

2014 SUMMARY ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2014



A MESSAGE FROM THE CEO: BUILDING ON SUCCESS

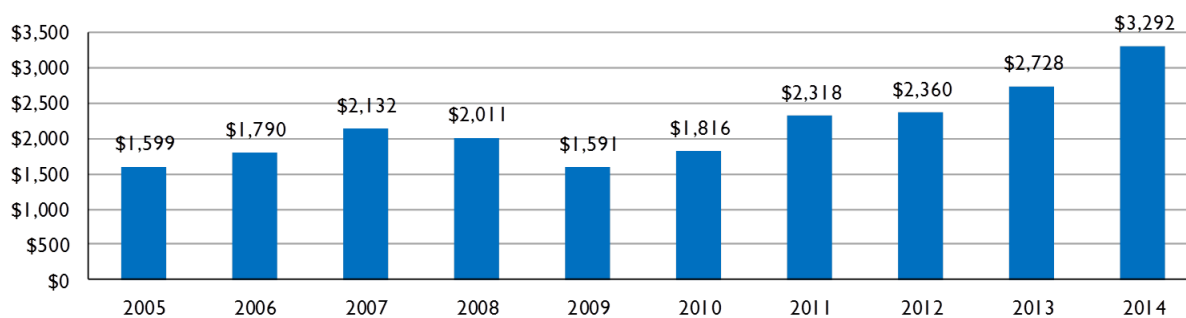
For the recently completed fiscal year, SamCERA has picked up where it left off—continuing to benefit from sound financial management and a proactive funding approach from both the Board of Retirement and the San Mateo County Board of Supervisors. Aided by strong market returns, SamCERA has achieved a funding level not seen since the outset of the Great Recession six years ago. That’s a significant milestone in SamCERA’s funding history and continued recovery. For four of the past five fiscal years, SamCERA has exceeded its assumed earnings rate and in that same period has averaged an annual return of 13.0%. As with most pension funds,

SamCERA relies on these periods of exceptional returns to help lessen the impact of underperformance. And with investment experts lowering capital market assumptions, they may be signaling an expectation of a reversion to the mean in the markets.

That said, SamCERA is in a better position to weather a market correction. Proactive funding by the Board of Supervisors will continue to benefit SamCERA for the foreseeable future. This past year, the Supervisors dedicated 50 million dollars to a supplemental fund—over and above the actuarially (and statutorily) required amount. They have also committed to an additional 10 million dollars annually for the next nine years. This, along with the County’s commitment to pay contributions at the previous high-water mark—rather than the

(Continued on the back page)

SAMCERA'S FIDUCIARY NET POSITION (AMOUNTS IN MILLIONS)



SamCERA's Assets

SamCERA's net position for the fiscal year ended June 30, 2014 (FY 2014) was \$3.29 billion. The 20.7% increase over prior year was due to market appreciation of assets as well as contributions received. SamCERA's portfolio returned 17.3% in FY 2014 compared to 13.6% in the prior year. Both years' return outperformed SamCERA's assumed earnings rate.

Employer contributions for FY 2014 were \$202.9 million, an increase of \$58.6 million over the prior year. The increase was mostly due to the supplemental county contribution of \$50 million in the fiscal year

and higher contribution rates. Member contributions were \$46.6 million. The \$8.8 million decrease from FY 2013 was due to the termination of member optional service credit purchase program in FY 2013.

Retiree benefit increased by \$10 million or 6.8% in FY 2014. SamCERA has seen a steady increase of retirement benefit in recent years due to new retirees added each year, increase in the average retirement allowance for new retirees, and annual cost of living adjustment provided to most retirees.

Member refunds were \$3.2 million in FY 2014, a decrease of \$2.5 million or 44.1% from FY 2013.

Member refunds were higher in FY 2013 due to a higher amount of terminated members who requested refunds, related to the closing of San Mateo County's long-term care facilities.

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CONDENSED STATEMENT SUMMARY OF FIDUCIARY NET POSITION

	6/30/2014	6/30/2013	Dollar Change	Percent Change
Investments at Fair Value	\$3,203,688,290	\$2,702,492,485	\$501,195,805	18.5%
Other Assets	\$121,006,391	\$323,937,334	(\$202,930,943)	-62.6%
Total Assets	\$3,324,694,681	\$3,026,429,819	\$298,264,862	9.9%
Total Liabilities	\$33,000,727	\$298,604,487	(\$265,603,760)	-88.9%
Net Assets	\$3,291,693,954	\$2,727,825,332	\$563,868,622	20.7%

CONDENSED STATEMENT CHANGE IN FIDUCIARY NET POSITION

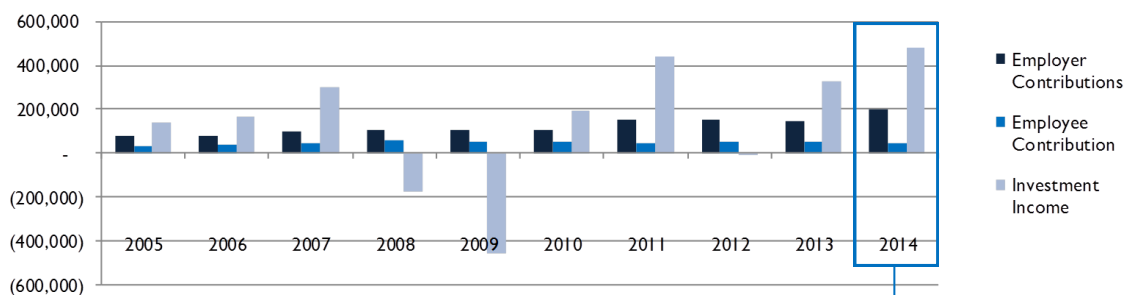
	6/30/2014	6/30/2013	Dollar Change	Percent Change
Employer Contribution	\$202,877,362	\$144,308,171	\$58,569,191	40.6%
Employee Contribution	\$46,593,698	\$55,407,941	(\$8,814,243)	-15.9%
Net Investment Gain/(Loss)	\$482,485,329	\$327,605,351	\$154,879,978	47.3%
Other Revenue	\$178,636	\$159,510	\$19,126	12.0%
Total Additions	\$732,135,025	\$527,480,973	\$204,654,052	38.8%
Retiree Benefit	\$159,341,978	\$149,265,647	\$10,076,331	6.8%
Member Refund	\$3,214,129	\$5,749,776	(\$2,535,647)	-44.1%
Admin Expense	\$5,645,004	\$4,914,187	\$730,817	14.9%
Other Expense	\$65,292	\$29,685	\$35,607	119.9%
Total Disbursement	\$168,266,403	\$159,959,295	\$8,307,108	5.2%
Net Additions	\$563,868,622	\$367,521,678	\$196,346,944	53%

SamCERA's Assets (Continued from the previous page)

Administrative expense was \$5.6 million for FY 2014. Administrative expense covers the basic costs of operating the retirement system, which include staffing, office expense, and information technology systems. Administrative expenses increased by \$0.7 million or 14.9% in FY 2014. The increase was due to hiring of additional staff, the return SamCERA's Assistant Executive Officer (AEO) from military leave, and implementation of technology projects. Approximately 65% of the administrative expense in FY 2014 was for salaries and benefits.

The condensed financial statements are derived from the Comprehensive Annual Financial Report (CAFR), and are consistent with generally accepted accounting principles. SamCERA has implemented GASB Statement No. 67, Financial Reporting for Pension Plans, in the current CAFR. Relevant information can be found in the Financial Section of the CAFR. The CAFR contains more detailed information, and is available on our website, www.samcera.org, or upon request.

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.

INVESTMENTS: MAINTAINING THE RALLY

Following up on last fiscal years' double-digit returns, SamCERA's portfolio again experienced strong absolute returns for the fiscal year ending June 2014 due mostly to robust global equity market returns. The fund returned 17.3% net of investment manager fees. These results are above median among large (greater than \$1 billion in assets) public plans.

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. However, many markets look to be fairly-priced (or even over-priced) based on various metrics, which in turn suggests that the go-forward return expectations for a number of markets could be lower than what we have experienced over the past couple of years.

SamCERA's equity composites were the best performers this fiscal year, with domestic and international equity up 23.6% and 21.4%, respectively. Real estate had another solid year, with SamCERA's real estate composite up 10.5%, while SamCERA's alternative composite returned 9.2%. Finally, SamCERA's fixed income portfolio composite returned 7.2% for the year, helped in particular by strong positive returns from its global bond and opportunistic credit managers.

In other investment news, subsequent to June 30, SamCERA changed its custodian bank from State Street Bank & Trust to Northern Trust effective July 1st.

INVESTMENTS AT FAIR MARKET VALUE (AMOUNTS IN THOUSANDS)

Investment Asset Class	Market Value 6/30/2014	1 Yr Return	3 Yr Return	5 Yr Return
Large Cap U.S. Equity	\$986,092	23.50%	15.20%	17.90%
Small Cap U.S. Equity	\$242,947	24.50%	15.40%	21.80%
International Equity	\$653,569	21.40%	6.10%	10.20%
Bond Composite	\$593,048	7.20%	6.20%	8.70%
Alternative Investments	\$544,465	9.20%	4.40%	N/A
Real Estate	\$183,567	10.50%	10.70%	9.20%
Cash	\$88,006	0.20%	0.50%	0.70%
Total	\$3,291,694	17.30%	9.90%	13.00%

**Another Strong
Year for Stocks**

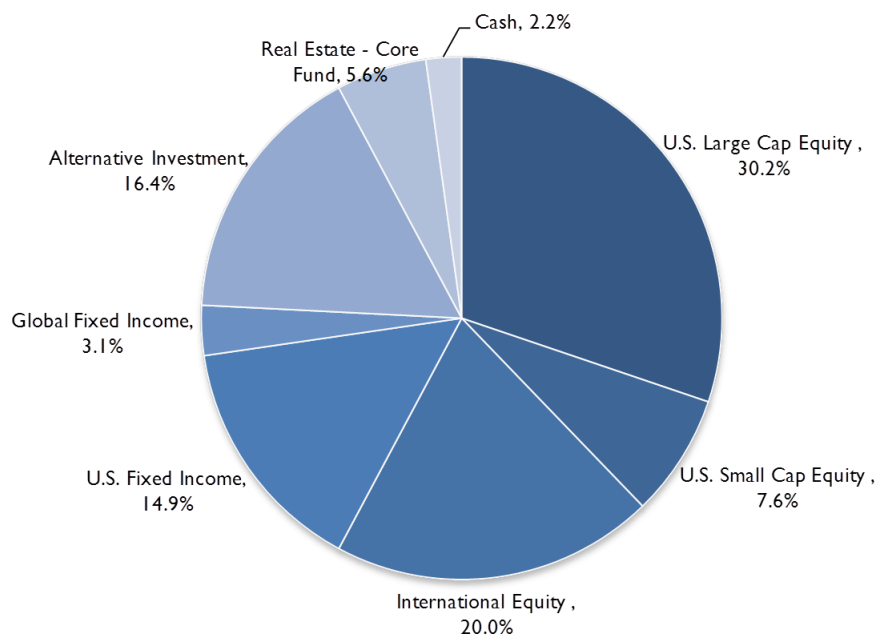
*Equities were this
year's top performing
asset classes.*

Find SamCERA on the web at:

www.samcera.org

ASSET ALLOCATION

(as of June 30, 2014)



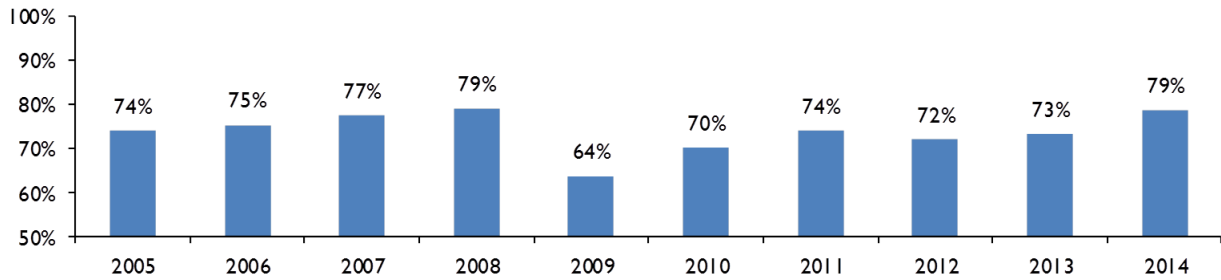
SAMCERA'S PORTFOLIO

During the year, SamCERA undertook an in-depth asset liability study to analyze the current risk profile and asset allocation of the plan. From this exercise, the Board approved a new asset allocation policy that incorporates modest changes intended to further diversify the plan. SamCERA also re-upped with one of its existing credit managers to fund an allocation to their whole-loan credit strategy during the year. In addition, commitments to four new private equity partnerships were approved, totaling \$97.5 million. Subsequent to June 30, SamCERA committed \$15 million to one additional private equity partnership.

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.

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FUNDED RATIO



As of June 30, 2014, SamCERA’s actuarial funded ratio (assets divided by liabilities) increased from 73.3% to 78.8%. The increase was due to contributions in excess of the value of benefits earned as well as investment earnings in excess of the assumed rate. 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

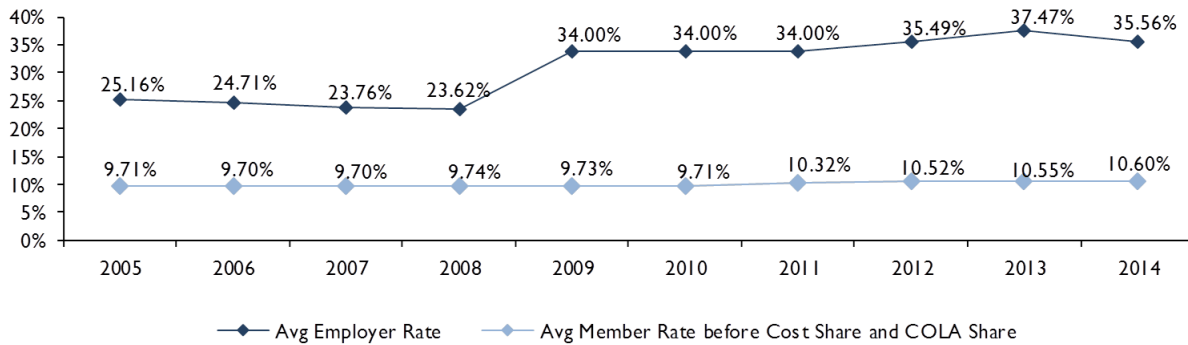
Board Members: Natalie Kwan Lloyd (Chair), Lauryn Agnew (Vice Chair), Paul Hackleman (Secretary), Sandie Arnott, Benedict Bowler, Albert David, Michal Settles, David Spinello, and Eric Tashman.

Alternates: Christopher Miller (Safety Alternate), and Alma Salas (Retiree Alternate).

FINANCIAL REPORTING STANDARDS ACHIEVED

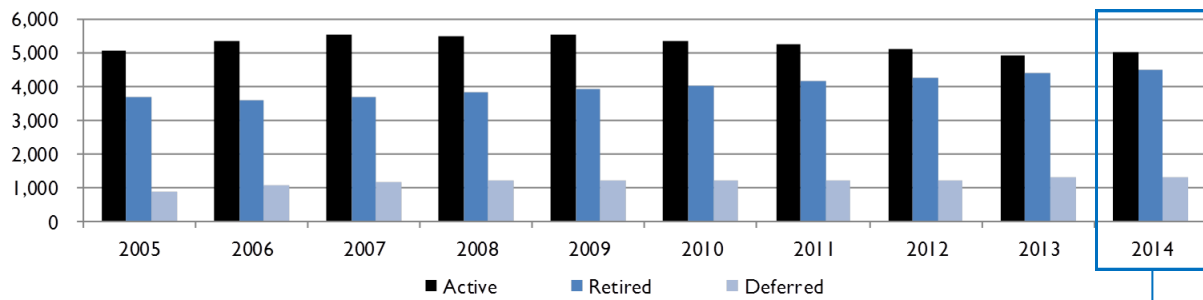
For the 17th consecutive year, the Government Finance Officers Association (GFOA) has awarded SamCERA its Certificate of Achievement for Excellence in Financial Reporting. This award was in recognition of SamCERA’s Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2013. SamCERA continues to maintain the highest financial reporting standards while providing quality services to its members.

AVERAGE CONTRIBUTION RATE



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

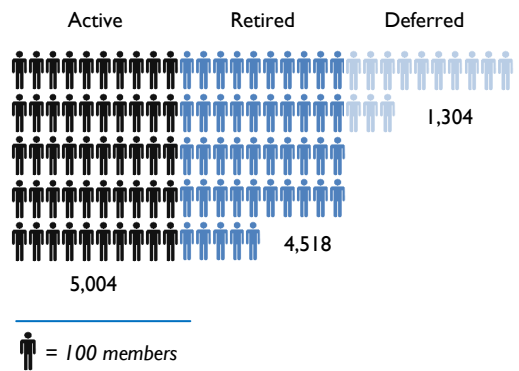
SamCERA’s members include all permanent employees and retirees of the County of San Mateo, the San Mateo County Superior Court and the San Mateo County Mosquito & Vector Control District. As of June 30, 2014, there were a total of 10,826 members—a slight increase from the previous year’s total.

The average active member was 45.8 years old with 11.2 years of service and earned \$7,151 per month. The average retiree was 71.3 years old and received \$3,021 per month (up from \$2,933 the previous year).

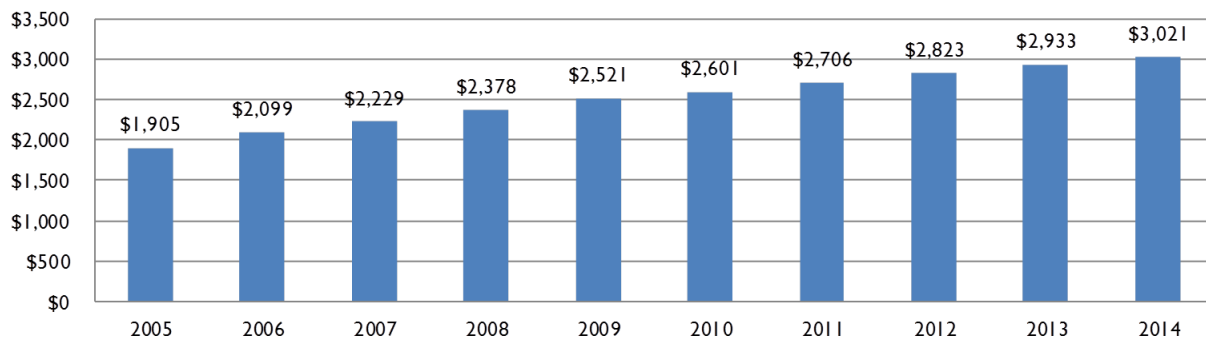
More than 85% of members are General Members, while the remainder are law enforcement employees—either Safety or Probation Safety Members.

Additionally, 12.0% 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





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A MESSAGE FROM THE CEO

(Continued from the front page)

lower rate recommended by SamCERA's actuary—will help to pay down the unfunded actuarial accrued liability (UAAL) faster than projected.

Again, we owe our thanks to Supervisors Carole Groom, Don Horsley, Dave Pine, Warren Slocum and Adrienne Tissier, as well as County Manager John Maltbie, County Controller Bob Adler, County Budget Director Jim Saco and many others for their support of the extra funding.

For its part, the Board of Retirement continues to fortify SamCERA's solid financial footing. Some of the more important measures include:

- 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 2014 from 7.5% to 7.25% 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 continuing the challenge of changing the fund's asset allocation to further diversify the investment portfolio and to take into account the evolving domestic and world economies.
- The adoption of PEPRA—the California Public Employees' Pension Reform Act of 2013. New retirement formulas implemented under this legislation will reduce future retirement costs.

With these steps, SamCERA remains one of the most aggressive funds in the nation in improving its funding. We look forward to the continued work of building a resilient fund which is well-positioned to face the changing economy of the future.

Scott Hood
SamCERA
Chief Executive Officer