

## The Board of Retirement

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

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

**Tuesday, January 25, 2011, at 1:00 p.m.**

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

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

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

    - Disability Retirements
      - Normita Ferretti
      - Lissa Kaye
      - Linda Fitzgibbon
      - Debra Morris-Singh
    - 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 (The Investment Committee will meet on January 25<sup>th</sup> at 10 a.m.)
    - 6.1 Monthly Portfolio Performance Report
    - 6.2 Approval of Amendment to Policy Regarding Placement Agents
    - 6.3 Approval of Search Criteria for a Commodity Allocation Mandate
    - 6.4 Educational Presentation – Hedge Fund Investment Opportunities
    - 6.5 Approval of Policy Regarding Securities Litigation
  7. Board & Management Support Services
    - 7.1 Monthly Financial Report
    - 7.2 Quarterly Budget Report for Period Ended December 31, 2010
    - 7.3 Report on Status of Board/Staff Retreat –Ad Hoc Committee Report
    - 7.4 Approval of Amendments Updating Board Resolution Regarding Compensation Earnable
    - 7.5 Approval of Resolution Authorizing Chief Executive Officer to Submit Tax Determination Letter Request
  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 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

***[Continued on page 2 – Printed 01/19/11]***

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

10. Adjournment in memory of the following deceased members:

Hamid, Asghar	November 7, 2010	Assessor
Johnson, Hubert	November 20, 2010	Ben of Johnson, Rosetta
Murphy, Marjorie	November 21, 2010	General Services
Bruning, Patricia	November 28, 2010	Courts
Hanson, Madeline	November 29, 2010	Courts
Hachey, Ernest	December 1, 2010	Social Services
Pearson, Charles	December 14, 2010	Weights & Measures
Thomas, Billie	December 22, 2010	Business Administration
Marbury, Evelyn	December 23, 2010	Treasurer
Koziol, Mary	December 27, 2010	Sheriff's Office
Markham, Dorothy	December 30, 2010	General Hospital
Ray, George	December 31, 2010	Ben of Ray, Mayme



David Bailey, Chief Executive Officer

Printed: 1/19/11

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](http://www.samcera.org)  
*Free Parking is available in all lots in the vicinity of the building.*

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**Minutes of the Meeting of the Board of Retirement**

January 25, 2010

Agenda Item 3.0

**December 14, 2010 – 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
    - Kathleen Parkin
    - Kamlesh Singh
    - In the Matter of The Disability Application of Loretta Keenan – Ratification of Subpoena Issuance
  - Service Retirements
  - Continuances
  - 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 Quarterly Investment Performance Analysis for Period Ended September 30, 2010
  - 6.3 Investment Manager Interviews – Risk Parity Mandate
    - 6.3 a AQR Capital Management: Global Risk Premium Strategy 10% Volatility  
(Board Interview at 9:30 a.m.)
    - 6.3 b Bridgewater Associates: All Weather Strategy  
(Board Interview at 10:30 a.m.)
    - 6.3 c PanAgora Asset Management: Risk Parity  
(Board Interview at 11:30 a.m.)
  - 6.4 Investment Management Agreement – Franklin Templeton
  - 6.5 Semi-Annual Capital Market & Inflation Assumption Review
7. Board & Management Support Services
  - 7.1 Monthly Financial Report
  - 7.2 Amendment to Regulations Regarding Purchase of Credit for Public Service
  - 7.3 Amendment to Regulations Regarding Disability Retirements
  - 7.4 Approval of Board/Staff Retreat Agenda – Retreat Scheduled for March 2011
  - 7.5 Appointment of the Chief Executive Officer Review Committee
  - 7.6 Approval of Policy Regarding Securities Litigation & Lead Plaintiff Status
8. Management Reports
  - 8.1 Chief Executive Officer's Report
  - 8.2 Assistant Executive Officer's Report
  - 8.3 Chief Investment Officer's Report
  - 8.4 County Counsel's Report

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

- C1 Consideration of disability items, if any, removed from the Consent Agenda and appropriate for closed session
9. Report on Actions Taken in Closed Session

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10. Adjournment

**December 14, 2010 – Board Minutes**

1012.1 **Call to Order:** Mr. David, Chair, called the Public Session of the Board of Retirement to order at 9:03 a.m., December 14, 2010, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.

**Roll Call:** Ms. Arnott for Mr. Buffington, Ms. Agnew, Mr. Bowler (arr. 9:10 a.m.), Mr. David, Mr. Hackleman (dep. 2:25 p.m.), Ms. Kwan Lloyd, Mr. Spinello (dep. 3 p.m.) and Mr. Tashman (arr. 9:07 a.m, dep. 2:50 pm.). *Other Board Members in Attendance:* Ms. Salas for Mr. Hackleman (2:25 p.m.). *Staff:* Mr. Bailey, Mr. Hood, Ms. Dames, Mr. Clifton, Ms. Smith, Ms. LeBlanc and Ms. Wong. *Consultants:* Ms. Carlson, Dr. Fracchia, Mr. Brody and Mr. Thomas. *Retirees:* 0, *Public:* 0.

1012.2.1 **Oral Communications From the Board:** Mr. Spinello reported that he attended the IFEBP Annual Benefits Conference and found the sessions very informational. Ms. Arnott also attended the conference and highlighted a session that discussed options for benefits and retirement tiers. She appreciated the opportunity to attend the IFEBP Benefits conference, which she considers an outstanding educational conference. Ms. Kwan Lloyd found the session on alternative investments and risks of leverage very informative. Mr. Hackleman was a guest speaker at the conference and offered a copy of all presentation slides to staff and trustees. Ms. Agnew also attended the IFEBP Masters Trustees Program before the conference and found it educational. She also attended the SACRS Fall Conference and thought that the chance to meet with other 1937 Act county retirement systems makes SACRS a great and unique opportunity for trustees.

Mr. David then reported that Mr. Murphy's wife, Marjorie, recently passed away and honored her memory.

1012.2.2 **Oral Communications From the Public:** None.

1012.3 **Approval of the Minutes: Motion** by Spinello, second by Kwan Lloyd, carried unanimously to approve the minutes from the October 26, 2010, board meeting, as submitted.

Mr. David then took up agenda item 6.1.

1012.4 **Approval of the Consent Agenda:** Mr. David removed the disability applications of Kathleen Parkin (Bailey) and Kamlesh Singh (Agnew) from the consent agenda to be taken under consideration in closed session. **Motion** by Spinello, second by Kwan Lloyd, carried unanimously to approve the day's consent agenda, as amended. Mr. Hackleman recused himself from voting in the matter of the disability application of Loretta Keenan.

**Disability Retirements:**

The board ratified the issuance of subpoena in the matter of the disability application of Loretta Keenan.

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**Service Retirements:**

<b>Member Name</b>	<b>Effective Retirement Date</b>	<b>Department</b>
Anderson-Potts, Rebecca	September 4, 2010	Public Health
Chavez, Cynthia	September 4, 2010	Def'd from Child Support
Granucci, James	September 8, 2010	Sheriff's Office
Minuti, Charles	September 8, 2010	Def'd from Communications
Hebert, Michelle	September 9, 2010	Def'd from San Mateo Medical
Ashton, Charles	September 10, 2010	Def'd from Library
James, Alice	September 10, 2010	Human Services Agency
Wilson, Julia	September 10, 2010	Family Health
Celaya, Patricia	September 13, 2010	Probation
Brackinridge, Eugene	September 14, 2010	QDRO of Sandra Alexander
Shortz, Claudia	September 16, 2010	Def'd from Superior Court
McCoy, Lori	September 20, 2010	Def'd from Human Resource
Pines, Deborah	September 22, 2010	Def'd from San Mateo Medical
Wilson, Brent	September 22, 2010	Public Works
Hernandez, Simon	September 23, 2010	Def'd from San Mateo Medical
Fernandez, Maria	September 25, 2010	Superior Court
Preston, Rena	September 30, 2010	Def'd from District Attorney
McLaughlin, Dennis	October 1, 2010	Def'd from San Mateo Medical
Radcliffe, Robert	October 1, 2010	Public Works
Gurney, Ruth	October 6, 2010	Def'd from Mental Health
Buckmaster, Jaime	October 13, 2010	Def'd from Human Services
McKinney, Janet	October 15, 2010	Def'd from Revenue Services
Gonzalez, Manuel	October 18, 2010	San Mateo Medical Center
Lopez, Rebecca	October 23, 2010	San Mateo Medical Center
Charan, Daya	October 25, 2010	San Mateo Medical Center
Collins, Bruce	October 30, 2010	Probation
Tolden, William	October 30, 2010	Aging and Adult Services

**Continuance of Benefits:**

<b>Member Name</b>	<b>Beneficiary of:</b>
Evans, Myriam	Evans, James
Hendrick, Andrea	Hendrick, Hugh
Ng, Newman	Ng, Christine
San, Beverly	Sans, William
Van Cantfort, Marilyn	Van Cantfort, Rollin
Washkuhn, Margaret	Washkuhn, Jack

**Deferred Retirements:**

<b>Member Name</b>	<b>Retirement Plan Type</b>	
Billingsley, Randall O.	G4-Vested	Reciprocity
Fermin Casteneda,	G4-Vested	Reciprocity
Lawton, Vanessa G.	G4-Vested	
O'Malley-Riley, Marsi	G4-Vested	

**Member Account Refunds:**

<b>Member Name</b>	<b>Retirement Plan Type</b>
Delisle, Jennifer	G4 Non-vested

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Pauli, Ana	G4 Vested
Pineda, Juan	G4 Vested
Reinhart, Charles	G4 Non-vested

**Member Account Rollovers:**

<b>Member Name</b>	<b>Retirement Plan Type</b>
Jani, Farisha	G4 Non-vested
Perry, Joseph	Beneficiary of Perry, Cindy
Rogers, Kathleen	G4 Vested

Mr. David then took up agenda item 6.3.

1012.5 **Benefit & Actuarial Services**

1012.5.1 **Consideration of Benefit & Actuarial Items Removed from the Consent Agenda:** Please see agenda item 9.0 for reports on actions taken in closed session.

1012.5.2 **Approval of an Amendment to Resolution 10-11-03, Fiscal Year 2011-2012 Employer and Employee Contribution Rates:** Ms. Wong reported that when the board elected to retain the current employer rates from FY 2010-2011 to FY 2011-2012 during the September board meeting, the breakdown between Normal Cost and Unfunded Actuarial Liability was different than originally reported in the valuation study. The following amendment allocates Employer Contributions to the appropriate reserve accounts.

**Motion** by Spinello, second by Salas, carried unanimously to approve the amendment to Resolution 10-11-03, as follows:

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

“**WHEREAS**, the County of San Mateo and its bargaining units have entered into agreements to enhance benefit formulas contingent on supplementing basic member contribution rates with cost sharing percentages and those benefit formulas and cost sharing percentages are assumed to continue, and

“**WHEREAS**, the Board has received and accepted the June 30, 2010, valuation report from its actuarial firm, Milliman, Inc., and

“**WHEREAS**, Milliman, Inc. expects the employer contribution rate to escalate significantly in the years following 2011-12 as all the losses of the 2007-08 and 2008-09 fiscal years are fully recognized in the actuarial process, and

“**WHEREAS**, maintaining payment of the 2010-11 employer rates will lower the level of expected future increases and help keep *SamCERA* on a path toward greater fiscal strength, and

“**WHEREAS**, the Chief Executive Officer has recommended, in agreement with Milliman, Inc.,

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the contribution rates necessary to assure the actuarial soundness of the Retirement Fund,

*Therefore, be it*

**“RESOLVED** that the Board hereby accepts the employer and member contribution rates as set forth below for the fiscal year 2011-2012.

*Be it further*

**“RESOLVED** that the Board recommends that the Board of Supervisors adopt the recommended employer contribution rates for fiscal year 2011-2012 for the County of San Mateo, the San Mateo Superior Court and the San Mateo County Mosquito & Vector Control District in accordance with the following schedule, as a percentage of covered salaries, effective July 1, 2011:

	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 3</u>	<u>Tier 4</u>
<b>“COUNTY OF SAN MATEO AND SAN MATEO SUPERIOR COURT</b>				
<b><u>General Member Rates:</u></b>				
Employer Normal Cost				
	11.18%	10.83%	7.81%	9.79%
Contribution to Unfunded Actuarial Accrued Liability	<u>18.26%</u>	<u>18.51%</u>	<u>18.39%</u>	<u>18.42%</u>
<b>Total General Member Rates</b>	<b>29.44%</b>	<b>29.34%</b>	<b>26.20%</b>	<b>28.21%</b>
<b><u>Safety Member Rates:</u></b>				
Employer Normal Cost				
	25.55%	20.31%	none	18.06%
Contribution to Unfunded Actuarial Accrued Liability	<u>50.65%</u>	<u>51.94%</u>	<u>none</u>	<u>52.03%</u>
<b>Total Safety Member Rates</b>	<b>76.20%</b>	<b>72.25%</b>		<b>70.09%</b>
<b><u>Probation Member Rates:</u></b>				
Employer Normal Cost				
	24.36%	22.13%	none	18.88%
Contribution to Unfunded Actuarial Accrued Liability	<u>23.95%</u>	<u>23.90%</u>	<u>none</u>	<u>23.86%</u>
<b>Total Probation Member Rates</b>	<b>48.31%</b>	<b>46.03%</b>		<b>42.74%</b>
 <i>SAN MATEO COUNTY MOSQUITO &amp; VECTOR CONTROL DISTRICT</i>				
<b><u>General Member Rates:</u></b>				
Employer Normal Cost				
	10.76%	16.52%	none	10.93%
Contribution to Unfunded Actuarial Accrued Liability	<u>18.26%</u>	<u>18.51%</u>	<u>none</u>	<u>18.42%</u>
<b>Total General M&amp;VCD Member Rates</b>	<b>29.02%</b>	<b>35.03%</b>		<b>29.35%</b>

*Be it further*

**“RESOLVED** that the Board of Retirement hereby recommends that the Board of Supervisors adopt the recommended basic entry age member contribution rates for the County of

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San Mateo, the San Mateo Superior Court and the San Mateo County Mosquito & Vector Control District in accordance with the schedule set forth in the attachment entitled *Basic Member Contribution Rates*, as a percentage of covered salaries, effective July 1, 2011. "Cost sharing" percentages are member contributions in addition to the basic rates. They are not included in the *Basic Member Contribution Rates* table, but are assumed to continue at their current levels in the valuation assumptions. These cost sharing percentages are for San Mateo County and Superior Court employee members in Plans 1, 2 and 4 and are as follows:

General Members: 3.0%.

Safety Members (except Deputy Sheriffs): 5.0%.

Safety Members (Deputy Sheriffs only): varying rates based on age and service.

If age 45 or older: 4.5%.

If age is less than 45 and:

- Service is less than 5 years: 3.0%.
- Service between 5 & 15 years: 3.5%.
- Service is more than 15 years 4.5%.

Probation Members: 3.5%.

*Be it further*

**“RESOLVED** that the Chief Executive Officer is hereby authorized to transmit these rates and recommendations to the Board of Supervisors and to take all actions necessary to provide for their implementation effective July 1, 2011.

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**Basic Member Contribution Rates**

Entry Age *	<u>General (County and Court)</u>		<u>General (SMCM&amp;VCD)</u>		<u>Probation</u>		<u>Safety</u>	
	Plans 1&2	Plan 4	Plans 1&2	Plan 4	Plans 1&2	Plan 4	Plans 1&2	
16	5.12%	4.90%	5.12%	4.90%	5.55%	5.31%	6.93%	6.64%
17	5.21%	4.99%	5.21%	4.99%	5.65%	5.41%	7.06%	6.76%
18	5.31%	5.08%	5.31%	5.08%	5.75%	5.51%	7.19%	6.88%
19	5.41%	5.18%	5.41%	5.18%	5.86%	5.61%	7.32%	7.01%
20	5.51%	5.27%	5.51%	5.27%	5.96%	5.71%	7.45%	7.14%
21	5.61%	5.37%	5.61%	5.37%	6.07%	5.81%	7.59%	7.27%
22	5.71%	5.47%	5.71%	5.47%	6.18%	5.92%	7.73%	7.40%
23	5.82%	5.57%	5.82%	5.57%	6.30%	6.03%	7.87%	7.53%
24	5.92%	5.67%	5.92%	5.67%	6.41%	6.14%	8.01%	7.67%
25	6.03%	5.78%	6.03%	5.78%	6.53%	6.25%	8.16%	7.81%
26	6.14%	5.88%	6.14%	5.88%	6.64%	6.36%	8.31%	7.95%
27	6.25%	5.99%	6.25%	5.99%	6.76%	6.48%	8.46%	8.10%
28	6.37%	6.10%	6.37%	6.10%	6.89%	6.59%	8.61%	8.24%
29	6.48%	6.21%	6.48%	6.21%	7.01%	6.71%	8.77%	8.39%
30	6.60%	6.32%	6.60%	6.32%	7.14%	6.84%	8.93%	8.55%
31	6.72%	6.43%	6.72%	6.43%	7.27%	6.96%	9.09%	8.70%
32	6.84%	6.55%	6.84%	6.55%	7.40%	7.09%	9.26%	8.86%
33	6.97%	6.67%	6.97%	6.67%	7.54%	7.22%	9.43%	9.03%
34	7.09%	6.79%	7.09%	6.79%	7.68%	7.36%	9.60%	9.19%
35	7.22%	6.91%	7.22%	6.91%	7.83%	7.49%	9.78%	9.37%
36	7.35%	7.04%	7.35%	7.04%	7.98%	7.63%	9.97%	9.54%
37	7.49%	7.17%	7.49%	7.17%	8.13%	7.77%	10.16%	9.71%
38	7.63%	7.30%	7.63%	7.30%	8.28%	7.90%	10.35%	9.88%
39	7.77%	7.44%	7.77%	7.44%	8.43%	8.04%	10.53%	10.05%



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40	7.92%	7.58%	7.92%	7.58%	8.57%	8.17%	10.72%	10.21%
41	8.07%	7.72%	8.07%	7.72%	8.72%	8.29%	10.90%	10.36%
42	8.22%	7.86%	8.22%	7.86%	8.86%	8.40%	11.07%	10.50%
43	8.37%	8.00%	8.37%	8.00%	8.99%	8.50%	11.23%	10.63%
44	8.52%	8.13%	8.52%	8.13%	9.10%	8.59%	11.38%	10.74%
45	8.67%	8.26%	8.67%	8.26%	9.21%	8.66%	11.52%	10.83%
46	8.82%	8.38%	8.82%	8.38%	9.30%	8.70%	11.63%	10.88%
47	8.96%	8.50%	8.96%	8.50%	9.37%	8.70%	11.71%	10.88%
48	9.09%	8.60%	9.09%	8.60%	9.40%	9.01%	11.75%	11.26%
49	9.21%	8.69%	9.21%	8.69%	9.40%	9.34%	11.75%	11.68%
50	9.32%	8.76%	9.32%	8.76%	9.40%	9.34%	11.75%	11.68%
51	9.41%	8.80%	9.41%	8.80%	9.40%	9.34%	11.75%	11.68%
52	9.48%	8.80%	9.48%	8.80%	9.40%	9.34%	11.75%	11.68%
53	9.51%	9.11%	9.51%	9.11%	9.40%	9.34%	11.75%	11.68%
54	9.51%	9.45%	9.51%	9.45%	9.40%	9.34%	11.75%	11.68%
55	9.51%	9.45%	9.51%	9.45%	9.40%	9.34%	11.75%	11.68%
56	9.51%	9.45%	9.51%	9.45%	9.40%	9.34%	11.75%	11.68%
57	9.51%	9.45%	9.51%	9.45%	9.40%	9.34%	11.75%	11.68%
58	9.51%	9.45%	9.51%	9.45%	9.40%	9.34%	11.75%	11.68%
59	9.51%	9.45%	9.51%	9.45%	9.40%	9.34%	11.75%	11.68%
60	9.51%	9.45%	9.51%	9.45%	9.40%	9.34%	11.75%	11.68%

\* For County General members entering after age 55, the rate equals the rate at age 55. Likewise for Safety and Probation members entering after age 50, the rate equals the rate at age 50. Only Probation rates reflect employer pick-up.

\* Beginning with the 2010 actuarial valuation, all current and future Mosquito and Vector Control District members contribute the same member rates as General County Members."

Mr. David then took up agenda item 7.1.

1012.6 **Investment Services**

1012.6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* -0.38% Total Fund Return for November 2010 outperformed the Total Plan Policy Benchmark return of -0.53%. The fund's return for the trailing twelve months is a robust 10.50%, which is 275 basis points (bps) above the Actuarial Discount Rate, 7.75%. It is 22 basis points above *SamCERA's* Total Plan Policy Benchmark of 10.28%.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	\$933,067,357	1.29%	14.87%	0.23%
<i>International Equity</i>	<u>409,712,402</u>	-3.91%	2.66%	3.31%
Total Equity	\$1,342,779,759	-0.35%	10.85%	0.98%
Private Equity	250,000	0.00%	N/A	N/A
Fixed Income	621,110,254	-0.52%	10.94%	5.89%
Real Estate Aggregate	117,068,313	0.00%	7.19%	0.09%
Cash Equivalents	3,432,516	0.09%	1.09%	1.84%
<b>TOTAL FUND</b>	<b>\$2,084,640,842</b>	<b>-0.38%</b>	<b>10.50%</b>	<b>2.52%</b>
<i>Benchmark</i>		-0.53%	10.28%	3.89%

\* Total Time-Weighted Rate of Return

Mr. Clifton said that *SamCERA's* international equity was an area of concern. The association last reviewed both managers at the July board meeting. Mr. Clifton also reported that Franklin Templeton's IMA was on the day's agenda for board approval. He said, if approved, Franklin Templeton will be funded with *SamCERA* assets on December 27<sup>th</sup> for a global bond fixed income mandate.

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1012.6.2 **Quarterly Investment Performance Analysis for Period Ended September 30, 2010:** Mr. Brody and Mr. Thomas of Strategic Investment Solutions performed a thorough presentation of the quarterly investment performance for the period ended September 30, 2010. The composite fund returned 9.7% in the third quarter of 2010 and ranked 18<sup>th</sup> among other public funds greater than \$100 million (median of 8.6%). The one year return of 10.4% was ahead of the policy and ranked in the 54<sup>th</sup> percentile of the universe. Longer term, the three and five-year returns of -3.6% (87<sup>th</sup> percentile) and 2.2% (94<sup>th</sup> percentile), respectively, were below median among large public plans (-1.9% and 3.5%).

Two of the association's large cap core equity managers hindered third quarter results. DE Shaw's return of 10.1% ranked in the bottom quartile among large cap core managers (median 11.3%) and fell below its benchmark, the Russell 1000 Index (11.6%). T. Rowe Price's return of 10.8% trailed the S&P 500 Index (11.3%) and its peer median (11.3%).

Artio Global, *SamCERA's* international growth manager, also hindered quarterly returns. Its third quarter result of 15.4% was below the MSCI ACWI –ex US Growth Index (17.1%) and ranked in the 68<sup>th</sup> percentile among international equity managers. Artio's underweight to financials and commodities, as well as currency exposure, carried an impact on results.

Several factors enhanced the association's third quarter results. Chartwell gained more value, 16.4%, than the Russell 2000 Growth Index, 12.8% and ranked in the 7<sup>th</sup> percentile among small cap growth managers (median of 11.2%). Jennison (11.9%) ranked in the 24<sup>th</sup> percentile among its small cap core peers (median of 10.7%) and led its benchmark. The BlackRock Russell 1000 Index Fund, 11.6%, ranked in the 24<sup>th</sup> percentile among large cap core managers (median of 11.3%) and matched its benchmark. The Angelo Gordon GECC PPIP Fund appreciated at 11.1% while the Barclays Aggregate was up 2.5%. The fund carries approximately 48% and 51% RMBS and CMBS assets, respectively. The INVESCO Core Real Estate-USA Fund returned 7.4% for the quarter, positioned above the NCREIF Index (3.9%) and the NCREIF ODCE (5.5%), and ranked in the top quartile among real estate investments. There was an overall gross write up of \$120.4 million or 5.1%.

**INVESTMENT PERFORMANCE SUMMARY**  
**September 30, 2010**

	Last Quarter		One Year		Last 3 Years	
	Return	Rank	Return	Rank	Return	Rank
<i>Fund Composite</i>	9.68%	18	10.36%	54	-3.59%	87
<i>Policy Index</i>	9.76%	16	9.99%	65	-2.05%	54
Large Cap Equity						
Black Rock Russell 1000 Index Fund	11.56%	24	10.84%	26	-6.72%	39
D.E. Shaw	10.13%	84	8.66%	73	N/A	N/A
<i>Russell 1000 Index</i>	11.55%	25	10.75%	28	-6.79%	41
T. Rowe Price	10.84%	70	9.11%	68	N/A	N/A
<i>S&amp;P 500 Index</i>	11.29%	54	10.16%	55	N/A	N/A
Barrow Hanley	11.11%	33	12.07%	15	N/A	N/A
<i>Russell 1000 Value Index</i>	10.13%	68	8.90%	56	N/A	N/A
BlackRock	14.14%	30	12.70%	44	N/A	N/A
<i>Russell 1000 Growth Index</i>	13.00%	51	12.65%	45	N/A	N/A
<b>Large Cap Composite</b>	<b>11.70%</b>	<b>35</b>	<b>10.21%</b>	<b>52</b>	<b>-7.45%</b>	<b>70</b>

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<i>Russell 1000 Index</i>	11.55%	39	10.75%	37	-6.79%	49
Small Cap Equity						
Jennison Associates	11.92%	24	19.10%	9	N/A	N/A
<i>Russell 2000 Index</i>	11.29%	36	13.35%	62	N/A	N/A
The Boston Company	8.71%	77	12.13%	76	N/A	N/A
<i>Russell 2000 Value Index</i>	9.72%	63	11.84%	84	N/A	N/A
Chartwell Investment Partners	16.39%	7	21.82%	16	-5.84%	73
<i>Russell 2000 Growth Index</i>	12.83%	33	14.79%	58	-3.75%	56
<b>Small Cap Composite</b>	<b>12.24%</b>	<b>26</b>	<b>18.08%</b>	<b>19</b>	<b>-6.80%</b>	<b>88</b>
<i>Russell 2000 Index</i>	11.29%	41	13.35%	65	-4.29%	70
<b>U.S. Equity Composite</b>	<b>11.81%</b>	<b>37</b>	<b>11.77%</b>	<b>51</b>	<b>-7.26%</b>	<b>77</b>
International Equity						
Artio Global Investment	15.41%	68	5.42%	54	-10.82%	91
<i>MSCI ACWI –ex US Growth Index</i>	17.14%	27	11.76%	14	-6.73%	42
Mondrian Investment Partners	16.23%	49	5.35%	54	-6.92%	45
<i>MSCI ACWI –ex US Value Index</i>	16.16%	51	4.35%	66	-7.28%	48
<b>International Equity Composite</b>	<b>15.82%</b>	<b>60</b>	<b>5.39%</b>	<b>54</b>	<b>-8.86%</b>	<b>71</b>
<i>MSCI ACWI-ex US Index Free</i>	16.66%	36	8.00%	37	-6.98%	45
<b>Total Equity Composite</b>	<b>13.04%</b>	<b>N/A</b>	<b>9.65%</b>	<b>N/A</b>	<b>-7.66%</b>	<b>N/A</b>
Fixed Income						
Aberdeen Asset Management	3.49%	21	13.00%	9	4.17%	99
Angelo Gordon	11.15%	N/A	N/A	N/A	N/A	N/A
Pyramis Global Advisors	3.08%	34	11.25%	22	7.98%	48
Western Asset Management	4.22%	7	14.09%	6	7.25%	77
<b>U.S. Fixed Income Composite</b>	<b>3.97%</b>	<b>33</b>	<b>13.32%</b>	<b>29</b>	<b>6.65%</b>	<b>76</b>
<i>BC Aggregate Index</i>	2.48%	79	8.16%	71	7.42%	60
Alternative Investments						
Private Equity						
Sheridan Production Partners	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
Hedge Funds	N/A	N/A	N/A	N/A	N/A	N/A
Commodities	N/A	N/A	N/A	N/A	N/A	N/A
<b>Alternative Investment Composite</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<i>Aggregate Index</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Real Estate						
INVESCO Core Fund	7.44%	22	7.19%	30	-9.68%	40
<b>Real Estate Composite</b>	<b>7.44%</b>	<b>22</b>	<b>7.19%</b>	<b>30</b>	<b>-9.68%</b>	<b>40</b>
<i>NCREIF ODCE – Equal Weight</i>	5.45%	32	6.97%	31	-10.56%	45
Cash						
<b>Cash Composite</b>	<b>0.33%</b>	<b>14</b>	<b>0.98%</b>	<b>19</b>	<b>0.44%</b>	<b>95</b>
<i>91 Day T-Bill Index</i>	0.04%	59	0.13%	62	1.13%	80

1012.6.3 **Investment Manager Interviews – Risk Parity Mandate:** The board interviewed the following three finalists for *SamCERA*'s Risk Parity mandate: (1) AQR Capital Management, (2) Bridgewater Associates, and (3) PanAgora Asset Management.

Please see agenda items 6.3a, 6.3b, and 6.3c for a summary of each interview.

Following the three interviews, the board discussed the pros and the cons of each of the three finalists and reviewed their investment profiles.

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**Motion** by Tashman, second by Spinello, carried unanimously to select AQR Capital Management as the association's Risk Parity manager, subject to an on-site due diligence visit.

- 1012.6.3a **AQR Capital Management: Global Risk Premium Strategy 10% Volatility:** Mr. Clifton introduced Gregor Andrade, Principal, and Joey Lee, Associate, of AQR Capital Management. The firm provided a 45-minute presentation and answered trustee questions and concerns.
- 1012.6.3b **Bridgewater Associates: All Weather Strategy:** Mr. Clifton introduced Patrick Dimick, Senior Portfolio Strategist, and Joel Whidden, Senior Relationship Manager, of Bridgewater Associates. The firm provided a 45-minute presentation and answered trustee questions and concerns.
- 1012.6.3c **PanAgora Asset Management: Risk Parity:** Mr. Clifton introduced Eric Sorenson, President, Chief Executive Officer; Edward Qian, CIO and Head of Macro Strategies; Bryan Belton, Director of Macro Strategies; and Michael Anderson, Director, Strategic Relations, of PanAgora Asset Management. The firm provided a 45-minute presentation and answered trustee questions and concerns.

Mr. David then took up agenda item 4.0.

- 1012.6.4 **Investment Management Agreement – Franklin Templeton:** Mr. Clifton reported that he along with Mr. Whitlock completed IMA negotiations with Franklin Advisers for the global fixed income mandate. He noted that Exhibit C of the agreement include the broadest guidelines that *SamCERA* has given to an investment manager to date but opined it was appropriate given the mandate. Mr. Tashman raised some concern regarding the high yield and single corporate issuer provisions. Mr. Thomas said that SIS will follow the portfolio closely and expects enhanced reporting for the account.

Counsel and staff have reviewed the documents and recommended that the board authorize the Chair to execute them. **Motion** by Tashman, second by Spinello, carried unanimously to approve **Resolution 10-11-09**, approving the Investment Management Agreement, fee agreement and side letters, with Franklin Advisers for the Global Fixed Income mandate:

**“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**, following discussion of the criteria and initial screening process for a global bond manager search at the April 27, 2010, Board meeting, ten firms were approved to receive a Request for Information (RFI.); and

**“WHEREAS**, on June 22, 2010, the Board considered proposals from those ten firms for a global bond mandate. Then four firms, Brandywine Global Investment Management, Franklin Templeton Institutional (Franklin Advisors, Inc.), Loomis Sayles &

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Company, L.P. and Pacific Investment Management Company LLC (PIMCO) were invited to participate in an interview at the July board meeting; and

“**WHEREAS**, on July 27, 2010, the Board interviewed representatives from the four finalists, selecting Franklin Templeton Institutional (Franklin Advisors, Inc.) to manage the mandate, which will be funded with approximately \$100 million; Therefore, be it

“**RESOLVED** that the Board hereby approves the contract between the Board and Franklin Advisors Inc. 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 Franklin Advisors, Inc. to manage the assets of the Retirement Fund as allocated by the Board in accordance with the terms of 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 Fee Agreement of the Investment Management Agreement 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.”

Mr. David then took up agenda item 7.6.

1012.6.5 **Semi-Annual Capital Market & Inflation Assumption Review:** Mr. Thomas reviewed SIS' Capital Market Outlook. The outlook allows *SamCERA* to semi-annually view the expectations for capital market returns. No action was taken. The report was informational.

Mr. David then took up agenda item 5.2.

1012.7 **Board & Management Support Services**

1012.7.1 **Monthly Financial Report:** Mr. Clifton reported that *SamCERA's* Net Assets Held in Trust for Pension Benefits as of November 30, 2010, totaled \$2,082,517,267. Net assets held in trust for pension benefits decreased by approximately \$16.0 million, month over month.

1012.7.2 **Amendment to Regulations Regarding Purchase of Credit for Public Service:** Mr. Bailey said that in preparation for *SamCERA's* tax determination letter submission and in order to provide guidance to *SamCERA* members and staff, the regulations relating to the purchase of service credit should be revised. Staff recommended that the regulations be

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broadened to address all purchases and that they be amended to comply with the most recent recommendations of tax counsel. The proposed regulations repeal and replace Article VI to set forth the criteria that allow certain members to purchase service credit. Mr. Bailey said that the amendments have no impact on members who have already signed service credit purchase contracts.

**Motion** by Agnew, second by Kwan Lloyd, carried unanimously to adopt **Resolution 10-11-10**, approving the amendment to the Regulations Regarding Purchase of Credit for Public Service, as follows:

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

**“WHEREAS**, other government entities such as (but not limited to) the Legislature, Congress, and Internal Revenue Service may establish rules regarding the purchase and payment for service credit which take precedence over actions by the Retirement Board and the Board of Supervisors of San Mateo County; and

**“WHEREAS**, *SamCERA* is an Internal Revenue Code § 401(a) tax-qualified retirement system; and

**“WHEREAS**, this board has determined that the current regulations regarding the purchase of service credit should be amended by repealing the current regulations contained in Article VI and adding new regulations to Article VI; now, therefore, be it

**“RESOLVED**, that the board hereby repeals the entire Article VI regarding the Purchase of Credit for Public Service consisting of sections 6.1 to 6.4 and adds new Article VI sections 6.1 to 6.7 regarding the Purchase of Credit for Public Service consisting of regulations that shall read as follows:

<b>ARTICLE VI. PURCHASE OF CREDIT FOR PUBLIC SERVICE</b>	
<b>6.1</b>	All service credit purchases and redeposits of previously withdrawn contributions are to be made in accordance with the Internal Revenue Code ("IRS Code"), the Treasury Regulations promulgated thereunder, and the County Employees' Retirement Law of 1937 ("Government Code"). If there is a conflict between federal and state law, federal law will govern in order to maintain <i>SamCERA</i> 's tax qualified status.
<b>6.2</b>	<b>Permissive Service Credit and Applicable Federal Statutory Tax Limits:</b>  Service Credit purchases may be limited by the applicable requirements set forth in IRS Code Section 415. IRS Code Section 415 tax limits do not apply to the redeposit of previously withdrawn contributions and related interest. Service Credit purchases must comply with the provisions of Government Code §31482.5.
<b>6.3</b>	<b>Service Credit Available for Purchase by Active Members:</b>  (a) Prior Public Service: Any active member who is a County employee or a

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member of a participating employer and was a member prior to January 1, 1970 may purchase service credit for service performed for military or federal, state, and other public agencies credited in California that do not qualify for reciprocity. Such public service may be purchased pursuant to the terms of Government Code §31641.1 & §31641.2.

- (b) Employment through CETA: Any active member (1) who was employed by the County or a participating employer while compensated pursuant to the provisions of the Comprehensive Employment Training Act (CETA) and (2) who subsequently became a permanent employee of the County or District, is eligible to purchase credit for the Public Service performed for the County or District while a CETA participant. Applications for the purchase of such CETA public service must include a detailed documentation accounting the period of service and compensation in the form and manner prescribed by the Chief Executive Officer. Such public service may be purchased pursuant to the terms of Government Code §31641.5.
- (c) Service Credit. In accordance with Government Code §31641.5, a member may purchase service he or she rendered with San Mateo County or another employer participating in *SamCERA* prior to the member's membership in *SamCERA* during which time the member was ineligible for membership. A member must make this service purchase at the time they are employed with that participating employer.
- (d) Leave of Absence Credit. In accordance with Government Code §31646, an eligible member may purchase his or her uncompensated leave of absence on account of illness, not to exceed 12 consecutive months, provided the eligible member returned directly to active service following such uncompensated leave.
- (e) Plan 3 Noncontributory Plan Credit. Members currently in a *SamCERA* contributory plan contained in Government Code §31496, et seq. may upgrade their past service credit in the *SamCERA* noncontributory plan by paying the difference between the employer contributory and noncontributory plan contributions plus the member's contributions for the contributory plan for the period of service being upgraded along with the interest the contributions would have earned had they been on deposit with *SamCERA*. Contributions are based on the current entry age.
- (f) Redeposit of Previously Withdrawn Contributions.
  - (1) An active member may redeposit to *SamCERA* an amount that is equal to all previously withdrawn contributions, plus interest, in accordance with Government Code §31652. *SamCERA* will charge interest for the period from the date of separation from *SamCERA* until the member has paid the required redeposit amount.

(i) A member's age for purposes of calculating contribution

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rates will be based on the member's age at the nearest birthday at the time of the member's reentrance into employment, unless the member is otherwise eligible under Government Code §31652 to have his or her original entrance age reinstated.

(ii) *SamCERA* will treat a member who does not redeposit all contributions previously withdrawn plus interest as a new member without credit for any previous service.

(iii) If for any reason a member fails to complete the redeposit of previously withdrawn contributions plus interest, *SamCERA* will not reinstate the member's related prior service credit in accordance with Government Code §31652. *SamCERA* will instead return the eligible member's related payment in a manner and at a time permitted under federal tax law.

(iv) *SamCERA* will credit the member's related service credit upon completion of full payment of all previously withdrawn contributions plus interest.

(2) Prior to filing an application for retirement, an eligible former member may redeposit to *SamCERA* an amount that is equal to all previously withdrawn contributions, plus interest, in accordance with Government Code §31652. The former member must qualify for this type of redeposit under the terms of Government Code §31831.3. Under the provisions *SamCERA* will charge interest for the period from the date of separation from *SamCERA* until the member has paid the required redeposit amount. Redeposits of this type may only be executed by lump sum payment.

(3) Additional Retirement Credit (ARC): Eligible active members in a contributory plan who have completed at least 5 years of credited service with *SamCERA* may purchase up to 5 years of ARC in increments of one year. ARC cannot be used to meet the minimum eligibility requirements for either a service retirement, a non-service disability retirement, additional ad hoc cost-of-living benefits based on service credit, or eligibility for any other benefits based on service credit or toward a cancellation of contributions for certain members who attain 30 years of service credit. Service may include purchased extra-help time, upgraded Plan 3 service, and redeposited time. Reciprocal service is not included. Government Code §31658.

(4) Prior Military Service. See Regulation 6.5 for purchase of prior military service.

**6.4 Payment Options:**



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Federal and State Law Limitations. Eligible members may purchase Permissive Service Credit or make a redeposit of previously withdrawn contributions plus required accumulated interest using the following payment methods or a combination thereof. Payments are subject to the rules and/or conditions set forth below and any applicable tax limits under IRS Code section 415. All purchase agreements containing installment payments will include interest calculated using the actuarially assumed rate of earnings in effect as of the date each agreement is signed.

- a) Lump Sum After-Tax Payments and Terminal Pay: An eligible member may pay with a single lump sum payment of after-tax dollars. Terminal Pay (the cash out of accrued hours of compensation paid to a member by the member's employer after terminating employment) can be used for lump sum after-tax payments. Terminal pay must be received by *SamCERA* by a separate payment issued after termination and not as a part of the member's last pay check.
- b) Pre-Tax Rollover Contributions: An eligible member may pay with a pre-tax rollover contribution to *SamCERA* from a qualified retirement plan, an individual retirement account or annuity, an annuity contract described in IRS Code section 403(b), or a governmental 457(b) plan.
- c) Plan-to-Plan Transfers: An eligible member may pay with an in-service trustee-to-trustee transfer from a governmental eligible deferred compensation plan described in IRS Code Section 457(b) or an annuity contract described in IRS Code Section 403(b), provided the transfer plan or annuity contract provides for such transfers. Such transfers are subject to the requirements of IRS Code Section 457(e)(17) or 403(b)(13), as applicable.
- d) Payroll Deductions: An eligible member may elect to pay installments by post tax payroll deduction.

**6.5 Time Limitations for Installment Payments:**

The time period over which a member may make installment payments is subject to the following limitations:

- (a) Prior Public Service: For a purchase of service credit for prior public service under Government Code §31641.1 and §31641.2, installment payments may be made over a period of time not to exceed five years.
- (b) Service Credit, including employment through CETA: For a purchase of service credit for prior service under Government Code §31641.5, installment payments may be made over a period of time that does not exceed the length of time for which the member has elected to receive service credit, as determined by *SamCERA*.

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	<ul style="list-style-type: none"><li>(c) Leave of Absence Credit: For a purchase of service credit for an unpaid leave of absence under Government Code §31646, installment payments may be made over a period of time that does not exceed the length of unpaid leave that the member has elected to purchase, as determined by <i>SamCERA</i>.</li><li>(d) Plan 3 Service Credit Upgrade: For upgrades of Plan 3 service credit pursuant to Board of Supervisor's Resolution 64827, installment payments may be made over a period of time that does not exceed twice the length of service being upgraded.</li><li>(e) Redeposit of Previously Withdrawn Contributions: For redeposits of previously withdrawn contributions under Government Code §31652, installment payments may be made over a period of one year.</li><li>(f) Additional Retirement Credit: For a purchase of ARC under Government Code §31658, installment payments may be made over a period not to exceed 10 years.</li><li>(g) Completion of Purchase after separation of service: If a member terminates, retires or goes into deferred retirement before the purchase has been completed, the purchase must be completed no later than the date specified in the purchase agreement or 120 days after the effective date of retirement, whichever date is earlier.</li></ul>
<b>6.6</b>	<b>Procedures</b> <ul style="list-style-type: none"><li>(a) Administrative Procedures: <i>SamCERA</i> will establish administrative procedures for processing service credit purchases and redeposits of previously withdrawn contributions and will determine the amounts required for service credit purchases and redeposits, including required interest.</li><li>(b) Required Documentation: All purchases and redeposits shall be set forth in a written <i>SamCERA</i> election form and agreement. Members shall provide any required documents and information associated with their purchase or redeposit in a manner and form acceptable to <i>SamCERA</i>.</li><li>(c) Requirement To Complete Purchase: Except as otherwise provided below, service credit will not be credited to a member's account until the entire purchase has been completed. If for any reason a member fails to complete his or her service credit purchase, credit will be given in accordance with the contract or applicable provisions of the Government Code. <i>SamCERA</i> or the employer may return the eligible member's related overpayment in a manner and at a time permitted under federal tax law.</li><li>(d) Partial Service Credit: <i>SamCERA</i> will allow partial service credit for purchases of prior public service credit under Government Code §31641.1 and §31641.2 even though the member has not completed</li></ul>

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payment of the entire period he or she has elected.

**6.7 Prior Military Service:**

Eligible active members can purchase prior military service in accordance with the provisions of Government Code §31641.97.

- (a) **Notice:** Eligible members will have given written notice when they file with *SamCERA* a signed Purchase of Military Service Credit Application form as prescribed by the Chief Executive Officer.
- (b) **Certification:** The Application must include verification of military service (DD214 or its equivalent) and an affidavit that the applicant is not eligible to receive credit for this service under any other retirement plan.
- (c) **Calculation of Cost to the Member:** Government Code §31641.97 requires that the full cost, including interest, of the employee and county liability for the additional credit under this section shall be determined by the Board of Retirement on actuarial advice, and shall be the actuarial equivalent of the difference between the retirement benefits the person will receive with and without the credit for military service.
- (d) **Actuarial Assumptions:** The actuarial factors used shall be those used for the actuarial valuation of the Retirement Fund at the time of the calculation, except that the member shall select the age of retirement.
- (e) **Method Used to Determine the Cost:** The cost shall be the Actuarial Equivalent of the Difference between the benefit the member will receive with and without the credit for military service.
- (f) **Lump Sum Purchase:** Eligible persons may purchase credit for their Military service at any time prior to the effective date of their retirement by lump-sum payment of an amount equal to the full cost, including interest, of the employee and county liability for the additional credit within 180 days prior to receipt of the lump-sum payment.
- (g) **Installment Purchase:** Eligible persons may purchase credit for their military service at any time prior to the effective date of their retirement by authorizing biweekly post-tax payroll deductions over a period not to exceed five years in equal payments which will accumulate the full cost, including interest, of the employee and county liability for the additional credit within 180 days prior to commencement of the deductions.
- (h) **Purchase of Partial Credit:** Eligible persons may purchase less than the full credit for which they are eligible, so long as the payment, or payments, accumulate the full cost, including interest, of the employee and employer liability for the additional credit. Additional credit may be purchased at any time prior to the effective date of retirement, so long as the payment or payments are based on the full cost within 180 days prior to receipt of the lump-sum payment or commencement of biweekly

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payroll deductions.

- (i) **Recording of Members' Assets & Crediting of Interest:** All funds deposited into the Retirement Fund pursuant to this regulation shall be recorded in individual Military Service Credit Reserve accounts established in the name of the member. Funds on deposit shall be credited on the same terms and at the same rate of interest as the county's accounts in the Retirement Fund, regardless of the subsequent status of the member. On the effective date of retirement, all principal and interest in the Reserve will be transferred to the member's regular account in the Retirement Fund.
- (j) **Calculation of Benefit Payable at Time of Retirement:** When the member files an application for retirement there shall be a recalculation of the Military Service Benefit and Member Service Credit Reserve as set forth in Step 2 and Step 3 of subsection (e), using the information then available and the assumptions in effect at the time of recalculation.
- (k) **Surplus:** If the calculations performed pursuant to subsection (j) indicate that the principal and interest in the Military Service Credit Reserve exceeds the amount required, the surplus balance will be refunded to the member, at a time and in a manner that complies with applicable tax laws.
- (l) **Deficiency:** If the calculations performed pursuant to subsection (j) indicate that the principal and interest in the Military Service Credit Reserve is not sufficient to fund the full Military Service Benefit, the Chief Executive Officer shall allow the member to make one of the following two elections: (1) Lump Sum Purchase: The member may immediately purchase the unfunded military service credit and receive the full Military Service Benefit; or (2) Pro Rata Credit: The member may elect to not purchase the unfunded military service credit and receive a reduced Military Service Benefit.
- (m) **Payment of Military Service Benefit:** On the effective date of retirement, the years of military service for which payment-in-full has been received shall be added to the member's years of county service in the computation of the retirement allowance and will, thereafter, be an integral part of the base allowance for the purpose of calculating cost-of-living increases and survivor benefits.
- (n) **Disability:** The member who retires on account of disability may elect either (1) a refund of all principal and interest in the account maintained pursuant to subsection (i), or (2) an annuity based upon the years-of-military-service for which payment-in-full has been received. If the member elects an annuity, all principal and interest in the account on the effective date of the Disability Retirement shall be converted to an annuity which will be based on the Board's Actuarial Assumptions, including Disability Retirement Life Expectancy Factors, in effect at that time. Subject to applicable tax laws, the annuity shall be payable for life

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

in equal monthly installments, plus annual cost-of-living adjustments equal to those granted to retirees in the member's Plan. An eligible surviving spouse shall receive the applicable survivor allowance. The Chief Executive Officer shall determine the amount of the annuity on the effective date of the Disability Retirement.

- (o) **Death Before Retirement:** If the member was not eligible to retire, all principal and interest in the account maintained pursuant to subsection (i) will go to the member's beneficiary. If the member was eligible to retire, the surviving eligible spouse may elect to receive (1) a refund of all principal and interest in the account maintained pursuant to subsection (i), or (2) a monthly allowance which includes military service credit based on the provisions of subsections (j) and (l). The surviving eligible spouse may elect to receive any surplus, make a lump-sum payment for any deficiency, or accept pro-rata credit, as provided for in subsection (j).
- (p) **Death After Retirement With a Surviving Spouse:** The Military Service Credit Reserve has been merged with the member's regular account. Therefore, the surviving eligible spouse will receive a monthly allowance based on the same survivor option formula elected by the member at the time of retirement.
- (q) **Death After Retirement Without a Surviving Spouse:** The Military Service Credit Reserve has been merged with the members' regular account and, therefore, the balance, if any, goes to the beneficiary.
- (r) **Termination of Employment:** Upon termination of employment, a member may elect to withdraw the funds; or, if eligible, may elect a deferred retirement, in which case the funds will remain on deposit and will continue to be subject to the provisions of subsection (i) until the effective date of retirement.
- (s) **Election to Discontinue Installment Purchase Plan:** The decision to purchase military service credit is irrevocable. However, unless otherwise prohibited by law, any member may discontinue the installment purchase plan at any time. All funds on deposit will continue to be subject to the provisions of subsection (i). Unless otherwise prohibited by law, the member may elect to reinstate the purchase plan at any time prior to the effective date of retirement, but shall be subject to re-computation of the balance due as calculated pursuant to subsections (c)(f)(g)(h). At the time of retirement, the member will receive proportional military service credit, as provided for in subsection (j) and (m).
- (t) **Dissolution of Marriage:** If the final decree does not specifically identify the member's Military Service Credit Reserve, the Chief Executive Officer shall administer the assets in the account in the same manner as stipulated in the final decree for the disposition of the member's retirement benefits.

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1012.7.3 **Amendment to Regulations Regarding Disability Retirements:** Mr. Hood said that in order to provide guidance to *SamCERA* members and staff, the regulations relating to the processing of disability retirement applications should be revised. Mr. Hood reported that *SamCERA* has recently experienced significant delays in the processing of some disability applications. Such instances include when applicants wait until the staff has informed them that the staff recommendation will be for denial and then ask that their applications be pulled from the board agenda so they can submit additional disabling conditions for considerations. *SamCERA* has never experienced a case in which this kind of delay resulted in a different recommendation from staff or the board's medical advisor. The regulation changes and the corresponding procedural changes will make it clearer for all parties what kind of additional information may be submitted before staff completes the file for the Board's determination.

**Motion** by Kwan Lloyd, second by Bowler, carried unanimously to adopt **Resolution 10-11-11**, approving the amendment to the Regulations Regarding Disability Retirements, as follows:

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

**“WHEREAS**, Article V of the Board's regulations govern disability retirement; and

**“WHEREAS**, this board has determined that the current regulations regarding disability retirement should be amended; now, therefore, be it

**“RESOLVED** that regulations 5.1, 5.3 and 5.6 of Article V are amended to read as follows:

**5.1**

(e) When the applicant indicates that all necessary information, including information not requested by *SamCERA*, has been submitted, the Chief Executive Officer shall forward the complete record to the Board's medical consultant for his or her evaluation of the applicant's condition.

(f) After the record has been forwarded to the Board's medical consultant, the member cannot amend his or her application to add a new disabling condition that is unrelated or not caused by the condition set forth in the application; member must file a new application which would be subject to all regular statutory deadlines.

**5.3.**

(b) **Hearing is Limited to the Disability Set Forth in the Application:** Both the informal and formal hearing shall be limited to the disability set forth in the application for disability retirement.

**5.6. Grounds for Termination of an Application for Disability**

**Retirement:** An application for disability retirement may be terminated and considered null and void by the Board one year after the date of its filing for one or more of the following reasons:

- (a) Failure of the member to submit to a medical examination at the request of the Board pursuant; or
- (b) Any failure to cooperate by the member or applicant or any other

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act or omission by the member or applicant or member or applicant's representative which prevents the Board from hearing and adjudicating the application for disability retirement within one year of its filing.

“**IT IS FURTHER RESOLVED** that, the Chief Executive Officer is hereby authorized under Government Code §31525 to transmit these amended regulations to the Board of Supervisors and to take all actions necessary to provide for their implementation upon approval by the Board of Supervisors.”

1012.7.4 **Approval of Board/Staff Retreat Agenda – Retreat Scheduled for March 2011:** Mr. Bailey presented the latest version of the agenda for the March 21 and 22, 2010, board/staff retreat. The agenda incorporated the board’s input from the last board meeting. Without objection, Mr. David **approved** the board/staff retreat agenda.

1012.7.5 **Appointment of the Chief Executive Officer Review Committee:** Mr. David **appointed** Ms. Agnew, Chair; Mr. Spinello, Ms. Kwan Lloyd and Ms. Arnott to the Ad Hoc Chief Executive Officer Review Committee.

Mr. David then took up agenda item 8.1.

1012.7.6 **Approval of Policy Regarding Securities Litigation & Lead Plaintiff Status:** *SamCERA* recently retained three firms to monitor its investment portfolio and make recommendations as to when *SamCERA* should pursue lead or named plaintiff status in fraud litigation. Mr. Bailey said that the board should adopt a policy regarding securities litigation which will provide guidance regarding those cases in which *SamCERA* should seek lead plaintiff status.

Mr. Bailey reported that staff, counsel and Ms. Agnew inquired about various securities litigation policies of its peers and met with one of the association’s securities litigation firms. Mr. Bailey presented a proposed policy that resulted from the research and discussion.

After Mr. Bailey reviewed the policy with trustees, Mr. Tashman opined that staff should seek active participation only if the potential litigation is unique to *SamCERA*. Following extensive discussion, the board deferred the approval of the policy regarding securities litigation and lead plaintiff status to a future board meeting,

Mr. David then took up agenda item 6.5.

1012.8 **Management Reports**

1012.8.1 **Chief Executive Officer’s Report:** Mr. Bailey provided a status update on the recruitment to fill the vacant seat on the Board of Retirement. He drafted a letter to local corporations and forwarded it to County Manager, David Boesch, for approval.

1012.8.2 **Assistant Executive Officer’s Report:** Mr. Hood distributed a draft layout of a new board room located in Suite 160. The acquisition of the new office space is still pending.

1012.8.3 **Chief Investment Officer’s Report:** Mr. Clifton reported that Sheridan Production Partners, the association’s new Private Equity manager, has hard-closed its product in November. He also received notice that Jennison Associates is being reviewed for possible insider trading by

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the SEC. Mr. Clifton did not have further information regarding the investigation. Mr. Clifton then mentioned a FundFire article regarding the significant management changes at AXA Rosenberg, a firm that the association terminated earlier in the year as a result of a coding error.

1012.8.4 **County Counsel's Report:** Ms. Carlson reported on her attendance at the most recent SACRS Fall Conference. She found the attorney breakout sessions to be very informative.

1012.9 **Report on Actions Taken in Closed Session:** Ms. Carlson reported that Mr. David convened the board in closed session at 1:20 p.m., with all trustees present for roll call in attendance. Ms. Carlson was not present during the discussion of the matter of Kathleen Parkin. Mr. Hackleman recused himself from voting in the matter regarding Ms. Parkin.

The board referred the disability application of Kathleen Parkin to a hearing officer.

The board found that Kamlesh Singh is able to perform her usual and customary duties as a Patient Services Specialist and denied her application for a service-connected disability retirement.

Mr. David then adjourned the closed session and reconvened the meeting in open session at 1:45 p.m.

1012.10 **Adjournment in Memory of Deceased Members:** There being no further business, Mr. David adjourned the meeting at 3:18 p.m., in memory of the following deceased members:

Williams, Eleanor	October 8, 2010	Probation Dept.
Washkuhn, Jack	October 17, 2010	Health and Welfare
Sausedo, Joseph	October 19, 2010	San Mateo Medical Center
Barsotti, Frank	October 22, 2010	Ben of Barsotti, Lillah
Van Cantfort, Rollin	October 23, 2010	Probation Dept.
Haylett, Clarice	October 25, 2010	Mental Health
Baker, Henry	October 29, 2010	Building & Grounds
Grimmett, Helen	October 31, 2010	Social Services
Yee, Dorothy	November 6, 2010	Recorder's Office
Teuteberg, William	November 11, 2010	Ben of Teuteberg, Kathryn
Spencer, Beryl	November 12, 2010	District Attorney's Office
Berenberg, Feliz	November 12, 2010	Mental Health
Caughey, June	November 14, 2010	Ben of Caughey, Daniel
Thomas, Grace	November 18, 2010	Ben of Thomas, Rex
Miller, Josephine	November 19, 2010	County Manager's Office

ALBERT P. DAVID, CHAIR



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

January 25, 2011

Agenda Item 4.0 (a)

To: Board of Retirement  
From: Gladys Smith, 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 **Normita Ferretti** is unable to perform her usual and customary duties as a Medical Services Assistant; (2) Board grant her application for a service connected disability retirement.
2. Board finds that **Lissa Kaye** is unable to perform her usual and customary duties as a Community Program Specialist II; (2) Board grant her application for a service-connected disability retirement.
3. Board finds that **Linda Fitzgibbon** is able to perform her usual and customary duties as a Superior Courtroom Clerk II; (2) Board deny her application for a service-connected disability retirement; and (3) grant her a non-service disability retirement.
4. Board finds that **Debra Morris-Singh** is not disabled from the performance of her usual and customary duties as a Medical Services Assistant (2) Board deny her application for a service-connected disability retirement.

**Service Retirements**

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

<b>Member Name</b>	<b>Effective Retirement Date</b>	<b>Department</b>
Gonzalez, Manuel	October 18, 2010	Def'd from San Mateo Medical Center
Burns, Mary	November 2, 2010	Def'd from Parks
Kamir, Barbara	November 6, 2010	Human Services Agency
Leuten, Sally	November 6, 2010	San Mateo Medical Center
Aqunio, Amelia	November 9, 2010	Def'd from Superior Court
Jiminez, Gloria	November 13, 2010	Human Services Agency
Gasior, Tadeusz	November 27, 2010	Sheriff's Office

Hillhouse, Janet	November 27, 2010	Human Services Agency
Brosamle, Lydia	November 28, 2010	Superior Court
Foster, Jenny	November 28, 2010	San Mateo Medical Center
Liongtau, Ana	November 30, 2010	San Mateo Medical Center
Livengood, Robert	November 30, 2010	Sheriff's Office
Veley, Debra	December 1, 2010	Superior Court
Wilkins-Howard, Ida	December 1, 2010	Information Services
Gordon, Richard	December 7, 2010	Board of Supervisors

### **Continuances**

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

<b>Member Name</b>	<b>Beneficiary of:</b>
Axelrad, Claire	Berenberg, Felix
Raynes, Katherine	Raynes, Sheldon
Yee, Herman	Yee, Dorothy

### **Deferred Retirements**

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

<b>Member Name</b>	<b>Retirement Plan Type</b>	
Thornton, Leon	P4-vested	
Raggio, Glen	S4-vested	
Encinas, Jeffrey	G2-vested	
Reinhard, Steven	G4-vested	
Valencia, Silvia	G4-vested	
Kapadia, Mita	G2-3-S2-vested	
Wan, Carmen	G4-vested	
Altman, Susan	G4	Reciprocity
Peterson, Robin	G4	Reciprocity

### **Member Account Refunds**

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

<b>Member Name</b>	<b>Retirement Plan Type</b>
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Carriger, Barbara	G4 Non-vested
Escalona, Magdalena	G2 Vested
Hernandez, Nancy	G4 Non-vested
Ugbaja, Chika	G4 Vested

**Member Account Rollovers**

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

<b>Member Name</b>	<b>Retirement Plan Type</b>
Medaglia, Suzy	G4 Non-vested

# Notice of Public Meeting



## Investment Committee

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

**100 Marine Parkway, Suite 125, Redwood Shores**

**Tuesday, January 25, 2011, at 10:00 a.m.**

- 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 Approval of Amendment to Policy Regarding Placement Agents
  - 6.3 Approval of Search Criteria for a Commodity Allocation Mandate
  - 6.4 Educational Presentation – Hedge Fund Investment Opportunities
  - 6.5 Approval of Policy Regarding Securities Litigation
- 7.0 Other Business
- 8.0 Chief Investment Officer's Report
- 9.0 Adjournment

A handwritten signature in blue ink that reads "Gary Clifton".

Gary Clifton, Chief Investment Officer

Printed: 1/19/11

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

**THE COMMITTEE MEETS IN 100 MARINE PARKWAY, SUITE 125,**  
WHICH IS LOCATED ON THE SE CORNER OF TWIN DOLPHIN & MARINE PARKWAY IN REDWOOD SHORES.  
Detailed directions are available on the "Contact Us" page of the website [www.samcera.org](http://www.samcera.org)  
*Free Parking is available in all lots in the vicinity of the building.*

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

*How to Find Us:*

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

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

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

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

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

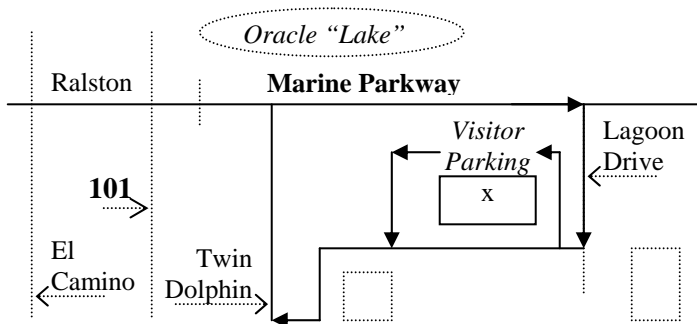
**From Marine Parkway turn Right on Lagoon Drive and then immediately take the next two Right turns into our parking lot.**

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

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

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

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



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

January 25, 2011

Agenda Item 6.1

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Monthly Portfolio Performance Report for the Period Ending **December 31, 2010**

COMMENT: *SamCERA's* 4.03% Total Fund Return for December 2010 underperformed the Total Plan Policy Benchmark return of 4.54%. The 51 basis point underperformance is largely attributed to the underperformance of *SamCERA's* two international portfolios.

Both international managers have performed poorly over the past month and over a longer trailing thirty-six months. Artio Global Investors underperformed its MSCI ACWI ex US Growth benchmark by 217 basis points in December. Over the trailing thirty-six months Artio is 501 basis points behind their benchmark. Mondrian Investment Partners fares a little better. Last month Mondrian was 129 basis points behind their MSCI ACWI ex US Value benchmark. Over the trailing thirty-six months Mondrian lags the benchmark by 111 basis points.

The fund's return for the trailing twelve months is a robust 13.20%, which is 545 basis points (bps) above the Actuarial Discount Rate of 7.75%. However, the total fund return is 36 basis points behind *SamCERA's* Total Plan Policy Benchmark of 10.28%. Again, largely attributed to the international portfolios.

A moderately paced economic recovery is underway. Recent data on consumer confidence, retail sales and industrial production all show an economy that is growing. Moreover, output, as measured by real GDP, has expanded for five consecutive quarters as of the third quarter of 2010. However, the rate of growth has not been strong enough to make a significant improvement in the labor market.

The outlook for the economy during 2011 has improved significantly due to the recent passage of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010. The surprise December legislation is likely to result in a stronger economy. In this improved view of 2011, many more jobs should be created, which will allow the unemployment rate to fall back below 9%.

There are a couple of risks associated with this viewpoint, however, including 1) additional sovereign credit troubles in Europe and 2) further weakness in the housing market. Up until the Greek debt crisis, the U.S. economy had been moving on a path of expansion. The crisis undermined confidence throughout the globe, and business activity slowed. Then Ireland, agreed to a bailout package, leading to fears that Spain and Portugal could follow suit. Additionally, housing remains a risk to the economic outlook, with projections of further home price declines anticipated during 2011 as a new wave of foreclosures work their way through the system.

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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	6.68%	11.20%	24.06%	16.17%
D.E. Shaw Investment Management, LLC	6.70%	11.42%	22.70%	14.15%
T. Rowe Price Associates	6.76%	10.99%	23.02%	14.18%
Barrow, Hanley, Mewhinney & Strauss	7.51%	10.79%	23.10%	15.81%
BlackRock Capital Management, Inc.	4.97%	14.24%	30.39%	20.38%
Large Cap Aggregate	6.49%	11.75%	24.82%	15.69%
The Boston Company	8.55%	12.57%	22.37%	20.19%
Chartwell Investment Partners	6.69%	14.54%	33.31%	30.85%
Jennison Associates	7.61%	17.40%	31.40%	31.40%
Small Cap Aggregate	7.59%	15.57%	29.72%	28.58%
Artio Global Investors	5.45%	6.27%	22.65%	8.52%
Mondrian Investment Partners	6.78%	3.69%	20.51%	5.48%
International Aggregate	6.11%	4.98%	21.58%	6.99%
Total Equity	6.54%	10.15%	24.51%	14.58%
Aberdeen Asset Management	-0.85%	-0.56%	2.91%	10.33%
Angelo Gordon	0.00%	8.10%	20.14%	35.64%
Brigade Capital Management	1.55%	3.16%	N/A	N/A
Brown Brothers Harriman	-1.68%	-1.26%	N/A	N/A
Franklin Templeton	N/A	N/A	N/A	N/A
Pyramis Global Advisors	-0.68%	-0.54%	2.53%	8.96%
Western Asset Management	-0.33%	-0.09%	4.14%	11.24%
Total Fixed Income	-0.57%	0.18%	4.16%	11.31%
Private Equity (1)	0.00%	N/A	N/A	N/A
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%	7.44%	11.55%
Cash	0.07%	0.29%	0.62%	1.08%
Total Portfolio	4.03%	6.52%	16.84%	13.20%

(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 December 31, 2010



STATE STREET

	MKT VAL	1 Month	QTR	6 Month s	FYTD	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	ITD	INCEPT. DATE
<b>DOMESTIC EQUITY</b>													
BLACKROCK RUSSELL 1000 INDEX FUND	239,814,972	6.68	11.20	24.06	24.06	16.17	22.21	-2.30	-0.32	2.66	1.87	8.25	04/01/1995
DE SHAW INVESTMENT MGT, LLC	105,343,032	6.70	11.42	22.70	22.70	14.15						21.60	08/01/2009
<i>RUSSELL 1000</i>		6.68	11.19	24.03	24.03	16.10	22.11	-2.37	-0.40	2.59	1.83		
T. ROWE PRICE ASSOCIATES	104,010,198	6.76	10.99	23.02	23.02	14.18						18.73	09/01/2009
<i>S&amp;P 500</i>		6.68	10.76	23.27	23.27	15.06						19.31	
BARROW HANLEY	158,592,024	7.51	10.79	23.10	23.10	15.81						19.57	09/01/2009
<i>RUSSELL 1000 VALUE</i>		7.89	10.54	21.74	21.74	15.51						18.22	
BLACKROCK	166,879,079	4.97	14.24	30.39	30.39	20.38						26.09	09/01/2009
<i>RUSSELL 1000 GROWTH</i>		5.51	11.83	26.37	26.37	16.71						22.67	
LARGE CAP AGGREGATE	774,639,304	6.49	11.75	24.82	24.82	15.69	21.12	-2.56	-1.66	1.60	1.56	8.06	04/01/1995
<i>RUSSELL 1000</i>		6.68	11.19	24.03	24.03	16.10	22.11	-2.37	-0.40	2.59	1.83	8.23	
BOSTON COMPANY ASSET MGT, LLC	48,333,746	8.55	12.57	22.37	22.37	20.19						23.42	09/01/2009
<i>RUSSELL 2000 VALUE</i>		8.31	15.36	26.58	26.58	24.50						25.56	
CHARTWELL INVESTMENT MGMT	53,845,903	6.69	14.54	33.31	33.31	30.85	32.37	-1.46	2.16	4.32		5.76	12/01/2004
<i>RUSSELL 2000 GROWTH</i>		7.59	17.11	32.14	32.14	29.09	31.75	2.18	3.38	5.30		5.64	
JENNISON ASSOCIATES	113,891,107	7.61	17.40	31.40	31.40	31.40	33.42					8.64	04/01/2008
SMALL CAP AGGREGATE	216,070,756	7.59	15.57	29.72	29.72	28.58	33.82	-0.08	-2.38	0.93	4.45	4.94	07/01/1999
<i>RUSSELL 2000</i>		7.94	16.25	29.38	29.38	26.85	27.01	2.22	1.26	4.47	6.33	6.16	
DOMESTIC EQUITY AGGREGATE	990,710,060	6.72	12.55	25.85	25.85	18.25	23.47	-2.01	-1.72	1.54	2.20	7.23	07/01/1995
<i>SAMCERA DOMESTIC EQUITY BENCHMA</i>		6.93	12.19	25.11	25.11	18.22	23.15	-1.40	-0.01	3.03	2.79		



# San Mateo County

Summary of Fund Performance With 4 Years

Rates of Return Total

Periods Ending December 31, 2010



STATE STREET

	MKT VAL	1 Month	QTR	6 Month s	FYTD	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	ITD	INCEPT. DATE
<b>INTERNATIONAL EQUITY</b>													
ARTIO GLOBAL INVESTOR	219,792,541	5.45	6.27	22.65	22.65	8.52	16.49	-9.45	-3.32	2.89		6.05	12/01/2004
<i>MSCI ACWI ex US GROWTH (GROSS)</i>		7.62	8.18	26.73	26.73	14.79	26.41	-4.44	1.45	5.60		8.04	
MONDRIAN INVESTMENT PARTNERS	214,923,643	6.78	3.69	20.51	20.51	5.48	16.60	-5.88	-1.30	4.38		6.80	12/01/2004
<i>MSCI ACWI EX US VALUE (GROSS)</i>		8.07	6.28	23.45	23.45	8.40	25.43	-4.77	-0.63	4.92		7.54	
TOTAL INTERNATIONAL EQUITY	434,716,184	6.11	4.98	21.58	21.58	6.99	16.55	-7.65	-2.29	3.67	3.67	6.31	10/01/1996
<i>MSCI AC WORLD ex US (GROSS)</i>		7.85	7.25	25.12	25.12	11.60	25.95	-4.58	0.43	5.29	5.97	6.20	
TOTAL EQUITY AGGREGATE	1,425,426,244	6.54	10.15	24.51	24.51	14.58	21.25	-3.73	-1.87	2.05	2.55	7.20	04/01/1995
<i>SAMCERA TOTAL EQUITY BENCHMARK</i>		7.14	11.06	25.15	25.15	16.76	23.89	-2.04	0.19	3.63	3.58		
<b>PRIVATE EQUITY</b>													
SHERIDAN PRODUCTION PARTNERS	250,000	0.00										0.00	11/01/2010
TOTAL PRIVATE EQUITY	250,000	0.00										0.00	11/01/2010
<b>DOMESTIC FIXED INCOME</b>													
ABERDEEN ASSET MANAGEMENT	127,979,933	-0.85	-0.56	2.91	2.91	10.33	14.18	3.40	3.93	4.11	5.36	5.91	06/01/2000
WESTERN ASSET MGMT	132,038,067	-0.33	-0.09	4.14	4.14	11.24	14.94	6.57	6.00	5.95		5.56	11/01/2004
PYRAMIS GLOBAL ADVISORS	129,174,055	-0.68	-0.54	2.53	2.53	8.96	12.96	7.27	6.43			6.17	02/01/2006
ANGELO GORDON GECC PPI FUND	36,245,942	0.00	8.10	20.14	20.14	35.64						34.85	12/01/2009
<i>BC AGGREGATE</i>		-1.08	-1.30	1.15	1.15	6.54	6.24	5.90	6.17	5.80	5.84		
BROWN BROTHERS HARRIMAN & CO	45,893,851	-1.68	-1.26									1.51	08/01/2010
<i>BARCLAYS US TIPS INDEX</i>		-1.56	-0.66									1.69	

# San Mateo County

Summary of Fund Performance With 4 Years

Rates of Return Total

Periods Ending December 31, 2010



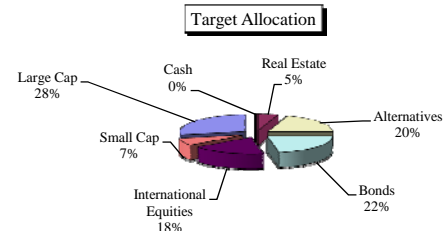
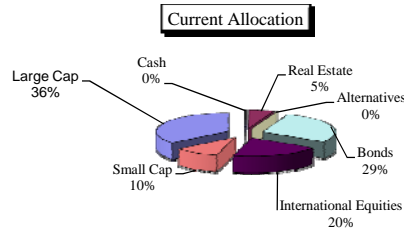
STATE STREET

	MKT VAL	1 Month	QTR	6 Month s	FYTD	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	ITD	INCEPT. DATE
BRIGADE CAPITAL MANAGEMENT	47,341,620	1.55	3.16									5.20	08/01/2010
<i>BC BA INTERMEDIATE HIGH YIELD INDEX</i>		1.11	1.70									5.00	
<b>INTERNATIONAL FIXED INCOME</b>													
FRANKLIN TEMPLETON INVESTMENTS	99,408,179												12/01/2010
<i>BC MULTIVERSE</i>		1.33										1.33	
<b>TOTAL FIXED INCOME</b>													
TOTAL FIXED INCOME AGGREGATE	618,081,647	-0.57	0.18	4.16	4.16	11.31	14.65	6.14	5.75	5.59	5.97	6.02	01/01/1996
<i>BC AGGREGATE</i>		-1.08	-1.30	1.15	1.15	6.54	6.24	5.90	6.17	5.80	5.84	6.04	
<b>REAL ESTATE</b>													
INVESCO REAL ESTATE	117,068,313	0.00	0.00	7.44	7.44	11.55	-13.03	-10.28	-4.82	-0.44		3.56	10/01/2004
TOTAL REAL ESTATE AGGREGATE	117,068,313	0.00	0.00	7.44	7.44	11.55	-13.03	-10.28	-4.82	-0.44	6.11	6.66	01/01/1997
<b>CASH EQUIVALENTS</b>													
SAMCERA GENERAL ACCOUNT	1,285,111	0.02	0.05	0.12	0.12	0.20	0.33	1.05	2.16	2.72	2.52	2.96	07/01/1999
SAMCERA TREASURY & LAIF	1,626,900	0.07	0.29	0.62	0.62	1.10	1.27	-0.10	1.05	1.50	2.46	3.55	07/01/1994
TOTAL CASH AGGREGATE	2,912,011	0.07	0.29	0.62	0.62	1.08	1.23	0.15	1.24	1.83	2.42	2.82	07/01/1999
<i>91 DAY T-BILL</i>		0.02	0.04	0.08	0.08	0.13	0.17	0.79	1.83	2.43	2.38	2.83	
<b>TOTAL FUND</b>													
TOTAL FUND	2,163,738,215	4.03	6.52	16.84	16.84	13.20	16.14	-1.12	0.34	3.12	4.20		10/01/1993
<i>SAMCERA TOTAL PLAN POLICY BENCHM</i>		4.54	6.71	17.13	17.13	13.56	17.76	0.33	2.24	4.54	4.77	7.15	
<i>ACTUARIAL DISCOUNT RATE</i>		0.62	1.88	3.80	3.80	7.75	7.75	7.75	7.75	7.77	7.95		

San Mateo County Employees' Retirement Association  
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Actual versus Target Allocation

Portfolio	Market Value	Allocation		Percentage Off Target	Rebalance Range
		Current	Target		
BlackRock Russell 1000	\$239,814,972	11.08%	6.50%	4.58%	±3%
D.E. Shaw Investment Management, LLC	\$105,343,032	4.87%	4.25%	0.62%	±3%
T. Rowe Price Associates	\$104,010,198	4.81%	4.25%	0.56%	±3%
Barrow, Hanley, Mewhinney & Strauss	\$158,592,024	7.33%	6.50%	0.83%	±3%
BlackRock Capital Management, Inc.	\$166,879,079	7.71%	6.50%	1.21%	±3%
<b>Large Cap Aggregate</b>	<b>\$774,639,304</b>	<b>35.80%</b>	<b>28.00%</b>	<b>7.80%</b>	
The Boston Company	\$48,333,746	2.23%	1.75%	0.48%	±3%
Chartwell Investment Partners	\$53,845,903	2.49%	1.75%	0.74%	±3%
Jennison Associates	\$113,891,107	5.26%	3.50%	1.76%	±3%
<b>Small Cap Aggregate</b>	<b>\$216,070,756</b>	<b>9.99%</b>	<b>7.00%</b>	<b>2.99%</b>	
Artio Global Investors	\$219,792,541	10.16%	9.00%	1.16%	±3%
Mondrian Investment Partners	\$214,923,643	9.93%	9.00%	0.93%	±3%
<b>International Aggregate</b>	<b>\$434,716,184</b>	<b>20.09%</b>	<b>18.00%</b>	<b>2.09%</b>	±3%
<b>Total Equity</b>	<b>\$1,425,426,244</b>	<b>65.88%</b>	<b>53.00%</b>	<b>12.88%</b>	
Aberdeen Asset Management	\$127,979,933	5.91%	3.75%	2.16%	±2%
Angelo Gordon	\$36,245,942	1.68%	1.63%	0.05%	±2%
Brigade Capital Management	\$47,341,620	2.19%	1.63%	0.56%	±2%
Brown Brothers Harriman	\$45,893,851	2.12%	3.00%	-0.88%	±2%
Franklin Templeton	\$99,408,180	4.59%	4.50%	0.09%	±2%
Pyramis Global Advisors	\$129,174,055	5.97%	3.75%	2.22%	±2%
Western Asset Management Company	\$132,038,067	6.10%	3.75%	2.35%	±2%
<b>Total Fixed Income</b>	<b>\$618,081,647</b>	<b>28.57%</b>	<b>22.00%</b>	<b>6.57%</b>	
Private Equity	\$250,000	0.01%	8.00%	-7.99%	N/A
Risk Parity	\$0	0.00%	6.00%	-6.00%	N/A
Hedge Funds	\$0	0.00%	3.00%	-3.00%	N/A
Comodities	\$0	0.00%	3.00%	-3.00%	N/A
<b>Alternative Investments</b>	<b>\$250,000</b>	<b>0.01%</b>	<b>20.00%</b>	<b>-19.99%</b>	
INVESCO Realty Advisors	\$117,068,313	5.41%	5.00%	0.41%	±2%
Cash	\$2,912,011	0.13%	0.00%	0.13%	
<b>Total</b>	<b>\$2,163,738,215</b>	<b>100.00%</b>	<b>100.00%</b>		



San Mateo County Employees' Retirement Association  
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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	\$239,814,972	\$229,581,661	4.5%	\$133,915,817	79.1%
AXA Rosenberg Investment Management, LLC	\$0	\$0	0.0%	\$90,646,911	-100.0%
D.E. Shaw Investment Management, LLC	\$105,343,032	\$98,727,384	6.7%	\$92,282,538	14.2%
T. Rowe Price Associates	\$104,010,198	\$97,427,957	6.8%	\$91,095,051	14.2%
Barrow, Hanley, Mewhinney & Strauss	\$158,592,024	\$147,519,851	7.5%	\$136,937,220	15.8%
BlackRock Capital Management, Inc.	\$166,879,079	\$158,978,850	5.0%	\$138,626,768	20.4%
<b>Large Cap Aggregate</b>	<b>\$774,639,304</b>	<b>\$732,235,703</b>	<b>5.8%</b>	<b>\$683,504,305</b>	<b>13.3%</b>
The Boston Company	\$48,333,746	\$44,526,587	8.6%	\$40,213,674	20.2%
Chartwell Investment Partners	\$53,845,903	\$50,470,187	6.7%	\$41,151,695	30.8%
Jennison Associates	\$113,891,107	\$105,834,880	7.6%	\$86,674,766	31.4%
<b>Small Cap Aggregate</b>	<b>\$216,070,756</b>	<b>\$200,831,653</b>	<b>7.6%</b>	<b>\$168,040,135</b>	<b>28.6%</b>
Artio Global Investors	\$219,792,541	\$208,441,980	5.4%	\$202,553,643	8.5%
Mondrian Investment Partners	\$214,923,643	\$201,270,422	6.8%	\$203,761,020	5.5%
<b>International Aggregate</b>	<b>\$434,716,184</b>	<b>\$409,712,402</b>	<b>6.1%</b>	<b>\$406,314,663</b>	<b>7.0%</b>
<b>Total Equity</b>	<b>\$1,425,426,244</b>	<b>\$1,342,779,759</b>	<b>6.2%</b>	<b>\$1,257,859,103</b>	<b>13.3%</b>
Aberdeen Asset Management	\$127,979,933	\$144,291,709	-11.3%	\$155,605,612	-17.8%
Angelo Gordon	\$36,245,942	\$35,002,965	3.6%	\$7,739,038	N/A
Brigade Capital Management	\$0	\$46,617,210	N/A	\$0	N/A
Brown Brothers Harriman	\$45,893,851	\$46,680,135	N/A	\$0	N/A
Franklin Templeton	\$99,408,180	\$0	N/A	\$0	N/A
Pyramis Global Advisors	\$129,174,055	\$170,487,635	-24.2%	\$155,403,239	-16.9%
Western Asset Management Company	\$132,038,067	\$178,030,600	-25.8%	\$159,511,599	-17.2%
<b>Total Fixed Income</b>	<b>\$618,081,647</b>	<b>\$621,110,254</b>	<b>-0.5%</b>	<b>\$478,259,488</b>	<b>29.2%</b>
Private Equity	\$250,000	\$250,000	N/A	\$0	N/A
Risk Parity	\$0	\$0	N/A	\$0	N/A
Hedge Funds	\$0	\$0	N/A	\$0	N/A
Comodities	\$0	\$0	N/A	\$0	N/A
<b>Alternative Investments</b>	<b>\$250,000</b>	<b>\$250,000</b>	<b>N/A</b>	<b>\$0</b>	<b>N/A</b>
INVESCO Realty Advisors	\$117,068,313	\$117,068,313	0.0%	\$110,601,490	N/A
Cash	\$2,912,011	\$3,432,516	-15.2%	\$23,763,136	-87.7%
<b>Total</b>	<b>\$2,163,488,215</b>	<b>\$2,084,390,842</b>	<b>3.8%</b>	<b>\$1,870,483,217</b>	<b>15.7%</b>

Change in Asset Allocation by Asset Class

	Current Month	Prior Month	Absolute Change	Prior Year	Absolute Change
Total Equity	65.9%	64.4%	1.5%	67.2%	-1.4%
Total Fixed Income	28.6%	29.8%	-1.2%	25.6%	3.0%
Alternative Investments	0.0%	0.0%	0.0%	0.0%	0.0%
Real Estate	5.4%	5.6%	-0.2%	5.9%	-0.5%
Cash	0.1%	0.2%	0.0%	1.3%	-1.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>		<b>100.0%</b>	

San Mateo County Employees' Retirement Association  
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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
						Six Months				
Equity Aggregate	\$1,425,426,244	6.54%	10.15%	24.51%	14.58%	24.51%	21.25%	-3.73%	2.05%	2.55%
Equity Composite Benchmark		7.14%	11.06%	25.15%	16.76%	25.15%	23.89%	-2.04%	3.63%	3.58%
<b>Variance</b>		<b>-0.60%</b>	<b>-0.91%</b>	<b>-0.64%</b>	<b>-2.18%</b>	<b>-0.64%</b>	<b>-2.64%</b>	<b>-1.69%</b>	<b>-1.58%</b>	<b>-1.03%</b>
Private Equity Aggregate	\$250,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Private Equity Composite Benchmark		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Variance</b>		<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>
Fixed Income Aggregate	\$618,081,647	-0.57%	0.18%	4.16%	11.31%	4.16%	14.65%	6.14%	5.59%	5.97%
Fixed Income Composite Benchmark		-1.08%	-1.30%	1.15%	6.54%	1.15%	6.24%	5.90%	5.80%	5.84%
<b>Variance</b>		<b>0.51%</b>	<b>1.48%</b>	<b>3.01%</b>	<b>4.77%</b>	<b>3.01%</b>	<b>8.41%</b>	<b>0.24%</b>	<b>-0.21%</b>	<b>0.13%</b>
Real Estate Aggregate (2)	\$117,068,313	0.00%	0.00%	7.44%	11.55%	7.44%	-13.03%	-10.28%	-0.44%	N/A
NCREIF NFI ODCE EW (Gross)		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Variance</b>		<b>0.00%</b>	<b>0.00%</b>	<b>7.44%</b>	<b>11.55%</b>	<b>7.44%</b>	<b>-13.03%</b>	<b>-10.28%</b>	<b>-0.44%</b>	<b>N/A</b>
Cash Aggregate	\$2,912,011	0.07%	0.29%	0.62%	1.08%	0.62%	1.23%	0.15%	1.83%	2.42%
91 Day Treasury Bill		0.02%	0.04%	0.08%	0.13%	0.08%	0.17%	0.79%	2.43%	2.38%
<b>Variance</b>		<b>0.05%</b>	<b>0.25%</b>	<b>0.54%</b>	<b>0.95%</b>	<b>0.54%</b>	<b>1.06%</b>	<b>-0.64%</b>	<b>-0.60%</b>	<b>0.04%</b>
Total Fund Returns	\$2,163,738,215	4.03%	6.52%	16.84%	13.20%	16.84%	16.14%	-1.12%	3.12%	4.20%
Total Plan Policy Benchmark		4.54%	6.71%	17.13%	13.56%	17.13%	17.76%	0.33%	4.54%	4.77%
<b>Variance</b>		<b>-0.51%</b>	<b>-0.19%</b>	<b>-0.29%</b>	<b>-0.36%</b>	<b>-0.29%</b>	<b>-1.62%</b>	<b>-1.45%</b>	<b>-1.42%</b>	<b>-0.57%</b>

Performance versus Actuarial Discount Rate

Total Fund Returns		4.03%	6.52%	16.84%	13.20%	16.84%	16.14%	-1.12%	3.12%	4.20%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%	3.80%	7.75%	7.75%	7.77%	7.95%
<b>Variance</b>		<b>3.41%</b>	<b>4.64%</b>	<b>13.04%</b>	<b>5.45%</b>	<b>13.04%</b>	<b>8.39%</b>	<b>-8.87%</b>	<b>-4.65%</b>	<b>-3.75%</b>

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

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

San Mateo County Employees' Retirement Association  
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Manager & Benchmark Performance

Manager Performance

Portfolio	(1)					One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months	Fiscal Year to Date Six Months						
BlackRock Russell 1000	6.68%	11.20%	24.06%	16.17%	24.06%	16.17%	22.21%	-2.30%	-0.32%	2.66%	1.87%
D.E. Shaw Investment Management, LLC	6.70%	11.42%	22.70%	14.15%	22.70%	14.15%	N/A	N/A	N/A	N/A	N/A
T. Rowe Price Associates	6.76%	10.99%	23.02%	14.18%	23.02%	14.18%	N/A	N/A	N/A	N/A	N/A
Barrow, Hanley, Mewhinney & Strauss	7.51%	10.79%	23.10%	15.81%	23.10%	15.81%	N/A	N/A	N/A	N/A	N/A
BlackRock Capital Management, Inc.	4.97%	14.24%	30.39%	20.38%	30.39%	20.38%	N/A	N/A	N/A	N/A	N/A
Large Cap Aggregate	6.49%	11.75%	24.82%	15.69%	24.82%	15.69%	21.12%	-2.56%	-1.66%	1.60%	1.56%
The Boston Company	8.55%	12.57%	22.37%	20.19%	22.37%	20.19%	N/A	N/A	N/A	N/A	N/A
Chartwell Investment Partners	6.69%	14.54%	33.31%	30.85%	33.31%	30.85%	32.37%	-1.46%	2.16%	4.32%	N/A
Jennison Associates	7.61%	17.40%	31.40%	31.40%	31.40%	31.40%	33.42%	N/A	N/A	N/A	N/A
Small Cap Aggregate	7.59%	15.57%	29.72%	28.58%	29.72%	28.58%	33.82%	-0.08%	-2.38%	0.93%	6.33%
Artio Global Investors	5.45%	6.27%	22.65%	8.52%	22.65%	8.52%	16.49%	-9.45%	-3.32%	2.89%	N/A
Mondrian Investment Partners	6.78%	3.69%	20.51%	5.48%	20.51%	5.48%	16.60%	-5.88%	-1.30%	4.38%	N/A
International Aggregate	6.11%	4.98%	21.58%	6.99%	21.58%	6.99%	16.55%	-7.65%	-2.29%	3.67%	3.67%
Total Equity	6.54%	10.15%	24.51%	14.58%	24.51%	14.58%	21.25%	-3.73%	-1.87%	2.05%	2.55%
Aberdeen Asset Management	-0.85%	-0.56%	2.91%	10.33%	2.91%	10.33%	14.18%	3.40%	3.93%	4.11%	5.36%
Angelo Gordon	0.00%	8.10%	20.14%	35.64%	20.14%	35.64%	N/A	N/A	N/A	N/A	N/A
Brigade Capital Management	1.55%	3.16%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Brown Brothers Harriman	-1.68%	-1.26%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Franklin Templeton	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Pyramis Global Advisors	-0.68%	-0.54%	2.53%	8.96%	2.53%	8.96%	12.96%	7.27%	6.43%	N/A	N/A
Western Asset Management Company	-0.33%	-0.09%	4.14%	11.24%	4.14%	11.24%	14.94%	6.57%	6.00%	5.95%	N/A
Total Fixed Income	-0.57%	0.18%	4.16%	11.31%	4.16%	11.31%	14.65%	6.14%	5.75%	5.59%	5.97%
Private Equity	0.00%	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%	7.44%	11.55%	7.44%	11.55%	-13.03%	-10.28%	-4.82%	-0.44%	N/A
Cash	0.07%	0.29%	0.62%	1.08%	0.62%	1.08%	1.23%	0.15%	1.24%	1.83%	2.42%
Total	4.03%	6.52%	16.84%	13.20%	16.84%	13.20%	16.14%	-1.12%	0.34%	3.12%	4.20%

Benchmark Performance

Russell 1000	6.68%	11.19%	24.03%	16.10%	24.03%	16.10%	22.11%	-2.37%	-0.40%	2.59%	1.83%
S&P 500	6.68%	10.76%	23.27%	15.06%	23.27%	15.06%	N/A	N/A	N/A	N/A	N/A
Russell 1000 Value	7.89%	10.54%	21.74%	15.51%	21.74%	15.51%	N/A	N/A	N/A	N/A	N/A
Russell 1000 Growth	5.51%	11.83%	26.37%	16.71%	26.37%	16.71%	N/A	N/A	N/A	N/A	N/A
Russell 2000	7.94%	16.25%	29.38%	26.85%	29.38%	26.85%	27.01%	2.22%	1.26%	4.47%	6.33%
Russell 2000 Value	8.31%	15.36%	26.58%	24.50%	26.58%	24.50%	N/A	N/A	N/A	N/A	N/A
Russell 2000 Growth	7.59%	17.11%	32.14%	29.09%	32.14%	29.09%	31.75%	2.18%	3.38%	5.30%	N/A
MSCI ACWI ex US (Gross)	7.85%	7.25%	25.12%	11.60%	25.12%	11.60%	25.95%	-4.58%	0.43%	5.29%	5.97%
MSCI ACWI ex US Growth (Gross)	7.62%	8.18%	26.73%	14.79%	26.73%	14.79%	26.41%	-4.44%	1.45%	5.60%	N/A
MSCI ACWI ex US Value (Gross)	8.07%	6.28%	23.45%	8.40%	23.45%	8.40%	25.43%	-4.77%	-0.63%	4.92%	N/A
Barclays Capital Aggregate	-1.08%	-1.30%	1.15%	6.54%	1.15%	6.54%	6.24%	5.90%	6.17%	5.80%	5.84%
Barclays U.S. TIPS Index	-1.56%	-0.66%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
BC BA Intermediate High Yield Index	1.11%	1.70%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Barclays Capital Multiverse Index	1.33%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NCREIF NFI ODCE EW (Gross)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
91 Day Treasury Bill	0.02%	0.04%	0.08%	0.13%	0.08%	0.13%	0.17%	0.79%	1.83%	2.43%	2.38%
SamCERA Plan Policy Benchmark	4.54%	6.71%	17.13%	13.56%	17.13%	13.56%	17.76%	0.33%	2.24%	4.54%	4.77%
SamCERA Actuarial Discount Rate	0.62%	1.88%	3.80%	7.75%	3.80%	7.75%	7.75%	7.75%	7.75%	7.77%	7.95%

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

(2) Refer to page 13 for benchmark details

San Mateo County Employees' Retirement Association  
Monthly Performance Review  
Period Ending December 31, 2010

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 11/30/2010	Prior Years Accumulated Unrealized Gains / (Loss)	FYTD Unrealized Gains / (Loss)	Ending Market Value As of 11/30/2010
BlackRock Russell 1000	\$227,158,749.62	1,671,961	(20,000,000)	\$208,830,710.19	(\$12,322,638)	\$43,306,900	\$239,814,972
D.E. Shaw Investment Management LLC	\$91,382,477.76	4,302,556		\$95,685,033.88	(\$5,529,724)	\$15,187,722	\$105,343,032
T. Rowe Price Associates	\$84,410,628.27	2,409,208		\$86,819,836.16	\$133,920	\$17,056,442	\$104,010,198
Barrow Hanley	\$125,717,857.93	2,934,846		\$128,652,703.61	\$3,115,310	\$26,824,010	\$158,592,024
BlackRock	\$120,628,030.67	5,748,986		\$126,377,016.94	\$7,352,352	\$33,149,710	\$166,879,079
The Boston Company	\$39,782,574.05	1,041,004		\$40,823,578.15	(\$285,918)	\$7,796,086	\$48,333,746
Chartwell Investment Partners	\$37,328,257.20	4,900,987		\$42,229,243.77	\$3,063,778	\$8,552,882	\$53,845,903
Jennison Associates	\$81,047,582.79	4,310,578		\$85,358,161.00	\$5,626,624	\$22,906,322	\$113,891,107
Artio Global Investors	\$185,960,389.43	(435,516)		\$185,524,873.23	(\$6,744,297)	\$41,011,964	\$219,792,541
Mondrian Investment Partners	\$213,442,132.16	(1,688,589)		\$211,753,543.36	(\$35,099,468)	\$38,269,567	\$214,923,643
Aberdeen Asset Management	\$163,766,449.61	6,395,977	(43,000,000)	\$127,162,426.26	\$3,066,904	(\$2,249,398)	\$127,979,933
Angelo Gordon	\$21,875,000.00		7,262,499	\$29,137,499.00	\$1,478,466	\$5,629,977	\$36,245,942
Bridage Capital Management	\$0.00		45,000,000	\$45,000,000.00		\$2,341,620	\$47,341,620
Brown Brothers Harriman	\$0.00	981,312	45,000,000	\$45,981,312.07	\$0	(\$87,462)	\$45,893,851
Franklin Templeton Investments	\$0.00	(9,976)	100,000,000	\$99,990,023.59		(\$581,844)	\$99,408,179
Pyramis Global Advisors	\$126,598,323.37	9,981,374	(40,000,000)	\$96,579,697.32	\$38,553,995	(\$5,959,637)	\$129,174,055
Western Asset Management Company	\$174,036,705.22	6,440,180	(45,000,000)	\$135,476,884.76	(\$3,645,689)	\$206,872	\$132,038,067
Private Equity	\$0.00		250,000	\$250,000.00	\$0	\$0	\$250,000
Risk Parity	\$0.00			\$0.00	\$0	\$0	\$0
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	795,830		\$133,551,508.77	\$0	(\$16,483,196)	\$117,068,313
Cash	\$13,670,765.68			\$2,912,011.00	\$0	\$0	\$2,912,011
<b>Total</b>	<b>\$1,839,561,602.36</b>	<b>\$49,780,716.38</b>	<b>\$49,512,499.00</b>	<b>\$1,928,096,063.06</b>	<b>-\$1,236,384.30</b>	<b>\$236,878,535.91</b>	<b>\$2,163,738,214.67</b>

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

San Mateo County Employees' Retirement Association  
Monthly Performance Review  
Period Ending December 31, 2010

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 11/30/2010	Fiscal Year to Date Return (Portfolio)	Fiscal Year to Date Return (Benchmark)
BlackRock Russell 1000	\$227,158,750	\$1,671,961	-\$20,000,000	\$208,830,710	24.06%	24.03%
D.E. Shaw Investment Management, LLC	\$91,382,478	\$4,302,556	\$0	\$95,685,034	22.70%	24.03%
T. Rowe Price Associates	\$84,410,628	\$2,409,208	\$0	\$86,819,836	23.02%	23.27%
Barrow, Hanley, Mewhinney & Strauss	\$125,717,858	\$2,934,846	\$0	\$128,652,704	23.10%	21.74%
BlackRock Capital Management, Inc.	\$120,628,031	\$5,748,986	\$0	\$126,377,017	30.39%	26.37%
The Boston Company	\$39,782,574	\$1,041,004	\$0	\$40,823,578	22.37%	26.58%
Chartwell Investment Partners	\$37,328,257	\$4,900,987	\$0	\$42,229,244	33.31%	32.14%
Jennison Associates	\$81,047,583	\$4,310,578	\$0	\$85,358,161	31.40%	29.38%
Artio Global Investors	\$185,960,389	-\$435,516	\$0	\$185,524,873	22.65%	26.73%
Mondrian Investment Partners	\$213,442,132	-\$1,688,589	\$0	\$211,753,543	20.51%	23.45%
Aberdeen Asset Management	\$163,766,450	\$6,395,977	-\$43,000,000	\$127,162,426	2.91%	1.15%
Angelo Gordon	\$21,875,000	\$0	\$7,262,499	\$29,137,499	20.14%	N/A
Brigade Capital Management	\$0	\$0	\$45,000,000	\$45,000,000	N/A	N/A
Brown Brothers Harriman	\$0	\$981,312	\$45,000,000	\$45,981,312	N/A	N/A
Franklin Templeton	\$0	-\$9,976	\$100,000,000	\$99,990,024	N/A	N/A
Pyramis Global Advisors	\$126,598,323	\$9,981,374	-\$40,000,000	\$96,579,697	2.53%	1.15%
Western Asset Management Company	\$174,036,705	\$6,440,180	-\$45,000,000	\$135,476,885	4.14%	1.15%
Private Equity	\$0	\$0	\$250,000	\$250,000	N/A	N/A
Risk Parity	\$0	\$0	\$0	\$0	N/A	N/A
Hedge Funds	\$0	\$0	\$0	\$0	N/A	N/A
Comodities	\$0	\$0	\$0	\$0	N/A	N/A
INVESTCO Realty Advisors	\$132,755,679	\$795,830	\$0	\$133,551,509	7.44%	N/A
Cash	\$13,670,766	\$0	\$0	\$13,670,766	0.62%	0.08%
<b>Total</b>	<b>\$1,839,561,602</b>	<b>\$49,780,716</b>	<b>\$49,512,499</b>	<b>\$1,938,854,818</b>	<b>16.84%</b>	<b>17.13%</b>

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



San Mateo County Employees' Retirement Association

Monthly Performance Review

Period Ending December 31, 2010

Professional Services Fees

Investment Management Fees	Market Value As of 11/30/2010	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	\$ 239,814,971.98	\$22,800	\$23,400		\$46,200	\$95,000	
D.E. Shaw Investment Management, LLC	\$ 105,343,031.77	\$115,900	\$128,400		\$244,300	\$475,000	
T. Rowe Price Associates	\$ 104,010,197.89	\$84,900	\$93,300		\$178,200	\$350,000	
Barrow, Hanley, Mewhinney & Strauss	\$ 158,592,023.83	\$158,900	\$170,100		\$329,000	\$650,000	
BlackRock Capital Management, Inc.	\$ 166,879,078.81	\$162,600	\$185,500		\$348,100	\$675,000	
The Boston Company	\$ 48,333,745.74	\$88,400	\$97,300		\$185,700	\$375,000	
Chartwell Investment Partners	\$ 53,845,903.00	\$82,600	\$95,800		\$178,400	\$350,000	
Jennison Associates	\$ 113,891,106.87	\$185,600	\$207,600		\$393,200	\$775,000	
Artio Global Investors	\$ 219,792,541.06	\$242,100	\$263,200		\$505,300	\$975,000	
Mondrian Investment Partners	\$ 214,923,643.08	\$136,700	\$118,700		\$255,400	\$50,000	
Aberdeen Asset Management	\$ 127,979,933.17	\$90,800	\$90,800		\$181,600	\$375,000	
Angelo Gordon	\$ 36,245,941.53	\$58,300	\$58,300		\$116,600	\$350,000	
Brigade Capital Management	\$ 47,341,620.00	\$49,700	\$51,200		\$100,900	\$225,000	
Brown Brothers Harriman	\$ 45,893,850.55	\$17,200	\$12,500		\$29,700	\$75,000	
Franklin Templeton	\$ 99,408,179.52	\$0	\$5,400		\$5,400	N/A	
Pyramis Global Advisors	\$ 129,174,054.86	\$64,200	\$61,000		\$125,200	\$275,000	
Western Asset Management Company	\$ 132,038,067.42	\$103,400	\$98,500		\$201,900	\$425,000	
Private Equity	\$ 250,000.00	\$0	\$0		\$0	N/A	
Risk Parity	\$ -	\$0	\$0		\$0	N/A	
Hedge Funds	\$ -	\$0	\$0		\$0	N/A	
Commodities	\$ -	\$0	\$0		\$0	N/A	
INVESCO Realty Advisors	\$ 117,068,313.00	\$161,100	\$155,100		\$316,200	\$650,000	
<b>Sub-Total</b>	<b>\$2,160,826,204</b>	<b>\$1,825,200</b>	<b>\$1,916,100</b>	<b>\$0</b>	<b>\$0</b>	<b>\$3,741,300</b>	<b>\$7,145,000</b>
<b>Investment Consultant Fees</b>							
Strategic Investment Solutions		\$50,000	\$116,600			\$166,600	\$400,000
<b>Global Custodian Fees</b>							
State Street Bank & Trust		\$35,700	\$81,600			\$117,300	\$125,000
<b>Actuarial Consultant Fees</b>							
Milliman, Inc.		\$35,900	\$4,200			\$40,100	\$60,000
<b>Sub-Total</b>		<b>\$121,600</b>	<b>\$202,400</b>	<b>\$0</b>	<b>\$0</b>	<b>\$324,000</b>	<b>\$585,000</b>
<b>Total</b>		<b>\$1,946,800</b>	<b>\$2,118,500</b>	<b>\$0</b>	<b>\$0</b>	<b>\$4,065,300</b>	<b>\$7,730,000</b>

**SAN MATEO COUNTY  
BLENDED BENCHMARKS DETAIL  
August 31, 2010**

**Total Plan Policy Benchmark**

	As of:					
	2/1/2007	11/1/2001	6/1/2000	3/1/1999	9/1/1998	7/1/1996
Russell 1000	37.0%	40.0%	40.0%	22.0%	20.0%	20.0%
S & P 500	0.0%	0.0%	0.0%	0.0%	0.0%	5.0%
Russell 1000 Value	0.0%	0.0%	0.0%	5.0%	5.0%	0.0%
Russell 2000	9.0%	10.0%	10.0%	15.0%	15.0%	15.0%
MSCI AC World ex-US	0.0%	0.0%	15.0%	0.0%	0.0%	0.0%
MSCI AC World ex-US *	21.0%	15%	0%	0%	0%	0%
MSCI EAFE	0.0%	0.0%	0.0%	20.0%	20.0%	20.0%
Lehman Aggregate	27.0%	29.0%	29.0%	25.0%	21.0%	21.0%
Salomon Non-US World Govt Bond (unhedged)	0.0%	0.0%	0.0%	5.0%	9.0%	9.0%
SamCERA's Real Estate Benchmark	6.0%	6.0%	6.0%	0.0%	0.0%	0.0%
10 YR Treasury plus 200 basis points	0.0%	0.0%	0.0%	8.0%	10.0%	10.0%
	100.0%	100.0%	100%	100%	100%	100%

**Equity Benchmark**

	As of:					
	11/1/2001	6/1/2000	3/1/1999	9/1/1998	7/1/1996	Prior to 7/1/96
Russell 1000	61.54%	61.54%	35.48%	33.33%	33.33%	58.00%
S & P 500	0.00%	0.00%	0.00%	0.00%	8.33%	14.00%
Russell 1000 Value	0.00%	0.00%	8.06%	8.33%	0.00%	0.00%
Russell 2000	15.38%	15.38%	24.19%	25.00%	25.00%	12.00%
MSCI EAFE	0.00%	0.00%	32.26%	33.33%	33.33%	16.00%
MSCI AC World ex-US *	23.08%	0.00%	0.00%	0.00%	0.00%	0.00%
MSCI AC World ex-US	0.00%	23.08%	0.00%	0.00%	0.00%	0.00%
	100.00%	100%	100%	100%	100%	100%

**Domestic Equity Benchmark**

	As of:					
	11/1/2001	6/1/2000	3/1/1999	9/1/1998	7/1/1996	Prior to 7/1/96
Russell 1000	80.00%	80.00%	52.38%	50.00%	50.00%	69.05%
S & P 500	0.00%	0.00%	0.00%	0.00%	12.50%	16.67%
Russell 1000 Value	0.00%	0.00%	11.90%	12.50%	0.00%	0.00%
Russell 2000	20.00%	20.00%	35.71%	37.50%	37.50%	14.29%
	100%	100%	100%	100%	100%	100%

**Fixed Income Benchmark**

	As of:				
	11/1/2001	6/1/2000	3/1/1999	9/1/1998	7/1/1996
Lehman Aggregate	100.00%	100.00%	83.33%	70.00%	70.00%
Salomon Non-US World Govt Bond (unhedged)	0.00%	0.00%	16.67%	30.00%	30.00%
	100.0%	100.0%	100.0%	100.0%	100.0%

**MSCI AC WORLD EX US Custom Index**

	As of:					
	11/1/2001	6/1/2000	3/1/1999	9/1/1998	7/1/1996	Prior to 7/1/96
MSCI AC World ex-US *	100%	0%	0%	0%	0%	0%
MSCI AC World ex-US	0.0%	100%	0%	0%	0%	0%
MSCI EAFE	0.0%	0%	100%	100%	100%	100%

**SamCERA's Real Estate Benchmark**

	As of:					
	11/1/2001	4/1/2000	3/1/1999	9/1/1998	7/1/1996	Prior to 7/1/96
NCREIF Property Index	100%	100%	0%	0%	0%	0%
10 YR Treasury plus 200 basis points	0%	0%	100%	100%	100%	100%

**Actuarial Discount Rate- Annualized**

	As of:		
	7/1/2006	7/1/2003	Prior to 7/1/2003
	7.75%	8%	8.25%

\* MSCI removed the word "Free" in 2004.

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

January 25, 2011

Agenda Item 6.2

**TO:** Board of Retirement

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



**SUBJECT:** Approval of Amended *SamCERA* Policy Regarding Placement Agents

### **Issue**

In 2010, the California law regarding placement agents was amended by AB 1743 to modify the definitions of “External Manager”, “Placement Agent” and other related terms. To conform to these changes, *SamCERA* must modify its policy regarding placement agents.

### **Background**

Government Code section 7513.85 required all public pension systems to adopt a policy regarding “placement agents” by June 30, 2010. The Board adopted a policy in compliance with this requirement.

The attached amended policy reflects the statutory changes required by AB 1743 by amending the definition of a placement agent to mean: “any person hired, engaged, or retained by, or serving for the benefit of or on behalf of, an external manager, or on behalf of another placement agent, who acts or has acted for compensation as a finder, solicitor, marketer, consultant, broker, or other intermediary in connection with the offer or sale of the securities, assets, or services of an external manager to a board or an investment vehicle, either directly or indirectly.” The statute and draft policy exclude from that definition, “...an individual who is an employee, officer, director, equity holder, partner, member, or trustee of an external manager and who spends one-third or more of his or her time, during a calendar year, managing the securities or assets owned, controlled, invested, or held by the external manager...”

In addition, the amended policy:

- adds language requiring investment managers to describe the compensation paid to third parties as well as internal marketing employees;
- contains additional language clarifying the responsibilities of external managers and staff with respect to the implementation of the policy;
- describes the penalties *SamCERA* will enforce due to a material omission or inaccuracy or any other violation;

The policy will be attached to and incorporated into *SamCERA*'s investment management agreements. It is modeled on policies adopted by the San

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

Bernardino County Employee's Retirement Association and Santa Barbara County Employee's Retirement Association, and has been approved by County Counsel.

Attached is:

- A revised copy of the policy showing additions and deletions
- A resolution for the board's approval adopting the draft placement agent policy
- a copy of AB 1743

**Staff Recommendation**

Staff recommends the board approve the attached resolution adopting amendments to its, "Policy Requiring Disclosure of Placement Agent Fees, Gifts, and Campaign Contributions."

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

RESOLUTION 10-11-\_\_

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**POLICY REQUIRING DISCLOSURE OF PLACEMENT AGENT FEES, GIFTS,  
AND CAMPAIGN CONTRIBUTIONS**  
RESOLUTION

*THIS RESOLUTION, adopted by the Board of Retirement (Board) of the  
San Mateo County Employees' Retirement Association (SamCERA),  
Adopts an amendment to its policy in accordance with Government Code §7513.8  
requiring disclosure of placement agent fees, gifts, and campaign contributions.*

**WHEREAS**, Government Code §7513.85 requires the board to develop and implement, a policy requiring the disclosure of payments to placement agents in connection with system investments in or through external managers; and

**WHEREAS**, Government Code §7513.85 mandates that the policy include certain requirements and this board having read the attached policy “Requiring Disclosure of Placement Agent Fees, Gifts, and Campaign contributions” determined that all such requirements are included in the policy;

**WHEREAS**, Government Code §7513.8 was amended in August 2010 to change certain definitions; and

**WHEREAS**, this board has determined that adopting this amendment to the current policy is consistent with its fiduciary responsibilities;

**RESOLVED** that the board hereby adopts the attached “Policy Requiring Disclosure of Placement Agent Fees, Gifts, and Campaign Contributions.”



## *SamCERA Policy*

### **DISCLOSURE OF PLACEMENT AGENT FEES, GIFTS, AND CAMPAIGN CONTRIBUTIONS**

*Adopted by the Board of Retirement*

*December 14, 2010. Amended January 25, 2011.*

*This policy is effective immediately upon adoption. This policy is intended to supplement any applicable provisions of state or federal law.*

#### **I. PURPOSE**

This Policy sets forth the circumstances under which the San Mateo County Employees' Retirement Association (*SAMCERA*) shall require the disclosure of payments to *Placement Agents*, as that term is defined by Government Code section 7513.8, in connection with *SAMCERA* investments in or through *External Managers*, as that term is defined by Government Code section 7513.8. This Policy is intended to apply broadly to all of the types of investment partners with whom *SAMCERA* does business, including the general partners, managers, investment managers and sponsors of hedge funds, private equity funds, real estate funds and infrastructure funds, as well as investment managers retained pursuant to a contract. *SAMCERA* adopts this Policy to require broad, timely, and updated disclosure of all Placement Agent relationships, compensation and fees. The goal of this Policy is to help ensure that *SAMCERA* investment decisions are made solely on the merits of the investment opportunity by individuals who owe a fiduciary duty to *SAMCERA*.

#### **II. APPLICATION**

This Policy applies to all agreements with External Managers that are entered into after the date this Policy is adopted. This Policy also applies to existing agreements with External Managers if, after the date this Policy is adopted, the agreement is amended in any way to continue, terminate, or extend the term of the agreement or the investment period, increase the commitment of funds by *SAMCERA* or increase or accelerate the fees or compensation payable to the External Manager (Referred to hereafter as "Amendment".) In the case of an Amendment, the disclosure provisions of this Policy shall apply to the Amendment and not to the original agreement.

#### IV. RESPONSIBILITIES

A. The Board is responsible for:

1. not entering into any agreement with an External Manager that does not agree in writing to comply with this policy.
2. not entering into any agreement with an External Manager who has violated this policy within the previous five years. However, this prohibition may be reduced by a majority vote of the board at a public session upon a showing of good cause.

B. Each External Manager is responsible for:

1. 4. Providing a statement in writing that the External Manager will comply with this policy.

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2. 2. Providing the following information to the SAMCERA Investment Staff within 45 days of the time investment discussions are initiated by the External Manager, but in any event, prior to the completion of due diligence. In the case of Amendments, the Placement Agent Information Disclosure is required prior to execution of the Amendment.

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- a. Disclosure of payments or compensation by the External Manager or any of its principals, employees, agents or affiliates, directly or indirectly, to any person or entity to act as a Placement Agent in connection with SAMCERA investments.
- b. A resume for each officer, partner, principal of the Placement Agent detailing the person's education, professional designations, regulatory licenses and investment and work experience. If any such person is a current or former SAMCERA Board Member, employee or Consultant or a member of the immediate family of any such person, this fact shall be specifically noted.
- c. A description of any and all compensation of any kind provided or agreed to be provided to a Placement Agent, including the nature, timing and value thereof. Compensation to Placement Agents shall include, but not be limited to, compensation to third parties as well

as employees of the External Manager who solicit or market investments to SAMCERA or who are paid based upon investment commitments secured by such employees.

- d. A description of the services to be performed by the Placement Agent and a statement as to whether the Placement Agent is utilized by the External Manager with all prospective clients or only with a subset of the External Manager's prospective clients.
- e. A written copy of any and all agreements between the External Manager and the Placement Agent.
- f. A statement whether the placement agent, or any of its affiliates, are registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association, or any similar regulatory agent in a country other than the United States, and the details of that registration or explanation as to why no registration is required.
- g. A statement whether the placement agent, or any of its affiliates, is registered as a lobbyist with any state or national government.
- h. The names of any current or former SAMCERA Board Members, employees, or Consultants who suggested the retention of the Placement Agent.

3. Providing an update of any changes to any of the information provided pursuant to section B.2 above within 14 calendar days of the date that the External Manager knew or should have known of the change in information.

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4. Representing and warranting the accuracy of the information described in section B.2 above.

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5. Causing its engaged Placement Agent to disclose, prior to acting as a Placement Agent to SAMCERA,

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~~Causing its engaged Placement Agent to disclose Each Placement Agent is responsible for:~~

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~~a. 1. disclosing to SAMCERA, prior to acting as a Placement Agent to SAMCERA all campaign contributions made by the Placement Agent to any publicly elected~~

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SAMCERA Board Member during the prior 24-month period. Additionally, any subsequent campaign contribution made by the Placement Agent to any publicly elected SAMCERA Board Member during the time the Placement Agent is receiving compensation in connection with a SAMCERA investment shall also be disclosed.

~~b. 2. disclosing to SAMCERA~~, prior to acting as a Placement Agent to SAMCERA all gifts, as defined in Government Code Section 82028, given by the Placement Agent to any SAMCERA Board Member during the prior 24-month period. Additionally, any subsequent gift made by the Placement Agent to any SAMCERA Board Member during the time the Placement Agent is receiving compensation in connection with a SAMCERA investment shall also be disclosed.

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~~6. SAMCERA reserves the right to deem the failure to disclose the information required by 5(a) and 5(b) as a material breach of the agreement with the External Manager.~~

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D. SAMCERA Investment Staff ("Staff") are responsible for:

1. Providing External Managers with a copy of this Policy at the time that discussions are initiated with respect to a prospective investment or engagement.
2. Confirming that the information in section B above has been received within 45 days of the time investment discussions are initiated, but in any event, prior to the completion of due diligence and any recommendation to proceed with the contract or Amendment.
3. For new contracts and amendments to contracts existing as of the date of the initial adoption of this Policy, securing the agreement of the External Manager in the final written agreement between SAMCERA and the External Manager to provide in the event that there was or is an intentional material omission or inaccuracy in the Placement Agent Information Disclosure or any other violation of this Policy, SAMCERA is entitled to the greater of the reimbursement of any management or advisory fees paid by SAMCERA for the prior two years or an amount equal to the amounts paid or promised to be paid to the Placement Agent as a result of the SAMCERA investment; and

4. Prohibiting any External Manager or Placement Agent from soliciting new investments from SAMCERA for five years after they have committed a material violation of this Policy; provided, however, that SAMCERA's Board, by majority vote at a noticed, public meeting, may reduce this prohibition upon a showing of good cause.
5. Providing a quarterly report to the Board containing (a) the names and amount of compensation agreed to be provided to each Placement Agent by each External Manager as reported in the Placement Agent Information Disclosures, and (b) any material violations of this Policy; and maintaining the report as a public record.

**DEFINITIONS:**

The following definitions are current as of January 7, 2011. Should the legislature subsequently amend the definitions below, the definition of these terms as amended shall supersede the definitions contained in this policy.

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As defined in California Government Code section 7513.8, "External Manager" means either of the following: (1) a person who is seeking to be, or is, retained by a board to manage a portfolio of securities or other assets for compensation; (2) a person who is engaged, or proposes to be engaged, in the business of investing, reinvesting, owning, holding, or trading securities or other assets and who offers or sells, or has offered or sold, securities to a board. (All code section references are to the Government Code, unless otherwise noted.)

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As defined in section 7513.8, "Person" means an individual, corporation, partnership, limited partnership, limited liability company, or association, either domestic or foreign.

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As defined in section 7513.8, "Placement Agent" means any person hired, engaged, or retained by, or serving for the benefit of or on behalf of, an External Manager, or on behalf of another placement agent, who acts or has acted for compensation as a finder, solicitor, marketer, consultant, broker or other intermediary in connection with the offer or sale of the securities, assets, or services of an External Manager to a board or an Investment Vehicle, either directly or indirectly. Notwithstanding the preceding sentence, an individual who is an employee, officer, director, equity holder, partner, member, or trustee of an External Manager and who spends one-third or more of his or her time, during a calendar year, managing the securities or assets owned, controlled, invested, or held by the External Manager is not a Placement Agent.

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As defined in section 7513.8, "Investment Vehicle" means a corporation, partnership, limited partnership, limited liability company, association, or other entity, either domestic or foreign, constituting or managed by an External

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Manager in which a board is the majority investor and that is organized in order to invest with, or retain the investment management services of, other External Managers.

“**Compensation**” means, for the purposes of this policy, remuneration and other benefits (including without limitation, favors) of any kind.

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**Assembly Bill No. 1743**  
**CHAPTER 668**

An act to amend Sections 7513.8, 82002, and 82039 of, and to add Sections 7513.86, 7513.87, 82025.3, 82047.3, and 86206 to, the Government Code, relating to the Political Reform Act of 1974.

[Approved by Governor September 30, 2010. Filed with  
Secretary of State September 30, 2010.]

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 7513.8 of the Government Code is amended to read:

7513.8. As used in Sections 7513.85, 7513.86, 7513.87, 7513.9, and 7513.95:

(a) "Board" means the retirement board of a public pension or retirement system, as defined in subdivision (h) of Section 17 of Article XVI of the California Constitution.

(b) "External manager" means either of the following:

(1) A person who is seeking to be, or is, retained by a board to manage a portfolio of securities or other assets for compensation.

(2) A person who is engaged, or proposes to be engaged, in the business of investing, reinvesting, owning, holding, or trading securities or other assets and who offers or sells, or has offered or sold, securities to a board.

(c) "Person" means an individual, corporation, partnership, limited partnership, limited liability company, or association, either domestic or foreign.

(d) (1) "Placement agent" means any person hired, engaged, or retained by, or serving for the benefit of or on behalf of, an external manager, or on behalf of another placement agent, who acts or has acted for compensation as a finder, solicitor, marketer, consultant, broker, or other intermediary in connection with the offer or sale of the securities, assets, or services of an external manager to a board or an investment vehicle, either directly or indirectly.

(2) Notwithstanding paragraph (1), an individual who is an employee, officer, director, equityholder, partner, member, or trustee of an external manager and who spends one-third or more of his or her time, during a calendar year, managing the securities or assets owned, controlled, invested, or held by the external manager is not a placement agent.

(3) For purposes of this subdivision, "investment vehicle" means a corporation, partnership, limited partnership, limited liability company, association, or other entity, either domestic or foreign, constituting or managed by an external manager in which a board is the majority investor and that is organized in order to invest with, or retain the investment management services of, other external managers.

SEC. 2. Section 7513.86 is added to the Government Code, to read:

7513.86. Except as provided in subdivisions (b) and (c) of Section 82047.3, a person shall not act as a placement agent in connection with any potential system investment made by a state public retirement system unless that person is registered as a

lobbyist in accordance with Chapter 6 (commencing with Section 86100) of Title 9 and is in full compliance with the Political Reform Act of 1974 (Title 9 (commencing with Section 81000)) as that act applies to lobbyists.

SEC. 3. Section 7513.87 is added to the Government Code, to read:

7513.87. (a) A person acting as a placement agent in connection with any potential system investment made by a local public retirement system shall file any applicable reports with a local government agency that requires lobbyists to register and file reports and shall comply with any applicable requirements imposed by a local government agency pursuant to Section 81013.

(b) This section does not apply to an individual who is an employee, officer, director, equityholder, partner, member, or trustee of an external manager who spends one-third or more of his or her time, during a calendar year, managing the securities or assets owned, controlled, invested, or held by the external manager.

SEC. 4. Section 82002 of the Government Code is amended to read:

82002. (a) "Administrative action" means either of the following:

(1) The proposal, drafting, development, consideration, amendment, enactment, or defeat by any state agency of any rule, regulation, or other action in any ratemaking proceeding or any quasi-legislative proceeding, which shall include any proceeding governed by Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2.

(2) With regard only to placement agents, the decision by any state agency to enter into a contract to invest state public retirement system assets on behalf of a state public retirement system.

(b) "Ratemaking proceeding" means, for the purposes of a proceeding before the Public Utilities Commission, any proceeding in which it is reasonably foreseeable that a rate will be established, including, but not limited to, general rate cases, performance-based ratemaking, and other ratesetting mechanisms.

(c) "Quasi-legislative proceeding" means, for purposes of a proceeding before the Public Utilities Commission, any proceeding that involves consideration of the establishment of a policy that will apply generally to a group or class of persons, including, but not limited to, rulemakings and investigations that may establish rules affecting an entire industry.

SEC. 5. Section 82025.3 is added to the Government Code, to read:

82025.3. "External manager" means either of the following:

(1) A person who is seeking to be, or is, retained by a state public retirement system in California to manage a portfolio of securities or other assets for compensation.

(2) A person who is engaged, or proposes to be engaged, in the business of investing, reinvesting, owning, holding, or trading securities or other assets and who offers or sells, or has offered or sold, securities to a state public retirement system in California.

SEC. 6. Section 82039 of the Government Code is amended to read:

82039. (a) "Lobbyist" means either of the following:

(1) Any individual who receives two thousand dollars (\$2,000) or more in economic consideration in a calendar month, other than reimbursement for reasonable travel expenses, or whose principal duties as an employee are, to communicate directly or through his or her agents with any elective state official, agency official, or legislative official for the purpose of influencing legislative or

administrative action.

(2) A placement agent, as defined in Section 82047.3.

(b) An individual is not a lobbyist by reason of activities described in Section 86300.

(c) For the purposes of subdivision (a), a proceeding before the Public Utilities Commission constitutes "administrative action" if it meets any of the definitions set forth in subdivision (b) or (c) of Section 82002. However, a communication made for the purpose of influencing this type of Public Utilities Commission proceeding is not within subdivision (a) if the communication is made at a public hearing, public workshop, or other public forum that is part of the proceeding, or if the communication is included in the official record of the proceeding.

SEC. 7. Section 82047.3 is added to the Government Code, to read:

82047.3. (a) "Placement agent" means an individual hired, engaged, or retained by, or serving for the benefit of or on behalf of, an external manager, or on behalf of another placement agent, who acts or has acted for compensation as a finder, solicitor, marketer, consultant, broker, or other intermediary in connection with the offer or sale of the securities, assets, or services of an external manager to a state public retirement system in California or an investment vehicle, either directly or indirectly.

(b) Notwithstanding subdivision (a), an individual who is an employee, officer, director, equityholder, partner, member, or trustee of an external manager and who spends one-third or more of his or her time, during a calendar year, managing the securities or assets owned, controlled, invested, or held by the external manager is not a placement agent.

(c) Notwithstanding subdivision (a), an employee, officer, or director of an external manager, or of an affiliate of an external manager, is not a placement agent if all of the following apply:

(1) The external manager is registered as an investment adviser or a broker-dealer with the Securities and Exchange Commission or, if exempt from or not subject to registration with the Securities and Exchange Commission, any appropriate state securities regulator.

(2) The external manager has been selected through a competitive bidding process subject to subdivision (a) of Section 22364 of the Education Code or subdivision (a) of Section 20153 of this code, as applicable, and is providing services pursuant to a contract executed as a result of that competitive bidding process.

(3) The external manager has agreed to a fiduciary standard of care, as defined by the standards of conduct applicable to the retirement board of a public pension or retirement system and set forth in Section 17 of Article XVI of the California Constitution, when managing a portfolio of assets of a state public retirement system in California.

(d) For purposes of this section, "investment vehicle" means a corporation, partnership, limited partnership, limited liability company, association, or other entity, either domestic or foreign, constituting or managed by an external manager in which a state public retirement system in California is the majority investor and that is organized in order to invest with, or retain the investment management services of, other external managers.

SEC. 8. Section 86206 is added to the Government Code, to read:

86206. Nothing in this article prohibits the payment of fees for contractual services provided to an investment manager by a placement agent, as defined in Section 82047.3, who is registered with the

Securities and Exchange Commission and regulated by the Financial Industry Regulatory Authority, except as provided in subdivision (f) of Section 86205.

SEC. 9. Not later than August 1, 2012, the Public Employees' Retirement System and the State Teachers' Retirement System shall each provide to the respective chairpersons of the Assembly Committee on Public Employees, Retirement, and Social Security and the Senate Committee on Public Employment and Retirement a report on the use of placement agents in connection with investments made by those retirement systems. Each report shall include all of the following:

(a) The number of, and descriptions of, those investments made by the retirement system through external managers that have compensated placement agents in connection with the investments.

(b) A description of those external managers based on the size of assets under their control.

(c) The annual performance of investments secured through placement agents.

SEC. 10. No reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution because the only costs that may be incurred by a local agency or school district will be incurred because this act creates a new crime or infraction, eliminates a crime or infraction, or changes the penalty for a crime or infraction, within the meaning of Section 17556 of the Government Code, or changes the definition of a crime within the meaning of Section 6 of Article XIII B of the California Constitution.

SEC. 11. The Legislature finds and declares that this bill furthers the purposes of the Political Reform Act of 1974 within the meaning of subdivision (a) of Section 81012 of the Government Code.

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

January 25, 2011

Agenda Item 6.3

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Approval of Strategic Investment Solutions' (SIS) Criteria and Schedule for *SamCERA*'s Commodities Manager Search.

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

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

***SamCERA: Commodities Manager Search***

**TIMELINE:**

- January 2011:**            *Deliverables:* Screening criteria and search timeline.  
                                 *Desired Output from the Meeting:* Approve criteria and process.
- February 2011:**        SIS performs screening, develops draft of Request for information (RFI) and sends out RFI after the meeting.  
                                 *Deliverables:* List of products passing screen, summary data on passing products, draft of RFI.  
                                 *Desired Output from the Meeting:* Identify semi-finalist candidates to receive RFI and make any necessary adjustments to the RFI.
- March 2011:**            SIS will Receive and begin reading RFI responses.  
                                 *Deliverables:* None from SIS, managers deliver completed RFI responses to SIS.  
                                 *Desired Output from the Meeting:* No official agenda related to this search.
- April 2011:**            *Deliverables:* No official agenda related to this search.
- May 2011:**             Finish reading RFI responses and prepare summary material.  
                                 *Deliverables:* SIS produces statistics sheet and pros and cons (bullet points) for semi finalists based on RFI responses.  
                                 *Desired Output from the Meeting:* Select finalists for interviews.
- June 2010:**             Prepare for interviews  
                                 *Deliverables:* Search book with comparative analysis and statistics for finalist candidates.  
                                 *Desired Output from the Meeting:* Interview finalists in San Mateo. Select manager.



## ***SamCERA: Commodity Futures Manager Search***

**January 2011**

### **INITIAL SCREENING CRITERIA:**

The goal of this search is to find an active commodity futures manager that offers market exposure to the asset class. The starting universe has approximately 65 strategies.

1. Starting Universe: Combined eVestment Alliance and Internal SIS Databases.
2. Product must possess demonstrable live performance record with institutional clients.
3. Product must be open to new accounts.
4. Product must have minimum notional assets of \$100 million as of September 30, 2010.
5. Strategy should provide broad beta exposure to a diversified set of commodity futures (specifically exclude Commodity Trading Advisors (CTA), natural resource equity products and purely skill-based trading strategies).
6. Passive or index replication strategies will be removed from the universe (specifically exclude portable alpha or collateral alpha strategies).

SIS anticipates that the application of these basic filters will narrow the selection universe of commodity futures managers down to approximately 8 to 12 strategies.

### **What Does *Commodity Trading Advisor - CTA* Mean?**

An individual or a firm, registered with the Commodity Futures Trading Commission, that receives compensation for giving people advice on options, futures and the actual trading of managed futures accounts. Registration for CTAs is done through the National Futures Association, a self-regulated organization responsible for reviewing and accepting registrations.

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

January 25, 2011

Agenda Item 6.4

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Educational Presentation – Hedge Fund Investment Opportunities

**STAFF RECOMMENDATION:** Staff recommends that the board review the presentation materials and take this opportunity to solicit answers to questions that may arise concerning investing in hedge funds. The board should then provide staff with guidance regarding how to proceed with the association's hedge fund implementation.

**BACKGROUND:** *SamCERA* concluded an asset liability modeling study on August 24, 2010. Over the course of the study the board discussed asset mix optimization, including the expected return and standard deviation of asset classes. In addition, the trustees reviewed the efficient frontiers and range of returns between several optimization mixes with *SamCERA*'s current asset classes, and optimization mixes that added alternative investments. Following extensive discussion at the conclusion of the study the board voted unanimously to select a mix of the assets which added an allocation to alternative investments. The adopted allocation is: 35% US Equity, 18% International Equity, 22% Fixed Income, including a global mandate, 5% Real Estate and 20% Alternative Investments. The new allocation to alternatives, expressed as a percentage of the total portfolio, is comprised of 8% private equity, 6% risk parity, 3% hedge funds and 3% commodities. The new allocation is achieved by reducing equities from 67% to 53%, fixed income from 27% to 22% and real estate from 6% to 5%.

Strategic Investment Solutions (SIS) provided a rough calendar for the implementation for the new mandates. Because of vintage years and the process of sourcing investments, private equity will be implemented over three to four years. Commodities, primarily due to market volatility, should be implemented over two to three years. It is possible that funding the hedge fund mandate may occur over a similar time frame, due to sourcing of product. The implementation of risk parity would begin immediately.

The implementation of *SamCERA*'s asset allocation began at the end of 2010. In September 2010, the association committed \$20 million to one private equity opportunity of which \$250,000 has been called. Last month, the board selected AQR as the finalist for the ~\$140 million allocation to a risk parity strategy. On today's agenda the board determines the criteria that SIS will use in selecting managers to receive a Request for Information (RFI) for a commodity mandate. This agenda item is the beginning step in determining the direction for *SamCERA*'s hedge fund investments. In February and March the association will be presented with two additional opportunities.

**DISCUSSION:** This cover memorandum provides excerpts from a presentation booklet assembled by Strategic Investment Solutions. **Steve Masarik** and **Patrick Thomas** will present the information in the booklet and be available to answer questions.

The presentation defines hedge funds in part as an investment style that pursues flexible trading/investment strategies with very broad mandates that utilize a wide range of financial instruments, which often use some amount of leverage to enhance returns. Hedge funds have fewer if any constraints compared to traditional investments. That includes the ability to establish short positions for both profit generation and hedging purposes. Many hedge funds provide low to moderate transparency, although

transparency is improving. Strategy types and individual funds differ greatly across several key dimensions.

Below is a list of some of those dimensions:

- Targeted returns and volatility
- Type of underlying assets
- Level of directional market exposure versus idiosyncratic risk
- Liquidity
- Leverage
- Concentration and turnover
- Transparency into portfolio risks, exposure, specific holdings and trading activities

The booklet provides an evolution of hedge funds. Alfred Winslow Jones is credited with establishing the first hedge fund in 1949. His success drew attention and imitators. By 1968 there were 200 hedge funds. The 70's bear market was difficult for early hedge fund strategies and there were only 30 left in 1982. Funds rebounded in the 80s. In 1990 there were 530 firms with \$39 billion assets under management (AUM.) The 90's saw rapid hedge fund growth. At the end of the decade there were 3,335 hedge funds and 515 funds of funds with \$490.5 billion AUM. Before the shake-out that began in 2008, the number of funds grew to 7,634 and fund of funds to 2,462 with a combined AUM of \$1.87 trillion. Beginning in 2008 with the financial crisis, hedge funds experienced another contraction. This was due in part to liquidity issues. Today, monies are returning to hedge fund strategies. As of the Q3 2010, there were 7,062 hedge funds and 2,112 fund of funds with AUM of \$1.77 trillion.

The primary Hedge fund strategies are:

### **Arbitrage/Relative Value**

Seeks to profit from perceived mispricing, often small and temporary, between related financial instruments, while hedging out exposures to market movements and broad risk factors.

### **Credit**

Achieve returns by identifying fundamental opportunities expressed through either long or short opportunities in the credit instruments of corporations, sovereign entities, mortgage/asset backed securities, etc.

### **Equity**

Attempts to identify undervalued (long) and overvalued (short) stocks using a range of disciplines including fundamental bottom-up, quantitative, top-down thematic, technical analysis, or some combination thereof.

### **Event-Driven**

Designed to capture price movements stemming from a significant corporate event such as a merger, spin-off, restructuring, liquidation, bankruptcy or reorganization.

### **Global Macro**

Directional positions in global equities, bonds, currencies and commodities markets, often using a top-down thematic approach that focuses on economic developments and the impact of government policies.

The presentation also discusses hedge fund structure, fees and terms for both direct investments and fund of funds investments.

## Typical Hedge Fund Fees & Terms

### □ “2 & 20”

- Management fee: 2% per annum
- Incentive fee: 20% of fund profits
- High water mark – if the fund loses money it must make all of it back before it can start to earn an incentive fee again (evaluated for each investor, not the overall fund)
- Hurdle rate – typically T bills or LIBOR, not exactly widespread but becoming more common

### □ Liquidity terms

- Fund liquidity terms should reflect the liquidity of the underlying assets, but sometimes don't
- Initial lockup – 1 to 3 years, with 1 year being the most common
  - “Hard” lockup means that investors cannot make any redemptions period
  - “Soft” lockup indicates that investors may withdraw capital during the initial lockup period subject to an early redemption fee
- Redemption frequency – monthly or quarterly is typical, but semi-annual and annual are also common
- Notice period – can range from 30 days to 100 days
- Side pockets – sleeve set up to hold illiquid investments; if employed, typically limited to 10-25% of the fund and not subject to the stated liquidity terms of the overall fund
- Gates – limit on the percentage of the fund (fund-level gate) or a specific client's investment (investor-level gate) that may be withdrawn during any given redemption window

### □ Fund of hedge funds

- Add a 2nd layer of fees:
  - 1% management fee and 10% incentive fee most common, but more variability and ability to negotiate than with direct hedge funds
  - Many FoHF have adopted a flat management fee-only structure in the 0.75% to 1.50% range
- Due to their diversification and “seasoning”, FoHF are generally able to offer better liquidity terms:
  - Often no initial lockup, with 1 year being the longest one would typically see
  - Majority offer quarterly redemptions

Pros and cons to investing in fund of hedge funds versus direct:

#### Pros

- Professional management, deep resources & expertise
- Outsourcing of tactical investment decisions
- Fiduciary buffer
- Additional layer of active management (i.e., strategy rotation)
- Analytical and reporting infrastructure
- Potential access to closed and/or emerging managers
- Marginally better liquidity profile than similar portfolio of direct hedge funds
- Education, manager sourcing & sounding board as hedge fund program evolves

#### Cons

- Higher fees
- Potential for “diworsification” (i.e., degradation of returns through over-diversification)
- Lower transparency
- Less control over investment decisions

The SIS presentation also addresses the investment rationale then the risks and considerations. They are outlined as:

#### Investment Rationale

- Potential for lower risk than equities at similar levels of return, but not a replacement for stocks, since hedge funds have no embedded risk premium or long-term exposure to economic growth, corporate profitability, etc.
- Potential for higher returns than bonds at similar levels of risk, but not a replacement for high-quality bonds, since they will not provide the same amount of downside protection when equity markets decline
- Moderate correlation to both equities and fixed income
  - Portfolio diversification benefits
  - Smaller drawdown during broad market declines
  - Potential for higher portfolio Sharpe ratio than traditional stock/bond mix if meaningful allocations are made
- Gain exposure to a variety of investments not available to long-only managers (e.g., illiquid assets, arbitrage situations that require shorting and leverage)
- Efficient method for plan sponsors to incorporate a tactical/opportunistic element into their long-term strategic allocations via “outsourcing” these types of decisions

## Risks & Key Considerations

- Veritable laundry list of risks:
  - Market
  - Manager/business
  - Leverage
  - Liquidity
  - Co-investor (i.e., “hot money”)
  - Complexity/non-linear returns
  - Valuation
  - Headline
  - Operational
  - Regulatory
  
- Performance evaluation also more challenging than long-only products
  - Flawed benchmarks – overstate returns and understate volatility
    - Survivorship bias
    - Self-selection bias
    - Backfill or “instant history” bias
  - Appropriate peer groups difficult to construct/maintain
  - Separation of alpha from beta to discern true manager skill much more challenging
  
- Proper due diligence/monitoring requires significant resources and specialized knowledge

The presentation concludes by stating that hedge fund prospects have improved post-2008 and the industry has stabilized. More of the hedge funds are of “institutional quality.” The top firms have increased transparency and adopted of a number investor friendly best practices. Capacity constraints and access to top-tier firms has also improved.

## ***EDUCATIONAL PRESENTATION ON HEDGE FUNDS***

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



***January 25, 2011***

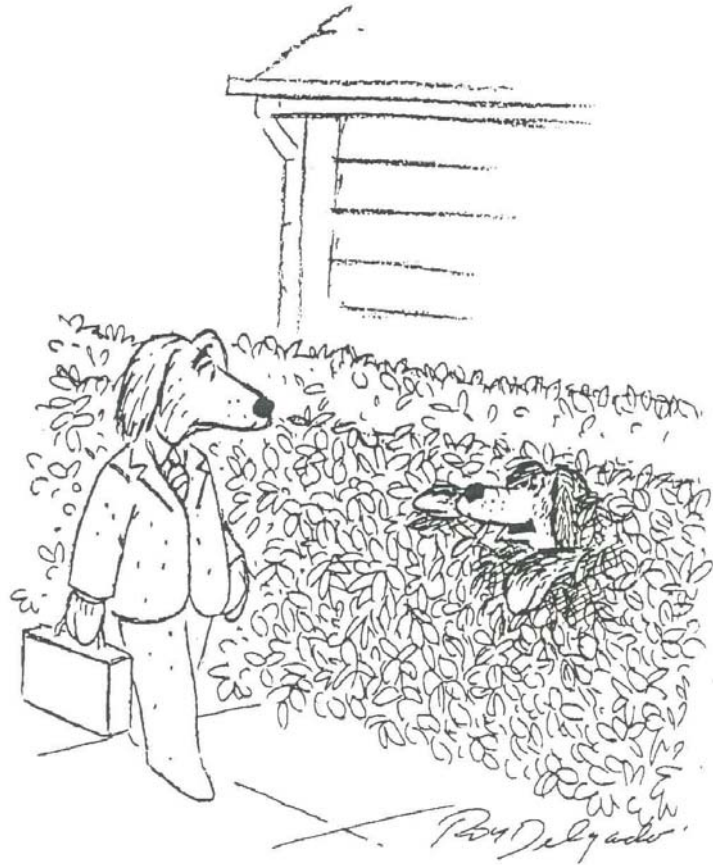
**STRATEGIC INVESTMENT SOLUTIONS, INC.**

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

Patrick Thomas, CFA  
*Senior Vice President*

Steve Masarik, CFA, FRM, CAIA  
*Vice President*



*"Could I interest you in a hedge fund?"*





## ***Defining Hedge Funds***

- Not an asset class
- Specific legal structure → Privately-organized pooled investment vehicle (“hedge fund”) operated by an investment management company (“hedge fund manager”)
- Investment style → Pursue flexible trading/investment strategies with very broad mandates that utilize a wide range of financial instruments
- Often use some amount of leverage to enhance returns
- Ability to establish short positions for both profit-generation and hedging purposes
- Low/moderate transparency, although this has improved in recent years
- Strategy types and individual funds differ greatly across several key dimensions:
  - Targeted returns and volatility
  - Type of underlying assets
  - Level of directional market exposure vs. idiosyncratic risk
  - Liquidity
  - Leverage
  - Concentration & Turnover
  - Transparency into portfolio risks, exposure, specific holdings & trading activities

# Hedge Funds vs. Traditional Strategies

Hedge Funds	Traditional Strategies
Less regulated, limited disclosure/transparency requirements	Highly regulated, strict disclosure/transparency requirements
Broad/flexible investment mandates (leverage, shorting, derivatives, illiquid assets)	Limited investment mandates (long-only, unlevered, limited derivatives use, liquid)
Absolute return objective – often have no benchmark other than risk-free rate	Relative return objective – performance measured vs. market indices
Active risk management (don't lose money, even if the market is going down)	Passive risk management (who cares what the market is doing, just don't underperform)
Low/moderate correlation to traditional asset classes	High correlation to traditional asset classes
Majority of returns driven by alpha (i.e., active manager skill)	Majority of returns driven by beta (i.e., exposure to broad market movements)
Wide dispersion of individual manager returns	Relatively narrow dispersion of individual manager returns
Fees higher, more dependent on performance	Fees lower, more dependent on AUM levels
Significant manager co-investment, creates strong alignment of interests with clients	Limited/no manager co-investment, creates weak alignment of interests with clients



"We've considered every potential risk except the risks of avoiding all risks."



*"We didn't underperform. You overexpected."*



## ***Hedge Fund Myths***

### **Myth #1: Hedge funds are completely hedged.**

*Reality: Hedge funds attempt to hedge risks that they either have no ability to predict, or do not feel they are being adequately compensated for taking.*

### **Myth #2: Hedge funds should always produce positive returns, regardless of what the financial markets or the global economy is doing.**

*Reality: Although most hedge funds attempt to manage/minimize their exposure to the movements of broad markets, they do take on varying degrees of directional market risk and are certainly not immune from periods of widespread risk aversion and liquidity crises.*

### **Myth #3: Hedge funds are ultra-aggressive and seek to maximize return with no regard for risk.**

*Reality: While some hedge funds do aim for outsized returns, most of the institutional quality funds are more concerned with generating moderate, stable returns while actively managing the risk profile of their funds to avoid periods of significant negative returns.*

### **Myth #4: Most hedge funds consist of “two guys and a Bloomberg”.**

*Reality: The vast majority of hedge fund assets are controlled by a relatively small number of firms with robust infrastructures supporting large and experienced investment teams.*



# ***Evolution of Hedge Funds***

## ■ Early period

- Alfred Winslow Jones established the 1<sup>st</sup> hedge fund in 1949
- Jones' success (670% return between 1955 and 1965) drew attention and imitators (200 hedge funds by 1968)
- Many were significantly long-biased and levered, however, and thus were wiped out in the early 1970's bear market
- No further growth until the 1980's, 30 hedge funds in 1982 → 530 in 1990
- Only \$39 B AUM by 1990 though, still very much a niche industry

## ■ Rapid growth in both AUM and # of funds during the 1990's

- 3,335 hedge funds & 515 fund of funds with \$490.5 B AUM by 2000
- Primarily wealthy individuals, but endowments and foundations significantly increase their allocations to hedge funds
- Protracted bull markets in both equities and fixed income provided a significant tailwind
- Success of managers such as George Soros (Quantum Fund), Michael Steinhardt (Steinhardt Partners) and Julian Robertson (Jaguar Fund) raised the public profile of hedge funds

## ■ Continued growth during/following the 2000-2002 bear market

- 5,065 hedge funds & 1,232 fund of funds with \$820 B AUM by 2003
- Performance was actually positive each year during the bear market
- Hedge funds become increasingly more "institutional" in nature

## ■ Explosive growth followed by a big shake-out in 2008

- 7,634 hedge funds & 2,462 fund of funds with \$1.87 T AUM by 2007
- Following worse than expected performance during the financial crisis and severe liquidity issues, hedge funds experienced their first major contraction since the early 1970's
- 6,845 hedge funds & 2,439 fund of funds with \$1.41 T AUM by the end of 2008

*Sources: Russell "Insight" (Summer 2006); HFR "Global Hedge Fund Industry Report" (Q3 2010).*

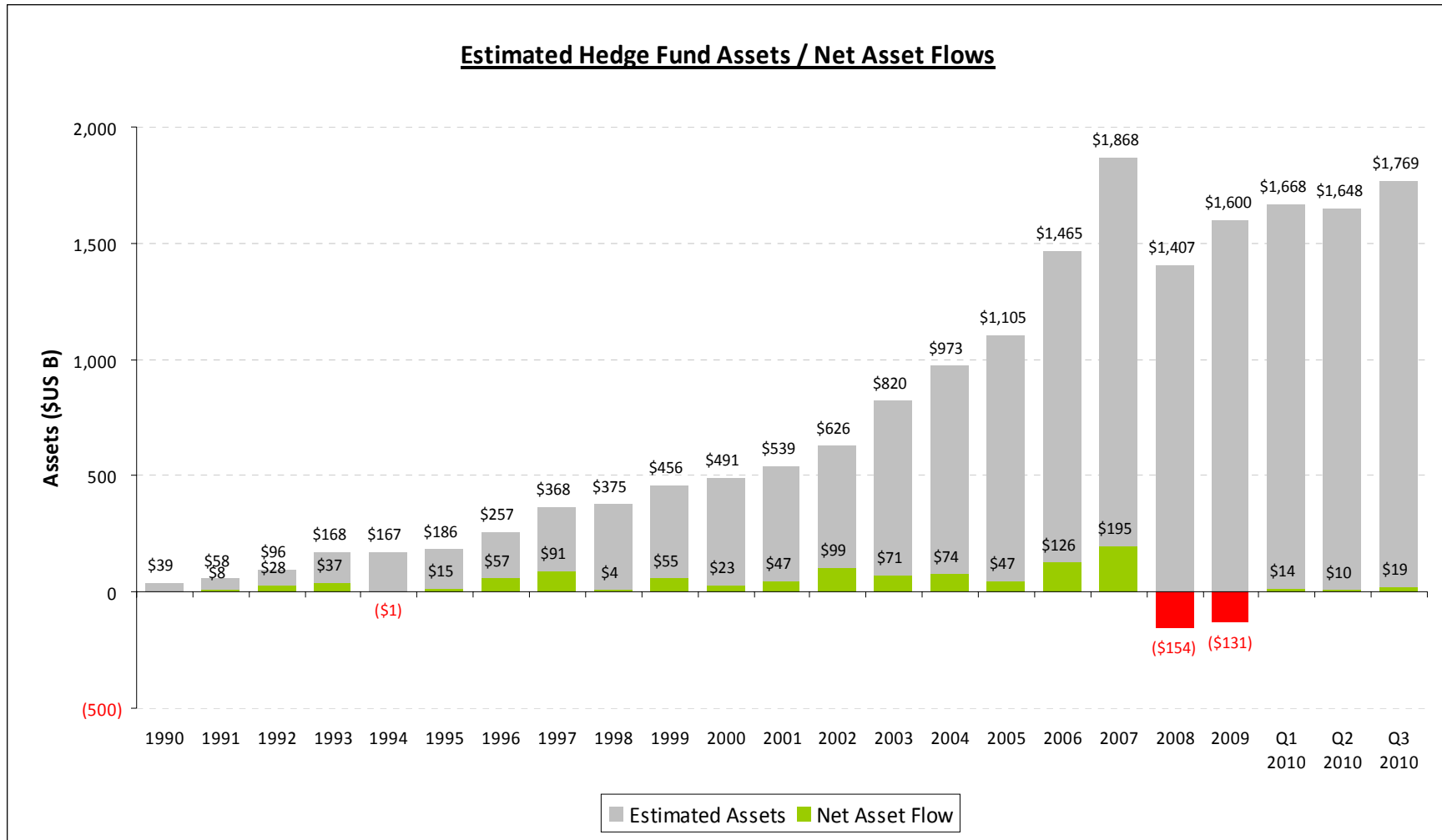


## ***Hedge Fund Industry Today***

- Stabilized after tough 2008 and 1<sup>st</sup> half of 2009
  - Q3 2010 was the 5<sup>th</sup> consecutive quarter of positive net inflows beginning with Q3 2009
  - \$1.77 T AUM as of Q3 2010, now approaching the peak AUM of \$1.87 T reached in 2007
- Although the overall industry has experienced net inflows since mid-2009, FoHF continue to experience net outflows and closures:
  - \$13.6 B net outflows YTD 2010, following net outflows in 2009 of \$118.5 B
  - 2,112 fund of funds with \$602 B AUM, 27% (\$223bn) below their Q2 08 peak of \$825 B
  - Trend reflects disappointing (albeit positive) performance vs. direct hedge funds since the market turned sharply in March 2009
  - Also represents a natural structural shift by clients from FoHF to direct hedge funds as they gain knowledge and experience
- Despite solid net inflows, environment for new or smaller funds remains difficult as investors are more comfortable investing in larger well-established firms:
  - \$19.0 B of total net inflows in Q3 2010, \$17.0 B to firms with more than \$1 B AUM
  - Firms with more than \$1 B AUM (c. 15% by number) now control 87% of industry AUM

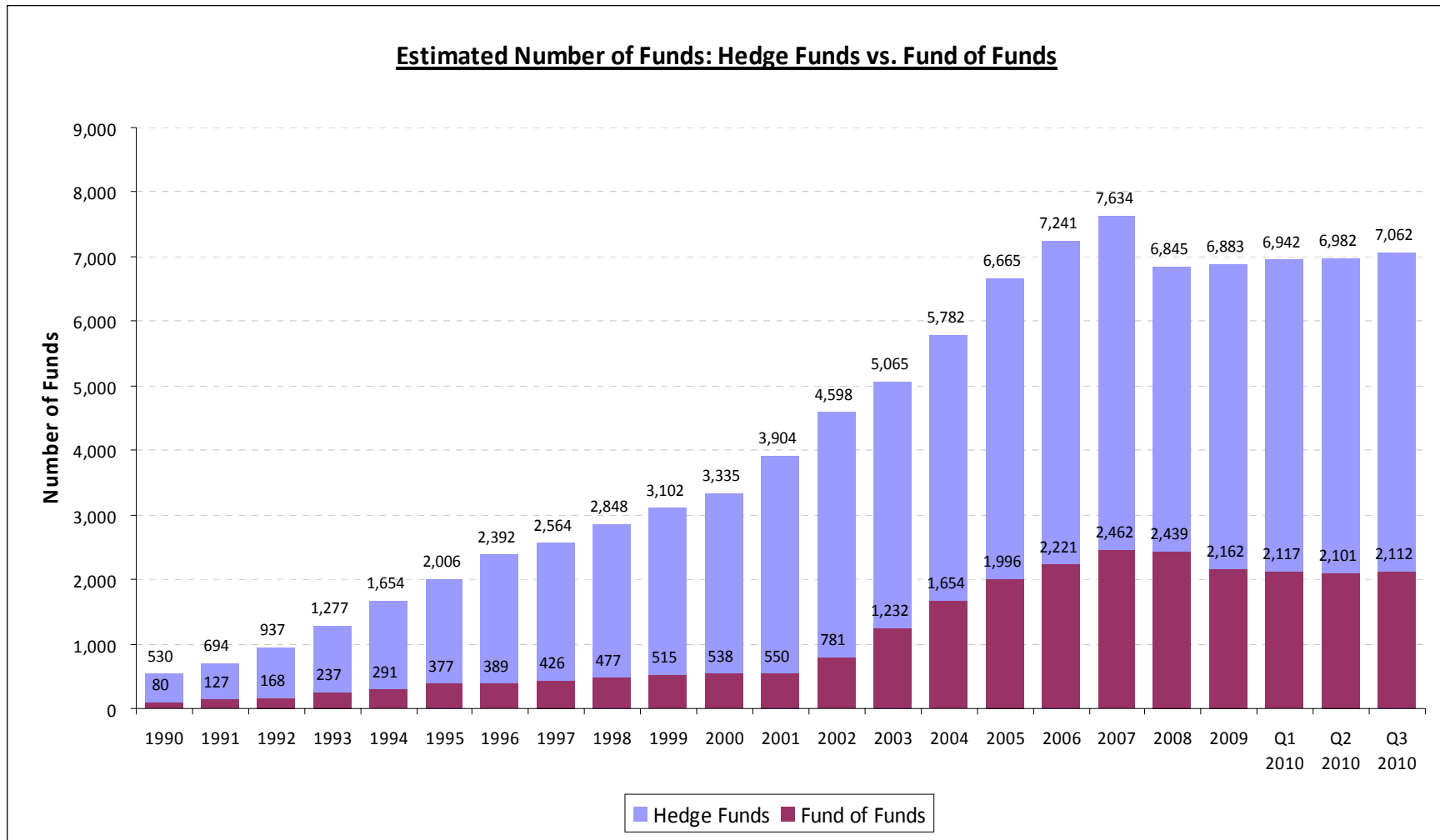
*Source: HFR "Global Hedge Fund Industry Report" (Q3 2010).*

# Hedge Fund Industry Today



Source: HFR "Global Hedge Fund Industry Report" (Q3 2010).

# Hedge Fund Industry Today

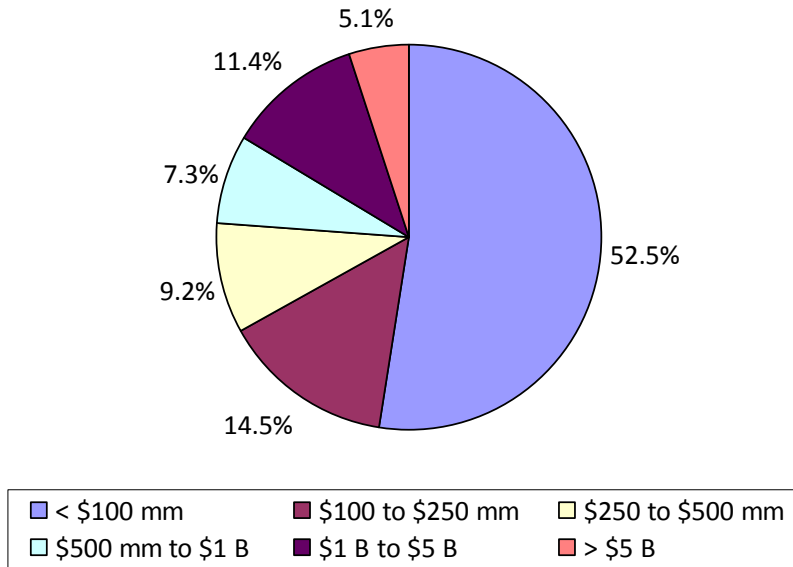


Source: HFR "Global Hedge Fund Industry Report" (Q3 2010).

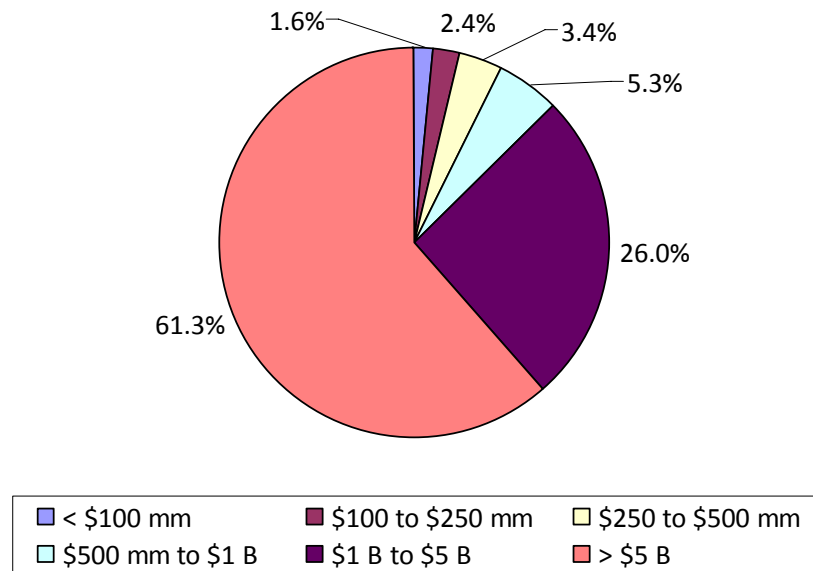


# Hedge Fund Industry Today

**Distribution of Industry Assets by # of Firms**



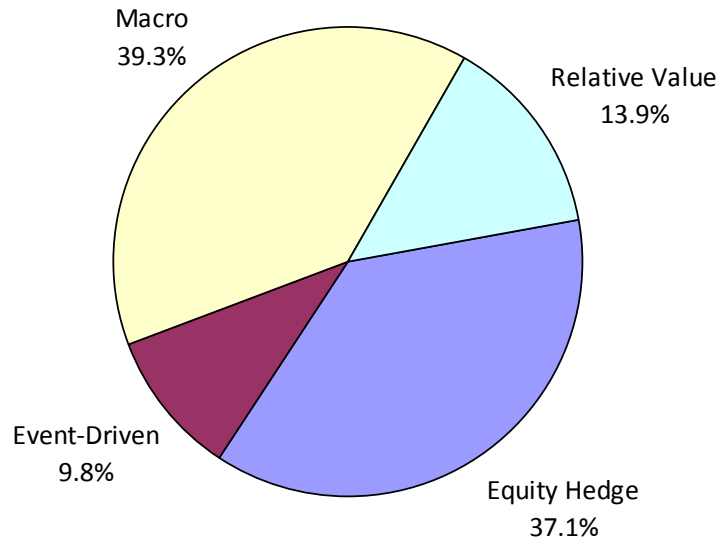
**Distribution of Industry Assets by Firm AUM**



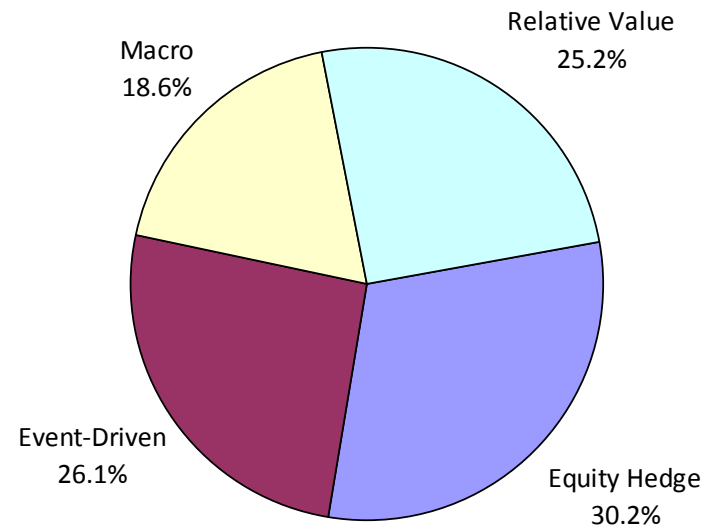
Source: HFR "Global Hedge Fund Industry Report" (Q3 2010).

# Hedge Fund Industry Today

**Estimated Strategy Composition (1990)**



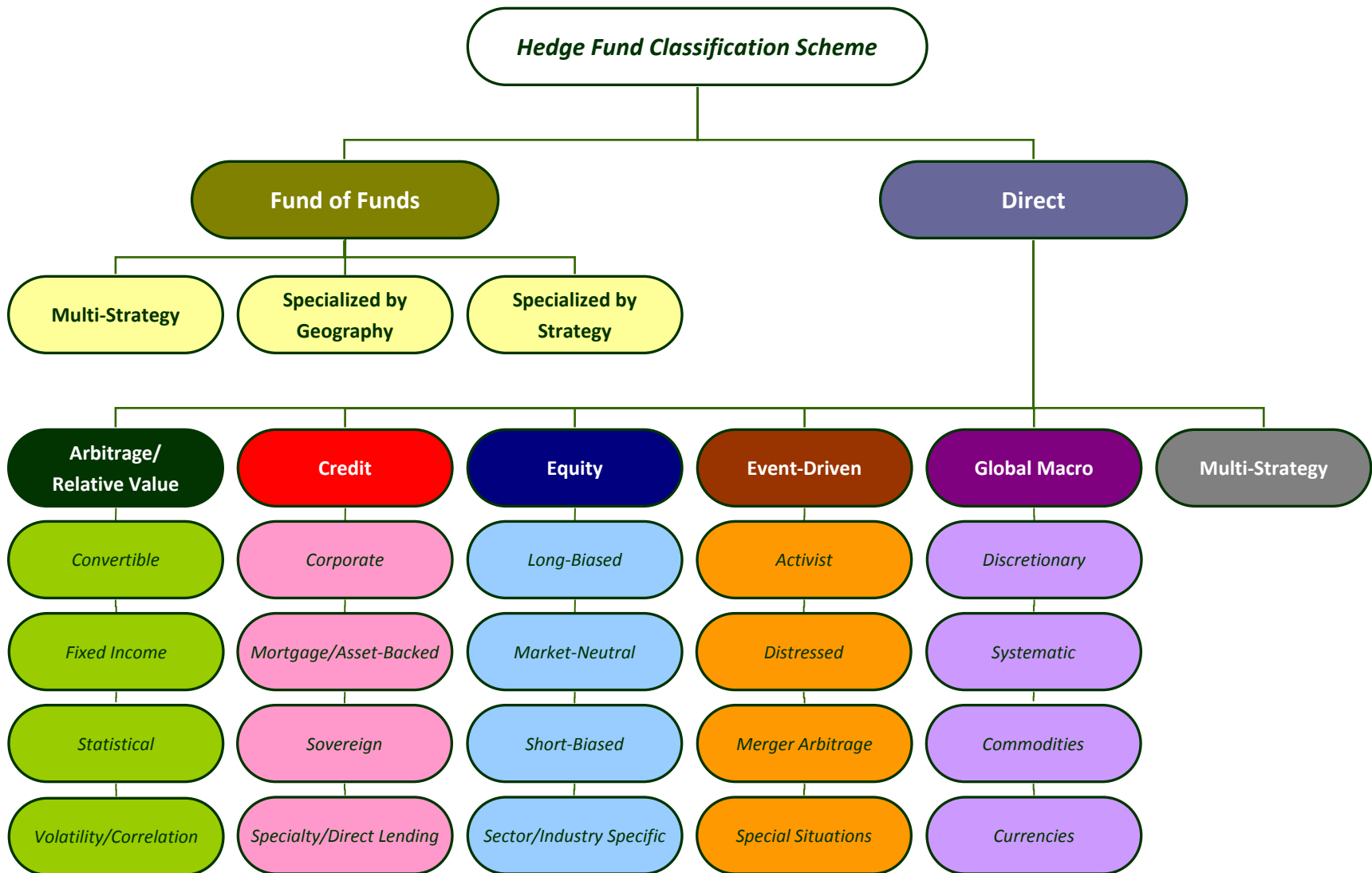
**Estimated Strategy Composition (Q3 2010)**



Source: HFR "Global Hedge Fund Industry Report" (Q3 2010).



# Investment Universe





# **Primary Hedge Fund Strategies**

## **Arbitrage/Relative Value**

*Seeks to profit from perceived mispricing, often small and temporary, between related financial instruments while hedging out exposures to market movements and broad risk factors.*

## **Credit**

*Achieve returns by identifying fundamental opportunities expressed through either long or short opportunities in the credit instruments of corporations, sovereign entities, mortgage/asset-backed securities, etc.*

## **Equity**

*Attempts to identify undervalued (long) and overvalued (short) stocks using a range of disciplines including fundamental bottom-up, quantitative, top-down thematic, technical analysis, or some combination thereof.*

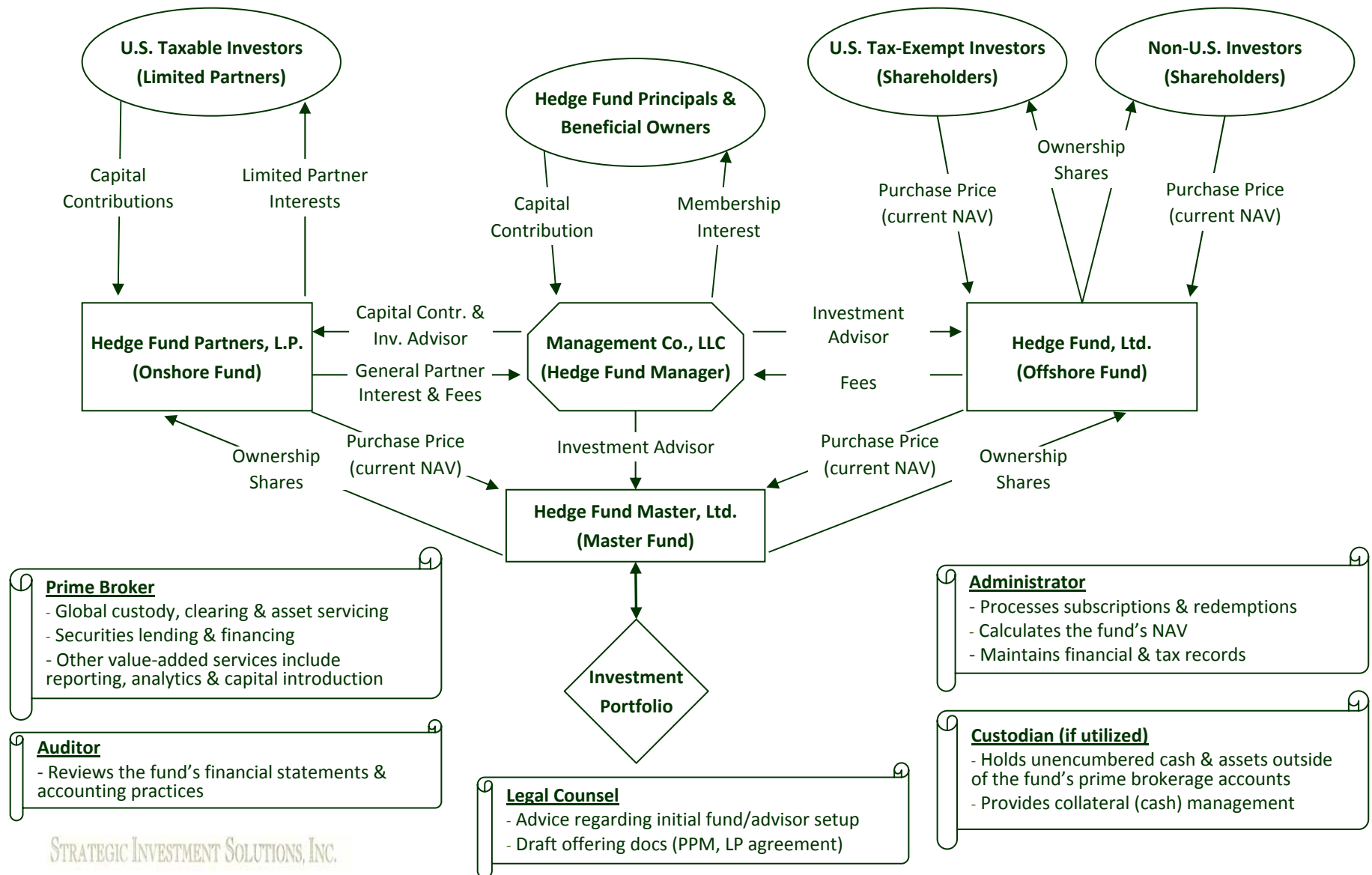
## **Event-Driven**

*Designed to capture price movements stemming from a significant corporate event such as a merger, spin-off, restructuring, liquidation, bankruptcy or reorganization.*

## **Global Macro**

*Directional positions in global equities, bonds, currencies and commodities markets, often using a top-down thematic approach that focuses on economic developments and the impact of government policies.*

# Common Hedge Fund Structure







# Typical Hedge Fund Fees & Terms

- “2 & 20”
  - Management fee: 2% per annum
  - Incentive fee: 20% of fund profits
  - High water mark – if the fund loses money it must make all of it back before it can start to earn an incentive fee again (evaluated for each investor, not the overall fund)
  - Hurdle rate – typically T-bills or LIBOR, not exactly widespread but becoming more common
- Liquidity terms
  - Fund liquidity terms should reflect the liquidity of the underlying assets, but sometimes don’t
  - Initial lockup – 1 to 3 years, with 1 year being the most common
    - “Hard” lockup means that investors cannot make any redemptions period
    - “Soft” lockup indicates that investors may withdraw capital during the initial lockup period subject to an early redemption fee
  - Redemption frequency – monthly or quarterly is typical, but semi-annual and annual are also common
  - Notice period – can range from 30 days to 100 days
  - Side pockets – sleeve set up to hold illiquid investments; if employed, typically limited to 10-25% of the fund and not subject to the stated liquidity terms of the overall fund
  - Gates – limit on the percentage of the fund (fund-level gate) or a specific client’s investment (investor-level gate) that may be withdrawn during any given redemption window
- Fund of hedge funds
  - Add a 2<sup>nd</sup> layer of fees:
    - 1% management fee and 10% incentive fee most common, but more variability and ability to negotiate than with direct hedge funds
    - Many FoHF have adopted a flat management fee-only structure in the 0.75% to 1.50% range
  - Due to their diversification and “seasoning”, FoHF are generally able to offer better liquidity terms:
    - Often no initial lockup, with 1 year being the longest one would typically see
    - Majority offer quarterly redemptions



# Implementation Options

## Program Structure

### **Key Considerations:**

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>✓ Control Over Investment Decisions</li> <li>✓ Complexity</li> <li>✓ Required Internal Resources &amp; Systems</li> <li>✓ Fiduciary Liability</li> </ul> | <ul style="list-style-type: none"> <li>✓ Exposure to Headline Risk</li> <li>✓ Manager-Specific Risks</li> <li>✓ Potential Return (all else equal, due to lower fees)</li> <li>✓ Ability to Pursue Opportunistic Investments</li> </ul> |
|---|--|

**Lower** ←————→ **Higher**

Fund of Funds			Direct				
Core	Core + Specialized	Custom Mandate	Hedge Fund Index/Beta	Standard Strategies	Standard + Niche	Custom Mandate	Co-Investments

## Investment Vehicle

### **Key Considerations:**

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>✓ Control Over Assets</li> <li>✓ Transparency</li> <li>✓ Ability to Negotiate Fees, Terms &amp; Guidelines</li> </ul> | <ul style="list-style-type: none"> <li>✓ Required Operational &amp; Legal Expertise</li> <li>✓ Initial Setup &amp; Maintenance Costs</li> <li>✓ Mitigation of “Adjacency” Risk</li> </ul> |
|--|---|

**Lower** ←————→ **Higher**

Standard Commingled Fund	“Fund of One”	Separate Account	Co-Investment
--------------------------	---------------	------------------	---------------





## ***Fund of Hedge Funds vs. Direct***

### Pros

- Professional management, deep resources & expertise
- Outsourcing of tactical investment decisions
- Fiduciary buffer
- Additional layer of active management (i.e., strategy rotation)
- Analytical and reporting infrastructure
- Potential access to closed and/or emerging managers
- Marginally better liquidity profile than similar portfolio of direct hedge funds
- Education, manager sourcing & sounding board as hedge fund program evolves

### Cons

- Higher fees
- Potential for “diworsification” (i.e., degradation of returns through over-diversification)
- Lower transparency
- Less control over investment decisions



## ***Investment Rationale***

- Potential for lower risk than equities at similar levels of return - but not a replacement for stocks since hedge funds have no embedded risk premium or long-term exposure to economic growth, corporate profitability, etc.
- Potential for higher returns than bonds at similar levels of risk – but not a replacement for high-quality bonds since they will not provide the same amount of downside protection when equity markets decline
- Moderate correlation to both equities and fixed income
  - Portfolio diversification benefits
  - Smaller drawdown during broad market declines
  - Potential for higher portfolio Sharpe ratio than traditional stock/bond mix if meaningful allocations are made
- Gain exposure to a variety of investments not available to long-only managers (e.g., illiquid assets, arbitrage situations that require shorting and leverage)
- Efficient method for plan sponsors to incorporate a tactical/opportunistic element into their long-term strategic allocations via “outsourcing” these types of decisions



*Why should I pack my bags and what the hell is a derivative?"*



## ***Risks & Key Considerations***

- Veritable laundry list of risks:
  - Market
  - Manager/business
  - Leverage
  - Liquidity
  - Co-investor (i.e., “hot money”)
  - Complexity/non-linear returns
  - Valuation
  - Headline
  - Operational
  - Regulatory
- Performance evaluation also more challenging than long-only products
  - Flawed benchmarks – overstate returns and understate volatility
    - Survivorship bias
    - Self-selection bias
    - Backfill or “instant history” bias
  - Appropriate peer groups difficult to construct/maintain
  - Separation of alpha from beta to discern true manager skill much more challenging
- Proper due diligence/monitoring requires significant resources and specialized knowledge



## ***Current Outlook***

- Prospects for hedge funds have improved post-2008:
  - Robust return expectations for many strategies w/o excessive leverage or illiquidity
  - Correlations have increased, but hedge funds still provide meaningful diversification benefits
  - Hedge fund managers better-equipped for uncertain macro environment and can potentially profit from opportunities not available to long-only managers
- Hedge fund industry has stabilized:
  - Net outflows slowed throughout 2009, positive in Q4 2009 and YTD 2010
  - Liquidity issues (e.g., gates, suspended redemptions) have been largely cleaned up
  - Survival no longer a big question mark for most funds after a strong 2009, decent YTD 2010 and reclamation of many high water marks
- More hedge funds are of “institutional quality” than ever before:
  - Increased transparency and access to key investment professionals
  - Adoption of operational best practices
  - Institutional client/AUM base → greater stability
  - Fees/terms more favorable, especially for large custom mandates
  - Rationalization of liquidity terms and modified fee structures create greater alignment
- Competitive landscape has improved:
  - Fewer funds, lower AUM, and surviving funds use less leverage (i.e., reduces total capital in play)
  - Proprietary trading activity significantly curtailed
  - Result is reduced competition, less efficient pricing and less crowded trades
- Access to top-tier firms and capacity constraints are no longer severe limiting factors



*APPENDIX*

# Hedge Fund "Periodic Table" – Calendar Years

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Best ↑ ↓ Worst	Dedicated Short 15.76	Global Macro 18.38	Managed Futures 18.33	Emerging Markets 28.75	Event Driven 14.47	Emerging Markets 17.39	Emerging Markets 20.49	Emerging Markets 20.26	Managed Futures 18.33	Emerging Markets 30.03	Fixed Income Arb 11.82
	Equity M/N 14.99	Event Driven 11.50	Dedicated Short 18.14	Event Driven 20.02	Emerging Markets 12.49	Dedicated Short 17.00	Event Driven 15.73	Global Macro 17.36	Dedicated Short 14.87	Fixed Income Arb 27.41	Global Macro 10.52
	Global Macro 11.67	Equity M/N 9.31	Global Macro 14.66	Global Macro 17.99	Equity Long/Short 11.56	Equity Long/Short 9.68	Multi Strategy 14.54	Equity Long/Short 13.66	Global Macro -4.62	Multi Strategy 24.62	Emerging Markets 9.69
	Multi Strategy 11.18	Fixed Income Arb 8.04	Equity M/N 7.42	Equity Long/Short 17.27	Global Macro 8.49	Global Macro 9.25	Equity Long/Short 14.38	Event Driven 13.20	Event Driven -17.74	Event Driven 20.38	Event Driven 8.37
	Event Driven 7.26	Emerging Markets 5.84	Emerging Markets 7.36	Multi Strategy 15.04	Multi Strategy 7.53	Event Driven 8.95	Global Macro 13.53	Multi Strategy 10.10	Equity Long/Short -19.76	Equity Long/Short 19.47	Multi Strategy 7.46
	Fixed Income Arb 6.29	Multi Strategy 5.50	Multi Strategy 6.31	Managed Futures 14.13	Fund of Funds 7.19	Multi Strategy 7.54	Equity M/N 11.15	Fund of Funds 9.72	Fund of Funds -20.85	Global Macro 11.55	Managed Futures 6.44
	Managed Futures 4.24	Fund of Funds 2.79	Fixed Income Arb 5.75	Fund of Funds 11.42	Fixed Income Arb 6.86	Fund of Funds 7.46	Fund of Funds 10.18	Equity M/N 9.27	Multi Strategy -23.63	Fund of Funds 11.46	Equity Long/Short 5.66
	Fund of Funds 2.47	Managed Futures 1.90	Fund of Funds 1.17	Fixed Income Arb 7.97	Equity M/N 6.48	Equity M/N 6.14	Fixed Income Arb 8.66	Dedicated Short 6.04	Fixed Income Arb -28.82	Equity M/N 4.05	Fund of Funds 3.30
	Equity Long/Short 2.08	Dedicated Short -3.58	Event Driven 0.16	Equity M/N 7.07	Managed Futures 5.97	Fixed Income Arb 0.63	Managed Futures 8.05	Managed Futures 6.01	Emerging Markets -30.41	Managed Futures -6.57	Equity M/N -2.54
	Emerging Markets -5.52	Equity Long/Short -3.65	Equity Long/Short -1.60	Dedicated Short -32.59	Dedicated Short -7.72	Managed Futures -0.11	Dedicated Short -6.61	Fixed Income Arb 3.83	Equity M/N -40.32	Dedicated Short -25.03	Dedicated Short -17.64

Source: DJ/Credit Suisse Hedge Fund Indices, HFR Diversified FOF Index. All data through 11/30/10.

# Hedge Fund "Periodic Table" – Trailing Periods

	3 Months	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
Best ↑ ↓ Worst	Equity Long/Short 7.69	Fixed Income Arb 12.67	Global Macro 6.08	Global Macro 9.74	Emerging Markets 10.15	Global Macro 12.07	Global Macro 12.77
	Emerging Markets 6.69	Emerging Markets 11.85	Managed Futures 5.69	Emerging Markets 8.06	Global Macro 9.53	Emerging Markets 11.01	Equity Long/Short 10.68
	Event Driven 5.21	Event Driven 10.85	Event Driven 2.49	Event Driven 7.36	Event Driven 8.58	Event Driven 8.97	Event Driven 10.42
	Multi Strategy 5.19	Global Macro 8.95	Multi Strategy 0.65	Equity Long/Short 6.24	Equity Long/Short 7.41	Managed Futures 7.78	Emerging Markets 9.80
	Global Macro 3.85	Multi Strategy 8.73	Equity Long/Short 0.57	Multi Strategy 5.62	Multi Strategy 6.23	Multi Strategy 6.91	Multi Strategy 8.56
	Fund of Funds 3.46	Equity Long/Short 7.45	Fixed Income Arb 0.54	Managed Futures 5.61	Managed Futures 6.01	Equity Long/Short 6.36	Managed Futures 7.21
	Fixed Income Arb 3.43	Fund of Funds 4.14	Emerging Markets 0.19	Fixed Income Arb 2.82	Fund of Funds 3.68	Fixed Income Arb 4.29	Fund of Funds 6.02
	Managed Futures 2.77	Managed Futures 1.12	Fund of Funds -2.94	Fund of Funds 2.36	Fixed Income Arb 3.12	Fund of Funds 4.04	Fixed Income Arb 5.16
	Equity M/N 2.00	Equity M/N -3.40	Dedicated Short -10.80	Equity M/N -5.70	Equity M/N -2.49	Equity M/N 0.56	Equity M/N 5.13
	Dedicated Short -16.50	Dedicated Short -21.15	Equity M/N -15.28	Dedicated Short -7.19	Dedicated Short -4.43	Dedicated Short -5.18	Dedicated Short -4.01

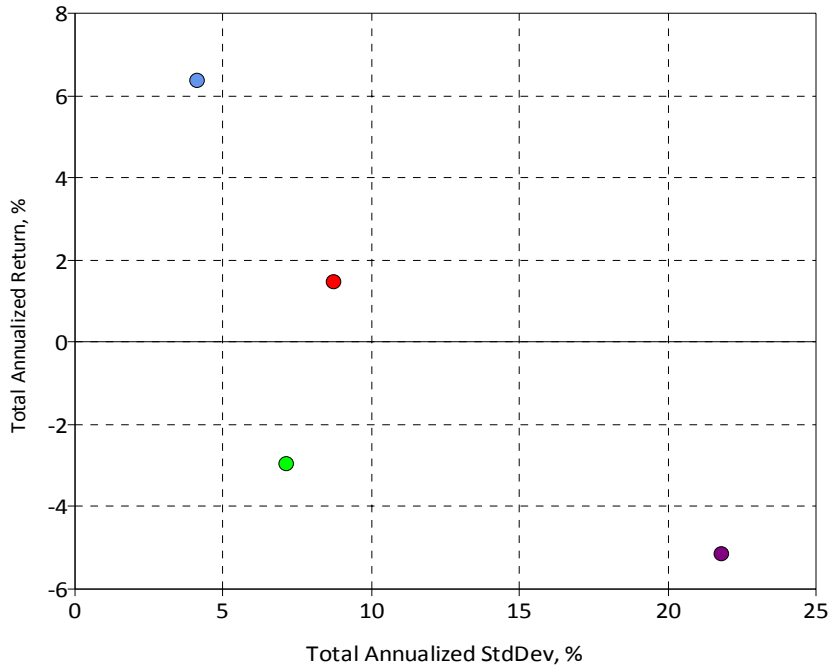
Source: DJ/Credit Suisse Hedge Fund Indices, HFR Diversified FOF Index. All data through 11/30/10.





# Risk vs. Return

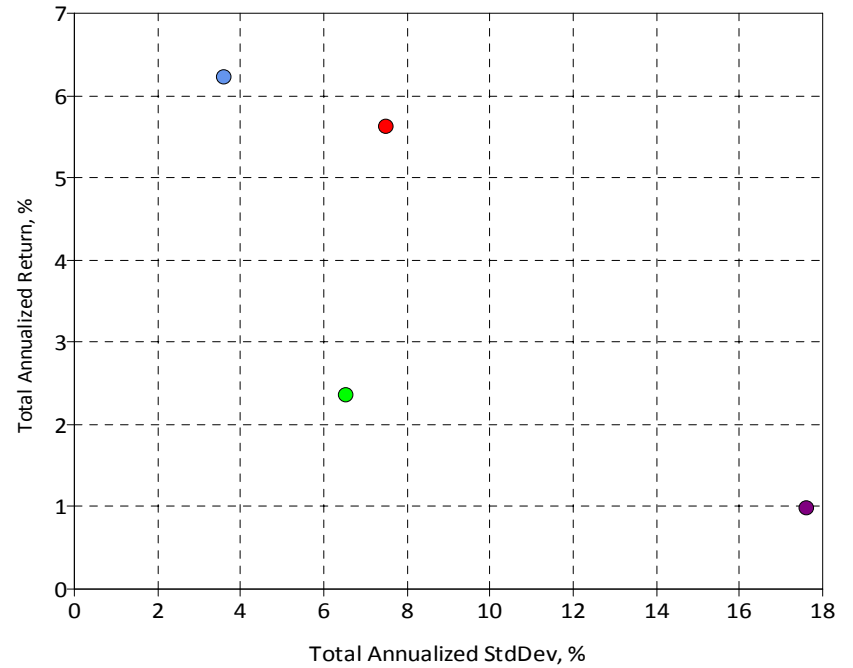
**Total Return vs. Standard Deviation: Trailing 3 Yrs (Dec 07 - Nov 10)**



	Dec 07 - Nov 10		
	Total Return	Standard Deviation	Sharpe Ratio
HFRI Fund Weighted Composite Index	1.49	8.71	0.07
HFRI FOF: Diversified Index	-2.94	7.11	-0.52
BC Aggregate Bond Index	6.39	4.12	1.32
S&P 500 Index	-5.15	21.80	-0.27

- HFRI Fund Weighted Composite Index
- BC Aggregate Bond Index

**Total Return vs. Standard Deviation: Trailing 5 Yrs (Dec 05 - Nov 10)**



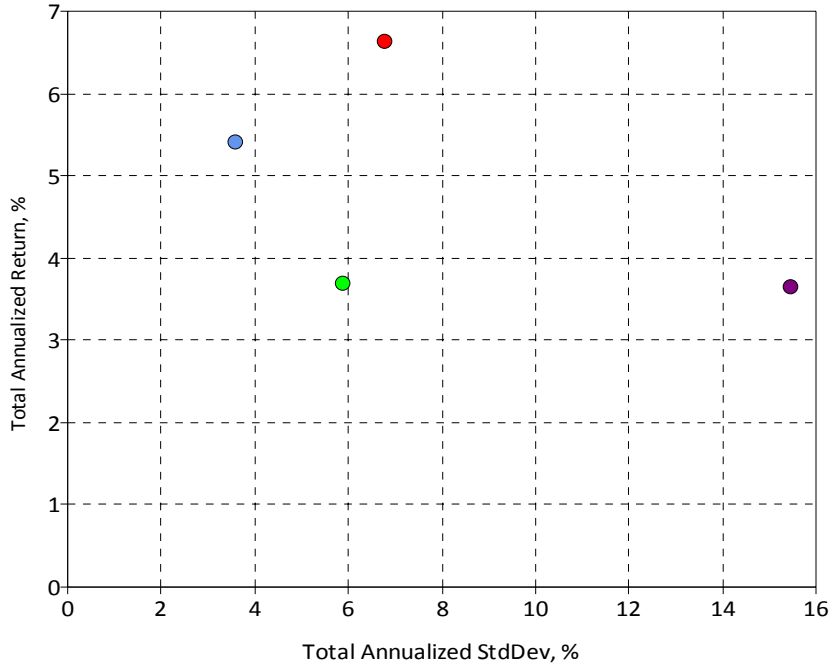
	Dec 05 - Nov 10		
	Total Return	Standard Deviation	Sharpe Ratio
HFRI Fund Weighted Composite Index	5.62	7.51	0.41
HFRI FOF: Diversified Index	2.36	6.53	-0.02
BC Aggregate Bond Index	6.23	3.58	1.02
S&P 500 Index	0.98	17.59	-0.09

- HFRI FOF: Diversified Index
- S&P 500 Index



# Risk vs. Return

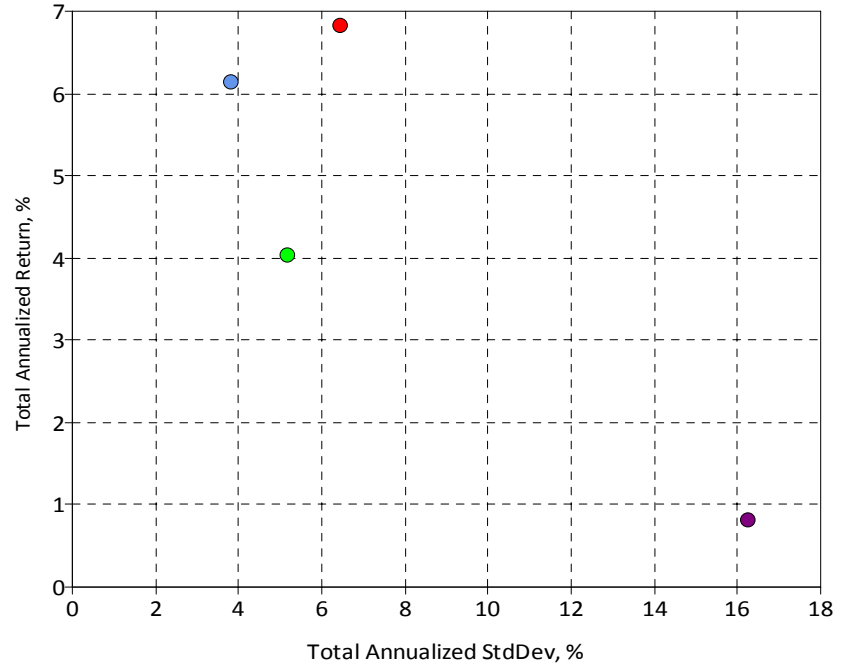
**Total Return vs. Standard Deviation: Trailing 7 Yrs (Dec 03 - Nov 10)**



	Dec 03 - Nov 10		
	Total Return	Standard Deviation	Sharpe Ratio
HFRI Fund Weighted Composite Index	6.63	6.77	0.62
HFRI FOF: Diversified Index	3.68	5.89	0.22
BC Aggregate Bond Index	5.42	3.57	0.84
S&P 500 Index	3.65	15.47	0.08

- HFRI Fund Weighted Composite Index
- BC Aggregate Bond Index

**Total Return vs. Standard Deviation: Trailing 10 Yrs (Dec 00 - Nov 10)**



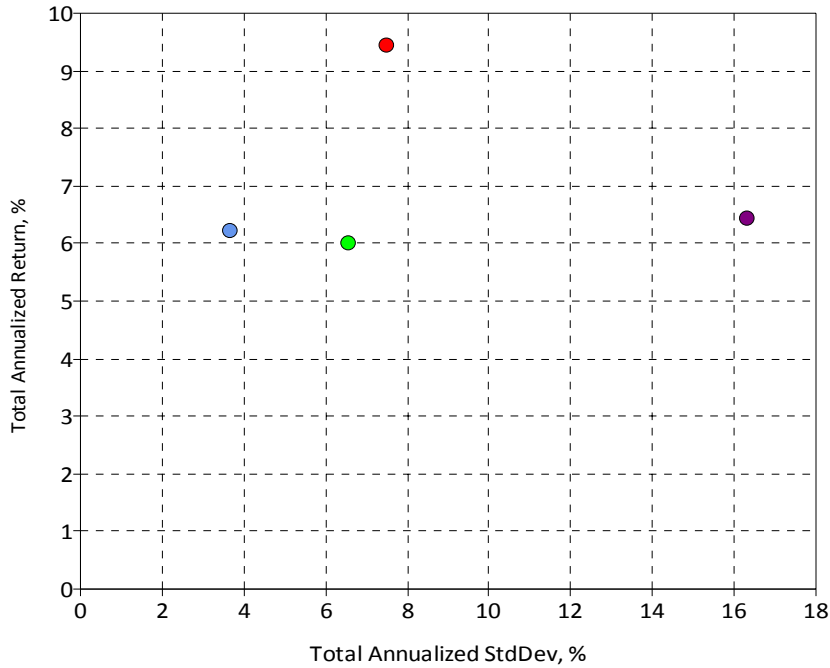
	Dec 00 - Nov 10		
	Total Return	Standard Deviation	Sharpe Ratio
HFRI Fund Weighted Composite Index	6.83	6.44	0.67
HFRI FOF: Diversified Index	4.04	5.16	0.31
BC Aggregate Bond Index	6.15	3.80	0.97
S&P 500 Index	0.81	16.25	-0.10

- HFRI FOF: Diversified Index
- S&P 500 Index



# Risk vs. Return

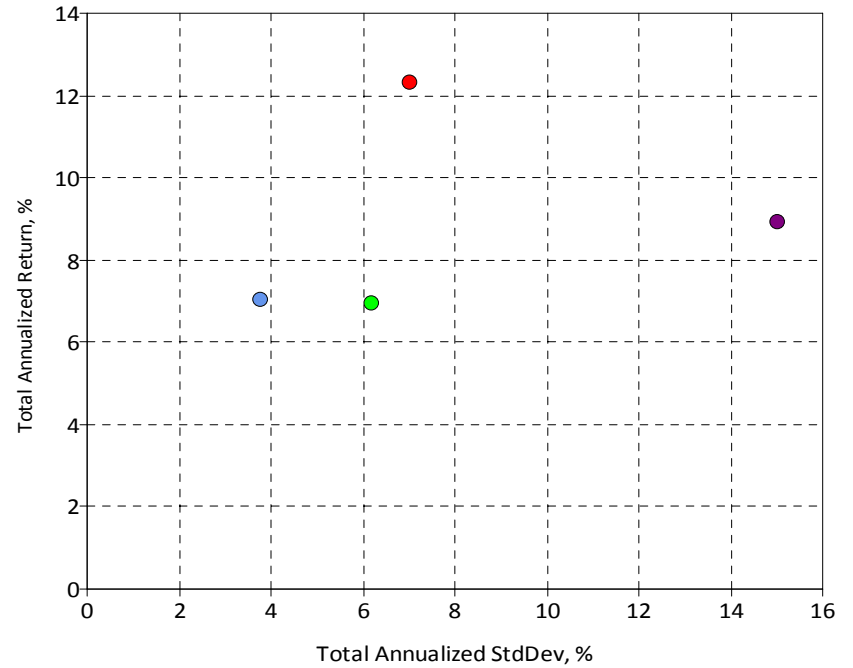
**Total Return vs. Standard Deviation: Trailing 15 Yrs (Dec 95 - Nov 10)**



	Dec 95 - Nov 10		
	Total Return	Standard Deviation	Sharpe Ratio
HFRI Fund Weighted Composite Index	9.45	7.49	0.81
HFRI FOF: Diversified Index	6.02	6.55	0.40
BC Aggregate Bond Index	6.22	3.66	0.77
S&P 500 Index	6.44	16.30	0.19

- HFRI Fund Weighted Composite Index
- BC Aggregate Bond Index

**Total Return vs. Standard Deviation: Trailing 20 Yrs (Dec 90 - Nov 10)**



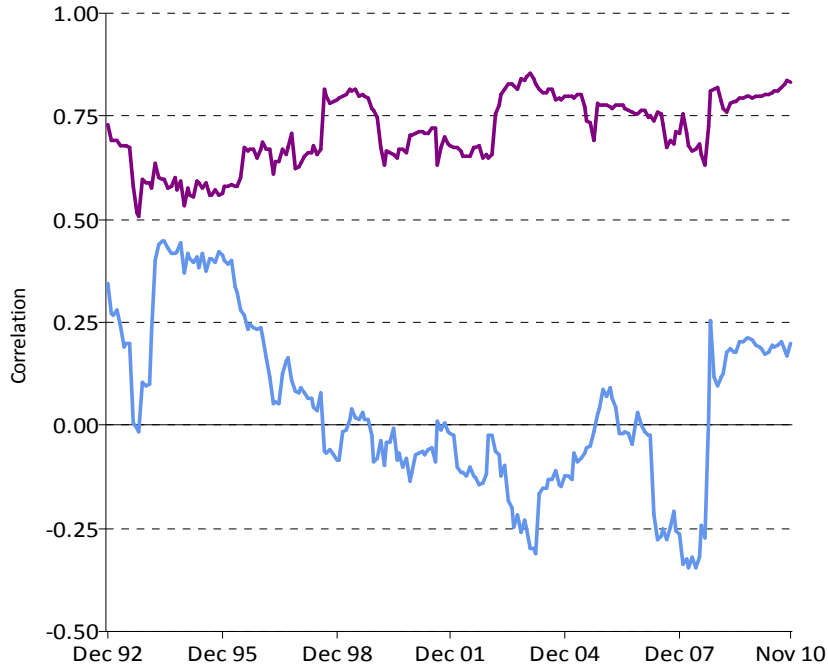
	Dec 90 - Nov 10		
	Total Return	Standard Deviation	Sharpe Ratio
HFRI Fund Weighted Composite Index	12.31	7.03	1.22
HFRI FOF: Diversified Index	6.97	6.19	0.52
BC Aggregate Bond Index	7.03	3.77	0.88
S&P 500 Index	8.94	15.01	0.35

- HFRI FOF: Diversified Index
- S&P 500 Index

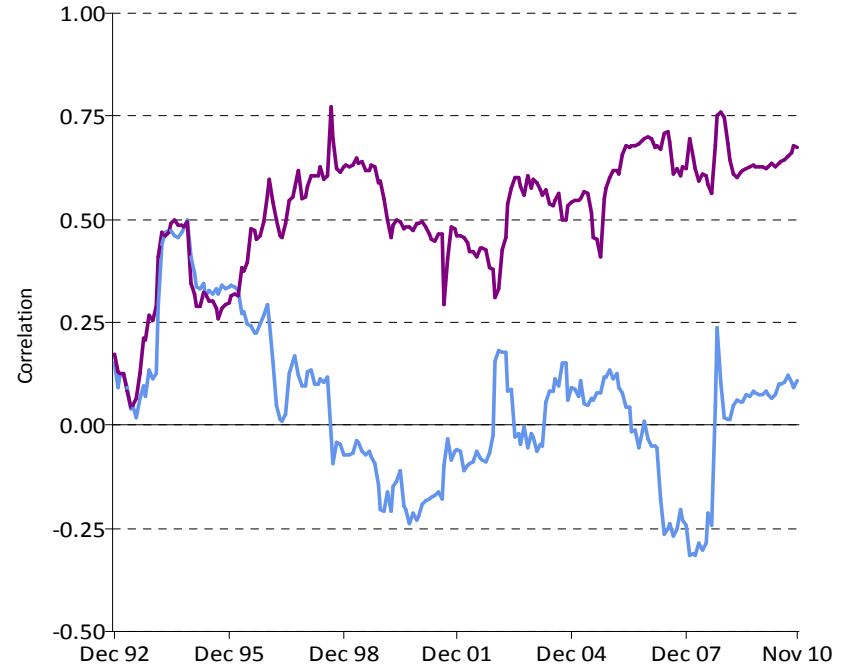


# Correlation with Stocks & Bonds

Rolling 36-Month Correlation vs. HFRI Fund Weighted Composite Index



Rolling 36-Month Correlation vs. HFRI FOF: Diversified Index



Correlation: Pairwise Common Periods

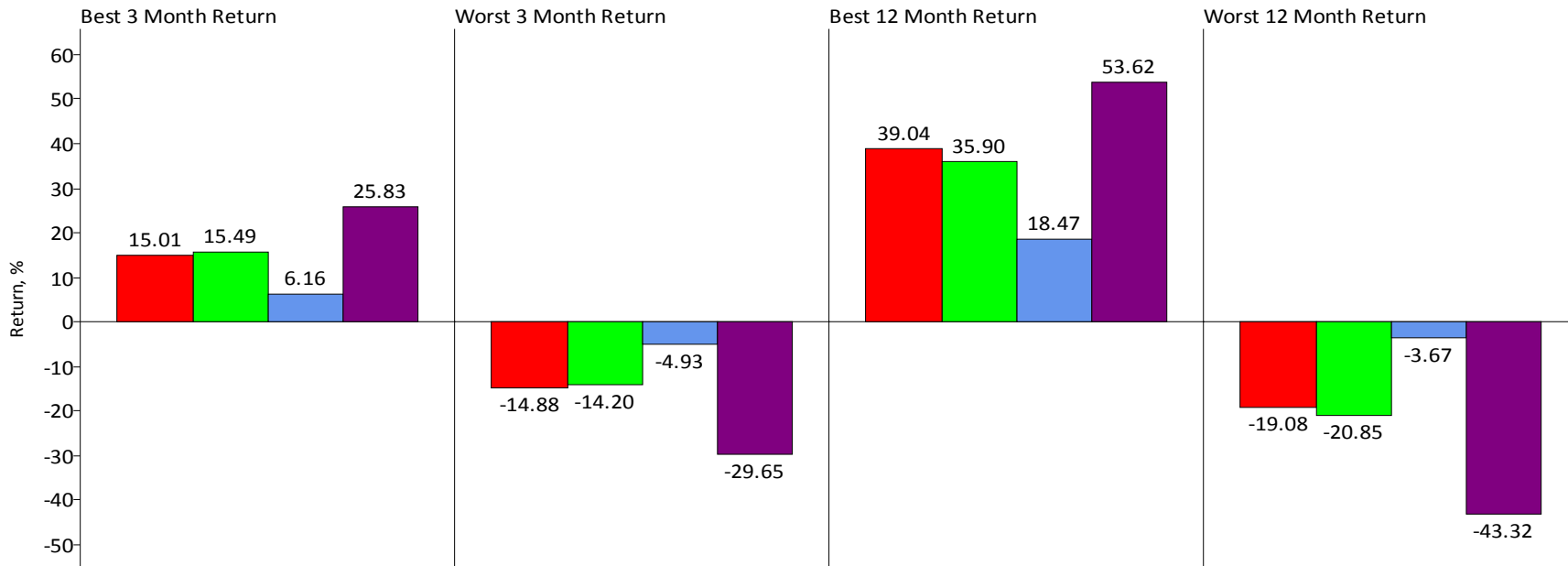
	HFRI Fund Weighted Composite Index	HFRI FOF: Diversified Index	BC Aggregate Bond Index	S&P 500 Index
HFRI Fund Weighted Composite Index	1.00			
HFRI FOF: Diversified Index	0.84	1.00		
BC Aggregate Bond Index	0.09	0.06	1.00	
S&P 500 Index	0.73	0.49	0.16	1.00

— HFRI Fund Weighted Composite Index  
— BC Aggregate Bond Index

— HFRI FOF: Diversified Index  
— S&P 500 Index

# Best/Worst Performance

## Performance Extremes (Jan 90 - Nov 10)



	Performance Extremes							
	Best 3 Months	Best 3 Month Return	Worst 3 Months	Worst 3 Month Return	Best 12 Months	Best 12 Month Return	Worst 12 Months	Worst 12 Month Return
HFRI Fund Weighted Composite Index	Dec 99 - Feb 00	15.01	Sep 08 - Nov 08	-14.88	Mar 99 - Feb 00	39.04	Mar 08 - Feb 09	-19.08
HFRI FOF: Diversified Index	Dec 99 - Feb 00	15.49	Sep 08 - Nov 08	-14.20	Mar 99 - Feb 00	35.90	Jan 08 - Dec 08	-20.85
BC Aggregate Bond Index	Nov 08 - Jan 09	6.16	Feb 94 - Apr 94	-4.93	Jan 95 - Dec 95	18.47	Nov 93 - Oct 94	-3.67
S&P 500 Index	Mar 09 - May 09	25.83	Sep 08 - Nov 08	-29.65	Mar 09 - Feb 10	53.62	Mar 08 - Feb 09	-43.32

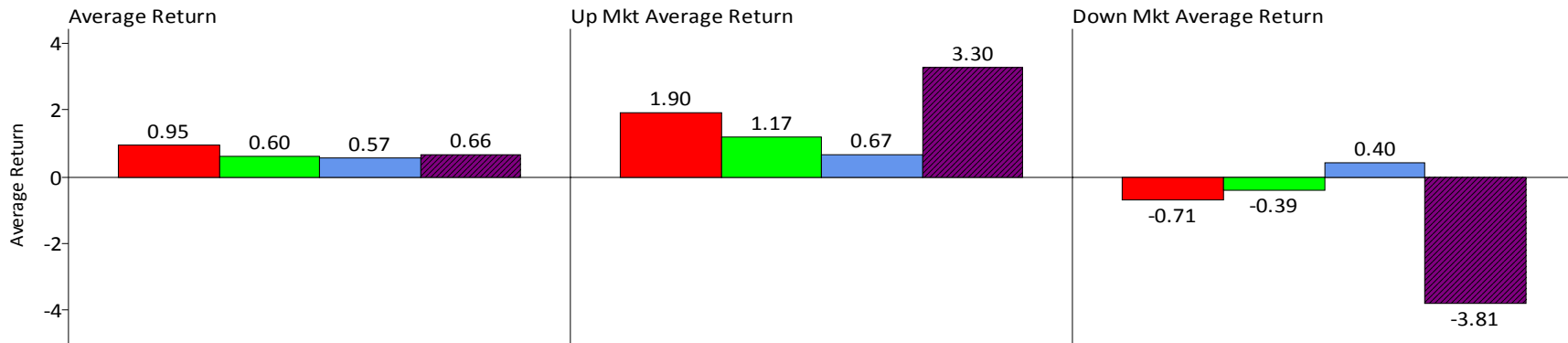
■ HFRI Fund Weighted Composite Index  
■ S&P 500 Index

■ HFRI FOF: Diversified Index  
■ S&P 500 Index

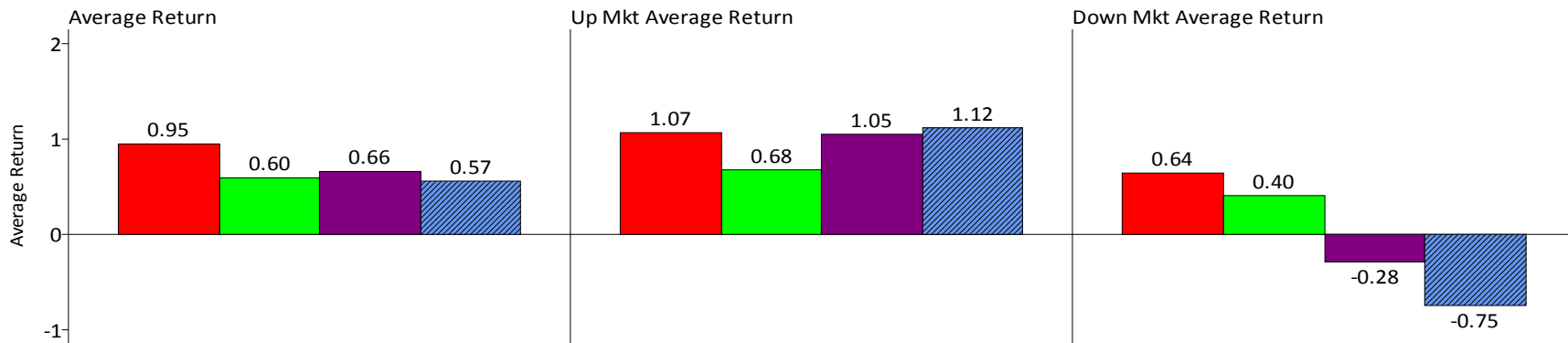
■ BC Aggregate Bond Index

# Average Up/Down Market Returns

Average Monthly Returns vs. S&P 500 (Jan 90 - Nov 10)



Average Monthly Returns vs. BC Aggregate Bond Index (Jan 90 - Nov 10)

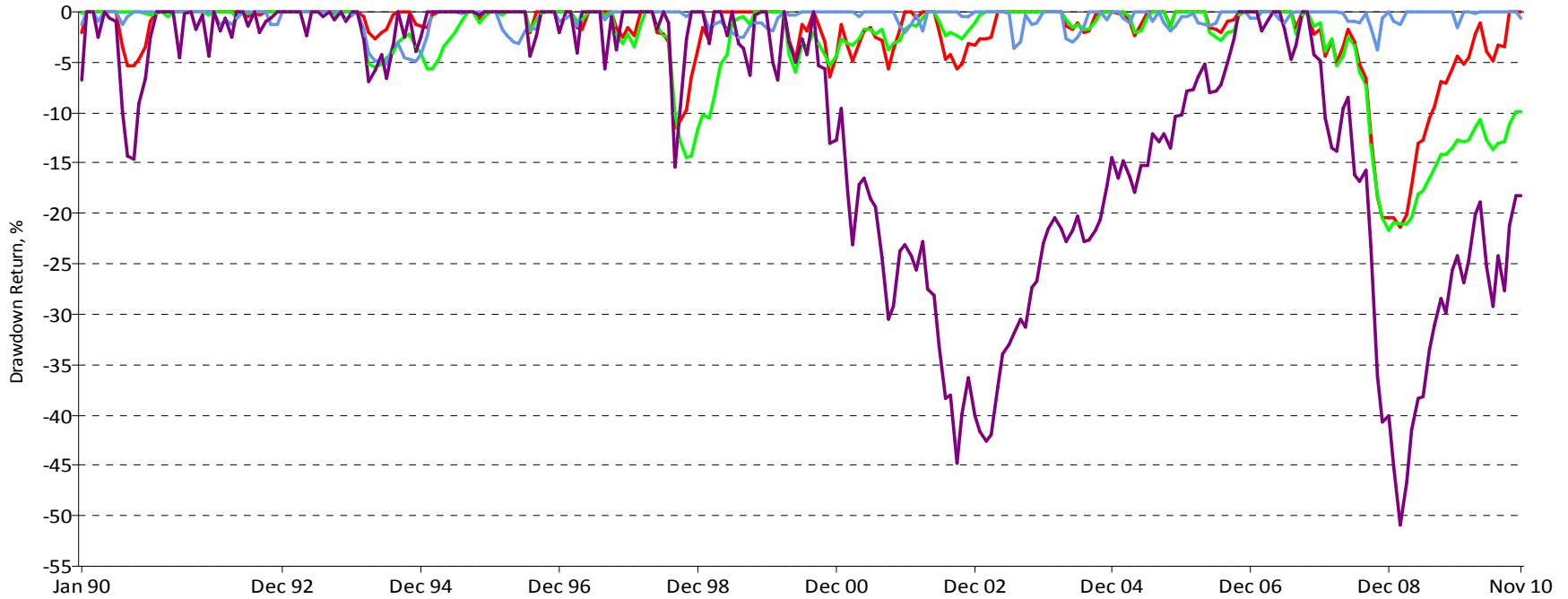


■ HFRI Fund Weighted Composite Index  
■ BC Aggregate Bond Index

■ HFRI FOF: Diversified Index  
■ S&P 500 Index

# Drawdown Analysis

## Cumulative Drawdown



	Performance Extremes						
	Max Drawdown Period	Max Drawdown Return	Max Drawdown Duration (months)	Recovery Period	Recovery Percent	Recovery Duration (months)	Calmar Ratio
HFRI Fund Weighted Composite Index	Nov 07 - Feb 09	-21.42	16	Mar 09 - Oct 10	100.00	20	0.56
HFRI FOF: Diversified Index	Nov 07 - Dec 08	-21.75	14	Jan 09 - Nov 10	54.47	n/a	0.34
BC Aggregate Bond Index	Feb 94 - Jun 94	-5.15	5	Jul 94 - Feb 95	100.00	8	1.37
S&P 500 Index	Nov 07 - Feb 09	-50.95	16	Mar 09 - Nov 10	64.22	n/a	0.16

— HFRI Fund Weighted Composite Index  
— BC Aggregate Bond Index

— HFRI FOF: Diversified Index  
— S&P 500 Index



***GLOSSARY OF TERMS***





**Absolute Return**

The appreciation or depreciation of an investment over a given period of time, expressed as a percentage. Absolute return differs from relative return because it is concerned with the return of a particular investment and does not compare it to any other measure or benchmark.

**Accredited Investor**

Refers to institutional investors or individuals with high net worth or high net income, as specified by securities regulators, and therefore not requiring the protection of a prospectus and registration requirements under securities law.

**Active Management**

The use of a differentiated strategy or human judgment to actively manage a fund's portfolio. Active managers rely on analytical research, forecasts, and their own judgment in making investment decisions on what securities to buy, hold and sell. The opposite of active management is called passive management, better known as "indexing".

**Active Portfolio**

An investment portfolio constructed by making judgments about specific stocks, positions, or market movements instead of relying on automatic adjustments which generally characterize passive strategies and passive investment portfolios.

**Active Return**

The difference between an active portfolio returns and returns from the relevant index or passive portfolio.

**Active Risk**

Stemming from the difference in positions between the active and passive portfolios, the type of risk that an active manager creates in an attempt to beat the returns of the benchmark. In theory, to generate a higher return than the benchmark the manager is required to take on more risk. However, the higher the active risk the more the active fund can underperform relative to the benchmark.

**Administrator**

Acts as an outsourced operations entity for hedge funds. Primary services include the calculation of Net Asset Value, trade support, daily reconciliation of cash, trading positions and P&L.



<b>Alpha</b>	A risk-adjusted measure of investment performance. The rate of return from investing in a stock or a portfolio in excess of what would be predicted by an equilibrium model like the capital pricing model (CAPM).
<b>Alternative Risk Premium</b>	The premium or additional returns that investors expect in order to invest in alternative strategies and asset classes.
<b>Arbitrage</b>	To profit from differences in the price of the same instrument, for example when the instrument is traded in two or more markets.
<b>Auditor</b>	A certified public accountant who examines a company's books according to a set of procedures and issues a report.
<b>Benchmark</b>	A standard against which the performance of an investment can be measured. Generally, broad market and market-segment stock and bond indexes are used for this purpose.
<b>Beta</b>	A measure of the volatility or systematic risk of a security or a portfolio in comparison to the market as a whole. A beta of one indicates that a security's or a portfolio's price will move with the market.
<b>Buy and Hold Strategy</b>	An investment strategy in which an investor purchases the investment and holds it over the entire investment horizon.
<b>Commodity Trading Advisers</b>	Money managers actively directing managed futures accounts. Typically trade commodity, currency, and financial futures using trend-following systems but sometimes use fundamental models and analysis.
<b>Convertible Arbitrage Strategy</b>	An investment strategy that involves a long position in a convertible security and a short position in its converting common stock. This strategy attempts to profit when some feature or aspect of the convertible security is being mispriced by the market.

**Correlation**

A measure of how investments/asset classes tend to move in relation to one another. Investments/asset classes that rise or fall in the same direction are positively correlated, and those that move in opposite directions are negatively correlated. Correlations range from -1 to +1.

**Credit Spread**

The spread between government securities and non-government securities which are similar in all respects except for their credit rating. An example of a credit spread is the difference between yields on government bonds and those on single A-rated corporate bonds with the same term to maturity.

**Current Leverage**

The amount of leverage currently used by the fund as a percentage of the fund. For example, if the fund has \$1,000,000 and borrowing another \$2,000,000, to bring the total dollars invested to \$3,000,000, then the leverage used is 200%.

**Current Net Exposure**

The exposure level of the fund to the market at the present time. It is calculated by subtracting the gross short percentage from the gross long percentage. For example, if a fund is 100% long and 25% short, then the net exposure is 75%.

**Derivative**

A position whose price is dependent upon the value of one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset, which include stocks, bonds, commodities, currencies, interest rates, and market indices. Futures contracts, forward contracts, options, and swaps are the most common types of derivatives. Derivatives are generally used to hedge risks but can also be used for speculative purposes or to generate implicit leverage.

**Directional Strategy**

An investment strategy that entails taking a net long or short position in a market, with a view on the direction the overall market is going to move in. If you are net long, you will benefit from a rise in the market. If you are net short, you will benefit from a decline. Most long-term investors engage in the simple directional strategy of holding a long portfolio of stocks and/or bonds. Directional strategies are the opposite of market neutral strategies.

**Drawdown**

The percentage loss in an investment or a fund's net asset value from a previous high. The maximum drawdown is sometimes employed as a means of measuring the risk of a particular strategy or hedge fund.

**Equity Arbitrage**

An investment strategy which involves the simultaneous purchase of shares in one company and the short sale of assets in another company. This strategy is used in expectation of a pending announcement of a take-over by a company.

**Event-Driven**

An investment strategy which positions the portfolio to profit from the impact of significant corporate events such as spin-offs, mergers and acquisitions, bankruptcy reorganizations, or recapitalizations.

**Explicit Leverage**

Created by using borrowed funds or the proceeds of short sales to finance other investments in a portfolio.

**Fixed Income Arbitrage Strategy**

An investment strategy which attempts to profit from the inefficiencies in the pricing of bonds. Can focus on U.S./non-U.S. government bond arbitrage and perceived mispricing of the yield curve, mortgage-backed securities, and other fixed income instruments using various derivatives such as interest rate swaps and fixed income instrument pairs trades.

**Forward Contract**

An agreement between two parties to buy or sell an underlying asset at a specified future date for a specified price. The contract is not traded on an exchange, but between specific parties.

**Fund of Funds**

Investment partnership that invests in a series of other funds. Portfolio will typically diversify across a variety of investment managers, investment strategies and subcategories.

**Futures Contract**

A standardized, exchange-traded contract for the future delivery or receipt of a specified amount of an asset at a specified price.



<b>General Partner</b>	Managing partner of a limited partnership, responsible for the operation of the limited partnership. The general partner's liability is unlimited.
<b>Hedging</b>	Transactions entered into that protect against adverse price movements, and limit exposure to a specific risk. These are usually opposite transactions within the same asset class or market.
<b>High Water Mark</b>	The assurance that a fund only takes fees on profits unique to an individual investment. For example, a \$1,000,000 investment is made in year 1 and the fund declines by 50%, leaving \$500,000 in the fund. In year 2, the fund returns 100%, bringing the investment value back to \$1,000,000. If a fund has a high water mark, it will not take incentive fees on the return in year 2, since the investment has never grown. The fund will only take incentive fees if the investment grows above the initial level of \$1,000,000.
<b>Hurdle Rate</b>	The return above which a hedge fund manager begins taking incentive fees. For example, if a fund has a hurdle rate of 10%, and the fund returns 25% for the year, the fund will only take incentive fees on the 15% return above the hurdle rate.
<b>Idiosyncratic Risk</b>	Stock or event-specific risk that is uncorrelated to the overall market risk. Diversified portfolios attempt to eliminate this type of risk, while concentrated portfolios take on this type of risk in an attempt to generate returns.
<b>Incentive Fee</b>	Fee on new profits earned by the fund for the period. For example, if the initial investment was \$1,000,000 and the fund returned 25% during the period (creating profits of \$250,000) and the fund has an incentive fee of 20%, then the fund receives 20% of the \$250,000 in profits, or \$50,000.
<b>Implicit Leverage</b>	Created by using derivatives that have a leveraged and/or non-linear payoff to movements in the price of the underlying asset.
<b>Leverage</b>	The practice of borrowing money to add to an investment position when one believes that the return from the position will exceed the cost of borrowed funds. Hedge funds use leverage in order to increase returns. Leverage can have the effect of magnifying returns as well as losses.



**Liquidity Premium**

The premium or additional returns generated by providing liquidity to investors in illiquid assets, usually in markets with high transaction costs or long average investment holding periods.

**Lockup**

Time period that initial investment cannot be redeemed from the fund.

**Long**

Buying an instrument such as a stock, commodity, or currency, with the expectation that the asset will rise in value. Net long implies that an investor has more long positions than short positions in a given asset, market or portfolio.

**Long/Short Equity**

An investment strategy that involves buying certain stocks long and selling others short.

**Managed Futures**

Positions in various instruments such as government securities, currencies, or commodities, futures contracts, and options on futures contracts typically used to manage portfolios. May also imply an investment strategy deployed by Commodity Trading Advisers.

**Market Risk**

Variation in the returns of the overall market, for example the equity market for an equity mutual fund.

**Market Based Returns**

The returns from asset classes such as equities, bonds, currencies, and commodities, typically without the use of leverage.

**Market Neutral Strategy**

An investment strategy that attempts to profit from relative mispricing between related instruments while avoiding systematic risk. Market neutral strategies are sometimes called relative value strategies. See Pairs Trade.

**Master-Feeder Fund**

A typical structure for a hedge fund. It involves a master trading vehicle that is domiciled offshore. The master fund has two investors: another offshore fund, and a US (usually Delaware) Limited Partnership. These two funds are the feeder funds. Investors invest in the feeder funds, which in turn invest all the money in the Master fund.



<b>Maximum Drawdown</b>	The worst period of "peak to valley" performance for the fund, regardless of whether or not the drawdown consisted of consecutive months of negative performance.
<b>Multi-Strategy</b>	An investment strategy employed by some hedge funds which combines several underlying investment strategies.
<b>NAV</b>	Net asset value per share – the market value of a fund share. Equals the closing market value of all securities within a portfolio plus all other assets such as cash, subtracting all liabilities (including fees and expenses), then dividing the result by the total number of shares outstanding.
<b>Non-Directional</b>	Investment strategy with absolute return objectives, irrespective of market movements.
<b>Offering Memorandum</b>	A document provided to a potential hedge fund investor that describes the hedge fund's business and operations. This document is usually developed for potential purchasers of hedge funds offered under a prospectus exemption. The offering memorandum should disclose all of the fund's material facts and help the potential investor assess whether to purchase the hedge fund offered.
<b>Operational Efficiency</b>	The ability to prioritize investment ideas, execute trades, and manage risks in an efficient and low cost manner.
<b>Option</b>	Financial instrument that gives the holder the right, but not the obligation to buy (call option) or sell (put option) the underlying asset up to and including (American option), or on (European option) a defined expiration date for a specified price.
<b>Pairs Trade</b>	A market neutral investment strategy matching a long position with a short position in two stocks of the same sector, thus creating a hedge against fluctuations of the sector and the overall market. Generally recognized as the ultimate stock pickers' strategy, attempts to profit solely from the performance of the underlying stock picks, not from the general movements of the market or the sector.

**Passive Strategy**

An investment strategy in which a fund's portfolio mirrors a market index. Also known as passive management, passive investing, or index investing, and represents the opposite of active management.

**Prime Broker**

Refers to a broker offering professional services specifically aimed at hedge funds and other large institutional clients. The prime broker clears the trades, custodies the securities, provides margin financing, lends stock to cover short sales, and provides cash and position reports. When a hedge fund designates a prime broker, it instructs all executing brokers to settle its trades for cash with a single firm. After the fund executes a trade, it reports the details to its prime broker.

**Redemptions**

Frequency at which fund redemptions are accepted by the fund.

**Relative Return**

The return that an asset achieves over a period of time compared to a benchmark.

**Relative Value**

Hedge funds in this style derive the majority of their return from exploiting perceived pricing discrepancies between similar financial instruments. The underlying markets could be bonds, equities or their derivatives.

**Risk Arbitrage**

The simultaneous purchase and sale of assets that are potentially but not necessarily equivalent.

**Risk Transfer Premium**

The premium or additional returns generated by taking on risks that other market participants wish to avoid, typically asymmetric (i.e. one-sided) risks.

**Selection Bias**

Voluntary reporting in hedge fund databases creates a self-selection bias. This means that some hedge funds will have no incentive to report their results while others have a strong incentive to do so.

**Sharpe Ratio**

A measure of risk-adjusted performance which articulates the average return per unit of risk in an investment; quantifies the degree to which returns are due to smart investment decisions or higher risk. Mathematically, the ratio of portfolio returns in excess of cash equivalents such as 30-day U.S. Treasury Bills to investment risk as measured by the standard deviation (also known as volatility) of the portfolio returns. The higher the Sharpe ratio, the higher the risk-adjusted return.





<b>Short</b>	Sale of a borrowed instrument such as a stock, bond, commodity, or currency, with the expectation that the asset will fall in value. Net short implies that an investor has more short positions than long positions in a given asset, market, or portfolio.
<b>Short Seller</b>	One who sells a security without owning it, with an obligation to buy the security at a later time and return it to the original lender. Profits will result if the investor is able to buy it back later at a lower price.
<b>Side Pocket</b>	A type of account used in hedge funds to separate illiquid assets from other more liquid investments. Typically, once an investment enters a side pocket account only the present participants in the hedge fund will be entitled to a share of the proceeds upon final sale of the asset.
<b>Spread</b>	The difference in yields between two types of investments, for example a high-yield bond and a U.S. Treasury bond.
<b>Statistical Arbitrage</b>	An investment strategy which attempts to profit from pricing inefficiencies identified through mathematical modeling techniques.
<b>Survivorship Bias</b>	Some databases delete the historical records of closed funds, which makes the summary statistics (such as average returns) of the database look artificially better over time. This happens because funds usually close due to poor performance.
<b>Swap</b>	An agreement between two parties to exchange cash flows over time according to a pre-determined formula.
<b>Systematic Risk</b>	The risk inherent to the entire market or market segment. Also known as “un-diversifiable risk” or “market risk.”
<b>Valuation</b>	Placing a value or worth on an asset. For alternative investment portfolios, valuation can be determined by the last market-traded price, or by general partner discretion in the case of illiquid securities, where there is no readily available market-pricing mechanism.

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

January 25, 2011

Agenda Item 6.5

**TO:** Board of Retirement

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



**SUBJECT:** Approval of Policy Regarding Securities Litigation

**ISSUE**

A policy regarding securities litigation will provide guidance regarding those cases in which *SamCERA* should seek lead plaintiff status.

**BACKGROUND**

Earlier this year *SamCERA* retained three firms to monitor the investment portfolio and make recommendations regarding when *SamCERA* should pursue lead or named plaintiff status in fraud litigation. At the board's December 14, 2010, meeting, staff presented a draft policy regarding the evaluation of the firms' recommendations. The board provided input on the policy but took no action. The board asked staff to return at a later board meeting with revisions.

The attached policy includes revisions to the original draft. The revisions set a higher standard for *SamCERA*'s involvement and attempt to reduce the likely amount of board time required to evaluate cases. Significant changes include:

- A requirement that retained firms only recommend active participation to *SamCERA* when they believe that without such participation *SamCERA*'s rights and interests will not be represented in a case.
- A requirement that any estimated likely recovery amount far outweigh any estimated participation costs (mainly staff and County Counsel time) so as to eliminate any likelihood of a net loss due to actively participating.
- Only decisions by the CEO to actively participate will be reported to the board. Cases that are not considered worthy of pursuing will not be reported.

Attached is a resolution, plus a marked up copy and clean copy of the policy. We look forward to discussing the policy in more detail at the January board meeting.

**STAFF RECOMMENDATION**

Staff recommends approval of the attached resolution adopting a *SamCERA* Securities Litigation Policy.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**{Resolution Adopting Securities Litigation Policy}**

RESOLUTION 10-11-

*THIS RESOLUTION, adopted by the Board of Retirement (Board)  
of the San Mateo County Employees' Retirement Association (SamCERA),  
Establishes a Securities Litigation Policy.*

**WHEREAS**, from time to time, some of the *SamCERA* fund investments may be the subject of securities litigation; and

**WHEREAS**, this board has determined that in addition to the board, the Chief Executive Officer in consultation with County Counsel, should have the independent authority to determine whether *SamCERA* will take an active role in a securities class action, or decline to do so; and

**WHEREAS**, the board has determined that *SamCERA* should have procedures and guidelines to assist in the Chief Executive Officer's determination as to whether *SamCERA* should actively participate, in addition to or in lieu of being a passive class member, in certain class actions; and

**WHEREAS**, this board has determined that adopting this policy is consistent with its fiduciary responsibilities;

*Therefore, be it*

**RESOLVED**, that the board hereby adopts the attached "Securities Litigation Policy."



**SamCERA**  
**Securities Litigation Policy**  
*Adopted by the Board of Retirement*  
December 14, 2010/January 25, 2011

**PURPOSE**

In order to protect the assets of the fund, the Board of Retirement adopts this policy to establish procedures and guidelines for SamCERA's active participation (as a lead or named plaintiff) in securities class actions. Such participation will be in addition to, or in lieu of, SamCERA's participation as a passive member in such actions.

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**STATEMENT OF FUNCTIONS AND RESPONSIBILITIES**

1. *Review of Class Action Filings*

The Board of Retirement shall select and retain one or more private law firms to identify and evaluate potential securities class action filings in which SamCERA would be a member of the class. Firms will only recommend active participation to SamCERA when they believe that without such participation, SamCERA's rights and interests will not be represented in a case. In addition, the firms shall identify, evaluate and make recommendations regarding those actions in which the firm believes that active participation by SamCERA may have a positive impact on the case.

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2. *Determination of Active Participation By SamCERA*

If SamCERA is asked to actively participate in a case, the Chief Executive Officer, after considering the factors listed below, and in consultation with County Counsel, shall determine whether SamCERA will take an active role in a securities class action, or decline to do so.

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The following factors will be considered:

- a.) the likelihood of achieving a recovery
- b.) the probable level-net amount of recovery (the probable amount of recovery less the estimated costs of staff and County Counsel time and any other costs)\*
- c.) the impact on the amount of recovery that would likely result from SamCERA participation as lead or named plaintiff
- d.) whether SamCERA's rights and/or interests may in fact be preserved by active participation
- e.) staff's and County Counsel's potential workload
- f.) any other relevant factors

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\* Any estimated likely recovery amount must far outweigh any estimated participation costs (mainly staff and County Counsel time) so as to eliminate any likelihood of a net loss due to actively participate.

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~~The Chief Executive Officer and County Counsel shall provide to the Board of Retirement a written report of all affirmative determinations to actively participate. Such report will be provided at the next regular board meeting held after an affirmative determination is made. The report shall reflect the Chief Executive Officer's determination based upon the factors listed above. The report shall be placed on the Consent Agenda under Anticipated Litigation for the Board's approval. Any Board member has the authority to remove the report item for discussion and determination in closed session. The Chief Executive Officer and County Counsel shall report all such determinations to the Board of Retirement at the next regular Board of Retirement meeting held after the determination is made.~~

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### 3. Asset Recovery

This policy shall not relieve SamCERA's custodial bank from its responsibility for filing all proofs of claim, including the necessary supporting documents and information, necessary to recover assets in every securities class action proceeding in which SamCERA has potentially suffered losses.

### 4. Reports to the Board On Active Litigation

County Counsel shall provide the Board with status reports as needed to keep the Board apprised of major developments in cases in which SamCERA is an active participant.

### 5. Retention of Outside Counsel

For cases in which SamCERA becomes an active participant, all retainer agreements shall be negotiated by the Office of the County Counsel and submitted for approval, in advance, to the Board of Retirement. However, where it is determined that immediate approval is required in order to preserve SamCERA's rights and/or interests by retaining such counsel, the Chief Executive Officer and County Counsel are authorized to make the decision, subject to ratification by the Board.



***SamCERA***  
***Securities Litigation Policy***  
***Adopted by the Board of Retirement***  
***January 25, 2011***

**PURPOSE**

In order to protect the assets of the fund, the Board of Retirement adopts this policy to establish procedures and guidelines for *SamCERA*'s active participation (as a lead or named plaintiff) in securities class actions. Such participation will be in addition to, or in lieu of, *SamCERA*'s participation as a passive member in such actions.

**STATEMENT OF FUNCTIONS AND RESPONSIBILITIES**

1. *Review of Class Action Filings*

The Board of Retirement shall select and retain one or more private law firms to identify and evaluate potential securities class action filings in which *SamCERA* would be a member of the class. Firms will only recommend active participation to *SamCERA* when they believe that without such participation *SamCERA*'s rights and interests will not be represented in a case.

2. *Determination of Active Participation By SamCERA*

If *SamCERA* is asked to actively participate in a case, the Chief Executive Officer, after considering the factors listed below, and in consultation with County Counsel, shall determine whether *SamCERA* will take an active role in a securities class action, or decline to do so.

The following factors will be considered:

- a.) the likelihood of achieving a recovery
- b.) the probable net amount of recovery (the probable amount of recovery less the estimated costs of staff and County Counsel time and any other costs)\*
- c.) the impact on the amount of recovery that would likely result from *SamCERA* participation as lead or named plaintiff
- d.) whether *SamCERA*'s rights and/or interests may in fact be preserved by active participation
- e.) staff's and County Counsel's potential workload
- f.) any other relevant factors

\* Any estimated likely recovery amount must far outweigh any estimated participation costs (mainly staff and County Counsel time) so as to eliminate any likelihood of a net loss due to actively participate.

The Chief Executive Officer and County Counsel shall provide to the Board of Retirement a written report of all affirmative determinations to actively participate. Such report will be provided at the next regular board meeting held after an affirmative determination is made. The report shall reflect the Chief Executive Officer's determination based upon the factors listed above. The report shall be placed on the Consent Agenda under Anticipated Litigation for the Board's approval. Any Board member has the authority to remove the report item for discussion and determination in closed session.

### *3. Asset Recovery*

This policy shall not relieve *SamCERA's* custodial bank from its responsibility for filing all proofs of claim, including the necessary supporting documents and information, necessary to recover assets in every securities class action proceeding in which *SamCERA* has potentially suffered losses.

### *4. Reports to the Board On Active Litigation*

County Counsel shall provide the Board with status reports as needed to keep the Board apprised of major developments in cases in which *SamCERA* is an active participant.

### *5. Retention of Outside Counsel*

For cases in which *SamCERA* becomes an active participant, all retainer agreements shall be negotiated by the Office of the County Counsel and submitted for approval, in advance, to the Board of Retirement. However, where it is determined that immediate approval is required in order to preserve *SamCERA's* rights and/or interests by retaining such counsel, the Chief Executive Officer and County Counsel are authorized to make the decision, subject to ratification by the Board.

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

January 25, 2011

Agenda Item 7.1

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Preliminary Monthly Financial Report for the Period Ending December 31, 2010

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 December 31, 2010, totaled \$2,161,195,553.

**Statement of Changes in Fiduciary Net Assets**

Net assets held in trust for pension benefits increased by approximately \$77.4 million, month over month.

*SamCERA's* increase in net assets is attributed to market appreciation during the period.

The following reports are attached to this agenda item:

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Statement of Fiduciary Net Assets (Year to Year YTD Comparative)	2
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**San Mateo County Employees' Retirement Association**  
**Statement of Fiduciary Net Assets - YTD Comparative**  
**December 2010**  
**PRELIMINARY**

	December 2010	December 2009
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS	91,583,013	63,754,777
SECURITIES LENDING CASH COLLATERAL	160,028,095	250,617,024
<b>TOTAL CASH</b>	<b>251,611,107</b>	<b>314,371,801</b>
<b>RECEIVABLES</b>		
Contributions	0	0
Due from Broker for Investments Sold	217,923,941	18,311,982
Investment Income	4,566,120	4,393,073
Securities Lending Income	91,816	117,591
Other Receivable	113,315	113,794
<b>TOTAL ACCOUNTS RECEIVABLES</b>	<b>222,695,191</b>	<b>22,936,440</b>
PREPAID EXPENSE	7,669	7,669
<b>INVESTMENTS AT FAIR VALUE</b>		
Domestic Fixed Income Securities	601,646,566	477,358,967
Domestic Equities	983,781,199	844,651,279
International Equities	429,700,043	398,484,839
Real Estate	117,068,313	106,113,595
Private Equities	250,000	0
	2,132,446,121	1,826,608,679
FIXED ASSETS	0	0
LESS ACCUMULATED DEPRECIATION	0	0
	0	0
<b>TOTAL ASSETS</b>	<b>2,606,760,089</b>	<b>2,163,924,589</b>
<b>LIABILITIES</b>		
Investment Management Fees	1,862,348	1,870,525
Due to Broker for Investments Purchased	282,844,978	47,177,760
Collateral Payable for Securities Lending	160,028,095	250,617,024
Other	829,115	539,015
<b>TOTAL LIABILITIES</b>	<b>445,564,535</b>	<b>300,204,324</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>2,161,195,553</b>	<b>1,863,720,265</b>

**San Mateo County Employees' Retirement Association**  
**Statement of Changes in Fiduciary Net Assets - YTD Comparative**  
**December 2010**  
**Preliminary**

	December 2010	December 2009	Increase/Decrease
<b>ADDITIONS</b>			
<b>CONTRIBUTIONS</b>			
Employer Contribution	78,901,202	51,856,898	27,044,305
Employee Contribution	23,587,673	24,460,300	(872,627)
<b>TOTAL CONTRIBUTIONS</b>	<b>102,488,876</b>	<b>76,317,198</b>	<b>26,171,678</b>
<b>INVESTMENT INCOME</b>			
Interest and Dividends	17,707,484	18,556,907	(849,423)
Net Appreciation (Depreciation) in fair value of investments	297,606,410	244,354,387	53,252,023
Less Investment Expense	(5,988,372)	(3,670,994)	(2,317,378)
Less Asset Management Expense	(322,568)	(261,753)	(60,815)
<b>NET INVESTMENT INCOME</b>	<b>309,002,954</b>	<b>258,978,546</b>	<b>50,024,407</b>
<b>SECURITIES LENDING INCOME</b>			
Earnings	322,650	641,281	(318,631)
Less: Securities Lending Expenses	(78,403)	(210,883)	132,480
<b>NET SECURITIES LENDING INCOME</b>	<b>244,248</b>	<b>430,398</b>	<b>(186,150)</b>
<b>OTHER ADDITIONS</b>	<b>54,266</b>	<b>15,470</b>	<b>38,796</b>
<b>TOTAL ADDITIONS</b>	<b>411,790,343</b>	<b>335,741,612</b>	<b>76,048,731</b>
<b>DEDUCTIONS</b>			
<b>ASSOCIATION BENEFITS</b>			
Service Retirement Allowance	56,081,080	52,537,831	3,543,248
Disability Retirement Allowance	7,191,400	7,028,774	162,626
Survivor, Death and Other Benefits	376,466	406,240	(29,774)
<b>TOTAL ASSOCIATION BENEFITS</b>	<b>63,648,946</b>	<b>59,972,845</b>	<b>3,676,101</b>
<b>REFUND OF MEMBER CONTRIBUTIONS</b>	<b>1,175,896</b>	<b>1,696,658</b>	<b>(520,762)</b>
<b>ADMINISTRATIVE EXPENSE</b>	<b>1,626,253</b>	<b>1,699,540</b>	<b>(73,287)</b>
<b>OTHER EXPENSE</b>	<b>40,149</b>	<b>51,860</b>	<b>(11,711)</b>
<b>TOTAL DEDUCTIONS</b>	<b>66,491,244</b>	<b>63,420,904</b>	<b>3,070,341</b>
<b>NET INCREASE</b>	<b>345,299,098</b>	<b>272,320,708</b>	<b>72,978,391</b>
<b>Net Assets Held in Trust for Pension Benefits:</b>			
Beginning of Period	1,815,896,455	1,591,399,558	
End of Period	2,161,195,553	1,863,720,265	

**San Mateo County Employees' Retirement Association  
CHANGES IN FIDUCIARY NET ASSETS - TRAILING SIX MONTHS  
For the Month Ending December 31, 2010  
PRELIMINARY**

	July 2010	August 2010	September 2010	October 2010	November 2010	December 2010	YTD
<b>ADDITIONS</b>							
<b>CONTRIBUTIONS</b>							
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)	(15,713,854)	7,192,278
<b>TOTAL CONTRIBUTIONS</b>	<b>79,886,080</b>	<b>3,713,440</b>	<b>3,613,518</b>	<b>3,680,673</b>	<b>3,988,754</b>	<b>7,606,411</b>	<b>102,488,876</b>
<b>INVESTMENT INCOME</b>							
Interest and Dividends	2,228,528	3,312,853	3,275,168	2,196,872	2,999,996	3,694,067	17,707,484
Net Appreciation (Depreciation) in fair value of investments	87,400,814	(43,766,849)	127,340,342	56,496,595	(9,582,182)	79,771,954	297,660,675
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)
<b>TOTAL ADDITIONS</b>	<b>169,453,071</b>	<b>(36,777,881)</b>	<b>134,207,670</b>	<b>62,336,911</b>	<b>(2,669,137)</b>	<b>90,995,252</b>	<b>417,545,885</b>
<b>DEDUCTIONS</b>							
<b>ASSOCIATION BENEFITS</b>							
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
Voids and Reissue	492	0	0	0	0	0	492
<b>TOTAL ASSOCIATION BENEFITS</b>	<b>10,537,591</b>	<b>10,572,833</b>	<b>10,625,639</b>	<b>10,593,230</b>	<b>10,668,223</b>	<b>10,651,429</b>	<b>63,648,946</b>
<b>REFUND OF MEMBER CONTRIBUTIONS</b>	<b>110,411</b>	<b>290,928</b>	<b>163,314</b>	<b>170,084</b>	<b>414,929</b>	<b>26,231</b>	<b>1,175,896</b>
<b>ACTUARIAL FEES</b>	<b>16,083</b>	<b>19,083</b>	<b>750</b>	<b>750</b>	<b>2,667</b>	<b>833</b>	<b>40,167</b>
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 - 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	52,715	316,292
<b>TOTAL PROFESSIONAL FEE</b>	<b>642,963</b>	<b>611,167</b>	<b>631,257</b>	<b>664,651</b>	<b>650,168</b>	<b>750,452</b>	<b>3,950,658</b>
<b>ADMIN EXPENSE - SALARIES &amp; BENEFITS</b>	<b>99,487</b>	<b>168,819</b>	<b>170,584</b>	<b>171,415</b>	<b>174,710</b>	<b>258,847</b>	<b>1,043,860</b>
<b>ADMIN EXPENSE - SERVICES &amp; SUPPLIES</b>	<b>33,996</b>	<b>55,862</b>	<b>124,612</b>	<b>150,416</b>	<b>105,433</b>	<b>112,074</b>	<b>582,393</b>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>133,483</b>	<b>224,680</b>	<b>295,196</b>	<b>321,830</b>	<b>280,143</b>	<b>370,920</b>	<b>1,626,253</b>
<b>INTEREST FOR PREPAID CONTRIBUTION</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,804,884</b>	<b>1,804,884</b>
<b>OTHER DEDUCTIONS</b>	<b>919</b>	<b>4,096</b>	<b>4,593</b>	<b>12,505</b>	<b>7,962</b>	<b>10,075</b>	<b>40,149</b>
<b>TOTAL DEDUCTIONS</b>	<b>11,425,368</b>	<b>11,703,704</b>	<b>11,719,999</b>	<b>11,762,300</b>	<b>12,021,425</b>	<b>13,613,992</b>	<b>72,246,787</b>
<b>NET INCREASE</b>	<b>158,027,703</b>	<b>(48,481,584)</b>	<b>122,487,671</b>	<b>50,574,610</b>	<b>(14,690,562)</b>	<b>77,381,260</b>	<b>345,299,098</b>

**San Mateo County Employees' Retirement Association  
Statement of Fiduciary Net Assets - Monthly Comparative  
For the Month Ending December 2010**

	December 2010	November 2010	Increase/(Decrease)	% of Incr/Decr
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS	91,583,013	63,248,522	28,334,490	44.80%
SECURITIES LENDING CASH COLLATERAL	160,028,095	189,502,619	(29,474,524)	-15.55%
<b>TOTAL CASH</b>	<b>251,611,107</b>	<b>252,751,141</b>	<b>(1,140,034)</b>	<b>(0)</b>
<b>RECEIVABLES</b>				
Contributions	0	0	0	N/A
Due from Broker for Investments Sold	217,923,941	141,848,171	76,075,769	53.63%
Investment Income	4,566,120	4,729,386	(163,266)	-3.45%
Securities Lending Income	91,816	104,161	(12,345)	-11.85%
Other Receivable	113,315	113,393	(79)	-0.07%
<b>TOTAL ACCOUNTS RECEIVABLES</b>	<b>222,695,191</b>	<b>146,795,112</b>	<b>75,900,080</b>	<b>51.70%</b>
PREPAID EXPENSE	7,669	7,669	0	0.00%
<b>INVESTMENTS AT FAIR VALUE</b>				
Domestic Fixed Income Securities	601,646,566	621,260,555	(19,613,989)	-3.16%
Domestic Equities	983,781,199	924,877,352	58,903,847	6.37%
International Equities	429,700,043	404,079,225	25,620,818	6.34%
Real Estate	117,068,313	117,068,313	0	0.00%
Private Equity	250,000	250,000	0	0.00%
	<b>2,132,446,121</b>	<b>2,067,535,445</b>	<b>64,910,676</b>	<b>3.14%</b>
FIXED ASSETS	0	0	0	N/A
LESS ACCUMULATED DEPRECIATION	0	0	0	N/A
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00%</b>
<b>TOTAL ASSETS</b>	<b>2,606,760,089</b>	<b>2,467,089,366</b>	<b>139,670,722</b>	<b>5.66%</b>
<b>LIABILITIES</b>				
Investment Management Fees	1,862,348	1,334,887	527,461	39.51%
Due to Broker for Investments Purchased	282,844,978	191,666,149	91,178,829	47.57%
Collateral Payable for Securities Lending	160,028,095	189,502,619	(29,474,524)	-15.55%
Other	829,115	771,418	57,696	7.48%
<b>TOTAL LIABILITIES</b>	<b>445,564,535</b>	<b>383,275,073</b>	<b>62,289,462</b>	<b>16.25%</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>2,161,195,553</b>	<b>2,083,814,294</b>	<b>77,381,260</b>	<b>3.71%</b>

**San Mateo County Employees' Retirement Association**  
**Statement of Changes in Fiduciary Net Assets - Monthly Comparative**  
**For the Month Ending December 2010**  
**Preliminary**

	December 2010	November 2010	Increase/Decrease
<b>ADDITIONS</b>			
<b>CONTRIBUTIONS</b>			
Employer Contribution	78,901,202	77,038,838	1,862,364
Employee Contribution	23,587,673	17,843,627	5,744,046
<b>TOTAL CONTRIBUTIONS</b>	<b>102,488,876</b>	<b>94,882,465</b>	<b>7,606,411</b>
<b>INVESTMENT INCOME</b>			
Interest and Dividends	17,707,484	14,013,417	3,694,067
Net Appreciation (Depreciation) in fair value of investments	297,606,410	217,853,495	79,752,914
Less Investment Expense	(5,988,372)	(3,382,745)	(2,605,627)
Less Asset Management Expense	(322,568)	(253,995)	(68,573)
<b>NET INVESTMENT INCOME</b>	<b>309,002,954</b>	<b>228,230,173</b>	<b>80,772,781</b>
<b>SECURITIES LENDING INCOME</b>			
Earnings	322,650	266,595	56,056
Less: Securities Lending Expenses	(78,403)	(64,031)	(14,372)
<b>NET SECURITIES LENDING INCOME</b>	<b>244,248</b>	<b>202,564</b>	<b>41,684</b>
<b>OTHER ADDITIONS</b>			
	54,266	35,226	19,040
<b>TOTAL ADDITIONS</b>	<b>411,790,343</b>	<b>323,350,427</b>	<b>88,439,915</b>
<b>DEDUCTIONS</b>			
<b>ASSOCIATION BENEFITS</b>			
Service Retirement Allowance	56,081,080	46,688,512	9,392,568
Disability Retirement Allowance	7,191,400	5,995,202	1,196,199
Survivor, Death and Other Benefits	376,466	313,803	62,662
<b>TOTAL ASSOCIATION BENEFITS</b>	<b>63,648,946</b>	<b>52,997,517</b>	<b>10,651,429</b>
REFUND OF MEMBER CONTRIBUTIONS	1,175,896	1,149,665	26,231
ADMINISTRATIVE EXPENSE	1,626,253	1,255,333	370,920
OTHER EXPENSE	40,149	30,074	10,075
<b>TOTAL DEDUCTIONS</b>	<b>66,491,244</b>	<b>55,432,589</b>	<b>11,058,656</b>
<b>NET INCREASE</b>	<b>345,299,098</b>	<b>267,917,839</b>	<b>77,381,260</b>
<b>Net Assets Held in Trust for Pension Benefits:</b>			
Beginning of Period	2,083,814,294	2,098,504,855	
End of Period	2,161,195,553	2,083,814,294	

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

January 25, 2011

Agenda Item 7.2

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Preliminary Second Quarter Budget Report

DISCUSSION: *SamCERA's* 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 December 31 is approximately 33.9 basis points, which is lower than the 39.7 basis points reported in September. The decrease is attributed to an increase in assets under management by manager. Contracts are written such as to reduce fees as assets under management grow.

*SamCERA's* Administrative Budget - The adopted administrative budget by category, versus the preliminary fiscal expenditures, is shown in the table below. 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 calculation will be 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 32.6% 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 until the second quarter or later. The **Salaries & Benefits** allocation is below where one would expect if all positions had been filled on day one. That category will have savings throughout the year. Most **Services and 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	\$1,043,860
Services & Supplies	\$2,343,000	\$ 582,393
Capital Assets	<u>\$ 000</u>	<u>\$ 000</u>
Total	\$4,983,000	\$1,626,253

**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 salary and benefits of the Chief Investment Officer, Retirement Investment Analyst and a percentage of the salary 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	\$ 226,499
Services & Supplies	\$ 430,700	\$ 96,069
Capital Assets	<u>\$ 000</u>	<u>\$ 000</u>
Total	\$ 980,700	\$ 322,568

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

January 25, 2011  
 Attachment One

First Quarter Analysis  
 12-31-2010

Agenda Item 7.2

PROFESSIONAL SERVICES BUDGET: Government Code §31596.1 states that, *“The expenses of investing its money shall be borne solely by the system. The following types of expenses shall not be considered a cost of administration of the retirement system, but shall be considered a reduction in earnings from those investments or a charge against the assets of the retirement system as determined by the board:*

- (a) The costs, as approved by the board, of actuarial valuations and services rendered pursuant to §31453.*
- (b) The compensation of any bank or trust company performing custodial services.*
- (c) When an investment is made in deeds of trust and mortgages, the fees stipulated in any agreement entered into with a bank or mortgage service company to service such deeds of trust and mortgages.*
- (d) Any fees stipulated in an agreement entered into with investment counsel for consulting or management services in connection with the administration of the board's investment program, including the system's participation in any form of investment pools managed by a third party or parties.*
- (e) The compensation to an attorney for services rendered pursuant to §31607 or legal representation rendered pursuant to §31529.1.”*

The board has entered into the following contracts pursuant to §31596.1:

CONTRACTOR	SERVICE	FEE (1)	2010-2011 YTD EXPENSE (ACCRUED)	2010-2011 ESTIMATE
Milliman	Actuarial Consulting	0.1 bp	\$40,100	\$75,000
Strategic Investment Solutions	Investment Consulting	0.4 bp	\$166,600	\$400,000
State Street Bank & Trust	Global Custody	0.1 bp	\$117,300	\$130,000
SUB-TOTAL NON INVESTMENT MANAGER CONTRACTUAL FEES			\$324,000	\$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	<b>Enhanced Index Fund</b> Domestic Large Cap Equity	4.0 bp	\$46,200	\$93,000
D.E. Shaw Investment Management,	<b>Active Management</b> Domestic Large Cap Enhanced	51.0 bp	\$244,300	\$480,000
T. Rowe Price Associates	<b>Active Management</b> Domestic Large Cap Enhanced	37.5 bp	\$178,200	\$350,000
Barrow, Hanley, Mewhinney & Strauss	<b>Active Management</b> Domestic Large Cap Value	45.3 bp	\$329,000	\$650,000
BlackRock Capital Management	<b>Active Management</b> Domestic Large Cap Growth	46.2 bp	\$348,100	\$660,000
The Boston Company	<b>Active Management</b> Domestic Small Cap Equity	85.5 bp	\$185,700	\$375,000
Chartwell Investment Partners	<b>Active Management</b> Domestic Small Cap Equity	75.0 bp	\$178,400	\$335,000
Jennison Associates	<b>Active Management</b> Domestic Small Cap Equity	78.7 bp	\$393,200	\$770,000
Artio Global Investors	<b>Active Management</b> International Equity	48.4 bp	\$505,300	\$965,000
Mondrian Investment Partners	<b>Active Management</b> International Equity	25.7 bp	\$255,400	\$500,000
Aberdeen Asset Management	<b>Active Management</b> Domestic Fixed Income	25.5 bp	\$181,600	\$375,000
Angelo Gordon (PIIP)	<b>Active Management</b> Domestic Fixed Income	100.0 bp	\$116,600	\$350,000
Brigade Capital Management	<b>Active Management</b> Domestic Credit Opportunity Fixed Income	100.0 bp	\$100,900	\$220,000
Brown Brothers Harriman	<b>Active Management</b> Treasury Inflation Protection Securities	15.0 bp	\$29,700	\$75,000
Franklin Templeton	<b>Active Management</b> Domestic Fixed Income	40.0 bp	\$5,400	\$450,000
Pyramis Global Advisors	<b>Enhanced Index Fund</b> Domestic Fixed Income	15.6 bp	\$125,200	\$260,000
Western Asset Management	<b>Active Management</b> Domestic Fixed Income	24.2 bp	\$201,900	\$420,000
INVESCO Realty Advisors	Real Estate Management	5.6 bp	\$316,200	\$700,000
SUB-TOTAL INVESTMENT MANAGERS			\$3,741,300	\$8,028,000
Average Basis Points (1)			31.2 bp	33.5 bp
SUB-TOTAL NON- INVESTMENT MANAGERS (FROM PREVIOUS PAGE)			\$324,000	\$605,000
Average Basis Points (2)			2.47bp	2.5 bp
TOTAL ESTIMATED CONTRACT FEES			\$4,065,300	\$8,633,000
<i>Estimated Market Value 06-30-2011</i>			\$2.4 billion	\$2.4billion
Average Basis Points (2)			33.9 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

January 25, 2011  
Attachment Two

Agenda Item 7.2

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

	<b>Budget Allotment</b>	<b>Year to Date Expenditures</b>	<b>Percentage Expended</b>	<b>Remaining Balance</b>	<b>Remaining Percentage</b>
Salaries	\$1,782,008	\$689,182	38.7%	\$1,092,826	61.3%
Benefits	\$857,992	\$354,678	41.3%	\$503,314	58.7%
<b>Salaries &amp; Benefits</b>	<b>\$2,640,000</b>	<b>\$1,043,860</b>	<b>39.5%</b>	<b>\$1,596,140</b>	<b>60.5%</b>
Board Expenses	\$10,800	\$3,300	30.6%	\$7,500	69.4%
Insurance	\$85,000	\$7,080	8.3%	\$77,920	91.7%
Medical Record Service	\$45,000	\$24,033	53.4%	\$20,967	46.6%
Member Education	\$45,000	\$18,683	41.5%	\$26,317	58.5%
Education & Conference	\$38,700	\$15,907	41.1%	\$22,793	58.9%
Transportation & Lodging	\$85,000	\$16,652	19.6%	\$68,348	80.4%
Technology Infrastructure	\$1,048,000	\$92,384	8.8%	\$955,616	91.2%
Property & Equipment	\$102,000	\$18,864	18.5%	\$83,136	81.5%
General Office Supplies	\$25,000	\$10,386	41.5%	\$14,614	58.5%
Postage, Printing & Copying	\$125,000	\$33,268	26.6%	\$91,732	73.4%
Leased Facilities	\$235,000	\$98,014	41.7%	\$136,986	58.3%
County Service	\$333,000	\$183,903	55.2%	\$149,097	44.8%
Audit Services	\$45,500	\$24,755	54.4%	\$20,745	45.6%
Other Administration	\$120,000	\$35,162	29.3%	\$84,838	70.7%
<b>Services &amp; Supplies</b>	<b>\$2,343,000</b>	<b>\$582,393</b>	<b>24.9%</b>	<b>\$1,760,607</b>	<b>75.1%</b>
<b>Capital Assets</b>	<b>\$0</b>	<b>\$0</b>	<b>0.0%</b>	<b>\$0</b>	<b>0.0%</b>
<b>Depreciation</b>		<b>\$0</b>			
<b>Grand Total</b>	<b>\$4,983,000</b>	<b>\$1,626,253</b>	<b>32.6%</b>	<b>\$3,356,747</b>	<b>67.4%</b>

San Mateo County Employees' Retirement Association  
Board of Retirement

January 25, 2011  
Attachment Three

Agenda Item 7.2

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

	Budget Allotment	Year to Date Expenditures	Percentage Expended	Remaining Balance	Remaining Percentage
Salaries	\$370,000	\$157,680	42.6%	\$212,320	57.4%
Benefits	\$180,000	\$68,819	38.2%	\$111,181	61.8%
<b>Salaries &amp; Benefits</b>	<b>\$550,000</b>	<b>\$226,499</b>	<b>41.2%</b>	<b>\$323,501</b>	<b>58.8%</b>
Board Expenses	\$0	\$0	0.0%	\$0	0.0%
Insurance	\$2,000	\$1,080	54.0%	\$920	46.0%
Medical Record Service	\$0	\$0	0.0%	\$0	0.0%
Member Education	\$0	\$0	0.0%	\$0	0.0%
Education & Conference	\$35,700	\$4,404	12.3%	\$31,296	87.7%
Transportation & Lodging	\$62,000	\$14,712	23.7%	\$47,288	76.3%
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	\$5	0.0%	-\$5	0.0%
Leased Facilities	\$45,000	\$14,951	33.2%	\$30,049	66.8%
County Service	\$74,000	\$22,249	30.1%	\$51,751	69.9%
Audit Services	\$0	\$8,252	0.0%	-\$8,252	0.0%
Other Administration	\$12,000	\$15,416	128.5%	-\$3,416	-28.5%
<b>Services &amp; Supplies</b>	<b>\$430,700</b>	<b>\$96,069</b>	<b>22.3%</b>	<b>\$334,631</b>	<b>77.7%</b>
<b>Capital Assets</b>	<b>\$0</b>	<b>\$0</b>	<b>0.0%</b>	<b>\$0</b>	<b>0.0%</b>
<b>Depreciation</b>		<b>\$0</b>			<b>0.0%</b>
<b>Grand Total</b>	<b>\$980,700</b>	<b>\$322,568</b>	<b>32.9%</b>	<b>\$658,132</b>	<b>67.1%</b>

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Board of Retirement**

January 25, 2011

Agenda Item 7.3

**TO:** Board of Retirement

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

A handwritten signature in blue ink, appearing to read 'David Bailey', is positioned to the right of the 'FROM:' line.

**SUBJECT:** Report on Status of Board/Staff Retreat – Ad Hoc Committee Report

The Ad Hoc Committee on Impact Investing met Tuesday, January 9. Committee Chair Lauryn Agnew will report on the discussion and committee recommendations.

This agenda item also presents the latest version of the agenda for the March 21 and 22, 2011, Board/Staff Retreat. You'll see that staff and SIS are beginning to schedule speakers.


<b>BOARD / STAFF RETREAT AGENDA Day One—Monday, March 21, 2011</b>		
<b><u>TIME</u></b>	<b><u>TOPIC</u></b>	<b><u>SPEAKER</u></b>
<b>8:30 a.m.</b>	Coffee and Refreshments	
<b>9:00 a.m.</b>	Welcome	David Bailey
<b>9:15 a.m.</b>	Public Pension Plan Investment Trends. What changes are other U.S. retirement plan investors making to their investment approaches and why?	Pyramis
<b>10:15 a.m.</b>	Break	
<b>10:30 a.m.</b>	Inflation v. Deflation -What's The Outlook and How Can <i>SamCERA</i> Prepare?	Economist
<b>11:30 a.m.</b>	Open Discussion	
<b>12 Noon</b>	Lunch	
<b>1:15 p.m.</b>	The Potential Impacts for Markets and Institutional Investors of Modern Trading Platforms (Programmed Trading and High Frequency Trading). What caused the Flash Crash and what implications do modern trading approaches have for institutional investors?	Strategic Investment Solutions and/or D.E. Shaw?
<b>2:15 p.m.</b>	<i>SamCERA's</i> 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? Why does the current path look like the best?	Strategic Investment Solutions and ?
<b>3:15 p.m.</b>	Open Discussion	
<b>5 p.m.</b>	End of Day One	
<b>BOARD / STAFF RETREAT AGENDA DAY TWO—TUESDAY, MARCH 22, 2010</b>		
<b>8:30 a.m.</b>	Coffee and Refreshments	
<b>9 a.m.</b>	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 of Milliman, Inc.
<b>10:15 a.m.</b>	Break	
<b>10:30 a.m.</b>		
<b>11:30 a.m.</b>	Open Discussion	
<b>12 noon</b>	Lunch	
<b>1:15 p.m.</b>	What Legal and Medical Factors are Important in the Board's Determination of Whether a Disability is Non-Service or Service-Connected?	Brenda Carlson, Dr. Charles Fracchia
<b>2:15 p.m.</b>	Break -- End of Retreat-	
<b>2:30 p.m.</b>	Beginning of Regular Board Meeting Agenda	

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

January 25, 2011

Agenda Item 7.4

**TO:** Board of Retirement

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

**SUBJECT:** Approval of Amendments Updating Board Resolution Regarding Compensation Earnable

**Issue**

This is a housekeeping measure needed to complete *SamCERA's* submission of a Tax Determination Letter request to the Internal Revenue Service. The board is asked to approve amendments updating its 2003 resolution defining compensation earnable. This will ratify current practices.

**Background**

Compensation earnable is that remuneration which is used to calculate contributions and ultimately final average compensation. The definition of compensation earnable is based on the 1937 Act and case law. Section 31461 of the 1937 act authorizes each retirement board to further define compensation earnable for its members. Resolution 03-04-07 sets forth the pay codes that are and are not compensation earnable. Some changes to pay codes in use have occurred since the resolution was adopted. The proposed updates to Resolution 03-04-07 reflect these changes. We would like to have these updates adopted prior to submission to the IRS of a Tax Determination Letter request.

The updates to the amendment are all consistent with the 1937 Act, case law and the current practices of *SamCERA*. The updates include the following additions to those types of pay included in compensation earnable:

- "*Bereavement leave.*" A new pay code, treated like vacation or sick leave.
- "*Mandatory furlough.*" This is a result of a new state law that mandates the inclusion of furloughs without pay for court employees.
- "*Compulsory time off.*" This is another pay code in which compensation is not received, but service time is received. For court employees only.

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

The updates to the resolution include the following pay types excluded from compensation earnable:

- “*Relief nurse shift differentials.*” This is overtime pay. It’s exclusion is consistent with the 1937 Act, court rulings and *SamCERA*’s current practice that overtime (unless it is regularly scheduled) is not included in compensation earnable.
- “*Overtime at straight time.*” This is also overtime pay. Please see the note immediately above.
- “*Terminal compulsory time off.*” This is a type of “Terminal Pay.” All types of terminal pay are received after employment and are not included in compensation earnable.
- “*Miscellaneous subsidies.*” These are incentives to change commute choices, such as up to \$20/month to bike to work. These payments are not the result of the provision of services to the employer.

The attached resolution also shows three pay codes that have been deleted (“*experience pay,*” “*bilingual overtime pay*” and “*special overtime pay*”). These pay codes no longer exist and should, therefore, be removed from the resolution.

All of these updates have been reviewed with the Human Resources Dept. and County Counsel.

**Staff Recommendation**

Approval of the attached resolution will ratify current practices, all of which are consistent with the law, regarding what is and is not included in compensation earnable. Approval will allow inclusion of a current, accurate compensation earnable definition in *SamCERA*’s Tax Determination Letter submission. Staff recommends approval.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
RESOLUTION 03-04-07  
Updated January 25, 2011

*THIS RESOLUTION, adopted by the Board of Retirement (Board)  
of the San Mateo County Employees' Retirement Association (Sam CERA),  
Defines Compensation Earnable Pursuant To Government Code §31461.*

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

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

**WHEREAS**, it will be necessary for this Board from time to time to amend its determinations of compensation due to changes made by the County in its compensation schedule.  
Therefore be it

**RESOLVED** that pursuant to Government Code §31461, the Board hereby makes the following determinations as what is included in “compensation earnable and items of remuneration are not included:

1. Compensation earnable shall include:

A. All base pay (001) and 001 replacement pay which the Board defines as compensation paid to employees when they are off work and paid for those hours under County leave programs for which the County provides compensation, including sick leave with pay (035), vacation pay (041), holiday regular pay (043), holiday hours used (048), compensatory time used (052), administrative leave (054), jury duty (055), military leave (056), educational leave with pay (057), other leave with pay (058), disability leave with pay (059), management overtime (064), employee incentives (84), voluntary time off (090), bereavement leave (112), and annual in-service management administrative leave cash-outs (102).

B. Pay for special duties or as an incentive paid as an addition to base pay for all hours worked or as a percentage of base pay, including ~~experience pay (008)~~, night/evening shift differential (013), special night shift differential (014), special duty hours (015), charge nurse shift differential (019), split shift (020), bilingual pay (021), staffing differential (022), weekend pay (023), on-call hours (027), bomb squad [flight/observer/pilot] (033), holiday hours worked at time and one-half (044) as part of the employee's normally required schedule mandated by the County, holiday hours worked at straight time (045) as part of the employee's normally required schedule mandated by the County, bi-weekly special pay (087), miscellaneous compensation (088), ~~and~~ long term care pass through (104), mandatory furlough (93) (contributions are taken but no pay is received), and compulsory time off (110).

C. Payments made as reimbursements for expenses related to employment where such payments are made without reference to the actual expense incurred and are paid automatically to designated employees, including uniform/tool allowance (080) and transportation allowance (081).



D. Compensation for overtime hours above forty hours per week where such overtime was the employee's normally required schedule mandated by the County for the Sheriff's Office deputies, sergeants and correctional officers and compensated as straight time (006).

2. Compensation earnable, at a minimum, shall not include:

A. ~~Other over-time, including relief nurse shift differentials (007) & (009), Other over-time, including call-call~~ back pay (025), part-time double shift differential (026) & (029), overtime training hours (065), time and one-half (066), overtime special duty desk officer (069), overtime special duty (070), overtime special duty night shift (073), overtime night shift premium hours (075), rest period differential (076), ~~bilingual overtime pay (077)~~ special shift differential (079), ~~special overtime rate (089)~~ and overtime at straight time (107).

-B. Refunds or compensation paid on a one time basis upon termination of employment, including layoff sick leave (037), terminal vacation (040), terminal holiday pay (049), terminal compensatory pay (050), terminal MOT pay (063), terminal VTO pay (091) ~~and~~ miscellaneous terminal pay (097) ~~and terminal compulsory time off (111)~~.

C. ~~Miscellaneous subsidies (105)~~.

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

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

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

January 25, 2011

Agenda Item 7.5

**TO:** Board of Retirement

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



**SUBJECT:** Approval of Resolution Authorizing Submission of Tax Determination Letter Application

**Issue**

*SamCERA's* Application for a Tax Determination Letter (TDL) and a Voluntary Compliance Program (VCP) review are nearly complete and ready to be filed in time for the January 31, 2011, deadline. This agenda item is to request authority for the Chief Executive Officer to sign the application on behalf of *SamCERA* and to request approval to pay the \$26,000 costs of the application and the Voluntary Compliance Program submission.

**Background**

Because the income from plans such as *SamCERA* is tax exempt, the IRS wants to assure that plans are operating properly. A Tax Determination Letter is a statement from the IRS that a plan appears to be operating in compliance with applicable laws and tax regulations.

In 1988, *SamCERA* applied for and received a Tax Determination Letter from the IRS. About three years ago the IRS informed public sector retirement plans that they should re-submit their plans for review by January 31, 2011. *SamCERA* has worked closely since that time with County Counsel and the Hanson-Bridgett law firm to prepare its submission.

Along with the request for a Tax Determination Letter, Hanson-Bridgett recommends the submission of a Voluntary Compliance Program request. The VCP submission includes a plan to correct self-identified areas of non-compliance. The request will be consistent with the requests of other 1937 Act systems for IRS acceptance of recommended changes to the act.

The following steps have been completed:

- A review of the 1937 Act by Hanson-Bridgett for compliance with IRS regulations. This resulted in a set of recommendations from the firm for changes or additions to the act and additional regulations for each 1937 Act

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

retirement board. These law and regulation changes are to be adopted by the California Legislature and the retirement boards after receipt of responses from the IRS regarding whether the changes are acceptable.

- Hanson-Bridgett negotiated an approach with the IRS that involves submission of the entire 1937 Act for review, under a submission from Orange County. This was submitted in the fall of last year.
- *SamCERA* staff and County Counsel completed a plan review. This was based on guidance from Hanson-Bridgett. The review resulted in a 159-page document, with links to related supporting documents.
- County Counsel drafted a cross reference matrix showing the clauses of the 1937 Act and those Board of Supervisors and Board of Retirement documents that enacted and defined them. This became the basis of *SamCERA's* "plan document."
- In the last several weeks, Scott Hood took the lead to work with County Counsel, Hanson-Bridgett and Mabel Wong of *SamCERA's* staff to finalize the submission. *SamCERA* provided all its information to Hanson-Bridgett and H-B prepared the TDL and VCP submissions.

The final submissions must arrive at the IRS Washington DC office before the start of February.

**Staff Recommendation**

Staff, County Counsel and Hanson-Bridgett have worked diligently to create a high quality submission to the IRS. Staff recommends the board adopt a resolution authorizing the:

- A) Chief Executive Officer to execute *SamCERA's* Application for a Tax Determination Letter and the Voluntary Compliance Program and any other documents related to the application; and
- B) Chief Executive Officer to pay the U.S. Treasury \$26,000 in application related fees and costs.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**{Resolution Authorizing Submission of Application  
For IRS Tax Determination Letter}**

RESOLUTION 10-11-

*THIS RESOLUTION, adopted by the Board of Retirement (Board)  
of the San Mateo County Employees' Retirement Association (SamCERA),  
Authorizes Submission of an Application for an IRS Tax Determination Letter*

**WHEREAS**, in 1988 *SamCERA* applied for and received a Tax Determination Letter from the United States Internal Revenue Service (“IRS”); and

**WHEREAS**, recently the IRS informed public sector retirement plans that they should re-submit their plans for review by January 31, 2011, in order to receive a determination letter reflecting that *SamCERA*'s plan appears to be operating in compliance with applicable laws and tax regulations; and

**WHEREAS**, the income from plans such as *SamCERA* is tax exempt, and the IRS wants to assure that such plans are operating properly under all applicable laws and regulations; and

**WHEREAS**, this board has determined that submitting an application for an IRS Tax Determination Letter on behalf of *SamCERA* is consistent with its fiduciary responsibilities;

*Therefore, be it*

**RESOLVED THAT:**

- A) The Chief Executive Officer is authorized to execute *SamCERA*'s Application for a Tax Determination Letter and any other documents related to the application; and
- B) The Chief Executive Officer is authorized to pay the U.S. Treasury \$26,000 in application related fees and costs.