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PENSION FUND REPORTS DOUBLE DIGIT RETURNS, RANKS IN TOP 20% FOR 2012

The Fund's informed rebalancing program and value focused investments boost assets to an all-time high of \$6.7 billion.

SAN BERNARDINO, CA – Today the San Bernardino County Employees' Retirement Association (SBCERA) reported a **14.0% return on investments** (gross of fees) in 2012, or an increase of **\$829 million**, placing the Fund in the top 20th percentile on a total return basis among its peers. On a risk adjusted basis, the Fund ranked in the 2nd percentile for the one-year period and 1st percentile for the three-year period.

For the calendar year ending December 31, 2012, SBCERA greatly outperformed its policy benchmark by 310 basis points. At the close of 2012, SBCERA reached a record \$6.7 billion in assets under management, exceeding its previous record of \$6.4 billion in October 2007. For the fiscal year, the Fund is up by 7.7% and is well-positioned to meet its actuarial assumed rate of return of 7.75% through June 30, 2013.

"The last few years have been extremely volatile. However, as long-term investors we have a major advantage – time. We can carefully choose value-focused investments that allow us to benefit from longer time horizons for investment returns," said Donald Pierce, SBCERA's Chief Investment Officer (CIO). "Our performance reflects our success building a sound investment program focused on actively managing assets, diversifying into non-traditional, income-producing assets, and reducing our overall risk in order to meet long-term expectations."

Since the "financial collapse" of 2008, there has been a heightened interest in risk management and how funds can protect themselves from devastating losses like those experienced in 2008-2009. SBCERA's risk management efforts have centered on two strategies: dynamically managing its asset allocation and earning a steady stream of income by reducing its dependence on price appreciation. For example, SBCERA looks for investment opportunities that provide consistent revenue, such as rent, premiums or interest, rather than relying primarily on the purchase and sale of assets.

Since 2005, SBCERA has greatly improved its ability to actively manage assets through its informed rebalancing program. The program has evolved over time. Initially, it was used to rebalance physical assets (i.e. real estate, private equity), but in 2007 SBCERA added synthetic rebalancing to further reduce risk. Last year, the rebalancing program added \$167.8 million to the Fund, which represented nearly 20% of its gains for the year.

"We have an obligation to maintain the safety and security of the Fund on behalf of our retirees and beneficiaries. Risk is our top priority," said Dawn Stafford, Chair of the Board of Retirement. "Over the last three years, our risk management efforts have paid off. SBCERA is earning favorable returns without taking as much risk as others."

For the three year period, on a risk adjusted basis, SBCERA stood out among its peers. The Fund's annualized returns for the three year period were 9.9% per year, which ranked in the 20th percentile on a total return basis. SBCERA's Alpha (a risk-adjusted measure of a fund's excess return relative to the return of the fund's benchmark index) ranked in the 1st percentile at 4.6 compared to the median public fund's value of -0.2. In addition, the Fund's Sharpe Ratio (an industry measurement for risk adjusted returns) was

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1.7, ranking in the 1st percentile for the three year period. Ultimately, both measures demonstrate that SBCERA received a much higher rate of return for each incremental unit of risk it took versus its peers.

In December, SBCERA's informed rebalancing program was recognized by aiCIO at the 2012 Industry Innovation Awards in New York City. SBCERA's consultants, M^{cube} Investment Technologies, LLC and the Russell Investment Group, both received Innovation Awards for the Best Active and Passive Tactical Risk Management for their AlphaEngine Software ® and Overlay Program, respectively. Both vendors received the accolades specifically for their use of these programs with SBCERA to generate positive risk adjusted returns.

M^{cube}'s AlphaEngine® measures and evaluates individual investment decisions to determine what impact they would have on the risk and return of the portfolio. Based on these tests, the software generates recommended allocation shifts within SBCERA's investment policy constraints. Then, SBCERA works with Russell Investment Group through its Overlay Program to execute the proposed changes using derivatives, but with complete transparency on execution and performance.

"Using AlphaEngine®, SBCERA has demonstrated that public pension plans, with limited staff and resources, can generate consistent value far greater than some of the best asset managers in the world at a fraction of the cost," said Arun Muralidhar, M^{cube}'s founder.

In addition to these awards, SBCERA's innovative risk management strategies and investment program were honored several times in 2012:

- **aiCIO Magazine** included CIO, Donald Pierce, in this year's "Power 100" and "40 [Mostly] Under 40" Chief Investment Officers from across the nation.
- CIO Donald Pierce, and Senior Investment Officer James Perry were featured on the cover of the May/June issue of aiCIO magazine, titled Bright Lights Big Country.
- Nominated for **Small Public Pension Plan of the Year** by aiCIO for its 2012 Industry Innovation Awards.
- **The 2012 Edward D. Baker III Journal Award** for the article "Dynamic Beta: Getting Paid to Manage Risks" (Journal of Investment Consulting 12, no. 2, 2011: 67-78), which provided a detailed case study about the development, implementation and review of SBCERA's Informed Rebalancing program. It was written by Donald Pierce (SBCERA CIO), James Perry, (SBCERA Senior Investment Officer), Timothy Barrett (former SBCERA CIO) and Arun Muralidhar, PhD.
- Investment Officer Amit Thanki was nominated as a "**2013 Rising Star of Public Funds**" by Money Management Intelligence for its 12th Annual Public Pension Fund Awards for Excellence on March 13, 2013.

"2012 was a great year for us," said Pierce. "I remain cautiously optimistic that we will finish this fiscal year on top."

San Bernardino County Employees' Retirement Association (SBCERA) is an award-winning multiple employer public retirement system in California with \$6.7 billion in assets under management. SBCERA administers benefits on behalf of nearly 33,000 members and beneficiaries with retirement and related benefits and services which they have earned, commensurate with their years of service and compensation. The Board of Retirement's responsibilities and functions are governed by the applicable provisions of the California Government Code, along with the By-Laws and regulations of SBCERA.

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