

Notice of Public Meeting

The Board of Retirement of the San Mateo County Employees' Retirement Association will meet on **Tuesday, September 26, 2017, 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 Board Meeting Minutes from August 22, 2017
- 4. Approval of the Consent Agenda***
 - 4.1 Disability Retirements (5)
 - Adriane Beckman
 - Gabriela Brenton
 - Gloria Camacho
 - Elvira Cruz
 - Sonja White
 - 4.2 Survivor Death Benefits
 - Thomas Ball
 - 4.3 Service Retirements
 - 4.4 Continuances
 - 4.5 Deferred Retirements
 - 4.6 Member Account Refunds
 - 4.7 Member Account Rollovers
 - 4.8 Member Account Redeposits
 - 4.9 Acceptance of Trustees' Reports of Educational Activities
 - 4.10 Reaffirmation of Board Procedures for Assessment and Determination of Whether an Element of Compensation Was Paid to Enhance a Member's Pension Benefit
 - 4.11 Reaffirmation of Board of Retirement Procedures for Auditing of Employer Data and Information to Determine Correctness of Member's Retirement Benefits, Reportable Compensation, Enrollment in and Reinstatement to, the Retirement System
 - 4.12 Approval of Resolution Authorizing CEO to Amend Agreement with Vitech
 - 4.13 Approval of Resolution Authorizing the CEO to Enter into Agreement for Investment Consulting Services with Verus Advisory, Inc.
- 5. Benefit & Actuarial Services**
 - 5.1 Consideration of Agenda Items, if any, removed from the Consent Agenda
- 6. Investment Services**
 - 6.1 Report on Preliminary Monthly Portfolio Performance Report for the Period Ended August 31, 2017
 - 6.2 Report on Opportunistic Credit Manager Annual Reviews (Angelo Gordon, Beach Point and Tennenbaum)
 - 6.3 Approval of Resolution Amending the Investment Policy
- 7. Board & Management Support**
 - 7.1 Approval of Resolution Authorizing CEO to Amend the Agreement with Milliman, Inc. to Extend the Term for One Additional Year
- 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:

Aldrich, Mary	August 4, 2017	Chope Hospital
Haken, Dinah	August 5, 2017	Chope Hospital
Breitner, Marcelle	August 9, 2017	Mental Health
Robelet, Flora	August 21, 2017	District Attorney's
Florea, Lois	August 23, 2017	Crystal Springs Rehab Center
Simpson, Ramona	August 29, 2017	Chope Hospital
Ginilo, George	September 3, 2017	Agriculture
Wenneberg, Greg	September 5, 2017	Behavioral Health & Recovery



Scott Hood, Chief Executive Officer

Posted: September 21, 2017

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

THE BOARD MEETS AT 100 MARINE PARKWAY, SUITE 160, WHICH IS LOCATED ON THE SE CORNER OF TWIN DOLPHIN & MARINE PARKWAY IN REDWOOD CITY. Detailed directions are available on the "Contact Us" page of the website www.samcera.org. *Free Parking is available in all lots in the vicinity of the building. A copy of the Board of Retirement's open session agenda packet is available for review at the SamCERA offices and on our website unless the writings are privileged or otherwise exempt from disclosure under the provisions of the California Public Records Act. Office hours are Monday through Thursday 7 a.m.– 6 p.m.*

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

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
AUGUST 22, 2017 – REGULAR BOARD MEETING MINUTES

1708.1 **Call to Order, Roll Call and Miscellaneous Business**

Call to Order: Ms. Shirley Tourel, Vice Chair, called the Regular Meeting of the Board of Retirement to order at 10:00 a.m.

Roll Call:

Present: Sandie Arnott, Ben Bowler, Albert David, Kurt Hoefer, Susan Lee (for Paul Hackleman), David Spinello, Eric Tashman and Shirley Tourel.

Excused: Mark Battey, Paul Hackleman.

Alternates present: Susan Lee.

Alternates excused: Alma Salas.

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

Consultants: Margaret Jadallah, Joe Abdou, John Nicolini (*Verus*); Vinod Pakianathan (*Zeno*).

1708.2.1 **Oral Communications from the Public:** None.

1708.2.2 **Oral Communications from the Board:** None.

1708.3.0 **Approval of Board Meeting Minutes:** Ms. Tourel asked if there were any changes or corrections to the three sets of minutes from the Board meetings held on July 25, 2017; July 11, 2017; and August 10, 2017. None were noted. Trustees who missed all, or a portion of the meetings, abstained from approval of the respective minutes.

1708.3.1 **Action:** Mr. David moved to approve the minutes from the Regular Meeting on July 25, 2017. The motion was seconded by Mr. Bowler and carried with a vote of 7-0-1, with trustees Arnott, Bowler, David, Lee (for Hackleman), Spinello, Tashman and Tourel, all in favor; none opposed; and Hoefer, abstained.

1708.3.2 **Action:** Mr. David moved to approve the minutes from the Special Meeting on July 11, 2017. The motion was seconded by Ms. Arnott and carried with a vote of 5-0-3, with trustees Arnott, Bowler, David, Lee (for Hackleman), and Tourel, all in favor; none opposed; and Hoefer, Spinello and Tashman abstained.

1708.3.3 **Action:** Mr. Bowler moved to approve the minutes from the Special Meeting on August 10, 2017. The motion was seconded by Mr. David and carried with a vote of 5-0-3, with trustees Arnott, David, Lee (for Hackleman), Spinello, and Tourel, all in favor; none opposed; and Bowler, Hoefer and Tashman abstained.

1708.4.0 **Approval of the Consent Agenda:** Ms. Tourel asked if there were any items to be removed from the Consent Agenda. Item 4.14, Reaffirmation of the Authorization for CEO to Execute Documentation for Investments as Required, was removed for discussion. The disability application for Andrew Allee was withdrawn from Board consideration by the applicant.

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

1708.4.1 **Disability Retirements:**

- a) The Board found that Esther Munoz is (1) permanently incapacitated for the performance of her usual and customary duties as a Community Worker I, (2) found that her disability was not the result of an illness arising out of and in the course of her employment, (3) denied her application for a service-connected disability retirement, and (4) granted her a non-service-connected disability retirement.

1708.4.2 **Survivor Death Benefits:** None.

1708.4.3 **Service Retirements:**

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

Member Name	Effective Retirement Date	Department
Angeles, Encarnacion	July 1, 2017	Medical Center
Candelaria, Michael	July 1, 2017	Correctional Health
Cole, Jessica	July 1, 2017	Deferred from Family Support
Dunn, Felton	June 26, 2017	Retiree activating G3 pension
Ingco, Gilbert	June 24, 2017	Courts
Kaur, Seerada	June 20, 2017	Deferred from Medical Center
Martins-Sandaga, Mario	June 10, 2017	Controller's
Ortiz, Rosario	June 5, 2017	Behavioral Health
Otte, Michael	June 9, 2017	Sheriff's
Quaid, Michael	July 1, 2017	Correctional Health
Skinner, Elizabeth	June 3, 2017	Deferred from Sheriff's
Vissiere, Michael	June 13, 2017	Deferred from Sheriff's
Viveiros, Filomena	June 16, 2017	Human Resources
White, Sonja	June 20, 2017	Probation

1708.4.4 **Continuances:**

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

Survivor's Name	Beneficiary of:
Arguello, Flor	Arguello, Juan
Ho, Thanh Thao	Mullaney, Marc
Louie, Benjamin	Louie, Solane

1708.4.5 **Deferred Retirements:**

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

Member Name	Retirement Plan Type
Aung, Thanda	G4 Vested - Reciprocity
Dwyer, Mary Yvette	G4 Vested
Gage, Tammela	S4 Vested
Hacker, Katie	G4 Vested
Nassar, Noel	G7 Non Vested - Reciprocity
Ng-Irwin, Ginelle	G7 Non Vested - Reciprocity

1708.4.6 **Member Account Refunds:**

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

Member Name	Retirement Plan Type
Cheechov, Joy	G4, Vested
Delai, Elik	S7, Non-vested
Jacobo, Birzayit	G4, Vested
Ocampo, Reeden	G7, Non-vested
Panayotova, Mihaela	G7, Non-vested
Pult, Sylvia (FBO: Stephen Pult)	G4, Non-vested

Member Account Refunds (cont.):

Member Name	Retirement Plan Type
Raul, Gary	S4, Vested
Rbeiz, Diala	G7, Non-vested
Shaw, John	P4, Vested
Speier, Kimberly	G7, Non-vested

1708.4.7 **Member Account Rollovers:**

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

Member Name	Retirement Plan Type
Anjomshoaa, Andrea	G7, Non-vested
Chien, Yulin	G4, Non-vested
Earles, Lori	G7, Non-vested
Herrera, Octavio	G7, Non-vested
Hoover, Cora	G4, Non-vested
Li, Yinglin	G7, Non-vested
Raul, Gary	S4, Vested

1708.4.8 **Member Account Redeposit:** None.

1708.4.9 **Acceptance of Trustees' Reports of Educational Activities:** None.

1708.4.10 **Approval of Questions for Annual Review of Brown Armstrong Accountancy:** The Board approved the evaluation questions in the "Questions for Annual Audit Consultant Evaluation."

1708.4.11 **Acceptance of Semi-Annual Compliance Certification Statements for Period Ended June 30, 2017:** The Board accepted the semi-annual Compliance Certification Statement for the Franklin Templeton Global Multisector Plus Bond Fund, as of June 30, 2017.

1708.4.12 **Approval of Resolution Authorizing Amendment to Agreement with Verus Advisory, Inc.:** The Board approved a resolution authorizing the Chief Executive Officer to execute a Third Amendment to the Agreement with Verus Advisory, Inc. for investment consulting services.

1708.4.13 **Reaffirmation of Conflict of Interest Code:** The Board reaffirmed SamCERA's Conflict of Interest Code.

1708.5.1 **Consideration of Agenda Items, if any, removed from the Consent Agenda:** The Board discussed Item 4.14 at this time.

1708.4.14 **Reaffirmation of the Authorization for CEO to Execute Documentation for Investments as Required:** The Board discussed how often this authority was utilized since it was approved in September 2012. Board members discussed the specifics of situations where this authority would be used.

Action: Mr. David moved to reaffirm the authorization for CEO to execute documentation for investments, and the motion was seconded by Mr. Bowler. The motion carried with a vote of 7-1, with trustees Arnott, Bowler, David, Hoefer, Lee (for Hackleman), Spinello, and Tashman, all in favor; and Tourel opposed.

1708.6.1 **Preliminary Monthly Portfolio Performance Report for the Period Ended July 31, 2017:**

Mr. Coultrip discussed the preliminary monthly performance report with the Board. He reported that SamCERA's net preliminary return for July 2017 was 1.5%, while the preliminary trailing twelve-month return ending July 2017 was 11.6% net. The twelve-month net return is higher than both SamCERA's Total Plan Benchmark return of 11.5% and the Actuarial Assumed Earnings Rate of 6.75%. This item was informational and for discussion only, no action was taken.

- 1708.6.2 **Report on Quarterly Investment Performance for the Period Ended June 30, 2017:** Mr. Coultrip, Mr. Abdou and Ms. Jadallah reviewed the quarterly report with the Board. They reviewed manager performance, and discussed market trends and other information from within the report. The 2nd quarter net total return for the SamCERA portfolio was +2.6%, which was 20 bps lower than the +2.8% policy benchmark return. This item was informational and for discussion only, no action was taken.
- 1708.6.3 **Report on the Fixed Income Manager Reviews:** Ms. Ng reviewed the meeting notes from the annual reviews of SamCERA's Fixed Income Managers. Staff and consultant met at SamCERA's offices with Franklin Templeton, Western Asset Management and Fidelity Institutional Asset Management on August 3, 2017. Ms. Ng reported there were no significant concerns identified during the portfolio reviews. This item was informational and for discussion only, no action was taken.
- 1708.6.4 **Report on Trading Cost Analysis for Public Equity and Fixed Income Managers:** Vinod Pakianathan from Zeno Consulting Group reviewed the trading cost analysis report prepared for SamCERA with the Board. He explained how transaction costs are observed and quantified, went through the analysis of SamCERA's public equity and fixed income manager trading costs, and answered questions. This item was informational and for discussion only, no action was taken.

The Board was adjourned for a short break at 11:35 a.m., and then convened into closed session at 11:45 a.m. The closed session was adjourned for lunch from 12:10 p.m. to 12:52 p.m. and the Board reconvened back to closed session until 12:52 p.m. The Board then returned to open session and Ms. Carlson gave the following report of the Board's action taken in closed session.

- 1708.6.5 **Approval of Proposed Alternative Investment** (to be heard in Closed Session, Confidential Under Gov. Code §54956.81 and §6254.26, see item C2): The Board met in closed session with staff and the consultant, to consider a proposed Alternative Investment.

Action: Mr. Hoefer moved to approve an investment of \$30 million into the Invesco Real Estate U.S. Value Fund V subject to ongoing due diligence as directed by the Board. The motion was seconded by Mr. Tashman, and carried by a vote of 7-1; with trustees Arnott, Bowler, David, Hoefer, Lee (for Hackleman), Tashman and Tourel, all in favor; Spinello opposed.

- 1708.7.1 **Report on Preliminary Financial Statements for the Fiscal Year Ended June 30, 2017:** Ms. Smith reported that SamCERA's net position as of June 30, 2017, was \$4.0 billion, reflecting an increase of \$498 million, or 14%, from last year. This item was informational and for discussion only, no action was taken.
- 1708.7.2 **Report on Budget-to-Actual for the Fiscal Year Ended June 30, 2017:** Ms. Smith reviewed the FY 2016-17 budget-to-actual report with the Board. This item was informational and for discussion only, no action was taken.
- 1708.8.1 **Chief Executive Officer's Report:** Mr. Hood called attention to the items in the Day of Meeting folder, including a report from the San Mateo County Grand Jury titled "Unfunded Pension Liabilities: Early Results Under GASB Standard 68" and a memo from SACRS about their 2108 Legislative Timelines. He noted that staff will be bringing to the Board an extension on the contract with Milliman, Inc. Mr. Hood stated next month's meeting agenda would include the actuarial valuation, the audit of the valuation, approval of proposed contribution rates, and a review of SamCERA policies regarding "spiking" prevention and corrections. He read two notes of appreciation from the families of deceased members who had received "Adjourned in Memory" certificates from the Board.
- 1708.8.2 **Assistant Executive Officer's Report:** Ms. Smith reported that the auditors were finishing up their field work. She notified Board members that they would be receiving a survey via email this week to evaluate the services of SamCERA's actuary, Milliman, Inc.

Ms. Perez reminded Board members about upcoming educational events.

- 1708.8.3 **Chief Investment Officer's Report:** Mr. Coultrip invited interested trustees to attend the upcoming annual manager reviews for SamCERA's opportunist credit and private credit managers Angelo Gordon, Beachpoint and TCP. He notified the Board that a total of \$90 million in cash had been invested recently; with \$60 million into the diversified component of the portfolio, and \$30 million in the inflation protection component of the portfolio.
- 1708.8.4 **Chief Legal Counsel's Report:** Ms. Carlson reported there was no update to pension related legislation or litigation.
- C1 **Consideration of Disability Items, if any, removed from the Consent Agenda:** None.
- 1708.9 **Report on Actions Taken in Closed Session:** See the report above, for Item 6.5 Approval of Proposed Alternative Investment.
- 1708.10 **Adjournment:** Ms. Tourel adjourned the meeting at 1:06 p.m. in memory of the deceased members listed below.

Platt, Nancy	May 15, 2017	Environmental Services
Mary Pozorski	June 17, 2017	Health Department
Parry, Cheryl	July 7, 2017	Medical Center
Sohrabji, Lulu	July 14, 2017	Sheriff's
Damon, Anne	July 20, 2017	Health Services
Low, Jennie	July 22, 2017	District Attorney's Office
Petty, Thomas	July 23, 2017	Medical Center
Barrett, Helen	July 25, 2017	Social Service Dept
Vigo, Christie	August 2, 2017	Environmental Services
Ball, Thom	August 6, 2017	Library

Scott Hood
Chief Executive Officer

Kristina Perez
Retirement Executive Secretary

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

September 26, 2017

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 **Adriane Beckman** is (1) permanently incapacitated for the performance of her usual and customary duties as a Probation Officer III, (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.
- b) The Board find that **Gabriela Breton** is (1) not permanently incapacitated for the performance of her usual and customary duties as a Marriage and Family Therapist II, and (2) deny her application for a service-connected disability retirement.
- c) The Board find that that **Gloria Camacho** is (1) permanently incapacitated from the performance of her usual and customary duties as a Food Service Worker II, (2) find that her disability was the result of an illness arising out of and in the course of her employment and (3) grant her application for a service-connected disability retirement.
- d) The Board find that **Elvira Cruz** is (1) permanently incapacitated for the performance of her usual and customary duties as a Hospital Unit Coordinator, (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.
- e) The Board find that that **Sonja White** is (1) permanently incapacitated from the performance of her usual and customary duties as a Group Supervisor III, (2) find that her disability was not the result of an illness arising out of and in the course of her employment and (3) grant her application for a non-service-connected disability retirement.

4.2 Survivor Death Benefits

- a) The Board find that **Thomas Ball**, would have been entitled to a non-service-connected disability but has died, and Wendy Ball, 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:

Member Name	Effective Retirement Date	Department
Adams, Anthony	July 6, 2017	Sheriff's
Burris, Larry	July 25, 2017	Probation
Clancy, Carol	July 22, 2017	Correctional Health
Dabich, Sandra	July 15, 2017	Deferred from Courts
Elie, Dolores	July 28, 2017	Health
Escamilla, Mercedes	August 1, 2017	H.S.A.
Gutierrez-Gil, Gloria	July 11, 2017	H.S.A.
Justice, Misti	July 11, 2017	QDRO
Land, Yolanda	July 6, 2017	Deferred
Lew-White, Lorraine	July 29, 2017	Environmental Health
Marengo, Edward	July 8, 2017	Deferred Social Services
Nicholson, Shelly	July 29, 2017	Human Services
Reyes, Lesbya	July 29, 2017	Probation
Rodriguez, Fidel	August 1, 2017	Probation
Storme, Gregory	July 6, 2017	Sheriff

4.4 Continuances

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

Survivor's Name	Beneficiary of:
Parry, Richard	Parry, Cheryl
Thompson, Shirlee	Thompson, Charles

4.5 Deferred Retirements

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

Member Name	Retirement Plan Type
Albertson, Jason	G5, Vested – Reciprocity
Bishop, Colin	G4, Vested – Reciprocity

Cooper, Angela	G7, Non-vested – Reciprocity
Dubroff, Melinda	G4, Vested – Reciprocity
Gonzales, Richard	S5, Non-vested – Reciprocity
He, Jie	G4, Vested - Reciprocity
Leong, Ligi	G4, Vested
Levy, Glenn	G4, Vested – Reciprocity
Madalena, Thomas	G4, Vested – Auto Defer – Code 31700
Martinez, Patricia	G4, Vested – Reciprocity
Moran, Maria Carmel	G4, Vested
Mughannam, Rita	G4, Vested – Reciprocity
Parada, Christine	G7, Vested – Reciprocity
Price, Jessica	G5, Vested – Auto Defer – code 31700
Ruiz, Jessie	G4, Vested – Auto Defer – code 31700
Sotel-Malaga, Lorena	G7, Non-vested – Reciprocity
Stavinskaya-Velasquez, Olga	G7, Non-vested – Reciprocity
Taylor, Stephanie	S5, Vested
Tercero, Roberto Jose	G4, Vested – Reciprocity
Thompson, Jenell	G4, Vested
Tia, Queena	G7, Non-vested - Reciprocity
Tseng, Margaret	G5, Non-vested - Reciprocity
Widdel, Koren	G4, Vested - Reciprocity
Wiltron, Christopher	S5, Non-vested - Reciprocity

4.6 Member Account Refunds

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

Member Name	Retirement Plan Type
Castillo, Victor	P4, Vested
Cooper, Dontice	G7, Non-vested
Hall, Andrew	G7, Non-vested
Kishan, Rosena	G4, Vested
Manchia, Beverly (QDRO)	G2, Vested

Mascarenas, Malinda	G7, Non-vested
McLemore, DeFrance	S5, Non-vested
Williams, Rita	G7, Non-vested
Wray, Martin	G5, Non-vested

4.7 Member Account Rollovers

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

Member Name	Retirement Plan Type
Mednikov, Marianna	G4, Non-vested
Williams, Davin	P4, Vested


4.8 Member Account Redeposites

None.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

September 26, 2017

Agenda Item 4.9

TO: Board of Retirement
FROM: Kristina Perez, Executive Secretary 
SUBJECT: Trustees' Reports of Educational Activities

Staff Recommendation

Accept the following reports from Board of Retirement trustees who have recently attended educational events.

Background

SamCERA's Education Policy was amended in December 2016.

Section 1D states "Prior to the next regularly scheduled meeting of the Board following the Board member's participation in an educational activity, the Board member shall submit for inclusion on the Consent Agenda, a summary written report on the content of educational activities. The report shall substantially reflect the information contained in the attached sample report."

The "reporting out" requirement was changed from an oral report given by individual Trustees under agenda item 2.2, Oral Communications from the Board, to a written report submitted on the Consent Agenda.

Discussion

SamCERA Trustees attended the following educational events, and their reports are attached:

Public Funds Forum, San Diego, CA, September 5-7, 2017:
Susan Lee

Attachments

Trustee Education Proof of Participation Certificate and Summary (1)

SamCERA Board of Retirement Trustee Education
Proof of Participation Certificate and Summary



Trustee Name <i>Susan hep</i>	Date(s) of Event <i>9-5-17 to 9-7-17</i>
Education Event Name <i>Public Funds Forum</i>	
Event Provider <i>Value Edge Advisors ; Robbins Geller Rudman & Dowd LLC</i>	
Type of Participation: Attended Event <input checked="" type="checkbox"/> Listened to Audio/Watched Video <input type="checkbox"/>	Eligible Credit: Total hours for sessions you participated in: <u><i>13.5</i></u> <i>(Staff may adjust hours if the provider issues an education certificate that reflects different hours.)</i>

This event satisfies the following requirements of the Board of Retirement's Education Policy and Government Code section 31522.8:

Topic: (Check all that apply)

- Fiduciary responsibilities
- Ethics
- Benefits administration
- Actuarial matters
- Pension funding
- Pension fund investments and investment program management
- Disability evaluation
- Fair hearings
- Pension fund governance
- New board member orientation
- Other: _____

Summary Report

What concepts or information did you learn about?

Environmental Social Governance
Emerging threats & issues / trends
challenging work force

Would you recommend this event to other trustees?

- Yes No Maybe

You may provide additional comments to SamCERA's CEO.

By signing below, I certify that I participated in the activities described above and am entitled to claim the indicated amount of education credit hour(s).


Trustee Signature (print this form and sign) <i>[Signature]</i>	Date <i>9-18-17</i>
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NOTE: Please return this completed form to SamCERA's Executive Secretary prior to the mailing of the Board packet, so it can be included in that month's Consent Agenda.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

September 26, 2017

Agenda Item 4.10

TO: Board of Retirement 
FROM: Scott Hood, Chief Executive Officer
SUBJECT: Board Procedure for Assessment of Compensation

Recommendation

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

Background

State law requires the Board to adopt a procedure for determining whether an element of compensation was paid to a member to enhance a member's pension. If so, the element of compensation should then be excluded from the final average compensation calculation. If the Board determines to exclude it, the member and/or employer may seek judicial review.

Discussion

The Board's procedure provides that staff make an initial assessment as to whether any item of compensation was paid to enhance a member's pension. Factors to be considered include, for example, whether it was a one-time ad hoc payment paid only to the member, or whether similarly situated members received the same element of compensation during the same period. Staff consider explanations provided by the member and the employer as to the circumstances of the payment.

If staff determines to exclude the compensation item, the employer and member can request the Chief Executive Officer to decide. If the Chief Executive Officer confirms that it should be excluded, the member and the employer may bring the matter to the Board. If the Board excludes the pay item, either the member or the employer, or both, may seek judicial review.

Before and after the adoption of this procedure, staff educated our employers as to what is allowed and what is not allowed regarding pensionable compensation and final compensation. On an ongoing basis, staff participates in HR/Payroll Solution Committee meetings and our new pension administration software system automatically rejects unauthorized payroll items. Accordingly, these matters are, for the most part prevented. For those issues that arise just prior to retirement, staff addresses and resolves them during the member's record review.

Attachment

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

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

I. BACKGROUND

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

II. FACTORS TO BE CONSIDERED IN STAFF REVIEW

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

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

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

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

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

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

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

III. PROCESS:

A. Initial Staff Review:

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

B. Staff Decision.

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

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

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

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

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

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

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

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

September 26, 2017

Agenda Item 4.11

TO: Board of Retirement

FROM: Scott Hood, Chief Executive Officer 

SUBJECT: Procedures for Auditing of Employer Data and Information Regarding Member Data

Recommendation

Reaffirm the "Board of Retirement Procedures for Auditing of Employer Data and Information to Determine Correctness of Member's Retirement Benefits, Reportable Compensation, Enrollment in and Reinstatement to, the Retirement System."

Background

In order to ensure that SamCERA's participating employers provide accurate data to SamCERA, the Board is authorized by statute to audit the "books, papers, data or records, including, but not limited to, personnel and payroll records" of SamCERA employers for the purpose of determining "the correctness of retirement benefits, reportable compensation, and enrollment in, and reinstatement to, the system." In addition, the Board may assess the employer costs of the audit, as well as the costs of any adjustment or correction, if the Board determines that the employer "knowingly failed" to comply with its legal responsibilities by (a) reporting compensation to SamCERA that the employer knew or should have known was not pensionable under statute, or (b) failed to identify the pay period in which compensation earnable was earned.

Discussion

The Board's procedure to audit of employer data and information provides several alternative methods to accomplish the audit. These approaches include:

- **Informal Requests.** Staff may make informal requests of the employer so as to resolve any issues related to individual or multiple member records, retirement benefits, reportable compensation, and enrollment in, and reinstatement to, the retirement system and/or compliance with applicable state or federal law.
- **Request for Special Audit Report.** If Staff believes that a reason exists, in addition to or as a follow up to the audit activities, to have a Special Audit of information, it may request the Board to authorize a Special Audit.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Board of Retirement

- **Annual Audit Approach.** Staff may, from time to time, request SamCERA's independent auditor as part of, or in addition to its annual financial audit activities, to review employer data and reporting that may impact members' eligibility, contributions, membership, records, benefits, and/or compliance with applicable state or federal law.

Prior to and after the Board adopted the audit procedure, staff has taken a proactive and ongoing cooperative approach with each of our employers to validate all member data. Staff participates in HR/Payroll Solution Committee meetings regarding any new pay items and contribution amounts, and meets with the employers regarding any factors that may affect membership eligibility. If an issue arises, staff works with the employers to correct it.

In addition, our new pension administration software system automatically verifies member data against the County and Court's payroll systems. Staff interfaces separately with the District's staff on any issues that may arise.

Attachments

Board of Retirement Procedure for Auditing of Employer Data and Information to Determine Correctness of Members' Retirement Benefits, Reportable Compensation, Enrollment in, and Reinstatement to, the Retirement System

**SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
BOARD OF RETIREMENT PROCEDURES FOR AUDITING OF EMPLOYER DATA AND INFORMATION TO
DETERMINE CORRECTNESS OF MEMBERS' RETIREMENT BENEFITS, REPORTABLE COMPENSATION,
ENROLLMENT IN, AND REINSTATEMENT TO, THE RETIREMENT SYSTEM**

I. Purpose.

By statute, the Board of Retirement is authorized to audit SamCERA employers to determine the correctness of members' retirement benefits, reportable compensation, enrollment in, and reinstatement to, the retirement system. (Government Code Sections 31542.5, 31543, 7522.72 and 7522.74.)

II. Procedures.

- A. **Alternative Audit Approaches.** Staff may utilize one or more of the following approaches, as it deems appropriate, in order to determine the correctness of members' records, retirement benefits, reportable compensation, and enrollment in, and reinstatement to, the retirement system and/or compliance with applicable state or federal law. Verification of employer information and data may be periodically checked or performed on an as need basis. Similarly, issues concerning a specific member's compensation or specific compensation issues that may arise from time to time, Staff may conduct or cause to be conducted by an independent auditor, a specific audit of that issue. Issues regarding whether an element of compensation was paid to enhance a member's benefit will be handled in accordance with the "Board of Retirement Procedure for Assessment and Determination of Whether an Element of Compensation Was Paid to Enhance a Member's Benefit."
- B. **Confidentiality.** To the extent that any confidential member or employer personnel information is presented, appropriate steps, in accordance with applicable law, will be taken by staff, the Board and the employer throughout the process to protect the confidentiality of information produced in any audit, staff reports, and discussion by or with the Board.
- C. **Annual Audit Approach.** SamCERA may, from time to time, request SamCERA's independent auditor as part of, or in addition to its annual financial audit activities, to review employer data and reporting that may impact a member's eligibility, contributions, membership, records, benefits, and and/or compliance with applicable state or federal law.
- D. **Informal Requests.** Staff may make informal requests of the employer so as to resolve any issues related to individual or multiple member records, retirement benefits, reportable compensation, and enrollment in, and reinstatement to, the retirement system and/or compliance with applicable state or federal law.
- E. **Request For Special Audit Report.** If staff believes that a reason exists, in addition to or as a follow up to the annual audit activities described in paragraph C, to have a Special Audit of information, it may request that the Board authorize a Special Audit in accordance with Section III.

III. Special Audit Procedure.

- A. Request to the Board.** If Staff believes that a Special Audit is needed regarding information submitted by the employer with respect to member records, retirement benefits, reportable compensation, or enrollment in, and reinstatement to, the retirement system and/or compliance with applicable state or federal law, staff shall submit a written report to the Board setting forth the:
- (1) Reasons for the Special Audit, including a report as to prior informal requests of the employer so as to resolve any issues without a Special Audit.
 - (2) Books, papers, data, or records that should be provided by the employer in connection with the Special Audit, including but not limited to personnel and payroll records.
 - (3) Protocol that staff wishes to follow in conducting the Special Audit, including but not limited to who will conduct the audit and a proposed time and place.
 - (4) Estimated cost of the Special Audit, adjustment, and correction.
 - (5) Requested action by the Board in authorizing a Special Audit
 - (6) Any planned or potential follow on requests relating to adjustments or corrections by the employer that may be required as a result of such audit.
- B. Copy of Special Audit Request and Employer Response.** Staff shall send a copy of its Special Audit request to the employer at least 15 days prior to the Board meeting. Any response to the report should be submitted by the employer at least 5 days prior to the meeting.
- C. Opportunity to address the Board.** Staff and the employer will both be given an opportunity at the meeting to address the Board with respect to Staff's request.
- D. Approval of Special Audit Request.** If the Board approves staff's request for an audit, the employer will be informed of the Board's decision. The audit will then be conducted in accordance with the parameters established by the Board.
- E. Written Report of Special Audit Result.** Upon completion of the audit, staff will provide to the Board a written report of the audit results and the conclusions of the auditor and staff. A copy of the report will be provided to the employer at least 15 days prior to any Board discussion or action. Any response to the report should be submitted by the employer at least 5 days prior to the meeting.
- F. Cost of Special Audit and Corrective Action.** The Board may assess the employer the cost of the audit, as well as the cost of any adjustment or correction, if the Board determines that the employer knowingly failed to comply with its legal responsibilities under the new law by (a) reporting compensation to SamCERA that the employer knew or should have known was not compensation earnable as defined in the 1937 Act, or (b) failed to identify to SamCERA the pay period in which compensation earnable was earned. The Board may further determine if other Board action should be taken as a result of the audit.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

September 26, 2017

Agenda Item 4.12

TO: Board of Retirement



FROM: Scott Hood, Chief Executive Officer

SUBJECT: Amendment to the Agreement with Vitech Systems Group, Inc.

Recommendation

Approve a resolution authorizing the Chief Executive Officer to execute a Seventh Amendment to the agreement with Vitech Systems Group, Inc. ("Vitech") and to execute any subsequent amendments and minor modifications in an amount not to exceed \$100,000 in the aggregate.

Background

On May 1, 2014, SamCERA entered into an agreement for \$9,100,000 with Vitech Systems Group, Inc. for the new Pension Administration Software System ("PASS"). This system went live in December of 2016. The agreement provides for the hosting, and all post implementation support maintenance of the system, including third party software and hardware through 2021. The agreement is currently capped at \$9,846,778 due to the following six amendments:

Number	Date	Amount	Reason
First	Jan 2015	\$234,687	License, services and fees for V3 Imaging.
Second	Nov 2015	\$ 85,000	Design and configuration: Final Average Compensation calculations and compensation limits
Third	Feb 2016	\$400,000	Data conversion and cleansing, modifications to the hardware and third party software requirements
Fourth	Jun 2016	\$ 20,000	Design and configuration: Plan 7 members
Fifth	Jul 2016	\$ 7,091	Data conversion and reconcile existing data; various additional system requirements
Sixth	Jun 2017	\$ 0	Mobile App warranty period, final scope of PASS solution addition of service hours for post implementation services.

Discussion

Staff accesses the PASS through a Virtual Private Net (VPN) tunnel from the County's internet system to New York, where the data is hosted. Since the PASS went live in December of 2016, for a variety of reasons, this VPN tunnel has occasionally been inoperative for SamCERA. To ensure that SamCERA has, during an emergency or other reason, access to the PASS system and data, it needs an additional direct VPN connection

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

to the hosted data in New York. The proposed amendment would provide such direct access. Under the terms of the amendment Vitech will purchase, install and configure, third-party hardware and software and components and obtain maintenance and support through the term of the agreement at a cost of about \$100,000. The budget for fiscal year 2017-18 will include the portion of those costs that will accrue this fiscal year.

It is anticipated that there may be some additional services or equipment needed before the end of 2021 that are not covered by the existing agreement. The resolution also authorizes the CEO to execute any subsequent amendments and modifications in an amount not to exceed \$100,000 in the aggregate. If any individual amendment or the aggregate total of the amendments are over that amount, the amendment will be brought to the Board. In all circumstances, the additional expenditures will be included in the Board approved budget.

Attachment

Resolution Authorizing the Chief Executive Officer to Execute a Seventh Amendment to Agreement with Vitech Systems Group, Inc.

RESOLUTION 2017-12

**RESOLUTION AUTHORIZING THE CHIEF EXECUTIVE OFFICER TO EXECUTE SEVENTH
AMENDMENT TO AGREEMENT WITH VITECH SYSTEMS GROUP, INC.**

WHEREAS, SamCERA, in accordance with California Government Code Section 31588.2, is authorized to expend funds on the administration of the pension system in order to provide timely and accurate benefits to its members; and

WHEREAS, on January 28, 2014, this Board authorized the Chief Executive Officer to execute an agreement with Vitech Systems Group, Inc. for the provision of the PASS hardware, software, and implementation and support services; and

WHEREAS, this agreement has been amended six times during the design and build and implementation of the new PASS system; and

WHEREAS, this Board has determined that it is in the best interests of SamCERA to further amend the Agreement to reflect the additional costs to provide direct VPN access to the PASS system and data as a back-up to its existing connection at an amount not to exceed \$99,980 for a total agreement amount not to exceed \$9,946,758 for all services through December 31, 2021; therefore, be it

RESOLVED, the Chief Executive Officer is authorized to execute an amendment to the agreement with Vitech Systems Group, Inc. at an amount not to exceed \$9,946,758 for all services through December 31, 2021. Be it further

RESOLVED, that the Chief Executive Officer is hereby authorized and directed to execute subsequent amendments and minor modifications in an amount not to exceed \$100,000 in the aggregate as the Chief Executive Officer deems necessary.

* * * * *

Regularly passed and adopted, by the San Mateo County Employees' Retirement Association, Board of Retirement, on September 26, 2017.

Ayes, Trustees:

Noes, Trustees:

Absent, Trustees:

Abstain, Trustees:


David Spinello, Board Secretary, SamCERA

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

September 26, 2017

Agenda Item 4.13

TO: Board of Retirement
FROM: Scott Hood, Chief Executive Officer
SUBJECT: Agreement with Verus Advisory, Inc.



Recommendation

Approve a resolution authorizing the Chief Executive Officer to execute an Agreement with Verus Advisory, Inc. for investment consulting services.

Background

At its December 2016 Board meeting, the Board approved the issuance of a Request for Proposal (RFP) for Investment Consulting Services. On December 19, 2016, the Chair appointed Susan Lee, Ben Bowler, Shirley Tourel, and Mark Battey to an Ad Hoc Investment Consultant Selection Committee.

Staff evaluated RFP responses from the following seven firms: Aon Hewitt Investment Consulting, Meketa Investment Group, NEPC, LLC, Pension Consulting Alliance (PCA), RVK, Inc., Verus Consulting and Wilshire Associates. Staff conducted on-site visits to four of the firms. Staff then reviewed each of the four firms and their proposals with the Ad Hoc Committee. The Ad Hoc Committee determined that a finalist be invited to make a presentation to the whole Board. The Board directed staff to invite a second finalist.

After the finalists' presentations and discussion by the Board, the Board directed staff to commence contract negotiations with Verus Advisory, Inc.

Discussion

For over 10 years, Strategic Investment Services and its successor firm Verus Advisory, Inc., ("Verus") have provided the Board with strong investment consulting services. Through Verus' guidance, SamCERA's Fund has recently outperformed its 5-year policy benchmark and actuarial rate of return. Verus played a pivotal role in the build out of our private equity and private real asset program, which has been a key factor in the Fund's recent performance.

The proposed consulting services agreement with Verus will provide staff and the Board with enhanced strategic investment services. On an on-going basis, Verus will assist and guide the Board on "big-picture" total fund investment policy and structure. These services will be overseen by Jeff MacLean in the role of Strategic Advisor. Verus will work with SamCERA to identify the most relevant strategic areas of interest for the Plan each year and address these

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

initiatives in a written annual work plan. It is estimated that the Strategic Advisor will attend 1-2 Board meetings per year in this supplemental role to SamCERA. The Strategic Advisor will provide expertise, education and lead discussions in the following areas:

- Various strategic initiatives
- Market/industry trends and relative topics of concern to SamCERA
- New investment techniques and strategies.
- Asset-liability management review (every 3 years)
- Annual asset allocation review
- Risk management principles and interpretation of SamCERA's Portfolio Risk Dashboard

Additionally, Scott Whalen, acting as Senior Secondary Consultant, will collaborate with the consulting team and staff on portfolio design and implementation activity. He will assist with portfolio design and implementation issues that arise from the strategic discussions, will attend up to 2 Board meetings per year, and participate on periodic conference calls with the Lead Consultant and staff, upon request.

The contract is for a term of 5 years with an annual fee of \$475,000, to be increased based on CPI-U (Consumer Price Index for All Urban Consumers). This represents an increase of \$25,000 over our current annual consulting fee.

Attachment

Resolution Authorizing the Chief Executive Officer to Execute an Agreement with Verus Advisory, Inc. for Investment Consulting Services

**RESOLUTION AUTHORIZING THE CHIEF EXECUTIVE OFFICER TO EXECUTE A
AN AGREEMENT WITH VERUS ADVISORY, INC.
FOR INVESTMENT CONSULTING SERVICES**

RESOLUTION 2017-15

WHEREAS, Article XVI, §17 of the Constitution of the State of California and Government Code §31595 vests the Board of Retirement ("Board") with "plenary authority and fiduciary responsibility for the investment of moneys and the administration of the system"; and

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

WHEREAS, at its December 2016 Board meeting, the Board approved the issuance of a Request for Proposal (RFP) for investment consulting services and after an extensive RFP process concluding with presentations by two finalists; and

WHEREAS, on August 10, 2017, the Board determined that it is in the best interest of SamCERA to enter into an agreement with Verus Advisory, Inc. to continue to provide investment consulting services to SamCERA and directed staff to negotiate such an agreement; Therefore be it:

RESOLVED, that the Chief Executive Officer is hereby authorized and directed to execute said Agreement with Verus Advisory, Inc. for investment consulting services through December 31, 2022 in an amount not to exceed \$2,770,000.

* * * * *

Regularly passed and adopted, by the San Mateo County Employees' Retirement Association, Board of Retirement, on September 26, 2017.

Ayes, Trustees:

Noes, Trustees:

Absent, Trustees:

Abstain, Trustees:

David Spinello, Board Secretary, SamCERA

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

September 26, 2017

Agenda Item 6.1

TO: Board of Retirement 
FROM: Michael Coultrip, Chief Investment Officer
SUBJECT: Preliminary Monthly Portfolio Performance Report for the Period Ended August 31, 2017

Staff Recommendation

Accept the preliminary performance report dated August 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 August was 0.65%, while the preliminary trailing twelve-month return ending August 2017 was 11.8% net, effectively matching the return of the benchmark. The twelve-month net return is higher than SamCERA's Actuarial Assumed Earnings Rate of 6.75%.

Global equities continued their march higher in August, albeit at a more moderate pace. The broad U.S. equity market (as measured by the Russell 1000 Index) was up 0.3%, while developed international equity (as measured by MSCI EAFE) was flat. Emerging markets were also higher and returned 2.2%.

Real GDP growth for the second quarter was revised higher to 3.0% (initial estimate was 2.6%). Consumer confidence remained strong, while manufacturing also improved during the month. The labor market remained healthy as the unemployment rate remained near 16 year lows at 4.4%. U.S. inflation remained below the 2% Fed target, with the 12-month CPI coming in at 1.7% in August.

The general U.S. fixed income market was up 0.9% during the month, as search for safe haven assets drove Treasury yields lower. The 10-year U.S. Treasury yield decreased by 18 basis points during the month with the yield ending at 2.11% by month-end. Credit spreads widened during the month, resulting in a flat return for the high yield market on the month.

Attachment

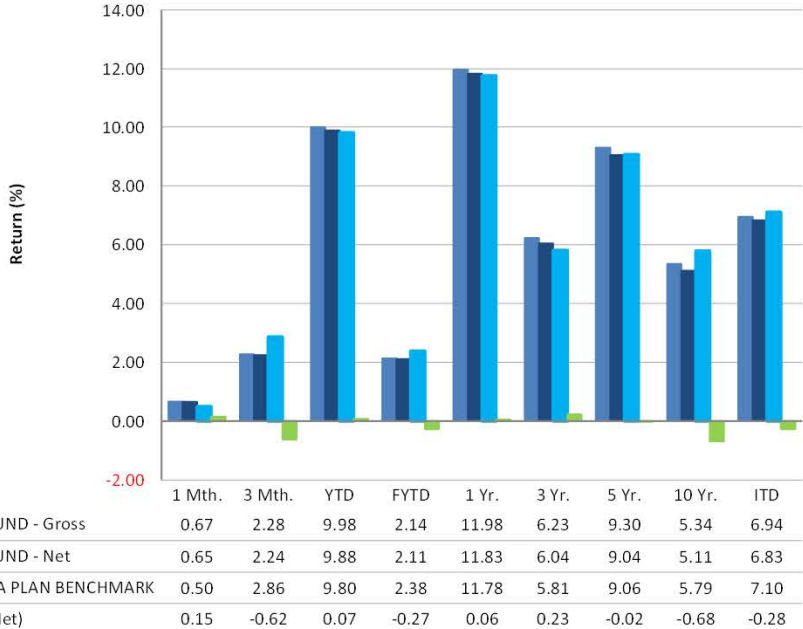
Northern Trust Performance Report
Verus August 2017 Capital Markets Update

San Mateo County Total Fund Characteristics

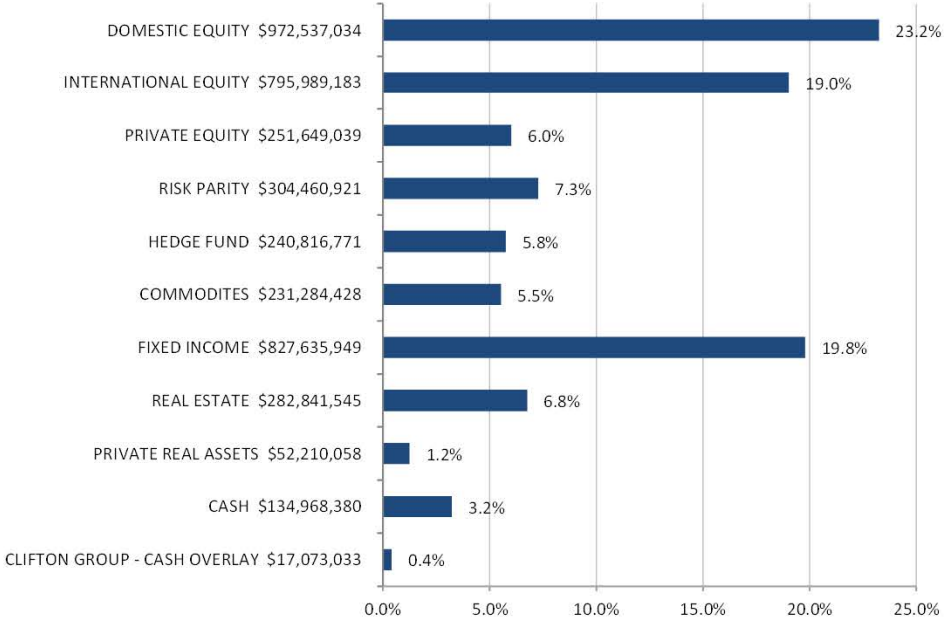


August 31, 2017

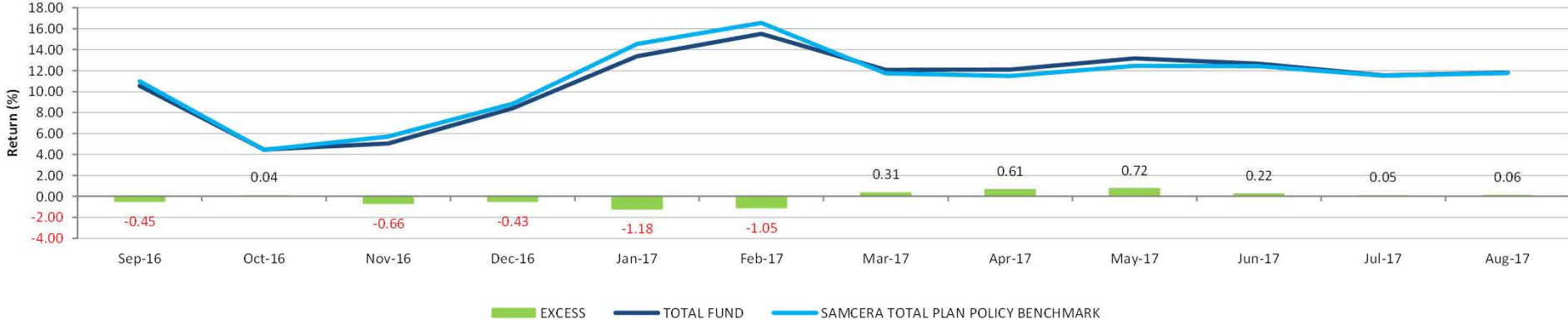
Total Fund Performance



Asset Allocation



Rolling Month End Annual Returns

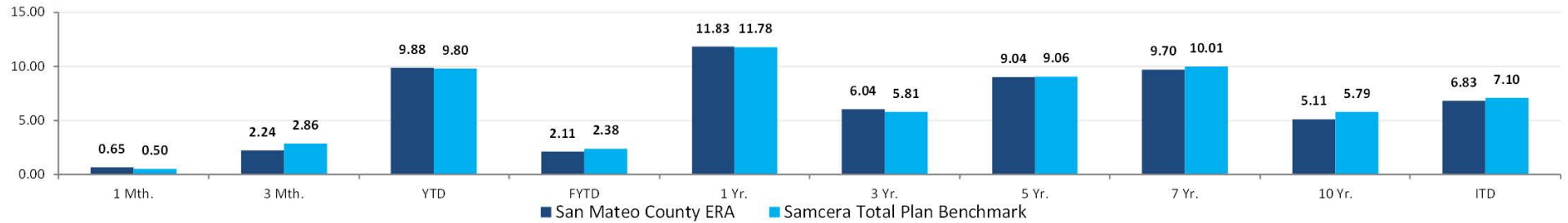


San Mateo County Composite Return Summary



August 31, 2017

Return Comparison



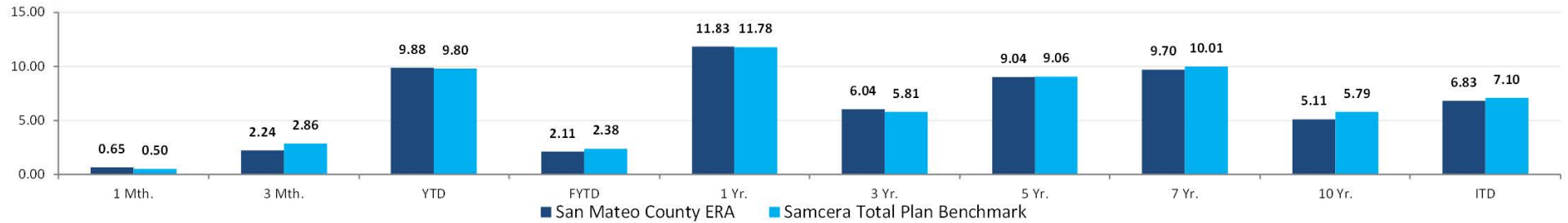
Composite Returns (Net of Manager Fees)	Market Value (\$)	1 Mth.	3 Mth.	YTD	FYTD	1 Yr.	3 Yr.	5 Yr.	7 Yr.	10 Yr.	ITD
San Mateo County ERA	4,183,146,240	0.65	2.24	9.88	2.11	11.83	6.04	9.04	9.70	5.11	6.83
Samcera Total Plan Benchmark		0.50	2.86	9.80	2.38	11.78	5.81	9.06	10.01	5.79	7.10
Excess		0.15	-0.62	0.07	-0.27	0.06	0.23	-0.02	-0.31	-0.68	-0.28
San Mateo Ex-Clifton Overlay	4,166,073,207	0.63	2.22	9.74	2.06	11.69	5.91	8.97	9.66	5.00	6.75
Samcera Total Plan Benchmark		0.50	2.86	9.80	2.38	11.78	5.81	9.06	10.01	5.79	7.10
Excess		0.12	-0.65	-0.06	-0.32	-0.09	0.10	-0.09	-0.35	-0.79	-0.35
Total Equity	1,768,526,217	0.37	3.02	15.57	2.80	17.64	7.07	11.85	12.11	5.04	7.81
Samcera Total Equity Benchmark		0.27	3.33	12.81	2.54	17.22	7.90	12.77	12.94	6.22	8.35
Excess		0.10	-0.30	2.76	0.26	0.42	-0.83	-0.92	-0.83	-1.18	-0.54
Total Fixed Income	827,635,949	0.74	1.58	5.42	1.11	6.24	3.75	4.13	5.10	5.49	5.71
Samcera Fixed Income Benchmark		0.71	1.51	4.68	1.45	2.11	2.91	2.38	3.43	4.68	5.17
Excess		0.03	0.07	0.74	-0.34	4.13	0.83	1.76	1.67	0.82	0.54
Total Risk Parity	304,460,921	2.30	2.53	10.57	4.35	6.95	4.88	5.56	--	--	6.60
Samcera Risk Parity Benchmark		0.44	2.25	9.45	2.06	10.99	7.05	9.69	--	--	8.95
Excess		1.85	0.27	1.12	2.30	-4.04	-2.17	-4.13	--	--	-2.35

San Mateo County Composite Return Summary



August 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
Total Hedge Fund Composite	240,816,771	0.84	2.12	2.14	1.55	5.31	7.10	6.18	--	--	5.02
Samcera LIBOR + 4%		0.43	1.27	3.30	0.86	4.83	4.46	4.35	--	--	4.33
Excess		0.41	0.85	-1.16	0.69	0.47	2.64	1.83	--	--	0.69
Total Private Real Assets	52,210,058	-1.73	-1.53	1.73	-2.15	24.53	--	--	--	--	31.50
SamCera Custom Real Asset Inde		1.15	4.98	8.65	5.32	12.65	--	--	--	--	15.01
Excess		-2.89	-6.51	-6.92	-7.47	11.87	--	--	--	--	16.49
Total Real Estate	282,841,545	0.00	1.81	4.35	0.11	8.15	--	--	--	--	9.28
Samcera NCREIF ODCE EW (gross)		0.00	1.71	3.57	0.00	8.12	--	--	--	--	7.28
Excess		0.00	0.10	0.77	0.11	0.04	--	--	--	--	2.00
Total Cash	134,968,380	0.06	0.22	0.22	0.13	0.43	0.52	0.55	0.63	0.60	2.00
Samcera Cash Benchmark		0.09	0.26	0.48	0.18	0.62	0.29	0.20	0.18	0.50	1.85
Excess		-0.03	-0.05	-0.26	-0.05	-0.19	0.23	0.35	0.45	0.10	0.15

San Mateo County Manager Return Summary



August 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	1,768,526,217	0.37	3.02	15.57	2.80	17.64	7.07	11.85	12.11	5.04	7.81
Samcera Total Equity Benchmark		0.27	3.33	12.81	2.54	17.22	7.90	12.77	12.94	6.22	8.35
Excess		0.10	-0.30	2.76	0.26	0.42	-0.83	-0.92	-0.83	-1.18	-0.54
Total Domestic Equity	972,537,034	0.43	3.18	12.51	2.29	17.55	9.09	13.82	14.81	6.84	8.54
Samcera Dom. Equity Benchmark		0.19	3.00	11.20	2.08	16.06	8.94	14.17	15.29	7.71	8.88
Excess		0.23	0.18	1.31	0.21	1.49	0.14	-0.35	-0.48	-0.87	-0.34
Total Large Cap Equity	843,814,456	0.70	3.37	14.03	2.75	17.99	10.03	14.47	15.19	7.13	9.31
Russell 1000		0.31	3.01	11.79	2.30	16.16	9.21	14.37	15.45	7.73	9.61
Excess		0.39	0.35	2.25	0.45	1.83	0.82	0.10	-0.26	-0.59	-0.30
Blackrock Russell 1000	694,882,220	0.30	3.02	--	2.29	--	--	--	--	--	10.22
Russell 1000		0.31	3.01	--	2.30	--	--	--	--	--	10.01
Excess		-0.01	0.01	--	-0.01	--	--	--	--	--	0.22
DE Shaw Commingled Fund	148,932,236	2.61	4.97	15.10	4.94	19.65	--	--	--	--	11.82
Russell 1000		0.31	3.01	11.79	2.30	16.16	--	--	--	--	9.19
Excess		2.29	1.96	3.32	2.64	3.50	--	--	--	--	2.64
Total Small Cap Equity	128,722,577	-1.35	2.03	3.53	-0.59	17.24	4.35	10.96	13.12	5.47	6.34
Russell 2000		-1.27	2.90	4.42	-0.54	14.91	7.67	13.15	14.44	7.38	7.79
Excess		-0.08	-0.87	-0.89	-0.05	2.32	-3.32	-2.19	-1.32	-1.91	-1.45
QMA US Small Cap	128,722,577	-1.35	2.03	3.53	-0.59	17.24	--	--	--	--	16.39
Russell 2000		-1.27	2.90	4.42	-0.54	14.91	--	--	--	--	14.69
Excess		-0.08	-0.87	-0.89	-0.05	2.32	--	--	--	--	1.70
Total International Equity	795,989,183	0.30	2.84	19.45	3.43	16.78	3.38	7.91	6.50	1.16	5.67
MS AC WldxUS IMI Nt		0.60	4.63	19.20	4.29	18.98	2.75	7.74	6.68	2.02	5.23
Excess		-0.30	-1.79	0.25	-0.86	-2.20	0.63	0.17	-0.18	-0.86	0.44
Total Developed Markets Equity	704,253,294	0.05	2.24	19.04	2.91	16.34	3.61	8.32	6.85	1.56	4.55
MS AC WldxUS IMI Nt		0.60	4.63	19.20	4.29	18.98	2.75	7.74	6.68	2.02	5.06
Excess		-0.55	-2.39	-0.16	-1.38	-2.63	0.86	0.58	0.17	-0.45	-0.51
Baillie Gifford	255,518,552	0.94	3.63	24.13	3.83	17.70	5.53	10.25	--	--	9.21
MSCI ACWI ex US Growth		1.02	4.64	23.01	4.53	17.86	4.63	8.61	--	--	7.34
Excess		-0.08	-1.01	1.12	-0.69	-0.16	0.90	1.64	--	--	1.87
Blackrock EAFE Index Fund	207,632,783	-0.03	2.69	17.41	2.87	18.10	3.14	--	--	--	3.34
MSCI EAFE ND		-0.04	2.66	17.05	2.85	17.64	2.83	--	--	--	3.02
Excess		0.01	0.02	0.36	0.02	0.46	0.32	--	--	--	0.32

San Mateo County Manager Return Summary



August 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	241,101,959	-0.82	0.20	14.97	2.07	14.16	1.56	6.73	6.39	1.76	5.65
MSCI ACWI ex US Value		0.07	4.64	15.93	4.02	20.98	0.97	7.03	6.10	1.55	5.58
Excess		-0.89	-4.44	-0.96	-1.95	-6.83	0.59	-0.30	0.29	0.21	0.08
Total Emerging Markets Equity	91,735,889	2.27	7.80	22.64	7.55	20.14	1.10	4.54	--	--	2.92
MSCI Emerging Markets ND		2.23	9.41	28.29	8.32	24.53	2.38	5.30	--	--	3.39
Excess		0.04	-1.62	-5.65	-0.77	-4.39	-1.28	-0.76	--	--	-0.47
EV Parametric EM	91,735,889	2.27	7.80	22.64	7.55	20.14	--	--	--	--	10.57
MSCI Emerging Markets GD		2.27	9.61	28.62	8.45	24.99	--	--	--	--	12.43
Excess		0.00	-1.82	-5.98	-0.89	-4.86	--	--	--	--	-1.86
Total Fixed Income	827,635,949	0.74	1.58	5.42	1.11	6.24	3.75	4.13	5.10	5.49	5.71
Samcera Fixed Income Benchmark		0.71	1.51	4.68	1.45	2.11	2.91	2.38	3.43	4.68	5.17
Excess		0.03	0.07	0.74	-0.34	4.13	0.83	1.76	1.67	0.82	0.54
Total Domestic Fixed Income	717,465,984	0.88	1.85	5.75	1.41	5.59	4.14	4.04	5.12	5.56	5.85
Samcera US Fixed Inc Benchmark		0.70	1.24	4.03	1.27	2.32	3.18	2.51	3.66	4.84	5.35
Excess		0.18	0.62	1.72	0.14	3.27	0.96	1.53	1.46	0.72	0.50
Total Core Fixed Income	521,649,405	0.80	1.63	4.52	1.37	2.98	3.42	3.29	4.33	4.98	5.53
BB Barclays U.S. Aggregate		0.90	1.23	3.64	1.33	0.49	2.64	2.19	3.04	4.40	5.10
Excess		-0.09	0.40	0.88	0.04	2.48	0.77	1.10	1.29	0.58	0.43
FIAM Core Bond	248,260,487	0.91	1.40	4.06	1.53	1.35	3.21	2.84	3.88	5.10	4.92
BB Barclays U.S. Aggregate		0.90	1.23	3.64	1.33	0.49	2.64	2.19	3.04	4.40	4.44
Excess		0.01	0.17	0.43	0.20	0.86	0.56	0.65	0.84	0.69	0.47
Western Total Return	115,723,936	0.80	3.13	7.33	1.50	8.57	--	--	--	--	5.93
BB Barclays U.S. Aggregate		0.90	1.23	3.64	1.33	0.49	--	--	--	--	2.99
Excess		-0.10	1.90	3.70	0.17	8.08	--	--	--	--	2.94
Blackrock Inter Gov	157,664,982	0.62	0.71	--	0.96	--	--	--	--	--	--
BB Barclays U.S. Aggregate		0.90	1.23	--	1.33	--	--	--	--	--	--
Excess		-0.27	-0.52	--	-0.37	--	--	--	--	--	--
Total Opportunistic Credit	195,816,579	1.06	2.47	8.96	1.51	12.09	6.25	8.41	9.43	--	9.97
BB Barc BA Intermediate HY Ind		0.19	1.52	5.42	1.07	6.45	4.98	5.96	7.18	--	7.94
Excess		0.87	0.95	3.53	0.44	5.65	1.26	2.44	2.24	--	2.04

San Mateo County Manager Return Summary



August 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	11,979,895	4.97	4.97	13.36	4.97	20.38	6.96	--	--	--	5.62
BB Barc BA Intermediate HY Ind		0.19	1.52	5.42	1.07	6.45	4.98	--	--	--	5.13
Excess		4.78	3.45	7.93	3.89	13.93	1.97	--	--	--	0.49
Angelo Gordon	14,316,761	7.29	7.29	15.72	7.29	22.00	9.98	--	--	--	11.03
BB Barc BA Intermediate HY Ind		0.19	1.52	5.42	1.07	6.45	4.98	--	--	--	5.67
Excess		7.10	5.78	10.30	6.22	15.56	4.99	--	--	--	5.36
Beach Point Select Fund	46,919,631	0.68	1.40	7.37	0.68	10.48	--	--	--	--	9.35
BB Barc BA Intermediate HY Ind		0.19	1.52	5.42	1.07	6.45	--	--	--	--	5.81
Excess		0.49	-0.12	1.95	-0.39	4.03	--	--	--	--	3.54
Brigade Cap Mngmt	74,595,843	-0.26	2.20	8.78	0.71	10.45	4.35	6.11	7.32	--	7.24
BB Barc BA Intermediate HY Ind		0.19	1.52	5.42	1.07	6.45	4.98	5.96	7.18	--	7.20
Excess		-0.45	0.68	3.36	-0.36	4.01	-0.63	0.14	0.13	--	0.04
SAMCERA - White Oak Yield Spec	4,361,489	-0.86	-0.86	--	-0.86	--	--	--	--	--	--
BB Barc BA Intermediate HY Ind		0.19	1.52	--	1.07	--	--	--	--	--	--
Excess		-1.05	-2.38	--	-1.93	--	--	--	--	--	--
SAMCERA-PIMCO Div. Income Fund	30,273,285	0.91	--	--	--	--	--	--	--	--	0.91
BB Barc BA Intermediate HY Ind		0.19	--	--	--	--	--	--	--	--	--
Excess		0.72	--	--	--	--	--	--	--	--	--
TCP Direct Lending VIII	13,369,675	0.52	1.62	5.88	0.52	5.88	--	--	--	--	--
BB Barc BA Intermediate HY Ind		0.19	1.52	5.42	1.07	6.45	--	--	--	--	--
Excess		0.33	0.10	0.46	-0.56	-0.57	--	--	--	--	--
Total Global Fixed Income	110,169,965	-0.10	-0.02	3.57	-0.63	9.24	1.44	4.16	--	--	4.66
Samcera Global Fixed Benchmark		0.97	2.63	7.41	2.70	0.80	0.86	1.17	--	--	2.28
Excess		-1.07	-2.64	-3.84	-3.33	8.44	0.58	2.99	--	--	2.39
Franklin Templeton	110,169,965	-0.10	-0.02	3.57	-0.63	9.24	1.44	3.88	--	--	4.45
BB Barclays Multiverse Index		0.97	2.63	7.41	2.70	0.80	0.86	1.17	--	--	2.28
Excess		-1.07	-2.64	-3.84	-3.33	8.44	0.58	2.71	--	--	2.17
Total Risk Parity	304,460,921	2.30	2.53	10.57	4.35	6.95	4.88	5.56	--	--	6.60
Samcera Risk Parity Benchmark		0.44	2.25	9.45	2.06	10.99	7.05	9.69	--	--	8.95
Excess		1.85	0.27	1.12	2.30	-4.04	-2.17	-4.13	--	--	-2.35
AQR Global Risk III	142,593,418	1.89	3.27	11.08	4.69	10.08	2.38	3.95	--	--	5.34
Samcera Risk Parity Benchmark		0.44	2.25	9.45	2.06	10.99	7.05	9.69	--	--	8.95
Excess		1.45	1.02	1.63	2.63	-0.91	-4.67	-5.74	--	--	-3.60

San Mateo County Manager Return Summary



August 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	161,867,503	2.66	1.88	10.13	4.06	4.34	7.55	--	--	--	7.14
Samcera Risk Parity Benchmark		0.44	2.25	9.45	2.06	10.99	7.05	--	--	--	7.21
Excess		2.22	-0.38	0.68	2.01	-6.65	0.50	--	--	--	-0.07
Total Alternatives	492,465,810	0.86	0.88	6.52	0.77	10.67	5.91	4.94	-6.24	-7.86	-2.77
Samcera Alternatives Benchmark		0.43	2.42	7.86	1.65	11.94	5.08	8.35	9.99	6.13	7.45
Excess		0.43	-1.54	-1.34	-0.89	-1.27	0.83	-3.41	-16.23	-13.99	-10.22
Total Private Equity	251,649,039	0.88	-0.22	10.75	0.08	15.81	13.91	13.21	--	--	-22.84
Samcera PE Benchmark		0.44	3.76	13.38	2.58	19.50	12.25	17.60	--	--	16.94
Excess		0.44	-3.98	-2.63	-2.50	-3.69	1.66	-4.40	--	--	-39.78
Total Hedge Fund Composite	240,816,771	0.84	2.12	2.14	1.55	5.31	7.10	6.18	--	--	5.02
Samcera LIBOR + 4%		0.43	1.27	3.30	0.86	4.83	4.46	4.35	--	--	4.33
Excess		0.41	0.85	-1.16	0.69	0.47	2.64	1.83	--	--	0.69
AQR Delta XN	160,056,042	1.29	2.83	2.05	1.97	5.62	7.41	6.37	--	--	5.17
Samcera LIBOR + 4%		0.43	1.27	3.30	0.86	4.83	4.46	4.35	--	--	4.33
Excess		0.86	1.56	-1.25	1.11	0.79	2.96	2.02	--	--	0.84
SamCERA-Aberdeen Std GARS	80,760,729	-0.15	0.55	2.09	0.63	3.43	--	--	--	--	-0.15
Samcera LIBOR + 4%		0.43	1.27	3.30	0.86	4.83	--	--	--	--	4.62
Excess		-0.58	-0.72	-1.20	-0.23	-1.40	--	--	--	--	-4.77
Total Inflation Hedge	638,015,929	0.40	2.43	4.90	1.82	10.33	--	--	--	--	11.66
SamCERA Inflation Hedge Index		0.64	3.01	5.65	2.51	9.38	--	--	--	--	8.80
Excess		-0.24	-0.58	-0.75	-0.69	0.96	--	--	--	--	2.86
Total TIPS	71,679,898	0.63	0.17	1.51	1.03	1.63	--	--	--	--	2.11
BBG Barclays US TIPS		1.06	0.55	2.38	1.51	0.46	--	--	--	--	1.83
Excess		-0.43	-0.38	-0.86	-0.48	1.17	--	--	--	--	0.29
Brown Brothers Harriman	71,679,898	0.63	0.17	1.51	1.03	1.63	0.68	-0.45	2.33	--	2.61
BBG Barclays US TIPS		1.06	0.55	2.38	1.51	0.46	0.98	0.25	2.82	--	3.03
Excess		-0.43	-0.38	-0.86	-0.48	1.17	-0.30	-0.70	-0.49	--	-0.42
Total Real Estate	282,841,545	0.00	1.81	4.35	0.11	8.15	--	--	--	--	9.28
Samcera NCREIF ODCE EW (gross)		0.00	1.71	3.57	0.00	8.12	--	--	--	--	7.28
Excess		0.00	0.10	0.77	0.11	0.04	--	--	--	--	2.00
Invesco Core Real Estate	248,118,584	0.00	1.79	4.29	0.00	8.16	11.50	11.81	13.01	5.06	7.84
Samcera NCREIF ODCE EW (gross)		0.00	1.71	3.57	0.00	8.12	11.61	11.79	13.09	5.07	7.67
Excess		0.00	0.08	0.72	0.00	0.05	-0.11	0.02	-0.07	-0.01	0.18

San Mateo County Manager Return Summary



August 31, 2017

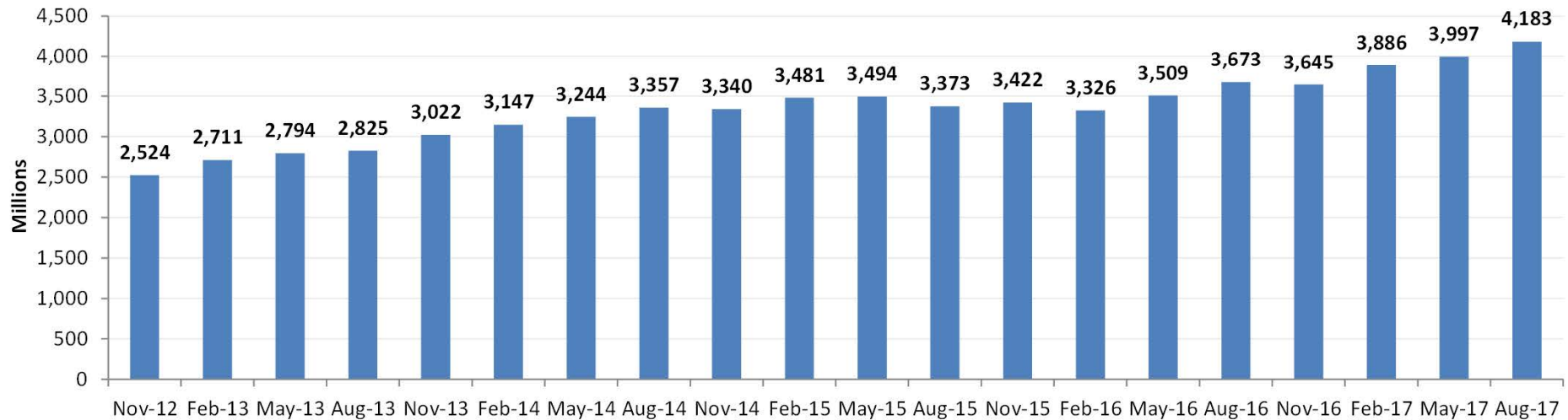
Composite Returns (NET)	Market Value (\$)	1 Mth.	3 Mth.	YTD	FYTD	1 Yr.	3 Yr.	5 Yr.	7 Yr.	10 Yr.	ITD
Invesco US Val IV	18,983,489	0.00	1.65	4.95	1.65	7.71	--	--	--	--	11.87
Samcera NCREIF ODCE EW (gross)		0.00	1.71	3.57	0.00	8.12	--	--	--	--	9.41
Excess		0.00	-0.06	1.38	1.65	-0.41	--	--	--	--	2.46
PGIM Real Estate US Debt Fund	15,739,472	0.00	--	--	0.00	--	--	--	--	--	0.00
Samcera NCREIF ODCE EW (gross)		0.00	--	--	0.00	--	--	--	--	--	0.00
Excess		0.00	--	--	0.00	--	--	--	--	--	0.00
Liquid Real Assets	231,284,428	1.35	5.16	8.26	5.52	--	--	--	--	--	--
SamCera Custom Real Asset Index		1.15	4.98	8.65	5.32	--	--	--	--	--	--
Excess		0.20	0.17	-0.39	0.20	--	--	--	--	--	--
SSGA CST REAL ASSET NL	231,284,428	1.35	5.16	8.26	5.52	--	--	--	--	--	--
SamCera Custom Real Asset Index		1.15	4.98	8.65	5.32	--	--	--	--	--	--
Excess		0.20	0.17	-0.39	0.20	--	--	--	--	--	--
Total Private Real Assets	52,210,058	-1.73	-1.53	1.73	-2.15	24.53	--	--	--	--	31.50
SamCera Custom Real Asset Inde		1.15	4.98	8.65	5.32	12.65	--	--	--	--	15.01
Excess		-2.89	-6.51	-6.92	-7.47	11.87	--	--	--	--	16.49
Total Cash	134,968,380	0.06	0.22	0.22	0.13	0.43	0.52	0.55	0.63	0.60	2.00
Samcera Cash Benchmark		0.09	0.26	0.48	0.18	0.62	0.29	0.20	0.18	0.50	1.85
Excess		-0.03	-0.05	-0.26	-0.05	-0.19	0.23	0.35	0.45	0.10	0.15
SamCera General Account	41,825,502	0.10	0.30	0.69	0.21	0.92	0.53	0.36	0.35	0.73	2.00
County Treasury Pool	93,122,729	0.00	0.00	0.00	0.00	0.00	0.00	0.28	0.49	0.42	2.65
San Mateo County ERA	4,183,146,240	0.65	2.24	9.88	2.11	11.83	6.04	9.04	9.70	5.11	6.83
Samcera Total Plan Benchmark		0.50	2.86	9.80	2.38	11.78	5.81	9.06	10.01	5.79	7.10
Excess		0.15	-0.62	0.07	-0.27	0.06	0.23	-0.02	-0.31	-0.68	-0.28

August 31, 2017

Record of Asset Growth

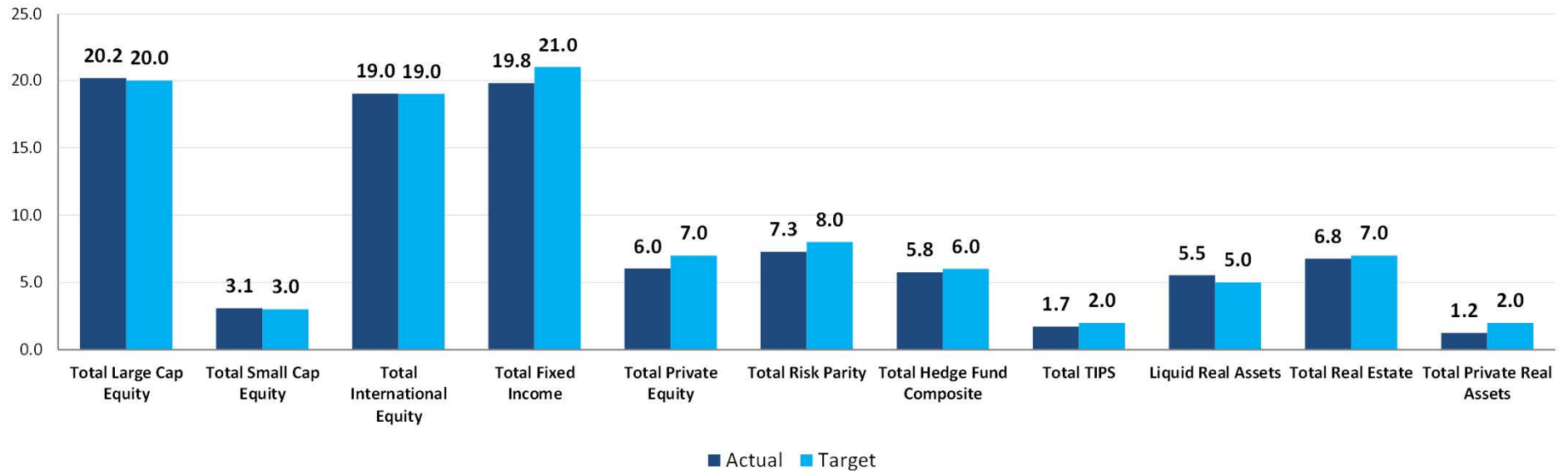
	Three Months	One Year
TOTAL FUND		
Beginning Market Value	3,997,475,361	3,673,219,217
Contributions	145,699,399	1,579,758,817
Withdrawals	-53,246,884	-1,514,343,856
Income Received	8,277,964	35,070,672
Gain/Loss	84,956,561	407,543,868
Ending Market Value	4,183,146,240	4,183,146,240

Net Asset Values Over Time (\$000)



August 31, 2017

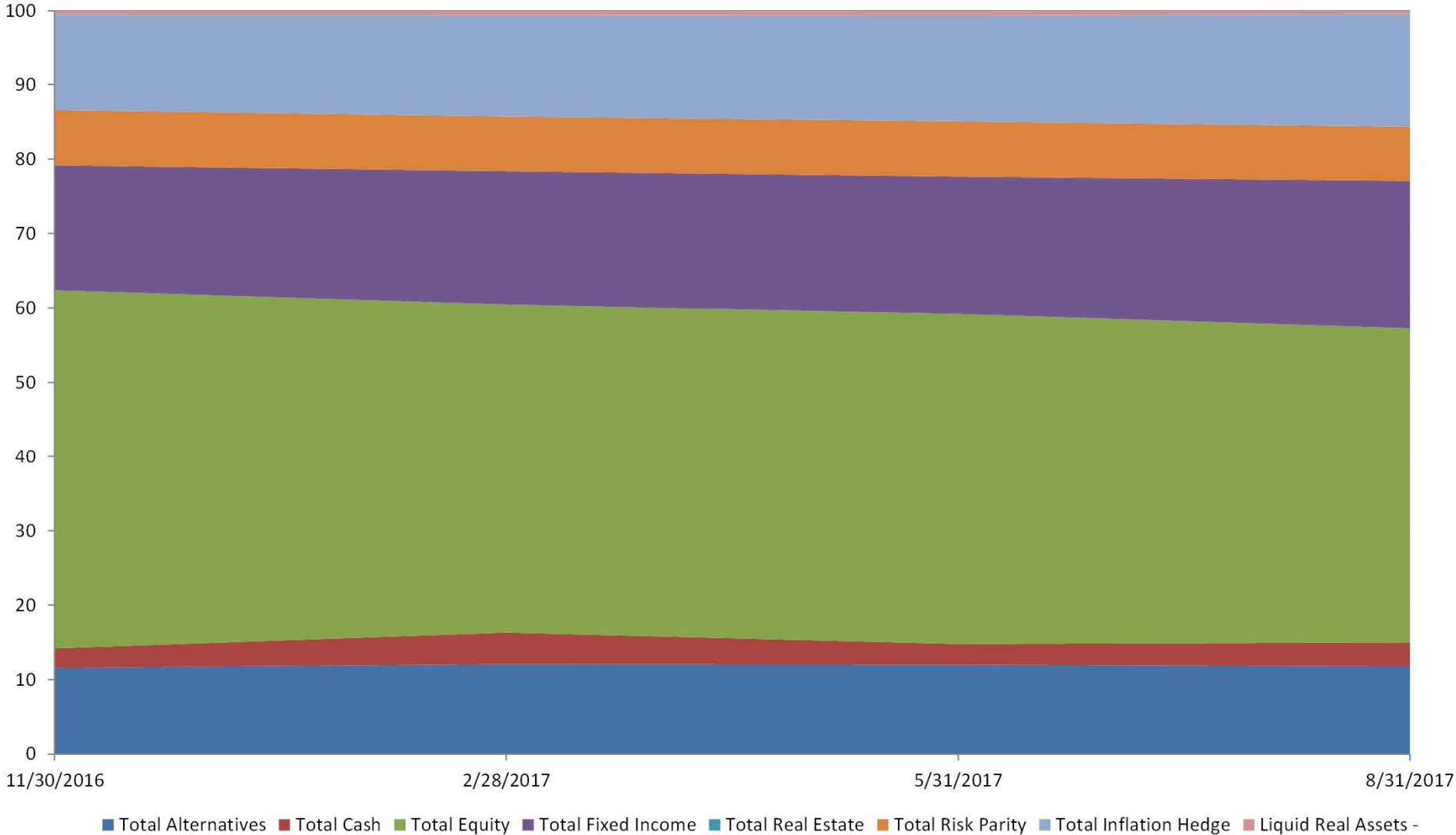
Actual vs Target Weights



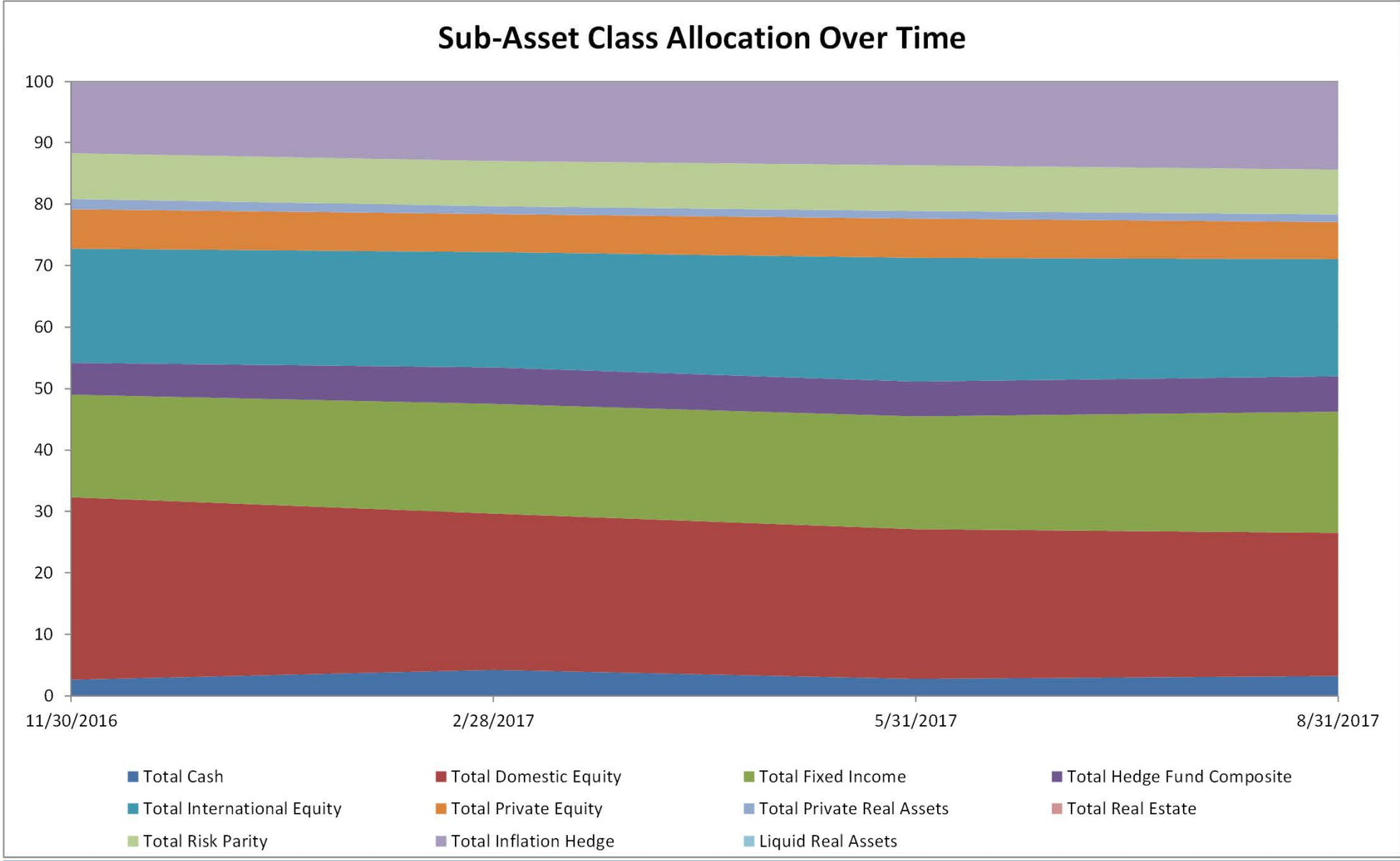
	Min	Actual	Target	Deviation	Max
Total Large Cap Equity	18.0	20.2	20.0	0.2	22.0
Total Small Cap Equity	1.0	3.1	3.0	0.1	5.0
Total International Equity	17.0	19.0	19.0	0.0	21.0
Total Fixed Income	19.0	19.8	21.0	-1.2	23.0
Total Private Equity	5.0	6.0	7.0	-1.0	9.0
Total Risk Parity	6.0	7.3	8.0	-0.7	10.0
Total Hedge Fund Composite	4.0	5.8	6.0	-0.2	8.0
Total TIPS	0.0	1.7	2.0	-0.3	4.0
Liquid Real Assets	3.0	5.5	5.0	0.5	7.0
Total Real Estate	5.0	6.8	7.0	-0.2	9.0
Total Private Real Assets	0.0	1.2	2.0	-0.8	4.0

August 31, 2017

Asset Allocation over Time



August 31, 2017



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**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

AUGUST 2017
Capital Markets Update

Market commentary

ECONOMIC CLIMATE

- Headline CPI increased by 1.9% YoY in August, up 20 bps from July, affected by higher gasoline and shelter prices. Core CPI increased by 1.7% YoY, unchanged from the prior month. Core CPI was led by modest price increases in automobiles and medical services.
- The U.S. dollar depreciated for a fifth consecutive month, decreasing by -1.6% to 100.7 in August against a trade weighted basket of currencies. The currency has fallen -7.8% year-to-date.
- The Conference Board's Consumer Confidence Index, a survey of business and employment sentiment, rose to 122.9 in August, near the fifteen year high of 124.9 set in March.
- Initial unemployment claims jumped in the first week of September to 284,000, above the consensus estimate of 241,000, but well below the 10-year average of 372,000. A significant portion of the increase was attributed to people affected by Hurricanes Harvey and Irma.

DOMESTIC EQUITIES

- Domestic equities continued to appreciate as the S&P 500 returned 0.3% in August, marking the tenth consecutive monthly gain for the index.
- Information Technology outperformed all other S&P 500 sectors – the tech sector index returned 3.5% in August (26.6% year-to-date).
- Implied volatility of the S&P 500 peaked intra-month on August 10th (VIX 16.0) following the North Korean nuclear threat on the U.S. territory of Guam. By month-end the VIX declined back down to 10.6, well below the three-year average of 15.1.

DOMESTIC FIXED INCOME

- Domestic fixed income returns were positive in August as the Bloomberg Barclays U.S. Aggregate Index returned 0.9%.
- Long-term U.S. Treasury rates fell, as the 10-year (-18 bps) and 30-year yields (-16 bps) decreased to 2.12% and 2.73%, respectively.
- The U.S. Treasury curve flattened modestly – the 10-year minus 2-year Treasury yield spread contracted -17 bps to 0.79%.

INTERNATIONAL MARKETS

- International equities narrowly outperformed domestic equities in August (S&P 500 +0.3%) as the unhedged MSCI ACWI ex U.S. Index returned 0.5% (+0.6% hedged). Emerging market equities also outperformed in August, returning 2.2% (+2.0% hedged).
- Eurozone CPI increased by 1.5% YoY in August, up 20 bps from the prior month, but below the recent high in February of 2.0%. CPI ex food and energy was unchanged at 1.2% YoY.
- U.K. unemployment fell 10 bps to 4.3% in July, the lowest rate since 1975, while the labor force participation rate increased to 75.3%, the highest since records began in 1971.
- U.K. citizens experienced negative real wage growth in July, as nominal wages increased by 2.1% YoY (3-month average) while inflation increased at a rate of 2.7% YoY.
- Japan's finalized real GDP grew at a rate of 1.4% YoY in the second quarter (2.4% QoQ annualized). This marked the sixth consecutive quarter of economic expansion, the longest streak since 2006.

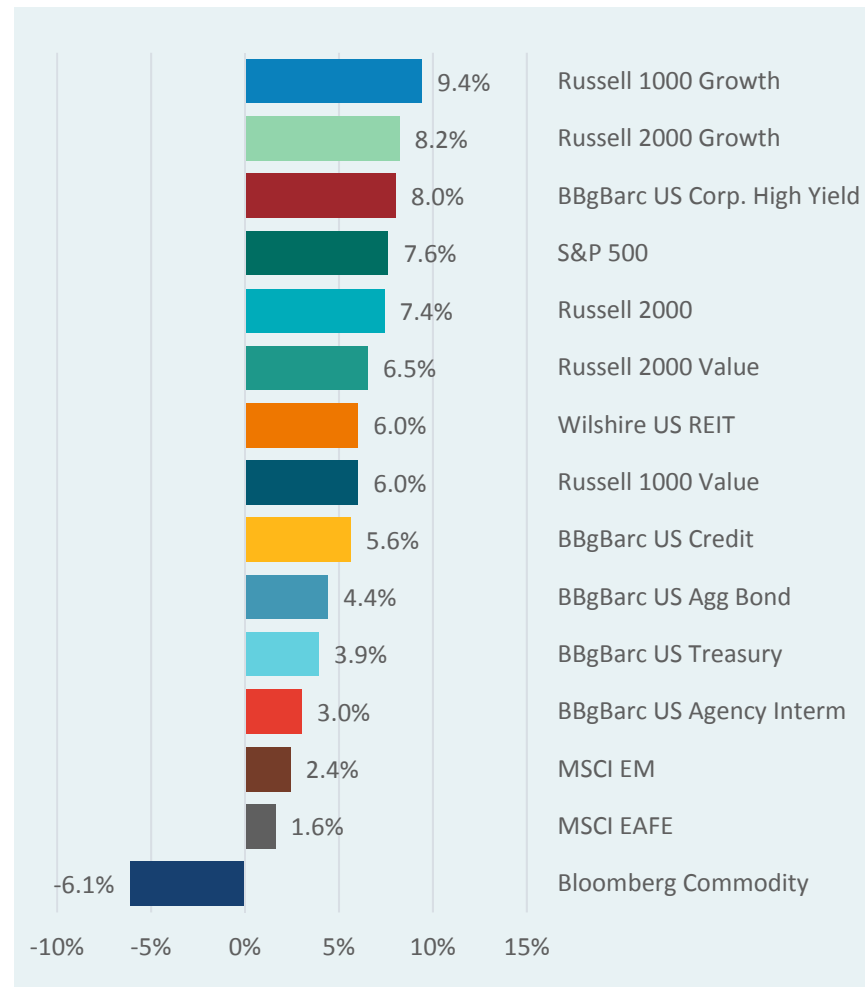
Major asset class returns

ONE YEAR ENDING AUGUST



Source: Morningstar, as of 8/31/17

TEN YEARS ENDING AUGUST



Source: Morningstar, as of 8/31/17

U.S. large cap equities

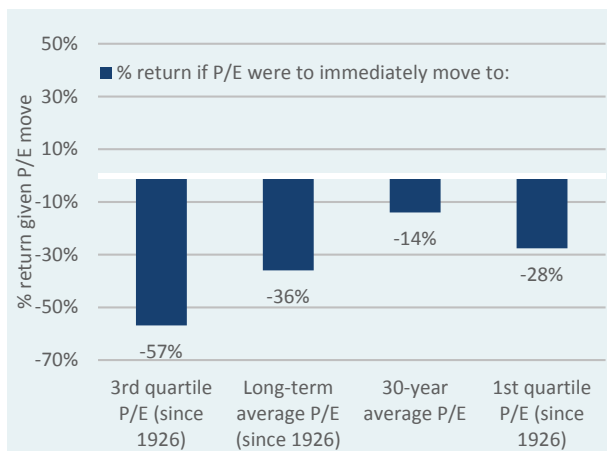
- Large cap equities posted a positive return for a tenth consecutive month (S&P 500 +0.3%).
- According to FactSet, as of September 8th, estimated Q3 earnings and sales growth rates for the S&P 500 were 4.9% and 5.1% YoY, respectively. Energy, Materials and Information Technology led all other sectors with the highest estimated earnings and revenue growth.
- S&P 500 buybacks fell to \$120 billion in Q2. The preliminary figures estimate a decrease of 9.8% quarter-over-quarter and 5.8% from the prior year.
- Energy was the worst performing sector, returning -5.2% (-15.1% year-to-date). Despite Energy leading the S&P in estimated Q3 earnings growth, the sector has experienced the largest relative decrease in forecasted earnings. According to FactSet, 22 of the 32 companies decreased their mean EPS estimates by 10% or greater.

U.S. LARGE CAP EQUITIES



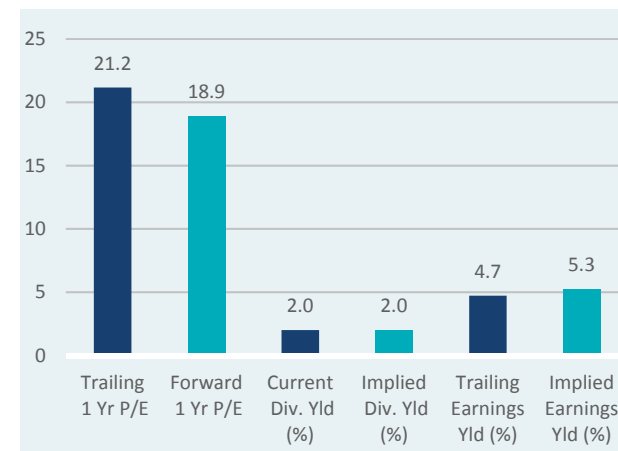
Source: Bloomberg, as of 8/31/17

RETURNS IF TRAILING P/E MOVED TO HISTORIC LEVEL



Source: Yale/Shiller, Verus, as of 8/31/17

S&P 500 VALUATION SNAPSHOT



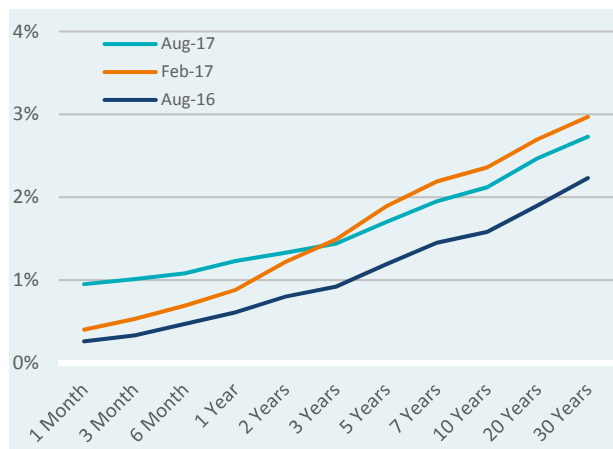
Source: Bloomberg, as of 8/31/17

Fixed income

- The Bloomberg Barclays U.S. Treasury Long (+3.4%) outperformed the broad U.S. Treasury Index (+1.1%). The long end of the U.S. Treasury curve fell during the month, as the 10-year and 30-year yields decreased by 18 bps and 16 bps, respectively.
- Year-to-date, the U.S. has issued \$318 billion in asset-backed debt securities, 78% higher than the same period in 2016. Asset-backed debt includes auto loans, credit cards, student loans and USD denominated CDO's.

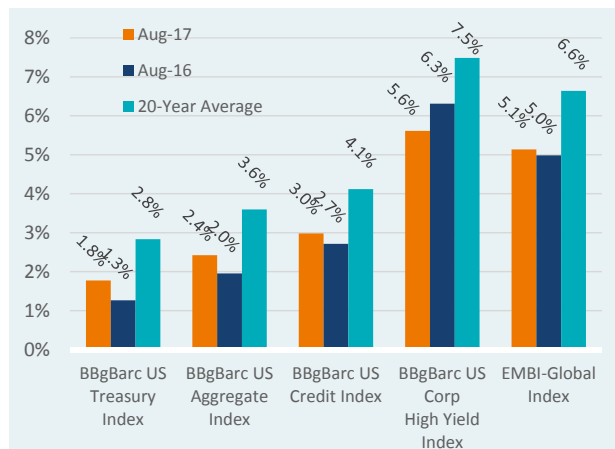
- High yield fixed income underperformed in August, as the Bloomberg Barclays U.S. Corp High Yield Index returned 0.0%. U.S. high yield option-adjusted spreads widened intra-month by 40 bps with rising geopolitical tension. Spreads partially retraced and ended the month up 24 bps at 3.85%.
- A decline in U.S. 10-year real yields (-12 bps) combined with a slight decrease in inflation expectations (-6 bps), which resulted in a decrease in nominal yields over the month.

U.S. TREASURY YIELD CURVE



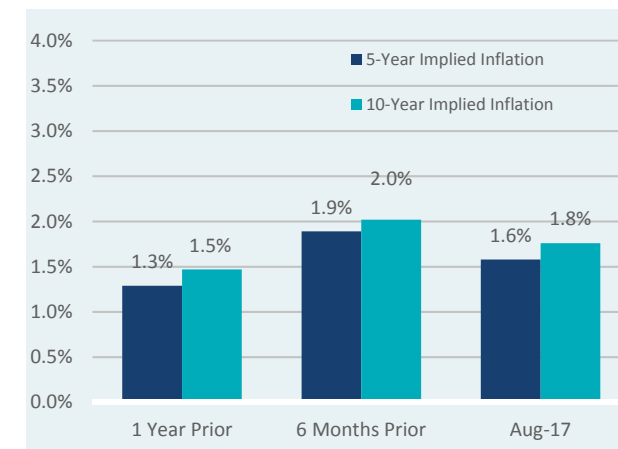
Source: Federal Reserve, as of 8/31/17

NOMINAL FIXED INCOME YIELDS



Source: Morningstar, as of 8/31/17

IMPLIED INFLATION (TIPS BREAKEVEN)

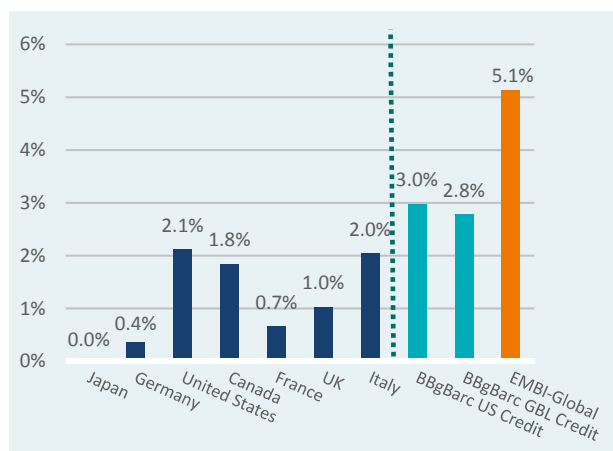


Source: Federal Reserve, as of 8/31/17

Global markets

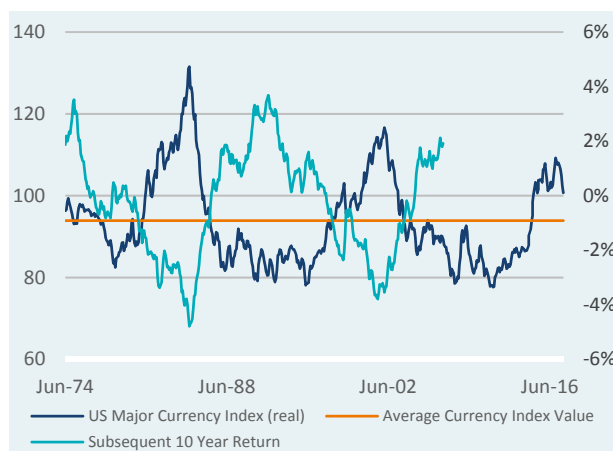
- Emerging market equities (MSCI EM) returned 2.2% in August (2.0% hedged). The 3-month average trailing P/E ratio of the MSCI EM index was 15.4 in August, above the 10-year average of 13.5.
- Brazil officially emerged from recession in the second quarter. Real GDP grew by 0.2% YoY (1.0% QoQ annualized), the second consecutive quarter of expansion.
- In August, global sovereign 10-year bond yields were down across all nations examined below, decreasing by an average of 15 bps during the month.
- Chinese officials formalized the 2016 foreign investment restrictions to specifically prohibit property, hotels, cinema and entertainment companies. China's foreign direct investment in the U.S. was down an estimated 40% year-to-date.

GLOBAL SOVEREIGN 10 YEAR INDEX YIELDS



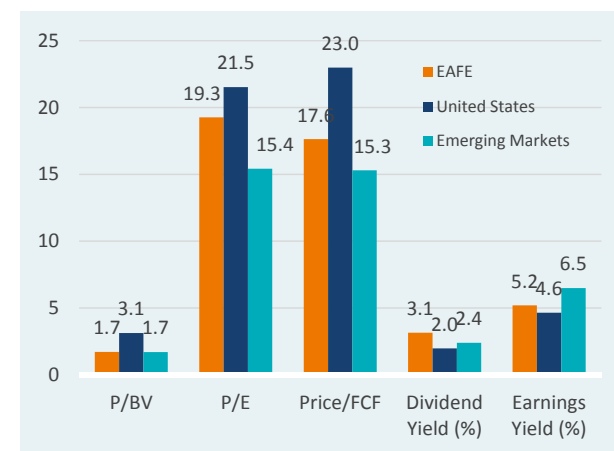
Source: Morningstar, as of 8/31/17

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 8/31/17

MSCI VALUATION METRICS (3 MONTH AVERAGE)

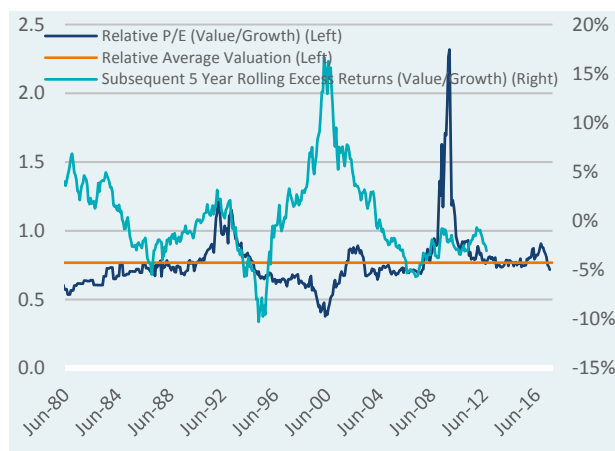


Source: Bloomberg, as of 8/31/17

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

- Growth equities outperformed value equities in August, as the Russell 1000 Growth and Russell 1000 Value returned 1.8% and -1.2%, respectively.
- Growth equities were driven by a higher relative concentration to the Technology sector. The Russell 1000 Technology sub-index outperformed all of the sectors for a second consecutive month and returned 3.8% in the month (31.3% year-to-date).
- The relative trailing P/E ratio of value to growth equities continued its downward trend in August and ended the month at 0.72. The ratio is below its long-term average of 0.77.
- The Russell 1000 Value was negatively affected by its higher relative allocation to Energy, which returned -5.3% in the month.

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



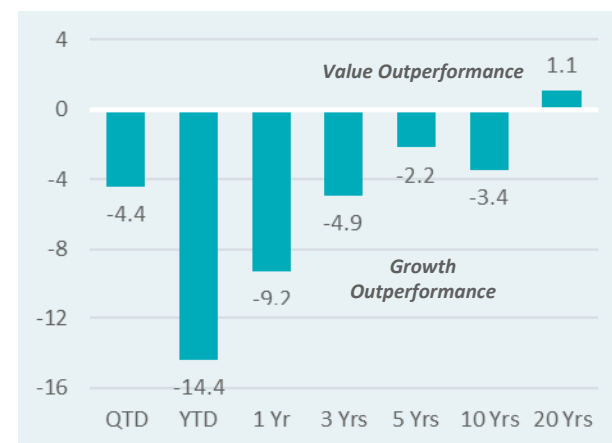
Source: Russell, Bloomberg, as of 8/31/17

U.S. VALUE VS. GROWTH ABSOLUTE PERFORMANCE

	RUSSELL 1000 VALUE	RUSSELL 1000 GROWTH
	ANNUALIZED RETURN TO DATE %	
QTD	0.1	4.5
YTD	4.8	19.2
1 YEAR	11.6	20.8
3 YEARS	6.7	11.7
5 YEARS	13.2	15.4
10 YEARS	6.0	9.4
20 YEARS	7.5	6.7
	SHARPE RATIO	
3 YEARS	0.65	1.05
5 YEARS	1.29	1.46
10 YEARS	0.42	0.63
20 YEARS	0.42	0.35

Source: Morningstar, as of 8/31/17

U.S. VALUE VS. GROWTH RELATIVE PERFORMANCE

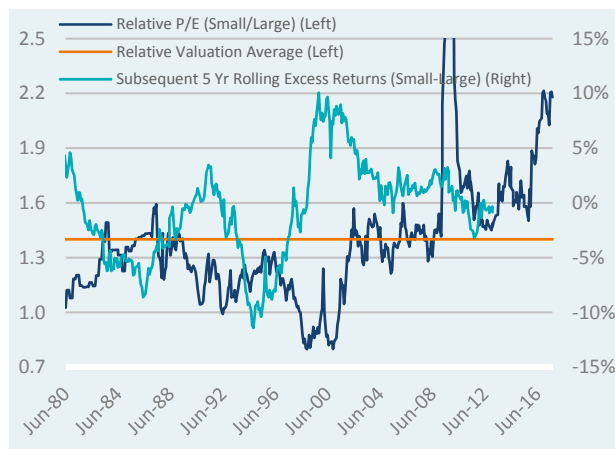


Source: Morningstar, as of 8/31/17

Style tilts: U.S. large vs. small

- U.S. large cap equities continued to outperform small cap equities, as the Russell 1000 index and Russell 2000 index returned 0.3% and -1.3%, respectively.
- Large cap equities have provided superior risk-adjusted returns (Sharpe ratio) relative to small cap equities over all time periods examined below.
- The relative trailing P/E ratio of small to large cap equities remained elevated in August and ended the month near recent highs of 2.2, well above the long-term average of 1.4. According to Bloomberg, the trailing P/E ratio of the Russell 2000 index was near business cycle highs at 47.3.

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



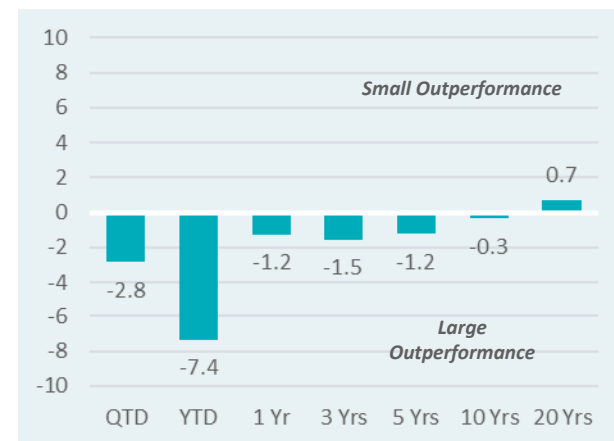
Source: Russell, Bloomberg, as of 8/31/17

U.S. LARGE VS. SMALL ABSOLUTE PERFORMANCE

	RUSSELL 1000 INDEX	RUSSELL 2000 INDEX
	ANNUALIZED RETURN TO DATE %	ANNUALIZED RETURN TO DATE %
QTD	2.3	(0.5)
YTD	11.8	4.4
1 YEAR	16.2	14.9
3 YEARS	9.2	7.7
5 YEARS	14.4	13.2
10 YEARS	7.7	7.4
20 YEARS	7.4	7.6
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.89	0.55
5 YEARS	1.42	0.95
10 YEARS	0.53	0.44
20 YEARS	0.41	0.37

Source: Morningstar, as of 8/31/17

U.S. LARGE VS. SMALL RELATIVE PERFORMANCE



Source: Morningstar, as of 8/31/17

Commodities

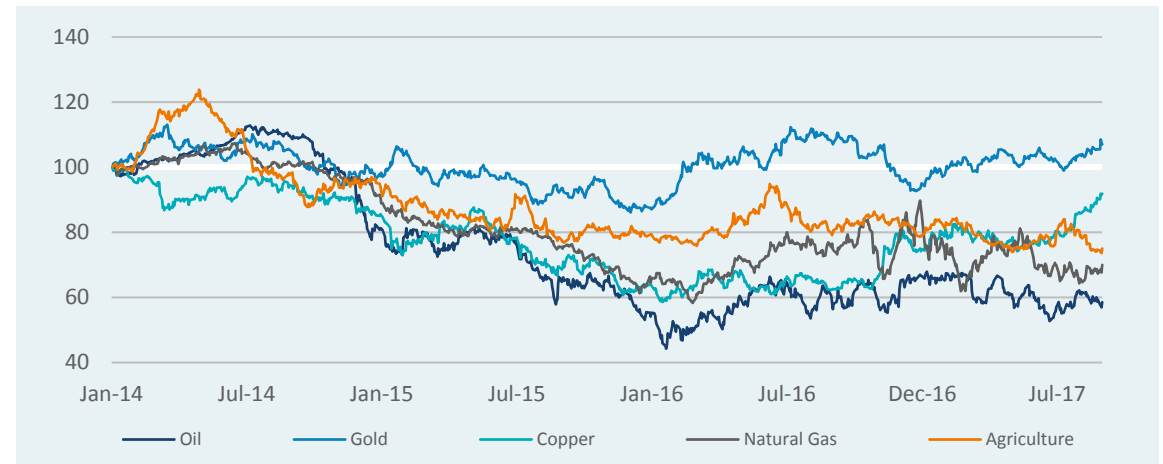
- Gold returned 3.1% in August and ended the month at \$1,306 per ounce. The safe-haven asset has benefitted from rising geopolitical risks, appreciating 12.7% year-to-date.
- The Bloomberg Agriculture sub-index returned -6.9%. Corn prices (-7.0%) were negatively affected by increased 2017 supply estimates. However, an unusually cool August in the Midwest may create supply risks and reverse the trend.
- Industrial Metals continued to rally during the month. The Bloomberg sub-index (+9.6%) significantly outperformed the broad index (+0.4%). Aluminum and Copper, the primary industrial metals, appreciated by 10.4% and 7.2% in the month, aided by the weak U.S. dollar and global demand exceeding supply.

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	0.4	2.7	(2.7)	3.0	(12.3)	(10.1)	(6.1)
Bloomberg Agriculture	(6.9)	(6.1)	(9.2)	(7.4)	(9.3)	(12.2)	(2.7)
Bloomberg Energy	1.4	6.1	(15.1)	(2.3)	(28.5)	(17.9)	(16.9)
Bloomberg Grains	(8.5)	(10.6)	(8.0)	(2.9)	(10.7)	(15.1)	(4.5)
Bloomberg Industrial Metals	9.6	14.2	21.4	35.5	(2.3)	(1.7)	(4.5)
Bloomberg Livestock	(6.2)	(10.7)	(0.6)	4.2	(8.7)	(3.4)	(7.8)
Bloomberg Petroleum	(0.4)	8.7	(11.0)	3.2	(28.6)	(18.4)	(11.4)
Bloomberg Precious Metals	4.0	5.8	12.5	(2.2)	(1.0)	(7.1)	5.5
Bloomberg Softs	(4.3)	2.7	(16.2)	(19.9)	(11.0)	(10.0)	(2.5)

Source: Morningstar, as of 8/31/17

COMMODITY PERFORMANCE



Source: Bloomberg, as of 8/31/17

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	YTD	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	28.3	15.4	9.4
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	19.2	14.4	8.2
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	17.0	13.7	7.7
60/40 Global Portfolio	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	11.9	13.2	7.4
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	11.8	13.2	6.5
Small Cap Growth	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	10.8	12.5	6.4
Hedge Funds of Funds	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	5.5	10.5	6.0
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	4.8	8.5	4.4
Small Cap Equity	-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	4.4	6.7	4.3
US Bonds	-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	3.6	5.3	2.4
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	3.3	4.0	1.6
Cash	-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	0.5	2.2	1.3
Small Cap Value	-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	-1.3	0.2	0.4
Commodities	-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	-2.7	-10.1	-6.1

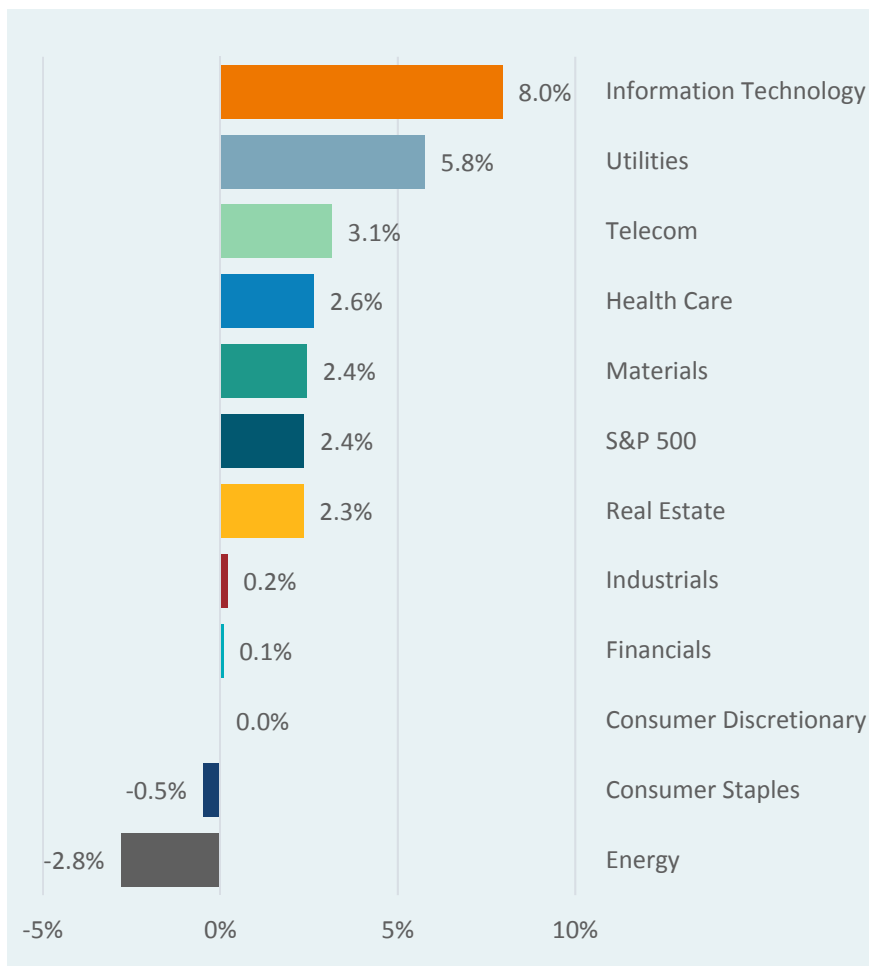
WORST

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

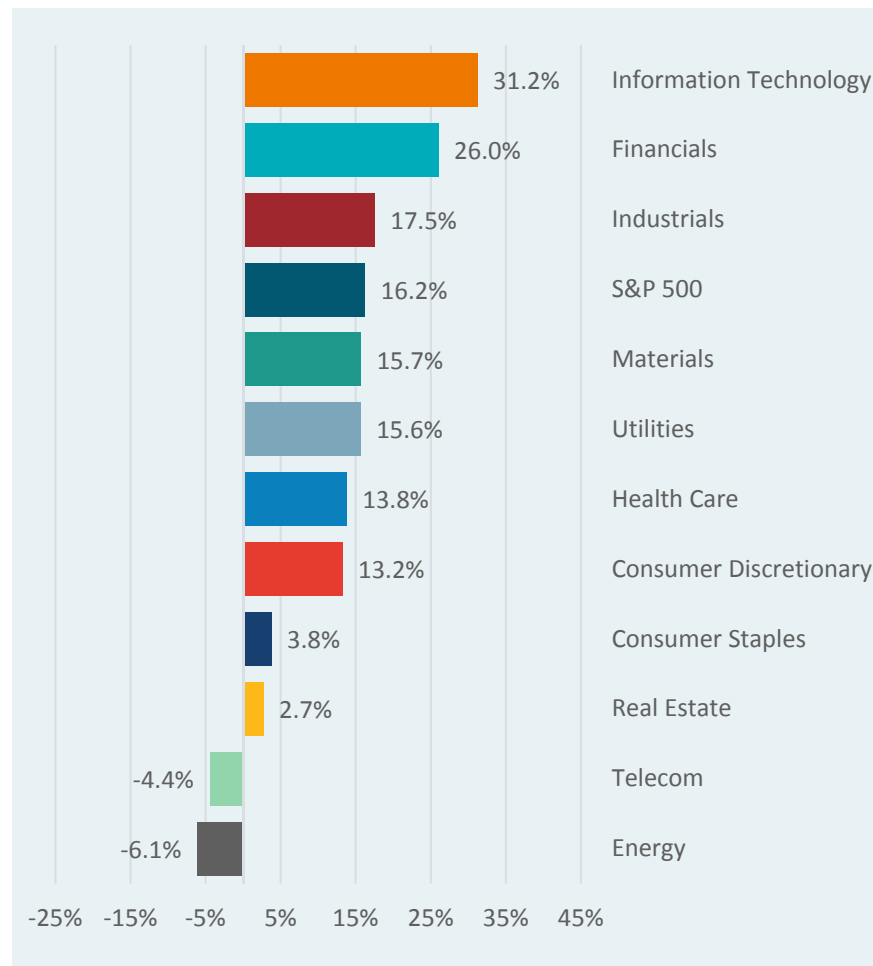
Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property Index performance data as of 6/30/17.

S&P 500 sector returns

QTD



ONE YEAR ENDING AUGUST



Source: Morningstar, as of 8/31/17

Source: Morningstar, as of 8/31/17

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	0.3	2.4	11.9	16.2	9.5	14.3	7.6
S&P 500 Equal Weighted	(0.9)	0.7	8.8	13.0	8.1	14.9	8.9
DJ Industrial Average	0.7	3.3	13.0	22.3	11.5	13.7	7.9
Russell Top 200	0.7	2.9	13.0	17.7	10.0	14.5	7.6
Russell 1000	0.3	2.3	11.8	16.2	9.2	14.4	7.7
Russell 2000	(1.3)	(0.5)	4.4	14.9	7.7	13.2	7.4
Russell 3000	0.2	2.1	11.2	16.1	9.1	14.3	7.7
Russell Mid Cap	(0.8)	0.7	8.7	12.4	7.3	14.1	8.1
Style Index							
Russell 1000 Growth	1.8	4.5	19.2	20.8	11.7	15.4	9.4
Russell 1000 Value	(1.2)	0.1	4.8	11.6	6.7	13.2	6.0
Russell 2000 Growth	(0.1)	0.7	10.8	16.4	8.2	13.7	8.2
Russell 2000 Value	(2.5)	(1.8)	(1.3)	13.5	7.1	12.5	6.5

INTERNATIONAL EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
MSCI ACWI	0.4	3.2	15.0	17.1	5.6	10.5	4.2
MSCI ACWI ex US	0.5	4.2	18.9	18.9	2.4	7.4	1.7
MSCI EAFE	(0.0)	2.8	17.0	17.6	2.8	8.5	1.6
MSCI EM	2.2	8.3	28.3	24.5	2.4	5.3	2.4
MSCI EAFE Small Cap	0.8	4.5	21.9	22.0	8.1	13.2	4.5
Style Index							
MSCI EAFE Growth	0.6	3.0	20.2	15.2	4.5	9.0	2.5
MSCI EAFE Value	(0.6)	2.7	14.1	20.0	1.0	7.8	0.6
Regional Index							
MSCI UK	(0.8)	1.8	12.0	12.1	(2.1)	4.7	0.8
MSCI Japan	(0.1)	2.0	12.1	13.7	6.8	10.7	1.7
MSCI Euro	0.2	3.9	21.1	24.4	3.3	9.7	0.2
MSCI EM Asia	1.4	7.0	31.8	25.5	5.9	8.9	3.9
MSCI EM Latin American	4.6	13.3	24.7	22.6	(5.4)	(1.5)	0.2

Source: Morningstar, as of 8/31/17

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US Treasury US TIPS	1.1	1.5	2.4	0.5	1.0	0.3	4.1
BBgBarc US Treasury Bills	0.1	0.2	0.5	0.6	0.3	0.2	0.6
BBgBarc US Agg Bond	0.9	1.3	3.6	0.5	2.6	2.2	4.4
Duration							
BBgBarc US Treasury 1-3 Yr	0.2	0.4	0.9	0.5	0.8	0.7	1.8
BBgBarc US Treasury Long	3.4	2.8	8.4	(5.8)	5.0	2.9	7.2
BBgBarc US Treasury	1.1	1.3	3.1	(0.9)	2.1	1.4	3.9
Issuer							
BBgBarc US MBS	0.7	1.2	2.5	0.8	2.5	2.1	4.2
BBgBarc US Corp. High Yield	(0.0)	1.1	6.1	8.6	4.8	6.5	8.0
BBgBarc US Agency Interm	0.4	0.6	1.7	0.7	1.5	1.1	3.0
BBgBarc US Credit	0.8	1.6	5.3	1.9	3.5	3.4	5.6

OTHER

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Index							
Bloomberg Commodity	0.4	2.7	(2.7)	3.0	(12.3)	(10.1)	(6.1)
Wilshire US REIT	(0.4)	0.7	2.5	(2.0)	7.5	9.1	6.0
CS Leveraged Loans	(0.1)	0.6	2.6	5.9	3.6	4.5	4.6
Regional Index							
JPM EMBI Global Div	1.8	2.6	9.0	5.0	5.9	5.3	7.7
JPM GBI-EM Global Div	1.8	3.9	14.7	9.9	(1.4)	(0.3)	4.5
Hedge Funds							
HFRI Composite	0.8	1.9	5.5	7.4	3.0	4.9	3.3
HFRI FOF Composite	1.2	2.2	5.5	6.8	2.1	4.0	1.3
Currency (Spot)							
Euro	0.8	4.2	12.7	6.7	(3.4)	(1.2)	(1.4)
Pound	(2.3)	(0.8)	4.3	(1.6)	(8.1)	(4.1)	(4.4)
Yen	0.4	2.1	6.0	(6.0)	(1.9)	(6.6)	0.5

Definitions

Conference Board Consumer Confidence Index – a barometer of the health of the U.S. economy from the perspective of the consumer. The index is based on consumers' perceptions of current business and employment conditions, as well as their expectations for six months hence regarding business conditions, employment, and income. (www.conference-board.org)

Notices & disclosures

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SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

September 26, 2017

Agenda Item 6.2

TO: Board of Retirement

FROM: Lilibeth Dames, Investment Analyst 

SUBJECT: Report on Opportunistic Credit Manager Annual Reviews (Angelo Gordon, Beach Point and Tennenbaum)

Recommendation

Review the report on the annual review of SamCERA's Opportunistic Credit managers.

Background

SamCERA staff and consultant held annual review meetings in SamCERA's office with Angelo Gordon on August 30th, and Beach Point Capital Management and Tennenbaum Capital Partners on August 31st. The annual review for Brigade Capital Management will take place in October.

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

Discussion

On August 30th, Angelo Gordon's Securitized Asset Recovery (STAR) and Opportunistic Whole Loan (OWL) strategies were reviewed. STAR focuses on non-agency RMBS and CMBS, while OWL focuses on re-performing and non-performing whole loans. Angelo Gordon discussed recent organizational changes, including the creation of a Management Committee and Structured Credit platform. On August 31st, Beach Point's Select Fund strategy, which focuses on mid-market, off-the-run, complex and less-liquid securities, was reviewed. The strategy invests across the capital structure in distressed/opportunistic securities, event-driven bonds, bank debt and credit-informed equities with a North American and European focus. Lastly, Tennenbaum Capital Partners was reviewed. TCP Direct Lending Fund VIII is a private investment fund that invests in privately-originated, performing senior secured debt in middle-market companies, with a value-oriented approach. TCP discussed recent team changes.

No major concerns were identified during the portfolio reviews. Attached are meeting notes from Verus summarizing the findings from these annual reviews.

Attachments

- A. Angelo Gordon Securitized Asset Recovery Fund and Opportunistic Whole Loan Fund Annual Review Meeting Notes (Confidential)
- B. Beach Point Select Fund Annual Review Meeting Notes (Confidential)
- C. Tennenbaum Capital Partners Direct Lending Fund VIII Annual Review Meeting Notes (Confidential)

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

September 26, 2017

Agenda Item 6.3

TO: Board of Retirement
FROM: Michael Coultrip, Chief Investment Officer 
SUBJECT: Approval of Resolution Amending the Investment Policy Statement

Staff Recommendation

Adopt a resolution amending the SamCERA Investment Policy Statement.

Background

SamCERA's Investment Policy Statement is periodically updated to reflect the Board's recent actions. Staff combines these changes and typically updates the investment policy statement up to two times per year, as warranted. The investment policy statement was last updated in January 2017.

Discussion

In December 2016, the Board approved a multi-phase plan to implement the new asset allocation target policy. There are expected to be a number of interim policy steps to get to the policy that the Board approved in October 2016. The changes in Section 6.0 "Asset Allocation & Portfolio Structure", Section 6.0 (A) "Public Equity Assets", Section 6.0 (E) "Inflation Hedge Assets", and Section 6.0 (F) "Asset Allocation Policy Benchmark" are amended to reflect a two percent reduction to the domestic equity allocation and a corresponding two percent increase to inflation hedge assets.

As part of the updated asset allocation policy that the Board approved in October 2016, the allocation to private real assets doubled from 2% to 4%. As a two percent allocation, the program was more opportunistic in nature with relatively wide allocation bands around the following three sub-categories: 1) Infrastructure, 2) Mining, and 3) Farmland/Timber/Water. Section 11.0 "Inflation Hedge Investment Policies/Private Real Assets" combines the Mining/Farmland/Timber/Water sub-categories under one category named "Natural Resources". As a result, there are now two sub-categories: 1) Infrastructure, and 2) Natural Resources. Each has a 50% target allocation with a +/- 25% to range.

Staff is also proposing the following updates to the investment policy statement, as set forth below, which reflect the Board's previously approved investment policies. The changes are summarized below:

1. Section 6.0 (A) "Public Equity Assets", and Section 9.0 "Public Equity Investment Policies" are amended to reflect the change in the international equity structure. This

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

change resulted in removing the dedicated international small-capitalization equity allocation and rebalancing the proceeds equally to the three developed market equity strategies. This was approved by the Board in June 2017.

2. Section 6.0 (B) "Fixed Income Assets" and Section 10.0 "Fixed Income Investment Policies" are amended to reflect changes to the fixed income manager structure. These changes consist of moving the Franklin Templeton Multi-Sector strategy to the opportunistic credit bucket, and downsizing the allocation (to 1% of total plan assets) so that the risk is more consistent with other opportunistic credit managers, while allocating the remainder (2%) to the Core bucket via the Blackrock Intermediate Government Bond Index. This was approved by the Board in July 2017.
3. Appendix C "Disclosure of Placement Agent Fees, Gifts, and Campaign Contributions" was revised and approved by the Board in March 2017.

Attachments

Proposed Amendments to the Investment Policy Statement (Redlined Version)

Proposed Amendments to the Investment Policy Statement (Clean Version)

Resolution Revising the Investment Policy Statement and Attached Investment Policy Statement



SamCERA's Investment Policy Statement

Approved June 2014

**Latest Revised September 2017~~September
2014~~**

~~Revised September 2015~~

~~Revised January 2016~~

~~Revised October 2016~~

~~Revised January 2017~~

1.0 ESTABLISHMENT OF INVESTMENT POLICY

The Board of Retirement (the “Board”), having exclusive authority and exclusive fiduciary responsibility for the investment and administration of the Trust Fund (the “Fund”), hereby establishes the following Investment Policy (the “Policy”) for the investment of the San Mateo County Employees’ Retirement Association (“SamCERA”) assets. The Board reserves the right to amend, supplement or rescind this Policy at any time.

The purpose of this Policy is to assist SamCERA in effectively supervising its investments in order to meet the requirements of the California Constitution, the County Employees Retirement Law of 1937 (“the 1937 Act”), the Mission and Goals of SamCERA and other requirements, and to encourage effective communication between SamCERA and its investment managers (the “Manager(s)”) and investment consultants (the “Consultant(s)”).

A. GOVERNING DOCUMENTS FOR THE INVESTMENTS OF THE FUND.

The powers and duties of the Board are set forth in the 1937 Act and in Article XVI of the State Constitution. They are further defined by the Mission and Goals adopted by the Board.

SamCERA was created by San Mateo County Ordinance No. 564 adopted by the Board of Supervisors, effective July 1, 1944. This ordinance established the retirement system in accordance with the provisions of California's County Employees' Retirement Law of 1937.

Constitution of the State of California

Article XVI, Section 17, relates to the administration of the system and investment of the Fund assets. It reads in pertinent part:

“(a)...The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system.

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

“(c) The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

“(d) The members of the retirement board of a public pension or retirement system shall diversify the investments of the system so as to minimize the risk of loss and to

maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.”

The 1937 Act

The 1937 Act contains language similar to that in the State Constitution regarding the investments of the Fund:

Government Code section 31595.

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

The board and its officers and employees shall discharge their duties with respect to the system: (a) Solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system.

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

(c) Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

SamCERA’s Mission and Goals

The Board has adopted a Mission and Goals statement. The Mission summarizes SamCERA’s reason to exist.

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

The Mission is further defined by three goals. One goal speaks to the management of the assets of the Fund. This asset management goal reads:

“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.”

In recognition of the requirements of the California Constitution, the 1937 Act, the SamCERA Mission and Goals and other legal requirements, the SamCERA Board has established this Investment Policy.

2.0 MANAGEMENT OF THE FUND

A. ROLES AND PRINCIPAL DUTIES

The Fund investments shall be prudently planned, implemented, managed, and monitored by the Board. Investment Staff (the “Staff”), Investment Consultant (the “Consultant”), Custodian Bank (the “Custodian”), and Investment Managers (the “Managers”) shall support the Board in this activity. The roles are set forth below:

1. The Board establishes and maintains the investment policy, including: investment philosophy, investment objectives, strategic asset allocation, allocation-level performance benchmarks, and risk philosophy. The Board makes investment and monitoring decisions based upon the recommendations of Staff, Consultants, and other service providers engaged by the Board. The Board reviews and monitors all investments, as well as the policies, guidelines and procedures required to prudently administer the Fund and to effectively mitigate risk to the Fund. From time to time, the Board will utilize its Investment Committee to assist the Board in these activities and related specified tasks.
2. Staff oversees the Fund’s investment program activities, implements the Board’s decisions, makes recommendations to the Board regarding Fund management, including investment-related policies and procedures. Staff makes recommendations regarding the selection of the Consultant, Managers, Custodian as set forth below and monitors the performance and compliance of these and other investment related service providers.
3. The Consultant reviews, analyzes and evaluates the Fund’s effectiveness and efficiency and makes fund management related recommendations. Consultant assists Staff in implementing the Board’s decisions and developing all investment-related policies. Consultant’s responsibilities are detailed in the service agreement between SamCERA and Consultant.
4. The Custodian provides custody of SamCERA’s investment assets. In addition, the Custodian manages the securities lending program. The Custodian’s responsibilities are detailed in the service agreement between SamCERA and Custodian.
5. The Managers manage their mandated allocations in accordance with all applicable laws, Board-established policies, guidelines and procedures, as well as specific investment guidelines. For separately managed accounts, managers’ responsibilities are detailed in the Investment Management Agreements (IMA) between SamCERA and each Manager. For commingled funds, managers’ responsibilities are detailed in the related Fund documents.

B. INVESTMENT PORTFOLIO MANAGEMENT

The Board, with the assistance of Staff and Consultant, select and monitor Managers to manage the assets of the Fund.

1. Hiring New Managers

For public markets manager searches (i.e. non private equity and private real assets), Staff will inform the Board about the search process, including scope of the mandate, and the investment style, benchmark, and the minimum qualifications for candidates. Staff will update the Board on the short list of potential managers. Consultant and Staff will perform due diligence activities deemed applicable by the Chief Investment Officer, which may include analysis of performance records, meetings, due diligence questionnaires, interviews, and on-site visits. Upon completion of such due diligence, Staff and Consultant will bring a finalist to the Board for approval. The recommendation shall provide the Board with a summary description of the conducted due diligence activities.

For private markets (private equity and private real assets), the Consultant, with Staff input, sources managers that can best fit the desired mandate consistent with the annual pacing study and applicable investment policy. Consultant and Staff will bring potential private markets opportunities to the Board for approval. An exception to this policy is when an investment decision for a private market opportunity must be made prior to the date of the next regularly scheduled Board meeting. In these instances, and for investments of \$25 million or less, the Chief Executive Officer is authorized to make the investment decision after consulting with the Board Chair, or if the Chair is not available, the Vice Chair, and one member of the Investment Committee as long as such decision is in the best interest of the fund and consistent with applicable Board policy. Any action under this authorization will be reported to the Board at a subsequent regularly scheduled meeting.

2. Monitoring Existing Managers

The Board monitors the individual investment managers on a continuous basis through information provided by Staff, the Consultant, the Managers, and other investment service providers. Monthly, the Chief Investment Officer will present a preliminary performance report to the Board that is meant to provide a high-level summary of how the fund and each monthly-valued manager is performing. In addition, for SamCERA's separate accounts, Staff receives holdings and attribution reports from each separate account Manager on a monthly basis. For commingled funds, staff receives from the Manager either monthly or quarterly portfolio performance, attribution, exposure, and commentary reports.

Quarterly, the Consultant, with assistance from the Chief Investment Officer, will present an investment performance report to the Board, as specified in Section 14.0 (Quarterly Investment

Performance Reporting) in the Investment Policy. This report provides a more detailed performance attribution for the total plan and individual Managers, and helps to identify any short-term outlier deviations from expectations.

Semi-annually (month-end June and December of each year), every public markets (i.e. not private equity or private real asset) Manager completes a compliance statement identifying any significant firm, regulatory, and portfolio issues. In addition, semi-annually as of June and December of each year, Consultant will present performance reports for both the Private Equity and Private Real Assets programs that summarize each program and shows total program performance and program diversification by strategy, geography, industry, and vintage year.

Annually, Staff and Consultant will convene an investment strategy session, as specified in Section 15.0 (Annual Investment Strategy) in the Investment Policy, to allow a longer-term assessment of the Managers and the total fund performance. Lastly, all public markets Managers are interviewed annually by Staff and Consultant, and must complete a due diligence questionnaire.

During these presentations at SamCERA, Managers will provide an update on the Manager's organization and business plan, any changes to the investment process, and a summary of investment performance. Staff and Consultant report to the Board following these meetings.

3. Terminating Existing Managers

The Board recognizes investments may need to be adjusted or removed from the Fund from time to time for a variety of reasons, including organization changes at the Manager, changes in Manager style, underperformance relative to expectations, and the Managers' strategy is no longer appropriate for the fund. The Board determines if a Manager should be terminated after receiving input and or recommendations from Staff and Consultant.

3.0 INVESTMENT OBJECTIVES

The Board shall develop an investment program, consistent with the Investment Beliefs and General Investment Policies as stipulated in Sections 4.0 and 5.0, respectively, in order to meet the following objectives:

- A. Generate risk-adjusted returns that exceed the Asset Allocation Policy Benchmark (as defined in Section 6.0) on a net-of-fee basis over five-year rolling periods.
- B. Move toward full actuarial funding of the Pension Benefit Obligation based on GASB 25 and the Board's policy of layered fifteen-year unfunded actuarial accrued liability (UAAL) amortization periods.
- C. Achieve a Fund return that meets or exceeds the long-term forecast of capital market returns for the asset allocation portfolio benchmark over multiple economic cycles (e.g. 15-20 years).
- D. Provide a more consistent return stream than a traditional 60% Equity / 40% Fixed Income portfolio as measured by lower portfolio drawdowns over a full market cycle.

4.0 INVESTMENT BELIEFS

The following section summarizes the Board's investment beliefs that have guided it in the development of this Policy document and will guide it in the oversight of the Plan assets.

- Strategic asset allocation is the primary driver of portfolio risk and return.
- SamCERA should have a long-term horizon and not be tempted to deviate from its long-term plan in response to short-term volatility.
- Everything else being equal, simplicity is preferred over complexity.
- For those asset classes evidencing market efficiencies, the manager structure may favor the employment of passive strategies.
- Diversification is fundamental.
- There is no single definition of risk. There are various measures of 'risk' that can be used for various purposes.
- The portfolio should be diversified across many risk dimensions/timeframes.
- SamCERA should not pursue investments that will not adequately compensate it for the risks that those investments bring.
- Costs matter.

5.0 GENERAL INVESTMENT POLICIES

Consistent with the investment beliefs contained in Section 4.0, it is the investment policy of the Board to:

- A. Achieve long-term risk-adjusted returns consistent with its fiduciary duty.
- B. Pursue an investment strategy that reduces the volatility of returns through prudent diversification of the portfolio across a broad selection of distinct asset classes, as provided for in Section 6.0 of this Investment Policy.
- C. Further diversify other risks, including extreme events, liquidity, and leverage by looking beyond traditional asset class definitions by utilizing multiple lenses on portfolio risks.
- D. Adopt an asset allocation target to guide the structure of the investment portfolio, as provided for in Section 6.0, and reevaluate on an annual basis.
- E. Reevaluate the asset-liability study every three to five years.
- F. Delegate full discretion, including whether to include environmental, social, and governance factors, if such factors have a direct relationship to the economic and financial value of an investment, when analyzing the financial merits of competing investment choices on behalf of SamCERA, to each investment manager to the extent authorized in their Investment Management Agreement (IMA).
- G. Adopt objectives that encourage investment managers to maximize their performance, within acceptable risk parameters, relative to their individual investment style benchmark.
- H. Refrain from drastically shifting asset class allocations over short time spans, unless it is in the Fund's best interest to do so.
- I. Rebalance the portfolio in accordance to the Rebalancing Policy set forth in Section 7.0.

6.0 ASSET ALLOCATION & PORTFOLIO STRUCTURE

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

ASSET CLASS	TARGET ALLOCATION	REBALANCE RANGE
Public Equity	40 2%	±3%
Fixed Income	21%	±2%
Risk Parity	8%	±2%
Alternative Assets *	13%	±2%
Inflation Hedge *	18 6%	±2%

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

A. Public Equity Assets shall be allocated to managers within the following sub-asset classes:

PUBLIC EQUITY ASSET CLASSES	TARGET ALLOCATION	REBALANCE RANGE
Large Capitalization Domestic	18.20.0%	±2%
Passive Core	15.7.0%	±2%
Active Core	3.0%	±2%
Small Capitalization Domestic	3.0%	±2%
Active Core	3.0%	±2%
International	19.0%	±2%
Passive Core	5.74.0 %	±2%
Growth	5.75%	±2%
Value	5.75%	±2%
Small Capitalization	2.0%	±2%
Emerging Market	2.0%	±2%
TOTAL PUBLIC EQUITY	40.2.0%	

B. Fixed Income Assets shall be allocated to managers within the following sub-asset classes:

FIXED INCOME ASSET CLASSES	TARGET ALLOCATION	REBALANCE RANGE
Core	119.0 %	±2%
Core Unconstrained	3.0%	±2%
Opportunistic Credit	76.0%	±2%
Global Fixed Income	3.0%	±2%
TOTAL FIXED INCOME	21.0%	

C. Risk Parity Assets shall be allocated as follows:

RISK PARITY ASSET CLASS	TARGET ALLOCATION	REBALANCE RANGE
Risk Parity	8.0%	±2%
TOTAL RISK PARITY	8.0%	

D. Alternative Assets shall be allocated to managers within the following sub-asset classes:

ALTERNATIVE ASSET CLASSES	TARGET ALLOCATION	REBALANCE RANGE
Private Equity	7.0%	±2%
Hedge Funds (Absolute Return)	6.0%	±2%
TOTAL ALTERNATIVE ASSETS	13.0%	

E. Inflation Hedge Assets shall be allocated as follows:

INFLATION HEDGE ASSET CLASSES	TARGET ALLOCATION	REBALANCE RANGE
Real Estate	87.0%	±2%
Private Real Assets	2.0%	±2%
Liquid Pool	65.0%	±2%
TIPS	2.0%	±2%
TOTAL INFLATION HEDGE ASSETS	186.0	

F. Asset Allocation Policy Benchmark

The Asset Allocation Policy Benchmark defined below is derived by assigning a passive benchmark to each of the sub-asset classes referenced in Sections 6.0 (A) through 6.0 (E) and weighting each by the Target Allocation. The performance of the Asset Allocation Policy Benchmark is computed by the Plan's investment consultant.

Benchmark	Asset Allocation Policy Benchmark
Public Equity	402%
Russell 3000 Index	213%
MSCI ACWI x US IMI Index	19%
Fixed Income	21%
BC Aggregate Index	142%
BC BA Intermediate High Yield Index	76%
BC Multiverse Index	3%

Risk Parity	8%
60% MSCI World / 40% BC Global	
Aggregate	8%
Alternatives	13%
Russell 3000 +3%	7%
LIBOR + 4%	6%
Inflation Hedge	18%
NCREIF ODCE	8%
Custom Real Asset Index*	8%
BC TIPS Index	2%

*Comprised of 34% Bloomberg Roll Select Commodity Index, 33% S&P Global LargeMidCap Commodity and Resources Index, and 33% S&P Global Infrastructure Index.

7.0 REBALANCING POLICY

- A. The Chief Investment Officer (CIO) shall rebalance the portfolio as needed in conformance with the asset allocation tactical ranges set forth in Section 6.0.
- B. The potential need to rebalance will be continuously monitored, and will be subject to deviations within the established rebalance ranges specified in Section 6.0.
- C. The CIO will have discretion to rebalance to Target or to some other allocation, as long as it is within policy ranges.
- D. Cash flows will be used first to rebalance, and to the extent possible, exchange-traded derivatives will be used to rebalance in a cost-effective manner.
- E. All rebalancing activity shall be reported to the Board at the next scheduled meeting.

8.0 GENERAL MANAGER INVESTMENT PERFORMANCE POLICIES

The responsibility for securities selection, purchase and sale decisions, and proxy voting (where appropriate) is delegated to the external investment managers. The individual investment guideline parameters (including diversification constraints, concentration limits, asset type exclusions, etc.) and performance objectives for each investment manager will be established within the IMA or other applicable legal agreement(s) with each firm.

The Board expects to measure investment performance quarterly and will generally follow prudent time horizons when evaluating short term, intermediate term, and long term performance of its investment managers. Generally, the Board defines underperformance as: Cumulative annualized performance (net of fees) over a three-year period below a broad market-based benchmark return times 0.9, or five year return (net of fees) below the broad market based benchmark return.

Performance will also be evaluated in light of the manager's stated style and discipline.

9.0 PUBLIC EQUITY INVESTMENT POLICIES

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

PUBLIC EQUITY MANAGER STRUCTURE:

Domestic Equity: For the domestic equity program, the majority of the tracking error will come from stock selection via active management as the overall manager structure for domestic equities will not possess any significant biases in terms of investment style. The domestic equity composite will consist of two sub-composites: 1) Large-Capitalization Equity, and 2) Small-Capitalization Equity. The large-cap composite will consist of Core. Core will consist of two strategies, one a passive and another a low-tracking error active. The Small-Capitalization strategy will consist of an actively-managed Core strategy.

International Equity: International Equity will consist of two sub-composites: 1) Developed Equity, and 2) Emerging Equity. Developed Equity will consist of a passive Core component and active Value and Growth (although both have exposure to emerging markets), ~~and Core Small Capitalization strategies~~. Emerging Market Equity will consist of an active Core mandate.

PUBLIC EQUITY PERFORMANCE OBJECTIVE:

The performance objective of the Public Equity Category is to outperform on a net-of-fee basis a customized index (Customized Benchmark Portfolio) incorporating the weighted average components for both the domestic and international equity parts (which results in the following weights: 55% Russell 3000, and 45% MSCI ~~World ACWI~~ ex US IMI Index), with a maximum tracking error of 3% to this benchmark.

PUBLIC EQUITY RISK EXPOSURES AND RISK MITIGATION:

The primary risk factors for Public Equity are correlation to general economic growth, high volatility in returns, and potential illiquidity in smaller-capitalization and certain emerging market stocks. SamCERA will control for these risk factors by diversifying the plan across assets that exhibit limited correlation to economic growth. In addition, SamCERA's rebalancing ranges for small-cap and emerging market equities will help ensure adequate diversification within the equity portion of the SamCERA portfolio.

ASSET CLASS	BENCHMARK INDEX
Total Public Equity	Customized Benchmark Portfolio
Domestic Equity	Russell 3000
Large Capitalization Domestic Equity	Russell 1000

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

10.0 FIXED INCOME INVESTMENT POLICIES

FIXED INCOME OVERVIEW: Fixed income is expected to provide a lower but steadier stream of returns than public equity asset classes, but is also expected to reduce the risk of the overall portfolio because bonds have lower risk than most other major asset classes. That said, there are a number of sub-categories within fixed income that exhibit very different risk/return trade-offs and hold different tasks in terms of role in the portfolio. Fixed Income is broken out into ~~three~~four subcategories:

- 1) Core, 2) Core Unconstrained, and 3) Opportunistic Credit, ~~and 4) Global Fixed Income~~

Core: Core is generally considered the lowest-risk fixed income category, and one that invests in primarily liquid, investment grade U.S. Dollar denominated bonds. It also generally consists of sectors that comprise the Barclays Aggregate Index. Core's role in the portfolio is to dampen portfolio volatility and protect the portfolio in times of economic duress.

Core Unconstrained: Core Unconstrained is a medium-risk fixed income sub-category, and contains the sectors contained in Core plus high yield (below investment grade bonds), non-U.S. Dollar denominated bonds, and emerging market fixed income securities. Core Unconstrained's role in the portfolio is a combination of total portfolio volatility dampening combined with some moderate return enhancement.

Opportunistic Credit: Opportunistic Credit is expected to be the highest-risk fixed income category, and will be used to enhance return by investing in non-traditional sectors of the bond market, including emerging market debt, high yield bonds, bank loans, ~~high yield bonds,~~ convertible bonds, and CMBS/ABS securities. This sub-category will be exposed to general economic risk factors, similar to public equities.

~~**Global Fixed Income:** Global Fixed Income has characteristics similar to a combination of Core and Core Unconstrained but extended to a global opportunity set, and is expected to provide some portfolio volatility dampening along with some return enhancement.~~

FIXED INCOME PERFORMANCE OBJECTIVE:

The performance objective of the Fixed Income Composite is to outperform, on a net-of-fee-basis, a customized index incorporating the weighted average components for ~~three~~^{four} sub-categories highlighted above (which results in the following weights: ~~65~~⁶⁷% Barclay’s Capital Aggregate Bond Index ~~and~~[,] ~~33~~³²~~9~~% Barclays BA Intermediate High Yield Index, ~~and~~[,] ~~14~~% ~~Barclays Capital Multiverse Index~~), with a maximum tracking error of ~~23~~% to this benchmark.

FIXED INCOME RISK EXPOSURES AND RISK MITIGATION:

The fixed income sub-sectors have very different risk factor exposures, with Core being generally the lowest risk, highest liquidity sub-category, while Opportunistic Credit is generally the highest risk, lowest liquidity sub-category. SamCERA will take into account these unique risk factors when constructing the fixed income portfolio to help ensure that the overall risk profile of the total portfolio is consistent with expectations.

Core: The primary risk factors are sensitivity to changes in interest rates, changes in mortgage prepayment speeds, and investment-grade corporate and sovereign credit risk.

Core Unconstrained: Typically includes the risk factors found in Core with additional exposures to high-yield default risks, emerging markets sovereign/corporate default risk, and potential illiquidity. The allocation to these risk exposures will be dynamic over time as the portfolio is not constrained to a benchmark.

Opportunistic Credit: Typically includes the risk factors contained in Core and Core Unconstrained, but, depending on the mandate, with higher emphasis to high-yield default risks, emerging markets sovereign/corporate default risk, and potential illiquidity.

~~**Global Fixed Income:** The primary risk factors are sensitivity to global interest rates, sovereign credit risk (including emerging markets), corporate default risk, and currency impacts.~~

ASSET CLASS	BENCHMARK INDEX
Fixed Income	Customized Benchmark Portfolio
Domestic Fixed Income	Barclays Capital Aggregate Bond Index
Core/Core Unconstrained	Barclays Capital Aggregate Bond Index
Opportunistic Credit	Barclays Capital BA Intermediate High Yield Index
Global Fixed Income	Barclays Capital Multiverse Index

11.0 INFLATION ~~HEDGE~~^{HEDGE} INVESTMENT POLICIES

INFLATION HEDGE OVERVIEW: The Inflation Hedge combines inflation-sensitive assets under a single asset class to simplify the asset allocation process and enable better performance monitoring of the plan’s overall, direct exposure to assets with inflation-hedging properties. The plan also has indirect exposure to inflation-sensitive assets through other asset classes, such as Public Equity, Fixed Income, Risk Parity, and Alternatives. When determining the appropriate allocation of inflation protection, both direct and indirect exposures to inflation-sensitive assets across the plan are taken into account. The Inflation Hedge is expected to

provide a high degree of inflation beta, attractive risk-adjusted returns and diversification benefits to the overall plan.

Inflation Hedge is broken out into four subcategories:

- 1) Real Estate, 2) Private Real Assets, 3) Liquid Pool, and 4) TIPS

Real Estate: Real Estate is expected to provide a return and risk profile between that provided by fixed income and equities. The majority of exposure will be in Core real estate assets of the highest quality located in the best locations in North America, Europe, and Asia. The remainder will be Value-Add properties that are expected to provide somewhat higher return potential along with somewhat higher risk. Income will be a large part of the return stream generated from this portfolio. The role of this portfolio is to provide diversification benefits, some protection against unanticipated inflation, and a steady income stream. Higher risk Opportunistic/Development real estate strategies will reside in the Private **Equity Real Assets** composite due to their higher-risk, longer time horizon, and the less liquid nature of the investment set compared to Core and Value-Add strategies.

Private Real Assets: Private Real Assets are expected to provide attractive total and risk-adjusted returns that exhibit low correlations with traditional asset classes but positive correlation with inflation. Private Real Assets will be composed of ~~two~~^{three} sub-categories: 1) Infrastructure (Core, Secondary, Midstream Energy, and Power), ~~and 2) Mining, and 3) Farmland/Timber/Water~~^{Natural Resources (Energy Exploration & Production, Mining, Farmland, Timber, and Water)}. These allocations will be implemented via allocation to primary and secondary fund investments and co-investment opportunities. The sub-allocation target allocation and ranges around target are summarized below:

Sub-Category	Target Allocation	Range
Infrastructure	50%	+/- 25 50%
Mining ^{Natural Resources}	50%	+/- 25% 50%
Farmland/Timber/Water	0%	0—50%

Liquid Pool: Similar to Private Real Assets, the Liquid Pool is expected to provide positive correlation to inflation, but with potentially higher beta to public equity markets. The Liquid Pool will be used to fund new strategies in Private Real Assets and will be composed of three sub-categories: 1) Commodities, 2) Listed Global Natural Resources, and 3) Listed Global Infrastructure. All three sub-categories are meant to provide some protection from higher levels of unanticipated inflation while providing a diversifying return stream from that of public markets. Listed Global Natural Resource and Listed Global Infrastructure may be implemented through the use of relatively inexpensive, passive indices.

The sub-allocation target allocation and ranges around target are summarized below:

Sub-Category	Target Allocation	Range
Commodities	34%	+/- 0 - 50%
Listed Global Natural Resources	33%	0 – 50%
Listed Global Infrastructure	33%	0 – 50%

TIPS: Treasury Inflation-Protected Securities ~~Protection is~~ are expected to provide some protection against higher rates of inflation.

INFLATION HEDGE PERFORMANCE OBJECTIVE:

The performance objective of the Inflation Hedge Composite is to outperform, on a net-of-fee basis, a customized index incorporating the weighted average components for four composite sub-asset classes (which results in the following weights: 44% NCREIF ODCE, 44% Custom Real Asset Index, and 12% BC TIPS Index).

INFLATION HEDGE RISK EXPOSURES AND RISK MITIGATION:

Real Estate: Many real estate funds utilize leverage to enhance returns. Lack of liquidity is also a concern, but less so for core real estate investments. Value-add and opportunistic strategies also tend to have more exposure to general economic conditions than core properties.

These risks will be mitigated in a number of ways. First, the primary emphasis of SamCERA’s real estate program will be focused on Core properties, with a secondary emphasis to Value-Add properties. Opportunistic-oriented strategies will reside in our Private Equity Real Assets portfolio due to their higher risk profile. In addition, SamCERA’s core real estate fund has a leverage limit of 35%, and SamCERA also sits on the Fund’s Advisory Committee.

Private Real Assets: By their nature, Private Real Assets are generally illiquid in that the life of these fund investments can be as long as ten to twelve years. SamCERA recognizes that this illiquidity is a necessary characteristic (and source of return premium) for these asset classes and as such will endeavor to take this illiquidity into account at the total plan level when addressing total plan liquidity needs during strategic planning asset liability studies. Leverage can be employed by alternative managers to enhance the overall risk-adjusted returns. SamCERA will control leverage exposure through partnership selection and portfolio construction and diversification.

TIPS: The primary risk factors are to changes in real interest rates, deflationary environments (although deflation floors could mitigate some of this risk), and potential illiquidity.

ASSET CLASS	BENCHMARK INDEX
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INFLATION HEDGE	CUSTOMIZED BENCHMARK PORTFOLIO
REAL ESTATE	NCREIF ODCE
PRIVATE REAL ASSETS	CUSTOM REAL ASSET INDEX
LIQUID POOL	CUSTOM REAL ASSET INDEX
TIPS	BC TIPS INDEX

12.0 ALTERNATIVE ASSETS INVESTMENT POLICIES

ALTERNATIVES OVERVIEW: Alternatives are investments that do not neatly fit into public equities, or fixed income. SamCERA’s alternatives program is broken out into the following two sub asset classes:

- 1) Private Equity, and 2) [Hedge Funds Absolute Return](#)

Private Equity: Private Equity is expected to be the highest returning asset class over the long-term. Its role in the portfolio is to provide high return potential in order to maximize the ability of the Fund to meet its performance objectives. The Private Equity program will contain manager allocations to three primary sub-categories: 1) Buyouts, 2) Venture Capital, and 3) Debt/Special Situations. These allocations will be implemented via allocation to primary and secondary fund investments and co-investment opportunities. The sub-allocation target allocation and ranges around target are summarized below:

Sub-Category	Target Allocation	Range
Buyouts	60%	+/- 20%
Venture Capital	20%	0 – 30%
Debt/Special Situations	20%	+/- 10%

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

The private equity portfolio shall adhere to the following investment guidelines covering diversification and quality:

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

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

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

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

Industry: It is expected that the private equity portfolio will be generally diversified by sector/industry.

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

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

Hedge Funds (Absolute Return): The ~~hedge fund~~absolute return category will focus on funds that have an absolute return orientation and are not expected to contain significant levels of public market beta over the long term. This category is expected to provide a diversifying return stream to the total plan that is not correlated to the public markets. Suitable investment strategies include multi-strategy funds, GTAA or global macro funds, and CTA/Managed Futures trend following funds. It is expected that this category will be implemented via commingled funds and not in separate accounts so that SamCERA's investment in any single fund would be 'ring-fenced' (i.e. any potential losses would be limited to the investment in the single fund, and not extend to the total plan assets).

ALTERNATIVES PERFORMANCE OBJECTIVE:

The performance objective of the Alternatives Composite is to outperform, on a net-of-fee basis, a customized index incorporating the weighted average components for two sub-asset classes highlighted above (which results in the following weights: 54% Russell 3000+3%, and 46% LIBOR+4%).

ASSET CLASS	BENCHMARK INDEX
Alternatives	Customized Benchmark Portfolio
Private Equity	Russell 3000 + 3%
Hedge Funds (Absolute Return)	LIBOR + 4%

ALTERNATIVES RISK EXPOSURES AND RISK MITIGATION

Alternatives, while expected to provide attractive returns that are less correlated to the returns provided by public asset classes, also have a number of risks. Chief among these are illiquidity risk and leverage. By their nature Private Equity is generally illiquid in that the life of these fund investments can be as long as ten to twelve years. SamCERA recognizes that this illiquidity is a necessary characteristic (and source of return premium) for these asset

classes and as such will endeavor to take this illiquidity into account at the total plan level when addressing total plan liquidity needs during strategic planning asset liability studies. Leverage can be employed by alternative managers to enhance the overall risk-adjusted returns. SamCERA will control leverage exposure through partnership selection and portfolio construction and diversification.

13. RISK PARITY INVESTMENT POLICIES

RISK PARITY OVERVIEW: Risk Parity is a risk-diversified balanced portfolio that is expected to provide a more diversified return and risk profile than that of a traditional 60% equity / 40% fixed income portfolio. It is generally designed to be more balanced between equity risk, interest rate risk, credit risk, and inflation risk than a traditional balanced portfolio.

RISK PARITY PERFORMANCE OBJECTIVE:

The performance objective of the Risk Parity Composite is to outperform, on a net-of-fee basis, the 60% MSCI World / 40% BC Global Aggregate over a 5 year rolling period.

RISK PARITY RISK EXPOSURES AND RISK MITIGATION:

Risk parity managers utilize leverage in order to enhance returns. Moderate leverage may be utilized and the portfolio managers should avoid strategies that might place the portfolio outside the expected ranges outlined. Gross exposures are expected to range from 250% to 350%. In addition, the risk parity portfolio shall consist of a portfolio of generally liquid trading instruments.

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

ASSET CLASS	BENCHMARK INDEX
Risk Parity	60% MSCI World / 40% BC Global Aggregate

14.0 QUARTERLY INVESTMENT PERFORMANCE REPORTING

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

The report will provide sufficient information to assess the following:

- A. Total and active risk assessment at total fund, composite and individual manager level.
- B. Performance attribution at total fund, composite and individual manager level.

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

15.0 ANNUAL INVESTMENT STRATEGY

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

- (a) Compare the Fund's actual investment performance for the prior fiscal year against the investment objectives set forth in Section 3.0 and evaluate the relative success or failure of the prior year's performance; specific commentary to this objective shall be an integral part of the performance measurement process.
- (b) Compare each investment manager's investment performance for the prior fiscal year against the relevant benchmarks and peer groups and evaluate the relative success or failure of their prior year's performance.
- (c) Evaluate and review the total Fund performance attribution and contribution to return at the composite level to isolate performance drivers.
- (d) Evaluate and review the various risk exposures of the plan versus appropriate policy limits and on-going trends through time.
- (e) Evaluate and review the portfolio rebalancing activity for the year.
- (f) Evaluate the Fund's liquidity requirements for the current and next fiscal years.
- (g) Compare each investment manager's fees to their respective peer universe.

16.0 PROXY VOTING

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

- A. All proxies shall be voted in the best interest of the shareholders, but in no instance shall the economic interests of the retirement Fund be subordinated to any other interest.
- B. Investment managers shall provide staff with quarterly reports on all proxies cast, in a mutually acceptable format.

17.0 SECURITIES LENDING

- A. Pursuant to Section 2.0 (~~EA~~), the Custodian shall manage a securities lending program to enhance income in accordance with the terms and conditions set forth in a mutually acceptable securities lending agreement and guaranty.
- B. The Board reserves exclusive authority to approve the securities lending agreement prior to the commencement of securities lending activity.
- C. Unless otherwise specified in the agreement(s):
- (i) All loans shall be marked-to-market daily.
 - (ii) Collateral on each loan shall be maintained daily at 102% of loan value for domestic securities and 105% of loan value for international securities.
 - (iii) Acceptable collateral shall be in the form of cash or marketable fixed income securities with maturities not greater than one year, including (1) Commercial Paper with quality ratings of P-1 and/or A-1 by Moody's Investors Services or Standard & Poor's Corporation, or their equivalents; (2) Banker's acceptances, certificates of deposits and time deposits; (3) United States Treasury and Government Agency short-term obligations; and (4) Repurchase Agreements with United States Treasury Securities and Agencies of the United States Government as collateral.
 - (iv) Borrower must have a long-term credit rating of either "A" from S&P or "A2" from Moody's. For split rated borrowers, the higher rating shall prevail if not the same rating, with the lower rating having a minimum long-term credit rating of either "A-" from S&P or "A3" from Moody's.
- D. The Chief Investment Officer shall be responsible for monitoring the securities lending program and recommending changes as appropriate.

APPENDIX A

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.0 CONDUCT ASSET ALLOCATION STUDIES

1.1 Determine the characteristics of the Policy's liabilities in regards to the nature of Fund's cash flows

2.0 DEVELOP ASSET MIX ALTERNATIVES TO MEET LIABILITY REQUIREMENTS

- 2.1 Establish allowable asset classes
- 2.2 Determine asset class benchmarks
- 2.3 Develop risk, return & correlation projections

3.0 EVALUATE EFFICIENT FRONTIER ALTERNATIVES

- 3.1 Define risk, return and correlation
- 3.2 Evaluate mean variance optimization
- 3.3 Determine low risk alternatives and high risk alternatives
- 3.4 Scale portfolios between two extremes
- 3.5 Evaluate optimized efficient frontier
- 3.6 Integrate optimized efficient frontier with asset-liability relationships

4.0 ANALYZE BOARD RISK TOLERANCE

- 4.1 Assess risk/reward trade-offs
- 4.2 Assess contribution rate sensitivity & variability
- 4.3 Assess ability to exceed actuarial interest rate
- 4.4 Assess comfort level with characteristics of specific asset mixes

5.0 RECOMMEND PREFERRED ASSET MIX

- 5.1 Evaluate differences from current target
- 5.2 Evaluate Board's willingness to implement new target asset mix
- 5.3 Evaluate appropriateness of variance from peer public fund norms

- 6.0 RECOMMEND AMENDMENTS TO SAMCERA'S INVESTMENT POLICY
 - 6.1 Adjust target asset mix
 - 6.2 Introduce new benchmarks
 - 6.3 Include required asset class/portfolio modifications
- 7.0 RECOMMEND REVISIONS TO MANAGER STRUCTURE
 - 7.1 Adjust manager/style line-up as necessary
 - 7.2 Introduce new managers/asset classes
 - 7.3 Terminate managers/asset classes as necessary
 - 7.4 Establish active & passive allocation targets as appropriate
- 8.0 IMPLEMENT CHANGES TO MANAGER STRUCTURE
 - 8.1 Recommend time-line & approach to revise structure
 - 8.2 Conduct manager evaluations
 - 8.3 Establish portfolio and asset allocation rebalancing procedures
- 9.0 EVALUATE MANAGER PERFORMANCE
 - 9.1 Monitor results of managers both gross and net of investment management fees
 - 9.2 Assess consistency of portfolio decision making
 - 9.3 Evaluate organizational, ownership, personnel & other firm developments
- 10.0 RECOMMEND AND EVALUATE INVESTMENT CONSULTANT STRUCTURE & PERFORMANCE
 - 10.1 Recommend for Board determination the retention and termination of Investment Consultant(s) as necessary
 - 10.2 Define and assign special projects as warranted
 - 10.3 Monitor performance of Investment Consultant(s)
 - 10.4 Conduct evaluations of Investment Consultant(s)
 - 10.5 Evaluate organizational, ownership, personnel and other firm developments
- 11.0 INITIATE & EVALUATE SPECIAL INVESTMENT STUDIES
- 12.0 UNDERTAKE OTHER WORK ASSIGNED TO IT BY THE BOARD Be it further

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

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

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

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

ADOPTED by unanimous vote, January 25, 2000

AMMENDED by unanimous vote, May 22, 2001

AMMENDED by unanimous vote, October 25, 2004

APPENDIX B

Derivatives Investment Policy

1) Introduction

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

2) Derivative Definition

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

3) Types of Securities Included or Excluded

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

4) Approach to Policy

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

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

5) Counter-Party Evaluation

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

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

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

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

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

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

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

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

6) Purposes for Derivatives

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

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

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

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

7) Investment Restrictions and Derivatives Policy

For the purpose of these guidelines, convertible debt, traditional zero coupon bonds, mortgage pass-through securities and asset-backed securities are not viewed as derivatives. Based upon the factors enumerated in the above Section 4 entitled Approach to Policy, the following guidelines have been established:

Allowable derivative investments

- a. Stable and well-structured mortgage CMO's (Collateralized Mortgage Obligations)
- b. Financial futures (if Exchange Traded)
- c. Currency forward contracts and currency options (Exchange and OTC traded)
- d. Interest rate swaps

Derivative investments with allocation limits

- a. Interest only mortgage CMO's
- b. Principal only mortgage CMO's
- c. Options (if Exchange Traded)
- d. Caps and floors as they apply to the above stated allowable derivative investments
- e. Credit Default Swaps (CDS)

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

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

Restricted derivative investments

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

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

8) Risk Analysis and Monitoring of Derivatives

For those securities that are classified as derivative investments with allocation limits, the investment managers are required to test and measure derivative investment sensitivities to changes in key risk factors. These risk factors include extreme changes in interest rates, volatility, liquidity, credit quality, and cash market prices.

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

9) Derivative Investment Process

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

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

10) Reporting Requirements

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

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

Appendix C

DISCLOSURE OF PLACEMENT AGENT FEES, GIFTS, AND CAMPAIGN CONTRIBUTIONS

This amended policy is effective immediately upon adoption. This policy is intended to supplement any applicable provisions of state or federal law, which shall govern in the event of any inconsistency.

I. PURPOSE

This Policy is adopted pursuant to the requirements set forth in Government Code Section 7513.85 to help ensure that the San Mateo County Employees' Retirement Association (SamCERA) investment decisions are made solely on the merits of the investment opportunity. This Policy requires broad, timely, and updated disclosure of all Placement Agents, as that term is defined by Government Code section 7513.8, their relationships, compensation and fees.

II. APPLICATION

This Policy applies broadly to every type of SamCERA investment managers including general partners, sponsors of hedge funds, private equity funds, real estate funds and infrastructure funds, as well as public market investment managers.

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

III. RESPONSIBILITIES

A. The Board is responsible for:

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

B. Each External Manager is responsible for:

1. Executing an agreement that provides the External Manager will comply with this policy.

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

a. Disclosure of payments or compensation by the External Manager or any of its principals, employees, agents or affiliates, directly or indirectly, to any person or entity to act as a Placement Agent in connection with SamCERA investments.

b. A resume for each officer, partner, principal of the Placement Agent detailing the person's education, professional designations, regulatory licenses and investment and work experience. If any such person is a current or former SamCERA Board Member, employee or Consultant or a member of the immediate family of any such person, this fact shall be specifically noted.

c. A description of any and all compensation of any kind provided or agreed to be provided to a Placement Agent, including the nature, timing and value thereof. Compensation to Placement Agents shall include, but not be limited to, compensation to third parties as well as employees of the External Manager who solicit or market investments to SamCERA or who are paid based upon investment commitments secured by such employees.

d. A description of the services to be performed by the Placement Agent and a statement as to whether the Placement Agent is utilized by the External Manager with all prospective clients or only with a subset of the External Manager's prospective clients.

e. A written copy of any and all agreements between the External Manager and the Placement Agent.

f. A statement whether the placement agent, or any of its affiliates, are registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association, or any similar regulatory agent in a country other than the United States, and the details of that registration or explanation as to why no registration is required.

g. A statement whether the placement agent, or any of its affiliates, is

registered as a lobbyist with any state or national government.

h. The names of any current or former SamCERA Board Members, employees, or Consultants who suggested the retention of the Placement Agent.

3. Providing an update of any changes to any of the information provided pursuant to section B.2 above within 30 calendar days of the date that the External Manager knew or should have known of the change in information.

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

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

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

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

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

C. SamCERA Investment Staff (“Staff”) are responsible for:

1. Providing External Managers with a copy of this Policy at the time that discussions are initiated with respect to a prospective investment or engagement.

2. Confirming that the information in section B above has been received within 45 days of the time the execution of the investment contract or Amendment.

3. For new contracts and amendments to contracts existing as of the date of the initial adoption of this Policy, securing the agreement of the External Manager in the final written agreement between SamCERA and the External Manager to provide in the event that there was or is an intentional material omission or

inaccuracy in the Placement Agent Information Disclosure or any other violation of this Policy, SamCERA reserves the right to reimbursement of any management or advisory fees paid by SamCERA from the date of violation to the date of the imposition of the fees.

4. Prohibiting any External Manager or Placement Agent from soliciting new investments from SamCERA for five years after they have committed a material violation of this Policy; provided, however, that SamCERA's Board, by majority vote at a noticed, public meeting, may reduce this prohibition upon a showing of good cause.
5. Providing the Board with Placement Agent information relating to each investment at the time the investment is brought to the Board for its decision.
6. Maintaining Placement Agent Information Disclosures as a public record and reporting to the Board any a material violation of this Policy.

Adopted December 14, 2010

Amended October 25, 2011

Amended March 28, 2017

***Adopted by the Board of Retirement
December 14, 2010. Amended January 25, 2011.***

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

I. — PURPOSE

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

~~II. APPLICATION~~

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

~~IV. RESPONSIBILITIES~~

~~A. The Board is responsible for:~~

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

~~B. Each External Manager is responsible for:~~

- ~~1. Providing a statement in writing that the External Manager will comply with this policy.~~
- ~~2. Providing the following information to the SAMCERA Investment Staff within 45 days of the time investment discussions are initiated by the External Manager, but in any event, prior to the completion of due diligence. In the case of Amendments, the Placement Agent Information Disclosure is required prior to execution of the Amendment.~~
 - ~~a. Disclosure of payments or compensation by the External Manager or any of its principals, employees, agents or affiliates, directly or indirectly, to any person or entity to act as a Placement Agent in connection with SAMCERA investments.~~

- ~~b. A resume for each officer, partner, principal of the Placement Agent detailing the person's education, professional designations, regulatory licenses and investment and work experience. If any such person is a current or former SAMCERA Board Member, employee or Consultant or a member of the immediate family of~~

~~any such person, this fact shall be specifically noted.~~

- ~~c. A description of any and all compensation of any kind provided or agreed to be provided to a Placement Agent, including the nature, timing and value thereof. Compensation to Placement Agents shall include, but not be limited to, compensation to third parties as well as employees of the External Manager who solicit or market investments to SAMCERA or who are paid based upon investment commitments secured by such employees.~~
 - ~~d. A description of the services to be performed by the Placement Agent and a statement as to whether the Placement Agent is utilized by the External Manager with all prospective clients or only with a subset of the External Manager's prospective clients.~~
 - ~~e. A written copy of any and all agreements between the External Manager and the Placement Agent.~~
 - ~~f. A statement whether the placement agent, or any of its affiliates, are registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association, or any similar regulatory agent in a country other than the United States, and the details of that registration or explanation as to why no registration is required.~~
 - ~~g. A statement whether the placement agent, or any of its affiliates, is registered as a lobbyist with any state or national government.~~
 - ~~h. The names of any current or former SAMCERA Board Members, employees, or Consultants who suggested the retention of the Placement Agent.~~
- ~~3. Providing an update of any changes to any of the information provided pursuant to section B.2 above within 14 calendar days of the date that the External Manager knew or should have known of the change in information.~~
 - ~~4. Representing and warranting the accuracy of the information described in section B.2 above.~~
 - ~~5. Causing its engaged Placement Agent to disclose, prior to acting as a Placement Agent to SAMCERA,~~
 - ~~a. all campaign contributions made by the Placement Agent to any~~

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

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

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

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

- ~~1. Providing External Managers with a copy of this Policy at the time that discussions are initiated with respect to a prospective investment or engagement.~~
- ~~2. Confirming that the information in section B above has been received within 45 days of the time investment discussions are initiated, but in any event, prior to the completion of due diligence and any recommendation to proceed with the contract or Amendment.~~
- ~~3. For new contracts and amendments to contracts existing as of the date of the initial adoption of this Policy, securing the agreement of the External Manager in the final written agreement between SAMCERA and the External Manager to provide in the event that there was or is an intentional material omission or inaccuracy in the Placement Agent Information Disclosure or any other violation of this Policy, SAMCERA is entitled to the greater of the reimbursement of any management or advisory fees paid by SAMCERA for the prior two years or an amount equal to the amounts paid or promised to be paid to the Placement Agent as a result of the SAMCERA investment; and~~
- ~~4. Prohibiting any External Manager or Placement Agent from soliciting new investments from SAMCERA for five years after they have committed a material violation of this Policy; provided, however, that SAMCERA's Board, by majority vote at a noticed, public meeting, may reduce this prohibition upon a showing of good cause.~~

5. ~~Providing a quarterly report to the Board containing (a) the names and amount of compensation agreed to be provided to each Placement Agent by each External Manager as reported in the Placement Agent Information Disclosures, and (b) any material violations of this Policy; and maintaining the report as a public record.~~

DEFINITIONS:

The following definitions are excerpted from California Government Code section 7513.8 and are current as of March 28, 2017. Should the legislature subsequently amend the definitions below, the definition of these terms as amended shall supersede the definitions contained in this policy.

“External Manager” means either of the following: (1) a Person who is seeking to be, or is, retained by a board or an Investment Vehicle to manage a portfolio of securities or other assets for compensation; (2) a Person who manages an Investment Fund and who offers or sells, or has offered or sold, an ownership interest in the Investment Fund to a board or an Investment Vehicle. (All code section references are to the Government Code, unless otherwise noted.)

“Person” means an individual, corporation, partnership, limited partnership, limited liability company, or association, either domestic or foreign.

“Investment Vehicle” means a corporation, partnership, limited partnership, limited liability company, association, or other entity, either domestic or foreign, managed by an External Manager in which a board is the majority investor and that is organized in order to invest with, or retain the investment management services of, other External Managers.

“Investment Fund” means a private equity fund, public equity fund, venture capital fund, hedge fund, fixed income fund, real estate fund, infrastructure fund, or similar pooled investment entity that is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, owning, holding, or trading securities or other assets. Notwithstanding the preceding sentence, an investment company that is registered with the Securities and Exchange Commission pursuant to the Investment Company Act of 1940 (15 U.S.C. Sec. 8a-1 et seq.) and that makes a public offering of its securities is not an Investment Fund.

“Placement Agent” means any Person directly or indirectly hired, engaged, or retained by, or serving for the benefit of or on behalf of, an External Manager or an Investment Fund managed by an External Manager, and who acts or has acted for compensation as a finder, solicitor, marketer, consultant, broker or other intermediary in connection with the offer or sale to a board or an Investment Vehicle either of the following: in the case of an External Manager as defined in subpart (1) of the definition of an External Manager, the investment management services of the External Manager; in the case of an External Manager as defined in subpart (2) of the definition of an External Manager, an ownership interest in an Investment Fund managed by the External Manager. Notwithstanding the preceding sentence, an individual who is an employee,

~~officer, director, equityholder, partner, member, or trustee of an External Manager and who spends one-third or more of his or her time, during a calendar year, managing the securities or assets owned, controlled, invested, or held by the External Manager is not a Placement Agent. The following definitions are current as of January 7, 2011. Should the legislature subsequently amend the definitions below, the definition of these terms as amended shall supersede the definitions contained in this policy.~~

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

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

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

~~As defined in section 7513.8, “**Investment Vehicle**” means a corporation, partnership, limited partnership, limited liability company, association, or other entity, either domestic or foreign, constituting or managed by an External Manager in which a board is the majority investor and that is organized in order to invest with, or retain the investment management services of, other External Managers.~~

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

**RESOLUTION AMENDING SAMCERA'S
INVESTMENT POLICY STATEMENT**

RESOLUTION 2017-13

WHEREAS, pursuant to Article XVI, Section 17, of the California Constitution, the Board of Retirement (the "Board"), has the exclusive authority and exclusive fiduciary responsibility for the investment and administration of the assets of the retirement system (the "Fund"), and on June 3, 2014, established an Investment Policy Statement (the "Policy") for the investment of the Fund assets; and

WHEREAS, the purpose of the Policy is to assist SamCERA in effectively supervising its investments in order to meet the requirements of the California Constitution, the County Employees Retirement Law of 1937 ("the 1937 Act"), the Mission and Goals of SamCERA and other requirements, and to encourage effective communication between SamCERA and its investment managers and investment consultants; and

WHEREAS, the Board periodically reviews its Policy and amends it as necessary so as to remain up to date to reflect recent actions of the Board; and

WHEREAS, The Board approved a multi-phase plan to implement the updated asset allocation policy. There are expected to be a number of interim policy steps to get to the policy that the Board approved in October 2016. The changes in Section 6.0 "Asset Allocation & Portfolio Structure", Section 6.0 (A) "Public Equity Assets", Section 6.0 (E) "Inflation Hedge Assets", and Section 6.0 (F) "Asset Allocation Policy Benchmark" are amended to reflect a two percent reduction to the domestic equity allocation and a corresponding two percent increase to inflation hedge assets; and

WHEREAS, Section 11.0 "Inflation Hedge Investment Policies/Private Real Assets" combines the Mining/Farmland/Timber/Water sub-categories under one category named "Natural Resources". As a result, there are now two sub-categories: 1) Infrastructure, and 2) Natural Resources. Each has a 50% target allocation with a +/- 25% to range; and

WHEREAS, the Board also now desires to memorialize the Board's actions regarding the international equity manager structure, the fixed income manager structure, and the Disclosure of Placement Agent Fees, Gifts, and Campaign Contributions. These previously approved changes are summarized below:

1. Section 6.0 (A) "Public Equity Assets", and Section 9.0 "Public Equity Investment Policies" are amended to reflect the change in the international equity structure. This change resulted in removing the dedicated international small-capitalization equity allocation and rebalancing the proceeds equally to the three developed market equity strategies. This was approved by the Board in June 2017.

2. Section 6.0 (B) "Fixed Income Assets" and Section 10.0 "Fixed Income Investment Policies" are amended to reflect changes to the fixed income manager structure. These changes consist of moving the Franklin Templeton Multi-Sector strategy to the opportunistic credit bucket, and downsizing the allocation (to 1% of total plan assets) so that the risk is more consistent with other opportunistic credit managers, while allocating the remainder (2%) to the Core bucket via the Blackrock Intermediate Government Bond Index. This was approved by the Board in July 2017.
3. Appendix C "Disclosure of Placement Agent Fees, Gifts, and Campaign Contributions" was revised and approved by the Board in March 2017; and

WHEREAS, the Board and desires to make such amendments; Now, therefore, be it

RESOLVED, that the SamCERA "Investment Policy Statement" be revised to read as set forth in the attached document.

* * * * *

Regularly passed and adopted, by the San Mateo County Employees' Retirement Association, Board of Retirement, on September 26, 2017.

Ayes, Trustees:

Noes, Trustees:

Absent, Trustees:

Abstain, Trustees:

David Spinello, Board Secretary, SamCERA



SamCERA's Investment Policy Statement

Approved June 2014

Latest Revision September 2017

1.0 ESTABLISHMENT OF INVESTMENT POLICY

The Board of Retirement (the “Board”), having exclusive authority and exclusive fiduciary responsibility for the investment and administration of the Trust Fund (the “Fund”), hereby establishes the following Investment Policy (the “Policy”) for the investment of the San Mateo County Employees’ Retirement Association (“SamCERA”) assets. The Board reserves the right to amend, supplement or rescind this Policy at any time.

The purpose of this Policy is to assist SamCERA in effectively supervising its investments in order to meet the requirements of the California Constitution, the County Employees Retirement Law of 1937 (“the 1937 Act”), the Mission and Goals of SamCERA and other requirements, and to encourage effective communication between SamCERA and its investment managers (the “Manager(s)”) and investment consultants (the “Consultant(s)”).

A. GOVERNING DOCUMENTS FOR THE INVESTMENTS OF THE FUND.

The powers and duties of the Board are set forth in the 1937 Act and in Article XVI of the State Constitution. They are further defined by the Mission and Goals adopted by the Board.

SamCERA was created by San Mateo County Ordinance No. 564 adopted by the Board of Supervisors, effective July 1, 1944. This ordinance established the retirement system in accordance with the provisions of California's County Employees' Retirement Law of 1937.

Constitution of the State of California

Article XVI, Section 17, relates to the administration of the system and investment of the Fund assets. It reads in pertinent part:

“(a)...The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system.

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

“(c) The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

“(d) The members of the retirement board of a public pension or retirement system shall diversify the investments of the system so as to minimize the risk of loss and to

maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.”

The 1937 Act

The 1937 Act contains language similar to that in the State Constitution regarding the investments of the Fund:

Government Code section 31595.

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

The board and its officers and employees shall discharge their duties with respect to the system: (a) Solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system.

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

(c) Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

SamCERA’s Mission and Goals

The Board has adopted a Mission and Goals statement. The Mission summarizes SamCERA’s reason to exist.

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

The Mission is further defined by three goals. One goal speaks to the management of the assets of the Fund. This asset management goal reads:

“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.”

In recognition of the requirements of the California Constitution, the 1937 Act, the SamCERA Mission and Goals and other legal requirements, the SamCERA Board has established this Investment Policy.

2.0 MANAGEMENT OF THE FUND

A. ROLES AND PRINCIPAL DUTIES

The Fund investments shall be prudently planned, implemented, managed, and monitored by the Board. Investment Staff (the “Staff”), Investment Consultant (the “Consultant”), Custodian Bank (the “Custodian”), and Investment Managers (the “Managers”) shall support the Board in this activity. The roles are set forth below:

1. The Board establishes and maintains the investment policy, including: investment philosophy, investment objectives, strategic asset allocation, allocation-level performance benchmarks, and risk philosophy. The Board makes investment and monitoring decisions based upon the recommendations of Staff, Consultants, and other service providers engaged by the Board. The Board reviews and monitors all investments, as well as the policies, guidelines and procedures required to prudently administer the Fund and to effectively mitigate risk to the Fund. From time to time, the Board will utilize its Investment Committee to assist the Board in these activities and related specified tasks.
2. Staff oversees the Fund’s investment program activities, implements the Board’s decisions, makes recommendations to the Board regarding Fund management, including investment-related policies and procedures. Staff makes recommendations regarding the selection of the Consultant, Managers, Custodian as set forth below and monitors the performance and compliance of these and other investment related service providers.
3. The Consultant reviews, analyzes and evaluates the Fund’s effectiveness and efficiency and makes fund management related recommendations. Consultant assists Staff in implementing the Board’s decisions and developing all investment-related policies. Consultant’s responsibilities are detailed in the service agreement between SamCERA and Consultant.
4. The Custodian provides custody of SamCERA’s investment assets. In addition, the Custodian manages the securities lending program. The Custodian’s responsibilities are detailed in the service agreement between SamCERA and Custodian.
5. The Managers manage their mandated allocations in accordance with all applicable laws, Board-established policies, guidelines and procedures, as well as specific investment guidelines. For separately managed accounts, managers’ responsibilities are detailed in the Investment Management Agreements (IMA) between SamCERA and each Manager. For commingled funds, managers’ responsibilities are detailed in the related Fund documents.

B. INVESTMENT PORTFOLIO MANAGEMENT

The Board, with the assistance of Staff and Consultant, select and monitor Managers to manage the assets of the Fund.

1. Hiring New Managers

For public markets manager searches (i.e. non private equity and private real assets), Staff will inform the Board about the search process, including scope of the mandate, and the investment style, benchmark, and the minimum qualifications for candidates. Staff will update the Board on the short list of potential managers. Consultant and Staff will perform due diligence activities deemed applicable by the Chief Investment Officer, which may include analysis of performance records, meetings, due diligence questionnaires, interviews, and on-site visits. Upon completion of such due diligence, Staff and Consultant will bring a finalist to the Board for approval. The recommendation shall provide the Board with a summary description of the conducted due diligence activities.

For private markets (private equity and private real assets), the Consultant, with Staff input, sources managers that can best fit the desired mandate consistent with the annual pacing study and applicable investment policy. Consultant and Staff will bring potential private markets opportunities to the Board for approval. An exception to this policy is when an investment decision for a private market opportunity must be made prior to the date of the next regularly scheduled Board meeting. In these instances, and for investments of \$25 million or less, the Chief Executive Officer is authorized to make the investment decision after consulting with the Board Chair, or if the Chair is not available, the Vice Chair, and one member of the Investment Committee as long as such decision is in the best interest of the fund and consistent with applicable Board policy. Any action under this authorization will be reported to the Board at a subsequent regularly scheduled meeting.

2. Monitoring Existing Managers

The Board monitors the individual investment managers on a continuous basis through information provided by Staff, the Consultant, the Managers, and other investment service providers. Monthly, the Chief Investment Officer will present a preliminary performance report to the Board that is meant to provide a high-level summary of how the fund and each monthly-valued manager is performing. In addition, for SamCERA's separate accounts, Staff receives holdings and attribution reports from each separate account Manager on a monthly basis. For commingled funds, staff receives from the Manager either monthly or quarterly portfolio performance, attribution, exposure, and commentary reports.

Quarterly, the Consultant, with assistance from the Chief Investment Officer, will present an investment performance report to the Board, as specified in Section 14.0 (Quarterly Investment

Performance Reporting) in the Investment Policy. This report provides a more detailed performance attribution for the total plan and individual Managers, and helps to identify any short-term outlier deviations from expectations.

Semi-annually (month-end June and December of each year), every public markets (i.e. not private equity or private real asset) Manager completes a compliance statement identifying any significant firm, regulatory, and portfolio issues. In addition, semi-annually as of June and December of each year, Consultant will present performance reports for both the Private Equity and Private Real Assets programs that summarize each program and shows total program performance and program diversification by strategy, geography, industry, and vintage year.

Annually, Staff and Consultant will convene an investment strategy session, as specified in Section 15.0 (Annual Investment Strategy) in the Investment Policy, to allow a longer-term assessment of the Managers and the total fund performance. Lastly, all public markets Managers are interviewed annually by Staff and Consultant, and must complete a due diligence questionnaire.

During these presentations at SamCERA, Managers will provide an update on the Manager's organization and business plan, any changes to the investment process, and a summary of investment performance. Staff and Consultant report to the Board following these meetings.

3. Terminating Existing Managers

The Board recognizes investments may need to be adjusted or removed from the Fund from time to time for a variety of reasons, including organization changes at the Manager, changes in Manager style, underperformance relative to expectations, and the Managers' strategy is no longer appropriate for the fund. The Board determines if a Manager should be terminated after receiving input and or recommendations from Staff and Consultant.

3.0 INVESTMENT OBJECTIVES

The Board shall develop an investment program, consistent with the Investment Beliefs and General Investment Policies as stipulated in Sections 4.0 and 5.0, respectively, in order to meet the following objectives:

- A. Generate risk-adjusted returns that exceed the Asset Allocation Policy Benchmark (as defined in Section 6.0) on a net-of-fee basis over five-year rolling periods.
- B. Move toward full actuarial funding of the Pension Benefit Obligation based on GASB 25 and the Board's policy of layered fifteen-year unfunded actuarial accrued liability (UAAL) amortization periods.
- C. Achieve a Fund return that meets or exceeds the long-term forecast of capital market returns for the asset allocation portfolio benchmark over multiple economic cycles (e.g. 15-20 years).
- D. Provide a more consistent return stream than a traditional 60% Equity / 40% Fixed Income portfolio as measured by lower portfolio drawdowns over a full market cycle.

4.0 INVESTMENT BELIEFS

The following section summarizes the Board's investment beliefs that have guided it in the development of this Policy document and will guide it in the oversight of the Plan assets.

- Strategic asset allocation is the primary driver of portfolio risk and return.
- SamCERA should have a long-term horizon and not be tempted to deviate from its long-term plan in response to short-term volatility.
- Everything else being equal, simplicity is preferred over complexity.
- For those asset classes evidencing market efficiencies, the manager structure may favor the employment of passive strategies.
- Diversification is fundamental.
- There is no single definition of risk. There are various measures of 'risk' that can be used for various purposes.
- The portfolio should be diversified across many risk dimensions/timeframes.
- SamCERA should not pursue investments that will not adequately compensate it for the risks that those investments bring.
- Costs matter.

5.0 GENERAL INVESTMENT POLICIES

Consistent with the investment beliefs contained in Section 4.0, it is the investment policy of the Board to:

- A. Achieve long-term risk-adjusted returns consistent with its fiduciary duty.
- B. Pursue an investment strategy that reduces the volatility of returns through prudent diversification of the portfolio across a broad selection of distinct asset classes, as provided for in Section 6.0 of this Investment Policy.
- C. Further diversify other risks, including extreme events, liquidity, and leverage by looking beyond traditional asset class definitions by utilizing multiple lenses on portfolio risks.
- D. Adopt an asset allocation target to guide the structure of the investment portfolio, as provided for in Section 6.0, and reevaluate on an annual basis.
- E. Reevaluate the asset-liability study every three to five years.
- F. Delegate full discretion, including whether to include environmental, social, and governance factors, if such factors have a direct relationship to the economic and financial value of an investment, when analyzing the financial merits of competing investment choices on behalf of SamCERA, to each investment manager to the extent authorized in their Investment Management Agreement (IMA).
- G. Adopt objectives that encourage investment managers to maximize their performance, within acceptable risk parameters, relative to their individual investment style benchmark.
- H. Refrain from drastically shifting asset class allocations over short time spans, unless it is in the Fund's best interest to do so.
- I. Rebalance the portfolio in accordance to the Rebalancing Policy set forth in Section 7.0.

6.0 ASSET ALLOCATION & PORTFOLIO STRUCTURE

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

ASSET CLASS	TARGET ALLOCATION	REBALANCE RANGE
Public Equity	40%	±3%
Fixed Income	21%	±2%
Risk Parity	8%	±2%
Alternative Assets *	13%	±2%
Inflation Hedge *	18%	±2%

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

A. Public Equity Assets shall be allocated to managers within the following sub-asset classes:

PUBLIC EQUITY ASSET CLASSES	TARGET ALLOCATION	REBALANCE RANGE
Large Capitalization Domestic	18.0%	±2%
Passive Core	15.0%	±2%
Active Core	3.0%	±2%
Small Capitalization Domestic	3.0%	±2%
Active Core	3.0%	±2%
International	19.0%	±2%
Passive Core	5.7%	±2%
Growth	5.7%	±2%
Value	5.7%	±2%
Emerging Market	2.0%	±2%
TOTAL PUBLIC EQUITY	40.0%	

B. Fixed Income Assets shall be allocated to managers within the following sub-asset classes:

FIXED INCOME ASSET CLASSES	TARGET ALLOCATION	REBALANCE RANGE
Core	11.0%	±2%
Core Unconstrained	3.0%	±2%
Opportunistic Credit	7.0%	±2%
TOTAL FIXED INCOME	21.0%	

C. Risk Parity Assets shall be allocated as follows:

RISK PARITY ASSET CLASS	TARGET ALLOCATION	REBALANCE RANGE
Risk Parity	8.0%	±2%
TOTAL RISK PARITY	8.0%	

D. Alternative Assets shall be allocated to managers within the following sub-asset classes:

ALTERNATIVE ASSET CLASSES	TARGET ALLOCATION	REBALANCE RANGE
Private Equity	7.0%	±2%
Absolute Return	6.0%	±2%
TOTAL ALTERNATIVE ASSETS	13.0%	

E. Inflation Hedge Assets shall be allocated as follows:

INFLATION HEDGE ASSET CLASSES	TARGET ALLOCATION	REBALANCE RANGE
Real Estate	8.0%	±2%
Private Real Assets	2.0%	±2%
Liquid Pool	6.0%	±2%
TIPS	2.0%	±2%
TOTAL INFLATION HEDGE ASSETS	18.0%	

F. Asset Allocation Policy Benchmark

The Asset Allocation Policy Benchmark defined below is derived by assigning a passive benchmark to each of the sub-asset classes referenced in Sections 6.0 (A) through 6.0 (E) and weighting each by the Target Allocation. The performance of the Asset Allocation Policy Benchmark is computed by the Plan's investment consultant.

Benchmark	Asset Allocation Policy Benchmark
Public Equity	40%
Russell 3000 Index	21%
MSCI ACWI x US IMI Index	19%
Fixed Income	21%
BC Aggregate Index	14%
BC BA Intermediate High Yield Index	7%
Risk Parity	8%
60% MSCI World / 40% BC Global	
Aggregate	8%
Alternatives	13%
Russell 3000 +3%	7%

LIBOR + 4%	6%
Inflation Hedge	18%
NCREIF ODCE	8%
Custom Real Asset Index*	8%
BC TIPS Index	2%

*Comprised of 34% Bloomberg Roll Select Commodity Index, 33% S&P Global LargeMidCap Commodity and Resources Index, and 33% S&P Global Infrastructure Index.

7.0 REBALANCING POLICY

- A. The Chief Investment Officer (CIO) shall rebalance the portfolio as needed in conformance with the asset allocation tactical ranges set forth in Section 6.0.
- B. The potential need to rebalance will be continuously monitored, and will be subject to deviations within the established rebalance ranges specified in Section 6.0.
- C. The CIO will have discretion to rebalance to Target or to some other allocation, as long as it is within policy ranges.
- D. Cash flows will be used first to rebalance, and to the extent possible, exchange-traded derivatives will be used to rebalance in a cost-effective manner.
- E. All rebalancing activity shall be reported to the Board at the next scheduled meeting.

8.0 GENERAL MANAGER INVESTMENT PERFORMANCE POLICIES

The responsibility for securities selection, purchase and sale decisions, and proxy voting (where appropriate) is delegated to the external investment managers. The individual investment guideline parameters (including diversification constraints, concentration limits, asset type exclusions, etc.) and performance objectives for each investment manager will be established within the IMA or other applicable legal agreement(s) with each firm.

The Board expects to measure investment performance quarterly and will generally follow prudent time horizons when evaluating short term, intermediate term, and long term performance of its investment managers. Generally, the Board defines underperformance as: Cumulative annualized performance (net of fees) over a three-year period below a broad market-based benchmark return times 0.9, or five year return (net of fees) below the broad market based benchmark return.

Performance will also be evaluated in light of the manager's stated style and discipline.

9.0 PUBLIC EQUITY INVESTMENT POLICIES

PUBLIC EQUITY OVERVIEW: Public equity is expected to produce returns higher than that provided from fixed income but at potentially higher levels of volatility. Exposure to this asset class

will provide return streams generally correlated to that of the general economic growth. There are two primary parts to the Public Equity category: 1) Domestic Equity, and 2) International Equity.

PUBLIC EQUITY MANAGER STRUCTURE:

Domestic Equity: For the domestic equity program, the majority of the tracking error will come from stock selection via active management as the overall manager structure for domestic equities will not possess any significant biases in terms of investment style. The domestic equity composite will consist of two sub-composites: 1) Large-Capitalization Equity, and 2) Small-Capitalization Equity. The large-cap composite will consist of Core. Core will consist of two strategies, one a passive and another a low-tracking error active. The Small-Capitalization strategy will consist of an actively-managed Core strategy.

International Equity: International Equity will consist of two sub-composites: 1) Developed Equity, and 2) Emerging Equity. Developed Equity will consist of a passive Core component and active Value and Growth (although both have exposure to emerging markets). Emerging Market Equity will consist of an active Core mandate.

PUBLIC EQUITY PERFORMANCE OBJECTIVE:

The performance objective of the Public Equity Category is to outperform on a net-of-fee basis a customized index (Customized Benchmark Portfolio) incorporating the weighted average components for both the domestic and international equity parts (which results in the following weights: 55% Russell 3000, and 45% MSCI ACWI ex US IMI Index), with a maximum tracking error of 3% to this benchmark.

PUBLIC EQUITY RISK EXPOSURES AND RISK MITIGATION:

The primary risk factors for Public Equity are correlation to general economic growth, high volatility in returns, and potential illiquidity in smaller-capitalization and certain emerging market stocks. SamCERA will control for these risk factors by diversifying the plan across assets that exhibit limited correlation to economic growth. In addition, SamCERA’s rebalancing ranges for small-cap and emerging market equities will help ensure adequate diversification within the equity portion of the SamCERA portfolio.

ASSET CLASS	BENCHMARK INDEX
Total Public Equity	Customized Benchmark Portfolio
Domestic Equity	Russell 3000
Large Capitalization Domestic Equity	Russell 1000
Passive Core	Russell 1000
Active Core	Russell 1000
Small Capitalization Domestic Equity	Russell 2000
Active Core	Russell 2000
International Equity	MSCI All Country World ex US IMI

Developed International	MSCI All Country World ex US
Developed International Passive Core	MSCI EAFE
Developed International Growth	MSCI ACWI Free ex US Growth
Developed International Value	MSCI ACWI Free ex US Value
Emerging Markets	MSCI Emerging Markets Free

10.0 FIXED INCOME INVESTMENT POLICIES

FIXED INCOME OVERVIEW: Fixed income is expected to provide a lower but steadier stream of returns than public equity asset classes, but is also expected to reduce the risk of the overall portfolio because bonds have lower risk than most other major asset classes. That said, there are a number of sub-categories within fixed income that exhibit very different risk/return trade-offs and hold different tasks in terms of role in the portfolio. Fixed Income is broken out into three subcategories:

- 1) Core, 2) Core Unconstrained, and 3) Opportunistic Credit

Core: Core is generally considered the lowest-risk fixed income category, and one that invests in primarily liquid, investment grade U.S. Dollar denominated bonds. It also generally consists of sectors that comprise the Barclays Aggregate Index. Core's role in the portfolio is to dampen portfolio volatility and protect the portfolio in times of economic duress.

Core Unconstrained: Core Unconstrained is a medium-risk fixed income sub-category, and contains the sectors contained in Core plus high yield (below investment grade bonds), non-U.S. Dollar denominated bonds, and emerging market fixed income securities. Core Unconstrained's role in the portfolio is a combination of total portfolio volatility dampening combined with some moderate return enhancement.

Opportunistic Credit: Opportunistic Credit is expected to be the highest-risk fixed income category, and will be used to enhance return by investing in non-traditional sectors of the bond market, including emerging market debt, high yield bonds, bank loans, convertible bonds, and CMBS/ABS securities. This sub-category will be exposed to general economic risk factors, similar to public equities.

FIXED INCOME PERFORMANCE OBJECTIVE:

The performance objective of the Fixed Income Composite is to outperform, on a net-of-fee-basis, a customized index incorporating the weighted average components for three sub-categories highlighted above (which results in the following weights: 67% Barclay's Capital Aggregate Bond Index and 33% Barclays BA Intermediate High Yield Index., with a maximum tracking error of 2% to this benchmark.

FIXED INCOME RISK EXPOSURES AND RISK MITIGATION:

The fixed income sub-sectors have very different risk factor exposures, with Core being generally the lowest risk, highest liquidity sub-category, while Opportunistic Credit is generally the highest risk, lowest liquidity sub-category. SamCERA will take into account

these unique risk factors when constructing the fixed income portfolio to help ensure that the overall risk profile of the total portfolio is consistent with expectations.

Core: The primary risk factors are sensitivity to changes in interest rates, changes in mortgage prepayment speeds, and investment-grade corporate and sovereign credit risk.

Core Unconstrained: Typically includes the risk factors found in Core with additional exposures to high-yield default risks, emerging markets sovereign/corporate default risk, and potential illiquidity. The allocation to these risk exposures will be dynamic over time as the portfolio is not constrained to a benchmark.

Opportunistic Credit: Typically includes the risk factors contained in Core and Core Unconstrained, but, depending on the mandate, with higher emphasis to high-yield default risks, emerging markets sovereign/corporate default risk, and potential illiquidity.

ASSET CLASS	BENCHMARK INDEX
Fixed Income	Customized Benchmark Portfolio
Core/Core Unconstrained	Barclays Capital Aggregate Bond Index
Opportunistic Credit	Barclays Capital BA Intermediate High Yield Index

11.0 INFLATION HEDGE INVESTMENT POLICIES

INFLATION HEDGE OVERVIEW: The Inflation Hedge combines inflation-sensitive assets under a single asset class to simplify the asset allocation process and enable better performance monitoring of the plan’s overall, direct exposure to assets with inflation-hedging properties. The plan also has indirect exposure to inflation-sensitive assets through other asset classes, such as Public Equity, Fixed Income, Risk Parity, and Alternatives. When determining the appropriate allocation of inflation protection, both direct and indirect exposures to inflation-sensitive assets across the plan are taken into account. The Inflation Hedge is expected to provide a high degree of inflation beta, attractive risk-adjusted returns and diversification benefits to the overall plan.

Inflation Hedge is broken out into four subcategories:

- 1) Real Estate, 2) Private Real Assets, 3) Liquid Pool, and 4) TIPS

Real Estate: Real Estate is expected to provide a return and risk profile between that provided by fixed income and equities. The majority of exposure will be in Core real estate assets of the highest quality located in the best locations in North America, Europe, and Asia. The remainder will be Value-Add properties that are expected to provide somewhat higher return potential along with somewhat higher risk. Income will be a large part of the return stream generated from this portfolio. The role of this portfolio is to provide diversification benefits, some protection against unanticipated inflation, and a steady income stream. Higher risk Opportunistic/Development real estate strategies will reside in the Private Real Assets composite due to their higher-risk, longer time horizon, and the less liquid nature of the investment set compared to Core and Value-Add strategies.

Private Real Assets: Private Real Assets are expected to provide attractive total and risk-adjusted returns that exhibit low correlations with traditional asset classes but positive correlation with inflation. Private Real Assets will be composed of two sub-categories: 1) Infrastructure (Core, Secondary, Midstream Energy, and Power), and 2) Natural Resources (Energy Exploration & Production, Mining, Farmland, Timber, and Water). These allocations will be implemented via allocation to primary and secondary fund investments and co-investment opportunities. The sub-allocation target allocation and ranges around target are summarized below:

Sub-Category	Target Allocation	Range
Infrastructure	50%	+/- 25%
Natural Resources	50%	+/- 25%

Liquid Pool: Similar to Private Real Assets, the Liquid Pool is expected to provide positive correlation to inflation, but with potentially higher beta to public equity markets. The Liquid Pool will be used to fund new strategies in Private Real Assets and will be composed of three sub-categories: 1) Commodities, 2) Listed Global Natural Resources, and 3) Listed Global Infrastructure. All three sub-categories are meant to provide some protection from higher levels of unanticipated inflation while providing a diversifying return stream from that of public markets. Listed Global Natural Resource and Listed Global Infrastructure may be implemented through the use of relatively inexpensive, passive indices.

The sub-allocation target allocation and ranges around target are summarized below:

Sub-Category	Target Allocation	Range
Commodities	34%	0 - 50%
Listed Global Natural Resources	33%	0 – 50%
Listed Global Infrastructure	33%	0 – 50%

TIPS: Treasury Inflation-Protected Securities are expected to provide some protection against higher rates of inflation.

INFLATION HEDGE PERFORMANCE OBJECTIVE:

The performance objective of the Inflation Hedge Composite is to outperform, on a net-of-fee basis, a customized index incorporating the weighted average components for four composite sub-asset classes (which results in the following weights: 44% NCREIF ODCE, 44% Custom Real Asset Index, and 12% BC TIPS Index).

INFLATION HEDGE RISK EXPOSURES AND RISK MITIGATION:

Real Estate: Many real estate funds utilize leverage to enhance returns. Lack of liquidity is also a concern, but less so for core real estate investments. Value-add and opportunistic strategies also tend to have more exposure to general economic conditions than core properties.

These risks will be mitigated in a number of ways. First, the primary emphasis of SamCERA's real estate program will be focused on Core properties, with a secondary emphasis to Value-Add properties. Opportunistic-oriented strategies will reside in our Private Real Assets portfolio due to their higher risk profile. In addition, SamCERA's core real estate fund has a leverage limit of 35%, and SamCERA also sits on the Fund's Advisory Committee.

Private Real Assets: By their nature, Private Real Assets are generally illiquid in that the life of these fund investments can be as long as ten to twelve years. SamCERA recognizes that this illiquidity is a necessary characteristic (and source of return premium) for these asset classes and as such will endeavor to take this illiquidity into account at the total plan level when addressing total plan liquidity needs during strategic planning asset liability studies. Leverage can be employed by alternative managers to enhance the overall risk-adjusted returns. SamCERA will control leverage exposure through partnership selection and portfolio construction and diversification.

TIPS: The primary risk factors are to changes in real interest rates, deflationary environments (although deflation floors could mitigate some of this risk), and potential illiquidity.

ASSET CLASS	BENCHMARK INDEX
INFLATION HEDGE	CUSTOMIZED BENCHMARK PORTFOLIO
REAL ESTATE	NCREIF ODCE
PRIVATE REAL ASSETS	CUSTOM REAL ASSET INDEX
LIQUID POOL	CUSTOM REAL ASSET INDEX
TIPS	BC TIPS INDEX

12.0 ALTERNATIVE ASSETS INVESTMENT POLICIES

ALTERNATIVES OVERVIEW: Alternatives are investments that do not neatly fit into public equities, or fixed income. SamCERA's alternatives program is broken out into the following two sub asset classes:

- 1) Private Equity, and 2) Absolute Return

Private Equity: Private Equity is expected to be the highest returning asset class over the long-term. Its role in the portfolio is to provide high return potential in order to maximize the ability of the Fund to meet its performance objectives. The Private Equity program will contain manager allocations to three primary sub-categories: 1) Buyouts, 2) Venture Capital, and 3) Debt/Special Situations. These allocations will be implemented via allocation to

primary and secondary fund investments and co-investment opportunities. The sub-allocation target allocation and ranges around target are summarized below:

Sub-Category	Target Allocation	Range
Buyouts	60%	+/- 20%
Venture Capital	20%	0 – 30%
Debt/Special Situations	20%	+/- 10%

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

The private equity portfolio shall adhere to the following investment guidelines covering diversification and quality:

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

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

Investment Manager: No more than twenty (20) percent of the private equity portfolio’s target allocation may be committed to any one investment manager (excluding fund of funds).

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

Industry: It is expected that the private equity portfolio will be generally diversified by sector/industry.

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

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

Absolute Return: The absolute return category will focus on funds that have an absolute return orientation and are not expected to contain significant levels of public market beta over the long term. This category is expected to provide a diversifying return stream to the total plan that is not correlated to the public markets. Suitable investment strategies include multi-strategy funds, GTAA or global macro funds, and CTA/Managed Futures trend following funds. It is expected that this category will be implemented via commingled funds and not in

separate accounts so that SamCERA’s investment in any single fund would be ‘ring-fenced’ (i.e. any potential losses would be limited to the investment in the single fund, and not extend to the total plan assets).

ALTERNATIVES PERFORMANCE OBJECTIVE:

The performance objective of the Alternatives Composite is to outperform, on a net-of-fee basis, a customized index incorporating the weighted average components for two sub-asset classes highlighted above (which results in the following weights: 54% Russell 3000+3%, and 46% LIBOR+4%).

ASSET CLASS	BENCHMARK INDEX
Alternatives	Customized Benchmark Portfolio
Private Equity	Russell 3000 + 3%
Absolute Return	LIBOR + 4%

ALTERNATIVES RISK EXPOSURES AND RISK MITIGATION

Alternatives, while expected to provide attractive returns that are less correlated to the returns provided by public asset classes, also have a number of risks. Chief among these are illiquidity risk and leverage. By their nature Private Equity is generally illiquid in that the life of these fund investments can be as long as ten to twelve years. SamCERA recognizes that this illiquidity is a necessary characteristic (and source of return premium) for these asset classes and as such will endeavor to take this illiquidity into account at the total plan level when addressing total plan liquidity needs during strategic planning asset liability studies. Leverage can be employed by alternative managers to enhance the overall risk-adjusted returns. SamCERA will control leverage exposure through partnership selection and portfolio construction and diversification.

13. RISK PARITY INVESTMENT POLICIES

RISK PARITY OVERVIEW: Risk Parity is a risk-diversified balanced portfolio that is expected to provide a more diversified return and risk profile than that of a traditional 60% equity / 40% fixed income portfolio. It is generally designed to be more balanced between equity risk, interest rate risk, credit risk, and inflation risk than a traditional balanced portfolio.

RISK PARITY PERFORMANCE OBJECTIVE:

The performance objective of the Risk Parity Composite is to outperform, on a net-of-fee basis, the 60% MSCI World / 40% BC Global Aggregate over a 5 year rolling period.

RISK PARITY RISK EXPOSURES AND RISK MITIGATION:

Risk parity managers utilize leverage in order to enhance returns. Moderate leverage may be utilized and the portfolio managers should avoid strategies that might place the portfolio

outside the expected ranges outlined. Gross exposures are expected to range from 250% to 350%. In addition, the risk parity portfolio shall consist of a portfolio of generally liquid trading instruments.

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

ASSET CLASS	BENCHMARK INDEX
Risk Parity	60% MSCI World / 40% BC Global Aggregate

14.0 QUARTERLY INVESTMENT PERFORMANCE REPORTING

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

The report will provide sufficient information to assess the following:

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

15.0 ANNUAL INVESTMENT STRATEGY

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

- (a) Compare the Fund's actual investment performance for the prior fiscal year against the investment objectives set forth in Section 3.0 and evaluate the relative success or

failure of the prior year's performance; specific commentary to this objective shall be an integral part of the performance measurement process.

(b) Compare each investment manager's investment performance for the prior fiscal year against the relevant benchmarks and peer groups and evaluate the relative success or failure of their prior year's performance.

(c) Evaluate and review the total Fund performance attribution and contribution to return at the composite level to isolate performance drivers.

(d) Evaluate and review the various risk exposures of the plan versus appropriate policy limits and on-going trends through time.

(e) Evaluate and review the portfolio rebalancing activity for the year.

(f) Evaluate the Fund's liquidity requirements for the current and next fiscal years.

(g) Compare each investment manager's fees to their respective peer universe.

16.0 PROXY VOTING

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

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

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

17.0 SECURITIES LENDING

A. Pursuant to Section 2.0 (A), the Custodian shall manage a securities lending program to enhance income in accordance with the terms and conditions set forth in a mutually acceptable securities lending agreement and guaranty.

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

C. Unless otherwise specified in the agreement(s):

(i) All loans shall be marked-to-market daily.

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

(iii) Acceptable collateral shall be in the form of cash or marketable fixed income securities with maturities not greater than one year, including (1) Commercial Paper with quality ratings of P-1 and/or A-1 by Moody's Investors Services or Standard & Poor's Corporation, or their equivalents; (2) Banker's acceptances, certificates of deposits and

time deposits; (3) United States Treasury and Government Agency short-term obligations; and (4) Repurchase Agreements with United States Treasury Securities and Agencies of the United States Government as collateral.

(iv) Borrower must have a long-term credit rating of either “A” from S&P or “A2” from Moody’s. For split rated borrowers, the higher rating shall prevail if not the same rating, with the lower rating having a minimum long-term credit rating of either “A-” from S&P or “A3” from Moody’s.

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

APPENDIX A

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

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

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

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

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

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

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

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

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

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

The Board has exclusive control of the investment of the employees retirement fund. The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system. Except as otherwise expressly

restricted by the California Constitution and by law, the Board may, in its discretion, invest, or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the Board...; &

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

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

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

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

1.0 CONDUCT ASSET ALLOCATION STUDIES

1.1 Determine the characteristics of the Policy's liabilities in regards to the nature of Fund's cash flows

2.0 DEVELOP ASSET MIX ALTERNATIVES TO MEET LIABILITY REQUIREMENTS

2.1 Establish allowable asset classes

2.2 Determine asset class benchmarks

2.3 Develop risk, return & correlation projections

3.0 EVALUATE EFFICIENT FRONTIER ALTERNATIVES

3.1 Define risk, return and correlation

3.2 Evaluate mean variance optimization

3.3 Determine low risk alternatives and high risk alternatives

3.4 Scale portfolios between two extremes

3.5 Evaluate optimized efficient frontier

3.6 Integrate optimized efficient frontier with asset-liability relationships

4.0 ANALYZE BOARD RISK TOLERANCE

4.1 Assess risk/reward trade-offs

4.2 Assess contribution rate sensitivity & variability

4.3 Assess ability to exceed actuarial interest rate

4.4 Assess comfort level with characteristics of specific asset mixes

5.0 RECOMMEND PREFERRED ASSET MIX

5.1 Evaluate differences from current target

5.2 Evaluate Board's willingness to implement new target asset mix

5.3 Evaluate appropriateness of variance from peer public fund norms

6.0 RECOMMEND AMENDMENTS TO SAMCERA'S INVESTMENT POLICY

6.1 Adjust target asset mix

6.2 Introduce new benchmarks

6.3 Include required asset class/portfolio modifications

- 7.0 RECOMMEND REVISIONS TO MANAGER STRUCTURE
 - 7.1 Adjust manager/style line-up as necessary
 - 7.2 Introduce new managers/asset classes
 - 7.3 Terminate managers/asset classes as necessary
 - 7.4 Establish active & passive allocation targets as appropriate
- 8.0 IMPLEMENT CHANGES TO MANAGER STRUCTURE
 - 8.1 Recommend time-line & approach to revise structure
 - 8.2 Conduct manager evaluations
 - 8.3 Establish portfolio and asset allocation rebalancing procedures
- 9.0 EVALUATE MANAGER PERFORMANCE
 - 9.1 Monitor results of managers both gross and net of investment management fees
 - 9.2 Assess consistency of portfolio decision making
 - 9.3 Evaluate organizational, ownership, personnel & other firm developments
- 10.0 RECOMMEND AND EVALUATE INVESTMENT CONSULTANT STRUCTURE & PERFORMANCE
 - 10.1 Recommend for Board determination the retention and termination of Investment Consultant(s) as necessary
 - 10.2 Define and assign special projects as warranted
 - 10.3 Monitor performance of Investment Consultant(s)
 - 10.4 Conduct evaluations of Investment Consultant(s)
 - 10.5 Evaluate organizational, ownership, personnel and other firm developments
- 11.0 INITIATE & EVALUATE SPECIAL INVESTMENT STUDIES
- 12.0 UNDERTAKE OTHER WORK ASSIGNED TO IT BY THE BOARD Be it further

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

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

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

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

ADOPTED by unanimous vote, January 25, 2000

AMMENDED by unanimous vote, May 22, 2001

AMMENDED by unanimous vote, October 25, 2004

APPENDIX B

Derivatives Investment Policy

1) Introduction

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

2) Derivative Definition

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

3) Types of Securities Included or Excluded

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

4) Approach to Policy

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

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

5) Counter-Party Evaluation

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

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

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

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

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

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

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

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

6) Purposes for Derivatives

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

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

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

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

7) Investment Restrictions and Derivatives Policy

For the purpose of these guidelines, convertible debt, traditional zero coupon bonds, mortgage pass-through securities and asset-backed securities are not viewed as derivatives. Based upon the factors enumerated in the above Section 4 entitled Approach to Policy, the following guidelines have been established:

Allowable derivative investments

- a. Stable and well-structured mortgage CMO's (Collateralized Mortgage Obligations)
- b. Financial futures (if Exchange Traded)
- c. Currency forward contracts and currency options (Exchange and OTC traded)
- d. Interest rate swaps

Derivative investments with allocation limits

- a. Interest only mortgage CMO's
- b. Principal only mortgage CMO's
- c. Options (if Exchange Traded)
- d. Caps and floors as they apply to the above stated allowable derivative investments
- e. Credit Default Swaps (CDS)

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

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

Restricted derivative investments

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

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

8) Risk Analysis and Monitoring of Derivatives

For those securities that are classified as derivative investments with allocation limits, the investment managers are required to test and measure derivative investment sensitivities to changes in key risk factors. These risk factors include extreme changes in interest rates, volatility, liquidity, credit quality, and cash market prices.

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

9) Derivative Investment Process

Investment managers are expected to cover the following issues before purchasing a derivative instrument or security, whether specifically stated as an allowable derivative investment, a derivative investment with

allocation limits, or a derivative not specifically discussed in the Investment Restrictions and Derivatives Policy section above:

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

10) Reporting Requirements

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

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

Appendix C

DISCLOSURE OF PLACEMENT AGENT FEES, GIFTS, AND CAMPAIGN CONTRIBUTIONS

This amended policy is effective immediately upon adoption. This policy is intended to supplement any applicable provisions of state or federal law, which shall govern in the event of any inconsistency.

I. PURPOSE

This Policy is adopted pursuant to the requirements set forth in Government Code Section 7513.85 to help ensure that the San Mateo County Employees' Retirement Association (SamCERA) investment decisions are made solely on the merits of the investment opportunity. This Policy requires broad, timely, and updated disclosure of all Placement Agents, as that term is defined by Government Code section 7513.8, their relationships, compensation and fees.

II. APPLICATION

This Policy applies broadly to every type of SamCERA investment managers including general partners, sponsors of hedge funds, private equity funds, real estate funds and infrastructure funds, as well as public market investment managers.

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

III. RESPONSIBILITIES

A. The Board is responsible for:

1. Not entering into any agreement with an External Manager that does not agree in writing to comply with this policy.

2. Not entering into any agreement with an External Manager who has violated this policy within the previous five years. However, this prohibition may be reduced by a majority vote of the Board at a public session upon a showing of good cause.

B. Each External Manager is responsible for:

1. Executing an agreement that provides the External Manager will comply with this policy.
2. Providing the following information to SamCERA Investment Staff within 45 days of the time investment discussions are initiated by the External Manager, but in any event, prior to the completion of due diligence. In the case of Amendments, the Placement Agent Information Disclosure is required prior to execution of the Amendment.
 - a. Disclosure of payments or compensation by the External Manager or any of its principals, employees, agents or affiliates, directly or indirectly, to any person or entity to act as a Placement Agent in connection with SamCERA investments.
 - b. A resume for each officer, partner, principal of the Placement Agent detailing the person's education, professional designations, regulatory licenses and investment and work experience. If any such person is a current or former SamCERA Board Member, employee or Consultant or a member of the immediate family of any such person, this fact shall be specifically noted.
 - c. A description of any and all compensation of any kind provided or agreed to be provided to a Placement Agent, including the nature, timing and value thereof. Compensation to Placement Agents shall include, but not be limited to, compensation to third parties as well as employees of the External Manager who solicit or market investments to SamCERA or who are paid based upon investment commitments secured by such employees.
 - d. A description of the services to be performed by the Placement Agent and a statement as to whether the Placement Agent is utilized by the External Manager with all prospective clients or only with a subset of the External Manager's prospective clients.
 - e. A written copy of any and all agreements between the External Manager and the Placement Agent.
 - f. A statement whether the placement agent, or any of its affiliates, are registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association, or any similar regulatory agent in a country other than the United States, and the details of that registration or explanation as to why no registration is required.
 - g. A statement whether the placement agent, or any of its affiliates, is

registered as a lobbyist with any state or national government.

h. The names of any current or former SamCERA Board Members, employees, or Consultants who suggested the retention of the Placement Agent.

3. Providing an update of any changes to any of the information provided pursuant to section B.2 above within 30 calendar days of the date that the External Manager knew or should have known of the change in information.
4. Representing and warranting the accuracy of the information described in section B.2 above.
5. Causing its engaged Placement Agent to disclose, prior to acting as a Placement Agent to SamCERA:
 - a. All campaign contributions made by the Placement Agent to any publicly elected SamCERA Board Member during the prior 24-month period. Additionally, any subsequent campaign contribution made by the Placement Agent to any publicly elected SamCERA Board Member during the time the Placement Agent is receiving compensation in connection with a SamCERA investment shall also be disclosed.
 - b. All gifts, as defined in Government Code Section 82028, given by the Placement Agent to any SamCERA Board Member during the prior 24-month period. Additionally, any subsequent gift made by the Placement Agent to any SamCERA Board Member during the time the Placement Agent is receiving compensation in connection with a SamCERA investment shall also be disclosed.
6. SamCERA reserves the right to deem the failure to disclose the information required by 5(a) and 5(b) as a material breach of the agreement with the External Manager.

C. SamCERA Investment Staff (“Staff”) are responsible for:

1. Providing External Managers with a copy of this Policy at the time that discussions are initiated with respect to a prospective investment or engagement.
2. Confirming that the information in section B above has been received within 45 days of the time the execution of the investment contract or Amendment.
3. For new contracts and amendments to contracts existing as of the date of the initial adoption of this Policy, securing the agreement of the External Manager in the final written agreement between SamCERA and the External Manager to provide in the event that there was or is an intentional material omission or

inaccuracy in the Placement Agent Information Disclosure or any other violation of this Policy, SamCERA reserves the right to reimbursement of any management or advisory fees paid by SamCERA from the date of violation to the date of the imposition of the fees.

4. Prohibiting any External Manager or Placement Agent from soliciting new investments from SamCERA for five years after they have committed a material violation of this Policy; provided, however, that SamCERA's Board, by majority vote at a noticed, public meeting, may reduce this prohibition upon a showing of good cause.
5. Providing the Board with Placement Agent information relating to each investment at the time the investment is brought to the Board for its decision.
6. Maintaining Placement Agent Information Disclosures as a public record and reporting to the Board any a material violation of this Policy.

Adopted December 14, 2010

Amended October 25, 2011

Amended March 28, 2017

DEFINITIONS:

The following definitions are excerpted from California Government Code section 7513.8 and are current as of March 28, 2017. Should the legislature subsequently amend the definitions below, the definition of these terms as amended shall supersede the definitions contained in this policy.

“External Manager” means either of the following: (1) a Person who is seeking to be, or is, retained by a board or an Investment Vehicle to manage a portfolio of securities or other assets for compensation; (2) a Person who manages an Investment Fund and who offers or sells, or has offered or sold, an ownership interest in the Investment Fund to a board or an Investment Vehicle. (All code section references are to the Government Code, unless otherwise noted.)

“Person” means an individual, corporation, partnership, limited partnership, limited liability company, or association, either domestic or foreign.

“Investment Vehicle” means a corporation, partnership, limited partnership, limited liability company, association, or other entity, either domestic or foreign, managed by an External Manager in which a board is the majority investor and that is organized in order to invest with, or retain the investment management services of, other External Managers.

“Investment Fund” means a private equity fund, public equity fund, venture capital fund, hedge fund, fixed income fund, real estate fund, infrastructure fund, or similar pooled investment


entity that is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, owning, holding, or trading securities or other assets. Notwithstanding the preceding sentence, an investment company that is registered with the Securities and Exchange Commission pursuant to the Investment Company Act of 1940 (15 U.S.C. Sec. 8a-1 et seq.) and that makes a public offering of its securities is not an Investment Fund.

“Placement Agent” means any Person directly or indirectly hired, engaged, or retained by, or serving for the benefit of or on behalf of, an External Manager or an Investment Fund managed by an External Manager, and who acts or has acted for compensation as a finder, solicitor, marketer, consultant, broker or other intermediary in connection with the offer or sale to a board or an Investment Vehicle either of the following: in the case of an External Manager as defined in subpart (1) of the definition of an External Manager, the investment management services of the External Manager; in the case of an External Manager as defined in subpart (2) of the definition of an External Manager, an ownership interest in an Investment Fund managed by the External Manager. Notwithstanding the preceding sentence, an individual who is an employee, officer, director, equityholder, partner, member, or trustee of an External Manager and who spends one-third or more of his or her time, during a calendar year, managing the securities or assets owned, controlled, invested, or held by the External Manager is not a Placement Agent.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

September 26, 2017

Agenda Item 7.1

TO: Board of Retirement

FROM: Scott Hood, Chief Executive Officer
SUBJECT: Amendment to Agreement with Milliman, Inc.

Recommendation

Approve a resolution authorizing the Chief Executive Officer to execute a Fourth Amendment to the Agreement with Milliman, Inc. for actuarial services.

Background

After a Request for Proposal (RFP) process, in January 2006, the Board authorized an Agreement with Milliman Inc. to provide actuarial services. That agreement has been extended on three occasions with the current term ending December 31, 2017. Milliman has consistently provided excellent actuarial services to SamCERA during this period.

Discussion

The Board's practice is to go out to RFP for ongoing services on a periodic basis. During the multi-year Pension Administration Software Services (PASS) project and the recent implementation and transition to the new PASS system, in 2014, the Board determined that it was in the best interest of SamCERA to retain the existing actuary during this process and authorized a three-year extension of the Milliman agreement.

Milliman has been instrumental in assisting SamCERA resolve data issues and defining more robust data requirements for future use in valuation determinations during and after the PASS implementation. For this reason, it is vital that the next valuation be done by the actuarial firm that assisted with the data extract definition and analysis. Staff recommends that Milliman perform the annual review again in 2018 because they would be best prepared to address data issues, if any. Staff plans to issue an RFP in the fall of 2018 to select an actuary for the 2019 and 2020 annual reviews, and the 2020 triennial experience study.

The proposed amendment: (1) extends services for the 2018 annual audit, (2) increases the annual audit costs by \$2,500 to \$71,500; and (3) increases the quarterly consulting cost by \$500 to \$5,000 a quarter. Of note, the quarterly consulting fees have not increased since 2014 and staff has increased its usage of these services for the administration of member benefits.

Attachment

Resolution Authorizing the Chief Executive Officer to Execute a Fourth Amendment to Agreement with Milliman, Inc. for Actuarial Services

**RESOLUTION AUTHORIZING THE CHIEF EXECUTIVE OFFICER TO
EXECUTE A FOURTH AMENDMENT TO THE AGREEMENT WITH
MILLIMAN, INC. FOR ACTUARIAL SERVICES**

RESOLUTION 2017-14

WHEREAS, Article XVI, §17 of the Constitution of the State of California and Government Code §31595 vests the Board of Retirement ("Board") with "plenary authority and fiduciary responsibility for the investment of moneys and the administration of the system"; and

WHEREAS, after a Request for Proposal process, in January 2006, the Board authorized an Agreement with Milliman Inc. to provide actuarial services and that agreement has been extended on three occasions with the current term ending December 31, 2017; and

WHEREAS, the Board has determined that it is in the best interest of SamCERA to extend the agreement by additional one year through December 31, 2018; Therefore, be it:

RESOLVED, that the Chief Executive Officer is hereby authorized and directed to execute said Fourth Amendment to the Agreement with Milliman, Inc. for actuarial services.

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Regularly passed and adopted, by the San Mateo County Employees' Retirement Association, Board of Retirement, on September 26, 2017.

Ayes, Trustees:

Noes, Trustees:

Absent, Trustees:

Abstain, Trustees:

David Spinello, Board Secretary, SamCERA