

In accordance with the RFP titled "Dedicated Advisor Services for Investment Program Outsourcing" issued by SDCERA on May 3, 2010, this document provides responses / clarifications to questions raised by bidders. The response to questions from bidders has been delayed; as such, SDCERA has extended the deadline to receive proposals from May 28, 2010 to June 1, 2010.

1. Is there an anticipation that the Dedicated Advisor will have to absorb current staff as was previously discussed in the presentation to the Board? If so, what is the current staffing, total cost/compensation and responsibilities?

At this time, there is no expectation that the Dedicated Advisor will need to absorb current staff.

2. Will the Advisor, staff and consultants be kept or terminated once the new arrangement is in place? If there is a possibility that the internal staff and Advisor will be kept, what will be their responsibilities relative to the Dedicated Advisor?

Please see Section III "Background". The Board does not intend to terminate Staff or its Advisor / Portfolio Strategist. The Dedicated Advisor is expected to support and work with Staff and the Advisor in implementing the Strategic Asset Allocation (SAA) as approved by the Board. The Advisor's primary responsibility is to recommend and periodically review the Fund's SAA, as well as provide guidance and recommendations on tactical shifts within the scope of the SAA in order to enhance returns or manage and mitigate risk. It is expected that the Fund's Staff and the Dedicated Advisor will work with the Advisor in implementing (for instance, identifying investments, conducting due diligence on existing investments, providing risk reporting, etc.) the investment program in line with the SAA. It is expected that the Generalist Investment Consultant and other specialized consultants will continue to serve the Board in its (their) current capacity in assisting the Board in fulfilling its fiduciary obligations.

3. Who will have primary reporting responsibility to the Board – the Advisor, Staff, Consultant or Dedicated Advisor?

The Advisor is ultimately responsible for coordinating the efforts of the Dedicated Advisor and Staff. However, each of the individual parties responsible for implementing the investment program will report to the Board as it relates to their specific responsibility. As the new organization evolves, the Board will determine the reporting lines and responsibilities that best meet its needs.

4. Is there a liquid futures equivalent to the proposed asset allocation as was previously the case or will SDCERA bear the higher cost of tactical shifts?

SDCERA's goal is to implement market exposures using low-cost, liquid instruments, wherever possible. This may include exchange traded futures, swaps, exchange traded funds, and similar instruments. In any case, SDCERA will bear the full cost of implementing this program and performance will be measured net of all fees and costs.

5. What are the expected return/risk assumptions for the asset classes in the SAA and who is responsible (Board, Advisor, Consultant, Staff, Dedicated Advisor) if these expectations are not met?

SDCERA's Board of Trustees is ultimately responsible for the investment program as a whole, which includes decisions on the Fund's asset allocation. The Fund's asset allocation is designed to maximize the probability of achieving the actuarial assumed rate of return, which is currently 8.25%, at a reasonable level of risk. Duties and responsibilities of the Dedicated Advisor will be set forth in full in the contract to be negotiated between SDCERA and the successful applicant, and this response is without limitation to the terms and conditions to be set forth in the final contract.

6. Is there scope for allowing the Dedicated Advisor to lower overall portfolio risk below the limits proposed consistent with certain policy guidelines?

The Dedicated Advisor working with SDCERA's Advisor can recommend tactical shifts with a goal to managing and mitigating risk within the scope of the Fund's SAA. However, any latitude that exceeds the limits approved by the board and specified within the Investment Policy Statement must be approved in advance by the SDCERA Board of Trustees.

7. Is the fact that the IPS is silent on hedging foreign currency passively an implicit statement that international exposures will be passively unhedged? Given the contribution to total risk from unmanaged currency exposures (which is a bet that the Board will take through the Policy), will the Board permit currency management as part of the BetaEngine?

The policy benchmarks are unhedged. Decisions as it relates to hedging currency and the extent of currency hedging are implementation decisions. It is expected that the Dedicated Advisor would work with the SDCERA's Advisor in recommending an appropriate course of action in implementing the international equity exposure. Any hedging program or overlay must fall within the active risk budget specified within the policy.

8. Is the beta engine program that was previously in place going to be continued or discontinued in the outsourced arrangement?

At this time, no decision has been made about the continued appropriateness or otherwise of the BetaEngine. The decision on the use of such programs shall be left to SDCERA's Advisor, who working with the Dedicated Advisor, shall provide recommendations and guidance to the Board.

9. Since there is no line item for currency management in Tracking Error Allocation, will currency management be permitted in the BetaEngine and if so, what are the limits/risk budget?

Please see response to Question 8.

10. Is it the intention of the Board to reinstate the beta engine program under the supervision of the Dedicated Advisor or will the Dedicated Advisor be responsible for this program going forward?

Please see response to Question 8.

11. What are the expectations of the correlation of the various alphas for the tracking error budgets in Table 1.10? Can the Dedicated Advisor create a completely different structure but achieve the same total target?

Optimal implementation of the program envisages negative / low to moderate correlation of alphas between investments within each category as well as across categories. It is expected that the implementation of the investment program will be within the parameters of the SAA and the active risk budget specified in the IPS. Alternative approaches to implementing the stated policy will be considered.

12. The current risk budgeting section of the IPS is silent about the total volatility and drawdown of the live portfolio versus the benchmark. Can the dedicated advisor take unlimited risk on those two parameters?

The Fund's SAA defines overall portfolio risk and drawdown expectations. It is expected the implementation of the investment program will be within the parameters of the SAA and the active risk budget as stated in the Statement of Investment Policy.

13. Can the Dedicated Advisor move risk dynamically between a BetaEngine and multiple alpha sources subject to these limits?

Please see response to Question 8.

14. How will success be measured ex-post? Is there a target total excess return from the BetaEngine and from manager selection?

Please see response to Question 8.

15. What will be the relationship between Ennis Knupp (current general consultant), Integrity (current outsourced CIO), the successful bidder and the existing staff (if they remain with SDCERA)? It is not clear which duties and responsibilities will be performed by each party. Please specify.

Please see response to Question 2. Furthermore, the existing roles of each of the parties specified above are outlined in the Statement of Investment Policy. The Dedicated Advisor will take on many of the roles that are currently contemplated under the "Staff" section.

16. This question relates back to question #1. Item V.2. concerns recommendation of investment managers. This is normally performed by the general consultant. Explain how this will operate. Will Knupp be involved?

Please see response to Question 2.

17. Item V.3. refers to “in-house management of securities, ETFs and various derivatives for the sole benefit of SDCERA”. The RFP does not include information on the size and nature of these assets, nor the specific duties to be performed. Please specify.

SDCERA’s goal is to implement public market exposures using low-cost, liquid instruments, wherever possible. This may include exchange traded futures, swaps, exchange traded funds, and similar instruments. It can be expected that a substantial portion of the public security allocation (equities and bonds) may be managed on such a basis and handled in-house.

18. Item V.4. refers to risk budgeting. Again, how will the duties of Knupp and the successful bidder be divided? Please specify.

Please see response to Question 2.

19. Item V.6. refers to performance reporting. What reports will be provided by Knupp? By the Custodian?

EnnisKnupp and Integrity Capital, LLC currently provide detailed performance reporting to the Board on a quarterly basis, based on information provided by the Fund’s custodian. At this time, it is not anticipated that this process would change. The fund’s custodial bank is the official source of performance measurement.

20. Item V.7. mentions the relationship with the Board of Retirement, SDCERA executive team and others. Please specify what is anticipated here? For instance, will the successful bidder attend and report at monthly Board meetings? Is there a requirement to attend periodic executive team meetings in San Diego?

SDCERA’s Board meets on a monthly basis to administer the investment program (typically third Thursday of each month). In addition, the Board also meets on a separate date on a monthly basis to handle administrative issues relating to the Pension Plan (typically first Thursday of each month). Investment issues are sometimes addressed at these administrative meetings depending on the time sensitive nature of the issue. It is expected that the successful bidder will be present at any or all of the investment meetings and administrative meetings, as necessary. Additionally, it is envisioned that the Dedicated Advisor would meet with Advisor, Staff, and consultants, as needed.

21. If the RFP is to rehire or replace your current dedicated advisor, what prompted the search? Is the incumbent dedicated advisor allowed or encouraged to rebid?

SDCERA does not currently retain a Dedicated Advisor. The search is being conducted to identify a qualified organization to assist with the efficient implementation of the investment program, as stated in the RFP.

22. Will the Fund potentially hire more than one dedicated advisors?

At this time, the Board contemplates hiring an single entity to serve as the Dedicated Advisor. While joint proposals will not be disqualified, SDCERA’s preference is to consider proposals from entities in their individual capacity. Nothing would preclude the possibility of considering more than one source of services based on the

unique qualifications of the individual firms. Further, SDCERA is under no obligation to retain any candidate with respect to this RFP.

23. What is the annual fee being paid to the current dedicated advisor?

Please see response to Question 21.

24. Do you anticipate making any changes to the asset allocation of the fund? Are you considering any new classes or new strategies?

The Board's objective is to retain a Dedicated Advisor to implement the Fund's strategic asset allocation as outlined in the Statement of Investment Policy, which is included with the RFP. As circumstances evolve, the Board, at the recommendation of the Advisor working in conjunction with the Dedicated Advisor, may recommend changes to the Fund's strategic asset allocation.

25. How many required meetings are there each year?

Please see response to Question 20.

26. What is the most important investment issue your fund is currently facing?

The Fund's primary investment objective is to maximize the probability of achieving the actuarial assumed rate of return, which is currently 8.25%, at a reasonable level of risk.

27. What is the amount of unfunded private equity commitments in the portfolio?

The long-term target allocation to private equity, as stated in the Fund's Statement of Investment Policy, is 10%. The target allocation to private equity was increased from 5% to 10% as part of the asset allocation review that was conducted in early 2010. The actual allocation to private equity is currently 4.3%. The current level of unfunded commitment is \$160 mm, but is expected to grow as the Fund seeks to achieve its new target asset allocation.

28. How many investment management firms / general partners (not individual products) did your firm evaluate during each of the last three years?

SDCERA works with a network of consultants that assist with evaluating traditional managers, hedge funds and private market opportunities. Collectively, this network of consultants evaluates thousands of managers on an annual basis. After these managers and opportunities have been evaluated by these consultants, staff typically reviews between 100 and 150 managers each year.

29. How many managers are included in your database and what percent of these have you actively evaluated?

SDCERA's Staff and Advisor currently have access to both proprietary and shared databases through our network of consultants. SDCERA is in the process of implementing its own surveillance database as a source of documentation for both initial due diligence and subsequent monitoring and surveillance. The Dedicated Advisor may be required to support populating that database throughout this engagement.

30. How does SDCERA envision the selected advisor will work with the Board members, staff, existing consultants, and portfolio strategist?

Please see response to Question 2.

31. Will the proposals be available to the public? If so, may we redact specific information?

Please see section in RFP titled "**Notice to Proposers Regarding Confidentiality and the California Public Records Act**".

32. Will the firm hired be expected to provide strategic advice, potentially resulting in a new asset allocation and adjustments to the Investment Policy Statement, or would the firm hired be expected to implement the existing strategy as outlined in the IPS?

Please see response to Question 24.

33. Will the firm hired be subject to limitations on the use of in-house investment capabilities in implementing the strategy?

There is no expectation that the firm retained will be limited solely to using its in-house investment capabilities. SDCERA's goal is to implement public market exposures using low-cost, liquid instruments, wherever possible. This may include exchange traded futures, swaps, exchange traded funds, and similar instruments. It can be expected that a substantial portion of the public security allocation (equities and bonds) may be managed on such a basis and handled in-house.

34. Can SDCERA make available the existing asset and/or manager allocation? (Page 7)

Given that the program structure is currently under restructuring in light of the new asset allocation and strategy, we do not believe that there is value to providing this information at this time.

35. Will SDCERA be required or prefer to keep some existing managers or will the firm hired have a clean slate to design the assignment?

It is expected that some of the managers that currently exist within the portfolio will continue to play a role going forward.

36. What role will the consultants noted on page 6 of the RFP play after the assignment is funded? Will Integrity have any involvement?

Please see response to Question 2

37. The asset allocation provided in the Investment Policy Statement (Exhibit 1) sums up to 135% and differs substantially from the strategic asset allocation in the 2009 annual report. Which allocation is correct?

The IPS provided as part of the RFP is the most current IPS.

38. What is the Board's goal with respect to the funding ratio (we note the 2009 annual report states it is at 91.5%). Over what time period?

The current funding policy of the Plan targets attaining a fully funded status over a 20-year amortization period. No other objectives have been specified.

39. How many firms were invited to submit an RFP and/or how many have expressed an intent to submit an RFP?

The RFP was issued on a public basis. We do not believe that the number of organizations that have expressed an interest is germane to potential proposals that candidates may provide.