

2013

SUMMARY ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2013



A MESSAGE FROM THE CEO: SEEING THE CORNER



With a proactive approach to improving the financial strength of the retirement fund by both the Board of Retirement and the San Mateo County Board of Supervisors, and with help from strong financial markets worldwide, SamCERA's financial

condition is much improved. While we are not ready to say our economy and our fund have turned the corner, we definitely see the corner up ahead.

Following the worst investment year of the recession, fiscal year 2008-09, SamCERA has had excellent earnings. The average annual return over the four years since FY 2008-09 has been 12.34%. To put that in perspective, SamCERA needs to have average earnings over the long term that meet or exceed its assumed investment earnings rate of 7.5%. Exceeding this rate over the last four years has reduced the system's unfunded actuarial accrued liability (UAAL) and improved the funded ratio (ratio of assets to liabilities).

After fiscal year 2008-09 (the worst investment year in SamCERA's 69-year history), SamCERA's

funded ratio was 64%. Today it has climbed back to 73%.

Besides outstanding earnings, a proactive funding approach by the Board of Supervisors has contributed to the financial improvement. Following the crisis in the financial markets, the Supervisors, in collaboration with the Board of Retirement, agreed to hold the employer contribution rate higher than the amount called for by the SamCERA actuary, contributing an additional \$24.4 million to the retirement fund in fiscal years 2011-12 and 2012-13.

The Supervisors recently decided to take the uncommon step of continuing and increasing this supplemental funding. In February 2014, the County is set to contribute an additional \$50 million above the actuarially required amount. In each of the following nine years they plan to contribute an additional \$10 million.

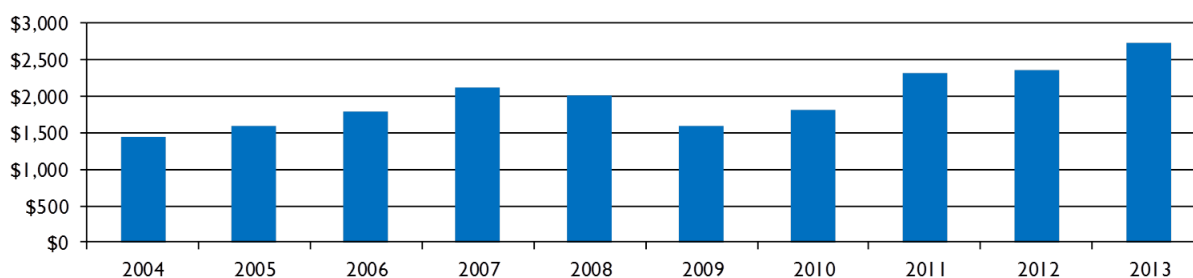
Our thanks to Supervisors Carole Groom, Don Horsley, Dave Pine, Warren Slocum and Adrienne Tissier, as well as County Controller Bob Adler and many others who led the effort to approve the extra funding.

(Continued on the back page)



*Pigeon Point Lighthouse,
San Mateo County*

SAMCERA'S FIDUCIARY NET POSITION (AMOUNTS IN MILLIONS)



SamCERA's Assets

The increase in FY 2012-13 is primarily due to market appreciation of assets. SamCERA's portfolio returned 13.6% net of investment manager fees for the fiscal year ending June 2013, compared to a flat return in the prior year.

Employer contributions for FY 2012-13 were \$144.3 million, a decrease of \$6.6 million over the prior year, largely due to a hiring freeze resulting in a reduction of payroll wages. Member contributions were \$55.4 million, an increase of \$5.7 million over FY 2011-12. The increase is mostly due to optional member service purchases including additional retirement credit (ARC) purchases which ended in December 2012.

Administrative expenses decreased by \$118,860 or -2.4% in fiscal year 2012-13. SamCERA added a new position and filled several vacancies during the second half of the fiscal year. The additional personnel cost was offset by savings from vacancies and a senior officer's military leave.

Member refunds increased by \$2.1 million or 58.5% in fiscal year 2012-13, because of a higher amount of terminated members, due mostly to the closing of an employer's long-term care facility. Members with a few years of service often withdraw their accounts.

The condensed financial statements are derived from the Comprehensive Annual Financial Report (CAFR), and are consistent with generally accepted accounting principles. The CAFR contains more detailed information, and is available on our website, www.samcera.org, or upon request.

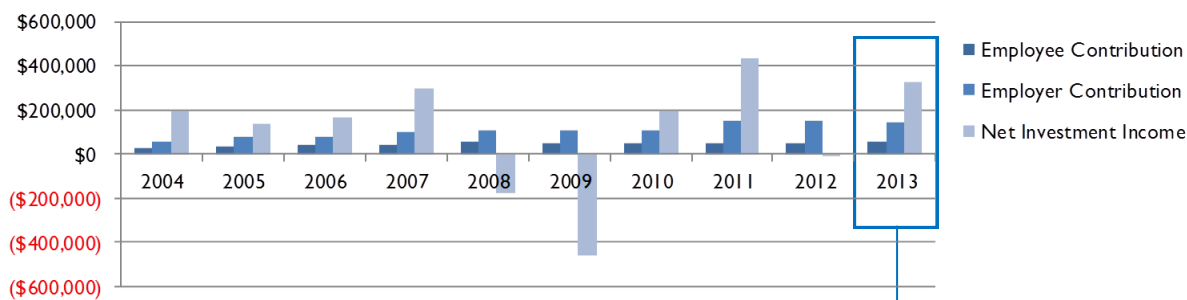
CONDENSED STATEMENT SUMMARY OF FIDUCIARY NET POSITION

	6/30/2013	6/30/2012	Dollar Change	Percent Change
Investments at Fair Value	\$2,702,492,485	\$2,323,607,764	\$378,884,721	16.3%
Other Assets	\$323,937,334	\$383,515,763	(\$59,578,429)	-15.5%
Total Assets	\$3,026,429,819	\$2,707,123,527	\$319,306,292	11.8%
Total Liabilities	\$298,604,487	\$346,819,873	(\$48,215,386)	-13.9%
Net Assets	\$2,727,825,332	\$2,360,303,654	\$367,521,678	15.6%

CONDENSED STATEMENT CHANGE IN FIDUCIARY NET POSITION

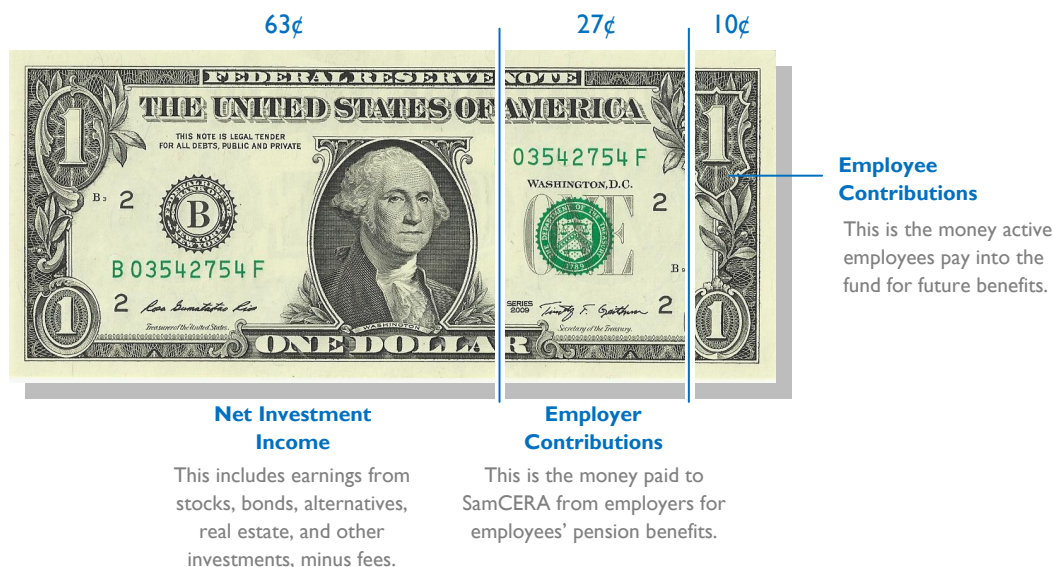
	6/30/2013	6/30/2012	Dollar Change	Percent Change
Employer Contribution	\$144,308,171	\$150,949,761	(\$6,641,590)	-4.4%
Employee Contribution	\$55,407,941	\$49,687,136	\$5,720,805	11.5%
Net Investment Gain/(Loss)	\$327,605,351	(\$10,303,299)	\$337,908,650	-3279.6%
Other Revenue	\$159,510	\$29,025	\$130,485	449.6%
Total Additions	\$527,480,973	\$190,362,623	\$337,118,350	177.1%
Retiree Benefit	\$149,265,647	\$139,207,590	\$10,058,057	7.2%
Member Refund	\$5,749,776	\$3,627,492	\$2,122,284	58.5%
Admin Expense	\$4,914,187	\$5,033,047	(\$118,860)	-2.4%
Other Expense	\$29,685	(\$33,331)	\$63,016	-189.1%
Total Disbursement	\$159,959,295	\$147,834,798	\$12,124,497	8.2%
Net Additions	\$367,521,678	\$42,527,825	\$324,993,853	764%

SAMCERA'S REVENUE BY SOURCE (AMOUNTS IN THOUSANDS)



Here's where the money comes from...

(for every dollar SamCERA received this fiscal year*)



*This graphic represents a simplification of SamCERA's net additions. Numbers are rounded to the nearest whole penny.

SAMCERA'S EXPENSES (AMOUNTS IN THOUSANDS)



INVESTMENTS: ROBUST RESULTS

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. The strong results for this year were driven mostly by robust global equity markets.

Fueled by favorable monetary policies from central banks around the globe, developed-world equity markets 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, uncertainty late in the fiscal year over the Federal Reserve's intent to taper its 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 this fiscal year, up over 22.5%. SamCERA's international equity returned 14.7% for the fiscal year, as European shares rebounded 23.9% from last year's double-digit negative return. Real estate had another solid fiscal year, with SamCERA's real estate composite up 13%. SamCERA's fixed income portfolio composite returned 4.5% for the year, helped in particular by strong positive returns from its global bond and opportunistic credit managers. Finally, SamCERA's alternative composite returned 3.4% for the fiscal year.

INVESTMENTS AT FAIR MARKET VALUE (AMOUNTS IN THOUSANDS)

Investment Asset Class	Market Value 6/30/2013	1 Yr Return	3 Yr Return	5 Yr Return
Large Cap U.S. Equity	\$939,377	21.90%	17.80%	5.90%
Small Cap U.S. Equity	\$196,479	24.90%	20.00%	8.10%
International Equity	\$494,940	14.70%	7.60%	-2.00%
Bond Composite	\$540,972	4.50%	6.50%	6.90%
Alternative Investments	\$364,570	3.40%	N/A	N/A
Real Estate	\$166,154	13.00%	15.10%	-0.40%
Cash	\$25,333	0.50%	0.70%	0.10%
Total	\$2,727,825	13.60%	11.80%	4.30%

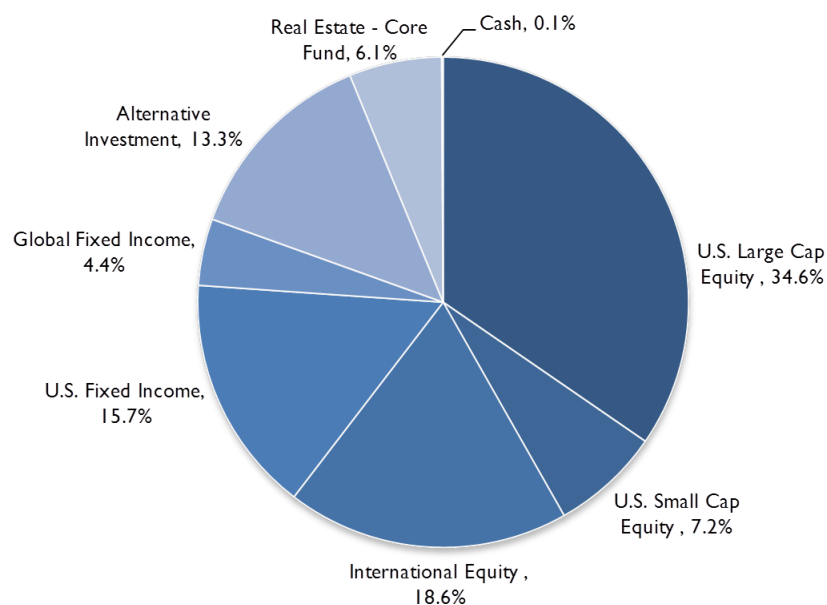
Strong Year for Stocks
Equities were this year's top performing asset classes.

Find SamCERA on the web at:

www.samcera.org

ASSET ALLOCATION

(as of June 30, 2013)



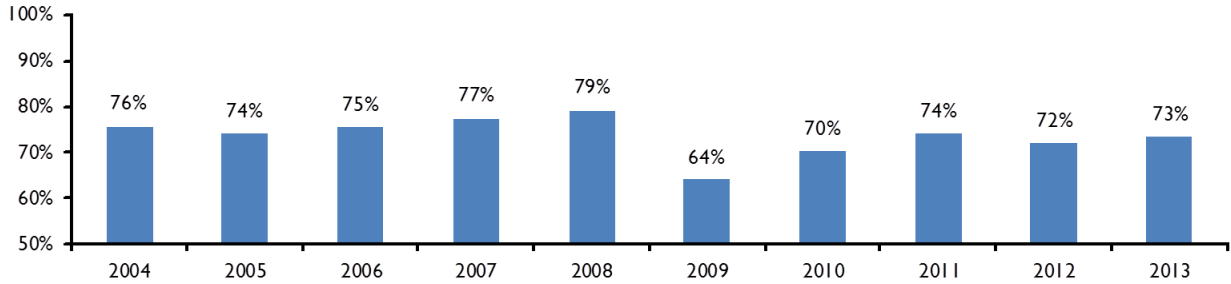
PORTFOLIO ENHANCEMENT

SamCERA has been active in enhancing its portfolio this year. SamCERA restructured the domestic equity portfolio by reducing the number of active managers and increasing the passive allocation in the core large-capitalization market segment. To simplify its core bond portfolio, SamCERA reduced the number of active managers and reallocated the proceeds to two existing managers. SamCERA added a strategic overlay manager to efficiently manage portfolio exposures and rebalance activities. Lastly, commitments totaling \$60 million to three new private equity partnerships were approved.

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.

Front page photo: Brocken Inaglory (Own work) [CC-BY-SA-3.0 (<http://creativecommons.org/licenses/by-sa/3.0>) or GFDL (<http://www.gnu.org/copyleft/fdl.html>)], via Wikimedia Commons

FUNDED RATIO



As of June 30, 2013, SamCERA’s actuarial funded ratio (assets divided by liabilities) increased from 72.0% to 73.3%. The increase was primarily due to contributions in excess of the value of benefits earned. The large decline in FY 2009 was due to devaluation of assets in the fiscal year and SamCERA’s smoothing method.

SAMCERA BOARD OF RETIREMENT

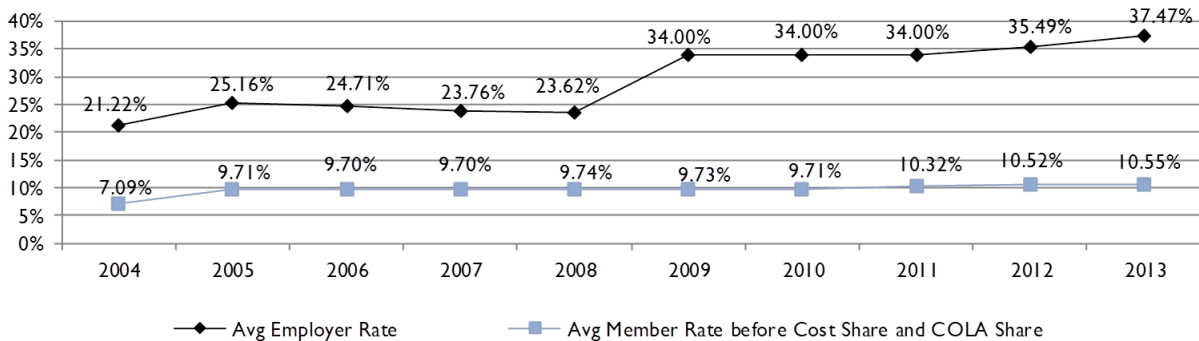
Board Members: Sandie Arnott (Chair), Natalie Kwan Lloyd (Vice Chair), Lauryn Agnew (Secretary), Albert David, Eric Tashman, Benedict Bowler, David Spinello, Paul Hackleman, and Michal Settles.

Alternates: John Murphy (Retiree Alternate), and Christopher Miller (Safety Alternate). *John Murphy passed away following the last meeting of his term.*

FINANCIAL REPORTING STANDARDS ACHIEVED

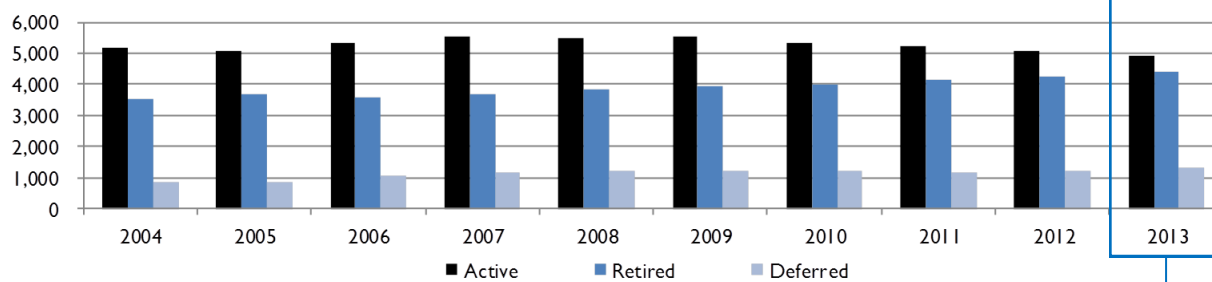
For the 16th consecutive year, the Government Finance Officers Association (GFOA) has awarded SamCERA its Certificate of Achievement for Excellence in Financial Reporting. This award was in recognition of SamCERA’s Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2012. SamCERA continues to maintain the highest financial reporting standards while providing quality services to its members.

AVERAGE CONTRIBUTION RATE



The increase in FY 2005 member contribution rate reflects a cost-sharing program for enhanced benefit formulas implemented that year. The steep increase in FY 2009 employer contribution rate was due to recognition of asset losses in the same year. New members beginning in FY 2011 pay for part of the cost-of-living adjustment benefit.

MEMBERSHIP OVER THE LAST 10 YEARS



Members and Benefits

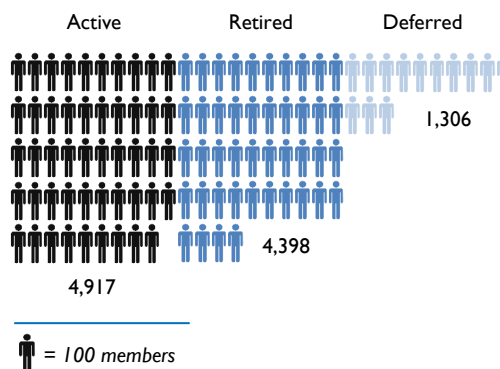
SamCERA’s members include all permanent employees and retirees of the County of San Mateo, the San Mateo County Superior Court and the San Mateo County Mosquito & Vector Control District. As of June 30, 2013, there were a total of 10,621 members—a slight increase from the previous year’s total.

The average active member was 46.0 years old with 11.2 years of service and earned \$7,026 per month. The average retiree was 71.3 years old and received \$2,933 per month (up from \$2,823 the previous year).

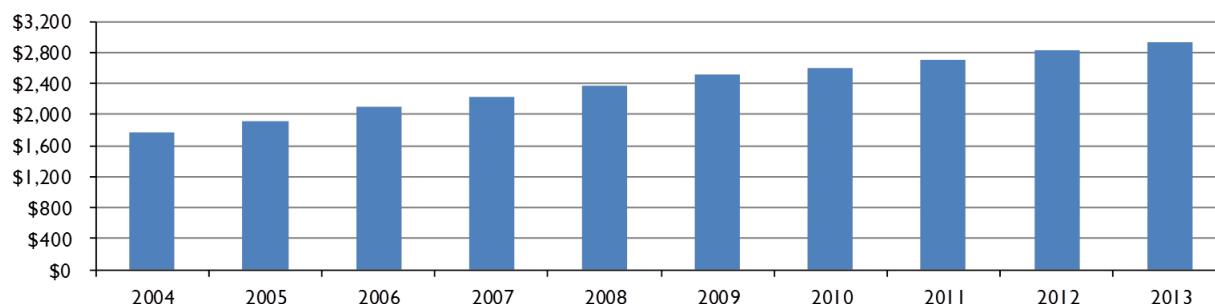
More than 85% of members are General Members, while the remainder are law enforcement employees—either Safety or Probation Safety Members.

Additionally, 12.3% of SamCERA’s members are deferred—inactive members with a vested right to receive pension benefits in the future.

CURRENT MEMBERSHIP



AVERAGE MONTHLY BENEFIT PAYMENT





100 Marine Parkway, Suite 125
Redwood City, CA 94065

A MESSAGE FROM THE CEO *(Continued from the front page)*

Due to these and other steps, SamCERA is one of the most aggressive retirement funds in the nation in improving its funding. Other steps have included:

- The use by the Board of Retirement of a 15-year amortization period for its UAAL, one of the shortest in California. The law allows up to a 30-year amortization. But the shorter an amortization period, the sooner a fund can improve its funded status and reduce its UAAL. Shorter funding periods also reduce the overall cost of the plan.
- The lowering of SamCERA's assumed earnings rate in 2012 from 7.75% to 7.5% by the Board of Retirement. This brings in more revenue to the fund and is a more fiscally conservative funding approach.
- The Board of Retirement taking up the hard work of changing the fund's asset allocation to further diversify the fund and to take into account the changes to the domestic and world economies.
- The adoption of new retirement formulas by the Board of Supervisors in 2012 and by the State Legislature in 2013. These will reduce future retirement costs.

With most economists predicting continued economic improvement, with additional funding planned from San Mateo County, and with the other positive steps noted above, we look forward to the continued strengthening of SamCERA's fund.

David Bailey
SamCERA
Chief Executive Officer