SamCERA

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

COMPREHENSIVE **ANNUAL FINANCIAL REPORT**

For the Fiscal Year Ended June 30, 2012
A Pension Trust Fund of the County of San Mateo and Participating Employers
Redwood City, State of California

2012

On the cover:
Sweeney Ridge Trail, San Bruno

San Mateo County Employees' Retirement Association

A Pension Trust Fund of the County of San Mateo and Participating Employers

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the year ended June 30, 2012

C. David Bailey
Chief Executive Officer

Mabel Wong
Finance Officer

Michael Coultrip
Chief Investment Officer

SamCERA
100 Marine Parkway, Suite 125
Redwood City, California 94065

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INTRODUCTORY **SECTION**

Hikers at Edgewood Park & Natural Preserve

SamCERA's Mission

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

SamCERA's Goals

Provide caring, fair, accurate, timely and knowledgeable professional service to SamCERA's clients and the public. Prudently manage the assets in order to appropriately fund the actuarial liabilities of the retirement system and assure the ability to pay all earned benefits while minimizing the costs to its employers. Constantly improve the effectiveness of SamCERA's services and the efficiency of its operations.

ADMINISTRATOR'S LETTER OF TRANSMITTAL

SamCERA
SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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C. David Bailey
SamCERA
Chief Executive Officer

Board of Retirement
San Mateo County Employees' Retirement Association

Dear Trustees:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the San Mateo County Employees' Retirement Association (SamCERA) for the fiscal years ending June 30, 2012, and June 30, 2011.

SamCERA's management is responsible for the accuracy of the data; the complete, full disclosure of all matters of material consequence and the fairness of the presentation. Management's discussion and analysis of the data may be reviewed on pages 24-33.

SamCERA's management is also responsible for establishing and maintaining appropriate internal controls designed to provide reasonable assurance that SamCERA's assets are protected from loss, theft, or misuse. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management. Sufficient internal controls exist to provide reasonable assurance regarding the safekeeping of assets and the fair presentation of the financial statements and supporting schedules. As

Chief Executive Officer, I hereby certify that SamCERA's system of internal controls is adequate and that this report accurately, completely, fully and fairly discloses all matters of material consequence.

The Brown Armstrong Accountancy Corporation provides audit services to SamCERA. The financial audit ensures that SamCERA's financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatements. Internal controls are reviewed to ensure that SamCERA's operating policies and procedures are being adhered to and that the controls are sufficient to ensure accurate and reliable financial reporting and to safeguard SamCERA's assets. This report has been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

SamCERA's financial statements are prepared on the accrual basis of accounting. Revenues are taken into account when earned, regardless of the date of collection. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Investments are reported at fair value. The Financial Section of this report contains SamCERA's financial statements, required supplementary schedules, and supporting schedules.

SamCERA's funding goal is to prudently manage plan assets in order to appropriately fund the actuarial liabilities of the retirement system and assure the ability to pay all earned benefits while minimizing the costs to employers.

SamCERA engages an independent actuarial consulting firm, Milliman, Inc., to conduct an annual actuarial valuation of the plan. The purpose of the valuation is to reassess the magnitude of the benefit commitments in comparison with the assets expected to be available to support those commitments so that employer and employee contribution rates can be adjusted accordingly. Every third year SamCERA instructs its actuarial firm to perform an actuarial experience study. SamCERA strives to provide the most recent financial and actuarial data in its annual report. Therefore, the actuarial valuation of June 30, 2012, is used in this CAFR.

Authority, Responsibilities & Duties

SamCERA was created by the Board of Supervisors in 1944, pursuant to the provisions of California's County Employees Retirement Law of 1937 (the '37 Act) and County Ordinance 564.

SamCERA provides retirement, disability and death benefits for its eligible members in accordance with the provisions of Section 17 of Article XVI of the Constitution of the State of California, the County Employees Retirement Law of 1937 commencing at Government Code Section 31450 as well as applicable statutes, regulations and case law.

The Board of Retirement (the Board) serves as fiduciary for all of SamCERA's members. The Board is responsible for administering the provisions of the '37 Act that the Board of Supervisors has made applicable to San

Mateo County. The Board of Retirement has adopted its *Mission & Goals; Statement of Strategic Services; Regulations of the Board of Retirement; SamCERA's Investment Policy; SamCERA's Sources, Uses and Budget Report; Conflict of Interest Code; Code of Fiduciary Conduct* and *Delegation of Authority, et al* to document the Board's policies. In addition, the Board has executed contracts for the professional services of an actuary, investment consultant, investment managers, a global custodian and a medical advisor to help the Board fulfill its duties. The Board's professional consultants are highlighted in the organizational chart on page 20.

SamCERA's Chief Executive Officer (the CEO) is responsible for the day-to-day operations of the association. The CEO serves at the pleasure of the Board of Retirement and manages SamCERA's operations in accordance with the Board's *Delegation of Authority* and all applicable laws, regulations, resolutions and rules. SamCERA's staff of twenty full-time employees is responsible for assuring that the needs of the members, employers and Board are met in accordance with the high standards set forth in SamCERA's *Mission & Goals* statement. SamCERA's staff is sworn to carry out its fiduciary duties in accordance with staff's *Code of Fiduciary Conduct* and the staff's own high *Performance Standards*.

SamCERA's members include all permanent employees of the County of San Mateo, the San Mateo County Mosquito and Vector Control District, the Superior Court of the County of San Mateo, all vested former employees who elected deferred retirement, and all current retirees and benefit recipients. More than 85% of SamCERA's members are classified as General Members. General Members are covered by the applicable provisions set forth in the '37 Act and the laws and rules governing federal Social Security benefits. The remainder of SamCERA's members are law enforcement employees classified as Safety Members or Probation Safety Members. These members are covered by specific Safety Member provisions of the '37 Act but are not covered by Social Security.

I encourage you to review the following narrative introduction as well as the Management's Discussion and Analysis beginning on page 24.

Looking Backward and Forward

Trustees

The officers for the Board of Retirement at the end of the 2011-2012 fiscal year were **Al David**, Chair; **Sandie Arnott**, Vice Chair; and **Natalie Kwan Lloyd**, Secretary. These officers were first elected in October 2010 and, thus, initially served less than a full year term. They were reelected to full terms for the 2011-2012 fiscal year.

Other members of the 2011-2012 Board were: **Eric Tashman, David Spinello, Paul Hackleman, Ben Bowler, Michal Settles, and Lauryn Agnew.** Alternate trustees were **Alma Salas**, Safety Alternate, and **John Murphy**, Retiree Alternate.

Each Board term is three years. The SamCERA Board of Retirement consists of nine members. Four positions are appointed by the Board of Supervisors. Four members are elected from the membership.

The County Treasurer is a member of the Board by virtue of her office.

Appointments and Elections

Eric Tashman, a Public Finance Partner in the San Francisco office of law firm Sidley Austin LLP, was reappointed by the Board of Supervisors to the Fourth Member seat. He was first appointed in 2009. **Lauryn Agnew**, a Principal at Seal Cove Financial and Chair of the Investment Committee at United Way of the Bay Area, was reappointed to the Sixth Member seat. Her current term commenced in 2009. She has served on the Board on prior occasions.

The County Elections Division conducted an election on behalf of the retirement association on June 11, 2012, for the Safety Member seat on the Board of Retirement. As part of the Safety Member Election, an Alternate Safety Member was also elected.

David Spinello, a Deputy with the San Mateo County Sheriff's Office, was elected for the second time to the Safety Member seat (the Seventh Member). He has been with the Sheriff's Office for 10 years. He was first elected to the Retirement Board in 2009. **Christopher Miller** was elected as the Safety Alternate. Mr. Miller is a Group Supervisor II and a Probation Department Association (PDA) representative for the Juvenile Hall Staff. He has been with the county since 2005.

With Mr. Miller's election, Alma Salas gave up her seat on the Board. Ms. Salas served as either the Safety Member or Safety Alternate for 11 years.

One of two General Member seats on the Board (the Second Member seat) was also up for election at the end of 2011-2012. Incumbent **Al David** ran unopposed and was, therefore, deemed elected. Mr. David is Director of Administrative and Information Services for the San Mateo County Human Services Agency (HSA). He is also a retired Army Reserve Lieutenant Colonel. He was first elected to the Retirement Board in 2008.

Investments

The Board of Investments adopted and annually reviews an Investment Policy that provides a framework for the management of SamCERA's investments. This policy details SamCERA's investment policies and objectives and defines the principal investment responsibilities of the Board, the investment staff, investment managers, master custodian, and consultants. A pension fund's strategic asset allocation policy, implemented in a consistent and disciplined manner, is generally recognized to have the most impact on a fund's investment performance. The asset allocation process determines a fund's optimal long-term asset mix (target allocation), which is expected to achieve a specific set of investment objectives. Diversification of the investments is designed to lower the volatility of returns while optimizing the expected return for the level of risk taken. SamCERA pursues an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

After strong returns of approximately 13% and 24%, respectively, in fiscal years 2009-

2010 and 2010-2011, in fiscal year 2011-2012 SamCERA's returns were flat, ending the year up 0.03%. A downgrade of the credit rating for the U.S. government and a continuing debt crisis in Europe were the main drags to performance for institutional investors.

Staffing

SamCERA began a nationwide search for a Chief Investment Officer (CIO) in 2011-2012. Toward the end of the year, **Michael Coultrip** accepted SamCERA's offer to become the association's next CIO. Prior to coming to SamCERA, Mr. Coultrip was Director, Pensions and Investments, for the $15 billion defined benefit plan of the Raytheon Corp.

Gary Clifton, former CIO, retired after a 23-year career with SamCERA in June 2012.

Actuarial Valuation

In consultation with its actuarial services consultant, Milliman, Inc., in May 2012, the SamCERA Retirement Board lowered its investment earnings assumption from 7.75% to 7.50%, beginning with the 2012-2013 fiscal year. The decision was based in part on a review of the capital market projections of several top investment consulting firms in the U.S. SamCERA conducts an actuarial valuation every year and will continue to make the earnings assumption a focus of its annual actuarial work.

Legislation and Plan Changes

San Mateo County concluded negotiations with its bargaining units during the fiscal year. The resulting agreements reduced retirement formulas for new hires and shifted some costs. SamCERA staff created new forms for new hires, revised publications and reprogrammed its pension system software. As of September 2012, new statewide legislation was passed that will require a similar effort.

Cost of Living Allowance

SamCERA members who retired on or before April 1, 2012, received a Cost of Living Adjustment (COLA) of between 2.0% and 2.5%. The COLA amount for Plan 1 and Plan 2 was 2.5%, while the Plan 4 COLA was 2.0%. Plan 3 provisions do not provide for a COLA.

Information Technology

SamCERA embarked on a multi-year Technology Modernization Project during the fiscal year. The project includes business process reengineering, implementation of an imaging system and replacement of SamCERA's aging pension administration system. LRWL is the project management firm. These projects are expected to be complete in three to five years.

SamCERA completed a number of budgeted technology improvement projects during the fiscal year, including server infrastructure upgrades, addition of more backup power supplies, upgrade of the WiFi network, addition of a documentation server to centrally store user manuals, documentation and emergency procedures. The association also implemented a number of pension software enhancements required by the addition of new benefit formulas for certain new employees.

Strategic Planning

The SamCERA staff held a retreat in May 2012 and reviewed the Mission and Goals, discussed the strengths and weaknesses and opportunities and threats facing SamCERA. The result of these discussions was an update of the Strategic Plan Action Matrix. Staff will conduct a full review and update of the plan for the 2013-2014 fiscal year.

During the 2012-2013 fiscal year SamCERA will continue to pursue its three major goals, all of which are derived from and consistent with SamCERA's mission statement:

1. OPERATIONS GOAL

> *Constantly improve the effectiveness and efficiency of SamCERA's operations.*

This will include taking the next steps to upgrade SamCERA's core technologies and assuring that staffing is adequate during the projects and after they are complete. It will also include preparing for and implementing new pension tiers due to the passage of pension reform legislation.

2. ASSET MANAGEMENT GOAL

> *Prudently manage the assets in order to appropriately fund the actuarial liabilities of the retirement association.*

Major projects under this goal include continuing to build out the private equity portfolio, welcoming and orienting a new Chief Investment Officer, and assuring that the contribution rates for all new tiers are accurately actuarially assessed.

3. CUSTOMER SERVICES GOAL

> *Provide caring, fair, accurate, timely and knowledgeable professional services to SamCERA's clients and the public. Constantly improve the effectiveness of SamCERA's services.*

This goal will include the development of a Comprehensive Communications Plan to take into account increasing member needs for education and working closely with the County staff to assure that new tiers and other system changes resulting from pension reform are implemented properly.

Each goal has a number of specific projects designed to achieve it. The projects incorporate ideas generated during all seven staff retreats beginning in 2005. The plan follows the recommended steps for strategic planning from the Government Finance Officers Association.

Certificate of Achievement and Acknowledgements

For the fifteenth consecutive year, the Government Finance Officers Association (GFOA) has awarded SamCERA its Certificate of Achievement for Excellence in Financial Reporting. This award was in recognition of SamCERA's CAFR for the year ended June 30, 2011. The certificate is reproduced on page 16.

SamCERA is also the recipient of the GFOA Award for Outstanding Achievement in

Popular Annual Financial Reporting (PAFR) for the ninth year running. The association received this honor for the PAFR for the fiscal year ended June 30, 2011.

These awards recognize contributions to the practice of government finance exemplifying outstanding financial management; in doing so, they stress practical, documented work that offers leadership to the profession.

The Public Pension Coordinating Council (the Council) presented SamCERA its Public Pension Standards Award for 2011. The award recognizes that SamCERA has met professional standards for plan funding and administration as set forth in the Public Pension Standards of the Council. The standards judge retirement systems on their Funding Adequacy, Comprehensive Benefit Program, Actuarial Valuation, Independent Audit, Investments and Communications. The award is reproduced on page 17.

The compilation of the Comprehensive Annual Financial Report in a timely manner reflects the combined efforts of SamCERA's staff under the leadership, dedication and support of the Board of Retirement.

The association continues to maintain the highest financial reporting standards while providing quality services to its members. I am sincerely grateful to the SamCERA Board of Retirement and staff who perform so diligently to ensure the successful operation and financial soundness of SamCERA.

Respectfully submitted,

C. David Bailey
Chief Executive Officer
October 15, 2012

GFOA Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Mateo County

Employees' Retirement Association

California

For its Comprehensive Annual

Financial Report

for the Fiscal Year Ended

June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Government Finance Officers Association of the United States and Canada Corporation Seal Chicago

Linda C. Davison

President

Jeffrey R. Esser

Executive Director

PPCC Public Pension Standards Award

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2011

Presented to

San Mateo County Employees' Retirement Association

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Alan H. Winkle
Program Administrator

Members of the Board of Retirement

Sandie Arnott

Ex Officio per the 1937 Act, First Member

Sandie Arnott is the San Mateo County Treasurer/ Tax Collector. She first began serving in this office in January 2011. She served as Assistant County Treasurer for many years during which she was also active on the Retirement Board. Currently she is the Board Vice Chair. Her current term as Treasurer/Tax Collector runs through the end of 2014.

Albert David

Elected by the General Members, Second Member

Albert David is Director of Administrative and Information Services for the San Mateo County Human Services Agency (HSA). He is also a retired Army Reserve Lieutenant Colonel. He was first elected to the Retirement Board in 2008 and serves as Board Chair. He was re-elected for a second full term in 2012. His term will expire June 30, 2015.

Natalie Kwan Lloyd

Elected by the General Members, Third Member

Natalie Kwan Lloyd is an Appraiser in the San Mateo County Assessor's Office. She joined the board in July 2008 to serve out the unexpired term of Tom Bryan. She is currently the Board Secretary. In June 2010 she was elected to a full term which will expire June 30, 2013.

Eric Tashman

Appointed by the Board of Supervisors, Fourth Member

Eric Tashman is a public finance partner in the San Francisco office of law firm Sidley Austin LLP, where he is head of the firm's West Coast public finance practice group. He was appointed by the Board of Supervisors in 2009, and reappointed in 2012. He is a member of the Audit Committee. His term expires June 30, 2015.

Benedict J. Bowler

Appointed by the Board of Supervisors, Fifth Member

Benedict Bowler is the Treasurer of Matson, Inc. He was appointed in August 2008 to fill the unexpired term of Scott Lee. He is Chair of the Investment Committee. In June 2010 he was reappointed to a full term, which will expire June 30, 2013.

Lauryn Agnew

Appointed by the Board of Supervisors, Sixth Member

Lauryn Agnew is a Principal at Seal Cove Financial and Chair of the Investment Committee at United Way of the Bay Area. She was appointed by the Board of Supervisors in 2009, and reappointed in 2012. She is a member of the SamCERA Investment Committee. Her term expires June 30, 2015.

David Spinello

Elected by the Safety Members, Seventh Member

David Spinello is a Deputy with the San Mateo County Sheriff's Office. He was elected to the board in 2009 and reelected in 2012. He is a member of the Audit Committee. His term expires on June 30, 2015.

Paul Hackleman

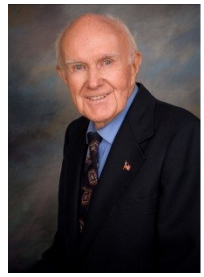
Elected by the Retired Members, Eighth Member

Paul Hackleman was elected in June 2010 to serve as the Retired Member of the Board of Retirement. Paul served as the county Benefits Manager from 1982 through March 2008. Today he is the head of I.C. Benefits Consulting. His term will expire June 30, 2013.

Michal Settles

Appointed by the Board of Supervisors, Ninth Member

Michal Settles is a business professor at the City College of San Francisco. Her teaching experience also includes The University of San Francisco, Saint Mary's College, and San Francisco State University. For more than 10 years she served as the chair of the San Francisco Bay Area Rapid Transit District (BART) Investment Plans Committee. She was appointed by the Board of Supervisors in June 2011. Her term will expire June 30, 2013.



John Murphy

Elected by the Retired Members, Retiree Alternate

John Murphy was appointed by the Board of Retirement in July 2006 to serve as the Retiree Alternate. He was elected to the alternate position in June 2007 and again in 2010. He substitutes in the absence of the Eighth Member and his term will expire June 30, 2013.

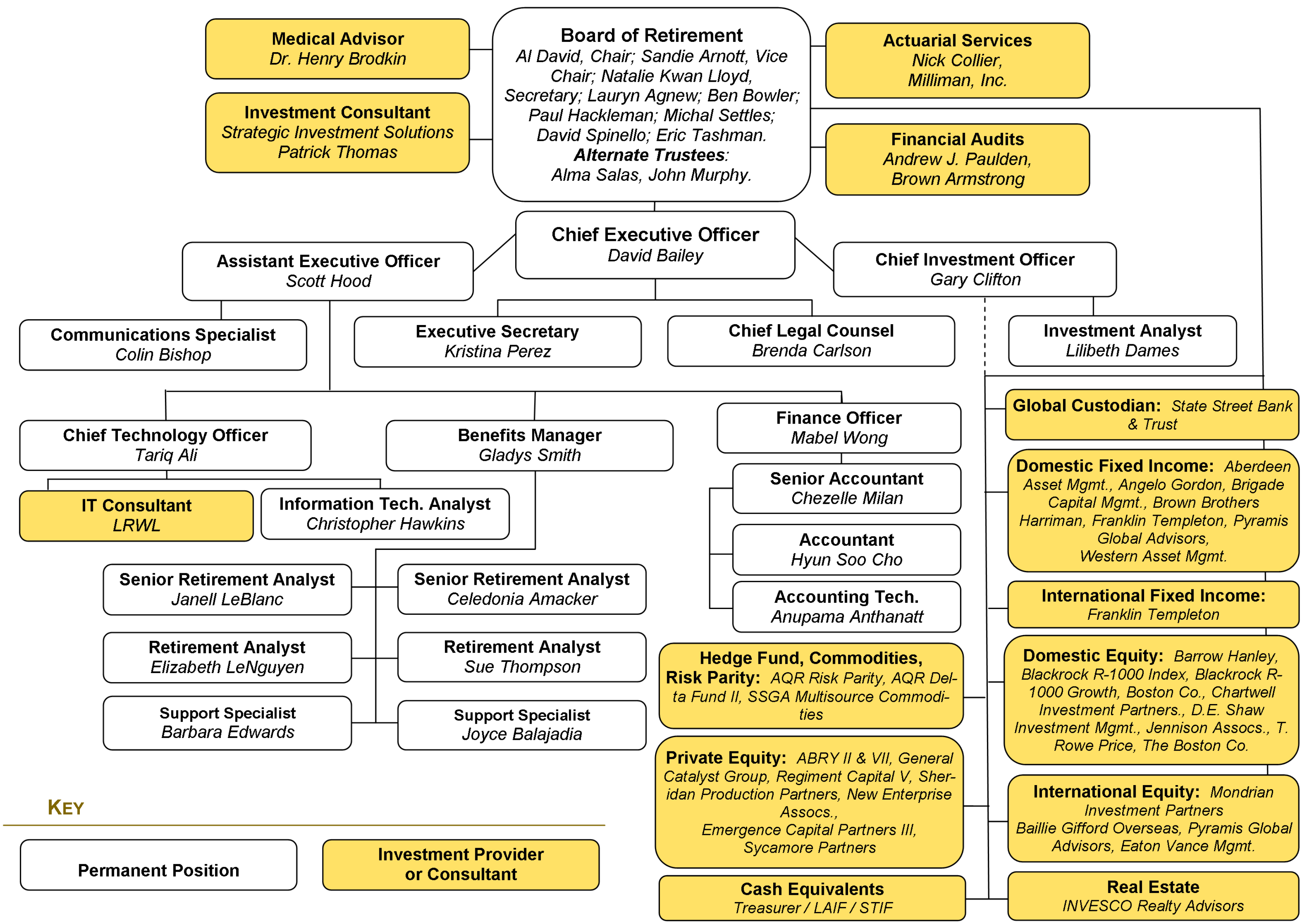
Alma Salas

Elected by the Safety Members, Safety Alternate

Alma Salas is a Probation Services Manager with San Mateo County. Alma joined the board in May of 2001. She served as Board Chair during the 2004 - 2005 fiscal year. She was elected to serve as the Safety Alternate beginning July 2006. In this role she will substitute in the absence of the Second, Third, or Seventh Member. Her term expires on June 30, 2012.

SamCERA 2011-2012 Organizational Chart

as of June 30, 2012



FINANCIAL **SECTION**

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PKF North America

REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Retirement
San Mateo County Employees' Retirement Association

We have audited the accompanying Statement of Fiduciary Net Assets of the San Mateo County Employees' Retirement Association (SamCERA) as of June 30, 2012 and 2011, and the related Statement of Changes in Fiduciary Net Assets for the years then ended. These financial statements are the responsibility of SamCERA management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of SamCERA as of June 30, 2012 and 2011, and its changes in fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Other Supplementary Information, as listed in the table of contents, and the Investment, Actuarial, Statistical, and Compliance sections are presented for purposes of additional analysis and are not a required part of the financial statements of SamCERA. The Other Supplementary information as listed in the table of contents has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. We did not audit the information contained in the Investment, Actuarial, Statistical, and Compliance sections and express no opinion or provide any assurance on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012, on our consideration of SamCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 15, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2011-2012

As fiduciaries of the San Mateo County Employees' Retirement Association (SamCERA), we offer readers of SamCERA's financial statements this narrative overview and analysis of its financial position and results of operation for the fiscal years ended June 30, 2012, and 2011. The information presented here, in conjunction with the Notes to the Financial Statements beginning on page 36, provides a clear picture of SamCERA's overall financial status and activities.

Financial Highlights

- $2.36 billion in net assets as of June 30, 2012, are held in trust for pension benefits. All of the assets are available to meet SamCERA's ongoing obligation to plan participants and their beneficiaries.
- SamCERA's total net assets held in trust for pension benefits increased by $42.5 million or 1.8% primarily as a result of contributions received.
- SamCERA's funding objective is to meet long-term benefits obligations through contributions and investment income. As of June 30, 2012, the actuarial funded ratio for SamCERA decreased from 74.1% to 72.0%. The decrease is primarily due to the recognition of prior years' asset losses under the asset smoothing method. The current year's actuarial loss and a 0.25% reduction of the assumed earnings rates adopted in May 2012, also contributed to the ratio decrease.
- Revenues (Additions to Fiduciary Net Assets) for the year were $190.4 million which includes employer contributions of $150.9 million, member contributions of $49.7 million, investment gains of $9.9 million (excluding investment expense of $20.9 million), security lending income of $721,219 and other additions of $29,025. The 70% decrease in additions to net assets over the prior year is mainly due to FY 2012's flat investment gains compared to the exceptional returns of FY 2011.
- Expenses (Deductions in Fiduciary Net Assets) increased from $135.9 million to $147.8 million over the prior year, or approximately 8.81%. The fiscal year 2012 expenses include $139.2 million in benefit payments, $3.6 million in member refunds, $5.0 million in administrative expenses and -$33,331 for other expenses. The majority of this increase was due to an increase in the amount of benefits paid in the fiscal year.
- SamCERA's actuarial value of assets had $120.0 million of unrecognized investment losses as of June 30, 2012, a 37% increase compared to $87.4 million in the prior year.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to SamCERA's financial statements, which are comprised of these components:

1. Comparative Statements of Fiduciary Net Assets
2. Comparative Statements of Changes in Fiduciary Net Assets
3. Notes to the Financial Statements
4. Required Supplementary Information
5. Other Supplementary Information

Please note, however, that this report also contains clarifying information to supplement the basic financial statements listed above.

The Comparative Statement of Fiduciary Net Assets is a snapshot of account balances at year-end. It discloses the assets available for future payments to retirees and their beneficiaries and any current liabilities that are owed as of June 30, 2012. The net assets, which are assets less liabilities, reflect the funds available for future use.

The Comparative Statement of Changes in Fiduciary Net Assets provides a view of all the activities that occurred during the fiscal year and shows the impact of those activities as additions and deductions to the plan. Both statements are in compliance with Governmental Accounting Standards Board (GASB) pronouncements.

The Comparative Statement of Fiduciary Net Assets and the Comparative Statement of Changes in Fiduciary Net Assets report information about SamCERA's activities. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current fiscal year's revenues and expenses are recognized when they are incurred, regardless of when cash is received or paid. All investment purchases and sales are reported as of the trade date, not the settlement date. Investments are reported at current fair value. Both realized and unrealized investment gains and losses are recognized. Each component of capital assets is depreciated over its useful life.

These two statements report SamCERA's net assets held in trust for pension benefits as one way to measure the plan's financial position. Over time, increases and decreases in SamCERA's net assets are one indicator of whether its financial position is improving or deteriorating. Other factors, such as market conditions, should be considered in measuring SamCERA's overall financial position. The increase in SamCERA's plan net assets for the year ended June 30, 2012, was 1.83%. This slight increase is due to contributions received. SamCERA's total gross fund return of 0.03% underperformed SamCERA's 7.75% actuarial assumed interest rate. The net deferred investment losses from the past five years increased from -$87.4 million in FY 2011 to -$120.0 million in FY 2012, which reflects the addition of the current year's actuarial loss. Deferred investment losses will be spread over the next five years.

SamCERA's Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets appear on pages 34 and 35.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes provide detailed discussion of key policies, programs, and activities that occurred during the year. Notes to the Financial Statements appear on pages 36-60.

Required Supplementary Information follows the notes and provides additional information and detail concerning SamCERA's progress in funding its obligations to provide pension benefits to members, the trend of employers' contributions, pertinent actuarial information as of the latest valuation, and notes to the schedules of trend information. The postemployment benefit program is administered by the plan sponsor, San Mateo County (please refer to the County's CAFR for additional information). Required Supplementary Information appears on page 61.

Other Supplementary Information includes the schedules of administrative expenses, schedule of investment expenses, and schedule of payments to consultants. These schedules are presented immediately following the Required Supplementary Information on page 63.

Financial Analysis

Tables 1, 2, 3, 4 and 5 summarize and compare SamCERA's financial results for current and prior periods.

SamCERA's Fiduciary Net Assets held in trust for pension benefits as of June 30, 2012, totaled $2.36 billion which represents an increase of $42.5 million or 1.83% over the period. The slight increase during the fiscal year is due to contributions received. All of the net assets are available to meet SamCERA's ongoing obligations to plan participants and their beneficiaries.

In Table 1, total assets are comprised of investments at fair value and "other" assets. The other assets are cash and deposits, security lending cash collateral, receivables, prepaid expense and capital assets. The decrease in other assets from FY 2011 to FY 2012 is due to fluctuations in cash transactions for the security lending program as well as the amount of receivables from brokers for investments sold. The increase in other assets from FY 2010 to FY 2011 is also

SAMCERA'S NET ASSETS (CONDENSED): TABLE 1

For the Years Ended June 30, 2012 and 2011

	2012	2011	Amount Increase/ Decrease	Percent Increase/ Decrease
Investments at Fair Value	$2,323,607,764	$2,271,145,860	$52,461,904	2.31%
Other Assets	$383,515,763	$426,668,536	($43,152,773)	(10.11%)
Total Assets	$2,707,123,527	$2,697,814,396	$9,309,131	0.35%
Total Liabilities	$346,819,873	$380,038,567	($33,218,694)	(8.74%)
Net Assets	**$2,360,303,654**	**$2,317,775,829**	**$42,527,825**	**1.83%**

For the Years Ended June 30, 2011 and 2010

	2011	2010	Amount Increase/ Decrease	Percent Increase/ Decrease
Investments at Fair Value	$2,271,145,860	$1,753,167,629	$517,978,231	29.55%
Other Assets	$426,668,536	$352,017,057	$74,651,479	21.21%
Total Assets	$2,697,814,396	$2,105,184,686	$592,629,710	28.15%
Total Liabilities	$380,038,567	$289,288,231	$90,750,336	31.37%
Net Assets	**$2,317,775,829**	**$1,815,896,455**	**$501,879,374**	**27.64%**

attributable to the same reasons. The total liabilities referred to in Table 1 are the following payables: investment management fees, due to broker for investments purchased, collateral payable for security lending and other miscellaneous payables. The decrease in total liabilities for FY 2012 is due to a decrease in the amount due to brokers for investments purchased as well as collateral payable for security lending. The increase in total liabilities from FY 2010 to FY 2011 is also attributable to the same reasons.

Despite recent market volatility and enriched retirement benefits, SamCERA remains in a good financial position to meet its obligations to plan participants and beneficiaries.

Capital Assets

As of June 30, 2012, the balance of SamCERA's capital assets (net of accumulated depreciation and amortization) remained at $0. The capital expenditures in the fiscal year ended June 30, 2012 were for various technology infrastructure. The purchases were generally less than $15,000 and expensed in the fiscal year.

Reserves

The statement of SamCERA's reserves as shown in Table 2 indicates how SamCERA's fiduciary net assets have accumulated in the current fiscal year. SamCERA's reserves are established from employer and member contributions and the accumulation of investment earnings, after deducting investment and administrative expenses (see Table 2). When a member retires, the fiduciary net assets attributable to that member are transferred to the Retiree Reserves from the Member Reserves and County Advanced Reserves. During the past several years the following significant Board of Retirement actions have impacted the reserve accounts:

SamCERA's Reserves: Table 2

	2012	2011	2010
VALUATION RESERVES			
Member Reserves	$498,568,652	$485,125,877	$449,354,818
Employer Advanced Reserves	$361,197,981	$310,568,622	$264,507,768
Retiree Reserves	$858,440,088	$765,312,626	$693,630,776
Cost of Living Reserves	$843,061,707	$760,505,829	$682,673,956
NON-VALUATION RESERVES			
Unallocated Earnings	($80,997,723)	$83,655,373	$88,908,428
Market Stabilization Account	($119,967,051)	($87,392,498)	($363,179,291)
Net Reserves Held in Trust for Pension Benefits	$2,360,303,654	$2,317,775,829	$1,815,896,455

- The adoption of the GASB Pronouncement No. 25, which mandates that investments be stated at fair value, effective in fiscal year 1995-1996.
- The creation of the Market Stabilization Account as recommended by William M. Mercer, SamCERA's actuary at that time.
- The Board of Retirement adopted a policy in 2002 which states that the amount of investment earnings added or subtracted from the Market Stabilization Account cannot exceed 20% of the investment return. If it does, then the excess is allocated to the Valuation Reserves.

In December and June of each year, the actuarial assumed investment returns are credited to each of the Valuation Reserves. When actual investment returns differ from the actuarial assumed investment returns, the surplus or deficit is recorded in the Market Stabilization Account. The balance of the account is allocated to the Valuation Reserves over a five-year period. This process reduces the volatility of annual contribution rates for the employers. This year SamCERA's Market Stabilization Account decreased by $32.8 million to -$120.0 million of deferred loss to be recognized over the next five years.

Additions to Fiduciary Net Assets

The primary sources of funding for SamCERA member benefits are employer contributions, member contributions, and net investment income. Total additions to fiduciary net assets for the fiscal years ended June 30, 2012, and 2011 were $190.4 million and $637.7 million, respectively. The decrease in FY 2012 is primarily due to the flat market return of assets. Employer and member contributions were flat compared to FY 2011. The increase in total additions to fiduciary assets from FY 2010 to FY 2011 was primarily due to market appreciation of assets, employer contributions, and a result of the asset allocation changes that the Board of Retirement implemented during the fiscal year.

Employer contributions for FY 2012 were $150.9 million, an increase of $474,889 over the prior year. Member contributions were $49.7 million. The $674,109 increase over FY 2011 is due to an increase in member optional service credit purchases. The relatively even level of contributions was due to a continuing hiring freeze for the primary Employer. The increase from FY 2010 to FY 2011 was primarily a result of a substantial increase in the County's required contribution rate to finance the Unfunded Actuarial Accrued Liability (UAAL) over fifteen years. The required total contribution rate increased from 23.62% to 34.00% of payroll and was almost entirely due to the recognition of accumulated asset losses.

SamCERA's total membership in 2012 was the same as 2011. However, there was a shift in the type of member. Active members decreased 2.9% from 5,245 to 5,095, retired members increased 3%, from 4,147 to 4,275, and inactive members increased almost 2% from 1,190 to 1,212. Total membership increased from FY 2010 to FY 2011. The increase was a combination of a 1.9% decrease in both active and deferred members, and a 3.6% increase in retired members.

Additions to Fiduciary Net Assets (Condensed): Table 3

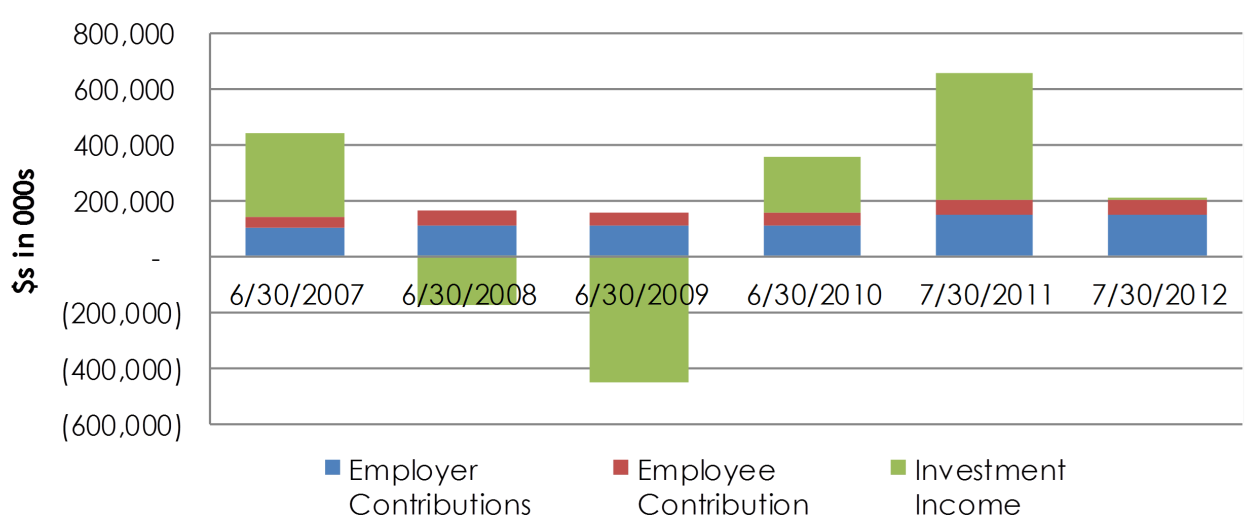
For the Years Ended June 30, 2012 and 2011

	2012	2011	Amount Increase/ Decrease	Percent Increase/ Decrease
Employer Contributions	$150,949,761	$150,474,872	$474,889	0.32%
Member Contributions	$49,687,136	$49,013,027	$674,109	1.38%
Investment Income/(Loss)	$9,916,437	$454,254,572	($444,338,135)	(97.82%)
Less Investment Expense	($20,940,955)	($16,596,601)	($4,344,354)	26.18%
Security Lending Income	$721,219	$530,311	$190,908	36.00%
Other Additions	$29,025	$73,305	($44,280)	(60.40%)
Total	**$190,362,623**	**$637,749,486**	**($447,386,863)**	**(70.15%)**
Current Membership	10,582	10,582	0	0.00%

For the Years Ended June 30, 2011 and 2010

	2011	2010	Amount Increase/ Decrease	Percent Increase/ Decrease
Employer Contributions	$150,474,872	$106,265,329	$44,209,543	41.60%
Member Contributions	$49,013,027	$50,318,477	($1,305,450)	(2.59%)
Investment Income/(Loss)	$454,254,572	$204,317,017	$249,937,555	122.33%
Less Investment Expense	($16,596,601)	($8,905,477)	($7,691,124)	86.36%
Security Lending Income	$530,311	$742,936	($212,625)	(28.62%)
Other Additions	$73,305	$41,474	$31,831	76.75%
Total	**$637,749,486**	**$352,779,756**	**$284,969,730**	**80.78%**
Current Membership	10,582	10,556	26	0.25%

Additions to Fiduciary Net Assets



Deductions from Fiduciary Net Assets

SamCERA was created to provide lifetime retirement annuities, survivor benefits, and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments as designated by the plan, refund of contributions to terminated members, and the cost of administering the system. Deductions for the fiscal year ended June 30, 2012, totaled $147.8 million, an increase of 8.8% over the prior fiscal year (refer to Table 4).

Retirement annuities, survivor benefits, and permanent disability benefits were $139.2 million in 2012, an increase of $9.4 million or 7.2% over 2011. The growth in benefit payments was due to the combined effects of the following: (1) the net increase in the number of retirees and beneficiaries for the year and (2) the increase in the average retirement allowance of those who were added to the retirement payroll. Retiree benefits in 2011 totaled $129.8 million, which is a $7.7 million, or 6.3%, increase over FY 2010. The sharp increase was due to the same trend. There has been a steady increase in the number of retirees, an 11.3% increase over the last five years.

Member refunds were $3.6 million in 2012, a increase of $1.2 million or 46.6% over 2011. Member refunds increased in fiscal year 2012, due to a higher amount of terminated members that requested withdrawals as well as a higher amount of death benefits refunded to beneficiaries. In an effort to reduce its structural deficit, the County offered financial incentives for voluntary separation under certain job classifications. Terminated members with a few years of service often withdraw from their accounts.

Administrative expense was $5.0 million for 2012. Administrative expense covers the basic costs of operating the retirement system. These include staffing, office expense, information technology systems, depreciation, and miscellaneous expenses. Approximately half of the administrative expense is for staffing (wages, fringe benefits, and temporary labor).

The system's administrative expenses increased by $1.5 million or 41.7% in fiscal year 2012. In FY 2011, staff and expenses related to investment activities were recorded as part of the Asset Management budget and included as an investment expense. Beginning in 2012, staff and direct expenses were no longer separated. An increase in staffing during fiscal year 2012 also added to the increase in administrative expenditure. The $178,631 or 5.3% increase from fiscal year 2010 to fiscal year 2011, was mostly attributable to the increase in staffing. SamCERA hired three new employees during FY 2011.

Expenses for SamCERA's professional services are included with investment expense. For the fiscal year ended June 30, 2012, the expenditures for actuarial services, custodian services and investment consultant services increased by $111,204 compared to 2011. This increase is due to higher actuarial fees as a result of hiring a second actuarial firm to perform an actuarial audit of the association's triennial experience study and actuarial valuation. Investment management fees are driven by contractual agreements and based on total fair market value of assets under management. The combination of the implementation of alternative investments (private equity, hedge

DEDUCTIONS IN FIDUCIARY NET ASSETS: TABLE 4

For the Years Ended June 30, 2012 and 2011

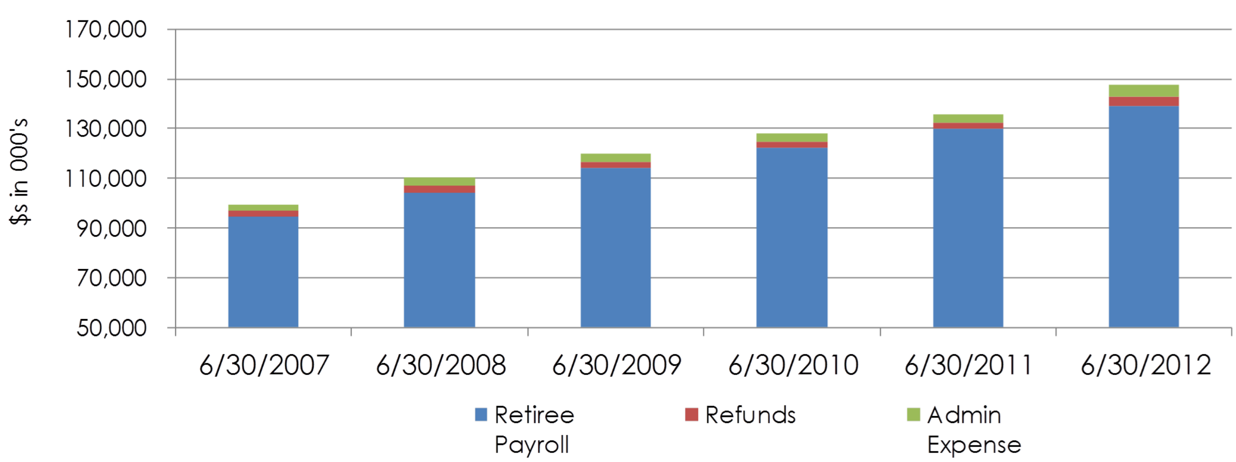
	2012	2011	Amount Increase/ Decrease	Percent Increase/ Decrease
Retiree Benefits	$139,207,590	$129,834,540	$9,373,050	7.22%
Member Refunds	$3,627,492	$2,474,445	$1,153,047	46.60%
Administrative Expenses	$5,033,047	$3,551,598	$1,481,449	41.71%
Other Expenses	($33,331)	$9,529	($42,860)	(449.79%)
Total	**$147,834,798**	**$135,870,112**	**$11,964,686**	**8.81%**
Benefit Recipients	4,275	4,147	128	3.09%

For the Years Ended June 30, 2011 and 2010

	2011	2010	Amount Increase/ Decrease	Percent Increase/ Decrease
Retiree Benefits	$129,834,540	$122,141,091	$7,693,449	6.30%
Member Refunds	$2,474,445	$2,736,025	($261,580)	(9.56%)
Administrative Expenses	$3,551,598	$3,372,967	$178,631	5.30%
Other Expenses	$9,529	$32,776	($23,247)	(70.93%)
Total	**$135,870,112**	**$128,282,859**	**$7,587,253**	**5.91%**
Benefit Recipients	4,147	4,002	145	3.62%

DEDUCTIONS TO FIDUCIARY NET ASSETS

FY 2007-2012



funds, commodities and risk parity) as well as market appreciation of assets resulted in higher investment management fees in 2012.

Deductions of $147.8 million are slightly less than additions of $190.4 million, resulting in an increase of $42.5 million in fiduciary net assets for the fiscal year ended June 30, 2012.

The change in fiduciary net assets consists of total additions reduced by total deductions. Table 5 below shows condensed information about this financial activity. Fiduciary net assets increased by $42.5 million for the year ended June 30, 2012. This modest increase is due to the contributions received during the fiscal year. Fiduciary net assets increased by $501.9 million from FY 2010 to FY 2011. The magnitude of this increase is due to the appreciation of investment assets.

CHANGES IN FIDUCIARY NET ASSETS (CONDENSED): TABLE 5

For the Years Ended June 30, 2012 and 2011

	2012	2011	Amount Increase/ Decrease	Percent Increase/ Decrease
Beginning Plan Net Assets	$2,317,775,829	$1,815,896,455	$501,879,374	27.64%
Total Additions	$190,362,623	$637,749,486	($447,386,863)	(70.15%)
Total Deductions	$147,834,798	$135,870,112	$11,964,686	8.81%
Ending Plan Net Assets	**$2,360,303,654**	**$2,317,775,829**	**$42,527,825**	**1.83%**

For the Years Ended June 30, 2011 and 2010

	2011	2010	Amount Increase/ Decrease	Percent Increase/ Decrease
Beginning Plan Net Assets	$1,815,896,455	$1,591,399,558	$224,496,897	14.11%
Total Additions	$637,749,486	$352,779,756	$284,969,730	80.78%
Total Deductions	$135,870,112	$128,282,859	$7,587,253	5.91%
Ending Plan Net Assets	**$2,317,775,829**	**$1,815,896,455**	**$501,879,374**	**27.64%**

New Accounting Standards

In June 2012, the Governmental Accounting Standards Board (GASB), which sets Generally Accepted Accounting Principles (GAAP) for governments, including SamCERA, approved major changes to the pension accounting and reporting framework. The new pension accounting and financial reporting standards, GASB 67 and 68 represent the most significant fundamental changes in reporting requirements for pension plans and plan sponsors in over a decade. The standards require plan sponsors to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The standards also enhance accountability and transparency through revised and new note disclosures and required supplementary information. For plans, the standards build upon the existing framework for financial reports, enhance the note disclosures and required supplementary information, and require the presentation of new information about annual money-weighted rates of return in the notes to the financial statements. GASB 67 provisions for plans are effective for financial statements for periods beginning after June 15, 2013, and GASB 68 for plan sponsors, are effective for fiscal years beginning after June 15, 2014. SamCERA's board and management, working with professional consultants will evaluate and implement these new requirements as prescribed.

SamCERA's Fiduciary Responsibilities

SamCERA's Board of Retirement and management staff are fiduciaries of the pension trust fund. Under the California Constitution and the County Employees Retirement Law of 1937, assets of the retirement system can only be used for the exclusive benefit of plan participants and their beneficiaries.

Requests for Information

This financial report is designed to provide the SamCERA's board, membership, participating employers, taxpayers, and other interested parties with a general overview of SamCERA's financial condition and to show accountability for the funds it receives.

Additional information is available on our website at www.samcera.org.

Questions regarding this report, or requests for additional financial information should be addressed to:

San Mateo County Employees'
Retirement Association
100 Marine Parkway, Suite 125
Redwood City, CA 94065
Telephone: (650) 599-1234
Facsimile: (650) 591-1488

Respectfully submitted,

Mabel Wong

Mabel Wong
Finance Officer
October 15, 2012

Statement of Fiduciary Net Assets

For the Years Ended June 30, 2012 and 2011

	2012	2011
ASSETS		
Cash and deposits	$49,733,227	$62,694,785
Security lending cash collateral	199,380,508	199,438,881
Total cash	249,113,735	262,133,666
Receivables		
Contributions	3,702,233	10,470,382
Due from broker for investments sold	125,066,558	148,074,596
Investment income	5,414,934	5,800,573
Security lending income	97,138	67,915
Other receivables	113,496	113,735
Total Receivables	134,394,359	164,527,201
Prepaid Expense	7,669	7,669
Investments, at fair value		
Domestic fixed income securities	453,960,203	481,753,079
International fixed income securities	100,544,203	103,539,324
Domestic equities	902,422,401	932,277,233
International equities	408,832,756	398,753,172
Real estate	146,917,122	135,475,106
Private Equities	19,404,901	3,740,976
Risk parity	152,628,991	145,620,699
Hedge funds	68,994,760	69,986,272
Commodities	69,902,427	0
Total Investments	2,323,607,764	2,271,145,860
Total Assets	2,707,123,527	2,697,814,396
LIABILITIES		
Payables		
Investment management fees	2,533,960	1,869,336
Due to broker for investments	141,487,676	175,192,142
Collateral payable for securities	199,380,508	199,438,881
Other	3,417,729	3,538,208
Total Liabilities	346,819,873	380,038,567
Net Assets Held in Trust For Pension Benefits	**$2,360,303,654**	**$2,317,775,829**

The accompanying Notes to the Financial Statement beginning on page 36 are an integral part of these financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the Years Ended June 30, 2012 and 2011

	2012	2011
ADDITIONS		
Contributions (Note 3)		
Employer	$150,949,761	$150,474,872
Member	49,687,136	49,013,027
Total Contributions	200,636,897	199,487,899
Investment Income		
Interest and dividends	61,653,951	50,758,044
Net appreciation in fair value of investments	(51,737,514)	403,496,528
	9,916,437	454,254,572
Less investment expense	(20,940,955)	(16,596,601)
Net Investment Income	(11,024,518)	437,657,971
Security Lending Income		
Earnings	452,442	558,768
Less security lending expense	268,777	(28,457)
Net Security Lending Income	721,219	530,311
Other Additions	29,025	73,305
Total Additions	190,362,623	637,749,486
DEDUCTIONS		
Association benefits		
Service retirement allowance	122,541,648	114,422,667
Disability retirement allowance	15,532,365	14,552,927
Survivor, death and other benefits	1,133,577	858,946
Total Association Benefits	139,207,590	129,834,540
Refunds of members' contributions	3,627,492	2,474,445
Administrative expense (Note 3)	5,033,047	3,551,598
Other Expense	(33,331)	9,529
Total Deductions	147,834,798	135,870,112
Net Increase	42,527,825	501,879,374
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	2,317,775,829	1,815,896,455
End of Year	**$2,360,303,654**	**$2,317,775,829**

The accompanying Notes to the Financial Statement beginning on page 36 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENT

Note 1: Plan Description

The following description of the San Mateo County Employees' Retirement Association (the Association or SamCERA) is provided for general information purposes. The Association is governed by the California Constitution, the County Employees Retirement Law of 1937 (the 1937 Act — a component of the California Government Code) and the bylaws, procedures and policies adopted by the Board of Retirement.

General

The Association is a cost-sharing multiple-employer, defined benefit pension plan established to provide pension benefits for substantially all permanent employees of the County of San Mateo (Primary Employer), the San Mateo County Mosquito and Vector Control District, and the Superior Courts of County of San Mateo. The Association is a Pension Trust Fund of the primary and participating employers. Management of the Association is vested in the Board of Retirement consisting of nine members. The 1937 Act states one member shall be the County Treasurer; the second and third members shall be general members of the Association elected by their peers; the fourth, fifth, sixth and ninth members shall be qualified electors of the county and shall be appointed by the Board of Supervisors; the seventh member shall be elected by and be a member of the Association's safety membership; and the eighth member shall be a retired member elected from the retired membership.

The Association has six tiers, which cover members classified as general, safety or probation. Members hired on or before July 6, 1980, became members of Tier 1. Members hired after July 6, 1980, and before July 13, 1997, became members of Tier 2. Members hired on or after July 13, 1997, become members of Tier 4, until Tier 5 and Tier 6 became effective in FY 2011-2012. New General Members may also elect membership under Tier 3, a non-contributory plan. New employees appointed to positions of active law enforcement become safety members under Tier 5 or 6. In 1990, probation officers were given the choice of remaining in the general plan or electing safety status for future service under a new probation plan. All new probation officers then became members under Tier 2 for probation officers. From January 1, 1993, general members in Tier 3 with five years of continuous service have the option to change to the plan they were eligible for at entry date. Former Tier 3 members are authorized to purchase service credit in their current plan. Earned Tier 3 service credit is forfeited in an amount equivalent to the purchase.

The County of San Mateo implemented a number of new tiers for new hires beginning in fiscal year 2011-2012. The new tiers are mostly pension formulas prior to the adoption of enhanced formulas in the middle of the last decade with some cost shifting. Existing plans closed simultaneously.

General employees hired on or after August 7, 2011, choose between an existing non-contributory plan or a 2% @ 61.25 contributory plan, Tier 5. Newly hired Safety members subsequent to January 8, 2012 are enrolled in a 3% @ 55 Tier 5, or a 2% at 50 Tier 6, contributory plan. New Probation members hired after July 10,

ASSOCIATION MEMBERSHIP PROFILE

For the Year Ended June 30, 2012

	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Total
RETIREES AND BENEFICIARIES CURRENTLY RECEIVING BENEFITS							
General	1,910	1,489	110	210	0	0	3,719
Safety	285	126	0	17	0	0	428
Probation	72	46	0	10	0	0	128
Subtotal	2,267	1,661	110	237	0	0	4,275
TERMINATED MEMBERS ENTITLED TO BUT NOT RECEIVING BENEFITS (DEFERRED)							
General	26	449	117	508	0	0	1,100
Safety	1	30	0	36	0	0	67
Probation	0	20	0	25	0	0	45
Subtotal	27	499	117	569	0	0	1,212
CURRENT MEMBERS							
Vested							
General	49	994	72	2,207	0	0	3,322
Safety	4	114	0	219	0	0	337
Probation	1	70	0	202	0	0	273
Non-Vested							
General	0	1	67	817	154	0	1,039
Safety	0	0	0	84	14	0	98
Probation	0	0	0	22	3	1	26
Subtotal	54	1,179	139	3,551	171	1	5,095
Total	**2,348**	**3,339**	**366**	**4,357**	**171**	**1**	**10,582**

2011, are offered the option to choose between the 3% @ 55 formula with an additional cost-share contribution of 3.5% of pay, Tier 5, or a 2% @ 50 formula with no cost-share provision, Tier 6. All new hires in these bargaining units also pay half the actuarial cost of Cost of Living Adjustments (COLA).

The Association is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

As of June 30, 2012, the Association membership is shown in the table above.

Benefit Provisions

The Association provides service retirement, disability and death benefits based on defined benefit formulas, which use final average compensation, years of service, and age factors to calculate benefits payable. In addition, the Association provides annual cost of living adjustments upon retirement for members of Tiers 1, 2, 4, 5 and 6. The benefits of Tier 3 are reduced by a portion of Social Security benefits received by the member. The 1937 Act vests the Board of

Supervisors with the authority to initiate benefits, while Government Code Section 31592.2 empowers the Board of Retirement to provide certain ad hoc benefits when the Section 31592 reserve exceeds 1% of assets.

Members with 10 years of continuous service (permanent part-time employees need equivalent of 5 years of full-time service and 10 years of membership) are eligible to retire at the following minimum ages:

Tier One	Age 50
Tier Two	Age 50
Tier Three	Age 55
Tier Four	Age 50
Tier Five	Age 50
Tier Six	Age 50

General members in Tiers 1, 2, 4, 5 and 6 may retire at any age after 30 years of service. Safety members and Probation members may retire at any age after 20 years of service.

A member who leaves county service may withdraw his or her contributions, plus any accumulated interest.

Members with five years of service or permanent part-time employees who have the equivalent of five years of full-time service or non-contributory members (Tier 3) with 10 years of service who terminate their employment with the county may elect a deferred retirement.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The Association follows the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB). The financial statements are prepared using the accrual basis of accounting and reflect the overall operations of SamCERA. Investment income is recognized when it is earned, and expenses are recognized when they are incurred. Employer and member contributions are recognized in the period in which the contributions are due, and benefits and refunds are recognized when payable in accordance with the terms of each tier.

SamCERA is an independent public employee retirement system with its own governing board. SamCERA's financial statements are included in the County of San Mateo's financial statements as a pension trust fund of the county. Maintaining appropriate controls and preparing the Association's financial statements are the responsibility of SamCERA's management.

Cash and Investments

The Board of Retirement has exclusive control of the investments of the Association. Government Code Section 31595 of the 1937 Act authorizes the board to invest, or delegate the authority to invest, the assets of the Association in any investment allowed by statute and deemed prudent in the informed opinion of the board.

Cash is pooled with other funds of the county or custodians, when appropriate, so as to earn a higher rate of return than could be earned by investing the funds individually. All highly liquid investments with maturities of three months or less when purchased, in addition to the pooled cash with the county and custodians, are considered cash equivalents.

Investments: The Association records investment transactions on the trade date. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. By contract, an independent appraisal is obtained once every quarter to determine the fair market value of the real estate assets.

Interest income is recognized as it accrues. Dividend income is recognized when the dividends are declared. Realized gains and losses and unrealized gains and losses on investments are combined and reported together as the net appreciation (depreciation) in the fair value of investments.

Security Lending Activity

Security lending transactions are short-term collateralized loans of SamCERA securities for the purpose of generating additional investment income. For each lending transaction, SamCERA receives either cash collateral or non-cash collateral.

The underlying securities out on loan are reported on SamCERA's statement of fiduciary net assets as if the lending transaction had not occurred.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, cash collateral held (or any security that can be sold or pledged without a default by the borrower) is separately reported on the statement of fiduciary net assets among the current assets. A corresponding liability of an equal amount (the obligation to return the cash collateral) is reported as a liability.

Non-cash collateral held is not reported on the statement of fiduciary net assets nor is there a corresponding liability reported on this statement. Note 4 – Deposit and Investment Risk Disclosure discloses the amount of securities lending non-cash collateral.

Income Taxes

The Internal Revenue Service has ruled that plans such as SamCERA qualify under Section 401(a) of the Internal Revenue Code and are not subject to tax under present income tax laws. On January 6, 1988, the Internal Revenue Service issued a favorable Tax Determination Letter. Accordingly, no provision for income taxes has been made in the accompanying basic financial statements, as the Plan is exempt from federal and state income taxes under provisions of the Internal Revenue Code, Section 401, and the California Revenue and Taxation Code, Section 23701, respectively.

Receivables

Receivables consist primarily of interest, dividends, investments in transition, i.e., traded but not yet settled, and contributions owed by the employing entities as of June 30, 2012, and 2011.

Property, Plant and Equipment

Capital assets are valued at historical cost, net of accumulated depreciation. Capital assets with an initial cost of more than $3,000 and an estimated useful life in excess of three years are capitalized and depreciated. Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets. The estimated useful lives for the assets in each category are as follows: office furniture – seven years; office equipment – five years; business continuity assets – three years; computer hardware – three years; and computer software – three years.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results may differ from those estimates.

Foreign Currency Transactions

Gains earned and losses incurred resulting from foreign currency transactions during the year are recorded as a component of investment income. Gains and losses from translation of international investments at fiscal year-end rates of exchange are included in investment income.

Forward currency contracts are used by our investment managers to control currency exposure and facilitate the settlement of international security purchase and sale transactions. These contracts are agreements to exchange different currencies at specified rates and settlement dates. Differences between the contract and market exchange rates at settlement result in gains or losses, which are included in net investment income. Risks may arise from the possible inability of counterparties to meet the terms of their contracts and from movements in exchange and interest rates.

Reclassification

Certain financial statement items from the prior year's financial statements have been reclassified for comparative purposes. Such reclassifications had no effect on previously reported net plan assets.

Summarized Prior Year Information

The accompanying financial statements include certain prior year summarized information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America.

Accordingly, such information should be read in conjunction with SamCERA financial statements as of and for the year ended June 30, 2011, from which the summarized information was derived.

Note 3: Contributions, Administrative Expenses and Reserves

Contributions

The 1937 Act establishes the basic obligations for employers and members to make contributions to the pension trust fund. The employer and member contribution rates are based on recommendations made by an independent actuary and adopted by the Board of Retirement. The employer and member rates are based on membership type (General, Safety, Safety/Probation) and tier (Tier 1, Tier 2, Tier 3, Tier 4, Tier 5 and Tier 6). The funding objective of the plan is to establish employer and member contribution rates which, over time, will remain level as a percentage of payroll, unless plan benefit provisions change.

For Tiers 1, 2, 4, 5 and 6 active members are required by statute to contribute toward their retirement benefits. Tier 3 is a non-contributory plan. The member contribution rates are formulated on the basis of age at the date of entry and the actuarially calculated benefits. Member contributions along with credited interest are refundable upon termination of membership.

Interest Crediting is explained in this Note under Reserves & Accounts. The Association's Tier 3 is a non-contributory plan for members. For the other tiers, the member basic contribution rates are based on age at entry into the Association and are a percentage of covered compensation. Under a Memorandum of Understanding with San Mateo County, its General Members contribute an additional 3.0% of covered salary to help offset benefits. San Mateo County Mosquito and Vector Control District implemented the enhanced benefits formula effective July 1, 2010, but the employees do not make additional contributions.

The participating employers are required by statute to contribute the amounts necessary to fund the estimated benefits accruing to SamCERA members not otherwise funded by member contributions or expected investment earnings. Employer contribution rates for each tier are determined pursuant to Government Code Section 31453 of the 1937 Act. Contribution rates are actuarially determined using the entry age normal method and consist of an amount for normal cost (the estimated amount necessary to finance benefits earned by members during the current year) and an amount required to amortize the unfunded actuarial accrued liability (UAAL). Beginning with the June 30, 2008 actuarial valuation, SamCERA converted to the 15-year layered amortization methodology. Under this methodology, the original unfunded amount (UAAL) is amortized over 15 years as of the valuation date. Future actuarial gains and losses are amortized over new 15-year periods. Details of the funding progress, annual required member contribution and employer contribution, and the latest actuarial valuation are presented in the Required Supplementary Information Schedules.

The normal cost and UAAL contribution rates are shown in the following table.

NORMAL COST AND UAAL RATES

	2012	2011*	Change
Normal Cost	11.52%	11.25%	0.27%
UAAL Amortization	23.97%	22.75%	1.22%
Total Contribution Rate	**35.49%**	**34.00%**	**1.49%**

*For 6/30/2011, the Board of Retirement voted on September 27, 2011 to retain the contribution rate from the June 30, 2009 actuarial valuation for the second consecutive year rather than the 30.97% calculated in the June 30, 2011 valuation. The 30.97% is composed of 11.25% normal cost and 19.72% UAAL.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution (unit $000)	Percentage Contributed
2012	$150,950	100%
2011	$150,475	100%
2010	$106,265	100%

Effective May 2, 2010, the county reduced from 100% to 75% the percentage it pays of management employees', unrepresented attorneys' and sheriff's sergeants' contributions. Effective April 23, 2006, the county pays 20% of Safety/Probation contributions on a non-refundable basis.

For the fiscal year ended June 30, 2012, the county paid its employer contributions owed to SamCERA in two semi-annual prepayments in July 2011 and January 2012. The prepayment is based on the adopted actuarial contribution rates and the estimated remaining covered payroll by tier discounted by the actuarial assumption rate. Throughout the rest of the year, the prepayment was reduced by actual contributions owed reflective of actual payroll. At fiscal year-end, there is a true-up based on the actual contributions owed. At the end of the 2011-2012 fiscal year, the prepayment account had an excess balance of $2,822,540 which included a credit to the county of $127,818 for the replacement benefits program. The excess in the prepayment account will be credited towards the 2012-2013 fiscal year employer contribution.

The county will continue with the semi-annual prepayment in FY 2012-2013.

Administrative Expenses

The SamCERA Board of Retirement annually adopts the operating budget for the administration of SamCERA. The administrative expenses are charges against earnings of the retirement fund and are limited to twenty-one hundredth of 1 percent (0.21%) of the accrued actuarial liability as set forth under Government Code Section 31580.2. SamCERA's policy is to assess compliance with the limitation based on the prior year accrued actuarial liability as determined in the latest annual valuation. SamCERA's administrative expenses totaled 0.15% of accrued actuarial liability for the fiscal year ended June 30, 2012.

The passage of Assembly Bill 609 in October 2010 changed the 1937 Act system administration expense limit from 23 basis points of total assets to 21 basis points of Accrued Actuarial Liability. Since the system's liability is more consistent from year to year and not affected by capital market volatility, the change will allow SamCERA to manage its administrative expenses more effectively. With the implementation of Government Code Section 31580.2, SamCERA no longer classifies internal investment related expenses to asset management. Asset Management Expenses will be reclassified and combined with Administrative Expense. Under the new limit, information technology expenses are not included in administrative expense. Hence, there is a separate information technology budget that started in fiscal year 2012.

Administrative costs of the Association are financed through employer and member contributions and investment earnings. Administrative costs reported in the statement of changes in plan net assets include:

ADMINISTRATIVE BUDGET

	2012	2011*
Salaries and member benefits	$3,493,963	$3,190,000
Services and supplies	1,240,237	2,773,700
Administrative Expenditures	**$4,734,200**	**$5,963,700**

*2011 restated to include Asset Management budget for comparison.

Asset Management Expenses

SamCERA's Asset Management Budget contains in-house expenses that directly relate to the investment and management of SamCERA's investment portfolio. Those expenses include staff salary and benefits, as well as administrative expenses directly tied to investment. Since the implementation of Government Code Section 31580.2, SamCERA no longer tracks asset management expenses separately.

BUDGET TO ACTUAL ANALYSIS OF ADMINSTRATIVE EXPENSE

As of June 30, 2012 and 2011 (Amounts in Thousands)

	2012	2011
Actual Accrued Liability at Prior Year-End	$3,247,000	N/A
Projected Net Asset Base at Fair Value	N/A	$2,275,000
Maximum Limit in Basis Point	21 bp	23 bp
Maximum Admin Expense	$6,819	$5,233
Operating Budget	$4,734	$5,963*
Actual Administrative	$4,708	$4,242*
Under-expended Operating Budget	**$26**	**$1,721**

* Includes asset management expenses for comparative purposes.

ASSET MANAGEMENT BUDGET

	2012	2011
Salaries and member benefits	$0	$550,000
Services and supplies	0	430,700
Asset Mgmt. Expenditures	**$0**	**$980,700**

New Information Technology Budget

Government Code section 31580.2 excludes any computer related expenses from the Administrative Budget. The Information Technology budget includes projected expenses for computer software, hardware, property, and equipment, as well as program maintenance and upgrades. It also includes projected expenses for technology modernization projects, oversight project management and consultant expenses. The Information Technology budget is approved by the Board.

INFORMATION TECHNOLOGY BUDGET

	2012	2011*
Property and Equipment	$60,000	$0
IT Infrastructure	1,806,000	0
IT Expenditure	**$1,866,000**	**$0**

* Information Technology was included with Administrative in 2011.

BUDGET TO ACTUAL ANALYSIS OF INFORMATION TECHNOLOGY EXPENSE

As of June 30, 2012 and 2011

	2012	2011*
Property and Equipment	$61,989	$0
IT Infrastructure	263,432	0
IT Expenditure	**$325,421**	**$0**

* Information Technology was included with Administrative in 2011.

Reserves and Accounts

The reserves represent the components of SamCERA's net assets. Reserves are established from employer and member contributions and the accumulation of investment income after satisfying investment and administrative expenses. The reserves do not represent the present value of assets needed, as determined by actuarial valuation, to satisfy retirements and other benefits as they become due. SamCERA's major classes of reserves are valuation and non-valuation. The valuation reserves will be credited interest at the assumed actuarial interest rate. The interest crediting and allocation process will be discussed below. The valuation reserves are as follows:

Member Deposit Reserve: This reserve represents the total accumulated member contributions of current active and inactive (deferred) members. Additions include member contributions and credited interest. Deductions include refunds to members and transfers to Retired Member Reserve made at the time the member retires.

Employers' Advance Reserve: This reserve represents the total accumulated employer contributions for future retirement payments to active and deferred members. Additions include contributions from the employers and credited interest. Deductions include lump-sum death benefit payments to member's survivors, supplementary disability payments, and transfers to the Retired Member Reserve made at the time each member retires. When a terminating member elects to receive a refund of member contributions, there is no corresponding effect on the balance of the Employers' Advance Reserve because the employers' contribution rates are based on an actuarial assumption that takes into account the expected rate of member terminations.

Retired Member Reserve: This reserve represents funds accumulated to pay retirement benefits for retired members. Additions include the total accumulated transfers from the Member Deposit Reserve, the Employers' Advance Reserve (both made at the time each member retires) and credited interest. Deductions include payments to retired members, beneficiaries and survivors.

Cost of Living Adjustment Reserve: This reserve represents the total accumulated employer contributions for future cost of living adjustments under provisions of the 1937 Act. Additions include contributions from employers and credited interest. Deductions include payments to retired members, beneficiaries and survivors. Effective April 1 of each year, for those members retired on or prior to April 1, the board adjusts the retirement allowances by a percentage of the total allowance to approximate the nearest one-half of one percent of the percentage of the annual increase in the cost of living for the preceding calendar year. The cost of living increase is based on that shown by the Bureau of Labor Statistics Consumer Price Index (CPI) for All Urban Consumers in the San Francisco, Oakland, and San Jose Bay Area. The increase is capped at 5.0% for Tier 1 (Probation/Safety Tier 1 is 3.0%), 3.0% for Tier 2 and 2.0% for Tier 4, 5 and 6. Tier 3 has no cost of living adjustment.

SamCERA's Non-Valuation Reserves and Accounts

Reserves

Contingency Reserve: This reserve represents reserves accumulated for future earnings deficiencies, investment losses, and other contingencies. Additions include investment income and other revenues. Deductions include investment expenses, administrative expenses, and interest allocated to other reserves. The Contingency Reserve is used to satisfy the California Government Code requirement to reserve at least 1% of total assets against future earnings deficiencies.

Accounts

Generally Accepted Accounting Principles do not allow for a negative reserve. Therefore, the Board of Retirement adopted two policies that establish accounts that may have a negative balance. The non-valuation accounts are the Contingency Account and the Market Stabilization Account.

Effective January 1, 1993, the Board of Retirement provided for the implementation of Actuarial Standards Board Standard of Practice No. 4 and adopted five-year smoothing of all returns for valuing actuarial assets and calculating the unfunded actuarial accrued liability. Effective June 30, 1997, the board provided for the implementation of GASB Statement No. 25 and authorized the creation of a Market Stabilization Account to reconcile differences between the market value of assets and the actuarial value of assets. Effective retroactive to June 30, 2002, the board amended its Market Stabilization Account policy to limit the difference between the market value of assets and the actuarial value of assets to not more than ±20% of the market value. The board's objective in adopting this policy is to minimize the impact of short-term volatility in the market value of the retirement fund on employer and member contribution rates by smoothing market returns over a five-year period. All of the board's prior decisions regarding the Market Stabilization Account were assembled into a single policy decision as Resolution 03-04-01, which was adopted by the board on August 26, 2003.

On June 22, 2004, the Board of Retirement adopted Resolution 03-04-17, *Statement of Interest Crediting Policy.* This policy was amended on September 28, 2004, to establish an Unallocated Earnings / (Loss) Account.

Contingency Account: This account was established to facilitate the mandates of the interest crediting policy, which specifies the manner in which interest is credited to the reserves semi-annually. When there are insufficient allocable earnings to credit the reserves as specified in the policy, the Contingency Account may be debited by the amount required. However, in no event may the total of the non-valuation reserves be allowed to drop lower than 1% of the market value of assets.

Market Stabilization Account: This account represents the deferred balance of investment earnings not yet credited to the reserves. This balance arises from the five-year actuarial smoothing process for investment earnings described below. The Market Stabilization Account balance thus represents the difference between (1) the aggregate amounts initially deferred (smoothed) from the ten most recent semi-annual periods and (2) the amounts subsequently recognized for semi-annual interest crediting from these same ten periods.

Actuarial Smoothing: Net investment income reported on the Statement of Changes in Fiduciary Net Assets affects the reserves indirectly through an actuarial "smoothing" process approved by the Board of Retirement. This process operates semi-annually with calculation periods ending December 31 and June 30. It involves spreading the difference between actual and expected market return over ten successive semi-annual periods.

Semi-Annual Interest Crediting: SamCERA updates reserve balances on a semi-annual basis as of December 31 and June 30 each year. At these times, SamCERA carries out a multi-step process to calculate new reserve balances as specified in Article 5 of the 1937 Act. The amount of "net earnings" to be credited for the semi-annual period is calculated based on the actuarial smoothing process described above. To the extent that net earnings are available, interest is credited to all reserves, except the Member Deposit Reserves, at the actuarial assumed interest rate of 3.875% semi-annually for the fiscal year ended June 30, 2012, to specific components of reserves in a prescribed sequence. Pursuant to the Board of Retirement's interest crediting policy, Member Deposit Reserves are credited at the lesser of the actuarial smoothed earnings rate or the actuarial assumed interest rate, but the rate credited cannot be less than zero.

Allocation of Earnings to Reserves: For the year ended June 30, 2012, SamCERA's distributed allocation of earnings to reserves of $181.9 million and resulted in -$81.0 million as unapplied interest crediting. Earnings on average, resulting from the five-year smoothing process, were sufficient to provide credits to the reserves at the actuarial assumed interest rate in effect during the year, 3.875% semi-annually. The actuarial smoothed interest rate was 0.44% and 0.26% at December 31, 2011, and June 30, 2012, respectively.

Reserves are restricted to specific purposes. Member contributions are credited to the Member Deposit Reserve. County contributions are credited to County Advance Reserve and the Cost of Living Adjustment Reserve. At retirement, a member's accumulated contributions plus interest and the related county contributions are transferred to the Retiree Reserve. The Retiree Reserve and the Cost of Living Adjustment Reserve represent amounts set aside for retirement benefits promised under the plan less benefits paid.

The reserves required by Section 31592 of the 1937 Act represent earnings in excess of the total interest credited to contributions and reserves. The 1937 Act requires that the excess earnings remain in the retirement fund as a reserve against any deficiencies in interest earnings in other years, losses on investments and other contingencies. However, excess earnings exceeding one percent of the total assets of the Association may be transferred into the County Advance Reserve for payment of benefits described under the 1937 Act.

GASB Statement No. 25 mandates the recognition of unrealized gains and losses in the current period. However, on the recommendation of its actuary, SamCERA utilizes a Market Stabilization Account to account for unrealized actuarial investment gains and losses, which are calculated as the difference between the actual market return and the return that would have been generated if earnings had been at the actuarial interest rate. The Market Stabilization Account is designed to smooth the impact on employer annual contribution rates due to volatility in investment returns. Balances in the Market Stabilization Account are amortized over five years in accordance with a schedule established by the actuary.

The June 30, 2012, balance in the Market Stabilization Account of -$120.0 million reflects the balance of the current year's and previous four years' net deferred returns.

On June 26, 2004, SamCERA adopted an Interest Crediting Policy which mandates Actuarial Valuation Reserves be credited at the Actuarial Interest Rate. The policy acknowledges that actual earnings may be greater than or less than the Actuarial Interest Rate. An Undistributed Earnings / Losses Account was established to account for periods when Actual Earnings do not equal the Actuarial Interest Rate.

RESERVES REQURED FOR REPORTING PURPOSES BY THE 1937 ACT

	2012	2011
Member Deposit Reserve	498,568,652	$485,125,877
Employers' Advance Reserve – Current Service	361,197,981	310,568,622
Retiree Member Reserve	858,440,088	765,312,626
Cost-of-Living Adjustment Reserve	843,061,707	760,505,829
Total Allocated Reserves	2,561,268,428	2,321,512,954
Unallocated Earnings / Losses Account	(80,997,723)	83,655,373
Market Stabilization Account	(119,967,051)	(87,392,498)
Net Assets Held in Trust for Pension Benefits	**$2,360,303,654**	**$2,317,775,829**

Note 4: Deposit and Investment Risk Disclosure

The County Employees Retirement Law of 1937 vests the Board of Retirement with exclusive control over SamCERA's investment portfolio. Except as otherwise expressly restricted by the California Constitution and by law, the board may, in its discretion, invest, or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the board.

The board established an investment policy statement in accordance with applicable local, state and federal laws. The trustees exercise authority and control over the management of SamCERA's assets by setting the policy. The board oversees and guides the plan subject to the following fiduciary responsibilities:

- Solely in the interest of, and for the exclusive purpose of, providing economic benefits to participants and their beneficiaries.
- With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like objectives.
- Shall diversify the investments of the plan as to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so. Diversification is applicable to the deployment of the assets as a whole.

Deposits

Operational cash consists of deposits with financial institutions as well as deposits held in a pooled account with the County of San Mateo. All operational cash is in interest bearing instruments. Deposits with financial institutions are swept into a pooled money market fund, which invests in repurchase agreements and U.S. Treasury bills and notes. All participants in the treasury pool share earnings and losses. The short-term investments consist of cash held in money market accounts and securities readily convertible to cash. All deposits are carried at cost, which approximates fair value.

Investments

The Association's investments are managed by independent investment management firms subject to the guidelines and controls specified in the investment plan and contracts executed with the board. The board utilizes a third party institution to be an independent custodian over the plan's assets.

The board approved its first comprehensive investment plan on September 29, 1994. The plan specified an asset allocation target of 50% equities, 40% fixed income securities, and 10% real estate. On August 24, 2010, the Board of Retirement concluded an asset/liability modeling study and adopted a new asset allocation, consisting of 53% equities, 22% fixed income, 5% real estate and a new allocation of 20% to alternative investments. The alternatives portfolio consists of 40% private equity, 30% risk parity, 15% commodities and 15% hedge funds. Funding for alternative investments comes from reducing equities from 67% to 53%, fixed income from 27% to 22% and real estate from 6%

to 5%. SamCERA does not have a policy allocation to cash. As of June 30, 2012, actual asset allocation was 56.5% equities, 23.9% fixed income, 13.2% alternative investments, 6.2% real estate and 0.2% in cash.

For financial reporting purposes, the Association's investments are categorized to give an indication of the risk assumed by the Association as of June 30, 2012. The Governmental Accounting Standards Board (GASB) Statement No. 3 established custodial credit risk categories. The GASB Statement No. 40 and Statement No. 53 update the custodial credit risk disclosure requirements of Statement No. 3 and establish and modify disclosure requirements related to investment risk, credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk.

SamCERA has chosen to manage the investment risks described by GASB Statements No. 40 and 53 by contractually requiring each portfolio investment manager to abide by restrictive investment guidelines specifically tailored to that investment manager rather than adopting across the board investment policies with respect to manager risk. The investment guidelines stipulate the investment style, performance objective, performance benchmarks, and portfolio characteristics.

Each manager is likewise subject to a "manager standard of care" that establishes a fiduciary relationship requiring the manager to act prudently and solely in the best interest of the Association. Separately SamCERA's guidelines also require manager's investment return performance to compare favorably with performance of a relative passive market index over specific periods.

SamCERA's investment consultant and investment staff continually monitor all investment managers for compliance with respective guidelines.

Derivatives

SamCERA implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Investments*, for the fiscal year ended June 30, 2010. Further disclosure on the derivative positions held at fiscal year-end are contained in the table below. In comparison to SamCERA's total investments at fair value, the fair value of SamCERA's derivative positions as of June 30, 2012 is not material.

SamCERA's investments contain various derivative positions as of and for the year ended June 30, 2011, primarily in swaps and foreign currency forward positions. As of June 30, 2012, SamCERA held derivatives with a notional amount of $101,527,003 and a fair value of $1,897,657. Changes in fair value during fiscal year 2012 are reported in the statement of changes in fiduciary net assets as a component of investment income. No derivatives were held that would be classified as hedging derivatives – all are classified as investment derivatives.

The fair value of the derivatives are determined using a pricing service and validated by SamCERA's custodians. Management of SamCERA accepts these valuations.

The fair values of currency forward contracts are determined using a proprietary pricing service, which uses published foreign exchange rates as the primary source. The fair values of credit rate swaps, interest rate swaps, warrants, and To Be Announced (TBA) transactions, are determined using the custodian pricing vehicles.

As of June 30, 2012, SamCERA's derivatives were not subject to custodial credit risk. However, they are subject to other risks.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is the measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of the portfolio, the greater its price sensitivity to changes in interest rates.

SamCERA has investments in seven fixed income portfolios containing individual debt securities as well as investments in external investment pools containing debt securities. SamCERA's Investment Policy does not have a formal policy that limits investment duration as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the Association's active bond portfolios that reside in separate accounts are generally managed to duration limits that are within a narrow band (typically +/- 20% or +/- 1 year) to their respective benchmark.

Credit Risk – Derivatives: SamCERA is exposed to credit risk on investment derivatives that are traded over the counter and are reported in asset positions. Derivatives exposed to credit risk include credit default and interest rate swaps, currency forward contracts, rights, warrants and TBA transactions. To minimize credit risk exposure, SamCERA's investment managers continuously monitor credit rating of counterparties. Should there be a

INVESTMENT DERIVATIVES

For the Year Ended June 30, 2012

	Notional Value	Fair Value
Credit Default Swaps Bought	$1,380,101	$139,031
Credit Default Swaps Written	$637,000	$(43,235)
Fixed Income Futures Long	$6,250,000	$0
Fixed Income Futures Short	$(14,650,000)	$0
Fixed Income Options Bought	$1,584,000	$10,443
Fixed Income Options Written	$(1,584,000)	$(3,170)
Futures Options Bought	$273,000	$16,988
Futures Options Written	$(320,000)	$(7,363)
FX Forwards	$107,651,784	$1,784,417
Rights	$305,064	$0
Warrants	$53	$546
Grand Total	**$101,527,002**	**$1,897,657**

counterparty failure, SamCERA would be exposed to the loss of fair value of derivatives that are in asset positions and any collateral provided to the counterparty, net of the effect of applicable netting arrangements. SamCERA has no general investment policy with respect to netting arrangements or collateral requirements. Netting arrangements legally provide SamCERA with a right of offset in the event of bankruptcy or default by the counterparty.

Custodial Credit Risk – Deposits: The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, SamCERA will not be able to recover deposits nor be able to recover collateral securities that are in the possession of an outside party. SamCERA has no general policy on custodial credit risk for deposits.

SamCERA maintains operation cash deposits to support day-to-day cash management requirements. As of June 30, 2012, cash held with a financial institution in a pooled money market fund totaled $3.4 million. As of June 30, 2011, cash held with a financial institution totaled $3.0 million. Cash held in the San Mateo County Treasurer's investment pool was $2.6 million and $2.5 million as of June 30, 2012 and 2011, respectively. These deposits are uninsured and uncollateralized, and subject to custodial credit risk.

Custodial Credit Risk – Investments: The custodial credit risk for investments is the risk that, in the event of the failure of a counterparty to a transaction, SamCERA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The individual investment guidelines for each investment manager require that managed investments be held in the name of SamCERA. The master custodian may rely on sub-custodians. The custodial requirement does not apply to investments in pools. As of June 30, 2012, SamCERA had no investments that were exposed to custodial risk. SamCERA does not have a general policy addressing custodial credit risk, but it is the practice of the Association that all investments are insured, registered, or held by the plan or its agent in the Association's name. Deposits are to be insured, registered or collateralized with securities held at fiscal agents in SamCERA's name.

Custodial Credit Risk – Derivatives: As of June 30, 2012, SamCERA's investments did not include collateral associated with derivatives activity.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of SamCERA's investment in a single issuer of securities. SamCERA's Investment Policy states no investment shall constitute more than 5% of investable assets.

As of June 30, 2012, the Association had the investments categorized for interest rate and credit risk shown in the table on the following page.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. SamCERA's Investment Policy seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within the asset class.

To control credit risk, credit quality guidelines have been established for our separately managed accounts. SamCERA's Investment Policy has three requirements addressing fixed income quality. First, the minimum average rating of the total portfolio of fixed income assets under a manager's supervision must be "A" or better (Standard & Poor's or Moody equivalent), dollar weighted at market value. Second, the minimum quality rating eligible for the portfolio must be "B" or better (as rated by Standard & Poor's or Moody's equivalent). The third requirement is that no more than 10% of SamCERA's fixed income assets under a manager's supervision shall be invested in securities with a rating below "Baa3," "BBB-," "P-1" or "A-1." The Association's core plus fixed income manager was given an exemption and may hold more than 10% in assets rated below BBB.

On June 30, 2012, the quality breakdown of the Association's investments in bonds were rated as indicated in the table on the following page.

Active Fixed Income Portfolio Characteristics

Aberdeen Asset Management, Brigade Capital Management, Brown Brothers Harriman, Franklin Templeton, Pyramis Global Advisors & Western Asset Management Bond Portfolios Combined

Investment Type	Fair Value	Coupon	Weighted Average Maturity (Years)	Effective Duration (Years)
Agency	$6,210,868	5.55%	14.76	8.80
Asset Backed Securities	11,795,001	2.05%	3.90	2.26
Commercial Mortgage-Backed Securities	10,917,705	5.33%	3.34	2.91
Collateralized Mortgage Obligations	31,844,192	2.81%	5.60	3.91
Commingled Funds	35,678,972	0.00%	0.00	0.00
Corporate Bonds	129,121,386	6.51%	8.87	5.51
Foreign	75,699,972	4.79%	3.51	2.81
Mortgage Pass Through	64,984,085	4.37%	6.60	3.55
Taxable Municipal Bonds	6,025,855	4.33%	20.43	6.38
Preferred Stock	191,062	0.00%	0.88	0.96
United States Treasuries	132,591,680	2.02%	11.78	7.20
Yankee	18,855,375	5.03%	13.70	8.26
Total / Average	**$523,916,153**	**4.25%**	**8.47**	**5.25**

Commingled Fixed Income Portfolio Characteristics

Angelo Gordon PPIP Portfolio

Investment Type	Fair Value	Coupon	Weighted Average Maturity (Years)	Effective Duration (Years)
Angelo Gordon	$30,588,253	5.00%	28.02	3.92

Quality Breakdown for SamCERA's Investments in Bonds

For the Year Ended June 30, 2012

Credit Risk	Active Management	Commingled Management
AAA	34.79%	0.10%
AA	2.58%	2.40%
A	1.47%	1.30%
BBB	45.17%	5.00%
Less than BBB	7.52%	89.50%
NR	8.47%	1.70%
	100.00%	100.00%

Foreign Currency Risk: Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair values of an investment or deposit. SamCERA's international equity and global bond managers are permitted to invest in authorized countries. SamCERA's Investment Policy states forward currency contracts and currency futures are permitted for defensive currency hedging to mitigate foreign currency risk on the portfolio.

The foreign currency risk analysis schedule on the following page shows the fair value of investments that are exposed to foreign currency risk by investment type and currency denomination. The schedule offers the magnitude of risk for each foreign currency. The foreign currency positions are denominated in U.S. dollars. They are not denominated in their native currencies.

Foreign Currency Risk – Foreign Exchange Contracts: Foreign currency contracts are subject to foreign currency risk. Foreign exchange contracts include forward contracts and spot contracts. Currency forward contracts are derivatives and generally serve to hedge or offset the impact of foreign currency exchange rate fluctuations on the reported U.S. dollar fair value of investments denominated in foreign currencies. Spot contracts are generally used when SamCERA is required to make or receive payments in a foreign currency. Spot contracts are agreements to buy or sell a certain amount of foreign currency at the current market rate, for settlement in two business days.

There was no dollar impact from foreign exchange contracts on foreign exchange currency risk as of June 30, 2012.

Security Lending Collateral Credit Risk: All of the cash collateral received for securities lending is invested in the State Street Navigator Securities Lending Prime Portfolio, which is not rated by credit rating agencies. All investments will qualify as "eligible securities" within the meaning of Rule 2(a)-7 of the Investment Companies Act of 1940. The portfolio seeks to maintain a stable net asset value per share of $1.00 by valuing its portfolio using an amortized cost method and will comply with the requirements of Rule 2(a)-7.

Security Lending Collateral Interest Rate Risk: Cash collateral from loans of securities are invested in the State Street Navigator Securities Lending Prime Portfolio. Its average effective duration is restricted to 90 days or less. As of June 30, 2012, and 2011, the actual effective duration was 26 days and 31 days, respectively.

Securities Lending Activity

Beginning on July 1, 2007, the Board of Retirement authorized SamCERA to participate in a securities lending program. Securities lending transactions are short-term collateralized loans of SamCERA securities for the purpose of generating additional investment income. SamCERA has a securities lending agreement in place that authorizes the securities lending agent to lend SamCERA securities to broker-dealers and banks pursuant to a loan agreement. For each securities loan, SamCERA receives either cash or non-cash collateral. SamCERA invests the cash and receives earnings on it in exchange for paying a loan rebate fee to the borrower. In the case of non-cash collateral, the borrower also pays SamCERA a loan premium.

FOREIGN CURRENCY RISK

For the Year Ended June 30, 2012

Local Currency	Common Stock	Corporate Bonds	Foreign Currency	Government Issues	Preferred Stock	Rights	Depository Receipts	Total
AUSTRALIAN DOLLAR	$ 15,729,968.76		125,823.38	299,422.33				$16,155,214.47
BRAZILIAN REAL			21,351.38	3,046,864.08				3,068,215.46
CANADIAN DOLLAR	2,338,971.01		47,699.01					2,386,670.02
CZECH KORUNA								0
DANISH KRONE	7,606,523.49		52,872.40					7,659,395.89
EGYPTIAN POUND			5.31					5.31
EURO CURRENCY	71,124,501.54	833,024.10	819,610.61	12,013,201.17			1,523,107.65	86,313,445.07
GHANA CEDI			4,932.30	2,250,490.02				2,255,422.32
HONG KONG DOLLAR	6,020,644.97		3,061.81					6,023,706.78
HUNGARIAN FORINT			730.75	5,083,323.37				5,084,054.12
INDIAN RUPEE								0
INDONESIAN RUPIAH				5,490,178.33				5,490,178.33
ISRAELI SHEKEL			1,352.34	4,511,538.08				4,512,890.42
JAPANESE YEN	51,569,923.54		312,580.52					51,882,504.06
MALAYSIAN RINGGIT			6,950.39	9,501,952.28				9,508,902.67
MEXICAN PESO			44,483.36	6,208,746.74				6,253,230.10
NEW BULGARIA LEV	220,986.51		55,678.99					76,665.50
NEW ROMANIAN LEU								0
NEW TAIWAN DOLLAR			2,589,764.40					2,589,764.40
NEW ZEALAND DOLLAR			0.11					0.11
NORWEGIAN KRONE	1,969,253.39							1,969,253.39
PHILIPPINE PESO			461.95	5,379,732.60				5,380,194.55
POLISH ZLOTY				4,141,414.91				4,141,414.91
POUND STERLING	56,869,137.63		282,076.01	2,226,648.86				59,377,862.50
SINGAPORE DOLLAR	6,949,769.03		53,328.07					7,003,097.10
SOUTH AFRICAN RAND	1,575,196.70							1,575,196.70
SOUTH KOREAN WON			14,200.62	15,162,070.07				15,176,270.69
SWEDISH KRONA	9,631,358.91		158,373.94					9,789,732.85
SWISS FRANC	22,064,078.56		59,015.40					22,123,093.96
TURKISH LIRA	1,789,720.52		0.11					1,789,720.63
UKRAINE HRYVNA		1,928,358.80						1,928,358.80
URUGUAYAN PESO				2,820,218.56				2,820,218.56
TOTAL	**$255,460,034.56**	**2,761,382.90**	**4,654,353.16**	**78,135,801.40**	**0**	**0**	**1,523,107.65**	**$342,534,679.67**

For the year ended June 30, 2012, on behalf of SamCERA, the securities lending agent lent SamCERA securities to borrowers under the securities lending agreement and SamCERA received cash, securities issued or guaranteed by the United States government, and sovereign debt or irrevocable bank letters of credit as collateral.

SamCERA did not have the ability to pledge or sell collateral securities delivered absent a borrower default therefore, such non-cash collateral is not reported on the statements of plan net assets.

Borrowers were required to deliver collateral for each loan (margin) equal to:

Loaned securities denominated in U.S. dollars or sovereign debt issued by foreign governments, with a margin of at least 102% of the market value of the loaned securities; and

Loaned securities not denominated in U.S. dollars, or whose primary trading market was not located in the United States, with a margin of at least 105% of the market value of the loaned securities.

Moreover borrowers were required to maintain the designated margin percentage of collateral on a daily basis.

SamCERA did not impose any restrictions for the year ended June 30, 2012, on the amount of loans that the securities lending agent made on its behalf. The securities lending agent indemnified SamCERA by agreeing to purchase replacement securities or supplement the amount of cash collateral in the event the borrower failed to return the loaned securities and the collateral was inadequate to replace the securities lent or the borrower failed to pay SamCERA for any income distributions on loaned securities. There were no losses during the year ended June 30, 2012, resulting from a default of the borrowers or the securities lending agent.

SamCERA and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders in a short-term investment pool managed by the securities lending agent. As of June 30, 2012, this investment pool had an average duration of 26 days, and an average weighted maturity of 39 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. For the year ended June 30, 2012, SamCERA had no credit risk exposure to borrowers because, for each borrower, the value of borrower collateral held exceeded the value of the securities on loan to the borrower.

As of June 30, 2012, SamCERA had securities on loan with a total value of $199.7 million and the cash and other collateral held against the loaned securities of $205.1 million.

Note 5: Risk Management

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. SamCERA manages and finances these risks by purchasing commercial insurance and through the County of San Mateo's self-insurance program.

SamCERA is covered by the County of San Mateo's self-insurance program for general liability and workers' compensation coverage. For general liability coverage, the county maintains a self-insurance retention of $1,000 per occurrence for claims occurring from May 27, 2012 through May 27, 2013. For workers' compensation coverage, the county maintains a self-insured retention of $1,000 per occurrence. Excess coverages for both of the above are provided by commercial companies that are limited to the following:

- Real and personal property in excess of $1,000 per incident, but limited to a maximum of $500,000.
- Earthquake in excess of $250 or 5.0% of the replacement value, whichever is more per incident, but limited to a maximum of $25,000 in aggregate.
- Flood damage in excess of 5.0% of the replacement value per location, but limited to a maximum of $25,000 in aggregate.
- General liability in excess of $1,000 per incident, but limited to a maximum of $55,000.
- Workers' compensation in excess of $1,000 per incident, but limited to a statutory amount.
- Auto liability in excess of $1,000 per incident, but limited to a maximum of $55,000.
- Malpractice in excess of $500 per incident, but limited to a maximum of $25,000 per claim and aggregate.

Settled claims have not exceeded the commercial coverage in any of the past three fiscal years and there was a slight increase in coverage in fiscal year 2012.

SamCERA pays for risk management administration via a Memorandum of Understanding with the county's Human Resources Department and via a pro-rata share of certain insurances based on the number of employees.

The Board of Retirement purchases separate Fiduciary Liability coverage for actual or alleged breach of fiduciary duties through a policy provided by Travelers. Limits of coverage are $10,000,000 annual aggregate with a $50,000 deductible.

Note 6: Actuarial Valuation

Pursuant to provisions in the County Employees Retirement Law of 1937, SamCERA engages an independent actuarial firm, Milliman, Inc., to perform an annual actuarial valuation to monitor its funding status and funding integrity. The purpose of the valuation is to reassess the magnitude of SamCERA's benefit commitments in comparison with the assets expected to be available to support those commitments so employer and member contribution rates can be adjusted accordingly. For the pension plan, the actuarial assumptions have been selected in order to estimate as closely as possible what the actuarial cost of the plan will be so as to permit an orderly method for setting aside contributions today to provide benefits in the future, and to maintain equity among generations of participants and taxpayers.

Milliman, Inc. completed the actuarial

valuation as of June 30, 2011, and June 30, 2012, and determined the funding status (the ratio of system assets to system liabilities) to be 74.1% and 72.0%, respectively. The June 30, 2012, funding status was established based on entry age normal actuarial cost methods, an assumed 7.5% investment return, an assumed 3.75% annual total payroll growth rate, an inflation rate of 3.25% and an actuarial value on assets using a five-year smoothed method based on the difference between expected and actual market value of the assets as of the valuation date.

The most recent actuarial valuation is June 30, 2012. The valuation discloses the actuarial value of asset at $2.480 billion with an actuarial accrued liability of $3.443 billion for a funded ratio of 72.0%. The unfunded actuarial accrued liability is $962.3 million, which is 229% percent of the $419.8 million covered payroll. The employer contribution rate, which has an effective date of June 30, 2013, was set equal to 23.97% of payroll for the amortization of the UAAL over the new 15 years, plus the normal cost rate of 11.52% for a total contribution rate of 35.49% of payroll. A schedule of SamCERA's funding progress may be found in the required supplementary information on page 61. The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

Additional information regarding the actuarial methods and significant assumptions used as of the latest actuarial valuation of plan assets and liabilities is shown below.

LATEST ACTUARIAL VALUATION OF PLAN ASSETS AND LIABILITIES

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	Original unfunded amount (UAAL) as of June 30, 2008, is amortized over 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new 15-year periods (including the change in UAAL as of June 30, 2012). This is referred to as 15-year layered amortization.
Asset Valuation Method	5-year smoothed market with 20% corridor
ACTUARIAL ASSUMPTIONS	
Investment Rate of Return	7.50%
Price Inflation (CPI)	3.25%
Payroll Increases	3.75%
Average Projected Salary Increases	4.95%
Attributed to Inflation	3.75%
Attributed to Adjustments for Merit and Longevity	1.20%

Statement No. 50 of the Governmental Accounting Standards Board, *Pension Disclosures*, mandates that the above information regarding actuarial methods and significant assumptions appear in the notes to the financial statements. Historically this information appeared in the required supplementary information section following the notes.

Cost of Living Adjustments

The maximum increase in retirement allowance is 5% for Tier 1 (Probation/Safety Tier 1 is 3.0%), 3% for Tier 2 and 2% for Tier 4, Tier 5 and Tier 6. The annual adjustments are based on the change in the Consumer Price Index for the Bay Area.

Note 7: Capital Commitments

During the course of the fiscal year, SamCERA added $53 million of additional commitments to four new private equity managers. As of June 30, 2012, the Association's private equity portfolio consisted of eight fund managers with a total capital commitment amount reaching $163 million. SamCERA is still in its initial stages in developing its private equity portfolio and intends to make additional capital commitments over the duration of the next few years.

Note 8: Related Party Transactions

By necessity, SamCERA is involved in various business transactions with the County of San Mateo, the primary plan sponsor. SamCERA funds the county for the cost of services provided by the following departments: County Counsel, Auditor-Controller, Purchasing, Human Resources, Information Services and the Department of Hospitals and Clinics. In addition, SamCERA reimburses the county for the salary and benefits of SamCERA staff members paid through the county and the costs of services in the areas of reprographics, telecommunications, and the Board of Retirement elections.

Note 9: Contingent Liability

SamCERA is subject to legal proceedings and claims, which arise in the ordinary course of its business. There are currently no such actions to be adjudicated or reported.

Note 10: Subsequent Events

Subsequent events are those events or transactions that occur subsequent to the effective date of the financial statements, but prior to the issuance of final reports, which may have a material effect on the financial statements or disclosures contained therein.

Public Employees' Pension Reform Act of 2013

On September 12, 2012, the California Public Employees' Pension Reform Act of 2013 became law and it will be effective January 1, 2013. SamCERA is in the process of reviewing the impact of the statutory changes to the benefits of current and future members of SamCERA's retirement system as well as impacts to the required contributions of its members and employers.

Investment Managers

As part of SamCERA's ongoing implementation of its private equity program, the Board of Retirement approved a $40 million capital commitment to Warburg Pincus Private Equity XI, L.P. at the August 28, 2012, board meeting. The board has also subsequently terminated two investment mandates after fiscal year end. At its September 25, 2012, meeting, the board terminated agreements with Aberdeen Asset Management and BlackRock Capital Management and the assets will be redeployed within their respective asset class.

Financial Disclosures

Subsequent to June 30, 2012, and through October 15, 2012, the date through which management evaluated subsequent events and on which the financial statements were issued, SamCERA did not identify any subsequent financial events that required disclosure.

Required Supplementary Information

Schedule of Funding Progress

(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/07	$1,976,731	$2,555,504	$578,773	77.40%	$407,812	141.92%
6/30/08	$2,218,937	$2,806,222	$587,285	79.10%	$416,243	141.09%
6/30/09	$1,909,679	$2,987,712	$1,078,033	63.90%	$436,424	247.02%
6/30/10	$2,179,076	$3,098,453	$919,377	70.30%	$428,559	214.53%
6/30/11	$2,405,140	$3,246,727	$841,587	74.10%	$424,061	198.46%
6/30/12	$2,480,271	$3,442,553	$962,282	72.00%	$419,779	229.24%

Schedule of Employer Contributions

(in thousands)

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2007	$100,550	100%
2008	$105,340	100%
2009	$106,123	100%
2010	$106,265	100%
2011	$150,475	100%
2012	$150,950	100%

Notes to the Required Supplementary Information

The Association provides the valuation of plan assets and liabilities, which is normally carried out as of June 30 of each year, and contribution requirements resulting from such valuations become effective on July 1st of the next fiscal year.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation of plan assets and liabilities is on the following page.

Cost of Living Adjustments

The maximum increase in retirement allowance is 5% for Tier 1 (Probation/Safety Tier 1 is 3%), 3% for Tier 2 and 2% for Tier 4, Tier 5 and Tier 6. The annual adjustments are based on the change in the Consumer Price Index for the Bay Area.

Schedule of Funding Progress

A schedule of funding progress presents a consolidated snapshot of a retirement system's ability to meet current and future liabilities with the assets of the plan. Of particular interest to most is the funded status ratio. This ratio quickly conveys a retirement system's level of assets to liabilities which is important in determining the financial health of a retirement system. The greater a system's funded ratio, the better position it will be in to meet all of its future liabilities.

As of June 30, 2012, the date of the last actuarial valuation, the San Mateo County Employees' Retirement Association had a 72.0% funded status. Overall, the financial condition of SamCERA continues to be sound in accordance with the actuarial principles of entry age normal cost funding.

SamCERA currently has a UAAL, resulting from actuarial accrued liabilities (AAL) exceeding the actuarially determined value of assets. With the actuarial valuation of June 30, 2008, SamCERA is converted to the 15-year layered amortization methodology, which is explained above.

Schedule of Employers' Contributions

The sources of revenues that fund a retirement system are employer contributions, member contributions, and investment earnings on plan assets. Each year, SamCERA's actuary determines the amount of employer contributions required to fund a given schedule of benefits (current and future liabilities). The calculation for the benefit schedule is based on the following factors: (1) the Association's benefit structure, (2) statistical data about members of the system, and (3) current and predicted future retirees and beneficiaries of SamCERA. Assumptions must be made to estimate how many members terminate employment, leave on a disability retirement or service retirement, and the average ages of members at retirement and at mortality. Finally, the preceding data is combined with an actuarially assumed investment rate of return and assumed salary increases of SamCERA's members. All of this information taken together is presented in an annual actuarial valuation in which the actuary recommends an employer contribution rate (percentage) to the participating employers. This contribution rate percentage is applied to the valuation payroll for each of the participating members. The resulting dollar amounts, as depicted in the Schedule of Employer Contributions above, are the actuarially calculated required employer contributions necessary to fund the promised benefits to SamCERA's members.

The employers' contribution schedule contains six years of historical information with respect to SamCERA's actuarially calculated, required contributions versus the actual employer contributions made on an annual basis. Over the past six years, the employer has contributed 100% percent of the amount recommended by the actuary.

LATEST ACTUARIAL VALUATION OF PLAN ASSETS AND LIABILITIES

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	Original unfunded amount (UAAL) as of June 30, 2008, is amortized over 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new 15-year periods (including the change in UAAL as of June 30, 2012). This is referred to as 15-year layered amortization.
Asset Valuation Method	5-year smoothed market with 20% corridor
ACTUARIAL ASSUMPTIONS	
Investment Rate of Return	7.50%
Price Inflation (CPI)	3.25%
Payroll Increases	3.75%
Average Projected Salary Increases	4.95%
Attributed to Inflation	3.75%
Attributed to Adjustments for Merit and Longevity	1.20%

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF ADMINISTRATIVE EXPENSES

For the Years Ended June 30, 2012 and 2011

	2012*	2011**
Salaries and Member Benefits	$3,329,128	$2,839,810
Services and Supplies	1,378,497	1,402,023
Total Administrative Expense	**$4,707,625**	**$4,241,833**

* As defined in Government Code section 31580.2, excludes Information Technology expenses.
** 2011 restated with Asset Management expenses for comparison.

Administrative Budget Analysis

Budget to Actual Expenditures as of June 30, 2012

	Budget Allotment (As Amended)	Fiscal Year Expenditures	Percentage Expended
Salaries	$2,341,000	$2,174,982	92.91%
Benefits	1,152,963	1,154,146	100.10%
Salaries & Benefits	**3,493,963**	**3,329,128**	**95.28%**
Board Expenses	10,500	7,600	72.38%
Insurance	77,000	64,168	83.34%
Medical Evaluation	45,000	104,724	232.72%
Member Education	45,000	53,280	118.40%
Education & Conference	148,700	75,309	50.64%
Transportation & Lodging	126,500	94,102	74.39%
Technology Infrastructure	0	0	0.00%
Property & Equipment	0	3,545	0.00%
General Office Supplies	25,000	24,969	99.88%
Postage, Printing & Copying	75,000	59,846	79.79%
Leased Facilities	295,000	512,736	173.81%
County Service	347,037	315,569	90.93%
Audit Services	45,500	44,229	97.21%
Other Administration	0	18,420	0.00%
Services & Supplies	**1,240,237**	**1,378,497**	**111.15%**
Capital Assets	**0**	**0**	**0.00%**
Depreciation	**0**	**0**	**0.00%**
Grand Total	**$4,734,200**	**$4,707,625**	**99.44%**

Schedule of Information Technology Expenses

For the Years Ended June 30, 2012 and 2011

	2012	2011*
Property and Equipment	$61,989	$0
IT Infrastructure	263,432	0
Total Information Technology Expense	**$325,421**	**$0***

* 2011 Information Technology Expense was included with Administrative Expense.

SCHEDULE OF INVESTMENT EXPENSES

For the years ended June 30, 2012 and 2011

	2012	2011
INVESTMENT MANAGER		
Aberdeen Asset Management	$304,308	$343,853
Artio Global Management	636,613	1,027,524
Barrow, Hanley, Mewhinney, & Strauss	698,400	707,566
BlackRock Capital Management	820,646	834,773
The Boston Company	416,251	401,617
Chartwell Investment Partners	436,802	402,670
D.E. Shaw Investment Management	565,252	526,081
Invesco Realty Advisors	609,125	568,140
Jennison Associates	763,935	865,082
Mondrian Investment Partners	349,958	446,594
Pyramis Global Advisors	189,408	230,119
Angelo Gordon PPIP	350,000	350,000
Brown Brothers Harriman	114,254	65,146
Brigade	394,157	323,122
Franklin Templeton	412,142	210,795
State Street Global Advisors	364,337	0
T. Rowe Price Associates	384,809	365,744
Western Asset Management	297,280	365,642
Sheridan Production Partners	300,029	225,000
ABRY Advanced Sec II	292,149	101,111
ABRY Partners	162,391	0
AQR Global	592,477	191,921
AQR Delta Fund	687,333	58,333
Pyramis Select International	107,769	0
Eaton Vance Parametrics	140,751	0
Baillie Gifford	164,982	0
Regiment Capital	339,177	0
General Catalyst	130,000	0
Sycamore Partners	363,542	0
Sycamore Sidecar	1,396	0
GLOBAL CUSTODIAN		
State Street Bank	226,521	236,793
Investment & Actuarial Consultants	571,810	435,334
Sub-total Professional Expense	12,188,004	9,282,960
Asset Management Expense	0	694,307
Other Investment Related Expense	0	3,758,980
Interest Paid on Prepaid Contribution	0	2,864,426
Total Investment Expense	**$12,188,004**	**$16,600,673**

SCHEDULE OF PAYMENTS TO CONSULTANTS

For the years ended June 30, 2012 and 2011

	2012	2011
Investment Consultant Expense		
Strategic Investment Solutions	$400,000	$366,667
Actuarial Consultant Expense		
Milliman, Inc., and Segal	156,810	68,667
Total Consultant Expense	**$556,810**	**$435,334**

NOTES TO THE OTHER SUPPLEMENTARY INFORMATION

Administrative Services Budget

The passage of Assembly Bill 609 in October 2010 changed the 1937 Act system administration expense limit from 23 basis points of total assets to 21 basis points of Accrued Actuarial Liability. Since the system's liability is more consistent from year to year and not affected by capital market volatility, the change will allow SamCERA to manage its administrative expenses more effectively. With the implementation of Government Code Section 31580.2, SamCERA no longer classifies internal investment related expenses to asset management. Asset Management Expenses will be reclassified and combined with Administrative Expense. Under the new limit, information technology expenses are not included in administrative expense. Hence, there is a separate information technology budget that started in fiscal year 2012.

Professional Services Budget

Government Code §31596.1 states that "*The expenses of investing its money shall be borne solely by the system. The following types of expenses shall not be considered a cost of administration of the retirement system, but shall be considered a reduction in earnings from those investments or a charge against the assets of the retirement system as determined by the board:*

(a) *The costs, as approved by the board, of actuarial valuations and services rendered pursuant to §31453.*

(b) *The compensation of any bank or trust company performing custodial services.*

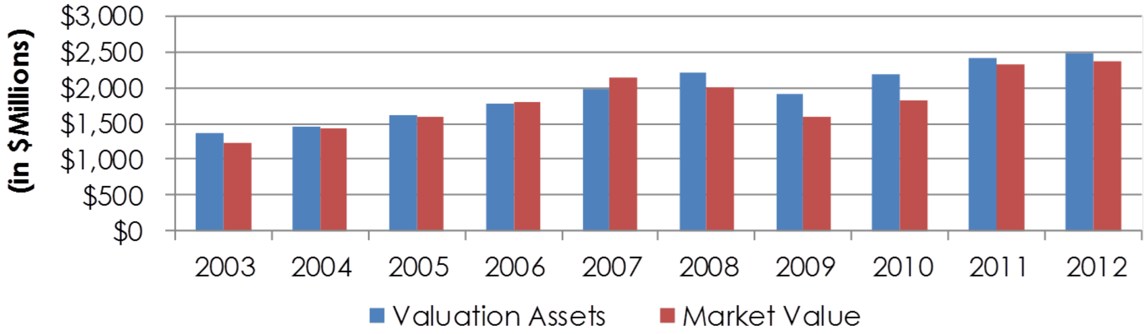
(c) *When an investment is made in deeds of trust and mortgages, the fees stipulated in any agreement entered into with a bank or mortgage service company to service such deeds of trust and mortgages.*

(d) *Any fees stipulated in an agreement entered into with investment counsel for consulting or management services in connection with the administration of the board's investment program, including the system's participation in any form of investment pools managed by a third party or parties.*

(e) *The compensation to an attorney for services rendered pursuant to §31607 or legal representation rendered pursuant to §31529.1."*

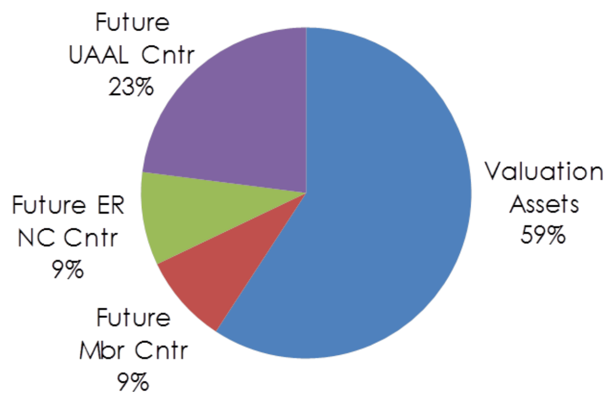
SamCERA's professional services budget is driven by contractual agreements with its actuary, custodian, investment consultant, and investment managers.

Applicable Valuation Assets

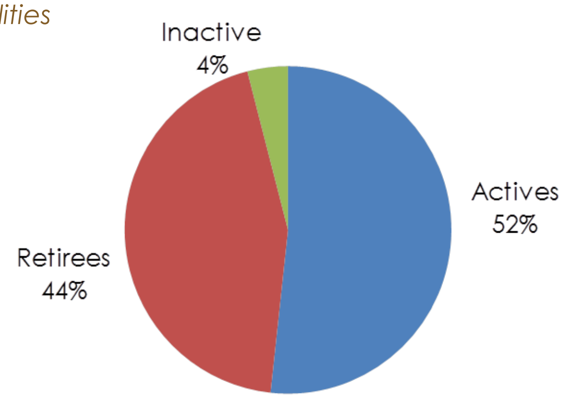


Actuarial Resources and Liabilties

Resources



Liabilities

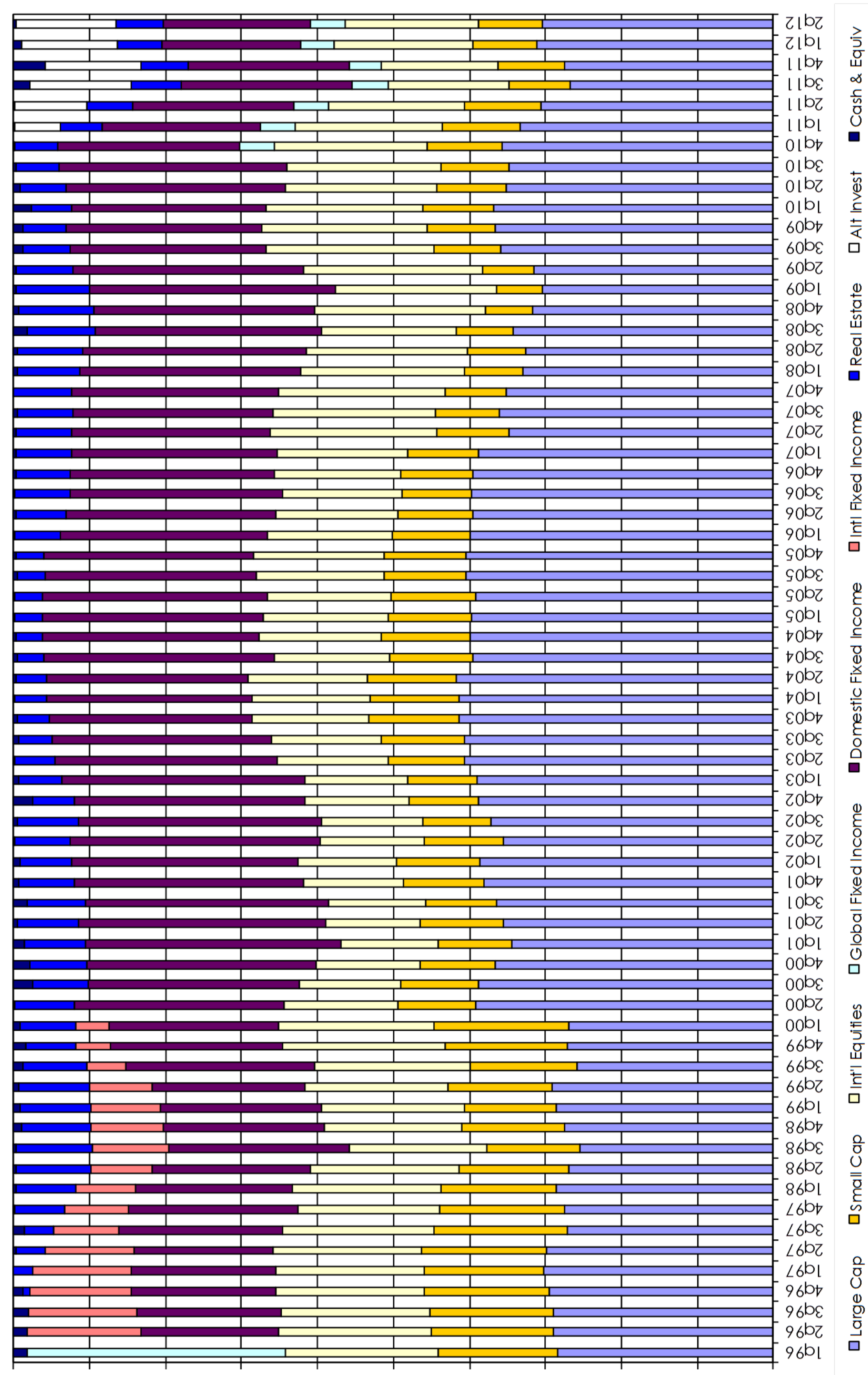


INVESTMENT **SECTION**

Crystal Springs Reservoir

Actual Historical Quarterly Asset Allocation

Period ending June 30, 2012



CHIEF INVESTMENT OFFICER'S REPORT

SamCERA

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

San Mateo County Employees' Retirement Association | 100 Marine Parkway, Suite 125 | Redwood City, CA 94065
Phone: 650-599-1234 | Toll Free: 1-800-339-0761 | Fax: 650-591-1488 | samcera@samcera.org

Michael Coultrip
SamCERA
Chief Investment Officer

Board of Retirement
San Mateo County Employees' Retirement Association

Dear Trustees:

On behalf of SamCERA's investment operations, I am pleased to present reports on the pension fund's investments and portfolio performance for the period ended June 30, 2012. This data was compiled by SamCERA's investment staff, its investment consultant Strategic Investment Solutions, and the master custodian State Street Bank & Trust. The reported performance is presented in accordance with Global Investment Performance Standards (GIPS).

After experiencing positive double digit returns for the past two fiscal years ending in June, SamCERA's portfolio return was essentially flat for the most recent fiscal year ending June 2012. Macro concerns emanating from Europe and slowing global growth resulted in higher volatility and more modest returns across asset classes than we experienced during the prior two fiscal years. The composite portfolio return of 0.03% places the association's performance at the 82nd percentile of peer retirement systems. SamCERA's two-year performance of 11.3% ranks the association in the 46th percentile for peer systems.

The net portfolio market value increased slightly to $2.360 billion, as the combination of positive investment income and negative portfolio appreciation added approximately $9.9 million to the fund.

It was a mixed year for asset class returns. For equities, more risky assets performed worse than less risky assets as investors reacted to the negative news coming from Europe and the resulting potential impacts on global growth. The Fed's actions to keep interest rates low resulted in positive returns across most fixed income segments with investors searching far and wide for yield, which bid up prices for yield-generating investments. Everything from dividend-focused equity strategies, real estate, Master Limited Partnerships (MLPs), and corporate fixed income investments generally performed well as investors searched for yield.

Real estate was SamCERA's best performing asset class composite this fiscal year, up 8.98%, as the commercial property market continued its recovery from the 2008/2009 crisis lows aided by investor thirst for yield-generating assets.

SamCERA's fixed-income portfolio composite benefited from lower interest rates (bond prices generally move in the opposite direction of interest rates) and returned 6.97% for the year. The Federal Reserve continued to take extraordinary measures to support the fragile domestic economic recovery. After two rounds of Quantitative Easing (QE), this fiscal year the Federal Reserve began "Operation Twist", announced on September 21, 2011. This action was designed to lower yields on longer-term bonds by selling $400 billion in shorter-term Treasuries by the end of June 2012 and using the proceeds to buy longer-term Treasuries. The program worked as longer-term interest rates declined by over 1% for both 10- and 30-year Treasury bonds. With this move down in rates, the Barclays Aggregate Index, which is a common benchmark for core fixed income, returned an attractive 7.47% on the year. SamCERA's fixed income portfolio had a lower return than its custom index (which, in addition to the Aggregate Index, also includes sub-sector indices covering global bonds, inflation-indexed securities, and corporate/credit securities), as underperformance from SamCERA's global bond manager and two credit managers versus their respective benchmarks overwhelmed the outperformance by the Treasury Inflation Protected Securities (TIPS) manager and the three core bond managers.

As previously mentioned, equities were a mixed bag during the year. The flight to quality could be seen in U.S. large-capitalization stocks, which had higher returns than both U.S. small-capitalization and international stocks.

SamCERA's Domestic Equity composite returned 1.4% for the fiscal year. SamCERA's large-cap portfolio composite returned 1.93%, while the small-cap portfolio composite returned -0.37%. Larger-capitalization stocks led the way, with the largest 200 stocks by market capitalization, as measured by the Russell Top 200 Index, returning 7.04% for the year, with smaller-cap stocks (as measured by the Russell 2000 Index) actually down -2.08%. Within the U.S. equity markets, there were large deviations in performance across sectors, with more defensive sectors performing the best (Consumer Staples up 13.5%, Telecom Services up 13.1%, and Utilities up 13%, while the sectors tied more to economic activity had negative returns (Energy down -9.5%, Materials down -7.3%, and Industrials down -2.7%). SamCERA's large-capitalization equity portfolio underperformed its benchmark and was driven primarily by one manager, who had a difficult year. SamCERA's small-cap equity portfolio outperformed its benchmark, as two managers had positive return numbers while the benchmark was negative for the fiscal year.

International stocks had negative returns in every quarter during the fiscal year. The MSCI EAFE Index (a common benchmark for developed markets international equity) was down -13.38% for the year. Europe contributed most of this decline as concerns emanating from the Euro-zone countries weighed on the stock markets in those countries. European stocks were down a whopping -21.2% for the year, and contributed just under 2/3 of the total loss of the EAFE Index. Some of this loss is attributable to the Euro currency weakness versus the U.S. Dollar. The Euro declined -12.5% on the year as worries over a Greek exit from the Eurozone and concerns about other periphery countries like Spain and Italy caused investors to seek the safe haven of the U.S. Dollar. SamCERA's international equity portfolio declined -13.85% during the year, which resulted in slight outperformance on a relative basis to the portfolio benchmark (the MSCI All-Country World ex-US Index, which includes both developed and emerging market equities), which was down -14.15% over the same period.

Portfolio actions during the year focused on further diversifying the association's international equity program and continuing the implementation of its alternatives program. Allocations to two new international equity strategies were approved during the year. The trustees hired a manager to manage smaller-capitalization international equities. This is a core strategy that utilizes the manager's deep fundamental research team to add value via fundamental stock selection. The association also hired a manager to mange a dedicated emerging market equity strategy. This strategy uses a structured, rules-based approach to build a portfolio that is designed to produce a more diversified portfolio than the index with less volatility. The association also replaced an under-performing international growth manager with a new manager in May. The new manager utilizes a fundamental growth strategy to identify international companies that exhibit some combination of sustained above average growth combined with attractive financial characteristics.

The Trustees adopted a new asset allocation last fiscal year which allows for 20% of the portfolio to be invested in alternative investments. The components of the alternative portfolio are 8% private equity, 6% risk parity, 3% commodities and 3% hedge funds. The risk parity and hedge fund allocation were fully implemented last fiscal year. The commodity allocation was implemented this year when the board funded a new commodity strategy. In addition, commitments to four new private equity partnerships were approved, totaling $53 million. This brings total commitments for the program to $123 million, of which just under $20 million has been funded as of June 30, 2012. The private equity allocation will take multiple years to fully implement to ensure proper diversification across sub-categories and vintage years.

The extreme volatility and mixed performance across asset classes further reinforces the importance of maintaining a diversified investment portfolio. The association has made great strides in enhancing the diversification of SamCERA's portfolio over the past few years and this should help weather the uncertainty in the financial markets that seems bound to continue over the foreseeable future.

Respectfully Submitted,

Michael R Coultrip

Michael Coultrip
Chief Investment Officer
October 15, 2012

Investment Consultant's Report on Investment Activities

STRATEGIC INVESTMENT SOLUTIONS, INC.

333 BUSH STREET, STE. 2000
SAN FRANCISCO, CALIFORNIA 94104

TEL 415/362-3484 ■ FAX 415/362-2752

October 15, 2012
Board of Retirement
San Mateo County Employees' Retirement Association
100 Marine Parkway, Suite 125
Redwood Shores, CA 94065

Dear Board Members:

After posting healthy asset gains and experiencing strong post-crisis recoveries in fiscal years 2010 and 2011, in fiscal year 2012 US pension funds witnessed a recurrence of difficult times. The fiscal year started with a crisis surrounding the downgraded credit rating of the US government, and ended with what may prove to be a near-term climax to the ongoing European sovereign debt crisis. More benign times for risk assets in the middle of the year provided some relief, but were not enough to overcome these crises, producing an overall tough year for pensions.

It was a particularly tough year for plans that were global in their outlook and, accordingly, held European exposures in their portfolios. Global Equities produced a wide range of returns, with European equities strongly negative for the year, while larger cap US stocks actually posted a positive return amid the generally negative sentiment. The broad US Equity market, as measured by the Russell 3000 Index, returned 3.8% during the year. The Russell 1000 large cap component of US Equity gained 4.4%, while the small cap Russell 2000 lost 2.1%. International Equity investments were hit hard with negative returns: the Developed Markets index lost 13.4%, while Emerging Markets, a star performer in recent years, lost even more, posting a -15.7% return. Investment Grade US Bonds (Barclays Aggregate) provided their traditional safe haven in turbulent times, and returned 7.5% for the year. High yield bonds returned 6.6%, their underperformance relative to investment grade bonds reflecting an environment of investor preference for safety. The real estate asset class continued to perform well during the year, as the NCREIF ODCE Index of institutional Real Estate posted a 12.4% return.

PLAN INVESTMENT RESULTS

In this somewhat volatile capital market environment, the SamCERA portfolio was essentially flat for fiscal 2012. The San Mateo County Employees' Retirement Association (the Association) total Plan returned .03%, well below the Association's 7.75% actuarial return expectation (the actuarial return expectation will be reduced to 7.50% in fiscal 2013). The plan also trailed its peer group, performing 1.5% behind the Independent Consultants Cooperative (ICC) Large Public Fund Universe median plan return of 1.5%.

The Association's US Equity portfolio underperformed its US equity policy benchmark by 1.5% during the fiscal year, which placed it in the 52nd percentile of the universe. Within the US Equity asset class, the large cap managers as a group returned 1.9% for the year, lagging the Russell 1000 index by 244 basis points and the median institutional large cap composite median, which returned 3.2%, by 128 basis points. The managers in aggregate performed in the 63rd percentile of the peer universe. Among the large cap managers, noteworthy performance was achieved by the one of the core managers, DE Shaw, which bested its benchmark by 2.7% during fiscal 2012. Unfortunately this was more than offset by the poor performance of BlackRock, the large growth manager, which underperformed its benchmark by 9.6%. In contrast to the aggregate weak showing of the US large cap managers, the Small Cap Composite's -.4% return was 171 basis points ahead of the Russell 2000 Index, placing it in the 28th percentile of the peer group universe. The small cap value manager, The Boston Company, enjoyed top decile performance, beating the Russell 2000 Value 579 basis points.

The International Equity Composite returned -13.8%, slightly ahead of the benchmark's return of -14.1%, but trailed the median peer return of -12.7% by 129 basis points, and performed in the 65th percentile of the peer universe. Mondrian, the international value strategy, outperformed its benchmark by a comfortable 480 basis points and was ranked in the 28th percentile of its peer group. However, Artio, the international growth manager, underperformed for the first half of the fiscal year, the period during which it remained in the portfolio. As discussed elsewhere in this letter, SamCERA completed the restructuring of its international equity portfolio in second half of fiscal 2012.

The Plan's Total Fixed Income Composite return of 7.0% trailed both the Barclays Aggregate Index's 7.5% return, and the plan's hybrid total Fixed Income Benchmark return of 7.6%, for the fiscal year. All three of SamCERA's core bond managers continued to perform above their benchmarks, consistent with their performance in fiscal 2011. The Association's PPIP Fund managed by Angelo Gordon, created to participate in the US Government's Public-Private Investment Program, generated a more muted return of 5.5%. SamCERA's new Opportunistic Credit, Unconstrained Global, and TIPS strategies completed their first fiscal year in the portfolio. Of the three managers, the TIPS manager, Brown Brothers Harriman, generated the strongest results on an absolute and relative basis, returning 12.6%, more than 90 basis points ahead of the Barclays U.S. TIPS index and the median manager in the TIPS universe. The composite's 7.0% return for the fiscal year was in the 56th percentile, and 40 basis points behind the median peer in the Independent Consultants' Cooperative (ICC) Large Public Fund Universe.

For the year ended June 2012, the INVESCO Real Estate fund's 9.0% return was well behind the 12.4% return of the NCREIF ODCE index. The real estate manager's return placed it in the 58th percentile overall among its peers.

ASSET ALLOCATION AND MANAGER STRUCTURE

During fiscal 2012 SamCERA continued its strategic initiative to broaden the portfolio through the introduction of substantial allocations to Private Equity, Commodities, Hedge Funds and other Alternative Investments, which matured substantially during the year. The funding of the Private Equity portfolio, which commenced in 2011, is approximately one fourth of the way to completion.

During fiscal 2012 SamCERA also completed a restructuring of its International Equity portfolio that entailed the introduction of new dedicated small cap and emerging markets mandates to the portfolio. During fiscal 2012, manager searches for both of these mandates were completed and the new International Equity portfolio is now funded with new managers in place.
During fiscal 2012 SamCERA progressed in its long-term initiative to increase the diversification of the portfolio in order to produce high returns in a risk averse, cost effective, and prudent fashion. The SamCERA plan has capitalized on its strengths and, through much hard work, has taken advantage of the investment opportunities made available to it by the recent market crisis. SIS firmly believes that the many strategic enhancements that the Association has recently completed will enable it to continue to serve its participants and produce strong results for years to come.

Sincerely,

Strategic Investment Solutions

Patrick Thomas

Senior Vice President

* NOTE: Returns for periods greater than one year are annualized. Monthly return calculations are time-weighted, and market value based. The performance calculation methodology is consistent with the CFAI Global Investment Performance Standards®.

Investment Philosophy, Objectives, and Policies

SamCERA's Investment Policy sets forth the board's investment policy, from which the following extracts have been drawn. The full plan may be viewed on SamCERA's web site at www.samcera.org.

Investment Philosophy

The board acknowledges the historical data demonstrating that the most successful strategy for minimizing risk, while capturing market returns, is a prudently diversified portfolio. Therefore, the retirement fund should be invested across the spectrum of institutional grade asset classes. The board acknowledges that the asset allocation targets reflect a long-term view of the market and that professional management of the retirement fund will add value to the portfolio, by capitalizing on inefficiencies in the markets.

The board takes responsibility for allocating across asset classes and across styles within asset classes, but should not substitute its judgment for the professional judgment of those it retains.

The board believes that interest, dividends and capital appreciation must be pursued and captured, if the actuarial funding objectives of the retirement fund are to be achieved.

The board will not be market-timers (shifting asset class allocations dramatically over short time spans), because it realizes this strategy is seldom successful and has the potential for dramatic losses.

The board views short-term cash equivalents as insignificant contributors to real returns in the long run.

Investment Objectives

It is the investment objective of the Board of Retirement to:

Generate portfolio returns which, over the long-term, exceed the rate of inflation by not less than 3.25%, by generating market returns within each asset class.

Generate portfolio returns not less than the returns of a commitment-weighted aggregate of the performance benchmarks specified for the individual investment managers.

Provide for the full funding of the Pension Benefit Obligation.

Stabilize the employer contribution rate, as a percentage of payroll, for the present configuration of benefits, to the extent that the Board of Retirement has control.

Structure an investment program such that the short-term volatility of returns does not induce the board to alter its long-term asset allocation strategies, by striving for an annualized tracking error around the aggregate benchmark of ±3%.

Calculations for compliance with these objectives will be prepared using a time-weighted rate of return based on the market rate of return in accordance with the Global Investment Performance (GIP) standards.

Investment Policies

It is the Investment Policy of the Board of Retirement to pursue an investment strategy which reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

The board retains the most qualified investment managers with demonstrated expertise in the management of institutional pension funds. Objectives have been adopted which encourage the investment managers to maximize their performance relative to their individual investment style benchmark. They are delegated full discretion in management of their portfolio. The board monitors the performance of the investment managers, relative to their assigned custom benchmarks, to assure their conformance with the provisions of the board's investment policy.

The board discourages the use of cash equivalents, except for liquidity purposes, and refrains from dramatically shifting asset class allocations over short time spans.

ASSET ALLOCATION AS A PERCENTAGE OF FAIR VALUE

ASSET CLASS	Allocation	June 30 actual
Equity	53.0%	56.5%
Bonds	22.0%	23.9%
Alternatives	20.0%	13.2%
Real Estate	5.0%	6.2%
Cash	0.0%	0.2%
Total	100.0%	100.0%
EQUITY MANAGEMENT STYLE	**Allocation**	**June 30 actual**
Domestic Large Cap		
Indexed	6.5%	6.5%
Actively Managed	21.5%	23.9%
	28.0%	30.4%
Domestic Small Cap (Actively Managed)	7.0%	8.4%
International Equities (Actively Managed)	18.0%	17.7%
Total Equity	53.0%	56.5%
BOND MANAGEMENT STYLE	**Allocation**	**June 30 actual**
Domestic Bond Managers (Actively Managed)	17.5%	19.4%
Global Bond Managers (Actively Managed)	4.5%	4.5%
Total Bonds	22.0%	23.9%
ALTERNATIVE INVESTMENT MANAGEMENT STYLE	**Allocation**	**June 30 actual**
Private Equity (Actively Managed)	8.0%	0.8%
Hedge Fund (Actively Managed)	3.0%	2.9%
Commodities (Actively Managed)	3.0%	3.0%
Risk Parity (Actively Managed)	6.0%	6.5%
Total Alternative Investment	20.0%	13.2%
REAL ESTATE MANAGEMENT STYLE	**Allocation**	**June 30 actual**
Actively Managed	5.0%	6.2%
Total Real Estate	5.0%	6.2%
TOTAL CASH & CASH EQUIVALENT	0.0%	0.2%
Total Assets	**100.0%**	**100.0%**

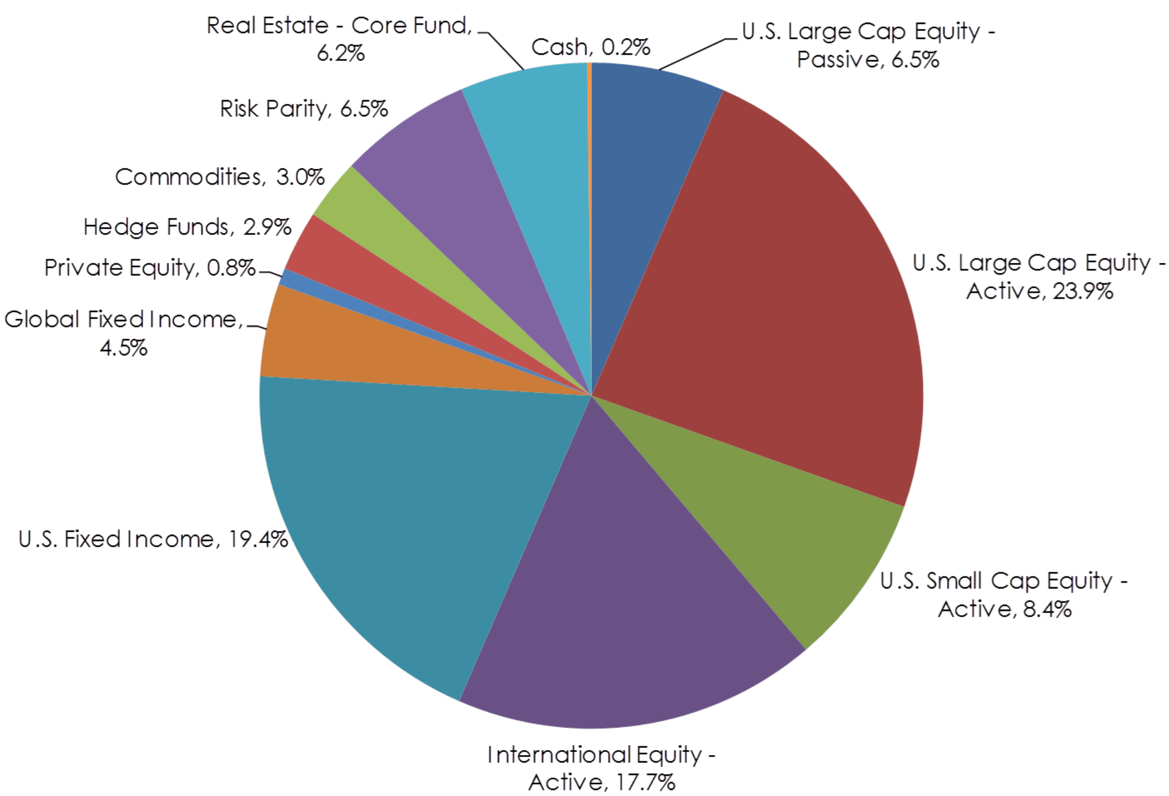
MARKET VALUE OF ASSET ALLOCATION

ASSET ALLOCATION	Market Value
Large Capitalized Domestic Equities	$709,755,952
Small Capitalized Domestic Equities	$192,666,449
International Equities	$408,832,756
TOTAL EQUITIES	$1,311,255,157
Domestic Bonds	$453,960,203
Global Bonds	$100,544,203
TOTAL BONDS	$554,504,406
Alternative Investments	$310,931,079
Real Estate	$146,917,122
Cash & Cash Equivalents	$36,695,890
Total Assets	**$2,360,303,654**

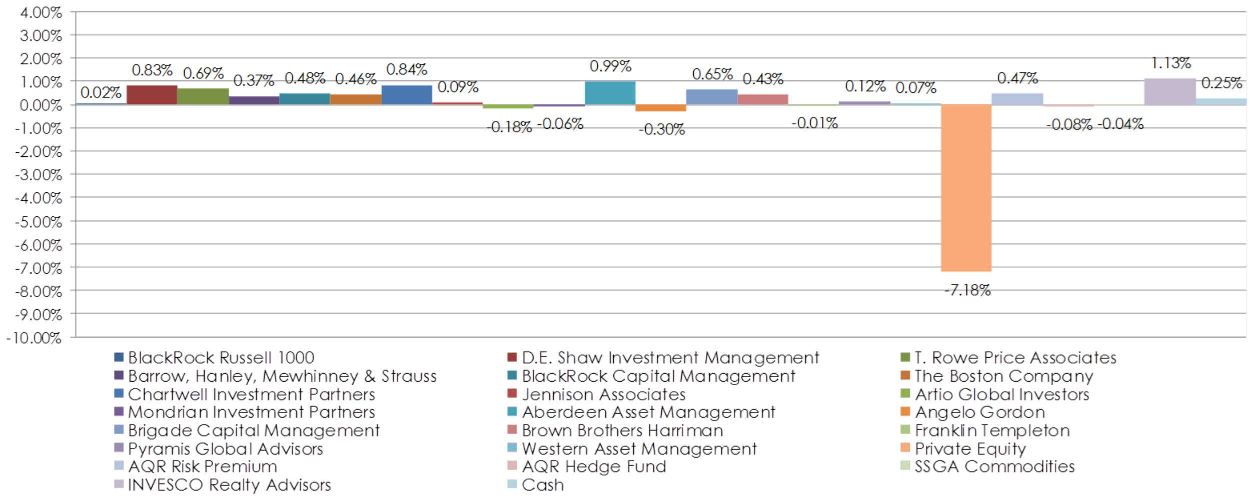
* Value includes investment receivables and payables. For market value without receivables and payable, refer to detailed schedule by managers on page 84.

ASSET ALLOCATION

As of June 30, 2012



Percent of Deviation from Asset Allocation



SCHEDULE OF PORTFOLIO RETURNS

Performance as of June 30, 2012

Asset Category	One Year	Two Years	Three Years	Five Years
DOMESTIC EQUITY				
Large Cap				
BlackRock Russell 1000	4.43%	17.40%	16.70%	0.46%
D.E. Shaw Investment Management, LLC	7.07%	18.18%	N/A	N/A
T. Rowe Price Associates	5.70%	17.41%	N/A	N/A
Barrow, Hanley, Mewhinney & Strauss	0.14%	15.83%	N/A	N/A
BlackRock Capital Management, Inc.	(3.88%)	13.47%	N/A	N/A
Large Cap Composite	1.93%	16.16%	15.28%	(0.90%)
Small Cap				
The Boston Company	4.35%	14.85%	N/A	N/A
Chartwell Investment Partners	0.88%	22.96%	22.61%	2.20%
Jennison Associates	(3.38%)	17.60%	20.58%	N/A
Small Cap Composite	(0.37%)	18.44%	20.80%	(1.32%)
INTERNATIONAL EQUITY				
Mondrian Investment Partners	(9.81%)	7.76%	7.60%	(3.87%)
Eaton Vance Management	N/A	N/A	N/A	N/A
Baillie Gifford	N/A	N/A	N/A	N/A
Pyramis Select	N/A	N/A	N/A	N/A
International Composite	(13.85%)	4.52%	5.67%	(6.16%)
Total Equity Composite	(3.54%)	12.77%	12.97%	(2.51%)
BONDS				
Core				
Aberdeen Asset Management	8.87%	7.72%	10.99%	5.35%
Pyramis Global Advisors	8.20%	7.12%	9.53%	7.32%
Western Asset Management	8.67%	8.30%	11.57%	7.20%
Credit				
Angelo Gordon GECC PPI Fund	5.51%	15.26%	N/A	N/A
Brigade Capital Management	7.23%	N/A	N/A	N/A
Treasury Inflation Protected Securities				
Brown Brothers Harriman	12.58%	N/A	N/A	N/A
Global				
Franklin Templeton Investments	(0.06%)	N/A	N/A	N/A
Total Bond Composite	6.97%	7.82%	10.80%	6.70%
ALTERNATIVE INVESTMENTS				
Private Equity				
ABRY Advanced Security Fund II. L.P.	6.66%	N/A	N/A	N/A
ABRY Partners VII. L.P.	N/A	N/A	N/A	N/A
Emergence Capital Partners III	N/A	N/A	N/A	N/A
General Catalyst Group	N/A	N/A	N/A	N/A
New Enterprise Associates 14, L.P.	N/A	N/A	N/A	N/A
Regiment Capital Special Situations Fund V, LP	N/A	N/A	N/A	N/A
Sheridan Production Partners II-B, L.P.	(0.09%)	N/A	N/A	N/A
Hedge Fund				
AQR Delta Hedge Fund	(0.43%)	N/A	N/A	N/A
Risk Parity				
AQR Global Risk Premium	5.24%	N/A	N/A	N/A
Commodities				
SSGA/SSARIS Multisource Commodities	N/A	N/A	N/A	N/A
Total Alternative Composite	N/A	N/A	N/A	N/A
REAL ESTATE				
Invesco Realty Advisors Core Fund	8.98%	16.62%	8.03%	(0.79%)
Total Real Estate Composite	8.98%	16.62%	8.03%	(0.79%)
CASH				
Cash Composite	0.67%	0.85%	0.84%	0.77%
TOTAL FUND				
Composite Investment Portfolio	0.03%	11.32%	11.81%	0.33%
Policy Benchmark	1.54%	12.24%	12.27%	1.83%

Return calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with the Global Investment Performance Standards (GIPS).

SCHEDULE OF INVESTMENT PORTFOLIO BY ASSET CLASS AND MANAGER

As of June 30, 2012

Investment Manager	Asset Class	Assets Under Management	
DOMESTIC EQUITY			
BlackRock Russell 1000	Russell 1000 Index Fund	$153,943,731	
D.E. Shaw Investment Management, LLC	Large Cap Core	$119,692,361	
T. Rowe Price Associates	Large Cap Core	$115,894,325	
Barrow, Hanley, Mewhinney & Strauss	Large Cap Value	$157,966,738	
BlackRock Capital Management, Inc.	Large Cap Growth	$162,258,796	
The Boston Company	Small Cap Value	$51,665,503	
Chartwell Investment Partners	Small Cap Growth	$58,783,432	
Jennison Associates	Small Cap Core	$82,217,515	
Total Domestic Equity			$902,422,401
INTERNATIONAL EQUITY			
Artio Global Management	Large Cap Growth	($49,052)	
Baillie Gifford Overseas	Large Cap Growth	$137,219,409	
Mondrian Investment Partners	Large Cap Value	$ 179,593,688	
Eaton Vance Management	Emerging Markets	$50,987,331	
Pyramis Select	Small Markets	$41,081,380	
Total International Equity			$408,832,756
Total Equity			$1,311,255,157
DOMESTIC BONDS			
Aberdeen Asset Management	Core Bonds	$110,188,726	
Angelo Gordon GECC PPI Fund	Credit Opportunity Bonds	$30,588,253	
Brigade Capital Management	Credit Opportunity Bonds	$53,766,657	
Brown Brothers Harriman	Treasury Inflation Protection Securities	$79,539,738	
Pryamis Global Advisors	Enhanced Bond Index	$91,338,815	
Western Asset Management	Core Plus Bonds	$88,538,014	
Total Domestic Bonds			$453,960,203
GLOBAL BONDS			
Franklin Templeton	Global Bonds	$100,544,203	
Total Global Bonds			$100,544,203
Total Bonds			$554,504,406
ALTERNATIVE INVESTMENTS			
ABRY Advanced Security Fund II. L.P.	Private Equity	$8,309,775	
ABRY Partners VII. L.P.	Private Equity	$2,331,868	
Emergence Capital Partners III	Private Equity	$240,000	
General Catalyst Partners	Private Equity	$243,000	
New Enterprise Associates 14, L.P.	Private Equity	$900,000	
Regiment Capital Special Situations Fund V, LP	Private Equity	$5,413,540	
Sheridan Production Partners II-B, L.P.	Private Equity	$1,966,718	
Sycamore Partners L.P.*	Private Equity	-	
AQR Delta Fund	Hedge Fund	$68,994,760	
AQR Global Risk Premium	Risk Parity	$152,628,991	
SSGA/SSARIS Multisource Commodities	Commodities	$69,902,427	
Total Alternative Investment			$310,931,079
REAL ESTATE			
Invesco Realty Advisors	U.S. Core Real Estate Fund		$146,917,122
Unequitized Cash			$249,113,735
Receivables & Prepaid Expenses			$134,402,028
less Current Liabilities			$346,819,873
Net Portfolio as of June 30, 2012			**$2,360,303,654**

* SamCERA has signed agreements and made capital commitments as of June 30, 2012.

SCHEDULE OF TOP TEN EQUITIES AND FIXED INCOME SECURITIES

As of June 30, 2012

*Top 10 Equity Securities**

Shares	Exchange	Ticker	Company Name		Market Value
41,400	NASDAQ	AAPL	APPLE INC	$	24,177,600
395,400	NYSE	MSFT	MICROSOFT CORP	$	12,095,286
429,792	NYSE	PFE	PFIZER INC	$	9,885,216
169,000	NYSE	QCOM	QUALCOMM INC	$	9,409,920
260,700	NYSE	WFC	WELLS FARGO + CO	$	8,717,808
108,200	NYSE	BA	BOEING CO/THE	$	8,039,260
32,200	NYSE	AMZN	AMAZON.COM INC	$	7,352,870
107,000	NYSE	JNJ	JOHNSON + JOHNSON	$	7,228,920
89,800	NYSE	KO	COCA COLA CO/THE	$	7,021,462
108,300	NYSE	SWK	STANLEY BLACK + DECKER INC	$	6,970,188

*Some Domestic Equity Securities are owned in the Russell 1000 Index Fund managed by BlackRock Capital Management.

Top 10 Fixed Income Securities

Par/Book Value	Security	Coupon	Maturity	Rating S&P	Rating-Moodys	Issue ID	Market Value
$13,671,290	TSY INFL IX N/B	2.375	01/15/2017	AA+	Aaa	912828GD6	$15,777,488
$10,235,015	TSY INFL IX N/B	1.875	07/15/2019	AA+	Aaa	912828LA6	$12,241,283
$8,280,346	TSY INFL IX N/B	2.375	01/15/2025	AA+	Aaa	912810FR4	$10,904,802
$7,953,389	TSY INFL IX N/B	1.875	07/15/2015	AA+	Aaa	912828EA4	$ 8,649,310
$5,352,043	TSY INFL IX N/B	2.125	02/15/2041	AA+	Aaa	912810QP6	$ 7,638,382
$8,500,000,000	KOREA TREASURY BOND	3.750	06/10/2013	NR	Aa3	B3P1NMII2	$ 7,453,224
$8,500,000,000	KOREA TREASURY BOND	4.250	12/10/2012	NR	Aa3	B4YV20II5	$7,452,259
$5,737,149	TSY INFL IX N/B	2.000	01/15/2026	AA+	Aaa	912810FS2	$ 7,321,577
$50,000,000,000	INDONESIA RETAIL BOND	7.950	08/15/2013	BB+	Baa3	B564HTII4	$ 5,490,178
$5,077,000	US TREASURY N/B	3.125	02/15/2042	AA+	Aaa	912810QU5	$ 5,453,003

A complete list of the portfolio holdings is available through the San Mateo County Employees' Retirement Association.

Schedule of Professional Services and Fees

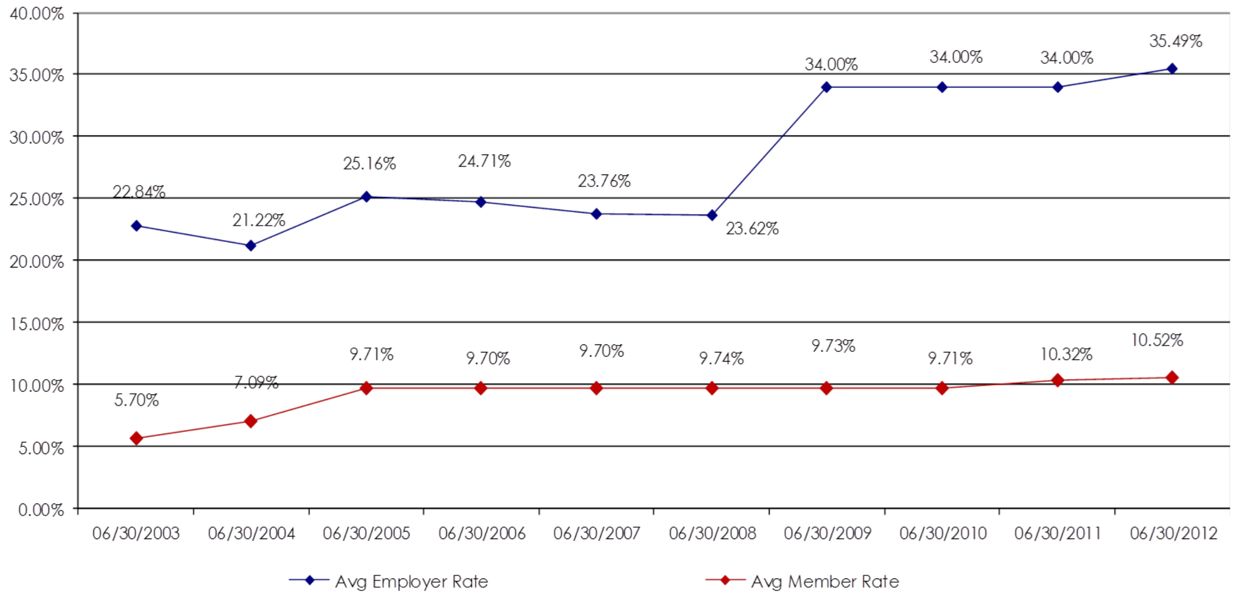
As of June 30, 2012 and 2011

	2012	2011
INVESTMENT MANAGERS		
Aberdeen Asset Management	$304,308	$343,853
ABRY Fund II	$292,149	$101,111
ABRY Fund VII	$162,391	N/A
Angelo Gordon	$350,000	$350,000
AQR Delta Fund	$687,333	$58,333
AQR Global Risk Premium	$592,477	$191,921
Artio Global Management	$636,613	$1,027,524
Baillie Gifford Overseas	$164,982	N/A
Barrow, Hanley, Mewhinney, & Strauss	$698,400	$707,566
BlackRock Capital Management (Index)	$72,047	$89,096
BlackRock Capital Management (Growth)	$748,599	$745,677
Brigade Capital Management	$394,157	$323,122
Brown Brothers Harriman	$114,254	$65,146
Chartwell Investment Partners	$436,802	$402,670
D.E. Shaw investment Management, LLC	$565,252	$526,081
Eaton Vance Management	$140,751	N/A
Franklin Templeton	$412,142	$210,795
General Catalyst Partners	$130,000	N/A
Invesco Realty Advisors	$609,125	$568,140
Jennison Associates	$763,935	$865,082
Mondrian Investment Partners	$349,958	$446,594
Pyramis Global Advisors	$189,408	$230,119
Pyramis Select	$107,769	N/A
Regiment	$339,177	N/A
Sheridan Production Partners	$300,029	$225,000
State Street Global Advisors	$364,337	N/A
Sycamore Partners	$364,938	N/A
T. Rowe Price Associates	$384,809	$365,744
The Boston Company	$416,251	$401,617
Western Asset Management	$297,280	$365,642
Total	$11,389,673	$8,610,833
INVESTMENT CONSULTANT		
Strategic Investment Solutions	$400,000	$366,667
Actuarial Consulting		
Milliman	$96,810	$43,667
Segal Company	$60,000	$25,000
Total	$156,810	$68,667
MASTER CUSTODIAN		
State Street Bank and Trust Company	$226,521	$236,793
TRADE COST CONSULTANT		
Zeno Consulting Group	$15,000	N/A
Total Professional Services	**$12,188,004**	**$9,282,960**

ACTUARIAL **SECTION**

Millbrae Caltrain Station

History of Employer and Member Contribution Rates



Schedule of Actuarial Assets vs. Liabilities

Milliman

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

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

milliman.com

October 15, 2012

Board of Retirement
San Mateo County Employees' Retirement Association
100 Marine Parkway, Suite 125
Redwood Shores, CA 94065-5208

Dear Members of the Board:

SamCERA's basic financial goal is to establish contributions which fully fund the System's liabilities and which, as a percentage of payroll, remain level for each generation of active members. Annual actuarial valuations measure the progress toward this goal, as well as test the adequacy of the contribution rates.

SamCERA measures its funding status as the ratio of the actuarial value of valuation assets over the actuarial accrued liabilities. The funding status based on the past three actuarial valuations is shown below:

Valuation Date	Funded Status
June 30, 2010	70.3%
June 30, 2011	74.1%
June 30, 2012	72.0%

The funded ratio decreased in the last year primarily due to investment returns that were less than assumed.

It is our opinion that *SamCERA* will continue to maintain a sound financial condition as of June 30, 2012 and later, as long as employer contributions are made based on a sound financial policy, such as the current funding policy. Under this policy, the County's contributions are set equal to the normal cost rate plus the amortization payment of any Unfunded Actuarial Accrued Liability (UAAL). The amortization of the initial UAAL as of June 30, 2008 is funded over a closed period ending June 30, 2023. The amortization of any future changes in the UAAL is funded over separate closed 15-year layers which are determined annually. It should be noted that the 2012 valuation results defer a net market loss on assets. Thus, the funded ratio is expected to be lower once those market losses are reflected in the 2012 and later valuations, unless earnings exceed the assumed rate.

The June 30, 2012 valuation results are based on the membership data and the asset information provided by *SamCERA*. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes, although we have not audited the data at the source. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is found to be materially inaccurate or incomplete, our calculations will need to be revised.

The valuation is also based on our understanding of *SamCERA's* current benefit provisions as of June 30, 2012. It should be noted that recent legislation was adopted that will impact nearly all California public retirement systems. Any potential changes to SamCERA have not been reflected in the June 30, 2012 valuation as the legislation is not effective until January 1, 2013. We would expect these legislative changes would initially have a small impact on the actuarial valuation results, but could ultimately have a material impact.

Milliman

Board of Retirement
October 15, 2012
Page 2

The actuarial assumptions which were last reviewed and adopted by the Board in 2012. The demographic assumptions were based on the triennial investigation of experience study report as of April 30, 2011 and re-adopted in May of 2012. New economic assumptions were adopted by the Board in May of 2012.

The actuarial computations presented in the valuation report are for purposes of determining the recommended funding amounts for *SamCERA* consistent with our understanding of their funding requirements and goals. The liabilities are determined by using the entry age normal funding method. The actuarial assets are determined by using a five-year smoothed recognition method of asset gains and losses, determined as the difference of the actual market value to the expected market value. The actuarial assets are restricted to not vary more than 20% from the market value. We believe the actuarial assumptions and methods are internally consistent, reasonable and meet the parameters of Governmental Accounting Standards Board Statement No. 25 for fulfilling financial accounting requirements. Nevertheless, the emerging costs will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions. Future actuarial measurements may differ significantly from the current measurements as presented in the valuation report due to many factors. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

Our valuation report and this letter have been prepared exclusively for *SamCERA* for a specific and limited purpose. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. It is a complex, technical analysis that assumes a high level of knowledge concerning *SamCERA's* operations, and uses *SamCERA's* data, which Milliman has not audited. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

We assisted *SamCERA* staff in preparing the supporting schedules in this section and the trend tables in the financial section are based on information supplied in prior actuarial reports, as well as our June 30, 2012 actuarial valuation report. In particular, it should be noted that many of the June 30, 2005 and earlier statistics were provided by the prior actuary and were on a different basis than we are using. This may affect the comparability between the years prior to 2006 shown in the data summaries and those shown in 2006 and later.

We certify that the June 30, 2012 valuation was performed in accordance with the Actuarial Standards Board (ASB) standards of practice and by qualified actuaries. We are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Sincerely,

Nick Collier

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

NJC/nlo

ACTUARIAL ASSUMPTIONS AND COST METHOD

The actuary assumptions used in the valuations are intended to estimate the future experience of the members of SamCERA and of SamCERA itself in areas that affect the projected benefit flow and anticipated investment earnings. The actuarial assumptions used to determine the liabilities for the June 30, 2012, valuation are based on the results of the actuarial experience study for the period July 1, 2008, through April 30, 2012. The study retained the current economic assumptions and updated demographic assumptions and mortality rates; the study was adopted by the Board of Retirement on July 26, 2011.

Entry Age Actuarial Cost Method

Entry Age is the age at the member's date of entry. Actuarial accrued liability is calculated on an individual basis and is based on costs allocated as a level percentage of compensation. The normal cost is calculated by summing the normal cost for each individual and dividing this amount by the total payroll for current members expected to earn a benefit during the year. This normal cost rate is then multiplied by the total current salaries. The total UAAL as of June 30, 2008 was amortized over a declining 15-year period. Future changes in the UAAL, including the change in UAAL as of June 30, 2012 is amortized over new 15 -year periods, referred to as 15-year layered amortization.

Actuarial Asset Valuation Method

The assets are valued using a five-year smoothed method based on the difference between the expected market value and the actual market value of the assets as of the valuation date. The expected market value, with a five-year smoothing valuation basis for all assets, was adopted effective for the June 30, 1995, valuation.

ACTUARIAL ASSUMPTIONS AND COST METHOD

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	Original unfunded amount (UAAL) as of June 30, 2008, is amortized over 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new 15-year periods (including the change in UAAL as of June 30, 2012). This is referred to as 15-year layered amortization.
Asset Valuation Method	5-year smoothed market with 20% corridor
ACTUARIAL ASSUMPTIONS	
Investment Rate of Return	7.50%
Price Inflation (CPI)	3.25%
Payroll Increases	3.75%
Average Projected Salary Increases	4.95%
*Attributed to Inflation	3.75%
*Attributed to Adjustments for Merit and Longevity	1.20%

Investment Rate of Return

A new investment return assumption rate of 7.50% was adopted in May 2012 and effective with the June 30, 2012 actuarial valuation. Future investment earnings are assumed to accrue at an annual rate of 7.50%, compounded annually, net of both investment and administrative expenses.

Projected Salary Increase

The rate of annual salary increases assumed for the purpose of the valuation is 4.95%. It is comprised of two components, inflation and merit and longevity increases. The inflation for payroll is 3.75%. The merit and longevity component on average is 1.20%. This rate was adopted effective for the June 30, 2012, valuation along with other inflation-based projections.

Cost-of-Living Adjustments

Post-retirement benefit increases depend upon the tier into which a member is enrolled and the Consumer Price Index for the San Francisco Bay Area. The maximum increase in retirement allowance is 5% for General and Safety Tier 1, 3% for Probation Tier 1 and Tier 2 for all Classes, and 2% for Tier 4, 5 and 6 Members. Members do not contribute towards the cost of living benefit. Tier 3 benefits are not eligible for post-retirement increases.

Post-retirement Mortality Rates

The same post-retirement mortality rates are used in the valuation for active members, members retired for service, and beneficiaries. Beneficiary mortality is assumed to be the same assumption as healthy members. Beneficiaries are assumed to be of the opposite sex, and have the same mortality as General members.

Post-retirement Mortality – Service Retirement

General Males: RP-2000 Healthy Annuitant Mortality Table for Males with adjustment for white collar workers. Ages are set back three years.

Safety Males: Same as General.

General Females: RP-2000 Healthy Annuitant Mortality Table for Females with adjustment for white collar workers. Ages are set back three years.

Safety Females: Same as General.

Post-retirement Mortality – Disability Retirement

General Males: RP-2000 Healthy Annuitant Mortality Table for Males with adjustment for white collar workers and no minimum rate. Ages are set back three years.

Safety Males: RP-2000 Healthy Annuitant Mortality Table for Males with adjustment for white collar workers and minimum 1.00% rate. Ages are not adjusted.

General Females: RP-2000 Healthy Annuitant Mortality Table for Females with adjustment for white collar workers and no minimum rate. Ages are set back three years.

Safety Females: RP-2000 Healthy Annuitant Mortality Table for Females with adjustment for white collar workers and minimum 0.40% rate. Ages are not adjusted.

Separation from Active Status

The probabilities of separation from active status are shown on page 101.

PROJECTED SALARY INCREASE

Actuarial Assumption	06/30/12	06/30/11	Change
Annual Inflation Rate	3.25%	3.50%	(0.25%)
Annual Investment Return	7.50%	7.75%	(0.25%)
Average Annual Salary Increases	4.95%	5.20%	(0.25%)

SUMMARY OF PLAN PROVISIONS

The Association provides basic retirement, disability, and death benefits based on a defined benefit formula which uses final average compensation, years of service, and age to calculate benefits payable and, in addition, provides annual cost of living adjustments upon retirement for members of Tiers 1, 2, 4, 5 and 6. The benefits of Tier 3 are reduced by Social Security benefits received by the member.

The plan sponsor has established fifteen defined benefit tiers based on a member's date of entry into SamCERA. Tiers 1, 2 & 4 are closed to County and Courts new members in FY 2011-2012. Depending on their entry date and membership class (General, Safety or Probation/Safety), new members hired in FY 2011-2012 may enter Tier 5 or Tier 6. General members hired on and after August 7, 2011, enter Tier 5. Probation members hired on or after July 10, 2011, enter Tier 5 or Tier 6. Safety members hired on or after January 8, 2012, enter Tier 5 or Tier 6. Only General members are eligible for Tier 3.

Employees of the San Mateo County Mosquito and Vector Control District are eligible for participation in all General Tiers, except Tier 3. New hires enter Tier 4.

Eligibility for Tiers is dependent upon the following entry dates

Tier 1 – Employees hired on July 6, 1980, and earlier.

Tier 2 – Employees hired after July 6, 1980, but on or before July 12, 1997.

Tier 3 – General members may elect to participate in Tier 3. After five years of service, Tier 3 members hired before August 7, 2011 may elect membership under the Tier 4. Tier 3 members hired on and after August 7, 2011 may elect membership in the open contributory tier after 10 years of service. Members currently working in a contributory tier with Tier 3 service may purchase an upgrade of their Tier 3 service.

Tier 4 – Tier 4 is closed for County and Superior Court new employees simultaneously with the implementation of Tier 5 and Tier 6.

Tier 5 General – County and Superior Courts General members hired after August 6, 2011.

Tier 5 and 6 Safety – Safety members hired after January 7, 2012.

Tier 5 and 6 Probation – Probation members hired after July 9, 2011.

Eligibility for service retirement allowance is dependent upon the following

General Members Tiers 1, 2, 4, & 5: Age 50 with 10 years of service; Any age with 30 years of service; or Age 70 regardless of service.

Safety & Probation Members Tiers 1, 2, 4, 5 & 6: Age 50 with 10 years of service; Any age with 20 years of service.

Tier 3: Age 65 with 10 years of service. A reduced benefit is also payable at age 55 with 10 years of service.

Final Compensation

Tiers 1 & 2: Monthly average of a member's highest twelve consecutive months of compensation.

Tiers 3, 4, 5 & 6: Monthly average of a member's highest three twelve consecutive months of compensation.

Monthly Allowance

General Members Tiers 1, 2, 4 & 5: 1/60 x Final Compensation x General Age Factor x

Years of Service.
Safety & Probation Members Tier 1, 2 & 4: 3% x Final Compensation x Safety Age Factor x Years of Service.
Safety & Probation Members Tier 5: 2.29% at Age 50, 3% at Age 55 x Final Compensation x Safety Age Factor x Years of Service.
Safety & Probation Members Tier 6: 2% at Age 50, 2.62% at Age 55 x Final Compensation x Safety Age Factor x Years of Service.
Tier 3 General members: (a)+(b)-(c) where
(a) 2% x Final Compensation x Years of Service (up to 35 years), plus
(b) 1% x Final Compensation x Years of Service in excess of 35 years (up to 10), minus
(c) Estimated Primary Insurance Amount (PIA) x Years of Covered Service (up to 35 years) divided by 35.

The PIA is calculated based on certain assumptions specified by statute, and an assumed Social Security retirement age of 65.

If retirement occurs prior to age 65, benefit amount is adjusted by an actuarial equivalent factor.

A member who leaves county service may withdraw the contributions made by the member to the Association, plus accumulated interest.

Members with five years of service or permanent part-time employees who have the equivalent of five years of full-time service or non-contributory members with 10 years of service who terminate their employment with the county may elect to leave their accumulated contributions, if any, with the Association and choose a deferred retirement.

The 1937 Act vests the Board of Supervisors with the authority to initiate benefits. However, Government Code Section 31592.2 empowers the Board of Retirement to provide health benefits when the Section 31592 reserve exceeds 1% of assets.

It should be noted that the 35.49% Total Employer Rate is a weighted average for all SamCERA tiers. The actual percent of payroll to be contributed by the county varies by plan. For fiscal year 2011, on September 27, 2011, the Board of Retirement voted to retain the contribution rate of 34.00% from the June 30, 2009, actuarial valuation for a second year rather than the lower rate of 30.97% calculated in the June 30, 2011, valuation. A history of employer rates by class is on Page 98.

SUMMARY OF RECOMMENDATIONS

EMPLOYER CONTRIBUTION RATES

	06/30/12	06/30/11	Change
Normal Cost Rate	11.52%	11.25%	0.27%
Rate of Contribution to Unfunded Actuarial Accrued Liability	23.97%	22.75%	1.22%
Total Employer Rate	35.49%	34.00%	1.49%

It should be noted that the 35.49% Total Employer Rate is a weighted average for all SamCERA tiers. The actual percent of payroll to be contributed by the county varies by plan. For fiscal year 2011, on September 27, 2011, the Board of Retirement voted to retain the contribution rate of 34.00% from the June 30, 2009, actuarial valuation for a second year rather than the lower rate of 30.97% calculated in the June 30, 2011, valuation. A history of employer rates by class is on Page 98.

MEMBER CONTRIBUTION RATES

		07/01/2012	07/01/11	Change [3]
GENERAL MEMBERS – COUNTY AND COURTS[1],[2]				
Tier 1 & Tier 2	Age 25	9.19%	9.06%	0.13%
	35	10.42%	10.25%	0.17%
	45	11.91%	11.71%	0.20%
Tier 4	Age 25	8.94%	8.80%	0.14%
	35	10.12%	9.94%	0.18%
	45	11.51%	11.29%	0.22%
Tier 5	Age 25	6.21%	6.10%	0.11%
	35	7.45%	7.30%	0.15%
	45	8.94%	8.76%	0.18%
GENERAL MEMBERS – SMCM&VCD [4]				
Tier 1 & Tier 2	Age 25	6.19%	6.06%	0.13%
	35	7.42%	7.25%	0.17%
	45	8.91%	8.71%	0.20%
Tier 4	Age 25	5.94%	5.80%	0.14%
	35	7.12%	6.94%	0.18%
	45	8.51%	8.29%	0.22%
SAFETY MEMBERS – OTHER THAN DEPUTY SHERIFF [5]				
Tier 1 & Tier 2	Age 25	13.41%	13.21%	0.20%
	35	15.09%	14.85%	0.24%
	45	16.89%	16.59%	0.30%
Tier 4	Age 25	13.07%	12.86%	0.21%
	35	14.68%	14.43%	0.25%
	45	16.20%	15.90%	0.30%
Tier 5	Age 25	14.50%	14.26%	0.24%
	35	16.59%	16.31%	0.28%
	45	18.57%	18.22%	0.35%
Tier 6	Age 25	10.24%	9.97%	0.27%
	35	12.28%	11.96%	0.32%
	45	14.21%	13.83%	0.38%
PROBATION MEMBERS (REFLECTS EMPLOYER PICK-UP)				
Tier 1 & Tier 2	Age 25	12.34%	10.07%	2.27%
	35	14.11%	11.38%	2.73%
	45	15.98%	12.77%	3.21%
Tier 4	Age 25	11.28%	9.79%	1.49%
	35	12.83%	11.04%	1.79%
	45	14.29%	12.22%	2.07%
Tier 5	Age 25	12.35%	12.16%	0.19%
	35	14.12%	13.88%	0.24%
	45	15.78%	15.51%	0.27%
Tier 6	Age 25	8.62%	8.38%	0.24%
	35	10.34%	10.04%	0.30%
	45	11.95%	11.61%	0.34%

(1) The San Mateo County and Courts employer and member contribution rates for Tiers 1, 2, and 4 include cost sharing. The San Mateo County Mosquito and Vector Control District does not have cost sharing. Does not include members of the California Nurses Association, who will also contribute 25% of the cost of COLA beginning with the 2011 actuarial valuation.

(2) Does not include members of the California Nurses Association, who will also contribute 25% of the cost of COLA beginning with the 2011 actuarial valuation.

(3) The change represents the rates effective 07/01/2013 (based on the 6/30/12 valuation) minus the 07/01/2012 rates (based on the 6/30/11 valuation).

(4) Beginning with the 6/30/2010 actuarial valuation, all current and future Mosquito and Vector Control District members contribute the same basic member rates as General County members.

(5) Cost sharing varies for Deputy Sheriffs as follows: If employee is less than 45 with less than 5 years of service 3.0%, between 5 and 15 years of service 3.5%, and at least 15 years of service 4.5%.

SUMMARY OF SIGNIFICANT ACTUARIAL STATISTICS AND MEASURES

ASSOCIATION MEMBERSHIP	6/30/12	6/30/11	Change
ACTIVE MEMBERS			
Number of Members	5,095	5,245	(2.9%)
Average Age	46.0	45.7	0.7%
Average Credited Service	10.9	10.6	2.8%
Total Active Payroll in Thousands	$427,650	$432,542	(1.1%)
Average Monthly Salary	$6,995	$6,872	1.8%
RETIRED MEMBERS			
Number of Members			
Service Retirement	3,355	3,242	3.5%
Disability Retirement	374	370	1.1%
Beneficiaries	546	535	2.1%
Average Age	71.2	71.3	(0.1%)
Total Retiree Payroll in Thousands	$139,208	$129,835	7.2%
Average Monthly Pension	$2,823	$2,706	4.3%
INACTIVE VESTED MEMBERS	1,212	1,190	1.8%
ASSET AND LIABILITY VALUES			
ASSET VALUES			
Market Value in Thousands	$2,360,304	$2,317,776	1.8%
Return on Market Value	(0.40%)	23.70%	(2410 bps)
Valuation Assets in Thousands	$2,480,271	$2,405,140	3.1%
Return on Valuation Assets	0.7%	7.2%	(650 bps)
LIABILITY VALUES			
Actuarial Accrued Liability in Thousands	$3,442,553	$3,246,727	6.0%
Unfunded Actuarial Accrued Liability in Thousands	$962,282	$841,587	14.3%
Deferred Asset (Gains)/Losses	$119,967	$87,647	36.9%
REQUIRED COUNTY CONTRIBUTION RATE FOR ALL PLANS AS A PERCENTAGE OF TOTAL PAYROLL			
Gross Normal Cost	22.04%	21.57%	47 bps
Less: Member Contributions	10.52%	10.32%	20 bps
County Normal Cost	11.52%	11.25%	27 bps
UAAL Amortization	23.97%	22.75%	122 bps
Total County Rate (1)	35.49%	34.00%	149 bps
FUNDED RATIO			
GASB Statement Number 25 (2)	72.00%	74.10%	(2.10%)

(1) For 6/30/2011, the Board of Retirement voted on September 27, 2011 to retain the contribution rate from the June 30, 2009 actuarial valuation for the second consecutive year rather than the 30.97% calculated in the June 30, 2011 valuation.

(2) Based on actuarial value of assets for June 30, 2012, and June 30, 2011, respectively.

The table below compares the Actuarial Value of Assets to the types of Actuarial Accrued Liabilities, applying them first to Active Member contributions, then to retirees and beneficiaries, and then the remaining amount to the Active Member benefits.

SHORT-TERM SOLVENCY TEST (IN THOUSANDS)

Valuation Date	Valuation Assets	Active Member Contributions	Retirees and Beneficiaries (1)	Active Members (Employer Financed Portion)	Portion of Accrued Liability Covered by Valuation Assets		
		(A)	(B)	(C)	(A)	(B)	(C)
6/30/03	$1,353,941	$202,551	$858,273	$915,108	100%	100%	32%
6/30/04	$1,452,621	$259,731	$942,765	$718,832	100%	100%	35%
6/30/05	$1,615,585	$281,231	$1,133,351	$763,177	100%	100%	26%
6/30/06	$1,769,021	$317,521	$1,234,005	$793,623	100%	100%	27%
6/30/07	$1,976,731	$359,484	$1,348,013	$848,007	100%	100%	32%
6/30/08	$2,218,937	$385,300	$1,550,875	$870,047	100%	100%	32%
6/30/09	$1,909,679	$412,147	$1,670,547	$905,018	100%	90%	0%
6/30/10	$2,179,076	$449,355	$1,745,146	$903,952	100%	99%	0%
6/30/11	$2,405,140	$485,126	$1,866,219	$895,382	100%	100%	6%
6/30/12	$2,480,271	$498,569	$2,022,791	$921,193	100%	98%	0%

(1) Includes deferred vested.

SCHEDULE OF FUNDING PROGRESS (IN THOUSANDS)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Ratio of Assets to Actuarial Accrued Liability	Annual Active Member Compensation	UAAL as a Percentage of Covered Payroll
6/30/03	$1,353,941	$1,781,544	$427,603	76.00%	$323,896	132.02%
6/30/04	$1,452,621	$1,921,328	$468,707	75.60%	$365,385	128.28%
6/30/05	$1,615,585	$2,177,759	$562,174	74.20%	$334,315	168.16%
6/30/06	$1,769,021	$2,345,149	$576,128	75.40%	$368,972	156.14%
6/30/07	$1,976,731	$2,555,504	$578,773	77.40%	$407,812	141.92%
6/30/08	$2,218,937	$2,806,222	$587,285	79.10%	$416,243	141.09%
6/30/09	$1,909,679	$2,987,712	$1,078,033	63.90%	$436,424	247.02%
6/30/10	$2,179,076	$3,098,453	$919,377	70.30%	$428,559	214.53%
6/30/11	$2,405,140	$3,246,727	$841,587	74.10%	$424,061	198.46%
6/30/12	$2,480,271	$3,442,553	$962,282	72.00%	$419,779	229.24%

Funded Ratio is a measurement of the funded status of the plan. The Funded Ratio is calculated by dividing the Valuation Assets by the Actuarial Accrued Liability. In the table above, SamCERA's Funded Ratio indicates assets are approximately 30% less than liabilities. The Funded Ratio has increased considerably from June 30, 2009. The most significant reasons for the increase in the funded ratio have been the market appreciation of investments and contributions by the employer and employee.

HISTORY OF EMPLOYER CONTRIBUTION RATES

Normal Cost is that portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

Actuarial Present Value is the value of an amount or series of amounts payable or receivable at various times, determined as of a given date by application of a particular set of Actuarial Assumptions.

Actuarial Cost Method employed by SamCERA is the Entry Age Normal Method. The actuarial accrued liability is calculated on an individual basis and is based on costs allocated as a level percentage of compensation.

Unfunded Actuarial Accrued Liability is the excess, if any, of the Actuarial Accrued Liability over the Actuarial Value of Assets.

Actuarial Accrued Liability is that portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of pension plan benefits and expenses which is not provided for by the future Normal Costs.

Actuarial Value of Assets is the value of cash, investments and other property belonging to a pension plan, as used by the actuary for purposes of an Actuarial Valuation.

Actuarial Valuation is the determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a pension plan.

HISTORY OF EMPLOYER CONTRIBUTION RATES: SAN MATEO COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

	General Member		
Year	Normal	UAAL	Total
2008	8.55%	8.04%	16.59%
2009	8.25%	15.09%	23.34%
2010	11.70%	16.35%	28.05%
2011*	11.97%	16.41%	28.38%
2012	11.68%	20.17%	31.85%

*Revised by actuary in 2012.

HISTORY OF EMPLOYER CONTRIBUTION RATES: COUNTY

	General Member (excluding Nurses)			General Member Nurses			Safety Member			Probation Member		
Year	Normal	UAAL	Total	Normal	UAAL	Total	Normal	UAAL	Total	Normal	UAAL	Total
2003	11.00%	4.60%	15.60%	Same as General			21.99%	12.74%	34.73%	23.45%	8.10%	31.55%
2004	9.76%	8.25%	18.01%	Same as General			15.34%	24.82%	40.16%	16.17%	15.28%	31.45%
2005	10.36%	10.38%	20.74%	Same as General			20.43%	32.02%	52.45%	21.10%	16.43%	37.53%
2006	10.49%	9.97%	20.46%	Same as General			20.18%	30.52%	50.70%	21.59%	14.85%	36.44%
2007	10.19%	9.46%	19.65%	Same as General			19.94%	29.32%	49.26%	20.83%	14.06%	34.89%
2008	10.16%	9.81%	19.97%	Same as General			19.32%	27.31%	46.63%	20.05%	12.81%	32.86%
2009	10.11%	18.40%	28.51%	Same as General			19.21%	51.83%	71.04%	19.92%	23.84%	43.76%
2010	10.05%	18.46%	28.51%	Same as General			19.01%	52.03%	71.04%	19.85%	21.62%	41.47%
2011	9.71%	18.80%	28.51%	8.70%	19.81%	28.51%	18.97%	52.07%	71.04%	19.50%	22.30%	41.80%
2012	9.98%	20.17%	30.15%	8.96%	20.17%	29.13%	19.05%	48.51%	67.56%	18.47%	26.71%	45.18%

ACTIVE MEMBER VALUATION DATA

Valuation Date		Members (1)	Annual Salary	Average Annual Salary	% Change Average Salary
2003	General	4,213	$267,150,000	$63,408	5.30%
	Safety	434	$37,973,000	$87,492	9.60%
	Probation	290	$18,773,000	$64,740	6.50%
	Total	4,937	$323,896,000	$65,964	5.90%
2004	General	4,487	$303,786,879	$67,700	6.80%
	Safety	411	$40,796,852	$99,202	13.40%
	Probation	288	$20,800,813	$72,225	11.60%
	Total	5,186	$365,384,544	$70,448	6.80%
2005	General	4,411	$304,289,437	$68,984	1.80%
	Safety	409	$39,999,593	$97,799	(1.40%)
	Probation	278	$20,123,863	$72,388	0.20%
	Total	5,098	$364,412,893	$71,482	1.40%
2006	General	4,614	$312,934,324	$67,823	(1.70%)
	Safety	428	$41,407,772	$96,747	(1.10%)
	Probation	313	$22,009,210	$70,317	(1.60%)
	Total	5,355	$376,351,306	$70,280	(1.70%)
2007	General	4,767	$346,319,017	$72,649	7.10%
	Safety	443	$45,386,411	$102,452	5.90%
	Probation	329	$24,364,268	$74,056	5.30%
	Total	5,539	$416,069,696	$75,116	6.90%
2008	General	4,743	$353,518,525	$74,535	2.60%
	Safety	432	$46,326,906	$107,238	4.70%
	Probation	325	$24,741,003	$76,126	2.80%
	Total	5,500	$424,586,434	$77,198	2.80%
2009	General	4,777	$370,760,830	$77,614	4.10%
	Safety	436	$48,120,081	$110,367	2.90%
	Probation	330	$26,270,802	$79,608	4.60%
	Total	5,543	$445,151,713	$80,309	4.00%
2010	General	4,609	$363,305,740	$78,825	1.60%
	Safety	425	$48,576,912	$114,299	3.60%
	Probation	313	$25,247,595	$80,663	1.30%
	Total	5,347	$437,130,248	$81,752	1.80%
2011	General	4,494	$355,876,715	$79,189	0.50%
	Safety	446	$52,073,940	$116,758	2.20%
	Probation	305	$24,591,392	$80,628	0.00%
	Total	5,245	$432,542,046	$82,468	0.90%
2012	General	4,361	$351,965,689	$80,708	1.90%
	Safety	435	$51,129,267	$117,539	0.70%
	Probation	299	$24,554,583	$82,122	1.90%
	Total	5,095	$427,649,539	$83,935	1.80%

(1) Numbers prior to 2006 were reported on a different basis.

DEMOGRAPHIC ACTIVITY OF RETIREES AND BENEFICIARIES

	Retirees and Beneficiaries (1)								
Year	At Beginning Of Year	Addition	Withdrawal	At End of Year	Annual Payroll Increase (in 000s)	Annual Payroll Decrease (in 000s)	Total Retiree Payroll (in 000s)	Percent Increase In Payroll	Average Annual Allowance
6/30/03	3,309	128	115	3,322	N/A	N/A	$69,451	3.7%	$20,112
6/30/04	3,466	193	120	3,539	N/A	N/A	$75,493	8.7%	$21,336
6/30/05	3,539	238	95	3,682	N/A	N/A	$84,183	11.5%	$22,860
6/30/06	3,519	206	112	3,613	N/A	N/A	$91,006	8.1%	$25,188
6/30/07	3,613	155	74	3,694	N/A	N/A	$98,790	8.6%	$26,748
6/30/08	3,694	218	70	3,842	N/A	N/A	$109,616	11.0%	$28,536
6/30/09	3,842	159	66	3,935	$12,717	$3,281	$119,052	8.6%	$30,252
6/30/10	3,935	163	96	4,002	$9,076	$3,240	$124,888	4.9%	$31,212
6/30/11 (2)	4,002	209	64	4,147	$12,703	$2,916	$134,675	7.8%	$32,472
6/30/12	4,147	218	90	4,275	$14,379	$4,209	$144,845	7.6%	$33,876

(1) For 6/30/2004 and 6/30/2005, retirees/beneficiaries who are entitled to multiple benefits are counted more than once. The 6/30/06 beginning of year count was revised to reflect only one retiree per benefit in 6/30/2006. Prior to 6/30/2004 retirees/beneficiaries who are entitled to multiple benefits are only counted once.
(2) Revised from 2011 valuation for corrections.

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE ($000)

Summary of (Gains) / Losses	Change In Liability				
	2012	2011	2010	2009	2008
Unfunded Liability as of July 1	$841,587	$919,377	$1,078,033	$587,285	$578,773
Expected Change in UAAL	($39,621)	($31,508)	$27,388	($11,786)	($31,649)
Salary (Gain) / Loss	($45,526)	($51,831)	($43,598)	($10,081)	($19,946)
Retiree COLA more / (less) than expected	($11,756)	($27,561)	($41,258)	$1,080	$937
Assets (Gain) / Loss	$171,268	$12,548	($88,485)	$522,444	($20,078)
Change due to Assumption Changes	$36,443	$19,402			$61,011
Miscellaneous Experience	$9,887	$1,160	($12,703)	($10,909)	$18,237
Change Due to New Formula					
Unfunded Liability as of June 30	$962,282	$841,587	$919,377	$1,078,033	$587,285

Rates of Separation From Active Service

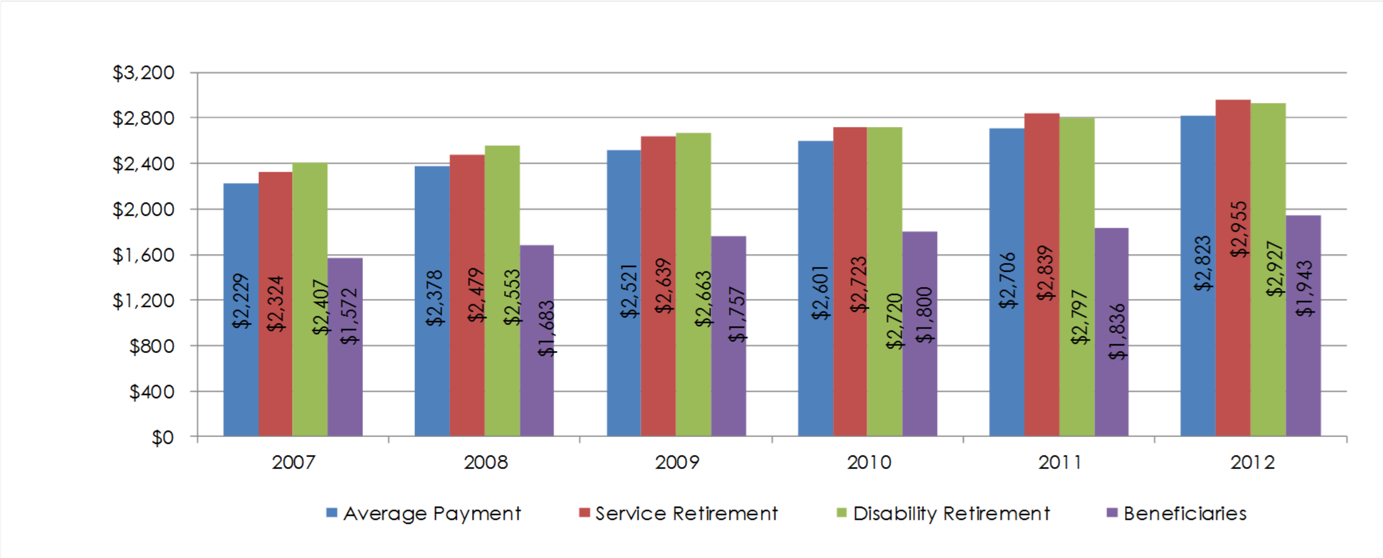
Service Retirement: Member retires after meeting age and service requirements for reasons other than disability.
Withdrawal: Member terminates and elects a refund of member contributions, or a deferred vested retirement benefit.
Service Disability: Member receives disability retirement; disability is service related.
Ordinary Disability: Member receives disability retirement; disability is not service related.
Service Death: Member dies before retirement; death is service related.
Ordinary Death: Member dies before retirement; death is not service related.

In the table below each rate represents the probability that a member will separate from service at each age due to a particular cause.

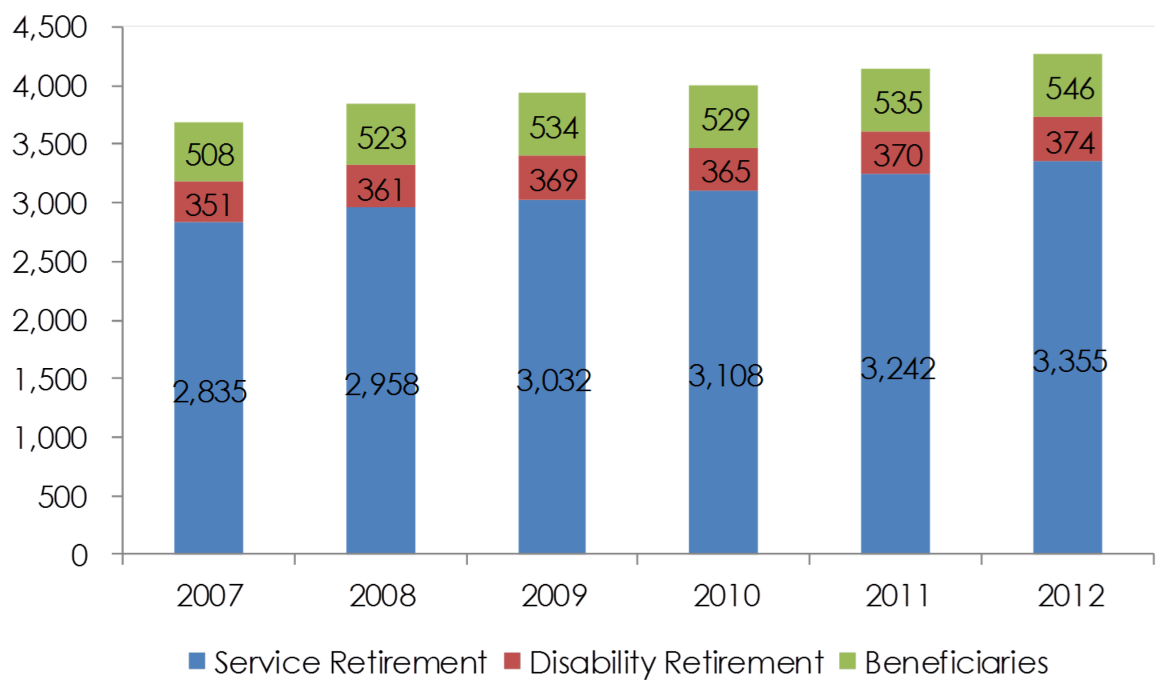
Probability of Separation During Active Service

Years of Service	Other Terminations		Age	Disability		Death while Active		Service Retirement
	Ordinary	Vested		Ordinary	Service	Ordinary	Service	
General Plan 1, 2, 4, & 5 Male Members								
0	0.1300	0.0000	20	0.0002	0.0004	0.0003	0.0000	0.0000
5	0.0285	0.0348	30	0.0003	0.0004	0.0004	0.0000	0.0000
10	0.0172	0.0238	40	0.0006	0.0010	0.0009	0.0000	0.0000
15	0.0099	0.0191	50	0.0010	0.0016	0.0017	0.0000	0.0500
20	0.0040	0.0150	60	0.0015	0.0022	0.0036	0.0000	0.1500
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0000	0.0000	1.0000
General Plan 1, 2, 4 &5 Female Members								
0	0.1200	0.0000	20	0.0002	0.0003	0.0002	0.0000	0.0000
5	0.0285	0.0348	30	0.0002	0.0004	0.0002	0.0000	0.0000
10	0.0153	0.0212	40	0.0004	0.0007	0.0006	0.0000	0.0000
15	0.0088	0.0172	50	0.0012	0.0017	0.0013	0.0000	0.0400
20	0.0040	0.0150	60	0.0019	0.0029	0.0030	0.0000	0.1500
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0000	0.0000	1.0000
General Plan 3 Male Members								
0	0.1300	0.0000	20	0.0000	0.0000	0.0003	0.0000	0.0000
5	0.0285	0.0348	30	0.0000	0.0000	0.0004	0.0000	0.0000
10	0.0172	0.0238	40	0.0000	0.0000	0.0009	0.0000	0.0000
15	0.0099	0.0191	50	0.0000	0.0000	0.0017	0.0000	0.0000
20	0.0040	0.0150	60	0.0000	0.0000	0.0036	0.0000	0.0300
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0000	0.0000	1.0000
General Plan 3 Female Members								
0	0.1200	0.0000	20	0.0000	0.0000	0.0002	0.0000	0.0000
5	0.0285	0.0348	30	0.0000	0.0000	0.0002	0.0000	0.0000
10	0.0153	0.0212	40	0.0000	0.0000	0.0006	0.0000	0.0000
15	0.0088	0.0172	50	0.0000	0.0000	0.0013	0.0000	0.0000
20	0.0040	0.0150	60	0.0000	0.0000	0.0030	0.0000	0.0400
30 & Above	0.0000	0.0000	70	0.0000	0.0000	0.0000	0.0000	1.0000
Safety and Probation Plan 1, 2, 4, & 5 Male Members								
0	0.0700	0.0000	20	0.0000	0.0015	0.0003	0.0010	0.0000
5	0.0082	0.0151	30	0.0000	0.0018	0.0004	0.0010	0.0000
10	0.0050	0.0105	40	0.0000	0.0028	0.0009	0.0010	0.0000
15	0.0016	0.0094	50	0.0000	0.0044	0.0017	0.0010	0.1500
20 & Above	0.0000	0.0000	60	0.0000	0.0000	0.0036	0.0010	1.0000
			70	0.0000	0.0000	0.0000	0.0000	1.0000
Safety and Probation Plan 1, 2, 4, & 5 Female Members								
0	0.0700	0.0000	20	0.0000	0.0015	0.0002	0.0010	0.0000
5	0.0082	0.0151	30	0.0000	0.0018	0.0003	0.0010	0.0000
10	0.0050	0.0105	40	0.0000	0.0028	0.0007	0.0010	0.0000
15	0.0016	0.0094	50	0.0000	0.0044	0.0017	0.0010	0.1500
20 & Above	0.0000	0.0000	60	0.0000	0.0000	0.0039	0.0010	1.0000
			70	0.0000	0.0000	0.0000	0.0000	1.0000
Safety and Probation Plan 6 Male Members								
0	0.0700	0.0000	20	0.0000	0.0015	0.0003	0.0010	0.0000
5	0.0082	0.0151	30	0.0000	0.0018	0.0004	0.0010	0.0000
10	0.0050	0.0105	40	0.0000	0.0028	0.0009	0.0010	0.0000
15	0.0016	0.0094	50	0.0000	0.0044	0.0017	0.0010	0.0500
20 & Above	0.0000	0.0000	60	0.0000	0.0000	0.0036	0.0010	1.0000
			70	0.0000	0.0000	0.0000	0.0000	1.0000
Safety and Probation Plan 6 Female Members								
0	0.0700	0.0000	20	0.0000	0.0015	0.0002	0.0010	0.0000
5	0.0082	0.0151	30	0.0000	0.0018	0.0003	0.0010	0.0000
10	0.0050	0.0105	40	0.0000	0.0028	0.0007	0.0010	0.0000
15	0.0016	0.0094	50	0.0000	0.0044	0.0017	0.0010	0.0500
20 & Above	0.0000	0.0000	60	0.0000	0.0000	0.0039	0.0010	1.0000
			70	0.0000	0.0000	0.0000	0.0000	1.0000

Average Monthly Benefit Payment



Retirees by Category



STATISTICAL **SECTION**

View of Pacifica from Daly City

Introduction to the Statistical Section

This section provides additional detailed information for a more thorough understanding of the financial statements, note disclosures and required supplemental information. The schedules presented on the following pages show trends in changes of plan net assets, revenues and expenses by category, detailed active member salary and retiree benefit information, as well as general membership populations over the past ten years. Most of the information presented is compiled by the actuary based on information from the pension administration system.

Change in Pension Plan Net Assets Last Ten Fiscal Years

as of June 30 (in thousands of dollars)

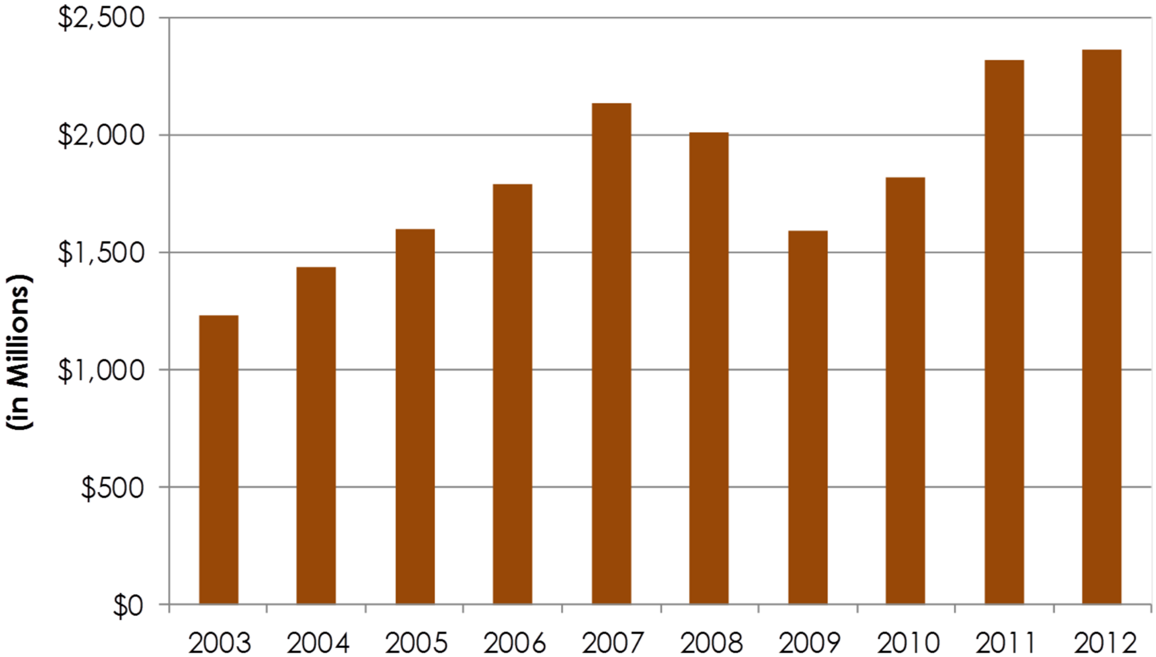
	2012	2011	2010	2009	2008
Additions					
Employer Contributions	$150,950	$150,475	$106,265	$106,123	$105,340
Member Contributions	49,687	49,013	50,319	50,372	60,111
Total Contributions	200,637	199,488	156,584	156,495	165,451
Investment Income (net of expenses)	(11,024)	437,654	195,412	(457,309)	(178,379)
Security Lending Income	721	530	743	1,631	1,699
Miscellaneous Additions	29	73	41	(16)	181
Total Additions (Declines)	190,363	637,745	352,780	(299,199)	(11,048)
Deductions					
Retiree Benefits	139,208	129,835	122,141	113,991	103,970
Member Refunds	3,627	2,474	2,736	2,795	3,075
Administrative Expenses	5,033	3,547	3,373	3,287	2,774
Other Expenses	(33)	10	33	67	8
Total Deductions	147,835	135,866	128,283	120,140	109,827
Change in Pension Plan Net Assets	**$42,528**	**$501,879**	**$224,497**	**$(419,339)**	**$(120,875)**

Change in Pension Plan Net Assets Last Ten Fiscal Years (Continued)

as of June 30 (in thousands of dollars)

	2007	2006	2005	2004	2003
Additions					
Employer Contributions	$100,550	$76,090	$76,931	$60,042	$36,070
Member Contributions	42,696	39,962	33,647	27,094	22,650
Total Contributions	143,246	116,052	110,578	87,136	58,720
Investment Income (net of expenses)	298,260	166,826	140,132	193,107	39,142
Security Lending Income	0	0	0	0	0
Miscellaneous Additions	26	49	79	226	8
Total Additions (Declines)	441,532	282,927	250,789	280,469	97,870
Deductions					
Retiree Benefits	94,788	87,915	83,182	74,016	68,989
Member Refunds	2,244	2,258	1,458	1,734	1,206
Administrative Expenses	2,582	2,086	2,235	1,912	1,887
Other Expenses	201	40	4	719	0
Total Deductions	99,815	92,299	86,879	78,381	72,082
Change in Pension Plan Net Assets	**$341,717**	**$190,628**	**$163,910**	**$202,088**	**$25,788**

Total Plan Net Assets



Schedule of Employer Contributions

(in thousands of dollars)

Year End	Actuarially Required Contributions (ARC)	Contributions Made As a % of ARC
06/30/2003	$36,070	100%
06/30/2004	$60,042	100%
06/30/2005	$76,931	100%
06/30/2006	$76,090	100%
06/30/2007	$100,550	100%
06/30/2008	$105,340	100%
06/30/2009	$106,123	100%
06/30/2010	$106,265	100%
06/30/2011	$150,475	100%
06/30/2012	$150,950	100%

SCHEDULE OF REVENUE BY SOURCE

(in thousands of dollars)

Year End	Employee Contribution	Employer Contribution	Investment Income	Total
06/30/2003	$22,650	$36,070	$39,150	$97,870
06/30/2004	$27,094	$60,042	$193,333	$280,469
06/30/2005	$33,647	$76,931	$140,211	$250,789
06/30/2006	$39,963	$76,090	$166,874	$282,927
06/30/2007	$42,696	$100,550	$298,286	$441,532
06/30/2008	$60,111	$105,340	($176,043)	($10,592)
06/30/2009	$50,372	$106,123	($455,694)	($299,199)
06/30/2010	$50,319	$106,265	$196,196	$352,780
06/30/2011	$49,013	$150,475	$438,257	$637,745
06/30/2012	$49,687	$150,950	($10,274)	$190,363

SCHEDULE OF EXPENSES BY TYPE

(in thousands of dollars)

Year End	Administrative Expenses	Other Expenses	Retirement Benefits Paid	Member Refunds	Total
06/30/2003	$1,887	$0	$68,989	$1,206	$72,082
06/30/2004	$1,912	$719	$74,016	$1,734	$78,381
06/30/2005	$2,235	$4	$83,182	$1,458	$86,879
06/30/2006	$2,086	$40	$87,915	$2,258	$92,299
06/30/2007	$2,582	$201	$94,788	$2,244	$99,815
06/30/2008	$3,231	$8	$103,970	$3,075	$110,284
06/30/2009	$3,287	$67	$113,991	$2,795	$120,140
06/30/2010	$3,373	$33	$122,141	$2,736	$128,283
06/30/2011	$3,547	$10	$129,835	$2,474	$135,866
06/30/2012*	$5,033	($33)	$139,208	$3,627	$147,835

* Administrative expenses related to investments were classified as investment expense in 2008-2011. Effective 6/30/2012 these expenses are included as Administrative Expenses.

Summary of Retired Benefits, Refunds, and Inactive Members

RETIRED MEMBERS	2012	2011	2010	2009	2008
Service Retirement					
Number	3,355	3,242	3,108	3,032	2,958
Annual Allowance					
Basic Only	$94,234,000	$87,254,000	$79,007,000	$73,038,000	$66,704,000
COLA	$24,748,000	$23,212,000	$22,542,000	$22,964,000	$21,289,000
Total	$118,982,000	$110,466,000	$101,549,000	$96,002,000	$87,993,000
Average Monthly Payment	$2,955	$2,839	$2,723	$2,639	$2,479
Disability Retirement					
Number	374	370	365	369	361
Annual Allowance					
Basic Only	$9,909,000	$9,414,000	$8,988,000	$8,722,000	$8,214,000
COLA	$3,225,000	$3,005,000	$2,926,000	$3,070,000	$2,847,000
Total	$13,134,000	$12,419,000	$11,914,000	$11,792,000	$11,061,000
Average Monthly Payment	$2,927	$2,797	$2,720	$2,663	$2,553
Beneficiaries					
Number	546	535	529	534	523
Annual Allowance					
Basic Only	$7,235,000	$6,672,000	$6,309,000	$6,052,000	$5,757,000
COLA	$5,494,000	$5,118,000	$5,116,000	$5,206,000	$4,805,000
Total	$12,729,000	$11,790,000	$11,425,000	$11,258,000	$10,562,000
Average Monthly Payment	$1,943	$1,836	$1,800	$1,757	$1,683
Total Retired Members					
Number	4,275	4,147	4,002	3,935	3,842
Annual Allowance					
Basic Only	$111,378,000	$103,340,000	$94,304,000	$87,812,000	$80,675,000
COLA	$33,467,000	$31,335,000	$30,584,000	$31,240,000	$28,941,000
Total	$144,845,000	$134,675,000	$124,888,000	$119,052,000	$109,616,000
Average Monthly Payment	$2,823	$2,706	$2,601	$2,521	$2,378
Type of Refund*					
General	$3,399,000	$2,379,790	$2,623,439	N/A	N/A
Safety	$228,329	$94,655	$112,586	N/A	N/A
Total Refund	$3,627,492	$2,474,445	$2,736,025	$2,794,916	$3,074,453
INACTIVE MEMBERS	1,190	1,207	1,230	1,225	1,151

For 6/30/2004 and 6/30/2005 retirees/beneficiaries who are entitled to multiple benefits are counted more than once. Beginning in 6/30/2006, a retiree is counted only once even if that retiree has multiple benefits from different tiers.

The data in the table above originates from PensionGold, SamCERA's retirement benefit administration system. For the years 2001 through 2005 it also appears in SamCERA's actuarial valuation reports. The total payroll above will differ from the actual payroll due to a last month projection used by the actuary.

* Type of Refund not available prior to FY 2009-2010.

Summary of Retired Benefits, Refunds, and Inactive Members (Continued)

RETIRED MEMBERS	2007	2006	2005	2004	2003
Service Retirement					
Number	2,835	2,783	2,865	2,706	2,638
Annual Allowance					
Basic Only	$59,687,000	$54,942,000	$49,760,000	$41,723,000	$36,260,000
COLA	$19,382,000	$18,188,000	$17,759,000	$17,502,000	$16,668,000
Total	$79,069,000	$73,130,000	$67,519,000	$59,225,000	$52,928,000
Average Monthly Payment	$2,324	$2,190	$1,964	$1,824	$1,672
Disability Retirement					
Number	351	342	334	339	316
Annual Allowance					
Basic Only	$7,571,000	$6,915,000	$6,575,000	$6,164,000	$5,061,000
COLA	$2,569,000	$2,356,000	$2,205,000	$2,172,000	$2,049,000
Total	$10,140,000	$9,271,000	$8,780,000	$8,336,000	$7,110,000
Average Monthly Payment	$2,407	$2,259	$2,191	$2,049	$1,875
Beneficiaries					
Number	508	488	483	494	477
Annual Allowance					
Basic Only	$5,220,000	$4,659,000	$4,084,000	$4,250,000	$3,548,000
COLA	$4,361,000	$3,946,000	$3,800,000	$3,682,000	$3,388,000
Total	$9,581,000	$8,605,000	$7,884,000	$7,932,000	$6,936,000
Average Monthly Payment	$1,572	$1,469	$1,360	$1,338	$1,212
Total Retired Members					
Number	3,694	3,613	3,682	3,539	3,431
Annual Allowance					
Basic Only	$72,478,000	$66,516,000	$60,419,000	$52,137,000	$44,869,000
COLA	$26,312,000	$24,490,000	$23,764,000	$23,356,000	$22,105,000
Total	$98,790,000	$91,006,000	$84,183,000	$75,493,000	$66,974,000
Average Monthly Payment	$2,229	$2,099	$1,905	$1,778	$1,627
Type of Refund*					
General	N/A	N/A	N/A	N/A	N/A
Safety	N/A	N/A	N/A	N/A	N/A
Total Refund	$2,243,677	$2,257,849	$1,458,227	$1,734,939	$1,205,576
INACTIVE MEMBERS	1,151	1,089	872	877	833

SCHEDULE OF AVERAGE MONTHLY SALARY OF ACTIVE MEMBERS

(by tier and membership type)

	2012	2011	2010	2009	2008
General Tier 1	$7,843	$7,630	$7,543	$7,534	$7,252
General Tier 2	$7,340	$7,208	$7,193	$7,120	$6,872
General Tier 3	$6,138	$5,968	$5,818	$5,791	$5,619
General Tier 4	$6,580	$6,398	$6,348	$6,212	$5,914
General Tier 5	$5,799	N/A	N/A	N/A	N/A
General Tier Total	$6,726	$6,599	$6,569	$6,468	$6,211
Safety Tier 1	$12,624	$12,073	$11,578	$10,889	$11,113
Safety Tier 2	$10,892	$10,789	$10,548	$10,135	$9,612
Safety Tier 4	$9,351	$9,230	$8,931	$8,610	$8,349
Safety Tier 5	$9,667	N/A	N/A	N/A	N/A
Safety Tier 6	N/A	N/A	N/A	N/A	N/A
Safety Tier Total	$9,795	$9,730	$9,525	$9,197	$8,937
Probation Tier 1	$6,618	$7,533	$8,922	$9,751	$9,791
Probation Tier 2	$7,454	$7,349	$7,393	$7,341	$6,960
Probation Tier 4	$6,686	$6,505	$6,456	$6,291	$5,978
Probation Tier 5	$4,949	N/A	N/A	N/A	N/A
Probation Tier 6	$5,239	N/A	N/A	N/A	N/A
Probation Tier Total	$6,844	$6,719	$6,722	$6,634	$6,344
Average Monthly Salary	**$6,995**	**$6,872**	**$6,813**	**$6,692**	**$6,433**

SCHEDULE OF AVERAGE MONTHLY SALARY OF ACTIVE MEMBERS (CONTINUED)

(by tier and membership type)

	2007	2006	2005	2004	2003
General Tier 1	$7,175	$6,749	$6,582	$6,514	$6,070
General Tier 2	$6,688	$6,148	$6,045	$5,980	$5,573
General Tier 3	$5,287	$4,988	$5,216	$5,101	$4,747
General Tier 4	$5,714	$5,315	$5,476	$5,281	$4,886
General Tier 5	N/A	N/A	N/A	N/A	N/A
General Tier Total	$6,054	$5,652	$5,747	$5,642	$5,284
Safety Tier 1	$10,212	$10,019	$9,701	$9,516	$8,500
Safety Tier 2	$9,299	$8,585	$8,482	$8,530	$7,518
Safety Tier 4	$7,882	$7,403	$7,564	$7,582	$6,465
Safety Tier 5	N/A	N/A	N/A	N/A	N/A
Safety Tier 6	N/A	N/A	N/A	N/A	N/A
Safety Tier Total	$8,538	$8,062	$8,150	$8,267	$7,291
Probation Tier 1	$8,522	$7,735	$7,216	$6,856	$6,548
Probation Tier 2	$6,899	$6,479	$6,390	$6,291	$5,800
Probation Tier 4	$5,766	$5,444	$5,741	$5,711	$4,924
Probation Tier 5	N/A	N/A	N/A	N/A	N/A
Probation Tier 6	N/A	N/A	N/A	N/A	N/A
Probation Tier Total	$6,171	$5,860	$6,032	$6,019	$5,395
Average Monthly Salary	**$6,260**	**$5,857**	**$5,955**	**$5,871**	**$5,467**

The data in the table above originates from PensionGold, SamCERA's retirement benefit administration system. For the years 2001 through 2005 it also appears in SamCERA's actuarial valuation reports.

Schedule of Participating Employers and active Members

	2012	2011	2010	2009	2008
COUNTY OF SAN MATEO					
General Members	4,078	4,476	4,589	4,758	4,718
Safety Members	435	446	425	436	432
Safety/Probation Members	299	305	313	330	325
Total	4,812	5,227	5,327	5,524	5,475
SAN MATEO COUNTY SUPERIOR COURTS*					
General Members Total	268	N/A	N/A	N/A	N/A
SAN MATEO COUNTY MOSQUITO & VECTOR CONTROL DISTRICT					
General Members Total	15	18	20	19	25
Total Active Membership	**5,095**	**5,245**	**5,347**	**5,543**	**5,500**

* San Mateo County Superior Courts Members were included in County of San Mateo prior to 2012.

Schedule of Participating Employers and active Members (Continued)

	2007	2006	2005	2004	2003
COUNTY OF SAN MATEO					
General Members	4,742	4,594	4,391	4,474	4,202
Safety Members	443	428	409	411	434
Safety/Probation Members	329	313	278	288	290
Total	5,514	5,335	5,078	5,173	4,926
SAN MATEO COUNTY SUPERIOR COURTS*					
General Members Total	N/A	N/A	N/A	N/A	N/A
SAN MATEO COUNTY MOSQUITO & VECTOR CONTROL DISTRICT					
General Members Total	25	20	20	13	11
Total Active Membership	**5,539**	**5,355**	**5,098**	**5,186**	**4,937**

* San Mateo County Superior Courts Members were included in County of San Mateo prior to 2012.

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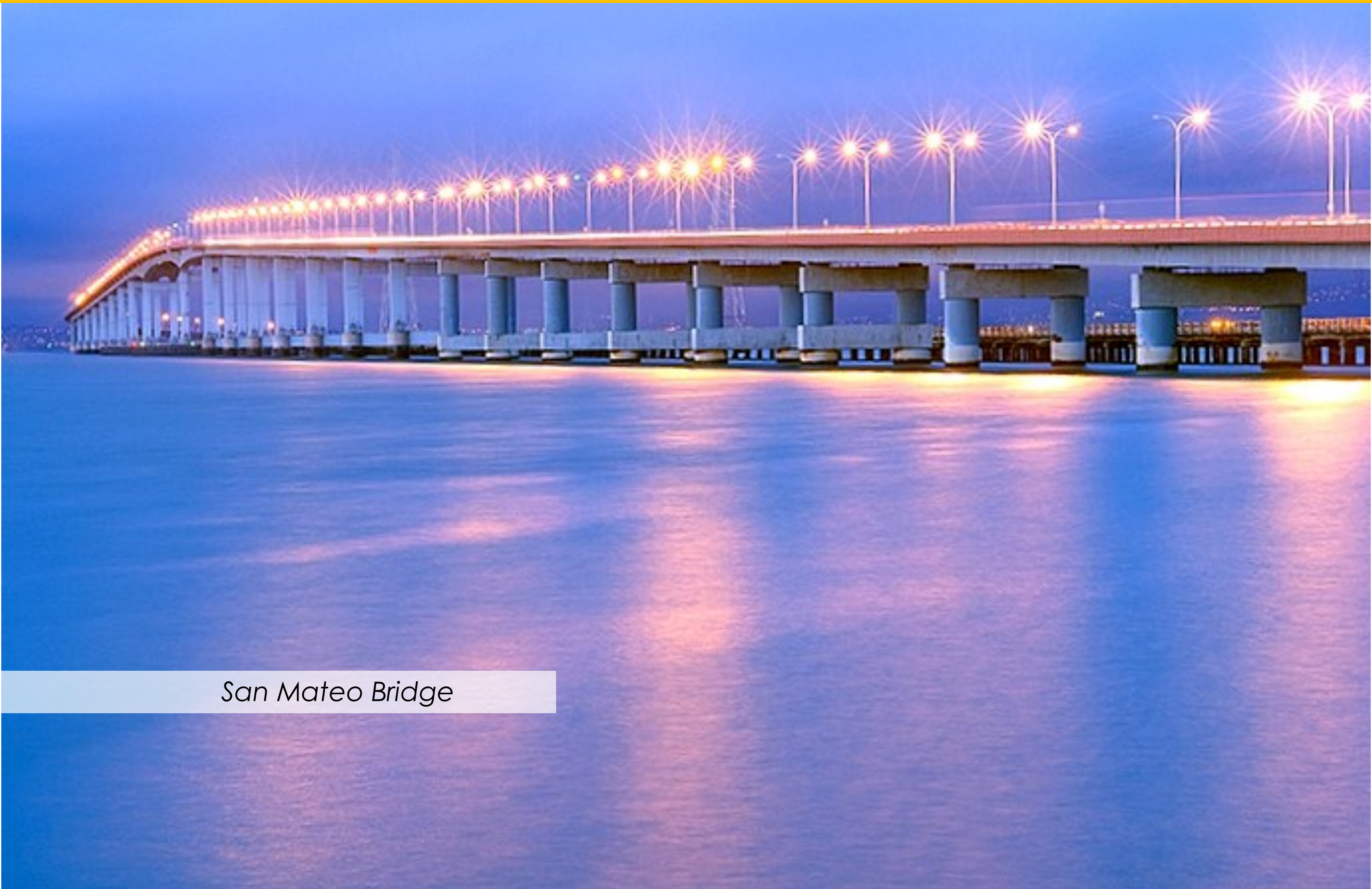
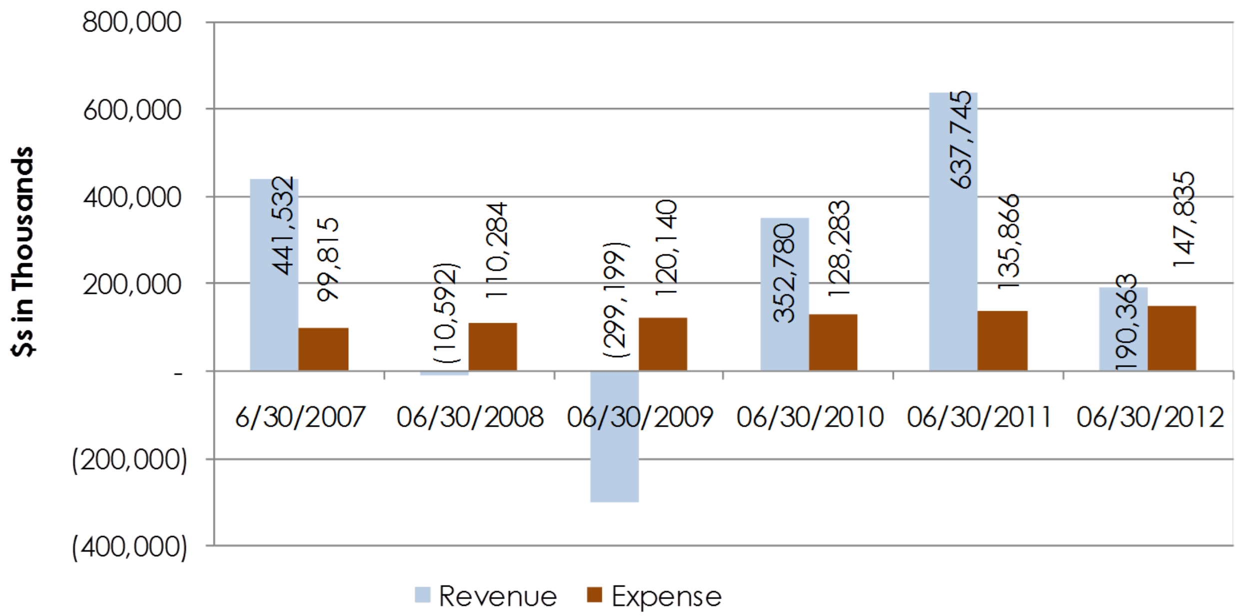
COMPLIANCE **SECTION**



San Mateo Bridge

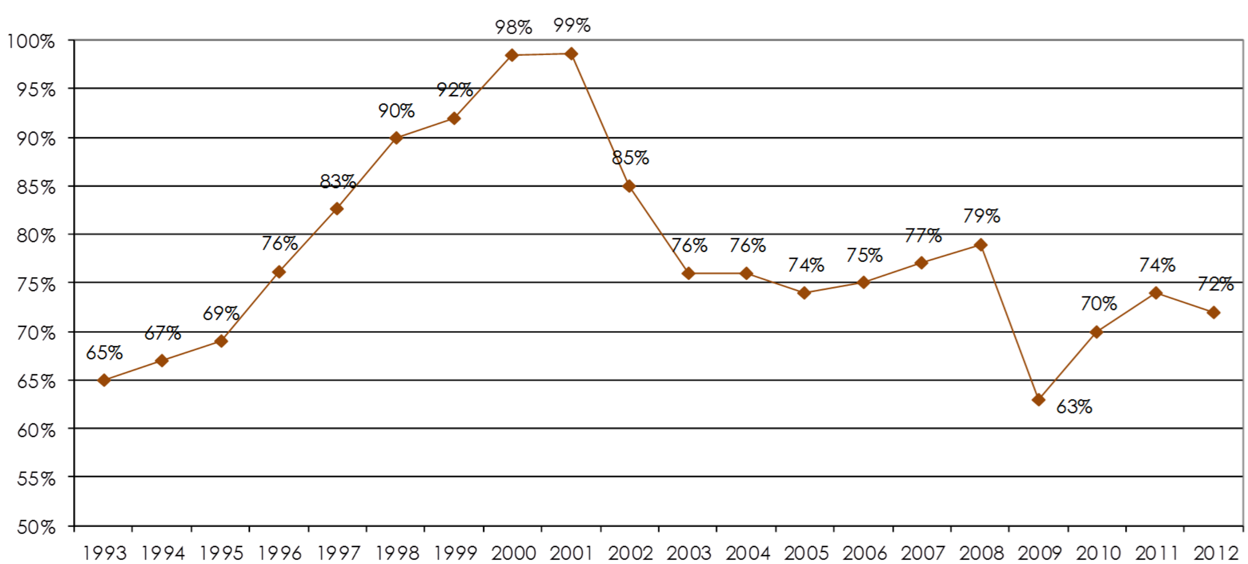
SAMCERA'S REVENUE AND EXPENSE

FY 2007-2012



SAMCERA'S FUNDING RATIO (GASB 25 BASIS)

FY 1993-2012



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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Retirement of the
San Mateo County Employee's Retirement Association

We have audited the financial statements of the San Mateo County Employee's Retirement Association (SamCERA), as of and for the year ended June 30, 2012, and have issued our report thereon dated October 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of SamCERA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered SamCERA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SamCERA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SamCERA's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SamCERA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of SamCERA in a separate letter dated October 15, 2012.

This report is intended solely for the information and use of the Board of Retirement and management of SamCERA and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 15, 2012

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Order Information

To order your own copy of SamCERA's *2012 Comprehensive Annual Financial Report*, contact SamCERA at:

SamCERA

100 Marine Parkway, Suite 125

Redwood City, CA 94065

You can also find this report on SamCERA's website, www.samcera.org.

www.samcera.org

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SamCERA
SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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