

The Board of Retirement of the San Mateo County Employees' Retirement Association will meet on Tuesday, January 22, 2013 at 1:00 p.m.

PUBLIC SESSION – The Board will meet in Public Session at 1:00 PM

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

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

- Disability Retirements
 - None
- Service Retirements
- Continuances Deferred Retirements
- Member Account Refunds
- Member Account Rollovers
- Report recommending the rejection of portion of claim- Montisano (Non-culpable)
- Notice of SACRS Board of Directors Election Schedule and Rules
- California Fair Political Practices Commission (FPPC) Form 806, "Agency Report of Official Appointments."

5. Benefit & Actuarial Services

- 5.1 Consideration of Agenda Items, if any, Removed From the Consent Agenda
- 5.2 Approval of Cost of Living Adjustments

6. Investment Services (No Investment Committee meeting is planned.)

- 6.1 Preliminary Monthly Portfolio Performance Report
- 6.2 Discussion of 130/30 Manager Universe Comparison
- 6.3 Discussion of Fixed Income Manager Structure
- 6.4 Presentation Regarding Overlay Management
- 6.5 Discussion on Proposed Changes to the Investment Policy

7. Board & Management Support Services

- 7.1 Monthly Financial Report
- 7.2 Quarterly Budget Report
- 7.3 Approval of Topics for the Board – Staff Retreat
- 7.4 Approval of Resolution Amending the Interest Crediting Policy
- 7.5 Approval of Resolution Adopting Procedures for Assessment of Compensation
- 7.6 Report on Technology Modernization and Amendment of Agreement with LRWL
- 7.7 Approval of a Resolution Authorizing the Chief Executive Officer to Execute an Agreement with BCS Systems, Inc.

8. Management Reports

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

Notice of Public Meeting

Page 2 of 2



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

- C1 Consideration of Disability Items, if any, Removed from the Consent Agenda
- C2 Conference with Legal Counsel - Anticipated Litigation: Significant exposure to litigation pursuant to subdivision (b) of Government Code Section 54956.9, One case
- C3 Conference with Legal Counsel - Existing Litigation: Pursuant to subdivision (a) of Government Code Section 54956.9, *In re: Dendreon Corporation Class Action Litigation*, United States District Court Western District of Washington at Seattle, Master Docket No. C11-1291 JLR

9. Report on Actions Taken in Closed Session

10. Adjournment in Memory of the Following Deceased Members:

Conlan, Gerlinde	November 1, 2012	Environmental Health
Sack, Ruth	November 4, 2012	Youth & Family Services
Robinson, Kathleen	November 10, 2012	Library
Duncan, Marilyn	November 12, 2012	Human Resources
Giannini, Louis	November 12, 2012	Def'd. from DAO
Grant, Anna	November 16, 2012	District Attorney's Office
Nunes, Edwin	November 19, 2012	Road Maintenance
Thomas, Benjamin	November 20, 2012	Data Processing
Sanz, George	November 25, 2012	Ben. of Josephine Sanz
McCavitt, Loretta	November 25, 2012	Ben. of Bernard McCavitt
Allen, Laura	November 28, 2012	Human Services
Nevin, Michael	December 1, 2012	Board of Supervisors
Blasser, William	December 3, 2012	Sherriff's Dept.
Hamilton, Carolyn	December 3, 2012	Public Services
Quesada, Charles	December 8, 2012	Def'd. from General Services
Tyler, Mildred	December 13, 2012	Social Services
Sales, Maria	December 14, 2012	QDRO
De Benedetti, Elizabeth	December 23, 2012	Controller's Office

David Bailey, Chief Executive Officer

A handwritten signature in blue ink, appearing to read "David Bailey", is placed over the printed name.

Printed: 1/16/13

THE BOARD MEETS AT 100 MARINE PARKWAY, SUITE 160,

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

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

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

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

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.

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

January 22, 2013

Agenda Item 3.0

December 11, 2012 – Board Agenda

PUBLIC SESSION – The Board will meet in Public Session at 10:00 A.M.

1. Call to Order, Roll Call and Miscellaneous Business

2. Oral Communications

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

3. Approval of the Minutes

- 3.1 Audit Committee Minutes
- 3.2 Board Meeting Minutes

4. Approval of the Consent Agenda

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

- Disability Retirement Applications
 - Penni Pavis
 - Christine Pepe
 - Anthony Torrey
- Service Retirements
- Continuances Deferred Retirements
- Member Account Refunds
- Member Account Rollovers
- Approval to Reinstate Retired Member to Active Service
- Approval of Amendment to LPA Alternative Investment

5. Benefit & Actuarial Services

- 5.1 Consideration of Agenda Items, if any, Removed From the Consent Agenda (Set for time certain at 1 p.m.*)
- 5.2 Approval of Resolution Adopting Member and Employer Contribution Rates for PEPR Members
- 5.3 Approval of Resolution Defining Compensation Earnable (\$31461) for Applicable San Mateo County Mosquito & Vector Control District Members
- 5.4 Approval of Resolution Defining Pensionable Compensation (\$7522.34) for Applicable San Mateo County Mosquito & Vector Control District Members

6. Investment Services

- 6.1 Preliminary Monthly Portfolio Performance Report
- 6.2 Presentation Regarding 130/30 Investing with D.E. Shaw
- 6.3 Discussion and Approval of Changes to Domestic Equity Manager Structure
- 6.4 Quarterly Investment Performance Report for the Period Ending September 30, 2012
- 6.5 Report on the Annual Review of SamCERA's Private Equity Program
- 6.6 Large-Cap Growth Manager Search – Update
- 6.7 Discussion on Proposed Changes to the Investment Policy
- 6.8 Annual Review of Investment Consultant, Strategic Investment Solutions
- 6.9 Summary of Action Regarding Private Equity Opportunity (to be heard in Closed Session, see item C2)

7. Board & Management Support Services

- 7.1 Monthly Financial Report
- 7.2 Approval of Resolution Authorizing Contract with BCS Systems, Inc. for Imaging Services

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

- 7.3 Approval of Resolution Authorizing Contract Extension for Brown Armstrong Inc.
- 7.4 Update on Audit Research Regarding Final Average Compensation Calculations

8. Management Reports

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

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

- C1 Consideration of Disability Items, if any, Removed from the Consent Agenda and Appropriate for Closed Session
- C2 Summary of Action Regarding Private Equity Opportunity
- C3 Conference with Legal Counsel - Existing Litigation: Pursuant to subdivision (a) of Government Code Section 54956.9, *In re: Dendreon Corporation Class Action Litigation*, United States District Court Western District of Washington at Seattle, Master Docket No. C11-1291 JLR

9. Report on Actions Taken in Closed Session

10. Adjournment in Memory of the Following Deceased Members:

Smithson, Kathleen	September 16, 2012	Library
Ferraro, Catherine	September 25, 2012	Courts
Perroset, Marjorie	September 29, 2012	Courts
Outzen, Phyllis	October 9, 2012	Courts
Young, Sandra	October 11, 2012	Health Services
Flinn, Phillis	October 13, 2012	Ben of George Flinn
South, Betty	October 14, 2012	Ben of Richard South
Wang-Yip, Yuen	October 15, 2012	Medical Center
Keller, Joan	October 16, 2012	Ben of Billy Keller
Stoll, Joanne	October 19, 2012	Def'd from DAO
Carlson, Louise E	October 20, 2012	Courts
Kimble, Joseph	October 20, 2012	Def'd from Sheriff's
Hukill, Edwin	October 22, 2012	Mental Health
Johnson, Elaine	October 22, 2012	Public Health
Perez, Ventura	October 29, 2012	Ben of Raymond Brown
Marsden, Cynthia	October 31, 2012	General Services
Perez, Alma	October 31, 2012	Central Services

David Bailey, Chief Executive Officer

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

December 11, 2012– Board Minutes

1212.1 **Call to Order, Roll Call and Miscellaneous Business**

Call to Order: Ms. Sandie Arnott, Chair, called the Public Session of the Board of Retirement to order at 10:07 a.m.

Roll Call:

Present: Sandie Arnott, Lauryn Agnew (arrived at 10:24 a.m.), Ben Bowler, Albert David, Paul Hackleman, Natalie Kwan Lloyd, Michal Settles, David Spinello and Eric Tashman.

Alternates Present: Christopher Miller, John Murphy

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

1212.2.1 **Oral Communications From the Board:** Ms. Settles gave a report regarding her attendance at the IFEBP Conference in San Diego, November 9-13, and Mr. David reported his attendance at the SACRS Fall Conference, along with Ms. Kwan Lloyd, Mr. Spinello, and Ms. Agnew.

1212.2.2 **Oral Communications From the Public:** Mr. Miller reported on his attendance at the SACRS Fall Conference.

1212.3.1 **Approval of the Audit Committee Minutes:**

Action: Mr. Hackleman moved to approve the minutes from the Audit Committee meetings held on May 4, 2011, and October 23, 2012. The motion was seconded by Mr. Tashman, and carried unanimously.

1212.3.2 **Approval of the Board Meeting Minutes:**

Action: Mr. David moved to approve the minutes from the regular board meeting held on October 23, 2012. The motion was seconded by Ms. Kwan Lloyd, and carried unanimously. The Chair called for the next items to be heard out of order, and they were heard in the order listed below.

1212.6.2 **Presentation Regarding 130/30 Investing with D.E. Shaw:** Letitia Yang and Tony Foley gave a presentation to the Board and staff regarding 130/30 investment strategy. Mr. Foley discussed the historical performance of 130/30 investing and he reviewed the staff report and attachments page by page. Board members asked about fee structures and levels of investment. This item was informational only and no action was taken.

1212.6.5 **Report on the Annual Review of SamCERA's Private Equity Program:** Lilibeth Dames presented the staff report and stated that bi-weekly calls with SIS have been implemented. In open session, Faraz Shooshani and Curt Smith from SIS gave an overview of the private equity asset class. Mr. Shooshani and Mr. Smith discussed with Board members how opportunities are discovered, tracking strategies and trends, and the organization of the SIS private equity team. This item was informational only and no action was taken.

Ms. Arnott adjourned the meeting to closed session at 11:55 a.m. The closed session was adjourned at 12:30 for lunch and the meeting resumed in open session at 1:07 p.m.

When the meeting reconvened Ms. Arnott and Ms. Settles were absent, having been excused for the remainder of the meeting. Ms. Kwan Lloyd, Vice Chair, presided over the remainder of the meeting.

San Mateo County Employees' Retirement Association
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- 1212.6.1 **Monthly Portfolio Performance Report:** Mr. Coultrip presented the monthly report, and discussed the portfolio's performance with the Board. He also handed out a sample report compiled by State Street. This item was informational only and no action was taken.
- 1212.6.3 **Discussion and Approval of Changes to Domestic Equity Manager Structure:** Mr. Coultrip presented the staff report and reviewed ways and reasons to re-allocate and simplify the structure of the domestic equity manager structure. Patrick Thomas of SIS, discussed risk, passive and active strategies, and reviewed each of the 6 proposed allocations with the Board.
Action: Ms. Agnew moved to direct staff to implement changes to the domestic equity manager structure as outlined in structure 4 of the presentation. Mr. David seconded the motion, and the motion carried unanimously.
- 1212.6.4 **Quarterly Investment Performance Report for the Period Ending September 30, 2012:** Mr. Coultrip, Mr. Thomas and Mr. Brody discussed the quarterly report with the Board. With no objection noted, the report was accepted.
- 1212.6.6 **Large-Cap Growth Manager Search – Update:** Mr. Coultrip reviewed the initial list of potential managers with the Board, and discussed aggressive, market and defensive styles. RFIs will be sent to the managers selected by the Board.
Action: Ms. Agnew moved to approve the recommendations of staff for selected managers to receive an RFI. The motion was seconded by Mr. Hackleman and carried unanimously.
- 1212.6.7 **Discussion on Proposed Changes to the Investment Policy:** Mr. Coultrip discussed the proposed changes in the Investment Policy. Board members expressed their desire to reserve sufficient time in the process to allow for a thorough discussion of asset allocation and other topics. This item was informational only and no action was taken.
- 1212.6.8 **Annual Review of Investment Consultant, Strategic Investment Solutions:** Mr. Coultrip explained the process undertaken to prepare the annual review of SIS. Board members discussed the items detailed on the review and gave feedback to SIS. Patrick Thomas and Jonathan Brody from SIS were present to comment on the review and answer Board members' questions. Subjects discussed included carving out more time for educational items at Board meetings, and the recent addition of private equity to the SamCERA portfolio. This was an informational item and no action was taken.
- 1212.4.0 **Approval of the Consent Agenda:** Ms. Kwan Lloyd asked if there were any items to be taken off the Consent Agenda. No items were removed.
Action: Mr. David moved to approve items on the Consent Agenda, as listed below. The motion was seconded by Mr. Hackleman and carried unanimously.

1212.4.0 **Consent Agenda**

Disability Retirements

1. The Board found that Penni Pavis is (1) disabled from performing her usual and customary duties as an Advisory System Engineer, (2) found that her disability was not a result of an illness/injury arising out of and in the course of her employment and (3) granted her application for a non-service-connected disability retirement.

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

1212.4.0 **Disability Retirements** (con't)

2. The Board (1) approved and adopted the proposed findings and recommendations of the Hearing Officer, Roy Abrams and (2) denied Christine Pepe's application for a service-connected disability retirement.

3. The Board found that Anthony Torrey is (1) disabled from performing his usual and customary duties as a Deputy Probation Officer III, (2) found that his disability is service-connected and (3) granted his application for a service-connected disability retirement.

1212.4.0 **Service Retirements**

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

Member Name	Effective Retirement Date	Department
Bacon, Alia	September 2, 2012	Sheriff's Office
Dubois, Richard	September 4, 2012	Superior Court
Winkelstein, Judith	September 6, 2012	Medical Center
Marin, John	September 21, 2012	Behavioral Health
Taylor, Francis	September 27, 2012	Sheriff's Office
Yuen, Wang	September 29, 2012	Medical Center
Bang, Hee	September 30, 2012	Medical Center
Ishikawa, Eiko	September 30, 2012	Medical Center
Dea, Liza	October 4, 2012	Medical Center
Haynes-Tucker, Lynne	October 6, 2012	Behavioral Health
Pijuan-Tugadi, Alana	October 10, 2012	Controller's Office
Hamilton, Michael	October 13, 2012	Def'd from Human Services Agency
Rosine, Jacqueline	October 13, 2012	Public Works
Verbelli, Sylvia	October 23, 2012	Def'd Plan 3
Ebersold, Donna	October 31, 2012	Def'd from Mental Health
Cooper, Judy	November 1, 2012	Aging and Adult Services
Loya-Flores, Carmencita	November 1, 2012	Public Health

1212.4.0 **Continuances**

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

Survivor's Name	Beneficiary of
Hart, Luz	Hart, Travis
Odenheimer, Edith	Odenheimer, John
Perez-Sorensen, Phyllis	Sorensen, Robert
Waldron, Merilee	Waldron Russell
Yuen, Winnie	Yuen, Wang-Yip
Stoll, Michael	Stoll, Joanne
Kimble, Marilyn	Kimble, Joseph

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

Deferred Retirements

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

Member Name	Retirement Plan Type
Warner, Robert	G4 Vested
Mendoza, Grace	G4 Vested
Villarina, Raquel	G4 Vested

1212.4.0 **Deferred Retirements** (con't)

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

Member Name	Retirement Plan Type
Macedo, Brenda	G4 Vested
Lagula, Michelle	G4 Vested
Morales, Roina	G4 Vested
Alvarez, Cynthia	G4 Vested
Hickman, Julia	G4 Vested
Carr, Katherine	G4 Vested – Auto Defer
Goodenough, Marshall	G2 Vested – Auto Defer
Javillonar, Myles	G4 Vested – Auto Defer
Navarro, Michael	G4 Vested – Auto Defer
Reichbach, Marci	G4 Vested – Auto Defer
Judd, Teri	G4 Vested – Auto Defer
Valdez, Alicia	G4 – Auto Defer w/ Incoming Reciprocity
Tran, Luong	G4 – Reciprocity
Yano, Elizabeth	G4 – Reciprocity
Vilchez-Ruiz, Anna	G4 Vested – Incoming Reciprocity

1212.4.0 **Member Account Refunds**

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

Member Name	Retirement Plan Type
Rowland, April	QDRO
Etman, Shariff	G4 Non-vested
Krasowski, Michelle	G4 Non-vested

Member Account Rollovers

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

Member Name	Retirement Plan Type
Ara England, Ara	G4 Non-vested
Nevaras, Stacie	G4 Non-vested
Smallwood, Deborah	G4 Non-vested
Corforme, Teresita	G4 Vested
Jaramillo, Patricia	G4 Non-vested

1212.5.1 **Consideration of Agenda Items, if any, Removed From the Consent Agenda:** None

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

- 1212.5.2 **Approval of Resolution Adopting Member and Employer Contribution Rates for PEPRA Members:** Mr. Bailey presented the staff report and talked to Board members about the three PEPRA related items on today's agenda. He explained the three items included adoption of contribution rates for PEPRA members, to reflect a single rate formula as determined after consultation with the actuary; and two items applicable to San Mateo County Mosquito & Vector Control District employees, which would define compensation earnable and pensionable compensation, similar to resolutions the Board approved last month for other SamCERA members. Mr. Bailey described the single contribution rate being proposed for PEPRA members, and discussed this change with the Board. **Action:** Mr. Hackleman moved to approve the resolution accepting the single contribution rates for PEPRA members (Resolution 12-13-11). The motion was seconded by Ms. Kwan Lloyd and carried unanimously.
- 1212.5.3 **Approval of Resolution Defining Compensation Earnable (§31461) for Applicable San Mateo County Mosquito & Vector Control District Members:** **Action:** Ms. Agnew moved to adopt a resolution defining compensation earnable pursuant to Government Code §31461 for San Mateo County Mosquito & Vector Control District for members who are not subject to Government Code §7522.34 (Resolution 12-13-13). The motion was seconded by Mr. Hackleman and carried unanimously.
- 1212.5.4 **Approval of Resolution Defining Pensionable Compensation (§7522.34) for Applicable San Mateo County Mosquito & Vector Control District Members:** **Action:** Mr. David moved to adopt a resolution defining pensionable compensation pursuant to Government Code §7522.34 for San Mateo County Mosquito & Vector Control District for members who are not subject to Government Code §31461 (Resolution 12-13-12). The motion was seconded by Ms. Agnew and carried unanimously.
- 1212.7 **Board & Management Support Services**
- 1212.7.1 **Monthly Financial Report:** Ms. Wong presented the preliminary monthly report to the Board; this item was informational and no action was taken. The next items were taken out of order.
- 1212.7.3 **Approval of Resolution Authorizing Contract Extension for Brown Armstrong Inc.:** Ms. Wong presented the staff report recommending Board approval of a contract extension with the auditing firm Brown Armstrong. **Action:** Mr. Tashman moved to approve the resolution authorizing a contract extension with Brown Armstrong for the period of three years (Resolution 12-13-14). The motion was seconded by Mr. David and carried unanimously.
- 1212.7.4 **Update on Audit Research Regarding Final Average Compensation Calculations:** Ms. Wong updated the Board on research done in conjunction with audit findings. She explained to the Board advances in technology have now allowed more detailed determination of final average compensation, however calculations with methods available at a previous time were done correctly and will not be modified. **Action:** Mr. Tashman moved to accept the audit research report; the motion was seconded by Mr. David and carried unanimously.
- 1212.7.2 **Approval of Resolution Authorizing Contract with BCS Systems, Inc. for Imaging Services:** Will Morrow, from LRWL, informed the Board that the contract with BCS Systems, Inc. was still being negotiated with regard to the scope of work and price, and he hoped to have a contract to bring back to the Board in January. Mr. Morrow reviewed the current status and discussed recent work performed for the technology modernization project. No action was taken.

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

- 1212.8 **Management Reports**
- 1212.8.1 **Chief Executive Officer's Report:** Mr. Bailey announced the CAFR for the period ending June 30, 2012, was available, and was distributed to the Board in their meeting day folder. He let the Board know staff was reviewing the interest crediting process and wording changes to the policy would be presented for consideration at a future meeting. Mr. Bailey announced the Board retreat will be scheduled for April 23 and 24, 2013; and an overview of asset liability, risk analysis and other topics are being considered. Mr. Bailey informed the Board he has been re-elected to the CALAPRS board as the first vice president for two more years.
- 1212.8.2 **Assistant Executive Officer's Report:** None.
- 1212.8.3 **Chief Investment Officer's Report:** Mr. Coultrip reported his attendance at the Invesco client conference in November. He reported the transaction cost analysis report from Zeno showed higher costs that would be addressed with some managers. Mr. Coultrip informed the Board he was reviewing guidelines and negotiating with Western Asset, as there were areas of the agreement that needed fine-tuning.
- 1212.8.4 **Chief Legal Counsel's Report:** Ms. Carlson reported that the first PEPRA lawsuit had been filed in Contra Costa County and she would be monitoring that litigation.
- CLOSED SESSION:** Ms. Kwan Lloyd adjourned the meeting into closed session at 4:00 p.m.
- C1 **Consideration of Disability Items, if any, Removed from the Consent Agenda and Appropriate for Closed Session:** None
- C2 **Summary of Action Regarding Private Equity Opportunity**
- C3 **Conference with Legal Counsel - Existing Litigation:** Pursuant to subdivision (a) of Government Code Section 54956.9, *In re: Dendreon Corporation Class Action Litigation*, United States District Court Western District of Washington at Seattle, Master Docket No. C11-1291 JLR
- 1212.9 **Report on Actions Taken in Closed Session:** Ms. Kwan Lloyd reconvened the meeting at 4:17 p.m. into open session. Ms. Carlson stated there was no reportable action taken on item C2, regarding private equity, or item C3, regarding existing litigation.
- 1012.10 **Adjournment:** With no further business Ms. Kwan Lloyd adjourned the meeting at 4:18 p.m. in memory of the following deceased members:
- | | | |
|--------------------|--------------------|----------------------|
| Smithson, Kathleen | September 16, 2012 | Library |
| Ferraro, Catherine | September 25, 2012 | Courts |
| Perroset, Marjorie | September 29, 2012 | Courts |
| Outzen, Phyllis | October 9, 2012 | Courts |
| Young, Sandra | October 11, 2012 | Health Services |
| Flinn, Phillis | October 13, 2012 | Ben of George Flinn |
| South, Betty | October 14, 2012 | Ben of Richard South |
| Wang-Yip, Yuen | October 15, 2012 | Medical Center |
| Keller, Joan | October 16, 2012 | Ben of Billy Keller |
| Stoll, Joanne | October 19, 2012 | Def'd from DAO |
| Carlson, Louise E | October 20, 2012 | Courts |
| Kimble, Joseph | October 20, 2012 | Def'd from Sheriff's |
| Hukill, Edwin | October 22, 2012 | Mental Health |
| Johnson, Elaine | October 22, 2012 | Public Health |

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Perez, Ventura
Marsden, Cynthia
Perez, Alma

October 29, 2012
October 31, 2012
October 31, 2012

Ben of Raymond Brown
General Services
Central Services

David Bailey
Chief Executive Officer

Kristina Perez
Retirement Executive Secretary

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 22, 2013

Agenda Item 4.0 (a)

To: Board of Retirement

From: Gladys Smith, Acting Assistant Executive Officer



Subject: Approval of Consent Agenda

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

Disability Retirements

None

Service Retirements

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

Member Name	Effective Retirement Date	Department
Barrientos, Narda	November 20, 2012	Elections
Bohm, Julia	December 1, 2012	Mental Health
Brooks, Ronald	November 3, 2012	Sheriff's Department
Brown, Kathleen	November 30, 2012	Health Services
Brown, Phyllis	December 1, 2012	Hospital
Cook, Rhonda	November 11, 2012	QDRO
Gross, Patrick	November 10, 2012	Public Works
Hansen, Linda	December 1, 2012	Hospital
Jones, Barbara	December 1, 2012	Health Services
Lamore, Kristy	November 21, 2012	Def'd. from Health Services
Loux, John	November 9, 2012	Def'd. from AGC
Lynch, Katharine	August 18, 2012	Def'd. from Health Services
Marion, William	September 21, 2012	Def'd. from ISD
Reiter, Miriam Selinger	November 17, 2012	Public Works
Madigan, Robert	March 31, 2012	Sheriff's Department

Continuances

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

Survivor's Name	Beneficiary of:
Conlan, James	Conlan, Gerlinde
Nunes, Peggy	Nunes, Edwin
Young, Gerald	Young, Sandra
Hukill, Merry	Hukill, Edwin

Deferred Retirements

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

Member Name	Retirement Plan Type
Hirsch, Emily	G4 Vested
Henrick, Erin	G4 Vested
Tuna, Sheila	3 Non Vested - Reciprocity
Jimenez, Reuben	3 Non Vested - Reciprocity
Shaw, Jennifer	G4 Non Vested - Reciprocity
Wright, Tatyana	G4 Non Vested - Reciprocity

Member Account Refunds

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

Member Name	Retirement Plan Type
Perrone, Paul	G2 Vested
Torres, Dora	G4 Vested
Biear, Catrina	G4 Vested
Guevara, Jacqueline	G4 Non-vested
Holtz, David	G4 Vested
Pautin, Zenaida	G4 Vested
Pefley, Pushpa	G4 Vested
Washington, Rosalyn	G4 Vested
Holcomb, Vaisioa	G4 Vested

Custodio, Pia-Rosario	G4 Non-vested
Caragdag, Ramil	G4 Non-vested
Gonzales, Emily	G4 Vested
Carranza, Imelda	G4 Vested
Villanueva, Virginia	G4 Vested
Vargas, Grethel	G4 Non-vested
Page, Melissa	G4 Non-vested

Member Account Rollovers

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

Member Name	Retirement Plan Type
Hickerson, Elizabeth	G5
Gamble, Kristine	G4 Vested
Chae, Jun	G4 Non-vested
Ararcon, Evelyn	G4 Non-vested
Judd, Teri	G4 Vested
Alcantar, Araceli	G4 Non-vested
Robinson, Sarah	G5
Laughlin, Leslie	G4 Vested

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 22, 2013

Agenda Item 4.0

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer



SUBJECT: Disposition of Claim Filed Against the Board and SamCERA

Recommendation:

Reject that portion of a claim for damages filed by Albert Montisano on January 9, 2013, for the incident which occurred on August 28, 2012.

Background:

Pursuant to the Government Claims Act, the Board of Retirement shall take action on claims timely presented to the Board. On January 9, 2013, Albert Montisano filed a claim against the Board of Retirement and SamCERA.

Mr. Montisano alleges that on August 28, 2012, the Board denied his request for consideration of his application for a disability retirement. He makes additional contentions regarding incidences that occurred more than one year from the presentation of his claim. Those incidences are not being presented to the Board for action.

Discussion:

The sole portion of Mr. Montisano's claim that is being presented to the Board for action is the claim set forth in paragraph 2 of his claim which is for the incident that occurred on August 28, 2012. On August 28, 2012, the Board denied his request for reconsideration of his application for disability retirement. Staff recommends rejection of that portion of the claim on the basis that liability is disputed and Board and SamCERA are non-culpable.

The rest of the claim, including that portion of paragraph 2 which refers to "where SamCERA negligently failed to fully inform Claimant of his rights and benefits under its retirement plan", was returned to the Claimant because it was not presented within six months after the event or occurrence as required by law. (Government Code Sections 901 and 911.2) Because the claim was not presented within the time allowed by law, no action is to be taken on that portion of the claim.

Attachments: None

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 22, 2013

Agenda Item 4.0

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer

A handwritten signature in black ink, appearing to read 'D. Bailey', is positioned to the right of the 'FROM:' field.

SUBJECT: Notice of SACRS Board of Directors Election Schedule and Rules

Please see the attached notice from SACRS that includes the schedule for nominating and electing the SACRS board officers who will take office at the May 2013 conference. It also includes a summary of the bylaws regarding nomination and election of officers.

If you have any questions, please let me know and I can provide more information.



SACRS MEMORANDUM

To: SACRS Trustees & SACRS Administrators/CEO's
From: Raymond McCray, SACRS Nominating Committee Chair
SACRS Nominating Committee

Re: SACRS Board of Director Elections – Reminder for upcoming 2013-2014 BOD Elections

SACRS BOD 2013-2014 Election process begins in January 2013. Please review the following timeline:

DEADLINE	DESCRIPTION
Friday, February 1, 2013	Nominating Committee receives nominations from SACRS membership
Friday, March 1, 2013	Nominating Committee submits its recommended ballot to each 1937 Act Board
Monday, March 25, 2013	Nominating Committee receives nominations from any 1937 Act Board
Monday, April 1, 2013	Nominating Committee (NC) submits final ballot to each 1937 Act Board – ballot consists of NC's recommended ballot plus anybody else who is nominated but not recommended by the NC
Friday, May 17, 2013	Conduct elections during the SACRS Business Meeting (at end of the May 2013 conference)
Friday, May 17, 2013	Board of Directors take office for 1 year

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

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

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

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

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

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



The elections will be held at the SACRS Spring Conference May 14-17, 2013 at the Napa Valley Marriott, Napa, California. Elections will be held during the Annual Business meeting on Friday, May 17th, 2012 at 10 a.m.

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

Sincerely,

Raymond McCray

Raymond McCray, San Joaquin County
SACRS Nominating Committee Chair

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

RMC:shp

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 22, 2013

Agenda Item 4.0

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer



SUBJECT: California Fair Political Practices Commission (FPPC) Form 806, "Agency Report of Official Appointments."

Staff Recommendation:

Accept the completed FPPC Form 806 for posting on SamCERA's website.

Summary:

In order to comply with a recent financial conflict of interest regulation issued by the FPPC, the Board must approve the attached completed FPPC Form 806, "Agency Report of Official Appointments" prior to staff's posting of the form on SamCERA's website.

Background:

As the Board is aware, trustees are prohibited from participating in a governmental decision if it is reasonably foreseeable that the trustee has a material financial interest in the decision. FPPC regulation 18705.5 provides that: "A reasonably foreseeable financial effect on a public official's or his or her immediate family's personal finances is material if it is at least \$250 in any 12-month period."

This regulation was amended in 2012, to address the appointment of officials to external agency boards as well as subcommittees of a board in which the official receives a payment or stipend for serving. Subdivision (b) of regulation 18705.5 provides, emphasis added, that:

"a public official may make, participate in making, or use his or her official position to influence or attempt to influence, a government decision where all of the following conditions are satisfied:

(1) The decision is on his or her appointment as an officer of the body of which he or she is a member (e.g., mayor or deputy mayor), or to a committee, board, or commission of a public agency, a special district, a joint powers agency or authority, a joint powers insurance agency or authority, or a metropolitan planning organization.

(2) The appointment is to a standing or ad hoc committee of the public agency of which the public official is a member or one required to be made by the body of which the official is a member pursuant to either state law, local law, or a joint powers agreement.

(3) The body making the appointment referred to in paragraph (1) adopts and posts on its website, on a form provided by the Commission, a list that sets forth each appointed position for which compensation is paid, the salary or stipend for each appointed position, the name of the public official who has been appointed to the position and the name of the public official, if any, who has been appointed as an alternate, and the term of the position.

In December 2012, the FPPC posted a revised Form 806 "Agency Report of Official Appointments" to be used to report this additional compensation received due to committee appointments.

Discussion:

Pursuant to Government Code section 31521 "...the fourth, fifth, sixth, eighth, ninth, and alternate retired members, ...shall receive compensation at a rate of not more than one hundred dollars (\$100) for a meeting, or for a meeting of a committee authorized by the board, for not more than five meetings per month." While the Board Chair makes the appointments, the trustees participate in this decision making process by accepting the appointment.

Staff has completed a Form 806 for the Board's acceptance that lists the trustees who were appointed to either the Investment Committee or the Audit Committee and who are eligible to receive a stipend for serving. After the Board has accepted the completed form, staff will, pursuant to FPPC regulation, post it on SamCERA's website. When there is a change in compensation or a new appointment, staff will present an updated Form 806 to reflect the changes.

Attachments:

FPPC Form 806 "Agency Report of Official Appointments"

**Agency Report of:
Public Official Appointments**

A Public Document

1. Agency Name San Mateo County Employees' Retirement Association (SamCERA)		California Form 806	For Official Use Only
Division, Department, or Region (If Applicable) Board of Retirement			
Designated Agency Contact (Name, Title) David Bailey, Chief Executive Officer			
Area Code/Phone Number 650-363-4930	E-mail dbailey@samcera.org	Page <u>1</u> of <u>2</u>	Date Posted: (Month, Day, Year)

2. Appointments

Agency Boards and Commissions	Name of Appointed Person	Appt Date and Length of Term	Per Meeting/Annual Salary/Stipend
Board of Retirement, Investment Committee	▶ Name <u>Bowler, Ben</u> <small>(Last, First)</small> Alternate, if any _____ <small>(Last, First)</small>	▶ <u>08 / 28 / 12</u> <small>Appt Date</small> ▶ ends <u>6/30/13</u> <small>Length of Term</small>	▶ Per Meeting: \$ <u>100.00</u> ▶ Estimated Annual: <input checked="" type="checkbox"/> \$0-\$1,000 <input type="checkbox"/> \$2,001-\$3,000 <input type="checkbox"/> \$1,001-\$2,000 <input type="checkbox"/> Other
Board of Retirement, Investment Committee	▶ Name <u>Agnew, Lauryn</u> <small>(Last, First)</small> Alternate, if any _____ <small>(Last, First)</small>	▶ <u>08 / 28 / 12</u> <small>Appt Date</small> ▶ ends <u>6/30/13</u> <small>Length of Term</small>	▶ Per Meeting: \$ <u>100.00</u> ▶ Estimated Annual: <input checked="" type="checkbox"/> \$0-\$1,000 <input type="checkbox"/> \$2,001-\$3,000 <input type="checkbox"/> \$1,001-\$2,000 <input type="checkbox"/> Other
Board of Retirement, Investment Committee	▶ Name <u>Settles, Michal</u> <small>(Last, First)</small> Alternate, if any _____ <small>(Last, First)</small>	▶ <u>08 / 28 / 12</u> <small>Appt Date</small> ▶ ends <u>6/30/13</u> <small>Length of Term</small>	▶ Per Meeting: \$ <u>100.00</u> ▶ Estimated Annual: <input checked="" type="checkbox"/> \$0-\$1,000 <input type="checkbox"/> \$2,001-\$3,000 <input type="checkbox"/> \$1,001-\$2,000 <input type="checkbox"/> Other
Board of Retirement, Audit Committee	▶ Name <u>Hackleman, Paul</u> <small>(Last, First)</small> Alternate, if any <u>Murphy, John</u> <small>(Last, First)</small>	▶ <u>08 / 28 / 12</u> <small>Appt Date</small> ▶ ends <u>6/30/13</u> <small>Length of Term</small>	▶ Per Meeting: \$ <u>100.00</u> ▶ Estimated Annual: <input checked="" type="checkbox"/> \$0-\$1,000 <input type="checkbox"/> \$2,001-\$3,000 <input type="checkbox"/> \$1,001-\$2,000 <input type="checkbox"/> Other

3. Verification

I have read and understand FPPC Regulation 18705.5. I have verified that the appointment and information identified above is true to the best of my information and belief.

_____	David Bailey	Chief Executive Officer	_____
<small>Signature of Agency Head or Designee</small>	<small>Print Name</small>	<small>Title</small>	<small>(Month, Day, Year)</small>

Comment: Terms of committee members correspond with the fiscal year, and will expire on June 30, 2013.

**Agency Report of:
Public Official Appointments
Continuation Sheet**

1. Agency Name San Mateo County Employees' Retirement Association (SamCERA)	Date Posted: _____ <small>(Month, Day, Year)</small>
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2. Appointments

Agency Boards and Commissions	Name of Appointed Person	Appt Date and Length of Term	Per Meeting/Annual Salary/Stipend
Board of Retirement, Audit Committee	▶ Name <u>Tashman, Eric</u> <small>(Last, First)</small> Alternate, if any _____ <small>(Last, First)</small>	▶ <u>08 / 28 / 12</u> <small>Appt Date</small> ▶ <u>ends 06/30/13</u> <small>Length of Term</small>	▶ Per Meeting: \$ <u>100.00</u> ▶ Estimated Annual: <input checked="" type="checkbox"/> \$0-\$1,000 <input type="checkbox"/> \$2,001-\$3,000 <input type="checkbox"/> \$1,001-\$2,000 <input type="checkbox"/> <u>Other</u>
	▶ Name _____ <small>(Last, First)</small> Alternate, if any _____ <small>(Last, First)</small>	▶ _____ <small>Appt Date</small> ▶ _____ <small>Length of Term</small>	▶ Per Meeting: \$ _____ ▶ Estimated Annual: <input type="checkbox"/> \$0-\$1,000 <input type="checkbox"/> \$2,001-\$3,000 <input type="checkbox"/> \$1,001-\$2,000 <input type="checkbox"/> <u>Other</u>
	▶ Name _____ <small>(Last, First)</small> Alternate, if any _____ <small>(Last, First)</small>	▶ _____ <small>Appt Date</small> ▶ _____ <small>Length of Term</small>	▶ Per Meeting: \$ _____ ▶ Estimated Annual: <input type="checkbox"/> \$0-\$1,000 <input type="checkbox"/> \$2,001-\$3,000 <input type="checkbox"/> \$1,001-\$2,000 <input type="checkbox"/> <u>Other</u>
	▶ Name _____ <small>(Last, First)</small> Alternate, if any _____ <small>(Last, First)</small>	▶ _____ <small>Appt Date</small> ▶ _____ <small>Length of Term</small>	▶ Per Meeting: \$ _____ ▶ Estimated Annual: <input type="checkbox"/> \$0-\$1,000 <input type="checkbox"/> \$2,001-\$3,000 <input type="checkbox"/> \$1,001-\$2,000 <input type="checkbox"/> <u>Other</u>
	▶ Name _____ <small>(Last, First)</small> Alternate, if any _____ <small>(Last, First)</small>	▶ _____ <small>Appt Date</small> ▶ _____ <small>Length of Term</small>	▶ Per Meeting: \$ _____ ▶ Estimated Annual: <input type="checkbox"/> \$0-\$1,000 <input type="checkbox"/> \$2,001-\$3,000 <input type="checkbox"/> \$1,001-\$2,000 <input type="checkbox"/> <u>Other</u>
	▶ Name _____ <small>(Last, First)</small> Alternate, if any _____ <small>(Last, First)</small>	▶ _____ <small>Appt Date</small> ▶ _____ <small>Length of Term</small>	▶ Per Meeting: \$ _____ ▶ Estimated Annual: <input type="checkbox"/> \$0-\$1,000 <input type="checkbox"/> \$2,001-\$3,000 <input type="checkbox"/> \$1,001-\$2,000 <input type="checkbox"/> <u>Other</u>

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 22, 2013

Agenda Item 5.2

TO: Board of Retirement
FROM: David Bailey, Chief Executive Officer
SUBJECT: Approval of Cost of Living Adjustments



As of the mailing date of the board packet, the Bureau of Labor Statistics had not yet released the base data needed to calculate Cost of Living Adjustments (COLAs) for SamCERA retirees for 2013. This agenda item is a placeholder to allow the Board to adopt COLAS for 2013 as soon as the recommended COLAs are available. If the data and COLA recommendations from Milliman, Inc. become available in time, the resolution containing the recommended COLAS for 2013 will be presented to the Board at the Jan. 22 meeting. If not, the matter will be delayed until the February meeting.

Background

Annual COLAs are calculated based on statutes in the 1937 Act which require that they be based on the change in the Consumer Price Index for the Bay Area provided by the U.S. Bureau of Labor Statistics (BLS) and rounded to the nearest one half of one percent. Milliman will use the BLS data as soon as it is available to calculate the change in CPI that occurred in calendar year 2012 and the COLAs to be paid in 2013.

All COLAs will be paid beginning with the April 2013 benefit payments. Retired members and active members considering retirement are interested in knowing the 2013 COLA amounts as soon as possible. For active members considering retirement, knowing the COLA percentage can help them plan their retirement dates.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 22, 2013

Agenda Item 6.1

TO: Board of Retirement

FROM: Michael Coultrip, Chief Investment Officer

SUBJECT: Preliminary Monthly Portfolio Performance Report for the Period Ending
December 31, 2012

Michael R Coultrip

Staff Recommendation:

Staff recommends the Board accept the preliminary performance report dated December 2012.

Background:

This preliminary report is intended to provide a high-level view of the portfolio and its trends. It is not intended to provide short-term performance upon which the Board would act. As discussed previously, preliminary performance estimates are now included for Angelo Gordon's PPIP, AQR's risk parity, and AQR's hedge fund portfolios. The quarterly performance metrics are not yet available for our private equity and real estate portfolios. The performance for these portfolios will be reflected in the quarterly performance report generated by SIS.

The attached performance report now shows both net and gross of fee returns for the total plan. Page one shows the net of investment manager fee performance results for the total fund (in the top left quadrant), while page two shows gross of fee returns.

Discussion:

The fund's net preliminary return for December was +1.0%, while the trailing twelve month return was +13.2% net (+13.6% gross). The twelve-month return is above (on a net and gross basis) both the Actuarial Discount Rate of 7.50% and SamCERA's Total Plan Policy Benchmark rate of 13.1%. As a reminder, SamCERA should expect performance to vary substantially from that of the Total Plan Policy Benchmark in the initial stages of its private equity implementation.

The broad U.S. equity market was up 1.27% on the month, and in a reversal from last month, value stocks significantly outperformed growth stocks across the market capitalization spectrum. Developed international equity indices were up sharply during the month, with the MSCI World ex-US up 3.5% and emerging markets up 4.9%. The general fixed income market was negative (-.14%) as long-term interest rates rose to 1.78% from 1.61% in November. High yield (+1.57%) and emerging market bonds (+0.93%) were the strongest fixed income sectors.

Attachments:

SIS Market Update
State Street Performance Report

U.S. EQUITY

2012 was a good year for global equity markets as almost all indices were up 16-18%.

For the month of December in the U.S., Value outperformed Growth and Small caps outperformed Large caps. The Russell 1000 Growth Index was down -0.0% for the month and the Russell 1000 Value Index was up +2.1%. The Russell 2000 Growth Index was up +2.9% and the Russell 2000 Value was up +4.2%. The S&P 500 Index ended the month up +0.9%

The S&P 500 Index has a trailing P/E ratio of 16.8 and a forward 12-month estimate P/E ratio of 13.7.

Corporate merger highlights for the month included:

Dover acquired glass-door maker Anthony International for \$600 million; Dean Foods will sell its Morningstar Foods unit to Saputo for \$1.45 billion; Computer Sciences will sell its credit-services unit to Equifax for \$1 billion; Baxter International will buy Swedish dialysis product company Gambro for about \$4 billion; Freeport-McMoRan Copper & Gold will buy Plains Exploration and McMoRan Exploration for \$9 billion; A group led by KingSett Capital launched a \$2.7 billion hostile takeover of Primaris Retail REIT, one of Canada's largest shopping mall owners; HSBC will sell its stake in China's Ping An Insurance for \$9.4 billion; A group of Chinese companies is in talks to buy nearly all of AIG's aircraft leasing unit for about \$5.5 billion; Clearwire agreed to sell roughly half of the company for \$2.2 billion to majority shareholder Sprint Nextel; Sun Life Financial will sell its U.S. annuity business for \$1.35 billion to a firm connected to Guggenheim Partners; Nielsen, the dominant source of TV ratings, agreed to buy Arbitron for about \$1.3 billion to expand into radio measurement; Elliott Management, which holds an 8% stake in Compuware, offered to buy the company for \$2.35 billion; The U.S. Treasury Dept. will sell all its stock in GM within 12 to 15 months starting with a \$5.5 billion deal for GM to buy back 200 million shares; Markel will buy fellow specialty insurer Alterra Capital for \$3.1 billion; NYSE Euronext, the operator of the New York Stock Exchange, will be acquired by Intercontinental Exchange for \$8.2 billion; General Electric will buy the aviation business of Italian aerospace company Avio for \$4.3 billion; and, Aviva, Britain's second largest insurer, will sell its U.S. business for \$1.8 billion to Athene Holding, a specialist life insurer.

FIXED INCOME

The Commerce Dept. reported that gross domestic product grew at a seasonally adjusted annual rate of 3.1% in the 3rd quarter.

U.S. companies added 146,000 jobs, and the unemployment rate fell to 7.7% in November, the lowest in nearly four years. The rate fell mainly because more people stopped looking for work.

The National Association for Business Economics predicted that the economy will grow in 2013 by 2.1% after 2.2% growth in 2012. That would continue the same tepid growth seen since the Great Recession ended in mid-2009.

Long-term interest rates rose in the month of December. The bellwether 10-year Treasury note ended the month yielding 1.78% up from 1.61% at the close of November. At month-end, the 30-year bond yield was 2.95% with the 3-month T-bill at 0.1%. The Barclays Capital US Aggregate Index was down -0.14% in December. High Yield was the strongest sector up +1.6% as measured by the BofA Merrill Lynch US High Yield Master II index.

As expected, the Federal Reserve announced in mid-December that it will start outright purchases of long-term U.S. Treasuries in 2013, after its current Twist purchases expire at the end of 2012. The Fed will buy \$45 billion in long term U.S. Treasuries a month, the same amount it was buying under Twist. However, unlike Twist these will be outright purchases as the Fed will not sell any shorter-term Treasuries to offset them, and they will be financed by the Federal Reserve expanding its balance sheet. These purchases will be in addition to the \$40 billion in agency MBS per month.

On the economic front, the following key data was released in December:

THE GOOD

*The Chicago Purchasing Managers Index edged higher in November to 50.4 from 49.9 in October.

*Financial information firm Markit reported that its U.S. Manufacturing Purchasing Managers Index rose to 52.8 in November, rebounding from a more than three year low of 51.0 in October.

*Motor vehicle sales surged 9.0% (1.3 million units) in November to 15.5 million annualized and their highest level since February 2008.

*The Commerce Dept. reported that construction spending rose 1.4% in October.

*CoreLogic reported that home prices rose 6.3% in October from a year earlier, marking the largest increase since June 2006.

*The Commerce Dept. reported that factory orders rose a stronger than expected +0.8% in October from September, when order jumped +4.5%.

*The Labor Dept. reported that worker productivity increased at a revised rate of +2.9% in the 3rd quarter, the fastest rate in two years.

*The consumer price index dropped -0.3% in November from October as gas prices fell -7.4%. In the past year, consumer prices have risen +1.8% showing inflation is muted.

*Factory output posted its sharpest increase in nearly a year in November, rising +1.1% as auto production staged a rebound and the clean-up and rebuilding efforts picked up in the aftermath of Hurricane Sandy.

*Homebuilder confidence inched up this month to the highest level in more than six and a half years, as builders reported the best market for newly built homes since the housing boom.

*The National Association of Realtors reported that sales of existing homes increased +5.9% in November to a seasonally adjusted annual rate of 5.04 million units.

*The median existing home price in November rose +10.1% from the prior year to \$180,600.

*The Philadelphia Fed index improved to a reading of positive 8.1 in December from a negative 10.7 in November.

*The Commerce Dept. reported that consumer spending rose +0.4% in November compared with October and that personal income jumped +0.6%, the largest gain in 11 months.

THE NOT SO GOOD

*The Commerce Dept. reported that consumer spending dropped -0.2% in October, the first decline in 5 months.

*The Institute for Supply Management reported that its index of national factory activity fell to 49.5 in November, its lowest level in more than three years.

*Americans increased personal borrowing by \$14.2 billion in October from September to a record of \$2.75 trillion.

*Real PCE, which makes up roughly 70% of spending in the economy, is now on track to expand at only about a +1.0% annualized pace in the fourth quarter according to Bridgewater Associates, compared to a +2.3% average pace over the past few years.

Consumer confidence eroded substantially in December. The University of Michigan Consumer Sentiment final number for December came in at 72.9, a decline from the November final of 82.7.

NON-U.S. MARKETS

Economic activity in the U.K. remains downbeat. The service sector is stagnating as the services PMI fell 0.4 point in November to 50.2, the weakest reading in two years. Industrial production fell -0.8% in October the third consecutive decline leaving output down -3.0% from a year earlier.

The eurozone is technically back in recession. The second estimate confirmed GDP fell -0.1% in the third quarter after falling -0.2% in the second. The eurozone's recession pushed up unemployment in the currency bloc to 11.7% in October, the highest level since the introduction of the euro in 1999. The European Central Bank cut its eurozone forecast for 2013, predicting it will shrink -0.3%. Germany's central bank sharply cut its 2013 economic growth forecast, lowering it to +0.4%.

Spain's property market shows no sign of recovery as housing prices were down -15.2% in the 3rd quarter versus a year ago.

Shinzo Abe was elected Prime Minister in mid-December in Japan, and roughly 80% of the new Diet party campaigned on ending the ongoing deflation through monetary easing. The Japanese yen continued to weaken on the news and the Japanese equity market rallied strongly.

China's manufacturing activity rose to a 14-month high in December, a sign the world's second largest economy is recovering, but export orders weakened.

The Reserve Bank of Australia cut its policy rate a quarter point to 3.00%. This cut was the sixth one in the past fourteen months, dropping the cash rate a cumulative 175 basis points. GDP in Australia rose a sluggish 0.5% in the third quarter, the weakest gain in six

quarters although down only slightly from the 0.6% gain in the second.

Non-U.S. equities were up for the month of December. The MSCI ACWI Ex-U.S. was up +3.5% (US dollars) in December. Developed stocks (EAFE) were up +3.2% while Emerging Markets rose by +4.9% for the month.

CONCLUSION

The U.S. congress passed a fiscal cliff deal. The legislation will produce an additional fiscal tightening in the first half of 2013 of about -1% of annualized GDP, but it does eliminate the risk of a much larger tightening had no agreement been reached. The deal does not include an authorization for an increase in the debt ceiling (predicted to run out at the end of February). The deal also puts off for a couple of months a decision on spending cuts.

The first month of the year, January is often a very powerful and predictive period. The January Barometer – as the S&P 500 goes in January, so goes the year. When the month of January records a gain, history suggests that the rest of the year will finish in positive territory as well. Since 1950, this indicator has an incredible 88.7% accuracy ratio. Every down January for the S&P 500 Index since 1950, without exception, preceded a decline for the entire calendar year.

The First Five Days in January Indicator – the last 40 up first five trading days of the year have been followed by full-year gains 34 times for an 85% accuracy ratio. The results are less reliable when the first five days of January are negative, showing just a 47.8% accuracy rate. The S&P 500 has posted a gain for the first five days of the year in just six out of the last fifteen Post-Election Years.

January is also the Nasdaq's top performing month of the year. In addition, the January Effect is the tendency for small cap stocks to outperform large caps.

Here is hoping that everyone and their families enjoy a Happy, Healthy and Prosperous New Year!

Monthly Market Update

US Equity Indices Trailing Performance

Annualized Performance to Date: Ending Dec-12	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
Russell 3000 Index	1.23	0.25	16.42	16.42	8.45	11.20	2.04	4.34	7.68
Russell TOP 200 Index	0.53	-1.00	16.04	16.04	9.24	10.30	1.28	3.86	6.38
Russell TOP 200 Growth Index	-0.73	-2.46	15.06	15.06	9.73	10.87	3.15	5.16	6.75
Russell TOP 200 Value Index	1.81	0.47	17.01	17.01	8.77	9.74	-0.65	2.55	6.01
S&P 500 Index	0.91	-0.38	16.00	16.00	8.84	10.87	1.66	4.12	7.10
Russell 1000 Index	1.04	0.12	16.42	16.42	8.71	11.12	1.92	4.30	7.52
Russell 1000 Growth Index	-0.03	-1.32	15.26	15.26	8.77	11.35	3.12	5.16	7.52
Russell 1000 Value Index	2.07	1.52	17.51	17.51	8.61	10.86	0.59	3.32	7.38
Russell Mid-Cap Index	2.25	2.88	17.28	17.28	7.45	13.15	3.57	5.45	10.65
Russell Mid-Cap Growth Index	1.79	1.69	15.81	15.81	6.72	12.91	3.23	5.41	10.32
Russell Mid-Cap Value Index	2.64	3.93	18.51	18.51	8.11	13.39	3.79	5.21	10.63
Russell 2000 Index	3.56	1.85	16.35	16.35	5.59	12.25	3.56	4.79	9.72
Russell 2000 Growth Index	2.88	0.45	14.59	14.59	5.48	12.82	3.49	5.35	9.80
Russell 2000 Value Index	4.21	3.22	18.05	18.05	5.62	11.57	3.55	4.11	9.50
DJ US REIT Index	3.77	2.31	17.12	17.12	13.18	17.94	5.08	5.31	11.48
DJ-UBS US Commodity Index TR	-2.61	-6.33	-1.06	-1.06	-7.39	0.07	-5.17	-1.34	4.09
DJ-UBS US Gold Index TR	-2.15	-5.63	6.08	6.08	7.84	14.40	13.83	17.11	16.05

Non-US Indices Trailing Performance

Annualized Performance to Date: Ending Dec-12	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
MSCI AC World Index ex USA	3.49	5.89	17.39	17.39	0.87	4.33	-2.44	4.00	10.22
MSCI AC World Index	2.31	3.01	16.80	16.80	4.30	7.19	-0.61	4.07	8.66
MSCI EAFE Index	3.21	6.60	17.90	17.90	2.01	4.04	-3.21	2.67	8.70
MSCI Emerging Markets index	4.90	5.61	18.63	18.63	-1.48	4.98	-0.61	8.74	16.88
ML Global Government Bond Ex. U.S. Index	-2.18	-4.90	-2.35	-2.35	2.61	5.18	6.39	6.87	6.35
Euro	1.37	2.48	1.56	1.56	-0.87	-2.78	-2.05	1.60	2.31
Japanese Yen	-4.62	-10.02	-11.02	-11.02	-3.15	2.49	5.26	4.55	3.22
UK Pound Sterling	1.43	0.66	4.59	4.59	1.89	0.22	-3.97	-0.78	0.10

US Fixed Income Indices Trailing Performance

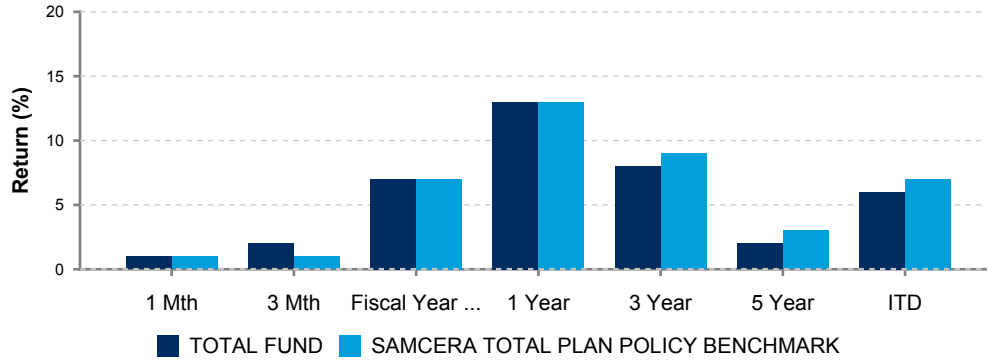
Annualized Performance to Date: Ending Dec-12	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
ML 3-month T-bill Total Return Index	0.02	0.04	0.11	0.11	0.11	0.11	0.52	1.76	1.78
BarCap Aggregate Bond Index	-0.14	0.21	4.22	4.22	6.01	6.19	5.95	5.86	5.18
ML U.S. Corp/Govt Master Index	-0.29	0.42	5.09	5.09	6.84	6.83	6.05	5.91	5.25
ML U.S. Corporate Master Index	-0.02	1.21	10.37	10.37	8.93	9.13	7.72	6.79	6.31
BarCap Mortgage Backed Securities Index	0.14	-0.20	2.59	2.59	4.40	4.72	5.67	5.78	5.08
ML U.S. High Yield Master Index	1.57	3.15	15.44	15.44	9.83	11.61	9.90	9.00	10.23
JPM EMBI Global	0.93	3.33	18.53	18.53	13.39	12.94	10.47	9.77	11.56

San Mateo County Total Fund Characteristics

December 31, 2012



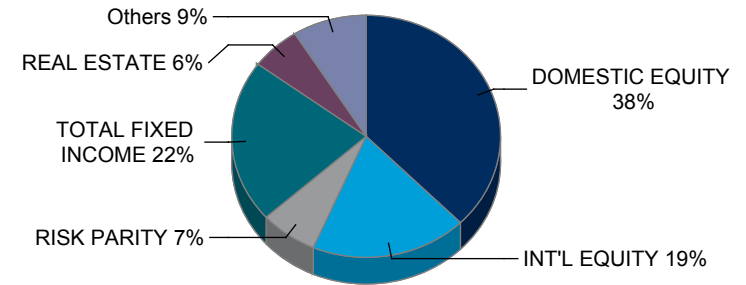
Net Performance



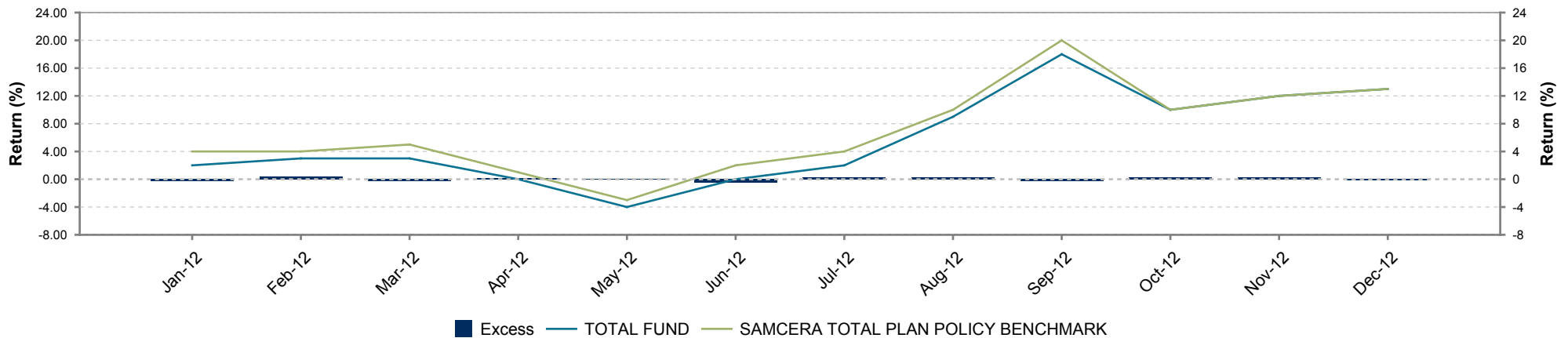
Asset Allocation

	Ending Market Value (\$)	Allocation (%)
DOMESTIC EQUITY	982,446,533	38.4
INTERNATIONAL EQUITY	492,960,901	19.3
PRIVATE EQUITY	43,550,006	1.7
RISK PARITY	166,818,404	6.5
HEDGE FUND	70,681,104	2.8
COMMODITIES	74,824,869	2.9
FIXED INCOME	559,112,292	21.9
REAL ESTATE	150,954,465	5.9
CASH	15,053,123	0.6
TOTAL FUND	2,556,401,697	100.0

	1-Mth	3-Mth	Fiscal YTD	1-Yr	3-Yr	5-Yr	10-Yr	ITD
TOTAL FUND	1.00	1.58	7.30	13.21	8.47	1.71	6.83	6.27
SAMCERA TOTAL PLAN POLICY BENCHMARK	1.21	1.24	6.61	13.07	9.23	2.79	7.77	6.60
Excess	-0.21	0.34	0.70	0.14	-0.75	-1.08	-0.94	-0.34

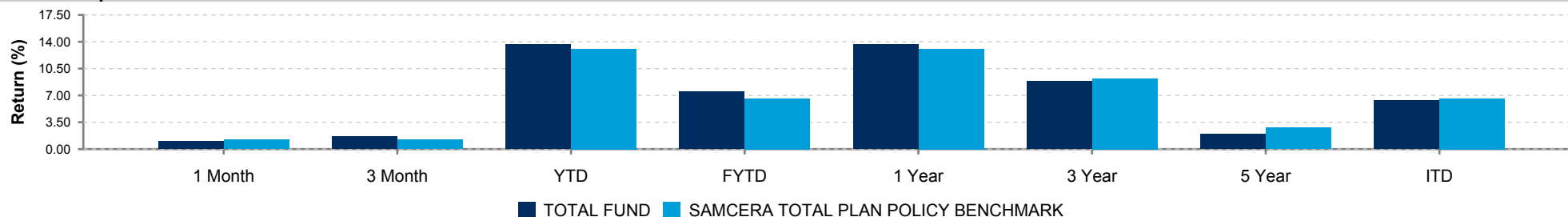


Cumulative Returns



December 31, 2012

Return Comparison



Composite Total Returns (Gross)

	Market Value (\$)	1 Mth	3 Mth	YTD	FYTD	1 Year	3 Year	5 Year	ITD
Total Fund	2,556,401,697	1.02	1.63	13.62	7.47	13.62	8.85	1.95	6.35
SAMCERA TOTAL PLAN POLICY BENCHMARK		1.21	1.24	13.07	6.61	13.07	9.23	2.79	6.60
Excess		-0.20	0.40	0.55	0.87	0.55	-0.38	-0.84	-0.25
Total Equity	1,475,407,434	1.70	1.87	15.85	8.58	15.85	8.32	-0.21	6.99
SAMCERA TOTAL EQUITY BENCHMARK		2.25	2.33	16.84	9.04	16.84	9.02	0.79	7.29
Excess		-0.55	-0.45	-1.00	-0.45	-1.00	-0.70	-1.00	-0.31
Total Fixed Income	559,112,292	0.54	2.02	12.60	6.50	12.60	9.80	7.29	6.37
SAMCERA TOTAL FIXED INCOME BENCHMARK		-0.20	0.40	5.85	2.87	5.85	7.01	6.44	5.95
Excess		0.74	1.61	6.75	3.63	6.75	2.79	0.86	0.42
Total Risk Parity	166,818,404	0.61	1.75	15.74	10.07	15.74			10.76
RISK PARITY BENCHMARK		0.68	0.24	11.55	4.61	11.55			6.35
Excess		-0.07	1.51	4.19	5.46	4.19			4.40
Hedge Funds	70,681,104	0.95	3.09	5.77	3.68	5.77			2.07
LIBOR + 4%		0.35	1.04	4.24	2.09	4.24			4.24
Excess		0.60	2.05	1.53	1.58	1.53			-2.17
Private Equity	43,550,006	0.00	0.14	11.70	-0.46	11.70			-66.74
PRIVATE EQUITY BENCHMARK		1.47	0.99	19.86	8.06	19.86			14.69
Excess		-1.47	-0.86	-8.16	-8.53	-8.16			-81.43

December 31, 2012

Composite Total Returns (Gross)

	Market Value (\$)	1 Mth	3 Mth	YTD	FYTD	1 Year	3 Year	5 Year	ITD
Commodities	74,824,869	-1.90	-5.72	13.52	7.04	13.52			-0.16
DJ-UBS COMMODITY		-2.61	-6.35	-1.14	2.70	-1.14			-10.52
Excess		0.71	0.63	14.67	4.35	14.67			10.36
Total Real Estate	150,954,465	0.00	0.00	6.40	2.80	6.40	13.23	-1.23	7.56
SAMCERA NCREIF NFI ODCE EW (Gross)		0.00	0.00	8.50	2.79	8.50	13.17	-1.22	7.58
Excess		0.00	0.00	-2.10	0.01	-2.10	0.05	-0.01	-0.02
Total Cash	15,053,123	0.07	0.12	0.67	0.29	0.67	0.82	0.37	2.51
91 DAY TREASURY BILL		0.02	0.04	0.11	0.07	0.11	0.11	0.52	2.44
Excess		0.05	0.08	0.56	0.22	0.56	0.71	-0.15	0.07

San Mateo County Manager Return Summary

December 31, 2012



Manager Returns (Gross)									
	\$ EMV	1 Mth	3 Mth	FYTD	Cal YTD	1 Year	3 Year	5 Year	ITD
TOTAL EQUITY	1,475,407,434	1.70	1.87	8.58	15.85	15.85	8.32	-0.21	6.99
SAMCERA TOTAL EQUITY BENCHMARK		2.25	2.33	9.04	16.84	16.84	9.02	0.79	7.29
Excess		-0.55	-0.45	-0.45	-1.00	-1.00	-0.70	-1.00	-0.31
TOTAL DOMESTIC EQUITY	982,446,533	1.27	0.77	7.14	16.32	16.32	11.04	1.73	7.27
SAMCERA DOMESTIC EQUITY BENCHMARK		1.54	0.47	6.60	16.43	16.43	11.38	2.30	7.43
Excess		-0.27	0.30	0.54	-0.11	-0.11	-0.35	-0.57	-0.16
LARGE CAP COMPOSITE	767,288,615	0.82	0.06	6.71	16.28	16.28	10.09	1.30	7.98
RUSSELL 1000 INDEX		1.04	0.12	6.44	16.42	16.42	11.12	1.92	8.28
Excess		-0.21	-0.06	0.27	-0.14	-0.14	-1.03	-0.62	-0.30
BLACKROCK RUSSELL 1000 IN	168,898,894	1.04	0.13	6.45	16.47	16.47	11.18	1.98	8.30
RUSSELL 1000 INDEX		1.04	0.12	6.44	16.42	16.42	11.12	1.92	8.28
Excess		0.01	0.01	0.02	0.05	0.05	0.06	0.07	0.03
DE SHAW INVESTMENT MGT, LLC	127,980,461	0.75	0.55	6.72	19.33	19.33	11.52		14.81
RUSSELL 1000 INDEX		1.04	0.12	6.44	16.42	16.42	11.12		14.09
Excess		-0.29	0.43	0.28	2.91	2.91	0.40		0.72
T. ROWE PRICE ASSOCIATES	123,818,824	0.85	-0.32	6.24	16.71	16.71	10.77		13.61
S&P 500		0.91	-0.38	5.95	16.00	16.00	10.87		13.75
Excess		-0.06	0.05	0.29	0.71	0.71	-0.10		-0.14
BARROW HANLEY	175,256,047	1.47	1.83	8.07	16.02	16.02	10.90		13.68
Russell 1000 Value Index		2.07	1.52	8.13	17.51	17.51	10.86		13.72
Excess		-0.60	0.31	-0.06	-1.49	-1.49	0.04		-0.04
BLACKROCK LARGE GROWTH	171,334,382	0.00							1.67
Russell 1000 Growth Index		-0.03							1.65
Excess		0.03							0.02

San Mateo County Manager Return Summary

December 31, 2012



Manager Returns (Gross)									
	\$ EMV	1 Mth	3 Mth	FYTD	Cal YTD	1 Year	3 Year	5 Year	ITD
SMALL CAP COMPOSITE	215,157,917	2.88	3.40	8.75	16.49	16.49	14.78	3.24	5.45
RUSSELL 2000 INDEX		3.56	1.85	7.20	16.35	16.35	12.25	3.55	6.07
Excess		-0.68	1.55	1.55	0.14	0.14	2.53	-0.31	-0.62
BOSTON COMPANY ASSET MGT, LLC	57,334,433	3.70	4.12	10.05	19.66	19.66	12.55		15.53
RUSSELL 2000 VALUE INDEX		4.21	3.22	9.07	18.05	18.05	11.57		14.38
Excess		-0.51	0.90	0.98	1.61	1.61	0.98		1.15
CHARTWELL INVESTMENT MGMT	66,173,220	2.57	2.57	8.36	17.69	17.69	17.16	3.29	7.00
RUSSELL 2000 GROWTH		2.88	0.45	5.31	14.59	14.59	12.82	3.49	5.60
Excess		-0.31	2.12	3.06	3.10	3.10	4.33	-0.19	1.39
JENNISON ASSOCIATES	91,650,265	2.60	3.57	8.23	14.08	14.08	14.39		7.84
RUSSELL 2000 INDEX		3.56	1.85	7.20	16.35	16.35	12.25		6.04
Excess		-0.97	1.71	1.03	-2.27	-2.27	2.14		1.79
TOTAL INTERNATIONAL EQUITY	492,960,901	2.56	4.15	11.59	14.27	14.27	2.37	-4.61	5.53
MSCI AC WORLD ex US (GROSS)		3.49	5.89	13.83	17.39	17.39	4.33	-2.44	5.53
Excess		-0.92	-1.74	-2.24	-3.12	-3.12	-1.96	-2.17	0.00
BAILLIE GIFFORD OVERSEAS LIMITED	163,745,583	1.90	4.47	13.50					6.28
MSCI ACWI ex US GROWTH (GROSS)		2.77	5.29	12.90					5.24
Excess		-0.88	-0.82	0.60					1.04
EATON VANCE MANAGEMENT	62,808,491	5.29	5.49	12.21					3.72
MSCI Em Markets (USD) GDR		4.90	5.61	13.94					3.94
Excess		0.39	-0.12	-1.73					-0.22
MONDRIAN INVESTMENT PARTNERS	210,474,614	2.02	3.21	9.11	10.43	10.43	3.51	-2.60	5.73
MSCI ACWI EX US VALUE (GROSS)		4.21	6.51	14.78	17.68	17.68	3.65	-2.36	5.97
Excess		-2.19	-3.30	-5.67	-7.25	-7.25	-0.14	-0.24	-0.24

San Mateo County Manager Return Summary

December 31, 2012



Manager Returns (Gross)									
	\$ EMV	1 Mth	3 Mth	FYTD	Cal YTD	1 Year	3 Year	5 Year	ITD
PYRAMIS	53,173,738	3.78	5.56	15.74					5.78
MSCI ACWI ex US Small Cap Gross		4.05	4.95	14.01					4.01
Excess		-0.28	0.61	1.73					1.77
TOTAL FIXED INCOME	559,112,292	0.54	2.02	6.50	12.60	12.60	9.80	7.29	6.37
SAMCERA TOTAL FIXED INCOME BENCHMARK		-0.20	0.40	2.87	5.85	5.85	7.01	6.44	5.95
Excess		0.74	1.61	3.63	6.75	6.75	2.79	0.86	0.42
ABERDEEN ASSET MANAGEMENT	1,877								
Barclays Aggregate Bond		-0.14							
Excess									
ANGELO GORDON GECC PPI FUND	20,650,244	1.80	5.70	19.58	40.53	40.53	21.49		21.62
Barclays BA Intermediate High Yield Index		1.05	2.69	6.96	13.82	13.82	11.16		11.66
Excess		0.75	3.00	12.62	26.71	26.71	10.34		9.95
ANGELO GORDON MANAGEMENT	18,375,000	0.00							0.00
Barclays BA Intermediate High Yield Index		1.05		1.05					1.05
Excess		-1.05							-1.05
PYRAMIS GLOBAL ADVISORS	138,940,597	-0.10	0.56	2.75	6.54	6.54	7.81	7.26	6.48
Barclays Aggregate Bond		-0.14	0.21	1.80	4.21	4.21	6.19	5.95	5.93
Excess		0.04	0.35	0.95	2.32	2.32	1.62	1.31	0.54
WESTERN ASSET MGMT	119,584,681	0.14	0.94	4.17	9.18	9.18	9.30	7.28	6.23
Barclays Aggregate Bond		-0.14	0.21	1.80	4.21	4.21	6.19	5.95	5.33
Excess		0.28	0.72	2.37	4.97	4.97	3.11	1.33	0.90
BRIGADE CAPITAL MANAGEMENT	58,306,680	1.73	3.54	8.44	16.15	16.15			11.31
Barclays BA Intermediate High Yield Index		1.05	2.69	6.96	13.82	13.82			10.47
Excess		0.68	0.85	1.49	2.33	2.33			0.84

San Mateo County Manager Return Summary

December 31, 2012



Manager Returns (Gross)									
	\$ EMV	1 Mth	3 Mth	FYTD	Cal YTD	1 Year	3 Year	5 Year	ITD
BROWN BROTHERS HARRIMAN & CO	83,795,586	-0.57	0.86	3.35	7.81	7.81			9.64
Barclays US TIPS Index		-0.72	0.72	2.91	7.26	7.26			9.42
Excess		0.15	0.14	0.44	0.54	0.54			0.22
FRANKLIN TEMPLETON INVESTMENTS	119,457,628	1.80	4.43	12.62	20.83	20.83			9.26
Barclays Multiverse		-0.24	-0.29	3.08	4.84	4.84			5.19
Excess		2.04	4.72	9.53	15.99	15.99			4.07
TOTAL PRIVATE EQUITY	43,550,006	0.00	0.14	-0.46	11.70	11.70			-66.74
PRIVATE EQUITY BENCHMARK		1.47	0.99	8.06	19.86	19.86			14.69
Excess		-1.47	-0.86	-8.53	-8.16	-8.16			-81.43
TOTAL RISK PARITY	166,818,404	0.61	1.75	10.07	15.74	15.74			10.76
RISK PARITY BENCHMARK		0.68	0.24	4.61	11.55	11.55			6.35
Excess		-0.07	1.51	5.46	4.19	4.19			4.40
AQR GLOBAL RISK PREM III LP	166,818,404	0.61	1.75	10.07	15.74	15.74			10.76
RISK PARITY BENCHMARK		0.68	0.24	4.61	11.55	11.55			6.35
Excess		-0.07	1.51	5.46	4.19	4.19			4.40
HEDGE FUND COMPOSITE	70,681,104	0.95	3.09	3.68	5.77	5.77			2.07
LIBOR + 4%		0.35	1.04	2.09	4.24	4.24			4.24
Excess		0.60	2.05	1.58	1.53	1.53			-2.17
AQR DELTA FUND II, L.P.	70,681,104	0.95	3.09	3.68	5.77	5.77			2.07
LIBOR + 4%		0.35	1.04	2.09	4.24	4.24			4.24
Excess		0.60	2.05	1.58	1.53	1.53			-2.17
TOTAL COMMODITIES	74,824,869	-1.90	-5.72	7.04	13.52	13.52			-0.16
DJ-UBS COMMODITY		-2.61	-6.35	2.70	-1.14	-1.14			-10.52
Excess		0.71	0.63	4.35	14.67	14.67			10.36

**San Mateo County
Manager Return Summary**

December 31, 2012



Manager Returns (Gross)									
	\$ EMV	1 Mth	3 Mth	FYTD	Cal YTD	1 Year	3 Year	5 Year	ITD
SSGA MULTISOURCE ACT COMM NL	74,824,869	-1.90	-5.72	7.04	13.52	13.52			-0.16
DJ-UBS COMMODITY		-2.61	-6.35	2.70	-1.14	-1.14			-10.52
Excess		0.71	0.63	4.35	14.67	14.67			10.36
TOTAL REAL ESTATE	150,954,465	0.00	0.00	2.80	6.40	6.40	13.23	-1.23	7.56
SAMCERA NCREIF NFI ODCE EW (Gross)		0.00	0.00	2.79	8.50	8.50	13.17	-1.22	7.58
Excess		0.00	0.00	0.01	-2.10	-2.10	0.05	-0.01	-0.02
INVESCO REAL ESTATE	150,954,465	0.00	0.00	2.80	6.40	6.40	13.23	-1.23	6.01
SAMCERA NCREIF NFI ODCE EW (Gross)		0.00	0.00	2.79	8.50	8.50	13.17	-1.22	5.83
Excess		0.00	0.00	0.01	-2.10	-2.10	0.05	-0.01	0.18
TOTAL CASH	15,053,123	0.07	0.12	0.29	0.67	0.67	0.82	0.37	2.51
91 DAY TREASURY BILL		0.02	0.04	0.07	0.11	0.11	0.11	0.52	2.44
Excess		0.05	0.08	0.22	0.56	0.56	0.71	-0.15	0.07
SAMCERA GENERAL ACCOUNT	12,822,456	0.01	0.04	0.10	0.19	0.19	0.26	0.75	2.56
SAMCERA TREASURY & LAIF	2,230,666	0.07	0.20	0.37	0.80	0.80	0.98	0.31	3.27
TOTAL FUND	2,556,401,697	1.02	1.63	7.47	13.62	13.62	8.85	1.95	6.35
SAMCERA TOTAL PLAN POLICY BENCHMARK		1.21	1.24	6.61	13.07	13.07	9.23	2.79	6.60
Excess		-0.20	0.40	0.87	0.55	0.55	-0.38	-0.84	-0.25

**San Mateo County
Accounting Change in Market Value Details**

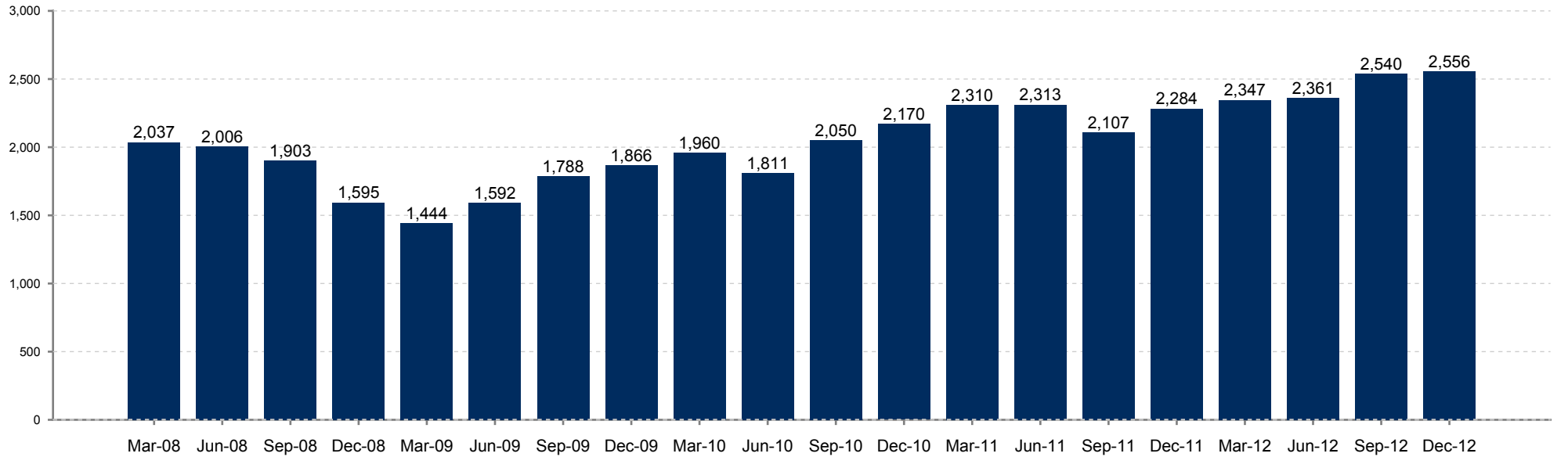
December 31, 2012



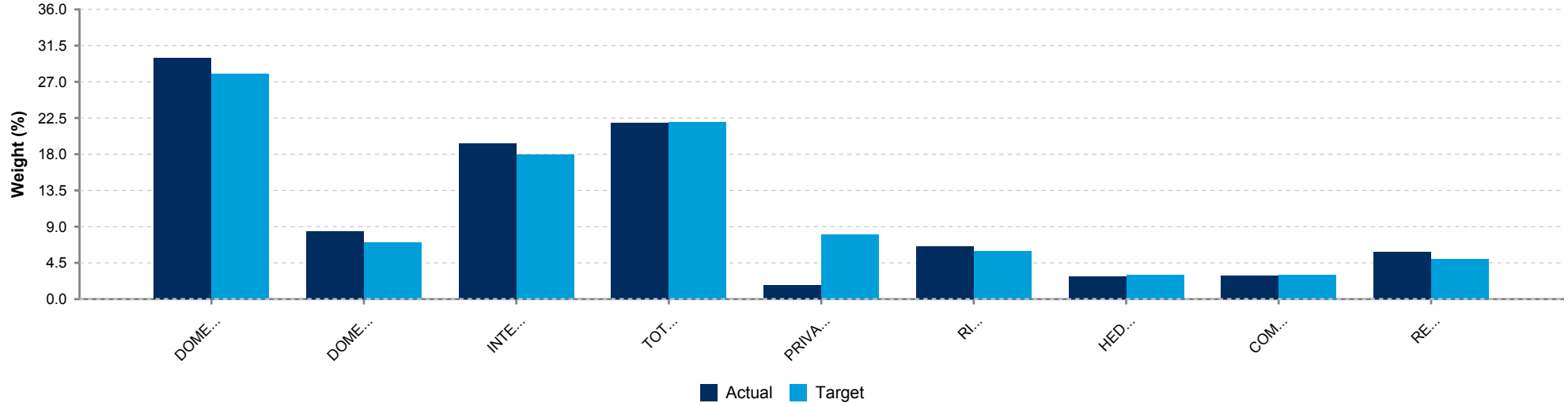
Record of Asset Growth

	One Quarter	One Year
TOTAL FUND		
Beginning Market Value	2,539,743,609	2,283,664,656
Contributions	554,244,790	1,608,210,536
Withdrawals	578,584,355	1,754,213,817
Income Received	9,350,616	45,573,845
Gain/Loss	31,647,037	264,698,330
Ending Market Value	2,556,401,697	2,556,401,697

Net Asset Values over Time (\$000)



Actual vs Target Weights



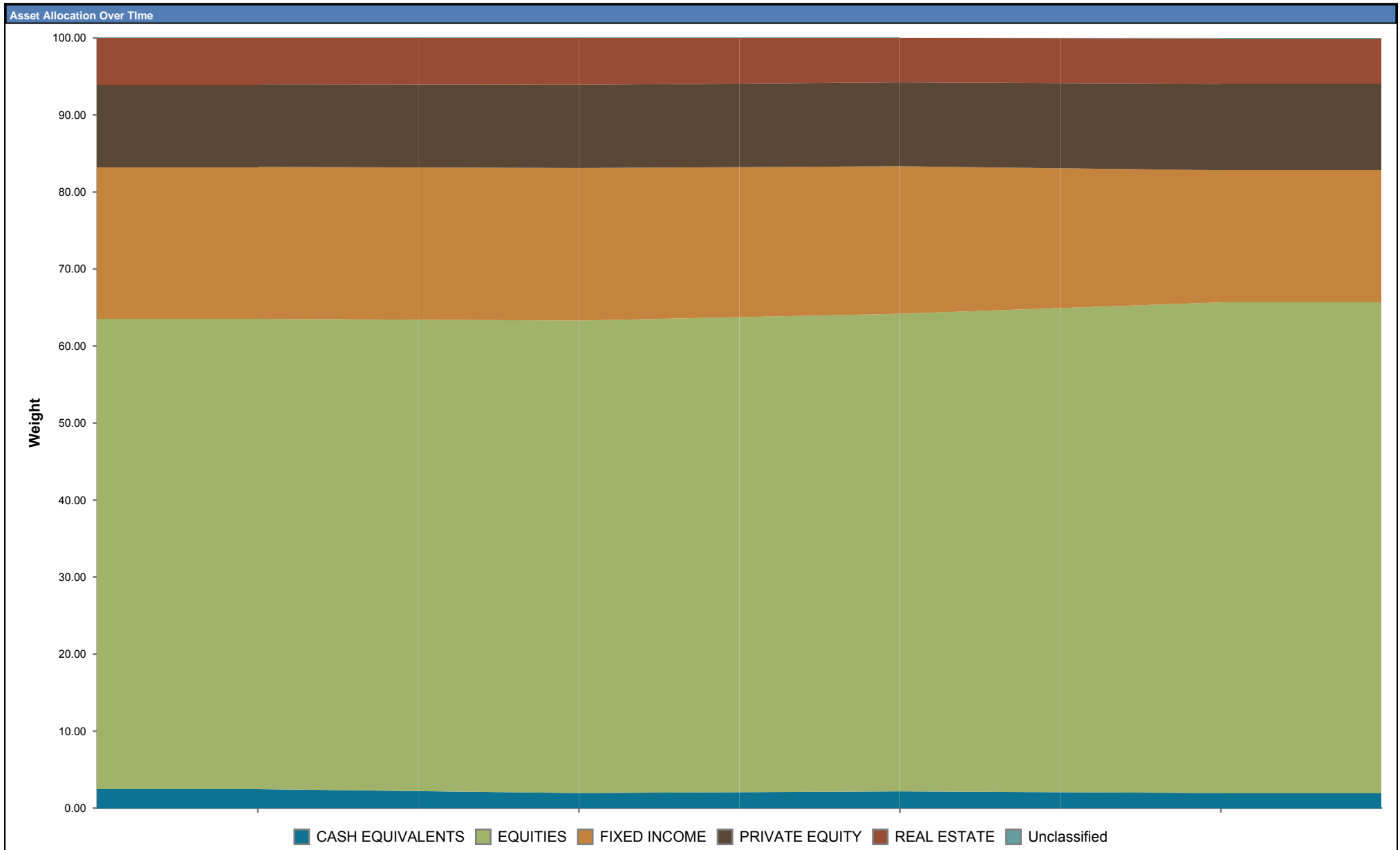
% Portfolio Weight

	Min	Actual	Target	Deviation	Max
DOMESTIC LARGE CAP	25.0	30.0	28.0	2.0	31.0
BLACKROCK RUSSELL 1000 INDEX FUND	3.5	6.6	6.5	0.1	9.5
DE SHAW INVESTMENT MGT, LLC	1.3	5.0	4.3	0.8	7.3
T. ROWE PRICE ASSOCIATES	1.3	4.8	4.3	0.6	7.3
BARROW HANLEY	3.5	6.9	6.5	0.4	9.5
BLACKROCK LARGE GROWTH	3.5	6.7	6.5	0.2	9.5
DOMESTIC SMALL CAP	4.0	8.4	7.0	1.4	10.0
BOSTON COMPANY ASSET MGT, LLC	0.0	2.2	1.8	0.5	4.8
CHARTWELL INVESTMENT MGMT	0.0	2.6	1.8	0.8	4.8
JENNISON ASSOCIATES	0.5	3.6	3.5	0.1	6.5
INTERNATIONAL EQUITY	15.0	19.3	18.0	1.3	21.0
BAILLIE GIFFORD OVERSEAS LIMITED	3.0	6.4	6.0	0.4	9.0
EATON VANCE MANAGEMENT	0.0	2.5	2.3	0.2	5.3
MONDRIAN INVESTMENT PARTNERS	5.0	8.2	8.0	0.2	11.0

% Portfolio Weight					
	Min	Actual	Target	Deviation	Max
PYRAMIS	0.0	2.1	1.8	0.3	4.8
TOTAL FIXED INCOME	19.0	21.9	22.0	-0.1	25.0
ABERDEEN ASSET MANAGEMENT	1.8	0.0	3.8	-3.7	5.8
ANGELO GORDON GECC PPI FUND	0.0	0.8	1.6	-0.8	3.6
BRIGADE CAPITAL MANAGEMENT	0.0	2.3	1.6	0.7	3.6
BROWN BROTHERS HARRIMAN & CO	1.0	3.3	3.0	0.3	5.0
FRANKLIN TEMPLETON INVESTMENTS	2.5	4.7	4.5	0.2	6.5
WESTERN ASSET MGMT	1.8	4.7	3.8	0.9	5.8
PYRAMIS GLOBAL ADVISORS	1.8	5.4	3.8	1.7	6.8
PRIVATE EQUITY	8.0	1.7	8.0	-6.3	8.0
RISK PARITY	6.0	6.5	6.0	0.5	6.0
AQR GLOBAL RISK PREM III LP	6.0	6.5	6.0	0.5	6.0
HEDGE FUNDS	3.0	2.8	3.0	-0.2	3.0
AQR DELTA FUND II, L.P.	3.0	2.8	3.0	-0.2	3.0
COMMODITIES	3.0	2.9	3.0	-0.1	3.0
SSGA MULTISOURCE ACT COMM NL	3.0	2.9	3.0	-0.1	3.0
REAL ESTATE	3.0	5.9	5.0	0.9	7.0
INVESCO REAL ESTATE	3.0	5.9	5.0	0.9	3.0

San Mateo County Asset Allocation Over Time

December 31, 2012



SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 22, 2013

Agenda Item 6.2

TO: Board of Retirement

FROM: Michael Coultrip, Chief Investment Officer



SUBJECT: Discussion of 130/30 Manager Universe Comparison

Staff Recommendation:

Staff recommends that the Board review the attached analysis that shows the D.E. Shaw Broad Market Core Alpha Extension Strategy compared to the universe of 130/30 managers.

Background:

At the December 11th Board meeting, the Board asked Staff and Consultant to provide additional performance data on the universe of 130/30 managers in order to see how D.E. Shaw compared to their competitors.

Discussion:

The attached memo shows summary metrics for the 45 strategies that comprise the eVestment Alliance US Extended 130/30 Equity Universe.

Attachments:

- A. *130/30 Universe Comparison*

eA US Extended 130/30 Equity Universe

Firm Name	Product/Fund Name	Product			Primary Investment Approach	Status
		Total AUM (9/2012)	Inception Date	Preferred Benchmark		
J.P. Morgan Asset Management	Large Cap 130/30	17,300.00	5/7/2004	S&P 500	Fundamental	Closed
D. E. Shaw Investment Management, L.L.C.	D. E. Shaw Broad Market Core Alpha Extension Strategy	1,108.00	6/1/2007	Russell 1000	Quantitative	Active
First Quadrant L.P.	Extended Equity (130/30)	1,051.00	4/1/2008	Russell 1000	Quantitative	Active
J.P. Morgan Asset Management	Research 130/30	1,027.00	7/31/2007	S&P 500	Fundamental	Active
Pyramis Global Advisors	Large Cap Core 130/30	893.62	6/30/2006	S&P 500	Fundamental	Active
BlackRock	Alpha Advantage 500	859.90	---	S&P 500	Quantitative	Active
J.P. Morgan Asset Management	U.S. Dynamic 130/30	639.00	12/1/2007	S&P 500	Quantitative	Active
Robeco Investment Management	Robeco Boston Partners 130/30 Large Cap Value	623.65	3/1/2007	Russell 1000 Value	Fundamental	Active
Madison Square Investors LLC	Large-Cap Core 130/30	500.07	1/2/2007	Russell 1000	Quantitative	Active
Mellon Capital Management Corporation	130/30 Large Cap Core	447.80	10/31/2006	S&P 500	Quantitative	Active
The Boston Company Asset Management, LLC	US Large Cap Core 130/30 Equity	433.09	5/1/2007	S&P 500	Combined Approach	Active
Two Sigma Investments / Two Sigma Advisers	Two Sigma Constellation One	417.00	5/1/2008	S&P 500	Combined Approach	Active
Quantitative Management Associates LLC	Long/Short Quantitative Core Equity	365.00	7/1/2006	Russell 1000	Quantitative	Active
AJO, LP	AJO Large Cap - Absolute Value 130/30	345.84	4/30/2005	Russell 1000 Value	Quantitative	Active
American Century Investments	U.S. Large Cap Core 130/30	289.34	1/1/2007	S&P 500	Quantitative	Active
Numeric Investors LLC	Amplified Core (130/30)	261.60	7/1/2006	S&P 500	Quantitative	Active
Analytic Investors, LLC	Core Equity Plus SP 500 (130/30)	218.39	7/1/2002	S&P 500	Quantitative	Active
Los Angeles Capital Management and Equity Research Inc.	LA Capital U.S. Large Cap Active Extension (130/30)	214.87	11/1/2006	S&P 500	Combined Approach	Active
Martingale Asset Management, L.P.	130/30 LargeCap Growth	205.03	---	Russell 1000 Growth	Quantitative	Active
UBS Global Asset Management	US Equity 130/30	159.25	9/30/2005	Russell 1000	Fundamental	Active
Goldman Sachs Asset Management	Fundamental Equity 130/30	128.78	8/1/2008	S&P 500	Fundamental	Active
Analytic Investors, LLC	Core Equity Plus (130/30) (Russell 1000 Benchmark)	127.42	1/1/2006	Russell 1000	Quantitative	Active
J.P. Morgan Asset Management	Large Cap Value 130/30	124.00	11/30/2005	Russell 1000 Value	Fundamental	Active
AJO, LP	AJO Top Cap - Absolute Value 130/30	119.90	3/31/2007	Russell Top 200 Value	Quantitative	Active
Glenmede Investment Management LP	Large Cap 130/30	113.14	12/31/2005	Russell 1000	Quantitative	Active
Brandywine Global Investment Management, LLC	Diversified Large Cap Extended Equity	110.68	12/1/2007	Russell 1000 Value	Combined Approach	Active
D. E. Shaw Investment Management, L.L.C.	D. E. Shaw Broad Market Core Alpha Extension Plus Strategy	88.00	11/1/2006	Russell 1000	Quantitative	Closed
Convergence Investment Partners, LLC	Convergence Core Plus	78.39	12/29/2009	Russell 3000	Quantitative	Active
TWIN Capital Management, Inc.	TWIN Extended Alpha	73.40	1/1/2007	S&P 500	Quantitative	Active
State Street Global Advisors	Index Plus Edge Strategy	68.66	8/1/2005	S&P 500	Quantitative	Active
Glenmede Investment Management LP	Total Market 130/30	45.19	12/31/2006	Russell 3000	Quantitative	Active
D. E. Shaw Investment Management, L.L.C.	D. E. Shaw All Cap Core Alpha Extension Plus Strategy	40.00	12/1/2006	Russell 3000	Quantitative	Closed
Hillsdale Investment Management Inc.	Hillsdale US 130/30	21.25	6/14/2007	S&P 500	Quantitative	Active
Analytic Investors, LLC	Aggressive Core Plus (S&P 500 Benchmark)	13.04	3/1/2006	S&P 500	Quantitative	Active
Geode Capital Management, LLC	Geode Flexible Alpha	4.70	---	S&P 500	Quantitative	Active
American Century Investments	U.S. Disciplined Large Cap Growth 130/30	4.37	9/1/2007	Russell 1000 Growth	Quantitative	Active
Chicago Equity Partners	Large Cap 130/30	4.20	5/1/2007	S&P 500	Quantitative	Active
MFS Investment Management	MFS Blended Research - US Core Equity Extension	3.55	10/1/2006	S&P 500	Combined Approach	Active
Golden Capital Management, LLC	Extended Alpha	1.15	8/31/2008	S&P 500	Quantitative	Active
Algert Coldiron Investors, LLC	ACI Large Cap 130/30 Fund	0.41	11/1/2006	S&P 500	Quantitative	Active
Martingale Asset Management, L.P.	Low Volatility 130/30 LargeCap+	0.09	1/1/2008	Russell 1000	Quantitative	Active
Martingale Asset Management, L.P.	130/30 LargeCap Core 500	0.08	---	S&P 500	Quantitative	Active
Martingale Asset Management, L.P.	130/30 LargeCap Value	0.08	---	Russell 1000 Value	Quantitative	Active
SSI Investment Management Inc.	SSI 130/30 Extended Alpha Strategy	0.00	7/1/2007	S&P 500	Combined Approach	Active
Hartford Investment Management Company	US Large Cap Equity 130/30	---	1/1/2007	S&P 500	Quantitative	Active

Core Strategies sorted by AUM		9/30/2012	Excess Return using S&P 500									
Firm Name	Product/Fund Name	1 Year	3 Years	5 Years	2011	2010	2009	2008	2007	TE - 3 Years using S&P 500	TE - 5 Years using S&P 500	
J.P. Morgan Asset Management	Large Cap 130/30	0.54	-0.67	2.41	-4.88	0.38	11.57	2.96	9.82	2.90	3.15	
D. E. Shaw Investment Management, L	D. E. Shaw Broad Market Core Alpha	4.67	2.03	4.15	2.23	0.77	8.67	3.18	---	3.47	3.54	
First Quadrant L.P.	Extended Equity (130/30)	-0.29	0.78	---	1.45	2.22	-5.15	---	---	2.21	---	
J.P. Morgan Asset Management	Research 130/30	1.75	-0.16	1.86	-4.22	-0.04	12.87	0.81	---	2.80	3.36	
Pyramis Global Advisors	Large Cap Core 130/30	2.80	-2.49	-1.17	-8.47	1.42	8.38	-10.03	24.56	4.68	10.02	
BlackRock	Alpha Advantage 500	5.25	1.45	0.44	1.54	0.35	-1.99	-0.41	-4.52	2.80	2.82	
J.P. Morgan Asset Management	U.S. Dynamic 130/30	-0.30	-2.38	1.84	-0.99	-4.88	4.70	1.67	16.99	1.75	4.71	
Robeco Investment Management	Robeco Boston Partners 130/30 Large	7.03	-0.38	2.32	-0.05	-2.15	-0.96	7.56	---	3.81	5.40	
Madison Square Investors LLC	Large-Cap Core 130/30	1.22	0.29	-0.07	1.78	-0.14	-5.49	2.84	-4.81	1.46	4.42	
Mellon Capital Management	130/30 Large Cap Core	3.17	1.70	1.37	2.70	0.59	-4.28	2.67	---	2.37	2.73	
The Boston Company	US Large Cap Core 130/30 Equity	-1.61	-1.77	-0.62	-10.21	2.55	2.67	-1.03	---	5.58	5.00	
Two Sigma Investments	Two Sigma Constellation One	12.93	15.79	---	14.44	20.89	19.24	---	---	3.17	---	
Quantitative Management	Long/Short Quantitative Core Equity	5.73	2.70	0.82	2.40	0.85	-3.73	1.54	-0.61	2.35	3.54	
AJO, LP	AJO Large Cap - Absolute Value 130/	-0.54	0.86	-0.07	0.93	1.11	-12.44	7.76	-8.68	3.26	5.39	
American Century Investments	U.S. Large Cap Core 130/30	0.52	2.31	1.87	2.17	4.76	-5.01	4.91	1.91	3.05	3.47	
Numeric Investors LLC	Amplified Core (130/30)	5.76	0.22	-0.56	4.20	-9.45	0.41	-1.69	1.10	4.93	6.75	
Analytic Investors, LLC	Core Equity Plus SP 500 (130/30)	-1.99	0.38	-0.39	1.31	-3.73	-2.60	-1.20	5.57	4.07	4.29	
Los Angeles Capital Management	LA Capital U.S. Large Cap Active Ext	1.55	0.81	2.68	-1.26	5.09	4.22	1.01	5.90	3.59	4.51	
Martingale Asset Management, L.P.	130/30 LargeCap Growth	0.83	-0.11	0.78	1.97	-1.23	1.28	-0.25	6.17	2.95	6.00	
UBS Global Asset Management	US Equity 130/30	-4.02	-4.58	-2.09	-3.84	-5.74	11.95	-3.88	-3.63	3.31	5.49	
Goldman Sachs Asset Management	Fundamental Equity 130/30	3.09	-4.37	---	-11.68	-2.71	4.53	---	---	5.25	---	
Analytic Investors, LLC	Core Equity Plus (130/30) (Russell 10	-1.74	0.91	-0.11	1.58	-3.85	0.12	-2.69	6.75	4.85	4.96	
J.P. Morgan Asset Management	Large Cap Value 130/30	-0.60	-3.66	-1.91	-7.22	-1.69	8.79	-1.46	-5.10	4.30	5.34	
AJO, LP	AJO Top Cap - Absolute Value 130/30	4.39	-2.21	-1.55	1.55	-7.18	-20.21	9.97	---	3.99	7.36	
Glenmede Investment	Large Cap 130/30	-3.19	0.28	0.84	3.84	1.75	-1.62	2.50	1.27	4.54	5.24	
Brandwine Global Investment	Diversified Large Cap Extended Equit	4.17	0.67	1.77	5.93	-5.20	-14.93	10.82	---	3.25	6.41	
D. E. Shaw Investment	D. E. Shaw Broad Market Core Alpha	6.05	2.68	4.37	2.25	1.08	5.15	3.37	2.29	3.52	4.49	
Convergence Investment	Convergence Core Plus	---	---	---	3.33	9.59	---	---	---	---	---	
TWIN Capital Management, Inc.	TWIN Extended Alpha	-2.68	-0.23	-0.01	1.80	-1.11	1.66	-1.29	4.92	1.51	2.56	
State Street Global Advisors	Index Plus Edge Strategy	0.71	1.54	-0.99	5.22	-0.49	-3.93	-2.29	-4.77	1.93	2.63	
Glenmede Investment	Total Market 130/30	-4.77	-0.83	-0.47	-0.12	4.85	-4.91	3.28	-7.16	5.31	5.73	
D. E. Shaw Investment	D. E. Shaw All Cap Core Alpha Exten	6.13	1.48	3.64	1.44	-0.42	5.48	3.24	0.40	4.03	4.71	
Hillsdale Investment	Hillsdale US 130/30	-4.31	1.59	4.30	-0.25	10.66	12.58	-0.95	---	6.18	9.46	
Analytic Investors, LLC	Aggressive Core Plus (S&P 500 Benc	-1.09	-0.93	-1.22	1.83	-5.67	-4.43	-1.43	3.17	4.02	4.77	
Geode Capital Management, LLC	Geode Flexible Alpha	1.48	1.58	2.47	2.45	1.22	0.35	5.35	1.92	1.23	2.66	
American Century Investments	U.S. Disciplined Large Cap Growth 13	0.79	6.05	12.62	3.57	10.34	7.51	27.40	---	4.85	20.30	
Chicago Equity Partners	Large Cap 130/30	1.65	2.05	2.17	4.71	-1.27	-2.98	3.93	---	2.11	3.74	
MFS Investment Management	MFS Blended Research - US Core Eq	6.61	2.59	2.12	-0.82	4.50	-4.30	3.37	2.20	4.61	4.22	
Golden Capital Management, LLC	Extended Alpha	-0.27	2.92	---	5.64	1.01	1.85	---	---	2.29	---	
Algert Coldiron Investors, LLC	ACI Large Cap 130/30 Fund	-3.10	4.59	3.23	10.97	7.91	-0.44	1.18	-0.95	4.87	5.11	
Martingale Asset Management, L.P.	Low Volatility 130/30 LargeCap+	-4.88	3.93	---	15.02	-3.14	-25.88	16.90	---	11.20	---	
Martingale Asset Management, L.P.	130/30 LargeCap Core 500	0.45	-1.16	-0.78	3.18	-3.29	-5.69	0.82	3.12	2.71	3.95	
Martingale Asset Management, L.P.	130/30 LargeCap Value	-0.20	-2.22	-2.96	1.81	-1.88	-11.59	0.05	-3.99	4.48	5.18	
SSI Investment Management Inc.	SSI 130/30 Extended Alpha Strategy	1.18	-2.99	-0.60	-4.25	-3.48	2.97	-2.60	---	2.90	4.14	
Hartford Investment Management	US Large Cap Equity 130/30	-2.34	0.28	2.08	5.78	-1.35	-1.38	6.52	2.19	2.75	3.56	

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 22, 2013

Agenda Item 6.3

TO: Board of Retirement

FROM: Michael Coultrip, Chief Investment Officer

SUBJECT: Discussion of Fixed Income Manager Structure

Michael R Coultrip

Staff Recommendation:

Staff recommends that the Board review the attached analysis that shows risk characteristics of various fixed income manager structure allocations.

Background:

During the October 2012 Board meeting the Board approved a \$35 million allocation to the new Angelo Gordon STAR Fund as a replacement of our original PPIP investment with them (which is now in run-off mode). There was a request to see the impact on the fixed income program's risk level of allocating to the new Angelo Gordon STAR Fund.

Discussion:

The attached memo outlines three manager structure scenarios: 1) 12/31/12 Allocation, 2) 12/31/12 Allocation with New Angelo Gordon Fully Funded, and 3) Target with Aberdeen Proceeds Split 60%/40% to Pyramis/WAMCO.

The first and third scenarios show that the current and 'target' allocation risk metrics are very comparable (as they should be assuming that we are close to our target weights). Scenario #2 is meant to show the extreme situation where we have to immediately fund the remaining STAR fund commitment (\$17 million) and that we stop receiving distributions from the PPIP fund. In this case the estimated total risk of the fixed income program would increase approximately 30 basis points (5.6% vs. 5.3%) with an associated higher active return and active risk, resulting in an expected information ratio in line with our target allocation.

Attachments:

A. *Fixed Income Manager Structure Models & Scenarios*

Manager Models

	CREDINT	CREDLNG	GOVINT	GOVLNG	MORTGAGE	HIGHYLD	BANKLOAN	INTLBOND	TIPS	EMDEBT	OTHER	TE	IR	Alpha
Aberdeen	19.3%	7.8%	36.0%	5.3%	31.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.4%	0.3	1.0%
Pyramis	19.3%	7.8%	36.0%	5.3%	31.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.7%	0.3	0.5%
Western	19.3%	7.8%	36.0%	5.3%	31.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.6%	0.3	1.1%
Brown	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.7%	0.3	0.2%
Angelo Gordon	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	10.0%	0.3	3.0%
Brigade	0.0%	0.0%	0.0%	0.0%	0.0%	50.0%	50.0%	0.0%	0.0%	0.0%	0.0%	4.3%	0.3	1.3%
FT	7.0%	2.8%	13.1%	1.9%	11.5%	3.9%	0.0%	59.8%	0.0%	0.0%	0.0%	8.0%	0.3	2.4%

Residual Returns Correlations

	Aberdeen	Pyramis	Western	Brown	AG	Brigade	FT
Aberdeen	1.00	0.93	0.90	-0.67	0.87	-0.80	0.46
Pyramis	0.93	1.00	0.93	-0.64	0.81	-0.90	0.58
Western	0.90	0.93	1.00	-0.53	0.87	-0.76	0.65
Brown	-0.67	-0.64	-0.53	1.00	-0.36	0.25	-0.35
Angelo Gordon	0.87	0.81	0.87	-0.36	1.00	-0.10	0.80
Brigade	-0.80	-0.90	-0.76	0.25	-0.10	1.00	-0.51
FT	0.46	0.58	0.65	-0.35	0.80	-0.51	1.00

12/31/12 Allocation

	Weights	\$
Pyramis	24.9%	\$ 139
Western	21.4%	\$ 120
Brown	15.0%	\$ 84
Angelo Gordon	7.0%	\$ 39
Brigade	10.4%	\$ 58
FT	21.4%	\$ 120
Total	100.0%	\$ 559

Style Risk	1.08%
Active Risk	2.98%
Risk to Bench	3.18%
Alpha	1.25%
IR	0.39
Total Risk	5.32%

12/31/12 Allocation with new Angelo Gordon Fund Fully Funded

	Weights	\$
Pyramis	24.1%	\$ 139
Western	20.8%	\$ 120
Brown	14.6%	\$ 84
Angelo Gordon	9.7%	\$ 56
Brigade	10.1%	\$ 58
FT	20.8%	\$ 120
Total	100.0%	\$ 576

Style Risk	1.52%
Active Risk	3.19%
Risk to Bench	3.53%
Alpha	1.30%
IR	0.37
Total Risk	5.59%

Target with Aberdeen Proceeds Split 60%/40% to Pyramis/WAMCO

	Weights	\$
Pyramis	30.0%	\$ 180
Western	20.0%	\$ 120
Brown	15.0%	\$ 90
Angelo Gordon	7.5%	\$ 45
Brigade	7.5%	\$ 45
FT	20.0%	\$ 120
Total	100.0%	\$ 600

Style Risk	1.10%
Active Risk	3.02%
Risk to Bench	3.22%
Alpha	1.20%
IR	0.37
Total Risk	5.33%

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 22, 2013

Agenda Item 6.4

TO: Board of Retirement

FROM: Michael Coultrip, Chief Investment Officer



SUBJECT: Presentation Regarding Overlay Management

Staff Recommendation:

Staff recommends that the Board review the attached presentation from SIS regarding overlay management.

Background:

In January 2012, Gary Clifton and two members of the Board attended a presentation by The Clifton Group regarding the benefits of their cash overlay program. As a follow-up to this presentation, SIS will provide a strategic overview that summarizes the different services that an overlay manager can perform for SamCERA, in addition to cash overlay.

Discussion:

The attached presentation outlines the services that an overlay manager can perform for SamCERA, including portfolio rebalancing, cash equitization (both manager frictional cash and portfolio-level cash), expressing tactical allocation shifts, and hedging interest rate and currency risks. SIS will present this topic during the Board meeting.

Attachments:

- A. *SIS Overlay Presentation*

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Strategic Overlay Education

Strategic Investment Solutions, Inc.

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

Discussion Topics

Overview on Plan Overlay Services

Implementation

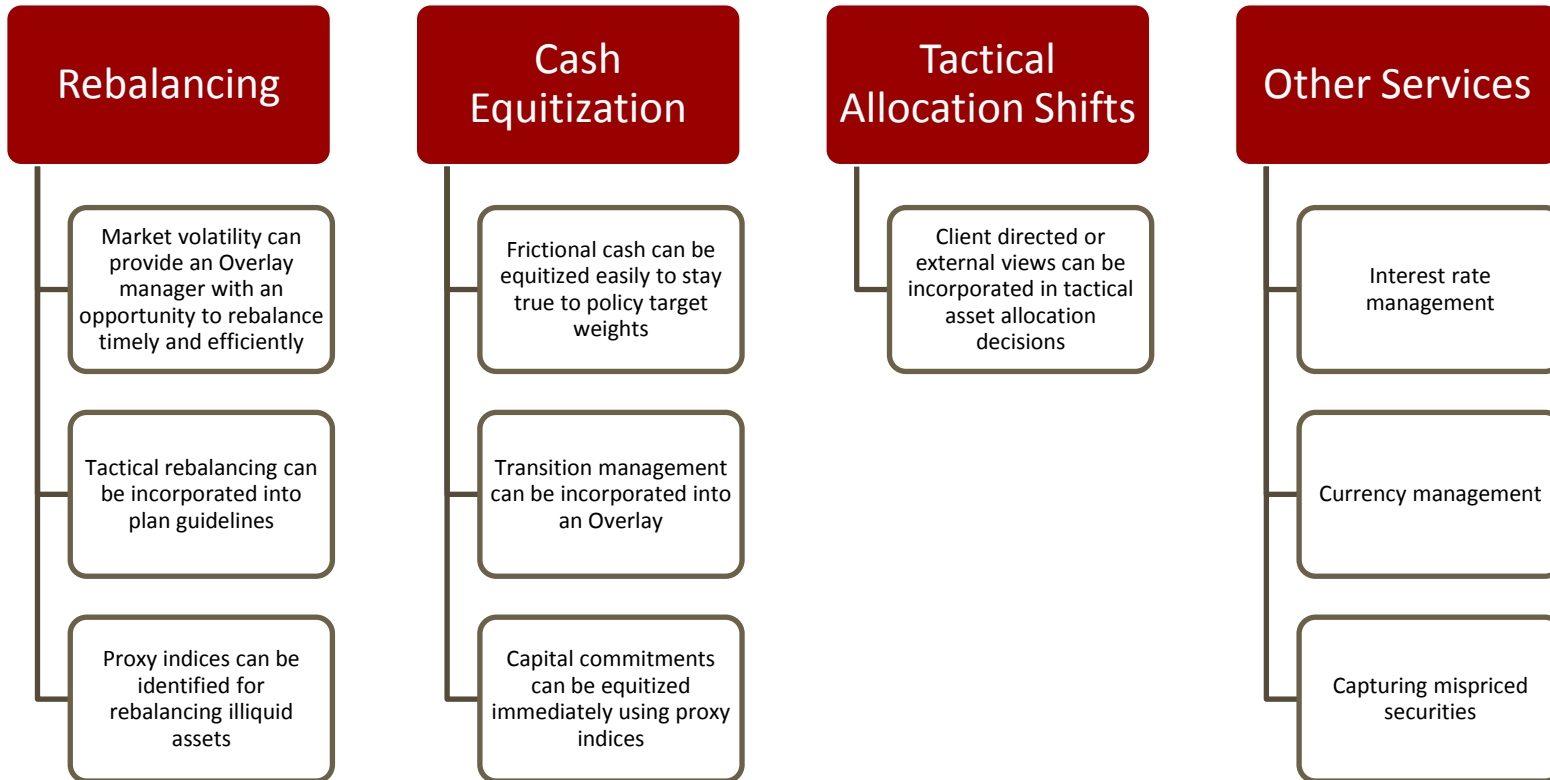
Cost/Benefit

Providers

What is an Overlay Strategy?

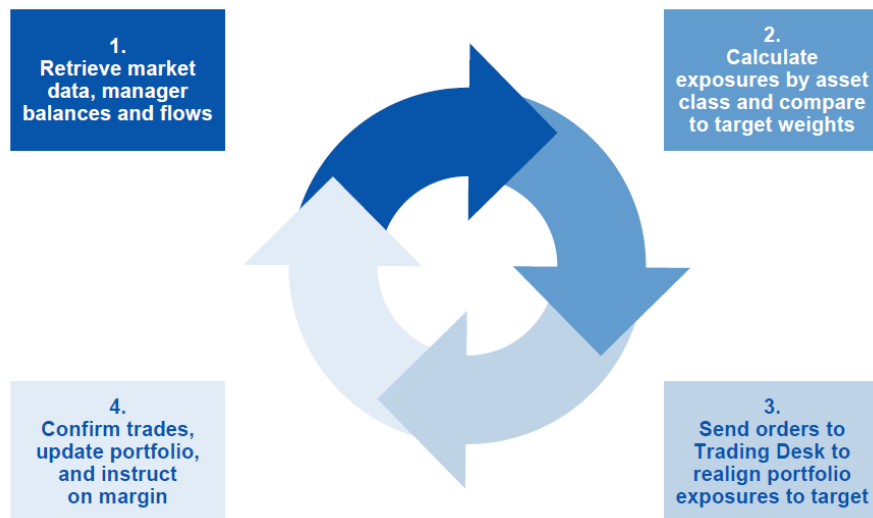
- Overlay provides investors a method to maintain policy weights, effect transition management, rebalance efficiently, equitize cash, manage currency and/or interest rate exposure, and assist in tactical asset allocation decisions
- Utilizing a small amount of cash, an overlay strategy will employ, primarily, derivatives but also physical securities to accomplish some or all of the above objectives.
- For Example:
 - SamCERA may have frictional cash that has accumulated in their cash reserves account. This causes the plan to deviate from the investment policy target and creates a performance drag. Overlay providers can securitize this cash daily by purchasing futures to match the policy target weight.

What can an Overlay can do for SamCERA?



How an Overlay works:

- Providers receive position, cash flow and trade data from custodians, managers and the client.
- Data will be analyzed to find current allocation and compare to policy target.
- Trades will be implemented by the provider that bring a plans allocation back in line with the target weights.



Securities Available for Exposure Management

	Index Funds/ETFs	Futures	Swaps
Pros	<ul style="list-style-type: none">• Available across major markets• Tight Tracking Error• Can accommodate daily cash flows	<ul style="list-style-type: none">• No disruption to underlying managers• Can be used to equitize cash• Low transaction costs• Low capital requirement	<ul style="list-style-type: none">• Complete customization• Offers low tracking error• Transaction costs low in certain markets• Low capital requirements
Cons	<ul style="list-style-type: none">• Funding may require selling alpha generating investments• Costs can be higher depending on the underlying index	<ul style="list-style-type: none">• Not available for all asset classes• Basis risk between contract and underlying asset• Roll costs could be prohibitive long term	<ul style="list-style-type: none">• Most swaps are OTC• Counter party risk and ISDA requirements• Less liquid

Overlay Transition Management

- **Issue:**
 - Manager changes, manager rebalancing, liquidation of illiquid holdings (private equity/hedge funds) can cause a plan to deviate from target exposures
- **Solution:**
 - Reduce or eliminate exposure mismatches using physical securities (ETFs) or derivatives (futures/swaps)
- **Benefit:**
 - Tracking error vs. the policy benchmark is reduced
 - Manager termination process can be streamlined as well as increased flexibility in the hiring/firing decision

Cost/Benefit

Example of the benefit of an Overlay service:

Cost/Benefit Illustration:

Fund Size:	\$5,500,000,000
Unintended Cash Exposure:	3%

Performance Benefits

Cash Deployment (assumes 4% risk premium):	\$6,600,000
Disciplined Rebalancing (assumes 10 basis points annually)	\$5,500,000
Estimated Program Costs ¹	<u>(\$263,000)</u>
Expected Net Annual Benefit	\$11,837,000
Expected 5 Year Benefit	\$59,185,000

In this example, the estimated performance benefit-to-cost relationship is over 45 to 1.

Qualitative Benefits

- Improved Liquidity and Operating Efficiencies
- Improved Daily Monitoring of Fund Exposures
- Transition Management Flexibility/Risk Control
- Flexibility to Manage Currency and Interest Rate Exposures

Source: Clifton Group

Cost/Benefit

- Fees for Overlay strategies are tied to the notional value of the overlay investments.
 - Fees will depend largely on the complexity of services the client desires

Ex) Plan Total Assets: \$5,000,000,000
Cash Exposure: 3% (\$150M)

Simple Overlay

1. Flat fee schedule on Notional - \$150M
0.07% on Balance
\$105,000/year

Complex Overlay

2. Tiered Fee Schedule on Notional - \$150M
0.20% on the first \$50M
0.15% on the Balance
\$250,000/year

Providers

Blackrock

Clifton

Mellon

Russell

State Street

Terms to be Familiar With

■ **ETFs/Index Funds:**

- ETFs track an index, commodity or basket of assets much like a mutual fund but trade on an exchange like an individual stock. Since they trade intraday, they will fluctuate in price based on buying and selling but will not deviate much from their net asset value

■ **Futures:**

- Derivative securities traded on futures exchanges that require a buyer (seller) to purchase (sell) an asset at a predetermined future date and price

■ **Swaps:**

- Derivative securities mostly in the Over the Counter (OTC) market (i.e. not on a formal exchange) that requires one party to make payments at a predetermined set rate (fixed or variable) while the other party makes payments based on the return of an underlying asset.
- Ex.) **Equity Total Return Swap** - would require one party to make payments based on Libor + 2% while the other party must pay the total return on the S&P 500. The returns are netted at the end of the swap arrangement.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 22, 2013

Agenda Item 6.5

TO: Board of Retirement

FROM: Michael Coultrip, Chief Investment Officer



SUBJECT: Discussion on Proposed Changes to the Investment Policy

Staff Recommendation:

Review the attached working draft of the updated Investment Policy and provide comments during this agenda item, which is intended to be a free-form discussion.

Background:

The Investment Committee's work plan calls for an annual review of *SamCERA's* Investment Policy Statement (IPS). That annual review was suspended due to multiple changes to the portfolio structure that the Board has undertaken. *SamCERA's* IPS was last reviewed in January 2012. The Board discussed the goals and investment objective sections of the IPS at the September meeting, and instructed Staff and Consultant to lead the effort in revising the policy.

Discussion:

Staff streamlined the current IPS by removing sections that it did not believe needed to be in the IPS. Next, the remaining sections were reordered to be more consistent with current practice. As you review this draft, please ignore the yellow highlights as these are just to track when a certain Section is cited. The green highlights represent items that I would like to discuss during the Board meeting. Also, Section 9 will serve as a template for updates to Sections 10 through 16. This working draft incorporates preliminary feedback from SIS.

Attachments:

A. *SamCERA Investment Policy Working Draft 1.15.13*

Working Draft of SamCERA's Investment Policy

Revision V2

November 2012

January 2013

1.0 INTRODUCTION

The San Mateo County Employees' Retirement Association ("SamCERA") was created by San Mateo County Ordinance No. 564 adopted by the Board of Supervisors, effective July 1, 1944.

The nine-member Board of Retirement is composed of the County Treasurer, four trustees appointed by the Board of Supervisors and four trustees elected from the membership. There are two alternate trustees. One is elected by the safety members and one by the retired members. The trustees' three-year terms are staggered to provide for continuity in the management of the association.

SamCERA was organized in accordance with the provisions of California's County Employees' Retirement Law of 1937. The powers and duties of the board are set forth in the '37 Act and in Article XVI of the State Constitution.

Included among the board's duties are the mandate to assure the association's actuarial soundness and the prudent investment of the assets of the retirement fund.

This Investment Policy incorporates the board's policies, objectives, strategies, implementation programs and procedures for fulfilling its fiduciary obligation to manage the assets of the retirement fund with *the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.*

The Board of Retirement (the "Board"), having exclusive authority and exclusive fiduciary responsibility for the investment and administration of the Trust Fund (the "Fund"), hereby establishes the following Investment Policy (the "Policy") for the investment of SamCERA's assets. The Board reserves the right to amend, supplement or rescind this Policy at any time.

The Board is directed by law and given discretion to prudently invest the retirement plan assets. The purpose of this statement of Policy is to assist SamCERA in effectively supervising said investments and to encourage effective communication between SamCERA and its investment managers (the "Manager(s)") and investment consultants (the "Consultant(s)").

2.0 MISSION & PURPOSE

SamCERA exists to serve as loyal fiduciary for its members and as prudent administrator of the retirement system. SamCERA's overall goal is to provide caring, fair, accurate, timely and knowledgeable professional service to SamCERA's clients and the public.

In addition, it aims to prudently manage the assets in order to appropriately fund the actuarial liabilities of the retirement system and assure the ability to pay all earned benefits while minimizing the costs to its employers. And finally, SamCERA strives to constantly improve the effectiveness of SamCERA's services and the efficiency of its operations.

3.0 ROLES AND PRINCIPAL DUTIES

The Fund investments shall be prudently planned, implemented, managed, and monitored. The Board, Investment Committee (the “Committee”), investment staff (the “Staff”), Consultant (the “Consultant”), Custodian Bank (the “Custodian”), and Managers shall coordinate this process. The roles and principal duties of the above-mentioned parties are defined below:

A. THE BOARD shall review and approve Committee recommendations. The Board also reviews, adopts and monitors all investment policies, guidelines and procedures required to prudently administer the Fund and to effectively mitigate risk to the Fund.

B. THE COMMITTEE shall identify issues pertinent to the effective investment and administration of the Fund and, on Board approval, initiate analysis of such issues by Staff, Consultant or Managers. It also reviews Staff’s and Consultant’s recommendations regarding all investment policies and investment Fund management. The Committee provides recommendations to the Board for adoption, oversees implementation, and monitors the investment programs in accordance with all applicable laws and Board-established policies, guidelines and procedures. Refer to Attachment A – Charter of SamCERA’s Investment Committee of the Board for detailed Committee responsibilities.

C. THE STAFF shall oversee the Fund’s investment program activities, implement the Board decisions, make recommendations to the Committee regarding Fund management, and recommend investment-related policies and procedures to the Committee. Additionally, Staff monitors the performance and compliance of Managers in accordance with all applicable laws, Board-established policies, guidelines and procedures, as well as Schedule B Investment Guidelines set out in the investment management agreement (IMA) between SamCERA and each Manager. Staff also facilitates the Committee meetings and completes activity as directed by the Board.

D. THE CONSULTANT shall review, analyze and evaluate the Fund’s effectiveness and efficiency and make fund management related recommendations. Consultant assists Staff in implementing the Board decisions and developing all investment-related policies. Consultant’s responsibilities are detailed in the service agreement between SamCERA and Consultant.

E. THE CUSTODIAN shall provide custody of SamCERA’s investment assets. In addition, Custodian will manage the securities lending program. The Custodian’s responsibilities are detailed in the service agreement between SamCERA and Custodian.

F. THE MANAGERS shall prudently manage their mandated allocations in accordance with all applicable laws, Board-established policies, guidelines and procedures, as well as Specific Investment Guidelines. Managers’ responsibilities are detailed in the Investment Management Agreement (IMA) between SamCERA and Manager.

4.0 INVESTMENT OBJECTIVES

The overarching investment objective of the Fund is to efficiently allocate and manage the

Fund assets in order to provide for the payment of benefit payments. The following specific objectives are set forth with this in mind.

A. Generate portfolio risk-adjusted returns that exceed the **asset allocation portfolio benchmark** on a net of fee basis over a five-year rolling basis.

B. Provide returns in line with a traditional 60% Equity / 40% Fixed Income portfolio with lower drawdowns over a full market cycle.

C. Provide for moving toward full funding of the Pension Benefit Obligation based on GASB 25 and the Board's policy of a moving fifteen year funding period.

D. Achieve a portfolio return consistent with the long-term forecast of capital market returns for the asset allocation portfolio benchmark over multiple economic cycles (e.g. 15-20 years).

5.0 INVESTMENT POLICY

It is the Investment Policy of the Board to:

A. Pursue an investment strategy that reduces volatility of returns through the prudent diversification of the portfolio across a broad selection of distinct asset classes, as provided for in **Section 6** of this Investment Policy.

B. Further diversify other risks, including extreme events, liquidity, and leverage by looking beyond traditional asset class definitions by utilizing multiple lens of portfolio risks.

C. Adopt an asset allocation target to guide the structure of the investment portfolio, as provided for in **Section 6**, and reevaluate on an annual basis.

D. Reevaluate the asset-liability study every **three to five years**.

E. Delegate full discretion to each investment manager, to the extent authorized in their IMA.

E. Adopt objectives which encourage the investment managers to maximize their performance, within acceptable risk parameters, relative to their individual investment style benchmark.

F. Refrain from dramatically shifting asset class allocations over short time spans.

G. Discourage the use of cash equivalents, except for liquidity purposes.

H. Monitor the performance of its investment managers, relative to their assigned custom benchmarks to assure their conformance with the provisions of the board's investment policy, as provided for in **Section 8**.

I. Rebalance the portfolio in accordance to the Rebalancing Policy set forth in **Section 7**.

J. For those asset classes evidencing market efficiencies, the manager structure will favor the employment of passive strategies.

6.0 ASSET ALLOCATION & PORTFOLIO STRUCTURE

The target asset class allocation, rebalancing ranges, and the sub-asset class portfolio structure of the Fund shall be allocated as follows:

ASSET CLASS	TARGET ALLOCATION	REBALANCE RANGE
Equity	53%	±3%
Fixed Income	22%	±2%
Alternative Assets *	20%	±2%
Real Estate *	5%	±2%

* Recognizing the illiquidity of the asset class, rebalancing will be considered over six to twelve month periods.

A. The Public Equity Assets shall be allocated to managers reflecting the following investment asset classes:

EQUITY ASSET CLASSES	TARGET ALLOCATION
Large Capitalization Domestic	26.00%
Passive Core	12.50%
Active Core	4.50%
Growth	4.50%
Value	4.50%
Small Capitalization Domestic	9.00%
Growth	4.50%
Value	4.50%
International	18.00%
Growth	6.00%
Value	7.75%
Small Capitalization	2.00%
Emerging Market	2.25%
TOTAL EQUITY (EXCLUDING PE)	53.00%

B. The Fixed Income Assets shall be allocated to managers reflecting the following investment asset classes:

FIXED INCOME ASSET CLASSES	TARGET ALLOCATION
Domestic Core	7.50%
Domestic Core Plus	3.75%
Domestic Opportunistic	3.25%

Domestic Inflation Protection	3.00%
Global Bonds	4.50%
TOTAL FIXED INCOME	22.00%

C. The Alternative Assets shall be allocated to managers reflecting the following investment asset classes:

ALTERNATIVE ASSET CLASSES	TARGET ALLOCATION
Private Equity	8.00%
Hedge Fund	3.00%
Commodities	3.00%
Risk Parity	6.00%
TOTAL ALTERNATIVE ASSETS	20.00%

D. The Real Estate Assets shall be allocated to managers reflecting the following investment styles:

REAL ESTATE ASSET CLASSES	TARGET ALLOCATION
Core	5.00%
TOTAL REAL ESTATE	5.00%

7.0 REBALANCING POLICY

A. The Chief Investment Officer shall rebalance the portfolio quarterly or as needed in conformance with the asset allocation tactical ranges set forth in Section 6. All rebalancing activity shall be reported to the Board in writing at the next scheduled meeting.

B. The Chief Investment Officer shall issue instructions to managers to sell or transfer securities for reallocation to other managers or other asset classes when necessary to rebalance the portfolio.

C. All interest, dividends, net operating revenue and capital gains shall be reinvested by the investment manager accountable for the underlying investment.

8.0 GENERAL MANAGER INVESTMENT PERFORMANCE POLICIES

The responsibility for securities selection and purchase and sale decisions is delegated to the external investment managers. The individual performance objectives for each investment manager will be established within the investment management agreement (IMA) with each firm.

The Board expects to measure investment performance quarterly and will generally follow prudent time horizons when evaluating short term, intermediate term, and long term performance of its investment managers. Generally, the Board defines underperformance as either:

- (a) Cumulative annualized performance (net of fees) over a three-year period below a broad market based benchmark return times 0.9, or five year return (net of fees) below the broad market based benchmark return, And / Or
- (b) Performance will be evaluated in light of the manager's stated style and discipline.

9.0 PUBLIC EQUITY INVESTMENT POLICIES

PUBLIC EQUITY OVERVIEW: Public equity returns are expected to be higher than that provided from fixed income but at potentially higher levels of volatility levels. Exposure to this asset will provide return streams generally correlated to that of the general economic growth. There are two primary parts to the Public Equity category: 1) Domestic Equity, and 2) International Equity.

PUBLIC EQUITY MANAGER STRUCTURE: For the domestic equity program, the majority of the tracking error will come from stock selection via active management as the overall manager structure for domestic equities will not possess any significant biases in terms of investment style. Also, the domestic equity asset class will contain both active and passive strategies.

PUBLIC EQUITY PERFORMANCE OBJECTIVE:

The performance objective of the Public Equity Category is to outperform on a net of fee basis a customized index incorporating the weighted average components for both the domestic and international equity parts (which results in the following weights: 50.90% Russell 1000, 15.1% Russell 2000, and 34% MSCI World ex US IMI), with a maximum tracking error of 3% to this benchmark.

PUBLIC EQUITY RISK EXPOSURES AND RISK MITIGATION:

TBD

ASSET CLASS	BENCHMARK INDEX
Total Public Equity	Customized Benchmark Portfolio
Domestic Equity	80% Russell 1000 / 20% Russell 2000
Large Capitalization Domestic Equity	Russell 1000

Passive Core	S&P 500
Active Core	S&P 500
Large Growth	Russell 1000 Growth
Large Value	Russell 1000 Value
Small Capitalization Domestic Equity	Russell 2000
Small Growth	Russell 2000 Growth
Small Value	Russell 2000 Value
International Equity	MSCI All Country World ex US IMI
Developed International	MSCI All Country World ex US
Developed International Growth	MSCI ACWI Free ex US Growth
Developed International Value	MSCI ACWI Free ex US Value
International Small	MSCI ACWI Small Cap ex US
Emerging Markets	MSCI Emerging Markets Free

10.0 FIXED INCOME INVESTMENT POLICIES

FIXED INCOME OVERVIEW:

ASSET CLASS	BENCHMARK INDEX
Fixed Income	Barclays Capital Aggregate Bond Index
Domestic Fixed Income	Barclays Capital Aggregate Bond Index
Core/Core Plus	Barclays Capital Aggregate Bond Index
Opportunistic Credit	Barclays Capital BA Intermediate High Yield Index
Inflation Protection	Barclays Capital US TIPS Index
Global Fixed Income	Barclays Capital Multiverse Index

11.0 REAL ESTATE INVESTMENT POLICIES

REAL ESTATE PERFORMANCE OBJECTIVES:

REAL ESTATE INVESTMENT GUIDELINES:

Real estate investment managers typically must have significant latitude in the strategies and investments they make and the leverage they introduce into a portfolio. As a result, it is generally not feasible to impose guidelines and restrictions on such managers, beyond the guidelines and restrictions delineated in the offering memorandum and limited partnership agreements of each fund.

(a) Diversification:

The Board will employ commingled fund vehicles in this asset class.

The commingled fund vehicle may not exceed a concentration of 40% (by value) in any single property type or 25% in any single metropolitan statistical area, determined as of the date of the acquisition of a property.

Commingled fund vehicles shall be diversified as to region, property type, industry and economic base.

(b) Quality: All assets must be of institutional quality as evidenced by tax-exempt institutional investment in similar properties, high quality construction and design, a market with underlying fundamental strengths and a strong location.

ASSET CLASS	BENCHMARK INDEX
Real Estate	NCREIF ODCE

12.0 ALTERNATIVE ASSETS INVESTMENT POLICIES

ALTERNATIVE ASSET PERFORMANCE OBJECTIVES: As set forth in Section 7.

ALTERNATIVE ASSET GUIDELINES: The responsibility for alternative asset securities selection and purchase and sale decisions is delegated to the alternative asset investment managers.

Alternative investment managers typically must have significant latitude in the strategies and investments they make and the leverage they introduce into a portfolio. As a result, it is generally not feasible to impose guidelines and restrictions on such managers, beyond the guidelines and restrictions delineated in the offering memorandum and limited partnership agreements of each fund.

(a) Diversification:

Any alternative investment portfolio shall be expected to be well diversified with a minimum of five investments to be made in five different companies, ventures or investments.

Quality: All assets must be of institutional quality as evidenced by tax-exempt institutional investment in similar investment opportunities. Investments must provide exposure consistent with the stated goal of the alternatives sub-asset class. All categories of alternatives must contribute meaningful return-enhancing or diversifying properties to the overall *SamCERA* portfolio.

ASSET CLASS	BENCHMARK INDEX
Alternatives	Customized Benchmark Portfolio
Private Equity	Russell 3000 + 3.0%
Commodities	Dow Jones-UBS Commodity
Hedge Funds	LIBOR + 4.0%
Risk Parity	60% Russell 3000 & 40% BC Aggregate

13.0 PRIVATE EQUITY INVESTMENT POLICIES

PRIVATE EQUITY PERFORMANCE OBJECTIVES:

The responsibility for private equity sourcing is delegated to *SamCERA's* investment consultant.

Private equity managers typically must have significant latitude in the strategies and investments they make and the leverage they introduce into a portfolio. As a result, it is generally not feasible to impose guidelines and restrictions on such managers, beyond the guidelines and restrictions delineated in the offering memorandum and limited partnership agreements of each fund.

The private equity portfolio, shall adhere to the following investment guidelines covering (a) diversification, (b) quality, (c) restricted transactions (d) and public disclosures:

(a) Diversification: Subject to availability of sufficient attractive opportunities, the portfolio is to be diversified over multiple years by the following:

Sub-Asset Class: Among buyouts, venture capital, and debt-related / special situations investments, including the purchase of secondaries in the aforementioned sub-asset classes.

Vintage Year: It is expected that roughly equal amounts of new funding will be committed in each calendar year, with deviations permitted to accommodate market opportunities and to facilitate initial entry into the asset class.

Investment Manager: No more than twenty (20) percent of the private equity portfolio's target allocation to may be committed to any one investment vehicle.

Geography: Through commitments to funds located and/or investing both in and outside of the United States.

Industry: As fallout of diversified commitments outlined above, it is expected that the private equity portfolio will be generally diversified by sector/industry.

(b) Quality: All commitments to private equity by *SamCERA* must be of institutional quality as evidenced by other tax-exempt institutional investors' commitments to the investment manager's prior or current funds.

Fund managers are expected to comply with *SamCERA's* private placement disclosure rules.

14.0 HEDGE FUND ASSETS

HEDGE FUND GUIDELINES: The board will determine which strategy(s) the hedge fund manager will pursue. The investment opportunity selection and purchase and sale decisions are delegated to the hedge fund investment managers.

15.0 COMMODITY ASSETS

COMMODITY ASSET PERFORMANCE OBJECTIVES:

Once a commodity manager is selected, that manager must adhere to the investment style they were selected to manage.

Those managers, however, shall adhere to the following investment guidelines covering (a) diversification, (b) quality, (c) restricted transactions and (d) exemptions:

(a) Diversification:

Any commodity portfolio shall be well diversified.

(b) Quality: All assets must be of institutional quality as evidenced by tax-exempt institutional investment in similar investment opportunities.

In the US, commodity futures contracts are traded on exchanges regulated by the US Commodity Futures Trading Commission (CFTC). However, commodity strategies may also make use of swaps, options, swaptions, forwards and or other investment products.

16.0 RISK PARITY INVESTMENT POLICIES

Risk parity managers typically must have significant latitude in the strategies and investments they make and the leverage they introduce into a portfolio. As a result, it is generally not feasible to impose guidelines and restrictions on such managers.

Any risk parity portfolio shall consist of a portfolio of generally liquid trading instruments;

Counterparties for Over the Counter (OTC) derivatives must either (1) have a long-term rating from Standard & Poor's of at least A- or from Moody's of at least A3 or (2) be approved by the manager's counterparty committee. In the event that the OTC derivative counterparty is an unrated affiliate whose performance is unconditionally guaranteed by the parent company, the parent's credit rating shall apply.

Any risk parity portfolio shall target an annualized volatility of 10% (or as otherwise outlined within the investment management agreement). The board realizes that the portfolio's targeted annualized forecasted volatility may typically range between 7% and 13%; however, the actual or realized volatility level for longer or shorter periods may be materially higher or lower depending on market conditions. Actual or realized volatility can and will differ from the forecasted or target volatility described above.

Any risk parity portfolio shall utilize moderate leverage and the portfolio managers should avoid strategies which might place the portfolio outside the expected ranges outlined. Gross exposures are expected to range from 250 to 350%.

17.0 QUARTERLY INVESTMENT PERFORMANCE REPORTING:

The quarterly investment performance reports will be designed as a risk management tool and will afford the Board the opportunity to timely identify potential risk issues within the portfolio and to assess the relative performance of the investment managers.

The report will provide sufficient information to assess the following:

- A. Total and active risk assessment at total fund, composite and individual manager level.
- B. Performance attribution at total fund, composite and individual manager level.
- C. Adherence to the investment style for which the manager is retained, as measured by the quarterly risk adjusted active return (deviation of the manager's performance from the specified performance benchmark) over the last quarter, six months, 1, 3, and 5 year periods, including updates from previous quarterly reports regarding adherence to the style for which the firm was retained;
- D. Ability of the active manager to demonstrate consistently positive information ratios, including updates from previous quarterly reports regarding the firm's information ratios;
- E. Quarterly, annual, three-and-five-year total time-weighted returns relative to the specified performance benchmark and manager style peer group;

18.0 ANNUAL INVESTMENT STRATEGY

Annually, the Board shall convene an investment strategy session with the objective of addressing strategic investment policy issues and to deliberate any policies that could benefit the performance of the retirement fund. The agenda for these sessions should include (but is not limited to) the following information:

- (a) Compare the fund's actual investment performance for the prior fiscal year against the investment objectives set forth in **Section 4** and evaluate the relative success or failure of the prior year's performance; specific commentary to this objective shall be an integral part of the performance measurement process.
- (b) Compare each investment manager's actual investment performance for the prior fiscal year against the performance criteria set forth in **Sections 9 through 15** and their individual contracts, and evaluate the relative success or failure of their prior year's performance;
- (c) Evaluate and review the various risk exposures of the plan versus appropriate policy limits and on-going trends through time.
- (d) Evaluate and review the portfolio rebalancing activity for the year;
- (e) Evaluate the fund's liquidity requirements for the current and next fiscal years.

19.0 PROXY VOTING

The Investment Managers are delegated authority for the voting of proxies, subject to the following guidelines:

22.1 All proxies shall be voted in the best interest of the shareholders, but in no instance shall the economic interests of the retirement fund be subordinated to any other interest.

22.2 The investment managers shall be accountable for alerting, in a timely manner, the Chief Investment officer to proxy issues that have aroused concern among institutional investors. The Chief Investment Officer shall solicit advice and recommendations from institutional investors and proxy advisory services and request direction from the Board at its next regularly scheduled meeting.

22.3 Unless the Board provides specific direction, proxies concerning the election of directors, ratification of auditors, amendments to the articles of incorporation, name changes, employee stock purchase or ownership plans, stock option plans, incentive plans and increases in the number of authorized shares of common stock, shall be voted with management.

22.4 Unless the Board provides specific direction, proxies concerning mergers, acquisitions, restructuring, reincorporation and changes in capitalization shall be voted as provided for in Section 22.1.

22.5 Unless the Board provides specific direction, proxies concerning social, environmental, and political issues shall be voted as provided for in Section 22.1.

22.6 Unless the Board provides specific direction, votes shall be cast against proxies which would limit management's accountability to the shareholders or otherwise restrict shareholder's ability to realize the full value of their investment, such as proposals creating super-majorities, elimination of cumulative or preemptive rights, creation of dual-class voting rights, greenmail, poison pills, golden parachutes, and excessive compensation for management when earnings are declining.

22.7 Investment managers shall provide staff with quarterly reports on all proxies cast, in a mutually acceptable format.

20.0 SECURITIES LENDING

SamCERA instituted a securities lending program effective July 1, 2007, for the actively managed component of the portfolio. The Board's standards with respect to this program are hereby summarized below.

23.1 Pursuant to Section 3E, the master custodian shall manage a securities lending program to enhance income in accordance with the terms and conditions set forth in a mutually acceptable securities lending agreement and guaranty.

23.2 The Board reserves exclusive authority to approve the securities lending agreement prior to the commencement of securities lending activity.

23.3 Unless otherwise specified in the agreement(s),

(a) All loans shall be marked-to-market daily,

(b) Collateral on each loan shall be maintained daily at 102% of loan value for domestic securities and 105% of loan value for international securities,

(c) Acceptable collateral shall be in the form of cash or marketable fixed income securities with maturities not greater than one year, including (1) Commercial Paper with quality ratings of P-1 and/or A-1 by Moody's Investors Services or Standard & Poor's Corporation, or their equivalents; (2) Banker's acceptances, certificates of deposits and time deposits; (3) United States Treasury and Government Agency short-term obligations; (4) Repurchase Agreements with United States Treasury Securities and Agencies of the United States Government as collateral; and (5) Money market or short-term investment funds.

(d) If rated, borrowers shall be rated AA, Aa or higher by Moodys or Standard & Poors.

23.4 The Chief Investment Officer shall be responsible for monitoring the securities lending program and recommending changes as appropriate.

APPENDIX A

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION Investment Committee Charter as Amended RESOLUTION 99-00-09

*This Resolution, adopted by the Board of Retirement (Board)
of the San Mateo County Employees' Retirement Association (SamCERA),
sets forth the Charter for the Board's Investment Committee.*

WHEREAS, Article XVI, §17 of the Constitution of the State of California as amended in 1992 to read, in pertinent part, as follows:

Notwithstanding any other provisions of law or this Constitution to the contrary, the retirement board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the system, subject to all of the following:

(a) The retirement board shall have the sole and exclusive fiduciary responsibility over the assets of the ... system. The retirement board shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. The assets ... are trust funds and shall be held for the exclusive purposes of providing benefits to participants ... and their beneficiaries and defraying reasonable expenses of administering the system.

(b) The members of the retirement board ... shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty.

(c) The members of the retirement board ... shall discharge their duties with respect to the system

with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

(d) The members of the retirement board...shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.

(e) The retirement board..., consistent with the exclusive fiduciary responsibilities vested in it, shall have the sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the system . ; &

WHEREAS, California Government Code §31595 states, as follows:

The Board has exclusive control of the investment of the employees' retirement fund. The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system. Except as otherwise expressly restricted by the California Constitution and by law, the Board may, in its discretion, invest, or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the Board...; &

WHEREAS, *The Board of Retirement*, wishes to exercise these powers as follows:

EXERCISE OF POWERS: *The Board shall exercise its investment, management and administrative authority and responsibility through the approval of motions recorded in public meeting &*

WHEREAS, the Board has adopted *SamCERA's Investment Policy* and amendments thereto to direct the investments of the Retirement Fund and now wishes to establish an Investment Committee to guide the future evolution of *SamCERA's Investment Policy*. Therefore, be it

RESOLVED that the Board hereby establishes a standing Investment Committee to direct the Board in its ongoing evaluation of *SamCERA's Investment Policy*, including but not limited to

- 1.0 CONDUCT ASSET ALLOCATION STUDIES
 - 1.1 Determine the characteristics of the Policy's liabilities in regards to the nature of Fund's cash flows
 - 1.2 Evaluate plan funded status
 - 1.3 Evaluate active & retired member demographics
 - 1.4 Model plan payments for 50-70 years into future
 - 1.5 Project expected contribution rates & variability
- 2.0 DEVELOP ASSET MIX ALTERNATIVES TO MEET LIABILITY REQUIREMENTS
 - 2.1 Establish allowable asset classes
 - 2.2 Determine asset class benchmarks
 - 2.3 Develop risk, return & correlation projections
- 3.0 EVALUATE EFFICIENT FRONTIER ALTERNATIVES
 - 3.1 Define risk, return and correlation
 - 3.2 Evaluate mean variance optimization
 - 3.3 Determine low risk alternatives and high risk alternatives
 - 3.4 Scale portfolios between two extremes

- 3.5 Evaluate optimized efficient frontier
- 3.6 Integrate optimized efficient frontier with asset-liability relationships
- 4.0 ANALYZE BOARD RISK TOLERANCE
 - 4.1 Assess risk/reward trade-offs
 - 4.2 Assess contribution rate sensitivity & variability
 - 4.3 Assess ability to exceed actuarial interest rate
 - 4.4 Assess comfort level with characteristics of specific asset mixes
- 5.0 RECOMMEND PREFERRED ASSET MIX
 - 5.1 Evaluate differences from current target
 - 5.2 Evaluate Board's willingness to implement new target asset mix
 - 5.3 Evaluate appropriateness of variance from peer public fund norms
- 6.0 RECOMMEND AMENDMENTS TO *SAMCERA'S INVESTMENT POLICY*
 - 6.1 Adjust target asset mix
 - 6.2 Introduce new benchmarks
 - 6.3 Include required asset class/portfolio modifications
- 7.0 RECOMMEND REVISIONS TO MANAGER STRUCTURE
 - 7.1 Adjust manager/style line-up as necessary
 - 7.2 Introduce new managers/asset classes
 - 7.3 Terminate managers/asset classes as necessary
 - 7.4 Establish active & passive allocation targets as appropriate
- 8.0 IMPLEMENT CHANGES TO MANAGER STRUCTURE
 - 8.1 Recommend time-line & approach to revise structure
 - 8.2 Conduct manager evaluations
 - 8.3 Establish portfolio and asset allocation rebalancing procedures
- 9.0 EVALUATE MANAGER PERFORMANCE
 - 9.1 Monitor results of managers both gross and net of investment management fees
 - 9.2 Assess consistency of portfolio decision making
 - 9.3 Evaluate organizational, ownership, personnel & other firm developments
- 10.0 RECOMMEND AND EVALUATE INVESTMENT CONSULTANT STRUCTURE & PERFORMANCE
 - 10.1 Recommend for Board determination the retention and termination of Investment Consultant(s) as necessary
 - 10.2 Define and assign special projects as warranted
 - 10.3 Monitor performance of Investment Consultant
 - 10.4 Conduct evaluations of Investment Consultants
 - 10.5 Evaluate organizational, ownership, personnel and other firm developments
- 11.0 EVALUATE & RECOMMEND REVISIONS TO THE ECONOMIC ACTUARIAL ASSUMPTIONS AND OTHER ACTUARIAL ASSET CONSIDERATIONS
 - 11.1 Evaluate the data and methodology employed by the Actuary when setting the assumptions for inflation, investment return, salary increase and when establishing the actuarial value of assets and recommend revisions as appropriate.
 - 11.2 Assure that the Consultant integrates Actuarial input with all Asset Liability Modeling Studies
 - 11.3 Evaluate the consistency of actuarial-economic and investment policies and processes
- 12.0 INITIATE & EVALUATE SPECIAL INVESTMENT STUDIES
- 13.0 UNDERTAKE OTHER WORK ASSIGNED TO IT BY THE BOARD Be it further

RESOLVED that the Chair may appoint the members of the Investment Committee per Regulation 2.5.1. Be it further

RESOLVED that the Chief Executive Officer is hereby instructed to provide the Committee with access to all appropriate County and SamCERA resources and records, so long as such access is consistent with sound fiduciary practices. Be it further

RESOLVED that the Chief Executive Officer is hereby authorized to provide compensation of \$100 per meeting for not more than two meetings per month to the members of the Committee eligible for such compensation, per GC§31521. Be it further

RESOLVED that the Board hereby reserves to itself sole authority to accept, modify, or reject the recommendations, which the Investment Committee may present from time to time pursuant to the provisions of this Resolution, per Regulation 2.3.

ADOPTED by unanimous vote, January 25, 2000

AMMENDED by unanimous vote, May 22, 2001

AMMENDED by unanimous vote, October 25, 2004

APPENDIX B

Derivatives Investment Policy

1) Introduction

There is a genuine need to allow *SamCERA's* managers to evaluate new securities and introduce them into their portfolios, given that the investment process followed by the investment managers complies with the subsequent provisions of this policy statement. This policy statement allows *SamCERA's* investment managers to exercise reasonable investment freedom, while minimizing the possibility of adverse implications for the Board.

2) Derivative Definition

A 'derivative' commonly is defined as a financial instrument whose performance is derived, at least in part, from the performance of an underlying asset (such as a security or an index of securities)

3) Types of Securities Included or Excluded

Since the derivative sector of the market is likely to experience considerable change, provision must be made for the general characteristics of a derivative security, its evaluation and monitoring. Therefore, it is most appropriate to not attempt to definitively list all of the derivative securities that are covered by *SamCERA's Investment Plan*. Instead, what will be explicitly stated is the investment process that governs derivative investments and the evaluation and monitoring requirements of this investment process?

4) Approach to Policy

An approach has been developed which states allowable derivative investments, limited allocation derivative investments and restricted derivative investments.

Derivative securities not specified in the above three groups of securities must be evaluated in accordance with the following section entitled Derivative Investment Process. If the security meets these provisions and the spirit of these policies, the manager may establish a prudent position in the instrument. However, the manager must be able to demonstrate the appropriateness of such an investment in light of *SamCERA's* guidelines.

5) Counter-Party Evaluation

When entering into a non-exchange traded derivative investment, the investment manager must fully evaluate the other side of the derivative transaction--the counter-parties to the trade. Due to the possibility of counter-party default, *SamCERA's* investment managers must evaluate the risks associated with the counter-party as if an investment were being made in the traditional securities issued by the counter-party.

At a minimum, the investment manager must evaluate the counter-party's following criteria:

- a) Corporate earnings stream
- b) Corporate asset quality
- c) Capitalization
- d) Corporate liquidity
- e) Moody's and Standard & Poor's debt ratings
- f) Other fundamental investment and risk characteristics.

For those counter-parties that are broker/dealers, they must:

- a) Have investment grade (Moody's and S&P rated) debt
- b) Be registered with the SEC
- c) Have significant net capital to protect against potential adverse market circumstances.

For those counter-parties that are financial institutions (banks), they must have:

- a) Investment grade (Moody's and S&P rated) debt
- b) Total assets in excess of \$1 billion
- c) Significant net capital to protect against potential adverse market circumstances.

The investment manager must monitor individual investment and total portfolio exposure to counter-parties. Individual counter-party exposure must be well diversified and not concentrated in a small number of organizations.

6) Purposes for Derivatives

The acceptable investment purposes for the use of derivatives are as follows:

- a. Appropriate to use futures, options and forward currency contracts to assist investment managers in mitigating portfolio risk.
- b. Useful substitute for an existing, traditional investment. In certain circumstances it may be cheaper, quicker or easier to invest in a derivative instrument or security rather than transacting in the cash or traditional security market.
- c. Provides investment value to the portfolio, while being consistent with *SamCERA's* overall and specific investment policies.
- d. Obtains investment exposure that is appropriate with the manager's investment strategy *SamCERA's* investment guidelines, but could not be made through traditional investment securities.

Given that one or more of these investment purposes are clearly met, it is the responsibility of the investment manager to explain and demonstrate how derivative investments impact portfolio risk and the context of the investment within the overall portfolio.

Any other derivative investment purpose is not allowed. Derivatives may not be introduced into the portfolio to create economic leverage or to create investment exposures that are otherwise excluded by *SamCERA's Investment Plan*. However, if a manager develops an investment purpose other than those listed above which he/she feels is legitimate and consistent with the spirit of *SamCERA's* guidelines, this purpose should be proposed in writing to the Board.

7) Investment Restrictions and Derivatives Policy

For the purpose of these guidelines, convertible debt, traditional zero coupon bonds, mortgage pass-through securities and asset-backed securities are not viewed as derivatives. Based upon the factors enumerated in the above section entitled Approach to Policy, the following guidelines have been established:

Allowable derivative investments

- a. Stable and well-structured mortgage CMO's (collateralized mortgage obligations)
- b. Financial futures (if exchange traded)
- c. Currency forward contracts and currency options (exchange and OTC traded)

Derivative investments with allocation limits

- a. Interest only mortgage CMO's
- b. Principal only mortgage CMO's
- c. Options (if exchange traded)
- d. Caps and floors as they apply to the above stated allowable derivative investments

Derivative investments with allocation limits, as listed above, may not represent more than 5% of the individual portfolio manager's assets (based on market value) managed for *SamCERA*. At the same time, derivative investments with allocation limits in aggregate may not expose the individual manager's portfolio to losses in excess of 5% of the manager's total assets. In addition, the use of options, caps and floors may be used only for defensive investment purposes.

Managers investing in the above-defined limited allocation derivative instruments should ensure that portfolio exposure is maintained within the stated constraints and communicate the assumptions and model used to estimate VAR (Value at Risk and/or other reasonable risk measurement procedures) annually to the Boards.

Restricted derivative investments

- a. Inverse floating rate notes and bonds
- b. Structured notes

Restricted derivatives cannot be held in *SamCERA's* portfolios at any time.

8) Risk Analysis and Monitoring of Derivatives

For those securities that are classified as derivative investments with allocation limits, the investment managers are required to test and measure derivative investment sensitivities to changes in key risk factors. These risk factors are as follows:

- a. Extreme changes in interest rates, volatility, liquidity, credit quality, and cash market prices

These risk factors will be assessed prior to initial investment and on a quarterly basis. Results of such risk testing on derivative investments with allocation limits will be supplied to *SamCERA* on an annual basis (December 31). If the investment manager identifies additional risks that should be evaluated, these other risk factors should be added to the list and handled in a manner consistent with the previously stated approach.

9) Derivative Investment Process

Investment managers are expected to cover the following issues before purchasing a derivative instrument or security, whether specifically stated as an allowable derivative investment, a derivative investment with allocation limits, or a derivative not specifically discussed in the Investment Restrictions and Derivatives Policy section above.

- a. Determine if the purpose for investing in a derivative security is consistent with one or more of the purposes in the previous section entitled Purposes for Derivatives.
- b. Determine where the security fits into the classification system, if at all, stated in the Investment Restrictions and Derivatives Policy.
- c. Evaluate, at a minimum, the counter-party risk and the risks stated in the Risk Analysis and Monitoring section of the derivatives policy.

- d. Evaluate the derivative in a comparably thorough manner as the firm would any other traditional investment opportunity.

10) Reporting Requirements

It is the responsibility of *SamCERA's* investment managers to certify and demonstrate that their portfolios are in compliance with *SamCERA's* overall guidelines as well as those that apply to derivative investments. On an annual basis (December 31), *SamCERA's* investment managers will provide the following minimum monitoring information on all derivative securities.

- a. A general statement from the manager that his/her portfolio is in compliance with the Retirement Trust's derivatives policy.
- b. When stating the market value of the derivative exposure, the manager will specify the security pricing sources. The pricing source must be exchange-listed.
- c. A statement of the risks (credit risk--an evaluation of potential counter-party default on obligations, market risk--percent of portfolio invested in derivatives, and any other relevant risks) associated with the derivative investments.
- d. Potential adverse impact on market values if extreme adverse market movements occur.
- e. A statement regarding the liquidity of the derivative investments.
- f. Summary comments and the firm's list of approved counter-parties, ratings, and a statement regarding any changes to this list.
- g. An overall statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

APPENDIX C

Compliance Certification Statement San Mateo County Employees' Retirement Association

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office and investment consultant no later than 10 days after the end of each reporting period. (15.3(i))

General Compliance Issues

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (15.4(a))
Yes/No: ___ If no, please explain.
2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (6.3)
Yes/No: ___ If no, please explain.
3. Has the firm's insurance coverage been sustained? (15.4(c)) Yes/No: ___ If no, please explain.
4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (6.0) Yes/No: ___ If yes, please explain.
5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (15.4(j)) Yes/No: ___ If yes, please explain.
6. Have there been any changes in the firm's investment approach? (15.4(e)) Yes/No: ___ If yes, please explain.
7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (9.1) Yes/No: ___ If yes, please explain.
8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (15.4(a))
Yes/No: ___ If yes, please explain.
9. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA* and in a manner consistent with the Board's proxy policies? (18.0) Yes/No: ___ If no, please explain.
10. For domestic equity managers, has the firm supported *SamCERA's* commission recapture program? (15.4(g)) Yes/No: ___ If no, please explain.

Derivative Investments

1. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: ___ If no, please explain.

2. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: ___ If no, please explain.
3. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: ___ If no, please explain.
4. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: ___ If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Have there been any changes to the investment manager's list of approved counter-parties over the past month?
5. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies? (Appendix C(6)) Yes/No: ___ If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: ___ If yes, please explain.
6. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. Yes/No: ___ If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.
7. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: ___ If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))
8. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) Yes/No: ___ If no, please explain.
9. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: ___ If no, please explain.
10. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))
11. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.
12. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g)) Yes/No: ___ If yes, please explain.

Investment Manager Guidelines

1. Are portfolio holdings well-diversified, and made in liquid securities? (5.0) Yes/No: ___ If no, please explain.
2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: ___ If yes, please explain.

Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? Yes/No: ___ If yes, do the investments comply with the policies? (11.0) Yes/No: ___ If no, please explain.

Domestic Equity Portfolios (Large, Mid & Small)

1. Please state the percentage of the portfolio held in each of the following types of securities: common stock; preferred stock; convertible securities; and, cash & equivalents. (15.4 j)
2. What is the firm's market value allocation to large, mid and small stocks? (15.4 j) Please specify percentages.
3. Specify the percentage of the portfolio that is invested in American Depository Receipts (ADR's). (15.4 j) Also, specify the percentage of the portfolio invested in ADR securities that are 144A securities. If greater than 10%, explain why.
4. What is the largest percentage of the portfolio represented by a single security? (15.4 j) If any securities were above 5% at the time of purchase, please list and explain why.
5. Based on NAICS codes, what is the largest percentage of the portfolio represented by a single industry? (10.3 a). Please specify all industries above 15%.

International Equity Portfolios - Developed

1. Specify the percentage of the portfolio held in each of the following types of securities: foreign ordinary shares; ADR's; cash & equivalents (foreign or domestic). (15.4 j)
2. Specify the large, mid and small capitalization exposure of the portfolios. (15.4 j)
3. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio? (15.4 j) Yes/No: ___ If no, please explain.
4. Does the portfolio currently employ a currency hedging strategy? Yes/No: ___ Is the firm in compliance with the Retirement Association's derivatives investment policy? (Appendix C) Yes/No: ___ If no, please explain.

Domestic Fixed Income Portfolios

1. State the percentage of the portfolio held in each of the following types of securities: certificates of deposit; commercial paper; other high grade short-term securities; U. S. Government and Agency securities; corporate bonds; mortgage- and asset-backed securities; and, Yankee bond securities. (11.3)
2. Is the firm monitoring its active investment management decisions relative to the Retirement Association's investment benchmark? (6.3) Yes/No: ___ If no, please explain.

3. Does the firm conduct horizon analysis testing? (15.4 j) Yes/No: ____ If no, please explain.
4. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: ____ If no, please explain.
5. Are any holdings below investment grade? (11.3(b)) If yes, why are they held in the portfolio?
6. Excluding U. S. Government and Agency bond holdings, did any individual bond issue represent more than 5% of the market value of the portfolio? Yes/No: ____ (11.3(b)) Please specify. At the time of purchase, was there any single industry, based on NAICS codes, which represented more than 15% of the market value of the account. Please specify.
7. What percentage of the portfolio is held in Rule 144A securities? (11.3(c))

Separate Property Real Estate Portfolios

1. What is the current product type and geographic diversification of the portfolio?
2. Is the portfolio achieving a TTWRR equal to the specified NCREIF benchmark? Yes/No: ____ If no, please explain
3. Does any individual asset constitute more than 20% of the market value in the real estate portfolio?
4. Is the portfolio leverage within the 30% guideline?

Signed by:

Dated:

Name of Firm

APPENDIX D

DUE DILIGENCE POLICY

MANUAL

POLICY

SamCERA's due diligence process requires (i) staff to perform regular due diligence monitoring and report on same, (ii) investment consultants and managers to make regularly scheduled due diligence presentations to staff in *SamCERA's* offices, (iii) the board and staff to make on-site visitations to the investment consultant's and investment managers' offices and (iv) to attend client conferences that discuss the consultant's and managers' business plans, investment processes and practices.

PURPOSE

To discharge the fiduciary responsibilities of the Board of Retirement and staff, regular due diligence with the San Mateo County Employees' Retirement Association investment managers are essential to the Board of Retirement's ability to effectively monitor the performance of its investment professionals and to the prudent discharge of the board's fiduciary duty to the beneficiaries of this multi-billion dollar retirement system.

F.01 – Due Diligence Monitoring

Individual investment managers will be monitored monthly, quarterly and annually. The managers' organizations and operations will be qualitatively monitored on a continual basis.

The Chief Investment Officer, with assistance from the investment consultant, will present an investment performance report to the Board on a quarterly basis, as specified in Section 17.0 *Quarterly Investment Performance Reporting*. Performance will be measured for the total portfolio as well as individual components such as equities, fixed income and real estate portfolios. In addition, the performance of each component will be broken down into individual portfolios.

Comparisons will be made against market indices defined in this document. A variance from the stated performance objective will be calculated each quarter. Additionally, the portfolios' actual investment approach will be monitored against the required investment style to determine whether the manager is adhering to its acknowledged investment style.

The quarterly investment performance report will compare the total fund, each asset class and individual portfolio return to appropriate market indices and a representative peer group of similar funds or similar style investment managers. The report will note significant changes in the attribution of investment manager performance.

Every six months, the Chief Investment Officer, with the assistance of the investment consultant, will provide the board with a review of one of the three major asset categories of the total investment portfolio

in detail. Therefore, during a eighteen-month period the CIO and the investment consultant will conduct a detailed review of each of the three asset categories in which *SamCERA* invests.

Annually, staff will request and review the Investment Manager's ADV Part II form and inform the board of significant changes in the firm or apparent conflicts of interest. In addition staff will request an annual insurance certification from each professional service provider. Where appropriate a Statement of Auditing Standards #70 will be obtained and reviewed. (The SAS-70 audit report describes the control structure as it relates to its fiduciary and custodial activities and is prepared in accordance with the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards Number 70, entitled "Reports on the Processing of Transactions by Service Organizations" as amended by AICPA Statement on Auditing Standards Number 78, entitled "Consideration of Internal Control in a Financial Statement Audit.")

F.02 – Due Diligence Presentations

SamCERA's Investment consultants and investment managers that are under contract with the Board to provide services will make a presentation to staff at least once a year. The presentation shall include, but not be limited to, an update on the manager's organization and business plan, changes to the investment process and investment performance. Staff may request presentations more frequently as circumstances demand. The investment managers will provide on a semi-annual basis a completed Compliance Certification Statement (Appendix D) and in depth response to a list of questions submitted by staff.

F.04 – Asset Categories

On-site meetings will be grouped by asset categories. This approach enables staff to readily compare and contrast investment approaches, systems, and controls utilized by the investment managers. It will also allow for a better evaluation of the existing asset diversification.

F.05 – Domestic – International Investment Managers

Regular due diligence evaluations shall be scheduled with traditional domestic and international equity and fixed income managers on a three-year rotational basis. Evaluations may be necessary on a more frequent basis if there have been significant personnel changes, a deterioration of returns, or unresolved issues relating to the style drift with a manager.

F.06 – Real Estate Managers

Regular due diligence evaluations with real estate managers shall be scheduled on at least a three-year rotational basis. These due diligence evaluations shall include on-site inspections of properties held in *SamCERA*'s portfolio. The investment manager and the individual property manager will accompany staff and board members on these visits.

F.07–Investment Committee Chair Responsibilities

The Investment Committee chair shall, at the first meeting of the committee in each calendar year, place before the committee a proposed outline of all due diligence trips to be performed in the following fiscal year. Once voted on by the committee, that schedule will be placed on the Board of Retirement’s agenda for approval at the next regular meeting.

F.08 - Official Due Diligence Trip

An official due diligence trip shall consist of at least two members of the Investment Committee or in the event committee members are not available, two board members who are available; along with the Chief Investment Officer or his/her designee and the investment consultant. When deemed necessary by the Chief Executive Officer the CIO and investment consultant may meet with an investment manager on an interim basis.

F.09 – Coordination of Due Diligence

The Investment Committee will coordinate with the Chief Executive Officer and the Chief Investment Officer on all planned due diligence. The CIO will be responsible for coordinating each scheduled evaluation visit with the appropriate investment manager.

F.11 – Manager Selection Due Diligence

The board, with the assistance of the investment consultant and staff select investment managers to manage the assets of the system. The board authorizes staff and consultant to initiate a search for a manager either to replace a manager or to fill a new mandate approved by the board. The investment consultant and staff will conduct the search in accordance with criteria established for the search. The search criteria will include the scope of the mandate, the investment style, benchmark, and the minimum qualifications for candidates. The investment consultant and staff will perform on-site due diligence on final candidates prior to them being interviewed by the board.

The board will require any investment manager being considered as provider of professional services for SamCERA to make a formal presentation to it at a public board meeting. The presentation shall include, but not be limited to, (i) manager’s organization and its staff, (ii) investment philosophy and process, (iii) the resources available to provide the service, (iv) proposed fees and (iv) performance characteristics.

Appendix E

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

- 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.

4. Representing and warranting the accuracy of the information described in section B.2 above.
5. Causing its engaged Placement Agent to disclose, prior to acting as a Placement Agent to *SAMCERA*,
 - a. all campaign contributions made by the Placement Agent to any publicly elected *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. , 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.
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.

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.

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.)

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

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.

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 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.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 22, 2013

Agenda Item 7.1

To: Board of Retirement



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

Subject: Preliminary Monthly Financial Report for the Period Ending December 31, 2012

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

Statement of Fiduciary Net Assets

SamCERA's Net Assets Held in Trust for Pension Benefits as of month end, totaled \$2,552,398,193.

Statement of Changes in Fiduciary Net Assets

Net assets held in trust for pension benefits increased by approximately \$11.5 million, month over month. The increase is due to the market appreciation in assets for the month of December 2012.

The following reports are attached to this agenda item:

Table of Contents	Page
Statement of Fiduciary Net Assets (Year to Year YTD Comparative)	2
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Statement of Changes in Fiduciary Net Assets (YTD Monthly Comparative)	6

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

	December 2012	December 2011
ASSETS		
CASH AND CASH EQUIVALENTS	58,763,358	147,869,454
SECURITIES LENDING CASH COLLATERAL	151,013,601	139,341,927
TOTAL CASH	<u>209,776,958</u>	<u>287,211,381</u>
RECEIVABLES		
Contributions	0	0
Due from Broker for Investments Sold	141,865,342	174,667,401
Investment Income	4,295,463	5,355,823
Securities Lending Income	45,123	63,238
Other Receivable	113,287	113,047
TOTAL ACCOUNTS RECEIVABLES	<u>146,319,214</u>	<u>180,199,509</u>
PREPAID EXPENSE	7,669	7,669
INVESTMENTS AT FAIR VALUE		
Domestic Fixed Income Securities	431,594,345	479,397,402
International Fixed Income Securities	106,264,777	89,035,151
Domestic Equities	970,077,722	818,034,999
International Equities	483,607,674	336,265,213
Real Estate	150,954,465	138,282,516
Private Equities	43,396,565	12,020,736
Risk Parity	166,818,365	145,443,101
Hedge Funds	70,681,074	67,967,564
Commodities	74,824,869	65,911,934
Held for Securities Lending	0	0
Other Investment	0	0
	<u>2,498,219,854</u>	<u>2,152,358,617</u>
FIXED ASSETS	0	0
LESS ACCUMULATED DEPRECIATION	0	0
	<u>0</u>	<u>0</u>
TOTAL ASSETS	<u>2,854,323,696</u>	<u>2,619,777,176</u>
LIABILITIES		
Investment Management Fees	2,103,245	2,457,524
Due to Broker for Investments Purchased	147,991,311	196,186,073
Collateral Payable for Securities Lending	151,013,600	139,341,927
Other	817,347	850,686
TOTAL LIABILITIES	<u>301,925,503</u>	<u>338,836,210</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	2,552,398,193	2,280,940,966

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

	December 2012	December 2011	
ADDITIONS			
CONTRIBUTIONS			
Employer Contribution	73,037,493	149,016,334	(75,978,841)
Employee Contribution	27,047,362	22,944,450	4,102,911
TOTAL CONTRIBUTIONS	<u>100,084,854</u>	<u>171,960,784</u>	<u>(71,875,930)</u>
INVESTMENT INCOME			
Interest and Dividends	29,428,008	25,142,476	4,285,532
Net Appreciation (Depreciation) in fair value of investments	151,795,564	(153,174,147)	304,969,711
Less Investment Expense	(10,817,229)	(8,809,295)	(2,007,933)
Less Asset Management Expense	0	0	0
NET INVESTMENT INCOME	<u>170,406,343</u>	<u>(136,840,967)</u>	<u>307,247,310</u>
SECURITIES LENDING INCOME			
Earnings	246,473	208,767	37,706
Less: Securities Lending Expenses	112,409	81,918	30,491
NET SECURITIES LENDING INCOME	<u>358,882</u>	<u>290,685</u>	<u>68,197</u>
OTHER ADDITIONS			
	53,642	1,757	51,885
TOTAL ADDITIONS	<u>270,903,722</u>	<u>35,412,259</u>	<u>235,491,462</u>
DEDUCTIONS			
ASSOCIATION BENEFITS			
Service Retirement Allowance	64,718,598	59,966,204	4,752,395
Disability Retirement Allowance	8,158,884	7,590,911	567,973
Survivor, Death and Other Benefits	343,535	358,750	(15,215)
TOTAL ASSOCIATION BENEFITS	<u>73,221,017</u>	<u>67,915,865</u>	<u>5,305,152</u>
REFUND OF MEMBER CONTRIBUTIONS			
	3,279,629	1,762,145	1,517,484
ADMINISTRATIVE EXPENSE	2,252,207	2,482,476	(230,269)
OTHER EXPENSE	56,330	86,636	(30,306)
TOTAL DEDUCTIONS	<u>78,809,183</u>	<u>72,247,121</u>	<u>6,562,061</u>
NET INCREASE	192,094,539	(36,834,862)	228,929,401
Net Assets Held in Trust for Pension Benefits:			
Beginning of Period	2,360,303,654	2,317,775,829	
End of Period	2,552,398,193	2,280,940,966	

12/11/2012

San Mateo County Employees' Retirement Association
 CHANGES IN FIDUCIARY NET ASSETS - TRAILING SIX MONTHS
 For the Month Ending December 31, 2012
 PRELIMINARY

	July 2012	August 2012	September 2012	October 2012	November 2012	December 2012	YTD
ADDITIONS							
CONTRIBUTIONS							
Employee Contribution	2,820,513	4,100,889	3,467,750	4,916,326	7,120,469	4,621,415	27,047,362
Employer Contributions - Regular	5,227,912	6,787,153	6,846,971	6,826,372	10,356,330	6,786,582	42,831,320
Employer Contributions - COLA	3,066,756	4,108,293	4,143,138	4,134,035	6,264,565	4,101,038	25,817,824
Employer Prefunded Contribution	63,167,221	(10,867,076)	(10,947,830)	(10,933,964)	(16,578,687)	(9,451,316)	4,388,348
TOTAL CONTRIBUTIONS	74,282,402	4,129,259	3,510,029	4,942,769	7,162,627	6,057,719	100,084,854
INVESTMENT INCOME							
Interest and Dividends	3,439,690	5,715,491	4,881,626	5,951,485	3,887,227	5,552,495	29,428,008
Net Appreciation (Depreciation) in fair value of investments	31,115,382	43,176,516	46,833,814	(6,710,418)	21,817,462	15,616,449	151,849,206
Securities Lending Income	46,312	41,612	47,442	42,561	35,489	33,057	246,473
Other Additions							0
Other Investment Related Expense	(705,036)	(291,493)	(404,449)	(1,358,210)	(301,032)	(152,131)	(3,212,351)
Securities Lending Expense	13,766	11,940	50,541	15,602	6,219	14,341	112,409
TOTAL ADDITIONS	108,192,516	52,783,324	54,919,003	2,883,789	32,608,036	27,121,930	278,508,599
DEDUCTIONS							
ASSOCIATION BENEFITS							
Retiree Annuity	2,806,579	2,818,038	2,832,582	2,825,523	2,831,978	2,845,850	16,960,550
Retiree Pension	6,585,517	6,636,840	6,644,559	6,627,254	6,635,446	6,652,992	39,782,408
Retiree COLA	2,764,110	2,755,009	2,753,454	2,739,947	2,727,935	2,717,032	16,457,486
Retiree Death and Modified Work Benefit	3,579	3,579	3,579	3,579	3,371	2,886	20,573
Active Member Death Benefit	0	0	0	0	0	0	0
Voided and Reissue	0	0	0	0	0	0	0
TOTAL ASSOCIATION BENEFITS	12,159,785	12,213,266	12,234,174	12,196,303	12,198,730	12,218,759	73,221,017
REFUND OF MEMBER CONTRIBUTIONS							
	360,892	630,225	1,329,046	204,720	198,893	555,853	3,279,629
ACTUARIAL FEES							
	1,250	1,250	11,250	50,850	1,250	1,250	67,100
CONSULTANT FEES - INVESTMENT (SIS)							
	33,333	33,333	33,333	33,333	36,425	33,333	203,092
CUSTODIAN FEES - STATE STREET							
	14,968	18,000	18,000	11,297	14,014	9,799	86,077
OTHER PROFESSIONAL FEES							
	0	0	0	0	0	22,500	22,500
INVESTMENT MANAGEMENT FEE - R1000 INDEX							
	6,182	6,631	6,482	6,984	7,093	7,082	40,453
INVESTMENT MANAGEMENT FEE - ABERDEEN							
	25,974	26,091	26,147	16,316	(2,405)	6,087	98,210
INVESTMENT MANAGEMENT FEE - PYRAMIS							
	14,584	14,611	14,645	21,233	16,426	18,829	100,327
INVESTMENT MANAGEMENT FEE - ANGELO GORDON							
	116,667	29,167	29,167	(58,333)	29,167	29,167	175,000
INVESTMENT MANAGEMENT FEE - BROWN BROTHERS							
	10,342	10,319	10,391	10,473	10,555	10,454	62,534
INVESTMENT MANAGEMENT FEE - BRIGADE CAPITAL							
	35,844	35,844	35,844	37,542	37,542	34,236	216,853
INVESTMENT MANAGEMENT FEE - FRANKLIN TEMPLETON							
	35,509	36,313	36,730	37,238	37,813	38,054	221,658
INVESTMENT MANAGEMENT FEE - CHARTWELL							
	37,402	39,705	39,747	39,644	40,547	41,133	238,179
INVESTMENT MANAGEMENT FEE - D E SHAW							
	50,916	52,172	52,644	52,212	53,080	53,009	314,032
INVESTMENT MANAGEMENT FEE - T ROWE PRICE							
	34,450	35,590	35,947	35,546	35,896	36,026	213,455
INVESTMENT MANAGEMENT FEE - BLACKROCK							
	63,847	66,697	66,900	110	(86)	(25)	197,444
INVESTMENT MANAGEMENT FEE - BARROW HANLEY							
	60,540	62,216	62,695	62,995	63,393	63,933	375,771
INVESTMENT MANAGEMENT FEE - THE BOSTON COMPANY							
	36,320	38,004	38,374	38,297	39,158	40,091	230,245
INVESTMENT MANAGEMENT FEE - JENNISON ASSOCIATES							
	57,011	58,841	59,498	59,405	60,789	61,450	356,994
INVESTMENT MANAGEMENT FEE - MONDRIAN							
	28,186	28,792	27,214	22,849	26,376	25,455	158,872
INVESTMENT MANAGEMENT FEE - ARTIO							
	(369)	0	0	0	0	0	(369)
INVESTMENT MANAGEMENT FEE - PYRAMIS SELECT							
	24,396	37,770	36,108	37,856	37,894	39,689	213,713
INVESTMENT MANAGEMENT FEE - EATON VANCE							
	45,207	50,619	50,627	53,150	50,800	54,569	304,973
INVESTMENT MANAGEMENT FEE - BAILLIE GIFFORD							
	57,923	61,928	61,660	62,960	64,287	64,694	373,452
INVESTMENT MANAGEMENT FEE - WESTERN ASSET							
	22,985	23,094	23,217	23,358	32,022	27,730	152,405
INVESTMENT MANAGEMENT FEE - INVESCO CORE							
	51,345	51,345	51,345	64,580	52,344	51,937	322,896
INVESTMENT MANAGEMENT FEE - SHERIDAN PRODUCTION!							
	25,008	25,000	25,000	25,000	25,000	25,000	150,008
INVESTMENT MANAGEMENT FEE - ABRY ADVANCED							
	72,320	0	51,514	0	100,000	0	223,834
INVESTMENT MANAGEMENT FEE - ABRY PARTNERS							
	98,470	0	34,461	11,487	11,487	20,986	176,891
INVESTMENT MANAGEMENT FEE - REGIMENT							
	0	0	73,551	0	75,000	0	148,551
INVESTMENT MANAGEMENT FEE - GENERAL CATALYST							
	37,500	37,500	37,500	37,500	37,500	43,500	231,000
INVESTMENT MANAGEMENT FEE - SYCAMORE PARTNERS							
	31,250	31,250	31,250	31,250	(525,302)	31,250	(369,052)
INVESTMENT MANAGEMENT FEE - SYCAMORE SIDECAR							
	171	171	171	171	171	171	1,025
INVESTMENT MANAGEMENT FEE - AQR GLOBAL RISK PARIT							
	50,876	53,213	53,930	54,985	54,365	54,365	321,734
INVESTMENT MANAGEMENT FEE - AQR DELTA FUND							
	58,053	59,396	58,058	57,730	58,588	58,588	350,413
INVESTMENT MANAGEMENT FEE - SSGA MULTISOURCE							
	32,976	37,445	36,158	37,943	16,881	56,328	217,730
TOTAL PROFESSIONAL FEE	1,271,436	1,062,307	1,229,556	975,961	598,069	1,060,670	6,197,999
ADMIN EXPENSE - SALARIES & BENEFITS							
	166,062	221,855	228,953	236,156	344,149	231,462	1,428,637
ADMIN EXPENSE - SERVICES & SUPPLIES							
	148,663	108,051	149,640	142,041	140,926	136,250	823,570
TOTAL ADMINISTRATIVE EXPENSES	314,724	327,906	378,593	378,196	485,075	367,712	2,252,207
INTEREST FOR PREPAID CONTRIBUTION							
	0	0	0	0	0	1,406,879	1,406,879
OTHER DEDUCTIONS							
	6,067	1,589	10,619	21,416	12,161	4,477	56,330
TOTAL DEDUCTIONS	14,112,905	14,235,294	15,181,987	13,776,597	13,492,927	15,614,351	86,414,060
NET INCREASE	94,079,611	38,548,031	39,737,016	(10,892,808)	19,115,109	11,507,580	192,094,539

1/22/2013

**San Mateo County Employees' Retirement Association
Statement of Fiduciary Net Assets - Monthly Comparative
For the Month Ending December 31, 2012**

	December 2012	November 2012	Increase/(Decrease)	% of Incr/Decr
ASSETS				
CASH AND CASH EQUIVALENTS	58,763,358	66,212,407	(7,449,049)	-11.25%
SECURITIES LENDING CASH COLLATERAL	151,013,601	151,013,600	0	0.00%
TOTAL CASH	209,776,958	217,226,007	(7,449,049)	-3.43%
RECEIVABLES				
Contributions	0	0	0	N/A
Due from Broker for Investments Sold	141,865,342	118,892,594	22,972,748	19.32%
Investment Income	4,295,463	5,361,463	(1,066,000)	-19.88%
Securities Lending Income	45,123	39,434	5,689	14.43%
Other Receivable	113,287	113,287	0	0.00%
TOTAL ACCOUNTS RECEIVABLES	146,319,214	124,406,777	21,912,437	17.61%
PREPAID EXPENSE	7,669	39,090	(31,421)	-80.38%
INVESTMENTS AT FAIR VALUE				
Domestic Fixed Income Securities	431,594,345	438,528,953	(6,934,608)	-1.58%
International Fixed Income Securities	106,264,777	106,341,373	(76,596)	-0.07%
Domestic Equities	970,077,722	960,983,507	9,094,214	0.95%
International Equities	483,607,674	472,238,418	11,369,256	2.41%
Real Estate	150,954,465	150,954,465	0	0.00%
Private Equity	43,396,565	37,760,653	5,635,912	14.93%
Risk Parity	166,818,365	166,818,365	0	0.00%
Hedge Funds	70,681,074	70,681,074	0	0.00%
Commodities	74,824,869	76,275,957	(1,451,088)	-1.90%
Held for Securities Lending	0	0	0	N/A
Other Investment	0	0	0	N/A
	2,498,219,854	2,480,582,764	17,637,090	0.71%
FIXED ASSETS	0	0	0	N/A
LESS ACCUMULATED DEPRECIATION	0	0	0	N/A
	0	0	0	0.00%
TOTAL ASSETS	2,854,323,696	2,822,254,638	32,069,057	1.14%
LIABILITIES				
Investment Management Fees	2,103,245	1,621,125	482,120	29.74%
Due to Broker for Investments Purchased	147,991,311	127,988,446	20,002,865	15.63%
Collateral Payable for Securities Lending	151,013,600	151,013,600	0	0.00%
Other	817,347	740,854	76,492	10.32%
TOTAL LIABILITIES	301,925,503	281,364,026	20,561,477	7.31%
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	2,552,398,193	2,540,890,613	11,507,580	0.45%

San Mateo County Employees' Retirement Association
Statement of Changes in Fiduciary Net Assets - Monthly Comparative
For the Month Ending December 31, 2012

	December 2012	November 2012	
ADDITIONS			
CONTRIBUTIONS			
Employer Contribution	73,037,493	71,601,188	1,436,304
Employee Contribution	27,047,362	22,425,947	4,621,415
TOTAL CONTRIBUTIONS	<u>100,084,854</u>	<u>94,027,135</u>	<u>6,057,719</u>
INVESTMENT INCOME			
Interest and Dividends	29,428,008	23,875,513	5,552,495
Net Appreciation (Depreciation) in fair value of investments	151,795,564	136,179,382	15,616,182
Less Investment Expense	(10,817,229)	(8,197,549)	(2,619,680)
Less Asset Management Expense	0	0	0
NET INVESTMENT INCOME	<u>170,406,343</u>	<u>151,857,345</u>	<u>18,548,998</u>
SECURITIES LENDING INCOME			
Earnings	246,473	213,416	33,057
Less: Securities Lending Expenses	112,409	98,068	14,341
NET SECURITIES LENDING INCOME	<u>358,882</u>	<u>311,485</u>	<u>47,398</u>
OTHER ADDITIONS			
	53,642	53,375	267
TOTAL ADDITIONS	<u>270,903,722</u>	<u>246,249,340</u>	<u>24,654,382</u>
DEDUCTIONS			
ASSOCIATION BENEFITS			
Service Retirement Allowance	64,718,598	53,900,536	10,818,062
Disability Retirement Allowance	8,158,884	6,814,900	1,343,984
Survivor, Death and Other Benefits	343,535	286,822	56,713
TOTAL ASSOCIATION BENEFITS	<u>73,221,017</u>	<u>61,002,258</u>	<u>12,218,759</u>
REFUND OF MEMBER CONTRIBUTIONS	3,279,629	2,723,776	555,853
ADMINISTRATIVE EXPENSE	2,252,207	1,884,494	367,712
OTHER EXPENSE	56,330	51,852	4,477
TOTAL DEDUCTIONS	<u>78,809,183</u>	<u>65,662,381</u>	<u>13,146,802</u>
NET INCREASE	192,094,539	180,586,959	11,507,580
Net Assets Held in Trust for Pension Benefits:			
Beginning of Period	2,540,890,613	2,360,303,654	
End of Period	2,552,398,193	2,540,890,613	

San Mateo County Employees' Retirement Association
Board of Retirement

January 22, 2013

Agenda Item 7.2

To: Board of Retirement



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

Subject: Preliminary 2nd Quarter Budget Report

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

Professional Services Budget - Attachment One provides an overview of the accrued professional services expenditures. Investment management fees are driven by contractual agreements and based on total assets under management. Fees for the actuarial services, investment consulting services and global custodian services are based on services detailed in the contractual agreements. The preliminary annualized aggregate professional services fee as of December 31, 2012, is approximately 53.0 basis points versus the expected fee of 53.9 basis points. Actual to budget expenditures are on track as projected.

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

Attachment Two provides a review of the line item administrative appropriations versus the preliminary expenditures. During the second quarter, SamCERA expended 37.2% of the approved appropriations. Most of the appropriations will be expended later in the fiscal year. Under **Salaries & Benefits** SamCERA budgets all positions and benefits. Those expenditures are on pace with expectations. Under **Services & Supplies** the association budgets all overhead and operational expenditures. This year's budget has not allocated any appropriation for **Capital Assets**.

SamCERA's Administrative Budget

	Adopted Budget	YTD Preliminary
Salaries & Benefits	\$3,895,420	\$1,428,637
Services & Supplies	\$1,496,380	\$ 576,296
Capital Assets	\$ 0	\$ 0
Total	\$5,391,800	\$2,004,933

Attachment Three provides a review of the line item technology appropriations versus the preliminary expenditures. Staff has selected LRWL, Inc. as the consultant to assist *SamCERA*

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

SamCERA's Technology Budget

	Adopted Budget	YTD Preliminary
Property & Equipment	\$48,000	\$8,281
IT Infrastructure	<u>\$2,039,200</u>	<u>\$238,993</u>
IT Total	<u>\$2,087,200</u>	<u>\$247,274</u>

San Mateo County Employees' Retirement Association
Board of Retirement

January 22, 2013
 Attachment One

Second Quarter Analysis
 12-31-2012

Agenda Item 7.2

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

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

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

CONTRACTOR	SERVICE	FEE (1)	2012-2013 YTD EXPENSE (ACCRUED)	2012-2013 ESTIMATE
Milliman	Actuarial Consulting	0.1 bp	\$67,100	\$50,000
Strategic Investment Solutions	Investment Consulting	0.4 bp	\$200,000	\$400,000
State Street Bank & Trust	Global Custody	0.2 bp	\$62,100	\$200,000
SUB-TOTAL NON INVESTMENT MANAGER CONTRACTUAL FEES			\$329,200	\$650,000
<i>Estimated Market Value 06-30-2013</i>			\$2.6 Billion	\$2.7 Billion
Average Basis Points (2)			2.5 bps	2.4 bps

(1) The Actuary, Custodian and Investment Consultant are compensated on a flat fee basis. Fees on this scheduled are fees expressed in basis points (or fractions thereof) and utilize total assets while the Investment Manager calculations utilize assets under management.
 (2) The calculation utilizes a market value of \$2.6 billion

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

CONTRACTOR	SERVICE	FEE	2012-2013 YTD EXPENSE (ACCRUED)	2012-2013 ESTIMATE
BlackRock – Russell 1000 Index Fund	Domestic Large Cap Equity	3.0 bps	\$31,842	\$80,000
D.E. Shaw Investment Management,	Domestic Large Cap Enhanced	50.0 bps	\$314,032	700,000
T. Rowe Price Associates	Domestic Large Cap Enhanced	35.0 bps	\$213,455	480,000
Barrow, Hanley, Mewhinney & Strauss	Domestic Large Cap Value	44.0 bps	\$375,771	820,000
BlackRock Capital Management	Domestic Large Cap Growth	45.8 bps	\$197,480	880,000
The Boston Company	Domestic Small Cap Equity	84.5 bps	\$230,245	500,000
Chartwell Investment Partners	Domestic Small Cap Equity	75.0 bps	\$238,179	540,000
Jennison Associates	Domestic Small Cap Equity	81.2 bps	\$356,994	800,000
Baillie Gifford	International Equity	47.8 bps	\$373,560	800,000
Eaton Vance – Parametric	International Equity	25.2 bps	\$304,973	640,000
Mondrian Investment Partners	International Equity	19.9 bps	\$163,272	400,000
Pyramis Select International	International Equity	90.0 bps	\$214,439	440,000
ABRY Advanced Securities Fund II	Private Equity	N/A	\$247,668	300,000
ABRY Partners VII	Private Equity	N/A	\$265,862	400,000
General Catalyst Group	Private Equity	N/A	\$225,000	450,000
Regiment Capital Fund IV	Private Equity	N/A	\$147,102	300,000
Sheridan Production Partners	Private Equity	N/A	\$150,016	300,000
Sycamore Partners	Private Equity	N/A	\$188,526	400,000
AQR Risk Parity	Risk Parity Portfolio	38.9 bps	\$316,038	600,000
AQR Delta Hedge Fund	Hedge Fund	100.4 bps	\$351,014	800,000
SSgA/SSARIS Commodities	Commodities	53.7 bps	\$312,157	400,000
Aberdeen Asset Management	Domestic Fixed Income	27.3 bps	\$98,210	360,000
Angelo Gordon (PPIP)	Domestic Fixed Income	100.0 bps	\$175,000	340,000
Brigade Capital Management	Domestic Credit Opportunity Fixed Income	45.0 bps	\$215,067	460,000
Brown Brothers Harriman	Treasury Inflation Protection Securities	15.0 bps	\$62,534	120,000
Franklin Templeton	Global Fixed Income	38.5 bps	\$221,658	440,000
Pyramis Global Advisors	Domestic Fixed Income	16.3 bps	\$100,327	180,000
Western Asset Management	Domestic Fixed Income	30.0 bps	\$152,405	280,000
INVESCO Realty Advisors	Real Estate Management	10.3 bps	\$311,621	700,000
SUB-TOTAL INVESTMENT MANAGERS			\$6,554,447	\$13,910,000
Average Basis Points (1)			51.4 bps	53.9 bps
SUB-TOTAL NON- INVESTMENT MANAGERS (FROM PREVIOUS PAGE)			\$329,200	\$650,000
Average Basis Points (2)			2.5 bps	2.4 bps
TOTAL ESTIMATED CONTRACT FEES			\$6,883,647	\$14,560,000
<i>Estimated Market Value 06-30-2013</i>			\$2.6 Billion	\$2.7 Billion
Average Basis Points (2)			53.0 bps	53.9 bps

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

(2) The calculation utilizes a market value of \$2.6 billion

SamCERA's
Administrative Budget
Fiscal Year 2012-2013
2nd Quarter
as of December 31, 2012
PRELIMINARY
ATTACHMENT II

	Budget Allotment (as Amended)	Year to Date Expenditures	Percentage Expended	Remaining Balance	Remaining Percentage
Salaries	\$2,584,060	\$917,612	35.5%	\$1,666,448	64.5%
Benefits	\$1,311,360	\$511,024	39.0%	\$800,336	61.0%
Salaries & Benefits	\$3,895,420	\$1,428,637	36.7%	\$2,466,783	63.3%
Board Expense	\$10,500	\$4,200	40.0%	\$6,300	60.0%
Insurance	\$80,000	\$38,475	48.1%	\$41,525	51.9%
Medical Evaluation	\$100,000	\$49,254	49.3%	\$50,746	50.7%
Member Education	\$45,000	\$15,681	34.8%	\$29,319	65.2%
Education & Conference	\$103,858	\$20,011	19.3%	\$83,847	80.7%
Transportation and Lodging	\$158,297	\$32,037	20.2%	\$126,260	79.8%
Property & Equipment	\$22,500	\$8,058	35.8%	\$14,442	64.2%
General Office Supplies	\$33,500	\$9,560	28.5%	\$23,940	71.5%
Postage & Printing	\$125,000	\$26,308	21.0%	\$98,692	79.0%
Leased Facilities	\$366,200	\$152,694	41.7%	\$213,506	58.3%
County Services	\$406,025	\$160,474	39.5%	\$245,551	60.5%
Audit Services	\$45,500	\$42,090	92.5%	\$3,410	7.5%
Other Administration	\$0	\$17,453	0.0%	-\$17,453	0.0%
Services & Supplies	\$1,496,380	\$576,296	38.5%	\$920,084	61.5%
Capital Assets	\$0	\$0	0.0%	\$0	0.0%
Depreciation		\$0			
Grand Total	\$5,391,800	\$2,004,933	37.2%	\$3,386,867	62.8%

SamCERA's
 Information Technology Budget
 Fiscal Year 2012-2013
 2nd Quarter
 as of December 31, 2012
 PRELIMINARY
 ATTACHMENT III


	Budget Allotment (as Amended)	Year to Date Expenditures	Percentage Expended	Remaining Balance	Remaining Percentage
Property & Equipment	\$48,000	\$8,281	17.3%	\$39,719	82.7%
IT Infrastructure	\$2,039,200	\$238,993	11.7%	\$1,800,207	88.3%
IT Total	\$2,087,200	\$247,274	11.8%	\$1,839,926	88.2%

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 22, 2013

Agenda Item 7.3

TO: Board of Retirement
FROM: David Bailey, Chief Executive Officer
SUBJECT: Approval of Topics for the Board-Staff Retreat



Staff Recommendation

Discuss and provide input and/or direction to staff regarding the topics and schedule for the 2013 Board-Staff Retreat.

Summary

This item is to give trustees another opportunity to discuss retreat topics. Following this meeting, staff and consultant must begin in earnest to schedule presenters.

Attached is a draft agenda. The items on the agenda are topics the Staff believes would be most beneficial, but not all time slots are filled in. Please review the list of suggested topics at the bottom of page two, and check the top three additional topics you'd like to see on the agenda.

Background

The April 23 & 24, 2013, SamCERA Board-Staff Retreat is scheduled along the same lines as the 2012 retreat:

Days: Two consecutive days
Timing: Leave time in between speakers for discussion
Location: In the SamCERA boardroom
Speakers: Draw speakers from outside professionals as well as SamCERA's consultants and staff
Regular Business: Conduct the Board's regular monthly business during the afternoon on Tuesday of the retreat
Dates: Tuesday, April 23, and Wednesday, April 24.

Agenda & Presenters

Board / Staff Retreat

April 23 & 24, 2013



San Mateo County Employees' Retirement Association
SamCERA

BOARD / STAFF RETREAT AGENDA
Day One—Tuesday, April 23, 2013

<u>TIME</u>	<u>TOPIC</u>	<u>SPEAKER</u>
8:30 a.m.	Coffee and Refreshments	
9:00 a.m.	Welcome	David Bailey, Chief Executive Officer, <i>SamCERA</i>
9:15 a.m.	Risk Analysis. Looking at different ways to view the risks of the fund.	Mike Coultrip, Chief Investment Officer, <i>SamCERA</i>
10:15 a.m.	Break	
10:30 a.m.	Asset-Liability Study Overview. When would be the best time to conduct an asset-liability study of the fund and what would be involved in the process?	Patrick Thomas?, Vice President, Strategic Investment Solutions, Mike Coultrip, Chief Investment Officer, <i>SamCERA</i>
11:30 a.m.	Open Discussion	
12 Noon	Lunch	
1:15 p.m.	Real Assets. Should real assets be considered for the SamCERA portfolio?	Michael Coultrip, Chief Investment Officer, <i>SamCERA</i> ; <i>John Nicolini?</i> , <i>Strategic Investment Solutions</i>
2:15 p.m.	Break	
2:30 p.m.	Beginning of Regular Board Meeting Agenda	

BOARD / STAFF RETREAT AGENDA
DAY TWO—WEDNESDAY, APRIL 24, 2013

<u>TIME</u>	<u>TOPIC</u>	<u>SPEAKER</u>
8:30 a.m.	Coffee and Refreshments	
9 a.m.	Ethics and California Public Pension Plans	Brenda Carlson, Chief Legal Counsel, SamCERA
10:15 a.m.	Break	
10:30 a.m.	Ready to Retire. SamCERA Retirement Analyst, Elizabeth LeNguyen will give the presentation that she provides to members planning to soon retire.	Elizabeth LeNguyen, SamCERA Retirement Analyst
11:30 a.m.	Open Discussion	
12 noon	Lunch (Board and SamCERA Staff)	
1:15 p.m.		
2:15 p.m.	Break	
2:30 p.m.		
3:30 p.m.	Open Discussion	
4:00 p.m.		
5:00 p.m.	End of Retreat	

Other Suggested or Past Topics (Please check top 3):

- Governance
- Green and Clean
- Annual Assessment of Portfolio (Is each leg of the portfolio and each manager achieving their goals? Does the new performance reporting meet the trustees' needs?)
- Discussion on Revisions to the Investment Policy
- PEPPRA Update. What is the status of the implementation of the PEPPRA plan?

- Trading Costs Report – Zeno Consulting
- Infrastructure Investing – JP Morgan
- Actuarial Assumptions – Milliman
- GASB Rule Changes -- Milliman
- Disability Determinations –Gladys Smith, Dr. Brodtkin
- Technology Transitions – Tariq Ali And LRWL
- Economist. What does the future hold?
- Legal Issues Update
- Other _____
- None of the above. Shorten the retreat.

San Mateo County Employees' Retirement Association
Board of Retirement

January 22, 2013

Agenda Item 7.4

To: Board of Retirement



From: Mabel Wong, Finance Officer

Subject: Approval of Resolution Amending the Interest Crediting Policy

Staff Recommendation:

Approve the attached Resolution Amending the Interest Crediting Policy to provide members certain known dates when interest will be credited to their accounts.

Background:

The Board established the current Interest Crediting Policy to reserves in September 2004 pursuant to Government Code sections 31471.2 and 31700 of the '37 Act. The current policy reflects these general concepts:

- Valuation and Non-Valuation Reserves will be credited at the assumed interest rate.
- Member accounts will be credited at the lesser of the actuarial asset earnings rate or the assumed interest rate, but the rate cannot be less than zero. If the actuarial earnings return for the period is less than the assumed interest rate, the difference between the credited rate and the amount using the assumed rate will be credited to other valuation reserves.

Discussion:

The Interest Crediting Policy worked well before SamCERA added alternative investments to its portfolio. With the implementation of alternative investments, there is a time lag for SamCERA to receive performance and financial information for these accounts. This results in a delay in posting member interest, new service purchase agreements and member statements. SamCERA credits interest to member accounts as of June 30 and December 31 each year. The proposed amendment to the Interest Crediting Policy uses set cutoff dates of February 5th and August 5th, when staff will prepare preliminary financial statements based on the most recent available information and determine a preliminary actuarial earnings return. Staff will credit members' accounts with the appropriate interest rate by February 20th and August 20th. The proposed amendment will not affect interest crediting to any of the other reserves. Crediting to other valuation reserves will be processed when the quarter-end or year-end financial statements are completed.

Attachments:

Resolution Amending the Interest Crediting Policy

Proposed Interest Crediting Policy effective January 1, 2013

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

RESOLUTION 12-13 -

RESOLUTION AMENDING THE BOARD OF RETIREMENT'S INTEREST CREDITING POLICY

WHEREAS, Government Code §31591 states, in part, that regular interest shall be credited semiannually on June 30th and December 31st to all contributions in the retirement fund which have been on deposit for six months immediately prior to such date; and

WHEREAS, Government Code §31592 provides that earnings of the retirement fund during any year in excess of the total interest credited to contributions and reserves during such year shall remain in the fund as a reserve against deficiencies in interest earnings in other years, losses on investments and other contingencies; and

WHEREAS, Government Code §31453 provides that with respect to the rates of interest to be credited to members and to the county or district, the Board may, in its sound discretion, recommend a rate which is higher or lower than the interest assumption rate established by the actuarial survey.

THEREFORE BE IT RESOLVED, that the Board hereby amends its Interest Crediting Policy to read as attached.

BE IT FURTHER RESOLVED that the Board hereby authorizes the Chief Executive Officer to implement the provisions of the following Interest Crediting Policy and to report semi-annually on the amounts so credited.

Regularly passed and adopted, by the San Mateo County Employees' Retirement Association, Board of Retirement, on January 22, 2013.

Ayes, Trustees:

Noes, Trustees:

Absent, Trustees:

Abstain, Trustees:

Lauryn Agnew, Board Secretary

INTEREST CREDITING POLICY

I. Overview

The San Mateo County Employees' Retirement Association (*SamCERA*) Board (Board) establishes this policy to govern the crediting of interest to reserves under the County Employees' Retirement Law of 1937 (CERL) subject to the requirements specified in Article 5 of the CERL.

II. Objectives

In the development and adoption of this policy, the Board has balanced the interests of the active members and the retired members and has determined that the policy set forth below best serves the interests of the membership as a whole. In addition, this policy has been developed with the following objectives:

- To comply with appropriate legal and regulatory requirements.
- To assure the prompt delivery of benefits and related services to the participants and their beneficiaries.
- To limit, to the extent possible, the volatility of interest crediting from period to period.
- To limit, to the extent possible, the charging of short-term losses to reserves.
- To maintain consistency between the reserve structure and the actuarial funding of SamCERA.
- To assure that the reserve values track the market value of assets over the long term.

III. General Concepts

This policy deals with the determination of Regular Interest as defined by Section 31472.1 of the CERL and the allocation of that interest to appropriate accounts and reserves. While the details for this allocation are provided below, this determination is based on several general concepts:

- As a whole, Valuation and Non-Valuation Reserves will be credited at the assumed interest rate.
- Individual member's contribution accounts will be credited at the lesser of the ~~actual~~ actuarial earnings rate or the assumed interest rate, but the rate credited cannot be less than zero. If the ~~actual~~ actuarial earnings for the period are less than the assumed interest rate, the difference between the amount credited and the amount that would have been credited using the assumed interest rate will be credited to other Valuation Reserves.
- The Contingency Reserve will be targeted at 3% of assets, but will be used to credit interest to Valuation and Non-Valuation Reserves as needed.
 - If the Contingency Reserve falls below 3% of assets, earnings in future periods not needed to credit interest will be used to increase the Contingency Reserve to 3% of assets before amounts are allocated to Undistributed Earnings.
 - The Contingency Reserve may be less than zero. This represents the amount that earnings fell short of the desired interest crediting levels. A Contingency Reserve less than zero will be subtracted from Valuation Reserves for the purpose of determining the required employer contributions.

IV. Adoption and Amendment

This policy has been adopted by a majority vote of the SamCERA Board, and can be amended by the SamCERA Board by a majority vote. It shall be effective for interest crediting on or after January 1, ~~2004~~2013.

V. Definition of Reserves

For the purpose of allocating earnings, all SamCERA Reserves will fall into one of three major categories:

- (1) **Valuation Reserves.** These reserves are used to pay for those benefits which are guaranteed by the County, the Mosquito Abatement District, and any other participating employer. Guaranteed benefits include both Basic and Cost of Living benefits for both General and Safety members. Valuation Reserves are used to determine the employers' contribution rates.

The following reserves are considered Valuation Reserves:

- a) **Members Reserve.** This is the reserve into which member contributions are credited.
 - b) **County Advance Reserve.** This is the reserve into which employer Basic contributions are credited.
 - c) **Retiree Reserves.** These are the reserves into which amounts are transferred from the Member Reserve and the County Advance Reserve when a member retires.
 - Retirees – Annuity Reserve,
 - Retirees – Current Service Pension Reserve,
 - Retirees – Survivors Death Benefit Reserve, and
 - d) **Cost of Living Reserve.** This is the reserve into which any employer or member Cost of Living contributions are credited.
- (2) **Non-Valuation Reserves.** These reserves have not been set aside to pay for benefits which are guaranteed by the County, the Mosquito Abatement District, or any other participating employer. Neither the benefits paid from these reserves nor the assets in the reserves themselves are included in the annual valuation to calculate the required employer contribution rate.
 - a) **Contingency Reserve.** This is an account set aside as a reserve against deficiencies in interest earnings, losses on investments or other contingencies under Section 31592.2 of the CERL.
 - b) **Supplemental Benefit Reserves.** These are reserves set aside to provide additional benefits for retired members and beneficiaries as determined by the Board. These additional benefits are ad hoc under CERL and are not guaranteed by SamCERA, the County or any other participating employer. Supplemental Benefit Reserves include the
 - Medicare B Reserve, and
 - 401(h) Reimbursement Reserve.
 - c) **Other Specified Non-Valuation Reserves.** These are other reserves created from Undistributed Earnings which have been designated by the Board for a specified purpose. Designation of these reserves do not create any vested rights for benefit payment. Other Specified Non-Valuation Reserves include the
 - Ventura Reserve.
 - d) **Undistributed Earnings Reserve.** This reserve is for monies which have not been credited to other reserves.

(3) **Financial Statement Reserves.** These reserves are shown in the financial statements but are not a part of the annual valuation and are not included in the interest crediting process.

- a) **Market Stabilization Account.** This is the difference between the current market value of assets and the actuarial value of assets used to establish the Valuation and Non-Valuation Reserves.

VI. Timing of Interest Crediting

SamCERA will credit Regular Interest twice each year to all Valuation and Non-Valuation Reserves (other than the Contingency Reserve and the Undistributed Earnings Reserve) that have been on deposit for six months, in accordance with Section 31591 of the CERL. The crediting of interest will take effect on June 30 and December 31 of each year.

VII. Determination of Allocable Earnings

The SamCERA Board will credit Regular Interest, in accordance with Section 31427-31472.1 of the CERL, based on the amount of earnings that are available to be allocated for that purpose (Allocable Earnings). Allocable Earnings will be the sum of the following amounts:

- (1) **Actuarial Earnings for the current six-month period.** The amount of earnings, whether positive or negative, to be allocated to SamCERA Reserves will be calculated using the asset smoothing method adopted by the SamCERA Board in the actuarial valuation for calculating the employer contribution rates for the Plan Year in which the allocation is taking place. The Actuarial Earnings Rate for the six-month period will be the Actuarial Earnings for that period, calculated using the asset smoothing method, divided by the average value of assets during the same period determined using the same asset smoothing method. However, for interest crediting to member reserves, a preliminary actuarial earnings rate will be used based on available unaudited financial information as of February 5th and August 5th, and members accounts will be credited by February 20th and August 20th.
- (2) **Undistributed Earnings.** The amount, if any, in the Undistributed Earnings Reserve.

The crediting of Regular Interest from these Allocable Earnings will take place in accordance with Section VIII of this Statement.

VIII. Crediting of Regular Interest

The Retirement Board will credit Regular Interest to the Valuation and Non-Valuation Reserves based on the amount of Allocable Earnings determined under Section VII of this Statement. The allocation will be done in the following order until all earnings have been allocated, or the allocation process has been suspended as described below.

- 1) **Members Reserve.** Members Reserve accounts will be credited at a rate equal to the lesser of one-half of the assumed interest rate adopted by the SamCERA Board in the actuarial valuation used to determine employer contribution rates for the Plan Year in which the allocation is taking place, or the Actuarial Earnings Rate, but the rate credited shall not be less than zero.
- 2) **Other Valuation Reserves.** The Valuation Reserves other than the Members Reserve will be credited with earnings at a rate of one-half of the assumed interest rate adopted by the

SamCERA Board in the actuarial valuation used to determine employer contribution rates for the Plan Year in which the allocation is taking place.

- 3) **Additional Credit to Valuation Reserves.** If the actuarial earnings rate for the period is less than the assumed interest rate, the difference between the amount that would have been credited to the Members Reserve at a rate of one-half of the assumed interest rate, and the amount that was actually credited to the Members Reserve in step one above, will be credited to the County Advance Reserve.
The purpose of making the additional allocation is to produce a total amount credited to all Valuation Reserves that is equal to the amount that would have been credited to the Valuation Reserves, in aggregate, if all Valuation Reserves were credited with one-half of the assumed interest rate.
- 4) **Contingency Reserve.** If there are still Allocable Earnings to be distributed after the allocations in steps (1) through (3) above have been completed, the Contingency Reserve will be allocated earnings until the value of the Contingency Reserves is equal to 3% of the Market Value of Assets, or until all Allocable Earnings have been exhausted.
- 5) **Supplemental Benefit Reserves.** If there are still Allocable Earnings to be distributed after the allocations in steps (1) through (4) above have been completed, the Supplemental Benefit Reserves will be credited at a rate of one-half of the assumed interest rate adopted by the SamCERA Board in the actuarial valuation used to determine employer contribution rates for the Plan Year in which the allocation is taking place, or until all Allocable Earnings have been exhausted, whichever comes first.
- 6) **Undistributed Earnings.** If there are still Allocable Earnings to be distributed after the allocations in steps (1), (2), (3), (4) and (5) above have been completed, all remaining Allocable Earnings will be credited to the Undistributed Earnings Reserve. The use of Undistributed Earnings will be subject to the Undistributed Earnings policy, as modified from time to time by the Board.
- 7) **Suspension of Crediting Process.** If there are insufficient Allocable Earnings to credit the Reserves as specified in steps (1) through (5) above, the Contingency Reserve will be debited by the amount required to complete steps (1), (2), (3) and (4) with the following restrictions.
 - a) The crediting specified in step (1) will not be less than zero, no matter how far the Contingency Reserve is required to drop in order to make this occur. The Contingency Reserve will not be less than zero.
 - b) It is possible that the Contingency Reserve may reflect a negative balance. However, in no event may the total of the Non-Valuation Reserves be allowed to drop lower than 1% of the Market Value of Assets. In the unlikely event that the allocation specified under Steps (2) through (5) above would produce this situation, the allocation process shall be suspended at the point in which the total of the Non-Valuation Reserves reaches 1% of the Market Value of Assets until the Board adopts an alternative allocation.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 22, 2013

Agenda Item 7.5

TO: Board of Retirement
FROM: David Bailey, Chief Executive Officer
SUBJECT: Board Procedure for Assessment of Compensation



Summary:

Staff drafted the attached procedure to govern implementation of the Board's responsibilities under the Public Employees' Pension Reform Act of 2013 ("PEPRA") to assess compensation and determine whether an element of compensation was paid to enhance a member's pension benefit.

Staff Recommendation:

Adopt a resolution establishing "Board Procedures for Assessment and Determination of Whether an Element of Compensation Was Paid to Enhance a Member's Pension Benefit."

Background:

Pursuant to Government Code Section 31542, the Board of Retirement is required to adopt a procedure for assessing and determining whether an element of compensation was paid to enhance a member's retirement benefit, and if the Board determines that it was paid to enhance a benefit, to provide a process for the member or the employer to seek review of the Board's determination.

Last year, one of the first steps that the Board took to implement PEPRA was to adopt two resolutions: one delineated which items of compensation are to be included in "compensation earnable" for members hired on or before December 31, 2012, and the other delineated what items of compensation are to be included in "pensionable compensation earnable" for PEPRA members hired on or after January 1, 2013. Both compensation earnable and pensionable compensation are used to collect contributions as well as to calculate a member's pension.

Discussion:

The proposed procedure is for Staff to make an initial assessment as to whether any item of compensation included in final compensation was paid to enhance a member's retirement benefit. The factors to be considered by Staff include those specific items of compensation identified by the Legislature, such as one-time ad hoc payments, as well as other factors, such as whether similarly situated members received the same element of compensation for the same period of time. Staff should also consider information and any explanation provided by the member and the employer in response to Staff's request as to the facts and circumstances regarding the payment of the item of compensation.

After Staff's initial review, Staff will give notice of its determination to the member and the employer. If the determination is to exclude the compensation item, the employer and member will have an opportunity to respond. The Chief Executive Officer will review staff's initial determination and the response, if any. If the Chief Executive Officer confirms that it should be excluded, another notice will go out informing the member and the employer that there will be a recommendation made to the Board to exclude it. The member and the employer will have an opportunity to submit a response and to address the Board at the meeting. The member and the employer will be given written notice of the Board's decision. If the Board excludes the pay item, either the member or the employer, or both, may seek judicial review by means of a petition for writ of mandate.

During the process described above, Staff may process the member's retirement application excluding the item of compensation in dispute, with retroactive adjustments being made if the compensation is ultimately determined to be includable in the pension calculation.

Attachments:

Resolution and "Board Procedures for Assessment and Determination of Whether an Element of Compensation Was Paid to Enhance a Member's Pension Benefit."

RESOLUTION 12-13_____

*RESOLUTION ADOPTING BOARD OF RETIREMENT PROCEDURE
FOR ASSESSMENT AND DETERMINATION OF WHETHER AN ELEMENT OF COMPENSATION
WAS PAID TO ENHANCE A MEMBER'S PENSION BENEFIT*

WHEREAS, the California Public Employees' Pension Reform Act of 2013 (PEPRA), became effective January 1, 2013, and PEPRA sets forth certain rights and responsibilities for the Board of Retirement; and

WHEREAS, pursuant to Government Code Section 31542, the Board of Retirement is required to adopt a procedure for assessing and determining whether an element of compensation was paid to enhance a member's retirement benefit, and if the Board determines that it was paid to enhance a benefit, to provide a process for the member or the employer to seek review of the Board's determination; and

WHEREAS, the attached "Board of Retirement Procedure for Assessment and Determination of Whether an Element of Compensation was Paid to Enhance a Member's Pension Benefit" sets forth the steps to be taken by SamCERA Staff, the member, the employer and the Board in regards to the process; and

WHEREAS, the Board has reviewed the "Board of Retirement Procedure for Assessment and Determination of Whether an Element of Compensation was Paid to Enhance a Member's Pension Benefit" procedure and desires to adopt such procedure;

THEREFORE BE IT RESOLVED that the Board hereby approves and adopts the attached: "Board of Retirement Procedure for Assessment and Determination of Whether an Element of Compensation Was Paid to Enhance a Member's Pension Benefit."

* * * * *

Regularly passed and adopted, by the San Mateo County Employees' Retirement Association, Board of Retirement, on January 23, 2013.

Ayes, Trustees:

Noes, Trustees:

Absent, Trustees:

Abstain, Trustees:

Lauryn Agnew, Board Secretary

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT PROCEDURE FOR ASSESSMENT AND DETERMINATION OF WHETHER AN ELEMENT OF COMPENSATION WAS PAID TO ENHANCE A MEMBER'S PENSION BENEFIT

I. BACKGROUND

Pursuant to Government Code Section 31542, the Board of Retirement is required to adopt a procedure for assessing and determining whether an element of compensation was paid to enhance a member's retirement benefit, and if the Board determines that it was paid to enhance a benefit, to provide a process for the member or the employer to seek review of the Board's determination.

II. FACTORS TO BE CONSIDERED IN STAFF REVIEW

With respect to all retirement applications with an effective date of retirement on or after January 1, 2013, Staff shall review all compensation included within the calculation of the member's final compensation within the meaning of the following Government Code sections: 7522.32 (final compensation PEPRA Plan); 7522.34 (pensionable compensation PEPRA Plan); 31461 (compensation earnable); 31462 (final compensation), 31462.1 (final compensation -1 year period), 31462.11 (final compensation -1 year period); and 31462.2 (final compensation 3 year period), as applicable. This review will be for the purpose of making an initial assessment as to whether any item of compensation included in final compensation was paid to enhance a member's retirement benefit.

- A. **Non-PEPRA Plan Members.** For all members commencing employment before January 1, 2013, and those members who commence employment after that date who are not members of the PEPRA Plan, the determination can be guided by Government Code §31461(b) which provides that compensation earnable, shall not include in any case the following:
1. Any compensation determined by the Board to have been paid to enhance a member's retirement benefit under that system. That compensation may include:
 - (a) Compensation that had previously been provided in kind to the member by the employer or paid directly by the employer to a third party other than the retirement system for the benefit of the member, and which was converted to and received by the member in the form of a cash payment in the final average salary period.
 - (b) Any one-time or ad hoc payment made to a member, but not to all similarly situated members in the member's grade or class.

- (c) Any payment that is made solely due to the termination of the member's employment, but is received by the member while employed, except those payments that do not exceed what is earned and payable in each 12-month period during the final average salary period regardless of when reported or paid.
2. Payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off, however denominated, whether paid in a lump sum or otherwise, in an amount that exceeds that which may be earned and payable in each 12-month period during the final average salary period, regardless of when reported or paid.
 3. Payments for additional services rendered outside of normal working hours, whether paid in a lump sum or otherwise.
 4. Payments made at the termination of employment, except those payments that do not exceed what is earned and payable in each 12-month period during the final average salary period, regardless of when reported or paid.
- B. **PEPRA Plan Members.** For all members commencing employment on or after January 1, 2013, who are members of the PEPRA Plan, the determination can be governed by Government Code §7522.34, which provides that pensionable compensation does not include the following:
1. Any compensation determined by the Board to have been paid to increase a member's retirement benefit.
 2. Compensation that had previously been provided in kind to the member by the employer or paid directly by the employer to a third party other than the retirement system for the benefit of the member and which was converted to and received by the member in the form of a cash payment.
 3. Any one-time or ad hoc payments made to a member.
 4. Severance or any other payment that is granted or awarded to a member in connection with or in anticipation of a separation from employment, but is received by the member while employed.
 5. Payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off, however denominated, whether paid in a lump sum or otherwise, regardless of when reported or paid.
 6. Payments for additional services rendered outside of normal working hours, whether paid in a lump sum or otherwise.
 7. Any employer-provided allowance, reimbursement, or payment, including, but not limited to, one made for housing, vehicle, or uniforms.

8. Compensation for overtime work, other than as defined in Section 207(k) of Title 29 of the United States Code.
9. Employer contributions to deferred compensation or defined contribution plans.
10. Any bonus paid in addition to the compensation described in subdivision (a) of Government Code §7522.34.
11. Any other form of compensation the Board determines is inconsistent with the requirements of 7522.34 (a).
12. Any other form of compensation that this Board determines should not be pensionable compensation.

C. **All Members.** In addition to the factors listed above, Staff shall consider one or more of the following factors:

1. Whether the earnings codes reported are in accordance with the Board resolutions defining “Compensation Earnable” and “Pensionable Compensation” and the statutes cited in this policy, and any amendments thereto, and other applicable statutory or case law.
2. Whether the item of compensation was earned or received within the period during which final compensation is to be calculated.
3. Whether the item of compensation was earned or received at any other time during the member’s employment outside of the final compensation period and, if so how frequently;
4. Whether similarly situated members received the same element of compensation for the same period(s) of time.
5. Whether the member was entitled to receive the item of compensation pursuant to a collective bargaining agreement that was subsequently deferred or otherwise modified as a result of a negotiated amendment of that agreement. *(If so, the pay item shall not be deemed to have been paid to enhance a member’s retirement benefit. Pursuant to Government code section 31542(c).)*
6. The percentage increase to the member’s pension due to the inclusion of the pay item.
7. Information and explanation provided by the member and the employer in response to SamCERA’s request as to the facts and circumstances concerning an item of compensation that staff believes may have been paid to enhance the member’s retirement benefit.

8. Any other factors that cause staff to believe that an item of compensation included in final compensation was paid to enhance a member's retirement benefit.

III. PROCESS:

A. Initial Staff Review:

After the member has elected the year or years, if applicable, to be used to determine a member's final compensation, Staff shall make an initial assessment of whether any item of compensation included in final compensation period was paid to enhance a member's retirement benefit.

B. Staff Decision.

1. **Initial determination and processing of benefit.** If Staff initially determines that the item of compensation was paid to enhance a member's benefit and payment of the member's benefit would be delayed by seeking resolution through the administrative processes set forth below, Staff may process the benefit excluding the compensation in question. If it is later determined the compensation should be included, Staff will adjust the benefit retroactive to the effective retirement date.
2. **Notice of Initial Staff Determination.** Staff shall notify the member and the employer (if it is the County, the member's department head will be notified) of its initial determination to exclude an item of compensation on the basis that it was paid to enhance a member's retirement benefit. The notification shall include the reasons for the determination.
3. **Written response to Staff Determination.** The member and the employer shall have 15 days to respond to staff regarding its initial determination. If the member and or employer disagree with the determination, either or both shall submit a written response to the Chief Executive Officer setting forth the reasons why the item of compensation was not paid to enhance the member's retirement benefit.

C. Response To Staff Decision By Member and or Employer.

4. **No Response Submitted.** If no response by the member or the employer to Staff's initial determination is received, Staff shall present a report with a recommendation to the Board for its approval to exclude the item on the basis that it was to enhance the member's benefit. The report shall contain a description of the reasons for staff's recommendation, including the specific facts and circumstances supporting staff's recommendation. It shall also set forth information, if any, received from the member and or employer.
5. **Response Submitted.** If a response is received, and after a review by the Chief Executive Officer, or designee, it is Staff's final determination that the pay item

should be excluded on the basis that it was to enhance the member's benefit, Staff shall prepare a report to be presented to the Board for its approval. The report shall contain a description of the reasons for staff's recommendation, including the specific facts and circumstances supporting staff's recommendation. It shall also set forth the response received by the member and or employer.

6. **Notice of Recommendation to the Board.** For any matter that is to be presented to the Board, Staff shall provide written notice of the Board meeting and a copy of staff's report to the member and the employer, no later than 10 days before the recommendation is presented to the Board for action.

C. **Decision by the Board of Retirement.**

1. **Opportunity to be heard.** Before the Board acts, Staff, the member, and the employer shall be given an opportunity to be heard by the Board.
2. **Finding that Compensation Item Should be Included.** If the Board finds the item of compensation should be included, staff will adjust the member's benefit to include said item, retroactive to the effective date of retirement.
3. **Finding that Compensation Item Should Not be Included.** If the Board finds that the item of compensation was paid to enhance a member's retirement benefit, Staff shall provide written notice of that determination to the member and employer. The member or the employer may obtain judicial review of the Board's action by filing a petition for writ of mandate within 30 days of the mailing of the notice. If a writ of mandate is not sought and or obtained, the Board's decision shall become final and binding.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 22, 2013

Agenda Item 7.6

TO: Board of Retirement

FROM: Tariq Ali, Chief Technology Officer



SUBJECT: Report on Status of Technology and Modernization Project and Amendment of Agreement with L.R.Wechler, LTD. (LRWL)

Staff Recommendation:

Discuss report regarding the status of SamCERA's Technology and Modernization project and the plan for the Chief Executive Officer to execute an amendment to the LRWL agreement to add services.

Background:

SamCERA launched the Technology Modernization Project in April 2012 by awarding a contract to LRWL for project management services. LRWL is assisting SamCERA with re-engineering business processes, documenting how modernization will impact staff, and procuring solutions and vendors for Enterprise Content Management (ECM), a Pension Administration Software Solution (PASS), conversion of paper document to electronic files, and data cleansing.

Discussion:

Staff will provide a status report for the Technology Modernization Project.

Staff intends that the Chief Executive Officer will execute an amendment to the LRWL contract to add Change Management services. LRWL will assist SamCERA in implementing a nine-step plan to assist stakeholders (e.g., staff, members, employers) to adapt effectively to the changes required by Technology Modernization.

Staff has further determined that the LRWL contract should be amended to include Business Process Re-engineering services for the Investment Division. In providing these services, LRWL will analyze and document nine investments business processes and make recommendations for improvements that can be implemented by SamCERA staff in the Investment Division.

The resolution that authorized SamCERA's current agreement with LRWL authorizes the Chief Executive Officer to execute amendments to that agreement up to total of \$50,000 in increased costs. Adding both of these new services would increase the contract total by \$50,000, consequently, if there is no objection by the Board, the Chief Executive Officer will proceed in executing the amendment.

Attachments: LRWL Proposal

Change Management Proposal for SamCERA

Background:

LRWL was asked by SamCERA if we could provide assistance to SamCERA with change management activities. In an effort to gain an understanding of the scope along with SamCERA's existing capabilities to support change management activities Will Morrow and Mary Federico met with Gladys Smith. The result of that meeting is the proposal below.

Objective:

To help ensure the success of SamCERA's Technology Modernization Project by:

- Providing management with the tools to deal with the people side of the change
- Helping management create a situation in which staff *can* and *will* commit to the change and contribute to its success

Approach:

We suggest taking a phased approach to change management as it relates to the Technology Modernization Project.

Along the way, we will work to involve Staff to the maximum appropriate level. Involvement generates commitment to change, so we will look for as many opportunities as possible to create true involvement (i.e., Staff can in some way affect a decision, approach, outcome, etc.).

PHASE 1: PLAN AND ASSESS

- | | |
|--|---|
| Step 1: Establish Change Leadership Team | <ul style="list-style-type: none">▪ Identify overall lead SamCERA person (presumably Gladys Smith).▪ Identify overall sponsor.▪ Identify communications lead and other key members.▪ Agree on mission and guiding principles.▪ NOTE: Recent LRWL survey asked "Are you interested in being part of a change leadership team at SamCERA?" Of 11 respondents, 6 said <i>yes</i>, 4 said <i>maybe</i>, and 1 said <i>no</i>. We have set an expectation of inclusion that we will have to deal with when we establish the Team.▪ <i>Outcome: An agreed-upon team, mission, and guiding principles.</i> |
| Step 2: Assess Change Readiness | <ul style="list-style-type: none">▪ LRWL has a list of change readiness elements which organizations can use to a) assess their current readiness for successful change and b) identify target areas to address in order to increase readiness (and thus project success).▪ We will use this template to assess SamCERA's current readiness for the Technology Modernization Project and pinpoint where change management efforts should be focused (at both the organizational and individual level).▪ This will involve agreement on internal stakeholders, detailed review of data already collected (through the survey and interviews) and other written information about the project; it will likely involve additional interviews/focus groups/discussions to collect readiness-related information that has not already been gathered.▪ <i>Outcome: A report that identifies what's helping, what's hindering, where there are gaps between SamCERA's current status on readiness elements and the "ideal" status, and recommendations to close gaps.</i> |
| Step 3: Create a Case for Change | <ul style="list-style-type: none">▪ There are pieces of a compelling case for change in existing LRWL materials and the results of the recent staff survey.▪ This information can be synthesized – and perhaps added to – to create a case that is |

Change Management Proposal for SamCERA

based on the psychology of behavior change.

- It will be to SamCERA's advantage to agree to a case that can then be consistently communicated to reduce uncertainty, minimize confusion, and contribute to staff willingness to change.
- *Outcome: A formalized case for change.*

Additional Outcome of Phase:

- *Communication with Staff about decisions, findings, suggestions and how they are affected and/or involved.*

PHASE 2: IMPROVE INTERNAL CHANGE READINESS

Step 1: Create Plans

- Take recommendations from Readiness Assessment Report and turn them into tasks that can be added to the project plan.
- Create individual stakeholder plans where warranted.
- Create communication plan for internal staff.
- *Outcome: Change, stakeholder, and communication plans.*

Step 2: Implement Plans

- Work through the tasks.
- Create communication templates and materials, process for 2-way communications, way to assess effectiveness of communications.
- LRWL change consultant to provide ongoing advice.
- *Outcome: Gradually increased buy-in and commitment from staff.*

Step 3: Monitor

- Ensure we are making progress: re-survey; use feedback mechanisms to close loop with Staff
- *Outcome: Information we can use to improve our approach.*

Additional Outcome of Phase:

- *Communication with Staff about what's planned and how they are affected and/or involved.*

PHASE 3: BROADEN FOCUS TO EXTERNAL STAKEHOLDERS

Step 1: Identify External (to SamCERA) Stakeholders; Analyze Needs and Concerns

- Likely to include interviews/focus groups/review of existing data from these groups.
- Identify what they need to know about changes, when they need to know it, how best to communicate with them.
- NOTE: Focus of Change Team will be communication and training, not on the technical changes the stakeholders will experience or need to make
- *Outcome: Information on external stakeholders that will let us tailor an approach to communicating with them*

Step 2: Create Plans

- Create plans for 2-way communication with external stakeholders.
- Adjust case for change to fit these audiences.
- Create training plans for external stakeholders. (NOTE: this may go beyond the Change Team's responsibility and belong instead with the Technology experts on the project; but the Change Team can advise.)
- *Outcome: Plans for external stakeholders.*

Step 3: Implement Plans

- Work through the tasks in the plans.
- *Outcome: External stakeholders that are informed and given what they need in order to*

Change Management Proposal for SamCERA

successfully work with SamCERA's modernized technology

Additional Outcome of Phase: ▪ *Communication with Staff about what's planned and how they are affected and/or involved.*

Resources:

- Mary Federico will be the LRWL resource helping SamCERA with change management.
- Note that it is LRWL's intent to *help* SamCERA with change management, not to *do* it. It is critical that the Staff see change leadership coming from SamCERA management, not from the outside. This increases ownership and commitment.
- Mary will consult to the Change Team and SamCERA management, as she is currently doing in two other Retirement Systems.

Timing:

- We suggest starting In January/February 2013 timeframe, in parallel with the PASS procurement activities, and ending in August 2013, with the procurement of the new solution.

Cost:

- We suggest adding a "bucket" of change management hours to the contract, to be used as needed for the identified activities. We suggest 160 hours (20 days) at our current hourly rate of \$200 per hour (\$32,000).
- How we use these hours throughout the Phases will depend in part on the availability of SamCERA resources. As a rough estimate, we project using 50% of the time in Phase 1, 35% in Phase 2, and 15% in Phase 3. Please note that this is an estimate only; we will know more about the timing once we start Phase 1.
- We've made these assumptions:
 - We will use hours more intensely early on (particularly in Phase 1), since this is where the change management expertise is most critical
 - SamCERA's communications expert will be intensely involved in both internal and external communications

San Mateo County Employees' Retirement Association (SamCERA)
LRWL Inc.
Proposal for Investments Business Process Reengineering (BPR)

Objective:

LRWL will document the current SamCERA business processes for the Investment Division in order to improve existing processes and/or reengineer to make the best use of existing and new systems. LRWL will provide services to:

- Develop as-is and to-be business process descriptions and/or models
- Recommend short- and long-term business process improvements.

This work will be performed for the following processes with the Investment Division.

Priority	Business Process
1	Managing Investment Manager Reports
2	Private Equity Capital Calls
3	Investment Manager Annual Reviews
4	On-boarding Investment Managers
5	Reporting Investment Performance (Agenda Item 6.1)
6	Custodial Items (Market Openings, New Fund Accounts, Proxy Voting, tax forms, securities litigation, etc.)
7	Semi-Annual Compliance Certification Statement
8	Management Fees
9	Rebalancing/Asset Allocation

Background:

SamCERA issued an RFP for a Technology Modernization Project Manager on November 9, 2011. LRWL submitted a proposal dated December 8, 2011 and was awarded the contract. The project kickoff occurred on April 17, 2012 and is scheduled to be completed no later than December 2013. LRWL has completed the documentation of all benefits administration processes and SamCERA would like LRWL to increase the scope of the work to include the business processes for the Investments Division.



Approach and Deliverables:

The LRWL approach for BPR includes the following activities and deliverables.

1. LRWL will review all available documentation, including SamCERA procedures.
2. LRWL will develop a list of existing (“as-is”) SamCERA business processes, develop a schedule of sessions (Deliverable BPR-01) to review and document these processes, identify session participants, and send session invitations with session agendas.
3. LRWL will facilitate all as-is business process review sessions.
4. LRWL will provide draft and final process descriptions for each as-is business process (Deliverable BPR-02).
5. LRWL will facilitate sessions to document how SamCERA would like to perform business processes in the future (“to-be”).
6. Additional “to-be” sessions will be focused on describing the desired future operations for the major Investments business areas.
7. LRWL will provide draft and final process descriptions (at a high level) for each to-be business area (Deliverable BPR-03).

Staffing:

LRWL staffing for this effort will include:

- Ben Lott – Project Director
- Will Morrow – Project Manager

From SamCERA, LRWL will need a single point of contact (project manager) as well as access to management and staff. This point of contact is the Chief of Technology, Tariq Ali.

Schedule and Cost:

The work will start on or after March 1, 2013 and finish on or before May 31, 2013. We will perform the work in 90 hours at our current hourly rate of \$200 per hour (\$18,000).



Approvals:

San Mateo County
Employees' Retirement Association

Date

Ben Lott
L.R. Wechsler, Ltd.

Date



SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

January 22, 2012

Agenda Item 7.7

TO: Board of Retirement

FROM: Tariq Ali, Chief Technology Officer



SUBJECT: Approval Of Resolution Waiving The Request For Proposal Process And Authorizing Contract With BCS Systems, Inc. For Imaging Services

Staff Recommendation:

Waive the request for proposal process and authorize the Chief Executive Officer to execute an agreement with BCS Systems, Inc. for ECM software, professional implementation services, support, and backfile conversion services and authorize the Chief Executive Officer to execute subsequent amendments and minor modifications in an amount not to exceed \$50,000.

Background:

As a part of the IT Modernization project, LRWL performed an in depth analysis of SamCERA's current document management practices (paper and electronic) to identify feasible technology options available to aid SamCERA in modernizing these practices. LRWL recommended that as a participant in the County's network, SamCERA should utilize the County's Autonomy document management system. To do so, SamCERA would enter into an agreement with the County's vendor, BCS Systems, Inc. to configure Autonomy for SamCERA's document management needs.

In addition, SamCERA needs to scan and index approximately 300,000 pages of existing paper member-related documents (back-file conversion).

Discussion:

In addition to implementing and supporting the Autonomy system for the County, BCS Systems has the experience and expertise required to help with the ECM effort. It would be advantageous to have the same vendor perform these services for SamCERA. BCS Systems will provide software, project management, Autonomy implementation services, and design an ongoing process for managing incoming and newly created paper and electronic documents for members. BCS Systems will analyze the document management needs for documents not directly related to members (e.g., investments, finance, legal, and the Board). BCS Systems will also perform the back-file conversion of current member documents from paper to electronic. Staff and LRWL have negotiated with BCS Systems and have received a not-to-exceed offer for all software and services that appears in line with what other Bay Area organizations have paid for similar services.

Attachments: Resolution.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

RESOLUTION 12-13- ____

RESOLUTION WAIVING THE REQUEST FOR PROPOSAL PROCESS AND AUTHORIZING THE CHIEF EXECUTIVE OFFICER TO EXECUTE AN AGREEMENT WITH BCS SYSTEMS, INC. FOR ECM SOFTWARE, PROFESSIONAL IMPLEMENTATION SERVICES AND SUPPORT AND TO AUTHORIZE THE CHIEF EXECUTIVE OFFICER TO EXECUTE SUBSEQUENT AMENDMENTS AND MINOR MODIFICATIONS IN AN AMOUNT NOT TO EXCEED \$50,000.

WHEREAS, pursuant to Government Code, Section 31580.2, SamCERA may contract with independent contractors for the furnishing of computer software, hardware, technology consulting services for SamCERA; and

WHEREAS, it is necessary and desirable that a contractor be retained for the purpose of the provision of ECM software, professional implementation services, support, and backfile conversion services; and

WHEREAS, the Board has determined that it is in the best interests of *SamCERA* to waive the request for proposal process and to enter into an agreement with BCS Systems, Inc. and for the Chief Executive Officer to execute an agreement for such services not to exceed \$500,000; Now, therefore

BE IT RESOLVED, that the request for proposal process is waived and the Chief Executive Officer is hereby authorized and directed to execute said agreement with BCS Systems, Inc. for the purpose of the provision of ECM software, professional implementation services, support, and backfile conversion services.

BE IT FURTHER RESOLVED, that the Chief Executive Officer is hereby authorized and directed to execute subsequent amendments and minor modifications in an amount not to exceed \$50,000.

* * * * *

Regularly passed and adopted, by the San Mateo County Employees' Retirement Association, Board of Retirement, on January 22, 2013

Ayes, Trustees:

Noes, Trustees:

Absent, Trustees:

Abstain, Trustees:

Lauryn Agnew, Board Secretary