Share) is based on Actuarially Determined Contributions



San Mateo County Employees'
Retirement Association
GASB 67 and 68 Disclosure
Fiscal Year: July 1, 2013 to June 30, 2014

Prepared by:

Nick Collier

ASA, EA, MAAA

Craig Glyde

ASA, EA, MAAA

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Certification

Actuarial computations presented in this report under Statements No. 67 and 68 of the Governmental Accounting Standards Board are for purposes of assisting the system and plan sponsors in fulfilling their financial accounting requirements. No attempt is being made to offer any accounting opinion or advice. This report is for fiscal year July 1, 2013 to June 30, 2014. The reporting date for determining plan assets and obligations is June 30, 2014. The calculations enclosed in this report have been made on a basis consistent with our understanding of the plan provisions. Determinations for purposes other than meeting financial reporting requirements may be significantly different than the results contained in this report. Accordingly, additional determinations may be needed for other purposes, such as judging benefit security or meeting employer funding requirements.

In preparing this report, we relied, without audit, on information as of June 30, 2014 furnished by SamCERA. This information includes, but is not limited to, statutory provisions, member census data, and financial information. Please see Milliman's funding valuation report dated September 24, 2014 for more information on the data used in the valuation, as well as a summary of the plan provisions and actuarial methods and assumptions.

We performed a limited review of the census and financial information used directly in our analysis and have found them to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

All costs, liabilities, rates of interest, and other factors for the Plan have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the Plan and reasonable expectations); and which in combination, offer our best estimate of anticipated experience affecting the Plan.

This GASB 67 disclosure report is only an estimate of the Plan's financial condition as of a single date. It can neither predict the Plan's future condition nor guarantee future financial soundness. Actuarial valuations do not affect the ultimate cost of Plan benefits, only the timing of Plan contributions. While the valuation is based on an array of individually reasonable assumptions, other assumption sets may also be reasonable and valuation results based on those assumptions would be different. No one set of assumptions is uniquely correct. Determining results using alternative assumptions is outside the scope of our engagement.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to factors such as, but not limited to, the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of the actuarial assignment, we did not perform an analysis of the potential range of such future measurements.

Milliman's work is prepared solely for the use and benefit 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, subject to the following exceptions:

- a) the Plan Sponsor may provide a copy of Milliman's work, in its entirety, to the Plan Sponsor's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the Fund; and
- b) the Plan Sponsor may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

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 specific needs.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

The signing actuaries are independent of the plan sponsor. We are not aware of any relationship that would impair the objectivity of our work.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and has been prepared in accordance with generally recognized 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.



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



Craig Glyde, ASA, EA, MAAA
Consulting Actuary

Overview of GASB 67 and GASB 68

The Governmental Accounting Standards Board (GASB) released new accounting standards for public pension plans and participating employers in 2012. These standards, GASB Statements No. 67 and 68, have substantially revised the accounting requirements previously mandated under GASB Statements No. 25 and 27. The most notable change is the distinct separation of funding from financial reporting. The Annual Required Contribution (ARC) has been eliminated under GASB 67 and 68 and is no longer relevant for financial reporting purposes. As a result, plan sponsors have been encouraged to establish a formal funding policy that is separate from financial reporting calculations.

GASB 67 applies to financial reporting for public pension plans and is required to be implemented for plan fiscal years beginning after June 15, 2013. Note that a plan's fiscal year might not be the same as the employer's fiscal year. Even if the plan does not issue standalone financial statements, but rather is considered a pension trust fund of a government, it is subject to GASB 67. Under GASB 67, enhancements to the financial statement disclosures are required, along with certain required supplementary information.

GASB 68 governs the specifics of accounting for public pension plan obligations for participating employers and is required to be implemented for employer fiscal years beginning after June 15, 2014. GASB 68 requires a liability for pension obligations, known as the Net Pension Liability, to be recognized on the balance sheets of participating employers. Changes in the Net Pension Liability will be immediately recognized as Pension Expense on the income statement or reported as deferred inflows/outflows of resources depending on the nature of the change.

Statement of Fiduciary Net Position

	June 30, 2014	June 30, 2013
Assets		
Cash :	\$100,117,943	\$175,818,635
Receivables:		
Contributions	4,648,233	3,611,259
Due from broker for sale of investments	12,596,153	139,326,538
Accrued Interest and Dividends	3,596,440	5,059,421
Accounts Receivable: Other	39,953	113,812
Total receivables	20,880,779	148,111,030
Prepaid Expense	7,669	7,669
Investments:		
Fixed Income	593,047,729	540,972,230
Equities	1,882,608,776	1,630,795,895
Real Estate	183,566,990	166,154,482
Private Equity	138,490,534	64,325,070
Risk Parity	197,597,402	157,444,012
Hedge Funds	117,896,816	73,717,734
Commodities	90,480,043	69,083,062
Total investments	3,203,688,289	2,702,492,485
Capital Assets Net of Depreciation	0	0
Total assets	3,324,694,680	3,026,429,819
Liabilities		
Payables:		
Investment management fees	2,787,598	2,519,194
Due to broker for purchase of investments	27,187,225	154,293,081
Collateral for securities lending	0	136,413,481
Accounts Payable: Other	3,025,903	5,378,731
Due to Employer	0	0
Total liabilities	33,000,727	298,604,487
Net position restricted for pensions	\$3,291,693,954	\$2,727,825,332

Statement of Changes in Fiduciary Net Position

June 30, 2013 - June 30, 2014

Additions

Contributions:

Employer	\$202,877,362
Member	46,593,698
Total Contributions	<u>249,471,060</u>

Investment Income/(Loss):

Net appreciation in fair value of investment	454,082,350
Investment Income	54,492,076
	<u>508,574,426</u>
Less investment expense	26,524,556
Net Investment Income/(Loss)	<u>482,049,870</u>

Securities Lending Income

Earnings	253,687
Less securities lending expense	(181,772)
Net Securities Lending Income	<u>435,459</u>

Other Additions

178,637

Total Additions

\$732,135,025

Deductions

Service Retirement Allowance	139,036,410
Disability Retirement Allowance	19,266,623
Survivor, Death & Other Benefits	1,038,945
Refund of member contributions	3,214,129
Administrative Expenses	5,645,004
Other Expense	65,292

Total Deductions

\$168,266,403

Net increase (decrease)

\$563,868,622

Net Position

Beginning of year (06/30/2013)	<u>2,727,825,332</u>
End of year (06/30/2014)	<u>\$3,291,693,954</u>

Schedule of Net Pension Liability

Net Pension Liability	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Total pension liability	\$3,703,341,222	\$3,506,515,307
Fiduciary net position	<u>3,291,693,954</u>	<u>2,727,825,332</u>
Net pension liability	411,647,268	778,689,975
Fiduciary net position as a % of total pension liability	88.88%	77.79%
Covered payroll	422,021,990	406,921,529
Net pension liability as a % of covered payroll	97.54%	191.36%

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate shown below and actuarial assumptions and methods as outlined in this report for GASB purposes.

Discount Rate

Discount rate	7.45%	7.65%
Long-term expected rate of return, net of expenses	7.25%	7.50%
Municipal bond rate	N/A	N/A

The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return, gross of administrative expenses. See details of discount rate determination in this report.

Other Key Actuarial Assumptions

The actuarial assumptions that determined the total pension liability as of June 30, 2014 were based on the results of an actuarial experience study for the period July 1, 2011 - April 30, 2014.

Valuation date	June 30, 2014	June 30, 2013
Measurement date	June 30, 2014	June 30, 2013
Other assumptions and methods	See the 'Actuarial Methods and Assumptions' section of this report.	

Long-Term Expected Rate of Return

The best-estimate range for the long-term expected rate of return was determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. Milliman's 2014 Investigation of Experience analysis was used to develop the 7.45% assumption used for the current reporting date. This is equal to the 7.25% long-term investment return assumption adopted by the Board (net of investment and administrative expenses), plus 0.20% assumed administrative expenses.

Milliman's analysis used capital market assumptions of several investment consultants and SamCERA's target asset allocation. A new analysis of the discount rate is performed at a minimum of every three years. Real returns by asset class as shown below reflect the average arithmetic real return assumptions of the investment consultants as of 2014.

Asset Class	Capital Market Assumptions ¹	Target Allocation	Long-Term Arithmetic Expected Real Rate of Return
US Large Cap Equity	Average	24.0%	5.96%
US Small Cap Equity	Average	6.0%	6.70%
Developed International Equity	Average	15.0%	6.84%
Emerging Market Equity	Average	5.0%	9.51%
US Core Fixed Income	Average	10.0%	1.58%
Developed International Fixed Income	Average	3.0%	0.93%
High Yield Debt	Average	3.0%	3.65%
Emerging Market Debt	Average	2.0%	4.17%
TIPS	Average	2.0%	1.43%
Private Equity	Average	7.0%	9.73%
Absolute Return / Hedge Funds	Average	4.0%	3.99%
Commodities	Average	3.0%	3.78%
Infrastructure	Average	2.0%	6.23%
Real Estate	Average	6.0%	5.09%
Risk Parity	Average	8.0%	6.28%

¹ The investment consultants whose capital market assumptions were considered include: Strategic Investment Solutions, JP Morgan, Callan, RV Kuhns, Wurts, NEPC, and Milliman.

Discount Rate

The discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investments.
2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

Therefore, if plan investments in a given future year are greater than projected benefit payments in that year and are invested such that they are expected to earn the long-term rate of return, the discount rate applied to projected benefit payments in that year should be the long-term expected rate of return on plan investments. If future years exist where this is not the case, then an index rate reflecting the yield on a 20-year, tax-exempt municipal bond should be used to discount the projected benefit payments for those years.

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plan's fiduciary net position to projected benefit payments and aims to determine a future date, if one exists, when the fiduciary net position is projected to be less than projected benefit payments. If an evaluation of the sufficiency of the projected fiduciary net position compared to projected benefit payments can be made with sufficient reliability without performing a depletion date projection, alternative methods to determine sufficiency may be applied.

In order to determine the discount rate to be used by SamCERA we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. Our alternative method reflects the funding requirements under SamCERA's funding policy and the legal requirements under the County Employees Retirement Law of 1937.

1. SamCERA has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 15-year closed layered periods.
2. San Mateo County intends to contribute additional amounts over the next 10 years to accelerate the elimination of the UAAL even faster than outlined by the 15-year closed layered period amortization.
3. SamCERA's assets are projected to exceed its accrued liabilities in less than 10 years. When this point is reached, employers are still required to contribute at least the normal cost.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of SamCERA is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 67/68 purposes. Therefore, we have used a discount rate of 7.45%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 7.25%, net of all expenses, increased by 0.20% to be gross of administrative expenses.

Schedule of Changes in Net Pension Liability

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of June 30, 2013	\$3,506,515,307	\$2,727,825,332	\$778,689,975
Changes for the year:			
Service cost	87,512,515		87,512,515
Interest on total pension liability	265,430,896		265,430,896
Effect of plan changes	0		0
Effect of economic/demographic gains or losses	(31,415,241)		(31,415,241)
Effect of assumptions changes or inputs	37,853,852		37,853,852
Benefit payments	(159,341,978)	(159,341,978)	0
Refunds of contributions	(3,214,129)	(3,214,129)	0
Administrative expenses	0	(5,645,004)	5,645,004
Other non-investment expenses		(65,292)	65,292
Member contributions		46,593,698	(46,593,698)
Employer contributions		202,877,362	(202,877,362)
Net investment income		482,663,965	(482,663,965)
Balances as of June 30, 2014	\$3,703,341,222	\$3,291,693,954	\$411,647,268

Sensitivity Analysis

The following presents the net pension liability of SamCERA, calculated using the discount rate of 7.45%, as well as what SamCERA's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.45%) or 1 percentage point higher (8.45%) than the current rate.

	1% Decrease 6.45%	Current Discount Rate 7.45%	1% Increase 8.45%
Total pension liability	\$4,211,205,524	\$3,703,341,222	\$3,285,014,150
Fiduciary net position	3,291,693,954	3,291,693,954	3,291,693,954
Net Pension liability	919,511,570	411,647,268	(6,679,804)

Schedule of Changes in Net Pension Liability and Related Ratios

	Fiscal Year Ending June 30									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Total Pension Liability										
Service cost	\$87,512,515	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Interest on total pension liability	265,430,896	0	0	0	0	0	0	0	0	0
Effect of plan changes	0	0	0	0	0	0	0	0	0	0
Effect of assumption changes or inputs	37,853,852	0	0	0	0	0	0	0	0	0
Effect of economic/demographic gains or (losses)	(31,415,241)	0	0	0	0	0	0	0	0	0
Benefit payments and refund of contributions	(162,556,107)	0	0	0	0	0	0	0	0	0
Net change in total pension liability	196,825,915	0	0	0	0	0	0	0	0	0
Total pension liability, beginning	3,506,515,307	0	0	0	0	0	0	0	0	0
Total pension liability, ending (a)	<u>\$3,703,341,222</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Fiduciary Net Position										
Employer contributions	\$202,877,362	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Member contributions	46,593,698	0	0	0	0	0	0	0	0	0
Investment income net of investment expenses	482,663,965	0	0	0	0	0	0	0	0	0
Benefit payments and refund of contributions	(162,556,107)	0	0	0	0	0	0	0	0	0
Administrative (and other non-investment) expenses	(5,710,296)	0	0	0	0	0	0	0	0	0
Net change in plan fiduciary net position	563,868,622	0	0	0	0	0	0	0	0	0
Fiduciary net position, beginning	2,727,825,332	0	0	0	0	0	0	0	0	0
Fiduciary net position, ending (b)	<u>3,291,693,954</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net pension liability, ending = (a) - (b)	<u>\$411,647,268</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Fiduciary net position as a % of total pension liability	88.88%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Covered payroll	\$422,021,990	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net pension liability as a % of covered payroll	97.54%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 67/68, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been implemented.

Schedule of Employer Contributions

Fiscal Year Ending June 30	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	As a % of Covered Payroll	
					Actuarially Determined Contribution	Actual Employer Contribution
2005	\$76,930,928	\$76,930,928	\$0	\$334,314,706	23.01%	23.01%
2006	76,089,599	76,089,599	0	368,971,869	20.62%	20.62%
2007	100,549,570	100,549,570	0	407,911,467	24.65%	24.65%
2008	105,339,570	105,339,570	0	416,261,210	25.31%	25.31%
2009	106,123,055	106,123,055	0	436,423,248	24.32%	24.32%
2010	106,265,329	106,265,329	0	428,559,066	24.80%	24.80%
2011	150,474,872	150,474,872	0	424,060,830	35.48%	35.48%
2012	139,406,807	150,949,791	(11,542,984)	419,778,688	33.21%	35.96% ¹
2013	131,293,846	144,308,171	(13,014,325)	406,921,529	32.27%	35.46% ¹
2014	152,877,362	202,877,362	(50,000,000)	422,021,990	36.22%	48.07% ²

¹ Employers contributed at a higher rate than the Actuarially Determined Contribution rate in order to maintain more stable contributions.

² In 2014, the Board of Supervisors implemented a policy to eliminate the County UAAL by 2023. Contributions in excess of the Actuarially Determined Contribution are related to that policy unless noted otherwise.

Collective Pension Expense

Pension Expense	July 1, 2012 to June 30, 2013	July 1, 2013 to June 30, 2014
Service cost	\$0	\$87,512,515
Interest on total pension liability	0	265,430,896
Effect of plan changes	0	0
Administrative (and other non-investment) expenses	0	5,710,296
Member contributions	0	(46,593,698)
Expected investment return net of investment expenses	0	(211,727,481)
Recognition of Deferred Inflows/Outflows of Resources		
Recognition of economic/demographic (gains) or losses	0	(6,283,048)
Recognition of assumption changes or inputs	0	7,570,770
Recognition of investment (gains) or losses	0	(54,187,297)
Pension Expense	0	\$47,432,953

Collective Pension Expense is first calculated for the period ending on June 30, 2014. There is no Collective Pension Expense for prior periods.

The discount rate and long-term expected rate of return assumptions used in the calculation of pension expense are the same as used to calculate total pension liability as of the end of the prior period.

As of June 30, 2014, the deferred inflows and outflows of resources are as follows:

Deferred Inflows / Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$25,132,193	\$0
Changes of assumptions	0	30,283,082
Net difference between projected and actual earnings	216,749,187	0
Contributions made subsequent to measurement date	<u>0</u>	<u>0</u>
Total	\$241,881,380	\$30,283,082

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2015	(\$52,899,575)
2016	(52,899,575)
2017	(52,899,575)
2018	(52,899,575)
2019	0
Thereafter ¹	0

¹ Note that additional future deferred inflows and outflows of resources may impact these numbers.

Deferred Inflows and Outflows of Resources

	Original Amount	Date Established	Original Recognition Period ¹	Amount Recognized in 06/30/2014 Expense	Balance of Deferred Inflows 06/30/2014	Balance of Deferred Outflows 06/30/2014
Investment (gains) or losses	(270,936,484)	6/30/2014	5	(54,187,297)	216,749,187	0
			5	0	0	0
			5	0	0	0
			5	0	0	0
			5	0	0	0
		Total		(54,187,297)	216,749,187	0
Economic/demographic (gains) or losses	(31,415,241)	6/30/2014	5	(6,283,048)	25,132,193	0
			5	0	0	0
			5	0	0	0
			5	0	0	0
			5	0	0	0
		Total		(6,283,048)	25,132,193	0
Assumption changes or inputs	37,853,852	6/30/2014	5	7,570,770	0	30,283,082
			5	0	0	0
			5	0	0	0
			5	0	0	0
			5	0	0	0
		Total		7,570,770	0	30,283,082

¹ Investment (gains)/losses are recognized in pension expense over a period of five years; economic/demographic (gains)/losses and assumption changes or inputs are recognized over the average remaining service life for all active and inactive members.

Employer's Allocations and Proportionate Share

Employer	Fiscal Year Ending June 30, 2014		Employer Allocation Percentage ¹	Net Pension Liability
	Actual Employer Contributions	Actuarially Determined Contributions		
County of San Mateo	\$ 196,708,770	\$ 146,708,770	95.97%	\$ 395,057,883
San Mateo Superior Courts	5,704,224	5,704,224	3.73%	15,354,443
Mosquito & Vector Control District	464,368	464,368	0.30%	1,234,942
	\$ 202,877,362	\$ 152,877,362	100.00%	\$ 411,647,268

¹ Employer Allocation Percentage (or Proportionate Share) is based on Actuarially Determined Contributions

Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan

Employer	Net Pension Liability	Deferred Outflow of Resources			Deferred Inflow of Resources			Pension Expense			
		Differences Between Expected and Actual Economic Experience	Differences Between Projected and Actual Investment Earnings	Changes of Assumptions	Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Differences Between Expected and Actual Economic Experience	Differences Between Actual and Projected Investment Earnings	Changes of Assumptions	Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Proportionate Share of Pension Expense	Net Amortization of Deferred amounts from Changes in Proportion and Proportionate Share of Pension Expense
County of San Mateo	\$ 395,057,883	\$ -	\$ -	\$ 29,062,674	\$ 996,723	\$ 24,119,365	\$ 208,014,194	\$ -	\$ 1,605,893	\$ 45,521,405	\$ (152,292)
San Mateo Superior Courts	15,354,443	-	-	1,129,559	1,490,482	937,431	8,084,745	-	1,183,609	1,769,249	76,718
Mosquito & Vector Control District	1,234,942	-	-	90,849	302,297	75,397	650,248	-	-	142,299	75,574
Total	\$ 411,647,268	\$ -	\$ -	\$ 30,283,082	\$ 2,789,502	\$ 25,132,193	\$ 216,749,187	\$ -	\$ 2,789,502	\$ 47,432,953	\$ -

Employers' Proportionate Share of Deferred Outflows and Inflows

<u>Employer</u>	<u>Proportionate Share</u>	<u>Proportionate Share of Deferred Outflows</u>			<u>Proportionate Share of Deferred Inflows</u>		
		<u>Experience</u>	<u>Assumption Changes</u>	<u>Investment Return</u>	<u>Experience</u>	<u>Assumption Changes</u>	<u>Investment Return</u>
County of San Mateo	95.97%	\$ -	\$ 29,062,674	\$ -	\$ 24,119,365	\$ -	\$ 208,014,194
San Mateo Superior Courts	3.73%	-	1,129,559	-	937,431	-	8,084,745
Mosquito & Vector Control District	0.30%	-	90,849	-	75,397	-	650,248
Total	100.00%	\$ -	\$ 30,283,082	\$ -	\$ 25,132,193	\$ -	\$ 216,749,187

Schedule of Employers' Recognition of Deferred Outflows and Inflows

Employer	Recognition of Proportionate Share of Deferred Outflows and Inflows					
	2015	2016	2017	2018	2019	Thereafter
County of San Mateo	\$ (50,767,722)	\$ (50,767,722)	\$ (50,767,722)	\$ (50,767,722)	\$ -	\$ -
San Mateo Superior Courts	\$ (1,973,154)	\$ (1,973,154)	\$ (1,973,154)	\$ (1,973,154)	\$ -	\$ -
Mosquito & Vector Control District	\$ (158,699)	\$ (158,699)	\$ (158,699)	\$ (158,699)	\$ -	\$ -
Total	\$ (52,899,575)	\$ (52,899,575)	\$ (52,899,575)	\$ (52,899,575)	\$ -	\$ -

Changes in Employers' Proportionate Share

Employer	Proportionate Share		Impact of Change in Proportion			Recognition of Change in Proportion		
	Prior Year	Current Year	Deferred Outflows ¹	Deferred Inflows ¹	Net Pension Liability	Pension Expense	Deferred Outflows	Deferred Inflows
County of San Mateo	95.81%	95.97%	\$ -	\$ -	\$ 1,245,904	\$ 249,181	\$ 996,723	\$ -
San Mateo Superior Courts	3.92%	3.73%	-	-	(1,479,511)	\$ (295,902)	-	1,183,609
Mosquito & Vector Control District	0.27%	0.30%	-	-	233,607	\$ 46,721	186,886	-
Total	100.00%	100.00%	\$ -	\$ -	\$ -	\$ -	\$ 1,183,609	\$ 1,183,609

¹ There are no deferred inflows or outflows as of June 30, 2013; therefore the change in proportion has no impact on deferred inflows and outflows as of June 30, 2014.

Differences in Contributions

Employer	Contributions			Recognition of Difference in Contributions		
	Actual	Proportionate Share	Difference	Pension Expense	Deferred Outflows	Deferred Inflows
County of San Mateo	\$ 196,708,770	\$ 194,701,404	\$ 2,007,366	\$ (401,473)	\$ -	\$ 1,605,893
San Mateo Superior Courts	5,704,224	7,567,326	(1,863,102)	\$ 372,620	1,490,482	-
Mosquito & Vector Control District	464,368	608,632	(144,264)	\$ 28,853	115,411	-
Total	\$202,877,362	\$202,877,362	\$ -	\$ -	\$ 1,605,893	\$ 1,605,893

Employers' Pension Expense

Employer	Proportionate Share	Collective Pension Expense	Recognitions			Employer Pension Expense
			Change in Proportion	Difference in Contributions	Prior Periods	
County of San Mateo	95.97%	\$45,521,405	\$ 249,181	\$ (401,473)	\$ -	\$ 45,369,113
San Mateo Superior Courts	3.73%	1,769,249	(295,902)	372,620	-	1,845,967
Mosquito & Vector Control District	0.30%	142,299	46,721	28,853	-	217,873
Total	100.00%	\$47,432,953	\$ -	\$ -	\$ -	\$ 47,432,953

Actuarial Methods and Assumptions

All actuarial methods and assumptions used for this GASB analysis were the same as those used in the June 30, 2014 funding valuation, except as noted below and throughout this report. Please see the actuarial valuation dated September 24, 2014 for further details.

Following are the key assumptions and methods used in this GASB analysis.

Valuation Timing	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	
Level percent or level dollar	Level percent
Closed, open, or layered periods	Layered
Amortization Period for Each Layer	15 years
Amortization Growth Rate	3.50%
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	80% to 120% of market value
Inflation	3.00%
Investment Rate of Return	7.45% ¹
Cost of Living Adjustments	As described in the June 30, 2014 actuarial valuation.
Mortality	Various rates based on RP-2000 mortality tables. See June 30, 2014 actuarial valuation for details.

¹ Differs from actuarial valuation due to addition of administrative expense load of 0.20%.

Glossary

Actuarially Determined Contribution	A target or recommended contribution to a defined benefit pension plan for the reporting period, determined based on the funding policy and most recent measurement available when the contribution for the reporting period was adopted.
Deferred Inflows/Outflows of Resources	Portion of changes in net pension liability that is not immediately recognized in Pension Expense. These changes include differences between expected and actual experience, changes in assumptions, and differences between expected and actual earnings on plan investments.
Discount Rate	Single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the sum of: <ol style="list-style-type: none">1) The actuarial present value of benefit payments projected to be made in future periods where the plan assets are projected to be sufficient to meet benefit payments, calculated using the Long-Term Expected Rate of Return.2) The actuarial present value of projected benefit payments not included in (1), calculated using the Municipal Bond Rate.
Fiduciary Net Position	Equal to market value of assets.
Long-Term Expected Rate of Return	Long-term expected rate of return on pension plan investments expected to be used to finance the payment of benefits, net of investment expenses.
Money-Weighted Rate of Return	The internal rate of return on pension plan investments, net of investment expenses.
Municipal Bond Rate	Yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.
Net Pension Liability	Total Pension Liability minus the Plan's Fiduciary Net Position (unfunded accrued liability).
Projected Benefit Payments	All benefits estimated to be payable through the pension plan to current active and inactive employees as a result of their past service and expected future service.
Service Cost	The portion of the actuarial present value of projected benefit payments that is attributed to a valuation year.
Total Pension Liability	The portion of actuarial present value of projected benefit payments that is attributable to past periods of member service using the Entry Age Normal cost method based on the requirements of GASB 67 and 68.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

Background

The Governmental Accounting Standards Board (GASB) sets standards for defined benefit pension plan reporting and disclosures (Statement No. 67). The reporting requirements for GASB 67 include certain supplementary information that must be added to the financial statements. GASB Statement No. 68 specifies financial reporting for pension accounting by state and local governmental employers. The effective date for GASB 67 is for periods beginning after June 15, 2013, and the effective date for GASB 68 is for periods beginning after June 15, 2014.

At the October 2013 meeting, the Board approved an amendment to the contract with SamCERA's Auditor, Brown Armstrong, to provide GASB 67 and 68 implementation services. SamCERA formed an implementation Task Force with Brown Armstrong as its facilitator. The Task Force was comprised of SamCERA staff, representatives of the employers, their auditors and SamCERA's auditor and actuary firms. The first meeting was held in January of 2014. Monthly meetings were held where issues were brought up and discussed leading to the disclosure report provided by Milliman, Inc.

Attachment

Report on GASB 67 and 68 Disclosures for FY 2013-14

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 28, 2014

Agenda Item 5.3

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer



SUBJECT: Approval Of Resolution To Amend The Agreement With Milliman, Inc. For Actuarial Services, In Order To Extend The Term, Increase Fees And Make Other Minor Changes

Recommendation

Approve a resolution authorizing the Chief Executive Officer to execute the Third Amendment to the agreement with Milliman Inc. for actuarial services.

Summary

SamCERA's contract for actuarial services with Milliman, Inc. will end December 31, 2014, unless extended. Staff recommends a three-year extension that includes increases in compensation to account for additional work related to:

- new annual calculations required by Government Accounting Standards Board (GASB) Statements 67 and 68;
- additional annual calculations for contribution rates for the general and safety members in Plan 7--the plan for Public Employees Pension Reform Act (PEPRA) members--, and Plans 5 and 6, which were added just prior to the PEPRA plan.
- new work required to actuarially manage supplemental contributions from the County.

Background

Milliman, Inc. became *SamCERA's* consulting actuarial firm in January 2006.

The June 30, 2011, and the June 30, 2014, valuation and experience studies were audited by the Segal Co. No significant findings resulted from the audits.

All Milliman's projects have been well received by the Board and staff. Milliman has always been very responsive to *SamCERA's* requests and demonstrated a commitment to timeliness, quality, accuracy and clear communications. Annual reviews by the Board and staff have been consistently high and reflect an interest in retaining Milliman. To achieve that end, the Board must amend and extend the current contract.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

Summary of Contract Amendments

- The three-year fee total for the current contract period (2012, 2013, 2014) is \$271,500. The three-year cost for the next contract period (2015, 2016, 2017) will be \$300,500.
- In 2017, with the cost of an experience study, (assuming no special projects) the annual total will be 9.8% higher than the 2014 total, increasing from \$112,000 to \$123,000.
- The cost of a Milliman representative to attend one meeting at SamCERA for each Valuation and Experience study is included at no additional charge. Two extra meetings would be charged under the contract at \$2,000 apiece. This is a reduction from the current cost of \$2,500 apiece.
- All increases (and one decrease) in fees, except valuation fees, will take effect in 2015 and remain at the 2015 level for the three years of the extension.
- The valuation fee will increase each year of the extension. (See table below.)
- Printed valuation reports shall be delivered within 12 weeks of the end of the fiscal year, rather than 10 weeks. This reflects current practice.
- The valuation will include rates and calculations needed for GASB 67 and 68.
- A retention account will no longer be utilized.

	2014 Estimated	2015 Proposed	2016 Proposed	2017 Proposed
Valuation	\$ 62,000	\$ 66,000	\$ 67,500	\$ 69,000
Experience Study	\$ 30,000	None scheduled	None scheduled	\$ 32,000
Retainer	\$ 15,000	\$ 18,000	\$ 18,000	\$ 18,000
Two Meetings At SamCERA Regarding Valuation and Experience Study	No Additional Fee	No Additional Fee	No Additional Fee	No Additional Fee
Additional Meetings (2)	\$ 5,000	\$ 4,000	\$ 4,000	\$ 4,000
Special Projects*	None	?	?	?
TOTAL	\$ 112,000	\$ 88,000	\$ 89,500	\$ 123,000

***"Special Projects" are not covered under the standard contract services and are charged at hourly rates. These rates will increase approximately 6.25%. Special projects and their costs must receive prior approval from the Retirement Board. No special projects have been requested by staff or by Milliman in the last three years. No special projects are anticipated. Therefore, special project costs are not expected to have a significant impact on the cost of the contract extension.*

Staff believes the requested increases are reasonable considering the increased complexity of the SamCERA plan, the additional requirements that have come with the implementation of new GASB rules and the need to actuarially account for supplemental contributions.

RESOLUTION 14-15-__

**RESOLUTION AUTHORIZING THE CHIEF EXECUTIVE OFFICER TO
EXECUTE THE THIRD AMENDMENT TO THE AGREEMENT
WITH MILLIMAN INC. FOR ACTUARIAL SERVICES**

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

WHEREAS, the Board authorized a First Amendment to extend the term of the Agreement to December 31, 2011, and a Second Amendment to extend the term to December 31, 2014; and

WHEREAS, the Board has determined that it is in the best interest of SamCERA to extend the agreement by three years through December 31, 2017, and to increase the annual fees by approximately 3.2% per year over the three-year term of the agreement.

RESOLVED, that the Chief Executive Officer is hereby authorized and directed to execute said Third Amendment to the Agreement for and on behalf of the San Mateo County Employees' Retirement Association.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 28, 2014

Agenda Item 6.1

TO: Board of Retirement

FROM: Michael Coultrip, Chief Investment Officer

SUBJECT: Preliminary Monthly Portfolio Performance Report for the Period Ending September 30, 2014

Staff Recommendation

Review the SIS market update report.

Background

The preliminary monthly performance report will not be available by the 2nd mailing. As discussed at the September Board meeting, staff and Northern Trust are working to include performance estimates for a number of commingled funds in order to provide a more comprehensive performance snapshot of the portfolio. Staff plans on handing out the preliminary performance report in your day-of folder at the October Board meeting.

Discussion

In a reversal from August, domestic equity was negative across the board in September. The broad domestic equity market was -1.40% lower. Larger-cap stocks outperformed smaller-capitalization stocks while growth stocks generally outperformed value stocks. Economic data continued to be relatively strong. The revised GDP growth estimate for the 2nd quarter was revised to 4.6%, up from the initial estimate of 4.0%.

International equity indices were also down on the month, with developed markets (as measured by MSCI EAFE) down -3.8%, while emerging markets were down -7.4%.

The general fixed income market was lower by -0.68% as interest rates (as measured by 10-year Treasuries) increased by 17 basis points during the month. High yield bonds were down -2.1%, while emerging market bonds were down -2.4%.

Attachments

SIS Market Update

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

U.S. EQUITY

September was a poor month for global equities that resulted in a flat third quarter.

In the U.S., Growth outperformed Value and Large Caps outperformed Small Caps. For the month, the Russell 1000 Growth Index was down by -1.5% and the Russell 1000 Value Index down by -2.1%. The Russell 2000 Growth was down by -5.4% and the Russell 2000 Value Indices lost -6.8%. The S&P 500 Index ended the month lower by -1.4%.

The S&P 500 Index has a trailing P/E ratio of 18.9, a forward 12-month estimate P/E ratio of 16.5 and dividend yield of 1.9%.

The one-year return for the S&P 500 Index was +19.7% vs. +3.9% for the Russell 2000 (small cap) Index. This spread of +15.8% in favor of Large Caps is at a historical extreme.

Corporate merger highlights for the month included: Manulife Financial will acquire the Canadian operations of Standard Life for \$3.7 billion; Electrolux will pay \$3.3 billion to acquire GE's appliance business; Family Dollar Stores rejected Dollar General's proposed \$9.1 billion sweetened takeover offer; Global Cash Access, which provides cash services to casinos, will buy slot machine maker Multimedia Games Holding for about \$1.2 billion; General Mills offered \$820 million; Japanese e-commerce Rakuten will buy U.S. online shopping operator Ebates for about \$1.0 billion; Eastern Chemical is buying specialty chemical company Taminco for approximately \$1.7 billion; TRW Automotive will be acquired by Germany's ZF Friedrichshafen in a deal valued at \$13.5 billion; Microsoft will buy Sweden's games developer Mojang for \$2.5 billion; Cognizant will buy TriZetto, an IT and services provider to health-care providers and payers, for \$2.7 billion; U.S. healthcare group Danaher will acquire Swiss dental-implant maker Nobel Biocare for \$2.2 billion; Anheuser-Busch InBev is talking to banks about financing what could be roughly \$122 billion deal to buy global beer rival SABMiller; Alliance Data, which manages credit cards and loyalty programs for retailers, will buy Conversant – formerly known as ValueClick – for about \$2.3 billion; Orange made a \$4.3 billion offer for Spanish broadband and cellphone operator Jazztel; Auxillium Pharmaceuticals received an unsolicited buyout offer worth about \$2.2 billion from Endo International; Bayer plans to spin off its polymer division in an IPO; the unit is valued at about \$10 billion;

SAP will buy Bellevue, WA.-based travel and expense management software company Concur Tech for \$7.4 billion; Merck will buy Sigma-Aldrich, the world's largest supplier of biochemical and organic chemicals to research laboratories, for \$17 billion; Siemens will acquire U.S. oilfield equipment maker Dresser-Rand Group for \$7.6 billion; Robert Bosch plans to buy full control of its home-appliance venture from partner Siemens for \$3.9 billion; Silver Lake is in advanced talks to acquire online photo-sharing service Shutterfly for at least \$2 billion; Intel will pay up to \$1.5 billion for a 20% stake in a Chinese mobile venture to design and make Intel-branded chips; Bill Gross, who co-founded and led the giant fund manager Pimco for more than four decades, is leaving the company to join Janus Capital; Encana, Canada's 2nd largest natural gas producer, will buy Athlon Energy for \$5.9 billion; Vista Equity Partners will acquire Tibco Software for \$4.3 billion; Japan's SoftBank is in talks to acquire DreamWorks Animation in a deal valued at an estimated \$3.4 billion; News Corp. will buy Move Inc., the owner of property websites such as realtor.com, for about \$950 million; and, Johnson & Johnson will pay \$1.75 billion for Alios BioPharma, a biotechnology company that is working on treatments for viral diseases.

Alibaba's initial public offering became the biggest ever at \$25 billion, after the company's bankers exercised an option to boost the deal size by 15%.

FIXED INCOME

The Commerce Dept. announced that gross domestic product grew at a 4.6% annual rate in the April-June quarter, the fastest pace in more than two years and higher than the government's previous estimate of 4.2%.

The Labor Dept. reported that employers created a lower-than-expected 142,000 jobs in August and the unemployment rate dipped to 6.1% from 6.2% in July.

Economists expect that continued employment gains will spur consumer spending and translate into annual growth of around 3% in the second-half of this year.

The yield on the bellwether 10-year Treasury note rose to 2.52% at the close of September from its August close at 2.35%. At month-end, the 30-year bond yield was 3.21% with the 3-month T-bill at 0.02%. The Barclays Capital US Aggregate Index was down -0.7% in September.

U.S. employers are planning to give pay raises averaging 3% next year, about par with the 2.9% average raise in 2014 and 2013.

The median U.S. household income was \$51,939 in 2013.

On the economic front, the following key data was released in September and once again decidedly positive:

THE GOOD

*The Commerce Dept. reported that the trade deficit narrowed 0.6% to \$40.5 billion in July, the lowest point in six months.

*Total light vehicle sales in August were 1.59 million, up 5.5% from the year-ago period and the highest level of auto sales since January 2006.

*Average hourly wages rose 0.2% to \$24.53 in August.

*The federal government ran a \$128.8 billion budget deficit in August, down 13% from a year ago, remaining on track for the lowest deficit for the entire year since 2008.

*The Labor Dept. reported that its producer price index for final demand was unchanged in August as gasoline and food costs fell.

*The Labor Dept. also reported that its Consumer Price Index declined -0.2% in August as a broad decline in energy prices offset increases in food and shelter costs.

*Strong stock market gains and higher home prices boosted Americans' net worth in the April-June quarter to a record \$81.5 trillion.

*The Conference Board's index of leading indicators rose +0.2% in August, the seventh straight increase, pointing to an economy that is gaining traction.

*Sales of new single-family homes leaped by +18% last month to a seasonally adjusted annual rate of 504,000, the highest rate since May 2008.

*The Commerce Dept. reported that the median sales price of a new house rose 8% from August 2013 to \$275,600.

*The national average price of gas is \$3.35; it is predicted that up to 30 states could have an average price below \$3.00 per gallon by year-end.

The University of Michigan's index of consumer sentiment rose to 84.6 in September, the second-highest level in the past seven years.

THE NOT SO GOOD

*Total outstanding consumer credit, excluding loans secured by real estate like home mortgages, rose at a seasonally adjusted annual rate of 9.7% in July to \$3.24 trillion.

*The Federal Reserve reported that output at manufacturing plants fell -0.4% in August after a 0.7% rise in July.

*The Federal Reserve also reported that industrial production fell -0.1% in August from July.

*The National Association of Realtors reported sales of previously owned homes fell -1.8% to a seasonally adjusted rate of 5.05 million, the first drop in five months.

NON-U.S. MARKETS

The Bank of England as expected left policy unchanged and thus very easy. The Bank Rate was left at 0.50% and the stock of asset purchases at 375 billion pounds.

The European Central Bank cut interest rates to a record low rate of 0.05% from 0.15% to try to lift inflation from extremely low levels. The ECB also announced that an ABS purchase program and a covered bond purchase program would begin in October.

Germany stumbled in the second quarter as GDP fell by -0.2% unchanged from the preliminary estimate.

Japan's GDP plunged -1.8% in the second quarter. In Q2, private domestic demand plunged -3.7% while public demand was unchanged. The Bank of Japan left policy unchanged as expected. The Monetary Policy Board pledged to continue expanding the monetary base by 60-70 trillion yen a year, and to purchase enough Japanese Government Securities to increase the amount outstanding on the Bank's balance sheet by 50 trillion yen a year.

China's industrial output growth in August slipped to +6.9%, the lowest level since the 2008 financial crisis. China's central bank is injecting a combined \$81.4 billion of liquidity into the country's top banks in an effort to shore up a faltering economy.

Non-U.S. equities were lower in September. The MSCI ACWI Ex-U.S. was down -4.8% (US dollars) for the month. International Developed stocks (EAFE) were down -3.8% while Emerging Markets lost -7.4% for the month.

CONCLUSION

The U.S. economy appears to be on a stronger economic footing than a year ago. Recent spending growth has been about as strong as any time over the current expansion, as businesses are responding to hiring more workers. The current U.S. expansion is typical of mid-expansions, as strong spending growth and employment begin to support one another. The reliance on extremely easy monetary policy to drive the U.S. economy is gradually diminishing. As a result, investors are watching the Federal Reserve to see if they will continue to move away from their easy monetary policy going forward.

The majority of global assets have rallied over the first eight months of the year driven by shrinking risk premiums and falling discount rates rather than by shifts in economic conditions. This appears to have begun to change in September and into October as markets have corrected led by the riskier assets (US Small Cap, EM Equities and Commodities). Volatility is also rising. Concern over global growth outside of the United States has been a primary factor with the increase in volatility. Is this recent increase in volatility a correction within a long bull market rally off of its lows from March 2009? Or is it something more?

Monthly Market Update

US Equity Indices Trailing Performance

Annualized Performance to Date: Ending Sep-14	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
Russell 3000 Index	-2.08	0.01	6.95	17.76	19.66	23.08	15.78	6.24	8.44
Russell TOP 200 Index	-1.04	1.71	8.46	20.46	19.24	23.00	15.39	5.79	7.73
Russell TOP 200 Growth Index	-0.78	2.52	8.88	21.40	18.70	22.41	16.37	7.71	8.57
Russell TOP 200 Value Index	-1.30	0.89	8.05	19.53	19.77	23.59	14.39	3.85	6.86
S&P 500 Index	-1.40	1.13	8.34	19.73	19.54	22.99	15.70	6.02	8.11
Russell 1000 Index	-1.75	0.65	7.97	19.01	19.95	23.23	15.90	6.26	8.46
Russell 1000 Growth Index	-1.45	1.49	7.89	19.15	19.21	22.45	16.50	7.57	8.94
Russell 1000 Value Index	-2.06	-0.19	8.07	18.89	20.58	23.93	15.26	4.81	7.84
Russell Mid-Cap Index	-3.34	-1.66	6.87	15.83	21.72	23.79	17.19	7.46	10.34
Russell Mid-Cap Growth Index	-2.90	-0.73	5.73	14.43	20.81	22.74	17.12	7.45	10.24
Russell Mid-Cap Value Index	-3.80	-2.65	8.20	17.46	22.50	24.72	17.24	7.28	10.17
Russell 2000 Index	-6.05	-7.36	-4.41	3.93	16.26	21.26	14.29	6.04	8.19
Russell 2000 Value Index	-6.75	-8.58	-4.74	4.13	15.01	20.61	13.02	5.08	7.25
Russell 2000 Growth Index	-5.35	-6.13	-4.05	3.79	17.52	21.91	15.51	6.92	9.03
DJ US REIT Index	-5.82	-3.00	14.69	13.44	8.98	16.19	15.77	3.66	8.21
DJ-UBS US Commodity Index TR	-4.86	-10.54	-4.21	-5.22	-9.90	-4.89	-1.09	-5.05	-0.89
DJ-UBS US Gold Index TR	-5.33	-7.90	1.20	-8.37	-17.46	-9.60	3.24	6.39	10.34

Non-US Indices Trailing Performance

Annualized Performance to Date: Ending Sep-14	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
MSCI AC World Index ex USA	-4.81	-5.19	0.39	5.22	10.94	12.29	6.50	0.30	7.54
MSCI AC World Index	-3.20	-2.20	4.16	11.89	15.09	17.24	10.65	2.95	7.84
MSCI EAFE Index	-3.81	-5.83	-0.99	4.70	14.08	14.16	7.04	0.27	6.80
MSCI Emerging Markets index	-7.39	-3.36	2.75	4.66	2.98	7.56	4.76	0.13	11.03
ML Global Government Bond Ex. U.S. Index	-4.63	-5.69	-0.53	-3.62	-7.22	-3.86	0.56	3.63	3.66
Euro	-4.10	-7.73	-8.32	-6.68	-0.91	-1.99	-2.88	-1.68	0.17
Japanese Yen	-5.30	-7.65	-4.18	-10.55	-15.78	-11.10	-3.98	0.68	0.05
UK Pound Sterling	-2.38	-5.19	-2.12	0.11	0.20	1.34	0.27	-3.21	-1.09

US Fixed Income Indices Trailing Performance

Annualized Performance to Date: Ending Sep-14	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	0.00	0.01	0.03	0.05	0.07	0.07	0.10	0.53	1.59
BarCap Aggregate Bond Index	-0.68	0.17	4.10	3.96	1.10	2.43	4.12	4.95	4.62
ML U.S. Corp/Govt Master Index	-0.85	0.26	4.49	4.31	1.06	2.63	4.35	5.00	4.62
ML U.S. Corporate Master Index	-1.24	0.05	6.00	7.08	2.82	5.47	6.56	6.40	5.51
BarCap Mortgage Backed Securities Index	-0.16	0.18	4.22	3.78	1.26	2.07	3.48	4.87	4.69
ML U.S. High Yield Master Index	-2.08	-1.91	3.53	7.14	7.08	10.86	10.34	8.43	8.12
JPM EMBI Global	-2.41	-1.65	7.29	8.27	1.77	7.69	7.95	7.80	8.38

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 28, 2014

Agenda Item 6.2

TO: Board of Retirement
Lilibeth Dames
FROM: Lilibeth Dames, Investment Analyst
SUBJECT: Review of SamCERA's Securities Lending Program

Staff Recommendation:

Participate in the review of SamCERA's Securities Lending Program.

Background:

State Street commenced SamCERA's securities lending program on July 1, 2007. SamCERA's collateral reinvestment pool with State Street was the State Street Navigator Security Lending Prime Portfolio, which was managed against conservative Rule 2a-7 guidelines.

Effective July 1, 2014, SamCERA switched custodial banks from State Street Bank & Trust to The Northern Trust Company. Because of the pending transition, SamCERA staff instructed State Street to recall all securities on loan in mid-June in order to allow ample time to wind down the program prior to July 1st. SamCERA's securities lending program restarted at Northern Trust in mid-July, once most activities from the July 1st transition had settled.

Discussion:

SamCERA's securities lending program continues to add incremental income for the Plan. In the seven years since inception, the program has earned \$6.3 million for SamCERA as of fiscal year end 2014. During the fiscal year, the program earned \$435,459, a 30% decrease compared to last year's fiscal year earnings of \$621,892. Utilization (On-loan amount divided by lendable assets) increased year over year. The utilization rate as of May 31st was 16.2% compared to the previous year's rate of 13.5%. Since State Street began to wind down SamCERA's securities lending program in mid-June in anticipation of the custodial transition, most recent monthly data are as of May 31, 2014.

With the change of custodial banks, SamCERA's securities lending program is now being managed by Northern Trust. Don Anderson, Vice President, from Northern Trust's securities lending team will be present at this month's Board meeting to provide a general overview of their firm's securities lending program and answer any trustee questions.

Attachments

- A. Securities Lending Report for Fiscal Year 2014
- B. Northern Trust Global Securities Lending Presentation

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

SamCERA Securities Lending Report

For the fiscal year ending June 30, 2014

EARNINGS

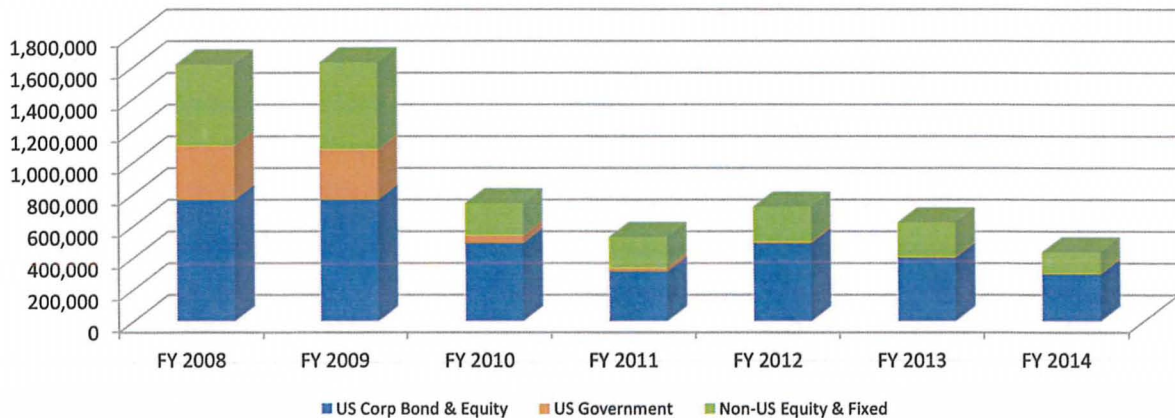
SamCERA's securities lending program earned \$435,459 for the fiscal year ending June 30, 2014. This is a 30% decrease over last year's fiscal year earnings of \$621,892. The program has earned \$6.3 million since its inception on July 1, 2007 as of fiscal year end June 30, 2014.

Earnings History

San Mateo County Employees' Retirement Association					
	US Corp Bond & Equity	US Government	Non-US Equity & Fixed	Total	Cumulative Earnings
FY 2008	762,882	342,325	513,648	1,618,854	1,618,854
FY 2009	764,480	317,263	549,531	1,631,275	3,250,128
FY 2010	489,982	51,009	201,945	742,936	3,993,064
FY 2011	311,009	23,915	195,387	530,311	4,523,375
FY 2012	489,375	10,926	220,918	721,219	5,244,594
FY 2013	398,363	8,087	215,443	621,892	5,866,486
FY 2014	295,063	6,277	134,118	435,459	6,301,945

Notes:

- (1) Fiscal Year End June 30th
- (2) Data represents past performance and is not a guarantee of future results
- (3) Data Source: Securities Finance Business Intelligence



SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

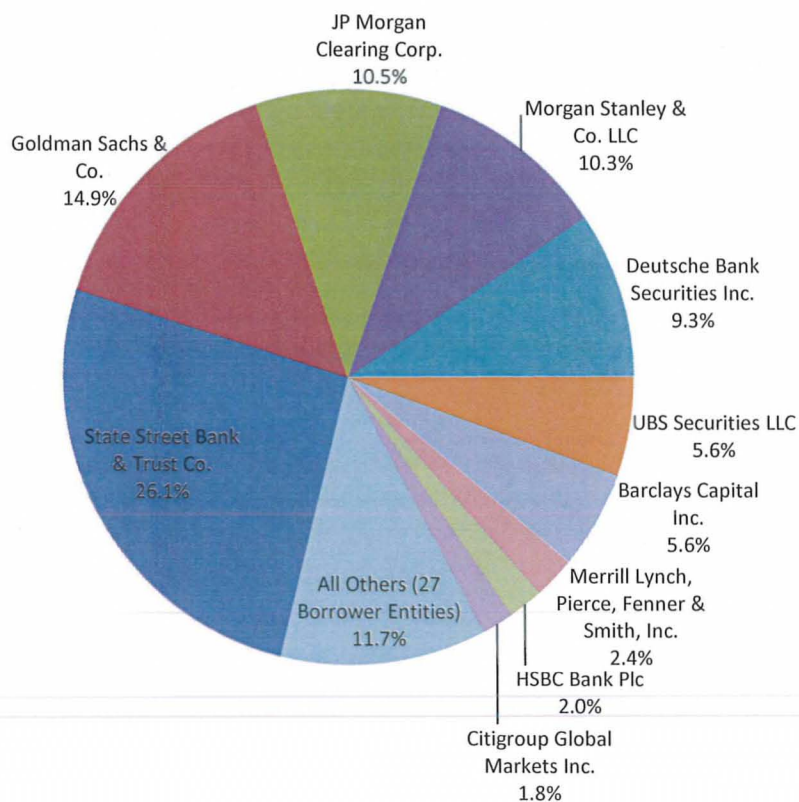
BORROWER EXPOSURE

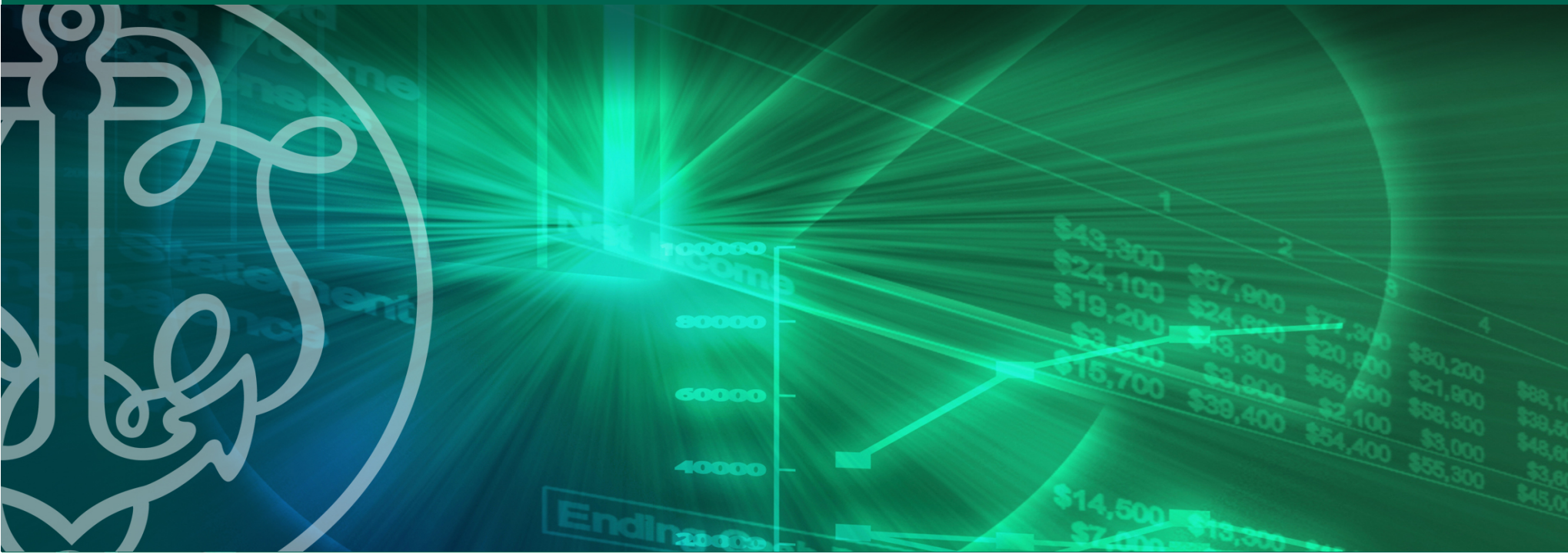
San Mateo County Employees' Retirement Association

Borrower	Loan Balance (\$)	% of Total
State Street Bank & Trust Co.	46,092,630	26.1%
Goldman Sachs & Co.	26,372,737	14.9%
JP Morgan Clearing Corp.	18,585,870	10.5%
Morgan Stanley & Co. LLC	18,136,107	10.3%
Deutsche Bank Securities Inc.	16,447,033	9.3%
UBS Securities LLC	9,889,029	5.6%
Barclays Capital Inc.	9,833,580	5.6%
Merrill Lynch, Pierce, Fenner & Smith, Inc.	4,177,330	2.4%
HSBC Bank Plc	3,487,230	2.0%
Citigroup Global Markets Inc.	3,254,773	1.8%
All Others (27 Borrower Entities)	20,632,876	11.7%
Total	176,909,196	

Notes:

- (1) Loan Balance as of May 31, 2014 (May was the last full month of lending at State Street)
- (2) Performance data represents past performance and is not a guarantee of future results
- (3) Data Source: Securities Finance Business Intelligence





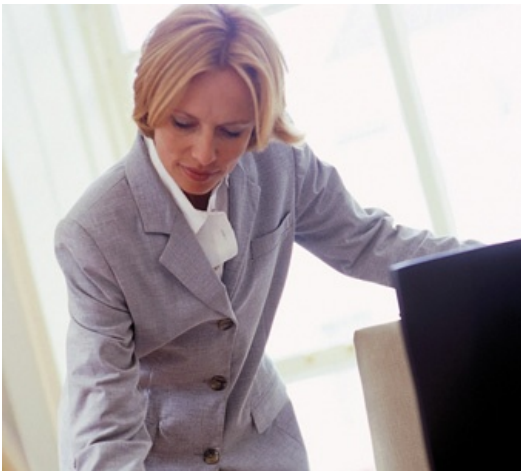
Northern Trust Global Securities Lending

San Mateo County Employees' Retirement Association

Don Anderson, Vice President
dsa3@ntrs.com (312) 444-5386



Background of the Lending Process



Why do borrowers borrow and lenders lend?

It promotes market efficiency and liquidity

- Integral component of developed securities market for both domestic and international investors
 - ◆ Allows price discovery and the arbitrage of pricing inefficiencies
 - ◆ Supports the development of the capital markets by facilitating various investment strategies
 - ◆ Important part of risk management
 - ◆ Used for fail coverage to ensure smooth settlement cycles

Who lends securities and why?

- Long-Term, Institutional Investors
 - ◆ An investment tool to enhance portfolio returns
 - ◆ To offset or eliminate costs of custody and administration
 - ◆ Does not interfere with portfolio strategy – investment manager should continue regardless of securities lending

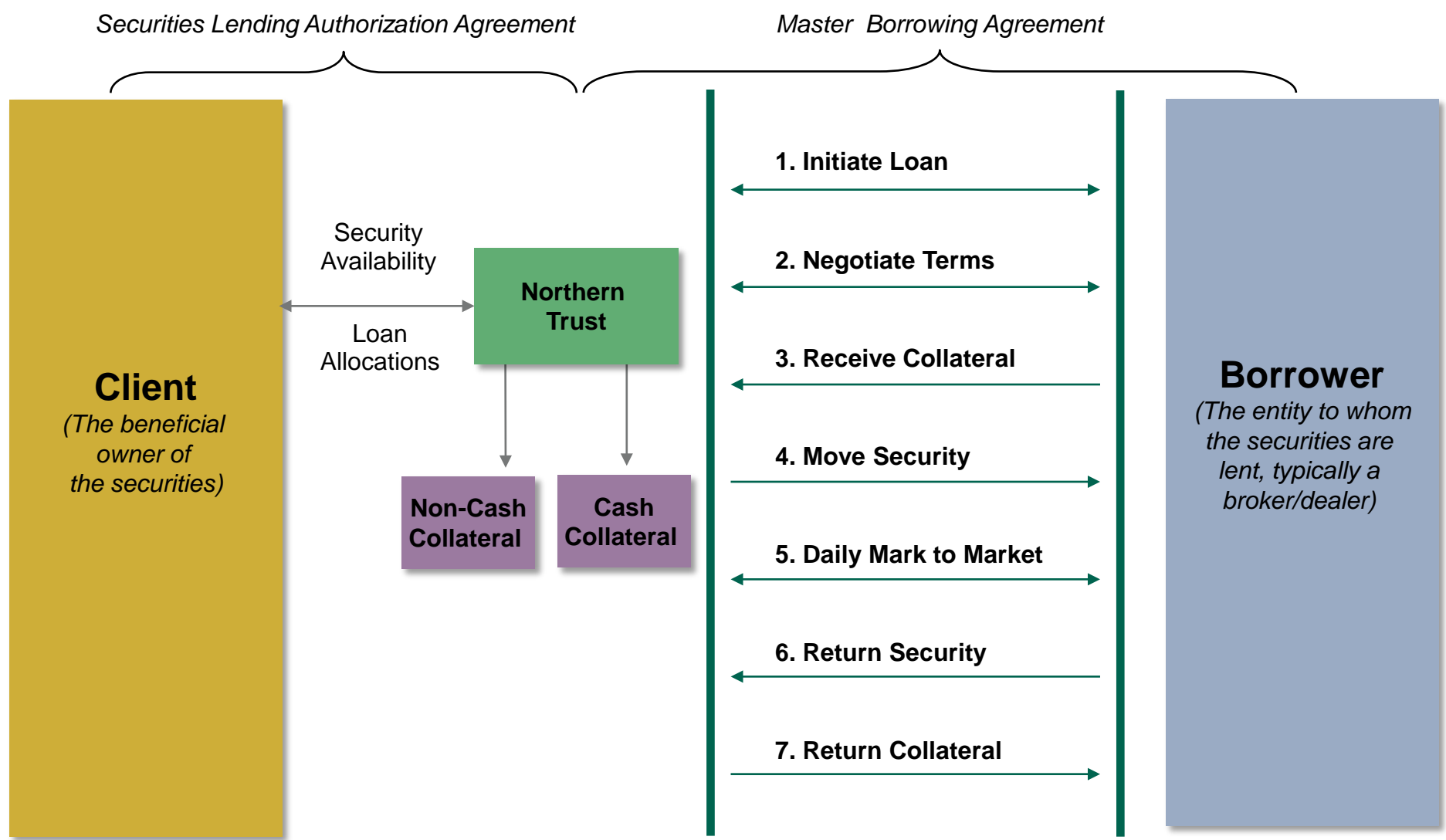
Who borrows securities and why?

- Investment banks (Prime Brokers), investment funds, prop traders, market makers and other intermediaries
 - ◆ Hedging
 - ◆ Short sell
 - ◆ Arbitrage strategies
 - ◆ Settlement obligations



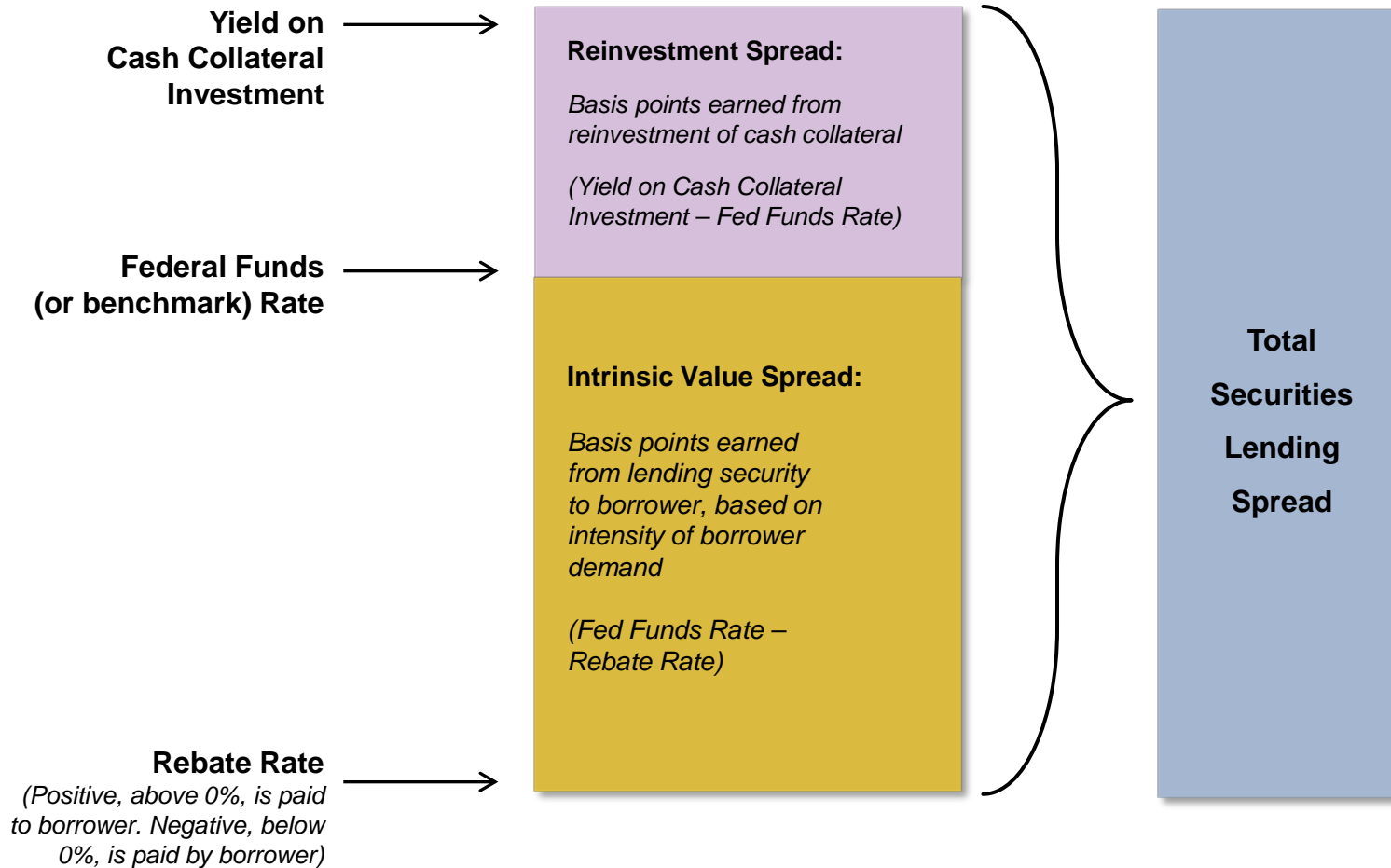


The Life Cycle of a Loan





Understanding the Components of Securities Lending Income



$$\begin{aligned} \text{Reinvestment Spread} + \text{Intrinsic Value Spread} &= \text{Total Securities Lending Spread} \\ \text{Total Securities Lending Spread} \times \text{Loan Volume} &= \text{Total Gross Securities Lending Income} \end{aligned}$$



How Revenue is Generated: Cash Collateral Loan

Example: Northern Trust lends \$25 million of US Equity

The \$25 million market value loan is for 30 days collateralized with cash (fed funds at 0.15%)

1	Receive cash collateral valued at \$25,500,000 (102%)	
2	Cash collateral invested in a collateral pool at yield of 0.20%	\$ 4,250.00
3	Rebate paid to borrower at rate of 0.05%	\$ (1,062.50)
4	Gross Revenue (gross spread 15 bps)	\$ 3,187.50
5	Monthly lender's fee (@ 30%)	<u>\$ 956.25</u>
6	Net client earnings	\$ 2,231.25

- $\text{Gross Spread} = \text{Lending Spread} + \text{Investment Spread}$
- $\text{Lending Spread} = \text{Fed Funds} - \text{Rebate Rate}$
- $\text{Investment Spread} = \text{Reinvestment Yield} - \text{Fed Funds}$





How Revenue is Generated: Non Cash Collateral Loan

Example: Northern Trust lends \$25 million of US Equity

The \$25 million market value loan is for 30 days collateralized by US Treasuries

1	Receive non-cash collateral valued at \$25,500,000 (102%)	
2	Fee charged to borrower on the value of the loan (10 bps)	\$2,083
3	Gross revenue (gross spread 10 bps) credited to client monthly	\$2,083
4	Monthly lender's fee (@ 30%)	<u>\$625</u>
5	Net client earnings	\$1,458





Managing Risk



Risk	Definition	Mitigating Factors
Borrower Risk	Borrower default combined with insufficient collateral	<ul style="list-style-type: none"> ▪ Rigorous credit committee review of borrowers and exposure limits ▪ Daily marking of loans/collateral ▪ Borrower default indemnification ▪ Risk analysis tools (MSCI Barra) to measure and calibrate exposure
Trade Settlement Risk	Investment manager sells loaned security and borrower fails to return in time to settle the trade	<ul style="list-style-type: none"> ▪ Timely trade notification ▪ Robust automated reallocations ▪ Trade settlement protection

Additional Risks with Taking Cash as Collateral

Cash Collateral Reinvestment Risk	Cash collateral investment becomes impaired or decreases in value	<ul style="list-style-type: none"> ▪ Client approved investment guidelines ▪ Robust independent oversight of cash pools and investments ▪ Dedicated team of fixed income research analysts ▪ Daily automated monitoring of portfolio guidelines and compliance
Interest Rate Risk	Loan rebate rate exceeds earnings on cash collateral investments	<ul style="list-style-type: none"> ▪ Close daily communication between lending and cash management teams ▪ Shared risk between Northern Trust and client ▪ Weekly “gap analysis” and periodic stress testing of portfolio

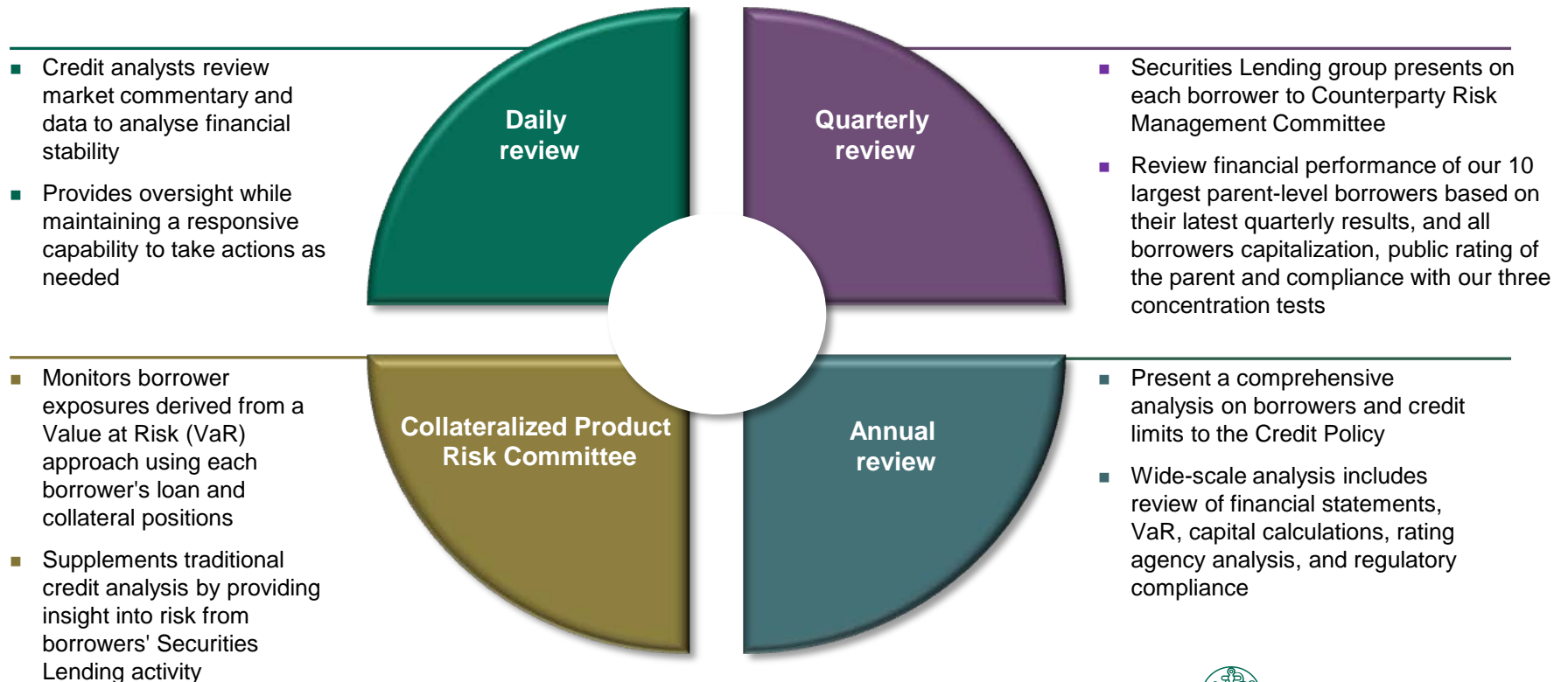


Borrower Risk Management

Our borrower selection follows stringent approval procedures and financial viability standards

- **Overall Credit Risk** - Established framework to size borrower credit limits to reduce concentration risk via three tests: Credit exposure relative to the borrower's capital, size of our exposure to the borrower relative to other market participants, and size of our exposure to the borrower relative to Northern Trust's total lending program
- **Ratings** The majority of our borrowers will have a long-term individual or parent-level credit rating of A- or better and a short-term rating of A-1 or better from at least one NRSRO.
- **Financial responsibility and compliance** - Each borrower and parent borrower must provide audited financial statements, be financially sound and in compliance with regulatory capital requirements
- **Parent Organization** - We also focus on the condition and creditworthiness of the borrower's parent organization

We employ a dynamic, ongoing risk and exposure management process for our borrowers



Collateral options tailored to risk level

- Cash: pooled or separately managed
 - Principal preservation, liquidity management, competitive yield
 - Managed by Northern Trust Asset Management
- Non-cash: held in a separate account
 - Examples include: US Treasuries and Agencies

Limits to ensure a focus on intrinsic value lending

- Restricting the total amount that can be lent across the entire fund
- Asset class, country limits, seasonal restrictions, minimum return parameters
- Borrower-specific caps or restricting certain borrowers from your program entirely
- Limits based on the maximum daily traded amount



Emphasis on customization, automation and transparency

Philosophy

- Capital markets activity designed to enhance the return of an overall investment program
- Extract intrinsic value from each loan
- Customized collateral selection and participation to match individual risk tolerance
- Does not interfere with investment strategy

Lendable Base

- \$874 billion lendable securities for 377 clients
- \$117 billion loans outstanding
- Diverse, global client base spanning 26 countries

Borrower Network

- 53 approved parent borrowers
- 24-hour trading in 52 worldwide markets
- Top 10 borrowers represent 76% of loan volume
- Goldman Sachs, Morgan Stanley, Citigroup, JP Morgan Chase, Bank of America, Credit Suisse Group, Barclays PLC, The Royal Bank of Scotland, Deutsche Bank AG, Societe Generale.

Global Team

- 190 Securities Lending partners in Chicago, London, Toronto, Hong Kong and Bangalore
- Managers average approximately 20 years industry experience
- Experts are actively engaged in global industry groups (i.e. RMA, ISLA, PASLA and CASLA)

Collateral Structure

- \$121 billion in collateral (\$81 billion cash, \$40 billion non-cash). Approximately 67% of cash is held in commingled pools, 33% is in separately managed accounts
- Cash managed by Northern Trust Asset Management (\$255 billion in total AUM for Short Duration Fixed Income as of 6/30/14)



General Recent Observations and Trends

Demand from the Borrower Community

Equity Markets

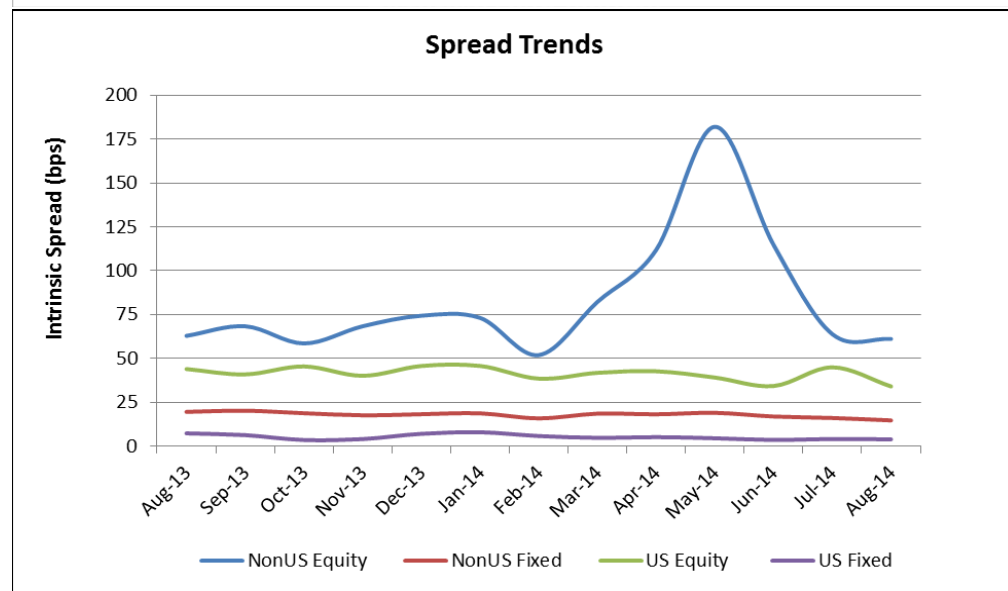
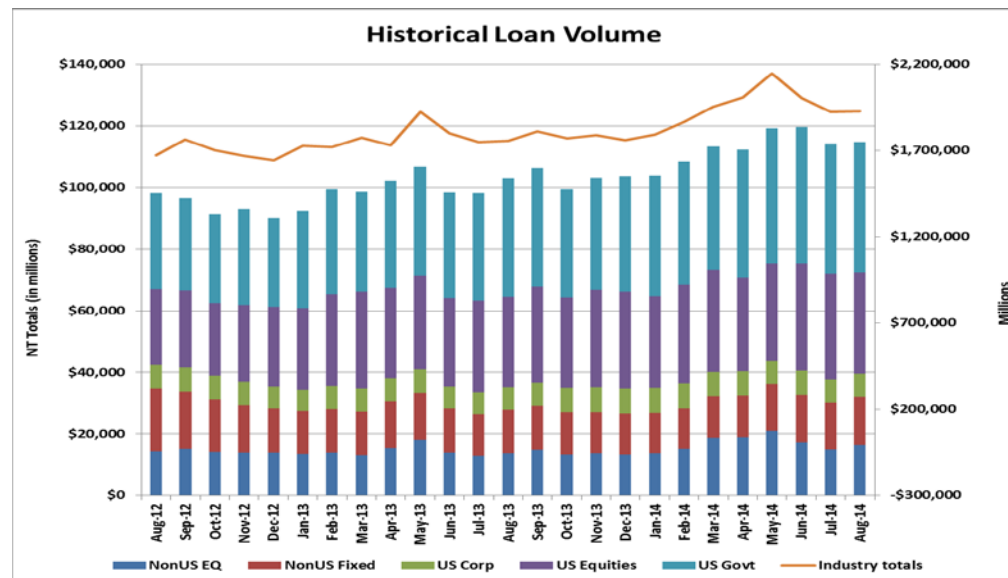
- ▶ Loan balances declined during the quarter with the end of yield enhancement season in Europe a major contributor to this drop in volume.
- ▶ Lower trade flows, typical of the third quarter, were exacerbated by ongoing short covering as equity prices proved to be fairly resilient despite ongoing turmoil in the Ukraine and softness in major European economies.
- ▶ As financial regulation continues to take shape, demand from borrowers to pledge more and varied non-cash collateral types has been on the rise as dealer balance sheets contract.

Fixed Income Markets

- ▶ U.S. Treasury yields experienced some volatility during the quarter, mainly the result of geopolitical tensions and macroeconomic events, however, yields remain subdued despite increasing signs of U.S. interest rates moving higher in the coming year.
- ▶ Global regulatory environment continues to pressure borrowers to reduce balance sheet, impacting demand for lower intrinsic value securities, like US Treasuries.
- ▶ Demand for high grade sovereign debt (especially versus alternative collateral) remains high as the regulatory environment requires borrowers to pledge high grade collateral versus other financial transactions.

Market Drivers

- ▶ While volatility remains subdued by historical standards, it rose nearly 50% during the quarter as geopolitical events and a tepid recovery in the Eurozone contributed to large swings in equity prices.





Collateral Reinvestment: Current Observations & Trends

- Economics are driving differing Central Bank activity:
 - ◆ The European Central Bank (ECB) lowered its deposit rate to -20 basis points. Europe is facing deflationary pressures and slowing growth which should lead to an accommodative central bank for some time. Local yields in Europe are declining but USD investments in European credit products have remained substantively unchanged.
 - ◆ The US Federal Reserve (Fed) is expected to end its bond buying (quantitative easing) program at their October 28-29 meeting. Market expectations are for a rate increase in mid to late 2015. USD yields should increase as investors move farther out along the yield curve.
 - ◆ The Bank of England (BOE) is closest to raising its short-term rates in response to a strengthening economy and quicker-than-expected reduction in unemployment. A rate hike is expected by the market in the first quarter of 2015. Local yields should increase as investors move farther out along the yield curve.
- Supply dynamics in the short-term markets continue to exert downward pressure on yields:
 - ◆ Industry regulations are impacting financial institutions, reducing the supply of short-term investments, putting downward pressure on yields.
 - ◆ The Fed reduced their repurchase agreement facility, a critical program for the short-term markets, at their September meeting causing a corresponding decrease in yields, especially during quarter-end. On September 30, many investments in the short-term markets were made at zero basis points.
 - ◆ In the U.S., the prospect of higher rates have not made their way to the short-term markets as the technical factors of supply and demand are outweighing the economics pointing to higher rates.
- Current portfolio positioning:
 - ◆ Neutral portfolio duration to minimize the impact of future rising rates.
 - ◆ Strong overnight liquidity positions focused on repurchase agreements and time deposits of well-capitalized financial institutions.
 - ◆ Longer-dated trades of floating-rate instruments are preferred over fixed-rate offerings.





Brief Overview of Key US Regulatory Developments

Northern Trust is tracking global regulatory developments that may impact securities lending and is actively engaged with various federal agencies on these regulations either directly or through industry groups.

Regulatory Development	Anticipated Impacts	Next Steps
Dodd-Frank		
Volcker Rule - 619	<ul style="list-style-type: none"> The final regulation does not exclude securities lending cash collateral pools from the scope of the Volcker Rule and therefore may curtail agent lenders' sponsorship of unregistered cash collateral pools. Lending agents may consider alternative strategies/structures for cash collateral reinvestment. 	Final Rules issued December 2013; Conformance deadline July 2015
Counterparty Concentration Limits – 165(e)	<ul style="list-style-type: none"> Limits a bank's combined credit exposure to a single counterparty to no more than 25% of the bank's capital. Credit exposure calculations include indemnified securities lending transactions; agent lenders may face constraints on providing indemnification and accepting sovereign debt as collateral. 	Awaiting final rules.
Securities Lending Transparency – 984	<ul style="list-style-type: none"> Requires SEC to increase transparency in securities lending. SEC expected to develop regulations that align with proposals from the Financial Stability Board's Workstream on Securities Lending and Repo. 	Awaiting proposed rules (overdue since mid-2012); no clear timeframe for rules to be issued
Money Market Reform		
	<ul style="list-style-type: none"> SEC adopted rules for "prime" money market funds that involve requirements such as floating NAV. Additional restrictions, such as redemption gates and liquidity fees will be at the discretion of the fund board. Funds having over 99.5% invested in government securities are exempt from these new requirements. 	Final rules approved July 23, 2014, with 2 year compliance period.
Basel III		
Capital	<ul style="list-style-type: none"> Increased capital requirements will make it more costly for agent lenders to provide indemnification. 	Final US rules released in July 2013; effective January 2015
Large Exposures	<ul style="list-style-type: none"> Similar in concept to Counterparty Concentration Limits; restricts a bank's combined credit exposure to a single counterparty to a portion of the bank's capital. 	Final Basel III standard released April 15, 2014, but treatment of securities lending exposures remains open; awaiting final rules.
Leverage Ratio	<ul style="list-style-type: none"> Indemnified securities lending activity to be captured in Basel III leverage ratio. Exposure for securities lending to be measured generally by current exposure, which should be negligible given securities lending positions are over-collateralized. Additional leverage ratio impact for any guarantees or exposures beyond replacement securities in US Agency proposal. 	Basel III standards finalized Jan 2014. US Agencies issued Notice of Proposed Rulemaking on April 8, 2014.





Changes to Cash Collateral Management

- Northern Trust's securities lending cash collateral pools are considered "covered funds" under section 619 of the Dodd-Frank Act, also known as the Volcker Rule.
 - ◆ Current securities lending pools rely on exemptions 3(c)(1) and 3(c)(7) of the US Investment company act of 1940
 - ◆ Regulatory changes under Volcker Rule identify 3(c)(1) and 3(c)(7) pools as "covered funds"
 - ◆ The Volcker Rule will take effect in July 2015

- Northern Trust will be closing our existing securities lending cash collateral pools.
 - ◆ All clients investing cash in the collateral pools will need to select a different cash collateral investment vehicle

- New and existing collateral options will be available for clients.
 - ◆ SL Core STIF, new collective fund
 - ◆ NILAP, a 2a7 Money Market Mutual Fund
 - ◆ Separately Managed Account

- On September 22, 2014, we provided important information and documentation related to the options available for securities lending cash collateral investment.

- Clients will need to review the options and provide us with their selection by January 23, 2014.





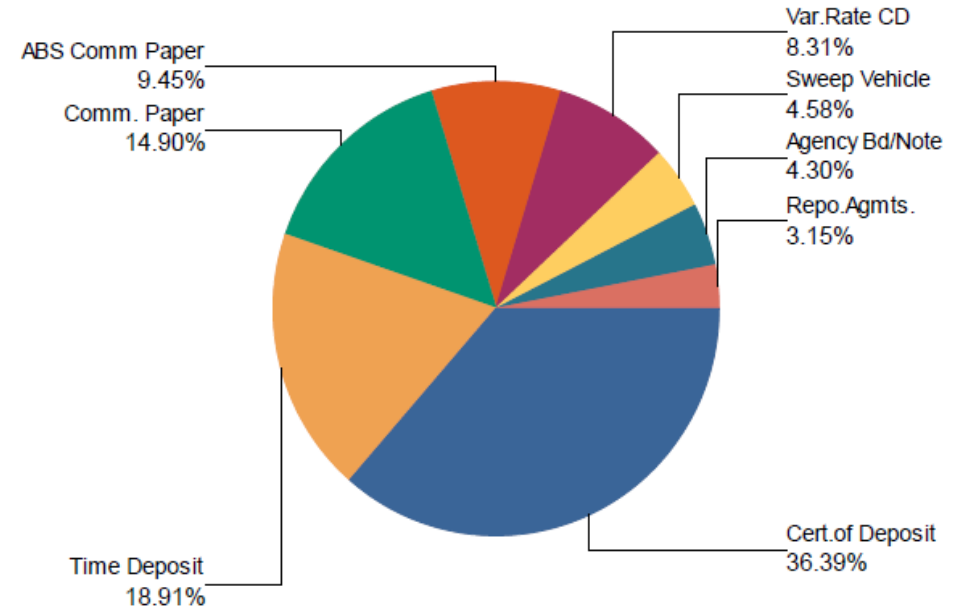
Investment Profile: Basic Cash Collateral Fund *September 30, 2014*

BASICFND - Basic Fund - USD

Characteristics		
Total Book Value (in USD)	1,744,834,365	
Weighted Average Maturity (Interest Reset Date)	46 Days	
Weighted Average Maturity (Maturity Date)	74 Days	
Average Equivalent Quality Rating	A1+	
Total Number of Issues	78	
Quality Distribution		
	Percentage	
A1+ (SHORT TERM)	46.71%	
A1 (SHORT TERM)	44.41%	
Agency	4.3%	
AA- (LONG TERM)	4.58%	
Maturity Breakdown Distribution		
	Interest Reset	Maturity Date
Overnight	26.07%	21.20%
2 - 15 Days	7.74%	6.88%
16 - 30 Days	10.60%	6.02%
31 - 60 Days	26.94%	25.51%
61 - 97 Days	13.18%	14.62%
98 - 180 Days	15.48%	19.20%
181 - 270 Days	0.00%	1.43%
271 - 366 Days	0.00%	0.86%
367 Days - 2Yrs	0.00%	4.30%

Industry/Sector Distribution	Percentage
Banking Ind.	74.79%
Broker/Dealer	5.16%
Finance & Ins	10.31%
Finance Conduit	2.01%
Govt Agencies	5.73%
Municipals	1.43%
Other	0.57%

Cash Collateral Asset Class Breakdown



* Based upon traded basis from holdings reports

NOTE: This information was created using the best unaudited data available to us and may not be completely reliable, accurate, or timely. Data is prepared on a settled basis, which may differ from traded basis data on the Cash Collateral Holdings report. "Traded Basis" reflects pending trades.





Earnings Scorecard 3 Months Ended 09/30/14

Northern Trust Securities Lending Performance Scorecard - Lending and Investment Breakdown From July, 2014 to September, 2014 (USD) **

Page 1 of 1

◆ SAN MATEO

Security Type	Market Value (USD)		% on Loan	Gross Earnings (USD)			Spread (bps)			Gross BP Return (bp) *	Net Earnings (USD)		
	Avg. on Loan	Avg. Available		Lending	Investment	Total	Lending	Investment	Overall		Lending	Investment	Total
US Treasuries	3,071,090	79,436,011	3.9%	33	747	780	0.4	9.5	9.9	0.4	26	583	609
US Agencies	0	4,429,872	0.0%	0	0	0	0.0	0.0	0.0	0.0	0	0	0
US Corp Bonds	1,222,309	24,473,204	5.0%	2,043	279	2,322	65.4	8.9	74.3	3.7	1,594	219	1,813
US Equities	43,585,652	538,684,146	8.1%	68,921	10,864	79,784	61.9	9.8	71.6	5.8	53,781	8,491	62,272
Global Sovereign	430,771	4,137,612	10.4%	178	106	285	16.2	9.7	25.8	2.7	139	83	222
Global Agencies	0	812,756	0.0%	0	0	0	0.0	0.0	0.0	0.0	0	0	0
Global Corp Bonds	290,275	8,643,179	3.4%	79	72	150	10.6	9.6	20.3	0.7	62	56	118
Global Equities	10,760,235	352,992,447	3.0%	20,218	2,383	22,601	73.5	8.7	82.2	2.5	15,773	1,860	17,633
Total	59,360,331	1,013,609,226	5.9%	91,471	14,451	105,922	60.3	9.5	69.8	4.1	71,374	11,292	82,667

Rebates for when USD cash is taken as collateral on applicable loans are based on the Fed Open benchmark rate.

Rebates for when EUR cash is taken as collateral on applicable loans are based on the EONIA benchmark rate.

Rebates for when CAD cash is taken as collateral on applicable loans are based on the Canadian Overnight benchmark rate.

* Gross Basis Point Return equals On Loan Spread multiplied by % on Loan. GBPR is the measure of total return on a given asset class or portfolio.

** Market Value and Earnings were converted using the month-end FX rate.





Monthly Earnings

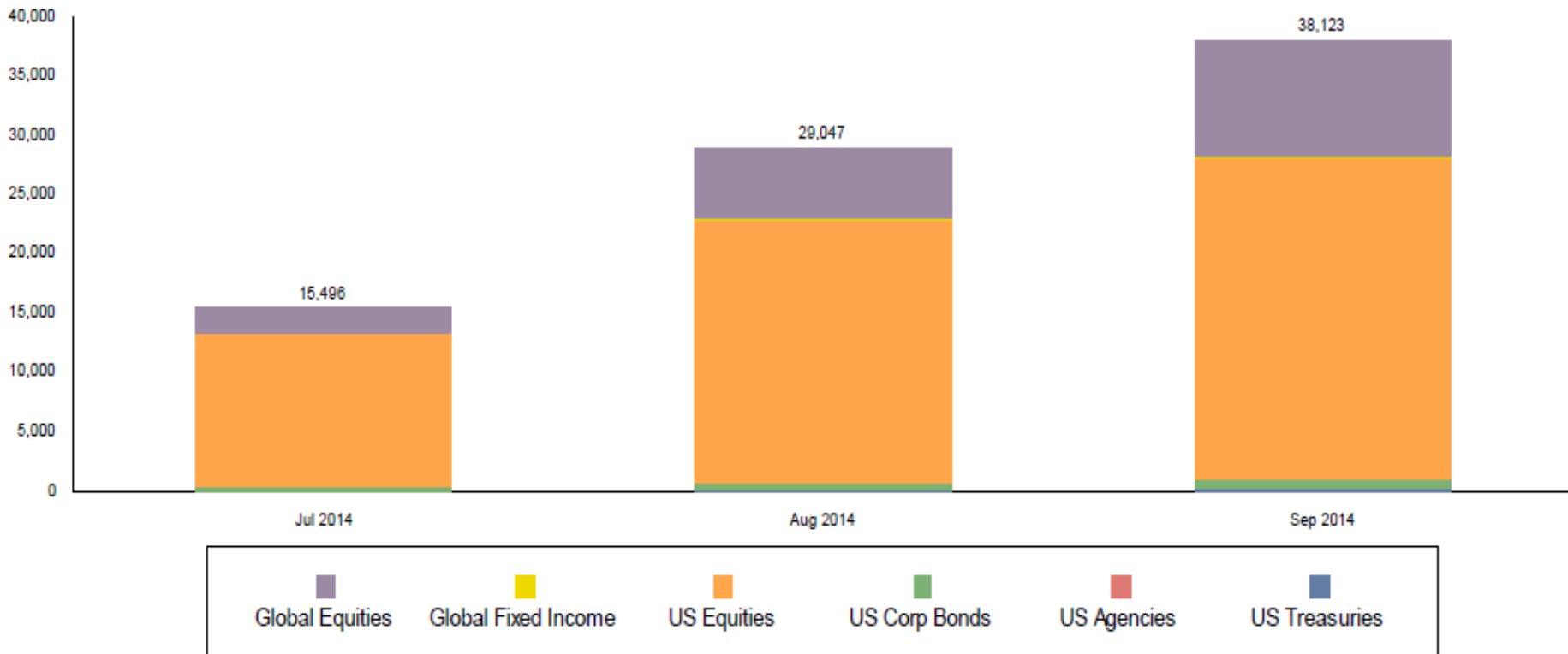
Northern Trust Securities Lending

Monthly Historical Graph (Net Earnings) USD **

Jul 2014 - Sep 2014

Page 2 of 3

◆ SAN MATEO



Northern Trust Securities Lending

Page 1 of 2

Top 10 Net Earnings Report

From July 2014 To September 2014

◆ SAN MATEO

Rank	Security Name	CUSIP/SEDOL	Net Earnings	% Of Total Net Earnings	Market Value On Loan (USD)	Average % Utilization	Average Spread
1	HAWAIIAN ELEC INDS INC COM	419870100	13,328.47	16.12	1,169,309.57	79.53	559.50
2	ALLIED NEV GOLD CORP COM STK	019344100	12,936.69	15.65	449,763.74	73.67	1,353.00
3	MESOBLAST LTD COMSTK	B04SF48	5,616.82	6.79	625,259.27	83.86	428.34
4	ENDURANCE INTL GROUP HLDGS INC	29272B105	3,331.47	4.03	594,933.97	81.53	273.32
5	TOTAL EUR2.5	B15C557	3,148.10	3.81	808,127.55	16.43	200.00
6	THERAVANCE INC COM STK	88338T104	2,861.20	3.46	81,923.36	50.54	1,686.54
7	GT ADVANCED TECHNOLOGIES INC C	36191U106	2,830.04	3.42	409,664.75	61.52	335.03
8	ADR MINDRAY MED INTL LTD SPONSO	602675100	2,685.73	3.25	553,086.66	68.71	240.78
9	LINDSAY CORPORATION COM	535555106	2,103.31	2.54	194,121.07	28.07	531.88
10	SEARS HLDGS CORP COM	812350106	1,608.99	1.95	55,257.50	53.31	1,419.06
Sub Total Of Top 10 Securities			50,450.82	61.03	4,941,447.44	45.32	500.44
All Other			32,215.94	38.97	54,418,884.17	5.43	29.04
Total			82,666.76	100.00	59,360,331.61	5.86	68.37



Transparency and Information Delivery

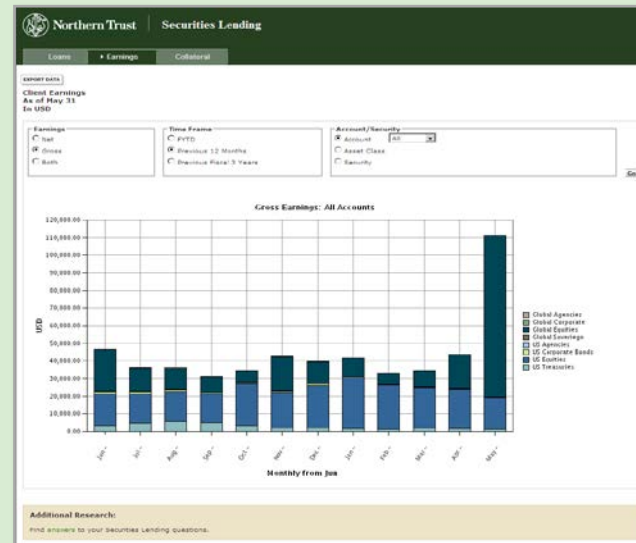
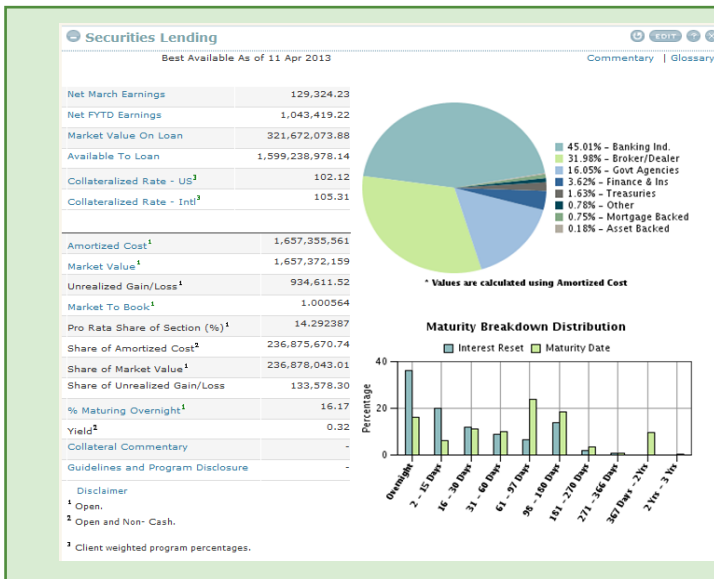
Flexible, electronic reporting: Northern Trust provides you with customized reports to help monitor your Securities Lending activity

Daily reporting

- **Securities loaned** – detail
- **Borrower utilization** – summary by borrower
- **Account utilization** – loan detail, summary by account
- **Collateral** – by security type, country and detail holdings
- **Executive Summary**

Monthly reporting

- **Performance scorecard:**
 - ◆ Account earnings and performance
 - ◆ Security level detail
 - ◆ Client by asset type and account earnings
 - ◆ Date range comparison
- **Historical statistics graph**
- **Earnings statement** - summary and detail



Securities Lending Data Block on Passport®

Helping to keep you informed about your Securities Lending performance.

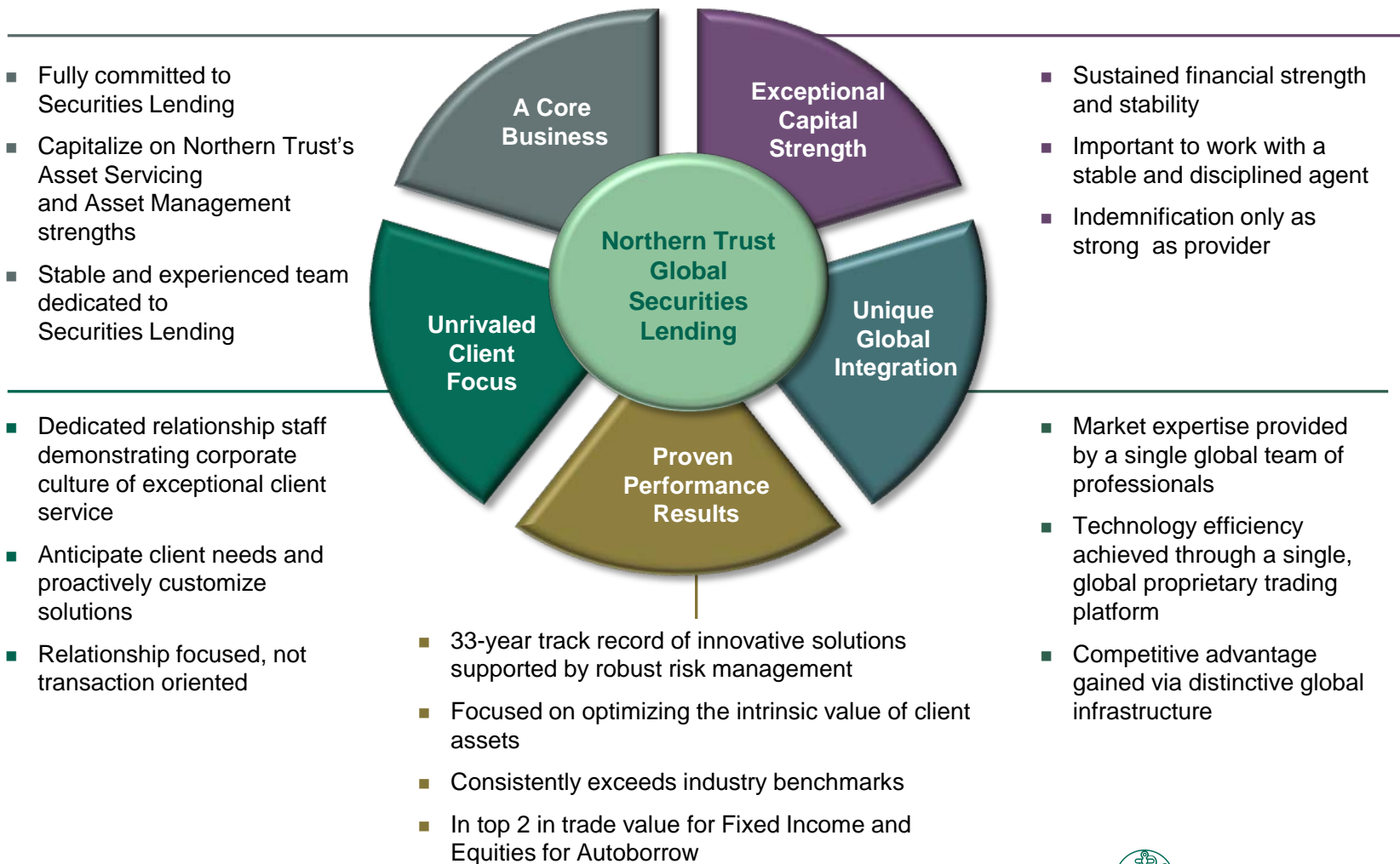
Facilitates the online distribution of vital, tailored information on each client's portfolio holdings, characteristics, investment performance and commentary





Why Northern Trust

Northern Trust provides managed risk and proven performance supported by committed professionals.





Disclosures

Please note that the reports have been created using the best available preliminary data. Please also note that the information contained in the reports is preliminary (and therefore may not be completely reliable) and it is provided to you for your own internal informative purposes only. Reports may also contain information provided by third parties, derived by third parties or derived from third party data and/or data that may have been categorized or otherwise reported based upon client direction - Northern Trust assumes no responsibility for the accuracy, timeliness or completeness of any such information. If you have questions regarding third party data or direction as it relates to any reports, please contact your Northern Trust relationship team.

Evaluations are based on the asset allocation, actual historical spread and on-loan figures provided to Northern Trust. Consequently, as changes in these factors occur and as trading patterns of the portfolio managers' shift, actual earnings generated in Securities Lending may be impacted.

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

October 28, 2014

Agenda Item 6.3

TO: Board of Retirement
FROM: Michael Coultrip, Chief Investment Officer
SUBJECT: Update on SamCERA's Real Asset Program

Michael R Coultrip

Staff Recommendation

Review the update report on SamCERA's Real Asset program.

Background

During the October 2013 meeting the Board approved a new asset allocation policy, which included a new 2% allocation to Real Assets. In January 2014, the Board approved utilizing SamCERA's current investment consultant, SIS, for the manager structure, sourcing, and due-diligence of Real Asset managers. In April 2014, the Board approved its first investment in a Real Asset strategy-- a \$20 million commitment to Taurus Mining Finance Fund LLC.

Discussion

Based on SIS' roadmap, SamCERA is projected to make \$30-\$33 million in commitments per year in Real Assets, which would result in SamCERA reaching the 2% program target in 2019, given assumptions around investment returns, capital calls/distributions, etc. John Nicolini from SIS will present the update on the program during this agenda item.

Attachments

- A. *SIS Real Asset Program Update*

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SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 28, 2014

Agenda Item 6.4

TO: Board of Retirement



FROM: Michael Coultrip, Chief Investment Officer

SUBJECT: Discussion and Approval of Opportunistic Credit Manager Shortlist Candidates

Staff Recommendation

Review the attached Opportunistic Credit manager shortlist candidates and approve which managers should receive investment due diligence questionnaires.

Background

During the October 2013 meeting, the Board approved a new asset allocation policy that included a 2% increase (from 3% to 5%) to the Opportunistic Credit category within Fixed Income. Subsequently, during the January 2014 meeting, the Board approved a fixed income manager structure that incorporated this higher Opportunistic Credit allocation by increasing the target allocation to our two existing Opportunistic Credit managers (Brigade and Angelo Gordon) from 8% to 10% each, as a percent of Fixed Income. In addition, a 5% allocation to a new strategy was approved as a placeholder until additional research could be performed identifying attractive market opportunities.

Discussion

The attached material from SIS summarizes the process used to reduce the private debt universe of managers to the four shortlist candidates. It also compares the candidate shortlist characteristics to Brigade, our existing credit-oriented Opportunistic Credit manager. Ping Zhu and Patrick Thomas from SIS will present this topic during the Board meeting.

Attachments

- A. *SIS Memorandum on Opportunistic Credit Manager Shortlist Candidates*
- B. *SIS Summary of Opportunistic Credit Manager Shortlist Candidates*

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San Mateo County Employees' Retirement Association
Board of Retirement

October 28, 2014

Agenda Item 7.1

To: Board of Retirement

From: Chezelle Milan, Retirement Senior Accountant *CBM*
Lilibeth Dames, Retirement Investment Analyst *Lilibeth Dames*
Mabel Wong, Finance Officer *Mabel Wong*

Subject: Preliminary 1st Quarter Budget Report

DISCUSSION

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

Professional Services Budget - Attachment One provides an overview of the accrued professional services expenditures. Investment management fees are driven by contractual agreements and based on total assets under management or the amount of capital committed. 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 31, 2014, is approximately 51.0 basis points versus the expected fee of 52.5 basis points. Total actual to budget expenditures was slightly under than projected.

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

Attachment Two provides a review of the line item administrative appropriations versus the preliminary expenditures. Year-to-date through the first quarter, SamCERA expended 16.8% of the approved appropriations. Under **Salaries & Benefits** SamCERA budgets all positions and benefits. 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	\$ 4,129,491	\$ 760,328
Services & Supplies	\$ 1,676,009	\$ 217,574
Capital Assets	\$ 0	\$ 0
Total	\$ 5,805,500	\$ 977,902

Attachment Three provides a review of the line item technology appropriations versus the preliminary expenditures. SamCERA has extended the contract with LRWL Inc. as the consultant in the implementation of the new Pension Administration Software Solution (PASS). SamCERA has entered into contract with Vitech Systems Group and the implementation of the PASS system, V3, is in progress. The implementation of PASS will be a phased approach over three years.

As of 9/30/2014, SamCERA's IT budget expended 9.9% of the approved appropriation.

SamCERA's Technology Budget

	Adopted Budget	YTD Preliminary
Property & Equipment	\$ 53,000	\$ 10,405
IT Infrastructure	\$ 1,508,150	\$ 195,355
Capital Asset	<u>\$ 3,500,000</u>	<u>\$ 295,186</u>
	\$ 5,061,150	\$ 500,946

San Mateo County Employees' Retirement Association
Board of Retirement

October 28, 2014
 Attachment One

First Quarter Analysis
 9-30-2014

Agenda Item 7.1

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⁾	2014-2015 YTD EXPENSE (ACCRUED)	2014-2015 ESTIMATE
Milliman	Actuarial Consulting	0.3 bps	\$95,750	\$117,000
Segal Company	Actuarial Audit	0.3 bps	\$90,000	\$90,000
Strategic Investment Solutions	Investment Consulting	1.3 bps	\$112,500	\$450,000
Northern Trust	Global Custody	0.3 bps	\$87,500	\$350,000
State Street	Custodial Transition	0.2 bps	\$50,000	\$50,000
SUB-TOTAL NON INVESTMENT MANAGER CONTRACTUAL FEES			\$435,750	\$1,057,000
<i>Estimated Market Value 06-30-2015</i>			\$3.4 Billion	\$3.4 Billion
Average Basis Points ⁽²⁾			3.1 bps	3.1 bps

- (1) The Actuary, Custodian and Investment Consultant are compensated on a flat fee basis. Fees on this schedule are expressed in basis points (or fractions thereof) and utilize total assets while the Investment Manager calculations utilize assets under management.
- (2) The calculation utilizes an average market value of \$3.4 billion

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

CONTRACTOR	SERVICE	FEE ⁽¹⁾	2014-2015 YTD EXPENSE (ACCRUED)	2014-2015 ESTIMATE
BlackRock – S&P 500 Index Fund	Domestic Large Cap Equity	2.2 bps	\$28,911	\$130,000
D.E. Shaw Investment Management, LLC	Domestic Large Cap Enhanced	49.3 bps	\$186,815	\$750,000
Barrow, Hanley, Mewhinney & Strauss	Domestic Large Cap Value	45.5 bps	\$168,168	\$700,000
Brown Advisory	Domestic Large Cap Growth	44.1 bps	\$159,943	\$675,000
The Boston Company	Domestic Small Cap Equity	82.4 bps	\$213,940	\$1,100,000
Chartwell Investment Partners	Domestic Small Cap Equity	75.0 bps	\$199,844	\$1,000,000
Baillie Gifford	International Equity	46.6 bps	\$222,110	\$925,000
Eaton Vance - Parametric	International Equity	105.0 bps	\$168,229	\$680,000
Mondrian Investment Partners	International Equity	40.1 bps	\$177,530	\$450,000
Pyramis Global Advisors	International Equity	90.0 bps	\$144,547	\$625,000
BlackRock – EAFE Index	International Equity	5.5 bps	\$18,384	\$86,000
Pyramis Global Advisors	Domestic Fixed Income	14.9 bps	\$66,769	\$265,000
Western Asset Management	Domestic Fixed Income	26.5 bps	\$86,351	\$350,000
Angelo Gordon (STAR)	Domestic Fixed Income	122.3 bps	\$130,000(3)	\$520,000
Angelo Gordon (OWL)	Domestic Fixed Income	130.9 bps	\$62,500(3)	\$250,000
Brigade Capital Management	Domestic Fixed Income	76.5 bps	\$126,627	\$480,000
Brown Brothers Harriman	Domestic Fixed Income	15.0 bps	\$29,655	\$125,000
Franklin Templeton	Global Fixed Income	34.9 bps	\$89,619	\$500,000
ABRY ASF II	Private Equity	N/A	\$100,000(3)	\$400,000
ABRY Partners VII	Private Equity	N/A	\$50,000(3)	\$200,000
Cevian Capital	Private Equity	N/A	\$125,000(3)	\$500,000
Emergence Capital	Private Equity	N/A	\$50,000(3)	\$200,000
EnCap	Private Equity	N/A	\$37,500(3)	\$150,000
General Catalyst	Private Equity	N/A	\$62,500(3)	\$250,000
Regiment	Private Equity	N/A	\$75,000(3)	\$300,000
Sycamore	Private Equity	N/A	\$93,750(3)	\$375,000
Sheridan Production Partners	Private Equity	N/A	\$75,000(3)	\$300,000
Warburg Pincus	Private Equity	N/A	\$140,000(3)	\$560,000
Third Rock Ventures III	Private Equity	N/A	\$62,500(3)	\$250,000
Great Hill Partners	Private Equity	N/A	\$125,000(3)	\$500,000
AQR Risk Parity	Risk Parity	N/A	\$197,158	\$600,000
AQR Delta Hedge Fund	Hedge Fund	N/A	\$270,573	\$1,080,000
SSGA- SSARIS Multisource Commodities	Commodities	60.0 bps	\$131,906	\$575,000
INVESCO Realty Advisors	Real Estate Management	37.1 bps	\$70,465	\$800,000
The Clifton Group	Cash Management Overlay	N/A	\$23,664	\$150,000
SUB-TOTAL INVESTMENT MANAGERS			\$3,969,958	\$16,801,000
Average Basis Points ⁽¹⁾			46.7 bps	49.4 bps
SUB-TOTAL NON- INVESTMENT MANAGERS (FROM PREVIOUS PAGE)			\$435,750	\$1,057,000
Average Basis Points ⁽²⁾			3.1 bps	3.1 bps
TOTAL ESTIMATED CONTRACT FEES			\$4,405,708	\$17,858,000
<i>Estimated Market Value 06-30-2015</i>			3.4 Billion	3.4 Billion
Average Basis Points ⁽²⁾			51.0 bps	52.5 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 an average market value of \$3.4 billion

(3) Management fees for investment managers that provide quarterly statements are expressed as estimates until quarterly statements are received and booked in SamCERA's financials. Statements have not been received as of the date of the mailing.

SamCERA's
Administrative Budget
Fiscal Year 2014-2015
1st Quarter
as of September 30, 2014
PRELIMINARY
ATTACHMENT II

	Budget Allotment (as Amended)	Year to Date Expenditures	Percentage Expended	Remaining Balance	Remaining Percentage
Salaries	\$2,658,939	\$486,593	18.3%	\$2,172,346	81.7%
Benefits	\$1,470,552	\$273,735	18.6%	\$1,196,817	81.4%
Salaries & Benefits	\$4,129,491	\$760,328	18.4%	\$3,369,163	81.6%
Board Expense	\$10,500	\$700	6.7%	\$9,800	93.3%
Insurance	\$80,000	\$20,000	25.0%	\$60,000	75.0%
Medical Evaluation	\$100,000	\$5,900	5.9%	\$94,100	94.1%
Member Education	\$50,000	\$0	0.0%	\$50,000	100.0%
Education & Conference	\$115,500	\$17,497	15.1%	\$98,003	84.9%
Transportation and Lodging	\$183,280	\$9,835	5.4%	\$173,445	94.6%
Property & Equipment	\$30,000	\$4,135	13.8%	\$25,865	86.2%
General Office Supplies	\$38,500	\$10,086	26.2%	\$28,414	73.8%
Postage & Printing	\$90,000	\$12,103	13.4%	\$77,897	86.6%
Leased Facilities	\$509,550	\$83,300	16.3%	\$426,250	83.7%
County Services	\$373,179	\$51,097	13.7%	\$322,082	86.3%
Audit Services	\$45,500	\$1,965	4.3%	\$43,535	95.7%
Other Administration	\$50,000	\$955	0.0%	\$49,045	0.0%
Services & Supplies	\$1,676,009	\$217,574	13.0%	\$1,458,435	87.0%
Capital Assets	\$0	\$0	0.0%	\$0	0.0%
Depreciation		\$0			
Grand Total	\$5,805,500	\$977,902	16.8%	\$4,827,598	83.2%

SamCERA's
Information Technology Budget
Fiscal Year 2014-2015
1st Quarter
as of September 30, 2014
PRELIMINARY
ATTACHMENT III

	Budget Allotment (as Amended)	Year to Date Expenditures	Percentage Expended	Remaining Balance	Remaining Percentage
Property & Equipment	\$53,000	\$10,405	19.6%	\$42,595	80.4%
IT Infrastructure	\$1,508,150	\$195,355	13.0%	\$1,312,795	87.0%
Capital Assets	\$3,500,000	\$295,186	8.4%	\$3,204,814	0.0%
IT Total	\$5,061,150	\$500,946	9.9%	\$4,560,204	90.1%

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 28, 2014

Agenda Item 7.2

TO: Board of Retirement

FROM: Mabel Wong, Finance Officer



SUBJECT: Approval of Financial Audit Management Reports for the FY Ended June 30, 2014

Staff Recommendation

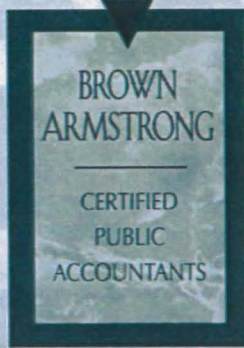
Approve the auditor's report on the financial audit for the period ended June 30, 2014.

Summary

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.

- 1) The Independent Auditor's 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 position of SamCERA as of June 30, 2014, and 2013, and its changes in fiduciary net position for the year then ended in conformity with accounting principles generally accepted in the United States of America."
- 2) 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.
- 3) 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.
- 4) The Agreed Upon Conditions Report to Management... is designed to increase efficiency, internal controls and/or financial reporting. There are two findings noted in the current year regarding restoration of backup data and terminated employees access. Management has plans to address both conditions in the coming year. There were no findings in the prior year.



BROWN ARMSTRONG

Certified Public Accountants

San Mateo County Employees' Retirement Association

Board of Retirement presentation of the June 30, 2014 audit results

By: Andrew J. Paulden, CPA

Brown Armstrong Accountancy Corporation

Date: October 28, 2014

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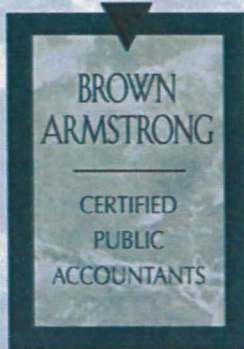
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1. Purpose of the Audit
2. The Audit Process
 - a. Timeline coordination with SamCERA staff
 - b. Understanding and evaluation of SamCERA internal controls through inquiry and observation
 - c. Confirmations with independent third parties
 - d. Interim 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
 - f. GASB 67
4. Audit Reports
 - a. CAFR
 - i. Independent Auditor's Report (opinion) on Financial Statements – unmodified (“clean”) opinion
 - b. 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. Questions and/or Comments?



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INDEPENDENT AUDITOR'S REPORT

Board of Retirement
San Mateo County Employees' Retirement Association
Redwood City, California

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the San Mateo County Employees' Retirement Association (SamCERA) as of June 30, 2014 and 2013, the Statement of Changes in Fiduciary Net Position for the years then ended, and the related notes to the financial statements, which collectively comprise SamCERA's basic financial statements as listed in the table of contents. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (\$411,647,268, \$33,072,584, \$244,670,882, \$47,432,953, respectively) included in the Governmental Accounting Standards Board (GASB) Statement No. 68 schedules listed as other information in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the SamCERA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SamCERA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements and the other information referred to above present fairly, in all material respects, the fiduciary net position of SamCERA as of June 30, 2014 and 2013, and their changes in fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2014, SamCERA implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*, which modified the current financial reporting of those elements. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SamCERA's basic financial statements. The other supplementary information and the introductory, investment, actuarial, statistical and compliance sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2014, 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 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* in considering SamCERA's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 22, 2014

**SAN MATEO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

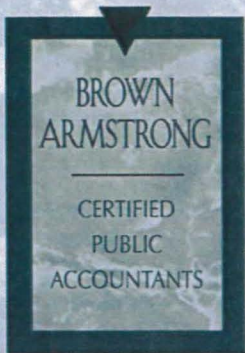
REPORT TO THE BOARD OF RETIREMENT

FOR THE YEAR ENDED JUNE 30, 2014

**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 Employees' Retirement Association
Redwood City, California

We have audited the financial statements of the San Mateo County Employees' Retirement Association (SamCERA) for the year ended June 30, 2014, and have issued our report dated October 22, 2014. 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 April 28, 2014. 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. As described in the notes to the financial statements, SamCERA implemented the following standard in 2014: Governmental Accounting Standards Board (GASB) Statement No. 67 - *Financial Reporting for Pension Plans*. The objective of GASB Statement No. 67 is to improve financial reporting by state and local government pension plans, such as SamCERA. 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 Accounting 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 4 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.

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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. No such misstatements were identified.

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 22, 2014.

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

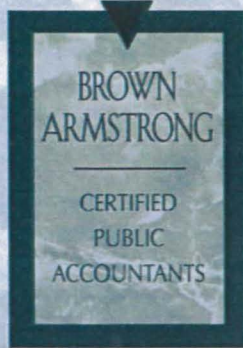
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United 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 22, 2014



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 Employees' Retirement Association
Redwood City, California

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We have audited, in accordance with the 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, the financial statements of the San Mateo County Employees' Retirement Association (SamCERA) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise SamCERA's basic financial statements, and have issued our report thereon dated October 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SamCERA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 SamCERA's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether SamCERA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 in a separate letter dated October 22, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SamCERA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SamCERA's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 22, 2014

**BROWN
ARMSTRONG**

**CERTIFIED
PUBLIC
ACCOUNTANTS**

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 Employees' Retirement Association
Redwood City, California

We have audited the financial statements of the San Mateo County Employees' Retirement Association (SamCERA) for the year ended June 30, 2014, and have issued our report dated October 22, 2014. 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 two matters that are an opportunity for strengthening internal controls and operating efficiency. The recommendations that are listed in this report summarize the condition and suggestions regarding the matter.

We will review the status of these conditions during our next audit engagement. We have already discussed the condition 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.

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

Current Year Agreed Upon Conditions and Recommendations

Agreed Upon Condition 1 – Backup Data Restoration

During our review of SamCERA's IT policy we noted no formal backup data restoration test has been set up in current IT operations.

Recommendation

We recommend SamCERA IT perform the backup data restoration test on a regular basis (semi-annually at least) to ensure the critical financial application systems files and data are available for restoration when unexpected incidents occurred.

Management Response

SamCERA IT will perform semi-annual tests of the backups by performing restore operations, and document the success or failure.

Agreed Upon Condition 2 – Terminated Employee Access

During our review of the terminated employee's user account in the key financial application we noted was not removed timely.

Recommendation

SamCERA IT may consider reviewing the accounting application user list on a reasonable frequency, quarterly at least. Also, create a procedure that will document an on and off boarding checklist to disable accounts and access to staff that is newly hired or terminated.

Management Response

SamCERA IT will create a procedure that will document an on and off boarding checklist to disable accounts and access to staff that is newly hired or terminated.

Status of Prior Year Agreed Upon Conditions and Recommendations

There were no conditions in the prior year.

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 22, 2014

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 28, 2014

Agenda Item 7.3

TO: Board of Retirement

FROM: Mabel Wong, Finance Officer 

SUBJECT: Approval of SamCERA's 2014 Comprehensive Annual Financial Report (CAFR)

Staff Recommendation

Approve SamCERA's *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2014.

Summary

SamCERA has been working with its financial auditor, Brown Armstrong, its actuary, Milliman, participating employers and the County's auditor to implement GASB Statement No. 67 (GASB 67) which addresses accounting and financial reporting requirements for the plan.

The GASB 67 disclosures and schedules provide a broad range of financial information including total pension liability, net pension liability, changes to the net pension liability, historical employer contributions, money-weighted investment rate of return, and additional actuarial related disclosures for the plan and participating employers. This information will improve the financial statement users' ability to compare the total pension liability for similar types of pension plans. Please note that liabilities on these schedules are calculated solely for financial reporting purposes and are not intended to provide information about the funding of SamCERA's benefits. The CAFR also include two cost sharing allocation schedules, Schedule of Cost Sharing Employer Allocation and Schedule of Employer Pension Amounts for participating employers. Plan sponsors may use this information to fulfill GASB 68 requirement on their financial reports.

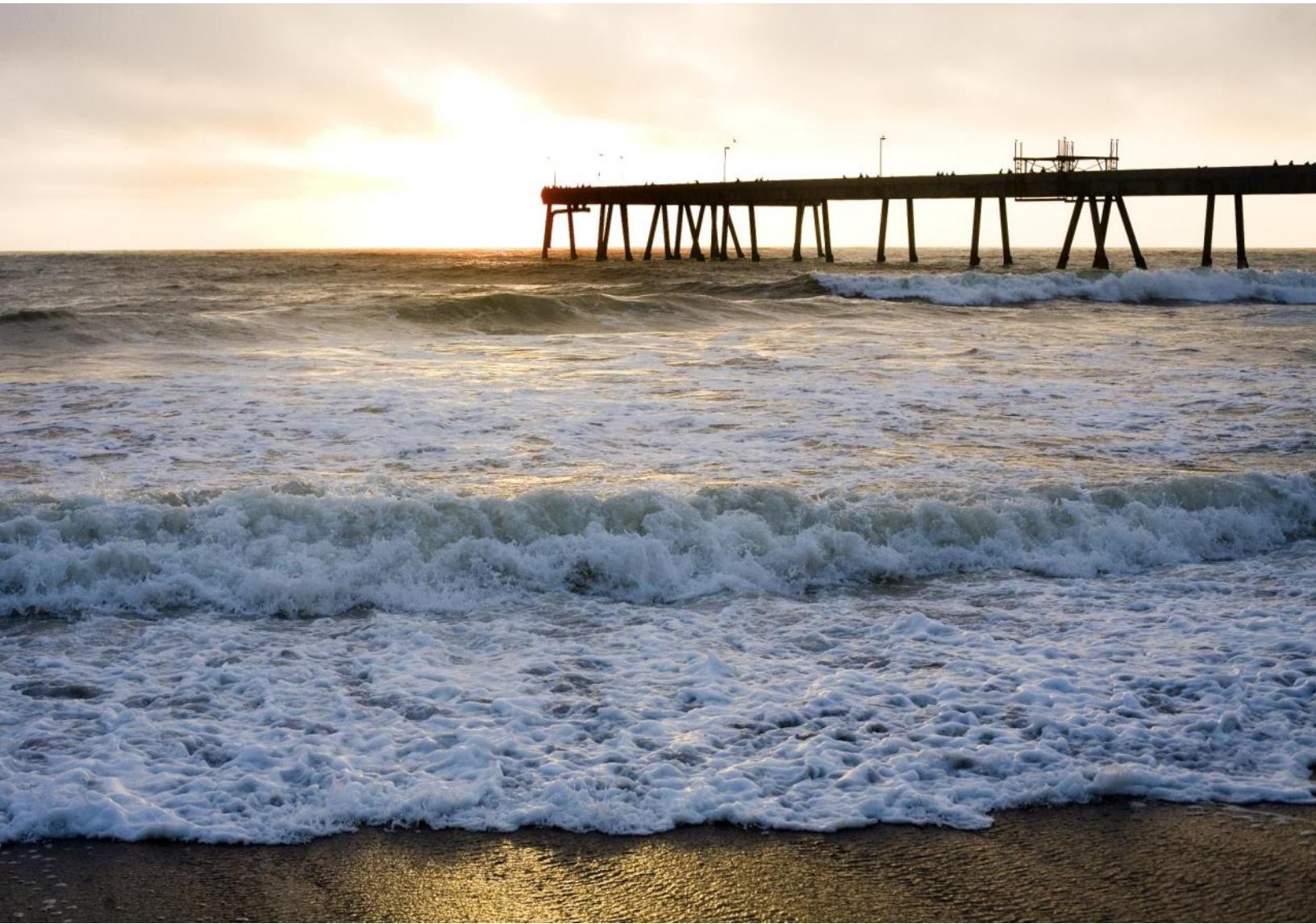
For the seventeenth consecutive year, the Government Finance Officers Association (GFOA) has awarded *SamCERA* its Certificate of Achievement for Excellence in Financial Reporting. This award is in recognition of *SamCERA's* Comprehensive Annual Financial Report for the year ended June 30, 2013.

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.

Attachment: 2014 Comprehensive Annual Financial Report (CAFR)

2014 COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended June 30, 2014, and June 30, 2013
A Pension Trust Fund of the County of San Mateo and Participating Employers
Redwood City, State of California



On the cover:

Pacifica Pier
Pacifica, San Mateo County, California

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 years ended June 30, 2014, and June 30, 2013

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



Purisima Creek Redwoods Open Space Preserve, San Mateo County

SAMCERA'S MISSION

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

SAMCERA'S GOALS

Prudently manage the assets in order to appropriately fund the actuarial liabilities of the retirement system, to ensure the ability to pay all earned benefits while minimizing the costs to employers.

Provide caring, fair, accurate, timely and knowledgeable professional services and information to members and other stakeholders.

Constantly improve the effectiveness and efficiency of SamCERA's operations.

ADMINISTRATOR'S LETTER OF TRANSMITTAL



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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, 2014, and June 30, 2013.

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 25-35.

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 other supplemental information. Additionally, SamCERA has implemented GASB Statement No. 67, Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25. The associated schedules and additional information for this new requirement are shown in the Financial Section.

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. Additionally, SamCERA engages a second independent actuarial consulting firm to perform an actuarial audit every third year, in order to validate the calculations and results of the actuarial valuation. Segal Consulting performed the April 30, 2014, experience study, as well as the June 30, 2014, actuarial audit. Segal's report noted that, "Our audit confirms that the results of the actuarial calculations as of June 30, 2014 are reasonable, and that those calculations are based on generally accepted actuarial principles and practices." SamCERA strives to provide the most recent financial and actuarial data in its annual report. Therefore, the experience study of April 30, 2014, and the actuarial valuation of June 30, 2014, are used in this CAFR.

Authority, Responsibilities & Duties

The San Mateo County Board of Supervisors created SamCERA in 1943, by adopting an ordinance making the provisions of Government Code section 31450 et seq., California's County Employees Retirement

Law of 1937 (the “37 Act”), effective in San Mateo County.

SamCERA provides retirement, disability and death benefits for its eligible members and beneficiaries in accordance with the '37 Act, the California Public Employees' Pension Reform Act of 2013 (“PEPRA,” Government Code section 7522 et seq.) and other applicable statutes, regulations and case law.

Pursuant to the California Constitution Article XVI Section 17 and '37 Act, the Board of Retirement (the “Board”) serves as fiduciary for all of SamCERA's members. The Board is responsible for administering the system. The Board has adopted its *Mission & Goals; Regulations of the Board of Retirement; SamCERA's Investment Policy Statement; Conflict of Interest Code; Code of Fiduciary Conduct* and *Delegation of Authority, et al* to document the Board's policies. The Board annually adopts an operating budget for the administration of SamCERA, which is described in the Financial Section beginning on page 46—and a breakdown of the budget allotment versus expenditures can be found on page 67. In addition, the Board has executed contracts for the professional services of an actuary, auditing actuary, investment consultant, investment managers, a global custodian, financial auditor 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 (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.

SamCERA's staff of 21 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 active 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 current and deferred retirees, and all beneficiaries. More than 85% of SamCERA's members are classified as General Members. General Members are covered by Social Security. The remainder of SamCERA's members are law enforcement employees classified as Safety Members or Probation Safety Members. These members are not covered by Social Security.

Looking Backward and Forward

For a summary of SamCERA's recent fiscal year, I encourage you to review the following narrative introduction, as well as Management's Discussion and Analysis beginning on page 25. More details on SamCERA's investment portfolio can be found in the Chief Investment Officer's Report, beginning on page 75.

Trustees

The SamCERA Board of Retirement consists of nine Trustees. Four positions are appointed by the Board of Supervisors. Four Trustees are elected from their respective membership; two from the General Members, one from the Safety Members, and one from the Retiree Members. The

County Treasurer is a member of the Board by virtue of her publically elected office; all other Trustees serve for a term of three years. In addition, there is one elected Safety member alternate and one elected Retired member alternate. The Board had no changes in its membership during the 2013-2014 fiscal year.

The officers for the Board of Retirement for FY 2013-2014 were: **Natalie Kwan Lloyd**, Chair; **Lauryn Agnew**, Vice Chair; and **Paul Hackleman**, Secretary. Other members of the Board were: **Sandie Arnott**, **Benedict J. Bowler**, **Albert David**, **Michal Settles**, **David Spinello**, and **Eric Tashman**. Alternate trustees were **Christopher Miller**, Safety Alternate, and **Alma Salas**, Retiree Alternate.

Investments

For the second fiscal year running, SamCERA enjoyed healthy double-digit returns, with the 2013-2014 gains due mostly to robust global equity market returns. For the period ending in June 2014, the fund returned 17.3% net of investment manager fees (17.7% before deducting for investment manager fees). These results are above median among large (greater than \$1 billion in assets) public plans. Over the most recent five-year period ending in June 2014, SamCERA has performed in the upper 27th percentile of its peers.

During the year, SamCERA undertook an in-depth asset liability study to analyze the current risk profile and asset allocation of the plan. The Board reconfirmed that the current risk profile of the plan is appropriate. The Board also approved a new asset allocation policy with modest changes intended to further diversify the plan. The

new asset allocation policy is incorporated into SamCERA's updated Investment Policy Statement, which helps guide the manner in which SamCERA invests. A number of other changes were also made to the Investment Policy Statement, to further clarify SamCERA's investment beliefs and define the Board's fiduciary duties to SamCERA's plan beneficiaries and plan sponsors.

SamCERA changed its custodian bank from State Street Bank & Trust to Northern Trust, effective July 1, 2014. The custodian bank provides services that include asset safekeeping, accounting, securities settlement, cash management, corporate actions, class actions and proxy processing, securities lending, and performance and risk analytics.

Staffing

Late in the fiscal year, SamCERA announced a recruitment for its CEO position after I announced my retirement plans. I plan to retire in spring 2015 after more than 26 years in pension administration, the first 16 at the Oregon Public Employees' Retirement System and the last 10 at SamCERA. It has been a wonderful journey.

The nationwide recruitment for a successor concluded in September 2014, when the Retirement Board chose Scott Hood to fill the CEO position. Mr. Hood has been with SamCERA for 14 years, and has served as Assistant Executive Officer since 2002. He holds a BS in Engineering from the US Military Academy and an MS in Computer Information Systems from Boston University. Last year, he retired from the US Army Reserve as a Colonel after serving over 30 years of combined active and reserve

service. Mr. Hood said, "I am both humbled and honored that the Board has chosen me to be the next leader of such an outstanding organization. I look forward to working with the Board of Trustees and all stakeholders to maintain SamCERA's high level of performance, while building for the future."

Additionally, after hiring JulieAnne Nagal to fill the vacant Retirement Support Specialist position, SamCERA has been fully-staffed with 21 employees.

Actuarial

SamCERA was pleased to be ranked 3rd most actuarially conservative among California retirement systems in a March 2014 survey from Roeder Financial. The survey ranks the funding assumptions used by California's public pension systems from "most conservative" to "most optimistic." SamCERA's high ranking was due mainly to its relatively short closed 15-year layered amortization of unfunded liabilities, and its relatively low assumed investment earnings rate at the time of the survey of 7.5%. In June 2014, the Board of Retirement lowered the assumed rate further to 7.25%.

Supplemental Contributions

In November 2013, the Board of Supervisors and the Board of Retirement entered into a Memorandum of Understanding addressing a planned \$140 million in contributions from the County over and above the actuarially (and statutorily) required employer contributions. This supplemental contribution will be paid over a ten-year period. The first lump-sum deposit of \$50 million was received in May 2014, with additional lump-sum contributions of \$10 million to be paid

annually over the next nine years. The supplemental contributions are projected to reduce by two years the amount of time it will take for San Mateo County to pay off its Unfunded Actuarial Accrued Liability (UAAL) and achieve 100% funded status.

Pension Legislation and Reporting Standards

Fiscal year 2013-2014 marked the second fiscal year under PEPRA—the major pension reform statutes that apply primarily to new members who do not have reciprocity. This year, California lawmakers adopted clean-up legislation addressing the application of PEPRA in conjunction with the '37 Act. This legislation gives guidance on PEPRA implementation issues.

Additionally, SamCERA has been working with its financial auditor, Brown Armstrong, its actuary, Milliman, Inc., as well as its three employers and the County's auditor to ensure the smooth implementation of the new GASB pension standards, which address financial reporting by government pension plans. The parties formed a task force which meets regularly to discuss issues related to the implementation of GASB Statements No. 67 and 68. These standards will change the way pension liabilities and expenses are reported for both the association and the employers. The changes from GASB 67 are implemented in SamCERA's current CAFR, and GASB 68 changes for the employers will be implemented in their 2015 financial statements.

Cost of Living Adjustment

The Bay Area experienced modest inflation during 2013, according to the Federal Bureau of Labor Statistics, resulting in a cost

of living adjustment (COLA) of 2.0% for most SamCERA retirees. The amount of the COLA is the same for most retirement plans, except for Plan 3, which does not provide for a COLA. Any applicable COLA is applied to benefits received by retirees who retired before April 1, 2014.

Information Technology

SamCERA is progressing with its multi-year Technology Modernization Project. The major component of the project is the replacement of SamCERA's aging PASS (Pension Administration Software System). SamCERA completed the PASS RFP process and has hired Vitech, Inc., for the design and implementation of the new system. The PASS project is estimated to last nearly three years. Additionally, SamCERA has been working with San Mateo County as they transition to a new payroll and human resources system. SamCERA has been collaborating with County staff on the member demographic, payroll and contribution interface of the new system.

Tax Determination Letter

SamCERA is pleased to report that the system received a favorable tax determination letter from the IRS during the 2013-2014 fiscal year. The favorable determination letter represents a critical step in maintaining the tax-favored status of the plan, which in turn provides three very important things. First, it means members' pension contributions are deducted pre-tax and not counted as income. Second, it allows members to roll over money upon leaving SamCERA. Finally, it means that SamCERA's investment earnings are tax-free.

In order to maintain its tax qualified status, SamCERA must satisfy the requirements of

the Internal Revenue Code (IRC). SamCERA will need to re-file between February 1, 2015, and January 31, 2016, and at subsequent points in future years.

Strategic Planning

SamCERA's staff held a retreat in April 2014 and began working through the steps in a strategic planning process as recommended by the Government Finance Officers Association (GFOA). The result of these discussions was an update of SamCERA's Strategic Plan Action Matrix, along with the creation of a new, visual slide presentation of the strategic planning goals of the association. Progress on these goals will be tracked and updated throughout the 2014-2015 fiscal year.

Moving forward, SamCERA will continue to pursue its three major goals, all of which are derived from and consistent with SamCERA's mission statement:

1. ASSET MANAGEMENT GOAL

Prudently manage the assets in order to appropriately fund the actuarial liabilities of the retirement system, to ensure the ability to pay all earned benefits while minimizing the costs to employers.

Major projects under this goal include the transition to a new custodial bank, revising the Investment Policy, and building a risk dashboard to monitor the level and trend of various portfolio risks over time.

2. CUSTOMER SERVICES GOAL

Provide caring, fair, accurate, timely and knowledgeable professional services and information to members and other stakeholders.

Over the coming years, meeting this goal will involve providing input to the Enterprise

Content Management (ECM) and Pension Administration Software System (PASS) vendors in order to ensure that the new systems provide users and members with new tools that improve efficiency, accuracy and customer service.

3. OPERATIONS GOAL

Constantly improve the effectiveness and efficiency of SamCERA's operations.

This will involve updates to some of SamCERA's core technologies, including the creation of a new SamCERA website with integrated Web Member Services. It will also include filing a new tax determination letter with the IRS, to ensure that the laws governing SamCERA are consistent with federal guidelines.

Certificate of Achievement and Acknowledgements

For the seventeenth 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, 2013. 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 eleventh year running. The association received this honor for the PAFR for the fiscal year ended June 30, 2013.

Additionally, the Public Pension Coordinating Council (the Council) presented SamCERA its Public Pension Standards Award for 2013. 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.

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

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,



C. David Bailey
Chief Executive Officer
October 22, 2014

GFOA CERTIFICATE OF ACHIEVEMENT



Government Finance Officers Association

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, 2013

A handwritten signature in black ink that reads "Jeffrey R. Emer". The signature is written in a cursive, flowing style.

Executive Director/CEO

PPCC PUBLIC PENSION STANDARDS AWARD



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2013***

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



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. 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 joined the Board in 2008, and was re-elected in 2009 and 2012. He is chair of the Investment Committee. His term expires on June 30, 2015.



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

Natalie Kwan Lloyd is a Senior Appraiser in the San Mateo County Assessor's Office. She is currently the Board Chair. She joined the Board in 2008. She was elected in 2010 and reelected in 2013. Her current term expires on June 30, 2016.



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 chair 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 was reappointed in 2010 and 2013. His term expires June 30, 2016.



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 currently the Board Vice Chair. 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 has served on the Audit Committee and the CEO Review Committee. His term expires on June 30, 2015.



Alma Salas

Elected by the Retired Members, Retiree Alternate

Alma Salas was a Probation Services Manager with the San Mateo County Probation Department

before her retirement in May 2013. Alma first joined the Board in May of 2001, and has served as Board Chair. She was elected in June 2013 to serve as the Retiree Alternate. In this role she substitutes in the absence of the Eighth Member. Her term will expire June 30, 2016.



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, and reelected in 2013. Paul served as the

County Benefits Manager from 1982 through March 2008. Today he is the head of I.C. Benefits Consulting. He is currently the Board Secretary. His term will expire June 30, 2016.



Christopher Miller

Elected by the Safety Members, Safety Alternate

Chris Miller is a Group Supervisor II for the San Mateo County Probation Department. He was elected by the Safety

membership and began his term in July 2012. His term will expire June 30, 2015.



Michal Settles

Appointed by the Board of Supervisors, Ninth Member

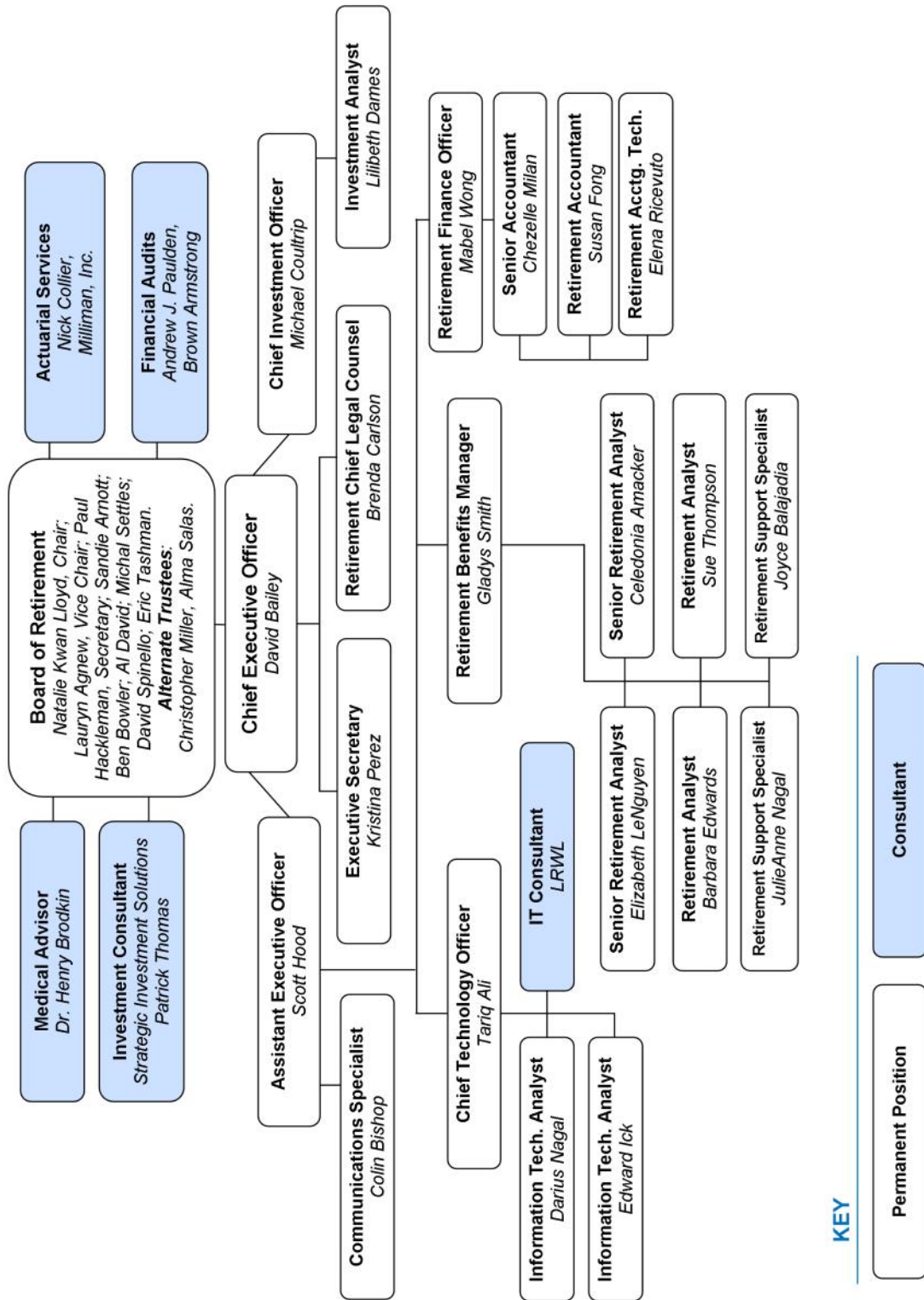
Michal Settles is a business professor at the City College of San Francisco.

Her teaching experience also includes The University

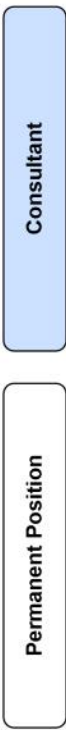
of San Francisco, Saint Mary's College, and San Francisco State University. For more than 10 years she served as the chair of the San Francisco Bay Area Rapid Transit District (BART) Investment Plans Committee. She was appointed by the Board of Supervisors in June 2011. Her term will expire June 30, 2016.

SAMCERA 2013-2014 ORGANIZATIONAL CHART

as of June 30, 2014



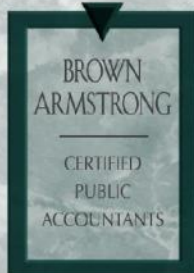
KEY



FINANCIAL SECTION



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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
 Redwood City, California

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the San Mateo County Employees' Retirement Association (SamCERA) as of June 30, 2014 and 2013, the Statement of Changes in Fiduciary Net Position for the years then ended, and the related notes to the financial statements, which collectively comprise SamCERA's basic financial statements as listed in the table of contents. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (\$411,647,268, \$33,072,584, \$244,670,882, \$47,432,953, respectively) included in the Governmental Accounting Standards Board (GASB) Statement No. 68 schedules listed as other information in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the SamCERA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SamCERA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements and the other information referred to above present fairly, in all material respects, the fiduciary net position of SamCERA as of June 30, 2014 and 2013, and their changes in fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2014, SamCERA implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*, which modified the current financial reporting of those elements. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SamCERA's basic financial statements. The other supplementary information and the introductory, investment, actuarial, statistical and compliance sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2014, 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 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* in considering SamCERA's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California
October 22, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2013-2014

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, 2014, and 2013. The information presented here, in conjunction with the Notes to the Financial Statements beginning on page 38, provide a clear picture of SamCERA's overall financial status and activities.

Financial Highlights

- \$3.29 billion in net position as of June 30, 2014, 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 position restricted for pensions increased by \$563.9 million or 20.67% primarily as a result of appreciation in assets and contributions received.
- SamCERA's funding objective is to meet long-term benefits obligations through contributions and investment income. As of June 30, 2014, the actuarial funded ratio for SamCERA increased from 73.3% to 78.8%. The increase in the funding ratio is due to contributions in excess of the value of benefits earned as well as investment earnings in excess of the assumed rate. The funded ratio also included the amount in the County Supplementary Contribution Account (CSCA).
- Revenues (Additions to Fiduciary Net Position) for the year were \$732.1

million which includes employer contributions of \$202.9 million, member contributions of \$46.6 million, investment gains of \$508.6 million (excluding investment expense of \$26.5 million), security lending income of \$435,459 and other additions of \$178,636. The 38.8% increase in additions to net position over the prior year is mainly due to appreciation in assets and contributions received.

- Expenses (Deductions from Fiduciary Net Position) increased from \$160 million to \$168.3 million over the prior year, or approximately 5.19%. The fiscal year 2014 expenses include \$159.3 million in benefit payments, \$3.2 million in member refunds, \$5.6 million in administrative expenses and \$65,292 for other expenses. The majority of this increase was due to an increase in the amount of benefits paid in the fiscal year as well as increase in administrative expenses as SamCERA begins to replace its existing pension benefit system over the next several years.
- SamCERA's actuarial value of assets was \$3.02 billion with a \$268.3 million of unrecognized investment gain as of June 30, 2014, compared to \$2.62 billion and a \$109.2 million of unrecognized investment gain in the prior year. The \$3.02 billion includes \$30.2 million of non-valuation reserves and \$50.5 million of CSCA valuation assets.
- Based on the Governmental Accounting Standards Board (GASB) No. 67, SamCERA has a net pension liability (NPL) of \$411.6 million, and the NPL as a percentage of covered payroll was 97.54% as of June 30, 2014.

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 Statement of Fiduciary Net Position
2. Comparative Statement of Changes in Fiduciary Net Position
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 implementation of GASB Statement No. 67 (GASB 67) increased the number of schedules in the Required Supplementary Information section. These new schedules provide a spectrum of financial information, including a pension liability measurement and changes to the liability, historical contributions, money-weighted investment return and additional actuarial related disclosures.

The Comparative Statement of Fiduciary Net Position 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, 2014. The net position, which is assets less liabilities, reflects the funds available for future use.

The Comparative Statement of Changes in Fiduciary Net Position 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 GASB pronouncements.

The Comparative Statement of Fiduciary Net Position and the Comparative Statement of Changes in Fiduciary Net Position 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 position restricted for pensions as one way to measure the plan's financial position. Over time, increases and decreases in SamCERA's net position 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 position for the year ended June 30, 2014, was 20.67%. This increase is due to market appreciation of assets as well as contributions received. SamCERA's total net fund return of 17.3% outperformed SamCERA's 7.5% actuarial assumed interest rate. The net deferred investment gains from the past five years increased from \$109.2 million in fiscal year (FY) 2013 to \$268.3 million of deferred investment gains in FY 2014, which reflects the addition of the current year's actuarial gain. Deferred investment gains will be spread over the next five years.

SamCERA's Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position appear on pages 36 and 37.

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. Asset allocation, the long-term expected rate of return, discount rate, key actuarial assumptions, and the Schedule of Net Pension Liability based on GASB 67 are also included in this section. Notes to the Financial Statements appear on pages 38-62.

Required Supplementary Information follows the notes and includes several new GASB 67 schedules. The newly added Schedule of Net Pension Liability in the

Notes section together with and the Schedule of Changes in Net Pension Liability and Related Ratios provide an up-to-date financial indication of the extent to which the total pension liability is covered by the fiduciary net position of the Pension Plan. This information will improve the financial statement users' ability to compare the total pension liability for similar types of pension plans. Please note that liabilities on these schedules are calculated solely for financial reporting purposes and are not intended to provide information about the funding of SamCERA's benefits.

Another new schedule, the Schedule of Employer Contributions, helps the reader determine if plan sponsors are meeting the actuarially determined contributions over a period of time. New information about rates of return on pension plan investments, taking account of monetary flows into and out of the market, is provided. The Schedule

SAMCERA'S NET POSITION (CONDENSED): TABLE 1

For the Years Ended June 30, 2014 and 2013

	2014	2013	Amount Increase/ Decrease	Percent Increase/ Decrease
Investments at Fair Value	\$3,203,688,290	\$2,702,492,485	\$501,195,805	18.55%
Other Assets	\$121,006,391	\$323,937,334	(\$202,930,943)	-62.65%
Total Assets	\$3,324,694,681	\$3,026,429,819	\$298,264,862	9.86%
Total Liabilities	\$33,000,727	\$298,604,487	(\$265,603,760)	-88.95%
Net Position	\$3,291,693,954	\$2,727,825,332	\$563,868,622	20.67%

For the Years Ended June 30, 2013 and 2012

	2013	2012	Amount Increase/ Decrease	Percent Increase/ Decrease
Investments at Fair Value	\$2,702,492,485	\$2,323,607,764	\$378,884,721	16.31%
Other Assets	\$323,937,334	\$383,515,763	(\$59,578,429)	-15.53%
Total Assets	\$3,026,429,819	\$2,707,123,527	\$319,306,292	11.80%
Total Liabilities	\$298,604,487	\$346,819,873	(\$48,215,386)	-13.90%
Net Position	\$2,727,825,332	\$2,360,303,654	\$367,521,678	15.57%

of Investment Returns includes a money-weighted return performance calculation which is net of investment expenses.

The Schedule of Funding Progress for funding purpose is presented in the Actuarial section on page 102.

The postemployment benefit program is administered by the plan sponsor, San Mateo County (the County). Please refer to the County's Comprehensive Annual Financial Report (CAFR) for additional information. Required Supplementary Information appears on page 63.

Other Supplementary Information includes the schedules of administrative expenses, schedule of information technology expenses, schedule of investment expenses, and schedule of payments to consultants. New GASB 68 Schedule of Cost Sharing Employer Allocations, and Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan are added this year.

GASB 68 governs the specifics of accounting for public pension plan obligations for plan sponsors. Plan sponsors are required to implement GASB 68 for fiscal years

beginning after June 15, 2014. GASB 68 requires a liability for pension obligations, known as the Net Pension Liability, to be recognized on the balance sheets of participating employers. Changes in the Net Pension Liability will be immediately recognized as Pension Expense on the income statement or reported as deferred inflows/outflows of resources depending on the nature of the change. These schedules are presented immediately following the Required Supplementary Information on page 66-72.

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 position restricted for pensions as of June 30, 2014, totaled \$3.29 billion which represents an increase of \$563.9 million or 20.67% over the period. The increase during the fiscal year is due to market appreciation of assets as well as contributions received. All of the net position is available to meet SamCERA's ongoing obligations to plan participants and their beneficiaries.

SAMCERA'S RESERVES: TABLE 2

	2014	2013	2012
VALUATION RESERVES			
Member Reserves	584,079,609	534,275,685	498,568,652
Employer Advanced Reserves	570,829,244	422,581,774	361,197,981
County CSCA	50,842,556	0	0
Retiree Reserves	877,161,874	918,589,967	858,440,088
Cost of Living Reserves	1,019,232,798	930,358,294	843,061,707
NON-VALUATION RESERVES			
Unallocated Earnings/Loss Account	(108,622,522)	(187,166,322)	(80,997,723)
Market Stabilization Account	267,936,182	109,185,934	(119,967,051)
Contingency Reserve	30,234,213	0	0
Net Reserves held in Trust for Pension Benefits	\$3,291,693,954	\$2,727,825,332	\$2,360,303,654

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 2013 to FY 2014 is due mostly to the decrease in cash transactions for the security lending program offset by the cash management overlay account. Due to a change in custodial banks effective July 1, 2014, SamCERA paused its securities lending program in mid-June and recalled all securities on loan. The decrease in other assets from FY 2012 to FY 2013 is due mostly to the decrease in cash transactions for the security lending program. 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 2014 is due to a decrease in the collateral payable for security lending and in the amount due to broker for investment purchase. The decrease in total liabilities from FY 2012 to FY 2013 is due to a decrease in the collateral payable for security lending.

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

Capital Assets

Capital assets with an initial cost of more than \$5,000 and an estimated useful life in excess of three years may be capitalized and depreciated. Depreciation is calculated using the straight-line method over the

estimated useful lives of the assets. The capital expenditures for FY 2013-2014 were for various technology infrastructures. The purchases were generally expensed in the fiscal year. Year-end balance of capital assets remained at \$0.

Reserves

The statement of SamCERA's reserves as shown in Table 2 indicates how SamCERA's fiduciary net position has 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 position attributable to that member is transferred to the Retired Member Reserves from the Member Deposit Reserves and Employers' Advance Reserves. During the past several years the following significant Board of Retirement actions have impacted the reserve accounts:

- The adoption of the GASB Statement No. 25, which mandates that investments be stated at fair value, effective in FY 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.
- The addition of a County Supplemental Contribution Account to record additional contributions made by the

ADDITIONS TO FIDUCIARY NET POSITION (CONDENSED): TABLE 3

For the Years Ended June 30, 2014 and 2013

	2014	2013	Amount Increase/Decrease	Percent Increase/Decrease
Employer Contributions	\$202,877,362	\$144,308,171	\$58,569,191	40.59%
Member Contributions	\$46,593,698	\$55,407,941	(\$8,814,243)	-15.91%
Investment Income	\$508,574,426	\$348,910,089	\$159,664,337	45.76%
Less Investment Expense	(\$26,524,556)	(\$21,926,630)	(\$4,597,926)	20.97%
Security Lending Income	\$435,459	\$621,892	(\$186,433)	-29.98%
Other Additions	\$178,636	\$159,510	\$19,126	11.99%
Total	\$732,135,025	\$527,480,973	\$204,654,052	38.80%
Current Membership	10,826	10,621	205	1.93%

For the Years Ended June 30, 2013 and 2012

	2013	2012	Amount Increase/Decrease	Percent Increase/Decrease
Employer Contributions	\$144,308,171	\$150,949,761	(\$6,641,590)	-4.40%
Member Contributions	\$55,407,941	\$49,687,136	\$5,720,805	11.51%
Investment Income	\$348,910,089	\$9,916,437	\$338,993,652	3418.50%
Less Investment Expense	(\$21,926,630)	(\$20,940,955)	(\$985,675)	4.71%
Security Lending Income	\$621,892	\$721,219	(\$99,327)	-13.77%
Other Additions	\$159,510	\$29,025	\$130,485	449.55%
Total	\$527,480,973	\$190,362,623	\$337,118,350	177.09%
Current Membership	10,621	10,582	39	0.37%

ADDITIONS TO FIDUCIARY NET POSITION

FY 2009-2014



County to accelerate the pay down of its portion of Unfunded Actuarial Accrued Liability (UAAL). The first contribution was received in May 2014.

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 increased by \$159 million to \$267.9 million of deferred investment gains. The difference between the Market Stabilization Account for reserves and deferred investment gains for actuarial value of assets is due to the treatment of investment returns to the CSCA.

Additions to Fiduciary Net Position

The primary sources of funding for SamCERA member benefits are employer contributions, member contributions, and net investment income. Total additions to fiduciary net positions for the fiscal years ended June 30, 2014, and 2013 were \$732.1 million and \$527.5 million, respectively. The increase in FY 2014 is primarily due to market appreciation of assets and contributions received. The increase in total additions to fiduciary assets from FY 2012 to FY 2013 is due to market appreciation of assets.

Employer contributions for FY 2014 were

\$202.9 million, an increase of \$58.6 million over the prior year. The increase is mostly due to the supplemental county contribution of \$50 million this fiscal year and higher employer contribution rates. Member contributions were \$46.6 million. The -\$8.8 million decrease over FY 2013 is due to termination of member optional Additional Retirement Credit (ARC) purchases with the implementation of California Public Employees' Pension Reform Act (PEPRA) in FY2013.

SamCERA's total members in 2014 increased by 205 members compared to FY 2013. Active members increased 1.8% from 4,917 to 5,004, retired members increased 2.7%, from 4,398 to 4,518, and inactive members decreased .2% from 1,306 to 1,304.

Deductions from Fiduciary Net Position

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, 2014, totaled \$168.3 million, an increase of 5.19% over the prior fiscal year (refer to Table 4).

Retirement annuities, survivor benefits, and permanent disability benefits were \$159.3 million in 2014, an increase of \$10.1 million or 6.75% over 2013. 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 2013 totaled \$149.3 million, which is a \$10.1 million, or 7.2%, increase over FY 2012. The sharp increase was due to the same trend. There has been a steady increase in the number of retirees, a 14.8% increase over the last five years.

Member refunds were \$3.2 million in 2014, a decrease of \$2.5 million or -44.1% over 2013. Member refunds were higher in fiscal year 2013 due to a higher amount of terminated members, due mostly to the closing of the San Mateo County's long-term care facilities, who requested withdrawals. Also terminated members with a few years of service often withdraw their accounts.

Administrative expense was \$5.6 million for 2014. Administrative expense covers the basic costs of operating the retirement system, including information technology systems. Operating costs include staffing, office expense, depreciation, and miscellaneous expenses. Approximately half of the administrative expense is for staffing (wages, fringe benefits, and temporary workers).

The system's administrative expenses increased by \$730,817 or 14.87% in fiscal year 2014. The increase is due to hiring of additional staff, the return of SamCERA's Assistant Executive Officer (AEO) from military leave, and implementation of technology projects.

The decrease of -\$118,860 or -2.36% in administrative expenses between FY 2013 and FY 2012 was due to SamCERA's filling several vacancies during the fiscal year offset

by the savings from the AEO's military leave.

Expenses for SamCERA's professional services are included with investment expense. For the fiscal year ended June 30, 2014, the expenditures for actuarial services, custodian services and investment consultant services decreased by -\$14,000 compared to 2013. This slight decrease is due to lower actuarial fees this fiscal year. Investment management fees are driven by contractual agreements and based on total fair value of assets under management. The combination of the implementation of alternative investments (private equity, hedge funds, commodities and risk parity) as well as market appreciation of assets resulted in higher investment management fees in 2014.

Deductions of \$168.3 million are less than additions of \$732.1 million, resulting in an increase of \$563.9 million in fiduciary net position for the fiscal year ended June 30, 2014.

Change in Fiduciary Net Position

The change in fiduciary net position consists of total additions reduced by total deductions. Table 5 shows condensed information about this financial activity. Fiduciary net position increased by \$563.9 million for the year ended June 30, 2014. This increase is due to market appreciation of assets this fiscal year as well as contributions received. Fiduciary net position increased by \$367.5 million from FY 2012 to FY 2013. The increase is due to the same reasons – appreciation of assets and contributions received.

DEDUCTIONS FROM FIDUCIARY NET POSITION: TABLE 4

For the Years Ended June 30, 2014 and 2013

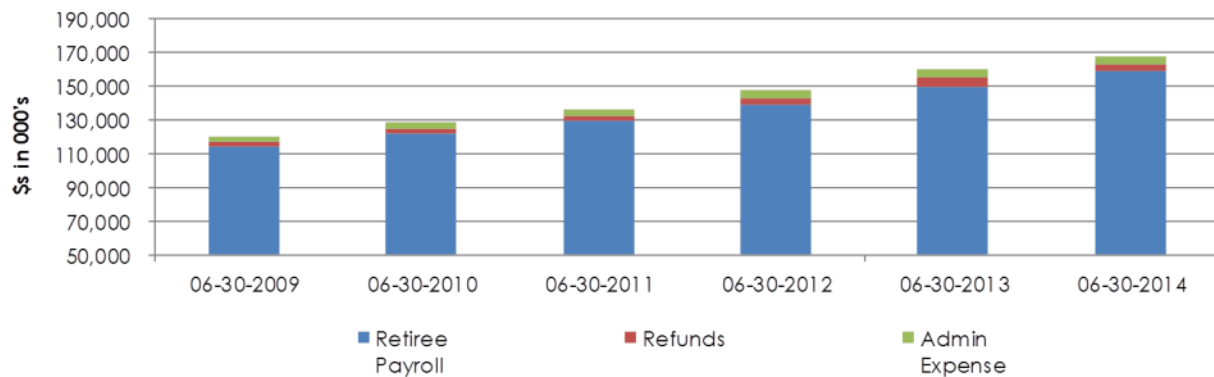
	2014	2013	Amount Increase/Decrease	Percent Increase/Decrease
Retiree Benefits	\$159,341,978	\$149,265,647	\$10,076,331	6.75%
Member Refunds	\$3,214,129	\$5,749,776	(\$2,535,647)	-44.10%
Administrative Expenses	\$5,645,004	\$4,914,187	\$730,817	14.87%
Other Expenses	\$65,292	\$29,685	\$35,607	119.95%
Total	\$168,266,403	\$159,959,295	\$8,307,108	5.19%
Benefit Recipients	4,518	4,398	120	2.73%

For the Years Ended June 30, 2013 and 2012

	2013	2012	Amount Increase/Decrease	Percent Increase/Decrease
Retiree Benefits	\$149,265,647	\$139,207,590	\$10,058,057	7.23%
Member Refunds	\$5,749,776	\$3,627,492	\$2,122,284	58.51%
Administrative Expenses	\$4,914,187	\$5,033,047	(\$118,860)	-2.36%
Other Expenses	\$29,685	(\$33,331)	\$63,016	189.06%
Total	\$159,959,295	\$147,834,798	\$12,124,497	8.20%
Benefit Recipients	4,398	4,275	123	2.88%

DEDUCTIONS FROM FIDUCIARY NET POSITION

FY 2009-2014



CHANGES IN FIDUCIARY NET POSITION (CONDENSED): TABLE 5*For the Years Ended June 30, 2014 and 2013*

	2014	2013	Amount Increase/ Decrease	Percent Increase/ Decrease
Beginning Plan Net Position	\$2,727,825,332	\$2,360,303,654	\$367,521,678	15.57%
Total Additions	\$732,135,025	\$527,480,973	\$204,654,052	38.80%
Total Deductions	\$168,266,403	\$159,959,295	\$8,307,108	5.19%
Ending Plan Net Position	\$3,291,693,954	\$2,727,825,332	\$563,868,622	20.67%

For the Years Ended June 30, 2013 and 2012

	2013	2012	Amount Increase/ Decrease	Percent Increase/ Decrease
Beginning Plan Net Position	\$2,360,303,654	\$2,317,775,829	\$42,527,825	1.83%
Total Additions	\$527,480,973	\$190,362,623	\$337,118,350	177.09%
Total Deductions	\$159,959,295	\$147,834,798	\$12,124,497	8.20%
Ending Plan Net Position	\$2,727,825,332	\$2,360,303,654	\$367,521,678	15.57%

New Accounting Standards

SamCERA's Board and management, working with professional consultants and its employers has implemented GASB 67 in the current CAFR. The standard addresses accounting and financial reporting requirements for pension plans. The requirements for GASB 67 require changes and additions in the Notes to the Financial Statements, Required Supplementary Information, Other Supplementary Information and Notes to Other the Supplementary Information sections.

Significant changes include calculation of total and net pension liability for financial reporting, comprehensive footnote disclosure regarding pension liability, sensitivity of net pension liability to the discount rate, additional investment disclosure, expected long-term discount rate, and annual money-weighted rate of return on investment. The net pension liability and related ratios as determined by GASB 67 is presented on page 63. Other requirements are reflected in the Notes to the Financial Statements, Required Supplementary Information, Other Supplementary Information and Notes to the Other Supplementary Information sections.

Participating employers will implement GASB 68, Accounting and Financial Reporting for Pensions for fiscal years beginning after June 15, 2014. GASB 68 schedules and information based on June 30, 2014, valuation for financial reporting are included in the Other Supplementary Information section.

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

These Financial Statements are designed to provide SamCERA's Board, membership, taxpayers, investment managers, and interested parties a general overview of SamCERA's financial position and to show accountability for the funds it receives.

Additional information is available on our website at www.samcera.org.

Questions concerning any of the information provided in 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 22, 2014

STATEMENT OF FIDUCIARY NET POSITION

As of June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash and deposits	\$78,671,477	\$39,405,154
Cash Management Overlay	21,446,466	0
Security lending cash collateral	0	136,413,481
Total cash	100,117,943	175,818,635
Receivables		
Contributions	4,648,233	3,611,259
Due from broker for investments sold	12,596,153	139,326,538
Investment income	3,483,030	4,998,825
Security lending income	39,953	60,596
Other receivables	113,410	113,812
Total Receivables	20,880,779	148,111,030
Prepaid Expense	7,669	7,669
Investments, at fair value		
Domestic fixed income securities	493,024,480	428,578,645
International fixed income securities	100,023,249	112,393,585
Domestic equities	1,229,039,423	1,135,856,342
International equities	653,569,353	494,939,553
Real estate	183,566,990	166,154,482
Private Equities	138,490,534	64,325,070
Risk parity	197,597,402	157,444,012
Hedge funds	117,896,816	73,717,734
Commodities	90,480,043	69,083,062
Total Investments	3,203,688,290	2,702,492,485
Total Assets	3,324,694,681	3,026,429,819
LIABILITIES		
Payables		
Investment management fees	2,787,598	2,519,194
Due to broker for investments	27,187,226	154,293,081
Collateral payable for securities	0	136,413,481
Other	3,025,903	5,378,731
Total Liabilities	33,000,727	298,604,487
Net Position Restricted for Pensions	\$3,291,693,954	\$2,727,825,332

The accompanying Notes to the Financial Statements beginning on page 38 are an integral part of these financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Years Ended June 30, 2014 and 2013

	2014	2013
ADDITIONS		
Contributions (Note 3)		
Employer	\$202,877,362	\$144,308,171
Member	46,593,698	55,407,941
Total Contributions	249,471,060	199,716,112
Investment Income		
Interest and dividends	54,492,076	55,101,945
Net appreciation/(depreciation) in fair value of investments	\$454,082,350	\$293,808,144
	\$508,574,426	\$348,910,089
Less investment expense	(\$26,524,556)	(\$21,926,630)
Net Investment Income	\$482,049,870	\$326,983,459
Security Lending Income		
Earnings	253,687	402,803
Less security lending expense	181,772	219,089
Net Security Lending Income	435,459	621,892
Other Additions	178,636	159,510
Total Additions	732,135,025	527,480,973
DEDUCTIONS		
Association benefits		
Service retirement allowance	139,036,410	131,638,612
Disability retirement allowance	19,266,623	16,705,247
Survivor, death and other benefits	1,038,945	921,788
Total Association Benefits	159,341,978	149,265,647
Refunds of members' contributions	3,214,129	5,749,776
Administrative expense (Note 3)	5,645,004	4,914,187
Other Expense	65,292	29,685
Total Deductions	168,266,403	159,959,295
Net Increase	563,868,622	367,521,678
NET POSITION RESTRICTED FOR PENSIONS		
Beginning of year	2,727,825,332	2,360,303,654
End of Year	\$3,291,693,954	\$2,727,825,332

The accompanying Notes to the Financial Statements beginning on page 38 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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 the County of San Mateo. The Association is a Pension Trust Fund of the 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 seven 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 fiscal year (FY) 2011-2012. The California Public Employees' Pension Reform Act (PEPRA) created a new tier, Tier 7, which took effect on January 1, 2013. All new members hired on and after January 1, 2013 become members of Tier 7. Tier 3, a non-contributory plan for General members, is closed effective December 23, 2012.

The County implemented a number of new tiers for new hires beginning in FY 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 Tier 4 closed simultaneously. General employees hired between August 7, 2011 to December 31, 2012 are members of Tier 5. Employees appointed to positions of active law enforcement between January 8, 2012 to December 31, 2012 become safety members under Tiers 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 became members under Tier 4 for probation officers until Tier 5 and Tier 6 were effective. Probation members hired on and after January 1, 2013 become members of Tier 7. 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

ASSOCIATION MEMBERSHIP PROFILE

For the Year Ended June 30, 2014

	Tier 1*	Tier 2*	Tier 3*	Tier 4*	Tier 5	Tier 6	Tier 7	Total
RETIREES AND BENEFICIARIES CURRENTLY RECEIVING BENEFITS								
General	1,780	1,629	125	393	0	0	0	3,927
Safety	277	146	N/A	27	0	0	0	450
Probation	71	56	N/A	14	0	0	0	141
Subtotal	2,128	1,831	125	434	0	0	0	4,518
TERMINATED MEMBERS ENTITLED TO BUT NOT RECEIVING BENEFITS (DEFERRED)								
General	16	411	96	639	11	0	8	1,181
Safety	1	28	N/A	44	3	0	0	76
Probation	0	13	N/A	32	2	0	0	47
Subtotal	17	452	96	715	16	0	8	1,304
CURRENT MEMBERS								
Vested								
General	30	861	86	2,260	2	0	2	3,241
Safety	3	98	N/A	231	0	0	0	332
Probation	1	57	N/A	199	0	0	0	257
Non-Vested								
General	0	2	31	249	264	0	485	1,031
Safety	0	0	N/A	49	45	1	25	120
Probation	0	0	N/A	3	6	2	12	23
Subtotal	34	1,018	117	2,991	317	3	524	5,004
Total	2,179	3,301	338	4,140	333	3	532	10,826

* Plans closed to new entrants except Tier G4 for Mosquito District eligible reciprocal members.

equivalent to the purchase. Tier 3 is closed and there is no longer a non-contributory tier.

New employees hired on and after January 1, 2013 join PEPR Tier 7. General members go into a 2% @ 62 plan, and can retire at age 52 with 5 years of service. New Safety and Probation members now go into a 2.7% @ 57 plan, and Safety and Probation members are eligible to retire at age 50 with 5 years of service. General employees hired between August 7, 2011 and December 31, 2012, chose between an existing non-contributory plan or a 2% @ 61.25 contributory plan, Tier 5. Safety members hired between January 8, 2012 to December 31, 2012 were

enrolled in a 3% @ 55 Tier 5, or a 2% at 50 Tier 6, contributory plan. Probation members hired between July 10, 2011 and December 31, 2012, were 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 members in Tiers 5, 6, and 7 and certain re-entry members in Tiers 1, 2, and 4 also pay half the actuarial cost of Cost of Living Adjustments (COLA). Members in Tiers 1, 2, and 4 pay a cost share contribution and members of certain bargaining units pay 25% of the actuarial cost of the COLA benefit.

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

As of June 30, 2014, the Association membership is shown in the table on page 39.

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 COLA upon retirement for members of Tiers 1, 2, 4, 5, 6 and 7. 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 in Tiers 1, 2, 3, 4, 5 and 6 with 10 years of continuous service (permanent part-time employees need equivalent of 5 years of full-time service and 10 years of membership), and members in Tier 7 with 5 years of service are eligible to retire at the following minimum ages:

Tier One	Age 50
Tier Two	Age 50
Tier Three	Age 55
Tier Four	Age 50
Tier Five	Age 50
Tier Six	Age 50
Tier Seven	Age 52

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 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 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 earned, and expenses are recognized when 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'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 (Board) 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: 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. Real estate assets are reported at fair value utilizing an income approach to valuation. By policy, an independent appraisal is obtained once every quarter to determine the fair market value of the real estate assets.

Private equity partnerships are reported in SamCERA’s financials based on the fair value provided by the General Partner on a quarterly basis. The management assumptions are based upon the nature of the investment and the underlying business.

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.

Asset Allocation Policy: In June 2014, the Board approved a new asset allocation policy with modest changes intended to further diversify the plan. The new asset allocation policy is incorporated into SamCERA’s updated Investment Policy Statement, which helps guide the manner in which SamCERA invests.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	5.4%
Intl Equity	20%	5.8%
Fixed Income	20%	1.2%
Alternatives	16%	0.8%
Risk Parity	8%	4.3%
Real Estate	6%	3.9%
Cash	-	0.0%
	100%	

Long-term expected rate of return net of investment expenses: 7.45%

Long-term Expected Rate of Return by Asset Class: The long-term expected rate of return on pension plan investments was determined using a building-block approach in which a median (or expected) geometric rate of return is developed for each major asset class. The median rates are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentages. Estimates of the median geometric rates of return for each major asset class at the time the asset allocation targets were selected are shown in the table. The asset class return assumptions are presented

on a real basis, and do not include a base inflation rate assumption of 2.22%.

Discount Rate: The investment rate of return assumption used for actuarial funding was 7.45 percent, for the fiscal year ended June 30, 2014. GASB 67 requires determination that the Plan's fiduciary net position is projected to be sufficient to make projected benefit payments. The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return, gross of administrative expenses.

Money-Weighted Rate of Return: For the fiscal year ended June 30, 2014, the annual money-weighted rate of return on Pension Plan investments, net of Pension Plan investment expense, was 17.18 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Investment Concentrations: SamCERA does not hold investments in any one organization that represent 5 percent or more of the Plan's Fiduciary Net Position.

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 position 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 position 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 position 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, 2014, and 2013.

Capital Asset (including Intangible Assets)

Capital Assets are items with an initial cost of more than \$5,000 and an estimated useful life in excess of three years. Capital assets are valued at historical cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, from three to ten years. Most capital assets are information technology related. The routine upgrade of information technology systems, hardware, software and maintenance are reviewed and deemed appropriate as being expenses for the current year.

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 fiduciary net position.

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, 2013, from which the summarized information was derived.

Implementation of New Accounting Pronouncements

For the year ended June 30, 2014, SamCERA implemented GASB Statement No. 67, *Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25*. The requirements for GASB 67 require changes and addition in the Notes to the Financial Statements, Required Supplementary Information, and Other Supplementary Information. Significant changes include calculation of total and net pension liability for financial reporting, comprehensive footnote disclosure regarding pension liability, sensitivity of net pension liability to the discount rate, additional

investment disclosure, expected long-term discount rate, and annual money-weighted rate of return on investment. The net pension liability and related ratios as determined by GASB 67 is presented on page 63. Other requirements are reflected in the Notes to the Financial Statements, Required Supplementary Information, and Other Supplementary Information sections.

Note 3: Contributions, Net Pension Liability, 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, Tier 6 and Tier 7). 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, 6 and 7 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. Members in Tier 7 pay 50% of the actuarial determined cost of retirement benefit as required by PEPRA. 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 in Tiers 1, 2, and 4 contribute an additional 3%, and Safety and Probation members contribute an additional 3% to 5% 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

METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

Actuarial cost Method	Entry Age
Amortization method	Layered Closed 15-year periods
Remaining amortization period	Layered 15-year periods
Asset valuation method	5-year smoothed market with 20% corridor
Inflation	3.00%
Salary increases	3.50%
Investment rate of return, gross of administrative expense	7.45%
Mortality	Various rates based on RP-2000 mortality tables. See June 30, 2014 Valuation Report for details.

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 closed 15-year layered amortization methodology. Under this methodology, the original unfunded amount (UAAL) is amortized over closed 15 years as of the valuation date. Future actuarial gains and losses are amortized over new closed 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

	2014	2013	Change
Normal Cost	11.63%	11.19%	0.44%
UAAL Amortization	23.93%	26.28%	-2.35%
Total Contribution Rate	35.56%	37.47%	-1.91%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution (unit \$000)	Percentage Contributed
2014	\$202,877	100%
2013	\$144,308	100%
2012	\$150,950	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 September 2, 2012, the County further reduced the percentage it pays from 75% to 50% of the basic member contribution for the same group. Effective September 2, 2012, the County reduced the percentage it pays of confidential employees' contribution from 70% to 50%. Both are on a refundable basis. In addition, members of certain bargaining units who are in a contributory retirement plan have a portion of their retirement deduction paid by the County based on individual years of service using schedules set forth in a Memorandum of Understanding. Effective April 23, 2006, the County pays 20% of Safety/Probation contributions on a non-refundable basis.

For the fiscal year ended June 30, 2014, the County paid its employer contributions owed to SamCERA in two semi-annual prepayments in July 2013 and January 2014. 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 2013-2014 fiscal year, the prepayment account had an excess balance of \$2.2 million which included a credit to the County of \$188,660 for the replacement benefits program. The excess in the prepayment account will be credited towards the 2014-2015 fiscal year employer contribution.

The County will continue with the

semi-annual prepayment in FY 2014-2015.

The County was interested to accelerate the pay down of its UAAL and reached an agreement with SamCERA to contribute additional funds to reach this goal. In May 2014, the County gave SamCERA an additional \$50 million dollars to put into the County Supplemental Contributions Account (CSCA). The money will be invested in SamCERA's fund and will receive interest based on market rate return. As of June 2014, the account has a balance of \$50.8 million. The County plans to give an additional \$10 million dollars per year to be credited to this account for the next nine years. In addition, the County plans to pay the higher of aggregate of 38% of payroll or the statutory contribution rate as determined by SamCERA's actuary.

Net Pension Liability

GASB 67 requires public pension plans to provide a net pension liability. The net pension liability is measured as the total pension liability less the amount of the pension plan's fiduciary net position. The net pension liability is an accounting measurement for financial statement reporting purposes. The components of SamCERA's net pension liability at June 30, 2014, are shown on page 47.

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 one 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

ANALYSIS OF ACTUAL ADMINISTRATIVE BUDGET

As of June 30, 2014 and 2013 (Amounts in Thousands)

	2014	2013
Actual Accrued Liability at Prior Year-End	\$3,573,000	\$3,442,000
Projected Net Asset Base at Fair Value	n/a	n/a
Maximum Limit in Basis Point	21 bp	21 bp
Maximum Admin Expense	\$7,503	\$7,228
Operating Budget	\$5,533	\$5,392
Actual Admin. Expense	\$4,914	\$4,260
Under-expended Operating Budget	\$619	\$1,132

ADMINISTRATIVE BUDGET

	2014	2013
Salaries and member benefits	\$4,068,503	\$3,895,420
Services and supplies	1,464,537	1,496,380
Administrative Budget	\$5,533,040	\$5,391,800

INFORMATION TECHNOLOGY BUDGET

	2014	2013
Property and Equipment	\$78,000	\$48,000
IT Infrastructure	3,273,200	2,039,200
IT Budget	\$3,351,200	\$2,087,200

ANALYSIS OF ACTUAL INFORMATION TECHNOLOGY EXPENSES

As of June 30, 2014 and 2013

	2014	2013
Property and Equipment	\$13,733	\$22,983
IT Infrastructure	717,396	631,583
IT Expenses	\$731,129	\$654,566

based on the prior year accrued actuarial liability as determined in the latest annual valuation. SamCERA's administrative expenses totaled 0.14% of accrued actuarial liability for the fiscal year ended June 30, 2014.

SCHEDULE OF NET PENSION LIABILITY

The schedules of changes in net pension liability display the components of the total pension liability and plan fiduciary net position for the Plan, calculated in conformity with the requirements of GASB 67. Covered employee payroll represents the collective total of the Plan eligible wages of all Plan employers. The components of net pension liability of the plan at June 30, 2014 were as follows:

Net Pension Liability:	June 30, 2014	June 30, 2013
Total Pension Liability	\$3,703,341,222	\$3,506,515,307
Plan Fiduciary Net Position	<u>3,291,693,954</u>	<u>2,727,825,332</u>
Employers' Net Pension Liability	411,647,268	778,689,975
Plan net position as a % of the total pension liability	88.88%	77.79%
Covered payroll	422,021,990	406,921,529
Net pension liability as a % of covered payroll	97.54%	191.36%

The total liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate shown below.

Discount Rate

Discount rate	7.45%	7.65%
Long-term discount rate of return, net of expenses	7.25%	7.50%
Municipal bond rate	N/A	N/A

The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return, gross of administrative expenses of 7.45%.

Other Key Actuarial Assumptions

Validation date	June 30, 2014	June 30, 2013
Measurement date	June 30, 2014	June 30, 2013

Actuarial Methods and Assumptions

Key assumptions and methods used in this GASB analysis

Valuation Timing

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.

Actuarial Cost Method

Individual Entry Age Normal

Amortization Method

Level percent or level dollar

Level percent

Closed, open, or layered periods

Layered

Amortization Period for Each Layer

15 years

Amortization Growth Rate

3.50%

Asset Valuation Method

Smoothing period

5 years

Recognition method

Non-asymptotic

Corridor

80% to 120% of market value

Inflation

3.00%

Investment Rate of Return

7.45%*

Cost of Living Adjustments

As described in the June 30, 2014 actuarial valuation

Mortality

Various rates based on RP-2000 mortality tables

See June 30, 2014 Valuation Report for details.

* Differs from actuarial valuation due to addition of administrative expense load of 0.20%.

SENSITIVITY ANALYSIS

The following presents the net pension liability of SamCERA, calculated using the discount rate of 7.45%, as well as what SamCERA's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.45%) or 1 percentage point higher (8.45%) than the current rate.

<i>(\$ in thousands)</i>	1% Decrease: 6.45%	Current Discount Rate: 7.45%	1% Increase: 8.45%
Total pension liability	\$ 4,211,206	\$ 3,703,342	\$ 3,285,015
Fiduciary net position	\$3,291,694	\$3,291,694	\$3,291,694
Net Pension liability	\$919,512	\$411,648	\$(6,679)

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, information technology expenses are not included in administrative expenses. Hence, there is a separate information technology budget that started in fiscal year 2012. Administrative expenses of the Association are financed through employer and member contributions and investment earnings. Administrative expenses reported in the statement of changes in fiduciary net position include those shown in the nearby tables. An analysis of budget to actual administrative expenses is shown on page 67.

Reserves and Accounts

The reserves represent the components of SamCERA's net position. 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.

COLA 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 Tiers 4, 5, 6 and 7. Tier 3 has no COLA.

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

RESERVES REQUIRED FOR REPORTING PURPOSES BY THE 1937 ACT

	2014	2013
Member Deposit Reserve	\$584,079,609	\$534,275,685
Employers' Advance Reserve – Current Service	570,829,244	422,581,774
County CSCA	50,842,556	0
Retiree Member Reserve	877,161,874	918,589,967
COLA Reserve	1,019,232,798	930,358,294
Total Allocated Reserves	3,102,146,081	2,805,805,720
Unallocated Earnings / Losses Account	(108,622,522)	(187,166,322)
Market Stabilization Account	267,936,182	109,185,934
Contingency Reserve	30,234,213	0
Net Assets Held in Trust for Pension Benefits	\$3,291,693,954	\$2,727,825,332

California Government Code requirement to reserve at least 1% of total assets against future earnings deficiencies.

Accounts

Accounting principles generally accepted in the United States of America do not allow for a negative reserve. Therefore, the Board 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 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 UAAL. 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 adopted Resolution 03-04-17, *Statement of Interest Crediting Policy*. This policy was amended on September 28, 2004, to establish an Unallocated Earnings / Losses Account.

On July 29, 2014, the Board adopted Resolution 14-15-03, *Interest Crediting Policy* to clarify language in the policy; add a CSCA Reserve and define the crediting to the CSCA Reserve; and delete the Supplemental Benefits Reserve and the potential crediting of "excess earnings" to that reserve. There was no change in the interest crediting rate or method.

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 Position affects the reserves indirectly through an actuarial “smoothing” process approved by the Board. 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 Reserve, at the actuarial assumed interest rate of 3.75% semi-annually for the fiscal year ended June 30, 2014, to specific components of reserves in a prescribed sequence. Pursuant to the Board’s interest crediting policy, the Member Deposit Reserve is 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/(Losses) to Reserves: For the year ended June 30, 2014, SamCERA distributed allocation of earnings to reserves of \$239.7 million which resulted in -\$108.6 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, 3.75% semi-annually. The actuarial smoothed interest rate was 5.58% and 5.98% at December 31, 2013, and June 30, 2014, respectively.

Reserves are restricted to specific purposes. Member contributions are credited to the Member Deposit Reserve. Employer contributions are credited to the Employers’ Advance Reserve and the COLA Reserve. At retirement, a member’s accumulated contributions plus interest and the related employer’s contributions are transferred to the Retired Member Reserve. The Retired Member Reserve and the COLA 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 Employers’ 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.

The June 30, 2014, balance in the Market Stabilization Account of \$267.9 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 greater than or less than the Actuarial Interest Rate. An Unallocated Earnings / Losses Account was established to account for periods when Actual Earnings do not equal the Actuarial Interest Rate.

The Board adopted a 0.25% reduction in the assumed interest rate to 7.25% in June 2014 which was applied to investment returns effective July 2015. Interest credit to Unallocated Earnings / Losses and Market Stabilization Accounts used 7.5% since they are associated with earnings assumption. The prior rate of 7.5% was applied to members and employer reserves interest crediting since the contribution rates were determined with 7.5%. Effective July 2015, 7.25% is used for all interest crediting.

Note 4: Deposit and Investment Risk Disclosure

The 1937 Act vests the Board 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. 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 policy and contracts executed with the Board. The Board utilizes a third party institution to be an independent custodian over the plan's assets.

Investment Plan: 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. The Board typically undertakes an in-depth asset liability study every three to five years. On August 24, 2010, the Board 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 Board conducted another asset liability study in FY 2014 and made modest changes intended to diversify the plan. The new adopted target asset allocation consists of 50% equities, 20% fixed income, 16% alternatives, 8% risk parity, and 6% real estate. The Board added a new real assets category in alternatives and moved risk parity from alternatives into its own asset class. SamCERA does not have a policy allocation to cash and cash equivalents. As of June 30, 2014, actual asset allocation was 57.8% equities, 18.0%

fixed income, 10.4% alternatives, 6.0% risk parity, 5.6% real estate, and 2.2% in cash and cash equivalents.

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, 2014. 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 separate account portfolio investment manager to abide by 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 separate account 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, 2014 is not material.

SamCERA's investments contain various derivative positions as of and for the fiscal year ended June 30, 2014, primarily in swaps and foreign currency forward positions. As of June 30, 2014, SamCERA held derivatives with a notional amount of \$57,394,469 and a fair value of -\$27,568 as seen in the table on this page. Changes in fair value during fiscal year 2014 are reported in the statement of changes in fiduciary net position 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 values of the derivatives are determined using a pricing service and validated by SamCERA's custodian. 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.

Securities Lending Activity

Beginning on July 1, 2007, the Board policies authorize SamCERA to participate in a securities lending program. Security lending transactions are short-term collateralized loans of SamCERA securities for the purpose of generating additional

INVESTMENT DERIVATIVES

For the Year Ended June 30, 2014

	Notional Value	Fair Value
Credit Default Swaps Bought	\$231,410	\$32,397
Fixed Income Futures Long	\$82,450,000	\$0
Fixed Income Futures Short	-\$35,838,301	\$0
Fixed Income Options Written	\$0	\$0
Foreign Currency Futures Long	\$4,700,000	\$0
Futures Options Bought	\$125,500	\$8,319
Futures Options Written	-\$198,500	-\$32,538
FX Forwards	\$5,922,810	-\$35,746
Index Futures Long	\$41,300	\$0
Index Futures Short	-\$39,750	\$0
Pay Fixed Interest Rate Swaps	\$0	\$0
Receive Fixed Interest Rate Swaps	\$0	\$0
Rights	\$0	\$0
Grand Total	\$57,394,469	-\$27,568

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.

For the year ended June 30, 2014, 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 statement of fiduciary net position.

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, 2014, 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, 2014, 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. In June 2014, SamCERA paused its securities lending program and recalled its securities on loan due to a change in custodial banks effective July 1, 2014. Therefore, as of June 30, 2014, SamCERA had no securities on loan.

Deposit, Investment and Derivative Risks

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, 2014, cash held with a financial institution in a pooled money market fund totaled \$50.4 million. As of June 30, 2013, cash held with a financial institution totaled \$1.2 million. Cash held in the County Treasurer's investment pool was \$2.1 million and \$1.0 million, as of June 30, 2014 and 2013, respectively. These deposits are not exposed to custodial credit risk as they are eligible and covered by insurance in accordance with applicable law and Federal Deposit Insurance Corporation (FDIC) rules and regulations.

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 real estate investments and investments in pools. As of June 30, 2014, SamCERA had no investments that were exposed to custodial credit risk because all securities held by the Association's custodial bank are in SamCERA's name. SamCERA does not have a general policy addressing custodial credit risk.

Custodial Credit Risk – Derivatives: As of

June 30, 2014, SamCERA's derivatives were not subject to custodial credit risk. However, they are subject to other risks.

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.

As of June 30, 2014, the Association had the investments categorized for interest rate and credit risk shown in the tables on the following page.

Credit Risk – Investments: 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.

On June 30, 2014, the quality breakdown of the Association's investments in bonds were rated as indicated on the following page.

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 ratings of counterparties. Should there be a counterparty failure, SamCERA would be

ACTIVE FIXED INCOME PORTFOLIO CHARACTERISTICS

Brigade Capital Management, Brown Brothers Harriman, Franklin Templeton, Pyramis Global Advisors & Western Asset Management Bond Portfolios Combined

Investment Type	Fair Value	Coupon	Weighted Average Maturity (Years)	Effective Duration (Years)
AGENCY	\$2,992,160	5.19%	10.32	6.91
ASSET BACKED	\$4,850,245	1.86%	8.07	3.05
CMBS	\$2,564,047	5.76%	3.38	3.04
CMO	\$11,762,922	3.01%	7.29	4.17
COMMINGLED FUND	\$346,414,684	0.01%	85.25	97.46
CORPORATE	\$33,722,802	4.82%	9.09	6.41
FOREIGN	\$4,012,307	4.22%	16.08	7.97
MORTGAGE PASS-THROUGH	\$33,919,362	3.76%	4.91	3.89
OPTIONS	-\$18,188	0.00%	-	-
PREFERRED STOCK	\$49,168	7.88%	26.33	3.35
SWAPS	\$32,397	0.00%	-	-
UNCLASSIFIED	\$1,821,265	3.16%	4.49	4.22
US TREASURY	\$91,710,074	1.73%	9.32	7.45
YANKEE	\$6,323,640	5.21%	11.49	7.47
TOTAL	\$ 540,156,885	2.99%	8.47	6.26

COMMINGLED FIXED INCOME PORTFOLIO CHARACTERISTICS

Angelo Gordon STAR, OWL Portfolio

Investment Type	Fair Value	Coupon	Weighted Average Maturity (Years)	Effective Duration (Years)
Angelo Gordon	\$ 52,890,844	2.52%	6.66	21.9

QUALITY BREAKDOWN FOR SAMCERA'S INVESTMENTS IN BONDS

For the Year Ended June 30, 2014

Credit Risk	Active Management	Commingled Management
AAA	0.25%	0.00%
AA	48.94%	0.00%
A	5.86%	2.23%
BBB	6.98%	1.42%
Less than BBB	2.97%	71.06%
NR	35.00%	25.29%
TOTAL	100.00%	100.00%

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.

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 six 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 U.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.

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. The Association's exposure to foreign currency risk in U.S. dollars as of June 30, 2014, is shown on the following page.

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

FOREIGN CURRENCY RISK

For the Year Ended June 30, 2014

Trade Country Name	Common Stock	Depository Receipts	Foreign Currency	Government Issues	Grand Total
AUSTRALIA	\$16,361,994				\$16,361,994
BELGIUM	\$360,699				\$360,699
BRAZIL				\$281,228	\$281,228
CANADA	\$2,049,326		\$627,738		\$2,677,064
DENMARK	\$10,806,959				\$10,806,959
EGYPT			\$5		\$5
FINLAND	\$1,853,722				\$1,853,722
FRANCE	\$24,072,941				\$24,072,941
GERMANY	\$13,626,937				\$13,626,937
GHANA			\$80,957		\$80,957
HONG KONG	\$6,669,375				\$6,669,375
INTERNATIONAL			\$1,664,826		\$1,664,826
ITALY	\$8,730,581				\$8,730,581
JAPAN	\$50,682,303		\$205,691		\$50,887,994
KOREA, REPUBLIC OF	\$3,053,200				\$3,053,200
MEXICO	\$1,388,214		\$43,751	\$1,791,761	\$3,223,726
NETHERLANDS	\$10,952,209				\$10,952,209
NEW ZEALAND	\$2,002,615			\$501,854	\$2,504,469
PHILIPPINES	\$1,025,195				\$1,025,195
SINGAPORE	\$13,526,643				\$13,526,643
SOUTH AFRICA	\$5,113,544				\$5,113,544
SPAIN	\$19,078,542				\$19,078,542
SWEDEN	\$18,271,701				\$18,271,701
SWITZERLAND	\$31,387,377				\$31,387,377
TURKEY	\$3,178,155				\$3,178,155
UNITED KINGDOM	\$73,214,765	\$8,550,967	\$27,810	\$1,437,464	\$83,231,006
Grand Total	\$317,406,997	\$8,550,967	\$2,650,778	\$4,012,307	\$332,621,049

“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, 2014, SamCERA had recalled its securities on loan and, therefore, did not invest any collateral in the reinvestment pool due to an upcoming change in custodial banks effective July 1, 2014.

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's self-insurance program.

SamCERA is covered by the County'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, 2014 through May 27, 2015. 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 \$100 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 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 1937 Act, 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, 2013, and June 30, 2014, and determined the funding status (the ratio of system assets to system liabilities) to be 73.3% and 78.8%, respectively. The June 30, 2014, funding status was established based on entry age normal actuarial cost methods, an assumed 7.25% investment return, an assumed 3.50% annual total payroll growth rate, an inflation rate of 3.00% 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, 2014. The valuation discloses the actuarial value of assets at \$3.0 billion with an actuarial accrued liability of \$3.8 billion for a funded ratio of 78.8%. The UAAL is \$803.9 million, which is 190% percent of

the \$422.0 million covered payroll. The employer contribution rate, which has an effective date of June 30, 2015, was set equal to 23.94% of payroll for the amortization of the UAAL over the new closed 15 years, plus the normal cost rate of 11.62% for a total contribution rate of 35.56% of payroll. A schedule of SamCERA's funding progress may be found in the actuarial section on page 102. 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.

GASB Statement No. 50, *Pension Disclosures*, mandates that the above information

LATEST ACTUARIAL VALUATION OF PLAN ASSETS AND LIABILITIES

Valuation Date	June 30, 2014
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 closed 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new closed 15-year periods (including the change in UAAL as of June 30, 2014). 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	7.25%
Price Inflation (CPI)	3.00%
Payroll Increases	3.50%
Average Projected Salary Increases	4.02%
Attributed to Inflation	3.50%
Attributed to Adjustments for Merit and Longevity	1.20%

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%), 3% for Tier 2 and 2% for Tiers 4, 5, 6 and 7. The annual adjustments are based on the change in the CPI for the Bay Area.

Note 7: Capital Commitments

During the course of the fiscal year, SamCERA added \$97.5 million of additional commitments to four new private equity managers. As of June 30, 2014, the Association's private equity portfolio consisted of fifteen fund managers with a total capital commitment amount reaching \$280.5 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, 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 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.

Financial Disclosures

Subsequent to June 30, 2014 and through October 22, 2014, the date through which management evaluated subsequent events and the date of the independent auditor's report, SamCERA did not identify any subsequent financial events that required disclosure.

Investment Managers

As part of SamCERA's new allocation to real assets, the Board approved a \$20 million capital commitment to Taurus Mining Finance Fund LLC. The Board also approved an initial \$70 million investment to PanAgora Diversified Risk Multi-Asset Fund, Ltd. in line with its increased target allocation to risk parity. Finally, as part of SamCERA's ongoing implementation of its private equity program, a \$15 million capital commitment to ABRY Partners VIII, L.P. was approved.

Custodial Bank

SamCERA changed custodial banks from State Street Bank & Trust to the Northern Trust effective July 1, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

For the Year Ended June 30, 2014

	2014
Total Pension Liability	
Service cost	\$ 87,512,515
Interest on total pension liability	265,430,896
Effect of plan changes	0
Effect of assumption changes or inputs	37,853,852
Effect of economic/demographic gains or (losses)	(31,415,241)
Benefit payments and refund of contributions	<u>(162,556,107)</u>
Net change in total pension liability	196,825,915
Total pension liability, beginning	<u>3,506,515,307</u>
Total pension liability, ending (a)	<u>\$ 3,703,341,222</u>
Fiduciary Net Position	
Employer contributions	\$ 202,877,362
Member contributions	46,593,698
Investment income net of investment expenses	482,663,965
Benefit payments and refund of contributions	(162,556,107)
Administrative (and other non-investment) expenses	<u>(5,710,296)</u>
Net change in plan fiduciary net position	563,868,622
Fiduciary net position, beginning	2,727,825,332
Fiduciary net position, ending (b)	<u>3,291,693,954</u>
Net pension liability, ending = (a)-(b)	<u>\$ 411,647,268</u>
Fiduciary net position as a % of total pension liability	88.88%
Covered payroll	\$ 422,021,990
Net position liability as a % of covered payroll	<u>97.54%</u>

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 67/68, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been implemented.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last 10 Fiscal Years (\$ in thousands)

Fiscal Year Ending June 30	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	As a % of Covered Payroll	
					Actuarially Determined Contribution	Actual Employer Contribution
2005	\$76,930,928	\$76,930,928	\$0	\$334,314,706	23.01%	23.01%
2006	76,089,599	76,089,599	0	368,971,869	20.62%	20.62%
2007	100,549,570	100,549,570	0	407,911,467	24.65%	24.65%
2008	105,339,570	105,339,570	0	416,261,210	25.31%	25.31%
2009	106,123,055	106,123,055	0	436,423,248	24.32%	24.32%
2010	106,265,329	106,265,329	0	428,559,066	24.80%	24.80%
2011	150,474,872	150,474,872	0	424,060,830	35.48%	35.48%
2012	139,406,807	150,949,791	(11,542,984)	419,778,688	33.21%	35.96%
2013	131,293,846	144,308,171	(13,014,325)	406,921,529	32.27%	35.46%
2014	152,877,362	202,877,362	(50,000,000)	422,021,990	36.22%	48.07%

¹Employers contributed at a higher rate than the Actuarially Determined Contribution rate in order to maintain more stable contributions.

²In 2014, the Board of Supervisors implemented a policy to eliminate the County UAAL by 2023. Contributions in excess of the Actuarially Determined Contribution are related to that policy unless noted otherwise.

SCHEDULE OF INVESTMENT RETURNS

Last 10 Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Annual money-weighted rate of return, net of investment expense	17.18%	13.43%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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 1 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 in the Actuarial Section.

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 Tiers 4, 5, 6 and 7. The annual adjustments are based on the change in the Consumer Price Index for the Bay Area.

LATEST ACTUARIAL VALUATION OF PLAN ASSETS AND LIABILITIES

Valuation Date	June 30, 2014
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 closed 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new closed 15-year periods (including the change in UAAL as of June 30, 2014). This is referred to as 15-year layered amortization.
Asset Valuation Method	5-year smoothed market with 20% corridor

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Average Projected Salary Increases	4.02%
Attributed to Inflation	3.50%
Attributed to Adjustments for Merit and Longevity	1.20%

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF ADMINISTRATIVE EXPENSES

For the Years Ended June 30, 2014 and 2013

	2014*	2013*
Salaries and Member Benefits	\$3,695,520	\$3,129,111
Services and Supplies	1,218,355	1,130,510
Total Administrative Expense	\$4,913,875	\$4,259,621

* As defined in Government Code section 31580.2, excludes Information Technology expenses.

ADMINISTRATIVE BUDGET ANALYSIS

Budget to Actual Expenditures as of June 30, 2014

	Budget Allotment (As Amended)	Fiscal Year Expenditures	Percentage Expended
Salaries	\$2,607,570	\$2,329,191	89.32%
Benefits	1,460,933	1,366,329	93.52%
Salaries & Benefits	4,068,503	3,695,520	90.83%
Board Expenses	10,500	6,600	62.86%
Insurance	80,000	63,290	79.11%
Medical Evaluation	100,000	45,969	45.97%
Member Education	45,000	45,833	101.85%
Education & Conference	97,215	112,566	115.79%
Transportation & Lodging	177,750	97,183	54.67%
Technology Infrastructure	0	0	0.00%
Property & Equipment	24,000	25,733	107.22%
General Office Supplies	33,500	30,675	91.57%
Postage, Printing & Copying	85,000	51,772	60.91%
Leased Facilities	367,794	331,537	90.14%
County Service	398,278	356,928	89.62%
Audit Services	45,500	50,269	110.48%
Other Administration	0	0	0.00%
Services & Supplies	1,464,537	1,218,355	83.19%
Capital Assets	0	0	0.00%
Depreciation	0	0	0.00%
Grand Total	\$5,533,040	\$4,913,875	88.81%

SCHEDULE OF INFORMATION TECHNOLOGY EXPENSES

For the Years Ended June 30, 2014 and 2013

	2014	2013
Property and Equipment	\$13,733	\$22,983
IT Infrastructure	717,396	631,583
Total Information Technology Expense	\$731,129	\$654,566

SCHEDULE OF INVESTMENT EXPENSES

For the years ended June 30, 2014 and 2013

	2014	2013
INVESTMENT MANAGER		
Aberdeen Asset Management	\$0	\$99,035
ABRY Advanced Security Fund II, L.P.	\$306,033	\$283,339
ABRY Partners VII, L.P.	\$116,099	\$96,030
Angelo Gordon GECC PPIP Fund	\$0	\$135,126
Angelo Gordon STAR Fund	\$455,265	\$226,747
AQR Delta XN Fund L.P.	\$956,112	\$715,597
AQR Global Risk Premium III L.P.	\$693,002	\$665,899
Artio Global Management	\$0	-\$369
Baillie Gifford Overseas	\$877,839	\$789,014
Barrow, Hanley, Mewhinney & Strauss	\$686,543	\$711,508
BlackRock Capital Management (S&P500)	\$124,763	\$101,850
BlackRock Capital Management (EAFE)	\$41,384	\$0
BlackRock Capital Management (Growth)	\$0	\$197,443
Brigade Capital Management	\$483,492	\$453,921
Brown Advisory	\$652,364	\$112,842
Brown Brothers Harriman	\$117,213	\$124,095
Cevian Capital L.P.	\$449,278	\$0
Chartwell Investment Partners	\$889,355	\$585,085
Clifton Parametric	\$143,011	\$0
D.E. Shaw Investment Management	\$731,914	\$667,540
Eaton Vance Management	\$655,005	\$638,969
Emergence Capital Partners III L.P.	\$170,196	\$230,383
EnCap Energy Capital IX L.P.	\$150,000	\$117,799
Franklin Templeton	\$499,223	\$455,842
General Catalyst Partners L.P.	\$119,780	\$238,500
Great Hill Partners V L.P.	\$18,661	\$0
Invesco Realty Advisors	\$721,231	\$634,472
Jennison Associates	\$0	\$404,520
Mondrian Investment Partners	\$600,689	\$296,128
New Enterprise Associates 14, L.P.	\$103,642	\$114,973
Pyramis Global Advisors	\$241,874	\$214,840
Pyramis Select	\$558,133	\$465,257
Regiment Capital Special Situations Fund V, L.P.	\$288,338	\$297,303
Sheridan Production Partners II-B, L.P.	\$375,053	\$300,045
SSGA/SSARIS Multisource Commodities	\$456,540	\$429,739
Sycamore Partners L.P.	\$347,288	\$367,297
Sycamore Partners II L.P.	\$327,584	\$0
Third Rock Ventures III L.P.	\$118,730	\$250,000
T. Rowe Price Associates	\$0	\$240,184
The Boston Company	\$947,664	\$604,235
Warburg Pincus XI L.P.	\$369,805	\$397,470
Western Asset Management	\$322,056	\$319,960
GLOBAL CUSTODIAN		
State Street Bank	172,619	168,039
INVESTMENT & ACTUARIAL CONSULTANTS		
	509,631	545,541
Subtotal Professional Expense	15,797,409	13,696,198
OTHER INVESTMENT RELATED EXPENSE	7,996,711	5,379,365
INTEREST PAID ON PREPAID CONTRIBUTION	2,730,436	2,851,067
Total Investment Expense	\$26,524,556	\$21,926,630

SCHEDULE OF PAYMENTS TO CONSULTANTS

For the years ended June 30, 2014 and 2013

	2014	2013
INVESTMENT CONSULTANT EXPENSE		
Strategic Investment Solutions, Inc.	\$400,000	\$404,608
ACTUARIAL CONSULTANT EXPENSE		
Milliman, Inc.	78,131	92,100
OTHER PROFESSIONAL FEES	31,500	48,833
Total Consultant Expense	\$509,631	\$545,541

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:*

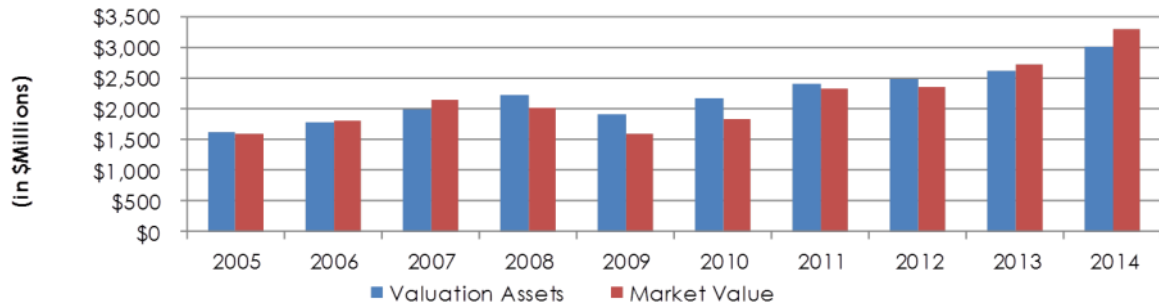
- (a) *The costs, as approved by the board, of actuarial valuations and services rendered pursuant to §31453.*
- (b) *The compensation of any bank or trust company performing custodial services.*
- (c) *When an investment is made in deeds of trust and mortgages, the fees stipulated in any*

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."*

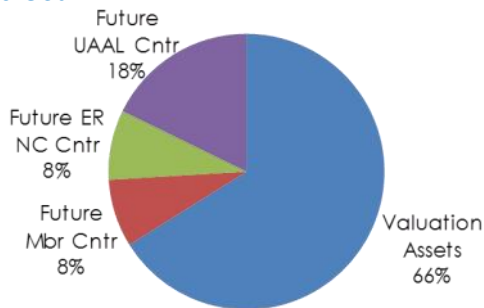
SamCERA's professional services budget is driven by contractual agreements with its actuary, custodian, investment consultant, and investment managers.

APPLICABLE VALUATION ASSETS

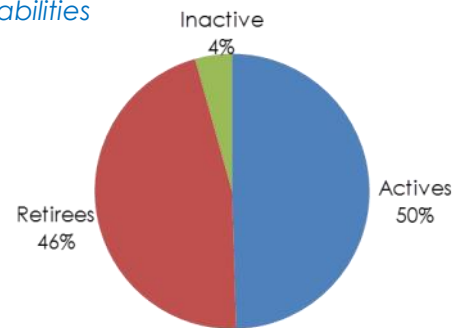


ACTUARIAL RESOURCES AND LIABILITIES

Resources



Liabilities



OTHER INFORMATION

SCHEDULE OF COST SHARING EMPLOYER ALLOCATIONS - GASB 68

Employer/Nonemployer (special funding situation)	2014 Statutory employer contributions	2014 Actual employer contributions	Employer Allocation Percentage*	Net Pension Liability
County of San Mateo*	\$146,708,770	\$196,708,770	95.97%	\$395,057,883
San Mateo Superior Courts	5,704,224	5,704,224	3.73%	15,354,443
Mosquito and Vector Control District	464,368	464,368	0.30%	1,234,942
Total	\$152,877,362	\$202,877,362	100.00%	\$411,647,268

* Employer allocation percentage is based on statutory contributions.

SCHEDULE OF EMPLOYER PENSION AMOUNTS ALLOCATED BY COST SHARING PLAN - GASB 68

Employer/ Nonemployer (special funding situation)	Deferred Outflow of Resources					Deferred Inflow of Resources					Pension Expense		
	Net Pension Liability	Differences Between Expected and Actual Economic Experience	Differences Between Projected and Actual Investment Earnings	Changes of Assumptions	Share of Proportionate Pension Expense	Total Deferred Outflow of Resources	Differences Between Expected and Actual Economic Experience	Differences Between Actual and Projected Investment Earnings	Changes of Assumptions	Share of Proportionate Pension Expense	Total Deferred Inflow of Resources	Proportionate Share of Plan Pension Expense	Net Amortization of Deferred amounts from Changes in Proportion and Proportionate Share of Pension Expense
County of San Mateo	\$395,057,883	-	\$29,062,674	-	\$996,723	\$30,059,397	\$24,119,365	\$208,014,194	-	\$1,605,893	\$233,739,452	\$45,521,405	\$(152,292)
San Mateo Superior Courts	15,354,443	-	1,129,559	-	1,490,482	2,620,041	937,431	8,084,745	-	1,183,609	10,205,785	1,769,249	76,718
Mosquito and Vector Control District	1,234,942	-	90,849	-	302,297	393,146	75,397	650,248	-	-	725,645	142,299	75,574
Total	\$411,647,268	-	\$30,283,082	-	\$2,789,502	\$33,072,584	\$25,132,193	\$216,749,187	-	\$2,789,502	\$244,670,882	\$47,432,953	-

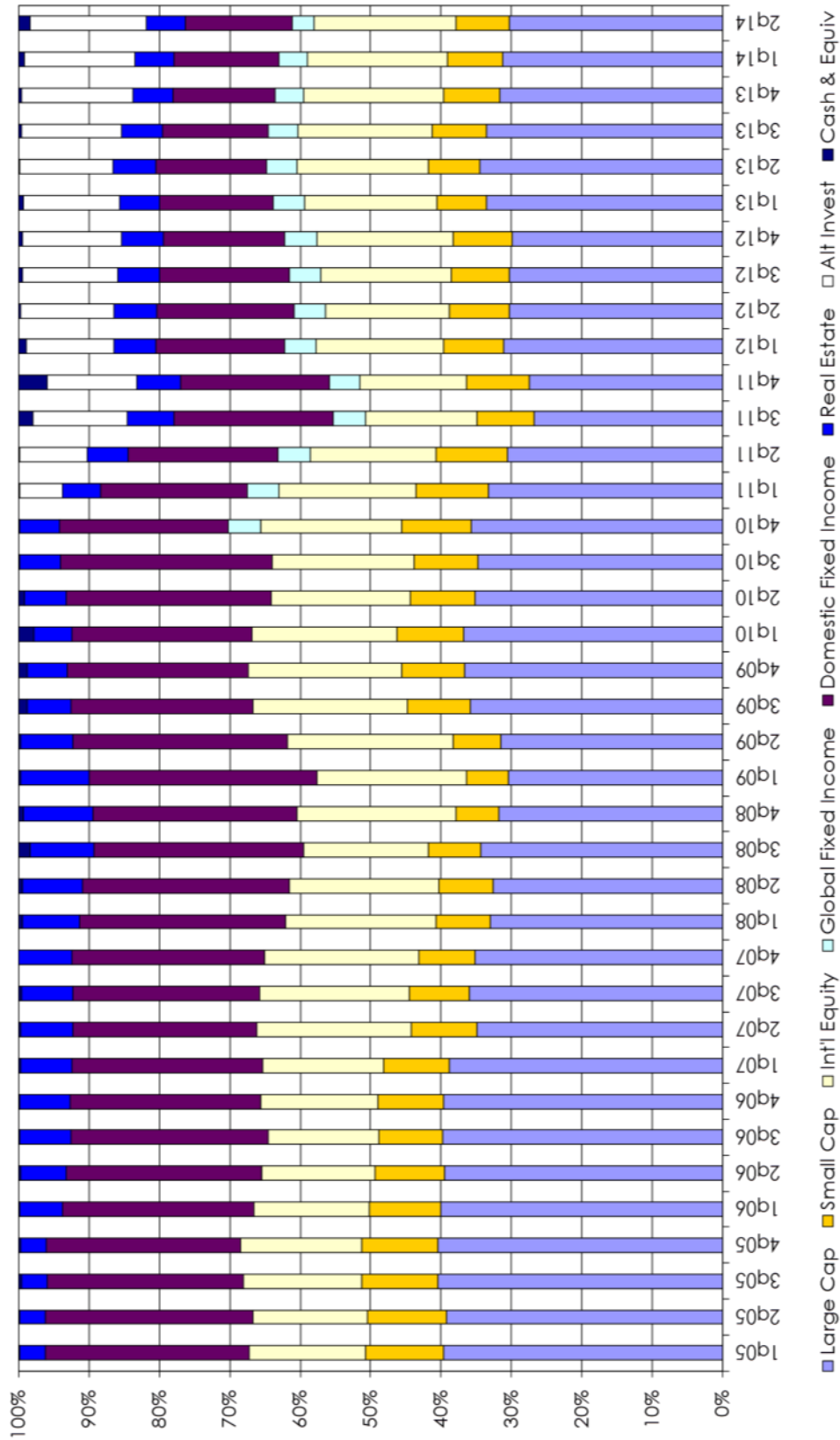
INVESTMENT SECTION



Crystal Springs Reservoir, San Mateo County

ACTUAL HISTORICAL QUARTERLY ASSET ALLOCATION

Period ending June 30, 2014



CHIEF INVESTMENT OFFICER'S REPORT



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Michael Coultrip
SamCERA
Chief Investment Officer

Board of Retirement
San Mateo County Employees' Retirement Association

Dear Trustees:

On behalf of SamCERA's investment team, I am pleased to report on the pension fund's investments and portfolio performance for the period ended June 30, 2014. This data was compiled by SamCERA's investment staff, its investment consultant Strategic Investment Solutions, and its custodian bank State Street Bank & Trust.

Following up on last fiscal year's double-digit returns, SamCERA's portfolio again experienced strong absolute returns for the fiscal year ending June 2014 due mostly to robust global equity market returns. The fund returned 17.3% net of investment manager fees (17.7% before deducting for investment manager fees). These results are above median among large (greater than \$1 billion in assets) public plans.

While the results for the fiscal year were strong on an absolute basis and compared to our peers, relative to SamCERA's policy benchmark the fund's net return underperformed by 70 basis points (0.70%), mostly due to SamCERA's private equity program, which is being built out and is in the early stages of a multi-year implementation.

The net portfolio market value increased to \$3.29 billion, as the combination of positive investment income and net portfolio appreciation added approximately \$560 million to the fund.

Fueled by the extraordinary global central bank accommodative monetary policies, developed world equity markets and other “risk” assets had very strong returns despite continued problem headlines. These headlines included such things as geopolitical hotspots Syria and Ukraine, domestic concerns relating to the Federal government shutdown and the congressional showdown regarding increasing the nation’s debt ceiling limit, concerns around emerging market capital flows, and uncertainty regarding the Fed’s timing on tapering its pace of bond purchases. Through this, the U.S. economy continued its generally steady but slow growth as it continued to recover from the Great Recession. However, many markets look to be fairly-priced (or even over-priced) based on various metrics, which in turn suggests that the go-forward return expectations for a number of markets could be lower than what we have experienced over the past couple of years. This base-case scenario reinforces the need to continue to prudently diversify the portfolio in order to balance out the potential risks. Maintaining appropriate asset allocation and risk exposures across asset classes will continue to be of utmost importance.

During the year, SamCERA undertook an in-depth asset liability study to analyze the current risk profile and asset allocation of the plan. The Board of Retirement (Board) reconfirmed that the current risk profile of the plan is still appropriate. The Board also

approved a new asset allocation policy that incorporates modest changes intended to further diversify the plan. The primary changes include adding a new real asset category, increasing the allocation to risk parity and international equity, and slightly reducing both domestic equity and fixed income. These changes are intended to further diversify the portfolio across economic environments, with a modest decrease in the portion of the portfolio geared towards “growth” environments and a modest increase in the portion of the portfolio geared towards “inflation” environments.

Looking at the fiscal year return drivers for the total portfolio, domestic equity was SamCERA’s best performing asset class composite this fiscal year, up 24.0%. SamCERA’s large-capitalization portfolio composite was up 23.7%, while the small-capitalization composite was up 25.4%. The small-capitalization composite outperformed its benchmark, with both managers outperforming their respective benchmarks. The large-capitalization composite underperformed its benchmark, due primarily to underperformance from SamCERA’s large-capitalization growth manager. Within the U.S. equity markets, all sectors again had positive performance for the fiscal year. In addition, similar to last fiscal year, higher risk sectors generally did better (e.g. Technology, Materials, and Energy) than more defensive sectors (e.g. Telecom and Consumer Staples) in response to the continued moderate U.S. economic recovery and accommodative rate policies by the developed world central banks.

Developed market stocks, as measured by the MSCI EAFE Index (a common

benchmark for developed markets equity), were up 24.1%. Similar to last fiscal year, European stocks performed best (up 30.7%) as the European Central Bank did its best to soothe market sentiment regarding the stability of the Eurozone banks. Emerging markets, as measured by the MSCI Emerging Markets Index, increased 14.7% over the period. Concerns regarding lower growth expectations in China continued from last year, and combined this year with concerns regarding how the U.S. Federal Reserve tapering of bond purchases would impact foreign capital flows, dragged down emerging markets. This resulted in lower returns versus developed markets, although emerging markets still provided positive double digit returns for the year. SamCERA's international equity composite returned 21.8% for the fiscal year, underperforming its benchmark (which includes both developed and emerging market exposure).

Risk parity, which is designed to provide a more risk-balanced asset allocation profile than a typical equity-centric allocation, was 18.9% higher during the year, and outperformed its policy benchmark. During the asset allocation review, risk parity was moved into its own separate asset class in SamCERA's asset allocation (it was previously a sub-portion within alternatives), as the allocation to risk parity is meant to enhance the overall portfolio diversification by targeting more equal risk factor contributions across equity, nominal bonds, credit, and inflation asset classes.

SamCERA's real estate composite was up 10.9%, which was below its composite benchmark. The strong absolute performance was a continuation from last

year as investors, thirsty for yield generating assets, continued to push up commercial property market prices.

SamCERA's alternative composite returned 9.7% for the fiscal year, which was below its benchmark return. The primary factor in the alternative composite underperformance, and in turn the primary cause of underperformance at the total portfolio level, is that SamCERA's private equity portfolio is still in the process of being built out. It will be a number of years before the portfolio will mature and more meaningful performance comparisons can be made. The private equity allocation will take multiple years to fully implement to ensure proper diversification across sub-categories and vintage years. During this implementation period, SamCERA utilizes the S&P 500 Index as a placeholder for the portion of the private equity target allocation that is unfunded. Monies for new private equity partnerships will be sourced from this placeholder until SamCERA is at its private equity asset allocation policy weight.

For the year, commitments to four new private equity partnerships were approved, totaling \$97.5 million. This brings total commitments for the program to \$280.5 million diversified across venture capital, buyouts, and special situations. Subsequent to June 30, SamCERA committed \$15 million to one additional private equity partnership, bringing the total commitments to \$295.5 million.

It was another interesting year in the bond market as anxiety regarding the timing of Federal Reserve tapering of their bond purchases resulted in increased interest rate and bond market volatility. The yield on the

10-year Treasury note was basically unchanged when comparing the first and last days of the fiscal year (approximately 2.5%). However, the yield on the 10-year note moved above 3.0% in December as the Federal Reserve finally announced its long-awaited reduction in asset purchases. For the year, the broad fixed income market, as measured by the Barclays Aggregate Index, was 4.4% higher. SamCERA's fixed income portfolio composite outperformed its benchmark return and returned 7.4% for the year, helped in particular by strong positive returns from its global bond and opportunistic credit managers. In fact, all but one of the managers in the fixed income composite outperformed their respective benchmarks for the fiscal year. SamCERA also re-upped with one of its existing credit managers to fund an allocation to their whole-loan credit strategy during the year.

In other investment news, subsequent to June 30, SamCERA changed its custodian bank from State Street Bank & Trust to Northern Trust effective July 1. The custodian bank provides services that include asset safekeeping, accounting, securities settlement, cash management, corporate actions, class actions and proxy processing, securities lending, and performance and risk analytics.

Throughout the year SamCERA has diligently maintained prudent portfolio diversification by rebalancing the portfolio as a result of the large positive move in the markets. These actions, combined with implementing the updated asset allocation policy, should help the fund better weather the uncertainty in the financial markets that seems bound to continue over the foreseeable future.

Respectfully Submitted,



Michael Coultrip
Chief Investment Officer
October 22, 2014

INVESTMENT CONSULTANT'S REPORT ON INVESTMENT ACTIVITIES



PATRICK F. THOMAS
Managing Director

October 22, 2014

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

Dear Board Members:

With its strong capital market returns, fiscal year 2014 provided welcome relief to beleaguered U.S. pension plans. During the year, world economic news continued to be mixed as the developed countries experienced sluggish but sustained growth and many emerging countries still struggled with the prospect of slower capital flows. Global equities enjoyed a robust year, with the United States and Continental Europe leading the way. After last spring's Federal Reserve induced "taper tantrum" by bond investors, and a period of higher-trending yields, the bond markets rebounded nicely towards fiscal year end. In total Treasury yields ended the year close to where they began it. As rates stabilized and moved lower, the prospects for many important emerging markets economies improved, as did returns to emerging market equity investments. The developed equity markets enjoyed a steadier pace to robust performance during the year.

The broad U.S. Equity market, as measured by the Russell 3000 Index, returned 25.2% during the year. The Russell 1000 large cap component of U.S. Equity gained 25.4%, while the small cap Russell 2000 rose 23.6%. International equity investments had mixed success as prospects in the emerging markets remained in doubt: the Developed Markets index gained 23.6%, while Emerging Markets, lagged with a relatively low return of 14.3%. Investment Grade U.S. Bonds (Barclays Aggregate) effectively earned their coupon during the year, returning 4.4%. In fiscal 2014 high yield bonds again fared much better than investment grade, returning 11.7%, as investors preferred securities with less interest rate sensitivity and higher coupon payments. The real estate asset class continued to perform well during the year, as the NCREIF ODCE Index of institutional Real Estate posted a 12.7% return.

PLAN INVESTMENT RESULTS

The San Mateo County Employees' Retirement Association (the Association) total Plan returned 17.7%, well above the Association's 7.50% actuarial return expectation. The Plan also outperformed the median peer group fund by 130 basis points, ranking in the 23rd percentile for Public Fund DB Plans Greater than \$1 billion.

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The Association's U.S. Equity portfolio underperformed its U.S. equity policy benchmark by 1.1% during the fiscal year, which placed it in the 77th percentile of the universe. Within the U.S. Equity asset class, the large cap managers as a group returned 23.7% for the year, lagging the Russell 1000 index by 170 basis points. The Plan's large cap growth manager, Brown Advisory, had a particularly difficult year of relative performance, returning 19.7% compared with the 26.9% return of the Russell 1000 Growth Index. In contrast to the aggregate weak showing of the U.S. large cap managers, the Small Cap Composite's 25.4% return was 180 basis points ahead of the Russell 2000 Index. The small cap growth manager, Chartwell, beat the Russell 2000 Growth by 210 basis points, which placed it in the 30th percentile of the small growth universe.

The International Equity Composite returned 21.8%, behind the benchmark's return of 22.5%, but trailing the median peer return of 22% by only 20 basis points. This performance placed the International Equity Composite in the 54th percentile of its universe. Of the developed markets managers, the international small cap manager, Pyramis, delivered the weakest relative returns. The strategy's 22% return was 450 basis points behind the benchmark and in the bottom quartile of the universe. In contrast, the Plan's emerging markets equity manager, Parametric Clifton, returned 16.9% for the fiscal year, which was 220 basis points ahead of the MSCI Emerging Markets Index.

The Plan's Total Fixed Income Composite return of 7.4% was significantly higher than both the Barclays Aggregate Index's 4.4% return, and the plan's Blended Fixed Income Benchmark return of 5.6%. As they have for several years, SamCERA's Core and Core Plus bond managers continued to perform above their benchmark. The two Opportunistic Credit managers also both performed well during the fiscal year. Brigade Capital returned 11.0%, notching another year of benchmark outperformance. Angelo Gordon STAR fund, which focuses on CMBS and non-Agency RMBS, returned 15.8%. Brown Brothers Harriman, the TIPS manager, generated a modest but positive 3.3% return, which was 1.1% behind the index and in the bottom decile of the TIPS manager universe. The Global Fixed Income manager had another respectable year, returning 8.2% which, although 50 basis points ahead of the benchmark, was slightly below the median manager in the Global Fixed Income universe.

The INVESCO Real Estate fund's 10.9% return was 180 basis points behind the NCREIF ODCE index. Finally, the plan's Alternatives composite, which returned 9.7% for the year, was well behind the 17.4% of the Alternatives Allocation Index. In a reversal from the prior year, the Risk Parity manager comfortably outperformed its benchmark, while both the Hedge Fund and Commodities managers underperformed their benchmarks for the year. The 18.6% return of the Private Equity program, while quite impressive given that it is still in its start-up phase, was also a drag on the Alternatives portfolio, as it significantly trailed its long term Public Equity +3% benchmark.

SIS Letter to the SamCERA
Board of Retirement
October 22, 2014
Page 3 of 3

ASSET ALLOCATION AND MANAGER STRUCTURE

This year SamCERA completed a comprehensive Asset Liability Study to reassess its portfolio asset allocation from as many risk and opportunity viewpoints as possible. The purpose of the study and strategic planning process is to ensure that SamCERA considers all its market opportunities, while also looking to identify and hedge the risks to its portfolio.

During fiscal 2014 SamCERA pursued the following strategic initiatives in its portfolio:

- Initiated a staged funding program of the new 2% dedicated Real Assets portfolio allocation
- Increased total allocation to Hedge Funds from 3% to 4%
- Increased total allocation to Risk Parity strategies from 6% to 8%
- Continued staged funding program to Private Equity allocation
- Enhanced exposure to Opportunistic Credit allocation of the Fixed Income portfolio

SamCERA continues to increase the diversification of the portfolio in order to produce the highest possible 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 and its aftermath. Clearly the Association is reaping the rewards of its hard work and its adherence to its strategic plan. 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,



Patrick F. Thomas

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 OBJECTIVES AND POLICIES

SamCERA's Investment Policy sets forth the Board's investment policy, from which the following extracts have been drawn. The full policy may be viewed on SamCERA's web site at www.samcera.org.

Investment Objectives

It is the primary investment objective of the Board of Retirement to:

- A. Generate risk-adjusted returns that exceed the Asset Allocation Policy Benchmark on a net-of-fee basis over five-year rolling periods.
- B. Move toward full actuarial funding of the Pension Benefit Obligation based on GASB 25 and the Board's policy of layered fifteen-year unfunded actuarial accrued liability (UAAL) amortization periods.
- C. Achieve a Fund return that meets or exceeds the long-term forecast of capital market returns for the asset allocation portfolio benchmark over multiple economic cycles (e.g. 15-20 years).
- D. Provide a more consistent return stream than a traditional 60% Equity / 40% Fixed Income portfolio as measured by lower portfolio drawdowns over a full market cycle.
- E. Pursue an investment strategy that reduces the volatility of returns through prudent diversification of the portfolio across a broad selection of distinct asset classes.
- F. Further diversify other risks, including extreme events, liquidity, and leverage by looking beyond traditional asset class definitions by utilizing multiple lenses on portfolio risks.
- G. Adopt an asset allocation target to guide the structure of the investment portfolio.
- H. Reevaluate the asset-liability study every three to five years.
- I. Delegate full discretion to each investment manager to the extent authorized in their Investment Management Agreement (IMA).
- J. Adopt objectives that encourage investment managers to maximize their performance, within acceptable risk parameters, relative to their individual investment style benchmark.
- K. Refrain from drastically shifting asset class allocations over short time spans, unless it is in the Fund's best interest to do so.
- L. Rebalance the portfolio in accordance to the Rebalancing Policy set forth in SamCERA's full investment policy.

General Investment Policies

It is the investment policy of the Board to:

- A. Consistent with fiduciary standards, always act in the best economic interests of SamCERA's plan beneficiaries and plan sponsors, and refrain from making investment

ASSET ALLOCATION AS A PERCENTAGE OF FAIR VALUE

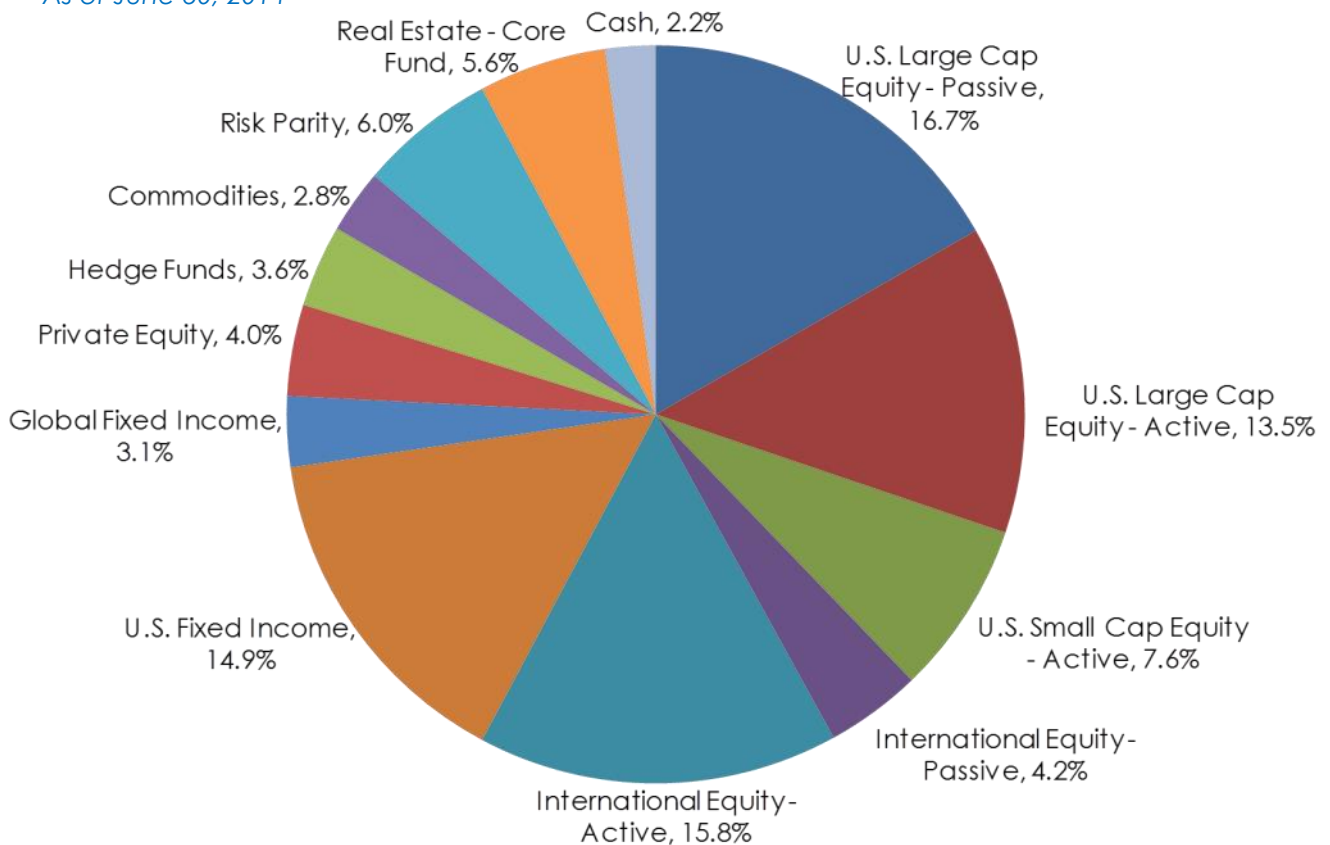
ASSET CLASS	Allocation	June 30 Actual
Equity	50.0%	57.8%
Bonds	20.0%	18.0%
Alternatives	16.0%	10.4%
Risk Parity	8.0%	6.0%
Real Estate	6.0%	5.6%
Cash	0.0%	2.2%
Total	100.0%	100.0%
EQUITY MANAGEMENT STYLE	Allocation	June 30 Actual
Domestic Large Cap		
Indexed	10.5%	16.7%
Actively Managed	13.5%	13.5%
	24.0%	30.2%
Domestic Small Cap (Actively Managed)	6.0%	7.6%
International Equities		
Indexed	4.0%	4.2%
Actively Managed	16.0%	15.8%
	20.0%	20.0%
Total Equity	50.0%	57.8%
BOND MANAGEMENT STYLE	Allocation	June 30 Actual
Domestic Bond Managers (Actively Managed)	17.0%	14.9%
Global Bond Managers (Actively Managed)	3.0%	3.1%
Total Bonds	20.0%	18.0%
ALTERNATIVE INVESTMENT MANAGEMENT STYLE	Allocation	June 30 Actual
Private Equity (Actively Managed)	7.0%	4.0%
Hedge Fund (Actively Managed)	4.0%	3.6%
Commodities (Actively Managed)	3.0%	2.8%
Real Assets (Actively Managed)	2.0%	0.0%
Total Alternative Investment	16.0%	10.4%
RISK PARITY MANAGEMENT STYLE	Allocation	June 30 Actual
Actively Managed	8.0%	6.0%
Total Risk Parity	8.0%	6.0%
REAL ESTATE MANAGEMENT STYLE	Allocation	June 30 Actual
Actively Managed	6.0%	5.6%
Total Real Estate	6.0%	5.6%
TOTAL CASH & CASH EQUIVALENT	0.0%	2.2%
Total Assets	100.0%	100.0%

MARKET VALUE OF ASSET ALLOCATION

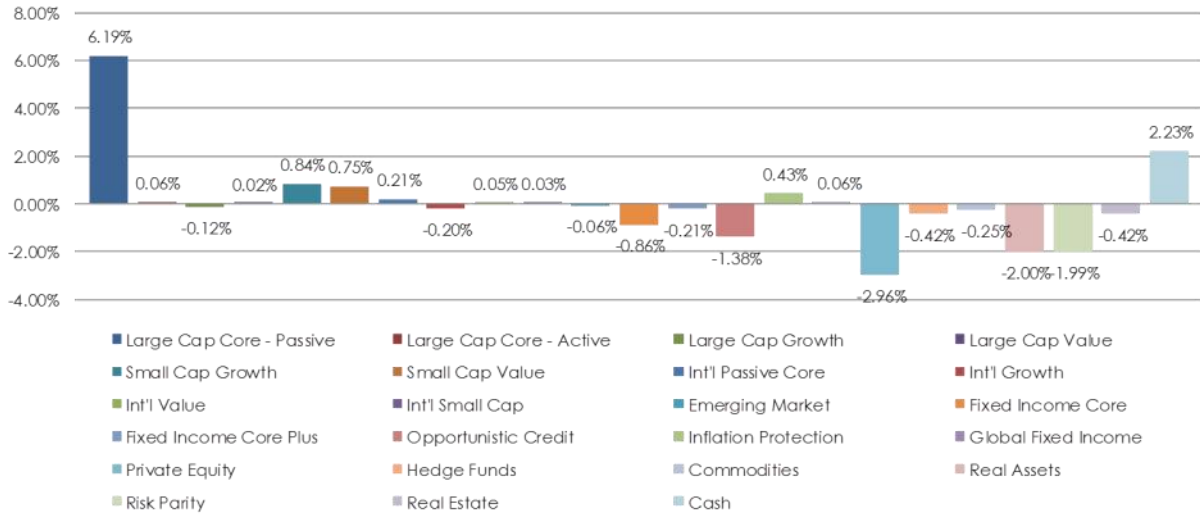
ASSET ALLOCATION	Market Value
Large Capitalized Domestic Equities	\$986,092,076
Small Capitalized Domestic Equities	\$242,947,347
International Equities	\$653,569,353
TOTAL EQUITIES	\$1,882,608,776
Domestic Bonds	\$493,024,480
Global Bonds	\$100,023,249
TOTAL BONDS	\$593,047,729
Alternative Investments	\$346,867,393
Risk Parity	\$197,597,402
Real Estate	\$183,566,990
Cash & Cash Equivalents	\$88,005,664
Total Assets	\$3,291,693,954

ASSET ALLOCATION

As of June 30, 2014



PERCENT OF DEVIATION FROM ASSET ALLOCATION



SCHEDULE OF PORTFOLIO RETURNS

Performance as of June 30, 2014 — Net of Fees

Asset Category	One Year	Two Years	Three Years	Five Years
DOMESTIC EQUITY				
Large Cap				
BlackRock S&P 500 Index	24.60%	N/A	N/A	N/A
D.E. Shaw Investment Management	23.80%	23.20%	17.30%	N/A
Barrow, Hanley, Mewhinney & Strauss	23.50%	25.20%	16.00%	N/A
Brown Advisory	19.20%	N/A	N/A	N/A
Large Cap Composite	23.50%	22.70%	15.20%	17.90%
Small Cap				
The Boston Company	23.00%	24.10%	16.80%	N/A
Chartwell Investment Partners	26.00%	25.30%	16.20%	23.10%
Small Cap Composite	24.50%	24.70%	15.40%	21.80%
INTERNATIONAL EQUITY				
BlackRock EAFE Index	N/A	N/A	N/A	N/A
Mondrian Investment Partners	23.50%	18.20%	7.90%	11.60%
Eaton Vance Management	15.80%	10.30%	N/A	N/A
Baillie Gifford Overseas	21.50%	20.70%	N/A	N/A
Pyramis Select	20.90%	19.40%	N/A	N/A
International Composite	21.40%	18.00%	6.10%	10.20%
Total Equity Composite	22.90%	21.40%	12.30%	16.00%
BONDS				
Core				
Pyramis Global Advisors	5.40%	2.80%	4.50%	6.70%
Western Asset Management	6.50%	3.90%	5.40%	8.30%
Credit				
Angelo Gordon STAR Fund	15.80%	N/A	N/A	N/A
Angelo Gordon OWL Fund	N/A	N/A	N/A	N/A
Brigade Capital Management	10.40%	10.60%	9.30%	N/A
Treasury Inflation Protected Securities				
Brown Brothers Harriman	3.20%	-0.80%	3.40%	N/A
Global				
Franklin Templeton	7.80%	9.90%	6.30%	N/A
Total Bond Composite	7.20%	6.00%	6.20%	8.70%
ALTERNATIVE INVESTMENTS				
Private Equity	18.60%	9.80%	6.80%	N/A
Hedge Fund				
AQR Delta XN Fund L.P.	3.40%	5.10%	2.90%	N/A
Risk Parity				
AQR Global Risk Premium III L.P.	18.40%	10.50%	8.60%	N/A
Commodities				
SSGA/SSARIS Multisource Commodities	7.90%	3.30%	N/A	N/A
Total Alternative Composite	9.20%	6.30%	4.40%	N/A
REAL ESTATE				
Invesco Realty Advisors	10.50%	11.80%	10.70%	9.20%
Total Real Estate Composite	10.50%	11.80%	10.70%	9.20%
CASH				
Cash Composite	0.20%	0.40%	0.50%	0.70%
TOTAL FUND				
Composite Investment Portfolio	17.30%	15.50%	9.90%	13.00%
Policy Benchmark	18.00%	15.40%	10.60%	13.50%

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, 2014

Investment Manager	Asset Class	Assets Under Management
DOMESTIC EQUITY		
BlackRock S&P 500 Index	S&P 500 Index Fund	\$ 549,012,353
D.E. Shaw Investment Management	Large Cap Core	\$ 149,733,392
Barrow, Hanley, Mewhinney & Strauss	Large Cap Value	\$ 147,953,640
Brown Advisory	Large Cap Growth	\$ 139,392,691
The Boston Company	Small Cap Value	\$ 122,348,134
Chartwell Investment Partners	Small Cap Growth	\$ 120,599,213
	Total Domestic Equity	\$1,229,039,423
INTERNATIONAL EQUITY		
BlackRock EAFE Index	S&P EAFE Index Fund	\$ 138,418,026
Baillie Gifford Overseas	Large Cap Growth	\$ 188,123,682
Mondrian Investment Partners	Large Cap Value	\$ 196,577,899
Eaton Vance Management	Emerging Markets	\$ 63,727,910
Pyramis Select	Small Cap	\$ 66,721,836
	Total International Equity	\$653,569,353
	Total Equity	\$1,882,608,776
DOMESTIC BONDS		
Angelo Gordon STAR Fund	Credit Opportunity Bonds	\$ 39,476,681
Angelo Gordon OWL Fund	Credit Opportunity Bonds	\$ 11,312,500
Brigade Capital Management	Credit Opportunity Bonds	\$ 66,171,954
Brown Brothers Harriman	Treasury Inflation Protection Securities	\$ 78,361,042
Pyramis Global Advisors	Enhanced Bond Index	\$ 169,063,284
Western Asset Management	Core Plus Bonds	\$ 128,639,019
	Total Domestic Bonds	\$ 493,024,480
GLOBAL BONDS		
Franklin Templeton	Global Bonds	\$ 100,023,249
	Total Global Bonds	\$ 100,023,249
	Total Bonds	\$ 593,047,729
ALTERNATIVE INVESTMENTS		
ABRY Advanced Security Fund II L.P.	Private Equity	\$ 13,146,436
ABRY Advanced Security Fund III L.P.	Private Equity	\$ 214,269
ABRY Partners VII L.P.	Private Equity	\$ 9,409,456
Cevian Capital II L.P.	Private Equity	\$ 31,334,500
Emergence Capital Partners III L.P.	Private Equity	\$ 2,914,343
EnCap Energy Capital IX L.P.	Private Equity	\$ 2,598,306
General Catalyst Partners L.P.	Private Equity	\$ 9,236,662
Great Hill Partners V L.P.	Private Equity	\$ 1,293,839
New Enterprise Associates 14, L.P.	Private Equity	\$ 5,576,437
Regiment Capital Special Situations Fund V, L.P.	Private Equity	\$ 6,488,222
Sheridan Production Partners II-B, L.P.	Private Equity	\$ 14,271,132
Sycamore Partners L.P.	Private Equity	\$ 20,992,994
Sycamore Partners II L.P.	Private Equity	\$ 1,058,765
Third Rock Ventures III L.P.	Private Equity	\$ 1,069,180
Warburg Pincus XI L.P.	Private Equity	\$ 18,885,993
AQR Delta XN Fund L.P.	Hedge Fund	\$ 117,896,816
SSGA/SSARIS Multisource Commodities	Commodities	\$ 90,480,043
	Total Alternative Investment	\$ 346,867,393
RISK PARITY		
AQR Global Risk Premium III L.P.	Risk Parity	\$ 197,597,402
REAL ESTATE		
Invesco Realty Advisors	U.S. Core Real Estate Fund	\$ 183,566,990
UNEQUITIZED CASH		
		\$ 100,117,943
RECEIVABLES & PREPAID EXPENSES		
		\$ 20,888,448
	less Current Liabilities	(\$ 33,000,727)
Net Portfolio as of June 30, 2014		\$ 3,291,693,954

SCHEDULE OF TOP TEN EQUITIES AND FIXED INCOME SECURITIES

As of June 30, 2014

Top 10 Equity Securities*

Shares	Exchange	Ticker	Company Name	Market Value
197,466	NYSE	ULVR	UNILEVER PLC	\$8,950,757
397,570	London	BG.	BG GROUP PLC	\$8,395,340
87,236	NASDAQ	AAPL	APPLE INC	\$8,106,841
67,744	London	SLB	SCHLUMBERGER LTD	\$7,990,405
90,945	NASDAQ	GILD	GILEAD SCIENCES INC	\$7,540,250
91,370	Swiss Exchange	NESN	NESTLE SA REG	\$7,078,393
177,600	TOKYO	4452	KAO CORP	\$6,989,696
94,420	NYSE	FP	TOTAL SA	\$6,823,144
144,240	NYSE	C	CITIGROUP INC	\$6,793,704
75,700	NYSE	COF	CAPITAL ONE FINANCIAL CORP	\$6,252,820

*Some domestic equities are owned in the S&P 500 Index Fund managed by BlackRock Capital Management.

Top 10 Fixed Income Securities

Par/Book Value	Security	Coupon	Maturity	Rating: S&P	Rating: Moody's	Issue ID	Market Value
\$10,516,145	TSY INFL IX N/B	1.250	7/15/2020	AA+	Aaa	912828NM8	\$11,524,222
\$10,030,567	TSY INFL IX N/B	1.875	7/15/2019	AA+	Aaa	912828LA6	\$11,290,707
\$8,468,823	TSY INFL IX N/B	2.500	7/15/2016	AA+	Aaa	912828FL9	\$9,190,028
\$8,771,305	TSY INFL IX N/B	0.125	1/15/2022	AA+	Aaa	912828SA9	\$8,829,546
\$7,224,664	TSY INFL IX N/B	0.125	1/15/2023	AA+	Aaa	912828UH1	\$7,199,811
\$5,577,279	TSY INFL IX N/B	2.375	1/15/2025	AA+	Aaa	912810FR4	\$6,756,761
\$4,318,923	TSY INFL IX N/B	2.125	2/15/2040	AA+	Aaa	912810QF8	\$5,494,836
\$4,475,117	TSY INFL IX N/B	2.000	1/15/2026	AA+	Aaa	912810FS2	\$5,272,583
\$5,075,844	TSY INFL IX N/B	1.875	7/15/2015	AA+	Aaa	912828EA4	\$5,271,721
\$3,475,075	TSY INFL IX N/B	3.875	4/15/2029	AA+	Aaa	912810FH6	\$5,080,143

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, 2014 and 2013

	2014	2013
INVESTMENT MANAGERS		
Aberdeen Asset Management	\$0	\$99,035
ABRY Advanced Security Fund II, L.P.	\$306,033	\$283,339
ABRY Partners VII, L.P.	\$116,099	\$96,030
Angelo Gordon GECC PPIP Fund	\$0	\$135,126
Angelo Gordon STAR Fund	\$455,265	\$226,747
AQR Delta XN Fund L.P.	\$956,112	\$715,597
AQR Global Risk Premium III L.P.	\$693,002	\$665,899
Artio Global Management	\$0	-\$369
Baillie Gifford Overseas	\$877,839	\$789,014
Barrow, Hanley, Mewhinney & Strauss	\$686,543	\$711,508
BlackRock Capital Management (\$&P500)	\$124,763	\$101,850
BlackRock Capital Management (EAFE)	\$41,384	\$0
BlackRock Capital Management (Growth)	\$0	\$197,443
Brigade Capital Management	\$483,492	\$453,921
Brown Advisory	\$652,364	\$112,842
Brown Brothers Harriman	\$117,213	\$124,095
Cevian Capital L.P.	\$449,278	\$0
Chartwell Investment Partners	\$889,355	\$585,085
Clifton Parametric	\$143,011	\$0
D.E. Shaw Investment Management	\$731,914	\$667,540
Eaton Vance Management	\$655,005	\$638,969
Emergence Capital Partners III L.P.	\$170,196	\$230,383
EnCap Energy Capital IX L.P.	\$150,000	\$117,799
Franklin Templeton	\$499,223	\$455,842
General Catalyst Partners L.P.	\$119,780	\$238,500
Great Hill Partners V L.P.	\$18,661	\$0
Invesco Realty Advisors	\$721,231	\$634,472
Jennison Associates	\$0	\$404,520
Mondrian Investment Partners	\$600,689	\$296,128
New Enterprise Associates 14, L.P.	\$103,642	\$114,973
Pyramis Global Advisors	\$241,874	\$214,840
Pyramis Select	\$558,133	\$465,257
Regiment Capital Special Situations Fund V, L.P.	\$288,338	\$297,303
Sheridan Production Partners II-B, L.P.	\$375,053	\$300,045
SSGA/SSARIS Multisource Commodities	\$456,540	\$429,739
Sycamore Partners L.P.	\$347,288	\$367,297
Sycamore Partners II L.P.	\$327,584	\$0
Third Rock Ventures III L.P.	\$118,730	\$250,000
T. Rowe Price Associates	\$0	\$240,184
The Boston Company	\$947,664	\$604,235
Warburg Pincus XI L.P.	\$369,805	\$397,470
Western Asset Management	\$322,056	\$319,960
Total	\$15,115,159	\$12,982,618
INVESTMENT CONSULTANT		
Strategic Investment Solutions	\$400,000	\$404,608
ACTUARIAL CONSULTING		
Milliman	\$78,131	\$92,100
MASTER CUSTODIAN		
State Street Bank and Trust Company	\$172,619	\$168,039
TRADE COST CONSULTANT		
Zeno Consulting Group	\$31,500	\$35,000
OTHER PROFESSIONAL SERVICES		
CY Yang & Co. CPA	\$0	\$13,833
Total Professional Services	\$15,797,409	\$13,696,198

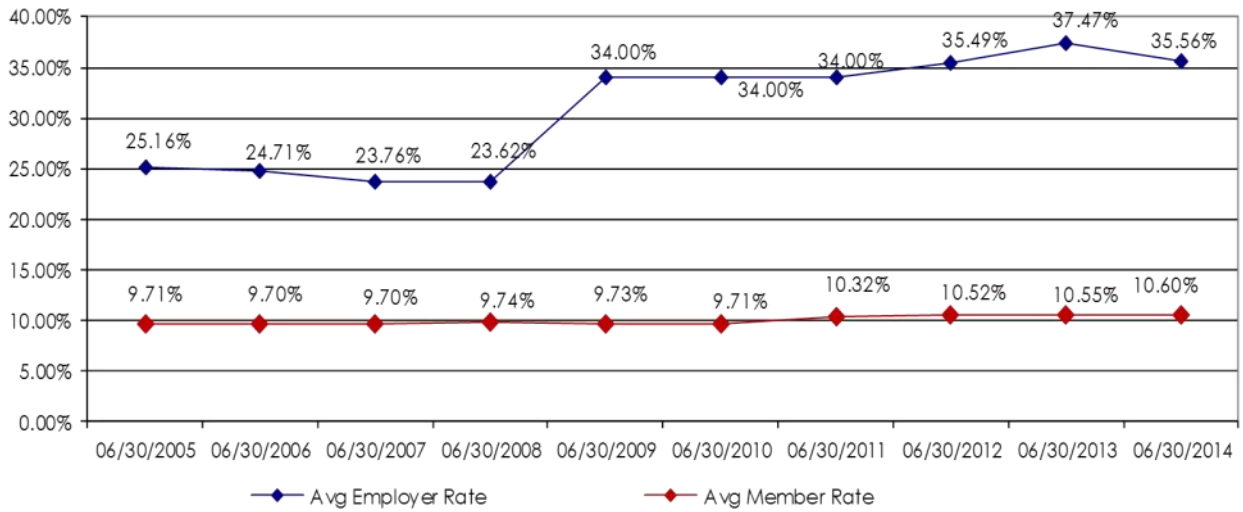
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ACTUARIAL SECTION

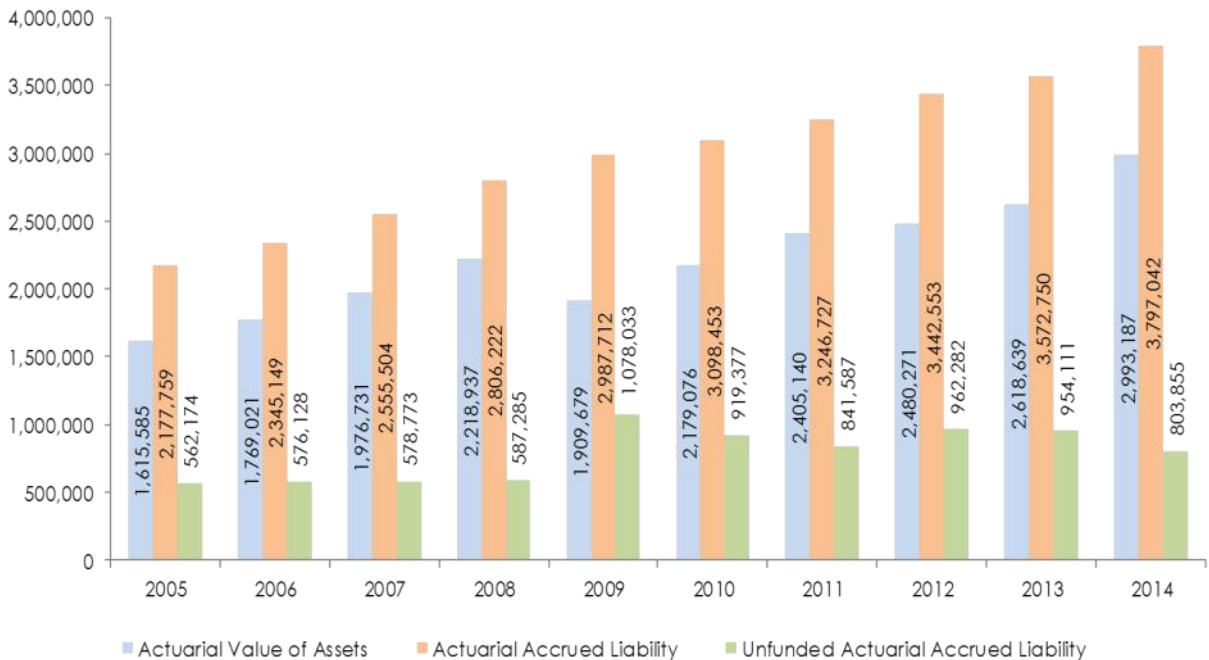


San Mateo Bridge, San Mateo County

HISTORY OF EMPLOYER AND MEMBER CONTRIBUTION RATES



SCHEDULE OF ACTUARIAL ASSETS VS. LIABILITIES





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October 22, 2014

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, 2012	72.0%
June 30, 2013	73.3%
June 30, 2014	78.8%

The funded ratio increased in the last year primarily due to contributions in excess of the value of benefits earned and investment returns greater than assumed.

It is our opinion that SamCERA will continue to maintain a sound financial condition as of June 30, 2014 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 2014 valuation results defer a net market gain on assets. Thus, the funded ratio is expected to be higher once those market gains are reflected in the 2015 and later valuations, assuming future investment earnings are equal to the assumed rate. Additionally, it is the County's intent to make contributions in excess of those required under the funding policy. This is also expected to increase the funded status in the future.

The June 30, 2014 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 based on our understanding of SamCERA's current benefit provisions and actuarial assumptions as of June 30, 2014. The actuarial assumptions were last reviewed and adopted by the Board in 2014.

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 22, 2014
Page 2

The actuarial computations presented in the valuation report are for purposes of determining the recommended funding amounts for SamCERA consistent with our understanding of its 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. 67 and No. 68 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.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel. The signing actuaries are independent of the plan sponsor. We are not aware of any relationship that would impair the objectivity of our work.

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, 2014 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, 2014 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,

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

NJC/CJG/nlo

Craig J. Glyde, ASA, EA, MAAA
Consulting Actuary

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 actuarial 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, 2014 valuation are based on the results of the actuarial experience study for the period July 1, 2011, through April 30, 2014. The study was prepared using updated economic and demographic assumptions, and mortality rates adopted by the Board of Retirement (Board) in June 2014. The experience study was adopted by the Board of Retirement on July 29, 2014.

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 Unfunded Actuarial Accrued Liability (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, 2014 is amortized over new closed 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,

ACTUARIAL ASSUMPTIONS AND COST METHOD

Valuation Date	June 30, 2014
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 closed 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new closed 15-year periods (including the change in UAAL as of June 30, 2014). 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	7.25%
Price Inflation (CPI)	3.00%
Payroll Increases	3.50%
Average Projected Salary Increases	4.02%
Attributed to Inflation	3.50%
Attributed to Adjustments for Merit and Longevity	1.20%

with a five-year smoothing valuation basis for all assets, was adopted effective for the June 30, 1995, valuation.

Investment Rate of Return

A new investment return assumption rate of 7.25% was adopted in June 2014 and effective with the June 30, 2014 actuarial valuation. Future investment earnings are assumed to accrue at an annual rate of 7.25%, 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 4.70%. It is comprised of two components, inflation and merit and longevity increases. The inflation for payroll is 3.50%. The merit and longevity component on average is 1.20%. This rate was adopted effective for the June 30, 2014, 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 CPI 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, 6 and 7 members. Tier 5, 6, and 7 employees contribute towards cost of living benefit in their contribution rates. Tier 1, 2, and 4 members contribute towards the cost of living benefit based on bargaining units and date of re-entry. 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.

PROJECTED SALARY INCREASE

	06/30/14	06/30/13	Change
Actuarial Assumption			
Annual Inflation Rate	3.00%	3.25%	-0.25%
Annual Investment Return	7.25%	7.50%	-0.25%
Average Annual Salary Increases	4.70%	4.95%	-0.25%

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 107.

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, 6 and 7. The benefits of Tier 3 are reduced by Social Security benefits received by the member.

The plan sponsor has established twelve defined benefit tiers based on a member's date of entry into SamCERA and membership class. Tiers 1, 2 & 4 are closed to County and Superior Courts new members in FY 2012-2013. Depending on their entry date and membership class (General, Safety or Probation/Safety), new members hired in FY 2012-2013 may enter Tier 5, Tier 6, or Tier 7. General members hired on and after August 7, 2011 and before January 1, 2013, enter Tier 5. Probation members hired on or after July 10, 2011 and before January 1, 2013, enter Tier 5 or Tier 6. Safety members hired on or after January 8, 2012 and before January 1, 2013, enter Tier 5 or Tier 6. New members first hired on or after January 1, 2013 enter Tier 7. General Tier 3 is not open to new members hired after December 22, 2012. Only General members hired on or before December 22, 2012 are eligible for

Tier 3.

Employees of the San Mateo County Mosquito and Vector Control District are eligible for participation in General Tier 4 or Tier 7 based on hired date. New members first hired on or after January 1, 2013 enter Tier 7. New hires before January 1, 2013 entered 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 hired on or before December 22, 2012 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. Members must be first hired before January 1, 2013 to be eligible to elect this Tier. After 10 years of service, General Tier 5 members can elect to transfer to Tier 4 and must pay the total actuarial equivalent cost of the increase in past service benefits at the date of transfer.

Tier 5 and 6 Safety – Safety members hired after January 7, 2012 and before January 1, 2013 are eligible to elect either Tier.

Tier 5 and 6 Probation – Probation members hired after July 9, 2011 and before January 1, 2013 are eligible to elect either Tier.

Tier 7 – Employees first hired on or after January 1, 2013.

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.

Tier 3: Age 65 with 10 years of service. A reduced benefit is also payable at age 55 with 10 years of service.

General Members Tier 7: Tier 7 members are eligible to retire at age 52 with 5 years 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.

Safety & Probation Members Tier 7: Tier 7 members are eligible to retire at age 50 with 5 years of service.

*For part-time employees, age 50 is replaced with age 55.

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 compensation during any three years. Years do not have to be consecutive.

Tier 7: Monthly average of a member's highest 36 consecutive months of compensation.

Monthly Allowance

General Members Tiers 1, 2, 4 & 5: $1/60 \times$ Final Compensation x General Age Factor x Years of Service.

General Members Tier 7: $2\% \times$ Final

Compensation x General Age Factor x Years of Service.

Safety & Probation Members Tier 1, 2, 4 & 5: $3\% \times$ Final Compensation x Safety Age Factor x Years of Service.

Safety & Probation Members Tier 6: $2\% \times$ Final Compensation x Safety Age Factor x Years of Service.

Safety & Probation Members Tier 7: $2\% \times$ Final Compensation x Safety Age Factor x Years of Service.

Tier 3 General members: (a)+(b)-(c) where:

(a) $2\% \times$ Final Compensation x Years of Service (up to 35 years), plus

(b) $1\% \times$ 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 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 may elect to leave their accumulated contributions, if any, with the Association and choose a deferred retirement.

SUMMARY OF RECOMMENDATIONS

EMPLOYER CONTRIBUTION RATES

	06/30/14	06/30/13	Change
Normal Cost Rate	11.62%	11.19%	0.43%
Rate of Contribution to Unfunded Actuarial Accrued Liability	23.94%	26.28%	-2.34%
Total Employer Rate	35.56%	37.47%	-1.91%

MEMBER CONTRIBUTION RATES

		7/1/2014	7/1/2013	Change		
GENERAL MEMBERS – COUNTY AND COURTS^{(1),(2)}						
Tier 1 & Tier 2	Age 25	9.34%	9.19%	0.15%	(1) The San Mateo County and Courts member contribution rates for Tier 1, 2, and 4 include 3% Cost Share. The San Mateo County and Courts member contribution rates for Tier 5 include 50% COLA Cost. The San Mateo County Mosquito and Vector Control District does not have Cost Share.	
	35	10.60%	10.42%	0.18%		
	45	12.13%	11.91%	0.22%		
Tier 4	Age 25	9.10%	8.94%	0.16%		
	35	10.31%	10.12%	0.19%		
	45	11.74%	11.51%	0.23%		
Tier 5	Age 25	6.40%	6.21%	0.19%		(2) Does not include Tier 1, 2, and 4 members of the California Nurses Association (CNA), who also contribute 25% COLA Cost beginning with the 2011 actuarial valuation. Does not include Tier 1, 2, and 4 members of Union of American Physicians and Dentists (UAPD), who also contribute 25% COLA Cost effective with the 2012 actuarial valuation.
	35	7.68%	7.45%	0.23%		
	45	9.22%	8.94%	0.28%		
Tier 7 ^{(3),(7)}	All Ages	7.92%	7.58%	0.34%		
GENERAL MEMBERS – SMCM&VCD						
Tier 1 & Tier 2	Age 25	6.34%	6.19%	0.15%	(3) Tier 7 is the PEPR plan effective January 1, 2013 for all new employees with no prior California public employment service.	
	35	7.60%	7.42%	0.18%		
	45	9.13%	8.91%	0.22%		
Tier 4	Age 25	6.10%	5.94%	0.16%		
	35	7.31%	7.12%	0.19%		
	45	8.74%	8.51%	0.23%		
Tier 7 ^{(3),(7)}	All Ages	6.51%	7.58%	-1.07%		
SAFETY MEMBERS – OTHER THAN DEPUTY SHERIFF ⁽⁴⁾						
Tier 1 & Tier 2	Age 25	13.62%	13.41%	0.21%		(4) Rates for non Deputy Sheriff in Tier 1, 2, and 4 include 5% Cost Share and 4% Cost Share in Tier 5. Cost Share varies for Deputy Sheriffs as follows: Members with younger than age 45 with less than 5 years of service pay 3.0%, between 5 and 15 years of service 3.5%, and at least 15 years of service 4.5%. Rates for Tier 1, 2, and 4 do not include COLA Cost as not all members pay COLA Cost. Rates for Safety members in Tier 5 and 6 include 50% COLA Cost.
	35	15.35%	15.09%	0.26%		
	45	17.19%	16.89%	0.30%		
Tier 4	Age 25	13.29%	13.07%	0.22%		
	35	14.95%	14.68%	0.27%		
	45	16.52%	16.20%	0.32%		
Tier 5	Age 25	14.84%	14.50%	0.34%		
	35	17.01%	16.59%	0.42%		
	45	19.06%	18.57%	0.49%		
Tier 6	Age 25	10.62%	10.24%	0.38%		
	35	12.75%	12.28%	0.47%		
	45	14.76%	14.21%	0.55%		
Tier 7 ^{(3),(7)}	All Ages	14.64%	14.28%	0.36%		
PROBATION & DETENTION ASSOCIATION MEMBERS (REFLECTS EMPLOYER PICK-UP) ⁽⁵⁾						
Tier 1 & Tier 2	Age 25	12.73%	12.34%	0.39%	(5) Rates include 25% COLA Cost for PDA in Tier 1, 2, and 4 and 50% COLA Cost for PDA in Tier 5 and 6.	
	35	14.57%	14.11%	0.46%		
	45	16.54%	15.99%	0.55%		
Tier 4	Age 25	11.51%	11.28%	0.23%		
	35	13.11%	12.83%	0.28%		
	45	14.62%	14.29%	0.33%		
Tier 5	Age 25	12.69%	12.35%	0.34%		
	35	14.54%	14.12%	0.42%		
	45	16.27%	15.78%	0.49%		
Tier 6	Age 25	8.84%	8.62%	0.22%		
	35	10.61%	10.34%	0.27%		
	45	12.28%	11.95%	0.33%		
Tier 7 ^{(3),(7)}	All Ages	13.42%	13.78%	-0.36%		
PROBATION MANAGERS⁽⁶⁾						
Tier 1 & Tier 2 ⁽⁸⁾	Age 25	12.12%	11.91%	0.21%	(6) Rates include 3.5% Cost Share for Probation Managers in Tier 1, 2, 4, and 5. Probation Managers rates were the same as PDA until the 2013 actuarial valuation. Probation Managers of Tier 5 and 6 pay 50% COLA Cost, which are included in rates shown.	
	35	13.85%	13.59%	0.26%		
	45	15.69%	15.39%	0.30%		
Tier 4 ⁽⁸⁾	Age 25	11.79%	11.57%	0.22%		
	35	13.45%	13.18%	0.27%		
	45	15.02%	14.70%	0.32%		
Tier 5 ⁽⁸⁾	Age 25	14.34%	14.00%	0.34%		
	35	16.51%	16.09%	0.42%		
	45	18.56%	18.07%	0.49%		
Tier 6	Age 25	10.62%	10.24%	0.38%		
	35	12.75%	12.28%	0.47%		
	45	14.76%	14.21%	0.55%		
Tier 7 ^{(3),(7)}	All Ages	13.42%	13.78%	-0.36%		

SUMMARY OF SIGNIFICANT ACTUARIAL STATISTICS AND MEASURES

ASSOCIATION MEMBERSHIP	6/30/14	6/30/13	Change
ACTIVE MEMBERS			
Number of Members	5,004	4,917	1.8%
Average Age	45.8	46.0	-0.4%
Average Credited Service	11.2	11.2	0.0%
Total Active Payroll in Thousands	\$429,407	\$414,551	3.6%
Average Monthly Salary	\$7,151	\$7,026	1.8%
RETIRED MEMBERS			
Number of Members			
Service Retirement	3,525	3,446	2.3%
Disability Retirement	428	393	8.9%
Beneficiaries	565	559	1.1%
Average Age	71.3	71.3	0.0%
Total Retiree Payroll in Thousands	\$159,342	\$149,266	6.8%
Average Monthly Pension	\$3,021	\$2,933	3.0%
INACTIVE VESTED MEMBERS			
	1,304	1,306	-0.2%
ASSET AND LIABILITY VALUES			
ASSET VALUES			
Market Value in Thousands	\$3,291,694	\$2,727,825	20.7%
Return on Market Value	17.30%	13.60%	370bps
Valuation Assets in Thousands	\$2,993,187	\$2,618,639	14.3%
Return on Valuation Assets	10.8%	3.7%	710bps
LIABILITY VALUES			
Actuarial Accrued Liability in Thousands	\$3,797,042	\$3,572,750	6.3%
Unfunded Actuarial Accrued Liability in Thousands	\$803,855	\$954,111	-15.7%
Deferred Asset (Gains)/Losses	(\$298,507)	(\$109,186)	
REQUIRED COUNTY CONTRIBUTION RATE FOR ALL PLANS AS A PERCENTAGE OF TOTAL PAYROLL			
Gross Normal Cost	22.22%	21.74%	48bps
Member Contributions	(10.60)%	(10.55)%	-5bps
County Normal Cost	11.62%	11.19%	43bps
UAAL Amortization	23.94%	26.28%	-234bps
Total County Rate	35.56%	37.47%	-191bps
FUNDED RATIO			
GASB Statement Number 25 ⁽¹⁾	78.8%	73.3%	5.5%

(1) Based on actuarial value of assets for June 30, 2014, and June 30, 2013, 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	Retirees and Beneficiaries ⁽¹⁾	Active Members (Employer Financed Portion)	Portion of Accrued Liability Covered by Valuation Assets		
		(A)	(B)	(C)	(A)	(B)	(C)
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%
6/30/13	\$2,618,639	\$534,276	\$2,157,590	\$880,884	100%	97%	0%
6/30/14	\$2,993,187	\$584,080	\$2,285,328	\$927,634	100%	100%	13%

(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
6/30/05	\$1,615,585	\$2,177,759	\$562,174	74.2%	\$334,315	168.16%
6/30/06	\$1,769,021	\$2,345,149	\$576,128	75.4%	\$368,972	156.14%
6/30/07	\$1,976,731	\$2,555,504	\$578,773	77.4%	\$407,812	141.92%
6/30/08	\$2,218,937	\$2,806,222	\$587,285	79.1%	\$416,243	141.09%
6/30/09	\$1,909,679	\$2,987,712	\$1,078,033	63.9%	\$436,424	247.02%
6/30/10	\$2,179,076	\$3,098,453	\$919,377	70.3%	\$428,559	214.53%
6/30/11	\$2,405,140	\$3,246,727	\$841,587	74.1%	\$424,061	198.46%
6/30/12	\$2,480,271	\$3,442,553	\$962,282	72.0%	\$419,779	229.24%
6/30/13	\$2,618,639	\$3,572,750	\$954,111	73.3%	\$406,921	234.47%
6/30/14	\$2,993,187	\$3,797,042	\$803,855	78.8%	\$422,022	190.48%

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 21% 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

Important Terms

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: GENERAL

Year	County & Courts General (excluding Nurses & UAPD)			County General Nurses & UAPD			San Mateo County Mosquito and Vector Control District General		
	Normal	UAAL	Total	Normal	UAAL	Total	Normal	UAAL	Total
2005	10.36%	10.38%	20.74%	Same as County General			Same as County General		
2006	10.49%	9.97%	20.46%	Same as County General			Same as County General		
2007	10.19%	9.46%	19.65%	Same as County General			8.50%	7.76%	16.26%
2008	10.16%	9.81%	19.97%	Same as County General			8.55%	8.04%	16.59%
2009	10.11%	18.40%	28.51%	Same as County General			8.25%	15.09%	23.34%
2010	10.05%	18.46%	28.51%	Same as County General			11.70%	16.35%	28.05%
2011	9.71%	18.80%	28.51%	8.70%	19.81%	28.51%	11.48%*	16.96%*	28.44%*
2012	9.98%	20.17%	30.15%	8.96%	20.17%	29.13%	11.68%	20.17%	31.85%
2013	9.74%	22.35%	32.09%	8.92%	22.35%	31.27%	11.70%	22.35%	34.05%
2014	10.12%	20.27%	30.39%	9.14%	20.21%	29.35%	11.72%	21.16%	32.88%

*Revised by actuary in 2012.

HISTORY OF EMPLOYER CONTRIBUTION RATES: SAFETY AND PROBATION

Year	Safety Member			Probation Member (excluding Managers)			Probation Managers		
	Normal	UAAL	Total	Normal	UAAL	Total	Normal	UAAL	Total
2005	20.43%	32.02%	52.45%	21.10%	16.43%	37.53%	21.10%	16.43%	37.53%
2006	20.18%	30.52%	50.70%	21.59%	14.85%	36.44%	21.59%	14.85%	36.44%
2007	19.94%	29.32%	49.26%	20.83%	14.06%	34.89%	20.83%	14.06%	34.89%
2008	19.32%	27.31%	46.63%	20.05%	12.81%	32.86%	20.05%	12.81%	32.86%
2009	19.21%	51.83%	71.04%	19.92%	23.84%	43.76%	19.92%	23.84%	43.76%
2010	19.01%	52.03%	71.04%	19.85%	21.62%	41.47%	19.85%	21.62%	41.47%
2011	18.97%	52.07%	71.04%	19.50%	22.30%	41.80%	19.50%	22.30%	41.80%
2012	19.05%	48.51%	67.56%	18.47%	26.71%	45.18%	18.47%	26.71%	45.18%
2013	18.51%	50.33%	68.84%	18.33%	29.32%	47.65%	17.85%	29.32%	47.17%
2014	18.99%	46.48%	65.47%	18.92%	28.09%	47.01%	18.79%	28.09%	46.88%

ACTIVE MEMBER VALUATION DATA

Valuation Date		Members ⁽¹⁾	Annual Salary	Average Annual Salary	% Change Average Salary
2005	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%
2006	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%
2007	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%
2008	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%
2009	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%
2010	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%
2011	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%
2012	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%
2013	General	4,173	\$338,595,633	\$81,140	0.50%
	Safety	452	\$52,233,510	\$115,561	-1.70%
	Probation	292	\$23,722,165	\$81,240	-1.10%
	Total	4,917	\$414,551,308	\$84,310	0.40%
2014	General	4,272	\$352,918,558	\$82,612	1.80%
	Safety	452	\$52,974,475	\$117,200	1.40%
	Probation	280	\$23,514,343	\$83,980	3.40%
	Total	5,004	\$429,407,376	\$85,813	1.80%

(1) Numbers prior to 2006 were reported on a different basis.

DEMOGRAPHIC ACTIVITY OF RETIREES AND BENEFICIARIES

Retirees and Beneficiaries ⁽¹⁾									
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
6/30/05	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 ⁽²⁾	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
6/30/13	4,275	186	63	4,398	\$13,024	\$3,095	\$154,774	6.9%	\$35,196
6/30/14	4,398	203	83	4,518	\$12,474	\$3,479	\$163,769	5.8%	\$36,252

(1) For 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.

(2) Revised from 2011 valuation for corrections.

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE (\$000)

Summary of (Gains) / Losses

	Change In Liability				
	2014	2013	2012	2011	2010
Unfunded Liability as of July 1	\$954,111	\$962,282	\$841,587	\$919,377	\$1,078,033
Expected Change in UAAL	(\$88,525)	(\$34,535)	(\$39,621)	(\$31,508)	\$27,388
Salary (Gain) / Loss	(\$15,884)	(\$59,411)	(\$45,526)	(\$51,831)	(\$43,598)
Retiree COLA more / (less) than expected	(\$15,603)	(\$8,606)	(\$11,756)	(\$27,561)	(\$41,258)
Assets (Gain) / Loss	(\$88,035)	\$93,999	\$171,268	\$12,548	(\$88,485)
Change due to Assumption Changes	\$59,345	\$0	\$36,443	\$19,402	
Miscellaneous Experience	(\$1,554)	\$382	\$9,887	\$1,160	(\$12,703)
Change Due to New Formula					
Unfunded Liability as of June 30	\$803,855	\$954,111	\$962,282	\$841,587	\$919,377

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.

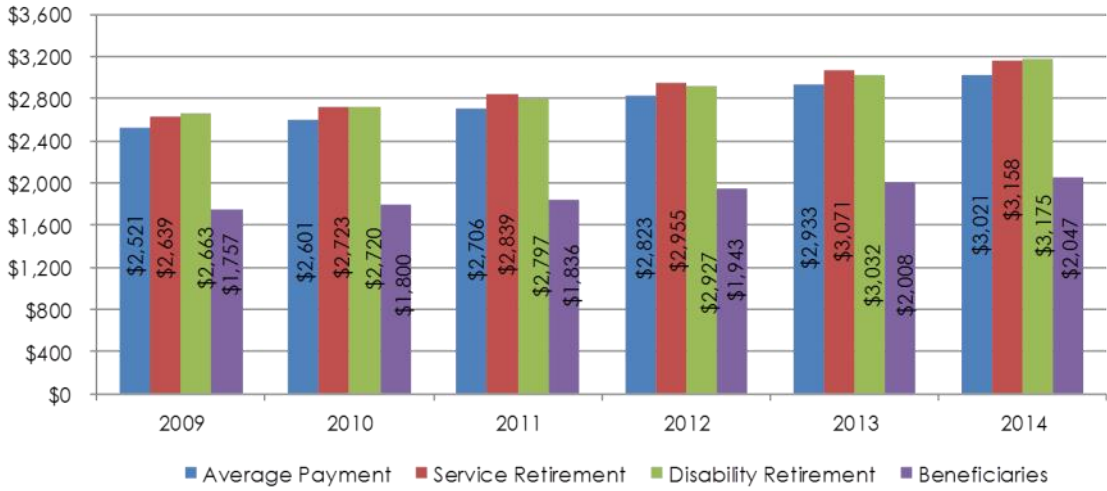
Ordinary Death: Member dies before retirement; death is not service related.

In the table below each rate represents the probability that a member will separate from service at each age due to a particular cause.

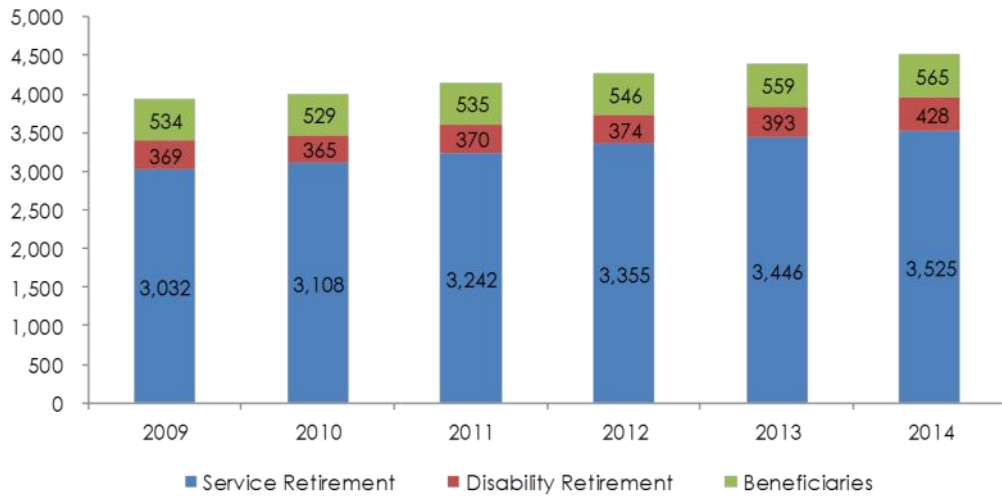
PROBABILITY OF SEPARATION DURING ACTIVE SERVICE

Years of Service	Other Terminations		Age	Disability		Death while Active		Service Retirement
	Ordinary	Vested		Ordinary	Service	Ordinary	Service	
General Plan 1, 2, 4, 5 & 7 Male Members								
0	0.1300	0.0000	20	0.0003	0.0004	0.0003	0.0000	0.0000
5	0.0285	0.0348	30	0.0004	0.0005	0.0004	0.0000	0.0000
10	0.0172	0.0238	40	0.0008	0.0011	0.0009	0.0000	0.0000
15	0.0099	0.0191	50	0.0013	0.0019	0.0017	0.0000	0.0500
20	0.0040	0.0150	60	0.0018	0.0027	0.0036	0.0000	0.1500
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0000	0.0000	1.0000
General Plan 1, 2, 4, 5 & 7 Female Members								
0	0.1200	0.0000	20	0.0003	0.0004	0.0002	0.0000	0.0000
5	0.0285	0.0348	30	0.0003	0.0004	0.0002	0.0000	0.0000
10	0.0153	0.0212	40	0.0006	0.0008	0.0006	0.0000	0.0000
15	0.0088	0.0172	50	0.0020	0.0029	0.0013	0.0000	0.0400
20	0.0040	0.0150	60	0.0032	0.0048	0.0030	0.0000	0.1500
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0000	0.0000	1.0000
General Plan 3 Male Members								
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
General Plan 3 Female Members								
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
Safety and Probation Plan 1, 2 & 4 Male Members								
0	0.0700	0.0000	20	0.0000	0.0017	0.0003	0.0010	0.0000
5	0.0082	0.0151	30	0.0000	0.0020	0.0004	0.0010	0.0000
10	0.0050	0.0105	40	0.0000	0.0031	0.0009	0.0010	0.0000
15	0.0016	0.0094	50	0.0000	0.0058	0.0017	0.0010	0.1500
20 & Above	0.0000	0.0000	60	0.0000	0.0000	0.0000	0.0000	1.0000
Safety and Probation Plan 1, 2 & 4 Female Members								
0	0.0700	0.0000	20	0.0000	0.0017	0.0002	0.0010	0.0000
5	0.0082	0.0151	30	0.0000	0.0020	0.0002	0.0010	0.0000
10	0.0050	0.0105	40	0.0000	0.0031	0.0006	0.0010	0.0000
15	0.0016	0.0094	50	0.0000	0.0058	0.0013	0.0010	0.1500
20 & Above	0.0000	0.0000	60	0.0000	0.0000	0.0000	0.0000	1.0000
Safety and Probation Plan 5, 6 & 7 Male Members								
0	0.0700	0.0000	20	0.0000	0.0017	0.0003	0.0010	0.0000
5	0.0082	0.0151	30	0.0000	0.0020	0.0004	0.0010	0.0000
10	0.0050	0.0105	40	0.0000	0.0031	0.0009	0.0010	0.0000
15	0.0016	0.0094	50	0.0000	0.0058	0.0017	0.0010	0.0500
20 & Above	0.0000	0.0000	60	0.0000	0.0000	0.0000	0.0000	1.0000
Safety and Probation Plan 5, 6 & 7 Female Members								
0	0.0700	0.0000	20	0.0000	0.0017	0.0002	0.0010	0.0000
5	0.0082	0.0151	30	0.0000	0.0020	0.0002	0.0010	0.0000
10	0.0050	0.0105	40	0.0000	0.0031	0.0006	0.0010	0.0000
15	0.0016	0.0094	50	0.0000	0.0058	0.0013	0.0010	0.0500
20 & Above	0.0000	0.0000	60	0.0000	0.0000	0.0000	0.0000	1.0000

AVERAGE MONTHLY BENEFIT PAYMENT



RETIREES BY CATEGORY



STATISTICAL SECTION



Hills near Crystal Springs Reservoir, San Mateo County

INTRODUCTION TO THE STATISTICAL SECTION

This section provides additional detailed information for a more thorough understanding of the financial statements, note disclosures and required supplementary information. The schedules presented on the following pages show trends in changes of plan net position, 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 POSITION LAST TEN FISCAL YEARS

as of June 30 (in thousands of dollars)

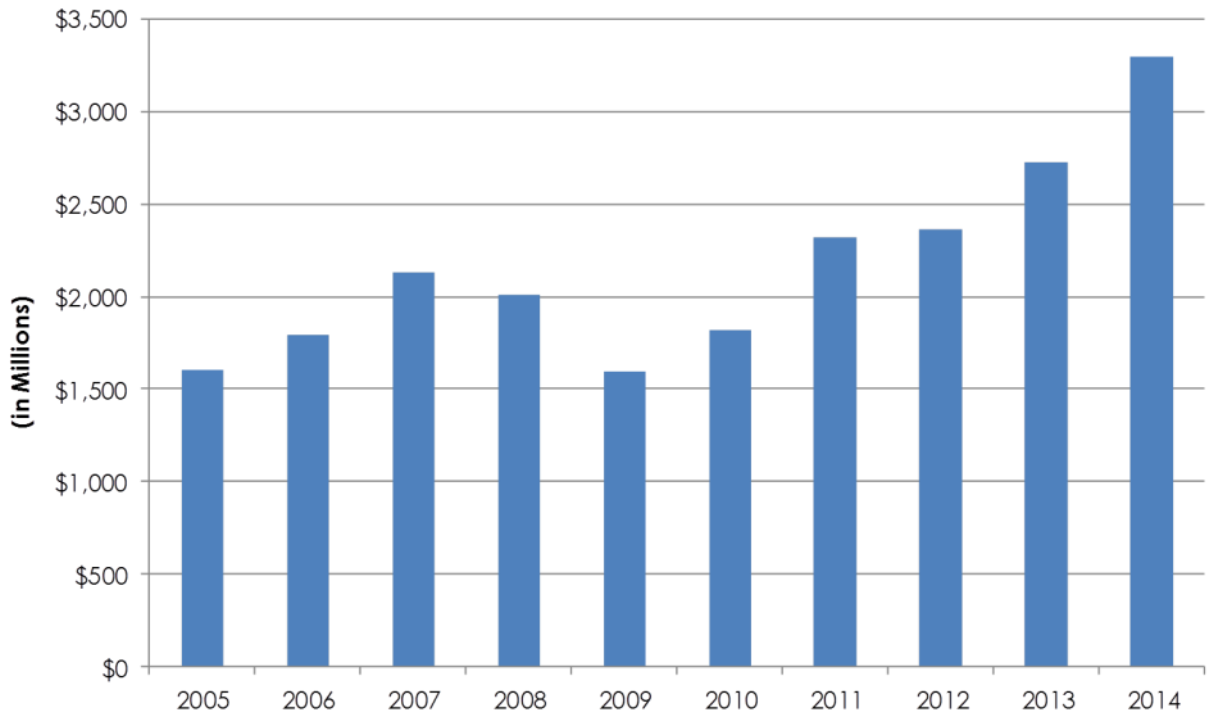
	2014	2013	2012	2011	2010
Additions					
Employer Contributions	\$202,877	\$144,308	\$150,950	\$150,475	\$106,265
Member Contributions	46,594	55,408	49,687	49,013	50,319
Total Contributions	249,471	199,716	200,637	199,488	156,584
Investment Income/(Loss) (net of expenses)	482,050	326,983	(11,024)	437,654	195,412
Security Lending Income	435	622	721	530	743
Miscellaneous Additions/(Declines)	179	160	29	73	41
Total Additions/(Declines)	732,135	527,481	190,363	637,745	352,780
Deductions					
Retiree Benefits	159,342	149,266	139,208	129,835	122,141
Member Refunds	3,214	5,750	3,627	2,474	2,736
Administrative Expenses	5,645	4,914	5,033	3,547	3,373
Other Expenses	65	29	(33)	10	33
Total Deductions	168,266	159,959	147,835	135,866	128,283
Change in Pension Plan Net Position	\$563,869	\$367,522	\$42,528	\$501,879	\$224,497

CHANGE IN PENSION PLAN NET POSITION LAST TEN FISCAL YEARS (CONTINUED)

as of June 30 (in thousands of dollars)

	2009	2008	2007	2006	2005
Additions					
Employer Contributions	\$106,123	\$105,340	\$100,550	\$76,090	\$76,931
Member Contributions	50,372	60,111	42,696	39,962	33,647
Total Contributions	156,495	165,451	143,246	116,052	110,578
Investment Income/(Loss) (net of expenses)	(457,309)	(178,379)	298,260	166,826	140,132
Security Lending Income	1,631	1,699	0	0	0
Miscellaneous Additions/(Declines)	(16)	181	26	49	79
Total Additions/(Declines)	(299,199)	(11,048)	441,532	282,927	250,789
Deductions					
Retiree Benefits	113,991	103,970	94,788	87,915	83,182
Member Refunds	2,795	3,075	2,244	2,258	1,458
Administrative Expenses	3,287	2,774	2,582	2,086	2,235
Other Expenses	67	8	201	40	4
Total Deductions	120,140	109,827	99,815	92,299	86,879
Change in Pension Plan Net Position	\$(419,339)	\$(120,875)	\$341,717	\$190,628	\$163,910

TOTAL PLAN NET POSITION



SCHEDULE OF EMPLOYER CONTRIBUTIONS

(in thousands of dollars)

Year End	Actuarially Required Contributions (ARC)	Contributions Made As a % of ARC
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%
06/30/2013	\$144,308	100%
06/30/2014	\$152,877	100%

SCHEDULE OF REVENUE BY SOURCE

(in thousands of dollars)

Year End	Employee Contribution	Employer Contribution	Investment Income/(Loss)	Total
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
06/30/2013	\$55,408	\$144,308	\$327,765	\$527,481
06/30/2014	\$46,594	\$202,877	\$482,664	\$732,135

SCHEDULE OF EXPENSES BY TYPE

(in thousands of dollars)

Year End	Administrative Expenses	Other Expenses	Retirement Benefits Paid	Member Refunds	Total
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
06/30/2013	\$4,914	\$29	\$149,266	\$5,750	\$159,959
06/30/2014	\$5,645	\$65	\$159,342	\$3,214	\$168,266

Note: 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	2014	2013	2012	2011	2010
Service Retirement					
Number	3,525	3,446	3,355	3,242	3,108
Annual Allowance					
Basic Only	\$105,556,000	\$100,411,000	\$94,234,000	\$87,254,000	\$79,007,000
COLA	\$28,027,000	\$26,594,000	\$24,748,000	\$23,212,000	\$22,542,000
Total	\$133,583,000	\$127,005,000	\$118,982,000	\$110,466,000	\$101,549,000
Average Monthly Payment	\$3,158	\$3,071	\$2,955	\$2,839	\$2,723
Disability Retirement					
Number	428	393	374	370	365
Annual Allowance					
Basic Only	\$12,508,000	\$10,733,000	\$9,909,000	\$9,414,000	\$8,988,000
COLA	\$3,800,000	\$3,564,000	\$3,225,000	\$3,005,000	\$2,926,000
Total	\$16,308,000	\$14,297,000	\$13,134,000	\$12,419,000	\$11,914,000
Average Monthly Payment	\$3,175	\$3,032	\$2,927	\$2,797	\$2,720
Beneficiaries					
Number	565	559	546	535	529
Annual Allowance					
Basic Only	\$7,986,000	\$7,668,000	\$7,235,000	\$6,672,000	\$6,309,000
COLA	\$5,892,000	\$5,804,000	\$5,494,000	\$5,118,000	\$5,116,000
Total	\$13,878,000	\$13,472,000	\$12,729,000	\$11,790,000	\$11,425,000
Average Monthly Payment	\$2,047	\$2,008	\$1,943	\$1,836	\$1,800
Total Retired Members					
Number	4,518	4,398	4,275	4,147	4,002
Annual Allowance					
Basic Only	\$126,050,000	\$118,812,000	\$111,378,000	\$103,340,000	\$94,304,000
COLA	\$37,719,000	\$35,962,000	\$33,467,000	\$31,335,000	\$30,584,000
Total	\$163,769,000	\$154,774,000	\$144,845,000	\$134,675,000	\$124,888,000
Average Monthly Payment	\$3,021	\$2,933	\$2,823	\$2,706	\$2,601
Type of Refund*					
General	\$3,396,690	\$5,161,430	\$3,399,163	\$2,379,790	\$2,623,439
Safety	\$155,265	\$588,346	\$228,329	\$94,655	\$112,586
Total Refund	\$3,551,955	\$5,749,776	\$3,627,492	\$2,474,445	\$2,736,025
INACTIVE MEMBERS	1,304	1,306	1,212	1,190	1,207

For 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 year 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	2009	2008	2007	2006	2005
Service Retirement					
Number	3,032	2,958	2,835	2,783	2,865
Annual Allowance					
Basic Only	\$73,038,000	\$66,704,000	\$59,687,000	\$54,942,000	\$49,760,000
COLA	\$22,964,000	\$21,289,000	\$19,382,000	\$18,188,000	\$17,759,000
Total	\$96,002,000	\$87,993,000	\$79,069,000	\$73,130,000	\$67,519,000
Average Monthly Payment	\$2,639	\$2,479	\$2,324	\$2,190	\$1,964
Disability Retirement					
Number	369	361	351	342	334
Annual Allowance					
Basic Only	\$8,722,000	\$8,214,000	\$7,571,000	\$6,915,000	\$6,575,000
COLA	\$3,070,000	\$2,847,000	\$2,569,000	\$2,356,000	\$2,205,000
Total	\$11,792,000	\$11,061,000	\$10,140,000	\$9,271,000	\$8,780,000
Average Monthly Payment	\$2,663	\$2,553	\$2,407	\$2,259	\$2,191
Beneficiaries					
Number	534	523	508	488	483
Annual Allowance					
Basic Only	\$6,052,000	\$5,757,000	\$5,220,000	\$4,659,000	\$4,084,000
COLA	\$5,206,000	\$4,805,000	\$4,361,000	\$3,946,000	\$3,800,000
Total	\$11,258,000	\$10,562,000	\$9,581,000	\$8,605,000	\$7,884,000
Average Monthly Payment	\$1,757	\$1,683	\$1,572	\$1,469	\$1,360
Total Retired Members					
Number	3,935	3,842	3,694	3,613	3,682
Annual Allowance					
Basic Only	\$87,812,000	\$80,675,000	\$72,478,000	\$66,516,000	\$60,419,000
COLA	\$31,240,000	\$28,941,000	\$26,312,000	\$24,490,000	\$23,764,000
Total	\$119,052,000	\$109,616,000	\$98,790,000	\$91,006,000	\$84,183,000
Average Monthly Payment	\$2,521	\$2,378	\$2,229	\$2,099	\$1,905
Type of Refund*					
General	N/A	N/A	N/A	N/A	N/A
Safety	N/A	N/A	N/A	N/A	N/A
Total Refund	\$2,794,916	\$3,074,453	\$2,243,677	\$2,257,849	\$1,458,227
INACTIVE MEMBERS	1,230	1,225	1,151	1,089	872

SCHEDULE OF AVERAGE PENSION BENEFIT PAYMENTS

Retirement Date	Years of Service Credit						
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
<u>7/1/2013 - 6/30/2014</u>							
Retirees - Service and Disabilities							
Average Monthly Gross Benefit	\$1,544	\$1,669	\$2,230	\$3,187	\$4,373	\$6,030	\$6,363
Average Final Compensation	\$6,920	\$6,698	\$6,555	\$7,614	\$7,740	\$9,292	\$7,528
Number of Retirees	16	62	50	40	32	13	18
Beneficiaries							
Average Monthly Gross Benefit	\$795	\$634	\$1,807	\$869	\$4,103	\$3,362	\$5,909
Average Final Compensation	N/A	\$6,305	\$5,433	\$2,913	\$7,872	\$5,504	\$6,611
Number of Beneficiaries	11	3	6	6	3	2	2
<u>7/1/2012 - 6/30/2013</u>							
Retirees - Service and Disabilities							
Average Monthly Gross Benefit	\$613	\$1,297	\$2,391	\$3,337	\$4,877	\$6,228	\$6,929
Average Final Compensation	\$5,234	\$5,790	\$7,270	\$7,344	\$8,001	\$8,317	\$7,818
Number of Retirees	16	40	60	21	31	25	20
Beneficiaries							
Average Monthly Gross Benefit	\$1,380	\$1,668	\$1,415	\$1,421	\$1,709	\$4,908	\$3,946
Average Final Compensation	\$442	\$5,140	\$5,255	\$4,536	\$4,566	\$7,516	\$6,039
Number of Beneficiaries	20	2	6	4	4	1	4
<u>7/1/2011 - 6/30/2012</u>							
Retirees - Service and Disabilities							
Average Monthly Gross Benefit	\$859	\$1,362	\$2,231	\$3,408	\$4,898	\$5,319	\$7,134
Average Final Compensation	\$4,235	\$5,843	\$6,667	\$7,228	\$7,793	\$7,344	\$14,439
Number of Retirees	19	38	47	25	48	32	29
Beneficiaries							
Average Monthly Gross Benefit	\$1,613	\$697	\$2,272	\$2,264	\$1,595	\$4,117	\$4,423
Average Final Compensation	N/A	\$3,913	\$5,200	\$5,818	\$14,671	\$6,102	\$6,315
Number of Beneficiaries	19	1	5	4	6	3	5
<u>7/1/2010 - 6/30/2011</u>							
Retirees - Service and Disabilities							
Average Monthly Gross Benefit	\$552	\$1,141	\$2,018	\$3,553	\$4,628	\$6,124	\$7,669
Average Final Compensation	\$3,207	\$6,268	\$5,895	\$7,727	\$7,562	\$8,466	\$8,295
Number of Retirees	16	25	52	31	52	26	26
Beneficiaries							
Average Monthly Gross Benefit	\$1,074	\$1,333	\$1,173	\$1,831	\$1,988	\$3,177	\$8,200
Average Final Compensation	N/A	\$6,549	\$4,186	\$4,714	\$5,772	\$5,278	\$7,765
Number of Beneficiaries	13	1	7	4	6	2	1
<u>7/1/2009 - 6/30/2010</u>							
Retirees - Service and Disabilities							
Average Monthly Gross Benefit	\$833	\$1,203	\$2,010	\$3,729	\$4,792	\$5,849	\$7,159
Average Final Compensation	\$2,619	\$5,409	\$5,803	\$7,587	\$7,827	\$7,818	\$8,081
Number of Retirees	9	36	33	16	41	19	24
Beneficiaries							
Average Monthly Gross Benefit	\$680	\$2,544	\$1,416	\$1,109	\$2,182	\$3,782	\$4,180
Average Final Compensation	N/A	\$7,316	\$5,457	\$3,874	\$5,546	\$5,457	\$5,166
Number of Beneficiaries	9	4	2	2	3	1	4

SCHEDULE OF AVERAGE PENSION BENEFIT PAYMENTS (CONTINUED)

Retirement Date	Years of Service Credit						
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+
<u>7/1/2008 - 6/30/2009</u>							
Retirees - Service and Disabilities							
Average Monthly Gross Benefit	\$1,477	\$1,414	\$2,180	\$2,836	\$4,938	\$5,870	\$8,897
Average Final Compensation	\$3,654	\$4,581	\$7,728	\$6,798	\$7,838	\$7,141	\$10,247
Number of Retirees	7	34	27	29	22	17	34
Beneficiaries							
Average Monthly Gross Benefit	\$1,757	\$615	\$1,285	\$950	\$1,508	\$3,912	\$3,443
Average Final Compensation	N/A	\$3,744	\$5,068	\$3,840	\$6,395	\$6,099	\$4,661
Number of Beneficiaries	12	3	6	3	3	1	1
<u>7/1/2007 - 6/30/2008</u>							
Retirees - Service and Disabilities							
Average Monthly Gross Benefit	\$530	\$1,558	\$2,320	\$3,423	\$3,723	\$5,026	\$7,187
Average Final Compensation	\$5,406	\$5,570	\$5,922	\$6,995	\$6,179	\$6,596	\$7,641
Number of Retirees	12	30	23	26	47	35	38
Beneficiaries							
Average Monthly Gross Benefit	\$1,823	\$1,033	\$1,856	\$3,106	\$1,396	\$4,264	\$5,270
Average Final Compensation	N/A	\$4,433	\$7,617	\$6,701	\$5,149	\$14,071	\$7,713
Number of Beneficiaries	16	2	1	2	3	4	2
<u>7/1/2006 - 6/30/2007</u>							
Retirees - Service and Disabilities							
Average Monthly Gross Benefit	\$1,116	\$1,768	\$1,930	\$2,881	\$3,845	\$6,703	\$8,245
Average Final Compensation	\$3,705	\$7,601	\$5,323	\$5,870	\$6,703	\$8,390	\$7,839
Number of Retirees	9	15	31	29	24	25	25
Beneficiaries							
Average Monthly Gross Benefit	\$1,783	\$2,435	\$1,251	\$1,513	\$2,708	\$3,612	\$3,921
Average Final Compensation	\$1,494	\$2,882	\$3,961	\$5,028	\$5,536	\$4,056	\$5,016
Number of Beneficiaries	9	3	5	5	3	2	2
<u>7/1/2005 - 6/30/2006</u>							
Retirees - Service and Disabilities							
Average Monthly Gross Benefit	\$1,011	\$1,278	\$1,743	\$2,758	\$3,626	\$6,103	\$6,808
Average Final Compensation	\$4,352	\$4,630	\$5,193	\$5,929	\$5,688	\$6,845	\$6,863
Number of Retirees	4	19	33	26	24	21	37
Beneficiaries							
Average Monthly Gross Benefit	\$1,337	\$220	\$1,452	\$1,344	\$2,259	\$2,902	\$3,829
Average Final Compensation	N/A	\$753	\$4,320	\$3,206	\$4,742	\$7,374	\$4,659
Number of Beneficiaries	16	2	5	1	3	1	5
<u>7/1/2004 - 6/30/2005</u>							
Retirees - Service and Disabilities							
Average Monthly Gross Benefit	\$478	\$1,223	\$1,774	\$2,626	\$4,123	\$6,909	\$7,556
Average Final Compensation	\$2,821	\$4,738	\$4,805	\$5,336	\$6,850	\$7,963	\$7,015
Number of Retirees	10	27	19	42	30	33	46
Beneficiaries							
Average Monthly Gross Benefit	\$1,371	\$447	\$1,689	\$1,887	\$2,194	\$4,633	\$0
Average Final Compensation	N/A	\$3,345	\$3,349	\$2,589	\$5,317	\$7,222	\$0
Number of Beneficiaries	9	1	2	1	6	3	0

SCHEDULE OF AVERAGE MONTHLY SALARY OF ACTIVE MEMBERS

(by tier and membership type)

	2014	2013	2012	2011	2010
General Tier 1	\$8,617	\$8,104	\$7,843	\$7,630	\$7,543
General Tier 2	\$7,584	\$7,355	\$7,340	\$7,208	\$7,193
General Tier 3	\$6,300	\$6,254	\$6,138	\$5,968	\$5,818
General Tier 4	\$6,873	\$6,662	\$6,580	\$6,398	\$6,348
General Tier 5	\$6,912	\$6,418	\$5,799	N/A	N/A
General Tier 7	\$5,721	\$5,433	N/A	N/A	N/A
General Tier Total	\$6,884	\$6,726	\$6,726	\$6,599	\$6,569
Safety Tier 1	\$14,091	\$13,185	\$12,624	\$12,073	\$11,578
Safety Tier 2	\$11,191	\$10,935	\$10,892	\$10,789	\$10,548
Safety Tier 4	\$9,581	\$9,402	\$9,351	\$9,230	\$8,931
Safety Tier 5	\$8,958	\$8,699	\$9,667	N/A	N/A
Safety Tier 6	\$14,381	\$12,374	N/A	N/A	N/A
Safety Tier 7	\$7,011	\$6,695	N/A	N/A	N/A
Safety Tier Total	\$9,767	\$9,630	\$9,795	\$9,730	\$9,525
Probation Tier 1	\$6,874	\$6,618	\$6,618	\$7,533	\$8,922
Probation Tier 2	\$7,699	\$7,445	\$7,454	\$7,349	\$7,393
Probation Tier 4	\$6,922	\$6,622	\$6,686	\$6,505	\$6,456
Probation Tier 5	\$5,916	\$5,242	\$4,949	N/A	N/A
Probation Tier 6	\$5,216	\$4,808	\$5,239	N/A	N/A
Probation Tier 7	\$5,807	\$7,742	N/A	N/A	N/A
Probation Tier Total	\$6,998	\$6,770	\$6,844	\$6,719	\$6,722
Average Monthly Salary	\$7,151	\$7,026	\$6,995	\$6,872	\$6,813

SCHEDULE OF AVERAGE MONTHLY SALARY OF ACTIVE MEMBERS (CONTINUED)

(by tier and membership type)

	2009	2008	2007	2006	2005
General Tier 1	\$7,534	\$7,252	\$7,175	\$6,749	\$6,582
General Tier 2	\$7,120	\$6,872	\$6,688	\$6,148	\$6,045
General Tier 3	\$5,791	\$5,619	\$5,287	\$4,988	\$5,216
General Tier 4	\$6,212	\$5,914	\$5,714	\$5,315	\$5,476
General Tier 5	N/A	N/A	N/A	N/A	N/A
General Tier 7	N/A	N/A	N/A	N/A	N/A
General Tier Total	\$6,468	\$6,211	\$6,054	\$5,652	\$5,747
Safety Tier 1	\$10,889	\$11,113	\$10,212	\$10,019	\$9,701
Safety Tier 2	\$10,135	\$9,612	\$9,299	\$8,585	\$8,482
Safety Tier 4	\$8,610	\$8,349	\$7,882	\$7,403	\$7,564
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 7	N/A	N/A	N/A	N/A	N/A
Safety Tier Total	\$9,197	\$8,937	\$8,538	\$8,062	\$8,150
Probation Tier 1	\$9,751	\$9,791	\$8,522	\$7,735	\$7,216
Probation Tier 2	\$7,341	\$6,960	\$6,899	\$6,479	\$6,390
Probation Tier 4	\$6,291	\$5,978	\$5,766	\$5,444	\$5,741
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 7	N/A	N/A	N/A	N/A	N/A
Probation Tier Total	\$6,634	\$6,344	\$6,171	\$5,860	\$6,032
Average Monthly Salary	\$6,692	\$6,433	\$6,260	\$5,857	\$5,955

The data in the table above originates from PensionGold, SamCERA's retirement benefit administration system. For the year 2005, it also appears in SamCERA's actuarial valuation reports.

SCHEDULE OF PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS

	2014	2013	2012	2011	2010
COUNTY OF SAN MATEO					
General Members	4,014	3,906	4,078	4,476	4,589
Safety Members	452	452	435	446	425
Safety/Probation Members	280	292	299	305	313
Total	4,746	4,650	4,812	5,227	5,327
SAN MATEO COUNTY SUPERIOR COURTS*					
General Members Total	239	249	268	N/A	N/A
SAN MATEO COUNTY MOSQUITO & VECTOR CONTROL DISTRICT					
General Members Total	19	18	15	18	20
Total Active Membership	5,004	4,917	5,095	5,245	5,347

* San Mateo County Superior Courts Members were included in County of San Mateo prior to 2012.

SCHEDULE OF PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS (CONTINUED)

	2009	2008	2007	2006	2005
COUNTY OF SAN MATEO					
General Members	4,758	4,718	4,742	4,594	4,391
Safety Members	436	432	443	428	409
Safety/Probation Members	330	325	329	313	278
Total	5,524	5,475	5,514	5,335	5,078
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	19	25	25	20	20
Total Active Membership	5,543	5,500	5,539	5,355	5,098

* San Mateo County Superior Courts Members were included in County of San Mateo prior to 2012.

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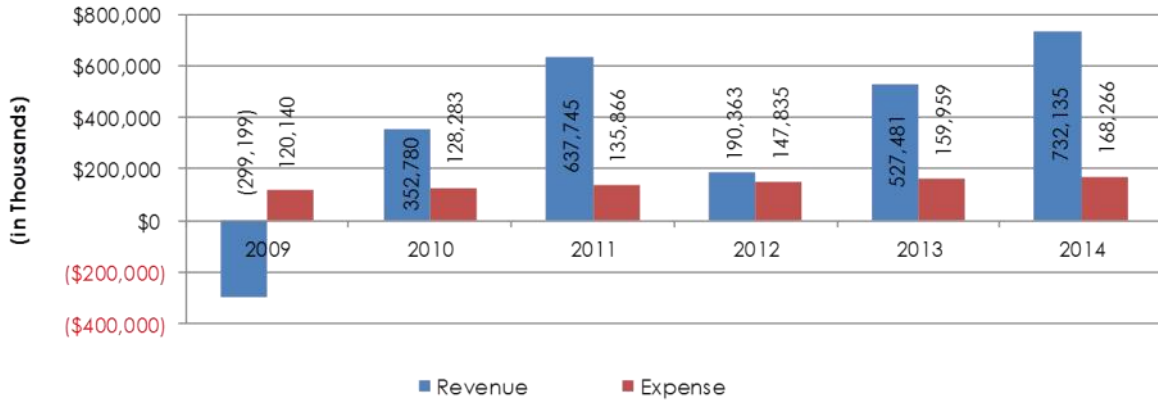
COMPLIANCE SECTION



Pulgas Water Temple, Redwood City, San Mateo County

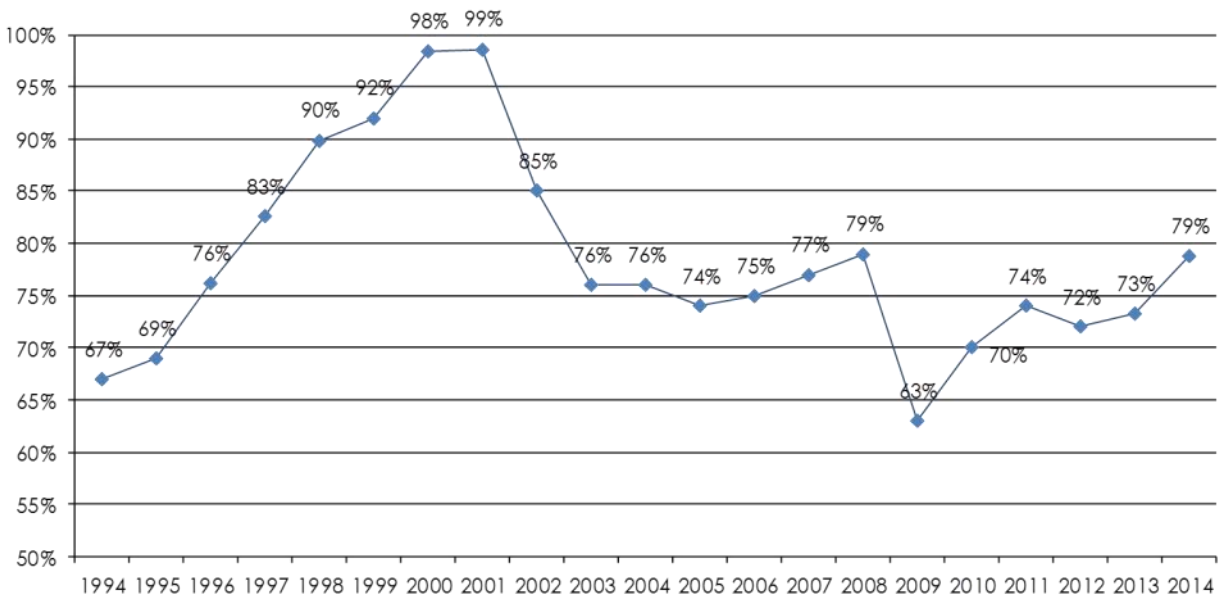
SAMCERA'S REVENUE AND EXPENSE

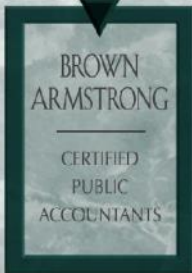
FY 2009-2014



SAMCERA'S FUNDING RATIO (GASB STATEMENT NO. 25 BASIS)

FY 1994-2014





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 Employees' Retirement Association
Redwood City, California

We have audited, in accordance with the 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, the financial statements of the San Mateo County Employees' Retirement Association (SamCERA) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise SamCERA's basic financial statements, and have issued our report thereon dated October 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SamCERA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 SamCERA's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

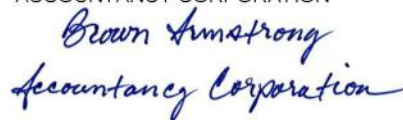
As part of obtaining reasonable assurance about whether SamCERA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on 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 in a separate letter dated October 22, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SamCERA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SamCERA's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

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 22, 2014

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Order Information

To order your own copy of SamCERA's 2014 *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.

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SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 28, 2014

Agenda Item 7.4

TO: Board of Retirement

FROM: Mabel Wong, Finance Officer 

SUBJECT: Annual Review of Independent Auditor, Brown Armstrong

Staff Recommendation

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 and higher ratings in all questions from the Board and staff for the services they provide to SamCERA. Some trustees expressed that the auditor has provide overall a good audit service and there is no basis for comparison. Staff commented Brown Armstrong's initiative of leading the GASB 67/68 implementation efforts with the implementation task force. The task force kept SamCERA and the plan sponsors and their auditor involved and engaged, and enable a smooth implementation.

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

The survey was provided online. Results were collected from four trustees, five staff members and three auditors. Ratings from staff and trustees are above average. On a scale of 1 through 5, with 5 being the highest rating, staff gave the firm an average rating of 4.27 compared to 4.12 in the prior year; trustees rated the firm 4.51 compared to 4.45 last year and auditors rated themselves at 4.67. Please see the attached summary sheet for rating details.

2. Responses to Questions

Brown Armstrong responded to a series of questions about the firm. SamCERA's audit partner, Andrew Paulden, will highlight attached responses to the questions.

3. Discussion at Board Meeting

Mr. 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 and recognize the auditor as a good resource.

Summary of Independent Auditor Performance Survey Results

October 28, 2014

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	2014 Trustee Results	2014 Staff Results	2014 Auditor Results	2013 Average
1. How would you rate the firm's understanding of the system's goals and objectives?	5.00	4.80	5.00	4.93
2. How would you rate the firm's ability to custom tailor services?	4.25	4.20	4.67	4.37
3. How would you rate the firm's ability to respond to plan sponsor needs?	4.00	4.40	4.67	4.36
4. How would you rate the firm's ability to communicate effectively?	4.00	4.20	4.67	4.29
5. How would you rate the firm's responsiveness to questions and requests?	4.75	4.20	4.67	4.54
6. How would you rate the adequacy of information provided by the firm?	4.50	4.20	4.67	4.46
7. How would you rate the firm's knowledge in their substantive audit expertise areas?	4.00	4.00	4.33	4.11
8. How would you rate the effectiveness of the firm's educational presentations?	4.67	3.75	4.67	4.36
9. The firm provides practical and effective advice.	4.75	4.20	4.67	4.54
10. The firm provides creative solutions to difficult problems.	4.25	4.25	4.67	4.39
11. The firm achieves results that meet your expectations.	4.75	4.00	4.67	4.47
12. The firm keeps you informed about the progress of your matters.	4.75	4.20	4.67	4.54
13. The firm keeps you informed about changes in the law that could affect the plan.	4.75	4.40	4.67	4.61
14. The actuary demonstrates a high standard of ethics and integrity.	4.50	4.80	4.67	4.66
15. What is your overall opinion of the firm?	4.75	4.40	4.67	4.61
Average	4.51	4.27	4.67	4.48

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

Questions for Annual Independent Auditor Evaluation
Fiscal Year 2013-2014

Organizational Update

- 1) What is the ownership structure of your firm? Identify all owners with 5% ownership or more.

Andrew J. Paulden	22.18%
Steven R. Starbuck	14.09%
Christina M. Thornburgh	8.37%
Eric H. Xin	16.88%
Rosalva Flores	5.02%
Diana H. Branthoover	9.21%
Thomas M. Young	7.11%
Connie M. Perez	5.02%
Diane L. White	4.04%
Jian Ou-Yang	4.04%
Ryan L. Nielsen	4.04%
	100.00%

- 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) Change in managing partner. One partner retired from the firm. Two tax partners separated from the firm.
- (b) We have added 13 new audit clients representing approximately 7,000 hours. Four clients (County of Santa Cruz, City of Baldwin Park, Roman Catholic Bishop of Fresno, and County of San Luis Obispo) comprise approximately 5,000 of these new hours. We have lost 8 audit clients representing approximately 2000 hours through the competitive bidding process.
- (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 79 employees; approximately 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.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

- 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."

Due to a medical condition, Brooke Baird (audit manager) was replaced by Amanda Dickerson (audit manager). This change did not significantly impact the current year audit.

- 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 peer review report.

- 9) Describe the levels of insurance coverage maintained by your firm. E-mail a current certification of insurance to mwong@samcera.org.

See attached certificates.

- 10) Do you have a written policy on ethics? If so, please e-mail the policy to 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. A new IT audit manager has been hired.

- 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 mission critical systems are our servers, routers, and switching equipment. We have not had any problems with these systems in the past eighteen months. These systems were implemented in a general sense over 10 years ago, but they are constantly being upgraded and improved. Our last upgrade was the first half of this year. We do not anticipate any changes to these systems in the next eighteen months.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

- 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.

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 experience regarding implementation of the enacted changes in GASB 67 and 68 accounting standards relative to the pension industry? Please list and discuss each proposal SamCERA should consider.

Brown Armstrong is currently assisting several 1937 Act clients, including SamCERA, with GASB 67 and 68 implementation.

- 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.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

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.

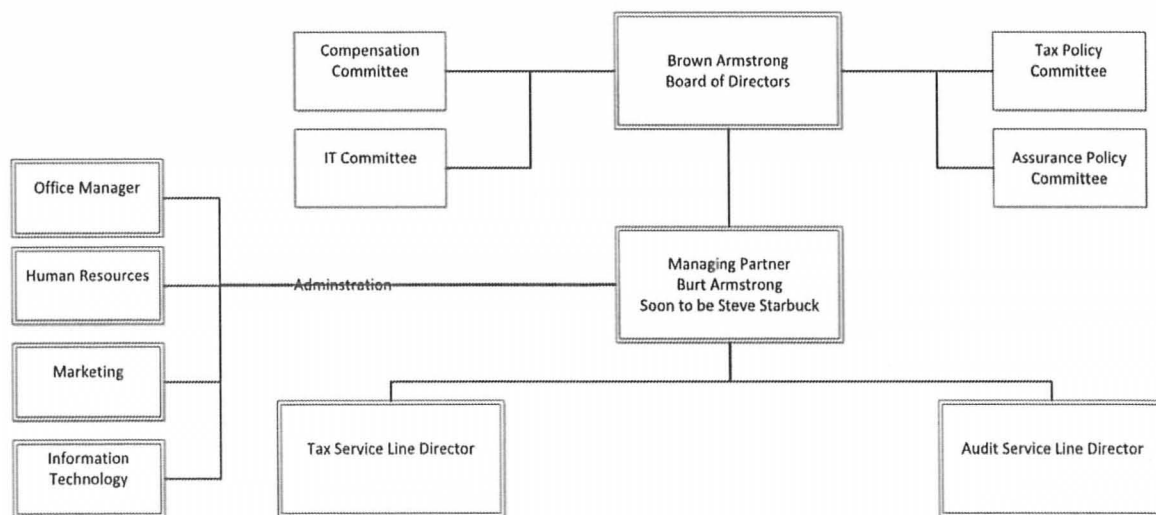
None noted.

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?

None noted.





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, 2012. 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. As part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. 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.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, 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, 2012, 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*.


WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
February 8, 2013

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 28, 2014

Agenda Item 7.5

TO: Board of Retirement

FROM: Michael Coultrip, Chief Investment Officer

SUBJECT: Approval to Establish Retirement Investment Analyst Position

Michael R. Coultrip

Staff Recommendation

Authorize staff to work with the County Human Resources Department to establish and fill one Retirement Investment Analyst position at SamCERA.

Background

The SamCERA Investments Division currently has two positions: Chief Investment Officer and Retirement Investment Analyst II. The Investments Division oversees the day-to-day administration of the investment program, which has grown in size and complexity over the past couple of years. In addition, higher post-credit crisis regulatory requirements have placed a larger administrative burden on staff.

Discussion

Subsequent to the 2008/2009 credit crisis, the regulatory environment has gotten more robust. New reforms including the Dodd Frank Wall Street Reform and Consumer Protection Act, the Foreign Account Tax Compliance Act, FINRA Anti-Money Laundering and other Know Your Client requirements from investment managers have resulted in additional administrative requirements placed on staff during the oversight of the SamCERA investment program. These regulations, combined with the higher complexity of the SamCERA portfolio (for example, the number of investment manager strategies has increased from 15 in 2010 to 37 in 2014, including alternative investments that require more administrative and general oversight), have increased the need for additional investment staff resources to be better able to provide proper management of the investment program.

The CIO has taken the past year to assess the staffing requirements of the Investments Division, and has determined that hiring a more junior investment analyst to handle more of the administrative duties would allow both the incumbent Retirement Investment Analyst II and CIO to focus on more value-added investment activities, while still allowing room for professional growth for the new hire. In addition, the new position already received Board budget approval in April 2012.

Attachments

- A. *Retirement Investment Analyst I Job Description*

RETIREMENT INVESTMENT ANALYST I

POSITION

The Retirement Investment Analyst performs basic duties in the day-to-day functioning of the investment program. This position reports to the Chief Investment Officer and will work alongside an incumbent Retirement Investment Analyst.

RESPONSIBILITIES

- Serves as primary contact for investment managers, the plan's custodial bank, and other related service providers.
- Provides administrative oversight of the asset managers.
- Oversees due diligence process of existing managers, including updating the annual due diligence questionnaire for each manager, scheduling the annual reviews with managers, and overseeing the administration of the meetings.
- Oversees the semi-annual compliance certification statement process, which is used to monitor investment manager compliance to their investment guidelines and procedures.
- Responds to external surveys and public records requests.
- Responsible for verifying, reconciling, and submitting payment invoices from investment managers and other service providers.
- Monitors account holdings for compliance with investment policy and guidelines; prepares and summarizes exception reports for the Chief Investment Officer.
- Assists in performing basic analyses for SamCERA including portfolio manager's performance attributions and styles.
- Researches and makes recommendations regarding investment policies or procedures, portfolio performance, asset classes, asset allocation or other related topics.
- Prepares oral, written and graphical presentations to key decision makers by using a variety of applicable software.

JOB REQUIREMENTS / QUALIFICATIONS

Knowledge of:

- Basic investment management procedures, practices and terminology.
- Basic principles of investments, finance, statistics, pension accounting, and actuarial science.
- Fundamental banking concepts such as float, electronic funds transfer, safekeeping, demand deposit, and trustee relationships.
- Applicable federal, state and local laws, rules and regulations and County and program policies and guidelines.
- Word processing, spreadsheets, database management and other computer applications.

Ability to:

- Understand the concept of institutional investment portfolio construction and management.
- Establish and maintain effective working relationships with custodian banks, investment managers, county staff and others.
- Communicate effectively with co-workers and vendors.
- Understand, explain and apply laws, rules, regulations, policies and procedures.
- Exercise sound independent judgment within established policies and guidelines.
- Establish and maintain professional relationships with members of the Retirement Board, other governmental agencies, legal and investment professionals and consultants.
- Write clearly, concisely and persuasively about technical subject matter.
- Exhibit strong interpersonal skills.
- Work effectively in situations involving change and uncertainty.
- Problem solve.

Education:

Any combination of education and experience that would likely provide the required knowledge, skills and abilities is qualifying. A typical way to qualify is:

Retirement Investment Analyst I -Graduation from an accredited college or university with a bachelor's degree in Investment, Finance, Economics or Accounting. Successful completion of the equivalent of one year full time financial, investments, analytical or accounting experience in a financial institution.

Note: A master's degree in finance, public administration, business administration or a related field based on a two-year curriculum may substitute for two years' experience.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 28, 2014

Agenda Item 7.6

TO: Board of Retirement
FROM: David Bailey, Chief Executive Officer
SUBJECT: Approval to Establish Retirement Financial Analyst Position



Staff Recommendation

Authorize staff to work with the County Human Resources Department to establish, fund and fill one Retirement Financial Analyst position at SamCERA.

Background

The SamCERA Finance Division currently has four positions: Financial Officer, Senior Accountant, Retirement Accountant and Retirement Accounting Technician. The division is responsible for all accounting functions and many non-accounting functions. The growth in the workload of non-accounting functions is the reason for this position request.

Workload growth has resulted from the following:

Growth in Number and Complexity of Plans. In 2010 SamCERA had Plans 1, 2, 3 and 4. From 2011 through 2013, Plans 5, 6 and 7 were added and Plan 3 closed to new members. The new plans increased workload due to the additional set of benefit laws and rules. The new labor agreements for the 10 bargaining units added further complexity due to the allowable transfers among plans and differing cost shares that are tied to either the benefit formula and/or date of hire as differing employer pick-up arrangements.

Plan 7, the PEPRA Plan, is especially complex because contribution calculations and benefit calculations differ greatly.

A measure of the increase in workload due to the addition of retirement plans is that in 2010 SamCERA had a total of approximately 350 employer and member contribution rates. Today that number is closer to 1500.

Growth in Actuarial Risk. This is related to the growth in the number of retirement plans, but also results from the gradual change by actuarial services providers to limit their liability and limit the amount of insurance they carry. As a result, SamCERA has determined to increase its protection against actuarial errors by increasing the frequency of actuarial audits from every six years to every three years. Each year that

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

an actuarial audit is conducted an experience study is also conducted. Therefore, the workload to manage the actuarial valuation function is four times higher in such years because, instead of just one valuation report, the staff must manage the process to produce and review four reports: the valuation, the valuation audit, the experience study and the experience study audit.

Growth in Financial Reporting Due to GASB 67 and 68. Both these new rules require many new calculations resulting in additional work for the actuary, the auditing firm and the Finance staff. At this point, the level of workload increase is difficult to project since we are in the process of adopting these new rules. However, GASB 67 and 68 are significant additions, mainly reflected in the Comprehensive Annual Financial Report and the annual Actuarial Valuation. The valuation and a new GASB 67/68 report this year totaled 147 pages. Last year the valuation was 124 pages. SamCERA's CAFR for FY 2012-13 was 119 pages. For FY 2013-14 it will be more than 132 pages.

Growth in Interest Crediting Workload Due To Supplemental Contributions. The supplemental contributions from San Mateo County are a very positive action. But properly managing these amounts has brought additional workload to the interest crediting process to make sure that the contributions benefit only San Mateo County and not other employers.

Growth in Workload Due to Technology Modernization Projects. The Finance staff needs to take part in the provision of institutional knowledge to the development of PASS, the replacement for PensionGold. PASS should go live within three years, but like all systems it will require ongoing support.

Most of the growth in workload resulting from the factors above has fallen on the Finance Division, particularly the Finance Officer position, whose non-accounting responsibilities include:

- managing actuarial relationships,
- internal audit,
- financial audits,
- contribution rates,
- PASS input,
- tax withholding oversight,
- semi-annual interest crediting,
- annual COLA implementation,
- CAFR and PAFR production,
- and employer compliance auditing.

The addition of the Financial Analyst position would allow the Finance Officer to delegate some of the non-accounting workload. The estimated annual salary and benefits for this

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

position total \$171,905. The estimated financial impact for FY 2014-15 is shown below with a January 2, 2015 start date.

Administrative Budget FY 2014-2015

	<u>Adopted</u>	<u>Proposed</u>	Increase	Percentage
Salaries & Benefits	\$4,129,491	\$4,301,396	\$ 85,983	2.08%
Services & Supplies	\$1,676,009	\$1,676,009	\$ -	0.00%
Total	<u>\$5,805,500</u>	<u>\$5,977,405</u>	\$ 85,983	1.48%

This position is at the same level as the Retirement Investment Analyst classification. The position would require a level of qualifications between the level of the Senior Accountant and the Finance Officer.

Staff has consulted with the County Human Resources Division and determined that there is no need to establish another classification.

With approval by the Retirement Board, the SamCERA budget will be adjusted accordingly and the staff will work with the Human Resources Dept. to receive County approvals.

Staff has been aware of the increasing workloads for some time. We delayed asking for the additional position until we were certain that the non-accounting workload increases were permanent and that the creation of this position was the best approach to address them.

Job Description Retirement Finance Analyst

Under general supervision of the Finance Officer conducts basic through complex research and analysis related to the retirement fund's finance and accounting methods; utilizes basic financial, accounting and actuarial practices and applications regarding financial services; assists the Finance Officer with the administration of financial programs including actuarial, pension, internal audit, tax reporting and budget and performs related duties as required.

Retirement Financial Analyst II is the journey level position classification of the professional financial series. Successful performance requires thorough knowledge of the principles of investments, finance, banking, statistics and analysis, governmental and pension accounting and the application of actuarial science in the retirement profession. The incumbent must be able to exercise sound independent judgment within established guidelines and may involve skill in directing the work of support staff.

Duties may include, but are not limited to, the following:

- Assist the Finance Officer in coordinating the fiscal activities of the retirement association.
- Oversee SamCERA's state and federal tax issues, including the production of the 1099Rs, and tracking and facilitating IRC 415 and 401 limits.
- Assist with administrative oversight of the Plan's actuary and assist in the preparation of information for actuarial consultants.
- Assist with administrative oversight of the Plan's auditor, perform internal audit function, coordinates annual financial audit, facilitate additional audits as required.
- Assist in the preparation and publication of the Comprehensive Annual Financial Report and Popular Annual Financial Report; statistical and financial reports, and other information to the Board of Retirement.
- Assist in the preparation and publication of the Sources, Uses, & Budget Report.
- Responsible for phone correspondence, filing, mailing, faxing, and copying. Draft letters as assigned.
- Develop written procedures to increase efficiency, reduce cost or both.
- Prepare oral, written and graphical presentations to key decision makers by using a variety of applicable software.
- Research and makes recommendations regarding financial, actuarial, accounting and/or auditing procedures.
- Assist in the development and administration of Requests for Proposals or Requests for Information for services related to custodian banks, consultants, auditors, actuaries and other service providers.
- Make recommendations to the Finance Officer regarding the development and implementation of improvements to accounting and record-keeping systems and procedures.
- Establish and maintain professional relationships with members of the retirement board, SamCERA staff, retirement association members, other governmental agencies and consultants.
- Provide assistance in special projects such as the implementation of the Pension Administration Software System, preparation of the submission for the tax determination letter, GASB 67 and 68 implementation and implementation of the County's new Payroll System.
- Perform other duties as assigned.

The level and scope of the following knowledge and abilities are related to duties listed under the “Examples of Duties” section of this specification.

Knowledge of:

- Basic financial management procedures, practices and terminology
- Principles of investments, finance, statistics and administrative analysis
- Principles, practices and terminology of general, fund and governmental accounting
- Principles and practices of pension accounting, research methods, and report preparation
- Principles and application of actuarial science in the retirement profession
- Fundamental banking concepts such as float, electronic funds transfer, safekeeping, demand deposit, and trustee relationships
- Applicable federal, state and local laws, rules and regulations and County and program policies and guidelines
- Word processing, spreadsheets, database management, other computer applications and Business office procedures
- Statistical and computer techniques/programs applicable to financial data in evaluating investment managers and portfolios

Ability to:

- Understand the principles of investment, finance and accounting
- Understand the concept of institutional investment portfolio construction and management
- Use Excel, Word, Microsoft Outlook and other relevant computer software
- Use spreadsheets and databases for analysis and presentation of information
- Make recommendations, process, analyze and report on financial, pension or actuarial related activities in accordance with established SamCERA policies and procedures and program regulations
- Establish and maintain effective working relationships with actuary, auditor, custodian banks, county staff and others
- Communicate effectively with co-workers and vendors
- Understand, explain and apply laws, rules, regulations, policies and procedures
- Exercise sound independent judgment within established policies and guidelines
- Establish and maintain professional relationships with members of the Retirement Board, other governmental agencies, legal, investment and financial professionals and consultants
- Evaluate external consultants' performance
- Understand and assess the quality, accuracy, and reliability of consultant reports
- Write clearly, concisely and persuasively about technical subject matter
- Work effectively in situations involving change and uncertainty
- Exhibit strong interpersonal skills
- Problem solver

- **Education:**
Any combination of education and experience that would likely provide the required knowledge, skills and abilities is qualifying. A typical way to qualify is:
- **Retirement Financial Analyst II** – The equivalent of two years of increasingly responsible experience in a financial position, which has included some combination of financial research and analysis, report preparation, compliance monitoring, relationship and/or program management.
- **Note:** A master's degree in finance, accounting, public administration, business administration or a related field based on a two-year curriculum may substitute for two years' experience.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 28, 2014

Agenda Item 7.7

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer 

SUBJECT: Discussion of SACRS Business Meeting Topics for the Fall 2014 Conference

Staff Recommendation

Discuss SACRS November 2014 Business Meetings topics.

Background

The SACRS Business Meeting will be held Nov. 14, 2014, at the close of the Fall SACRS Conference.

At the meeting, the SACRS Board intends to discuss their plans to combat negative information about defined benefit programs. Those plans continue to evolve. Recently, a study group was formed and is to make recommendations to the SACRS Board. The topic is planned for discussion at the Fall Conference Business Meeting. Two memos regarding the topic, one from SACRS CEO Bob Palmer, the other from the study group (the Ad Hoc Committee on Education and Communications), are attached.

Staff is not aware of other issues to be voted on at the meeting. If we are notified of any issues before the October 28 SamCERA Board meeting, we will inform the Board at that time.

It is important for the Board to discuss issues that will come to a vote at SACRS in order to give the SamCERA Voting Delegate and Alternates a sense of the Board members' desires. Per SamCERA tradition, the Voting Delegate is only bound to vote in a manner the delegate considers to be in the best interests of SamCERA.

The SamCERA Voting Delegate for the Fall SACRS Business Meeting is Lauryn Agnew. The Board approved David Spinello as the First Alternate. David Bailey is the approved Second Alternate.

Date: 10/7/2014 03:19 PM

Subject: The SACRS Ad Hoc Committee

SACRS Members, (Sent on behalf of Bob Palmer, SACRS Executive Director)

For several months we have been discussing the need for better communications and education in the context of an effort to change the status of the Ventura County Employees Retirement Association through an initiative process. That immediate issue is no longer confronting the SACRS systems. During that debate Yves Chery, President of SACRS, appointed an ad hoc committee to dig more deeply into the issue of member education and communications so that all of us could benefit from a focused approach on the needs of SACRS members.

Skip Murphy, Gregg Rademacher, Richard Stensrud, Tracy Towner, and Jeff Wickman have worked hard to articulate a process for all members to give effective input on whether and how to engage in SACRS member education and communication going forward. They submitted recommendations calling for a member dialogue on our education and communications need to the Board of Directors at the September SACRS Board meeting. The Board unanimously authorized the committee to continue their work and to develop a process to engage the member systems in assessing education and communications needs of SACRS members.

This week the committee submitted its first report on their activities thus far. A copy of the memo is attached for your review. They will meet again October 17 to develop a timeline of activities that they will discuss at the November SACRS Conference Business meeting. I will gladly forward any comments and questions to the committee members for their discussion October 17th and a response if needed.

Please feel free to submit comments and/or questions to sirbpalmer@aol.com or to Sulema Peterson, SACRS Administrator at Sulema@sacrs.org

Thank you,
Bob Palmer, SACRS Executive Director

Date: October 7, 2014
Memo To: SACRS Member Systems
From: Ad Hoc Committee on Education and Communication
Skip Murphy, Gregg Rademacher, Richard Stensrud, Tracy Towner and
Jeff Wickman
RE: Assessing SACRS Communications Needs and Interests

Since being named by President Yves Chery in June, the SACRS Ad Hoc Committee on Education and Communications has met twice, corresponded regularly and talked with our colleagues about proposals to engage in an educational program. Our deliberations have been guided by the SACRS mission: “to serve the 1937 Act Retirement Systems by exchanging information, providing education, and analyzing legislation.” Tracy Towner of the Ventura County Employees Retirement Association has volunteered to serve as chair of the ad hoc committee.

We presented our initial recommendations to the SACRS Board of Directors in September. Any SACRS education effort should focus on the needs of our members in support of our historic mission “to provide forums for disseminating knowledge of and developing expertise in the operation of county retirement systems.” The board endorsed our recommendation to strengthen internal communications and initiate a dialogue on communications needs with SACRS member systems. Our goal is to assess an appropriate way for the SACRS member systems to work together on better educating and informing our members on issues important to funds operating under the County Employees Retirement Law of 1937.

This memo is the first step in that process. We will meet again in mid-October to plan a series of surveys, conversations, meetings, and a symposium designed to assess the primary communications capacities, needs and interests of our member systems. We will present that outline at the November conference and, with your help, refine our time line so that we can capture the goals and interests of all 20 systems. During the process of engagement, member systems will help formulate a proposal to be considered by all members sometime in 2015.

SACRS has a strong history of working on critical educational initiatives ranging from our membership conferences to the SACRS magazine, the new trustee interactive CD, and sponsoring our public pension investment management training program. Member systems have raised the concern that additional communication and education activities might be needed to keep pace with changes in the environment in which we operate and to provide SACRS members with information not available to individual systems.

Continued

For instance, in 2008 we collectively gathered information about the total benefits we pay in a year and commissioned a study to assess the cumulative impact of those payments on the California economy and on jobs in the state. The work we are about to begin will let us know if that kind of study is again useful to member systems or whether there are other studies and activities that might benefit from cooperation among the systems.

Whatever the member outreach process reveals, our collective SACRS approach to refining a cohesive communications program for our association needs to not only reflect our mission and history but continue to encourage the diversity of our membership while meeting the new challenges facing our systems.


Please contact any of us with your thoughts about how to shape this information gathering effort. Feel free to forward comments to SACRS at SACRS@SACRS.ORG

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

September 30, 2014

Agenda Item 7.8

TO: Board of Retirement

FROM: Donna Vaillancourt, Director, Human Resources, County of San Mateo
Brenda B. Carlson, Chief Legal Counsel, SamCERA 

SUBJECT: Approval of Agreement with Scott Hood for Chief Executive Officer Services

Staff Recommendation

Adopt a resolution authorizing the Chair to execute an agreement between the Board of Retirement and Robin Scott Hood for his services as Chief Executive Officer.

Background

Government Code §31522.2 provides that the Board may appoint an administrator, also referred to as a Chief Executive Officer (CEO). David Bailey has served as SamCERA's CEO since January 2005. He will retire in early 2015.

After Mr. Bailey's retirement announcement, 2013-14 Board Chair Natalie Kwan Lloyd appointed four trustees to a Succession Planning Committee in August 2013. Paul Hackleman chaired the committee. Members were Ben Bowler, Michal Settles and Al David.

At its October 29, 2013, meeting, the Retirement Board elected to work with the County Human Resources Department ("HR") as the consultant for a nationwide recruitment. In December 2013 the Board approved a Recruitment and Marketing Plan, as submitted by HR.

The Succession Planning Committee held three meetings, beginning in January 2014. After each meeting the committee reported its recommendations at the following meeting of the Retirement Board and received approval for all decisions. The committee developed survey questions regarding what stakeholders sought in a new CEO. The survey was sent to trustees, SamCERA management and non-management staff, and employer leadership. The Committee worked with HR and used the survey responses to develop an "Ideal Candidate Statement," which was used in the recruiting materials and to develop questions for candidate interviews. The committee members also held individual meetings with senior SamCERA staff members and with two County

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

Supervisors. The input from these meetings was also used to develop the recruitment materials.

In September 2014, following placement of ads for the position with local and national publications and websites, applications for the position were screened by the Lisa Yapching, Personnel Services Manager. Twenty-two applications were presented to Paul Hackleman and David Bailey, who further screened the applications to five candidates for an initial interview. On Sept. 16, 2014, a Screening Panel of Michal Settles, Al David, Donna Vaillancourt and David Bailey interviewed the five candidates at a location outside the SamCERA offices. The Screening Panel recommended two candidates for final interviews by the Retirement Board.

On Sept. 30, 2014, the Retirement Board interviewed the final two candidates and unanimously selected Scott Hood to be the successor CEO.

Discussion

Since 2002, Mr. Hood has served as SamCERA's Assistant Executive Officer (AEO), managing the benefits, finance, information technology, communications and administrative staff of the association. Prior to becoming AEO, he served as SamCERA's Information Technology Manager for two years.

Mr. Hood holds a BS in Engineering from the US Military Academy and an MS in Computer Information Systems from Boston University. Last year, he completed more than 30 years of combined active and reserve military service. He completed his career as a US Army Reserve Colonel. His military career includes deployments in Bosnia, Iraq and Djibouti in various lead roles with multi-national teams working on elections, media relations and operations planning.

Section 31522.2 provides that the CEO be an employee of the County whose salary is contained in the County's salary ordinance. The agreement presented for your approval sets the starting annual salary at \$ 203,232, which is the D step for the position. The agreement further provides that the Chief Executive Officer is directed by and serves at the pleasure of the Board and is an "at-will" employee.

Board of Retirement

RESOLUTION 14-15-

RESOLUTION AUTHORIZING THE CHAIR OF THE BOARD OF RETIREMENT
TO EXECUTE AN AGREEMENT BETWEEN THE BOARD AND ROBIN SCOTT
HOOD FOR SERVICES OF CHIEF EXECUTIVE OFFICER

WHEREAS, Government Code §31522.2 provides that the Board may appoint an administrator, also referred to as the Chief Executive Officer, and the Board undertook a nationwide recruitment to select a successor to its current Chief Executive Officer, David Bailey; and

WHEREAS, the Board and its Ad Hoc CEO Succession Planning Committee, with assistance from the County's Human Resource's Department, carried out a multi-step extensive screening and interview process;

WHEREAS, on September 30, 2014, the Board unanimously decided that Robin Scott Hood should be appointed as the next Chief Executive Officer; and

WHEREAS, Section 31522.2 further provides that the position of the Chief Executive Officer shall be an employee of San Mateo County whose salary shall be set forth in the County's ordinance or salary resolution but shall not be subject to County's civil service or merit system rules; and

WHEREAS, Section 31522.2 further provides that the Chief Executive Officer shall be directed by, shall serve at the pleasure of, and may be dismissed at the will of, the Board and that specific charges, a statement of reasons, or good cause shall not be required as a basis for dismissal; and

WHEREAS, this Board has been presented with an agreement with Robin Scott Hood for services of Chief Executive Officer and said agreement reflects the provisions of Government Code §31522.2 and reflects the starting salary and benefits and it desires to enter into the agreement; now, therefore, be it;

RESOLVED, that the Chair is hereby authorized to execute the attached agreement with Robin Scott Hood for Services of Chief Executive Officer.

**AGREEMENT BETWEEN THE BOARD OF RETIREMENT OF THE SAN MATEO
COUNTY EMPLOYEES' RETIREMENT ASSOCIATION AND ROBIN SCOTT HOOD
FOR SERVICES OF CHIEF EXECUTIVE OFFICER**

1. This agreement is entered into this 28th day of October 2014, between the Board of Retirement of the San Mateo County Employees' Retirement Association (hereinafter referred to as the "Board") and Robin Scott Hood (herein after referred to as "Chief Executive Officer"), whereby the Board and the Chief Executive Officer define certain terms and conditions of the employment of the Chief Executive Officer.

2. The Chief Executive Officer's first day of employment as Chief Executive Officer will be November 9, 2014. The Chief Executive Officer, also referred to as "Administrator" of the San Mateo County Employees' Retirement Association ("SamCERA"), shall serve pursuant to Government Code §31522.2 and any amendment thereto. The Chief Executive Officer shall be directed by, shall serve at the pleasure of, and may be dismissed at the will of the Board. Specific charges, a statement of reasons, or good cause shall not be required as a basis for dismissal of the Chief Executive Officer.

3. Pursuant to §31522.2, the position of the Chief Executive Officer is not subject to county civil service or merit system rules. Chief Executive Officer is an employee of the County of San Mateo and the position is included in the salary ordinance and salary resolution adopted by the Board of Supervisors for the compensation of county officers and employees.

4. The Chief Executive Officer will take his direction from the Board and will report to the Chair of said Board and shall have full responsibility for the management and operation of SamCERA.

5. The Chief Executive Officer shall devote his full-time efforts to the business and affairs of SamCERA and shall not engage in other employment or activities for compensation

without the Board's approval. The parties recognize that the Chief Executive Officer is a member of the U.S. Army Retired Reserves, and as such, may be subject to recall to active duty. If such an unlikely event occurred, the Chief Executive Officer would notify the Board as soon as possible to discuss the necessary course of action. Furthermore, it is understood that the Chief Executive Officer will endeavor to maintain and improve his professional competence by all available means, including joining and participating in appropriate local, state and national professional and service associations, and their activities, as well as workshops, and meetings. SamCERA will reimburse the Chief Executive Officer, the costs of dues and reasonable expenses incurred in connection with these activities in accordance with the Board's travel and reimbursement policies.

6. Annually, the Chief Executive Officer shall present to the Board a schedule for an evaluation of his performance. The Board reserves the right to undertake interim performance reviews when deemed necessary by the Board.

7. The Chief Executive Officer agrees that concerns that the Board or individual Board members may have concerning the Chief Executive Officer's performance shall not be considered "specific complaints or charges brought against the employee by another person or employees" as that phrase is used in Government Code § 54957, and any amendments thereto, and therefore, the notice requirement of that code section shall not be applicable.

8. Chief Executive Officer shall receive an annual salary which is the D Step in the salary range for the "Chief Executive Officer, SamCERA," as set forth in the "Resolution Expressing the Salary and Benefits of Unrepresented Management Personnel of the County of San Mateo." At the first review of the Chief Executive Officer, the Board shall consider adjusting his salary to the E Step and if granted, said adjustment would be effective as of the date determined by the Board.

9. The Chief Executive Officer shall receive the salary and benefits applicable to department heads, including the amount granted to department heads for Transportation Allowance in lieu of certain travel expenses, as contained in the "Resolution Expressing the Salary and Benefits of Unrepresented Management Personnel of the County of San Mateo" and his salary and benefits shall be revised or amended consistent with any changes in such resolution.

10. In the event that the Board chooses to terminate this agreement, the Board shall provide the Chief Executive Officer with 90 days' written notice of termination, and shall continue to pay the then current salary until the 90 days have passed. The Board shall have the right to dismiss the Chief Executive Officer immediately and make a lump sum payment equal to 90 days salary.

11. The Chief Executive Officer shall provide the Board with 60 days notice of his intention to terminate this agreement.

Dated: _____

BOARD OF RETIREMENT OF THE SAN
MATEO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION

By: _____
Chair

Dated: _____

Robin Scott Hood

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 28, 2014

Agenda Item 7.9

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer



SUBJECT: Administration of Oath of Office to Chief Executive Officer

Under this agenda item the Chair will administer the SamCERA Chief Executive Officer's Oath of Office to Robin Scott Hood.



Oath of Office

I, Robin Scott Hood, do solemnly affirm that I will faithfully execute my duties as Chief Executive Officer of the San Mateo County Employees' Retirement Association; that I will serve as a faithful fiduciary for all members, retirees and beneficiaries of the Employees' Retirement Association and as a prudent administrator of our County's Retirement System; that I will support and defend the Constitution of the United States and the Constitution of the State of California against all enemies, foreign and domestic; that I will bear true faith and allegiance to the Constitution of the United States and the Constitution of the State of California; that I take these obligations freely, without any mental reservation or purpose of evasion; and that I will well and faithfully discharge the duties upon which I am about to enter.

ROBIN SCOTT HOOD
CHIEF EXECUTIVE OFFICER

Affirmed before me this 28th day of October 2014.

LAURYN AGNEW, CHAIR
BOARD OF RETIREMENT