

The Board of Retirement

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

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

Tuesday, March 29, 2011, at 1:00 p.m.

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

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

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

 - Disability Retirements
 - Liz Cervantes
 - Leonora Magallanes
 - Eugenia Verbeckmoes
 - Service Retirements
 - Continuances
 - Deferred Retirements
 - Member Account Refunds
 - Member Account Rollovers
5. Benefit & Actuarial Services
 - 5.1 Consideration of Benefit & Actuarial Items, if any, removed from the Consent Agenda
6. Investment Services (The Investment Committee will meet on March 29th at 10 a.m.)
 - 6.1 Monthly Portfolio Performance Report
 - 6.2 Educational Presentation – Hedge Funds – Beta Product and Hedge Funds of Funds
 - 6.2 a AQR Capital Management Presents Investing in Hedge Fund Beta (Board Presentation)
 - 6.2 b Aetos Capital Presents Investing in Hedge Funds of Funds (Board Presentation)
 - 6.3 Investment Management Agreement Renewal – Jennison Associates
 - 6.4 Initial Rewrite of *SamCERA's* Investment Policy
7. Board & Management Support Services (The Audit Committee will meet on March 29th at 9 a.m.)
 - 7.1 Monthly Financial Report
 - 7.2 Review and Approval of a Draft Request for Proposal for Actuarial Audit Services
 - 7.3 Consideration of Financial Audit Structure
 - 7.4 Approval of Estimated Employer Contribution Amount for Fiscal Year 2011/2012
 - 7.5 Approval of Amendments to *SamCERA's* Education Policy
 - 7.6 Approval of Expenditures for Board Meeting Security
 - 7.7 Introduction of *SamCERA's* Sources, Uses & Budget for Fiscal Year 2011/2012
8. Management Reports
 - 8.1 Chief Executive Officer's Report
 - 8.2 Assistant Executive Officer's Report
 - 8.3 Chief Investment Officer's Report
 - 8.4 County Counsel's Report

CLOSED SESSION – The board 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 Public Employee Performance Evaluation in accordance with Government Code section 54957
Title: Chief Executive Officer

[Continued on page 2 – Printed 03/23/11]

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

Notice of Public Meeting

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9. Report on Actions Taken in Closed Session

10. Adjournment in memory of the following deceased members:

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

David Bailey, Chief Executive Officer

Printed: 3/23/11

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

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

SamCERA's facilities and board and committee meetings are accessible to individuals with disabilities. Contact *SamCERA* at (650) 599-1234 at least three business days prior to the meeting if (1) you need special assistance or a disability-related modification or accommodation, including auxiliary aids or services, in order to participate in this meeting; or (2) you have a disability and wish to receive the agenda, meeting notice, agenda packet or other writings that may be distributed at the meeting in an alternative format. Notification in advance of the meeting will enable *SamCERA* to make reasonable arrangements to ensure full accessibility to this meeting and the materials related to it.

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

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

March 29, 2011

Agenda Item 3.0

February 22, 2011 – Investment Committee Agenda

PUBLIC SESSION

- 1.0 Call to Order
- 2.0 Roll Call
- 3.0 Approval of the Minutes
- 4.0 Oral Communications From the Committee
- 5.0 Oral Communications From the Public
- 6.0 Investment Management Services - The Investment Committee Shall Review & Discuss
 - 6.1 Monthly Portfolio Performance Report
 - 6.2 Quarterly Investment Performance Analysis for Period Ended December 31, 2010
 - 6.3 Investment Manager Review – Mondrian Investment Partners
 - 6.4 Approval of Investment Management Agreement(s) for the Risk Parity Mandate
 - 6.5 Select Commodities RFP Recipients
 - 6.6 Approval of Private Equity Investment Opportunity - Buyouts (Media, Communications, Business Services)
 - 6.7 Approval of Private Equity Investment Opportunity - Leveraged Sr. Bank Loans (Media, Communications, Business Services)
 - 6.8 Approval of Investment Committee's Plan for Fiscal Year 2011/2012
- 7.0 Other Business
- 8.0 Chief Investment Officer's Report
- 9.0 Adjournment

MINUTES OF SAMCERA'S Investment Committee

- 1.0 **Call to Order:** Mr. Bowler called the Public Session of the Investment Committee of the Board of Retirement to order at 9:05 a.m, February 22, 2011, in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores, California.
- 2.0 **Roll Call:** Ms. Agnew, Mr. Bowler, Ms. Salas for Mr. David, and Mr. Hackleman. *Other Board Members In Attendance:* Mr. Murphy and Mr. Spinello. *Staff:* Mr. Bailey, Mr. Hood, Ms. Dames and Mr. Clifton. *Consultants:* Mr. Thomas and Mr. Brody. *Public:* None. *Retirees:* None.
- 3.0 **Approval of the Minutes:** Mr. Bowler submitted the following correction to the minutes: 6.1 ¶2 L3: "*SamCERA's* Total Plan Policy Benchmark of ~~10.28%~~ 13.88%." **Motion** by Agnew, second by Salas, carried unanimously to approve the minutes from the January 25, 2011, committee meeting, as amended.
- 4.0 **Oral Communications From the Committee:** None.
- 5.0 **Oral Communications From the Public:** None.
- 6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA's* 1.13% Total Fund Return for January 2011 underperformed the Total Plan Policy Benchmark return of 1.17%. The fund's return for the trailing twelve months is a robust 17.47%, which is 972 basis points (bps) above the Actuarial Discount Rate of 7.75%. However, the total fund return is 99 basis points behind *SamCERA's* Total Plan Policy Benchmark of 18.46%. The 99 basis point underperformance is highly attributed to the international equity portfolios.

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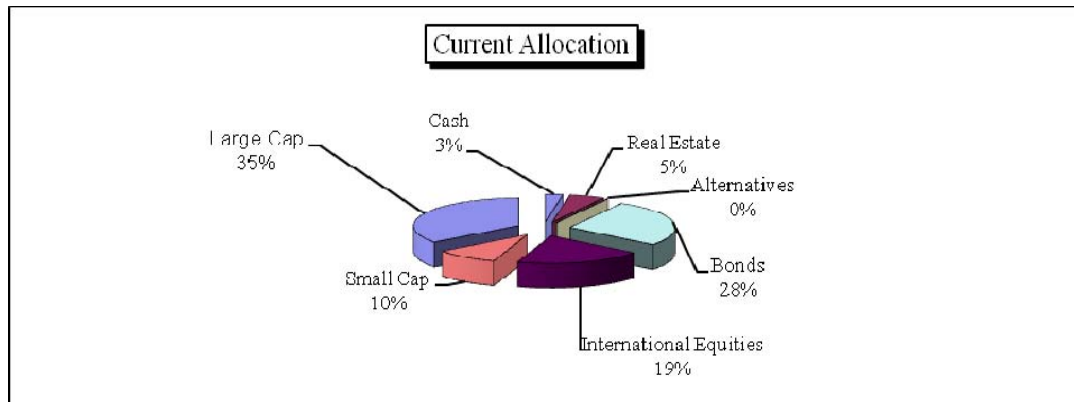
The table below shows the composite returns:

	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
Equity Aggregate	\$1,448,901,332	1.65%	7.91%	18.12%	21.66%
Equity Composite Benchmark		1.67%	8.77%	18.45%	23.53%
Variance		-0.02%	-0.86%	-0.33%	-1.87%
Private Equity Aggregate	\$250,000	0.00%	0.00%	N/A	N/A
Private Equity Composite		0.00%	0.00%	N/A	N/A
Variance		0.00%	0.00%	N/A	N/A
Fixed Income Aggregate	\$619,963,362	0.01%	-0.66%	3.03%	9.03%
Fixed Income Composite		0.12%	-1.53%	0.20%	5.06%
Variance		-0.11%	0.87%	2.83%	3.97%
Real Estate Aggregate	\$122,302,877	0.00%	4.62%	12.40%	16.70%
NCREIF (one quarter lag)		0.00%	4.86%	10.66%	16.14%
Variance		0.00%	0.00%	1.74%	0.56%
Cash Aggregate	\$60,002,894	0.06%	0.23%	0.59%	1.08%
91 Day Treasury Bill		0.01%	0.03%	0.07%	0.13%
Variance		0.05%	0.20%	0.52%	0.95%
Total Fund Returns	\$2,251,420,465	1.08%	5.14%	13.08%	17.41%
Total Plan Policy Benchmark		1.11%	5.43%	12.69%	17.82%
Variance		-0.03%	-0.29%	0.39%	-0.41%

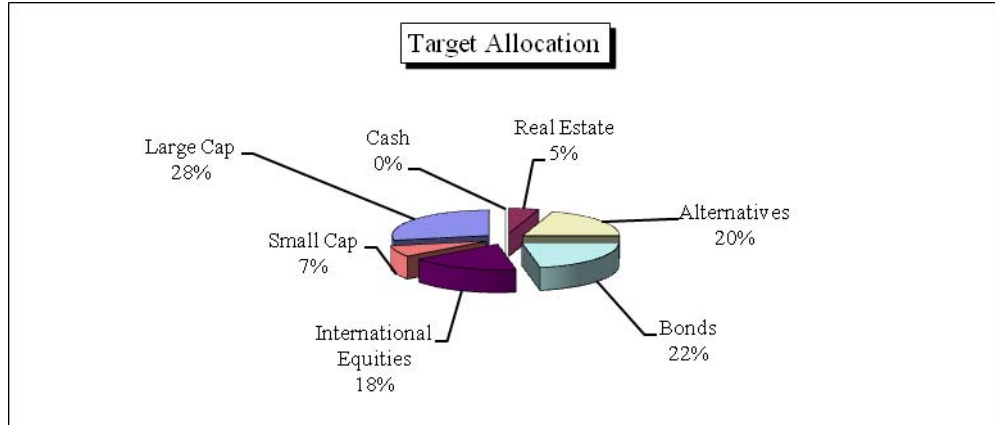
Performance versus Actuarial Discount Rate

Total Fund Returns		1.08%	5.14%	13.08%	17.41%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%
Variance		0.46%	3.26%	9.28%	9.66%

SamCERA's current asset allocation is summarized as follows:



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

6.2 **Quarterly Investment Performance Analysis for Period Ended December 31, 2010:** Mr. Thomas and Mr. Brody performed a thorough presentation of SIS' quarterly investment performance report for the period ended December 31, 2010. The composite fund returned 6.9% in the fourth quarter of 2010 and ranked 15th among other public funds greater than \$100 million (median of 6.0%). The one-year return of 13.6% was behind the policy index return of 14.3% and ranked in the 39th percentile of the universe. Longer term, the three and five-year returns of -1.0% (85th percentile) and 3.2% (95th percentile), respectively, were below median among large public plans (0.5% and 4.5%).

The BlackRock Russell 1000 Index Fund, 11.2%, ranked in the 31st percentile among large cap core managers (median of 10.8%) and matched its benchmark. Western Asset Management's quarter was above par. It carried a return of -0.1% and ranked above the core bond manager median of -1.1%. The Barclays Aggregate Index returned -1.3%. In its first full quarter, the intermediate high yield manager, Brigade Capital, beat its benchmark, the Barclays Intermediate High Yield Index (3.2% vs. 1.7%). The Angelo Gordon GECC PPIP Fund appreciated 12.1% while the Barclays Aggregate was down 1.3%. The Fund carried approximately 48% RMBS and 51% CMBS assets.

Fourth quarter results were hindered by several factors, including the association's international equity managers. The Artio Global quarterly of 6.3% was below the MSCI ACWI –ex US Growth Index (8.2%), and ranked in the 74th percentile among international equity managers. Artio's underweight to Japan, overweight to China and select Hong Kong investments carried a negative impact on results. Mondrian returned 3.7% and lagged the MSCI AC World –ex US Value Index (6.3%) and ranked in the 96th percentile among its peers. The portfolio was hindered by its overweight to Spain and France, underweight to Canada and currency exposure to the Euro dollar. In its first full quarter, Brown Brothers Harriman lost 1.3% and lagged the Barclays US TIPS Index, -0.7%. A yield curve flattening bias early in the quarter and positions in nominal US Treasury securities subtracted from performance.

Mr. Clifton said that staff and consultant will conduct a due diligence site visit with Artio Global in April. Staff will provide a full due diligence report to the board.

	Last Quarter		One Year		Last 3 Years	
	Return	Rank	Return	Rank	Return	Rank
Composite Fund	6.85%	15	13.55%	39	-1.02%	85
<i>Policy Index</i>	7.37%	11	14.25%	30	0.25%	58

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Black Rock Russell 1000 Index Fund	11.20%	31	16.17%	25	-2.30%	36
D.E. Shaw	11.42%	22	14.15%	74	N/A	N/A
<i>Russell 1000 Index</i>	<i>11.19%</i>	<i>32</i>	<i>16.10%</i>	<i>26</i>	<i>-2.37%</i>	<i>38</i>
T. Rowe Price	10.99%	38	14.18%	73	N/A	N/A
<i>S&P 500 Index</i>	<i>10.76%</i>	<i>59</i>	<i>15.06%</i>	<i>58</i>	<i>N/A</i>	<i>N/A</i>
Barrow Hanley	10.79%	37	15.81%	40	N/A	N/A
<i>Russell 1000 Value Index</i>	<i>10.54%</i>	<i>45</i>	<i>15.51%</i>	<i>49</i>	<i>N/A</i>	<i>N/A</i>
BlackRock	14.24%	15	20.38%	21	N/A	N/A
<i>Russell 1000 Growth Index</i>	<i>11.83%</i>	<i>53</i>	<i>16.71%</i>	<i>56</i>	<i>N/A</i>	<i>N/A</i>
<i>Large Cap Composite</i>	<i>11.75%</i>	<i>27</i>	<i>15.69%</i>	<i>44</i>	<i>-2.56%</i>	<i>50</i>
<i>Russell 2000 Index</i>	<i>11.19%</i>	<i>42</i>	<i>16.10%</i>	<i>39</i>	<i>-2.37%</i>	<i>46</i>
Jennison Associates	17.40%	24	31.40%	13	N/A	N/A
<i>Russell 2000 Index</i>	<i>16.25%</i>	<i>41</i>	<i>26.85%</i>	<i>48</i>	<i>N/A</i>	<i>N/A</i>
The Boston Company	12.57%	87	20.19%	88	N/A	N/A
<i>Russell 2000 Value Index</i>	<i>15.36%</i>	<i>64</i>	<i>24.50%</i>	<i>68</i>	<i>N/A</i>	<i>N/A</i>
Chartwell Investment Partners	14.54%	90	30.85%	28	-1.46%	80
<i>Russell 2000 Growth Index</i>	<i>17.11%</i>	<i>40</i>	<i>29.09%</i>	<i>45</i>	<i>2.18%</i>	<i>65</i>
<i>Small Cap Composite</i>	<i>15.57%</i>	<i>65</i>	<i>28.58%</i>	<i>39</i>	<i>-0.08%</i>	<i>87</i>
<i>Russell 2000 Index</i>	<i>16.25%</i>	<i>50</i>	<i>26.85%</i>	<i>54</i>	<i>2.22%</i>	<i>72</i>
<i>U.S. Equity Composite</i>	<i>12.55%</i>	<i>45</i>	<i>18.25%</i>	<i>50</i>	<i>-2.01%</i>	<i>62</i>
Artio Global Investment	6.27%	74	8.52%	66	-9.45%	95
<i>MSCI ACWI-ex US Growth Index</i>	<i>8.18%</i>	<i>24</i>	<i>14.79%</i>	<i>28</i>	<i>-4.44%</i>	<i>43</i>
Mondrian Investment Partners	3.69%	96	5.48%	92	-5.88%	63
<i>MSCI ACWI-ex US Value Index</i>	<i>6.28%</i>	<i>73</i>	<i>8.40%</i>	<i>67</i>	<i>-4.77%</i>	<i>46</i>
<i>International Equity Composite</i>	<i>4.98%</i>	<i>90</i>	<i>6.99%</i>	<i>82</i>	<i>-7.65%</i>	<i>84</i>
<i>MSCI ACWI-ex US Index Free</i>	<i>7.25%</i>	<i>43</i>	<i>11.60%</i>	<i>44</i>	<i>-4.58%</i>	<i>45</i>
<i>Total Equity Composite</i>	<i>10.15%</i>	<i>N/A</i>	<i>14.59%</i>	<i>N/A</i>	<i>-3.72%</i>	<i>N/A</i>

6.3 **Investment Manager Review – Mondrian Investment Partners:** Jim Brecker, Senior Vice President, Client Service, and Russell Mackie, Senior Portfolio Manager, from Mondrian Investment Partners were present for their review. Mr. Brecker provided a brief organizational review and answered a question regarding ownership structure.

Since inception in December 2004, the portfolio has lagged in the index (6.8% vs. 7.3%). Mr. Brecker then described the portfolio's defensive characteristics and said that the portfolio typically outperforms in bear markets. He said that it outperformed in 2008, although not as well as expected due to its financial sector exposure in Europe. Mondrian's underweight to financials has benefited the portfolio. He said that an underweight exposure to emerging markets and Canada as well as the value style lagging over the period has led to the portfolio's underperformance.

Mr. Mackie said that the market's current top-down growth is manufactured by government spending but is not sustainable. From a bottom-up perspective, many stocks in the universe have been aggressive with cost-cutting measures, but Mr. Mackie feels that this is also not sustainable. In terms of valuations, low interest rates have led to the significant lagging of value but is expected to turn around. Mr. Mackie opined that the portfolio is positioned well with the reversal of these three trends. In response to a question from Mr. Brody, Mr. Mackie said that the portfolio is deeper value than the MSCI ACWI –ex US Value Index given the portfolio's exposures. He then performed an overview of

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the portfolio's positioning and outlook going forward.

- 6.4 **Approval of Investment Management Agreement(s) for the Risk Parity Mandate:** Mr. Thomas performed an overview of the on-site due diligence visit he conducted with Mr. Clifton and Mr. Masarik. They met with a broad range of professionals and Mr. Thomas said that he was impressed by AQR, overall. Mr. Clifton said that staff and county counsel's Eugene Whitlock are working with AQR to finalize the documentation required to formalize the agreement for AQR to invest a portion of *SamCERA's* portfolio. With a target implementation of March 1st, Mr. Clifton recommended that the board authorize the chair to execute the necessary documentation with AQR dependent upon approval of staff and counsel.

The investment committee unanimously recommended that the board approve the investment management agreement for the risk parity mandate and authorize the chair to execute the documentation once approved by counsel.

- 6.5 **Select Commodities RFP Recipients:** Mr. Thomas reviewed the search criteria for the commodity manager search. He said that the set of screens produced 11 products managed by 10 firms, which he proposed as candidates to receive the Request for Information (RFI). Mr. Clifton added questions regarding the compliance to the California Statement of Economic Interests Form 700 and California placement agent policies. In response to a question from Ms. Agnew, Mr. Thomas said that SIS expects a 6-7% return on the portfolio with a preference for low leverage.

The committee unanimously recommended that the board authorize SIS to distribute the RFI to the 11 products, with the addition of those two questions. Once firms respond to the RFI, SIS will bring back detailed analysis of each firm to the board.

- 6.6 **Approval of Private Equity Investment Opportunity - Buyouts (Media, Communications, Business Services):** This agenda item was discussed at the full board meeting.

- 6.7 **Approval of Private Equity Investment Opportunity - Leveraged Sr. Bank Loans (Media, Communications, Business Services):** This agenda item was discussed at the full board meeting.

- 6.8 **Approval of Investment Committee's Plan for Fiscal Year 2011/2012:** Mr. Clifton presented the Investment Committee Plan for Fiscal Year 2011-2012. Since the addition of several investment managers, staff is recommending that the board delegate annual investment manager reviews to staff and consultant, unless a matter requires particular attention by the board. Mr. Clifton would schedule the reviews during the first half of the month and would include a full report of the annual review to the board. He opined that the delegation of conducting the reviews to staff and consultant would allow the investment committee to focus on exceedingly over- or under-performing managers. Ms. Agnew said that the committee should amend the investment policy to reflect the new delegation to staff and consultant.

The investment committee unanimously recommended that the board delegate annual investment manager reviews to staff and consultant, going forward. Should the committee or board have any concern regarding the strategy, performance or organizational changes of any particular investment manager, the firm will be interviewed directly by the committee or board on a case-by-case basis.

- 7.0 **Other Business:** None.

- 8.0 **Chief Investment Officer's Report:** Mr. Clifton reported that he was notified by AXA Rosenberg

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that an independent auditor completed its review of their investment model's coding error that was discovered in 2009. It was determined that the error had no financial impact on *SamCERA*'s portfolio. The error had been corrected in September 2009 and *SamCERA* had entered into a contract with AXA Rosenberg in August 2009. *SamCERA* terminated the manager after being notified of the coding error. It was determined that the firm owes \$242 million in settlements to clients and the SEC due to the error.

9.0 **Adjournment:** There being no further business, Mr. Bowler adjourned the committee at 11:25 a.m.

BENEDICT J. BOWLER, INVESTMENT COMMITTEE CHAIR

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

March 29, 2011

Agenda Item 3.0

February 22, 2011 – Board Agenda

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

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

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

 - Disability Retirements
 - Marina Diaz-Bados
 - Loretta Keenan
 - Service Retirements
 - Continuances
 - Deferred Retirements
 - Member Account Refunds
 - Member Account Rollovers
 - Trustee Request for Conference Approval
5. Benefit & Actuarial Services
 - 5.1 Consideration of Benefit & Actuarial Items, if any, removed from the Consent Agenda
6. Investment Services
 - 6.1 Monthly Portfolio Performance Report
 - 6.2 Quarterly Investment Performance Analysis for Period Ended December 31, 2010
 - 6.3 Investment Manager Review – Mondrian Investment Partners
 - 6.4 Approval of Investment Management Agreement(s) for the Risk Parity Mandate
 - 6.5 Select Commodities RFP Recipients
 - 6.6 Approval of Private Equity Investment Opportunity - Buyouts (Media, Communications, Business Services)
 - 6.7 Approval of Private Equity Investment Opportunity - Leveraged Sr. Bank Loans (Media, Communications, Business Services)
 - 6.8 Approval of the Investment Committee's Plan for Fiscal Year 2011/2012
7. Board & Management Support Services
 - 7.1 Monthly Financial Report
 - 7.2 Approval of First 5 UAAL Calculation Methodology and Resultant Amount
 - 7.3 Approval of the Audit Committee's Plan for Fiscal Year 2011/2012
 - 7.4 Introduction of *SamCERA's* Sources, Uses & Budget for Fiscal year 2011/2012
 - 7.5 Annual Review & Reaffirmation of *SamCERA's* Mission, Goals and Objectives
 - 7.6 Annual Review & Reaffirmation of *SamCERA's* Code of Fiduciary Conduct
 - 7.7 Annual Review & Reaffirmation of *SamCERA's* Conflict of Interest Code
 - 7.8 Annual Review & Reaffirmation of *SamCERA's* Strategic Services Resolution
 - 7.9 Annual Review & Reaffirmation of *SamCERA's* Internal Controls Policy
 - 7.10 Annual Review & Reaffirmation of *SamCERA's* Travel Policy
 - 7.11 Annual Review and Reaffirmation of *SamCERA's* Educational Policy
 - 7.12 Annual Review and Reaffirmation of *SamCERA's* Expense Reimbursement Policy
 - 7.13 Approval to Authorize *SamCERA's* Chief Executive Officer to Amend the Lease for Office Space
8. Management Reports
 - 8.1 Chief Executive Officer's Report
 - 8.2 Assistant Executive Officer's Report

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8.3 Chief Investment Officer's Report

8.4 County Counsel's Report

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

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

9. Report on Actions Taken in Closed Session

10. Adjournment

February 22, 2011 – Board Minutes

1102.1 **Call to Order:** Ms. Arnott, Vice Chair, called the Public Session of the Board of Retirement to order at 1 p.m., February 22, 2011, in *SamCERA's* Board Room, 100 Marine Parkway, Suite 125, Redwood Shores, California.

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

1102.2.1 **Oral Communications From the Board:** None.

1102.2.2 **Oral Communications From the Public:** None.

1102.3 **Approval of the Minutes:** Mr. Bowler submitted the following correction to the minutes: 11017.3 L3: "investigate the possibility of impacting investing to the association's portfolio." **Motion** by Agnew, second by Hackleman, carried unanimously to approve the board minutes from the January 25, 2011, meeting, as amended.

1102.4 **Approval of the Consent Agenda: Motion** by Salas, second by Agnew, carried unanimously to approve the day's Consent Agenda, as submitted, as follows. Mr. Hackleman abstained from the vote regarding the matter of the disability application of Loretta Keenan.

Disability Retirements:

The board finds that **Marina Diaz-Bados** is unable to perform her usual and customary duties as a Public Health Nurse and grants her application for a non-service connected disability retirement.

The board approves and adopts the decision of Hearing Officer Roy Abrams and denies a non-service disability retirement to **Loretta Keenan**.

Service Retirements:

Member Name	Effective Retirement Date	Department
Boyle, Michael	December 4, 2010	Def'd from Elections
Krause, Lori	December 5, 2010	Def'd from Sheriff's Office
Singh, Kamlesh	December 8, 2010	San Mateo Medical Center

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Torrelío, Elisa	December 9, 2010	Def'd from Behavioral Health
Chow, Betty	December 10, 2010	Admin and Emergency Svcs.
Cooke, Louis	December 30, 2010	Def'd from Superior Court
Conley, Kathryn	December 31, 2010	Def'd from Environmental
Amberg, Barbara	January 1, 2011	Library
Chiotti, Mark	January 1, 2011	Human Services Agency
Fox, James	January 1, 2011	District Attorney
Hesler, Shelley	January 1, 2011	Behavioral Health
Leduna, Alicia	January 1, 2011	San Mateo Medical Center
McHenry, Margaret	January 1, 2011	District Attorney
Moore, David	January 1, 2011	Parks Dept.
Moser, Christine	January 1, 2011	Superior Court
Penalosa, Georgina	January 1, 2011	Probation
Buffington, Lee	January 4, 2011	Tax Collector
Slocum, Warren	January 4, 2011	Assessor
Woodward, Carol	January 4, 2011	County Counsel

Continuance of Benefits:

Member Name	Beneficiary of:
Hamid, Khawer	Hamid, Asghar
Murphy, John	Murphy, Marjorie

Deferred Retirements:

Member Name	Retirement Plan Type
None	

Member Account Refunds:

Member Name	Retirement Plan Type
Angeles, Ferdinand	G4 Non-vested
Boone, Maryanne	G4 Non-vested
Ceja, Anastacio	G4 Non-vested
Cherry, Courtney	G4 Non-vested
Diaz, Madeleine	G4 Non-vested
Faumuina, Tolopa	P4 Vested
Houston, Kimberly	G4 Non-vested
Laffoon, Valerie	G4 Non-vested
Lee, Lindsay	G4 Non-vested
Estate of Lucas, Henry	G1 Vested
Martinson, Katherine	G4 Non-vested
Melgarejo, Larry	G4 Non-vested
Newman, Charles	G4 Vested
Villagomez, Emanuela	G4 Non-vested

Member Account Rollovers:

Member Name	Retirement Plan Type
Brumidis, Sydney	G4 Non-vested
Estrada, Rosa	G4 Non-vested
Gilliland, Stephanie	Ben of Reeves, Claire
McCord, James	G4 Non-vested

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Smith, Debi

QDRO of Smith, Carlos

Trustee Request for Conference Approval

1102.5 **Benefit & Actuarial Services**

1102.5.1 **Consideration of Benefit & Actuarial Items, if any, removed from the Consent Agenda:** None.

1102.6 **Investment Services**

1102.6.1 **Monthly Portfolio Performance Report:** Mr. Clifton reported that *SamCERA*'s 1.13% Total Fund Return for January 2011 underperformed the Total Plan Policy Benchmark return of 1.17%. The fund's return for the trailing twelve months is a robust 17.47%, which is 972 basis points (bps) above the Actuarial Discount Rate of 7.75%. However, the total fund return is 99 basis points behind *SamCERA*'s Total Plan Policy Benchmark of 18.46%. The 99 basis point underperformance is highly attributed to the international equity portfolios.

Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	\$1,010,517,767	2.00%	25.28%	1.10%
<i>International Equity</i>	438,383,566	0.84%	14.05%	2.43%
Total Equity	1,448,901,332	1.65%	21.66%	1.41%
Private Equity	250,000	0.00%	N/A	N/A
Fixed Income	621,060,237	0.18%	9.22%	5.66%
Real Estate Aggregate	122,302,877	0.00%	16.70%	0.47%
Cash Equivalents	60,002,894	0.06%	1.08%	1.78%
TOTAL FUND	\$2,252,517,340	1.13%	17.47%	2.76%
<i>Benchmark</i>		1.17%	18.46%	4.11%

* Total Time-Weighted Rate of Return

1102.6.2 **Quarterly Investment Performance Analysis for Period Ended December 31, 2010:** Mr. Brody and Mr. Thomas of Strategic Investment Solutions gave a brief overview of the quarterly investment performance report for the period ended December 31, 2010. SIS performed a thorough review of the portfolio's performance with the Investment Committee. The composite fund returned 6.9% in the fourth quarter of 2010 and ranked 15th among other public funds greater than \$100 million (median of 6.0%). The one-year return of 13.6% was behind the policy index return of 14.3% and ranked in the 39th percentile of the universe. Longer term, the three and five-year returns of -1.0% (85th percentile) and 3.2% (95th percentile), respectively, were below median among large public plans (0.5% and 4.5%).

Mr. Clifton said that staff and consultant will conduct a due diligence site visit with Artio Global in April. Staff will then provide a full due diligence report to the board.

1102.6.3 **Investment Manager Review – Mondrian Investment Partners:** Mr. Clifton reported that the Investment Committee conducted the annual investment review for Mondrian Investment Partners. Jim Brecker, Senior Vice President, Client Service, and Russell Mackie, Senior Portfolio Manager, were present at the committee from Mondrian Investment Partners for

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their annual review.

- 1102.6.4 **Approval of Investment Management Agreement(s) for the Risk Parity Mandate:** Mr. Clifton said that Mr. Thomas reported on staff and consultant's on-site due diligence visit to AQR at the investment committee. Mr. Thomas was impressed by the firm and product, overall. Mr. Clifton said that staff and Mr. Whitlock of County Counsel are working with AQR to finalize the documentation required to formalize the agreement for AQR to invest a portion of *SamCERA's* portfolio. He reported that the investment committee recommended that the board approve the investment management agreement with AQR for the risk parity mandate and authorize the board chair to execute the documentation upon approval of counsel.

Motion by Hackleman, second by Agnew, carried unanimously to approve the IMA with AQR Capital Management for the risk parity mandate.

Ms. Carlson then discussed the clause in *SamCERA's* Conflict of Interest Code that requires that "consultants" file the Annual Disclosure of Economic Interest Statement Form 700 with the Fair Political Practices Commission, and that the term consultants also include investment managers. The board then discussed possible pushback from private equity managers. Ms. Carlson will conduct further research on the matter.

- 1102.6.5 **Select Commodities RFP Recipients:** Mr. Thomas reviewed the search criteria for the commodity manager search. He said that the set of screens produced 11 products managed by 10 firms, which he proposed as candidates to receive the Request for Information (RFI). Mr. Clifton added questions regarding the compliance to the California Statement of Economic Interests Form 700 and California placement agent policies.

Motion by Hackleman, second by Bowler, carried unanimously to approve the list of 11 semi-finalists to receive the amended RFI for a commodity mandate. Once firms respond to the RFI, SIS will bring back detailed analysis of each firm to the board.

- 1102.6.6 **Approval of Private Equity Investment Opportunity - Buyouts (Media, Communications, Business Services):** Faraz Shooshani of Strategic Investment Solutions was present to discuss the in-depth review and analysis that SIS performed for the private equity investment, ABRY Partners VII, L.P. The fund has a focus to buyout media, communications and business services. SIS recommended that the board approve to commit \$10 million to ABRY Partners VII, L.P. pending legal due diligence by staff and counsel. Mr. Shooshani discussed fund strategy, performance and fee structure. He then answered trustees' questions and concerns. *SamCERA* has an 8% allocation to Private Equity, with a sub-asset class allocation of 60% buyouts, 20% venture capital and 20% debt-related/special situations. The commitment to ABRY Partners VII, L.P. would be allocated to buyouts.

Motion by Spinello, second by Bowler, carried unanimously to authorize the board chair to execute the documentation for ABRY Partners VII, L.P. with a fund focus of Buyouts (Media, Communications, Business Services)

- 1102.6.7 **Approval of Private Equity Investment Opportunity - Leveraged Sr. Bank Loans (Media, Communications, Business Services):** Faraz Shooshani of Strategic Investment Solutions was present to discuss the in-depth review and analysis that SIS performed for the private equity investment ABRY Advanced Securities Fund II, L.P. The fund has a focus on

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leveraged senior bank loans by media, communications and business services. SIS recommended that the board approve to commit \$20 million to ABRY Advanced Securities Fund II, L.P. pending legal due diligence by staff and counsel. Mr. Shooshani discussed fund strategy, performance and fee structure. He then answered trustees' questions and concerns. *SamCERA* has an 8% allocation to Private Equity, with sub-asset class allocation of 60% buyouts, 20% venture capital and 20% debt-related/special situations. The commitment to ABRY Advanced Securities Fund II, L.P. would be allocated to debt-related/special situations.

Motion by Spinello, second by Bowler, carried unanimously to authorize the board chair to execute the documentation for ABRY Advanced Securities Fund II, L.P. with a fund focus on Leveraged Senior Bank Loans (Media, Communications, Business Services).

- 1102.6.8 **Approval of the Investment Committee's Plan for Fiscal Year 2011/2012:** Mr. Clifton said that the investment committee discussed the delegation of annual investment manager reviews to staff and consultant, given the increased number of active managers in *SamCERA*'s portfolio. Staff would provide a full report of each review for the board. Investment managers with extreme under- or over-performance, significant organizational changes, or other potential factors of concern, would be reviewed by the investment committee or the board. Ms. Agnew said that with over twenty investment managers, conducting each annual review would be overbearing for the board. Delegation of the annual reviews would allow the committee and board more time for strategic conversations.

Motion by Salas, second by Spinello, carried unanimously to approve the Investment Committee's Plan for Fiscal Year 2011/2012 and the committee's recommendation to delegate annual investment manager reviews to staff and consultant, going forward. The board may request to conduct the annual reviews of specific investment managers at the board level at any time.

1102.7 **Board & Management Support Services**

- 1102.7.1 **Monthly Financial Report:** Mr. Clifton reported that *SamCERA*'s Net Assets Held in Trust for Pension Benefits as of January 31, 2011, totaled \$2,249,420,527. Net assets increased by approximately \$81.5 million, month over month, primarily attributed to a \$65 million prepayment of employer contributions that occurred at month end.

- 1102.7.2 **Approval of First 5 UAAL Calculation Methodology and Resultant Amount:** Mr. Bailey said that First 5 San Mateo, a county agency that may be eliminated by state budget cuts, is considering paying off the Unfunded Actuarial Accrued Liability (UAAL) associated with its county employees.

Motion by Hackleman, second by Kwan Lloyd, carried unanimously to approve Resolution 10-11- , adopting a calculation method and UAAL amount for First 5 San Mateo, as follows:

“WHEREAS, First 5 San Mateo is considering the payment of its proportionate share of the county of San Mateo's Unfunded Actuarial Accrued Liability ; and

“WHEREAS, Section 31564.2 of the California Government Code sets forth a methodology for the development of a proportional Unfunded Actuarial Accrued Liability for a district

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withdrawing from a retirement system; and

“WHEREAS, the Board of Retirement finds that 31564.2 provides guidance in appropriately calculating First 5 San Mateo’s proportionate share of the total general member Unfunded Actuarial Accrued Liability of the San Mateo County Employees’ Retirement Association as of June 30, 2011; and

“WHEREAS, Milliman, Inc. has determined the Unfunded Actuarial Accrued Liability of First 5 San Mateo as of June 30, 2011, to be \$1,273,457; it is now, therefore

“RESOLVED that the board hereby adopts the methodology and results regarding the calculation of the Unfunded Actuarial Accrued Liability of First 5 San Mateo County, including all provisional statements, as set forth in the February 18, 2011, letter from Nick Collier, Milliman, Inc. to David Bailey, Chief Executive Officer, *SamCERA*.”

- 1102.7.3 **Approval of the Audit Committee’s Plan for Fiscal Year 2011/2012:** Mr. Clifton presented the Audit Committee’s Plan for Fiscal Year 2011/2012. The current audit committee consists of Ms. Kwan Lloyd, Chair; Ms. Arnott, Mr. Tashman and Mr. Spinello. **Motion** by Tashman, second by Bowler, carried unanimously to approve the Audit Committee’s Plan for the upcoming fiscal year.
- 1102.7.4 **Introduction of *SamCERA*’s Sources, Uses & Budget for Fiscal year 2011/2012:** Mr. Clifton introduced *SamCERA*’s Sources, Uses and Budget Report for FY 2011/2012. Mr. Clifton reminded trustees to complete and return their FY 2011/2012 educational conference request forms to Ms. Dames for budget planning purposes.
- 1102.7.5 **Annual Review & Reaffirmation of *SamCERA*’s Mission, Goals and Objectives:** Mr. Clifton presented the latest iteration of Resolution 95-96-05, *SamCERA*’s Mission, Goals and Objectives, as amended on January 27, 2009. There were no recommended amendments this year. The board unanimously reaffirmed *SamCERA*’s Mission, Goals, and Objectives, as submitted.
- 1102.7.6 **Annual Review & Reaffirmation of *SamCERA*’s Code of Fiduciary Conduct:** Mr. Clifton presented *SamCERA*’s Code of Fiduciary Conduct, Resolution 96-97-02, as amended on February 23, 2010. Mr. Tashman recommended changing the gift limit dollar amount to reflect the FPPC website.
- Motion** by Tashman, second by Salas, carried unanimously to reaffirm *SamCERA*’s Code of Fiduciary Conduct, as amended.
- 1102.7.7 **Annual Review & Reaffirmation of *SamCERA*’s Conflict of Interest Code:** This agenda item was deferred to a future board meeting upon counsel’s review regarding the Form 700 requirements for investment managers.
- 1102.7.8 **Annual Review & Reaffirmation of *SamCERA*’s Strategic Services Resolution:** Mr. Clifton presented Resolution 95-96-06, *SamCERA*’s Strategic Services Resolution, as amended on March 22, 2005. Following review, no changes were recommended by the board. The board unanimously reaffirmed *SamCERA*’s Strategic Services Resolution, as submitted.

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- 1102.7.9 **Annual Review & Reaffirmation of *SamCERA*'s Internal Controls Policy:** Mr. Clifton presented Resolution 95-96-16, *SamCERA*'s Internal Controls Policy, as amended on April 22, 2003. Mr. Clifton also presented the Internal Controls Guidelines for the board's review. Following review, no changes were recommended by the board. The board unanimously reaffirmed *SamCERA*'s Internal Controls Policy and Guidelines, as submitted.
- 1102.7.10 **Annual Review & Reaffirmation of *SamCERA*'s Travel Policy:** Mr. Clifton presented Resolution 06-07-01, *SamCERA*'s Travel Policy, as amended on March 24, 2009. The current reimbursement rates for the Continental United States (CONUS) as set forth in the Code of Federal Regulations were updated and also presented to the board. The board unanimously reaffirmed *SamCERA*'s Travel Policy, as submitted.
- 1102.7.11 **Annual Review and Reaffirmation of *SamCERA*'s Educational Policy:** Mr. Clifton presented Resolution 98-99-12, *SamCERA*'s Educational Policy, as amended on August 24, 2010. Mr. Tashman asked if trustees can attend or view educational sessions online or electronically. Mr. Bailey said that SACRS videotapes its sessions and makes presentation materials available online. Mr. Clifton will amend the policy to include language regarding online education and bring it back for board approval. Mr. Tashman encouraged trustees to take advantage of online educational opportunities.
- 1102.7.12 **Annual Review and Reaffirmation of *SamCERA*'s Expense Reimbursement Policy:** Mr. Clifton said that in February 2010, Ms. Wong introduced *SamCERA*'s Expense Reimbursement Policy as a result of an internal control review. The policy provides an explicit guideline for the reimbursement of business expenses incurred in the performance of official duties of *SamCERA*'s trustees and staff. The policy works in conjunction with the Travel Policy.
- 1102.7.13 **Approval to Authorize *SamCERA*'s Chief Executive Officer to Amend the Lease for Office Space:** Mr. Hood said that additional permanent space is required to house additional staff, create space for information technology development and take advantage of space now available with the current location. Staff had been negotiating with the landlord to add suite 160 to the current lease and Mr. Hood provided the terms and conditions for the lease amendment. He requested that the board authorize the CEO to execute the amendment to the current lease under those terms and conditions. He estimates that the total cost to *SamCERA* to prepare both suites for occupancy to be approximately \$140,000 after the tenant improvement allowance. Staff anticipates that there is enough funding in the current budget to cover this cost. Should additional funding be required, staff will make a separate request to the board at a subsequent meeting.

Motion by Agnew, second by Hackleman, carried unanimously to authorize the CEO to negotiate and amend *SamCERA*'s current lease to add Suite 160 per the terms in the letter provided by staff.

1102.8 **Management Reports**

- 1102.8.1 **Chief Executive Officer's Report:** Mr. Bailey commended Mr. Hood for his work in lease negotiations for *SamCERA*'s additional office space. He then said that the County of San Mateo and City of San Carlos are in discussions regarding the UAAL of retirement costs from

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CalPERS. San Carlos recently contracted its police force with the County. Mr. Bailey then provided an update on the vacancy on the board. The application process has been re-opened with a new deadline of March 14th. He reported on *SamCERA*'s staff retreat that took place earlier in the month. He said that the two-day retreat was very productive and resulted in a list of several projects for the upcoming fiscal year. He will bring a draft strategic plan to the board in a few months. Mr. Bailey expressed appreciation for the participation by all staff. Lastly, Mr. Bailey said that Rich Goss' wife, Sharlyn Goss, recently passed away and expressed his condolences. Mr. Goss was the former administrator of CALAPRS.

1102.8.2 **Assistant Executive Officer's Report:** Mr. Hood said he conducted a survey regarding board meeting security measures. Mr. Spinello opined that security was of real concern given the current environment. Mr. Tashman said that safety is of great importance and that the board should allow staff to hire security personnel through the County's sheriff office for next month's meeting. The board agreed with Mr. Tashman's recommendation. A ratification item regarding security measures will be placed on the March board agenda. Mr. Hood then distributed the most recent Financial Knowledge Network educational flyer.

1102.8.3 **Chief Investment Officer's Report:** Mr. Clifton reported that he was notified by AXA Rosenberg that an independent firm completed its review of their investment model's coding error that was discovered in 2009. It was determined that the error had no financial impact on *SamCERA*'s portfolio. The error had been corrected in September 2009 and *SamCERA* had entered into a contract with AXA Rosenberg in August 2009. *SamCERA* terminated the manager after being notified of the coding error. It was determined that the firm owes \$242 million in settlements to clients and the SEC due to the error.

1102.8.4 **County Counsel's Report:** Ms. Carlson thanked Mr. Bailey and the rest of staff for their efforts through the Human Resources' process regarding union negotiations. Most unions have come into agreement with a few M.O.U.'s left for negotiation. She reported that the Board of Supervisors is going through a budget priority process by department. *SamCERA* will field several questions regarding early retirement options and lay-offs. Staff has been very helpful throughout this process.

1102.9 **Report on Actions Taken in Closed Session:** None.

1102.10 **Adjournment in Memory of Deceased Members:** There being no further business, Ms. Arnott adjourned the meeting at 3:08 p.m., in memory of the following deceased members:

Stone, William	December 31, 2010	Public Works
Braasch, Gladys	January 4, 2011	Library
Stevens, Thomas	January 5, 2011	Engineer-Road
Lewis, Robert	January 10, 2011	Controller
Roeder, Lois	January 15, 2011	Ben. of Roeder, Harvey
Newman, Margaret	January 24, 2011	Ben. of Newman, Alfred
Silva, James	January 24, 2011	Ben. of Silva, Shirley

SANDIE ARNOTT, VICE CHAIR

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

March 29, 2011

Agenda Item 4.0 (a)

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

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

Disability Retirements

1. Board finds **Eugenia Verbeckmoes** is unable to perform her usual and customary duties as a Principal Appraiser and (2) grants her application for a service-connected disability retirement.
2. Board finds **Leonora Magallanes** is unable to perform her usual and customary duties as a Medical Services Assistant II and (2) grants her application for a service-connected disability retirement.
3. Board finds **Liz Cervantes** is able to perform her usual and customary duties as a Legal Secretary II and (2) denies her application for a service-connected disability retirement.

Service Retirements

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

Member Name	Effective Retirement Date	Department
Bayangas, Teresa	January 5, 2011	Human Services Agency
Ligon, Tracy	January 6, 2011	Def'd from Public Works
Kelly, Hallan	January 15, 2011	Public Health
Valera, Josie	January 18, 2011	Def'd from Public Health
Bundalion, Clarita	January 24, 2011	San Mateo Medical Center
Wethington, Jerome	January 25, 2011	San Mateo Medical Center
Wood, Kenneth	January 29, 2011	Superior Court
Ayala, Yolanda	February 1, 2011	San Mateo Medical Center
Deasy, Patrick	February 1, 2011	Sheriff's Office
McClure, Carl	February 1, 2011	Probation
Moser, Martin	February 1, 2011	Sheriff's Office
Redick, Patricia	February 1, 2011	Def'd from HSA

Continuances

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

Member Name	Beneficiary of:
Stevens, Geneva	Stevens, Thomas

Deferred Retirements

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

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

Member Account Refunds

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

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

Member Account Rollovers

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

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

Notice of Public Meeting



Investment Committee

of the San Mateo County Employees' Retirement Association
will meet in
100 Marine Parkway, Suite 125, Redwood Shores
Tuesday, March 29, 2011, at 10:00 a.m.

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

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

Gary Clifton, Chief Investment Officer

Printed: 3/23/11

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

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

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

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

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

How to Find Us:

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

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

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

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

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

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

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

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

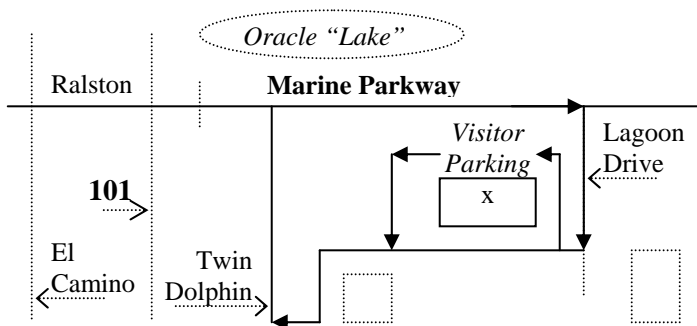
SamCERA’s Telephone Number: (650) 599-1234

From a County Extension: Dial 1234

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

Web Site: www.samcera.org

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



SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

March 29, 2011

Agenda Item 6.1

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Monthly Portfolio Performance Report for the Period Ending **February 28, 2011**

COMMENT: *SamCERA's* 2.38% Total Fund Return for the month slightly underperformed the Total Plan Policy Benchmark return of 2.46%.

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

Headlines were again dominated by violent uprisings in Egypt, Bahrain, Libya and elsewhere in the region. The resulting uncertainty regarding crude oil cast a pall over oil prices, and heightened investor concern due to the resulting impacts to the fragile, recovering global economy. The price of crude oil jumped to end the month at \$96.97, close to the psychologically important level of \$100 a barrel. Add to this mix increased state and local budget austerity in the face of structural deficits and all is not well.

Equity markets trended slightly higher in the month buoyed by better than expected employment, expanding manufacturing, increased consumer and business expectations, and strong corporate earnings. These factors impacted the market early in the month and were able to offset the volatility that picked up toward the end of the month.

The yield curve flattened meaningfully in February, as intermediate rates rose modestly while long rates dropped slightly. February was the third consecutive month in which investors expressed a general preference for spread sectors over the relative safety of US Treasuries. Consumers as well as investors are showing signs of confidence in the economic recovery. The Consumer Confidence Index spiked to a three-year high, landing above expectations at 70.4.

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

Portfolio	Trailing One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months
BlackRock Russell 1000	3.48%	13.05%	28.68%	23.62%
D.E. Shaw Investment Management, LLC	2.97%	12.26%	27.37%	20.88%
T. Rowe Price Associates	3.49%	13.19%	28.10%	21.87%
Barrow, Hanley, Mewhinney & Strauss	3.38%	15.00%	29.94%	22.74%
BlackRock Capital Management, Inc.	2.55%	9.11%	33.66%	28.70%
Large Cap Aggregate	3.19%	12.50%	29.67%	22.99%
The Boston Company	5.08%	13.97%	32.08%	24.66%
Chartwell Investment Partners	6.61%	15.67%	40.68%	39.85%
Jennison Associates	5.53%	14.09%	39.47%	38.81%
Small Cap Aggregate	5.70%	14.46%	38.07%	35.67%
Artio Global Investors	1.65%	6.46%	18.24%	17.55%
Mondrian Investment Partners	1.97%	11.51%	17.38%	16.59%
International Aggregate	1.81%	8.94%	17.81%	17.06%
Total Equity	3.15%	11.70%	27.05%	22.87%
Aberdeen Asset Management	0.66%	0.46%	1.50%	8.48%
Angelo Gordon	0.00%	8.74%	22.48%	39.28%
Brigade Capital Management	1.36%	5.32%	9.04%	N/A
Brown Brothers Harriman	0.83%	-0.70%	0.36%	N/A
Franklin Templeton	4.66%	N/A	N/A	N/A
Pyramis Global Advisors	0.57%	0.23%	0.77%	7.34%
Western Asset Management	0.64%	1.04%	2.12%	9.82%
Total Fixed Income	1.29%	1.41%	3.11%	10.44%
Private Equity (1)	0.00%	N/A	N/A	N/A
Risk Parity	N/A	N/A	N/A	N/A
Hedge Funds	N/A	N/A	N/A	N/A
Commodities	N/A	N/A	N/A	N/A
Total Alternative Investments	0.00%	N/A	N/A	N/A
Invesco Realty Advisors	0.00%	4.62%	12.40%	16.70%
Cash	0.03%	0.16%	0.50%	1.03%
Total Portfolio	2.38%	8.13%	18.37%	18.58%

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

San Mateo County

Summary of Fund Performance With 4 Years

Rates of Return Total

Periods Ending February 28, 2011



STATE STREET

	MKT VAL	1 Month	QTR	6 Month s	FYTD	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	ITD	INCEPT. DATE
DOMESTIC EQUITY													
BLACKROCK RUSSELL 1000 INDEX FUND	254,137,389	3.48	13.05	28.68	31.46	23.62	38.62	2.74	1.09	3.24	3.14	8.56	04/01/1995
DE SHAW INVESTMENT MGT, LLC	110,835,385	2.97	12.26	27.37	29.10	20.88						23.08	08/01/2009
<i>RUSSELL 1000</i>		3.48	13.04	28.65	31.43	23.54	38.52	2.66	1.01	3.17	3.09		
T. ROWE PRICE ASSOCIATES	110,277,229	3.49	13.19	28.10	30.44	21.87						22.46	08/01/2009
<i>S&P 500</i>		3.43	12.95	27.73	30.51	22.58						23.07	
BARROW HANLEY	169,648,680	3.38	15.00	29.94	31.68	22.74						24.16	08/01/2009
<i>RUSSELL 1000 VALUE</i>		3.69	14.40	26.30	29.08	22.16						23.44	
BLACKROCK	173,468,616	2.55	9.11	33.66	35.54	28.70						26.09	08/01/2009
<i>RUSSELL 1000 GROWTH</i>		3.27	11.73	31.04	33.83	24.94						24.82	
LARGE CAP AGGREGATE	818,367,300	3.19	12.50	29.67	31.87	22.99	37.44	2.25	-0.29	2.08	2.79	8.35	04/01/1995
<i>RUSSELL 1000</i>		3.48	13.04	28.65	31.43	23.54	38.52	2.66	1.01	3.17	3.09	8.53	
BOSTON COMPANY ASSET MGT, LLC	50,747,328	5.08	13.97	32.08	28.49	24.66						26.49	08/01/2009
<i>RUSSELL 2000 VALUE</i>		5.08	13.87	34.31	33.08	28.87						28.80	
CHARTWELL INVESTMENT MGMT	58,376,520	6.61	15.67	40.68	44.52	39.85	49.58	6.04	3.75	3.91		6.98	12/01/2004
<i>RUSSELL 2000 GROWTH</i>		5.88	13.28	40.76	39.13	36.33	48.55	8.61	4.32	4.56		6.37	
JENNISON ASSOCIATES	120,744,385	5.53	14.09	39.47	39.31	38.81	51.64					10.34	04/01/2008
SMALL CAP AGGREGATE	229,868,233	5.70	14.46	38.07	38.01	35.67	53.73	5.84	-1.19	0.73	5.29	5.43	07/01/1999
<i>RUSSELL 2000</i>		5.48	13.57	37.55	36.12	32.60	47.43	7.79	2.33	3.80	7.06	6.53	
DOMESTIC EQUITY AGGREGATE	1,048,235,533	3.73	12.92	31.40	33.16	25.54	40.41	3.02	-0.38	1.88	3.35	7.54	07/01/1995
<i>SAMCERA DOMESTIC EQUITY BENCHMA</i>		3.94	13.13	30.39	32.37	25.34	40.34	3.73	1.33	3.35	3.95		
INTERNATIONAL EQUITY													
ARTIO GLOBAL INVESTOR	221,893,970	1.65	6.46	18.24	23.82	17.55	30.82	-6.83	-3.26	1.25		6.05	12/01/2004

San Mateo County

Summary of Fund Performance With 4 Years

Rates of Return Total

Periods Ending February 28, 2011



STATE STREET

	MKT VAL	1 Month	QTR	6 Month s	FYTD	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	ITD	INCEPT. DATE
<i>MSCI ACWI ex US GROWTH (GROSS)</i>		2.46	9.71	21.91	29.18	22.55	38.81	-1.74	1.67	4.78		8.15	
MONDRIAN INVESTMENT PARTNERS	224,431,664	1.97	11.51	17.38	25.84	16.59	31.84	-1.93	-0.36	3.90		7.36	12/01/2004
<i>MSCI ACWI EX US VALUE (GROSS)</i>		2.85	13.99	22.60	30.22	20.63	43.32	-0.37	0.47	4.55		8.25	
TOTAL INTERNATIONAL EQUITY	446,325,634	1.81	8.94	17.81	24.83	17.06	31.33	-4.38	-1.79	2.59	4.73	6.43	10/01/1996
<i>MSCI AC WORLD ex US (GROSS)</i>		2.66	11.82	22.29	29.73	21.63	41.02	-1.04	1.10	4.69	7.08	6.39	
TOTAL EQUITY AGGREGATE	1,494,561,167	3.15	11.70	27.05	30.55	22.87	37.57	0.72	-0.79	2.02	3.65	7.44	04/01/1995
<i>SAMCERA TOTAL EQUITY BENCHMARK</i>		3.50	12.71	27.71	31.48	24.15	40.61	2.29	1.30	3.68	4.70		
PRIVATE EQUITY													
SHERIDAN PRODUCTION PARTNERS	250,000	0.00	0.00									0.00	11/01/2010
TOTAL PRIVATE EQUITY	250,000	0.00	0.00									0.00	11/01/2010
<i>PRIVATE EQUITY BENCHMARK</i>		3.89	13.89										
DOMESTIC FIXED INCOME													
ABERDEEN ASSET MANAGEMENT	119,679,902	0.66	0.46	1.50	4.27	8.48	15.60	3.82	3.80	4.30	5.23	5.95	06/01/2000
WESTERN ASSET MGMT	113,822,715	0.64	1.04	2.12	5.57	9.82	16.67	7.10	5.97	6.04		5.64	11/01/2004
PYRAMIS GLOBAL ADVISORS	110,335,386	0.57	0.23	0.77	3.47	7.34	13.12	7.07	6.25	6.18		6.16	02/01/2006
ANGELO GORDON GECC PPI FUND	39,908,551	0.00	8.74	22.48	30.64	39.25						38.74	12/01/2009
<i>BC AGGREGATE</i>		0.25	-0.72	-0.83	1.52	4.93	7.11	5.40	5.87	5.80	5.61		
BROWN BROTHERS HARRIMAN & CO	46,355,657	0.83	-0.70	0.36								2.53	08/01/2010
<i>BARCLAYS US TIPS INDEX</i>		0.88	-0.56	0.94								2.73	
BRIGADE CAPITAL MANAGEMENT	49,096,485	1.36	5.32	9.04								9.10	08/01/2010
<i>BC BA INTERMEDIATE HIGH YIELD INDEX</i>		1.03	3.86	7.12								7.85	

San Mateo County

Summary of Fund Performance With 4 Years

Rates of Return Total

Periods Ending February 28, 2011



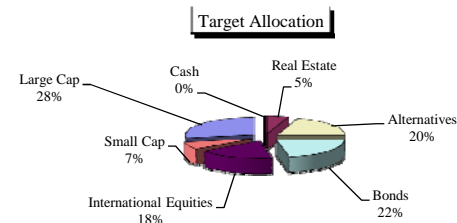
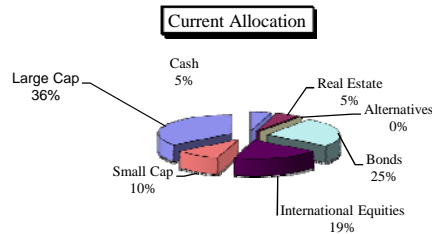
STATE STREET

	MKT VAL	1 Month	QTR	6 Month s	FYTD	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years	ITD	INCEPT. DATE
INTERNATIONAL FIXED INCOME													
FRANKLIN TEMPLETON INVESTMENTS	101,626,367	4.66										2.23	01/01/2011
<i>BC MULTIVERSE</i>		0.62										0.86	
TOTAL FIXED INCOME													
TOTAL FIXED INCOME AGGREGATE	580,825,063	1.29	1.41	3.11	6.24	10.44	16.19	6.66	5.84	5.91	5.91	6.09	01/01/1996
<i>SAMCERA TOTAL FIXED INCOME BENCH</i>		0.49	0.03	-0.41	1.94	5.37	7.33	5.54	5.98	5.89	5.66	5.78	
REAL ESTATE													
INVESCO REAL ESTATE	122,302,877	0.00	4.62	12.40	12.40	16.70	-11.05	-8.92	-3.74	0.47		4.20	10/01/2004
TOTAL REAL ESTATE AGGREGATE	122,302,877	0.00	4.62	12.40	12.40	16.70	-11.05	-8.92	-3.74	0.47	6.59	6.92	01/01/1997
<i>REAL ESTATE BENCHMARK</i>		0.00	4.62	10.41	10.41	15.88	-10.36	-9.08	-3.40	0.31	5.71	6.90	
CASH EQUIVALENTS													
SAMCERA GENERAL ACCOUNT	100,858,040	0.01	0.05	0.11	0.15	0.20	0.27	0.85	1.91	2.59	2.43	2.92	07/01/1999
SAMCERA TREASURY & LAIF	1,430,890	0.08	0.24	0.58	0.78	1.12	1.20	-0.28	0.91	1.41	2.38	3.53	07/01/1994
TOTAL CASH AGGREGATE	102,288,930	0.03	0.16	0.50	0.71	1.03	1.12	-0.04	1.05	1.72	2.33	2.79	07/01/1999
<i>91 DAY T-BILL</i>		0.02	0.04	0.07	0.10	0.14	0.17	0.58	1.63	2.30	2.28	2.79	
TOTAL FUND													
TOTAL FUND	2,300,228,037	2.38	8.13	18.37	21.45	18.58	25.80	2.02	1.14	3.23	4.89		10/01/1993
<i>SAMCERA TOTAL PLAN POLICY BENCHM</i>		2.46	8.89	19.07	22.28	19.31	28.15	3.28	2.92	4.59	5.44	7.29	
<i>ACTUARIAL DISCOUNT RATE</i>		0.62	1.88	3.80	5.10	7.75	7.75	7.75	7.75	7.77	7.94		

San Mateo County Employees' Retirement Association
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Actual versus Target Allocation

Portfolio	Market Value	Allocation		Percentage Off Target	Rebalance Range
		Current	Target		
BlackRock Russell 1000	\$254,137,389	11.05%	6.50%	4.55%	±3%
D.E. Shaw Investment Management, LLC	\$110,835,385	4.82%	4.25%	0.57%	±3%
T. Rowe Price Associates	\$110,277,229	4.79%	4.25%	0.54%	±3%
Barrow, Hanley, Mewhinney & Strauss	\$169,648,680	7.38%	6.50%	0.88%	±3%
BlackRock Capital Management, Inc.	\$173,468,616	7.54%	6.50%	1.04%	±3%
Large Cap Aggregate	\$818,367,300	35.58%	28.00%	7.58%	
The Boston Company	\$50,747,328	2.21%	1.75%	0.46%	±3%
Chartwell Investment Partners	\$58,376,520	2.54%	1.75%	0.79%	±3%
Jennison Associates	\$120,744,385	5.25%	3.50%	1.75%	±3%
Small Cap Aggregate	\$229,868,233	9.99%	7.00%	2.99%	
Artio Global Investors	\$221,893,970	9.65%	9.00%	0.65%	±3%
Mondrian Investment Partners	\$224,431,664	9.76%	9.00%	0.76%	±3%
International Aggregate	\$446,325,634	19.40%	18.00%	1.40%	±3%
Total Equity	\$1,494,561,167	64.97%	53.00%	11.97%	
Aberdeen Asset Management	\$119,679,902	5.20%	3.75%	1.45%	±2%
Angelo Gordon	\$39,908,551	1.73%	1.63%	0.11%	±2%
Brigade Capital Management	\$49,096,485	2.13%	1.63%	0.51%	±2%
Brown Brothers Harriman	\$46,355,657	2.02%	3.00%	-0.98%	±2%
Franklin Templeton	\$101,626,367	4.42%	4.50%	-0.08%	±2%
Pyramis Global Advisors	\$110,335,386	4.80%	3.75%	1.05%	±2%
Western Asset Management Company	\$113,822,715	4.95%	3.75%	1.20%	±2%
Total Fixed Income	\$580,825,063	25.25%	22.00%	3.25%	
Private Equity	\$250,000	0.01%	8.00%	-7.99%	N/A
Risk Parity	\$0	0.00%	6.00%	-6.00%	N/A
Hedge Funds	\$0	0.00%	3.00%	-3.00%	N/A
Comodities	\$0	0.00%	3.00%	-3.00%	N/A
Alternative Investments	\$250,000	0.01%	20.00%	-19.99%	
INVESCO Realty Advisors	\$122,302,877	5.32%	5.00%	0.32%	±2%
Cash	\$102,288,930	4.45%	0.00%	4.45%	
Total	\$2,300,228,037	100.00%	100.00%		



San Mateo County Employees' Retirement Association
Monthly Performance Review
Period Ending February 28, 2011

Change in Portfolio Market Value by Manager

Portfolio	Current Month	Prior Month	% Change (1)	Prior Year	% Change (1)
BlackRock Russell 1000	\$254,137,389	\$245,585,489	3.5%	\$133,361,457	90.6%
AXA Rosenberg Investment Management, LLC	\$0	\$0	0.0%	\$90,647,094	-100.0%
D.E. Shaw Investment Management, LLC	\$110,835,385	\$107,640,681	3.0%	\$91,691,833	20.9%
T. Rowe Price Associates	\$110,277,229	\$106,560,729	3.5%	\$90,490,874	21.9%
Barrow, Hanley, Mewhinney & Strauss	\$169,648,680	\$164,109,556	3.4%	\$138,223,551	22.7%
BlackRock Capital Management, Inc.	\$173,468,616	\$169,148,820	2.6%	\$134,790,405	28.7%
Large Cap Aggregate	\$818,367,300	\$793,045,276	3.2%	\$679,205,214	20.5%
The Boston Company	\$50,747,328	\$48,294,361	5.1%	\$40,708,200	24.7%
Chartwell Investment Partners	\$58,376,520	\$54,759,142	6.6%	\$41,741,009	39.9%
Jennison Associates	\$120,744,385	\$114,418,987	5.5%	\$86,982,478	38.8%
Small Cap Aggregate	\$229,868,233	\$217,472,491	5.7%	\$169,431,687	35.7%
Artio Global Investors	\$221,893,970	\$218,293,737	1.6%	\$188,786,138	17.5%
Mondrian Investment Partners	\$224,431,664	\$220,089,829	2.0%	\$192,501,736	16.6%
International Aggregate	\$446,325,634	\$438,383,566	1.8%	\$381,287,874	17.1%
Total Equity	\$1,494,561,167	\$1,448,901,332	3.2%	\$1,229,924,775	21.5%
Aberdeen Asset Management	\$119,679,902	\$128,833,071	-7.1%	\$160,367,206	-25.4%
Angelo Gordon	\$39,908,551	\$38,088,824	4.8%	\$14,632,394	N/A
Brigade Capital Management	\$0	\$47,341,620	N/A	\$0	N/A
Brown Brothers Harriman	\$46,355,657	\$45,974,257	N/A	\$0	N/A
Franklin Templeton	\$101,626,367	\$97,105,407	N/A	\$0	N/A
Pyramis Global Advisors	\$110,335,386	\$129,618,079	-14.9%	\$159,186,463	-30.7%
Western Asset Management Company	\$113,822,715	\$133,002,104	-14.4%	\$163,795,931	-30.5%
Total Fixed Income	\$580,825,063	\$619,963,362	-6.3%	\$497,981,994	16.6%
Private Equity	\$250,000	\$250,000	N/A	\$0	N/A
Risk Parity	\$0	\$0	N/A	\$0	N/A
Hedge Funds	\$0	\$0	N/A	\$0	N/A
Comodities	\$0	\$0	N/A	\$0	N/A
Alternative Investments	\$250,000	\$250,000	N/A	\$0	N/A
INVESCO Realty Advisors	\$122,302,877	\$122,302,877	0.0%	\$106,113,595	N/A
Cash	\$102,288,930	\$60,002,894	70.5%	\$50,479,618	102.6%
Total	\$2,299,978,037	\$2,251,420,465	2.2%	\$1,884,499,982	22.0%

Change in Asset Allocation by Asset Class

	Current Month	Prior Month	Absolute Change	Prior Year	Absolute Change
Total Equity	65.0%	64.4%	0.6%	65.3%	-0.3%
Total Fixed Income	25.3%	27.5%	-2.3%	26.4%	-1.2%
Alternative Investments	0.0%	0.0%	0.0%	0.0%	0.0%
Real Estate	5.3%	5.4%	-0.1%	5.6%	-0.3%
Cash	4.4%	2.7%	1.8%	2.7%	1.8%
Total	100.0%	100.0%		100.0%	

San Mateo County Employees' Retirement Association
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Aggregate Performance

	Market Value	One Month	Trailing Three Months	Trailing Six Months	Trailing Twelve Months	Fiscal Year to Date (1)	Two Years	Three Years	Five Years	Ten Years
						Eight Months				
Equity Aggregate	\$1,494,561,167	3.15%	11.70%	27.05%	22.87%	30.55%	37.57%	0.72%	2.02%	3.65%
Equity Composite Benchmark		3.50%	12.71%	27.71%	24.15%	31.48%	40.61%	2.29%	3.68%	4.70%
Variance		-0.35%	-1.01%	-0.66%	-1.28%	-0.93%	-3.04%	-1.57%	-1.66%	-1.05%
Private Equity Aggregate	\$250,000	0.00%	0.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Private Equity Composite Benchmark		0.00%	0.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Variance		0.00%	0.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fixed Income Aggregate	\$580,825,063	1.29%	1.41%	3.11%	10.44%	6.24%	16.19%	6.65%	5.91%	5.91%
Fixed Income Composite Benchmark		0.49%	0.03%	-0.41%	5.37%	1.94%	7.33%	5.54%	5.89%	5.66%
Variance		0.80%	1.38%	3.52%	5.07%	4.30%	8.86%	1.11%	0.02%	0.25%
Real Estate Aggregate (2)	\$122,302,877	0.00%	4.62%	12.40%	16.70%	12.40%	-11.05%	-8.92%	0.47%	6.59%
NCREIF NFI ODCE EW (Gross)		0.00%	4.62%	10.41%	15.88%	10.41%	-10.36%	-9.08%	0.31%	5.71%
Variance		0.00%	0.00%	1.99%	0.82%	1.99%	-0.69%	0.16%	0.16%	0.88%
Cash Aggregate	\$102,288,930	0.03%	0.16%	0.50%	1.03%	0.71%	1.12%	-0.04%	1.72%	2.33%
91 Day Treasury Bill		0.02%	0.04%	0.07%	0.14%	0.10%	0.17%	0.58%	2.30%	2.28%
Variance		0.01%	0.12%	0.43%	0.89%	0.61%	0.95%	-0.62%	-0.58%	0.05%
Total Fund Returns	\$2,300,228,037	2.38%	8.13%	18.37%	18.58%	21.45%	25.80%	2.02%	3.23%	4.89%
Total Plan Policy Benchmark		2.46%	8.89%	19.07%	19.31%	22.28%	28.15%	3.28%	4.59%	5.44%
Variance		-0.08%	-0.76%	-0.70%	-0.73%	-0.83%	-2.35%	-1.26%	-1.36%	-0.55%

Performance versus Actuarial Discount Rate

Total Fund Returns		2.38%	8.13%	18.37%	18.58%	21.45%	25.80%	2.02%	3.23%	4.89%
Actuarial Discount Rate		0.62%	1.88%	3.80%	7.75%	5.10%	7.75%	7.75%	7.77%	7.94%
Variance		1.76%	6.25%	14.57%	10.83%	16.35%	18.05%	-5.73%	-4.54%	-3.05%

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

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

San Mateo County Employees' Retirement Association
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Manager & Benchmark Performance

Manager Performance

(1)

Portfolio	Trailing					Fiscal Year to Date Eight Months	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
	One Month	Three Months	Six Months	Twelve Months	Six Months							
BlackRock Russell 1000	3.48%	13.05%	28.68%	23.62%	31.46%	23.62%	38.62%	2.74%	1.09%	3.24%	3.14%	
D.E. Shaw Investment Management, LLC	2.97%	12.26%	27.37%	20.88%	29.10%	20.88%	N/A	N/A	N/A	N/A	N/A	
T. Rowe Price Associates	3.49%	13.19%	28.10%	21.87%	30.44%	21.87%	N/A	N/A	N/A	N/A	N/A	
Barrow, Hanley, Mewhinney & Strauss	3.38%	15.00%	29.94%	22.74%	31.68%	22.74%	N/A	N/A	N/A	N/A	N/A	
BlackRock Capital Management, Inc.	2.55%	9.11%	33.66%	28.70%	35.54%	28.70%	N/A	N/A	N/A	N/A	N/A	
Large Cap Aggregate	3.19%	12.50%	29.67%	22.99%	31.87%	22.99%	37.44%	2.25%	-0.29%	2.08%	2.79%	
The Boston Company	5.08%	13.97%	32.08%	24.66%	28.49%	24.66%	N/A	N/A	N/A	N/A	N/A	
Chartwell Investment Partners	6.61%	15.67%	40.68%	39.85%	44.52%	39.85%	49.58%	6.04%	3.75%	3.91%	N/A	
Jennison Associates	5.53%	14.09%	39.47%	38.81%	39.31%	38.81%	51.64%	N/A	N/A	N/A	N/A	
Small Cap Aggregate	5.70%	14.46%	38.07%	35.67%	38.01%	35.67%	53.73%	5.84%	-1.19%	0.73%	5.29%	
Artio Global Investors	1.65%	6.46%	18.24%	17.55%	23.82%	17.55%	30.82%	-6.83%	-3.26%	1.25%	N/A	
Mondrian Investment Partners	1.97%	11.51%	17.38%	16.59%	25.84%	16.59%	31.84%	-1.93%	-0.36%	3.90%	N/A	
International Aggregate	1.81%	8.94%	17.81%	17.06%	24.83%	17.06%	31.33%	-4.38%	-1.79%	2.59%	4.73%	
Total Equity	3.15%	11.70%	27.05%	22.87%	30.55%	22.87%	37.57%	0.72%	-0.79%	2.02%	3.65%	
Aberdeen Asset Management	0.66%	0.46%	1.50%	8.48%	4.27%	8.48%	15.60%	3.82%	3.80%	4.30%	5.23%	
Angelo Gordon	0.00%	8.74%	22.48%	39.28%	30.64%	39.28%	N/A	N/A	N/A	N/A	N/A	
Brigade Capital Management	1.36%	5.32%	9.04%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Brown Brothers Harriman	0.83%	-0.70%	0.36%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Franklin Templeton	4.66%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Pyramis Global Advisors	0.57%	0.23%	0.77%	7.34%	3.47%	7.34%	13.12%	7.07%	6.25%	6.18%	N/A	
Western Asset Management Company	0.64%	1.04%	2.12%	9.82%	5.57%	9.82%	16.67%	7.10%	5.97%	6.04%	N/A	
Total Fixed Income	1.29%	1.41%	3.11%	10.44%	6.24%	10.44%	16.19%	6.65%	5.84%	5.91%	5.91%	
Private Equity	0.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Risk Parity	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Hedge Funds	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Comodities	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Alternative Investments	0.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
INVESCO Realty Advisors	0.00%	4.62%	12.40%	16.70%	12.40%	16.70%	-11.05%	-8.92%	-3.74%	0.47%	6.59%	
Cash	0.03%	0.16%	0.50%	1.03%	0.71%	1.03%	1.12%	-0.04%	1.05%	1.72%	2.33%	
Total	2.38%	8.13%	18.37%	18.58%	21.45%	18.58%	25.80%	2.02%	1.14%	3.23%	4.89%	

Benchmark Performance

Russell 1000	3.48%	13.04%	28.65%	23.54%	31.43%	23.54%	38.52%	2.66%	1.01%	3.17%	3.09%
S&P 500	3.43%	12.95%	27.73%	22.58%	30.51%	22.58%	N/A	N/A	N/A	N/A	N/A
Russell 1000 Value	3.69%	14.40%	26.30%	22.16%	29.08%	22.16%	N/A	N/A	N/A	N/A	N/A
Russell 1000 Growth	3.27%	11.73%	31.04%	24.94%	33.83%	24.94%	N/A	N/A	N/A	N/A	N/A
Russell 2000	5.48%	13.57%	37.55%	32.60%	36.12%	32.60%	47.43%	7.79%	2.33%	3.80%	7.06%
Russell 2000 Value	5.08%	13.87%	34.31%	28.87%	33.08%	28.87%	N/A	N/A	N/A	N/A	N/A
Russell 2000 Growth	5.88%	13.28%	40.76%	36.33%	39.13%	36.33%	48.55%	8.61%	4.32%	4.56%	N/A
MSCI ACWI ex US (Gross)	2.66%	11.82%	22.29%	21.63%	29.73%	21.63%	41.02%	-1.04%	1.10%	4.69%	7.08%
MSCI ACWI ex US Growth (Gross)	2.46%	9.71%	21.91%	22.55%	29.18%	22.55%	38.81%	-1.74%	1.67%	4.78%	N/A
MSCI ACWI ex US Value (Gross)	2.85%	13.99%	22.60%	20.63%	30.22%	20.63%	43.32%	-0.37%	0.47%	4.55%	N/A
Barclays Capital Aggregate	0.25%	-0.72%	-0.83%	4.93%	1.52%	4.93%	7.11%	5.40%	5.87%	5.80%	5.61%
Barclays U.S. TIPS Index	0.88%	-0.56%	0.94%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
BC BA Intermediate High Yield Index	1.03%	3.86%	7.12%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Barclays Capital Multiverse Index	0.62%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NCREIF NFI ODCE EW (Gross)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
91 Day Treasury Bill	0.02%	0.04%	0.07%	0.14%	0.10%	0.14%	0.17%	0.58%	1.63%	2.30%	2.28%
SamCERA Plan Policy Benchmark	2.46%	8.89%	19.07%	19.31%	22.28%	19.31%	28.15%	3.28%	2.92%	4.59%	5.44%
SamCERA Actuarial Discount Rate	0.62%	1.88%	3.80%	7.75%	5.10%	7.75%	7.75%	7.75%	7.75%	7.77%	7.94%

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

San Mateo County Employees' Retirement Association
Monthly Performance Review
Period Ending February 28, 2011

Realized & Unrealized Gain / (Loss)

Portfolio	Beginning Book Balance As of 07/01/2010	(1) Realized Gain / (Loss) for the FYTD	Contributions/ (Withdrawals) for the FYTD	Ending Book Balance As of 02/28/2011	Prior Years Accumulated Unrealized Gains / (Loss)	FYTD Unrealized Gains / (Loss)	Ending Market Value As of 02/28/2011
BlackRock Russell 1000	\$227,158,749.62	1,671,961	(20,000,000)	\$208,830,710.19	(\$12,322,638)	\$57,629,317	\$254,137,389
D.E. Shaw Investment Management LLC	\$91,382,477.76	8,960,058		\$100,342,535.40	(\$5,529,724)	\$16,022,574	\$110,835,385
T. Rowe Price Associates	\$84,410,628.27	3,980,877		\$88,391,504.94	\$133,920	\$21,751,804	\$110,277,229
Barrow Hanley	\$125,717,857.93	5,746,016		\$131,463,874.02	\$3,115,310	\$35,069,496	\$169,648,680
BlackRock	\$120,628,030.67	9,461,420		\$130,089,450.42	\$7,352,352	\$36,026,814	\$173,468,616
The Boston Company	\$39,782,574.05	1,717,470		\$41,500,044.35	(\$285,918)	\$9,533,202	\$50,747,328
Chartwell Investment Partners	\$37,328,257.20	7,648,661		\$44,976,918.39	\$3,063,778	\$10,335,824	\$58,376,520
Jennison Associates	\$81,047,582.79	8,906,747		\$89,954,330.11	\$5,626,624	\$25,163,431	\$120,744,385
Artio Global Investors	\$185,960,389.43	3,996,827		\$189,957,216.43	(\$6,744,297)	\$38,681,050	\$221,893,970
Mondrian Investment Partners	\$213,442,132.16	1,046,246		\$214,488,377.70	(\$35,099,468)	\$45,042,754	\$224,431,664
Aberdeen Asset Management	\$163,766,449.61	7,580,316	(53,000,000)	\$118,346,765.26	\$3,066,904	(\$1,733,768)	\$119,679,902
Angelo Gordon	\$21,875,000.00		7,765,624	\$29,640,624.00	\$1,478,466	\$8,789,461	\$39,908,551
Bridage Capital Management	\$0.00		45,000,000	\$45,000,000.00		\$4,096,485	\$49,096,485
Brown Brothers Harriman	\$0.00	972,935	45,000,000	\$45,972,935.25	\$0	\$382,722	\$46,355,657
Franklin Templeton Investments	\$0.00	422,476	100,000,000	\$100,422,475.77		\$1,203,891	\$101,626,367
Pyramis Global Advisors	\$126,598,323.37	15,146,935	(60,000,000)	\$81,745,258.37	\$38,553,995	(\$9,963,867)	\$110,335,386
Western Asset Management Company	\$174,036,705.22	6,752,790	(65,000,000)	\$115,789,495.33	(\$3,645,689)	\$1,678,909	\$113,822,715
Private Equity	\$0.00		250,000	\$250,000.00	\$0	\$0	\$250,000
Risk Parity	\$0.00			\$0.00	\$0	\$0	\$0
Hedge Funds	\$0.00			\$0.00	\$0	\$0	\$0
Comodities	\$0.00			\$0.00	\$0	\$0	\$0
INVESCO Core US Real Estate Fund	\$132,755,678.60	1,765,233		\$134,520,911.33	\$0	(\$12,218,034)	\$122,302,877
Cash	\$13,670,765.68			\$102,288,930.30	\$0	\$0	\$102,288,930
Total	\$1,839,561,602.36	\$85,776,966.58	\$15,624.00	\$2,013,972,357.56	-\$1,236,384.30	\$287,492,063.44	\$2,300,228,036.70

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

San Mateo County Employees' Retirement Association
Monthly Performance Review
Period Ending February 28, 2011

Cash Flows and Fiscal Year to Date Return

Portfolio	Beginning Market Value Balance As of 07/01/2010	(1) Earnings / (Loss) for the FYTD	Contributions/ (Withdrawals) for the FYTD	Ending Market Value Balance As of 02/28/2011	Fiscal Year to Date Return (Portfolio)	Fiscal Year to Date Return (Benchmark)
BlackRock Russell 1000	\$227,158,750	\$1,671,961	-\$20,000,000	\$208,830,710	31.46%	31.43%
D.E. Shaw Investment Management, LLC	\$91,382,478	\$8,960,058	\$0	\$100,342,535	29.10%	31.43%
T. Rowe Price Associates	\$84,410,628	\$3,980,877	\$0	\$88,391,505	30.44%	30.51%
Barrow, Hanley, Mewhinney & Strauss	\$125,717,858	\$5,746,016	\$0	\$131,463,874	31.68%	29.08%
BlackRock Capital Management, Inc.	\$120,628,031	\$9,461,420	\$0	\$130,089,450	35.54%	33.83%
The Boston Company	\$39,782,574	\$1,717,470	\$0	\$41,500,044	28.49%	33.08%
Chartwell Investment Partners	\$37,328,257	\$7,648,661	\$0	\$44,976,918	44.52%	39.13%
Jennison Associates	\$81,047,583	\$8,906,747	\$0	\$89,954,330	39.31%	36.12%
Artio Global Investors	\$185,960,389	\$3,996,827	\$0	\$189,957,216	23.82%	29.18%
Mondrian Investment Partners	\$213,442,132	\$1,046,246	\$0	\$214,488,378	25.84%	30.22%
Aberdeen Asset Management	\$163,766,450	\$7,580,316	-\$53,000,000	\$118,346,765	4.27%	1.52%
Angelo Gordon	\$21,875,000	\$0	\$7,765,624	\$29,640,624	30.64%	N/A
Brigade Capital Management	\$0	\$0	\$45,000,000	\$45,000,000	N/A	N/A
Brown Brothers Harriman	\$0	\$972,935	\$45,000,000	\$45,972,935	N/A	N/A
Franklin Templeton	\$0	\$422,476	\$100,000,000	\$100,422,476	N/A	N/A
Pyramis Global Advisors	\$126,598,323	\$15,146,935	-\$60,000,000	\$81,745,258	3.47%	1.52%
Western Asset Management Company	\$174,036,705	\$6,752,790	-\$65,000,000	\$115,789,495	5.57%	1.52%
Private Equity	\$0	\$0	\$250,000	\$250,000	N/A	N/A
Risk Parity	\$0	\$0	\$0	\$0	N/A	N/A
Hedge Funds	\$0	\$0	\$0	\$0	N/A	N/A
Comodities	\$0	\$0	\$0	\$0	N/A	N/A
INVESCO Realty Advisors	\$132,755,679	\$1,765,233	\$0	\$134,520,911	12.40%	N/A
Cash	\$13,670,766	\$0	\$0	\$13,670,766	0.71%	0.10%
Total	\$1,839,561,602	\$85,776,967	\$15,624	\$1,925,354,193	21.45%	22.28%

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

San Mateo County Employees' Retirement Association

Monthly Performance Review

Period Ending February 28, 2011

Professional Services Fees

Investment Management Fees	Market Value As of 02/28/2011	For the Quarter Ending				Fiscal Year 2010 / 2011	Estimated Annual Fee (1)
		Estimated 9/30/2010	12/31/2010	3/31/2011	6/30/2011		
BlackRock Russell 1000	\$ 254,137,388.85	\$22,800	\$23,400	\$17,500		\$63,700	\$95,000
D.E. Shaw Investment Management, LLC	\$ 110,835,385.45	\$115,900	\$128,400	\$92,500		\$336,800	\$475,000
T. Rowe Price Associates	\$ 110,277,229.20	\$84,900	\$93,300	\$63,700		\$241,900	\$350,000
Barrow, Hanley, Mewhinney & Strauss	\$ 169,648,680.22	\$158,900	\$170,100	\$123,600		\$452,600	\$650,000
BlackRock Capital Management, Inc.	\$ 173,468,616.06	\$162,600	\$185,500	\$131,300		\$479,400	\$675,000
The Boston Company	\$ 50,747,328.33	\$88,400	\$97,300	\$70,700		\$256,400	\$375,000
Chartwell Investment Partners	\$ 58,376,519.99	\$82,600	\$95,800	\$71,500		\$249,900	\$350,000
Jennison Associates	\$ 120,744,385.08	\$185,600	\$207,600	\$155,100		\$548,300	\$775,000
Artio Global Investors	\$ 221,893,970.17	\$242,100	\$263,200	\$174,700		\$680,000	\$975,000
Mondrian Investment Partners	\$ 224,431,663.97	\$136,700	\$118,700	\$80,300		\$335,700	\$50,000
Aberdeen Asset Management	\$ 119,679,902.07	\$90,800	\$90,800	\$56,100		\$237,700	\$375,000
Angelo Gordon	\$ 39,908,551.12	\$58,300	\$58,300	\$38,867		\$155,467	\$350,000
Brigade Capital Management	\$ 49,096,485.00	\$49,700	\$51,200	\$35,700		\$136,600	\$225,000
Brown Brothers Harriman	\$ 46,355,656.79	\$17,200	\$12,500	\$12,400		\$42,100	\$75,000
Franklin Templeton	\$ 101,626,367.00	\$0	\$5,400	\$66,400		\$71,800	N/A
Pyramis Global Advisors	\$ 110,335,385.77	\$64,200	\$61,000	\$34,100		\$159,300	\$275,000
Western Asset Management Company	\$ 113,822,714.79	\$103,400	\$98,500	\$55,100		\$257,000	\$425,000
Private Equity	\$ 250,000.00	\$0	\$0	\$0		\$0	N/A
Risk Parity	\$ -	\$0	\$0	\$0		\$0	N/A
Hedge Funds	\$ -	\$0	\$0	\$0		\$0	N/A
Commodities	\$ -	\$0	\$0	\$0		\$0	N/A
INVESCO Realty Advisors	\$ 122,302,877.00	\$161,100	\$155,100	\$87,000		\$403,200	\$650,000
Sub-Total	\$2,197,939,107	\$1,825,200	\$1,916,100	\$1,366,567	\$0	\$5,107,867	\$7,145,000
Investment Consultant Fees							
Strategic Investment Solutions		\$50,000	\$116,600	\$66,700		\$233,300	\$400,000
Global Custodian Fees							
State Street Bank & Trust		\$35,700	\$81,600	\$60,000		\$177,300	\$125,000
Actuarial Consultant Fees							
Milliman, Inc.		\$35,900	\$4,200	\$1,700		\$41,800	\$60,000
Sub-Total		\$121,600	\$202,400	\$128,400	\$0	\$452,400	\$585,000
Total		\$1,946,800	\$2,118,500	\$1,494,967	\$0	\$5,560,267	\$7,730,000

**San Mateo County
Benchmark History**

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

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

March 29, 2011

Agenda Item 6.2

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Educational Presentation – Hedge Fund Investment Opportunities

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

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

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

The board wished to learn more about implementation via two methodologies. Both methodologies are considered valuable methods as a first step in implementing a hedge fund program. Through implementation and ongoing investment of either strategy, the board will receive continuing experience in hedge fund investing. The two strategies staff was instructed to invite are a manager of hedge fund of funds and a manager with a hedge fund beta product.

DISCUSSION: This cover memorandum introduces the managers for today's presentation. The first presentation is from **AQR Capital Management, LLC. Gregor Andrade, Principal and Joey Lee, Associate**, will discuss the use of a beta product to implement a hedge fund program. The second presentation will discuss implementation through a hedge fund of fund approach. **Aetos Capital' Anne Casscells, Co-President and Chief Investment Officer, and Andrea M. Bollyky, Managing Director, Head of Business Development**, will make that presentation.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

March 29, 2011

Agenda Item 6.2 a

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Educational Presentation – Hedge Fund Investment Opportunities – AQR Presentation

STAFF RECOMMENDATION: Staff recommends that the board review the presentation materials and take this opportunity to solicit answers to questions that may arise concerning investing in hedge funds. Following both presentations under this agenda item, staff asks that the board provide guidance regarding how to proceed with the association's hedge fund implementation.

COMMENT: Attached is a presentation booklet titled "*Hedge Fund Beta and Challenges of Hedge Fund Implementation.*"

The presentation covers:

A New Framework of understanding hedge funds

An Alternative Implementation: AQR DELTA Fund

Implementation Considerations

Gregor Andrade, Principal, and Joey Lee, Associate, will make the presentation and be available to respond to all board inquiries.



CAPITAL
MANAGEMENT

HEDGE FUND BETA AND CHALLENGES OF HEDGE FUND IMPLEMENTATION

Gregor Andrade, Ph.D.

Principal

AQR Capital Management, LLC

March 29, 2011

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Today's Agenda

1. A New Framework for Understanding Hedge Funds
2. An Alternative Implementation: AQR DELTA Fund
3. Implementation Considerations

Please see important risk disclosures at the end of this presentation.

Why Hedge Funds in Your Portfolio?

1. Seeks positive long-term expected return
2. Low correlation to other investments
3. Generally lower sensitivity to economic cycle
4. Better source of active management (fewer constraints)
5. Natural way to diversify a traditional portfolio

Please see important risk disclosures at the end of this presentation.

Reality of Hedge Funds

- The credit crisis exposed some issues with the common approaches to hedge fund investing:
 - Most hedge funds and fund of funds are less diversified than you thought (lots of market correlation/market beta)
 - Most hedge funds and fund of funds are less unique and have more in common than you thought (there are not 6,000 different strategies out there)
 - Many hedge funds and fund of funds are less liquid than you thought (suspended redemptions, gates, side pockets)

- The *wrong* conclusion: hedge funds are not worth it

A New Framework

- Lessons from the crisis for hedge fund investors:
 - Know where returns come from (alpha, hedge fund beta, market beta)
 - Be conscious of fees for each return source
 - Build a portfolio based on this separation
 - Understand the benefits and constraints of different forms of implementation

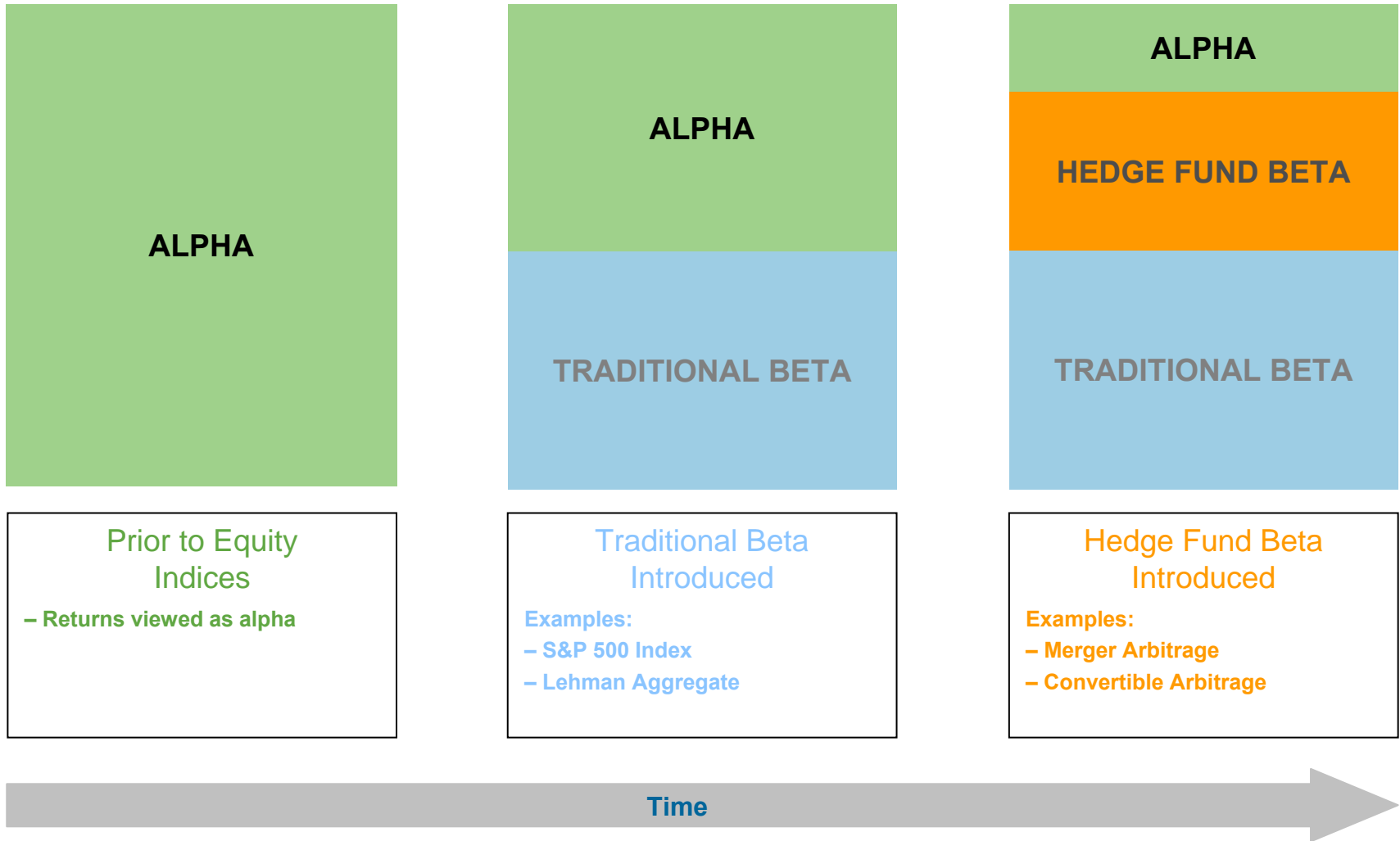
Hedge Funds: A Closer Look



Hedge Fund Betas:

The systematic risk exposures shared by hedge fund managers pursuing similar strategies

How Alpha Becomes Beta



Hedge Fund Beta Examples

► Merger Arbitrage

- Merger arbitrageurs go long the target and, where appropriate, short the acquirer
- In doing so, managers offer insurance and provide liquidity to those who held the target's stock prior to deal announcement
- AQR/CNH built a proprietary dataset of 15,000 mergers (going back to 1963) and has been actively managing a merger arbitrage strategy since 2001
- A portfolio can be created by holding some exposure to each announced merger deal

► Convertible Arbitrage

- Convertible arbitrageurs buy convertible bonds, which are sold at a discount due to their illiquidity, short the underlying equity and also often seek to hedge out the specific interest rate and credit risk of each issue
- At maturity, convertible bonds converge to their theoretical value providing excess returns to owners
- AQR built a proprietary dataset of 700,000 convertible prices (going back to 1985) and has been actively managing a convertible arbitrage strategy since 2003
- A portfolio can be created by holding a broad cross-section of well-hedged convertible issues

Hypothetical Net Returns to Mergers and Converts Using AQR Proprietary Datasets*

	Annualized Net Return	Annualized Volatility	Sharpe Ratio	Max Drawdown	Correlations			
					S&P 500	MSCI World	HFRI Converts	HFRI Mergers
Merger Arbitrage	9.8%	5.8%	1.0	-11.7%	0.4	0.4	0.3	0.7
Convertible Arbitrage	10.0%	5.2%	1.1	-7.8%	0.0	-0.1	0.6	0.2

* These Merger Arbitrage and Convertible Arbitrage backtests use AQR/CNH proprietary datasets on merger arbitrage and convertible arbitrage and assumes constant leverage of 1.5:1 and 2:1, respectively. Annual fees for both backtests are 2.0% management fee and 0% performance fee. Annualized returns, annualized volatilities and correlations are calculated using rolling, quarterly observations from Jan 1990 – Dec 2007. Please see important disclosures in the Appendix relating to hypothetical performance and risk.

Accessing Hedge Fund Beta Exposure

- We think investors can access the core traditional hedge fund strategies through hedge fund betas
- Hedge fund beta is *the set of exposures common to hedge fund managers pursuing similar strategies*
- It can be invested in directly at low cost vs. hedge funds
- Potential advantages of investing in hedge fund beta:
 - Diversified
 - Economically intuitive
 - Lower cost/liquid
 - Transparent
 - Alternative
 - Can be run hedged

Hedge Fund Beta Everywhere

**Event
Driven**

**Convertible
Arbitrage**

**Global
Macro**

**Fixed
Income
Arbitrage**

**Equity
Market
Neutral**

**Long/Short
Equity**

**Dedicated
Short Bias**

**Emerging
Markets**

**Managed
Futures**

Explanatory Power of Hedge Fund Beta

- **Simple Study***: use long term index data (16+ years) to determine
 - How much of hedge fund and fund of funds' performance can be explained by market betas and hedge fund betas
 - The amount of “alpha” (positive or negative) delivered in excess of these market and hedge fund betas

- **Bottom line:**
 - Hedge fund betas capture a meaningful portion of the returns of hedge funds and fund of funds
 - Market exposure explains most of the rest
 - Estimated alpha is flat to negative, once hedge fund beta returns are included

<i>January 1994 - December 2010</i>	<u>Dow Jones</u>		<u>HFR FoF Index</u>	
	<u>Credit Suisse Index</u>			
Annualized Alpha	Intercept	t Stat	Intercept	t Stat
	0.26%	0.18	-2.11%	-2.09
	Beta	t Stat	Beta	t Stat
Hedge Fund Beta Portfolio	0.25	7.58	0.19	8.36
MSCI World	0.25	9.96	0.22	12.44
MSCI World Lagged	0.06	2.49	0.07	4.13
R-Sq	51%		61%	

* Source: Analysis based on monthly returns from Hedge Fund Research database and/or Lipper TASS database; publicly available index data; and hypothetical AQR DELTA Fund (full volatility) net excess returns (used for the Hedge Fund Beta Portfolio). Please read important disclosures related to the analysis at the end of this presentation. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for the DELTA strategy in the Appendix.

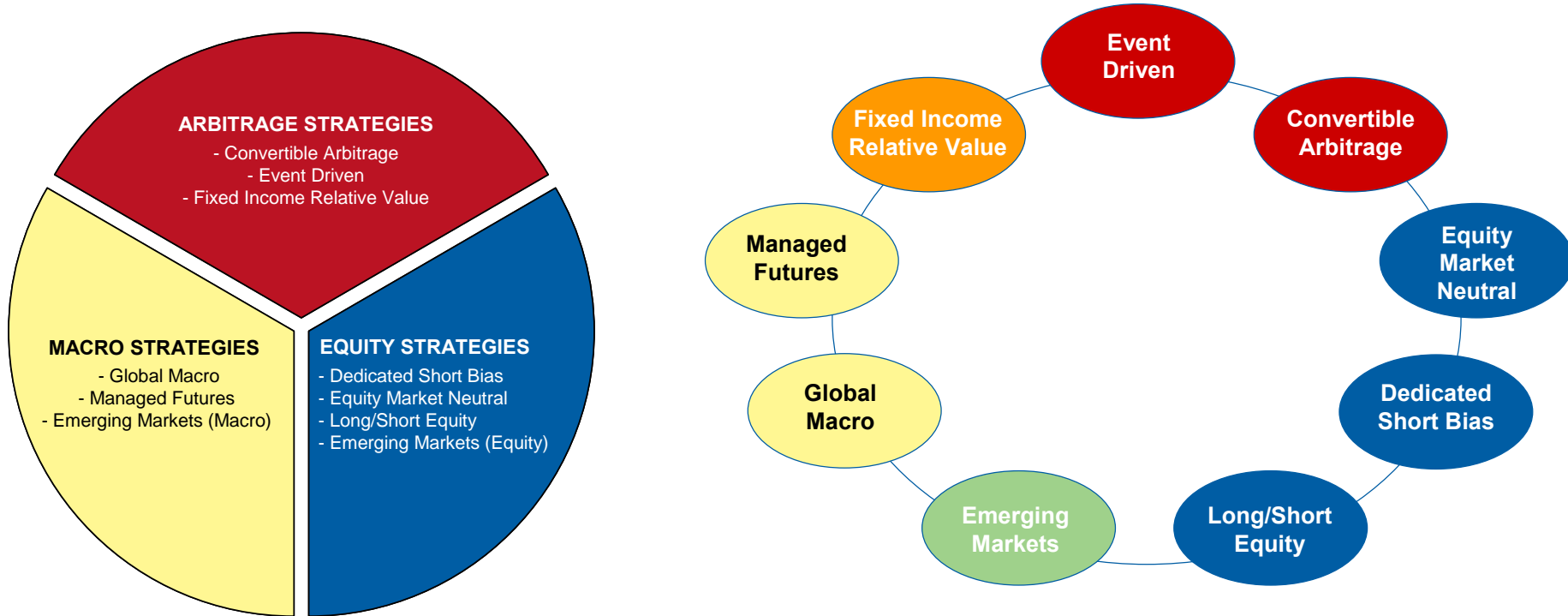
Hedge Fund Beta Captured in the DELTA Fund

Objectives of Hedge Fund Beta

- ▶ Capture the fundamental insights of a range of active management strategies – along with a meaningful portion of the hedge fund beta those strategies earn – using a dynamic but clearly-defined investment process
- ▶ Avoid the drawbacks of high fees, long lock-ups, low transparency and high leverage associated with direct hedge funds and fund of funds, which have historically been the predominant sources of dynamic exposures for institutional investors

Dynamic	Bottom-up construction of dynamic trading strategies
Economically intuitive	Well-known strategies based on sound economic principles and years of empirical study
Liquid	Emphasis on liquid securities that can be traded at low cost and strategies that require only limited leverage
Transparent	Well-defined investment process shared openly with investors
Alternative	Designed to be uncorrelated with traditional market exposures

DELTA Includes a Range of Hedge Fund Strategies



Arbitrage Strategies

Capture relative mispricing between two related assets.

Equity Oriented Strategies

Take advantage of market inefficiencies that cause specific stocks to be under- or over-priced.

Macro Strategies

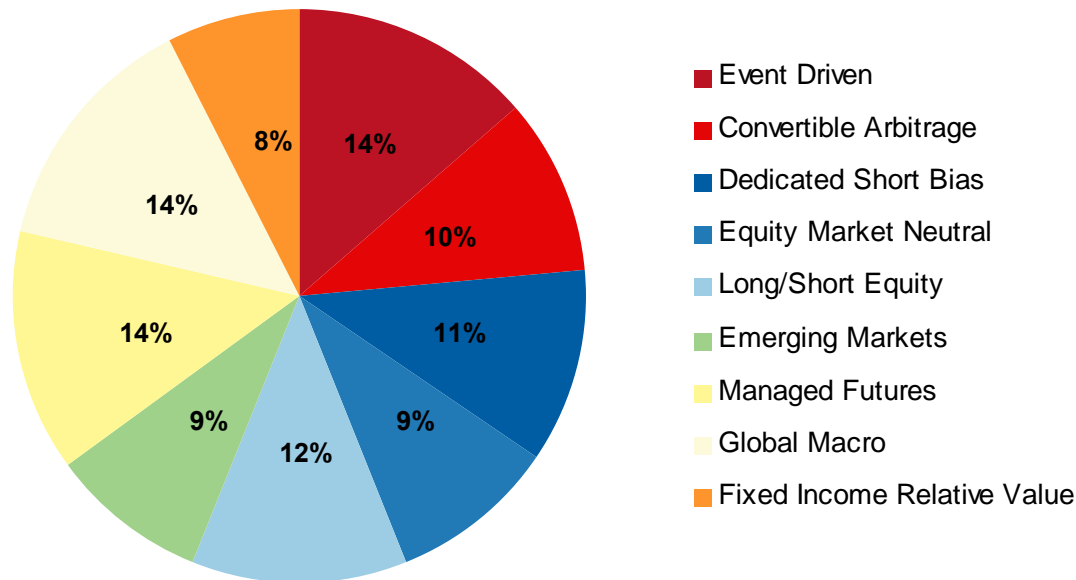
Profit from dislocations in global equity, bond, currency and commodity markets, including those driven by investors' behavioral biases.

* Strategies are subject to change at any time without notice. There are many risks associated with the strategies noted above and there is no guarantee, express or implied, that these strategies will lead to successful investing. Please see important disclosures in Appendix.

Long-Term Strategic Risk Allocation

- ▶ The AQR DELTA Fund's portfolio construction leans towards equal risk weighting but makes adjustments to reflect the leverage, liquidity, and expected efficacy of each strategy
 - We believe this provides a beneficial, “contrarian” approach that helps avoid overcrowded strategies
 - This should also decrease exposure to strategies more prone to left-tail events

The AQR DELTA Fund Strategic Risk Allocation*



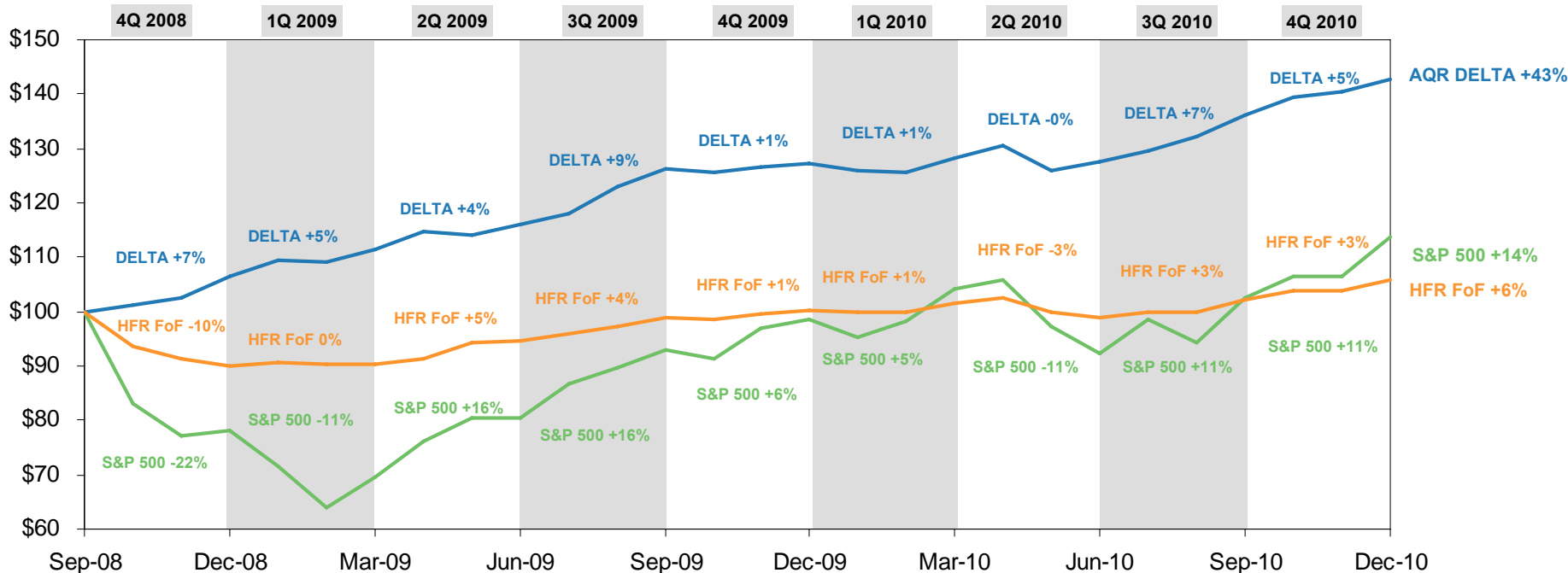
* Example above is for illustrative purposes only. Does not represent actual exposures, but the long-term strategic target allocations of the Fund, and does not include all strategies that are or may be employed in the Fund. Risk exposures are subject to change. Please see important information in the Appendix. This information is supplemental to the GIPS® presentation compliant for this strategy in the Appendix.

Strong Relative Performance Since Inception

- ▶ The AQR DELTA Fund returned +5.0% net of fees in 4Q10 and +43% since inception (realizing 6% vol)*
- ▶ The Fund has been largely uncorrelated to global equities during a period of strong up and down markets

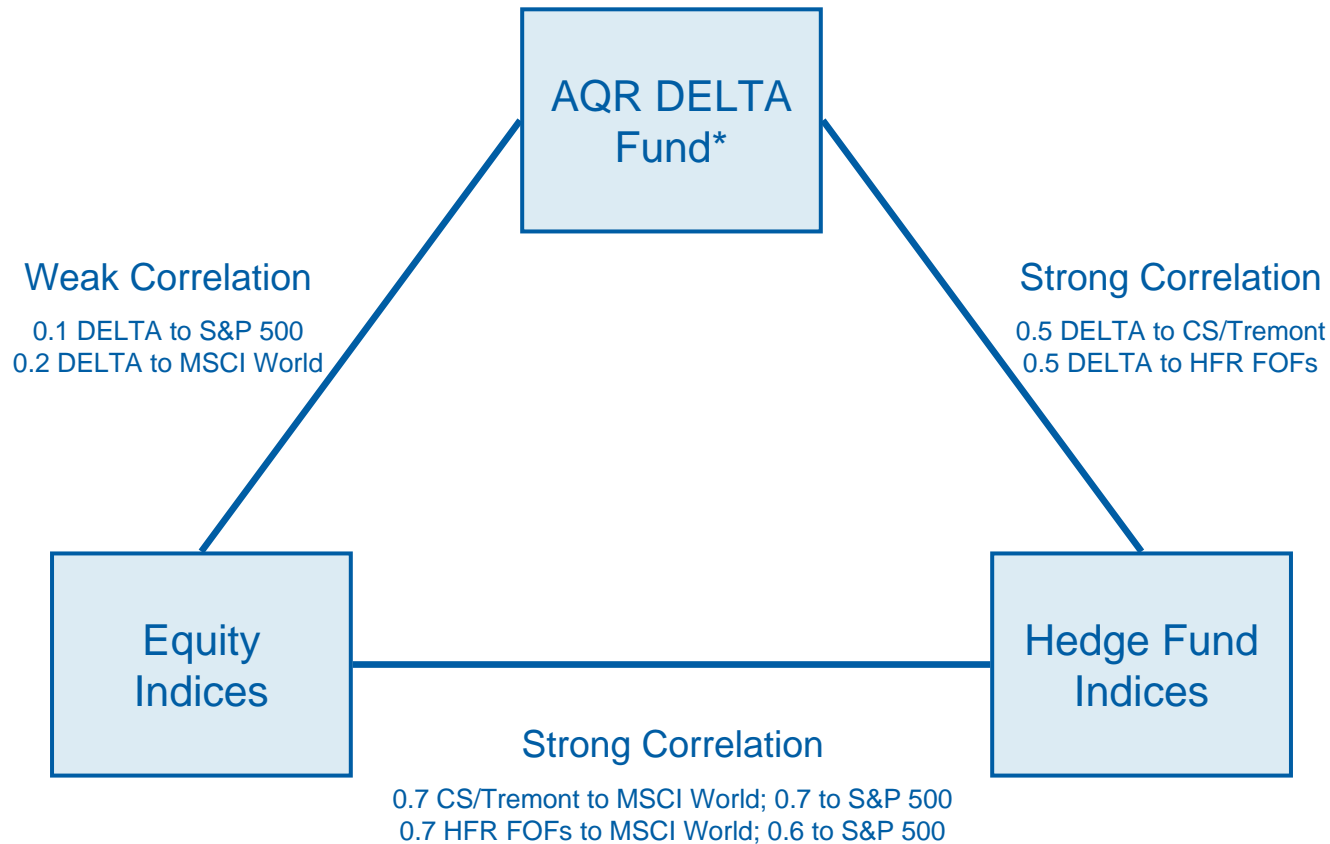
AQR DELTA Fund, HFR FOFs and S&P 500

October 2008 – December 2010



* Realized volatility based on monthly returns. The AQR DELTA Fund net returns are calculated using a 2% management fee. Please see important disclosures in the Appendix. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy in the Appendix.

AQR DELTA is Correlated to HFs, Not Equities



* AQR DELTA Fund correlations are based on hypothetical net returns. Annual fees used to compute the hypothetical returns are a 2.00% management fee and a 0% performance fee. Correlations are based on hypothetical monthly data from June 2000 – December 2010. The AQR DELTA Fund is managed to target 12% annualized volatility, which may be subject to change at any time. Hypothetical fund performance is for illustration purposes only and not the returns to an actual fund or account. Importantly, this backtest does not include tactical strategy allocation. See the Appendix for disclosures relating to hypothetical performance and risks.

Key Advantages of AQR DELTA Fund

A True Alternative Investment

- High risk-adjusted expected return
- Relatively low volatility
- Low correlation to other assets

An Alternative to Alternatives

- Greater transparency, better liquidity
- Better diversified, more efficient capital allocations
- Flexibility to be opportunistic, relative to fund of funds
- Fee and position netting, lower cost to investors

Leveraging the Best of AQR

- More than a decade of experience managing complex hedge funds
- Practical application of research to better capture market anomalies
- Low-cost trading capabilities, efficient portfolio construction
- Extensive operational capability
- Thoughtful risk management with independent oversight

- **Hedge Fund Beta**
- **Fund of Funds**
- Direct Hedge Fund Portfolio
- Today we will mainly discuss the advantages/disadvantages of the first two approaches given SamCERA's focus

Implementation: Hedge Fund Beta

Advantages

- High strategy diversification and low market correlation in one package
- Attractive terms (better fees, liquidity, and transparency)*

Disadvantages

- Some single manager risk
- Focuses primarily on classic liquid hedge fund strategies

► How is hedge fund beta used?

- As a fund of funds alternative; a CORE holding combined with satellite allocations to skilled and/or niche managers

**Delta Full Volatility Fund charges either 1% management and 10% performance fee or a fixed 2% fee, offers monthly liquidity, and high transparency of risk, capital, and geographic exposures.*

Please see important risk disclosures at the end of this presentation. Diversification does not eliminate the risk of experiencing investment losses.

Implementation: Fund of Funds

Advantages

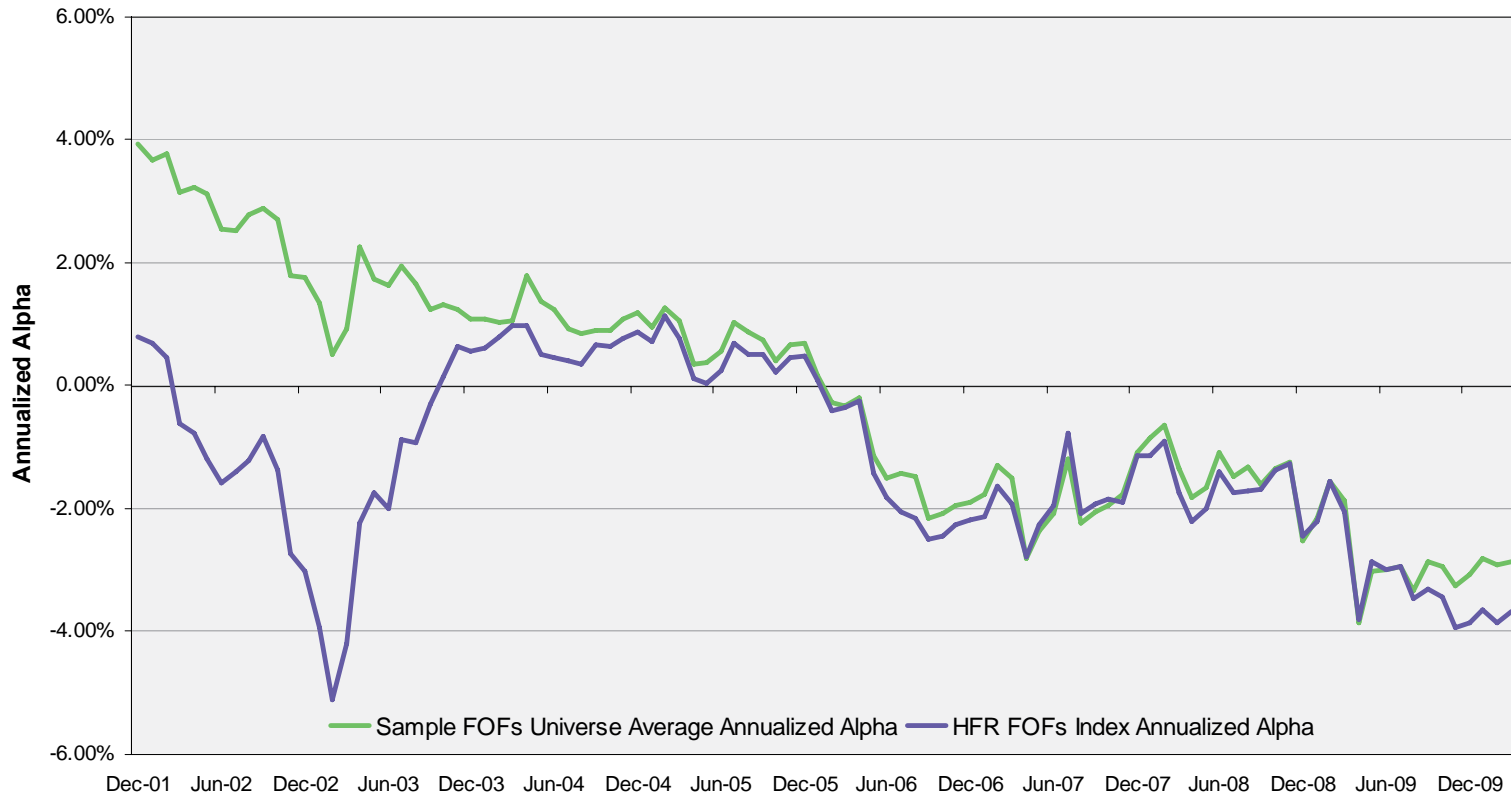
- Instant access to expertise and diversification
- Potential for exposure to some niche strategies
- Diversify manager risk and potentially reduce (not eliminate) headline risk

Disadvantages

- Extra layer of fees (do they wipe out the alpha?)
 - All-in-fee: can be as high as 3% management and 25% performance
 - No netting of performance fees
- Exhibit market correlation
- Typically has low liquidity and limited transparency
- Limited scope for tactical tilts given underlying manager liquidity

Alpha Decay in Hedge Fund of Funds

Rolling 3-Year Alpha Net of Market and Hedge Fund Beta Exposures

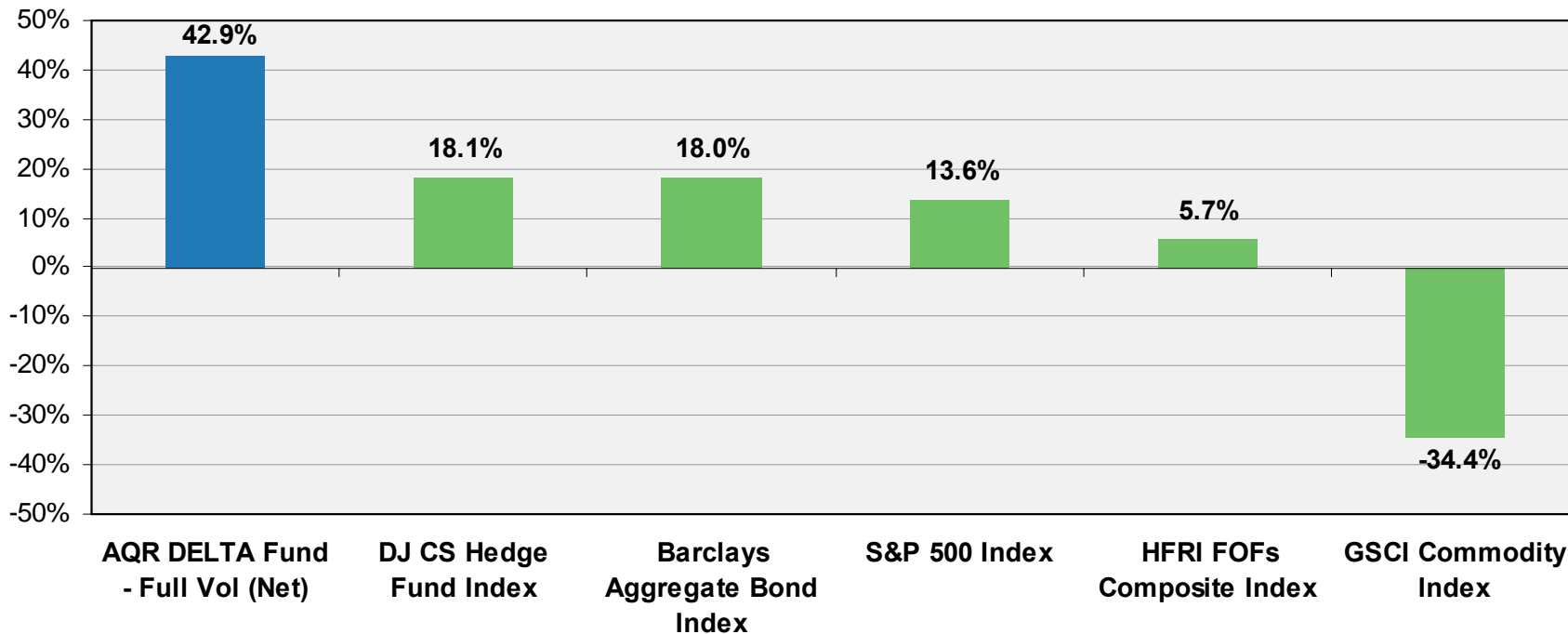


The Sample FOFs Universe was constructed based on historical monthly returns for 20 of the top 30 hedge fund of fund managers in the December 2002 *Institutional Investor*. (Only 20 of the 30 managers had returns available for this analysis.) Please see important disclosures in the Appendix.

DELTA Since Inception Versus Hedge Fund Indices

Since Inception Performance Comparisons

October 2008 – December 2010



The AQR DELTA Fund net returns are calculated using a 2% management fee. Please see important disclosures in the Appendix. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy in the Appendix.

Everything I Just Said in 30 Seconds

- ▶ Hedge funds are a potentially valuable addition to a portfolio
 - Attractive expected returns and unique manager skills
 - Diversification and correlation benefits
- ▶ Hedge fund returns are a combination of alpha, *hedge fund beta*, and market beta, therefore **implementation is key** – build a hedge fund portfolio that exhibits
 - Low correlation to other market returns
 - Modest leverage
 - Acceptable liquidity and transparency
- ▶ Consider adding *hedge fund betas* to your menu of investment possibilities
 - Direct exposure to full menu of “classic” liquid hedge fund strategies
 - Provides benefits of hedge funds (attractive returns and diversification)
 - Addresses and solves many of the problems of hedge funds: market correlation, illiquidity, transparency

Appendix: Actual Performance

AQR DELTA Fund Performance – Monthly Net of Fee Returns*

<u>AQR DELTA Fund</u>	
October 2008	1.1%
November 2008	1.6%
December 2008	3.9%
January 2009	2.6%
February 2009	-0.3%
March 2009	2.2%
April 2009	2.9%
May 2009	-0.5%
June 2009	1.6%
July 2009	1.8%
August 2009	4.3%
September 2009	2.5%
October 2009	-0.5%
November 2009	0.8%
December 2009	0.4%
January 2010	-0.8%
February 2010	-0.4%
March 2010	2.1%
April 2010	2.0%
May 2010	-3.5%
June 2010	1.2%
July 2010	1.5%
August 2010	1.9%
September 2010	3.2%
October 2010	2.3%
November 2010	0.9%
December 2010	1.7%
2009	19.3%
2010	12.3%
Cumulative Return	42.8%

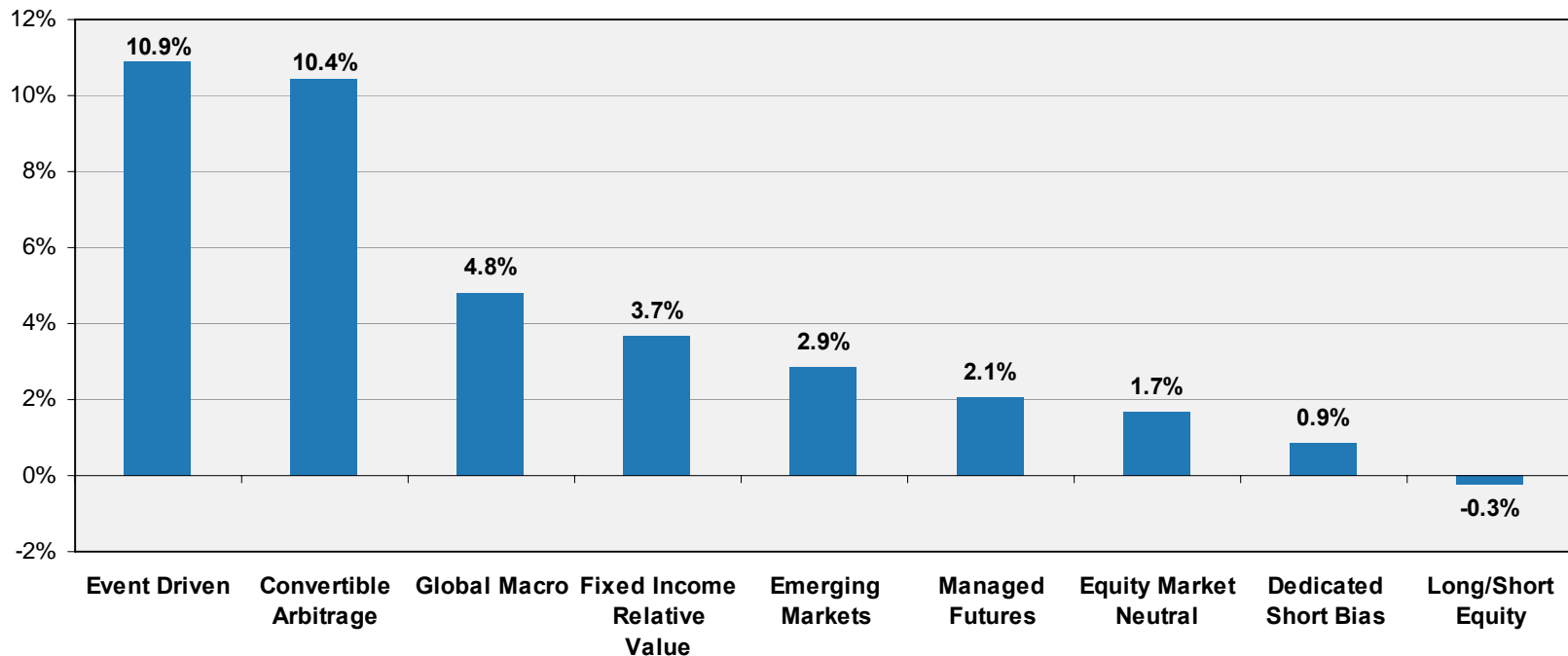
* Estimated return data for month ending 12/31/10. The AQR DELTA net returns above are calculated using a 2% management fee. Please see important performance disclosures in the Appendix. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy in the Appendix.

Appendix: Performance Attribution – Since Inception

- ▶ The AQR DELTA Fund has benefited from its passive low equity and credit market exposure as well as its more equally-balanced strategic risk allocations and tactical over/underweights across strategies

Since Inception AQR DELTA Fund Sub-Strategy Gross Performance

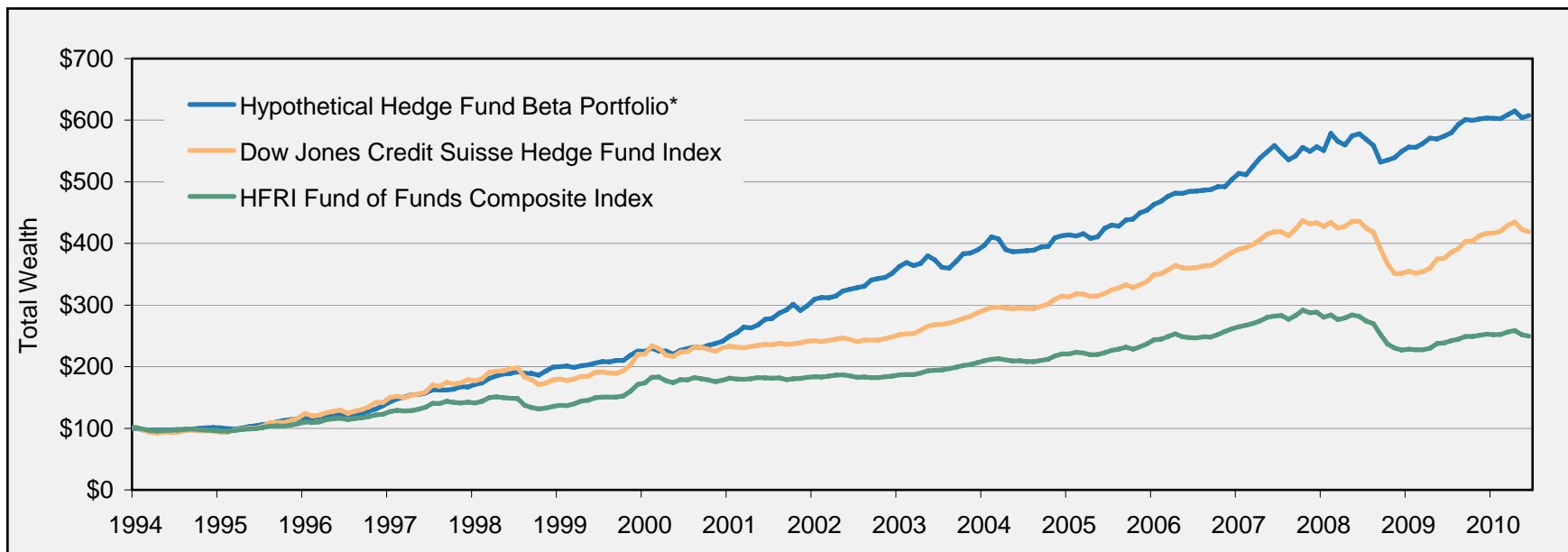
October 2008 – December 2010



Please see important disclosures in the Appendix. This information is supplemental to the Global Investment Performance Standards (GIPS®) presentation compliant for this strategy in the Appendix.

Appendix: Historical Performance of Hedge Fund Betas

Hypothetical Net Returns of a Diversified Hedge Fund Beta Portfolio and Hedge Fund Indices



	Annualized Net Return	Annualized Volatility	Sharpe Ratio	Max Drawdown (Peak-Trough)
Hypothetical Hedge Fund Beta Portfolio*	11.6%	5.7%	1.4	-8%
Dow Jones Credit Suisse Hedge Fund Index	9.1%	7.8%	0.7	-20%
HFRI Funds of Funds Composite Index	5.7%	6.2%	0.3	-22%

* Hypothetical Hedge Fund Beta Portfolio uses hypothetical returns of the AQR DELTA Fund. Performance shown for Jan 1994 to Jun 2010. The AQR DELTA Fund is managed to target 6% annualized volatility, which may be subject to change at any time. Returns and volatility are annualized net figures based on monthly data. Hypothetical fund performance is for illustration purposes only and not the returns to an actual fund or account. The hypothetical volatility of the AQR DELTA Fund and the volatility of the HFRI Funds of Funds composite are not comparable since the HFRI returns are based on a portfolio of many funds, whereas the AQR DELTA Fund is just one Fund, and also because the HFRI Composite is a non-investable index. Annual fees used to compute the Fund's hypothetical returns are a 1.00% management fee and 0% performance fee. Importantly, this backtest does not include tactical strategy allocation. This information is supplemental to the GIPS® presentation compliant for this strategy in the Appendix. Please see the Appendix for disclosures relating to hypothetical performance and risks.

Appendix: Direct Approaches

Advantages

- Lower all-in-fee
- Potential for customization (e.g., strategy lineup, market correlation, transparency)

Disadvantages

- Need to hire (internal or outsourced) expertise for due diligence and ongoing monitoring
 - Building a diversified portfolio can be challenging (likely at least 15-20 names out of thousands)
- Typically has low liquidity and limited transparency

Appendix: Performance Disclosures

The information set forth herein has been provided to you as secondary information and should not be the primary source for any investment or allocation decision. Please obtain the advice of your fiduciary prior to any investment. This document is intended exclusively for the use of the person to whom it has been delivered and it is not to be reproduced or redistributed to any other person. AQR Capital Management, LLC ("AQR") does not make any representation or warranty, express or implied, as to the information's accuracy or completeness. This document is subject to further review and revision. You should be aware that there are certain conflicts of interest that may exist in the provision of this information such that you should not rely principally on such information as the basis of any investment decision. AQR has sponsored and manages a number of other private investment funds, proprietary accounts and various separate institutional accounts, each of which uses quantitative return forecasting models and systematic risk control methods to pursue a variety of strategies and which may differ from the investments discussed herein. While AQR acts in a manner that it considers fair, reasonable and equitable in allocating investment opportunities to each of its private investment funds, proprietary accounts and various separate institutional accounts, there are no specific obligations or requirements concerning the allocation of time, effort or investment opportunities to each fund or account nor are there any restrictions on the nature or timing of investments for the various funds or accounts which AQR or its affiliates may manage. Please refer to item 9 of AQR's ADV Part II for additional information on potential conflicts of interest. The recipient should conduct his or her own analysis and consult with professional advisors prior to making any investment decisions. Any investment made will be in the sole discretion of the reader.

The AQR Delta Fund performance figures contained herein reflect the reinvestment of dividends and all other earnings and represent unaudited estimates of realized and unrealized gains and losses prepared by AQR Capital Management, LLC. There is no guarantee as to the above information's accuracy or completeness. **PAST PERFORMANCE IS NOT AN INDICATION OF FUTURE PERFORMANCE.**

Hypothetical performance results (e.g., quantitative backtests) have many inherent limitations, some of which, but not all, are described herein. No representation is being made that any fund or account will or is likely to achieve profits or losses similar to those shown herein. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently realized by any particular trading program. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can adversely affect actual trading results. The hypothetical performance results contained herein represent the application of the quantitative models as currently in effect on the date first written above and there can be no assurance that the models will remain the same in the future or that an application of the current models in the future will produce similar results because the relevant market and economic conditions that prevailed during the hypothetical performance period will not necessarily recur. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of hypothetical performance results, all of which can adversely affect actual trading results. Discounting factors may be applied to reduce suspected anomalies. Hypothetical performance results are presented for illustrative purposes only.

Gross performance results do not reflect the deduction of investment advisory fees, which would reduce an investor's actual return. For example, assume that \$1 million is invested in an account with the Firm, and this account achieves a 10% compounded annualized return, gross of fees, for five years. At the end of five years that account would grow to \$1,610,510 before the deduction of management fees. Assuming management fees of 1.00% per year are deducted monthly from the account, the value of the account at the end of five years would be \$1,532,886 and the annualized rate of return would be 8.92%. For a ten-year period, the ending dollar values before and after fees would be \$2,593,742 and \$2,349,739, respectively. AQR's asset based fees may range up to 2.85% of assets under management, and are generally billed monthly or quarterly at the commencement of the calendar month or quarter during which AQR will perform the services to which the fees relate. Performance fees are generally equal to 20% of net realized and unrealized profits each year, after restoration of any losses carried forward from prior years. In addition, AQR funds incur expenses (including start-up, legal, accounting, audit, administrative and regulatory expenses) and may have redemption or withdrawal charges up to 2% based on gross redemption or withdrawal proceeds. Please refer to the Fund's Private Offering Memoranda and AQR's ADV Part II, Schedule F for more information on fees. Consultants supplied with gross results are to use this data in accordance with SEC, CFTC, NFA or the applicable jurisdiction's guidelines.

DELTA net performance reflects the deduction of annual management fees (payable quarterly in advance) and annual performance fees (payable annually in arrears, if due).

Diversification does not eliminate the risk of experiencing investment losses.

There are many risks associated with convertible securities including but not limited to liquidity risk, equity risk, interest rate risk, and credit risk of the underlying bond. Convertible bond securities may be considered illiquid securities, which cannot be sold or disposed of in the ordinary course of business at approximately the prices at which they are valued. Difficulty in selling securities may also result in a loss or may be costly to the portfolio.

There is a risk of substantial loss associated with trading commodities, futures, options, derivatives and other financial instruments. Before trading, investors should carefully consider their financial position and risk tolerance to determine if the proposed trading style is appropriate. Investors should realize that when trading futures, commodities, options, derivatives and other financial instruments one could lose the full balance of their account. It is also possible to lose more than the initial deposit when trading derivatives or using leverage. All funds committed to such a trading strategy should be purely risk capital.

Appendix: Performance Disclosures

AQR Capital Management, LLC
DELTA Full Vol. Composite
9/30/08 – 12/31/09

Year	Total Return Gross of Fees %	Total Return Net of Fees %	Benchmark* Return %	Number of Portfolios	Composite Assets End of Period (\$ M)	Total Firm Assets (\$ M)	% of Firm Assets
2008	7.13	6.58	0.22	1	37.56	19,207.24	0.20
2009	21.60	19.26	0.21	1	60.48	23,571.55	0.26

* Merrill Lynch 3 Month Treasury Bill Index

AQR Capital Management, LLC (“AQR”) has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

This presentation cannot be used in a general solicitation or general advertising to offer or sell interest in its Funds. As such, this information cannot be included in any advertisement, article, notice or other communication published in any newspaper, magazine, or similar media or broadcast over television or radio; and cannot be used in any seminar or meeting whose attendees have been invited by any general solicitation or general advertising.

Notes:

Firm Information:

AQR is a Connecticut based investment advisor registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. AQR conducts trading and investment activities, specializing in global asset allocation and global stock selection involving a broad range of instruments, including, but not limited to, individual equity and debt securities, currencies, futures, commodities, fixed income products and other derivative securities.

For purposes of Firm wide compliance and Firm wide total assets, AQR defines the “Firm” as entities controlled by AQR that are registered as investment advisors with the Securities and Exchange Commission. The Firm is comprised of AQR and CNH Partners, LLC.

Upon request AQR will make available a complete list and description of all of Firm composites.

Past performance is not an indication of future performance.

Fees: AQR’s asset based fees for portfolios within the composite may range up to 2.00% of assets under management, and are generally billed monthly or quarterly at the commencement of the calendar month or quarter during which AQR will perform the services to which the fees relate. In addition, AQR funds incur administrative fees and may have a redemption charge of 2% based on gross redemption proceeds may be charged upon early withdrawals.

Please refer to the Fund’s Private Offering Memoranda and AQR’s ADV Part II, Schedule F for more information on fees.

Appendix: Performance Disclosures

Composite Characteristics: The Delta Full Vol. Composite (the “Composite”) was created in October 2008. The accounts included invest all of their assets in the AQR Delta Master Account, L.P. (“Master Account”). The composite benchmark is the Merrill Lynch 3 Month Treasury Bill Index. The Composite is comprised solely of the Master Account.

The Master Account engages in leverage and derivative transactions. The Master Account frequently engages in swap transactions and other derivative contracts. In general, a derivative contract typically involves leverage, i.e., it provides exposure to potential gain or loss from a change in the level of the market price of a security, currency or commodity (or a basket or index) in a notional amount that exceeds the amount of cash or assets required to establish or maintain the derivative contract

Consequently, an adverse change in the relevant price level can result in a loss of capital that is more exaggerated than would have resulted from an investment that did not involve the use of leverage inherent in the derivative contract. Many of the derivative contracts used by the Master Account are privately negotiated in the over-the-counter market. These contracts also involve exposure to credit risk since contract performance depends in part on the financial condition of the counter-party. These transactions are also expected to involve significant transaction costs. The risks inherent to the strategies employed by the Master Account are set forth in the applicable offering documents and other information provided to potential subscribers.

Calculation Methodology: Valuations and returns are computed and stated in U.S. dollars, and individual portfolios are revalued monthly. Portfolios also are revalued intra-month when cash flows occur. The firm links returns geometrically to produce an accurate time-weighted rate of return. Composite returns are asset-weighted. Gross of fees returns are calculated gross of management and custodial fees and net of transaction costs. Returns are calculated net of all withholding taxes on foreign dividends. Accruals for fixed income and equity securities are included in calculations. Net of fees returns are net of management fees of 2.00%. The dispersion measure is the equal-weighted standard deviation of accounts in the composite for the entire year. Dispersion is not considered meaningful for periods shorter than one year or for periods during which the composite contains five or fewer accounts for the full period.

Additional information regarding policies for calculating and reporting returns is available upon request.

Other Disclosures: AQR has received a firm-wide GIPS verification for the period August 1998 through 12/31/2009. A copy of the verification report is available upon request. For consistency purposes, AQR in October of 2009 historically revised its source for the Composite’s benchmark data. None of these changes have resulted in any material differences.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

March 29, 2011

Agenda Item 6.2 b

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Educational Presentation – Hedge Fund Investment Opportunities – Aetos Presentation

STAFF RECOMMENDATION: Staff recommends that the board review the presentation materials and take this opportunity to solicit answers to questions that may arise concerning investing in hedge funds. Following both presentations under this agenda item, staff asks that the board provide guidance regarding how to proceed with the association's hedge fund implementation.

COMMENT: Attached is a presentation booklet titled "*An Overview of Hedge Fund Investing.*"

The presentation covers:

Role of Hedge Funds in a Portfolio

Range of Hedge Fund Strategies

Hedge Fund Investing Through a Fund of Funds Portfolio

Overview of Aetos Capital, LP

Anne Casscells, Co-President and Chief Investment Officer, and Andrea M. Bollyky, Managing Director, Head of Business Development, will make the presentation and be available to respond to all board inquiries.

AETOS CAPITAL

An Overview of Hedge Fund Investing

San Mateo County Employees' Retirement Association

March 29, 2011

Absolute return investing involves substantial risks, including the risk of loss of invested capital. Absolute return investments are typically made through investments in illiquid, unregulated investment funds that employ sophisticated investment techniques, often involving derivatives and leverage, in a wide range of financial instruments and markets. These investments entail a wide variety of risks, which remain substantial notwithstanding the risk management practices we employ in selecting and monitoring the funds in which we invest. Potential investors in absolute return vehicles are urged to familiarize themselves with these risks before investing.



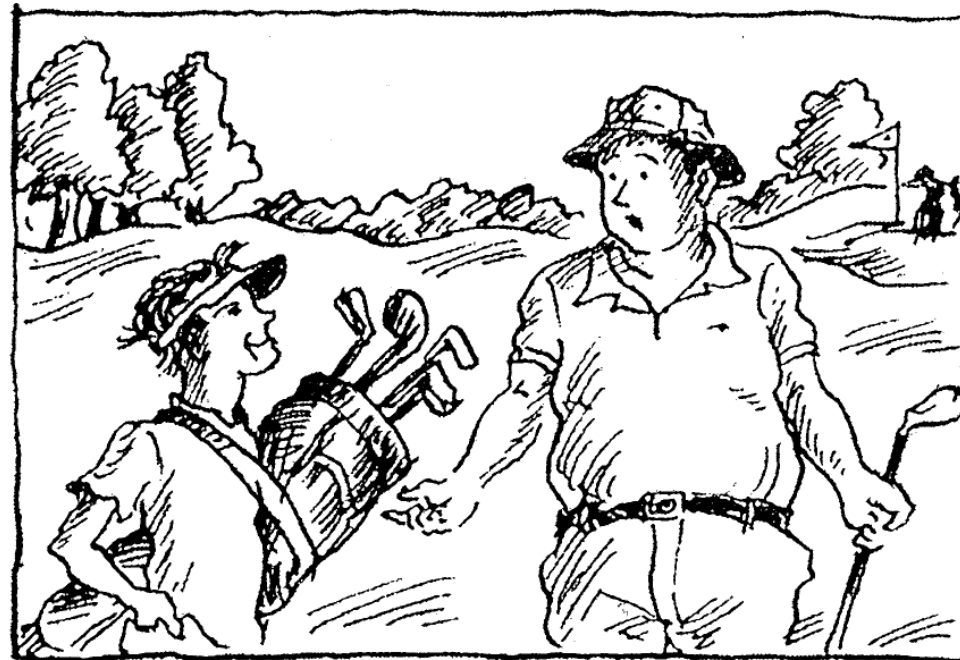
TABLE OF CONTENTS

Section I	Role of Hedge Funds in a Portfolio
Section II	Range of Hedge Fund Strategies
Section III	Hedge Fund Investing through a Fund of Funds Portfolio
Section IV	Overview of Aetos Capital, LP

WHAT ARE “HEDGE FUNDS”?

Hedge Funds: *n. lightly regulated investing pools, mainly for the wealthy, that bet on global financial markets and often use leverage to boost returns*

- *Wall Street Journal*



“You mean you have a hedge fund?”

WHY INVEST IN HEDGE FUND STRATEGIES?

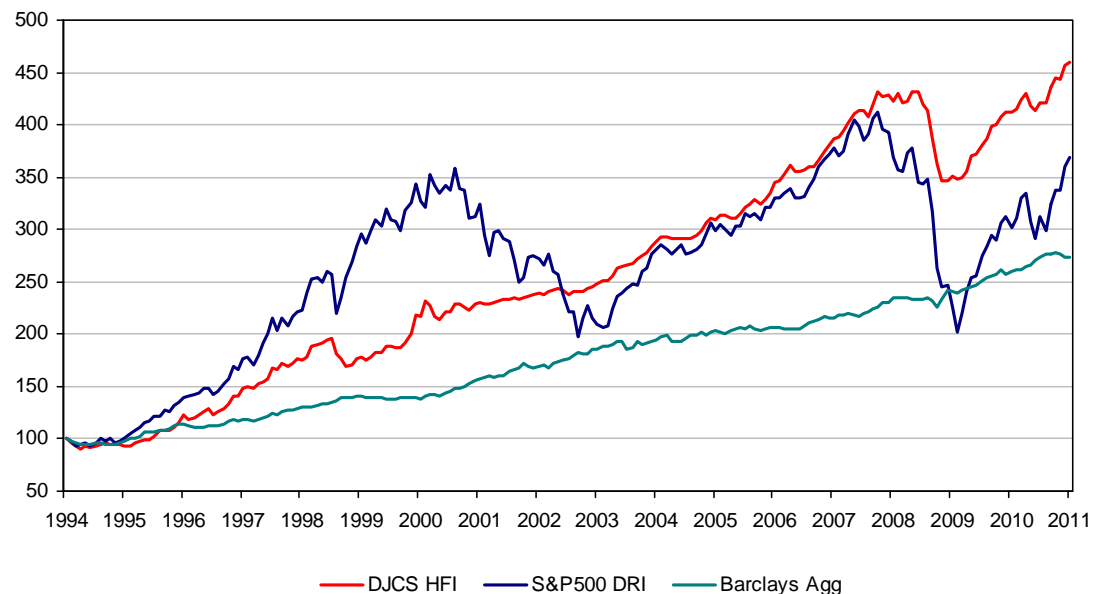
Attractive Risk-Adjusted Returns

- **Steady Returns**

- Achieve returns in excess of bonds with similar risk: likely to under-perform equities in bull markets and out-perform equities in bear markets

- **Uncorrelated**

- Exposure is non-directional unlike private equity and real assets, where returns are linked to market factors (S&P 500, commodity prices, etc.)

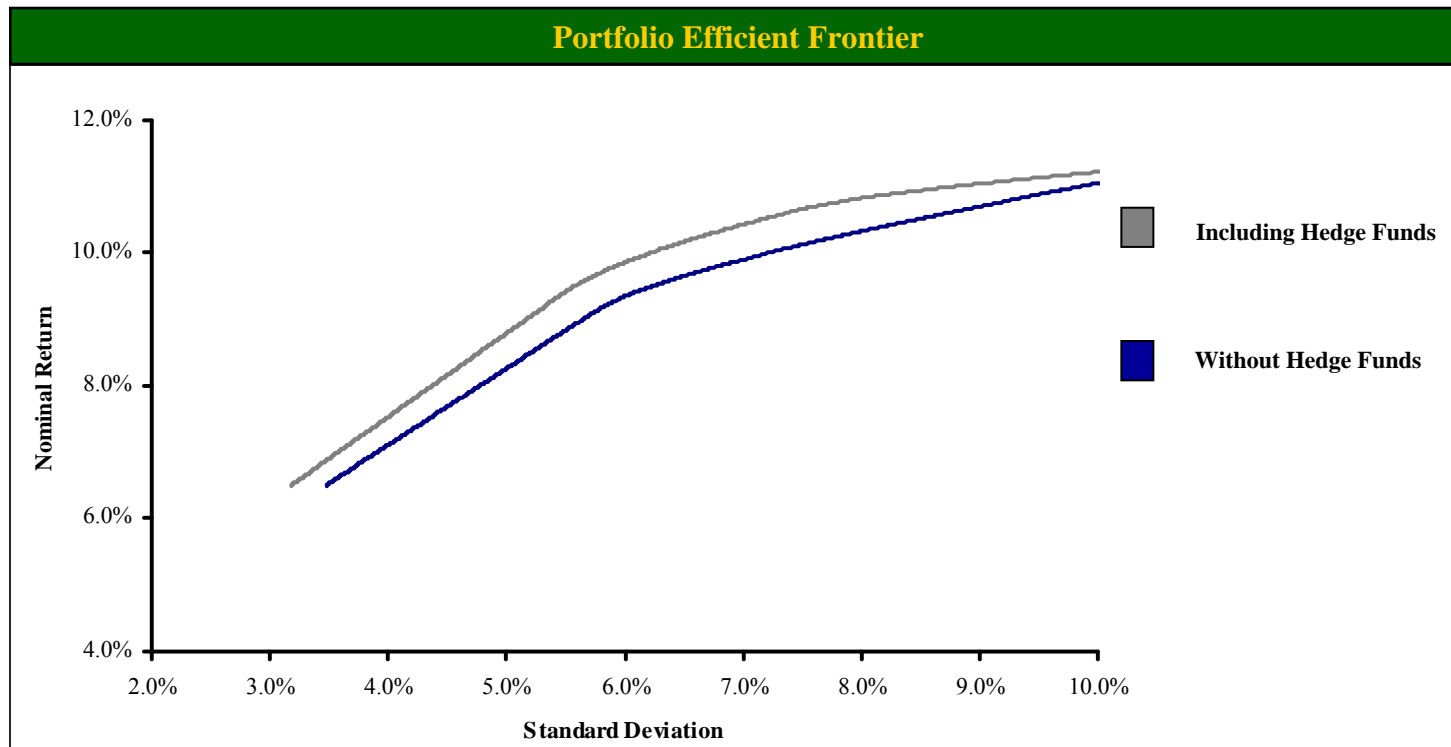


<u>Jan 1994 – Jan 2011</u>	<u>DJCS HFI</u>	<u>S&P 500 DRI</u>	<u>Barclays Agg</u>
Annualized Return	9.4%	8.0%	6.1%
Standard Deviation	7.7%	15.7%	3.8%

THE ROLE OF HEDGE FUNDS IN A PORTFOLIO

Why Correlation Matters

Combining Assets with Lower Correlation Improves the Risk/Return Profile

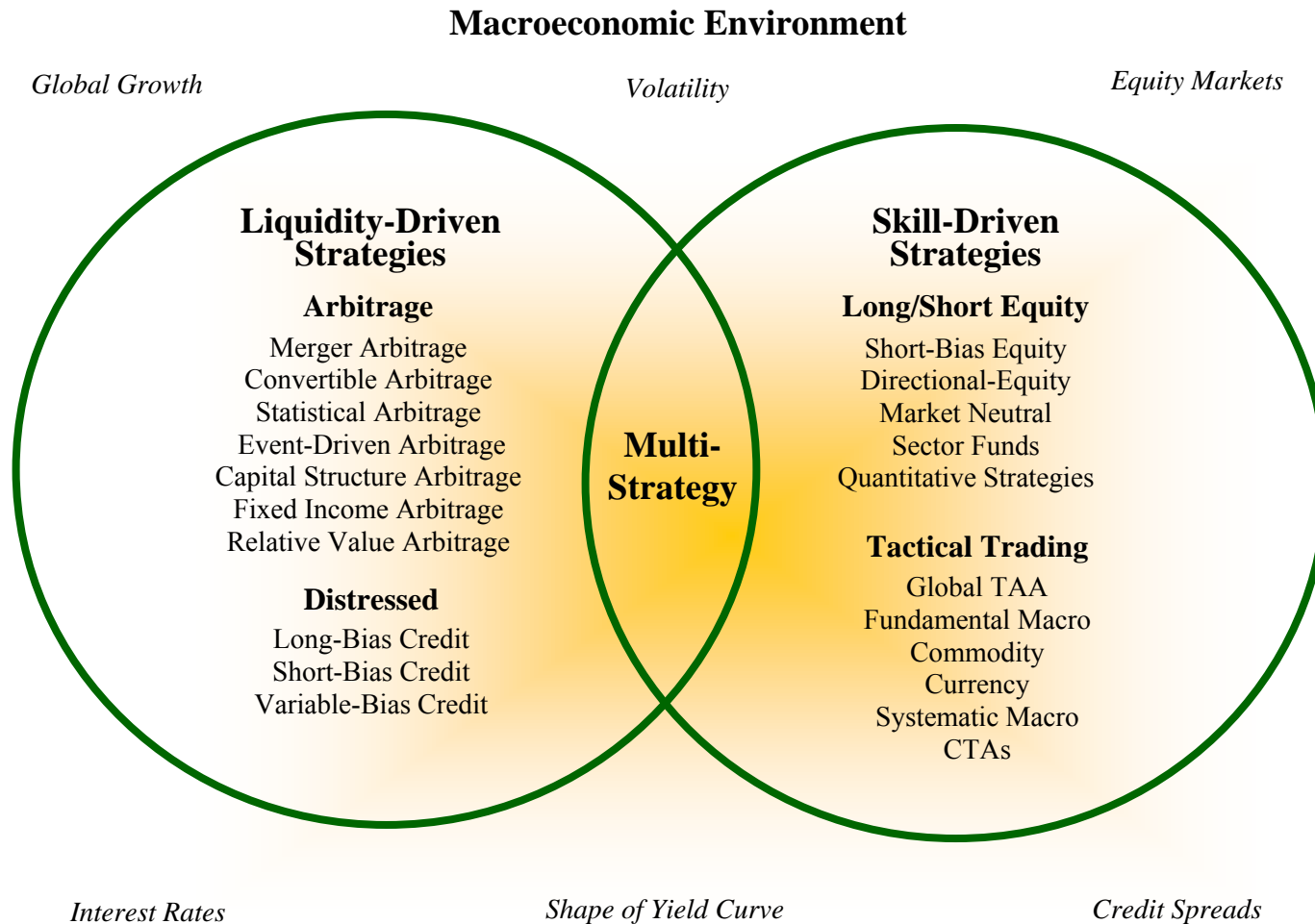


- Portfolio with a hedge fund allocation achieves a higher return for a given level of risk, or alternatively, lower risk for a given level of return
 - This positive outcome results from the fact that hedge funds have a lower correlation to the other assets in the portfolio

Note: Efficient frontiers calculated using Markowitz optimization method; inputs include expected risk / return data from previous slide and historical correlation data.

HEDGE FUND STRATEGIES

Variety of strategies can be confusing, but utilize the same investment techniques found in long-only investing

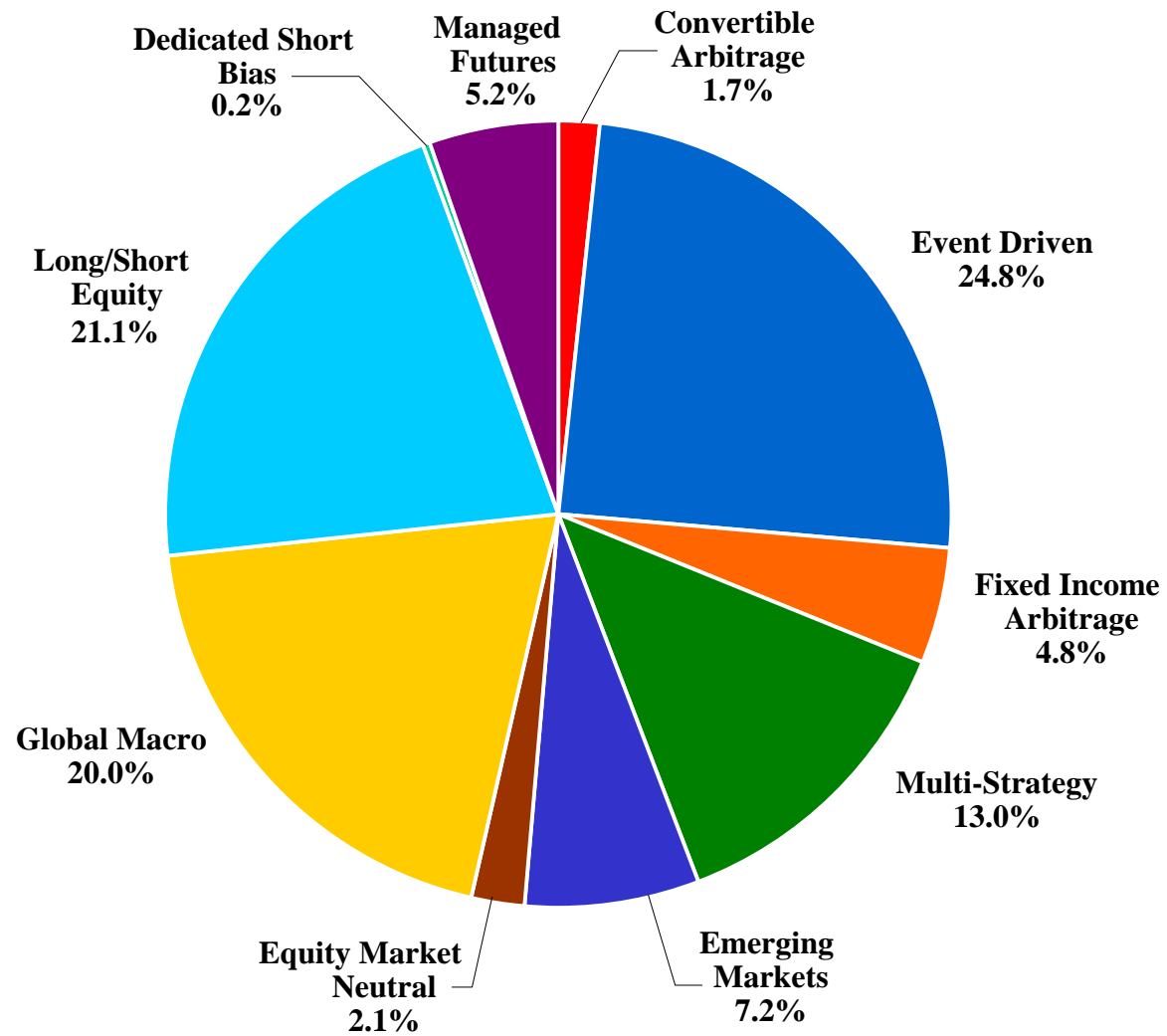


OVERVIEW OF HEDGE FUND UNIVERSE

- **Convertible arbitrage** managers enter into hedged investments in convertible bonds, focusing on interest rate and credit risk and underlying equity volatility
- **Distressed investment** managers invest in the securities (generally bonds and bank loans) of companies that are in bankruptcy or distress
- **Event-driven arbitrage** managers search for mispricings in securities that will be resolved through an anticipated event
- **Fixed income arbitrage** managers seek to profit from the resolution of discrepancies in the prices of closely related fixed income securities
- **Global macro** managers seek to anticipate the effects of economic trends on currency, fixed income, commodity and equity markets
- **Long/short equity** managers construct long-biased portfolios of stocks, usually based on bottoms-up equity research
- **Market neutral** managers attempt to create long and short portfolios of equal size that will be immune to overall stock market movements
- **Quantitative** managers build portfolios that take risk-controlled positions in currencies, stocks, bonds and commodities while usually maintaining overall market neutrality

HEDGE FUND STRATEGIES

Current State of the Universe



As of 3/11/2011
Source: DJCS Hedge Fund Index

HEDGE FUND INVESTING THROUGH A MULTI-MANAGER PROGRAM

- **Broad Universe of Strategies**
 - Diversification across multiple hedge fund firms
 - Diversified risk/return stream
 - Broad strategy and sub-strategy universe
 - Ability to implement tactical views based upon cyclical changes/market opportunities
- **Ability to Partner with Client**
 - High level of contact with client to build, monitor, and evolve portfolio over time
 - Customize portfolio to meet specific risk, return, and exposure targets
 - Knowledge transfer and Chief Investment Officer perspective
- **Portfolio Construction and Risk Management**
 - Macroeconomic research guides strategy allocations
 - Ability to tactically over and under weight strategies at throughout the market cycle
 - Active portfolio level risk management evaluates exposures to macroeconomic, quantitative, manager, strategy specific, and operational risk factors
- **Insightful and Comprehensive Monitoring**
 - Monitoring of underlying managers, strategy shifts, and total portfolio construction on an ongoing basis
 - Creation and implementation of best practices
- **Generating Alpha through Active Management vs. Passive Hedge Fund Strategies**
 - Most hedge fund strategies cannot be truly accessed through passive index approaches



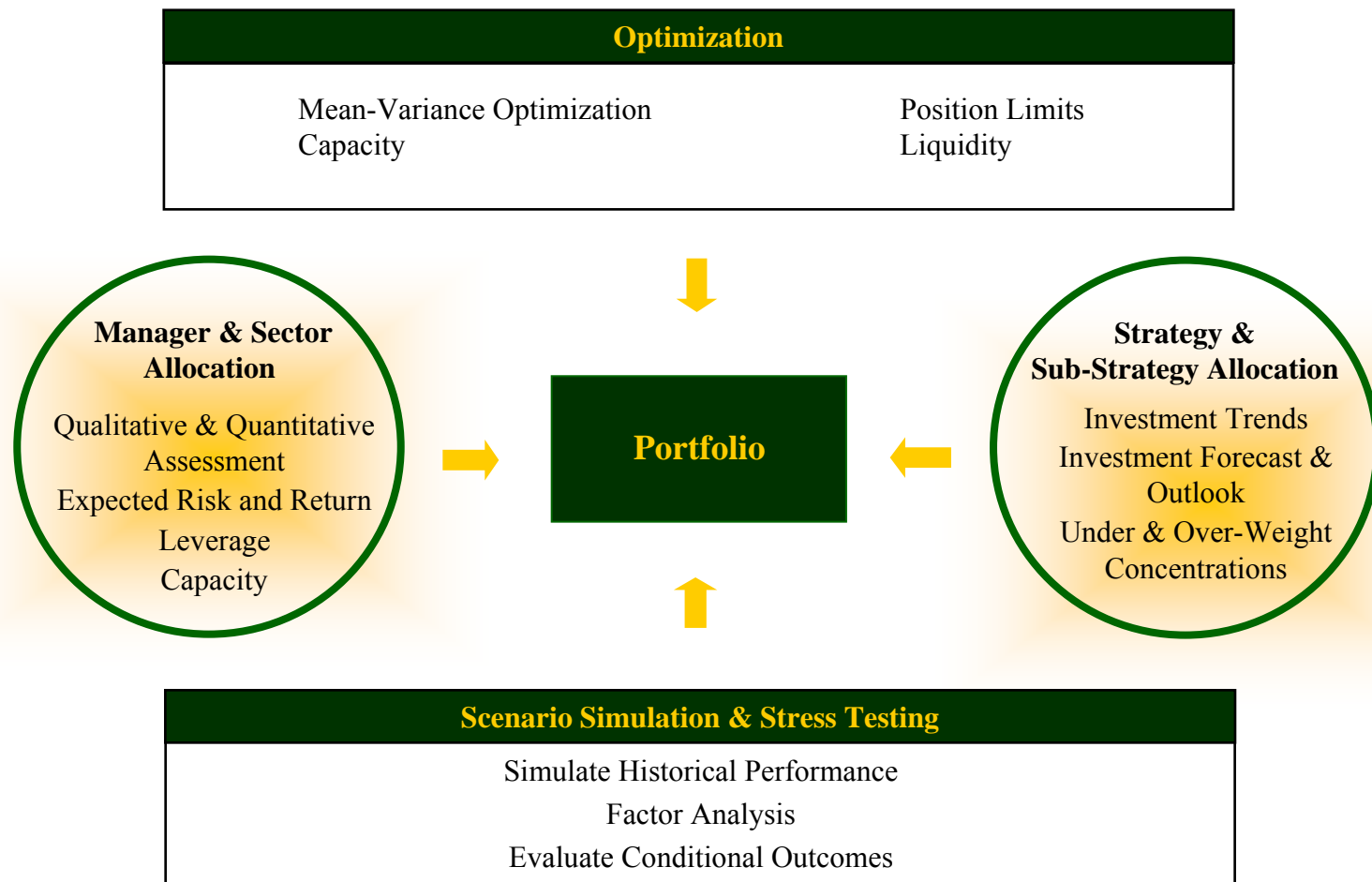
RESOURCES NEEDED FOR HEDGE FUND INVESTING

- Relationships to gain access to high quality managers
- Objective manager selection process
- Portfolio construction process
- Derivatives expertise usually required
- Ongoing due diligence process
- Dedicated risk management resources
- Structure to manage potential conflicts of interest

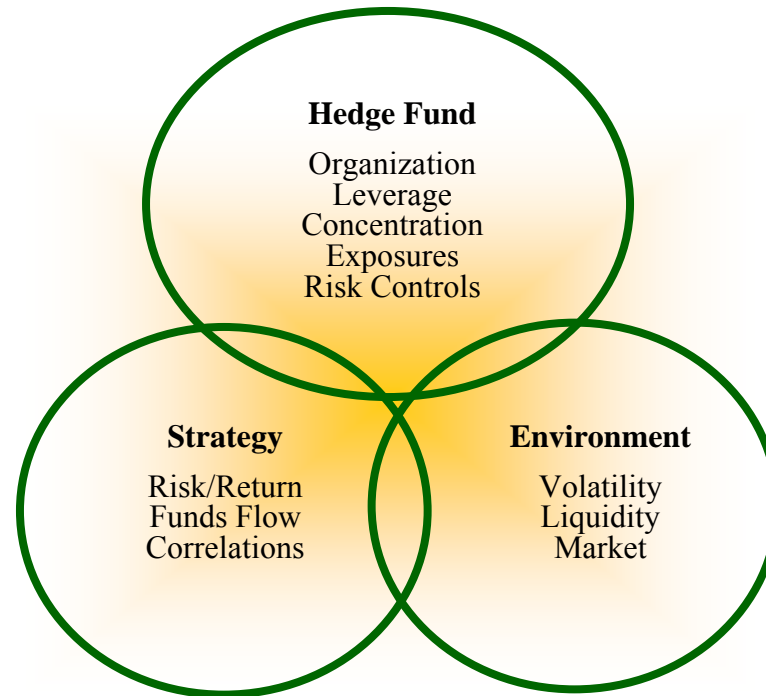
ELEMENTS OF MANAGER EVALUATION & ANALYSIS



PORTFOLIO CONSTRUCTION



MANAGER AND PORTFOLIO MONITORING



**Market Environment
Review**

**Hedge Fund Level
Quantitative & Qualitative
Review**

**Portfolio Level
Analysis & Review**

**Performance, Valuation &
Pricing Confirmation**

IMPLEMENTATION AND STRUCTURING OF A HEDGE FUND OF FUNDS PROGRAM

- **Issues to Consider:**

- Size of Investment
- Staff Resources
- Level of Customization
- Liquidity Constraints

- **Implementation Options**

- **Commingled Fund of Funds**
 - Offshore vs. Onshore
 - SEC-registered 1940 Act Registered Investment Company (RIC)
 - Non-registered (3(c)1 or 3(c)7)
- **Separate Account (also known as “Fund of One”, “Direct Investment Portfolio”)**
 - Direct Separate Account Program - hedge fund investments are held directly in the client’s name
 - Separate Account Program through a Limited Liability Corporation (“LLC”) – Onshore
 - Separate Account Program through a Cayman Islands Exempted Company – Offshore

AETOS CAPITAL, LP – ALTERNATIVES MANAGEMENT

Experience

- Fiduciary perspective and capital markets experience
- Best practices from the highest quality institutions
- Broad and deep team of specialists focusing on investment research and operational due diligence
- Senior professionals average over 20 years of market experience

Expertise

- Specializing exclusively in alternative investment strategies for institutional clients
- Independent firm – registered investment advisor with SEC-registered 1940 Act investment vehicles*
- Research driven process
- Historic emphasis on operational risk management
- Focus on client education and knowledge transfer

Judgment

- Demonstrable record of success:
 - Manager identification
 - Tactical strategy allocation
 - Portfolio construction and risk management
 - Insightful and comprehensive monitoring
- Customized approach
- Extension of staff

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

March 29, 2011

Agenda Item 6.3

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Approval of Investment Management Agreement Renewal - Jennison Associates

STAFF RECOMMENDATION: Staff recommends that the board review and approve the attached resolution, which authorizes the chair to execute a renewed Investment Management Agreement (IMA) with Jennison Associates.

BACKGROUND: In late 2005, *SamCERA* became concerned about the quantitative model driving Goldman Sachs Asset Management's (GSAM) small cap enhanced product. In an effort to gain a better understanding of the model and changes to the model, staff and trustees devoted considerable time reviewing GSAM and discussing the model. Over the course of several discussions and meetings, *SamCERA* was unable to become comfortable with GSAM's explanation of the changes in the model. Also problematic was the fact that, even with their changes in the model, the portfolio was underperforming the Russell 2000 benchmark returns. In August 2007, *SamCERA* conducted GSAM's annual review. The structure and functions of the model were the main topics of discussion. Following the meeting, the trustees determined they were unable to gain a clear understanding from GSAM as to the problems and solutions related to the model. Strategic Investment Solutions was directed to provide the board with alternatives for the small cap core mandate.

In September, Strategic Investment Solutions provided the board with a list of alternative small cap core managers. The list contained firms that were open for new investment. The board opined that there were adequate qualified firms available to initiate a manager search. Working with SIS the board developed criteria for the search. SIS was instructed to return in October with a list of possible candidates. In October the board reviewed quantitative and qualitative data on ten small cap core managers with both fundamental and quantitative strategies.

At the board's November 27th meeting the trustees voted to terminate GSAM's Investment Management Agreement immediately and temporarily place the assets in a Russell 2000 Index portfolio. The board determined that under the circumstances and because index providers are relatively generic that an RFP for the index provider was not necessary. Since State Street Bank and Trust is the custodian for the assets, it was decided to utilize State Street Global Advisors (SSgA) as the index provider. For reasons similar to those stated above State Street Global Markets was engaged as the transition manager. The board authorized staff to negotiate and the chair to execute agreements with State Street Global Advisors (SSgA) and State Street Global Markets.

The board met on December 13, 2007, to narrow the list of small cap core managers. After reviewing the following eight firms: Clarivest Asset Management, Delaware Investments, Jennison Associates, JPMorgan, Quantitative Management Associates, State Street Global Advisors, TAMRO Capital Partners, and Wellington Management; the board selected the four firms in the following table for interviews on January 22, 2008.

Investment Manager	Product
1) Clarivest Asset Management	Small Cap Core
2) Jennison Associates	Small Cap Equity
3) Quantitative Management Associates	Small Cap Quantitative Equity
4) TAMRO Capital Partners	Small Cap

Following a thorough vetting of the four finalists, the board directed staff to begin negotiation of an investment management agreement and to conduct a due diligence site visit with Jennison Associates. A successful site visit was conducted the morning of February 20, 2008, in Jennison's office at 466 Lexington Avenue, New York, New York by Mr. Thomas and Mr. Clifton.

The following is an overview of Jennison Associates.

Jennison Associates was founded in 1969 by seven investment professionals. Sig Segalas, one of the founders, continues to serve as the firm's President, CIO and portfolio manager of the flagship large cap growth product. In 1985 the company became a wholly owned subsidiary of The Prudential Insurance Company of America. In 2000 Prudential moved its active fundamental equity asset management capabilities to Jennison. As of the end of the third quarter of 2007, Jennison's assets were approximately \$83 billion. About \$35 billion of this is in the firm's original product, the Large Cap Growth Equity. The Small Cap Core Equity product has approximately \$1.75 billion. In the past, Jennison has told us that they will close the product at \$2 billion. According to the RFP, they believe they have capacity for an additional \$300-\$500 million. The median account size in this product as of the end of the third quarter was \$140 million, indicating an institutional orientation. We would generally view insurance company ownership as sub-optimal from the point of view of attracting and retaining investment talent. Nevertheless, our impression is that Jennison is not much hampered by these circumstances. We believe that this firm offers its investment professionals competitive compensation and has succeeded in developing a research-intensive culture.

Jennison's Small Cap Team consists of two portfolio managers, John Mullman and Jason Swiatek and five research analysts. John Mullman has been the portfolio manager of this product since its inception in 1998. Jason Swiatek has been part of the small cap team since 1999 and co-portfolio manager since 2005. The small cap equity universe is roughly divided with each of the seven team members having responsibility for sectors and industries within their areas of expertise. Lead portfolio manager John Mullman has 20 years of investment experience and the average for the others on the team is in the 10-12 year range. We view this as a well-resourced investment team for this asset class. But it is worth noting that this team is responsible for several portfolios in the small- and mid-cap range.

Jennison's approach is based on the premise that bottom up fundamental research can add significant value by uncovering inefficiencies in the small cap asset class. They seek out companies that they believe have attractive valuations, and should experience superior earnings growth on an intermediate term basis. In addition, Jennison looks for companies with the following attributes: strong competitive position, quality management team, demonstrated growth in sales and earnings, balance sheet flexibility and strength. According to the RFP, the team conducts more than 900 meetings with company managements per year. Analysts also meet with target companies' competitors, suppliers, customers as well as industry experts. If the initial criteria are met, they conduct more detailed financial analysis. The basic research and decision making structure is relatively conventional with analysts proposing investment ideas to the portfolio managers who discuss the idea and ultimately make the buy decision.

The portfolio contains 110-135 stocks with an official maximum position size of 4%, with actual positions rarely exceeding 2.5%. Industry weights are normally limited to 20% and sector bets are typically with 5%-7% of the benchmark weight, though they may be higher. Positions are scaled to reflect

market cap and trading volume. According to Jennison, their expected tracking error is 6%-8%, but historically it has been much lower. They seek to add 3%-4% of excess return over a market cycle.

Jennison Small Cap Equity has succeeded in generating strong relative returns since its inception in 1998. The same portfolio manager has been responsible for this product from the beginning. Although there has been modest analyst turnover, we think Jennison has adequate incentives in place to attract and retain investment talent. While insurance company ownership is, in itself, not particularly advantageous, in this case it does not appear to be particularly damaging. Beyond the general sense that Jennison is a firm with seasoned competent analysts, a sense that comes from meeting with a firm and conducting onsite visits, there isn't much about the approach that distinguishes this firm from its peers. Although the risk controls at the portfolio level are reasonable, they are not sufficiently stringent that clients should count on a low tracking error. And while this is a core portfolio which buys both value and growth stocks, nothing appears to prevent some degree of tilt in one direction or the other. We believe that Jennison is a solid organization and that the investment staff performs quality research. We do, however, worry that assets of over \$1.75 billion may put downward pressure on excess returns.

Below are some of Jennison's pros and cons that came out through the vetting process

Pros

- Well respected active management sub of Prudential with institutional focus
- Deep, experienced team of two portfolio managers and five analysts
- Lead portfolio manager in place since inception in 1998
- Strong relative returns since inception using fundamental analysis

Cons

- Assets currently at \$1.75 billion with plans for an additional \$300-\$500 million
- Discuss targeting tracking error of 6-8%, though actual has been lower
- Insurance company subsidiary

A resolution appears on the following page.

San Mateo County Employees' Retirement Association
Contract for Investment Management Services
RESOLUTION 10-11-

*THIS RESOLUTION, adopted by the Board of Retirement (Board)
of the San Mateo County Employees' Retirement Association (SamCERA), approves
the contract between the Board and Jennison Associates*

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

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

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

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

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

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

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

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

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

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

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

JENNISON ASSOCIATES, LLC

INVESTMENT MANAGEMENT AGREEMENT

This Agreement, effective as of February 28, 2011 entered into by San Mateo County Employees' Retirement Association ("*SamCERA*"), (hereinafter referred to as the "Board") having its principal office at 100 Marine Parkway, Suite 125, Redwood Shores, California 94065-5802 and Jennison Associates, LLC ("*IM*"), (hereinafter referred to as "Investment Manager") with its principal office at 466 Lexington Avenue, New York, New York 10017.

WITNESSETH:

WHEREAS, San Mateo County Employees' Retirement Association was established by the Board of Supervisors for the County of San Mateo on July 1, 1944; and

WHEREAS, the Board is vested with "sole and exclusive fiduciary responsibility" for *SamCERA's* assets, pursuant to Article XVI of the Constitution of the State of California and the County Employees Retirement Law of 1937 (commencing with Government Code Section 31450); and

WHEREAS, the Board has determined pursuant to Government Code Section 31595 and related provisions of law that it is in the best interest of *SamCERA*, its members and beneficiaries to contract with Investment Manager to manage and invest certain assets of *SamCERA*; and

WHEREAS, the Board and the Investment Manager wish to enter into the Agreement for the purpose of retaining the Investment Manager to manage certain assets of the Board (the "Assets"), and the Board has designated State Street Bank & Trust (the "Custodian") as agent for that portion of the assets to be managed by the Investment Manager.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Board and Investment Manager do hereby agree as follows:

1. **APPOINTMENT:**

- (a) The Board hereby appoints Jennison Associates, LLC as Investment Manager to provide the services and fulfill the duties and obligations set forth in the Agreement. The Board represents that it has the authority to so appoint such Investment Manager to manage including the power to acquire and dispose of certain of the Assets. The Board reserves the right to increase or decrease the Assets under management by written notice sent in compliance with the notice provision contained in Section 14 of this Agreement.
- (b) The Investment Manager, by its execution of this Agreement, (i) agrees to serve as fiduciary for the Assets on behalf of the Board; (ii) agrees to be bound by all applicable provisions of *SamCERA's* Investment Plan (the "Plan"), as incorporated as Exhibit A and as they may be amended from time to time, and to exercise the Board's delegation of authority in accordance with the Plan; (iii) accepts the delegation of investment management authority and agrees to execute its duties and obligations under this Agreement in accordance with the standards of fiduciary conduct set forth in Section 17 of Article XVI of the Constitution of the State of California, Government Code Section 31595, all other applicable laws and the Board's Code of Fiduciary Conduct as set forth in the Plan; (iv) accepts responsibility for the diversification

of the Assets which the Board allocates to the Investment Manager; (v) accepts the responsibility to review and become familiar with the conflict of interest and reporting provisions applicable to *SamCERA*, contained in Government Code Sections 1090 to 1097 inclusive, 31528, 82030, 87100 to 87103, the Fair Political Practices Commission Regulations issued with respect thereto, and (vi) waives the right to assert any claim of estoppel against the Board, where the Board's claim is based upon breach of fiduciary duty, breach of contract or breach of duty of care on the part of the Investment Manager, provided such claim of estoppel is not based on actions taken by the Investment Manager pursuant to instructions received from the Board.

2. DUTIES AND POWERS OF THE INVESTMENT MANAGER:

During the term of its appointment, the Investment Manager shall:

- (a) have the power and obligation to manage the securities, funds and other property which constitute the Assets in its sole and absolute discretion, subject to its fiduciary obligations and in a manner consistent with the objectives, restrictions and policies of the Board which are expressed in the Plan, attached hereto as Exhibit A, and as it may be amended from time to time.
- (b) establish and implement an ongoing investment program with respect to the Assets.
- (c) without limiting the generality of the foregoing, have the following duties and powers:
 - (i) The Investment Manager shall have complete discretion, subject to the Plan and subject to applicable law, in the investment and reinvestment of the Assets, without distinction between principal and income, in such securities, with full power and authority to effect (or to authorize, direct and supervise the Custodian or one or more brokerage firms selected by the Investment Manager to effect) such purchases, sales, exchanges, conversions, and otherwise trade in shares, stocks, bonds, notes, and other obligations issued or incurred by governmental bodies, corporations, mutual funds trusts, associations or firms, in trade acceptances and other commercial paper, in loans and deposits at interest on call or on time, and exercise rights and warrants to subscribe for stock or securities therein as the Investment Manager may deem prudent and appropriate.
 - (ii) The Investment Manager shall appraise and review the securities, funds and other property which constitute the Assets. The Investment Manager shall collect information pertaining to investments, securities, economies, and other matters pertinent to making the determinations required of it herein. Such reviews shall be conducted to determine, in the Investment Manager's sole discretion based on the information available to it (including any information given to it by the Board pursuant to the Plan), the advisability of the following: (1) retaining some or all of such securities, funds and other property constituting the Assets, (2) selling, exchanging, redeeming, liquidating or disposing of some or all of the Assets, or (3) investing some or all of the proceeds from such sale, exchange, redemption, liquidation or disposition in other securities, funds or property.

- (iii) The Investment Manager shall place all orders for the Assets including selection of broker-dealers to effect acquisitions or dispositions of the Assets, and the terms and conditions on which such acquisitions or dispositions shall be made. Where the Investment Manager places orders for the execution of portfolio transactions for the Assets, the Investment Manager may allocate such transactions to such broker-dealers for execution on such markets, at such prices and at such commission rates as, in the good faith judgment of the Investment Manager, are prudent and consistent with the Agreement, the Plan, applicable securities laws, and the Securities and Exchange Commission (“SEC”) rules and regulations.
- (iv) In the selection of broker-dealers with whom to place orders for the purchase or sale of securities for the Assets, the primary objective of the Investment Manager shall be to obtain best execution consistent with the investment objectives. The Investment Manager’s selection of a broker-dealer shall take into account such relevant factors as (1) price and/or commission; (2) the broker-dealer’s facilities, which includes research or other service products provided to the Investment Manager, reliability and financial responsibility; and (3) the ability of the broker-dealer to effect securities transactions, particularly with respect to such aspects as timing, order size, execution of orders and the ability to complete a transaction through clearance, settlement and delivery. Such selection of broker-dealers shall be in accordance with the Investment Advisors Act of 1940, and the Securities Exchange Act of 1934, each as amended, (and with the rules, regulations and reporting requirements thereunder). The Investment Manager shall make no profit on any transactions executed for the Board.
- (v) The Investment Manager is authorized and empowered to exercise any conversion privilege or subscription right, and any other right to make an investment decision available with respect to the Assets as from time to time the Investment Manager in its discretion believes advisable in the interest of the value of the Assets. The Investment Manager shall give the Custodian such instructions or directions as may be necessary.
- (vi) The Investment Manager shall have the power to make, execute, acknowledge and deliver any and all documents of transfer and conveyance and any and all other instruments that may be necessary or appropriate to carry out the powers granted to it under this Agreement.
- (vii) The Board and the Investment Manager shall from time to time certify to each other the name or names of the person or persons authorized to act on their behalf hereunder, and shall furnish each other with a specimen of their signatures. Any individual so certified shall be deemed to be an authorized representative and shall cease to be an authorized representative only on written notice of the fact to the other party. However, until such notice is received by the other party, it may continue to treat such person as an authorized representative.

3. STANDARD OF CARE:

The Investment Manager shall discharge its duties under this Agreement with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent professional acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

4. PROCEDURES:

All transactions authorized by this Agreement shall be consummated by payment to, or delivery by the Custodian of all funds, securities, or other property due to or from the Assets. Instructions of the Investment Manager to the Custodian shall be made via an electronic medium to minimize manual intervention and promote straight through processing (STP). The Investment Manager shall instruct all brokers-dealers executing orders on behalf of the Assets to forward to the Custodian copies of all brokerage confirmations promptly after execution of transactions. Trade confirmations and affirmations shall be communicated via electronic medium.

5. MEETINGS, REPORTS AND ACCOUNTING:

- (a) The Board and representatives of the Investment Manager shall meet at such times as the Board may reasonably request to present Investment Manager's opinions and advice concerning the economic and investment outlook and to update the Board as to the Investment Manager's current and future investment strategy. Investment Manager shall be available to answer questions by the Board from time to time as needed, without charge.
- (b) The Board shall instruct the Custodian to provide the Investment Manager with periodic reports concerning the status of the Assets, and with such other information as the Investment Manager may reasonably request from time to time.
- (c) Within ten (10) calendar days from month end, the Investment Manager shall provide the Board with reports concerning the status of the Assets. Reports shall include but not be limited to, a daily acquisition and disposition report, a monthly transaction summary, a monthly statement of changes to cash, a monthly statement of changes in net assets, a monthly statement of assets as of month end reflecting cost and fair market value, and monthly and quarterly statements of asset performance. The performance reports shall provide performance over various standard periods, attribution analysis, and a commentary. Also by the tenth calendar day the Investment Manager shall reconcile the monthly asset holdings statement to the statement from the Custodian and resolve all discrepancies. A report reconciling the managers accounting records to those of the Custodian shall be forwarded to the Board monthly. All accounting type reports shall use historical average cost as a basis for carrying value. The Investment Manager represents that it has in place and has complied with processes and controls that are reasonably designed to ensure the accuracy of the reports provided hereunder.
- (d) The Investment Manager shall keep accurate and detailed accounts of all investments, receipts, disbursements, and other transactions hereunder, or any broker fee, commission or payment made or received with respect thereto. Investment Manager shall maintain those records for a period of at least three (3) years after the stated term of this Agreement. At any time during normal business hours, the Board or its designated auditors or accountants may inspect upon reasonable notice any such record during the period of mandatory retention. The Board shall provide the Investment Manager with five (5) business days notice of its intention to make an inspection as described herein.

6. PUBLIC INFORMATION:

The Board and its investments are subject to the provisions of California's Public Records Act. All public inquires for information shall be directed to the Board's Chief Executive Officer (CEO) for response in a manner consistent with the CEO's duties as a fiduciary. The parties agree that information which may affect the outcome of an investment decision will not be disclosed until it is appropriate to do so. All official inquires from regulatory agencies shall be directed to the Investment Manager for response as the Board's registered investment advisor.

7. SERVICES TO OTHER CLIENTS:

- (a) The Investment Manager may act and continue to act as an investment manager for others and nothing in this Agreement shall in any way be deemed to restrict the right of the Investment Manager to perform investment management or other services for any other person or entity, and the performance of such services for others shall not be deemed to violate or give rise to any duty or obligation of the Board.
- (b) Nothing in this Agreement shall limit or restrict the Investment Manager or any of its officers, affiliates or employees from buying, selling or trading in any securities for its or their own account or other accounts. The Board acknowledges that the Investment Manager and its officers, affiliates and employees, and its other clients may at any time have, acquire, increase, decrease or dispose of positions in investments which are at the same time being acquired or disposed of under this Agreement. The Investment Manager shall have no obligation to acquire with respect to the Assets a position in any investment which the Investment Manager, its officers, affiliates or employees may acquire for its or their own accounts or for the account of another client, if in the sole discretion of the Investment Manager, it is not feasible or desirable to acquire a position in such investment under this Agreement.
- (c) Nothing in this section shall be construed to relieve the Investment Manager of any of its duties or obligations as set forth in or arising under other provisions of this Agreement.

8. FEE AGREEMENT:

The compensation of the Investment Manager for its services rendered hereunder shall be payable in accordance with the provisions of Exhibit C hereto. This shall constitute the sole investment advisory fees payable by the Board by reason of the Investment Manager's services under this agreement.

9. REPRESENTATIONS OF MANAGER:

The Investment Manager expressly acknowledges, represents, warrants and agrees that:

- (a) It is registered in good standing as an investment advisor under the Investment Advisers Act of 1940 and has provided the Board with Form ADV, Parts I & II and will provide the Board with updates to Form ADV, Parts I & II. Investment Manager shall immediately notify the Board if at any time during the term of this agreement it is not so registered or if its registration is suspended.

- (b) It has completed, obtained or performed and, when required, will complete obtain or perform all registrations, filings, approvals, authorizations, consents or examinations required by applicable law (or any government or governmental authority) for the performance of the acts contemplated by the Agreement and, during the term of the Agreement, it shall comply with all existing, new or amended statutes of the United States (and any other government or governmental authority) having jurisdiction over the Investment Manager's activities which are applicable to its performance under the Agreement.
- (c) It has, by appropriate corporate (or other) action, duly authorized the execution and implementation of the Agreement; such authorization or execution does not violate any obligation by which the Investment Manager is bound or any applicable law; and the Agreement has been executed on behalf of the Investment Manager by a person (or persons) authorized to transact business on behalf of the Investment Manager in accordance with its terms.
- (d) It is ready and able to carry out the provisions of this Agreement, the personnel responsible for carrying out the Investment Manager's responsibilities under this Agreement are individuals experienced in the performance of the various functions contemplated by the Agreement, the necessary internal controls as well as an internal control review process are in place and a bond has been obtained, which provides the Assets with protection against fraud or dishonesty (either directly or through connivance with others) on the part of the Investment Manager, its officers, directors, employees.
- (e) The personnel of the Investment Manager who will be responsible for providing services pursuant to this Agreement have not, to the best knowledge of the Investment Manager, been convicted of any crime or found liable in a civil or administrative proceeding or pleaded *nolo contendere* or agreed to any consent decree with respect to any matter involving breach of fiduciary duty, fraud or securities law violations.
- (f) It shall defend and hold the Board harmless from and indemnify the Board against any and all liability, loss, damages, court costs or reasonable expenses (including reasonable attorneys' fees) which the Board may incur or suffer under applicable law as a direct result of any breach by the Investment Manager of its fiduciary responsibility with respect to the Assets or the breach by the Investment Manager of any of the acknowledgments, representations, warranties or agreements made in this Agreement or as otherwise provided herein. Investment Manager shall have no obligation to indemnify the Board arising out of any action of any person or entity other than Investment Manager (including any custodian, broker-dealer or other agent of *SamCERA* or the Board.)
- (g) It shall notify the Board within seventy-two (72) hours in the event that any of the acknowledgments, representations, warranties and agreements shall no longer be true.
- (h) It shall notify the Board in writing within seventy-two (72) hours of any changes in executive management and in key personnel within the organization.
- (i) It shall advise the Board within seventy-two (72) hours in the event of the bankruptcy,

insolvency, or any material change in control of, or corporate form of the Investment Manager.

- (j) It shall advise the Board in writing within seventy-two (72) hours of any complaints or disciplinary actions filed against it, or any investment professional employed by it, who has performed any service with respect to the Board's account in the twenty-four (24) preceding months, by the Securities and Exchange Commission of the United States, the New York Stock Exchange, the American Stock Exchange, the National Association of Securities Dealers, any Attorney General or any regulatory agency of any state of the United States, any department or agency of the Government of the United States or by any governmental agency regulating securities of any Country in which Investment Manager or a subsidiary or affiliate is doing business.
- (k) It shall notify the Board on a quarterly basis of total assets under management of all accounts in the same investment performance composite as the Assets and report on the availability of capacity.
- (l) It shall not limit the Board's ability to increase its Assets under management with the Investment Manager, notwithstanding any capacity constraints that may be imposed on other investors.
- (m) It is bonded for the protection of the Board. The Investment Manager will provide and maintain at its own expense during the term of this Agreement program(s) of insurance covering its operations herein in accordance with industry standards and as incorporated as Exhibit B. Such insurance (i) will be primary to and not contributing with any other insurance maintained by Board and/or the County of San Mateo for claims arising from Investment Manager's provision of services hereunder, and (ii) will be provided by insurer(s) rated A-X or better by A.M. Best & Company or otherwise approved in writing by the Board. Evidence of such insurance, in a form reasonably satisfactory to the Board, will be delivered upon execution of this agreement and in April of each subsequent year. Such evidence will be accompanied by a written statement from the insurer that Board be given thirty (30) days written notice in advance of termination of any policy of insurance, except for non-payment of the premium where ten (10) days will apply. Such insurance shall include General Liability Insurance, Workers' Compensation, Professional Liability Insurance (Errors and Omissions) and Bonds/Crime Insurance. Investment Manager shall immediately notify the Board of any changes in the bond or insurance coverage.
- (n) The foregoing acknowledgments, representations, warranties and agreements are understood to be relied upon by the Board, and, at the request of the Board, the Investment Manager will furnish such evidence as may reasonably be requested by the Board that such acknowledgments, representations, warranties and agreements continue to be true.

10. REPRESENTATIONS OF THE BOARD:

The Board expressly acknowledges, represents, warrants and agrees that:

- (a) The Board has by appropriate action duly authorized the appointment of the Investment Manager and the execution and implementation of the Agreement, which has been executed on behalf of the Board by a person (or persons) authorized to do so and, at the request of the Investment Manager shall deliver such evidence of such authority as the Investment Manager shall reasonably request.
- (b) True and complete copies of each amendment to *SamCERA's* Investment Plan shall be delivered to the Investment Manager as immediately as practicable after the adoption thereof.
- (c) If another entity should be substituted as the Custodian of the Assets, the Investment Manager shall be notified of such substitution and the substituted entity will thereafter be deemed to be the Custodian for purposes of the Agreement.

11. AMENDMENT AND TERMINATION:

- (a) No provision of this Agreement may be changed, altered, amended or waived except by written instrument executed by the parties.
- (b) The Agreement is in full force and effect as of the date of signatures and shall continue for a term of three (3) years or until modified or terminated by either party.
- (c) The Board reserves the right to terminate the Agreement without cause at any time by giving the Investment Manager written notice by registered mail sent at least thirty (30) calendar days prior to the date on which termination is to become effective.
- (d) The Investment Manager reserves the right to terminate the Agreement without cause at any time by giving the Board written notice by registered mail sent at least one hundred twenty (120) days prior to the date on which termination is to become effective.
- (e) Any termination notice given by either party shall not affect or preclude the consummation of any transaction initiated prior to the receipt by one party of the other's termination notice, or, if the Investment Manager continues to act in accordance with its fiduciary obligations under this Agreement, any transaction initiated during the period during which the Investment Manager so continues to act.
- (f) Following notice of termination, Investment Manager shall (i) cooperate fully with the Board in securing the Assets; (ii) deliver all funds, property, books, records, and documents of *SamCERA* in Investment Managers safekeeping to third parties designated by the Board and after such delivery, Investment Manager shall have no further

investment management responsibility for the Assets; (iii) submit a full accounting of the Assets within forty-five days of the effective date of termination; and (iv) provide reasonable assistance in effecting the orderly transition of the Assets.

12. NON-ASSIGNABILITY:

This Agreement shall not be assigned by either party without the prior written consent of the other party.

13. PROXIES:

The Investment Manager shall provide the Board every quarter, a written report with respect to the voting of Proxies by Investment Manager on behalf of the Board. The Investment Manager shall provide such additional reports to the Board concerning the voting of Proxies as shall be reasonably requested. Notwithstanding Section 18.3 of the Plan, the Investment Manager is permitted to vote proxies in accordance with the manager's Proxy Voting Procedures (a copy of which can be supplied to the board upon request), provided such procedures are not inconsistent with Section 18.1 of SamCERA's Investment Policy

The Investment Manager shall not be obligated to take any action or render advice involving legal action on Board's behalf with respect to the Assets that become subject to any legal notices or proceedings, including securities class actions and bankruptcies. The Board retains the right to proceed directly as a security holder against the issuer of any of the Assets

14. NOTICES:

Notices provided pursuant to this Agreement shall be in writing and may be delivered personally or by registered, certified mail or any acceptable overnight carrier. In the event a notice is given by facsimile it must be followed by a written notice delivered pursuant to the above means. Notices will be effective upon receipt or rejection thereof, to the following addresses:

(a) To the Board:

Board of Retirement
San Mateo County Employees' Retirement Association
100 Marine Parkway, Suite 125
Redwood Shores, California 94065-5802
Attention: Chief Executive Officer

(b) To the Manager:

Jennison Associates
466 Lexington Avenue 18th Floor
New York, New York 1007
Attention: Mehdi A. Mahmud, Managing Director
Facsimile: (212) 661-3189

With a copy to (at the address set forth above):

Attention: Legal Department
Facsimile: (212) 682-9831
E-mail: legaldepartment@jennison.com

or to such other addresses as either of the parties shall subsequently furnish in writing by notice to the other party.

15. CONSTRUCTION AND INTERPRETATION:

This Agreement contains the entire agreement of the parties. No other agreement, statement, or promise made on or before the effective date of this agreement will be binding on the parties. This agreement may be modified by subsequent agreement of the parties only by an instrument in writing signed by both of them. If any provisions of this agreement is held in whole or in part to be unenforceable for any reason, the remainder of that provision and of the entire Agreement will be severable and remain in effect.

16. TITLES:

The titles set forth in the Agreement are for convenience only and shall not be considered as part of the Agreement in any respect, nor shall they in any way affect the substance of any provisions contained in the Agreement.

17. INUREMENT:

The Agreement shall inure to the benefit of the Board and its successors and assigns.

18. PLACEMENT AGENT POLICY:

The Investment Manager confirms that no placement fees have been paid by Jennison Associates or any affiliate in connection with the investment made by the Investor on or about the date hereof. The Investment Manager acknowledges that it has received the Investor's Placement Agent Disclosure Policy, adopted pursuant to the California Government Code, and attached hereto as Exhibit D, and agrees to comply with this policy. The Investment Manager further acknowledges that it has provided the information required by the Placement Agent Disclosure Policy (the "Information"). The Investment Manager represents and warrants to the accuracy of the Information provided. If any Information provided by the Investment Manager changes, the Investment Manager agrees to update *SamCERA* within 30 calendar days of the date that the Investment Manager knew or should have known of the change in Information.

19. LITIGATION:

If the Investment Manager or the Board commences litigation against the other party arising out of this Agreement, the prevailing party shall be entitled to recover its reasonable attorney's fees in addition to any other damages.

20. APPLICABLE LAW:

This Agreement shall be governed by, construed, regulated and administered in accordance with the applicable Federal laws and, to the extent that Federal laws are not applicable, the laws of the State of California. Any action brought to enforce the terms of this Agreement shall be brought in United States District Court located in the County of San Francisco or Superior Court of the State of California located in the County of San Mateo.

IN WITNESS WHEREOF, the parties hereto have executed the Agreement effective the date first herein written

Jennison Associates

**San Mateo County Employees'
Retirement Association**

By: _____

By: _____

Name: _____

Name: Al David

Title: _____

Title: Chair

EXHIBIT A
INVESTMENT POLICY

SamCERA's Investment Policy

Approved By the Board of Retirement

As Revised January 2008

As Attached

EXHIBIT B

PROGRAM(S) OF INSURANCE

1. COMMERCIAL GENERAL LIABILITY

Such Commercial General Liability insurance will be primary to and not contributing with any other insurance maintained by SamCERA and/or the County of San Mateo for claims arising from the Manager's provisions of service hereunder. Such insurance provides coverage liability to members of the public arising out of premises and operations including Completed Operations, Personal Injury, Blanket Contractual, Broad Form Property Damage and Host Liquor with a per occurrence limit and per location limit of two million dollars (\$2,000,00) per occurrence and four million dollars (\$4,000,000) aggregate.

2. WORKERS' COMPENSATION

A program of Workers' Compensation Insurance with statutory limits and Employers Liability with limits of two million dollars (\$2,000,000) per accident will be secured protecting all Investment Manager employees, including all persons providing services by or on behalf of Investment Manager.

3. CRIME COVERAGE

A Commercial Crime Policy with the following insuring agreements and limits (i) three million dollars (\$3,000,000) Employee Dishonesty Coverage-Form, (ii) three million dollars (\$3,000,000) Depositors Forgery Coverage, (iii) three million dollars (\$3,000,000) Computer Theft Coverage.

4. PROFESSIONAL LIABILITY/ERRORS AND OMISSIONS

A Professional Liability Policy covering Investment Manager's employees and agents of not less than ten million dollars (\$10,000,000).

EXHIBIT C

EQUITY INVESTMENT OBJECTIVES, GUIDELINES, RESTRICTIONS AND FEE AGREEMENT

The following investment objectives, guidelines, and restrictions shall apply to the portfolio (the "Portfolio") of the San Mateo County Employees' Retirement Association (hereinafter referred to as the "Board") that is managed by Jennison Associates, LLC ("IM").

Investment Objectives

The Portfolio shall be treated as a tax-exempt portfolio. As a result, the tax consequences of individual transactions shall not be considered as part of IM's purchase and sales decisions.

The primary objective of the portfolio will be growth through long-term capital appreciation. Current income will be considered only as part of total return, and will not be emphasized. Acceptable risk levels will be maintained. Within the parameters of the Investment objectives, the allocation of funds between equities and the equity reserve shall be determined by the judgment of the investment manager after taking into consideration the fundamental economic and investment environment, an appraisal of individual company prospects, and relative stock valuation levels which would pertain to these prospects. IM may make changes in equity allocation if it thinks it is prudent to reduce exposure. Additional considerations governing equity investments shall include:

- A. Exceed the Russell 2000 Index over a market cycle. *SamCERA's Investment Policy* defines underperformance as:
 - (1) Four cumulative quarters in which the manager's performance (gross of fees) falls below the style based benchmark return times 0.8 (for example, if the benchmark return is 10%, the manager's return would be less than 8.0%). Or
 - (2) Performance (gross of fees) below the 50th percentile for equity managers and 60th percentile for fixed income managers in a universe of the managers' peers over any consecutive 8-quarter period. Below median performance on a risk adjusted basis will also be a guiding tool in the evaluation of the investment manager.
 - (3) 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, subject to the paragraph above which discusses interim progress toward multi-year objectives. Or
 - (4) Performance will be evaluated in light of the manager's stated style and discipline.
- B. Reasonable diversification among industries and companies should be maintained, subject to reasonable limitations on the number of total holdings. Notwithstanding Section 10.3.a.2 of the Plan, the investment manager is permitted to utilize the Global Industry Classification Standard (GICS) in order to monitor the diversification of the various industries in which the Assets may be invested.
- C. Investments in the following types of securities are specifically permitted:
 1. Domestic equity securities that are publicly traded;

2. Securities of foreign issuers that are traded publicly in the United States, either on an exchange or over-the-counter;
3. Securities issued in initial public offerings;
4. 144A securities (to the extent permitted by Rule 144A);
5. American Depository Receipts (listed and unlisted); and
6. To the extent that IM believes a cash reserve is appropriate, Treasuries and other high quality debt instruments that have an expected maturity of five years or less.

Specific Restrictions

- A. Investment Activity in the following is prohibited;
 1. Short sales;
 2. Letter stock or private placements (except to the extent permitted above);
 3. Margin purchases; and
 4. Commodities.

Fees

A. The fees shall be payable to the Investment Manager at the completion of each calendar quarter. Such fees will be one-quarter of the Annual Management Fee Schedule (or pro-rated portion for a period of time less than a calendar quarter) computed on the market value of the Assets as determined by the Custodian as of the end of each quarter for which such fee is paid, using an average of the end of month values for the three months comprising the quarter.

B. Annual Management Fee Schedule:

Value of Securities and cash	Fee
On the first \$50 million	0.90 %
On the next \$50 million	0.70 %
On the next \$100 million	0.60 %
On the next \$200 million	0.50 %
On the balance	0.45 %

C. If, during the term of this agreement, the Investment Manager should agree to charge any other institutional client a fee schedule lower than the fee schedule set forth in this Exhibit C, which, in the Investment Manager's good faith judgment, is substantially similar to the Assets in terms of size, investment objectives and guidelines, investment techniques used, method of fee calculation and degree of services provided (excluding subadvisory and multiple account relationships), the Investment Manager shall promptly offer the lower fee schedule to the Board with respect to the Assets. It is understood that, for purposes of the preceding sentence a performance-based fee schedule shall under no circumstances be considered similar to the fee schedule set forth above.

Jennison Associates, LLC

San Mateo County Employees' Retirement Association (Board)

By:

**By: Al David
Chair**

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

March 29, 2011

Agenda Item 6.4

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Initial rewrite of *SamCERA*'s Investment Policy

STAFF RECOMMENDATION: Staff recommends that the Investment Committee review *SamCERA*'s current Investment Policy and proposed future outline and begin work rewriting the Policy.

COMMENT: The Investment Committee's work plan calls for an annual review of *SamCERA*'s Investment Policy. *SamCERA*'s Investment Policy was last reviewed in July 2008. Today's agenda item is intended to be a "high level overview" and the initial step of a structured "in depth" policy rewrite.

Attached to this agenda item are *SamCERA*'s current Investment Policy and a draft outline for the future policy. The Investment Committee will work with both and begin a rewrite of the entire policy.

SamCERA's Investment Policy

Part One

POLICY PERSPECTIVES

1.0 INTRODUCTION

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. 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.*

Appendix A is a chronological account of *SamCERA's* investment program since 1981.

2.0 ACTUARIAL LIABILITIES

- Under GASB 25, investments are stated at fair market value instead of cost and include the recognition of unrealized gains and losses in the current period. These gains and losses are held in the Market Stabilization Account, an account established in 1996, as recommended by William M. Mercer, *SamCERA's* actuary. Initially, these gains and losses were only allocated to the Market Stabilization Account until the actual gains and losses were realized by the sale of the investment asset. However, with the implementation of the five-year smoothing methodology, a portion of these unrealized gains and losses is recognized and allocated to all other reserves.

To prevent the smoothed value from deviating significantly from the actual market value, the Board of Retirement adopted a policy in 2002 that the smoothed value cannot be less than 80% nor greater than 120% of market value. If the smoothed value is greater than 120%, then the market losses (or market gain if less than 80%) have to be recognized immediately.

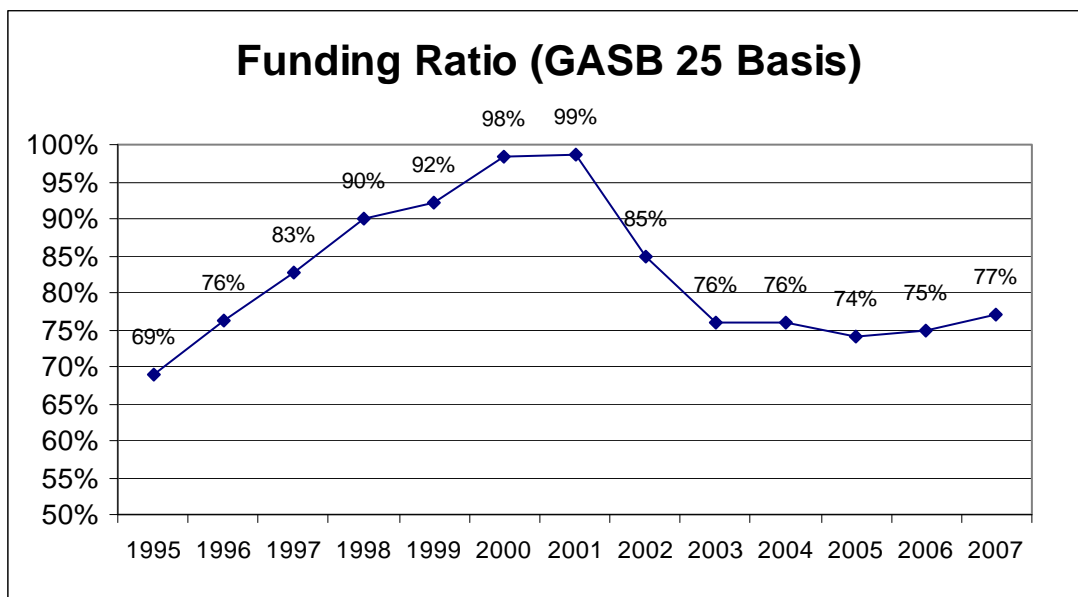
- A schedule of funding progress presents a consolidated snapshot of a retirement system's ability to meet current and future liabilities with the assets of the plan. Of particular interest to most is the funded status ratio. This ratio quickly conveys a retirement system's level of assets to liabilities, which is important in determining the financial health of a retirement system. The closer a retirement system is to a 100% funded status, the better position it will be in to meet all of its future liabilities. *SamCERA* currently has an unfunded actuarial accrued liability (UAAL), resulting from actuarial accrued

liabilities (AAL) exceeding the actuarially determined value of assets. *SamCERA* is funding the UAAL over a 20-year amortization period, which began July 1, 2002.

- In this environment, it is essential that the retirement fund be fully diversified across the full-range of institutional investment grade assets and that opportunities to achieve capital appreciation be pursued and captured. It continues to be critical for the board to focus on optimizing investment return vs. risk.

SamCERA's Funding Ratio History

June 30 th	Actuarial Value of Assets/ Actuarial Accrued Liability (GASB 25)
2007	77.4%
2006	75.4%
2005	74.2%
2004	75.6%
2003	76.0%
2002	85.3%
2001	98.6%
2000	98.4%
1999	92.0%
1998	89.9%
1997	82.6%
1996	75.6%
1995	68.9%
1994	67.3%



3.0 ACCEPTABLE RISK

SamCERA adheres to the twenty recommendations of the Risk Standards Working Group (See Appendix B) that are appropriate for a pension fund with *SamCERA*'s profile.

A prudent fiduciary wants to sleep well at night. "Sleeping well" can be articulated as one's comfort level in the face of an uncertain future. The board has defined its comfort level as an annualized tracking error of $\pm 3\%$ around the aggregate target rate of return. "Tracking error" means the excess standard deviation of return between the actual performance of the fund and the performance of the aggregate target benchmark. This level of conservatism is in line with other public pension plans of comparable size. *SamCERA*'s actuarial realities require that the board confront the challenges before it. To the fullest extent possible, this investment policy incorporates the concerns of each of *SamCERA*'s nine trustees. The risk-adjusted return assumptions behind this investment policy represent the best thinking of experts in the various asset classes, tempered by the trustees' contributions to each element of the policy.

The adopted asset allocation set forth in Section 8.0 encompasses the board's conclusions regarding the proper mix of assets to minimize risk for the targeted rate of expected returns. The mix of asset classes and styles outlined in the asset allocation defines the aggregate target benchmark for the entire plan. This "aggregate target" has its own risk/return profile, which over the long run is appropriate for the San Mateo County Employees' Retirement Association.

Historical analysis indicates that for the vast majority of pension funds, the asset allocation decision is the single most important decision that trustees can make. The asset allocation decision is likely to predetermine as much as 90% of a portfolio's real return.*

Consequently, the board conducts periodic asset liability modeling studies, which evaluate the expected returns vs. expected risk of each asset class and then generate a series of potential optimum portfolios along the efficient risk/return frontier. The most recent study was accepted by the board in January 2007.

STRATEGIC INVESTMENT SOLUTIONS PROJECTED PORTFOLIO EXPECTATIONS

Portfolio	Return	Standard Deviation	Cash	Large Stocks	Small Stocks	Intern'l Stocks	Real Estate	US Bonds		Total Equity
<i>Prior</i>	8.02	10.77	0	40	10	15	6	29		65
Projection A	7.89	10.15	0	33	8	18	7	34		66
CURRENT	8.13	11.24	0	37	9	21	6	27		67
Projection C	8.24	11.74	0	39	10	22	5	24		71

Return	3.5	8.4	9.0	8.8	6.3	5.5	
Standard Deviation	1.3	14.5	22.0	19.2	10.0	5.8	

* *Determinants of Portfolio Performance II: An Update*, Gary P. Brinson, Brian D. Singer and Gilbert Beebower, *Financial Analysts Journal*, May/June 1991. The article is an update of an earlier study by Gary P. Brinson, L. Randolph Hood and Gilbert Beebower that was published in the July/August 1986 issue of the same journal.

Reverse Optimization Allocation Analysis

SamCERA's Portfolio Asset Allocation
Accepted January 23, 2007

Asset Class	Former	Current
Large Cap Equity	40	37
Small Cap Equity	10	9
International Equity	15	21
Domestic Bonds	29	27
Real Estate	6	6
Expected Return	7.81	8.13
Expected Risk	11.56	11.24

4.0 INVESTMENT PHILOSOPHY

4.1 The board acknowledges the historical data demonstrating that the most successful strategy for minimizing risk, while capturing market returns, is a prudently diversified portfolio.

4.2 Therefore, the retirement fund should be invested across the spectrum of institutional grade Asset Classes.

4.3 The board acknowledges that the asset allocation targets reflect a long-term view of the market.

4.4 The board acknowledges that professional management of the retirement fund is expected to add value to the portfolio, by capitalizing on inefficiencies in the markets.

4.5 The board takes responsibility for allocating across asset classes and across styles within asset classes, but does not substitute its judgment for the professional judgment of those managers it retains.

4.6 The board believes that interest, dividends and capital appreciation must be pursued and captured, if the actuarial funding objectives of the retirement fund are to be achieved.

4.7 The board is not a market-timer (shifting asset class allocations dramatically over short time spans), because it realizes this strategy is seldom successful and has the potential for dramatic losses and opportunity costs.

4.8 The board views short-term cash equivalents as insignificant contributors to real returns in the long run.

4.9 The board is responsible for keeping the lines of communication open and the *Investment Policy* on target.

Part Two

PORTFOLIO MANAGEMENT

5.0 INVESTMENT POLICY

It is the Investment Policy of the Board of Retirement to:

- 5.1 Pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes, as provided for in Section 7 of this Investment Plan.
- 5.2 Adopt an asset allocation target to guide the structure of the investment portfolio, as provided for in Section 8.
- 5.3 Reevaluate the asset allocation study at least once every three-years, except as provided for in Section 17.
- 5.4 Retain the most qualified investment managers with demonstrated expertise in the management of institutional pension funds, as provided for in Part Three.
- 5.5 Delegate full discretion to each investment manager, to the extent authorized in Parts Three & Four.
- 5.6 Adopt objectives which encourage the investment managers to maximize their performance, within acceptable risk parameters, relative to their individual investment style benchmark, as set forth in Part Three.
- 5.7 Refrain from dramatically shifting asset class allocations over short time spans.
- 5.8 Discourage the use of cash equivalents, except for liquidity purposes, as provided for in Part Three.
- 5.9 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 16.

6.0 INVESTMENT OBJECTIVES

6.1 It is the **Primary Investment Objective** of the board to structure an investment program such that the short term volatility of returns does not induce the board to alter its long term asset allocation strategies.

In keeping with the aforementioned, the following specific objectives are established:

- 6.1.1 Generate portfolio returns that, over the long-term, exceed the actuarial interest assumption of 8.00%, net of fees.
- 6.1.2 Generate a total fund return equal to or greater than the aggregate return of the asset allocation Target benchmarks.
- 6.1.3 Provide for the full funding of the Pension Benefit Obligation by the year 2022 based on GASB 25.
- 6.2 It is the **Secondary Investment Objective** of the board to stabilize the employer contribution rate, as a percentage of payroll for the present configuration of benefits.
- 6.3 It is the **Tertiary Investment Objective** of the board to generate total time-weighted rates of return which equal or exceed the benchmark indices, for the asset class assigned to the individual manager, as specified in the contract (net of fees in the case of active managers):

ASSET CLASS	BENCHMARK INDEX
Large Capitalization Domestic Equity	Russell 1000
Small Capitalization Domestic Equity	Russell 2000
International Equity	MSCI All Country World Free ex US
Domestic Fixed Income	Lehman Aggregate
Core Plus Fixed Income	Lehman Aggregate
Real Estate	NCREIF

6.4 The board's policy regarding investment benchmarks and investment benchmark modifications appears in Appendix E.

7.0 INVESTMENT STRATEGY

The investment strategy of the Board of Retirement seeks to:

7.1 Diversify the fund in a manner which minimizes the risk of loss and maximizes the probability of achieving the investment objective;

7.2 Structure an asset allocation based on the long-term historical behavior of asset classes coupled with assumptions regarding the next three to five years.

7.3 Allocate the assets of the fund cost-efficiently by distinguishing a "passive" and an "active" component, as set forth in Section 8.

7.4 Establish performance objectives (specifically tailored benchmarks) & Guidelines for each investment management style, as set forth in Part Three.

7.5 Retain investment managers representative of the relevant and distinct investment management styles within each asset class, as set forth in Part Three.

7.6 Delegate responsibility for attaining the investment performance objectives to investment managers.

7.7 Monitor the performance of the investment managers to assure compliance with the Investment Policy and attainment of their performance objectives, as set forth in Section 16.

7.8 Rebalance the component portfolios, as set forth in Section 20.

7.9 Evaluate the asset allocation target at least once every three years, except that the board may adopt an annual investment strategy, as set forth in Section 17.

8.0 ASSET ALLOCATION

In the overall development of the asset allocation and manager structure policies of the investment plan, the Board of Retirement shall follow these philosophies:

- The overall active manager structure for domestic equities will not possess any significant biases in terms of investment style, and
- For those asset classes evidencing market efficiencies, the manager structure will favor the employment of passive strategies

8.1 The Assets of the Fund shall be allocated, as follows:

ASSET CLASS	ALLOCATION	REBALANCE RANGE
Equity (Stocks)	67%	±3%
Fixed Income (Bonds)	27%	±2%
Real Estate *	6%	±2%

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

8.2 The Equity Assets shall be allocated to managers reflecting the following investment styles:

EQUITY MANAGEMENT STYLE	ALLOCATION	REBALANCE RANGE
Large Capitalization Domestic	37.00%	
Core	7.40%	±3%
Core Enhanced	29.60%	±3%
Small Capitalization Domestic	9.00%	
Core Enhanced	4.50%	±3%
Growth	2.25%	±3%
Value	2.205%	±3%
International	21.00%	
Core Growth	10.50%	±3%
Core Value	10.50%	±3%
TOTAL EQUITY	67.00%	±3%

8.3 The Fixed Income Assets shall be allocated to managers reflecting the following investment styles:

FIXED INCOME MANAGEMENT STYLE	ALLOCATION	REBALANCE RANGE
Active	27.00%	±2%
TOTAL FIXED INCOME	27.00%	±2%

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

REAL ESTATE MANAGEMENT STYLE	ALLOCATION	REBALANCE RANGE
Core Separate Account	6%	±2%
TOTAL REAL ESTATE *	6%	±2%

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

Part Three

INVESTMENT GUIDELINES

9.0 GENERAL INVESTMENT PERFORMANCE GUIDELINES

The overall performance objectives for the various asset classes are set forth in Section 6.3 of this document. The individual performance objectives for each investment manager will be established within the investment management agreement (IMA) with each firm.

The Board of Retirement 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. Investment managers are advised that the board intends to track the interim progress toward multi-year goals. If there is a clear indication that performance is so substandard and severe that reasonable hope of recovery to the Plan's target performance level in the remaining time horizon period would require either high risk or good fortune, then the board will not feel constrained by this policy to avoid an "early" decision to take corrective action.

9.1 MANAGER'S ADHERENCE TO ITS PUBLISHED INVESTING STYLE

As stated in other parts of this *Investment Plan*, the board will have little or no tolerance for an inconsistent investment approach. Therefore, the board will carefully monitor their investment managers on several key indicators of possible inconsistency, such as:

- (a) Changes in portfolio managers, and general personnel turnover.
- (b) Surges in portfolio trading volume.
- (c) Evidence that actual portfolio characteristics deviate from the published investing style.
- (d) Performance patterns not logically explainable in terms of the published style, or performance out-of-step with manager's style peer group. This situation would cover significant performance deviation from the benchmark.
- (e) Material *Investment Plan* or guideline exceptions.

None of these indicators will be taken as conclusive evidence of inconsistency. Such a finding would be based upon the facts and circumstances of each situation.

9.2 UNDERPERFORMANCE IS DEFINED AS EITHER:

- (a) Four cumulative quarters in which the manager's performance (gross of fees) falls below the style based benchmark return times 0.8 (for example, if the benchmark return is 10%, the manager's return would be less than 8.0%). Or
- (b) Performance (gross of fees) below the 50th percentile for equity managers and 60th percentile for fixed income managers in a universe of the managers' peers over any consecutive 8-quarter period. Below median performance on a risk adjusted basis will also be a guiding tool in the evaluation of the investment manager. Or
- (c) 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, subject to the paragraph above which discusses interim progress toward multi-year objectives. Or
- (d) Performance will be evaluated in light of the manager's stated style and discipline.

9.3 THE BOARD'S EVALUATION

The board will evaluate any manager who fails to comply with the general terms and conditions of this Investment Plan and specifically the above issues. The board understands that the dynamics of the markets can render a portfolio to be non-compliant with these investment guidelines. In such cases, the manager will be given 30 days to bring the portfolio back into compliance. In the case of underperformance and non-compliance an extensive review of the manager and its performance will be conducted. Expectations on the future likelihood of the manager's ability to meet the terms and performance goals will be determined. If the board determines the manager is unlikely (without undue risk or style drift) to meet the requirements, the manager will be terminated.

In the case of material guideline exceptions, each occurrence will be evaluated on the merits. In most cases, the manager will be required to bring the portfolio into immediate compliance. However, the board is cognizant of those situations where, in the judgment of the investment manager, immediate compliance could prove detrimental to the return of the portfolio.

In the case of key professional turnover, the firm must show a depth of staff within the organization and be prepared to demonstrate the sustainability of their track record.

9.4 ACTION STEPS BY BOARD

The board may decide to review an investment manager or place same on the "watch list" for a number of reasons including but not limited to:

- (a) Sustained underperformance of any of the manager's goals;
- (b) Deviation from stated investment approach;
- (c) Failure to comply with all investment guidelines; or
- (d) Turnover of key professionals.

When a firm is reviewed, an intensive review of their process and approach will occur. The firm will be required to explain to the board or the board's representative reasons for such occurrences and be available for meetings with the board.

10.0 EQUITY

10.1 EQUITY PERFORMANCE OBJECTIVES: As set forth in Section 6.3 and within the individual investment manager's contract.

10.2 ACTIVE EQUITY INFORMATION RATIOS: The investment manager(s) retained for each active management style shall be accountable for maintaining positive information ratios consistent with their investment management style, as shall be defined in their individual contracts.

10.3 EQUITY GUIDELINES: The responsibility for securities selection and purchase and sale decisions is delegated to the equity investment managers in Section 15.4, *et seq.* Those managers, however, shall adhere to the following investment guidelines covering (a) diversification, (b) quality, (c) restricted transactions and (d) exemptions:

(a) Diversification:

10.3.a.1: No individual security shall constitute more than 10% of the market value of *SamCERA's* assets under a manager's supervision, nor shall *SamCERA's* investment constitute more than 5% of the

company's outstanding equity. When measuring this aspect of compliance the board will consider its ownership in relation to the “free float” of a particular security.

10.3.a.2: In evaluating the industry risk component of individual manager portfolios, the board will be cognizant of the industry structure of same. With the exception of any special equity portfolios, the board expects active managers to maintain a reasonable degree of portfolio diversification. Extreme industry deviations from a manager’s benchmark are subject to inquiry. Industry groups are defined by the North American Industry Classification System (NAICS).

(b) Quality

10.3.b.1: Securities must be traded on a major stock exchange or listed on the NASDAQ.

10.3.b.2: Securities in the international portfolio must be included within the Morgan Stanley Capital International database, or the *Financial Times* database.

(c) Restricted Transactions:

10.3.c.1: All transactions shall be consistent with the provisions of the Code of Fiduciary Conduct as set forth in Section 14 and the Delegation of Authority to Investment Managers as set forth in Section 15.3.

10.3.c.2: No funds shall be borrowed.

10.3.c.3: No short sales or margin sales shall be made.

10.3.c.4: No letter stock shall be purchased.

10.3.c.5: Futures and options may be utilized only as specified in the investment manager's contract.

10.3.c.6: Currency forward contracts, futures and options may be used to hedge an equity or fixed income portfolio as specified in the investment manager's contract and Appendix C.

(d) Exemptions: The investment manager must request prior approval from the Board of Retirement for permission to deviate from the provisions of these guidelines.

11.0 FIXED INCOME

11.1 FIXED INCOME PERFORMANCE OBJECTIVES: As set forth in Section 6.3.

11.2 ACTIVE FIXED INCOME INFORMATION RATIOS: The investment manager(s) retained for each active management style shall be accountable for maintaining positive information ratios consistent with their investment management style, as shall be defined in their individual contracts.

11.3 FIXED INCOME GUIDELINES: The responsibility for fixed income securities selection and purchase and sale decisions is delegated to the fixed income investment managers in Section 15.4, *et seq.* Those managers, however, shall adhere to the following investment guidelines covering (a) diversification, (b) quality, (c) restricted transactions and (d) exemptions:

(a) Diversification:

11.3.a.1: No individual security shall constitute more than 5% of the market value of *SamCERA's* assets under a manager's supervision, with the following exceptions: (1) no individual securities issued or guaranteed by a sovereign government included in the Lehman Aggregate or Lehman Global Aggregate Index or issued or guaranteed by such sovereign government's agencies or instrumentalities shall constitute more than 10% of the market value of the portfolio; (2) there are no limits on the use of securities issued or guaranteed by the United States government or its agencies or instrumentalities.

(b) Quality:

11.3.b.1: The minimum average rating of the total portfolio of fixed income assets under a manager's supervision must be "A" or better (Standard & Poor's or Moody equivalent), dollar weighted at market value.

11.3.b.2: The minimum quality rating eligible for the portfolio is "B" or better (as rated by Standard & Poor's or Moody's equivalent)

11.3.b.3: No more than 10% of *SamCERA's* fixed income assets under a manager's supervision shall be invested in securities with a rating below Baa3, BBB-, P-1 or A-1.

11.3.b.4: Eligible non-US fixed income securities are limited to those issued in countries utilized in the Salomon Brothers World Government Bond Index, with the following exception for emerging markets:

11.3.b.5: If a security is downgraded below Baa *or* BBB, the manager must notify the Investment & Finance Manager.

(c) Restricted Transactions:

11.3.c.1: All transactions shall be consistent with the provisions of the Code of Fiduciary Conduct as set forth in Section 14 and the Delegation of Authority to Investment Managers as set forth in Section 15.4, *et seq.*

11.3.c.2: No funds shall be borrowed.

11.3.c.3: No short sales or margin sales shall be made.

11.3.c.4: No tax-exempt security shall be purchased or retained, unless, on a comparable quality basis, it provides a return superior to that of a like taxable security.

11.3.c.5: No private placements shall be purchased without the prior notification of the Investment & Finance Manager & the Chair, with the exception of Rule 144(a) securities.

11.3.c.6: Currency forward contracts, futures and options may be used to hedge the non-US dollar fixed income securities as specified in the investment manager's contract and Appendix C.

(d) Exemptions: The investment manager must request prior written approval from the Board of Retirement for permission to deviate from the provisions of these guidelines.

12.0 REAL ESTATE PROPOSED

12.1 INVESTMENT OBJECTIVES: *SamCERA* has determined that over the long term, inclusion of equity real estate investments will enhance the risk/return characteristics of its portfolio. Real estate investments occur in an inefficient market and will be designed to provide returns in excess of the industry benchmarks. Active management, value creation and opportunistic strategies, as well as prudent use of third party debt, are approved methods of generating excess return. A secondary objective will be to improve the diversification of the overall investment portfolio.

12.1.a: Completion of due diligence entails staff, consultant, and counsel to review the investment structure and associated legal documents.

12.1.b: Investment structures will be monitored quarterly to evaluate investment performance and to ensure compliance with vehicle documents.

12.2 REAL ESTATE PERFORMANCE OBJECTIVES: The investment manager(s) retained by *SamCERA* shall be accountable for generating total time-weighted rates of return (TTWRR), net of fees, which equal or exceed, the NPI ("NCREIF Property Index").

12.3 REAL ESTATE GUIDELINES: The responsibility for real estate selection and purchase and sale decisions is delegated to the real estate manager(s) in Section 15.4, *et seq.* The manager, however, shall adhere to the following investment guidelines covering (a) diversification, (b) quality, (c) restricted transactions, (d) leverage, (e) special conditions, (f) annual plan and (g) exemptions.

(a) Diversification:

12.3.a.1: The board will employ a commingled fund vehicles account investment structure.

12.3.a.2: 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.

12.3.a.3: 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.

(c) Restricted Transactions:

12.3.c.1: All transactions shall be consistent with the provisions of the Code of Fiduciary Conduct as set forth in Section 14 and the Delegation of Authority to Investment Managers as set forth in Section 15.4, *et seq.*

12.3.c.2: No properties shall be purchased outside of the boundaries of the United States.

12.3.c.3: No single-purpose, specialized properties (e.g. hotels, medical facilities, land, etc.) shall be purchased unless the criteria are specified in the investment manager's contract.

(d) Leverage: The use of leverage is permitted only for the purpose of enhancing returns and is limited to no more than 30% of overall loan to value, with a target of 15% of the aggregate portfolio.

(e) Special Conditions:

12.3.e.1: The commingled fund vehicles shall include specific provisions governing reporting, due diligence, property valuations, property management, insurance, unrelated business income tax and property specific environmental evaluations and environmental liabilities.

12.3.e.2: No transaction shall be entered into that does not meet the unique compliance requirements outlined in the collective vehicle's private placement memorandum.

(f) Exemptions: The commingled fund vehicle manager(s) must request prior written approval from the Board for permission to deviate from the provisions of these guidelines.

(g) Annual Plan: The commingled fund vehicle manager(s) must provide the board with a strategic plan review on an annual basis. Some of the items to be provided in the annual plan include: (1) Organizational Review, (2) Leasing Status, (3) Operating Income, (4) Distributed Income, (5) Operating Expenses, (6) Capital Expenses, (7) Fees, (8) Buy/Sell Analysis by Property and (9) Strategy for Coming Year.

12.4 COMMINGLED FUND VEHICLE OVERSITE: The board has determined that engagement is the best course to implement change.

12.4.a. Whenever possible, *SamCERA's* Chief Executive Officer or delegate will secure a seat on the commingled fund vehicle's advisory committee and attend its meetings.

12.4.b. Whenever possible, *SamCERA's* Chief Executive Officer or delegate will attend the commingled fund vehicle's annual meeting.

13.0 ALTERNATE ASSETS

The Board of Retirement recognizes that its *Investment Policy* is evolutionary and that other asset classes will be considered in the future. Although non-traditional assets (with the exception of real estate) are not owned at this time, the board will not undertake investments in this arena without the development of a plan statement.

Part Four

CONTROLS

14.0 CODE OF FIDUCIARY CONDUCT

WHEREAS, Article XVI, §17 of the Constitution of the State of California was amended by the electorate 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 .. ; “ and

WHEREAS, Chief Judge Benjamin Cardozo, in 1928, set forth the standard for fiduciary conduct, as follows:

“A trustee is held to something stricter than the morals of the market place. Not honesty alone, but the punctilio of an honor the most sensitive, is then the standard of behavior. As to this there has developed a tradition that is unbending and inveterate. Uncompromising rigidity has been the attitude of courts of equity when petitioned to undermine the rule of undivided loyalty by the "disintegrating erosion" of particular exceptions. Only thus has the level of conduct for fiduciaries been kept at a level higher than that trodden by the crowd ... ; “ and

WHEREAS, the Political Reform Act of 1974 sets forth specific circumstances which require public officials to disqualify themselves from making, participating in, or attempting to influence governmental decisions which may affect any of their financial interests. Therefore, Be it

RESOLVED that the board hereby adopts the following Code of Fiduciary Conduct:

1. The trustees, chief executive officer, consultants, investment managers, other professionals retained by the board and *SamCERA* staff shall comply with the provisions of the California Constitution; the Political Reform Act of 1974, as amended; the Ralph M. Brown Act, relating to public meetings, as

amended; Government Code §1090, *et seq.*, as amended; and all other California laws pertinent to the conduct of public pension fund fiduciaries.

2. The trustees, chief executive officer, consultants, investment managers, other professionals retained by the board and *SamCERA* staff shall execute their duties as set forth in the County Employees' Retirement Law of 1937, as amended, 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.

3. The trustees will not authorize the making of any investment, which is not contemplated in *SamCERA's* Investment Plan. The Investment Plan may be amended at any properly noticed meeting of the board, but only after considering the written recommendations and comments of the chief executive officer, consultants and investment managers, which shall be promptly submitted upon request of the trustees.

4. The investment authority vested in the board shall not be delegated to any committees of the board, except by formal resolution. Such resolutions shall specify the limits of the authority delegated and require that all actions be reported to the board for approval.

5. Investment signature authority shall be limited to individuals identified by formal resolution, which shall specify the limits of the authority delegated and require that all actions be reported to the board for ratification.

6. Due diligence shall be completed prior to the execution of any board initiated investment transaction. Due diligence will be performed in accordance with established guidelines and procedures by persons with expertise relevant to the transaction under evaluation. The board's due diligence checklist is set forth in Appendix D.

7. Direct equity investments and other alternative asset investments shall be made only after considering the written recommendations and comments of the chief executive officer and consultants. Investments in this area shall be done only after the development and adoption of an alternative investment policy by the Board of Retirement.

8. In keeping with the provisions of the Government Code, a member or employee of the board shall not become an endorser, surety, or obligor on, or have any personal interest, direct or indirect, in the making of any investment for the board, or in the gains or profits accruing there from. These persons are prohibited from having any financial interest in any contract made by them in their official capacity and from making or influencing official decisions in which they have a financial interest.

9. Trustees, the chief executive officer, consultants, investment managers, other professionals retained by the board and *SamCERA* staff shall be accountable for recognizing a potential conflict of interest and for disqualifying themselves from making, participating in, or attempting to influence board decisions which may affect any of their financial interests. They shall disclose their potential conflict, either in writing to the Chairman of the Board, with a copy to all trustees and the chief executive officer, or during a noticed meeting of the board or its committees, and shall explain their conflict of interest and refrain from participating in any further deliberations on the matter.

10. The Board shall pursue all of its legal remedies against any who violate the provisions of this code.

15.0 DELEGATION OF AUTHORITY

15.1 THE BOARD SHALL:

(a) Discharge its duties in conformance with the Code of Fiduciary Conduct.

- (b) Make investment decisions in accordance with the adopted Investment Plan, or make properly noticed revisions thereto; and may adopt an annual investment strategy to amplify or clarify progress towards the attainment of the investment objectives, as set forth in Section 17.
- (c) Employ investment consultants and investment manager services, as needed, to ensure that the retirement fund is invested effectively and to safeguard the assets of the retirement fund; and may enter into agreements setting forth management and performance expectations.
- (d) Delegate to its investment managers full discretionary investment authority consistent with the provisions of the Investment Plan and the individual investment manager contracts.
- (e) Monitor the performance of its investment managers at least quarterly, as set forth Section 16.
- (f) Meet with its investment managers annually to review performance in accordance with the criteria set forth in Section 15 and manager specific issues identified by the board.
- (g) Dismiss investment managers who fail to perform acceptably in accordance with the terms of the contract or the applicable provisions of Sections 9, 10, 11,12 and 15.4. The decision to retain or dismiss a manager shall consider the evaluation criteria set forth in Section 9 and the recommendations of the investment consultant and the Investment & Finance Manager.

15.2 THE CHIEF EXECUTIVE OFFICER SHALL:

- (a) Discharge his duties in conformance with the Code of Fiduciary Conduct.
- (b) (i) Support the board in the development & approval of the Investment Plan, (ii) implement & monitor the Plan & (iii) report monthly on investment activity & other matters of significance.
- (c) Provide for the collection & investment of contributions & investment income, the disbursement of benefits & refunds, the payment of budgeted expenditures, the maintenance of accounting & internal control systems, the estimating & monitoring of retirement fund cash flows (including the management of all float & daily cash sweep accounts) & report on matters of significance.
- (d) Ensure that investment managers conform to the terms of their contracts and that the performance monitoring systems are sufficient to provide the board with timely, accurate and useful information.
- (e) (i) Provide for the voting of proxies, (ii) seek board guidance on nonfinancial issues & (iii) report on matters of significance.

15.3 THE INVESTMENT CONSULTANT SHALL:

Provide the board with relevant and timely information with respect to the total portfolio and the investment managers. Generally, the investment consultant will provide the following services for the board:

- (a) Assist the board in the development of the Investment Plan
- (b) Assist the board in the oversight, monitoring and selection of investment managers
- (c) Provide educational sessions and insights into recent developments within the financial markets
- (d) Provide quarterly investment performance reports

15.4 THE INVESTMENT MANAGERS SHALL:

- (a) Discharge their duties in conformance with the Code of Fiduciary Conduct, the Investment Plan and their individual contracts and be liable for any investment decision not made in accordance therewith. The members of the investment management firm's research and portfolio teams are expected to comply with the AIMR Standards of Practice and Code of Ethics. Any industry or regulatory disciplinary action taken against members of the firm's investment staff must be immediately reported in writing to the Board.
- (b) Provide the board with written agreement to invest within the guidelines established in the Investment Plan.
- (c) Provide the board with proof of liability and fiduciary insurance coverage upon the inception of the investment management agreement and annually thereafter.
- (d) Be SEC Registered Investment Advisors recognized by the Investment & Finance Manager as providing substantial years of demonstrated expertise in (i) the management of pension funds and (ii) an investment specialty.
- (e) Adhere to the investment management style concepts and principles for which they were retained, including, but not limited to, (i) develop portfolio strategy; (ii) perform research; (iii) develop buy, hold, and sell lists; (iv) purchase and sell securities; and (v) vote proxies as set forth in Section 18.
- (f) Execute all transactions for the benefit of the retirement fund with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the retirement fund.
- (g) Facilitate the recapture of commissions, on a best execution basis, on behalf of the fund when provided for in the contract. Managers are expected to exercise diligence when trading for the portfolio. The board will authorize any directed trading for the portfolio and such should not occur without the board's consent in writing. Managers are expected to follow the principles of best price and execution when conducting trades within the portfolio.
- (h) Define and adhere to a dollar-value or percent-of-market limit to the amount of assets the firm will manage under the investment style specified in the contract.
- (i) Provide a semi-annual compliance checklist to staff and the investment consultant that sets forth the status of all pertinent policy and guideline issues.
- (j) Maintain frequent and open communication with the Board of Retirement, through the Investment & Finance Manager, on all significant matters pertaining to the Investment Plan, including, but not limited to the following: (i) Inform the board of major changes in the investment manager's investment outlook, investment strategy and portfolio structure; (ii) inform the board of any significant changes in ownership, organizational structure, financial condition or senior personnel; (iii) inform the board of any changes in the portfolio manager assigned to the retirement fund; (v) inform the board of all pertinent issues which the investment manager deems to be of significant interest or material importance; (vi) provide the board with monthly transaction and valuation reports and quarterly performance reports, as specified in Section 15; (vii) meet with the board as specified in the contract. The investment manager is generally expected to inform the board, in writing, of any significant changes discussed above and any other changes that might impact the portfolio or the manager's ability to manage the portfolio. Such notification shall be done no later than 30 days from the date of the change or from the date of the manager's knowledge of the impending change and shall be submitted to Investment & Finance Manager and the board's consultant; (viii) report any discrepancies between the manager's portfolio accounting records and those received by the manager from the board's custodian.

15.5 THE GLOBAL CUSTODIAN SHALL:

- (a) Provide Global Custody Services.
- (b) Provide safekeeping for securities purchased by managers on behalf of the board.
- (c) Provide for timely settlement of securities transactions.
- (d) Maintain short-term investment vehicles for investment of cash not invested by the managers and sweep all manager accounts daily to ensure that all available cash is invested.
- (e) Collect interest, dividend and principal payments as soon as they become available.
- (f) Price all securities regularly and post transactions daily.
- (g) Pursuant to authority and direction from the board, manage a securities lending program to enhance income
- (h) Provide electronic access to accounting and performance reporting systems.
- (i) Provide monthly, quarterly and annual accounting reports for posting to the retirement fund's general ledger.
- (j) Provide other services, as required, that assist with the monitoring of managers and investments.

16.0 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:

16.1 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 and year, including updates from previous quarterly reports regarding adherence to the style for which the firm was retained;

16.2 Ability of the active manager to demonstrate consistently positive information ratios, including updates from previous quarterly reports regarding the firm's information ratios;

16.3 Growth in assets under management and how the firm plans to minimize the adverse impact which the additional assets will have on its investment discipline relative to the depth of the investment team and professionals, including updates from previous quarterly reports regarding assets under management;

16.4 Client retention, in terms of the names of tax-exempt clients, which terminate their relationship with the investment manager and the reasons given;

16.5 Changes in senior investment professional staff and how the firm plans to minimize the adverse impact the changes will have on its investment discipline, including updates from previous quarterly reports regarding personnel;

16.6 Quarterly, annual, three-and-five-year total time-weighted returns relative to the specified performance benchmark;

16.7 Performance attribution, direct and indirect transaction costs, and turnover;

16.8 Items which the manager has brought to the board's attention pursuant to Section 15.4(j).

17.0 ANNUAL INVESTMENT STRATEGY

17.1 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 funds. 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 9 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 the applicable sections of Part III and their individual contracts, and evaluate the relative success or failure of their prior year's performance;
- (c) Compare the fund's actual investment performance for the prior ten fiscal years against the actuarial assumptions and other actuarial expectations and evaluate the relative success or failure of the investment performance and the appropriateness of maintaining or altering the current actuarial assumptions and other actuarial expectations;
- (d) Compare the market-value-weighted percentages of the assets invested in each class of assets against the asset allocation targets set forth in Section 8 and evaluate the appropriateness of maintaining or altering the current allocation;
- (e) Evaluate the appropriateness of allocating additional assets to managers who have demonstrated rigid adherence to the investment discipline for which they were retained, but whose sector has lagged the market during the prior fiscal year;
- (f) Evaluate the fund's liquidity requirements for the current and next fiscal years;
- (g) Authorize the Investment & Finance Manager to prepare an annual investment strategy to implement the changes proposed by the board during its deliberations on Sections (a) through (f), for formal approval at a regularly scheduled meeting of the board.

17.2 The board may review and amend the annual investment strategy during its quarterly monitoring deliberations, as set forth in Section 16, so long as the amendments are approved during a regularly scheduled meeting of the board.

17.3 The Investment & Finance Manager shall inform all investment managers of actions taken by the board in connection with the annual investment strategy, and shall implement all necessary changes.

18.0 PROXIES

The Investment & Finance Manager shall provide for the voting of proxies by the investment managers, as set forth in Sections 15.2(e)(i) and 15.4(e)(v), subject to the following guidelines:

18.1 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.

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

18.3 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.

18.4 Unless the board provides specific direction, proxies concerning mergers, acquisitions, restructuring, reincorporation and changes in capitalization shall be voted as provided for in Section 18.1.

18.5 Unless the board provides specific direction, proxies concerning social, environmental, and political issues shall be voted as provided for in Section 18.1.

18.6 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.

18.7 Investment managers shall provide the board with quarterly reports on all proxies cast, in a mutually acceptable format.

19.0 SECURITIES LENDING

SamCERA reinstated a securities lending program Effective July 1, 2007, for the actively managed component of the portfolio. The board's standards with respect to this type of program are hereby promulgated within this document.

19.1 Pursuant to Section 15.5(g), the master custodian(s) 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.

19.2 The board reserves exclusive authority to approve the securities lending agreement prior to the commencement of securities lending activity.

19.3 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.

19.4 The Investment & Finance Manager shall be responsible for monitoring the securities lending program and recommending changes as appropriate.

20.0 REBALANCING

20.1 The Investment & Finance Manager shall rebalance the portfolio quarterly or as needed in conformance with the asset allocation tactical ranges set forth in Section 8. All rebalancing activity shall be reported to the board in writing at the next scheduled meeting.

20.2 The Investment & Finance Manager 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.

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

20.4 On a monthly basis, the Investment & Finance Manager shall prorate net positive cash flows, in increments of not less than \$1 million, to asset classes that are below the target allocation. The proration shall take into account the asset class' percentage of the total portfolio and the magnitude of the deviation from the target.

20.5 When all asset classes are within their target allocation, the Investment & Finance Manager shall prorate net positive cash flows, in increments of not less than \$1 million, to each asset class on a rotating basis in order of the asset class' percentage of the total portfolio.

20.6 Pursuant to Section 17.1 (d), the board shall review the allocation of assets to each investment manager as part of the board's annual investment strategy.

APPENDIX A

SamCERA Investment Policy Chronology

1981: Two decades ago, *SamCERA's* investment portfolio consisted of stocks, bonds and short-term securities. Changes in the board's membership, coupled with a decade of below average returns for the stock market, led to a decision to abandon the stock market in 1981. At that time, the board apparently determined that the securities of the United States Government were the only prudent investment. Consequently, *SamCERA* did not participate in the significant returns captured by most pension funds during that decade.

1992: With the assistance of a pension consultant, the Board of Retirement approved an asset allocation target and implemented a \$10 million per month investment in a commingled fund which mirrored the performance of the S&P 500 Index.

1994: The board adopted *SamCERA's Investment Plan* and launched the implementation of its new asset allocation program.

1996: The board accepted Wyatt Investment Consulting's *Asset Liability Modeling Study* which provided the basis for the asset allocation in the first revision to *SamCERA's Investment Plan*.

1997: The board revised the active:passive ratio from 40:60 to 60:40 for those asset classes where perceived market inefficiencies provided opportunities for successful active management.

1998: The board eliminated two of its passive allocations and replaced them with active allocations where new investment managers were hired for small cap value domestic equity and for international equity assignments. In addition, the board replaced its active large cap core equity allocation and manager with a large cap value equity allocation and manager.

1999: The board collaborated with Watson Wyatt Investment Consulting to reevaluate the *Asset Liability Modeling Study*. The resulting asset allocation reduced the real estate allocation, increased the equities allocation, restated the proportion of international versus domestic fixed income and added emerging markets as an asset class. The board opined to delay implementation of the emerging market allocation. Following a thorough review process, the board selected State Street Bank & Trust Company as its Global Custodian transferring assets on July 1, 1999.

2000: Following a two-day planning retreat, the board established an investment committee charged with evaluating *SamCERA's Investment Plan*. The committee undertook a reverse optimization analysis that led the committee to recommend and the board to approve a new allocation closer to the "median" corporate fund. Consequently the board reduced its allocation to small cap and international stocks and eliminated its allocation to international fixed income. The board also decided to embrace emerging market investing within the risk controlled limitations pertinent to its overall international equity portfolio. The board's overall fixed income portfolio will have the authority to encompass country, currency, and credit quality diversification in a risk-controlled fashion. The board also increased its use of passive index funds and terminated its contracts with four active investment managers.

2001: Strategic Investment Solutions was selected to succeed Gray & Co as *SamCERA's* investment consultant.

2002: *SamCERA* established a process of investment manager due diligence that includes monthly, quarterly, semi-annually and annually review and reporting.

2003: San Mateo County granted an enriched benefit structure for *SamCERA's* Tiers One, Two, and Four. The board accepted Strategic Investment Solutions' *Asset Liability Modeling Study* which reaffirmed *SamCERA's* asset allocation. *SamCERA's* due diligence policy was formalized

2004: The board collaborated with Strategic Investment Solutions' to complete a study of *SamCERA's* manager structure. Consequently, the board increased the plan's allocation to active management from 32% to 50%.

2005: The board approved a futures agreement with Goldman Sachs Asset Management (GSAM) to allow GSAM to equitize the cash position of their small cap enhanced index mandate.

2006: The board with Strategic Investment Solutions' assistance reviewed *SamCERA's* fixed income manager structure, which was mandated as follows: 1/3 in a passively managed Lehman Brothers Aggregate Bond Index Fund, 1/3 active core management and 1/3 active core plus management. The passive 1/3 was replaced by an active enhance index fund. Fidelity Trust Management Company (later renamed Pyramis Global Advisors) was hired in February 2006 to manage the enhanced index mandate.

2007: The board collaborated with Strategic Investment Solutions' to complete an asset liability study in January. The asset allocation was amended as noted in the table below. The study was followed by a review of *SamCERA's* manager structure, which was completed in April. The large cap equity mandate was amended from a 50%/50% split to a split of 80% in the Russell 1000 Alpha Tilts Fund and 20% in the Russell 1000 Index Fund both still managed by Barclay's Global Index.

SamCERA's Portfolio Asset Allocation
Accepted January 23, 2007

Asset Class	Former	Adopted
Large Cap Equity	40	37
Small Cap Equity	10	9
International Equity	15	21
Domestic Bonds	29	27
Real Estate	6	6
Expected Return	8.23	8.13
Expected Risk	11.74	11.24

. Consequently the board increased the plan's allocation to active management from 32% to 50%.

APPENDIX B

Evaluation of SamCERA's Risk Management Practices as Promulgated by the Risk Standards Working Group

(As amended January 2008)

RISK STANDARD		CURRENT STATUS	NEXT STEPS	DANGERS
Management				
1	Acknowledgment of Fiduciary Responsibility	<ul style="list-style-type: none"> • Board Identification of Fiduciary Duties & Delegations are Well Documented • Staff Delegations & Code implemented 	<ul style="list-style-type: none"> • Review Investment Guidelines & Contracts • Continue Board & Staff Annual Acknowledgment of Fiduciary Duty 	<ul style="list-style-type: none"> • Failure to Define & Communicate Risk Controls
2	Approved Written Policies, Definitions, Guidelines & Investment Documentation	<ul style="list-style-type: none"> • Board Policies & Guidelines are Well Documented • Investment Contracts are explicit • Staff procedures are well documented 	<ul style="list-style-type: none"> • IFM continues review of definitions of permitted & prohibited transactions • CEO directs staff in continual updating of Procedure manuals • IFM & CEO continue review of internal procedures for compliance with Board Policies & Guidelines 	<ul style="list-style-type: none"> • Unauthorized investment or benefit transaction due to ambiguity in Policies & Guidelines
3	Independent Risk Oversight, Checks & Balances, Written Procedures and Controls	<ul style="list-style-type: none"> • Managers & Staff must further document internal controls • Audit Committee & Auditor provide opportunity for a fresh perspectives 	<ul style="list-style-type: none"> • CEO conducts formal Inventory of Critical Investment, Benefit & Financial Procedures • CEO continues Checks & Balances Reviews • Sarbanes Oxley will provide guidance to attest SamCERA's risk oversight or internal controls 	<ul style="list-style-type: none"> • Internal Controls difficult in small organization; errors & fraud may go undetected
4	Clearly Defined Organizational Structure & Key Roles	<ul style="list-style-type: none"> • Human Resources Plan & Delegations implemented • Manager Structure not yet systematically analyzed by risk standards 	<ul style="list-style-type: none"> • Board & CEO continue to Monitor Staff Performance • IFM continues to refine due diligence regarding service providers 	<ul style="list-style-type: none"> • Inadequate checks & balances to insure compliance with risk standards, policies and procedures
5	Consistent Application of Risk Policies	<ul style="list-style-type: none"> • Cross checks have worked well • HR Plan resolved most issues • All Positions Filled & In Training AEO is currently mobilized on military leave 	<ul style="list-style-type: none"> • CEO continues to schedule quarterly staff reviews of internal control practices 	<ul style="list-style-type: none"> • Inadequate checks & balances to insure compliance with risk standards, policies and procedures

RISK STANDARD	CURRENT STATUS	NEXT STEPS	DANGERS
	<ul style="list-style-type: none"> • CEO set <i>PensionGold</i> security levels 		
6	<p>Adequate Education, Systems & Resources, Back-up & Disaster Recovery Plans</p> <ul style="list-style-type: none"> • Trustees & Staff have access to full range of relevant educational forums • Budget provides sufficient resources for optimal cost-effective risk control operations • Informal Disaster Recovery Plans 	<ul style="list-style-type: none"> • CEO issues formal Disaster Recovery Plan • CEO conducts test of DRP within next 12 months 	<ul style="list-style-type: none"> • Excessive risk accepted as a result of inadequate education • Disaster results in failure to perform fiduciary duties
7	<p>Identification and Understanding of Key Risks</p> <ul style="list-style-type: none"> • Board Regulations, Plans and Policy Resolutions address all identified traditional risks 	<ul style="list-style-type: none"> • CEO conducts regular reviews of each staff procedure to ascertain that all essential functions are being performed and that all procedures are executed in conformance with sound internal control practices 	<ul style="list-style-type: none"> • Failure to realize that an essential function is not being performed. • Failure to realize that an unidentified risk exists.
8	<p>Setting Risk Limits</p> <ul style="list-style-type: none"> • <i>Investment Plan, Regulations, Contracts, Budget and Policies</i> define current limits 	<ul style="list-style-type: none"> • Audit Committee monitors CEO's & IFM's efforts to identify, define and recommend limits for each risk identified per Standard #7 	<ul style="list-style-type: none"> • Failure to take reasonable steps to manage individual risks in a timely manner.
9	<p>Routine Reporting, Exception Reporting & Escalation Procedures</p> <ul style="list-style-type: none"> • Monthly portfolio report provides performance and asset allocation check • Quarterly performance reports include essential risk characteristics of portfolio • Annual Manager Compliance Certification Statement attests adherence to the Investment Plan • Managers provide exception reports to the IMF 	<ul style="list-style-type: none"> • Board & CEO increases scrutiny of overall risk measures • IFM expands monthly portfolio report to include measures of risk • Consultant focuses on assessment of risks in quarterly reports and annual reviews. 	<ul style="list-style-type: none"> • Failure to initiate appropriate action when risk levels are approaching unacceptable range

Measurement				
10	Valuation Procedures	<ul style="list-style-type: none"> • Current securities valuation by Custodian is adequate for pension assets • Valuation triggers Rebalancing • Actuarial Valuation & Experience Study is adequate for pension liabilities 	<ul style="list-style-type: none"> • IFM determines if any additional valuation techniques are advisable for investment portfolios [This is a more significant issue for securities firms with leveraged capital at risk on a daily basis] • Board will review the actuarial valuation & experience study process. 	<ul style="list-style-type: none"> • Incorrect information leads to Asset Allocation imbalance and opportunity costs • Incorrect information leads to incorrect contribution rates
11	Valuation Reconciliation, Bid/Offer Adjustments & Overrides	<ul style="list-style-type: none"> • Managers reconcile to Custodian records 	<ul style="list-style-type: none"> • IFM reviews all exceptions & reports behavior outside of the norm to CEO & Board 	<ul style="list-style-type: none"> • Risk characteristics and return of securities in portfolio differ from manager's representations
12	Risk Measurement & Risk/Return Attribution Analysis	<ul style="list-style-type: none"> • <i>Investment Plan</i> & contracts set forth key investment risk concerns 	<ul style="list-style-type: none"> • Custodian reports on all exceptions • Consultant expands risk analysis in quarterly performance reports 	<ul style="list-style-type: none"> • Manager's build portfolios inconsistent with <i>Investment Plan</i> & alter total Fund exposure
13	Risk-Adjusted Return Measures	<ul style="list-style-type: none"> • Consultant provides quarterly risk-adjusted return analysis 	<ul style="list-style-type: none"> • Board and staff devote additional time to reviewing and understanding the analysis 	<ul style="list-style-type: none"> • Style drift alters asset allocation and generates more volatility than expected
14	Stress Testing	<ul style="list-style-type: none"> • Integral to Asset Liability Modeling Study • Integral to Actuarial Assumptions 	<ul style="list-style-type: none"> • Board continuing to critique Consultant's model • Review Actuarial Assumptions during current fiscal year 	<ul style="list-style-type: none"> • Asset allocation generates more volatility than expected
15	Back Testing			
16	Assessing Model Risk	<ul style="list-style-type: none"> • Triennial Experience Study (2005) • Asset Liability Modeling Study (2003) • Annual Valuations (annual) • Actuarial Audit (1999) 	<ul style="list-style-type: none"> • Compare results of Actuarial studies with comparable plans • IMF compares results of Asset Liability Modeling Study with comparable plans' asset allocation & assumptions 	<ul style="list-style-type: none"> • Asset allocation generates more volatility than expected • Incorrect information leads to incorrect contribution rates

Oversight				
17	Due Diligence, Policy Compliance & Guideline Monitoring	<ul style="list-style-type: none"> • Board reviews all policies & guidelines annually. • Staff & managers review quarterly 	<ul style="list-style-type: none"> • Board reviews its due diligence monitoring procedures for managers, consultants & staff • 	<ul style="list-style-type: none"> • Non compliance activities resulting in direct losses or opportunity costs
18	Comparison of Manager Strategies to Compensation and Investment Activity	<ul style="list-style-type: none"> • Manager stipulates to compliance with contract 	<ul style="list-style-type: none"> • Strengthen holdings-based Risk/Return Attribution Analysis program to evaluate stated strategy, results and compensation 	<ul style="list-style-type: none"> • Style drift or unearned compensation result in under performance & Asset Allocation discontinuities
19	Independent Review of Methodologies, Models & Systems	<ul style="list-style-type: none"> • Independent Actuary ['99 Audit] • Independent Consultant [2003 ALM Study] • Independent Counsel • Independent Auditor • Independent Investment Managers • Independent Global Custodian • Participate in Kuhn & CEM data bases 	<ul style="list-style-type: none"> • Evaluate Actuarial Triennial Experience Study & Valuation • Ongoing review of all benefit policies & procedures with other '37 Act Systems • Continue to evaluate Asset Liability Modeling Study comparisons 	<ul style="list-style-type: none"> • Perpetuation of policies or practices which are inconsistent with generally accepted fiduciary standards
20	Review Process for New Activities	<ul style="list-style-type: none"> • Board, Consultant, or Staff proposes new activity • Consultant or Staff evaluates proposal • Board approves new activity based on all relevant considerations 	<ul style="list-style-type: none"> • Maintain adherence to current process for initiating new activities in accordance with <i>Code of Fiduciary Conduct</i> Resolution 	<ul style="list-style-type: none"> • Initiating an activity which falls outside of the Board's normal risk parameters, without assessment of risk-return tradeoffs

APPENDIX C

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)." (1)

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

(1)"Investments in Derivatives by Registered Investment Companies", August, 1994, Investment Company Institute, page 2. This document states the requirements of mutual funds regarding the investment in and oversight of derivative securities.

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 D

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 E

The purpose of a benchmark is “To facilitate the periodic reporting to the Investment Committee and to provide a relative measure to gauge success, custom performance benchmarks are approved by the Board.”

BENCHMARK POLICY

1. The investment Committee approved performance benchmarks are used in the asset allocation process for modeling purposes. The approved benchmarks are contained in the Investment Plan.
2. There are four characteristics identified as desirable in the selection of an appropriate benchmark.
 - (A) Unambiguous – The names and weights of the securities in the benchmark should be clearly defined.
 - (B) Investable – The securities contained in the benchmark should represent tradable positions. Ideally, the benchmark should be constructed with low turnover (companies should not change too much over time) to minimize transactions costs.
 - (C) Measurable – The pricing of the benchmark should be transparent making it possible to track the benchmark’s performance. The benchmark will, whenever practical, be calculated independently and available to the public on a daily basis (applies to public traded asset classes only)
 - (D) Appropriate – As part of the investment planning/policy process the Investment Committee will adopt an asset class benchmark (reference portfolio) that reflects the board risk and return characteristics of the asset class. The benchmark will be the reference portfolio against which the aggregate active and passive portfolios within the asset class will be measured.
3. As a matter of practice the approved benchmark will be reviewed by the Investment Committee on an annual basis to assure that it continues to reflect the risk/return characteristics of the asset class in a cost-effective manner. Strategic asset allocation assumptions will be based upon expected risk, return, and correlation coefficients of the approved benchmark.

BENCHMARK MODIFICATION POLICY

1. Asset class benchmarks may be modified when it is in the economic interest of the System.
2. Benchmark modification indicators are identified as:
 - A. When a more cost efficient (expenses such as trading costs or transaction fees) alternative is available that captures the risk return characteristics of the asset class.
 - B. When an industry or sector (component) of the benchmark is exposed to economic risks that are of such a degree that the future economic viability of that industry or sector is in doubt. Specific indicators are:

- (1) The industry, not an individual company, shares common exposure to product liability judgments (including, but not, limited to, potential judgments involving overwhelming punitive damage awards), settlements and ongoing litigation that have the potential to exceed the industry's net worth.
 - (2) Significant threat of industry-wide bankruptcy filings.
 - (3) Regulatory and/or legislative actions that have the potential to substantially impair industry-wide earnings.
 - (4) Policy actions in the institutional investor community that, in aggregate, have the potential to have a deleterious effect on industry-wide share prices.
- C. In the event that 2A or at least three of the indicators referenced in 2B are evidenced the staff or a member of the Investment Committee may bring the matter before the Investment Committee for due diligence and consideration. This due diligence will include:
- (1) Analysis by the staff and/or third-party experts that the indicators are evidenced and have the potential to adversely impact the specific industry.
 - (2) Identification and listing of the individual companies in the specific industry based upon the definition adopted by the Investment Committee.
 - (3) Analysis of the impact the benchmark modification is expected to have upon total portfolio risk/return characteristics.
 - (4) Analysis of the expected costs associated with implementation of the benchmark modification.
 - (5) A timetable for review of the benchmark modification.

APPENDIX F

DUE DILIGENCE POLICY

MANUAL

AUTHORITY

The San Mateo County Employees' Retirement Association (*SamCERA*) Board of Retirement (Board) is responsible for the management of the Association's assets under authority granted by Article XVI, Section 17 of the California Constitution.

Article XVI, Section 17(c) of the California Constitution provides that "the members of the retirement board of a public pension or retirement system 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 aim."

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 the Board and 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 and real estate properties 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 Investment & Finance Manager (IFM) will prepare a monthly investment activity and compliance report. The report will note individual investment manager statistical compliance to their investment guidelines, objectives and portfolio restrictions. The IFM will review the investment managers' purchases and sales for each month, and note in the report any deviations from the investment guidelines and restrictions, as outlined by the investment manager agreement. The report will also note any significant changes in the following:

- ✱ portfolio composition
- ✱ portfolio turnover
- ✱ changes in market value
- ✱ sector weights
- ✱ general trading activity
- ✱ changes in cash position

The Investment & Finance Manager, with assistance from the investment consultant, will present an investment performance report to the Board on a quarterly basis, as specified in Section 16.0 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 Investment and Finance Manager, 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 IFM and the investment consultant will conduct a detailed review of each of the three asset categories in which *SamCERA* invests.

Annually, the Investment and Finance Manager 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 the IFM 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 the board at a public board meeting 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. The board 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 the board.

F.03 – Evaluation and Education

On-site meetings provide board and staff with opportunities to:

1. Evaluate an investment manager's staff and observe how they jointly carry out their fiduciary responsibility to *SamCERA*.
2. Interview individuals who directly manage *SamCERA's* account.
3. Evaluate the significance of personnel shifts or other organizational changes that may affect *SamCERA's* portfolio.
4. Observe the systems and controls utilized to handle *SamCERA's* investments.
5. Hold in-depth reviews regarding an investment manager's philosophy, style and approach to investing *SamCERA's* assets.
6. Develop a better understanding of the significance of short-term periods of good or bad performance.

F.04 – Asset Categories

On-site meetings will be grouped by asset categories. This approach enables the board and 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 Investment & Finance Manager or his/her designee and the investment consultant. When deemed necessary by the Chief Executive Officer the IFM 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 Investment & Finance Manager on all planned due diligence. The IFM will be responsible for coordinating each scheduled evaluation visit with the appropriate investment manager.

F.10– Chief Executive Officer

The Chief Executive Officer, at the discretion or direction of the board chair or the Investment Committee Chair, may be directed to accompany an official *SamCERA* due diligence evaluation visit. The Chief Executive Officer may decline to accompany an official *SamCERA* due diligence trip for good cause. Nothing in this section is intended to prevent the Chief Executive Officer from participating in any due diligence performed by the Board of Retirement or any of its committees.

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) the consultant’s or manager’s organization and its staff, (ii) investment philosophy and process, (iii) the resources available to provide the service, (iv) proposed fees and (iv) if an investment manager, their performance.

F.12 – Limitation on Board Due Diligence

The Board of Retirement will not participate in any due diligence trip being conducted on any new service provider, investment manager, or others.

F.13 – Policy Review

The Due Diligence Policy Manual shall be reviewed every three years and updated as necessary.

Glossary

Active Information Ratio	<i>Active Information Ratio</i> means the monthly difference between the gross return and the benchmark return divided by the standard deviation of the monthly differences. If considered over rolling three to five year periods, the ratio provides an indication of the success or failure of "Active Management". See "Information Ratio".
Active Management	<i>Active management</i> means that the investment manager uses various disciplines and strategies to select securities to buy and sell in a manner intended to add active returns over those which will be produced by the benchmark. See "Alpha".
Active Return	<i>Active return</i> equals a portfolio's return minus its benchmark's return.
Actuarial Funding Objectives	The <i>Actuarial Funding Objectives</i> for SamCERA are to fully fund the Pension Benefit Obligation by the Year 2022, to stabilize the employer contribution rate, and to minimize employer contributions to the extent it is prudent to do so.
Actuarial Accrued Liability	The <i>Actuarial Accrued Liability</i> is an estimate of the amount of money that should be on deposit today which, when combined with future investment earnings, should be sufficient to pay for a member's retirements benefits for life, based upon service credit up to this point in time.
Actuarial Value of Assets	The <i>Actuarial Value of Assets</i> for SamCERA is computed using a five-year weighted smoothing of market values. It is used to dampen the impact of market price swings on the annual actuarial valuation.
Actuary	An <i>actuary</i> is a mathematician who is specially trained to evaluate member experience (deaths, terminations, disabilities & retirements at various ages, etc.), recommend economic assumptions (inflation, investment returns, salary and payroll increases, etc.), calculate actuarial liabilities (forecast of how much will have to be paid out in benefits in future years, etc.) and rates (such as contribution, pension, annuity, <i>et al</i>).
Aggregate Target Benchmark	The <i>Aggregate target benchmark</i> represents the cumulative sum of the returns generated by the performance benchmark for each investment style multiplied by the percentage of the portfolio which has been invested in each style.
Alpha	<i>Alpha</i> is the portfolio's risk-adjusted return. <i>Alpha</i> is the active return in excess of what would be expected from a diversified portfolio with the same exposure to fluctuations in market prices. A stock with a positive alpha is undervalued relative to other stocks with the same systematic risk. A portfolio with a positive <i>alpha</i> is one which has reaped an extraordinary reward through successful active management.
Alternate Asset	<i>Alternate Asset</i> is a term used to define special situation investments which pension funds utilize to add incremental return to a portfolio which has already been well diversified across the other asset classes. <i>Alternate Assets</i> are characterized as private placements having low liquidity, requiring intense due diligence and monitoring and significant active returns if and when the investment matures. Management buy outs, corporate restructuring and venture capital are examples of alternate assets.
AIMR Compliant Returns	The Association for Investment Management and Research (AIMR) is the outgrowth of the merger of the two associations representing financial analysts. AIMR provides professional certification programs and promulgates standards and guidelines for professional conduct. AIMR's standards for the measurement of investment returns are considered the most stringent of the cost-effective means for evaluating portfolio performance. In essence, the

extensive standards strive to produce (1) full disclosure, (2) fair representations and (3) comparable performance results. The standards dictate the methods to be employed and the data to be included in the analysis, as well as the disclosures which must be detailed.

Annualized Rate of Return	The <i>annualized rate of return</i> is similar to the compound rate of interest which would have produced the same increase (or decrease) in the value of an asset over the course of one year, including unrealized capital gains (or losses) and investment income, but excluding any additional contributions or withdrawals.
Appreciation	<i>Appreciation</i> is any increase in the value of an asset.
Asset Allocation	<i>Asset allocation</i> is the process of assigning investments across broad categories of investments. Categories typically include stocks, bonds, real estate and international investments. The <i>asset allocation</i> process usually sets percentage targets for each category of investment in an effort to position the portfolio on the "efficient frontier".
Asset	An asset is anything having commercial or exchange value that is owned by a business, institution or individual.
Asset Class	An <i>asset class</i> is a broadly defined generic group of financial assets, such as stocks, bonds, or real estate. Each broad class may be subdivided into subclasses which share identifiable characteristics, such as large capitalization vs. small capitalization stocks.
Baa, BBB, P-1, A-1	See "Bond Rating". P-1, A-1 are "Commercial Paper" ratings.
Basis Point	A <i>basis point</i> is one one-hundredth of one percent (0.0001 or 0.01%).
Bear Market	A <i>bear market</i> is a prolonged period of falling prices. A bear market in stocks is usually brought on by the anticipation of declining economic activity, and a bear market in bonds is caused by rising interest rates.
Benchmark	A <i>benchmark</i> is a standard against which to judge the performance of an investment manager or portfolio. Typical <i>benchmarks</i> are the S&P 500 Index for U.S. stocks and the Lehman Brothers Corporate-Government Bond Index for U.S. bonds.
Beta	<i>Beta</i> measures the systematic risk of the portfolio. It indicates how much the value of the portfolio can be expected to increase or decrease as the value of a given market portfolio changes. For example, if the S&P 500 is assigned the Beta coefficient of 1, then a portfolio with a Beta of 1.2 will be expected to increase or decrease in value 20% more than any given increase or decrease in the value of the S&P 500 (If the portfolio = 100; then, when S&P=110, portfolio=112; when S&P=90, portfolio=88).
Bond Rating	A <i>bond rating</i> is a method for evaluating the probability of default by the issuer of a bond. Standard & Poor's and Moody's Investors Services are two firms which analyze the financial strength of each bond's issuer. For example, S&P rates bonds from AAA, if they are very unlikely to default, to D, if they are in default. A bond with a rating of BB, Ba, or below is considered to be below investment grade by most institutional investors.
Bond	A <i>bond</i> is any interest-bearing or discounted government or corporate security that obligates the issuer to pay the bondholder a specified sum of money, usually at specified intervals, and to repay the principal amount of the loan at maturity. Bondholders have an IOU from the issuer, but they have no corporate ownership privileges. A convertible bond entitles the bondholder to exchange the bond for other securities of the issuer at some future date and under prescribed conditions.

Book Value	<i>Book value</i> is the value at which an asset is carried on the balance sheet. It reflects the price paid for a security adjusted for the amortization of any premiums or the accretion of any discounts included in the purchase price.
Bull Market	A <i>bull market</i> reflects a prolonged rise in the prices of stocks, bonds, or commodities. Bull markets usually last several months and are characterized by high trading volume.
Business Cycle	A <i>business cycle</i> is a recurrence of periods of expansion and contraction in economic activity which have effects on inflation, growth and employment. One cycle extends from a low point, as measured by Gross National Product, through the next high point and the subsequent decline to the next low point.
Capital Markets	The <i>capital markets</i> are where debt and equity funds are traded. The definition includes organized markets and exchanges, over-the-counter markets and sources of private placement financing.
Capital Appreciation	<i>Capital Appreciation</i> is any increase in the market value of the amount invested in an asset.
Capital Loss	<i>Capital loss</i> is the negative difference between an asset's purchase and selling prices. An <i>unrealized capital loss</i> means that the market value is lower than the book value, but that the asset is still held in the portfolio.
Capital Asset Pricing Model	The <i>CAPM</i> seeks to define the relationship between expected risk and expected return. It breaks return down into a risk-free return plus a risk premium return. <i>CAPM</i> implies that an asset's total return should equal the risk-free return plus the product of <i>beta</i> times the expected market excess return.
Capital Gain	<i>Capital gain</i> is the positive difference between an asset's purchase and selling prices. It does not include dividends, coupons, or the amortization of discounts, which are treated as investment income in the year in which they are accrued. An <i>unrealized capital gain</i> means that the market value is higher than the book value, but that the asset is still held in the portfolio.
Cash Equivalents	The Financial Accounting Standards Board defines <i>Cash equivalents</i> as all highly liquid securities with a known market value and a maturity-at-acquisition of less than three months.
Collateral	<i>Collateral</i> is any asset pledged to a lender until a loan is repaid.
Commercial Paper	Commercial paper encompasses short-term obligations of banks, corporations and other borrowers with maturities of 2 to 270 days.
Commingled Fund	A <i>commingled fund</i> is essentially a mutual fund for institutional investors, in which each institution owns a share of the total fund.
Commission Recapture	<i>Commission recapture</i> refers to programs offered by certain brokers. In return for the broker being given an opportunity to make an offer on individual transactions, commission recapture programs turn back (to the investment portfolio) an agreed upon percentage of the commission dollars which are generated from the purchase and sale of stocks for the portfolio,
Commitment-Weighted Aggregate	The <i>commitment-weighted aggregate</i> represents the cumulative sum of the returns from each asset class multiplied by the percentage of the portfolio which has been invested in each of the classes.

Common Stock	<i>Common stock</i> reflect units, or shares, of ownership in a public corporation. The price is usually determined in the capital markets and increases or decreases in value based upon investor perceptions and the ability of buyers and sellers to agree upon a value for the stock. Owners are typically entitled to vote for directors and to receive dividends on their investment. In the event of liquidation, common stock claims are settled after the claims of creditors, bondholders and preferred stockholders.
Consultant	A <i>consultant</i> , as used in the <i>Investment Plan</i> , is a firm with professionals who specialize in providing pension fiduciaries with background, research, advice, recommendations, due diligence and monitoring services regarding the management of pension assets.
Consumer Price Index	The <i>Consumer Price Index</i> , or <i>CPI</i> is the measure of the rate of changes in prices which are used by pension funds to measure inflation. CPI is based on a U.S. Department of Labor Statistics monthly survey of consumer goods and services, including housing costs, food, transportation, electricity, <i>et al.</i>
Core	See "Passive Management".
Correlation	<i>Correlation</i> is a statistical term explaining the strength of the relationship between two variables. Values can range from +1, meaning that every change in the first variable produces a predictable equivalent change in the second variable; to -1, meaning that every change in the first variable produces a predictable opposite change in the second variable. A correlation of 0 means that the two variables have no linear relationship. Correlation is used to measure relationships between price movements in the various categories of assets.
Currency Futures	A <i>currency future</i> is a contract for delivery of a major currency of a specified amount on a specified date and is used by pension funds to reduce the volatility of international investments. See "Futures".
Current Yield	<i>Current yield</i> equals the annual interest receivable on a bond divided by its market price.
Custodian	A <i>custodian</i> is a depository for the safekeeping of securities. The custodian may collect income and dividends and do simple reporting on the assets.
Custom Benchmarks	A <i>custom benchmark</i> is designed to reflect as accurately as possible the unique performance objectives of a specific pension fund or investment portfolio. It can be as simple as the blending of two or more common indices, or as complex as a proprietary computer simulation.
Debt Service	<i>Debt service</i> is the cash required in a given period for payments of interest and current maturities of principal on outstanding debt.
Debt Instrument	A <i>debt instrument</i> is a written promise to repay a debt; such as a bill, note, bond, banker's acceptance, certificate of deposit, or commercial paper.
Deep Discount	A <i>deep discount</i> bond typically sells for more than 20% below its face value, with a below market coupon. Deep discount bonds are expected to appreciate rapidly as interest rates fall, or drop in value faster as interest rates rise.
Depression	A <i>depression</i> in an economic condition characterized by falling prices, reduced purchasing power, an excess of supply over demand, rising unemployment, accumulating inventories, deflation, plant contraction, public fear and caution, and a general decrease in business activity.
Derivative	A <i>derivative</i> is any financial instrument whose value is based on another security. For

example, an option is a derivative whose value derives from an underlying stock, stock index, or future.

- Devaluation *Devaluation* is the lowering of the value of a country's currency relative to the currencies of other nations.
- Diligence *Diligence* characterizes the act of being persevering and careful in work; hardworking; done with careful, steady effort; painstaking. A fiduciary is responsible for exercising prudent due diligence in all trust duties.
- Discount The *discount* is the negative difference between a debt security's current market price and its redemption value, and typically represents the adjustment in price necessary to compensate for the difference between current market interest rates and the security's coupon rate.
- Disinflation *Disinflation* is the slowing down of the rate at which prices increase--usually during a recession, when sales drop and retailers are not able to pass on higher prices. [Prices actually drop during *deflation*.]
- Disinvestment *Disinvestment* is the reduction in capital investment which may result from closing or disposing of plants, equipment and other facilities, or the failure to replace capital assets as they are consumed or depleted, or become obsolete.
- Diversification *Diversification* is the spreading of risk among a number of different investment opportunities. *Diversification* is the reduction in risk that is obtained by investing wealth in assets which are not perfectly positively correlated. Since the assets are not perfectly correlated, losses in any one asset may be offset by gains on other assets. In this manner, the risk of a portfolio will be less than the risk of its individual assets.
- Dividend A *dividend* is a distribution of earnings to shareholders by a corporation. A dividend may be paid in cash, stock or other form. Dividends are set by the corporation's board of directors and are usually paid quarterly.
- Domestic *Domestic* refers to a U.S. based company or capital market. However, many companies with foreign headquarters are now traded in the U.S. capital markets. Consequently, they may be included in domestic portfolios if they are included in the S&P 500, R 1000, et al.
- Dual Class Voting Rights *Dual class voting rights* refers to a strategy employed by the board of directors of certain corporations to deny shareholders full participation in shareholder votes. Typically one class of stock with voting rights is issued in small amounts to corporate insiders. A second class of stock without voting rights is issued in abundant amounts for the public. The strategy usually requires an amendment to the bylaws of the corporation and, therefore, usually requires ratification by the shareholders.
- Due Diligence *Due Diligence* is the process used to ascertain that things are as they appear to be. For example, *due diligence* is performed on prospective investment managers to make certain that they are who they say they are; that their client's report that they have fulfilled their commitments; that their disciplines, procedures & internal controls are well documented and are monitored for compliance. See "Diligence".
- Econometrics *Econometrics* is the use of computer analysis and modeling techniques to describe in mathematical terms the relationship between key variables and to test their relationships under various economic scenarios.
- Efficient The *efficient market* theory states that capital market prices reflect the knowledge and

Market	expectations of all investors; therefore, one is unlikely to be able to consistently outperform the market. This is one of the theories used by those who support "passive management".
Efficient Frontier	The <i>efficient frontier</i> describes a set of optimal portfolios which balance returns with various levels of tolerance for risk. The portfolios on the efficient <i>frontier</i> offer the highest possible expected return at each specific level of risk, and conversely, the lowest level of risk for each expected level of return.
Entry Normal Funding Method	The <i>Entry Age Normal Funding Method</i> is an actuarial technique which projects an estimate of future benefit payments to a member (based on numerous actuarial probabilities) and then calculates a level percentage of payroll which (if paid in regularly over the member's career as salaries increase) should fully fund the present value of the future benefit payments by the time of retirement.
Equity	<i>Equity</i> is a general term for instruments which are highly sensitive to the total value of a business enterprise. Common stock is one form of equity.
ERISA	The <i>Employee Retirement Income Security Act</i> of 1974 governs private sector and Taft-Hartley pension plans. While it does not apply to government sponsored pension plans, its fiduciary standards are regularly cited as the guiding principles for the administration of public pension plans.
Event Risk	<i>Event risk</i> is the possibility that a bond will suddenly decline in credit quality and warrant a lower rating.
Excess Return	<i>Excess return</i> is that over a risk-free rate, such as a 90-day T-bill.
Expected Return	The <i>expected return</i> is the average (mean of the probability distribution) investment return.
Fiduciary Responsibility	The California Constitution defines the Fiduciary responsibility of the board members as follows: "The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purpose 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."
<i>Financial Times</i> Data Base	Great Britain's <i>Financial Times Data Base</i> includes information on most investment grade equities in the world. If a security is not included in the data base it suffers from at least one of the following conditions: too small an issue, too illiquid, too risky, too small a capital market, et al.
Free Float	<i>Free Float</i> is the amount of outstanding shares available for public trading with due consideration to shares held in cross-ownership and shares held or subject to employee benefit, and other employee compensation schemes. A small float implies stock price will be more volatile.
Full Discretion	<i>Full discretion</i> means that the investment manager does not have to check back with the pension fund before making investment decisions, so long as the pension fund's investment guidelines are followed. The manager reports on all investment transactions after the fact.
Futures	<i>Futures</i> contracts are agreements to buy or sell a specific amount of a commodity or financial instrument at a specific price on a specific future date.

GIC	A <i>GIC</i> or <i>Guaranteed Income Contract</i> is an agreement, usually issued by an insurance company, which guarantees a specific rate of return for a specific period of time. While the insurance company assumes all risk on the underlying portfolio of securities, it also keeps all returns in excess of the guaranteed rate.
Global	<i>Global</i> is an all inclusive term which covers all of the world's major capital markets. It usually excludes emerging markets in third world countries.
Hedge	A <i>hedge</i> is a strategy used to offset investment risk. A <i>hedge</i> is a form of insurance. Futures contracts are frequently used as <i>hedgies</i> to protect against significant market volatility.
High Yield	<i>High yield</i> usually refers to below investment grade bonds selling at a significant discount. Also called "junk bonds". See "Deep Discount" & "Bond Rating".
Index	An <i>Index</i> is a statistical composite that measures changes in the economy or the capital markets. See Lehman Aggregate, S&P 500, R1000, R2000, MSCI..., & SB World.
Indexed	See "Passive Management"
Industry Group	See "Sector"
Inefficiencies	<i>Inefficiencies</i> is used to describe opportunities to find mispriced securities in the capital markets. See "Efficient Market". If the market as a whole is efficient, then the active investor must be on the lookout for temporary or dynamic inefficiencies which have the potential to produce active returns.
Inflation	<i>Inflation</i> reflects a rise in the prices of goods and services, as happens when demand increases faster than supply. See "Consumer Price Index".
Information Ratios	The <i>information ratio</i> is a measure of risk-adjusted portfolio returns. It is equal to "active return" divided by the "active risk", where active risk equals the standard deviation of the active return.
Institutional Grade Investment	An <i>institutional grade investment</i> refers to assets suitable for inclusion in any institutional portfolio. Such investments are generally recognized as being of sufficiently high quality as to minimize the likelihood of catastrophic loss or default. <i>Investment grade</i> bonds are those rated BBB and higher.
Institutional Pension Funds	<i>Institutional pension funds</i> refers to tax exempt pension plans with a long-term funding horizon and a statistically significant membership. Their investment objectives and funding requirements differ from those of an individual or taxable entity.
International	<i>International</i> refers to securities and capital markets which are not part of the U.S. capital markets.
Investment Discipline	<i>Investment discipline</i> refers to an investment manager's explicit mission statement, philosophy, goals, objectives, policies, procedures and controls which are used to research, select, purchase, retain and sell securities for inclusion in portfolios which reflect the investment manager's style(s).
Investment Manager	An <i>investment manager</i> is a firm with professionals who specialize in making investment decisions for pension funds. Those decisions must be consistent with the terms and conditions of their contract. They are fiduciaries for the assets under their control.

Large Capitalization	<i>Large capitalization</i> refers to stocks issued by the largest corporations in a specific market. For instance, the S&P 500 index includes the 500 largest corporations in the domestic stock market.
Lehman Aggregate	The <i>Lehman Aggregate</i> refers to the Lehman Brothers index which measures the composite return of all investment grade domestic fixed income securities.
Liquidity	<i>Liquidity</i> is a relative measure of the ease with which a willing seller can find a willing buyer. The more liquid a security, the easier it is to execute significant transaction volumes without significantly impacting the price.
Margin Sales	A <i>margin sale</i> is one in which the purchaser is permitted to buy securities with the equivalent of a down payment. The <i>Investment Plan</i> prohibits <i>margin sales</i> .
Marked-to-Market	<i>Marked-to-Market</i> refers to the process of determining the current value of individual assets in the capital markets and then recording those values for the individual assets held in a portfolio, in order to establish the current market value of the portfolio.
Market Returns	<i>Market returns</i> are the total returns generated by all of the securities in a particular sector of the market; for example, the capital appreciation and reinvested dividends for all domestic large capitalization stocks as measured by the S&P 500 during the past three months.
Market-Timers	<i>Market-timers</i> are investors who actively seek to anticipate the highs and lows of prices for individual securities, sectors, or asset classes and to buy and sell securities at the most opportune time to capture active returns.
Monitor	<i>Monitor</i> is the process whereby fiduciaries periodically review the actions of those to whom they have delegated authority to insure that the terms of the delegation have been fulfilled and that all fiduciary obligations are being faithfully executed. <i>Monitoring</i> provides assurance that all parties are adhering to the provisions of the <i>Investment Plan</i> and individual contracts.
MSCI Data Base	The <i>MSCI Data Base</i> refers to the Morgan Stanley Capital International data bases which includes information on most investment grade equity securities in the world.
MSCI World ex US Unhedged	The <i>MSCI World ex US Unhedged</i> refers to Morgan Stanley Capital International which measures the composite returns of all relatively liquid stocks worldwide. It does not include U.S. stocks. <i>Unhedged</i> means that the total return of the index (in \$ terms) is fully exposed to currency fluctuations.
NASDAQ	<i>NASDAQ</i> refers to the National Association of Securities Dealers Automated Quotation System which is the over-the-counter market place for the trading of more than 5,000 securities listed on the system.
Net Cost	<i>Best net cost</i> , as used in the <i>Investment Plan</i> , means that investment managers are expected to execute transactions that are as favorable for the Retirement Fund as is prudent. Commissions and spreads should be less than the average for similar transactions. Soft dollar relationships should not be used as excuses for not obtaining best execution.
Net Operating Revenue	<i>Net operating revenue</i> , as used in the <i>Investment Plan</i> , refers to income on real estate and alternate asset investments generated in the course of business through the active management of the asset.
Objectives	<i>Objectives</i> , as used in the <i>Investment Plan</i> , refers to specific performance targets which can be used by the Board of Retirement to monitor the relative success of the <i>Investment Plan</i>

and investment managers in making progress towards the funding target.

Options	<i>Options</i> are contracts between two investors in which one grants the other the right to buy (or sell) a specific asset at a specific price within a specified time period. Whereas as a "future" includes a commitment to execute the transaction, an <i>option</i> does not have to be exercised (though a fee will be forfeited by the purchaser of the option).
Passive Management	<i>Passive Management</i> refers to the investment of assets in a pool of securities designed to replicate the characteristics of all of the securities included in a specified universe (such as the "R1000"). The passive manager is not expected to attempt to outperform the index which measures the return on the specified universe. <i>Passive management</i> reflects the most common technique for the implementation of the "Efficient Market" theory.
Pension Benefit Obligation	The <i>Pension Benefit Obligation</i> is an accounting standard used to characterize and compare the strength of the actuarial funding of two or more pension plans. The pension benefit obligation is the present value of the theoretical amount which should be on deposit today to pay for all service rendered to date. It includes factors for future salary increases up to the date of retirement and cost-of-living allowances thereafter. See "Unfunded Actuarial Liability".
Performance Attribution	<i>Performance attribution</i> refers to the techniques used to break down an investment manager's or portfolio's return into component parts. Through the use of computer models and actual market data, the return is dissected. Portions of the return will result from the overall direction of the market, individual asset classes (<i>i.e.</i> : stocks vs. bonds), asset subclasses (<i>i.e.</i> : domestic large capitalization growth stocks), sectors (<i>i.e.</i> : automotive stocks) and security selection (<i>i.e.</i> : General Motors). Consultants find performance attribution useful in tracking a manager's adherence to a specific investment discipline; while, investment managers often view it as a way to validate backtested strategies.
Plenary	<i>Plenary</i> authority is granted to the Board of Retirement by the State Constitution. <i>Plenary</i> means complete, entire, perfect, not deficient in any element or respect, absolute, unqualified.
Portfolio	A <i>portfolio</i> is the combined holding of more than one stock, bond, and/or other assets to reduce the investor's risk through diversification.
Private Placement	A <i>private placement</i> is an investment which is not traded in the security markets. Returns are expected to be higher to compensate for the lack of liquidity.
Proxy	A <i>proxy</i> is a written power of attorney given by shareholders of a corporation authorizing a specific vote on their behalf at a corporate meeting. A <i>proxy</i> usually identifies a slate of candidates for the board of directors and resolutions submitted to the shareholders for action.
Prudence	<i>Prudence</i> is the practice of acting wisely in the handling of practical matters and the exercising of good judgment or common sense; possessing sufficient knowledge of a matter and discerning the most appropriate course of action.
Punctilio	<i>Punctilio</i> , as used by Chief Judge Cardozo, means the highest point or apex of a standard of honor and the strictest observance of the highest standard of performance.
R-Squared	"R-Squared" (r^2) is the square of the correlation coefficient. r^2 describes the percentage of the change in a dependent variable that is related to a change in the independent variable in a simple linear regression model. For example, an r^2 of .85 for Mutual Fund A would indicate that 85% of the excess return of Mutual Fund A could be explained by movement

in the excess return of the S&P 500. Conversely, 15% of the excess return for Mutual Fund A could not be explained away by changes in the S&P 500.

R1000	<i>R1000</i> standards for the Russell 1000 stock index which measures the composite returns of the 1,000 largest market capitalization domestic stocks.
R2000	<i>R2000</i> stands for the Russell 2000 stock index which measures the composite returns of the 2,000 next largest market capitalization domestic stocks which are not included in the R1000. (The Russell 3000 equals the R1000 plus the R2000.) See "Small Capitalization".
Real Return	<i>Real return</i> equals total return less an adjustment for inflation.
Rebalance	<i>Rebalance</i> is the term used to describe the process of bringing a portfolio back into conformance with its asset allocation targets. When an asset class exceeds its "tactical range", assets must be sold and the proceeds redeployed to other asset classes; conversely, if an asset class falls below its "tactical range", other assets must be sold and the proceeds redeployed to the class which is out of conformance.
REIT	<i>REIT</i> stands for Real Estate Investment Trust. <i>REIT</i> 's are typically publicly traded securities whose underlying assets are invested in real estate. Shareholders participate in the income stream of the underlying real estate portfolio.
Return	<i>Return</i> means the increase (or decrease) in the market value of an asset plus income (such as coupons or dividends) divided by its cost. <i>Return</i> is measured over a period of time, such as one month, last quarter, last year; and annualized three, five and ten years.
Risk	<i>Risk</i> is the uncertainty that an investment will produce the expected return. In pension portfolios <i>risk</i> is measured by the "volatility" of the returns expected from each of the separate asset classes which make up the diversified portfolio. Individual securities have a wide range of specific risk exposures. By combining a mix of securities which different risk profiles into a portfolio, the overall risk to the total portfolio is significantly reduced.
Risk-Adjusted Return	<i>Risk-adjusted return</i> refers to techniques used to determine if a portfolio or investment manager is producing active returns commensurate with the associated risk profile. A manager with exceptional returns may be taking exceptional risks. By adjusting returns to reflect risk, a fiduciary can judge the effectiveness of the investment strategy.
S&P 500	<i>S&P 500</i> stands for the Standard & Poors 500 stock index which measures the composite returns of the 500 largest market capitalization domestic stocks. (Most of the S&P 500 stocks are included in the "R1000".)
SB World Unhedged	<i>SB World Unhedged</i> stands for the Salomon Brothers World Bond Index which measures the composite returns of most relatively liquid government bonds in the world. <i>Unhedged</i> means that the total return of the index (in \$ terms) is fully exposed to currency fluctuations.
SEC Registered Investment Advisors	The Securities and Exchange Commission serves as a registry of investment advisors. The principal value of the registration process is the extensive disclosure requirements imposed by the SEC. Pension funds frequently require that their "investment managers" be SEC Registered Investment Advisors as the first step in the due diligence process.
Sector	<i>Sector</i> refers to a group of stocks identified with a particular industry. Portfolio managers tend to classify stocks by industry and use those classifications as one of the factors in assembling portfolios. A well diversified portfolio is invested across many <i>sectors</i> .
Security	<i>Security lending</i> refers to the practice of loaning assets under the custodian's care to brokers

Lending	for a fee. The loan is secured by collateral provided to the custodian by the borrower.
Short Sales	<i>Short sales</i> refers to the sale of a security which the seller does not own. The <i>Investment Plan</i> prohibits <i>short sales</i> .
Small Capitalization	<i>Small capitalization</i> refers to stocks issued by corporations which are excluded by size from being considered as large capitalization stocks in a specific market. For instance, the "R2000" index encompasses the 2,000 smallest corporations in the R3000 list of domestic stocks. Smaller capitalization stocks are typically less liquid than large capitalization stocks.
Special Situations	See "Alternate Assets".
Standard Deviation	<i>Standard deviation</i> is the statistical measurement of dispersion around the Mean. For instance, if a series of active returns have a normal (bell-shaped) distribution, they will be spread out such that 68.26% of the occurrences will fall within 1 <i>Standard Deviation</i> of the Mean; 95.46% within 2 <i>Standard Deviations</i> ; and 99.73% within 3 <i>Standard Deviations</i> .
Styles	<i>Styles</i> is a term used to describe the investment discipline adhered to by an investment manager. Consultants classify investment managers by their style. Typical classifications for stock managers include growth style vs. value style broken down by large capitalization vs. small capitalization styles.
Tactical Range	<i>Tactical range</i> defines the upper and lower limits which the current market value of an individual asset class must not exceed, in terms of its percentage of the total portfolio. Once the percentage falls outside of the limits, the portfolio is to be "rebalanced".
Tax exempt security	A <i>tax exempt security</i> is an obligation whose interest is exempt from taxation by one or more taxing authorities. Tax exempt securities provide tax free income to an investor and, therefore, usually provide lower interest coupons than a comparable taxable security. Pension funds do not pay taxes. Consequently such securities are not usually attractive to pension funds.
Total Time-Weighted Rate of Return	<i>Total time-weighted rate of return</i> is the most common measurement used to compare the performance of one investment manager or portfolio against another. <i>TTWRR</i> calculates investment performance (income and price changes) as a percentage of capital invested over a specific period of time. <i>TTWRR</i> eliminates the effects of additions and withdrawals of capital and their timing (factors which distort comparisons based on dollar-weighted rates of return).
Tracking Error	<i>Tracking error</i> is a statistical measure of how closely an investment manager or portfolio adhere to a specific performance objective. Specifically, <i>tracking error</i> is the standard deviation of the difference between actual performance and the performance of a specified benchmark. Tracking error is a synonym for "active risk".
Trustee	A <i>trustee</i> is one who is responsible for the stewardship of another's assets, including the responsibility for collecting contributions, safekeeping the assets, investing the assets productively, paying earned benefits in a timely fashion and other acts expected of a prudent fiduciary.
TUCS	<i>TUCS</i> stands for the Trust Universe Comparison Service which provides comparative analysis of total time-weighted rates of return for approximately 286 master trust portfolios, including approximately 38 state and local government pension portfolios.

- Unfunded Actuarial Liability The *Unfunded Actuarial Liability* is the difference between the assets on hand today and the present value of earned benefit payments which are projected to be payable in the future. There are as many measures of the unfunded actuarial liability as there are actuarial funding methods. SamCERA utilizes the "Entry Age Normal Funding Method". Utilizing that method, the appropriate calculation is to subtract the "Actuarial Accrued Liability" from the "Actuarial Value of Assets".
- Volatility *Volatility* is a measure of fluctuations in returns. *Volatility* is one standard deviation of the dispersion of returns around the average return. Pension funds use *volatility* as a proxy for "risk".

Sources: The entries have been generated by *SamCERA* staff. Many of the entries are based on definitions offered in the following sources: BARRA's *Glossary, Investment and Portfolio Theory*; Barron's *Dictionary of Finance and Investment Terms*; Sharpe & Alexander's *Investments, Fourth Edition*; Winklevoss' *Pension Mathematics*; Ibbotson & Brinson's *Global Investing*; Arnott & Fabozzi's *Asset Allocation, A Handbook of Portfolio Policies, Strategies & Tactics*. Recommended additions, changes and corrections should be submitted to the Retirement Administrator for inclusion in the next edition of *SamCERA's Investment Policy*.

**San Mateo County Employees'
Retirement Association**

SamCERA

INVESTMENT POLICY

ADOPTED MMMM DD, 2011

SamCERA

GENERAL INVESTMENT GUIDELINES, POLICIES AND PROCEDURES

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SamCERA

GENERAL INVESTMENT GUIDELINES, POLICIES AND PROCEDURES

SECTION I: MISSION AND PURPOSE

SECTION II: CONSTITUTIONAL REQUIREMENTS

Article 16 §17 of the California State Constitution provides 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 money and administration of the system, subject to the following:

- a. The retirement board of a public pension or retirement system shall have the sole and exclusive fiduciary responsibility over the assets of the public pension or retirement 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 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.
- b. The members of the retirement board of a public pension or retirement system 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 of a public pension or retirement system 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 of a public pension or retirement system 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 of a public pension or retirement system, 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 public pension or retirement system.
- f. With regard to the retirement board of a public pension or retirement system which includes in its composition elected employee members, the number, terms, and method of selection or removal of members of the retirement board which were required by law or otherwise in effect on July 1, 1991, shall not be changed, amended, or modified by the Legislature unless the

change, amendment, or modification enacted by the legislature is ratified by a majority of the electors of the jurisdiction in which the participants of the system are or were, prior to retirement, employed.

g. The Legislature may by statute continue to prohibit certain investments by a retirement board where it is in the public interest to do so, and provided that the prohibition satisfies the standards of fiduciary care and loyalty required of a retirement board pursuant to this section.

h. As used in this section, the term “retirement board” shall mean the board of administration, board of trustees, board of directors, or other governing body or board of a public employees pension or retirement system; provided, however, that the term “retirement board” shall not be interpreted to mean or include a governing body or board created after July 1, 1991, which does not administer pension or retirement benefits, or the elected legislative body of a jurisdiction which employs participants in a public employees pension or retirement system.”

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- D. FIXED INCOME
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- G. PRIVATE EQUITY AND ALTERNATIVES

SECTION VIII: ASSET CATEGORIES OBJECTIVES

The objectives of each asset category are

- A. CASH AND CASH EQUIVALENT
- B. U.S. EQUITY
- C. INTERNATIONAL EQUITY
- D. FIXED INCOME
- E. GLOBAL FIXED INCOME
- F. REAL ESTATE
- G. PRIVATE EQUITY AND ALTERNATIVES

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- D. NON-COMPLIANCE
- E. POOR CLIENT SERVICE
- F. HIGH FEES

PROBATION

The following may result in Probation:

- A. UNDERPERFORMANCE
- B. STYLE DEVIATION
- C. ORGANIZATIONAL CHANGE
- D. NON-COMPLIANCE
- E. POOR CLIENT SERVICE
- F. HIGH FEES

TERMINATION

SCHEDULE I

SamCERA

ASSET ALLOCATION AND MANAGER STRUCTURE TARGETS

Asset Class Target Allocation %

Managers Target Allocation %

SCHEDULE IA

ASSET ALLOCATION PORTFOLIO REBALANCING

SCHEDULE II

Watchlist/Probation Criteria for Underperformance ⁵

Watchlist Criteria Probation Criteria

U.S. Equity

International Equity

Fixed Income

Global Fixed Income

Real Estate

Private Equity & Alternatives

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Performance Criteria for Watchlist/Probation Removal ⁶

Watchlist Removal Probation Removal

U.S. Equity

International Equity

Fixed Income

Global Fixed Income

Real Estate

Private Equity & Alternatives

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TOTAL FUND POLICY INDEX AND ASSET CLASS AND INVESTMENT MANAGER BENCHMARKS

POLICY INDEX FOR TOTAL FUND

Asset Class Benchmark
Manager Benchmark

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MANAGER TERMINATION CHECKLIST

SCHEDULE V

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REQUEST DUE DATE MONTHLY

REQUEST DUE DATE QUARTERLY

REQUEST DUE DATE ANNUAL

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4. MARKET EFFICIENCY

5. ORGANIZATIONAL INFRASTRUCTURE AND COMMUNICATIONS

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CHARTER OF *SamCERA*'s INVESTMENT COMMITTEE OF THE BOARD

Notice of Public Meeting



Audit Committee

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

100 Marine Parkway, Suite 125, Redwood Shores

Tuesday, March 29, 2011, at 9 a.m.

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

Gary Clifton, Chief Investment Officer

Printed: 3/23/11

**Be advised that the committees of the Board of Retirement
are forums in which consensus may emerge.**

**If you have an interest in a matter before a committee,
you are advised to attend the committee meeting.**

Committee meeting times are noted on the board agenda.

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

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

THE COMMITTEE MEETS IN 100 MARINE PARKWAY, SUITE 125,

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

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

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

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

How to Find Us:

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

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

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

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

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

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

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

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

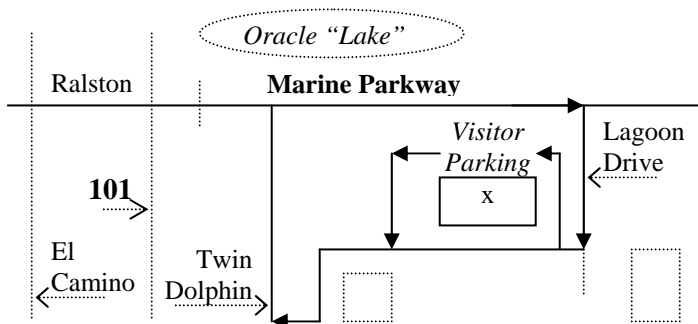
SamCERA’s Telephone Number: (650) 599-1234

From a County Extension: Dial 1234

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

Web Site: www.samcera.org

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



SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

March 29, 2011

Agenda Item 7.1

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Preliminary Monthly Financial Report for the Period Ending February 28, 2011

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

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

Statement of Fiduciary Net Assets

SamCERA's Net Assets Held in Trust for Pension Benefits as of February 28, 2011, totaled \$2,296,362,742.

Statement of Changes in Fiduciary Net Assets

Net assets held in trust for pension benefits increased by approximately \$47.0 million, month over month. The increase is primarily due to an appreciation in assets.

The following reports are attached to this agenda item:

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

	February 2011	February 2010
ASSETS		
CASH AND CASH EQUIVALENTS	139,780,719	101,638,195
SECURITIES LENDING CASH COLLATERAL	135,635,356	295,194,254
TOTAL CASH	275,416,074	396,832,449
RECEIVABLES		
Contributions	0	0
Due from Broker for Investments Sold	118,799,117	63,322,326
Investment Income	10,175,147	5,163,766
Securities Lending Income	71,726	89,387
Other Receivable	113,157	114,102
TOTAL ACCOUNTS RECEIVABLES	129,159,147	68,689,581
PREPAID EXPENSE	7,669	7,669
INVESTMENTS AT FAIR VALUE		
Domestic Fixed Income Securities	579,614,595	490,329,177
Domestic Equities	1,040,589,695	838,842,888
International Equities	432,912,149	374,221,009
Real Estate	122,302,877	106,113,595
Private Equities	250,000	0
	2,175,669,316	1,809,506,669
FIXED ASSETS	0	0
LESS ACCUMULATED DEPRECIATION	0	0
	0	0
TOTAL ASSETS	2,580,252,207	2,275,036,368
LIABILITIES		
Investment Management Fees	3,207,844	1,846,364
Due to Broker for Investments Purchased	144,281,556	95,332,071
Collateral Payable for Securities Lending	135,635,356	295,194,254
Other	764,708	608,331
TOTAL LIABILITIES	283,889,465	392,981,020
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	2,296,362,742	1,882,055,348

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

	February 2011	February 2010	Increase/Decrease
ADDITIONS			
CONTRIBUTIONS			
Employer Contribution	143,959,198	99,883,301	44,075,897
Employee Contribution	31,270,545	31,824,412	(553,867)
TOTAL CONTRIBUTIONS	175,229,743	131,707,713	43,522,030
INVESTMENT INCOME			
Interest and Dividends	24,456,766	23,821,675	635,091
Net Appreciation (Depreciation) in fair value of investments	377,674,762	224,783,888	152,890,874
Less Investment Expense	(7,481,086)	(4,876,418)	(2,604,668)
Less Asset Management Expense	(426,236)	(337,425)	(88,811)
NET INVESTMENT INCOME	394,224,206	243,391,719	150,832,486
SECURITIES LENDING INCOME			
Earnings	399,558	738,041	(338,483)
Less: Securities Lending Expenses	(107,332)	(235,420)	128,087
NET SECURITIES LENDING INCOME	292,226	502,621	(210,395)
OTHER ADDITIONS	56,624	19,515	37,109
TOTAL ADDITIONS	569,802,799	375,621,568	194,181,230
DEDUCTIONS			
ASSOCIATION BENEFITS			
Service Retirement Allowance	75,119,195	70,270,075	4,849,119
Disability Retirement Allowance	9,609,566	9,736,556	(126,989)
Survivor, Death and Other Benefits	529,699	548,964	(19,266)
TOTAL ASSOCIATION BENEFITS	85,258,460	80,555,595	4,702,864
REFUND OF MEMBER CONTRIBUTIONS	1,868,441	2,206,133	(337,693)
ADMINISTRATIVE EXPENSE	2,157,383	2,138,062	19,322
OTHER EXPENSE	52,228	65,988	(13,760)
TOTAL DEDUCTIONS	89,336,511	84,965,778	4,370,733
NET INCREASE	480,466,287	290,655,790	189,810,497
Net Assets Held in Trust for Pension Benefits:			
Beginning of Period	1,815,896,455	1,591,399,558	
End of Period	2,296,362,742	1,882,055,348	

San Mateo County Employees' Retirement Association
CHANGES IN FIDUCIARY NET ASSETS - TRAILING EIGHT MONTHS
For the Month Ending February 28, 2011
PRELIMINARY

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

San Mateo County Employees' Retirement Association
CHANGES IN FIDUCIARY NET ASSETS - TRAILING EIGHT MONTHS
For the Month Ending February 28, 2011
PRELIMINARY

	December YTD 2010	January 2011	February 2011	YTD
ADDITIONS				
CONTRIBUTIONS				
Employee Contribution	23,587,673	3,734,419	3,948,453	31,270,545
Employer Contributions - Regular	45,909,870	7,652,176	7,460,233	61,022,279
Employer Contributions - COLA	25,799,055	4,292,459	4,173,675	34,265,188
Employer Prefunded Contribution	7,192,610	53,074,415	(11,595,294)	48,671,731
TOTAL CONTRIBUTIONS	102,489,208	68,753,468	3,987,066	175,229,743
INVESTMENT INCOME				
Interest and Dividends	18,835,032	1,999,124	3,622,609	24,456,766
Net Appreciation (Depreciation) in fair value of investments	303,265,608	22,650,174	51,815,603	377,731,386
Securities Lending Income	322,650	43,061	33,846	399,558
Other Additions	0	0	0	0
Asset Management Expense	(322,568)	(44,618)	(59,050)	(426,236)
Other Investment Related Expense	(232,830)	(38,041)	(3,683)	(274,555)
Securities Lending Expense	(78,403)	(16,677)	(12,252)	(107,332)
TOTAL ADDITIONS	424,278,699	93,346,492	59,384,139	577,009,330
DEDUCTIONS				
ASSOCIATION BENEFITS				
Retiree Annuity	14,420,165	2,455,713	2,477,318	19,353,196
Retiree Pension	34,220,701	5,825,447	5,869,498	45,915,646
Retiree COLA	14,986,114	2,474,478	2,471,993	19,932,585
Retiree Death and Modified Work Benefit	21,475	3,579	31,487	56,541
Active Member Death Benefit	0	0	0	0
Voided and Reissue	492	(6,887)	6,887	492
TOTAL ASSOCIATION BENEFITS	63,648,946	10,752,331	10,857,183	85,258,460
REFUND OF MEMBER CONTRIBUTIONS	1,175,896	170,704	521,840	1,868,441
ACTUARIAL FEES				
CONSULTANT FEES - INVESTMENT (SIS)	40,167	833	833	41,833
CUSTODIAN FEES - STATE STREET	166,667	16,667	50,000	233,333
INVESTMENT MANAGEMENT FEE - R1000 INDEX	117,298	28,689	31,302	177,289
INVESTMENT MANAGEMENT FEE - ABERDEEN	46,291	7,972	9,371	63,634
INVESTMENT MANAGEMENT FEE - PYRAMIS	180,066	28,231	26,401	234,698
INVESTMENT MANAGEMENT FEE - BROWN BROTHERS	125,248	18,093	15,951	159,292
INVESTMENT MANAGEMENT FEE - BRIGADE CAPITAL	29,683	5,747	6,644	42,074
INVESTMENT MANAGEMENT FEE - FRANKLIN TEMPLETON	100,865	17,694	18,015	136,575
INVESTMENT MANAGEMENT FEE - CHARTWELL	5,407	81,162	(14,815)	71,754
INVESTMENT MANAGEMENT FEE - D E SHAW	178,434	34,224	37,239	249,898
INVESTMENT MANAGEMENT FEE - T ROWE PRICE	244,287	45,429	47,062	336,778
INVESTMENT MANAGEMENT FEE - BLACKROCK	178,315	31,080	32,526	241,921
INVESTMENT MANAGEMENT FEE - BARROW HANLEY	348,022	64,716	66,636	479,375
INVESTMENT MANAGEMENT FEE - THE BOSTON COMPANY	328,924	60,782	62,936	452,642
INVESTMENT MANAGEMENT FEE - JENNISON ASSOCIATES	185,690	34,280	36,460	256,430
INVESTMENT MANAGEMENT FEE - MONDRIAN	396,283	73,876	78,093	548,252
INVESTMENT MANAGEMENT FEE - ARTIO	255,414	38,236	42,018	335,668
INVESTMENT MANAGEMENT FEE - WESTERN ASSET	505,344	86,562	88,141	680,047
INVESTMENT MANAGEMENT FEE - INVESCO CORE	201,962	29,125	25,929	257,016
TOTAL PROFESSIONAL FEE	305,143	48,999	48,999	403,141
TOTAL ADMINISTRATIVE EXPENSES	3,939,509	752,399	709,739	5,401,648
ADMIN EXPENSE - SALARIES & BENEFITS	1,043,860	184,241	182,148	1,410,250
ADMIN EXPENSE - SERVICES & SUPPLIES	582,393	79,118	85,623	747,133
TOTAL DEDUCTIONS	72,235,638	11,941,573	12,365,832	96,543,043
NET INCREASE	352,043,061	81,404,919	47,018,307	480,466,287

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

	February 2011	January 2011	Increase/(Decrease)	% of Incr/Decr
ASSETS				
CASH AND CASH EQUIVALENTS	139,780,719	110,241,828	29,538,891	26.79%
SECURITIES LENDING CASH COLLATERAL	135,635,356	143,011,092	(7,375,737)	-5.16%
TOTAL CASH	275,416,074	253,252,920	22,163,154	0
RECEIVABLES				
Contributions	0	0	0	N/A
Due from Broker for Investments Sold	118,799,117	215,265,978	(96,466,861)	-44.81%
Investment Income	10,175,147	4,241,556	5,933,591	139.89%
Securities Lending Income	71,726	76,516	(4,790)	-6.26%
Other Receivable	113,157	113,236	(79)	-0.07%
TOTAL ACCOUNTS RECEIVABLES	129,159,147	219,697,286	(90,538,140)	-41.21%
PREPAID EXPENSE	7,669	7,669	0	0.00%
INVESTMENTS AT FAIR VALUE				
Domestic Fixed Income Securities	579,614,595	604,094,297	(24,479,702)	-4.05%
Domestic Equities	1,040,589,695	1,003,533,809	37,055,886	3.69%
International Equities	432,912,149	424,542,713	8,369,436	1.97%
Real Estate	122,302,877	122,302,877	0	0.00%
Private Equity	250,000	250,000	0	0.00%
	2,175,669,316	2,154,723,697	20,945,620	0.97%
FIXED ASSETS	0	0	0	N/A
LESS ACCUMULATED DEPRECIATION	0	0	0	N/A
	0	0	0	0.00%
TOTAL ASSETS	2,580,252,207	2,627,681,572	(47,429,365)	-1.80%
LIABILITIES				
Investment Management Fees	3,207,844	2,548,592	659,252	25.87%
Due to Broker for Investments Purchased	144,281,556	232,063,547	(87,781,991)	-37.83%
Collateral Payable for Securities Lending	135,635,356	143,011,092	(7,375,737)	-5.16%
Other	764,708	713,905	50,803	7.12%
TOTAL LIABILITIES	283,889,465	378,337,137	(94,447,672)	-24.96%
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	2,296,362,742	2,249,344,435	47,018,307	2.09%

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

	February 2011	January 2011	Increase/Decrease
ADDITIONS			
CONTRIBUTIONS			
Employer Contribution	143,959,198	143,920,585	38,614
Employee Contribution	31,270,545	27,322,093	3,948,453
TOTAL CONTRIBUTIONS	175,229,743	171,242,677	3,987,066
INVESTMENT INCOME			
Interest and Dividends	24,456,766	20,834,157	3,622,609
Net Appreciation (Depreciation) in fair value of investments	377,674,762	325,861,517	51,813,245
Less Investment Expense	(7,481,086)	(6,767,664)	(713,422)
Less Asset Management Expense	(426,236)	(367,186)	(59,050)
NET INVESTMENT INCOME	394,224,206	339,560,824	54,663,382
SECURITIES LENDING INCOME			
Earnings	399,558	365,712	33,846
Less: Securities Lending Expenses	(107,332)	(95,080)	(12,252)
NET SECURITIES LENDING INCOME	292,226	270,632	21,594
OTHER ADDITIONS			
	56,624	54,266	2,358
TOTAL ADDITIONS	569,802,799	511,128,399	58,674,400
DEDUCTIONS			
ASSOCIATION BENEFITS			
Service Retirement Allowance	75,119,195	65,582,704	9,536,490
Disability Retirement Allowance	9,609,566	8,386,331	1,223,235
Survivor, Death and Other Benefits	529,699	432,241	97,458
TOTAL ASSOCIATION BENEFITS	85,258,460	74,401,276	10,857,183
REFUND OF MEMBER CONTRIBUTIONS	1,868,441	1,346,600	521,840
ADMINISTRATIVE EXPENSE	2,157,383	1,889,612	267,771
OTHER EXPENSE	52,228	42,930	9,298
TOTAL DEDUCTIONS	89,336,511	77,680,419	11,656,093
NET INCREASE	480,466,287	433,447,980	47,018,307
Net Assets Held in Trust for Pension Benefits:			
Beginning of Period	2,249,344,435	2,167,939,516	
End of Period	2,296,362,742	2,249,344,435	

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

March 29, 2011

Agenda Item 7.2

To: Board of Retirement



From: Mabel Wong, Retirement Finance Officer



Gary Clifton, Chief Investment Officer

Subject: Review and Approval of a Request For Proposal for Actuarial Audit Services

STAFF RECOMMENDATION: Staff recommends that the board review, amend as required and approve the attached Request For Proposal for Actuarial Audit Services.

BACKGROUND: Article XVI, §17 (e) of the Constitution of the State of California vests the Board of Retirement with *“The sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the...system.”* Government Code §31453 requires periodic valuations of *SamCERA*'s actuarial soundness.

The board opined it is prudent from time to time to issue a Request for Proposal to conduct an independent audit to validate the appropriateness of the actuarial assumptions and methodologies employed by the board's actuary. The first actuarial audit was performed in 1999. In 2004 *SamCERA* selected Public Pension Professionals (PPP) to replace Mercer for actuarial services. At that time the board reasoned a change in actuary and that firm's review of the prior actuary's work would suffice for an audit. That last actuarial audit for performed in 2005. Milliman was hired to replace PPP and perform an actuarial audit valuation of PPP's work.

DISCUSSION: It is time once again for *SamCERA* to commission an actuarial audit. Attached is a draft Request for Proposal (RFP) for Actuarial Audit Services. The Board's Audit Committee will review the RFP and will make a recommendation to the board regarding the RFP and further steps to be taken for completing an audit of *SamCERA*'s actuarial data.

San Mateo County Employees' Retirement Association

Request for Proposal for Actuarial Audit Services

RFP Issued March 29, 2011

Proposal Submission Deadline:

Thursday, April 21, 2011 5 p.m., Pacific Standard Time

Proposals sent by facsimile or Email will not be accepted.

INTRODUCTION

San Mateo County Employees' Retirement Association (*SamCERA*) invites proposals from interested actuarial firms for the performance of an independent actuarial audit and evaluation of actuarial services provided to *SamCERA* by its current actuarial consultant, Milliman. The intent of this evaluation is to provide an independent actuarial opinion as to the accuracy and veracity of valuation results, actuarial assumptions, application of the actuarial cost method and associated activities and performance of Milliman. The successful bidder will perform a complete replication audit, and report their findings to the Board of Retirement, orally and in writing. This audit will follow generally recognized and accepted actuarial principles and practices which are in accordance with Actuarial Standards of Practice, the Code of Professional Conduct, Qualifications Standards for Public Statements of Actuarial Opinion of the American Academy of Actuaries, and requirements of GASB Statement 25. The auditor will perform all required services in accordance with applicable federal and state of California statutes.

GENERAL INFORMATION

The San Mateo County Employees' Retirement Association (*SamCERA*) is a public retirement association organized under and governed by the County Employees Retirement Law of 1937(1937 Act), codified as California Government Code §31450 et seq. Under provisions of the 1937 Act, management of *SamCERA*, including general administration, disability matters and control of investment assets, is vested in the Board of Retirement (Board). The Board is composed of twelve members: the County Treasurer, 5 members appointed by the San Mateo County Board of Supervisors, 5 members elected by the active membership and 2 members elected by the retirees. One of these members serves as a retired member alternate and one serves as a safety member alternate. *SamCERA's* funding is generated from three sources: employer contributions, employee contributions, and earnings on investments.

Members of *SamCERA* are retired and active employees of the County of San Mateo and special districts situated in the county and are classified as either General or Safety. The 1937 Act provides for a defined benefit retirement system; benefits are set by statute. The types of benefits provided to members are service retirement, disability retirement (both service and non-service connected), death benefits, and survivor's benefits.

At present there are approximately 5,550 active members and 5,200 retired members and beneficiaries of *SamCERA*. *SamCERA* administers 10 retirement tiers, each with slightly different benefit factors. The current market value of *SamCERA's* net assets is approximately \$2.3 billion. Further information is available on our web site, www.samcra.org, including .PDF files of recent Comprehensive Annual Financial Reports (CAFR).

SCOPE OF SERVICES

The comprehensive, full replication actuarial audit will review the June 30, 2011 annual valuation and the FY2009-2011 experience study to verify the results presented are actuarially sound, reasonable and consistent with industry standards. *SamCERA* intends to schedule this audit in 2011.

The actuarial auditing scope will include practice concepts, actuarial conduct standards, assumptions, methodology, and contribution rate calculations. Assumption correctness will also

be tested, along with methodology and verification of assumption disclosure. Changes from prior valuations, governmental reporting adherence and accuracy of plan provision summaries should also be considered. The audit will verify demographics used for experience studies, i.e., salary scales, number of terminations, age and service determinations plus benefit calculations.

1. Minimum audit subject matter will include:

- Discussion of the appropriateness of the actuarial assumptions.
- Review the actuarial assumptions and methodology for compliance with the County Employee's Retirement Law of 1937 (CERL) statutes, *SamCERA's* regulations and policies; and for compliance with generally recognized and accepted actuarial principles and practices which are consistent with Actuarial Standards of Practice, the Code of Professional Conduct, Qualifications Standards for Public Statements of Actuarial Opinion of the American Academy of Actuaries, and GASB Statement 25.
- Accuracy of funding computations.
- Appropriateness of established reserve accounts.
- Appropriateness of recommended employer and employee contribution rates.
- Evaluation of actuarial asset methods.
- Assess the validity of the 2011 valuation using a mathematical model of plan activity or sampling based on the same data, methods, and assumptions used by Milliman.
- Evaluate the test results and reconcile any significant discrepancies between the findings, assumptions, methodology, rates, and adjustments of the auditing firm and Milliman.
- Assess whether the valuation appropriately reflects information required to be disclosed under required reporting standards (GASB, etc.).
- Assess the accuracy of the simulation model provided to *SamCERA* by its actuary.

2. The completed audit report will include (at minimum):

- An evaluation and an opinion on the reasonableness and accuracy of the valuation results (including a determination of actuarial accrued liability, normal cost, and actuarial required contributions), experience study findings, actuarial assumptions, and appropriateness and application of the actuarial cost method.
- Recommendations (if any) for reasonable alternatives to the actuarial assumptions used in the 2011 valuation or recommended as a result of the 2009-2011 experience study.
- Recommendations to improve the quality and understanding of the valuation report.
- A comparison of existing actuarial methodology, assumptions and recommendations versus information generated by the replicative audit.

MINIMUM ACTUARIAL FIRM QUALIFICATIONS

The actuarial auditing firm must meet all of the Minimum Qualifications. Failure to do so may result in rejection of the proposal. The term "Senior Auditor" refers to the lead and most senior actuary to provide direct services to *SamCERA*. The term "Supporting Auditors" refers to less senior actuaries that will support the Senior Auditor in providing direct services to *SamCERA*. The term "Auditing Actuaries" refers to the Senior Auditor and all Supporting Auditors to be assigned to and provide direct services to *SamCERA*.

1. The firm must be a professional organization that provides actuarial valuations, experience studies, actuarial audits and public pension consulting services. The firm must be licensed to conduct business in California.
2. The firm must have performed actuarial services for a minimum of 10 years.
3. The firm must have all necessary permits and licenses. Liability, professional errors and omissions insurance in the amount of \$10,000,000 must be in effect at the time the proposal is submitted and throughout the term of the engagement.
4. Within the past three years, the firm must have had at least three public pension clients (preferably 1937 Act agencies), serving at least 5,000 active members and 5,000 retired and/or survivor members, who used the firm as primary actuarial consultant for valuations, experience studies and/or actuarial audit tasks.
5. The Senior Auditor performing the work must be a Fellow of the Society of Actuaries and an enrolled actuary. Any Supporting Auditor must be either a Fellow, enrolled, or have ten years of public pension consulting experience.
6. The Senior Auditor performing the services under the engagement must have a minimum of ten years of experience as an actuary providing public pension consulting services, experience analysis, valuations, and actuarial audit assignments for multi-employer public retirement systems with memberships of at least 7,500 members and annuitants.
7. Any Supporting Auditor performing services during the engagement must have five years of experience as an actuary providing public pension consulting services, experience analysis, valuations, and actuarial audit assignments for multi-employer public retirement systems with memberships of at least 7,500 members and annuitants.
8. The firm must provide its own work facilities, equipment, supplies and support staff to perform the required services.

PROPOSAL REQUIREMENTS

Background and Financial Information

1. Describe the proposing organization's structure. Include the following:
 - a. Ownership information of the firm. Describe any material changes in organizational structure, or ownership that have occurred in the past 5 years. Provide names of all entities with ownership stakes. Detail affiliated companies and/or joint ventures.
 - b. Background information. How long has the firm been providing actuarial consulting services to public pension clients?
 - c. What is the importance (percentage) of actuarial services within the firm? What percentage of revenue comes from actuarial services?

2. List the locations of each office that provide actuarial services within the firm. Which office would be responsible for work performed for *SamCERA*? What is the staffing for that office?
3. Provide the latest two years' audited financial reports for the firm. Provide additional information necessary to demonstrate financial stability, including total revenue, net income / (loss), assets, liabilities, and net worth for each year.
4. Discuss the firm's competitive advantage over other firms in the actuarial consulting industry and in the actuarial audit service area. Why should *SamCERA* hire your firm?
5. Over the past five years, has your organization or any officer or principal been involved in any business litigation or other legal proceedings related to any actuarial consulting activities or actuarial auditing services? If so, provide a brief explanation and indicate the current status.
6. Has your firm, within the last ten years, been censured or fined by any regulatory body? If so, please indicate the dates and describe the situation.
7. Has any litigation been brought against the firm by any entity for fraud, malpractice, misrepresentation, negligence, or similar cause of action? If so, please document this information.
8. Is the firm affiliated with any other firm(s) offering non-actuarial services that could represent conflicts of interest? If yes, briefly describe your firm's policies and procedures for doing business with these affiliates while safeguarding against conflicts of interest.
9. Do you, your parent company, or any affiliated company have any business relationships with Milliman? If so, describe that relationship.
10. List and describe any professional relationship your firm or any of your actuarial consulting group staff have with any member of the *SamCERA* Retirement Board, staff or plan sponsors.
11. Has anyone in your firm provided any gifts, travel expenses, entertainment, or meals to any member of the *SamCERA* Retirement Board, or *SamCERA* staff in the last twelve months? If yes, describe the expense and the purpose.

Personnel Information

1. How many actuaries does your firm employ?
2. Describe the background of the professionals in the firm's actuarial consulting services group:
 - What percentage are currently Fellows of the Society of Actuaries? Enrolled actuaries?
 - What ongoing educational programs are supported and/or required?
3. For the key executives and professionals in the actuarial auditing consulting group assigned to *SamCERA*, including the Senior Auditor and Secondary Auditor(s), please provide resumes (or biographies) that include the following information:
 - Name

- Title
 - Responsibilities within the firm. If a person has multiple responsibilities, indicate the percentage of time spent on each function in a footnote to the table.
 - Years of relevant experience.
 - Years with the firm.
 - Degrees and professional designations.
 - Institution awarding each degree and designation.
 - Publications authored and/or presentation summary
4. How long has the current group of key executives and professionals in your actuarial consulting group worked as a team?
 5. For the Senior Auditor and all Secondary Auditors, list their public fund actuarial audit assignments for the past five years. Include for each assignment the date of the final audit report, whether the auditor served as the Senior or Secondary auditor, and the client's name and size (number of pension plan members and annuitants). Include reference clients' contact information.
 6. For the Senior Auditor and all Secondary Auditors who may provide services to *SamCERA*, state the role each would play in accomplishing the required services.
 7. For the Senior Auditor and each Secondary Auditor, please state the total number of clients currently assigned to these individuals; are the assignments for general actuarial services or actuarial audit services? What is the accessibility to the actuaries assigned to *SamCERA*?
 8. Are there any potential conflicts of interest with the proposed Senior and/or Supporting Actuaries within the *SamCERA* assignment? Are there any potential conflicts of interest related to other client relationships? If so, provide details on the entity or activity.
 9. Does the firm have a transition plan to deal with the possible sudden departure of key professionals assigned to *SamCERA*'s actuarial auditing project? Describe the plan.

In the event an actuary must be replaced, the replacement must meet the same standards as outlined in this proposal and be acceptable to *SamCERA*. Failure to provide a new replacement acceptable to *SamCERA* will constitute a breach of the firm's agreement.

Proposed Actuarial Auditing Methods

1. Describe the specific methodology to be used for the scope of work needed by *SamCERA*.
2. Milliman and the actuarial audit firm will work simultaneously on the Valuation for June 30, 2011. The estimated timeline for completion of work, including each stage of the process follows:
 - June 24, 2011 – *SamCERA* and/or Milliman will provide any information requested regarding the investigation.
 - July 5, 2011 – Milliman will provide a Draft of Investigation of the Experience Report.

- July 7, 2011 – *SamCERA* will provide valuation data files as of 6/30/2011.
- July 12, 2011 – *SamCERA* and the actuarial audit firm will provide comments to Milliman on the Investigation of Experience Report.
- July 18, 2011 – The actuarial audit firm will provide the Letter (report) on Auditor Investigation of Experience Report.
- July 26, 2011 – The actuarial audit firm will present their findings from the Investigation of Experience Report to the Board of Retirement.
- August 5, 2011 – Milliman will provide any information requested regarding the valuation.
- September 6, 2011 Milliman will provide a Draft Valuation Report.
- September 12, 2011 *SamCERA* and the actuarial audit firm will provide comments on the valuation report.
- September 19, 2011 – The final Valuation Report will be delivered from Milliman. The actuarial audit firm will deliver the Audit Report of the Valuation Report.
- September 27, 2011 – Milliman will make a presentation to the Board of Retirement of the Valuation Report. The actuarial valuation firm will make a presentation of the Audit of the Valuation Report.

Be sure to include an estimate of information or data gathering required from *SamCERA* and/or its current consulting actuary that is not specified above. Indicate additional points in the audit when your firm plans to interact with *SamCERA* staff at our office.

3. Describe your firm's theory and methodology used in recommending an appropriate actuarial cost method for a public pension fund.
4. Describe your firm's theory and methodology for actuarial assumptions development (except for the interest rate assumption, which is addressed separately).
5. Describe the methodology used to formulate a pension fund's actuarial interest rate assumption. How may this methodology differ from client to client? Under what circumstances would you recommend *SamCERA* change its interest rate assumption?
6. Describe your firm's approach to recommendations regarding the amortization of unfunded liabilities.
7. Describe your approach to measuring funded status and funding progress in order to facilitate the assessment of trends over several valuations of a client.
8. Describe the capabilities of your valuation system(s) and your computer system support.
9. Describe your quality control processes for actuarial audit reports and recommendations. How are these services monitored and reviewed?
10. Provide an example of one recent actuarial audit report for an existing client.

Actuarial Auditing Experience and References

1. Please list client relationships where **only** actuarial auditing services similar to this RFP have been or are being provided.
2. For all **current** public pension plan full-service actuarial clients, state the client's name, the first year of your initial contract with the plan, and their asset and membership size as of 2010. Designate by asterisk which of these clients are multi-employer plans. In addition, describe the nature of the consulting relationship with:
 - A full-service actuarial consulting client that has been assigned for at least two years to the Senior Auditor proposed for the *SamCERA* account.
 - The client with the longest full-service actuarial consulting relationship with your firm.
 - The client who most recently terminated your firm's full-service actuarial consulting contract.
 - A multi-employer public pension plan client for whom your firm has provided full service actuarial consulting for at least three years.
3. Please provide the name, title, address, and telephone number for at least three client references for whom your firm has provided actuarial audit services similar to this Request for Proposal. (*SamCERA* reserves the right to contact any of the individuals/agencies provided.) Include the following detail:
 - The client for whom the firm most recently completed an actuarial audit.
 - The scope of the actuarial auditing services required for these reference clients.
 - The client for whom the Senior Auditor most recently completed an actuarial audit.
4. List all pension plan clients that have terminated their actuarial service contracts with your firm in the last five years. Include the client firm's name, size (number of pension plan members and annuitants), date of contract termination, and reason(s) for contract termination.
5. Within the last five years, has your firm been notified by any actuarial consulting services client that your firm is in default of its contract, or that conditions exist jeopardizing continuation of that contract? If so, state the client firm's name, year the notice was received, reasons for the notice, and resolution or current status of the relationship.
6. Have your firm's actuarial consulting service products been audited by another actuarial firm within the last five years? If so, state the number of such audits and whether any resulted in revisions to your clients' annual valuation results, actuarial assumptions, or actuarial cost methods. Which firm(s) audited your actuarial product?

Additional Required Information

1. Will subcontractors be used in providing the required *SamCERA* services? If so, describe the specific services that would be subcontracted, the name of the subcontractor, the cost to your firm of these services, and how you would control the quality of services provided.

2. Please describe your firm's legal resources, both in-house and external consultants, if retained.
3. Do you have plans/arrangements for disaster recovery? Briefly describe your disaster recovery plans. Include plans related to client data files in your description.
4. Please describe the coverage levels for errors and omissions insurance and any fiduciary or professional liability insurance your firm carries. Is the coverage on a per-client basis, or is the dollar figure applied to the firm as a whole? List the insurance carriers.
5. How does the firm monitor and measure actuarial client satisfaction and actuarial audit satisfaction?
6. Describe the resources your firm has that specifically address the needs of public fund clients.

Actuarial Audit Cost Structure

1. Describe the cost structure you propose for *SamCERA*'s actuarial audit engagement. Include any performance benchmarks proposed for each fee tier.
2. Describe how fees are determined for your firm's actuarial auditing services.
3. How are fees billed (billing periods and prospective versus arrears)?
4. The proposed fee schedule should include administrative, third-party, travel, and all other costs associated with the proposed engagement. These costs should be presented in detail.

Proposal Organization

Proposals should be organized in the following manner:

1. Cover Letter
2. Table of Contents
3. Executive Summary
4. Firm and Personnel Background Information and Qualifications
5. Complete Replication Audit Performance Methodology
6. Cost Structure
7. References
8. Contract Specifications

9. Attachments

PROPOSAL SUBMISSIONS

Proposals should include the following and preceding information to illustrate the firm's capabilities.

Cover Letter

A cover letter is required, which includes the following statements:

1. The attached proposal is complete as submitted.
2. All prices, cost schedules, and/or other factors contained in the proposal are valid for 90 days from the proposal closing date.
3. Certification of non-discriminatory practices in the firm's services.
4. Mandatory signature of the representative(s) who are authorized to legally bind the vendor.
5. The cover letter must also identify any sections of the proposal that the firm is identifying as confidential.

The Board has made every effort to include enough information in this proposal for a firm to prepare a responsive proposal. The Board strongly discourages any contact with Board members while the selection process is pending, unless contact had been initiated by the Board or staff. Proposals will be evaluated by a trustee and executive management team.

During the evaluation process, *SamCERA* may identify areas where additional information or clarification may be needed. If required, *SamCERA* will provide each semi-finalist firm a description of issues to be explored. These areas may include fees, personnel availability, or any other matter the evaluation team may need further information about for assessment. These issues will be exclusive to each semi-finalist; under no circumstances will the issues be disclosed between prospective firms. When this process is completed a successful firm will be selected. Award will be made to the responding firm whose proposal is deemed to be the most advantageous to *SamCERA*, taking into consideration all stated criteria and evaluation factors.

The Board anticipates that the proposal submittal, review, and selection process will take approximately 60 days. The process timeline follows.

A. Distribution of Proposals. Proposals mailed to vendors on 03/30/2011.

B. Information Requests. Written requests for additional information must be received no later than 04/11/2011. If additional information is desired, requests should be in writing to:

Mabel Wong, Retirement Finance Officer
San Mateo County Employees' Retirement Association

100 Marine Parkway, Suite 125
Redwood City, CA 94065
mwong@samcera.org

C. **Information Response.** The Retirement Financial Officer will mail responses to requests for additional information on 04/14/2011. Inquiries and the responses (if any) to questions critical to the competitive selection process will be mailed to all firms participating in the proposal process.

D. **Proposal Submission.** Proposals must be received by:

5 p.m., Pacific Daylight Time on 04/21/2011.

Late proposals will not be accepted.

On the outside of the sealed response package, clearly mark:

RESPONSE TO REQUEST FOR PROPOSAL

2011 Actuarial Auditing Services

Facsimile transmitted proposals will not be accepted.

Please submit 10 proposals and related information (one original and 9 copies) to:

Mable Wong, Retirement Finance Officer
San Mateo County Employees' Retirement Association
100 Marine Parkway, Suite 125
Redwood City, CA 94065
mwong@samcera.org

E. All proposals shall be firm and may not be withdrawn or modified for a period of 90 days following the date of submission.

F. **Proposal Review.** *SamCERA* will schedule sessions to review and evaluate the proposals. *SamCERA* anticipates selecting one or more firms as finalists on 05/04/2011.

G. **Notification.** *SamCERA* anticipates sending written notification on 05/04/2011 to those firms selected for an interview. Firms not selected for an interview will also be notified that their proposal will no longer be considered, unless the Board concludes that additional firms should be interviewed.

H. **Interviews.** If required, *SamCERA* will schedule presentations of the finalists in May. Note that there may not be any oral presentations; each proposal is expected to be complete in and of itself.

I. **Contract Effectiveness.** The approved firm will officially become *SamCERA's* provider of actuarial auditing services on or after 05/25/2011, depending on completion of contract negotiations.

Notification to vendors of *SamCERA*'s decision to award a contract for actuarial audit services will be by mail, on or after:

5:00 p.m., PDT, Wednesday, 05/26/2011

The Board will make every effort possible to administer the proposal process in accordance with the terms and dates discussed in this section; however, the Board reserves the right to modify the proposal process and dates if necessary.

EVALUATION OF PROPOSALS

Proposals will be screened initially to determine if they have met the conditions set forth under Minimum Qualifications. Proposals that are non-compliant will be eliminated. After Minimum Qualifications have been satisfied, the evaluation criteria will be the following:

- **Ability.** The firm's ability to provide the requested services.
- **Related Experience.** The firm's demonstrated, related experience in providing services comparable to the Board's needs. Expertise in all aspects of actuarial auditing, preferably as it relates to public entities and the 1937 Act.
- **Qualified Personnel** assigned to provide necessary services.
- **Firm Stability.** The firm's stability, professionalism and reputation as compared to other firms providing actuarial auditing services.
- **Assigned Individuals.** The credentials and experience of the person(s) who would be assigned to *SamCERA*'s account.
- **Fee Proposal.** The fee structure proposed by the firm.
- **Reasonableness and competitiveness** of fees/costs for services.
- **General quality and adequacy of response**, including completeness of response, conformity to terms and conditions.
- **Quality of references.** Level of satisfaction of present and/or former clients.
- **Other Factors.** Any other factors that would be in the best interest of the Board to consider which were not previously described.

PROPOSAL OBLIGATIONS

The contents of the proposal and any clarifications thereto submitted by the successful firm shall become part of the contractual obligation and will be incorporated by reference into the Contract.

CONTRACT TERMS

The Contract shall be a combination of the specifications, terms, and conditions of the RFP, any written clarifications or changes made to this RFP, the offer contained in the successful proposal, and any additional contractual terms and conditions agreed to mutually and in writing by the parties. Negotiation, execution and amendment of the contract and operational oversight of services provided under the contract for actuarial auditing, are the responsibility of *SamCERA*'s Chief Executive Officer, David Bailey.

PUBLIC RECORD REQUESTS

During the RFP review, presentation, and discussion time period, *SamCERA* will not disclose any information derived from the submissions. Once an award is made, the proposals become public record, and may be disclosed upon request. If you are submitting any information you consider to be proprietary, the information must be marked as such. Please be aware, the marking of information as “proprietary” does not necessarily preclude its disclosure. Should a public information request be presented, the laws of the State of California will prevail.

The California Public Records Act, Government code sections 6250, *et.seq.*, provides that access to information concerning the conduct of the people’s business is a fundamental and necessary right of every person in the state. Public records are defined as any writing relating to the conduct of the public’s business and are open to inspection during normal business hours.

There are specific exceptions to the Public Records Act. In the event *SamCERA* receives a request of any proposal submitted pursuant to this Request for Proposal, it is the responsibility of the organization whose proposal has been requested to assert any rights to confidentiality that may exist. *SamCERA* will not make that assertion on behalf of the prospective actuarial auditor. Absent a judicial determination that the documents are exempt from disclosure, they will be subject to inspection.

Submission by a vendor constitutes a complete waiver of any claims whatsoever against the County of San Mateo, *SamCERA*, and/or its agents, officers, or employees, that *SamCERA* has violated a vendor’s right to privacy, disclosed trade secrets or caused any damage by allowing the proposal to be inspected.

RFP WITHDRAWAL OR MODIFICATION

Proposals may be withdrawn or modified by a request in writing or one sent via facsimile from respondent no later than 3 business days prior to the RFP closing date.

ERRORS/CLARIFICATIONS

If any ambiguity, conflict, discrepancy, omission or other error is discovered in this RFP, the firm should immediately notify *SamCERA*, attention Mabel Wong, in writing, requesting modification or clarification of the document. Modifications of material consequence will be made by addenda issued to all participating respondents.

COLLUSION AFFIDAVIT/CONFLICT OF INTEREST

By submitting a proposal, the firm certifies that the quoted prices are genuine and not the result of collusion or any other activity which would tend to directly or indirectly influence the process. The firm further certifies the firm has no real or potential conflicts of interest that would prevent the firm from acting in the best interests of *SamCERA*.

FINAL COMMENTS

The Board reserves the right to reject any and all proposals, with or without cause, and to request additional information from the proposing firms.

SamCERA will not reimburse responding firms for any expenses incurred in preparing proposals and/or presentations in response to this RFP. All responses and accompanying documentation become the property of *SamCERA* at the time the proposals are opened, and will not be returned.

A response to this RFP must be prepared and submitted according to the specifications set forth in this document. Failure to adhere to these specifications may be cause for rejection of the proposal. Any correction and/or resubmission of a proposal shall be submitted prior to the bid submission deadline.

All proposals shall be firm and may not be withdrawn for a period of 90 days following the date of submission of proposals.

SamCERA reserves the right to conduct discussions with prospective firms, to accept revisions of proposals, if solicited, and to negotiate pricing changes.

SamCERA reserves the right to use all available means to evaluate the firms, including review of submitted proposals, reference checks, interviews and presentations. The evaluation team is under no obligation to contact firms for clarification of proposals, but may do so at any time prior to contract award

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

March 29, 2011

Agenda Item 7.3

To: Board of Retirement



From: Mabel Wong, Retirement Finance Officer



Gary Clifton, Chief Investment Officer

Subject: Consideration of Financial Audit Structure

STAFF RECOMMENDATION: Staff recommends that the board review the schedule and structure of the financial audit structure.

BACKGROUND: Government Code Section 31593 mandates that *"The retirement board shall conduct an audit of the retirement system at least once every 12 months and report upon its financial condition."* SamCERA's fiscal year is from July 1st through June 30th. The Board of retirement believes that to make informed decisions financial and actuarial data should be made available as promptly as possible. In that vein, the board attempts to approve the Comprehensive Annual Financial Report no later than the end of September.

DISCUSSION: It should be noted that this is the first year SamCERA will be invested in alternative assets. Staff believes there may be delays in receiving timely data from some of those investments. In addition, the association is commissioning an actuarial audit. The results of the audit will not be presented for board approval until the September 27th meeting. Therefore, the audit of the June 30, 2011 financial data will be presented to the board on October 25th.

The board's Audit Committee will review the proposed financial audit structure, including the attached audit critical dates. The committee will make a recommend to the board regarding the audit structure and dates.

**San Mateo County Employees Retirement Association
Critical Dates List
For the year ended June 30, 2011**

<i>Item</i>	<i>Due Date</i>	<i>Status</i>
PLANNING:		
AUDITOR to provide SamCERA with Population request email	Wednesday, 4/06/11	
AUDITOR to provide Info Request email to SamCERA	Friday, 4/29/11	
Active and Retiree populations provided to AUDITOR for confirmation purposes	Monday, 5/09/11	
AUDITOR to provide SamCERA with samples for confirmation purposes	Wednesday, 5/11/11	
Active & Retired Participant Confirmations returned to AUDITOR for mailing	Monday, 5/16/11	
SamCERA to provide Custodian, Investment Managers, Legal, Actuary and all other confirmations to AUDITOR for mailing	Monday, 6/13/11	
AUDITOR to send out seconds Active & Retired Participant Confirmations	Friday, 6/24/11	
SamCERA to provide updates to walkthroughs for significant transaction classes. (Investments, Benefit Payments, Participant Data and IT Controls)	Friday, 6/24/11	
INTERIM FIELDWORK:		
Beginning of interim audit fieldwork at SamCERA's office. Please provide space for three auditors	Monday, 6/27/11	
Items on Interim Fieldwork Information Request Lists due	Monday, 6/27/11	
SamCERA to provide AUDITOR with May 31, 2011 trial balance	Monday, 6/27/11	
Expected completion date of interim fieldwork, and exit conference with SamCERA Management	Thursday, 6/30/11	
FINAL FIELDWORK PLANNING:		
SamCERA to provide 6/30/10 trial balance in electronic format	Monday, 7/25/11	
Confirm responses for all (Except Legal) due to AUDITOR	Friday, 7/29/11	
AUDITOR to mail second confirmation requests	Monday, 8/01/11	
Items on Final Fieldwork Information Request Lists due. Begin audit work in office.	Monday, 8/01/11	
SamCERA to provide AUDITOR with "draft" Statement of Net Assets and Statement of Changes in Net Assets	Monday, 8/01/11	
SamCERA to provide responses to Investment Inquiries Memo	Wednesday, 8/03/11	
FINAL FIELDWORK:		
Beginning of final fieldwork at SamCERA's office. Please provide space for four auditors.	Monday, 8/08/11	
SamCERA to provide responses to General Question Memo	Wednesday, 8/10/11	
Expected completion date of fieldwork and exit conference with SamCERA management	Thursday, 8/11/11	
AUDIT WRAP-UP & PRESENTATION:		
SamCERA to provide AUDITOR with draft of CAFR (<u>excluding</u> Actuarial Section)	Thursday, 9/01/11	
AUDITOR will provide all recommendations, revisions & suggestions for improvement to draft of CAFR (<u>excluding</u> Actuarial Section)	Wednesday, 9/07/11	
SamCERA to provide AUDITOR with revised draft of CAFR (<u>excluding</u> Actuarial Section)	Wednesday, 9/14/11	

AUDITOR will provide Letter to Management in <u>draft</u> format	Friday, 9/16/11
SamCERA to provide AUDITOR with responses to findings included in Letter to Management	Wednesday, 9/21/11
SamCERA to receive Actuary report for inclusion in the CAFR	Wednesday, 9/21/11
SamCERA to provide AUDITOR with complete draft of CAFR (<u>including</u> Actuarial Section)	Thursday, 9/22/11
Legal confirmations due to AUDITOR	Friday, 9/23/11
AUDITOR to provide SamCERA management with the following reports in <u>draft</u> format: Independent Auditors Report Report on Compliance and Internal Control Audit Committee Report (SAS 114 letter)	Friday, 9/23/11
AUDITOR will provide all recommendations, revisions & suggestions for improvement to the CAFR	Friday, 9/23/11
SamCERA to provide AUDITOR with final revised CAFR	Monday, 9/26/11
SamCERA to provide approval of all AUDITOR reports	Monday, 9/26/11
Audit submitted to Partner for Review	Week of 9/26/11
AUDITOR to provide SamCERA management with the following reports in <u>final</u> format: Independent Auditors Report Letter to Management Report on Compliance and Internal Control Audit Committee Report (SAS 114 letter)	Tuesday, 9/27/11
AUDITOR to provide SamCERA with "packets" of the above reports for Board meeting	Wednesday, 9/28/11
SamCERA to provide County with copy of Financial Statements	Friday, 9/30/11
AUDITOR presentation/delivery to SamCERA Board of Retirement	Tuesday, 10/25/11

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

March 29, 2011

Agenda Item 7.4

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Acceptance of Report on the Prepayment of the County's Contribution for Fiscal Year 2011-2012.

STAFF RECOMMENDATION: Staff recommends the Retirement Board accept the report on the prepayment of \$146,114,375 employer contributions for fiscal year 2011/2012.

BACKGROUND: The County Board of Supervisors first authorized prepayment of employer contributions for the fiscal year 1999/2000. In one form or another the county, as a plan sponsor, has pre-paid contributions every fiscal year since then.

Authority to establish, pay and collect contributions lies in the following Government Code Sections:

Government Code §31453 states, "An actuarial valuation shall be made . . . under the supervision of an actuary and shall cover the mortality, service, and compensation experience of the members and beneficiaries, and shall evaluate the assets and liabilities of the retirement fund. Upon the basis of the investigation, valuation, and recommendation of the actuary, the **board** shall . . . **recommend to the board of supervisors** such changes in the rates of interest, in the rates of contributions of member, and in county and district appropriations as necessary. . . ."

Government Code §31581 states, ". . .the **board of supervisors** shall, in the preparation and adoption of the county budget, **add** to the appropriation for salaries and wages and include therein an appropriation determined pursuant to Section 31453 . . ."

Government Code §31582 states, "The **county auditor** shall **certify** to the board at the end of each month or at the end of each pay period the total amount of compensation paid to safety members . . . and the total amount of compensation paid to all other members of the retirement association, and auditor shall thereupon transfer from the appropriation to the retirement fund the percentage of the amount determined pursuant to Sections 31453 . . ."

"The **board of supervisors** may **authorize** the county auditor to make an advance payment of all or part of the county's estimated annual contribution to the retirement fund If the advance is only a partial payment . . .transfers from the appropriation to the retirement fund shall be made . . . at the end of each pay period until the total amount for the year is contributed. This amount shall be adjusted at the end of the fiscal year to reflect the actual contribution required for that year."

Discussion: By ongoing resolution, the Board of Supervisors authorized perpetual prepayment of their estimated requirement for employer contributions. As a function of the budgeting and cash flow projection, *SamCERA* staff provides an annual estimate of the advance payment amount.

The contribution rate recommended in the annual actuarial valuation report anticipates that the employer and member contributions would be paid on a biweekly basis, including interest charges at the annual actuarial interest rate (currently 7.75%). By paying the biweekly employer contributions in one lump sum and before the normal biweekly contribution due dates, the advance payment amount is calculated by netting the interest charges built into the biweekly contributions. In other words the advance payment is discounted by the actuarial interest rate.

Upon receipt the advance payment is credited to the advance county contribution account. The employer's required contribution is transferred from the advance contribution account to the county advance reserve as it becomes due. Government Code §31582 mandates that the due dates are the end of each pay period, which is biweekly for the County of San Mateo. Each period the Auditor/Controller certifies the employee payroll and attests to the required employer contribution amount. Retirement staff verifies the required contribution and in the event of an advance payment transfers the monies as described above. Each biweekly period the remaining balance of the advance payment account is credited at the actuarial assumption rate. If the advance payment is exhausted prior to satisfying the required contributions, the county will transfer monies from the general fund to *SamCERA's* trust account to satisfy its obligations as they become due. If the advance payment is in excess of required reserves, the excess will be refunded to the county on the first pay date of the next fiscal year.

Attachment One is staff's estimate of the 2011/2012 county payroll by plan type (General, Safety and Probation/Safety). The Memoranda of Understanding (MOU) for most employee unions is in the process of being negotiated. The estimate for contributions required does not include an increase in current pay levels. Using the most recent payroll and projecting it forward, we arrive at an estimate of \$439,068,392 for next fiscal year's total payroll. This payroll estimate is approximately \$13 million lower than that for the current fiscal year.

Attachment Two utilizes the payroll estimate and the adopted 2011/2012 actuarial contribution rates, by plan type, to determine the Average Earnings, Normal Cost and Unfunded Actuarial Accrued Liability (UAAL) based on the proportion of eligible compensation by plan.

Attachment Three is the schedule used to estimate the required contributions and discount them to the first pay date. Normal Cost and UAAL contribution rates are discounted by 7.75%, which reflects the earnings rate recommended by the actuary based on the June 30, 2010, Actuarial Valuation. **The calculations result in an advance payment estimate of \$146,114,375 due on 07/1/2011. This contribution is less than the estimated contribution of \$152 million for this fiscal year.** This information will be provided to the Controller who in turn will recommend to the Board of Supervisors that it transfer \$146,114,375 on July 1, 2011, from the county general fund to the San Mateo County Employees' Retirement Association Trust Fund as an advance payment of the required county contributions for fiscal year 2011/2012.

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

March 29, 2011

Attachment One

Agenda Item 7.4

ESTIMATE OF BI-WEEKLY PAYROLL *

2011-2012 Fiscal Year

FOR SCHEDULE 013-11 TO SCHEDULE 012-12												
Schedule	G1	G2	G3	G4	P1	P2	P4	S1	S2	S4	TOTAL	
<u>2011</u>												
013	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
014	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
015	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
016	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
017	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
018	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
019	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
020	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
021	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
022	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
023	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
024	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
025	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
026	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
<u>2012</u>												
001	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
002	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
003	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
004	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
005	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
006	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
007	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
008	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
009	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
010	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
011	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
012	231,601.82	3,734,335.91	417,959.47	9,486,663.37	7,034.10	264,833.45	704,164.11	44,447.13	689,235.72	1,306,970.78	16,887,245.86	
TOTAL	6,021,647.32	97,092,733.66	10,866,946.22	246,653,247.62	182,886.60	6,885,669.70	18,308,266.86	1,155,625.38	17,920,128.72	33,981,240.28	439,068,392.36	

*Notes: Base estimates for Sch 013 of 2011, PPE 06/25/11, are based on actual payroll for Sch005 PPE 03/5/11.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

March 29, 2011

Attachment Two

Agenda Item 7.4

Employer Contribution Rate Detail
County Only
Recommended Rates

3.50% inflation, 7.75% interest, and a 6.00% salary increase assumption

	<u>Tier 1</u>		<u>Tier 2</u>		<u>Tier 3</u>		<u>Tier 4</u>	
	<u>% of Payroll</u>	<u>Annual Amount</u>	<u>% of Payroll</u>	<u>Annual Amount</u>	<u>% of Payroll</u>	<u>Annual Amount</u>	<u>% of Payroll</u>	<u>Annual Amount</u>
Normal Cost	11.04%	\$ 665,000	10.94%	\$ 10,622,000	7.80%	\$ 848,000	9.81%	\$ 24,197,000
Contribution to UAAL	18.40%	\$ 1,108,000	18.40%	\$ 17,865,000	18.40%	\$ 2,000,000	18.40%	\$ 45,384,000
Total	29.44%	\$ 1,773,000	29.34%	\$ 28,487,000	26.20%	\$ 2,848,000	28.21%	\$ 69,581,000
Payroll		\$ 6,022,000		\$ 97,093,000		\$ 10,867,000		\$ 246,653,000

SAFETY

	<u>Tier 1</u>		<u>Tier 2</u>		<u>Tier 4</u>	
	<u>% of Payroll</u>	<u>Annual Amount</u>	<u>% of Payroll</u>	<u>Annual Amount</u>	<u>% of Payroll</u>	<u>Annual Amount</u>
Normal Cost	24.37%	\$ 282,000	20.42%	\$ 3,659,000	18.26%	\$ 6,205,000
Contribution to UAAL	51.83%	\$ 599,000	51.83%	\$ 9,288,000	51.83%	\$ 17,612,000
Total	76.20%	\$ 881,000	72.25%	\$ 12,947,000	70.09%	\$ 23,817,000
Payroll		\$ 1,156,000		\$ 17,920,000		\$ 33,981,000

PROBATION

	<u>Tier 1</u>		<u>Tier 2</u>		<u>Tier 4</u>	
	<u>% of Payroll</u>	<u>Annual Amount</u>	<u>% of Payroll</u>	<u>Annual Amount</u>	<u>% of Payroll</u>	<u>Annual Amount</u>
Normal Cost	24.47%	\$ 45,000	22.19%	\$ 1,528,000	18.90%	\$ 3,460,000
Contribution to UAAL	23.84%	\$ 44,000	23.84%	\$ 1,642,000	23.84%	\$ 4,365,000
Total	48.31%	\$ 89,000	46.03%	\$ 3,170,000	42.74%	\$ 7,825,000
Payroll		\$ 183,000		\$ 6,886,000		\$ 18,308,000

Average Rate for the total group = 34.49%

Normal Cost 11.73%
UAAL 22.75%
34.49%

	Average Earnings	RATIO	projected payroll	Estimated FY Pay	RATIO
GP1	231,602	1.37%	6,021,647	6,021,647.32	1.37%
GP2	3,734,336	22.11%	97,092,734	97,092,733.66	22.11%
GP3	417,959	2.48%	10,866,946	10,866,946.22	2.48%
GP4	9,486,663	56.18%	246,653,248	246,653,247.62	56.18%
S1	44,447	0.26%	1,155,625	1,155,625.38	0.26%
S2	689,236	4.08%	17,920,129	17,920,128.72	4.08%
S4	1,306,971	7.74%	33,981,240	33,981,240.28	7.74%
P1	7,034	0.04%	182,887	182,886.60	0.04%
P2	264,833	1.57%	6,885,670	6,885,669.70	1.57%
P4	704,164	4.17%	18,308,267	18,308,266.86	4.17%
	16,887,246			439,068,392	
Total projected payroll (as of 04/17/2007)	439,068,392		439,068,392		

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

March 29, 2011

Attachment Three

Agenda Item 7.4

Prepayment of Employer Contributions
(County Only)
2011-2012 Fiscal Year
PRE-PAYMENT MADE AT THE END OF THE 1st PAY PERIOD

Discount Rate = 7.75% Inflation Rate = 3.50%

Pay Period	Biweekly Payroll Estimate(1)	Normal Cost Contribution	UAAL Contribution	Discount Factor	Total Biweekly Normal Cost Discounted	Total Biweekly UAAL Contrib. Discounted	Total Biweekly Contribution Discounted	Total Prepayment	Date Pay Period Ends
		Rate	Rate						
1	\$16,887,246	11.7319%	22.7543%	1.00000000	\$1,981,192	\$3,842,577	\$5,823,769	146,114,375	7/2/2010
2	\$16,887,246	11.7319%	22.7543%	0.99713321	\$1,975,513	\$3,831,561	\$5,807,074		7/16/2010
3	\$16,887,246	11.7319%	22.7543%	0.99427464	\$1,969,849	\$3,820,577	\$5,790,426		7/30/2010
4	\$16,887,246	11.7319%	22.7543%	0.99142427	\$1,964,202	\$3,809,624	\$5,773,826		8/13/2010
5	\$16,887,246	11.7319%	22.7543%	0.98858206	\$1,958,571	\$3,798,703	\$5,757,274		8/27/2010
6	\$16,887,246	11.7319%	22.7543%	0.98574801	\$1,952,956	\$3,787,813	\$5,740,769		9/10/2010
7	\$16,887,246	11.7319%	22.7543%	0.98292208	\$1,947,358	\$3,776,954	\$5,724,311		9/24/2010
8	\$16,887,246	11.7319%	22.7543%	0.98010425	\$1,941,775	\$3,766,126	\$5,707,901		10/8/2010
9	\$16,887,246	11.7319%	22.7543%	0.97729450	\$1,936,208	\$3,755,329	\$5,691,538		10/22/2010
10	\$16,887,246	11.7319%	22.7543%	0.97449280	\$1,930,658	\$3,744,564	\$5,675,221		11/5/2010
11	\$16,887,246	11.7319%	22.7543%	0.97169913	\$1,925,123	\$3,733,829	\$5,658,952		11/19/2010
12	\$16,887,246	11.7319%	22.7543%	0.96891348	\$1,919,604	\$3,723,125	\$5,642,729		12/3/2010
13	\$16,887,246	11.7319%	22.7543%	0.96613581	\$1,914,101	\$3,712,451	\$5,626,552		12/17/2010
14	\$16,887,246	11.7319%	22.7543%	0.96336610	\$1,908,614	\$3,701,808	\$5,610,422		12/31/2010
15	\$16,887,246	11.7319%	22.7543%	0.96060433	\$1,903,142	\$3,691,196	\$5,594,338		1/14/2011
16	\$16,887,246	11.7319%	22.7543%	0.95785049	\$1,897,686	\$3,680,614	\$5,578,300		1/28/2011
17	\$16,887,246	11.7319%	22.7543%	0.95510453	\$1,892,246	\$3,670,063	\$5,562,308		2/11/2011
18	\$16,887,246	11.7319%	22.7543%	0.95236645	\$1,886,821	\$3,659,541	\$5,546,362		2/25/2011
19	\$16,887,246	11.7319%	22.7543%	0.94963622	\$1,881,412	\$3,649,050	\$5,530,462		3/11/2011
20	\$16,887,246	11.7319%	22.7543%	0.94691381	\$1,876,018	\$3,638,589	\$5,514,608		3/25/2011
21	\$16,887,246	11.7319%	22.7543%	0.94419921	\$1,870,640	\$3,628,158	\$5,498,798		4/8/2011
22	\$16,887,246	11.7319%	22.7543%	0.94149239	\$1,865,277	\$3,617,757	\$5,483,034		4/22/2011
23	\$16,887,246	11.7319%	22.7543%	0.93879333	\$1,859,930	\$3,607,386	\$5,467,316		5/6/2011
24	\$16,887,246	11.7319%	22.7543%	0.93610201	\$1,854,598	\$3,597,044	\$5,451,642		5/20/2011
25	\$16,887,246	11.7319%	22.7543%	0.93341840	\$1,849,281	\$3,586,732	\$5,436,013		6/3/2011
26	\$16,887,246	11.7319%	22.7543%	0.93074249	\$1,843,980	\$3,576,450	\$5,420,429		6/17/2011
Total	\$439,068,392	11.7319%	22.7543%						
Rate									
Contribution		\$51,511,000 (Undiscounted)	\$99,907,000 (Undiscounted)		\$49,706,756 (Discounted)	\$96,407,619 (Discounted)	\$146,114,375 (Discounted)		
Average Discount Factor					0.96497361	0.96497361	0.96497361		

(1) County only payroll. Excludes Special District.

17-Mar-11

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

March 29, 2011

Agenda Item 7.5

To: Board of Retirement



From: Gary Clifton, Chief Investment Officer

Subject: Approval of Amendments to *SamCERA's Education Policy*

STAFF RECOMMENDATION: Staff recommends that the board approve *SamCERA's Education Policy*, Resolution 98-99-12 as amended.

BACKGROUND: *SamCERA's Education Policy* provides a framework for training that helps each trustee and staff member fulfill his or her fiduciary duties as defined by California's Constitution, the County Employees' Retirement Law of 1937 (the 1937 Act) & applicable law. The board first adopted an *Education, Conference and Travel Policy* with Resolution 94-95-12 on October 20, 1994. The current governance for *SamCERA's Education Policy* is provided by Resolution 98-99-12 as amended.

DISCUSSION: In February, as part of the board's annual review of its *Education Policy*, the board opined to amend the policy to recommend trustees and staff take advantage of the various electronic media available for educational content. Staff was instructed to develop language and bring the policy back this month.

Staff recommends that the board insert into the second resolve position the following language.

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

The education policy resolution with the proposed amendment appears on the following pages.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Education Policy

Resolution 98-99-12, as amended

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

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

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

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

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

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

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

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

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

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

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

RESOLVED, that the board hereby also approves the following programs for trustees with the recommendation that trustees complete the programs listed above in the 3rd Resolve Clause prior to participation in the following: Fiduciary Institute @ Stanford, IFEFP Public Funds Annual Conference, GFOA Annual Conference, Pension Real Estate Association Annual Conference and US-based programs of IFE & PPI. Be it further

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

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

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

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

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

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

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

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

ADOPTED by unanimous vote November 24, 1998

AMENDED by unanimous vote March 27, 2001

AMENDED by unanimous vote March 26, 2002

AMENDED by unanimous vote May 28, 2002

AMENDED by unanimous vote November 26, 2002

AMENDED by unanimous vote March 25, 2003

AMENDED by unanimous vote July 27, 2004

AMENDED by unanimous vote September 28, 2004

AMENDED by unanimous vote February 22, 2005

AMENDED by unanimous vote February 27, 2007

AMENDED by unanimous vote January 27, 2009

AMENDED by unanimous vote April 27, 2010

AMENDED by unanimous vote August 24, 2010

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

March 29, 2011

Agenda Item 7.6

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer



SUBJECT: Approval of Expenditures for Board Meeting Security

Issue

This memo requests that the board approve the expenditure of funds for security at board meetings.

Background

At the February 2011 board meeting the trustees indicated that it would be appropriate to have security at future board meetings.

Following the February meeting, staff contacted County Sheriff Greg Munks and arranged to have a uniformed officer attend all future board meetings.

The hourly charge for this service will be \$88.17. Assuming the officer will be in attendance for four hours each meeting, total estimated cost for each meeting will be \$352.68. Estimated cost for the current fiscal year will be \$2,468.76. With board approval, the cost of security will be included in the 2011/12 budget projections.

Staff Recommendation

Staff recommends the board approve the expenditure of funds as estimated above for security at *SamCERA* board meetings.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

March 29, 2011

Agenda Item 7.7

To: Board of Retirement



From: Mabel Wong, Retirement Finance Officer



Gary Clifton, Chief Investment Officer

Subject: Introduction of *SamCERA's Sources, Uses, and Budget Report* for Fiscal year 2011/2012.

COMMENT: Staff will provide an oral report regarding the introduction and status of *SamCERA's* 2011/2012 proposed budgets.