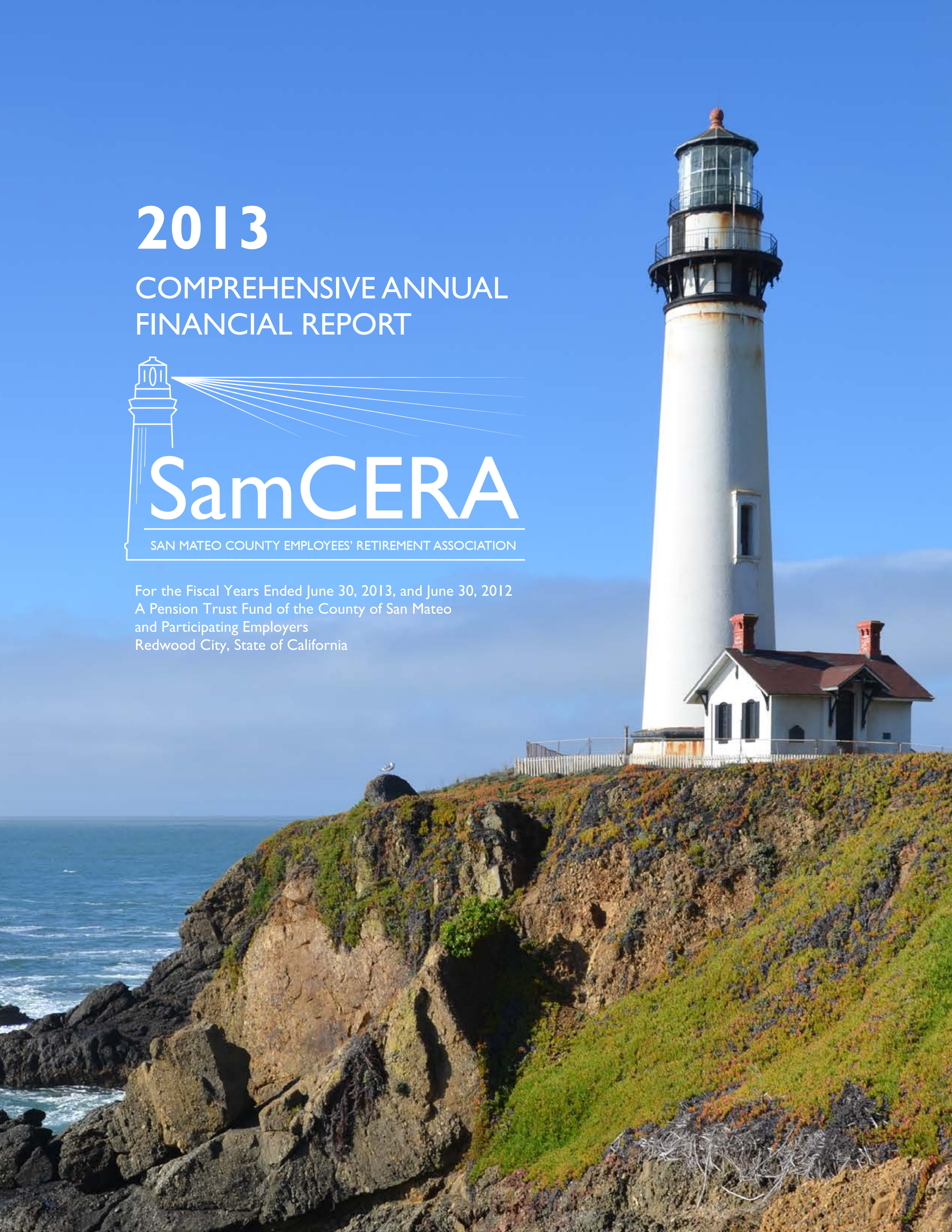
# 2013

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

SamCERA

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

For the Fiscal Years Ended June 30, 2013, and June 30, 2012
A Pension Trust Fund of the County of San Mateo
and Participating Employers
Redwood City, State of California



On the cover:
Pigeon Point Lighthouse
San Mateo County, California

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 years ended June 30, 2013, and 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

# TABLE OF CONTENTS

## Introductory Section



## Financial Section

## Investment Section



## Actuarial Section

## Statistical Section



## Compliance Section

# INTRODUCTORY SECTION

## 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 services and information to members and other stakeholders.

Prudently manage the assets in order to appropriately fund the actuarial liabilities of the retirement system, to ensure the ability to pay all earned benefits while minimizing the costs to employers.

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, 2013, and June 30, 2012.

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 27-37.

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, 2013, and the experience study of April 30, 2011, are 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, the California Public Employees' Pension Reform Act of 2013 ("PEPRA") contained in Article 4 of Division 7, Title 1 (Commencing with Section 7522) of the Government Code and other applicable statutes, regulations and case law.

The Board of Retirement (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 22.

SamCERA's Chief Executive Officer (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 21 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.

## Looking Backward and Forward

For a summary of SamCERA's recent fiscal year, I encourage you to review the following narrative introduction, as well as Management's Discussion and Analysis beginning on page 27.

### Trustees

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.

The officers for the Board of Retirement for the 2012-2013 fiscal year were **Sandie Arnott**, Chair; **Natalie Kwan Lloyd**, Vice Chair, and **Lauryn Agnew**, Secretary. Other members of the 2012-2013 Board were: **Albert David, Eric Tashman, Benedict J. Bowler, David Spinello, Paul Hackleman and Michal Settles.** Alternate trustees were **Christopher Miller**, Safety Alternate, and **John Murphy**, Retiree Alternate.

I note with sadness that **John Murphy** passed away following the last meeting of his term. In 2006, Mr. Murphy was the first Retired Alternate ever appointed by the Retirement Board. He was elected to the position in 2007 and again in 2010. He spent many years prior to his appointment attending Retirement Board meetings and supporting his fellow SamCERA retirees.

### Elections

The County Elections Division conducted an election on behalf of the retirement association on June 10, 2013, for the General Member seat, the Retired Member seat, and the Retired Alternate seat. **Natalie Kwan Lloyd**, a Senior Appraiser in the San Mateo County Assessor's Office, was reelected to the General Member seat. She joined the Board in July 2008 to serve out the unexpired term of Tom Bryan. **Paul Hackleman,** who served as the County Benefits Manager from 1982 through March 2008, was reelected to the Retired Member seat. He also served on the Retirement Board while actively employed, from June 2005 through March 2008. Mr. Hackleman is the head of I.C. Benefits Consulting. **Alma Salas** ran unopposed for the Retiree Alternate seat, so she was automatically deemed elected. Ms. Salas was a Probation Services Manager with the San Mateo County Probation Department before her retirement in March 2013. During her career she served on the Board for 11 years beginning in May of 2001, and served as Board Chair during the 2004-05 fiscal year.

### Investments

Following a flat investment return from the previous fiscal year, SamCERA's portfolio returned a healthy 13.6% (net of investment management fees) for fiscal year 2012-2013. The fund benefitted from the rally in global equity markets to beat the policy benchmark return of 12.8%.

The Board of Investments 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.

Working with its investment consulting firm Strategic Investment Solutions, Inc. and Chief Investment Officer **Michael Coultrip**, the Retirement Board restructured its domestic equity portfolio during the 2012-2013 fiscal year by reducing the number of active managers and increasing the passive allocation in the core large-capitalization segment of the market. Brown Advisory was selected by the Board to manage a large-capitalization growth mandate.

In its fixed income portfolio, SamCERA simplified its core domestic bond portfolio by reducing the number of active managers and reallocating the proceeds to two existing managers. SamCERA also re-upped with Angelo Gordon to fund an allocation to its opportunistic credit strategy.

Additionally, SamCERA hired The Clifton Group as a strategic overlay manager, in order to be more efficient in portfolio rebalancing activities. Meanwhile, the association continues to build out its private equity portfolio. The plan currently has commitments of $183 million through eleven firms, diversified across venture capital, buyouts, and special situations. While SamCERA continued to build out its alternatives portfolio, the association began an asset liability modeling study in May 2013 to assess the tradeoffs between investment risk and expected returns.

Finally, SamCERA is in the process of rewriting its Investment Policy, to simplify it and remove unnecessary information.

## Staffing

During the 2012-2013 fiscal year, the Board of Retirement approved an additional technology support position to help SamCERA move forward with its plans to develop a replacement PASS (Pension Administration Software System), and implement a number of other new technology systems. This new position—the Network and Applications Engineer—was filled by **Edward Ick**. Three vacant positions were filled: Retirement Accountant was filled by **Susan Fong**, Retirement Accounting Technician by **Elena Ricevuto**, and the System and Web Engineer was filled by **Darius Nagal**.

## Actuarial Valuation

In May of 2012, in consultation with its actuarial services consultant, Milliman, Inc., 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 survey of the capital market projections of several top national investment-consulting firms. As a result of the change, employer contributions will increase by 1.15% beginning with the 2012 valuation effective July 1, 2013 for approximately $1.7 million for the 2013-2014 fiscal year. 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

Fiscal year 2012-2013 marked the passage of PEPRA (the California Public Employees' Pension Reform Act, which includes Assembly Bills 340 and 197)—a major pension law with broad effects on SamCERA's retirement plans. PEPRA was signed into law by Governor Jerry Brown on September 12, 2012, and took effect on January 1, 2013. PEPRA created a new plan for SamCERA members hired on or after January 1, 2013. New Safety and Probation members now go into a 2.7% @ 57 plan, and General members go into a 2% @ 62 plan. Safety and Probation members are eligible to retire at age 50 with 5 years of service, and General members can retire at age 52 with 5 years of service.

Employee contribution rates for the PEPRA plan are based on a member's status as General, Probation or Safety—and are not based on age-of-entry, as with earlier plans. This means that all General members pay the same contribution rate regardless of their age-of-entry. Additionally, members in the new plan have their Final Average Compensation (FAC) based on their highest three *consecutive* years of compensation, rather than the three highest years or year. PEPRA also places caps on the amount of pensionable compensation which can be used to calculate pension benefits for these new members. The cap is subject to annual adjustments based on inflation.

PEPRA also introduced new rules which apply to all SamCERA members. Some of the notable provisions include: (1) limits on pension spiking; (2) restrictions on post-retirement employment; (3) elimination of ARC (Additional Retirement Credit) purchases; (4) and the forfeiture of pension benefits if a member is convicted of a job-related felony.

Even before PEPRA was signed, SamCERA staff was working to help members and employers understand the provisions of the bill. The most pressing challenge after passage of the bill was to notify members that ARC purchases would be discontinued, and then process the subsequent rush for estimates and purchases. As PEPRA went into effect, SamCERA staff held various meetings and presentations, and developed forms and publications for both members and employers. SamCERA has also worked with employers to adopt new pay codes (which excludes certain payments from pensionable compensation), and to implement new payroll audit procedures to be consistent with PEPRA.

PEPRA's impact will not be as significant for SamCERA as for many other systems because the County (which makes up 95% of the SamCERA membership) had already taken these cost cutting steps prior to PEPRA's implementation: (1) reduced benefit formulas for new hires which meant a higher age to receive maximum pension; (2) reduced the pick-up of the employee share of retirement costs, and required cost sharing for certain formulas since 2003; (3) excluded certain pay items which can lead to spiking such as in-service leave cash outs; and (4) since 1997 instituted a three-year final compensation period for new employees.

After implementing the new PEPRA plan, SamCERA now has seven tiers, including a non-contributory plan which closed to new members in December 2012. San Mateo County had already adopted new plans in 2011 and early 2012, so those plans were only open to new members for a relatively short period of time.

## Cost of Living Allowance

The Bay Area experienced modest inflation during 2012, according to the Federal Bureau of Labor Statistics, resulting in a cost of living adjustment (COLA) between 2.0% and 2.5% for most SamCERA retirees. The COLA for Plans 1 and 2 was 2.5%, while the COLA for Plans 4, 5 and 6 was 2.0%. Plan 3 provisions do not provide for a COLA. COLA is applied to retirees' payments beginning in April of each year.

## Information Technology

SamCERA is now in the early stages of its multi-year Technology Modernization Project. The project includes business process reengineering, implementation of an imaging system and replacement of SamCERA's aging PASS (Pension Administration Software System). LRWL is the project management firm. These projects are expected to be complete in three to five years.

This Technology Modernization Project includes a new ECM (Enterprise Content Management) system, and the design and implementation of a new PASS. In fiscal year 2012-2013, SamCERA began working with BCS Systems to image and index all member documents as part of the ECM project. The PASS RFP (Request for Proposal) was issued late in the fiscal year. As the PASS project moves forward, staff will also be working with a change management consultant to ensure a smooth transition to a more modern system.

Additionally, the association implemented a number of pension software enhancements due to new benefit formulas required by PEPRA.

## Strategic Planning

SamCERA staff held a retreat in March 2013 and began working through the steps in a strategic planning process as recommended by the Government Finance Officers Association (GFOA). The result of these discussions was an update of SamCERA's Strategic Plan Action Matrix.

During the 2013-2014 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. ASSET MANAGEMENT GOAL

*Prudently manage the assets in order to appropriately fund the actuarial liabilities of the retirement system to ensure the ability to pay all earned benefits while minimizing the costs to employers.*

Major projects under this goal include continuing to prudently build out the private equity portfolio, completing an Asset Liability Modeling study, and ensuring that SamCERA properly implements new Governmental Accounting Standards Board (GASB) statements.

### 2. CUSTOMER SERVICES GOAL

*Provide caring, fair, accurate, timely and knowledgeable professional services and information to members and other stakeholders.*

Over the coming years, meeting this goal will involve providing input to the Enterprise Content Management (ECM) and Pension Administration Software System (PASS) vendors in order to ensure that the new systems provide users with new tools that improve efficiency, accuracy and customer service.

### 3. 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. It will also include modernizing the SamCERA website to allow more efficient updates of information and beginning the process of negotiating a renewal of the SamCERA office space lease.

Each goal has a number of specific projects designed to help achieve it. Some projects were developed during the 2013 Board/Staff Retreat. Others arose from the 2013 All Staff Retreat. Still others are carried over from prior years.

## Certificate of Achievement and Acknowledgements

For the sixteenth 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 Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2012. The certificate is reproduced on page 18.

SamCERA is also the recipient of the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for the tenth year running. The association received this honor for the PAFR for the fiscal year ended June 30, 2012.

Additionally, the Public Pension Coordinating Council (the Council) presented SamCERA its Public Pension Standards Award for 2012. 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 19.

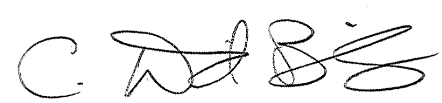
Finally, SamCERA was recognized during the 2012-2013 fiscal year as a runner-up for Small Public Plan of the Year by *Money Management Intelligence*. (The winner in SamCERA's category was the San Antonio Fire and Police Pension Fund.)

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

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 21, 2013

## GFOA Certificate of Achievement

Government Finance Officers Association

# 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, 2012**

Executive Director/CEO

## PPCC Public Pension Standards Award

PPCC

Public Pension Coordinating Council

**_Public Pension Standards Award_**
**_For Funding and Administration_**
**_2012_**

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 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 joined the Board in 2008, and was re-elected in 2009 and 2012. He is chair of the Investment Committee. His term expires on June 30, 2015.

### Natalie Kwan Lloyd

*Elected by the General Members, Third Member*

Natalie Kwan Lloyd is a Senior Appraiser in the San Mateo County Assessor's Office. She is currently the Board Vice Chair. She joined the board in 2008. She was elected in 2010 and reelected in 2013. Her current term expires on June 30, 2016.

### 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 chair 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 a member of the Investment Committee. He was reappointed in 2010 and 2013. His term expires June 30, 2016.

### 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 currently the Board Secretary. 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 has served on the Audit Committee and the CEO Review Committee. His term expires on June 30, 2015.

## Paul Hackleman

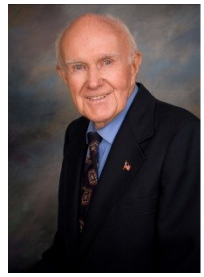
*Elected by the Retired Members, Eighth Member*

Paul Hackleman was elected in June 2010 to serve as the Retired Member of the Board, and reelected in 2013. 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, 2016.

## 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, 2016.



## 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 expired June 30, 2013.

*John Murphy passed away following the last meeting of his term.*

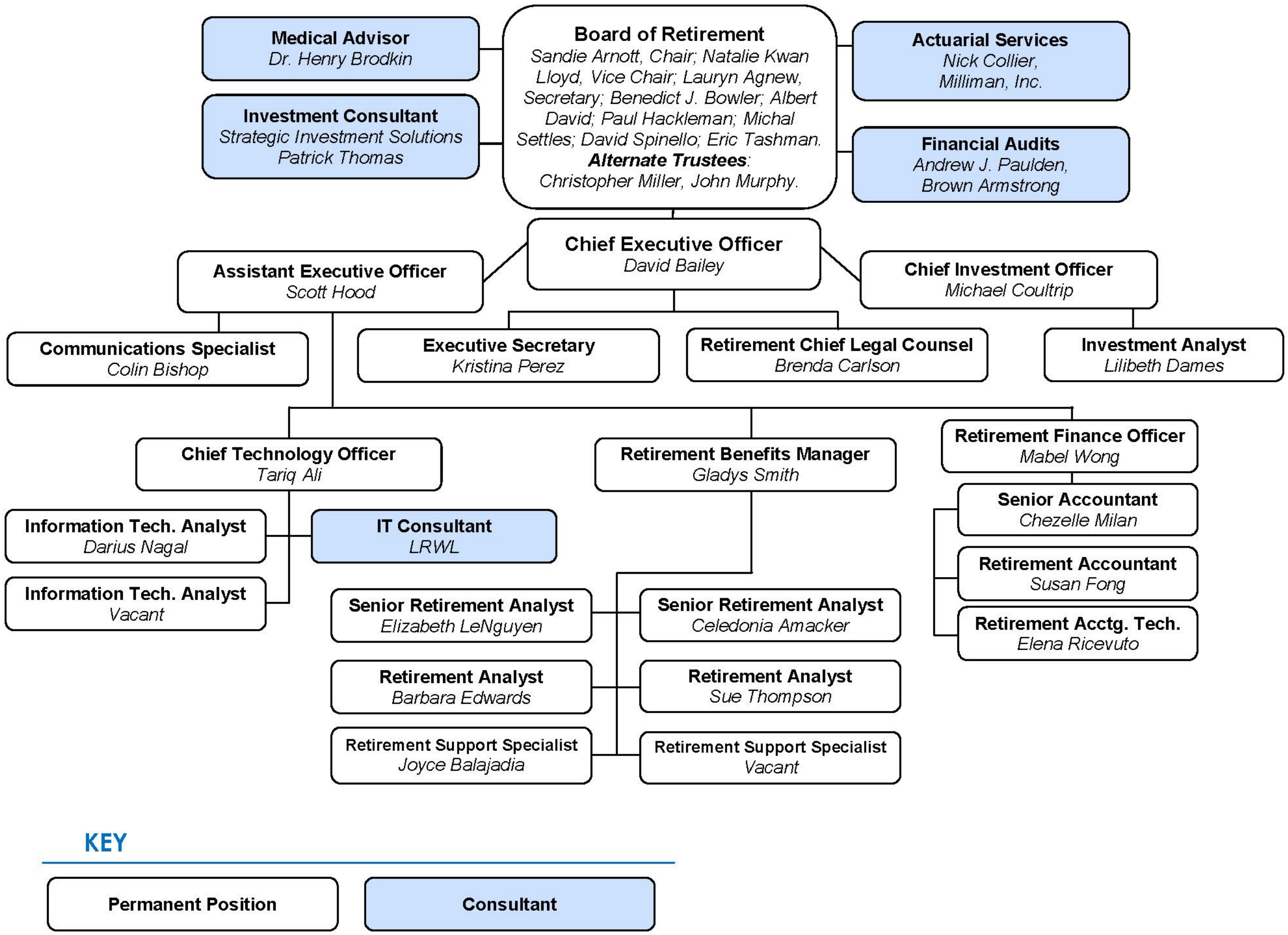
## Christopher Miller

*Elected by the Safety Members, Safety Alternate*

Chris Miller is a Group Supervisor II for the San Mateo County Probation Department. He was elected by the Safety membership and began his term in July 2012. His term will expire June 30, 2015.

# SamCERA 2012-2013 Organizational Chart

*as of June 30, 2013*



# 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

### Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the San Mateo County Employees' Retirement Association (SamCERA) as of June 30, 2013 and 2012, the Statement of Changes in Fiduciary Net Position for the years then ended, and the related notes to the financial statements, which collectively comprise SamCERA's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of SamCERA as of June 30, 2013 and 2012, and its changes in fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Change in Accounting Principle**

As discussed in Note 2 to the financial statements, during the year ended June 30, 2013, SamCERA implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which modified the current financial reporting of those elements. Our opinion is not modified with respect to the matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic 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.

*Other Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SamCERA's basic financial statements. The other supplementary information and the introductory, investment, actuarial, and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, 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 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* in considering SamCERA's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 21, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2012-2013

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, 2013, and 2012. The information presented here, in conjunction with the Notes to the Financial Statements beginning on page 40, provides a clear picture of SamCERA's overall financial status and activities.

### Financial Highlights

- $2.73 billion in net position as of June 30, 2013, 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 position restricted for pensions increased by $367.5 million or 15.57% primarily as a result of appreciation in assets and contributions received.
- SamCERA's funding objective is to meet long-term benefits obligations through contributions and investment income. As of June 30, 2013, the actuarial funded ratio for SamCERA increased from 72% to 73.3%. The slight increase in the funding ratio is due to contributions in excess of the value of benefits earned.
- Revenues (Additions to Fiduciary Net Position) for the year were $527.5 million which includes employer contributions of $144.3 million, member contributions of $55.4 million, investment gains of $348.9 million (excluding investment expense of $21.9 million), security lending income of $621,892 and other additions of $159,510. The 177.09% increase in additions to net position over the prior year is mainly due to appreciation in assets and contributions received.
- Expenses (Deductions from Fiduciary Net Position) increased from $147.8 million to $160 million over the prior year, or approximately 8.2%. The fiscal year 2013 expenses include $149.3 million in benefit payments, $5.7 million in member refunds, $4.9 million in administrative expenses and $29,685 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 $109.2 million of unrecognized investment gain as of June 30, 2013, a 191% increase compared to -$120 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 Statement of Fiduciary Net Position
2. Comparative Statement of Changes in Fiduciary Net Position
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 Position** 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, 2013. The net position, which is assets less liabilities, reflect the funds available for future use.

**The Comparative Statement of Changes in Fiduciary Net Position** 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 Position and the Comparative Statement of Changes in Fiduciary Net Position 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 position restricted for pensions as one way to measure the plan's financial position. Over time, increases and decreases in SamCERA's net position 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 position for the year ended June 30, 2013, was 15.57%. This increase is due to market appreciation of assets as well as contributions received. SamCERA's total net fund return of 13.6% outperformed SamCERA's 7.5% actuarial assumed interest rate. The net deferred investment losses from the past five years decreased from -$120.0 million in fiscal year (FY) 2012 to $109.2 million of deferred investment gains in FY 2013, which reflects the addition of the current year's actuarial gain. Deferred investment gains will be spread over the next five years.

SamCERA's Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position appear on pages 38 and 39.

**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 40-62.

**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 Comprehensive Annual Financial Report (CAFR) for additional information). Required Supplementary Information appears on page 63.

**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 65.

## 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 position restricted for pensions as of June 30, 2013, totaled $2.73 billion which represents an increase of $367.5 million or 15.57% over the period. The increase during the fiscal year is due to market appreciation of assets as well as contributions received. All of the net position is 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 2012 to FY 2013 is due mostly to the decrease in cash transactions for the security lending program. The decrease in other assets from FY 2011 to FY 2012 is due to decrease in the accounts receivables. The total liabilities referred to in Table 1 are the following

### SAMCERA'S NET POSITION(CONDENSED): TABLE 1

*For the Years Ended June 30, 2013 and 2012*

| | 2013 | 2012 | Amount Increase/ Decrease | Percent Increase/ Decrease |
|---|---|---|---|---|
| Investments at Fair Value | $2,702,492,485 | $2,323,607,764 | $378,884,721 | 16.31% |
| Other Assets | $323,937,334 | $383,515,763 | ($59,578,429) | -15.53% |
| Total Assets | $3,026,429,819 | $2,707,123,527 | $319,306,292 | 11.80% |
| Total Liabilities | $298,604,487 | $346,819,873 | ($48,215,386) | -13.90% |
| **Net Position** | **$2,727,825,332** | **$2,360,303,654** | **$367,521,678** | **15.57%** |

*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 Position** | **$2,360,303,654** | **$2,317,775,829** | **$42,527,825** | **1.83%** |

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 2013 is due to a decrease in the collateral payable for security lending. The decrease in total liabilities from FY 2011 to FY 2012 is due to a decrease in the amount due to brokers for investments purchased.

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

Capital assets with an initial cost of more than $5,000 and an estimated useful life in excess of three years may be capitalized and depreciated. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The capital expenditures for FY 2012-2013 were for various technology infrastructures. The purchases were generally expensed in the fiscal year. Year-end balance of capital assets remained at $0.

## Reserves

The statement of SamCERA's reserves as shown in Table 2 indicates how SamCERA's fiduciary net position has 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 position attributable to that member is transferred to the Retired Member Reserves from the Member Deposit Reserves and Employers' Advance Reserves. During the past several years the following significant Board of Retirement actions have impacted the reserve accounts:

### SamCERA's Reserves: Table 2

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| VALUATION RESERVES | | | |
| Member Deposit Reserve | 534,275,685 | 498,568,652 | 485,125,877 |
| Employers' Advance Reserve | 422,581,774 | 361,197,981 | 310,568,622 |
| Retired Member Reserve | 918,589,967 | 858,440,088 | 765,312,626 |
| Cost of Living Adjustment Reserve | 930,358,294 | 843,061,707 | 760,505,829 |
| NON-VALUATION RESERVES | | | |
| Unallocated Earnings/(Loss) Account | (187,166,322) | (80,997,723) | 83,655,373 |
| Market Stabilization Account | 109,185,934 | (119,967,051) | (87,392,498) |
| **Net Reserves Held in Trust for Pension Benefits** | **$2,727,825,332** | **$2,360,303,654** | **$2,317,775,829** |

- The adoption of the GASB Statement 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 increased by $229 million to $109.2 million of deferred gain to be recognized over the next five years.

## Additions to Fiduciary Net Position

The primary sources of funding for SamCERA member benefits are employer contributions, member contributions, and net investment income. Total additions to fiduciary net position for the fiscal years ended June 30, 2013, and 2012 were $527.5 million and $190.4 million, respectively. The increase in FY 2013 is primarily due to market appreciation of assets. Employer and member contributions were flat compared to FY 2012. The decrease in employer contribution is offset by an increase in the employee contributions. The decrease in total additions to fiduciary assets from FY 2012 to FY 2011 was primarily due to the flat market return of assets.

Employer contributions for FY 2013 were $144.3 million, a decrease of $6.6 million over the prior year. Member contributions were $55.4 million. The $5.7 million increase over FY 2012 is due to an increase in member optional service credit purchases. The relatively even level of contributions between FY 2012 and FY 2011 was due to a continuing hiring freeze by the primary employer.

SamCERA's total members in 2013 increased slightly by 39 members compared to FY 2012. However, there was a shift in the type of member. Active members decreased 3.5% from 5,095 to 4,917, retired members increased 2.9%, from 4,275 to 4,398, and inactive members increased almost 7.8% from 1,212 to 1,306.

## Additions to Fiduciary Net Position (Condensed): Table 3

*For the Years Ended June 30, 2013 and 2012*

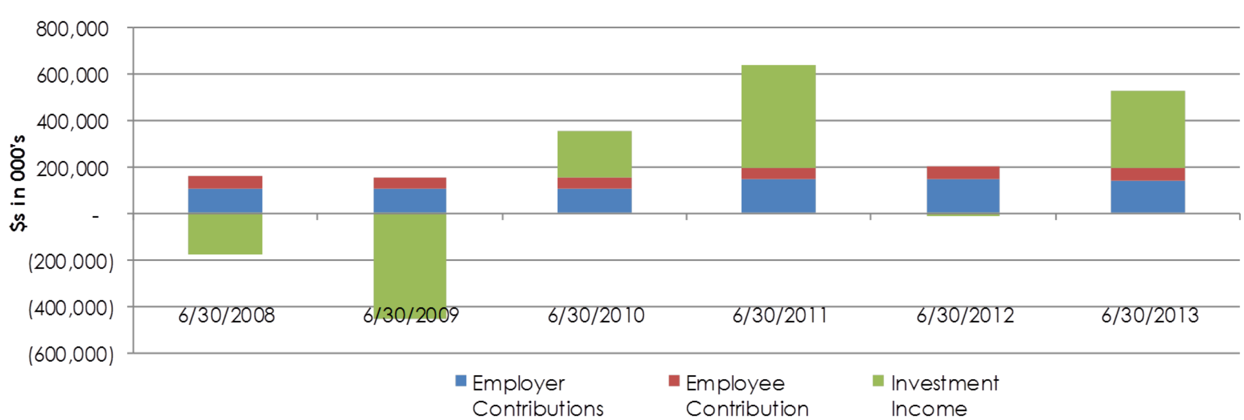
| | 2013 | 2012 | Amount Increase/ Decrease | Percent Increase/ Decrease |
|---|---|---|---|---|
| Employer Contributions | $144,308,171 | $150,949,761 | ($6,641,590) | -4.40% |
| Member Contributions | $55,407,941 | $49,687,136 | $5,720,805 | 11.51% |
| Investment Income | $348,910,089 | $9,916,437 | $338,993,652 | 3418.50% |
| Less Investment Expense | ($21,926,630) | ($20,940,955) | ($985,675) | 4.71% |
| Security Lending Income | $621,892 | $721,219 | ($99,327) | -13.77% |
| Other Additions | $159,510 | $29,025 | $130,485 | 449.55% |
| **Total** | **$527,480,973** | **$190,362,623** | **$337,118,350** | **177.09%** |
| Current Membership | 10,621 | 10,582 | 39 | 0.37% |

*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 | $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% |

## Additions to Fiduciary Net Position

*FY 2008-2013*



## Deductions from Fiduciary Net Position

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, 2013, totaled $160 million, an increase of 8.2% over the prior fiscal year (refer to Table 4).

Retirement annuities, survivor benefits, and permanent disability benefits were $149.3 million in 2013, an increase of $10.1 million or 7.2% over 2012. 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 2012 totaled $139.2 million, which is a $9.4 million, or 7.2%, increase over FY 2011. The sharp increase was due to the same trend. There has been a steady increase in the number of retirees, an 11.7% increase over the last five years.

Member refunds were $5.7 million in 2013, a increase of $2.1 million or 58.5% over 2012. Member refunds increased in fiscal year 2013, due to a higher amount of terminated members, due mostly to the closing of the San Mateo County's long-term care facilities, who requested withdrawals. Also terminated members with a few years of service often withdraw their accounts.

In an effort to continue to reduce its structural deficit, the County continued to offer financial incentives for voluntary separation under certain job classifications.

Administrative expense was $5.0 million for 2013. 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 decreased by $118,860 or -2.36% in fiscal year 2013. SamCERA added a new position and filled several vacancies during the fiscal year, and there were savings from the Assistant Executive Officer's military leave. The $1.5 million or 41.71% increase from fiscal year 2011 to fiscal year 2012 was due to the reclassification of the Asset Management budget to Administrative budget. In FY 2011 staff and expenses related to investment activities were allocated to the Asset Management budget and included as part of investment expense. Beginning in fiscal year 2012, staff and direct expenses for investment were no longer separated. An increase in staffing during FY 2012 also added to the increase in administrative expenditure.

Expenses for SamCERA's professional services are included with investment expense. For the fiscal year ended June 30, 2013, the expenditures for actuarial services, custodian services and investment consultant services decreased by $84,753 compared to 2012. This decrease is due to lower custodial fees this fiscal year. Also in FY 2012 the higher actuarial fees were 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 funds, commodities and risk parity) as well as market appreciation of assets resulted in higher investment management fees in 2013.

Deductions of $160 million are less than additions of $527.5 million, resulting in an increase of $367.5 million in fiduciary net position for the fiscal year ended June 30, 2013.

## DEDUCTIONS FROM FIDUCIARY NET POSITION: TABLE 4

*For the Years Ended June 30, 2013 and 2012*

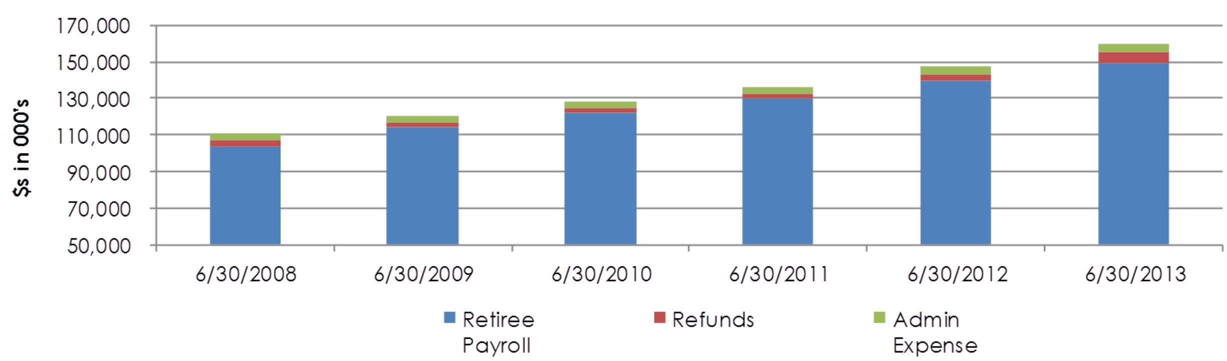
| | 2013 | 2012 | Amount Increase/ Decrease | Percent Increase/ Decrease |
|---|---|---|---|---|
| Retiree Benefits | $149,265,647 | $139,207,590 | $10,058,057 | 7.23% |
| Member Refunds | $5,749,776 | $3,627,492 | $2,122,284 | 58.51% |
| Administrative Expenses | $4,914,187 | $5,033,047 | ($118,860) | -2.36% |
| Other Expenses | $29,685 | ($33,331) | $63,016 | 189.06% |
| **Total** | **$159,959,295** | **$147,834,798** | **$12,124,497** | **8.20%** |
| Benefit Recipients | 4,398 | 4,275 | 123 | 2.88% |

*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% |

## DEDUCTIONS FROM FIDUCIARY NET POSITION

*FY 2008-2013*



## Change in Fiduciary Net Position

The change in fiduciary net position consists of total additions reduced by total deductions. Table 5 below shows condensed information about this financial activity. Fiduciary net position increased by $367.5 million for the year ended June 30, 2013. This increase is due to market appreciation of assets this fiscal year as well as contributions received. Fiduciary net position increased by $42.5 million from FY 2011 to FY 2012. The slight increase is due mostly to contributions received in FY 2012.

### CHANGES IN FIDUCIARY NET POSITION (CONDENSED): TABLE 5

*For the Years Ended June 30, 2013 and 2012*

| | 2013 | 2012 | Amount Increase/ Decrease | Percent Increase/ Decrease |
|---|---|---|---|---|
| Beginning Plan Net Position | $2,360,303,654 | $2,317,775,829 | $42,527,825 | 1.83% |
| Total Additions | $527,480,973 | $190,362,623 | $337,118,350 | 177.09% |
| Total Deductions | $159,959,295 | $147,834,798 | $12,124,497 | 8.20% |
| **Ending Plan Net Position** | **$2,727,825,332** | **$2,360,303,654** | **$367,521,678** | **15.57%** |

*For the Years Ended June 30, 2012 and 2011*

| | 2012 | 2011 | Amount Increase/ Decrease | Percent Increase/ Decrease |
|---|---|---|---|---|
| Beginning Plan Net Position | $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 Position** | **$2,360,303,654** | **$2,317,775,829** | **$42,527,825** | **1.83%** |

## 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. These new pension accounting and financial reporting standards, Statement No. 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. The provisions for plans are effective for financial statements for periods beginning after June 15, 2013, and for plan sponsors, are effective for fiscal years beginning after June 15, 2014. SamCERA's board and management, working with professional consultants, has begun the process of evaluating and implementing 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

These Financial Statements are designed to provide SamCERA's board, membership, taxpayers, investment managers, and interested parties a general overview of the San Mateo County Employees' Retirement Association's financial position and to show accountability for the funds it receives.

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

Questions concerning any of the information provided in 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 21, 2013

## STATEMENT OF FIDUCIARY NET POSITION

*As of June 30, 2013 and 2012*

| | 2013 | 2012 |
|---|---|---|
| **ASSETS** | | |
| Cash and deposits | $39,405,154 | $49,733,227 |
| Security lending cash collateral | 136,413,481 | 199,380,508 |
| Total cash | 175,818,635 | 249,113,735 |
| Receivables | | |
| Contributions | 3,611,259 | 3,702,233 |
| Due from broker for investments sold | 139,326,538 | 125,066,558 |
| Investment income | 4,998,825 | 5,414,934 |
| Security lending income | 60,596 | 97,138 |
| Other receivables | 113,812 | 113,496 |
| Total Receivables | 148,111,030 | 134,394,359 |
| Prepaid Expense | 7,669 | 7,669 |
| Investments, at fair value | | |
| Domestic fixed income securities | 428,578,645 | 453,960,203 |
| International fixed income securities | 112,393,585 | 100,544,203 |
| Domestic equities | 1,135,856,342 | 902,422,401 |
| International equities | 494,939,553 | 408,832,756 |
| Real estate | 166,154,482 | 146,917,122 |
| Private Equities | 64,325,070 | 19,404,901 |
| Risk parity | 157,444,012 | 152,628,991 |
| Hedge funds | 73,717,734 | 68,994,760 |
| Commodities | 69,083,062 | 69,902,427 |
| Total Investments | 2,702,492,485 | 2,323,607,764 |
| **Total Assets** | 3,026,429,819 | 2,707,123,527 |
| **LIABILITIES** | | |
| Payables | | |
| Investment management fees | 2,519,194 | 2,533,960 |
| Due to broker for investments | 154,293,081 | 141,487,676 |
| Collateral payable for securities | 136,413,481 | 199,380,508 |
| Other | 5,378,731 | 3,417,729 |
| **Total Liabilities** | 298,604,487 | 346,819,873 |
| **Net Position Restricted for Pensions** | **$2,727,825,332** | **$2,360,303,654** |

The accompanying Notes to the Financial Statements beginning on page 40 are an integral part of these financial statements.

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

*For the Years Ended June 30, 2013 and 2012*

| | 2013 | 2012 |
|---|---|---|
| ADDITIONS | | |
| Contributions (Note 3) | | |
| Employer | $144,308,171 | $150,949,761 |
| Member | 55,407,941 | 49,687,136 |
| Total Contributions | 199,716,112 | 200,636,897 |
| Investment Income | | |
| Interest and dividends | 55,101,945 | 61,653,951 |
| Net appreciation/(depreciation) in fair value of investments | 293,808,144 | (51,737,514) |
| | 348,910,089 | 9,916,437 |
| Less investment expense | (21,926,630) | (20,940,955) |
| Net Investment Income/(Loss) | 326,983,459 | (11,024,518) |
| Security Lending Income | | |
| Earnings | 402,803 | 452,442 |
| Less security lending expense | 219,089 | 268,777 |
| Net Security Lending Income | 621,892 | 721,219 |
| Other Additions | 159,510 | 29,025 |
| Total Additions | 527,480,973 | 190,362,623 |
| DEDUCTIONS | | |
| Association benefits | | |
| Service retirement allowance | 131,638,612 | 122,541,648 |
| Disability retirement allowance | 16,705,247 | 15,532,365 |
| Survivor, death and other benefits | 921,788 | 1,133,577 |
| Total Association Benefits | 149,265,647 | 139,207,590 |
| Refunds of members' contributions | 5,749,776 | 3,627,492 |
| Administrative expense (Note 3) | 4,914,187 | 5,033,047 |
| Other Expense | 29,685 | (33,331) |
| Total Deductions | 159,959,295 | 147,834,798 |
| Net Increase | 367,521,678 | 42,527,825 |
| NET POSITION RESTRICTED FOR PENSIONS | | |
| Beginning of year | 2,360,303,654 | 2,317,775,829 |
| **End of Year** | **$2,727,825,332** | **$2,360,303,654** |

The accompanying Notes to the Financial Statements beginning on page 40 are an integral part of these financial statements.

# Notes to the Financial Statements

## 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 the County of San Mateo. The Association is a Pension Trust Fund of the Primary Employer. 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 seven 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 fiscal year (FY) 2011-2012. The California Public Employees' Pension Reform Act (PEPRA) created a new tier, Tier 7, and took effect on January 1, 2013. All new members hired on and after January 1, 2013 become members of Tier 7. Tier 3, a non-contributory plan for General members, is closed effective December 23, 2012.

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 Tier 4 closed simultaneously. General employees hired between August 7, 2011 to December 31, 2012 are members of Tier 5. Employees appointed to positions of active law enforcement between January 8, 2012 to December 31, 2012 become safety members under Tiers 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 became members under Tier 4 for probation officers until Tier 5 and Tier 6 were effective. Probation members hired on and after January 1, 2013 become members of Tier 7. 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

## ASSOCIATION MEMBERSHIP PROFILE

| *For the Year Ended June 30, 2013* | Tier 1 | Tier 2 | Tier 3 | Tier 4 | Tier 5 | Tier 6 | Tier 7 | Total |
|---|---|---|---|---|---|---|---|---|
| RETIREES AND BENEFICIARIES CURRENTLY RECEIVING BENEFITS | | | | | | | | |
| General | 1,848 | 1,572 | 114 | 284 | 0 | 0 | 0 | 3,818 |
| Safety | 284 | 140 | 0 | 20 | 0 | 0 | 0 | 444 |
| Probation | 72 | 51 | 0 | 13 | 0 | 0 | 0 | 136 |
| Subtotal | 2,204 | 1,763 | 114 | 317 | 0 | 0 | 0 | 4,398 |
| TERMINATED MEMBERS ENTITLED TO BUT NOT RECEIVING BENEFITS (DEFERRED) | | | | | | | | |
| General | 21 | 417 | 108 | 647 | 5 | 0 | 1 | 1,199 |
| Safety | 1 | 29 | 0 | 42 | 0 | 0 | 0 | 72 |
| Probation | 0 | 11 | 0 | 23 | 0 | 1 | 0 | 35 |
| Subtotal | 22 | 457 | 108 | 712 | 5 | 1 | 1 | 1306 |
| CURRENT MEMBERS | | | | | | | | |
| Vested | | | | | | | | |
| General | 39 | 936 | 73 | 2,216 | 1 | 0 | 1 | 3,266 |
| Safety | 3 | 102 | 0 | 219 | 0 | 0 | 0 | 324 |
| Probation | 1 | 64 | 0 | 208 | 0 | 0 | 0 | 273 |
| Non-Vested | | | | | | | | |
| General | 0 | 2 | 51 | 451 | 262 | 0 | 141 | 907 |
| Safety | 0 | 0 | 0 | 71 | 42 | 1 | 14 | 128 |
| Probation | 0 | 0 | 0 | 7 | 8 | 1 | 3 | 19 |
| Subtotal | 43 | 1,104 | 124 | 3,172 | 313 | 2 | 159 | 4,917 |
| **Total** | **2,269** | **3,324** | **346** | **4,201** | **318** | **3** | **160** | **10,621** |

service credit is forfeited in an amount equivalent to the purchase. Tier 3 is closed and there is no longer a non-contributory tier.

New employees hired on and after January 1, 2013 join PEPRA Tier 7. General members go into a 2% @ 62 plan, and can retire at age 52 with 5 years of service. New Safety and Probation members now go into a 2.7% @ 57 plan, and Safety and Probation members are eligible to retire at age 50 with 5 years of service. General employees hired between August 7, 2011 and December 31, 2012, chose between an existing non-contributory plan or a 2% @ 61.25 contributory plan, Tier 5. Safety members hired between January 8, 2012 to December 31, 2012 were enrolled in a 3% @ 55 Tier 5, or a 2% at 50 Tier 6, contributory plan. Probation members hired between July 10, 2011 and December 31, 2012, were 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 members in Tiers 5, 6, and 7 and certain re-entry members in Tiers 1, 2, and 4 also pay half the actuarial cost of Cost of Living Adjustments (COLA). Members in Tiers 1 2, and 4 pay a cost share contribution and members of certain bargaining units pay 25% of the actuarial cost of the Cost of Living Adjustment (COLA) benefit.

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

As of June 30, 2013, the Association membership is shown in the table on page 41.

### 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, 6 and 7. 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 in Tiers 1, 2, 3, 4, 5 and 6 with 10 years of continuous service (permanent part-time employees need equivalent of 5 years of full-time service and 10 years of membership), and members in Tier 7 with 5 years of service 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 |
| **Tier Seven** | Age 52 |

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**: 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. Real estate assets are reported at fair value utilizing an income approach to valuation. By policy, an independent appraisal is obtained once every quarter to determine the fair market value of the real estate assets.

Private equity partnerships are reported in SamCERA's financials based on the fair value provided by the General Partner on a quarterly basis. The management assumptions are based upon the nature of the investment and the underlying business.

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 position 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 position 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 position 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, 2013, and 2012.

## Capital Asset (including Intangible Assets)

Capital Assets are items with an initial cost of more than $5,000 and an estimated useful life in excess of three years. Capital assets are valued at historical cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, from three to ten years. Most capital assets are information technology related. The routine upgrade of information technology systems, hardware, software and maintenance are reviewed and deemed appropriate as being expenses for the current year.

## 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 fiduciary net position.

## 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, 2012, from which the summarized information was derived.

### Implementation of New Accounting Pronouncements

For the year ended June 30, 2013, SamCERA implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. Both statements provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The primary change as a result of implementing GASB 63 was renaming previous net assets as net position in the financial statements. SamCERA does not have any deferred inflows or outflows to report.

## 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, Tier 6 and Tier 7). 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, 6 and 7 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. Members in Tier 7 pay 50% of the actuarial determined cost of retirement benefit as required by PEPRA. 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 in Tiers 1, 2, and 4 contribute an additional 3.0%, and Safety and Probation members contribute an additional 3% to 5% 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 closed15-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

| | 2013 | 2012 | Change |
|---|---|---|---|
| Normal Cost | 11.19% | 11.52% | -0.33% |
| UAAL Amortization | 26.28% | 23.97% | 2.31% |
| **Total Contribution Rate** | **37.47%** | **35.49%** | **1.98%** |

## Schedule of Employer Contributions

| Year Ended June 30 | Annual Required Contribution (unit $000) | Percentage Contributed |
|---|---|---|
| 2013 | $144,308 | 100% |
| 2012 | $150,950 | 100% |
| 2011 | $150,475 | 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 September 2, 2012, the county further reduced the percentage it pays from 75% to 50% of the basic member contribution for the same group. Effective September 2, 2012, the county reduced the percentage it pays of confidential employees' contribution from 70% to 50%. Both are on a refundable basis. In addition, members of certain bargaining units who are in a contributory retirement plan have a portion of their retirement deduction paid by the county based on individual years of service using schedules set forth in a Memorandum of Understanding. Effective April 23, 2006, the county pays 20% of Safety/Probation contributions on a non-refundable basis.

For the fiscal year ended June 30, 2013, the county paid its employer contributions owed to SamCERA in two semi-annual prepayments in July 2012 and January 2013. 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 2012-2013 fiscal year, the prepayment account had an excess balance of $4.6 million which included a credit to the county of $166,858 for the replacement benefits program. The excess in the prepayment account will be credited towards the 2013-2014 fiscal year employer contribution.

The county will continue with the semi-annual prepayment in FY 2013-2014.

## 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 one 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 0.12% of accrued actuarial liability for the fiscal year ended June 30, 2013.

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 fiduciary net position include:

## ADMINISTRATIVE BUDGET

| | 2013 | 2012 |
|---|---|---|
| Salaries and member benefits | $3,895,420 | $3,493,963 |
| Services and supplies | 1,496,380 | 1,240,237 |
| **Administrative Expenditures** | **$5,391,800** | **$4,734,200** |

## ANALYSIS OF ACTUAL ADMINSTRATIVE EXPENSE

*As of June 30, 2013 and 2012 (Amounts in Thousands)*

| | 2013 | 2012 |
|---|---|---|
| Actual Accrued Liability at Prior Year-End | $3,442,000 | $3,247,000 |
| Projected Net Position Base at Fair Value | N/A | N/A |
| Maximum Limit in Basis Point | 21 bp | 21 bp |
| Maximum Admin Expense | $7,228 | $6,819 |
| Operating Budget | $5,392 | $4,734 |
| Actual Administrative | $4,260 | $4,708 |
| **Under-expended Operating Budget** | **$1,132** | **$26** |

## INFORMATION TECHNOLOGY (IT) BUDGET

| | 2013 | 2012 |
|---|---|---|
| Property and Equipment | $48,000 | $60,000 |
| IT Infrastructure | 2,039,200 | 1,806,000 |
| **IT Expenditure** | **$2,087,200** | **$1,866,000** |

## ANALYSIS OF ACTUAL INFORMATION TECHNOLOGY EXPENSE

*As of June 30, 2013 and 2012*

| | 2013 | 2012 |
|---|---|---|
| Property and Equipment | $22,983 | $61,989 |
| IT Infrastructure | 631,583 | 263,432 |
| **IT Expenditure** | **$654,566** | **$325,421** |

## Reserves and Accounts

The reserves represent the components of SamCERA's net position. 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 Tiers 4, 5, 6 and 7. 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 / (Losses) 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 Position 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 Reserve, at the actuarial assumed interest rate of 3.875% semi-annually for the fiscal year ended June 30, 2013, to specific components of reserves in a prescribed sequence. Pursuant to the Board of Retirement's interest crediting policy, the Member Deposit Reserve is 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/(Losses) to Reserves:** For the year ended June 30, 2013, SamCERA's distributed allocation of earnings to reserves of $199.8 million and resulted in -$187.2 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 1.24% and 2.59% at December 31, 2012, and June 30, 2013, respectively.

Reserves are restricted to specific purposes. Member contributions are credited to the Member Deposit Reserve. Employer contributions are credited to the Employers' Advance Reserve and the Cost of Living Adjustment Reserve. At retirement, a member's accumulated contributions plus interest and the related employer's contributions are transferred to the Retired Member Reserve. The Retired Member 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 Employers' 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, 2013, balance in the Market Stabilization Account of $109.2 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 Unallocated Earnings / Loss Account was established to account for periods when Actual Earnings do not equal the Actuarial Interest Rate.

The Board adopted a 0.25% reduction in the assumed interest rate to 7.5% in May 2012 which was applied to investment returns effective July 2012. Interest credit to Unallocated Earnings/Loss and Market Stabilization Accounts used 7.5% since they are associated with earnings assumption. The prior rate of 7.75% was applied to members and employer reserves interest crediting since the contribution rates were determined with 7.75%. Effective July 2013, 7.5% is used for all interest crediting.

## RESERVES REQURED FOR REPORTING PURPOSES BY THE 1937 ACT

| | 2013 | 2012 |
|---|---|---|
| Member Deposit Reserve | $534,275,685 | $498,568,652 |
| Employers' Advance Reserve | 422,581,774 | 361,197,981 |
| Retired Member Reserve | 918,589,967 | 858,440,088 |
| Cost of Living Adjustment Reserve | 930,358,294 | 843,061,707 |
| Total Allocated Reserves | 2,805,805,721 | 2,561,268,428 |
| Unallocated Earnings / (Loss) Account | (187,166,322) | (80,997,723) |
| Market Stabilization Account | 109,185,934 | (119,967,051) |
| **Net Position Held in Trust for Pension Benefits** | **$2,727,825,332** | **$2,360,303,654** |

## Note 4: Deposit and Investment Risk Disclosure

The County Employees' Retirement Law of 1937 vests the Board of Retirement (the Board) 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 policy 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 and cash equivalents. As of June 30, 2013, actual asset allocation was 60.4% equities, 20.1% fixed income, 13.3% alternative investments, 6.1% real estate and 0.1% in cash and cash equivalents.

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, 2013. 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 on page 54. In comparison to SamCERA's total investments at fair value, the fair value of SamCERA's derivative positions as of June 30, 2013 is not material.

SamCERA's investments contain various derivative positions as of and for the year ended June 30, 2013, primarily in swaps and foreign currency forward positions. As of June 30, 2013, SamCERA held derivatives with a notional amount of $114,702,783 and a fair value of $1,749,962 as seen in the table on the following page. Changes in fair value during fiscal year 2013 are reported in the statement of changes in fiduciary net position 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 values 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.

## Securities Lending Activity

Beginning on July 1, 2007, the Board of Retirement policies authorize SamCERA to participate in a securities lending program. Security 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.

For the year ended June 30, 2013, 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 statement of fiduciary net position.

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

## INVESTMENT DERIVATIVES

*For the Year Ended June 30, 2013*

| | Notional Value | Fair Value |
|---|---|---|
| Credit Default Swaps Bought | $855,604 | $78,731 |
| Credit Default Swaps Written | $0 | $0 |
| Fixed Income Futures Long | $7,000,000 | $0 |
| Fixed Income Futures Short | -$12,400,000 | $0 |
| Fixed Income Options Bought | $0 | $0 |
| Fixed Income Options Written | -$800,000 | -$406,081 |
| Futures Options Bought | $0 | $0 |
| Futures Options Written | -$51,000 | -$66,422 |
| Foreign Exchange Forwards | $120,098,179 | $2,143,734 |
| Pay Fixed Interest Rate Swaps | $0 | $0 |
| Rights | $0 | $0 |
| Warrants | $0 | $0 |
| **Grand Total** | **$114,702,783** | **$1,749,962** |

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, 2013, 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, 2013, 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, 2013, this investment pool had an average duration of 59 days, and an average weighted maturity of 33 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, 2013, 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, 2013, SamCERA had securities on loan with a total value of $132.6 million and the cash and other collateral held against the loaned securities of $136.4 million.

## Deposit, Investment and Derivative Risks

**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, 2013, cash held with a financial institution in a pooled money market fund totaled $1.2 million. As of June 30, 2012, cash held with a financial institution totaled $3.4 million. Cash held in the San Mateo County Treasurer's investment pool was $1.0 million and $2.6 million, as of June 30, 2013 and 2012, respectively. These deposits are not exposed to custodial credit risk as they are eligible and covered by insurance in accordance with applicable law and FDIC rules and regulations.

**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 real estate investments and investments in pools. As of June 30, 2013, SamCERA had no investments that were exposed to custodial credit risk because all securities held by the Association's custodial bank are in SamCERA's name. SamCERA does not have a general policy addressing custodial credit risk.

**Custodial Credit Risk – Derivatives**: As of June 30, 2013, SamCERA's derivatives were not subject to custodial credit risk. However, they are subject to other risks.

**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, 2013, the Association had the investments categorized for interest rate and credit risk shown in the tables on the following page.

**Credit Risk – Investments**: 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.

On June 30, 2013, the quality breakdown of the Association's investments in bonds were rated as indicated on the following page.

**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 ratings of counterparties. Should there be a 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.

**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.

## ACTIVE FIXED INCOME PORTFOLIO CHARACTERISTICS

*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 & Agency Collateralized Mortgage Obligations | $19,615,381 | 2.560% | 17.85 | 0.36 |
| Asset Backed Securities | $9,041,362 | 0.953% | 9.51 | 0.15 |
| Commercial Mortgage Backed Securities | $9,803,918 | 1.980% | 5.46 | (0.95) |
| Agency Mortgage Backed Securities | $81,511,455 | 4.019% | 8.07 | 4.60 |
| Non-Agency Mortgage Backed Securities | $11,952,993 | 1.604% | 7.68 | 0.11 |
| Corporate Bonds | $172,045,389 | 5.68% | 8.97 | 5.01 |
| Preferred Stock | $401,048 | 0.000% | - | - |
| Foreign | $71,410,856 | 5.389% | 4.70 | 3.74 |
| Government Issues | $1,913,637 | 3.592% | 21.79 | 10.07 |
| Taxable Municipal Bonds | $6,561,598 | 4.198% | 25.34 | 7.37 |
| U.S. Treasuries | $126,683,593 | 1.578% | 9.39 | 7.93 |
| **Total / Average** | **$510,941,230** | **3.92%** | **8.83** | **5.13** |

## COMMINGLED FIXED INCOME PORTFOLIO CHARACTERISTICS

*Angelo Gordon STAR Portfolio*

| Investment Type | Fair Value | Coupon | Weighted Average Maturity (Years) | Effective Duration (Years) |
|---|---|---|---|---|
| Angelo Gordon | $30,031,000 | 3.15% | -0.08 | 24.98 |

## QUALITY BREAKDOWN FOR SAMCERA'S INVESTMENTS IN BONDS

*For the Year Ended June 30, 2013*

| Credit Risk | Active Management | Commingled Management |
|---|---|---|
| AAA | 0.52% | 0.30% |
| AA | 34.81% | 3.30% |
| A | 1.78% | 0.00% |
| BBB | 4.51% | 0.60% |
| Less than BBB | 6.35% | 74.90% |
| NR | 52% | 20.90% |
| | 100.00% | 100.00% |

SamCERA has investments in six 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 U.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.

**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.

The Association's exposure to foreign currency risk in U.S. dollars as of June 30, 2013, is shown on the following page.

**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, 2013, and 2012, the actual effective duration was 33 days and 26 days, respectively.

## FOREIGN CURRENCY RISK

*For the Year Ended June 30, 2013*

| Local Currency | Common Stock | Corporate Bonds | Credit Default Swaps | Foreign Currency | Government Issues | Short Terms | Grand Total |
|---|---|---|---|---|---|---|---|
| AUSTRALIAN DOLLAR | $20,076,990 | | | $46,403 | $261,449 | | $20,384,842 |
| BRAZILIAN REAL | | | | 83,930 | 2,791,991 | | 2,875,922 |
| CANADIAN DOLLAR | 1,970,126 | | | 42,972 | 2,916,327 | | 4,929,424 |
| DANISH KRONE | 7,509,505 | | | | | | 7,509,505 |
| EGYPTIAN POUND | | | | 5 | | | 5 |
| EURO CURRENCY | 80,253,343 | 1,659,475 | 18,097 | 2,091,525 | 14,877,652 | | 98,900,092 |
| GHANA CEDI | | | | 43,462 | 3,533,878 | | 3,577,340 |
| HONG KONG DOLLAR | 7,014,927 | | | | | | 7,014,927 |
| HUNGARIAN FORINT | | | | 1,209 | 5,670,622 | | 5,671,832 |
| INDONESIAN RUPIAH | | | | 105,786 | 2,863,048 | | 2,968,834 |
| ISRAELI SHEKEL | | | | | 4,796,638 | | 4,796,638 |
| JAPANESE YEN | 58,579,987 | | | 160,157 | | | 58,740,144 |
| MALAYSIAN RINGGIT | | | | 218,479 | 9,422,022 | | 9,640,501 |
| MEXICAN PESO | | | | 405,203 | 7,029,936 | | 7,435,139 |
| NEW TAIWAN DOLLAR | | | | 2,582,333 | | | 2,582,333 |
| NEW ZEALAND DOLLAR | 2,472,021 | | | | | | 2,472,021 |
| PHILIPPINE PESO | | | | 145,542 | 5,096,756 | | 5,242,298 |
| POLISH ZLOTY | | | | 146,968 | 4,167,700 | | 4,314,668 |
| POUND STERLING | 74,886,015 | 142,776 | | 348,167 | | | 75,376,958 |
| SINGAPORE DOLLAR | 9,519,321 | | | | | | 9,519,321 |
| SOUTH AFRICAN RAND | 1,465,504 | | | | | | 1,465,504 |
| SOUTH KOREAN WON | | | | 192,006 | 15,381,837 | | 15,573,842 |
| SWEDISH KRONA | 13,555,737 | | | | | | 13,555,737 |
| SWISS FRANC | 28,979,308 | | | | | | 28,979,308 |
| TURKISH LIRA | 1,989,628 | | | | | | 1,989,628 |
| UKRAINE HRYVNA | | 984,401 | | | | | 984,401 |
| URUGUAYAN PESO | | 20,957 | | 14,872 | 7,523,909 | 239,525 | 7,799,263 |
| **Grand Total** | **$308,272,412** | **$2,807,609** | **$18,097** | **$6,629,019** | **$86,333,765** | **$239,525** | **$404,300,428** |

## 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, 2013 through May 27, 2014. 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 $100 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, 2012, and June 30, 2013, and determined the funding status (the ratio of system assets to system liabilities) to be 72.0% and 73.3.%, respectively. The June 30, 2013, 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, 2013. The valuation discloses the actuarial value of assets at $2.617 billion with an actuarial accrued liability of $3.573 billion for a funded ratio of 73.3%. The unfunded actuarial accrued liability is $954.1 million, which is 234% percent of the $406.9 million covered payroll. The employer contribution rate, which has an effective date of June 30, 2014, was set equal to 26.28% of payroll for the amortization of the UAAL over the new 15 years, plus the normal cost rate of 11.19% for a total contribution rate of 37.47% of payroll. A schedule of SamCERA's funding progress may be found in the required supplementary information on page 63. 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, 2013 |
| 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 closed 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, 2013). 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, Tier 6 and Tier 7. 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 $60 million of additional commitments to three new private equity managers. As of June 30, 2013, the Association's private equity portfolio consisted of eleven fund managers with a total capital commitment amount reaching $183 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.

### Financial Disclosures

Subsequent to June 30, 2013, and through October 21, 2013, the date through which management evaluated subsequent events and the date of the independent auditor's report, SamCERA did not identify any subsequent financial events that required disclosure.

### Investment Managers

As part of SamCERA's ongoing implementation of its private equity program, the Board of Retirement approved a $25 million in capital commitment each to Cevian Capital II, L.P. and Great Hill Partners V, L.P. subsequent to June 30, 2013.

# 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) |
|---|---|---|---|---|---|---|
| 6/30/2008 | $2,218,937 | $2,806,222 | $587,285 | 79.10% | $416,243 | 141.09% |
| 6/30/2009 | $1,909,679 | $2,987,712 | $1,078,033 | 63.90% | $436,424 | 247.02% |
| 6/30/2010 | $2,179,076 | $3,098,453 | $919,377 | 70.30% | $428,559 | 214.53% |
| 6/30/2011 | $2,405,140 | $3,246,727 | $841,587 | 74.10% | $424,061 | 198.46% |
| 6/30/2012 | $2,480,271 | $3,442,553 | $962,282 | 72.00% | $419,779 | 229.24% |
| 6/30/2013 | $2,618,639 | $3,572,750 | $954,111 | 73.30% | $406,921 | 234.47% |

## SCHEDULE OF EMPLOYER CONTRIBUTIONS

*(in thousands)*

| Year Ended June 30 | Annual Required Contribution | Percentage Contributed |
|---|---|---|
| 2008 | $105,340 | 100% |
| 2009 | $106,123 | 100% |
| 2010 | $106,265 | 100% |
| 2011 | $150,475 | 100% |
| 2012 | $150,950 | 100% |
| 2013 | $144,308 | 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 30th 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 Tiers 4, 5, 6 and 7. 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, 2013, the date of the last actuarial valuation, the San Mateo County Employees' Retirement Association had a 73.3% 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 closed15-year layered amortization methodology, which is explained on the following page.

### 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, 2013 |
| 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 closed 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, 2013). 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, 2013 and 2012*

| | 2013* | 2012* |
|---|---|---|
| Salaries and Member Benefits | $3,129,111 | $3,329,128 |
| Services and Supplies | 1,130,510 | 1,378,497 |
| **Total Administrative Expense** | **$4,259,621** | **$4,707,625** |

* As defined in Government Code section 31580.2, excludes Information Technology expenses.

## ADMINISTRATIVE BUDGET ANALYSIS

*Budget to Actual Expenditures as of June 30, 2013*

| | Budget Allotment (As Amended) | Fiscal Year Expenditures | Percentage Expended |
|---|---|---|---|
| Salaries | $2,584,060 | $1,986,244 | 76.87% |
| Benefits | 1,311,360 | 1,142,867 | 87.15% |
| **Salaries & Benefits** | **3,895,420** | **3,129,111** | **80.33%** |
| Board Expenses | 10,500 | 8,800 | 83.81% |
| Insurance | 80,000 | 68,434 | 85.54% |
| Medical Evaluation | 100,000 | 60,570 | 60.57% |
| Member Education | 45,000 | 44,578 | 99.06% |
| Education & Conference | 103,858 | 47,782 | 46.01% |
| Transportation & Lodging | 158,297 | 64,492 | 40.74% |
| Technology Infrastructure | 0 | 0 | 0.00% |
| Property & Equipment | 22,500 | 17,857 | 79.36% |
| General Office Supplies | 33,500 | 20,355 | 60.76% |
| Postage, Printing & Copying | 125,000 | 51,782 | 41.43% |
| Leased Facilities | 366,200 | 304,528 | 83.16% |
| County Service | 406,025 | 355,802 | 87.63% |
| Audit Services | 45,500 | 63,236 | 138.98% |
| Other Administration | 0 | 22,294 | 0.00% |
| **Services & Supplies** | **1,496,380** | **1,130,510** | **75.55%** |
| **Grand Total** | **$5,391,800** | **$4,259,621** | **79.00%** |

## SCHEDULE OF INFORMATION TECHNOLOGY EXPENSES

*For the Years Ended June 30, 2013 and 2012*

| | 2013 | 2012 |
|---|---|---|
| Property and Equipment | $22,983 | $61,989 |
| IT Infrastructure | 631,583 | 263,432 |
| **Total Information Technology Expense** | **$654,566** | **$325,421** |

## SCHEDULE OF INVESTMENT EXPENSES

*For the years ended June 30, 2013 and 2012*

| | 2013 | 2012 |
|---|---|---|
| INVESTMENT MANAGER | | |
| Aberdeen Asset Management | $99,035 | $304,308 |
| Artio Global Management | -369 | 636,613 |
| Barrow, Hanley, Mewhinney, & Strauss | 711,508 | 698,400 |
| BlackRock Capital Management | 299,294 | 820,646 |
| The Boston Company | 604,235 | 416,251 |
| Chartwell Investment Partners | 585,085 | 436,802 |
| D.E. Shaw Investment Management | 667,540 | 565,252 |
| Invesco Realty Advisors | 634,472 | 609,125 |
| Jennison Associates | 404,520 | 763,935 |
| Mondrian Investment Partners | 296,128 | 349,958 |
| Pyramis Global Advisors | 214,840 | 189,408 |
| Angelo Gordon PPIP | 135,126 | 350,000 |
| Angelo Gordon STAR | 226,747 | 0 |
| Brown Brothers Harriman | 124,095 | 114,254 |
| Brigade Capital Management | 453,921 | 394,157 |
| Brown Advisory | 112,842 | 0 |
| Franklin Templeton | 455,842 | 412,142 |
| State Street Global Advisors | 429,739 | 364,337 |
| T. Rowe Price Associates | 240,184 | 384,809 |
| Western Asset Management | 319,960 | 297,280 |
| Sheridan Production Partners | 300,045 | 300,029 |
| ABRY Advanced Securities Fund II | 283,339 | 292,149 |
| ABRY Partners VII | 96,030 | 162,391 |
| AQR Global Risk Premium | 665,899 | 592,477 |
| AQR Delta Fund | 715,597 | 687,333 |
| Pyramis Select International | 465,256 | 107,769 |
| Eaton Vance Parametrics | 638,969 | 140,751 |
| Baillie Gifford | 789,014 | 164,982 |
| Regiment Capital | 297,303 | 339,177 |
| General Catalyst | 238,500 | 130,000 |
| Sycamore Partners | 367,172 | 363,542 |
| Sycamore Sidecar | 125 | 1,396 |
| Emergence Capital | 230,383 | 0 |
| New Enterprise Associates | 114,973 | 0 |
| Warburg Pincus XI | 397,470 | 0 |
| Encap Fund IX | 117,799 | 0 |
| Third Rock Ventures | 250,000 | 0 |
| GLOBAL CUSTODIAN | | |
| State Street Bank | 168,039 | 226,521 |
| Investment & Actuarial Consultants | 545,541 | 571,810 |
| Sub-total Professional Expense | 13,696,198 | 12,188,004 |
| Other Investment Related Expense | 5,379,365 | 5,585,785 |
| Interest Paid on Prepaid Contribution | 2,851,067 | 3,167,166 |
| **Total Investment Expense** | **$21,926,630** | **$20,940,955** |

## Schedule of Payments to Consultants

*For the years ended June 30, 2013 and 2012*

| | **2013** | **2012** |
|---|---|---|
| INVESTMENT CONSULTANT EXPENSE | | |
| Strategic Investment Solutions, Inc. | $404,608 | $400,000 |
| ACTUARIAL CONSULTANT EXPENSE | | |
| Milliman, Inc. | 92,100 | 156,810 |
| OTHER PROFESSIONAL FEES | 48,833 | 15,000 |
| **Total Consultant Expense** | **$545,541** | **$571,810** |

# 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.*

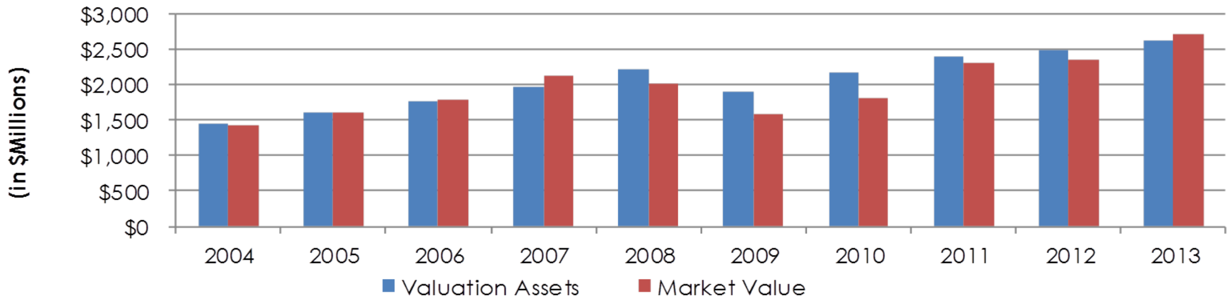
(c) *When an investment is made in deeds of trust and mortgages, the fees stipulated in any agreement entered into with a bank or mortgage service company to service such deeds of trust and mortgages.*

(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.*"

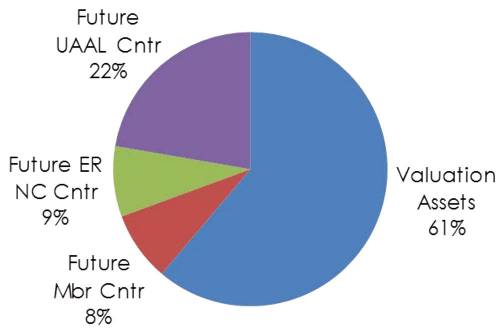
SamCERA's professional services budget is driven by contractual agreements with its actuary, custodian, investment consultant, and investment managers.

## APPLICABLE VALUATION ASSETS

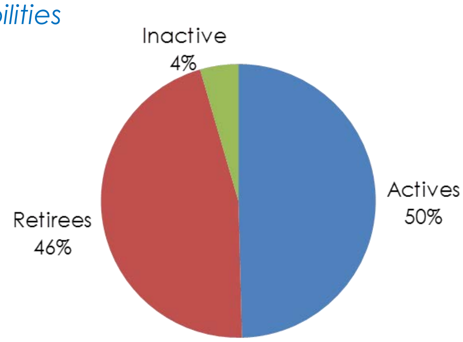



## ACTUARIAL RESOURCES AND LIABILTIES

*Resources*



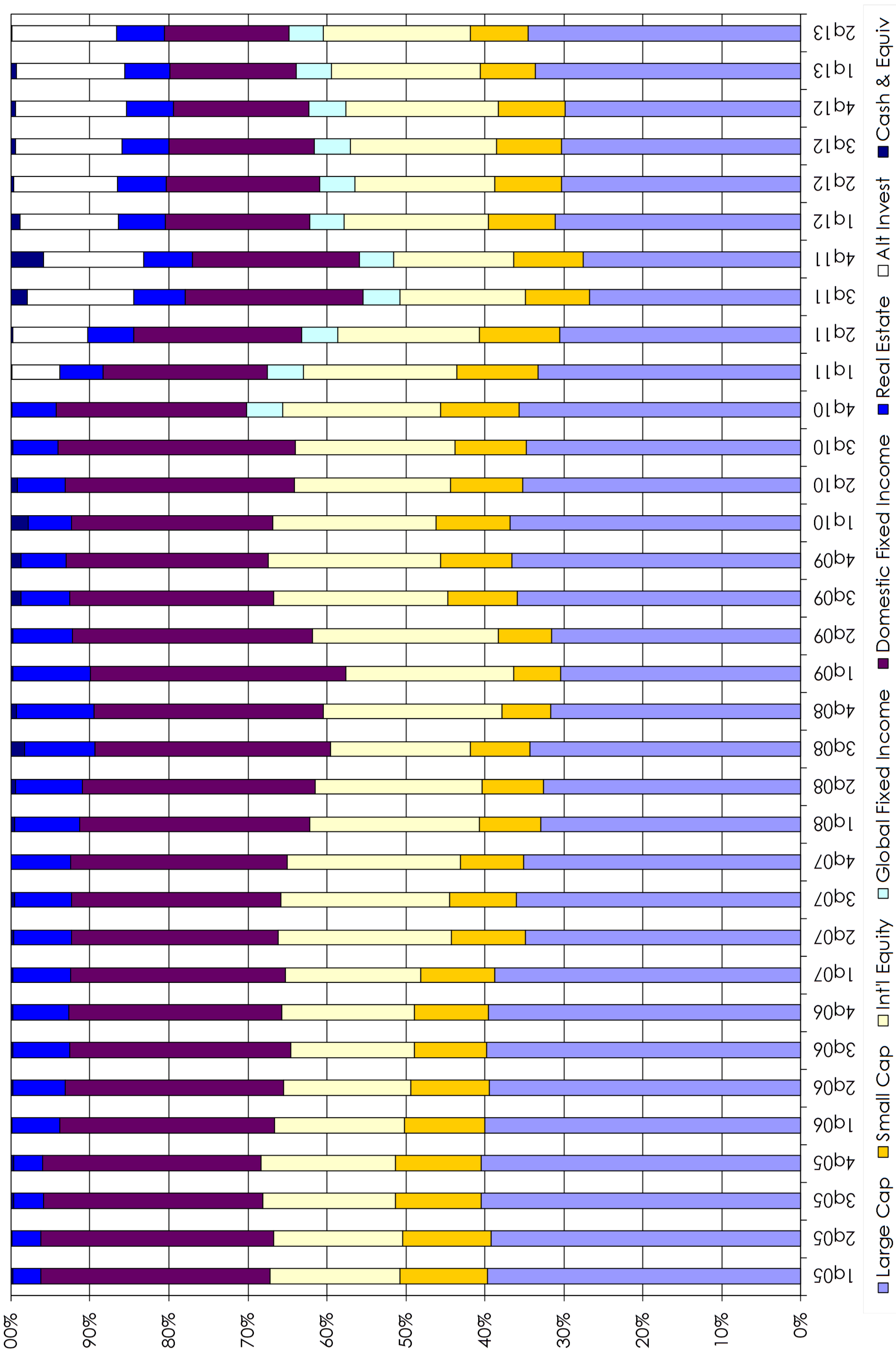

*Liabilities*



# INVESTMENT SECTION

## Actual Historical Quarterly Asset Allocation

*Period ending June 30, 2013*



# CHIEF INVESTMENT OFFICER'S REPORT

SamCERA
SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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Redwood City, CA 94065
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Web: www.samcera.org
Email: 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 team, I am pleased to present reports on the pension fund's investments and portfolio performance for the period ended June 30, 2013. This data was compiled by SamCERA's investment staff, its investment consultant Strategic Investment Solutions, Inc. and the master custodian State Street Bank & Trust.

After experiencing essentially flat returns last fiscal year, SamCERA's portfolio returned 13.6% net of investment manager fees for the fiscal year ending June 2013, outperforming its policy benchmark by 80 basis points. The strong results for this year were driven mostly by robust global equity markets.

The net portfolio market value increased to $2.73 billion, as the combination of positive investment income and net portfolio appreciation added approximately $327 million to the fund.

Fueled by the extraordinary global central bank accommodative monetary policies, developed world equity markets and other 'risk' assets had very strong returns despite continued problem headlines, which included such things as the on-going European economic concerns and the fiscal cliff negotiations in the U.S. However, late in the fiscal year uncertainty over the Federal Reserve's intent to 'taper' its pace of bond purchases led to substantial market volatility across most asset classes, which served as a reminder of the importance of diversifying the portfolio across various risk factors.

Domestic equity was SamCERA's best performing asset class composite this fiscal year, up over 22.5%. SamCERA's large-cap portfolio composite was up over 21.9%, while the small-capitalization composite was up 24.9%. Both composites outperformed their respective benchmarks. Within the U.S. equity markets, all sectors had positive performance for the year. In addition, in a role reversal from last fiscal year, higher risk sectors generally did better than more defensive sectors in response to the quantitative easing throughout the developed world.

SamCERA restructured the domestic equity portfolio during the year by reducing the number of active managers and increasing the allocation to passive in the core large-capitalization segment of the market. The fund also replaced an underperforming large-capitalization growth manager. The new manager utilizes bottom-up, fundamental research to select a concentrated, best ideas portfolio of fundamentally strong businesses with high growth prospects.

Developed market stocks, as measured by the MSCI EAFE Index (a common benchmark for developed markets equity), was up 19.1%. European shares rebounded 23.9% from last year's double digit negative return as the European Central Bank did its best to soothe market sentiment regarding the stability of the Eurozone banks. Emerging markets, as measured by the MSCI Emerging Markets Index, increased 3.2% over the period. Lower growth expectations in China dragged down emerging markets in the second half of the fiscal year, resulting in lower returns versus developed markets. SamCERA's international equity composite returned 14.7% for the fiscal year, outperforming its benchmark index (which includes both developed and emerging market exposure).

Real estate had another solid fiscal year. SamCERA's real estate composite was up 13%, which was also higher than its composite benchmark. The strong performance was a continuation from last year as investors, thirsty for yield generating assets, pushed up commercial property market prices.

It was an interesting year in the bond market as anxiety regarding the potential for Federal Reserve tapering of its bond purchases resulted in significantly higher interest rates and bond market volatility. The yield on the 10-year Treasury note increased 85 basis points to 2.5% during the fiscal year, resulting in a negative return (-0.69%) for the broad fixed income market, as measured by the Barclays Aggregate Index.

SamCERA's fixed income portfolio composite outperformed its benchmark return and returned 4.5% for the year, helped in particular by strong positive returns from its global bond and opportunistic credit managers. In fact, all of the managers in the fixed income composite outperformed their respective benchmarks for the fiscal year.

SamCERA simplified its core bond portfolio during the fiscal year by reducing the number of active managers and reallocating the proceeds to two existing managers. SamCERA also re-upped with one of its existing credit managers to fund an allocation to their opportunistic credit strategy.

SamCERA's alternative composite returned 3.4% for the fiscal year, which was below its benchmark return. Risk parity, which is designed to provide a more risk-balanced asset allocation profile than a typical equity-centric allocation, underperformed its benchmark during the equity bull market.

Another factor in the alternative composite underperformance is the fact that SamCERA's private equity portfolio is still being built out, and it will be a number of years before the portfolio will mature and more meaningful performance comparisons can be made. The private equity allocation will take multiple years to fully implement to ensure proper diversification across sub-categories and vintage years. During this implementation period, SamCERA utilizes the S&P 500 Index as a placeholder for the portion of the private equity target allocation that is unfunded. Monies for new private equity partnerships will be sourced from this placeholder until SamCERA is at its private equity asset allocation policy weight. For the year, commitments to three new private equity partnerships were approved, totaling $60 million. This brings total commitments for the program to $183 million diversified across venture capital, buyouts, and special situations, of which just under $66 million has been funded as of June 30, 2013. Subsequent to June 30th, SamCERA committed $50 million to two additional private equity partnerships bringing the total commitments to $233 million.

During the year SamCERA also added a strategic overlay manager that will allow it to be more efficient in managing its portfolio exposures and rebalancing activities. Furthermore, while SamCERA has made great strides in enhancing the diversification of the portfolio over the past few years, the plan has begun to analyze risk across additional dimensions in addition to volatility of returns, and these actions should help the fund better 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 21, 2013

## 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

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

October 21, 2013

Dear Board Members:

Following a tumultuous fiscal year in 2012 when pension plans experienced significant volatility, but in the end captured moderately positive returns, 2013 turned out to be a strong year for the average pension plan. Economic news was largely mixed with developed countries experiencing tepid but sustained growth and many emerging countries finding their customarily higher growth rates harder to sustain. On the investment front, equities largely had a constructive year, with the large developed countries leading the way. The bigger story was perhaps in fixed income, where rising rates sent tremors through the bond markets in late May and early June, causing many bond portfolios to experience losses for the first time in several years.

Bond markets experienced a minor panic with the news that the Federal Reserve could begin to taper its asset purchases later this year. Treasury yields spiked late in the fiscal year as investors began selling longer duration bonds for fear that rates would rise as Fed bond buying slowed. The ripple effect of this activity broadened to emerging markets, where spreads widened in developing market bonds. The developed equity markets, however, largely shook off the news and continued their impressive rally through the year.

The broad US Equity market, as measured by the Russell 3000 Index, returned 21.46% during the year. The Russell 1000 large cap component of US Equity gained 21.24%, while the small cap Russell 2000 rose 24.21%. International equity investments had mixed success as growth in the emerging markets came into question: the Developed Markets index gained 19.14%, while Emerging Markets, a star performer in recent years, managed only a surprisingly low 3.23%. Investment Grade US Bonds (Barclays Aggregate) struggled at the tail end of the year on rising Treasury rates, losing 0.69% over the entire year. High yield bonds fared much better, returning 9.49%, as investors preferred securities with less interest rate sensitivity and with higher coupon payments. The real estate asset class continued to perform well during the year, as the NCREIF ODCE Index of institutional Real Estate posted a 12.2% return.

**PLAN INVESTMENT RESULTS**

The San Mateo County Employees' Retirement Association (the Association) total Plan returned 14.0% in fiscal 2013, well above the Association's 7.50% actuarial return expectation, and above its policy index

SAMCERA *Board of Retirement*
*October 21, 2013*
*Page 2*

return of 12.8%. The plan also outperformed its median large public peer by 200 bps, ranking in the top 19th percentile for Public Fund DB Plans Greater than $1B.

The Association's US Equity portfolio outperformed its US equity policy benchmark by 1.1% during the fiscal year, which placed it in the 27th percentile of the universe. Within the US Equity asset class, the large cap managers as a group returned 22.2% for the year, beating the Russell 1000 index by 100 basis points. Among the large cap managers, noteworthy performance was achieved by both D.E. Shaw and Barrow Hanley. D.E. Shaw has managed to outperform its benchmark and most of the peer group for two consecutive years, outperforming the benchmark by 190 bps in fiscal 2013. Barrow Hanley rebounded in 2013 from a difficult 2012, adding 220 bps of excess return and ranking in the 23rd percentile of its peer group. Mirroring the Large Cap Composite's outpeformance, the Small Cap Composite's 25.9% return was 170 basis points ahead of the Russell 2000 Index. The small cap value manager, The Boston Company, continues to perform well, providing 150 bps in excess return and ranking in the 57th percentile of its peer group. Chartwell, the Association's small cap growth manager, rebounded from a less impressive 2012 by adding 180 bps in excess return and ranking in the top 46th percentile of its peer group for 2013.

The International Equity Composite returned 15.1%, ahead of the benchmark's return of 14.1%, but trailed the median peer return of 15.8% by 70 bps, and performed in the 61st percentile of the peer universe. Mondrian, the international value strategy, slightly underperformed its benchmark by 30 bps and struggled more against its peer group, ranking in the 96th percentile. Pyramis Equity significantly outperformed the benchmark adding 270 bps, but failed to keep up with other managers, thus ranking near the bottom of its peer group. On a brighter note, Baillie Gifford managed to add 130 bps above the index and ranked in the 48th percentile of its peer group.

The Plan's Total Fixed Income Composite return of 4.8% significantly outperformed both the Barclays Aggregate Index's -0.7% return, and the plan's Blended Fixed Income Benchmark return of -1.1%, for the fiscal year. As they have for several years, SamCERA's core and core plus bond managers continued to perform above their benchmarks. Brigade Capital, an opportunistic credit strategy, returned 10.8% for the year, outperforming the benchmark and most of its peer group. TIPS struggled during the latter months of the year as real yields spiked on fears of Fed tightening. Brown Brothers Harriman, the portfolio's TIPS managers, generated results in line with the index and ranking in the 59th percentile of the TIPS universe. The Global Fixed Income manager had another outstanding year, returning 12.4% and ranking in the top 3rd percentile of the Global Fixed Income universe.

The INVESCO Real Estate fund's 13.5% return was 130 bps ahead of the NCREIF ODCE index. The real estate manager's return placed it in the 18th percentile overall among its peers.
Finally, the plan's Alternatives allocation lagged its index for the year. While both the Hedge Fund and Commodities managers performed well and beat their respective indexes, the Risk Parity manager underperformed in a difficult environment that combined high equity returns, rising interest rates, and lower inflation expectations. The immature Private Equity program, still in its start-up phase, was also a drag on the Alternatives portfolio, as it significantly trailed its long term Public Equity +3% benchmark.

*SAMCERA Board of Retirement*
*October 21, 2013*
*Page 3*

**ASSET ALLOCATION AND MANAGER STRUCTURE**

During fiscal 2013 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 crucial Private Equity portfolio, which commenced in 2011, was approximately one third of the way to maturity at year-end.

This year SamCERA completed a structure study of its Domestic Equity portfolio that led to a streamlining of its active manager roster and the implementation of a larger passive core mandate. Similarly, following a structure study of the bond asset class, one of the two core mandates was eliminated and its assets redeployed to other managers. Also during the year, SamCERA engaged a futures overlay service to enhance portfolio efficiency, primarily through improved rebalancing and cash securitization. At the manager level, SamCERA replaced a US Equity large cap growth manager that was experiencing both personnel and performance issues. In the bond portfolio, following on the success of its post crisis investment in the Private Public Investment Program (PPIP) fund, SamCERA invested in Angelo Gordon's successor STAR fund, which, similar to the PPIP, also focuses on distressed commercial and residential mortgages.

At year-end, SamCERA is in process on a comprehensive Asset Liability Study to reassess its portfolio asset allocation from as many risk and opportunity viewpoints as possible. Through this strategic planning process, SamCERA will continue to strive to avail itself of market opportunities, while also looking to identify and hedge risks to the portfolio.

SamCERA continues to increase the diversification of the portfolio in order to produce the highest possible 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 and its aftermath. Clearly the Association is reaping the rewards of its hard work and its adherence to its strategic plan. 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 policy 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 primary investment objective of the Board of Retirement to:

- 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.
- Generate portfolio returns that, over the long-term, exceed the actuarial interest assumption, net of fees.
- Generate a total fund return equal to or greater than the aggregate return of the asset allocation Target benchmarks.
- Provide for moving toward full funding of the Pension Benefit Obligation based on GASB Statement No. 25 and the Board's policy of a moving fifteen year funding period.

### Investment Policy

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 and investment staff monitor 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.

## Asset Allocation as a Percentage of Fair Value

| ASSET CLASS | Policy Allocation | June 30 Actual Allocation |
|---|---|---|
| Equity* | 53.0% | 60.4% |
| Bonds | 22.0% | 20.1% |
| Alternatives* | 20.0% | 13.3% |
| Real Estate | 5.0% | 6.1% |
| Cash and Cash Equivalents | 0.0% | 0.1% |
| Total | 100.0% | 100.0% |

| EQUITY MANAGEMENT STYLE | Policy Allocation | June 30 Actual Allocation |
|---|---|---|
| Domestic Large Cap | | |
| Indexed | 12.3% | 18.1% |
| Actively Managed | 15.7% | 16.5% |
| | 28.0% | 34.6% |
| Domestic Small Cap (Actively Managed) | 7.0% | 7.2% |
| International Equities (Actively Managed) | 18.0% | 18.6% |
| Total Equity | 53.0% | 60.4% |

| BOND MANAGEMENT STYLE | Policy Allocation | June 30 Actual Allocation |
|---|---|---|
| Domestic Bond Managers (Actively Managed) | 17.6% | 15.7% |
| Global Bond Managers (Actively Managed) | 4.4% | 4.4% |
| Total Bond | 22.0% | 20.1% |

| ALTERNATIVE INVESTMENT MANAGEMENT STYLE | Policy Allocation | June 30 Actual Allocation |
|---|---|---|
| Private Equity (Actively Managed) | 8.0% | 2.3% |
| Hedge Fund (Actively Managed) | 3.0% | 2.7% |
| Commodities (Actively Managed) | 3.0% | 2.5% |
| Risk Parity (Actively Managed) | 6.0% | 5.8% |
| Total Alternative Investment | 20.0% | 13.3% |

| REAL ESTATE MANAGEMENT STYLE | Policy Allocation | June 30 Actual Allocation |
|---|---|---|
| Actively Managed | 5.0% | 6.1% |
| Total Real Estate | 5.0% | 6.1% |
| TOTAL CASH & CASH EQUIVALENTS | 0.0% | 0.1% |
| **Total Assets** | **100.0%** | **100.0%** |

* During the implementation of the Association's private equity program, SamCERA utilizes the S&P 500 Index as a placeholder until the program is fully implemented.

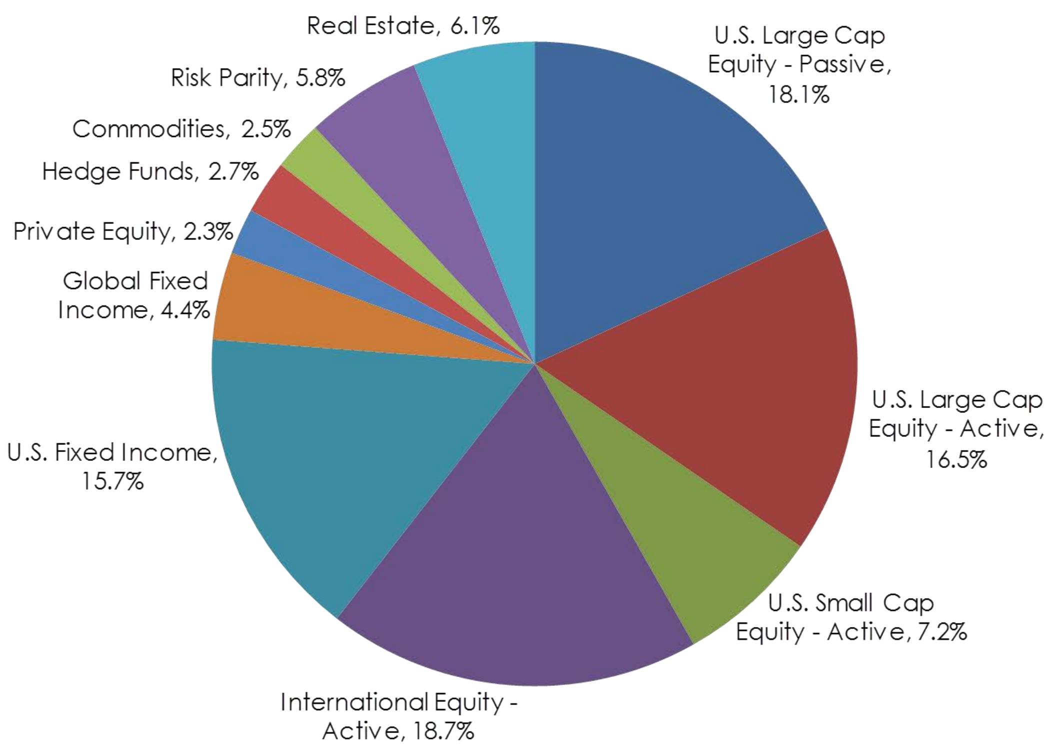
## MARKET VALUE OF ASSET ALLOCATION

| ASSET ALLOCATION | Market Value |
|---|---|
| Large Capitalized Domestic Equities | $939,377,367 |
| Small Capitalized Domestic Equities | $196,478,975 |
| International Equities | $494,939,553 |
| TOTAL EQUITIES | $1,630,795,895 |
| Domestic Bonds | $428,578,645 |
| Global Bonds | $112,393,585 |
| TOTAL BONDS | $540,972,230 |
| Alternative Investments | $364,569,878 |
| Real Estate | $166,154,482 |
| Cash & Cash Equivalents | $25,332,847 |
| **Total Assets** | **$2,727,825,332** |

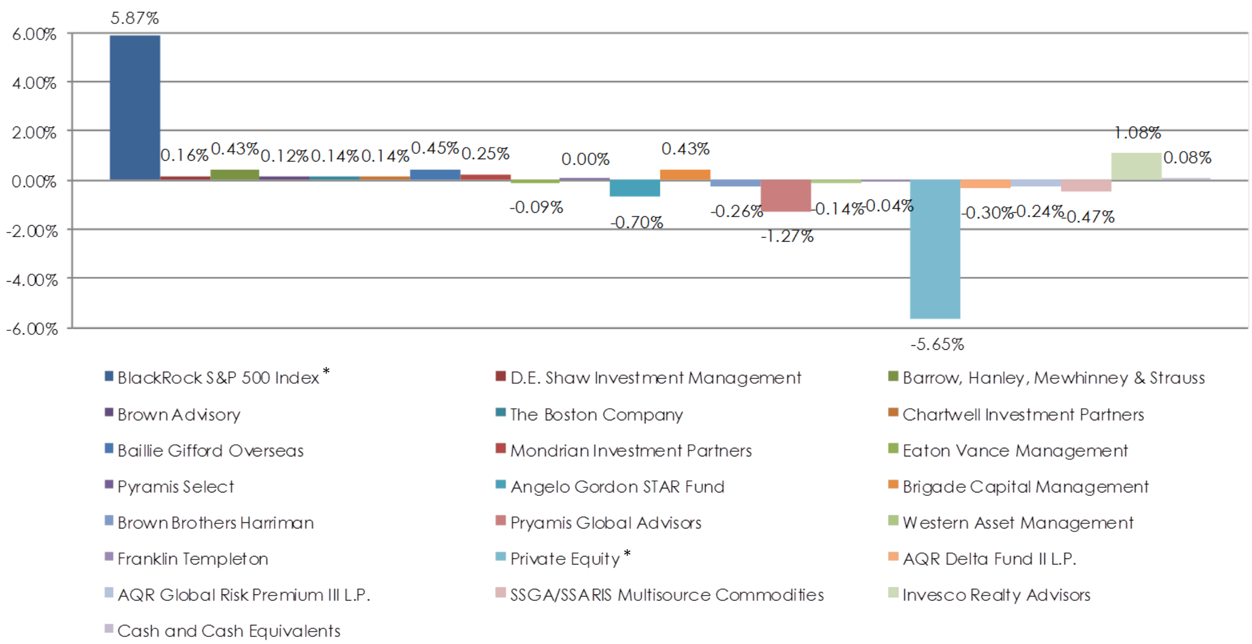
* Value includes investment receivables and payables. For market value without receivables and payable, refer to detailed schedule by managers on page 86.

## ASSET ALLOCATION

*As of June 30, 2013*



## PERCENT OF DEVIATION FROM ASSET ALLOCATION




* During the implementation of the Association's private equity program, SamCERA utilizes the S&P 500 Index as a placeholder until the program is fully implemented.

## SCHEDULE OF PORTFOLIO RETURNS

### *Performance as of June 30, 2013 — Net of Fees*

| Asset Category | One Year | Two Years | Three Years | Five Years |
|---|---|---|---|---|
| **DOMESTIC EQUITY** | | | | |
| Large Cap | | | | |
| BlackRock S&P 500 Index | N/A | N/A | N/A | N/A |
| D.E. Shaw Investment Management | 22.50% | 14.20% | 19.20% | N/A |
| Barrow, Hanley, Mewhinney & Strauss | 26.90% | 12.50% | 19.10% | N/A |
| Brown Advisory | N/A | N/A | N/A | N/A |
| Large Cap Composite | 21.90% | 11.30% | 17.80% | 5.90% |
| Small Cap | | | | |
| The Boston Company | 25.30% | 13.80% | 17.60% | N/A |
| Chartwell Investment Partners | 24.60% | 11.70% | 22.90% | 8.50% |
| Small Cap Composite | 24.90% | 11.10% | 20.00% | 8.10% |
| **INTERNATIONAL EQUITY** | | | | |
| Mondrian Investment Partners | 13.10% | 0.90% | 9.40% | 0.40% |
| Eaton Vance Management | 5.10% | N/A | N/A | N/A |
| Baillie Gifford Overseas | 19.80% | N/A | N/A | N/A |
| Pyramis Select | 18.00% | N/A | N/A | N/A |
| International Composite | 14.70% | -0.80% | 7.60% | -2.00% |
| Total Equity Composite | 20.00% | 7.40% | 14.80% | 3.80% |
| **BONDS** | | | | |
| Core | | | | |
| Pyramis Global Advisors | 0.30% | 4.10% | 4.70% | 6.60% |
| Western Asset Management | 1.10% | 4.70% | 5.60% | 6.90% |
| Credit | | | | |
| Angelo Gordon STAR Fund | N/A | N/A | N/A | N/A |
| Brigade Capital Management | 10.80% | 8.70% | N/A | N/A |
| Treasury Inflation Protected Securities | | | | |
| Brown Brothers Harriman | -4.60% | 3.60% | N/A | N/A |
| Global | | | | |
| Franklin Templeton | 12.10% | 5.60% | N/A | N/A |
| Total Bond Composite | 4.50% | 5.60% | 6.50% | 6.90% |
| **ALTERNATIVE INVESTMENTS** | | | | |
| Private Equity | 1.70% | 1.30% | N/A | N/A |
| Hedge Fund | | | | |
| AQR Delta Fund II L.P. | 6.80% | 2.60% | N/A | N/A |
| Risk Parity | | | | |
| AQR Global Risk Premium III L.P. | 3.20% | 4.00% | N/A | N/A |
| Commodities | | | | |
| SSGA/SSARIS Multisource Commodities | -1.30% | N/A | N/A | N/A |
| Total Alternative Composite | 3.40% | 2.10% | N/A | N/A |
| **REAL ESTATE** | | | | |
| Invesco Realty Advisors | 13.00% | 10.80% | 15.10% | -0.40% |
| Total Real Estate Composite | 13.00% | 10.80% | 15.10% | -0.40% |
| **CASH AND CASH EQUIVALENTS** | | | | |
| Cash Composite | 0.50% | 0.60% | 0.70% | 0.10% |
| **Total Fund** | | | | |
| Composite Investment Portfolio | 13.60% | 6.40% | 11.80% | 4.30% |
| Policy Benchmark | 12.80% | 7.10% | 12.40% | 5.40% |

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, 2013*

| Investment Manager | Asset Class | Assets Under Management | |
|---|---|---|---|
| DOMESTIC EQUITY | | | |
| BlackRock S&P 500 Index | S&P 500 Index Fund | $ 494,989,644 | |
| D.E. Shaw Investment Management | Large Cap Core | $147,374,925 | |
| Barrow, Hanley, Mewhinney & Strauss | Large Cap Value | $153,891,267 | |
| Brown Advisory | Large Cap Growth | $143,121,531 | |
| The Boston Company | Small Cap Value | $98,701,086 | |
| Chartwell Investment Partners | Small Cap Growth | $97,777,889 | |
| Total Domestic Equity | | | $1,135,856,342 |
| INTERNATIONAL EQUITY | | | |
| Baillie Gifford Overseas | Large Cap Growth | $169,112,114 | |
| Mondrian Investment Partners | Large Cap Value | $212,216,252 | |
| Eaton Vance Management | Emerging Markets | $58,909,468 | |
| Pyramis Select | Small Cap | $54,701,719 | |
| Total International Equity | | | $494,939,553 |
| Total Equity | | | $1,630,795,895 |
| DOMESTIC BONDS | | | |
| Angelo Gordon STAR Fund | Credit Opportunity Bonds | $28,799,455 | |
| Brigade Capital Management | Credit Opportunity Bonds | $59,586,594 | |
| Brown Brothers Harriman | Treasury Inflation Protection Securities | $73,462,112 | |
| Pyramis Global Advisors | Core Bonds | $145,588,887 | |
| Western Asset Management | Core Plus Bonds | $121,141,597 | |
| Total Domestic Bonds | | | $428,578,645 |
| GLOBAL BONDS | | | |
| Franklin Templeton | Global Bonds | $112,393,585 | |
| Total Global Bonds | | | $112,393,585 |
| Total Bonds | | | $540,972,230 |
| ALTERNATIVE INVESTMENTS | | | |
| ABRY Advanced Security Fund II. L.P. | Private Equity | $10,336,953 | |
| ABRY Partners VII. L.P. | Private Equity | $7,486,695 | |
| Emergence Capital Partners III L.P. | Private Equity | $1,310,498 | |
| EnCap Energy Capital IX L.P. | Private Equity | $609,313 | |
| General Catalyst Partners L.P. | Private Equity | $2,658,789 | |
| New Enterprise Associates 14, L.P. | Private Equity | $2,378,380 | |
| Regiment Capital Special Situations Fund V, L.P. | Private Equity | $5,781,715 | |
| Sheridan Production Partners II-B, L.P. | Private Equity | $16,658,161 | |
| Sycamore Partners L.P. | Private Equity | $9,278,320 | |
| Third Rock Ventures III L.P. | Private Equity | $50,000 | |
| Warburg Pincus XI L.P. | Private Equity | $7,776,246 | |
| AQR Delta Fund II L.P. | Hedge Fund | $73,717,734 | |
| AQR Global Risk Premium III L.P. | Risk Parity | $157,444,012 | |
| SSGA/SSARIS Multisource Commodities | Commodities | $69,083,062 | |
| Total Alternative Investment | | | $ 364,569,878 |
| REAL ESTATE | | | |
| Invesco Realty Advisors | Real Estate | | $166,154,482 |
| Unequitized Cash | | | $175,818,635 |
| Receivables & Prepaid Expenses | | | $148,118,699 |
| less Current Liabilities | | | ($298,604,487) |
| **Net Portfolio as of June 30, 2013** | | | **$2,727,825,332** |

## Schedule of Top Ten Equities and Fixed Income Securities

*As of June 30, 2013*

### *Top 10 Equity Securities**

| Shares | Exchange | Ticker | Company Name | Market Value |
|---|---|---|---|---|
| 201,733 | NYSE | ULVR | UNILEVER PLC | $8,144,882 |
| 213,000 | TOKYO | 4452 | KAO CORP | $7,236,875 |
| 147,199 | NYSE | FP | TOTAL SA | $7,176,076 |
| 418,290 | London | BG. | BG GROUP PLC | $7,095,994 |
| 26,668 | SIX Swiss Ex | ROG | ROCHE HOLDING AG GENUSSCHEIN | $6,623,664 |
| 124,700 | NYSE | JPM | JPMORGAN CHASE + CO | $6,582,913 |
| 132,640 | NYSE | C | CITIGROUP INC | $6,362,741 |
| 145,400 | NYSE | WFC | WELLS FARGO + CO | $6,000,658 |
| 62,900 | NYSE | JNJ | JOHNSON + JOHNSON | $5,400,594 |
| 996,777 | DJIA | IBE | IBERDROLA SA | $5,255,196 |

*Some domestic equities are owned in the S&P 500 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 |
|---|---|---|---|---|---|---|---|
| $16,089,241 | TSY INFL IX N/B | 0.125 | 01/15/2022 | AA+ | Aaa | 912828SA9 | $ 15,758,607 |
| $9,677,984 | TSY INFL IX N/B | 2.375 | 01/15/2025 | AA+ | Aaa | 912810FR4 | $ 11,528,899 |
| $8,805,212 | TSY INFL IX N/B | 1.875 | 07/15/2019 | AA+ | Aaa | 912828LA6 | $ 9,927,172 |
| $8,014,162 | TSY INFL IX N/B | 2.500 | 07/15/2016 | AA+ | Aaa | 912828FL9 | $ 8,858,774 |
| $4,973,484 | TSY INFL IX N/B | 2.000 | 01/15/2026 | AA+ | Aaa | 912810FS2 | $ 5,743,231 |
| $3,599,979 | TSY INFL IX N/B | 3.875 | 04/15/2029 | AA+ | Aaa | 912810FH6 | $ 5,188,470 |
| $4,799,973 | TSY INFL IX N/B | 1.875 | 07/15/2015 | AA+ | Aaa | 912828EA4 | $ 5,102,611 |
| $16,920,000 | ISRAEL FIXED BOND | 3.500 | 09/30/2013 | NR | NR | B58BXYII7 | $ 4,796,638 |
| $4,850,100,000 | KOREA MONETARY STAB BOND | 2.780 | 10/02/2014 | NR | NR | ACI02JMH0 | $ 4,251,126 |
| $66,747,806 | REPUBLICA ORIENT URUGUAY | 4.375 | 12/15/2028 | BBB- | Baa3 | 917288BD3 | $ 3,846,046 |

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

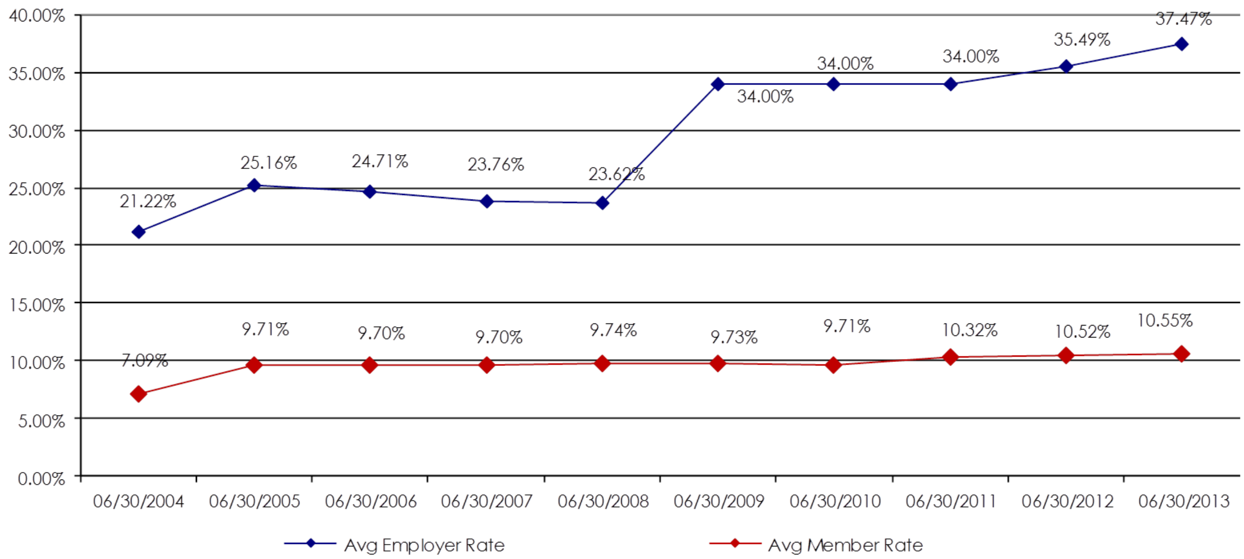
## Schedule of Professional Services and Fees

*As of June 30, 2013 and 2012*

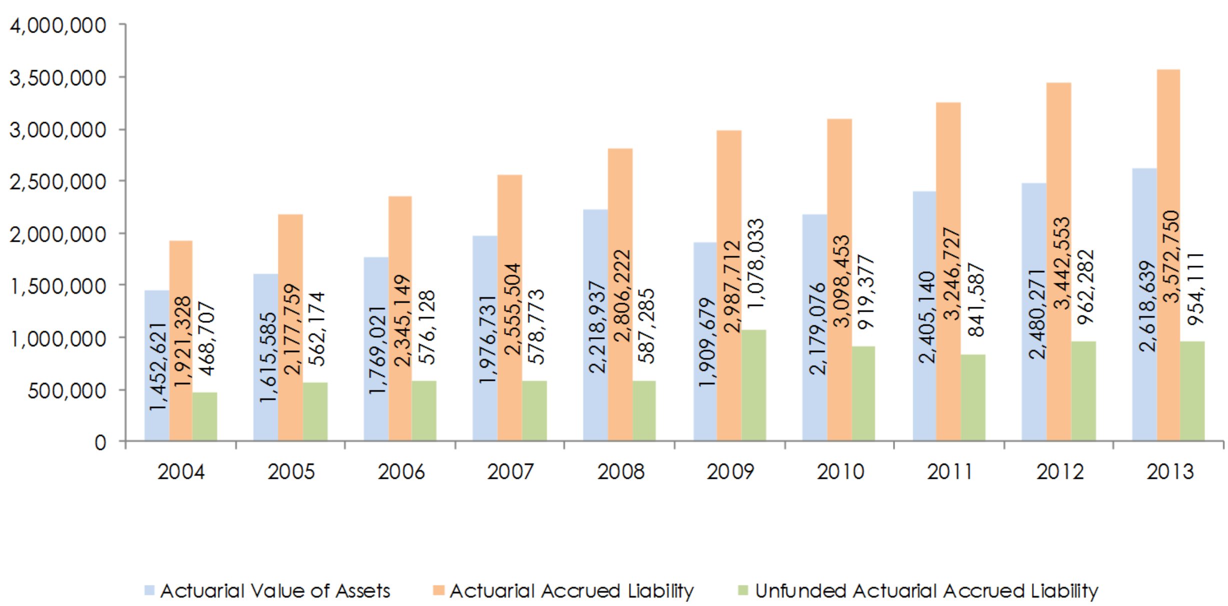
| | 2013 | 2012 |
|---|---|---|
| INVESTMENT MANAGERS | | |
| Aberdeen Asset Management | $99,035 | $304,308 |
| ABRY Advanced Security Fund II. L.P. | $283,339 | $292,149 |
| ABRY Partners VII. L.P. | $96,030 | $162,391 |
| Angelo Gordon GECC PPIP Fund | $135,126 | $350,000 |
| Angelo Gordon STAR Fund | $226,747 | $0 |
| AQR Delta Fund II L.P. | $715,597 | $687,333 |
| AQR Global Risk Premium III L.P. | $665,899 | $592,477 |
| Artio Global Management | -$369 | $636,613 |
| Baillie Gifford Overseas | $789,014 | $164,982 |
| Barrow, Hanley, Mewhinney & Strauss | $711,508 | $698,400 |
| BlackRock Capital Management (Index) | $101,850 | $72,047 |
| BlackRock Capital Management (Growth) | $197,443 | $748,599 |
| Brigade Capital Management | $453,921 | $394,157 |
| Brown Advisory | $112,842 | $0 |
| Brown Brothers Harriman | $124,095 | $114,254 |
| Chartwell Investment Partners | $585,085 | $436,802 |
| D.E. Shaw Investment Management | $667,540 | $565,252 |
| Eaton Vance Management | $638,969 | $140,751 |
| Emergence Capital Partners III L.P. | $230,383 | $0 |
| EnCap Energy Capital IX L.P. | $117,799 | $0 |
| Franklin Templeton | $455,842 | $412,142 |
| General Catalyst Partners L.P. | $238,500 | $130,000 |
| Invesco Realty Advisors | $634,472 | $609,125 |
| Jennison Associates | $404,520 | $763,935 |
| Mondrian Investment Partners | $296,128 | $349,958 |
| New Enterprise Associates 14, L.P. | $114,973 | $0 |
| Pyramis Global Advisors | $214,840 | $189,408 |
| Pyramis Select | $465,257 | $107,769 |
| Regiment Capital Special Situations Fund V, L.P. | $297,303 | $339,177 |
| Sheridan Production Partners II-B, L.P. | $300,045 | $300,029 |
| SSGA/SSARIS Multisource Commodities | $429,739 | $364,337 |
| Sycamore Partners L.P. | $367,297 | $364,938 |
| Third Rock Ventures III L.P. | $250,000 | $0 |
| T. Rowe Price Associates | $240,184 | $384,809 |
| The Boston Company | $604,235 | $416,251 |
| Warburg Pincus XI L.P. | $397,470 | $0 |
| Western Asset Management | $319,960 | $297,280 |
| **Total** | $12,982,618 | $11,389,673 |
| INVESTMENT CONSULTANT | | |
| Strategic Investment Solutions, Inc. | $404,608 | $400,000 |
| ACTUARIAL CONSULTING | | |
| Milliman, Inc. | $92,100 | $96,810 |
| Segal Company | $0 | $60,000 |
| **Total** | $92,100 | $156,810 |
| MASTER CUSTODIAN | | |
| State Street Bank and Trust Company | $168,039 | $226,521 |
| TRADE COST CONSULTANT | | |
| Zeno Consulting Group | $35,000 | $15,000 |
| OTHER PROFESSIONAL SERVICES | | |
| CY Yang & Co, CPA | $13,833 | $0 |
| **Total Professional Services** | **$13,696,198** | **$12,188,004** |

# ACTUARIAL SECTION

## HISTORY OF EMPLOYER AND MEMBER CONTRIBUTION RATES




## SCHEDULE OF ACTUARIAL ASSETS VS. LIABILITIES



Milliman

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October 21, 2013

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, 2011 | 74.1% |
| June 30, 2012 | 72.0% |
| June 30, 2013 | 73.3% |

The funded ratio increased in the last year primarily due to contributions in excess of the value of benefits earned.

It is our opinion that SamCERA will continue to maintain a sound financial condition as of June 30, 2013 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 2013 valuation results defer a net market gain on assets. Thus, the funded ratio is expected to be higher once those market gains are reflected in the 2014 and later valuations, assuming future investment earnings are equal to the assumed rate.

The June 30, 2013 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 based on our understanding of SamCERA's current benefit provisions and actuarial assumptions as of June 30, 2013. It reflects benefit provisions under the Public Employees' Pension Reform Act of 2013 (PEPRA) which were effective January 1, 2013.

Milliman

Board of Retirement
October 21, 2013
Page 2

The actuarial assumptions were last reviewed and adopted by the Board in 2013. The demographic assumptions were adopted in July of 2011, based on the triennial investigation of experience study report as of April 30, 2011, and re-adopted in May of 2012 and May of 2013. New economic assumptions were adopted by the Board in May of 2012, and re-adopted in May of 2013.

The actuarial computations presented in the valuation report are for purposes of determining the recommended funding amounts for SamCERA consistent with our understanding of its 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, 2013 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, 2013 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 J. Collier, ASA, EA, MAAA
Consulting Actuary

Craig J. Glyde, ASA, EA, MAAA
Consulting Actuary

NJC/CJG/nlo

## ACTUARIAL ASSUMPTIONS AND COST METHOD

The actuarial 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, 2013, valuation are based on the results of the actuarial experience study for the period July 1, 2008, through April 30, 2011. 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 Unfunded Actuarial Accrued Liability (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, 2013 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

### ACTUARIAL ASSUMPTIONS AND COST METHOD

| | |
|---|---|
| Valuation Date | June 30, 2013 |
| 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 closed 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, 2013). 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% |

30, 1995, valuation.

### 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; the same rates were re-adopted in May 2013 for the June 30, 2013 valuation.

### Cost of Living Adjustments

Post-retirement benefit increases depend upon the tier into which a member is enrolled and the Consumer Price Index (CPI) 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, 6 and 7 members. Tier 5, 6, and 7 employees contribute towards cost of living benefit in their contribution rates. Tier 1, 2, and 4 members contribute towards the cost of living benefit based on bargaining units and date of re-entry. 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.

## PROJECTED SALARY INCREASE

| Actuarial Assumption | 06/30/13 | 06/30/12 | Change |
|---|---|---|---|
| Annual Inflation Rate | 3.25% | 3.25% | 0.00% |
| Annual Investment Return | 7.50% | 7.50% | 0.00% |
| Average Annual Salary Increases | 4.95% | 4.95% | 0.00% |

*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 103.

## 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, 6 and 7. The benefits of Tier 3 are reduced by Social Security benefits received by the member.

The plan sponsor has established twelve defined benefit tiers based on a member's date of entry into *SamCERA* and membership class. Tiers 1, 2 & 4 are closed to County and Superior Courts new members in FY -2012-2013. Depending on their entry date and membership class (General, Safety or Probation/Safety), new members hired in FY 2012-2013 may enter Tier 5, Tier 6, or Tier 7. General members hired on and after August 7, 2011 and before January 1, 2013, enter Tier 5. Probation members hired on or after July 10, 2011 and before January 1, 2013, enter Tier 5 or Tier 6. Safety members hired on or after January 8, 2012 and before January 1, 2013, enter Tier 5 or Tier 6. New members first hired on or after January 1, 2013 enter Tier 7. General Tier 3 is not open to new members hired after December 22, 2012. Only General members hired on or before December 22, 2012 are eligible for Tier 3.

Employees of the San Mateo County Mosquito and Vector Control District are eligible for participation in General Tier 4 or Tier 7 based on hired date. New members first hired on or after January 1, 2013 enter Tier 7. New hires before January 1, 2013 entered 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 hired on or before December 22, 2012 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. Members must be first hired before January 1, 2013 to be eligible to elect this Tier. After 10 years of service, General Tier 5 members can elect to transfer to Tier 4 and must pay the total actuarial equivalent cost of the increase in past service benefits at the date of transfer.
*Tier 5 and 6 Safety* – Safety members hired after January 7, 2012 and before January 1, 2013 are eligible to elect either Tier.

*Tier 5 and 6 Probation* – Probation members hired after July 9, 2011 and before January 1,2013 are eligible to elect either Tier.
Tier 7 – Employees first hired on or after January 1, 2013.

## 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.
*Tier 3*: Age 65 with 10 years of service. A reduced benefit is also payable at age 55 with 10 years of service.
General Members Tier 7: Tier 7 members are eligible to retire at age 52 with 5 years 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.
Safety & Probation Members Tier 7: Tier 7 members are eligible to retire at age 50 with 5 years of service.
*For part-time employees, age 50 is replaced with age 55.

## 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 compensation during any three years. Years do not have to be consecutive.
*Tier 7*: Monthly average of a member's highest 36 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.
General Members Tier 7: 2% x Final Compensation x General Age Factor x Years of Service.
*Safety & Probation Members Tier 1, 2, 4 & 5*: 3% x Final Compensation x Safety Age Factor x Years of Service.
*Safety & Probation Members Tier 6*: 2% x Final Compensation x Safety Age Factor x Years of Service.
*Safety & Probation Members Tier 7*: 2% 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.

## SUMMARY OF RECOMMENDATIONS

### EMPLOYER CONTRIBUTION RATES

| | 06/30/13 | 06/30/12 | Change |
|---|---|---|---|
| Normal Cost Rate | 11.19% | 11.52% | -0.33% |
| Rate of Contribution to Unfunded Actuarial Accrued Liability | 26.28% | 23.97% | 2.31% |
| Total Employer Rate* | 37.47% | 35.49% | 1.98% |

*It should be noted that the 37.47% 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. A history of employer rates by class is on Page 100.

## Member Contribution Rates*

| | | 7/1/2013 | 7/1/2012 | Change |
|---|---|---|---|---|
| GENERAL MEMBERS – COUNTY AND COURTS(1),(2) | | | | |
| Tier 1 & Tier 2 | Age 25 | 9.19% | 9.19% | 0.00% |
| | 35 | 10.42% | 10.42% | 0.00% |
| | 45 | 11.91% | 11.91% | 0.00% |
| Tier 4 | Age 25 | 8.94% | 8.94% | 0.00% |
| | 35 | 10.12% | 10.12% | 0.00% |
| | 45 | 11.51% | 11.51% | 0.00% |
| Tier 5 | Age 25 | 6.21% | 6.21% | 0.00% |
| | 35 | 7.45% | 7.45% | 0.00% |
| | 45 | 8.94% | 8.94% | 0.00% |
| Tier 7(3) | All Ages | 7.75% | 7.75% | 0.00% |
| GENERAL MEMBERS – SMCM&VCD | | | | |
| Tier 1 & Tier 2 | Age 25 | 6.19% | 6.19% | 0.00% |
| | 35 | 7.42% | 7.42% | 0.00% |
| | 45 | 8.91% | 8.91% | 0.00% |
| Tier 4 | Age 25 | 5.94% | 5.94% | 0.00% |
| | 35 | 7.12% | 7.12% | 0.00% |
| | 45 | 8.51% | 8.51% | 0.00% |
| Tier 7(3) | All Ages | 7.75% | 7.75% | 0.00% |
| SAFETY MEMBERS – OTHER THAN DEPUTY SHERIFF (4) | | | | |
| Tier 1 & Tier 2 | Age 25 | 13.41% | 13.41% | 0.00% |
| | 35 | 15.09% | 15.09% | 0.00% |
| | 45 | 16.89% | 16.89% | 0.00% |
| Tier 4 | Age 25 | 13.07% | 13.07% | 0.00% |
| | 35 | 14.68% | 14.68% | 0.00% |
| | 45 | 16.20% | 16.20% | 0.00% |
| Tier 5 | Age 25 | 14.50% | 14.50% | 0.00% |
| | 35 | 16.59% | 16.59% | 0.00% |
| | 45 | 18.57% | 18.57% | 0.00% |
| Tier 6 | Age 25 | 10.24% | 10.24% | 0.00% |
| | 35 | 12.28% | 12.28% | 0.00% |
| | 45 | 14.21% | 14.21% | 0.00% |
| Tier 7(3) | All Ages | 14.25% | 13.00% | 1.25% |
| PROBATION & DETENTION ASSOCIATION MEMBERS (REFLECTS EMPLOYER PICK-UP) (5) | | | | |
| Tier 1 & Tier 2 | Age 25 | 12.34% | 12.34% | 0.00% |
| | 35 | 14.11% | 14.11% | 0.00% |
| | 45 | 15.98% | 15.98% | 0.00% |
| Tier 4 | Age 25 | 11.28% | 11.28% | 0.00% |
| | 35 | 12.83% | 12.83% | 0.00% |
| | 45 | 14.29% | 14.29% | 0.00% |
| Tier 5 | Age 25 | 12.35% | 12.35% | 0.00% |
| | 35 | 14.12% | 14.12% | 0.00% |
| | 45 | 15.78% | 15.78% | 0.00% |
| Tier 6 | Age 25 | 8.62% | 8.62% | 0.00% |
| | 35 | 10.34% | 10.34% | 0.00% |
| | 45 | 11.95% | 11.95% | 0.00% |
| Tier 7(3) | All Ages | 13.75% | 9.80% | 3.95% |
| PROBATION MANAGERS(6) | | | | |
| Tier 1 & Tier 2 | Age 25 | 11.41% | 11.41% | 0.00% |
| | 35 | 13.09% | 13.09% | 0.00% |
| | 45 | 14.89% | 14.89% | 0.00% |
| Tier 4 | Age 25 | 11.07% | 11.07% | 0.00% |
| | 35 | 12.68% | 12.68% | 0.00% |
| | 45 | 14.20% | 14.20% | 0.00% |
| Tier 5 | Age 25 | 13.46% | 13.46% | 0.00% |
| | 35 | 15.55% | 15.55% | 0.00% |
| | 45 | 17.52% | 17.52% | 0.00% |
| Tier 6 | Age 25 | 10.23% | 10.23% | 0.00% |
| | 35 | 12.27% | 12.27% | 0.00% |
| | 45 | 14.19% | 14.19% | 0.00% |
| Tier 7(3) | All Ages | 13.75% | 13.00% | 0.75% |

(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.

(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, and members of Union of American Physicians and Dentists (UAPD) who will also contribution 25% of COLA cost effective with the 2012 actuarial valuation.

(3) Tier 7 is the PEPRA plan effective January 1, 2013 for all new employees with no prior California public employment service.

(4) Rates include 5% cost sharing for non Deputy Sheriff in Tier 1, 2, 4, and 5. Cost sharing varies for Deputy Sheriffs as follows: If employee is less then 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%.

(5) Rates include 3.5% cost sharing for PDA in Tier 1, 2, 4, and 5.

(6) Rates include 3% cost sharing for Probation Managers in Tier 1, 2, 4, and 5. Probation Managers rates were the same as PDA until the 2013 actuarial valuation.

* Cola Share is included in the sample rates above for Tiers 5, 6 and Probation PDA.

## SUMMARY OF SIGNIFICANT ACTUARIAL STATISTICS AND MEASURES

| **ASSOCIATION MEMBERSHIP** | **6/30/13** | **6/30/12** | **Change** |
|---|---|---|---|
| ACTIVE MEMBERS | | | |
| Number of Members | 4,917 | 5,095 | -3.5% |
| Average Age | 46.0 | 46.0 | 0.0% |
| Average Credited Service | 11.2 | 10.9 | 2.8% |
| Total Active Payroll in Thousands | $414,551 | $427,650 | -3.1% |
| Average Monthly Salary | $7,026 | $6,995 | 0.4% |
| RETIRED MEMBERS | | | |
| Number of Members | | | |
| Service Retirement | 3,446 | 3,355 | 2.7% |
| Disability Retirement | 393 | 374 | 5.1% |
| Beneficiaries | 559 | 546 | 2.4% |
| Average Age | 71.3 | 71.2 | 0.1% |
| Total Retiree Payroll in Thousands | $149,266 | $139,208 | 7.2% |
| Average Monthly Pension | $2,933 | $2,823 | 3.9% |
| INACTIVE VESTED MEMBERS | 1,306 | 1,212 | 7.8% |
| **ASSET AND LIABILITY VALUES** | | | |
| ASSET VALUES | | | |
| Market Value in Thousands | $2,727,825 | $2,360,304 | 15.6% |
| Return on Market Value | 13.60% | -0.40% | 1400bps |
| Valuation Assets in Thousands | $2,618,639 | $2,480,271 | 5.6% |
| Return on Valuation Assets | 3.7% | 0.7% | 300bps |
| LIABILITY VALUES | | | |
| Actuarial Accrued Liability in Thousands | $3,572,750 | $3,442,553 | 3.8% |
| Unfunded Actuarial Accrued Liability in Thousands | $954,111 | $962,282 | -0.8% |
| Deferred Asset (Gains)/Losses | ($109,186) | $119,967 | |
| **REQUIRED COUNTY CONTRIBUTION RATE FOR ALL PLANS AS A PERCENTAGE OF TOTAL PAYROLL** | | | |
| Gross Normal Cost | 21.74% | 22.04% | -30bps |
| Less: Member Contributions | 10.55% | 10.52% | 3bps |
| County Normal Cost | 11.19% | 11.52% | -33bps |
| UAAL Amortization | 26.28% | 23.97% | 231bps |
| Total County Rate | 37.47% | 35.49% | 198bps |
| FUNDED RATIO | | | |
| **GASB Statement Number 25** (1) | 73.30% | 72.00% | 1.30% |

(1) Based on actuarial value of assets for June 30, 2013, and June 30, 2012, 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) |
| 6/30/04 | $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% |
| 6/30/13 | $2,618,639 | $534,276 | $2,157,590 | $880,884 | 100% | 97% | 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 |
|---|---|---|---|---|---|---|
| 6/30/04 | $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% |
| 6/30/13 | $2,618,639 | $3,572,750 | $954,111 | 73.30% | $406,921 | 234.47% |

**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

## Important Terms

**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: General

| | County & Courts General (excluding Nurses & UAPD) | | | County General Nurses & UAPD | | | San Mateo County Mosquito and Vector Control District General | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Normal | UAAL | Total | Normal | UAAL | Total | Normal | UAAL | Total |
| 2004 | 9.76% | 8.25% | 18.01% | Same as County General | | | Same as County General | | |
| 2005 | 10.36% | 10.38% | 20.74% | Same as County General | | | Same as County General | | |
| 2006 | 10.49% | 9.97% | 20.46% | Same as County General | | | Same as County General | | |
| 2007 | 10.19% | 9.46% | 19.65% | Same as County General | | | 8.50% | 7.76% | 16.26% |
| 2008 | 10.16% | 9.81% | 19.97% | Same as County General | | | 8.55% | 8.04% | 16.59% |
| 2009 | 10.11% | 18.40% | 28.51% | Same as County General | | | 8.25% | 15.09% | 23.34% |
| 2010 | 10.05% | 18.46% | 28.51% | Same as County General | | | 11.70% | 16.35% | 28.05% |
| 2011 | 9.71% | 18.80% | 28.51% | 8.70% | 19.81% | 28.51% | 11.48%* | 16.96%* | 28.44%* |
| 2012 | 9.98% | 20.17% | 30.15% | 8.96% | 20.17% | 29.13% | 11.68% | 20.17% | 31.85% |
| 2013 | 9.74% | 22.35% | 32.09% | 8.92% | 22.35% | 31.27% | 11.70% | 22.35% | 34.05% |

*Revised by actuary in 2012.

## History of Employer Contribution Rates: Safety and Probation

| | Safety Member | | | Probation Member (excluding Managers) | | | Probation Managers | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Normal | UAAL | Total | Normal | UAAL | Total | Normal | UAAL | Total |
| 2004 | 15.34% | 24.82% | 40.16% | 16.17% | 15.28% | 31.45% | 16.17% | 15.28% | 31.45% |
| 2005 | 20.43% | 32.02% | 52.45% | 21.10% | 16.43% | 37.53% | 21.10% | 16.43% | 37.53% |
| 2006 | 20.18% | 30.52% | 50.70% | 21.59% | 14.85% | 36.44% | 21.59% | 14.85% | 36.44% |
| 2007 | 19.94% | 29.32% | 49.26% | 20.83% | 14.06% | 34.89% | 20.83% | 14.06% | 34.89% |
| 2008 | 19.32% | 27.31% | 46.63% | 20.05% | 12.81% | 32.86% | 20.05% | 12.81% | 32.86% |
| 2009 | 19.21% | 51.83% | 71.04% | 19.92% | 23.84% | 43.76% | 19.92% | 23.84% | 43.76% |
| 2010 | 19.01% | 52.03% | 71.04% | 19.85% | 21.62% | 41.47% | 19.85% | 21.62% | 41.47% |
| 2011 | 18.97% | 52.07% | 71.04% | 19.50% | 22.30% | 41.80% | 19.50% | 22.30% | 41.80% |
| 2012 | 19.05% | 48.51% | 67.56% | 18.47% | 26.71% | 45.18% | 18.47% | 26.71% | 45.18% |
| 2013 | 18.51% | 50.33% | 68.84% | 18.33% | 29.32% | 47.65% | 17.85% | 29.32% | 47.17% |

## ACTIVE MEMBER VALUATION DATA

| Valuation Date | | Members (1) | Annual Salary | Average Annual Salary | % Change Average Salary |
|---|---|---|---|---|---|
| **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% |
| **2013** | General | 4,173 | $338,595,633 | $81,140 | 0.50% |
| | Safety | 452 | $52,233,510 | $115,561 | -1.70% |
| | Probation | 292 | $23,722,165 | $81,240 | -1.10% |
| | Total | 4,917 | $414,551,308 | $84,310 | 0.40% |

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

## DEMOGRAPHIC ACTIVITY OF RETIREES AND BENEFICIARIES

| Year | Retirees and Beneficiaries (1) 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 |
|---|---|---|---|---|---|---|---|---|---|
| 6/30/04 | 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 |
| 6/30/13 | 4,275 | 186 | 63 | 4,398 | $13,024 | $3,095 | $154,774 | 6.9% | $35,196 |

(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 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Unfunded Liability as of July 1 | $962,282 | $841,587 | $919,377 | $1,078,033 | $587,285 |
| Expected Change in UAAL | ($34,535) | ($39,621) | ($31,508) | $27,388 | ($11,786) |
| Salary (Gain) / Loss | ($59,411) | ($45,526) | ($51,831) | ($43,598) | ($10,081) |
| Retiree COLA more / (less) than expected | ($8,606) | ($11,756) | ($27,561) | ($41,258) | $1,080 |
| Assets (Gain) / Loss | $93,999 | $171,268 | $12,548 | ($88,485) | $522,444 |
| Change due to Assumption Changes | $0 | $36,443 | $19,402 | | |
| Miscellaneous Experience | $382 | $9,887 | $1,160 | ($12,703) | ($10,909) |
| Change Due to New Formula | | | | | |
| Unfunded Liability as of June 30 | $954,111 | $962,282 | $841,587 | $919,377 | $1,078,033 |

## RATES OF SEPARATION FROM ACTIVE SERVICE

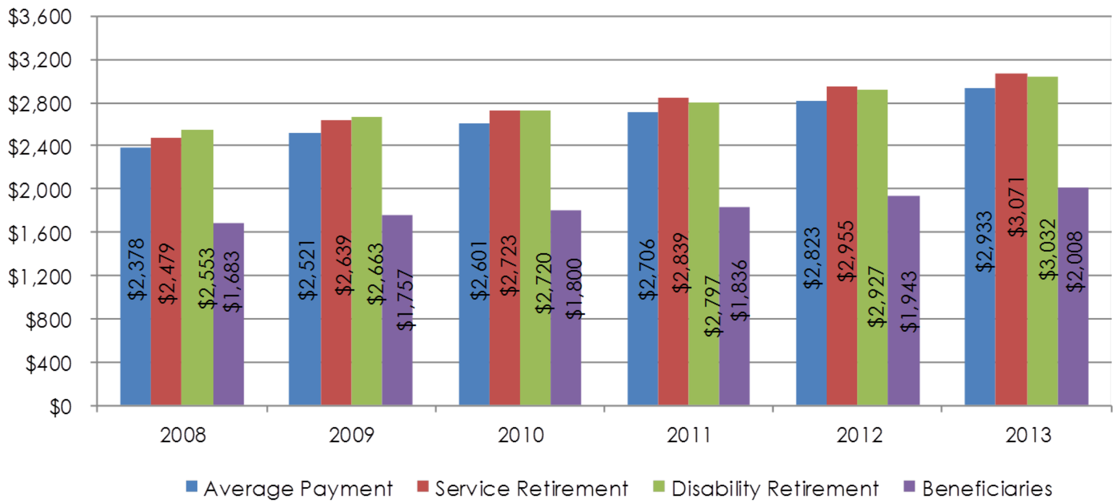
*Service Retirement*: Member retires after meeting age and service requirements for reasons other than disability.
*Withdrawal*: Member terminates and elects a refund of member contributions, or a deferred vested retirement benefit.
*Service Disability*: Member receives disability retirement; disability 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.

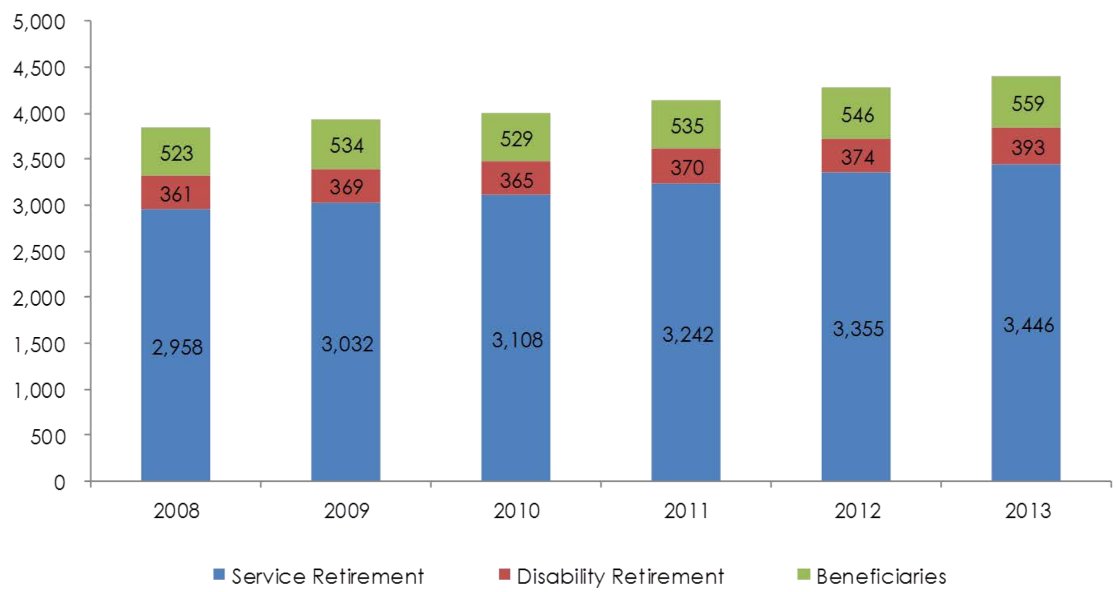
### PROBABILITY OF SEPARATION DURING ACTIVE SERVICE

| Years of Service | Other Terminations | | Age | Disability | | Death while Active | | Service Retirement |
|---|---|---|---|---|---|---|---|---|
| | Ordinary | Vested | | Ordinary | Service | Ordinary | Service | |
| **General Plan 1, 2, 4, 5 & 7 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 & 7 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 & 7 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 & 7 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



# STATISTICS SECTION

# Introduction to the Statistical Section

This section provides additional detailed information for a more thorough understanding of the financial statements, note disclosures and required supplementary information. The schedules presented on the following pages show trends in changes of plan net position, 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 Position Last Ten Fiscal Years

*as of June 30 (in thousands of dollars)*

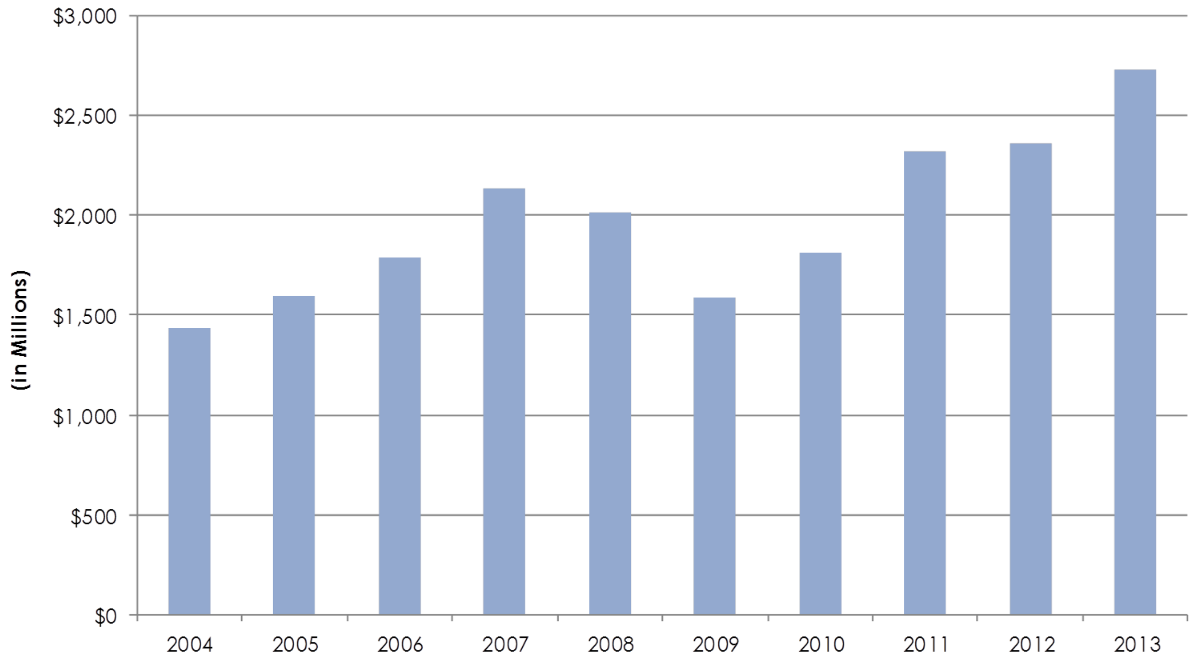
| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| Employer Contributions | $144,308 | $150,950 | $150,475 | $106,265 | $106,123 |
| Member Contributions | 55,408 | 49,687 | 49,013 | 50,319 | 50,372 |
| Total Contributions | 199,716 | 200,637 | 199,488 | 156,584 | 156,495 |
| Investment Income/(Loss) (net of expenses) | 326,983 | (11,024) | 437,654 | 195,412 | (457,309) |
| Security Lending Income | 622 | 721 | 530 | 743 | 1,631 |
| Miscellaneous Additions/(Declines) | 160 | 29 | 73 | 41 | (16) |
| Total Additions/(Declines) | 527,481 | 190,363 | 637,745 | 352,780 | (299,199) |
| **Deductions** | | | | | |
| Retiree Benefits | 149,266 | 139,208 | 129,835 | 122,141 | 113,991 |
| Member Refunds | 5,750 | 3,627 | 2,474 | 2,736 | 2,795 |
| Administrative Expenses | 4,914 | 5,033 | 3,547 | 3,373 | 3,287 |
| Other Expenses | 29 | (33) | 10 | 33 | 67 |
| Total Deductions | 159,959 | 147,835 | 135,866 | 128,283 | 120,140 |
| **Change in Pension Plan Net Position** | **$367,522** | **$42,528** | **$501,879** | **$224,497** | **$(419,339)** |

## CHANGE IN PENSION PLAN NET POSITION LAST TEN FISCAL YEARS (CONTINUED)

*as of June 30 (in thousands of dollars)*

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| Employer Contributions | $105,340 | $100,550 | $76,090 | $76,931 | $60,042 |
| Member Contributions | 60,111 | 42,696 | 39,962 | 33,647 | 27,094 |
| Total Contributions | 165,451 | 143,246 | 116,052 | 110,578 | 87,136 |
| Investment Income/(Loss) (net of expenses) | (178,379) | 298,260 | 166,826 | 140,132 | 193,107 |
| Security Lending Income | 1,699 | 0 | 0 | 0 | 0 |
| Miscellaneous Additions/(Declines) | 181 | 26 | 49 | 79 | 226 |
| Total Additions/(Declines) | (11,048) | 441,532 | 282,927 | 250,789 | 280,469 |
| **Deductions** | | | | | |
| Retiree Benefits | 103,970 | 94,788 | 87,915 | 83,182 | 74,016 |
| Member Refunds | 3,075 | 2,244 | 2,258 | 1,458 | 1,734 |
| Administrative Expenses | 2,774 | 2,582 | 2,086 | 2,235 | 1,912 |
| Other Expenses | 8 | 201 | 40 | 4 | 719 |
| Total Deductions | 109,827 | 99,815 | 92,299 | 86,879 | 78,381 |
| **Change in Pension Plan Net Position** | **$(120,875)** | **$341,717** | **$190,628** | **$163,910** | **$202,088** |

## TOTAL PLAN NET POSITION




## SCHEDULE OF EMPLOYER CONTRIBUTIONS

*(in thousands of dollars)*

| Year End | Actuarially Required Contributions (ARC) | Contributions Made As a % of ARC |
|---|---|---|
| 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% |
| 06/30/2013 | $144,308 | 100% |

## Schedule of revenue by Source

*(in thousands of dollars)*

| Year End | Employee Contribution | Employer Contribution | Investment Income/(Loss) | Total |
|---|---|---|---|---|
| 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 |
| 06/30/2013 | $55,408 | $144,308 | $327,765 | $527,481 |

## Schedule of Expenses by Type

*(in thousands of dollars)*

| Year End | Administrative Expenses | Other Expenses | Retirement Benefits Paid | Member Refunds | Total |
|---|---|---|---|---|---|
| 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 |
| 06/30/2013 | $4,914 | $29 | $149,266 | $5,750 | $159,959 |

Note: 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 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| **Service Retirement** | | | | | |
| Number | 3,446 | 3,355 | 3,242 | 3,108 | 3,032 |
| Annual Allowance | | | | | |
| Basic Only | $100,411,000 | $94,234,000 | $87,254,000 | $79,007,000 | $73,038,000 |
| COLA | $26,594,000 | $24,748,000 | $23,212,000 | $22,542,000 | $22,964,000 |
| Total | $127,005,000 | $118,982,000 | $110,466,000 | $101,549,000 | $96,002,000 |
| Average Monthly Payment | $3,071 | $2,955 | $2,839 | $2,723 | $2,639 |
| **Disability Retirement** | | | | | |
| Number | 393 | 374 | 370 | 365 | 369 |
| Annual Allowance | | | | | |
| Basic Only | $10,733,000 | $9,909,000 | $9,414,000 | $8,988,000 | $8,722,000 |
| COLA | $3,564,000 | $3,225,000 | $3,005,000 | $2,926,000 | $3,070,000 |
| Total | $14,297,000 | $13,134,000 | $12,419,000 | $11,914,000 | $11,792,000 |
| Average Monthly Payment | $3,032 | $2,927 | $2,797 | $2,720 | $2,663 |
| **Beneficiaries** | | | | | |
| Number | 559 | 546 | 535 | 529 | 534 |
| Annual Allowance | | | | | |
| Basic Only | $7,668,000 | $7,235,000 | $6,672,000 | $6,309,000 | $6,052,000 |
| COLA | $5,804,000 | $5,494,000 | $5,118,000 | $5,116,000 | $5,206,000 |
| Total | $13,472,000 | $12,729,000 | $11,790,000 | $11,425,000 | $11,258,000 |
| Average Monthly Payment | $2,008 | $1,943 | $1,836 | $1,800 | $1,757 |
| **Total Retired Members** | | | | | |
| Number | 4,398 | 4,275 | 4,147 | 4,002 | 3,935 |
| Annual Allowance | | | | | |
| Basic Only | $118,812,000 | $111,378,000 | $103,340,000 | $94,304,000 | $87,812,000 |
| COLA | $35,962,000 | $33,467,000 | $31,335,000 | $30,584,000 | $31,240,000 |
| Total | $154,774,000 | $144,845,000 | $134,675,000 | $124,888,000 | $119,052,000 |
| Average Monthly Payment | $2,933 | $2,823 | $2,706 | $2,601 | $2,521 |
| **Type of Refund*** | | | | | |
| General | $5,161,430 | $3,399,163 | $2,379,790 | $2,623,439 | N/A |
| Safety | $588,346 | $228,329 | $94,655 | $112,586 | N/A |
| Total Refund | $5,749,776 | $3,627,492 | $2,474,445 | $2,736,025 | $2,794,916 |
| INACTIVE MEMBERS | 1,306 | 1,212 | 1,190 | 1,207 | 1,230 |

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 | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| **Service Retirement** | | | | | |
| Number | 2,958 | 2,835 | 2,783 | 2,865 | 2,706 |
| Annual Allowance | | | | | |
| Basic Only | $66,704,000 | $59,687,000 | $54,942,000 | $49,760,000 | $41,723,000 |
| COLA | $21,289,000 | $19,382,000 | $18,188,000 | $17,759,000 | $17,502,000 |
| Total | $87,993,000 | $79,069,000 | $73,130,000 | $67,519,000 | $59,225,000 |
| Average Monthly Payment | $2,479 | $2,324 | $2,190 | $1,964 | $1,824 |
| **Disability Retirement** | | | | | |
| Number | 361 | 351 | 342 | 334 | 339 |
| Annual Allowance | | | | | |
| Basic Only | $8,214,000 | $7,571,000 | $6,915,000 | $6,575,000 | $6,164,000 |
| COLA | $2,847,000 | $2,569,000 | $2,356,000 | $2,205,000 | $2,172,000 |
| Total | $11,061,000 | $10,140,000 | $9,271,000 | $8,780,000 | $8,336,000 |
| Average Monthly Payment | $2,553 | $2,407 | $2,259 | $2,191 | $2,049 |
| **Beneficiaries** | | | | | |
| Number | 523 | 508 | 488 | 483 | 494 |
| Annual Allowance | | | | | |
| Basic Only | $5,757,000 | $5,220,000 | $4,659,000 | $4,084,000 | $4,250,000 |
| COLA | $4,805,000 | $4,361,000 | $3,946,000 | $3,800,000 | $3,682,000 |
| Total | $10,562,000 | $9,581,000 | $8,605,000 | $7,884,000 | $7,932,000 |
| Average Monthly Payment | $1,683 | $1,572 | $1,469 | $1,360 | $1,338 |
| **Total Retired Members** | | | | | |
| Number | 3,842 | 3,694 | 3,613 | 3,682 | 3,539 |
| Annual Allowance | | | | | |
| Basic Only | $80,675,000 | $72,478,000 | $66,516,000 | $60,419,000 | $52,137,000 |
| COLA | $28,941,000 | $26,312,000 | $24,490,000 | $23,764,000 | $23,356,000 |
| Total | $109,616,000 | $98,790,000 | $91,006,000 | $84,183,000 | $75,493,000 |
| Average Monthly Payment | $2,378 | $2,229 | $2,099 | $1,905 | $1,778 |
| **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 | $3,074,453 | $2,243,677 | $2,257,849 | $1,458,227 | $1,734,439 |
| INACTIVE MEMBERS | 1,225 | 1,151 | 1,089 | 872 | 877 |

## Schedule of All Retired Members and Beneficiaries by Age and Retirement Year

*as of June 30, 2013*

| | Retirement Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Age** | Pre-1979 | 1980-84 | 1985-89 | 1990-94 | 1995-99 | 2000-04 | 2005-09 | 2010-14 | Total Count | Average Monthly Benefit |
| Under 35 | - | 1 | - | - | 3 | 2 | - | - | 6 | $ 1,423 |
| 35-39 | - | - | - | - | - | 1 | 3 | 2 | 6 | 2,726 |
| 40-44 | - | - | 1 | 1 | - | 3 | 6 | 3 | 14 | 2,655 |
| 45-49 | - | - | 1 | 1 | 3 | 7 | 8 | 8 | 28 | 2,815 |
| 50-54 | 1 | - | - | 1 | 10 | 13 | 26 | 97 | 148 | 2,834 |
| 55-59 | - | - | 1 | 4 | 10 | 36 | 131 | 142 | 324 | 3,308 |
| 60-64 | - | - | 6 | 22 | 33 | 118 | 259 | 240 | 678 | 3,432 |
| 65-69 | 3 | 7 | 9 | 30 | 111 | 194 | 330 | 190 | 874 | 3,646 |
| 70-74 | 4 | 4 | 24 | 99 | 170 | 218 | 208 | 64 | 791 | 3,050 |
| 75-79 | 11 | 18 | 58 | 119 | 141 | 109 | 30 | 8 | 494 | 2,564 |
| 80-84 | 13 | 52 | 68 | 124 | 101 | 25 | 12 | 3 | 398 | 2,134 |
| 85-89 | 50 | 82 | 117 | 82 | 19 | 2 | 2 | 1 | 355 | 1,970 |
| 90-94 | 51 | 79 | 75 | 15 | 2 | - | - | - | 222 | 1,919 |
| 95-99 | 27 | 18 | 4 | 1 | 1 | - | - | - | 51 | 1,571 |
| 100 & Over | 7 | 2 | - | - | - | - | - | - | 9 | 1,610 |
| **Total Count** | 167 | 263 | 364 | 499 | 604 | 728 | 1,015 | 758 | 4,398 | |
| **Avg Monthly Benefit** | $ 1,714 | $1,602 | $2,089 | $2,175 | $2,353 | $3,062 | $3,900 | $3,609 | | $ 2,933 |

## Schedule of Average Monthly Salary of Active Members

*(by tier and membership type)*

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| General Tier 1 | $8,104 | $7,843 | $7,630 | $7,543 | $7,534 |
| General Tier 2 | $7,355 | $7,340 | $7,208 | $7,193 | $7,120 |
| General Tier 3 | $6,254 | $6,138 | $5,968 | $5,818 | $5,791 |
| General Tier 4 | $6,662 | $6,580 | $6,398 | $6,348 | $6,212 |
| General Tier 5 | $6,418 | $5,799 | N/A | N/A | N/A |
| General Tier 7 | $5,433 | N/A | N/A | N/A | N/A |
| General Tier Total | $6,726 | $6,726 | $6,599 | $6,569 | $6,468 |
| Safety Tier 1 | $13,185 | $12,624 | $12,073 | $11,578 | $10,889 |
| Safety Tier 2 | $10,935 | $10,892 | $10,789 | $10,548 | $10,135 |
| Safety Tier 4 | $9,402 | $9,351 | $9,230 | $8,931 | $8,610 |
| Safety Tier 5 | $8,699 | $9,667 | N/A | N/A | N/A |
| Safety Tier 6 | $12,374 | N/A | N/A | N/A | N/A |
| Safety Tier 7 | $6,695 | N/A | N/A | N/A | N/A |
| Safety Tier Total | $9,630 | $9,795 | $9,730 | $9,525 | $9,197 |
| Probation Tier 1 | $6,618 | $6,618 | $7,533 | $8,922 | $9,751 |
| Probation Tier 2 | $7,445 | $7,454 | $7,349 | $7,393 | $7,341 |
| Probation Tier 4 | $6,622 | $6,686 | $6,505 | $6,456 | $6,291 |
| Probation Tier 5 | $5,242 | $4,949 | N/A | N/A | N/A |
| Probation Tier 6 | $4,808 | $5,239 | N/A | N/A | N/A |
| Probation Tier 7 | $7,742 | N/A | N/A | N/A | N/A |
| Probation Tier Total | $6,770 | $6,844 | $6,719 | $6,722 | $6,634 |
| **Average Monthly Salary** | **$7,026** | **$6,995** | **$6,872** | **$6,813** | **$6,692** |

## Schedule of Average Monthly Salary of Active Members (Continued)

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| General Tier 1 | $7,252 | $7,175 | $6,749 | $6,582 | $6,514 |
| General Tier 2 | $6,872 | $6,688 | $6,148 | $6,045 | $5,980 |
| General Tier 3 | $5,619 | $5,287 | $4,988 | $5,216 | $5,101 |
| General Tier 4 | $5,914 | $5,714 | $5,315 | $5,476 | $5,281 |
| General Tier 5 | N/A | N/A | N/A | N/A | N/A |
| General Tier Total | $6,211 | $6,054 | $5,652 | $5,747 | $5,642 |
| Safety Tier 1 | $11,113 | $10,212 | $10,019 | $9,701 | $9,516 |
| Safety Tier 2 | $9,612 | $9,299 | $8,585 | $8,482 | $8,530 |
| Safety Tier 4 | $8,349 | $7,882 | $7,403 | $7,564 | $7,582 |
| 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 | $8,937 | $8,538 | $8,062 | $8,150 | $8,267 |
| Probation Tier 1 | $9,791 | $8,522 | $7,735 | $7,216 | $6,856 |
| Probation Tier 2 | $6,960 | $6,899 | $6,479 | $6,390 | $6,291 |
| Probation Tier 4 | $5,978 | $5,766 | $5,444 | $5,741 | $5,711 |
| 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 | $6,344 | $6,171 | $5,860 | $6,032 | $6,019 |
| **Average Monthly Salary** | **$6,433** | **$6,260** | **$5,857** | **$5,955** | **$5,871** |

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

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| COUNTY OF SAN MATEO | | | | | |
| General Members | 3,906 | 4,078 | 4,476 | 4,589 | 4,758 |
| Safety Members | 452 | 435 | 446 | 425 | 436 |
| Safety/Probation Members | 292 | 299 | 305 | 313 | 330 |
| Total | 4,650 | 4,812 | 5,227 | 5,327 | 5,524 |
| SAN MATEO COUNTY SUPERIOR COURTS* | | | | | |
| General Members Total | 249 | 268 | N/A | N/A | N/A |
| SAN MATEO COUNTY MOSQUITO & VECTOR CONTROL DISTRICT | | | | | |
| General Members Total | 18 | 15 | 18 | 20 | 19 |
| **Total Active Membership** | **4,917** | **5,095** | **5,245** | **5,347** | **5,543** |

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

## SCHEDULE OF PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS (CONTINUED)

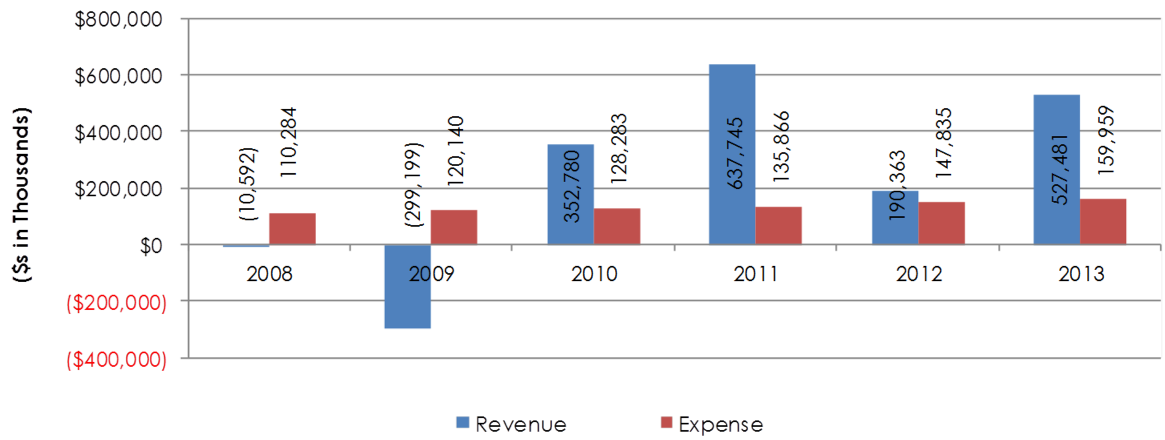
| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| COUNTY OF SAN MATEO | | | | | |
| General Members | 4,718 | 4,742 | 4,594 | 4,391 | 4,474 |
| Safety Members | 432 | 443 | 428 | 409 | 411 |
| Safety/Probation Members | 325 | 329 | 313 | 278 | 288 |
| Total | 5,475 | 5,514 | 5,335 | 5,078 | 5,173 |
| 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 | 25 | 20 | 20 | 13 |
| **Total Active Membership** | **5,500** | **5,539** | **5,355** | **5,098** | **5,186** |

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

# COMPLIANCE SECTION

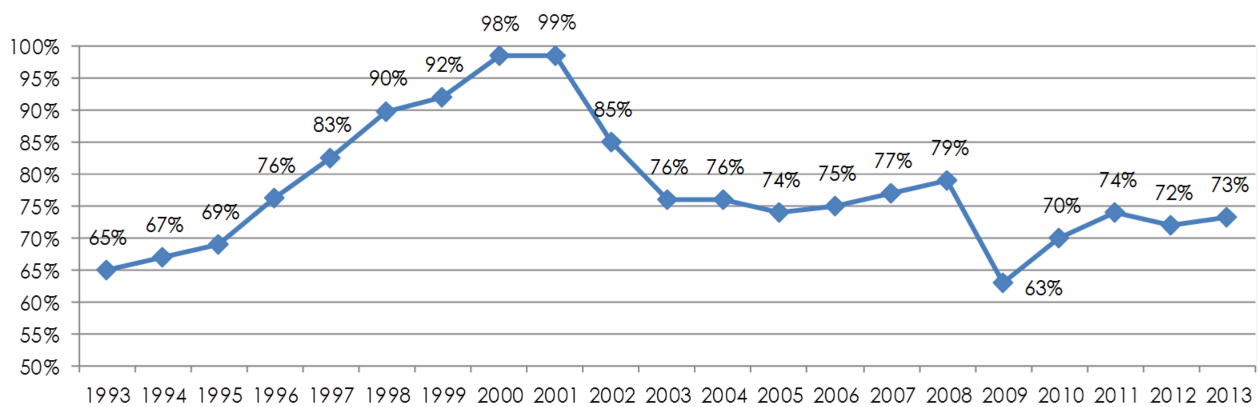
## SamCERA's Revenue and Expense

*FY 2008-2013*




## SamCERA's Funding Ratio (GASB Statement no. 25 Basis)

*FY 1993-2013*



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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 Employees' Retirement Association

We have audited, in accordance with the 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, the financial statements of the San Mateo County Employees' Retirement Association (SamCERA) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise SamCERA's basic financial statements, and have issued our report thereon dated October 21, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered SamCERA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SamCERA's internal control. Accordingly, we do not express an opinion on the effectiveness of SamCERA's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether SamCERA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SamCERA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SamCERA's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 21, 2013

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## Order Information

To order your own copy of SamCERA's *2013 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.

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www.samcera.org

SamCERA

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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