



The Board of Retirement

of the San Mateo County Employees' Retirement Association
will convene at

SamCERA's Board Room, 100 Marine Parkway, Suite 125, Redwood Shores

**for a two-day meeting,
Monday, April 25, 2011, 9 a.m.
Tuesday, April 26, 2011, 9 a.m.**

Agenda, Monday April 25, 2011

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

1. Call to Order, Roll Call and Miscellaneous Business

2. Retreat Activities
 - 2.1 Retreat Presentations and Discussions including:
 - Public Pension Investment Trends
 - *SamCERA's* Investment History and Hedge Fund Issues
(Please Note: Agenda item 6.2, Selection of Hedge Fund Implementation Strategy, and agenda item 6.3, Approval of Hedge Fund Provider (if required) may be considered at this point in the agenda, at the discretion of the Board Chair.)
 - Open Discussion
 - Fiduciary Duties
 - *SamCERA* Survey Results
 - Open Discussion
 - 2.3 Recess until 9 a.m., April 26.



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will convene at

SamCERA's Board Room, 100 Marine Parkway, Suite 125, Redwood Shores
for a two-day meeting,
Monday, April 25, 2011, 9 a.m.
Tuesday, April 26, 2011, 9 a.m.

Agenda, Tuesday, April 26, 2011

PUBLIC SESSION – The Board will resume in Public Session at 9 a.m.

1. Call to Order, Roll Call and Miscellaneous Business
2. Retreat Activities & Oral Communications
 - 2.1 Retreat Presentations and Discussions including:
 - Assumed Earnings Rates
 - Plan Changes
 - Open Discussion
 - Inflation vs. Deflation
 - 2.2 Oral Communications From the Board
 - 2.3 Oral Communications From the Public
3. Approval of the Minutes
4. Approval of the Consent Agenda (Set for 2:30 p.m. April 26 time certain.)*
(Any items removed from the Consent Agenda for discussion will be inserted into the Regular Agenda and considered in the order chosen by the board chair.)
 - Disability Retirements
 - Service Retirements
 - Continuances
 - Deferred Retirements
 - Member Account Refunds
 - Member Account Rollovers
 - SACRS Recommended Ballot -- 2011-12 Officers
5. Benefit & Actuarial Services
 - 5.1 Consideration of Benefit & Actuarial Items, if any, removed from the Consent Agenda
6. Investment Services (The Investment Committee will not meet in April. All items will be considered at the board meeting.)
 - 6.1 Monthly Portfolio Performance Report
 - 6.2 Selection of Hedge Fund Implementation Strategy
 - 6.3 Approval of Hedge Fund Provider (if required)
 - 6.4 Approval of Action Regarding SamCERA's International Equity Structure
7. Board & Management Support Services
 - 7.1 Monthly Financial Report
 - 7.2 Adoption of Section 31529.9 Regarding Provision of Legal Services
 - 7.3 Approval to Establish and Fill the Position of Chief Legal Counsel
 - 7.4 Approval of SACRS Voting Delegate and Alternates
 - 7.5 Reaffirmation and Approval of Conflict of Interest Policy
 - 7.6 Acceptance of Entrance Letter for the June 30, 2011, Financial Audit
 - 7.7 Quarterly Budget Report for Period Ended March 31, 2011
8. Management Reports
 - 8.1 Chief Executive Officer's Report

[Continued on page 3 – Printed 04/20/11]

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

Notice of Public Meeting

Page 3 of 3

SamCERA



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

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

C1 Consideration of disability items, if any, removed from the Consent Agenda and appropriate for closed session

9. Report on Actions Taken in Closed Session

10. Adjournment in memory of the following deceased members:

Plessner, Emma	March 2, 2011	Library
Gomes, Eltha	March 3, 2011	Superior Court
Scott, Anna	March 3, 2011	Library
Kinsey, Florence	March 5, 2011	Planning Department
Machado, Lawrence	March 5, 2011	General Services
Sevey, Arthur	March 7, 2011	Social Services
Scofield, Russell	March 13, 2011	Elections
Raynes, Katherine	March 14, 2011	Library
Lamb, Richard	March 20, 2011	Probation
Van Aken, Eileen	March 22, 2011	Chope Hospital
Glascocock, Iris	March 23, 2011	General Services
Roa, Elizabeth	March 26, 2011	General Services
Roth, Barbara	March 26, 2011	Library

David Bailey, Chief Executive Officer

Printed: 4/20/11

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 SamCERA at (650) 599-1234 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 BOARD MEETS AT 100 MARINE PARKWAY, SUITE 125,

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

Detailed directions are available on the "Contact Us" page of the website www.samcera.org

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

[Continued on page 3 – Printed 04/20/11]

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

Agenda & Presenters

Board / Staff Retreat

April 25 & 26, 2011



San Mateo County Employees' Retirement Association

SamCERA

BOARD / STAFF RETREAT AGENDA
Day One—Monday, April 25, 2011

<u>TIME</u>	<u>TOPIC</u>	<u>SPEAKER</u>
8:30 a.m.	Coffee and Refreshments	
9:00 a.m.	Welcome	David Bailey , Chief Executive Officer, <i>SamCERA</i>
9:15 a.m.	Public Pension Plan Investment Trends. What changes are other U.S. retirement plan investors making to their investment approaches and why?	Mark Friebe , Senior Vice President, Head of Global Investment Strategies, Pyramis
10:15 a.m.	Break	
10:30 a.m.	SamCERA's Investment History. What changes in asset allocation have taken place over the last ten years? How has the fund performed as a result? What lessons can be learned? Hedge Fund Implementation Discussion: How can these lessons inform <i>SamCERA's</i> hedge fund allocation decision? (The chair may take up agenda Items 6.2 and 6.3 at this point.)	Patrick Thomas , Vice President, Strategic Investment Solutions, Gary Clifton , Chief Investment Officer, <i>SamCERA</i>
11:30 a.m.	Open Discussion	
12 Noon	Lunch	
1:15 p.m.	Fiduciary Duties: What Are They and How to Fulfill Them.	Brenda Carlson , Chief Deputy County Counsel, San Mateo County
2:15 p.m.	SamCERA Survey Results. What can be learned from the results of the Cost Effectiveness Management survey and the annual <i>SamCERA</i> Customer Services Survey?	Scott Hood , Assistant Executive Officer, and David Bailey , Chief Executive Officer, <i>SamCERA</i>
3:15 p.m.	Break	
3:30 p.m.	Open Discussion	
5 p.m.	End of Day One	

BOARD / STAFF RETREAT AGENDA
DAY TWO—TUESDAY, APRIL 26, 2011

<u>TIME</u>	<u>TOPIC</u>	<u>SPEAKER</u>
8:30 a.m.	Coffee and Refreshments	
9 a.m.	Assumed Earnings Rates, Pension Liabilities and GASB Preliminary Views. On what basis do some studies justify assumed earnings rates far below those commonly recommended by actuaries? What information is important to assess in setting an appropriate assumed earnings rate?	Nick Collier , Principal, Consulting Actuary, Milliman, Inc.
10:15 a.m.	Break	
10:30 a.m.	Plan Changes. What retirement plan changes have been negotiated between San Mateo County and its bargaining units and how will they effect the administration of <i>SamCERA</i> ?	Gladys Smith , <i>SamCERA</i> Benefits Manager
11:30 a.m.	Open Discussion	
12 noon	Lunch (Board and <i>SamCERA</i> Staff)	
1:15 p.m.	Inflation v. Deflation. -What's The Outlook and How Can <i>SamCERA</i> Prepare?	Scott Grannis , former Chief Economist, Western Asset Management
2:15 p.m.	Break -- End of Retreat	
2:30 p.m.	Beginning of Regular Board Meeting Agenda	

Mark Friebe

Senior Vice President, Head of Global Investment Strategies



Mark Friebe is senior vice president and Head of the Global Investment Strategies team at Pyramis Global Advisors, a unit of Fidelity Investments. In addition to his responsibilities leading the Global Investment Strategies group, he is responsible for oversight of traditional and customized investment solutions for large global defined benefit, defined contribution, and other institutional investment clients using such vehicles as lifecycle, balanced, tactical asset allocation and long/short strategies. He also leads development and management of lifecycle, balanced, tactical asset allocation and income replacement investment vehicles for investors in Canada.

Prior to joining Pyramis, Mark was head of the asset allocation and product strategy group at Barclays Global Investors, N.A., (BGI) San Francisco. As BGI's principal asset allocation strategist, he led development of a broad range of new asset allocation products employing commodity, currency, overlay, and custom alpha/beta strategies, including the firm's first lifecycle product, which he designed in the mid-1990s. Mark also led all information technology development for global asset allocation operations at BGI and managed the asset allocation group. Before that, Mark served as senior institutional client relationship officer and head of the fixed income index portfolio management and strategy group.

Prior to joining BGI, he was vice president with William F. Sharpe Associates. Mark earned a Bachelor of Science degree in Political Science from Santa Clara University and a Master's degree in Business Administration with a concentration in International Management from Thunderbird Global School of Management. He holds the Financial Industry Regulatory Authority (formerly NASD) Series 7, 24, and 63 licenses.

Patrick Thomas, CFA

Senior Vice President and Consultant, Strategic Investment Solutions

Patrick F. Thomas is primarily responsible for general consulting and investment manager research at SIS. Patrick is a member of SIS' Investment Policy Committee.

Prior to SIS, he served as Senior Analyst for McKesson Corporation and was responsible for all aspects of portfolio analysis of the company's combined \$1.2 billion Retirement Plans, ESOPs and Foundation. He also performed corporate financial analysis and was McKesson's Corporate Cash Manager.

Before joining McKesson, Patrick was an analyst for Wells Fargo Investment Advisors (now Blackrock) and Assistant Floor Broker for Merrill Lynch on the Pacific Stock Exchange Options Floor.

Patrick earned his Bachelor of Arts degree in English from the University of California at Berkeley and his M.B.A. from Georgetown University. He is a member of the CFA Institute and of the Securities Analysts of San Francisco.



Gary Clifton

Chief Investment Officer, San Mateo County Employees' Retirement Association

Responsibilities:

Chief Investment Officer...plans, organizes, directs and executes *SamCERA's* investment, accounting, budgeting, financial transactions, record keeping and reporting programs...evaluates, implements, and monitors *SamCERA's* Investment Plan, asset allocation, administrative & professional budgets, system of internal controls and professional services contracts.

Career Path:

Directly involved in investment and finance for the past 39 years...ten years on cash management and fixed income...five years on foreign exchange, international fixed income, and interest & credit rate derivatives...five years as Senior Accountant (Financial Officer) for San Mateo County Treasurer – Retirement Plan...Chief Investment Officer since the inception of San Mateo County Employees' Retirement Association as a “special district” of the plan sponsor in 1994...participates in various industry related organizations.

Education:

B.S. Economics & Political Science.



Brenda Carlson

Chief Deputy County Counsel, San Mateo County, California

Brenda Carlson has 26 years of legal experience. She graduated from Claremont McKenna College and then attended the University of San Francisco School of Law. After law school, she was an associate with McGlynn, McLorg and McDowell, specializing in medical and dental malpractice defense.



She has been with the San Mateo County Counsel's office for 22 years. In addition to her client advice work, Brenda has extensive litigation experience in state, federal and administrative courts in tort, civil rights and other matters arising from *SamCERA* and these county clients: Emergency Medical Services, the Sheriff, the District Attorney, Public Works, Elections, and the Expo Center.

Brenda was one of the lead attorneys in a statewide mental health funding case, and as Liaison Counsel for the coordinated retirement litigation, Brenda successfully represented Los Angeles, San Diego, San Bernardino, San Mateo and 11 other retirement systems in a multimillion dollar pension benefit case.

Brenda litigated the following cases resulting in published decisions: *In re Monique T.*, (1992) 2 Cal.App.4th 1372 (Child Protective Services), *Armenio v. County of San Mateo*, (1994) 28 Cal.App.4th 413 (extending trail immunity to paved trails), *County of San Diego v. Brown*, (1993) 19 Cal.App.4th 1054 (mental health funding) *A-1 Ambulance Service, Inc. v. California*, (2000) 202 F.3d 1238, (ambulance selection process) *In re Retirement Cases*, (2003) 110 Cal.App.4th 426 (pension benefit calculations) and *Friends of Bay Meadows v. City of San Mateo*, (2007) 157 Cal.App.4th 1175 (elections). In addition, Brenda spear headed and co-authored the model statewide Grand Jury Manual and the "Health Officer Practice Guide For Community Disease Control in California."

Scott Hood

Assistant Executive Officer, *SamCERA*



Scott has been at *SamCERA* since 2000 when he was hired on as the Information Technology Manager. Shortly thereafter he assumed the duties and responsibilities as the Assistant Executive Officer where he is currently responsible for the Information Technology and Benefits Divisions.

Scott's career started in the Army where he spent more than 10 years on active duty serving as an Air Defense Artillery and Human Resources Officer. He continues to serve in the Army Reserve as a Colonel in the 351st Civil Affairs Command and has been mobilized once for Operation Iraqi Freedom.

Scott holds a Bachelor of Science Degree in Engineering from the U.S. Military Academy and a Master of Science Degree in Computer Information Systems from Boston University.

Scott is originally from Minnesota. He and his wife, Martha, live in Redwood City.

David Bailey

Chief Executive Officer

San Mateo County Employees Retirement Association

Since January 2005 David Bailey has been Chief Executive Officer of *SamCERA*, the San Mateo County Employees' Retirement Association. *SamCERA* is a \$1.8 billion defined benefit retirement system for the 5500 active and 4500 retired members of the county of San Mateo, California.

At *SamCERA* Bailey has initiated additional member education opportunities and a new service purchase program.

From 1993 through 2004, Bailey was the Deputy Director of the \$45 billion Oregon Public Employees Retirement System (OPERS). During that time he headed the construction of a new headquarters building in Tigard and initiated the agency's actuarial pooling and information technology reengineering programs.

Bailey currently serves as First Vice President on the Board of Directors of the California Association of Public Retirement Systems (CALAPRS). He is a Past-President of the Oregon State Management Association, a professional organization of managers in state government.



Nicholas J. Collier

ASA, EA, MAAA

Principal, Consulting Actuary

CURRENT RESPONSIBILITY: Nick is a principal and consulting actuary with the Seattle office of Milliman. He joined the firm in 1987.

EXPERIENCE: Nick's area of expertise is the employee benefits field, serving a wide range of public and multiemployer clients. He has assisted clients with many aspects of defined benefit plans, including actuarial valuations, experience studies, asset/liability modeling, projections of costs, and the valuation of postretirement benefits.

Additionally, Nick has extensive experience performing actuarial audits. He is the valuation actuary for CalSTRS, the Los Angeles County Employees Retirement Association, and the Texas County and District Retirement System, among others. Nick's projects have included:

- Creating stochastic asset/liability projections
- Designing retirement benefit calculator for use on the Internet
- Analysis of use of reserves in funding policy
- High-level internal quality control reviews
-

PROFESSIONAL DESIGNATIONS

Associate, Society of Actuaries

Member, American Academy of Actuaries

Enrolled Actuary, ERISA

EDUCATION: BA (cum laude), Mathematics and Economics, Claremont McKenna College



Gladys Smith

Retirement Benefits Manager

San Mateo County Employees' Retirement Association

Gladys began her public service employment with the County of San Mateo over 18 years ago in the Controller's Office, Payroll Division, as a Fiscal Office Assistant. During the next 15 years she was promoted within the Controller's Office to Fiscal Office Services Supervisor in charge of managing a payroll staff of 10, Management Analyst III responsible for the department's budget and performance measures and Payroll Manager overseeing the County of San Mateo's payroll system with an annual payroll of over \$500 million.



In November 2006, Gladys was selected as *SamCERA's* Retirement Benefits Manager. She is responsible for managing all active and retired member transactions along with the educational information *SamCERA* provides to its members.

Scott Grannis

Former Chief Economist, Western Asset Management



Mr. Grannis has been observing, forecasting and commenting on economic and financial conditions for over 30 years. After retiring in 2007 as Chief Economist at Western Asset Management Co. in Pasadena, he has remained active with his blog “Calafia Beach Pundit,” where he comments on political, financial and macroeconomic developments. His readership numbers in the thousands.

Mr. Grannis spent 18 years at Western, which manages more than \$500 billion for institutional investors in the U.S. and around the world. He was a member of Western’s Investment Strategy Committee and was responsible for developing the firm’s domestic and international outlook. He specialized in analysis of Federal Reserve policy and interest rate forecasting, and spearheaded the

firm’s research efforts into TIPS.

Prior to joining Western in 1989, Mr. Grannis was Senior Economist at the Claremont Economics Institute, an economic forecasting and consulting service headed by John Rutledge, from 1980 to 1986. Clients of CEI included the U.S. Treasury and OMB, as well as numerous Fortune 500 companies. Mr. Grannis’ responsibilities included analysis and forecasts of emerging market economies, exchange rates, and macroeconomic conditions in the world’s major economies.

From 1986 to 1989, he was Principal at Leland O’Brien Rubinstein Associates, a Los Angeles-based financial services firm that specialized in sophisticated hedging strategies for institutional investors.

Mr. Grannis has authored numerous papers on monetary, economic and financial market issues. He has been quoted in publications such as *The Wall Street Journal*, *New York Times*, *Los Angeles Times*, *Fortune*, *Barron’s* and *Business Week*, has appeared on CNBC and Bloomberg, and has spoken on economic and financial issues to institutional investors and financial executives of numerous major corporations.

Mr. Grannis received his B.A. in Philosophy from Pomona College, and his MBA from Claremont Graduate University. He divides his time between Claremont and San Clemente.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

April 26, 2011

Agenda Item 2.1

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: *SamCERA*'s Investment History and Hedge Fund Issues

STAFF COMMENT: The attached slides will be used when discussing *SamCERA*'s investment history.

SAN MATEO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION

APRIL 25, 2010

STRATEGIC INVESTMENT SOLUTIONS, INC.

333 Bush Street, Suite 2000
San Francisco, CA 94104
(415) 362-3484

Patrick F. Thomas, CFA
Senior Vice President

General Consultant's Role

- Work together with Staff to help the fiduciary body (SamCERA) make sound policy and implementation decisions
- Consultant provides first-hand experience with similar investors and knowledge of industry “best practices”
- Consultant should add value in four key areas:
 - Strategic Planning (Asset Allocation and Policy)
 - Asset Class Structure
 - Manager (and Asset Class Consultant) Sourcing, Selection, and Oversight
 - Cost Containment
- Consultants should be objective — they are fiduciaries
- Risk is manageable, returns are not
 - Human Nature Risk is the most difficult to manage
- Leave egos at the door but don't be a “yes consultant”:
we will give you our opinion!

Capital Markets: Long-Term Perspective

- Cycles
 - Economic
 - Stock Markets
 - Availability of Credit/Interest Rates
 - Political, Economic and Security Conditions

- The direction of change may be logical but the magnitude is usually extreme, and the duration is unknown.
 - Growth Stocks – Late 60's, Early 70's, Late 90's — Next?
 - PC Stocks – Mid 80's, Late 90's
 - Conglomerates – Late 80's
 - Biotech Stocks – Early 90's
 - Gambling Stocks – Mid 90's
 - Dot Coms/VC – Late 90's
 - Gold Stocks – Mid 70's, 2005-Current
 - Energy Stocks – Late 70's, 2005-2007
 - Housing Market — Late 80's, 2000-2006
 - Value Investing — Late 80's, Early 90's-Current
 - Reaching for Yield/Leverage/Mega-Buyouts — 2002-2007
 - De-Leveraging/Re-Pricing of Risk – 2007-?

- Investment cycles do not last forever and are always self-correcting

SamCERA Investment Policy Chronology

- **1981:** Two decades ago, *SamCERA's* investment portfolio consisted of stocks, bonds and short-term securities
- **1992:** With the assistance of a pension consultant, the Board of Retirement approved an asset allocation target and implemented a \$10 million per month investment in a commingled fund which mirrored the performance of the S&P 500 Index.
- **1994:** The board adopted *SamCERA's Investment Plan* and launched the implementation of its new asset allocation program.
- **1996:** The board accepted Wyatt Investment Consulting's *Asset Liability Modeling Study* which provided the basis for the asset allocation in the first revision to *SamCERA's Investment Plan*.
- **1997:** The board revised the active:passive ratio from 40:60 to 60:40 for those asset classes where perceived market inefficiencies provided opportunities for successful active management.
- **1998:** The board eliminated two of its passive allocations and replaced them with active allocations where new investment managers were hired for small cap value domestic equity and for international equity assignments. In addition, the board replaced its active large cap core equity allocation and manager with a large cap value equity allocation and manager.
- **1999:** The board collaborated with Watson Wyatt Investment Consulting to reevaluate the *Asset Liability Modeling Study*.
- **2000:** Following a two-day planning retreat, the board established an investment committee charged with evaluating *SamCERA's Investment Plan*. The committee undertook a reverse optimization analysis that led the committee to recommend and the board to approve a new allocation closer to the "median" corporate fund. The board also increased its use of passive index funds and terminated its contracts with four active investment managers.
- **2001:** Strategic Investment Solutions was selected to succeed Gray & Co as *SamCERA's* investment consultant.



History of SamCERA / SIS Relationship

- Hired for Projects Only in June 2000
- Moved to Full Retainer in September 2001
- Very Contentious Board
- Heavy Indexation – All US, Half Bonds
- No Extended Exposures, US, International, Investment Grade Bonds, Core Real Estate
- Evolve Slowly to Layer in More Active Management
- Preferred Enhanced Index Strategies (Low Risk)
- Recently, More Open to New Ideas

Recent Portfolio Initiatives

- Diversify US Equity
 - Move Away from Low Risk Quantitative
 - Introduce Style Pure Active
 - Diversified Core Axa, T Rowe Price
 - Introduce New Exposure DE Shaw (Possibly Migrate to Long/Short)

- Expand Definition of Fixed Income
 - Introduce Global Mandate
 - Introduce Dedicated Core TIPs Mandate
 - Opportunistic Credit – Public Private Investment Program and Flexible Credit Mandates
 - Address Hedge Specific Risks

- Implementing Alternatives Allocation
 - Private Equity
 - Risk Parity
 - Commodities
 - Hedge Funds



Future Portfolio Initiative

- Real Return Pool (5-10%)
 - Real Estate, Commodities, TIPs, Agriculture

- Reduce Reliance on Equity Risk Premium

- Address International Equity Manager Structure

- Improve U.S. Equity Alpha Potential



Ten Commandments Of Strategic Planning

- I. Don't be Intimidated by the Gravity of the Decision
- II. Understand *Why* — It's as Important as *What*.
- III. Think as a Citizen of the Globe.
- IV. The Planning — or Investment Horizon — is Crucial.
- V. Use the Right Tools for the Job.
- VI. Understand the Inputs and Their Sensitivity on the End Result.
- VII. Demand Theoretical Underpinning to Support Empirical Observations.
- VIII. Don't Lean on "Fiduciary Crutches" — Use Your Good Common Sense.
- IX. Rebalance Your Portfolio, Even When You Don't Want To
- X. Do Not Follow the Crowd.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

April 26, 2011

Agenda Item 2.1

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Public Pension Investment Trends

STAFF COMMENT: The attached booklets will be used when discussing Trends in Public Pension Investments.



Public Pension Plan Investment Trends

What changes are other U.S. retirement plan investors making to their investment approaches and why?

Mark Friebe
Senior Vice President, Head of Global Investment Strategies
Pyramis Global Advisors



Overview of Pyramis Global Defined Benefit Survey

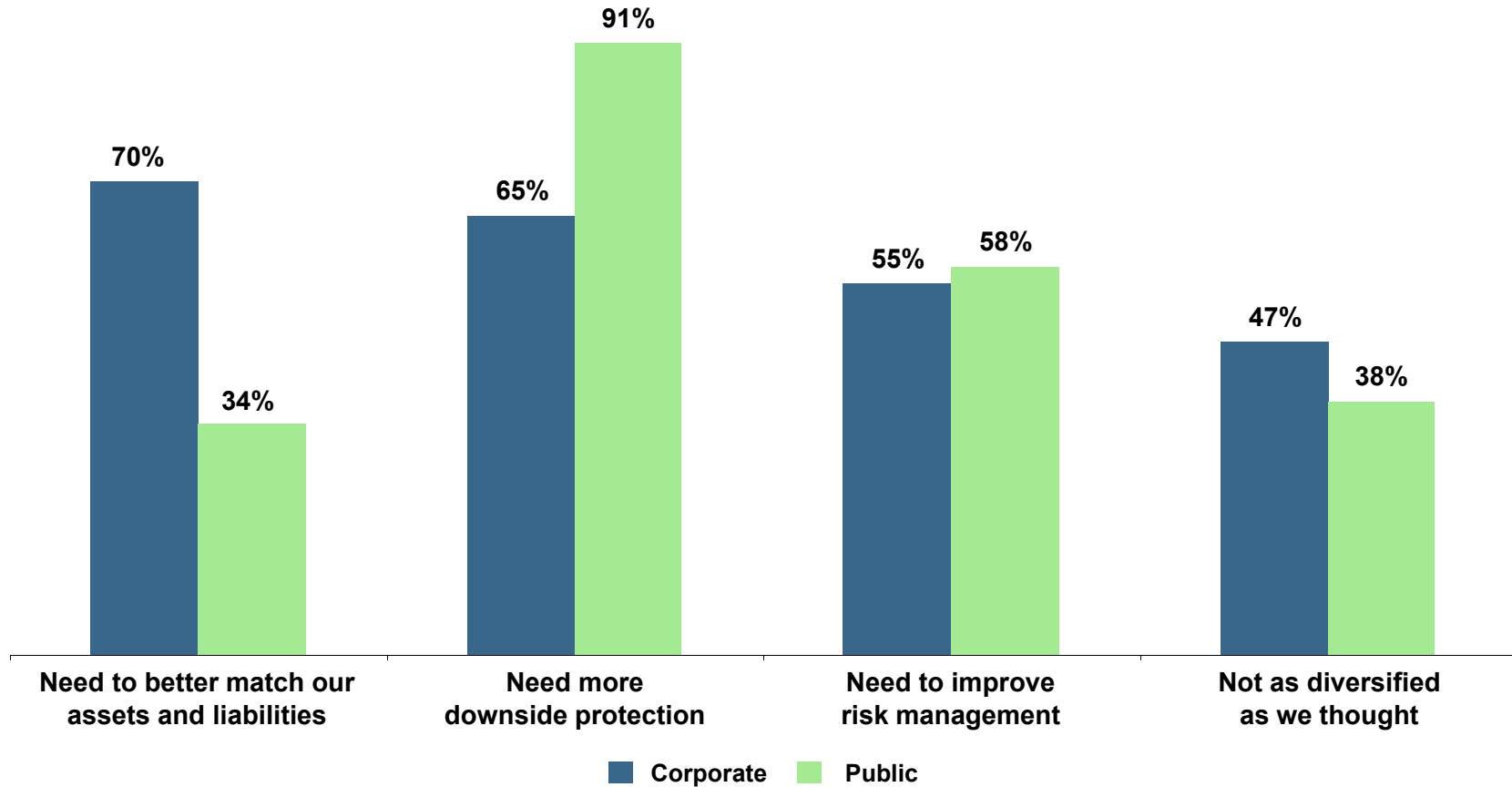
Survey Designed by Pyramis Global Advisors*

- 7th year conducting pension survey (since 2002)
- **466 corporate** and **public pension plans** in **13 countries** managing in excess of **\$2.0 trillion USD in assets**
- Pension plan sponsors in the **US, Canada, UK** and **Northern Europe** were included in the June 2010 survey
- Pyramis responsible for **interpretation of the results**
- Global Defined Benefit Survey reveals **insights, perspectives**
- Additional insights offered in **client, prospect** and **consultant** meetings
- **Research reports available** on Pyramis.com or by emailing pyramisglobalresearch@pyramis.com

*US survey was executed by Asset International, Inc., publisher of *PLANSPONSOR* magazine and *Global Custodian* magazine, Canadian survey was executed by *Canadian Institutional Investment Network* a unit of Rogers Communication Inc., UK and Europe ex-UK survey was executed by the *Financial Times*.

Top 3 Lessons Learned: US Corporate and US Public

Many aspects of risk management need improvement

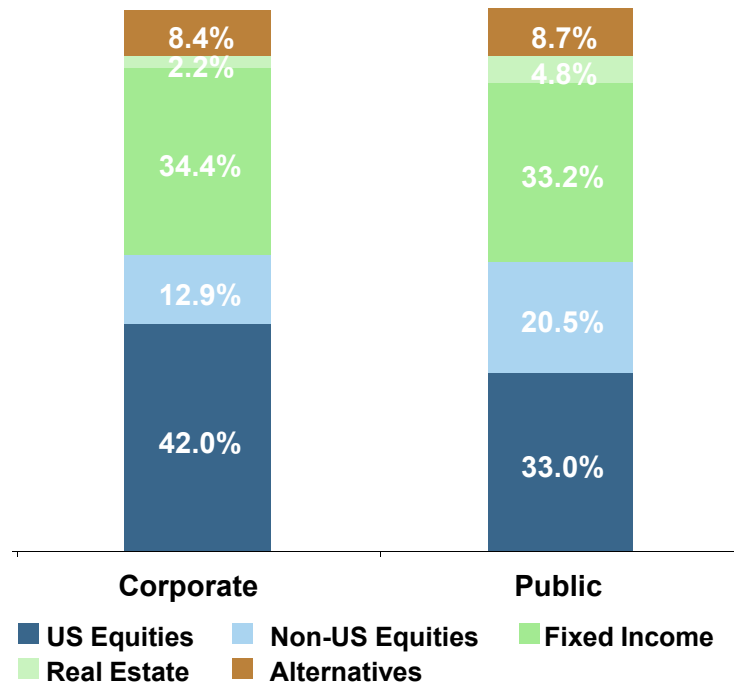


Source: Pyramis US DB Survey 2010

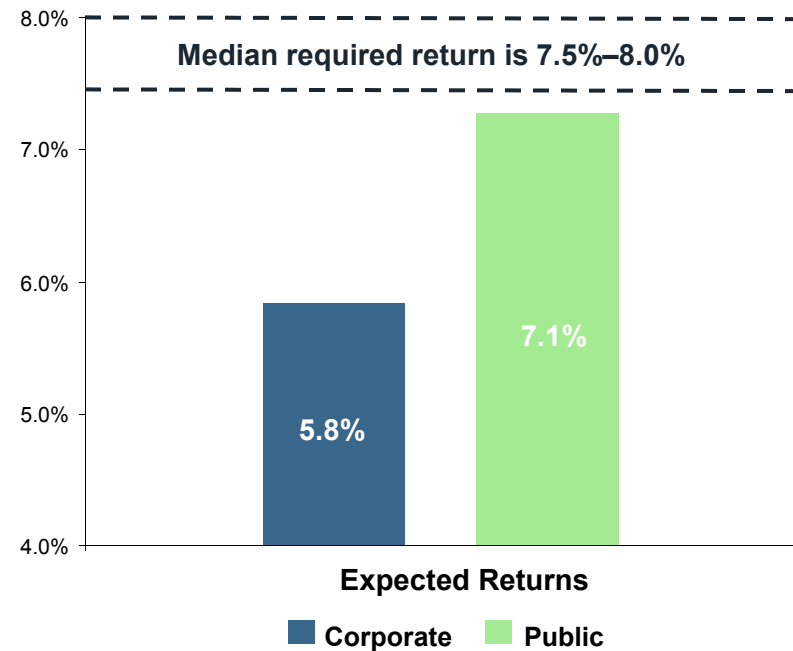
Expected Returns Fall Short of Requirements

Portfolios won't have tailwind going forward

Asset Allocation



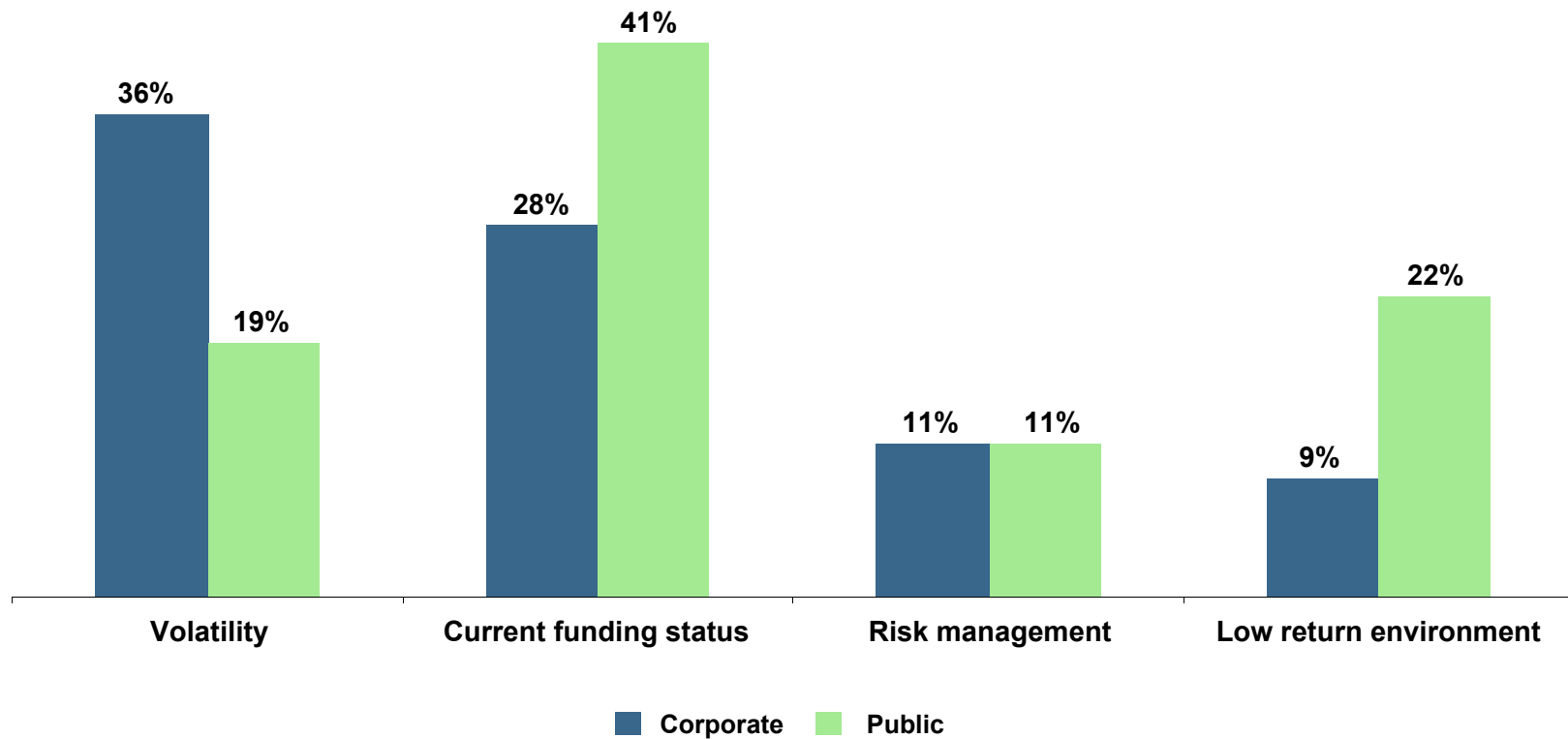
Expected Return vs. Required Return



Expected Return portfolio is calculated by multiplying the average weight of each asset class as of June 2010 by the average 5-year expected return of that respective asset class. Plan sponsor survey respondents, on average, for corporate and public plans, respectively, expect returns (gross) for US equity to be 7.0% and 8.3%, non-US equity to be 7.0% and 8.8%, emerging markets equity to be 7.3% and 9.0%, fixed income to be 4.2% and 5.0%, real estate to be 5.4% and 7.7%, private equity to be 7.0% and 10.0%, hedge fund to be 6.8% and 7.2%. These six asset classes account for 95.9% and 96.2% of assets. The remaining 4.1% and 3.8% comprises a host of asset classes including commodities and cash. The survey did not collect "expected return" information for these asset classes, so for the purposes of this illustration, we assumed a rate of return of 7.0% and 8.3% respectively for all these assets combined with the exception of cash for which a 1.0% return assumption was used. In other words, we assumed that the collection of these more esoteric asset classes would behave like US equities. This is not an uncommon perception, i.e., that alternatives are generally expected to deliver "equity-like" returns with "bond-like" volatility.
 Source: Pyramis US DB Survey 2010

Top Concerns: US Corporate and US Public

Funding status still a concern but volatility and generating returns also worrisome

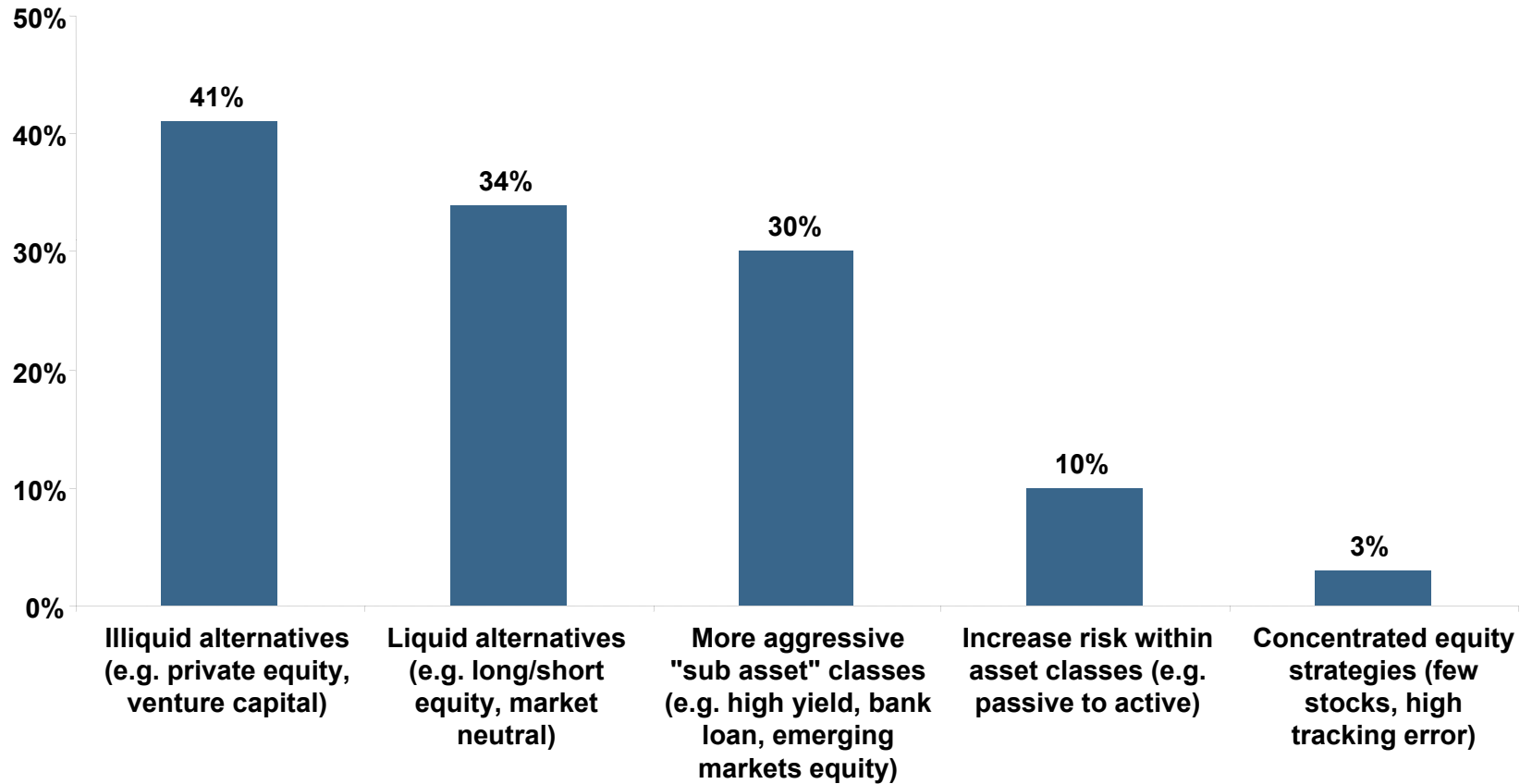


Source: Pyramis US DB Survey 2010

US Publics: Ways to Increase Returns

Diversification into alternatives seen as return enhancer

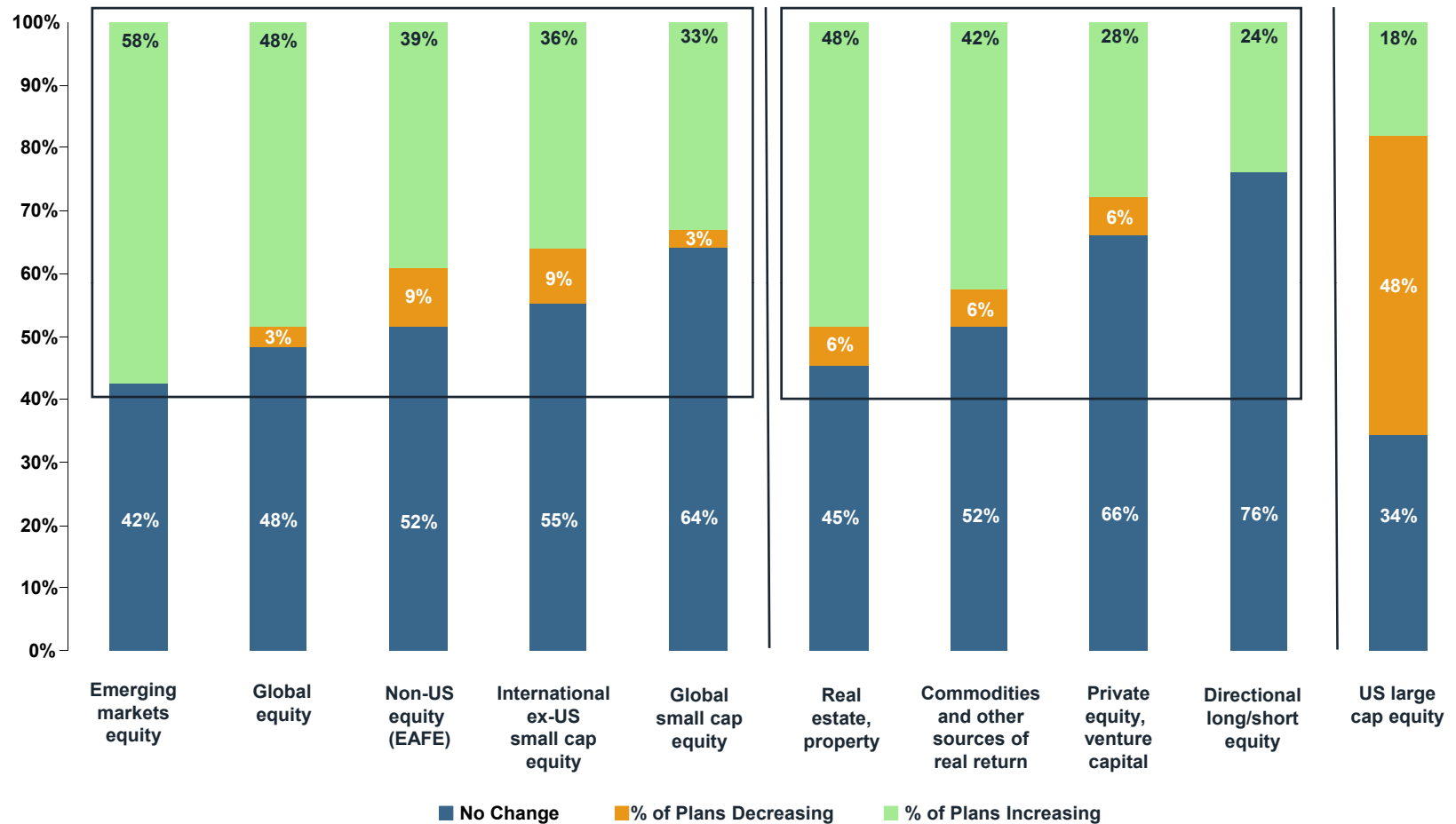
Likely/Definitely Will



Source: Pyramis US DB Survey 2010

US Publics: Expected Asset Allocation Changes

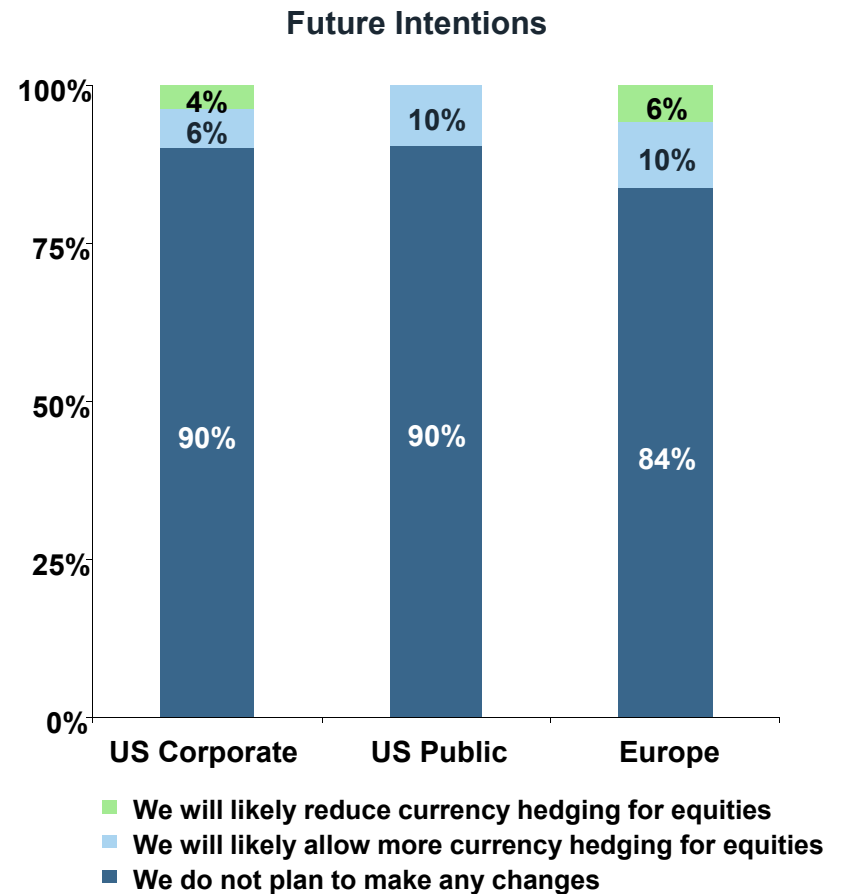
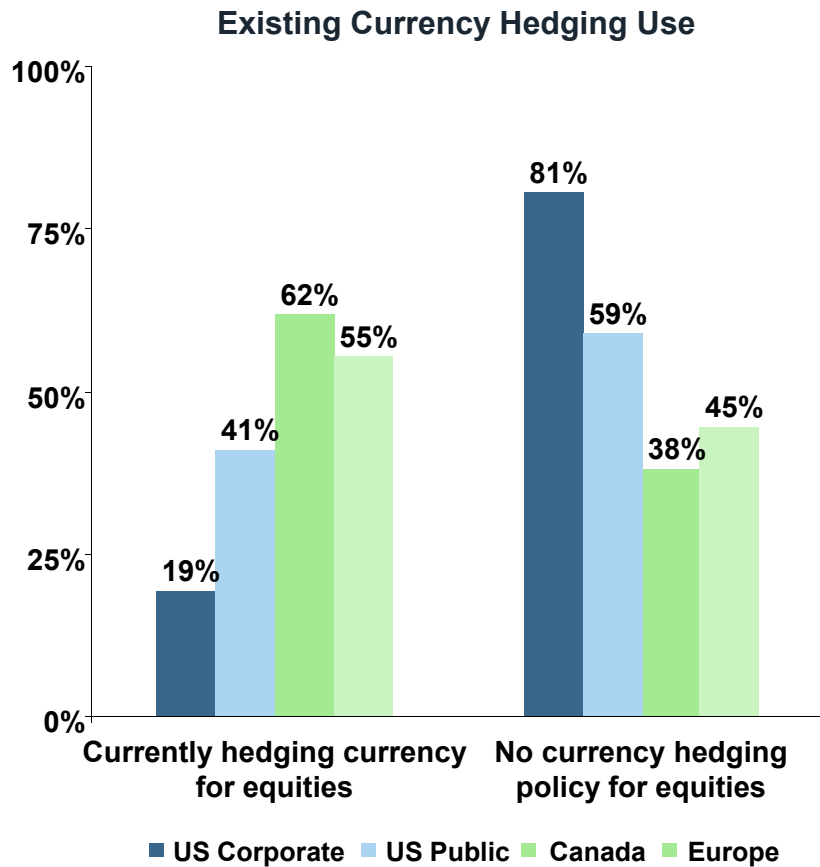
Balancing Risk and Return



Source: Pyramis US DB Survey 2010

Currency Hedging for Equities: Today and Tomorrow

Hedging policies are not increasing with non-domestic exposure

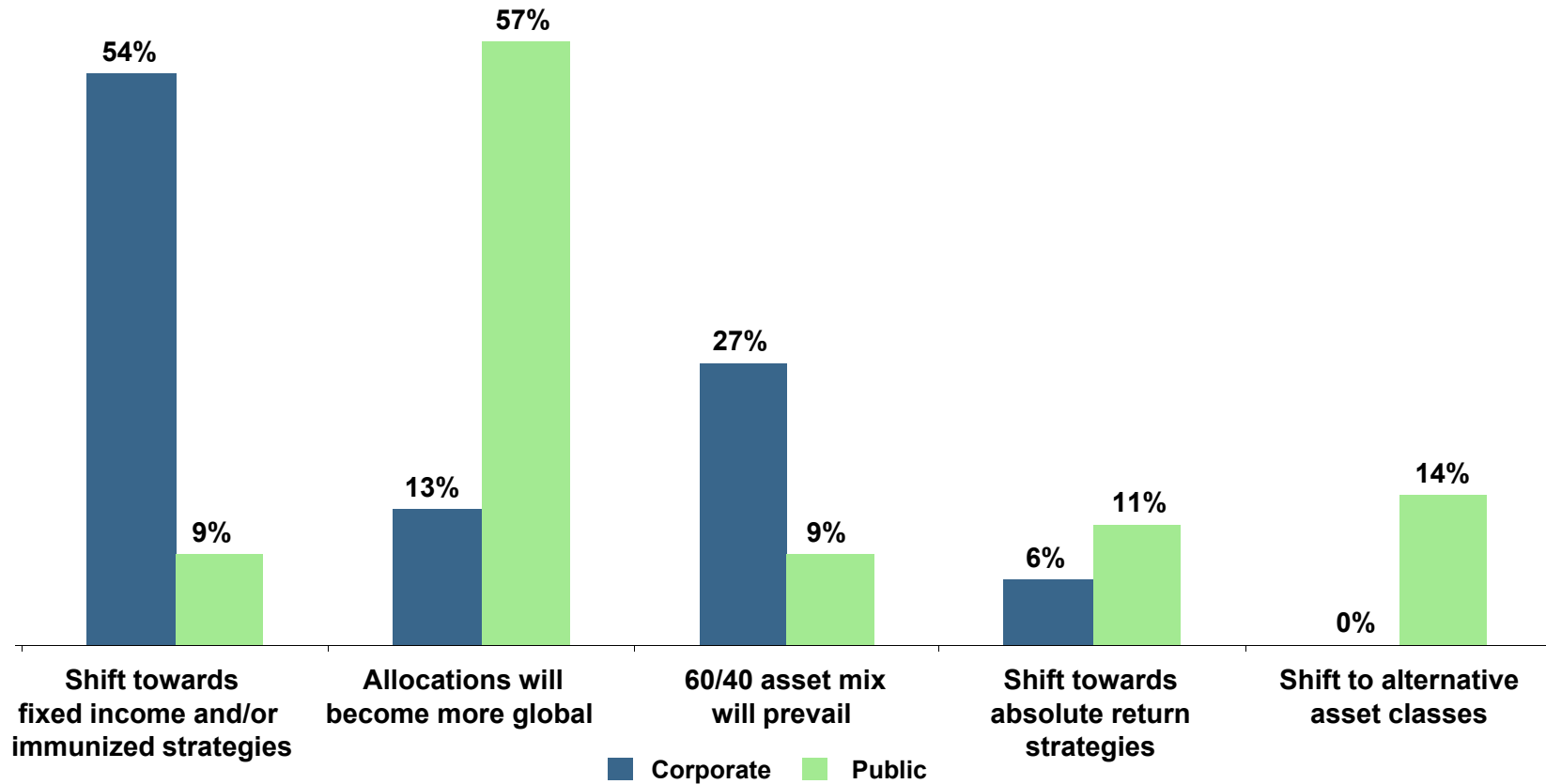


Source: Pyramis Global DB Survey 2010

NOTE: This question was not asked in Canada

Ten Years from Now: Likely Future for US Pension Plans

Corporates move towards LDI; Publics diversify overseas and into alternatives



Source: Pyramis US DB Survey 2010

Biography

Mark Friebe

Senior Vice President, Head of Asset Allocation

Mark Friebe is Senior Vice President and Head of Asset Allocation at Pyramis Global Advisors, a unit of Fidelity Investments. In this role, he directs Pyramis Asset Allocation Investment Strategy Team. He is responsible for oversight over traditional and customized investment solutions for large global institutional clients in both DB and DC using such vehicles as Lifecycle, Balanced, TAA and Long Short. He also leads development and management of lifecycle, balanced, tactical asset allocation and income replacement investment vehicles for investors in Canada.

Prior to joining Pyramis, Mark was head of the asset allocation and product strategy group at Barclays Global Investors, N.A., (BGI) San Francisco. As BGI's principal asset allocation strategist, he led development of a broad range of new asset allocation products employing commodity, currency, overlay, and custom alpha/beta strategies, including the firm's first lifecycle product, which he designed in the mid-1990s. Mark also led all information technology development for global asset allocation operations at BGI and managed the asset allocation group. Before that, Mark served as senior institutional client relationship officer and head of the fixed income index portfolio management and strategy group. Prior to joining BGI, he was vice president with William F. Sharpe Associates.

Mark earned a Bachelor of Science degree in Political Science from Santa Clara University and a Master's degree in Business Administration with a concentration in International Management from Thunderbird Global School of Management. He holds the Financial Industry Regulatory Authority (formerly NASD) Series 7, 24, and 63 licenses.

Important Information

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SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

April 26, 2011

Agenda Item 3.0

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer



SUBJECT: Approval of the Minutes

This month the board is asked to approve both the minutes of the last regular meeting (March 29, 2011) and a revised version of the minutes of the October 26, 2010, meeting.

Staff recently noticed that the October 26, 2010, minutes omitted the election of the current officers of the board as well as the appointment of one Investment Committee member. The October minutes included with this memo add those items.

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

December 14, 2010

Agenda Item 3.0

October 26, 2010 – Board Agenda

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

1. Call to Order and Roll Call
 - 1.1 Report from Ad Hoc Nominating Committee and Election of 2010-2011 Board Officers
 - 1.2 Appointment of Committees
2. Oral Communications
 - 2.1 Oral Communications From the Board
 - 2.2 Oral Communications From the Public
3. Approval of the Minutes
4. Approval of the Consent Agenda

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

 - Disability Retirements
 - Hearing Officer's Report- Cathleen O'Brien
 - Service Retirements
 - Continuance
 - Deferred Retirements
 - Member Account Refunds
 - Member Account Rollovers
5. Benefit & Actuarial Services
 - 5.1 Consideration of Benefit & Actuarial Items Removed from the Consent Agenda
6. Investment Services
 - 6.1 Monthly Portfolio Performance Report
 - 6.2 Annual Investment Manager Review –
 - 6.2 a Blackrock (Investment Committee Interview - Tuesday, October 26 at 9:30 a.m.)
 - 6.2 b Invesco Realty Advisors (Investment Committee Interview - Tuesday, October 26 at 10:30 a.m.)
 - 6.3 Discussion of Impact Investing
 - 6.4 Approval of Investment Management Search Semi-Finalists – Risk Parity Mandate
7. Board & Management Support Services
 - 7.1 Monthly Financial Report
 - 7.2 Acceptance of the Financial Audit Report for the Period Ended June 30, 2010
 - 7.3 Approve Comprehensive Annual Financial Report (CAFR) for the Period Ended June 30, 2010
 - 7.4 Annual Review of *SamCERA*'s Independent Auditor
 - 7.5 Review of *SamCERA*'s Internal Control Structure
 - 7.6 Review of Proposed Amendments to the Board of Retirement Regulations
 - 7.7 Quarterly Budget Report for Period Ended September 30, 2010
 - 7.8 Review of Board/Staff Retreat Agenda – Retreat Scheduled for March 2011
 - 7.9 Discussion of Issues Planned for the Fall SACRS Business Meeting
 - 7.10 Approval to Cancel the November 16, 2010, Board of Retirement Meeting and Reschedule the December 21st Meeting to December 14th
8. Management Reports
 - 8.1 Chief Executive Officer's Report
 - 8.2 Assistant Executive Officer's Report
 - 8.3 Chief Investment Officer's Report
 - 8.4 County Counsel's Report

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

- C1 Consideration of disability items, if any, removed from the Consent Agenda and appropriate for closed session

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

- 9. Report on Actions Taken in Closed Session
- 10. Adjournment

October 26, 2010 – Board Minutes

1010.1 **Call to Order:** Mr. David, Vice Chair, called the Public Session of the Board of Retirement to order at 1:04 p.m., October 26, 2010, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.

Roll Call: Ms. Arnott for Mr. Buffington, Ms. Agnew, Mr. David, Mr. Hackleman, Ms. Kwan Lloyd, Mr. Spinello and Mr. Tashman. *Excused:* Mr. Bowler. *Other Board Members in Attendance:* Ms. Salas. *Staff:* Mr. Bailey, Mr. Hood, Mr. Clifton, Ms. Dames and Ms. Smith. *Consultants:* Ms. Carlson, Dr. Fracchia, Ms. Archer, Mr. Thomas, Mr. Brody and Mr. Paulden. *Retirees:* 0, *Public:* 1.

1010.1.1 **Report from Ad Hoc Nominating Committee and Election of 2010-2011 Board Officers:** Ms. Arnott presented the report of the Ad Hoc Nominating Committee. Mr. David asked for any additional nominations. Hearing none, he closed the nominations. **Motion** by Hackleman, second by Spinello, carried unanimously to elect Mr. David, Chair; Ms. Arnott, Vice-Chair, and Ms. Kwan Lloyd, Secretary, per *Regulation 2.5*.

1010.1.2 **Appointment of Committees:** Mr. David **appointed** Mr. Hackleman to the Investment Committee per *Regulation 2.5.1*, joining present committee members, Mr. Bowler, Chair; Ms. Agnew and Mr. David.

Mr. David re-appointed Ms. Kwan Lloyd, Chair; Mr. Spinello and Mr. Tashman to the Audit Committee per Regulation 2.5.1.

1010.2.1 **Oral Communications From the Board:** None.

1010.2.2 **Oral Communications From the Public:** None.

1010.3 **Approval of the Minutes:** Ms. Arnott submitted the following corrections to the minutes: 1009:4 Service Retirements L5: “~~Golts~~ Goltz, Portor”; 1009.5.4 L8: “Mr. David and ~~Mrs.~~ Ms. Jadallah...”; 1009.6.2b L3: “Committee for T. Rowe Price’s annual review.” **Motion** by Tashman, second by Arnott, carried unanimously to approve the minutes from the September 28, 2010, board meeting, as amended.

1010.4 **Approval of the Consent Agenda:** Mr. David removed the hearing officer’s report of Cathleen O’Brien (Spinello) from the consent agenda. **Motion** by Spinello, second by Kwan Lloyd, carried unanimously to approve the day’s consent agenda, as amended.

Disability Retirements: None.

Service Retirements:

Member Name	Effective Retirement Date	Department
Akam, Gail	August 5, 2010	Human Services Agency
Gonzalez, Kathleen	August 6, 2010	Library
Barnes, Chiu Sheng Amy	August 7, 2010	San Mateo Medical Center
Ferrer, Ellen	August 7, 2010	Human Services Agency

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

Fujino, Carrie	August 7, 2010	Superior Court
Nenchev, Nina	August 7, 2010	Probation
Schwab, Susan	August 7, 2010	Human Services Agency
Barrera, Rosalinda	August 12, 2010	Def'd from Revenue Services
Kalai, Linda	August 12, 2010	Def'd from Admin. & Business
Repp, Marilyn	August 20, 2010	Sheriff's Office
Evans, Beverly	August 21, 2010	Revenue Services
Conklin, Bryan	August 23, 2010	Def'd from Human Services
Arthur, Richard	August 28, 2010	Def'd from Human Services
Chung, Mary	August 31, 2010	San Mateo Medical Center
Singh, Rashida	August 31, 2010	San Mateo Medical Center
Dela Pena, Erlinda	September 1, 2010	San Mateo Medical Center

Continuance of Benefits:

Member Name	Beneficiary of:
Sans, Beverly	Sans, William

Deferred Retirements:

Member Name	Retirement Plan Type	
Billingsley, Randall	Vested-S4	Reciprocity
Fermin-Castaned, Marilou	Vested-G4	Reciprocity
Lawton, Vanessa	Vested-G4	
O'Malley-Riley, Marsi	Vested-G4	

Member Account Refunds:

Member Name	Retirement Plan Type
Aldama, Jose	G4 Non-vested
Cachola, Jennifer	G4 Non-vested
Fernando, Homer	G4 Non-vested
Leyva, Cecilia	G4 Non-vested
Pinkerton, Amber	G4 Non-vested
Rivera, Denny	S4 Non-vested
Scroggins, David	G4 Non-vested
Taufete'e, Bethlehem	G4 Non-vested

Member Account Rollovers:

Member Name	Retirement Plan Type
Albagli, Minna	G4 Non-vested
Berthoud, Charles	G4 Non-vested
Ellis, Lenita	G4 Non-vested
Thiruppanambakk, Balasubraman	G4 Non-vested

1010.5 **Benefit & Actuarial Services**

1010.5.1 **Consideration of Benefit & Actuarial Items Removed from the Consent Agenda:** Please see agenda item 9.0.

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

1010.6 **Investment Services**

1010.6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* 6.42% Total Fund Return for September 2010 underperformed the Total Plan Policy Benchmark return of 6.64%. The fund's return for the trailing twelve months is 9.86%, which is 211 basis points (bps) above the Actuarial Discount Rate, 7.75%. It is 9 basis points above *SamCERA's* Total Plan Policy Benchmark of 9.75%.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	\$899,025,808	10.34%	11.77%	-0.38%
<i>International Equity</i>	414,113,196	9.30%	5.39%	3.29%
Total Equity	1,313,139,004	10.01%	9.65%	0.59%
Fixed Income	616,714,405	0.71%	13.09%	5.66%
Real Estate Aggregate	109,210,472	0.00%	-0.24%	-1.33%
Cash Equivalents	7,522,030	0.12%	0.98%	1.94%
TOTAL FUND	\$2,046,585,910	6.42%	9.86%	2.13%
<i>Benchmark</i>		6.64%	9.75%	3.59%

* Total Time-Weighted Rate of Return

1010.6.2 **Annual Investment Manager Reviews**

1010.6.2a **Blackrock:** Mr. Clifton reported that the investment committee had met with Edward Dowd, Managing Director; Anthony Freitas, Managing Director; Stephanie Hill, Director, Investment Strategist; and Vickie Chan, Associate, of BlackRock for the firm's annual review. Mr. Freitas gave a brief overview of the firm's organization. Mr. Dowd reviewed the investment team, philosophy and process of the Large Cap Growth product with the board as well as portfolio construction, risk management and performance. Ms. Hill then briefly discussed the Russell 1000 Index product's characteristics and performance.

1010.6.2b **Invesco Realty Advisors:** Mr. Clifton reported that the investment committee had met with Max Swango and Bill Grubbs of Invesco Realty Advisors for the firm's annual review. Mr. Grubbs had briefly discussed his near departure from Invesco and said that he made the right decision to stay with the firm. Mr. Swango and Mr. Grubbs provided the committee with a thorough overview of the fund strategy, characteristics, performance and outlook.

1010.6.3 **Discussion of Impact Investing:** Ms. Agnew presented her recent paper entitled "Impact Investing: Environmental, Social & Governance Criteria Promote Sustainable, Positive Outcomes." Ms. Agnew opined that the old Socially Responsible Investing (SRI) strategy has evolved to be more proactive and rewarding, incorporating broad concepts like sustainability and governance across all asset classes. She then discussed the various issues surrounding Impact Investing. Mr. Thomas noted that *SamCERA's* investment in the PPIP program has both economic and social benefits. Trustees and staff will save this topic for future discussion. Mr. David thanked Ms. Agnew for her lead on this investment subject.

1009.6.4 **Approval of Investment Management Search Semi-Finalists – Risk Parity Mandate:** Mr. Thomas and Mr. Brody discussed the initial screening criteria for *SamCERA's* risk parity search and provided a summary of each of the five candidates that passed the screening

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

process. Ms. Agnew expressed some concern regarding the strategy in general.

Motion by Hackleman, second by Spinello, unanimously carried to approve the list of semi-finalists for the risk parity mandate search: (1) AQR Capital Management, (2) Bridgewater, and (3) PanAngora.

1010.7 **Board & Management Support Services**

1010.7.1 **Monthly Financial Report:** Mr. Clifton reported that *SamCERA's* Net Assets Held in Trust for Pension Benefits as of September 30, 2010, totaled \$2,041,177,603. The increase in net assets by approximately \$115.7 million, month over month, is largely attributed to market appreciation.

1010.7.2 **Acceptance of the Financial Audit Report for the Period Ended June 30, 2010:** Andrew Paulden of Brown Armstrong was present to discuss the auditor's reports for *SamCERA's* June 30, 2010, financial audit. He provided the board with a thorough overview of the June 30, 2010, audit process. Brown Armstrong rendered an unqualified ("clean") opinion on *SamCERA's* financial statements. Brown Armstrong recommended one agreed-upon finding which has been discussed with the appropriate members of management. All prior year findings have been resolved. No reportable conditions which would be considered material weaknesses were found.

Motion by Arnott, second by Spinello, carried unanimously to approve the auditor's reports for *SamCERA's* June 30, 2010, financial audit.

1010.7.3 **Approve Comprehensive Annual Financial Report (CAFR) for the Period Ended June 30, 2010:** Mr. Clifton presented *SamCERA's* Comprehensive Annual Financial Report (CAFR) for the period ended June 30, 2010. Ms. Agnew submitted a correction to the CAFR regarding the adopted employer contribution rate for FY 2010-2011.

Motion by Agnew, second by Kwan Lloyd, carried unanimously to approve *SamCERA's* Comprehensive Annual Financial Report for the period ended June 30, 2010, as amended.

1010.7.4 **Annual Review of *SamCERA's* Independent Auditor:** Andrew Paulden of Brown Armstrong was present for the firm's annual review. Mr. Paulden provided a brief organizational update. He said that Brown Armstrong has historically had low employee turnover and is poised to experience new growth. Mr. Paulden also said that Connie Perez will be relocated to the firm's new office in Pasadena with Eric Berman. Mr. Clifton reported that Brown Armstrong rated high in all performance evaluation criteria and that staff and trustees are pleased with the quality of advice and services provided by the firm as the Association's auditor.

1010.7.5 **Review of *SamCERA's* Internal Control Structure:** Mr. Clifton presented the internal controls guidelines which are *SamCERA's* framework for implementing an effective and efficient internal control system. Mr. Clifton also provided a compilation of *SamCERA's* identified risks. The identification process drew heavily on the work completed by Brown Armstrong. A staff project for the upcoming fiscal year will be to expand the areas of risk identification. Mr. Clifton then reviewed the internal control guidelines with trustees.

1010.7.6 **Review of Proposed Amendments to the Board of Retirement Regulations:** In conjunction

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

with *SamCERA's* process to comply with IRS regulations and receive a positive IRS Tax Determination Letter, possible changes to the Regulations of the Board of Retirement will be required. As of the day's meeting, Mr. Bailey said that proposed model regulations drafted by Hanson Bridgett are being reviewed by staff and counsel. The approval of proposed amendments will be brought forth at a future board meeting.

- 1010.7.7 **Quarterly Budget Report for Period Ended September 30, 2010:** Mr. Clifton reported the preliminary First Quarter Budget Reports. He said that with 25% of the fiscal year completed, administrative expenditures to date represent 13.1% of the appropriations. The Salaries & Benefits, Services & Supplies and Capital Assets are all under budget.

***SamCERA's* Administrative Budget**

	ADOPTED BUDGET	YTD Preliminary
Salaries & Benefits	\$2,640,000	\$ 438,900
Services & Supplies	\$2,343,000	\$ 215,300
Capital Assets	\$ 000	\$ 000
Total	\$4,983,000	\$ 654,200

The Asset Management Budget encompasses *SamCERA's* in-house expenditures, which are incurred when managing the association's assets. It currently includes percentages of the salary and benefits and overhead costs of specific employees in relation to their job responsibilities supporting investment functions. The Asset Management Budget is as follows:

***SamCERA's* Asset Management Budget**

	ADOPTED BUDGET	YTD Preliminary
Salaries & Benefits	\$ 550,000	\$ 102,500
Services & Supplies	\$ 430,700	\$ 24,800
Capital Assets	\$ 000	\$ 000
Total	\$ 980,700	\$ 127,300

All professional services expenditures are on target in accordance with the budget appropriations. As of September 30, 2010, the aggregate professional services fee was approximately 39.7 basis points.

- 1010.7.8 **Review of Board/Staff Retreat Agenda – Retreat Scheduled for March 2011:** Mr. Bailey presented a rough draft list of topics for the Board/Staff Retreat, planned for March 22-23, 2011 and requested input from trustees. The list of topics will be reviewed again at the December board meeting.

- 1010.7.9 **Discussion of Issues Planned for the Fall SACRS Business Meeting:** Mr. Bailey discussed the two proposals that are scheduled to be voted on by all designated 1937 Act system representatives at the SACRS Fall 2010 Conference Business meeting.

- 1010.8 **Management Reports**

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

1010.8.1 **Chief Executive Officer's Report:** Mr. Bailey reported that, since retaining securities litigation firms, the association has been asked three times to participate in securities litigation as lead plaintiff. He said that securities litigation policy will be drafted.

Mr. Bailey said that *SamCERA* will send recruitment letters to San Mateo County corporations regarding the Board of Retirement seat vacancy.

1010.8.2 **Assistant Executive Officer's Report:** Mr. Hood distributed a flyer for the upcoming Financial Knowledge Network classes. He said that a representative from FKN was present at the County Benefits Fair. Mr. Hood reported that staff met with the thirty-three individuals from the San Carlos police department transferring to the County sheriff's department to discuss retirement and reciprocity. Mr. Hood then invited trustees to attend an AED/CPR training that will be conducted for *SamCERA* staff on November 1st.

1010.8.3 **Chief Investment Officer's Report:** Mr. Clifton reported that Angelo Gordon issued another capital call. *SamCERA* has funded 85% of its capital commitment. He then said that Sheridan Partners, private equity manager, has issued a 1.25% capital call due October 18th.

1010.8.4 **County Counsel's Report:** Ms. Carlson provided an update on various new legislation pertinent to 1937 Act retirement systems, including AB 609, AB 1743 and SB 1479.

1010.9 **Report on Actions Taken in Closed Session:** Ms. Carlson reported that Mr. David convened the board in closed session, with all trustees present for roll call in attendance.

In the matter of the hearing officer's recommendations regarding the disability application of Cathleen O'Brien, refer the matter back to the hearing officer with instructions and direct staff to submit questions to the hearing officer for clarification of the ruling.

Mr. David then adjourned the closed session at 4:31 p.m.

1010.10 **Adjournment in Memory of Deceased Members:** There being no further business, Mr. David adjourned the meeting at 4:32 p.m., in memory of the following deceased members:

Lucas, Thomas	May 20, 2010	Public Works
Perry, Cindy	August 2, 2010	Probation
Smith, Emily	September 2, 2010	Beneficiary of Smith, Glen
Zelaya, Ofelia	September 4, 2010	Beneficiary of Zelaya, Guillermo
Sans, William	September 12, 2010	Building and Grounds
Johnson, Lillian	September 15, 2010	District Attorney's Office
Tatum, Jeanne	September 19, 2010	Board of Supervisors
Russell, Alpheus	September 20, 2010	General Services
Wyant, Clarice	September 21, 2010	Social Services
Evans, James	September 27, 2010	Assessor's Office

AL DAVID, CHAIR

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

April 26, 2011

Agenda Item 3.0

March 29, 2011 – Audit Committee Agenda

- 1.0 Call to Order
- 2.0 Roll Call
- 3.0 Approval of the Minutes
- 4.0 Oral Communications From the Committee
- 5.0 Oral Communications From the Public
- 6.0 Other Business
- 7.0 Board & Management Support Services
 - 7.1 Monthly Financial Report
 - 7.2 Review and Approval of a Draft Request for Proposal for Actuarial Audit Services
 - 7.3 Consideration of Financial Audit Structure
 - 7.4 Approval of Estimated Employer Contribution Amount for Fiscal Year 2011/2012
 - 7.5 Approval of Amendments to *SamCERA's* Education Policy
 - 7.6 Approval of Expenditures for Board Room Security
 - 7.7 Introduction of *SamCERA's* Sources, Uses & Budget for Fiscal Year 2011/2012
- 8.0 Chief Investment Officer's Report
- 9.0 Adjournment

March 29, 2011 – Audit Committee Minutes

- 1.0 **Call to Order:** Ms. Kwan Lloyd called the Public Session of the Audit Committee of the Board of Retirement to order at 9:04 a.m., March 29, 2011, in *SamCERA's* Conference Room, Suite 125, 100 Marine Parkway, Redwood Shores.
- 2.0 **Roll Call:** Ms. Arnott, Ms. Kwan Lloyd, Mr. Spinello and Mr. Tashman. *Other Board Members in Attendance:* Mr. Hackleman, Mr. Murphy and Ms. Salas. *Staff:* Mr. Bailey, Mr. Clifton, Ms. Dames, Ms. Wong and Mr. Hood. *Retirees:* 0, *Actives:* 0.
- 3.0 **Approval of the Minutes:** None.
- 4.0 **Oral Communications From the Committee:** None.
- 5.0 **Oral Communications From the Public:** None.
- 6.0 **Other Business:** None.
- 7.0 **Board & Management Support Services**
 - 7.1 **Monthly Financial Report:** Mr. Clifton reported that *SamCERA's* Net Assets Held in Trust for Pension Benefits as of February 28, 2011, totaled \$2,296,362,742. Net assets increased by approximately \$47.0 million, month over month. The increase is primarily due to an appreciation in assets.

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

- 7.2 **Review and Approval of a Draft Request for Proposal for Actuarial Audit Services:** Mr. Clifton distributed a draft RFP and proposed mailing list for the actuarial audit. The list contained seven firms with west coast offices that are familiar with the 1937 Act. In response to a question from Mr. Spinello, *SamCERA* does not have a policy on when to conduct an actuarial audit. Mr. Bailey said that typically 5 years is considered best practice. Milliman and the actuarial firm selected to conduct the audit will perform the annual valuation and triennial study in parallel.

Motion by Tashman, second by Spinello, carried unanimously to recommend that the board approve the proposed RFP and mailing list for the association's actuarial audit.

- 7.3 **Consideration of Financial Audit Structure:** Mr. Clifton presented the proposed financial audit structure, including the critical dates timeline. Mr. Clifton said that the Audit Committee should be more involved in the association's audit structure, not necessarily simply on financial matters. The committee should also review the implementation of retirement changes as a result of recent union negotiations. Such changes include the implementation of new retirement tiers. Ms. Wong then discussed some issues that have recently arisen in implementing some benefit changes.

He also noted that this is the first year that *SamCERA* will be invested in alternative assets. Staff believes that there may be delays in receiving timely year-end data from some of those investments. In addition, the association is commissioning an actuarial audit as discussed in the previous agenda item. The results of the audit will not be presented for board approval until the September board meeting. Therefore the audit of the June 30, 2011, financial data will be presented to the board at its October meeting. Mr. Bailey and Ms. Wong will discuss the revised timeline with the Controller's Office.

- 7.4 **Approval of Estimated Employer Contribution Amount for Fiscal Year 2011/2012:** Mr. Clifton provided the report on the Prepayment of the County's Contribution for Fiscal Year 2011/2012. He reported that the county's contribution for the upcoming fiscal year is \$146,114,375. The calculated amount of the advance prepayment is due on July 1, 2011. The calculated contribution is less than the estimated contribution of \$152 million for this current fiscal year. The committee unanimously recommended board approval.

- 7.5 **Approval of Amendments to *SamCERA*'s Education Policy:** Mr. Clifton reported that at the February board meeting, the board opined to amend the Education Policy to recommend trustees and staff take advantage of the various electronic media available for educational content. Staff inserted language into the policy to incorporate the board's input. The committee unanimously recommended board approval of the amended Education Policy.

- 7.6 **Approval of Expenditures for Board Room Security:** Mr. Bailey said that at the February board meeting, trustees indicated that it would be appropriate to have security at future board meetings. Staff contacted County Sheriff Greg Munks and arranged to have a uniformed officer attend all future board meetings. The total estimated cost for a four-hour board meeting will be \$352.68. The estimated cost for the current fiscal year will be \$2,468.76. The cost of security will be included in the 2011/2012 budget projections. The committee unanimously recommended board approval of the expenditures for board room security.

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

- 7.7 **Introduction of *SamCERA*'s Sources, Uses & Budget for Fiscal Year 2011/2012:** Mr. Clifton provided an update on the status of *SamCERA*'s 2011/2012 proposed budgets.
- 8.0 **Chief Investment Officer's Report:** None.
- 9.0 **Adjournment:** There being no further business, Ms. Kwan Lloyd adjourned the meeting at 9:48 a.m.

NATALIE KWAN LLOYD, Chair

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

April 26, 2011

Agenda Item 3.0

March 29, 2011 – Investment Committee Agenda

PUBLIC SESSION

- 1.0 Call to Order
- 2.0 Roll Call
- 3.0 Approval of the Minutes
- 4.0 Oral Communications From the Committee
- 5.0 Oral Communications From the Public
- 6.0 Investment Management Services - The Investment Committee Shall Review & Discuss
 - 6.1 Monthly Portfolio Performance Report
 - 6.2 Educational Presentation – Hedge Funds – Beta Product and Hedge Funds of Funds
 - 6.2 a AQR Capital Management Presents Investing in Hedge Fund Beta (Board Presentation)
 - 6.2 b Aetos Capital Presents Investing in Hedge Funds of Funds (Board Presentation)
 - 6.3 Investment Management Agreement Renewal – Jennison Associates
 - 6.4 Initial Rewrite of *SamCERA's* Investment Policy
- 7.0 Other Business
- 8.0 Chief Investment Officer's Report
- 9.0 Adjournment

MINUTES OF SAMCERA'S Investment Committee

- 1.0 **Call to Order:** Mr. Bowler called the Public Session of the Investment Committee of the Board of Retirement to order at 10:05 a.m, March 29, 2011, in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.
- 2.0 **Roll Call:** Ms. Agnew, Mr. Bowler, Mr. David, and Mr. Hackleman. *Other Board Members In Attendance:* Ms. Arnott, Ms. Kwan Lloyd, Mr. Murphy, Ms. Salas, Mr. Spinello and Mr. Tashman. *Staff:* Mr. Bailey, Mr. Hood, Ms. Dames and Mr. Clifton. *Consultants:* Mr. Thomas. *Public:* None. *Retirees:* None.
- 3.0 **Approval of the Minutes: Motion** by Hackleman, second by David, carried unanimously to approve the committee minutes from the February 29, 2011, meeting, as submitted.
- 4.0 **Oral Communications From the Committee:** Ms. Agnew reported that she recently attended three conferences and found them very educational. One of the conferences was the CALAPRS General Assembly and the other two focused on impact investing. One of the impact investing conferences took place in Redwood Shores and she was asked to sit on a panel to discuss a fiduciary's approach to impact investing. She gained a lot of information on what other systems are doing in terms of impact investing.

The second conference on the topic was hosted by the State Department and Federal Reserve and shared data that the federal government has collected on the ways to measure and collect metrics on the effect of impact investing. Ms. Agnew said the conference was very worthwhile in terms of networking and collecting information. She said more data on the investment topic is slowly being developed and will share information with the board as she learns more.
- 5.0 **Oral Communications From the Public:** None.

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6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* 2.38% Total Fund Return for the month slightly underperformed the Total Plan Policy Benchmark return of 2.46%. The fund's return for the trailing twelve months and twenty-four months are a robust 18.58% and 25.80% respectively. The twelve-month period is 1083 basis points (bps) above the Actuarial Discount Rate of 7.75%. However, for the same period the total fund return is 73 basis points behind *SamCERA's* Total Plan Policy Benchmark of 19.31%. The underperformance is largely attributed to domestic large cap equity and the international equity portfolios. *SamCERA* should expect to underperform the Total Plan Policy Benchmark for some time while its alternative allocation is being fully implemented.

The table below shows the composite returns:

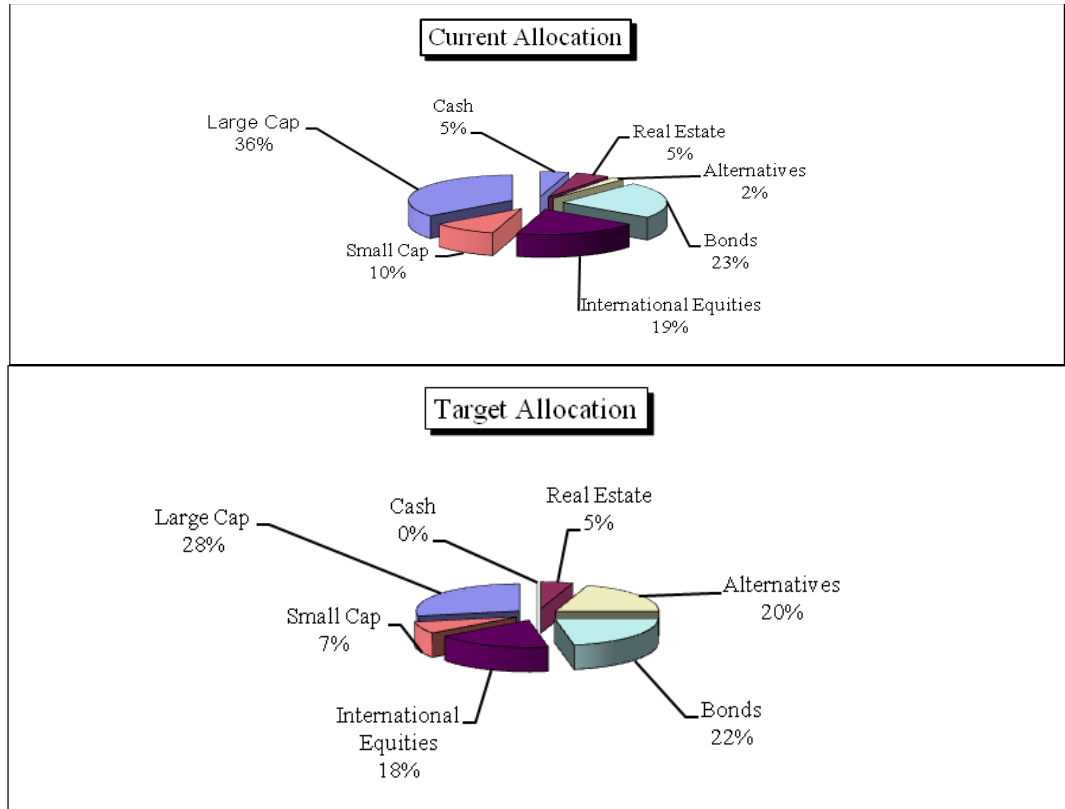
	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,494,561,166	3.15%	11.70%	27.05%	22.87%
Equity Composite Benchmark		3.50%	12.71%	27.71%	24.15%
Variance		-0.35%	-1.01%	-0.66%	-1.28%
Private Equity Aggregate	\$45,250,000	0.00%	0.00%	N/A	N/A
Private Equity Composite		0.00%	0.00%	N/A	N/A
Variance		0.00%	0.00%	N/A	N/A
Fixed Income Aggregate	\$535,825,063	1.29%	1.41%	3.11%	10.44%
Fixed Income Composite		0.49%	0.03%	-0.41%	5.37%
Variance		0.80%	1.38%	3.52%	5.07%
Real Estate Aggregate	\$122,302,877	0.00%	4.62%	12.40%	16.70%
NCREIF (one quarter lag)		0.00%	4.62%	10.41%	15.88%
Variance		0.00%	0.00%	1.99%	0.82%
Cash Aggregate	\$102,288,930	0.03%	0.16%	0.50%	1.03%
91 Day Treasury Bill		0.02%	0.04%	0.07%	0.14%
Variance		0.01%	0.12%	0.43%	0.89%
Total Fund Returns	\$2,300,228,036	2.38%	8.13%	18.37%	18.58%
Total Plan Policy Benchmark		2.46%	8.89%	19.07%	19.31%
Variance		-0.08%	-0.76%	-0.70%	-0.73%

Performance versus Actuarial Discount Rate

Total Fund Returns		2.38%	8.13%	18.37%	18.58%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%
Variance		1.76%	6.25%	14.57%	10.83%

SamCERA's current asset allocation is summarized as follows:

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Action: No action was required. The Monthly Portfolio Performance Report is an informational report.

- 6.2 **Educational Presentation – Hedge Funds – Beta Product and Hedge Funds of Funds:** Mr. Clifton said that the finalist interviews for the hedge funds manager search will be conducted at the full board meeting. Staff sought to seek direction as to which strategy the board preferred, which would then direct the manager search.
- 6.2a **AQR Capital Management Presents Investing in Hedge Fund Beta:** This presentation was conducted at the full board meeting.
- 6.2b **Aetos Capital Presents Investing in Hedge Funds of Funds:** This presentation was conducted at the full board meeting.
- 6.3 **Investment Management Agreement Renewal – Jennison Associates:** Mr. Clifton presented the three-year Investment Management Agreement renewal with Jennison Associates. He then discussed the new side letter regarding proxy policy. *SamCERA's* new placement agent policy was included in the IMA renewal. The committee unanimously recommended that the board approve the IMA renewal with Jennison Associates.
- 6.4 **Initial Rewrite of *SamCERA's* Investment Policy:** Mr. Clifton presented *SamCERA's* current Investment Policy and a draft outline for the future policy. The revised policy will not be ready for approval until June or July. He requested additional trustee direction and input for incorporation into the revised Investment Policy.
- 7.0 **Other Business:** None.

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- 8.0 **Chief Investment Officer's Report:** Mr. Clifton reported that the documentation for one of the ABRY private equity funds that was approved at the February board meeting, was ready to be executed by the board chair. He then said that he received a letter from the association's custodian, State Street, regarding the transparency of foreign exchange transactions. He also received a letter from Pyramis regarding recent changes to the firm's business structure. Art Greenwood, *SamCERA's* previous client relationship manager, will now be focused on new business development. Sue Curran, will now be *SamCERA's* client relationship manager.
- 9.0 **Adjournment:** There being no further business, Mr. Bowler adjourned the committee at 10:55 a.m.

BENEDICT J. BOWLER, INVESTMENT COMMITTEE CHAIR

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April 26, 2011

Agenda Item 3.0

March 29, 2011 – Board Agenda

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

1. Call to Order and Roll Call
2. Oral Communications
 - 2.1 Oral Communications From the Board
 - 2.2 Oral Communications From the Public
3. Approval of the Minutes
4. Approval of the Consent Agenda

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

 - Disability Retirements
 - Liz Cervantes
 - Leonora Magallanes
 - Eugenia Verbeckmoes
 - Service Retirements
 - Continuances
 - Deferred Retirements
 - Member Account Refunds
 - Member Account Rollovers
5. Benefit & Actuarial Services
 - 5.1 Consideration of Benefit & Actuarial Items, if any, removed from the Consent Agenda
6. Investment Services
 - 6.1 Monthly Portfolio Performance Report
 - 6.2 Educational Presentation – Hedge Funds – Beta Product and Hedge Funds of Funds
 - 6.2 a AQR Capital Management Presents Investing in Hedge Fund Beta (**Board Presentation**)
 - 6.2 b Aetos Capital Presents Investing in Hedge Funds of Funds (**Board Presentation**)
 - 6.3 Investment Management Agreement Renewal – Jennison Associates
 - 6.4 Initial Rewrite of *SamCERA*'s Investment Policy
7. Board & Management Support Services
 - 7.1 Monthly Financial Report
 - 7.2 Review and Approval of a Draft Request for Proposal for Actuarial Audit Services
 - 7.3 Consideration of Financial Audit Structure
 - 7.4 Approval of Estimated Employer Contribution Amount for Fiscal Year 2011/2012
 - 7.5 Approval of Amendments to *SamCERA*'s Education Policy
 - 7.6 Approval of Expenditures for Board Meeting Security
 - 7.7 Introduction of *SamCERA*'s Sources, Uses & Budget for Fiscal Year 2011/2012
8. Management Reports
 - 8.1 Chief Executive Officer's Report
 - 8.2 Assistant Executive Officer's Report
 - 8.3 Chief Investment Officer's Report
 - 8.4 County Counsel's Report

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

- C1 Consideration of disability items, if any, removed from the Consent Agenda and appropriate for closed session
- C2 Public Employee Performance Evaluation in accordance with Government Code section 54957
Title: Chief Executive Officer
9. Report on Actions Taken in Closed Session
10. Adjournment

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March 29, 2011 – Board Minutes

1103.1 **Call to Order:** Mr. David, Chair, called the Public Session of the Board of Retirement to order at 1 p.m., March 29, 2011, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.

Roll Call: Ms. Agnew, Ms. Arnott (dep. 4:45 p.m.), Mr. Bowler, Mr. David, Mr. Hackleman, Ms. Kwan Lloyd, Mr. Spinello and Mr. Tashman (dep. 1:43 p.m.). *Other Board Members in Attendance:* Mr. Murphy and Ms. Salas. *Staff:* Mr. Bailey, Mr. Hood, Ms. Dames, Mr. Clifton, Ms. LeBlanc and Ms. Smith. *Consultants:* Mr. Silberman, Dr. Fracchia, Mr. Masarik and Mr. Thomas. *Retirees: 0, Public: 0.*

1103.2.1 **Oral Communications From the Board:** Ms. Agnew reported that she recently attended three worthwhile educational conferences. One of the conferences was the CALAPRS General Assembly and the other two focused on impact investing. She provided a more detailed report at the Investment Committee meeting. Mr. Spinello and Mr. David reported on their attendance to the CALAPRS Principles for Trustees course at Stanford Law School. They both found the course very informative and beneficial. Ms. Arnott and Ms. Kwan Lloyd also reported on their attendance at the CALAPRS General Assembly, which they found very educational.

1103.2.2 **Oral Communications From the Public:** None.

1103.3 **Approval of the Minutes: Motion** by Agnew, second by Kwan Lloyd, carried unanimously to approve the board minutes from the February 22, 2011, meeting, as submitted.

1103.4 **Approval of the Consent Agenda:** Mr. David pulled the disability application of Eugenia Verbeckmoes (Agnew) from the day's consent agenda to be taken into consideration under agenda item 5.1 in closed session. Mr. David then pulled the disability application of Liz Cervantes (Silberman) from the day's consent agenda to be taken into consideration at a future board meeting in the presence of Ms. Cervantes' counsel.

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

Disability Retirements:

The board found **Leonora Magallanes** unable to perform her usual and customary duties as a Medical Services Assistant II and granted her application for a service-connected disability retirement.

Service Retirements:

Member Name	Effective Retirement Date	Department
Bayangas, Teresa	January 5, 2011	Human Services Agency
Ligon, Tracy	January 6, 2011	Def'd from Public Works
Kelly, Hallan	January 15, 2011	Public Health
Valera, Josie	January 18, 2011	Def'd from Public Health
Bundalion, Clarita	January 24, 2011	San Mateo Medical Center
Wethington, Jerome	January 25, 2011	San Mateo Medical Center

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Wood, Kenneth	January 29, 2011	Superior Court
Ayala, Yolanda	February 1, 2011	San Mateo Medical Center
Deasy, Patrick	February 1, 2011	Sheriff's Office
McClure, Carl	February 1, 2011	Probation
Moser, Martin	February 1, 2011	Sheriff's Office
Redick, Patricia	February 1, 2011	Def'd from HSA

Continuance of Benefits:

Member Name	Beneficiary of:
Stevens, Geneva	Stevens, Thomas

Deferred Retirements:

Member Name	Retirement Plan Type
Ryan, Dennis	G4-vested
Petru, Alexis	G4-vested

Member Account Refunds:

Member Name	Retirement Plan Type
Aragona, Jerry	G4 Non-vested
Duarte, Paula	G4 Non-vested
Jones, Angelica	G4 Non-vested
Martinez, Lillian	G4 Non-vested

Member Account Rollovers:

Member Name	Retirement Plan Type
Fung, Lilly	G4 Non-vested
Joo, Sandy	G4 Non-vested
Rubestone, Sally	G4 Non-vested

1103.5 **Benefit & Actuarial Services**

1103.5.1 **Consideration of Benefit & Actuarial Items, if any, removed from the Consent Agenda:**
 See agenda item 9.0.

1103.6 **Investment Services**

1103.6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* 2.38% Total Fund Return for the month slightly underperformed the Total Plan Policy Benchmark return of 2.46%. The fund's return for the trailing twelve months and twenty-four months are a robust 18.58% and 25.80% respectively. The twelve-month period is 1083 basis points (bps) above the Actuarial Discount Rate of 7.75%. However, for the same period the total fund return is 73 basis points behind *SamCERA's* Total Plan Policy Benchmark of 19.31%. The underperformance is largely attributed to domestic large cap equity and the international equity portfolios. *SamCERA* should expect to underperform the Total Plan Policy Benchmark for some time while its alternative allocation is being fully implemented.

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Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	\$1,048,235,533	3.73%	25.54%	1.88%
<i>International Equity</i>	<u>446,325,634</u>	1.81%	17.06%	2.59%
Total Equity	1,494,561,167	3.15%	22.87%	2.02%
Private Equity	250,000	0.00%	N/A	N/A
Fixed Income	581,479,606	1.39%	10.56%	5.93%
Real Estate Aggregate	122,302,877	0.00%	16.70%	0.47%
Cash Equivalents	102,288,930	0.03%	1.03%	1.72%
TOTAL FUND	\$2,300,882,581	2.41%	18.62%	3.24%
<i>Benchmark</i>		2.46%	19.31%	4.59%

* Total Time-Weighted Rate of Return

1103.6.2 **Educational Presentation – Hedge Funds – Beta Product and Hedge Funds of Funds:** Mr. Thomas provided a brief overview of *SamCERA*'s 3% allocation to hedge funds. Aetos Capital and AQR Capital Management provided an educational overview of two different hedge fund strategies: (1) fund of funds and (2) a beta product. Staff sought to seek direction as to which strategy the board preferred, which would then direct the manager search. Mr. Masarik provided a brief organizational background on Aetos Capital. Mr. David then took up agenda item 6.2b.

Please see agenda items 6.2a and 6.2b for a summary of each educational presentation.

After the two presentations, Ms. Arnott and Ms. Agnew requested more time to think about the pros and cons of both types of hedge fund investments. Mr. Bowler said that more time to digest the information was appropriate but that he was impressed with both educational presentations. Mr. Hackleman and Ms. Kwan Lloyd expressed a preference in hedge fund strategy but were amenable for other trustees' preference for more time for more extensive discussion. This agenda item will be discussed at the board retreat.

Mr. David then took up agenda item 6.3.

1103.6.2a **AQR Capital Management Presents Investing in Hedge Fund Beta:** Mr. Clifton re-introduced Gregor Andrade, Principal, and Joey Lee, Associate, of AQR Capital Management. Mr. Andrade and Ms. Lee provided a one-hour presentation on the Hedge Fund Beta investment strategy and answered trustee questions and concerns.

Mr. David then took up agenda item 6.2.

1103.6.2b **Aetos Capital Presents Investing in Hedge Funds of Funds:** Mr. Clifton introduced Anne Casscells, Co-President and Chief Investment Officer, and Andrea M. Bollyky, Managing Director, Head of Business Development, of Aetos Capital. Ms. Casscells and Ms. Bollyky provided a one-hour presentation on the Hedge Funds of Funds investment strategy and answered trustee questions and concerns.

Mr. David then took up agenda item 6.2a.

1103.6.3 **Investment Management Agreement Renewal – Jennison Associates:** Mr. Clifton presented the renewed Investment Management Agreement with Jennison Associates. He

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then discussed the new side letter regarding proxy policy. *SamCERA's* new placement agent policy is included in the IMA renewal. The Investment Committee reviewed the agreement and recommended board approval. **Motion** by Bowler, second by Hackleman, carried unanimously to adopt **Resolution 10-11-18**, authorizing the board chair to execute a renewed IMA with Jennison Associates, as follows:

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

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

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

“**WHEREAS**, on January 22, 2008, the Board considered proposals from and interviewed four firms for investment management services under a small cap core mandate Clarivest Asset Management, Jennison Associates, Quantitative Management Associates, and TAMRO Capital Partners. The board selected Jennison Associates for a small cap core mandate to be funded with approximately \$75 million; and

“**WHEREAS**, a three-year Investment Management Agreement was approved by County Counsel as to form and the Chief Investment Officer recommended approval of the Agreement; and

“**WHEREAS**, the board wishes to execute a second three-year Investment Management Agreement with Jennison Associates. Therefore, be it

“**RESOLVED** that the Board hereby approves the contract between the Board and Jennison Associates for a term of three years. The Board may terminate the contract on thirty days written notice. Be it further

“**RESOLVED** that the Board hereby delegates full discretionary authority to Jennison Associates to manage the assets of the retirement fund as allocated by the Board in accordance with the terms of the Agreement, the *Investment Policy* (as incorporated into the Agreement), and applicable law governing the conduct of fiduciaries entrusted with the management of public employees' retirement funds. Be it further

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

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

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

1103.6.4 **Initial Rewrite of *SamCERA's* Investment Policy:** Mr. Clifton said that the Investment

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Committee reviewed the Investment Policy and will be working on the document within the next few months.

1103.7 **Board & Management Support Services**

1103.7.1 **Monthly Financial Report:** Mr. Clifton reported that *SamCERA's* Net Assets Held in Trust for Pension Benefits as of February 28, 2011, totaled \$2,296,362,742. Net assets increased by approximately \$47.0 million, month over month. The increase is primarily due to an appreciation in assets.

1103.7.2 **Review and Approval of a Draft Request for Proposal for Actuarial Audit Services:** Mr. Clifton said that the board had opined that it was prudent from time to time to issue a Request for Proposal to conduct an independent audit to validate the appropriateness of the actuarial assumptions and methodologies employed by the board's actuary. The last actuarial audit performed was in 2005. The board and staff deemed it appropriate to conduct another actuarial audit for the period ended June 30, 2011. Mr. Clifton distributed a draft RFP and proposed mailing list for the actuarial audit. The list contained seven firms with west coast offices that are familiar with the 1937 Act. Mr. Clifton reported that the Audit Committee reviewed the proposed RFP and mailing list and recommended board approval. Milliman and the actuarial firm selected to conduct the audit will perform the annual valuation and triennial study in parallel.

Motion by Agnew, second by Spinello, carried unanimously to approve the RFP and the mailing list of actuarial firms for the actuarial audit.

1103.7.3 **Consideration of Financial Audit Structure:** Mr. Clifton reported that the Audit Committee reviewed the proposed financial audit structure, including the critical dates timeline. Mr. Clifton noted that with the association's first year investing in private equity, the actuarial audit and triennial study, the June 30, 2011, financial statements probably won't be ready until October. Staff historically has finalized *SamCERA's* June 30 financial statements by September 30th. Mr. Bailey and Ms. Wong will discuss the revised timeline with the Controller's Office. The Audit Committee recommended board approval.

Motion by Kwan Lloyd, second by Arnott, carried unanimously to approve the financial audit structure and timeline for *SamCERA's* June 30, 2011, financial statements.

1103.7.4 **Approval of Estimated Employer Contribution Amount for Fiscal Year 2011/2012:** Mr. Clifton provided the report on the Prepayment of the County's Contribution for Fiscal Year 2011/2012. He reported that the county's contribution for the upcoming fiscal year is \$146,114,375. The calculated amount of the advance prepayment is due on July 1, 2011. The calculated contribution is less than the estimated contribution of \$152 million for this current fiscal year.

Motion by Hackleman, second by Agnew, carried unanimously to approve the report on the prepayment of \$146,114,375 employer contributions for fiscal year 2011/2012.

1103.7.5 **Approval of Amendments to *SamCERA's* Education Policy:** Mr. Clifton reported that at the February board meeting, the board opined to amend the Education Policy to recommend trustees and staff take advantage of the various electronic media available for educational

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content. Staff inserted language into the policy to incorporate the board's input and this was presented for board approval.

Motion by Arnott, second by Spinello, carried unanimously to approve the changes to the Resolution 98-99-12, *SamCERA's* Education Policy, as follows:

“WHEREAS, Article XVI, §17(c) of the Constitution of the State of California states in part that

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

“WHEREAS, Government Code §31520 vests the management of *SamCERA* in the Board; and

“WHEREAS, the board acknowledges the vital importance of making informed judgments on all matters which come before it and has adopted a *Code of Fiduciary Conduct* to guide its actions; and

“WHEREAS, Associations and institutes exist which offer specialized training for pension fund trustees and staff; and

“WHEREAS, the board wishes to encourage its trustees and staff to become as expert as is cost-effective in the matters of pension fund investments, service and disability retirements and plan administration. Now, therefore, be it

“RESOLVED, that the board hereby stipulates that all trustees and staff shall participate to the fullest extent possible in approved educational activities, and that each trustee and staff member shall be expected to complete at least three endorsed educational activities each year. Be it further

“RESOLVED, that the board hereby encourages all trustees and staff to participate to the fullest extent possible in approved electronic delivery of educational opportunities. Be it further

“RESOLVED, that the board hereby encourages all trustees and staff to participate to the fullest extent possible in approved electronic delivery of educational opportunities. Be it further

“RESOLVED, that the board hereby authorizes the participation of trustees and staff in the educational activities of the State Association of County Retirement Systems (SACRS), the California Association of Public Retirement Systems (CALAPRS), the Government Finance Officers Association (GFOA), the Institute for Fiduciary Education (IFE), International Foundation of Employee Benefit Plans (IFEBP), the California Retired County Employees' Association, the Pacific Pension Institute (PPI), the Pension Real Estate Association (PREA) and the Wharton program for pension fiduciaries, to the extent that the budget provides funds for such participation. Be it further

“RESOLVED, that the board hereby approves the following recommended progression of courses for new trustees to complete within their first three-year term: (1) SACRS Fall or Spring Conference &/or CALAPRS General Assembly, (2) CALAPRS' Trustee Roundtables, (3) CALAPRS @ Stanford Principles of Pension Management, (4) SACRS Public Pensions Investment Management Program (5) IFEBP Certificates of Achievement in Public Plan Policy and (6) Wharton Pension Fund and Investment Management Program. Be it further

“RESOLVED, that the board hereby also approves the following programs for trustees with the recommendation that trustees complete the programs listed above in the 3rd Resolve Clause

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prior to participation in the following: Fiduciary Institute @ Stanford, IFEBP Public Funds Annual Conference, GFOA Annual Conference, Pension Real Estate Association Annual Conference and US-based programs of IFE & PPI. Be it further

“**RESOLVED**, that the board hereby authorizes the participation of trustees and staff in the educational activities of the CFA Institute (including membership dues), the Institute for International Research, the Public Pension Fund Forum, Investors Press, the Investment Risk Institute, the Institutional Investor Institute, the Information Management Network, Opal Financial Group, Frank Russell Company, Milliman USA, The Pension Bridge and Callan Associates, to the extent that the budget provides funds for such participation. Be it further

“**RESOLVED**, that participants may provide the board with a summary oral report on the content of educational activities, including a recommendation regarding *SamCERA's* participation in future activities offered by the same sponsor. Be it further

“**RESOLVED**, that, in addition to the organizations listed above, other educational activities which may be counted toward the board's educational requirement are subscriptions to *Pensions & Investments*, the *Public Retirement Journal*, or other pension, investment or financial publications; completion of recommended readings from SACRS or *SamCERA* reading lists; participation in due diligence activities to meet with and monitor service providers; and/or participation in SACRS or *SamCERA* sponsored mentoring programs. Be it further,

“**RESOLVED**, that the board authorizes the chief executive officer to enroll *SamCERA* as a pension fund member of the organizations set forth above and the National Conference of Public Employees Retirement Systems and to submit recommendations to the Board for additional educational activities, to the extent that the budget provides funds for such activities. Be it further,

“**RESOLVED**, that the board hereby authorizes the chief executive officer to allocate \$15,000 for each new trustee's education during each of his or her first two years in office and \$7,500 for each trustee's education during each subsequent year. Trustees who wish to exceed these allocations may request board approval for their participation in additional educational activities when placed on the agenda of a public meeting of the board. The cost of attending events sponsored by SACRS and CALAPRS will be paid by the association and not charged against the individual's education allocation. Be it further

“**RESOLVED**, that the board hereby authorizes the chairman to approve the participation and associated travel for trustees, the Treasurer's Constitutional alternate, the Safety Member alternate, the Retired Member alternate, and the chief executive officer in the educational activities of the organizations set forth above, to the extent that the budget provides funds for such activities. Be it further,

“**RESOLVED**, that the board hereby authorizes the chief executive officer to approve a progression of courses for staff, to approve the participation and associated travel of staff in the educational activities of the organizations set forth above, to the extent that the chief executive officer finds that such participation will contribute to the staff member's ability to perform her or his duties and the budget provides funds for such activities. Be it further

“**RESOLVED**, that the board may approve participation in additional educational activities when placed on the agenda of a public meeting of the board.”

1103.7.6 **Approval of Expenditures for Board Meeting Security:** Mr. Bailey said that at the February board meeting, trustees indicated that it would be appropriate to have security at

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future board meetings. Staff contacted County Sheriff Greg Munks and arranged to have a uniformed officer attend all future board meetings. The total estimated cost for a four-hour board meeting will be \$352.68. The estimated cost for the current fiscal year will be \$2,468.76. The cost of security will be included in the 2011/2012 budget projections.

Motion by Bowler, second by Arnott, carried unanimously to approve the expenditure of funds for security at *SamCERA* board meetings.

1103.7.7 **Introduction of *SamCERA*'s Sources, Uses & Budget for Fiscal Year 2011/2012:** Mr. Clifton provided an update on the status of *SamCERA*'s 2011/2012 proposed budgets. A legislative bill was recently approved to allow 1937 Act systems to cap administrative expenses at 21 basis points of accrued liability instead of the previous 23 basis points of assets. IT and consulting expenses are excluded from the budget cap. During the past three budget cycles, *SamCERA* has had three budgets: (1) professional expenses budget, (2) administrative expenses budget, and the (3) asset management expenses budget. For the upcoming fiscal year, there will be a fourth budget – Information Technology. Mr. Clifton then discussed other key aspects of next fiscal year's budget. The final budget will be presented for board approval in May.

1103.8 **Management Reports**

1103.8.1 **Chief Executive Officer's Report:** Mr. Bailey said that two individuals have submitted applications for the currently vacant Ninth member seat on the Board of Retirement. The applications will be reviewed by the Board of Supervisors. Mr. Bailey briefly discussed the addition of new retirement tiers and employee COLA cost-sharing, as a result of recent union negotiations. Ms. Smith, Retirement Benefits Manager, will present the upcoming retirement structure changes to the board at the April retreat. Mr. Bailey said he included in the board members' folders various newspaper articles regarding the cost of retirement system from a broad range of perspectives and opinions. He also included a SACRS memo regarding the slate of officers of the SACRS board. He also announced that Karen Steffen, of *SamCERA*'s actuary, Milliman, Inc., was scheduled to retire on March 31st. Nick Collier, has been performing most of the work for *SamCERA*.

1103.8.2 **Assistant Executive Officer's Report:** Mr. Hood distributed an informational flyer for the upcoming Financial Knowledge Network (FKN) courses, the last of the fiscal year. Staff and FKN will analyze attendance statistics in order to improve attendance. Mr. Hood provided a status update on the acquisition of office space across the hall from the current board room. He reported that staff has signed the lease for the new space and intends to have the new board room ready in the newly acquired space by the May meeting. Mr. Hood said that Mr. Ali, Mr. Hawkins and himself will be attending the Public Retirement Information Systems Management (PRISM) conference in April. Mr. Ali will be conducting a presentation on the use of the iPad for board meetings. Mr. Hood then said that staff is in the process of conducting interviews for the Retirement Communications Specialist position. He also said that the county is going through employee lay-offs, including some with early retirement incentives.

1103.8.3 **Chief Investment Officer's Report:** Mr. Clifton reported that the documentation for one of the ABRY private equity funds that was approved at the February board meeting, was ready to be executed by the board chair. He then said that he received a letter from the association's

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

custodian, State Street, regarding the transparency of foreign exchange transactions. He also received a letter from Pyramis regarding recent changes to the firm's business structure. Art Greenwood, *SamCERA's* previous client relationship manager, will now be focused on new business development. Sue Curran, will now be *SamCERA's* client relationship manager.

1103.8.4 **County Counsel's Report:** None.

1103.9 **Report on Actions Taken in Closed Session:**

First Closed Session:

Mr. Silberman reported that Mr. David took the board meeting into closed session, with all trustees present for roll call in attendance.

The board unanimously found **Eugenia Verbeckmoes** unable to perform her usual and customary duties as a Principal Appraiser and granted her application for a service-connected disability retirement. Ms. Kwan Lloyd abstained from the vote.

Mr. David then adjourned the closed session and took up agenda item 6.1.

Second Closed Session:

Mr. Silberman reported that Mr. David took the board meeting into closed session, with all trustees present for roll call in attendance, except for Mr. Tashman and Ms. Arnott. The board met in closed session for the Public Employee Performance Evaluation in accordance with Government Code section 54957 Title: Chief Executive Officer.

No action was taken.

Mr. David then adjourned the closed session and took up agenda item 10.0

1103.10 **Adjournment in Memory of Deceased Members:** There being no further business, Ms. Arnott adjourned the meeting at 5:10 p.m., in memory of the following deceased members:

Dundas, Malcolm	February 2, 2011	Housing Authority
Bryant, Luberta	February 3, 2011	San Mateo Medical Center
Panero, Joseph	February 5, 2011	Sheriff's Department
Lombardo, Grace	February 8, 2011	Superior Court
Ryser, Hans	February 9, 2011	Engineering Department
Davis, Elizabeth	February 18, 2011	San Mateo Medical Center
Schoenneauer, Harlan	February 18, 2011	Assessor's Office
Lusnich, Edward	February 19, 2011	Information Systems
Gagliani, Josephine	February 22, 2011	Business Administration
Revo, Helen	February 26, 2011	Environmental Health
Smith, Rex	February 27, 2011	District Attorney's Office

AL DAVID, CHAIR

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

April 26, 2011

Agenda Item 4.0 (a)

To: Board of Retirement
From: Gladys Smith, Retirement Benefits Manager
Subject: Approval of Consent Agenda

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

Disability Retirements

1. Board finds that **Oscar Campos** is unable to perform his usual and customary duties as a Equipment Mechanic II and (2) grants his application for a service-connected disability retirement.

Service Retirements

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

Member Name	Effective Retirement Date	Department
Franklyn, Bernard	January 8, 2011	Aging & Adult Services
Kamiya, Stanley	February 8, 2011	Mosquito Abatement
Keenan, Loretta	February 10, 2011	Behavioral Health Services
Reith, Sunia	February 12, 2011	San Mateo Medical Center
Street, Michael	February 16, 2011	Sheriff's Office
Pesso, Kenneth	February 19, 2011	Probation
Talcove, Davida	February 26, 2011	San Mateo Medical Center

Continuances

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

Member Name	Beneficiary of:
Panero, Anna	Panero, Joseph
Thomas, Lance	Thomas, Billie

Deferred Retirements

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

Member Name	Retirement Plan Type
Yamani, David	G4 - Vested

Member Account Refunds

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

Member Name	Retirement Plan Type
Cassin, Michael	G4 Non-vested
Gomez, Danielle	G4 Non-vested
Kerr, Valerie	G4 Non-vested
Magat, Maria	G4 Non-vested
Stuart, Elizabeth	G4 Non-vested

Member Account Rollovers

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

Member Name	Retirement Plan Type
Bokser, Julie	G4 Non-vested
Hoang, Rosalind	G4 Vested
Morales, Anthony	G4 Non-vested

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

April 26, 2011

Agenda Item 4.0

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer



SUBJECT: SACRS Recommended Ballot -- 2011-12 Officers

Issue

The SACRS Nominating Committee's candidate for SACRS President has withdrawn. The committee and Orange County have submitted new recommended slates of officers for the 2011-12 year.

Background

The Nominating Committee's Recommended ballot was provided to the board at the March 29, 2011, board meeting. However, the nominee for SACRS President has withdrawn his name and Orange County has submitted the name of current President Rich White to complete the ballot. Mr. White has served as SACRS President for two previous terms.

The attached memo from the SACRS Nominating Committee Chair provides more detail.

Staff Recommendation

This is an information-only item. The *SamCERA* Voting Delegate is authorized to utilize his/her best judgment in voting at the SACRS Business Meeting. Therefore, no action is required.



SACRS MEMORANDUM

April 1, 2011

Attn: SACRS Administrators

**From: Raymond McCray, SACRS Nominating Committee Chair
SACRS Nominating Committee**

Re: SACRS Board of Director Elections – Final Ballot

Per SACRS Bylaws, Article VI ~ Section 2 – Election, Qualification and Term of Office

“The officers of SACRS shall be regular members of SACRS. The officers shall be elected by majority vote of the quorum of delegates and alternate delegates present at the first meeting in each calendar year and shall hold office for one (1) year and until a successor is elected.”

Per SACRS Bylaws, Article VI ~Section 4 - Officer Elections

“...The Board of any regular member County Retirement System may submit write-in candidates to be included in the Nominating Committee’s final ballot provided the Nominating Committee receives those write-in candidates prior to March 25th.

The Nominating Committee will report a final ballot to each regular member County Retirement System prior to April 1.

The Administrator of each regular member County Retirement System shall be responsible for communicating the Nominating Committee’s recommended ballot and final ballot to each trustee and placing the election of SACRS Officers on his or her Board agenda. The Administrator shall acknowledge the completion of these responsibilities with the Nominating Committee...”

SACRS Nomination committee received notice from a candidate listed on the original March 1st, 2011 recommended ballot requesting that his name be withdrawn from the election. Therefore the Nomination committee ballot has been amended and is being presented for consideration with a vacancy.

OCERS submitted an alternate slate for consideration to the Nomination Committee, and does not have any vacancies.

Below are 2 ballots – As in the past, a voting delegate may entertain a motion to vote by individual officer positions or by complete ballot/slate. Please be sure to authorize your voting delegate to vote either way.

- SACRS Nominating Committee ballot for the annual SACRS Board of Directors elections.
- OCERS ballot for the annual SACRS Board of Directors election.



The elections will be held at the upcoming SACRS Spring Conference May 10-13, 2011 at Fess Parker Doubletree Hotel & Resort, Santa Barbara, CA. Elections will be held during the Annual Business meeting on Friday, May 13th, 2011 at 9:30 a.m.

Please distribute the ballots/slates to all standing/eligible board members for approval and authorization for your voting delegate. As stated above, Administrators are required to send acknowledgement of completion to our office at sulema@sacrs.org .

SACRS Nominating Committee Recommended 2011-2012 Nominees/Candidates:

President	Vacant
Vice President	Doug Rose, San Diego County
Treasurer	Vanessa Patterson, Santa Barbara County
Secretary	Yves Chery, Los Angeles County

OCERS Recommended 2011-2012 Nominees/Candidates:

President	Richard White, Orange County
Vice President	Doug Rose, San Diego County
Treasurer	Vanessa Patterson, Santa Barbara County
Secretary	Yves Chery, Los Angeles County

If you have any questions or require assistance, please contact me directly at 209-468-2163 or raym1@sbcglobal.net . Thank you for your prompt attention to this timely matter.

Sincerely,

Raymond McCray

Raymond McCray, San Joaquin County
SACRS Nominating Committee Chair

CC: SACRS Board of Directors
SACRS Nominating Committee Members
Sulema H. Peterson, SACRS Administrator

Attachment

RMC:shp

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

April 26, 2011

Agenda Item 6.1

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

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

COMMENT: *SamCERA's* 0.62% Total Fund Return for the month slightly outperformed the Total Plan Policy Benchmark return of 0.45%.

The fund's return for the trailing twelve months and twenty-four months are 14.29% and 24.09% respectively. The twelve-month period is 654 basis points (bps) above the Actuarial Discount Rate of 7.75%. However, for the same period the total fund return is 45 basis points behind *SamCERA's* Total Plan Policy Benchmark of 14.74%. The outperformance is evenly attributed to the equity and fixed income portfolios. As a reminder, *SamCERA* should expect to underperform the Total Plan Policy Benchmark for some time while its alternative allocation is being fully implemented.

Since the market lows more than two years ago, financial markets have withstood many assaults on confidence from continued wars, concern about double dips, currency instability, sovereign financial crises, conflict between North and South Korea, and more recently rising oil prices, uprisings across the Middle East and North Africa, natural and nuclear disasters in Japan, even US government debts and deficits. Still, the markets have advanced nicely over the two-year period, including strong performance in the first quarter of 2011.

Easy monetary policy and effective corporate restructurings have been a one two punch too powerful for those outside events to overcome. Improved demand, rising corporate profit margins, and even employment data have sustained the lift to financial markets. Up next: first quarter corporate earnings and commentary about how companies see the balance of the year. If the recovery is real and these outside events are temporary, then the glass may still be half full. But if easy money yields to rising interest rates, fiscal stimulus is replaced by government austerity, and rising prices sap still fragile consumer confidence, then the first quarter market advance could be lost to retrenchment.

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Below is an overview of the investment manager performance for selected periods:

Portfolio	Trailing One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
BlackRock Russell 1000	0.26%	6.25%	18.16%	16.77%
D.E. Shaw Investment Management, LLC	0.04%	5.25%	17.27%	13.93%
T. Rowe Price Associates	-0.19%	5.82%	17.45%	14.61%
Barrow, Hanley, Mewhinney & Strauss	0.70%	7.72%	19.33%	16.54%
BlackRock Capital Management, Inc.	0.44%	4.40%	19.27%	20.84%
Large Cap Aggregate	0.30%	5.96%	18.41%	16.08%
The Boston Company	2.58%	7.71%	21.24%	18.50%
Chartwell Investment Partners	5.25%	14.11%	30.70%	36.82%
Jennison Associates	2.95%	9.15%	28.14%	30.41%
Small Cap Aggregate	3.45%	10.06%	27.20%	29.13%
Artio Global Investors	1.22%	2.19%	8.60%	11.00%
Mondrian Investment Partners	-0.61%	3.79%	7.62%	10.55%
International Aggregate	0.30%	2.98%	8.11%	10.77%
Total Equity	0.80%	5.69%	16.41%	16.27%
Aberdeen Asset Management	0.19%	1.53%	0.96%	8.25%
Angelo Gordon	0.00%	8.10%	21.17%	35.38%
Brigade Capital Management	0.63%	4.36%	7.66%	N/A
Brown Brothers Harriman	0.98%	1.99%	0.70%	N/A
Franklin Templeton	1.74%	3.42%	N/A	N/A
Pyramis Global Advisors	0.11%	1.03%	0.48%	7.14%
Western Asset Management	0.02%	1.40%	1.31%	9.09%
Total Fixed Income	0.50%	2.38%	2.79%	10.41%
Private Equity (1)	-53.69%	N/A	N/A	N/A
AQR's Risk Parity	N/A	N/A	N/A	N/A
Hedge Funds	N/A	N/A	N/A	N/A
Commodities	N/A	N/A	N/A	N/A
Total Alternative Investments	0.00%	N/A	N/A	N/A
Invesco Realty Advisors	0.00%	0.00%	4.62%	16.38%
Cash	0.09%	0.17%	0.46%	1.06%
Total Portfolio	0.62%	4.30%	11.45%	14.29%

- (1) On 9-30-2010 *SamCERA* committed to its first private equity investment. The fund's, Sheridan Production Partners II-B, L.P., investment objective is to make investments in hydrocarbon producing properties in the United States and the offshore waters thereof (other than the federal offshore waters thereof).

San Mateo County

Summary of Fund Performance With 4 Years

Rates of Return Total

Periods Ending March 31, 2011



STATE STREET

	MKT VAL	1 Month	QTR	6 Month s	FYTD	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	ITD	INCEPT. DATE
DOMESTIC EQUITY													
BLACKROCK RUSSELL 1000 INDEX FUND	204,356,600	0.26	6.25	18.16	31.81	16.77	33.11	3.06	0.89	3.00	3.87	8.53	04/01/1995
DE SHAW INVESTMENT MGT, LLC	110,874,516	0.04	5.25	17.27	29.15	13.93						21.81	08/01/2009
<i>RUSSELL 1000</i>		0.26	6.24	18.13	31.77	16.69	33.01	2.98	0.82	2.93	3.83		
T. ROWE PRICE ASSOCIATES	110,065,166	-0.19	5.82	17.45	30.19	14.61						21.06	08/01/2009
<i>S&P 500</i>		0.04	5.92	17.31	30.56	15.65						21.80	
BARROW HANLEY	170,829,084	0.70	7.72	19.33	32.60	16.54						23.31	08/01/2009
<i>RUSSELL 1000 VALUE</i>		0.40	6.46	17.68	29.60	15.15						22.41	
BLACKROCK	174,226,422	0.44	4.40	19.27	36.14	20.84						24.93	08/01/2009
<i>RUSSELL 1000 GROWTH</i>		0.12	6.03	18.57	33.99	18.26						23.51	
LARGE CAP AGGREGATE	770,351,788	0.30	5.96	18.41	32.26	16.08	32.27	2.62	-0.42	1.83	3.53	8.32	04/01/1995
<i>RUSSELL 1000</i>		0.26	6.24	18.13	31.77	16.69	33.01	2.98	0.82	2.93	3.83	8.50	
BOSTON COMPANY ASSET MGT, LLC	52,057,956	2.58	7.71	21.24	31.80	18.50						26.91	08/01/2009
<i>RUSSELL 2000 VALUE</i>		1.39	6.60	22.97	34.93	20.63						28.20	
CHARTWELL INVESTMENT MGMT	61,441,791	5.25	14.11	30.70	52.11	36.82	48.03	7.80	5.19	4.20		7.75	12/01/2004
<i>RUSSELL 2000 GROWTH</i>		3.75	9.24	27.93	44.35	31.04	44.94	10.16	5.04	4.34		6.90	
JENNISON ASSOCIATES	124,306,487	2.95	9.15	28.14	43.42	30.41	47.15	11.10				11.10	04/01/2008
SMALL CAP AGGREGATE	237,806,234	3.45	10.06	27.20	42.77	29.13	49.25	6.61	-0.25	0.72	6.19	5.70	07/01/1999
<i>RUSSELL 2000</i>		2.59	7.94	25.48	39.65	25.79	43.08	8.56	2.72	3.35	7.87	6.71	
DOMESTIC EQUITY AGGREGATE	1,008,158,022	1.02	6.88	20.30	34.51	18.80	35.46	3.51	-0.27	1.70	4.12	7.57	07/01/1995
<i>SAMCERA DOMESTIC EQUITY BENCHMA</i>		0.80	6.64	19.65	33.43	18.58	35.09	4.17	1.27	3.08	4.71		
INTERNATIONAL EQUITY													
ARTIO GLOBAL INVESTOR	224,593,167	1.22	2.19	8.60	25.33	11.00	28.34	-5.68	-3.81	0.96		6.17	12/01/2004

San Mateo County

Summary of Fund Performance With 4 Years

Rates of Return Total

Periods Ending March 31, 2011



STATE STREET

	MKT VAL	1 Month	QTR	6 Month s	FYTD	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	ITD	INCEPT. DATE
<i>MSCI ACWI ex US GROWTH (GROSS)</i>		0.40	2.35	10.72	29.70	15.06	34.26	-0.75	0.94	4.18		8.11	
MONDRIAN INVESTMENT PARTNERS	223,072,241	-0.61	3.79	7.62	25.08	10.55	28.17	-1.91	-1.30	3.47		7.16	12/01/2004
<i>MSCI ACWI EX US VALUE (GROSS)</i>		-0.78	4.65	11.22	29.20	12.10	36.81	-0.06	-0.30	3.87		8.01	
TOTAL INTERNATIONAL EQUITY	447,665,408	0.30	2.98	8.11	25.21	10.77	28.26	-3.78	-2.53	2.23	5.47	6.42	10/01/1996
<i>MSCI AC WORLD ex US (GROSS)</i>		-0.19	3.49	10.99	29.48	13.61	35.52	-0.38	0.35	4.05	7.84	6.34	
TOTAL EQUITY AGGREGATE	1,455,823,430	0.80	5.69	16.41	31.60	16.27	33.35	1.26	-0.91	1.78	4.41	7.46	04/01/1995
<i>SAMCERA TOTAL EQUITY BENCHMARK</i>		0.46	5.56	16.77	32.08	16.96	35.26	2.79	1.05	3.30	5.45		
PRIVATE EQUITY													
SHERIDAN PRODUCTION PARTNERS	255,000	-53.69	-53.69									-53.69	11/01/2010
TOTAL PRIVATE EQUITY	255,000	-53.69	-53.69									-53.69	11/01/2010
<i>PRIVATE EQUITY BENCHMARK</i>		0.70	7.16	20.43									
OTHER													
AQR GLOBAL RISK PREM III LP	140,000,000	0.00										0.00	03/01/2011
TOTAL RISK PARITY	140,000,000	0.00										0.00	03/01/2011
<i>RISK PARITY BENCHMARK</i>		0.29	3.98	10.57									
DOMESTIC FIXED INCOME													
ABERDEEN ASSET MANAGEMENT	119,910,965	0.19	1.53	0.96	4.48	8.25	14.90	4.44	3.85	4.51	5.15	5.92	06/01/2000
WESTERN ASSET MGMT	113,844,260	0.02	1.40	1.31	5.59	9.09	15.58	7.60	5.98	6.28		5.56	11/01/2004
PYRAMIS GLOBAL ADVISORS	110,460,660	0.11	1.03	0.48	3.58	7.14	12.41	7.36	6.28	6.40		6.08	02/01/2006
ANGELO GORDON GECC PPI FUND	41,141,453	0.00	8.10	21.17	34.68	35.38						39.01	12/01/2009
<i>BC AGGREGATE</i>		0.06	0.42	-0.88	1.57	5.12	6.40	5.30	5.88	6.03	5.56		

San Mateo County

Summary of Fund Performance With 4 Years

Rates of Return Total

Periods Ending March 31, 2011



STATE STREET

	MKT VAL	1 Month	QTR	6 Month s	FYTD	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	ITD	INCEPT. DATE
BROWN BROTHERS HARRIMAN & CO	46,809,411	0.98	1.99	0.70								3.53	08/01/2010
<i>BARCLAYS US TIPS INDEX</i>		1.02	2.06	1.38								3.78	
BRIGADE CAPITAL MANAGEMENT	49,406,670	0.63	4.36	7.66								9.79	08/01/2010
<i>BC BA INTERMEDIATE HIGH YIELD INDEX</i>		0.45	3.18	4.93								8.33	
INTERNATIONAL FIXED INCOME													
FRANKLIN TEMPLETON INVESTMENTS	103,382,627	1.74	3.42									3.42	01/01/2011
<i>BC MULTIVERSE</i>		0.49	1.35									1.35	
TOTAL FIXED INCOME													
TOTAL FIXED INCOME AGGREGATE	584,956,046	0.50	2.38	2.79	6.88	10.41	15.63	7.31	6.00	6.24	5.90	6.10	01/01/1996
<i>SAMCERA TOTAL FIXED INCOME BENCH</i>		0.29	0.98	-0.23	2.24	5.81	6.75	5.53	6.06	6.16	5.63	5.76	
REAL ESTATE													
INVESCO REAL ESTATE	122,302,877	0.00	0.00	4.62	12.40	16.38	-6.32	-9.34	-4.70	-0.60		4.14	10/01/2004
TOTAL REAL ESTATE AGGREGATE	122,302,877	0.00	0.00	4.62	12.40	16.38	-6.32	-9.34	-4.70	-0.60	6.02	6.87	01/01/1997
<i>REAL ESTATE BENCHMARK</i>		0.00	0.00	4.62	10.41	15.06	-4.17	-9.56	-4.25	-0.41	5.46	6.86	
CASH EQUIVALENTS													
SAMCERA GENERAL ACCOUNT	733,575	0.02	0.05	0.10	0.16	0.20	0.25	0.77	1.80	2.51	2.38	2.90	07/01/1999
SAMCERA TREASURY & LAIF	2,060,786	0.08	0.24	0.54	0.86	1.13	1.19	-0.37	0.83	1.38	2.35	3.51	07/01/1994
TOTAL CASH AGGREGATE	2,794,361	0.08	0.17	0.46	0.79	1.06	1.10	-0.10	0.98	1.67	2.29	2.78	07/01/1999
<i>91 DAY T-BILL</i>		0.03	0.05	0.09	0.13	0.16	0.17	0.51	1.53	2.23	2.24	2.77	

San Mateo County

Summary of Fund Performance With 4 Years

Rates of Return Total

Periods Ending March 31, 2011



STATE STREET

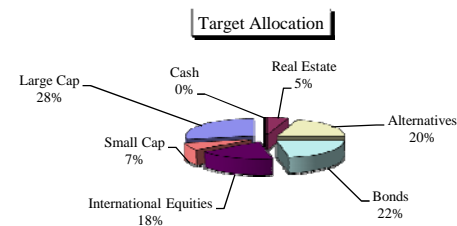
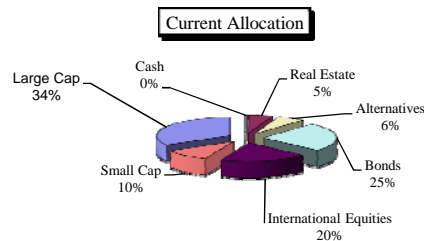
	MKT VAL	1 Month	QTR	6 Month s	FYTD	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	ITD	INCEPT. DATE
TOTAL FUND													
TOTAL FUND	2,306,131,714	0.62	4.30	11.45	22.24	14.29	24.09	2.50	1.02	3.08	5.28		10/01/1993
SAMCERA TOTAL PLAN POLICY BENCHM		0.45	4.13	11.81	22.83	14.74	25.13	3.60	2.74	4.39	5.91	7.28	
ACTUARIAL DISCOUNT RATE		0.62	1.88	3.80	5.76	7.75	7.75	7.75	7.75	7.76	7.94		

San Mateo County Employees' Retirement Association
 Monthly Performance Review
 Period Ending March 31, 2011

Actual versus Target Allocation

Portfolio	Market Value	Allocation		Percentage Off Target	Rebalance Range
		Current	Target *		
BlackRock Russell 1000	\$204,356,600	8.86%	6.50%	2.36%	±3%
D.E. Shaw Investment Management, LLC	\$110,874,516	4.81%	4.25%	0.56%	±3%
T. Rowe Price Associates	\$110,065,166	4.77%	4.25%	0.52%	±3%
Barrow, Hanley, Mewhinney & Strauss	\$170,829,084	7.41%	6.50%	0.91%	±3%
BlackRock Capital Management, Inc.	\$174,226,422	7.55%	6.50%	1.05%	±3%
Large Cap Aggregate	\$770,351,788	33.40%	28.00%	5.40%	
The Boston Company	\$52,057,956	2.26%	1.75%	0.51%	±3%
Chartwell Investment Partners	\$61,441,791	2.66%	1.75%	0.91%	±3%
Jennison Associates	\$124,306,487	5.39%	3.50%	1.89%	±3%
Small Cap Aggregate	\$237,806,234	10.31%	7.00%	3.31%	
Artio Global Investors	\$224,593,167	9.74%	9.00%	0.74%	±3%
Mondrian Investment Partners	\$223,072,241	9.67%	9.00%	0.67%	±3%
International Aggregate	\$447,665,408	19.41%	18.00%	1.41%	±3%
Total Equity	\$1,455,823,430	63.13%	53.00%	10.13%	
Aberdeen Asset Management	\$119,910,965	5.20%	3.75%	1.45%	±2%
Angelo Gordon	\$41,141,453	1.78%	1.63%	0.16%	±2%
Brigade Capital Management	\$49,406,670	2.14%	1.63%	0.52%	±2%
Brown Brothers Harriman	\$46,809,411	2.03%	3.00%	-0.97%	±2%
Franklin Templeton	\$103,382,627	4.48%	4.50%	-0.02%	±2%
Pyramis Global Advisors	\$110,460,660	4.79%	3.75%	1.04%	±2%
Western Asset Management Company	\$113,844,260	4.94%	3.75%	1.19%	±2%
Total Fixed Income	\$584,956,047	25.37%	22.00%	3.37%	
Private Equity	\$255,000	0.01%	8.00%	-7.99%	N/A
Risk Parity	\$140,000,000	6.07%	6.00%	0.07%	N/A
Hedge Funds	\$0	0.00%	3.00%	-3.00%	N/A
Comodities	\$0	0.00%	3.00%	-3.00%	N/A
Alternative Investments	\$140,255,000	6.08%	20.00%	-13.92%	
INVESCO Realty Advisors	\$122,302,877	5.30%	5.00%	0.30%	±2%
Cash	\$2,794,361	0.12%	0.00%	0.12%	
Total	\$2,306,131,715	100.00%	100.00%		

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



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Change in Portfolio Market Value by Manager

Portfolio	Current Month	Prior Month	% Change (1)	Prior Year	% Change (1)
BlackRock Russell 1000	\$204,356,600	\$254,137,389	-19.6%	\$141,563,849	44.4%
AXA Rosenberg Investment Management, LLC	\$0	\$0	0.0%	\$96,140,203	-100.0%
D.E. Shaw Investment Management, LLC	\$110,874,516	\$110,835,385	0.0%	\$97,315,547	13.9%
T. Rowe Price Associates	\$110,065,166	\$110,277,229	-0.2%	\$96,037,331	14.6%
Barrow, Hanley, Mewhinney & Strauss	\$170,829,084	\$169,648,680	0.7%	\$146,578,042	16.5%
BlackRock Capital Management, Inc.	\$174,226,422	\$173,468,616	0.4%	\$144,181,192	20.8%
Large Cap Aggregate	\$770,351,788	\$818,367,299	-5.9%	\$721,816,164	6.7%
The Boston Company	\$52,057,956	\$50,747,328	2.6%	\$43,931,910	18.5%
Chartwell Investment Partners	\$61,441,791	\$58,376,520	5.3%	\$44,906,850	36.8%
Jennison Associates	\$124,306,487	\$120,744,385	3.0%	\$95,316,501	30.4%
Small Cap Aggregate	\$237,806,234	\$229,868,233	3.5%	\$184,155,261	29.1%
Artio Global Investors	\$224,593,167	\$221,893,970	1.2%	\$202,353,056	11.0%
Mondrian Investment Partners	\$223,072,241	\$224,431,664	-0.6%	\$201,791,476	10.5%
International Aggregate	\$447,665,408	\$446,325,634	0.3%	\$404,144,532	10.8%
Total Equity	\$1,455,823,430	\$1,494,561,166	-2.6%	\$1,310,115,957	11.1%
Aberdeen Asset Management	\$119,910,965	\$119,679,902	0.2%	\$161,015,967	-25.5%
Angelo Gordon	\$41,141,453	\$39,908,551	3.1%	\$14,604,338	N/A
Brigade Capital Management	\$0	\$49,096,485	N/A	\$0	N/A
Brown Brothers Harriman	\$46,809,411	\$46,355,657	N/A	\$0	N/A
Franklin Templeton	\$103,382,627	\$101,626,367	N/A	\$0	N/A
Pyramis Global Advisors	\$110,460,660	\$90,335,386	22.3%	\$159,671,492	-30.8%
Western Asset Management Company	\$113,844,260	\$88,822,715	28.2%	\$164,928,489	-31.0%
Total Fixed Income	\$584,956,047	\$535,825,063	9.2%	\$500,220,286	16.9%
Private Equity	\$255,000	\$250,000	2.0%	\$0	N/A
Risk Parity	\$140,000,000	\$45,000,000	211.1%	\$0	N/A
Hedge Funds	\$0	\$0	N/A	\$0	N/A
Comodities	\$0	\$0	N/A	\$0	N/A
Alternative Investments	\$140,255,000	\$45,250,000	N/A	\$0	N/A
INVESCO Realty Advisors	\$122,302,877	\$122,302,877	0.0%	\$106,113,595	N/A
Cash	\$2,794,361	\$102,288,930	-97.3%	\$43,555,577	-93.6%
Total	\$2,306,131,715	\$2,300,228,036	0.3%	\$1,960,005,415	17.7%

Change in Asset Allocation by Asset Class

	Current Month	Prior Month	Absolute Change	Prior Year	Absolute Change
Total Equity	63.1%	65.0%	-1.8%	66.8%	-3.7%
Total Fixed Income	25.4%	23.3%	2.1%	25.5%	-0.2%
Alternative Investments	6.1%	2.0%	4.1%	0.0%	6.1%
Real Estate	5.3%	5.3%	0.0%	5.4%	-0.1%
Cash	0.1%	4.4%	-4.3%	2.2%	-2.1%
Total	100.0%	100.0%		100.0%	

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Aggregate Performance

	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months	Fiscal Year to Date (1)	Two Years	Three Years	Five Years	Ten Years
						Nine Months				
Equity Aggregate	\$1,455,823,430	0.80%	5.69%	16.41%	16.27%	31.60%	33.35%	1.26%	1.78%	4.41%
Equity Composite Benchmark		0.46%	5.56%	16.77%	16.96%	32.08%	35.26%	2.79%	3.30%	5.45%
Variance		0.34%	0.13%	-0.36%	-0.69%	-0.48%	-1.91%	-1.53%	-1.52%	-1.04%
Private Equity Aggregate	\$255,000	-53.69%	-53.69%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private Equity Composite Benchmark		0.70%	7.16%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Variance		-54.39%	-60.85%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fixed Income Aggregate	\$584,956,047	0.50%	2.38%	2.79%	10.41%	6.88%	15.63%	7.31%	6.24%	5.90%
Fixed Income Composite Benchmark		0.29%	0.98%	-0.23%	5.81%	2.24%	6.75%	5.53%	6.16%	5.63%
Variance		0.21%	1.40%	3.02%	4.60%	4.64%	8.88%	1.78%	0.08%	0.27%
Real Estate Aggregate (2)	\$122,302,877	0.00%	0.00%	4.62%	16.38%	12.40%	-6.32%	-9.34%	-0.60%	6.02%
NCREIF NFI ODCE EW (Gross)		0.00%	0.00%	4.62%	15.06%	10.41%	-4.17%	-9.56%	-0.41%	5.46%
Variance		0.00%	0.00%	0.00%	1.32%	1.99%	-2.15%	0.22%	-0.19%	0.56%
Cash Aggregate	\$2,794,361	0.08%	0.17%	0.46%	1.06%	0.79%	1.10%	-0.10%	1.67%	2.29%
91 Day Treasury Bill		0.03%	0.05%	0.09%	0.16%	0.13%	0.17%	0.51%	2.23%	2.24%
Variance		0.05%	0.12%	0.37%	0.90%	0.66%	0.93%	-0.61%	-0.56%	0.05%
Risk Parity Aggregate	\$140,000,000	0.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Risk Parity Composite Benchmark		0.29%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Variance		-0.29%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Fund Returns	\$2,306,131,715	0.62%	4.30%	11.45%	14.29%	22.24%	24.09%	2.50%	3.08%	5.28%
Total Plan Policy Benchmark		0.45%	4.13%	11.81%	14.74%	22.83%	25.13%	3.60%	4.39%	5.91%
Variance		0.17%	0.17%	-0.36%	-0.45%	-0.59%	-1.04%	-1.10%	-1.31%	-0.63%

Performance versus Actuarial Discount Rate

Total Fund Returns	\$2,306,131,715	0.62%	4.30%	11.45%	14.29%	22.24%	24.09%	2.50%	3.08%	5.28%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%	5.76%	7.75%	7.75%	7.76%	7.94%
Variance		0.00%	2.42%	7.65%	6.54%	16.48%	16.34%	-5.25%	-4.68%	-2.66%

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

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

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Manager & Benchmark Performance

Manager Performance

(1)

Portfolio	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months	Fiscal Year to Date Nine Months	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
BlackRock Russell 1000	0.26%	6.25%	18.16%	16.77%	31.81%	16.77%	33.11%	3.06%	0.89%	3.00%	3.87%
D.E. Shaw Investment Management, LLC	0.04%	5.25%	17.27%	13.93%	29.15%	13.93%	N/A	N/A	N/A	N/A	N/A
T. Rowe Price Associates	-0.19%	5.82%	17.45%	14.61%	30.19%	14.61%	N/A	N/A	N/A	N/A	N/A
Barrow, Hanley, Mewhinney & Strauss	0.70%	7.72%	19.33%	16.54%	32.60%	16.54%	N/A	N/A	N/A	N/A	N/A
BlackRock Capital Management, Inc.	0.44%	4.40%	19.27%	20.84%	36.14%	20.84%	N/A	N/A	N/A	N/A	N/A
Large Cap Aggregate	0.30%	5.96%	18.41%	16.08%	32.26%	16.08%	32.27%	2.62%	-0.42%	1.83%	3.53%
The Boston Company	2.58%	7.71%	21.24%	18.50%	31.80%	18.50%	N/A	N/A	N/A	N/A	N/A
Chartwell Investment Partners	5.25%	14.11%	30.70%	36.82%	52.11%	36.82%	48.03%	7.80%	5.19%	4.20%	N/A
Jennison Associates	2.95%	9.15%	28.14%	30.41%	43.42%	30.41%	47.15%	11.10%	N/A	N/A	N/A
Small Cap Aggregate	3.45%	10.06%	27.20%	29.13%	42.77%	29.13%	49.25%	6.61%	-0.25%	0.72%	6.19%
Artio Global Investors	1.22%	2.19%	8.60%	11.00%	25.33%	11.00%	28.34%	-5.68%	-3.81%	0.96%	N/A
Mondrian Investment Partners	-0.61%	3.79%	7.62%	10.55%	25.08%	10.55%	28.17%	-1.91%	-1.30%	3.47%	N/A
International Aggregate	0.30%	2.98%	8.11%	10.77%	25.21%	10.77%	28.26%	-3.78%	-2.53%	2.23%	5.47%
Total Equity	0.80%	5.69%	16.41%	16.27%	31.60%	16.27%	33.35%	1.26%	-0.91%	1.78%	4.41%
Aberdeen Asset Management	0.19%	1.53%	0.96%	8.25%	4.48%	8.25%	14.90%	4.44%	3.85%	4.51%	5.15%
Angelo Gordon	0.00%	8.10%	21.17%	35.38%	34.68%	35.38%	N/A	N/A	N/A	N/A	N/A
Brigade Capital Management	0.63%	4.36%	7.66%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Brown Brothers Harriman	0.98%	1.99%	0.70%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Franklin Templeton	1.74%	3.42%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Pyramis Global Advisors	0.11%	1.03%	0.48%	7.14%	3.58%	7.14%	12.41%	7.36%	6.28%	6.40%	N/A
Western Asset Management Company	0.02%	1.40%	1.31%	9.09%	5.59%	9.09%	15.58%	7.60%	5.98%	6.28%	N/A
Total Fixed Income	0.50%	2.38%	2.79%	10.41%	6.88%	10.41%	15.63%	7.31%	6.00%	6.24%	5.90%
Private Equity	-53.69%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Risk Parity	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Hedge Funds	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Comodities	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Alternative Investments	0.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
INVESCO Realty Advisors	0.00%	0.00%	4.62%	16.38%	12.40%	16.38%	-6.32%	-9.34%	-4.70%	-0.60%	6.02%
Cash	0.08%	0.17%	0.46%	1.06%	0.79%	1.06%	1.10%	-0.10%	0.98%	1.67%	2.29%
Total	0.62%	4.30%	11.45%	14.29%	22.24%	14.29%	24.09%	2.50%	1.02%	3.08%	5.28%

Benchmark Performance

Russell 1000	0.26%	6.24%	18.13%	16.69%	31.77%	16.69%	33.01%	2.98%	0.82%	2.93%	3.83%
S&P 500	0.04%	5.92%	17.31%	15.65%	30.56%	15.65%	N/A	N/A	N/A	N/A	N/A
Russell 1000 Value	0.40%	6.46%	17.68%	15.15%	29.60%	15.15%	N/A	N/A	N/A	N/A	N/A
Russell 1000 Growth	0.12%	6.03%	18.57%	18.26%	33.99%	18.26%	N/A	N/A	N/A	N/A	N/A
Russell 2000	2.59%	7.94%	25.48%	25.79%	39.65%	25.79%	43.08%	8.56%	2.72%	3.55%	7.87%
Russell 2000 Value	1.39%	6.60%	22.97%	20.63%	34.93%	20.63%	N/A	N/A	N/A	N/A	N/A
Russell 2000 Growth	3.75%	9.24%	27.93%	31.04%	44.35%	31.04%	44.94%	10.16%	5.04%	4.34%	N/A
MSCI ACWI ex US (Gross)	-0.19%	3.49%	10.99%	13.61%	29.48%	13.61%	35.52%	-0.38%	0.35%	4.05%	7.84%
MSCI ACWI ex US Growth (Gross)	0.40%	2.35%	10.72%	15.06%	29.70%	15.06%	34.26%	-0.75%	0.94%	4.18%	N/A
MSCI ACWI ex US Value (Gross)	-0.78%	4.65%	11.22%	12.10%	29.20%	12.10%	36.81%	-0.06%	-0.30%	3.87%	N/A
Barclays Capital Aggregate	0.06%	0.42%	-0.88%	5.12%	1.57%	5.12%	6.40%	5.30%	5.88%	6.03%	5.56%
Barclays U.S. TIPS Index	1.02%	2.06%	1.38%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
BC BA Intermediate High Yield Index	0.45%	3.18%	4.93%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Barclays Capital Multiverse Index	0.49%	1.35%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NCREIF NFI ODCE EW (Gross)	0.00%	0.00%	4.62%	15.06%	10.41%	15.06%	-4.17%	-9.56%	-4.25%	-0.41%	5.46%
91 Day Treasury Bill	0.03%	0.05%	0.09%	0.16%	0.13%	0.16%	0.17%	0.51%	1.53%	2.23%	2.24%
SamCERA Plan Policy Benchmark	0.45%	4.13%	11.81%	14.74%	22.83%	14.74%	25.13%	3.60%	2.74%	4.39%	5.91%
SamCERA Actuarial Discount Rate	0.62%	1.88%	3.80%	7.75%	5.76%	7.75%	7.75%	7.75%	7.75%	7.76%	7.94%

(1) SamCERA's Fiscal Year is 7/1 through 6/30
 (2) Refer to page 13 for benchmark details

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Realized & Unrealized Gain / (Loss)

Portfolio	Beginning Book Balance As of 07/01/2010	(1) Realized Gain / (Loss) for the FYTD	Contributions/ (Withdrawals) for the FYTD	Ending Book Balance As of 03/31/2011	Prior Years Accumulated Unrealized Gains / (Loss)	FYTD Unrealized Gains / (Loss)	Ending Market Value As of 03/31/2011
BlackRock Russell 1000	\$227,158,749.62	10,322,516	(70,000,000)	\$167,481,265.65	(\$12,322,638)	\$49,197,972	\$204,356,600
D.E. Shaw Investment Management LLC	\$91,382,477.76	10,050,884		\$101,433,361.70	(\$5,529,724)	\$14,970,878	\$110,874,516
T. Rowe Price Associates	\$84,410,628.27	4,681,859		\$89,092,487.57	\$133,920	\$20,838,758	\$110,065,166
Barrow Hanley	\$125,717,857.93	7,017,264		\$132,735,121.66	\$3,115,310	\$34,978,652	\$170,829,084
BlackRock	\$120,628,030.67	10,247,212		\$130,875,242.29	\$7,352,352	\$35,998,828	\$174,226,422
The Boston Company	\$39,782,574.05	1,875,597		\$41,658,170.61	(\$285,918)	\$10,685,703	\$52,057,956
Chartwell Investment Partners	\$37,328,257.20	8,498,014		\$45,826,271.16	\$3,063,778	\$12,551,743	\$61,441,791
Jennison Associates	\$81,047,582.79	11,042,806		\$92,090,388.97	\$5,626,624	\$26,589,474	\$124,306,487
Artio Global Investors	\$185,960,389.43	4,893,922		\$190,854,311.11	(\$6,744,297)	\$40,483,153	\$224,593,167
Mondrian Investment Partners	\$213,442,132.16	2,089,826		\$215,531,958.30	(\$35,099,468)	\$42,639,750	\$223,072,240
Aberdeen Asset Management	\$163,766,449.61	8,209,133	(53,000,000)	\$118,975,582.22	\$3,066,904	(\$2,131,522)	\$119,910,965
Angelo Gordon	\$21,875,000.00		7,765,624	\$29,640,624.00	\$1,478,466	\$10,022,363	\$41,141,453
Bridage Capital Management	\$0.00		45,000,000	\$45,000,000.00		\$4,406,670	\$49,406,670
Brown Brothers Harriman	\$0.00	1,247,836	45,000,000	\$46,247,835.64	\$0	\$561,575	\$46,809,411
Franklin Templeton Investments	\$0.00	842,674	100,000,000	\$100,842,674.26		\$2,539,953	\$103,382,627
Pyramis Global Advisors	\$126,598,323.37	15,146,935	(60,000,000)	\$81,745,258.37	\$38,553,995	(\$9,838,593)	\$110,460,660
Western Asset Management Company	\$174,036,705.22	7,198,912	(65,000,000)	\$116,235,617.48	(\$3,645,689)	\$1,254,332	\$113,844,260
Private Equity (Sheridan)	\$0.00		400,000	\$400,000.00	\$0	(\$145,000)	\$255,000
AQR's Risk Parity	\$0.00		140,000,000	\$140,000,000.00	\$0	\$0	\$140,000,000
Hedge Funds	\$0.00			\$0.00	\$0	\$0	\$0
Comodities	\$0.00			\$0.00	\$0	\$0	\$0
INVESCO Core US Real Estate Fund	\$132,755,678.60	1,765,233		\$134,520,911.33	\$0	(\$12,218,034)	\$122,302,877
Cash	\$13,670,765.68			\$2,793,927.32	\$0	\$0	\$2,793,927
Total	\$1,839,561,602.36	\$105,130,621.64	\$90,165,624.00	\$2,023,981,009.64	-\$1,236,384.30	\$283,386,654.37	\$2,306,131,279.71

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

San Mateo County Employees' Retirement Association
Monthly Performance Review
Period Ending March 31, 2011

Cash Flows and Fiscal Year to Date Return

Portfolio	Beginning Market Value Balance As of 07/01/2010	(1) Earnings / (Loss) for the FYTD	Contributions/ (Withdrawals) for the FYTD	Ending Market Value Balance As of 03/31/2011	Fiscal Year to Date Return (Portfolio)	Fiscal Year to Date Return (Benchmark)
BlackRock Russell 1000	\$227,158,750	\$10,322,516	-\$70,000,000	\$167,481,266	31.81%	31.77%
D.E. Shaw Investment Management, LLC	\$91,382,478	\$10,050,884	\$0	\$101,433,362	29.15%	31.77%
T. Rowe Price Associates	\$84,410,628	\$4,681,859	\$0	\$89,092,488	30.19%	30.56%
Barrow, Hanley, Mewhinney & Strauss	\$125,717,858	\$7,017,264	\$0	\$132,735,122	32.60%	29.60%
BlackRock Capital Management, Inc.	\$120,628,031	\$10,247,212	\$0	\$130,875,242	36.14%	33.99%
The Boston Company	\$39,782,574	\$1,875,597	\$0	\$41,658,171	31.80%	34.93%
Chartwell Investment Partners	\$37,328,257	\$8,498,014	\$0	\$45,826,271	52.11%	44.35%
Jennison Associates	\$81,047,583	\$11,042,806	\$0	\$92,090,389	43.42%	39.65%
Artio Global Investors	\$185,960,389	\$4,893,922	\$0	\$190,854,311	25.33%	29.70%
Mondrian Investment Partners	\$213,442,132	\$2,089,826	\$0	\$215,531,958	25.08%	29.20%
Aberdeen Asset Management	\$163,766,450	\$8,209,133	-\$53,000,000	\$118,975,582	4.48%	1.57%
Angelo Gordon	\$21,875,000	\$0	\$7,765,624	\$29,640,624	34.68%	N/A
Brigade Capital Management	\$0	\$0	\$45,000,000	\$45,000,000	N/A	N/A
Brown Brothers Harriman	\$0	\$1,247,836	\$45,000,000	\$46,247,836	N/A	N/A
Franklin Templeton	\$0	\$842,674	\$100,000,000	\$100,842,674	N/A	N/A
Pyramis Global Advisors	\$126,598,323	\$15,146,935	-\$60,000,000	\$81,745,258	3.58%	1.57%
Western Asset Management Company	\$174,036,705	\$7,198,912	-\$65,000,000	\$116,235,617	5.59%	1.57%
Private Equity	\$0	\$0	\$400,000	\$400,000	N/A	N/A
Risk Parity	\$0	\$0	\$140,000,000	\$140,000,000	N/A	N/A
Hedge Funds	\$0	\$0	\$0	\$0	N/A	N/A
Comodities	\$0	\$0	\$0	\$0	N/A	N/A
INVESCO Realty Advisors	\$132,755,679	\$1,765,233	\$0	\$134,520,911	12.40%	10.41%
Cash	\$13,670,766	\$0	\$0	\$13,670,766	0.79%	0.13%
Total	\$1,839,561,602	\$105,130,622	\$90,165,624	\$2,034,857,848	22.24%	22.83%

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

San Mateo County Employees' Retirement Association

Monthly Performance Review

Period Ending March 31, 2011

Professional Services Fees

Investment Management Fees	Market Value As of 03/31/2011	For the Quarter Ending				Fiscal Year 2010 / 2011	Estimated Annual Fee (1)
		Estimated 9/30/2010	12/31/2010	3/31/2011	6/30/2011		
BlackRock Russell 1000	\$ 204,356,599.75	\$22,800	\$23,400	\$23,400		\$69,600	\$95,000
D.E. Shaw Investment Management, LLC	\$ 110,874,515.97	\$115,900	\$128,400	\$138,700		\$383,000	\$475,000
T. Rowe Price Associates	\$ 110,065,165.86	\$84,900	\$93,300	\$89,600		\$267,800	\$350,000
Barrow, Hanley, Mewhinney & Strauss	\$ 170,829,084.42	\$158,900	\$170,100	\$186,800		\$515,800	\$650,000
BlackRock Capital Management, Inc.	\$ 174,226,422.18	\$162,600	\$185,500	\$197,200		\$545,300	\$675,000
The Boston Company	\$ 52,057,955.71	\$88,400	\$97,300	\$106,900		\$292,600	\$375,000
Chartwell Investment Partners	\$ 61,441,791.30	\$82,600	\$95,800	\$108,400		\$286,800	\$350,000
Jennison Associates	\$ 124,306,486.89	\$185,600	\$207,600	\$232,800		\$626,000	\$775,000
Artio Global Investors	\$ 224,593,167.08	\$242,100	\$263,200	\$263,000		\$768,300	\$975,000
Mondrian Investment Partners	\$ 223,072,240.60	\$136,700	\$118,700	\$88,600		\$344,000	\$50,000
Aberdeen Asset Management	\$ 119,910,965.00	\$90,800	\$90,800	\$80,400		\$262,000	\$375,000
Angelo Gordon	\$ 41,141,452.88	\$58,300	\$58,300	\$38,867		\$155,467	\$350,000
Brigade Capital Management	\$ 49,406,670.00	\$49,700	\$51,200	\$54,700		\$155,600	\$225,000
Brown Brothers Harriman	\$ 46,809,411.01	\$17,200	\$12,500	\$17,400		\$47,100	\$75,000
Franklin Templeton	\$ 103,382,627.43	\$0	\$5,400	\$100,300		\$105,700	N/A
Pyramis Global Advisors	\$ 110,460,660.12	\$64,200	\$61,000	\$53,400		\$178,600	\$275,000
Western Asset Management Company	\$ 113,844,260.14	\$103,400	\$98,500	\$82,600		\$284,500	\$425,000
Private Equity	\$ 255,000.00	\$0	\$0	\$0		\$0	N/A
Risk Parity	\$ 140,000,000.00	\$0	\$0	\$0		\$0	N/A
Hedge Funds	\$ -	\$0	\$0	\$0		\$0	N/A
Commodities	\$ -	\$0	\$0	\$0		\$0	N/A
INVESCO Realty Advisors	\$ 122,302,877.00	\$161,100	\$155,100	\$136,000		\$452,200	\$650,000
Sub-Total	\$2,303,337,353	\$1,825,200	\$1,916,100	\$1,999,067	\$0	\$5,740,367	\$7,145,000
Investment Consultant Fees							
Strategic Investment Solutions		\$50,000	\$116,600	\$100,100		\$266,700	\$400,000
Global Custodian Fees							
State Street Bank & Trust		\$35,700	\$81,600	\$75,400		\$192,700	\$125,000
Actuarial Consultant Fees							
Milliman, Inc.		\$35,900	\$4,200	\$2,600		\$42,700	\$60,000
Sub-Total		\$121,600	\$202,400	\$178,100	\$0	\$502,100	\$585,000
Total							
		\$1,946,800	\$2,118,500	\$2,177,167	\$0	\$6,242,467	\$7,730,000

**San Mateo County
Benchmark History**

Total Plan Policy	1/1/2011	10/1/2010	1/1/2009	5/1/2007	6/1/2000	3/1/1999	9/1/1998	7/1/1996
Russell 1000	27.0%	28.0%	37%	37%	40%	22%	20%	20%
Russell 2000	8.0%	7.0%	9%	9%	10%	15%	15%	15%
S&P 500								5%
Russell 1000 Value						5%	5%	
MSCI ACWI -ex US	18.0%	18.0%	21%	21%	15%			
MSCI EAFE						20%	20%	20%
Barclays Aggregate	11.0%	12.9%	27%	27%	29%	25%	21%	21%
Barclays BBB	3.3%	1.6%						
Barclays TIPS	3.3%	3.0%						
Barclays Multiverse	4.4%	4.5%						
Citigroup Non-US WGBI unhedged						5%	9%	9%
NCREIF ODCE	5.0%	5.0%	6%					
NCREIF Property				6%	6%			
Citigroup 10 Yr Treasury + 2%						8%	10%	10%
Russell 3000 + 3%	8.0%	8.0%						
60% Russell 3000/40% Barclays Agg	6.0%	6.0%						
LIBOR + 4%	3.0%	3.0%						
DJ UBS Commodity	3.0%	3.0%						
	100.0%	100.0%	100%	100%	100%	100%	100%	100%
US Equity	1/1/2011	6/1/2000	3/1/1999	9/1/1998	7/1/1996	1/1/1995		
Russell 1000	77%	80%	52%	50.0%	50.0%	69%		
Russell 2000	23%	20%	36%	37.5%	37.5%	14%		
S&P 500					12.5%	17%		
Russell 1000 Value			12%	12.5%				
	100%	100%	100%	100.0%	100.0%	100%		
International Equity	6/1/2000	1/1/1996						
MSCI ACWI -ex US	100%							
MSCI EAFE		100%						
	100%	100%						
Total Equity	10/1/2010	5/1/2007	6/1/2000	3/1/1999	9/1/1998	1/1/1996		
Russell 1000	50.9%	55.2%	61.5%	35.5%	33.3%	33.3%		
Russell 2000	15.1%	13.5%	15.4%	24.2%	25.0%	25.0%		
S&P 500						8.4%		
Russell 1000 Value				8.0%	8.4%			
MSCI ACWI -ex US	34.0%	31.3%	23.1%					
MSCI EAFE				32.3%	33.3%	33.3%		
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		
US Fixed Income	1/1/2011	10/1/2010	7/1/1996					
Barclays Aggregate	62.4%	73.7%	100%					
Barclays BBB	18.8%	9.1%						
Barclays TIPS	18.8%	17.2%						
	100.0%	100.0%	100%					
Global Fixed Income	10/1/2010							
Barclays Multiverse	100%							
Total Fixed Income	1/1/2011	10/1/2010	6/1/2000	3/1/1999	7/1/1996			
Barclays Aggregate	50%	58.6%	100%	83.3%	70%			
Barclays BBB	15%	7.3%						
Barclays TIPS	15%	13.6%						
Barclays Multiverse	20%	20.5%						
Citigroup Non-US WGBI unhedged				16.7%	30%			
	100%	100.0%	100%	100.0%	100%			
Real Estate	1/1/2009	6/1/2000	7/1/1996					
NCREIF ODCE	100%							
NCREIF Property		100%						
Citigroup 10 Yr Treasury + 2%			100%					
Private Equity	10/1/2010							
Russell 3000 + 3%	100%							
Risk Parity	10/1/2010							
Russell 3000	60%							
Barclays Aggregate	40%							
	100%							
Hedge Fund	10/1/2010							
LIBOR + 4%	100%							
Commodities	10/1/2010							
DJ UBS Commodity	100%							

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

April 26, 2011

Agenda Item 6.2

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Selection of Hedge Fund Implementation Strategy

STAFF RECOMMENDATION: Staff recommends that the board discuss the pros and cons of implementing *SamCERA's* hedge fund mandate through a Fund of Hedge Funds (FofHF) or a Hedge Fund Beta Product. The board should then direct staff to begin a process for implementation of the preferred methodology.

BACKGROUND: In January 2011, Strategic Investment Solutions presented a comprehensive overview of hedge fund strategies and implementation methodology. During the presentation the board discussed various methods by which a hedge fund mandate may be implemented. By consensus the board eliminated, as a first step, three implementation methodologies. Those are mandates that utilize managers that replicate an index, multi-strategy managers, and direct investment managers. Replication strategies were dismissed as possibly not providing adequate alpha. Multi-strategies were dismissed because *SamCERA* does not have adequate experience with the various hedge funds strategies. Without that experience, it would be difficult to select the multi-strat manager with the best mixture of strategies for *SamCERA's* portfolio. Direct investment was also rejected due to lack of experience with the available hedge fund strategies. Both multi-strat and direct investment may be considered at a future date to augment *SamCERA's* hedge fund program.

The board wished to receive additional information on implementing a hedge fund mandate through a fund of hedge funds manager or a manager with a hedge fund beta product. The board considered both methodologies as viable methods for a first step in implementing a hedge fund program. As a first step, the implementation and ongoing investment of either strategy will provide the board with an efficient method to gain a greater understanding of hedge fund strategies and providers.

DISCUSSION: In March, the board discussed fund of hedge fund implementation with representatives from Aetos Capital and the use of a beta product to implement a hedge fund program with representatives from AQR Capital Management, LLC. At the conclusion of the presentations the board wished to have additional comparisons between the two before determining the preferred hedge fund implementation methodology. Those comparisons are provided on the following pages.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

April 26, 2011

Agenda Item 6.3

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Approval of Hedge Fund Provider

STAFF RECOMMENDATION: Staff recommends that the board direct staff to move forward with implementing *SamCERA's* hedge fund mandate.

BACKGROUND: Over the past few months the board has vetted five different methods for implementing *SamCERA's* hedge fund mandate. The board quickly eliminated index replication strategies as not providing an adequate alpha. Multi-strategy managers, and direct investment managers were also eliminated as a first step in implementing the mandate. Those two were dismissed primarily because *SamCERA* lacks adequate experience with the various hedge funds strategies. Without that experience, it would be difficult to select the multi-strat manager or a direct investment manager with the best strategies for *SamCERA's* portfolio. Either of those strategies may be considered at a future date as an augmentation to *SamCERA's* hedge fund program. The methodologies that the board believes are most promising for a first step in implementing a hedge fund mandate are fund of hedge funds manager or a hedge fund beta product. Those implementation strategies were vetted in a previous agenda items.

DISCUSSION: If the board determines that selecting a fund of hedge funds manager is the proper first step to implement a hedge fund program, staff will develop criteria and initiate a selection process through a Request for Proposal.

If the determination is that the hedge fund beta product is the best first step, the board should move to direct staff to enter into an agreement with AQR Capital Management LLC for that service. Strategic Investment Solutions believes the beta product is sufficiently unique and AQR is currently the only provider of that strategy.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

April 26, 2011

Agenda Item 6.4

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Approval of Action Regarding *SamCERA's* International Equity Structure

STAFF RECOMMENDATION: Staff recommends that the board review *SamCERA's* international equity structure then direct staff to initiate a search process for a provider that specializes in international growth equities.

BACKGROUND: On December 1, 2004, *SamCERA* provided initial funding for Artio Global Investors under an international growth mandate and Mondrian Investment Partners under an international value mandate.

Over the past year the board has expressed concern with the performance of *SamCERA's* international equity managers. The concern more specifically is with the international growth manager, Artio Global Investors.

DISCUSSION: Strategic Investment Solutions (SIS) will discuss *SamCERA's* international equity structure and recent performance of the managers under that structure. Artio Global Investors and Mondrian Investment Partners were both recently visited by SIS. Attached to this agenda item are the reports generated from each of those on-site visits.

MEETING OVERVIEW

Client Representative

Gary Clifton

Manager Representatives

Richard Pell, Chief Executive Officer and Chief Investment Officer
Rudolph-Riad Younes, Head of International Equities
Hien Nguyen, VP Client Service
Mel Lindsey, Director of Client Service
Brian Holland, Portfolio Manager
Stephano Galli, PM, Research Analyst
Michael Testorf, PM, Research Analyst
Stephen Lew, Senior Portfolio Manager

SIS Representative

Patrick Thomas
Steve Masarik

Purpose of Meeting

On April 6, 2011, SamCERA staff and SIS conducted an on site due diligence visit to Artio Global Investor's (Artio) New York City, New York offices. SamCERA has utilized Artio as its International Equity Core Growth investment mandate since December of 2004. SamCERA and SIS have concerns with Artio's recent performance, which has been quite poor over the last two plus years. Last spring, SamCERA and SIS agreed to put the team on watch during 2010 in the belief that the team would regain its footing after the debacle of 2009. Despite some marginal signs of improvement, unfortunately Artio's performance since our last office visit has not materially improved, and our level of concern has grown over the last year. SIS recommends that SamCERA conduct a search to identify possible replacements for Artio, though we do also recommend that Artio be considered against the search finalists. This report contains a brief summary of our findings.

Organization & Ownership

SamCERA hired Julius Baer Investment Management (JBIM), the predecessor organization to Artio, in November of 2004. Just prior, June 2004, JBIM had been separated from the rest of Julius Baer, giving the US asset management business greater autonomy and its own P&L. The main driver for the organizational change was to provide Julius Baer's lead International Equity portfolio managers Richard Pell and Rudolph-Riad Younes (Riad) with a substantial minority ownership stake in the US asset management business of Julius Baer. In 2008 Julius Baer announced its intention to pursue a partial spinout IPO of JBIM which would be renamed "Artio Global." The IPO occurred in September of 2009. Some of the proceeds of the offering were used by Artio to purchase a portion of Richard's and Riad's accrued ownership interest (the two each received in excess of \$20 million for a small portion of their positions.) Currently 52% of Artio Global Investors' shares are held by the public, 28% by GAM Holding Ltd. (formerly Artio Holding Ltd., still wholly owned by Julius Baer), just under 10% each by Richard Pell and Rudolph-Riad Younes, with other employees holding a small portion in restricted stock units. Richard and Riad initially received 15% each, but are permitted to sell 20% of their stock per year for the five years following the IPO. In our meetings with Richard and Riad, both have indicated their intention to sell shares at the maximum 20% annual amount to diversify their wealth. (It is noteworthy that, despite these selling plans, both men elected not to sell shares in 2010, probably both as a gesture to clients and because of the low stock price.)

Artio Global Investors

Although Artio offers several equity and fixed income products, the bulk of the firm's \$53 billion in assets are concentrated in the International Equity strategies, currently in the range of \$42 billion. International Equity I (SamCERA's product) closed to new investors in mid-2005 after assets had grown rapidly from less than \$6 billion in 2003 to over \$30 billion two-and-a-half years later. Artio then opened International Equity II, which is managed to track closely to International Equity I, but will only buy stocks with market capitalizations above \$2.5 billion. We do not believe there is currently a significant difference in the market cap distribution between the two strategies.

Investment Team

As mentioned Richard Pell and Rudolph-Riad Younes function as the lead portfolio managers. Richard is the firm's CEO and CIO and Riad is the Head of International Equities. Richard has worked in the investment industry since 1983, and started at the predecessor firm, JBIM, with the inception of the International Equity strategy in 1995. Riad has worked in the industry since 1991 and started at the predecessor firm in 1993. Both are relatively young, Richard in his early 50's and Riad in his mid-40's. In addition to these two, the team includes 12 other portfolio managers and analysts focused on international and global equities. Turnover in the group has been quite low. In 2010 there was one departure and two analysts hired. We regard Artio's team as stable, seasoned and well resourced.

Strategy Overview

Artio International Equity is a diversified core growth portfolio, guided by sector and country-level fundamental analysis. The process is relatively style agnostic and allows for investment in mid-and large-cap stocks, in both emerging and developed countries. The approach is unusually flexible. Artio applies different strategies (top-down, bottom-up, and hybrid) to different regions. Apart from a liquidity screen, the team does not conduct standard initial screens based on balance sheet or income statement items to generate a research universe. The screens that they do employ vary with industry, region and market environment. In selecting securities, the team is aware of the benchmark but also willing actively to depart from it in pursuit of risk-adjusted returns. Although tracking error spiked in the late 1990's, during the last ten years tracking error to the MSCI ACWI ex US index has fallen in the 4%-6% range.

The approach to developed markets is primarily bottom up, while emerging markets are analyzed from a top down macroeconomics standpoint, with a hybrid approach for Japan. Based on our discussions with Artio's investment staff about their research, we believe that their "bottom up" research is essentially thematic. Artio is not simply looking for under-valued securities or those with under-appreciated growth potential. Rather, they first identify a theme or area of emphasis, and then conduct fundamental analysis on individual securities to identify the most attractive names levered to that theme or exposed to that area. Although Artio conducts fundamental research on individual securities, we do not regard the depth of this research to be a competitive advantage relative to their peers, especially peers managing more concentrated lower turnover portfolios.

While the majority of the holdings are liquid, the International Equity portfolio does invest in some less liquid names on an opportunistic basis, primarily in the emerging markets and through mid capitalization holdings. Artio constructs diversified portfolios of typically 200-400 names, with a 5% maximum position size. The number of holdings has tended to increase when the team sees value in the emerging markets, as they have for a number of years in Eastern and Central Europe. Recently the portfolio has been overweight the emerging markets at approximately 30%. Portfolio turnover appears to have risen with the market volatility in the past few years, falling in the range of 100%-200%.

Richard Pell and Riad Younes are both generalists with Richard focusing more on macroeconomic inputs and Riad focusing more on stock selection. The team's portfolio manager/analysts are organized by developed and emerging markets and, within the developed markets, by sectors; though some analysts also function as generalists. The portfolio manager/analysts focus more on short to intermediate term dynamics while Riad has a longer-term outlook that he combines with the team's macro view. The investment approach is designed so that the team can think and act quickly. Every member of the investment team may make buy and sell recommendations. However, the final decision rests with the two co-founders of the strategy, with Richard having veto power and being ultimately responsible for overseeing the strategy's risk. In onsite visits to Artio over the years, the analysts on the team have consistently told us that that Riad and Richard do the "seismic work" that guides them to the countries and the sectors where they should focus their research. During our meeting we met two additional industry analysts, Michael Testorf, whose research responsibilities include Transportation and Stephano Galli, who researches Financials. Finally, we also met a new research input to the portfolio,

Artio Global Investors

China Specialist Stephen Lew. In addition to describing in detail their individual research processes, each analyst also described how they rely on the broader insights of Richard and Riad to guide the research of all the team's portfolio managers and analysts.

Summary

Artio had an exceptional record of generating excess returns through the end of 2006, though most of these excess returns were generated on a smaller asset base than Artio currently manages. Performance in the last four years has been disappointing, with material underperformance in 2009 and 2010. In the strong up-market of 2009 Artio International lagged the MSCI ACWI ex US index by 1685 basis points. They remained defensively positioned when the market turned positive in early 2009. Trailing returns over several periods including since inception for Artio appear on the table below.

	Performance (%) as of March 31, 2011				Since Inception (11/04)
	Qtr	1 Year	3 Year	5 Years	
Artio	2.2	11.0	-5.7	1.0	6.2
MSCI ACWI ex-US	3.5	13.6	-0.4	4.1	8.1

Our concern regarding Artio's performance over the past few years is not that they made this one quite significant error in 2009 by being defensive during the market rally. Artio has underperformed the index in eleven of the last thirteen quarters. And it is worth noting that in half of these quarters the market has risen and in half it has fallen. Artio's underperformance is not therefore attributable to a single portfolio characteristic or decision, but to tactical changes in portfolio positioning that have been manifestly out of step with the movements of the market. During this and also during several recent meetings with Artio, SIS has consistently questioned the team's implementation of the significant macro themes that seemed to be swamping all other team decisions. Artio's current portfolio features a 32% weigh to Emerging Markets, including an 8% allocation to Russian equities.

SIS remains impressed with the senior investment professionals at Artio. In addition, we believe Artio follows a differentiated approach that should be complementary to traditional bottom up international equity managers. These attractive attributes and historically very strong performance record have led SIS to counsel patience in assessing Artio's recent troubles, and SamCERA certainly has demonstrated patience with Artio. Unfortunately, the team did not improve its performance during the grace period granted by SamCERA in 2010, and in fact posted another poor year of unrewarded thematic portfolio positions. As a result, SIS' conviction in Artio's ability to consistently add value has diminished, and we recommend that SamCERA test the market for alternatives through a formal search process for a new Core to Growth International Equity manager.

Mondrian Investment Partners

*Specific Strategy Discussed: Mondrian All Countries World Ex-US
Reason for Visit: Regular Due Diligence*

MEETING OVERVIEW

Manager Representatives

Nigel May (Deputy CEO)
Melissa Platt (PM)

SIS Representative

Jonathan Brody

Introduction

This onsite visit to Mondrian's London office focused primarily on two topics: the expected sale of Hellman & Friedman's (H&F) minority stake in the firm, and Mondrian's underperformance over the past two years. Because we do not know what sort of entity will ultimately buy H&F's stake in Mondrian, it is premature to formulate a view regarding the impact of the transaction. It is, however, important to remember that Mondrian is expected to remain majority employee owned and controlled even after the transaction. Relative performance over the past two years has been disappointing and certainly not entirely explained by "style." But nor is the underperformance due to firm instability, worrisome changes to the investment process, or ill timed shifts in portfolio positioning. On the contrary: as an organization, Mondrian appears to be solid and the investment process is unchanged. We therefore see no reason that the All Countries World ex US strategy cannot generate excess returns in the future. That being said, as long as international equities are led higher by cyclical and the emerging markets, we would not be surprised to see this period of underperformance continue.

Organization

Mondrian, which was founded in 1990, now manages assets of approximately \$68 billion. The business mix, which is currently 70% equity and 30% fixed income, has become increasingly diversified. On a firm-wide basis, 16% of Mondrian's assets are invested in the emerging markets, which is higher fee and higher margin than the developed markets strategies. A number of the firm's products, such as All Countries World ex US, Emerging Markets and International Small Cap, have closed to new accounts. Mondrian believes they still have room to grow their Focus strategies, which are concentrated strategies that invest primarily in the higher range of the market cap spectrum. Nigel May indicated that, while they do have capacity for new accounts in some of their strategies, from the internal point of view at Mondrian, there is no longer any economic necessity for the firm to attract new business.

Employees currently own 73% of the firm's equity. This is distributed across 80 employees, up from 60 in 2004. Although Mondrian has announced a few senior level departures in recent years, including Fiona Barwick (Deputy Head, International Equities), who is scheduled to leave at the end of the month, turnover among staff has been low. Going forward, it would be reasonable to expect some retirements among the first generation of leadership. David Tilles (Executive Chairman), for example, has reached Mondrian's retirement age and is now working a three-day week. This is a natural and inevitable process for a firm that was founded 20 years ago. With 54 investment professionals, and a well developed and documented investment process, we do not anticipate that this sort of turnover will be disruptive.

The H&F private equity fund that holds the minority stake in Mondrian is winding down. Although the date can be extended, the intention is to sell the stake in Mondrian by February of 2012. H&F is therefore in the process of looking for a buyer. Mondrian is no longer small, and finding a suitable buyer for a passive minority stake in such a large investment firm is turning out to be challenging. Notwithstanding the fact that Mondrian will retain majority ownership in the firm, they have a strong interest in the outcome of this transaction. H&F is technically free to sell their stake to highest bidder, even, for example, if it is a large financial services firm with an aggressive distribution network and aspirations to grow Mondrian's assets. However, Nigel made the case that the nature of H&F's business creates a strong incentive for them to find a buyer that meets with Mondrian's approval. The argument is that it would be irrational for H&F to maximize the dollar value of this one transaction at the cost of squandering their reputation in the investment management community, and therefore limiting future partnership opportunities. At this point, the size of the transaction has not been determined.

Mondrian Investment Partners

Mondrian has indicated that senior professionals at the firm may also be sellers, but that, in aggregate employees will retain at least 51% of the equity. As mentioned, we must wait until a buyer is identified and the details of the transaction determined in order to assess its potential impact.

Strategy

After strong relative outperformance in the down-market of 2008, Mondrian's All Countries World Ex-US Equity strategy has materially underperformed in the last two years. Given Mondrian's style and investment approach, we would expect some level of underperformance during the strong market over the past two years. Nevertheless, Mondrian's relative returns have been disappointing. In 2009 the composite's 29% return lagged the MSCI ACWI ex US Value index by 16 percentage points. And in 2010 the composite trailed the value benchmark by almost three percentage points. This is not the first period during which Mondrian's approach to international equity investing has underperformed. In the late 1990's, specifically the two years 1998-1999, Mondrian's International Strategy underperformed the MSCI EAFE Value index by a substantial margin. When the market environment changed the next year, Mondrian delivered several consecutive years of strong outperformance.

Mondrian expects to beat the benchmark over extended time periods, and has done so; but the objective is also to produce meaningfully high real returns. Historically, the returns have shown lower volatility than the benchmark, and lower volatility than peers. The approach seeks to preserve capital in market declines. Looking back over the past ten years, Mondrian has underperformed modestly during quarters when markets are up, and outperformed in down quarters. To put the recent performance in perspective, the trailing three- and five-year numbers are, even with the poor relative showing 2009, only slightly behind the MSCI ACWI ex US Value index.

Given Mondrian's approach and historical return profile, one would not have expected outperformance in 2009 when the index rose 45%. But the severity of Mondrian's underperformance is largely attributable to an underweight position in cyclicals and highly levered stocks, which produced the highest returns in 2009. In 2010, Mondrian underestimated the continued impact of the fiscal stimulus, and remained underweight the cyclical sectors (consumer discretionary, industrials and materials) that were the strongest performers for the year. The underweight positions in the emerging markets and Canada have also been a headwind. In addition, there were two stocks which detracted from relative returns for the year, BP and Carrefour, each of which has its own specific issues.

Mondrian remains quite defensively positioned. Although they have slightly increased their emerging markets weighting recently, it remains below the benchmark. At current valuations, their real return expectations for emerging and developed markets are quite similar, but with the former carrying a higher level of risk than the later. From a sector perspective, Mondrian is also quite defensively positioned, with large overweights in consumer staples, health care and telecommunication services. One might reasonably ask the question of whether this portfolio, as it is currently positioned, will outperform only if the market declines. Mondrian does not accept this characterization of their positioning. They hold overweight positions in consumer staples, health care and telecommunication services, because this is where they are finding the most attractively value names. In their view, supposing they are correct about the valuations, these names will outperform when they are recognized by the market. And this can happen, with a change in leadership in the market, without necessarily a market decline.

Observations and Conclusion

Despite the underperformance of the last two years, we see no evidence of organizational instability or an erosion of Mondrian's investment process. We are concerned, however, about the upcoming sale of H&F's stake in Mondrian. At this point, it is necessary to await more details in advance of assessing the impact of the transaction on the firm.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

April 26, 2011

Agenda Item 7.1

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Preliminary Monthly Financial Report for the Period Ending March 31, 2011

STAFF RECOMMENDATION: Staff recommends that the board review the attached preliminary financial statements.

COMMENT: The attached preliminary statements fairly represent *SamCERA's* Financial Statements.

Statement of Fiduciary Net Assets

SamCERA's Net Assets Held in Trust for Pension Benefits as of month end, totaled \$2,303,596,550.

Statement of Changes in Fiduciary Net Assets

Net assets held in trust for pension benefits increased slightly by approximately \$7.2 million, month over month. The increase is primarily due to an appreciation in assets.

The following reports are attached to this agenda item:

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Statement of Fiduciary Net Assets (Year to Year YTD Comparative)	2
Statement of Changes in Fiduciary Net Assets (Year to Year YTD Comparative)	3
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San Mateo County Employees' Retirement Association
Statement of Fiduciary Net Assets - YTD Comparative
March 2011
PRELIMINARY

	March 2011	March 2010
ASSETS		
CASH AND CASH EQUIVALENTS	44,300,302	92,283,439
SECURITIES LENDING CASH COLLATERAL	142,597,377	281,375,444
TOTAL CASH	<u>186,897,680</u>	<u>373,658,883</u>
RECEIVABLES		
Contributions	0	0
Due from Broker for Investments Sold	144,299,181	51,438,680
Investment Income	5,383,157	5,137,292
Securities Lending Income	69,235	86,569
Other Receivable	113,078	114,073
TOTAL ACCOUNTS RECEIVABLES	<u>149,864,652</u>	<u>56,776,614</u>
PREPAID EXPENSE	7,669	7,669
INVESTMENTS AT FAIR VALUE		
Domestic Fixed Income Securities	581,377,384	490,655,121
Domestic Equities	1,000,472,187	897,322,105
International Equities	440,242,012	392,759,243
Real Estate	122,302,877	105,602,228
Private Equities	255,000	0
Risk Parity	140,000,000	0
	<u>2,284,649,459</u>	<u>1,886,338,697</u>
FIXED ASSETS	0	0
LESS ACCUMULATED DEPRECIATION	0	0
	<u>0</u>	<u>0</u>
TOTAL ASSETS	<u>2,621,419,459</u>	<u>2,316,781,863</u>
LIABILITIES		
Investment Management Fees	2,232,173	1,753,333
Due to Broker for Investments Purchased	172,157,019	75,703,932
Collateral Payable for Securities Lending	142,597,377	281,375,444
Other	836,340	519,630
TOTAL LIABILITIES	<u>317,822,909</u>	<u>359,352,339</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	2,303,596,550	1,957,429,524

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

ADDITIONS

CONTRIBUTIONS

Employer Contribution	143,977,701	99,918,758	44,058,943
Employee Contribution	34,872,038	36,216,146	(1,344,107)
TOTAL CONTRIBUTIONS	178,849,740	136,134,904	42,714,836

INVESTMENT INCOME

Interest and Dividends	27,619,816	28,362,021	(742,205)
Net Appreciation (Depreciation) in fair value of investments	390,221,991	302,407,812	87,814,179
Less Investment Expense	(8,185,285)	(5,462,809)	(2,722,477)
Less Asset Management Expense	(470,327)	(373,583)	(96,744)
NET INVESTMENT INCOME	409,186,195	324,933,442	84,252,753

SECURITIES LENDING INCOME

Earnings	439,950	791,031	(351,081)
Less: Securities Lending Expenses	(123,831)	(256,590)	132,760
NET SECURITIES LENDING INCOME	316,119	534,441	(218,321)

OTHER ADDITIONS

	60,490	19,505	40,984
TOTAL ADDITIONS	588,412,544	461,622,292	126,790,252

DEDUCTIONS

ASSOCIATION BENEFITS

Service Retirement Allowance	84,688,665	79,210,541	5,478,124
Disability Retirement Allowance	10,831,004	10,995,306	(164,302)
Survivor, Death and Other Benefits	592,361	611,315	(18,954)
TOTAL ASSOCIATION BENEFITS	96,112,030	90,817,161	5,294,868

REFUND OF MEMBER CONTRIBUTIONS

	2,049,856	2,319,896	(270,040)
ADMINISTRATIVE EXPENSE	2,496,265	2,384,817	111,448
OTHER EXPENSE	54,299	70,451	(16,152)
TOTAL DEDUCTIONS	100,712,449	95,592,325	5,120,124

NET INCREASE

	487,700,095	366,029,967	121,670,128
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Net Assets Held in Trust for Pension Benefits:

Beginning of Period	1,815,896,455	1,591,399,558	
End of Period	2,303,596,550	1,957,429,524	

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

	July 2010	August 2010	September 2010	October 2010	November 2010	December 2010	YTD
ADDITIONS							
CONTRIBUTIONS							
Employee Contribution	3,019,936	3,655,943	3,594,335	3,642,307	3,931,107	5,744,046	23,587,673
Employer Contributions - Regular	5,407,157	7,251,548	7,302,907	7,314,517	7,373,448	11,260,294	45,909,870
Employer Contributions - COLA	3,047,757	4,080,356	4,106,941	4,109,218	4,138,857	6,315,925	25,799,055
Employer Prefunded Contribution	68,411,230	(11,274,407)	(11,390,665)	(11,385,369)	(11,454,658)	(15,713,522)	7,192,610
TOTAL CONTRIBUTIONS	79,886,080	3,713,440	3,613,518	3,680,673	3,988,754	7,606,743	102,489,208
INVESTMENT INCOME							
Interest and Dividends	2,228,528	3,312,853	3,275,168	2,196,872	2,999,996	4,821,615	18,835,032
Net Appreciation (Depreciation) in fair value of investments	87,400,814	(43,766,849)	127,340,342	56,496,595	(9,582,182)	85,376,887	303,265,608
Securities Lending Income	45,487	50,647	58,657	56,343	55,461	56,056	322,650
Other Additions	0	0	0	0	0	0	0
Asset Management Expense	(34,874)	(48,180)	(45,105)	(56,665)	(69,170)	(68,573)	(322,568)
Other Investment Related Expense	(54,893)	(21,994)	(28,660)	(16,428)	(60,565)	(50,291)	(232,830)
Securities Lending Expense	(18,072)	(17,797)	(6,250)	(20,480)	(1,432)	(14,372)	(78,403)
TOTAL ADDITIONS	169,453,071	(36,777,881)	134,207,670	62,336,911	(2,669,137)	97,728,065	424,278,699
DEDUCTIONS							
ASSOCIATION BENEFITS							
Retiree Annuity	2,369,716	2,389,206	2,405,091	2,402,821	2,430,529	2,422,802	14,420,165
Retiree Pension	5,649,275	5,673,987	5,713,621	5,694,015	5,746,049	5,743,755	34,220,701
Retiree COLA	2,514,530	2,506,061	2,503,348	2,492,815	2,488,067	2,481,293	14,986,114
Retiree Death and Modified Work Benefit	3,579	3,579	3,579	3,579	3,579	3,579	21,475
Active Member Death Benefit	0	0	0	0	0	0	0
Voided and Reissue	492	0	0	0	0	0	492
TOTAL ASSOCIATION BENEFITS	10,537,591	10,572,833	10,625,639	10,593,230	10,668,223	10,651,429	63,648,946
REFUND OF MEMBER CONTRIBUTIONS	110,411	290,928	163,314	170,084	414,929	26,231	1,175,896
ACTUARIAL FEES	16,083	19,083	750	750	2,667	833	40,167
CONSULTANT FEES - INVESTMENT (SIS)	16,667	16,667	16,667	33,333	33,333	50,000	166,667
CUSTODIAN FEES - STATE STREET	11,800	12,057	11,800	11,705	11,800	58,136	117,298
INVESTMENT MANAGEMENT FEE - R1000 INDEX	7,601	7,361	7,835	7,939	7,601	7,953	46,291
INVESTMENT MANAGEMENT FEE - ABERDEEN	29,975	30,448	30,368	30,622	30,622	28,031	180,066
INVESTMENT MANAGEMENT FEE - PYRAMIS	21,220	21,489	21,411	21,572	21,475	18,080	125,248
INVESTMENT MANAGEMENT FEE - BROWN BROTHERS	5,651	5,814	5,770	5,935	744	5,770	29,683
INVESTMENT MANAGEMENT FEE - BRIGADE CAPITAL	18,265	18,265	13,122	17,156	16,987	17,071	100,865
INVESTMENT MANAGEMENT FEE - FRANKLIN TEMPLETON	0	0	0	0	0	5,407	5,407
INVESTMENT MANAGEMENT FEE - CHARTWELL	27,285	25,486	29,832	30,634	31,847	33,350	178,434
INVESTMENT MANAGEMENT FEE - D E SHAW	38,742	36,395	40,770	41,744	42,032	44,604	244,287
INVESTMENT MANAGEMENT FEE - AQR GLOBAL RISK PARITY	0	0	0	0	0	0	0
INVESTMENT MANAGEMENT FEE - T ROWE PRICE	28,364	26,801	29,807	30,424	30,525	32,394	178,315
INVESTMENT MANAGEMENT FEE - BLACKROCK	53,979	50,802	57,819	60,137	61,723	63,563	348,022
INVESTMENT MANAGEMENT FEE - BARROW HANLEY	53,239	50,247	55,417	55,847	54,720	59,454	328,924
INVESTMENT MANAGEMENT FEE - THE BOSTON COMPANY	29,952	26,946	31,460	31,259	31,937	34,136	185,690
INVESTMENT MANAGEMENT FEE - JENNISON ASSOCIATES	61,867	57,824	65,932	67,596	70,895	72,168	396,283
INVESTMENT MANAGEMENT FEE - MONDRIAN	53,376	40,166	43,103	43,995	26,437	48,337	255,414
INVESTMENT MANAGEMENT FEE - ARTIO	81,045	76,961	84,099	86,442	87,385	89,412	505,344
INVESTMENT MANAGEMENT FEE - WESTERN ASSET	34,141	34,643	34,573	34,846	34,723	29,035	201,962
INVESTMENT MANAGEMENT FEE - INVESCO CORE	53,711	53,711	50,725	52,715	52,715	41,566	305,143
TOTAL PROFESSIONAL FEE	642,963	611,167	631,257	664,651	650,168	739,303	3,939,509
ADMIN EXPENSE - SALARIES & BENEFITS	99,487	168,819	170,584	171,415	174,710	258,847	1,043,860
ADMIN EXPENSE - SERVICES & SUPPLIES	33,996	55,862	124,612	150,416	105,433	112,074	582,393
TOTAL ADMINISTRATIVE EXPENSES	133,483	224,680	295,196	321,830	280,143	370,920	1,626,253
INTEREST FOR PREPAID CONTRIBUTION	0	0	0	0	0	1,804,884	1,804,884
OTHER DEDUCTIONS	919	4,096	4,593	12,505	7,962	10,075	40,149
TOTAL DEDUCTIONS	11,425,368	11,703,704	11,719,999	11,762,300	12,021,425	13,602,843	72,235,638
NET INCREASE	158,027,703	(48,481,584)	122,487,671	50,574,610	(14,690,562)	84,125,222	352,043,061

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

	December YTD 2010	January 2011	February 2011	March 2011	YTD
ADDITIONS					
CONTRIBUTIONS					
Employee Contribution	23,587,673	3,734,419	3,948,453	3,601,493	34,872,038
Employer Contributions - Regular	45,909,870	7,652,176	7,460,233	7,390,652	68,412,931
Employer Contributions - COLA	25,799,055	4,292,459	4,173,675	4,131,189	38,396,377
Employer Prefunded Contribution	7,192,610	53,074,415	(11,595,294)	(11,503,337)	37,168,393
TOTAL CONTRIBUTIONS	102,489,208	68,753,468	3,987,066	3,619,996	178,849,739
INVESTMENT INCOME					
Interest and Dividends	18,835,032	1,999,124	3,622,609	3,163,050	27,619,816
Net Appreciation (Depreciation) in fair value of investments	303,265,608	22,650,174	51,815,603	12,551,095	390,282,481
Securities Lending Income	322,650	43,061	33,846	40,392	439,950
Other Additions	0	0	0	0	0
Asset Management Expense	(322,568)	(44,618)	(46,577)	(56,564)	(470,327)
Other Investment Related Expense	(232,830)	(38,041)	(3,683)	(19,886)	(294,441)
Securities Lending Expense	(78,403)	(16,677)	(12,252)	(16,499)	(123,831)
TOTAL ADDITIONS	424,278,699	93,346,492	59,396,612	19,281,585	596,303,388
DEDUCTIONS					
ASSOCIATION BENEFITS					
Retiree Annuity	14,420,165	2,455,713	2,477,318	2,487,046	21,840,241
Retiree Pension	34,220,701	5,825,447	5,869,498	5,904,613	51,820,260
Retiree COLA	14,986,114	2,474,478	2,471,993	2,458,332	22,390,917
Retiree Death and Modified Work Benefit	21,475	3,579	31,487	3,579	60,120
Active Member Death Benefit	0	0	0	0	0
Voids and Reissue	492	(6,887)	6,887	0	492
TOTAL ASSOCIATION BENEFITS	63,648,946	10,752,331	10,857,183	10,853,570	96,112,030
REFUND OF MEMBER CONTRIBUTIONS	1,175,896	170,704	521,840	181,415	2,049,856
ACTUARIAL FEES					
CONSULTANT FEES - INVESTMENT (SIS)	40,167	833	833	833	42,667
CUSTODIAN FEES - STATE STREET	166,667	16,667	50,000	33,333	266,667
INVESTMENT MANAGEMENT FEE - R1000 INDEX	117,298	28,689	31,302	15,355	192,644
INVESTMENT MANAGEMENT FEE - ABERDEEN	46,291	7,972	9,371	5,988	69,622
INVESTMENT MANAGEMENT FEE - PYRAMIS	180,066	28,231	26,401	27,351	262,048
INVESTMENT MANAGEMENT FEE - BROWN BROTHERS	125,248	18,093	15,951	19,290	178,582
INVESTMENT MANAGEMENT FEE - BRIGADE CAPITAL	29,683	5,747	6,644	5,002	47,076
INVESTMENT MANAGEMENT FEE - FRANKLIN TEMPLETON	100,865	17,694	18,015	17,968	154,543
INVESTMENT MANAGEMENT FEE - CHARTWELL	5,407	81,162	(14,815)	33,931	105,685
INVESTMENT MANAGEMENT FEE - D E SHAW	178,434	34,224	37,239	36,927	286,825
INVESTMENT MANAGEMENT FEE - AQR GLOBAL RISK PARITY	244,287	45,429	47,062	46,259	383,037
INVESTMENT MANAGEMENT FEE - T ROWE PRICE	0	0	0	0	0
INVESTMENT MANAGEMENT FEE - BLACKROCK	178,315	31,080	32,526	25,898	267,818
INVESTMENT MANAGEMENT FEE - BARROW HANLEY	348,022	64,716	66,636	65,929	545,303
INVESTMENT MANAGEMENT FEE - THE BOSTON COMPANY	328,924	60,782	62,936	63,145	515,787
INVESTMENT MANAGEMENT FEE - JENNISON ASSOCIATES	185,690	34,280	36,460	36,244	292,673
INVESTMENT MANAGEMENT FEE - MONDRIAN	396,283	73,876	78,093	77,766	626,018
INVESTMENT MANAGEMENT FEE - ARTIO	255,414	38,236	42,018	8,327	343,995
INVESTMENT MANAGEMENT FEE - WESTERN ASSET	505,344	86,562	88,141	88,239	768,286
INVESTMENT MANAGEMENT FEE - INVESCO CORE	201,962	29,125	25,929	27,530	284,545
TOTAL PROFESSIONAL FEE	3,939,509	752,399	709,739	684,313	6,085,961
ADMIN EXPENSE - SALARIES & BENEFITS					
ADMIN EXPENSE - SERVICES & SUPPLIES	1,043,860	184,241	182,148	180,989	1,591,239
TOTAL ADMINISTRATIVE EXPENSES	582,393	79,118	98,096	145,419	905,026
TOTAL DEDUCTIONS	72,235,638	11,941,573	12,378,305	12,047,777	108,603,293
INTEREST FOR PREPAID CONTRIBUTION	1,804,884	0	0	0	1,804,884
OTHER DEDUCTIONS	40,149	2,780	9,298	2,071	54,299
NET INCREASE	352,043,061	81,404,919	47,018,307	7,233,808	487,700,095

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

	March 2011	February 2011	Increase/(Decrease)	% of Incr/Decr
ASSETS				
CASH AND CASH EQUIVALENTS	44,300,302	139,780,719	(95,480,416)	-68.31%
SECURITIES LENDING CASH COLLATERAL	142,597,377	135,635,356	6,962,022	5.13%
TOTAL CASH	186,897,680	275,416,074	(88,518,395)	(0)
RECEIVABLES				
Contributions	0	0	0	N/A
Due from Broker for Investments Sold	144,299,181	123,483,622	20,815,559	16.86%
Investment Income	5,383,157	5,490,642	(107,485)	-1.96%
Securities Lending Income	69,235	71,726	(2,491)	-3.47%
Other Receivable	113,078	113,157	(79)	-0.07%
TOTAL ACCOUNTS RECEIVABLES	149,864,652	129,159,147	20,705,505	16.03%
PREPAID EXPENSE	7,669	7,669	0	0.00%
INVESTMENTS AT FAIR VALUE				
Domestic Fixed Income Securities	581,377,384	579,614,595	1,762,788	0.30%
Domestic Equities	1,000,472,187	1,040,589,695	(40,117,508)	-3.86%
International Equities	440,242,012	432,912,149	7,329,863	1.69%
Real Estate	122,302,877	122,302,877	0	0.00%
Private Equity	255,000	250,000	5,000	2.00%
Risk Parity	140,000,000	0	140,000,000	N/A
	2,284,649,459	2,175,669,316	108,980,143	5.01%
FIXED ASSETS	0	0	0	N/A
LESS ACCUMULATED DEPRECIATION	0	0	0	N/A
	0	0	0	0.00%
TOTAL ASSETS	2,621,419,459	2,580,252,207	41,167,253	1.60%
LIABILITIES				
Investment Management Fees	2,232,173	3,207,844	(975,671)	-30.42%
Due to Broker for Investments Purchased	172,157,019	144,281,556	27,875,463	19.32%
Collateral Payable for Securities Lending	142,597,377	135,635,356	6,962,022	5.13%
Other	836,340	764,708	71,631	9.37%
TOTAL LIABILITIES	317,822,909	283,889,465	33,933,445	11.95%
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	2,303,596,550	2,296,362,742	7,233,808	0.32%

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

ADDITIONS

CONTRIBUTIONS

Employer Contribution	143,977,701	143,959,198	18,503
Employee Contribution	34,872,038	31,270,545	3,601,493
TOTAL CONTRIBUTIONS	178,849,740	175,229,743	3,619,996

INVESTMENT INCOME

Interest and Dividends	27,619,816	24,456,766	3,163,050
Net Appreciation (Depreciation) in fair value of investments	390,221,991	377,674,762	12,547,229
Less Investment Expense	(8,185,285)	(7,481,086)	(704,199)
Less Asset Management Expense	(470,327)	(413,763)	(56,564)
NET INVESTMENT INCOME	409,186,195	394,236,679	14,949,516

SECURITIES LENDING INCOME

Earnings	439,950	399,558	40,392
Less: Securities Lending Expenses	(123,831)	(107,332)	(16,499)
NET SECURITIES LENDING INCOME	316,119	292,226	23,893

OTHER ADDITIONS

	60,490	56,624	3,866
TOTAL ADDITIONS	588,412,544	569,815,272	18,597,272

DEDUCTIONS

ASSOCIATION BENEFITS

Service Retirement Allowance	84,688,665	75,119,195	9,569,470
Disability Retirement Allowance	10,831,004	9,609,566	1,221,438
Survivor, Death and Other Benefits	592,361	529,699	62,662
TOTAL ASSOCIATION BENEFITS	96,112,030	85,258,460	10,853,570

REFUND OF MEMBER CONTRIBUTIONS

	2,049,856	1,868,441	181,415
ADMINISTRATIVE EXPENSE	2,496,265	2,169,857	326,408
OTHER EXPENSE	54,299	52,228	2,071
TOTAL DEDUCTIONS	100,712,449	89,348,985	11,363,464

NET INCREASE

	487,700,095	480,466,287	7,233,808
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Net Assets Held in Trust for Pension Benefits:

Beginning of Period	2,296,362,742	2,249,344,435	
End of Period	2,303,596,550	2,296,362,742	

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

April 26, 2011

Agenda Item 7.2

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer



SUBJECT: Adoption of Section 31529.9 Regarding the Provision of Legal Services

Issue

By resolution, the Board of Retirement may make Section 31529.9 effective, and by doing so, add staff or private sector sources to the authorized providers of legal services. The following agenda item, 7.3, is related to this issue.

Background

The 1937 Act originally designated county counsel as the sole source of legal services for retirement systems operating under the act. However, beginning in 1996 the legislature began to recognize the importance of allowing 1937 Act systems to independently choose their sources for legal services. In 2003 the code was amended to allow all 1937 Act retirement boards to adopt Section 31529.9 of the act, making it effective for their selection of legal services sources.

Section 31529.9(a) states that, "...the board of retirement...may contract with county counsel or with attorneys in private practice or employ staff attorneys for legal services." The code section must be adopted by a retirement board before it is effective. A full copy of 31529.9 is attached.

Further background on this topic is included in the materials provided for Agenda Item 7.3 which immediately follows this item.

Staff Recommendation

Staff recommends the board adopt the attached resolution making government code section 31529.9 effective in San Mateo County.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

Excerpt from the 1937 Act

31529.9. (a) In addition to the powers granted by Sections 31522.5, 31529, 31529.5, 31614, and 31732, the board of retirement and the board of investment may contract with the county counsel or with attorneys in private practice or employ staff attorneys for legal services.

(b) Notwithstanding Sections 31522.5, 31529.5, and 31580, the board shall pay, from system assets, reasonable compensation for the legal services.

(c) This section applies to any county of the 2nd class, 7th class, 14th class, 15th class, or the 16th class as described by Sections 28020, 28023, 28028, 28035, 28036, and 28037.

(d) This section shall also apply to any other county if the board of retirement, by resolution adopted by majority vote, makes this section applicable in the county.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

Resolution 10-11-__

RESOLUTION ADOPTING GOVERNMENT CODE SECTION 31529.9
AUTHORIZING CONTRACTS WITH ATTORNEYS IN PRIVATE PRACTICE OR
EMPLOYMENT OF STAFF ATTORNEYS FOR THE BOARD OF RETIREMENT
APPLICABLE IN SAN MATEO COUNTY

*THIS RESOLUTION, adopted by the Board of Retirement (Board) of the
San Mateo County Employees' Retirement Association (SamCERA),
Makes Government Code section 31529.9 effective in San Mateo County and authorizes
the Board to contract with attorneys in private practice or the employment staff attorneys
for the Board of Retirement.*

WHEREAS, Government Code section 31529 provides that the County Counsel is the attorney for the board; and

WHEREAS, Government Code §31529.9 provides that notwithstanding Government Code section 31529, this board may contract with attorneys in private practice or employ staff attorneys for legal services; and

WHEREAS, this board has determined that the level of legal services required and the complexity of legal issues to be resolved are increasing for *SamCERA*; and

WHEREAS, this board has determined that it would improve the governance structure for *SamCERA* to have its own independent counsel; therefore, be it

RESOLVED that the board hereby adopts this resolution making Government Code section 31529.9 effective in San Mateo County.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

April 26, 2011

Agenda Item 7.3

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer



SUBJECT: Approval to Establish and Fill the Position of Chief Legal Counsel

Issue

If the Board of Retirement adopts section 31529.9 of the 1937 Act, it can then request that the county amend its salary ordinance to include a *SamCERA* Chief Legal Counsel position and direct the CEO to fill that position.

Background

Workload. The level and complexity of legal services are increasing for *SamCERA*, making the time right to employ full time in-house legal counsel. Many reasons exist for the increasing legal needs, including:

- frequent changes in pension governing law due to court decisions and legislation at both the state and national levels,
- increasing IRS and SEC involvement with public plans,
- increasing complexity of *SamCERA*'s investment products,
- pending changes to *SamCERA*'s benefit plan and labor agreements,
- increasing numbers of retirement and disability applications as baby boomers begin to retire, with accompanying increases in the numbers of applications with benefits law issues.

In addition, *SamCERA* needs to replace its core pension estimate, calculation and database software. Legal validation of the rules imbedded in this new software will be essential to its success.

SamCERA also needs legal review and updating of its website, plan documents, educational brochures, divorce orders, benefit forms, RFP documents, and contracts. All these have evolved over the years, but now need a thorough legal review.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

As legal services needs increase, it will become increasingly beneficial for *SamCERA* to employ in-house legal counsel devoted solely to *SamCERA* issues. Staff is confident that the position established will easily have a full-time workload.

Governance. Having independent legal counsel is becoming a best practice in the pension industry. *SamCERA* is an independent legal entity with independent legal responsibilities. As such, *SamCERA* should have independent legal counsel.

SamCERA and the San Mateo County Counsel's Office enjoy an excellent relationship and staff believes the County Counsel's Office has consistently striven for objectivity in pension matters. Thus, this matter does not represent a problem to be solved but an opportunity to be taken, one that will enhance *SamCERA*'s governance structure.

Other '37 Act Systems. Today, six other '37 Act systems acquire all their legal services through county counsel. County counsel acts as either the provider or the selector of all legal advice. Nine systems employ in-house staff attorneys (as *SamCERA* staff is recommending) to provide the majority of legal services. Four '37 Act systems have no in-house counsel and determine themselves whether to use private sector advisors and/or county counsel for various types of legal services.

<u>Inside Attorneys Representing the Board of Retirement</u>	<u>Use County Counsel</u>	<u>Mix Outside & County Counsel</u>
Los Angeles	Imperial	Fresno
Orange	Mendocino	Kern
San Bernardino	Merced	Marin
Alameda	San Joaquin	Sonoma
Contra Costa	Tulare	
Sacramento	Ventura	
San Diego		
Stanislaus		
Santa Barbara		

Because of the increasing workload and the improvement in governance that will result, staff believes the time has come for *SamCERA* to employ independent legal counsel.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

Costs of the Position. The position is recommended to be established at the same pay range and benefits level as that of Chief Deputy County Counsel. This would represent a cost increase for *SamCERA*.

Legal Services Costs

Chief Legal Counsel (Salary, \$198,720 + Benefits, \$83,462) =	\$282,182
County Counsel (Three-Year Average Annual Cost) =	<u>\$129,686</u>
Incremental Cost (Salary+Benefits Less Average Annual Cost) =	\$152,496

This is somewhat of an apples-to-oranges comparison since *SamCERA* will be receiving substantial additional services with a full time staff attorney. Additionally, because staff are in frequent daily contact with County Counsel, and because of the long-standing close relationship between staff and County Counsel, not all calls, e-mails, and legal research is consistently reflected in the billing. Staff's belief is that the increased legal services will provide needed additional legal prevention of potentially costly errors, and will, therefore, be cost-effective.

We have not attempted to estimate the costs of acquiring from a private firm the same level of legal services as would be received from in-house staff. However, we assume it to be equal to or greater than the costs of in house staff due to the level of experience and expertise that would be required to provide the same level of service.

Other Considerations. While staff believes the advantages of hiring staff counsel far outweigh any other option, in its current situation *SamCERA* has enjoyed having a "go-between" in the County Counsel's Office. The current lead counsel for *SamCERA* is knowledgeable and connected in the county and has been of consistent assistance in working through issues. This advantage will not immediately go away if the staff attorney position is filled with the current lead counsel. However, over time there will be a diminishment of this advantage.

It is also important that the person in the position maintain their knowledge of boards and commissions law, the Brown Act, Open Meetings law, etc., all subjects of shared knowledge and expertise among the County Counsel's Office attorneys. However, the attorneys representing all the 37 Act systems also share this knowledge, with a particular emphasis on pension law. The *SamCERA* staff attorney will have these attorneys as resources, and it will be a priority to review materials and attend educational events sponsored by SACRS, CALAPRS and the National Association of Public Pension Attorneys.

Establishing the Position. With adoption of Section 31529.9, and if the board wishes to employ in-house counsel, they may do so through contracting with attorney(s) in private practice or through establishment of a staff position. Staff recommends establishment of a position because:

- Staff counsel would work full time for the retirement system and be present and available in the *SamCERA* offices;

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

- *SamCERA* has the opportunity to hire a knowledgeable and experienced candidate to fill a staff attorney position;
- County leadership has indicated a willingness to approve establishment of such a position.

The staff recommendation is to establish a position titled: Retirement Chief Legal Counsel. The “client” for the Chief Legal Counsel would be the Board of Retirement and would represent the board in all legal matters.

The position would be appointed by and report to the Chief Executive Officer. This is consistent with the authorization included in The Delegation of Authority to the Retirement Administrator, item 2.5, “The Administrator shall hire, fire, evaluate, discipline, promote & provide for the training of all employees of the Association, in accordance with County policies & procedures, and shall report on matters of significance.”

Filling the Position. Staff recommends that, if the Retirement Chief Legal Counsel position is established, the CEO should be authorized to directly appoint Brenda Carlson to fill that position. Ms. Carlson has been in legal practice since 1985. She has been an attorney with the county of San Mateo for 24 years and has been the chief legal counsel to *SamCERA* for 15 years. She has advised and represented the Retirement Board with excellence throughout this time. She is well respected in the ‘37 Act community and led the representation of 15 retirement systems in the Ventura litigation. Besides her long experience and deep knowledge of *SamCERA* pension matters, Ms. Carlson has consistently demonstrated her strong commitment to the interests of *SamCERA* and its members. Her placement in this position would also help retain the excellent relationship with the county of San Mateo, which staff believes is of high importance. Staff does not believe there can be a better candidate for the position.

Staff Recommendation

Staff recommends the board authorize staff to work with the county Human Resources Department to establish the position of Retirement Chief Legal Counsel, such position to be established at the same pay and benefits levels as that of Chief Deputy County Counsel in the San Mateo County salary ordinance, and that the Chief Executive Officer be authorized to directly appoint Brenda Carlson to the position.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

April 26, 2011

Agenda Item 7.4

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer



SUBJECT: Approval of SACRS Voting Delegate and Alternates

Issue

Prior to each SACRS conference the retirement boards are asked to select the individuals from each county system who are authorized to serve as voting delegates and alternate voting delegates at the conference business meeting.

Background

SamCERA normally selects the highest ranking board officer who will attend the conference as the voting delegate. Delegates can be either trustees or staff. *SamCERA's* conference attendees will be:

Trustees

Alma Salas
Al David
Sandie Arnott
Lauryn Agnew

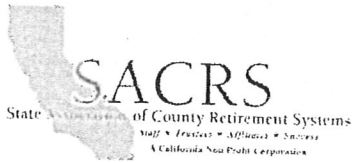
Staff

Gladys Smith
Scott Hood
Gary Clifton
Brenda Carlson
David Bailey

The business meeting occurs on the last morning of the conference, 9:45 a.m., Friday, May 13. The meeting agenda is attached.

Staff Recommendation

Staff recommends the board designate **Al David**, Board Chair, as the Voting Delegate, **Sandie Arnott**, Board Vice Chair, as the First Delegate Alternate, and **David Bailey**, CEO, as the Second Delegate Alternate to cast *SamCERA's* votes at the Spring 2011 SACRS Conference.



SACRS Business Meeting Draft Agenda
Friday, May 13, 2011
9:45 a.m.
Fess Parker Doubletree Resort & Spa
Santa Barbara, CA

SACRS Parliamentarian – TBA
Sergeant at Arms – TBA

1. County Roll Call
Doug Rose, SACRS Secretary
2. Secretary's Report
Doug Rose, SACRS Secretary
 - A. November 2010 SACRS Business Meeting Minutes – Receive and File
3. Treasurer's 2010-2011 Report – Receive and File
Vanessa Patterson, SACRS Treasurer
 - A. October 2010 thru March 2011 – Receive and File
 - B. SACRS 2010-2011 Budget – Receive and File
4. Board of Directors Report – No action
Richard A. White, SACRS President
 - Board of Directors Update
5. Audit Committee Report – SACRS 2009-2010 Fiscal Audit- Receive and File
Steve Delaney, Audit Committee Chair
 - A. 2009 – 2010 Audit
6. SACRS Executive Director Report – No Action
Robert Palmer, SACRS Executive Director
 - Projects for 2011
7. SACRS Nomination Committee – Elections
Ray McCray, Nomination Committee Chair
 - A. Nomination Committee Slate
 - B. Orange County Employees Retirement System Slate

8. SACRS Legislative Update 2010-2011 – No Action

Richard Stensrud, Legislative Committee Chair

- SACRS Spot Bill #1- Place holder for IRS Compliance Legislation
- SACRS Spot Bill #2- General placeholder legislation

9. SACRS Committee & Breakout Reports:

Committee	Chair	Breakout Reports	Representative
Affiliate	Bob Helliesen	Administrators	Tom Watson
Audit	Steve Delaney	Counsels	Lori Nemiroff & Allan Blakeboro
Bylaws	Gregg Rademacher	Disability	Crystal Rodriguez & Jan Garner
Education	Christie Porter	Internal Auditors	TBD
Legislative	Richard Stensrud	Investment Officers	Don Pierce
Nomination	Ray McCray	Operations & Benefits	Helen Olson
Program	Darryl Walker	Safety Trustees	Tracy Towner
		General Trustees	Don Neely & Liz Koppenhaver

Next scheduled SACRS Association Business Meeting will be held Friday, November 18th, 2011 at the Westin South Coast Plaza, Costa Mesa, CA.

San Mateo County Employees' Retirement Association
Board of Retirement

April 26, 2011

Agenda Item 7.5

To: Board of Retirement



From: Brenda Carlson, Deputy County Counsel
Gary Clifton, Chief Investment Officer

Subject: Annual Review & Approval of Amendments to *SamCERA's Conflict of Interest Code*

RECOMMENDATION: Staff recommends that the board review and approve the amendments to the *Conflict of Interest Code*, Resolution, 98-99-15.

BACKGROUND: The Political Reform Act declares that public officials, whether elected or appointed, are required to perform their duties in an impartial manner, free from bias caused by their own financial interests or the financial interests of persons who support them. Government Code §87300 mandates that California political subdivisions and independent public agencies adopt conflict of interest codes.

There are two types of filers for FPPC Form 700 Statements of Economic Interest: Government Code §87100 filers and Government Code §87200 filers. Officials "who manage public investments" are §87200 filers and are required to file statements of economic interests under Chapter 7, Article 2, of the Act. (Sections 87200-87210.) Public officials "who manage public investments" include those "[m]embers of boards and commissions, including pension and retirement boards and commissions, or committees thereof, who exercise responsibility for the management of public investments." (California Code of Regulations §18701(b)(1)(A).)

The Fair Political Practices Commission has opined that "consultants" include "investment consultant and investment management firm employees and principals ... who provide services to [*SamCERA*] ... with influence over the investment decisions pertaining to the [retirement fund] ... in positions that involve the making or participation in the making of decisions which may foreseeably have a material effect on any financial interest ... are required to file financial disclosure statements for ... investments in and income from, business entities which are or may foreseeably be invested in by [*SamCERA*] and investments in, and income from, persons or business entities engaged in buying and selling securities for the account of [*SamCERA*]."

When *SamCERA's Conflict of Interest Code* was presented for review and approval in February there was a concern regarding which investment managers, if any, should be required to file a Form 700. The concern was whether *SamCERA* would be constraining its ability to invest in private equity and certain alternative investments if those managers, who often provide less transparency, were required to file. The board directed staff to preform further research and report back on the findings.

DISCUSSION: Brenda Carlson will report her findings the board. She will then make a recommendation on how *SamCERA* should proceed when designating managers which are required to file a Form 700.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Conflict of Interest Code
RESOLUTION 98-99-15, as amended

THIS RESOLUTION, adopted by the Board of Retirement (Board) of the San Mateo County Employees' Retirement Association (SamCERA), amends SamCERA's Conflict of Interest Code and provides for its implementation.

WHEREAS, the board has adopted a *Code of Fiduciary Conduct* which requires among other things, that Trustees, the Chief Executive Officer, Consultants, Investment Managers and other professionals retained by the board and SamCERA staff shall comply with the provisions of the California Constitution; the Political Reform Act of 1974, as amended...and all other laws pertinent to the conduct of public pension fund fiduciaries; and

WHEREAS, Government Code §87300 mandates the adoption of a Conflict of Interest Code by independent public agencies; and

WHEREAS, the board, by Resolution 96-97-03, adopted the Conflict of Interest Code provisions of California Fair Political Practices Commission (FPPC) Regulation 18730; and

WHEREAS, Government Code §87306.5 mandates that the board review its *designation of employees* and *disclosure categories* from time to time. Therefore, be it

RESOLVED that the board hereby redefines SamCERA's *List of Designated Individuals and Disclosure Categories* per FPPC Regulation 18730, to read as follows:

List of Designated Individuals and Applicable Disclosure Categories

Each individual holding a *Designated Position* must file FPPC Form 700--*Statement of Economic Interests* disclosing the applicable financial interests indicated for the position in accordance with Government Code §87200, *et seq.*

San Mateo County Employees' Retirement Association

List of Designated Positions in the San Mateo County Employees' Retirement Association and Financial Disclosure Categories

Each person holding any position listed below must file statements disclosing the kinds of financial interest shown for the designated employee's position. Statements must be filed at the times and on the forms prescribed by law. Failure to file statements on time may result in penalties including but not limited to late fines.

	Disclosure Category
Trustees and Alternate Trustees	*
Chief Executive Officer	*
Chief Investment Officer	*
Designated Employees	Disclosure Category
Investment and Finance Manager	1,2,3,4
Assistant Executive Officer	1,2,3,4
Consultants**	1,2,3,4
County Counsel Acting As Chief Counsel to the Board	1,2,3,4
Actuary	1,2,3,4
Investment Managers	1,2,3,4

* The Trustees, Alternate Trustees, Chief Executive Officer, and Chief Investment Officer must file Statements of Economic Interest in accordance with Government Code Section 87200 et seq and California Code of Regulations, Regulation 18701 (b) with respect to all disclosure categories: However, the original statements will be filed with SamCERA and with a copy to County Clerk. The County Clerk does not need to forward the Statement of Economic Interest to the Fair Political Practices Commission.

**In addition to the consultants listed, the Chief Executive Officer, after consultation with the County Counsel, shall review the duties and authority of all consultants retained by San Mateo County Employees' Retirement Association. Those consultants who, within the meaning of California Code of Regulations 18700 (a)(2) are required to file statements of economic interests, shall do so.

Be it further

RESOLVED that the board hereby adopts the following

DESCRIPTION OF FINANCIAL DISCLOSURE CATEGORIES

Category 1: Investments that may be materially affected by any decision made or participated in by the designated individual must be disclosed on Schedules A-1 &/or A-2 of Form 700.

Category 2: Interests in Real Property that may be materially affected by any decision made or participated in by the designated individual must be disclosed on Schedules B &/or C of Form 700. If the designated individual is a trustee, designated alternate trustee, or *SamCERA* staff member, disclosure is only required on real property located in the County of San Mateo.

Category 3: Income that may be materially affected by any decision made or participated in by the designated individual must be disclosed on Schedules C, D, E, &/or F of Form 700.

Category 4: A Business Entity in which the designated individual is a director, officer, partner, trustee, or holds any position of management that may be materially affected by any decision made or participated in by the designated individual must be disclosed on Schedule C of FPPC Form 700. Be it further

RESOLVED that the board, in concert with the opinion of the FPPC, defines as *consultants specifically identified to file by the Board of Retirement* "employees and principals who provide services to the board, with influence over the investment decisions pertaining to the retirement fund and in positions that involve the making or participation in the making of decisions which may foreseeably have a material effect on any reportable financial interest". Be it further

RESOLVED that the board hereby authorizes the Chief Executive Officer to instruct the following firms to identify employees and principals who meet the definition of consultant set forth above: AQR Capital Management LLC., Aberdeen Asset Management, Angelo Gordon, Artio Global Investors, , Barrow Hanley Mewhinney & Strauss, Inc., BlackRock Capital Management, Inc., Brigade Capital Management, Brown Brothers Harriman, Chartwell Investment Partners, D.E. Shaw Investment Management LLC, Franklin Templeton Institutional, INVESCO Realty Advisors, Jennison Associates, Mondrian Investment Partners, Pyramis Global Advisors, Strategic Investment Solutions, T. Rowe Price Associates, Inc., The Boston Company Asset Management LLC, and Western Asset Management. Be it further

RESOLVED that the board hereby instructs the Chief Executive Officer to provide annual disclosure Form 700s to all trustees and all individuals in the *Designated Positions*. Each individual receiving said form must file the original Form 700 with the Chief Executive Officer who must make and retain a copy and forward the original to the County Clerk. Form 700 must be filed at the times and on the forms prescribed by law. Failure to file statements on time may result in penalties, including but not limited to late fines. Be it further

RESOLVED that the board hereby instructs the Chief Executive Officer to implement a program to provide reasonable assurance that foreseeable potential conflict of interest situations will be disclosed

and prevented and to provide each affected person with a clear and specific statement of his or her duties under the Conflict of Interest Code. Be it further

RESOLVED that the board hereby instructs the Chief Executive Officer to supply the necessary forms and manuals, to monitor timely and complete filing compliance, to take action regarding late filings and to report apparent violations of the Conflict of Interest Code to the Board.

ADOPTED by unanimous vote, February 23, 1999

AMENDED by unanimous vote, February 22, 2000

AMENDED by unanimous vote, February 27, 2001

AMENDED by unanimous vote, February 26, 2002

AMENDED by unanimous vote, March 25, 2003

AMENDED by unanimous vote, February 22, 2005

AMENDED by unanimous vote, January 24, 2006

AMENDED by unanimous vote, February 26, 2008

AMENDED by unanimous vote, July 28, 2009

AMENDED by unanimous vote, March, 2010

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

April 26, 2011

Agenda Item 7.6

To: Board of Retirement



From: Mabel Wong, Retirement Finance Officer



Gary Clifton, Chief Investment Officer

Subject: Approval of Auditor's Engagement Letter for the June 30, 2011, Financial Audit

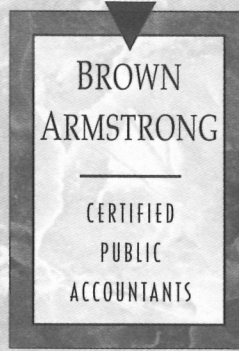
STAFF RECOMMENDATION: Staff recommends that the board authorize the Audit Committee Chair, Ms. Kwan Lloyd, to execute the Audit Engagement Letter for the June 30, 2011, Financial Statement Audit. The Engagement Letter is attached to this agenda item.

BACKGROUND: Government Code Section 31593 mandates that *"The retirement board shall conduct an audit of the retirement system at least once every 12 months and report upon its financial condition."* The board's external auditor, Brown Armstrong Paulden McCown Starbuck Thornburgh & Keeter, is a Certified Public Accounting firm hired to perform an audit of *SamCERA's* financial statements. The objective of this audit is to express an opinion as to whether the financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles. In addition the audit includes reports (that do not include opinions) on internal controls related to the financial statements and compliance with laws, regulations, and the provisions of contractual agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*.

DISCUSSION: An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements: therefore a Brown Armstrong audit team headed by Ms. Connie Perez, Audit Manager, will be in *SamCERA's* office to conduct interim work prior to the closing of *SamCERA's* books. In planning and performing the audit, Brown Armstrong will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and it will assess control risk. Brown Armstrong will inform the Audit Committee or the board of any matters involving internal controls and *SamCERA's* operation that are considered reportable conditions under standards established by the American Institute of Certified Public Accountants. The fee for these services will be at Brown Armstrong's standard hourly rate plus out-of-pocket costs. The gross base audit fee, including expenses is not to exceed \$45,500.

When reviewing the scope of the audit, it is incumbent upon trustees and staff to highlight issues within that scope that may be of concern, or deserve additional scrutiny. If you have comments or concerns, please express them to Mr. Clifton (gclifton@samcera.org) (650) 599-7231). Ms. Wong (mwong@samcera.org) (650) 363-4838) or directly to Mr. Andy Paulden of Brown Armstrong (apaulden@bacpas.com) (661) 324-4971.)

Peter C. Brown, CPA
Burton H. Armstrong, CPA, MST
Andrew J. Paulden, CPA
Steven R. Starbuck, CPA
Chris M. Thornburgh, CPA
Eric H. Xin, CPA, MBA
Richard L. Halle, CPA, MST
Aileen K. Keeter, CPA



■ Main Office
4200 Truxtun Ave., Suite 300
Bakersfield, California 93309
Tel 661-324-4971 Fax 661-324-4997
e-mail: info@bacpas.com

■ 560 Central Avenue
Shafter, California 93263
Tel 661-746-2145 Fax 661-746-1218

■ 8365 N. Fresno Street, Suite 440
Fresno, California 93720
Tel 559-476-3592 Fax 559-476-3593

March 17, 2011

Ms. Natalie Kwan Lloyd, Audit Committee Chair
San Mateo County Employees' Retirement Association
100 Marine World Parkway, Suite 125
Redwood Shores, California 94065

Dear Ms. Lloyd:

We are pleased to confirm our understanding of the services we are to provide San Mateo County Employees' Retirement Association for the year ended June 30, 2011. We will audit the basic financial statements of San Mateo County Employees' Retirement Association as of and for the year ended June 30, 2011. Accounting Standards Generally Accepted in the United States provide for certain required supplementary information (RSI), such as Management's Discussion and Analysis (MD&A), to accompany the basic financial statements. As part of our engagement, we will apply certain limited procedures to San Mateo County Employees' Retirement Association's RSI. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with procedures relating to it, we will disclaim an opinion on it. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited.

1. Management's Discussion and Analysis

Supplementary information other than RSI also accompanies San Mateo County Employees' Retirement Association's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in the audit of the basic financial statements and will provide an opinion on it in relation to the basic financial statements.

1. Required Supplemental Information
2. Other Supplemental Information

The following additional information accompanying basic financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements and for which our auditing procedures will disclaim an opinion.

1. Investment Section
2. Actuarial Section
3. Statistical Section

Audit Objectives

The objective of our audit is the expression of an opinion as to whether your financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the general purpose financial statements taken as a whole. Our audit will be conducted in accordance with standards generally accepted by the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of the accounting records of San Mateo County Employees' Retirement Association and other procedures we consider necessary to enable us to express such an opinion.

If our opinion on the financial statements is other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

We will also provide reports (that do not include opinions) on internal control related to the financial statements and compliance with laws, regulations, and the provisions or grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and on compliance will include a statement that the report is intended solely for the information and use of the audit committee, management, and specific legislative or regulatory bodies, and is not intended to be, and should not be used by anyone other than the specified parties. If during the audit we become aware that San Mateo County Employees' Retirement Association is subject to an audit requirement that is not encompassed in the terms of this engagement letter, we will communicate to management, and those charged with governance, that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

Management Responsibilities

Management is responsible for establishing and maintaining internal control, including monitoring ongoing activities; for the selection and application of accounting principles; for compliance with laws, regulations, contracts, and agreements; and for the fair presentation in the financial statements of the respective financial position of San Mateo County Employees' Retirement Association and the respective changes in financial position, in conformity with accounting principles generally accepted in the United States of America. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. We will advise you about appropriate accounting principles and their application and will assist in the preparation of your financial statements, but the responsibility for the financial statements remains with you. That responsibility includes the establishment and maintenance of adequate records and effective internal control over financial reporting, the selection and application of accounting principles, and the safeguarding of assets.

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. You are also responsible for management decisions and functions; for designating an individual with suitable skill, knowledge, or experience to oversee our financial statement preparation services and any other non-attest services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for making all financial records and related information available to us. We understand that you will provide us with such information required for our audit and that you are responsible for the accuracy and completeness of that information. Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws and regulations.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or regulations that are attributable to the Association or to acts by management or employees acting on behalf of the Association.

Because an audit is designed to provide reasonable, but not absolute, assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. In addition, an audit is not designed to detect errors, fraud, or other illegal acts that are immaterial to the general purpose financial statements. However, we will inform you of any material errors and any fraud that comes to our attention. We will also inform you of any violations of laws or governmental regulations or other illegal acts that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts and direct confirmation of investments, and certain other assets and liabilities by correspondence with financial institutions, actuaries and other third parties. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Controls

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risk of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. (Tests of controls are required only if control risk is assessed below the maximum level.) Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal controls issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify reportable conditions. However, during the audit, we will communicate to you and those charged with governance internal control related matters that are required to be communicated under professional standards and Government Auditing Standards.

Audit Procedures—Compliance

Identifying and ensuring that San Mateo County Employees' Retirement Association complies with laws, regulations, contracts, and agreements is the responsibility of management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we will perform tests of San Mateo County Employees' Retirement Association's compliance with applicable laws and regulations and the provisions of contracts and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

Audit Administration, Fees, and Other

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service provider.

Ms. Natalie Kwan Lloyd, Audit Committee Chair
San Mateo County Employees' Retirement Association
March 17, 2011
Page Five

We understand that your employees will prepare all cash or other confirmations we request and will locate any invoices selected by us for testing. The workpapers for this engagement are the property of Brown Armstrong and constitute confidential information. However, we may be requested to make certain workpapers available to a Cognizant Agency pursuant to authority given to it by law or regulation. If requested, access to such workpapers will be provided under the supervision of Brown Armstrong personnel. Furthermore, upon request, we may provide photocopies of selected workpapers to a Cognizant Agency. The Cognizant Agency may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, typing, postage, travel, copies, telephone, etc.). In accordance with our proposal, we agree that our gross base audit fee, including expenses, will not exceed \$45,500. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 90 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, you will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

All disputes under this agreement shall be submitted to mediation. Each party shall designate an executive officer empowered to attempt to resolve the dispute. Should the designated representatives be unable to agree on a resolution, a competent and impartial third party acceptable to both parties shall be appointed to mediate. Each disputing party shall pay an equal percentage of the mediator's fees and expenses. No suit or arbitration proceedings shall be commenced under this agreement until at least 60 days after the mediator's first meeting with the involved parties. In the event that the dispute is required to be litigated, the court shall be authorized to assess litigation costs against any party found not to have participated in the mediation process in good faith.

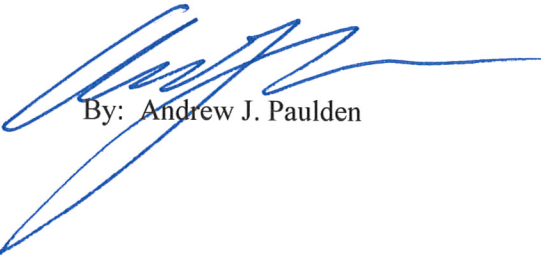
Government Auditing Standards require that we provide you with a copy of our most recent quality control review report. Our most recent peer review report accompanies this letter.

Ms. Natalie Kwan Lloyd, Audit Committee Chair
San Mateo County Employees' Retirement Association
March 17, 2011
Page Six

We appreciate the opportunity to be of service to San Mateo County Employees' Retirement Association and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



By: Andrew J. Paulden

AJP:bnd:ljh

Enclosure

Pfx Engagement/74015 06/30/11 Audit/PSR-02 Engagement Letter

RESPONSE:

This letter correctly sets forth the understanding of San Mateo County Employees' Retirement Association.

By: _____

Title: _____

Date: _____



**WEAVER
AND
TIDWELL**

L.L.P.

CERTIFIED PUBLIC
ACCOUNTANTS
AND CONSULTANTS

System Review Report

To the Shareholders of
Brown Armstrong Paulden McCown Starbuck Thornburgh & Keeter, A.C.
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Brown Armstrong Paulden McCown Starbuck Thornburgh & Keeter, A.C. (the firm) in effect for the year ended October 31, 2008. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based upon our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

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 Paulden McCown Starbuck Thornburgh & Keeter, A.C. in effect for the year ended October 31, 2008, 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 Paulden McCown Starbuck Thornburgh & Keeter, A.C. has received a peer review rating of *pass*.

Weaver and Tidwell, LLP
WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
January 30, 2009

Three Forest Plaza
12221 Merit Drive
Suite 1400
Dallas, Texas 75251-2280
972.490.1970
F 972.702.8321

WWW.WEAVERANDTIDWELL.COM

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San Mateo County Employees' Retirement Association
Board of Retirement

April 26, 2011

Agenda Item 7.7

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Preliminary Third Quarter Budget Report

DISCUSSION: *SamCERA's* fiscal year 2010/2011 budget consists of three components, a professional services budget and an asset management budget authorized by Government Code §31596.1, and an administrative budget authorized by Government Code §31580.2.

Professional Services Budget - **Attachment One** provides an overview of the accrued professional services expenditures. Investment management fees are driven by contractual agreements and based on total assets under management. Fees for the actuarial services, investment consulting services and global custodian services are based per-service and/or retainer based as detailed in the contractual agreements. The preliminary aggregate professional services fee as of March 31 is approximately 32.2 basis points, which is lower than the 33.9 basis points reported in December and the 39.7 basis points reported in September. The decreases are attributed to appreciation in assets. Contracts are negotiated in a manner that reduces management fees as a portfolio's assets grow.

Administrative Budget - The adopted administrative budget by category, versus the preliminary fiscal expenditures, is shown in the table on the following page. When this budget was adopted Government Code Section 31580.3 of the County Employees Retirement Law of 1937 limited *SamCERA's* administrative budget to twenty-three hundredths of 1 percent (0.23%) of the total assets of the retirement system. The legislated calculation for the administrative budget has been changed under AB609 County Employees Retirement: Administrative Costs. The new calculation methodology is based upon actuarial liabilities versus the market value of assets.

Attachment Two provides a review of the line item administrative appropriations versus the preliminary expenditures. The preliminary fiscal year budget shows that *SamCERA* has expended only 50.1% of the appropriations.

San Mateo County's budget process requires *SamCERA* to allocate for positions as though they are filled on day one. This fiscal year the board authorized three new positions, two of which will not be filled through the first three quarters. The **Salaries & Benefits** allocation is below where one would expect if all positions had been filled on day one. That category will experience savings throughout the year. Most **Services & Supplies** expenditures are not linear. The larger expenses in technology infrastructure, fiduciary insurance, postage will not occur until later this year.

SamCERA's Administrative Budget

	Adopted Budget	YTD Preliminary
Salaries & Benefits	\$2,640,000	\$1,591,239
Services & Supplies	\$2,343,000	\$ 905,026
Capital Assets	<u>\$ 000</u>	<u>\$ 000</u>
Total	\$4,983,000	\$2,496,265

Asset Management Budget - The adopted asset management budget by category, versus the preliminary fiscal expenditures, is shown in the table below.

Attachment Three provides a review of the line item asset management appropriations versus the preliminary expenditures. This budget encompasses *SamCERA's* in-house expenditures, which are incurred when managing the association's assets. It currently includes the salaries and benefits of the Chief Investment Officer, Retirement Investment Analyst and a percentage of the salaries and benefits of the Chief Executive Officer, Assistant Executive Officer, and Finance Officer. It also includes overhead related to support of the investment functions.

SamCERA's Asset Management Budget

	Adopted Budget	YTD Preliminary
Salaries & Benefits	\$ 550,000	\$ 336,174
Services & Supplies	\$ 430,700	\$ 134,153
Capital Assets	<u>\$ 000</u>	<u>\$ 000</u>
Total	\$ 980,700	\$ 470,327

San Mateo County Employees' Retirement Association
Board of Retirement

April 26, 2011
 Attachment One

Third Quarter Analysis
 03-31-2011

Agenda Item 7.7

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)	2010-2011 YTD EXPENSE (ACCRUED)	2010-2011 ESTIMATE
Milliman	Actuarial Consulting	0.1 bp	\$42,700	\$75,000
Strategic Investment Solutions	Investment Consulting	0.4 bp	\$266,700	\$400,000
State Street Bank & Trust	Global Custody	0.1 bp	\$192,700	\$130,000
SUB-TOTAL NON INVESTMENT MANAGER CONTRACTUAL FEES			\$502,100	\$605,000
<i>Estimated Market Value 06-30-2011</i>			\$2.4 Billion	\$2.4 Billion
Average Basis Points (2)			2.7 bp	2.5 bp

- (1) The Actuary, Custodian and Investment Consultant fees expressed in basis points utilize total assets while the Investment Manager calculations utilize assets under management.
- (2) The calculation utilizes a market value of \$2,400.0 million

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

CONTRACTOR	SERVICE	FEE	2010-2011 YTD EXPENSE (ACCRUED)	2010-2011 ESTIMATE
BlackRock – Russell 1000 Index Fund	Enhanced Index Fund Domestic Large Cap Equity	4.0 bp	\$69,600	\$93,000
D.E. Shaw Investment Management,	Active Management Domestic Large Cap Enhanced	50.6 bp	\$383,000	\$480,000
T. Rowe Price Associates	Active Management Domestic Large Cap Enhanced	35.0 bp	\$267,800	\$350,000
Barrow, Hanley, Mewhinney & Strauss	Active Management Domestic Large Cap Value	44.2 bp	\$515,800	\$650,000
BlackRock Capital Management	Active Management Domestic Large Cap Growth	45.8 bp	\$545,300	\$660,000
The Boston Company	Active Management Domestic Small Cap Equity	85.0 bp	\$292,600	\$375,000
Chartwell Investment Partners	Active Management Domestic Small Cap Equity	75.0 bp	\$286,800	\$335,000
Jennison Associates	Active Management Domestic Small Cap Equity	76.7 bp	\$626,000	\$770,000
Artio Global Investors	Active Management International Equity	48.1 bp	\$768,300	\$965,000
Mondrian Investment Partners	Active Management International Equity	24.4 bp	\$344,000	\$500,000
Aberdeen Asset Management	Active Management Domestic Fixed Income	26.7 bp	\$262,000	\$375,000
Angelo Gordon (PIIP)	Active Management Domestic Fixed Income	100.0 bp	\$155,467	\$350,000
Brigade Capital Management	Active Management Domestic Credit Opportunity Fixed Income	100.0 bp	\$155,600	\$220,000
Brown Brothers Harriman	Active Management Treasury Inflation Protection Securities	15.0 bp	\$47,100	\$75,000
Franklin Templeton	Active Management Domestic Fixed Income	40.0 bp	\$105,700	\$450,000
Pyramis Global Advisors	Enhanced Index Fund Domestic Fixed Income	17.5 bp	\$178,600	\$260,000
Western Asset Management	Active Management Domestic Fixed Income	27.5 bp	\$284,500	\$420,000
INVESCO Realty Advisors	Real Estate Management	5.6 bp	\$452,200	\$700,000
SUB-TOTAL INVESTMENT MANAGERS			\$5,288,167	\$8,028,000
Average Basis Points (1)			29.4 bp	33.5 bp
SUB-TOTAL NON- INVESTMENT MANAGERS (FROM PREVIOUS PAGE)			\$502,100	\$605,000
Average Basis Points (2)			2.7 bp	2.5 bp
TOTAL ESTIMATED CONTRACT FEES			\$5,790,267	\$8,633,000
<i>Estimated Market Value 06-30-2011</i>			\$2.4 billion	\$2.4billion
Average Basis Points (2)			32.2 bp	35.9 bp

(1) The Actuary, Custodian and Investment Consultant fees expressed in basis points utilize total assets while the Investment Manager calculations utilize assets under management.

(2) The calculation utilizes a market value of \$2,400.0 million

San Mateo County Employees' Retirement Association
Board of Retirement

April 26, 2011
Attachment Two

Agenda Item 7.7

**San Mateo County Employees' Retirement Association
Preliminary Report
Fiscal Year 2010-2011
Third Quarter Analysis
Line Item Administrative Budget**

	Budget Allotment	Year to Date Expenditures	Percentage Expended	Remaining Balance	Remaining Percentage
Salaries	\$1,782,008	\$1,042,193	58.5%	\$739,815	41.5%
Benefits	\$857,992	\$549,046	64.0%	\$308,946	36.0%
Salaries & Benefits	\$2,640,000	\$1,591,239	60.3%	\$1,048,761	39.7%
Board Expenses	\$10,800	\$4,000	37.0%	\$6,800	63.0%
Insurance	\$85,000	\$10,620	12.5%	\$74,380	87.5%
Medical Record Service	\$45,000	\$54,214	120.5%	-\$9,214	-20.5%
Member Education	\$45,000	\$42,197	93.8%	\$2,803	6.2%
Education & Conference	\$38,700	\$32,228	83.3%	\$6,472	16.7%
Transportation & Lodging	\$85,000	\$22,228	26.2%	\$62,772	73.8%
Technology Infrastructure	\$1,048,000	\$96,217	9.2%	\$951,783	90.8%
Property & Equipment	\$102,000	\$34,526	33.8%	\$67,474	66.2%
General Office Supplies	\$25,000	\$14,341	57.4%	\$10,659	42.6%
Postage, Printing & Copying	\$125,000	\$49,410	39.5%	\$75,590	60.5%
Leased Facilities	\$235,000	\$148,291	63.1%	\$86,709	36.9%
County Service	\$333,000	\$285,533	85.7%	\$47,467	14.3%
Audit Services	\$45,500	\$28,836	63.4%	\$16,664	36.6%
Other Administration	\$120,000	\$82,386	68.7%	\$37,614	31.3%
Services & Supplies	\$2,343,000	\$905,026	38.6%	\$1,437,974	61.4%
Capital Assets	\$0	\$0	0.0%	\$0	0.0%
Depreciation		\$0			
Grand Total	\$4,983,000	\$2,496,265	50.1%	\$2,486,735	49.9%

San Mateo County Employees' Retirement Association
Board of Retirement

April 26, 2011
Attachment Three

Agenda Item 7.7

San Mateo County Employees' Retirement Association
Preliminary Report
Fiscal Year 2010-2011
Third Quarter Analysis
Line Item Asset Management Budget

	Budget Allotment	Year to Date Expenditures	Percentage Expended	Remaining Balance	Remaining Percentage
Salaries	\$370,000	\$231,247	62.5%	\$138,753	37.5%
Benefits	\$180,000	\$104,927	58.3%	\$75,073	41.7%
Salaries & Benefits	\$550,000	\$336,174	61.1%	\$213,826	38.9%
Board Expenses	\$0	\$2,200	0.0%	-\$2,200	0.0%
Insurance	\$2,000	\$1,620	81.0%	\$380	19.0%
Medical Record Service	\$0	\$0	0.0%	\$0	0.0%
Member Education	\$0	\$0	0.0%	\$0	0.0%
Education & Conference	\$35,700	\$14,067	39.4%	\$21,633	60.6%
Transportation & Lodging	\$62,000	\$20,733	33.4%	\$41,267	66.6%
Technology Infrastructure	\$195,000	\$15,000	7.7%	\$180,000	92.3%
Property & Equipment	\$5,000	\$0	0.0%	\$5,000	100.0%
General Office Supplies	\$0	\$0	0.0%	\$0	0.0%
Postage, Printing & Copying	\$0	\$333	0.0%	-\$333	0.0%
Leased Facilities	\$45,000	\$22,621	50.3%	\$22,379	49.7%
County Service	\$74,000	\$31,746	42.9%	\$42,254	57.1%
Audit Services	\$0	\$9,612	0.0%	-\$9,612	0.0%
Other Administration	\$12,000	\$16,222	135.2%	-\$4,222	-35.2%
Services & Supplies	\$430,700	\$134,153	31.1%	\$296,547	68.9%
Capital Assets	\$0	\$0	0.0%	\$0	0.0%
Depreciation		\$0			0.0%
Grand Total	\$980,700	\$470,327	48.0%	\$510,373	52.0%