



Notice of Public Meeting

The Board of Retirement of the San Mateo County Employees' Retirement Association will meet on **Tuesday, October 29, 2013, at 10:00 a.m.**

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

1. **Call to Order, Roll Call and Miscellaneous Business**
 - 1.1 Administration of Oath of Office to Reappointed Trustee
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 * (Set for 1:00 p.m. time certain)**
 - 4.1 Disability Retirements
 - a. Amberg, Barbara
 - b. Amongol, Dana
 - c. Borg, Susie
 - d. Frattaroli, Lynda
 - e. Hardy, Isaac
 - f. Overman, Ronnie
 - g. Runneals, Robert
 - h. Wong, Helen
 - 4.2 Service Retirements
 - 4.3 Continuances
 - 4.4 Deferred Retirements
 - 4.5 Member Account Refunds
 - 4.6 Member Account Rollovers
 - 4.7 Approval of Internal Control Structure
5. **Benefit & Actuarial Services**
 - 5.1 Consideration of Agenda Items, if any, Removed From the Consent Agenda
 - 5.2 Approval of Amendments to Article V of Board of Retirement Regulations Relating to Disability Retirement
6. **Investment Services**
 - 6.1 Preliminary Monthly Portfolio Performance Report for the Period Ending Sept. 30, 2013
 - 6.2 Report on Commodity, Hedge Fund, Risk Parity, and Real Estate Annual Manager Reviews
 - 6.3 Approval of New Asset Class Target Portfolio
 - 6.4 Approval to Transition Investment in AQR Delta Fund to AQR Delta XN Fund
7. **Board & Management Support Services (The Audit Committee will meet at 9 a.m. October 29, in the SamCERA Conference Room.)**
 - 7.1 Monthly Financial Report and Discussion of Future Reports
 - 7.2 Quarterly Budget Report
 - 7.3 Approval of Financial Audit Management Reports and Findings
 - 7.4 Approval of 2013 Comprehensive Annual Financial Report
 - 7.5 Approval of Contract Amendment with Brown Armstrong for GASB 67 and 68 Implementation Services

** Matters set for a time certain. Time listed is approximate. In no case will any item be heard before the time it is scheduled.*

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- 7.6 Annual Review of Independent Auditor, Brown Armstrong
- 7.7 Approval of Financial Knowledge Network Contract Amendment
- 7.8 Approval of LRWL Contract Amendment for PASS Implementation Services
- 7.9 Approval to Use County HR Department for SamCERA CEO Recruitment
- 7.10 Approval of County Supplemental Contributions Memorandum of Understanding
- 7.11 Discussion of Fall SACRS Business Meeting Action Items

8. Management Reports

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

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

- C1 Consideration of Disability Items, if any, Removed from the Consent Agenda
- C2 Conference with Legal Counsel - Existing Litigation: Pursuant to subdivision (a) of Government Code Section 54956.9. One case: *Montisano v. The San Mateo County Employees' Retirement Association et al*, San Mateo Superior Court Case No. 522614

9. Report on Actions Taken in Closed Session

10. Adjournment in Memory of the Following Deceased Members:

Rhees, Edna	September 3, 2013	Beneficiary of Irvin Rhees
Goodwin, Arthur	September 5, 2013	General Services
Price, William	September 7, 2013	Beneficiary of Barbara Price
Cissell, Katherine	September 10, 2013	Environmental Health
Tilman, Nomalee	September 10, 2013	Correctional Health
Lee, Joan	September 11, 2013	Beneficiary of William Lee
Sanchez, Joseph	September 13, 2013	Sheriff's Office
Stumbaugh, Nicholas	September 20, 2013	Sheriff's Office
Cable, Constance	September 21, 2013	Social Services
Milford, Vivian	September 26, 2013	Social Services
Gilbert, Alice	September 27, 2013	Libraries
Spece, Maria	September 29, 2013	General Services
Phelan, Margaret	September 30, 2013	Health and Welfare



David Bailey, Chief Executive Officer

Posted: October 23, 2013

(* ALL ITEMS ON THE CONSENT AGENDA ARE APPROVED BY ONE ROLL CALL MOTION UNLESS A REQUEST IS MADE BY A BOARD MEMBER THAT AN ITEM BE WITHDRAWN OR TRANSFERRED TO THE REGULAR AGENDA. ANY ITEM ON THE REGULAR AGENDA MAY BE TRANSFERRED TO THE CONSENT AGENDA. ANY 4.1 ITEMS REMOVED FROM THE CONSENT AGENDA WILL BE TAKEN UP UNDER CLOSED SESSION; ALL OTHER ITEMS REMOVED FROM THE CONSENT AGENDA WILL BE TAKEN UP UNDER ITEM 5.1.)

THE BOARD MEETS AT **100 MARINE PARKWAY, SUITE 160,**

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

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

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

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

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

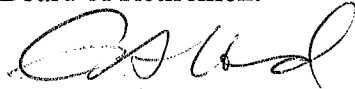
SamCERA's facilities and board and committee meetings are accessible to individuals with disabilities. Contact SamCERA at (650) 599-1234 at least three business days prior to the meeting if (1) you need special assistance or a disability-related modification or accommodation, including auxiliary aids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

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 29, 2013

Agenda Item 1.1

TO: Board of Retirement



FROM: Scott Hood, Assistant Executive Officer

SUBJECT: Administration of the Oath of Office to Reappointed Trustees

In this agenda item, Sgt. Christina Corpus of the San Mateo Sheriff's Office, will administer the Trustee Oath of Office to Fifth Member, **Ben Bowler**.

At its meeting on September 10, 2013, the Board of Supervisors approved the reappointment of Mr. Bowler. His term will expire on June 30, 2016.

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

October 29, 2013

Agenda Item 3.0

September 24, 2013 – Board Agenda

PUBLIC SESSION – The Board will meet in Public Session at 1:00 p.m.

1. Call to Order, Roll Call and Miscellaneous Business

- 1.1 Administration of Oath of Office to Reappointed Trustees
- 1.2 Announcement of the Appointment of the Ad Hoc Committee to Review the Medical Advisor

2. Oral Communications

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

3. Approval of the Minutes

4. Approval of the Consent Agenda

- 4.1 Disability Retirements
 - a. Caroline Banal
 - b. Carla Lawrence
 - c. Michael Shanks
 - d. Glen Simmons
- 4.2 Service Retirements
- 4.3 Continuances
- 4.4 Deferred Retirements
- 4.5 Member Account Refunds
- 4.6 Member Account Rollovers
- 4.7 Trustee Training Request
- 4.8 Trustee Request to Exceed Education Allocation

5. Benefit & Actuarial Services

- 5.1 Consideration of Agenda Items, if any, Removed From the Consent Agenda
- 5.2 Presentation of the June 30, 2013, Actuarial Valuation Report by Milliman, Inc.
- 5.3 Acceptance of the Fiscal Year 2014-2015 Employer and Member Contribution Rates and Recommendations
- 5.4 Annual Review of SamCERA's Actuarial Services Firm, Milliman, Inc.

6. Investment Services

- 6.1 Preliminary Monthly Portfolio Performance Report for the Period Ending August 31, 2013
- 6.2 Approval of New Asset Class Target Portfolio: Follow-up
- 6.3 Report on Opportunistic Credit and TIPS Manager Annual Reviews
- 6.4 Discussion and Approval Regarding Frequency of Trading Cost Analysis Due Diligence
- 6.5 Discussion and Approval Regarding Proposed Changes to Western Asset Investment Guidelines

7. Board & Management Support Services

- 7.1 Presentation of Monthly Financial Report
- 7.2 Report on Status of 2012-13 Financial Audit
- 7.3 Update on Technology Modernization Project Status
- 7.4 Approval of General Plan for Succession Planning for the Chief Executive Officer Position
- 7.5 Approval of SACRS Voting Delegate and Alternates for the SACRS Fall 2013 Business Meeting
- 7.6 Approval to Cancel the November Meeting and Reschedule the October and December Meetings of the Board of Retirement

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 Chief Legal Counsel's Report

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

C1 Consideration of Disability Items, if any, Removed from the Consent Agenda

9. Report on Actions Taken in Closed Session

10. Adjournment in Memory of the Following Deceased Members:

Stewart, Eileen	May 18, 2013	Human Services Agency
Lewis, Burner	August 9, 2013	Ben. of Willie Lewis
Pitts, Frances	August 7, 2013	Sheriff's Office
Cavallero, Miriam	August 19, 013	Ben. of Raymond Cavallero
Kenny, Laverne	August 19, 013	Courts
Judge, Catherine	August 20, 013	Libraries
Anderson, William	August 22, 013	Health Services
Wethington, Jerome	August 31, 013	Hospital
O'Keefe, John	August 31, 013	Probation

September 24, 2013 – Regular Board Meeting Minutes

1309.1 **Call to Order, Roll Call and Miscellaneous Business**

Call to Order: Ms. Lauryn Agnew, Vice Chair, called the Regular Meeting of the Board of Retirement to order at 1:02 p.m.

Roll Call:

Present: Sandie Arnott, Lauryn Agnew, Albert David, Paul Hackleman, Christopher Miller (sitting in for David Spinello), Michal Settles and Eric Tashman.

Excused: David Spinello, Ben Bowler, and Natalie Kwan Lloyd.

Alternates: Alma Salas.

Staff: David Bailey, Scott Hood, Michael Coultrip, Brenda Carlson, Gladys Smith, Tariq Ali, Mabel Wong, Lili Dames and Kristina Perez.

1309.1.1 **Administration of Oath of Office to Reappointed Trustees:** This item was postponed until later in the meeting.

1309.1.2 **Announcement of the Appointment of the Ad Hoc Committee to Review the Medical Advisor:** Mr. Bailey announced the committee members appointed by the Chair as Natalie Kwan Lloyd, Sandie Arnott, Christopher Miller and Lauryn Agnew. The committee will meet and will report to the Board at the December meeting.

1308.2.1 **Oral Communications From the Board:** Ms. Agnew reported her attendance at SOCAP 2013 in San Francisco and the CALAPRS Trustees' Roundtable in San Jose. Ms. Arnott reported on her attendance at the GMI Ratings "Future of Corporate Reform" conference in Newport Beach. She spoke highly of the speakers and information provided at the conference. The "Future of Corporate Reform" was also attended by Ms. Settles, and she echoed Ms. Arnott's praises of the content and speakers. Mr. Miller reported his attendance at the CALAPRS Trustees' Roundtable in San Jose.

1309.2.2 **Oral Communications From the Public:** Ms. Salas also attended the GMI Ratings "Future of Corporate Reform" and was very pleased with the conference.

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Minutes of the Regular Meeting of the Board of Retirement

1309.3.0 **Approval of the Board Meeting Minutes:** Ms. Agnew asked if there were any changes or corrections to the minutes, and none were noted.

Action: Mr. David moved to approve the regular and special meeting minutes from the Board meetings held on August 27, 2013. The motion was seconded by Mr. Hackleman and carried with a vote of 7-0 with Agnew, Arnott, David, Hackleman, Miller (for Spinello) Settles and Tashman in favor, none opposed, and Bowler and Kwan Lloyd absent.

1309.4.0 **Approval of the Consent Agenda:** Ms. Agnew asked if there were any items to be removed from the Consent Agenda, and no items were removed.

Action: Mr. Hackleman moved to approve the Consent Agenda, and the motion was seconded by Ms. Settles. The motion carried with a vote of 7-0 with Agnew, Arnott, David, Hackleman, Miller (for Spinello), Settles and Tashman in favor, none opposed, and Bowler and Kwan Lloyd absent.

1309.4.1 **Consent Agenda**

Disability Retirements

- a. The Board found that **Caroline Banal** is (1) permanently incapacitated for the performance of her usual and customary duties as a Medical Services Assistant II, (2) found that her disability was a result of an injury arising out of and in the course of her employment and (3) granted her application for a service-connected disability retirement.
- b. The Board found that **Carla Lawrence** is (1) permanently incapacitated for the performance of her usual and customary duties as a Program Counselor II, (2) found that her disability was not a result of an injury/illness arising out of and in the course of her employment and (3) granted her application for a non-service-connected disability retirement.
- c. The Board found that **Michael Shanks** is (1) permanently incapacitated for the performance of his usual and customary duties as a Correctional Officer, (2) found that his disability was a result of an injury arising out of and in the course of his employment, (3) granted his application for a service-connected disability retirement.
- d. The Board found that **Glen Simmons** is (1) permanently incapacitated for the performance of his usual and customary duties as a Supervising Cook, (2) found that his disability was a result of an injury arising out of and in the course of his employment, (3) granted his application for a service-connected disability retirement.

1309.4.2 **Service Retirements**

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

Member Name	Effective Retirement Date	Department
Alvarado, Dolores	July 13, 2013	Hospital
Alvarez, Juan	July 31, 2013	Courts
Cachuela, Honorata	July 2, 2013	Deferred from Hospital
Cereno, Romulo	August 1, 2013	Human Services
Contreras, Juan	July 25, 2013	Hospital
Galestian, Deanna	August 1, 2013	Mental Health
Garbez, Elaine	August 1, 2013	Public Works
Guyden, Paula	June 22, 2013	Human Services
Howard, Deborah	July 29, 2013	Correctional Health
Kauk, Elizabeth	July 27, 2013	Public Health
Mojas, Michelle	July 31, 2013	Deferred from Courts
Roberts, Diane	July 7, 2013	Hospital

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Service Retirements

Ruiz, Raymond	July 6, 2013	Deferred from Hospital
Schumaker, Nadine	May 31, 2013	QDRO
Smith, William	August 1, 2013	County Counsel
Stephanik, Suzanne	July 9, 2013	Def'd. from Mental Health
Tan, Lourdes	July 15, 2013	Children's Protective Services
Wong, Arthur G.	June 29, 2013	Deferred from Public Works
Yee, Eric	July 24, 2013	Deferred from ISD

1309.4.3 **Continuances**

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

Survivor's Name	Beneficiary of
Flahavan, Jennifer	John Flahavan

1309.4.4 **Deferred Retirements**

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

Member Name	Retirement Plan Type
Velasquez, Angelina	G4 Vested – Auto Defer
Sarraga, Joy	G4 Vested – Auto Defer
Anaya-Marmolejo, Roberto	G4 Vested – Auto Defer
Alejandrino, Abel	G4 Vested – Reciprocity
Van Meter, Juliana	G4 Vested – Reciprocity
Sheridan, Kyle	G4 Vested – Reciprocity
Ow, Jennifer	G4 Vested – Reciprocity
Mayfield, Zulaika	G4 Vested – Non-Reciprocity
Irwin, Rebecca	G4 Vested – Non-Reciprocity

1309.4.5 **Member Account Refunds**

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

Member Name	Retirement Plan Type
Diesh, Fanny	G4 Non-vested
Medios, Lourdes	G4 Vested

1309.4.6 **Member Account Rollovers**

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

Member Name	Retirement Plan Type
Crockett, Jack	G4 Vested
Cathay, Richard	G4 Non-vested

1309.5.1 **Consideration of Agenda Items, if any, Removed From the Consent Agenda:** None.

1309.5.2 **Presentation of the June 30, 2013, Actuarial Valuation Report by Milliman, Inc.:** Nick Collier, from Milliman, Inc. presented the actuarial valuation report and discussed the findings and recommendations with Board members. Employer and member contribution rates, demographics and life expectancy, funded ratio, unfunded liabilities and adoption of new rates were some of the topics discussed.

1309.5.3 **Acceptance of the Fiscal Year 2014-2015 Employer and Member Contribution Rates and Recommendations:** Mr. Collier answered questions from Board members about the rates proposed.

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- 1309.5.3 **Action:** Mr. David moved to adopt the resolution approving the employer and member contribution rates recommended in the June 30, 2013, actuarial valuation report. The motion was seconded by Ms. Arnott. The motion carried with a vote of 7-0 with Agnew, Arnott, David, Hackleman, Miller (for Spinello), Settles and Tashman in favor, none opposed, and Bowler and Kwan Lloyd absent.
(con't)
- 1309.5.4 **Annual Review of SamCERA's Actuarial Services Firm, Milliman, Inc.:** Mr. Bailey presented the evaluation survey results and discussed Milliman's performance with the Board. He noted the evaluation scores were very high, as were last year's scores. Mr. Bailey expressed his appreciation for the accessibility and responsiveness of Mr. Collier to SamCERA staff and also to County officials. Michael Barber, from Supervisor Pine's office, also commented positively about Mr. Collier's availability. This item was for discussion only and no action was taken.
- 1309.6.0 **Investment Services**
- 1309.6.1 **Preliminary Monthly Portfolio Performance Report:** Mr. Coultrip presented this item and reported that the fund's net preliminary return for August was -1.4 %. This item was for discussion only and no action was taken.
- 1309.6.2 **Approval of New Asset Class Target Portfolio:** Mr. Thomas reviewed recommended changes to SamCERA's current asset class target portfolio, as proposed by SIS and staff. He noted the biggest change to SamCERA's current policy would be implementing a dedicated real assets portfolio. Board members asked questions and discussed specific allocations in various categories. Topics of discussion also included risk, exposure to hedge funds, infrastructure, inflation and emerging markets.
Action: Mr. Hackleman moved to approve the new asset class target portfolio as recommended. The motion was seconded by Mr. David. The motion failed to receive the required minimum approval of 5 members of the Board, with a vote of 4-3. Hackleman, Settles, David and Miller in favor, Tashman, Agnew and Arnott opposed, Kwan Lloyd and Bowler absent.
- Ms. Agnew adjourned the meeting for a short break at 3:05 p.m., and reconvened into public session at 3:12 p.m. Discussion resumed regarding asset allocation.
- Action:** Mr. Hackleman moved to direct staff to return with the original proposal and a modified version for discussion with the full Board next month. The motion was seconded by Ms. Settles. The motion carried with a vote of 7-0 with Agnew, Arnott, David, Hackleman, Miller (for Spinello), Settles and Tashman in favor, none opposed, and Bowler and Kwan Lloyd absent.
- 1309.1.1 **Administration of Oath of Office to Reappointed Trustees:** Ms. Agnew returned to this agenda item and called upon Sergeant Christina Corpus to administer the oath of office to Ms. Settles. Ms. Settles was reappointed to the Board of Retirement for another term, which will expire in June 2016. Ms. Settles received the oath of office and was congratulated on her reappointment.
- 1309.6.3 **Report on Opportunistic Credit and TIPS Manager Annual Reviews:** Ms. Dames reported that staff met with SamCERA's Opportunistic Credit and TIPS Managers on September 5, 2013, and there were no significant concerns identified during the portfolio reviews with Angelo Gordon, Brigade and Brown Brothers Harriman. This item was informational and no action was taken.
- 1309.6.4 **Discussion and Approval Regarding Frequency of Trading Cost Analysis Due Diligence:** Ms. Dames presented the staff report and discussed benefits and costs of current services provided by Zeno Consulting Group, following up on last month's presentation by Zeno. Ms. Dames stated that staff recommends

San Mateo County Employees' Retirement Association
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- 1309.6.4 (con't) SamCERA conduct a one-time trade cost analysis of the fund's managers every three years; and retain Zeno Consulting Group to conduct this analysis on a triennial basis, and to engage Zeno to conduct a trade cost analysis of finalists during a potential manager search.
Action: Mr. David moved to approve staff's recommendation regarding the frequency of trading cost analysis services. The motion was seconded by Ms. Settles, and carried with a vote of 7-0 with Agnew, Arnott, David, Hackleman, Miller (for Spinello), Settles and Tashman in favor, none opposed, and Bowler and Kwan Lloyd absent.
- 1309.6.5 **Discussion and Approval Regarding Proposed Changes to Western Asset Investment Guidelines:** Mr. Coultrip discussed the proposed changes to the Western Asset investment guidelines with the Board. He explained these changes would result in the overall weighted average credit rating not being more than 3 rating notches below the benchmark's (BC Aggregate Index) average weighted credit quality.
Action: Ms. Settles moved to change the provision in the Western Asset Investment Asset Guidelines regarding overall portfolio weighted average credit rating quality from an absolute level (AA-) to a relative level to that of the portfolio benchmark. The motion was seconded by Mr. Hackleman and carried with a vote of 7-0 with Agnew, Arnott, David, Hackleman, Miller (for Spinello), Settles and Tashman in favor, none opposed, and Bowler and Kwan Lloyd absent.
- 1309.7.0 **Board & Management Support Services**
- 1309.7.1 **Presentation of Monthly Financial Report:** Ms. Wong presented the monthly financial report to the Board. This item was informational only and no action was taken.
- 1309.7.2 **Report on Status of 2012-13 Financial Audit:** Ms. Wong reported the audit was nearing completion. She let the Board know a survey evaluating the auditor's services would be forwarded to them via email. This item was informational only and no action was taken.
- 1309.7.3 **Update on Technology Modernization Project Status:** Mr. Will Morrow, of LRWL, gave the Board a detailed update on the technology project. He stated that five proposals were received in response to the PASS RFP. Mr. Morrow went over the progress and scheduled delivery of each phase of the project. This item was for discussion only and no action was taken.
- 1309.7.4 **Approval of General Plan for Succession Planning for the Chief Executive Officer Position:** Mr. Bailey and Mr. Hackleman discussed the succession planning for the CEO position with the Board. Mr. Bailey intends to retire in March 2015. The Succession Planning Committee will meet and report back to the Board. There was discussion of utilizing County HR services for this recruitment.
Action: Ms. Settles moved to approve the succession planning approach as discussed, and the motion was seconded by Mr. David. The motion carried with a vote of 7-0 with Agnew, Arnott, David, Hackleman, Miller (for Spinello), Settles and Tashman in favor, none opposed, and Bowler and Kwan Lloyd absent.
- 1309.7.5 **Approval of SACRS Voting Delegate and Alternates for the SACRS Fall 2013 Business Meeting:** Mr. Bailey presented the proposed slate of voting delegates for SACRS. Following past practice, the highest-ranking Board member in attendance at the conference is selected as SamCERA's voting delegate, with the next senior Board member as the alternate. The CEO typically serves as the second alternate.
Action: Mr. Tashman moved to approve the designation of Natalie Kwan Lloyd, as the voting delegate, Lauryn Agnew as the first delegate alternate and David Bailey as the second delegate alternate to vote on behalf of SamCERA at the Fall 2013 SACRS conference. The motion was seconded by Mr. David and carried with a vote of 7-0 with Agnew, Arnott, David, Hackleman, Miller (for Spinello), Settles and Tashman in favor, none opposed, and Bowler and Kwan Lloyd absent.

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- 1309.7.6 **Approval to Cancel the November Meeting and Reschedule the October and December Meetings of the Board of Retirement:** Mr. Bailey discussed the upcoming schedule of Board meetings in October, November and December. The proposed schedule would eliminate the November meeting and reschedule the December meeting to December 10; in addition the October 22 meeting would be moved to October 29 to assure a quorum.
Action: Mr. Tashman moved to cancel the November meeting and reschedule the meetings in October and December. The motion was seconded by Mr. David, and carried with a vote of 7-0 with Agnew, Arnott, David, Hackleman, Miller (for Spinello), Settles and Tashman in favor, none opposed, and Bowler and Kwan Lloyd absent.
- 1309.8.1 **Chief Executive Officer's Report:** Mr. Bailey reported that staff, together with County officials, were making progress on the MOU regarding supplemental contributions from the County. He also reported that staff was researching PEPRA provisions to assess their application regarding a retired member who was convicted of a felony.
- 1309.8.2 **Assistant Executive Officer's Report:** Mr. Hood reported that as a result of SB 1382, the County retiree group, SCORPA, was working with staff about communicating with SamCERA retirees. Mr. Hood let the Board know SamCERA staff would be at the County benefits fair in mid-October, and that member statements were mailed at the end of August.
- 1309.8.3 **Chief Investment Officer's Report:** Mr. Coultrip reported his participation at the CALAPRS CIO's Roundtable and the formation of a working group to explore collaboration for aggregate funding and reduced costs for some investments. He also let the Board know annual reviews for alternative managers would be held in October.
- 1309.8.4 **Chief Legal Counsel's Report:** Ms. Carlson reported her attendance at two CALAPRS roundtables. She spoke at the Trustees' Roundtable and attended the Attorneys' Roundtable.
- 1309.9 **Report on Actions Taken in Closed Session:** The Board did not meet in Closed Session.
- 1308.10 **Adjournment:** With no further business, Ms. Agnew adjourned the meeting at 4:30 p.m., in memory of the following deceased members:

Stewart, Eileen	May 18, 2013	Human Services Agency
Lewis, Burner	August 9, 2013	Ben. of Willie Lewis
Pitts, Frances	August 7, 2013	Sheriff's Office
Cavallero, Miriam	August 19, 2013	Beneficiary of Raymond Cavallero
Kenny, Laverne	August 19, 2013	Courts
Judge, Catherine	August 20, 2013	Libraries
Anderson, William	August 22, 2013	Health Services
Wethington, Jerome	August 31, 2013	Hospital
O'Keefe, John	August 31, 2013	Probation

David Bailey
Chief Executive Officer

Kristina Perez
Retirement Executive Secretary

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 29, 2013

Agenda Items 4.1- 4.6

To: Board of Retirement

From: Gladys Smith, Retirement Benefits Manager



Subject: Approval of Consent Agenda Items 4.1 – 4.6

4.1 Disability Retirements

- a) The Board find that **Barbara Amberg** is (1) permanently incapacitated for the performance of her usual and customary duties as a Librarian, (2) find that her disability was not a result of an illness arising out of and in the course of her employment and (3) grant her application for a non-service-connected disability retirement.
- b) The Board find that **Dana Amongol** is (1) permanently incapacitated for the performance of her usual and customary duties as a Legal Office Specialist, (2) find that her disability was not a result of an illness arising out of and in the course of her employment and (3) grant her application for a non-service-connected disability retirement.
- c) The Board find that **Susie Borg** is (1) permanently incapacitated for the performance of her usual and customary duties as a Benefits Analyst, (2) find that her disability was not a result of an injury arising out of and in the course of her employment, (3) grant her application for a non-service-connected disability retirement.
- d) The Board find that **Lynda Frattaroli** is (1) permanently incapacitated for the performance of her usual and customary duties as a Supervising Mental Health Clinician, (2) find that her disability was a result of an illness arising out of and in the course of her employment, (3) grant her application for a service-connected disability retirement.
- e) The Board find that **Isaac Hardy** is permanently disabled from the duties of a Correctional Health Nurse and grant survivor benefits, pursuant to Government Code Section 31762, to the member's spouse, Madeline McGriff.
- f) The Board find that **Ronnie Overman** is (1) permanently incapacitated for the performance of his usual and customary duties as a Correctional Officer, (2) find that his disability was a result of an injury arising out of and in the course of his employment, (3) grant his application for a service-connected disability retirement.
- g) The Board find that **Robert Runneals** is (1) permanently incapacitated for the performance of his usual and customary duties as a Deputy Sheriff, (2) find that his disability was a result of an injury arising out of and in the course of his employment, (3) grant his application for a service-connected disability retirement.
- h) The Board find that **Helen Wong** is (1) permanently incapacitated for the performance of her usual and customary duties as an Occupational Therapist, (2) find that her disability was a result of an injury arising out of and in the course of her employment, (3) grant her application for a service-connected disability retirement.

4.2 Service Retirements

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

Member Name	Effective Retirement Date	Department
Corder, Jeanette	August 29, 2013	Deferred from Social Services
Guevara, Henry	August 10, 2013	Probation
Gutierrez, Maurilia	August 31, 2013	Aging and Adults Services
Holmes, Mary	August 20, 2013	Deferred from Hospital
Lawrence, Carole	August 13, 2013	Deferred from ISD
Legaspi, Carmen	September 1, 2013	Deferred from HSA
Manego, Fatima	August 31, 2013	Hospital
Naidu, Sarda	August 31, 2013	Probation
Payette, Stephen	July 7, 2013	Deferred from Aging & Adult Services
Pedruco, Gloria	August 14, 2013	Hospital
Prasad, Ramendra	August 31, 2013	Controller's Office
Sagastume, Socorro	September 1, 2013	Family Health
Sebrana, Pio	August 28, 2013	Deferred from HOS
Strobeck, Marie	August 12, 2013	Deferred from DPW
Wertz, Merrilee	August 10, 2013	Hospital
Wesley, Francine	August 11, 2013	Sheriff's Office
Williams, Gary	August 31, 2013	Public Works

4.3 Continuances

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

Survivor's Name	Beneficiary of:
Anderson, Cornelia	Anderson, William

4.4 Deferred Retirements

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

Member Name	Retirement Plan Type
Mata, Marian	G4 Vested
Chen, Calvin	G4 Vested
Peavey, Chindi	G4 Vested - Reciprocity
Mendoza, Abraham	G4 Non Vesteded - Recirpocity
Womack, Kathleen	G4 Vested – Reciprocity
Ugas, July	G4 Vested - Reciprocity
Lewis, Tina	G4 Vested - Reciprocity

4.5 Member Account Refunds

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

Member Name	Retirement Plan Type
Austin, Ronald	G4 Non-vested
Harirchi, Fereshteh	G4 Non-vested
Garratt, Stephanie	G4 Vested
Mozingo, George	G4 Non-vested
Keyes, Marcia	G4 Vested
Barone, Deborah	G7
De La Torre, Andrew	G7
Lacap, Maryann	G7
Sandoval, Norma	G5

4.6 Member Account Rollovers

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

Member Name	Retirement Plan Type
Ghannam, Juanita	G7
Khayam-Bashi, Farzad	G4 Non-vested
Simbe, Catrina	G4 Vested
Guidi, Gina	G4 Non-vested

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 29, 2013

Agenda Item 4.7

TO: Board of Retirement


FROM: Mabel Wong, Finance Officer

SUBJECT: Review and Approval of SamCERA's Internal Control Structure

Staff Recommendation

Review and approve SamCERA's Internal Control Structure.

Background

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

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

From time to time the Board has reviewed and approved the guidelines for SamCERA's internal control structure. The most recent Board review and approval was in October of 2011. The guidelines begin below.

Discussion

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

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

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

Internal Control Guidelines

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

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

This definition establishes that:

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

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

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

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

The first internal control standard is Control Environment.

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

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Board of Retirement

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

The second internal control standard is Risk Assessment.

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

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

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

The third internal control standard is Control Activities.

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

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

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

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

The fourth internal control standard is Information and Communications.

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

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

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

The fifth internal control standard is Monitoring.

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

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

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


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

**SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
BOARD OF RETIREMENT**

October 29, 2013

Agenda Item 5.2

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer 

SUBJECT: Approval Of Amendment And Renumbering Of Regulations 5.1-5.10 And Deleting Regulation 5.2 Of Article V Of The Board Of Retirement Regulations Relating To The Disability Retirement Process.

STAFF RECOMMENDATION:

Approve a resolution amending and renumbering regulations 5.1-5.10 and deleting regulation 5.2 of Article V of the Board of Retirement Regulations relating to the disability retirement process.

SUMMARY:

The proposed amendment rewords the regulations to provide greater clarity and to be consistent with current practices. To be consistent with state law, the proposed regulations also delete a provision addressing members who die prior to the completion of the disability retirement application.

DISCUSSION:

The current disability process can be summarized as follows: After a disability retirement application has been reviewed by staff, it is presented to the Board for action. The Board determines if the application should be approved on the consent agenda or if it should be heard in closed session. An applicant can also make a request to have the matter removed from the consent agenda. If the applicant, or the employer, does not agree with the Board's action, the matter is sent to a hearing officer, who makes findings and recommendations that are submitted to the Board. Under the '37 Act, the Board has several optional actions it can take in regards to the hearing officer's findings and recommendations. If the member, or the employer, does not agree with the Board's action, a writ of mandate can be filed in Superior Court. The proposed regulations clarify this existing procedure.

Regulation 5.2 relates to the death of a member prior to the filing of a disability application. It provides that the member's surviving spouse will receive an optional retirement benefit that is inconsistent with the benefits contained in the '37 Act. Accordingly, staff recommends that it be deleted in order to ensure compliance with state law.

ATTACHMENTS:

- a) Mark up of the existing regulations reflecting the proposed changes
- b) "Resolution Approving Amendment and Renumbering of Regulations 5.1-5.10 and Deleting Regulation 5.2 of Article V of the Board of Retirement Regulations Relating To Disability Retirement Process."

ARTICLE V.

DISABILITY RETIREMENT

5.1 Application Process: The application process for service connected and non--service connected disabilities shall be as follows:

~~(a)~~ Either the County or the member can apply for a disability retirement for the member by filing a completed application for disability retirement form available medical reports diagnosing the applicant's condition.

~~(e)~~(a) **Submission of Completed application:** Either the member or the employer, on behalf of the member, can apply for a disability retirement by filing with SamCERA: (1) a completed SamCERA application for disability retirement form and (2) authorizations signed by the member permitting SamCERA and its legal counsel to obtain all medical information relating to the applicant's physical or mental illness or injury and permitting access to records relating to applicant's current and prior employment. Applicant's employer shall complete forms provided by SamCERA and provide information as deemed necessary. All information received by SamCERA or its agents and counsel shall be treated as confidential and not released to anyone except insofar as may be necessary for the administration of the retirement system or upon an order of a court of competent jurisdiction, as provided by Government Code Section 31532.

(b) **Determination of the Disability:** The determination of the member's disability shall be limited to the disability as set forth in the application for disability retirement.

(c) **Additional Information:** If at any point in the process the Chief Executive Officer determines that additional information is necessary, the Chief Executive Officer may ask the applicant or the ~~County~~employer to submit the additional information.

~~(d)~~(d) **Medical and Investigatory Services:** The Chief Executive Officer is authorized and directed to secure such medical, investigatory and other ~~services~~services and advice in connection with applications for disability retirement as the Board may require in order to make its decision.

~~(e)~~(e) **Review of Information and Records by Medical Advisor:** SamCERA will inform the member when all information and records requested by SamCERA have been received. When the applicant indicates that all necessary information, including information not requested by SamCERA, has been submitted, the Chief Executive Officer shall forward the complete record to the Board's medical ~~consultant~~advisor for his or her evaluation of the applicant's condition.

~~(f)~~(f) **Cut off for Amendments to Application:** After the record has been forwarded to the Board's medical ~~consultant~~advisor, the member cannot amend his or her application to add a new disabling

condition that is unrelated or not caused by the condition set forth in the application; member must file a new application which would be subject to all regular statutory deadlines.

~~**5.2 Death of Member prior to Completion of Application:** When a member who has not filed an application or completed the application process for either service or disability retirement dies while employed by the County, the Chief Executive Officer shall file an application and or complete the application process on behalf of the member, if requested to do so by the deceased member's eligible spouse, eligible children, or other named beneficiary, in order to establish eligibility for the Optional Settlement 2 provided by GC§31762. The Chief Executive Officer shall present such application for service or disability retirement to the Board for approval.~~

~~**5.3 Submission of Application to the Board:** All applications for service retirement shall be subject to review and consideration of approval by the Board. The Board consideration process shall be as follows:~~

5.2 Submission of Application Information to the Board: Staff, in consultation with the medical advisor, shall prepare a memorandum summarizing the application and information received from medical, employment and other records. Staff shall make a recommendation to the Board regarding the approval of the application.

~~(a) **Notification of Hearing/Board Review:** The applicant shall be notified in writing when the application/matter will be submitted to the Board for its consideration. The and that the matter will be placed on the Board's consent agenda. If staff's recommendation to the Board is to deny the application, the notice shall advise the applicant that include a copy of staff's memorandum to the applicant has a choice of an informal or a formal hearing as set forth below. The notice shall further provide the staff's recommended action to Board.~~

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

~~(c) **Informal Hearing:** With the consent of the applicant, the initial hearing before the Board on an application for disability retirement may be informal in nature. summarizing the application and information received from medical, employment and other records. While the applicant is encouraged/welcomed to appear before the Board, the appearance is not mandatory, unless the member would like the matter removed from the consent agenda.~~

~~(b) **Board Review of Staff Recommendation:** The matter will be placed on the Board's consent agenda with recommended action by staff. Any/The applicant or any member of the Board can request that the matter by/be taken off of the consent agenda and to be discussed and considered during the meeting ~~of~~ regular agenda. If the matter is placed on the regular agenda, it will be heard in closed session, unless otherwise directed by the applicant. For all disability matters heard on either the consent~~

agenda or regular agenda, the Board shall review the information submitted and consider the acceptance of staff's recommendation. The applicant and the County employer, shall be notified in writing of the Board's action ~~on~~regarding the application.

(d) Appeal of the decision of the Board based on an informal hearing**c) Request For a Formal Hearing:**

If the applicant or County employer is dissatisfied with the Board's action, the applicant or County employer may request a formal hearing. The request for formal hearing must be made in writing, and filed with the Chief Executive Officer, if by the member, within 60 days of the date of the notice of the Board's action; if by the County employer, within 30 days of the date of notice of the Board's action. If no request for a formal hearing is filed within the applicable period, the Board's action shall be deemed final and binding.

(ed) Formal Hearing Process: Upon the filing of a written request for a hearing, staff will select a hearing officer on a rotational basis from a list of private attorneys who serve as hearing officers, and then will refer the matter ~~shall be referred~~ to County counsel for SamCERA. Counsel ~~who~~for SamCERA will contact the applicant about communicating with the hearing officer regarding the ~~selection~~hearing schedule and the preparation of the ~~hearing officer record~~. The hearing officer shall schedule the time and place of the hearing with the consent of the parties. ~~The hearing~~The hearing officer shall set a briefing schedule for any briefs to be filed. The hearing shall be limited to the disability as set forth in the application for disability retirement and shall be recorded by a qualified court reporter. The hearing officer shall prepare, and submit a proposed finding of fact and recommended decision based upon the evidence considered.

(e) Objections to Hearing Officer Decision. The proposed findings of fact and recommendations of the hearing officer shall be served on the parties who shall have 10 days from the date of service to submit written objections. The objections shall be incorporated into the record to be considered by the Board.

(f) Notice of Submission of Hearing Officer Decision to the Board. The hearing officer's decision shall be placed on the Board's agenda as soon as administratively possible. ~~The applicant and~~ after the ~~County~~period for objections has run. Staff shall be notifiednotify the applicant of the time and place of the meeting. ~~The~~ and staff's recommendation to the Board ~~may accept, amend or reject. The~~ matter will be placed on the Board's consent agenda with the recommended ~~decision of the hearing officer~~action by staff. The applicant ~~and the County shall be notified in writing~~ or any member of the Board can request that the matter by taken off of the ~~Board's action~~consent agenda to be considered during the regular agenda. If the matter is to be heard on the regular agenda, it will be heard in closed session, unless otherwise directed by the applicant.

(g) Consideration of hearing officer decision by the Board. Upon receiving the proposed findings of fact and recommendations of the hearing officer, the Board may: (1) approve and adopt the proposed

findings and recommendations; or (2) require a transcript or summary of all the testimony and evidence, and then take such action as in its opinion is indicated by such evidence: or (3) refer the matter back with or without instructions to the hearing officer for further proceedings, or (4) set the matter for a hearing before itself. The applicant and the employer shall be notified in writing of the Board's action.

(f) **Appeal of the action of the Board ~~following the formal hearing~~:** If the ~~applicant~~member or the ~~County~~employer is dissatisfied with the Board's action relating to the hearing officer's recommended decision, the applicant or the employer may obtain judicial review by filing a petition for a writ of mandate in accordance with the Code of Civil Procedure within 90 days of the date of the written notice of the Board's action. If a petition for writ of mandate is not timely filed, the Board's action shall be deemed final and binding.

5.42 Effective Date: If the Board approves the application for disability retirement, the effective date of retirement shall be the later of the day following the member's last day on ~~the County~~ payroll or the day the member filed the retirement application with the Chief Executive Officer.

5.53 Required Documents for Disbursement of Disability Payment: The first disability retirement benefit payment shall not be disbursed until the member has filed the required documents set forth in Article IV Section 5 of these regulations.

~~filed the required documents set forth in Article IV Section 5.~~

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

(a) Failure of the member to submit to a medical examination at the request of the Board pursuant; or

(b) Any failure to cooperate by the member or applicant or any other act or omission by the member or applicant or member or applicant's representative which prevents the Board from hearing and adjudicating the application for disability retirement within one year of its filing.

5.75 Process to Terminate an Application for Disability Retirement: Before the Board determines whether to void and null a disability application, the applicant shall be given at least 15 days written notice of the proposed action and the date and time of the Board meeting. The applicant shall be granted the opportunity to appear and address the Board regarding the proposed action. The Board may exercise broad discretion in extending the time for the processing of the application. Nothing in this section shall prohibit an applicant from filing a new application, if applicant is eligible to do so.

5.86 Cancellation of Disability benefits After Medical Examination: If the Board requires ~~beneficiary~~disability retiree under the age of 55 to undergo a medical examination and on the basis of such

examination determines that it should review whether the disability retiree is still physically or mentally incapacitated for service in the position held when retired for disability, the matter will be placed on the Board's agenda for hearing. The ~~applicant~~[disability retiree](#) will be given written notice of the hearing and be advised that if the Board decides that he or she is no longer incapacitated, and if the ~~County or district~~[employer](#) reinstates the retiree, the disability retirement allowance will be canceled. The notice shall also advise the ~~recipient~~[disability retiree](#) of his or her right to be represented by counsel, to present evidence in his or her own behalf and to cross-examine any witness produced in support of canceling the disability retirement allowance. If the ~~beneficiary~~[disability retiree](#) is dissatisfied with the Board's action, the ~~beneficiary~~[disability retiree](#) may obtain judicial review by filing a petition for a writ of mandate in accordance with the Code of Civil Procedure within 90 days of the date of the written notice of the Board's action. If a petition for writ of mandate is not timely filed, the Board's action shall be deemed final and binding.

5.97 Modified Work Program Pending Determination of Disability: If the Board has not made a determination of eligibility for a disability benefit prior to a member's entry into a Modified Work position designed by the County to accommodate the member's work restrictions, then at the time of the member's retirement, the Board's determination of eligibility for a disability benefit shall be based upon the normal and customary duties of the member's position prior to entering the Modified Work position, unless the member requests that the Board base its decision on the duties of a subsequent position held by the member.

5.108 Modified Work Program --Request For Retirement: If the Board has authorized modified work benefits, then upon the member's subsequent request to retire, the Chief Executive Officer may retire the member with a disability benefit and record the member's name on the ~~Consent Calendar~~[consent agenda](#) for Board ratification. However, if the Chief Executive Officer has reason to believe that the member's condition has improved to the point where the member may be capable of performing the normal and customary duties of the position from which the member was previously disabled, then the Chief Executive Officer shall submit the matter to the Board for its independent review and determination.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

**RESOLUTION APPROVING AMENDMENT AND RENUMBERING OF
REGULATIONS 5.1-5.10 AND DELETING REGULATION 5.2 OF ARTICLE V OF THE BOARD OF
RETIREMENT REGULATIONS RELATING TO DISABILITY RETIREMENT PROCESS**

RESOLUTION 13-14_____

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

WHEREAS, Article 10 of CERL commencing with Government Code §31720 et al. sets forth the disability retirement process; and

WHEREAS, the existing regulations contained in Article V can be clarified to set forth the procedure that staff use when processing and presenting applications for disability retirement to the Board of Retirement and hearing officers; and

WHEREAS, the Board has reviewed the proposed amendments to and renumbering of regulations 5.1-5.10 and the deletion of regulation 5.2, and desires to adopt such amendments to Article V; Therefore Be it

RESOLVED that the Board hereby deletes regulation 5.2, "Death of Member prior to Completion of Application," and this section shall no longer be applicable to a member who dies after the effective date these amendments.

FURTHER RESOLVED that the Board hereby amends Article V of the Regulations of the Board of Retirement to read as follows:

ARTICLE V.

DISABILITY RETIREMENT

5.1 Application Process: The application process for service connected and non-service connected disabilities shall be as follows:

(a) **Submission of Completed application:** Either the member or the employer, on behalf of the member, can apply for a disability retirement by filing with SamCERA: (1) a completed SamCERA application for disability retirement form and (2) authorizations signed by the member permitting SamCERA and its legal counsel to obtain all medical information relating to the applicant's physical or mental illness or injury and permitting access to records relating to applicant's current and prior employment. Applicant's employer shall complete forms provided by SamCERA and provide information as deemed necessary. All information received by SamCERA or its agents and counsel shall be treated as confidential and not released to anyone except insofar

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as may be necessary for the administration of the retirement system or upon an order of a court of competent jurisdiction, as provided by Government Code Section 31532.

(b) **Determination of the Disability:** The determination of the member's disability shall be limited to the disability as set forth in the application for disability retirement.

(c) **Additional Information:** If at any point in the process the Chief Executive Officer determines that additional information is necessary, the Chief Executive Officer may ask the applicant or the employer to submit the additional information.

(d) **Medical and Investigatory Services:** The Chief Executive Officer is authorized and directed to secure such medical, investigatory and other services and advice in connection with applications for disability retirement as the Board may require in order to make its decision.

(e) **Review of Information and Records by Medical Advisor:** SamCERA will inform the member when all information and records requested by SamCERA have been received. When the applicant indicates that all necessary information, including information not requested by SamCERA, has been submitted, the Chief Executive Officer shall forward the complete record to the Board's medical advisor for his or her evaluation of the applicant's condition.

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

5.2 Submission of Application Information to the Board: Staff, in consultation with the medical advisor, shall prepare a memorandum summarizing the application and information received from medical, employment and other records. Staff shall make a recommendation to the Board regarding the approval of the application.

(a) **Notification of Board Review:** The applicant shall be notified in writing when the matter will be submitted to the Board for its consideration and that the matter will be placed on the Board's consent agenda. If staff's recommendation to the Board is to deny the application, the notice shall include a copy of staff's memorandum to the Board summarizing the application and information received from medical, employment and other records. While the applicant is welcome to appear before the

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Board of Retirement

Board, the appearance is not mandatory, unless the member would like the matter removed from the consent agenda.

(b) Board Review of Staff Recommendation: The matter will be placed on the Board's consent agenda with recommended action by staff. The applicant or any member of the Board can request that the matter be taken off of the consent agenda to be discussed and considered during the regular agenda. If the matter is placed on the regular agenda, it will be heard in closed session, unless otherwise directed by the applicant. For all disability matters heard on either the consent agenda or regular agenda, the Board shall review the information submitted and consider the acceptance of staff's recommendation. The applicant and the employer, shall be notified in writing of the Board's action regarding the application.

(c) Request For a Formal Hearing: If the applicant or employer is dissatisfied with the Board's action, the applicant or employer may request a formal hearing. The request for formal hearing must be made in writing, and filed with the Chief Executive Officer, if by the member, within 60 days of the date of the notice of the Board's action; if by the employer, within 30 days of the date of notice of the Board's action. If no request for a formal hearing is filed within the applicable period, the Board's action shall be deemed final and binding.

(d) Formal Hearing Process: Upon the filing of a written request for a hearing, staff will select a hearing officer on a rotational basis from a list of private attorneys who serve as hearing officers, and then will refer the matter to counsel for SamCERA. Counsel for SamCERA will contact the applicant about communicating with the hearing officer regarding the hearing schedule and the preparation of the record. The hearing officer shall schedule the time and place of the hearing with the consent of the parties. The hearing officer shall set a briefing schedule for any briefs to be filed. The hearing shall be limited to the disability as set forth in the application for disability retirement and shall be recorded by a qualified court reporter. The hearing officer shall prepare and submit a proposed finding of fact and recommended decision based upon the evidence considered.

(e) Objections to Hearing Officer Decision. The proposed findings of fact and recommendations of the hearing officer shall be served on the parties who shall have 10 days from the date of service to submit written objections. The objections shall be incorporated into the record to be considered by the Board.

(f) Notice of Submission of Hearing Officer Decision to the Board. The hearing officer's decision shall be placed on the Board's agenda as soon as administratively

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

possible after the period for objections has run. Staff shall notify the applicant of the time and place of the meeting and staff's recommendation to the Board. The matter will be placed on the Board's consent agenda with the recommended action by staff. The applicant or any member of the Board can request that the matter be taken off of the consent agenda to be considered during the regular agenda. If the matter is to be heard on the regular agenda, it will be heard in closed session, unless otherwise directed by the applicant.

(g) Consideration of hearing officer decision by the Board. Upon receiving the proposed findings of fact and recommendations of the hearing officer, the Board may: (1) approve and adopt the proposed findings and recommendations; or (2) require a transcript or summary of all the testimony and evidence, and then take such action as in its opinion is indicated by such evidence; or (3) refer the matter back with or without instructions to the hearing officer for further proceedings, or (4) set the matter for a hearing before itself. The applicant and the employer shall be notified in writing of the Board's action.

(f) Appeal of the action of the Board: If the member or the employer is dissatisfied with the Board's action relating to the hearing officer's recommended decision, the applicant or the employer may obtain judicial review by filing a petition for a writ of mandate in accordance with the Code of Civil Procedure within 90 days of the date of the written notice of the Board's action. If a petition for writ of mandate is not timely filed, the Board's action shall be deemed final and binding.

5.2 Effective Date: If the Board approves the application for disability retirement, the effective date of retirement shall be the later of the day following the member's last day on payroll or the day the member filed the retirement application with the Chief Executive Officer.

5.3 Required Documents for Disbursement of Disability Payment: The first disability retirement benefit payment shall not be disbursed until the member has filed the required documents set forth in Article IV Section 5 of these regulations.

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

(a) Failure of the member to submit to a medical examination at the request of the Board pursuant; or

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

(b) Any failure to cooperate by the member or applicant or any other act or omission by the member or applicant or member or applicant's representative which prevents the Board from hearing and adjudicating the application for disability retirement within one year of its filing.

5.5 Process to Terminate an Application for Disability Retirement: Before the Board determines whether to void and null a disability application, the applicant shall be given at least 15 days written notice of the proposed action and the date and time of the Board meeting. The applicant shall be granted the opportunity to appear and address the Board regarding the proposed action. The Board may exercise broad discretion in extending the time for the processing of the application. Nothing in this section shall prohibit an applicant from filing a new application, if applicant is eligible to do so.

5.6 Cancellation of Disability benefits After Medical Examination: If the Board requires a disability retiree under the age of 55 to undergo a medical examination and on the basis of such examination determines that it should review whether the disability retiree is still physically or mentally incapacitated for service in the position held when retired for disability, the matter will be placed on the Board's agenda for hearing. The disability retiree will be given written notice of the hearing and be advised that if the Board decides that he or she is no longer incapacitated, and if the employer reinstates the retiree, the disability retirement allowance will be canceled. The notice shall also advise the disability retiree of his or her right to be represented by counsel, to present evidence in his or her own behalf and to cross-examine any witness produced in support of canceling the disability retirement allowance. If the disability retiree is dissatisfied with the Board's action, the disability retiree may obtain judicial review by filing a petition for a writ of mandate in accordance with the Code of Civil Procedure within 90 days of the date of the written notice of the Board's action. If a petition for writ of mandate is not timely filed, the Board's action shall be deemed final and binding.

5.7 Modified Work Program Pending Determination of Disability: If the Board has not made a determination of eligibility for a disability benefit prior to a member's entry into a Modified Work position designed by the County to accommodate the member's work restrictions, then at the time of the member's retirement, the Board's determination of eligibility for a disability benefit shall be based upon the normal and customary duties of the member's position prior to entering the Modified Work position, unless the member requests that the Board base its decision on the duties of a subsequent position held by the member.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
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5.8 Modified Work Program -Request for Retirement: If the Board has authorized modified work benefits, then upon the member's subsequent request to retire, the Chief Executive Officer may retire the member with a disability benefit and record the member's name on the consent agenda for Board ratification. However, if the Chief Executive Officer has reason to believe that the member's condition has improved to the point where the member may be capable of performing the normal and customary duties of the position from which the member was previously disabled, then the Chief Executive Officer shall submit the matter to the Board for its independent review and determination.

PASSED AND ADOPTED by the Board of Retirement on _____ (date).

Natalie Kwan Lloyd
Chair, Board of Retirement

I, Paul Hackleman, Secretary of the Board of Retirement, of the San Mateo County Employees' Retirement Association, DO HEREBY CERTIFY that the foregoing resolution was duly introduced, approved and adopted by the Board of Retirement at a regular meeting of the Board of Retirement held on the _____ (date), by the following vote:

AYES:

NOES:

ABSENT:

ATTEST: _____
Paul Hackleman
Secretary, Board of Retirement

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 29, 2013

Agenda Item 6.1

TO: Board of Retirement

FROM: Michael Coultrip, Chief Investment Officer 

SUBJECT: Preliminary Monthly Portfolio Performance Report for the Period Ending September 30, 2013

Staff Recommendation:

Review the preliminary performance report dated September 30, 2013.

Background:

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

The attached performance report shows both net and gross of fee returns for the total plan on page one, with net composite returns (pages 2-3) and net manager returns (pages 4-8) also shown.

Discussion:

The fund's net preliminary return for September was +3.2%, while the preliminary trailing twelve month return was +12.8% net (+13.1% gross). The twelve-month net return is lower than SamCERA's Total Plan Policy Benchmark return of 12.9% but above the Actuarial Assumed Earnings Rate of 7.50%. As a reminder, SamCERA should expect performance to vary substantially from that of the Total Plan Policy Benchmark in the initial stages of its private equity implementation.

Global equity markets rebounded in September from their August losses as the Federal Reserve surprised markets by deciding not to begin tapering its bond purchases. In addition, market volatility decreased on the news that Syria agreed to dispose of its chemical weapons arsenal. Economic reports were again mixed during the month, with 2nd quarter GDP growth ahead of expectations and housing still showing gains, but payroll growth was below expectations and consumer confidence weaker than expected.

Most domestic equity indices were up between +3% and +7%, with growth stocks outperforming value stocks across the market capitalization spectrum.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
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International equity indices were sharply higher on the month, with developed markets (as measured by MSCI EAFE) up +7.4% and emerging markets up +6.5%.

The general fixed income market was higher by +0.95% as interest rates (as measured by 10 year Treasuries) decreased by 14 basis points. Emerging market bonds reversed their August losses and were up over +2.6% on the month.

Attachments:

SIS Market Update

State Street Performance Report

U.S. EQUITY

September was once again another strong month for global equity markets.

In the U.S. markets, Growth outperformed Value and Small caps decidedly outperformed Large caps. The Russell 1000 Growth Index was up +4.5% and the Russell 1000 Value Index up +2.5% for the month. The Russell 2000 Growth Index was up +7.0% and the Russell 2000 Value was up +5.8%. The S&P 500 Index ended the month higher by +3.1%.

The S&P 500 Index has a trailing P/E ratio of 18.3, a forward 12-month estimate P/E ratio of 15.4 and dividend yield of 2.1%.

Factset is estimating an S&P 500 earnings growth rate for Q3 2013 at +3.2% versus one year ago. For Q3 2013, 89 companies have issued negative EPS guidance and 19 companies have issued positive EPS guidance.

Corporate merger highlights for the month included: Verizon Communications is close to buying the remaining stake in Verizon Wireless it does not own from Vodafone for potentially \$130 billion; Microsoft will pay \$7.2 billion to acquire Nokia's handset unit and license its patents; Japanese drugmaker Otsuka Holdings will buy Astex Pharmaceuticals for \$900 million; American Tower will buy the parent company of Global Tower Partners, which owns about 5,400 cellular towers in the U.S., for about \$3.3 billion; Molex, a maker of electronic connectors and cable assembly products, will be acquired by Koch Industries for about \$7.2 billion; Luxury retailer Neiman Marcus Group will be sold to Ares Management and Canada Pension Plan Investment Board for \$6 billion; Japan's Suntory Beverage & Food will buy GlaxoSmithKline's Lucozade and Ribena brands for \$2.1 billion; Jacobs Engineering Group, one of the world's largest construction consulting firms, will buy Australia's Sinclair Knight Merz for about \$1.2 billion; Packaging Corp. of America is buying Boise Inc. for \$1.3 billion; Chemical maker Huntsman will pay \$1.1 billion to buy two businesses from Rockwood Holdings to make its pigments business more competitive; Applied Materials, the largest chip-making equipment supplier, will acquire Tokyo Electron for \$9.4 billion; Medical maker Stryker acquired Mako Surgical for \$1.65 billion to add technology for robot-assisted surgery; Lixil Group will buy Grohe, Europe's largest bathroom installation maker, for \$4 billion; and, GlaxoSmithKline will sell its

thrombosis drug brands and a related factory to Aspen Pharmacare for \$1.1 billion.

Global mergers and acquisitions are up 13% year-over-year, totaling more than \$2 trillion in the first nine months of 2013. Foreign direct investment into China rose 6.37% year-on-year in the first eight months of 2013 to \$80 billion.

FIXED INCOME

The Commerce Dept. confirmed that the U.S. economy grew at a 2.5% annual rate from April to June, but many analysts believe growth is slowing to a slower rate at or below 2% in the third quarter.

Employers added 169,000 jobs in August but revised lower the June and July monthly numbers previously reported, amounting to the weakest three month stretch of job growth in a year.

Median household incomes after inflation stabilized at \$51,017 in 2012. Household net worth rose 1.8%, to \$74.8 trillion in the 2nd quarter.

Business forecasters maintained their upbeat view of the U.S. economy in 2014, predicting 3% growth by the second quarter of next year, low inflation and improving employment.

World trade is expected to grow by 2.5% this year and 4.5% in 2014.

The yield on the bellwether 10-year Treasury note fell to 2.64% at the close of September from its August close at 2.78%. The 10-year Treasury hit a high of 2.98% in the month of September. At month-end, the 30-year bond yield was 3.69% with the 3-month T-bill at 0.02%. The Barclays Capital US Aggregate Index was up a strong +0.95% in September. Emerging Markets bonds were the strongest sector, gaining +4.4%, as measured by the JPM GBI-EM Global Diversified Unhedged Index.

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

THE GOOD

*The ISM reported that its index of national factory service activity rose to 55.7 in August from 55.4 in July, the highest reading since June 2011.

*Toyota's vehicle sales jumped 23% in August, GM's rose 15%, Chrysler and Ford's increased 12% and Nissan's grew 22%.

*The U.S. government pulled a narrower budget deficit in August compared with a year ago of \$148 billion, keeping the annual gap on track to be the smallest in five years.

*Personal income rose 0.4% in August while personal consumption expenditures (PCE) rose 0.3%. That combination lifted the savings rate a tick to 4.6%. Core PCE inflation is at 1.2% year-over-year, leaving it still well below the Fed's 2.0% target.

*U.S. factories increased output in August by 0.7%, the most in eight months, helped by a robust month at auto plants.

*U.S. consumer prices barely rose in August; the latest sign that slow economic growth is keeping inflation tame. In the past 12 months, prices have risen 1.5% which is below the Fed's 2% target.

*The Conference Board's index of leading indicators rose a solid 0.7% in August, keeping the index on an encouraging uptrend.

*U.S. home re-sales reached a 6 ½ year high in August, signaling continued strength in the housing market.

*The S&P Case-Shiller 20-city index shows July home prices were up 1.8% over June and on a year-over-year basis, home prices rose 12.4%, the fastest annual pace since 2006.

THE NOT SO GOOD

*U.S. consumer spending rose a weak 0.1% in July.

*The Commerce Dept. reported that the trade gap increased a slightly more than expected 13.3% to \$39.1 billion in July.

*The Federal Reserve reported that consumer credit rose \$10.4 billion in July to a seasonally adjusted \$2.85 trillion.

*The Commerce Dept. reported that wholesale inventories, a key component of gross domestic product changes, edged up 0.1% in July following three monthly declines.

*The Commerce Dept. reported that durable goods orders edged up 0.1% higher in August following an 8.1% decline in July.

*The Conference Board's consumer confidence index fell to 79.7 in September from a revised 81.8 in August.

NON-U.S. MARKETS

GDP in the United Kingdom rose a solid 0.7% in the second quarter, essentially unchanged from the previous estimate.

The European Central Bank held its key rates steady in September and said it was cautious about the Eurozone's recovery and stood ready to cut rates again if the situation deteriorated.

Economic growth has turned positive in the Eurozone and equity markets have risen about 20% over last year. However, the preliminary purchasing managers' indexes for September indicate that the Eurozone's recovery is likely to be slow. The manufacturing PMI for the overall Eurozone actually slipped 0.3 points to 51.1, its first decline since April.

For the first eight months of the year, passenger car sales in the European Union were off -5.2% to 7.84 million. The world's largest banks would need to boost their capital by \$155 billion to comply with tougher rules and over 60% of that shortfall is in Europe.

Unemployment continues to rise in recession-hit Greece, with the overall rate reaching 27.9% in June; 58.8% of people under 25 are out of work.

After stumbling in June, the Japanese recovery showed signs of continuation in July. The all industry activity index rose 0.5% in July. The value of goods exported also rose by 2.2% in August.

China reported that its exports had grown by 7.2% in August, surpassing market expectations for a 6% increase.

Non-U.S. equities were higher in September. The MSCI ACWI Ex-U.S. was up +7.0% (US dollars) for the month. International Developed stocks (EAFE) were up +7.4% while Emerging Markets gained +6.5%.

CONCLUSION

The Federal Reserve announced that it will maintain the pace of its bond purchases while it awaits conclusive evidence that the economy will strengthen. The Fed's surprise decision had the immediate effect of sending equities higher and government bond yields lower. The Fed also downgraded its outlook for economic growth for this year and next. The Federal Reserve will thus calibrate the pace of their tightening based on how economic conditions evolve rather than according to any pre-set schedule.

Hedge fund manager Bridgewater believes that without the recent fiscal drag, estimated at around a -1.5% impact on GDP, growth rates for the last six months would be close to 4%.

The U.S. economy is seemingly close to the point at which the Fed would reduce the pace of its asset purchases. Or, does the Federal Reserve consider quantitative easing a status quo policy tool? Michael Lewitt, in the October 2013 edition of *The Credit Strategist* states "We have a crisis policy for an economy no longer in crisis. It is as simple as that. And it needs to change as soon as possible so the artificial suppression of market forces and distortion of asset prices can end."

Average fixed rates on U.S. long-term mortgage spreads hovered near two-year highs with the 30-year at 4.57% in the first-half of September. Wells Fargo, the largest U.S. mortgage lender, will cut 1,800 jobs in its home loan business.

Larry Summers has removed himself from consideration to replace Ben Bernanke when his term ends on January 31, 2014. Dr. Janet Yellen, current Fed Vice Chairperson, becomes the presumed front runner for the job.

The top 1% of earners in the U.S. pulled in 19.3% of total household income in 2012, their largest slice of total income in more than 100 years. These top 1% earners saw their income rise by 19.6% in 2012 while the income of the bottom 99% grew by only 1%. President Obama has repeatedly stated his dissatisfaction with the distribution of wealth in America.

Oh, and the U.S. government underwent a partial shut-down on October 1st as lawmakers could not come to terms to negotiate an increase in the nation's credit.

With the budget wrangling continuing and the likely chance that U.S. lawmakers don't reach a compromise on the debt-ceiling until the last hour, financial markets should be on edge for the next week or two.

Monthly Market Update

US Equity Indices Trailing Performance

Annualized Performance to Date: Ending Sep-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
Russell 3000 Index	3.72	6.35	21.30	21.60	25.83	16.76	10.58	6.08	8.11
Russell TOP 200 Index	3.00	5.28	19.23	18.03	24.29	16.24	9.56	5.30	6.91
Russell TOP 200 Growth Index	4.23	7.53	18.99	16.05	22.91	16.72	11.42	7.36	7.10
Russell TOP 200 Value Index	1.81	3.14	19.45	20.02	25.67	15.76	7.62	3.23	6.75
S&P 500 Index	3.14	5.24	19.79	19.34	24.65	16.27	10.02	5.60	7.57
Russell 1000 Index	3.49	6.02	20.76	20.91	25.40	16.64	10.53	5.99	7.98
Russell 1000 Growth Index	4.46	8.11	20.87	19.27	24.13	16.94	12.07	7.60	7.82
Russell 1000 Value Index	2.51	3.94	20.47	22.30	26.54	16.25	8.86	4.24	7.99
Russell Mid-Cap Index	4.58	7.70	24.34	27.91	27.97	17.53	12.97	7.73	10.78
Russell Mid-Cap Growth Index	4.93	9.34	25.42	27.54	27.11	17.65	13.92	8.34	10.16
Russell Mid-Cap Value Index	4.18	5.89	22.94	27.77	28.52	17.27	11.86	6.79	10.91
Russell 2000 Index	6.38	10.21	27.69	30.06	30.98	18.29	11.15	7.23	9.64
Russell 2000 Growth Index	6.96	12.80	32.47	33.07	32.12	19.96	13.17	9.02	9.85
Russell 2000 Value Index	5.77	7.59	23.07	27.04	29.80	16.57	9.13	5.36	9.29
DJ US REIT Index	3.19	-3.15	2.33	4.70	17.59	12.09	5.30	2.35	9.29
DJ-UBS US Commodity Index TR	-2.55	2.13	-8.56	-14.35	-4.72	-3.16	-5.29	-2.15	2.14
DJ-UBS US Gold Index TR	-4.95	8.26	-21.20	-25.64	-10.21	-0.22	7.76	10.96	12.19

Non-US Indices Trailing Performance

Annualized Performance to Date: Ending Sep-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
MSCI AC World Index ex USA	6.98	10.17	10.47	16.98	16.00	6.43	6.74	3.49	9.24
MSCI AC World Index	5.20	8.02	14.92	18.37	20.01	10.81	8.30	4.54	8.41
MSCI EAFE Index	7.42	11.61	16.59	24.29	19.21	8.97	6.85	2.89	8.50
MSCI Emerging Markets index	6.53	5.90	-4.05	1.33	9.03	0.00	7.56	6.26	13.16
ML Global Government Bond Ex. U.S. Index	2.17	3.72	-6.08	-10.68	-3.98	-0.43	4.56	5.34	4.75
Euro	2.66	4.14	2.67	5.22	0.44	-0.28	-0.74	0.95	1.52
Japanese Yen	-0.01	1.23	-11.88	-20.71	-11.37	-5.22	1.59	2.68	1.31
UK Pound Sterling	4.69	6.77	-0.37	0.29	1.96	0.91	-1.90	-2.02	-0.26

US Fixed Income Indices Trailing Performance

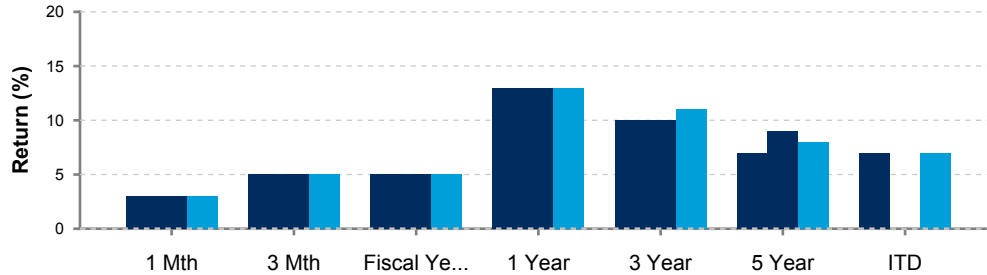
Annualized Performance to Date: Ending Sep-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
ML 3-month T-bill Total Return Index	0.00	0.02	0.06	0.10	0.08	0.10	0.17	1.26	1.70
BarCap Aggregate Bond Index	0.95	0.57	-1.89	-1.68	1.68	2.86	5.41	5.12	4.59
ML U.S. Corp/Govt Master Index	0.82	0.34	-2.50	-2.09	1.81	2.88	5.67	5.11	4.52
ML U.S. Corporate Master Index	0.82	0.89	-2.45	-1.27	4.68	4.44	9.04	5.97	5.27
BarCap Mortgage Backed Securities Index	1.41	1.03	-1.00	-1.20	1.22	2.65	4.66	5.10	4.75
ML U.S. High Yield Master Index	1.01	2.28	3.77	7.03	12.77	8.83	13.22	8.50	8.63
JPM EMBI Global	2.67	0.87	-7.42	-4.34	7.40	5.32	9.95	7.70	8.70

San Mateo County Total Fund Characteristics

September 30, 2013



Total Fund Performance

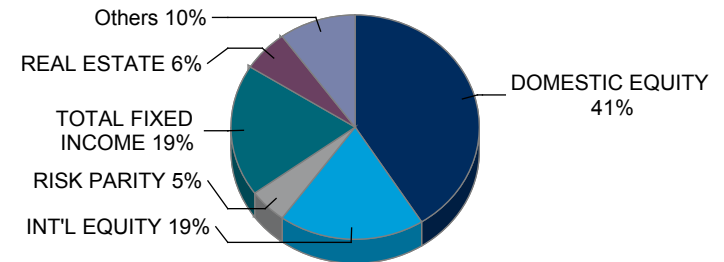


■ TOTAL FUND - Net Mgr
 ■ TOTAL FUND - Total Invested
■ SAMCERA TOTAL PLAN POLICY BENCHMARK

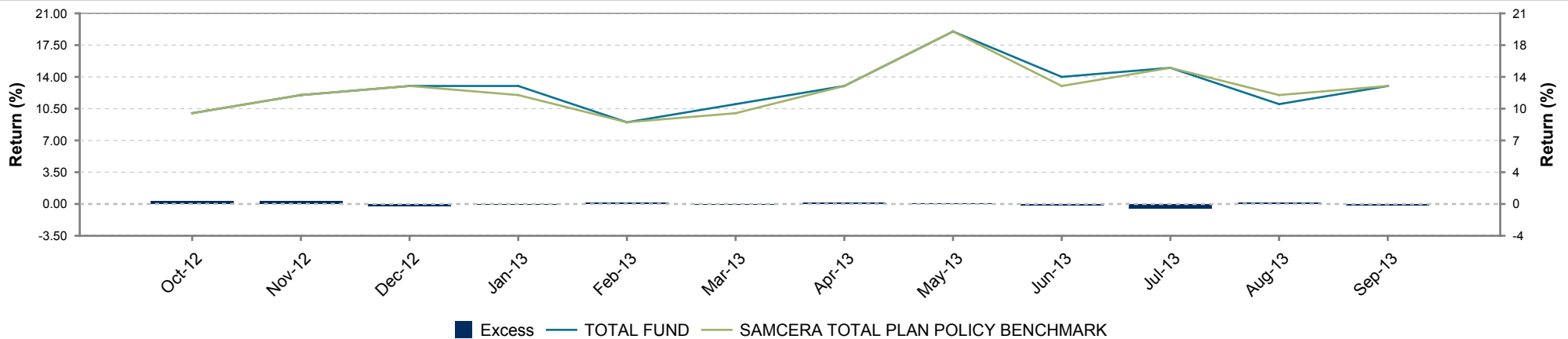
	1-Mth	3-Mth	YTD	Fiscal YTD	1-Yr	3-Yr	5-Yr	10-Yr	ITD
TOTAL FUND - Gross	3.23	4.92	11.14	4.92	13.12	10.54	7.72	6.86	6.72
TOTAL FUND - Net Mgr	3.23	4.87	10.91	4.87	12.79	10.14	7.43	6.70	6.62
SAMCERA TOTAL PLAN POLICY BENCHMARK	3.36	5.37	11.37	5.37	12.89	10.89	8.39	7.56	6.97
Excess	-0.13	-0.50	-0.46	-0.50	-0.10	-0.74	-0.96	-0.86	-0.35

Asset Allocation

	Ending Market Value (\$)	Allocation (%)
DOMESTIC EQUITY	1,197,024,445	41.2
INTERNATIONAL EQUITY	554,181,349	19.1
PRIVATE EQUITY	92,987,771	3.2
RISK PARITY	157,087,738	5.4
HEDGE FUND	82,028,517	2.8
COMMODITIES	75,979,555	2.6
FIXED INCOME	558,105,738	19.2
REAL ESTATE	166,154,482	5.7
CASH	14,927,435	0.5
CLIFTON GROUP - CASH OVERLAY	7,778,080	0.3
TOTAL FUND	2,906,255,110	100.0

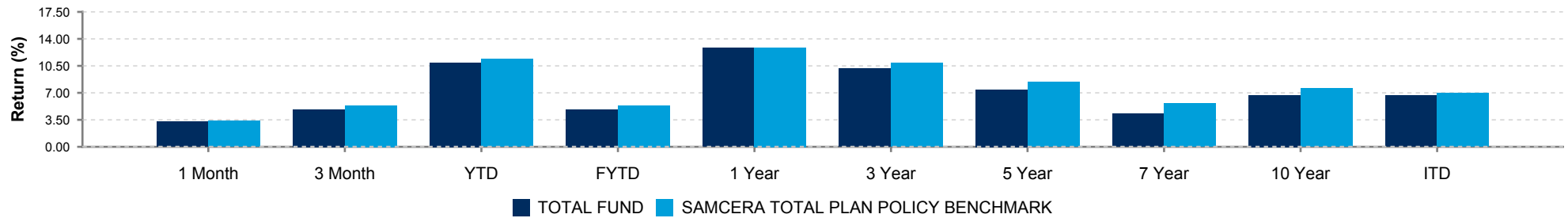


Cumulative Returns



September 30, 2013

Return Comparison



Composite Returns (Net)

	Market Value (\$)	1 Mth	3 Mth	YTD	FYTD	1 Year	3 Year	5 Year	7 Year	10 Year	ITD
Total Fund	2,906,255,110	3.23	4.87	10.91	4.87	12.79	10.14	7.43	4.30	6.70	6.62
SAMCERA TOTAL PLAN POLICY BENCHMARK		3.36	5.37	11.37	5.37	12.89	10.89	8.39	5.63	7.56	6.97
Excess		-0.13	-0.50	-0.46	-0.50	-0.10	-0.74	-0.96	-1.33	-0.86	-0.35
Total Equity	1,751,205,794	4.86	7.69	18.52	7.69	20.79	12.84	8.23	3.73	7.21	7.52
SAMCERA TOTAL EQUITY BENCHMARK		5.11	8.06	18.26	8.06	21.01	13.42	9.40	5.32	8.35	7.96
Excess		-0.26	-0.37	0.26	-0.37	-0.22	-0.58	-1.17	-1.59	-1.14	-0.44
Total Fixed Income	558,105,738	1.58	1.21	-0.54	1.21	1.40	5.60	8.09	5.74	5.20	5.96
SAMCERA TOTAL FIXED INCOME BENCHMARK		1.25	1.06	-2.93	1.06	-2.54	3.29	5.67	5.31	4.72	5.52
Excess		0.33	0.15	2.39	0.15	3.94	2.31	2.42	0.44	0.48	0.44
Total Risk Parity	157,087,738	2.51	2.28	-4.00	2.28	-2.38					5.56
RISK PARITY BENCHMARK		2.61	4.05	11.57	4.05	11.84					8.99
Excess		-0.10	-1.77	-15.57	-1.77	-14.22					-3.43
Hedge Funds	82,028,517	0.68	-1.32	1.99	-1.32	5.10					1.66
LIBOR + 4%		0.34	1.03	3.13	1.03	4.20					4.23
Excess		0.34	-2.35	-1.15	-2.35	0.90					-2.57
Private Equity	92,987,771	1.60	4.02	6.26	4.02	6.41					-55.04
PRIVATE EQUITY BENCHMARK		3.96	7.12	23.96	7.12	25.19					19.20
Excess		-2.37	-3.10	-17.70	-3.10	-18.78					-74.25

San Mateo County Composite Return Summary



September 30, 2013

Composite Returns (Net)

	Market Value (\$)	1 Mth	3 Mth	YTD	FYTD	1 Year	3 Year	5 Year	7 Year	10 Year	ITD
Commodities	75,979,555	-2.63	2.65	-5.26	2.65	-10.68					-2.85
DJ-UBS COMMODITY		-2.55	2.13	-8.58	2.13	-14.39					-10.79
Excess		-0.07	0.52	3.32	0.52	3.72					7.93
Total Real Estate	166,154,482	0.00	0.00	7.79	0.00	10.92	12.41	-0.52	2.38	7.07	7.62
SAMCERA NCREIF NFI ODCE EW (Gross)		0.00	0.00	5.51	0.00	8.20	12.30	-0.05	3.02	6.86	7.73
Excess		0.00	0.00	2.28	0.00	2.72	0.11	-0.47	-0.64	0.21	-0.11
Total Cash	14,927,435	0.01	0.11	0.35	0.11	0.43	0.66	0.95	1.11	1.71	2.39
91 DAY TREASURY BILL		0.00	0.02	0.06	0.02	0.10	0.10	0.17	1.28	1.72	2.31
Excess		0.01	0.09	0.30	0.09	0.33	0.56	0.78	-0.16	-0.00	0.08

San Mateo County Manager Return Summary

September 30, 2013



Manager Returns (Net)											
	\$ EMV	1 Mth	3 Mth	FYTD	Cal YTD	1 Year	3 Year	5 Year	7 Year	10 Year	ITD
TOTAL EQUITY	1,751,205,794	4.86	7.69	7.69	18.52	20.79	12.84	8.23	3.73	7.21	7.52
SAMCERA TOTAL EQUITY BENCHMARK		5.11	8.06	8.06	18.26	21.01	13.42	9.40	5.32	8.35	7.96
Excess		-0.26	-0.37	-0.37	0.26	-0.22	-0.58	-1.17	-1.59	-1.14	-0.44
TOTAL DOMESTIC EQUITY	1,197,024,445	3.96	7.31	7.31	21.99	22.82	16.33	9.94	4.68	7.34	7.97
SAMCERA DOMESTIC EQUITY BENCHMARK		4.07	6.85	6.85	22.14	22.71	17.00	10.71	6.28	8.36	8.30
Excess		-0.11	0.46	0.46	-0.14	0.11	-0.67	-0.77	-1.60	-1.02	-0.32
LARGE CAP COMPOSITE	974,155,185	3.55	6.30	6.30	21.02	21.01	15.67	9.42	4.58	7.25	8.50
RUSSELL 1000 INDEX		3.49	6.02	6.02	20.76	20.91	16.64	10.53	5.99	7.98	9.04
Excess		0.06	0.28	0.28	0.26	0.11	-0.96	-1.11	-1.41	-0.73	-0.54
DE SHAW INVESTMENT MGT, LLC	157,407,988	3.94	6.60	6.60	22.69	23.21	17.98				17.14
RUSSELL 1000 INDEX		3.49	6.02	6.02	20.76	20.91	16.64				16.58
Excess		0.46	0.59	0.59	1.93	2.31	1.34				0.56
BARROW HANLEY	166,519,604	3.68	7.40	7.40	26.41	28.58	17.76				17.12
Russell 1000 Value Index		2.51	3.94	3.94	20.47	22.30	16.25				16.20
Excess		1.18	3.46	3.46	5.94	6.28	1.51				0.91
BLACKROCK S&P 500	491,496,047	3.14	5.26								13.91
S&P 500		3.14	5.24	13.90							13.90
Excess		0.00	0.01								0.01
BROWN ADVISORY LARGE GROWTH	158,731,546	4.29	8.13								10.22
Russell 1000 Growth Index		4.46	8.11	8.05							8.05
Excess		-0.17	0.02								2.17
SMALL CAP COMPOSITE	222,869,260	5.79	11.98	11.98	28.49	32.59	19.74	12.23	5.22	7.71	6.58
RUSSELL 2000 INDEX		6.38	10.21	10.21	27.69	30.06	18.29	11.15	7.23	9.64	7.57
Excess		-0.59	1.77	1.77	0.80	2.54	1.45	1.08	-2.01	-1.93	-0.99

San Mateo County Manager Return Summary

September 30, 2013



Manager Returns (Net)											
	\$ EMV	1 Mth	3 Mth	FYTD	Cal YTD	1 Year	3 Year	5 Year	7 Year	10 Year	ITD
BOSTON COMPANY ASSET MGT, LLC	109,341,296	6.25	9.87	9.87	25.92	30.83	18.16				18.15
RUSSELL 2000 VALUE INDEX		5.77	7.59	7.59	23.07	27.04	16.57				17.36
Excess		0.48	2.28	2.28	2.85	3.80	1.59				0.79
CHARTWELL INVESTMENT MGMT	113,527,610	5.35	14.08	14.08	31.78	34.91	22.18	14.15	9.16		9.02
RUSSELL 2000 GROWTH		6.96	12.80	12.80	32.47	33.07	19.96	13.17	9.02		8.52
Excess		-1.61	1.28	1.28	-0.70	1.84	2.22	0.98	0.14		0.50
TOTAL INTERNATIONAL EQUITY	554,181,349	6.85	8.52	8.52	11.22	16.18	5.27	4.25	1.63	7.49	5.78
MSCI AC WORLD ex US (GROSS)		6.98	10.17	10.17	10.47	16.98	6.43	6.74	3.49	9.24	5.90
Excess		-0.13	-1.65	-1.65	0.75	-0.80	-1.16	-2.49	-1.87	-1.75	-0.12
BAILLIE GIFFORD OVERSEAS LIMITED	192,158,610	7.16	10.66	10.66	17.08	22.17					16.35
MSCI ACWI ex US GROWTH (GROSS)		6.60	8.89	8.89	10.67	16.53					11.34
Excess		0.56	1.78	1.78	6.40	5.64					5.01
EATON VANCE MANAGEMENT	67,475,307	6.53	5.78	5.78	-1.05	4.38					1.74
MSCI Em Markets (USD) GDR		6.53	5.90	5.90	-4.05	1.33					-0.18
Excess		-0.00	-0.12	-0.12	3.00	3.05					1.92
MONDRIAN INVESTMENT PARTNERS	234,502,291	6.58	7.35	7.35	10.22	14.73	6.48	5.66	2.75		6.26
MSCI ACWI EX US VALUE (GROSS)		7.35	11.45	11.45	10.22	17.40	6.36	6.76	3.06		6.62
Excess		-0.76	-4.11	-4.11	-0.00	-2.67	0.11	-1.10	-0.30		-0.36
PYRAMIS	59,947,787	7.29	9.59	9.59	12.23	18.21					11.61
MSCI ACWI ex US Small Cap Gross		8.02	12.46	12.46	14.77	20.45					12.52
Excess		-0.73	-2.87	-2.87	-2.54	-2.24					-0.91
TOTAL FIXED INCOME	558,105,738	1.58	1.21	1.21	-0.54	1.40	5.60	8.09	5.74	5.20	5.96
SAMCERA TOTAL FIXED INCOME BENCHMARK		1.25	1.06	1.06	-2.93	-2.54	3.29	5.67	5.31	4.72	5.52
Excess		0.33	0.15	0.15	2.39	3.94	2.31	2.42	0.44	0.48	0.44

San Mateo County Manager Return Summary

September 30, 2013



Manager Returns (Net)											
	\$ EMV	1 Mth	3 Mth	FYTD	Cal YTD	1 Year	3 Year	5 Year	7 Year	10 Year	ITD
ANGELO GORDON GECC PPI FUND	19,342										
Barclays BA Intermediate High Yield Index		1.02									
Excess											
ANGELO GORDON MANAGEMENT	33,779,920	0.55	2.00		7.81						7.81
Barclays BA Intermediate High Yield Index		1.02	1.94		2.00						3.07
Excess		-0.47	0.06		5.81						4.74
PYRAMIS GLOBAL ADVISORS	146,923,520	1.33	0.92	0.92	-1.47	-0.95	3.95	7.26	5.53		5.48
Barclays Aggregate Bond		0.95	0.57	0.57	-1.89	-1.68	2.86	5.41	5.12		5.08
Excess		0.38	0.35	0.35	0.42	0.73	1.09	1.85	0.42		0.41
WESTERN ASSET MGMT	117,758,794	1.23	1.18	1.18	-1.67	-0.82	4.69	8.24	5.56		5.27
Barclays Aggregate Bond		0.95	0.57	0.57	-1.89	-1.68	2.86	5.41	5.12		4.64
Excess		0.29	0.61	0.61	0.22	0.86	1.82	2.83	0.44		0.63
BRIGADE CAPITAL MANAGEMENT	61,046,370	1.37	2.45	2.45	4.70	8.40	9.63				9.74
Barclays BA Intermediate High Yield Index		1.02	1.94	1.94	2.00	4.74	7.92				8.57
Excess		0.35	0.51	0.51	2.70	3.66	1.71				1.17
BROWN BROTHERS HARRIMAN & CO	78,038,582	1.14	0.72	0.72	-6.94	-6.17	4.07				4.75
Barclays US TIPS Index		1.47	0.64	0.64	-7.25	-6.59	4.05				4.60
Excess		-0.33	0.08	0.08	0.31	0.41	0.02				0.15
FRANKLIN TEMPLETON INVESTMENTS	120,532,005	2.90	1.11	1.11	0.79	5.15					6.70
Barclays Multiverse		2.04	2.82	2.82	-1.94	-2.22					3.02
Excess		0.86	-1.72	-1.72	2.73	7.37					3.68
TOTAL PRIVATE EQUITY	92,987,771	1.60	4.02	4.02	6.26	6.41					-55.04
PRIVATE EQUITY BENCHMARK		3.96	7.12	7.12	23.96	25.19					19.20
Excess		-2.37	-3.10	-3.10	-17.70	-18.78					-74.25

San Mateo County Manager Return Summary

September 30, 2013



Manager Returns (Net)											
	\$ EMV	1 Mth	3 Mth	FYTD	Cal YTD	1 Year	3 Year	5 Year	7 Year	10 Year	ITD
TOTAL RISK PARITY	157,087,738	2.51	2.28	2.28	-4.00	-2.38					5.56
RISK PARITY BENCHMARK		2.61	4.05	4.05	11.57	11.84					8.99
Excess		-0.10	-1.77	-1.77	-15.57	-14.22					-3.43
AQR GLOBAL RISK PREM III LP	157,087,738	2.51	2.28	2.28	-4.00	-2.38					5.56
RISK PARITY BENCHMARK		2.61	4.05	4.05	11.57	11.84					8.99
Excess		-0.10	-1.77	-1.77	-15.57	-14.22					-3.43
HEDGE FUND COMPOSITE	82,028,517	0.68	-1.32	-1.32	1.99	5.10					1.66
LIBOR + 4%		0.34	1.03	1.03	3.13	4.20					4.23
Excess		0.34	-2.35	-2.35	-1.15	0.90					-2.57
AQR DELTA FUND II, L.P.	82,028,517	0.68	-1.32	-1.32	1.99	5.10					1.66
LIBOR + 4%		0.34	1.03	1.03	3.13	4.20					4.23
Excess		0.34	-2.35	-2.35	-1.15	0.90					-2.57
TOTAL COMMODITIES	75,979,555	-2.63	2.65	2.65	-5.26	-10.68					-2.85
DJ-UBS COMMODITY		-2.55	2.13	2.13	-8.58	-14.39					-10.79
Excess		-0.07	0.52	0.52	3.32	3.72					7.93
SSGA MULTISOURCE ACT COMM NL	75,979,555	-2.63	2.65	2.65	-5.26	-10.68					-2.85
DJ-UBS COMMODITY		-2.55	2.13	2.13	-8.58	-14.39					-10.79
Excess		-0.07	0.52	0.52	3.32	3.72					7.93
TOTAL REAL ESTATE	166,154,482	0.00	0.00	0.00	7.79	10.92	12.41	-0.52	2.38	7.07	7.62
SAMCERA NCREIF NFI ODCE EW (Gross)		0.00	0.00	0.00	5.51	8.20	12.30	-0.05	3.02	6.86	7.73
Excess		0.00	0.00	0.00	2.28	2.72	0.11	-0.47	-0.64	0.21	-0.11
INVESCO REAL ESTATE	166,154,482	0.00	0.00	0.00	7.90	10.07	12.41	-0.52	2.38		6.19
SAMCERA NCREIF NFI ODCE EW (Gross)		0.00	0.00	0.00	5.51	8.20	12.30	-0.05	3.02		6.26
Excess		0.00	0.00	0.00	2.39	1.87	0.11	-0.47	-0.64		-0.07

**San Mateo County
Manager Return Summary**

September 30, 2013



Manager Returns (Net)

	\$ EMV	1 Mth	3 Mth	FYTD	Cal YTD	1 Year	3 Year	5 Year	7 Year	10 Year	ITD
TOTAL CASH	14,927,435	0.01	0.11	0.11	0.35	0.43	0.66	0.95	1.11	1.71	2.39
91 DAY TREASURY BILL		0.00	0.02	0.02	0.06	0.10	0.10	0.17	1.28	1.72	2.31
Excess		0.01	0.09	0.09	0.30	0.33	0.56	0.78	-0.16	-0.00	0.08
SAMCERA GENERAL ACCOUNT	14,303,817	0.01	0.01	0.01	0.08	0.12	0.24	0.34	1.51	1.90	2.43
SAMCERA TREASURY & LAIF	623,618	0.03	0.13	0.13	0.42	0.61	0.85	1.08	1.07	1.61	
CLIFTON GROUP - CASH OVERLAY	7,778,080	0.01									
91 DAY TREASURY BILL		0.00									
Excess		0.01									
TOTAL FUND	2,906,255,110	3.23	4.87	4.87	10.91	12.79	10.14	7.43	4.30	6.70	6.62
SAMCERA TOTAL PLAN POLICY BENCHMARK		3.36	5.37	5.37	11.37	12.89	10.89	8.39	5.63	7.56	6.97
Excess		-0.13	-0.50	-0.50	-0.46	-0.10	-0.74	-0.96	-1.33	-0.86	-0.35

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

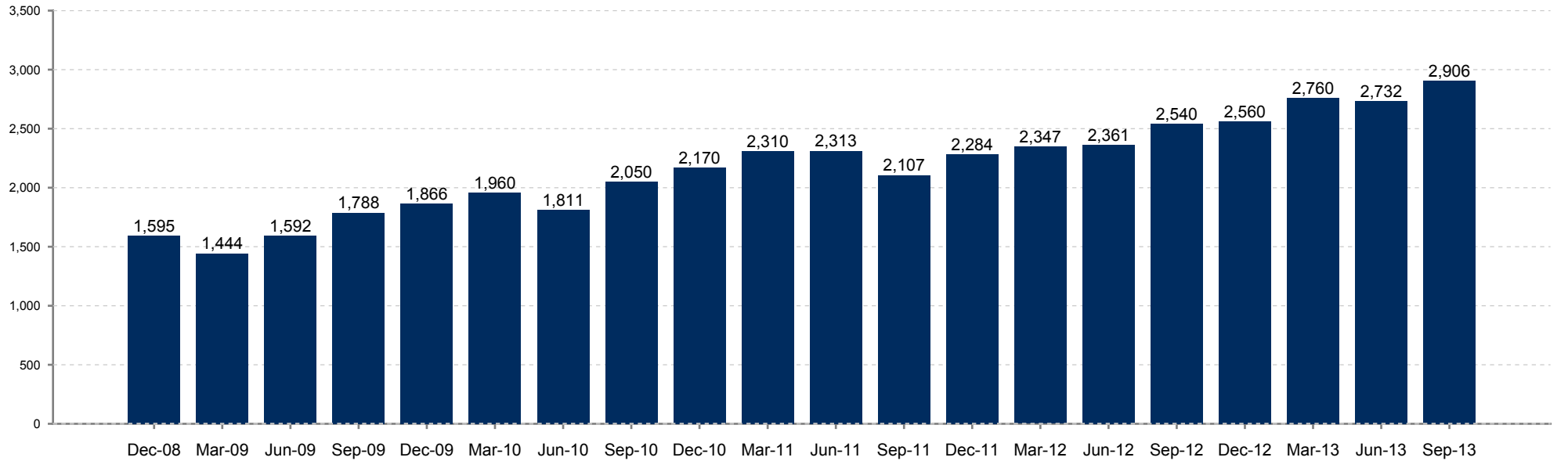
September 30, 2013



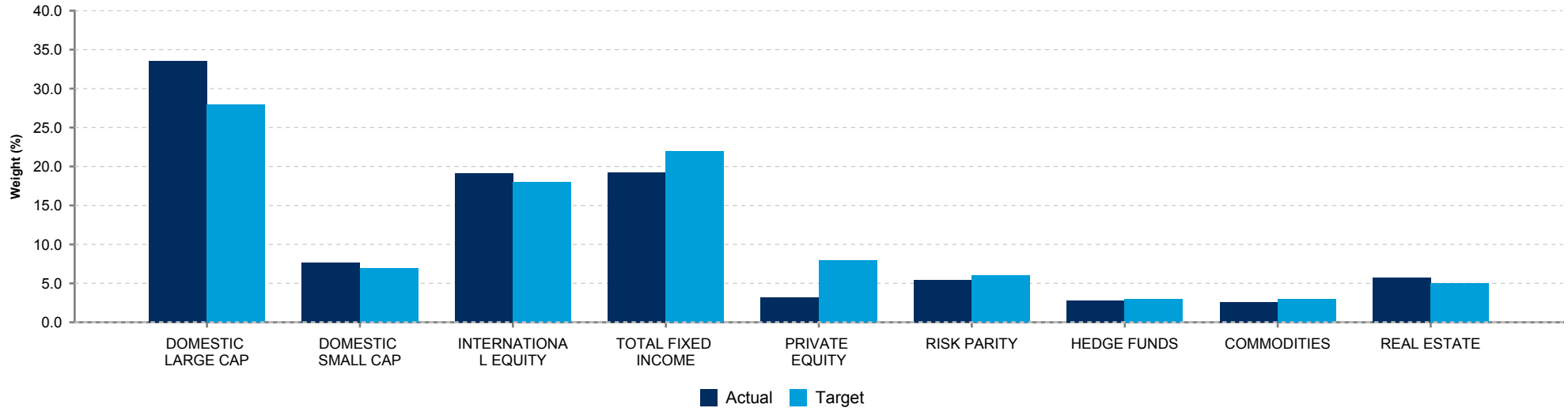
Record of Asset Growth

	One Quarter	One Year
TOTAL FUND		
Beginning Market Value	2,731,529,981	2,539,743,609
Contributions	381,763,319	2,449,887,025
Withdrawals	343,626,168	2,610,175,282
Income Received	9,144,853	40,421,901
Gain/Loss	127,443,125	295,401,848
Ending Market Value	2,906,255,110	2,906,255,110

Net Asset Values over Time (\$000)



Actual vs Target Weights



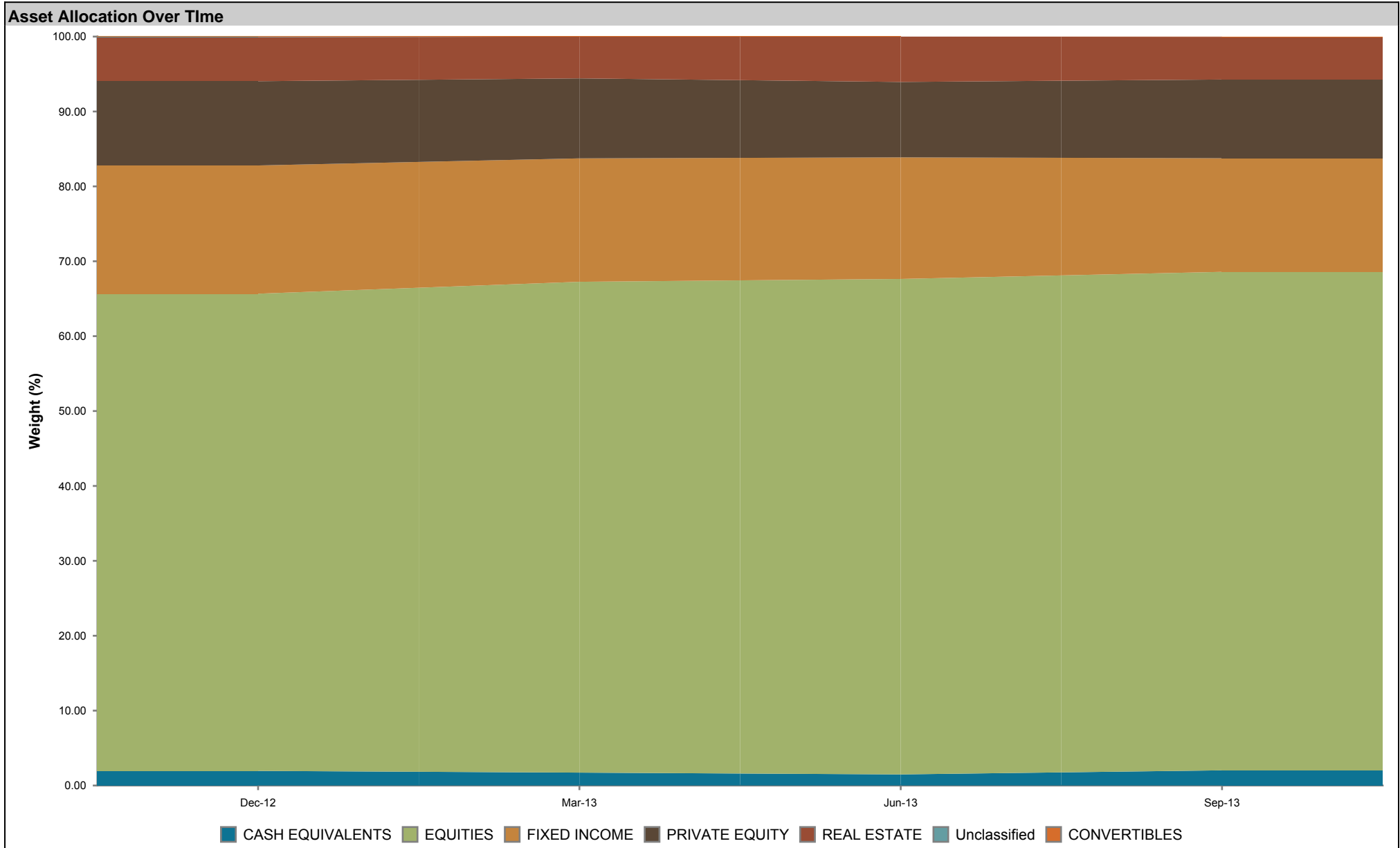
% Portfolio Weight

	Min	Actual	Target	Deviation	Max
DOMESTIC LARGE CAP	26.0	33.5	28.0	5.5	30.0
BLACKROCK S&P 500	10.3	16.9	12.3	4.6	14.3
DE SHAW INVESTMENT MGT, LLC	3.3	5.4	5.0	0.4	7.3
BARROW HANLEY	3.3	5.7	5.1	0.6	7.3
DOMESTIC SMALL CAP	5.0	7.7	7.0	0.7	9.0
BOSTON COMPANY ASSET MGT, LLC	1.5	3.8	3.5	0.3	5.5
CHARTWELL INVESTMENT MGMT	1.5	3.9	3.5	0.4	5.5
INTERNATIONAL EQUITY	15.0	19.1	18.0	1.1	21.0
BAILLIE GIFFORD OVERSEAS LIMITED	3.0	6.6	6.0	0.6	9.0
EATON VANCE MANAGEMENT	0.0	2.3	2.3	0.1	5.3
MONDRIAN INVESTMENT PARTNERS	5.0	8.1	8.0	0.1	11.0
PYRAMIS	0.0	2.1	1.8	0.3	4.8
TOTAL FIXED INCOME	19.0	19.2	22.0	-2.8	25.0

% Portfolio Weight	Min	Actual	Target	Deviation	Max
ANGELO GORDON	0.0	1.2	1.8	-0.6	3.8
BRIGADE CAPITAL MANAGEMENT	0.0	2.1	1.8	0.3	3.8
BROWN BROTHERS HARRIMAN & CO	1.1	2.7	3.1	-0.4	5.1
FRANKLIN TEMPLETON INVESTMENTS	2.4	4.1	4.4	-0.3	6.4
WESTERN ASSET MGMT	2.4	4.1	4.4	-0.3	6.4
PYRAMIS GLOBAL ADVISORS	4.6	5.1	6.6	-1.5	8.6
PRIVATE EQUITY	8.0	3.2	8.0	-4.8	8.0
RISK PARITY	6.0	5.4	6.0	-0.6	6.0
AQR GLOBAL RISK PREM III LP	6.0	5.4	6.0	-0.6	6.0
HEDGE FUNDS	3.0	2.8	3.0	-0.2	3.0
AQR DELTA FUND II, L.P.	3.0	2.8	3.0	-0.2	3.0
COMMODITIES	3.0	2.6	3.0	-0.4	3.0
SSGA MULTISOURCE ACT COMM NL	3.0	2.6	3.0	-0.4	3.0
REAL ESTATE	3.0	5.7	5.0	0.7	7.0
INVESCO REAL ESTATE	3.0	5.7	5.0	0.7	3.0

San Mateo County Asset Allocation Over Time

September 30, 2013

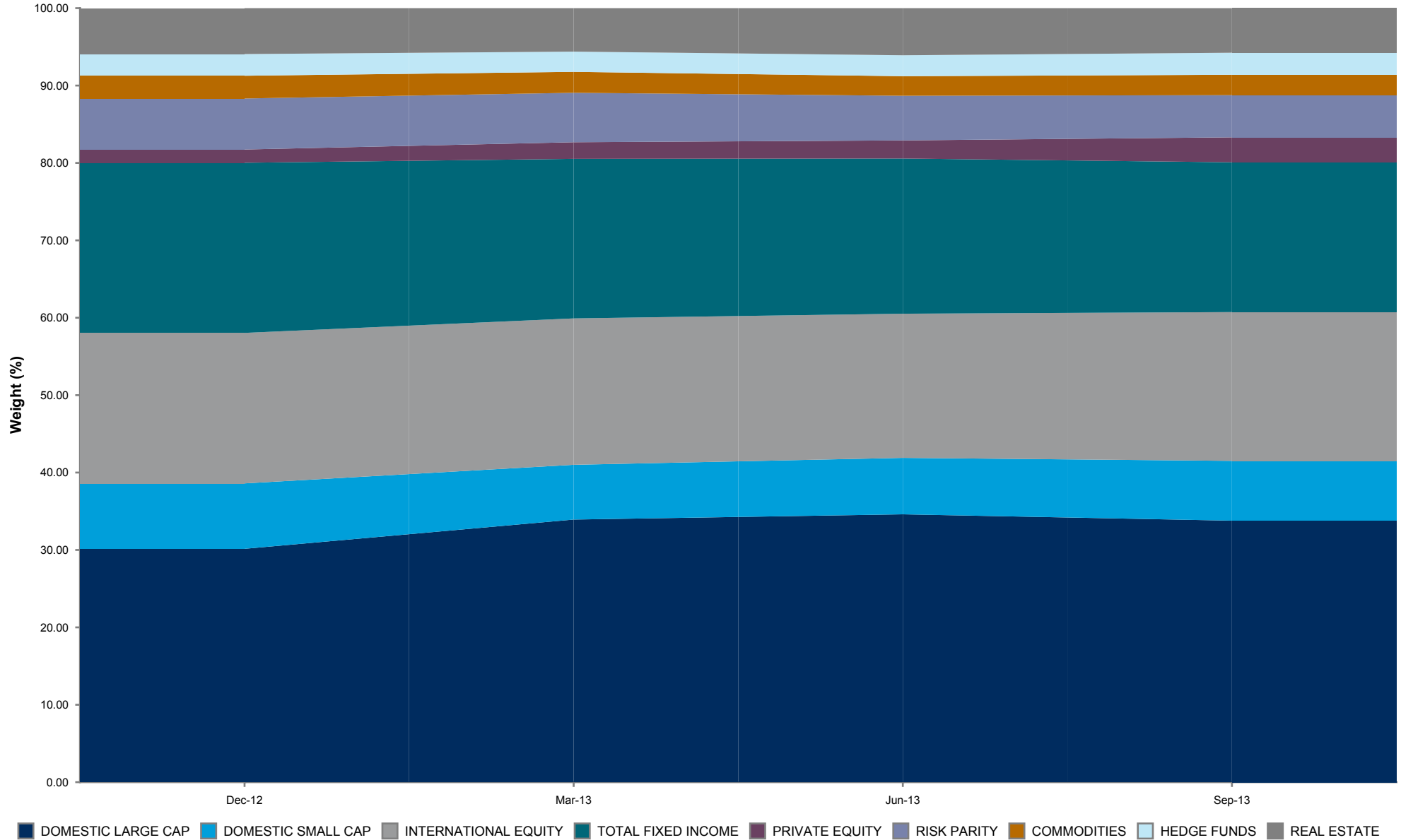


San Mateo County Sub-Asset Class Allocation Over Time

September 30, 2013



Sub-Asset Class Allocation Over Time



SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 29, 2013

Agenda Item 6.2

TO: Board of Retirement

Lilibeth Dames

FROM: Lilibeth Dames, Investment Analyst

SUBJECT: Report on Commodity, Hedge Fund, Risk Parity, and Real Estate Annual Manager Reviews

Staff Recommendation:

Review the report on the annual review of SamCERA's Commodity, Hedge Fund, Risk Parity and Real Estate managers.

Background:

In early October, SamCERA staff and consultant held annual review meetings in SamCERA's office for our commodity, hedge fund, risk parity and real estate managers.

Each meeting lasted approximately 1.5 hours, and consisted of a firm/organizational update, investment process review, performance review and attribution, and current positioning/market outlook.

Discussion:

SSGA/SSARIS' Multisource Active Commodity fund, which focuses on two different strategies (a convergent and divergent pool) that complement each other on a risk and return basis, was reviewed first. Next, AQR's Global Risk Premium fund, which is a strategy that balances risk among four main asset classes, was reviewed. AQR's Delta Fund, a unique multi-strategy return fund that seeks to provide systematic exposure to a diversified set of over 73 hedge fund premia, was also reviewed. Lastly, INVESCO's Core Real Estate fund, an open-ended commingled pool which invests in institutional quality office, retail, industrial and multi-family residential real estate assets, was reviewed.

There were no significant concerns identified during the portfolio reviews. Attached you will find meeting notes summarizing the findings from these annual reviews.

Attachments:

- A. *SSGA/SSARIS Multisource Active Commodity Annual Review Meeting Notes (Confidential)*
- B. *AQR Global Risk Premium Annual Review Meeting Notes*
- C. *AQR Delta Fund Annual Review Meeting Notes (Confidential)*
- D. *INVESCO Core Real Estate Annual Review Meeting Notes*

Reason for Meeting: SamCERA Manager Annual Review

Date of Meeting: 10/3/2013

Location of Meeting: SamCERA's Offices

SamCERA Representative(s)

Lauryn Agnew

David Bailey

Scott Hood

Michael Coultrip

Lilabeth Dames

Manager Representatives

Scott Metchick, Vice President, Portfolio Management and Research

Michael Mendleson, Principal, Portfolio Management and Research

Joey Lee, Principal, Institutional Client Service

SIS Representative(s)

None

Purpose of Meeting

On October 3, 2013, SamCERA staff and Trustee conducted an annual review meeting with AQR Capital Management (AQR) in SamCERA's offices. Our meeting was a standard review of AQR's Global Risk Parity Fund that SamCERA originally invested in in March of 2011. This report contains a brief summary of the findings.

Organization and Personnel

AQR was founded in January 1998 by four founding principals formerly with Goldman Sachs, & Co. Three of the four, Cliff Asness, Robert Krail and John Liew, comprised the senior management of the Quantitative Research Group at Goldman Sachs Asset Management (GSAM). AQR now has over 200 employees and manages approximately \$83.7 billion in private funds, separate accounts and mutual funds all run in systematic and process-driven strategies for a diverse and global client base.

AQR is independently owned and operated with eighteen principals holding a majority interest in the firm. In November 2004, Affiliated Managers Group (AMG) bought a minority interest (AQR will only disclose that it is less than 25%) in AQR Capital Management. Since AMG's ownership share is a percentage of top-line revenue, AQR remains employee operated and has preserved independence in the management of its investment process.

The Global Risk Premium (GRP) strategy is overseen by Portfolio Managers Brian Hurst, Michael Mendelson, and Yao Hua Ooi. Additional oversight is provided by the GRP Investment Committee, which includes investment, risk and trading professionals from several areas of AQR. The firm is organized around investment strategies/asset classes rather than specific products and the investment committees allows expertise from many of the areas to contribute to strategy management.

Portfolio managers are supported by the Global Asset Allocation team which has over 24 investment professionals along with the Global Trading team of 9 and 3 person independent Risk Management team. In total, there are more than 30 investment professionals who support the investment management efforts for the Global Risk Premium strategy.

Global Risk Parity Process Review

The objective of GRP is to generate excess returns from a risk diversified portfolio of asset exposures. AQR believes that its approach maximizes the diversification benefit across a broad range of economic environments. For many institutional portfolios, equity risk has historically been the predominant risk and the source of most return expectations since equities

offer higher expected returns to compensate for their high risk. AQR's research suggests that investor preference for and concentration in equities has been driven by their expected return needs, which cannot be satisfied in a well-diversified unlevered portfolio.

GRP is a diversified portfolio that can be scaled to similar levels of risk as a portfolio concentrated in equities, but with a higher expected return resulting from diversification across asset class risk. The approach in GRP helps do away with the compromise of concentrating in high risk assets to meet high return needs. Consistent with portfolio theory, the GRP strategy is designed to maximize diversification across a broad spectrum of liquid global risk premia to create a portfolio with higher expected risk-adjusted returns. Research shows that risk-adjusted returns across asset classes are similar over the long-term. Since realized risk-adjusted returns across asset classes are similar, we expect a portfolio that is diversified equally by risk to perform better. The Global Risk Premium strategy aims to deliver efficient market exposure across four broad asset classes in a risk-balanced fashion.

The Global Risk Premium strategy focuses on the highest liquidity and most hedgable exposures in the universe. The GRP strategy is risk balanced among four main asset classes: equities, bonds, inflation and credit/default hedges as described below. This product is broadly diversified representing over 70 individual exposures.

1. Equity risk, which benefit from long-term economic growth, including global developed and emerging equities, U.S. large, mid cap and small cap equities
2. Nominal interest rate risk, which can provide attractive returns during periods of stress and/or deflation, including global developed
3. Inflation risk, which can provide protection from price inflation, including commodities (production weighted and volatility weighted)
4. Credit/Default risk, which offer diversifying returns with somewhat greater stability than equities, including U.S. and Europe high yield and investment grade credit, global swap spreads, emerging currencies, commercial mortgage backed securities, and emerging sovereign credit spreads.

To achieve desired equal risk weights the team uses an implementation approach that blends:

- Historical volatilities and correlations of different asset classes
- Forecasted volatility and correlations
- Stress-tested scenarios focused on potential drawdown levels

Equal risk weightings mean that the Fund's exposure – its "risk premia" – to each of the four categories is approximately the same. While the weightings within each risk category may change over time (e.g. based on future research, capacity constraints, market liquidity, and the availability of new betas) AQR does not vary these bets tactically to express a view that one asset will have a higher or lower risk adjusted return than any other in GRP. Portfolio construction, risk control and dynamic rebalancing are the key value added inputs in maintaining the equal risk budget.

Status of the Fund / Investment Results

Total AUM in GRP product is \$11.9 billion, and the product is soft-closed to new investors. AQR recently launched an Enhanced Liquidity version of GRP sans the credit bucket, and this product currently has approximately \$12 billion. SamCERA's investment in GRP is \$157 million, or approximately 1.3% of GRP assets. SamCERA's experience with the GRP fund is still very short as the March, 2011 inception date with the product was only just over 2 years ago. The return for GRP for SamCERA over this period ending 8/31/13 is 5.2%, which underperformed the Risk Parity benchmark (60% S&P 500 / 40% Barclays Aggregate) return of 8.2% over the period. The main reason for this underperformance was due to a -10% return in the 2nd quarter. All four of the asset classes were down, with three of them down significantly. This performance was the worst calendar quarter in the history of the fund since it launched in 2006, but still within the range of expectations. Over a longer-term 5 year period, the GRP portfolio outperformed the benchmark by 1.5% (8.5% vs. 7% for the benchmark).

Key Considerations

- The 6% current capital allocation target to Risk Parity is a strong contributor to SamCERA's effort to diversify its portfolio and reduce its reliance on the Equity Risk Premium.
- AQR's risk parity portfolio is highly diversified with over 70 distinct individual investment exposures represented.
- Over the more recent shorter-term period, GRP has underperformed a 60/40 benchmark, but has outperformed over long time periods.

Date of meeting: 10/8/2013

Location: SamCERA Office

Manager Representative(s)

Bill Grubbs (Portfolio Manager)

SIS Representative(s)

John Nicolini

Client Representative(s)

Mike Coultrip (CIO), David Bailey (CEO), Scott Hood (Assistant Executive Officer), Lilibeth Dames (Analyst)

Product Description

INVESCO Core Equity, LLC (the "Fund") is a perpetual life, open-end vehicle which invests in a diversified portfolio of institutional quality office, retail, industrial and multifamily residential real estate assets. The Fund buys core properties that are located within the United States, typically requiring an investment of \$10 million or more. The portfolio cannot be more than 30% leveraged.

Meeting Notes

Bill Grubbs, portfolio manager for the Invesco Core Real Estate strategy provided SamCERA staff and SIS with an organizational, strategy and performance update. With the exception of additional growth in assets under management, employees and new strategies, very little has changed at the firm level. Invesco remains a publicly traded entity with one primary business in investment management. As of 6/30, Invesco managed over \$705 billion and employed around 5,800 people in cities across the globe. The Invesco Real Estate team is staffed by 356 individuals, in 18 global offices with approximately \$53 billion in assets under management.

Core Real Estate is led by Bill Grubbs with portfolio management support from Tracy Luke, Beth Worthy and Brooks Monroe. The US real estate team has had the following changes within the last two years: portfolio manager, Mone Haen left the firm in 2012, Tracy Luke was hired in early 2012 and Beth Worthy transitioned from a comptroller position on the team to a portfolio management role. Overall, the real estate group has consistently been growing assets and employee headcount both domestically and internationally.

Performance has turned around in 2013 following a difficult 2012, relative to the NFI-ODCE index. The underperformance in 2012 was largely due to a more conservative position both in property type and in their use of leverage. The portfolio currently utilizes a little over 20% in leverage which is well below the industry average. The team has begun to find properties with higher risk/reward characteristics more attractive, and may begin to increase leverage over time, in part, to lock in long-term interest rates. Although both strategy shifts have the appearance of increasing risk in the portfolio, Invesco is quick to point out these are modest shifts and they will remain among the more conservative core real estate portfolios relative to the broader universe. Overall, the performance on the US Real Estate strategy remains in line with our expectations, outperforming the benchmark on a trailing 1-, 3-, 5-, and 7-year and since inception basis. As of the end of the second quarter of 2013, SamCERA's account was \$166 million.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 29, 2013

Agenda Item 6.3

TO: Board of Retirement



FROM: Michael Coultrip, Chief Investment Officer

SUBJECT: Approval of New Asset Class Target Portfolio

Staff Recommendation:

Approve new asset class target portfolio.

Background:

In July, the Board reviewed asset-liability basics, approved both the capital market assumptions to be used in the study and the efficient frontier mixes to be used in the asset-liability simulations. In August, the Board reviewed the asset-liability simulation results and potential changes to the current asset class target portfolio. In September, the Board reviewed more detailed justifications for the proposed policy portfolio changes. During the meeting it was decided that, in October, the Board would review more detailed justifications for the proposed increase in the risk parity and hedge fund allocations.

Discussion:

Hedge fund and risk parity overview memos from SIS are attached. Also attached is the SIS memo from last month that summarizes the proposed changes to the target policy portfolio and provides justification for the proposed changes.

The table on the following page summarizes the proposed changes to the policy portfolio:

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

CURRENT AND PROPOSED SAMCERA ASSET ALLOCATION PERCENTAGES

	CURRENT POLICY	PROPOSED POLICY	DIFFERENCE
PUBLIC EQUITY	53	50	-3
US LARGE CAP	28	24	-4
US SMALL CAP	7	6	-1
INTERNATIONAL STOCK	18	20	+2
FIXED INCOME	22	20	-2
CORE BONDS	16	13	-3
TIPS	3	2	-1
OPPORTUNITY CREDIT	3	5	+2
ALTERNATIVES	14	16	+2
PRIVATE EQUITY	8	7	-1
HEDGE FUNDS	3	4	+1
COMMODITIES	3	3	0
REAL ASSETS	0	2	+2
REAL ESTATE	5	6	+1
RISK PARITY	6	8	+2
EXPECTED RETURN	7.4	7.5	
TOTAL RISK	13.8	13.9	

Marcel Gesell and Patrick Thomas from SIS will present the updated asset class target portfolio for Board review, discussion, and approval.

Attachments:

- A. *Asset-Liability Study Part V*
- B. *SIS Asset Allocation Review Memo*
- C. *SIS Hedge Fund Overview*
- D. *SIS Risk Parity Overview*

SamCERA
2013 Asset-Liability Study Part V
October 29, 2013

Marcel Gesell, CFA
Vice President

Patrick Thomas, CFA
Senior Vice President

STRATEGIC INVESTMENT SOLUTIONS, INC.

**333 BUSH STREET SUITE 2000
SAN FRANCISCO 94104
www.sis-sf.com
415 362 3484**

Study Progress

- I. Introduction (complete!)
- II. Asset Allocation (complete!)
- III. Asset-Liability Integration (complete!)
- IV. Asset-Liability Decisions (incomplete)
- V. **Asset-Liability Decisions (today)**

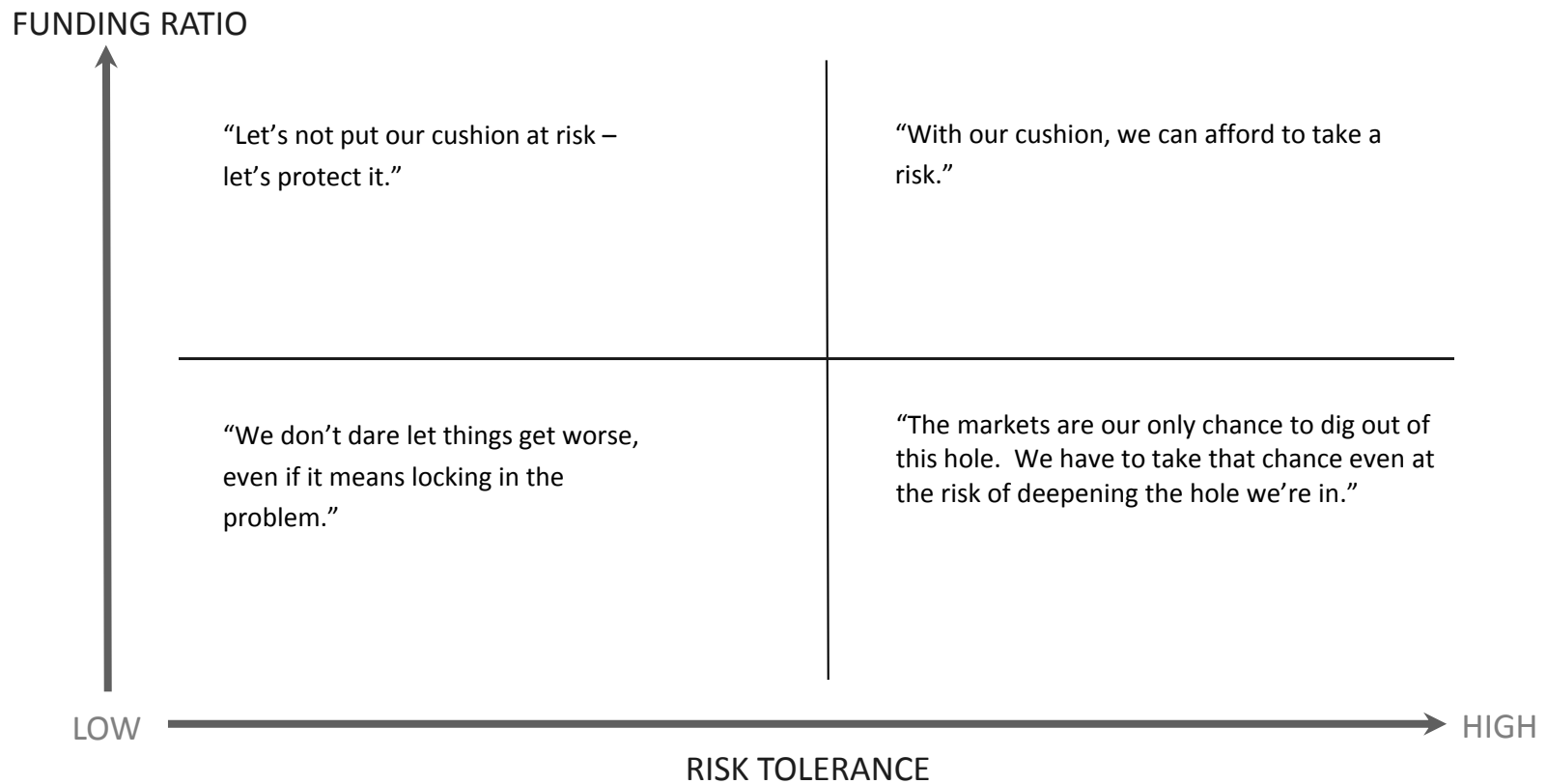
Possible Policy Objectives (Review)

- Things to Achieve
 - 100% Funded Status
 - Low Cost/Average Contribution Rate
 - Assumed Earnings Rate Return (Currently 7.5%)
 - Intergenerational Equity

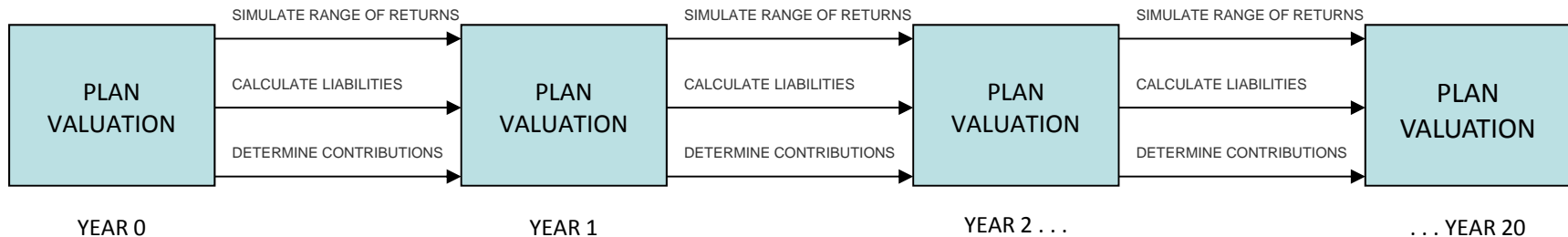
- Things to Avoid
 - Minimum Funded Status Over the Short-Term
 - High Cost/Average Contribution Rate
 - Large Changes in Contribution Rates Over Short-Term
 - Significant Negative Cash Flow or Liquidity Problems

- Unacceptable Outcomes
 - Funded Status?
 - Contribution Level?
 - Changes in Contribution Level?

Risk Options (Review)



Asset/Liability Modeling



- Asset Simulations
 - Monte Carlo – 1000 “Random” Investment Outcomes Per Year
- Liability Simulations/Contribution Determinations
 - Based on Range of Investment Results
 - Annual Valuation for Range of Outcomes
 - Year-by-Year, NOT Straight-Line Projection

Current SIS Expected Return & Risk = Basis of Asset Projections

	Expected Return	Standard Deviation		Expected Return	Standard Deviation
Public Equity			Alternatives		
US Lrg Cap	7.7	17.5	Priv Equity	10.2	33.0
US Sml Cap	8.0	20.0	Hedge Funds	5.5	11.8
Intl Stock			Commod	4.0	30.0
Dev Mkt	8.0	20.0	Real Assets		
EM	8.5	29.0	Infrast	6.5	24.0
Fixed Income			Real Est	6.2	18.0
US Fixed	2.4	5.0	Risk Parity	7.6	14.7
Intl Bond	2.4	9.0			
TIPS	2.2	4.5			
Opp Credit					
High Yield	4.5	11.0			
EM Debt	4.4	10.0			

Basic Asset Mix Optimization

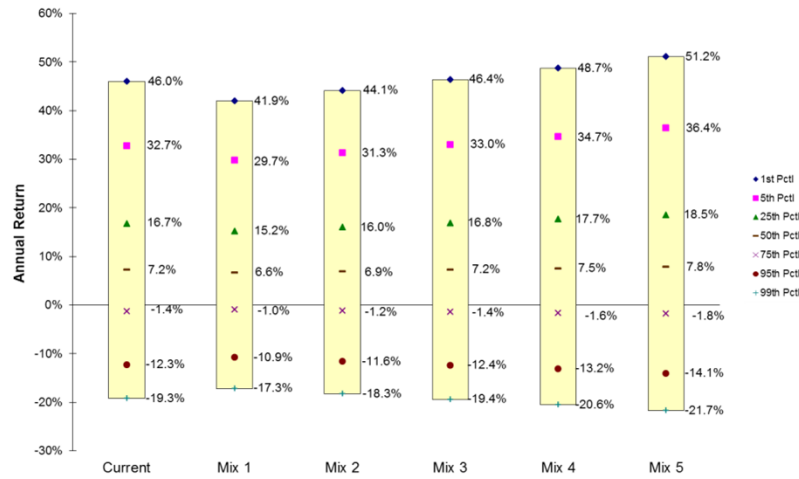
	Current Policy	Lower Risk		Higher Risk		
		Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
US Lrg Cap	28	23	26	29	32	34
US Sml Cap	7	6	7	7	8	9
Intl Stock	18	15	16	18	20	22
Public Equity	53	44	49	54	60	65
Core Bonds	16	21	18	15	11	7
TIPS	3	5	4	3	2	2
Opp Credit	3	5	4	3	2	2
Fixed Income	22	31	26	21	15	11
Priv Equity	8	8	8	8	8	8
Hedge Funds	3	3	3	3	3	3
Commod	3	3	3	3	3	3
Alternatives	14	14	14	14	14	14
Real Est	5	5	5	5	5	4
Risk Parity	6	6	6	6	6	6
Expected Return	7.4	7.0	7.2	7.5	7.7	8.0
Total Risk	13.8	12.5	13.2	13.9	14.7	15.5

Asset Mix Optimization from SIS/Staff Discussions (“Less Constrained”)

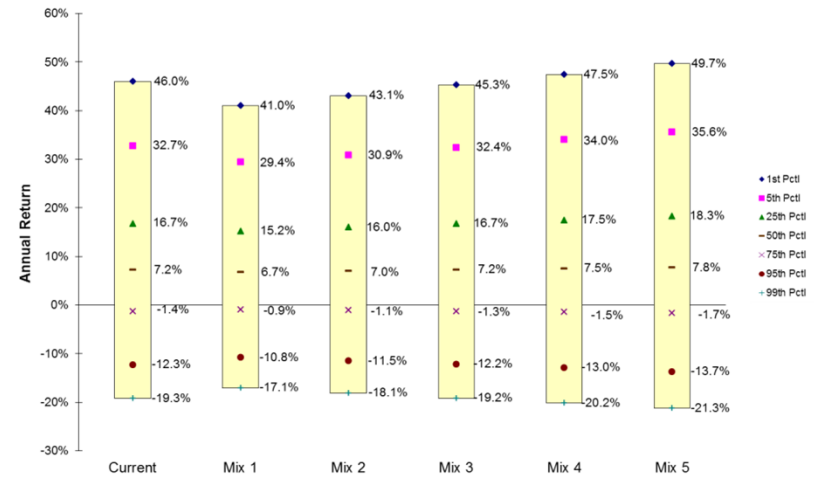
	Current Policy	Lower Risk		Higher Risk		
		Mix 1	Mix 2	Mix 3	Mix 4	Mix 5
US Lrg Cap	28	19	21	24	26	29
US Sml Cap	7	5	5	6	7	7
Intl Stock	18	13	15	17	18	20
Public Equity	53	37	41	47	51	56
Core Bonds	16	20	17	13	10	7
TIPS	3	3	3	2	2	1
Opp Credit	3	8	6	5	4	3
Fixed Income	22	31	26	20	16	11
Priv Equity	8	7	7	7	7	7
Hedge Funds	3	5	5	5	5	5
Commod	3	3	3	3	3	3
Real Assets	0	2	3	3	3	3
Alternatives	14	17	18	18	18	18
Real Est	5	6	6	6	6	6
Risk Parity	6	9	9	9	9	9
Expected Return	7.4	7.0	7.2	7.5	7.7	7.9
Total Risk	13.8	12.3	13.0	13.7	14.4	15.1

Range of Returns

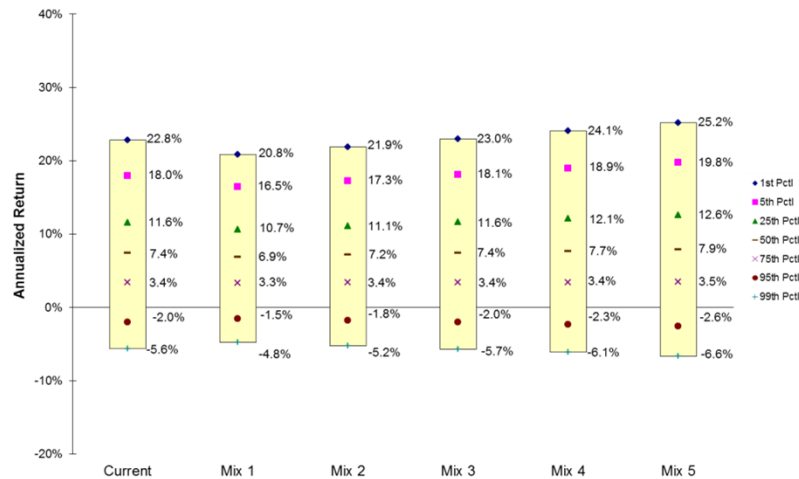
Range of Returns – Basic Optimization
(One Year Horizon)



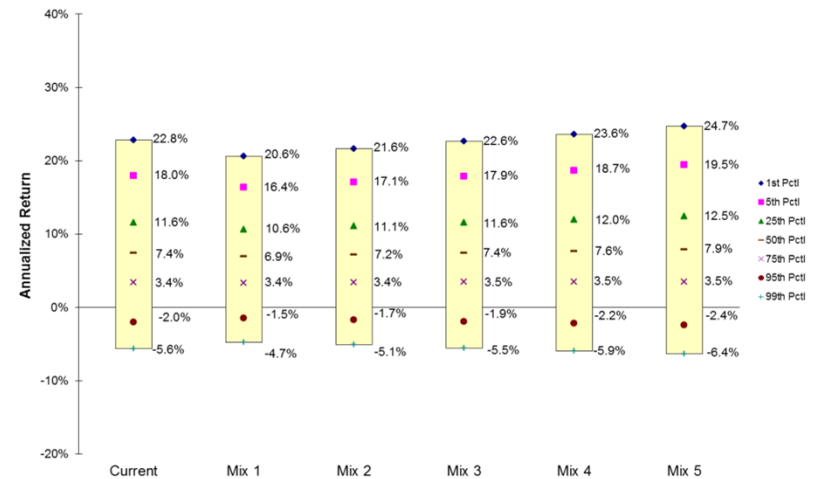
Range of Returns – Less Constrained
(One Year Horizon)



Range of Returns – Basic Optimization
(Five Year Horizon)



Range of Returns – Less Constrained
(Five Year Horizon)

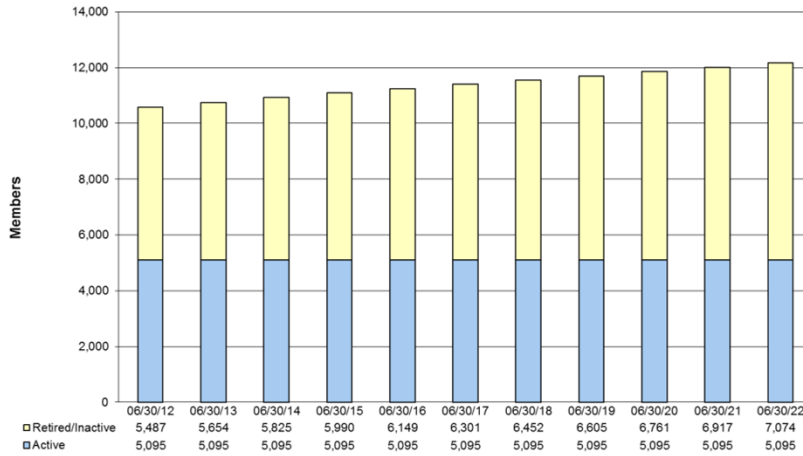


Basis of Asset-Liability Projections

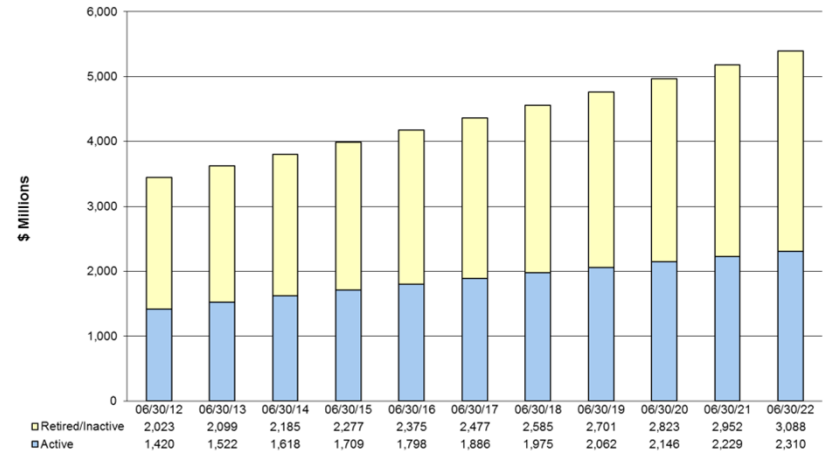
- Starts with June 30, 2012 actuarial valuation data and fund value
- Additional assumptions
 - Annual workforce growth rate: 0%
 - Annual total payroll growth: 3.75% (actuarial assumption)
- All projections pass through actual fund value on June 30, 2012
- Ten year projection with focus on five year planning horizon (June 30, 2018)

Constant-Rate Projections

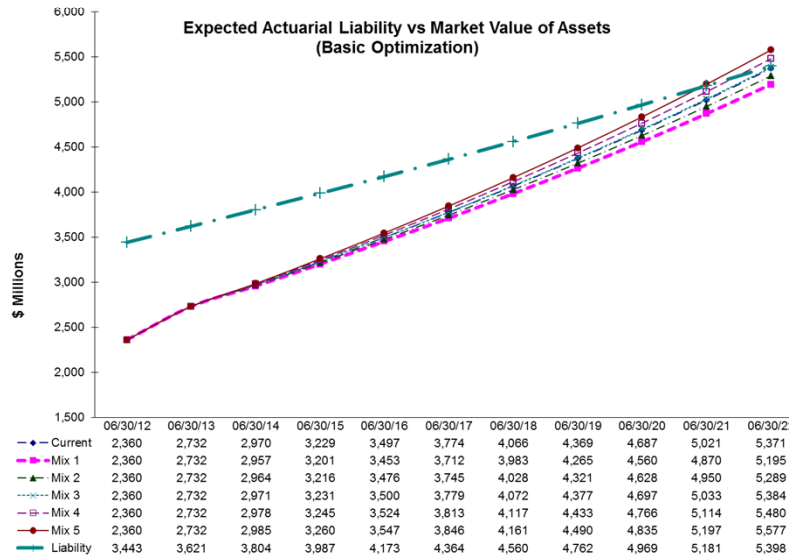
Expected Plan Membership



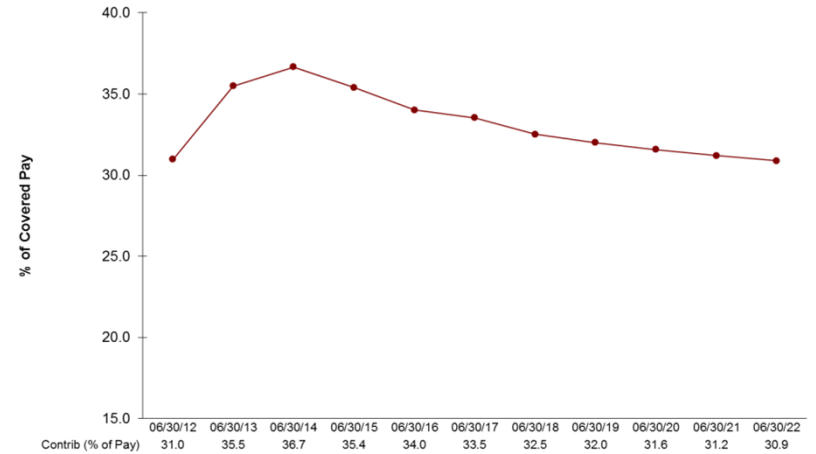
Expected Actuarial Liability



Expected Actuarial Liability vs Market Value of Assets (Basic Optimization)

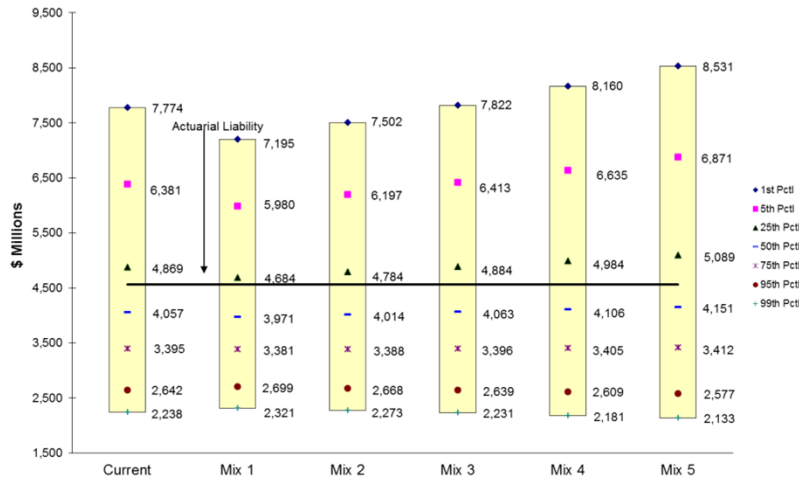


Expected Employer Contribution as % of Pay (Current Policy)

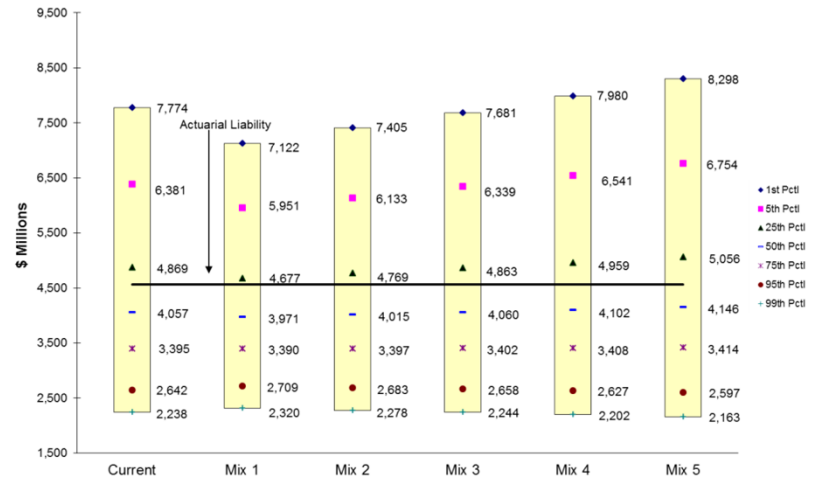


Range of Fund Value & Funded Status

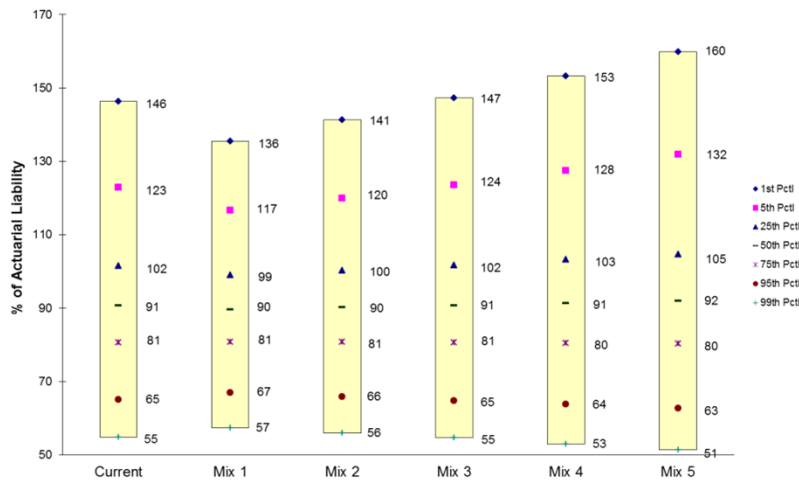
Range of Asset Market Value – Basic Optimization
(End of Year Five - June 30, 2018)



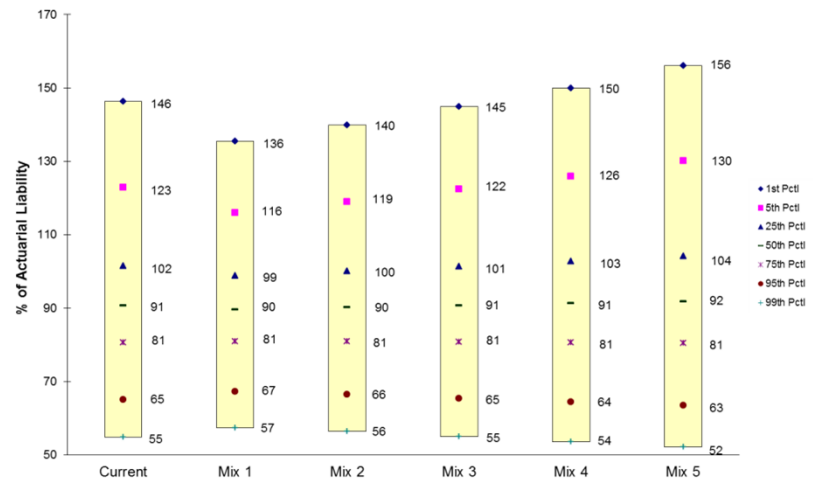
Range of Asset Market Value – Less Constrained
(End of Year Five - June 30, 2018)



Range of Actuarial Value Funded Status – Basic Optimization
(End of Year Five - June 30, 2018)

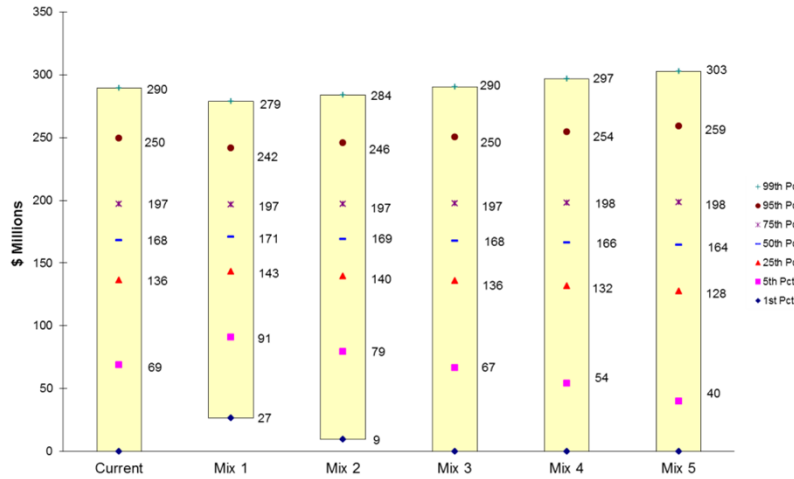


Range of Actuarial Value Funded Status – Less Constrained
(End of Year Five - June 30, 2018)

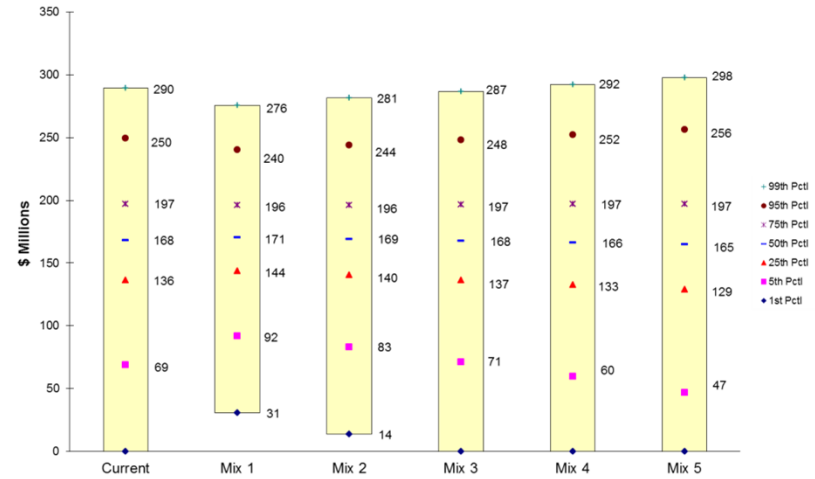


Range of Contributions

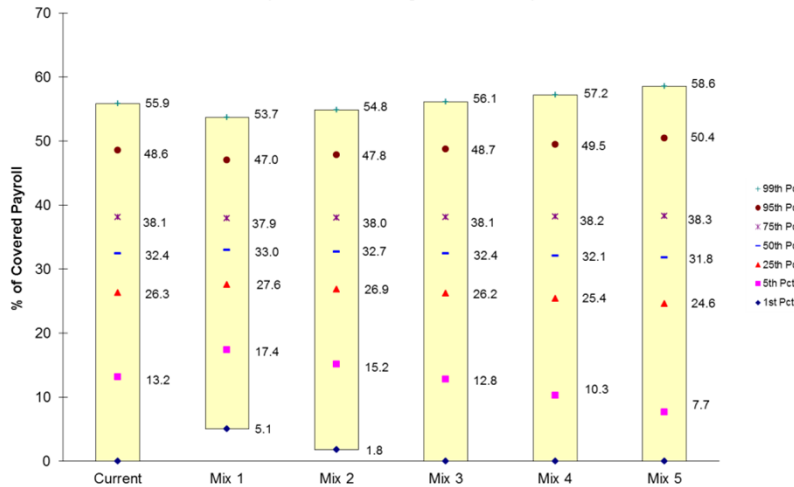
**Range of Employer Contributions – Basic Optimization
(in Year Five - Ending June 30, 2018)**



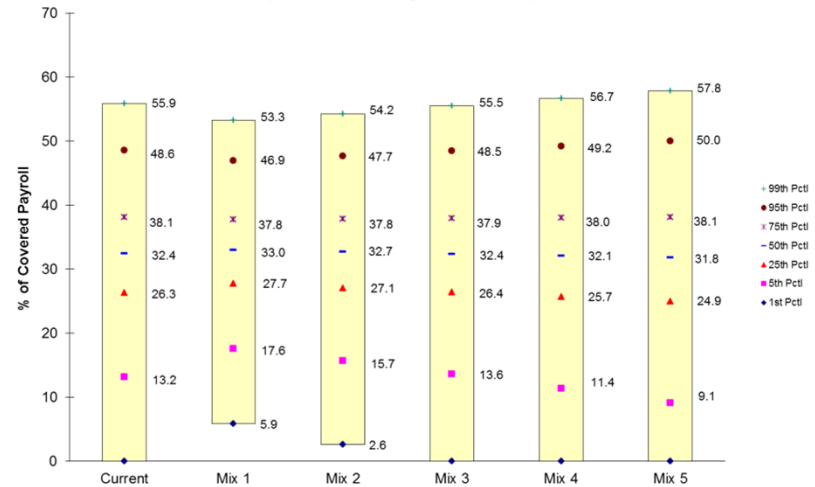
**Range of Employer Contributions – Less Constrained
(in Year Five - Ending June 30, 2018)**



**Range of Employer Contributions as % of Pay – Basic Optimization
(Year Five - Ending June 30, 2018)**

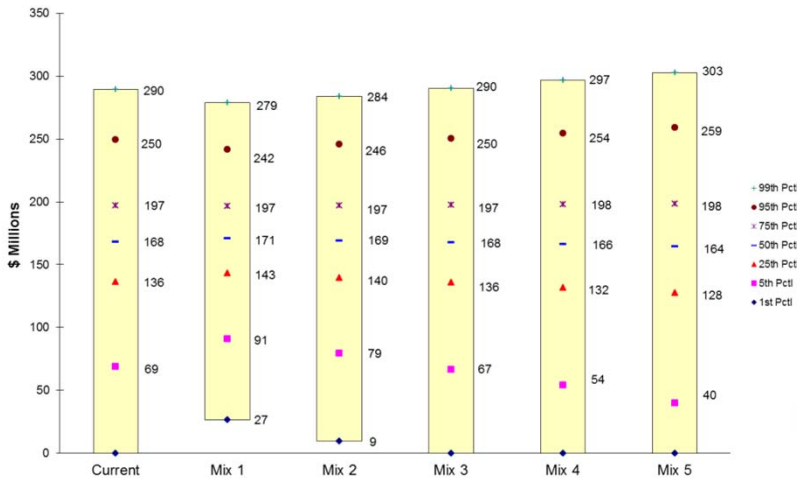


**Range of Employer Contributions as % of Pay – Less Constrained
(Year Five - Ending June 30, 2018)**

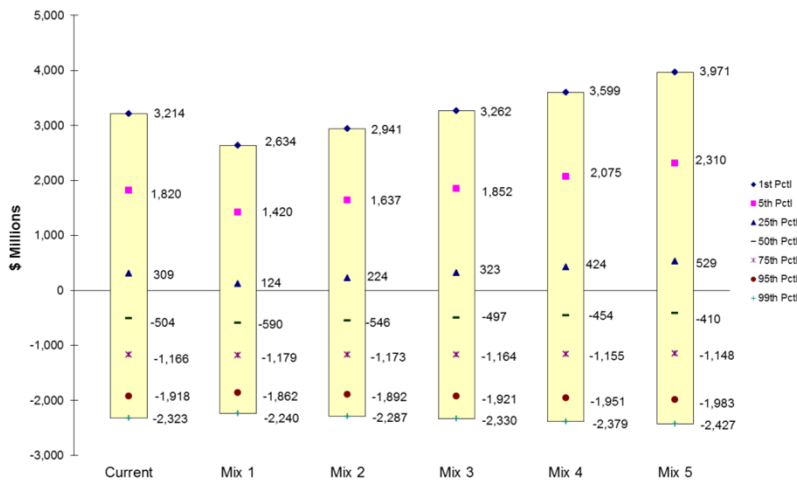


Ultimate Net Cost = PV Contributions Plus Ending Deficit (or Minus Surplus)

Range of Employer Contributions – Basic Optimization
(in Year Five - Ending June 30, 2018)



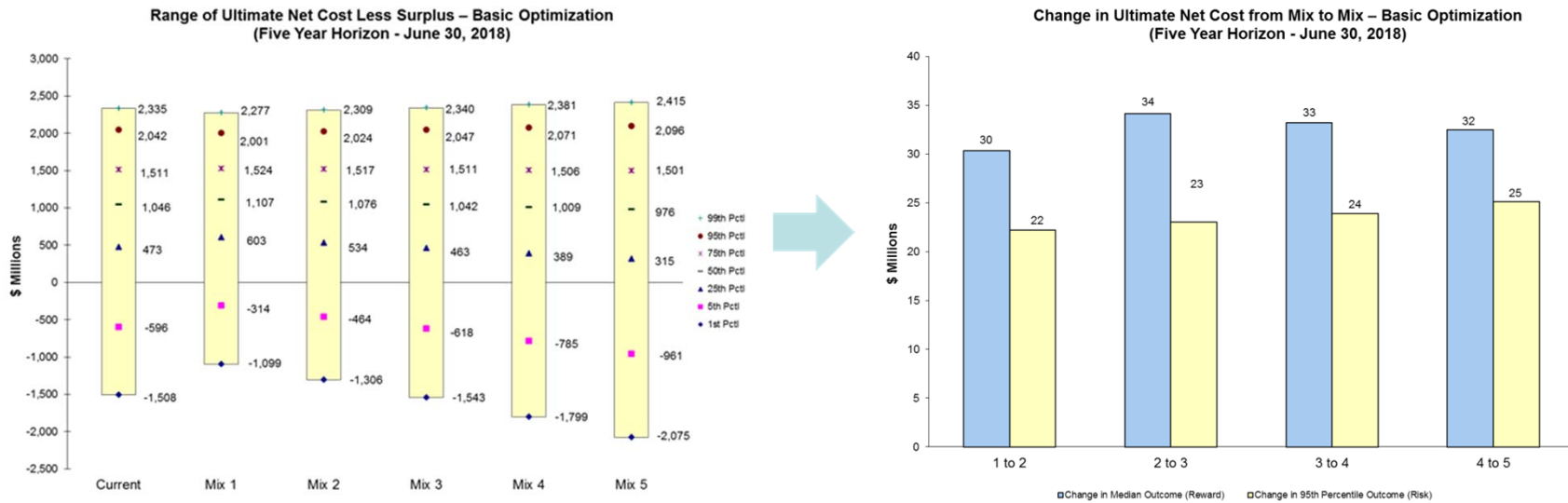
Range of Market Value Surplus – Basic Optimization
(End of Year Five - June 30, 2018)



Range of Ultimate Net Cost Less Surplus – Basic Optimization
(Five Year Horizon - June 30, 2018)

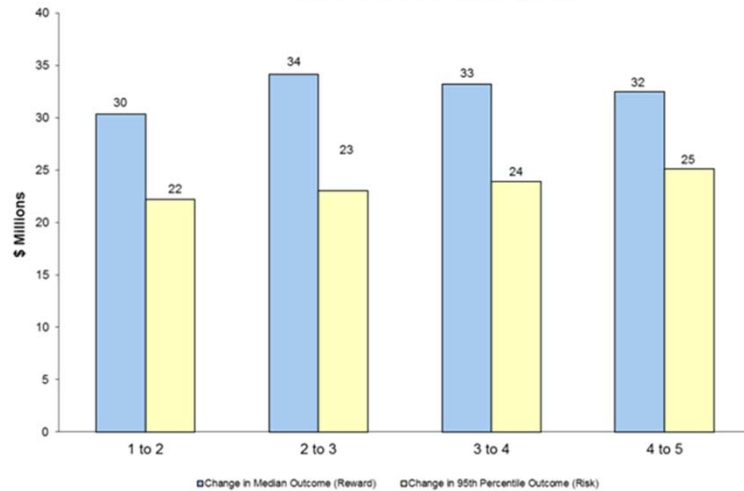


Ultimate Net Cost Risk/Reward Tradeoff

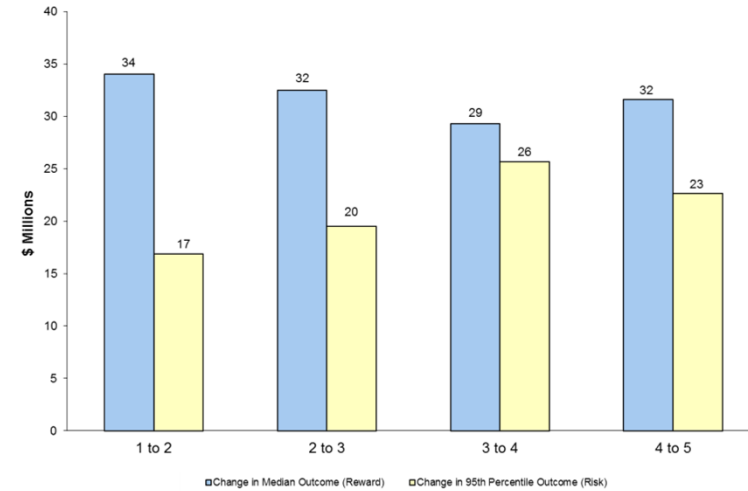


Ultimate Net Cost Risk/Reward Tradeoff (Cont.)

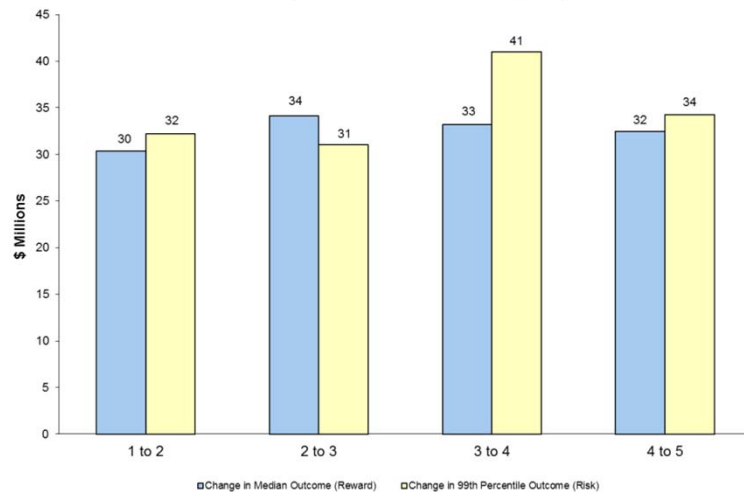
Change in Ultimate Net Cost from Mix to Mix – Basic Optimization
(Five Year Horizon - June 30, 2018)



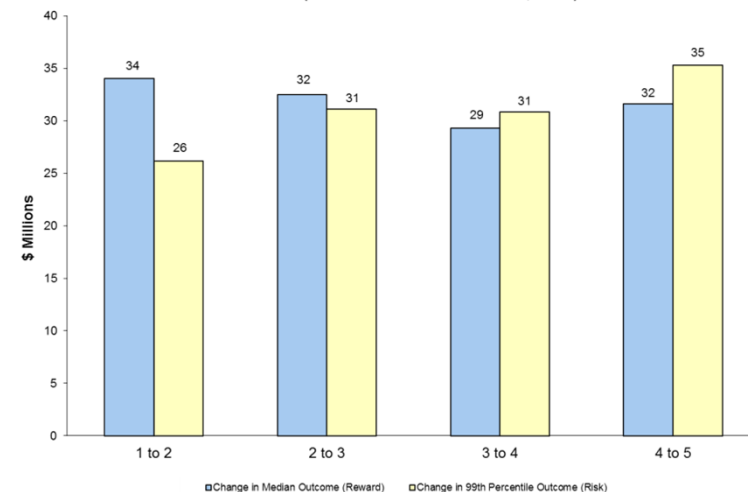
Change in Ultimate Net Cost from Mix to Mix – Less Constrained
(Five Year Horizon - June 30, 2018)



Change in Ultimate Net Cost from Mix to Mix – Basic Opt, Lower Tolerance
(Five Year Horizon - June 30, 2018)



Change in Ultimate Net Cost from Mix to Mix – Less Constrained, Lower Tol
(Five Year Horizon - June 30, 2018)



Risk/Reward Tradeoff at Current Level is Appropriate

	Current Policy	Mix 3	Mix 3 Variation	Mix 3 Variation 2
US Lrg Cap	28	24	24	25
US Sml Cap	7	6	6	7
Intl Stock	18	17	20	20
Public Equity	53	47	50	52
Core Bonds	16	13	13	13
TIPS	3	2	2	2
Opp Credit	3	5	5	5
Fixed Income	22	20	20	20
Priv Equity	8	7	7	7
Hedge Funds	3	5	4	3
Commod	3	3	3	3
Real Assets	0	3	2	2
Alternatives	14	18	16	15
Real Est	5	6	6	6
Risk Parity	6	9	8	7
Expected Return	7.44	7.45	7.50	7.53
Total Risk	13.83	13.70	13.89	14.02

Capital Allocation by Economic Environment

Capital Allocation - Traditional

	Current Policy (%)	Mix 3 (%)	Mix 3 Variation (%)	Mix 3 Variation 2 (%)
US Lrg Cap	28	24	24	25
US Sml Cap	7	6	6	7
Intl Stock	18	17	20	20
Public Equity	53	47	50	52
Core Bonds	16	13	13	13
TIPS	3	2	2	2
Opp Credit	3	5	5	5
Fixed Income	22	20	20	20
Priv Equity	8	7	7	7
Hedge Funds	3	5	4	3
Commod	3	3	3	3
Real Assets	0	3	2	2
Alternatives	14	18	16	15
Real Est	5	6	6	6
Risk Parity	6	9	8	7

Capital Allocation - Economic Environment

	Current Policy (%)	Mix 3 (%)	Mix 3 Variation (%)	Mix 3 Variation 2 (%)
US Lrg Cap	28	24	24	25
US Sml Cap	7	6	6	7
Intl Stock	18	17	20	20
Opp Credit	3	5	5	5
Priv Equity	8	7	7	7
Risk Parity (Equities)	2	3	3	3
Growth Assets	66	62	65	67
Core Bonds	16	13	13	13
Hedge Funds	3	5	4	3
Risk Parity (Bonds)	8	12	10	8
Risk Parity (Cash)	-6	-9	-8	-7
Diversifying	21	21	19	17
TIPS	3	2	2	2
Commod	3	3	3	3
Real Est	5	6	6	6
Real Assets	0	3	2	2
Risk Parity (Commod+)	2	3	3	3
Inflation	13	17	16	16

Risk Allocation by Economic Environment

Capital Allocation - Economic Environment

	Current Policy (%)	Mix 3 (%)	Mix 3 Variation (%)	Mix 3 Variation 2 (%)
US Lrg Cap	28	24	24	25
US Sml Cap	7	6	6	7
Intl Stock	18	17	20	20
Opp Credit	3	5	5	5
Priv Equity	8	7	7	7
Risk Parity (Equities)	2	3	3	3
Growth Assets	66	62	65	67
Core Bonds	16	13	13	13
Hedge Funds	3	5	4	3
Risk Parity (Bonds)	8	12	10	8
Risk Parity (Cash)	-6	-9	-8	-7
Diversifying	21	21	19	17
TIPS	3	2	2	2
Commod	3	3	3	3
Real Est	5	6	6	6
Real Assets	0	3	2	2
Risk Parity (Commod+)	2	3	3	3
Inflation	13	17	16	16

Risk Allocation - Economic Environment

	Current Policy (%)	Mix 3 (%)	Mix 3 Variation (%)	Mix 3 Variation 2 (%)
US Lrg Cap	34	28	28	30
US Sml Cap	9	8	8	9
Intl Stock	24	24	28	27
Opp Credit	2	3	3	3
Priv Equity	15	12	12	12
Risk Parity (Equities)	3	5	4	3
Growth Assets	87	80	83	84
Core Bonds	1	1	1	1
Hedge Funds	2	3	2	2
Risk Parity (Bonds)	0	1	1	1
Risk Parity (Cash)	0	0	0	0
Diversifying	3	5	4	3
TIPS	0	0	0	0
Commod	3	3	3	3
Real Est	5	5	5	6
Real Assets	0	4	2	2
Risk Parity (Commod+)	2	3	3	3
Inflation	10	15	13	13

Historical Scenarios

	Current Policy	Mix 3	Mix 3 Variation	Mix 3 Variation 2
87 Crash				
▼ Oct-87	-14	-12	-13	-13
Oct-87 - Nov-87	-17	-14	-15	-16
LTCM/Russia				
▼ Aug-98	-2	-2	-2	-2
9-11				
Sep-01	-6	-5	-6	-6
Tech Bubble End				
Apr-00 - Feb-03	-16	-11	-14	-15
08 Meltdown				
Nov-07 - Feb-09	-38	-37	-38	-39
April-08 - Feb-09	-34	-33	-34	-35
Mexican Peso Crisis				
Oct-94 - Feb-95	2	1	1	1

Conclusions

	Current Policy	Mix 3	Mix 3 Variation	Mix 3 Variation 2
1) The current policy mix is risk-efficient – no imperative need for increased diversification				
	US Lrg Cap	28	24	24
	US Sml Cap	7	6	6
	Intl Stock	18	17	20
	Public Equity	53	47	50
2) However, risk-efficiency can be improved a bit by adopting the less constrained mix at the equivalent risk level (Mix 3 or Mix 3 Variation)				
	Core Bonds	16	13	13
	TIPS	3	2	2
	Opp Credit	3	5	5
	Fixed Income	22	20	20
3) The current total fund risk level is appropriate if risk tolerance is fairly represented by 95 th and 99 th percentile events				
	Priv Equity	8	7	7
	Hedge Funds	3	5	4
	Commod	3	3	3
	Real Assets	0	3	2
	Alternatives	14	18	16
	Real Est	5	6	6
	Risk Parity	6	9	8
4) Mix 3 Variation also appears to be a bit better diversified when viewed through additional risk lenses				
	Expected Return	7.44	7.45	7.50
	Total Risk	13.83	13.70	13.89
	Sharpe Ratio	0.537	0.543	0.539
	Correl US Lrg Cap	0.90	0.88	0.89

Definitions

STRATEGIC ASSET ALLOCATION

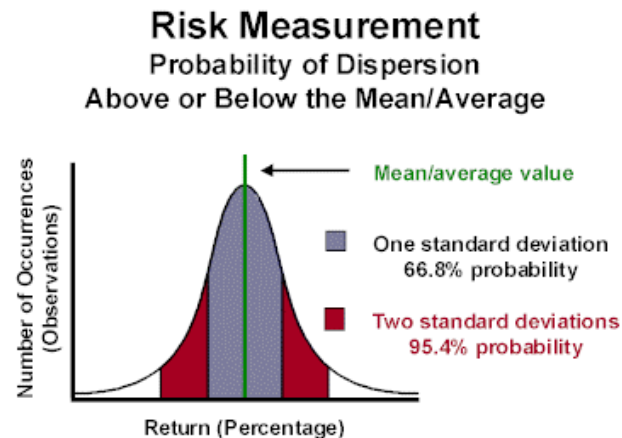
The discipline used to determine which assets and what proportion among those assets meet an investor's cash flow requirements, planning horizon, and attitude toward risk.

EXPECTED RATE OF RETURN

The expected value or mean of a probability distribution of returns. In our case, the expected return is the compounded annual return which is the same as the geometric mean. After tax expected return nets out the expected income and capital gains taxes paid by the trust.

STANDARD DEVIATION

A statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. The square root of the variance. When returns are normally distributed, an individual return will fall within one standard deviation of the mean about two-thirds of the time. For example, if a portfolio had an expected return of 5% and an expected risk (standard deviation) of 13, then:



One Standard Deviation 68% of the time, returns can be expected to fall between -8.0% and +18%

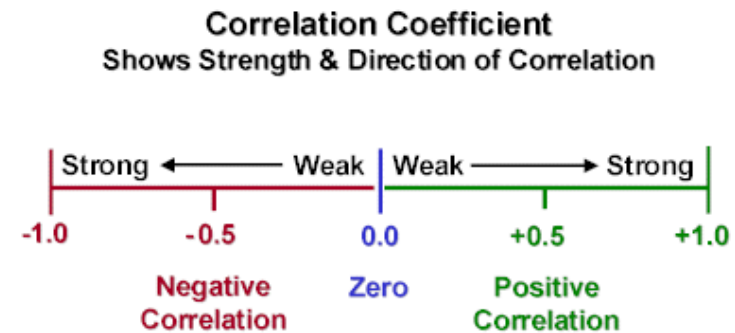
Two Standard Deviations 95% of the time, returns can be expected to fall between -21% and +31%

Standard deviation is a useful historical measure of the variability of return earned by an investment portfolio. In performance measurement, it is generally assumed that a larger degree of dispersion implies that greater risk was taken to achieve the return.

Definitions

CORRELATION COEFFICIENT

Correlation coefficient (r) is a measure of the degree of **correlation** between two quantities or variables, such as the rates of return on stocks and on bonds. A negative coefficient of correlation indicates an inverse or negative relationship, whereas a positive value indicates a direct or positive relationship. The range of values is from -1 to +1 inclusive. A zero (0) value indicates that no correlation exists. Correlation coefficients are useful in **asset class** identification and portfolio **diversification**.



Glossary

- **Asset Allocation** – (1) The way investments are distributed and weighted among different asset classes. (2) The distribution of investments among categories of assets, such as equities, fixed income, cash equivalents, and real estate.
- **CAPM** – Capital Asset Pricing Model. A system of equations that describes the way prices of individual [assets](#) are determined in efficient markets, that is, in markets where information is freely available and reflected instantaneously in asset prices. According to this model, prices are determined in such a way that [risk premiums](#) are proportional to systematic risk, measured by the [beta coefficient](#), which cannot be eliminated by diversification. CAPM provides an explicit expression of the expected returns for all assets. Basically, the model holds that if investors are risk averse, high-risk stocks must have higher expected returns than low-risk stocks. CAPM maintains that the expected return of a security or a portfolio is equal to the rate on a risk-free investment plus a risk premium.
- **Correlation** – A relationship between two quantities, such that when one changes, the other does. A measure (ranging in value from 1.00 to -1.00) of the association between a dependent variable (fund, portfolio) and one or more independent variables (index). Correlation is a measure, not necessarily of causality, but rather of the strength of a relationship. A [correlation coefficient](#) of 1.00 implies that the variables move perfectly in lockstep; a correlation coefficient of -1.00 implies that they move inversely in lockstep; and a coefficient of 0.00 implies that the variables as calibrated are uncorrelated.
- **Efficient Frontier** – A set of optimal portfolios, one for each level of expected return, with minimum risk.
- **Expected Return** -- Estimate of the return of an investment or portfolio from a probability distribution curve of all possible rates of return; statistically, it is the mean (either geometric mean or arithmetic mean) of the distribution or the "most likely" outcome.
- **Factor Model** – Regression-based mathematical calculation used to determine the extent to which macroeconomic factors or other explanatory variables affect the value or price movement of a specific security or portfolio.

Glossary

- **Geometric Return** – Similar to the arithmetic mean, which is what most people think of with the word "average", except that instead of adding the set of returns and then dividing the sum by the number of return observations (N), the numbers are multiplied and then the Nth root of the resulting product is taken. Also known as compound return.
- **Mean Reversion** – Statistical phenomenon stating that the greater the deviation of a given observation (e.g. a quarterly or annual return) from its mean, the greater the probability that the next measured observation will deviate less far. In other words, an extreme event is likely to be followed by a less extreme event.
- **Monte Carlo Simulation** – Uses stochastic processes to simulate the various sources of uncertainty that affect the value of the instrument, portfolio or investment in question, and calculates a representative value or distribution of possible outcomes given the simulated values of the underlying inputs.
- **Optimization** – Process of determining the portfolio composition such that expected return is maximized for a given risk level, or risk is minimized for a given expected return level. Other optimizations could target risk of shortfall, maximization of Sharpe ratio, or minimization of tracking error.
- **Sharpe Ratio** – A ratio of return to volatility, useful in comparing two portfolios or stocks in terms of risk-adjusted return. The higher the Sharpe Ratio, the more sufficient are returns for each unit of risk. It is calculated by first subtracting the risk free rate from the return of the portfolio, then dividing by the standard deviation of the portfolio.
- **Treasury Inflation-Protected Securities (TIPS)** – Inflation-indexed bonds issued by the U.S. Treasury. The principal is adjusted to the Consumer Price Index (CPI), the commonly used measure of inflation. The coupon rate is constant, but generates a different amount of interest when multiplied by the inflation-adjusted principal, thus protecting the holder against inflation. TIPS are currently offered in 5-year, 10-year and 20-year maturities. Beginning in February 2010, the U.S. Treasury will once again offer 30-year TIPS bonds.

STRATEGIC INVESTMENT SOLUTIONS, INC.

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San Mateo County Employees' Retirement Association (SamCERA) Board
100 Marine Parkway, Suite 125
Redwood City, CA 94065

Dear Board Members:

This memo outlines the major changes under consideration as part of the 2013 SamCERA Asset/Liability Study ("ALS") and their justification. As reported to the SamCERA board during the asset allocation education session, we anticipate continuing to rely on Mean-Variance Optimization as the basis for asset allocation, but with an eye towards also assessing risk through the additional lenses increasingly employed by large institutional investors such as SamCERA. These lenses include factor analysis, economic scenario analysis, and historical extreme event analysis.

The purpose of this memo is to provide SamCERA with documentation of the ALS process and an understanding of the roles of the various asset classes under consideration.

CURRENT AND PROPOSED SAMCERA ASSET ALLOCATIONS

	CURRENT POLICY	PROPOSED POLICY	DIFFERENCE
PUBLIC EQUITY	53	50	-3
US LARGE CAP	28	24	-4
US SMALL CAP	7	6	-1
INTERNATIONAL STOCK	18	20	+2
FIXED INCOME	22	20	-2
CORE BONDS	16	13	-3
TIPS	3	2	-1
OPPORTUNITY CREDIT	3	5	+2
ALTERNATIVES	14	16	+2
PRIVATE EQUITY	8	7	-1
HEDGE FUNDS	3	4	+1
COMMODITIES	3	3	0
REAL ASSETS	0	2	+2
REAL ESTATE	5	6	+1
RISK PARITY	6	8	+2
EXPECTED RETURN	7.4	7.5	
TOTAL RISK	13.8	13.9	

SIS and your CIO have worked together to develop changes to the portfolio that in SIS' view, provide continuity and careful enhancement to the existing SamCERA asset allocation, rather than any significant change of strategic posture. However, we are proposing some changes that we believe will

allow us to continue to improve the portfolio and orient it more efficiently to evolving market risks and opportunities. We will explain the rationale for each allocation change, presented in order of their importance, in the discussion below.

INITIATE DISCRETE REAL ASSETS PORTFOLIO

One of the objectives of the ALS is to assess the primary risks SamCERA faces in managing the plan's assets relative to its liabilities. One of these risks is unanticipated inflation: if inflation is higher than expected over an extended period, wage inflation and higher cost-of-living adjustments ("COLAs") may cause the value of liabilities to increase. In addition, assets that respond negatively to inflation may lose value, which would also cause the plan's funded status to deteriorate.

SIS believes that the risk of unanticipated inflation in the future is perhaps the most underappreciated risk in pension administration today. Accordingly, in recent years, our plan sponsors have sought to hedge this risk by initiating or adding exposure to assets that are expected to respond *positively* to unanticipated inflation. These assets are known as "Real Assets" or, alternatively, "Real Return Assets", as they are expected to provide attractive returns on a real (net of inflation) basis.

Real Assets are comprised of both equity and fixed income oriented strategies. Real return fixed income performance is generally more closely tied to changes in CPI and/or short-term interest rate changes. (SamCERA's portfolio already has strong representation in these bond-like instruments.)

The fixed income sub-categories included in Real Assets are:

- TIPS
- Non-US Inflation-Linked Bonds
- Bank Loans and other floating-rate bonds and notes

While returns from equity oriented Real Assets are less directly tied to changes in CPI, and therefore provide a less optimal hedge against inflation risk, they can potentially generate more attractive returns and also diversification relative to other equity-oriented strategies. (The SamCERA portfolio currently only has full representation in one of these categories, commodities futures, though it has also made limited hard asset investments in the private equity portfolio.)

The equity asset sub-categories included in Real Assets are:

- Commodities
- Infrastructure (ports, toll roads, power generation, etc.)
- Hard Assets (Oil & Gas, Metals & Mining, Agricultural Land, Timberland, etc.)

SIS recommends that SamCERA implement a dedicated real return pool to complete its exposure to inflation hedging assets. The instrument sub-allocation of the portfolio will be determined during the next step in the strategic planning process, which we call the Manager Structure study.

INCREASE RISK PARITY ALLOCATION

The goal of the Risk Parity allocation is to enhance the overall portfolio diversification by introducing a portfolio that targets four equal risk factor contributions derived from across the asset classes (equity, credit, inflation, and duration) in order to provide the most risk efficient, balanced portfolio possible. The equal inputs from the risk factors tend to provide better risk adjusted returns, better downside risk protection, and also marginally reduce the overall portfolio's reliance on equity risk to drive long-term returns. SIS continues to believe that there is strong theoretical as well as empirical support for the risk parity methodology. Furthermore, we believe that last quarter's negative episode for risk parity, though painful, provides an attractive entry point for SamCERA to increase its exposure to the strategy.

INCREASE IN INTERNATIONAL EQUITY AS A PROPORTION OF ALL PUBLIC EQUITY

While the optimization suggests a slightly lower overall public equity allocation, the international equity allocation is higher, and thus the proportion of international to total rises from 34% to 40%. SIS encourages higher international equity allocations in client portfolios for the following primary reasons:

- Enhanced Diversification of plan assets
- Reduced Mismatch between global equity opportunity set and plan allocation
- Increased exposure to the higher growth economies of the Emerging Markets
- Increased protection against loss of global purchasing power from depreciating US dollar
- Increased exposure to market and sector leading companies domiciled outside the US

INCREASE IN HEDGE FUNDS

SIS does not believe that Hedge Funds qualify as an asset class per se, but instead represents a type of investment vehicle that allows greater freedom for skilled investment teams to pursue non-traditional alpha strategies in both traditional and alternative instruments. We do believe that, if carefully selected and implemented, Hedge Funds can potentially improve SamCERA's risk-adjusted returns. This is because of the combination of unique market exposures or "exotic betas" and/or management skill or "alpha" that good Hedge Funds provide. These attributes can lead to superior risk-adjusted returns and improved asset diversification relative to the more traditional asset classes that comprise the rest of the SamCERA portfolio. Our expected (net-of-fees) return for Hedge Funds is 5.5%, with an expected risk of just under 12%. This profile results in the highest reward to risk ratio (Sharpe Ratio) of any class of investments in the SamCERA portfolio, with a fairly low correlation of returns relative to both public equities and bonds.

Given these characteristics, our asset allocation model naturally favors Hedge Funds over most other investments. Therefore the appropriate allocation to Hedge Funds becomes a function of the board's comfort level with these strategies. Other SIS clients that have approved Hedge Fund investments generally have target Hedge Fund allocations ranging from 3% to 10%. We recommend that SamCERA increase its current 3% Hedge Fund allocation. SamCERA has an efficient core hedge fund position in the

AQR Delta product; we expect SamCERA to enhance its core position with a few carefully selected complements to the Delta strategy.

SLIGHT INCREASE REAL ESTATE

We believe Core Real Estate has several positive characteristics:

- Potential hedge against unanticipated inflation (many investors include real estate in their Real Assets allocation)
- Expected return greater than bonds
- Expected risk lower than equity
- A smoothed, appraisal based return series; thus “observed” and reported risk is low relative to other private asset classes
- Low correlation to equity and bonds

However, core institutional real estate has rallied strongly since the Global Financial Crisis. At this point in the cycle, SIS remains drawn to Core Real Estate’s potential inflation hedging characteristics and its perceived cheapness relative to other asset classes, especially nominal bonds. The net of these cross-currents leads the optimizer to an initial target allocation of about 6% of the total fund, which would be a slight increase from the current Real Estate target allocation of 5%.

DECREASE IN CORE BONDS

SIS respects the critical role played by high quality "core" bonds in institutional portfolios in hedging against deflation, providing an anchor to safety during times of crisis, and generally providing strong diversification to the predominantly growth oriented assets in the rest of the portfolio. However, SIS continues to believe that the current market pricing of high quality bonds greatly reduces their ability to perform their traditional role, and even to an extent makes duration exposure a source of true price risk in the portfolio. As such, SIS is comfortable with using core bonds as a source of funds for other client portfolio initiatives, and SIS believes that SamCERA's proposed 20% allocation to the asset class is adequate for bonds to perform their traditional role in the portfolio. If and when bond prices moderate from their current level over the next few years, SIS will look to recommend that client bond portfolios return to higher allocations. (It should be noted that SamCERA's proposed increase in its Risk Parity allocation has the impact of also increasing the portfolio's bond allocation. Since Risk Parity employs leverage to increase bond risk, it has the effect of deploying greater bond exposure, so the 8% allocation to Risk Parity actually increases the bond exposure by approximately 3%, increasing the total portfolio's actual bond allocation to 23%.)

DECREASE IN TOTAL PUBLIC EQUITY

Decreasing the public equity allocation was not a goal of the process, however it became a necessity given the several attractive uses of funds available to SamCERA. SIS has in fact actively cautioned its

clients against selling too much public equity in the recent period of depressed risk asset valuations after the Global Financial Crisis when the temptation for many boards has been to reduce exposure to growth assets far too much. With valuations having rebounded somewhat in the last three years, we are now more comfortable with using public equity as a source of funds for other portfolio initiatives, especially for building the dedicated real return pool.

CONCLUSION AND NEXT STEPS

While the ALS is still ongoing and we do not yet have a final recommended policy target mix, we believe the ideas outlined in this memo will help SamCERA improve its long-term risk-adjusted returns and provide the flexibility to better position the fund to achieve its return objectives.

Once the ALS is complete, the next steps will be to conduct a manager structure study within International Equities, Real Assets, Hedge Funds, and Fixed Income to determine how to implement these broad asset classes in the most optimal way to meet their functions in the total portfolio.

We look forward to working with the SamCERA Staff and Board to complete the ALS and implement the fund's new investment strategy.

Sincerely,

Patrick Thomas
Senior Vice President
Strategic Investment Solutions, Inc.



**SAN MATEO COUNTY EMPLOYEES' RETIREMENT
ASSOCIATION (SAMCERA)**

HEDGE FUND DISCUSSION MATERIALS

October 29, 2013

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Senior Vice President

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Vice President



Defining Hedge Funds

- NOT an asset class – pooled investment vehicle used to pursue a set of flexible trading/investment strategies
- Very broad investment mandates (e.g., wide range of security types, short positions, leverage)
- Low/moderate transparency, although this has improved in recent years
- Moderate liquidity (1-3 years), determined by fund-specific terms and underlying asset liquidity
- Performance evaluation more challenging than long-only products (e.g., flawed benchmarks, peer groups difficult to construct/maintain, separation of alpha from beta challenging)
- Proper due diligence and monitoring requires significant resources and specialized knowledge
- Strategies and individual funds differ across several key dimensions:
 - Underlying assets
 - Level of directional market exposure vs. idiosyncratic risk
 - Liquidity
 - Leverage
 - Transparency



Investment Rationale

- Attractive risk/return tradeoff relative to global equities and fixed income:
 - Potential to deliver “equity-like” returns with substantially lower volatility than public equities
 - Potential to provide better returns than fixed income with only moderately higher volatility
- Moderate correlation to public/private equity and traditional fixed income, which should provide portfolio diversification benefits and improve risk-adjusted returns
- Objective of generating stable, positive returns that are not as dependent on broad market movements as traditional long-only strategies (i.e., absolute returns)
- Focus on active risk management and capital protection (i.e., view risk in absolute terms as well)
- Broader investment tool kit that includes the ability to hedge unwanted risks, establish short positions (i.e., dual alpha engines) and make full use of a wide variety of instruments in order to express trades in the most efficient way possible
- Gain exposure to a variety of opportunities not open to long-only managers (e.g., illiquid assets, arbitrage situations that require shorting and possibly leverage)
- Method for plan sponsors to incorporate a more tactical or opportunistic element into their long-term strategic investment decisions via “outsourcing” these types of decisions
- Access “best of breed” investment talent, which tends to gravitate towards hedge funds due to higher potential compensation and broader investment flexibility



Additional Challenges/Considerations

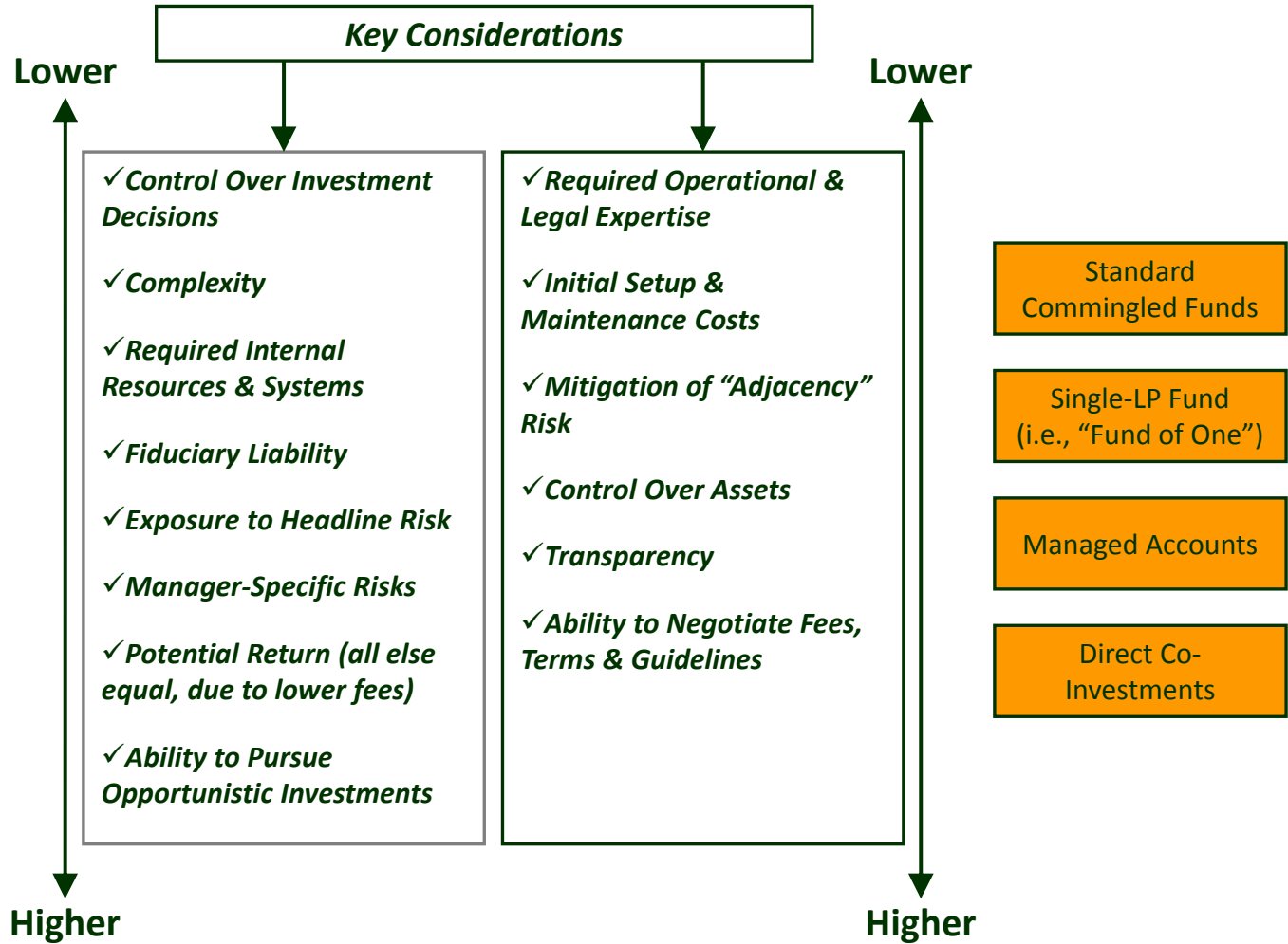
- Much higher fees than traditional strategies and it's often difficult to determine if these fees are truly justified due to flawed benchmarks and lack of robust peer groups
- More difficult to access top-tier funds, which are often capacity-constrained if not closed to new investments altogether
- Incentive fee introduces potential misalignment of incentives between the manager and investors
- Lower liquidity than traditional strategies, both in the form of the underlying assets themselves and certain structural features (e.g., initial lockups, periodic redemptions, side pockets)
- Exposure to heightened manager-specific risks (i.e., blowups and associated headline risk for plan sponsors)
- Increased complexity in terms of the strategy, underlying holdings and fund/account structures
- Lack of transparency and access to key investment professionals
- Valuation of illiquid assets or other hard to mark positions such as OTC derivatives
- Indirect exposure to counter-party risks via hedge funds' relationships with prime brokers and other trading/financing partners

Implementation Options

PROGRAM STRUCTURE

Fund of Funds
Core Diversified Multi-Strategy
Core + Specialized
Custom Mandate
Advisory/Non-Discretionary
Hybrid
Core: Fund of Funds Satellite: Direct
Core: Direct Satellite: Fund of Funds
Direct
Hedge Fund Beta/Replication
Multi-Strategy Funds
Standard Single-Strategy Portfolio
Standard + Niche Strategies
Custom Mandates

INVESTMENT VEHICLE





SamCERA Hedge Fund Program – Current

- Board approved a 3% policy allocation (c. \$85 mm) in October 2010
- Primary goal was to introduce an uncorrelated source of return via broad, diversified exposure to hedge fund strategies
- A diversified direct hedge fund portfolio was eliminated from consideration due to three main considerations:
 - Relatively small allocation, both in percentage and dollar terms
 - Internal resource constraints
 - Fee sensitivity
- Examined two primary structures:
 - Funds of Funds
 - Hedge Fund Replication/Beta Strategies
- Board approved allocation to AQR DETLA in April 2011 based on several factors:
 - Efficient way to gain exposure to a broad set of hedge fund “betas”
 - Extremely liquid underlying portfolio and bi-weekly redemptions
 - Lower fees than a multi-strategy hedge fund, and much lower fees than a fund of funds
 - Lack of confidence that funds of funds can deliver meaningful “alpha” on a risk/liquidity/fee/beta adjusted basis



SamCERA Hedge Fund Program – Options

■ Option #1

- Increase policy allocation to 4% (c. \$110 mm)
- Achieve target allocation via increased exposure to AQR DELTA, or through investment in a comparable “hedge fund beta” product

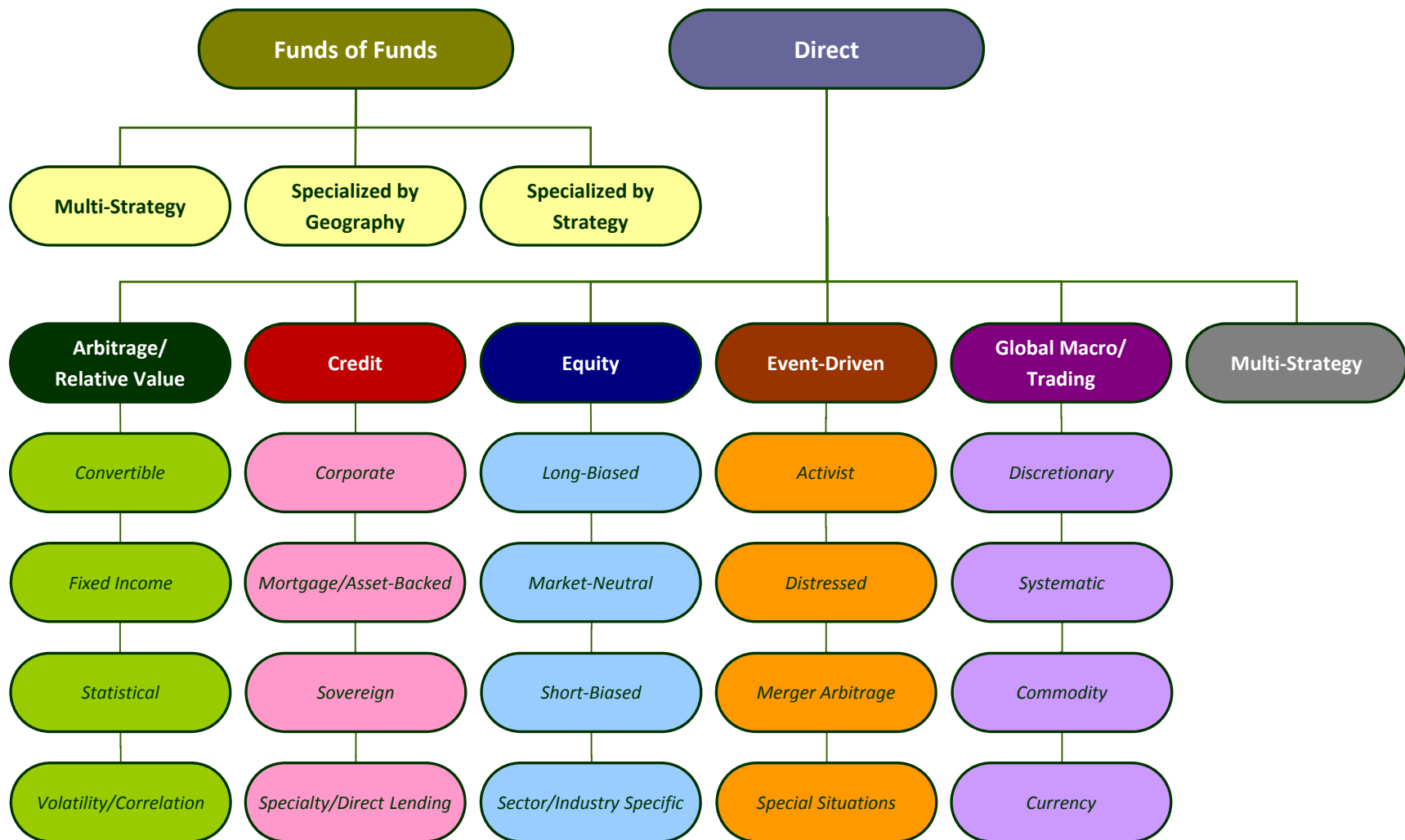
■ Option #2

- Increase policy allocation to 4% (c. \$110 mm)
- Maintain AQR DELTA as a “core” allocation (e.g., 40-50% of the hedge fund sleeve)
- Utilize either a limited number of direct hedge funds or a Managed Accounts Platform (“MAP”) to achieve absolute returns with low equity beta and serve as a complement/diversifier to AQR DELTA
- Target strategies and individual funds that don’t exhibit a high level of persistent, structural directionality/beta, for example:
 - Discretionary Global Macro
 - Systematic Global Macro (i.e., CTAs/Managed Futures)
 - Relative Value/Arbitrage



APPENDIX

Overview of Hedge Fund Investment Universe





Pros/Cons of Funds of Hedge Funds

Pros

- Professional management, deep resources & expertise
- Instant diversification and reduction of manager-specific risk
- Wide purview of the hedge fund industry and investment landscape
- Outsourcing of tactical investment decisions
- Fiduciary buffer – plan sponsor not directly responsible for hiring/firing individual funds
- Additional layer of active management (i.e., rotation among hedge fund strategies)
- Robust analytical and reporting infrastructure
- Potential access to closed and/or emerging managers
- Provide education, help with future manager sourcing and can act as an additional sounding board as the plan sponsor's hedge fund program evolves

Cons

- Additional layer of fees represents a substantial drag on net performance
- Historical returns of FoHF indices are not compelling, although individual top-tier FoHF have been able to outperform the index by 200-300 bps over long time periods
- Potential for “diworsification” (i.e., degradation of returns through over-diversification); some funds of funds provide what amounts to market or median exposure, which is not desirable
- Lower transparency and aggregation/filtering of information from underlying HFs
- Less control over investment decisions



Pros/Cons of Direct Multi-Strategy Hedge Funds

Pros

- Single layer of fees
- Tend to be larger, well-established firms with robust infrastructures and reduced business risk
- Flexible investment mandates with the ability to pursue tactical/opportunistic investments
- Ability to dynamically allocate capital as strategies/markets go into and out of favor
- Provide broad strategy exposure, although less comprehensive than a typical fund of funds
- Multiple uncorrelated strategies should serve to lower volatility

Cons

- Aside from the founder/CIO, the people running the underlying strategies may not be top-tier talents – if they were, they could be running their own hedge fund
- Due to the multiple strategies and large organizations, often more difficult to diligence and monitor than smaller single-strategy funds
- Although by definition multi-strategy managers have broad mandates, this creates the potential risk that they add strategies or trade markets in which they have no edge or special expertise
- Limited knowledge transfer potential relative to FoF, although it should have greater depth



Pros/Cons of Direct Single-Strategy Hedge Funds

Pros

- Single layer of fees
- More focused investment mandate, maximizes the impact of the manager's presumed edge
- Investors have the ability to target best-of-breed managers in each strategy
- Plan sponsor/consultant has much greater control over the strategy mix

Cons

- Fully exposed to the cyclical nature of hedge fund strategies, plan sponsor/consultant bear sole responsibility for actively managing both the strategy mix and manager lineup
- Typically smaller, newer funds with greater business risk
- Significant key-man risk (i.e., the strategy and firm is heavily dependent on one individual)
- May lack the operational savvy, reporting and client service capabilities of multi-strategy funds

AQR DELTA vs. Fund of Hedge Funds

	AQR DELTA	Typical Fund of Hedge Funds
Exposure to Equity Beta	<p>Low</p> <p>Residual equity market beta is hedged out using a futures overlay.</p>	<p>Moderate</p> <p>Seek to minimize equity beta through portfolio construction and manager selection, and some employ a hedge overlay, but most FoHF have been shown to contain equity beta as well as other directional exposures.</p>
Oversight Requirements	<p>Moderate</p> <p>Plan sponsor/consultant directly responsible for due diligence and hire/fire decision, although these activities are much more limited in scope vs. a diversified portfolio of direct hedge funds.</p>	<p>Moderate</p> <p>Plan sponsor/consultant responsible for selecting and monitoring the FoHF provider, who is then directly responsible for due diligence and hire/fire decisions with respect to the underlying hedge funds.</p>
Strategy Exposure	<p>Diversified</p> <p>Provides exposure to 9 “classic” hedge fund strategies, but does not include illiquid/niche strategies (e.g., distressed, direct lending, capital structure arbitrage).</p>	<p>Very Diversified</p> <p>Varies by specific FoHF, but generally provides more comprehensive coverage of the hedge fund universe and the ability to structure the HF portfolio to meet specific goals/needs.</p>
Strategy Weighting	<p>Relatively Unique</p> <p>Equal-risk weighting scheme</p>	<p>Relatively Generic</p> <p>Variety of approaches to “baseline” strategy weights, but generally will be skewed towards a market-cap and capacity-availability scheme and often include qualitative biases towards or away from certain strategies.</p>

AQR DELTA vs. Fund of Hedge Funds (cont.)

	AQR DELTA	Typical Fund of Hedge Funds
Strategy Rotation	<p>Low</p> <p>Limited tactical rotation among the 9 strategies based on observed capital flows and risk/return prospects, but to the extent that tactical allocation decisions are made they can be effected in real-time.</p>	<p>Moderate</p> <p>Often incorporate active management of the strategy weights as an additional source of potential alpha, but flexibility negatively impacted by structural constraints and tactical views are often implemented with a lag.</p>
Access to Managers	<p>Low</p> <p>Level of access to AQR is extremely high, however the breadth is obviously limited.</p>	<p>Moderate</p> <p>Potential exposure to closed, capacity-constrained or emerging managers, although these relationships generally reside with the FoHF and not the plan sponsor. Some FoHF guard these relationships closely while others are more willing to allow direct contact.</p>
Manager-Specific Risk	<p>Moderate/High</p> <p>AQR is the sole manager, however this risk is mitigated to some extent due to the index-like nature of the DELTA strategy.</p>	<p>Low/Moderate</p> <p>FoHF have more chances to be exposed to headline risk since they typically invest with 20+ hedge funds, but the financial impact of a one-off “blowup” situation would be limited due to the diversification of their portfolios.</p>
Potential for Knowledge Transfer	<p>Moderate</p> <p>Efficient way to gain experience within the 9 hedge fund strategies covered by AQR and possibly additional strategies as they arise.</p>	<p>Moderate/High</p> <p>Varies widely across firms, but the “right” FoHF can provide education, share research and help source direct hedge funds as the hedge fund program evolves.</p>

AQR DELTA vs. Fund of Hedge Funds (cont.)

	AQR DELTA	Typical Fund of Hedge Funds
Transparency	High	Moderate Full position-level transparency is rare, but FoHF will generally provide underlying manager names/weights and aggregate exposures to strategy types, geographic regions, leverage, etc.
Liquidity	High DELTA offers bi-weekly redemptions and focuses on very liquid underlying positions.	Moderate Typically a lower liquidity profile due to lockup and redemption terms at both the FoHF and underlying hedge fund level, as well as potential exposure to less liquid strategies and assets within the underlying hedge funds.
Fees	Moderate 1% management fee + 10% incentive fee above a cash hurdle OR 2% flat fee	High 1% management fee + 10% incentive fee in addition to the "2 & 20" fees assessed by the underlying hedge funds. Incentive fees are not netted across the underlying hedge funds, which over time will increase realized fees.
Performance (Oct 08 – Aug 13)	<u>12% Volatility Fund</u> Annualized Return: 9.94% Annualized Volatility: 6.00% Correlation to MSCI ACWI: 0.36	<u>HFRI FOF: Diversified Index</u> Annualized Return: 1.84% Annualized Volatility: 4.89% Correlation to MSCI ACWI: 0.79 <u>DJ/Credit Suisse Multi-Strategy Index</u> Annualized Return: 7.35% Annualized Volatility: 6.20% Correlation to MSCI ACWI: 0.76

Hedge Fund "Periodic Table" – Calendar Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	YTD
Best ↑ ↓ Worst	Emerging Markets 28.75	Event-Driven 14.47	Emerging Markets 17.39	Emerging Markets 20.49	Emerging Markets 20.26	Managed Futures 18.33	Convertible Arbitrage 47.35	Global Macro 13.47	Global Macro 6.44	Multi-Strategy 11.19	Event-Driven 8.60
	Event-Driven 20.02	Emerging Markets 12.49	Dedicated Short 17.00	Event-Driven 15.73	Global Macro 17.36	Dedicated Short 14.87	Emerging Markets 30.03	Event-Driven 12.63	Fixed Income Arb 4.69	Fixed Income Arb 11.04	Equity Long/Short 7.89
	Global Macro 17.99	Equity Long/Short 11.56	Equity Long/Short 9.68	Multi-Strategy 14.54	Equity Long/Short 13.66	Global Macro -4.62	Fixed Income Arb 27.41	Fixed Income Arb 12.51	Equity Market-Neutral 4.49	Event-Driven 10.63	Multi-Strategy 5.12
	Equity Long/Short 17.27	Global Macro 8.49	Global Macro 9.25	Equity Long/Short 14.38	Event-Driven 13.20	Event-Driven -17.74	Multi-Strategy 24.62	Managed Futures 12.22	Dedicated Short 3.85	Emerging Markets 10.28	Convertible Arbitrage 4.47
	Multi-Strategy 15.04	Multi-Strategy 7.53	Event-Driven 8.95	Convertible Arbitrage 14.30	Multi-Strategy 10.10	Equity Long/Short -19.76	Event-Driven 20.38	Emerging Markets 11.34	Multi-Strategy 1.83	Equity Long/Short 8.21	Fund of Funds 3.59
	Managed Futures 14.13	Fund of Funds 7.19	Multi-Strategy 7.54	Global Macro 13.53	Fund of Funds 9.72	Fund of Funds -20.85	Equity Long/Short 19.47	Convertible Arbitrage 10.95	Convertible Arbitrage 1.13	Convertible Arbitrage 7.82	Equity Market-Neutral 3.00
	Convertible Arbitrage 12.90	Fixed Income Arb 6.86	Fund of Funds 7.46	Equity Market-Neutral 11.15	Equity Market-Neutral 9.27	Multi-Strategy -23.63	Global Macro 11.55	Multi-Strategy 9.29	Managed Futures -4.19	Fund of Funds 4.81	Emerging Markets 2.87
	Fund of Funds 11.42	Equity Market-Neutral 6.48	Equity Market-Neutral 6.14	Fund of Funds 10.18	Dedicated Short 6.04	Fixed Income Arb -28.82	Fund of Funds 11.46	Equity Long/Short 9.28	Fund of Funds -5.01	Global Macro 4.58	Fixed Income Arb 1.95
	Fixed Income Arb 7.97	Managed Futures 5.97	Fixed Income Arb 0.63	Fixed Income Arb 8.66	Managed Futures 6.01	Emerging Markets -30.41	Equity Market-Neutral 4.05	Fund of Funds 5.48	Emerging Markets -6.68	Equity Market-Neutral 0.85	Global Macro 0.66
	Equity Market-Neutral 7.07	Convertible Arbitrage 1.98	Managed Futures -0.11	Managed Futures 8.05	Convertible Arbitrage 5.17	Convertible Arbitrage -31.59	Managed Futures -6.57	Equity Market-Neutral -0.85	Equity Long/Short -7.31	Managed Futures -2.93	Managed Futures -7.26
	Dedicated Short -32.59	Dedicated Short -7.72	Convertible Arbitrage -2.55	Dedicated Short -6.61	Fixed Income Arb 3.83	Equity Market-Neutral -40.32	Dedicated Short -25.03	Dedicated Short -22.47	Event-Driven -9.09	Dedicated Short -20.39	Dedicated Short -17.36

Source: DJ/Credit Suisse Hedge Fund Indices, HFR Diversified FOF Index. All data through 8/31/13.

Hedge Fund "Periodic Table" – Trailing Periods

	3 Months	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	15 Years
Best ↑ ↓ Worst	Equity Market-Neutral 0.83	Event-Driven 13.95	Multi-Strategy 7.51	Multi-Strategy 8.39	Convertible Arbitrage 6.77	Global Macro 7.42	Global Macro 8.48	Emerging Markets 9.44
	Multi-Strategy 0.49	Equity Long/Short 11.90	Event-Driven 7.15	Fixed Income Arb 7.24	Multi-Strategy 5.60	Event-Driven 5.66	Emerging Markets 8.42	Event-Driven 8.86
	Convertible Arbitrage 0.30	Emerging Markets 9.21	Fixed Income Arb 6.84	Equity Long/Short 6.42	Global Macro 5.22	Multi-Strategy 5.41	Event-Driven 7.77	Equity Long/Short 8.72
	Equity Long/Short 0.19	Multi-Strategy 8.87	Equity Long/Short 6.23	Global Macro 6.11	Fixed Income Arb 4.97	Convertible Arbitrage 4.92	Equity Long/Short 6.89	Global Macro 8.57
	Event-Driven 0.14	Convertible Arbitrage 6.83	Convertible Arbitrage 5.82	Event-Driven 6.10	Event-Driven 4.83	Emerging Markets 4.85	Multi-Strategy 6.73	Convertible Arbitrage 7.16
	Fixed Income Arb -0.55	Fund of Funds 5.70	Global Macro 2.86	Convertible Arbitrage 5.93	Equity Long/Short 3.80	Equity Long/Short 4.71	Convertible Arbitrage 4.87	Multi-Strategy 7.11
	Fund of Funds -1.16	Fixed Income Arb 5.34	Fund of Funds 2.70	Emerging Markets 4.66	Emerging Markets 3.46	Fixed Income Arb 3.69	Fixed Income Arb 4.21	Fund of Funds 4.74
	Emerging Markets -2.96	Equity Market-Neutral 4.43	Emerging Markets 2.56	Equity Market-Neutral 4.05	Fund of Funds 0.44	Managed Futures 2.80	Fund of Funds 3.43	Fixed Income Arb 4.71
	Global Macro -3.13	Global Macro 2.54	Equity Market-Neutral 1.96	Fund of Funds 2.90	Managed Futures -0.05	Fund of Funds 1.50	Managed Futures 3.15	Managed Futures 4.51
	Dedicated Short -4.95	Managed Futures -11.32	Managed Futures -7.47	Managed Futures -2.23	Equity Market-Neutral -8.31	Equity Market-Neutral -4.06	Equity Market-Neutral -0.56	Equity Market-Neutral 3.33
	Managed Futures -9.02	Dedicated Short -23.22	Dedicated Short -19.10	Dedicated Short -18.72	Dedicated Short -16.16	Dedicated Short -11.45	Dedicated Short -8.25	Dedicated Short -8.08

Source: DJ/Credit Suisse Hedge Fund Indices, HFR Diversified FOF Index. All data through 8/31/13.

SamCERA



RISK PARITY OVERVIEW

SAMCERA

OCTOBER 2013

STRATEGIC INVESTMENT SOLUTIONS, INC.

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



Risk Parity Overview

Risk parity asset allocation strategies seek to spread portfolio risk equally across asset classes, with the objective of creating portfolios that are more balanced and thus have greater expected risk-adjusted returns than typical institutional portfolios (higher Sharpe ratio).

Introduction to Risk Parity

- Objective is to produce a portfolio where each asset class contributes equally to overall risk of portfolio
 - By contrast, in a typical institutional portfolio, equities account for 80-95% of total portfolio volatility
- A diversified portfolio of assets
 - Fixed Income (including TIPS) and other lower volatility assets comprise a greater percentage of assets
 - Reduces the proportion of risk explained by equities while lowering overall risk of the total portfolio
- Risk Parity portfolio generally utilizes leverage
 - In absence of leverage, the expected return of a Risk Parity portfolio may be too low
 - By combining leverage with a Risk Parity portfolio an investor can theoretically achieve their required rate of return with a lower level of risk than an unlevered portfolio

Risk Parity Asset Selection

Ensure full benefits of diversification are available

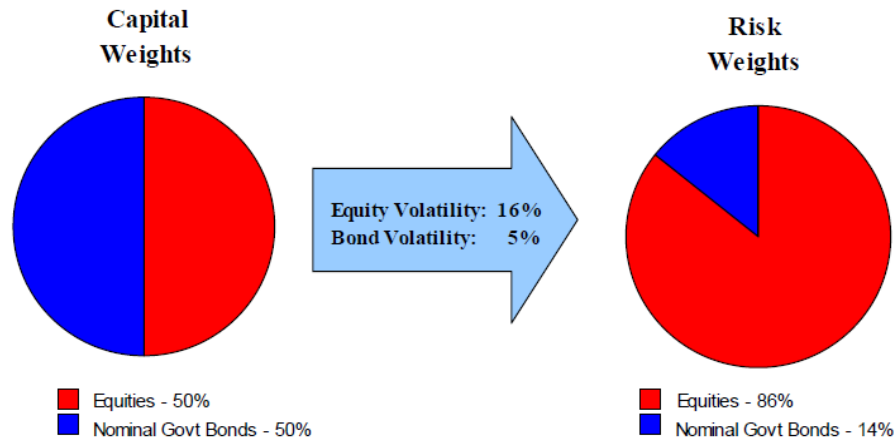
- Rationale:

- Eliminate redundant assets
- Diversify within and across asset classes
- Allow for long-only exposures
- Ensure ample capacity
- Allow for daily liquidity and NAV

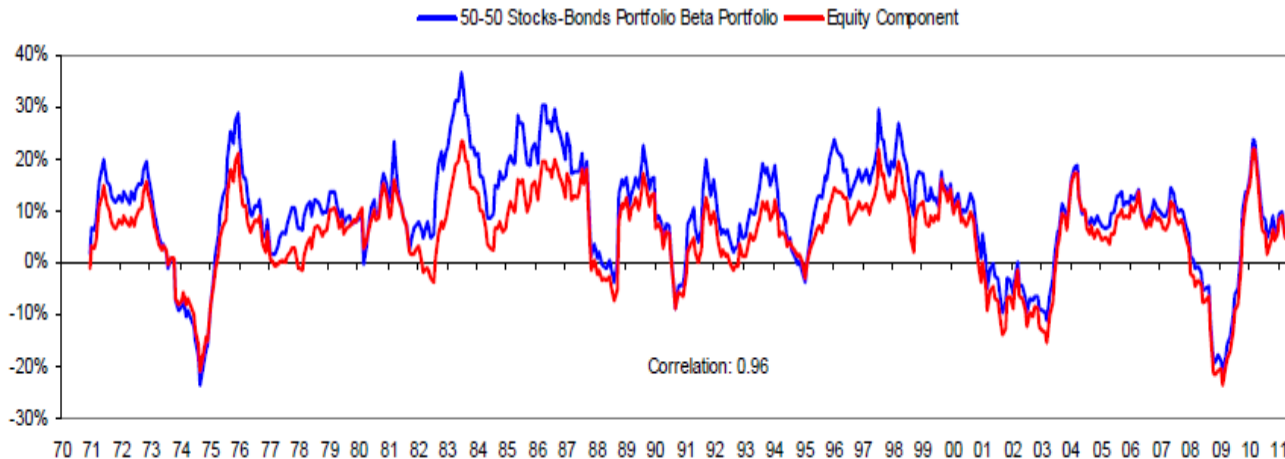
- Specific Criteria:

- Estimate long-term correlations among asset classes
- Review correlations across multiple market environments
- Review drivers of asset class excess returns
- Consider returns over broad sets of economic environments
- Accept assets only if they make a considerable improvement in Sharpe Ratio
- Reduce counter-party risks

Equity Risk in Traditional Balanced Portfolio



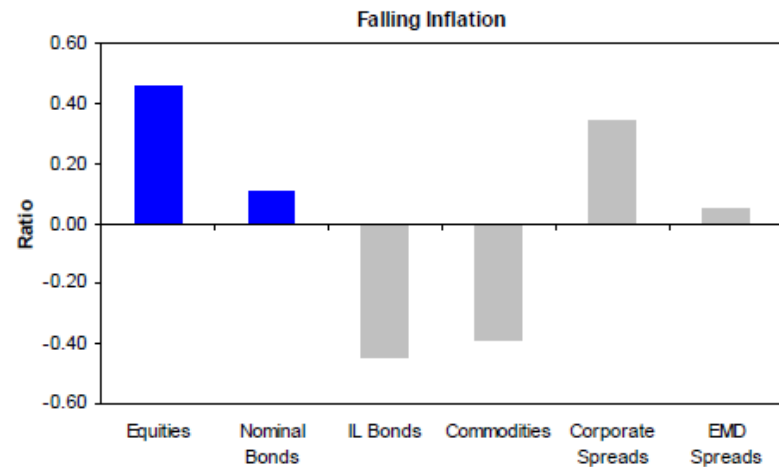
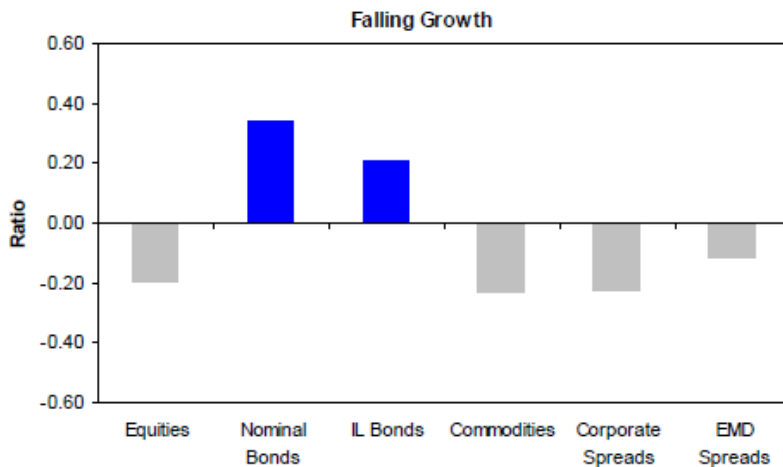
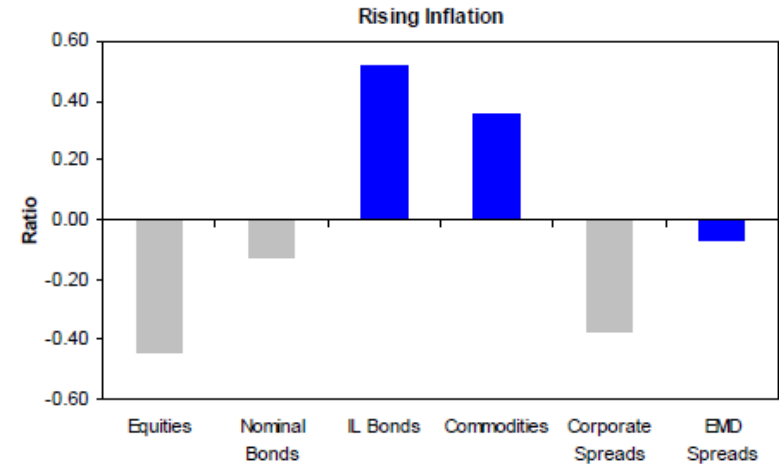
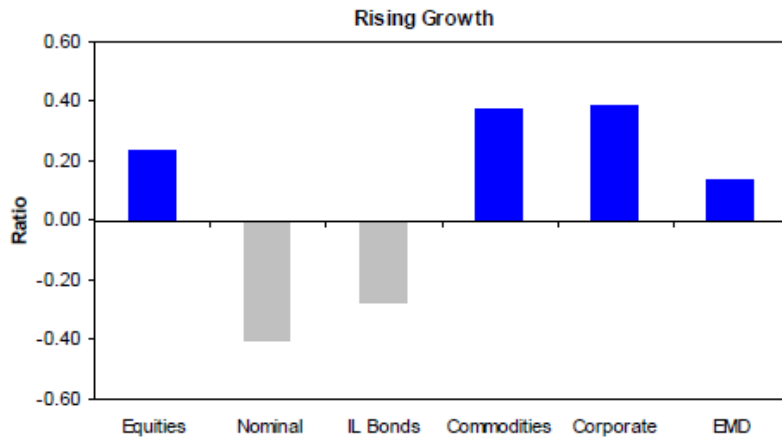
Equities at 50% weight of Total Portfolio accounts for 86% of Risk



The total 50/50 portfolio has a correlation of 0.96 to Equities

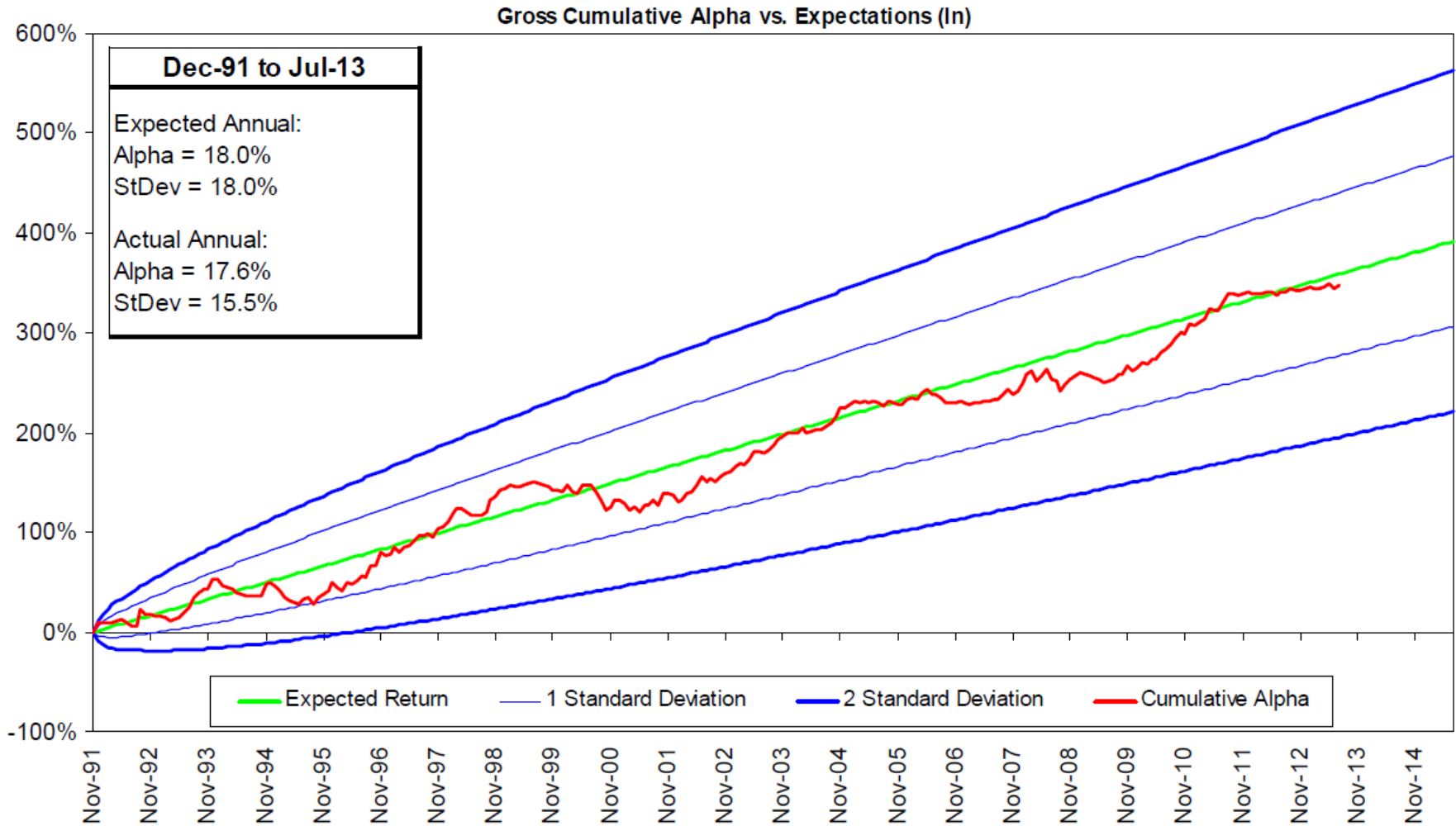
Historical Performance Across Economic Environments

Asset Class Return-to-Risk Ratios in Economic Environments vs. Long-Term Averages
(1970 – Present)*



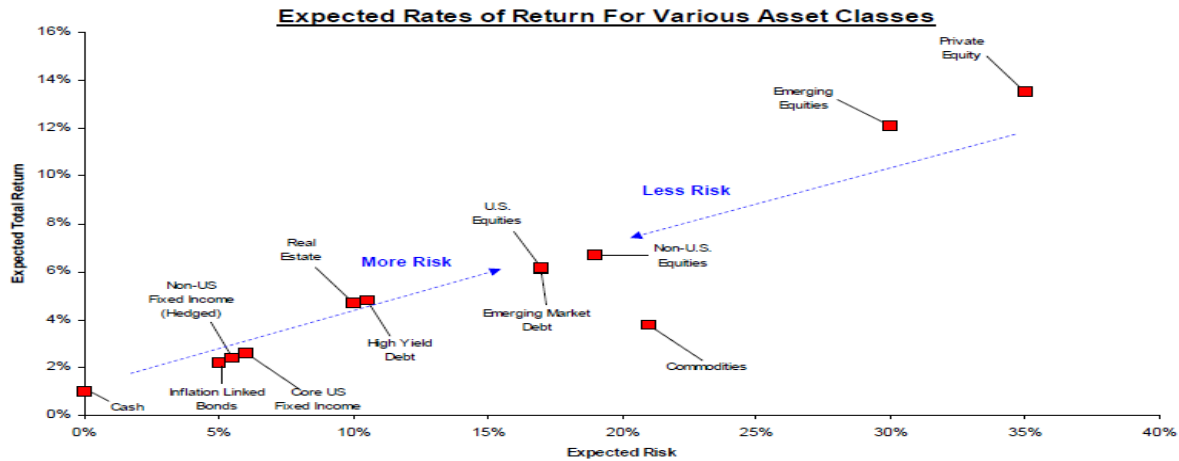
*June 2013

Long-Term Performance vs. Expectations



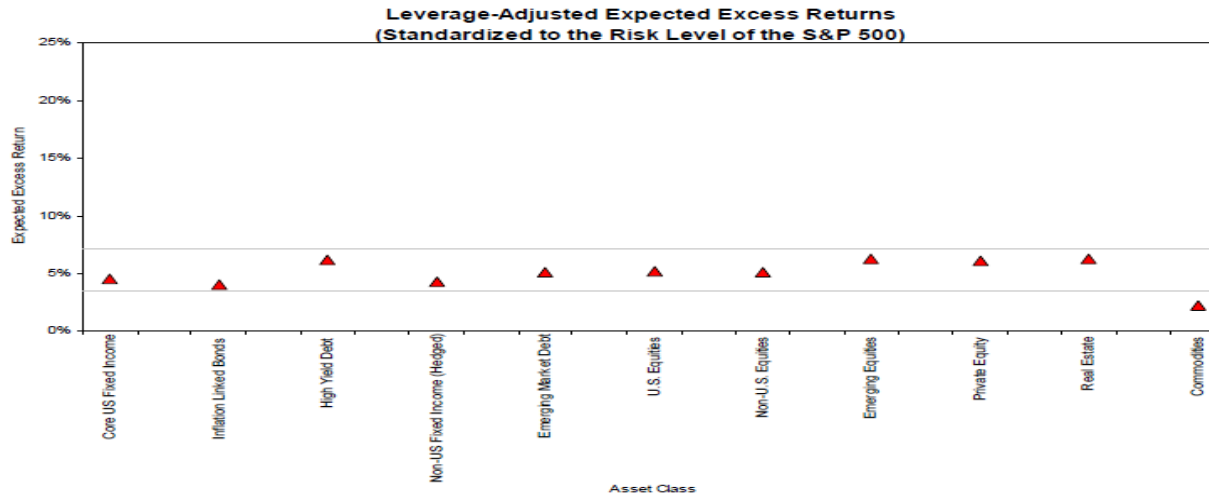
Risk Parity Adjusting Asset Classes

ADJUSTING ASSET CLASSES TO A COMMON RISK



RISK-ADJUSTING ASSET CLASSES MEANS MORE CHOICES WITHOUT LOSS OF RETURN

Leverage employed to equal weight assets on a risk-adjusted basis. Therefore the lower risk asset classes are levered up



Risk Parity Sensitivities to Real Yield Changes?

- ❖ If the real yield change was discounted, there should be little impact on the return of Risk Parity, which will deliver the return of the risk premium.
- ❖ Risk Parity's sensitivity to a surprise shift in real yields depends on what caused the surprise:
 - ❖ Risk Parity should be little affected by surprise shifts in real yields driven by growth and inflation surprises, because Risk Parity is environmentally balanced.
 - ❖ Risk Parity will be affected, *as will all assets and asset mixes*, by surprise shifts in real yields driven by changes in the tightness of money (i.e., the risk premium).
- ❖ All asset portfolios are affected by real yield changes as a result of the risk premium, but unbalanced portfolios (like the traditional portfolio) have unnecessary additional exposure to environmental surprises that drive real yield changes.

Risk Parity – Balancing Exposures

Economic Environments

Equally Weighted at 25% of Risk

Risk Parity portfolio invested in 6 asset classes across 40 markets (*Source: Bridgewater*)

Rising Growth: Equities Commodities Corporate Credit Emerging Market Credit	Rising Inflation: Inflation-Linked Bonds Commodities Emerging Market Credit
Falling Growth: Nominal Bonds Inflation-Linked Bonds	Falling Inflation: Equities Nominal Bonds

The typical portfolio is overweight to the Rising Growth quadrant and underweight to the Falling Growth quadrant. Thus, the typical portfolio would suffer greatly in a market environment such as in 2008 or third-quarter 2011.



Risk Parity Implementation Options

- Option 1:
 - Add to AQR Risk Parity

- Option 2 (Preferred):
 - Complement AQR with another manager's Risk Parity Product

Risk Parity Observations

- Risk Parity can be utilized at different levels of aggressiveness - it can maximize return at the same level of risk of a “traditional portfolio” or maximize risk at the same level of return of a “traditional portfolio”
- Risk Parity is a more “balanced” type of portfolio vs. the “traditional portfolio” and can be thought of an **absolute return** type of strategy.
- Risk Parity should reduce vulnerability in down equity markets and conversely underperform in strong up equity market environments
- Risk Parity has favorable correlations to Active Managers in Fixed Income, Equities and Hedge Funds
- Risk Parity products are capacity constrained and a few of the more successful managers may be close to closing their product
- Risk parity asset allocation strategies seek to spread portfolio risk equally across asset classes, with the objective of creating portfolios that are more balanced and thus have greater expected risk-adjusted returns than typical institutional portfolios (higher Sharpe ratio).

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 29, 2013

Agenda Item 6.4

TO: Board of Retirement



FROM: Michael Coultrip, Chief Investment Officer

SUBJECT: Approval to Transition Investment in AQR Delta Fund to AQR Delta XN Fund

Staff Recommendation:

Approve changing the fund vehicle SamCERA is using to gain exposure to hedge fund betas from the AQR Delta Fund to the AQR Delta XN Fund.

Background:

In an attempt to preserve the liquidity characteristics of the current Delta Fund (withdrawals can be made twice monthly with 15-days notice) but make the Delta investment available to investors who did not need this level of liquidity, AQR launched the Delta XN Fund in June of this year. This fund is run identically to the Delta fund, but has different liquidity terms. The Delta XN Fund still offers twice monthly liquidity, but requires 75-days notice instead of 15-days notice. In exchange for the longer notice period, the AQR Delta XN Fund offers a 10% fee break compared to the Delta Fund fee schedule.

Delta strategy assets are currently approximately \$6.3 billion and soft closed to new investors. AQR anticipates Delta XN to have capacity of approximately \$3-4 billion. Currently Delta XN assets are approximately \$560 million, and consist of some new investors and some Delta investors who made the switch from Delta to Delta XN.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 29, 2013

Agenda Item 7.1

To: Board of Retirement



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

Subject: Preliminary Monthly Financial Report for the Period Ending September 30, 2013 and Discussion of Future Reports

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

Statement of Fiduciary Net Position

SamCERA's Net Position Restricted for Pension as of month end totaled \$2,902,187,225.

Statement of Changes in Fiduciary Net Position

Net position restricted for pensions increased by approximately \$79.6M million, month over month. The increase is due to market appreciation of assets.

The following reports are attached to this agenda item:

Table of Contents	Page
Statement of Fiduciary Net Position (Year to Year YTD Comparative)	3
Statement of Changes in Fiduciary Net Position (Year to Year YTD Comparative)	4
Cash Flow Statements	5
Statement of Fiduciary Net Position (YTD Monthly Comparative)	6
Statement of Changes in Fiduciary Net Position (YTD Monthly Comparative)	7

Discussion of Future Reports

The finance staff has been reviewing the way we process our monthly financial reports. The addition of alternative investment classes such as private equity, hedge fund, risk parity and other limited partnerships in our portfolio has resulted in more complex financial reporting. Private equity profit and loss (P&L) reports are usually received on a quarterly basis by SamCERA approximately six to eight weeks after quarter-end. We use our investment managers' statements as our book of record.

We reached out to our peers and found that some of them do compile monthly financial reports for their boards. However, some systems basically show the budget to actual administration expense on these

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

monthly reports. These are similar to the quarterly budget to admin report that we present to you on a quarterly basis, except that investments are not part of their monthly financial reporting.

Other systems present the financials on a quarterly or even semi-annual or annual basis. SamCERA is looking at the option of publishing a quarterly financial statement. Upon speaking with staff, the best time to present the quarterly financial reports will be two months after the quarter ends. This will ensure that we have a majority of the quarterly P&L for our alternative managers and limited partnerships. If you agree to receive the financials on a quarterly instead of monthly basis, the September financials will be reported at the November board meeting. The December financials will be reported at the February meeting and so on.

SamCERA will still process the financials in-house on a monthly basis to ensure that we are recording items in a timely and accurate manner. Since the pressure to get the financials ready on a monthly basis for the board mailing is eliminated, staff can leave the books open and update items as needed. This will give staff more time to review the entries and management will have additional time to review the financials.

Staff would also like Board's feedback on the current format of the financial statements and if any changes to the format would be helpful.

San Mateo County Employees' Retirement Association
Statement of Fiduciary Net Position - YTD Comparative
September 2013
PRELIMINARY

	September 2013	September 2012
ASSETS		
CASH AND CASH EQUIVALENTS	51,703,536	61,274,304
CASH MANAGEMENT OVERLAY	7,270,066	0
SECURITIES LENDING CASH COLLATERAL	137,325,016	176,187,904
TOTAL CASH	<u>196,298,617</u>	<u>237,462,208</u>
RECEIVABLES		
Contributions	0	0
Due from Broker for Investments Sold	134,919,935	126,428,470
Investment Income	5,130,435	5,494,548
Securities Lending Income	29,100	95,708
Other Receivable	113,293	113,387
TOTAL ACCOUNTS RECEIVABLES	<u>140,192,762</u>	<u>132,132,114</u>
PREPAID EXPENSE	7,669	7,669
INVESTMENTS AT FAIR VALUE		
Domestic Fixed Income Securities	436,287,974	467,101,261
International Fixed Income Securities	105,864,071	105,339,536
Domestic Equities	1,186,410,335	962,649,487
International Equities	548,416,694	462,362,243
Real Estate	166,154,482	146,917,122
Private Equities	92,928,980	29,391,052
Risk Parity	157,087,741	164,953,605
Hedge Funds	82,028,500	69,213,680
Commodities	75,979,555	79,365,774
Held for Securities Lending	0	0
Other Investment	0	0
	<u>2,851,158,332</u>	<u>2,487,293,760</u>
FIXED ASSETS	0	0
LESS ACCUMULATED DEPRECIATION	0	0
	<u>0</u>	<u>0</u>
TOTAL ASSETS	<u>3,187,657,381</u>	<u>2,856,895,750</u>
LIABILITIES		
Investment Management Fees	2,789,544	2,444,446
Due to Broker for Investments Purchased	144,571,023	140,566,542
Collateral Payable for Securities Lending	137,325,016	176,187,904
Other	784,573	724,374
TOTAL LIABILITIES	<u>285,470,156</u>	<u>319,923,265</u>
NET POSITION RESTRICTED FOR PENSIONS	<u>2,902,187,225</u>	<u>2,536,972,485</u>

10/29/2013

San Mateo County Employees' Retirement Association
Statement of Changes in Fiduciary Net Position - YTD Comparative
September 2013
Preliminary

	September 2013	September 2012	
ADDITIONS			
CONTRIBUTIONS			
Employer Contribution	72,472,565	71,532,537	940,028
Employee Contribution	9,428,964	10,389,152	<u>(960,189)</u>
TOTAL CONTRIBUTIONS	<u>81,901,529</u>	<u>81,921,690</u>	<u>(20,161)</u>
INVESTMENT INCOME			
Interest and Dividends	11,791,538	11,774,176	17,362
Net Appreciation (Depreciation) in fair value of investments	125,669,243	126,557,953	<u>(888,711)</u>
Less Investment Expense	<u>(4,028,410)</u>	<u>(4,763,038)</u>	734,628
Less Asset Management Expense	0	0	0
NET INVESTMENT INCOME	<u>133,432,370</u>	<u>133,569,091</u>	<u>(136,721)</u>
SECURITIES LENDING INCOME			
Earnings	57,033	141,267	<u>(84,234)</u>
Less: Securities Lending Expenses	<u>25,956</u>	<u>80,481</u>	<u>(54,524)</u>
NET SECURITIES LENDING INCOME	<u>82,990</u>	<u>221,748</u>	<u>(138,758)</u>
OTHER ADDITIONS	<u>7,879</u>	<u>917,277</u>	<u>(909,398)</u>
TOTAL ADDITIONS	<u>215,424,768</u>	<u>216,629,805</u>	<u>(1,205,037)</u>
DEDUCTIONS			
ASSOCIATION BENEFITS			
Service Retirement Allowance	34,299,537	32,370,667	1,928,869
Disability Retirement Allowance	4,613,598	4,063,922	549,676
Survivor, Death and Other Benefits	173,122	366,923	<u>(193,801)</u>
TOTAL ASSOCIATION BENEFITS	<u>39,086,257</u>	<u>36,801,512</u>	<u>2,284,745</u>
REFUND OF MEMBER CONTRIBUTIONS	<u>833,839</u>	<u>2,119,963</u>	<u>(1,286,125)</u>
ADMINISTRATIVE EXPENSE	<u>1,121,730</u>	<u>1,021,223</u>	<u>100,506</u>
OTHER EXPENSE	<u>21,050</u>	<u>18,275</u>	<u>2,775</u>
TOTAL DEDUCTIONS	<u>41,062,875</u>	<u>39,960,974</u>	<u>1,101,901</u>
NET INCREASE	<u>174,361,893</u>	<u>176,668,831</u>	<u>(2,306,939)</u>
Net Position Restricted for Pensions			
Beginning of Period	2,727,825,332	2,360,303,654	
End of Period	2,902,187,225	2,536,972,485	

10/29/2013

San Mateo County Employees' Retirement Association
 CHANGES IN FIDUCIARY NET POSITION - TRAILING THREE MONTHS
 For the Month Ending September 30, 2013
 PRELIMINARY

	July 2013	August 2013	September 2013	YTD
ADDITIONS				
CONTRIBUTIONS				
Employee Contribution	2,559,300	3,414,941	3,454,722	9,428,964
Employer Contributions - Regular	5,387,029	7,274,444	7,364,919	20,026,392
Employer Contributions - COLA	3,079,236	4,083,674	4,118,952	11,281,862
Employer Prefunded Contribution	63,916,571	(11,304,718)	(11,447,540)	41,164,312
TOTAL CONTRIBUTIONS	74,942,135	3,468,341	3,491,053	81,901,529
INVESTMENT INCOME				
Interest and Dividends	2,491,294	3,491,619	5,808,624	11,791,538
Net Appreciation (Depreciation) in fair value of investments	87,446,254	(47,557,183)	85,788,051	125,677,122
Securities Lending Income	19,682	18,143	19,208	57,033
Other Additions	0	0	0	0
Other Investment Related Expense	(241,248)	(299,318)	(149,918)	(690,484)
Securities Lending Expense	6,434	7,355	12,167	25,956
TOTAL ADDITIONS	164,664,551	(40,871,042)	94,969,184	218,762,694
DEDUCTIONS				
ASSOCIATION BENEFITS				
Retiree Annuity	2,992,088	3,038,393	3,059,110	9,089,591
Retiree Pension	6,926,721	7,067,925	7,152,258	21,146,903
Retiree COLA	2,960,035	2,942,052	2,939,019	8,841,106
Retiree Death and Modified Work Benefit	2,886	2,886	2,886	8,657
Active Member Death Benefit	0	0	0	0
Voids and Reissue	0	0	0	0
TOTAL ASSOCIATION BENEFITS	12,881,729	13,051,256	13,153,272	39,086,257
REFUND OF MEMBER CONTRIBUTIONS	258,672	158,915	416,252	833,839
ACTUARIAL FEES				
CONSULTANT FEES - INVESTMENT (SIS)	1,250	1,250	56,250	58,750
CUSTODIAN FEES - STATE STREET	33,333	66,667	0	100,000
CASH OVERLAY MANAGEMENT FEE - CLIFTON GROUP	15,351	15,089	13,956	44,396
OTHER PROFESSIONAL FEES	0	0	21,750	21,750
INVESTMENT MANAGEMENT FEE - R1000 INDEX	7,500	7,500	0	15,000
INVESTMENT MANAGEMENT FEE - ABERDEEN	10,262	9,947	10,354	30,563
INVESTMENT MANAGEMENT FEE - PYRAMIS	0	0	0	0
INVESTMENT MANAGEMENT FEE - ANGELO GORDON STAR	19,455	19,348	19,562	58,365
INVESTMENT MANAGEMENT FEE - BROWN BROTHERS	0	0	0	0
INVESTMENT MANAGEMENT FEE - BRIGADE CAPITAL	9,764	9,605	9,795	29,163
INVESTMENT MANAGEMENT FEE - FRANKLIN TEMPLETON	39,703	39,724	35,367	114,794
INVESTMENT MANAGEMENT FEE - CHARTWELL	38,189	37,425	38,657	114,272
INVESTMENT MANAGEMENT FEE - D E SHAW	67,603	67,264	71,039	205,906
INVESTMENT MANAGEMENT FEE - BARROW HANLEY	63,993	61,625	56,686	182,304
INVESTMENT MANAGEMENT FEE - THE BOSTON COMPANY	61,059	59,327	61,918	182,304
INVESTMENT MANAGEMENT FEE - BROWN ADVISORY	73,225	69,841	75,823	218,889
INVESTMENT MANAGEMENT FEE - MONDRIAN	39,173	72,450	57,986	169,608
INVESTMENT MANAGEMENT FEE - PYRAMIS SELECT	33,532	29,008	35,707	98,247
INVESTMENT MANAGEMENT FEE - EATON VANCE	42,745	41,625	45,241	129,611
INVESTMENT MANAGEMENT FEE - BAILLIE GIFFORD	47,869	54,182	54,182	156,234
INVESTMENT MANAGEMENT FEE - WESTERN ASSET	70,900	69,954	74,706	215,560
INVESTMENT MANAGEMENT FEE - INVESCO CORE	18,941	27,012	27,248	73,201
INVESTMENT MANAGEMENT FEE - SHERIDAN PRODUCTIONS	51,493	51,493	73,047	176,033
INVESTMENT MANAGEMENT FEE - ABRY ADVANCED	0	0	0	0
INVESTMENT MANAGEMENT FEE - ABRY PARTNERS	108,477	0	0	108,477
INVESTMENT MANAGEMENT FEE - REGIMENT	0	0	44,036	44,036
INVESTMENT MANAGEMENT FEE - GENERAL CATALYST	0	0	0	0
INVESTMENT MANAGEMENT FEE - SYCAMORE PARTNERS	0	61,880	0	61,880
INVESTMENT MANAGEMENT FEE - ENCAP	141,083	0	0	141,083
INVESTMENT MANAGEMENT FEE - CEVIAN CAPITAL	0	0	0	0
INVESTMENT MANAGEMENT FEE - WARBURG PINCUS	0	0	37,500	37,500
INVESTMENT MANAGEMENT FEE - AQR GLOBAL RISK PARIT	0	66,012	34,518	100,530
INVESTMENT MANAGEMENT FEE - AQR DELTA FUND	0	0	0	0
INVESTMENT MANAGEMENT FEE - SSGA MULTISOURCE	52,481	53,149	53,149	158,779
TOTAL PROFESSIONAL FEE	1,144,692	1,083,279	1,109,956	3,337,926
ADMIN EXPENSE - SALARIES & BENEFITS	217,918	263,935	270,513	752,366
ADMIN EXPENSE - SERVICES & SUPPLIES	142,768	111,602	114,993	369,363
TOTAL ADMINISTRATIVE EXPENSES	360,686	375,537	385,506	1,121,730
INTEREST FOR PREPAID CONTRIBUTION	0	0	0	0
OTHER DEDUCTIONS	(3,099)	13,577	10,572	21,050
TOTAL DEDUCTIONS	14,642,680	14,682,563	15,075,558	44,400,801
NET INCREASE	150,021,871	(55,553,606)	79,893,627	174,361,893

San Mateo County Employees' Retirement Association
Statement of Fiduciary Net Position - Monthly Comparative
For the Month Ending September 30, 2013

	September 2013	August 2013	Increase/(Decrease)	% of Incr/Decr
ASSETS				
CASH AND CASH EQUIVALENTS	51,703,536	59,877,846	(8,174,310)	-13.65%
CASH MANAGEMENT OVERLAY	7,270,066	6,962,547	307,519	4.42%
SECURITIES LENDING CASH COLLATERAL	137,325,016	128,432,517	8,892,499	6.92%
TOTAL CASH	196,298,617	195,272,909	718,189	0.37%
RECEIVABLES				
Contributions	0	0	0	N/A
Due from Broker for Investments Sold	134,919,935	147,394,285	(12,474,350)	-8.46%
Investment Income	5,130,435	4,545,304	585,131	12.87%
Securities Lending Income	29,100	23,224	5,876	25.30%
Other Receivable	113,293	113,343	(50)	-0.04%
TOTAL ACCOUNTS RECEIVABLES	140,192,762	152,076,156	(11,883,394)	-7.81%
PREPAID EXPENSE	7,669	7,669	0	0.00%
INVESTMENTS AT FAIR VALUE				
Domestic Fixed Income Securities	436,287,974	430,595,412	5,692,562	1.32%
International Fixed Income Securities	105,864,071	109,508,715	(3,644,644)	-3.33%
Domestic Equities	1,186,410,335	1,137,286,265	49,124,070	4.32%
International Equities	548,416,694	514,804,428	33,612,266	6.53%
Real Estate	166,154,482	166,154,482	0	0.00%
Private Equity	92,928,980	90,957,459	1,971,521	2.17%
Risk Parity	157,087,741	157,087,741	0	0.00%
Hedge Funds	82,028,500	82,028,500	0	0.00%
Commodities	75,979,555	78,030,158	(2,050,604)	-2.63%
Held for Securities Lending	0	0	0	N/A
Other Investment	0	0	0	N/A
	2,851,158,332	2,766,453,160	84,705,172	3.06%
FIXED ASSETS	0	0	0	N/A
LESS ACCUMULATED DEPRECIATION	0	0	0	N/A
	0	0	0	0.00%
TOTAL ASSETS	3,187,657,381	3,113,809,894	73,539,968	2.36%
LIABILITIES				
Investment Management Fees	2,789,544	1,989,565	799,979	40.21%
Due to Broker for Investments Purchased	144,571,023	160,432,209	(15,861,186)	-9.89%
Collateral Payable for Securities Lending	137,325,016	128,432,517	8,892,499	6.92%
Other	784,573	662,005	122,568	18.51%
TOTAL LIABILITIES	285,470,156	291,516,296	(6,046,140)	-2.07%
NET POSITION RESTRICTED FOR PENSIONS	2,902,187,225	2,822,293,598	79,586,108	2.82%

San Mateo County Employees' Retirement Association
Statement of Changes in Fiduciary Net Position - Monthly Comparative
For the Month Ending September 30, 2013

	September 2013	August 2013	Increase/Decrease
ADDITIONS			
CONTRIBUTIONS			
Employer Contribution	72,472,565	72,436,235	36,331
Employee Contribution	9,428,964	5,974,241	3,454,722
TOTAL CONTRIBUTIONS	<u>81,901,529</u>	<u>78,410,476</u>	<u>3,491,053</u>
INVESTMENT INCOME			
Interest and Dividends	11,791,538	5,982,913	5,808,624
Net Appreciation (Depreciation) in fair value of investments	125,669,243	39,880,434	85,788,809
Less Investment Expense	(4,028,410)	(2,768,536)	(1,259,874)
Less Asset Management Expense	0	0	0
NET INVESTMENT INCOME	<u>133,432,370</u>	<u>43,094,811</u>	<u>90,337,559</u>
SECURITIES LENDING INCOME			
Earnings	57,033	37,825	19,208
Less: Securities Lending Expenses	25,956	13,790	12,167
NET SECURITIES LENDING INCOME	<u>82,990</u>	<u>51,615</u>	<u>31,375</u>
OTHER ADDITIONS			
	7,879	8,637	(758)
TOTAL ADDITIONS	<u>215,424,768</u>	<u>121,565,539</u>	<u>93,859,229</u>
DEDUCTIONS			
ASSOCIATION BENEFITS			
Service Retirement Allowance	34,299,537	22,851,254	11,448,283
Disability Retirement Allowance	4,613,598	2,965,634	1,647,964
Survivor, Death and Other Benefits	173,122	116,097	57,026
TOTAL ASSOCIATION BENEFITS	<u>39,086,257</u>	<u>25,932,985</u>	<u>13,153,272</u>
REFUND OF MEMBER CONTRIBUTIONS	833,839	417,586	416,252
ADMINISTRATIVE EXPENSE	1,121,730	736,223	385,506
OTHER EXPENSE	21,050	10,478	10,572
TOTAL DEDUCTIONS	<u>41,062,875</u>	<u>27,097,273</u>	<u>13,965,602</u>
NET INCREASE	174,361,893	94,468,266	79,893,627
Net Position Restricted for Pensions			
Beginning of Period	2,822,293,598	2,727,825,332	
End of Period	2,902,187,225	2,822,293,598	

San Mateo County Employees' Retirement Association
Board of Retirement

October 29, 2013

Agenda Item 7.2

To: Board of Retirement

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

Subject: Preliminary 1st Quarter Budget Report

DISCUSSION

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

Professional Services Budget - Attachment One provides an overview of the accrued professional services expenditures. Investment management fees are driven by contractual agreements and based on total assets under management. Fees for the actuarial services, investment consulting services and global custodian services are based on services detailed in the contractual agreements. The preliminary annualized aggregate professional services fee as of September 30, 2013, is approximately 53.5 basis points versus the expected fee of 53.8 basis points. Actual to budget expenditures are on track as projected.

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

Attachment Two provides a review of the line item administrative appropriations versus the preliminary expenditures. Year-to-date through the first quarter, SamCERA expended 17.9% of the approved appropriations. Under **Salaries & Benefits** SamCERA budgets all positions and benefits. Under **Services & Supplies** the association budgets all overhead and operational expenditures. This year's budget has not allocated any appropriation for **Capital Assets**.

SamCERA's Administrative Budget

	Adopted Budget	YTD Preliminary
Salaries & Benefits	\$4,068,503	\$752,366
Services & Supplies	\$1,464,537	\$239,209
Capital Assets	\$ 0	\$ 0
Total	\$5,533,040	\$991,576

Attachment Three provides a review of the line item technology appropriations versus the preliminary expenditures. Staff has selected LRWL, Inc. as the consultant to assist *SamCERA* in its information technology modernization project and BCS Systems, Inc. for electronic content management project. Work is progressing on both projects and expenses will be realized on appropriations that fall under IT Infrastructure.

SamCERA's Technology Budget

	Adopted Budget	YTD Preliminary
Property & Equipment	\$78,000	\$0
IT Infrastructure	\$2,073,200	\$130,154
Capital Asset	<u>\$1,200,000</u>	<u>\$0</u>
	\$3,351,200	\$130,154

San Mateo County Employees' Retirement Association
Board of Retirement

October 29, 2013
 Attachment One

Fourth Quarter Analysis
 9-30-2013

Agenda Item 7.2

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

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

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

CONTRACTOR	SERVICE	FEE ⁽¹⁾	2013-2014 YTD EXPENSE (ACCRUED)	2013-2014 ESTIMATE
Milliman	Actuarial Consulting	0.4 bps	\$58,750	\$105,500
Strategic Investment Solutions	Investment Consulting	1.4 bps	\$100,000	\$400,000
State Street Bank & Trust	Global Custody	0.6 bps	\$44,396	\$200,000
SUB-TOTAL NON INVESTMENT MANAGER CONTRACTUAL FEES			\$203,146	\$705,500
<i>Estimated Market Value 06-30-2014</i>			\$2.9 Billion	\$2.9 Billion
Average Basis Points ⁽²⁾			2.4 bps	2.4 bps

- (1) The Actuary, Custodian and Investment Consultant are compensated on a flat fee basis. Fees on this schedule are expressed in basis points (or fractions thereof) and utilize total assets while the Investment Manager calculations utilize assets under management.
- (2) The calculation utilizes an average market value of \$2.9 billion

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

CONTRACTOR	SERVICE	FEE ⁽¹⁾	2013-2014 YTD EXPENSE (ACCRUED)	2013-2014 ESTIMATE
BGI – S&P 500 Index Fund	Domestic Large Cap Equity	2.5 bps	\$30,563	\$140,000
D.E. Shaw Investment Management, LLC	Domestic Large Cap Enhanced	49.2 bps	\$190,717	\$760,000
Barrow, Hanley, Mewhinney & Strauss	Domestic Large Cap Value	44.5 bps	\$182,304	\$700,000
Brown Advisory	Domestic Large Cap Growth	43.9 bps	\$169,608	\$700,000
The Boston Company	Domestic Small Cap Equity	82.4 bps	\$218,889	\$860,000
Chartwell Investment Partners	Domestic Small Cap Equity	75.0 bps	\$205,906	\$780,000
Baillie Gifford	International Equity	46.8 bps	\$215,560	\$880,000
Eaton Vance - Parametric	International Equity	105.0 bps	\$169,446	\$720,000
Mondrian Investment Partners	International Equity	38.5 bps	\$95,608	\$360,000
Pyramis Global Advisors	International Equity	90.0 bps	\$129,611	\$540,000
Pyramis Global Advisors	Domestic Fixed Income	16.0 bps	\$58,365	\$240,000
Western Asset Management	Domestic Fixed Income	27.8 bps	\$81,386	\$340,000
Angelo Gordon (STAR)	Domestic Fixed Income	150.0 bps	\$131,250 ⁽³⁾	\$520,000
Brigade Capital Management	Domestic Fixed Income	45.0 bps	\$114,794	\$480,000
Brown Brothers Harriman	Domestic Fixed Income	15.0 bps	\$29,163	\$120,000
Franklin Templeton	Global Fixed Income	38.4 bps	\$114,272	\$480,000
ABRY ASF II	Private Equity	N/A	\$108,477	\$400,000
ABRY Partners VII	Private Equity	N/A	\$44,036	\$200,000
Cevian Capital	Private Equity	N/A	\$100,530	\$400,000
Emergence Capital	Private Equity	N/A	\$50,000 ⁽³⁾	\$200,000
EnCap	Private Equity	N/A	\$37,500 ⁽³⁾	\$150,000
General Catalyst	Private Equity	N/A	\$61,880	\$250,000
Regiment	Private Equity	N/A	\$75,000 ⁽³⁾	\$300,000
Sycamore	Private Equity	N/A	\$141,083	\$375,000
Sheridan Production Partners	Private Equity	N/A	\$75,000 ⁽³⁾	\$300,000
Warburg Pincus	Private Equity	N/A	\$140,000 ⁽³⁾	\$560,000
Third Rock Ventures III	Private Equity	N/A	\$62,500	\$250,000
AQR Risk Parity	Risk Parity	N/A	\$158,779	\$730,000
AQR Delta Hedge Fund	Hedge Fund	N/A	\$200,790	\$770,000
SSGA- SSARIS Multisource Commodities	Commodities	N/A	\$89,902	\$470,000
INVESCO Realty Advisors	Real Estate Management	42.4 bps	\$176,033	\$800,000
The Clifton Group	Cash Management Overlay	12.0 bps	\$21,750	\$150,000
SUB-TOTAL INVESTMENT MANAGERS			\$3,680,702	\$14,925,000
Average Basis Points ⁽¹⁾			50.7 bps	51.4 bps
SUB-TOTAL NON- INVESTMENT MANAGERS (FROM PREVIOUS PAGE)			\$203,146	\$705,500
Average Basis Points ⁽²⁾			2.4 bps	2.4 bps
TOTAL ESTIMATED CONTRACT FEES			\$3,883,848	\$15,630,500
<i>Estimated Market Value 06-30-2014</i>			\$2.9 Billion	\$2.9 Billion
Average Basis Points ⁽²⁾			53.5 bps	53.8 bps

- (1) The Actuary, Custodian and Investment Consultant fees expressed in basis points utilize total assets while the Investment Manager calculations utilize assets under management.
- (2) The calculation utilizes an average market value of \$2.9 billion
- (3) Management fees for investment managers that provide quarterly statements are expressed as estimates until quarterly statements are received and booked in SamCERA's financials. Statements have not been received as of the date of the mailing.

SamCERA's
Administrative Budget
Fiscal Year 2013-2014
1st Quarter
as of September 30, 2013
PRELIMINARY
ATTACHMENT II

	Budget Allotment (as Amended)	Year to Date Expenditures	Percentage Expended	Remaining Balance	Remaining Percentage
Salaries	\$2,607,570	\$473,724	18.2%	\$2,133,846	81.8%
Benefits	\$1,460,933	\$278,642	19.1%	\$1,182,291	80.9%
Salaries & Benefits	\$4,068,503	\$752,366	18.5%	\$3,316,137	81.5%
Board Expense	\$10,500	\$1,900	18.1%	\$8,600	81.9%
Insurance	\$80,000	\$19,975	25.0%	\$60,025	75.0%
Medical Evaluation	\$100,000	\$13,311	13.3%	\$86,689	86.7%
Member Education	\$45,000	-\$100	-0.2%	\$45,100	100.2%
Education & Conference	\$97,215	\$23,759	24.4%	\$73,456	75.6%
Transportation and Lodging	\$177,750	-\$650	-0.4%	\$178,400	100.4%
Property & Equipment	\$24,000	\$3,920	16.3%	\$20,080	83.7%
General Office Supplies	\$33,500	\$5,701	17.0%	\$27,799	83.0%
Postage & Printing	\$125,000	\$12,595	10.1%	\$112,405	89.9%
Leased Facilities	\$367,794	\$76,910	20.9%	\$290,884	79.1%
County Services	\$358,278	\$74,896	20.9%	\$283,382	79.1%
Audit Services	\$45,500	\$6,992	15.4%	\$38,508	84.6%
Other Administration	\$0	\$0	0.0%	\$0	0.0%
Services & Supplies	\$1,464,537	\$239,209	16.3%	\$1,225,328	83.7%
Capital Assets	\$0	\$0	0.0%	\$0	0.0%
Depreciation		\$0			
Grand Total	\$5,533,040	\$991,576	17.9%	\$4,541,464	82.1%

SamCERA's
Information Technology Budget
Fiscal Year 2013-2014
1st Quarter
as of September 30, 2013
PRELIMINARY
ATTACHMENT III

	Budget Allotment (as Amended)	Year to Date Expenditures	Percentage Expended	Remaining Balance	Remaining Percentage
Property & Equipment	\$78,000	\$0	0.0%	\$78,000	100.0%
IT Infrastructure	\$2,073,200	\$130,154	6.3%	\$1,943,046	93.7%
Capital Assets	\$1,200,000	\$0	0.0%	\$1,200,000	100.0%
IT Total	\$3,351,200	\$130,154	\$0	\$3,221,046	96.1%

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

October 29, 2013

Agenda Item 7.3

To: Board of Retirement



From: Mabel Wong, Finance Officer

Subject: Approval of Financial Audit Management Reports for the Fiscal Year Ended June 30, 2013

Staff Recommendation

Approve the auditor's report on the financial audit for the period ended June 30, 2013.

Summary

Attached to this agenda item are presentation materials for the audit review. Immediately following this cover memorandum is an agenda that **Andrew J. Paulden** will employ as he reviews with the Board the following reports:

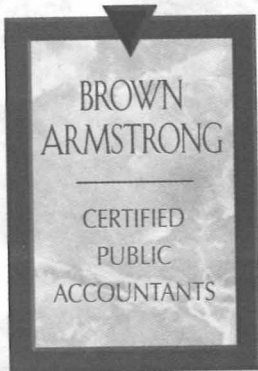
1. Independent Auditor's Report
2. Required Communications to the Members of the Board of Retirement in Accordance with Professional Standards
3. Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Governmental Auditing Standards.
4. Agreed Upon Conditions Report Designed to Increase Efficiency, Internal Controls and/or Financial Reporting.

The Independent Auditor's Draft Report... provides an unqualified opinion. It states, "In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of SamCERA as of June 30, 2013, and 2012, and its changes in fiduciary net position for the year then ended in conformity with accounting principles generally accepted in the United States of America."

The Required Communications to the Board of Retirement ... in accordance with professional standards provides an overview of the auditor's responsibility under the U.S. Generally Accepted Auditing Standards. The report goes on to provide the reader with useful information to assist in understanding the audit process and accounting policies utilized to complete the audit.

In the Independent Auditor's Report on Internal Control over Financial Reporting..., the auditor notes no instances of noncompliance that are required to be reported under Government Auditing Standards. The auditor also notes no matters involving the internal control over financial reporting and its operation that they consider to be material weaknesses.

The Agreed Upon Conditions Report to Management... is designed to increase efficiency, internal controls and/or financial reporting. There is no finding in the current year. Resolution to two prior year findings have been implemented, there is no further action to be taken on the last item.



BROWN ARMSTRONG

Certified Public Accountants

San Mateo County Employees' Retirement Association
Board of Retirement presentation
of the June 30, 2013 audit results
By: Andrew J. Paulden, CPA
Brown Armstrong Accountancy Corporation
Date: October 29, 2013

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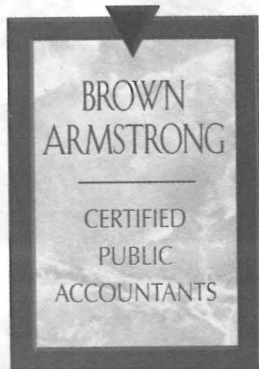
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1. Purpose of the Audit
2. The Audit Process
 - a. Timeline coordination with SamCERA staff
 - b. Understanding and evaluation of SamCERA internal controls through inquiry and observation
 - c. Confirmations with independent third parties
 - d. Interim testing
 - e. Final fieldwork testing
 - f. Report presentation
3. Significant Audit Areas/Scope of Audit Work
 - a. Risk based approach
 - b. Investments and related earnings
 - c. Participant data and actuarial information
 - d. Employee and employer contributions
 - e. Benefit payments
4. Audit Reports
 - a. Types of audit opinions
 - b. CAFR
 - i. Independent Auditor's Report (opinion) on Financial Statements – unmodified (“clean”) opinion
 - c. Report to the Board of Retirement
 - i. Required Communication to the Members of the Board of Retirement in Accordance with Professional Standards
 - ii. Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
 - iii. Agreed Upon Conditions Report Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting
5. Financial Statement Highlights
6. Questions and/or Comments?



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



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Retirement
San Mateo County Employees' Retirement Association

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the San Mateo County Employees' Retirement Association (SamCERA) as of June 30, 2013 and 2012, the Statement of Changes in Fiduciary Net Position for the years then ended, and the related notes to the financial statements, which collectively comprise SamCERA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Certified Public Accountants

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of SamCERA as of June 30, 2013 and 2012, and its changes in fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2013, SamCERA implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which modified the current financial reporting of those elements. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, on our consideration of SamCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SamCERA's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 21, 2013

**SAN MATEO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

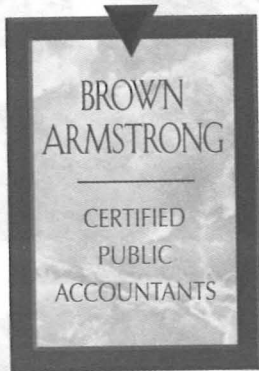
REPORT TO THE BOARD OF RETIREMENT

FOR THE YEAR ENDED JUNE 30, 2013

**SAN MATEO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

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BROWN ARMSTRONG

Certified Public Accountants

REQUIRED COMMUNICATION TO THE MEMBERS OF THE BOARD OF RETIREMENT IN ACCORDANCE WITH PROFESSIONAL STANDARDS

To the Board of Retirement of the
San Mateo County Employees' Retirement Association

We have audited the financial statements of the San Mateo County Employees' Retirement Association (SamCERA) for the year ended June 30, 2013, and have issued our report dated October 21, 2013. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 27, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by SamCERA are described in Note 2, Summary of Significant Accounting Policies, to the financial statements. As described in the notes to the financial statements, SamCERA implemented the following standard in 2013: Governmental Accounting Standards Board (GASB) Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. We noted no transactions entered into by SamCERA during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting SamCERA's financial statements was the fair market value of investments:

Management's estimate of the fair market value of investments was derived by various methods as detailed in Note 2, Summary of Significant Accounting Policies. We evaluated the key factors and assumptions used to develop the fair market value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosures for deposits and investments in Notes 2 and 4 to the financial statements, Summary of Significant Accounting Policies and Deposits and Investment Risk Disclosures, respectively, were derived from SamCERA's investment policy. Management's estimate of the fair market value of investments was derived by various methods as detailed in the notes.

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The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No such misstatements were identified.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 21, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to SamCERA's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as SamCERA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

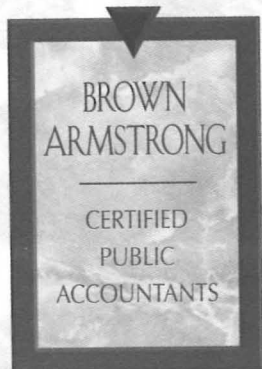
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Retirement and management of SamCERA and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 21, 2013



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Retirement of the
San Mateo County Employees' Retirement Association

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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the San Mateo County Employees' Retirement Association (SamCERA) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise SamCERA's basic financial statements, and have issued our report thereon dated October 21, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SamCERA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SamCERA's internal control. Accordingly, we do not express an opinion on the effectiveness of SamCERA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether SamCERA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

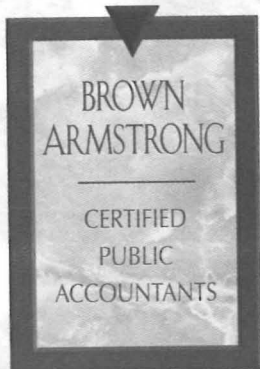
Purpose of this Report

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
October 21, 2013



BROWN ARMSTRONG

Certified Public Accountants

AGREED UPON CONDITIONS REPORT DESIGNED TO INCREASE EFFICIENCY, INTERNAL CONTROLS, AND/OR FINANCIAL REPORTING

To the Board of Retirement of the
San Mateo County Employees' Retirement Association

We have audited the financial statements of the San Mateo County Employees' Retirement Association (SamCERA) for the year ended June 30, 2013, and have issued our report dated October 21, 2013. In planning and performing our audit of the financial statements of SamCERA, we considered its internal control structure over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SamCERA's internal control. Accordingly, we do not express an opinion on the effectiveness of SamCERA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we considered to be material weaknesses.

Current Year Agreed Upon Conditions and Recommendations

There were no conditions in the current year.

Status of Prior Year Agreed Upon Conditions and Recommendations

Agreed Upon Condition 1 – Final Average Salary

During our recalculation of fifteen (15) retirees monthly benefit payments, we noted that one (1) member's final average salary used in the calculation of their base benefit payment was incorrect. This error resulted in an original discrepancy in monthly pension payment in the amount of \$3.36. SamCERA has contacted the member, notifying them that they had adjusted their pension accordingly with the member receiving their first corrected payment on their August 31st payment. The member has also received a one-time retro adjustment to cover the difference since they retired in 2002 in the amount of \$518.30.

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Recommendation

We recommend that management research this oversight further to determine if there could be other members with similar discrepancies in their final average salary.

Management Response

SamCERA recognizes the importance of using accurate highest final average compensation (FAC) in benefit calculations. A program upgrade was implemented in Pension Gold, the pension administration system, in March 2006 to allow staff to identify the highest FAC and associated period with a single click. We believe that retirees since March 2006 should not have any FAC issue.

Prior to 2006, impending retirees were asked during the retirement interview if they had earned a higher salary prior to the latest salary period, and staff would do additional research to determine the highest FAC. Management will conduct further research to determine if this was an isolated incident. The research will focus on retirees who retired between 1999 and March 2006, and retirees with variable earning codes, such as safety members in the selected sample. FAC and benefits for retirees in 1998 and prior were reviewed and adjusted in the Ventura settlement completed in March 2005. Management will work with the Board of Retirement's Audit Committee to review the results of research and plan any needed corrections.

Current Year Status

Additional research concluded that retirees' original FACs were accurate based on the software program, data available, and the law and procedure in place at the time of retirement. Later versions of the program with technology improvements provided more detailed information. The Board of Retirement decided to take no further action on this matter.

Agreed Upon Condition 2 – Current Year Retirees

The County Employees Retirement Law of 1937 notes that a participant must "file with the board a written application setting forth the date upon which he or she desires his or her retirement to become effective which shall be not more than 60 days after the date of filing the application." During our testing of twenty-eight (28) current year retirees, we noted thirteen (13) participants whose applications for retirement were not submitted within 60 days.

Recommendation

We recommend that SamCERA management create procedures to ensure that all applications for retirement are submitted to the Board of Retirement in accordance with the requirements of the County Employees Retirement Law of 1937.

Management Response

SamCERA's Benefits Division has taken steps to ensure that it is in compliance with the County Employees Retirement Law of 1937 with regards to the 60-Day submission timeframe of when a member can file his/her retirement application with SamCERA.

The actions taken were:

- Creating a new retirement application, which states on the form that a member's retirement date must be no more than 60 days after the date the form is filed.
- Updating the retirement counseling check-off list so that members are informed about this provision during their one-on-one retirement counseling sessions.
- Updating SamCERA's communication booklets such as the Ready to Retire booklet.
- Adding an additional step in the retirement application review process to ensuring compliance with the 60-Day government code provision

Current Year Status

SamCERA has implemented the actions as noted above.

Agreed Upon Condition 3 – Journal Entry Review and Authorization

During our testing of ten (10) journal entries, we noted that four (4) entries had no indication of a secondary review performed by a supervisor, other than the preparer, prior to posting to the accounting system.

Recommendation

We recommend that management enforce journal entry authorization policy so that all journal entries that are entered into the accounting system have been approved and authorized by a supervisor that was not responsible for preparing the journal entry. Also, a hard copy should be maintained on file with both the preparer and the supervisor's signature.

Management Response

SamCERA's management will ensure that all journal entries entered into Great Plains have been reviewed and approved by the department's approving supervisor. The preparer's initial will also be included on each journal entry.

We note that the financial statements go through multiple review and accounts are reconciled to various secondary sources before the preliminary financial statements are presented to the Board of Retirement. The Senior Accountant prepares several preliminary account reconciliations to ensure that the preliminary numbers are sound. The Finance Officer reviews the financials and signs off on the financial board agenda item. The Senior Accountant, the Investment Analyst, and the Finance Officer are aware of any issues encountered in the month that affect the financials. If there is a material item that impacts the monthly financial report, the AEO and CEO are also advised.

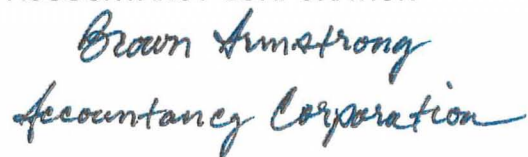
The review of the monthly journal entries is important and we will ensure that all journal entries have supervisory approval. However, several reviews are done at a higher level to ensure that the preliminary financials produced are accurate.

Current Year Status

Management changed the procedure for journal entry review. The Finance Officer reviews and signs off on the transaction list, not each individual journal entry. This ensures that the actual posted journal entries are reviewed. The journal entry folder with support documents is available with the transaction list for additional details.

This report is intended solely for the information and use of the Board of Retirement and management of SamCERA and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation".

Bakersfield, California
October 21, 2013

San Mateo County Employees' Retirement Association
The Board of Retirement

October 29, 2013

Agenda Item 7.4

To: Board of Retirement

From: Mabel Wong, Finance Officer



Subject: Approval of SamCERA's *Comprehensive Annual Financial Report* for the Fiscal Year ended June 30, 2013

Staff Recommendation

Approve SamCERA's *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2013.

Background

Attached is a soft copy of the final draft of the *Comprehensive Annual Financial Report* (CAFR) for the period ended June 30, 2013, for your review and approval. The Pigeon Point Lighthouse, the basis of SamCERA's new logo, is highlighted in this year's CAFR. Staff and management wish to thank SamCERA's Communications Specialist, Colin Bishop, for his persistent efforts in refining the look and feel of the CAFR.

For the sixteenth consecutive year, the Government Finance Officers Association (GFOA) has awarded *SamCERA* its Certificate of Achievement for Excellence in Financial Reporting. This award is in recognition of *SamCERA's* Comprehensive Annual Financial Report for the year ended June 30, 2012.

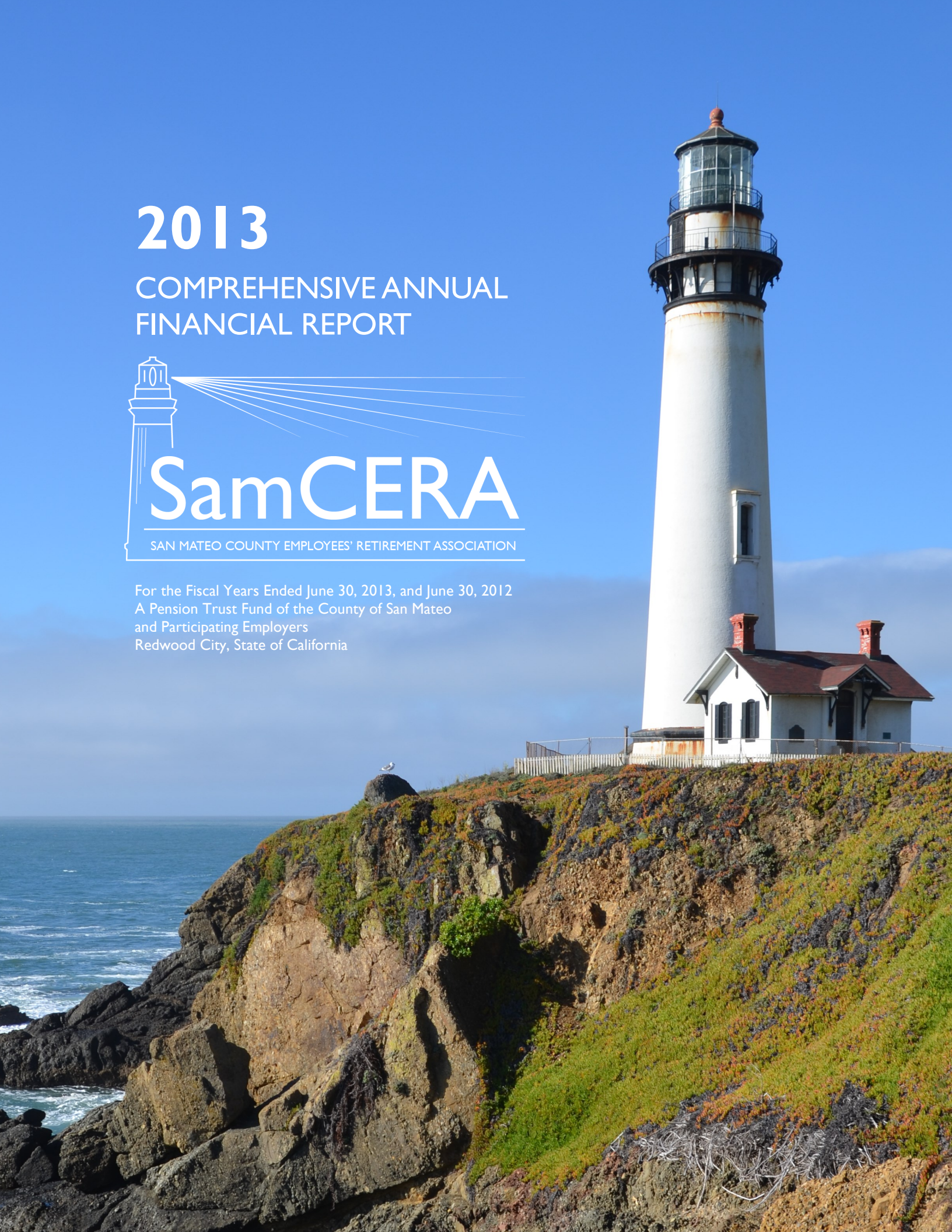
Staff will provide an oral report presenting the CAFR as a useful reference for trustees, staff, and interested parties. Staff will provide an overview of the six sections: Introductory, Financial, Investment, Actuarial, Statistical and Compliance.

2013

COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the Fiscal Years Ended June 30, 2013, and June 30, 2012
A Pension Trust Fund of the County of San Mateo
and Participating Employers
Redwood City, State of California



On the cover:
Pigeon Point Lighthouse
San Mateo County, California

San Mateo County Employees' Retirement Association
A Pension Trust Fund of the County of San Mateo and Participating Employers

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the years ended June 30, 2013, and June 30, 2012

C. David Bailey
Chief Executive Officer

Mabel Wong
Finance Officer

Michael Coultrip
Chief Investment Officer

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

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INTRODUCTORY SECTION



SAMCERA'S MISSION

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

SAMCERA'S GOALS

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

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

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

ADMINISTRATOR'S LETTER OF TRANSMITTAL



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C. David Bailey
SamCERA
Chief Executive Officer

Board of Retirement
San Mateo County Employees' Retirement Association

Dear Trustees:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the San Mateo County Employees' Retirement Association (SamCERA) for the fiscal years ending June 30, 2013, and June 30, 2012.

SamCERA's management is responsible for the accuracy of the data; the complete, full disclosure of all matters of material consequence and the fairness of the presentation. Management's discussion and analysis of the data may be reviewed on pages 27-37.

SamCERA's management is also responsible for establishing and maintaining appropriate internal controls designed to provide reasonable assurance that SamCERA's assets are protected from loss, theft, or misuse. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management. Sufficient internal controls

exist to provide reasonable assurance regarding the safekeeping of assets and the fair presentation of the financial statements and supporting schedules. As Chief Executive Officer, I hereby certify that SamCERA's system of internal controls is adequate and that this report accurately, completely, fully and fairly discloses all matters of material consequence.

The Brown Armstrong Accountancy Corporation provides audit services to SamCERA. The financial audit ensures that SamCERA's financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatements. Internal controls are reviewed to ensure that SamCERA's operating policies and procedures are being adhered to and that the controls are sufficient to ensure accurate and reliable financial reporting and to safeguard SamCERA's assets. This report has been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

SamCERA's financial statements are prepared on the accrual basis of accounting. Revenues are taken into account when earned, regardless of the date of collection. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Investments are reported at fair value. The Financial Section of this report contains

SamCERA's financial statements, required supplementary schedules, and supporting schedules.

SamCERA's funding goal is to prudently manage plan assets in order to appropriately fund the actuarial liabilities of the retirement system and assure the ability to pay all earned benefits while minimizing the costs to employers.

SamCERA engages an independent actuarial consulting firm, Milliman, Inc., to conduct an annual actuarial valuation of the plan. The purpose of the valuation is to reassess the magnitude of the benefit commitments in comparison with the assets expected to be available to support those commitments so that employer and employee contribution rates can be adjusted accordingly. Every third year SamCERA instructs its actuarial firm to perform an actuarial experience study. SamCERA strives to provide the most recent financial and actuarial data in its annual report. Therefore, the actuarial valuation of June 30, 2013, and the experience study of April 30, 2011, are used in this CAFR.

Authority, Responsibilities & Duties

SamCERA was created by the Board of Supervisors in 1944, pursuant to the provisions of California's County Employees Retirement Law of 1937 (the '37 Act) and County Ordinance 564.

SamCERA provides retirement, disability

and death benefits for its eligible members in accordance with the provisions of Section 17 of Article XVI of the Constitution of the State of California, the County Employees Retirement Law of 1937 commencing at Government Code Section 31450, the California Public Employees' Pension Reform Act of 2013 ("PEPRA") contained in Article 4 of Division 7, Title 1 (Commencing with Section 7522) of the Government Code and other applicable statutes, regulations and case law.

The Board of Retirement (Board) serves as fiduciary for all of SamCERA's members. The Board is responsible for administering the provisions of the '37 Act that the Board of Supervisors has made applicable to San Mateo County. The Board of Retirement has adopted its *Mission & Goals; Statement of Strategic Services; Regulations of the Board of Retirement; SamCERA's Investment Policy; SamCERA's Sources, Uses and Budget Report; Conflict of Interest Code; Code of Fiduciary Conduct* and *Delegation of Authority, et al* to document the Board's policies. In addition, the Board has executed contracts for the professional services of an actuary, investment consultant, investment managers, a global custodian and a medical advisor to help the Board fulfill its duties. The Board's professional consultants are highlighted in the organizational chart on page 22.

SamCERA's Chief Executive Officer (CEO) is responsible for the day-to-day operations

of the association. The CEO serves at the pleasure of the Board of Retirement and manages SamCERA's operations in accordance with the Board's *Delegation of Authority* and all applicable laws, regulations, resolutions and rules. SamCERA's staff of 21 full-time employees is responsible for assuring that the needs of the members, employers and Board are met in accordance with the high standards set forth in SamCERA's *Mission & Goals* statement. SamCERA's staff is sworn to carry out its fiduciary duties in accordance with staff's *Code of Fiduciary Conduct* and the staff's own high *Performance Standards*.

SamCERA's members include all permanent employees of the County of San Mateo, the San Mateo County Mosquito and Vector Control District, the Superior Court of the County of San Mateo, all vested former employees who elected deferred retirement, and all current retirees and benefit recipients. More than 85% of SamCERA's members are classified as General Members. General Members are covered by the applicable provisions set forth in the '37 Act and the laws and rules governing federal Social Security benefits. The remainder of SamCERA's members are law enforcement employees classified as Safety Members or Probation Safety Members. These members are covered by specific Safety Member provisions of the '37 Act but are not covered by Social Security.

Looking Backward and Forward

For a summary of SamCERA's recent fiscal year, I encourage you to review the following narrative introduction, as well as Management's Discussion and Analysis beginning on page 27.

Trustees

Each Board term is three years. The SamCERA Board of Retirement consists of nine members. Four positions are appointed by the Board of Supervisors. Four members are elected from the membership. The County Treasurer is a member of the Board by virtue of her office.

The officers for the Board of Retirement for the 2012-2013 fiscal year were **Sandie Arnott**, Chair; **Natalie Kwan Lloyd**, Vice Chair, and **Lauryn Agnew**, Secretary. Other members of the 2012-2013 Board were: **Albert David**, **Eric Tashman**, **Benedict J. Bowler**, **David Spinello**, **Paul Hackleman** and **Michal Settles**. Alternate trustees were **Christopher Miller**, Safety Alternate, and **John Murphy**, Retiree Alternate.

I note with sadness that **John Murphy** passed away following the last meeting of his term. In 2006, Mr. Murphy was the first Retired Alternate ever appointed by the Retirement Board. He was elected to the position in 2007 and again in 2010. He spent many years prior to his appointment attending Retirement Board meetings and supporting his fellow SamCERA retirees.

Elections

The County Elections Division conducted an election on behalf of the retirement association on June 10, 2013, for the General Member seat, the Retired Member seat, and the Retired Alternate seat.

Natalie Kwan Lloyd, a Senior Appraiser in the San Mateo County Assessor's Office, was reelected to the General Member seat. She joined the Board in July 2008 to serve out the unexpired term of Tom Bryan. **Paul Hackleman**, who served as the County Benefits Manager from 1982 through March 2008, was reelected to the Retired Member seat. He also served on the Retirement Board while actively employed, from June 2005 through March 2008. Mr. Hackleman is the head of I.C. Benefits Consulting. **Alma Salas** ran unopposed for the Retiree Alternate seat, so she was automatically deemed elected. Ms. Salas was a Probation Services Manager with the San Mateo County Probation Department before her retirement in March 2013. During her career she served on the Board for 11 years beginning in May of 2001, and served as Board Chair during the 2004-05 fiscal year.

Investments

Following a flat investment return from the previous fiscal year, SamCERA's portfolio returned a healthy 13.6% (net of investment management fees) for fiscal year 2012-2013. The fund benefitted from the rally in global equity markets to beat the policy benchmark return of 12.8%.

The Board of Investments annually reviews an Investment Policy that provides a framework for the management of SamCERA's investments. This policy details SamCERA's investment policies and objectives and defines the principal investment responsibilities of the Board, the investment staff, investment managers, master custodian, and consultants. A pension fund's strategic asset allocation policy, implemented in a consistent and disciplined manner, is generally recognized to have the most impact on a fund's investment performance. The asset allocation process determines a fund's optimal long-term asset mix (target allocation), which is expected to achieve a specific set of investment objectives. Diversification of the investments is designed to lower the volatility of returns while optimizing the expected return for the level of risk taken. SamCERA pursues an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

Working with its investment consulting firm Strategic Investment Solutions, Inc. and Chief Investment Officer **Michael Coultrip**, the Retirement Board restructured its domestic equity portfolio during the 2012-2013 fiscal year by reducing the number of active managers and increasing the passive allocation in the core large-capitalization segment of the market. Brown Advisory was selected by the Board to manage a large-

capitalization growth mandate.

In its fixed income portfolio, SamCERA simplified its core domestic bond portfolio by reducing the number of active managers and reallocating the proceeds to two existing managers. SamCERA also re-upped with Angelo Gordon to fund an allocation to its opportunistic credit strategy.

Additionally, SamCERA hired The Clifton Group as a strategic overlay manager, in order to be more efficient in portfolio rebalancing activities. Meanwhile, the association continues to build out its private equity portfolio. The plan currently has commitments of \$183 million through eleven firms, diversified across venture capital, buyouts, and special situations. While SamCERA continued to build out its alternatives portfolio, the association began an asset liability modeling study in May 2013 to assess the tradeoffs between investment risk and expected returns.

Finally, SamCERA is in the process of rewriting its Investment Policy, to simplify it and remove unnecessary information.

Staffing

During the 2012-2013 fiscal year, the Board of Retirement approved an additional technology support position to help SamCERA move forward with its plans to

develop a replacement PASS (Pension Administration Software System), and implement a number of other new technology systems. This new position—the Network and Applications Engineer—was filled by **Edward Ick**. Three vacant positions were filled: Retirement Accountant was filled by **Susan Fong**, Retirement Accounting Technician by **Elena Ricevuto**, and the System and Web Engineer was filled by **Darius Nagal**.

Actuarial Valuation

In May of 2012, in consultation with its actuarial services consultant, Milliman, Inc., the SamCERA Retirement Board lowered its investment earnings assumption from 7.75% to 7.50%, beginning with the 2012-2013 fiscal year. The decision was based in part on a survey of the capital market projections of several top national investment-consulting firms. As a result of the change, employer contributions will increase by 1.15% beginning with the 2012 valuation effective July 1, 2013 for approximately \$1.7 million for the 2013-2014 fiscal year. SamCERA conducts an actuarial valuation every year and will continue to make the earnings assumption a focus of its annual actuarial work.

Legislation and Plan Changes

Fiscal year 2012-2013 marked the passage of PEPRA (the California Public Employees' Pension Reform Act, which includes Assembly Bills 340 and 197)—a major

pension law with broad effects on SamCERA's retirement plans. PEPRA was signed into law by Governor Jerry Brown on September 12, 2012, and took effect on January 1, 2013. PEPRA created a new plan for SamCERA members hired on or after January 1, 2013. New Safety and Probation members now go into a 2.7% @ 57 plan, and General members go into a 2% @ 62 plan. Safety and Probation members are eligible to retire at age 50 with 5 years of service, and General members can retire at age 52 with 5 years of service.

Employee contribution rates for the PEPRA plan are based on a member's status as General, Probation or Safety—and are not based on age-of-entry, as with earlier plans. This means that all General members pay the same contribution rate regardless of their age-of-entry. Additionally, members in the new plan have their Final Average Compensation (FAC) based on their highest three *consecutive* years of compensation, rather than the three highest years or year. PEPRA also places caps on the amount of pensionable compensation which can be used to calculate pension benefits for these new members. The cap is subject to annual adjustments based on inflation.

PEPRA also introduced new rules which apply to all SamCERA members. Some of the notable provisions include: (1) limits on pension spiking; (2) restrictions on post-retirement employment; (3) elimination of

ARC (Additional Retirement Credit) purchases; (4) and the forfeiture of pension benefits if a member is convicted of a job-related felony.

Even before PEPRA was signed, SamCERA staff was working to help members and employers understand the provisions of the bill. The most pressing challenge after passage of the bill was to notify members that ARC purchases would be discontinued, and then process the subsequent rush for estimates and purchases. As PEPRA went into effect, SamCERA staff held various meetings and presentations, and developed forms and publications for both members and employers. SamCERA has also worked with employers to adopt new pay codes (which excludes certain payments from pensionable compensation), and to implement new payroll audit procedures to be consistent with PEPRA.

After implementing the new PEPRA plan, SamCERA now has seven tiers, including a non-contributory plan which closed to new members in December 2012. San Mateo County had already adopted new plans in 2011 and early 2012, so those plans were only open to new members for a relatively short period of time.

Cost of Living Allowance

The Bay Area experienced modest inflation during 2012, according to the Federal

Bureau of Labor Statistics, resulting in a cost of living adjustment (COLA) between 2.0% and 2.5% for most SamCERA retirees. The COLA for Plans 1 and 2 was 2.5%, while the COLA for Plans 4, 5 and 6 was 2.0%. Plan 3 provisions do not provide for a COLA. COLA is applied to retirees' payments beginning in April of each year.

Information Technology

SamCERA is now in the early stages of its multi-year Technology Modernization Project. The project includes business process reengineering, implementation of an imaging system and replacement of SamCERA's aging PASS (Pension Administration Software System). LRWL is the project management firm. These projects are expected to be complete in three to five years.

This Technology Modernization Project includes a new ECM (Enterprise Content Management) system, and the design and implementation of a new PASS. In fiscal year 2012-2013, SamCERA began working with BCS Systems to image and index all member documents as part of the ECM project. The PASS RFP (Request for Proposal) was issued late in the fiscal year. As the PASS project moves forward, staff will also be working with a change management consultant to ensure a smooth transition to a more modern system.

Additionally, the association implemented a number of pension software enhancements due to new benefit formulas required by PEPRA.

Strategic Planning

SamCERA staff held a retreat in March 2013 and began working through the steps in a strategic planning process as recommended by the Government Finance Officers Association (GFOA). The result of these discussions was an update of SamCERA's Strategic Plan Action Matrix.

During the 2013-2014 fiscal year SamCERA will continue to pursue its three major goals, all of which are derived from and consistent with SamCERA's mission statement:

1. ASSET MANAGEMENT GOAL

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

Major projects under this goal include continuing to prudently build out the private equity portfolio, completing an Asset Liability Modeling study, and ensuring that SamCERA properly implements new Governmental Accounting Standards Board (GASB) statements.

2. CUSTOMER SERVICES GOAL

Provide caring, fair, accurate, timely and

knowledgeable professional services and information to members and other stakeholders.

Over the coming years, meeting this goal will involve providing input to the Enterprise Content Management (ECM) and Pension Administration Software System (PASS) vendors in order to ensure that the new systems provide users with new tools that improve efficiency, accuracy and customer service.

3. OPERATIONS GOAL

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

This will include taking the next steps to upgrade SamCERA's core technologies. It will also include modernizing the SamCERA website to allow more efficient updates of information and beginning the process of negotiating a renewal of the SamCERA office space lease.

Each goal has a number of specific projects designed to help achieve it. Some projects were developed during the 2013 Board/Staff Retreat. Others arose from the 2013 All Staff Retreat. Still others are carried over from prior years.

Certificate of Achievement and Acknowledgements

For the sixteenth consecutive year, the Government Finance Officers Association (GFOA) has awarded SamCERA its Certificate of Achievement for Excellence in

Financial Reporting. This award was in recognition of SamCERA's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2012. The certificate is reproduced on page 18.

SamCERA is also the recipient of the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for the tenth year running. The association received this honor for the PAFR for the fiscal year ended June 30, 2012.

Additionally, the Public Pension Coordinating Council (the Council) presented SamCERA its Public Pension Standards Award for 2012. The award recognizes that SamCERA has met professional standards for plan funding and administration as set forth in the Public Pension Standards of the Council. The standards judge retirement systems on their Funding Adequacy, Comprehensive Benefit Program, Actuarial Valuation, Independent Audit, Investments and Communications. The award is reproduced on page 19.

Finally, SamCERA was recognized during the 2012-2013 fiscal year as a runner-up for Small Public Plan of the Year by *Money Management Intelligence*. (The winner in SamCERA's category was the San Antonio Fire and Police Pension Fund.)

These awards recognize SamCERA's contributions to the practice of government finance exemplifying outstanding financial management and reporting; in doing so,

they stress practical, documented work that offers leadership to the profession.

The compilation of the Comprehensive Annual Financial Report in a timely manner reflects the combined efforts of SamCERA's staff under the leadership, dedication and support of the Board of Retirement.

The association continues to maintain the highest financial reporting standards while providing quality services to its members. I am sincerely grateful to the SamCERA Board of Retirement and staff who perform so diligently to ensure the successful operation and financial soundness of SamCERA.

Respectfully submitted,



C. David Bailey
Chief Executive Officer
October 21, 2013

GFOA CERTIFICATE OF ACHIEVEMENT



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Mateo County

Employees' Retirement Association

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

A handwritten signature in black ink, reading "Jeffrey R. Emer".

Executive Director/CEO

PPCC PUBLIC PENSION STANDARDS AWARD



Public Pension Coordinating Council

**Public Pension Standards Award
For Funding and Administration
2012**

Presented to

San Mateo County Employees' Retirement Association

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

MEMBERS OF THE BOARD OF RETIREMENT



Sandie Arnott
*Ex Officio per the 1937 Act,
First Member*

Sandie Arnott is the San Mateo County Treasurer/Tax Collector. She first began serving in this office in January 2011. She served as Assistant County Treasurer for many years during which she was also active on the Retirement Board. Currently she is the Board Chair. Her current term as Treasurer/Tax Collector runs through the end of 2014.



Albert David
*Elected by the General
Members, Second Member*

Albert David is Director of Administrative and Information Services for the San Mateo County Human Services Agency (HSA). He is also a retired Army Reserve Lieutenant Colonel. He joined the Board in 2008, and was re-elected in 2009 and 2012. He is chair of the Investment Committee. His term expires on June 30, 2015.



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

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



Eric Tashman
*Appointed by the Board of
Supervisors, Fourth
Member*

Eric Tashman is a public finance partner in the San Francisco office of law firm Sidley Austin LLP, where he is head of the firm's West Coast public finance practice group. He was appointed by the Board of Supervisors in 2009, and reappointed in 2012. He is chair of the Audit Committee. His term expires June 30, 2015.



Benedict J. Bowler
*Appointed by the Board of
Supervisors, Fifth Member*

Benedict Bowler is the Treasurer of Matson, Inc. He was appointed in August 2008 to fill the unexpired term of Scott Lee. He is a member of the Investment Committee. He was reappointed in 2010 and 2013. His term expires June 30, 2016.



Lauryn Agnew
*Appointed by the Board of
Supervisors, Sixth Member*

Lauryn Agnew is a Principal at Seal Cove Financial and Chair of the Investment Committee at United Way of the Bay Area. She was appointed by the Board of Supervisors in 2009, and reappointed in 2012. She is currently the Board Secretary. Her term expires June 30, 2015.



David Spinello

Elected by the Safety Members, Seventh Member

David Spinello is a Deputy with the San Mateo County Sheriff's Office. He was elected to the Board in 2009 and reelected in 2012. He has served on the Audit Committee and the CEO Review Committee. His term expires on June 30, 2015.



Paul Hackleman

Elected by the Retired Members, Eighth Member

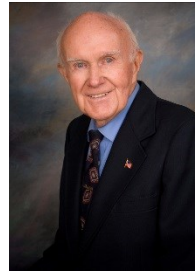
Paul Hackleman was elected in June 2010 to serve as the Retired Member of the Board, and reelected in 2013. Paul served as the county Benefits Manager from 1982 through March 2008. Today he is the head of I.C. Benefits Consulting. His term will expire June 30, 2016.



Michal Settles

Appointed by the Board of Supervisors, Ninth Member

Michal Settles is a business professor at the City College of San Francisco. Her teaching experience also includes The University of San Francisco, Saint Mary's College, and San Francisco State University. For more than 10 years she served as the chair of the San Francisco Bay Area Rapid Transit District (BART) Investment Plans Committee. She was appointed by the Board of Supervisors in June 2011. Her term will expire June 30, 2016.



John Murphy

Elected by the Retired Members, Retiree Alternate

John Murphy was appointed by the Board of Retirement in July 2006 to serve as the Retiree Alternate. He was elected to the alternate position in June 2007 and again in 2010. He substitutes in the absence of the Eighth Member and his term expired June 30, 2013. John Murphy passed away following the last meeting of his term.



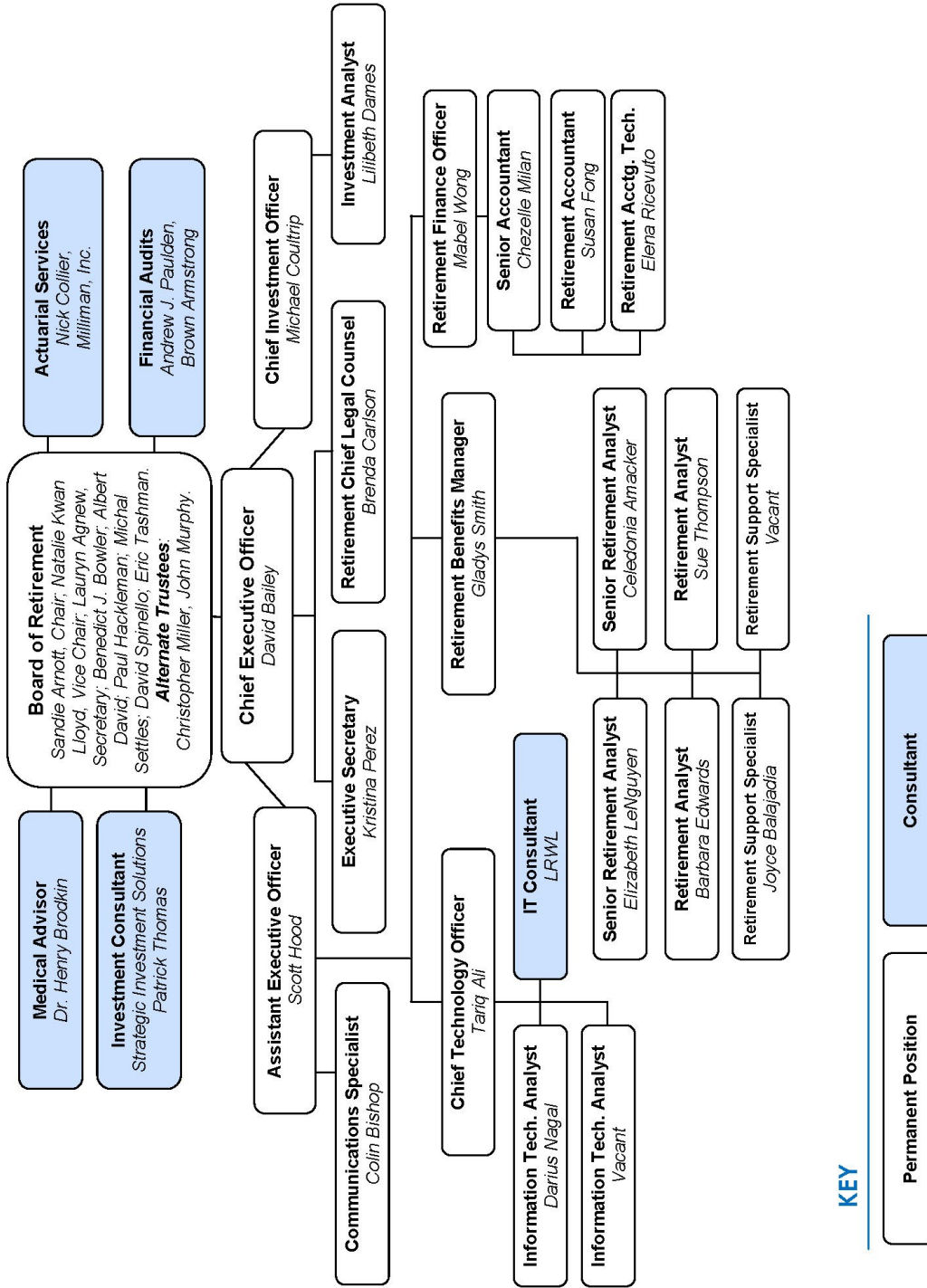
Christopher Miller

Elected by the Safety Members, Safety Alternate

Chris Miller is a Group Supervisor II for the San Mateo County Probation Department. He was elected by the Safety membership and began his term in July 2012. His term will expire June 30, 2015.

SAMCERA 2012-2013 ORGANIZATIONAL CHART

as of June 30, 2013

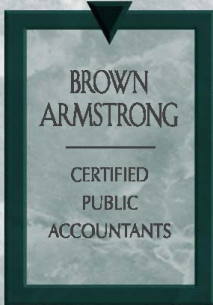


KEY



FINANCIAL SECTION





BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Retirement
 San Mateo County Employees' Retirement Association

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the San Mateo County Employees' Retirement Association (SamCERA) as of June 30, 2013 and 2012, the Statement of Changes in Fiduciary Net Position for the years then ended, and the related notes to the financial statements, which collectively comprise SamCERA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of SamCERA as of June 30, 2013 and 2012, and its changes in fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2013, SamCERA implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which modified the current financial reporting of those elements. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

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

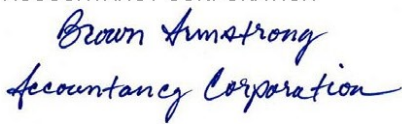
The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, on our consideration of SamCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SamCERA's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

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

Bakersfield, California
October 21, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2012-2013

As fiduciaries of the San Mateo County Employees' Retirement Association (SamCERA), we offer readers of SamCERA's financial statements this narrative overview and analysis of its financial position and results of operation for the fiscal years ended June 30, 2013, and 2012. The information presented here, in conjunction with the Notes to the Financial Statements beginning on page 40, provides a clear picture of SamCERA's overall financial status and activities.

Financial Highlights

- \$2.73 billion in net position as of June 30, 2013, are held in trust for pension benefits. All of the assets are available to meet SamCERA's ongoing obligation to plan participants and their beneficiaries.
- SamCERA's total net position restricted for pensions increased by \$367.5 million or 15.57% primarily as a result of appreciation in assets and contributions received.
- SamCERA's funding objective is to meet long-term benefits obligations through contributions and investment income. As of June 30, 2013, the actuarial funded ratio for SamCERA increased from 72% to 73.3%. The slight increase in the funding ratio is due to contributions in excess of the value of benefits earned.
- Revenues (Additions to Fiduciary Net Position) for the year were \$527.5 million which includes employer contributions of \$144.3 million, member contributions of \$55.4 million, investment gains of \$348.9 million

(excluding investment expense of \$21.9 million), security lending income of \$621,892 and other additions of \$159,510. The 177.09% increase in additions to net position over the prior year is mainly due to appreciation in assets and contributions received.

- Expenses (Deductions from Fiduciary Net Position) increased from \$147.8 million to \$160 million over the prior year, or approximately 8.2%. The fiscal year 2013 expenses include \$149.3 million in benefit payments, \$5.7 million in member refunds, \$4.9 million in administrative expenses and \$29,685 for other expenses. The majority of this increase was due to an increase in the amount of benefits paid in the fiscal year.
- SamCERA's actuarial value of assets had \$109.2 million of unrecognized investment gain as of June 30, 2013, a 191% increase compared to -\$120 million in the prior year.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to SamCERA's financial statements, which are comprised of these components:

1. Comparative Statement of Fiduciary Net Position
2. Comparative Statement of Changes in Fiduciary Net Position
3. Notes to the Financial Statements
4. Required Supplementary Information
5. Other Supplementary Information

Please note, however, that this report also contains clarifying information to supplement the basic financial statements listed above.

The Comparative Statement of Fiduciary Net Position is a snapshot of account balances at year-end. It discloses the assets available for future payments to retirees and their beneficiaries and any current liabilities that are owed as of June 30, 2013. The net position, which is assets less liabilities, reflect the funds available for future use.

The Comparative Statement of Changes in Fiduciary Net Position provides a view of all the activities that occurred during the fiscal year and shows the impact of those activities as additions and deductions to the plan. Both statements are in compliance with Governmental Accounting Standards Board (GASB) pronouncements.

The Comparative Statement of Fiduciary Net Position and the Comparative Statement of Changes in Fiduciary Net Position report information about SamCERA's activities. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current fiscal year's revenues and expenses are recognized when they are incurred, regardless of when cash is received or paid. All investment purchases and sales are reported as of the trade date, not the settlement date. Investments are reported at current fair value. Both realized and unrealized investment gains and losses are recognized. Each component of capital assets is depreciated over its useful life.

These two statements report SamCERA's net position restricted for pensions as one way to measure the plan's financial position. Over time, increases and decreases in SamCERA's net position are one indicator

of whether its financial position is improving or deteriorating. Other factors, such as market conditions, should be considered in measuring SamCERA's overall financial position. The increase in SamCERA's plan net position for the year ended June 30, 2013, was 15.57%. This increase is due to market appreciation of assets as well as contributions received. SamCERA's total net fund return of 13.6% outperformed SamCERA's 7.5% actuarial assumed interest rate. The net deferred investment losses from the past five years decreased from -\$120.0 million in fiscal year (FY) 2012 to \$109.2 million of deferred investment gains in FY 2013, which reflects the addition of the current year's actuarial gain. Deferred investment gains will be spread over the next five years.

SamCERA's Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position appear on pages 38 and 39.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes provide detailed discussion of key policies, programs, and activities that occurred during the year. Notes to the Financial Statements appear on pages 40-62.

Required Supplementary Information follows the notes and provides additional information and detail concerning SamCERA's progress in funding its obligations to provide pension benefits to members, the trend of employers' contributions, pertinent actuarial information as of the latest valuation, and notes to the schedules of trend information.

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

Other Supplementary Information includes the schedules of administrative expenses, schedule of investment expenses, and schedule of payments to consultants. These schedules are presented immediately following the Required Supplementary Information on page 65.

Financial Analysis

Tables 1, 2, 3, 4 and 5 summarize and compare SamCERA's financial results for current and prior periods.

SamCERA's fiduciary net position restricted for pensions as of June 30, 2013, totaled \$2.73 billion which represents an increase of \$367.5 million or 15.57% over the period. The increase during the fiscal year is due to market appreciation of assets as well as contributions received. All of the net position is available to meet SamCERA's ongoing obligations to plan participants and their beneficiaries.

In Table 1, total assets are comprised of investments at fair value and "other" assets. The other assets are cash and deposits, security lending cash collateral, receivables, prepaid expense and capital assets. The decrease in other assets from FY 2012 to FY 2013 is due mostly to the decrease in cash transactions for the security lending program. The decrease in other assets from FY 2011 to FY 2012 is due to decrease in the accounts receivables. The total liabilities

SAMCERA'S NET POSITION (CONDENSED): TABLE 1

For the Years Ended June 30, 2013 and 2012

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

For the Years Ended June 30, 2012 and 2011

	2012	2011	Amount Increase/Decrease	Percent Increase/Decrease
Investments at Fair Value	\$2,323,607,764	\$2,271,145,860	\$52,461,904	2.31%
Other Assets	\$383,515,763	\$426,668,536	(\$43,152,773)	-10.11%
Total Assets	\$2,707,123,527	\$2,697,814,396	\$9,309,131	0.35%
Total Liabilities	\$346,819,873	\$380,038,567	(\$33,218,694)	-8.74%
Net Position	\$2,360,303,654	\$2,317,775,829	\$42,527,825	1.83%

referred to in Table 1 are the following payables: investment management fees, due to broker for investments purchased, collateral payable for security lending and other miscellaneous payables. The decrease in total liabilities for FY 2013 is due to a decrease in the collateral payable for security lending. The decrease in total liabilities from FY 2011 to FY 2012 is due to a decrease in the amount due to brokers for investments purchased.

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

Capital Assets

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

useful lives of the assets. The capital expenditures for FY 2012-2013 were for various technology infrastructures. The purchases were generally expensed in the fiscal year. Year-end balance of capital assets remained at \$0.

Reserves

The statement of SamCERA's reserves as shown in Table 2 indicates how SamCERA's fiduciary net position has accumulated in the current fiscal year. SamCERA's reserves are established from employer and member contributions and the accumulation of investment earnings, after deducting investment and administrative expenses (see Table 2). When a member retires, the fiduciary net position attributable to that member is transferred to the Retired Member Reserves from the Member Deposit Reserves and Employers' Advance Reserves. During the past several years the following significant Board of Retirement actions have impacted the reserve accounts:

SAMCERA'S RESERVES: TABLE 2

	2013	2012	2011
VALUATION RESERVES			
Member Deposit Reserve	534,275,685	498,568,652	485,125,877
Employers' Advance Reserve	422,581,774	361,197,981	310,568,622
Retired Member Reserve	918,589,967	858,440,088	765,312,626
Cost of Living Adjustment Reserve	930,358,294	843,061,707	760,505,829
NON-VALUATION RESERVES			
Unallocated Earnings/(Loss) Account	(187,166,322)	(80,997,723)	83,655,373
Market Stabilization Account	109,185,934	(119,967,051)	(87,392,498)
Net Reserves Held in Trust for Pension Benefits	\$2,727,825,332	\$2,360,303,654	\$2,317,775,829

- The adoption of the GASB Statement No. 25, which mandates that investments be stated at fair value, effective in fiscal year 1995-1996.
- The creation of the Market Stabilization Account as recommended by William M. Mercer, SamCERA's actuary at that time.
- The Board of Retirement adopted a policy in 2002 which states that the amount of investment earnings added or subtracted from the Market Stabilization Account cannot exceed 20% of the investment return. If it does, then the excess is allocated to the Valuation Reserves.

In December and June of each year, the actuarial assumed investment returns are credited to each of the Valuation Reserves. When actual investment returns differ from the actuarial assumed investment returns, the surplus or deficit is recorded in the Market Stabilization Account. The balance of the account is allocated to the Valuation Reserves over a five-year period. This process reduces the volatility of annual contribution rates for the employers. This year SamCERA's Market Stabilization Account increased by \$229 million to \$109.2 million of deferred gain to be recognized over the next five years.

Additions to Fiduciary Net Position

The primary sources of funding for SamCERA member benefits are employer contributions, member contributions, and net investment income. Total additions to fiduciary net position for the fiscal years ended June 30, 2013, and 2012 were \$527.5 million and \$190.4 million, respectively. The increase in FY 2013 is primarily due to

market appreciation of assets. Employer and member contributions were flat compared to FY 2012. The decrease in employer contribution is offset by an increase in the employee contributions. The decrease in total additions to fiduciary assets from FY 2012 to FY 2011 was primarily due to the flat market return of assets.

Employer contributions for FY 2013 were \$144.3 million, a decrease of \$6.6 million over the prior year. Member contributions were \$55.4 million. The \$5.7 million increase over FY 2012 is due to an increase in member optional service credit purchases. The relatively even level of contributions between FY 2012 and FY 2011 was due to a continuing hiring freeze by the primary employer.

SamCERA's total members in 2013 increased slightly by 39 members compared to FY 2012. However, there was a shift in the type of member. Active members decreased 3.5% from 5,095 to 4,917, retired members increased 2.9%, from 4,275 to 4,398, and inactive members increased almost 7.8% from 1,212 to 1,306.

ADDITIONS TO FIDUCIARY NET POSITION (CONDENSED): TABLE 3

For the Years Ended June 30, 2013 and 2012

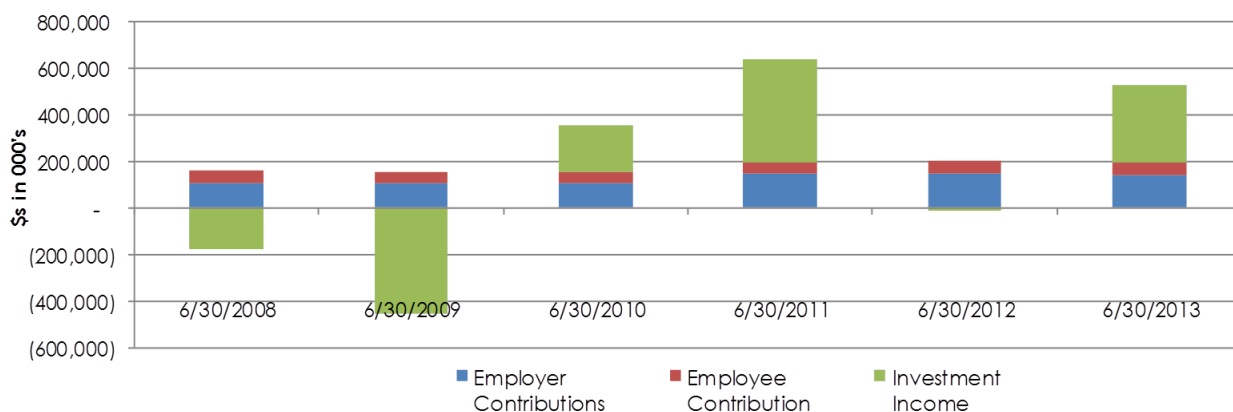
	2013	2012	Amount Increase/ Decrease	Percent Increase/ Decrease
Employer Contributions	\$144,308,171	\$150,949,761	(\$6,641,590)	-4.40%
Member Contributions	\$55,407,941	\$49,687,136	\$5,720,805	11.51%
Investment Income	\$348,910,089	\$9,916,437	\$338,993,652	3418.50%
Less Investment Expense	(\$21,926,630)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

For the Years Ended June 30, 2012 and 2011

	2012	2011	Amount Increase/ Decrease	Percent Increase/ Decrease
Employer Contributions	\$150,949,761	\$150,474,872	\$474,889	0.32%
Member Contributions	\$49,687,136	\$49,013,027	\$674,109	1.38%
Investment Income	\$9,916,437	\$454,254,572	(\$444,338,135)	-97.82%
Less Investment Expense	(\$20,940,955)	(\$16,596,601)	(\$4,344,354)	26.18%
Security Lending Income	\$721,219	\$530,311	\$190,908	36.00%
Other Additions	\$29,025	\$73,305	(\$44,280)	-60.40%
Total	\$190,362,623	\$637,749,486	(\$447,386,863)	-70.15%
Current Membership	10,582	10,582		0.00%

ADDITIONS TO FIDUCIARY NET POSITION

FY 2008-2013



Deductions from Fiduciary Net Position

SamCERA was created to provide lifetime retirement annuities, survivor benefits, and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments as designated by the plan, refund of contributions to terminated members, and the cost of administering the system. Deductions for the fiscal year ended June 30, 2013, totaled \$160 million, an increase of 8.2% over the prior fiscal year (refer to Table 4).

Retirement annuities, survivor benefits, and permanent disability benefits were \$149.3 million in 2013, an increase of \$10.1 million or 7.2% over 2012. The growth in benefit payments was due to the combined effects of the following: (1) the net increase in the number of retirees and beneficiaries for the year and (2) the increase in the average retirement allowance of those who were added to the retirement payroll. Retiree benefits in 2012 totaled \$139.2 million, which is a \$9.4 million, or 7.2%, increase over FY 2011. The sharp increase was due to the same trend. There has been a steady increase in the number of retirees, an 11.7% increase over the last five years.

Member refunds were \$5.7 million in 2013, a increase of \$2.1 million or 58.5% over 2012. Member refunds increased in fiscal year 2013, due to a higher amount of terminated members, due mostly to the closing of the San Mateo County's long-term care facilities, who requested withdrawals. Also terminated members with a few years of service often withdraw their accounts.

In an effort to continue to reduce its structural deficit, the County continued to offer financial incentives for voluntary separation under certain job classifications.

Administrative expense was \$5.0 million for 2013. Administrative expense covers the basic costs of operating the retirement system. These include staffing, office expense, information technology systems, depreciation, and miscellaneous expenses. Approximately half of the administrative expense is for staffing (wages, fringe benefits, and temporary labor).

The system's administrative expenses decreased by \$118,860 or -2.36% in fiscal year 2013. SamCERA added a new position and filled several vacancies during the fiscal year, and there were savings from the Assistant Executive Officer's military leave. The \$1.5 million or 41.71% increase from fiscal year 2011 to fiscal year 2012 was due to the reclassification of the Asset Management budget to Administrative budget. In FY 2011 staff and expenses related to investment activities were allocated to the Asset Management budget and included as part of investment expense. Beginning in fiscal year 2012, staff and direct expenses for investment were no longer separated. An increase in staffing during FY 2012 also added to the increase in administrative expenditure.

Expenses for SamCERA's professional services are included with investment expense. For the fiscal year ended June 30, 2013, the expenditures for actuarial services, custodian services and investment consultant services decreased by \$84,753 compared to 2012. This decrease is due to lower

custodial fees this fiscal year. Also in FY 2012 the higher actuarial fees were a result of hiring a second actuarial firm to perform an actuarial audit of the association's triennial experience study and actuarial valuation. Investment management fees are driven by contractual agreements and based on total fair market value of assets under management. The combination of the implementation of alternative investments (private equity, hedge funds, commodities and risk parity) as well as market appreciation of assets resulted in higher investment management fees in 2013.

Deductions of \$160 million are less than additions of \$527.5 million, resulting in an increase of \$367.5 million in fiduciary net position for the fiscal year ended June 30, 2013.

DEDUCTIONS FROM FIDUCIARY NET POSITION: TABLE 4

For the Years Ended June 30, 2013 and 2012

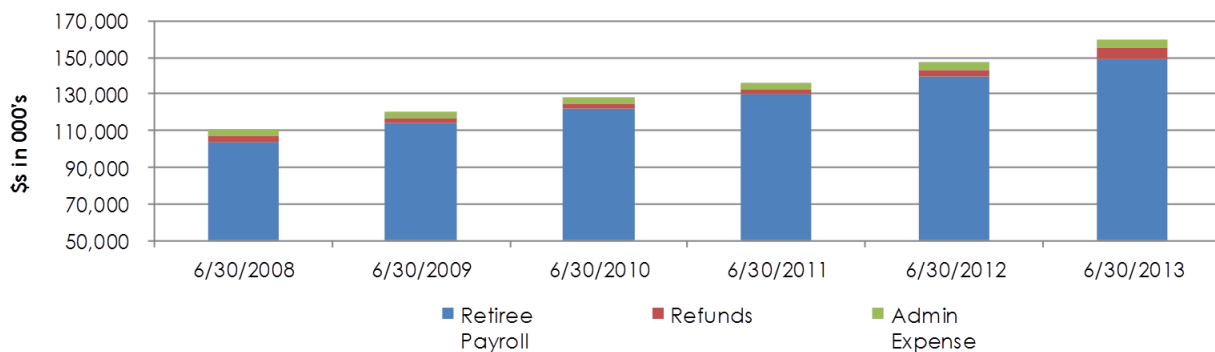
	2013	2012	Amount Increase/Decrease	Percent Increase/Decrease
Retiree Benefits	\$149,265,647	\$139,207,590	\$10,058,057	7.23%
Member Refunds	\$5,749,776	\$3,627,492	\$2,122,284	58.51%
Administrative Expenses	\$4,914,187	\$5,033,047	(\$118,860)	-2.36%
Other Expenses	\$29,685	(\$33,331)	\$63,016	189.06%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

For the Years Ended June 30, 2012 and 2011

	2012	2011	Amount Increase/Decrease	Percent Increase/Decrease
Retiree Benefits	\$139,207,590	\$129,834,540	\$9,373,050	7.22%
Member Refunds	\$3,627,492	\$2,474,445	\$1,153,047	46.60%
Administrative Expenses	\$5,033,047	\$3,551,598	\$1,481,449	41.71%
Other Expenses	(\$33,331)	\$9,529	(\$42,860)	-449.79%
Total	\$147,834,798	\$135,870,112	\$11,964,686	8.81%
Benefit Recipients	4,275	4,147	128	3.09%

DEDUCTIONS FROM FIDUCIARY NET POSITION

FY 2008-2013



Change in Fiduciary Net Position

The change in fiduciary net position consists of total additions reduced by total deductions. Table 5 below shows condensed information about this financial activity. Fiduciary net position increased by \$367.5 million for the year ended June 30, 2013. This increase is due to market appreciation of assets this fiscal year as well as contributions received. Fiduciary net position increased by \$42.5 million from FY 2011 to FY 2012. The slight increase is due mostly to contributions received in FY 2012.

CHANGES IN FIDUCIARY NET POSITION (CONDENSED): TABLE 5

For the Years Ended June 30, 2013 and 2012

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

For the Years Ended June 30, 2012 and 2011

	2012	2011	Amount Increase/Decrease	Percent Increase/Decrease
Beginning Plan Net Position	\$2,317,775,829	\$1,815,896,455	\$501,879,374	27.64%
Total Additions	\$190,362,623	\$637,749,486	(\$447,386,863)	-70.15%
Total Deductions	\$147,834,798	\$135,870,112	\$11,964,686	8.81%
Ending Plan Net Position	\$2,360,303,654	\$2,317,775,829	\$42,527,825	1.83%

New Accounting Standards

In June 2012, the Governmental Accounting Standards Board (GASB), which sets Generally Accepted Accounting Principles (GAAP) for governments, including SamCERA, approved major changes to the pension accounting and reporting framework. These new pension accounting and financial reporting standards, Statement No. 67 and 68, represent the most significant fundamental changes in reporting requirements for pension plans and plan sponsors in over a decade. The standards require plan sponsors to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The standards also enhance accountability and transparency through revised and new note disclosures and required supplementary information. For plans, the standards build upon the existing framework for financial reports, enhance the note disclosures and required supplementary information, and require the presentation of new information about annual money-weighted rates of return in the notes to the financial statements. The provisions for plans are effective for financial statements for periods beginning after June 15, 2013, and for plan sponsors, are effective for fiscal years beginning after June 15, 2014. SamCERA's board and management, working with professional consultants, has begun the process of evaluating and implementing these new requirements as prescribed.

SamCERA's Fiduciary Responsibilities

SamCERA's Board of Retirement and management staff are fiduciaries of the pension trust fund. Under the California

Constitution and the County Employees' Retirement Law of 1937, assets of the retirement system can only be used for the exclusive benefit of plan participants and their beneficiaries.

Requests for Information

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

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

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

San Mateo County Employees'
Retirement Association
100 Marine Parkway, Suite 125
Redwood City, CA 94065
Telephone: (650) 599-1234
Facsimile: (650) 591-1488

Respectfully submitted,



Mabel Wong
Finance Officer
October 21, 2013

STATEMENT OF FIDUCIARY NET POSITION

As of June 30, 2013 and 2012

	2013	2012
ASSETS		
Cash and deposits	\$39,405,154	\$49,733,227
Security lending cash collateral	136,413,481	199,380,508
Total cash	175,818,635	249,113,735
Receivables		
Contributions	3,611,259	3,702,233
Due from broker for investments sold	139,326,538	125,066,558
Investment income	4,998,825	5,414,934
Security lending income	60,596	97,138
Other receivables	113,812	113,496
Total Receivables	148,111,030	134,394,359
Prepaid Expense	7,669	7,669
Investments, at fair value		
Domestic fixed income securities	428,578,645	453,960,203
International fixed income securities	112,393,585	100,544,203
Domestic equities	1,135,856,342	902,422,401
International equities	494,939,553	408,832,756
Real estate	166,154,482	146,917,122
Private Equities	64,325,070	19,404,901
Risk parity	157,444,012	152,628,991
Hedge funds	73,717,734	68,994,760
Commodities	69,083,062	69,902,427
Total Investments	2,702,492,485	2,323,607,764
Total Assets	3,026,429,819	2,707,123,527
LIABILITIES		
Payables		
Investment management fees	2,519,194	2,533,960
Due to broker for investments	154,293,081	141,487,676
Collateral payable for securities	136,413,481	199,380,508
Other	5,378,731	3,417,729
Total Liabilities	298,604,487	346,819,873
Net Position Restricted for Pensions	\$2,727,825,332	\$2,360,303,654

The accompanying Notes to the Financial Statements beginning on page 40 are an integral part of these financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Years Ended June 30, 2013 and 2012

	2013	2012
ADDITIONS		
Contributions (Note 3)		
Employer	\$144,308,171	\$150,949,761
Member	55,407,941	49,687,136
Total Contributions	199,716,112	200,636,897
Investment Income		
Interest and dividends	55,101,945	61,653,951
Net appreciation/(depreciation) in fair value of investments	293,808,144	(51,737,514)
	348,910,089	9,916,437
Less investment expense	(21,926,630)	(20,940,955)
Net Investment Income/(Loss)	326,983,459	(11,024,518)
Security Lending Income		
Earnings	402,803	452,442
Less security lending expense	219,089	268,777
Net Security Lending Income	621,892	721,219
Other Additions	159,510	29,025
Total Additions	527,480,973	190,362,623
DEDUCTIONS		
Association benefits		
Service retirement allowance	131,638,612	122,541,648
Disability retirement allowance	16,705,247	15,532,365
Survivor, death and other benefits	921,788	1,133,577
Total Association Benefits	149,265,647	139,207,590
Refunds of members' contributions	5,749,776	3,627,492
Administrative expense (Note 3)	4,914,187	5,033,047
Other Expense	29,685	(33,331)
Total Deductions	159,959,295	147,834,798
Net Increase	367,521,678	42,527,825
NET POSITION RESTRICTED FOR PENSIONS		
Beginning of year	2,360,303,654	2,317,775,829
End of Year	\$2,727,825,332	\$2,360,303,654

The accompanying Notes to the Financial Statements beginning on page 40 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Plan Description

The following description of the San Mateo County Employees' Retirement Association (the Association or SamCERA) is provided for general information purposes. The Association is governed by the California Constitution, the County Employees' Retirement Law of 1937 (the 1937 Act - a component of the California Government Code) and the bylaws, procedures and policies adopted by the Board of Retirement.

General

The Association is a cost-sharing multiple-employer, defined benefit pension plan established to provide pension benefits for substantially all permanent employees of the County of San Mateo (Primary Employer), the San Mateo County Mosquito and Vector Control District, and the Superior Courts of the County of San Mateo. The Association is a Pension Trust Fund of the Primary Employer. Management of the Association is vested in the Board of Retirement consisting of nine members. The 1937 Act states one member shall be the County Treasurer; the second and third members shall be general members of the Association elected by their peers; the fourth, fifth, sixth and ninth members shall be qualified electors of the county and shall be appointed by the Board of Supervisors; the seventh member shall be elected by and be a member of the Association's safety membership; and the eighth member shall be a retired member elected from the retired membership.

The Association has seven tiers, which cover members classified as general, safety or probation. Members hired on or before July

6, 1980, became members of Tier 1. Members hired after July 6, 1980, and before July 13, 1997, became members of Tier 2. Members hired on or after July 13, 1997, become members of Tier 4, until Tier 5 and Tier 6 became effective in fiscal year (FY) 2011-2012. The California Public Employees' Pension Reform Act (PEPRA) created a new tier, Tier 7, and took effect on January 1, 2013. All new members hired on and after January 1, 2013 become members of Tier 7. Tier 3, a non-contributory plan for General members, is closed effective December 23, 2012.

The County of San Mateo implemented a number of new tiers for new hires beginning in fiscal year 2011-2012. The new tiers are mostly pension formulas prior to the adoption of enhanced formulas in the middle of the last decade with some cost shifting. Existing Tier 4 closed simultaneously. General employees hired between August 7, 2011 to December 31, 2012 are members of Tier 5. Employees appointed to positions of active law enforcement between January 8, 2012 to December 31, 2012 become safety members under Tiers 5 or 6. In 1990, probation officers were given the choice of remaining in the general plan or electing safety status for future service under a new probation plan. All new probation officers became members under Tier 4 for probation officers until Tier 5 and Tier 6 were effective. Probation members hired on and after January 1, 2013 become members of Tier 7. From January 1, 1993, general members in Tier 3 with five years of continuous service have the option to change to the plan they were eligible for at entry date. Former Tier 3 members are authorized to purchase service credit in their current plan. Earned Tier 3

ASSOCIATION MEMBERSHIP PROFILE

For the Year Ended June 30, 2013

	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 7	Total
RETIREES AND BENEFICIARIES CURRENTLY RECEIVING BENEFITS								
General	1,848	1,572	114	284	0	0	0	3,818
Safety	284	140	0	20	0	0	0	444
Probation	72	51	0	13	0	0	0	136
Subtotal	2,204	1,763	114	317	0	0	0	4,398
TERMINATED MEMBERS ENTITLED TO BUT NOT RECEIVING BENEFITS (DEFERRED)								
General	21	417	108	647	5	0	1	1,199
Safety	1	29	0	42	0	0	0	72
Probation	0	11	0	23	0	1	0	35
Subtotal	22	457	108	712	5	1	1	1306
CURRENT MEMBERS								
Vested								
General	39	936	73	2,216	1	0	1	3,266
Safety	3	102	0	219	0	0	0	324
Probation	1	64	0	208	0	0	0	273
Non-Vested								
General	0	2	51	451	262	0	141	907
Safety	0	0	0	71	42	1	14	128
Probation	0	0	0	7	8	1	3	19
Subtotal	43	1,104	124	3,172	313	2	159	4,917
Total	2,269	3,324	346	4,201	318	3	160	10,621

service credit is forfeited in an amount equivalent to the purchase. Tier 3 is closed and there is no longer a non-contributory tier.

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

January 8, 2012 to December 31, 2012 were enrolled in a 3% @ 55 Tier 5, or a 2% at 50 Tier 6, contributory plan. Probation members hired between July 10, 2011 and December 31, 2012, were offered the option to choose between the 3% @ 55 formula with an additional cost-share contribution of 3.5% of pay, Tier 5, or a 2% @ 50 formula with no cost-share provision, Tier 6. All members in Tiers 5, 6, and 7 and certain re-entry members in Tiers 1, 2, and 4 also pay half the actuarial cost of Cost of Living Adjustments (COLA). Members in Tiers 1, 2, and 4 pay a cost share contribution and members of certain bargaining units pay 25% of the actuarial cost of the Cost of Living Adjustment (COLA) benefit.

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

As of June 30, 2013, the Association membership is shown in the table on page 41.

Benefit Provisions

The Association provides service retirement, disability and death benefits based on defined benefit formulas, which use final average compensation, years of service, and age factors to calculate benefits payable. In addition, the Association provides annual cost of living adjustments upon retirement for members of Tiers 1, 2, 4, 5, 6 and 7. The benefits of Tier 3 are reduced by a portion of Social Security benefits received by the member. The 1937 Act vests the Board of Supervisors with the authority to initiate benefits, while Government Code Section 31592.2 empowers the Board of Retirement to provide certain ad hoc benefits when the Section 31592 reserve exceeds 1% of assets.

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

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

General members in Tiers 1, 2, 4, 5 and 6 may retire at any age after 30 years of service. Safety members and Probation members may retire at any age after 20 years of service.

A member who leaves county service may withdraw his or her contributions, plus any accumulated interest.

Members with five years of service or permanent part-time employees who have the equivalent of five years of full-time service or non-contributory members (Tier 3) with 10 years of service who terminate their employment with the county may elect a deferred retirement.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The Association follows the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB). The financial statements are prepared using the accrual basis of accounting and reflect the overall operations of SamCERA. Investment income is recognized when it is earned, and expenses are recognized when they are incurred. Employer and member contributions are recognized in the period in which the contributions are due, and benefits and refunds are recognized when payable in accordance with the terms of each tier.

SamCERA is an independent public employee retirement system with its own governing board. SamCERA’s financial statements are included in the County of San Mateo’s financial statements as a pension trust fund of the county.

Maintaining appropriate controls and preparing the Association's financial statements are the responsibility of SamCERA's management.

Cash and Investments

The Board of Retirement has exclusive control of the investments of the Association. Government Code Section 31595 of the 1937 Act authorizes the board to invest, or delegate the authority to invest, the assets of the Association in any investment allowed by statute and deemed prudent in the informed opinion of the board.

Cash is pooled with other funds of the county or custodians, when appropriate, so as to earn a higher rate of return than could be earned by investing the funds individually. All highly liquid investments with maturities of three months or less when purchased, in addition to the pooled cash with the county and custodians, are considered cash equivalents.

Investments: The Association records investment transactions on the trade date. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Real estate assets are reported at fair value utilizing an income approach to valuation. By policy, an independent appraisal is obtained once every quarter to determine the fair market value of the real estate assets.

Interest income is recognized as it accrues. Dividend income is recognized when the dividends are declared. Realized

gains and losses and unrealized gains and losses on investments are combined and reported together as the net appreciation (depreciation) in the fair value of investments.

Security Lending Activity

Security lending transactions are short-term collateralized loans of SamCERA securities for the purpose of generating additional investment income. For each lending transaction, SamCERA receives either cash collateral or non-cash collateral.

The underlying securities out on loan are reported on SamCERA's statement of fiduciary net position as if the lending transaction had not occurred.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, cash collateral held (or any security that can be sold or pledged without a default by the borrower) is separately reported on the statement of fiduciary net position among the current assets. A corresponding liability of an equal amount (the obligation to return the cash collateral) is reported as a liability.

Non-cash collateral held is not reported on the statement of fiduciary net position nor is there a corresponding liability reported on this statement. Note 4 - Deposit and Investment Risk Disclosure discloses the amount of securities lending non-cash collateral.

Income Taxes

The Internal Revenue Service has ruled that plans such as SamCERA qualify under Section 401(a) of the Internal Revenue Code and are not subject to tax under present income tax laws. On January 6, 1988, the

Internal Revenue Service issued a favorable Tax Determination Letter. Accordingly, no provision for income taxes has been made in the accompanying basic financial statements, as the plan is exempt from federal and state income taxes under provisions of the Internal Revenue Code, Section 401, and the California Revenue and Taxation Code, Section 23701, respectively.

Receivables

Receivables consist primarily of interest, dividends, investments in transition, i.e., traded but not yet settled, and contributions owed by the employing entities as of June 30, 2013, and 2012.

Capital Asset (including Intangible Assets)

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

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results may differ from those estimates.

Foreign Currency Transactions

Gains earned and losses incurred resulting from foreign currency transactions during the year are recorded as a component of investment income. Gains and losses from translation of international investments at fiscal year-end rates of exchange are included in investment income.

Forward currency contracts are used by our investment managers to control currency exposure and facilitate the settlement of international security purchase and sale transactions. These contracts are agreements to exchange different currencies at specified rates and settlement dates. Differences between the contract and market exchange rates at settlement result in gains or losses, which are included in net investment income. Risks may arise from the possible inability of counterparties to meet the terms of their contracts and from movements in exchange and interest rates.

Reclassification

Certain financial statement items from the prior year's financial statements have been reclassified for comparative purposes. Such reclassifications had no effect on previously reported fiduciary net position.

Summarized Prior Year Information

The accompanying financial statements include certain prior year summarized information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America.

Accordingly, such information should be read in conjunction with SamCERA financial statements as of and for the year

ended June 30, 2012, from which the summarized information was derived.

Implementation of New Accounting Pronouncements

For the year ended June 30, 2013, SamCERA implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. Both statements provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The primary change as a result of implementing GASB 63 was renaming previous net assets as net position in the financial statements. SamCERA does not have any deferred inflows or outflows to report.

Note 3: Contributions, Administrative Expenses and Reserves

Contributions

The 1937 Act establishes the basic obligations for employers and members to make contributions to the pension trust fund. The employer and member contribution rates are based on recommendations made by an independent actuary and adopted by the Board of Retirement. The employer and member rates are based on membership type (General, Safety, Safety/Probation) and tier (Tier 1, Tier 2, Tier 3, Tier 4, Tier 5, Tier 6 and Tier 7). The funding objective of the plan is to establish employer and member contribution rates which, over time, will remain level as a percentage of payroll, unless plan benefit provisions change.

For Tiers 1, 2, 4, 5, 6 and 7 active members

are required by statute to contribute toward their retirement benefits. Tier 3 is a non-contributory plan. The member contribution rates are formulated on the basis of age at the date of entry and the actuarially calculated benefits. Members in Tier 7 pay 50% of the actuarial determined cost of retirement benefit as required by PEPPRA. Member contributions along with credited interest are refundable upon termination of membership.

Interest Crediting is explained in this Note under Reserves & Accounts. The Association's Tier 3 is a non-contributory plan for members. For the other tiers, the member basic contribution rates are based on age at entry into the Association and are a percentage of covered compensation. Under a Memorandum of Understanding with San Mateo County, its General members in Tiers 1, 2, and 4 contribute an additional 3.0%, and Safety and Probation members contribute an additional 3% to 5% of covered salary to help offset benefits. San Mateo County Mosquito and Vector Control District implemented the enhanced benefits formula effective July 1, 2010, but the employees do not make additional contributions.

The participating employers are required by statute to contribute the amounts necessary to fund the estimated benefits accruing to SamCERA members not otherwise funded by member contributions or expected investment earnings. Employer contribution rates for each tier are determined pursuant to Government Code Section 31453 of the 1937 Act. Contribution rates are actuarially determined using the entry age normal method and consist of an amount for normal cost (the estimated amount necessary to finance benefits earned by members

during the current year) and an amount required to amortize the unfunded actuarial accrued liability (UAAL). Beginning with the June 30, 2008 actuarial valuation, SamCERA converted to closed 15-year layered amortization methodology. Under this methodology, the original unfunded amount (UAAL) is amortized over 15 years as of the valuation date. Future actuarial gains and losses are amortized over new 15-year periods. Details of the funding progress, annual required member contribution and employer contribution, and the latest actuarial valuation are presented in the Required Supplementary Information Schedules.

The normal cost and UAAL contribution rates are shown in the following table.

NORMAL COST AND UAAL RATES

	2013	2012	Change
Normal Cost	11.19%	11.52%	-0.33%
UAAL Amortization	26.28%	23.97%	2.31%
Total Contribution Rate	37.47%	35.49%	1.98%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution (unit \$000)	Percentage Contributed
2013	\$144,308	100%
2012	\$150,950	100%
2011	\$150,475	100%

Effective May 2, 2010, the county reduced from 100% to 75% the percentage it pays of management employees', unrepresented attorneys' and sheriff's sergeants' contributions. Effective September 2, 2012, the county further reduced the percentage it pays from 75% to 50% of the basic member contribution for the same group. Effective September 2, 2012, the county reduced the

percentage it pays of confidential employees' contribution from 70% to 50%. Both are on a refundable basis. In addition, members of certain bargaining units who are in a contributory retirement plan have a portion of their retirement deduction paid by the county based on individual years of service using schedules set forth in a Memorandum of Understanding. Effective April 23, 2006, the county pays 20% of Safety/Probation contributions on a non-refundable basis.

For the fiscal year ended June 30, 2013, the county paid its employer contributions owed to SamCERA in two semi-annual prepayments in July 2012 and January 2013. The prepayment is based on the adopted actuarial contribution rates and the estimated remaining covered payroll by tier discounted by the actuarial assumption rate. Throughout the rest of the year, the prepayment was reduced by actual contributions owed reflective of actual payroll. At fiscal year-end, there is a true-up based on the actual contributions owed. At the end of the 2012-2013 fiscal year, the prepayment account had an excess balance of \$4.6 million which included a credit to the county of \$166,858 for the replacement benefits program. The excess in the prepayment account will be credited towards the 2013-2014 fiscal year employer contribution.

The county will continue with the semi-annual prepayment in FY 2013-2014.

Administrative Expenses

The SamCERA Board of Retirement annually adopts the operating budget for the administration of SamCERA. The administrative expenses are charges against earnings of the retirement fund and are limited to twenty-one hundredth of one

percent (0.21%) of the accrued actuarial liability as set forth under Government Code Section 31580.2. SamCERA’s policy is to assess compliance with the limitation based on the prior year accrued actuarial liability as determined in the latest annual valuation. SamCERA’s administrative expenses totaled 0.12% of accrued actuarial liability for the fiscal year ended June 30, 2013.

The passage of Assembly Bill 609 in October 2010 changed the 1937 Act system administration expense limit from 23 basis points of total assets to 21 basis points of Accrued Actuarial Liability. Since the system’s liability is more consistent from year to year and not affected by capital market volatility, the change will allow SamCERA to manage its administrative expenses more effectively. With the implementation of Government Code Section 31580.2, SamCERA no longer classifies internal investment related expenses to asset management. Asset Management Expenses will be reclassified and combined with Administrative Expense. Under the new limit, information technology expenses are not included in administrative expense. Hence, there is a separate information technology budget that started in fiscal year 2012.

Administrative costs of the Association are financed through employer and member contributions and investment earnings. Administrative costs reported in the statement of changes in fiduciary net position include:

ADMINISTRATIVE BUDGET

	2013	2012
Salaries and member benefits	\$3,895,420	\$3,493,963
Services and supplies	1,496,380	1,240,237
Administrative Expenditures	\$5,391,800	\$4,734,200

ANALYSIS OF ACTUAL ADMINISTRATIVE EXPENSE

As of June 30, 2013 and 2012 (Amounts in Thousands)

	2013	2012
Actual Accrued Liability at Prior Year-End	\$3,442,000	\$3,247,000
Projected Net Position Base at Fair Value	N/A	N/A
Maximum Limit in Basis Point	21 bp	21 bp
Maximum Admin Expense	\$7,228	\$6,819
Operating Budget	\$5,392	\$4,734
Actual Administrative	\$4,260	\$4,708
Under-expended Operating Budget	\$1,132	\$26

INFORMATION TECHNOLOGY (IT) BUDGET

	2013	2012
Property and Equipment	\$48,000	\$60,000
IT Infrastructure	2,039,200	1,806,000
IT Expenditure	\$2,087,200	\$1,866,000

ANALYSIS OF ACTUAL INFORMATION TECHNOLOGY EXPENSE

As of June 30, 2013 and 2012

	2013	2012
Property and Equipment	\$22,983	\$61,989
IT Infrastructure	631,583	263,432
IT Expenditure	\$654,566	\$325,421

Reserves and Accounts

The reserves represent the components of SamCERA's net position. Reserves are established from employer and member contributions and the accumulation of investment income after satisfying investment and administrative expenses. The reserves do not represent the present value of assets needed, as determined by actuarial valuation, to satisfy retirements and other benefits as they become due. SamCERA's major classes of reserves are valuation and non-valuation. The valuation reserves will be credited interest at the assumed actuarial interest rate. The interest crediting and allocation process will be discussed below. The valuation reserves are as follows:

Member Deposit Reserve: This reserve represents the total accumulated member contributions of current active and inactive (deferred) members. Additions include member contributions and credited interest. Deductions include refunds to members and transfers to Retired Member Reserve made at the time the member retires.

Employers' Advance Reserve: This reserve represents the total accumulated employer contributions for future retirement payments to active and deferred members. Additions include contributions from the employers and credited interest. Deductions include lump-sum death benefit payments to member's survivors, supplementary disability payments, and transfers to the Retired Member Reserve made at the time each member retires. When a terminating member elects to receive a refund of member contributions, there is no corresponding effect on the balance of the Employers' Advance Reserve because the employers'

contribution rates are based on an actuarial assumption that takes into account the expected rate of member terminations.

Retired Member Reserve: This reserve represents funds accumulated to pay retirement benefits for retired members. Additions include the total accumulated transfers from the Member Deposit Reserve, the Employers' Advance Reserve (both made at the time each member retires) and credited interest. Deductions include payments to retired members, beneficiaries and survivors.

Cost of Living Adjustment Reserve: This reserve represents the total accumulated employer contributions for future cost of living adjustments under provisions of the 1937 Act. Additions include contributions from employers and credited interest. Deductions include payments to retired members, beneficiaries and survivors. Effective April 1 of each year, for those members retired on or prior to April 1, the board adjusts the retirement allowances by a percentage of the total allowance to approximate the nearest one-half of one percent of the percentage of the annual increase in the cost of living for the preceding calendar year. The cost of living increase is based on that shown by the Bureau of Labor Statistics Consumer Price Index (CPI) for All Urban Consumers in the San Francisco, Oakland, and San Jose Bay Area. The increase is capped at 5.0% for Tier 1 (Probation/Safety Tier 1 is 3.0%), 3.0% for Tier 2 and 2.0% for Tiers 4, 5, 6 and 7. Tier 3 has no cost of living adjustment.

SamCERA's Non-Valuation Reserves and Accounts

Reserves

Contingency Reserve: This reserve represents reserves accumulated for future earnings deficiencies, investment losses, and other contingencies. Additions include investment income and other revenues. Deductions include investment expenses, administrative expenses, and interest allocated to other reserves. The Contingency Reserve is used to satisfy the California Government Code requirement to reserve at least 1% of total assets against future earnings deficiencies.

Accounts

Generally Accepted Accounting Principles do not allow for a negative reserve. Therefore, the Board of Retirement adopted two policies that establish accounts that may have a negative balance. The non-valuation accounts are the Contingency Account and the Market Stabilization Account.

Effective January 1, 1993, the Board of Retirement provided for the implementation of Actuarial Standards Board Standard of Practice No. 4 and adopted five-year smoothing of all returns for valuing actuarial assets and calculating the unfunded actuarial accrued liability. Effective June 30, 1997, the board provided for the implementation of GASB Statement No. 25 and authorized the creation of a Market Stabilization Account to reconcile differences between the market value of assets and the actuarial value of assets. Effective retroactive to June 30, 2002, the board amended its Market Stabilization Account policy to limit the difference between the market value of assets

and the actuarial value of assets to not more than $\pm 20\%$ of the market value. The board's objective in adopting this policy is to minimize the impact of short-term volatility in the market value of the retirement fund on employer and member contribution rates by smoothing market returns over a five-year period. All of the board's prior decisions regarding the Market Stabilization Account were assembled into a single policy decision as Resolution 03-04-01, which was adopted by the board on August 26, 2003.

On June 22, 2004, the Board of Retirement adopted Resolution 03-04-17, *Statement of Interest Crediting Policy*. This policy was amended on September 28, 2004, to establish an Unallocated Earnings / (Losses) Account.

Contingency Account: This account was established to facilitate the mandates of the interest crediting policy, which specifies the manner in which interest is credited to the reserves semi-annually. When there are insufficient allocable earnings to credit the reserves as specified in the policy, the Contingency Account may be debited by the amount required. However, in no event may the total of the non-valuation reserves be allowed to drop lower than 1% of the market value of assets.

Market Stabilization Account: This account represents the deferred balance of investment earnings not yet credited to the reserves. This balance arises from the five-year actuarial smoothing process for investment earnings described below. The Market Stabilization Account balance thus represents the difference between (1) the aggregate amounts initially deferred (smoothed) from the ten most recent semi-

annual periods and (2) the amounts subsequently recognized for semi-annual interest crediting from these same ten periods.

Actuarial Smoothing: Net investment income reported on the Statement of Changes in Fiduciary Net Position affects the reserves indirectly through an actuarial “smoothing” process approved by the Board of Retirement. This process operates semi-annually with calculation periods ending December 31 and June 30. It involves spreading the difference between actual and expected market return over ten successive semi-annual periods.

Semi-Annual Interest Crediting: SamCERA updates reserve balances on a semi-annual basis as of December 31 and June 30 each year. At these times, SamCERA carries out a multi-step process to calculate new reserve balances as specified in Article 5 of the 1937 Act. The amount of “net earnings” to be credited for the semi-annual period is calculated based on the actuarial smoothing process described above. To the extent that net earnings are available, interest is credited to all reserves, except the Member Deposit Reserve, at the actuarial assumed interest rate of 3.875% semi-annually for the fiscal year ended June 30, 2013, to specific components of reserves in a prescribed sequence. Pursuant to the Board of Retirement’s interest crediting policy, the Member Deposit Reserve is credited at the lesser of the actuarial smoothed earnings rate or the actuarial assumed interest rate, but the rate credited cannot be less than zero.

Allocation of Earnings/(Losses) to Reserves: For the year ended June 30, 2013, SamCERA’s distributed allocation of

earnings to reserves of \$199.8 million and resulted in -\$187.2 million as unapplied interest crediting. Earnings on average, resulting from the five-year smoothing process, were sufficient to provide credits to the reserves at the actuarial assumed interest rate in effect during the year, 3.875% semi-annually. The actuarial smoothed interest rate was 1.24% and 2.59% at December 31, 2012, and June 30, 2013, respectively.

Reserves are restricted to specific purposes. Member contributions are credited to the Member Deposit Reserve. Employer contributions are credited to the Employers’ Advance Reserve and the Cost of Living Adjustment Reserve. At retirement, a member’s accumulated contributions plus interest and the related employer’s contributions are transferred to the Retired Member Reserve. The Retired Member Reserve and the Cost of Living Adjustment Reserve represent amounts set aside for retirement benefits promised under the plan less benefits paid.

The reserves required by Section 31592 of the 1937 Act represent earnings in excess of the total interest credited to contributions and reserves. The 1937 Act requires that the excess earnings remain in the retirement fund as a reserve against any deficiencies in interest earnings in other years, losses on investments and other contingencies. However, excess earnings exceeding one percent of the total assets of the Association may be transferred into the Employers’ Advance Reserve for payment of benefits described under the 1937 Act.

GASB Statement No. 25 mandates the recognition of unrealized gains and losses in the current period. However, on the

recommendation of its actuary, SamCERA utilizes a Market Stabilization Account to account for unrealized actuarial investment gains and losses, which are calculated as the difference between the actual market return and the return that would have been generated if earnings had been at the actuarial interest rate. The Market Stabilization Account is designed to smooth the impact on employer annual contribution rates due to volatility in investment returns. Balances in the Market Stabilization Account are amortized over five years in accordance with a schedule established by the actuary.

The June 30, 2013, balance in the Market Stabilization Account of \$109.2 million reflects the balance of the current year's and previous four years' net deferred returns.

On June 26, 2004, SamCERA adopted an Interest Crediting Policy which mandates Actuarial Valuation Reserves be credited at

the Actuarial Interest Rate. The policy acknowledges that actual earnings may be greater than or less than the Actuarial Interest Rate. An Unallocated Earnings / Loss Account was established to account for periods when Actual Earnings do not equal the Actuarial Interest Rate.

The Board adopted a 0.25% reduction in the assumed interest rate to 7.5% in May 2012 which was applied to investment returns effective July 2012. Interest credit to Unallocated Earnings/Loss and Market Stabilization Accounts used 7.5% since they are associated with earnings assumption. The prior rate of 7.75% was applied to members and employer reserves interest crediting since the contribution rates were determined with 7.75%. Effective July 2013, 7.5% is used for all interest crediting.

RESERVES REQUIRED FOR REPORTING PURPOSES BY THE 1937 ACT

	2013	2012
Member Deposit Reserve	\$534,275,685	\$498,568,652
Employers' Advance Reserve	422,581,774	361,197,981
Retired Member Reserve	918,589,967	858,440,088
Cost of Living Adjustment Reserve	930,358,294	843,061,707
Total Allocated Reserves	2,805,805,721	2,561,268,428
Unallocated Earnings / (Loss) Account	(187,166,322)	(80,997,723)
Market Stabilization Account	109,185,934	(119,967,051)
Net Position Held in Trust for Pension Benefits	\$2,727,825,332	\$2,360,303,654

Note 4: Deposit and Investment Risk Disclosure

The County Employees' Retirement Law of 1937 vests the Board of Retirement (the Board) with exclusive control over SamCERA's investment portfolio. Except as otherwise expressly restricted by the California Constitution and by law, the Board may, in its discretion, invest, or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the Board.

The Board established an investment policy statement in accordance with applicable local, state and federal laws. The trustees exercise authority and control over the management of SamCERA's assets by setting the policy. The Board oversees and guides the plan subject to the following fiduciary responsibilities:

- Solely in the interest of, and for the exclusive purpose of, providing economic benefits to participants and their beneficiaries.
- With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like objectives.
- Shall diversify the investments of the plan as to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so. Diversification is applicable to the deployment of the assets as a whole.

Deposits

Operational cash consists of deposits with financial institutions as well as deposits held in a pooled account with the County of San Mateo. All operational cash is in interest bearing instruments. Deposits with financial institutions are swept into a pooled money market fund, which invests in repurchase agreements and U.S. Treasury bills and notes. All participants in the treasury pool share earnings and losses. The short-term investments consist of cash held in money market accounts and securities readily convertible to cash. All deposits are carried at cost, which approximates fair value.

Investments

The Association's investments are managed by independent investment management firms subject to the guidelines and controls specified in the investment policy and contracts executed with the Board. The Board utilizes a third party institution to be an independent custodian over the plan's assets.

The Board approved its first comprehensive investment plan on September 29, 1994. The plan specified an asset allocation target of 50% equities, 40% fixed income securities, and 10% real estate. On August 24, 2010, the Board of Retirement concluded an asset/liability modeling study and adopted a new asset allocation, consisting of 53% equities, 22% fixed income, 5% real estate and a new allocation of 20% to alternative investments. The alternatives portfolio consists of 40% private equity, 30% risk parity, 15% commodities and 15% hedge funds. Funding for alternative investments comes from reducing equities from 67% to 53%, fixed income

from 27% to 22% and real estate from 6% to 5%. SamCERA does not have a policy allocation to cash and cash equivalents. As of June 30, 2013, actual asset allocation was 60.4% equities, 20.1% fixed income, 13.3% alternative investments, 6.1% real estate and 0.1% in cash and cash equivalents.

For financial reporting purposes, the Association's investments are categorized to give an indication of the risk assumed by the Association as of June 30, 2013. The Governmental Accounting Standards Board (GASB) Statement No. 3 established custodial credit risk categories. The GASB Statement No. 40 and Statement No. 53 update the custodial credit risk disclosure requirements of Statement No. 3 and establish and modify disclosure requirements related to investment risk, credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk.

SamCERA has chosen to manage the investment risks described by GASB Statements No. 40 and 53 by contractually requiring each portfolio investment manager to abide by restrictive investment guidelines specifically tailored to that investment manager rather than adopting across the board investment policies with respect to manager risk. The investment guidelines stipulate the investment style, performance objective, performance benchmarks, and portfolio characteristics.

Each manager is likewise subject to a "manager standard of care" that establishes a fiduciary relationship requiring the manager to act prudently and solely in the best interest of the Association. Separately, SamCERA's guidelines also require

manager's investment return performance to compare favorably with performance of a relative passive market index over specific periods.

SamCERA's investment consultant and investment staff continually monitor all investment managers for compliance with respective guidelines.

Derivatives

SamCERA implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Investments*, for the fiscal year ended June 30, 2010. Further disclosure on the derivative positions held at fiscal year-end are contained in the table on page 54. In comparison to SamCERA's total investments at fair value, the fair value of SamCERA's derivative positions as of June 30, 2013 is not material.

SamCERA's investments contain various derivative positions as of and for the year ended June 30, 2013, primarily in swaps and foreign currency forward positions. As of June 30, 2013, SamCERA held derivatives with a notional amount of \$114,702,783 and a fair value of \$1,749,962 as seen in the table on the following page. Changes in fair value during fiscal year 2013 are reported in the statement of changes in fiduciary net position as a component of investment income. No derivatives were held that would be classified as hedging derivatives – all are classified as investment derivatives.

The fair values of the derivatives are determined using a pricing service and validated by SamCERA's custodians. Management of SamCERA accepts these valuations.

The fair values of currency forward contracts are determined using a proprietary pricing service, which uses published foreign exchange rates as the primary source. The fair values of credit rate swaps, interest rate swaps, warrants, and To Be Announced (TBA) transactions, are determined using the custodian pricing vehicles.

Securities Lending Activity

Beginning on July 1, 2007, the Board of Retirement policies authorize SamCERA to participate in a securities lending program. Security lending transactions are short-term collateralized loans of SamCERA securities for the purpose of generating additional investment income. SamCERA has a securities lending agreement in place that authorizes the securities lending agent to lend SamCERA securities to broker-dealers and banks pursuant to a loan agreement. For each securities loan, SamCERA receives either cash or non-cash collateral. SamCERA invests the cash and receives earnings on it in exchange for paying a loan rebate fee to the borrower. In the case of

non-cash collateral, the borrower also pays SamCERA a loan premium.

For the year ended June 30, 2013, on behalf of SamCERA, the securities lending agent lent SamCERA securities to borrowers under the securities lending agreement and SamCERA received cash, securities issued or guaranteed by the United States government, and sovereign debt or irrevocable bank letters of credit as collateral.

SamCERA did not have the ability to pledge or sell collateral securities delivered absent a borrower default; therefore, such non-cash collateral is not reported on the statement of fiduciary net position.

Borrowers were required to deliver collateral for each loan (margin) equal to:

Loaned securities denominated in U.S. dollars or sovereign debt issued by foreign governments, with a margin of at least 102% of the market value of the loaned securities; and

INVESTMENT DERIVATIVES

For the Year Ended June 30, 2013

	Notional Value	Fair Value
Credit Default Swaps Bought	\$855,604	\$78,731
Credit Default Swaps Written	\$0	\$0
Fixed Income Futures Long	\$7,000,000	\$0
Fixed Income Futures Short	-\$12,400,000	\$0
Fixed Income Options Bought	\$0	\$0
Fixed Income Options Written	-\$800,000	-\$406,081
Futures Options Bought	\$0	\$0
Futures Options Written	-\$51,000	-\$66,422
Foreign Exchange Forwards	\$120,098,179	\$2,143,734
Pay Fixed Interest Rate Swaps	\$0	\$0
Rights	\$0	\$0
Warrants	\$0	\$0
Grand Total	\$114,702,783	\$1,749,962

Loaned securities not denominated in U.S. dollars, or whose primary trading market was not located in the United States, with a margin of at least 105% of the market value of the loaned securities.

Moreover, borrowers were required to maintain the designated margin percentage of collateral on a daily basis.

SamCERA did not impose any restrictions for the year ended June 30, 2013, on the amount of loans that the securities lending agent made on its behalf. The securities lending agent indemnified SamCERA by agreeing to purchase replacement securities or supplement the amount of cash collateral in the event the borrower failed to return the loaned securities and the collateral was inadequate to replace the securities lent or the borrower failed to pay SamCERA for any income distributions on loaned securities. There were no losses during the year ended June 30, 2013, resulting from a default of the borrowers or the securities lending agent.

SamCERA and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders in a short-term investment pool managed by the securities lending agent. As of June 30, 2013, this investment pool had an average duration of 59 days, and an average weighted maturity of 33 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. For the year ended June 30, 2013, SamCERA had no credit risk exposure to borrowers because, for each

borrower, the value of borrower collateral held exceeded the value of the securities on loan to the borrower.

As of June 30, 2013, SamCERA had securities on loan with a total value of \$132.6 million and the cash and other collateral held against the loaned securities of \$136.4 million.

Deposit, Investment and Derivative Risks

Custodial Credit Risk – Deposits: The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, SamCERA will not be able to recover deposits nor be able to recover collateral securities that are in the possession of an outside party. SamCERA has no general policy on custodial credit risk for deposits.

SamCERA maintains operation cash deposits to support day-to-day cash management requirements. As of June 30, 2013, cash held with a financial institution in a pooled money market fund totaled \$1.2 million. As of June 30, 2012, cash held with a financial institution totaled \$3.4 million. Cash held in the San Mateo County Treasurer's investment pool was \$1.0 million and \$2.6 million, as of June 30, 2013 and 2012, respectively. These deposits are not exposed to custodial credit risk as they are eligible and covered by insurance in accordance with applicable law and FDIC rules and regulations.

Custodial Credit Risk – Investments: The custodial credit risk for investments is the risk that, in the event of the failure of a counterparty to a transaction, SamCERA

will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The individual investment guidelines for each investment manager require that managed investments be held in the name of SamCERA. The master custodian may rely on sub-custodians. The custodial requirement does not apply to real estate investments and investments in pools. As of June 30, 2013, SamCERA had no investments that were exposed to custodial credit risk because all securities held by the Association's custodial bank are in SamCERA's name. SamCERA does not have a general policy addressing custodial credit risk.

Custodial Credit Risk – Derivatives: As of June 30, 2013, SamCERA's derivatives were not subject to custodial credit risk. However, they are subject to other risks.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of SamCERA's investment in a single issuer of securities. SamCERA's Investment Policy states no investment shall constitute more than 5% of investable assets.

As of June 30, 2013, the Association had the investments categorized for interest rate and credit risk shown in the tables on the following page.

Credit Risk – Investments: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. SamCERA's Investment Policy seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an

acceptable level of risk within the asset class. To control credit risk, credit quality guidelines have been established for our separately managed accounts.

On June 30, 2013, the quality breakdown of the Association's investments in bonds were rated as indicated on the following page.

Credit Risk – Derivatives: SamCERA is exposed to credit risk on investment derivatives that are traded over the counter and are reported in asset positions. Derivatives exposed to credit risk include credit default and interest rate swaps, currency forward contracts, rights, warrants and TBA transactions. To minimize credit risk exposure, SamCERA's investment managers continuously monitor credit ratings of counterparties. Should there be a counterparty failure, SamCERA would be exposed to the loss of fair value of derivatives that are in asset positions and any collateral provided to the counterparty, net of the effect of applicable netting arrangements. SamCERA has no general investment policy with respect to netting arrangements or collateral requirements. Netting arrangements legally provide SamCERA with a right of offset in the event of bankruptcy or default by the counterparty.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is the measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of the portfolio, the greater its price sensitivity to changes in interest rates.

ACTIVE FIXED INCOME PORTFOLIO CHARACTERISTICS

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

Investment Type	Fair Value	Coupon	Weighted Average Maturity (Years)	Effective Duration (Years)
Agency & Agency Collateralized Mortgage	\$19,615,381	2.560%	17.85	0.36
Asset Backed Securities	\$9,041,362	0.953%	9.51	0.15
Commercial Mortgage Backed Securities	\$9,803,918	1.980%	5.46	(0.95)
Agency Mortgage Backed Securities	\$81,511,455	4.019%	8.07	4.60
Non-Agency Mortgage Backed Securities	\$11,952,993	1.604%	7.68	0.11
Corporate Bonds	\$172,045,389	5.68%	8.97	5.01
Preferred Stock	\$401,048	0.000%	-	-
Foreign	\$71,410,856	5.389%	4.70	3.74
Government Issues	\$1,913,637	3.592%	21.79	10.07
Taxable Municipal Bonds	\$6,561,598	4.198%	25.34	7.37
U.S. Treasuries	\$126,683,593	1.578%	9.39	7.93
Total / Average	\$510,941,230	3.92%	8.83	5.13

COMMINGLED FIXED INCOME PORTFOLIO CHARACTERISTICS

Angelo Gordon STAR Portfolio

Investment Type	Fair Value	Coupon	Weighted Average Maturity (Years)	Effective Duration (Years)
Angelo Gordon	\$30,031,000	3.15%	-0.08	24.98

QUALITY BREAKDOWN FOR SAMCERA'S INVESTMENTS IN BONDS

For the Year Ended June 30, 2013

Credit Risk	Active Management	Commingled Management
AAA	0.52%	0.30%
AA	34.81%	3.30%
A	1.78%	0.00%
BBB	4.51%	0.60%
Less than BBB	6.35%	74.90%
NR	52%	20.90%
	100.00%	100.00%

SamCERA has investments in six fixed income portfolios containing individual debt securities as well as investments in external investment pools containing debt securities. SamCERA's Investment Policy does not have a formal policy that limits investment duration as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the Association's U.S. active bond portfolios that reside in separate accounts are generally managed to duration limits that are within a narrow band (typically +/- 20% or +/- 1 year) to their respective benchmark.

Foreign Currency Risk: Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair values of an investment or deposit. SamCERA's international equity and global bond managers are permitted to invest in authorized countries. SamCERA's Investment Policy states forward currency contracts and currency futures are permitted for defensive currency hedging to mitigate foreign currency risk on the portfolio.

The foreign currency risk analysis schedule on the following page shows the fair value of investments that are exposed to foreign currency risk by investment type and currency denomination. The schedule offers the magnitude of risk for each foreign currency. The foreign currency positions are denominated in U.S. dollars. They are not denominated in their native currencies.

Foreign Currency Risk – Foreign Exchange Contracts: Foreign currency contracts are subject to foreign currency risk. Foreign exchange contracts include forward contracts and spot contracts. Currency forward

contracts are derivatives and generally serve to hedge or offset the impact of foreign currency exchange rate fluctuations on the reported U.S. dollar fair value of investments denominated in foreign currencies. Spot contracts are generally used when SamCERA is required to make or receive payments in a foreign currency. Spot contracts are agreements to buy or sell a certain amount of foreign currency at the current market rate, for settlement in two business days.

The Association's exposure to foreign currency risk in U.S. dollars as of June 30, 2013, is shown on the following page.

Security Lending Collateral Credit Risk: All of the cash collateral received for securities lending is invested in the State Street Navigator Securities Lending Prime Portfolio, which is not rated by credit rating agencies. All investments will qualify as "eligible securities" within the meaning of Rule 2(a)-7 of the Investment Companies Act of 1940. The portfolio seeks to maintain a stable net asset value per share of \$1.00 by valuing its portfolio using an amortized cost method and will comply with the requirements of Rule 2(a)-7.

Security Lending Collateral Interest Rate Risk: Cash collateral from loans of securities are invested in the State Street Navigator Securities Lending Prime Portfolio. Its average effective duration is restricted to 90 days or less. As of June 30, 2013, and 2012, the actual effective duration was 33 days and 26 days, respectively.

FOREIGN CURRENCY RISK

For the Year Ended June 30, 2013

Local Currency	Common Stock	Corporate Bonds	Credit Default Swaps	Foreign Currency	Government Issues	Short Terms	Grand Total
AUSTRALIAN DOLLAR	\$20,076,990			\$46,403	\$261,449		\$20,384,842
BRAZILIAN REAL				83,930	2,791,991		2,875,922
CANADIAN DOLLAR	1,970,126			42,972	2,916,327		4,929,424
DANISH KRONE	7,509,505						7,509,505
EGYPTIAN POUND				5			5
EURO CURRENCY	80,253,343	1,659,475	18,097	2,091,525	14,877,652		98,900,092
GHANA CEDI				43,462	3,533,878		3,577,340
HONG KONG DOLLAR	7,014,927						7,014,927
HUNGARIAN FORINT				1,209	5,670,622		5,671,832
INDONESIAN RUPIAH				105,786	2,863,048		2,968,834
ISRAELI SHEKEL					4,796,638		4,796,638
JAPANESE YEN	58,579,987			160,157			58,740,144
MALAYSIAN RINGGIT				218,479	9,422,022		9,640,501
MEXICAN PESO				405,203	7,029,936		7,435,139
NEW TAIWAN DOLLAR				2,582,333			2,582,333
NEW ZEALAND DOLLAR	2,472,021						2,472,021
PHILIPPINE PESO				145,542	5,096,756		5,242,298
POLISH ZLOTY				146,968	4,167,700		4,314,668
POUND STERLING	74,886,015	142,776		348,167			75,376,958
SINGAPORE DOLLAR	9,519,321						9,519,321
SOUTH AFRICAN RAND	1,465,504						1,465,504
SOUTH KOREAN WON				192,006	15,381,837		15,573,842
SWEDISH KRONA	13,555,737						13,555,737
SWISS FRANC	28,979,308						28,979,308
TURKISH LIRA	1,989,628						1,989,628
UKRAINE HRYVNA		984,401					984,401
URUGUAYAN PESO		20,957		14,872	7,523,909	239,525	7,799,263
Grand Total	\$308,272,412	\$2,807,609	\$18,097	\$6,629,019	\$86,333,765	\$239,525	\$404,300,428

Note 5: Risk Management

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. SamCERA manages and finances these risks by purchasing commercial insurance and through the County of San Mateo's self-insurance program.

SamCERA is covered by the County of San Mateo's self-insurance program for general liability and workers' compensation coverage. For general liability coverage, the county maintains a self-insurance retention of \$1,000 per occurrence for claims occurring from May 27, 2013 through May 27, 2014. For workers' compensation coverage, the county maintains a self-insured retention of \$1,000 per occurrence. Excess coverages for both of the above are provided by commercial companies that are limited to the following:

- Real and personal property in excess of \$100 per incident, but limited to a maximum of \$500,000.
- Earthquake in excess of \$250 or 5.0% of the replacement value, whichever is more per incident, but limited to a maximum of \$25,000 in aggregate.
- Flood damage in excess of 5.0% of the replacement value per location, but limited to a maximum of \$25,000 in aggregate.
- General liability in excess of \$1,000 per incident, but limited to a maximum of \$55,000.
- Workers' compensation in excess of \$1,000 per incident, but limited to a statutory amount.
- Auto liability in excess of \$1,000 per incident, but limited to a maximum of

\$55,000.

- Malpractice in excess of \$500 per incident, but limited to a maximum of \$25,000 per claim and aggregate.

Settled claims have not exceeded the commercial coverage in any of the past three fiscal years and there was a slight increase in coverage in fiscal year 2012.

SamCERA pays for risk management administration via a Memorandum of Understanding with the county's Human Resources Department and via a pro-rata share of certain insurances based on the number of employees.

The Board of Retirement purchases separate Fiduciary Liability coverage for actual or alleged breach of fiduciary duties through a policy provided by Travelers. Limits of coverage are \$10,000,000 annual aggregate with a \$50,000 deductible.

Note 6: Actuarial Valuation

Pursuant to provisions in the County Employees' Retirement Law of 1937, SamCERA engages an independent actuarial firm, Milliman, Inc., to perform an annual actuarial valuation to monitor its funding status and funding integrity. The purpose of the valuation is to reassess the magnitude of SamCERA's benefit commitments in comparison with the assets expected to be available to support those commitments so employer and member contribution rates can be adjusted accordingly. For the pension plan, the actuarial assumptions have been selected in order to estimate as closely as possible what the actuarial cost of the plan will be so as to permit an orderly method for setting aside contributions today to provide benefits in the future, and to maintain

equity among generations of participants and taxpayers.

Milliman, Inc. completed the actuarial valuation as of June 30, 2012, and June 30, 2013, and determined the funding status (the ratio of system assets to system liabilities) to be 72.0% and 73.3%, respectively. The June 30, 2013, funding status was established based on entry age normal actuarial cost methods, an assumed 7.5% investment return, an assumed 3.75% annual total payroll growth rate, an inflation rate of 3.25% and an actuarial value on assets using a five-year smoothed method based on the difference between expected and actual market value of the assets as of the valuation date.

The most recent actuarial valuation is June 30, 2013. The valuation discloses the actuarial value of assets at \$2.617 billion with an actuarial accrued liability of \$3.573 billion for a funded ratio of 73.3%. The

unfunded actuarial accrued liability is \$954.1 million, which is 234% percent of the \$406.9 million covered payroll. The employer contribution rate, which has an effective date of June 30, 2014, was set equal to 26.28% of payroll for the amortization of the UAAL over the new 15 years, plus the normal cost rate of 11.19% for a total contribution rate of 37.47% of payroll. A schedule of SamCERA's funding progress may be found in the required supplementary information on page 63. The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

Additional information regarding the actuarial methods and significant assumptions used as of the latest actuarial valuation of plan assets and liabilities is shown below.

LATEST ACTUARIAL VALUATION OF PLAN ASSETS AND LIABILITIES

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	Original unfunded amount (UAAL) as of June 30, 2008, is amortized over closed 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new 15-year periods (including the change in UAAL as of June 30, 2013). This is referred to as 15-year layered amortization.
Asset Valuation Method	5-year smoothed market with 20% corridor

ACTUARIAL ASSUMPTIONS

Investment Rate of Return	7.50%
Price Inflation (CPI)	3.25%
Payroll Increases	3.75%
Average Projected Salary Increases	4.95%
Attributed to Inflation	3.75%
Attributed to Adjustments for Merit and Longevity	1.20%

Statement No. 50 of the Governmental Accounting Standards Board, *Pension Disclosures*, mandates that the above information regarding actuarial methods and significant assumptions appear in the notes to the financial statements. Historically this information appeared in the required supplementary information section following the notes.

Cost of Living Adjustments

The maximum increase in retirement allowance is 5% for Tier 1 (Probation/Safety Tier 1 is 3.0%), 3% for Tier 2 and 2% for Tier 4, Tier 5, Tier 6 and Tier 7. The annual adjustments are based on the change in the Consumer Price Index for the Bay Area.

Note 7: Capital Commitments

During the course of the fiscal year, SamCERA added \$60 million of additional commitments to three new private equity managers. As of June 30, 2013, the Association's private equity portfolio consisted of eleven fund managers with a total capital commitment amount reaching \$183 million. SamCERA is still in its initial stages in developing its private equity portfolio and intends to make additional capital commitments over the duration of the next few years.

Note 8: Related Party Transactions

By necessity, SamCERA is involved in various business transactions with the County of San Mateo, the primary plan sponsor. SamCERA funds the county for the cost of services provided by the following departments: County Counsel, Auditor-Controller, Purchasing, Human Resources, Information Services and the Department of

Hospitals and Clinics. In addition, SamCERA reimburses the county for the salary and benefits of SamCERA staff members paid through the county and the costs of services in the areas of reprographics, telecommunications, and the Board of Retirement elections.

Note 9: Contingent Liability

SamCERA is subject to legal proceedings and claims, which arise in the ordinary course of its business. There are currently no such actions to be adjudicated or reported.

Note 10: Subsequent Events

Subsequent events are those events or transactions that occur subsequent to the effective date of the financial statements, but prior to the issuance of final reports, which may have a material effect on the financial statements or disclosures contained therein.

Financial Disclosures

Subsequent to June 30, 2013, and through October 21, 2013, the date through which management evaluated subsequent events and the date of the independent auditor's report, SamCERA did not identify any subsequent financial events that required disclosure.

Investment Managers

As part of SamCERA's ongoing implementation of its private equity program, the Board of Retirement approved a \$25 million in capital commitment each to Cevian Capital II, L.P. and Great Hill Partners V, L.P. subsequent to June 30, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2008	\$2,218,937	\$2,806,222	\$587,285	79.10%	\$416,243	141.09%
6/30/2009	\$1,909,679	\$2,987,712	\$1,078,033	63.90%	\$436,424	247.02%
6/30/2010	\$2,179,076	\$3,098,453	\$919,377	70.30%	\$428,559	214.53%
6/30/2011	\$2,405,140	\$3,246,727	\$841,587	74.10%	\$424,061	198.46%
6/30/2012	\$2,480,271	\$3,442,553	\$962,282	72.00%	\$419,779	229.24%
6/30/2013	\$2,618,639	\$3,572,750	\$954,111	73.30%	\$406,921	234.47%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(in thousands)

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2008	\$105,340	100%
2009	\$106,123	100%
2010	\$106,265	100%
2011	\$150,475	100%
2012	\$150,950	100%
2013	\$144,308	100%

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

The Association provides the valuation of plan assets and liabilities, which is normally carried out as of June 30th of each year, and contribution requirements resulting from such valuations become effective on July 1st of the next fiscal year.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation of plan assets and liabilities is on the following page.

Cost of Living Adjustments

The maximum increase in retirement allowance is 5% for Tier 1 (Probation/Safety Tier 1 is 3%), 3% for Tier 2 and 2% for Tiers 4, 5, 6 and 7. The annual adjustments are based on the change in the Consumer Price Index for the Bay Area.

Schedule of Funding Progress

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 greater a system's funded ratio, the better position it will be in to meet all of its future liabilities.

As of June 30, 2013, the date of the last actuarial valuation, the San Mateo County Employees' Retirement Association had a 73.3% funded status. Overall, the financial condition of SamCERA continues to be

sound in accordance with the actuarial principles of entry age normal cost funding.

SamCERA currently has a UAAL, resulting from actuarial accrued liabilities (AAL) exceeding the actuarially determined value of assets. With the actuarial valuation of June 30, 2008, SamCERA is converted to the closed 15-year layered amortization methodology, which is explained on the following page.

Schedule of Employers' Contributions

The sources of revenues that fund a retirement system are employer contributions, member contributions, and investment earnings on plan assets. Each year, SamCERA's actuary determines the amount of employer contributions required to fund a given schedule of benefits (current and future liabilities). The calculation for the benefit schedule is based on the following factors: (1) the Association's benefit structure, (2) statistical data about members of the system, and (3) current and predicted future retirees and beneficiaries of SamCERA. Assumptions must be made to estimate how many members terminate employment, leave on a disability retirement or service retirement, and the average ages of members at retirement and at mortality. Finally, the preceding data is combined with an actuarially assumed investment rate of return and assumed salary increases of SamCERA's members. All of this information taken together is presented in an annual actuarial valuation in which the actuary recommends an employer contribution rate (percentage) to the participating employers. This contribution rate percentage is applied to the valuation payroll for each of the participating

members. The resulting dollar amounts, as depicted in the Schedule of Employer Contributions above, are the actuarially calculated required employer contributions necessary to fund the promised benefits to SamCERA's members.

contains six years of historical information with respect to SamCERA's actuarially calculated, required contributions versus the actual employer contributions made on an annual basis. Over the past six years, the employer has contributed 100% percent of the amount recommended by the actuary.

The employers' contribution schedule

LATEST ACTUARIAL VALUATION OF PLAN ASSETS AND LIABILITIES

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	Original unfunded amount (UAAL) as of June 30, 2008, is amortized over closed 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new 15-year periods (including the change in UAAL as of June 30, 2013). This is referred to as 15-year layered amortization.
Asset Valuation Method	5-year smoothed market with 20% corridor

ACTUARIAL ASSUMPTIONS

Investment Rate of Return	7.50%
Price Inflation (CPI)	3.25%
Payroll Increases	3.75%
Average Projected Salary Increases	4.95%
Attributed to Inflation	3.75%
Attributed to Adjustments for Merit and Longevity	1.20%

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF ADMINISTRATIVE EXPENSES

For the Years Ended June 30, 2013 and 2012

	2013*	2012*
Salaries and Member Benefits	\$3,129,111	\$3,329,128
Services and Supplies	1,130,510	1,378,497
Total Administrative Expense	\$4,259,621	\$4,707,625

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

ADMINISTRATIVE BUDGET ANALYSIS

Budget to Actual Expenditures as of June 30, 2013

	Budget Allotment (As Amended)	Fiscal Year Expenditures	Percentage Expended
Salaries	\$2,584,060	\$1,986,244	76.87%
Benefits	1,311,360	1,142,867	87.15%
Salaries & Benefits	3,895,420	3,129,111	80.33%
Board Expenses	10,500	8,800	83.81%
Insurance	80,000	68,434	85.54%
Medical Evaluation	100,000	60,570	60.57%
Member Education	45,000	44,578	99.06%
Education & Conference	103,858	47,782	46.01%
Transportation & Lodging	158,297	64,492	40.74%
Technology Infrastructure	0	0	0.00%
Property & Equipment	22,500	17,857	79.36%
General Office Supplies	33,500	20,355	60.76%
Postage, Printing & Copying	125,000	51,782	41.43%
Leased Facilities	366,200	304,528	83.16%
County Service	406,025	355,802	87.63%
Audit Services	45,500	63,236	138.98%
Other Administration	0	22,294	0.00%
Services & Supplies	1,496,380	1,130,510	75.55%
Grand Total	\$5,391,800	\$4,259,621	79.00%

SCHEDULE OF INFORMATION TECHNOLOGY EXPENSES

For the Years Ended June 30, 2013 and 2012

	2013	2012
Property and Equipment	\$22,983	\$61,989
IT Infrastructure	631,583	263,432
Total Information Technology Expense	\$654,566	\$325,421

SCHEDULE OF INVESTMENT EXPENSES

For the years ended June 30, 2013 and 2012

	2013	2012
INVESTMENT MANAGER		
Aberdeen Asset Management	\$99,035	\$304,308
Artio Global Management	-369	636,613
Barrow, Hanley, Mewhinney, & Strauss	711,508	698,400
BlackRock Capital Management	299,294	820,646
The Boston Company	604,235	416,251
Chartwell Investment Partners	585,085	436,802
D.E. Shaw Investment Management	667,540	565,252
Invesco Realty Advisors	634,472	609,125
Jennison Associates	404,520	763,935
Mondrian Investment Partners	296,128	349,958
Pyramis Global Advisors	214,840	189,408
Angelo Gordon PPIP	135,126	350,000
Angelo Gordon STAR	226,747	0
Brown Brothers Harriman	124,095	114,254
Brigade Capital Management	453,921	394,157
Brown Advisory	112,842	0
Franklin Templeton	455,842	412,142
State Street Global Advisors	429,739	364,337
T. Rowe Price Associates	240,184	384,809
Western Asset Management	319,960	297,280
Sheridan Production Partners	300,045	300,029
ABRY Advanced Securities Fund II	283,339	292,149
ABRY Partners VII	96,030	162,391
AQR Global Risk Premium	665,899	592,477
AQR Delta Fund	715,597	687,333
Pyramis Select International	465,256	107,769
Eaton Vance Parametrics	638,969	140,751
Baillie Gifford	789,014	164,982
Regiment Capital	297,303	339,177
General Catalyst	238,500	130,000
Sycamore Partners	367,172	363,542
Sycamore Sidecar	125	1,396
Emergence Capital	230,383	0
New Enterprise Associates	114,973	0
Warburg Pincus XI	397,470	0
Encap Fund IX	117,799	0
Third Rock Ventures	250,000	0
GLOBAL CUSTODIAN		
State Street Bank	168,039	226,521
Investment & Actuarial Consultants	545,541	571,810
Sub-total Professional Expense	13,696,198	12,188,004
Other Investment Related Expense	5,379,365	5,585,785
Interest Paid on Prepaid Contribution	2,851,067	3,167,166
Total Investment Expense	\$21,926,630	\$20,940,955

SCHEDULE OF PAYMENTS TO CONSULTANTS

For the years ended June 30, 2013 and 2012

	2013	2012
INVESTMENT CONSULTANT EXPENSE		
Strategic Investment Solutions, Inc.	\$404,608	\$400,000
ACTUARIAL CONSULTANT EXPENSE		
Milliman, Inc.	92,100	156,810
OTHER PROFESSIONAL FEES	48,833	15,000
Total Consultant Expense	\$545,541	\$571,810

NOTES TO THE OTHER SUPPLEMENTARY INFORMATION

Administrative Services Budget

The passage of Assembly Bill 609 in October 2010 changed the 1937 Act system administration expense limit from 23 basis points of total assets to 21 basis points of Accrued Actuarial Liability. Since the system's liability is more consistent from year to year and not affected by capital market volatility, the change will allow SamCERA to manage its administrative expenses more effectively. With the implementation of Government Code Section 31580.2, SamCERA no longer classifies internal investment related expenses to asset management. Asset Management Expenses will be reclassified and combined with Administrative Expense. Under the new limit, information technology expenses are not included in administrative expense. Hence, there is a separate information technology budget that started in fiscal year 2012.

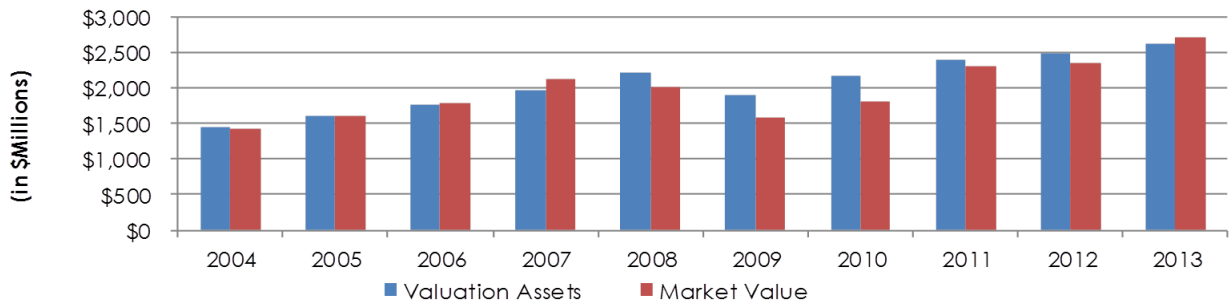
Professional Services Budget

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

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

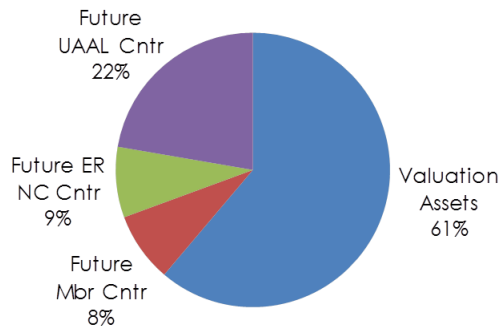
SamCERA's professional services budget is driven by contractual agreements with its actuary, custodian, investment consultant, and investment managers.

APPLICABLE VALUATION ASSETS

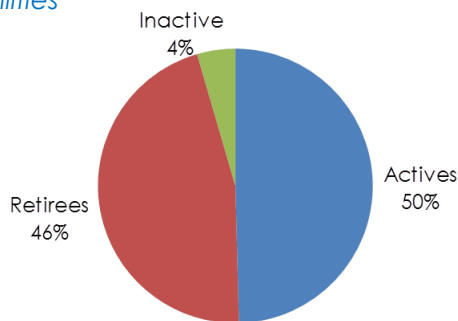


ACTUARIAL RESOURCES AND LIABILITIES

Resources



Liabilities

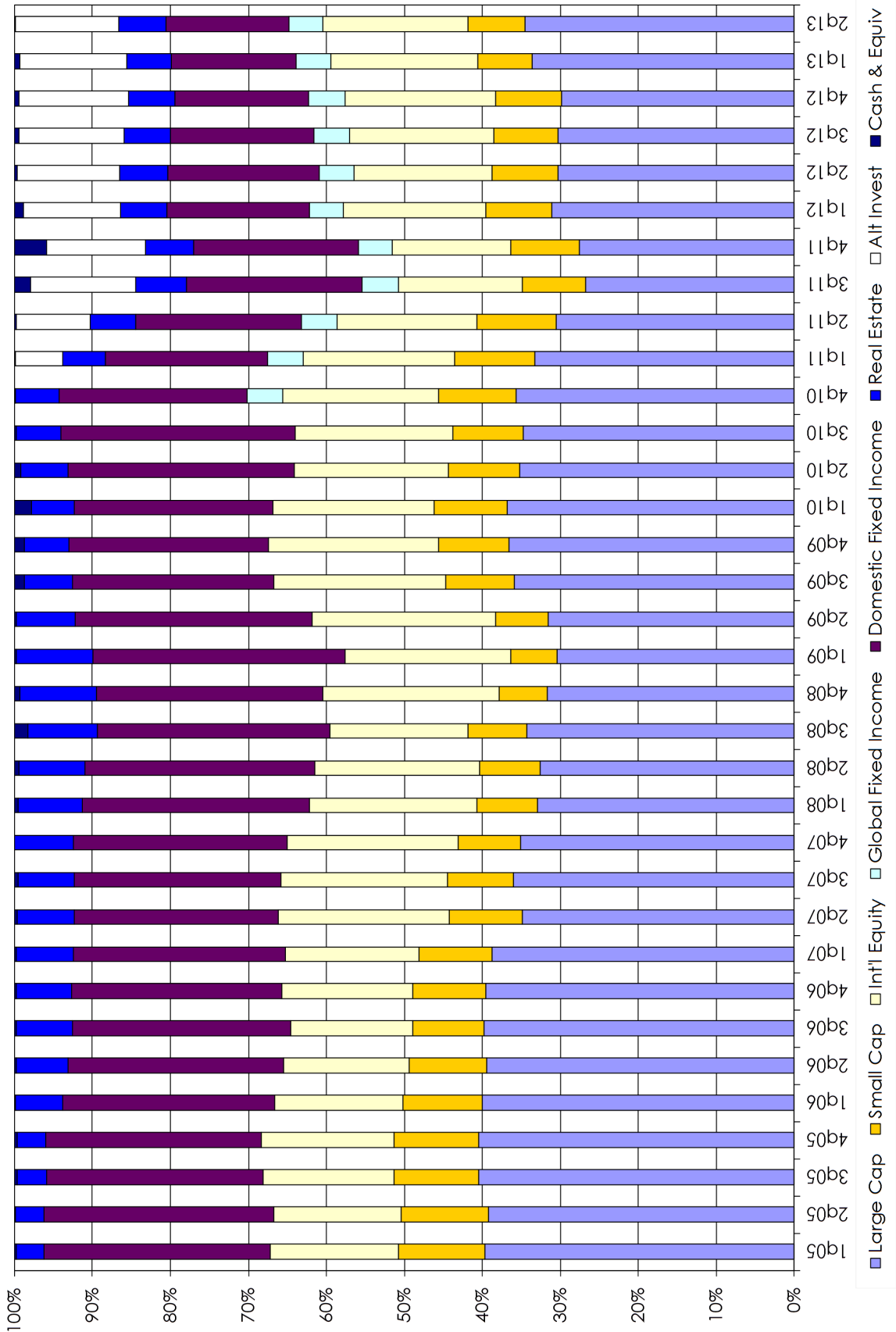


INVESTMENT SECTION



ACTUAL HISTORICAL QUARTERLY ASSET ALLOCATION

Period ending June 30, 2013



CHIEF INVESTMENT OFFICER'S REPORT



100 Marine Parkway, Suite 125
Redwood City, CA 94065
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Michael Coultrip
SamCERA
Chief Investment Officer

Board of Retirement
San Mateo County Employees' Retirement Association

Dear Trustees:

On behalf of SamCERA's investment team, I am pleased to present reports on the pension fund's investments and portfolio performance for the period ended June 30, 2013. This data was compiled by SamCERA's investment staff, its investment consultant Strategic Investment Solutions, Inc. and the master custodian State Street Bank & Trust.

After experiencing essentially flat returns last fiscal year, SamCERA's portfolio returned 13.6% net of investment manager fees for the fiscal year ending June 2013, outperforming its policy benchmark by 80 basis points. The strong results for this year were driven mostly by robust global equity markets.

The net portfolio market value increased to \$2.73 billion, as the combination of positive investment income and net portfolio appreciation added approximately \$327 million to the fund.

Fueled by the extraordinary global central bank accommodative monetary

policies, developed world equity markets and other 'risk' assets had very strong returns despite continued problem headlines, which included such things as the on-going European economic concerns and the fiscal cliff negotiations in the U.S. However, late in the fiscal year uncertainty over the Federal Reserve's intent to 'taper' its pace of bond purchases led to substantial market volatility across most asset classes, which served as a reminder of the importance of diversifying the portfolio across various risk factors.

Domestic equity was SamCERA's best performing asset class composite this fiscal year, up over 22.5%. SamCERA's large-cap portfolio composite was up over 21.9%, while the small-capitalization composite was up 24.9%. Both composites outperformed their respective benchmarks. Within the U.S. equity markets, all sectors had positive performance for the year. In addition, in a role reversal from last fiscal year, higher risk sectors generally did better than more defensive sectors in response to the quantitative easing throughout the developed world.

SamCERA restructured the domestic equity portfolio during the year by reducing the number of active managers and increasing the allocation to passive in the core large-capitalization segment of the market. The fund also replaced an underperforming large-capitalization growth manager. The new manager utilizes bottom-up, fundamental research to select a concentrated, best ideas portfolio of fundamentally strong businesses with high growth prospects.

Developed market stocks, as measured by

the MSCI EAFE Index (a common benchmark for developed markets equity), was up 19.1%. European shares rebounded 23.9% from last year's double digit negative return as the European Central Bank did its best to soothe market sentiment regarding the stability of the Eurozone banks. Emerging markets, as measured by the MSCI Emerging Markets Index, increased 3.2% over the period. Lower growth expectations in China dragged down emerging markets in the second half of the fiscal year, resulting in lower returns versus developed markets. SamCERA's international equity composite returned 14.7% for the fiscal year, outperforming its benchmark index (which includes both developed and emerging market exposure).

Real estate had another solid fiscal year. SamCERA's real estate composite was up 13%, which was also higher than its composite benchmark. The strong performance was a continuation from last year as investors, thirsty for yield generating assets, pushed up commercial property market prices.

It was an interesting year in the bond market as anxiety regarding the potential for Federal Reserve tapering of its bond purchases resulted in significantly higher interest rates and bond market volatility. The yield on the 10-year Treasury note increased 85 basis points to 2.5% during the fiscal year, resulting in a negative return (-0.69%) for the broad fixed income market, as measured by the Barclays Aggregate Index.

SamCERA's fixed income portfolio composite outperformed its benchmark

return and returned 4.5% for the year, helped in particular by strong positive returns from its global bond and opportunistic credit managers. In fact, all of the managers in the fixed income composite outperformed their respective benchmarks for the fiscal year.

SamCERA simplified its core bond portfolio during the fiscal year by reducing the number of active managers and reallocating the proceeds to two existing managers. SamCERA also re-upped with one of its existing credit managers to fund an allocation to their opportunistic credit strategy.

SamCERA's alternative composite returned 3.4% for the fiscal year, which was below its benchmark return. Risk parity, which is designed to provide a more risk-balanced asset allocation profile than a typical equity-centric allocation, underperformed its benchmark during the equity bull market.

Another factor in the alternative composite underperformance is the fact that SamCERA's private equity portfolio is still being built out, and it will be a number of years before the portfolio will mature and more meaningful performance comparisons can be made. The private equity allocation will take multiple years to fully implement to ensure proper diversification across sub-categories and vintage years. For the year, commitments to three new private equity partnerships were approved, totaling \$60 million. This brings total commitments for the program to \$183 million diversified across venture capital, buyouts, and special situations, of which just under \$66 million

has been funded as of June 30, 2013. Subsequent to June 30th, SamCERA committed \$50 million to two additional private equity partnerships bringing the total commitments to \$233 million.

During the year SamCERA also added a strategic overlay manager that will allow it to be more efficient in managing its portfolio exposures and rebalancing activities. Furthermore, while SamCERA has made great strides in enhancing the diversification of the portfolio over the past few years, the plan has begun to analyze risk across additional dimensions in addition to volatility of returns, and these actions should help the fund better weather the uncertainty in the financial markets that seems bound to continue over the foreseeable future.



Respectfully Submitted,
Michael Coultrip
Chief Investment Officer
October 21, 2013

INVESTMENT CONSULTANT'S REPORT ON INVESTMENT ACTIVITIES

STRATEGIC INVESTMENT SOLUTIONS, INC.

333 BUSH STREET, STE. 2000
SAN FRANCISCO, CALIFORNIA 94104
TEL 415/362-3484 FAX 415/362-2752

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

October 21, 2013

Dear Board Members:

Following a tumultuous fiscal year in 2012 when pension plans experienced significant volatility, but in the end captured moderately positive returns, 2013 turned out to be a strong year for the average pension plan. Economic news was largely mixed with developed countries experiencing tepid but sustained growth and many emerging countries finding their customarily higher growth rates harder to sustain. On the investment front, equities largely had a constructive year, with the large developed countries leading the way. The bigger story was perhaps in fixed income, where rising rates sent tremors through the bond markets in late May and early June, causing many bond portfolios to experience losses for the first time in several years.

Bond markets experienced a minor panic with the news that the Federal Reserve could begin to taper its asset purchases later this year. Treasury yields spiked late in the fiscal year as investors began selling longer duration bonds for fear that rates would rise as Fed bond buying slowed. The ripple effect of this activity broadened to emerging markets, where spreads widened in developing market bonds. The developed equity markets, however, largely shook off the news and continued their impressive rally through the year.

The broad US Equity market, as measured by the Russell 3000 Index, returned 21.46% during the year. The Russell 1000 large cap component of US Equity gained 21.24%, while the small cap Russell 2000 rose 24.21%. International equity investments had mixed success as growth in the emerging markets came into question: the Developed Markets index gained 19.14%, while Emerging Markets, a star performer in recent years, managed only a surprisingly low 3.23%. Investment Grade US Bonds (Barclays Aggregate) struggled at the tail end of the year on rising Treasury rates, losing 0.69% over the entire year. High yield bonds fared much better, returning 9.49%, as investors preferred securities with less interest rate sensitivity and with higher coupon payments. The real estate asset class continued to perform well during the year, as the NCREIF ODCE Index of institutional Real Estate posted a 12.2% return.

PLAN INVESTMENT RESULTS

The San Mateo County Employees' Retirement Association (the Association) total Plan returned 14.0% in fiscal 2013, well above the Association's 7.50% actuarial return expectation, and above its policy index

SAMCERA Board of Retirement
October 21, 2013
Page 2

return of 12.8%. The plan also outperformed its median large public peer by 200 bps, ranking in the top 19th percentile for Public Fund DB Plans Greater than \$1B.

The Association's US Equity portfolio outperformed its US equity policy benchmark by 1.1% during the fiscal year, which placed it in the 27th percentile of the universe. Within the US Equity asset class, the large cap managers as a group returned 22.2% for the year, beating the Russell 1000 index by 100 basis points. Among the large cap managers, noteworthy performance was achieved by both D.E. Shaw and Barrow Hanley. D.E. Shaw has managed to outperform its benchmark and most of the peer group for two consecutive years, outperforming the benchmark by 190 bps in fiscal 2013. Barrow Hanley rebounded in 2013 from a difficult 2012, adding 220 bps of excess return and ranking in the 23rd percentile of its peer group. Mirroring the Large Cap Composite's outperformance, the Small Cap Composite's 25.9% return was 170 basis points ahead of the Russell 2000 Index. The small cap value manager, The Boston Company, continues to perform well, providing 150 bps in excess return and ranking in the 57th percentile of its peer group. Chartwell, the Association's small cap growth manager, rebounded from a less impressive 2012 by adding 180 bps in excess return and ranking in the top 46th percentile of its peer group for 2013.

The International Equity Composite returned 15.1%, ahead of the benchmark's return of 14.1%, but trailed the median peer return of 15.8% by 70 bps, and performed in the 61st percentile of the peer universe. Mondrian, the international value strategy, slightly underperformed its benchmark by 30 bps and struggled more against its peer group, ranking in the 96th percentile. Pyramis Equity significantly outperformed the benchmark adding 270 bps, but failed to keep up with other managers, thus ranking near the bottom of its peer group. On a brighter note, Baillie Gifford managed to add 130 bps above the index and ranked in the 48th percentile of its peer group.

The Plan's Total Fixed Income Composite return of 4.8% significantly outperformed both the Barclays Aggregate Index's -0.7% return, and the plan's Blended Fixed Income Benchmark return of -1.1%, for the fiscal year. As they have for several years, SamCERA's core and core plus bond managers continued to perform above their benchmarks. Brigade Capital, an opportunistic credit strategy, returned 10.8% for the year, outperforming the benchmark and most of its peer group. TIPS struggled during the latter months of the year as real yields spiked on fears of Fed tightening. Brown Brothers Harriman, the portfolio's TIPS managers, generated results in line with the index and ranking in the 59th percentile of the TIPS universe. The Global Fixed Income manager had another outstanding year, returning 12.4% and ranking in the top 3rd percentile of the Global Fixed Income universe.

The INVESCO Real Estate fund's 13.5% return was 130 bps ahead of the NCREIF ODCE index. The real estate manager's return placed it in the 18th percentile overall among its peers. Finally, the plan's Alternatives allocation lagged its index for the year. While both the Hedge Fund and Commodities managers performed well and beat their respective indexes, the Risk Parity manager underperformed in a difficult environment that combined high equity returns, rising interest rates, and lower inflation expectations. The immature Private Equity program, still in its start-up phase, was also a drag on the Alternatives portfolio, as it significantly trailed its long term Public Equity +3% benchmark.

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ASSET ALLOCATION AND MANAGER STRUCTURE

During fiscal 2013 SamCERA continued its strategic initiative to broaden the portfolio through the introduction of substantial allocations to Private Equity, Commodities, Hedge Funds and other Alternative Investments, which matured substantially during the year. The funding of the crucial Private Equity portfolio, which commenced in 2011, was approximately one third of the way to maturity at year-end.

This year SamCERA completed a structure study of its Domestic Equity portfolio that led to a streamlining of its active manager roster and the implementation of a larger passive core mandate. Similarly, following a structure study of the bond asset class, one of the two core mandates was eliminated and its assets redeployed to other managers. Also during the year, SamCERA engaged a futures overlay service to enhance portfolio efficiency, primarily through improved rebalancing and cash securitization. At the manager level, SamCERA replaced a US Equity large cap growth manager that was experiencing both personnel and performance issues. In the bond portfolio, following on the success of its post crisis investment in the Private Public Investment Program (PPIP) fund, SamCERA invested in Angelo Gordon's successor STAR fund, which, similar to the PPIP, also focuses on distressed commercial and residential mortgages.

At year-end, SamCERA is in process on a comprehensive Asset Liability Study to reassess its portfolio asset allocation from as many risk and opportunity viewpoints as possible. Through this strategic planning process, SamCERA will continue to strive to avail itself of market opportunities, while also looking to identify and hedge risks to the portfolio.

SamCERA continues to increase the diversification of the portfolio in order to produce the highest possible returns in a risk averse, cost effective, and prudent fashion. The SamCERA plan has capitalized on its strengths and, through much hard work, has taken advantage of the investment opportunities made available to it by the recent market crisis and its aftermath. Clearly the Association is reaping the rewards of its hard work and its adherence to its strategic plan. SIS firmly believes that the many strategic enhancements that the Association has recently completed will enable it to continue to serve its participants and produce strong results for years to come.

Sincerely,

Strategic Investment Solutions



Patrick Thomas
 Senior Vice President

* NOTE: Returns for periods greater than one year are annualized. Monthly return calculations are time-weighted, and market value based. The performance calculation methodology is consistent with the CFAI Global Investment Performance Standards®.

INVESTMENT PHILOSOPHY, OBJECTIVES, AND POLICIES

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

Investment Philosophy

The Board acknowledges the historical data demonstrating that the most successful strategy for minimizing risk, while capturing market returns, is a prudently diversified portfolio. Therefore, the retirement fund should be invested across the spectrum of institutional grade asset classes. The Board acknowledges that the asset allocation targets reflect a long-term view of the market and that professional management of the retirement fund will add value to the portfolio, by capitalizing on inefficiencies in the markets.

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

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.

The Board will not be market-timers (shifting asset class allocations dramatically over short time spans), because it realizes this strategy is seldom successful and has the potential for dramatic losses.

The Board views short-term cash equivalents as insignificant contributors to real returns

in the long run.

Investment Objectives

It is the primary investment objective of the Board of Retirement 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.
- Generate portfolio returns that, over the long-term, exceed the actuarial interest assumption, net of fees.
- Generate a total fund return equal to or greater than the aggregate return of the asset allocation Target benchmarks.
- Provide for moving toward full funding of the Pension Benefit Obligation based on GASB Statement No. 25 and the Board's policy of a moving fifteen year funding period.

Investment Policy

It is the Investment Policy of the Board of Retirement to pursue an investment strategy which reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

The Board retains the most qualified investment managers with demonstrated expertise in the management of institutional pension funds. Objectives have been adopted which encourage the investment managers to maximize their performance relative to their individual investment style benchmark. They are delegated full discretion in management of their portfolio. The Board and investment staff monitor the performance of the investment managers, relative to their assigned custom benchmarks, to assure their conformance with the provisions of the Board's Investment Policy.

ASSET ALLOCATION AS A PERCENTAGE OF FAIR VALUE

ASSET CLASS	Policy Allocation	June 30 Actual Allocation
Equity*	53.0%	60.4%
Bonds	22.0%	20.1%
Alternatives*	20.0%	13.3%
Real Estate	5.0%	6.1%
Cash and Cash Equivalents	0.0%	0.1%
Total	100.0%	100.0%

EQUITY MANAGEMENT STYLE	Policy Allocation	June 30 Actual Allocation
Domestic Large Cap		
Indexed	9.8%	18.1%
Actively Managed	18.2%	16.5%
	28.0%	34.6%
Domestic Small Cap (Actively Managed)	7.0%	7.2%
International Equities (Actively Managed)	18.0%	18.6%
Total Equity	53.0%	60.4%

BOND MANAGEMENT STYLE	Policy Allocation	June 30 Actual Allocation
Domestic Bond Managers (Actively Managed)	17.6%	15.7%
Global Bond Managers (Actively Managed)	4.4%	4.4%
Total Bond	22.0%	20.1%

ALTERNATIVE INVESTMENT MANAGEMENT STYLE	Policy Allocation	June 30 Actual Allocation
Private Equity (Actively Managed)	8.0%	2.3%
Hedge Fund (Actively Managed)	3.0%	2.7%
Commodities (Actively Managed)	3.0%	2.5%
Risk Parity (Actively Managed)	6.0%	5.8%
Total Alternative Investment	20.0%	13.3%

REAL ESTATE MANAGEMENT STYLE	Policy Allocation	June 30 Actual Allocation
Actively Managed	5.0%	6.1%
Total Real Estate	5.0%	6.1%

TOTAL CASH & CASH EQUIVALENTS	Policy Allocation	June 30 Actual Allocation
	0.0%	0.1%

Total Assets	100.0%	100.0%
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* During the implementation of the Association's private equity program, SamCERA utilizes the S&P 500 Index as a placeholder until the program is fully implemented.

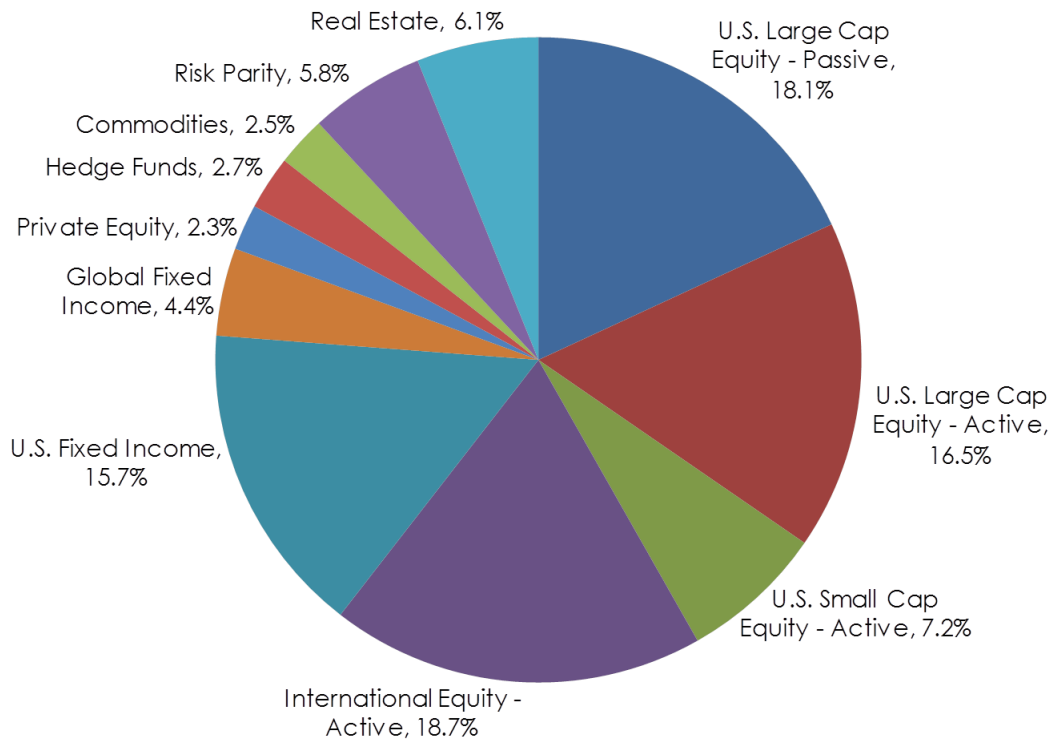
MARKET VALUE OF ASSET ALLOCATION

ASSET ALLOCATION	Market Value
Large Capitalized Domestic Equities	\$939,377,367
Small Capitalized Domestic Equities	\$196,478,975
International Equities	\$494,939,553
TOTAL EQUITIES	\$1,630,795,895
Domestic Bonds	\$428,578,645
Global Bonds	\$112,393,585
TOTAL BONDS	\$540,972,230
Alternative Investments	\$364,569,878
Real Estate	\$166,154,482
Cash & Cash Equivalent	\$25,332,847
Total Assets	\$2,727,825,332

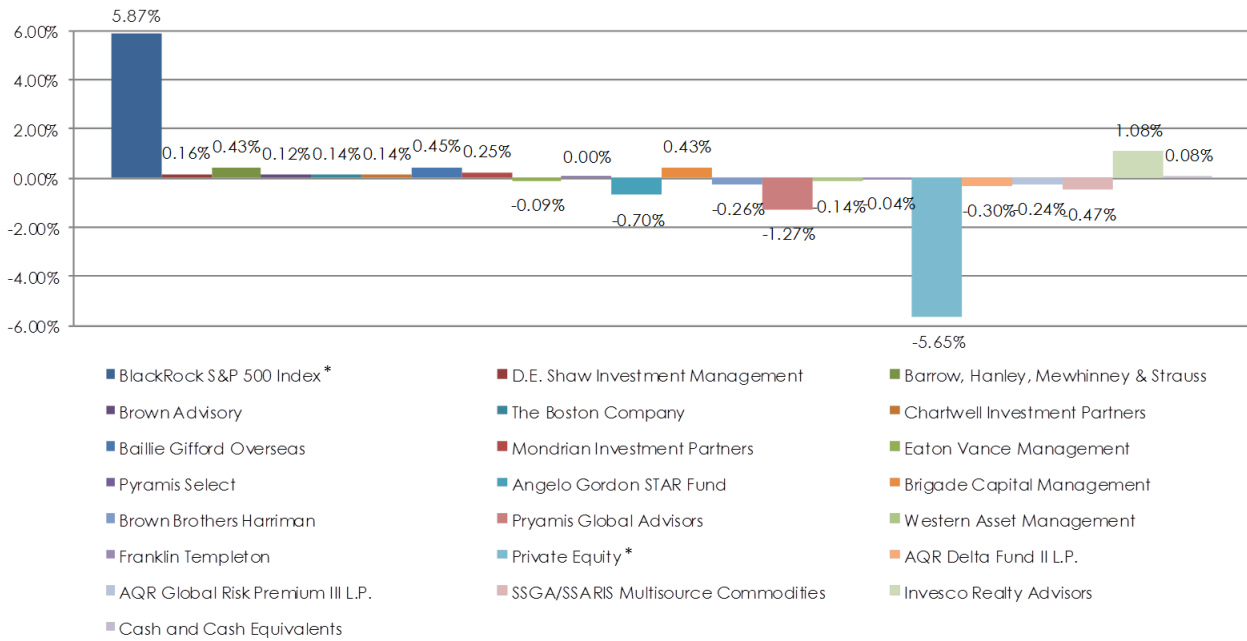
* Value includes investment receivables and payables. For market value without receivables and payable, refer to detailed schedule by managers on page 86.

ASSET ALLOCATION

As of June 30, 2013



PERCENT OF DEVIATION FROM ASSET ALLOCATION



* During the implementation of the Association's private equity program, SamCERA utilizes the S&P 500 Index as a placeholder until the program is fully implemented.

SCHEDULE OF PORTFOLIO RETURNS

Performance as of June 30, 2013 — Net of Fees

Asset Category	One Year	Two Years	Three Years	Five Years
DOMESTIC EQUITY				
<i>Large Cap</i>				
BlackRock S&P 500 Index	N/A	N/A	N/A	N/A
D.E. Shaw Investment Management	22.50%	14.20%	19.20%	N/A
Barrow, Hanley, Mewhinney & Strauss	26.90%	12.50%	19.10%	N/A
Brown Advisory	N/A	N/A	N/A	N/A
Large Cap Composite	21.90%	11.30%	17.80%	5.90%
<i>Small Cap</i>				
The Boston Company	25.30%	13.80%	17.60%	N/A
Chartwell Investment Partners	24.60%	11.70%	22.90%	8.50%
Small Cap Composite	24.90%	11.10%	20.00%	8.10%
INTERNATIONAL EQUITY				
Mondrian Investment Partners	13.10%	0.90%	9.40%	0.40%
Eaton Vance Management	5.10%	N/A	N/A	N/A
Baillie Gifford Overseas	19.80%	N/A	N/A	N/A
Pyramis Select	18.00%	N/A	N/A	N/A
International Composite	14.70%	-0.80%	7.60%	-2.00%
Total Equity Composite	20.00%	7.40%	14.80%	3.80%
BONDS				
<i>Core</i>				
Pyramis Global Advisors	0.30%	4.10%	4.70%	6.60%
Western Asset Management	1.10%	4.70%	5.60%	6.90%
<i>Credit</i>				
Angelo Gordon STAR Fund	N/A	N/A	N/A	N/A
Brigade Capital Management	10.80%	8.70%	N/A	N/A
<i>Treasury Inflation Protected Securities</i>				
Brown Brothers Harriman	-4.60%	3.60%	N/A	N/A
<i>Global</i>				
Franklin Templeton	12.10%	5.60%	N/A	N/A
Total Bond Composite	4.50%	5.60%	6.50%	6.90%
ALTERNATIVE INVESTMENTS				
<i>Private Equity</i>				
	1.70%	1.30%	N/A	N/A
<i>Hedge Fund</i>				
AQR Delta Fund II L.P.	6.80%	2.60%	N/A	N/A
<i>Risk Parity</i>				
AQR Global Risk Premium III L.P.	3.20%	4.00%	N/A	N/A
<i>Commodities</i>				
SSGA/SSARIS Multisource Commodities	-1.30%	N/A	N/A	N/A
Total Alternative Composite	3.40%	2.10%	N/A	N/A
REAL ESTATE				
Invesco Realty Advisors	13.00%	10.80%	15.10%	-0.40%
Total Real Estate Composite	13.00%	10.80%	15.10%	-0.40%
CASH AND CASH EQUIVALENTS				
Cash Composite	0.50%	0.60%	0.70%	0.10%
Total Fund				
Composite Investment Portfolio	13.60%	6.40%	11.80%	4.30%
Policy Benchmark	12.80%	7.10%	12.40%	5.40%

Return calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with the Global Investment Performance Standards (GIPS).

SCHEDULE OF INVESTMENT PORTFOLIO BY ASSET CLASS AND MANAGER

As of June 30, 2013

Investment Manager	Asset Class	Assets Under Management
DOMESTIC EQUITY		
BlackRock S&P 500 Index	S&P 500 Index Fund	\$ 494,989,644
D.E. Shaw Investment Management	Large Cap Core	\$147,374,925
Barrow, Hanley, Mewhinney & Strauss	Large Cap Value	\$153,891,267
Brown Advisory	Large Cap Growth	\$143,121,531
The Boston Company	Small Cap Value	\$98,701,086
Chartwell Investment Partners	Small Cap Growth	\$97,777,889
Total Domestic Equity		\$1,135,856,342
INTERNATIONAL EQUITY		
Baillie Gifford Overseas	Large Cap Growth	\$169,112,114
Mondrian Investment Partners	Large Cap Value	\$212,216,252
Eaton Vance Management	Emerging Markets	\$58,909,468
Pyramis Select	Small Cap	\$54,701,719
Total International Equity		\$494,939,553
Total Equity		\$1,630,795,895
DOMESTIC BONDS		
Angelo Gordon STAR Fund	Credit Opportunity Bonds	\$28,799,455
Brigade Capital Management	Credit Opportunity Bonds	\$59,586,594
Brown Brothers Harriman	Treasury Inflation Protection Securities	\$73,462,112
Pyramis Global Advisors	Core Bonds	\$145,588,887
Western Asset Management	Core Plus Bonds	\$121,141,597
Total Domestic Bonds		\$428,578,645
GLOBAL BONDS		
Franklin Templeton	Global Bonds	\$112,393,585
Total Global Bonds		\$112,393,585
Total Bonds		\$540,972,230
ALTERNATIVE INVESTMENTS		
ABRY Advanced Security Fund II, L.P.	Private Equity	\$10,336,953
ABRY Partners VII, L.P.	Private Equity	\$7,486,695
Emergence Capital Partners III L.P.	Private Equity	\$1,310,498
EnCap Energy Capital IX L.P.	Private Equity	\$609,313
General Catalyst Partners L.P.	Private Equity	\$2,658,789
New Enterprise Associates 14, L.P.	Private Equity	\$2,378,380
Regiment Capital Special Situations Fund V, L.P.	Private Equity	\$5,781,715
Sheridan Production Partners II-B, L.P.	Private Equity	\$16,658,161
Sycamore Partners L.P.	Private Equity	\$9,278,320
Third Rock Ventures III L.P.	Private Equity	\$50,000
Warburg Pincus XI L.P.	Private Equity	\$7,776,246
AQR Delta Fund II L.P.	Hedge Fund	\$73,717,734
AQR Global Risk Premium III L.P.	Risk Parity	\$157,444,012
SSGA/SSARIS Multifource Commodities	Commodities	\$69,083,062
Total Alternative Investment		\$ 364,569,878
REAL ESTATE		
Invesco Realty Advisors	Real Estate	\$166,154,482
Unequitized Cash		\$175,818,635
Receivables & Prepaid Expenses		\$148,118,699
less Current Liabilities		(\$298,604,487)
Net Portfolio as of June 30, 2013		\$2,727,825,332

SCHEDULE OF TOP TEN EQUITIES AND FIXED INCOME SECURITIES

As of June 30, 2013

Top 10 Equity Securities*

Shares	Exchange	Ticker	Company Name	Market Value
201,733	NYSE	ULVR	UNILEVER PLC	\$8,144,882
213,000	TOKYO	4452	KAO CORP	\$7,236,875
147,199	NYSE	FP	TOTAL SA	\$7,176,076
418,290	London	BG.	BG GROUP PLC	\$7,095,994
26,668	SIX Swiss Ex	ROG	ROCHE HOLDING AG GENUSSCHEIN	\$6,623,664
124,700	NYSE	JPM	JPMORGAN CHASE + CO	\$6,582,913
132,640	NYSE	C	CITIGROUP INC	\$6,362,741
145,400	NYSE	WFC	WELLS FARGO + CO	\$6,000,658
62,900	NYSE	JNJ	JOHNSON + JOHNSON	\$5,400,594
996,777	DJIA	IBE	IBERDROLA SA	\$5,255,196

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

Top 10 Fixed Income Securities

Par/Book Value	Security	Coupon	Maturity	Rating: S&P	Rating: Moody's	Issue ID	Market Value
\$16,089,241	TSY INFL IX N/B	0.125	01/15/2022	AA+	Aaa	912828SA9	\$ 15,758,607
\$9,677,984	TSY INFL IX N/B	2.375	01/15/2025	AA+	Aaa	912810FR4	\$ 11,528,899
\$8,805,212	TSY INFL IX N/B	1.875	07/15/2019	AA+	Aaa	912828LA6	\$ 9,927,172
\$8,014,162	TSY INFL IX N/B	2.500	07/15/2016	AA+	Aaa	912828FL9	\$ 8,858,774
\$4,973,484	TSY INFL IX N/B	2.000	01/15/2026	AA+	Aaa	912810FS2	\$ 5,743,231
\$3,599,979	TSY INFL IX N/B	3.875	04/15/2029	AA+	Aaa	912810FH6	\$ 5,188,470
\$4,799,973	TSY INFL IX N/B	1.875	07/15/2015	AA+	Aaa	912828EA4	\$ 5,102,611
\$16,920,000	ISRAEL FIXED BOND	3.500	09/30/2013	NR	NR	B58BXYI17	\$ 4,796,638
\$4,850,100,000	KOREA MONETARY STAB BOND	2.780	10/02/2014	NR	NR	ACI02JMH0	\$ 4,251,126
\$66,747,806	REPUBLICA ORIENT URUGUAY	4.375	12/15/2028	BBB-	Baa3	917288BD3	\$ 3,846,046

A complete list of the portfolio holdings is available through the San Mateo County Employees' Retirement Association.

SCHEDULE OF PROFESSIONAL SERVICES AND FEES

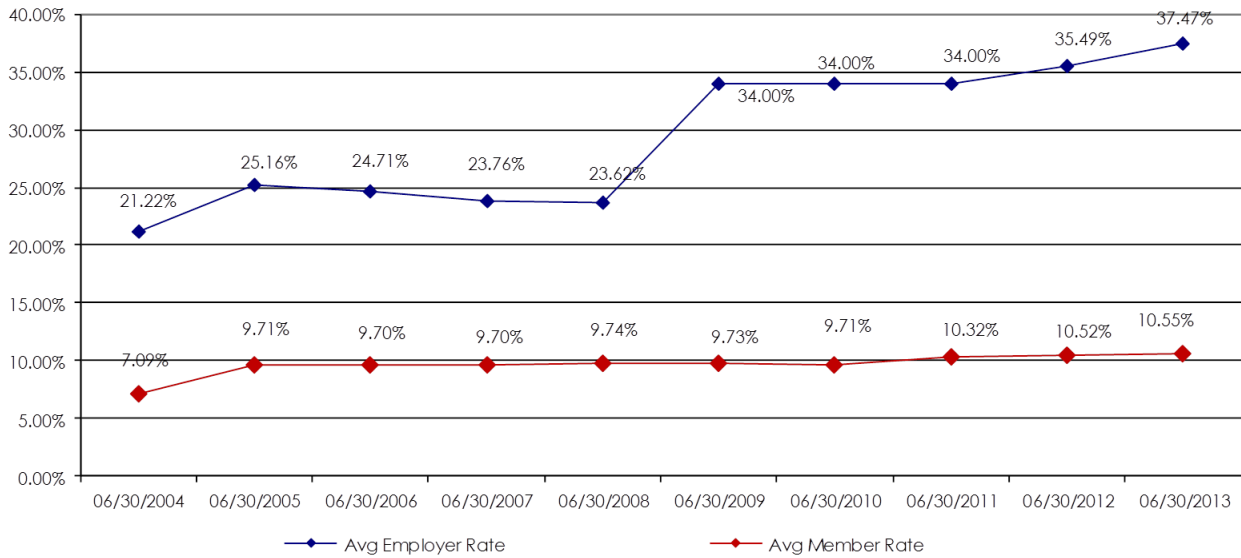
As of June 30, 2013 and 2012

	2013	2012
INVESTMENT MANAGERS		
Aberdeen Asset Management	\$99,035	\$304,308
ABRY Advanced Security Fund II, L.P.	\$283,339	\$292,149
ABRY Partners VII, L.P.	\$96,030	\$162,391
Angelo Gordon GECC PPIP Fund	\$135,126	\$350,000
Angelo Gordon STAR Fund	\$226,747	\$0
AQR Delta Fund II L.P.	\$715,597	\$687,333
AQR Global Risk Premium III L.P.	\$665,899	\$592,477
Artio Global Management	-\$369	\$636,613
Baillie Gifford Overseas	\$789,014	\$164,982
Barrow, Hanley, Mewhinney & Strauss	\$711,508	\$698,400
BlackRock Capital Management (Index)	\$101,850	\$72,047
BlackRock Capital Management (Growth)	\$197,443	\$748,599
Brigade Capital Management	\$453,921	\$394,157
Brown Advisory	\$112,842	\$0
Brown Brothers Harriman	\$124,095	\$114,254
Chartwell Investment Partners	\$585,085	\$436,802
D.E. Shaw Investment Management	\$667,540	\$565,252
Eaton Vance Management	\$638,969	\$140,751
Emergence Capital Partners III L.P.	\$230,383	\$0
EnCap Energy Capital IX L.P.	\$117,799	\$0
Franklin Templeton	\$455,842	\$412,142
General Catalyst Partners L.P.	\$238,500	\$130,000
Invesco Realty Advisors	\$634,472	\$609,125
Jennison Associates	\$404,520	\$763,935
Mondrian Investment Partners	\$296,128	\$349,958
New Enterprise Associates 14, L.P.	\$114,973	\$0
Pyramis Global Advisors	\$214,840	\$189,408
Pyramis Select	\$465,257	\$107,769
Regiment Capital Special Situations Fund V, L.P.	\$297,303	\$339,177
Sheridan Production Partners II-B, L.P.	\$300,045	\$300,029
SSGA/SSARIS Multisource Commodities	\$429,739	\$364,337
Sycamore Partners L.P.	\$367,297	\$364,938
Third Rock Ventures III L.P.	\$250,000	\$0
T. Rowe Price Associates	\$240,184	\$384,809
The Boston Company	\$604,235	\$416,251
Warburg Pincus XI L.P.	\$397,470	\$0
Western Asset Management	\$319,960	\$297,280
Total	\$12,982,618	\$11,389,673
INVESTMENT CONSULTANT		
Strategic Investment Solutions, Inc.	\$404,608	\$400,000
ACTUARIAL CONSULTING		
Milliman, Inc.	\$92,100	\$96,810
Segal Company	\$0	\$60,000
Total	\$92,100	\$156,810
MASTER CUSTODIAN		
State Street Bank and Trust Company	\$168,039	\$226,521
TRADE COST CONSULTANT		
Zeno Consulting Group	\$35,000	\$15,000
OTHER PROFESSIONAL SERVICES		
CY Yang & Co, CPA	\$13,833	\$0
Total Professional Services	\$13,696,198	\$12,188,004

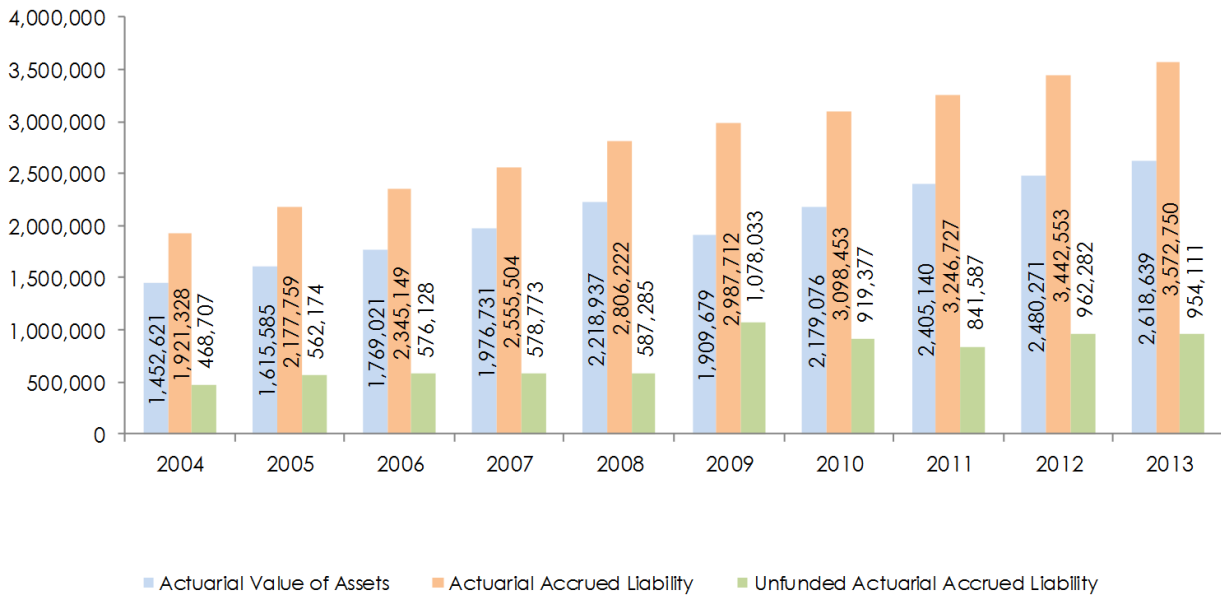


ACTUARIAL SECTION

HISTORY OF EMPLOYER AND MEMBER CONTRIBUTION RATES



SCHEDULE OF ACTUARIAL ASSETS VS. LIABILITIES





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October 21, 2013

Board of Retirement
San Mateo County Employees' Retirement Association
100 Marine Parkway, Suite 125
Redwood Shores, CA 94065-5208

Dear Members of the Board:

SamCERA's basic financial goal is to establish contributions which fully fund the System's liabilities and which, as a percentage of payroll, remain level for each generation of active members. Annual actuarial valuations measure the progress toward this goal, as well as test the adequacy of the contribution rates.

SamCERA measures its funding status as the ratio of the actuarial value of valuation assets over the actuarial accrued liabilities. The funding status based on the past three actuarial valuations is shown below:

Valuation Date	Funded Status
June 30, 2011	74.1%
June 30, 2012	72.0%
June 30, 2013	73.3%

The funded ratio increased in the last year primarily due to contributions in excess of the value of benefits earned.

It is our opinion that SamCERA will continue to maintain a sound financial condition as of June 30, 2013 and later, as long as employer contributions are made based on a sound financial policy, such as the current funding policy. Under this policy, the County's contributions are set equal to the normal cost rate plus the amortization payment of any Unfunded Actuarial Accrued Liability (UAAL). The amortization of the initial UAAL as of June 30, 2008 is funded over a closed period ending June 30, 2023. The amortization of any future changes in the UAAL is funded over separate closed 15-year layers which are determined annually. It should be noted that the 2013 valuation results defer a net market gain on assets. Thus, the funded ratio is expected to be higher once those market gains are reflected in the 2014 and later valuations, assuming future investment earnings are equal to the assumed rate.

The June 30, 2013 valuation results are based on the membership data and the asset information provided by SamCERA. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes, although we have not audited the data at the source. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is found to be materially inaccurate or incomplete, our calculations will need to be revised.

The valuation is based on our understanding of SamCERA's current benefit provisions and actuarial assumptions as of June 30, 2013. It reflects benefit provisions under the Public Employees' Pension Reform Act of 2013 (PEPRA) which were effective January 1, 2013.

This work product was prepared solely for SamCERA for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.

Offices in Principal Cities Worldwide



Board of Retirement
October 21, 2013
Page 2

The actuarial assumptions were last reviewed and adopted by the Board in 2013. The demographic assumptions were adopted in July of 2011, based on the triennial investigation of experience study report as of April 30, 2011, and re-adopted in May of 2012 and May of 2013. New economic assumptions were adopted by the Board in May of 2012, and re-adopted in May of 2013.

The actuarial computations presented in the valuation report are for purposes of determining the recommended funding amounts for SamCERA consistent with our understanding of its funding requirements and goals. The liabilities are determined by using the entry age normal funding method. The actuarial assets are determined by using a five-year smoothed recognition method of asset gains and losses, determined as the difference of the actual market value to the expected market value. The actuarial assets are restricted to not vary more than 20% from the market value. We believe the actuarial assumptions and methods are internally consistent, reasonable and meet the parameters of Governmental Accounting Standards Board Statement No. 25 for fulfilling financial accounting requirements. Nevertheless, the emerging costs will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions. Future actuarial measurements may differ significantly from the current measurements as presented in the valuation report due to many factors. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

Our valuation report and this letter have been prepared exclusively for SamCERA for a specific and limited purpose. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. It is a complex, technical analysis that assumes a high level of knowledge concerning SamCERA's operations, and uses SamCERA's data, which Milliman has not audited. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

We assisted SamCERA staff in preparing the supporting schedules in this section and the trend tables in the financial section are based on information supplied in prior actuarial reports, as well as our June 30, 2013 actuarial valuation report. In particular, it should be noted that many of the June 30, 2005 and earlier statistics were provided by the prior actuary and were on a different basis than we are using. This may affect the comparability between the years prior to 2006 shown in the data summaries and those shown in 2006 and later.

We certify that the June 30, 2013 valuation was performed in accordance with the Actuarial Standards Board (ASB) standards of practice and by qualified actuaries. We are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Sincerely,

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

NJC/CJG/nlo

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

This work product was prepared solely for SamCERA for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.

ACTUARIAL ASSUMPTIONS AND COST METHOD

The actuarial assumptions used in the valuations are intended to estimate the future experience of the members of SamCERA and of SamCERA itself in areas that affect the projected benefit flow and anticipated investment earnings. The actuarial assumptions used to determine the liabilities for the June 30, 2013, valuation are based on the results of the actuarial experience study for the period July 1, 2008, through April 30, 2011. The study retained the current economic assumptions and updated demographic assumptions and mortality rates; the study was adopted by the Board of Retirement on July 26, 2011.

Entry Age Actuarial Cost Method

Entry Age is the age at the member's date of entry. Actuarial accrued liability is calculated on an individual basis and is based on costs allocated as a level percentage

of compensation. The normal cost is calculated by summing the normal cost for each individual and dividing this amount by the total payroll for current members expected to earn a benefit during the year. This normal cost rate is then multiplied by the total current salaries. The total Unfunded Actuarial Accrued Liability (UAAL) as of June 30, 2008 was amortized over a declining 15-year period. Future changes in the UAAL, including the change in UAAL as of June 30, 2013 is amortized over new 15-year periods, referred to as 15-year layered amortization.

Actuarial Asset Valuation Method

The assets are valued using a five-year smoothed method based on the difference between the expected market value and the actual market value of the assets as of the valuation date. The expected market value, with a five-year smoothing valuation basis for all assets, was adopted effective for the June

ACTUARIAL ASSUMPTIONS AND COST METHOD

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	Original unfunded amount (UAAL) as of June 30, 2008, is amortized over closed 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new 15-year periods (including the change in UAAL as of June 30, 2013). This is referred to as 15-year layered amortization.
Asset Valuation Method	5-year smoothed market with 20% corridor

ACTUARIAL ASSUMPTIONS

Investment Rate of Return	7.50%
Price Inflation (CPI)	3.25%
Payroll Increases	3.75%
Average Projected Salary Increases	4.95%
*Attributed to Inflation	3.75%
*Attributed to Adjustments for Merit and Longevity	1.20%

30, 1995, valuation.

Investment Rate of Return

A new investment return assumption rate of 7.50% was adopted in May 2012 and effective with the June 30, 2012 actuarial valuation. Future investment earnings are assumed to accrue at an annual rate of 7.50%, compounded annually, net of both investment and administrative expenses.

Projected Salary Increase

The rate of annual salary increases assumed for the purpose of the valuation is 4.95%. It is comprised of two components, inflation and merit and longevity increases. The inflation for payroll is 3.75%. The merit and longevity component on average is 1.20%. This rate was adopted effective for the June 30, 2012, valuation along with other inflation-based projections; the same rates were re-adopted in May 2013 for the June 30, 2013 valuation.

Cost of Living Adjustments

Post-retirement benefit increases depend upon the tier into which a member is enrolled and the Consumer Price Index (CPI) for the San Francisco Bay Area. The maximum increase in retirement allowance is 5% for General and Safety Tier 1, 3% for Probation Tier 1 and Tier 2 for all Classes, and 2% for Tier 4, 5, 6 and 7 members. Tier 5, 6, and 7 employees contribute towards cost of living benefit in their contribution rates. Tier 1, 2, and 4 members contribute towards the cost of living benefit based on bargaining units and date of re-entry. Tier 3 benefits are not

eligible for post-retirement increases.

Post-retirement Mortality Rates

The same post-retirement mortality rates are used in the valuation for active members, members retired for service, and beneficiaries. Beneficiary mortality is assumed to be the same assumption as healthy members. Beneficiaries are assumed to be of the opposite sex, and have the same mortality as General members.

Post-retirement Mortality – Service Retirement

General Males: RP-2000 Healthy Annuitant Mortality Table for Males with adjustment for white collar workers. Ages are set back three years.

Safety Males: Same as General.

General Females: RP-2000 Healthy Annuitant Mortality Table for Females with adjustment for white collar workers. Ages are set back three years.

Safety Females: Same as General.

Post-retirement Mortality – Disability Retirement

General Males: RP-2000 Healthy Annuitant Mortality Table for Males with adjustment for white collar workers and no minimum rate. Ages are set back three years.

Safety Males: RP-2000 Healthy Annuitant Mortality Table for Males with adjustment for white collar workers and minimum 1.00% rate. Ages are not adjusted.

General Females: RP-2000 Healthy Annuitant Mortality Table for Females with adjustment for white collar workers and no minimum rate. Ages are set back three years.

PROJECTED SALARY INCREASE

Actuarial Assumption	06/30/13	06/30/12	Change
Annual Inflation Rate	3.25%	3.25%	0.00%
Annual Investment Return	7.50%	7.50%	0.00%
Average Annual Salary Increases	4.95%	4.95%	0.00%

Safety Females: RP-2000 Healthy Annuitant Mortality Table for Females with adjustment for white collar workers and minimum 0.40% rate. Ages are not adjusted.

Separation from Active Status

The probabilities of separation from active status are shown on page 103.

SUMMARY OF PLAN PROVISIONS

The Association provides basic retirement, disability, and death benefits based on a defined benefit formula which uses final average compensation, years of service, and age to calculate benefits payable and, in addition, provides annual cost of living adjustments upon retirement for members of Tiers 1, 2, 4, 5, 6 and 7. The benefits of Tier 3 are reduced by Social Security benefits received by the member.

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

Tier 3.

Employees of the San Mateo County Mosquito and Vector Control District are eligible for participation in General Tier 4 or Tier 7 based on hired date. New members first hired on or after January 1, 2013 enter Tier 7. New hires before January 1, 2013 entered Tier 4.

Eligibility for Tiers is dependent upon the following entry dates

Tier 1 – Employees hired on July 6, 1980, and earlier.

Tier 2 – Employees hired after July 6, 1980, but on or before July 12, 1997.

Tier 3 – General members hired on or before December 22, 2012 may elect to participate in Tier 3. After five years of service, Tier 3 members hired before August 7, 2011 may elect membership under the Tier 4. Tier 3 members hired on and after August 7, 2011 may elect membership in the open contributory tier after 10 years of service.

Members currently working in a contributory tier with Tier 3 service may purchase an upgrade of their Tier 3 service.

Tier 4 – Tier 4 is closed for County and Superior Court new employees simultaneously with the implementation of Tier 5 and Tier 6.

Tier 5 General – County and Superior Courts General members hired after August 6, 2011. Members must be first hired before January 1, 2013 to be eligible to elect this Tier. After 10 years of service, General Tier 5 members can elect to transfer to Tier 4 and must pay the total actuarial equivalent cost of the increase in past service benefits at the date of transfer.

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

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

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

Eligibility for service retirement allowance is dependent upon the following

General Members Tiers 1, 2, 4 & 5: Age 50 with 10 years of service*; Any age with 30 years of service; or Age 70 regardless of service.

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

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

Safety & Probation Members Tiers 1, 2, 4, 5 & 6: Age 50 with 10 years of service; Any age with 20 years of service.

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

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

Final Compensation

Tiers 1 & 2: Monthly average of a member's highest twelve consecutive months of compensation.

Tiers 3, 4, 5 & 6: Monthly average of a member's highest compensation during any three years. Years do not have to be consecutive.

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

Monthly Allowance

General Members Tiers 1, 2, 4 & 5: $1/60 \times$ Final Compensation \times General Age Factor \times

Years of Service.

General Members Tier 7: $2\% \times$ Final Compensation \times General Age Factor \times Years of Service.

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

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

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

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

- (a) $2\% \times$ Final Compensation \times Years of Service (up to 35 years), plus
- (b) $1\% \times$ Final Compensation \times Years of Service in excess of 35 years (up to 10), minus
- (c) Estimated Primary Insurance Amount (PIA) \times Years of Covered Service (up to 35 years) divided by 35.

The PIA is calculated based on certain assumptions specified by statute, and an assumed Social Security retirement age of 65.

If retirement occurs prior to age 65, benefit amount is adjusted by an actuarial equivalent factor.

A member who leaves county service may withdraw the contributions made by the member to the Association, plus accumulated interest.

Members with five years of service or permanent part-time employees who have the equivalent of five years of full-time service or non-contributory members with 10 years of service who terminate their employment with the county may elect to leave their accumulated contributions, if any,

with the Association and choose a deferred retirement.

The 1937 Act vests the Board of Supervisors with the authority to initiate benefits. However, Government Code Section 31592.2 empowers the Board of Retirement to provide health benefits when the Section 31592 reserve exceeds 1% of assets.

SUMMARY OF RECOMMENDATIONS

EMPLOYER CONTRIBUTION RATES

	06/30/13	06/30/12	Change
Normal Cost Rate	11.19%	11.52%	-0.33%
Rate of Contribution to Unfunded Actuarial Accrued Liability	26.28%	23.97%	2.31%
Total Employer Rate*	37.47%	35.49%	1.98%

*It should be noted that the 37.47% Total Employer Rate is a weighted average for all SamCERA tiers. The actual percent of payroll to be contributed by the county varies by plan. A history of employer rates by class is on Page 100.

MEMBER CONTRIBUTION RATES*

		7/1/2013	7/1/2012	Change	
GENERAL MEMBERS – COUNTY AND COURTS^{(1),(2)}					<p>(1) The San Mateo County and Courts employer and member contribution rates for Tiers 1, 2, and 4 include cost sharing. The San Mateo County Mosquito and Vector Control District does not have cost sharing.</p> <p>(2) Does not include members of the California Nurses Association, who will also contribute 25% of the cost of COLA beginning with the 2011 actuarial valuation, and members of Union of American Physicians and Dentists (UAPD) who will also contribute 25% of COLA cost effective with the 2012 actuarial valuation.</p> <p>(3) Tier 7 is the PEPRA plan effective January 1, 2013 for all new employees with no prior California public employment service.</p> <p>(4) Rates include 5% cost sharing for non Deputy Sheriff in Tier 1, 2, 4, and 5. Cost sharing varies for Deputy Sheriffs as follows: If employee is less than 45 with less than 5 years of service 3.0%, between 5 and 15 years of service 3.5%, and at least 15 years of service 4.5%.</p> <p>(5) Rates include 3.5% cost sharing for PDA in Tier 1, 2, 4, and 5.</p> <p>(6) Rates include 3% cost sharing for Probation Managers in Tier 1, 2, 4, and 5. Probation Managers rates were the same as PDA until the 2013 actuarial valuation.</p>
Tier 1 & Tier 2	Age 25	9.19%	9.19%	0.00%	
	35	10.42%	10.42%	0.00%	
	45	11.91%	11.91%	0.00%	
Tier 4	Age 25	8.94%	8.94%	0.00%	
	35	10.12%	10.12%	0.00%	
	45	11.51%	11.51%	0.00%	
Tier 5	Age 25	6.21%	6.21%	0.00%	
	35	7.45%	7.45%	0.00%	
	45	8.94%	8.94%	0.00%	
Tier 7 ⁽³⁾	All Ages	7.75%	7.75%	0.00%	
GENERAL MEMBERS – SMCM&VCD					
Tier 1 & Tier 2	Age 25	6.19%	6.19%	0.00%	
	35	7.42%	7.42%	0.00%	
	45	8.91%	8.91%	0.00%	
Tier 4	Age 25	5.94%	5.94%	0.00%	
	35	7.12%	7.12%	0.00%	
	45	8.51%	8.51%	0.00%	
Tier 7 ⁽³⁾	All Ages	7.75%	7.75%	0.00%	
SAFETY MEMBERS – OTHER THAN DEPUTY SHERIFF ⁽⁴⁾					
Tier 1 & Tier 2	Age 25	13.41%	13.41%	0.00%	
	35	15.09%	15.09%	0.00%	
	45	16.89%	16.89%	0.00%	
Tier 4	Age 25	13.07%	13.07%	0.00%	
	35	14.68%	14.68%	0.00%	
	45	16.20%	16.20%	0.00%	
Tier 5	Age 25	14.50%	14.50%	0.00%	
	35	16.59%	16.59%	0.00%	
	45	18.57%	18.57%	0.00%	
Tier 6	Age 25	10.24%	10.24%	0.00%	
	35	12.28%	12.28%	0.00%	
	45	14.21%	14.21%	0.00%	
Tier 7 ⁽³⁾	All Ages	14.25%	13.00%	1.25%	
PROBATION & DETENTION ASSOCIATION MEMBERS (REFLECTS EMPLOYER PICK-UP) ⁽⁵⁾					
Tier 1 & Tier 2	Age 25	12.34%	12.34%	0.00%	
	35	14.11%	14.11%	0.00%	
	45	15.98%	15.98%	0.00%	
Tier 4	Age 25	11.28%	11.28%	0.00%	
	35	12.83%	12.83%	0.00%	
	45	14.29%	14.29%	0.00%	
Tier 5	Age 25	12.35%	12.35%	0.00%	
	35	14.12%	14.12%	0.00%	
	45	15.78%	15.78%	0.00%	
Tier 6	Age 25	8.62%	8.62%	0.00%	
	35	10.34%	10.34%	0.00%	
	45	11.95%	11.95%	0.00%	
Tier 7 ⁽³⁾	All Ages	13.75%	9.80%	3.95%	
PROBATION MANAGERS⁽⁶⁾					
Tier 1 & Tier 2	Age 25	11.41%	11.41%	0.00%	
	35	13.09%	13.09%	0.00%	
	45	14.89%	14.89%	0.00%	
Tier 4	Age 25	11.07%	11.07%	0.00%	
	35	12.68%	12.68%	0.00%	
	45	14.20%	14.20%	0.00%	
Tier 5	Age 25	13.46%	13.46%	0.00%	
	35	15.55%	15.55%	0.00%	
	45	17.52%	17.52%	0.00%	
Tier 6	Age 25	10.23%	10.23%	0.00%	
	35	12.27%	12.27%	0.00%	
	45	14.19%	14.19%	0.00%	
Tier 7 ⁽³⁾	All Ages	13.75%	13.00%	0.75%	

* Cola Share is included in the sample rates above for Tiers 5, 6 and Probation PDA.

SUMMARY OF SIGNIFICANT ACTUARIAL STATISTICS AND MEASURES

ASSOCIATION MEMBERSHIP	6/30/13	6/30/12	Change
ACTIVE MEMBERS			
Number of Members	4,917	5,095	-3.5%
Average Age	46.0	46.0	0.0%
Average Credited Service	11.2	10.9	2.8%
Total Active Payroll in Thousands	\$414,551	\$427,650	-3.1%
Average Monthly Salary	\$7,026	\$6,995	0.4%
RETIRED MEMBERS			
Number of Members			
Service Retirement	3,446	3,355	2.7%
Disability Retirement	393	374	5.1%
Beneficiaries	559	546	2.4%
Average Age	71.3	71.2	0.1%
Total Retiree Payroll in Thousands	\$149,266	\$139,208	7.2%
Average Monthly Pension	\$2,933	\$2,823	3.9%
INACTIVE VESTED MEMBERS			
	1,306	1,212	7.8%
ASSET AND LIABILITY VALUES			
ASSET VALUES			
Market Value in Thousands	\$2,727,825	\$2,360,304	15.6%
Return on Market Value	13.60%	-0.40%	1400bps
Valuation Assets in Thousands	\$2,618,639	\$2,480,271	5.6%
Return on Valuation Assets	3.7%	0.7%	300bps
LIABILITY VALUES			
Actuarial Accrued Liability in Thousands	\$3,572,750	\$3,442,553	3.8%
Unfunded Actuarial Accrued Liability in Thousands	\$954,111	\$962,282	-0.8%
Deferred Asset (Gains)/Losses	(\$109,186)	\$119,967	
REQUIRED COUNTY CONTRIBUTION RATE FOR ALL PLANS AS A PERCENTAGE OF TOTAL PAYROLL			
Gross Normal Cost	21.74%	22.04%	-30bps
Less: Member Contributions	10.55%	10.52%	3bps
County Normal Cost	11.19%	11.52%	-33bps
UAAL Amortization	26.28%	23.97%	231bps
Total County Rate	37.47%	35.49%	198bps
FUNDED RATIO			
GASB Statement Number 25 ⁽¹⁾	73.30%	72.00%	1.30%

(1) Based on actuarial value of assets for June 30, 2013, and June 30, 2012, respectively.

The table below compares the Actuarial Value of Assets to the types of Actuarial Accrued Liabilities, applying them first to Active Member contributions, then to retirees and beneficiaries, and then the remaining amount to the Active Member benefits.

SHORT-TERM SOLVENCY TEST (IN THOUSANDS)

Valuation Date	Valuation Assets	Active Member Contributions	Retirees and Beneficiaries ⁽¹⁾	Active Members (Employer Financed Portion)	Portion of Accrued Liability Covered by Valuation Assets		
		(A)	(B)	(C)	(A)	(B)	(C)
6/30/04	\$1,452,621	\$259,731	\$942,765	\$718,832	100%	100%	35%
6/30/05	\$1,615,585	\$281,231	\$1,133,351	\$763,177	100%	100%	26%
6/30/06	\$1,769,021	\$317,521	\$1,234,005	\$793,623	100%	100%	27%
6/30/07	\$1,976,731	\$359,484	\$1,348,013	\$848,007	100%	100%	32%
6/30/08	\$2,218,937	\$385,300	\$1,550,875	\$870,047	100%	100%	32%
6/30/09	\$1,909,679	\$412,147	\$1,670,547	\$905,018	100%	90%	0%
6/30/10	\$2,179,076	\$449,355	\$1,745,146	\$903,952	100%	99%	0%
6/30/11	\$2,405,140	\$485,126	\$1,866,219	\$895,382	100%	100%	6%
6/30/12	\$2,480,271	\$498,569	\$2,022,791	\$921,193	100%	98%	0%
6/30/13	\$2,618,639	\$534,276	\$2,157,590	\$880,884	100%	97%	0%

(1) Includes deferred vested.

SCHEDULE OF FUNDING PROGRESS (IN THOUSANDS)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Ratio of Assets to Actuarial Accrued Liability	Annual Active Member Compensation	UAAL as a Percentage of Covered Payroll
6/30/04	\$1,452,621	\$1,921,328	\$468,707	75.60%	\$365,385	128.28%
6/30/05	\$1,615,585	\$2,177,759	\$562,174	74.20%	\$334,315	168.16%
6/30/06	\$1,769,021	\$2,345,149	\$576,128	75.40%	\$368,972	156.14%
6/30/07	\$1,976,731	\$2,555,504	\$578,773	77.40%	\$407,812	141.92%
6/30/08	\$2,218,937	\$2,806,222	\$587,285	79.10%	\$416,243	141.09%
6/30/09	\$1,909,679	\$2,987,712	\$1,078,033	63.90%	\$436,424	247.02%
6/30/10	\$2,179,076	\$3,098,453	\$919,377	70.30%	\$428,559	214.53%
6/30/11	\$2,405,140	\$3,246,727	\$841,587	74.10%	\$424,061	198.46%
6/30/12	\$2,480,271	\$3,442,553	\$962,282	72.00%	\$419,779	229.24%
6/30/13	\$2,618,639	\$3,572,750	\$954,111	73.30%	\$406,921	234.47%

Funded Ratio is a measurement of the funded status of the plan. The Funded Ratio is calculated by dividing the Valuation Assets by the Actuarial Accrued Liability. In the table above, SamCERA's Funded Ratio indicates assets are approximately 30% less than liabilities. The Funded Ratio has increased considerably from June 30, 2009. The most significant reasons for the increase in the funded ratio have been the market appreciation of investments and contributions by the employer and employee.

HISTORY OF EMPLOYER CONTRIBUTION RATES

Important Terms

Normal Cost is that portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

Actuarial Present Value is the value of an amount or series of amounts payable or receivable at various times, determined as of a given date by application of a particular set of Actuarial Assumptions.

Actuarial Cost Method employed by SamCERA is the Entry Age Normal Method. The actuarial accrued liability is calculated on an individual basis and is based on costs allocated as a level percentage of compensation.

Unfunded Actuarial Accrued Liability is the excess, if any, of the Actuarial Accrued Liability over the Actuarial Value of Assets.

Actuarial Accrued Liability is that portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of pension plan benefits and expenses which is not provided for by the future Normal Costs.

Actuarial Value of Assets is the value of cash, investments and other property belonging to a pension plan, as used by the actuary for purposes of an Actuarial Valuation.

Actuarial Valuation is the determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a pension plan.

HISTORY OF EMPLOYER CONTRIBUTION RATES: GENERAL

Year	County & Courts General (excluding Nurses & UAPD)			County General Nurses & UAPD			San Mateo County Mosquito and Vector Control District General		
	Normal	UAAL	Total	Normal	UAAL	Total	Normal	UAAL	Total
2004	9.76%	8.25%	18.01%	Same as County General			Same as County General		
2005	10.36%	10.38%	20.74%	Same as County General			Same as County General		
2006	10.49%	9.97%	20.46%	Same as County General			Same as County General		
2007	10.19%	9.46%	19.65%	Same as County General			8.50%	7.76%	16.26%
2008	10.16%	9.81%	19.97%	Same as County General			8.55%	8.04%	16.59%
2009	10.11%	18.40%	28.51%	Same as County General			8.25%	15.09%	23.34%
2010	10.05%	18.46%	28.51%	Same as County General			11.70%	16.35%	28.05%
2011	9.71%	18.80%	28.51%	8.70%	19.81%	28.51%	11.48%*	16.96%*	28.44%*
2012	9.98%	20.17%	30.15%	8.96%	20.17%	29.13%	11.68%	20.17%	31.85%
2013	9.74%	22.35%	32.09%	8.92%	22.35%	31.27%	11.70%	22.35%	34.05%

*Revised by actuary in 2012.

HISTORY OF EMPLOYER CONTRIBUTION RATES: SAFETY AND PROBATION

Year	Safety Member			Probation Member (excluding Managers)			Probation Managers		
	Normal	UAAL	Total	Normal	UAAL	Total	Normal	UAAL	Total
2004	15.34%	24.82%	40.16%	16.17%	15.28%	31.45%	16.17%	15.28%	31.45%
2005	20.43%	32.02%	52.45%	21.10%	16.43%	37.53%	21.10%	16.43%	37.53%
2006	20.18%	30.52%	50.70%	21.59%	14.85%	36.44%	21.59%	14.85%	36.44%
2007	19.94%	29.32%	49.26%	20.83%	14.06%	34.89%	20.83%	14.06%	34.89%
2008	19.32%	27.31%	46.63%	20.05%	12.81%	32.86%	20.05%	12.81%	32.86%
2009	19.21%	51.83%	71.04%	19.92%	23.84%	43.76%	19.92%	23.84%	43.76%
2010	19.01%	52.03%	71.04%	19.85%	21.62%	41.47%	19.85%	21.62%	41.47%
2011	18.97%	52.07%	71.04%	19.50%	22.30%	41.80%	19.50%	22.30%	41.80%
2012	19.05%	48.51%	67.56%	18.47%	26.71%	45.18%	18.47%	26.71%	45.18%
2013	18.51%	50.33%	68.84%	18.33%	29.32%	47.65%	17.85%	29.32%	47.17%

ACTIVE MEMBER VALUATION DATA

Valuation Date		Members ⁽¹⁾	Annual Salary	Average Annual Salary	% Change Average Salary
2004	General	4,487	\$303,786,879	\$67,700	6.80%
	Safety	411	\$40,796,852	\$99,202	13.40%
	Probation	288	\$20,800,813	\$72,225	11.60%
	Total	5,186	\$365,384,544	\$70,448	6.80%
2005	General	4,411	\$304,289,437	\$68,984	1.80%
	Safety	409	\$39,999,593	\$97,799	-1.40%
	Probation	278	\$20,123,863	\$72,388	0.20%
	Total	5,098	\$364,412,893	\$71,482	1.40%
2006	General	4,614	\$312,934,324	\$67,823	-1.70%
	Safety	428	\$41,407,772	\$96,747	-1.10%
	Probation	313	\$22,009,210	\$70,317	-1.60%
	Total	5,355	\$376,351,306	\$70,280	-1.70%
2007	General	4,767	\$346,319,017	\$72,649	7.10%
	Safety	443	\$45,386,411	\$102,452	5.90%
	Probation	329	\$24,364,268	\$74,056	5.30%
	Total	5,539	\$416,069,696	\$75,116	6.90%
2008	General	4,743	\$353,518,525	\$74,535	2.60%
	Safety	432	\$46,326,906	\$107,238	4.70%
	Probation	325	\$24,741,003	\$76,126	2.80%
	Total	5,500	\$424,586,434	\$77,198	2.80%
2009	General	4,777	\$370,760,830	\$77,614	4.10%
	Safety	436	\$48,120,081	\$110,367	2.90%
	Probation	330	\$26,270,802	\$79,608	4.60%
	Total	5,543	\$445,151,713	\$80,309	4.00%
2010	General	4,609	\$363,305,740	\$78,825	1.60%
	Safety	425	\$48,576,912	\$114,299	3.60%
	Probation	313	\$25,247,595	\$80,663	1.30%
	Total	5,347	\$437,130,248	\$81,752	1.80%
2011	General	4,494	\$355,876,715	\$79,189	0.50%
	Safety	446	\$52,073,940	\$116,758	2.20%
	Probation	305	\$24,591,392	\$80,628	0.00%
	Total	5,245	\$432,542,046	\$82,468	0.90%
2012	General	4,361	\$351,965,689	\$80,708	1.90%
	Safety	435	\$51,129,267	\$117,539	0.70%
	Probation	299	\$24,554,583	\$82,122	1.90%
	Total	5,095	\$427,649,539	\$83,935	1.80%
2013	General	4,173	\$338,595,633	\$81,140	0.50%
	Safety	452	\$52,233,510	\$115,561	-1.70%
	Probation	292	\$23,722,165	\$81,240	-1.10%
	Total	4,917	\$414,551,308	\$84,310	0.40%

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

DEMOGRAPHIC ACTIVITY OF RETIREES AND BENEFICIARIES

Retirees and Beneficiaries ⁽¹⁾									
Year	At Beginning of Year	Addition	Withdrawal	At End of Year	Annual Payroll Increase (in 000s)	Annual Payroll Decrease (in 000s)	Total Retiree Payroll (in 000s)	Percent Increase In Payroll	Average Annual Allowance
6/30/04	3,466	193	120	3,539	N/A	N/A	\$75,493	8.7%	\$21,336
6/30/05	3,539	238	95	3,682	N/A	N/A	\$84,183	11.5%	\$22,860
6/30/06	3,519	206	112	3,613	N/A	N/A	\$91,006	8.1%	\$25,188
6/30/07	3,613	155	74	3,694	N/A	N/A	\$98,790	8.6%	\$26,748
6/30/08	3,694	218	70	3,842	N/A	N/A	\$109,616	11.0%	\$28,536
6/30/09	3,842	159	66	3,935	\$12,717	\$3,281	\$119,052	8.6%	\$30,252
6/30/10	3,935	163	96	4,002	\$9,076	\$3,240	\$124,888	4.9%	\$31,212
6/30/11 ⁽²⁾	4,002	209	64	4,147	\$12,703	\$2,916	\$134,675	7.8%	\$32,472
6/30/12	4,147	218	90	4,275	\$14,379	\$4,209	\$144,845	7.6%	\$33,876
6/30/13	4,275	186	63	4,398	\$13,024	\$3,095	\$154,774	6.9%	\$35,196

(1) For 6/30/2004 and 6/30/2005, retirees/beneficiaries who are entitled to multiple benefits are counted more than once. The 6/30/06 beginning of year count was revised to reflect only one retiree per benefit in 6/30/2006. Prior to 6/30/2004 retirees/beneficiaries who are entitled to multiple benefits are only counted once.

(2) Revised from 2011 valuation for corrections.

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE (\$000)

Summary of (Gains) / Losses

Change In Liability

	2013	2012	2011	2010	2009
Unfunded Liability as of July 1	\$962,282	\$841,587	\$919,377	\$1,078,033	\$587,285
Expected Change in UAAL	(\$34,535)	(\$39,621)	(\$31,508)	\$27,388	(\$11,786)
Salary (Gain) / Loss	(\$59,411)	(\$45,526)	(\$51,831)	(\$43,598)	(\$10,081)
Retiree COLA more / (less) than expected	(\$8,606)	(\$11,756)	(\$27,561)	(\$41,258)	\$1,080
Assets (Gain) / Loss	\$93,999	\$171,268	\$12,548	(\$88,485)	\$522,444
Change due to Assumption Changes	\$0	\$36,443	\$19,402		
Miscellaneous Experience	\$382	\$9,887	\$1,160	(\$12,703)	(\$10,909)
Change Due to New Formula					
Unfunded Liability as of June 30	\$954,111	\$962,282	\$841,587	\$919,377	\$1,078,033

RATES OF SEPARATION FROM ACTIVE SERVICE

Service Retirement: Member retires after meeting age and service requirements for reasons other than disability.

Withdrawal: Member terminates and elects a refund of member contributions, or a deferred vested retirement benefit.

Service Disability: Member receives disability retirement; disability is service related.

Ordinary Disability: Member receives disability retirement; disability is not service related.

Service Death: Member dies before retirement; death is service related.

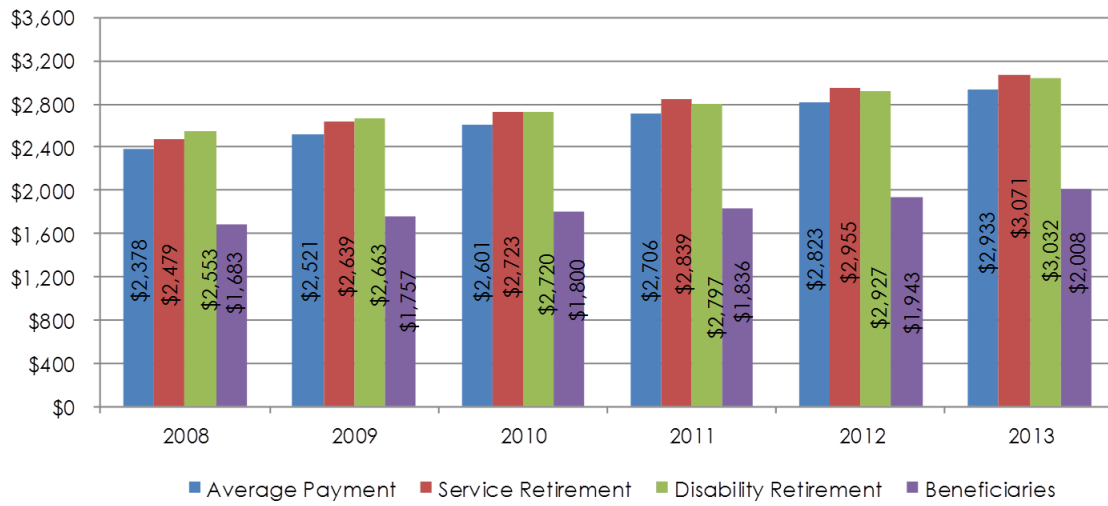
Ordinary Death: Member dies before retirement; death is not service related.

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

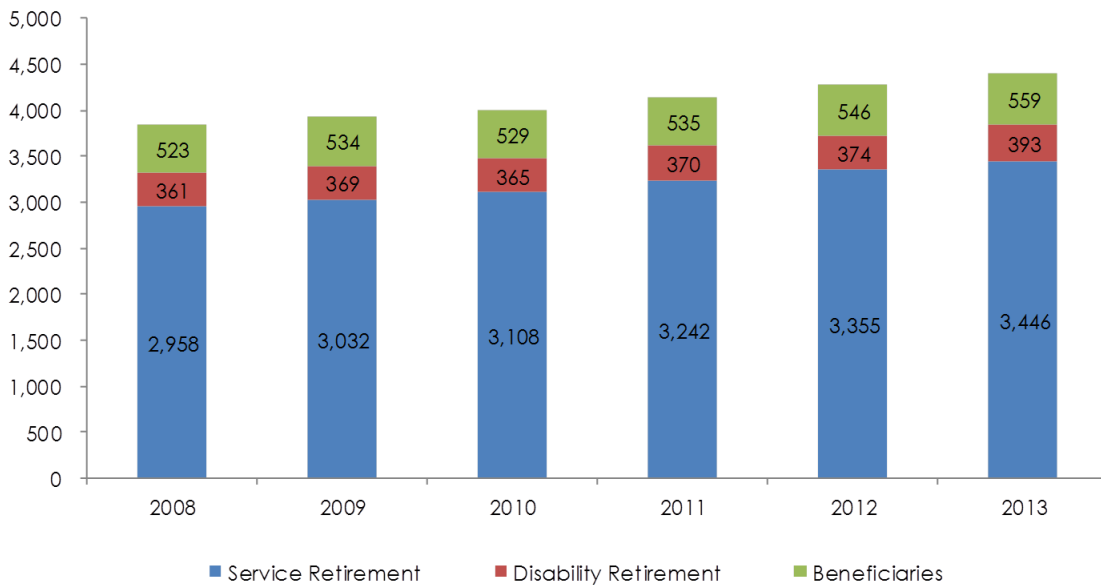
PROBABILITY OF SEPARATION DURING ACTIVE SERVICE

Years of Service	Other Terminations		Age	Disability		Death while Active		Service Retirement
	Ordinary	Vested		Ordinary	Service	Ordinary	Service	
General Plan 1, 2, 4, 5 & 7 Male Members								
0	0.1300	0.0000	20	0.0002	0.0004	0.0003	0.0000	0.0000
5	0.0285	0.0348	30	0.0003	0.0004	0.0004	0.0000	0.0000
10	0.0172	0.0238	40	0.0006	0.0010	0.0009	0.0000	0.0000
15	0.0099	0.0191	50	0.0010	0.0016	0.0017	0.0000	0.0500
20	0.0040	0.0150	60	0.0015	0.0022	0.0036	0.0000	0.1500
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0000	0.0000	1.0000
General Plan 1, 2, 4, 5 & 7 Female Members								
0	0.1200	0.0000	20	0.0002	0.0003	0.0002	0.0000	0.0000
5	0.0285	0.0348	30	0.0002	0.0004	0.0002	0.0000	0.0000
10	0.0153	0.0212	40	0.0004	0.0007	0.0006	0.0000	0.0000
15	0.0088	0.0172	50	0.0012	0.0017	0.0013	0.0000	0.0400
20	0.0040	0.0150	60	0.0019	0.0029	0.0030	0.0000	0.1500
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0000	0.0000	1.0000
General Plan 3 Male Members								
0	0.1300	0.0000	20	0.0000	0.0000	0.0003	0.0000	0.0000
5	0.0285	0.0348	30	0.0000	0.0000	0.0004	0.0000	0.0000
10	0.0172	0.0238	40	0.0000	0.0000	0.0009	0.0000	0.0000
15	0.0099	0.0191	50	0.0000	0.0000	0.0017	0.0000	0.0000
20	0.0040	0.0150	60	0.0000	0.0000	0.0036	0.0000	0.0300
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0000	0.0000	1.0000
General Plan 3 Female Members								
0	0.1200	0.0000	20	0.0000	0.0000	0.0002	0.0000	0.0000
5	0.0285	0.0348	30	0.0000	0.0000	0.0002	0.0000	0.0000
10	0.0153	0.0212	40	0.0000	0.0000	0.0006	0.0000	0.0000
15	0.0088	0.0172	50	0.0000	0.0000	0.0013	0.0000	0.0000
20	0.0040	0.0150	60	0.0000	0.0000	0.0030	0.0000	0.0400
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0000	0.0000	1.0000
Safety and Probation Plan 1, 2, 4, 5 & 7 Male Members								
0	0.0700	0.0000	20	0.0000	0.0015	0.0003	0.0010	0.0000
5	0.0082	0.0151	30	0.0000	0.0018	0.0004	0.0010	0.0000
10	0.0050	0.0105	40	0.0000	0.0028	0.0009	0.0010	0.0000
15	0.0016	0.0094	50	0.0000	0.0044	0.0017	0.0010	0.1500
20 & Above	0.0000	0.0000	60	0.0000	0.0000	0.0036	0.0010	1.0000
			70	0.0000	0.0000	0.0000	0.0000	1.0000
Safety and Probation Plan 1, 2, 4, 5 & 7 Female Members								
0	0.0700	0.0000	20	0.0000	0.0015	0.0002	0.0010	0.0000
5	0.0082	0.0151	30	0.0000	0.0018	0.0003	0.0010	0.0000
10	0.0050	0.0105	40	0.0000	0.0028	0.0007	0.0010	0.0000
15	0.0016	0.0094	50	0.0000	0.0044	0.0017	0.0010	0.1500
20 & Above	0.0000	0.0000	60	0.0000	0.0000	0.0039	0.0010	1.0000
			70	0.0000	0.0000	0.0000	0.0000	1.0000
Safety and Probation Plan 6 Male Members								
0	0.0700	0.0000	20	0.0000	0.0015	0.0003	0.0010	0.0000
5	0.0082	0.0151	30	0.0000	0.0018	0.0004	0.0010	0.0000
10	0.0050	0.0105	40	0.0000	0.0028	0.0009	0.0010	0.0000
15	0.0016	0.0094	50	0.0000	0.0044	0.0017	0.0010	0.0500
20 & Above	0.0000	0.0000	60	0.0000	0.0000	0.0036	0.0010	1.0000
			70	0.0000	0.0000	0.0000	0.0000	1.0000
Safety and Probation Plan 6 Female Members								
0	0.0700	0.0000	20	0.0000	0.0015	0.0002	0.0010	0.0000
5	0.0082	0.0151	30	0.0000	0.0018	0.0003	0.0010	0.0000
10	0.0050	0.0105	40	0.0000	0.0028	0.0007	0.0010	0.0000
15	0.0016	0.0094	50	0.0000	0.0044	0.0017	0.0010	0.0500
20 & Above	0.0000	0.0000	60	0.0000	0.0000	0.0039	0.0010	1.0000
			70	0.0000	0.0000	0.0000	0.0000	1.0000

AVERAGE MONTHLY BENEFIT PAYMENT



RETIREES BY CATEGORY





STATISTICS SECTION

INTRODUCTION TO THE STATISTICAL SECTION

This section provides additional detailed information for a more thorough understanding of the financial statements, note disclosures and required supplementary information. The schedules presented on the following pages show trends in changes of plan net position, revenues and expenses by category, detailed active member salary and retiree benefit information, as well as general membership populations over the past ten years. Most of the information presented is compiled by the actuary based on information from the pension administration system.

CHANGE IN PENSION PLAN NET POSITION LAST TEN FISCAL YEARS

as of June 30 (in thousands of dollars)

	2013	2012	2011	2010	2009
Additions					
Employer Contributions	\$144,308	\$150,950	\$150,475	\$106,265	\$106,123
Member Contributions	55,408	49,687	49,013	50,319	50,372
Total Contributions	199,716	200,637	199,488	156,584	156,495
Investment Income/(Loss) (net of expenses)	326,983	(11,024)	437,654	195,412	(457,309)
Security Lending Income	622	721	530	743	1,631
Miscellaneous Additions/(Declines)	160	29	73	41	(16)
Total Additions/(Declines)	527,481	190,363	637,745	352,780	(299,199)
Deductions					
Retiree Benefits	149,266	139,208	129,835	122,141	113,991
Member Refunds	5,750	3,627	2,474	2,736	2,795
Administrative Expenses	4,914	5,033	3,547	3,373	3,287
Other Expenses	29	(33)	10	33	67
Total Deductions	159,959	147,835	135,866	128,283	120,140
Change in Pension Plan Net Position	\$367,522	\$42,528	\$501,879	\$224,497	\$(419,339)

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

as of June 30 (in thousands of dollars)

	2008	2007	2006	2005	2004
Additions					
Employer Contributions	\$105,340	\$100,550	\$76,090	\$76,931	\$60,042
Member Contributions	60,111	42,696	39,962	33,647	27,094
Total Contributions	165,451	143,246	116,052	110,578	87,136
Investment Income/(Loss) (net of expenses)	(178,379)	298,260	166,826	140,132	193,107
Security Lending Income	1,699	0	0	0	0
Miscellaneous Additions/(Declines)	181	26	49	79	226
Total Additions/(Declines)	(11,048)	441,532	282,927	250,789	280,469
Deductions					
Retiree Benefits	103,970	94,788	87,915	83,182	74,016
Member Refunds	3,075	2,244	2,258	1,458	1,734
Administrative Expenses	2,774	2,582	2,086	2,235	1,912
Other Expenses	8	201	40	4	719
Total Deductions	109,827	99,815	92,299	86,879	78,381
Change in Pension Plan Net Position	\$(120,875)	\$341,717	\$190,628	\$163,910	\$202,088

TOTAL PLAN NET POSITION



SCHEDULE OF EMPLOYER CONTRIBUTIONS

(in thousands of dollars)

Year End	Actuarially Required Contributions (ARC)	Contributions Made As a % of ARC
06/30/2004	\$60,042	100%
06/30/2005	\$76,931	100%
06/30/2006	\$76,090	100%
06/30/2007	\$100,550	100%
06/30/2008	\$105,340	100%
06/30/2009	\$106,123	100%
06/30/2010	\$106,265	100%
06/30/2011	\$150,475	100%
06/30/2012	\$150,950	100%
06/30/2013	\$144,308	100%

SCHEDULE OF REVENUE BY SOURCE

(in thousands of dollars)

Year End	Employee Contribution	Employer Contribution	Investment Income/(Loss)	Total
06/30/2004	\$27,094	\$60,042	\$193,333	\$280,469
06/30/2005	\$33,647	\$76,931	\$140,211	\$250,789
06/30/2006	\$39,963	\$76,090	\$166,874	\$282,927
06/30/2007	\$42,696	\$100,550	\$298,286	\$441,532
06/30/2008	\$60,111	\$105,340	(\$176,043)	(\$10,592)
06/30/2009	\$50,372	\$106,123	(\$455,694)	(\$299,199)
06/30/2010	\$50,319	\$106,265	\$196,196	\$352,780
06/30/2011	\$49,013	\$150,475	\$438,257	\$637,745
06/30/2012	\$49,687	\$150,950	(\$10,274)	\$190,363
06/30/2013	\$55,408	\$144,308	\$327,765	\$527,481

SCHEDULE OF EXPENSES BY TYPE

(in thousands of dollars)

Year End	Administrative Expenses	Other Expenses	Retirement Benefits Paid	Member Refunds	Total
06/30/2004	\$1,912	\$719	\$74,016	\$1,734	\$78,381
06/30/2005	\$2,235	\$4	\$83,182	\$1,458	\$86,879
06/30/2006	\$2,086	\$40	\$87,915	\$2,258	\$92,299
06/30/2007	\$2,582	\$201	\$94,788	\$2,244	\$99,815
06/30/2008	\$3,231	\$8	\$103,970	\$3,075	\$110,284
06/30/2009	\$3,287	\$67	\$113,991	\$2,795	\$120,140
06/30/2010	\$3,373	\$33	\$122,141	\$2,736	\$128,283
06/30/2011	\$3,547	\$10	\$129,835	\$2,474	\$135,866
06/30/2012	\$5,033	(\$33)	\$139,208	\$3,627	\$147,835
06/30/2013	\$4,914	\$29	\$149,266	\$5,750	\$159,959

Note: Administrative expenses related to investments were classified as investment expense in 2008-2011. Effective 6/30/2012 these expenses are included as Administrative Expenses.

SUMMARY OF RETIRED BENEFITS, REFUNDS, AND INACTIVE MEMBERS

RETIRED MEMBERS	2013	2012	2011	2010	2009
Service Retirement					
Number	3,446	3,355	3,242	3,108	3,032
Annual Allowance					
Basic Only	\$100,411,000	\$94,234,000	\$87,254,000	\$79,007,000	\$73,038,000
COLA	\$26,594,000	\$24,748,000	\$23,212,000	\$22,542,000	\$22,964,000
Total	\$127,005,000	\$118,982,000	\$110,466,000	\$101,549,000	\$96,002,000
Average Monthly Payment	\$3,071	\$2,955	\$2,839	\$2,723	\$2,639
Disability Retirement					
Number	393	374	370	365	369
Annual Allowance					
Basic Only	\$10,733,000	\$9,909,000	\$9,414,000	\$8,988,000	\$8,722,000
COLA	\$3,564,000	\$3,225,000	\$3,005,000	\$2,926,000	\$3,070,000
Total	\$14,297,000	\$13,134,000	\$12,419,000	\$11,914,000	\$11,792,000
Average Monthly Payment	\$3,032	\$2,927	\$2,797	\$2,720	\$2,663
Beneficiaries					
Number	559	546	535	529	534
Annual Allowance					
Basic Only	\$7,668,000	\$7,235,000	\$6,672,000	\$6,309,000	\$6,052,000
COLA	\$5,804,000	\$5,494,000	\$5,118,000	\$5,116,000	\$5,206,000
Total	\$13,472,000	\$12,729,000	\$11,790,000	\$11,425,000	\$11,258,000
Average Monthly Payment	\$2,008	\$1,943	\$1,836	\$1,800	\$1,757
Total Retired Members					
Number	4,398	4,275	4,147	4,002	3,935
Annual Allowance					
Basic Only	\$118,812,000	\$111,378,000	\$103,340,000	\$94,304,000	\$87,812,000
COLA	\$35,962,000	\$33,467,000	\$31,335,000	\$30,584,000	\$31,240,000
Total	\$154,774,000	\$144,845,000	\$134,675,000	\$124,888,000	\$119,052,000
Average Monthly Payment	\$2,933	\$2,823	\$2,706	\$2,601	\$2,521
Type of Refund*					
General	\$5,161,430	\$3,399,163	\$2,379,790	\$2,623,439	N/A
Safety	\$588,346	\$228,329	\$94,655	\$112,586	N/A
Total Refund	\$5,749,776	\$3,627,492	\$2,474,445	\$2,736,025	\$2,794,916
INACTIVE MEMBERS	1,306	1,212	1,190	1,207	1,230

For 6/30/2004 and 6/30/2005 retirees/beneficiaries who are entitled to multiple benefits are counted more than once. Beginning in 6/30/2006, a retiree is counted only once even if that retiree has multiple benefits from different tiers.

The data in the table above originates from PensionGold, SamCERA's retirement benefit administration system. For the years 2001 through 2005 it also appears in SamCERA's actuarial valuation reports. The total payroll above will differ from the actual payroll due to a last month projection used by the actuary.

* Type of Refund not available prior to FY 2009-2010.

SUMMARY OF RETIRED BENEFITS, REFUNDS, AND INACTIVE MEMBERS (CONTINUED)

RETIRED MEMBERS	2008	2007	2006	2005	2004
Service Retirement					
Number	2,958	2,835	2,783	2,865	2,706
Annual Allowance					
Basic Only	\$66,704,000	\$59,687,000	\$54,942,000	\$49,760,000	\$41,723,000
COLA	\$21,289,000	\$19,382,000	\$18,188,000	\$17,759,000	\$17,502,000
Total	\$87,993,000	\$79,069,000	\$73,130,000	\$67,519,000	\$59,225,000
Average Monthly Payment	\$2,479	\$2,324	\$2,190	\$1,964	\$1,824
Disability Retirement					
Number	361	351	342	334	339
Annual Allowance					
Basic Only	\$8,214,000	\$7,571,000	\$6,915,000	\$6,575,000	\$6,164,000
COLA	\$2,847,000	\$2,569,000	\$2,356,000	\$2,205,000	\$2,172,000
Total	\$11,061,000	\$10,140,000	\$9,271,000	\$8,780,000	\$8,336,000
Average Monthly Payment	\$2,553	\$2,407	\$2,259	\$2,191	\$2,049
Beneficiaries					
Number	523	508	488	483	494
Annual Allowance					
Basic Only	\$5,757,000	\$5,220,000	\$4,659,000	\$4,084,000	\$4,250,000
COLA	\$4,805,000	\$4,361,000	\$3,946,000	\$3,800,000	\$3,682,000
Total	\$10,562,000	\$9,581,000	\$8,605,000	\$7,884,000	\$7,932,000
Average Monthly Payment	\$1,683	\$1,572	\$1,469	\$1,360	\$1,338
Total Retired Members					
Number	3,842	3,694	3,613	3,682	3,539
Annual Allowance					
Basic Only	\$80,675,000	\$72,478,000	\$66,516,000	\$60,419,000	\$52,137,000
COLA	\$28,941,000	\$26,312,000	\$24,490,000	\$23,764,000	\$23,356,000
Total	\$109,616,000	\$98,790,000	\$91,006,000	\$84,183,000	\$75,493,000
Average Monthly Payment	\$2,378	\$2,229	\$2,099	\$1,905	\$1,778
Type of Refund*					
General	N/A	N/A	N/A	N/A	N/A
Safety	N/A	N/A	N/A	N/A	N/A
Total Refund	\$3,074,453	\$2,243,677	\$2,257,849	\$1,458,227	\$1,734,439
INACTIVE MEMBERS	1,225	1,151	1,089	872	877

SCHEDULE OF ALL RETIRED MEMBERS AND BENEFICIARIES BY AGE AND RETIREMENT YEAR

as of June 30, 2013

Age	Retirement Year								Total Count	Average Monthly Benefit
	Pre-1979	1980-84	1985-89	1990-94	1995-99	2000-04	2005-09	2010-14		
Under 35	-	1	-	-	3	2	-	-	6	\$ 1,423
35-39	-	-	-	-	-	1	3	2	6	2,726
40-44	-	-	1	1	-	3	6	3	14	2,655
45-49	-	-	1	1	3	7	8	8	28	2,815
50-54	1	-	-	1	10	13	26	97	148	2,834
55-59	-	-	1	4	10	36	131	142	324	3,308
60-64	-	-	6	22	33	118	259	240	678	3,432
65-69	3	7	9	30	111	194	330	190	874	3,646
70-74	4	4	24	99	170	218	208	64	791	3,050
75-79	11	18	58	119	141	109	30	8	494	2,564
80-84	13	52	68	124	101	25	12	3	398	2,134
85-89	50	82	117	82	19	2	2	1	355	1,970
90-94	51	79	75	15	2	-	-	-	222	1,919
95-99	27	18	4	1	1	-	-	-	51	1,571
100 & Over	7	2	-	-	-	-	-	-	9	1,610
Total Count	167	263	364	499	604	728	1,015	758	4,398	
Avg Monthly Benefit	\$ 1,714	\$1,602	\$2,089	\$2,175	\$2,353	\$3,062	\$3,900	\$3,609		\$ 2,933

SCHEDULE OF AVERAGE MONTHLY SALARY OF ACTIVE MEMBERS

(by tier and membership type)

	2013	2012	2011	2010	2009
General Tier 1	\$8,104	\$7,843	\$7,630	\$7,543	\$7,534
General Tier 2	\$7,355	\$7,340	\$7,208	\$7,193	\$7,120
General Tier 3	\$6,254	\$6,138	\$5,968	\$5,818	\$5,791
General Tier 4	\$6,662	\$6,580	\$6,398	\$6,348	\$6,212
General Tier 5	\$6,418	\$5,799	N/A	N/A	N/A
General Tier 7	\$5,433	N/A	N/A	N/A	N/A
General Tier Total	\$6,726	\$6,726	\$6,599	\$6,569	\$6,468
Safety Tier 1	\$13,185	\$12,624	\$12,073	\$11,578	\$10,889
Safety Tier 2	\$10,935	\$10,892	\$10,789	\$10,548	\$10,135
Safety Tier 4	\$9,402	\$9,351	\$9,230	\$8,931	\$8,610
Safety Tier 5	\$8,699	\$9,667	N/A	N/A	N/A
Safety Tier 6	\$12,374	N/A	N/A	N/A	N/A
Safety Tier 7	\$6,695	N/A	N/A	N/A	N/A
Safety Tier Total	\$9,630	\$9,795	\$9,730	\$9,525	\$9,197
Probation Tier 1	\$6,618	\$6,618	\$7,533	\$8,922	\$9,751
Probation Tier 2	\$7,445	\$7,454	\$7,349	\$7,393	\$7,341
Probation Tier 4	\$6,622	\$6,686	\$6,505	\$6,456	\$6,291
Probation Tier 5	\$5,242	\$4,949	N/A	N/A	N/A
Probation Tier 6	\$4,808	\$5,239	N/A	N/A	N/A
Probation Tier 7	\$7,742	N/A	N/A	N/A	N/A
Probation Tier Total	\$6,770	\$6,844	\$6,719	\$6,722	\$6,634
Average Monthly Salary	\$7,026	\$6,995	\$6,872	\$6,813	\$6,692

SCHEDULE OF AVERAGE MONTHLY SALARY OF ACTIVE MEMBERS (CONTINUED)

	2008	2007	2006	2005	2004
General Tier 1	\$7,252	\$7,175	\$6,749	\$6,582	\$6,514
General Tier 2	\$6,872	\$6,688	\$6,148	\$6,045	\$5,980
General Tier 3	\$5,619	\$5,287	\$4,988	\$5,216	\$5,101
General Tier 4	\$5,914	\$5,714	\$5,315	\$5,476	\$5,281
General Tier 5	N/A	N/A	N/A	N/A	N/A
General Tier Total	\$6,211	\$6,054	\$5,652	\$5,747	\$5,642
Safety Tier 1	\$11,113	\$10,212	\$10,019	\$9,701	\$9,516
Safety Tier 2	\$9,612	\$9,299	\$8,585	\$8,482	\$8,530
Safety Tier 4	\$8,349	\$7,882	\$7,403	\$7,564	\$7,582
Safety Tier 5	N/A	N/A	N/A	N/A	N/A
Safety Tier 6	N/A	N/A	N/A	N/A	N/A
Safety Tier Total	\$8,937	\$8,538	\$8,062	\$8,150	\$8,267
Probation Tier 1	\$9,791	\$8,522	\$7,735	\$7,216	\$6,856
Probation Tier 2	\$6,960	\$6,899	\$6,479	\$6,390	\$6,291
Probation Tier 4	\$5,978	\$5,766	\$5,444	\$5,741	\$5,711
Probation Tier 5	N/A	N/A	N/A	N/A	N/A
Probation Tier 6	N/A	N/A	N/A	N/A	N/A
Probation Tier Total	\$6,344	\$6,171	\$5,860	\$6,032	\$6,019
Average Monthly Salary	\$6,433	\$6,260	\$5,857	\$5,955	\$5,871

The data in the table above originates from PensionGold, SamCERA's retirement benefit administration system. For the years 2001 through 2005 it also appears in SamCERA's actuarial valuation reports.

SCHEDULE OF PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS

	2013	2012	2011	2010	2009
COUNTY OF SAN MATEO					
General Members	3,906	4,078	4,476	4,589	4,758
Safety Members	452	435	446	425	436
Safety/Probation Members	292	299	305	313	330
Total	4,650	4,812	5,227	5,327	5,524
SAN MATEO COUNTY SUPERIOR COURTS*					
General Members Total	249	268	N/A	N/A	N/A
SAN MATEO COUNTY MOSQUITO & VECTOR CONTROL DISTRICT					
General Members Total	18	15	18	20	19
Total Active Membership	4,917	5,095	5,245	5,347	5,543

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

SCHEDULE OF PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS (CONTINUED)

	2008	2007	2006	2005	2004
COUNTY OF SAN MATEO					
General Members	4,718	4,742	4,594	4,391	4,474
Safety Members	432	443	428	409	411
Safety/Probation Members	325	329	313	278	288
Total	5,475	5,514	5,335	5,078	5,173
SAN MATEO COUNTY SUPERIOR COURTS*					
General Members Total	N/A	N/A	N/A	N/A	N/A
SAN MATEO COUNTY MOSQUITO & VECTOR CONTROL DISTRICT					
General Members Total	25	25	20	20	13
Total Active Membership	5,500	5,539	5,355	5,098	5,186

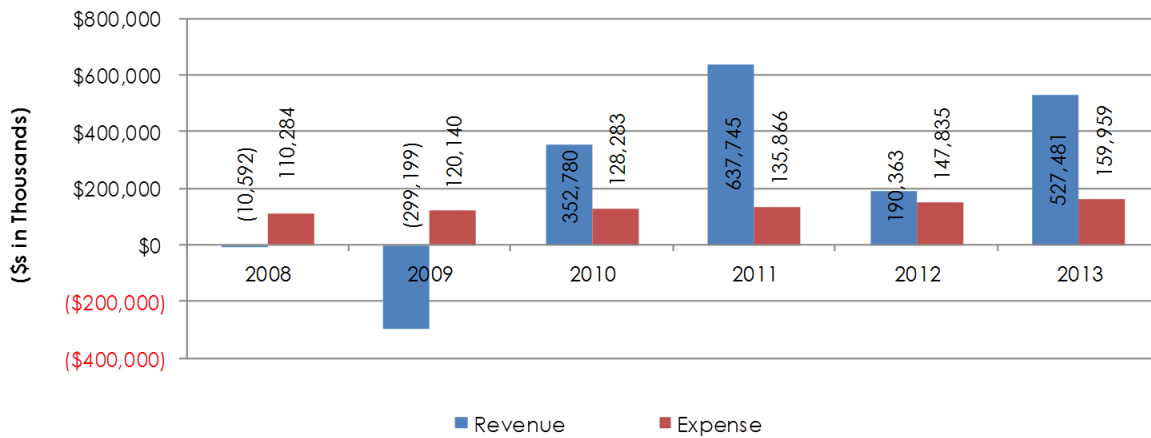
* San Mateo County Superior Courts Members were included in County of San Mateo prior to 2012.



COMPLIANCE
SECTION

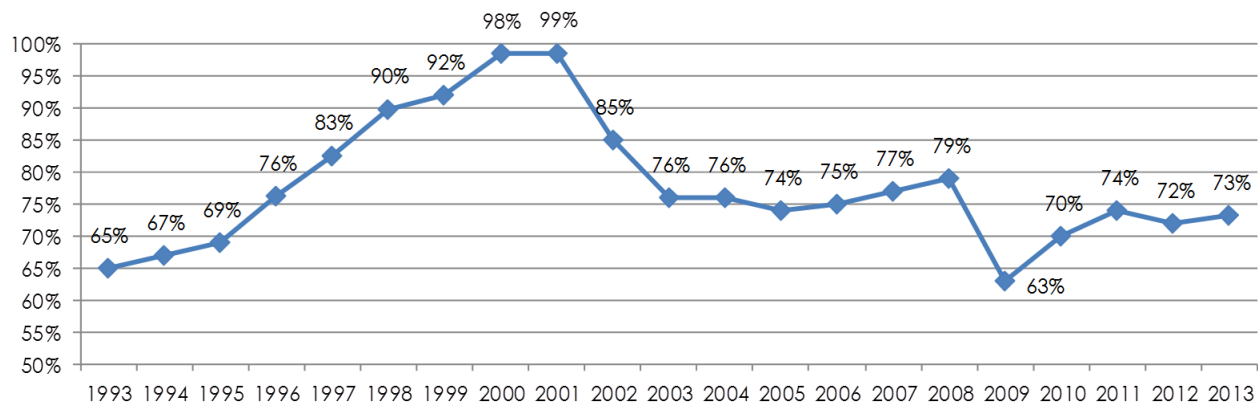
SAMCERA'S REVENUE AND EXPENSE

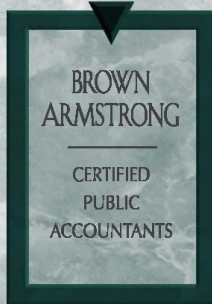
FY 2008-2013



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

FY 1993-2013





BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Retirement of the
San Mateo County Employees' Retirement Association

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the San Mateo County Employees' Retirement Association (SamCERA) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise SamCERA's basic financial statements, and have issued our report thereon dated October 21, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SamCERA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SamCERA's internal control. Accordingly, we do not express an opinion on the effectiveness of SamCERA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

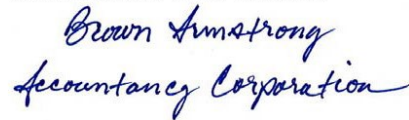
Compliance and Other Matters

As part of obtaining reasonable assurance about whether SamCERA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Handwritten signature in cursive script that reads "Brown Armstrong Accountancy Corporation".

Bakersfield, California
October 21, 2013

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Order Information

To order your own copy of SamCERA's *2013 Comprehensive Annual Financial Report*, contact SamCERA at:

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

You can also find this report on SamCERA's website,
www.samcera.org.

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www.samcera.org





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SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 29, 2013

Agenda Item 7.5

TO: Board of Retirement
FROM: David Bailey, Chief Executive Officer
Mabel Wong, Finance Officer



SUBJECT: Approval of Second Amendment to the Agreement with Brown Armstrong Accountancy Corporation for GASB 67 and 68 Implementation Services

Staff Recommendation

Approve a resolution authorizing the Chief Executive Officer to enter into a Second Amendment to the Agreement with Brown Armstrong Accountancy Corporation for GASB 67 and 68 implementation services.

Summary

SamCERA needs to implement the new reporting standards adopted by the Governmental Accounting Standards Board (GASB) contained in Statement 67 and be able to provide information to its participating employers as required by newly adopted GASB Statement 68. SamCERA's current auditor, Brown Armstrong Accountancy Corporation, can provide implementation assistance to SamCERA if its agreement is amended to expand the scope of services and to cover the costs associated with the extra services.

Discussion

In June 2012, GASB issued "Financial Reporting for Pension Plans" ("Statement 67"), applicable to SamCERA, and issued "Accounting and Financial Reporting for Pensions" ("Statement 68") applicable to the employer participants of SamCERA. Brown Armstrong can provide certain services in order to help SamCERA: (1) be in timely compliance with the new reporting standards required by GASB Statement 67 and, (2) be able to provide information to its participating employers as required by GASB Statement 68.

Brown Armstrong would provide the following services at its standard hourly rate, with a not-to-exceed cost of \$9,500 (\$9,000 for services and \$500 for travel expenses):

- Plan and facilitate meetings with a task force selected by SamCERA and participating employers which will be comprised of, but not be limited to, representatives from:
 - SamCERA finance staff

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

- SamCERA actuary
- Participating SamCERA employers
- Participating employer auditors
- Other interested parties
- Provide ongoing education and advice to the task force in order to gain an understanding of how to comply with GASB 67 and 68. Purely educational presentations will be at the direction or request of SamCERA.
- Submit a proposed timeline of implementation and update time line as required.
- Provide oversight and assistance for “dry run” of GASB 67 and 68 using 2013 financial information.
- Prepare recommendations for new requirements of schedules, calculations, and adjustments that need to be made as a result of the “dry run”, which will be comprised of, but not limited to:
 - Calculation of Total Pension Liability, Net Pension Liability
 - Calculation of a Money-Weighted Rate of Return
 - Schedule of Employer Allocations
 - Schedule of Employer Contributions
 - Schedule of Employer Pension Amounts
 - Schedule of Investment Returns
 - Actuarially determined employer contribution
- Provide oversight and assistance to ensure that the implementation is achieved in accordance with the timeline.
- Prepare recommendations to solve issues that arise during the course of implementation.
- Provide post-implementation assistance and communications to explain the changes to participating employers and third parties as directed by SamCERA.

Attachments:

Att: “Resolution Authorizing the Chief Executive Officer to Execute a Second Amendment to the Agreement with Brown Armstrong Accountancy Corporation for GASB 67 and 68 Implementation Services”

**SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
BOARD OF RETIREMENT**

RESOLUTION 13-14-__

**RESOLUTION AUTHORIZING THE CHIEF EXECUTIVE OFFICER TO EXECUTE A
SECOND AMENDMENT TO THE AGREEMENT WITH BROWN ARMSTRONG ACCOUNTANCY CORPORATION**

WHEREAS, on April 30, 2010, this Board entered into an agreement with Brown Armstrong Accountancy Corporation ("Brown Armstrong") for provision of certain auditing services to SamCERA; and

WHEREAS, in June 2012, the Governmental Accounting Standards Board issued "Financial Reporting for Pension Plans" ("Statement 67"), applicable to SamCERA, and issued "Accounting and Financial Reporting for Pensions" ("Statement 68") applicable to the employer participants of SamCERA; and

WHEREAS, the Board has determined that it would be in the best interest of SamCERA to have Brown Armstrong provide certain services in order that SamCERA: (1) be in timely compliance with the new reporting standards required by GASB Statement 67 and, (2) be able to provide information to its participating employers as required by GASB Statement 68; and

WHEREAS, the Board has determined that the agreement with Brown Armstrong be amended to provide for such GASB implementation services; Therefore, be it

RESOLVED, that the Chief Executive Officer is hereby authorized and directed to execute the Second Amendment to the Agreement with Brown Armstrong Accountancy Corporation on behalf of the San Mateo County Employees' Retirement Association to provide GASB 67 and 68 implementation services at a not-to-exceed amount of \$9,500.

PASSED AND ADOPTED by the Board of Retirement on October 29, 2013.

Natalie Kwan Lloyd, Chair
Board of Retirement

I, Paul Hackleman, Secretary of the Board of Retirement, of the San Mateo County Employees' Retirement Association, DO HEREBY CERTIFY that the foregoing resolution was duly introduced, approved and adopted by the Board of Retirement at a regular meeting of the Board of Retirement held on October 29, 2013, by the following vote:

AYES:
NOES:
ABSENT:

ATTEST: _____
Paul Hackleman
Secretary, Board of Retirement

San Mateo County Employees' Retirement Association
The Board of Retirement

October 29, 2013

Agenda Item 7.6

To: Board of Retirement

From: Mabel Wong, Retirement Finance Office 

Subject: Annual Review of Independent Auditor – Brown Armstrong Accountancy Corporation.

Staff Recommendation

Review the information summarizing Brown Armstrong Accountancy Corporation's performance as SamCERA's independent auditor and comment accordingly during this agenda item.

Summary

Brown Armstrong received mostly above average to high ratings from the Board and staff for the services they provide to SamCERA. There was clear improvement in the areas of communication, providing practical advice, and responsiveness to questions and requests. Staff appreciated Andrew Paulden's education and involvement in accounting for alternative investments. The audit manager and senior accountant, Brooke Baird and Ashley Casey, remained accessible to staff after the audit fieldwork and responded to staff requests promptly. The Board is interested in receiving pertinent education from the auditor. A represented selection of comments is attached for your review.

Background

The annual evaluation of the SamCERA's independent auditor has three parts:

1. A survey completed by trustees, staff and the auditor with comments
2. Responses to questions submitted to the auditor
3. A discussion at the Board meeting to present the findings of the survey and question responses.

1. Survey

The survey was provided online. Results were collected from five trustees, seven staff members and three auditors. Ratings from staff and trustees are above average. On a scale of 1 through 5, with 5 being the highest rating, staff gave the firm an average rating of 4.12; trustees rated the firm 4.45 and auditors rated themselves at 4.93. Please see the attached summary sheet for rating details and selected supplemental comments for additional information.

2. Responses to Questions

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

3. Discussion at Board Meeting

Mr. Paulden will be available to respond to any questions or comments regarding the audit services relationship.

In general, staff and trustees are pleased with the quality of advice and services provided by Brown Armstrong Accountancy Corporation.

Summary of Independent Auditor Performance Survey Results

October 29, 2013

Q1-Q8: 1= Low, 2=Below Average, 3=Average, 4=Above Average, 5=High

Q9-Q15: 1=Strongly Disagree, 2= Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree

Survey Questions	2013 Trustee Results	2013 Staff Results	2013 Auditor Results	2013 Average
1. How would you rate the firm's understanding of the system's goals and objectives?	4.60	4.20	5.00	4.60
2. How would you rate the firm's ability to custom tailor services?	4.50	3.80	5.00	4.43
3. How would you rate the firm's ability to respond to plan sponsor needs?	4.60	4.17	5.00	4.59
4. How would you rate the firm's ability to communicate effectively?	4.40	3.57	4.67	4.21
5. How would you rate the firm's responsiveness to questions and requests?	4.60	4.14	5.00	4.58
6. How would you rate the adequacy of information provided by the firm?	4.50	4.17	5.00	4.56
7. How would you rate the firm's knowledge in their substantive audit expertise areas?	4.40	4.50	4.33	4.41
8. How would you rate the effectiveness of the firm's educational presentations?	4.20	4.00	5.00	4.40
9. The firm provides practical and effective advice.	4.50	4.20	5.00	4.57
10. The firm provides creative solutions to difficult problems.	4.25	3.80	5.00	4.35
11. The firm achieves results that meet your expectations.	4.60	4.20	5.00	4.60
12. The firm keeps you informed about the progress of your matters.	4.20	4.00	5.00	4.40
13. The firm keeps you informed about changes in the law that could affect the plan.	4.20	4.25	5.00	4.48
14. The actuary demonstrates a high standard of ethics and integrity.	4.75	4.60	5.00	4.78
15. What is your overall opinion of the firm?	4.50	4.17	5.00	4.56
Average	4.45	4.12	4.93	4.50

Selection of Comments from Trustees and Staff

Q1. How would you rate the auditor's understanding of the system's goals and objectives?

No comments.

Q2. How would you rate the auditor's ability to custom-tailor services?

1. We appreciate that Andy Paulden of Brown Armstrong was available to provide SamCERA staff with an educational overview of how to account for SamCERA's alternative investments. Since alternatives is a relatively new class for us, staff was in need of additional training and Andy was able to guide staff until a resolution was reached.
2. Andy followed through and reviewed our postings for past years through June 2013 to confirm that we are on the right track going forward.
3. I was surprised to see their unresponsiveness to providing a manual for alternative investments. I also think it would be valuable to the Board to have a summary or cliff-notes version of that manual. Specifically, the sub-committee should be aware of what is contained in the manual.

Q3. How would you rate the auditor's ability to respond to plan sponsor needs?

1. The company stepped up to provide in-person service for our special need to value alternative investments properly.

Q4. How would you rate the auditor's ability to communicate effectively?

1. Communication has improved. SamCERA staff was able to clear up a few miscommunications from the past couple audits regarding the treatment of alternative investments. There were some "hiccups" along the way in terms of communicating the details of the proposed accounting changes to our custodian, however, in the end a compromise was reached that was amenable to all parties.
2. It was clear from their last presentation that they understood that previous audits had problems and I am pleased to see they have been remedied.
3. Once issues were identified, corrective actions were undertaken.

Q5. How would you rate the auditor's responsiveness to questions and requests?

1. Responsiveness has improved. Andy, Brooke and Ashley have been very responsive to our questions and requests this audit. Increased communication and responsiveness has allowed adequate time for SamCERA staff to respond and react to auditor's questions and concerns which we felt was lacking in the past couple of audits.

Q6. How would you rate the adequacy of information provided by the auditor?

No comments.

Q7. How would you rate the auditor's knowledge in their substantive legal expertise areas?

1. Brown Armstrong is especially strong in '37 Act knowledge.
2. Once issues were identified, corrective actions were undertaken.

Q8. How would you rate the effectiveness of the auditor's educational presentations?

1. Although SamCERA staff does not participate in Brown Armstrong's formal educational presentations in Bakersfield, we do appreciate the educational meeting staff had with Andy regarding the accounting for alternative investments. SamCERA staff did have several follow-up questions subsequent to the meeting, and Andy was able to address them promptly.
2. I would like to see more information come from them minimally to the sub-committee, perhaps to the entire Board.
3. Continue to educate the Board along with reading materials.

Q9. The auditor provides practical and effective advice.

1. SamCERA is very confident in the expert advice that Brown Armstrong provides.

Q10. The auditor provides creative solutions to difficult problems.

1. The auditors have always provided good suggestions to problems staff is facing. During this past audit in particular, Andy was able to listen through and help offer different solutions in order to resolve the issue of alternative investment accounting.
2. Spinning wheels on private equity treatment.

Q11. The auditor achieves results that meet your expectations.

1. We have had some communication issues involved with SamCERA's move to alternatives, but we have made substantial progress.
2. The custodian year-end report was delayed this year, resulting in a delay in the audit team's review. The audit team adjusted their schedule and completed their work on time.
3. Too many broken promises regarding private equity know-how. (This comment refers to last year's audit presentation about providing a private equity training manual that SamCERA did not receive. Andy responded with on-site training when we reminded him that we were waiting for their guidance.)

Q12. The auditor keeps you informed about the progress of your matters.

1. The frequency of updates has vastly improved which has allowed SamCERA staff to feel a lot better about the audit.
2. Communication is much improved this year.

Q13. The auditor keeps you informed about changes in the law that could affect the plan.

1. They seem to be good at providing this information.

Q14. The auditor demonstrates a high standard of ethics and integrity.

No comment.

Q15. What is your overall opinion of the auditor?

1. Overall, SamCERA staff is very satisfied with the level of service that Brown Armstrong has provided this past audit. We enjoy working with Ashley, Brooke and Andy and have the utmost trust and respect in their expertise. Although staff felt a little lacking with regards to the previous two audits, we have seen vast improvement and are very satisfied that we have been able to resolve the issue of alternative investments.

Q16. Do you have other comments, questions, or concerns? (optional)

1. Resolution of identified issues was handled in the best interest of the Plan.

**Questions for Annual Independent Auditor Evaluation
Fiscal Year 2012-2013**

Organizational Update

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

Andrew J. Paulden	16.51%
Burton H. Armstrong	5.51%
Steven R. Starbuck	10.49%
Christina M. Thornburgh	6.23%
Eric H. Xin	12.56%
Richard L. Halle	10.90%
Diana H. Branthoover	6.85%
Thomas M. Young	5.30%
Jay K. Porter	5.61%

- 2) Provide an update on your firm's organization, with particular emphasis on (a) changes to your management structure over the past eighteen months, and (b) public clients gained or lost in the past eighteen months. All significant changes should be accompanied by an explanation. An organizational chart should accompany this response.

(a) Change in managing partner. One partner separated from the firm.

(b) WE have gained the following in the past 18 months: Bakersfield ARC Foundation, Taft College- West Kern Community, San Bernardino International Airport, Inland Valley Development Agency RDA AUP, Solano County Transit, Kings County RDA AUP, Riverside- Internal Audit, Bethany Services, Inc., City of Shafter- KCOG, City of Taft- KCOG, City of Tehachapi- KCOG, City of Arvin- KCOG, City of Bakersfield- KCOG, California City- KCOG, City of Delano- KCOG, Golden Empire Transit- KCOG, Golden Empire Transit- KCOG Pension, Agency, County of Kern- KCOG, City of Maricopa- KCOG, City of McFarland- KCOG, North of the River- KCOG, City of Richcrest- KCOG, MMI Services 401K Profit Sharing Plan, County of Fresno CAFR/Single Audit/Treasury Cash County/OCJP, OES, CalEMA Grants/Coaling Southeast, Appropriation Limit/ Treasury Compliance Audit/First 5 Programs/In-Home Supportive/The Zoo Authority/CSA Grants, Southern California Regional Rail Authority, Inland Valley Development Agency RDA AUP, City of Modesto- Modesto Regulation, Pasadena Center Operating Company 401k, City of Stanislaus- Aging Provider, City of Pasadena- Credit Card AUP, Los Angeles Fire and Police Pension System, Santa Barbara County Employees' Retirement System, Weill Child Guidance Foundation, Southern California Regional Rail Authority- Metrolink, National Association of Regional Councils, City of Pasadena RDA Due Diligence, Kings County RDA Due Diligence, City of Visalia RDA Due Diligence, City of Merced RDA Due Diligence, Inland Valley RDA Due Diligence, County of Santa Barbara RDA Due Diligence, County of Tulare RDA Due Diligence, Taft College- Proposition 10, Santa Cruz Civic Improvement Corporation, Kern Community College District, City of Modesto- City Attorney's Office, Oildale Mutual Water Company, Los Angeles County Employees' Retirement Association OPEB, Mother Lode Job Training. We have lost in the past 18 months: City of Arvin- KCOG, Bakersfield Homeless Center, City of Bakersfield- KCOG, California City- KCOG, City

of Delano- KCOG, Fruitvale School District, Golden Empire Transit- KCOG, Golden Empire Transit- KCOG Pension, Inland Valley Development Agency, County of Kern- KCOG, City of Maricopa- KCOG, City of McFarland- KCOG, North of the River- KCOG, Inland Valley Development Agency RDA AUP, Richgrove Elementary, City of Richcrest- KCOG, San Bernardino International Airport, City of Shafter- KCOG, City of Taft- KCOG, City of Tehachapi- KCOG, Tri-Valley Oil Explorer

(c) Our firm is managed by a managing partner that is elected by the shareholders every four years. Please see our current organizational chart attached.

- 3) Provide a list of services available through your firm, including the number of staff supporting those services.

We are a full service accounting firm offering traditional accounting services. We currently have 94 employees; approximately 50 of those provide services to local governments.

- 4) What are your firm's philosophy and current policy regarding new business?

We engage only new clients that have the highest ethical standards, and only after we are certain we can provide high quality, timely service.

- 5) Specify separately the individuals (up to five) who you feel are key to the success of your firm. If the list has changed in the last eighteen months, identify and explain the change(s).

All partners and managers are integral to the continued success of our firm, particularly those under 50.

- 6) Update all significant personnel changes to the "SamCERA Team."

There were no significant changes in the "SamCERA Team" in the current year.

- 7) Has your firm or any of its employees been involved in regulatory or litigation actions related to your business in the past eighteen months?

No.

- 8) Has a peer review been performed on any of your firm's audit products? If yes, discuss the review and the findings. Any material findings or recommendations must be accompanied by an explanation.

Previously provided to SamCERA Management was Brown Armstrong Accountancy Corporation's most recent external quality control review (peer review.) Please see attached.

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

See attached certificate.

- 10) Do you have a written policy on ethics? If so, please e-mail the policy to mwong@samera.org.

We do not have a written policy. We conform to AICPA standards.

- 11) Describe the relative strength and longevity of your staff. Are any of your operations outsourced? If the answer is yes, provide details regarding the firm(s) with which your firm has contracted.

We have very good employee retention. The only outsourcing we do is for Information Technology consultations. A new IT audit manager has been hired.

- 12) What are your mission critical systems? Has your firm experienced any problems with these systems in the past eighteen months? When were these systems implemented and when were they last upgraded? Do you anticipate any changes to these systems in the next eighteen months?

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

- 13) Provide an overview of your firm's business continuity plan.

We have buy-sell and deferred compensation agreements with all partners. All partners that reach the age of 65 are mandatorily retired unless approved annually to continue as a partner. New partners meeting applicable standards are admitted to ownership to ensure continuity.

Audit Process

- 14) Provide a description, in detail, of your audit process.

Timeline establishment, risk assessment, internal control evaluation, substantive audit procedures, and Board Presentation.

- 15) What changes to the process resulted from going paperless?

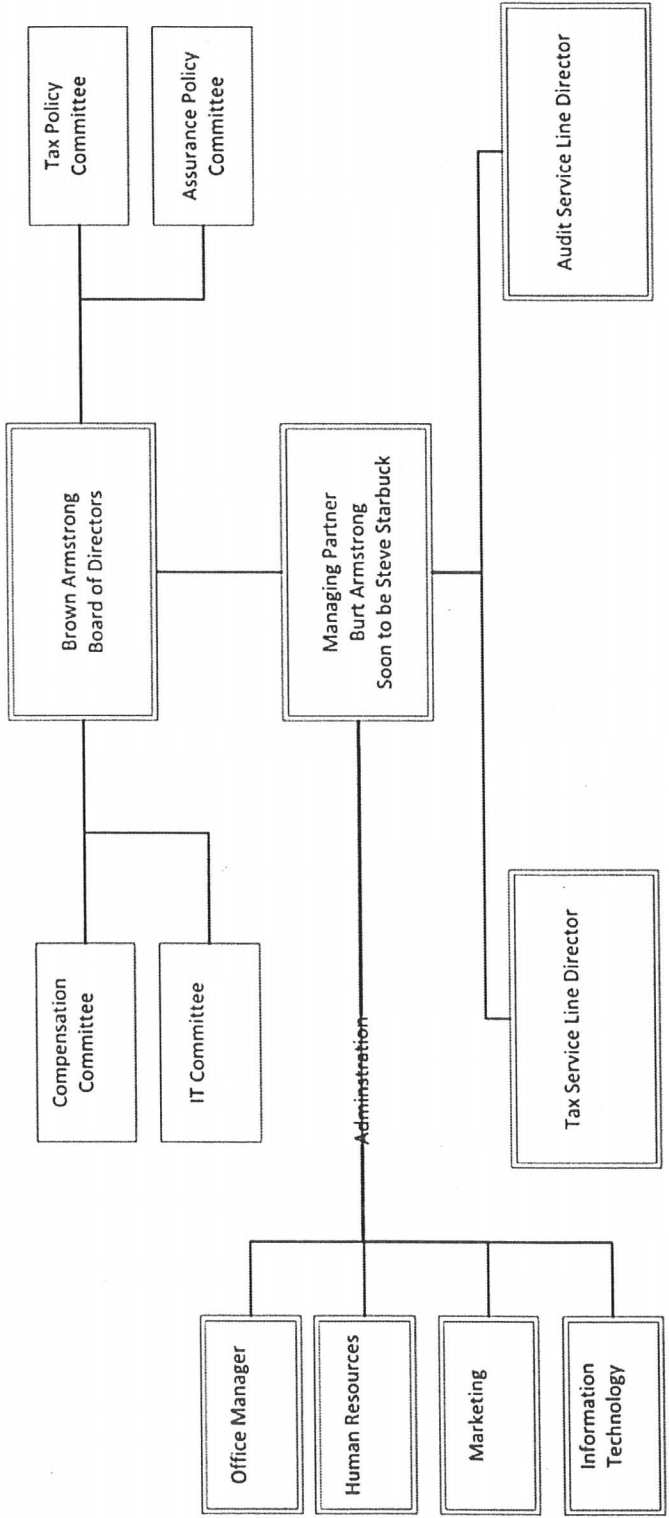
Brown Armstrong has been paperless for multiple years. Regarding the audit process mentioned at #14, there were no material changes to this process.

- 16) Describe your internal peer review procedures in detail.

As discussed in #8, every engagement is reviewed in detail by the Engagement Manager, the Engagement Partner and a completely separate Partner who has no attachment to the engagement. We use AICPA checklists and other practice aids. Any detail that has an open question or concern will halt production on the engagement until the matter is cleared to the reviewing Partner's satisfaction.

- 17) Does your firm engage in peer review with other audit firm? Please provide details.

Please see #8.





System Review Report

To the Shareholders of
Brown Armstrong Accountancy Corporation
and the National Peer Review Committee of the AICPA

We have reviewed the system of quality control for the accounting and auditing practice of Brown Armstrong Accountancy Corporation (the firm) applicable to non SEC issuers in effect for the year ended October 31, 2012. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based upon our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Brown Armstrong Accountancy Corporation applicable to non SEC issuers in effect for the year ended October 31, 2012, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Brown Armstrong Accountancy Corporation has received a peer review rating of *pass*.

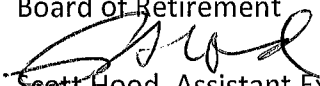

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
February 8, 2013

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 29, 2013

Agenda Item 7.7

TO: Board of Retirement
FROM:  Scott Hood, Assistant Executive Officer
SUBJECT: Approval of Second Amendment to the Agreement with Financial Knowledge Network, LLC for Financial Education Services.

Staff Recommendation:

Approve a resolution authorizing the Chief Executive Officer to enter into a Second Amendment to the Agreement with Financial Knowledge Network, LLC for member financial education services.

Background:

Financial Knowledge Network, LLC provides member education on a wide variety of financial topics. The classes are well received and have high attendance. The number of classes per year has increased and the service agreement, which runs through June 30, 2015, needs to be amended to reflect the cost of this annual increase. The proposed amendment to the agreement increases the current maximum from \$260,000 to \$350,000.

Discussion:

Since 2009, Financial Knowledge Network, LLC has provided member education in topics such as personal investing, taxes, and estate planning. Members and staff have been pleased with the quality and range of classes offered. Staff determined that increasing the number and type of classes would be well received by the members. Staff further determined that the rate per class charged by Financial Knowledge Network, LLC is decreased if the number of classes per year is increased. Therefore, while the total cost will increase, we will be able to offer more classes at a lower cost per class.

The resolution also authorizes the Chief Executive Officer to execute amendments to that amended agreement up to a total of \$25,000 in increased costs.

Attachment:

"Resolution Authorizing the Chief Executive Officer to Execute a Second Amendment to the Agreement with Financial Knowledge Network, LLC For Member Financial Education Services."

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

RESOLUTION 13-14-_____

RESOLUTION AUTHORIZING CHIEF EXECUTIVE OFFICER TO EXECUTE SECOND AMENDMENT TO THE AGREEMENT WITH FINANCIAL KNOWLEDGE NETWORK, LLC FOR FINANCIAL EDUCATION SERVICES AND THEREAFTER EXECUTE SUBSEQUENT AMENDMENTS AND MINOR MODIFICATIONS IN AN AMOUNT NOT TO EXCEED \$25,000

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, the Board authorized the Chief Executive Officer to enter into an agreement with Financial Knowledge Network LLC for a term ending June 30, 2015; and

WHEREAS, the total number and variety of classes offered each year has increased and has caused an anticipated increase in the total cost of the services; and

WHEREAS, the Board of Retirement approved the budget for Fiscal Year 13-14, including \$45,000 for member education and the current budget amount can cover the costs of the increase for this fiscal year; Therefore,

BE IT RESOLVED, that the Board of Retirement authorizes the Chief Executive Officer to execute a second amendment to the agreement with Financial Knowledge Network, LLC for financial education services increasing the total amount payable from \$260,000 to not to exceed \$350,000.

BE IT FURTHER RESOLVED, that the Chief Executive Officer is hereby authorized and directed to execute any subsequent amendments and minor modifications in an amount not to exceed \$25,000.

* * * * *

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

Ayes, Trustees:

Noes, Trustees:

Absent, Trustees:

Abstain, Trustees:

Paul Hackleman, Board Secretary

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

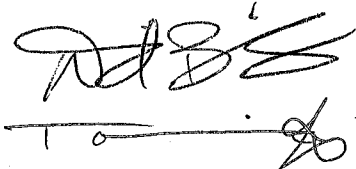
October 29, 2013

Agenda Item 7.8

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer
Tariq Ali, Chief Technology Officer

SUBJECT: Approval of Second Amendment to the Agreement with LRWL Inc. for Technology Modernization Project Manager Services.



Staff Recommendation

Approve a resolution authorizing the Chief Executive Officer to enter into a Second Amendment to the Agreement with LRWL Inc. for Technology Modernization Project Manager Services.

Summary

For the past 18 months, L. R. Wechsler, Ltd, Inc., now known as "LRWL Inc.," has been assisting SamCERA in overseeing its re-engineering of business processes, the conversion of paper documents to electronic files, data cleansing, and the current selection process for SamCERA's new Pension Administration Software Solution (PASS). After an agreement has been entered into with the selected PASS vendor, the next stage of SamCERA's technology modernization project will be the implementation of the PASS system. Under the proposed amendment to the agreement, at an additional cost of \$918,000, LRWL Inc. would oversee the implementation of the selected PASS vendor's system set to commence in January of 2014 with a targeted completion date of June 30, 2017.

Discussion

SamCERA launched its Technology Modernization Project in April 2012 by awarding, through a competitive RFP process, an agreement to LRWL Inc. for project management services. LRWL Inc. has been advising, reviewing, facilitating, and guiding the project as a whole to ensure that these new systems satisfy SamCERA's requirements and that, to the extent possible, the project is completed on time and within budget. The agreement provides that, at SamCERA's sole discretion, it can elect to have LRWL Inc. provide oversight for the implementation of PASS system upon written agreement.

Under the proposed amendment, LRWL Inc. would assist in the implementation of PASS through a phased approach which can be summarized as follows:

- **Phase 1 Project Initiation.** Work with PASS vendor to develop a detailed work plan that must include a Transition Plan, an Integration Plan, a Data Conversion Plan, a Rollout plan, a Training Plan, and a Work Breakdown Structure Plan.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

- **Phase 2 Solution Development.** Work with PASS vendor to deliver functional subsets that are ready for User Acceptance Tests (UAT).
- **Phase 3 Solution Implementation.** Work with PASS vendor to finalize: the implementation plans, the system UAT, required documentation, training, infrastructure, data reconciliation, disaster recovery tests, security tests, and other activities required to prepare for solution implementation.
- **Phase 4 Post Implementation.** Work with PASS vendor to ensure that warranty coverage and support coverage are in place prior to the first day PASS is implemented into production; to deliver a resource transition plan for how the PASS vendor will support PASS using project staff and the existing PASS vendor customer service organization.

Through its provision of services under the current agreement, LRWL Inc. has gained a unique in depth knowledge of the requirements to administer the benefits of SamCERA's active and retired members and, consequently, it is staff's opinion that it is in the best interest of SamCERA to have LRWL Inc., rather than a different contractor, provide the oversight services for the implementation of the PASS system.

LRWL Inc. has determined that Will Morrow, the current Project Manager, would continue in his role at an hourly rate of \$210 an hour (increased from the current \$200 per hour) for up to 2,888 hours of services, and Ben Lott, current Project Director, would continue his role at an hourly rate of \$235 (increased from the current \$225 per hour) for 432 hours for services commencing January 2014 through June of 2017. The total not-to-exceed cost for LRWL's PASS implementation oversight services would be \$918,000. The current budget for fiscal year 2013-14 for the PASS implementation can cover the projected costs of the LRWL Inc. services provided through June 30, 2014.

Accordingly, staff recommends that the Chief Executive Officer be authorized to execute a Second Amendment to the LRWL Inc. agreement to: (1) add the PASS implementation services, (2) extend the term to June 30, 2017, and (3) increase the contract cost by \$918,000 to a total of \$1,568,000.

The resolution also authorizes the Chief Executive Officer to execute further amendments to the Second Amended Agreement up to a total of \$50,000 in increased costs.

Attachments

"Resolution Authorizing the Chief Executive Officer to Execute a Second Amendment to the Agreement with L. R. Wechsler, Ltd, Inc. for Technology Modernization Project Manager Services."

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RESOLUTION 13-14-

***RESOLUTION AUTHORIZING THE CHIEF EXECUTIVE OFFICER TO EXECUTE A
SECOND AMENDMENT TO THE AGREEMENT WITH LRWL INC. FOR TECHNOLOGY
MODERNIZATION PROJECT MANAGER SERVICES***

WHEREAS, on March 23, 2012, this Board entered into an agreement (hereinafter referred to as the "Original Agreement") for the furnishing of certain services by L. R. Wechsler, Ltd, Inc., now known as "LRWL Inc.," to assist SamCERA with its comprehensive system-wide project to overhaul and update its technology and business processes as set forth in that Original Agreement; and

WHEREAS, the Original Agreement provides that LRWL Inc. shall assist SamCERA by advising, reviewing, facilitating, and guiding the project as a whole to ensure that these new systems satisfy SamCERA's requirements and that, to the extent possible, the project is completed on time and within budget. The Original Agreement further provides that at SamCERA's sole discretion, it can elect to have LRWL Inc. provide oversight for the implementation of Pension Administration Software System (PASS) services upon written agreement; and

WHEREAS, the Board has determined that through its provision of services under the Original Agreement, LRWL Inc. has gained a unique in-depth knowledge of the requirements of administrating the benefits of SamCERA's active and retired members and thus, it is in the best interest of *SamCERA* to further amend the agreement to have , LRWL Inc., rather than a different contractor, provide the oversight services for the implementation of Pension Administration Software System (PASS) services; Therefore be it

RESOLVED, that the Chief Executive Officer is hereby authorized and directed to execute the Second Amendment to the Agreement with LRWL Inc. on behalf of the San Mateo County Employees' Retirement Association extending the agreement to June 30, 2017, and increasing the total not-to-exceed amount of the contract to \$1,568,000 in order to provide management oversight for the implementation of the Pension Administration Software System.

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

* * * * *

PASSED AND ADOPTED by the Board of Retirement on October 29, 2013.

Natalie Kwan Lloyd
Chair, Board of Retirement

I, Paul Hackleman, Secretary of the Board of Retirement, of the San Mateo County Employees' Retirement Association, DO HEREBY CERTIFY that the foregoing resolution was duly introduced, approved and adopted by the Board of Retirement at a regular meeting of the Board of Retirement held on October 29, 2013, by the following vote:

AYES:

NOES:

ABSENT:

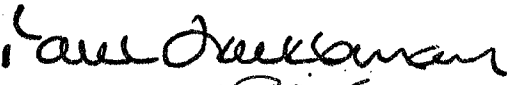
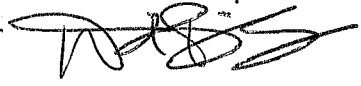
ATTEST: _____
Paul Hackleman
Secretary, Board of Retirement

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 29, 2013

Agenda Item 7.9

TO: Board of Retirement

FROM: Paul Hackleman, Trustee 
David Bailey, Chief Executive Officer 

SUBJECT: Approval to Use County Human Resources Department for SamCERA CEO Recruitment

Staff Recommendation

Approve the County of San Mateo Human Resources Department as the recruitment consultant for recruitment of a SamCERA Chief Executive Officer.

Summary

The County Human Resources Department (HR) and SamCERA have an excellent relationship, and HR has always performed at the highest levels in other SamCERA recruitments, most recently the recruitment of SamCERA's Chief Investment Officer. For these reasons the staff believes that HR is the best choice to work with the Retirement Board in filling the CEO position.

Background

The current CEO plans to retire at the end of March 2015.

At the August 2013 meeting, Natalie Kwan Lloyd, Board Chair, appointed the Succession Planning Committee to include:

- Paul Hackleman, Chair
- Michal Settles
- Ben Bowler
- Al David

If the recommendation under this agenda item is approved, Donna Vaillancourt, Director of HR, will take the lead role in consulting with the Board and conducting the recruitment. Lisa Yapching, an HR Manager, will back her up in that role. Both Ms. Vaillancourt and Ms Yapching are highly experienced and successful in conducting department-head-level recruitments.

SamCERA already has an annual agreement with HR for the conduct of recruitments as well as other HR services, and a fee has already been paid for the 2013-14 fiscal year. Our expectation

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

is that HR's fees for the next fiscal year will not change due to any HR recruitment costs incurred in that year. Costs for advertising, candidate travel and other recruitment-related costs must be covered by SamCERA.

Upon approval of this recommendation, staff will work with the Succession Planning Committee and HR to arrange appropriate meetings and develop a process and schedule for the recruitment for approval by the Board.

The appointment of a successor CEO (administrator) is the responsibility of the Board of Retirement:

"31522.2. In a county in which the board of retirement or both the board of retirement and the board of investment have appointed personnel pursuant to Section 31522.1, the respective board or boards may elect to appoint an administrator as provided for in this section. The position of the administrator shall not be subject to county civil service or merit system rules. The person so appointed shall be a county employee and the position of administrator shall be included in the salary ordinance or salary resolution adopted by the board of supervisors for the compensation of county officers and employees. The administrator so appointed shall be directed by, shall serve at the pleasure of, and may be dismissed at the will of, the appointing board or boards. Specific charges, a statement of reasons, or good cause shall not be required as a basis for dismissal of the administrator by the appointing board or boards.

"This section shall not be operative in any county unless the board of supervisors, by resolution adopted by majority vote, makes this section applicable in the county."

At the request of the Board of Retirement, the Board of Supervisors adopted sections 31522.1 and 31522.2 of the 1937 Act on January 4, 1994, with their Resolution 57904.

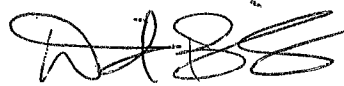
SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 29, 2013

Agenda Item 7.10

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer



SUBJECT: Approval of County Supplemental Contributions Memorandum Of Understanding

Staff Recommendation

Approve a resolution authorizing the Chair of the Board of Retirement to sign the attached Memorandum of Understanding (MOU) between the County of San Mateo and SamCERA regarding retirement system funding.

Background

On August 6, the Board of Supervisors unanimously approved County Manager John Maltbie's recommendation to, "Direct staff to develop for the Board's consideration a Memorandum of Understanding with SamCERA to reduce unfunded pension liabilities by using one-time sources such as Reserves and Excess ERAF."

To achieve this reduction in pension liabilities, it is the County's intention to make supplemental contributions to SamCERA, over and above the annual actuarially required contributions. The plan is for the County to contribute an additional lump sum of \$50 million in the current fiscal year. This is to be followed by lump sums of \$10 million in each of the following nine fiscal years. The total supplemental lump sum contributions would be \$140 million during this ten-year period. The first lump sum is expected in February 2014.

In addition, during this ten-year period, the County intends to maintain a minimum average employer contribution rate of 38% of payroll.

The SamCERA staff has worked with the County Manager's staff to draft an MOU for approval by both the Board of Supervisors and the Board of Retirement. The MOU is scheduled to go before the Supervisors at a meeting in November.

Treatment of Supplemental Funds: How SamCERA and its actuarial firm treat the supplemental contributions is the main subject of the MOU.

- All supplemental County contributions will be treated actuarially so as to benefit only the County. SamCERA's other employers (The Mosquito & Vector Control District

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

and the Superior Court) will not see any positive or negative actuarial impact from these supplemental contributions.

- All supplemental funds will become part of SamCERA's invested assets and treated the same as all other funds for investment purposes.
- The County will always retain full discretion to provide a smaller or greater contribution than the planned 38% level, but never less than the minimum actuarially determined contributions consistent with the 1937 Act. The MOU defines this contribution level as the Statutory Contribution Rate (SCR). The County, in its sole discretion, will also be able to discontinue, increase or decrease its planned lump sum contributions for any year.
- The agreement will be effective as of January 1, 2014. It runs through the end of Fiscal Year 2022-23. The MOU anticipates the County's plan to then no longer contribute at the 38% level and no longer make supplemental lump sum contributions. The County would then begin paying the lower SCR, thus reaping the benefits of its supplemental contributions through a reduced contribution rate thereafter.
- The agreement can be amended by mutual agreement of the parties.

Comments

Actuarial Assumptions. The responsibility for determining the appropriate funding levels for the retirement system will remain the responsibility of the Board of Retirement. In particular, the Retirement Board must continue to periodically review the Fund's assumed investment return assumption and adjust it as needed based on what the Board truly believes the fund will earn over the long term.

Interest Crediting. SamCERA will need to amend its Interest Crediting Policy prior to the end of the current fiscal year. With the expectation that the County will make its first supplemental lump sum contribution in February next year, interest will need to be credited to those dollars as of June 30, 2013. Before then, SamCERA needs to amend its Interest Crediting Policy to take into account the agreements in the MOU regarding the treatment of supplemental County contributions. Staff will bring a revised Interest Crediting Policy to the Board at a meeting prior to June 30, 2013.

**MEMORANDUM OF UNDERSTANDING BETWEEN
THE COUNTY OF SAN MATEO AND
THE SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
REGARDING RETIREMENT SYSTEM FUNDING**

This Retirement System Funding Memorandum of Understanding ("MOU") entered into this ____ day of _____, 20____, by and between the County of San Mateo ("County"), a political subdivision of the State of California and the San Mateo County Employees' Retirement Association("SamCERA"), a retirement association established under Section 31550 of the Government Code,

WITNESSETH:

WHEREAS, SamCERA, acting through its Board of Retirement, has the power and duty to manage and administer a retirement system (the "System") for participating current and retired employees of the County, the Superior Court of San Mateo ("Court") and the San Mateo County Mosquito and Vector Control District ("District") under Chapter 3 (commencing with Section 31450) of Part 3 of Division 1 of Title 3 of the Government Code ('37 Act") and the California Public Employees' Pension Reform Act of 2013 ("PEPRA") contained in Article 4 of Division 7, Title 1 (Commencing with Section 7522) Government Code; and

WHEREAS, as of the most recent actuarial valuation date of June 30, 2013, the System is 73.3% funded with an unfunded actuarial accrued liability (UAAL) of \$954 million; the UAAL is being funded by County, the Court and the District through annual contributions over a layered amortization period of 15 years; and

WHEREAS, former and current County employees comprise approximately 95% of the membership of SamCERA, and in order to: provide greater security for SamCERA benefits for active and retired members; enhance the solvency of the System; and reduce County's long term costs of contributing to the System by accelerating the reduction of the UAAL, County has requested SamCERA to accept deposits of certain supplemental funding amounts made in addition to the annual Statutory Contribution Rate ("SCR"); and

WHEREAS, the County understands that the cumulative affect of depositing supplement funding amounts above the County's SCR in accordance with this MOU will accelerate the reduction of the County's SCR over what the County's SCR would have been had the County not deposited such supplemental funding; and

WHEREAS, County understands that any such supplemental contributions made by County shall be subject to the same investment risks as the other funds in the Retirement Fund and further understands that the Retirement Fund's investment gains or losses may be higher or lower than the expected rate of return, which in turn, will affect the reduction of the UAAL, other projected impacts of supplemental contributions, and the corresponding necessary Statutory Contribution Rate contribution amounts; and

WHEREAS, County further understands that all supplemental contributions deposited into the Retirement Fund will remain in the Retirement Fund and will be used solely for the provision of System benefits to members and their beneficiaries and the costs of investment, information technology and other administrative costs of the System.

NOW, THEREFORE, in consideration of the foregoing and the terms, covenants and conditions herein contained, SamCERA and County agree as follows:

1. **Definitions.** Capitalized terms which are not defined in the recitals to the MOU are used as defined below:
 - (a) **"Actuarial Valuation"** means the actuarial investigation and valuation of the System that is required to be performed pursuant to Section 31453 of the '37 Act.
 - (b) **"County Supplementary Contribution Account" ("CSCA")** means the side account created by SamCERA for deposits of County payments as described in paragraph 4.
 - (c) **"Fiscal Year"** means the period of twelve months beginning on July 1 of any calendar year and ending on June 30 of the following calendar year.
 - (d) **"Statutory Contribution Rate (SCR)"** means County's employer contribution rate with respect to a Fiscal Year as determined by SamCERA in accordance with the '37 Act including but not limited to Section 31453.
 - (e) **"Retirement Fund"** means the fund established under the System, as defined in Section 31475 and Section 31588 of the '37 Act.
 - (f) **"Scheduled Due Date"** means the date(s) on which County is required to deposit its payments into the Retirement Fund. If County chooses to pay on a bi-weekly payroll basis, such deposits are required on or before the 7th day subsequent to the payroll accrual date. If County prepays on an annual Fiscal

Year basis, each annual deposit is required on or before the first pay day in July of the commencement of the Fiscal Year. If County prepays on a semi-annual Fiscal Year basis, the first semi-annual prepayment is required on or before the first pay day in July of the commencement of the Fiscal Year and the second semi-annual prepayment is required on or before the first pay day in January.

(g) **“True Up”** means the process at the end of each fiscal year whereby SamCERA determines the difference between the dollar amount pre-paid by County based on estimated SCR contributions and the dollar amount of the actual County SCR contributions that should have been paid for that fiscal year.

2. Creation of “County Supplementary Contribution Account.” SamCERA will create a side account in the Retirement Fund, which shall be known as the “County Supplementary Contribution Account”(“CSCA”). The CSCA will be used only for deposits by County of the payments described in paragraph 4 and any earnings thereon. No County SCR contribution amounts, even if paid by an annual or semi-annual pre-payment, will be deposited into the CSCA. The funds in the CSCA will be only used for the provision of System benefits to members and their beneficiaries and the costs of investment, information technology and other administrative costs of the System.

3. Investing of Funds in the CSCA. SamCERA shall invest all funds on deposit in the CSCA with the rest of the Retirement Fund. CSCA funds will not be considered separately for investment decisions made by SamCERA. All earnings and losses, net of proportionate costs for investment, information technology and other administrative costs, with regards to CSCA funds will accrue to the funds in the CSCA as described in paragraph 6.

4. Schedule of Deposits into the CSCA. In addition to its SCR contribution amounts, County shall transfer funds as set forth below to be deposited by SamCERA into the CSCA:

(a) A \$50 million payment to be made no later than February 28, 2014.

(b) Annual \$10 million payments to be made on or before the end of each Fiscal Year commencing 2014-15 and concluding with Fiscal Year 2022-23.

- (c) Other amounts paid in County's contributions during the fiscal year above its SCR as directed by County at the end of each fiscal year.
5. **Change of Schedule of Deposits into the CSCA.** County, in its sole discretion, may increase or decrease or make none of the supplemental contribution funding amounts listed in paragraph 4. Additionally, County may make such lump sum deposits at different times than those listed, upon mutual agreement of SamCERA and County.
6. **Actuarial Valuation and Accrual of Investment Returns.** Inclusion in the annual Actuarial Valuation and accrual of investment returns for the funds in the CSCA shall be as follows.
- (a) Funds added by County to the CSCA in any given year shall be included by SamCERA's actuary in the annual actuarial valuation for the fiscal year ending on that June 30th.
 - (b) Deposits that have been in the fund less than six months prior to the regular crediting dates of June 30 and December 31 of each year will accrue the actual market investment return rate, net of fees and costs, from the date of deposit to the next occurrence of a crediting date.
 - (c) All funds on deposit in the CSCA for more than six months prior to a crediting date shall accrue the actuarially calculated return on actuarial value of the CSCA credited to other employer reserve accounts. All funds in the CSCA and the earnings thereon shall be included by SamCERA's actuary in the annual Actuarial Valuation.
7. **Recognizing CSCA For Employer Contributions.** The actuarial value of the funds in the CSCA will be recognized for the purposes of calculating County's SCR. At no time will the funds be recognized for the purpose of calculating the SCR for the Court, the District or any other future SamCERA participating employer, except as described in Section 13 below
8. **County's SCR.** Each year SamCERA's actuary will calculate County's SCR. County will pay no less than its SCR amount by the Scheduled Due Date.

County intends on paying the SCR rate or an estimated 38% of payroll, whichever is higher, subject to the following:

- (a) County will notify SamCERA on or before June 30th of prior Fiscal Year as to the amount of its supplemental contribution, if any, above the SCR that it intends on depositing into the CSCA.
 - (b) If County is making a prepayment on an annual basis or semi-annual basis as of its Scheduled Due Date, the prepayment of the SCR will be calculated incorporating an estimate by SamCERA for the remainder of the Fiscal Year in which it is paid.
 - (c) SCR prepayment amounts will be Trued Up at the end of the Fiscal Year by SamCERA's collection of any under payment of the SCR pursuant to paragraph 9 below or by SamCERA decreasing the succeeding year's required SCR amount by the extent of any over payment of the SCR.
 - (d) Only the prepayment of the SCR will be discounted at the assumed investment return rate of the Retirement Fund.
 - (e) The level of any prepayment of the SCR, including any prepayments above the SCR, will remain in effect for the entire Fiscal Year and cannot be adjusted until the commencement of the succeeding Fiscal Year, unless an adjustment is specifically requested by the County Manager.
- 9. Failure to Make Timely SCR.** Under any payment schedule, in accordance with Section 31584 of the '37 Act, if there is a failure of County to make its SCR amount on the Scheduled Due Date, SamCERA will request the Controller to transfer the funds from the County Treasury. County may not use funds on deposit in the CSCA in lieu of any SCR payment.
- 10. Amendments.** No amendment or waiver of any provision of this Agreement shall be effective unless the same shall be in writing and signed by County and SamCERA, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.
- 11. Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of California.

- 12. Headings.** Section headings in this Agreement are included only for convenience of reference and shall not constitute a part of this Agreement for any other purpose.
- 13. Term and Termination.** Unless terminated earlier, this Agreement shall be in effect as of January 1, 2014, and shall remain in effect until June 30, 2023. This agreement may be terminated by County upon 30 days written notice to SamCERA. After termination of this agreement, any funds deposited into the CSCA pursuant to this agreement, and earnings thereon, will continue to be recognized for the purposes of calculating County's SCR. At no time will the funds be recognized for the purpose of calculating the SCR for the Court, the District or any other future SamCERA employer while the funds remain in the CSCA. CSCA Funds may be transferred to the employers' advance reserve account upon County's written request, such transfer to be effective as of the first day of the fiscal year beginning after SamCERA's receipt of the request. After any such transfer, these funds will be recognized for the purpose of calculating the SCR for all participating SamCERA employers.
- 14. Notices.** Notice by either party to the other under this Agreement shall be deemed given when delivered in writing either through the County e-mail or other internal mail system sent to the following persons:
- If to County, to: the County Manager.
If to SamCERA, to: the Chief Executive Officer.
- 15. Implementation.** County and SamCERA agree to prepare such addenda to this Agreement as may be necessary or desirable to address the technical requirements of implementing this Agreement. Such addenda can be agreed to by the County Manager on behalf of County and the Chief Executive Officer on behalf of SamCERA.
- 16. Electronic Signature.** Both County and SamCERA wish to permit future documents relating to this Agreement to be digitally signed in accordance with California law and the County's Electronic Signature Administrative Memo. Any party that agrees to allow digital signature of this Agreement may revoke such agreement at any time in relation to all future documents by providing written notice to the other party.

IN WITNESS WHEREOF, the parties hereto, by their duly authorized representatives, have affixed their hands.

COUNTY OF SAN MATEO

By: _____ Date: _____

President, Board of Supervisors

ATTEST:

Clerk of the Board of Supervisors

SAN MATEO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION

By: _____ Date: _____

Natalie Kwan Lloyd
Chair, Board of Retirement

ATTEST:

Secretary Board of Retirement

San Mateo County Employees' Retirement Association

RESOLUTION 13-14-__

***RESOLUTION AUTHORIZING THE CHAIR TO EXECUTE A MEMORANDUM OF UNDERSTANDING
BETWEEN THE COUNTY OF SAN MATEO AND THE SAN MATEO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION REGARDING RETIREMENT SYSTEM FUNDING***

WHEREAS, the Board has the power and duty to manage and administer a retirement system (the "System") for participating current and retired employees of the County, the Superior Court of San Mateo ("Court") and the San Mateo County Mosquito and Vector Control District ("District") under Chapter 3 (commencing with Section 31450) of Part 3 of Division 1 of Title 3 of the Government Code ("37 Act") and the California Public Employees' Pension Reform Act of 2013 ("PEPRA") contained in Article 4 of Division 7, Title 1 (Commencing with Section 7522) Government Code; and

WHEREAS, as of the most recent actuarial valuation date of June 30, 2013, the System is 73.3% funded with an unfunded actuarial accrued liability (UAAL) of \$954 million; the UAAL is being funded by County, the Court and the District through annual contributions over a layered amortization period of 15 years; and

WHEREAS, former and current County employees comprise approximately 95% of the membership of SamCERA, and in order to: provide greater security for SamCERA benefits for active and retired members; enhance the solvency of the System; and reduce County's long term costs of contributing to the System by accelerating the reduction of the UAAL, County has requested SamCERA to accept deposits of certain supplemental funding amounts made in addition to the annual Statutory Contribution Rate ("SCR"); and

WHEREAS, the County understands that the cumulative affect of depositing supplement funding amounts above the County's SCR in accordance with this MOU will accelerate the reduction of the County's SCR over what the County's SCR would have been had the County not deposited such supplemental funding; and

WHEREAS, County understands that any such supplemental contributions made by County shall be subject to the same investment risks as the other funds in the Retirement Fund and further understands that the Retirement Fund's investment gains or losses may be higher or lower than the expected rate of return, which in turn, will affect the reduction of the UAAL, other projected impacts of supplemental contributions, and the corresponding necessary Statutory Contribution Rate contribution amounts; and

WHEREAS, County further understands that all supplemental contributions deposited into the Retirement Fund will remain in the Retirement Fund and will be used solely for the provision of

System benefits to members and their beneficiaries and the costs of investment, information technology and other administrative costs of the System. Thereby,

BE IT RESOLVED, that the CHAIR is authorized to execute the attached “Memorandum of Understanding between the County of San Mateo and the San Mateo County Employees’ Retirement Association regarding Retirement System Funding”.

BE IT FURTHER RESOLVED, that the Chief Executive Officer is hereby authorized and directed to execute any necessary subsequent amendments and minor modifications in order to implement and administer the Memorandum of Understanding.

* * * * *

Regularly passed and adopted, by the San Mateo County Employees’ Retirement Association, Board of Retirement, on _____, 2013.

Ayes, Trustees:

Noes, Trustees:

Absent, Trustees:

Abstain, Trustees:


Paul Hackleman, Board Secretary

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

October 29, 2013

Agenda Item 7.11

TO: Board of Retirement
FROM: David Bailey, Chief Executive Officer
SUBJECT: Fall SACRS Business Meeting Action Items



Staff Recommendation

Discuss the action items scheduled for vote at the Fall SACRS Business Meeting. The discussion is to assist the SamCERA Voting Delegate in casting SamCERA's votes at the meeting. This is a discussion item only.

Background

SACRS holds a business meeting at the end of its fall and spring conferences. Each of the 20 retirement systems that operate under the 1937 Act is a SACRS member system. Each has one vote on business meeting items. Two SACRS legislative proposals will be voted on at the meeting.

- 2014 PEPRAs Clean-Up Proposal.

Submitted by SACRS Legislative Committee.

"A Subcommittee of the SACRS Legislative Committee worked throughout 2013 to conform the County Employees Retirement Law of 1937 (CERL) to PEPRAs. After the last set of amendments to AB 1380 in 2013, it was determined that further technical clean-up amendments are required. For example, an important word was dropped from one of the amendments made by AB 1380; some death benefit provisions that rely on "compensation earnable" were not amended to include reference to "pensionable compensation" for members subject to PEPRAs, etc. Additionally, the Subcommittee identified some provisions of the CERL unique to specific county systems that may be obsolete or require updating."

SamCERA Staff Comment: The legislation is needed as part of the effort to conform the 1937 Act language to PEPRAs's language.

- SACRS BOD 2014 Term of Office for Appointed Board Members Proposal.

Submitted by SACRS Board of Directors.

"... a number of incidences have occurred where appointed members have continued to serve after their term of office has expired. They are essentially "at will" appointees and

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

can be subject to removal from office on any day or for any issue. To function as a true fiduciary, the appointed member must be able to function free of external pressures of immediate removal from office should he or she not conform to expectations of the appointing authority.

"The request is made that, like the existing language in 31520.1 that limits the 'supervisor appointed as a member of the retirement board may not serve beyond his or her term of office', that similar language be extended to all appointed members."

Suggested Language: "Other appointed members may not serve beyond their term limit dates without reappointment by the board of supervisors."

Staff Comment: The rule that appointed trustees continue to serve until reappointed or replaced has been helpful to both the San Mateo County Board of Supervisors and the Board of Retirement. The staff is not supportive of the proposal.

Attachments: SACRS Legislative Proposals

YEAR 2014 SACRS LEGISLATIVE PLATFORM WORKSHEET

PLEASE COMPLETE AND RETURN BY SEPTEMBER 6, 2013

Title of Issue: PEPRA Clean-up Legislation
Association: SACRS Legislative Committee
Contact Person: Julie Wyne, OCERS
Phone #: (714) 558-6221
Fax #:

Please answer the following questions as fully as possible:

1. **Description of issue. A Subcommittee of the SACRS Legislative Committee worked throughout 2013 to conform the County Employees Retirement Law of 1937 (CERL) to PEPRA. After the last set of amendments to AB 1380 in 2013, it was determined that further technical clean-up amendments are required. For example, an important word was dropped from one of the amendments made by AB 1380; some death benefit provisions that rely on "compensation earnable" were not amended to include reference to "pensionable compensation" for members subject to PEPRA, etc. Additionally, the Subcommittee identified some provisions of the CERL unique to specific county systems that may be obsolete or require updating.**
2. **Recommended solution. Propose legislation to accomplish technical clean-up amendments to the CERL related to conformance with PEPRA that were not included in AB 1380 nor SB 13 of 2013.**
3. **Specific language that you would like changed in, or added to, '37 Act Law, and suggested code section numbers. To be determined.**
4. **Why should the proposed legislation be sponsored by SACRS rather than by your individual retirement association? This language will be applicable to all '37 Act systems.**
5. **Do you anticipate that the proposed legislation would create any major problems, such as conflicting with Proposition 162 or create a problem with any of the other 19 SACRS retirement associations? None anticipated. This bill is intended to only address technical corrections to facilitate implementation of PEPRA and clarify the CERL.**
6. **Who will support or oppose this proposed change in the law? SACRS will sponsor; individual systems may support.**
7. **Who will be available from your association to testify before the Legislature?**

Julie Wyne and Richard Stensrud

Year 2014 SACRS Legislative Platform Worksheet

Title of Issue: Term of Office for Appointed Board Members

Association: SACRS Board of Directors

Contact Person: Doug Rose, SACRS President

Phone #:

Email: drose@sdcera.org

Please answer the following questions as fully as possible:

1. Describe the issue.

Government Code Section 31520.1 sets forth, in part, the term of office for the nine members of the Board of Retirement. The terms of office are three years in duration. There are four positions on the Retirement Board that are appointed by the County Board of Supervisors. A County Supervisor may fill one of those positions. An individual appointed member may be reappointed to another term of office. There is no limitation on the number of terms an individual may serve as an appointed member.

Once appointed to the position, the incumbent can only be removed from office by either resignation or death. As a fiduciary for the pension, the incumbent must be free of unique external pressures as he/she deliberates on the pension fund. However, a number of incidences have occurred where appointed members have continued to serve after their term of office has expired. They are essentially "at will" appointees and can be subject to removal from office on any day or for any issue.

To function as a true fiduciary, the appointed member must be able to function free of external pressures of immediate removal from office should he or she not conform to expectations of the appointing authority.

2. Recommended solutions

The request is made that, like the existing language in 31520.1 that limits the "supervisor appointed as a member of the retirement board may not serve beyond his or her term of office", that similar language be extended to all appointed members.

3. Specific languages that you would like changed in, or added to, '37 Act Law and suggest code section numbers.

31520.1.

(a) In any county subject to Articles 6.8 (commencing with Section 31639) and 7.5 (commencing with Section 31662.2), the board of retirement shall consist of nine members and one alternate, one of whom shall be the county treasurer. The second and third members of the board shall be members of the association, other than safety members, elected by those members within 30 days after the retirement system becomes operative in a manner determined by the board of supervisors. The fourth, fifth, sixth, and ninth members shall be qualified electors of the county who are not connected with the county government in any capacity, except one may be a supervisor, and shall be appointed by the board of supervisors. A supervisor appointed as a member of the retirement board may not serve beyond his or her term of office as supervisor. Other appointed members may not serve beyond their term limit dates without reappointment by the board of supervisors. The seventh member shall be a safety member of the association elected by the safety members. The eighth member shall be a retired member elected by the retired members of the association in a manner to be determined by the board of supervisors. The alternate member shall be that candidate, if any, for the seventh member from the group under Section 31470.2 or 31470.4, or any other eligible safety member in a county if there is no eligible candidate from the groups under Sections 31470.2 and 31470.4, which is not represented by a board member who received the highest number of votes of all candidates in that group, and shall be referred to as the alternate seventh member. If there is no eligible candidate there may not be an alternate seventh member. The first person chosen as the second and fourth members shall serve for a term of two years beginning with the date the system becomes operative, the third and fifth members shall serve for a term of three years beginning with that date, and the sixth, seventh and alternate seventh members shall serve for a term of two years beginning on the date on which a retirement system established by this chapter becomes operative. The eighth and ninth members shall take office as soon as practicable for an initial term to expire concurrent with the expiration of the longest remaining term of an elected member.

Thereafter, the terms of office of the elected, appointed, and alternate seventh members are three years, except as provided in Section 31523.

(b) The alternate seventh member provided for by this section shall vote as a member of the board only if the second, third, seventh, or eighth member is absent from a board meeting for any cause, or if there is a vacancy with respect to the second, third, seventh, or eighth member, the alternate seventh member shall fill the vacancy until a successor qualifies. The alternate seventh member shall sit on the board in place of the seventh member if a member of the same service is before the board for determination of his or her retirement.

(c) The alternate seventh member shall be entitled to both of the following:

(1) The alternate seventh member shall have the same rights, privileges, responsibilities, and access to closed sessions as the second, third, seventh, and eighth member.

(2) The alternate seventh member may hold positions on committees of the board independent of the second, third, seventh, or eighth member and may participate in the deliberations of the board or any of its committees to which the alternate seventh member has been appointed whether or not the second, third, seventh, or eighth member is present.

(d) The amendments to this section during the 1972 Regular Session do not affect the continuation on the board of retired members appointed by the board of supervisors until the expiration of the term for which they were appointed.

4. *Why should the proposed legislation be sponsored by SACRS rather than by your individual retirement association?*

This situation could occur in any of the twenty '37 Act systems.

5. *Do you anticipate that the proposed legislation would create any major problems, such as conflicting with Proposition 162 or create a problem with any other of the 19 SACRS retirement associations?*

Where there has been abuse in the past by County Supervisors of not timely reappointing an incumbent to office.

6. *Who will support or oppose the proposed change in the law?*

Support would come from both appointed and elected '37 Act trustees, active and retired members. Possible additional support could come from fiduciary counsels and the media.

7. *Who will be available from your association to testify before the Legislature?*

Doug Rose, SACRS President

Mail your legislative proposals to:

Jim Lites
Schott & Lites Advocates, Inc.
1510 14th Street
Sacramento, CA 95814
Fax (916) 447-4947 Phone (916) 444-7158
E-mail: jlites@schottlites.com