

A MESSAGE FROM THE CEO: THE SLOW ROAD TO RECOVERY



SamCERA continues to work through the effects of the financial crisis that began in 2007.

Everyone wishes a rapid recovery had taken place, but that has not happened. Instead, a gradual recovery appears to be underway. It also appears that the recovery may continue its slow and bumpy pace. As a result, steps have been taken to lower the overall cost of the plan and to improve the fund's strength.

This financial recovery fits the cliché, "two steps forward, one step back." Higher levels of volatility have been the mark of the investment markets over the last several years. In fiscal year 2009-10 the fund earned 14%. In 2010-11 the

fund earned 24% (placing SamCERA for that year among the top earning plans in the nation). In 2011-12 the recovery stalled and earnings for investors at the end of that fiscal year were essentially flat. In step with the markets, SamCERA's earnings settled just above zero.

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The earnings numbers for any individual year or month do not reveal a trend. This is especially true of the last several years and months. For the first three months of the 2012-13 fiscal year, SamCERA's fund earned 5.8%, and for the 12 months ending Sept. 30, 2012, the fund earned 18.4%! Immediately after the presidential election, the

markets experienced a sharp decline due to many concerns, including the impending "fiscal cliff" and continuing concerns about high levels of debt in Europe and the United States. While this kind of volatility seems likely to continue for a few years, it reinforces the importance of maintaining a diversified investment portfolio. The Association has made great strides in enhancing the diversification of SamCERA's portfolio over the past few years and this should help weather the uncertainty in the financial markets that seems bound to continue over the foreseeable future.

The slow recovery is reflected in SamCERA's gradually improving funded ratio. At its lowest point following the losses of the 2008-09 fiscal year, SamCERA's funded ratio (the assets of the fund

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A MESSAGE FROM THE CEO
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compared to the value of its promised benefits) dropped to 64%, down from 79% the year prior. Today that ratio has climbed back to 72%.

Expecting a continued slow recovery, SamCERA’s Board of Retirement decided in May to reduce its long term investment return assumption from 7.75% to 7.5%. The change is a step toward greater strength for the fund. As a result, employer contributions will increase by approximately \$7.25 million and employee contributions will add an additional \$1 million for fiscal year 2013-14. The Board works with an independent actuarial firm to review the assumption each year and will again review the assumption in mid-year 2013.

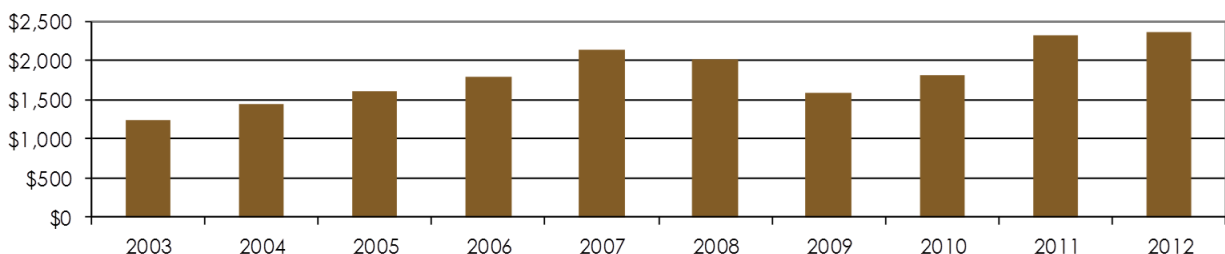
Another measure of fund strength is the period of time over which a fund chooses to pay off its unfunded actuarial accrued liability (UAAL). Like a home mortgage, the shorter the period, the less the cost will be over the full amortization period. SamCERA maintains a 15-year amortization period, which is the shortest among California plans. This funding policy provides a strong path for SamCERA to reduce and eventually eliminate its UAAL.

Other steps to lower costs and strengthen the plan have been taken by the County of San Mateo and the State of California. In 2011-12, the County adopted lower-cost tiers with reduced retirement benefits for newly hired general and safety members. In calendar year 2013, most California plans, including SamCERA, will be required to implement additional lower-cost tiers as required by PEPPRA (the Public Employees’ Pension Reform Act of 2013). While the legislation will have a minimal effect on current members and retirees, new members hired in 2013 and beyond will see a number of changes, including additional lower-cost tiers.

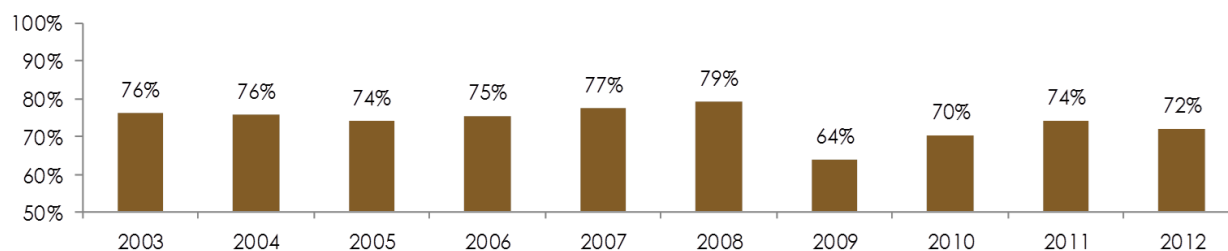
Detailed financial information and updates on pension legislation are available on our website, www.samcera.org. We welcome your comments and questions.

C. David Bailey
SamCERA
Chief Executive Officer

SAMCERA'S NET ASSETS (AMOUNTS IN MILLIONS)



FUNDED RATIO



As of June 30, 2012, SamCERA's actuarial funded ratio (assets divided by liabilities) decreased from 74.1% to 72.0%. The decrease is primarily due to the recognition of prior years' asset losses under the asset smoothing method. The current year's actuarial loss and a 0.25% reduction of the assumed earnings rate adopted in May 2012, also contributed to the ratio decrease.

The Comprehensive Annual Financial Report contains additional detailed information, and is available on the SamCERA website: www.samcera.org. You may also contact SamCERA for a copy by calling (650)599-1234 or (800)339-0761.

CONDENSED STATEMENT SUMMARY OF NET ASSETS

	6/30/2012	6/30/2011	Dollar Change	Percent Change
Investments at Fair Value	\$2,323,607,764	\$2,271,145,860	52,461,904.00	2.3%
Other Assets	\$383,515,763	\$426,668,536	(43,152,773.00)	-10.1%
Total Assets	\$2,707,123,527	\$2,697,814,396	9,309,131.00	0.3%
Total Liabilities	\$346,819,873	\$380,038,567	(33,218,694.00)	-8.7%
Net Assets	\$2,360,303,654	\$2,317,775,829	\$42,527,825	1.8%

CONDENSED STATEMENT CHANGE IN NET ASSETS

	6/30/2012	6/30/2011	Dollar Change	Percent Change
Employer Contribution	\$150,949,761	\$150,474,872	\$474,889	0.3%
Employee Contribution	\$49,687,136	\$49,013,027	\$674,109	1.4%
Net Investment Gain	(\$10,303,299)	\$438,188,282	(\$448,491,581)	-102.4%
Other Revenue	\$29,025	\$73,305	(\$44,280)	-60.4%
Total Additions	\$190,362,623	\$637,749,486	(\$447,386,863)	-70.2%
Retiree Benefit	\$139,207,590	\$129,834,540	\$9,373,050	7.2%
Member Refund	\$3,627,492	\$2,474,445	\$1,153,047	46.6%
Admin Expense	\$5,033,047	\$3,551,598	\$1,481,449	41.7%
Other Expense	(\$33,331)	\$9,529	(\$42,860)	-449.8%
Total Disbursement	\$147,834,798	\$135,870,112	\$11,964,686	8.8%
Net Additions	\$42,527,825	\$501,879,374	(\$459,351,549)	-92%

INVESTMENTS - MIXED RESULTS

It was a mixed year for asset class returns. For equities, more risky assets performed worse than less risky assets as investors reacted to the negative news coming from Europe and the resulting potential impacts on global growth. The Fed's actions to keep interest rates low resulted in positive returns across most fixed income segments with investors searching far and wide for yield, which bid up prices for yield-generating investments.

Real estate was SamCERA's best performing asset class composite this fiscal year, up 8.98%, as the commercial property market continued its recovery from the 2008-09 crisis lows aided by investor thirst for yield-generating assets. The fixed income portfolio composite benefited from lower interest rates (bond prices generally move in the opposite direction of interest rates) and returned 6.97% for the year. The domestic equity composite returned 1.4% for the fiscal year. The large-cap portfolio composite returned 1.93%, while the small-cap portfolio composite returned -0.37%. International stocks had negative returns in every quarter during the fiscal year. The international equity portfolio declined -13.85% during the year.

INVESTMENTS AT FAIR MARKET VALUE (AMOUNTS IN 000s)

Investment Asset Class	Market Value 6/30/2012	1 Yr Return	3 Yr Return	5 Yr Return
Large Cap U.S. Equity	\$709,756	1.93%	15.28%	-0.90%
Small Cap U.S. Equity	\$192,667	-0.37%	20.80%	-1.32%
International Equity	\$408,833	-13.85%	5.67%	-6.16%
Bond Composite	\$554,504	6.97%	10.80%	6.70%
Alternative Investments	\$310,931	N/A	N/A	N/A
Real Estate	\$146,917	8.98%	8.03%	0.79%
Cash	\$36,696	0.67%	0.84%	0.77%
Total	\$2,360,304	0.03%	11.81%	0.33%

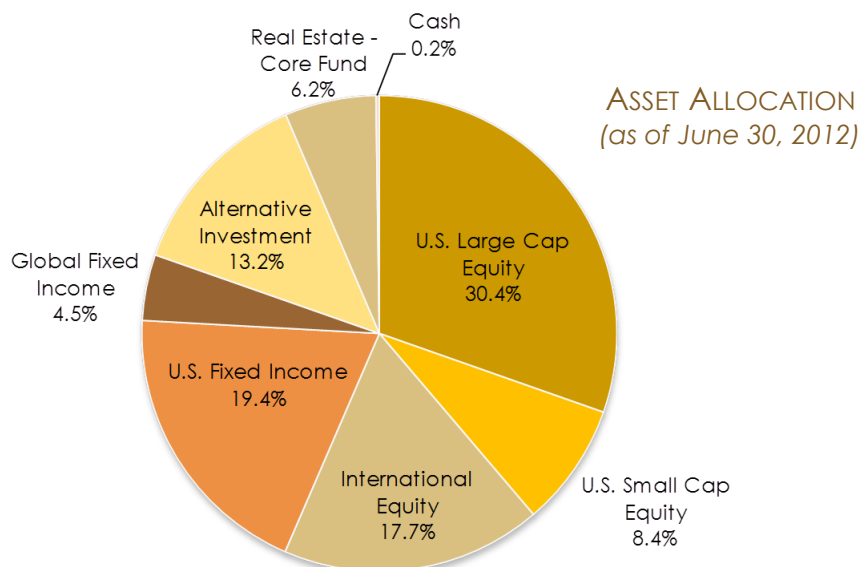
Real estate was SamCERA's best performing asset class composite this fiscal year, up 8.98%

SAMCERA BOARD OF RETIREMENT

Board Members: Albert David (Chair), Sandie Arnott (Vice Chair), Natalie Kwan Lloyd (Secretary), Eric Tashman, David Spinello, Paul Hackleman, Michal Settles, Benedict Bowler, and Lauryn Agnew. **Alternates:** Alma Salas (Safety Alternate), and John Murphy (Retiree Alternate).

FINANCIAL REPORTING STANDARDS ACHIEVED

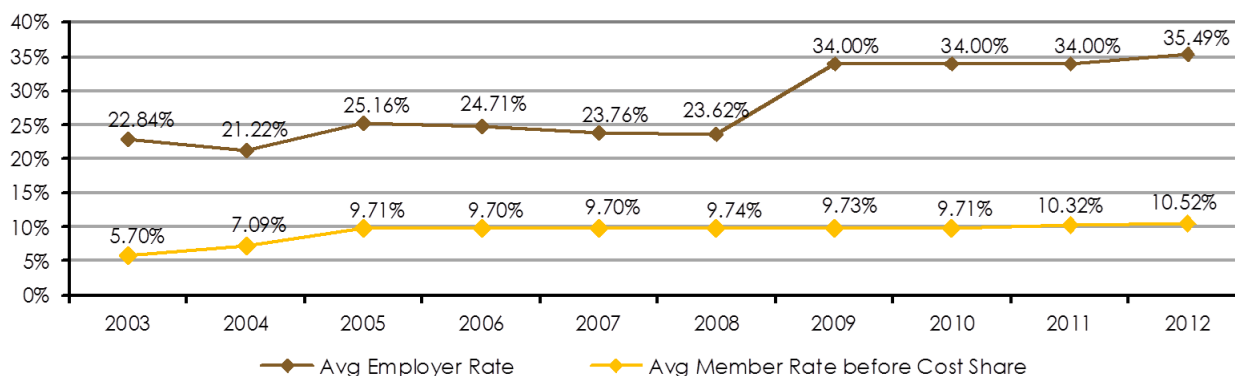
For the 15th consecutive year, the Government Finance Officers Association (GFOA) has awarded SamCERA its Certificate of Achievement for Excellence in Financial Reporting. This award was in recognition of SamCERA's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2011. SamCERA continues to maintain the highest financial reporting standards while providing quality services to its members.



DIVERSIFYING THE PORTFOLIO

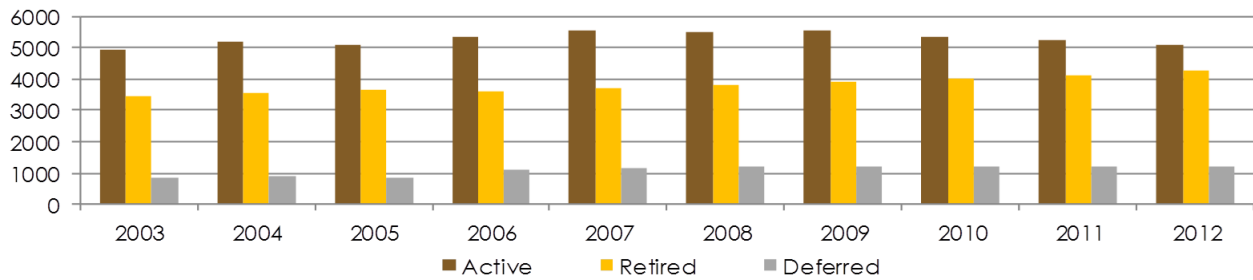
Portfolio actions during the year focused on further diversifying SamCERA’s international equity program and continuing the implementation of the alternatives program. Allocations to two new international equity strategies were approved during the year. The trustees hired a manager to manage smaller-capitalization international equities. The Association also hired a dedicated emerging market equity strategy manager during the year. The Association also replaced an under-performing international growth manager with a new manager in May. In alternatives, the commodity allocation was implemented this year when the Board funded a new commodity strategy. In addition, commitments to four new private equity partnerships were approved, totaling \$53 million.

AVERAGE CONTRIBUTION RATE



The employer and member contribution rates are based on recommendations made by an independent actuary and adopted by the Board of Retirement. The rates are based on membership type and tier; member rates are also based on entry age.

MEMBERSHIP



SamCERA's members include all permanent employees and retirees of the County of San Mateo, the San Mateo County Superior Court and the San Mateo County Mosquito & Vector Control District. As of June 30, 2012, there were a total of 10,582 members—exactly the same as the previous year's total, although the number of active members decreased, and the number of retired and deferred members increased. The average active member was 46.0 years old with 10.9 years of service and earned \$6,995 per month. The average retiree was 71.2 years old and received \$2,823 per month (up from \$2,706 the previous year). More than 85% of members are General Members, while the remainder are law enforcement employees—either Safety or Probation Safety Members.

www.samcera.org



SamCERA

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