STANISLAUS COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
832 12th Street, Suite 600
Modesto, CA 95354
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Phone (209) 525-6393
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AGENDA

BOARD OF RETIREMENT
832 12th Street, Suite 600 – **Wesley W. Hall Board Room**
Modesto, CA 95354

December 12, 2012
2:00 p.m.

The Board of Retirement welcomes you to its meetings, which are regularly held on the second Wednesday and the fourth Tuesday of each month. Your interest is encouraged and appreciated.

CONSENT ITEMS: These matters include routine administrative actions and are identified under the Consent Items heading.

PUBLIC COMMENT: Matters under jurisdiction of the Board, may be addressed by the general public before or during the regular agenda. However, California law prohibits the Board from taking action on any matter which is not on the posted agenda unless it is determined an emergency by the Board of Retirement. Any member of the public wishing to address the Board during the "Public Comment," period shall be permitted to be heard once up to three minutes. Please complete a Public Comment Form and give it to the Chair of the Board. Any person wishing to make a presentation to the Board must submit the presentation in written form, with copies furnished to all Board members. Presentations are limited to three minutes.

BOARD AGENDAS & MINUTES: Board agendas, Minutes and copies of items to be considered by the Board of Retirement are customarily posted on the Internet by Friday afternoon preceding a meeting at the following website: www.stancera.org.

Materials related to an item on this Agenda submitted to the Board after distribution of the agenda packet are available for public inspection at StanCERA, 832 12th Street, Suite 600, Modesto, CA 95354, during normal business hours.

AUDIO: All Board of Retirement regular meetings are audio recorded. Audio recordings of the meetings are available after the meetings at http://www.stancera.org/sections/aboutus/agendas.

NOTICE REGARDING NON-ENGLISH SPEAKERS: Board of Retirement meetings are conducted in English and translation to other languages is not provided. Please make arrangements for an interpreter if necessary.

REASONABLE ACCOMMODATIONS: In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Board Secretary at (209) 525-6393. Notification 72 hours prior to the meeting will enable StanCERA to make reasonable arrangements to ensure accessibility to this meeting.

1. Meeting Called to Order

2. Roll Call

3. Announcements

4. Public Comment

5. Consent Items

   a. Approval of the November 27, 2012, Administrative/Investment Meeting Minutes **View**

   b. Report on StanCERA Earnings Allocation as of June 30, 2012 **View**

5. Consent Items (Cont.)

   c. Resolution Regarding the California Public Employees' Pension Reform Act (PEPRA) Allowable Pay Elements in the Calculation of Pensionable Compensation for Current Members and New StanCERA Members Hired after December 31, 2012 **View**

   d. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**

      1. Consuelo Alcala, BHRS, Effective 12-15-12
      2. Tiny Benjamin, Sheriff, Effective 12-18-12
      3. Catherine Borba, HSA, Effective 12-15-12
      4. Cindy Borg, CSA, Effective 12-29-12
      5. **Kelly Cerny, StanCERA, Effective 12-05-12**
      6. Kelli Garcia, CSA, Effective 12-07-12
      7. Denita Harris, Alliance Worknet, Effective 12-22-12
      8. Ray Jackson, CEO/OES, Effective 12-22-12
      9. Eddie Jones, Keyes Community Services, Effective 12-29-12
      10. Hugo Martinez, CSA, Effective 12-15-12
      11. Valeri Niskanen, County Counsel, Effective 12-29-12
      12. Leo Douglas Ott, Fire Warden, Effective 12-30-12
      13. Brenda Suarez, Sheriff, Effective 12-15-12
      14. Carolyn Sullivan, CEO/OES, Effective 12-22-12

   e. Approval of Deferred Retirement(s) – **Section 31700**

      1. Eli Day, Public Works, Effective 10-09-12

   f. Approval of Disability Retirement – **Section 31724**

      1. Judith Escarcega, Sheriff, Service-Connected, Effective 09-02-12

6. Semi-Annual Performance Report by Legato Capital Management LLC **View**

7. Semi-Annual Performance Report by Capital Prospects LLC **View**

8. EFI Actuaries Presentation on Preliminary Results of the Actuarial Valuation as of June 30, 2012 **View**

9. Executive Director

   a. Discussion and Action Regarding New Employer and Employee Contribution Rates for the New Tier 6 (Public Employee Pension Reform Act – PEPRA) **View**

   b. New Legislation Update

10. Closed Session

    a. Discussion and Action on Administrative Recommendation on the Application for a Service-Connected Disability Retirement for Keith Rakoncza

    b. Conference with Legal Counsel - Anticipated Litigation and/or Anticipated Initiation of Litigation Pursuant to Government Code Section 54956.9(b); One Matter

    c. Conference with Legal Counsel – Pending Litigation – One Case:
       O'Neal et al v. Stanislaus County Employees' Retirement Association
       Stanislaus County Superior Court Case No. 648469
       Government Code Section 54956.9(a)

    d. Conference with Legal Counsel – Pending Litigation – One Case:
       Nasrawi et al v. Buck Consultants, LLC, et.al, Santa Clara County
       Superior Court Case No. 1-11-CV202224
       Government Code Section 54956.9(b)

11. Members' Forum (Information and Future Agenda Requests Only)

12. Adjournment

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PLEASE POST FOR EMPLOYEE VIEWING

BOARD OF RETIREMENT MINUTES **November 27, 2012**

Members Present: Gordon Ford, Maria De Anda, Donna Riley, Ron Martin Mike Lynch, Jim DeMartini, Darin Gharat, Michael O'Neal, and Jeff Grover

Alternate Member Absent: Joan Clendenin, Alternate Retiree Representative

Staff Present: Rick Santos, Executive Director
Luiana Irizarry, Interim Executive Assistant
Dawn Lea, Benefits Manager
Kathy Herman, Operations Manager
Kathy Johnson, Accountant

Others Present: Fred Silva, General Legal Counsel
Harvey Leiderman, Reed Smith
Paul Harte, Strategic Investment Solutions (SIS), Inc.
Monica Nino, Doris Foster & Nancy Bronstein
County Chief Executive Office
Deirdre McGrath, County Counsel
Jeanine Bean, Superior Courts

1. Meeting called to order at 2:02 p.m. by Jim DeMartini, Chair.

2. **Roll Call**

3. **Announcements**

   None.

4. **Public Comment**

   None.

5. **Consent Items**

   Motion was made by Maria De Anda and seconded by Darin Gharat to approve the following items.

   Motion carried.

   a. Approval of the October 23, 2012, Administrative Meeting Minutes

5. **<u>Consent Items (Cont.)</u>**

b. Approval of the November 7, 2012, Administrative Meeting Minutes

c. StanCERA Investment Managers Peer Rankings for Quarter Ending September 30, 2012

d. Approval of the Continuing Education Calendar Record for 2011

e. Receipt of the June 30, 2012, and 2011, Comprehensive Annual Financial Report (CAFR) and Receipt of StanCERA's Audited Financial Statements and Management Comments by Macias, Gini & O'Connell (MGO) Certified Public Accountants, for Fiscal Year Ended June 30, 2012

f. Receipt of the State Association of County Retirement Systems' (SACRS) November 16, 2012 Business Meeting Packet

g. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**

1. Christine Applegate, CSA, Effective 11-03-12
2. Rhonda Brink, CSA, Effective 11-03-12
3. Emma Chavez, BHRS, Effective 11-09-12
4. Lillie Clark, BHRS, Effective 11-03-12
5. Brenda Cleary, Stanislaus Regional 911, Effective 10-17-12
6. Wagner De Freitas, Sheriff, Effective 11-17-12
7. Richard Dodge, District Attorney, Effective 11-02-12
8. Sysvanh Kabkeo, CSA, Effective 11-02-12
9. Kim Kilby, CSA, Effective 10-09-12
10. Sandra Parrish, CSA, Effective 11-02-12
11. Kenneth Patterson, CSA, Effective 11-04-12
12. Catherine Pierce, CSA, Effective 11-03-12
13. Susan Seibert, CEO/BOS, Effective 11-17-12
14. Linda Spencer, HSA, Effective 11-03-12
15. Sharon Trejo, HSA, Effective 11-03-12
16. Myrnice Valentine, CSA, Effective 11-10-12

h. Approval of Deferred Retirement(s) – **Section 31700**

1. Anthony Barbagallo, CSA, Effective 09-29-12
2. Ramon Bawanan, DA, Effective 10-20-12
3. Aaron Farnon, Planning & Community Dev., Effective 10-1-12
4. Della Garcia, HSA, Effective 08-25-12
5. Sarah Harcrow, Sheriff, Effective 6-15-07
6. Beth Holmes, Library, Effective 10-9-12
7. Jean Laurie Lopez, CSA, Effective 10-10-12
8. Erica Inacio, Children & Families Commission, Effective 10-6-12
9. Evelina McDowall, HSA, Effective 9-1-12
10. Timothy Reed, Sheriff, Effective 7-14-12
11. Sharon Wardale-Trejo, DCSS, 9-14-12
12. Christopher Yamada, Public Defender, 8-4-12

6. **Strategic Investment Solutions (SIS), Inc.**

a. Investment Performance Analysis for the Quarter Ending September 30, 2012

The composite fund returned 5.4% in the third quarter of 2012 and ranked in the 5th percentile among other public funds (4.6% median). The fund beat its policy index (4.6%) during this time period. Longer term, the three and five year returns of 9.9% and 2.6%, ranked above and below the median among total public plans (8.9% and 2.9%, respectively).

b. StanCERA Investment Managers Review List for Quarter Ending September 30, 2012

c. Monthly Performance Review for the Month Ending October 31, 2012

Mr. Harte presented the monthly performance review for the period ending October 31, 2012. As of October 2012, StanCERA's portfolio is $1.44 billion, a -0.48% decrease from the prior month. The fiscal year to date return is 5.19%, above StanCERA's policy index of 4.00%.

d. Report on "Top 10 Holdings" by StanCERA Investment Managers as of September 30, 2012

7. **Executive Director**

a. Report on Investment Funds Transfer – Invesco to BlackRock

Kathy Herman reported on transfer of funds from Invesco to BlackRock.

Heard Out of Order

8. **Closed Session**

Motion was made by Darin Gharat and seconded by Donna Riley to commence to Closed Session at 2:36 p.m.

Motion carried.

Motion was made by Darin Gharat and seconded by Mike Lynch to return to Open Session at 2:50 p.m.

Motion carried.

a. Compliance with Public Employees' Pension Reform Act – Government Code Section 54956.9(b)(1)

No Report

Mr. DeMartini read the findings of the Closed Session:

7. **Executive Director**

b. Discussion and Action – California Public Employees' Pension Act (PEPRA) Determination of the Allowable Pay Elements in the Calculation of Pensionable Compensation for Current Members and New StanCERA Members Hired after December 31, 2012

Motion was made by Mike Lynch and seconded by Michael O'Neal to exclude bonuses from pensionable compensation for current members.

Roll Call Yes: Donna Riley, Ron Martin, Mike Lynch, Jim DeMartini, Darin Gharat, Michael O'Neal and Jeff Grover.

Roll Call No: Maria De Anda

Abstain: Gordon Ford

Motion carried.

Motion was made by Darin Gharat and seconded by Ron Martin to adopt "base pay only" for new members until further legislative or case law clarification.

Roll Call Yes: Maria De Anda, Donna Riley, Ron Martin, Mike Lynch, Darin Gharat, Michael O'Neal and Jeff Grover.

Roll Call No: Gordon Ford and Jim DeMartini

Motion carried.

Motion was made by Jeff Grover and seconded by Ron Martin to exclude Deferred Compensation from pensionable compensation for new members.

Roll Call Yes: Ron Martin, Mike Lynch, Jim DeMartini, Darin Gharat, Michael O'Neal and Jeff Grover.

Roll Call No: Maria De Anda and Donna Riley

Abstain: Gordon Ford

Motion carried.

Motion was made by Darin Gharat and seconded by Gordon Ford to continue to include "on-call pay" in pensionable compensation for current members.

Motion carried unanimously.

7. **Executive Director (Cont.)**

c. Inclusion of the 6% Pay Deduction/Exemption in the Pensionable Compensation of those Members Retiring Prior to July 1, 2014 and Compliance with Public Employees' Pension Reform Act

Motion was made by Darin Gharat and seconded by Michael O'Neal to include the 6% Pay Deduction/Exemption in pensionable compensation.

Motion carried unanimously.

d. New Legislation Update

8. **Closed Session**

b. Conference with Legal Counsel – Pending Litigation – One Case:
O'Neal et al v. Stanislaus County Employees' Retirement Association
Stanislaus County Superior Court Case No. 648469
Government Code Section 54956.9(a)

No Closed Session

c. Conference with Legal Counsel – Pending Litigation – One Case:
Nasrawi et al v. Buck Consultants, LLC, et.al, Santa Clara County
Superior Court Case No. 1-11-CV202224
Government Code Section 54956.9(b)

No Closed Session

Gordon Ford left at 4:28 p.m.

9. **Members' Forum (Information and Future Agenda Requests Only)**

Mr. Gharat requested Board of Retirement to consider which committees they would like to be on for 2013.

10. **Adjournment**

Meeting adjourned at 4:32 p.m.

Respectfully submitted,

Rick Santos, Executive Director

APPROVED AS TO FORM:
FRED A. SILVA, GENERAL LEGAL COUNSEL

By: ______________________________
Fred A. Silva, General Legal Counsel

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For the Retirement Board meeting
Held on December 12, 2012

12/12/12
Item #5b

TO: Retirement Board

FROM: Kathy Johnson, Retirement Accountant

SUBJECT: Report on the Earnings Allocation for the Fiscal Year Ended June 30, 2012

I. RECOMMENDATION: Informational item only

II. ANALYSIS:

Fiscal year 2011/2012 ended with investment earnings of $8,920,284. This report explains the allocation of excess earnings in accordance with the Excess Earnings Policy, effective May 25, 2012.

After payment of Administrative, Investment and Actuarial expenses, $7,082,353, and replenishment of $325,000 to the Burial Allowance Reserve for future benefits (Policy items #1 and #2), a surplus of $1,512,931 was available for Interest Crediting to Active (Non-Retired), Employer and Retiree Reserves. This excess was distributed on a pro rata basis between these Reserves (Policy item #5) at the rate of 0.11%. Regular interest of 0.0550% shall be credited on December 31, 2012 and June 30, 2013 to all Non-Retired members' contributions in the retirement fund which have been on deposit for six months immediately prior to that date.

The Prior Loss Contra-Reserve was settled in FY2010/2011, and no earnings were needed from the FY2011/2012 excess. (Policy item #4)

The 2% Contingency Reserve was reduced to the maintenance level of the minimum 1% of Net Assets (Policy item #3), as voted by the Board of Retirement in May 2012. The available funds, $9,941,581, had accumulated from investment gains in numerous prior years. The $9.9 million were allocated pro rata to the Employer and Retiree Reserves.

III. RISK: None
IV. STRATEGIC PLAN: None
V. BUDGET IMPACT: None

Kathy Johnson

Kathy Johnson, Retirement Accountant

StanCERA's Earnings Allocations per the Excess Earings Policy, effective May 25, 2012, for the Fiscal Year Ended June 30, 2012

1. Total investment earnings for Fiscal Year 2011- 2012:		$ 8,920,284
2. Less Administrative, Investment and Actuarial Expenses:		
Administrative Expenses	$ 2,144,748	
Investment Expenses	4,873,528	
Actuarial Expenses	64,077	
(Per the Excess Earnings Policy item #1)		7,082,353
Remaining after payment of Administrative, Investement and Actuarial expenses:		1,837,931
3. Less maintenance of Retiree $5,000 Burial Allowance Reserve: (Per Excess Earnings Policy item #2)		325,000
4. Balance of Investment Earnings available to allocate as Excess Earnings: (Per the Excess Earnings Policy item #5)		
Distributed between:		
Reserves - Active (Non-Retiree) - Basic	$ 177,285	
Reserves - Active (Non-Retiree)- COL	58,311	
Reserve for Unvested (Non-Retiree) Interest	56,390	
Reserves - Employer - Normal	138,045	
Reserves - Employer - Special	96,680	
Reserves - Employer - Transfer	105,933	
Reserves - Retired - Annuity	131,368	
Reserves - Retired - Pension	680,826	
Reserves - Retired - Service Disability Benefit	11,048	
Reserves - Retired - COL	57,045	
	$ 1,512,931	$ 1,512,931

Special allocation to Reserves to reduce 2% Contingency Reserve to minimum 1% of Net Assets		
Distributed to:		
Reserves - Employer - Normal	$ 1,124,033	
Reserves - Employer - Special	787,218	
Reserves - Employer - Transfer	862,567	
Reserves - Retired - Annuity	1,069,669	
Reserves - Retired - Pension	5,543,645	
Reserves - Retired - Service Disability Benefit	89,955	
Reserves - Retired - COL	464,494	
	$ 9,941,581	$ 9,941,581

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Stanislaus County Employees' Retirement Association

Resolution Regarding Pay Included as Pensionable Income

In accordance with the provisions of the California Public Employees' Pension Reform Act of 2012 (AB 340), the Board of Retirement for the Stanislaus County Employees' Retirement Association finds as follows:

A. For those current members who became active members prior to January 1, 2013, and those members who became active members on or after January 1, 2013, but who are not subject to Government Code §7522.34 of the California Public Employees' Pension Reform Act, the determination of compensation earnable for remuneration earned by those members is governed by Government Code §31461; and

B. For those members who became active members on or after January 1, 2013 and who are subject to the California Public Employees' Pension Reform Act contained in Government Code §7522 et seq., the determination of pensionable compensation is governed by Government Code §7522.34; and

C. Government Code §31461 provides that compensation earnable by a member means the average compensation as determined by the Board, for the period under consideration upon the basis of the average number of days ordinarily worked by persons in the same grade or class of positions during the period, and at the same rate of pay; and

D. The pensionable compensation for those members who are subject to Government Code §7522.34 shall be the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours, pursuant to publicly available pay schedules; and

E. Government Code §31461 provides that this Board shall determine which items of remuneration earned by members constitute "compensation earnable"; and

F. The Board has determined what is to be included in "compensation earnable" and what is not to be included; and

The Board hereby makes the following determinations to be effective January 1, 2013, as to what is included in "compensation earnable":

1. Compensation earnable for those current members who became active members prior to January 1, 2013, and those members who became active members on or after January 1, 2013, but who are not subject to Government Code §7522.34 of the California Public Employees' Pension Reform Act, will remain unchanged with one exception. The StanCERA Board has declared that any bonus pay of any type, regardless of when paid, will not be included in compensation earnable for any member retiring on or after January 1, 2013.

2. Compensation earnable for those members who became active members on or after January 1, 2013 and who are subject to the California Public Employees' Pension Reform Act contained in Government Code §7522 et seq., will be limited to base pay only, until further legislative clarification.

3. Payments associated with the provision of insurance benefits, or other third party payments, such as professional membership dues, that are not received in cash by a member shall be excluded from compensation earnable.

4. Compensation for overtime work, other than as defined in Section 207(k) of Title 29 of the United States Code shall be excluded from compensation earnable.

5. Employer contributions, if any, to deferred compensation or defined contribution plans shall be excluded from compensation earnable.

6. For those employees subject to Government Code §31461(b), compensation earnable shall not include, in any case, the following:

    a. Any compensation determined by the Board to have been paid to enhance a member's retirement benefit under the pension system. That compensation my include:

        1) 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.
        2) 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.
        3) 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.

    b. Payments for unused vacation, annual leave, personal 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.

c. Payments for additional services rendered outside of normal working hours, whether paid in a lump sum or otherwise.

d. 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.

e. Pursuant to Government Code §31461 (c), terms listed above are intended to be consistent with and not in conflict with the holdings in *Salus v, San Diego County Employees Retirement Association (2004) 117 Cal.App.4th 734 and In re Retirement Cases (2003)110 Cal.App.4th 426*.

7. Those employees who are subject to Government Code §7522.34 shall, in addition to those elements of pay described above, have the following excluded from compensation earnable:

a. Any compensation determined by the board to have been paid to increase a member's retirement benefit under that system.

b. 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.

c. Any one-time or ad hoc payments made to a member.

d. 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.

e. 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.

f. Payments for additional services rendered outside of normal working hours, whether paid in a lump sum or otherwise.

g. Any employer-provided allowance, reimbursement, or payment, including, but not limited to, one made for housing, vehicle, or uniforms.

h. Compensation for overtime work, other than as defined in Section 207(k) of Title 29 of the United States Code.

i. Employer contributions to deferred compensation or defined contribution plans.

j. Any bonus paid in addition to the compensation described in subdivision (a).

k. Any other form of compensation a public retirement board determines is inconsistent with the requirements of subdivision (a).

l. Any other form of compensation a public retirement board determines should not be pensionable compensation.

The above listed determinations by the Board of what is included or not included in compensation earnable shall be in effect until such time as action taken by the Board or action by the California Legislature or Courts requires a different determination.

The foregoing Resolution was adopted by the Board of Retirement upon motion of Board member _______________, Seconded by Board member ______________, at a regular adjourned meeting of this Board held on December 12, 2012, by the following vote:

Ayes:

Nayes:

Absent:

Top

Legato Capital Management LLC

Le-ga-to
(adj. & adv.) smooth, connected; without breaks

DEDICATED TO DISCOVERING THE FINEST ENTREPRENEURIAL INVESTMENT MANAGER TALENT

12/12/12
Item #6

STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

SEMI-ANNUAL REPORT

DECEMBER 12, 2012

Legato Capital Management LLC
111 Pine Street
Suite #1700
San Francisco, CA 94111

General Office: (415) 821-8585
Investment Office: (415) 821-8586
Fax: (877) 838-8304
info@legatocm.com

Biographical Information

Adam S. Lawlor, CFA

lawlor@legatocm.com
Direct line: (415) 821-8561

Mr. Lawlor is a Senior Vice President and a member of the investment team of Legato Capital Management LLC. Prior to Legato's founding in 2004, he held the position of Director of Manager Research at Cazenave Partners, LLC. From 2000 to 2002, he directed the Investment Consulting Group at Robertson Stephens. From 1995 to 2000, he was a member of the Global Manager Research Group at Callan Associates. Mr. Lawlor has 20 years of investment experience. He received his undergraduate degree from the University of Connecticut, where he studied business administration. He is a member of both the CFA Institute and the CFA Society of San Francisco.

Douglas W. Porter, CFA, CAIA, FRM

porter@legatocm.com
Direct line: (415) 821-8564

Mr. Porter is a Senior Vice President and a member of the investment team of Legato Capital Management LLC. Prior to joining Legato in 2010, he spent seven years as an analyst at Russell Investments, which included positions within Russell's US Equity manager research, multi-asset class portfolio management, institutional consulting and institutional client service teams. From 2001 to 2003, Mr. Porter was an Index Analyst for Russell/Mellon Analytical Services. Mr. Porter has 11 years of investment experience. He received his undergraduate degree from the University of Puget Sound, where he studied business administration. He is a member of the CFA Institute, the CAIA Association and the Global Association of Risk Professionals, where he received certification as a Financial Risk Manager.

Outline of Presentation

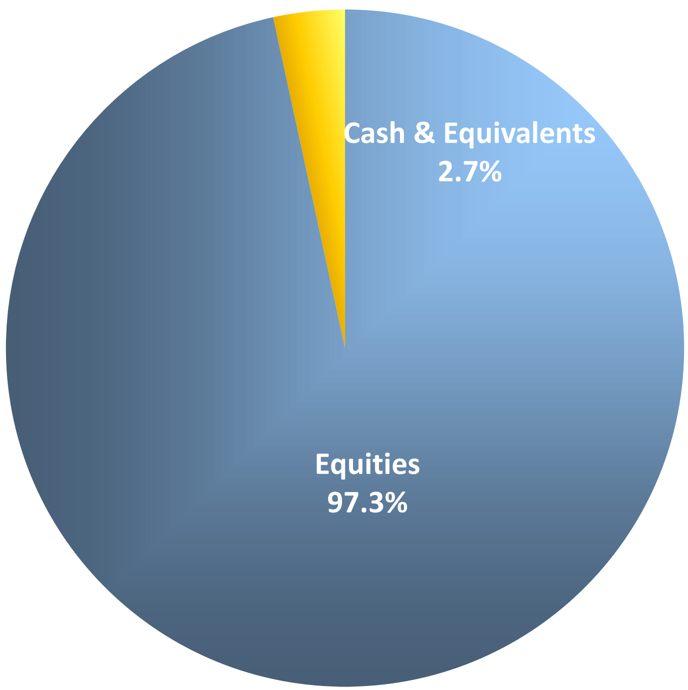
Section I.

Small Cap Growth Portfolio

Investment Objective

A small cap growth manager-of-managers (MOM) portfolio that seeks to consistently produce alpha by utilizing entrepreneurial managers with complementary styles. The Portfolio is benchmarked against the Russell 2000® Growth Index.

Total Assets



StanCERA - Small Cap Growth Portfolio	Market Value	Allocation
Equities	$60,809,354.94	97.3%
Cash & Equivalents	$1,697,695.81	2.7%
Total Portfolio	$62,507,050.75	100.0%

Market Value - 6/30/2012	$59,187,058.87
Net Additions and Withdrawals	0.00
Interest and Dividends	$51,307.97
Net Gains and Losses	$3,268,683.91
Market Value - 9/30/2012	$62,507,050.75

Manager Allocations

As of September 30, 2012

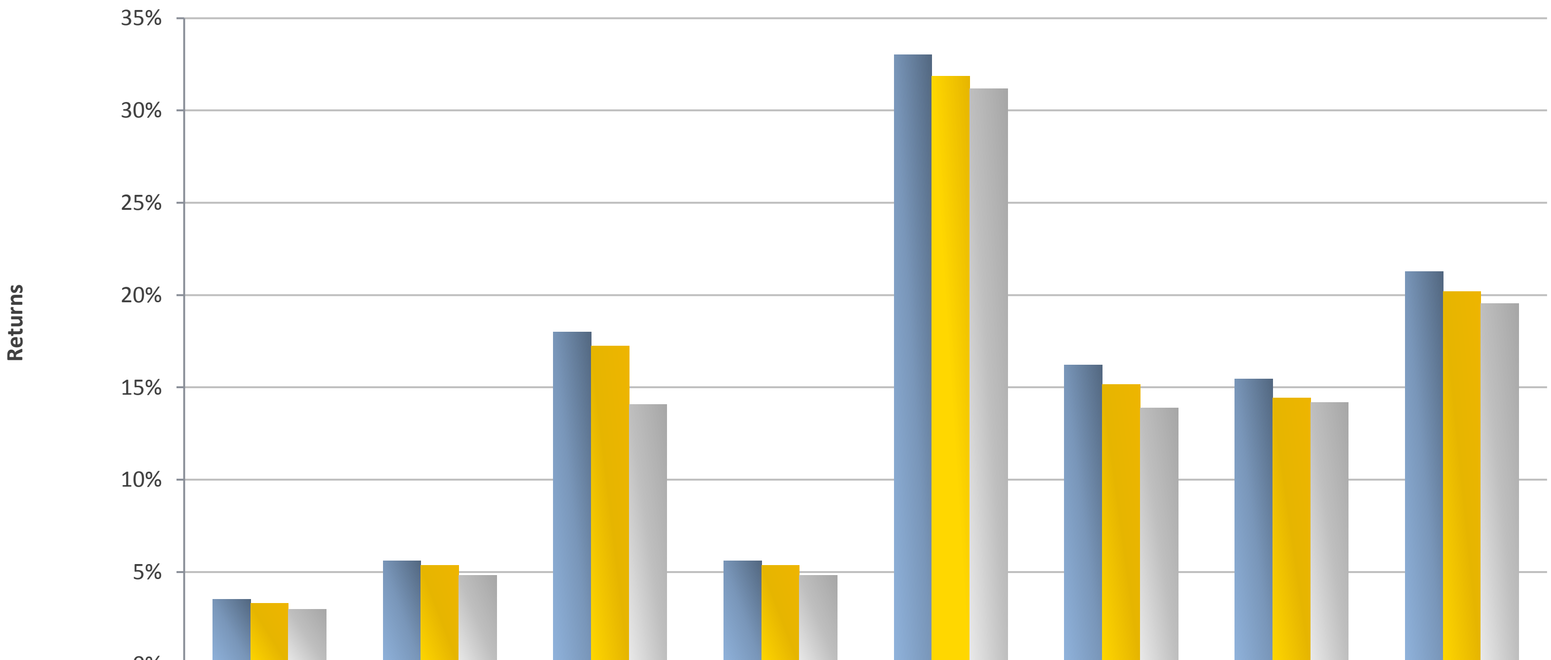
Manager	Style	Sub-Style	Target Weight Allocation	Current Weight	Difference
Riverbridge Partners	Growth	Conservative	24.0%	25.4%	1.4%
Lee Munder Capital Group	Growth	Pure	21.5%	21.1%	-0.4%
Stephens Investment Management Group	Growth	Pure	24.0%	24.7%	0.7%
CastleArk Management	Growth	Aggressive	16.5%	16.8 %	0.3%
EAM Investors	Growth	Aggressive	14.0%	12.0%	-2.0%

Style and sub-style characterizations are based on Legato Capital Management's classifications.

Investment Performance

For the third quarter, the Portfolio (gross-of-fees) outperformed its benchmark by 0.77%. Since inception, the Portfolio (gross-of-fees) has outperformed its benchmark by 1.74% on an annualized basis.

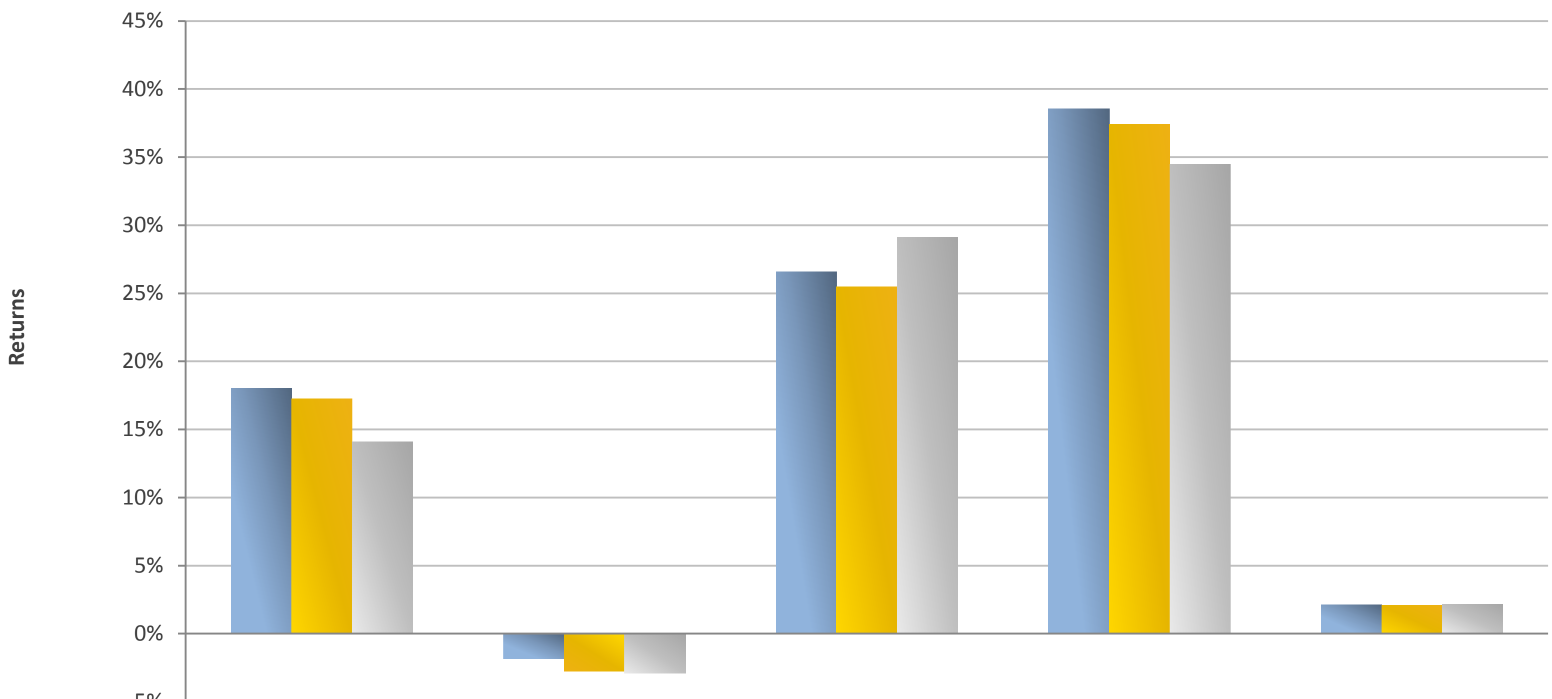
StanCERA - Small Cap Growth
As of September 30, 2012



	1-Month	QTD	YTD	FYTD*	1-Year	2-Year Annualized	3-Year Annualized	Since Inception Annualized**
StanCERA - Gross	3.52%	5.61%	18.01%	5.61%	33.04%	16.22%	15.46%	21.28%
StanCERA - Net	3.30%	5.38%	17.24%	5.38%	31.87%	15.17%	14.43%	20.21%
Russell 2000® Growth Index	3.00%	4.84%	14.08%	4.84%	31.18%	13.89%	14.19%	19.54%

**Fiscal year-end: June 30. **Portfolio inception date: December 22, 2008.*
Past performance is no guarantee of future results. Gross-of-fees returns are presented gross of advisory and custodial fees, but net of trading expenses and non-reclaimable withholding taxes. Net-of-fees returns are calculated by deducting actual advisory fees incurred by the Portfolio from the gross-of-fees returns. Performance results reflect the reinvestment of dividends and other earnings.

Investment Performance



	2012 YTD*	2011	2010	2009	2008 Partial Year**
StanCERA - Gross	18.01%	-1.84%	26.56%	38.54%	2.12%
StanCERA - Net	17.24%	-2.77%	25.46%	37.40%	2.09%
Russell 2000® Growth Index	14.08%	-2.91%	29.09%	34.47%	2.16%

**As of September 30, 2012. **Portfolio inception date: December 22, 2008.*
Past performance is no guarantee of future results. Gross-of-fees returns are presented gross of advisory and custodial fees, but net of trading expenses and non-reclaimable withholding taxes. Net-of-fees returns are calculated by deducting actual advisory fees incurred by the Portfolio from the gross-of-fees returns. Performance results reflect the reinvestment of dividends and other earnings.

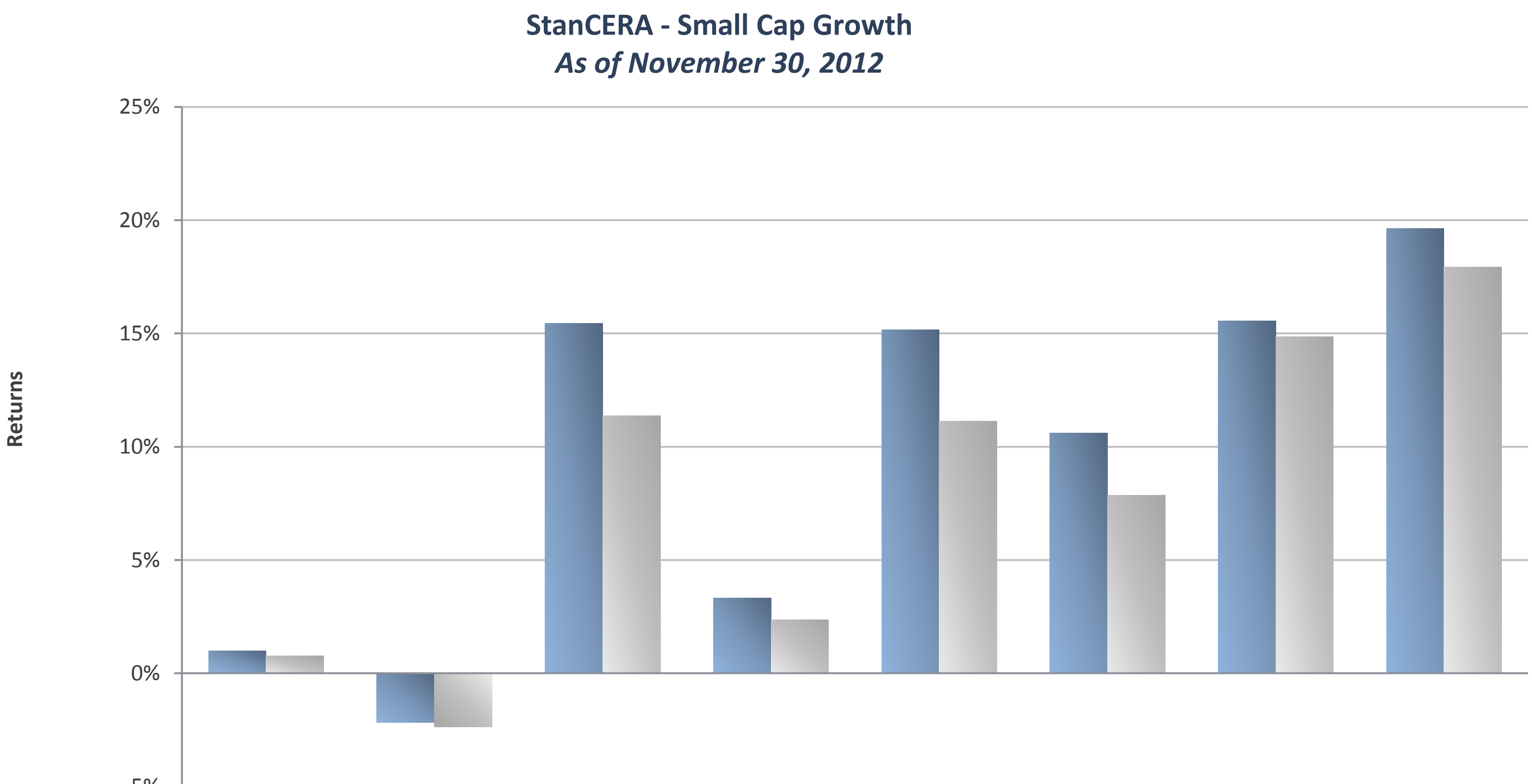
Total Portfolio & Manager Investment Performance
As of September 30, 2012

		Market Value	1-Month	QTD	YTD	FYTD*	1-Year	2-Year Annualized	3-Year Annualized	Since Inception Annualized**
Portfolio:	Small Cap Growth - Gross	$62,507,050.75	**3.52%**	**5.61%**	**18.01%**	**5.61%**	**33.04%**	**16.22%**	**15.46%**	**21.28%**
	Small Cap Growth - Net		**3.30%**	**5.38%**	**17.24%**	**5.38%**	**31.87%**	**15.17%**	**14.43%**	**20.21%**
Benchmark:	*Russell 2000® Growth Index*		*3.00%*	*4.84%*	*14.08%*	*4.84%*	*31.18%*	*13.89%*	*14.19%*	*19.54%*
	Excess Return - Gross:		**0.52%**	**0.77%**	**3.93%**	**0.77%**	**1.86%**	**2.33%**	**1.27%**	**1.74%**
Managers:	Riverbridge Partners - Gross	$15,857,547.09	1.52%	3.26%	16.23%	3.26%	31.56%	18.60%	18.48%	22.63%
	Riverbridge Partners - Net		1.30%	3.03%	15.47%	3.03%	30.41%	17.53%	17.42%	21.56%
	Lee Munder Capital Group - Gross***	$13,209,243.52	4.62%	8.92%	22.60%	8.92%	37.51%	16.46%	-	-
	Lee Munder Capital Group - Net***		4.40%	8.69%	21.80%	8.69%	36.31%	15.41%	-	-
	Stephens Investment Management Group - Gross	$15,451,543.99	2.73%	3.10%	19.33%	3.10%	33.73%	19.56%	18.25%	23.44%
	Stephens Investment Management Group - Net		2.51%	2.88%	18.55%	2.88%	32.55%	18.48%	17.19%	22.36%
	CastleArk Management - Gross***	$10,462,763.05	5.55%	8.57%	13.68%	8.57%	28.60%	16.81%	-	-
	CastleArk Management - Net***		5.32%	8.34%	12.94%	8.34%	27.47%	15.76%	-	-
	EAM Investors - Gross ****	$7,525,953.10	4.78%	6.30%	17.64%	6.30%	33.60%	-	-	-
	EAM Investors - Net****		4.56%	6.07%	16.86%	6.07%	32.42%	-	-	-

**Fiscal year-end: June 30.*
***Portfolio inception date: December 22, 2008.*
****Manager funded on March 8, 2010.*
*****Manager funded on April 6, 2011.*

Investment Performance (Estimated as of 11/30/2012)

For first two months of the fourth quarter, the Portfolio (gross-of-fees) outperformed its benchmark by 0.19%. Since inception, the Portfolio (gross-of-fees) has outperformed its benchmark by 1.70% on an annualized basis.



	1-Month	QTD	YTD	FYTD*	1-Year	2-Year Annualized	3-Year Annualized	Since Inception Annualized**
StanCERA - Gross	0.99%	-2.17%	15.45%	3.32%	15.16%	10.60%	15.55%	19.63%
Russell 2000® Growth Index	0.77%	-2.36%	11.38%	2.36%	11.13%	7.87%	14.86%	17.93%

**Fiscal year-end: June 30. **Portfolio inception date: December 22, 2008.*
Past performance is no guarantee of future results. Gross-of-fees returns are presented gross of advisory and custodial fees, but net of trading expenses and non-reclaimable withholding taxes. Performance results reflect the reinvestment of dividends and other earnings.

Total Portfolio & Manager Investment Performance (Estimated)

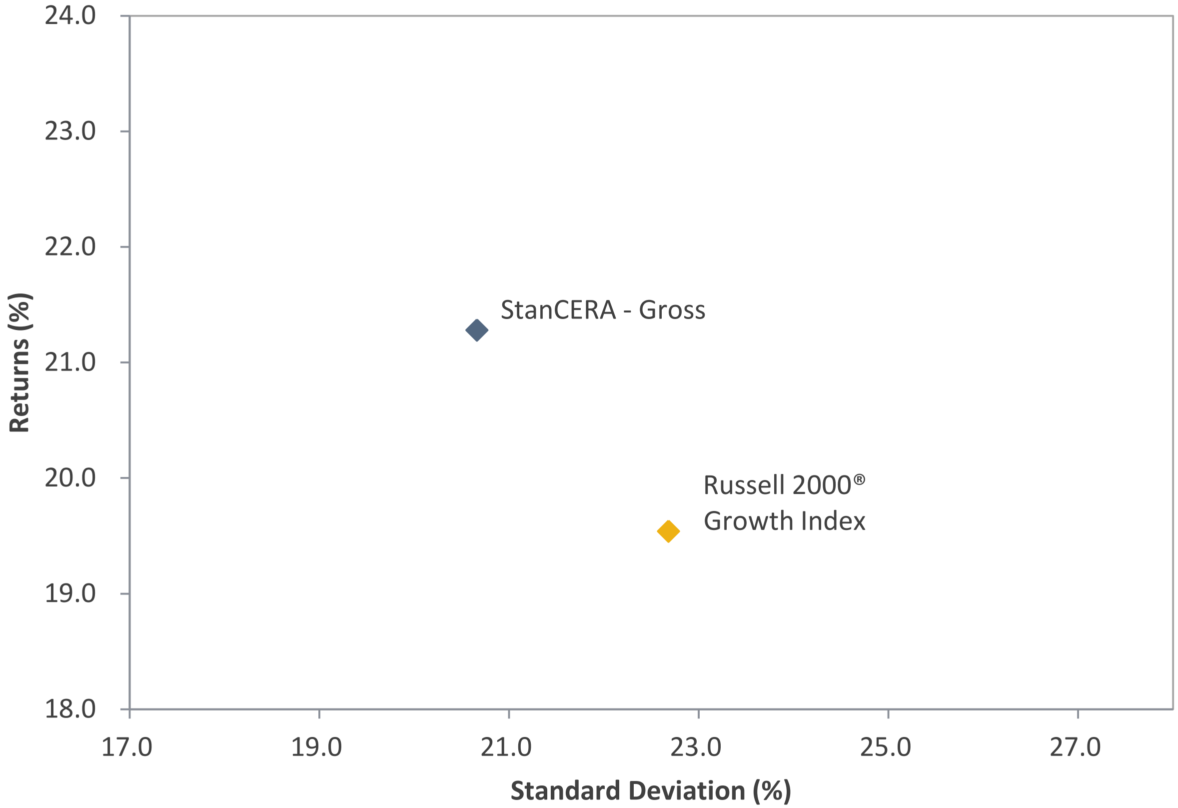
As of November 30, 2012

		Market Value	1-Month	QTD	YTD	FYTD*	1-Year	2-Year Annualized	3-Year Annualized	Since Inception Annualized**
Portfolio:	Small Cap Growth - Gross	$ 61,150,191.46	**0.99%**	**-2.17%**	**15.45%**	**3.32%**	**15.16%**	**10.60%**	**15.55%**	**19.63%**
Benchmark:	*Russell 2000® Growth Index*		*0.77%*	*-2.36%*	*11.38%*	*2.36%*	*11.13%*	*7.87%*	*14.86%*	*17.93%*
	Excess Return - Gross:		**0.22%**	**0.19%**	**4.07%**	**0.96%**	**4.03%**	**2.73%**	**0.69%**	**1.70%**
Managers:	Riverbridge Partners	$ 14,902,529.92	2.37%	-0.72%	15.40%	2.52%	16.57%	14.07%	18.38%	21.36%
	Lee Munder Capital Group***	$ 13,028,813.84	2.61%	-1.37%	20.92%	7.44%	21.35%	9.71%	-	-
	Stephens Investment Management Group	$ 14,400,525.33	-0.34%	-4.08%	14.47%	-1.10%	12.47%	12.24%	17.66%	21.06%
	CastleArk Management***	$ 10,152,248.95	-0.53%	-2.97%	10.31%	5.35%	10.28%	9.46%	-	-
	EAM Investors ****	$ 8,666,073.42	0.32%	-1.66%	15.68%	4.54%	14.32%	-	-	-

Fiscal year-end: June 30.
**Portfolio inception date: December 22, 2008.*
***Manager funded on March 8, 2010.*
****Manager funded on April 6, 2011.*

Statistics Relative to Russell 2000® Growth Index Since Inception of Portfolio*

As of September 30, 2012



	Returns (%)	Standard Deviation (%)	Information Ratio	Sharpe Ratio	Excess Return (%)	Beta	Correlation	Tracking Error (%)	Up Market Capture (%)	Down Market Capture (%)
StanCERA - Gross	21.28	20.66	1.07	1.02	1.74	0.90	0.99	3.52	92.23	91.77
Russell 2000® Growth Index	19.54	22.68	0.00	0.86	0.00	1.00	1.00	0.00	100.00	100.00

**Portfolio inception date: December 22, 2008.*

Quarterly Attribution Analysis
As of September 30, 2012

Top Contributors/Detractors to Performance:

Sector Selection		Stock Selection	
Positive	**Negative**	**Positive**	**Negative**
Consumer Staples	Materials & Processing	Technology	Materials & Processing
Utilities	Cash	Producer Durables	

	PORTFOLIO			RUSSELL 2000® GROWTH INDEX			ATTRIBUTION EFFECT		
Sector	Average Weight	Return	Contribution	Average Weight	Return	Contribution	Sector Allocation	Stock Selection	Total
Total Portfolio	**100.00**	**5.71**	**5.71**	**100.00**	**4.83**	**4.83**	**-0.48**	**1.36**	**0.87**
Consumer Discretionary	14.31	7.80	1.11	17.87	6.17	1.12	-0.04	0.21	0.17
Consumer Staples	3.48	5.42	0.21	4.33	1.21	0.05	0.03	0.16	0.19
Energy	4.52	11.89	0.49	6.03	8.77	0.51	-0.08	0.14	0.06
Financial Services	8.98	6.97	0.61	8.91	5.31	0.48	-0.01	0.16	0.15
Health Care	21.93	3.97	0.80	21.90	3.82	0.77	-0.01	0.00	0.00
Materials & Processing	3.29	8.16	0.23	7.46	8.64	0.62	-0.16	-0.02	-0.17
Producer Durables	16.65	4.29	0.73	14.64	2.69	0.39	-0.04	0.27	0.23
Technology	21.83	5.45	1.26	17.50	3.67	0.71	-0.03	0.37	0.34
Utilities	1.52	17.59	0.26	1.37	13.38	0.17	0.01	0.06	0.07
Cash	3.49	0.02	0.00	0.00	0.00	0.00	-0.15	0.00	-0.15

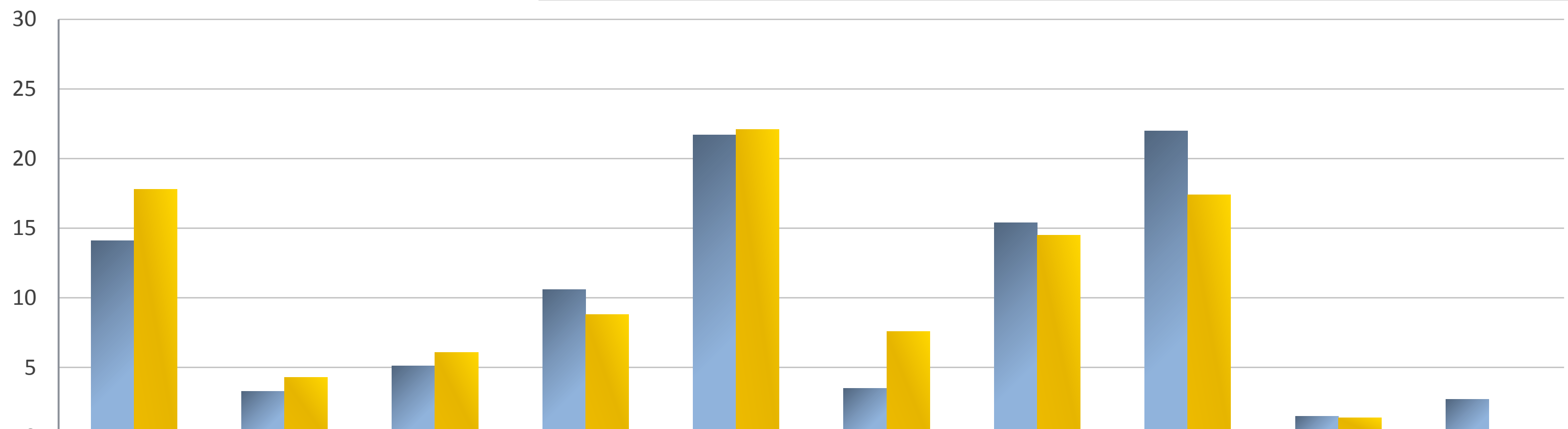
Source: FactSet. FactSet analysis includes cash & equivalents. FactSet returns may differ due to various factors, such as the way FactSet treats large portfolio flows and corporate actions. Numbers may not add up due to rounding.

Top Ten Holdings & Sector Allocation

- The majority of the top holdings contributed positively to relative performance

- The portfolio is overweight in financial services, producer durables, and technology, and underweight in consumer discretionary, consumer staples, energy and materials & processing.

Security	Sector	Weight in Portfolio (%)	Weight in Index (%)	Contribution to Relative Performance (%)
iShares Russell 2000 Growth Index	Financial Services	2.06	0.00	0.00
Ultimate Software Group Inc.	Technology	1.54	0.46	0.10
United Natural Foods Inc.	Consumer Staples	1.21	0.48	0.01
Portfolio Recovery Associates Inc.	Financial Services	1.17	0.30	0.07
LKQ Corp	Consumer Discretionary	1.06	0.00	0.08
Health Management Associates	Health Care	1.05	0.00	0.02
Semtech Corp.	Technology	1.04	0.28	-0.01
Kenexa Corp.	Technology	0.99	0.21	0.41
CoStar Group Inc.	Producer Durables	0.97	0.39	-0.03
Geo Group Inc.	Producer Durables	0.97	0.00	0.17
	Total:	**12.06%**	**2.11%**	**0.82%**



	Consumer Discretionary	Consumer Staples	Energy	Financial Services	Health Care	Materials & Processing	Producer Durables	Technology	Utilities	Cash & Equivalents
StanCERA	14.1	3.3	5.1	10.6	21.7	3.5	15.4	22.0	1.5	2.7
Russell 2000® Growth Index	17.8	4.3	6.1	8.8	22.1	7.6	14.5	17.4	1.4	0.0

Source: FactSet. Analysis includes cash & cash equivalents. Sector characterizations based on Russell classifications. Numbers may not add up due to rounding.

Top Portfolio Characteristics

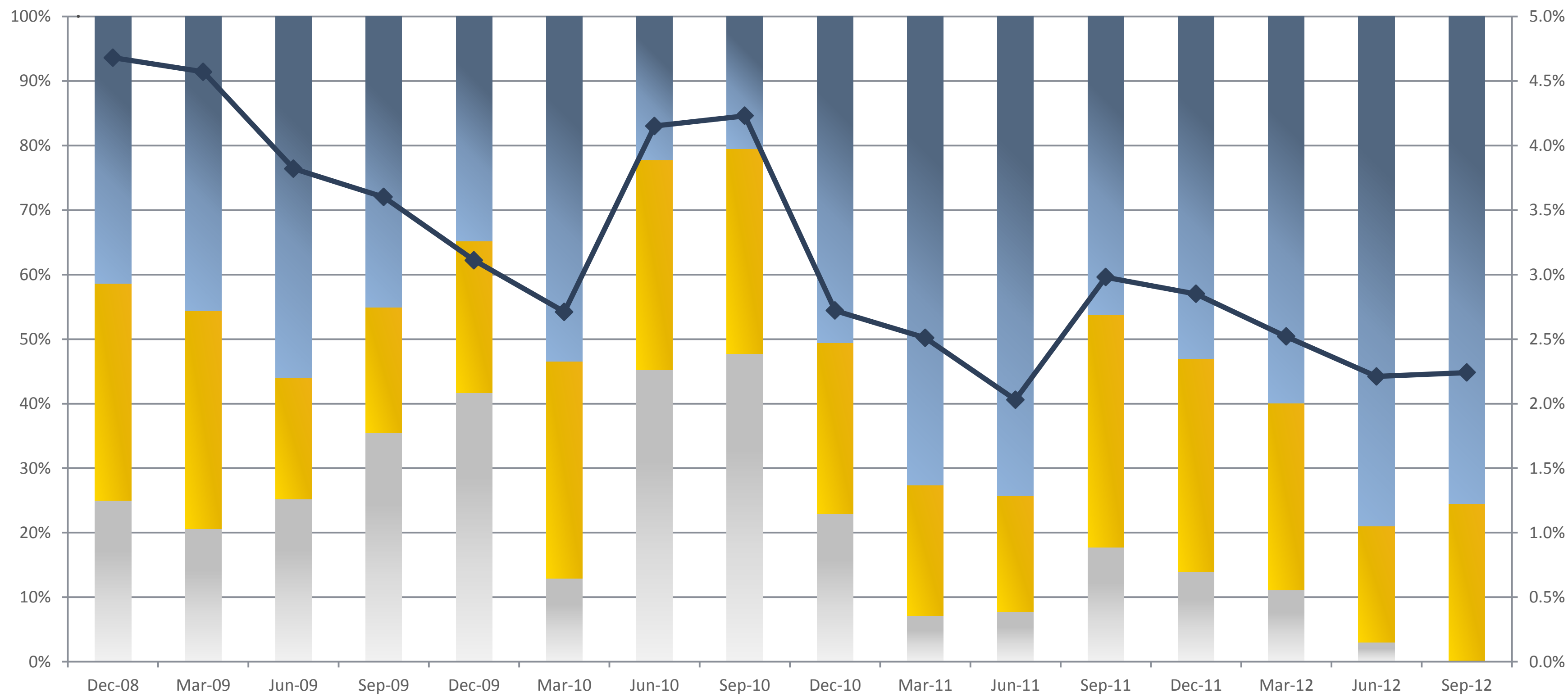
- The portfolio is broadly diversified with over 400 securities
- The weighted average and median market cap are higher than the benchmark's
- Valuation: Price/Book is lower, and forward Price/Earnings higher
- Growth: Long Term EPS Growth is higher
- Quality as measured by Return On Equity is slightly higher and as measured by Total Debt/Equity is slightly lower

Characteristic	Portfolio	Russell 2000® Growth Index
Number of Securities	433	1,112
Cash (%)	2.7	-
Weighted Average Market Cap (mm)	$1,723	$1,458
Median Market Cap (mm)	$1,035	$605
Dividend Yield	0.43	0.84
Price to Book	2.80	3.21
Price to Earnings	22.26	15.67
Price to Earnings using FY1 Est	20.66	17.78
EPS Growth (Historical 5 Year)	11.02	10.16
EPS Growth (Est. LTG)	18.43	18.22
PEG Ratio (Forecast 12-Month)	1.19	1.00
Price to Sales	1.26	1.23
Price to CF	9.78	10.19
ROE	10.49	10.38
Total Debt to Equity	0.24	0.21
Axioma- Predicted Beta	0.97	1.00
Predicted Tracking Error (Std Dev)	2.24	--

Source: FactSet/Axioma/Advent.

Risk Attribution

The chart below reflects the tracking error attributable to stock specific, industry and style risk factors. For the quarter ended September 30, 2012, tracking error was 2.24%.



	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
Stock Specific	41%	46%	56%	45%	35%	53%	22%	21%	51%	73%	74%	46%	53%	60%	79%	76%
Industry	34%	34%	19%	19%	23%	34%	33%	32%	26%	20%	18%	36%	33%	29%	18%	24%
Style	25%	21%	25%	36%	42%	13%	45%	48%	23%	7%	8%	18%	14%	11%	3%	0%
Predicted Tracking Error	4.68%	4.57%	3.82%	3.60%	3.11%	2.71%	4.15%	4.23%	2.72%	2.51%	2.03%	2.98%	2.85%	2.52%	2.21%	2.24%

Source: FactSet/Axioma.

Risk Factor Analysis

As of September 30, 2012

For the quarter ended September 30, 2012, tracking error was 2.24%.

Summary	Portfolio Exposure	Benchmark Exposure	Active Exposure	Factor Contribution to Total Active Risk (%)
Style	**0.04**	**-0.45**	**0.49**	**0.11**
Exchange Rate Sensitivity	-0.15	0.00	-0.15	-0.86
Short-Term Momentum	0.22	0.10	0.12	2.34
Medium-Term Momentum	0.43	0.33	0.10	0.63
Value	-0.36	-0.45	0.10	-0.21
Leverage	-0.27	-0.35	0.08	-0.22
Volatility	0.50	0.49	0.01	-0.37
Size	-0.64	-0.71	0.07	0.71
Liquidity	-0.09	-0.12	0.03	-0.18
Market Sensitivity	0.33	0.27	0.06	-1.88
Growth	0.06	-0.02	0.08	0.15
Industry	**0.95**	**1.00**	**-0.05**	**24.37**
Stock Specific				**75.52**
TOTAL				**100.00**

Source: FactSet/Axioma. Numbers may not add up due to rounding.

Section II.

Team and Organization

Organization

Legato Board of Managers

Victor L. Hymes
CEO & Chief Investment Officer

Patti G. Challis
AVP-Executive Assistant to the CEO/CIO

Lusine Moshkounian
SVP-Legal Counsel and Chief Compliance Officer

Investment Management, Research & Operations

Portfolio Strategy and Implementation

Adam S. Lawlor, CFA
SVP-Team Leader

Douglas W. Porter, CFA, CAIA, FRM
Senior Vice President

Eric H. Tsang
Vice President

Manager Research and Due Diligence

Douglas W. Porter, CFA, CAIA, FRM
SVP-Team Leader

Adam S. Lawlor, CFA
Senior Vice President

Eric H. Tsang
Vice President

Timothy M. Byrd
Vice President

Evan L. Walker
Assistant Vice President

Manager Operational and Compliance Due Diligence

Eric C. Pollack, CPA
SVP-Team Leader

Timothy M. Byrd
Vice President

Evan L. Walker
Assistant Vice President

Finance & Administration

Finance and Administration

Eric C. Pollack, CPA
SVP-Controller

Aaron F. Paule
Assistant Vice President

Jemaneh B. Hailu
Associate

Jennifer L. Byrne
Associate

Danielle R. Freitas
Associate

Compliance
Focus 1 Associates

GIPS Verification
Ashland Partners

Information Technology
TekLeap

Operations
Empaxis

Tax/ Audit
Deloitte & Touche

Legal
Pillsbury Winthrop Shaw Pittman LLP

Human Resources
Melita Group

Firm Overview

Investment Team Professionals

Victor L. Hymes
CEO & Chief Investment Officer

Oberlin College, BM
Stanford University, MBA

Years with the Firm: 8
Years of Experience: 29

Adam S. Lawlor, CFA
Senior Vice President

University of Connecticut, BS

Years with the Firm: 8
Years of Experience: 20

Client Portfolio

Eric C. Pollack, CPA
Senior Vice President

Hofstra University, BBA
Pace University, MBA

Years with the Firm: 1
Years of Experience: 19

Douglas W. Porter, CFA, CAIA, FRM
Senior Vice President

University of Puget Sound, BA

Years with the Firm: 2
Years of Experience: 11

Firm Overview

Conviction Ranking Process

PORTFOLIO STRATEGY AND IMPLEMENTATION

Client Portfolio Guidelines and Restrictions

Trading

Incentive Structure

Proxy Voting and Best Execution

Portfolio Rebalancing

Construction

Transition Management

Performance Measurement and Monitoring

MANAGER RESEARCH AND DUE DILIGENCE

Quantitative Analysis

Qualitative Analysis

Risk Management

Governance

Initial Manager Funding

Stress Testing

Quarterly Investment Review

Background checks

Focus List

Manager Operational and Compliance Due Diligence

Operations and Business Risk
Quarterly Compliance Review

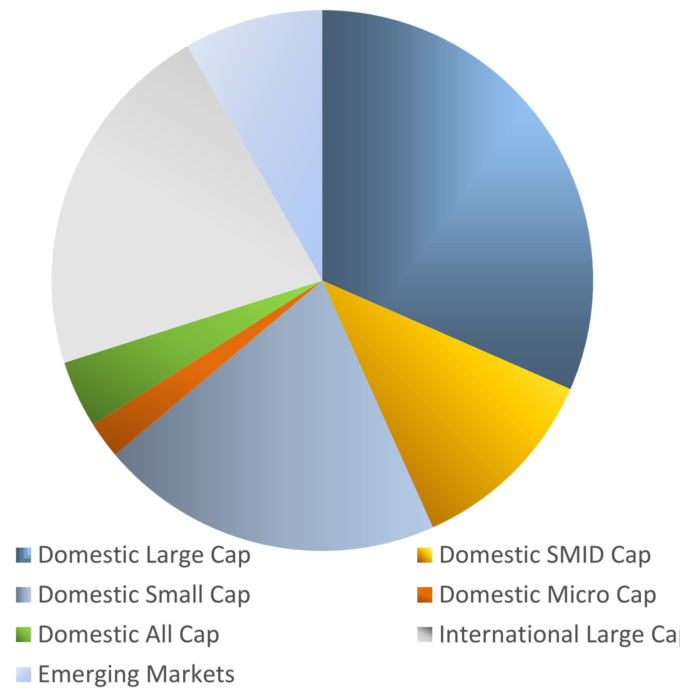
Firm Overview

Assets Under Management (AUM) by Strategy

As of September 30, 2012

Asset Class	Assets	% of AUM
Domestic Large Cap	$533 million	32%
Domestic SMID Cap	$198 million	12%
Domestic Small Cap	$347 million	21%
Domestic Micro Cap	$37 million	2%
Domestic All Cap	$68 million	4%
International Large Cap	$365 million	21%
Emerging Markets	$140 million	8%
TOTAL AUM	**$1,688 million**	**100%**

$1,688 million in Institutional AUM



***Strategies**: S&P 1500®, Russell 1000®, Russell 2500™, Russell 2000®, Russell 2000® Growth, Russell Microcap®.*

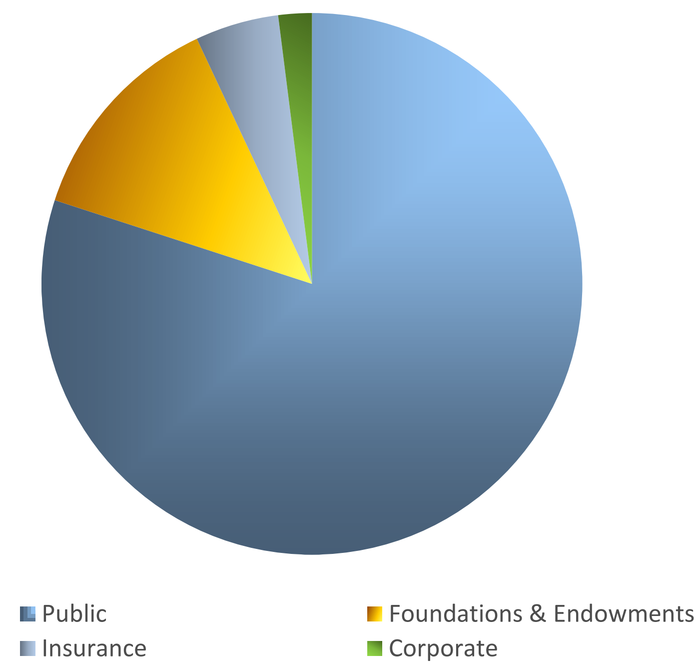
Firm Overview

Assets Under Management (AUM) by Client Type

As of September 30, 2012

Client Type	Assets	% of AUM
Public	$1,345 million	80%
Corporate	$36 million	2%
Foundations & Endowments	$228 million	13%
Insurance	$79 million	5%
TOTAL AUM	**$1,688 million**	**100%**

$1,688 million in Institutional AUM



Firm Overview

Client List as of September 30, 2012

Institutional Focus

- Kaiser Foundation Hospitals
- CalPERS
- San Joaquin County Employees' Retirement Association
- Stanislaus County Employees' Retirement Association
- San Diego County Employees Retirement Association
- Employees Retirement System of Texas
- Pacific Gas and Electric Company
- New York State Insurance Fund

It is not known whether the listed clients approve or disapprove of Legato Capital Management or the advisory service provided. This client list is provided for informational purposes only and does not constitute an endorsement or testimonial by the listed clients.

Section III.

Investment Process

Investment Process

Our Philosophy

We believe the greatest stability of alpha can be achieved by combining high conviction managers whose approaches are diversified

Our Mission

Engage the finest entrepreneurial talent and leverage their collective skill for the purpose of enhancing institutional investment performance

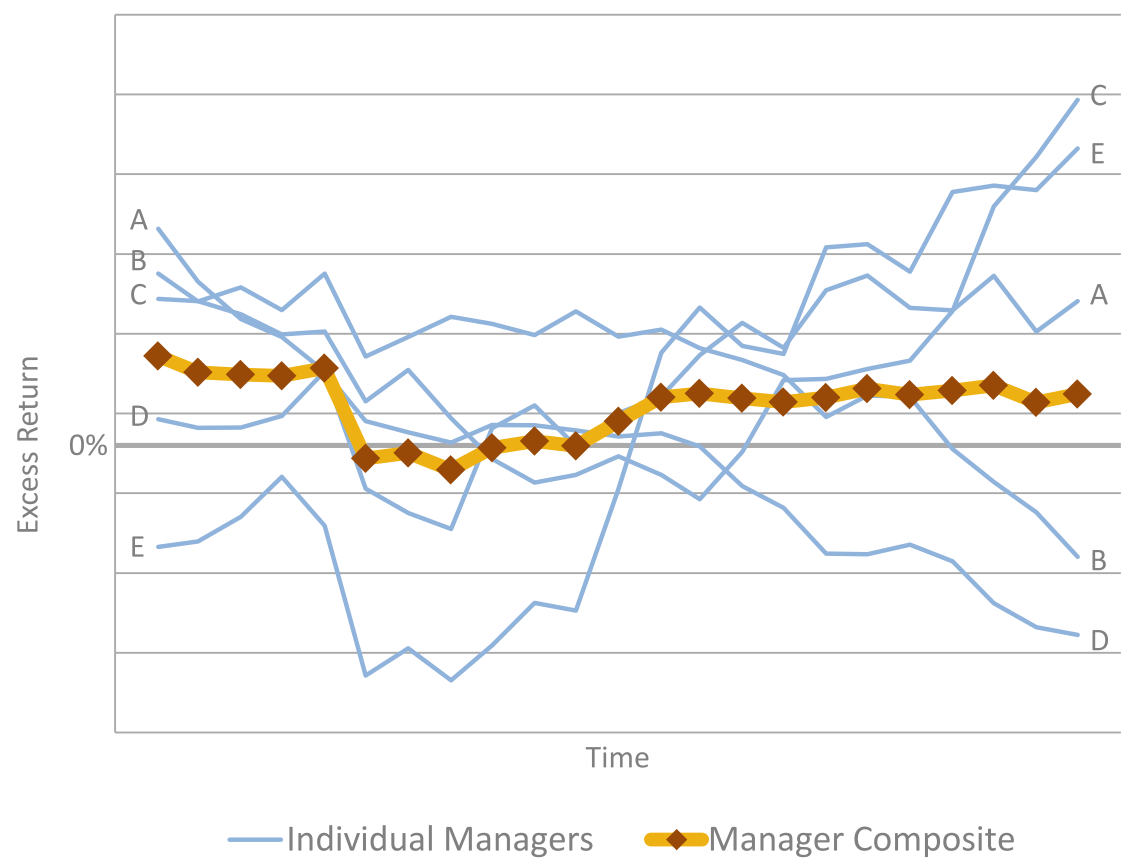
Long-Term Objective

Production of competitive, risk-adjusted returns while providing industry-leading client service

Diversified Sources of Excess Return

- Improved prospects for stable alpha generation through the ***Diversification of Sources of Excess Return***

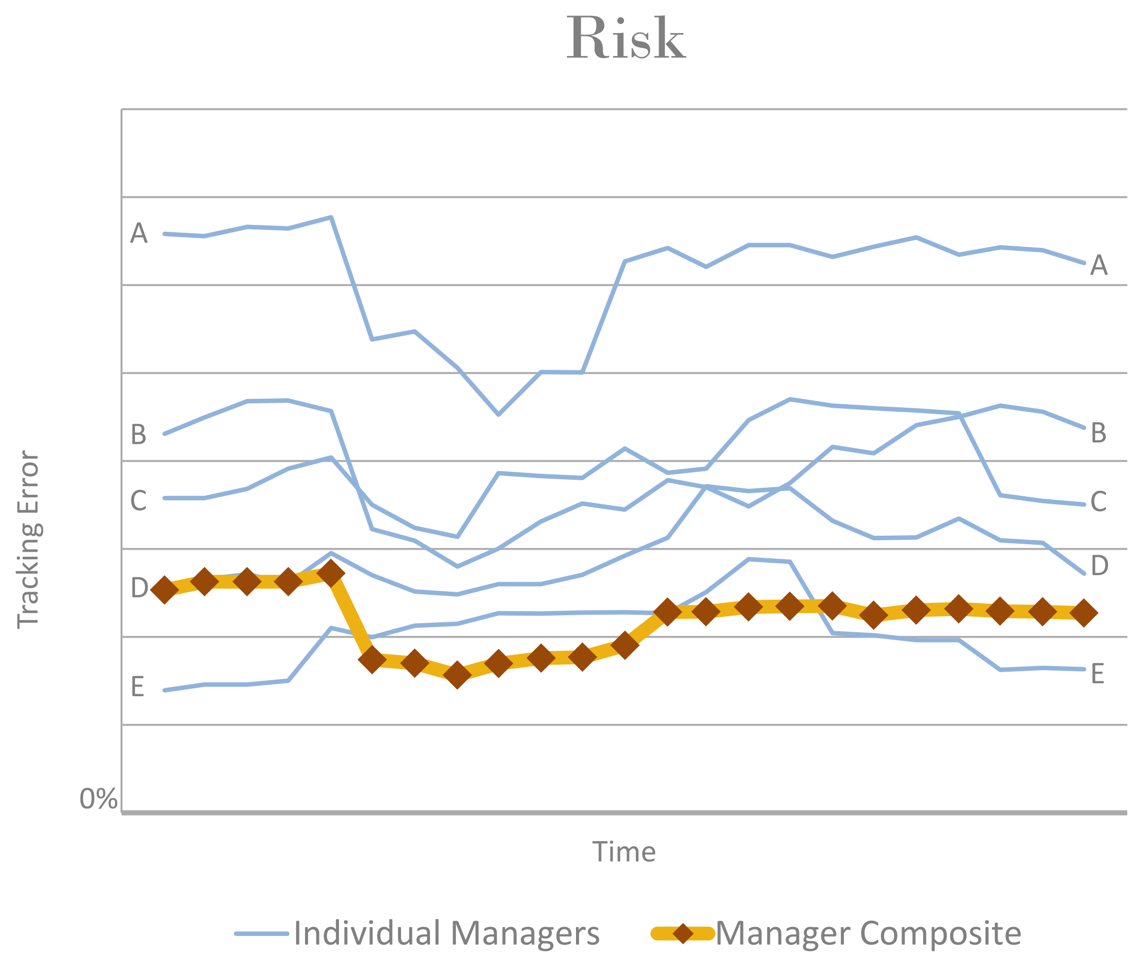
Alpha



Rolling twelve-month periods. Shown for informational purposes only.

Reduction of Manager-Specific Risk

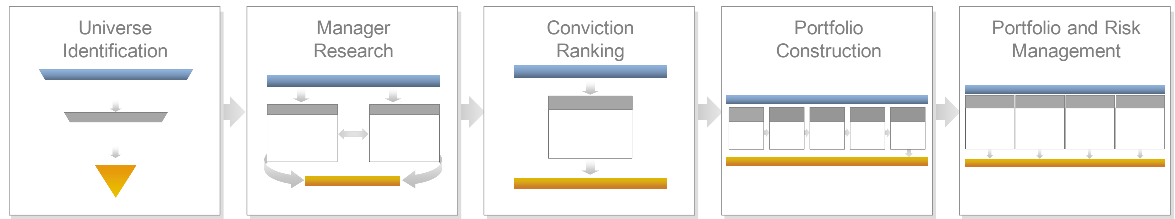
- ***Reduction of Manager-Specific Risk*** and overall portfolio risk as measured by tracking error



Rolling twelve-month periods. Shown for informational purposes only.

Investment Process

Determine an appropriate manager mix that captures each client's unique risk and return requirements



Our manager research process identifies entrepreneurial managers with the greatest potential to deliver the highest risk adjusted returns over the intermediate and long term periods

A portfolio of the highest conviction managers is then constructed to meet each client's unique objectives

Investment Process

Universe Identification

Through our experience and strategic partnerships, we command the attention of the highest quality entrepreneurial managers

Manager Universes

Augment internal database of investment managers with third party databases

Entrepreneurial Investment Managers

Identify entrepreneurial manager universe of firms, ranging in size from newly-created to established

Focus Universe

Apply asset class and style constraints to create focus universe

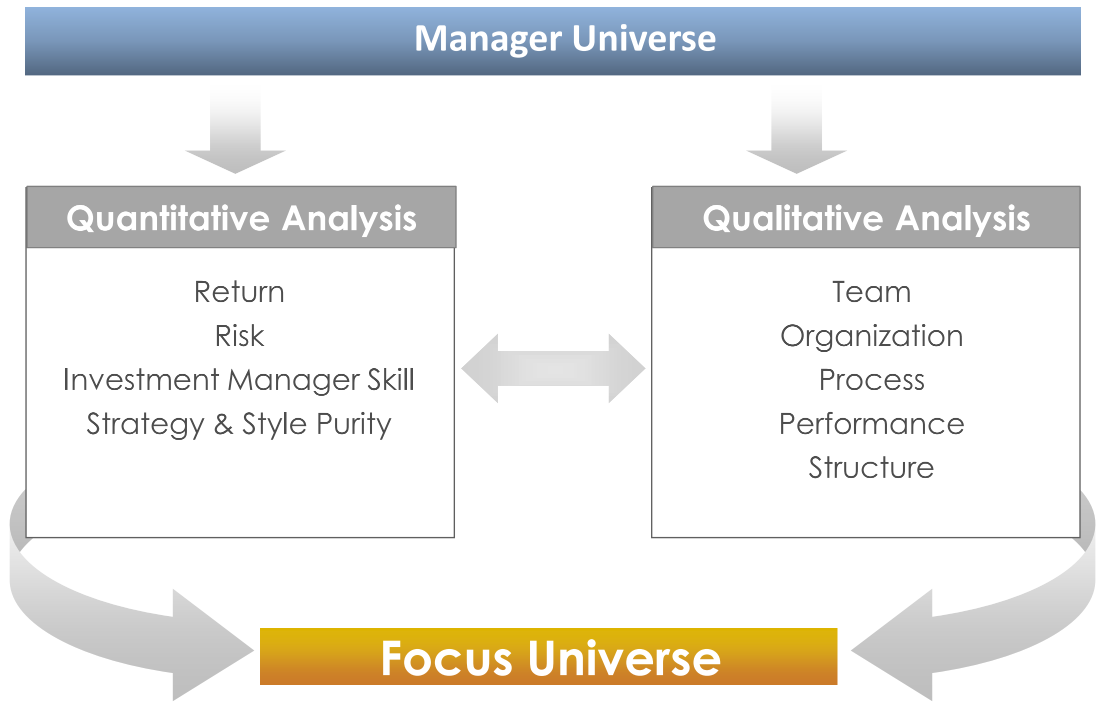
Investment Process

Manager Research

Insights drawn from quantitative and qualitative analyses lead to deeper questions

We look for:

- *A disciplined and repeatable investment process*
- *An organizational structure that supports the investment process*
- *A talented and dedicated team*
- *An entrepreneurial culture*
- *An ability and willingness to take calculated risks*



Investment Process

Conviction Ranking

We assign each manager a Conviction Ranking. Our conclusions are not the result of a simple averaging scheme, but are based on our overall assessment of an organization's most powerful drivers.

Investment Process

Portfolio Construction Process

Portfolio Construction

Customization	Manager Selection	Multi–Scenario Portfolio Testing	Portfolio Selection	Portfolio Risk Management
Build a Portfolio that fits Client Mandate and Requirements	Identify Set of Complementary Managers	Create Multiple Portfolios that Meet Prescribed Guidelines	Examine Range of Risks and Expected Returns	Confirm Current and On-Going Fit to Client Objectives

Customized Multi-Manager Portfolio

The portfolio construction process is designed to integrate manager selection, asset allocation and risk management to deliver customized multi-manager portfolios

Investment Process

Portfolio & Risk Management

On-going Portfolio and Risk Management

On-going Due Diligence	Risk Management	Rebalancing Procedures	Sell Discipline
• Portfolio Monitoring • Manager Meetings • Revision of Conviction Rankings • Performance and Risk Attribution • Formal Quarterly Reviews	• Changes in Organization and Financial Stability • Changes in Process and Execution • Asset Growth Characteristics • Style and Sector Exposures • Tracking Error and Overall Risk Exposures	• Changes in Conviction Ranking • Target Allocation Drift • Diversification and Risk Controls	• Inconsistent Implementation of the Investment Process • Fundamental Changes in Ownership or Investment Team Personnel • Unexplained Style Drift • Capacity Constraints at the Individual Manager Level • Consistent Under-performance

Multi-Manager Portfolio

Capital Prospects LLC

Stanislaus County Employees' Retirement Association

Small Cap Value Emerging Manager Program Review

December 12, 2012

Marilyn R. Freeman

Elizabeth A. Knope

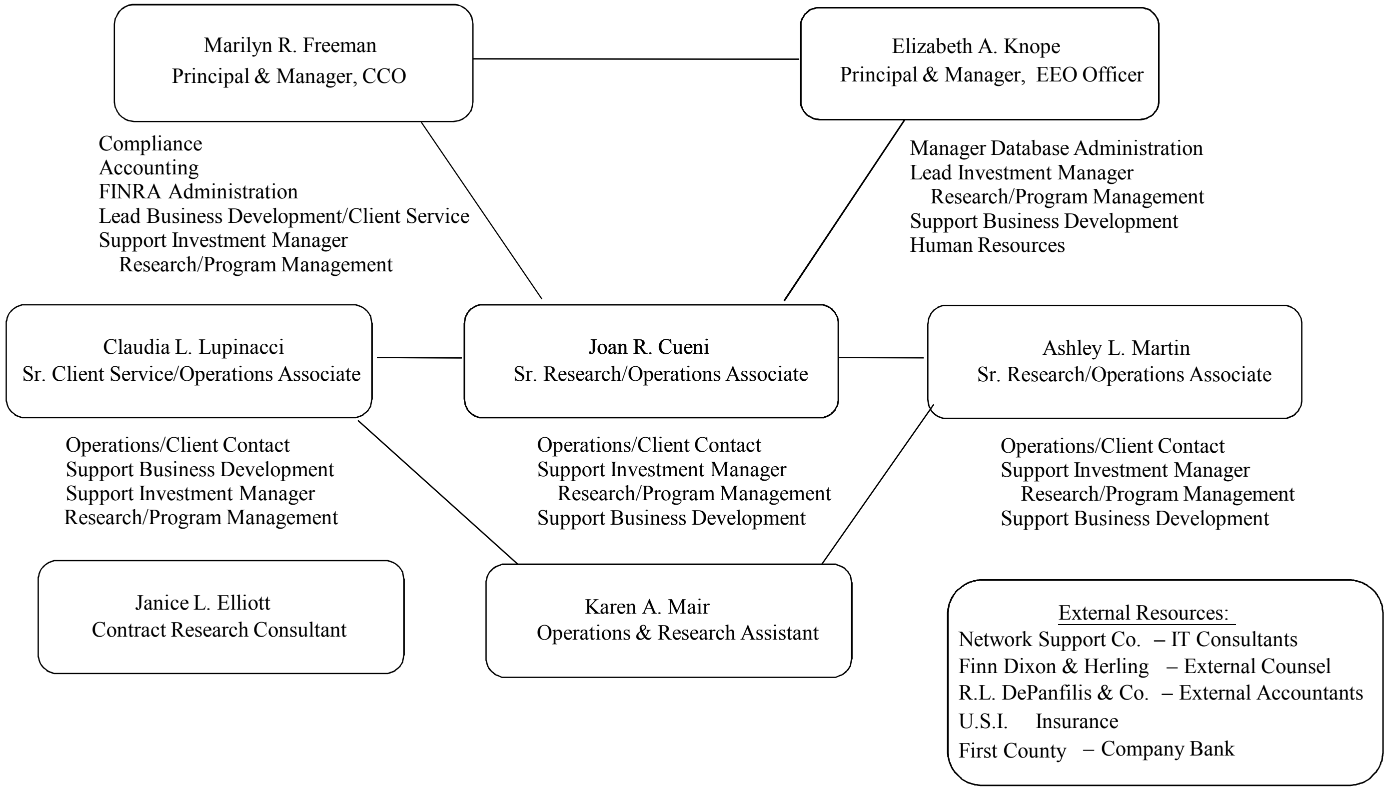
CAPITAL PROSPECTS LLC

Capital Prospects LLC

- Formed October, 2002
- SEC Registered Investment Adviser
- 100% women-owned and controlled; Principals each own 50%
- Focus on emerging manager-of-managers investment programs
  - Area of specialty for both partners since 1992
  - Built emerging business to approximately $2.0 billion and 8 key clients at previous employer
- CP specializes in domestic emerging managers and minority/woman-owned managers
- AUM as of October 31, 2012 *(preliminary)*: $1,092 million; 8 client relationships

– Russell 3000	$ 332 million, 4 accounts
– Russell 2000 Value	$ 124 million, 2 accounts
– Russell 2000	$ 220 million, 4 accounts
– Russell 3000/Barclays Capital	$ 416 million, 1 account

Capital Prospects LLC - Organizational Chart



Name	Title/Role	Year Joined Firm	Years Investment Experience	Education/Certifications
Marilyn R. Freeman	Principal & Manager, CCO	2001	30+	BA, MBA
Elizabeth A. Knope	Principal & Manager, EEO	2002	34+	BA, MBA, CFA
Joan R. Cueni	Sr. Research/Operations Associate	2004	10+	BS
Claudia L. Lupinacci	Sr. Client Service/Operations Associate	2006	10+	BA
Ashley L. Martin	Sr. Research/Operations Associate	2008	6+	BBA
Karen A. Mair	Operations & Research Assistant	2012	16+	BA, MA
Janice L. Elliott	Contract Consultant	2005	20+	BS

Capital Prospects LLC

Marilyn R. Freeman
* Principal and Manager, **Capital Prospects LLC**
* EVP & Director of Client Service, **Northern Trust Global Advisors, Inc.** and predecessor firm **RCB International, Inc.**
* Partner and Managing Director, **Rogers, Casey & Barksdale, Inc.**
* Member of The Greenwich Roundtable

30+ years investment experience
B.A. State University of NY at Stony Brook
M.B.A. University of Connecticut

Elizabeth A. Knope, CFA
* Principal and Manager, **Capital Prospects LLC**
* EVP & Director of U.S. Investment Research, **Northern Trust Global Advisors, Inc.** and predecessor firm **RCB International, Inc.**
* Partner and Managing Director, **Rogers, Casey & Barksdale, Inc.**
* Manager, Pension Fund Planning & Analysis, **AT&T** and **New England Telephone**
* Investment Analyst, **The Boston Company, Inc.**

34+ years investment experience
B.A. Skidmore College
M.B.A. Boston University

Joan R. Cueni
* Research/Operations Associate, **Capital Prospects LLC**
* Research Assistant, **HEI Hospitality**
* Jr. Analyst, **Northern Trust Global Advisors, Inc.**

10+ years investment experience
B.S. Iona College

Claudia L. Lupinacci
* Client Service/Operations Associate, **Capital Prospects LLC**
* Sr. Analyst, Client Services Team Leader, **Northern Trust Global Advisors, Inc.**
* Staff Accountant, **J.S. Karlton Company, Inc.**

10+ years investment experience
B.A. Pace University

Ashley L. Hobson
* Sr. Research/Operations Associate, **Capital Prospects LLC**
* Director Accounting, Reporting, Legal & Compliance, **Parenteau Associates LLC**
* Assistant, VP of Finance & Administration office, Western CT State University

6 years investment experience
B.B.A. Western Connecticut State University

Karen A. Mair
* Operation & Research Assistant, **Capital Prospects LLC**
* Director, Private Banking & Investments Group, **Merrill Lynch & Co.**
* Senior Risk Manager, **Engelhard Corporation**
* Senior Financial Analyst, **Federal Reserve Bank of NY**

16+ years investment experience
B.A. Trinity College
M.A. Harvard University

Janice L. Elliott
* Contract Consultant, Research, **Capital Prospects LLC**
* Vice President, Sr. Investment Analyst, **Northern Trust Global Advisors, Inc.**
* Manager**, KPMG LLP**
* Senior International Research Analyst**, Evaluation Associates**

20+ years investment experience
B.S. Sacred Heart University

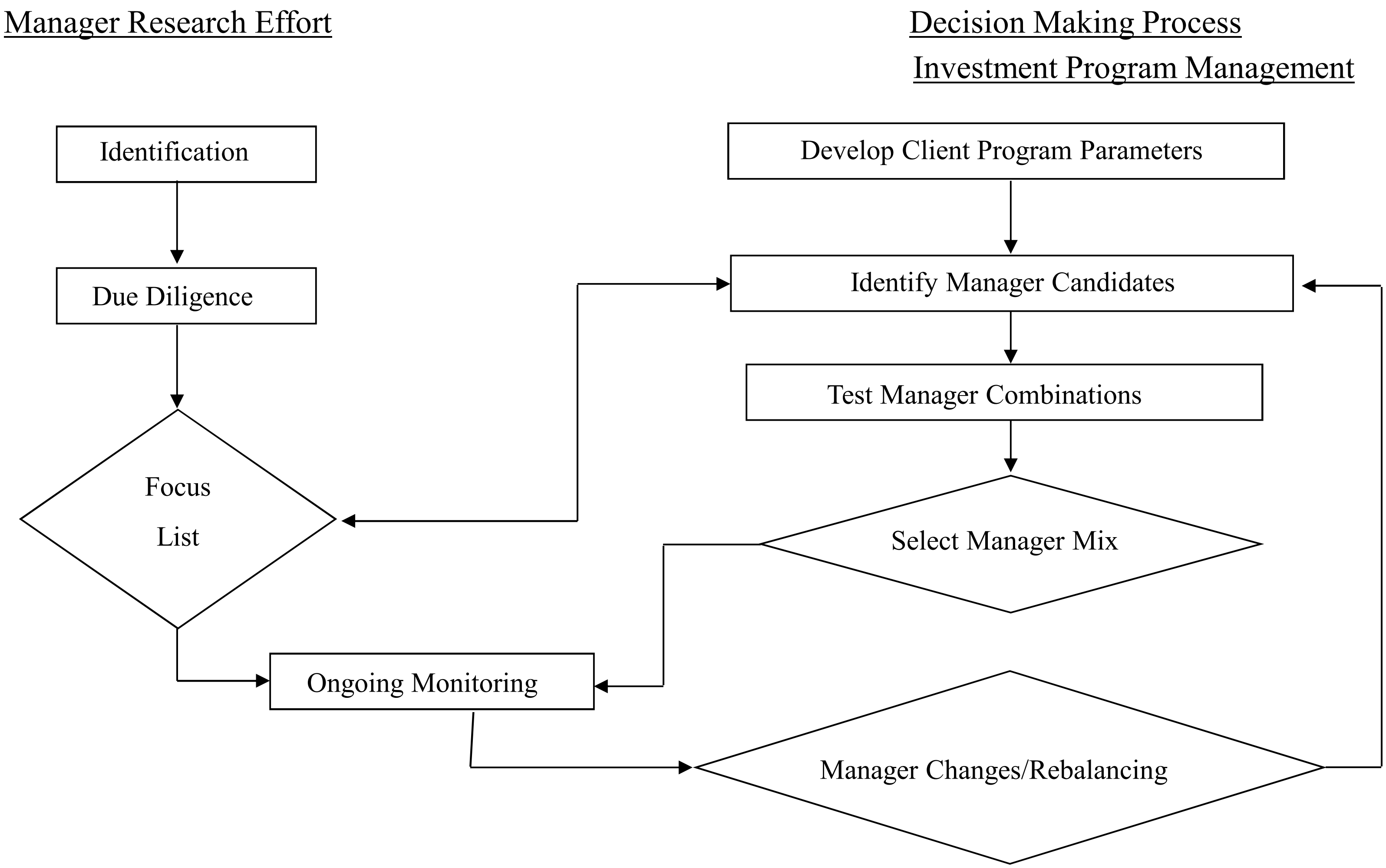
Research Universe

- Specialized focus on domestic emerging and minority/woman-owned managers
- "Focus List" of generally 180 firms includes those subject to more extensive research/monitoring and those currently funded; secondary list of firms (currently numbers 130) are either very early on in the research process or those still monitored but of less interest
- Since beginning coverage of managers in these universes in the early 1990's, we have screened over 2,000 firms, evaluated over 1,500 firms and funded over 75 managers

Investment Strategy and Objectives

- Primary investment program goal is to add value over the chosen benchmark within acceptable risk parameters
  - Benchmark, risk tolerances and return expectations determined in conjunction with client
- Manager research focuses on identifying investment managers able to develop unique insights/strategies, who have solid implementation processes that prospectively give them a performance advantage
- Investment program construction keys off the profile and dynamics of the benchmark. We engineer the manager mix so that the overall program will be:
  - Tailored to risk specifications
  - Well-diversified
  - Benchmark “style” neutral
- At every step, judgments are developed based upon an assessment of both qualitative and quantitative factors
- Value added results in part from our construction decisions but is primarily expected to come from the active decisions of the individual managers in terms of:
  - Security selection
  - Sector/industry bets
  - Investment/economic themes

Investment Process



CAPITAL PROSPECTS LLC

Investment Process

Ongoing Manager Research and Evaluation

- Identify managers of interest
  - Managers contacting us
  - Our networking
  - Conferences
  - Trade press articles
  - Database analysis
- Review background material
  - Firm profile/history
  - People
  - Investment philosophy and process
  - Performance
- Interviews with key professionals
  - Including on-site meetings
- Quantitative assessment
  - Portfolio characteristics
  - Performance history
- Reference checks

→ Research Focus List

Manager Evaluation

<u>Qualitative Factors</u>

- Organization
  - History/development of firm, business profile, financial resources, growth plans
  - Investment professionals' backgrounds/experience, commitment
  - Strength of support structure and operational/administrative controls
  - Any regulatory issues
- Investment philosophy and process
  - Thoroughness and depth
  - Caliber of research effort and adequacy of resources
  - Flexibility of thought process
  - Effectiveness of implementation – buy and sell disciplines, trading
  - Consistency of characteristics with style
  - Potential to add value / "uniqueness" versus peers

<u>Quantitative Factors</u>

- Portfolio characteristics and risk factor exposures
  - Consistency over time and with style
- Risk profile
  - Diversification characteristics, volatility measures, tracking error
- Historical performance comparisons
  - Versus benchmark, peers, style and in different market environments
- Value added expectations

Investment Process

Investment Program Management

- Define parameters of client program
  - Investment objectives
  - Manager qualifications
  - Benchmark
  - Risk and return expectations
- Develop manager candidate list (from Research Focus List)
- Program construction
  - Test manager combinations for optimal mix versus benchmark
    - Diversification
    - Risk profile
    - Value added potential
- Ongoing monitoring
  - Results versus selection criteria
  - Performance analysis and attribution
- Program rebalancing; manager changes/graduation
  - Rebalance to original style, capitalization and specific manager allocations periodically
  - Terminations typically result from adverse firm developments, inconsistent strategy, excessive asset growth, undesirable volatility or persistent underperformance
  - Graduation policy set in conjunction with the client - in our view, these may be case-by-case decisions driven by expected value-added potential

Resource Commitment

- Continued due diligence on vendors of analytical systems to support our manager research, investment program management and client service requirements

- Currently have agreements in place with:

– eVestment Alliance	Manager database:	Manager profiles, performance, returns-based analytics, peer group comparisons
– Thomson Reuters Vestek/TPA	Fundamental analytics:	Risk model, portfolio analytics, holdings-based performance attribution, market data and analysis, broad market and custom benchmarks, fixed income analytics
– Strategic Investment Solutions Pertrac	Returns-based analytics:	Performance and risk analytics, optimizer
– Russell RIO	Index Data:	Russell Index constituent data and analytics

- We are committed to acquiring additional tools, as we identify them, that we believe will enhance our ability to deliver a consistently superior investment product

Asset Allocation

- Funding date: 1/1/09
- Funding amount: $49.1 million
- 2010 Scheduled Cash Flow: ($300k) monthly
- Cash Flow 5/3/10: ($7.5 million)
- 2011 Scheduled Cash Flow through 7/15/11: ($250k) monthly
- Cash Flow 6/3/11: ($10 million)
- Current value 10/31/2012: $68.3 million

	Total Assets	% of Fund
Bernzott	$9,540	14.0 %
Channing	15,873	23.2
InView	14,898	21.8
Keeley	8,836	12.9
Ten	9,257	13.6
Walthausen	9,869	14.5
Total Fund	**$68,273**	**100.0 %**

Stanislaus County Employees' Retirement Association

Equity Investment Characteristics – 9/30/2012

Manager	% Total	# Holdings	Wtd. Avg. Mkt. Cap ($B)	Forecast P/E	Price/Book	Forecast Growth (%)	Yield (%)
Bernzott	13.9 %	27	$3.4	13.8 x	3.0 x	12.4 %	1.5 %
Channing	23.1	40	1.6	14.4	2.3	14.3	1.3
InView	22.0	57	2.1	12.5	1.8	12.8	2.1
Keeley	13.0	64	2.4	14.6	2.8	16.4	1.3
Ten	13.7	126	1.4	11.3	2.0	8.2	1.9
Walthausen	14.4	78	1.2	12.1	2.2	12.1	1.0
Total Equity Portfolio	**100.0 %**	**339**	**$2.0**	**13.1 x**	**2.3 x**	**12.9 %**	**1.5 %**
Russell 2000 Value		**1,422**	**$1.1**	**15.6 x**	**1.5 x**	**11.5 %**	**2.1 %**

- All managers employ varying degrees of quantitative, fundamental and technical analysis: objective is to achieve a balanced mix
- "Core" position (60%) combines Ten's quantitative, sector-neutral relative value approach with Channing's and InView's intrinsic value focus on currently undervalued, high quality companies with improving outlooks
- Remaining 40% more "eclectic"
  - – Bernzott: Long term support from dividend/earnings growth plus critical assessment of management
  - – Keeley: Corporate restructurings (especially spin-offs)
  - – Walthausen: Cash flow generation; value creation strategies
- Resulting portfolio:
  - – Well-diversified
  - – Higher ROE than benchmark (13.8% vs. 6.6%)
  - – PEG ratio (on forecast growth and P/E) at a 25% discount to the benchmark
  - – Moderate risk level (forecast tracking error of 3.55)

Stanislaus County Employees' Retirement Association

Sector Allocation – 9/30/2012

	Bernzott	Channing	InView	Keeley	Ten	Walthausen	Total Equity	Russell 2000 Value
Energy	5.9 %	4.8 %	4.4 %	7.3 %	6.5 %	7.2 %	5.8 %	6.5 %
Materials	6.9	6.5	5.9	9.0	5.2	12.7	7.5	5.5
Industrials	18.5	21.3	18.6	25.6	10.2	22.8	19.6	12.9
Consumer Discretionary	31.0	19.6	16.9	15.9	14.7	11.4	18.1	11.6
Consumer Staples	4.5	2.4	4.6	4.1	2.2	0.2	3.0	2.6
Healthcare	9.7	8.4	6.0	3.4	10.1	3.5	6.9	4.9
Financials	3.6	23.2	25.5	24.3	34.4	24.5	23.0	36.4
Information Technology	20.0	10.9	11.4	6.2	12.9	17.6	12.8	12.2
Telecommunication Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6
Utilities	0.0	2.9	6.7	4.2	3.8	0.0	3.2	6.9

Stanislaus County Employees' Retirement Association

Top Ten Holdings – 9/30/12

Bernzott	%
Dresser-Rand Group Inc	5.92
Teleflex Inc	5.75
International Game Tec	5.55
Jack Henry	4.75
Cintas Corp	4.75
Broadridge	4.74
Synopsys, Inc	4.73
Energizer	4.45
Mobile Mini, Inc	4.43
NEWELL	4.24
Total	49.32

Channing	%
Hanesbrands Inc	3.60
ANN Inc	3.51
First American	3.36
The Brink's Co	3.32
Cytec Industries Inc	3.25
Polyone Corporation	3.22
A. O. Smith Corp	3.21
The Warnaco Group, Inc	3.20
Meredith	3.11
Allete, Inc	2.90
Total	32.69

InView	%
Ares Cap Corp	3.00
Par Pharma	2.82
Crown Holdings, Inc	2.80
Magnachip Semiconducto	2.79
ASBURY	2.63
CMS Energy Corp	2.52
Regal Beloit Corp	2.51
Tech Data Corp	2.49
APOLLO	2.45
Deluxe Corporation	2.42
Total	26.41

Keeley	%
Hanesbrands Inc	2.50
Wabtec Corporation	2.44
Wright Express Corp	2.28
Capitol Fed	2.21
Flowers Foods, Inc	2.16
Chemtura Corp	2.15
PENSKE	2.15
Broadridge	2.13
Avis Budget Group, Inc	2.12
Vail Resorts Inc	2.09
Total	22.23

Ten	%
Domino's Pizza, Inc	2.37
Multimedia Game	2.35
SVB Finl Group	2.22
Cno Financial	2.11
Medidata	2.10
Five Star Q	1.80
K&S	1.78
Dillard's, Inc	1.72
Boise Inc	1.69
Alamo Group Inc	1.64
Total	19.77

Walthausen	%
Ocwen Financial Corp	3.39
Vishay Intertechnology	2.63
Primerica, Inc	2.46
WALTER	2.39
Altisource Portfolio S	2.35
Standex	2.33
Cooper Tire	2.31
Power-One, Inc	2.10
LPS	2.08
The Shaw Group Inc	2.07
Total	24.11

Top Ten Holdings – 9/30/12 (continued)

Total Composite	%
Regal Beloit Corp	1.35
The Brink's Co	1.26
Hanesbrands Inc	1.18
Polyone Corporation	1.15
Gulfport Energy Corp	1.14
Meredith	1.13
Belden Inc	1.13
Littelfuse, Inc	1.09
First American	1.04
A. O. Smith Corp	1.02
Total	11.51

Stanislaus County Employees' Retirement Association

Comparative Investment Performance – Periods through October 2012 (preliminary returns)

Subadvisers	Total Assets October 31, 2012 ($000)	% of Fund	YTD	2011	2010	2009	1 Year Ending Oct-12	2 Years Ending Oct-12	3 Years Ending Oct-12	Since* Inception Oct-12
Bernzott	$9,540	14.0 %	10.43 %	10.33 %	21.12 %	41.41 %	13.28 %	14.07 %	15.21 %	21.16 %
Channing	15,873	23.2	14.98	-5.93	33.00	23.47	15.53	9.98	15.52	16.17
Inview	14,898	21.8	16.65	-8.13	17.48	41.27	17.36	8.15	11.80	16.21
Keeley	8,836	12.9	16.56	-4.99	21.53	18.72	15.48	12.14	14.06	13.01
Ten	9,257	13.6	21.80	-3.74	31.03	19.49	22.94	14.42	19.12	17.17
Walthausen	9,869	14.5	26.28	-3.99	43.57	37.96	24.15	17.46	25.84	25.68
Fund Composite	**$68,273**	**100.0 %**	**17.28 %**	**-4.03 %**	**28.02 %**	**30.04 %**	**17.74 %**	**11.81 %**	**16.35 %**	**17.80 %**
Net of Fees			**16.57**	**-4.71**	**27.08**	**29.10**	**16.88**	**11.01**	**15.51**	**16.95**
Russell 2000 Value			*12.93*	*-5.50*	*24.50*	*20.58*	*14.47*	*8.87*	*13.83*	*13.09*

- *Fund Performance Inception Date: January 2, 2009. Returns for periods greater than one year are annualized.*
- *All subadviser returns are gross of fees.*
- *The portfolio Custodian bank is Bank of New York Mellon. We recommend comparing our report with the account statement you receive from the underlying Custodian to verify the accuracy of our statement.*

- The investment program began during the tail end of the severe contraction covering late 2007 through early 2009 that accompanied the financial crisis and economic recession. The market turned sharply upward starting in March 2009 but was dominated for the next year by lower price, lower quality stocks at the expense of more fundamentally strong companies. The market since then, while positive on balance, see-sawed between optimism and pessimism driven by views on the sustainability of the U.S. economic recovery, uncertainty relative to the government's fiscal direction, slowing growth in emerging markets (particularly China) and insolvency issues in the Eurozone, with investors exhibiting a commensurately variable appetite for risk taking ("risk-on/risk-off") as opinions shifted.

- Over the 46 months since inception, the Fund outperformed the benchmark by 470 basis points annualized, with value added in each calendar year and year-to-date 2012. Through 2010, outperformance was driven about equally by stock selection and sector positioning – since 2011 stock selection has been a greater source and on balance for the entire time value added came 70% from stock selection and 30% from sector positioning. Notable sources of value added included strong relative performance in industrials, technology, healthcare, energy and consumer staples; underweighting financials (especially banks), and overweighting materials and consumer discretionary (specialty retailing; consumer services).

- Risk model factor positioning was a negative over the full period due on balance to tilts away from higher book to price, higher dividend yield and (relative to the benchmark) higher market capitalization. Tilts toward higher long term growth, higher earnings revision and lower momentum were positives.

- With the exception of Keeley, whose investment performance was impacted by a lower level of market activity in their area of focus (corporate reorganizations) tied to the economic contraction, all of the managers have outperformed the benchmark since inception. Keeley's performance has improved considerably as the economy gained strength, now matching the benchmark since inception, and the outlook for their strategy is favorable. Ten remains on Watch List status due to continuing business development challenges.

Key market dynamics:

YTD to October 2012

- Investors exhibited considerable optimism in the early part of the year, as visible (though still minor) improvement in the economy was evident. As spring advanced, however, the Eurozone debt crisis and slowing economies in other regions re-ignited investors' fears, prompting the market to retreat in April-May but then recover in a "see-saw" (risk-on/risk-off) fashion. Through October, the Russell 3000 returned 14.1%. Within the Russell indices, large cap stocks led (+14-15%), while mid cap (+13%) and small cap (+12%) trailed. Value outperformed growth across the capitalization spectrum.. The Russell 2000 Value returned 12.9%.
- Outperforming sectors in small cap value were consumer discretionary, financials and materials. Healthcare was about in line with the index. Energy and technology, both with negative returns, were weakest.
- Higher book to price, market cap, long term growth and earnings revision were the more rewarded factor exposures. Higher beta was the weakest factor.

2011

- Despite ongoing economic concerns and various global "shocks," upward biased market momentum continued into April until investors expressed renewed concern over the sustainability of the economic recovery. Things worsened over the summer months as concerns in particular over sovereign debt issues in the Eurozone mounted. Macro issues became predominant and investors moved between "risk- on" and "risk-off" postures (mostly "risk-off") during a period of increased volatility. Correlations were high, with the market showing little discrimination in individual stock performance relative to fundamentals.
- The year ended largely where it began, with the Russell 3000 returning 1.0%. Larger cap "safe" stocks were the winners, with the Russell Top 200 up 2.8%. In contrast, the Russell 2000 fell -4.2% for the year. Growth generally outperformed value. The Russell 2000 Value returned -5.5%.
- Utilities was the strongest small cap value sector, returning 17%. Other outperforming sectors were healthcare, consumer staples and financials. The weakest sectors were energy and telecommunications (both at -14%), followed by technology, consumer discretionary, materials and industrials.
- Higher dividend yield, momentum and earnings revision were the factors most rewarded for the year; higher book to price and historical beta were most penalized.

Fund Results:

YTD to Oct 2012 *17.3% vs. 12.9% for the benchmark*

- Outperformance came from stock selection, led by strong relative results in industrials, technology, consumer discretionary, materials and healthcare.
- Sector positioning detracted from comparisons due to underweighting financials and overweighting energy (slightly) and technology. Overweighting consumer discretionary was a positive.
- Risk factor exposures were negative on balance due mainly to a tilt away from higher book to price. A tilt toward higher market cap (relative to the benchmark) was a notable positive.

2011 *-4.0% vs. -5.5% for the benchmark*

- Outperformance was all due to stock selection, with the strongest relative performance in consumer discretionary, technology, energy, consumer staples and industrials. Sector positioning was negative on balance, due mainly to underweighting utilities and overweighting industrials.
- Factor positioning was a positive as a result of tilts toward lower book to price, higher earnings revisions and the higher end of the market cap spectrum within small cap value, offsetting the negative impact of a tilt away from higher dividend yield.

Note: All returns are gross of fees.

Stanislaus County Employees' Retirement Association – *Performance Overview*

Key market dynamics:

2010

- Stock market rally that started in March 2009 continued into April 2010, and despite some perceived broadening was still dominated by low quality; from spring on, the market "see-sawed" reflecting alternating moods of investor pessimism and optimism regarding the economic recovery and longer term growth prospects. While interrupted at times by a preference for lower quality issues, a more sustainable environment where underlying fundamentals and valuations are more rationally linked (which favors stock picking) was taking hold by year-end.
- Mid and small cap stocks rose 26%-27%, handily leading the market; mega cap rose 13% and large cap was up about 16%. Russell 2000 Value returned 24.5%.
- Within small cap value, outperforming sectors were materials, industrials, consumer discretionary energy and technology.
- Factors rewarded most notably were higher dividend yield, higher beta and higher longer term growth.

2009

- Equity market rally off 3/9/09 low resulted in a 28.3% full year gain for the Russell 3000 while the Russell 2000 Value advanced 20.6%.
- Performance dominated by low price, lower quality stocks at the expense of more fundamentally strong companies virtually throughout the last three quarters.
- Mid cap stocks were strongest (+41%), followed by large cap (+28%) and small cap (+27%) – mega cap stocks advanced the least (+24%) for the year.
- Growth outpaced value across the capitalization spectrum.
- Materials, consumer discretionary, technology, energy and telecommunications were the leading sectors in the Russell 2000 Value, while financials (which declined), utilities, industrials and consumer staples underperformed.
- Factor returns rewarded for the year were higher book to price, higher forward e/p, higher long term expected growth, and in particular higher beta; those penalized were lower dividend yield, higher earnings revision yield, higher market cap and especially higher momentum.

Fund Results:

2010 *28.0% vs. 24.5% for the benchmark*

- About half of the value added came from sector positioning and was due to alignment with sectors of strength – i.e., overweighting industrials, materials and consumer discretionary and underweighting financials and utilities.
- Stock selection accounted for the other half of value added and was principally due to favorable relative performance in financials, materials, energy and healthcare.
- From a risk model standpoint, factor positioning was negative due mainly to tilts toward the higher end of the small cap stock segment and toward lower dividend yield and lower book to price.

2009 *30.0% vs. 20.6% for the benchmark*

- Underweighting (low exposure to banks) and stock selection in financials a significant positive.
- Other positives: overweighting materials (paper/packaging), consumer discretionary (apparel, leisure time), energy (services/equipment); underweighting utilities; stock selection in industrials, technology, healthcare, consumer staples.
- On balance, outperformance was 65% attributable to sector/industry positioning and 35% to stock selection.
- Tilt toward lower book to price and minimal exposure to micro cap were negatives and more than offset positives from higher forward earnings to price, less negative long term growth and historical beta exposure, and lower momentum.

Note: All returns are gross of fees.

Bernzott Capital Advisors

Kevin Bernzott
Style: Small Cap Value
Benchmark: Russell 2000 Value

Camarillo, CA
Majority-Owned
9/30/12 AUM:$375MM

Bernzott focuses on identifying stable, sustainable long term returns through extensive evaluation of value metrics and company management. Initially, screens are applied targeting companies with consecutive ten year periods of accelerating earnings and/or dividend growth. Additional ratios are applied to develop a select list of companies with attractive value characteristics. Key to the process is extensive discussion with top management, which enables Bernzott to determine their opinion as to the true worth of the underlying business. Buy prices are carefully determined to minimize downside risk.

Channing Capital Management

Eric T. McKissack, Wendell Mackey
Style: Small Cap Value
Benchmark: Russell 2000 Value

Chicago, IL
African-American
9/30/12 AUM:$934MM

Channing utilizes a fundamental, bottom up value approach that focuses on undervalued and neglected stocks (i.e., companies trading at a 40% or greater discount to their intrinsic value) that have improving returns and attractive growth opportunities. Screening disciplines focus on numerous variables, including cash flow multiples, earnings multiples, return on equity, return on capital and earnings growth rates. Companies of interest are high quality with strong management teams and have leading market positions or competitive advantages that will drive future earnings and cash flow growth but which are currently misunderstood and underfollowed by Wall Street. Extensive fundamental research conducted in-house is a hallmark of Channing's approach. Valuation disciplines focus on p/e and cash flow ratios and are examined relative to history, peers, growth rate, overall market and in light of the current stage in the business cycle.

<u>InView Investment Management</u>
Glen Kleczka
Style: Small Cap Value
Benchmark: Russell 2000 Value

Chicago, IL
Majority-Owned
9/30/12 AUM:$96MM

InView's investment process starts with the premise that equity prices systematically overreact to transitory psychology or events without regard to long term outlook or intrinsic value but do trend toward intrinsic value over time. Through quantitative screens they identify such companies displaying price/value disparities that are also good businesses with solid managements, favorable outlooks and improving financials. Fundamental research delves further into management's strength. Models are produced to develop InView's opinion as to intrinsic value and normalized earnings power, revealing the most attractive opportunities relative to current price.

<u>Keeley Asset Management</u>
John L. Keeley, Jr.
Style: Small Cap Value
Benchmark: Russell 2000 Value

Chicago, IL
Majority-Owned
9/30/12 AUM:$4,537MM

Investment strategy focuses primarily on companies involved in corporate restructurings (including spin-offs), as well as companies trading at or below perceived book value, companies emerging from bankruptcy and financial institution conversions. Stocks of companies in those categories traditionally have traded at discounts to inherent market value, and opportunities exist for a move to premium valuations as successful management of these typically focused businesses becomes evident in the marketplace. This is a heavily research-driven process, focusing on company-by-company analysis.

Ten Asset Management, Inc.

Jeffrey K. Kerrigan
Style: Small Cap Value
Benchmark: Russell 2000 Value

San Diego, CA
Majority-owned
9/30/12 AUM:$32MM

Ten's quantitative model focuses on stock selection. The underlying theory is that collective investor behavior produces market dynamics and quantifiable factors that are predictive of future returns. In their process, securities are evaluated in terms of fundamental, technical, market opinion and management behavior factors to arrive at an estimate of expected relative return. The process emphasizes understanding the economic basis as to why each factor should be predictive. Stock weightings are determined through optimization via their risk model. The modeling process is dynamic, with a significant ongoing research effort to determine the effectiveness of current factors and to identify potential additional factors.

Walthausen & Co. LLC

John B. Walthausen
Style: Small Cap Value
Benchmark: Russell 2000 Value

Clifton Park, NY
Majority-owned
9/30/12 AUM:$750MM

Walthausen's investment approach emphasizes neglected stocks and value on an individual basis relative to the full universe of small cap stocks. The process begins with a scoring process using 12 specific criteria grouped into value, insider sentiment, Street enthusiasm, financial strength and relative momentum categories. Top scoring stocks are subject to proprietary fundamental research that looks carefully at management's historical success in creating value for shareholders, in their ability to generate cash flow going forward and at their opportunities and strategies to enhance future value. Portfolio construction focuses on each holding's contribution to the overall risk profile.

Top

12/12/12
Item #8

Stanislaus County Employees Retirement Association

PRELIMINARY RESULTS: ACTUARIAL VALUATION AND EXPERIENCE STUDY AS OF JUNE 30TH, 2012

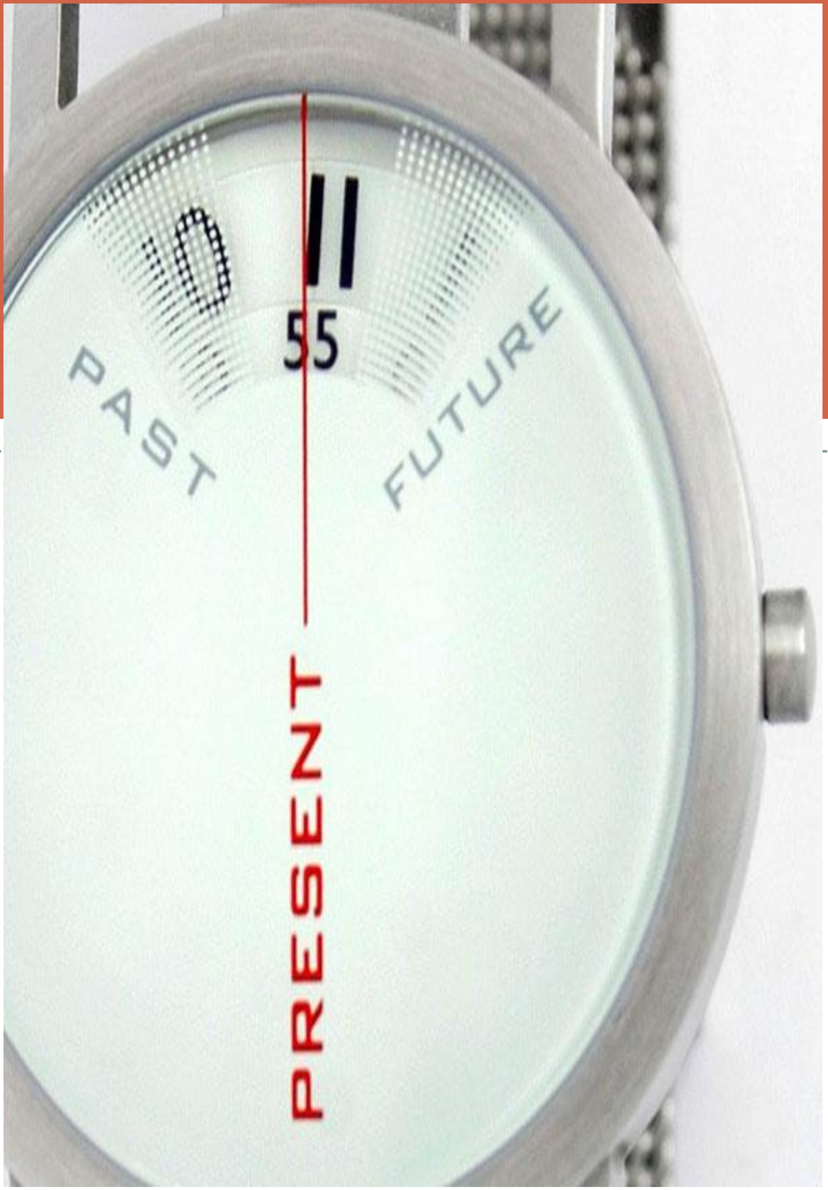
PRESENTED DECEMBER 12, 2012
GRAHAM SCHMIDT

EFI

Topics for Today

- Preliminary Valuation Results
  - Summary of Principal Results
  - Gains and Losses
- Preliminary Experience Study Recommendations
  - Economic Assumptions
  - Demographic Assumptions
  - Cost Method
- AB 340

Preliminary Valuation Results



- **Summary of Principal Results**
- **Gains and Losses**

Summary of Preliminary Valuation Results

($ millions)	6/30/2011 (Final)	6/30/2012 (Preliminary, Current Assumptions)
Discount Rate	8.00%	8.00%
Remaining Amortization Period	25	24
Actuarial Accrued Liability (AAL)	$ 1,757.7	$ 1,833.8
Valuation Assets (AVA)	1,372.0	1,451.8
Unfunded AAL	385.7	382.0
Funded Ratio (AVA)	78.1%	79.2%
Funded Ratio (MVA)	78.1%	74.4%
Employer Contribution Rate (% of Pay)	17.8%	18.0%

Gains / Losses: 2011 - 2012

	% of Pay	$ Millions	AVA Funded Ratio %
6/30/2011	17.83%	$ 39.5	78.1%
Demographics	+ 0.20%	- 0.4	+ 0.3%
New Entrants	+ 0.32%	+ 1.4	- 0.2%
Pay	- 0.55%	- 1.4	+ 0.7%
Amortization Payroll	+ 0.38%	0.0	0.0
Investment Experience	- 0.16%	- 0.4	+ 0.3%
6/30/2012	18.02%	$ 38.7	79.2%

Demographics, New Entrants

- Overall Impact: + 0.52% of pay, + $1.0 million
- Sources of Changes:
  - Population Changes - Retirements, terminations, disabilities, deaths, etc.
  - New Entrants - New members not included in prior valuation.

Salary Experience, Amortization Pay

- Salary increases less than expected
  - Reduced cost by 0.55%, or $1.4 million
- "Level Percentage of Pay" amortization method assumes pay will increase each year by base payroll growth assumption
  - Exception for current pay freeze, 0% growth assumed
  - If payroll grows by less than assumed rate, amortization payment will be larger as a percentage of payroll
  - Impact: + 0.38% of pay, no impact on dollar amount (impact minimized, since expected flat payroll from 2011-2012)

Investment / Asset Experience

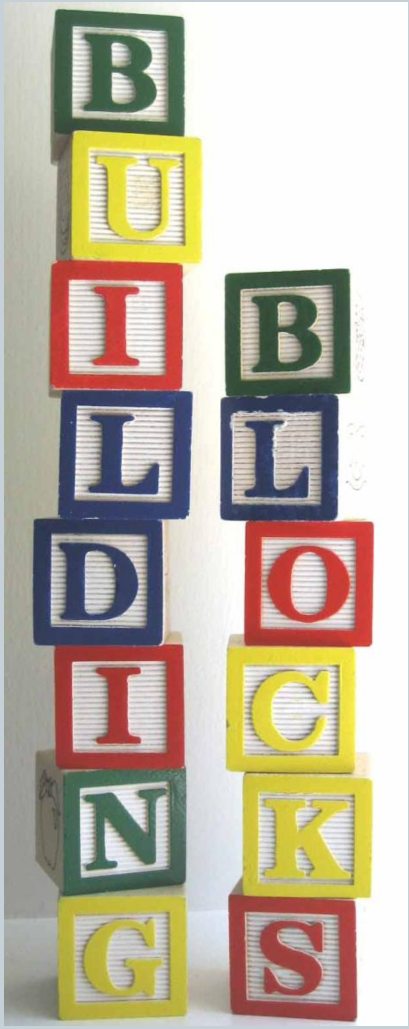
- Return on *market* value of assets (MVA): 0.1% for FY11-12 (net of investment and admin expenses)
- Return on *actuarial* (smoothed) value of assets (AVA): 6.4%
  - Based on deferral of 80% of current year losses (5 year smoothing)
  - AVA reset to MVA last year, so no deferred gains/losses from prior years
- Return on valuation assets (excluding Special Reserves and Contingency Reserve): 6.5%
  - 8.4% return, including transfer of assets from non-valuation reserves and reduction in Contingency Reserve
- Cost decreased by $0.4M, 0.16% of pay

Preliminary Experience Study

- Periodically review Plan experience and forward-looking assumptions
  - Goal is to have most accurate assumption so that gains/losses are minimized
  - Actual experience, rather than assumptions, will determine ultimate level of cost
  - Assumptions affect only the *timing* of contributions
- For economic assumptions, collect information from investment consultant and other sources
- For demographic assumptions, analyze experience from 2009-2012 (or over longer period where appropriate)

Economic Assumptions

- Building block approach
  - Inflation is the foundation for all economic assumptions
    - Expected Return (Nominal) = Inflation + Real Return
    - Base Wage growth = Inflation + Real Wage Growth
  - Assumptions must be reasonable individually AND in aggregate
  - Current Assumptions
    - Inflation: 3.50%
    - Expected Return: 8.00% nominal, 4.50% real
    - Wage growth: 3.75% = 3.5% inflation + 0.25% real wage growth
    - COLA growth: 2.70%, based on 3.5% inflation and 3.0% COLA cap (with banking)



Economic Assumptions

- Preliminary Proposed Assumptions (based on 11/7/2012 workshop)
  - Inflation: 3.25% (reduced by 0.25%)
  - Expected Return: 7.75% nominal, 4.50% real return
    - Reduced by 0.25% nominal, no change in real return
    - No longer net of administrative expenses
  - Wage growth: 3.50% = 3.25% inflation + 0.25% real wage growth
  - COLA growth: 2.70% (unchanged)
- Cost impact:
  - Reduction in inflation/nominal return/wage growth increases cost by 1.77% of pay, reduces funded ratio by 2.1%
  - Add $2.1 Million charge for expected administrative expenses to employer contribution, adds 0.98% of pay

Demographic Assumptions

- Recommend minor changes to safety retirement rates
  - Reduce rates from ages 55-57
  - Net decrease in cost of approximately 0.10% of pay
- Recommend minor changes to termination rates
  - Separate General rates for males/females, modify rates for first three years
  - Increased Safety rates for first three years
  - Net increase in cost of 0.07% of pay
- Recommend reductions in General duty disabilities
  - Reduce male rates by 1/3, females rates by 2/3
  - Reduce cost by 0.03% of pay
- Recommend terminal pay change for Safety
  - Increase from 1.0% to 2.5%, based on analysis of retirement data provided by StanCERA staff
  - Increase cost by 0.21% of pay

Demographic Assumptions

- No recommended changes to:
  - Mortality rates
    - Current rates show only small margin for conservatism
    - Recommend wait until next experience study, when new SOA tables should be available, to modify rates
  - General retirement rates
    - Actual versus expected close to 100%
  - Safety duty disability rate
    - Not as many as expected, but rates reduced last time, and not much experience
  - Non-duty disability rates
    - Experience close to expected over 6 year period for General members, very little experience for Safety
  - General terminal pay load
    - Current assumption of 3.5% very close to amount of terminal cashouts shown in data collected (3.6%)

Cost Method

- Recommend change in Actuarial Cost Method
  - Retain Entry Age Normal, but instead of calculating separate cost for each benefit (at each age & decrement), compute single normal cost % across all decrements/ages
    - Known as Entry-Age-to-Final-Decrement vs. Entry-Age-to-Decrement
  - Change from Aggregate to Individual Normal Cost calculation
  - Both acceptable cost methods, but Final-Decrement, with Individual Cost Calculation to be required in new GASB standards
  - Final-Decrement / Individual Cost Method recommended by Segal in actuarial audit
  - Increases contribution rate by approximately 2.1% of pay, but also increases funded status by 4.7% (more benefits allocated to future, rather than past service)

Impact on Cost

Item	Cost (% Pay)	Funded Ratio
Cost as of June 30, 2011	17.83%	78.1%
Demographic Gain / (Loss)	+ 0.35%	+ 0.8%
Asset Gain / (Loss)	- 0.16%	+0.3%
Preliminary Cost as of June 30, 2012	18.02%	79.2%
Recommended change in Economic Assumptions	+ 1.77%	- 2.1%
Recommended Admin Expense Assumption	+ 0.98%	0.0%
Recommended change in Demographic Rates (Retirement, Disability, Termination)	- 0.06%	0.0%
Recommended change in Terminal Pay Adjustment	+ 0.20%	- 0.2%
Proposed Assumption Cost as of June 30, 2012	20.91%	76.9%
Actuarial Cost Method Changes	+ 2.12%	+ 4.7%
Revised Cost as of June 30, 2012	23.03%	81.6%

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Top

For the Retirement Board meeting
Held on December 12, 2012

12/12/12
Item #9a

TO: Retirement Board

FROM: Rick Santos, Executive Director

I. SUBJECT: Discussion and action regarding new employer and employee contribution rates for the new Tier 6 (Public Employee Pension Reform Act)

II. RECOMMENDATION:

a. Approve flat member contribution rates for members hired after December 31, 2012
b. Accept the Actuary's recommended employer contribution rates based on funding to final decrement
c. Accept the Actuary's recommended member contribution rates based on funding to final decrement

III. ANALYSIS: On September 12, 2012 the Governor signed into law AB 340 which created different retirement formulas for new members hired on or after January 1, 2013. Since the retirement benefits that these plans offer are different than any of the existing plans currently administered by StanCERA, an actuarial valuation is required to determine both employer and employee contribution rates for the remainder of the 2012-2013 fiscal year. 2013-2014 rates for these tiers will be included in the 2012 actuarial valuation which will be presented to the Board in early 2013.

Average or Flat vs. Individual Entry Age Member Rates

Currently, all member contribution rates are based on the earliest age at which an employee begins work across all reciprocal service. In general, the earlier a member begins work, the lower the contribution rate. Since PEPRA legislation requires new member rates, many 1937 Act Systems are considering or have implemented a flat member contribution rate for members hired under the new formulas, regardless of entry age. A flat member rate means all members would pay the same weighted average rate.

As of last week, staff knows of only two 1937 Act Systems that are continuing with the individual entry age calculation for the new formulas. Additionally, the two largest Systems in California, CalPERS and CalSTRS have had flat member rates in place for a very long time.

We asked legal counsel from Reed Smith to answer the following questions:

1. Does AB 340 require flat rates?
No, it does not. However, most actuaries will tell you that it is far easier for them to calculate the 50/50 split of normal cost if we were to use single (flat) rates for all new PEPRA members, regardless of age.

2. If AB 340 does not require flat rates, are flat rates an option?
   In our view, they always have been an option under CERL; a number of CERL provisions specifically and generally give the Board (of Retirement) that choice. Up to now, most systems opted for age-based rates, as more equitable as between members.

3. If flat rates are an option, who decides?
   The Board (of Retirement) decides, just as it does for all actuarial methodologies. It's solely a Board (of retirement) decision

There are several reasons to consider flat rates:

1. *Ease of administration* – Operationally, a single rate is much easier to program and administer
2. *Flat rates are a common practice* – Nearly all public employees either already or will in the future pay flat rates
3. *Easier to apply the 50% cost share imposed by AB 340* – Since AB 340 requires 50% sharing of normal cost, flat rates are a natural way to determine this split and is much easier for the actuary to calculate and report out

There are also reasons to continue with age based rates:

1. *Equity* – With flat rates, employees beginning public sector work at earlier ages will be paying a greater share of the total employee cost than employees beginning work at later ages
2. *Impact on hiring* – It could be argued that flat rates may have an impact on hiring demographics

The primary existing authority for the Board to set flat member contribution rates is found in CERL Sections 31621.11 and 31639.26. There is also further support found in Sections 31622, 31453 and 31453.5 as well as Article XVI, Section 17 (e) of the California Constitution, which provides that the Board has the "sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the System".

Approval of Employer and Member Contribution Rates for 2012-2013 Fiscal Year

EFI Actuaries has put together Attachment 1 which explains in detail the assumptions and methodologies used to calculate rates for the new PEPRA Tiers.

At this time, our actuary is also recommending a change to the funding methodology for the new tiers. This move involves shifting to "funding to final decrement". A decrement is essentially an event that can occur such as a disability or retirement. Currently, our methodology ("funding to decrement") funds each decrement individually and when the decrement can no longer be paid, the method discontinues allocating money to that decrement. While this funding method is actuarially sound, new GASB rules require pension plans to report costs and liabilities using the final decrement approach. The recommendation today to move to this method is for the new tiers only. However, at some point, the Board will probably need to consider a shift for our current plans as well.

Below are cost matrices that display rates for our current tiers and compares them to the new Tier 6 rates. There are four rate "pools" administered by StanCERA that can be distinguished by the County/Former County or Ceres/Special Districts and whether the group is Safety or General. You will notice that the common unfunded liability is amortized over the entire payroll within each pool, regardless of the tier. As a result, even though the new tiers have no initial unfunded liability, their payroll will continue to be used to pay off the unfunded liability.

There are several factors that might explain the differences between the current rates and the new Tier 6 rates:

1. *Benefits* – Benefits are obviously lower under the new formulas

2. *Discount Rate* – The actuary incorporated the economic assumptions adopted during our last asset liability study for the new tiers

3. *50% employee cost share* – The employee/employer split of the normal cost is proportionally different from before for most tiers

4. *Normal cost calculation* – The actuary is using demographic hiring data from the last 10 years instead of from the entire data set

5. *Social Security wage cap* – The Social Security wage cap has an effect on the normal cost, since the actuary assumes that contributions will cease when the cap is reached before year's end

6. *Maturity of the data between valuation years* – Last year's valuation (Tier 2) had very little data available to calculate the normal cost. In fact, the Safety group had only 1 member as of June 30, 2011. Thus normal cost calculations were based on a very small group and most likely not indicative of the true population as a whole

* Note that in the exhibits below, "ER" stands for Employer and "UL" stands for Unfunded Liability

County General Tier 6

	Current Rates		**New Tier 6 Proposed Rates**	
			EA to	EA to Final
	Tier 5	Tier 2	Decrement	Decrement
Total Normal Cost	13.03%	14.38%	15.24%	15.21%
Avg. Member Rate	7.99	8.23	7.50	7.50
ER Normal Cost	5.04	6.15	7.74	7.71
UL Rate	10.79	10.79	10.79	10.79
Total ER Cost	15.83%	16.94%	18.53%	18.50%

County Safety Tier 6

	Current Rates		New Tier 6 Proposed Rates	
			EA to	EA to Final
	Tier 5	Tier 2	Decrement	Decrement
Total Normal Cost	20.80%	34.06%	25.08%	26.09%
Avg. Member Rate	11.49	13.84	12.50	13.00
ER Normal Cost	9.31	20.22	12.58	13.09
UL Rate	18.23	18.23	18.23	18.23
Total ER Cost	27.54%	38.45%	30.81%	31.32%

Ceres/Special District General Tier 6

	Current Rates		New Tier 6 Proposed Rates	
			EA to	EA to Final
	Tier 5	Tier 2	Decrement	Decrement
Total Normal Cost	13.03%	14.38%	15.24%	15.21%
Avg. Member Rate	7.79	6.95	7.50	7.50
ER Normal Cost	5.24	7.43	7.74	7.71
UL Rate	10.00	10.00	10.00	10.00
Total ER Cost	15.24%	17.43%	17.74%	17.71%

Ceres/Special District Safety Tier 6

	Current Rates		New Tier 6 Proposed Rates	
			EA to	EA to Final
	Tier 5	Tier 2	Decrement	Decrement
Total Normal Cost	20.80%	N/A	25.08%	26.09%
Avg. Member Rate	11.42	N/A	12.50	13.00
ER Normal Cost	9.38	N/A	12.58	13.09
UL Rate	13.97	N/A	13.97	13.97
Total ER Cost	23.35%	N/A	26.55%	27.06%

IV. RISK: None

V. STRATEGIC PLAN: None

VI. BUDGET IMPACT: No marginal increases in costs due to this item

Rick Santos, Executive Director

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ROBERT T. MCCRORY | *Executive Vice President*

December 4, 2012

Mr. Rick Santos
Executive Director
Stanislaus County Employees' Retirement Association
832 12th Street, Suite 600
Modesto, CA 95354

Re: PEPRA Plan Revisions and Costs

Dear Rick:

As you know, the California legislature has passed, and Governor Brown has signed into law, the California Public Employees' Pension Reform Act (PEPRA, the Act). PEPRA mandates a new benefit formula for the employees of almost all political subdivisions in the State. Benefit provisions regarding eligibility and amounts are largely prescribed by the Act for general service employees; benefits for safety employees must be based on one of three permissible formula.

The funding of pension benefits is also changed by PEPRA: Members joining any public plan on and after January 1, 2013 (Members of StanCERA Tier 6) are required to contribute half of the normal cost of the revised plan as computed by the plan actuary. The purpose of this letter is to describe briefly the effects of PEPRA on the Stanislaus County Employees' Retirement Association (the Plan) and to provide an estimate of the member contribution that will be required of those joining the Plan during 2013. We have computed the Tier 6 normal cost using the member data from the Actuarial Valuation of the Plan as of July 1, 2011. The results of our computations are shown in Table 1 below.

Table 1: Employer and Employee Contribution Rates – Tier 6

	General (All Members)	General (Hired Within Ten Years, Recommended)	Safety (All Members)	Safety (Hired Within Ten Years, Recommended)
Number of Members	3,232	1,361	637	284
Average Age at Entry	34.7	35.7	28.2	28.4
Plan Normal Cost	14.41%	15.21%	26.04%	26.09%
Average New Member Employee Contribution Rate	7.25%	7.50%	13.00%	13.00%
New Member Employer Normal Cost	7.16%	7.71%	13.04%	13.09%
New Member Employer Total Cost	17.92%	18.47%	30.59%	30.64%

In the costs shown above, the Total and Normal Cost rates and the Employee Contribution Rates are assumed to apply only to pensionable compensation for the new Tier 6 Members, which is expected to exclude compensation above the Social Security Taxable Wage Base (120% of the Wage Base for those not participating in Social Security).

The normal cost is computed using the PEPRA mandated benefit formulas for General (Non-Safety) and Safety members. The formula for Safety members is the Safety Option Plan Two (2.7% @ 57), as described in 7522.25(d) of the Act. The Plan as revised by the Act is outlined in the attachment, with the PEPRA changes highlighted. Many requirements of the Act are still open to question, and legal clarifications will be coming in 2012 and 2013. Therefore, the Plan provisions outlined here must be regarded as tentative and subject to change, and should be reviewed by Staff and Counsel.

The same proviso extends to the actuarial assumptions we have used. The actuarial experience that will emerge from the new Plan provisions is unknown. Our approach here has been to stay as close as possible to the actuarial assumptions suggested by the most recent experience study. There are a several areas in which we have modified assumptions from the July 1, 2011 actuarial valuation. We have made the following changes specifically for this letter:

- Rates of retirement below age 52 for General members – the youngest retirement age allowed by PEPRA – have been set to zero.

- Those eligible for retirement under the new PEPRA benefits (i.e. age 52 for General members, age 50 for Safety members) are no longer assumed to withdraw their contributions or take a deferred vested benefit if they have at least five years of service.

- PEPRA does not allow for employees to use accumulated leave time to increase their compensation included in their retirement benefit, therefore the pay load for accumulated leave time has been removed from Tier 6 calculations.

We have also recommended the following preliminary assumption changes as part of our ongoing experience study:

- The rate of return, inflation and salary increase assumptions were lowered from 8.00%, 3.50% and 3.75%, respectively, to 7.75%, 3.25% and 3.50%.

- Rates of retirement were lowered for some Safety members.

- Total rates of termination were changed for employees with lower amounts of service.

- Non service-connected disability rates were lowered for General members.

Thus, all the usual actuarial disclaimers apply, plus a few more. The Plan normal cost and the employee contribution rate will start coming into focus in the July 1, 2013 valuation, when we will have at least some Tier 6 Members with PEPRA benefits. Retirement rates for these Members will not arise for at least five to ten years.

Age at Entry

In Table 1 above, we notice that there is a small increase in the Plan normal cost for General Members, and the related employee contribution rate, when we look at members who entered the Plan during the past ten years. As a general rule, the normal cost of a pension plan is higher for members who are older when they enter the plan. The average plan entry age of all Plan members is 34.7 years for General and 28.2 years for Safety, but among those who have entered the Plan during the past ten years the entry age is 35.7 years for General and 28.4 years for Safety.

Accordingly, the Plan General normal cost increases from 14.41% for all members to 15.21% for members joining the Plan over the last ten years, while the associated employee contribution rate rises from 7.25% to 7.50%. The Safety normal cost increases from 26.04% for all members to 26.09%, while the associated employee contribution rate stays level at 13.00%. The age at hire for public employers has been increasing over time, so this result is not surprising.

We expect that the ages of Tier 6 Members will be similar to those observed over the past ten years. Accordingly, we recommend use of the 15.21% total normal cost / 7.50% employee contribution rates for General Members and 26.09% total normal cost / 13.00% employee contribution rates for Safety Members.

Age at Retirement

Similarly, as a general rule, the normal cost of a pension plan is lower if members decide to defer their retirement to an age after they first become eligible. The normal cost reduction occurs when the additional benefits earned by delaying retirement are not as valuable as the benefits forgone by continuing to work. This is particularly true for plans that provide a post-retirement COLA. The impact of the choice of retirement date will be muted, however, if the benefit formula provides a reduced benefit at earlier retirement ages, especially if the reduction approaches actuarial equivalence.

Some people have speculated that the reduction in the benefit accruals under the new PEPRA tiers will lead to members voluntarily deferring their retirements until later ages, in order to accumulate a more substantial benefit. To test the impact of this factor, and estimate any potential savings from delayed retirements, we have recomputed the results under an alternative set of retirement assumptions. Rates of retirement were reduced by 20%, across the board, at all ages except the maximum age at which all members are expected to retire (age 70 for General, age 60 for Safety).

Table 2 below demonstrates the impact of the alternative retirement assumptions on the cost, and on the average retirement age for those members who are expected to receive a service retirement benefit. We note that the impact on the total normal cost for a change in the retirement behavior is relatively small.

Table 2: Tier 6 Contribution Rates, Alternative Retirement Assumptions

Members hired within Ten Years	Current Retirement Rates	Reduce Retirement Rates by 20%
Plan Normal Cost (General)	15.21%	15.20%
Average Retirement Age	60.1	61.0
Plan Normal Cost (Safety)	26.09%	26.15%
Average Retirement Age	54.5	54.8

We also computed the costs using the retirement rates developed by the CalPERS actuarial staff for participating public agency employers who will be subject to the same benefit formulas as the StanCERA Tier 6 Members. The total normal cost for the Plan decreased from 17.37% to 15.44%, with the Safety Members seeing a larger total normal cost decrease, from 26.09% to 20.55%.

As we stated above, our preferred approach here has been to stay as close as possible to the actuarial assumptions currently in place, so we recommend that the initial contribution rates for the new members be based on the current retirement assumptions. We do not currently recommend adopting the CalPERS retirement assumptions, as the current StanCERA retirement rates already deviate from the CalPERS assumptions, due to differences in populations and behavior. As new members join Tier 6, experience with respect to entry ages and retirement ages will emerge, and employee and employer contribution rates will be adjusted accordingly.

Normal Cost Methodology

There are two methods for computing Entry Age Normal Cost: Entry-Age-to-Decrement and Entry-Age-to-Final-Decrement. The Plan currently uses the Entry-Age-to-Decrement methodology. While both methodologies are acceptable methods for determining an actuarially sufficient funding contribution, the Government Accounting Standards Board has made changes to pension accounting standards that will require the use of the traditional, career-length approach of Entry-Age-to-Final-Decrement.

Table 3 shows a comparison of the results under both methodologies:

Table 3: Entry Age Methodology Comparison

	General (to Decrement)	General (to Final, Recommended	Safety (to Decrement)	Safety (to Final, Recommended
Plan Normal Cost	15.24%	15.21%	25.08%	26.09%
Average New Member Employee Contribution Rate	7.50%	7.50%	12.50%	13.00%
New Member Employer Normal Cost	7.74%	7.71%	12.58%	13.09%
New Member Employer Total Cost	18.50%	18.47%	30.13%	30.64%

We recommend the use of the Entry-Age-to-Final-Decrement for determining the Normal Cost for the Tier 6 members. The difference in cost is small for new entrants, and we will be recommending to the Board that they adopt this funding methodology for the Plan as a whole in the future to bring the funding liabilities into agreement with the accounting results.

Alternate Safety Plan Formulas

The 2.7% @ 57 benefit (Option Plan Two) is the baseline requirement for new Safety members under AB340, give the current benefit structure provided by the Plan. Employers have the ability to negotiate one of two other lower benefit formulas – the Basic Safety Plan (2.0% at 57), and Safety Option Plan One (2.5% at 57). Table 4 below shows a cost comparison among the three Safety plans:

Table 4: Safety Employer and Employee Contribution Rates – Tier 6

	Safety Option Plan Two (2.7% @ 57)	**Basic Safety Plan (2% @ 57)**	**Safety Option Plan One (2.5% @ 57)**
Plan Normal Cost	26.09%	20.95%	25.15%
Average New Member Employee Contribution Rate	13.00%	10.50%	12.50%
New Member Employer Normal Cost	13.09%	10.45%	12.65%
New Member Employer Total Cost	30.64%	28.00%	30.20%

The Basic Safety Plan offers savings of 2.64% of pay to the employer, while Safety Option Plan One saves 0.44% of pay. Note that we have not modified our retirement assumptions in these comparisons. The level of savings may be greater if the Basic or Plan One formulas were to result in later Safety retirements. We also reviewed the costs of the alternative Safety plans using the CalPERS retirement assumptions for these benefit formulas; the reductions in the employer normal costs were similar.

Employee Contribution Rates

As stated earlier, PEPRA requires that new members after January 1, 2013 contribute half of the normal cost of their benefits. Currently, the employee contribution rate for StanCERA members is based on their age at hire, with higher rates charged to those with later entry ages. However, the CERL allows Plans to charge a single employee contribution rate for each group, rather than one based on entry age, upon the advice of their actuary. We recommend that StanCERA adopts this approach for the new Tier 6 members, as it should simplify administration of the system.

We hope this is helpful. Please feel free to call with your questions and comments.

Sincerely,

Robert T. McCrory, FSA
Executive Vice President

Graham A Schmidt, ASA
Senior Vice President

1.1: Brief Outline of Plan Provisions

Definitions

Compensation

Compensation means the cash remuneration for services paid by the employer. It includes base pay and certain differential, incentive, and special pay allowances defined by the Board of Retirement. Overtime is excluded, with the exception of overtime paid under the Fair Labor Standards Act that is regular and recurring.

PEPRA: For members joining the Plan on and after January 1, 2013 (Tier 6 Members), only base compensation up to the Social Security Taxable Wage Base ($113,700 for 2013) will count for computing Plan benefits and employee contributions and employer contributions for those participating in Social Security. For those not participating in Social Security, the compensation cap is 120% of the Taxable Wage Base ($136,440 for 2013.) In addition, it is possible that some sources of compensation, such as any payments deemed to be terminal or special pays, may be excluded from benefit and contribution computations for Tier 6 Members.

Credited Service

In general, Credited Service is earned for the period during which Member Contributions are paid. Since Tier 3 Members participate in a non-contributory Plan, their Credited Service is calculated based on their date of Membership only.

Temporary service for which the Member was not credited, or service for which the Member withdrew his or her Member Contributions, may be purchased by paying or repaying the Member Contributions with interest. The categories of services that credit may be purchased for are listed below:

- Prior Part-time Service: If a Member worked for an employer within the Association on a part-time or ‘extra help’ basis before his membership in the Retirement Association, the Member may buyback this service.
- Intermittent Part-time Service
- Prior full time Service: Member may buyback full time service that may have been cashed out upon termination.
- Leave of Absence (Including absence with State Disability or Worker’s Compensation): No unpaid leave of absence can be bought back except for absence due to medical reasons of up to one year.
- Public Service: Only Tier 1 and 4 Members may buy back this service.
- Military Time: Only Tier 1 and 4 Members may buy back this service.

- Enhance Prior Tier Service: Applies to certain active and deferred Members with Tier 1, 2 or 3 service.
- Military "call up"
- AB 2766: Only Safety Employees can buy back this service.

A percentage of credited sick leave may be credited according to the Member's applicable bargaining unit.

Final Compensation

For Members belonging to Tier 2 and Tier 3, Final Compensation means the highest Compensation earned during any thirty six consecutive months of the Member's employment. For all others, it is the highest Compensation earned during any twelve months of employment.

PEPRA: For Tier 6 Members, highest average Compensation will be based on the highest thirty-six consecutive months for all Members.

General Member

Any Member who is not a Safety Member is a General Member.

Safety Member

Any sworn Member engaged in law enforcement, probation, or fire suppression is a Safety Member.

Membership

Eligibility

All full-time, permanent employees of Stanislaus County, City of Ceres, Stanislaus County Superior Court, Salida Sanitary District, East Side Mosquito Abatement, Keyes Community Services, Hills Ferry Cemetery and StanCOG hired on or after October 1, 1988 become Members on their date of appointment. All others hired before October 1, 1988 became Members on the first day of the calendar month following their date of appointment.

Detailed membership eligibility according to Tier and membership date is shown in Table 1.

PEPRA: A New Member is any Member joining the Plan for the first time on or after January 1, 2013. Employees who transfer from and are eligible for reciprocity with another public employer will not be Tier 6 Members if their service in the reciprocal system was under a pre-PEPRA tier. Employees who were Members of StanCERA prior to January 1, 2013 and experienced a break in service of more than six months and then were reemployed by a different StanCERA-participating employer on or after January 1, 2013 will be considered Tier 6 Members for all subsequent service.

Service Retirement

Eligibility

Tier 3 General Members are eligible to retire at age 55 if they have earned ten years of Credited Service. All other General Members are eligible to retire at age 50 if they have earned five years of Credited Service and have been an Association member for at least ten years. Alternatively, General Members are eligible to retire at any age after having earned 30 years of Credited Service, or upon reaching age 70 with no service requirement.

Safety Members are eligible to retire at age 50 if they have earned five years of Credited Service and have been an Association member for at least ten years. Alternatively, Safety Members are eligible to retire at any age after having earned 20 years of Credited Service, or upon reaching age 70 with no service requirement.

PEPRA: Tier 6 General Members are eligible to retire upon attaining age 52 and completing five or more years of service. Tier 6 Safety Members are eligible to retire upon attaining age 50 and completing five or more years of service. Tier 6 Members are not eligible to retire, regardless of age, after attaining twenty (Safety) or thirty (General) years of service.

Benefit Amount

The Service Retirement Benefit payable to the Member is equal to the Member's Final Compensation multiplied by credited service, the benefit factor from Table 1 and the age factor from Table 2 corresponding to the Member's code section. The appropriate code sections for each group are listed in Table 1.

For Tier 3 Members with Credited Service up to thirty five years, the percentage of Final Compensation may not exceed 70% and for those with more than thirty five years, it may not exceed 80%. For all other Members, the percentage of Final Compensation may not exceed 100%. For those members integrated with Social Security (other than Tiers 3 and 6), Retirement Benefits based on the first $350 of monthly Final Average Compensation are reduced by one-third.

Table 1: Member Group Descriptions

Group	Open or Closed	FAP	COLA	Code Section	Description	Top Retirement Factor Age	Benefit Factor
General Tier 1	Closed	1	3	31676.12	2% at 57	62	2.00%
General Tier 2	Open	3	3	31676.1	2% at 62	65	1.67%
General Tier 3	Closed	3	0	31499.14	Non-Contributory	65	First 35 Years: 2.0% of FAS less 1/35th of Social Security benefit at age 65. Next 10 Years: 1% of FAS
General Tier 4	Closed	1	3	31676.14	2% at 55	65	1.67%
General Tier 5	Closed	1	3	31676.14	2% at 55	65	1.67%
Safety Tier 2	Open	3	3	31664	2% at 50	50	2.00%
Safety Tier 4	Closed	1	3	31664.1	3% at 50	50	3.00%
Safety Tier 5	Closed	1	3	31664.1	3% at 50	50	3.00%

Table 2: Age Factors

Age	Safety 2% at Age 50 CERL §: 31664	Safety 3% at Age 50 CERL §: 31664.1	General 2% at Age 62 CERL §: 31676.1	General 2% at Age 57 CERL §: 31676.12	General 2% at Age 55 CERL §: 31676.14	General 2% at Age 65 CERL §: 31499.14
41.00	0.6258	0.6258	N/A	N/A	N/A	N/A
42.00	0.6625	0.6625	N/A	N/A	N/A	N/A
43.00	0.7004	0.7004	N/A	N/A	N/A	N/A
44.00	0.7397	0.7397	N/A	N/A	N/A	N/A
45.00	0.7805	0.7805	N/A	N/A	N/A	N/A
46.00	0.8226	0.8226	N/A	N/A	N/A	N/A
47.00	0.8678	0.8678	N/A	N/A	N/A	N/A
48.00	0.9085	0.9085	N/A	N/A	N/A	N/A
49.00	0.9522	0.9522	N/A	N/A	N/A	N/A
50.00	1.0516	1.0000	0.7091	0.6681	0.8850	N/A
51.00	1.1078	1.0000	0.7457	0.7056	0.9399	N/A
52.00	1.1692	1.0000	0.7816	0.7454	1.0000	N/A
53.00	1.2366	1.0000	0.8181	0.7882	1.0447	N/A
54.00	1.3099	1.0000	0.8556	0.8346	1.1048	N/A
55.00	1.3099	1.0000	0.8954	0.8850	1.1686	0.3900
56.00	1.3099	1.0000	0.9382	0.9399	1.2365	0.4300
57.00	1.3099	1.0000	0.9846	1.0000	1.3093	0.4700
58.00	1.3099	1.0000	1.0350	1.0447	1.3608	0.5100
59.00	1.3099	1.0000	1.0899	1.1048	1.4123	0.5600
60.00	1.3099	1.0000	1.1500	1.1686	1.4638	0.6100
61.00	1.3099	1.0000	1.1947	1.2365	1.5153	0.6700
62.00	1.3099	1.0000	1.2548	1.3093	1.5668	0.7400
63.00	1.3099	1.0000	1.3186	1.3093	1.5668	0.8200
64.00	1.3099	1.0000	1.3865	1.3093	1.5668	0.9000
65.00	1.3099	1.0000	1.4593	1.3093	1.5668	1.0000

PEPRA: For Tier 6 General Members, the benefit multiplier will be 1% at age 52, increasing by 0.1% for each year of age to 2.5% at 67. For Tier 6 Safety Members, the benefit multiplier will be 2% at age 50, increasing by 0.1% for each year of age to 2.7% at age 57. In between exact ages, the multiplier will increase by 0.025% for each quarter year increase in age.

We assume the benefits for the Tier 6 Members are not integrated with Social Security, nor subject to the 100% cap of Final Compensation.

Form of Benefit

The Service Retirement Benefit will be paid monthly beginning at retirement and for the life of the Member. If the member selects the unmodified benefit form, in the event of the Member's death 60% of the benefit will continue for the life of the Member's spouse or to the age of majority of dependent minor children if there is no spouse. For Tier 3 Members, the benefit payable to beneficiary is limited to 50%. In the event there is no surviving spouse or minor children, any unpaid remainder of the Member's accumulated contributions will be paid to the Member's designated beneficiary.

Actuarially equivalent optional benefit forms are also available.

Annually on April 1, benefits for all retired members other than those in Tier 3 are adjusted to reflect changes in the CPI for the San Francisco Bay Area since the prior year. Benefits may be increased or decreased, but the cumulative changes shall never reduce the benefit below the original monthly allowance. Annual increases may not exceed the COLA figures shown in Table 1, but CPI increases above this figure are “banked” and used for future increases when the CPI increases by less than the figures shown.

In addition, ad hoc cost of living adjustments have been granted in the past and may be granted in the future.

A lump sum benefit of $5,000 will be payable upon the death of a retired member. No death benefit is payable for Tier 3 retired members.

PEPRA: No change.

Service-Connected Disability

Eligibility

All non-Tier 3 Members are eligible for Service-Connected Disability Retirement benefits at any age if they are permanently disabled as a result of injuries or illness sustained in the line of duty. Tier 3 Members are not eligible to receive disability benefits.

PEPRA: The Act is silent on eligibility requirements for benefits other than retirement. For now, we will assume that the Plan’s rules will continue to apply to Tier 6 Members.

Benefit Amount

The Service-Connected Disability Retirement Benefit payable to Members is equal to the greater of 50% of their Final Compensation or – if the Member is eligible at disability for a Service Retirement Benefit – the Service Retirement Benefit accrued on the date of disability.

PEPRA: The Act did modify “Industrial” disabilities for CalPERS Safety Members. However, we have assumed that these changes will not apply to SACRS systems. The Service-Connected Disability Retirement Benefit for Tier 6 Members will be based on the new definitions of Compensation and Final Compensation applicable to Tier 6 members.

Form of Benefit

The Service-Connected Disability Retirement Benefit will be paid monthly beginning at the effective date of disability retirement and for the life of the Member; in the event of the Member’s death, 100% of the benefit will continue for the life of the Member’s spouse or to the age of majority of dependent minor children if there is no spouse. In the event there is no surviving spouse or minor children, any unpaid remainder of the Member’s accumulated contributions will be paid to the Member’s designated beneficiary.

Actuarially equivalent optional benefit forms and COLA adjustments (as described for the Service Retirement benefit) are also available. A lump sum benefit of $5,000 will be payable upon the death of the member.

Nonservice-Connected Disability

Eligibility

Tier 3 Members are not eligible to receive disability benefits. All other Members are eligible for Nonservice-Connected Disability Retirement benefits if they are permanently disabled at any age after earning five years of Credited Service.

PEPRA: The Act is silent on eligibility requirements for benefits other than retirement. For now, we will assume that the Plan's rules will continue to apply to Tier 6 Members.

Benefit Amount

The Nonservice-Connected Disability Retirement Benefit payable to Tier 1 General Members is equal to the greatest of:

- 1.8% of Final Compensation at disability multiplied by years of Credited Service at disability;
- 1.8% of Final Compensation at disability multiplied by years of Credited Service projected to age 62, but not to exceed one-third of Final Compensation; or
- If the Member is eligible at disability for a Service Retirement Benefit, the Service Retirement Benefit accrued on the date of disability.

The Nonservice-Connected Disability Retirement Benefit payable to Tiers 2, 4 and 5 General Members is equal to the greatest of:

- 1.5% of Final Compensation at disability multiplied by years of Credited Service at disability;
- 1.5% of Final Compensation at disability multiplied by years of Credited Service projected to age 65, but not to exceed one-third of Final Compensation; or
- If the Member is eligible at disability for a Service Retirement Benefit, the Service Retirement Benefit accrued on the date of disability.

The Nonservice-Connected Disability Retirement Benefit payable to Safety Members is equal to the greatest of:

- 1.8% of Final Compensation at disability multiplied by years of Credited Service at disability;
- 1.8% of Final Compensation at disability multiplied by years of Credited Service projected to age 55, but not to exceed one-third of Final Compensation; or
- If the Member is eligible at disability for a Service Retirement Benefit, the Service Retirement Benefit accrued on the date of disability.

PEPRA: The Nonservice-Connected Disability Retirement Benefit for Tier 6 Members will be based on the new definitions of Compensation and Final Compensation applicable to Tier 6 Members.

Form of Benefit

The Nonservice-Connected Disability Retirement Benefit will be paid monthly beginning at the effective date of disability retirement, and for the life of the Member; in the event of the Member's death, 60% of the benefit will continue for the life of the Member's spouse or to the age of majority of dependent minor children if there is no spouse. In the event there is no surviving spouse or minor children, any unpaid remainder of the Member's accumulated contributions will be paid to the Member's designated beneficiary.

Actuarially equivalent optional benefit forms and COLA adjustments (as described for the Service Retirement benefit) are also available. A lump sum benefit of $5,000 will be payable upon the death of the member.

Death Benefit

Eligibility

A Tier 3 Member's survivors are not eligible to receive death benefits. All other Members' survivors are eligible to receive different Death benefits dependent on the Member's cause of death and retirement eligibility.

PEPRA: The Act is silent on eligibility requirements for benefits other than retirement. For now, we will assume that the Plan's rules will continue to apply to Tier 6 Members.

Benefit Amount

In the event the Member's death resulted from injury or illness sustained in connection with the Member's duties, the Death Benefit payable to a surviving spouse, domestic partner or eligible dependent children will be the greater of 50% of the Member's Final Compensation at the time of death or the Service Retirement Benefit.

In the event the Member's death did not result from injury or illness sustained in connection with the Member's duties and at the time of death, the Member was eligible for Service Retirement or Non-Service Connected Disability (i.e. the employee was employed at least five years), the Death Benefit payable to the spouse, partner or children will be 60% of the survivor benefit based on benefit due on Member's date of death.

In all other cases, the designated beneficiary (not necessarily a spouse/partner/child) will receive a refund of the Member's contributions with interest plus one month of Final Compensation for each year of service to a maximum of six years.

PEPRA: The Death Benefit for Tier 6 Members will be based on the new definitions of Compensation and Final Compensation applicable to Tier 6 Members.

Form of Benefit

Annuity death benefits will be paid monthly beginning at the Member's death and for the life of the surviving spouse/partner or to the age of majority of dependent minor children if there is no spouse/partner. Lump sum benefits will be paid as described above.

COLA adjustments (as described for the annuity benefits) are also available.

Withdrawal Benefit

Eligibility

Tier 3 Members are not eligible to receive withdrawal benefits. All other Members are eligible for a Withdrawal Benefit upon termination of employment, if not eligible to receive or electing to waive a monthly benefit.

Benefit Amount

The Withdrawal Benefit is a refund of the Member's accumulated Contributions with interest. Upon receipt of the Withdrawal Benefit the Member forfeits all Credited Service.

Form of Benefit

The Withdrawal Benefit is paid in a lump sum upon election by the Member.

Deferred Vested Benefit

Eligibility

A Member is eligible for a Deferred Vested Benefit upon termination of employment after earning five years of Credited Service, including reciprocity service from another system. For Tier 3 Members, the vesting requirement is ten years of Credited Service.

The Member must leave his or her Member Contributions with interest on deposit with the Plan. This requirement does not apply to Tier 3 Members since they participate in a non-contributory Plan.

Benefit Amount

The Deferred Vested Benefit is computed in the same manner as the Service Retirement Benefit, but it is based on Credited Service and Final Compensation on the date of termination.

PEPRA: For Tier 6 Members, the Deferred Vested Benefit will be based on the new benefit formulas, and will be based on the new definitions of Compensation and Final Compensation applicable to Tier 6 Members.

Form of Benefit

The Deferred Vested Benefit will be paid monthly beginning at retirement and for the life of the Member; in the event of the Member's death, 60% of the benefit will continue for the life of the Member's spouse or to the age of majority of dependent minor children if there is no spouse. For Tier 3 Members, the benefit payable to beneficiary is limited to 50%. In the event there is no surviving spouse or minor children, any unpaid remainder of the Member's accumulated contributions will be paid to the Member's designated beneficiary.

PEPRA: For Tier 6 Members, the Deferred Vested Benefit may commence at the new service retirement eligibility criteria (age 52 for General, age 50 for Safety.)

Actuarially equivalent optional benefit forms and COLA adjustments (as described for the Service Retirement benefit) are also available. A lump sum benefit of $5,000 will be payable upon the death of the member. No death benefit is payable for Tier 3 retired members.

Reciprocal Benefit

Eligibility

A Member is eligible for a Reciprocal Benefit upon termination of employment after earning five years of Credited Service and entry, within a specified period of time, into another retirement system recognized as a reciprocal system by the Plan. For Tier 3 Members, the vesting requirement is ten years of Credited Service.

The Member must leave his or her Member Contributions with interest on deposit with the Plan. This requirement does not apply to Tier 3 Members since they participate in a non-contributory Plan.

Benefit Amount

The Reciprocal Benefit is computed in the same manner as the Service Retirement Benefit, but it is based on Credited Service on the date of termination and Final Compensation on the date of retirement; Final Compensation is based on the highest of the Compensation earned under this Plan or the reciprocal plan.

PEPRA: For Tier 6 Members, the Reciprocal Benefit will be based on the new benefit formulas, and will be based on the new definitions of Compensation and Final Compensation applicable to Tier 6 Members.

Form of Benefit

The Reciprocal Benefit will be paid monthly beginning at retirement and for the life of the Member; in the event of the Member's death, 60% of the benefit will continue for the life of the Member's spouse or to the age of majority of dependent minor children if there is no spouse. For Tier 3 Members, the benefit payable to beneficiary is limited to 50%. In the event there is no surviving spouse or minor children, any unpaid remainder of the Member's accumulated contributions will be paid to the Member's designated beneficiary.

PEPRA: For Tier 6 Members, the Reciprocal Benefit may commence at the new service retirement eligibility criteria (age 52 for General, age 50 for Safety.)

Actuarially equivalent optional benefit forms and COLA adjustments (as described for the Service Retirement benefit) are also available.

A lump sum benefit of $5,000 will be payable upon the death of the member. No death benefit is payable for Tier 3 retired members.

Optional Benefit Forms

Prior to retirement, a member may elect to convert his retirement allowance into a benefit of equivalent actuarial value in accordance with one of the optional forms described below.

1. A reduced retirement allowance payable during his life with the provision that on his death the excess, if any, of his accumulated deductions at the time of retirement over the annuity payments made to him will be paid to his designated beneficiary or estate; or
2. A reduced retirement allowance payable during his life with the provision that after his death the reduced allowance will be continued for life to the beneficiary designated by him at the time of his retirement; or
3. A reduced retirement allowance payable during his life with the provision that after his death an allowance of one-half of his reduced allowance will be continued for life to the beneficiary designated by him at the time of his retirement.

In addition, a member participating in Social Security may elect to receive an increased monthly allowance before age 62 (earliest possible receipt of Social Security benefits) and then take a reduced monthly allowance at age 62 and after. This option will not affect any monthly payments payable to a beneficiary. This option is not available to those receiving a disability benefit.

Member Contributions

All non Tier 3 Members contribute a percentage of Compensation to the Plan through payroll deduction. The percentage contributed depends on the Member's nearest age upon joining the Plan. Members do not contribute after earning 30 years of Credited Service, except for Tier 6 members, who continue to contribute after earning 30 years of Credited Service.

City of Ceres members in Tiers 1 and 4 pay the Tier 2 and 5 rates ("Full" rates), rather than the rates for their respective Tiers ("Half" rates).

Interest is credited semiannually to each Member's accumulated contributions. The crediting rate is set by the Board; the current annual rate is 0.00%.

The employee contribution rates are shown in the Section 1.3.

1.2: Actuarial Methods and Assumptions

Actuarial Method

Annual contributions to the Stanislaus County Employees' Retirement Association (the Plan) are computed under the Entry Age Normal Actuarial Cost Method, computed to each decrement. The Entry Age Normal Actuarial Cost Method, computed to the final decrement, has been used for the Tier 6 members.

Under this Cost Method, the Normal Cost is calculated as the amount necessary to fund Members' benefits as a level percentage of total payroll over their projected working lives. At each valuation date, the Actuarial Accrued Liability is equal to the difference between the liability for the Members' total projected benefit and the present value of future Normal Cost contributions.

The excess of the Actuarial Accrued Liability over Plan assets is the Unfunded Actuarial Accrued Liability, and the liability for each valuation group is amortized as a level percentage of payroll over a closed period (25 years).

Amounts may be added to or subtracted from the Unfunded Actuarial Accrued Liability due to Plan amendments or changes in actuarial assumptions.

The total Plan cost is the sum of the Normal Cost (computed on an Aggregate basis) and the amortization of the Unfunded Actuarial Accrued Liability.

Actuarial Value of Plan Assets

The actuarial value of Plan assets is modified market-related value. The market value of assets is adjusted to recognize, over a five-year period, differences between actual investment earnings and the assumed investment return. The actuarial value of assets is limited to no less than 80% and no more than 120% of the market value. As of June 30, 2011, the actuarial value has been reset to equal market value.

Actuarial Assumptions

The assumptions shown below are the proposed rates based on an experience studies conducted as of June 30, 2012 for the period covering July 1, 2009 till June 30, 2012, performed by EFI. These rates are preliminary, pending Board review and approval of the experience study.

Summary of Actuarial Assumptions

Rate of Return	The annual rate of return on all Plan assets is assumed to be 7.75%, net of investment expenses.
Interest Credited to Employee Accounts	The employee accounts are credited with 0.00% interest annually.
Cost of Living	The cost of living as measured by the Consumer Price Index (CPI) will increase at the rate of 3.25% per year.
Increases in Pay	Current Rate: 3.50% Base salary increases.

Assumed pay increases for active Members consist of increases due to base salary adjustments (as noted above), plus service-based increases due to longevity and promotion, as shown below.

Service	General	Safety
0	4.00%	8.00%
1	4.00%	7.00%
2	4.00%	6.00%
3	4.00%	5.00%
4	4.00%	4.00%
5-9	2.00%	2.00%
10-19	1.00%	1.00%
20-29	0.50%	1.00%
30+	0.50%	0.50%

Mortality Improvement

No mortality improvement is explicitly assumed; however we build a margin in our mortality assumption between the actual and expected number of deaths in order to assume some future mortality improvements. The experience study report for the period covering July 1, 2006 to June 30, 2009 contains a full description of these margins.

Active Member Mortality

Rates of mortality for active Members are specified by the Retired Pensioners (RP) 2000 tables published by the Society of Actuaries (projected from 2000 to 2020 using Scale AA). Duty related mortality rates are only applicable for Safety Active Members. Sample rates are as follows:

Representative Rates

	Duty Death	Ordinary Death – General and Safety	
Age	Safety All	Female	Male
20	0.0150%	0.0138%	0.0235%
25	0.0189%	0.0156%	0.0308%
30	0.0254%	0.0216%	0.0402%
35	0.0357%	0.0381%	0.0699%
40	0.0564%	0.0522%	0.0919%
45	0.0885%	0.0814%	0.1161%
50	0.0703%	0.1189%	0.1487%
55	0.1055%	0.2314%	0.2469%
60	0.0000%	0.4573%	0.4887%
65	0.0000%	0.8780%	0.9607%
70	0.0000%	1.5145%	1.6413%

Retired Member Mortality

Rates of mortality for retired Members and their beneficiaries are specified by the Retired Pensioners (RP) 2000 tables published by the Society of Actuaries (projected from 2000 to 2020 using Scale AA). Sample rates are shown below.

Age	Female	Male
45	0.081%	0.116%
50	0.119%	0.149%
55	0.231%	0.247%
60	0.457%	0.489%
65	0.868%	0.961%
70	1.514%	1.641%
75	2.393%	2.854%
80	3.987%	5.265%
85	6.866%	9.624%
90	12.400%	16.928%

Disabled Member Mortality

Rates of mortality for disabled Members are specified by the Retired Pensioners (RP) 2000 tables published by the Society of Actuaries (projected from 2000 to 2020 using Scale AA) set forward 7 years. Sample rates are as follows:

Representative Rates

Age	Female	Male
45	0.152%	0.178%
50	0.315%	0.333%
55	0.602%	0.647%
60	1.100%	1.237%
65	1.832%	2.016%
70	2.963%	3.611%
75	4.892%	6.854%
80	8.892%	12.062%
85	14.843%	20.397%
90	21.098%	28.808%

Service Retirement

Retirement is assumed to occur among eligible members in accordance with the table below. PEPRA: For Tier 6 Members we assume that the current retirement rates will apply, but that no General Members will retire before age 52, and no Safety Members will retire before age 50.

Age	Safety	General
40-44	5.00%	0.00%
45-49	5.00%	0.00%
50	15.00%	5.00%
51	15.00%	4.00%
52	15.00%	4.00%
53	15.00%	5.00%
54	15.00%	6.00%
55	15.00%	10.00%
56	15.00%	10.00%
57	20.00%	10.00%
58	30.00%	12.00%
59	30.00%	15.00%
60	100.00%	18.00%
61	100.00%	18.00%
62	100.00%	30.00%
63	100.00%	25.00%
64	100.00%	25.00%
65	100.00%	40.00%
66	100.00%	30.00%
67	100.00%	30.00%
68	100.00%	30.00%
69	100.00%	30.00%
70	100.00%	100.00%

Service-Connected Disability

Separate rates of duty disability are assumed among Safety and General Members; rates for both sexes for Safety Members are combined. Below are sample rates:

Representative Rates

	Safety	General	
Age	All	Female	Male
20	0.0759%	0.0002%	0.0043%
25	0.1932%	0.0004%	0.0102%
30	0.3457%	0.0008%	0.0211%
35	0.5309%	0.0024%	0.0284%
40	0.7426%	0.0056%	0.0401%
45	1.1297%	0.0101%	0.0613%
50	1.5092%	0.0162%	0.0897%
55	1.7230%	0.0249%	0.1227%
60	0.0000%	0.0349%	0.1637%
65	0.0000%	0.0000%	0.0000%

Non Service-Connected Disability

Separate rates of ordinary disability are assumed among Safety and General Members; rates for both sexes for Safety Members are combined. The rates shown are applied after five Years of Service. Below are sample rates:

	Safety	General	
Age	All	Female	Male
20	0.0173%	0.0025%	0.0130%
25	0.0409%	0.0050%	0.0307%
30	0.0421%	0.0100%	0.0316%
35	0.0568%	0.0281%	0.0426%
40	0.0802%	0.0446%	0.0602%
45	0.1227%	0.0808%	0.0920%
50	0.1793%	0.1295%	0.1345%
55	0.2453%	0.1990%	0.1840%
60	0.0000%	0.2794%	0.2456%
65	0.0000%	0.0000%	0.0000%

Termination (all types)

Rates of termination apply to all active Members who terminate their employment. Separate rates of termination are assumed among Safety and General Members, and are based on service. The rates do not overlap with the service retirement rates.

	Safety	General	
Service	Safety	Female	Male
0	15.000%	14.000%	24.000%
1	15.000%	9.400%	14.000%
2	10.500%	7.900%	11.700%
3	10.000%	7.900%	9.400%
4	6.000%	7.125%	7.125%
5	3.738%	5.025%	5.025%
10	3.445%	3.470%	3.470%
15	1.930%	2.850%	2.850%
20	0.000%	1.536%	1.536%
25	0.000%	1.272%	1.272%
30	0.000%	0.000%	0.000%

Withdrawal	Rates of withdrawal apply to active Members who terminate their employment and withdraw their member contributions, forfeiting entitlement to future Plan benefits. 50% of all General Member terminations with less than ten years of service are assumed to take a refund of contributions, as well as 20% of those with ten or more years of service. 35% of all Safety Member terminations with less than ten years of service are assumed to take a refund of contributions, as well as 10% of those with ten or more years are assumed to take a refund.
Vested Termination	Rates of vested termination apply to active Members who terminate their employment after five years of service and leave their member contributions on deposit with the Plan. Alternatively, those who terminate their employment with less than five years of service can leave their member contributions with the Plan and transfer to a reciprocal employer, therefore retaining entitlement to future Plan benefits. 50% of all General Member terminations with less than ten years of service are assumed to leave their contributions on deposit , as well as 80% of those with ten or more years of service. 65% of all Safety Member terminations with less than ten years of service are assumed to leave their contributions on deposit, as well as 90% of those with ten or more years of service. Vested terminated Tier 3 General Members are assumed to begin receiving benefits at age 65 while all other General Members are assumed to begin at age 58; terminated Safety Members are assumed to begin receiving benefits at age 53. 25% of vested terminated General Members are assumed to be reciprocal; 50% of vested terminated Safety Members are assumed to be reciprocal.
Family Composition	50% of female members and 90% of male members are assumed to be married at retirement. Male spouses are assumed to be three years older than their wives.
Accumulated Vacation Time Load	Active members' service retirement and disability benefits are loaded by 2.5% for Safety Members and 3.5% for General Members for conversion of vacation time. These loads are not applied to the benefits for the Tier 6 Members.

1.3: Employee Contribution Rates

Employee contribution rates vary by member Group and Tier. The following rates for current members were changed to use the proposed assumptions from our ongoing experience study. As the PEPRA benefit formulas apply only to new entrants, we have provided the employee contribution rates for Tier 2, the only tier open to new employees.

The rates were determined by EFI based on an interest rate of 7.75% per annum, an average salary increase of 3.50% per year, and the Retired Pensioners (RP) 2000 tables published by the Society of Actuaries (projected from 2000 to 2020 using Scale AA)with no age adjustment. The rates are blended a male/female weighting of 25% male / 75% female for General members, and 80% male / 20% female for Safety members.

The rates for the new Tier 6 members do not differ above and below the first $350 of earnings, since neither the benefits nor contributions for the Tier 6 members are assumed to be integrated with Social Security. We have assumed that contributions for the Tier 6 members will only be collected up to the amount of the annual Social Security Wage Base (120% of the Wage Base for those not participating in Social Security).

General Tier 2

Employee Contribution Rates

Entry Age	Basic First $350	Basic Over $350	COL First $350	COL Over $350
16	3.26%	4.89%	0.88%	1.32%
17	3.26%	4.89%	0.88%	1.32%
18	3.26%	4.89%	0.88%	1.32%
19	3.26%	4.89%	0.88%	1.32%
20	3.26%	4.89%	0.88%	1.32%
21	3.29%	4.94%	0.89%	1.34%
22	3.32%	4.99%	0.90%	1.36%
23	3.35%	5.03%	0.92%	1.37%
24	3.38%	5.07%	0.93%	1.39%
25	3.40%	5.11%	0.94%	1.41%
26	3.43%	5.14%	0.96%	1.43%
27	3.44%	5.17%	0.97%	1.45%
28	3.46%	5.19%	0.98%	1.47%
29	3.47%	5.21%	1.00%	1.50%
30	3.48%	5.22%	1.01%	1.52%
31	3.56%	5.34%	1.03%	1.55%
32	3.64%	5.46%	1.05%	1.57%
33	3.72%	5.58%	1.07%	1.60%
34	3.81%	5.71%	1.09%	1.63%
35	3.89%	5.84%	1.11%	1.66%
36	3.98%	5.97%	1.13%	1.69%
37	4.07%	6.11%	1.15%	1.73%
38	4.16%	6.24%	1.17%	1.76%
39	4.24%	6.37%	1.20%	1.79%
40	4.32%	6.48%	1.22%	1.82%
41	4.35%	6.53%	1.23%	1.85%
42	4.44%	6.65%	1.25%	1.88%
43	4.52%	6.78%	1.27%	1.90%
44	4.61%	6.91%	1.28%	1.92%
45	4.70%	7.05%	1.30%	1.94%
46	4.79%	7.19%	1.31%	1.96%
47	4.89%	7.34%	1.32%	1.98%
48	4.98%	7.47%	1.33%	2.00%
49	5.06%	7.58%	1.34%	2.01%
50	5.12%	7.68%	1.34%	2.02%
51	5.19%	7.79%	1.35%	2.02%
52	5.27%	7.90%	1.34%	2.02%
53	5.32%	7.98%	1.33%	1.99%
54	5.34%	8.01%	1.31%	1.97%
55	5.35%	8.02%	1.28%	1.92%
56	5.35%	8.02%	1.22%	1.84%
57	5.35%	8.03%	1.19%	1.78%
58	5.55%	8.32%	1.15%	1.73%
59+	5.76%	8.63%	1.13%	1.69%

Safety Tier 2

Employee Contribution Rates

Entry Age	Basic First $350	Basic Over $350	COL First $350	COL Over $350
20	4.83%	7.24%	2.32%	3.49%
21	4.83%	7.24%	2.32%	3.49%
22	4.83%	7.24%	2.32%	3.49%
23	4.83%	7.24%	2.32%	3.49%
24	4.83%	7.24%	2.32%	3.49%
25	4.92%	7.38%	2.39%	3.58%
26	5.01%	7.51%	2.42%	3.63%
27	5.10%	7.65%	2.46%	3.68%
28	5.20%	7.79%	2.49%	3.73%
29	5.29%	7.94%	2.51%	3.77%
30	5.39%	8.09%	2.54%	3.81%
31	5.49%	8.24%	2.56%	3.84%
32	5.60%	8.39%	2.58%	3.87%
33	5.70%	8.55%	2.60%	3.90%
34	5.81%	8.71%	2.62%	3.93%
35	5.87%	8.81%	2.66%	3.99%
36	5.99%	8.98%	2.70%	4.06%
37	6.10%	9.15%	2.75%	4.12%
38	6.22%	9.34%	2.79%	4.19%
39	6.35%	9.53%	2.84%	4.25%
40	6.48%	9.72%	2.88%	4.33%
41	6.62%	9.93%	2.93%	4.40%
42	6.75%	10.12%	2.98%	4.46%
43	6.86%	10.29%	3.02%	4.53%
44	6.96%	10.45%	3.07%	4.60%
45	7.07%	10.61%	3.05%	4.57%
46	7.20%	10.79%	3.03%	4.55%
47	7.29%	10.93%	3.02%	4.52%
48	7.33%	11.00%	3.00%	4.50%
49+	7.32%	10.97%	2.99%	4.48%

Proposed Tier 6

Employee Contribution Rates

Entry Age	General	Safety
All Ages	7.50%	13.00%