



# Notice of Public Meeting

## The Board of Retirement of the San Mateo County Employees' Retirement Association will meet on **Tuesday, January 23, 2018, 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**

**2. Oral Communications**

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

**3. Approval of the Minutes**

- 3.1 Approval of Regular Board Meeting Minutes from December 5, 2017
- 3.2 Approval of Special Board Meeting from January 8, 2018

**4. Approval of the Consent Agenda\***

- |   |   |
|---|---|
| 4.1 Disability Retirements (2) <ul style="list-style-type: none"><li>• Richard Holman</li><li>• Denise Sorensen</li></ul> | 4.5 Deferred Retirements  |
| 4.2 Survivor Death Benefits <ul style="list-style-type: none"><li>• Brian Kwong</li></ul>                                 | 4.6 Member Account Refunds  |
| 4.3 Service Retirements   | 4.7 Member Account Rollovers  |
| 4.4 Continuances  | 4.8 Member Account Redeposit  |
|   | 4.9 Acceptance of Trustees' Reports of Educational Activities Through Outside Provider                    |
|   | 4.10 Acceptance of Semi-Annual Compliance Certification Statements for the Period Ended December 31, 2017 |

**5. Benefit & Actuarial Services**

- 5.1 Consideration of Agenda Items, if any, removed from the Consent Agenda
- 5.2 Approval of a Resolution Adopting Cost of Living Adjustments (COLAs) for 2018

**6. Investment Services**

- 6.1 Report on Preliminary Monthly Portfolio Performance for the Period Ended December 31, 2017
- 6.2 Presentation of Private Asset Semi-Annual Performance Reports as of June 30, 2017
- 6.3 Presentation on SamCERA's Absolute Return Portfolio

**7. Board & Management Support**

- 7.1 Report on April 25 and 26, 2017 Board-Staff Retreat Planning
- 7.2 Report on Upcoming Trustee Elections and Appointments
- 7.3 Report on Strategic Plan Implementation

**8. Management Reports**

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

# Notice of Public Meeting

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**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:**

Bishop, Betty	November 4, 2017	Registrar
Errichetti, Anthony	November 12, 2017	Mental Health
Hicks, Margie	November 17, 2017	Crystal Springs Rehab
Lewis, Virt	November 18, 2017	Medical Center
Fasshauer, Nora	November 19, 2017	District Attorney's
Stanford, William	November 22, 2017	Courts
Ennen, Russell	December 1, 2017	General Hospital
Fields, Margie	December 2, 2017	Controller's
Serverian, Aram	December 5, 2017	Superior Court
Rackham, Don	December 6, 2017	SMC General Hospital
Moore, Alida	December 9, 2017	Chope Hospital
Giovannini, Helen	December 13, 2017	Chope Hospital
Dawson, Elsa	December 26, 2017	Human Services Agency
Tarshes, Marvin	December 26, 2017	County Manager
Dillon, Rex	December 29, 2017	Probation
Cohn, Jerry	December 30, 2017	Sheriff
Hanley, Dennis	December 31, 2017	Parks
Legaspi, Carmen	January 3, 2018	Human Services Agency
Luke, Alfred	January 5, 2018	Behavioral Health
Clarke, Kathleen	January 14, 2018	Information Services



Scott Hood, Chief Executive Officer

Posted: January 17, 2018

(\* 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](http://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**

DECEMBER 5, 2017 – REGULAR BOARD MEETING MINUTES

**1712.1 Call to Order, Roll Call and Miscellaneous Business**

**Call to Order:** Mr. Mark Battey, Chair, called the Regular Meeting of the Board of Retirement to order at 10:00 a.m.

**Roll Call:**

*Present:* Sandie Arnott, Mark Battey, Albert David, Paul Hackleman, Kurt Hoefer, David Spinello, Eric Tashman and Shirley Tourel.

*Excused:* Ben Bowler

*Alternates present:* Susan Lee, Alma Salas.

*Staff:* Scott Hood, Michael Coultrip, Brenda Carlson, Gladys Smith, Lili Dames, Elizabeth LeNguyen, Barbara Edwards, and Kristina Perez.

*Consultants:* Margaret Jadallah, Joe Abdou and John Nicolini (*Verus*); Andrew Paulden (via telephone, *Brown Armstrong*).

**1712.2.1 Oral Communications from the Public:** None.

**1712.2.2 Oral Communications from the Board:** None.

**1712.3.0 Approval of Board Meeting Minutes:** Mr. Battey asked if there were any changes, corrections or objections to the meeting minutes from the Board meeting held on September 26, 2017, and the Audit Committee meeting held on October 26, 2017.

**1712.3.1 Action:** Hearing no corrections or objections, Mr. Battey deemed that the Board Meeting minutes from September 26, and the Audit Committee minutes from October 26, are both accepted as presented.

**1712.3.3 Action:** Mr. Hackleman moved to approve the minutes from the Regular Meeting on October 31, 2017. The motion was seconded by Mr. Tashman and carried with a vote of 6-0-2, with trustees Battey, David, Hackleman, Hoefer, Spinello, and Tashman, all in favor; none opposed; Arnott and Tourel, abstained as they were not in attendance at the October 31 meeting.

**1712.4.0 Approval of the Consent Agenda:** Mr. Battey asked if there were any items to be removed for discussion from the Consent Agenda. No items were removed.

**Action:** Mr. David moved to approve the items on the Consent Agenda, and the motion was seconded by Mr. Hackleman. The motion carried with a vote of 8-0, with trustees Arnott, Battey, David, Hackleman, Hoefer, Spinello, Tashman, and Tourel, all in favor; none opposed.

**1712.4.1 Disability Retirements:**

a) The Board found that Andrew Allee is (1) permanently incapacitated from the performance of his usual and customary duties as an Information Technology Technician, (2) found that his disability was not the result of an illness arising out of and in the course of his employment and (3) granted his application for a non-service-connected disability retirement.

b) The Board found that Janet Hansen is (1) permanently incapacitated from the performance of her usual and customary duties as a Correctional Officer, (2) found that her disability was not the

result of an illness arising out of and in the course of her employment and (3) granted her application for a non-service-connected disability retirement.

1712.4.2 **Survivor Death Benefits:** None.

1712.4.3 **Service Retirements:**

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

<b>Member Name</b>	<b>Effective Retirement Date</b>	<b>Department</b>
Ailand, Kathryn	September 30, 2017	Tax Collector's Office
Bedolla, Maria	September 30, 2017	Fair Oaks Clinic
Bee, Michael	September 1, 2017	Deferred County Manager's Office
Birnie, Greg	September 9, 2017	Public Works
Frank, Olivia	September 9, 2017	Courts
Garcia, Gustavo	October 1, 2017	Hospital Food & Nutrition Services
Geary, Christopher	September 30, 2017	Public Works
Halpern, Kent	September 9, 2017	Behavioral Health
Kaplan, Stephen	September 30, 2017	Behavioral Health
Kohler, Terry	September 9, 2017	Deferred from Probation
Lang, Hoa	September 30, 2017	Aging and Adult Services
Mabie, Charles	September 12, 2017	Deferred from Probation
Mauzey, Matthew	September 14, 2017	Retiree activating G3 pension
Oceguera, Rosamaria	September 9, 2017	Behavioral Health
Parham-Malcolm, Victoria	September 9, 2017	Courts
Rodriguez, Beatriz	September 26, 2017	Family Health Services
Yoch, Owen	September 27, 2017	Sheriff's

1712.4.4 **Continuances:**

<b>Survivor's Name:</b>	<b>Beneficiary of:</b>
Ginilo, Janet	Ginilo, George
Gudaitis, George	Gudaitis, Donna

1712.4.5 **Deferred Retirements:**

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

<b>Member Name</b>	<b>Retirement Plan Type</b>
Ahmed, Aiysha	G7, Non-vested - Reciprocity
Brown, Veronica	G7, Vested - Reciprocity
Chandler, Barry	G5, Vested
Diaz, Maria C.	G4, Vested - Reciprocity
Forth, Rebecca	G5, Vested - Reciprocity - Auto Defer - Code 31700
Garner, Jessica	G7, Non-vested - Reciprocity
Guillermo, Gemma	G5, Non-vested - Reciprocity
Hernandez, Carlos	G4, Vested
Ignacio, Mary	G5, Non-vested - Reciprocity
Kryukova, Tatiana	G7, Non-vested - Reciprocity
Latu, Malene Kai	P4, Vested
Magers, Jason	G7, Non-vested - Reciprocity
Martinez, Ginger	G4, Vested
Melghem, Gladys	G4, Vested - Auto Defer - Code 31700
Murphy-Becerra, Marissa	G4, Vested - Reciprocity
Nguyen, Loc	G5, Vested
Perras, Mpho	P4, Vested
Reyles-Derry, Rachelle	G4, Vested



Rohrer, Jason G4, Vested - Auto Defer – Code 31700

Saulog, Nyllette G4, Vested

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

<b>Member Name</b>	<b>Retirement Plan Type</b>
Shabatura, Sam	S4, Vested
Sherman, Chonnoe	G4, Vested
St. Pierre, Karla	G7, Non-vested - Reciprocity
Swaminathan, Meen	G4, Vested - Reciprocity
Tang, Gregory	G7, Non-vested - Reciprocity
Wemple, Jesse	G4, Vested
Zahiri, Nayer	G4, Vested – Reciprocity

1712.4.6 **Member Account Refunds:**

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

<b>Member Name</b>	<b>Retirement Plan Type</b>
Bottjer, Jeffrey	G2, Vested
Brown, Michelle (QDRO)	S2, Vested
Burns, Christian	G4, Non-vested
Craven, Jacqueline	G7, Non-vested
Garduno, Esteban	G7, Non-vested
Ortiz Soto, Xaviera	G7, Non-vested
Saucedo, Flor	G7, Non-vested
Umarhayat, Naseer	G4, Non-vested
Villela Rocha, Rosangela	G7, Non-vested
Wilson, Sterling	G5, Vested

1712.4.7 **Member Account Rollovers:**

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

<b>Member Name</b>	<b>Retirement Plan Type</b>
Aoki, Ellen	G7, Non-vested
Beaver, Grace	G7, Non-vested
Contreras, Victoria	G7, Non-vested
Hammill, Ashley	G7, Non-vested
Taillant, Paula	G4, Non-vested
Tumalan, Jacqueline	G4, Non-vested

1712.4.8 **Member Account Redeposit:** None.

1712.4.9 **Acceptance of Trustees' Reports of Educational Activities:** The Board accepted the submitted reports for the educational activities attended by trustees Bowler, Hackleman, Lee, Spinello and Tashman.

1712.5.1 **Consideration of Agenda Items, if any, removed from the Consent Agenda:** None.

1712.6.1 **Preliminary Monthly Portfolio Performance Report for the Period Ended October 31, 2017:**

Mr. Coultrip discussed the preliminary monthly performance report with the Board. He reported that SamCERA's net preliminary return for October 2017 was 1.3%, while the preliminary trailing twelve-month return ending October 2017 was 14.7% net. This item was informational and for discussion only, no action was taken.

1712.6.2 **Report on Quarterly Investment Performance:** Mr. Coultrip and Ms. Jadallah reviewed the quarterly report with the Board. They reviewed manager performance and discussed market trends and other information from the report. The 3<sup>rd</sup> quarter net total return for the SamCERA portfolio was +3.3%,

which was 40 bps lower than the +3.7% policy benchmark return. This item was informational and for discussion only; no action was taken.

1712.6.3 **Report on Absolute Return and Risk Parity Manager Annual Reviews:** Ms. Dames reviewed the meeting notes from the annual reviews of SamCERA's absolute return and risk parity managers. Staff and consultant met at SamCERA's office with AQR and PanAgora on October 12, 2017. Ms. Dames reported there were no significant concerns identified during the portfolio reviews. This item was informational only, no action was taken.

1712.6.4 **Report on Opportunistic Credit Manager Annual Review:** Ms. Dames reviewed the meeting notes from the annual review of SamCERA's opportunistic credit manager, Brigade Capital Management. Staff and consultant met at SamCERA's office with representatives from Brigade Capital on October 18, 2017. Ms. Dames reported there were no significant concerns identified during the portfolio review. This item was informational only, no action was taken.

The next agenda items were taken out of order, and were heard in the order they appear below.

1712.7.2 **Approval of a Resolution Amending Education Policy:** Mr. Hood reviewed the proposed changes to the Education Policy that would include sexual harassment training as part of the required education for SamCERA trustees. Further discussion about the education policy resulted in two motions being put forward.

**Action:** Mr. David made a motion to amend the education policy to include sexual harassment training as a requirement. The motion was seconded by Mr. Tashman and carried with a vote of 8-0, with trustees Arnott, Battey, David, Hackleman, Hoefer, Spinello, Tashman, and Tourel, all in favor; none opposed.

**Action:** Ms. Arnott moved to add the Government Finance Officers Association (GFOA) to the list of approved providers of trustee education, found within the education policy. The motion was seconded by Mr. Spinello, and failed with a vote of 3-5, with trustees Arnott, Hoefer and Spinello, in favor; Battey, David, Hackleman, Tashman and Tourel, opposed.

The Board adjourned into Closed Session at 10:40 a.m. to hear item 6.5. The meeting was reconvened at 11:15 a.m.

1712.6.5 **Approval of Proposed Alternative Investment (to be heard in Closed Session, Confidential Under Gov. Code §54956.81 and §6254.26, see item C2):** Ms. Carlson reported that there was no reportable action taken by the Board during the closed session.

1712.7.1 **Annual Review of SamCERA's Auditor, Brown Armstrong:** Ms. Smith reviewed the survey responses and reported Brown Armstrong had again received high ratings from staff and trustees. Andrew Paulden, from Brown Armstrong, joined the conversation via telephone, and gave his comments. This item was informational only, no action was taken.

1712.7.3 **Discussion of Board/ Staff Retreat Topics:** Mr. Hood reviewed a proposed agenda and topics of discussion for the Board/Staff retreat, and received feedback from Board members. This item was informational and for discussion only, no action was taken.

1712.8.1 **Chief Executive Officer's Report:** Mr. Hood stated that the RV Kuhns report could be found in DropBox and encouraged the trustees to review it. He reported that LRWL finished their work on the PASS project and submitted their final report. He noted that Elizabeth LeNguyen, Benefits Manager, received a Wellness Leadership award from the County; and recognized Chief Legal Counsel Brenda Carlson's 30 years of service.

- 1712.8.2 **Assistant Executive Officer's Report:** Ms. Smith stated the PAFR was completed and could be found in the trustees' folders. She also announced that Sue Thompson, Retirement Analyst, will be retiring January 2018.
- 1712.8.3 **Chief Investment Officer's Report:** Mr. Coultrip called the Board's attention to items in their folders, and reviewed SamCERA's performance summary. He reported visiting a solar park facility, as part of due diligence; and reported that SamCERA's AB 2833 fees disclosure report for calendar year 2017, will occur in mid-2018 after all of the data has been received from the applicable managers.
- 1712.8.4 **Chief Legal Counsel's Report:** Ms. Carlson updated the Board on pension related court cases and legislation. She noted that staff is monitoring the final provisions of the Tax Cuts and Jobs Act in relation to Unrelated Business Income Tax and its potential effects on certain SamCERA investments.
- C1 **Consideration of Disability Items, if any, removed from the Consent Agenda:** None.
- C2 **Approval of Proposed Alternative Investment** (*Confidential Under Gov. Code §54956.81 and §6254.26 – see also item 6.5*): No reportable action was taken, see item 6.5 above.
- C3 **Public Employee Performance Evaluation**, in accordance with Gov. Code § 54957, Title: Chief Executive Officer (*Confidential Under Gov. Code §54957*): The Board adjourned into Closed Session at 11:50 a.m. and the meeting reconvened at 12:44 p.m. Ms. Carlson reported that no reportable action was taken by the Board in Closed Session.
- 1712.9 **Report on Actions Taken in Closed Session:** None.
- 1712.10 **Adjournment:** Mr. Battey adjourned the meeting at 12:45 p.m. in memory of the deceased members listed below.

Radetich, Ronald	October 9, 2017	Sheriff's
Bell, Daniel	October 14, 2017	Public Works
Grinnell, George	October 15, 2017	Assessor's
Beldi, Lino	October 17, 2017	Probation
Linaja, Violeta	November 2, 2017	Medical Center
Molinar, Adolfo	November 3, 2017	General Services
Simonson, Donald	November 8, 2017	Health & Welfare
Lundquist, John	November 11, 2017	Assessor
Flynn, Sharon	November 11, 2017	Health Dept

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Scott Hood  
Chief Executive Officer

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Gladys Smith  
Assistant Executive Officer

**SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**JANUARY 8, 2018 – SPECIAL BOARD MEETING MINUTES**

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

**Call to Order:** Mr. Mark Battey, Chair, called the Special Meeting of the Board of Retirement to order at 10:30 a.m.

**Roll Call:**

Present: Sandie Arnott, Mark Battey, Alma Salas (for Albert David), Ben Bowler (arrived 10:32 am), Kurt Hoefer, Paul Hackleman, David Spinello, Eric Tashman and Susan Lee (for Shirley Tourel).

Absent: Albert David and Shirley Tourel.

Alternates present: Susan Lee and Alma Salas.

Staff: Scott Hood, Michael Coultrip, Brenda Carlson, Gladys Smith Lili Dames, and Doris Ng.

*Consultants:* Margaret Jadallah, Faraz Shooshani and John Nicolini (Verus).

**2 Oral Communications:** None.

**3 Approval of Proposed Alternative Investment** (to be heard in Closed Session, Confidential under Government Code §54956.81 and §6254.26):

The Board adjourned into closed session at 10:32 a.m. to hear Item 3, Approval of Proposed Alternative Investment.

The meeting was reconvened into open session at 10:58 a.m. and Ms. Carlson reported the actions taken by the Board while in closed session. See item 4.

**4 Report of Action Taken in Closed Session:** Ms. Carlson reported that the Board met in closed session to consider an alternative investment. In closed session, it was moved by Mr. Hackleman, and seconded by Mr. Hoefer, to approve an investment of \$20 million to Sycamore Partners III. The motion carried with a vote of 8-1, with trustees Arnott, Battey, Bowler, Salas (for David), Hackleman, Hoefer, Spinello and Lee (for Tourel) in favor; Tashman opposed.

**5 Presentation and Discussion of SamCERA's Private Real Asset Program:** John Nicolini from Verus reviewed the purpose of real assets in a portfolio, the role of each sector within real assets, and provided current market conditions and outlooks on real assets and answered questions from the Board. This was for discussion only.

**6 Adjournment:** Mr. Battey adjourned the meeting at 12:01 p.m.

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Scott Hood  
Chief Executive Officer

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Gladys Smith  
Assistant Executive Officer

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

January 23, 2018

Agenda Items 4.1- 4.9

**TO:** Board of Retirement

**FROM:** Elizabeth LeNguyen, Retirement Benefits Manager



**SUBJECT:** Approval of Consent Agenda Items 4.1 – 4.9

**4.1 Disability Retirements**

- a) The Board find that **Richard Holman** is (1) permanently incapacitated from the performance of his usual and customary duties as a Human Services Supervisor, (2) find that his disability was the result of an injury arising out of and in the course of his employment and (3) grant his application for a service-connected disability retirement.
  
- b) The Board find that **Denise Sorensen** is (1) permanently incapacitated from the performance of her usual and customary duties as a Library Assistant II, (2) find that her disability was the result of an injury arising out of and in the course of her employment and (3) grant her application for a service-connected disability retirement.

**4.2 Survivor Death Benefits**

- a) The Board find that **Brian Kwong**, would have been entitled to a non-service-connected disability but has died, and Sun Hee Kim, the surviving spouse, has elected to receive an optional death allowance pursuant to Government Code § 31781.1.

**4.3 Service Retirements**

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

<b>Member Name</b>	<b>Effective Retirement Date</b>	<b>Department</b>
Brown, Gary T.	October 6, 2017	Sheriff's
Field, Peter	October 28, 2017	Behaviorial Health
Figueroa, Cecilia	October 28, 2017	Probation
Hallett, Edward	November 1, 2017	Parks
Harrison, Vaughn	October 29, 2017	Library
Heath, Yvonne	October 14, 2017	Behaviorial Health
Jovel, Anna	October 28, 2017	Human Services Agency
Kutzler, Joanne	October 1, 2017	Deferred from Assessor's



Newman, Mary	October 28, 2017	Mental Health
Roinestad, Joy	October 21, 2019	HOS Ob/Gyn
Saunders-Sui, Diane	October 24, 2017	Deferred
Villanis, Christine	October 4, 2017	Probation
Villanueva, Reynaldo	October 28, 2017	HOS Housekeeping
Aboud, James	November 5, 2017	Sheriff
Buchalter, William	December 1, 2017	Sheriff's
Casanova, Divina	November 29, 2017	Medical Center
Erickson, Joan	November 25, 2017	Medical Center
Gallagher, Kelly	November 4, 2017	Probation
Huertas, Jessica	November 27, 2017	Aging & Adult Services
Lang, Kenneth	November 4, 2017	Deferred from Medical Center
McLaughlin, Joan	December 1, 2017	Environmental Health
Rivera, Silvana	December 1, 2017	HOS Daly City Clinic
Sousa, Deborah	November 15, 2017	HOS Fair Oaks Clinic
Taylor, Marney	November 17, 2017	Public Works
Weinberg, Samuel	December 1, 2017	Probation
Young, Jaime	November 25, 2017	Public Safety Communications

#### 4.4 Continuances

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

<b>Survivor's Name</b>	<b>Beneficiary of:</b>
Grinnell, Elisabeth	Grinnell, George
Kim, Sunhee	Kwong, Brian
Linaja, Rodolfo	Linaja, Violeta
Lundquist, Cheryl	Lundquist, John
Molinar, Vera	Molinar, Adolfo
Stanford, Mae	Stanford, William

#### 4.5 Deferred Retirements

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

<b>Member Name</b>	<b>Retirement Plan Type</b>
Aragona, Sheryll	G4, Vested - Reciprocity
Au, Julia	G5, Vested
Balluom, Jumana	G4, Vested
Becerra, Eric	G4, Vested
Bravo, Stephanie	G7, Non-vested - Reciprocity
Chidester, Matthew	G4, Vested - Reciprocity
Cota, Alexis	G5, Vested
Cruse, Lourdes	G4, Vested – Auto Defer - Code 31700
Geranios, James	G4, Vested - Reciprocity
Lu, Wedy	G7, Non-vested - Reciprocity
Newton, Heidi	G4, Vested - Reciprocity
Orozco, Carmen	G3, Non-vested - Reciprocity
Ritchie, Jeannette	G4, Vested
Smith, Sarah	G4, Vested - Reciprocity
Teall, Billie	G4, Vested – Auto Defer - Code 31700
Tyrell, Jolly	G4, Vested
Vandrey, Christopher	G4, Vested

#### 4.6 Member Account Refunds

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

<b>Member Name</b>	<b>Retirement Plan Type</b>
Alegria, Rocio	G7, Non-vested
Betanzo, Diana	S4, Vested
Caughey, Robert	S7, Non-vested
Dague, Stacey	P4, Vested
Gillenwater, Jason	G7, Non-vested
Sarate, Miriam	G7, Non-vested
Yang-Liang, Jimmy	G7, Non-vested

**4.7 Member Account Rollovers**

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

None.

**4.8 Member Account Redeposits**

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

Member Name	Retirement Plan Type
Stafford, Karrie	G4, Non-vested

**4.9 Acceptance of Trustees' Reports of Educational Activities Through Outside Provider**

None.

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

January 23, 2018

Consent Agenda Item 4.10

**TO:** Board of Retirement

**FROM:** Doris Ng, Retirement Investment Analyst

**SUBJECT:** Semi-Annual Compliance Certification Statements for Period Ended  
December 31, 2017

**Recommendation**

Accept the semi-annual Compliance Certification Statements for SamCERA's non-alternative investment managers and investment consultant, as of December 31, 2017.

**Background**

As part of SamCERA's ongoing due diligence process, the Compliance Certification Statement is completed by each of the association's public equity, fixed income, real estate, risk parity and cash overlay investment managers on a semi-annual basis. Beginning with the current period and going forward, the association's investment consultant will also complete the certification. These statements are used to update SamCERA on any firm-wide compliance issues and to provide strategic-level information regarding such things as derivatives and portfolio positioning. For investment managers whose investments are considered "alternative investment vehicles" per the California Government Section Code §6254.26, the Compliance Certification Statements are not provided in the public board packet and will be sent separately to the Board.

**Discussion**

The attached Compliance Certification Statements report that SamCERA's investment managers and investment consultant are in compliance with SamCERA's Investment Policy as of December 31, 2017. There were no reported significant developments in portfolio construction, investment approach, firm ownership or organizational structure. There were no notable issues regarding industry or regulatory actions that impact SamCERA. The managers were also requested to provide data regarding the characteristics and composition of their portfolios. No prominent issues were identified during the review. Any items that raise concern will be brought to the manager's or investment consultant's attention and will be thoroughly vetted by staff.

Please note the Compliance Certification Statements for Franklin Templeton and Western Asset Management were not received in time to be included in the mailing, but will be included in the February board packet.

## **Attachments**

Compliance Certification Statement Matrix 12-2017

Compliance Certification Statements (13)

- A. Domestic Equity: BlackRock, QMA
- B. International Equity - Developed: BlackRock, Baillie Gifford, Mondrian
- C. Emerging Market Equity: Eaton Vance Parametric
- D. Domestic Fixed Income: BlackRock, Brown Brothers Harriman, Fidelity Institutional Asset Management (FIAM), PIMCO
- E. Real Estate: INVESCO
- F. Cash Overlay: The Clifton Group (Parametric)
- G. Investment Consultant: Verus Advisory



## Compliance Certification Statement Matrix – December 31, 2017

Investment Manager	Mandate	General Compliance Issues	Derivative Instruments	Investment Manager Guidelines	Mandate Specific
<b>Domestic Equity</b>					
<b>BlackRock Russell 1000</b>		<ul style="list-style-type: none"> <li>2Q2017- Matthew Lee, Managing Dir, Rsrch, EII Strategies Team left</li> </ul>	No Concerns	No Concerns	<ul style="list-style-type: none"> <li>Largest single security Apple Inc 3.43%</li> <li>Largest single industry Information Technology 23.3% vs bmk 23.5%</li> </ul>
<b>DE Shaw</b>	<i>Confidential under California Gov. Section Code §6254.26</i>				
<b>QMA</b>		<ul style="list-style-type: none"> <li>Oct 2017-George N. Patterson, PhD became Co-Hd of Quant. Eqty team with Peter Xu, PhD</li> </ul>	No Concerns	No Concerns	<ul style="list-style-type: none"> <li>Largest holding, Grand Canyon Education Inc. 0.92%</li> <li>Largest industry: Banks 9.5% vs. Russell 2000 bmk 10.15%</li> </ul>
<b>International Equity - Developed</b>					
<b>Baillie Gifford</b>		<ul style="list-style-type: none"> <li>No Concerns</li> </ul>	Not Applicable	No Concerns	<ul style="list-style-type: none"> <li>8.9% ADRs</li> <li>5.5% GDRs</li> <li>26.1% Emerging Markets (as of 9/30/17)</li> </ul>
<b>BlackRock EAFE</b>		<ul style="list-style-type: none"> <li>2Q2017- Matthew Lee, Managing Dir, Rsrch, EII Strategies Team left</li> </ul>	No Concerns	No Concerns	<ul style="list-style-type: none"> <li>0.19% ADRs</li> </ul>

## Compliance Certification Statement Matrix – December 31, 2017

Investment Manager	Mandate	General Compliance Issues	Derivative Instruments	Investment Manager Guidelines	Mandate Specific
<b>Mondrian</b>		<ul style="list-style-type: none"> <li>No Concerns</li> </ul>	Not Applicable	No Concerns	<ul style="list-style-type: none"> <li>24.61% Emerging Markets (MIP Ltd Prtnshp)</li> </ul>
<b>Emerging Market Equity</b>					
<b>Eaton Vance Parametric</b>		<ul style="list-style-type: none"> <li>Added China Shenzen A share pnote</li> </ul>	Not Applicable	No Concerns	<ul style="list-style-type: none"> <li>8% ADRs</li> <li>2% GDRs</li> <li>1.48% in Frontier Markets</li> <li>Vestige (include non-bmrk holdings) – 25.26%</li> </ul>
<b>Domestic Fixed Income</b>					
<b>Angelo Gordon OWL</b>	<i>Confidential under California Gov. Section Code §6254.26</i>				
<b>Angelo Gordon STAR</b>	<i>Confidential under California Gov. Section Code §6254.26</i>				
<b>Beach Point</b>	<i>Confidential under California Gov. Section Code §6254.26</i>				
<b>BlackRock Intermediate Government Bond Index</b>		<ul style="list-style-type: none"> <li>No Concerns</li> </ul>	Not Applicable	No Concerns	No Concerns

## Compliance Certification Statement Matrix – December 31, 2017

Investment Manager	Mandate	General Compliance Issues	Derivative Instruments	Investment Manager Guidelines	Mandate Specific
<b>Brigade</b>	<i>Confidential under California Gov. Section Code §6254.26</i>				
<b>Brown Brothers Harriman</b>		No Concerns	No Concerns	No Concerns	No Concerns
<b>Fidelity Institutional Asset Management (FIAM) BMD Bond</b>		<ul style="list-style-type: none"> <li>• Oct 2017-Mike Durbin succeeded Jeff Lagarce as Presid of Fidelity Instit.</li> <li>• Oct 2017 – Robin Foley became CIO of Bonds, succeeding Christine Thompson</li> </ul>	No Concerns	No Concerns	<ul style="list-style-type: none"> <li>• 1.6% below inv grade (inv grade at purchase)</li> <li>• 3.1% in Rule 144A securities</li> </ul>
<b>PIMCO</b>		<ul style="list-style-type: none"> <li>• Sept 2017-Jay Jacobs, Presid retire. Responsib to be assumed by Robin Shanahan and Peter Strelow, Co-COO.</li> </ul>	No Concerns	No Concerns	No Concerns
<b>Tennenbaum Capital Partners</b>	<i>Confidential under California Gov. Section Code §6254.26</i>				
<b>Western</b>	Pending				

## Compliance Certification Statement Matrix – December 31, 2017

Investment Manager	Mandate	General Compliance Issues	Derivative Instruments	Investment Manager Guidelines	Mandate Specific
<b>White Oak</b>	<i>Confidential under California Gov. Section Code §6254.26</i>				
<b>Global Fixed Income</b>					
<b>Franklin Templeton</b>	Pending				
<b>Real Estate</b>					
<b>Invesco (U.S. Core Real Estate Fund)</b>		No Concerns	Not Applicable	No Concerns	No Concerns
<b>Invesco (U.S. Value-Add Fund IV)</b>	<i>Confidential under California Gov. Section Code §6254.26</i>				
<b>PGIM (US Real Estate Debt)</b>	<i>Confidential under California Gov. Section Code §6254.26</i>				
<b>Risk Parity</b>					
<b>AQR</b>	<i>Confidential under California Gov. Section Code §6254.26</i>				
<b>PanAgora</b>	<i>Confidential under California Gov. Section Code §6254.26</i>				

## Compliance Certification Statement Matrix – December 31, 2017

Investment Manager	Mandate	General Compliance Issues	Derivative Instruments	Investment Manager Guidelines	Mandate Specific
<b>Cash Overlay</b>					
<b>The Clifton Group (Parametric)</b>		No Concerns	No Concerns	No Concerns	No Concerns
<b>Investment Consultant</b>					
<b>Verus Advisory</b>		<ul style="list-style-type: none"> <li>• Dec 2017-Derek Kong, Sr Priv Mkts Analyst left. Replacement srch in progress.</li> </ul>	Not Applicable	Not Applicable	Not Applicable

**26 Total** | **13 Completed** | **2 Pending Information** | **11 Confidential**



***BlackRock Russell 1000 Index – December 31, 2017***

***Compliance Certification Statement***

***San Mateo County***

***Employees' Retirement Association***

In accordance with SamCERA's Investment Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office ([Investments@samcera.org](mailto:Investments@samcera.org)) by **Monday, January 8, 2018.**

**General Compliance Issues**

**Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel?**

1.

Yes: Please explain. /  No

**Firm Ownership**

There have been no material changes to ownership in the past year ending 30 September 2017.

**Organizational Structure Changes**

To continue to grow and be a leader in our industry, BlackRock constantly looks for ways to better serve clients, increase efficiency in our organization and develop talent. Periodically we take a fresh look at the firm to determine how we should evolve our organization in anticipation of changing market dynamics and client needs. This evolution is part of a continual effort to position the firm so that we can maximize our fullest potential for BlackRock and our clients.

There have been no material changes to the organizational structure in the past year ending 30 September 2017.

**Global Executive Committee Changes**

In 2010, BlackRock created the Global Executive Committee ("GEC") to provide oversight of operations and business performance, strategy and planning, talent development and retention, risk management, and external affairs. The following chart shows turnover within the GEC:

Year	Previous GEC Member	Previous Role	Reason for Change	Replacement
2017	Linda Robinson	Vice Chairman	Role changed to Senior Advisor pending retirement	Responsibilities assumed by existing GEC members

In September 2017, Rachel Lord, previously Head of Global Clients for ETF & Index Investments and Head of iShares in Europe, Middle East, and Asia ("EMEA"), became the head of BlackRock EMEA and joined the GEC.

### ETF & Index Investment ("EII") Strategies Team Changes

There have been no addition to the EII team over the past six months ending 30 September 2017.

The table below provide the requested information all departures of key (Director Level and above) personnel over the past six months ending 30 September 2017 for the EII Strategies team.

#### Departures

Quarter/ Year	Name	Title & Role	Reason for Departure
Q2 2017	Matthew Lee	Managing Director, Research	Pursue other opportunities

### Have there been any changes in the firm's investment approach?

2.

Yes: Please explain. /  No

BlackRock has followed the same investment philosophy of Total Performance Management for index strategies since 1971.

### Have there have been any industry or regulatory disciplinary actions taken against the firm?

3.  Yes: Please explain. /  No

As a global investment manager, BlackRock Inc., and its various subsidiaries including BTC may be subject to regulatory oversight in numerous jurisdictions including examinations and various requests for information. BTC's regulators routinely provide it with comment letters at the conclusion of these examinations in which they request that BTC correct or modify certain of its practices. In all such instances, BTC has addressed, or is working to address, these requests to ensure that it continues to operate in compliance with applicable laws, statutes and regulations.

BTC also receives subpoenas or requests for information in connection with regulatory inquiries and/or investigations by its various regulators, some of which are ongoing. None of these matters has had or is expected to have any adverse impact on BTC's ability to manage its clients' assets. Please refer to BlackRock's Form ADV and SEC disclosures for additional information on regulatory matters concerning BTC or BlackRock as a whole. The recent fines related to BlackRock Inc. or BTC's investment advisory responsibilities are set forth below. These matters do not include fines paid to non-US regulators relating to the late filing of issuer-specific holdings reports.

On 8 March 2012, BlackRock Institutional Trust Company, N.A. ("BTC") entered into an Offer of Settlement (the "Agreement") with the CFTC and consented to the entry of an Order, which makes findings and imposes remedial sanctions against BTC. Without admitting or denying wrongdoing, BTC agreed to the imposition of a \$250,000 penalty and the entry of the Order to resolve allegations by the CFTC that two trades by BTC violated Section 4c(a)(1) of the Commodity Exchange Act and CFTC Regulation 1.38(a). BTC also agreed to refrain from any further violations of the above-mentioned statutory provisions. The CFTC did not allege that any clients of BTC, BlackRock or any related affiliate were harmed in any way in the execution of these two trades.

On 11 September 2012, the UK Financial Services Authority ("FSA") issued a Final Notice against BlackRock Investment Management (UK) Limited ("BIMUK"), following a settlement agreement reached between the FSA and BIMUK. The FSA found that BIMUK had breached certain provisions of the FSA's Client Money Rules and Principles, during the period 1 October 2006 to 31 March 2010, by not having trust letters in place for client money placed on money market deposit and not having adequate systems and

controls for the identification and protection of client money in this respect. BIMUK agreed to a settlement payment of GBP 9,533,100 for the breach, which it had self-reported to the FSA in April 2010. The FSA final order acknowledged that no client of BIMUK (or BlackRock or any related affiliate) suffered any harm and that BIMUK had remedied the situation and put in place robust systems and controls relating to client money protection.

On 3 October 2012, BlackRock Financial Management Inc. ("BFM") reached an agreement with the U.S. Department of Labor ("DOL") to reimburse clients \$2,661,513 in connection with certain trades the DOL alleged violated Title I of the Employee Retirement Income Security Act ("ERISA"). BFM also agreed to pay to the DOL a \$266,151 penalty.

On 8 January 2014, BlackRock Inc. reached a settlement with the New York Attorney General's office ("AG") pursuant to which the AG found BlackRock's use of analyst surveys violated New York's Martin Act and Executive Law. The settlement did not involve the payment of any fine or other penalty although BlackRock paid \$400,000 to cover the AG's costs of investigation. BlackRock neither admitted nor denied the allegations, but agreed to stop using analyst surveys.

On 8 May 2014, the primary Italian securities regulator ("CONSOB") fined BlackRock Investment Management (UK) Limited ("BIMUK") 150,000 EURO (approximately \$205,826 USD) for negligent market manipulation. The fine was based on BIMUK's filing, on behalf of the BlackRock group of companies, a large shareholder report regarding its holdings in Unicredit S.p.A. to CONSOB in December 2011, that turned out to be incorrect.

On 16 September 2014, BlackRock Institutional Trust Company, N.A. ("BTC") entered into an agreement with the SEC to resolve allegations relating to three alleged violations of an SEC regulation prohibiting short sales of an equity security during the restricted period preceding a public offering. The three trades at issue occurred in 2010 and 2011. As part of the approximately \$1.7 million settlement, BTC agreed to disgorge profits from each of the violations and to pay interest and a civil penalty. BTC also agreed to cease and desist from any future violations of the rule in question.

On 20 April 2015, BlackRock Advisors, LLC ("BAL") reached a settlement with the Securities and Exchange Commission ("SEC") regarding BlackRock's handling of a former portfolio manager's personal investments and involvement in a family business, Rice Energy LP and related entities. As part of the settlement, BAL agreed to pay a \$12 million penalty and retained an independent compliance consultant to review BlackRock's policies and procedures regarding the outside activities of BlackRock's employees. There was neither an allegation by the SEC of any loss to any BlackRock investors, nor did this settlement have any adverse impact on BlackRock's ability to manage its clients' funds.

On 17 January 2017, BlackRock Inc. reached an agreement with the SEC resolving a matter regarding a provision in an old version of BlackRock's form employee separation agreement that the SEC believed violated Dodd Frank's whistleblower provisions. The settlement with the SEC included a \$340,000 payment and BlackRock agreed it would not include the provision in future agreements. In addition, BlackRock agreed to notify by letter, certain former employees who signed the agreement between October 2011 and March 2016.

On 25 April 2017, BlackRock Fund Advisors ("BFA") reached an agreement with the SEC resolving a matter regarding whether one BFA-managed ETF (the iShares MSCI Russia Capped ETF) was covered by certain exemptive relief the SEC previously granted BFA and other iShares funds. BFA, which did not admit or deny any of the SEC's findings, agreed to resolve the matter for a civil monetary penalty of \$1.5 million.

BlackRock, Inc. and its various subsidiaries, including BTC, also have been subject to certain business litigation that has arisen in the normal course of their business. Our litigation has included a variety of claims, some of which are investment-related. None of BlackRock's prior litigation has had, and none of its pending litigation currently is expected to have, an adverse impact on BlackRock's ability to manage client accounts.



In past years, BlackRock has acquired organizations that provide investment-related services, including, but not limited to, State Street Research & Management Company, Merrill Lynch Investment Managers, the fund of funds business of Quellos Group, LLC, and Barclays Global Investors. This response does not address any regulatory or litigation that arose out of conduct within the acquired organizations prior to their acquisition by BlackRock. It also does not address any regulatory or litigation unrelated to BlackRock or BTC's investment management responsibilities.

**Have proxy ballots been voted in accordance with the best economic interest of SamCERA?**

4.  Yes /  No: Please explain.

BlackRock votes annually at approximately 15,000 shareholder meetings. We take a case-by-case approach to the business put to a shareholder vote. Our analysis is informed by our internally-developed proxy voting guidelines and the situation at a particular company. Our market-specific voting guidelines are available on our website at <https://www.blackrock.com/corporate/en-zz/about-us/investment-stewardship/voting-guidelines-reports-position-papers>.

We intend to vote at all shareholder meetings of companies in which our clients are invested. In cases where there are significant obstacles to voting, such as share blocking or requirements for a power of attorney, we will review the resolutions to assess the extent of the restrictions on voting against the potential benefits. We will vote in favour of proposals where we support the approach taken by a company's management or where we have engaged on matters of concern and anticipate management will address them. BlackRock will vote against management proposals where we believe the board or management may not have adequately acted to protect and advance the interests of long-term investors. We will abstain on proposals where we wish to indicate to the company we are concerned about its approach to certain issues and expect them to be responsive to investors' views. In all situations the economic interests of our clients will be paramount.

Our voting guidelines are intended to help companies understand our thinking on key governance matters. They are the benchmark against which we assess a company's approach to corporate governance and the items on the agenda for the shareholder meeting. We apply our guidelines pragmatically, taking into account a company's unique circumstances where relevant. We take vote decisions to achieve the outcome that we believe best protects our clients' long-term economic interests. BlackRock reviews our voting guidelines annually and updates them as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the prior year.

We amend our proxy voting guidelines on an ongoing basis as developments in corporate governance occur, as new ballot issues emerge, or otherwise as warranted. In amending our guidelines, we conduct a regular review of research and developments in academic literature, and we engage with clients, fundamental analysts, and other market participants regarding best practice and key issues of concern to shareholders. We also conduct periodic benchmarking to peers.

**Has the firm's insurance coverage been sustained?**

Yes /  No: Please explain.

BlackRock maintains the following types of global insurance coverage:

Type
Investment Advisers Professional Liability (aka Errors & Omissions Liability)
Fidelity Bond (aka Crime or Financial Institution Bond)

Although we do not disclose the insurer information and level of coverage, BlackRock only places insurance with insurers rated "Excellent" by AM Best and maintains coverage at levels that are commercially reasonable and consistent with industry peers.

## Investment Management Fees

Is *SamCERA's* investment management fee schedule less favorable than those charged other institutional clients who hold an account investment substantially similar to ours?

1.  Yes: Please explain. /  No

## Derivative Investments

1. Are derivatives used in the management of the investment strategy?

- Yes: Please ANSWER the remaining questions in this section.  
 No: Please SKIP the remaining questions in this section.

We typically use exchange traded equity index futures in our strategies for the purposes of efficient portfolio management. Futures are not used for speculative or leveraged positions in the portfolio and we keep cash to fully cover all outstanding futures positions.

Exchange traded futures are employed to equitize dividend accruals as well as to manage day-to-day cash flows generated from clients trades, dividends, interest received and other activity associated with securities in the portfolio. Specifically, futures contracts are purchased to provide immediate market exposure proportionate to cash accruals and investable cash within the portfolio. While we seek to remain fully invested, a small amount of spendable cash is retained to minimize trading and transactions costs. Skillful cash management and cash equitization are critical to minimizing the potential impact of cash drag and ensure tight tracking to the benchmark.

2. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated?

- Yes /  No: Please explain.

N/A

3. For non-exchange traded derivative transactions, were the counter-parties broker/dealers?

- Yes /  No

N/A

If Yes:

- a) Do the counter-parties have investment grade debt?  Yes/  No  
b) Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances?  Yes/  No: Please explain.

4. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)?



Yes /  No

N/A

If Yes:

- a) Do the counter-parties have investment grade debt?  Yes/  No
- b) Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances?  
 Yes/  No: Please explain.

5. Is individual counter-party exposure well diversified?  Yes/  No: Please explain.

- a) What is the largest exposure to a single counter-party within the portfolio?
- b) Please specify the name of the counter-party and the amount of exposure.
- c) Have there been any changes to the investment manager's list of approved counter-parties over the past six months?

While we are not currently holding any non-exchange traded derivative positions in the portfolio, BlackRock has explicit policies and procedures in place around the usage of these instruments. As a fiduciary, BlackRock's philosophy is to manage counterparty credit risk conservatively. As such, the firm actively monitors counterparty credit risk exposures globally and evaluates counterparty credit quality on a continuous basis. The Counterparty and Concentration Risk Group ("CCR Group"), which forms part of RQA, comprises a dedicated team of professionals that leads the global process for managing counterparty risk.

Please see comprehensive, in-depth details about counterparty monitoring processes on pages 24-30 of "16 Things to know about BTC"

**6. Specify the security pricing sources used when developing portfolio market value exposures for non-exchange traded derivative positions.**

BlackRock's Global Valuation Methodologies Committee provides oversight of the valuation of investments for the Funds and certain Accounts. Assets of Funds and Accounts are valued in accordance with Financial Accounting Standards Board Accounting Standards Codification ("ASC") 820-10, Fair Value Measurements and Disclosures. ASC 820-10 establishes a fair valuation hierarchy to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy prioritizes inputs to valuation techniques used to measure fair value into three broad levels: Level I, Level II, and Level III. Inputs may be based on independent market data ("observable inputs") or they may be internally developed ("unobservable inputs"). See additional details about valuation procedures and external pricing agents/sources on pages 9-11 in "16 Things You Should Know," attached.

**7. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.**

As stated above, we typically use exchange traded equity index futures in our strategies for the purposes of efficient portfolio management. Futures are not used for speculative or leveraged positions in the portfolio and we keep cash to fully cover all outstanding futures positions. Exchange traded futures are employed to equitize dividend accruals as well as to manage day-to-day cash flows generated from clients trades, dividends, interest received and other activity associated with securities in the portfolio. Specifically, futures contracts are purchased to provide immediate market exposure proportionate to cash accruals and investable cash within the portfolio. While we seek to remain fully invested, a small amount of spendable cash is retained to minimize trading and transactions costs. Skillful cash management and cash equitization are critical to minimizing the potential impact of cash drag and ensure tight tracking to the benchmark.

**8. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months.  Yes: Please explain. /  No**

**Domestic Equity Portfolios (Large, Mid & Small)**

**1. Please state the percentage of the portfolio held in each of the following types of securities**

<i>Common Stock</i>	<i>99.2%</i>
<i>Preferred Stock</i>	<i>0.0%</i>
<i>Convertible Securities</i>	<i>0.0%</i>
<i>Cash &amp; Equivalents</i>	<i>0.8%</i>

**2. Specify the large, mid and small capitalization exposure of the portfolios? Please specify percentages.**

<i>Large-Cap</i>	<i>72.0%</i>
<i>Mid-Cap</i>	<i>28.0%</i>

Small-Cap

0.0%

3. Specify the percentage of the portfolio that is invested in American Depository Receipts (ADR's). Also, specify the percentage of the portfolio invested in ADR securities that are 144A securities. If greater than 10%, explain why.

0%

4. Does the portfolio invest in emerging and/or frontier markets?  Yes /  No

a) If Yes, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets.

5. What is the largest percentage of the portfolio represented by a single security? Please specify the security and percentage amount. If any securities were above 5% at the time of purchase, please list and explain why.

Apple Inc (3.43% of the total fund)

6. What is the largest percentage of the portfolio represented by a single industry? Specify the name of the industry, percentage amount and size relative to benchmark. Please specify all industries above 15%.

Information Technology – 23.3% of portfolio versus 23.5% in benchmark.

Signed by: Brian Velez 

Dated: 1/16/18

Name of Firm: BlackRock, Inc.

***Quantitative Management Associates U.S. Small Cap Core – December 31, 2017***

***Compliance Certification Statement***

***San Mateo County***

***Employees' Retirement Association***

In accordance with SamCERA's Investment Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office ([Investments@samcera.org](mailto:Investments@samcera.org)) by **Monday, January 8, 2018**.

**General Compliance Issues**

1. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel?  
 **Yes: Please explain.** /  **No**

**On October 2, 2017 George N. Patterson, PhD, joined QMA as Co-Head of our Quantitative Equity team. He works in partnership with Peter Xu, PhD, a 20-year investment professional at QMA, who was named the other Co-Head.**

**The Quantitative Equity team unifies QMA's former US Core Equity, Non-US Core Equity, and Value Equity platforms. This organizational change reflects the evolutionary growth of our investment team, products, and AUM. Our intent is to accelerate in-depth work on research and model enhancements within a unified global investment platform, while we continue to advance cost-efficient execution. As always, our goal is value-added, long-term risk-adjusted performance for our clients.**

**We anticipate no material changes to our existing products or processes as a result of this organizational change.**

2. Have there been any changes in the firm's investment approach?  
 **Yes: Please explain.** /  **No**
3. Have there have been any industry or regulatory disciplinary actions taken against the firm?  
 **Yes: Please explain.** /  **No**
4. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA*?  
 **Yes** /  **No: Please explain.**
5. Has the firm's insurance coverage been sustained?  
 **Yes** /  **No: Please explain.**

## Investment Management Fees

1. Is *SamCERA*'s investment management fee schedule higher than those charged other institutional clients who hold an account investment substantially similar to ours?  
 **Yes: Please explain.** /  **No**

## Derivative Investments

1. Are derivatives used in the management of the investment strategy?  
 **Yes: Please ANSWER the remaining questions in this section.**  
 **No: Please SKIP the remaining questions in this section.**

**We may use fully collateralized exchange-listed stock index futures or ETFs to remain fully invested.**

2. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated?  
 **Yes** /  **No: Please explain.**

**N/A. We do not utilize non-exchange-listed derivatives in this strategy.**

3. For non-exchange traded derivative transactions, were the counter-parties broker/dealers?  
 **Yes** /  **No**

**N/A. We do not currently use derivatives in your account.**

**If Yes:**

- a) Do the counter-parties have investment grade debt?  **Yes**/  **No**
- b) Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances?  **Yes**/  **No: Please explain.**

4. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)?  
 **Yes** /  **No**

**N/A. We do not utilize non-exchange-listed derivatives in this strategy.**

**If Yes:**

- a) Do the counter-parties have investment grade debt?  **Yes**/  **No**
- b) Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances?  
 **Yes**/  **No: Please explain.**

5. Is individual counter-party exposure well diversified?  **Yes**/  **No: Please explain.**

- a) What is the largest exposure to a single counter-party within the portfolio?
- b) Please specify the name of the counter-party and the amount of exposure.
- c) Have there been any changes to the investment manager's list of approved counter-parties over the past six months?

**N/A. We do not currently, nor have we used, derivatives in your account.**

6. Specify the security pricing sources used when developing portfolio market value exposures for non-exchange traded derivative positions.

**N/A. We do not utilize non-exchange-listed derivatives in this strategy.**

7. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

**Transactions for client accounts must be made through brokers (including prime brokers), futures commission merchants and other counterparties (for example, swap counterparties) on our approved counterparty list.**

**Counterparties are approved by our chief investment officer. Criteria for approval include:**

- **financial and operational stability (including, but not limited to, profitability, liquidity, financial metrics, economic factors, size, market presence, and reputation);**
- **execution, clearance, and settlement capabilities; and**
- **commission rates (if applicable) and other transaction costs.**
- 

**In selecting a counterparty for a particular transaction, we also consider factors such as the following:**

- **the nature of the portfolio transaction;**
- **the size of the transaction;**
- **the desired timing of the trade;**
- **the activity existing and expected in the market for the particular transaction;**
- **confidentiality – i.e. not revealing details about our trades or trading patterns with other brokers or market participants;**
- **the amount of capital, if any, that would be contributed by firms executing the transaction;**
- **administrative cooperation; and**
- **client or regulatory restrictions on use of certain counterparties.**

**A prime brokerage relationship is one in which services such as securities lending, leveraged trade execution and cash management are provided. In QMA, prime brokerage services are integral for investment strategies that require short sales of equity securities. Specific criteria for prime broker selection and approval include depth of**

shorting availability, strong knowledge of local shorting laws and regular shorting costs updates.

Monitoring of certain counterparties is performed on an ongoing basis by reviewing specific credit metrics such as credit spread and credit rating. Our chief investment officer and head of trading review the metrics to assess potential exposures. Other non-credit metrics reviewed by our risk management function include stock price and collateral posting activity.

Our compliance group maintains the approved counterparty list. In some cases, we set dollar exposure limits on a net basis for a counterparty. Class types and corresponding dollar limits are directly related to the risk of the transaction, transaction collateral, and our opinion regarding the creditworthiness of the counterparty. We analyze the financial and operational stability of approved counterparties, and consider new proposed counterparties from time to time. We may add or remove counterparties from our approved list based on this ongoing review. Our trade management oversight committee, which meets periodically, reviews and assesses counterparty usage data, patterns (if any) relating to counterparty use, and other information relevant to our counterparty selection process.

8. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months.  Yes: Please explain. /  No

N/A. We do not currently, nor have we used, derivatives in your account.

#### Domestic Equity Portfolios (Large, Mid & Small)

1. Please state the percentage of the portfolio held in each of the following types of securities

<i>Common Stock</i>	<b>93.48%</b>
<i>Preferred Stock</i>	<b>0%</b>
<i>Convertible Securities</i>	<b>0%</b>
<i>Cash &amp; Equivalents</i>	<b>0.27%</b>
<i>REIT</i>	<b>6.24%</b>

*As of 12/29/2017*

2. Specify the large, mid and small capitalization exposure of the portfolios? Please specify percentages.

<i>Large-Cap (&gt;\$15b)</i>	<b>0%</b>
<i>Mid-Cap (\$2b - \$15b)</i>	<b>53.38%</b>
<i>Small-Cap (\$100mm - \$2b)</i>	<b>46.62%</b>

*As of 12/29/2017*

3. Specify the percentage of the portfolio that is invested in American Depository Receipts (ADR's). Also, specify the percentage of the portfolio invested in ADR securities that are 144A securities. If greater than 10%, explain why.

**0%.**

4. Does the portfolio invest in emerging and/or frontier markets?  Yes /  No

a) If **Yes**, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets.

5. What is the largest percentage of the portfolio represented by a single security? Specify the name of the security and percentage amount. If any securities were above 5% at the time of purchase, please list and explain why.

**As of 12/29/2017, the largest holding in your account, Grand Canyon Education Inc. (CUSIP 38526M106) made up 0.92% of the market value of your portfolio.**

6. What is the largest percentage of the portfolio represented by a single industry? Specify the industry, percentage amount and size relative to benchmark. Please specify all industries above 15%.

**As of 12/29/2017, the largest industry in your portfolio was Banks, which made up 9.5% of the portfolio. By contrast the Russell 2000® Index held 10.15% in banks, which is a difference of -0.66%.**

*\*The Russell 2000® Index is a trademark/service mark of the Frank Russell Company. Russell® is a trademark of the Frank Russell Company.*

7. What proportion of total AUM do the assets in this product make-up of the firm? What size does SamCERA's account comprise of total product assets?

<b>Account</b>	<b>As of 12/29/2017</b>	<b>% of Firm AUM</b>
<b>US Small Cap Core</b>	\$2,027 million	1.47%
<b>SamCERA</b>	\$147.3 million	0.11%
<b>Firm</b>	\$137,529 million	100%

Signed by: Kevin McGrory  
Dated: January 16, 2017  
Name of Firm: QMA (Quantitative Management Associates, LLC)



***Baillie Gifford Overseas International Growth – December 31, 2017***

***Compliance Certification Statement  
San Mateo County  
Employees' Retirement Association***

In accordance with SamCERA's Investment Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office ([Investments@samcera.org](mailto:Investments@samcera.org)) by **Monday, January 8, 2018.**

**General Compliance Issues**

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*?  
 **Yes** /  **No: Please explain.**
2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm?  
 **Yes** /  **No: Please explain.**
3. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel?  
 **Yes: Please explain.** /  **No**
4. Have there been any changes in the firm's investment approach?  
 **Yes: Please explain.** /  **No**
5. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios?  
 **Yes: Please explain.** /  **No**
6. Have there have been any industry or regulatory disciplinary actions taken against the firm?  
 **Yes: Please explain.** /  **No**
7. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA* and in a manner consistent with the Board's proxy policies?  
 **Yes** /  **No: Please explain.**
8. Have there been any investment guideline breaches during the prior 6 months?  
 **Yes: Please explain.** /  **No**
9. Has the firm's insurance coverage been sustained?  
 **Yes** /  **No: Please explain.**

### Investment Management Fees

1. Is *SamCERA's* investment management fee schedule higher than those charged other institutional clients who hold an account investment substantially similar to ours?  
 **Yes: Please explain.** /  **No**

### Derivative Investments

1. Are derivatives used in the management of the investment strategy?  
 **Yes: Please ANSWER the remaining questions in this section.**  
 **No: Please SKIP the remaining questions in this section.**
2. Are derivative investments in compliance with *SamCERA's* investment policies?  
 **Yes** /  **No: Please explain.**
3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated?  
 **Yes** /  **No: Please explain.**
4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers?  
 **Yes** /  **No**

**If Yes:**

- a) Do the counter-parties have investment grade debt?  **Yes** /  **No**  
b) Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances?  **Yes** /  **No: Please explain.**
5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)?  
 **Yes** /  **No**

**If Yes:**

- a) Do the counter-parties have investment grade debt?  **Yes** /  **No**  
b) Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances?  
 **Yes** /  **No: Please explain.**
6. Is individual counter-party exposure well diversified?  **Yes** /  **No: Please explain.**  
a) What is the largest exposure to a single counter-party within the portfolio?  
b) Please specify the name of the counter-party and the amount of exposure.  
c) Have there been any changes to the investment manager's list of approved counter-parties over the past six months?

7. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies?  **Yes** /  **No: Please explain.**
- a) Has the firm developed any new purposes for derivative investments?  **Yes: Please explain.** /  **No**
8. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment.
- a) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives.  **Yes** /  **No: Please explain.**
- b) State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.
9. State if any restricted derivative investments are held in *SamCERA's* portfolios.  
 **Yes** /  **No**
- a) If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies.
10. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors?  **Yes** /  **No: Please explain.**
11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement?  **Yes** /  **No: Please explain.**
12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives.
13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.
14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months.  **Yes: Please explain.** /  **No**

### **Investment Manager Guidelines**

1. Are portfolio holdings well-diversified, and made in liquid securities?  
 **Yes** /  **No: Please explain.**
2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities?  **Yes: Please explain.** /  **No**

## Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments?  Yes /  No
- a) If Yes, do the investments comply with the policies?  Yes /  No: Please explain.

## International Equity Portfolios - Developed

1. Specify the percentage of the portfolio held in each of the following types of securities:

<i>Foreign Ordinary Shares</i>	84.6%
<i>ADR's</i>	8.9%
<i>GDR's</i>	5.5%
<i>Cash &amp; Equivalents (Foreign)</i>	0.2%
<i>Cash &amp; Equivalents (Domestic)</i>	0.8%

Data as at 30 September 2017. Domestic = USD

2. Specify the large, mid and small capitalization exposure of the portfolios.

<i>Large-Cap</i>	71.54%
<i>Mid-Cap</i>	27.72%
<i>Small-Cap</i>	0.74%

Large = >\$10bn, Mid = \$1.5bn to \$10bn, Small = \$0-\$1.5bn

3. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio?  Yes /  No: Please explain
4. Does the portfolio invest in emerging and/or frontier markets?  Yes /  No
- a) If Yes, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets.

26.1% of SamCERA's portfolio is invested in Emerging Markets as at 30 September 2017.

We are happy to provide data as at 31 December 2017 once available, if this is required.

5. Does the portfolio currently employ a currency hedging strategy?  Yes /  No
6. What proportion of total AUM do the assets in this product make-up of the firm? What size does SamCERA's account comprise of total product assets?

As at 30 September 2017, firm wide assets under management were \$232,251 million, whilst the ACWI ex US Focus strategy held \$10,230 million in assets, 4.4% of overall firm assets.

On the same date SamCERA's portfolio held \$242 million, comprising 2.4% of strategy assets.

Signed by:  
Joe Faraday

A handwritten signature in black ink, appearing to read 'Joe Faraday', with a long horizontal flourish extending to the right.

Dated:  
8 January 2018

Name of Firm:  
Baillie Gifford Overseas Limited



## ***BlackRock EAFE Index – December 31, 2017***

### ***Compliance Certification Statement San Mateo County Employees' Retirement Association***

In accordance with SamCERA's Investment Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office ([Investments@samcera.org](mailto:Investments@samcera.org)) by **Monday, January 8, 2018**.

#### **General Compliance Issues**

1. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel?  
 Yes: Please explain. /  No

#### **Firm Ownership**

There have been no material changes to ownership in the past year ending 30 September 2017.

#### **Organizational Structure Changes**

To continue to grow and be a leader in our industry, BlackRock constantly looks for ways to better serve clients, increase efficiency in our organization and develop talent. Periodically we take a fresh look at the firm to determine how we should evolve our organization in anticipation of changing market dynamics and client needs. This evolution is part of a continual effort to position the firm so that we can maximize our fullest potential for BlackRock and our clients.

There have been no material changes to the organizational structure in the past year ending 30 September 2017.

#### **Global Executive Committee Changes**

In 2010, BlackRock created the Global Executive Committee ("GEC") to provide oversight of operations and business performance, strategy and planning, talent development and retention, risk management, and external affairs. Though not material, the following chart shows turnover within the GEC:

Year	Previous GEC Member	Previous Role	Reason for Change	Replacement
2017	Linda Robinson	Vice Chairman	Role changed to Senior Advisor pending retirement	Responsibilities assumed by existing GEC members

In September 2017, Rachel Lord, previously Head of Global Clients for ETF & Index Investments and Head of iShares in Europe, Middle East, and Asia ("EMEA"), became the head of BlackRock EMEA and joined the GEC.

## ETF & Index Investment ("EII") Strategies Team Changes

There have been no addition to the EII team over the past six months ending 30 September 2017.

The table below provide the requested information all departures of key (Director Level and above) personnel over the past six months ending 30 September 2017 for the EII Strategies team.

Departures			
Quarter/ Year	Name	Title & Role	Reason for Departure
Q2 2017	Matthew Lee	Managing Director, Research	Pursue other opportunities

2. Have there been any changes in the firm's investment approach?

Yes: Please explain. /  No

BlackRock has followed the same investment philosophy of Total Performance Management for index strategies since 1971.

3. Have there have been any industry or regulatory disciplinary actions taken against the firm?

Yes: Please explain. /  No

As a global investment manager, BlackRock Inc., and its various subsidiaries including BTC may be subject to regulatory oversight in numerous jurisdictions including examinations and various requests for information. BTC's regulators routinely provide it with comment letters at the conclusion of these examinations in which they request that BTC correct or modify certain of its practices. In all such instances, BTC has addressed, or is working to address, these requests to ensure that it continues to operate in compliance with applicable laws, statutes and regulations.

BTC also receives subpoenas or requests for information in connection with regulatory inquiries and/or investigations by its various regulators, some of which are ongoing. None of these matters has had or is expected to have any adverse impact on BTC's ability to manage its clients' assets. Please refer to BlackRock's Form ADV and SEC disclosures for additional information on regulatory matters concerning BTC or BlackRock as a whole. The recent fines related to BlackRock Inc. or BTC's investment advisory responsibilities are set forth below. These matters do not include fines paid to non-US regulators relating to the late filing of issuer-specific holdings reports.

On 8 March 2012, BlackRock Institutional Trust Company, N.A. ("BTC") entered into an Offer of Settlement (the "Agreement") with the CFTC and consented to the entry of an Order, which makes findings and imposes remedial sanctions against BTC. Without admitting or denying wrongdoing, BTC agreed to the imposition of a \$250,000 penalty and the entry of the Order to resolve allegations by the CFTC that two trades by BTC violated Section 4c(a)(1) of the Commodity Exchange Act and CFTC Regulation 1.38(a). BTC also agreed to refrain from any further violations of the above-mentioned statutory provisions. The CFTC did not allege that any clients of BTC, BlackRock or any related affiliate were harmed in any way in the execution of these two trades.

On 11 September 2012, the UK Financial Services Authority ("FSA") issued a Final Notice against BlackRock Investment Management (UK) Limited ("BIMUK"), following a settlement agreement reached between the FSA and BIMUK. The FSA found that BIMUK had breached certain provisions of the FSA's Client Money Rules and Principles, during the period 1 October 2006 to 31 March 2010, by not having trust letters in place for client money placed on money market deposit and not having adequate systems and controls for the identification and protection of client money in this respect. BIMUK agreed to a settlement payment of GBP 9,533,100 for the breach, which it had self-reported to the FSA in April 2010. The FSA



final order acknowledged that no client of BIMUK (or BlackRock or any related affiliate) suffered any harm and that BIMUK had remedied the situation and put in place robust systems and controls relating to client money protection.

On 3 October 2012, BlackRock Financial Management Inc. ("BFM") reached an agreement with the U.S. Department of Labor ("DOL") to reimburse clients \$2,661,513 in connection with certain trades the DOL alleged violated Title I of the Employee Retirement Income Security Act ("ERISA"). BFM also agreed to pay to the DOL a \$266,151 penalty.

On 8 January 2014, BlackRock Inc. reached a settlement with the New York Attorney General's office ("AG") pursuant to which the AG found BlackRock's use of analyst surveys violated New York's Martin Act and Executive Law. The settlement did not involve the payment of any fine or other penalty although BlackRock paid \$400,000 to cover the AG's costs of investigation. BlackRock neither admitted nor denied the allegations, but agreed to stop using analyst surveys.

On 8 May 2014, the primary Italian securities regulator ("CONSOB") fined BlackRock Investment Management (UK) Limited ("BIMUK") 150,000 EURO (approximately \$205,826 USD) for negligent market manipulation. The fine was based on BIMUK's filing, on behalf of the BlackRock group of companies, a large shareholder report regarding its holdings in Unicredit S.p.A. to CONSOB in December 2011, that turned out to be incorrect.

On 16 September 2014, BlackRock Institutional Trust Company, N.A. ("BTC") entered into an agreement with the SEC to resolve allegations relating to three alleged violations of an SEC regulation prohibiting short sales of an equity security during the restricted period preceding a public offering. The three trades at issue occurred in 2010 and 2011. As part of the approximately \$1.7 million settlement, BTC agreed to disgorge profits from each of the violations and to pay interest and a civil penalty. BTC also agreed to cease and desist from any future violations of the rule in question.

On 20 April 2015, BlackRock Advisors, LLC ("BAL") reached a settlement with the Securities and Exchange Commission ("SEC") regarding BlackRock's handling of a former portfolio manager's personal investments and involvement in a family business, Rice Energy LP and related entities. As part of the settlement, BAL agreed to pay a \$12 million penalty and retained an independent compliance consultant to review BlackRock's policies and procedures regarding the outside activities of BlackRock's employees. There was neither an allegation by the SEC of any loss to any BlackRock investors, nor did this settlement have any adverse impact on BlackRock's ability to manage its clients' funds.

On 17 January 2017, BlackRock Inc. reached an agreement with the SEC resolving a matter regarding a provision in an old version of BlackRock's form employee separation agreement that the SEC believed violated Dodd Frank's whistleblower provisions. The settlement with the SEC included a \$340,000 payment and BlackRock agreed it would not include the provision in future agreements. In addition, BlackRock agreed to notify by letter, certain former employees who signed the agreement between October 2011 and March 2016.

On 25 April 2017, BlackRock Fund Advisors ("BFA") reached an agreement with the SEC resolving a matter regarding whether one BFA-managed ETF (the iShares MSCI Russia Capped ETF) was covered by certain exemptive relief the SEC previously granted BFA and other iShares funds. BFA, which did not admit or deny any of the SEC's findings, agreed to resolve the matter for a civil monetary penalty of \$1.5 million.

BlackRock, Inc. and its various subsidiaries, including BTC, also have been subject to certain business litigation that has arisen in the normal course of their business. Our litigation has included a variety of claims, some of which are investment-related. None of BlackRock's prior litigation has had, and none of its pending litigation currently is expected to have, an adverse impact on BlackRock's ability to manage client accounts.

In past years, BlackRock has acquired organizations that provide investment-related services, including, but not limited to, State Street Research & Management Company, Merrill Lynch Investment Managers,

the fund of funds business of Quellos Group, LLC, and Barclays Global Investors. This response does not address any regulatory or litigation that arose out of conduct within the acquired organizations prior to their acquisition by BlackRock. It also does not address any regulatory or litigation unrelated to BlackRock or BTC's investment management responsibilities.

4. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA*?

Yes /  No: Please explain.

BlackRock votes annually at approximately 15,000 shareholder meetings. We take a case-by-case approach to the business put to a shareholder vote. Our analysis is informed by our internally-developed proxy voting guidelines and the situation at a particular company. Our market-specific voting guidelines are available on our website at <https://www.blackrock.com/corporate/en-zz/about-us/investment-stewardship/voting-guidelines-reports-position-papers>.

We intend to vote at all shareholder meetings of companies in which our clients are invested. In cases where there are significant obstacles to voting, such as share blocking or requirements for a power of attorney, we will review the resolutions to assess the extent of the restrictions on voting against the potential benefits. We will vote in favour of proposals where we support the approach taken by a company's management or where we have engaged on matters of concern and anticipate management will address them. BlackRock will vote against management proposals where we believe the board or management may not have adequately acted to protect and advance the interests of long-term investors. We will abstain on proposals where we wish to indicate to the company we are concerned about its approach to certain issues and expect them to be responsive to investors' views. In all situations the economic interests of our clients will be paramount.

Our voting guidelines are intended to help companies understand our thinking on key governance matters. They are the benchmark against which we assess a company's approach to corporate governance and the items on the agenda for the shareholder meeting. We apply our guidelines pragmatically, taking into account a company's unique circumstances where relevant. We take vote decisions to achieve the outcome that we believe best protects our clients' long-term economic interests. BlackRock reviews our voting guidelines annually and updates them as necessary to reflect changes in market standards, evolving governance practice and insights gained from engagement over the prior year.

We amend our proxy voting guidelines on an ongoing basis as developments in corporate governance occur, as new ballot issues emerge, or otherwise as warranted. In amending our guidelines, we conduct a regular review of research and developments in academic literature, and we engage with clients, fundamental analysts, and other market participants regarding best practice and key issues of concern to shareholders. We also conduct periodic benchmarking to peers.

5. Has the firm's insurance coverage been sustained?

Yes /  No: Please explain.

BlackRock maintains the following types of global insurance coverage:

Type
<u>Investment Advisers Professional Liability (aka Errors &amp; Omissions Liability)</u>
<u>Fidelity Bond (aka Crime or Financial Institution Bond)</u>

Although we do not disclose the insurer information and level of coverage, BlackRock only places insurance with insurers rated "Excellent" by AM Best and maintains coverage at levels that are commercially reasonable and consistent with industry peers.

## Investment Management Fees

1. Is *SamCERA's* investment management fee schedule less favorable than those charged other institutional clients who hold an account investment substantially similar to ours?  
 Yes: Please explain. /  No

### Derivative Investments

1. Are derivatives used in the management of the investment strategy?  
 Yes: Please ANSWER the remaining questions in this section.  
 No: Please SKIP the remaining questions in this section.

We typically use exchange traded equity index futures in our strategies for the purposes of efficient portfolio management. Futures are not used for speculative or leveraged positions in the portfolio and we keep cash to fully cover all outstanding futures positions.

Exchange traded futures are employed to equitize dividend accruals as well as to manage day-to-day cash flows generated from clients trades, dividends, interest received and other activity associated with securities in the portfolio. Specifically, futures contracts are purchased to provide immediate market exposure proportionate to cash accruals and investable cash within the portfolio. While we seek to remain fully invested, a small amount of spendable cash is retained to minimize trading and transactions costs. Skillful cash management and cash equitization are critical to minimizing the potential impact of cash drag and ensure tight tracking to the benchmark.

2. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated?  
 Yes /  No: Please explain.

N/A

3. For non-exchange traded derivative transactions, were the counter-parties broker/dealers?  
 Yes /  No

If Yes:

- a) Do the counter-parties have investment grade debt?  Yes/  No  
b) Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances?  Yes/  No: Please explain.

N/A

4. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)?  
 Yes /  No

If Yes:

- a) Do the counter-parties have investment grade debt?  Yes/  No  
b) Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances?  
 Yes/  No: Please explain.

5. Is individual counter-party exposure well diversified?  Yes/  No: **Please explain.**
- a) What is the largest exposure to a single counter-party within the portfolio?
  - b) Please specify the name of the counter-party and the amount of exposure.
  - c) Have there been any changes to the investment manager's list of approved counter-parties over the past six months?

While we are not currently holding any non-exchange traded derivative positions in the portfolio, BlackRock has explicit policies and procedures in place around the usage of these instruments. As a fiduciary, BlackRock's philosophy is to manage counterparty credit risk conservatively. As such, the firm actively monitors counterparty credit risk exposures globally and evaluates counterparty credit quality on a continuous basis. The Counterparty and Concentration Risk Group ("CCR Group"), which forms part of RQA, comprises a dedicated team of professionals that leads the global process for managing counterparty risk. Please see comprehensive, in-depth details about counterparty monitoring processes on pages 24-30 of "16 Things to know about BTC"

6. Specify the security pricing sources used when developing portfolio market value exposures for non-exchange traded derivative positions.

BlackRock's Global Valuation Methodologies Committee provides oversight of the valuation of investments for the Funds and certain Accounts. Assets of Funds and Accounts are valued in accordance with Financial Accounting Standards Board Accounting Standards Codification ("ASC") 820-10, Fair Value Measurements and Disclosures. ASC 820-10 establishes a fair valuation hierarchy to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy prioritizes inputs to valuation techniques used to measure fair value into three broad levels: Level I, Level II, and Level III. Inputs may be based on independent market data ("observable inputs") or they may be internally developed ("unobservable inputs"). See additional details about valuation procedures and external pricing agents/sources on pages 9-11 in "16 Things You Should Know," attached.

7. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

As stated above, we typically use exchange traded equity index futures in our strategies for the purposes of efficient portfolio management. Futures are not used for speculative or leveraged positions in the portfolio and we keep cash to fully cover all outstanding futures positions.

Exchange traded futures are employed to equitize dividend accruals as well as to manage day-to-day cash flows generated from clients trades, dividends, interest received and other activity associated with securities in the portfolio. Specifically, futures contracts are purchased to provide immediate market exposure proportionate to cash accruals and investable cash within the portfolio. While we seek to remain fully invested, a small amount of spendable cash is retained to minimize trading and transactions costs. Skillful cash management and cash equitization are critical to minimizing the potential impact of cash drag and ensure tight tracking to the benchmark.



8. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months.  Yes: Please explain. /  No

### International Equity Portfolios - Developed

1. Specify the percentage of the portfolio held in each of the following types of securities:

<i>Foreign Ordinary Shares</i>	<i>99.11%</i>
<i>ADR's</i>	<i>0.19%</i>
<i>Cash &amp; Equivalents (Foreign)</i>	<i>0.00%</i>
<i>Cash &amp; Equivalents (Domestic)</i>	<i>0.70%</i>

2. Specify the large, mid and small capitalization exposure of the portfolios.

<i>Large-Cap</i>	<i>78.64%</i>
<i>Mid-Cap</i>	<i>21.36%</i>
<i>Small-Cap</i>	<i>0.00%</i>

3. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio?  Yes /  No: Please explain.

The importance of risk control at BlackRock is one of our greatest competitive advantages. All BlackRock's Index strategies utilize risk control at every stage of the investment process, from the creation of expected return forecasts through the portfolio construction and trade execution processes. We pursue the risk control objective by minimizing all investment (and operational) risks that are not associated with added returns. Aladdin, our proprietary investment and risk analytics platform, incorporates client cash flows, securities positions, futures and currency positions, pending corporate actions, and risk tools. It also receives daily index data direct from benchmark providers. Aladdin allows portfolio managers to efficiently manage portfolios with a high degree of risk control, providing a seamless platform whereby every step of the investment process is handled electronically from the time a client order is placed to the time any required trades go out to market.

The portfolio managers review exception-based reports for compliance with internal and client guidelines on a daily basis. We use an automated screen, whereby portfolio managers' final trade lists are cross-checked against a database containing portfolio guidelines and client restrictions on separate accounts prior to being released to the trading room. Duties are segregated and supervision is appropriate to each type of activity. Through these efforts, BlackRock ensures that the portfolio remains risk-controlled, fully invested and positioned at all times to achieve optimal performance.

In addition, all Index portfolios are monitored monthly by an Investment Review Committee ("IRC"). This committee formally reviews portfolio performance and its attribution. The IRC is an internal committee composed of senior management, portfolio managers, performance analysts and risk specialists, who meet monthly to discuss investment policy and other operational issues that relate to the management of our portfolios. The IRC is responsible for reviewing all BlackRock portfolios to ensure that they are operating according to their portfolio mandates. All portfolio exceptions are reported to the IRC.

A team of Risk & Quantitative Analysis Group (RQA) professionals has specialized knowledge of index equity strategies and works side-by-side with portfolio managers to ensure that all portfolio risks are well-

understood and appropriately managed. RQA works with portfolio managers on both day-to-day activities and special projects designed to improve our models and practices.

4. Does the portfolio invest in emerging and/or frontier markets?  Yes /  No  
a) If Yes, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets.

Signed by: Brian Velez *Brian Velez*  
Dated: 1/16/18  
Name of Firm: BlackRock, Inc.

***Mondrian Investment Partners International Value – December 31, 2017***

***Compliance Certification Statement***

***San Mateo County***

***Employees' Retirement Association***

In accordance with SamCERA's Investment Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office ([Investments@samcera.org](mailto:Investments@samcera.org)) by **Monday, January 8, 2018.**

**General Compliance Issues**

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*?  
 **Yes** /  **No: Please explain.**
2. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel?  
 **Yes: Please explain.** /  **No**
3. Have there been any changes in the firm's investment approach?  
 **Yes: Please explain.** /  **No**
4. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios?  
 **Yes: Please explain.** /  **No**
5. Have there have been any industry or regulatory disciplinary actions taken against the firm?  
 **Yes: Please explain.** /  **No**
6. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA* and in a manner consistent with the Board's proxy policies?  
 **Yes** /  **No: Please explain.**
7. Have there been any investment guideline breaches during the prior 6 months?  
 **Yes: Please explain.** /  **No**
8. Has the firm's insurance coverage been sustained?  
 **Yes** /  **No: Please explain.**

**Investment Management Fees**

1. Is *SamCERA's* investment management fee schedule higher than those charged other institutional clients who hold an account investment substantially similar to ours?  
 **Yes: Please explain.** /  **No**

**In accordance with the terms of Clause 2.2 of the investment management agreement, during the term of the agreement, Mondrian has not agreed to charge any other institutional client an effective fee lower than the fees charged to SamCERA for an account substantially similar to the SamCERA assets in terms of size, investment objectives and guidelines and degree of services provided.**

### **Derivative Investments**

1. Are derivatives used in the management of the investment strategy?  
 **Yes: Please ANSWER the remaining questions in this section.**  
 **No: Please SKIP the remaining questions in this section.**
2. Are derivative investments in compliance with *SamCERA's* investment policies?  
 **Yes** /  **No: Please explain.**
3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated?  
 **Yes** /  **No: Please explain.**
4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers?  
 **Yes** /  **No**

**If Yes:**

- a) Do the counter-parties have investment grade debt?  **Yes** /  **No**  
b) Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances?  **Yes** /  **No: Please explain.**
5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)?  
 **Yes** /  **No**

**If Yes:**

- a) Do the counter-parties have investment grade debt?  **Yes** /  **No**  
b) Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances?  
 **Yes** /  **No: Please explain.**
6. Is individual counter-party exposure well diversified?  **Yes** /  **No: Please explain.**  
a) What is the largest exposure to a single counter-party within the portfolio?  
b) Please specify the name of the counter-party and the amount of exposure.



- c) Have there been any changes to the investment manager's list of approved counter-parties over the past six months?
7. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies?  **Yes** /  **No: Please explain.**
- a) Has the firm developed any new purposes for derivative investments?  **Yes: Please explain.** /  **No**
8. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment.
- a) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives.  **Yes** /  **No: Please explain.**
- b) State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.
9. State if any restricted derivative investments are held in *SamCERA's* portfolios.  
 **Yes** /  **No**
- a) If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies.
10. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors?  **Yes** /  **No: Please explain.**
11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement?  **Yes** /  **No: Please explain.**
12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives.
13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.
14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months.  **Yes: Please explain.** /  **No**

### **Investment Manager Guidelines**

1. Are portfolio holdings well-diversified, and made in liquid securities?  
 **Yes** /  **No: Please explain.**

2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities?  Yes: Please explain. /  No

### Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments?  Yes /  No
- a) If Yes, do the investments comply with the policies?  Yes /  No: Please explain.

### International Equity Portfolios - Developed

1. Specify the percentage of the portfolio held in each of the following types of securities.

<i>Foreign Ordinary Shares</i>	74.38%
<i>ADR's</i>	0%
<i>MIP Limited Partnership</i>	24.61%
<i>Cash &amp; Equivalents (Foreign)</i>	0.75%
<i>Cash &amp; Equivalents (Domestic)</i>	0.26%

2. Specify the large, mid and small capitalization exposure of the portfolios.

<i>Large-Cap &gt;11bn</i>	80.10%
<i>Mid-Cap 3.5bn – 11bn</i>	16.86%
<i>Small-Cap &lt;3.5bn</i>	1.65%

3. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio?  Yes /  No: Please explain

4. Does the portfolio invest in emerging and/or frontier markets?  Yes /  No

- a) If Yes, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets

*The portfolio gains exposure to emerging markets through the Mondrian Emerging Markets Equity Fund L.P. As at 31 December 2017 the portfolio held 24.61% in this fund.*

5. Does the portfolio currently employ a currency hedging strategy?  Yes /  No

6. What proportion of total AUM do the assets in this product make-up of the firm? 8.3%\*

What size does SamCERA's account comprise of total product assets? 3.8%\*

*\*These are the last available numbers (November 2017)*

Signed by:  John L Barrett 

Dated: 5 January 2018

Name of Firm : Mondrian Investment Partners Limited

***Eaton Vance Parametric Emerging Markets Core Fund – December 31, 2017***

***Compliance Certification Statement***

***San Mateo County***

***Employees' Retirement Association***

In accordance with SamCERA's Investment Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office ([Investments@samcera.org](mailto:Investments@samcera.org)) by **Monday, January 8, 2018**.

**General Compliance Issues**

1. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel?

**Yes: Please explain.** /  **No**

*The portfolio completed its previously reported China weight transition by adding Shenzhen A share note exposure to match its Shanghai exposure.*

2. Have there been any changes in the firm's investment approach?

**Yes: Please explain.** /  **No**

3. Have there have been any industry or regulatory disciplinary actions taken against the firm?

**Yes: Please explain.** /  **No**

4. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA*?

**Yes** /  **No: Please explain.**

Please provide a copy of your firm's proxy policy to [Investments@samcera.org](mailto:Investments@samcera.org).

5. Has the firm's insurance coverage been sustained?

**Yes** /  **No: Please explain.**

**Investment Management Fees**

1. Is *SamCERA's* investment management fee schedule higher than those charged other institutional clients who hold an account investment substantially similar to ours?

**Yes: Please explain.** /  **No**

**Derivative Investments**

1. Are derivatives used in the management of the investment strategy?  
 **Yes: Please ANSWER the remaining questions in this section.**  
 **No: Please SKIP the remaining questions in this section.**
2. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated?  
 **Yes /**  **No: Please explain.**
3. For non-exchange traded derivative transactions, were the counter-parties broker/dealers?  
 **Yes /**  **No**
- If **Yes:**
  - a) Do the counter-parties have investment grade debt?  **Yes/**  **No**
  - b) Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances?  **Yes/**  **No: Please explain.**
4. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)?  
 **Yes /**  **No**
- If **Yes:**
  - a) Do the counter-parties have investment grade debt?  **Yes/**  **No**
  - b) Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances?  
 **Yes/**  **No: Please explain.**
5. Is individual counter-party exposure well diversified?  **Yes/**  **No: Please explain.**
  - a) What is the largest exposure to a single counter-party within the portfolio?
  - b) Please specify the name of the counter-party and the amount of exposure.
  - c) Have there been any changes to the investment manager's list of approved counter-parties over the past six months?
6. Specify the security pricing sources used when developing portfolio market value exposures for non-exchanged traded derivative positions.
7. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.
8. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months.  **Yes: Please explain.** /  **No**

## **Investment Manager Guidelines**

- Are portfolio holdings well-diversified, and made in liquid securities?  
 **Yes** /  **No: Please explain.**
- Has the fund engaged in short selling, use of leverage or margin and/or investments in commodities?  
 **Yes: Please explain.** /  **No**

### International Equity Portfolios - Emerging

- Specify the percentage of the portfolio held in each of the following types of securities:

<i>Foreign Ordinary Shares</i>	<i>89.3%</i>
<i>ADR's</i>	<i>8.0%</i>
<i>GDR's</i>	<i>2.0%</i>
<i>Derivatives</i>	<i>0.00%</i>
<i>Cash &amp; Equivalent (Foreign)</i>	<i>0.5%</i>
<i>Cash &amp; Equivalent (Domestic)</i>	<i>0.1%</i>

- Specify the large, mid and small capitalization exposure of the portfolios.

<i>Market Cap (USD x 1,000,000)</i>	<i>Weight</i>
<i>&gt;50,000</i>	<i>8.32%</i>
<i>15,000 – 50,000</i>	<i>25.59%</i>
<i>7,500 – 15,000</i>	<i>20.78%</i>
<i>1,500 – 7,500</i>	<i>35.97%</i>
<i>750 – 1,500</i>	<i>6.32%</i>
<i>400 – 750</i>	<i>2.26%</i>
<i>&lt;400</i>	<i>0.75%</i>

- Specify the allocation to frontier markets and to non-benchmark holdings in the portfolio (list both by country).

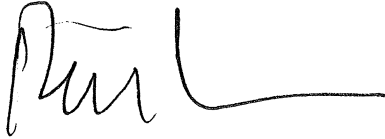
***Frontier –1.48%***

***Vestige –25.26%***

- Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio?  **Yes** /  **No: Please explain.**
- Does the portfolio currently employ a currency hedging strategy?  **Yes** /  **No**

6. What proportion of total AUM do the assets in this product make-up of the firm? What size does SamCERA's account comprise of total product assets?

*AUM of this product on 12/31/17 was \$ 253,281,362.63 USD, while the firm AUM was approximately \$230 B which makes the proportion of this product 0.11%. Also as of 12/31/17 SAMCERA consisted of 8,011,840.765 shares worth \$ 95,899,674.91 or 37.9% of this product.*

A handwritten signature in black ink, appearing to read 'Randall', with a long horizontal flourish extending to the right.

Signed by: Randall Hegarty, CCO

Dated: January 9<sup>th</sup>, 2018

Name of Firm: Parametric Portfolio Associates LLC

## ***BlackRock Intermediate Government Bond Index –December 31, 2017***

### ***Compliance Certification Statement***

***San Mateo County***

***Employees' Retirement Association***

In accordance with SamCERA's Investment Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office ([Investments@samcera.org](mailto:Investments@samcera.org)) by **Monday, January 8, 2018**.

#### **General Compliance Issues**

1. **Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel?**

Yes: Please explain. /  No

#### **Firm Ownership**

There have been no material changes to ownership in the past year ending 30 September 2017.

#### **Organizational Structure Changes**

To continue to grow and be a leader in our industry, BlackRock constantly looks for ways to better serve clients, increase efficiency in our organization and develop talent. Periodically we take a fresh look at the firm to determine how we should evolve our organization in anticipation of changing market dynamics and client needs. This evolution is part of a continual effort to position the firm so that we can maximize our fullest potential for BlackRock and our clients.

There have been no material changes to the organizational structure in the past year ending 30 September 2017.

#### **Global Executive Committee Changes**

In 2010, BlackRock created the Global Executive Committee ("GEC") to provide oversight of operations and business performance, strategy and planning, talent development and retention, risk management, and external affairs. The following chart shows turnover within the GEC:

Year	Previous GEC Member	Previous Role	Reason for Change	Replacement
2017	Linda Robinson	Vice Chairman	Role changed to Senior Advisor pending retirement	Responsibilities assumed by existing GEC members

In September 2017, Rachel Lord, previously Head of Global Clients for ETF & Index Investments and Head of iShares in Europe, Middle East, and Asia ("EMEA"), became the head of BlackRock EMEA and joined the GEC.



### **Core Portfolio Management team Changes**

There were no senior level (Director-level and above) additions or departures from the BlackRock's Core Portfolio Management team, the team responsible for the management of BlackRock's Intermediate Government Bond Index Fund, over the past six months ending 30 September 2017.

### **2. Have there been any changes in the firm's investment approach?**

Yes: Please explain. /  No

BlackRock has followed the same investment philosophy of Total Performance Management for index strategies since 1971.

### **3. Have there have been any industry or regulatory disciplinary actions taken against the firm? Yes: Please explain. / No**

As a global investment manager, BlackRock Inc., and its various subsidiaries including BTC may be subject to regulatory oversight in numerous jurisdictions including examinations and various requests for information. BTC's regulators routinely provide it with comment letters at the conclusion of these examinations in which they request that BTC correct or modify certain of its practices. In all such instances, BTC has addressed, or is working to address, these requests to ensure that it continues to operate in compliance with applicable laws, statutes and regulations.

BTC also receives subpoenas or requests for information in connection with regulatory inquiries and/or investigations by its various regulators, some of which are ongoing. None of these matters has had or is expected to have any adverse impact on BTC's ability to manage its clients' assets. Please refer to BlackRock's Form ADV and SEC disclosures for additional information on regulatory matters concerning BTC or BlackRock as a whole. The recent fines related to BlackRock Inc. or BTC's investment advisory responsibilities are set forth below. These matters do not include fines paid to non-US regulators relating to the late filing of issuer-specific holdings reports.

On 8 March 2012, BlackRock Institutional Trust Company, N.A. ("BTC") entered into an Offer of Settlement (the "Agreement") with the CFTC and consented to the entry of an Order, which makes findings and imposes remedial sanctions against BTC. Without admitting or denying wrongdoing, BTC agreed to the imposition of a \$250,000 penalty and the entry of the Order to resolve allegations by the CFTC that two trades by BTC violated Section 4c(a)(1) of the Commodity Exchange Act and CFTC Regulation 1.38(a). BTC also agreed to refrain from any further violations of the above-mentioned statutory provisions. The CFTC did not allege that any clients of BTC, BlackRock or any related affiliate were harmed in any way in the execution of these two trades.

On 11 September 2012, the UK Financial Services Authority ("FSA") issued a Final Notice against BlackRock Investment Management (UK) Limited ("BIMUK"), following a settlement agreement reached between the FSA and BIMUK. The FSA found that BIMUK had breached certain provisions of the FSA's Client Money Rules and Principles, during the period 1 October 2006 to 31 March 2010, by not having trust letters in place for client money placed on money market deposit and not having adequate systems and controls for the identification and protection of client money in this respect. BIMUK agreed to a settlement payment of GBP 9,533,100 for the breach, which it had self-reported to the FSA in April 2010. The FSA final order acknowledged that no client of BIMUK (or BlackRock or any related affiliate) suffered any harm and that BIMUK had remedied the situation and put in place robust systems and controls relating to client money protection.

On 3 October 2012, BlackRock Financial Management Inc. ("BFM") reached an agreement with the U.S. Department of Labor ("DOL") to reimburse clients \$2,661,513 in connection with certain trades the DOL alleged violated Title I of the Employee Retirement Income Security Act ("ERISA"). BFM also agreed to pay to the DOL a \$266,151 penalty.

On 8 January 2014, BlackRock Inc. reached a settlement with the New York Attorney General's office ("AG") pursuant to which the AG found BlackRock's use of analyst surveys violated New York's Martin Act and Executive Law. The settlement did not involve the payment of any fine or other penalty although BlackRock paid \$400,000 to cover the AG's costs of investigation. BlackRock neither admitted nor denied the allegations, but agreed to stop using analyst surveys.

On 8 May 2014, the primary Italian securities regulator ("CONSOB") fined BlackRock Investment Management (UK) Limited ("BIMUK") 150,000 EURO (approximately \$205,826 USD) for negligent market manipulation. The fine was based on BIMUK's filing, on behalf of the BlackRock group of companies, a large shareholder report regarding its holdings in Unicredit S.p.A. to CONSOB in December 2011, that turned out to be incorrect.

On 16 September 2014, BlackRock Institutional Trust Company, N.A. ("BTC") entered into an agreement with the SEC to resolve allegations relating to three alleged violations of an SEC regulation prohibiting short sales of an equity security during the restricted period preceding a public offering. The three trades at issue occurred in 2010 and 2011. As part of the approximately \$1.7 million settlement, BTC agreed to disgorge profits from each of the violations and to pay interest and a civil penalty. BTC also agreed to cease and desist from any future violations of the rule in question.

On 20 April 2015, BlackRock Advisors, LLC ("BAL") reached a settlement with the Securities and Exchange Commission ("SEC") regarding BlackRock's handling of a former portfolio manager's personal investments and involvement in a family business, Rice Energy LP and related entities. As part of the settlement, BAL agreed to pay a \$12 million penalty and retained an independent compliance consultant to review BlackRock's policies and procedures regarding the outside activities of BlackRock's employees. There was neither an allegation by the SEC of any loss to any BlackRock investors, nor did this settlement have any adverse impact on BlackRock's ability to manage its clients' funds.

On 17 January 2017, BlackRock Inc. reached an agreement with the SEC resolving a matter regarding a provision in an old version of BlackRock's form employee separation agreement that the SEC believed violated Dodd Frank's whistleblower provisions. The settlement with the SEC included a \$340,000 payment and BlackRock agreed it would not include the provision in future agreements. In addition, BlackRock agreed to notify by letter, certain former employees who signed the agreement between October 2011 and March 2016.

On 25 April 2017, BlackRock Fund Advisors ("BFA") reached an agreement with the SEC resolving a matter regarding whether one BFA-managed ETF (the iShares MSCI Russia Capped ETF) was covered by certain exemptive relief the SEC previously granted BFA and other iShares funds. BFA, which did not admit or deny any of the SEC's findings, agreed to resolve the matter for a civil monetary penalty of \$1.5 million.

BlackRock, Inc. and its various subsidiaries, including BTC, also have been subject to certain business litigation that has arisen in the normal course of their business. Our litigation has included a variety of claims, some of which are investment-related. None of BlackRock's prior litigation has had, and none of its pending litigation currently is expected to have, an adverse impact on BlackRock's ability to manage client accounts.

In past years, BlackRock has acquired organizations that provide investment-related services, including, but not limited to, State Street Research & Management Company, Merrill Lynch Investment Managers, the fund of funds business of Quellos Group, LLC, and Barclays Global Investors. This response does not address any regulatory or litigation that arose out of conduct within the acquired organizations prior to their acquisition by BlackRock. It also does not address any regulatory or litigation unrelated to BlackRock or BTC's investment management responsibilities.

**4. Has the firm's insurance coverage been sustained?**

Yes /  No: Please explain.

BlackRock maintains the following types of global insurance coverage:

Type
Investment Advisers Professional Liability (aka Errors & Omissions Liability)
Fidelity Bond (aka Crime or Financial Institution Bond)

Although we do not disclose the insurer information and level of coverage, BlackRock only places insurance with insurers rated "Excellent" by AM Best and maintains coverage at levels that are commercially reasonable and consistent with industry peers.

### Investment Management Fees

1. Is *SamCERA's* investment management fee schedule higher than those charged other institutional clients who hold an account investment substantially similar to ours?

Yes: Please explain. /  No

### Derivative Investments

1. Are derivatives used in the management of the investment strategy?

Yes: Please ANSWER the remaining questions in this section.

No: Please SKIP the remaining questions in this section.

Derivatives are not required for the management of index fixed income strategies. Our collective investment trusts do have the flexibility to use treasury futures, but they have not been utilized historically for the proposed strategies.

2. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated?

Yes /  No: Please explain.

3. For non-exchange traded derivative transactions, were the counter-parties broker/dealers?

Yes /  No

If Yes:

a) Do the counter-parties have investment grade debt?  Yes/  No

b) Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances?  Yes/  No: Please explain.

4. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)?

Yes /  No

If Yes:

- a) Do the counter-parties have investment grade debt?  Yes/  No
- b) Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances?  
 Yes/  No: Please explain.
5. Is individual counter-party exposure well diversified?  Yes/  No: Please explain.
- a) What is the largest exposure to a single counter-party within the portfolio?
- b) Please specify the name of the counter-party and the amount of exposure.
- c) Have there been any changes to the investment manager's list of approved counter-parties over the past six months?
6. Specify the security pricing sources used when developing portfolio market value exposures for non-exchange traded derivative positions.
7. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.
8. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months.  Yes: Please explain. /  No

#### Investment Manager Guidelines

1. Are portfolio holdings well-diversified, and made in liquid securities?  
 Yes /  No: Please explain.
2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities?  Yes: Please explain. /  No

#### Domestic Fixed Income Portfolios

1. State the percentage of the portfolio held in each of the following types of securities

<i>Certificates of Deposit</i>	0%
<i>Commercial Paper</i>	0%
<i>Other high grade short-term securities</i>	0%
<i>U.S. Government &amp; Agency securities</i>	100%
<i>Corporate Bonds</i>	0%
<i>Mortgage and asset-backed securities</i>	0%

Yankee bond securities	0%
Other (please specify)	0%

2. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio?  Yes /  No:

3. Does the firm conduct horizon analysis testing?  Yes /  No: Please explain

Not applicable as this is a passive portfolio.

4. Excluding U. S. Government and Agency bond holdings, did any individual bond issue represent more than 5% of the market value of the portfolio?  Yes /  No

a) If Yes, please specify the bond issue and percentage amount.

5. Are any holdings below investment grade?  Yes /  No

a) If Yes, why are they held in the portfolio?

Signed by: Brian Velez *Brian Velez*

Dated: 1/16/18

Name of Firm: BlackRock, Inc.



***Brown Brothers Harriman Inflation Indexed Securities – December 31, 2017***

***Compliance Certification Statement***

***San Mateo County***

***Employees' Retirement Association***

In accordance with SamCERA's Investment Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office ([Investments@samcera.org](mailto:Investments@samcera.org)) by **Monday, January 8, 2018**.

**General Compliance Issues**

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*?  
 **Yes** /  **No: Please explain.**
2. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel?  
 **Yes: Please explain.** /  **No**
3. Have there been any changes in the firm's investment approach?  
 **Yes: Please explain.** /  **No**
4. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios?  
 **Yes: Please explain.** /  **No**
5. Have there have been any industry or regulatory disciplinary actions taken against the firm?  
 **Yes: Please explain.** /  **No**

**From time to time BBH becomes involved in litigation and regulatory matters typical of similar service providers in the industry. BBH currently has no pending litigation or regulatory matters that would materially affect its ability to provide the services requested.**

6. Have there been any investment guideline breaches during the prior 6 months?  
 **Yes: Please explain.** /  **No**
7. Has the firm's insurance coverage been sustained?  
 **Yes** /  **No: Please explain.**

## Investment Management Fees

1. Is *SamCERA's* investment management fee schedule higher than those charged other institutional clients who hold an account investment substantially similar to ours?  
 **Yes: Please explain.** /  **No**

## Derivative Investments

1. Are derivatives used in the management of the investment strategy?  
 **Yes: Please ANSWER the remaining questions in this section.**  
 **No: Please SKIP the remaining questions in this section.**
2. Are derivative investments in compliance with *SamCERA's* investment policies?  
 **Yes** /  **No: Please explain.**
3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated?  
 **Yes** /  **No: Please explain.**

**BBH did not enter into any non-exchange traded derivatives in the past 6 months.**

4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers?  
 **Yes** /  **No**

**Not applicable.**

**If Yes:**

- a) Do the counter-parties have investment grade debt?  **Yes**/  **No**
- b) Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances?  **Yes**/  **No: Please explain.**

5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)?  
 **Yes** /  **No**

**Not applicable.**

**If Yes:**

- a) Do the counter-parties have investment grade debt?  **Yes**/  **No**
- b) Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances?  
 **Yes**/  **No: Please explain.**

6. Is individual counter-party exposure well diversified?  **Yes**/  **No: Please explain.**

**Not applicable.**

a) What is the largest exposure to a single counter-party within the portfolio?

**Not applicable.**

b) Please specify the name of the counter-party and the amount of exposure.

**Not applicable.**

c) Have there been any changes to the investment manager's list of approved counter-parties over the past six months?

**Not applicable.**

7. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies?  **Yes** /  **No: Please explain.**

a) Has the firm developed any new purposes for derivative investments?  **Yes: Please explain.** /  **No**

8. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment.

**We have not invested in "limited allocation derivative investments" in the SamCERA portfolio.**

a) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives.  **Yes** /  **No: Please explain.**

**Not applicable**

b) State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.

**Not applicable**

9. State if any restricted derivative investments are held in *SamCERA's* portfolios.

**Yes** /  **No**

a) If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies.

10. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors?  **Yes** /  **No: Please explain.**

**Not applicable. We have not invested in "limited allocation derivative investments" in the SamCERA portfolio.**

11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement?  **Yes** /  **No: Please explain.**



12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives.

**We have not invested in “limited allocation derivative investments” in the SamCERA portfolio.**

13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

**BBH uses two derivative instruments in its Inflation Indexed Strategy, U.S. Treasury futures and foreign exchange forward contracts. U.S. Treasury futures are utilized to manage the portfolio duration independently from security selection. Typically, the duration of the portfolio is maintained in a range of +/-0.50 years relative to the benchmark. In the SamCERA portfolio, U.S. Treasury futures are further utilized to maintain the duration of the TIPS portfolio consistent with that of the Barclay’s Aggregate Index. Foreign exchange forward contracts are utilized to mitigate the currency risk associated with tactical positions in non-U.S. inflation linked debt.**

**U.S. Treasury futures are among the most liquid investments and because they are exchange traded are not subject to counterparty risk. The foreign exchange market is highly liquid with several trillion dollars of currency traded daily and a wide variety of active market participants worldwide. Within the foreign exchange market, the currencies of the forwards used in the SamCERA portfolio (EUR and GBP versus USD) are among the most actively traded.**

**Hedging activity or use of forward currency contracts may reduce the risk of loss from currency revaluations, but also may reduce or limit the opportunity for gain and involves counter party risk, which is the risk that the contracting party will not fulfill its contractual obligation to deliver the currency contracted for at the agreed upon price. Because typically no money changes hands at the outset of a forward currency contract, the counter party risk is limited to the profit or loss on the contract, it is not the notional value of the contract.**

14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months.  **Yes: Please explain.** /  **No**

### **Investment Manager Guidelines**

1. Are portfolio holdings well-diversified, and made in liquid securities?  
 **Yes** /  **No: Please explain.**
2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities?  **Yes: Please explain.** /  **No**

### **Cash & Equivalents**

1. Does the firm directly invest in short term fixed income investments?  **Yes** /  **No**

a) If **Yes**, do the investments comply with the policies?  **Yes** /  **No: Please explain.**

### **Domestic Fixed Income Portfolios**

1. State the percentage of the portfolio held in each of the following types of securities

<i>Certificates of Deposit</i>	<i>%</i>
<i>Commercial Paper</i>	<i>%</i>
<i>Other high grade short-term securities</i>	<i>%</i>
<i>U.S. Government &amp; Agency securities</i>	<i>100%</i>
<i>Corporate Bonds</i>	<i>%</i>
<i>Mortgage and asset-backed securities</i>	<i>%</i>
<i>Yankee bond securities</i>	<i>%</i>

2. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio?  **Yes** /  **No: Please explain**

3. Does the firm conduct horizon analysis testing?  **Yes** /  **No: Please explain**

4. Are any holdings below investment grade?  **Yes** /  **No**

a) If **Yes**, why are they held in the portfolio?

5. Excluding U. S. Government and Agency bond holdings, did any individual bond issue represent more than 5% of the market value of the portfolio?  **Yes** /  **No**

a) If **Yes**, please specify the bond issue and percentage amount.

6. What percentage of the portfolio is held in Rule 144A securities?

**0% as of December 31, 2017.**

7. At the time of purchase, was there any single industry which represented more than 15% of the market value of the account.  **Yes** /  **No**

a) If **Yes**, please specify the name of the industry, percentage amount and size relative to benchmark.

8. What proportion of total AUM do the assets in this product make-up of the firm? What size does SamCERA's account comprise of total product assets?

**As of November 30, 2017, BBH U.S. TIPS strategy assets made up 7.8% of BBH total AUM and the SamCERA account was 1.4% of BBH U.S. TIPS strategy assets.**

Signed by: John Ackler, CFA  
Dated: January 2, 2018  
Name of Firm Brown Brothers Harriman & Co.

## Compliance Certification Statement

### FIAM Broad Market Duration

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Firm Name	Fidelity Institutional Asset Management Trust Company (FIAMTC)
Product Name	FIAM Broad Market Duration
Asset Class	Investment Grade Credit
Respondent/Contact	Art Greenwood, SVP, Sales Relationship Manager
Address	900 Salem Street, Smithfield, RI 02917
Telephone	401-292-4729
Email Address	<a href="mailto:Art.Greenwood@fmr.com">Art.Greenwood@fmr.com</a>

*Unless otherwise disclosed to you, in providing this information, Fidelity is not undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity, in connection with any investment or transaction described herein. Fiduciaries are solely responsible for exercising independent judgment in evaluating any transaction(s) and are assumed to be capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies. Fidelity has a financial interest in any transaction(s) that fiduciaries, and if applicable, their clients, may enter into involving Fidelity's products or services.*

### General Compliance Issues

**1. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel?**

Yes: Please explain. /  No

The following changes took place over the past six months:

- Effective October 2, 2017, Mike Durbin, previously head of Fidelity Institutional Investments and Technology Solutions, succeeded Jeff Lagarce as president of Fidelity Institutional. Jeff has taken on a new role within Fidelity as a senior advisor, reporting to Abigail Johnson. With Fidelity since 2009, Mike brings a unique skillset to his new role – a deep understanding of the intermediary marketplace and our client needs, as well as knowledge of the intersecting landscapes of investment and technology solutions.
- Effective October 2, 2017, Robin Foley was named Chief Investment Officer of Bonds, succeeding Christine Thompson, who will be leaving the firm at the end of the year. Robin is a long-tenured Fidelity Fixed Income leader who brings to the role portfolio management expertise and a deep knowledge of the fixed income markets. Christine and Robin will work with co-CIO Jamie Pagliocco to transition primary areas of responsibility. They have taken a thoughtful and deliberate approach to the transition, resulting in each CIO having oversight of specific bond strategies.

**2. Have there been any changes in the firm's investment approach?**

Yes: Please explain. /  No



3. Have there have been any industry or regulatory disciplinary actions taken against the firm? Please explain.

Yes: Please explain. /  No

From time to time, in the normal course of its business, the Firm may receive inquiries (including subpoenas and voluntary requests for information) from regulatory authorities or law enforcement. A regulator may conduct an onsite examination or may commence an investigation.

The Firm does not make public comment about such inquiries, examinations or investigations unless, and until, a regulatory body initiates enforcement proceedings. To the extent the Firm's securities affiliates have been sanctioned, fined, or cited by the Securities and Exchange Commission (SEC), Financial Industry Regulatory Authority (FINRA), or any other regulatory body, any such sanction, fine or citation has been disclosed in its affiliates' Forms BD and/or Forms ADV in accordance with the requirements of such forms.

4. Has the firm's insurance coverage been sustained?

Yes /  No: Please explain.

### Investment Management Fees

1. Is *SamCERA's* investment management fee schedule higher than those charged other institutional clients who hold an account investment substantially similar to ours?

Yes: Please explain. /  No

### Derivative Investments

1. Are derivatives used in the management of the investment strategy?

Yes: Please ANSWER the remaining questions in this section.

No: Please SKIP the remaining questions in this section.

2. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated?

Yes /  No: Please explain.

3. For non-exchange traded derivative transactions, were the counter-parties broker/dealers?

Yes /  No

If Yes:

a) Do the counter-parties have investment grade debt?  Yes/  No

b) Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances?  Yes/  No: Please explain.

San Mateo County Employees' Retirement Association | Compliance Certification Statement

4. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)?

Yes /  No

If Yes:

a) Do the counter-parties have investment grade debt?  Yes/  No

b) Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances?

Yes/  No: Please explain.

5. Is individual counter-party exposure well diversified?  Yes/  No: Please explain.

a) What is the largest exposure to a single counter-party within the portfolio?

b) Please specify the name of the counter-party and the amount of exposure.

c) Have there been any changes to the investment manager's list of approved counter-parties over the past six months?

We consider this to be proprietary information and are therefore unable to disclose.

6. Specify the security pricing sources used when developing portfolio market value exposures for non-exchanged traded derivative positions.

Fidelity Pricing & Cash Management Services (FPCMS) utilizes a combination of sources for derivatives pricing. Wall Street brokers are our primary sources for swaps. Bloomberg is our primary pricing source for futures.

7. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

All derivative instruments used in the portfolio are liquid. Given the minimum role they play in the portfolio and the extensive research conducted by the Counterparty Risk Team and the large team of in-house and external lawyers that support these efforts, we feel the legal and regulatory risks are minimal.

8. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months.  Yes: Please explain. /  No

### Investment Manager Guidelines

1. Are portfolio holdings well-diversified, and made in liquid securities?

Yes /  No: Please explain.

2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities?

Yes: Please explain. /  No

## Domestic Fixed Income Portfolios

**1. State the percentage of the portfolio held in each of the following types of securities:**

Certificates of Deposit	0.0%
Commercial Paper	0.0%
Other High Grade Short-term securities	3.5%
U.S. Government & Agency securities	42.0%
Corporate Bonds	23.0%
Mortgage- and asset-backed securities	23.6%
Yankee bond securities	5.0%

**2. Does the firm conduct horizon analysis testing?  Yes /  No: Please explain.**

Scenario Analysis is performed at both the security and portfolio level. We perform scenario analysis on a daily basis for most fixed-income securities in our universe. There are 13 interest-rate scenarios consisting of unchanged, shift, and twist yield curve movements. We also allow for interactive analysis, incorporating spread changes into the estimated scenarios. We also test for technical market variables such as reduced liquidity. The diversification of our portfolios is designed for different parts of the portfolio to respond in varying, complementary fashions to different economic and interest rate outcomes.

**3. Are any holdings below investment grade?  Yes /  No**

**a) If Yes, why are they held in the portfolio?**

As of December 31, 2017, 1.6% of holdings in the portfolio were below investment grade. Purchased as investment grade, these holdings have been downgraded due to increased leverage or other fundamental credit criteria. We still feel they hold relative value, although we are monitoring these securities closely.

**4. Excluding U. S. Government and Agency bond holdings, did any individual bond issue represent more than 5% of the market value of the portfolio?  Yes /  No**

**a) If Yes, please specify the bond issue and percentage amount.**

Not applicable.

**5. What percentage of the portfolio is held in Rule 144A securities?**

3.1% of the portfolio was held in Rule 144A securities, as of December 31, 2017.

**San Mateo County Employees' Retirement Association I** Compliance Certification Statement

6. At the time of purchase, was there any single industry which represented more than 15% of the market value of the account.  Yes /  No

a) If Yes, please specify the name of the industry, percentage amount and size relative to benchmark.

Not applicable.

7. What proportion of total AUM do the assets in this product make-up of the firm? What size does SamCERA's account comprise of total product assets?

As of December 31, 2017, the SamCERA Broad Market Duration pool account represents <1% of the assets in the Broad Market Duration strategy and less than 1% of total FIAM assets.

Signature: 

Signed by: Jeff Goretti, Vice President, Relationship Management

Dated: December 31, 2017

Name of Firm: Fidelity Institutional Asset Management Trust Company (FIAMTC)



## ***PIMCO Diversified Income Fund – December 31, 2017***

### ***Compliance Certification Statement***

***San Mateo County***

***Employees' Retirement Association***

In accordance with SamCERA's Investment Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office ([Investments@samcera.org](mailto:Investments@samcera.org)) by **Monday, January 8, 2018.**

#### **General Compliance Issues**

*The Fund you are invested in is an investment company registered under the Investment Company Act of 1940 ("1940 Act"), which prohibits selective disclosure of information to some investors and not to others. Therefore, we cannot respond directly to your inquiry.*

*For additional information please reference the attached compliance letter, Fund Prospectus and Statement of Additional Information.*

1. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel?

**Yes: Please explain.** /  **No**

#### ***Firm Ownership***

*During the past two quarters ending December 31, 2017, there were no changes to the ownership structure of the firm.*

#### ***Organizational Structure and Personnel***

##### **Partnerships**

*In December 2017, PIMCO announced a partnership with Artivest, a fintech firm that creates technology and feeder fund solutions that seek to simplify the process of investing in private alternative funds. Through a PIMCO branded web portal hosted by Artivest, set to be launched in early 2018, qualified investors that currently do not meet PIMCO's stated minimums will be able to access select private funds. We believe investors can benefit from greater access and a more streamlined process for investing in select PIMCO private alternative funds.*

##### **Strategic Enhancements**

*In July 2017, PIMCO became a Founding Partner of IMPACT 2030, a newly launched initiative that supports the United Nations' 17 Sustainable Development Goals (SDGs) through volunteerism. As a Founding Partner, PIMCO will be advising the United Nations on how the private sector can collectively work to achieve the SDGs through focused efforts*

*of employee volunteers. PIMCO is pleased to be teaming up with the U.N. and other stakeholders to make the world a healthier, more prosperous, more peaceful place.*

*In January 2017, PIMCO launched a dedicated Environmental Social Governance (ESG) investment platform globally, offering a range of fixed income solutions to investors seeking attractive return potential while making a positive social impact. As part of this platform, the firm enhanced two of its existing socially responsible funds in the U.S. to incorporate a wider range of ESG considerations in the investment process. In addition, we launched an ESG globally focused fund in Europe.*

#### Leadership

*PIMCO's President, Jay Jacobs, retired in September of 2017 after a 19-year career at the firm. He will continue to serve the firm as an advisor to the CEO. His responsibilities were assumed by Managing Directors Robin Shanahan and Peter Strelow, who will serve as Co-Chief Operating Officers. Robin previously served as PIMCO's Head of Human Resources, and has been with PIMCO since 2007. Peter previously served as PIMCO's Chief Administrative Officer and global head of funds, and has been with PIMCO since 2003.*

2. Have there been any changes in the firm's investment approach?

**Yes: Please explain.** /  **No**

*Please refer to the attached Fund Prospectus and/or Statement of Additional Information.*

3. Have there have been any industry or regulatory disciplinary actions taken against the firm?

**Yes: Please explain.** /  **No**

*Please reference the attached compliance letter.*

4. Has the firm's insurance coverage been sustained?

**Yes** /  **No: Please explain.**

*Please reference the attached compliance letter.*

#### **Investment Management Fees**

1. Is *SamCERA's* investment management fee schedule higher than those charged other institutional clients who hold an account investment substantially similar to ours?

**Yes: Please explain.** /  **No**

*Please refer to the attached Fund Prospectus and/or Statement of Additional Information.*

#### **Derivative Investments**

1. Are derivatives used in the management of the investment strategy?

**Yes: Please ANSWER the remaining questions in this section.**

**No: Please SKIP the remaining questions in this section.**

*Please refer to the attached Fund Prospectus and/or Statement of Additional Information.*

2. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated?  
 **Yes /**  **No: Please explain.**

*Please refer to the attached Diversified Income Fund Semiannual Report*

3. For non-exchange traded derivative transactions, were the counter-parties broker/dealers?  
 **Yes /**  **No**

**If Yes:**

- a) Do the counter-parties have investment grade debt?  **Yes/**  **No**  
b) Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances?  **Yes/**  **No: Please explain.**

*Please refer to the attached Diversified Income Fund Semiannual Report*

4. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)?  
 **Yes /**  **No**

**If Yes:**

- a) Do the counter-parties have investment grade debt?  **Yes/**  **No**  
b) Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances?  
 **Yes/**  **No: Please explain.**

*Please refer to the attached Diversified Income Fund Semiannual Report*

5. Is individual counter-party exposure well diversified?  **Yes/**  **No: Please explain.**  
a) What is the largest exposure to a single counter-party within the portfolio?  
b) Please specify the name of the counter-party and the amount of exposure.  
c) Have there been any changes to the investment manager's list of approved counter-parties over the past six months?

*Please refer to the attached Diversified Income Fund Semiannual Report*

6. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives.

*Please refer to the attached PIMCO Pricing Policy.*

7. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

*Please refer to the attached PIMCO's Use of Derivatives*

8. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months.  **Yes: Please explain.** /  **No**

### **Investment Manager Guidelines**

1. Are portfolio holdings well-diversified, and made in liquid securities?  
 **Yes** /  **No: Please explain.**
2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities?  **Yes: Please explain.** /  **No**

*The Fund is permitted to engage in short sales as allowed by the Fund's Prospectus and Statement of Additional Information, which are attached for reference.*

### **Domestic Fixed Income Portfolios**

1. State the percentage of the portfolio held in each of the following types of securities

<i>Treasury</i>	<i>%</i>
<i>Agency</i>	<i>%</i>
<i>Inflation-Linked</i>	<i>%</i>
<i>Mortgage-Backed</i>	<i>%</i>
<i>Asset-Backed</i>	<i>%</i>
<i>Investment-Grade Credit</i>	<i>%</i>
<i>High-Yield Credit</i>	<i>%</i>
<i>Bank Loan</i>	<i>%</i>
<i>Non-US</i>	<i>%</i>
<i>EM Government</i>	<i>%</i>
<i>EM Local Currency</i>	<i>%</i>
<i>EM Corporate</i>	<i>%</i>
<i>Cash &amp; Equivalents</i>	<i>%</i>
<i>Total</i>	<i>%</i>

*Please refer to the attached Bond Statistics Report as of 11/30/2017*

2. Does the firm conduct horizon analysis testing?  **Yes** /  **No: Please explain.**

*Not applicable for mutual funds*

3. Excluding U. S. Government and Agency bond holdings, did any individual bond issue represent more than 5% of the market value of the portfolio?  Yes /  No

*Please refer to the attached Holdings Report as of 9/30/2017*

a) If **Yes**, please specify the bond issue and percentage amount.

4. What percentage of the portfolio is held in Rule 144A securities?

*Please reference the attached compliance letter.*

5. At the time of purchase, was there any single industry which represented more than 15% of the market value of the account.  Yes /  No

*Please refer to the attached Holdings Report as of 9/30/2017*

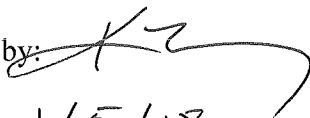
a) If **Yes**, please specify the name of the industry, percentage amount and size relative to benchmark.

6. What proportion of total AUM do the assets in this product make-up of the firm? What size does SamCERA's account comprise of total product assets?

*As of 9/30/2017, the Fund represented 0.23% of the Firm's AUM.*

*As of 12/31/2017, SamCERA's account represented 2.68% of Fund assets.*

Signed by:



Dated: 1/5/18

Name of Firm: PIMCO

***INVESCO Core Real Estate – December 31, 2017***

***Compliance Certification Statement***

***San Mateo County***

***Employees' Retirement Association***

In accordance with SamCERA's Investment Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office ([Investments@samcera.org](mailto:Investments@samcera.org)) by **Monday, January 8, 2018.**

**General Compliance Issues**

1. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm?  
 **Yes** /  **No: Please explain.**
2. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel?  
 **Yes: Please explain.** /  **No**
3. Have there been any changes in the firm's investment approach?  
 **Yes: Please explain.** /  **No**
4. Have there have been any industry or regulatory disciplinary actions taken against the firm?  
 **Yes: Please explain.** /  **No**
5. Has the firm's insurance coverage been sustained?  
 **Yes** /  **No: Please explain.**

**Investment Management Fees**

1. Is *SamCERA's* investment management fee schedule higher than those charged other institutional clients who hold an account investment substantially similar to ours?  
 **Yes: Please explain.** /  **No**

**Investment Manager Guidelines**


1. Are portfolio holdings well-diversified?  **Yes** /  **No: Please explain.**
2. Has the firm used leverage?  **Yes: Please explain.** /  **No - The maximum leverage for the Fund is 35%. As of September 30, 2017, the Fund's leverage was 26.0%.**

**Cash & Equivalents**

1. Does the firm directly invest in short term fixed income investments?  Yes /  No
- a) If Yes, do the investments comply with the policies?  Yes /  No: Please explain.

**Real Estate Portfolios**

1. Is the portfolio diversified as to region, property type, industry, and economic base?  
 Yes /  No
- a) If No, do the investments comply with the policies?
2. Is the portfolio achieving a total time-weighted rate of return, net of fees, which equals or exceeds, the NFI ODCE index?  Yes /  No: Please explain. **As of September 30, 2017 the Fund's since inception net return of 7.48% exceeds the net return of the NFI ODCE index of 6.99%**
3. Does the core fund concentration exceed 40% (by value) in any single property type or 35% in any single metropolitan statistical area, determined as of the date of the acquisition of the property?  Yes: Please explain. /  No
4. Is the portfolio leverage within the 35% of overall loan to value guideline?  
 Yes /  No: Please explain.
5. What proportion of total AUM do the assets in this product make-up of the firm? - **18.5%**  
What size does SamCERA's account comprise of total product assets? - **2.87%**

  
Signed by: William C Grubbs Jr, Vice President  
Dated: January 5, 2018  
Name of Firm: Invesco Realty, Inc., parent of Invesco Core Real Estate – U.S.A., L.P.'s general partner

*The Parametric Portfolio Associates LLC Cash Overlay – December 31, 2017*

*Compliance Certification Statement*

*San Mateo County*

*Employees' Retirement Association*

In accordance with SamCERA's Investment Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office ([Investments@samcera.org](mailto:Investments@samcera.org)) by **Monday, January 8, 2018.**

**General Compliance Issues**

1. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel?  
 **Yes: Please explain.** /  **No**
2. Have there been any changes in the firm's investment approach?  
 **Yes: Please explain.** /  **No**
3. Have there have been any industry or regulatory disciplinary actions taken against the firm?  
 **Yes: Please explain.** /  **No**
4. Has the firm's insurance coverage been sustained?  
 **Yes** /  **No: Please explain.**

**Investment Management Fees**

1. Is *SamCERA's* investment management fee schedule less favorable than those charged other institutional clients who hold an account investment substantially similar to ours?  
 **Yes: Please explain.** /  **No**

**Derivative Investments**

1. Are derivatives used in the management of the investment strategy?  
 **Yes: Please ANSWER the remaining questions in this section.**  
 **No: Please SKIP the remaining questions in this section.**
2. Are derivative investments in compliance with *SamCERA's* investment policies?  
 **Yes** /  **No: Please explain.**



3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated?  
 Yes /  No: **Please explain. Not Applicable**

4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers?  
 Yes /  No **Not Applicable**

If Yes:

- a) Do the counter-parties have investment grade debt?  Yes/  No
- b) Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances?  Yes/  No: **Please explain.**

5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)?  
 Yes /  No **Not Applicable**

If Yes:

- a) Do the counter-parties have investment grade debt?  Yes/  No
- b) Do the counter-parties have total assets in excess of \$1 billion, and significant net capital to protect against potential adverse market circumstances?  
 Yes/  No: **Please explain.**

6. Is individual counter-party exposure well diversified?  Yes/  No: **Please explain. Not Applicable**

- a) What is the largest exposure to a single counter-party within the portfolio?
- b) Please specify the name of the counter-party and the amount of exposure.
- c) Have there been any changes to the investment manager's list of approved counter-parties over the past six months?

7. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies?  Yes /  No: **Please explain.**

a) Has the firm developed any new purposes for derivative investments?  Yes: **Please explain.** /  No

8. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. **Not Applicable**

- a) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives.  Yes /  No: **Please explain.**
- b) State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.

9. State if any restricted derivative investments are held in *SamCERA's* portfolios.

Yes /  No

a) If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies.

10. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors?  Yes /  No: **Please explain.**

**Not Applicable**

11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement?  Yes /  No: **Please explain.**

12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives.

Parametric does not invest in limited allocation derivatives as defined in the derivatives policy for the Sam CERA account. However, the pricing source for exchange traded futures reference the closing price on the exchange in which the particular futures trade upon.

13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

Parametric seeks to only hold investment instruments that would be deemed as liquid. Futures provide a transparent and relatively low risk investment exposure management vehicle to use in managing overlay strategies. There are currently numerous liquid global equity, fixed income, commodity, and currency exchange-traded index futures available for use in an overlay program. Before specific futures contracts to be included in a client's overlay portfolio are approved, the instrument is evaluated and screened to ensure adequate liquidity, focusing on open interest, average daily trading volume, bid/ask spread, and liquidity of the underlying index. As Parametric manages approximately over 180 overlay programs and has relationships with numerous counterparties trading in global markets, we have developed a deep knowledge of liquidity levels of markets throughout the world. The primary gauges of liquidity are the average daily volume (ADV) and open interest metrics. Parametric carefully monitors liquidity and estimated costs internally and through external (i.e. broker) sources. As a general rule, the greater the amount ADV and open interest, the greater the liquidity and lower the transaction costs.

Parametric continuously monitors these metrics and will only use contracts which have sufficient liquidity to support the required positions. Parametric will also tailor the instruments employed in the overlay program based upon each client's unique needs and objectives.

Parametric's compliance program is designed to reasonably address all known conflicts of interests and other additional specific risks that have been identified through an annual risk assessment or a change in business or regulatory matters. These include legal and regulatory risks. Adherence to all legal and regulatory matters is considered to be an integral part of each employee's primary job functions. Every employee is required to share in maintaining and enforcing compliance with all applicable internal and external rules.

14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months.  **Yes: Please explain.** /  **No**

A handwritten signature in black ink, appearing to be the name 'Benjamin Hammes', written in a cursive style.

Signed by: Benjamin Hammes; Deputy Chief Compliance Officer

Dated: 1/8/18

Name of Firm Parametric Portfolio Associates LLC

***Verus Investments– December 31, 2017***

***Compliance Certification Statement***

***San Mateo County***

***Employees' Retirement Association***

Please complete the following compliance certification statement and e-mail to *SamCERA* ([Investments@samcera.org](mailto:Investments@samcera.org)) by **Monday, January 8, 2018.**

**General Compliance Issues**

1. Have there been any significant changes in firm ownership, organizational structure and firm leadership team personnel?

**Yes: Please explain.** /  **No**

2. Have there been any changes to the general consulting, private markets consulting & research, public markets research, or risk advisory personnel?

**Yes: Please explain.** /  **No**

Senior private markets analyst Derek Kong left to join Goldman Sachs in New York City in December 2017. We will be replacing him and have started a search process.

3. Have there have been any industry or regulatory non-routine investigations, examinations, complaints, disciplinary actions or other proceeding against the firm or any investment professionals employed by the firm?  **Yes: Please explain.** /  **No**

4. Has the firm maintained its status as a Registered Investment Advisory under the Investment Advisors Act of 1940?

**Yes** /  **No: Please explain.**

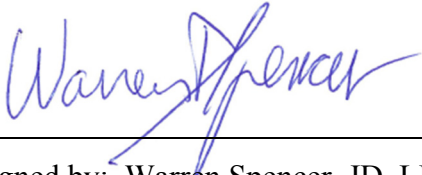
5. Has the firm's insurance coverage been sustained?

**Yes** /  **No: Please explain.**

## Fees

1. Is *SamCERA*'s fee structure less favorable than other clients with the same level of service and access to investment opportunities?

**Yes: Please explain.** /  **No**



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Signed by: Warren Spencer, JD, LLM


Dated: December 18, 2017

Name of Firm: Verus Advisory, Inc.

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

January 23, 2018

Agenda Item 5.2

**TO:** Board of Retirement   
**FROM:** Scott Hood, Chief Executive Officer  
**SUBJECT:** Adoption of Cost of Living Adjustments (COLAs) for 2018

**Recommendation**

Approve resolution adopting the Cost of Living Adjustments as recommended by Milliman, Inc.

**Discussion**

Annual COLAs to SamCERA benefits are calculated pursuant to the County Employees Retirement Law (CERL) which requires that COLAs be based on the change in the Consumer Price Index for the Bay Area provided by the U.S. Bureau of Labor Statistics and rounded to the nearest one half of one percent.

Milliman, Inc. has calculated the annual COLAs for each retirement tier and plan for approval by the Board. As reflected in the attached letter, Milliman reports that the CPI increased 3.22% during 2017. Rounded to the nearest one half of one percent, this yields a COLA of 3.0% for Plan 1 and 2 members and a COLA of 2% for Plan 4, 5, 6 and 7 if they retire before April 2, 2018.

All COLAs will be paid beginning with the April 2018 benefit payments.

**Attachments**

January 16, 2018 letter from Milliman, Inc.

Resolution Adopting Cost of Living Adjustments Effective April 1, 2018 as Recommended by Milliman, Inc.



1301 Fifth Avenue  
Suite 3800  
Seattle, WA 98101-2605  
USA

Tel +1 206 624 7940  
Fax +1 206 623 3485

milliman.com

**VIA EMAIL ONLY**

January 16, 2018

Mr. Scott Hood  
Chief Executive Officer  
San Mateo County Employees' Retirement Association  
100 Marine Parkway, Suite 125  
Redwood Shores, CA 94065-5208

Re: Annual COLA Payable in 2018

Dear Scott:

The San Mateo County Employees' Retirement Association (SamCERA) provides a Cost-of-Living Adjustment (COLA) to retirees and beneficiaries who retired on or before April 1 of each year in accordance with Article 16.5 of the County Employees' Retirement Law of 1937 (CERL). This letter outlines the COLA percentage and changes to the COLA Bank to be adopted by the Board and effective in April of 2018.

**Inflation Index**

The first step in the calculation process is the measurement of inflation. The calculation of the annual COLA is specified in the CERL. For Plan 1 General and Safety members, the COLA is governed by Section 31870.2. For Plan 1 Probation and all Plan 2 members, the details of the COLA are provided under Section 31870.1. For Plan 4-7 members, the COLA is governed by Section 31870. Plan 3 members do not receive any COLA under Article 16.5 of the CERL.

Section 31870.2 says that the COLA should be calculated using...

...the cost of living as of January 1<sup>st</sup> of each year as shown by the then current Bureau of Labor Statistics Consumer Price Index for All Urban Consumers for the area in which the county seat is situated...

Identical language appears in Sections 31870 and 31870.1 of the CERL. The Retirement Board has adopted the Annual Average Consumer Price Index for All Urban Consumers (CPI-U) for the San Francisco-Oakland-San Jose area (Base Period: 1982-84=100) as the basis for making the annual adjustments. This index increased by 3.22% during the 2017 calendar year, from an index value of 266.344 in 2016 to an index value of 274.924 in 2017.

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.

## COLA and COLA Bank

The annual COLA that SamCERA retirees and beneficiaries are eligible to receive is based on the change in the consumer price index rounded to the nearest one-half of one percent (subject to the maximum COLAs specified in relevant sections of the CERL). We recommend that the SamCERA Board adopt the following items to take effect in April 2018:

- COLA percentage
  - Plan 1. Each retiree and beneficiary who retired on or before April 1, 2018 will receive a Cost-of-Living Adjustment in accordance with the following table.

Date of Retirement	General	Safety	Probation
All Dates	3.0%	3.0%	3.0%
  - Plan 2. Each retiree and beneficiary who retired on or before April 1, 2018 will receive a Cost-of-Living Adjustment of 3.0%.
  - Plan 3. No Cost-of-Living Adjustment is provided to Plan 3 retirees and beneficiaries.
  - All Other Plans. Each retiree and beneficiary who retired on or before April 1, 2018 will receive a Cost-of-Living Adjustment of 2.0%, the maximum increase under CERL 31870.
- COLA Bank. COLA Banks are unchanged for all Plan 1 retirees and beneficiaries. After the payment of the April 2018 COLA, all Plan 1 retirees and beneficiaries will have COLA Bank balances of 0.0%. (Note that under no circumstances may the COLA Bank be reduced below 0.0%.) Retirees and beneficiaries in other plans do not accumulate COLA Banks in accordance with Section 31874.4 of the CERL.

## Certification

Milliman's work product was prepared exclusively for the use or benefit of SamCERA for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning SamCERA's operations. It is not for the use or benefit of any third party for any purpose. 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.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

The signing actuaries are independent of the plan sponsors. We are not aware of any relationship that would impair the objectivity of our work.

We are members of the American Academy of Actuaries and Associates of the Society of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.





Mr. Scott Hood  
January 16, 2018  
Page 3

Please let us know if you have any questions or need any additional information.

Sincerely,

A handwritten signature in black ink that reads 'Nick Collier'.

Nick J. Collier, ASA, EA, MAAA  
Consulting Actuary

NC/CG/nlo

cc: Ms. Gladys Smith

A handwritten signature in black ink that reads 'Craig Glyde'.

Craig Glyde, ASA, EA, MAAA  
Consulting Actuary

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

RESOLUTION 2018- \_\_

**RESOLUTION ADOPTING COST OF LIVING ADJUSTMENTS EFFECTIVE APRIL 1, 2018  
AS RECOMMENDED BY MILLIMAN, INC.**

**WHEREAS**, Government Code Sections 31870, 31870.1, 31870.2 and 31874.4 authorize the Board to grant cost of living adjustments on an annual basis to recipients of SamCERA benefits; and

**WHEREAS**, the Board has retained Milliman, Inc. to provide actuarial services to the Board; and

**WHEREAS**, Milliman, Inc., by its letter dated January 16, 2018, has provided the appropriate annual cost of living adjustments for benefits based on the member's retirement tier, date of retirement; and applicable County Employees Retirement Law (CERL) statute, therefore, be it

**RESOLVED**, that the Board adopts the schedules of cost of living adjustments set forth in the January 16, 2018, letter from Nick J. Collier, Consulting Actuary, Milliman, Inc., to Chief Executive Officer Scott Hood, therefore, be it further

**RESOLVED**, that the Board hereby adopts said cost of living adjustments effective April 1, 2018. Be it further

**RESOLVED**, that the Chief Executive Officer is hereby authorized and directed to take all actions necessary to provide for the payment of cost of living adjustments in accordance with the adopted schedules.

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

January 23, 2018

Agenda Item 6.1

**TO:** Board of Retirement *Michael R Coultrip*

**FROM:** Michael Coultrip, Chief Investment Officer

**SUBJECT:** Preliminary Monthly Portfolio Performance Report for the Period Ended December 31, 2017

**Recommendation**

Accept the preliminary performance report dated December 31, 2017.

**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 AQR Risk Parity, AQR Delta, PanAgora Risk Parity, and Beach Point Select. The quarterly performance metrics are not yet available for our private equity, private credit, private real asset, and real estate portfolios. The performance for these portfolios will be reflected in the quarterly performance report generated by Verus.

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 December was 1.1%, bringing the preliminary trailing twelve-month return ending December 2017 to 14.6% net. The twelve-month net return is below SamCERA's Plan Benchmark return of 15.6%, but is higher than SamCERA's Actuarial Assumed Earnings Rate of 6.75%.

December was yet another good month for risk assets, with higher global equity prices, subdued market volatility, and tightening credit spreads producing generally positive returns. The broad U.S. equity market (as measured by the Russell 1000 Index) was up 1.1%, while developed international equity (as measured by MSCI EAFE) was up 1.6%. Emerging markets were also higher by 3.6%.

Economic data continued to show strength, especially with manufacturing and the labor market, while consumer confidence fell from a 17-year high but still remaining healthy. As expected, the Federal Reserve raised its benchmark interest rate by 25 basis points. In addition, Congress passed and the President signed a tax cut bill into law. Analysts are expecting lower corporate tax rates to

increase earnings of U.S. companies. Inflation remained low in December but there are signs of inflation pressures potentially growing.

The general U.S. fixed income market was up 0.5% during the month, as tighter credit spreads produced positive returns. The 10-year U.S. Treasury yield was unchanged during the month, with the yield ending at 2.4% by month-end. Short rates continued to increase, resulting in a continuation of the yield curve flattening.

**Attachments**

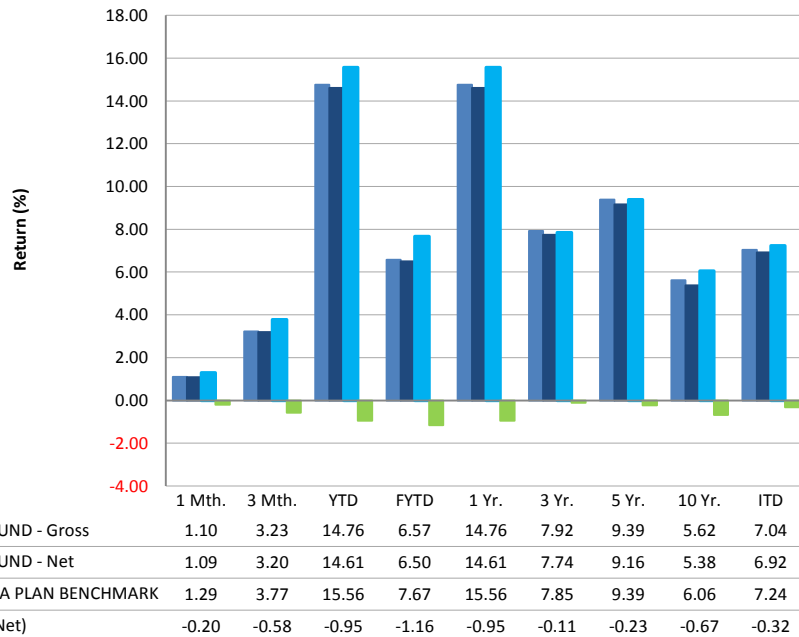
Northern Trust Performance Report  
Verus Capital Markets Update

# San Mateo County Total Fund Characteristics

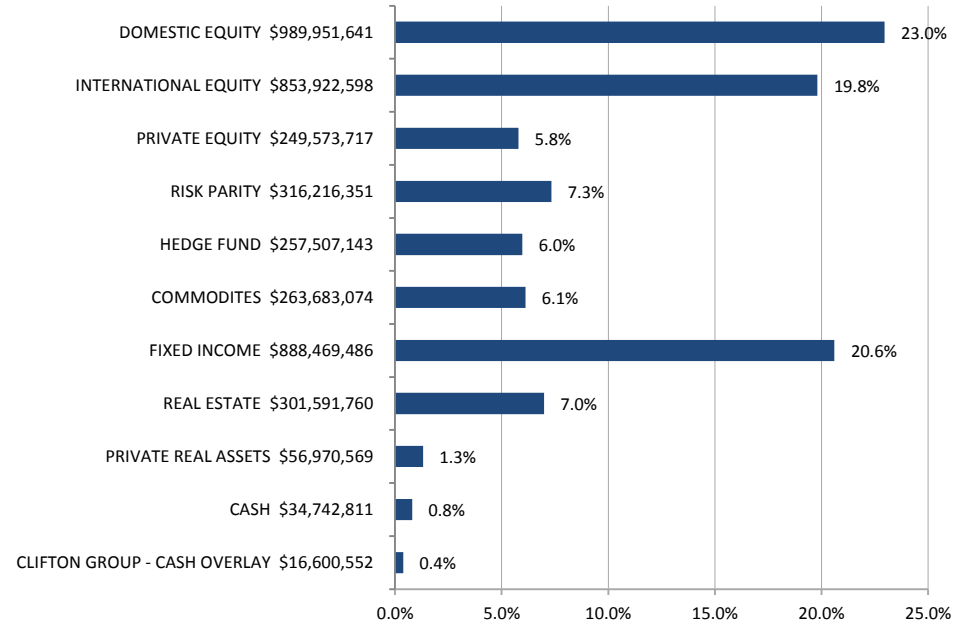


December 31, 2017

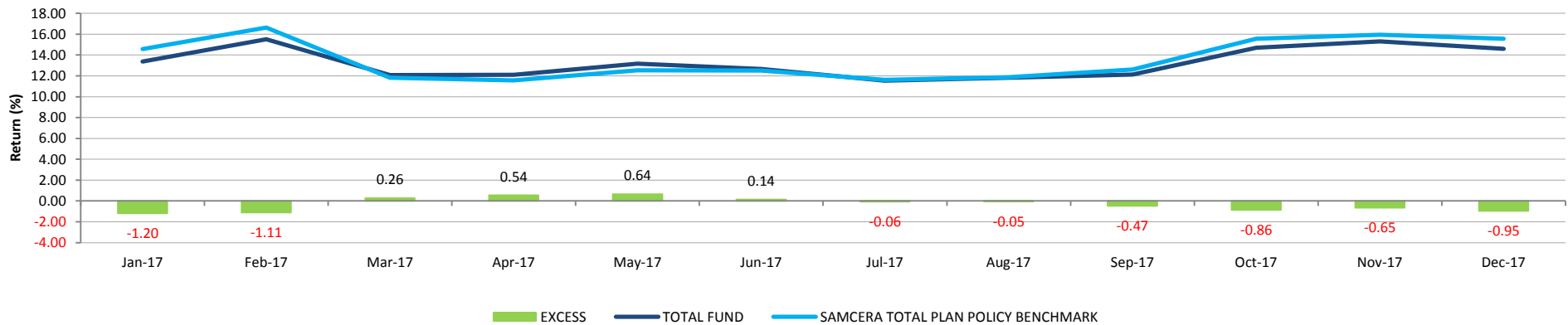
### Total Fund Performance



### Asset Allocation



### Rolling Month End Annual Returns

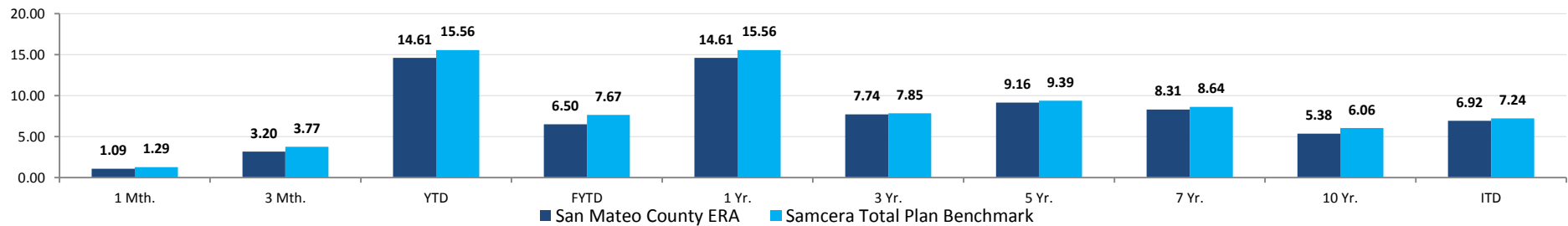


# San Mateo County Composite Return Summary



December 31, 2017

Return Comparison



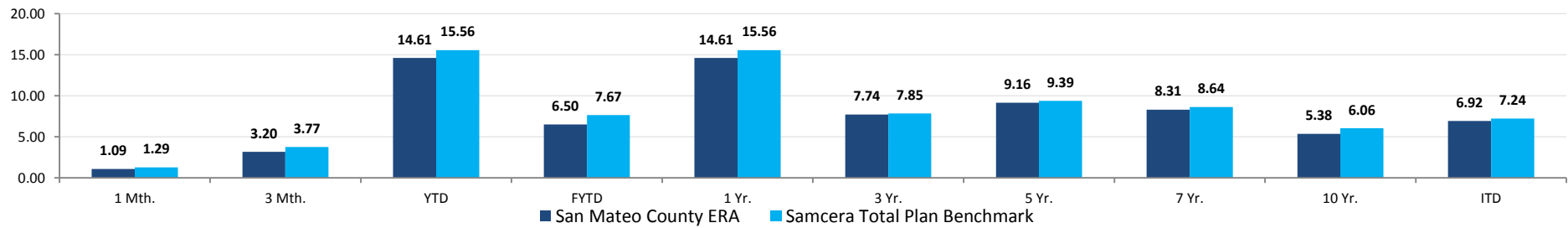
Composite Returns (Net of Manager Fees) Market Value (\$)		1 Mth.	3 Mth.	YTD	FYTD	1 Yr.	3 Yr.	5 Yr.	7 Yr.	10 Yr.	ITD
San Mateo County ERA	4,311,631,453	1.09	3.20	14.61	6.50	14.61	7.74	9.16	8.31	5.38	6.92
Samcera Total Plan Benchmark		1.29	3.77	15.56	7.67	15.56	7.85	9.39	8.64	6.06	7.24
Excess		-0.20	-0.58	-0.95	-1.16	-0.95	-0.11	-0.23	-0.33	-0.67	-0.32
San Mateo Ex-Clifton Overlay	4,295,030,901	1.08	3.23	14.50	6.48	14.50	7.62	9.07	8.27	5.29	6.85
Samcera Total Plan Benchmark		1.29	3.77	15.56	7.67	15.56	7.85	9.39	8.64	6.06	7.24
Excess		-0.20	-0.55	-1.06	-1.18	-1.06	-0.23	-0.32	-0.37	-0.76	-0.39
Total Equity	1,843,874,239	1.45	5.23	24.37	10.62	24.37	10.14	12.44	10.25	5.74	8.04
Samcera Total Equity Benchmark		1.29	6.06	22.41	11.27	22.41	10.64	13.41	11.12	6.91	8.61
Excess		0.17	-0.83	1.96	-0.64	1.96	-0.50	-0.96	-0.87	-1.18	-0.57
Fixed Income	888,469,486	0.49	0.55	6.14	1.81	6.14	4.21	3.62	5.02	5.30	5.65
Samcera Fixed Income Benchmark		0.31	0.31	4.79	1.56	4.79	3.15	2.20	3.60	4.30	5.09
Excess		0.19	0.24	1.35	0.25	1.35	1.06	1.41	1.41	1.01	0.56
Risk Parity	316,216,351	1.52	4.54	14.84	8.38	14.84	6.32	5.60	--	--	6.85
Samcera Risk Parity Benchmark		0.99	3.44	14.52	6.79	14.52	7.86	10.28	--	--	9.21
Excess		0.53	1.10	0.32	1.59	0.32	-1.54	-4.68	--	--	-2.36

# San Mateo County Composite Return Summary



December 31, 2017

Return Comparison



Composite Returns (Net of Manager Fees) Market Value (\$)	1 Mth.	3 Mth.	YTD	FYTD	1 Yr.	3 Yr.	5 Yr.	7 Yr.	10 Yr.	ITD	
Hedge Fund Composite	257,507,143	1.15	1.49	4.93	4.32	4.93	5.31	6.49	--	--	5.19
Samcera LIBOR + 4%		0.43	1.28	5.07	2.59	5.07	4.58	4.42	--	--	4.38
Excess		0.72	0.21	-0.14	1.73	-0.14	0.73	2.07	--	--	0.81
Private Real Assets	56,970,569	-0.04	-5.87	-4.24	-7.90	-4.24	--	--	--	--	20.57
SamCera Custom Real Asset Inde		2.55	4.66	14.00	10.50	14.00	--	--	--	--	15.10
Excess		-2.59	-10.54	-18.24	-18.40	-18.24	--	--	--	--	5.47
Real Estate	301,591,760	0.00	1.57	5.98	1.69	5.98	--	--	--	--	8.41
Samcera NCREIF ODCE EW (gross)		1.89	1.89	7.52	3.82	7.52	--	--	--	--	8.15
Excess		-1.89	-0.32	-1.54	-2.13	-1.54	--	--	--	--	0.27
Cash	34,742,811	0.14	0.24	0.53	0.44	0.53	0.58	0.58	0.61	0.47	1.98
Samcera Cash Benchmark		0.11	0.28	0.86	0.55	0.86	0.41	0.27	0.22	0.39	1.83
Excess		0.03	-0.05	-0.32	-0.11	-0.32	0.16	0.32	0.39	0.08	0.15

# San Mateo County Manager Return Summary



December 31, 2017

Composite Returns (NET)	Market Value (\$)	1 Mth.	3 Mth.	YTD	FYTD	1 Yr.	3 Yr.	5 Yr.	7 Yr.	10 Yr.	ITD
Total Equity	1,843,874,239	1.45	5.23	24.37	10.62	24.37	10.14	12.44	10.25	5.74	8.04
Samcera Total Equity Benchmark		1.29	6.06	22.41	11.27	22.41	10.64	13.41	11.12	6.91	8.61
Excess		0.17	-0.83	1.96	-0.64	1.96	-0.50	-0.96	-0.87	-1.18	-0.57
Domestic Equity	989,951,641	0.86	5.91	22.33	11.23	22.33	11.12	14.99	12.68	7.93	8.81
Samcera Dom. Equity Benchmark		1.00	6.34	21.13	11.20	21.13	10.96	15.41	13.27	8.66	9.16
Excess		-0.14	-0.43	1.20	0.03	1.20	0.16	-0.42	-0.59	-0.72	-0.35
Large Cap Equity	860,028,828	1.06	6.51	24.02	11.74	24.02	12.05	15.83	13.24	8.16	9.57
Russell 1000		1.11	6.59	21.69	11.36	21.69	11.23	15.71	13.66	8.59	9.87
Excess		-0.05	-0.08	2.33	0.38	2.33	0.83	0.12	-0.42	-0.44	-0.30
Blackrock Russell 1000	698,742,099	1.10	6.58	--	11.35	--	--	--	--	--	19.99
Russell 1000		1.11	6.59	--	11.36	--	--	--	--	--	19.75
Excess		-0.01	-0.01	--	-0.01	--	--	--	--	--	0.24
DE Shaw Commingled Fund	161,286,729	0.91	6.21	24.65	13.64	24.65	13.42	--	--	--	13.42
Russell 1000		1.11	6.59	21.69	11.36	21.69	11.23	--	--	--	11.23
Excess		-0.21	-0.37	2.96	2.28	2.96	2.19	--	--	--	2.19
Small Cap Equity	129,922,813	-0.40	2.24	12.52	8.05	12.52	6.51	11.46	10.35	6.86	6.70
Russell 2000		-0.40	3.34	14.65	9.20	14.65	9.96	14.12	11.62	8.71	8.19
Excess		0.01	-1.10	-2.12	-1.15	-2.12	-3.45	-2.66	-1.26	-1.85	-1.49
QMA US Small Cap	129,922,813	-0.40	2.24	12.52	8.05	12.52	--	--	--	--	19.19
Russell 2000		-0.40	3.34	14.65	9.20	14.65	--	--	--	--	18.74
Excess		0.01	-1.10	-2.12	-1.15	-2.12	--	--	--	--	0.45
International Equity	853,922,598	2.15	4.44	26.95	9.92	26.95	8.45	7.60	5.37	1.17	5.88
MS AC WldxUS IMI Nt		2.36	5.23	27.81	11.82	27.81	8.38	7.22	5.15	2.20	5.49
Excess		-0.20	-0.79	-0.86	-1.90	-0.86	0.07	0.38	0.22	-1.03	0.39
Developed Markets Equity	758,022,923	1.86	4.34	26.79	9.61	26.79	8.63	8.14	5.75	1.58	4.82
MS AC WldxUS IMI Nt		2.36	5.23	27.81	11.82	27.81	8.38	7.22	5.15	2.20	5.36
Excess		-0.49	-0.88	-1.02	-2.21	-1.02	0.25	0.92	0.60	-0.61	-0.54
Baillie Gifford	255,490,197	1.76	4.84	31.63	10.11	31.63	10.38	9.89	--	--	9.78
MSCI ACWI ex US Growth		2.18	5.81	32.47	12.57	32.47	9.68	8.35	--	--	8.31
Excess		-0.42	-0.97	-0.84	-2.46	-0.84	0.70	1.54	--	--	1.47
Blackrock EAFE Index Fund	247,914,877	1.61	4.24	25.48	9.94	25.48	8.15	--	--	--	4.79
MSCI EAFE ND		1.61	4.23	25.03	9.86	25.03	7.80	--	--	--	4.47
Excess		0.00	0.01	0.44	0.07	0.44	0.36	--	--	--	0.31



# San Mateo County Manager Return Summary



December 31, 2017

Composite Returns (NET)	Market Value (\$)	1 Mth.	3 Mth.	YTD	FYTD	1 Yr.	3 Yr.	5 Yr.	7 Yr.	10 Yr.	ITD
Mondrian Investment Partners	254,617,849	2.22	3.96	22.90	9.12	22.90	6.81	6.80	5.65	1.96	6.05
MSCI ACWI ex US Value		2.36	4.31	23.35	10.68	23.35	6.92	6.16	4.77	1.81	5.93
Excess		-0.13	-0.34	-0.45	-1.57	-0.45	-0.10	0.64	0.88	0.15	0.11
Emerging Markets Equity	95,899,675	4.53	5.17	28.11	12.35	28.11	6.70	3.31	--	--	3.53
MSCI Emerging Markets ND		3.59	7.44	37.28	15.92	37.28	9.10	4.35	--	--	4.42
Excess		0.94	-2.27	-9.17	-3.56	-9.17	-2.41	-1.04	--	--	-0.89
EV Parametric EM	95,899,675	4.53	5.17	28.11	12.35	28.11	--	--	--	--	11.04
MSCI Emerging Markets GD		3.64	7.50	37.75	16.15	37.75	--	--	--	--	13.82
Excess		0.89	-2.34	-9.64	-3.79	-9.64	--	--	--	--	-2.78
Fixed Income	888,469,486	0.49	0.55	6.14	1.81	6.14	4.21	3.62	5.02	5.30	5.65
Samcera Fixed Income Benchmark		0.31	0.31	4.79	1.56	4.79	3.15	2.20	3.60	4.30	5.09
Excess		0.19	0.24	1.35	0.25	1.35	1.06	1.41	1.41	1.01	0.56
Core Fixed Income	602,797,199	0.37	0.38	4.67	1.51	4.67	3.19	3.06	4.35	4.73	5.44
BB Barclays U.S. Aggregate		0.46	0.39	3.54	1.24	3.54	2.24	2.10	3.20	4.01	5.00
Excess		-0.09	-0.01	1.12	0.27	1.12	0.95	0.96	1.15	0.73	0.43
FIAM Core Bond	258,488,671	0.44	0.44	4.08	1.54	4.08	2.86	2.68	3.91	4.87	4.78
BB Barclays U.S. Aggregate		0.46	0.39	3.54	1.24	3.54	2.24	2.10	3.20	4.01	4.31
Excess		-0.02	0.05	0.54	0.30	0.54	0.62	0.58	0.71	0.86	0.47
Western Total Return	128,289,305	0.81	1.51	9.56	3.61	9.56	--	--	--	--	5.99
BB Barclays U.S. Aggregate		0.46	0.39	3.54	1.24	3.54	--	--	--	--	2.54
Excess		0.35	1.12	6.01	2.37	6.01	--	--	--	--	3.45
Blackrock Inter Gov	216,019,223	0.02	-0.37	--	0.03	--	--	--	--	--	1.12
BB Barclays U.S. Aggregate		0.46	0.39	--	1.24	--	--	--	--	--	3.54
Excess		-0.44	-0.75	--	-1.21	--	--	--	--	--	-2.43
Opportunistic Credit	285,672,287	0.75	0.91	10.50	2.95	10.50	7.30	7.43	8.25	--	9.73
BB Barc BA Intermediate HY Ind		0.01	0.15	6.25	1.87	6.25	5.66	5.32	6.66	--	7.70
Excess		0.74	0.77	4.25	1.08	4.25	1.64	2.11	1.59	--	2.03

# San Mateo County Manager Return Summary



December 31, 2017

Composite Returns (NET)	Market Value (\$)	1 Mth.	3 Mth.	YTD	FYTD	1 Yr.	3 Yr.	5 Yr.	7 Yr.	10 Yr.	ITD
AG Opportunistic Whole Loan	8,579,226	0.00	-0.65	12.62	4.29	12.62	6.89	--	--	--	4.91
BB Barc BA Intermediate HY Ind		0.01	0.15	6.25	1.87	6.25	5.66	--	--	--	4.88
Excess		-0.00	-0.79	6.37	2.42	6.37	1.23	--	--	--	0.03
Angelo Gordon	10,083,012	7.04	7.05	23.88	14.85	23.88	11.84	11.96	--	--	11.76
BB Barc BA Intermediate HY Ind		0.01	0.15	6.25	1.87	6.25	5.66	5.32	--	--	5.45
Excess		7.04	6.90	17.63	12.98	17.63	6.18	6.64	--	--	6.30
Beach Point Select Fund	48,366,857	1.39	1.83	10.69	3.79	10.69	--	--	--	--	9.37
BB Barc BA Intermediate HY Ind		0.01	0.15	6.25	1.87	6.25	--	--	--	--	5.42
Excess		1.38	1.69	4.43	1.91	4.43	--	--	--	--	3.96
Brigade Cap Mngmt	75,355,031	0.36	0.38	9.89	1.73	9.89	6.14	5.26	6.74	--	7.05
BB Barc BA Intermediate HY Ind		0.01	0.15	6.25	1.87	6.25	5.66	5.32	6.66	--	6.98
Excess		0.35	0.23	3.64	-0.14	3.64	0.48	-0.06	0.08	--	0.07
SAMCERA - White Oak Yield Spec	11,947,413	0.00	3.93	--	-0.63	--	--	--	--	--	--
BB Barc BA Intermediate HY Ind		0.01	0.15	--	1.87	--	--	--	--	--	--
Excess		-0.01	3.79	--	-2.50	--	--	--	--	--	--
SAMCERA-PIMCO Div. Income Fund	80,932,023	0.59	0.76	--	--	--	--	--	--	--	1.80
BB Barc BA Intermediate HY Ind		0.01	0.15	--	--	--	--	--	--	--	0.98
Excess		0.58	0.62	--	--	--	--	--	--	--	0.82
TCP Direct Lending VIII	9,370,055	3.67	3.67	10.36	4.77	10.36	--	--	--	--	--
BB Barc BA Intermediate HY Ind		0.01	0.15	6.25	1.87	6.25	--	--	--	--	--
Excess		3.67	3.53	4.10	2.90	4.10	--	--	--	--	--
Franklin Templeton	41,038,670	-1.13	-1.25	3.99	-0.22	3.99	2.43	2.51	4.29	--	4.29
BB Barclays Multiverse Index		0.36	1.06	7.69	2.97	7.69	2.31	1.03	2.20	--	2.20
Excess		-1.49	-2.31	-3.70	-3.19	-3.70	0.12	1.48	2.09	--	2.09
Risk Parity	316,216,351	1.52	4.54	14.84	8.38	14.84	6.32	5.60	--	--	6.85
Samcera Risk Parity Benchmark		0.99	3.44	14.52	6.79	14.52	7.86	10.28	--	--	9.21
Excess		0.53	1.10	0.32	1.59	0.32	-1.54	-4.68	--	--	-2.36
AQR Global Risk III	149,012,863	1.89	4.72	16.08	9.40	16.08	5.15	4.11	--	--	5.76
Samcera Risk Parity Benchmark		0.99	3.44	14.52	6.79	14.52	7.86	10.28	--	--	9.21
Excess		0.89	1.28	1.55	2.61	1.55	-2.71	-6.16	--	--	-3.46

# San Mateo County Manager Return Summary



December 31, 2017

Composite Returns (NET)	Market Value (\$)	1 Mth.	3 Mth.	YTD	FYTD	1 Yr.	3 Yr.	5 Yr.	7 Yr.	10 Yr.	ITD
Panagora	167,203,488	1.20	4.38	13.76	7.49	13.76	7.41	--	--	--	7.43
Samcera Risk Parity Benchmark		0.99	3.44	14.52	6.79	14.52	7.86	--	--	--	7.89
Excess		0.21	0.94	-0.77	0.71	-0.77	-0.46	--	--	--	-0.46
Alternatives	507,080,860	0.67	2.02	9.81	3.88	9.81	6.71	5.39	5.54	-8.03	-2.48
Samcera Alternatives Benchmark		0.87	4.40	15.28	8.01	15.28	7.93	9.45	8.62	6.49	7.80
Excess		-0.20	-2.38	-5.47	-4.13	-5.47	-1.22	-4.07	-3.08	-14.52	-10.28
Private Equity	249,573,717	0.18	2.49	14.53	3.48	14.53	13.64	13.92	-11.70	--	-21.54
Samcera PE Benchmark		1.25	7.11	24.71	12.82	24.71	14.34	18.95	16.83	--	17.65
Excess		-1.06	-4.62	-10.18	-9.34	-10.18	-0.70	-5.03	-28.53	--	-39.19
Hedge Fund Composite	257,507,143	1.15	1.49	4.93	4.32	4.93	5.31	6.49	--	--	5.19
Samcera LIBOR + 4%		0.43	1.28	5.07	2.59	5.07	4.58	4.42	--	--	4.38
Excess		0.72	0.21	-0.14	1.73	-0.14	0.73	2.07	--	--	0.81
AQR Delta XN	165,382,377	1.32	1.32	5.45	5.36	5.45	5.83	6.80	--	--	5.42
Samcera LIBOR + 4%		0.43	1.28	5.07	2.59	5.07	4.58	4.42	--	--	4.38
Excess		0.89	0.04	0.38	2.77	0.38	1.25	2.38	--	--	1.05
SamCERA-Aberdeen Std GARS	92,124,766	0.85	1.87	3.71	2.22	3.71	--	--	--	--	0.57
Samcera LIBOR + 4%		0.43	1.28	5.07	2.59	5.07	--	--	--	--	4.71
Excess		0.42	0.59	-1.36	-0.37	-1.36	--	--	--	--	-4.14
Inflation Hedge	704,647,152	1.05	2.05	7.13	3.98	7.13	--	--	--	--	10.66
SamCERA Inflation Hedge Index		2.07	3.05	9.79	6.53	9.79	--	--	--	--	9.44
Excess		-1.02	-0.99	-2.66	-2.55	-2.66	--	--	--	--	1.22
TIPS	82,401,749	0.79	1.21	2.43	1.94	2.43	--	--	--	--	2.23
BBG Barclays US TIPS		0.92	1.26	3.01	2.14	3.01	--	--	--	--	1.83
Excess		-0.12	-0.05	-0.58	-0.20	-0.58	--	--	--	--	0.40
Brown Brothers Harriman	82,401,749	0.79	1.21	2.43	1.94	2.43	1.99	-0.55	2.56	--	2.62
BBG Barclays US TIPS		0.92	1.26	3.01	2.14	3.01	2.05	0.13	2.92	--	2.98
Excess		-0.12	-0.05	-0.58	-0.20	-0.58	-0.07	-0.68	-0.35	--	-0.37
Real Estate	301,591,760	0.00	1.57	5.98	1.69	5.98	--	--	--	--	8.41
Samcera NCREIF ODCE EW (gross)		1.89	1.89	7.52	3.82	7.52	--	--	--	--	8.15
Excess		-1.89	-0.32	-1.54	-2.13	-1.54	--	--	--	--	0.27
Invesco Core Real Estate	249,718,414	0.00	1.37	5.72	1.37	5.72	10.79	11.07	11.40	4.70	7.75
Samcera NCREIF ODCE EW (gross)		1.89	1.89	7.52	3.82	7.52	10.61	11.50	12.06	4.82	7.77
Excess		-1.89	-0.52	-1.80	-2.44	-1.80	0.18	-0.43	-0.66	-0.12	-0.02

# San Mateo County Manager Return Summary



December 31, 2017

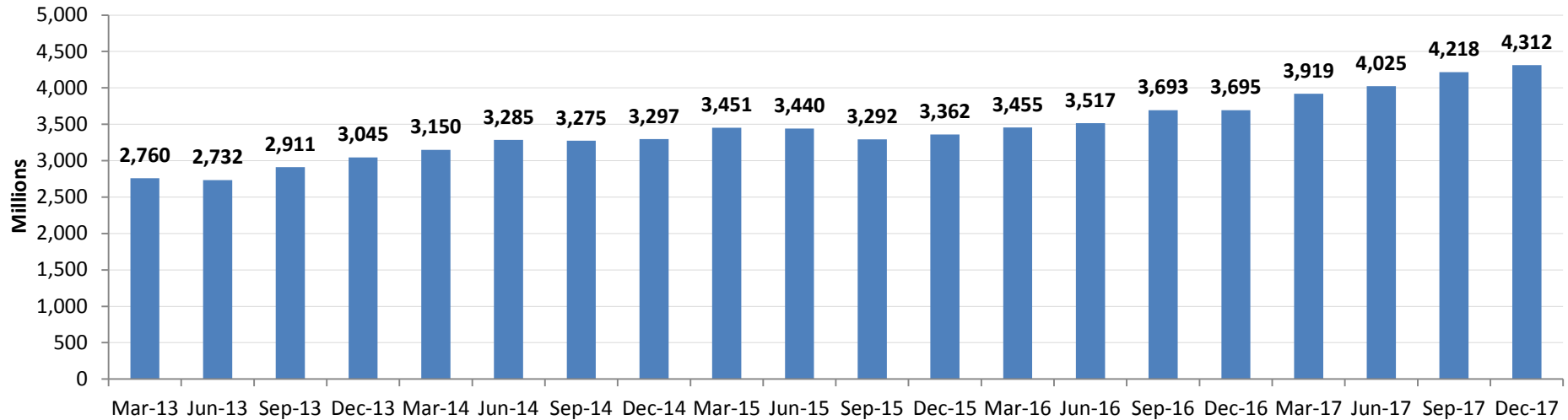
Composite Returns (NET)	Market Value (\$)	1 Mth.	3 Mth.	YTD	FYTD	1 Yr.	3 Yr.	5 Yr.	7 Yr.	10 Yr.	ITD
Invesco US Val IV	17,552,068	0.00	5.33	10.55	7.07	10.55	--	--	--	--	12.66
Samcera NCREIF ODCE EW (gross)		1.89	1.89	7.52	3.82	7.52	--	--	--	--	9.81
Excess		-1.89	3.44	3.02	3.25	3.02	--	--	--	--	2.85
PGIM Real Estate US Debt Fund	34,321,278	0.00	0.11	--	0.11	--	--	--	--	--	0.11
Samcera NCREIF ODCE EW (gross)		1.89	1.89	--	3.82	--	--	--	--	--	3.82
Excess		-1.89	-1.78	--	-3.71	--	--	--	--	--	-3.71
Liquid Real Assets	263,683,074	2.53	4.59	13.54	10.67	13.54	--	--	--	--	--
SamCera Custom Real Asset Index		2.55	4.66	14.00	10.50	14.00	--	--	--	--	--
Excess		-0.02	-0.08	-0.46	0.16	-0.46	--	--	--	--	--
SSGA CST REAL ASSET NL	263,683,074	2.53	4.59	13.54	10.67	13.54	--	--	--	--	--
SamCera Custom Real Asset Index		2.55	4.66	14.00	10.50	14.00	--	--	--	--	--
Excess		-0.02	-0.08	-0.46	0.16	-0.46	--	--	--	--	--
Private Real Assets	56,970,569	-0.04	-5.87	-4.24	-7.90	-4.24	--	--	--	--	20.57
SamCera Custom Real Asset Inde		2.55	4.66	14.00	10.50	14.00	--	--	--	--	15.10
Excess		-2.59	-10.54	-18.24	-18.40	-18.24	--	--	--	--	5.47
Cash	34,742,811	0.14	0.24	0.53	0.44	0.53	0.58	0.58	0.61	0.47	1.98
Samcera Cash Benchmark		0.11	0.28	0.86	0.55	0.86	0.41	0.27	0.22	0.39	1.83
Excess		0.03	-0.05	-0.32	-0.11	-0.32	0.16	0.32	0.39	0.08	0.15
SamCera General Account	19,168,829	0.11	0.32	1.11	0.62	1.11	0.64	0.44	0.40	0.59	1.98
County Treasury Pool	15,557,335	0.00	0.00	0.00	0.00	0.00	0.00	0.23	0.43	0.27	2.61
San Mateo County ERA	4,311,631,453	1.09	3.20	14.61	6.50	14.61	7.74	9.16	8.31	5.38	6.92
Samcera Total Plan Benchmark		1.29	3.77	15.56	7.67	15.56	7.85	9.39	8.64	6.06	7.24
Excess		-0.20	-0.58	-0.95	-1.16	-0.95	-0.11	-0.23	-0.33	-0.67	-0.32

December 31, 2017

**Record of Asset Growth**

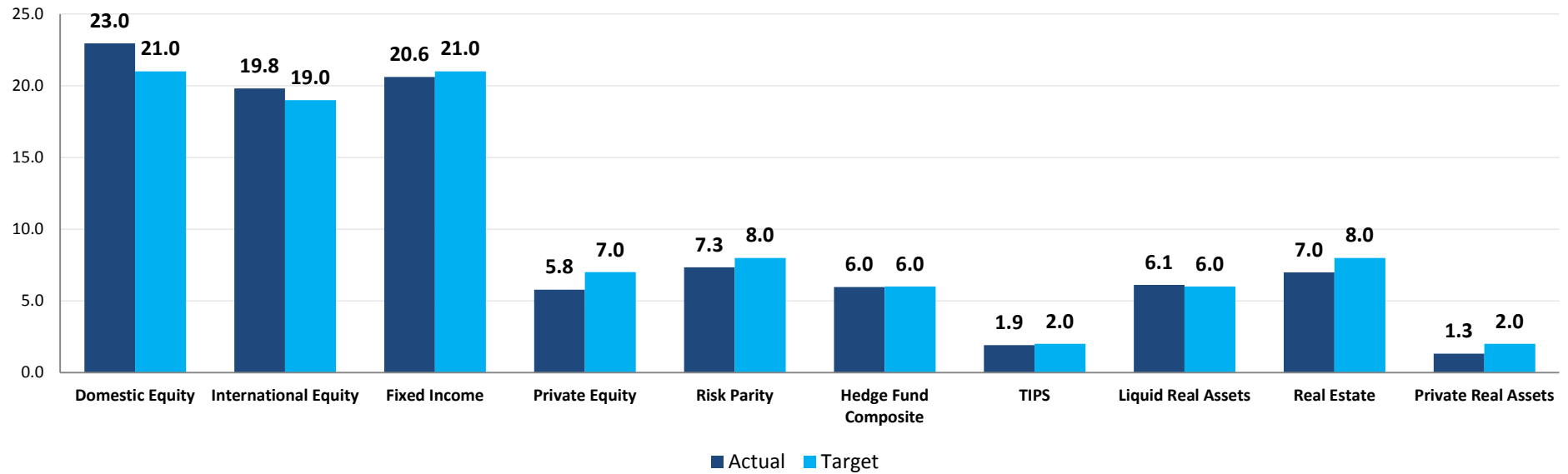
	Three Months	One Year
<b>TOTAL FUND</b>		
Beginning Market Value	4,217,750,302	3,695,287,030
Contributions	13,589,335	1,578,433,416
Withdrawals	-55,381,337	-1,519,610,380
Income Received	8,387,531	30,920,675
Gain/Loss	127,698,755	526,768,347
Ending Market Value	4,311,631,453	4,311,631,453

**Net Asset Values Over Time (\$000)**



December 31, 2017

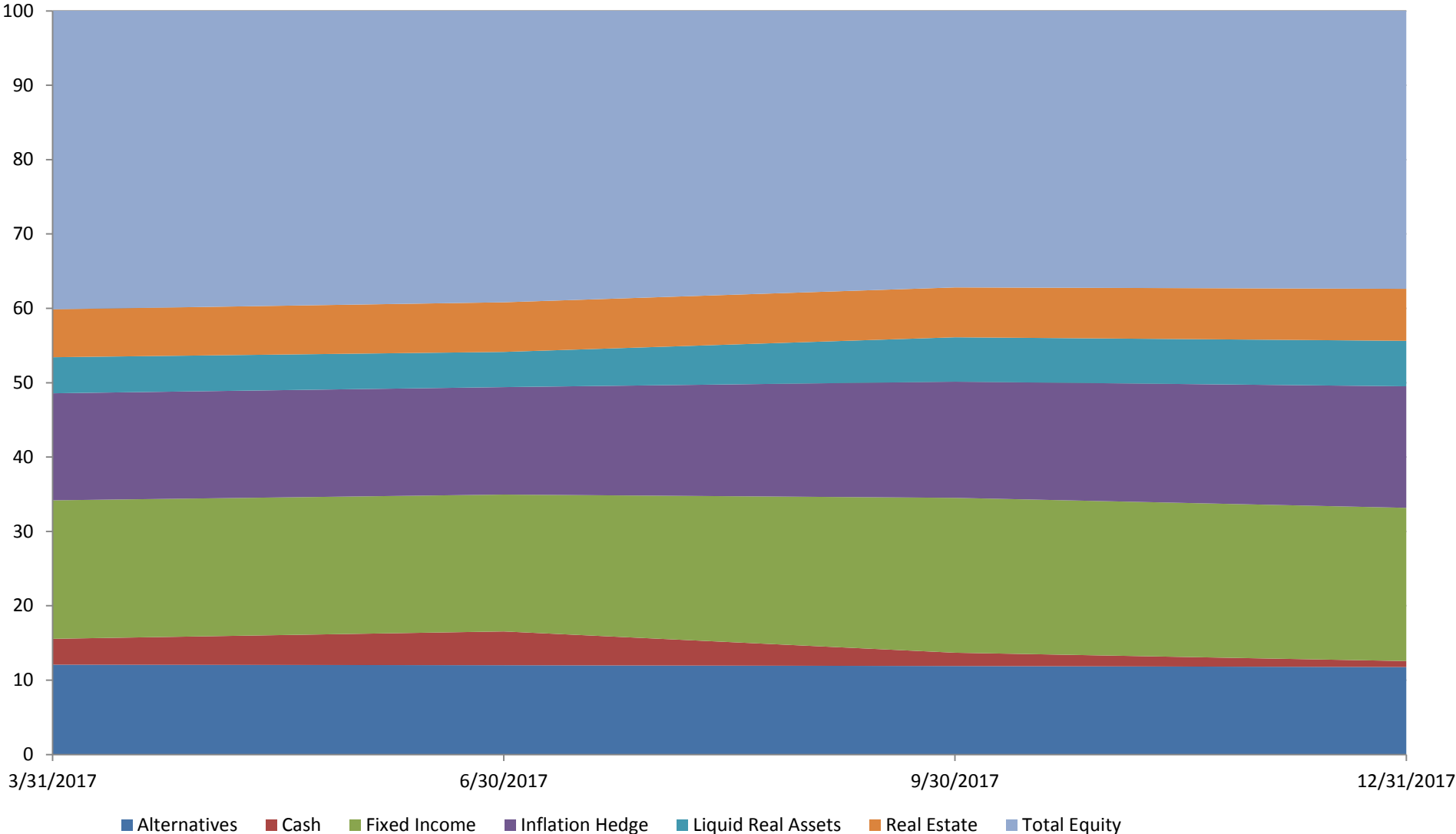
Actual vs Target Weights



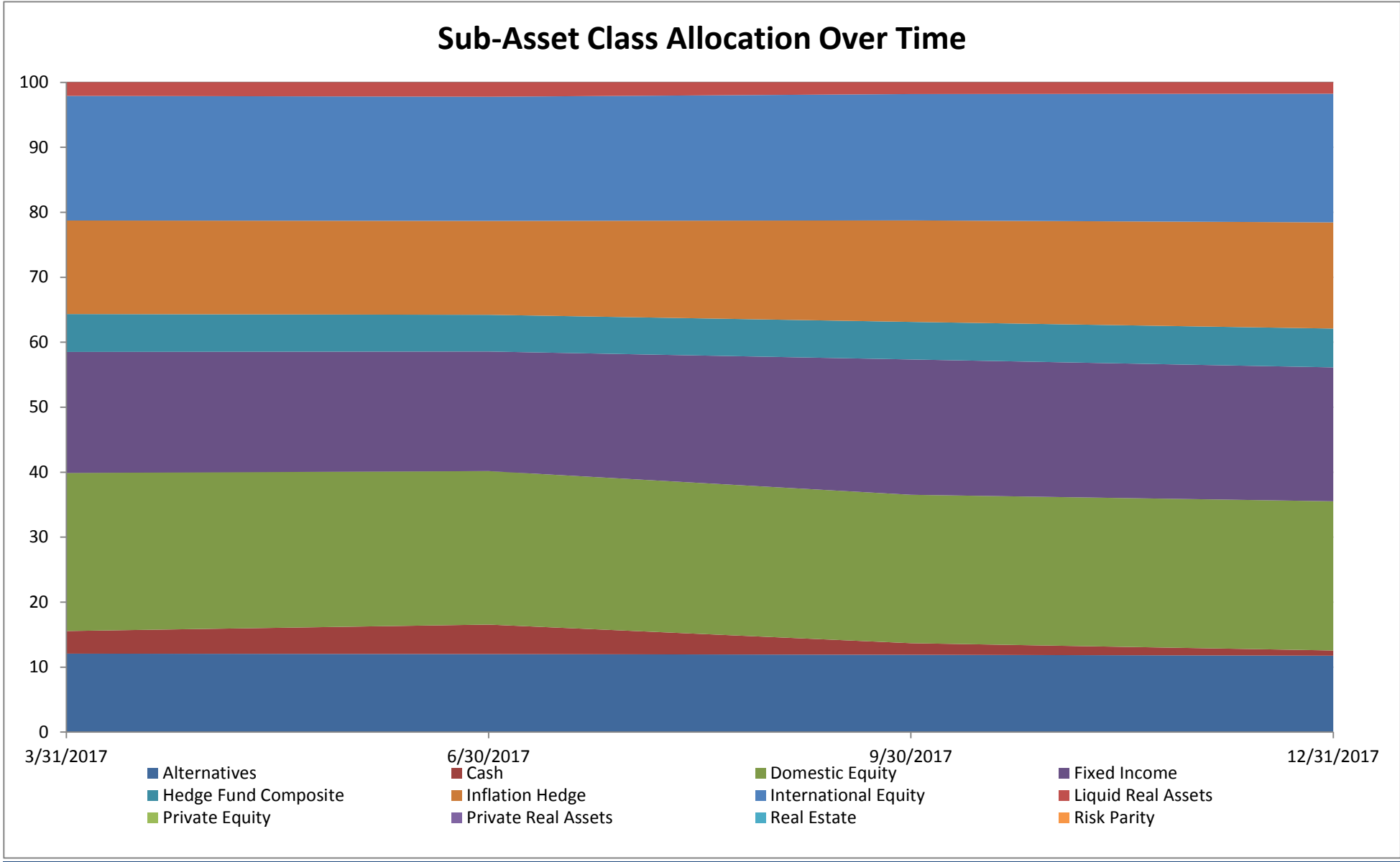
	Min	Actual	Target	Deviation	Max
<b>Domestic Equity</b>	19.0	23.0	21.0	2.0	23.0
<b>International Equity</b>	17.0	19.8	19.0	0.8	21.0
<b>Fixed Income</b>	19.0	20.6	21.0	-0.4	23.0
<b>Private Equity</b>	5.0	5.8	7.0	-1.2	9.0
<b>Risk Parity</b>	6.0	7.3	8.0	-0.7	10.0
<b>Hedge Fund Composite</b>	4.0	6.0	6.0	0.0	8.0
<b>TIPS</b>	0.0	1.9	2.0	-0.1	4.0
<b>Liquid Real Assets</b>	4.0	6.1	6.0	0.1	8.0
<b>Real Estate</b>	6.0	7.0	8.0	-1.0	10.0
<b>Private Real Assets</b>	0.0	1.3	2.0	-0.7	4.0

December 31, 2017

Asset Allocation over Time



December 31, 2017





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**PERSPECTIVES  
THAT DRIVE  
ENTERPRISE  
SUCCESS**

DECEMBER 2017  
Capital Markets Update



# Market commentary

## ECONOMIC CLIMATE

- On December 13<sup>th</sup>, the Federal Reserve raised its benchmark interest rate by 25 bps to a target range of 1.25%-1.50%. The Fed also raised its 2018 real GDP growth forecast from 2.1% to 2.5%.
- President Trump signed the Tax Cuts & Jobs Act on December 22<sup>nd</sup>. Analysts are expecting earnings for large corporations to increase by roughly 2% in the U.S. as a result of the bill.
- U.S. Consumer Confidence fell from a 17-year high of 128.6 in November to 122.1 in December, according to the Conference Board. However, consumer expectations remain at historically strong levels.
- ISM Manufacturing PMI rose to 59.7 during the month, up from 58.2 in November, and above the consensus estimate of 58.1. New orders and raw materials prices were the main drivers of the gain.
- The NFIB Small Business Index fell from a record high of 107.5 in November to 104.9 in December. However, the index remains elevated compared to recent history. A net 37% of small businesses are expecting the economy to improve from current conditions.

## DOMESTIC EQUITIES

- Domestic equities experienced positive returns during the month, as the S&P 500 index rose 1.1%.
- According to FactSet, as of January 5<sup>th</sup>, the estimated Q4 earnings growth rate of the S&P 500 is 10.5% YoY, with revenue growth of 6.7%. Energy and materials companies are expected to lead all other sectors with earnings increases of 132.7% and 28.1%, respectively.

## DOMESTIC FIXED INCOME

- Domestic fixed income returns were positive in December as the Bloomberg Barclays U.S. Aggregate Index returned 0.5%.
- U.S. investment grade spreads contracted during the period to 0.93%, down from 0.97% at the end of November.
- The U.S. Treasury yield curve continued to flatten over the month, as the 10-year minus 2-year spread contracted 13 bps to 0.51%, the lowest differential since October 2007.

## INTERNATIONAL MARKETS

- International equities (MSCI ACWI ex U.S. +2.2%) outperformed domestic equities in December (S&P 500 +1.1%). The hedged MSCI ACWI ex U.S. Index returned +1.6% in the month.
- Headline inflation in the Eurozone fell to 1.4% YoY during the month, down from 1.5% in November. Non-energy industrial goods were the primary detractor, increasing just 0.5% YoY.
- The Eurozone labor market continued to tighten in November, as the Euro Area unemployment rate fell to 8.7%, down from 8.8% in October, and 9.8% from a year prior.
- The Bank of Japan announced it will trim purchases of longer maturity bonds by 20 billion yen going forward. Purchases of 10 to 25-year bonds, and 25 to 40-year bonds will be cut by 10 billion yen each, to 190 billion and 80 billion yen per month, respectively.
- The Canadian economy added 78,600 jobs in December, bringing the 2017 total to an increase of 422,500 jobs. The unemployment rate also fell to 5.7%, the lowest rate since 1976.

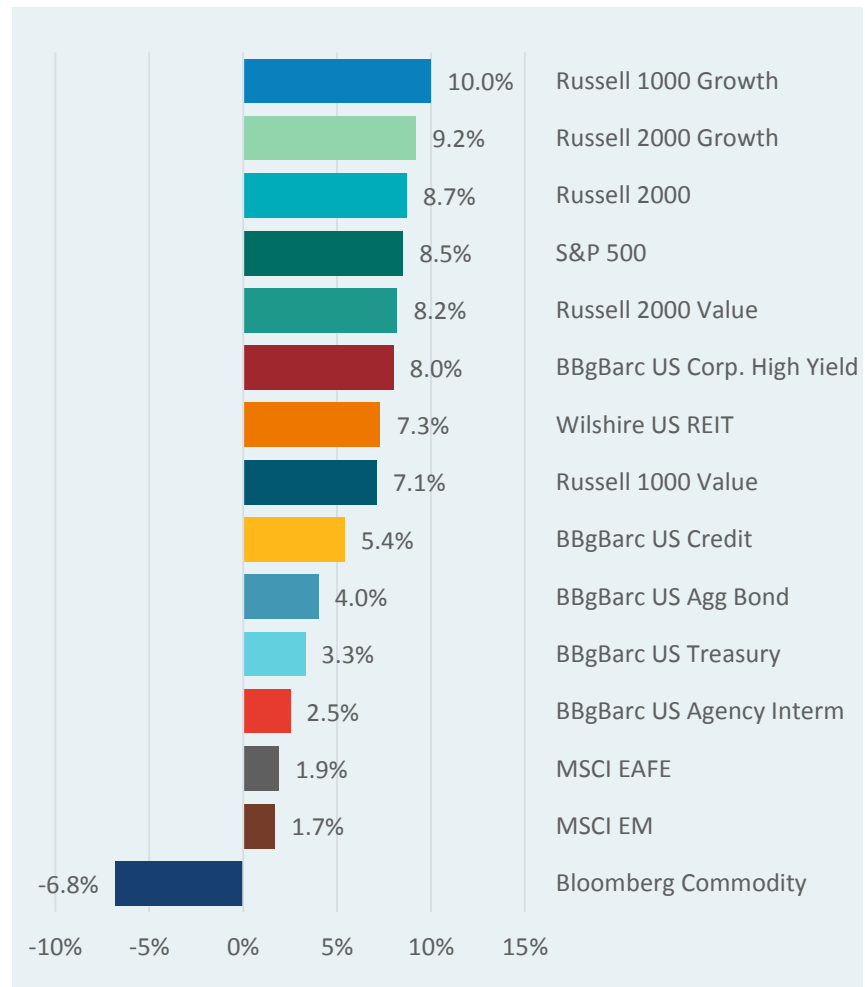
# Major asset class returns

ONE YEAR ENDING DECEMBER



Source: Morningstar, as of 12/31/17

TEN YEARS ENDING DECEMBER



Source: Morningstar, as of 12/31/17

# U.S. large cap equities

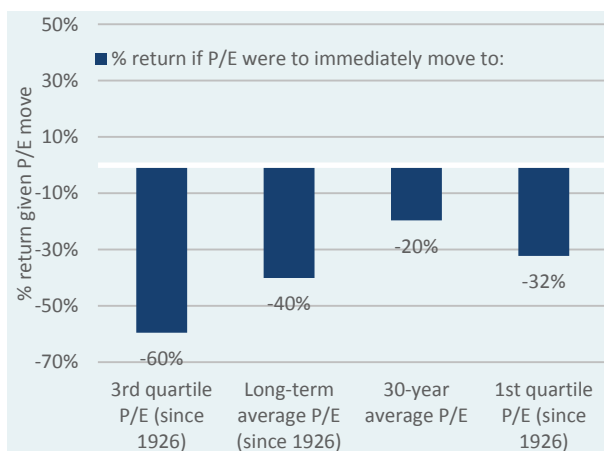
- Domestic large cap equities appreciated in December (S&P 500 +1.1%). Realized volatility remained suppressed at 5.6% (annualized), well below the 5-year average of 11.8%.
- Telecommunication and energy were the two leading S&P 500 sectors during the period, returning 5.8% and 4.9%, respectively. The worst performing sector was utilities, which fell by -6.1% in December.
- According to FactSet, as of January 5<sup>th</sup>, the estimated 2018 full year earnings growth rate of the S&P 500 is 13.1% YoY. This figure was revised upward from the December 1<sup>st</sup> estimate of 11.1% after the tax cuts were passed. The result of this revision is a much lower blended 12-month forward P/E ratio for the S&P 500 compared to the trailing 12-month P/E ratio.

## U.S. LARGE CAP EQUITIES



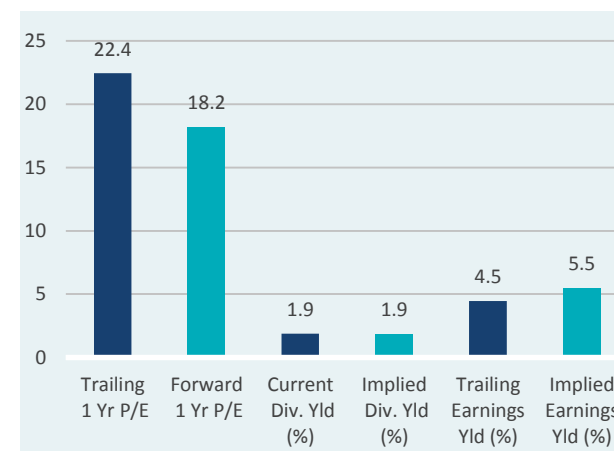
Source: Bloomberg, as of 12/31/17

## RETURNS IF TRAILING P/E MOVED TO HISTORIC AVERAGE



Source: Yale/Shiller, Verus, as of 12/31/17

## S&P 500 VALUATION SNAPSHOT

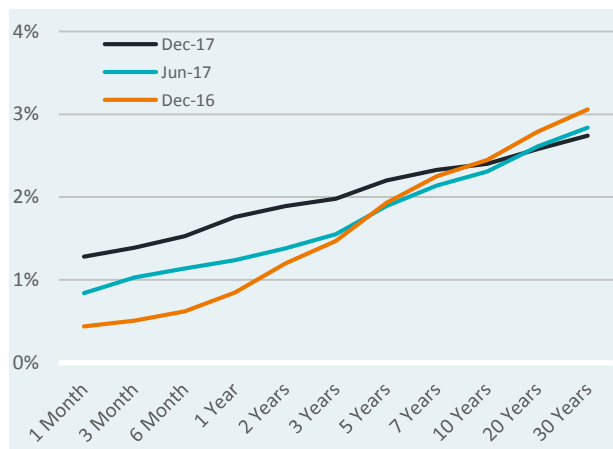


Source: Bloomberg, as of 12/31/17

# Fixed income

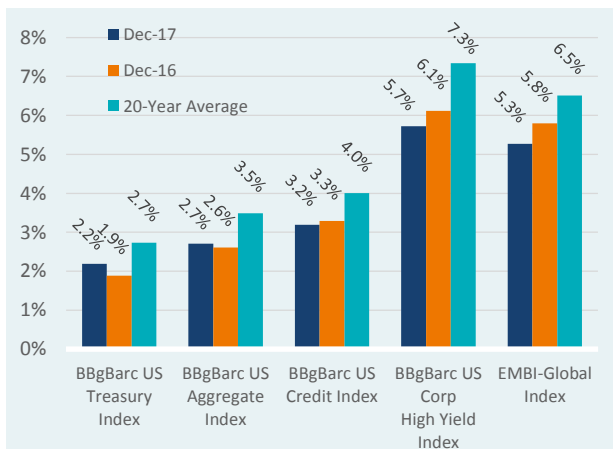
- The U.S. Treasury curve continued to flatten during the period as the 10 minus 2-year yield spread fell 13 bps to 0.51%. The BBgBarc U.S. Treasury Long Index outperformed the BBgBarc 1-3 Year U.S. Treasury Index by 1.7% in December, and 8.1% in 2017.
- As expected, the Fed raised interest rates in December to a target range of 1.25%-1.50%. The Fed has also communicated plans for three rate hikes in 2018, although the market is only pricing in two hikes based on fed funds futures pricing.
- Expectations for future inflation increased during the month based on TIPS breakeven rates. The 5 and 10-year implied inflation rates increased to 1.9% and 2.0%, up from 1.7% and 1.9%, respectively, in November.
- High yield spreads remained compressed near historically low levels in December. Default rates were also mostly unchanged, and remained low, during the month.

**U.S. TREASURY YIELD CURVE**



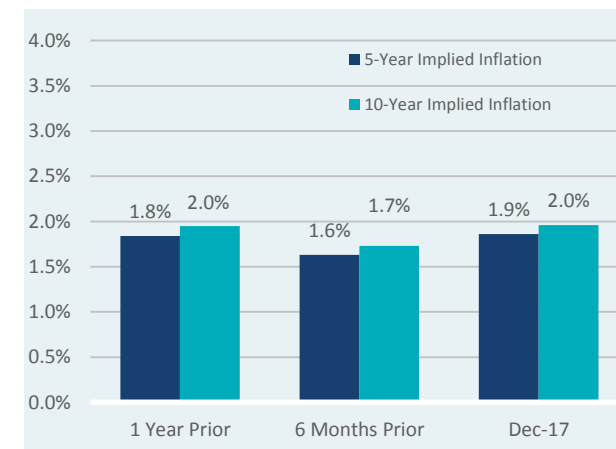
Source: Federal Reserve, as of 12/31/17

**NOMINAL FIXED INCOME YIELDS**



Source: Morningstar, as of 12/31/17

**IMPLIED INFLATION (TIPS BREAKEVEN)**

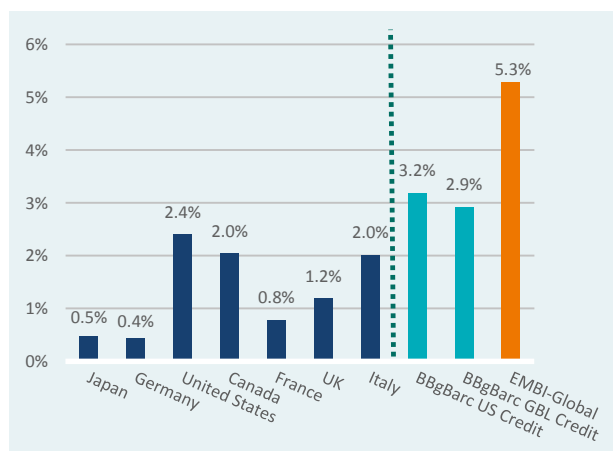


Source: Federal Reserve, as of 12/31/17

# Global markets

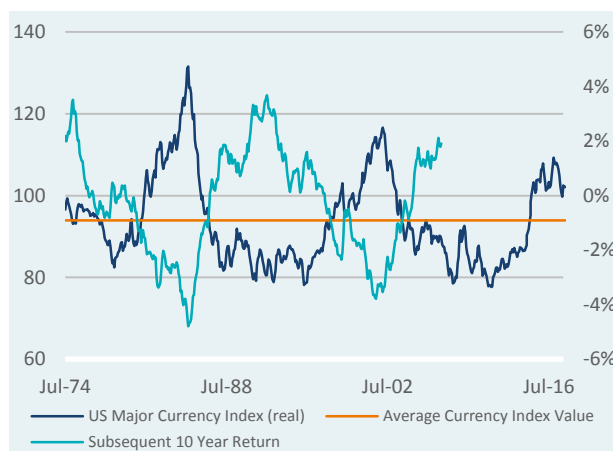
- Emerging market currencies rallied during the month of December as the J.P. Morgan Emerging Markets Currency Index returned 1.7%. The U.S. Dollar Index Spot price (DXY) fell -1.0% during the same period.
- Positive Q4 earnings revisions outnumber negative revisions by the most on record, dating back to 2000, according to Citi's Global Earnings Revision Index.
- Sovereign yields rose across most of the developed world in December. Italian and Canadian bonds led the way, with 10-year yields climbing 27 bps and 16 bps, respectively.
- U.K. equities (MSCI U.K. +5.0%) outperformed broad international equities during the month (MSCI ACWI Ex U.S. +2.2%) on an unhedged basis. The pound (-0.1%) was a slight detractor from performance.

**GLOBAL SOVEREIGN 10 YEAR INDEX YIELDS**



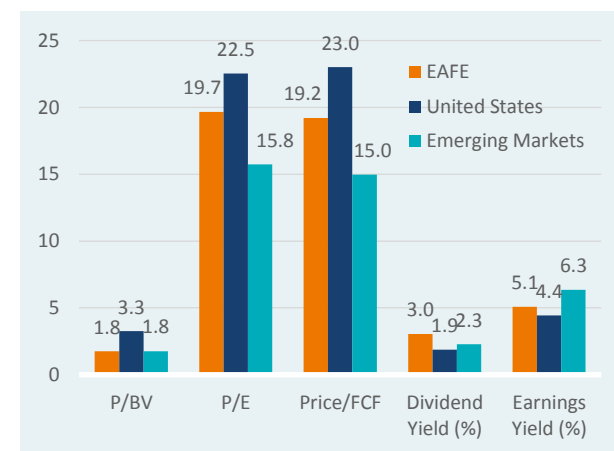
Source: Morningstar, as of 12/31/17

**U.S. DOLLAR MAJOR CURRENCY INDEX**



Source: Federal Reserve, as of 12/31/17

**MSCI VALUATION METRICS (3 MONTH AVERAGE)**

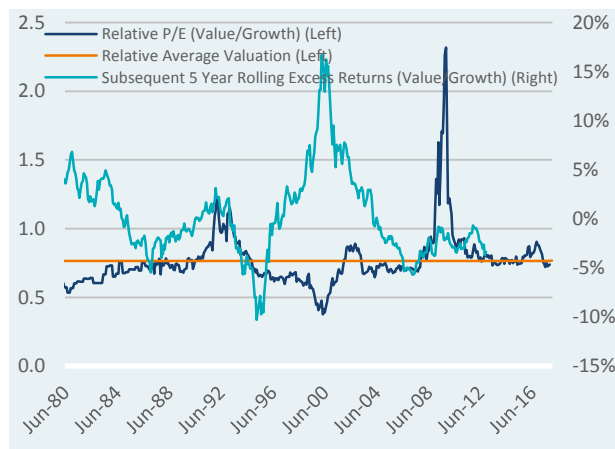


Source: Bloomberg, as of 12/31/17

# Style tilts: U.S. large value vs. growth

- Value equities outperformed growth equities in December, as the Russell 1000 Value and Russell 1000 Growth returned 1.5% and 0.8%, respectively.
- The Russell 1000 Value index was positively affected by the energy sector in December. The sub-index returned 5.1% during the month, while the Russell 1000 Growth Index was hindered by the technology sector (-0.1%).
- The relative trailing P/E ratio of value to growth equities increased slightly to 0.74, which remains just below the long-term average ratio of 0.77, meaning that value is slightly cheap relative to history.

## RELATIVE TRAILING PE RATIO OF U.S. VALUE VS. GROWTH



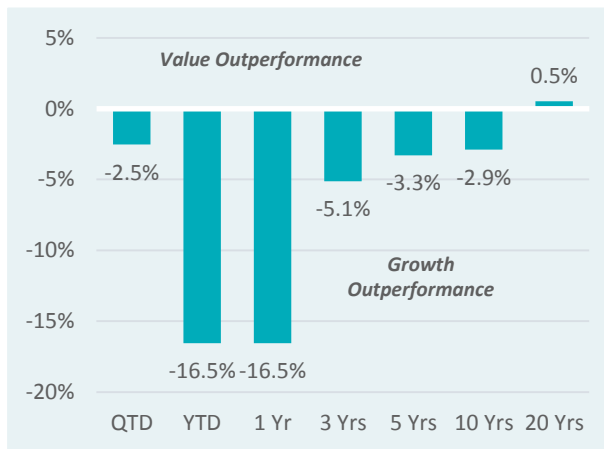
Source: Russell, Bloomberg, as of 12/31/17

## U.S. VALUE VS. GROWTH ABSOLUTE PERFORMANCE

	RUSSELL 1000 VALUE	RUSSELL 1000 GROWTH
	<b>ANNUALIZED RETURN TO DATE %</b>	
QTD	5.3	7.9
YTD	13.7	30.2
1 YEAR	13.7	30.2
3 YEARS	8.7	13.8
5 YEARS	14.0	17.3
10 YEARS	7.1	10.0
20 YEARS	7.4	6.9
	<b>SHARPE RATIO</b>	
3 YEARS	0.81	1.23
5 YEARS	1.35	1.63
10 YEARS	0.49	0.68
20 YEARS	0.42	0.36

Source: Morningstar, as of 12/31/17

## U.S. VALUE VS. GROWTH RELATIVE PERFORMANCE



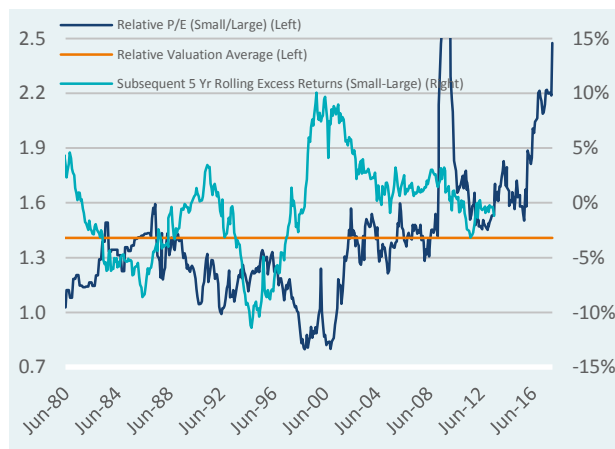
Source: Morningstar, as of 12/31/17



# Style tilts: U.S. large vs. small

- Large cap equities outperformed small cap equities during December (Russell 1000 +1.1% and Russell 2000 -0.4%).
- Over all the time periods examined below, large cap equities have provided superior risk-adjusted returns (Sharpe Ratio) relative to small cap equities.
- The largest deviation in performance between large cap and small cap equities was experienced by the utilities and financial services sectors, where large cap companies outperformed small cap companies by 3.9% and 3.7%, respectively. Healthcare and energy were the only sectors where small cap companies outperformed (+1.5% and 1.2%, respectively).

## RELATIVE TRAILING PE RATIO OF U.S. SMALL VS. LARGE



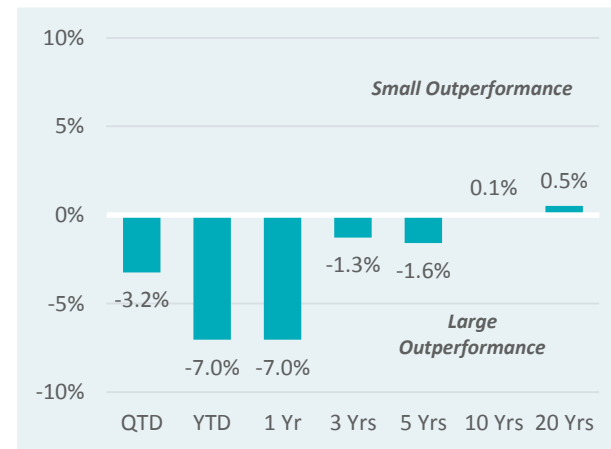
Source: Russell, Bloomberg, as of 12/31/17

## U.S. LARGE VS. SMALL ABSOLUTE PERFORMANCE

	RUSSELL 1000 INDEX	RUSSELL 2000 INDEX
	ANNUALIZED RETURN TO DATE %	ANNUALIZED RETURN TO DATE %
QTD	6.6	3.3
YTD	21.7	14.6
1 YEAR	21.7	14.6
3 YEARS	11.2	10.0
5 YEARS	15.7	14.1
10 YEARS	8.6	8.7
20 YEARS	7.4	7.9
	SHARPE RATIO	SHARPE RATIO
3 YEARS	1.06	0.71
5 YEARS	1.55	1.00
10 YEARS	0.59	0.50
20 YEARS	0.42	0.38

Source: Morningstar, as of 12/31/17

## U.S. LARGE VS. SMALL RELATIVE PERFORMANCE



Source: Morningstar, as of 12/31/17

# Commodities

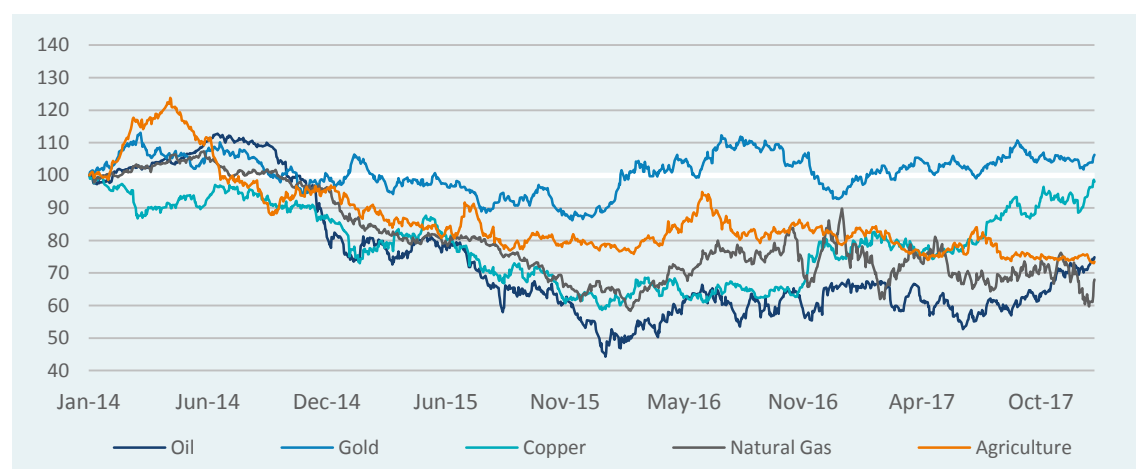
- The broad Bloomberg Commodity Index rose 3.0% in December. The main drivers of performance were industrial metals and petroleum, whose sub-indices returned 9.2% and 6.2%, respectively.
- The Bloomberg Petroleum sub-index was positively affected by WTI crude oil prices, which ended the month at \$60.42 per barrel, the highest price since December 2014.

- Aluminum and copper outperformed the Bloomberg Industrial Metals Sub-Index, returning 10.7% and 7.7%, respectively during December. Prices were likely influenced by rising global growth expectations, strong manufacturing data, and a weaker U.S. dollar.

## INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	3.0	4.7	1.7	1.7	(5.0)	(8.5)	(6.8)
Bloomberg Agriculture	(1.5)	(2.0)	(11.0)	(11.0)	(8.5)	(9.8)	(4.9)
Bloomberg Energy	3.9	8.9	(4.3)	(4.3)	(12.1)	(15.4)	(17.4)
Bloomberg Grains	(2.0)	(4.8)	(11.3)	(11.3)	(12.4)	(12.7)	(7.0)
Bloomberg Industrial Metals	9.2	10.7	29.4	29.4	4.3	(1.8)	(2.8)
Bloomberg Livestock	(0.7)	3.3	6.4	6.4	(6.6)	(2.6)	(5.8)
Bloomberg Petroleum	6.2	16.4	9.6	9.6	(8.0)	(14.3)	(12.1)
Bloomberg Precious Metals	3.0	2.0	10.9	10.9	2.5	(7.0)	3.2
Bloomberg Softs	1.6	5.2	(14.8)	(14.8)	(4.6)	(8.3)	(3.3)

## COMMODITY PERFORMANCE



Source: Bloomberg, as of 12/31/17

Source: Morningstar, as of 12/31/17

# Appendix

# Periodic table of returns

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	5-Year	10-Year
Emerging Markets Equity	16.6	38.4	23.2	35.2	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	37.3	17.3	10.0
Large Cap Growth	8.1	37.8	23.1	32.9	27.0	43.1	22.8	8.4	10.3	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	21.3	30.2	15.2	9.2
International Equity	6.4	37.2	22.4	31.8	20.3	33.2	12.2	7.3	6.7	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	17.3	25.0	15.7	8.7
Small Cap Growth	4.4	31.0	21.6	30.5	19.3	27.3	11.6	3.3	1.6	46.0	18.3	14.0	22.2	11.8	-21.4	32.5	19.2	1.5	17.5	33.5	11.8	0.6	12.1	22.2	14.1	8.6
Large Cap Equity	3.2	28.5	21.4	22.4	16.2	26.5	7.0	2.8	1.0	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	11.8	21.7	14.0	8.2
60/40 Global Portfolio	2.6	25.7	16.5	16.2	15.6	24.3	6.0	2.5	-5.9	30.0	14.5	7.1	16.6	10.9	-28.9	27.2	16.7	0.1	16.3	32.5	5.6	-0.4	11.3	17.1	13.0	7.1
Small Cap Equity	0.4	19.6	14.4	13.9	8.7	21.3	4.1	-2.4	-6.0	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	11.2	14.6	10.3	6.2
Large Cap Value	-1.5	18.5	11.3	12.9	4.9	20.9	-3.0	-5.6	-11.4	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	8.0	13.7	7.9	4.3
Small Cap Value	-1.8	15.2	10.3	10.6	1.2	13.2	-7.3	-9.1	-15.5	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	7.1	7.8	6.8	4.0
Hedge Funds of Funds	-2.0	11.6	9.9	9.7	-2.5	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	7.7	4.3	1.9
Real Estate	-2.4	11.1	6.4	5.2	-5.1	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	5.1	4.0	1.7
US Bonds	-2.9	7.5	6.0	2.1	-6.5	4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	3.5	2.1	1.1
Commodities	-3.5	5.7	5.1	-3.4	-25.3	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	1.7	0.3	0.3
Cash	-7.3	-5.2	3.6	-11.6	-27.0	-1.5	-30.6	-21.2	-30.3	1.0	1.4	2.4	2.1	-9.8	-53.2	-16.9	0.1	-18.2	-1.1	-9.5	-17.0	-24.7	0.3	0.9	-8.5	-6.8

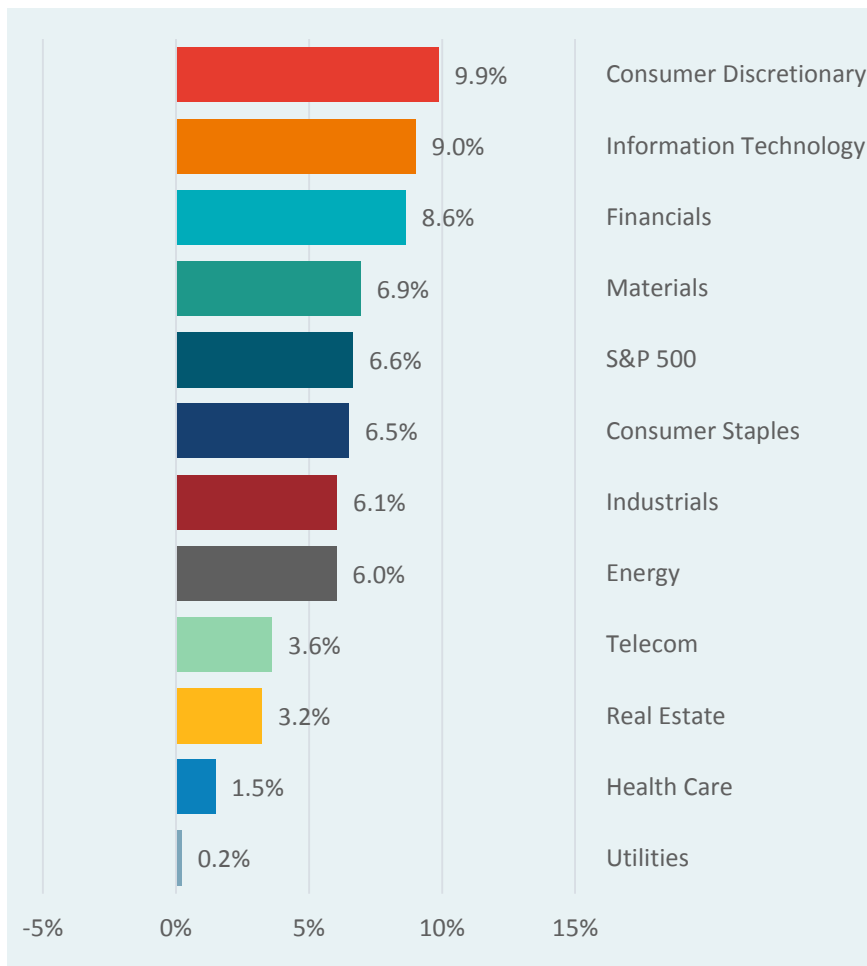
↑ BEST  
↓ WORST

 Large Cap Equity	 Small Cap Growth	 Commodities
 Large Cap Value	 International Equity	 Real Estate
 Large Cap Growth	 Emerging Markets Equity	 Hedge Funds of Funds
 Small Cap Equity	 US Bonds	 60% MSCI ACWI/40% BBgBarc Global Bond
 Small Cap Value	 Cash	

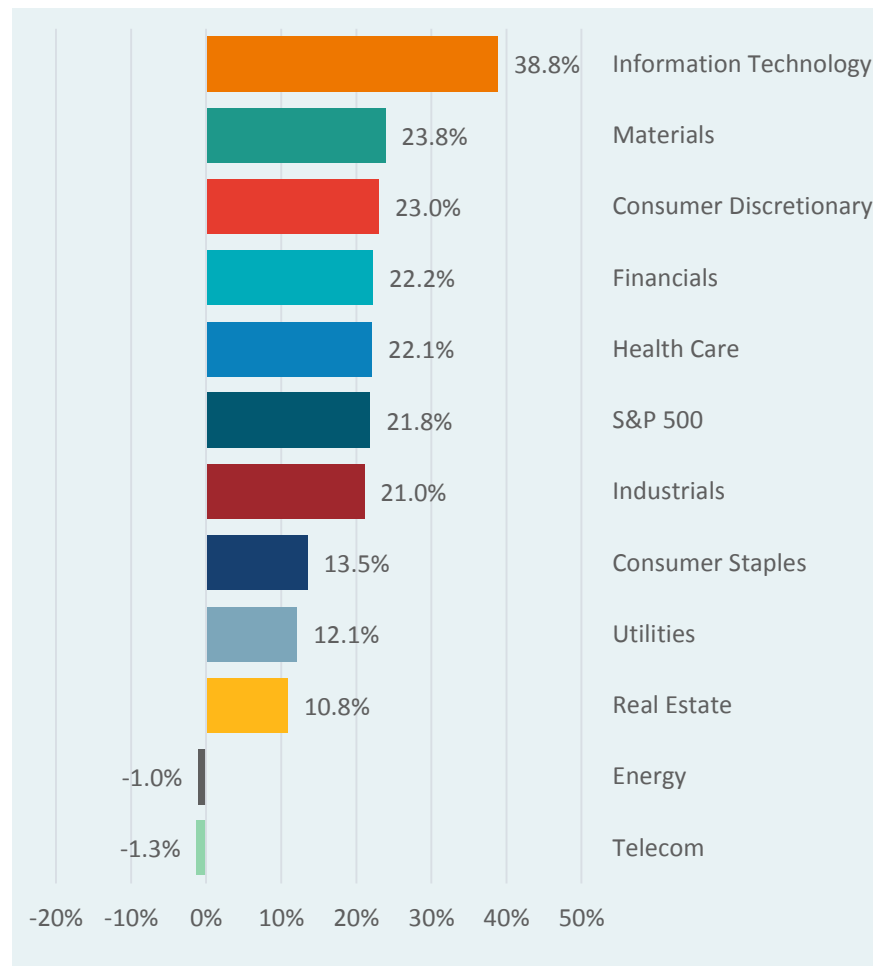
Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property Index performance data as of 9/30/17.

# S&P 500 sector returns

QTD



ONE YEAR ENDING DECEMBER



Source: Morningstar, as of 12/31/17

Source: Morningstar, as of 12/31/17

# Detailed index returns

## DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Core Index</b>							
S&P 500	1.1	6.6	21.8	21.8	11.4	15.8	8.5
S&P 500 Equal Weighted	1.2	6.2	18.9	18.9	10.1	15.8	10.2
DJ Industrial Average	1.9	11.0	28.1	28.1	14.4	16.4	9.3
Russell Top 200	1.2	6.8	23.0	23.0	11.9	16.0	8.4
Russell 1000	1.1	6.6	21.7	21.7	11.2	15.7	8.6
Russell 2000	(0.4)	3.3	14.6	14.6	10.0	14.1	8.7
Russell 3000	1.0	6.3	21.1	21.1	11.1	15.6	8.6
Russell Mid Cap	0.9	6.1	18.5	18.5	9.6	15.0	9.1
<b>Style Index</b>							
Russell 1000 Growth	0.8	7.9	30.2	30.2	13.8	17.3	10.0
Russell 1000 Value	1.5	5.3	13.7	13.7	8.7	14.0	7.1
Russell 2000 Growth	0.1	4.6	22.2	22.2	10.3	15.2	9.2
Russell 2000 Value	(1.0)	2.0	7.8	7.8	9.5	13.0	8.2

## INTERNATIONAL EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
MSCI ACWI	1.6	5.7	24.0	24.0	9.3	10.8	4.7
MSCI ACWI ex US	2.2	5.0	27.2	27.2	7.8	6.8	1.8
MSCI EAFE	1.6	4.2	25.0	25.0	7.8	7.9	1.9
MSCI EM	3.6	7.4	37.3	37.3	9.1	4.3	1.7
MSCI EAFE Small Cap	2.7	6.1	33.0	33.0	14.2	12.9	5.8
<b>Style Index</b>							
MSCI EAFE Growth	1.7	5.2	28.9	28.9	9.2	8.8	2.7
MSCI EAFE Value	1.5	3.2	21.4	21.4	6.4	6.9	1.1
<b>Regional Index</b>							
MSCI UK	5.0	5.7	22.3	22.3	4.1	5.2	1.5
MSCI Japan	0.7	8.5	24.0	24.0	11.6	11.2	3.2
MSCI Euro	(0.5)	0.4	26.5	26.5	7.6	7.9	(0.3)
MSCI EM Asia	2.8	8.4	42.8	42.8	11.0	7.9	3.6
MSCI EM Latin American	4.4	(2.3)	23.7	23.7	3.8	(3.2)	(1.7)

Source: Morningstar, as of 12/31/17

## FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
BBgBarc US Treasury US TIPS	0.9	1.3	3.0	3.0	2.1	0.1	3.5
BBgBarc US Treasury Bills	0.1	0.2	0.8	0.8	0.4	0.3	0.5
BBgBarc US Agg Bond	0.5	0.4	3.5	3.5	2.2	2.1	4.0
<b>Duration</b>							
BBgBarc US Treasury 1-3 Yr	0.0	(0.3)	0.4	0.4	0.6	0.6	1.5
BBgBarc US Treasury Long	1.7	2.4	8.5	8.5	2.8	3.5	6.6
BBgBarc US Treasury	0.3	0.1	2.3	2.3	1.4	1.3	3.3
<b>Issuer</b>							
BBgBarc US MBS	0.3	0.2	2.5	2.5	1.9	2.0	3.8
BBgBarc US Corp. High Yield	0.3	0.5	7.5	7.5	6.4	5.8	8.0
BBgBarc US Agency Interm	0.0	(0.3)	1.1	1.1	1.1	1.0	2.5
BBgBarc US Credit	0.8	1.0	6.2	6.2	3.6	3.2	5.4

## OTHER

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Index</b>							
Bloomberg Commodity	3.0	4.7	1.7	1.7	(5.0)	(8.5)	(6.8)
Wilshire US REIT	(0.1)	1.7	4.2	4.2	5.2	9.3	7.3
CS Leveraged Loans	0.4	1.2	4.2	4.2	4.5	4.3	4.6
<b>Regional Index</b>							
JPM EMBI Global Div	0.7	1.2	10.3	10.3	7.1	4.6	7.3
JPM GBI-EM Global Div	2.0	0.8	15.2	15.2	2.5	(1.5)	3.6
<b>Hedge Funds</b>							
HFRI Composite	0.9	2.5	8.5	8.5	4.2	4.9	3.2
HFRI FOF Composite	0.9	2.0	7.7	7.7	2.6	4.0	1.1
<b>Currency (Spot)</b>							
Euro	0.7	1.6	13.8	13.8	(0.3)	(1.9)	(1.9)
Pound	(0.1)	0.8	9.5	9.5	(4.6)	(3.6)	(3.8)
Yen	(0.7)	(0.1)	3.5	3.5	2.1	(5.2)	(0.1)

# Definitions

**Conference Board Consumer Confidence** - The Consumer Confidence Survey® reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitudes and buying intentions, with data available by age, income, and region.

<https://www.conference-board.org/data/consumerconfidence.cfm>

**NFIB Small Business Index** - NFIB Research Center has collected Small Business Economic Trends Data with Quarterly surveys since 1973 and monthly surveys since 1986. The sample is drawn from the membership files of the National Federation of Independent Business (NFIB).

<https://www.nfib.com/assets/SBET-Dec-2017.pdf>

**ISM Manufacturing Index** – based on data compiled from purchasing and supply executives nationwide. Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (New Orders, Backlog of Orders, New Export Orders, Imports, Production, Supplier Deliveries, Inventories, Customers' Inventories, Employment and Prices), this report shows the percentage reporting each response, the net difference between the number of responses in the positive economic direction and the negative economic direction, and the diffusion index. ([www.instituteforsupplymanagement.org](http://www.instituteforsupplymanagement.org))

# Notices & disclosures

***Past performance is no guarantee of future results.** This document is provided for informational purposes only and is directed to institutional clients and eligible institutional counterparties only and is not intended for retail investors. Nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security or pursue a particular investment vehicle or any trading strategy. This document may include or imply estimates, outlooks, projections and other “forward-looking statements.” No assurance can be given that future results described or implied by any forward looking information will be achieved. Investing entails risks, including possible loss of principal. Verus Advisory Inc. and Verus Investors, LLC (“Verus”) file a single form ADV under the United States Investment Advisors Act of 1940, as amended. Additional information about Verus Advisory, Inc. and Verus Investors, LLC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*



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

January 23, 2018

Agenda Item 6.2

**TO:** Board of Retirement

**FROM:** Lilibeth Dames, Investment Analyst *Lilibeth Dames*

**SUBJECT:** Presentation of Private Asset Semi-Annual Performance Reports as of June 30, 2017

**Recommendation**

Accept and review Verus' semi-annual private equity and private real assets performance reports as of June 30, 2017.

**Background**

The Board of Retirement approved the implementation of SamCERA's private equity program in August 2010. The Board subsequently approved the implementation of SamCERA's private real asset program in October 2013. Verus provides a semi-annual private equity and private real asset performance report as of June 30<sup>th</sup> and December 31<sup>st</sup> each year.

**Discussion**

As of June 30, 2017, SamCERA's private equity portfolio had a total market value of \$255.6 million (6.4% of SamCERA's total fund). SamCERA's target allocation for Private Equity is 7.0%. For the six-month period from January 1, 2017 through June 30, 2017, SamCERA committed to two new funds for a total of \$27 million. This brought the sum of private equity funds in the portfolio to twenty-one with \$350.5 million in committed capital across fourteen private equity managers.

As of June 30, 2017, SamCERA's private real assets portfolio had a total market value of \$49.7 million (1.2% of SamCERA's total fund). SamCERA's current target asset allocation to private real assets is 2.0%. For the six-month period from January 1, 2017 through June 30, 2017, SamCERA did not commit to any new funds. As of June 30, 2017, there were seven private asset funds in the portfolio with \$110 million in committed capital across six private real asset managers.

Mr. Shooshani and Mr. Nicolini will review the performance reports with the Board and be available for questions.

**Attachments**

- A. Verus Semi-Annual Private Equity Performance Report for Period Ended 6/30/2017
- B. Verus Semi-Annual Private Real Assets Performance Report for Period Ended 6/30/2017



**PERSPECTIVES  
THAT DRIVE  
ENTERPRISE  
SUCCESS**



PERIOD ENDING: JUNE 30, 2017

Private Equity Review

**San Mateo County Employees' Retirement Association**

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- PE Portfolio Diversification by Industry
- PE Portfolio Diversification by Vintage Year

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**Debt-Related:**

**HY and leveraged loan issuance up.** 1H17 high yield issuance of \$151.5 billion<sup>1</sup> is up 27.3% from 1H16 and leveraged loan volume of \$732 billion<sup>1</sup> is up 92.1% versus 2016. The growth is driven largely by robust refinancing activity.

**Spreads tightened across the board.** Reflecting a red hot credit market, HY Credit Index tightened by 246 bps or 36.5%<sup>2</sup> versus the same period last year. BB, B and CCC index tightened by 75 bps, 167 bps and 221 bps respectively, a 20.2%<sup>2</sup>, 27.1%<sup>2</sup> and 15.0%<sup>2</sup> decrease versus the same period last year.

**LBO debt terms loosen.** Total leverage (Debt / EBITDA) for 1H17 at 5.8x<sup>3</sup> up 8.5% from last year. Interest coverage (EBITDA / Cash Interest) for the first half of 2017 at 3.07x<sup>3</sup> down slightly by 2.2% from the first half of 2016.

**Buyouts & PE:**

**PE dry powder continues its surge.** For Q1'17, PE dry powder was at \$1.58 trillion<sup>4</sup>, up 31% from Q1'16. Total buyout dry power was at \$606 billion<sup>4</sup>, up 15.3% from 2016.

**PE fundraising is strengthening.** During 1H17, US PE firms raised \$129.8 billion<sup>5</sup>, up 32.9% from prior year. US buyout firms across all buyout strategies raised \$83.2 billion<sup>5</sup>, up 27.4% from prior year.

**Investment activity is down.** During 1H17, PE firms invested in \$138.4 billion<sup>6</sup> worth of deals, down 9.6% from prior year and closed on 2,009 transactions<sup>6</sup>, down 4.2% from prior year.

**LBO price multiples slightly below all time high.** As of June 30, 2017, US LBO purchase price multiples (Enterprise Value / EBITDA) are at 10.3x<sup>7</sup>, a 2.3% decrease from the first half of 2016 which was the all-time high.

**Exit activity decreased.** During 1H17, US PE firms exited 791 companies<sup>8</sup>, representing \$168.3 billion<sup>8</sup> in total transaction value. This represents a 39.1% decrease in the number of exits and a 38.4% decrease in total transaction value compared to prior year. In number of exits, the decline was led by a 48.5% decline in the total number of exits to strategic buyers, which currently comprise 44.6% of exits, and a 30.9% decline in the total value of exits to financial buyers, which currently comprise 49.6% of exits.

**VC:**

**VC dry powder increasing.** VC dry powder for Q1 2017 at \$181.0 billion<sup>4</sup>, up 32.0% from the same period last year.

**VC fundraising down.** US VC firms raised \$16.9 billion<sup>5</sup> in 1H17, a 2.4% decrease from the same period last year. 106 funds<sup>5</sup> closed in 1H17, a 21.8% increase from the same period last year. The average VC fund size decreased by 19.9% at \$159.4 million<sup>5</sup> versus the same period last year.

**Investment activity slowed.** US VC firms deployed \$38.5 billion<sup>9</sup> in capital for 1H17, a 4% decrease from prior year. The decline was consistent with the decrease in number of rounds closed at 4,145<sup>9</sup>, a 2.2% decrease from prior year. The average investment per deal declined also to \$9.5 million<sup>9</sup>, a 1.8% decrease from prior years.

**Series C valuations down but all else up** Consistent with recent trends, the average pre-money valuation of a Seed Stage, Series A, Series B and Series D investment was up 4.6% at \$6.2 million<sup>9</sup>, 11.8% at \$14.1 million<sup>9</sup>, 2.6% at \$38.6 million<sup>9</sup> and 25.0% at \$200 million<sup>9</sup>, respectively. However, the average valuation of Series C investments was down 14.6% at \$76.9 million<sup>9</sup>.

**Exit activity down.** VC exits are down for 1H17 compared to prior year. VC firms exited 433 companies<sup>10</sup> in 1H17, down 20.4% from the same period last year. Similarly, VC firm exits represented \$26.8 billion<sup>10</sup> in transaction value down 17.4% from the same period last year. In total number, the decrease was led by a 26.7% decline in the total exits to strategic buyers, which comprise 72.7% of total exits, and a 11.8% decline in exits by IPO, which comprise 6.9% of total exits.

**Ex US:**

**Ex US dry powder grew but less than dry powder in the US.** PE dry powder outside the US grew to \$660.5 billion<sup>4</sup> for Q1'17, a 7.7% increase versus the same period last year. This was led by Europe which grew to \$367.5 billion<sup>4</sup>, a 6.3% increase from prior year. Asian dry powder also increased to \$224.2 billion<sup>4</sup>, a 17% increase from prior year. Dry power in the rest of the world (excluding US, Europe and Asia) declined by 9.2% to \$68.3 billion<sup>4</sup>. Dry powder outside the US is less than dry powder in the US by 28.2%.

**Fundraising outside of U.S. is up.** For 1H17, Ex US fundraising was up 8.4% to \$80.7 billion<sup>5</sup> compared to prior year. The increase was led by Asian funds which raised \$31.3 billion<sup>5</sup>, up 222.2% from prior year. The increase was offset by a decrease in funds in Europe which only raised \$44.9 billion<sup>5</sup>, down 26.4% from prior year. Fundraising in the rest of the world was up 22% to \$4.4 billion compared to prior year.

**Investments in Asia up significantly.** For 2016, Ex-US PE firms transacted on \$56 billion<sup>6</sup> of aggregate value, up 18.2% from prior year. The largest increase in dollar value was in Asia where firms deployed \$18.0 billion<sup>6</sup> in deals, a 92.2% increase from prior years. The investment activity level in Europe and the rest of the world were relatively unchanged from prior year.

**Global purchase price multiples decrease slightly.** As of June 30, 2017, global median purchase price multiples (Enterprise Value / EBITDA) was down at  $10.3x^{10}$ , a 4.6% decrease from prior year. This was driven by a 2.4% decrease in US purchase multiples at  $10.3x^{10}$  offset by a 7.7% increase in purchase price multiples in Europe at  $10.03x^{10}$ .

**Leverage multiples in Europe moved up.** European LBO leverage multiples (Debt / EBITDA) have averaged  $5.1x^{11}$  in 1H17, an increase of 5.5% from prior year. European LBO Loan volume at \$17.9 billion<sup>12</sup> is up 32.6% versus prior year.

**Exit activity weaker in Europe.** Similar to the U.S. which recorded \$168.3 billion<sup>8</sup> in exits for 1H17, a decrease of 39.1% from prior year, exits in Europe amounted to \$85.5 billion<sup>13</sup>, a 48.3% decrease from prior year.

### Outlook:

**PE allocations likely to increase but by less than in the past.** A recent survey of institutional investors conducted on June 30, 2017 indicated that 39%<sup>14</sup> intend to increase their allocation for private equity compared to 56%<sup>14</sup> during the same period last year. A majority or 56%<sup>14</sup> intend to maintain their allocation for private equity compared to 37%<sup>14</sup> during the same period last year.

**Institutional investors most interested in investing in North America and like small- to mid-market buyouts.** Based on the survey conducted on June 30, 2017, Institutional investors view North America as the most attractive location to invest in the current economic climate with 69%<sup>14</sup> choosing it as their preferred investment destination. This compares favorably versus Europe (50%<sup>14</sup>) and Asia (30%<sup>14</sup>). In the same survey, 63%<sup>14</sup> of institutional investors also cited the small to mid-market buyout strategy as presenting the best opportunities in the current financial climate. Venture capital was mentioned next with 33%<sup>14</sup> of institutional investors believing it presented the best opportunities.

1. *Leveraged Loan Monthly Thomson Reuters LPC*
2. *Guggenheim High-Yield Bank Loan Outlook*
3. *LCD's Leveraged Buyout Review*
4. *Preqin Dry powder by Geography (Preqin Website) Dry powder includes Buyout, Distressed PE, Growth, Mezzanine, Other, Real Estate and Venture Strategies. Data as of the latest available date which was March 2017 which was then compared to March 2016.*
5. *Preqin Private Equity Fundraising*
6. *Preqin Private Equity-Backed Buyout Deals and Exits Factsheet*
7. *US LBO Review*
8. *Pitchbook PE Exits and Company Inventory Report*
9. *PitchBook's VC Valuations*
10. *PitchBook's Venture Capital Liquidity Data Sheet*
11. *LCD European Leveraged Buyout Review*
12. *European Leveraged Lending Review*  
*Ex US Multiples were estimated utilizing a number of sources including Preqin Private Equity-Backed Buyout Deals and Exits Factsheet, LCD's Leveraged Buyout Review, Europe Leverage Lending Review and Leveraged Loan Monthly Thomson Reuters LPC.*
13. *Annual US PE Breakdown*
14. *Preqin Investor Outlook: Alternative Assets, Data Pack*

Investment Type	Policy Target	Policy Range	Market Value %	Market Value \$(000)	Unfunded Commitment \$(000)	Market Value + Unfunded \$(000)
<b>SamCERA - Total Plan</b>			<b>100.0%</b>	<b>4,022,270</b>		
Buyout (60% +/- 20%)	4.2%	2.8%-5.6%	4.0%	160,447	78,445	238,892
Venture Capital (20%, 0%-30%)	1.4%	0.0%-2.1%	1.7%	69,329	10,048	79,377
Debt-Related/Special Situations (20% +/- 10%)	1.4%	0.7%-2.1%	0.6%	25,827	58,215	84,042
<b>Total Private Equity</b>	<b>7.0%</b>	<b>6%-10%</b>	<b>6.3%</b>	<b>255,603</b>	<b>146,708</b>	<b>402,311</b>

### Portfolio Summary

- As of June 30, 2017, the Private Equity Portfolio had a total market value of \$255.6 million, with \$160.4 million in Buyout, \$69.3 million in Venture Capital, and \$25.8 million in Debt-Related/Special Situations. Total market value is the current reported value of investments, excluding the remaining amount of unfunded commitments.
- SamCERA has contributed \$235.7 million toward its Private Equity commitments. Unfunded commitments total \$146.7 million.
- All sub-asset classes are within the policy range while commitments continue to be made to new managers at a slower pace.

### Portfolio Activity

- SamCERA committed \$7.0 million to ABRY Senior Equity V and \$20.0 million to Great Hill Equity Partners VI in the first quarter of 2017.



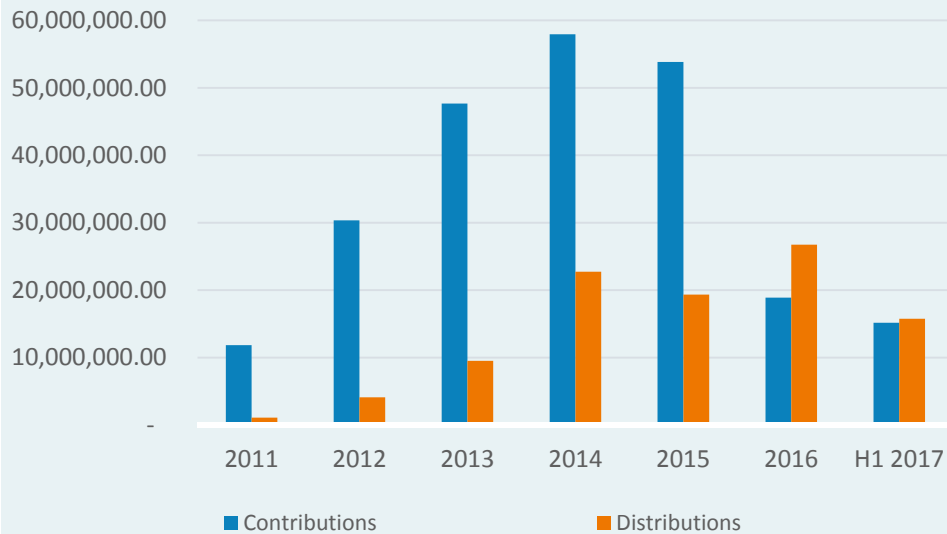
## Performance

- The Private Equity portfolio’s performance, as measured by net IRR, is 18.09%. Capital weighted average investment age of the portfolio is 2.94 years.
- The portfolio is currently valued at \$255.6 million. Together with \$99.3 million in realized distributions, the Total Value at \$354.9 million is approximately \$119.2 million above \$235.7 million total capital contributions, resulting in a total value multiple of 1.51x and a distribution multiple of 0.42x.
- Attribution of returns:
  - Buyouts up \$71.17 million / +49.2% versus cost (Sycamore, ABRY VII, Cevian II, and Warburg Pincus XI leading), with 38.3% of called capital

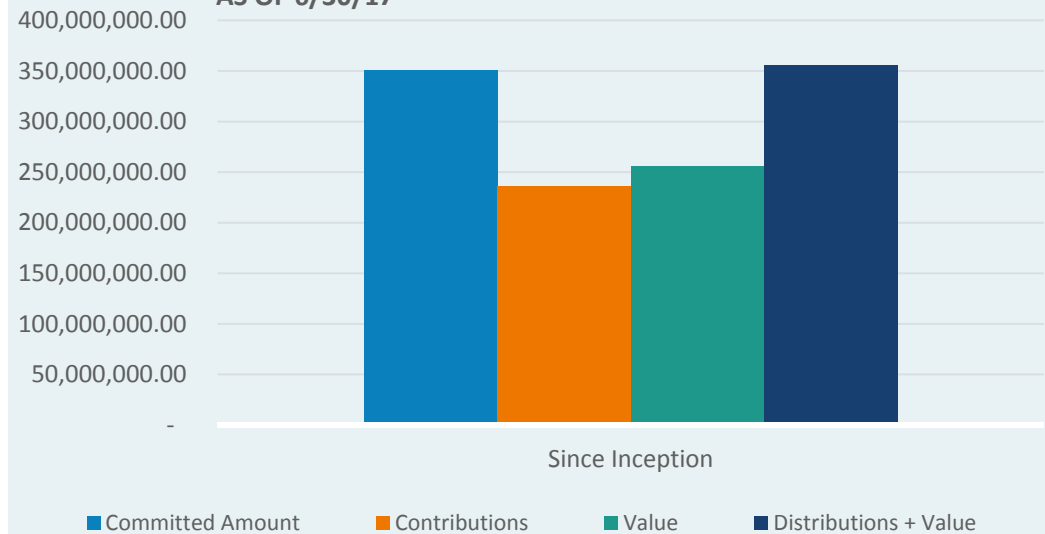
realized and distributed;

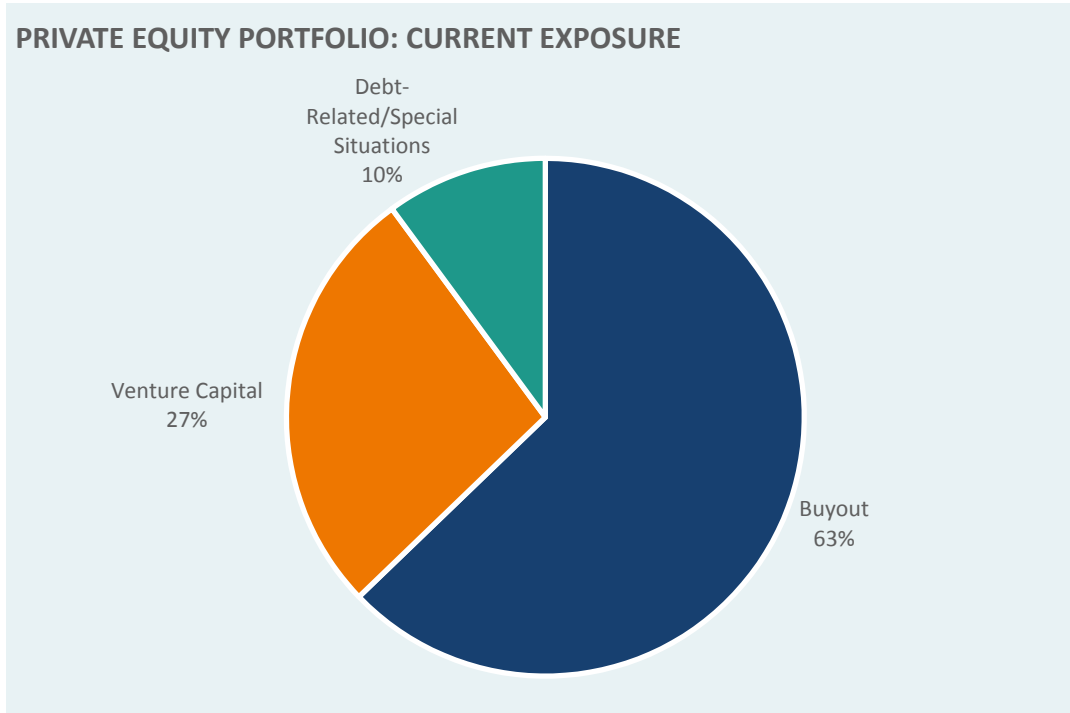
- Venture Capital up \$32.27 million / +73.3% versus cost (General Catalyst VI, NEA 14, Emergence Capital III, NEA 14, and Third Rock III leading), with 15.8% of called capital realized and distributed; and
- Debt-related/Special Situations up \$15.76 million / +33.5% versus cost (ABRY Advanced Securities II and III leading), with 78.6% of called capital realized and distributed.
- Within Private Equity, the current allocation of invested capital is 62.8% to Buyout, 27.1% to Venture Capital, and 10.1% to Debt-Related/Special Situations.

### CASH FLOWS ON ANNUAL BASIS



### CUMULATIVE CASH FLOWS AND VALUATION AS OF 6/30/17

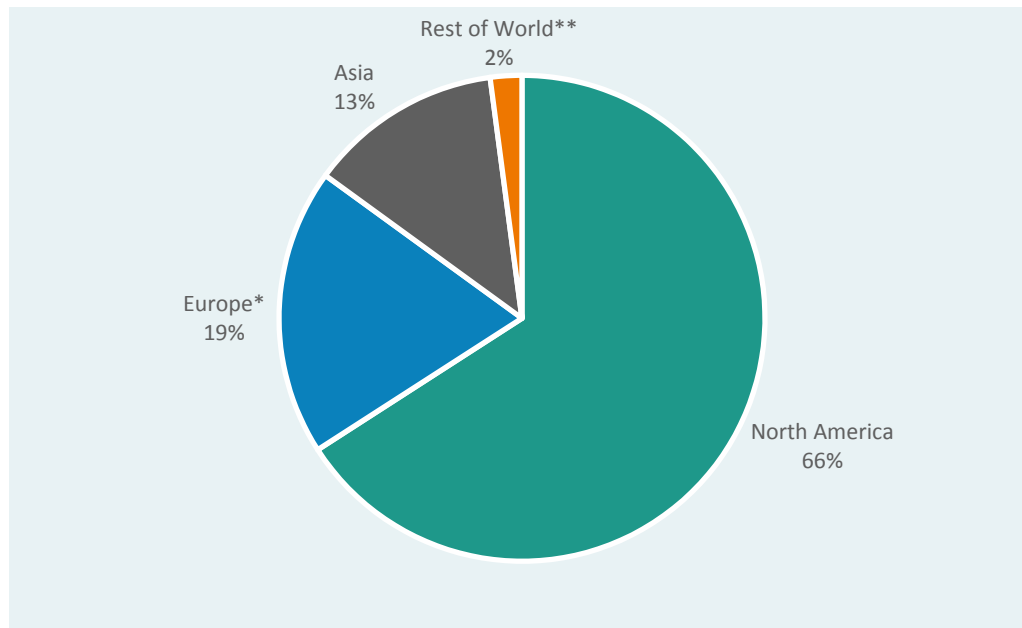




# Geography

## Portfolio Diversification

Period Ending: June 30, 2017



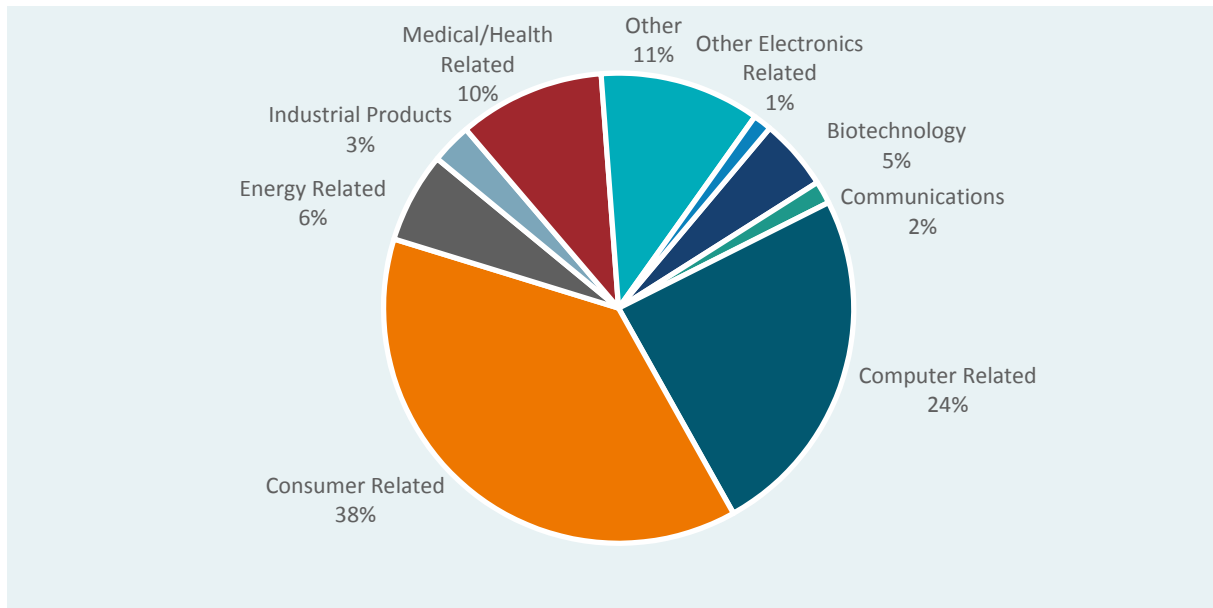
\* Europe includes 100% market value from Cevian II.

\*\* Rest of World includes Chile and Australia.

Based on the value of portfolio companies as of June 30, 2017, if provided by the partnerships. Differences between reported value and the total portfolio valuation is due to temporary cash funds, fees, other expenses, and holdings with undisclosed geography breakdown.

# Industry Portfolio Diversification

Period Ending: June 30, 2017

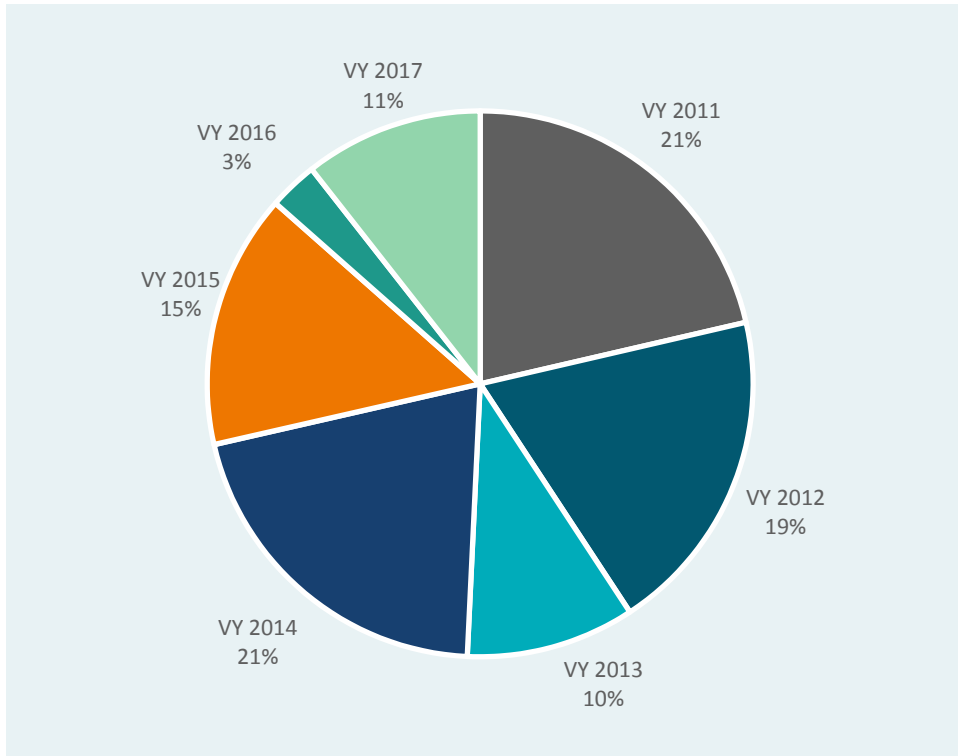


\* Please note the industry names have been reclassified to Burgiss' standard, which uses Thomson Reuters' Venture Economic Industry Codes.

Based on the value of portfolio companies as of June 30, 2017, if provided by the partnerships. Differences between reported value and the total portfolio valuation is due to temporary cash funds, fees, other expenses, and holdings with undisclosed geography breakdown.

# Vintage Year Portfolio Diversification

Period Ending: June 30, 2017



- **As of June 30, 2017, the Private Equity Portfolio is slightly below the lower range of its target allocation, with exposures within target diversification bands.**



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PERIOD ENDING: JUNE 30, 2017

Real Assets Review

**San Mateo County Employees' Retirement Association**

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- RA Portfolio Diversification by Geography
- RA Portfolio Diversification by Vintage Year

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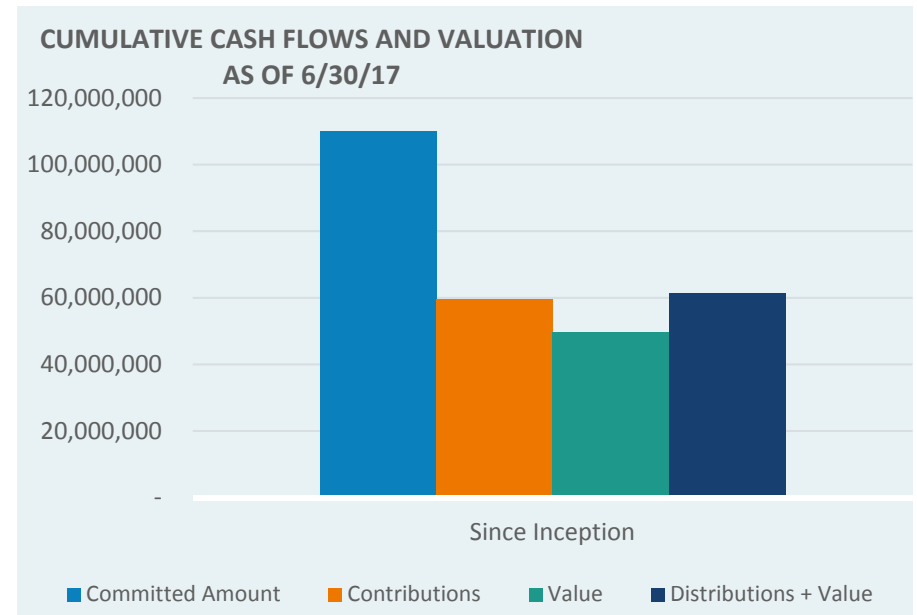
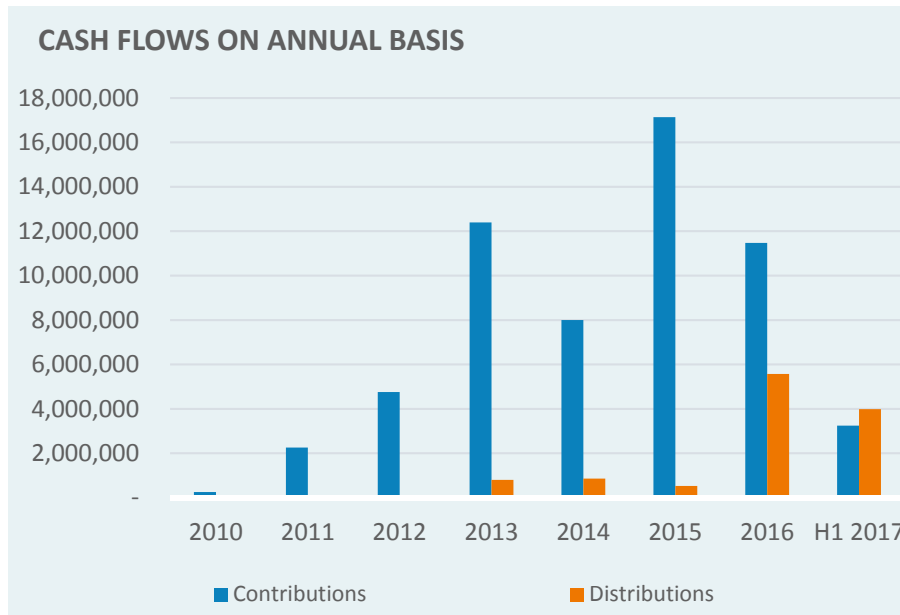
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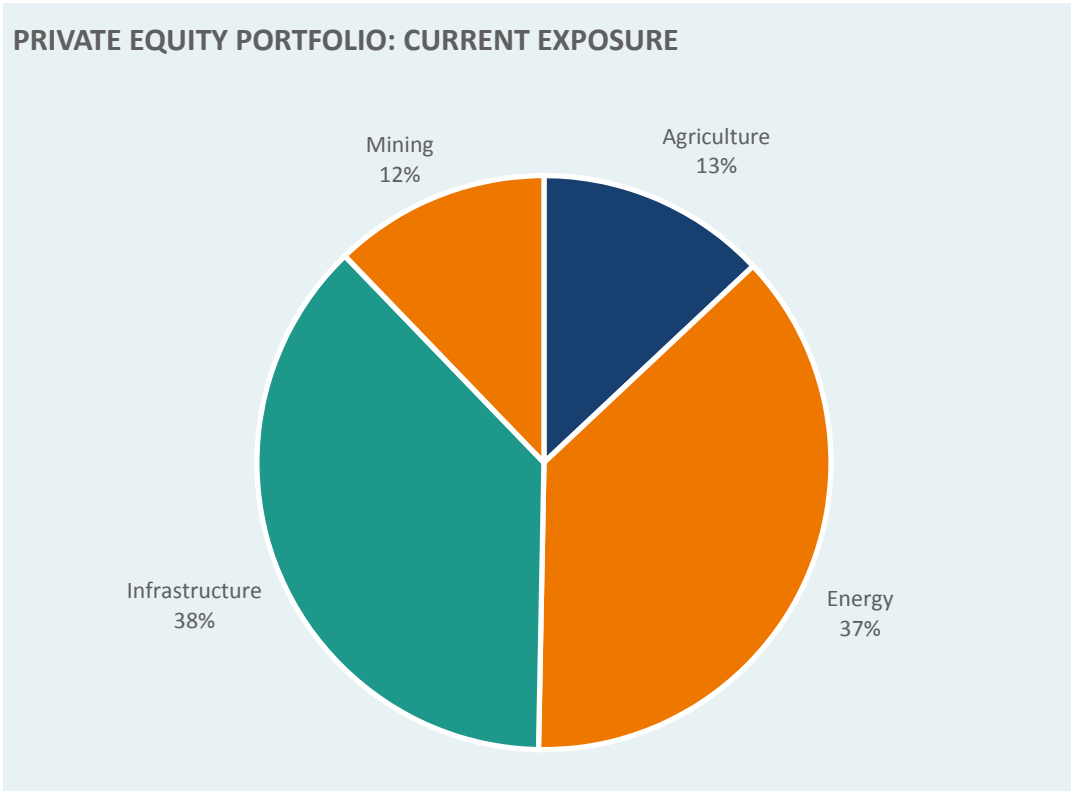
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**Performance**

- The portfolio is currently valued at \$49.7 million. Together with \$11.7 million in realized distributions, the Total Value at \$61.4 million is approximately \$1.9 million above \$59.5 million total capital contributions, resulting in a total value multiple of 1.03x and a net IRR of 1.28%. Capital weighted average investment age of the portfolio is 2.63 years.
- SamCERA funded a liquid real asset pool in 2016 that seeks to proxy many of the risk exposures targeted in private real assets. SSgA is managing the pool in a mix of passive exposures to infrastructure, natural resource equities and commodities.
- Within Private Real Assets, the current allocation of invested capital is 13.0% to Agriculture, 37.3% to Energy, 37.5% to Infrastructure, and 12.2% to Mining. The Portfolio is expected to be diversified over a period of 3 to 5 years.

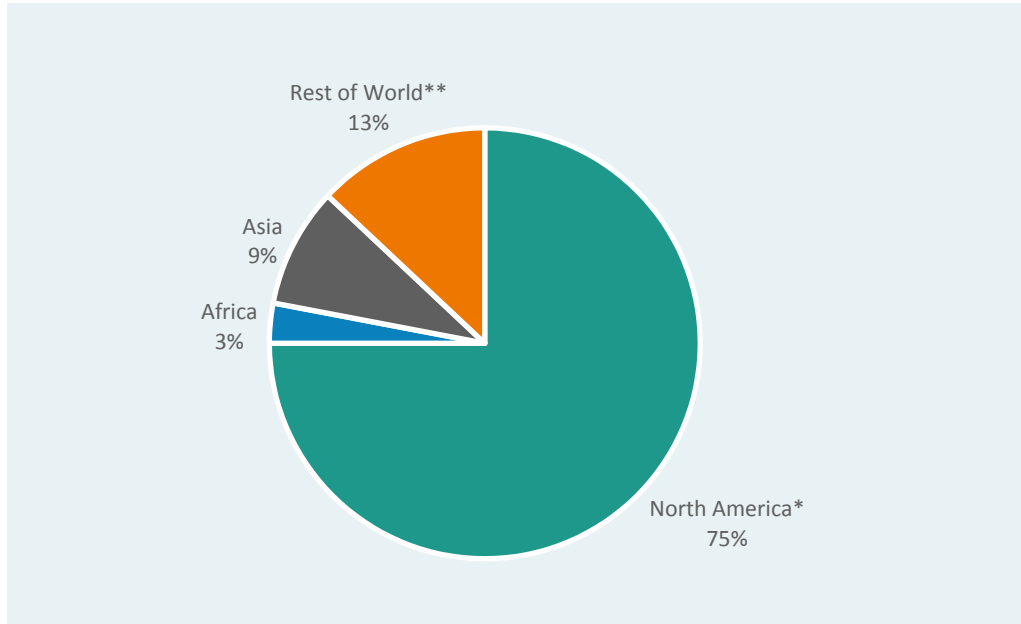




# Geography

## Portfolio Diversification

Period Ending: June 30, 2017



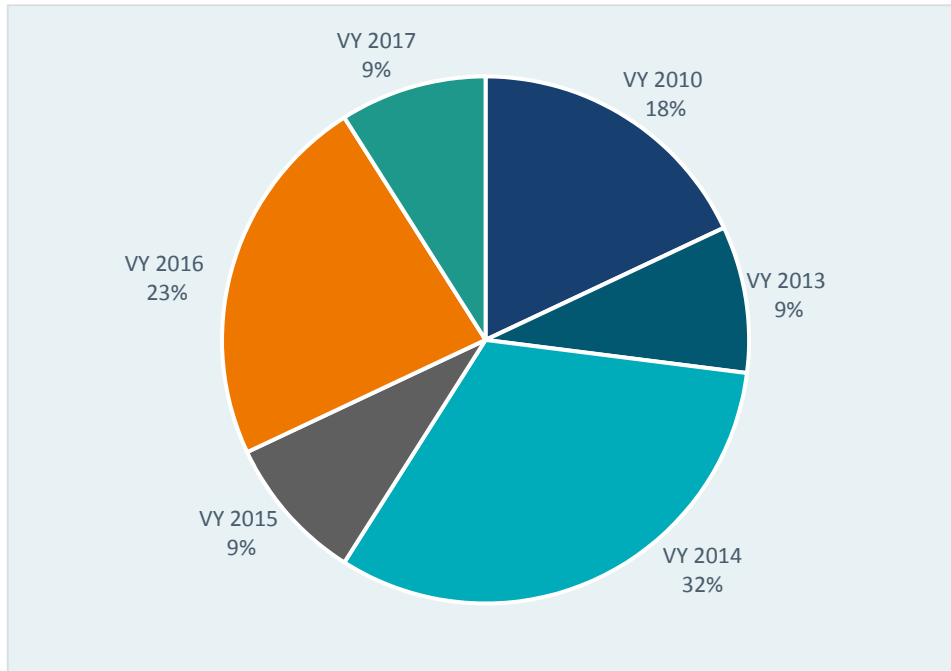
\* North America includes 100% market value from Sheridan II-B.

\*\* Rest of World includes Chile and Australia.

Based on invested capital as of June 30, 2017, if provided by the partnerships. The portfolio is expected to be US-biased given the mandate to hedge domestic inflation.

# Vintage Year Portfolio Diversification

Period Ending: June 30, 2017



- SamCERA committed to Quantum Energy VII in September 2017 which will be the Plan's first upstream energy investment since EnCap in 2013.
- Verus and Staff are in the final stages of due diligence on an global infrastructure fund which will mark our third infrastructure investment in the Private Real Assets portfolio.
- Looking forward, we expect to increase exposure to infrastructure as a way to balance out the risk associated with commodity-linked investments. Opportunities in power and sector-focused infrastructure funds appear promising in the 2018 pipeline.

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

January 23, 2018

Agenda Item 6.3

**TO:** Board of Retirement  
**FROM:** Michael Coultrip, Chief Investment Officer  
**SUBJECT:** Presentation on SamCERA's Absolute Return Portfolio

*Michael R Coultrip*

**Recommendation**

Review the educational report on hedge funds and SamCERA's Absolute Return Portfolio and provide direction to staff as needed.

**Background**

This is the first of two educational presentations that will set the stage for the Board's annual review of SamCERA's asset allocation. As per the 2018 consultant work plan that was shared with the Board in December, Verus will provide an educational session on hedge funds and our absolute return portfolio at the January meeting. In February, Scott Whalen from Verus will provide an educational session on risk parity.

SamCERA's target allocation to absolute return, which is part of the diversifying portion of the portfolio, is currently 6%.

**Discussion**

Paul Kreiselmaier and Margaret Jadallah from Verus will present this agenda item. They will summarize and review: (1) the different types of hedge fund strategies, (2) SamCERA's current implementation of its absolute return portfolio, and (3) alternative beta strategies and how they could be used to complement our diversifying portion of the portfolio.

The Verus presentation will be distributed in the day-of folder.



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JANUARY 2018

Absolute Return Education

**SamCERA**

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Hedge Fund/ Absolute Return Overview **TAB I**

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Plan Level Impact **TAB II**

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Alternative Beta **TAB III**

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Conclusion **TAB IV**

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Appendix **TAB V**

***Past performance is no guarantee of future results.** This document is provided for informational purposes only and is directed to institutional clients and eligible institutional counterparties only and is not intended for retail investors. Nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security or pursue a particular investment vehicle or any trading strategy. This document may include or imply estimates, outlooks, projections and other “forward-looking statements.” No assurance can be given that future results described or implied by any forward looking information will be achieved. Investing entails risks, including possible loss of principal. Verus Advisory Inc. and Verus Investors, LLC (“Verus”) file a single form ADV under the United States Investment Advisors Act of 1940, as amended. Additional information about Verus Advisory, Inc. and Verus Investors, LLC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Verus – also known as Verus Advisory™ or Verus Investors™.*



# I. Hedge Fund/ Absolute Return Overview

# What is a Hedge Fund

- Hedge funds are private investment vehicles that are generally unconstrained with regards to available investment strategies or securities traded.
- Hedge Funds have the ability to go both long and short securities and is often seen as the biggest source of value between a hedge fund and a traditional long-only investment fund.
- Hedge funds are not limited to any one asset, market, or trading style, and they can be managed on a discretionary basis or systematically by proprietary quantitative algorithms.
- Each individual strategy will typically have a predefined space of expertise and are often classified according to such styles, such as merger arbitrage, long/short equity, structured credit, emerging markets macro, etc.
- The typical goal of a hedge fund is to have an “edge” over the broader market participants and deliver either a) more attractive risk-adjusted returns than traditional markets or b) alpha, a return stream not easily obtained by investing in any market factor or beta.

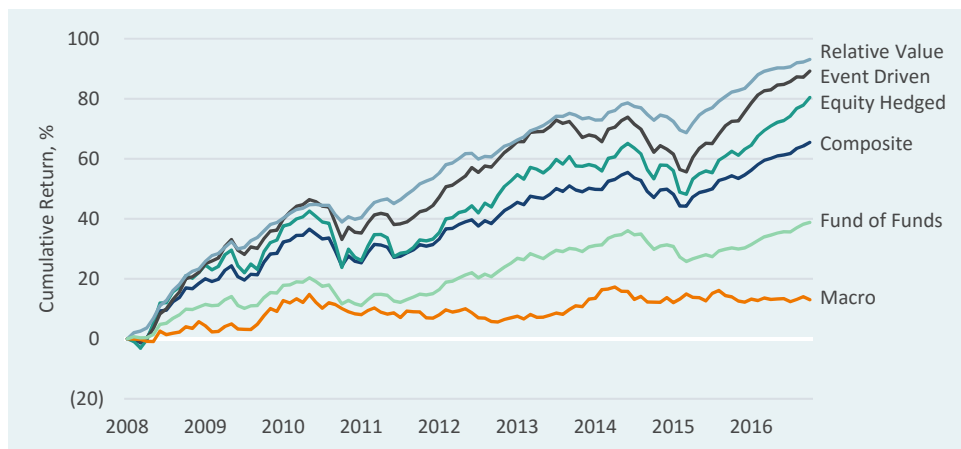
# Implementation options

	Alternative Beta/Risk Premia	Funds-of-Funds/Multi-Strategy	Direct Hedge Funds
<b>Pros</b>	<ul style="list-style-type: none"> <li>— Simple implementation</li> <li>— Immediate diversification</li> <li>— Low operational risk exposure</li> <li>— Very liquid, low cost, intuitive underlying strategies</li> </ul>	<ul style="list-style-type: none"> <li>— Simple implementation</li> <li>— Immediate diversification</li> <li>— Single line-item reporting</li> <li>— Low operational risk exposure</li> </ul>	<ul style="list-style-type: none"> <li>— Customized HF portfolio discussion and advice from service provider (Growth vs Diversifying)</li> <li>— Portfolios of uncorrelated managers</li> <li>— Funds chosen for idiosyncratic skills</li> </ul>
<b>Cons</b>	<ul style="list-style-type: none"> <li>— Minimal “alpha” potential</li> <li>— Low customization offered</li> <li>— May occasionally exhibit correlation to Growth portfolio risk factors</li> <li>— Capacity constraints already exist for certain preferred providers</li> <li>— Short track records</li> </ul>	<ul style="list-style-type: none"> <li>— <i>Traditional FoF are expensive (2 and 20)</i></li> <li>— Low customization offered</li> <li>— Overly diversified</li> <li>— Higher correlation to broad markets</li> </ul>	<ul style="list-style-type: none"> <li>— Increased governance and administrative complexity</li> <li>— Time-consuming discussion and debate on complex strategies representing relatively small percentage of plan assets</li> <li>— Extensive operational due diligence necessary</li> <li>— Potential for Headline Risk</li> <li>— Expensive (2 and 20)</li> <li>— Specialized consulting service</li> </ul>

# Hedge funds...not a homogenous asset class

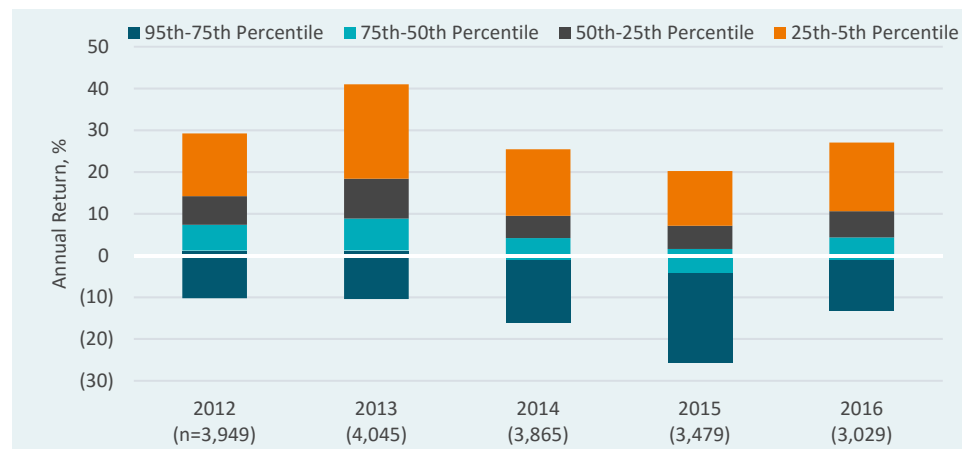
- Due to the diverse nature of hedge fund strategies and funds, both strategy and manager selection significantly impact portfolio results. Since the GFC, Relative Value strategies have, on average, stood out as top performers while Macro managers, on average, lagged the other strategy groups. We caution that these results are time-period specific in that Macro strategies were positive in 2008 while the other strategies all lost 10% or worse that year.
- The annual hedge fund dispersion chart below shows the significant performance variation between strong and weak performing managers across the hedge fund universe. Given these consistent and significant performance differentials, we strongly believe that access to and selection of the best managers is vital to successful portfolio outcomes.

HFRI INDEX PERFORMANCE SINCE JANUARY 2009



Source: Hedge Fund Research

HEDGE FUND DISPERSION



Source: eVestment/HFN.

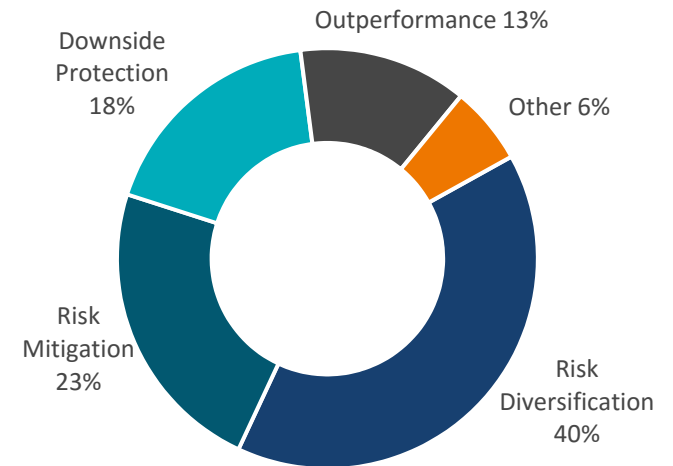
# Summary of Strategies

Strategy	Description	Watch points	Outlook/Implementation	View
<b>Equity Hedge</b>	Diversifier/return driver- An equity long-short strategy which takes long positions in stocks expected to increase and shorts positions in stocks that are expected to decrease in value	<ul style="list-style-type: none"> <li>— Strong 2017 YTD long/short stock selection spread bolstered by falling stock correlations.</li> <li>— A sudden risk spike could adversely impact stock picking conditions and corresponding portfolio returns.</li> </ul>	We have an overall neutral view on Equity Hedge strategies. We favor diversifying low net exposure and equity market neutral relative to long biased strategies. We favor managers with expertise outside crowded trade ideas, strong shorting skills, and the risk management capabilities to ride out potential volatility spikes.	<b>Neutral</b>
<b>Relative Value</b>	Diversifier – Takes advantage of price differentials between related financial instruments, such as stocks and bonds	<ul style="list-style-type: none"> <li>— Favorable trading conditions characterized by falling volatility and tightening credit spreads.</li> <li>— An unexpected regime change could sour the current market environment, particularly given the highly leveraged nature of these strategies.</li> </ul>	We have a positive view on Relative Value strategies, particularly in their roles as diversifiers both within portfolios and in the current market environment. We favor less crowded sub strategies and managers with strong skills sourcing and sizing ideas along with the risk management capabilities needed to thrive in a potentially higher volatility environment.	<b>Positive</b>
<b>Macro</b>	Diversifier – Bases its positions in various equity, fixed income, currency, commodities, and future markets, primarily on the overall economic and political views of various countries	<ul style="list-style-type: none"> <li>— Pick up in global growth and corresponding withdrawal of central bank stimulus could broaden the opportunity set.</li> <li>— Unexpected slowdown and/or new aggressive stimulus could break trends and squeeze crowded or levered positions.</li> </ul>	We have a positive view on Macro strategies, particularly in their roles as diversifiers both within portfolios and in relation to the current market environment. We favor managers with wide opportunity sets, expertise in less crowded niche segments, strong capital allocation skills, and risk management practices.	<b>Positive</b>
<b>Event Driven</b>	Return Driver – Seeks to exploit pricing inefficiencies that may occur before or after a corporate event	<ul style="list-style-type: none"> <li>— Pick up in global growth and reasonably available credit should bolster levels of corporate events and value realizations.</li> <li>— Lagging growth or corporate activity levels could result in losses or a deterioration in opportunity levels.</li> </ul>	We have a negative view overall on Event-Driven strategies. Within the group, we favor equity oriented managers with expertise in idiosyncratic situations over credit focused managers due to risk / return tradeoff driven by tight credit spreads. Changing credit market conditions could impact our view.	<b>Negative</b>
<b>Alternative Beta</b>	Diversifier- seek to efficiently capture the generic variations and systematic risk exposures of common hedge fund strategies	<ul style="list-style-type: none"> <li>— Significant capital inflows could negatively impact forward returns to specific factors, and/or strategies employed in portfolios.</li> <li>— Continuance of historically low levels of volatility may hinder returns without corresponding increase in leverage used.</li> </ul>	We have a positive view on the combination of transparency, liquidity, cost and diversification benefits inherent in multi-factor, multi-strategy Alternative Beta funds. We favor managers with considerable history managing portfolios comprised of similar factors and/or related factors and strategies managed at faster rebalancing frequencies.	<b>Positive</b>

# Hedge fund allocation trends & flows

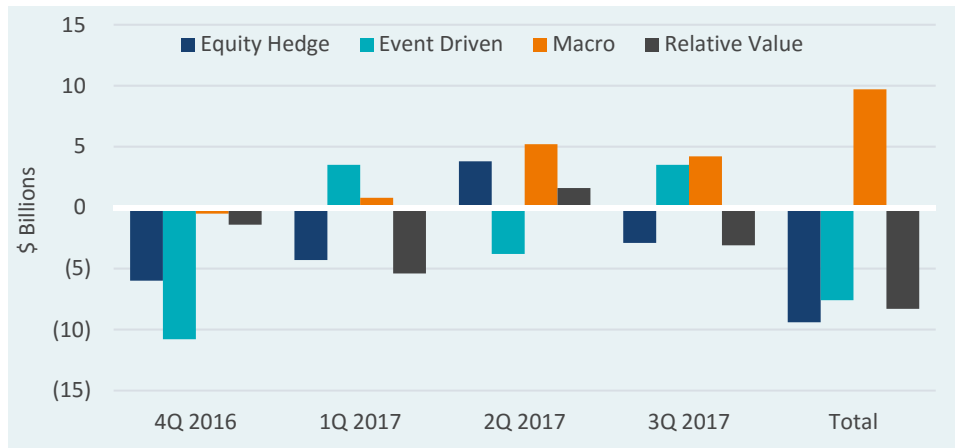
- A recent Morgan Stanley Prime Brokerage survey asked their institutional client base why they invested in hedge funds. The responses overwhelmingly favored risk management and downside protection over outperformance.
- Over the last four quarters, capital flowed into macro strategies and out of equity hedge, event driven and relative value strategies. Within both macro and equity long short hedge fund strategies, capital flowed into quantitative strategies and out of fundamental strategies.
- Hedge fund quarterly net flows have gradually improved since bottoming in 2016Q3. The industry's 2017 YTD net flows are slightly positive due to inflows in the second and third quarters.

Role of Hedge Funds



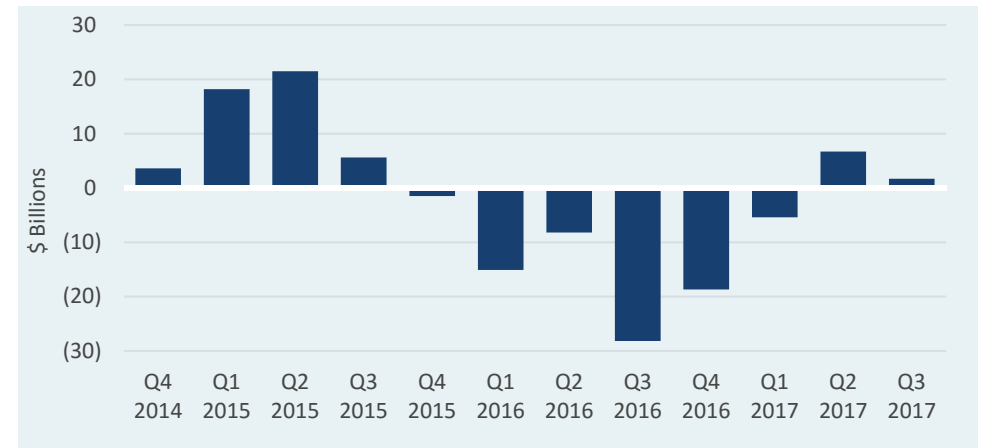
Source: Morgan Stanley

NET FLOWS TO HFR SUB-STRATEGIES, LAST 4 QUARTERS



Source: HFR

QUARTERLY NET FLOWS TO HEDGE FUNDS



Source: HFR

# SamCERA Absolute Return Managers

SamCERA's Absolute Return focus is on strategies that are uncorrelated to public markets, reduce equity beta and offer lower fees and increased transparency.

## ▪ AQR DELTA XN

- Objective –To deliver efficient exposure to a well diversified portfolio of Hedge Fund Risk Premia with low correlation to traditional asset classes, attractive liquidity and leverage characteristics, and a 0.8 Sharpe ratio over a market cycle.
- Deliver efficient exposure to a well-diversified portfolio of hedge fund strategies including convertible arbitrage, event driven, fixed income relative value, equity market neutral, long/short equity, dedicated short bias, global macro, managed futures and emerging markets.

## ▪ Aberdeen Standard GARS

- Objective – Provide positive absolute return over a medium term (3 year) time horizon with lower volatility to equities irrespective of market conditions.
- Multi strategy approach with a broad range of return opportunities dynamically allocation to traditional markets and benefiting from security selection, GARS can also apply more advanced techniques (directional investment ideas, relative value)

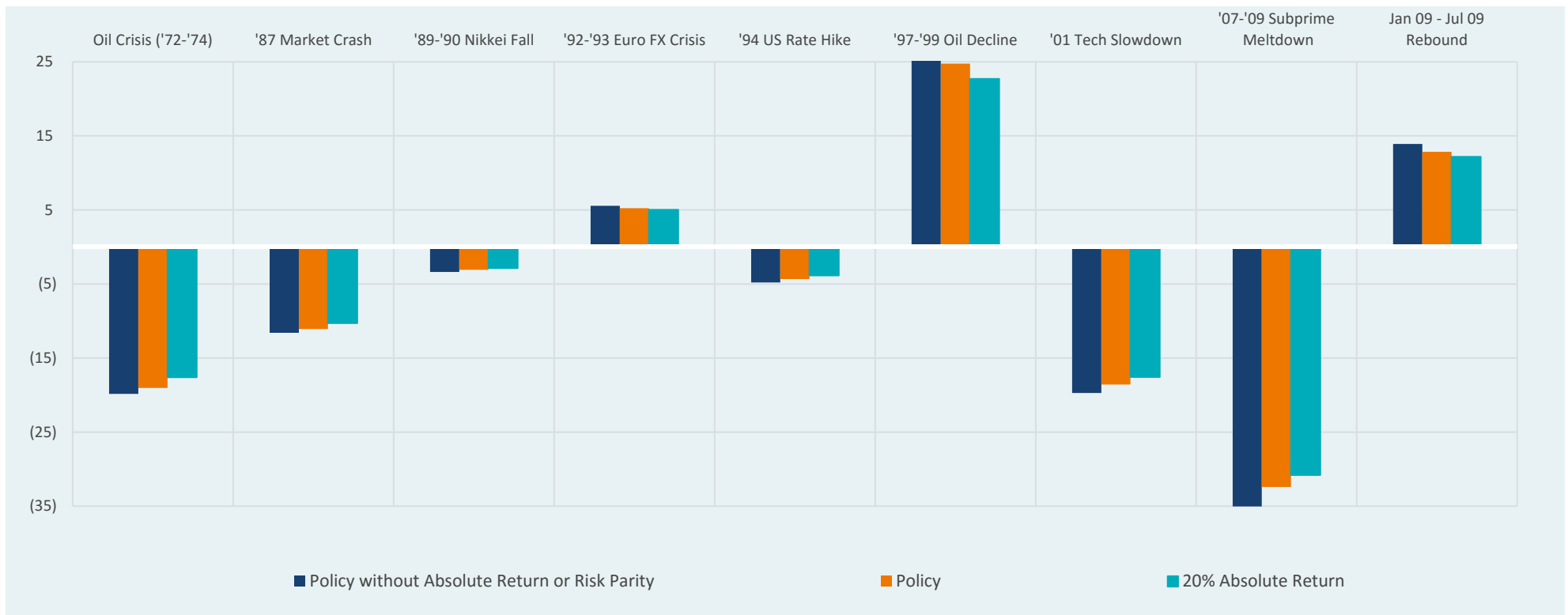
SamCERA's Absolute Return portfolio is lower risk in its objectives and implementation than a typical portfolio of direct hedge funds.

# II. Plan Level Impact



# Total plan level impact during stress periods

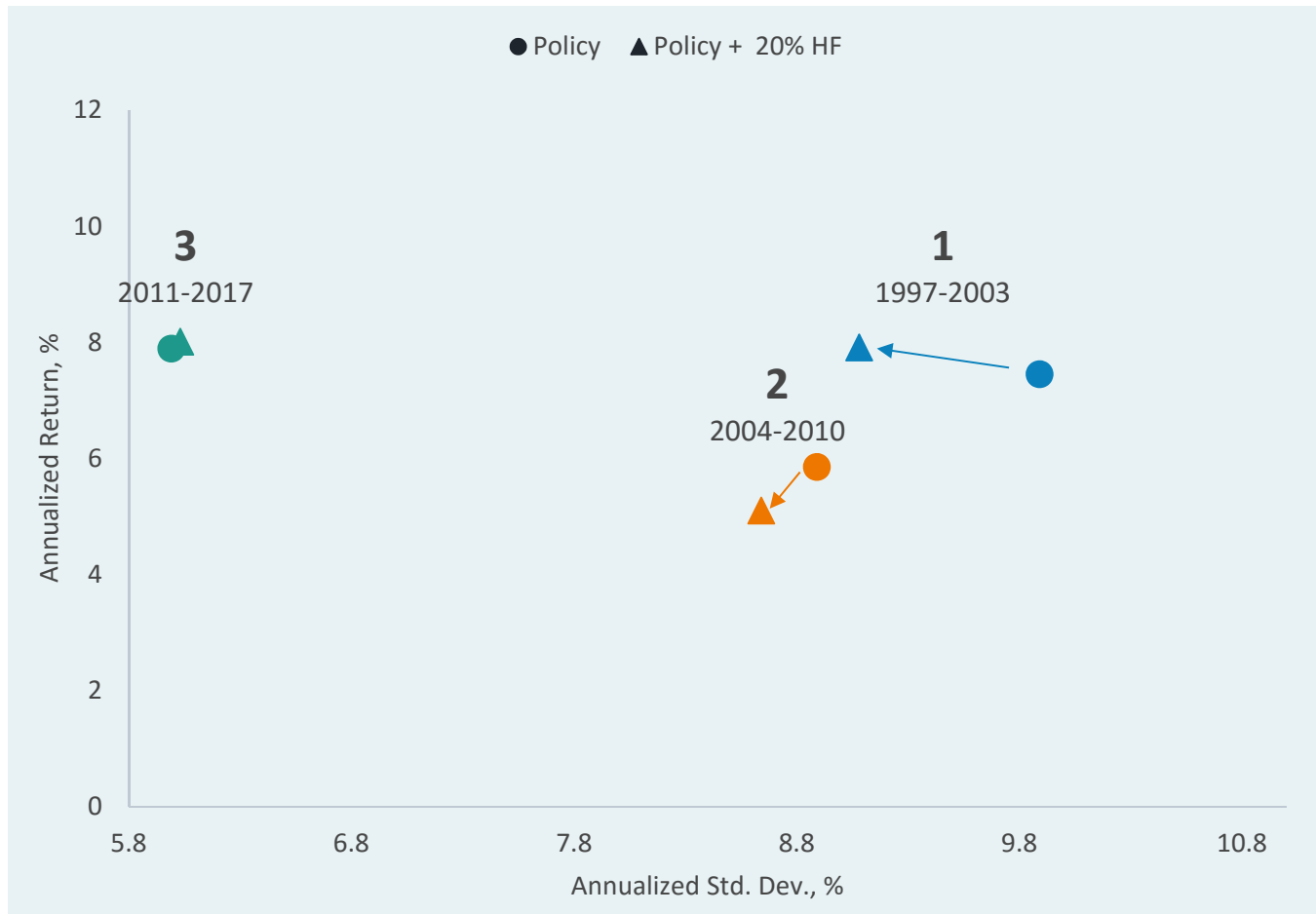
— The chart below illustrates the net current return impact on a the policy portfolio looking at portfolios with varying degrees of hedge fund and risk parity allocations (0% to 20%) across a variety of historical stress environments. As equity markets fell sharply during the Oil Crisis ('72 – '74), the increased hedge fund option would have resulted in a larger impact by preserving value. In contrast, equities strongly rallied during the '97 – '99 Oil Decline so that increased hedge fund portfolios lagged.



Source: MSCI Barra, Verus

# Total plan level impact over time

EFFECT OF ADDING 20% HFRI COMPOSITE TO POLICY PORTFOLIO BY TIME PERIOD



Adding hedge funds to traditional portfolios historically achieved return enhancement and/or risk reduction benefits (see #1, 2).

In the post-GFC period (#3), the hedge fund augmented portfolio had the same risk/return profile as policy.

We believe that adding direct or alt beta hedge fund exposure tailored to client preferences offers total portfolio-level benefits.

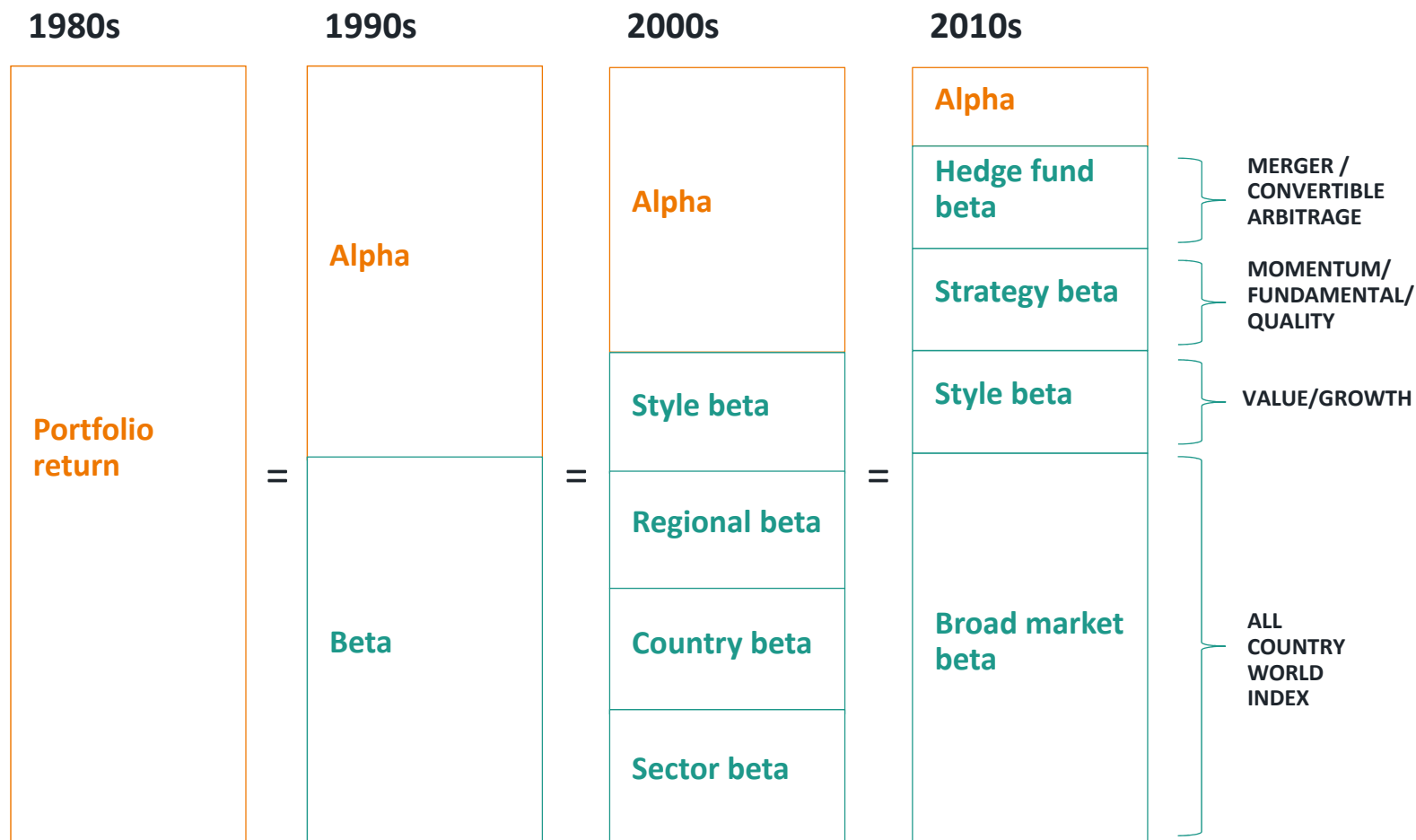
# III. Alternative Beta

# Alternative Beta risk factors

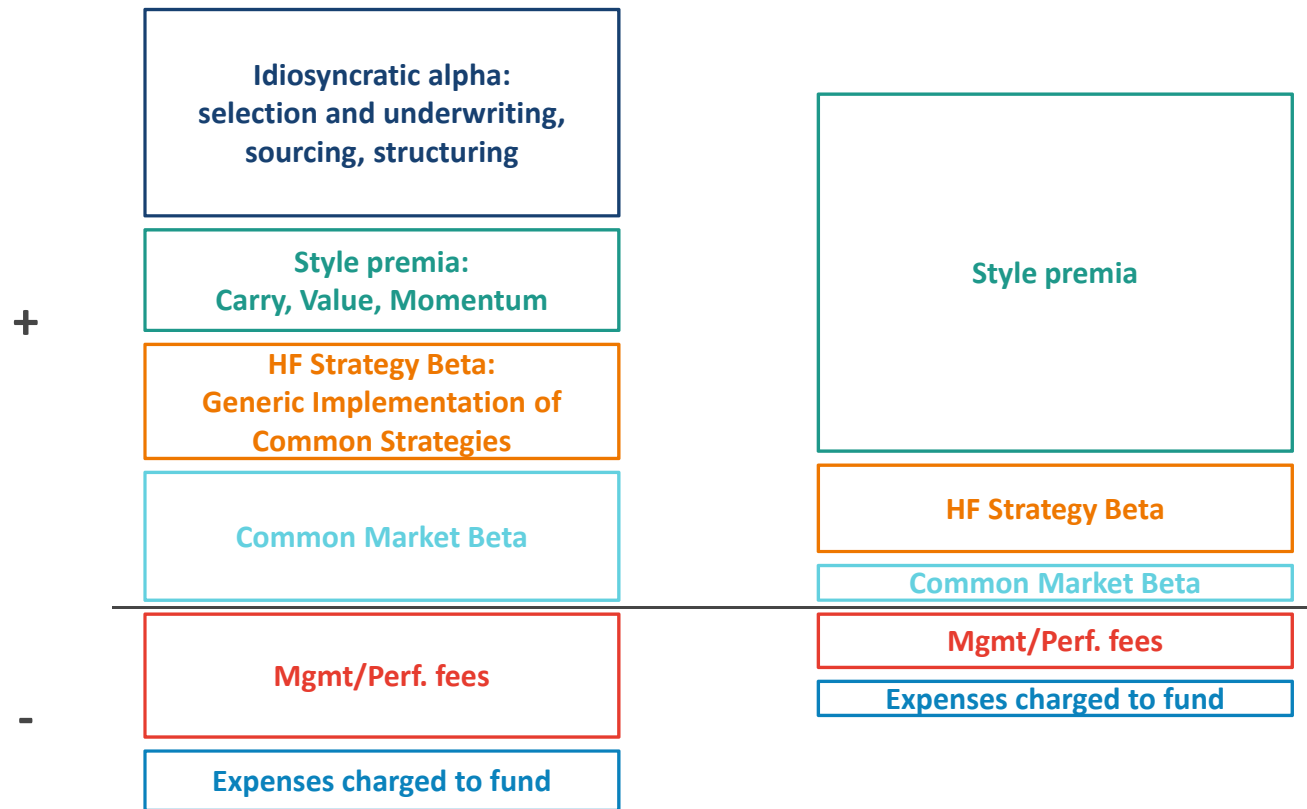
Alternative Beta strategies can provide exposure to unique risk factors/premiums across asset classes:

- **Value** (Equity Long/Short, Distressed, Short-Biased, Equity Market Neutral, EM, Convertible Arbitrage, Macro)
- **Momentum** (Equity Long/Short, Commodities, Equity Market Neutral, EM)
- **Mean Reversion** (Equity Long/Short, Equity Market Neutral, Fixed Income Arbitrage, Managed Futures, Macro)
- **Carry** (Managed Futures, Macro, Fixed Income Arbitrage)
- **Trend** (Managed Futures, Macro)
- **Liquidity** (Fixed-income, Distressed, Asset Based Lending)
- **Volatility / Insurance** (Merger Arbitrage, Equity Long/Short, Reinsurance, Volatility Arbitrage)

# Evolving hedge fund beta and alpha



# Illustrative sources of returns



Illustrative value sources  
for Hedge Funds

Illustrative value sources  
for Alternative Beta

Desired characteristics  
of Alternative Beta:

- Ability to achieve **target volatility** to have meaningful impact to total portfolio
- **Breadth of strategies** to benefit from netting, implemented in a high quality manner
- **Ongoing research and resourcing** to stay abreast of industry trends and expansion into new markets and factors

# Alternative Beta characteristics

- A portion of a hedge fund's returns do not just reflect the manager's skill (alpha), but can be attributed to common risk factors (beta)
- Hedge fund betas reflect the fact that similar strategies are exposed to common systematic risks.
- Alt Beta managers seek to efficiently capture these generic variations and systematic risk exposures of common hedge fund strategies.
- These funds typically offer cost savings, increased transparency, and greater liquidity when compared to direct hedge fund or hedge fund of funds investments.

# Alternative Beta characteristics

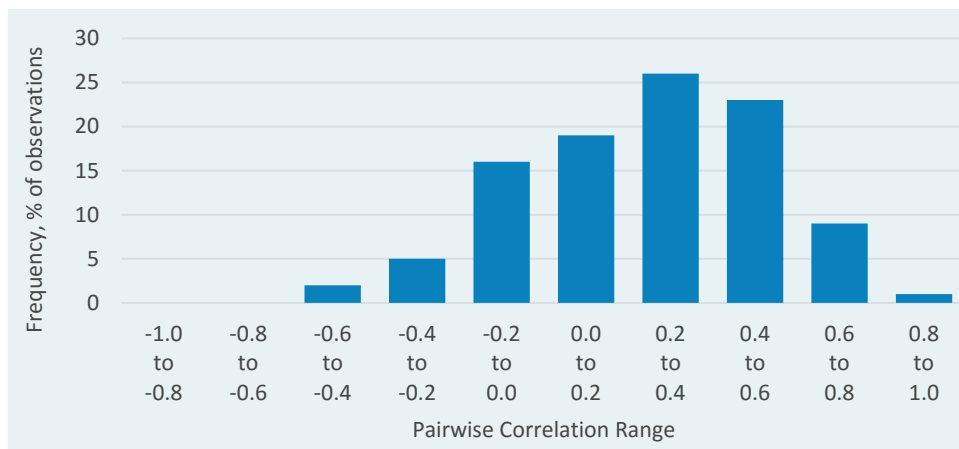
Characteristics	Detail
Low fee structure	<ul style="list-style-type: none"><li>— Hedge funds typically charge a 1.5-2% management fee and 15-20% performance fee, while Alt Beta strategies typically have a management fee of 1% or lower, and may have performance fees ranging from 10-20%.</li><li>— Alt Beta offerings are multi-strategy (i.e. exposure to various hedge fund strategies such as long/short equity and global macro) and investors receive the benefit of performance netting on any performance fees.</li></ul>
Strategy bias	<ul style="list-style-type: none"><li>— Alt Beta strategies are generally liquid and fully funded, which can be an advantage. However, certain hedge fund strategies have been difficult to replicate because of a focus on concentrated, idiosyncratic, or illiquid strategies. As a result, Alt Beta funds tend to bias toward strategies with lower barriers to entry and traffic in more liquid markets.</li></ul>
Performance sensitivity	<ul style="list-style-type: none"><li>— Alt Beta funds generally fall under two approaches – those that try to generate returns similar to the underlying hedge fund strategies and those that try to isolate specific return drivers within a strategy in a market-neutral approach. For example, conventional long-short equity hedge funds are typically not run in a market-neutral fashion (i.e. beta to equities ranges from 0.2 to 0.5). However, an Alt Beta manager may choose to replicate the long-short equity strategy by isolating value or momentum factors in a market neutral sense and run the portfolio with a beta of 0 to equities. This difference in exposure to common market beta is often a driver of relative under/outperformance, particularly when markets rally or sell-off significantly.</li></ul>



# Alternative Beta

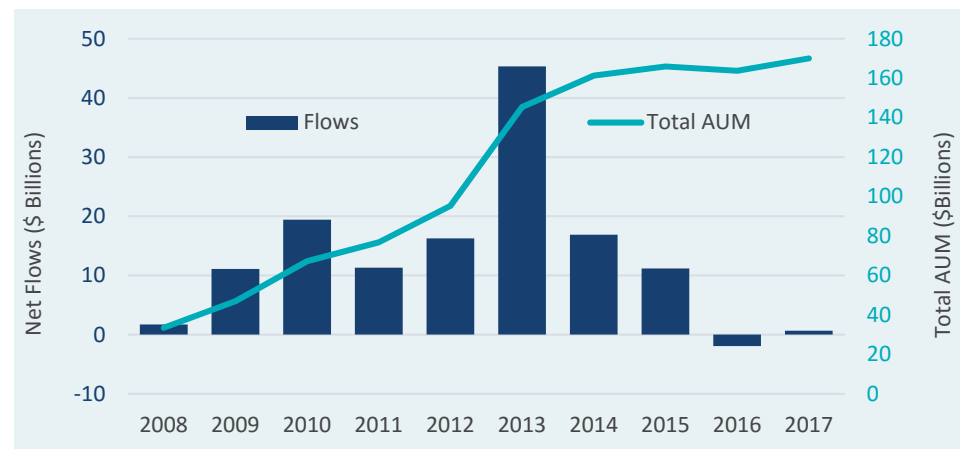
- Prospective investors might assume that multi-asset Alternative Beta strategies would act similarly due to the high degree of conceptual and implementation overlap across strategies. The assumptions would further rest on the well-known nature of many of the risk premia and hedge fund strategies and the limited set of liquid markets in which these funds can cost-effectively operate. It is thereby surprising to see the degree of performance differences across many of these programs. A recent Society General Prime Services analysis found that almost 25% of the distributions had negative correlations with each other (see chart on left).
- Flows into liquid alternatives mutual funds were negative for the first time in 2016 and are only slightly positive in 2017. While this universe includes more strategies than just what we consider true Alternative Beta, it is a decent proxy for investor sentiment towards liquid hedge fund-like strategies. Investors remain hesitant after poor recent relative returns as equity markets continued moving higher. Institutional interest by pension funds has picked up.

## SIMILAR CONCEPTS, DIFFERENCES IN THE DETAILS



Source: Societe Generale

## LIQUID ALTERNATIVES GROWTH STALLS



Source: Morningstar, all US Open-end (ex-FOF) Alternative Funds

# IV. Conclusion

# SamCERA's Absolute Return Portfolio

- Low equity beta; downside protection
- Uncorrelated to public markets; diversifier within SamCERA portfolio
- Liquid and transparent; mitigates headline risk
- Lower fees than direct hedge funds; alignment of client interests
- If SamCERA is looking to increasing the diversified bucket within Absolute Return, Verus and Staff recommend looking at alternative beta strategies due to their uncorrelated returns.
- Verus will review Risk Parity next and we will revisit the optimal mix between Absolute Return and Risk Parity afterwards.

*Questions?*

# V. Appendix

# HFRI Hedge Fund classification

## — Equity Hedge

- Equity Market Neutral
- Fundamental Growth
- Fundamental Value
- Multi Strategy
- Quantitative Directional
- Sector: Energy/Materials
- Sector: Healthcare
- Sector: Technology
- Sector: Technology/Healthcare
- Short Bias

## — Relative Value

- Fixed Income: Asset Backed
- Fixed Income: Convertible
- Fixed Income: Corporate
- Fixed Income: Sovereign
- Multi Strategy
- Volatility
- Yield Alternative

## — Macro

- Active Trading
- Commodity
- Currency
- Discretionary Thematic
- Multi Strategy
- Systematic Diversified

## — Event-Driven

- Activist
- Credit Arbitrage
- Distressed/Restructuring
- Merger Arbitrage
- Multi Strategy
- Special Situations

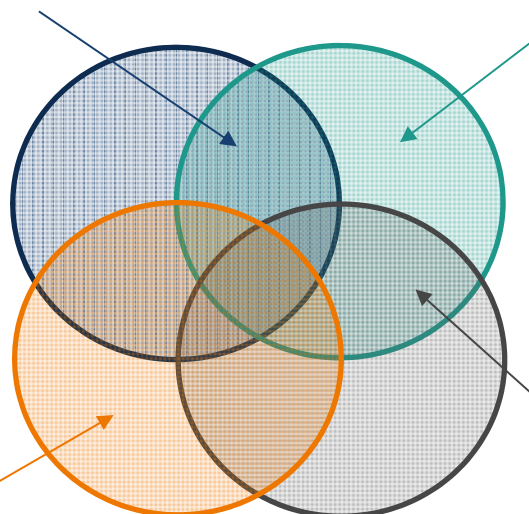
# Style groupings

## Hedge Fund Premia Focus

- Focused on replicating direct hedge fund strategies in a systematic fashion, e.g. convertible arbitrage, merger arbitrage, trend-following.
- Tend to have wider breadth of strategies, may also include short volatility, as well as carry, value, and momentum strategies.
- More sophisticated strategies tend to be market neutral, departing from typical hedge fund index betas of  $\sim 0.2-0.3$ .
- Differentiators include markets offered and strategy specialties.

## Hedge Funds Offering Alt Beta

- Focused on offering lower-fee, simplified versions of common hedge fund strategies.
- Tend to have lower breadth of strategies (e.g. oriented toward quantitative equity and trend-following strategies), but implemented in higher quality from the manager's platform as strategies are derived from managers' core specialty.
- Principal-agent concerns over competing businesses and potential for cannibalization from lower-fee offerings.



## Generic Carry, Value, Momentum

- Most common implementation of “alternative beta” in levered long/short, market neutral format.
- Based largely on academic literature, focused on generic implementations of widely known factor premia or styles.
- Newer implementations include defensive/quality characteristics.
- Wide dispersion in outcomes for same strategies due to differing characterizations of premia.
- Introduces risk of factor concentration and reversals as approach grows in popularity.

## Exposures via Swaps

- Typically characterized by generic Carry, Value, Momentum strategies
- Managers are intermediaries to sell-side products.
- Motivated by low immediate cost of implementation overhead, i.e. no need to directly trade underlying securities.
- Claimed value add as fiduciary from selection, customization and portfolio construction of premia.
- Significant principal-agent concerns from sell-side bank products remain a challenge.
- Often presented in fund vehicle, negating benefits of low funding requirements.

Arrows indicate typical overlap of approaches. For example, HF Premia-Focused strategies tend to also include carry, value, and momentum strategies.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

January 23, 2018

Agenda Item 7.1

**TO:** Board of Retirement  
**FROM:** Scott Hood, Chief Executive Officer  
**SUBJECT:** 2018 Board-Staff Retreat Topics



**Recommendation**

Provide direction to staff regarding the topics and schedule for the April 24 and 25, 2018 Board-Staff Retreat.

**Background**

This item is to give trustees another opportunity to discuss the upcoming two-day retreat in April. The Board assists with setting the topics to be addressed and provides input regarding the proposed presenters. Following this meeting, staff will finalize scheduling the presenters.

**Discussion**

Attached is a proposed schedule which reflects a well-balanced list of topics that fits in with the allotted time for the retreat. This year, with help from a consultant, there will be a "Strategic Planning Workshop" consisting of a presentation on strategic planning and followed by a Board discussion of its strategic plan. If you have additional topics to suggest, please mention them during this agenda item.

The 2018 SamCERA Board-Staff Retreat is scheduled along the same lines as prior years:

Days: Two consecutive days  
Timing: Leaves time in the presentations for discussion  
Location: SamCERA Boardroom  
Speakers: Outside professionals as well as SamCERA's consultants and staff  
Regular Business: Conduct the Board's regular monthly business during the afternoon on Tuesday of the retreat  
Dates: **Tuesday, April 24 and Wednesday, April 25**

**Attachment**

Draft 2018 Board-Staff Retreat Agenda

*Agenda & Presenters*

# Board / Staff Retreat

April 24 & 25, 2018



San Mateo County Employees'  
Retirement Association



**BOARD / STAFF RETREAT AGENDA**  
**Day One—Tuesday, April 24, 2018**

<u>TIME</u>	<u>TOPIC AND PRESENTER</u>
<b>8:30 a.m.</b>	<b>Coffee and Refreshments</b>
<b>8:45 a.m.</b>	<b>Welcome</b> Presenter: Scott Hood, SamCERA Chief Executive Officer
<b>9:00 a.m.</b>	<b>High level look at the Global Economy</b> Presenter: Economist/Global Markets Expert, TBD
<b>10:00 a.m.</b>	<b>Break</b>
<b>10:15 a.m.</b>	<b>Team Building Exercise</b> Presenter: TBD
<b>10:30 a.m.</b>	<b>Deep Dive</b> Led by Mike Coultrip. Assess longer-term drivers of fund returns and risks. Investigate longer-term manager performance and other characteristics vs indexes and peer groups. Review Risk Dashboard. Presenters: Michael Coultrip, SamCERA Chief Investment Officer and Margaret Jadallah, Verus
<b>11:45 a.m.</b>	<b>Lunch</b>
<b>12:30 p.m.</b>	<b>Allocating Assets Among Membership Groups</b> Presenter: Nick Collier, Milliman, Inc
<b>1:30 p.m.</b>	<b>Break</b>
<b>1:45 p.m.</b>	<b>Mandated Ethics Training</b> Presenter: Brenda Carlson, SamCERA Chief Legal Counsel
<b>2:30 p.m.</b>	<b>Break</b>
<b>2:45 p.m.</b>	<b>Beginning of Regular Board Meeting Agenda</b>

**BOARD / STAFF RETREAT AGENDA**  
**Day Two—Wednesday, April 25, 2018**


<b><u>TIME</u></b>	<b><u>TOPIC AND PRESENTER</u></b>
<b>8:30 a.m.</b>	<b>Coffee and Refreshments</b>
<b>9:00 a.m.</b>	<b>Team Building Exercise</b> Presenter: TBD
<b>9:15 a.m.</b>	<b>Portfolio Risk and Discussion</b> Presenter: TBD, Verus
<b>10:15 a.m.</b>	<b>Break</b>
<b>10:30 a.m.</b>	<b>Strategic Planning Session</b> Presenter: TBD
<b>11:30 a.m.</b>	<b>Lunch</b>
<b>12:30 p.m.</b>	<b>Strategic Planning Session</b> Presenter: TBD
<b>1:30 p.m.</b>	<b>Break</b>
<b>1:45 p.m.</b>	<b>Strategic Planning Session, Wrap-up and Next Steps</b>
<b>2:30 p.m.</b>	<b>End of Retreat</b>

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
Board of Retirement

January 23, 2018

Agenda Item 7.2

**TO:** Board of Retirement

**FROM:** Gladys Smith, Assistant Executive Officer 

**SUBJECT:** Report on Upcoming Trustee Elections and Appointments

**Recommendation**

This is an information-only report. No Board action is required.

**Background**

The Board has nine members and two alternates. Board membership includes the County Treasurer, appointees of the Board of Supervisors, and elected members chosen by the differing active and retiree SamCERA membership groups. The terms of the Board members, except the Treasurer, are for three years and are staggered.

**Discussion**

The terms of the elected Second Member, Ms. Shirley Tourel, the Seventh Member, Mr. David Spinello and the Seventh Member Alternate, Ms. Susan Lee, will expire on June 30, 2018. The terms of the appointed Fourth Member and Sixth Member, currently held by Mr. Eric Tashman and Mr. Mark Battey will also expire on June 30, 2018.

Election Process

The election nominating and voting process are set forth in the Board regulations which state that the County Elections Division runs the election. Regulation 4.1, provides that: "Regular Elections shall be held on the second Monday in June of the years in which the terms of elected Trustees expire." Accordingly, elections for the elected seats will be on June 11, 2018. At the February Board meeting, staff will present an election schedule developed with the County Elections Division.

Appointment Process


Staff has notified the member of the Board of Supervisors who is the liaison to our Board, and his staff, of the two expiring appointed seats.

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

January 23, 2018

Agenda Item 7.3

**TO:** Board of Retirement

**FROM:** Scott Hood, Chief Executive Officer 

**SUBJECT:** Report on Strategic Plan Implementation

**Recommendation**

Provide input to staff regarding continued implementation of SamCERA's two-year Strategic Plan for Fiscal Years 2017-18 and 2018-19.

**Background**

At its July 2017 Board meeting, the Board approved the two-year Strategic Plan shown at attachment "A." The heart of the plan is a matrix that provides more details about the potential actions, timing and status of each item. The Strategic Plan utilizes a numbering system by fiscal year, meaning the first two digits identify items that were initiated in the fiscal year that ends in the year of the digits. For example, item 14-3 was initiated in the fiscal year that ended on 6/30/14. The number "3" in this case is the sequence number.

Attachment "B" is the updated Strategic Plan Dashboard, which shows by quarter year, whether items have been completed and the anticipated completion period.

**Discussion**

In preparing the two-year plan in early 2017, staff made estimates on when particular items could be accomplished. In doing so, it underestimated the effort needed to finalize activities associated with PASS project and to establish the new work flow brought on by the new PASS implementation. While four items were completed in FY 2017-2018, other items identified for completion in the first and second quarters of FY 2017-2018 will be rescheduled for completion in the 4<sup>th</sup> quarter of FY 2017-2018 or set for FY 2018-2019, as shown on the attached dashboard.

The following is a summary of the Strategic Plan items completed so far in FY 2017-2018:

**16-2 Board Agenda Management**

Staff is successfully using SharePoint for Board agenda management. Staff will continue to develop more features with the SharePoint product while remaining open to other technologies or opportunities that can further streamline the process.

**16-11 Fees and Soft Dollar Use**

Portfolio restructuring and the implementation of markets in financial instruments directive (MiFID) II means that there is now much less of a need for soft dollar usage monitoring by staff.

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

17-7 Enhance Investments Onboarding/Staff Procedures Manuals

Staff updated the Investments Procedure manuals in December.

17-8 Provide Employers More Frequent and High-Level Performance Updates

Staff developed and distributed a portfolio performance snapshot to employers in December.

Staff will revisit this two-year strategic plan at its next retreat and provide an updated prioritized timeline of accomplishing the listed items.

**Attachments**

- A. FY 2017-2019 Strategic Plan
- B. Strategic Plan "Dashboard"



*San Mateo County Employees' Retirement Association*

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# Strategic Plan

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*2016-17 UPDATE*

## Executive Summary

This is an update of SamCERA's Strategic Plan, which covers the fiscal year 2017-18.

Some projects identified in this plan will extend beyond that time period. The update includes this summary and the Action Plan Matrix, which lists and describes the projects staff will pursue during the year. The steps in the Strategic Planning process leading up to the writing of this report were conducted in a shortened format this year. All staff held a Mini-retreat in May 2017 and reviewed the strengths, weaknesses, opportunities and threats facing SamCERA with respect to the current Strategic Plan and identified new opportunities that developed over the past year. The result of these discussions is the Action Plan Matrix below.

The Action Plan Matrix also includes an estimated completion timeframe for each action item as well as the two categories added in FY 15: (1) "Lead," which identifies the individual responsible for coordinating that particular action item, and (2) "End State," which describes the conditions which must be met before that action item can be considered "done."

Staff will provide periodic status updates to the plan during the year.

During the 2017-18 fiscal year SamCERA will continue to pursue its three major goals, all of which are derived from and consistent with SamCERA's mission statement.

### **SamCERA Mission**

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

### **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.***

There are no new strategic projects added under this goal for this year however there are carried-over projects from the previous year that will be undertaken including working with IT to develop a streamlined tech solution to track investment manager reporting and to determine whether standardized reporting can be implemented with our private equity managers as a result of AB 2833.



**Customer Services Goal**

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

Although the implementation of our Pension Administration Software System (PASS) is complete, staff will continue to focus on insuring the system is performing as expected. Staff will resume work on completing the member education program and developing a quarterly investment performance snapshot to provide to employers.

**Operations Goal**

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

Operationally, SamCERA will continue to focus on the PASS implementation in the post "Go Live" phase. Some related and supporting projects will also be undertaken such as incorporating internal control procedures, insuring redundant connectivity to the new system, undertaking a succession planning strategy and reviewing our General Ledger capabilities.

Each of our three goal has a number of specific projects designed to help achieve it. The projects incorporate ideas generated during all staff

retreats beginning in 2005. The 2017-18 plan is SamCERA's twelfth under the Government Finance Officers' Association (GFOA) Strategic Planning approach. There are now 18 projects for the staff to initiate and/or complete during the 2016-17 fiscal year. There is one project that will extend into the 2018-2019 fiscal year. As SamCERA staff improves upon the strategic planning processes more action items that are strategic in nature will appear on the list and those items that are more tactical in nature will drop off when completed. The net result will be that fewer items will appear in on the strategic plan. That said, the count of 19 strategic items broadly understates the tasks ahead for the staff during the next few years.

During the previous plan year, the staff completed 6 projects. Projects that were not completed but still relevant are continued on this current plan. In the previous 11 years, staff has completed a total of 216 projects, all over and above their regular duties.



2016-17 Action Plan Matrix

Ranking: A=Must be started and/or completed in FY. B=Should be completed in FY. C=Should be started in FY.

ID#	GOAL	RANK	TOPIC	PLANNED ACTIONS	DIVISIONS INVOLVED	LEAD	TIMING / STATUS	END STATE
14-3	Ops.	A	SamCERA must be prepared to react to all types of emergencies that might affect the ability of the association to fulfill its responsibilities.	<p>Staff will:            Create a committee to meet every two months to review and recommend steps to improve safety and emergency preparedness.            Annually review and update the Safety and Emergency Plans.            Continue to hold table-top exercises at Staff Meetings.            Document the technology emergency plan (for PensionGold, backups, etc.)            Document the retiree payroll plan (PensionGold, moving funds, creating and sending files).            Keep the emergency contacts information up to date.</p> <p>Committee to develop task list/milestones for coming year.</p>	Admin./All Divisions	Tariq	2 <sup>nd</sup> Quarter, FY 17-18	SamCERA is prepared to respond to emergencies.
14-14	Cust. Serv.	B	Member education is a key to successful retirement planning and the most effective use of SamCERA benefits. Many members are without financial management knowledge. We should provide different types of education to members.	Continue strengthening member education programs. Include: Regular attendance at training/meetings of payroll clerks, use of website and advices to notify members of new information, update of the Survivor Handbook, use of more focus groups for publications, web site, etc.	Ben./Comm.	Gladys	1 <sup>st</sup> Quarter, FY 17-18	Develop Member Education Master Plan.

ID#	GOAL	RANK	TOPIC	PLANNED ACTIONS	DIVISIONS INVOLVED	LEAD	TIMING / STATUS	END STATE
15-1	Ops.	A	No offsite disaster recovery location for critical technology.	Develop Plan.	IT	Tariq	2 <sup>nd</sup> Quarter, FY 17-18	Thorough disaster recovery plan for critical infrastructure technology is operational at another site.
16-2	Ops	A	Board Agenda Management.	Implement Board agenda management software.	Admin/IT	Tariq/Gladys	2 <sup>nd</sup> Quarter, FY 17-18	Agenda management software implemented.
16-3	Ops	B	Develop Resource Management Plan.	Coordinate and synchronize planning for staffing, space and budget. Discuss during staff retreat in January.	Fin/Admin	Gladys	2 <sup>nd</sup> Quarter, FY 17-18	Resource Management plan implemented.
16-4	Ops	C	Enterprise wide records management.	Explore options to organize the various types of records maintained by SamCERA.	Admin/IT	Gladys	1 <sup>st</sup> Quarter, FY 17-18	Develop approach to organize administrative records.
16-11	Asset Mgmt.	A	Evaluate performance fee arrangement and the use of soft dollars.	Review current performance fee arrangements and the use of soft dollars and explore options available to improve the arrangement.	Inv.	Mike	2 <sup>nd</sup> Quarter, FY 17-18	Implement a process which considers fees and the use of soft dollars.
16-12	Ops	B	Our Internal Control procedures should be reviewed to insure they are appropriate for the changes in personnel and organizational structure.	Review internal control policies.	Fin	Tat-ling	3 <sup>rd</sup> Quarter, FY 17-18	Internal control policies are reviewed and recommendations are implemented.

ID#	GOAL	RANK	TOPIC	PLANNED ACTIONS	DIVISIONS INVOLVED	LEAD	TIMING / STATUS	END STATE
17-3	Ops	C	Social Media Policy.	Develop a policy and procedure for SamCERA's use of social media.	Admin/Comm	Tariq	2 <sup>nd</sup> Quarter, FY 17-18	Effective social media policy implemented.
17-4	Asset Mgmt.	C	Tech Solution for Investments.	Develop a technology solution to assist investment staff in the receipt and tracking of investment manager reporting. Explore the use of Sharepoint as a repository and granting of access to investment managers to deposit reports on an ongoing basis.	IT/Inv.	Tariq/Mike	4 <sup>th</sup> Quarter, FY 17-18	Implement a program to track investment manager reporting.
17-5	Asset Mgmt.	B	Enhanced Risk Analysis.	Perform a cost/benefit analysis to determine if it makes sense to add a risk system in our investment strategy.	Inv.	Mike	4 <sup>th</sup> Quarter, FY 17-18	Risk System options are studied and evaluated.
17-7	Asset Mgmt.	B	Enhance Investments Onboarding/Staff Procedure Manuals.	Update and maintain investment staff procedure manuals.	Inv.	Mike	1 <sup>st</sup> Quarter, FY 17-18	Proxy voting policy and procedures are reviewed and recommended changes, if any, are implemented.
17-8	Cust. Serv.	A	Provide Employers More Frequent and High-Level Performance Updates.	Develop a quarterly one-page portfolio snapshot that can provide employers high-level performance data of SamCERA's investment portfolio.	Inv.	Mike	1 <sup>st</sup> Quarter, FY 17-18	Employers are provided a useful portfolio performance snapshot.
17-9	Asset Mgmt.	A	Standardize Private Equity Reporting.	Determine if standardized private equity reporting can be required from our private equity investment managers.	Inv.	Mike	3 <sup>rd</sup> Quarter, FY 17-18	Research is completed on whether private equity managers can be required to report in a standardized manner.

ID#	GOAL	RANK	TOPIC	PLANNED ACTIONS	DIVISIONS INVOLVED	LEAD	TIMING / STATUS	END STATE
18-1	Admin.	C	SamCERA's Lease Expires 12/31/19	Research relocation options; conduct cost benefit analysis	Admin	Gladys	4 <sup>th</sup> Quarter, FY 18-19	SamCERA Secures a long-term office space solution.
18-2	Ops.	A	Redundant connection to V3 if VPN goes down	Develop an alternative plan to connect directly to V3.	IT	Tariq	2 <sup>nd</sup> Quarter, FY 17-18	SamCERA can maintain connectivity to V3 production if county VPN goes down.
18-3	Admin.	B	Risk of losing Institutional Knowledge	Develop Succession Plan linked to individuals.	Admin	Gladys	4 <sup>th</sup> Quarter, FY 17-18	Prepared to handle departure of staff.
18-4	Ops.	A	Great Plains is not meeting the evolving needs of SamCERA	Find and implement a suitable replacement	IT/Fin	Tariq/Tat-Ling	2 <sup>nd</sup> Quarter, FY 17-18	Have a GL product that meets SamCERA's needs.
18-5	Ops.	A	Migrate Common Drive to Sharepoint	Develop the business case and approach	IT/Admin	Tariq/Gladys	2 <sup>nd</sup> Quarter, FY 17-18	Common Drive is no longer the storage area for new files.
18-6	Asset Mgmt.	A	Protect against an equity draw down event	Develop a portfolio mix that can perform better in an equity draw down event	Inv.	Mike	4 <sup>th</sup> Quarter, FY 17-18	Portfolio can better withstand an equity drawdown event.

# Strategic Plan Dashboard

Project Lead	ITEM	TIMING									
		FY 2017-18				FY 2018-19					
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
TA	14-3	Responding to emergencies				X					
GS	14-14	Member Education				X					
TA	15-1	Offsite disaster recovery			X						
TA/ GS	16-2	Board agenda management		X							
GS	16-3	Resource management plan					X				
GS	16-4	Records management			X						
MC	16-11	Fees and soft dollar use		X							
TC	16-12	Internal controls					X				
GS	17-3	Social media policy				X					
TA/ MC	17-4	Tech solution for investment info						X			
MC	17-5	Enhanced risk analysis				X					
MC	17-7	Update manuals for investments		X							
MC	17-8	Quarterly investments snapshots		X							
MC	17-9	Standardize private eq. reporting				X					



14-series were developed for FY 2013-14.  
 15-series were developed for FY 2014-15.  
 16-series were developed for FY 2015-16.  
 17-series were developed for FY 2016-17.

as of 1/23/2018



**X** = completion date

**X** = projected completion date  
 (ongoing project)

# Strategic Plan Dashboard

Project Lead	ITEM	TIMING							
		FY 2017-18				FY 2018-19			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GS	<b>18-1</b> SamCERA office space								X
TA	<b>18-2</b> Redundant connection to V3			X					
GS	<b>18-3</b> Retain institutional knowledge				X				
TA/ TC	<b>18-4</b> Improve GL capability				X				
TA/ GS	<b>18-5</b> Shared files solution					X			
MC	<b>18-6</b> Equity drawdown solution				X				



18-series projects were developed for FY 2017-18.

as of 1/18/2018



X = completion date

X = projected completion date  
(ongoing project)