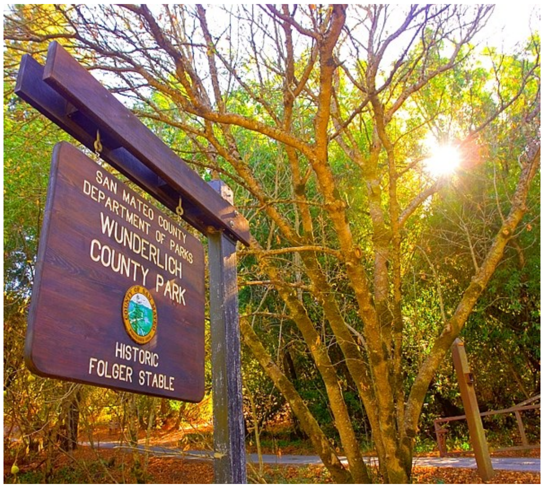
SamCERA

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2011
A Component Unit of the
County of San Mateo, Redwood City,
State of California

2011

On the cover (left to right):
Wunderlich County Park, Woodside, San Mateo County
Old County Courthouse, Redwood City, San Mateo County
Pigeon Point Lighthouse, Pescadero, San Mateo County
On page 7:
400 County Center, Redwood City, San Mateo County

San Mateo County
Employees' Retirement Association
A Component Unit of the County of San Mateo

Comprehensive Annual Financial Report

for the year ended June 30, 2011

C. David Bailey
Chief Executive Officer

Mabel Wong
Finance Officer

Gary Clifton
Chief Investment Officer

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

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

Administrator's Letter of Transmittal

SamCERA

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Phone: 650-599-1234 | Toll Free: 1-800-339-0761 | Fax: 650-591-1488 | samcera@samcera.org

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, 2011, and June 30, 2010.

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

SamCERA's management is also responsible for establishing and maintaining an internal control structure designed to ensure that *SamCERA*'s assets are protected from loss, theft, or misuse. *SamCERA* recognizes that even sound internal controls have inherent limitations. Our internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. 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.

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 objective is to satisfy all benefit commitments by following an actuarially prudent funding plan, by obtaining superior investment returns consistent with established risk controls and by minimizing employer contributions to the retirement fund.

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. *SamCERA* strives to provide the most recent financial and actuarial data in its annual report. Therefore, the actuarial valuation of June 30, 2011, is used in this CAFR.

Authority, Responsibilities & Duties

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

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

The Board of Retirement serves as fiduciary for all of *SamCERA's* members. The board is responsible for administering the provisions of the '37 Act that the Board of Supervisors has made applicable to San Mateo County. The Board of Retirement has adopted its *Mission & Goals, Statement of Strategic Services,* *Regulations of the Board of Retirement, SamCERA's Investment Policy, SamCERA's Sources, Uses and Budget Report, Conflict of Interest Code, Code of Fiduciary Conduct* and *Delegation of Authority, et al* to document the board's policies. In addition, the board has executed contracts for the professional services of an actuary, investment consultant, investment managers, a global custodian and a medical advisor to help the board fulfill its duties. The board's professional consultants are highlighted in the organizational chart on page 20.

SamCERA's Chief Executive Officer (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*. *SamCERA*'s staff of twenty full-time employees is responsible for assuring that the needs of the members, employers and board are met in accordance with the high standards set forth in *SamCERA's Mission & Goals'* statement. *SamCERA*'s staff is sworn to carry out its fiduciary duties in accordance with staff's *Code of Fiduciary Conduct* and the staff's own high *Performance Standards*.

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

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

Looking Backward and Forward

Trustees

Michal Settles was appointed by the Board of Supervisors in June 2011 to fill the vacant, unexpired term of the ninth member. Ms. Settles is a business professor at the City College of San Francisco. Her teaching experiences also include 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. Her term will expire June 30, 2013.

For many years **Sandie Arnott** sat on the Retirement Board as the constitutional alternate for long-time County Treasurer Lee Buffington. At the end of 2010, Mr. Buffington retired and Ms. Arnott was elected Treasurer/Tax Collector for San Mateo County. She plans to continue serving on the Retirement Board.

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

Other board trustees for the 2010-2011 fiscal year are: **Eric Tashman, David Spinello, Paul Hackleman, Michal Settles, Benedict Bowler, and Lauryn Agnew.** Alternate trustees are **Alma Salas**, Safety Alternate, and **John Murphy**, Retiree Alternate.

Each board term is three years. The *SamCERA* Board of Retirement consists of nine members. Four positions are appointed by the Board of Supervisors. Four members are elected from the membership. The County Treasurer is a member of the board by virtue of her office.

Elections

SamCERA and its county Elections Division are planning to allow Internet voting for the next trustee elections to be held in June 2012. All previous elections have been by paper ballot. The expectation is that an Internet election will increase turnout, which has been about 20% of eligible voters for recent elections. After substantial research, *SamCERA* believes that an Internet election will not only be secure, but more secure than a paper ballot election. It will also be green (less paper and less gas burned in delivery of ballots), and more convenient for voters (no more envelope sealing, walking to the mailbox, etc.).

Investments

For the fiscal year ending June 30, 2011, *SamCERA's* fund earned **23.92%**.

Working with its investment consulting firm, Strategic Investment Solutions, and Chief Investment Officer, **Gary Clifton**, the Retirement Board continued to build its alternatives portfolio. The overall target portfolio allocation is 53% equities, 22% fixed income, 20% alternatives and 5% real estate. The new alternatives portfolio will be constructed with 8% private equity, 6% risk parity, 3% hedge funds and 3% commodities. It will most likely take more than an additional twelve months to fully implement some of the alternative strategies. *SamCERA* expects the portfolio changes will reduce risk and increase returns. This has been the case over the short period in which some of the strategies have been implemented.

Staffing

During the 2010-2011 fiscal year, the Board of Retirement and the San Mateo County Board of Supervisors recognized the growing complexity of the retirement system and the need to maintain quality services for system members by approving three new positions for *SamCERA*. An **Executive Secretary** position was added to consolidate duties in service to the board, the Chief Executive Officer and other *SamCERA* managers. Most of the duties of the Executive Secretary were previously performed by the Investment Analyst. The new position will allow the Investment Analyst to focus on investment related duties, which have increased with the implementation of a 20% allocation to alternative investments. The system was pleased to select **Nilita Meitz** to fill this position. A **Communications Specialist** position was added to consolidate the many and varied communications responsibilities of the association. **Colin Bishop** was welcomed to this position in May 2011. Finally, a **Chief Legal Counsel** position was approved in June 2011. With this action, *SamCERA* became the 10th 1937 Act retirement association to establish in-house counsel. Previously, all legal services were provided through the County Counsel's Office. *SamCERA's* first Chief Legal Counsel is **Brenda Carlson**. Ms. Carlson was a Chief Deputy County Counsel for San Mateo County and in that role provided legal services to *SamCERA* for more than 15 years.

Actuarial Valuation

SamCERA's actuarial consulting firm, Milliman, Inc., conducted an Experience Study in concert with its June 30, 2011, Actuarial Valuation. Actuarial audits of both the Experience Study and the Valuation were performed by the Segal Co.

In the early stages of the valuation, the Board of Retirement discussed the assumed earnings rate of the system along with other economic assumptions. Among the information the board reviewed were earnings projections for all asset classes from a variety of investment consulting firms. The board kept its annual assumed earnings rate at 7.75%.

Key results of the June 30, 2011 valuation showed improvement in the Funded Ratio, and slight reduction in employer Normal Cost and Unfunded Accrued Actuarial Liability (UAAL). The Funded Ratio, a measurement of the funded status of the system, increased from 70.3% to 74.1%. The Employer Normal Cost rate decreased from 11.57% to 11.25%; the employer's required contribution rate to finance the UAAL over 15 years deceased slightly from 19.83% to 19.72%.

Plan Changes

San Mateo County concluded most of its negotiations with its bargaining units. The resulting agreements will reduce retirement formulas for new hires and shift some costs. For most new hires in the 2011-2012 fiscal year pension formulas will be at the levels they were at prior to adoption of enhanced formulas in the middle of the last decade. The majority of new hires will also pay 50% of the actuarially determined Cost of Living Adjustment (COLA), and in some cases there is additional cost sharing.

General employees hired on or after August 7, 2011, will choose between an existing non-contributory plan or a 2% @ 61.25 contributory plan. The current general member contributory plan is 2% @ 55.5. Newly hired deputy sheriffs after January 8, 2012 will go into a 3% @ 55 plan. Current members are in a 3% @ 50 plan. Current probation officers are entitled to the 3% @ 50 formula. New hires after July 10, 2011 will be allowed to choose between the 3% @ 55 plan with a cost share contribution of 3.5% of pay, or a 2% @ 50 plan with no cost share. All new hires in these bargaining units will also pay half the actuarial cost of COLAs.

Cost of Living Allowance

The Bay Area experienced low inflation during 2010 according to the U.S. Bureau of Labor Statistics, resulting in a 1.5% COLA for nearly all *SamCERA* retirees and beneficiaries. California law requires that *SamCERA's* COLAs be based on the annual change in the Consumer Price Index (CPI) for the San Francisco-Oakland-San Jose area as determined by the federal Bureau of Labor Statistics. To determine this change, *SamCERA* compares the average CPI of one year to the average CPI of the next. The law also requires the amount to be rounded to the nearest one-half of one percent.

For calendar year 2010, the Bay Area CPI, as validated by *SamCERA's* actuarial firm, Milliman, Inc., showed a 1.37% increase. Per law this number was rounded to 1.5%, and this COLA percent was applied for nearly all members.

New Administrative Expense Cap

The passage of Assembly Bill 609 changes the 1937 Act system administration expense limit from 23 basis points (bp) of total assets to 21 bp 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. *SamCERA* will use the new cap beginning with the FY 2011-2012 administrative budget.

Information Technology

In FY 2010-2011 *SamCERA* completed virtualizing 100% of its server environment, which brings many advantages in technology administration and eases the task of offsite disaster recovery. *SamCERA* also implemented paperless board technologies using the Apple iPad, which cuts the board packet expense by more than half, reduces the amount of staff time required to assemble packets, and has a positive environmental impact.

In FY 2011-2012 *SamCERA* will be working on several projects including website redesign, penetration testing for the web member portal, and the hiring of an oversight technology project manager. *SamCERA* will continue to improve its technology infrastructure this fiscal year, in part by upgrading technologies used for backups. *SamCERA* will also upgrade and enhance the financial software which is used in-house.

The oversight manager will help *SamCERA* with its major multi-year projects including a pension system request for proposal (RFP), electronic content management and imaging, data cleansing, and business process optimization projects.

Strategic Planning

During a retreat held February 9 and 10, 2011, the staff began working through the steps in a strategic planning process as recommended by the Government Finance Officers Association (GFOA). As a result of the retreat planning, during the 2011-2012 fiscal year *SamCERA* will pursue three major goals, all of which are derived from and consistent with *SamCERA's* mission statement:

1. *Constantly improve the effectiveness and*

efficiency of SamCERA's operations. This will include assuring that *SamCERA* is ready to serve new employees under new benefit formulas and contribution rates, addressing expanding needs for legal services, and taking the next steps to upgrade *SamCERA's* core technologies.

2. *Prudently manage the assets in order to appropriately fund the actuarial liabilities of the retirement association.* Major projects under this goal include building the alternatives portfolio, assessing the results of the 2011 actuarial valuation, experience study and actuarial audit, and considering the benefits of commission recapture.
3. *Provide caring, fair, accurate, timely and knowledgeable professional services to SamCERA's clients and the public. Constantly improve the effectiveness of SamCERA's services.* This goal will include the development of a Comprehensive Communications Plan to take into account increasing member needs for education and new technologies available to help members make informed decisions about their benefits.

Each goal has a number of specific projects designed to help achieve it. The projects incorporate ideas generated during all six staff retreats beginning in 2005. The 2011-2012 plan is *SamCERA's* most ambitious. The plan includes 51 projects for the staff to initiate and/or complete during the fiscal year. During the previous plan year, the staff completed 14 projects. Projects that were not completed but still relevant were moved to the 2011-2012 Action Plan. In the previous five years staff have completed a total of 106 projects, all in addition to their regular duties.

Certificate of Achievement and Acknowledgements

For the fourteenth consecutive year, the GFOA has awarded *SamCERA* its Certificate of Achievement for Excellence in Financial Reporting. This award was in recognition of *SamCERA's* CAFR for the year ended June 30, 2010. The certificate is reproduced on page 16.

SamCERA is also the recipient of the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for the eighth year running. The association received this honor for the PAFR for the fiscal year ended June 30, 2010.

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

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

The compilation of the CAFR 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 19, 2011

GFOA CERTIFICATE OF ACHIEVEMENT

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Mateo County

Employees' Retirement Association

California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2010

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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

PPCC Public Pension Standards Award

PPCC

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2011

Presented to

San Mateo County Employees' Retirement Association

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle

Alan H. Winkle
Program Administrator

Members of the Board of Retirement

Sandie Arnott

Ex Officio per the 1937 Act, First Member

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

Albert David

Elected by the General Members, Second Member

Albert David is an Information Services Dept. IMS-Health Relationship Manager for San Mateo County. He is also a retired Army Reserve Lieutenant Colonel. He joined the board in July 2008. He was re-elected to a full term in 2009 and serves as Board Chair. His term will expire June 30, 2012.

Natalie Kwan Lloyd

Elected by the General Members, Third Member

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

Eric Tashman

Appointed by the Board of Supervisors, Fourth Member

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

Benedict J. Bowler

Appointed by the Board of Supervisors, Fifth Member

Ben Bowler is the Assistant Treasurer of Finance and Planning at Con-Way, Inc. He was appointed in August 2008 to fill the unexpired term of the Fifth Member. He is chair of the Investment Committee. In June 2010 he was re-appointed to a full term, which will expire June 30, 2013.

Lauryn Agnew

Appointed by the Board of Supervisors, Sixth Member

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

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 began his term in July of that year. He is a member of the Audit Committee. His term expires on June 30, 2012.

Paul Hackleman

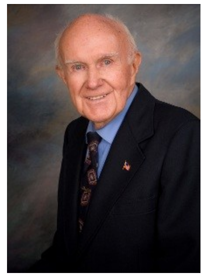
Elected by the Retired Members, Eighth Member

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

Michal Settles

Appointed by the Board of Supervisors, Ninth Member

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



John Murphy

Elected by the Retired Members, Retiree Alternate

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

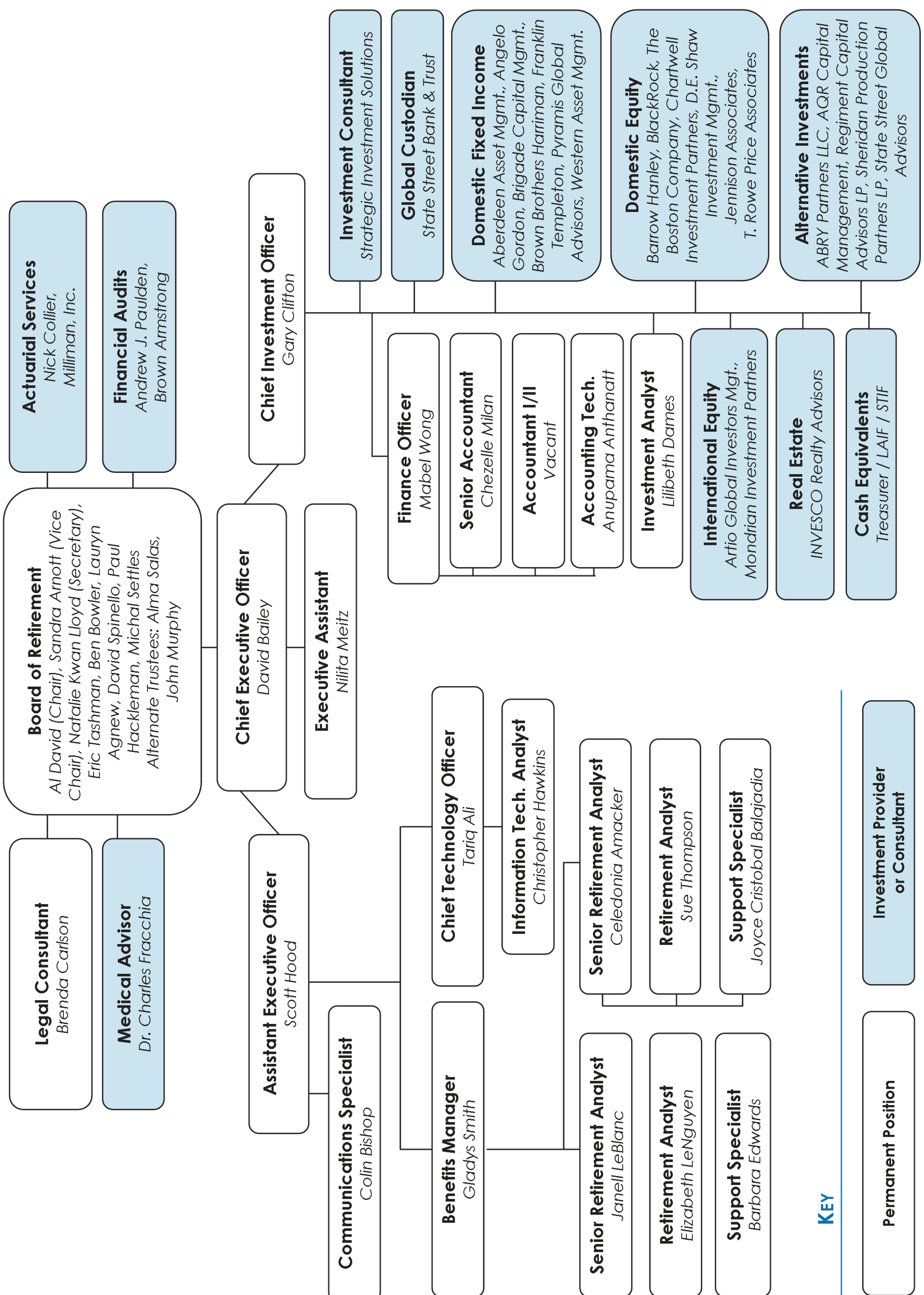
Alma Salas

Elected by the Safety Members, Safety Alternate

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

SamCERA 2010-2011 Organizational Chart

as of June 30, 2011



FINANCIAL SECTION

$2.3 billion

ASSET VALUE

SamCERA's total net assets have grown by 27.6% since the previous fiscal year.

INDEPENDENT AUDITOR'S REPORT

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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FAX 626.240.0922

Member of PKF North America
REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Retirement
San Mateo County Employees' Retirement Association

We have audited the accompanying Statement of Fiduciary Net Assets of the San Mateo County Employees' Retirement Association (SamCERA) as of June 30, 2011 and 2010, and the related Statement of Changes in Fiduciary Net Assets for the years then ended. These financial statements are the responsibility of SamCERA management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of SamCERA as of June 30, 2011 and 2010, and its changes in fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Other Supplementary Information as listed in the table of contents, and the Investment, Actuarial and Statistical Sections are presented for purposes of additional analysis and are not a required part of the basic financial statements of SamCERA. The Other Supplementary Information as listed in the table of contents has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not audit the information contained in the Investment, Actuarial and Statistical Sections and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2011, on our consideration of SamCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
October 19, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2010-2011

As fiduciaries of the San Mateo County Employees' Retirement Association, 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, 2011, and 2010. The information presented here, in conjunction with the Notes to the Financial Statements beginning on page 36, provides a clear picture of *SamCERA's* overall financial status and activities.

Financial Highlights

- $2.3 billion in net assets as of June 30, 2011, are held in trust for pension benefits. All of the assets are available to meet S*amCERA's* ongoing obligation to plan participants and their beneficiaries.
- *SamCERA's* total net assets held in trust for pension benefits increased by $501.9 million or 27.64% primarily as a result of positive investment returns.
- *SamCERA*'s funding objective is to meet long-term benefits obligations through contributions and investment income. As of June 30, 2011, the actuarial funded ratio for *SamCERA* increased from 70.3% to 74.1%. The increase is primarily from required contributions made to the fund. The current year's recognized asset gain is offset by recognition of asset loss deferred from prior years.
- Revenues (Additions to Fiduciary Net Assets) for the year were $637.7 million which includes employer contributions of $150.5 million, member contributions of $49.0 million, investment gains of $454.3 million (excluding investment expense of $16.6 million), security lending income of $530,311 and other additions of $73,305. The 81% increase over the prior year is mainly due to exceptional investment gains and increased employer contributions.
- Expenses (Deductions in Fiduciary Net Assets) increased from $128.3 million to $135.9 million over the prior year, or approximately 5.91%. The fiscal year 2011 expenses include $129.8 million in benefit payments, $2.5 million in member refunds, $3.5 million in administrative expenses and $9,529 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 $87.4 million of unrecognized investment losses as of June 30, 2011, a 76% decrease compared to $363.2 million in the prior year.

Overview of Financial Statements

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

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

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

The Comparative Statement of Fiduciary Net Assets is a snapshot of account balances at year-end. It discloses the assets available for future payments to retirees and their beneficiaries and any current liabilities that are owed as of June 30, 2011. The net assets, which are assets less liabilities, reflect the funds available for future use.

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

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

These two statements report *SamCERA's* net assets held in trust for pension benefits as one way to measure the plan's financial position. Over time, increases and decreases in *SamCERA's* net assets are one indicator of whether its financial position is improving or deteriorating. Other factors, such as market conditions, should be considered in measuring *SamCERA's* overall financial position. The increase in *SamCERA's* plan net assets for the year ended June 30, 2011, was 27.64%. This increase reflects in part the overall asset appreciation in the global capital markets. Although it is an indicator that *SamCERA's* financial position improved during the past fiscal year, it does not represent a trend. *SamCERA's* total gross fund return of 23.92% outperformed *SamCERA's* 7.75% actuarial assumed interest rate. The net deferred investment losses from the past five years decreased significantly from -$363.2 million in FY 2010 to -$87.4 million in FY 2011. The investment gains from FY 2011 have been added to prior year losses to be spread over the next five years.

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

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

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

Other Supplementary Information includes the schedules of administrative expenses, schedule of investment expenses, and schedule of payments to consultants. These schedules are presented immediately following the Required Supplementary Information on page 61.

Financial Analysis

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

SamCERA's Fiduciary Net Assets held in trust for pension benefits as of June 30, 2011, totaled $2.3 billion which represents an increase of $501.9 million or 27.64% over the period. The increase during the fiscal year is mostly due to market appreciation of investments, and higher employer contributions. All of the net assets are available to meet *SamCERA's* ongoing obligations to plan participants and their beneficiaries.

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

SamCERA's Net Assets (Condensed): Table 1

For the Years Ended June 30, 2011 and 2010

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

For the Years Ended June 30, 2010 and 2009

	2010	2009	Amount Increase/ Decrease	Percent Increase/ Decrease
Investments at Fair Value	$1,753,167,629	$1,565,558,673	$187,608,956	11.98%
Other Assets	$352,017,057	$264,382,782	$87,634,275	33.15%
Total Assets	$2,105,184,686	$1,829,941,455	$275,243,231	15.04%
Total Liabilities	$289,288,231	$238,541,897	$50,746,334	21.27%
Net Assets	**$1,815,896,455**	**$1,591,399,558**	**$224,496,897**	**14.11%**

amount of receivables from brokers for investment sold. The increase in other assets from FY 2009 to FY 2010 is also attributed to the security lending cash collateral and due from brokers for investment accounts. The total liabilities referred to in Table 1 are the following payables: investment management fees, due to broker for investments purchased, collateral payable for security lending and other miscellaneous payables. The increase in total liabilities for FY 2011 is due to an increase in the amount due to brokers for investments purchased as well as collateral payable for security lending. The increase in total liabilities from FY 2009 to FY 2010 represents an increase in collateral payable for security lending.

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

Capital Assets

As of June 30, 2011, the balance of *SamCERA's* capital assets (net of accumulated depreciation and amortization) remained at $0. The capital expenditures in the fiscal year ended June 30, 2011 were for various technology infrastructure. The purchases were generally less than $15,000 and expensed in the fiscal year.

Reserves

The statement of *SamCERA's* reserves as shown in Table 2 indicates how *SamCERA's* fiduciary net assets have accumulated in the current fiscal year. *SamCERA's* reserves are established from employer and member contributions and the accumulation of investment earnings, after deducting investment and administrative expenses (see Table 2). When a member retires, the fiduciary net assets attributable to that member are transferred to the Retiree Reserves from the Member Reserves and

SamCERA's Reserves: Table 2

	2011	2010	2009
VALUATION RESERVES			
Member Reserves	$485,125,877	$449,354,818	$412,146,516
Employer Advanced Reserves	$310,568,622	$264,507,768	$235,873,867
Retiree Reserves	$765,312,626	$693,630,776	$636,170,664
Cost of Living Reserves	$760,505,829	$682,673,956	$625,488,423
NON-VALUATION RESERVES			
Unallocated Earnings	$83,655,373	$88,908,428	$0
Market Stabilization Account	($87,392,498)	($363,179,291)	($318,279,912)
Net Reserves Held in Trust for Pension Benefits	**$2,317,775,829**	**$1,815,896,455**	**$1,591,399,558**

County Advanced Reserves. During the past several years the following significant Board actions have impacted the reserve accounts:

- The adoption of the GASB Pronouncement 25, which mandates that investments be stated at fair value, effective in fiscal year 1995-1996.
- The creation of the Market Stabilization Account as recommended by William M. Mercer, *SamCERA's* actuary at that time.
- The Board of Retirement adopted a policy in 2002 which states that the amount of investment earnings added or subtracted from the Market Stabilization Account cannot exceed 20% of the investment return. If it does, then the excess is allocated to the Valuation Reserves.

In December and June of each year, the actuarial assumed investment returns are credited to each of the Valuation Reserves. When actual investment returns differ from the actuarial assumed investment returns, the surplus or deficit is recorded in the Market Stabilization Account. The balance of the account is allocated to the Valuation Reserves over a five-year period. This process reduces the volatility of annual contribution rates for the employers. This year *SamCERA's* Market Stabilization Account decreased by $275.8 million to -$87.4 million of deferred loss to be recognized over the next five years.

Additions to Fiduciary Net Assets

The primary sources of funding for *SamCERA* member benefits are employer contributions, member contributions, and net investment income. Total additions to fiduciary net assets for the fiscal years ended June 30, 2011, and 2010 were $637.7 million and $352.8 million respectively. The increase in FY 2011 was primarily due to market appreciation of assets and a result of the asset allocation changes that the Board of Retirement implemented during the fiscal year. The new investment strategies included further diversification of the fixed income portfolio and the addition of alternative investments. Employer contributions also added to the increase in additions to Fiduciary Net Assets.

Employer contributions for FY 2011 were $150.5 million, an increase of $44 million over the prior year. The significant increase was primarily a result of a substantial increase in the County's required contribution rate to finance the UAAL over fifteen years. The required total contribution rate increased from 23.62% to 34.00% of payroll and was almost entirely due to the recognition of accumulated asset losses. Member contributions were $49 million. The $1.3 million decrease over FY 2010 is due to a combination of a decrease in labor force as well as a decrease in member optional service credit purchases.

ADDITIONS TO FIDUCIARY NET ASSETS (CONDENSED): TABLE 3

For the Years Ended June 30, 2011 and 2010

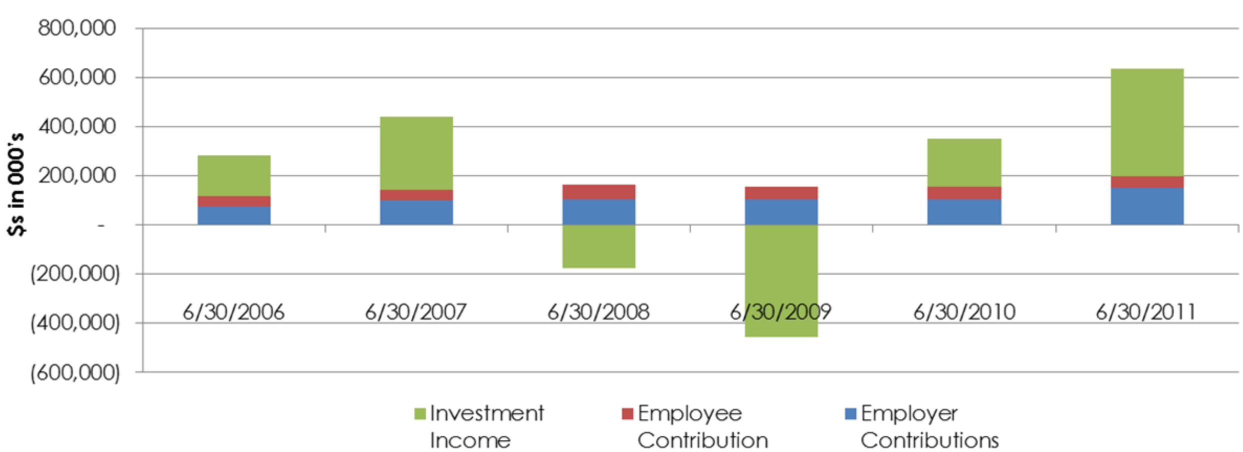
	2011	2010	Amount Increase/ Decrease	Percent Increase/ Decrease
Employer Contributions	$150,474,872	$106,265,329	$44,209,543	41.60%
Member Contributions	$49,013,027	$50,318,477	($1,305,450)	-2.59%
Investment Income/(Loss)	$454,254,572	$204,317,017	$249,937,555	122.33%
Less Investment Expense	($16,600,673)	($8,905,477)	($7,695,196)	86.41%
Security Lending Income	$530,311	$742,936	($212,625)	-28.62%
Other Additions	$73,305	$41,474	$31,831	76.75%
Total	**$637,745,414**	**$352,779,756**	**$284,965,658**	**80.78%**
Current Membership	10,582	10,556	26	0.25%

For the Years Ended June 30, 2010 and 2009

	2010	2009	Amount Increase/ Decrease	Percent Increase/ Decrease
Employer Contributions	$106,265,329	$106,123,055	$142,274	0.13%
Member Contributions	$50,318,477	$50,371,591	($53,114)	-0.11%
Investment Income/(Loss)	$204,317,017	($446,191,499)	$650,508,516	-145.79%
Less Investment Expense	($8,905,477)	($11,117,817)	$2,212,340	-19.90%
Security Lending Income	$742,936	$1,631,274	($888,338)	-54.46%
Other Additions	$41,474	($15,957)	$57,431	-359.91%
Total	**$352,779,756**	**($299,199,353)**	**$651,979,109**	**-217.91%**
Current Membership	10,556	10,708	-152	-1.42%

ADDITIONS TO FIDUCIARY NET ASSETS

FY 2006-2011



Deductions from Fiduciary Net Assets

SamCERA was created to provide lifetime retirement annuities, survivor benefits, and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments as designated by the plan, refund of contributions to terminated members, and the cost of administering the system. Deductions for the fiscal year ended June 30, 2011, totaled $135.9 million, an increase of 5.91% over the prior fiscal year (refer to Table 4).

Retirement annuities, survivor benefits, and permanent disability benefits were $129.8 million, an increase of $7.7 million or 6.3% over 2010. 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.

Member refunds were $2.5 million in 2011, a decrease of $0.3 million or -9.56% over 2010.

Administrative expense was $3.5 million for 2011. Administrative expense covers the basic costs of operating the retirement system. These include staffing, office expense, information technology systems, depreciation, and miscellaneous expenses. Approximately half of the administrative expense is for staffing (wages, fringe benefits, and temporary labor).

The system's administrative expenses increased by $174,559 or 5.18% in fiscal year 2011. The increase in expenditure is mostly attributable to the increase in staffing. *SamCERA* hired three new employees during the fiscal year.

Expenses for *SamCERA's* professional services are included with investment expense. For the fiscal year ended June 30, 2011 the expenditures for actuarial services, custodian services and investment consultant services increased by $254,004 compared to 2010. The higher custodial and investment consultant fees result from a change in asset allocation structure, including the addition of several new investment managers and alternative investments. 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 and risk parity) as well as market appreciation of assets resulted in higher investment management fees in 2011.

Deductions of $135.8 million are less than additions of $637.7 million, resulting in an increase of $501.9 million in fiduciary net assets for the fiscal year ended June 30, 2011.

DEDUCTIONS IN FIDUCIARY NET ASSETS: TABLE 4

For the Years Ended June 30, 2011 and 2010

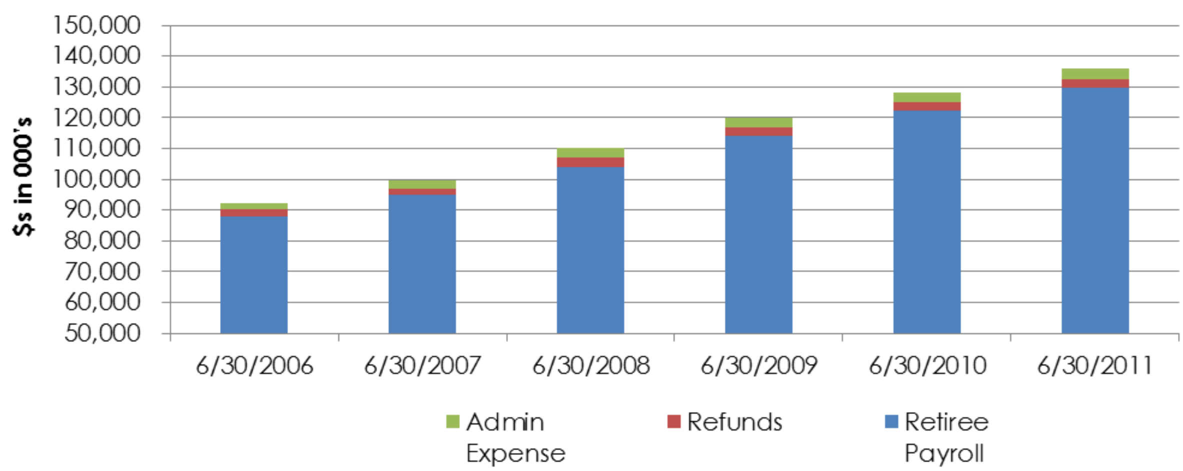
	2011	2010	Amount Increase/ Decrease	Percent Increase/ Decrease
Retiree Benefits	$129,834,540	$122,141,091	$7,693,449	6.30%
Member Refunds	$2,474,445	$2,736,025	($261,580)	-9.56%
Administrative Expenses	$3,547,526	$3,372,967	$174,559	5.18%
Other Expenses	$9,529	$32,776	($23,247)	-70.93%
Total	**$135,866,040**	**$128,282,859**	**$7,583,181**	**5.91%**
Benefit Recipients	4,147	4,002	145	3.62%

For the Years Ended June 30, 2010 and 2009

	2010	2009	Amount Increase/ Decrease	Percent Increase/ Decrease
Retiree Benefits	$122,141,091	$113,990,807	$8,150,284	7.15%
Member Refunds	$2,736,025	$2,794,916	($58,891)	-2.11%
Administrative Expenses	$3,372,967	$3,286,995	$85,972	2.62%
Other Expenses	$32,776	$67,139	($34,363)	-51.18%
Total	**$128,282,859**	**$120,139,857**	**$8,143,002**	**6.78%**
Benefit Recipients	4,002	3,935	67	1.70%

DEDUCTIONS TO FIDUCIARY NET ASSETS

FY 2006-2011



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

CHANGES IN FIDUCIARY NET ASSETS (CONDENSED): TABLE 5

For the Years Ended June 30, 2011 and 2010

	2011	2010	Amount Increase/ Decrease	Percent Increase/ Decrease
Beginning Plan Net Assets	$1,815,896,455	$1,591,399,558	$224,496,897	14.11%
Total Additions	$637,745,414	$352,779,756	$284,965,658	80.78%
Total Deductions	$135,866,040	$128,282,859	$7,583,181	5.91%
Ending Plan Net Assets	**$2,317,775,829**	**$1,815,896,455**	**$501,879,374**	**27.64%**

For the Years Ended June 30, 2010 and 2009

	2010	2009	Amount Increase/ Decrease	Percent Increase/ Decrease
Beginning Plan Net Assets	$1,591,399,558	$2,010,738,768	($419,339,210)	-20.85%
Total Additions	$352,779,756	($299,199,353)	$651,979,109	-217.91%
Total Deductions	$128,282,859	$120,139,857	$8,143,002	6.78%
Ending Plan Net Assets	$1,815,896,455	$1,591,399,558	$224,496,897	14.11%

SamCERA's Fiduciary Responsibilities

SamCERA's Board 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 19, 2011

Statement of Fiduciary Net Assets

For the Years Ended June 30, 2011 and 2010

	2011	2010
ASSETS		
Cash and deposits	$62,694,785	$74,232,656
Security lending cash collateral	199,438,881	181,645,752
Total cash	262,133,666	255,878,408
Receivables		
Contributions	10,470,382	7,464,274
Due from broker for investments sold	148,074,596	83,850,705
Investment income	5,800,573	4,654,787
Security lending income	67,915	47,427
Other receivables	113,735	113,787
Total Receivables	164,527,201	96,130,980
Prepaid Expense	7,669	7,669
Investments, at fair value		
Domestic & global fixed income securities	585,292,402	505,441,320
Domestic equities	932,277,233	797,467,287
International equities	398,753,172	341,048,550
Real estate	135,475,106	109,210,472
Private Equities	3,740,976	0
Risk parity	145,620,699	0
Hedge funds	69,986,272	0
Total Investments	2,271,145,860	1,753,167,629
Total Assets	2,697,814,396	2,105,184,686
LIABILITIES		
Payables		
Investment management fees	1,869,336	1,562,410
Due to broker for investments purchased	175,192,142	105,212,469
Collateral payable for securities lending	199,438,881	181,645,752
Other	3,538,208	867,600
Total Liabilities	380,038,567	289,288,231
Net Assets Held in Trust For Pension Benefits	**$2,317,775,829**	**$1,815,896,455**

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

Statement of Changes in Fiduciary Net Assets

For the Years Ended June 30, 2011 and 2010

	2011	2010
ADDITIONS		
Contributions (Note 3)		
Employer	$150,474,872	$106,265,329
Member	49,013,027	50,318,477
Total Contributions	199,487,899	156,583,806
Investment Income		
Interest and dividends	50,758,044	42,179,828
Net appreciation in fair value of investments	403,496,528	162,137,189
	454,254,572	204,317,017
Less investment expense	(16,600,673)	(8,905,477)
Net Investment Income	437,653,899	195,411,540
Security Lending Income		
Earnings	558,768	988,514
Less security lending expense	(28,457)	(245,578)
Net Security Lending Income	530,311	742,936
Other Additions	73,305	41,474
Total Additions	637,745,414	352,779,756
DEDUCTIONS		
Association benefits		
Service retirement allowance	114,422,667	106,607,286
Disability retirement allowance	14,552,927	14,585,746
Survivor, death and other benefits	858,946	948,059
Total Association Benefits	129,834,540	122,141,091
Refunds of members' contributions	2,474,445	2,736,025
Administrative expense (Note 3)	3,547,526	3,372,967
Other Expense	9,529	32,776
Total Deductions	135,866,040	128,282,859
Net Increase	501,879,374	224,496,897
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	1,815,896,455	1,591,399,558
End of Year	$2,317,775,829	$1,815,896,455

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

Notes to the Financial Statement

Note 1: Plan Description

The following description of the San Mateo County Employees' Retirement Association (the Association) is provided for general information purposes. The Association is governed by the California Constitution, the County Employees' Retirement Law of 1937 (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) and the San Mateo County Mosquito and Vector Control District. The Association is a Component Unit 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 four 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. New General Members may also elect membership under Tier 3, a non-contributory plan. New employees appointed to positions of active law enforcement become safety members under Tier 4. 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 become members under Tier 4 for probation officers. From January 1, 1993, general members in Tier 3 with five years of continuous service have the option to change to the plan they were eligible for at entry date. Former Tier 3 members are authorized to purchase service credit in their current plan. Earned Tier 3 service credit is forfeited in an amount equivalent to the purchase.

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

As of June 30, 2011, the Association membership is shown in the table on the following page.

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 and 4. The benefits of Tier 3 are reduced by a portion of Social Security benefits received by the

ASSOCIATION MEMBERSHIP PROFILE

For the Year Ended June 30, 2011

	Tier 1	Tier 2	Tier 3	Tier 4	Total
RETIREES AND BENEFICIARIES CURRENTLY RECEIVING BENEFITS					
General	1,979	1,389	102	153	3,623
Safety	285	110	0	10	405
Probation	71	42	0	6	119
Subtotal	2,335	1,541	102	169	4,147
TERMINATED MEMBERS ENTITLED TO BUT NOT RECEIVING BENEFITS (DEFERRED)					
General	31	458	111	481	1,081
Safety	1	32	0	31	64
Probation	0	20	0	25	45
Subtotal	32	510	111	537	1190
Total	2,367	2,051	213	706	5,337
CURRENT MEMBERS					
Vested					
General	63	1,102	77	1,957	3,199
Safety	6	132	0	195	333
Probation	2	75	0	181	258
Non-Vested					
General	0	0	74	1,221	1,295
Safety	0	0	0	113	113
Probation	0	0	0	47	47
Subtotal	71	1,309	151	3,714	5,245
Total	**2,438**	**3,360**	**364**	**4,420**	**10,582**

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

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

Tier 1	Age 50
Tier 2	Age 50
Tier 3	Age 55
Tier 4	Age 50

General members in Tiers 1, 2 and 4 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 principals and reporting guidelines as set forth by the 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 component unit of the county. Maintaining appropriate controls and preparing the Association's financial statements are the responsibility of *SamCERA's* management.

Cash and Investments

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

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

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

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

Security Lending Activity

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

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

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

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

Income Taxes

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

Receivables

Receivables consist primarily of interest, dividends, investments in transition, i.e., traded but not yet settled, and contributions owed by the employing entities as of June 30, 2011, and 2010.

Property, Plant and Equipment

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

Estimates

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

Foreign Currency Transactions

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

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

Reclassification

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

Summarized Prior Year Information

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

Accordingly, such information should be read in conjunction with *SamCERA* financial statements as of and for the year ended June 30, 2010, from which the summarized information was derived.

Note 3: Contributions, Administrative Expenses and Reserves

Contributions

The 1937 Act establishes the basic obligations for employers and members to make contributions to the pension trust fund. The employer and member contribution rates are based on recommendations made by an independent actuary and adopted by the Board of Retirement. The employer and member rates are based on membership type (General, Safety, Safety/Probation) and tier (Tier 1, Tier 2, Tier 3 and Tier 4). 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 and 4 active members are required by statute to contribute toward their retirement benefits. Tier 3 is a non-contributory plan. The member contribution rates are formulated on the basis of age at the date of entry and the actuarially calculated benefits. Member contributions along with credited interest are refundable upon termination of membership.

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

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

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

NORMAL COST AND UAAL RATES

	2011	2010	Change
Normal Cost	11.25%	11.57%	-0.32%
UAAL Amortization	22.75%	22.43%	0.32%
Total Contribution Rate	34.00%	34.00%	0.00%

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. As of October 31, 1999, the county pays 70% of confidential employees' contributions. 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.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution (unit $000)	Percentage Contributed
2011	$150,475	100%
2010	$106,265	100%
2009	$106,123	100%

For the fiscal year ended June 30, 2011, the county paid its employer contributions owed to *SamCERA* in two semi-annual prepayments in July 2010 and January 2011. 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 2010-2011 fiscal year, the prepayment account had an excess balance of $2,822,540 which included a credit to the county of $85,270 for the replacement benefits program. The excess in the prepayment account will be credited towards the 2011-2012 fiscal year employer contribution.

The county will continue with the semi-annual prepayment in FY 2011-2012.

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-three hundredths of one percent (0.23%) of total system assets as set forth under Government Code Section 31580.3. *SamCERA's* policy is to assess compliance with the limitation based on an asset valuation, which is the average of the Net Assets Held in Trust for Pension Benefits. The average is a simple calculation of the sum of the assets at the beginning of the year and the assets at the end of the year divided by two. *SamCERA's* administrative expenses totaled 0.15% for the fiscal year ended June 30, 2011.

With the fiscal year ended June 30, 2009, *SamCERA* implemented two changes in the methodology for calculating administrative expenses. The first is to reclass all in-house expenditures related to investments. The Board of Retirement wished to have separate visibility for these expenditures and created an Asset Management Budget, which appears below. The second change was to invoke Government Code Section 31580.3 versus 31580.2 when determining compliance with administrative expenditure limitations. That section increases the expenditure limits from eighteen hundredths of one percent (0.18%) of the total assets to twenty-three hundredths of one percent (0.23%) of total system assets.

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

ADMINISTRATIVE BUDGET

	2011	2010
Salaries and member benefits	$2,353,184	$2,147,698
Services and supplies	1,194,342	1,120,862
Capital assets	0	104,406
Administrative Expenditures	$3,547,526	$3,372,967

BUDGET TO ACTUAL ANALYSIS OF ADMINSTRATIVE EXPENSE

As of June 30, 2011 and 2010 (Amounts in Thousands)

	2011	2010
Projected Net Asset Base at Fair Value	$2,275,000	$1,716,000
Maximum Limit for Administrative Expense (23 bp)	$5,233	$3,947
Operating Budget for Administrative Expense	$4,983	$3,946
Actual Administrative Expense	$3,548	$3,373
Under-expended Operating Budget	$1,435	$573

Asset Management Expenses

The *SamCERA* Board of Retirement annually adopts the operating budget for the administration of *SamCERA*. The overall budget has three subdivisions. The first is the Administrative Budget as detailed above. The second is the Asset Management Budget, which is discussed here. The third is the Professional Services Budget, which appears in the Investment Section on page 68. The Asset Management and Professional Services Budgets are considered investment-related expenses.

SamCERA's Asset Management Budget contains in-house expenses that directly relate to the investment and management of *SamCERA's* investment portfolio. Those expenses include staff salary and benefits, as well as administrative expenses directly tied to investment.

ASSET MANAGEMENT BUDGET

	2011	2010
Salaries and member benefits	$486,626	$397,465
Services and supplies	207,681	111,067
Capital assets	0	16,063
Asset Mgmt. Expenditures	$694,307	$524,595

New Administrative Expense Cap

The passage of Assembly Bill 609 in October 2010 changes 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. *SamCERA* will use the new cap beginning with the administrative expense budget for fiscal year 2011-2012. 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 will be a separate information technology budget starting in fiscal year 2011-2012.

Reserves and Accounts

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

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

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

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

Cost of Living Adjustment Reserve: This reserve represents the total accumulated employer contributions for future cost of living adjustments under provisions of the 1937 Act. Additions include contributions from employers and credited interest. Deductions include payments to retired members, beneficiaries and survivors. Effective April 1 of each year, for those members retired on or prior to April 1, the board adjusts the retirement allowances by a percentage of the total allowance to approximate the nearest one-half of one percent of the percentage of the annual increase in the cost of living for the preceding calendar year. The cost of living increase is based on that shown by the Bureau of Labor Statistics Consumer Price Index (CPI) for All Urban Consumers in the San Francisco, Oakland, and San Jose Bay Area. The increase is capped at 5.0% for Tier 1 (Probation/Safety Tier 1 is 3.0%), 3.0% for Tier 2 and 2.0% for Tier 4. 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 Governmental Accounting Standard No. 25 and authorized the creation of a Market Stabilization Account to reconcile differences between the market value of assets and the actuarial value of assets.

Effective retroactive to June 30, 2002, the board amended its Market Stabilization Account policy to limit the difference between the market value of assets and the actuarial value of assets to not more than ±20% of the market value. The board's objective in adopting this policy is to minimize the impact of short-term volatility in the market value of the retirement fund on employer and member contribution rates by smoothing market returns over a five-year period. All of the board's prior decisions regarding the Market Stabilization Account were assembled into a single policy decision as Resolution 03-04-01, which was adopted by the board on August 26, 2003.

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

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

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

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

Semi-Annual Interest Crediting: *SamCERA* updates reserve balances on a semi-annual basis as of December 31 and June 30 each year. At these times, *SamCERA* carries out a multi-step process to calculate new reserve balances as specified in Article 5 of the 1937 Act. The amount of "net earnings" to be credited for the semi-annual period is calculated based on the actuarial smoothing process described above. To the extent that net earnings are available, interest is credited to all reserves, except the Member Deposit Reserves, at the actuarial assumed interest rate of 3.875% semi-annually for the fiscal year ended June 30, 2011, to specific components of reserves in a prescribed sequence. Pursuant to the Board of Retirement's interest crediting policy Member Deposit Reserves are credited at the lesser of the actuarial smoothed earnings rate or the actuarial assumed interest rate, but the rate credited cannot be less than zero.

Allocation of Earnings to Reserves: For the year ended June 30, 2011, *SamCERA's* distributed allocation of earnings to reserves of $164.2 million and retained $83.7 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 5.41% and 1.62% at December 31, 2010, and June 30, 2011, respectively.

RESERVES REQURED FOR REPORTING PURPOSES BY THE 1937 ACT

	2011	2010
Member Deposit Reserve	485,125,877	$449,354,818
Employers' Advance Reserve – Current Service	310,568,622	264,507,768
Retiree Member Reserve	765,312,626	693,630,776
Cost-of-Living Adjustment Reserve	760,505,829	682,673,956
Total Allocated Reserves	2,321,512,954	2,090,167,318
Unallocated Earnings / Losses Account	83,655,373	88,908,428
Market Stabilization Account	(87,392,498)	(363,179,291)
Net Assets Held in Trust for Pension Benefits	**$2,317,775,829**	**$1,815,896,455**

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

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

GASB 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, 2011, balance in the Market Stabilization Account of -$87.4 million reflects the balance of the current year's and previous four years' net deferred returns.

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

Note 4: Deposit and Investment Risk Disclosure

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

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

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

Deposits

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

Investments

The Association's investments are managed by independent investment management firms subject to the guidelines and controls specified in the investment plan and contracts executed with the board. The board utilizes third party institutions as custodians 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. The new allocation allows for 20% of the portfolio to be invested in 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 an allocation to cash. As of June 30, 2011, actual asset allocation was 58.8% equities, 25.9% fixed income, 9.6% alternative investments, 5.5% real estate and 0.2% in cash.

For financial reporting purposes, the Association's investments are categorized to give an indication of the risk assumed by the Association as of June 30, 2011. 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 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. As *SamCERA* records all of its investments at fair market value and has no hedging derivatives, there was no financial statement effect from implementing the new standards. Further disclosure on the derivative positions held at fiscal year-end are contained in the table below. In comparison to *SamCERA's* total investments at fair value, the fair value of *SamCERA's* derivative positions as of June 30, 2011 is not material.

SamCERA's investments contain various derivative positions as of and for the year ended June 30, 2011, primarily in swaps and foreign currency forward positions. As of June 30, 2011, *SamCERA* held derivatives with a notional amount of $129,114,883 and a fair value of -$829,926. Changes in fair value during fiscal year 2011 are reported in the statement of changes in fiduciary net assets as a component of investment income. No derivatives were held that would be classified as hedging derivatives – all are classified as investment derivatives.

The fair values of the derivatives are determined using a pricing service and validated by *SamCERA's* custodians. Management of *SamCERA* accepts these valuations. For foreign currency forwards, published foreign exchange rates are the primary source of information.

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 and warrants are determined using the custodian pricing vehicles. The fair value of To Be Announced (TBA) transactions are also determined by the custodian pricing vehicles.

As of June 30, 2011, *SamCERA's* derivatives were not subject to custodial credit risk. However, they are subject to other risks.

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

SamCERA has investments in seven fixed income portfolios containing individual debt securities as well as investments in external investment pools containing debt securities. *SamCERA's Investment Policy* does not have a formal policy that limits investment duration as a means of managing its exposure to fair value losses arising from increasing interest rates. The Association's active bond portfolios are managed duration neutral to their respective benchmark. Its enhanced index portfolio does not rely on active duration management, but instead maintains duration within a very narrow band around that of the benchmark (for the Barclays Capital Aggregate Bond Index, approximately +/- 0.20 year of the index). To facilitate this, Pyramis Global Advisors models the option-adjusted durations of the securities that comprise the index on a daily basis, and uses the output to align the portfolio duration to that of the benchmark.

Credit Risk – Derivatives: *SamCERA* is exposed to credit risk on investment derivatives that are traded over the counter and are reported in asset positions. Derivatives exposed to credit risk include

INVESTMENT DERIVATIVES

For the Year Ended June 30, 2011

	Notional Value	Fair Value
Credit Default Swaps Bought	$1,680,904	$165,986
Credit Default Swaps Written	$778,000	$(41,608)
FX Forwards	$114,382,176	$(785,907)
Pay Fixed Interest Rate Swaps	$4,840,000	$(373,182)
Receive Fixed Interest Rate Swaps	$7,000,000	$184,263
Rights	$7,800	$18,798
Total Return Swaps Bond	$425,674	$963
Warrants	$329	$761
Grand Total	**$129,114,883**	**$(829,926)**

credit default and interest rate swaps, currency forward contracts, rights, warrants and TBA transactions. To minimize credit risk exposure, *SamCERA's* investment managers continuously monitor credit rating of counter parties. 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. As of June 30, 2011, *SamCERA* has no exposure to loss in case of default of a counter party, In addition, *SamCERA* has no collateral reducing exposure or liabilities subject to netting arrangements.

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, 2011, cash held with a financial institution in a pooled money market fund totaled $194.2 million. As of June 30, 2010, cash held with a financial institution totaled $2.5 million. Cash held in the San Mateo County Treasurer's investment pool was $2.5 million and $11.6 million as of June 30, 2011 and 2010, respectively. These deposits are uninsured and uncollateralized, and subject to custodial credit risk.

Custodial Credit Risk – Investments: The custodial credit risk for investments is the risk that, in the event of the failure of a counterparty to a transaction, *SamCERA* will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The individual investment guidelines for each investment manager require that managed investments be held in the name of *SamCERA*. The master custodian may rely on sub-custodians. The custodial requirement does not apply to real estate investments and investments in pools. As of June 30, 2011, *SamCERA* had no investments that were exposed to custodial risk. *SamCERA* does not have a general policy addressing custodial credit risk, but it is the practice of the Association that all investments are insured, registered, or held by the plan or its agent in the Association's name. Deposits are to be insured, registered or collateralized with securities held at fiscal agents in *SamCERA's* name.

Custodial Credit Risk – Derivatives: As of June 30, 2011, *SamCERA's* investments did not include collateral associated with derivatives activity.

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

5% of a company's outstanding equity. When measuring this aspect of compliance the board will consider its ownership in relation to the "free float" of a particular security. As of June 30, 2011, *SamCERA* did not hold any investments in any one issuer that would represent 5% or more of total investments.

As of June 30, 2011, the Association had the investments categorized for interest rate and credit risk shown in the table on the following page.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *SamCERA's Investment Policy* seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within the asset class. To control credit risk, credit quality guidelines have been established. *SamCERA's Investment Policy* has three requirements addressing fixed income quality. First, the minimum average rating of the total portfolio of fixed income assets under a manager's supervision must be "A" or better (Standard & Poor's or Moody equivalent), dollar weighted at market value. Second, the minimum quality rating eligible for the portfolio must be "B" or better (as rated by Standard & Poor's or Moody's equivalent). The third requirement is that no more than 10% of *SamCERA's* fixed income assets under a manager's supervision shall be invested in securities with a rating below "Baa3," "BBB-," "P-1" or "A-1." The Association's core plus fixed income manager was given an exemption and may hold more than 10% in assets rated below BBB.

On June 30, 2011, the quality breakdown of the Association's investments in bonds were rated as indicated in the table on the following page.

ACTIVE FIXED INCOME PORTFOLIO CHARACTERISTICS

Aberdeen Asset Management, Pyramis Global Advisors & Western Asset Management Bond Portfolios Combined

Investment Type	Fair Value	Coupon	Weighted Average Maturity (Years)	Effective Duration (Years)
Agency	$7,648,762	4.67%	12.1	5.94
Asset Backed Securities	18,117,006	2.02%	5.68	3.78
Commercial Mortgage-Backed Securities	22,499,100	5.17%	3.86	2.37
Collateralized Mortgage Obligations	30,751,539	2.01%	4.94	3.93
Commingled Funds	8,802,424			
Corporate Bonds	165,333,628	6.64%	8.01	4.49
Foreign	73,658,553	4.27%	3.72	2.61
Mortgage Pass Through	92,752,856	4.91%	5.81	3.85
Taxable Municipal Bonds	5,574,833	4.79%	17.88	5.75
United States Treasuries	100,169,743	2.41%	11.25	4.95
Yankee	21,118,624	3.99%	19.09	17.93
Total / Average	**$546,427,068**	**4.62%**	**7.84**	**5.4**

ACTIVE FIXED INCOME PORTFOLIO CHARACTERISTICS

Angelo Gordon PPIP Portfolio

Investment Type	Fair Value	Coupon	Weighted Average Maturity (Years)	Effective Duration (Years)
Angelo Gordon	$38,865,334	4.88%	28.57	4.26

QUALITY BREAKDOWN FOR SAMCERA'S INVESTMENTS IN BONDS

For the Year Ended June 30, 2011

Credit Risk	Active Management	Commingled Management
AAA	36.00%	2.40%
AA	1.40%	1.60%
A	7.60%	5.10%
BBB	47.60%	20.70%
Less than BBB	5.70%	70.20%
NR	1.70%	N/A
	100.00%	100.00%

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

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

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

There was no dollar impact from foreign exchange contracts on foreign exchange currency risk as of June 30, 2011.

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, 2011, and 2010, the actual effective duration was 31 days and 25 days, respectively.

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

FOREIGN CURRENCY RISK

For the Year Ended June 30, 2011

Local Currency	Common Stock	Corporate Bonds	Foreign Currency	Government Issues	Preferred Stock	Depository Receipts	Total
AUSTRALIAN DOLLAR	$16,300,542		($1)	$1,404,876			$17,705,417
BRAZILIAN REAL	1,818,833		152,013	3,286,285			5,257,131
CANADIAN DOLLAR	15,655,620		984,896				16,640,516
CZECH KORUNA	1,448,568						1,448,568
DANISH KRONE	2,836,791		1,990,539				4,827,330
EGYPTIAN POUND				4,874,089			4,874,089
EURO CURRENCY	106,134,527	136,753	2,240,121	2,291,736	2,735,110	573,359	114,111,606
GHANA CEDI			1,978	2,088,467			2,090,445
HONG KONG DOLLAR	20,949,628		2,632,454				23,582,082
HUNGARIAN FORINT				5,768,664			5,768,664
INDONESIAN RUPIAH				6,017,667			6,017,667
ISRAELI SHEKEL				5,037,179			5,037,179
JAPANESE YEN	49,226,984		573,211				49,800,195
MALAYSIAN RINGGIT				10,015,254			10,015,254
MEXICAN PESO	746,680			5,206,410			5,953,090
NEW BULGARIA LEV	466,546						466,546
NEW ROMANIAN LEU			3				3
NEW TAIWAN DOLLAR	4,642,759		13				4,642,772
NEW ZEALAND DOLLAR	454,139						454,139
NORWEGIAN KRONE	569,621		65,998				635,619
PHILIPPINE PESO		492,411	6,523	4,616,249			5,115,183
POLISH ZLOTY	55,496			4,911,335			4,966,831
POUND STERLING	64,392,441		49,827	1,406,474			65,848,742
SINGAPORE DOLLAR	5,510,374						5,510,374
SOUTH AFRICAN RAND	1,055,242		122,196				1,177,438
SOUTH KOREAN WON	3,979,522		224,089	15,996,703			20,200,314
SWEDISH KRONA	3,271,534		16,702				3,288,236
SWISS FRANC	16,022,632		101,799				16,124,431
UKRAINE HRYVNA		2,525,291					2,525,291
TOTAL	$315,538,479	$3,154,455	$9,162,361	$72,921,388	$2,735,110	$573,359	$404,085,152

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, 2011, on behalf of *SamCERA*, the securities lending agent lent *SamCERA* securities to borrowers under the securities lending agreement and *SamCERA* received cash, securities issued or guaranteed by the United States government, and sovereign debt or irrevocable bank letters-of credit as collateral.

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

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

- Loaned securities denominated in U.S. dollars or sovereign debt issued by foreign governments, with a margin of at least 102% of the market value of the loaned securities; and
- Loaned securities not denominated in U.S. dollars, or whose primary trading market was not located in the United States, with a margin of at least 105% of the market value of the loaned securities.

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

SamCERA did not impose any restrictions for the year ended June 30, 2011, 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, 2011, 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, 2011, this investment pool had an average duration of 71 days, and an average weighted maturity of 31 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, 2011, *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, 2011, *SamCERA* had securities on loan with a total value of $195.3 million and the cash and other collateral held against the loaned securities of $199.4 million.

Note 5: Risk Management

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

SamCERA is covered by the County of San Mateo's self-insurance program for general liability and workers' compensation coverage. For general liability coverage, the county maintains a self insurance retention of $600 per occurrence for claims occurring from May 27, 2011 through May 27, 2012. 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 $600 per incident, but limited to a maximum of $55,000.
- Worker's compensation in excess of $1,000 per incident, but limited to a statutory amount.
- Auto liability in excess of $600 per incident, but limited to a maximum of $55,000.
- Malpractice in excess of $10 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 has not been a significant reduction in coverage in fiscal year 2009-2010.

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, 2010, and June 30, 2011, and determined the funding status (the ratio of system assets to system liabilities) to be 70.3% and 74.1%, respectively. The June 30, 2011, funding status was established based on entry age normal actuarial cost methods, an assumed 7.75% investment return, an assumed 4.0% annual total payroll growth rate, an inflation rate of 3.5% 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, 2011. The valuation discloses the actuarial value of asset at $2.405 billion with an actuarial accrued liability of $3.247 billion for a funded ratio of 74.1%. The unfunded actuarial accrued liability is $841.6 million, which is 194.6 % percent of the $432.5 million covered payroll. The employer contribution rate, which has an effective date of June 30, 2012, was set equal to 19.72% of payroll for the amortization of the UAAL over the new 15 years, plus the normal cost rate of 11.25% for a total contribution rate of 30.97% of payroll.

However, the Board of Retirement chose to retain the higher contribution rate of 34.00% of payroll for another year. A schedule of *SamCERA's* funding progress may be found in the required supplementary information on page 61. The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

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

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. The annual adjustments are based on the change in the Consumer Price Index for the Bay Area.

Note 7: Capital Commitments

Pursuant to the terms of the Limited Partnership Agreement of AG GECC Public -Private Investment Fund, L.P., *SamCERA* made a capital commitment of $35 million. As of June 30, 2011, in accordance with the provisions of the Partnership Agreement, the fund has called 90% of all partner's commitment. For *SamCERA* that represents a total calling of $31.5 million with a remaining commitment of $3.5 million.

As of June 30, 2011, *SamCERA* has also made capital commitments to four separate private equity funds. Pursuant to the terms of each of the funds' Limited Partnership Agreement, *SamCERA* made a total capital commitment of $70 million. As of June 30,

LATEST ACTUARIAL VALUATION OF PLAN ASSETS AND LIABILITIES

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	Original unfunded amount (UAAL) as of June 30, 2008, is amortized over 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new 15-year periods (including the change in UAAL as of June 30, 2011). 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	7.75%
Price Inflation (CPI)	3.50%
Payroll Increases	4.00%
Average Projected Salary Increases	5.20%
Attributed to Inflation	4.00%
Attributed to Adjustments for Merit and Longevity	1.20%

2011, in accordance with the provisions of the partnership agreements, the funds have called 6.7% of all partners' commitments, representing a total calling of $4.7 million. *SamCERA* intends to make additional capital commitments to private equity within the next year.

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, 2011, and through October 19, 2011, the date through which management evaluated subsequent events and on which the financial statements were issued, *SamCERA* did not identify any subsequent financial events that required disclosure.

Employer Plan Changes

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

General employees hired on or after August 7, 2011, will choose between an existing non-contributory plan or a 2% @ 61.25 contributory plan. Newly hired Safety members subsequent to January 8, 2012 will be enrolled in a 3% @ 55 or a 2% at 50 contributory plan. New Probation members hired after July 10, 2011, will have the option to choose between the 3% @ 55 formula with an additional cost-share contribution of 3.5% of pay, or a 2% @ 50 formula with no cost-share provision. All new hires in these bargaining units will also pay half the actuarial cost of COLAs.

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)
6/30/05	$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%

Schedule of Employer Contributions

(in thousands)

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2005	$76,931	100%
2006	$76,090	100%
2007	$100,550	100%
2008	$105,340	100%
2009	$106,123	100%
2010	$106,265	100%
2011	$150,475	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 Tier 4. 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, 2011, the date of the last actuarial valuation, the San Mateo County Employees' Retirement Association had a 74.1% funded status. Overall, the financial condition of *SamCERA* continues to be sound in accordance with the actuarial principles of entry age normal cost funding.

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

Schedule of Employers' Contributions

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

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

LATEST ACTUARIAL VALUATION OF PLAN ASSETS AND LIABILITIES

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	Original unfunded amount (UAAL) as of June 30, 2008, is amortized over 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new 15-year periods (including the change in UAAL as of June 30, 2011). 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	7.75%
Price Inflation (CPI)	3.50%
Payroll Increases	4.00%
Average Projected Salary Increases	5.20%
Attributed to Inflation	4.00%
Attributed to Adjustments for Merit and Longevity	1.20%

Schedule of Administrative Expenses

For the Years Ended June 30, 2011 and 2010

	2011	2010
Salaries and Member Benefits	$2,353,184	$2,147,698
Services and Supplies	1,194,342	1,120,862
Capital Assets	0	104,407
Total Administrative Expense	**$3,547,526**	**$3,372,967**

Schedule of Investment Expenses

For the years ended June 30, 2011 and 2010

	2011	2010
INVESTMENT MANAGER		
Aberdeen Asset Management	$343,853	390,993
Artio Global Management	1,027,524	942,496
AXA Rosenberg Investment Management	0	157,794
Barclays Global Investors	0	0
Barrow, Hanley, Mewhinney, & Strauss	707,566	574,230
BlackRock Capital Management	834,773	726,741
The Boston Company	401,617	315,278
Brandes Investment Partners	0	11,236
Chartwell Investment Partners	402,670	300,510
D.E. Shaw Investment Management	526,081	421,132
Invesco Realty Advisors	568,140	631,782
Jennison Associates	865,082	685,083
Mondrian Investment Partners	446,594	510,044
Pyramis Global Advisors	230,119	244,677
Angelo Gordon PPIP	350,000	0
Brown Brothers Harriman	65,146	0
Brigade	323,122	0
Franklin Templeton	210,795	0
State Street Global Advisors	0	0
T. Rowe Price Associates	365,744	306,556
Western Asset Management	365,642	391,708
Sheridan Production Partners	225,000	0
ABRY Advanced Sec II	101,111	0
AQR Global	191,921	0
AQR Delta Fund	58,333	0
GLOBAL CUSTODIAN		
State Street Bank	236,793	140,569
Investment & Actuarial Consultants	435,334	277,553
Sub-total Professional Expense	9,282,960	7,028,382
Asset Management Expense	694,307	524,595
Other Investment Related Expense	3,758,980	570,789
Interest Paid on Prepaid Contribution	2,864,426	781,711
Total Investment Expense	**$16,600,673**	**$8,905,477**

Schedule of Asset Management Expenses

For the years ended June 30, 2011 and 2010

	2011	2010
Salaries and Member Benefits	$486,626	$397,465
Services and Supplies	207,681	111,067
Capital Assets	0	16,063
Total Asset Management Expense	**$694,307**	**$524,595**

Schedule of Payments to Consultants

For the years ended June 30, 2011 and 2010

	2011	2010
Investment Consultant Expense		
Strategic Investment Solutions	$366,667	$200,820
Actuarial Consultant Expense		
Milliman, Inc., and Segal	68,667	76,733
Total Consultant Expense	**$435,334**	**$277,553**

NOTES TO THE OTHER SUPPLEMENTARY INFORMATION

Administrative Services Budget

Government Code §31580.2 states in part, *"... the respective board or boards shall annually adopt a budget covering the entire expense of administration of the retirement system which expense shall be charged against the earnings of the retirement fund. The expense incurred in any year may not exceed eighteen-hundredths of 1 percent of the total assets of the retirement system."*

Government Code §31580.3 increases the budget to 23 basis points when expenses include computer technology-related expenses. SamCERA's budget for 2011 and 2010 were approved by the Board of Retirement based on §31580.3.

SamCERA has always been within the government code restriction on administrative expenditures.

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.

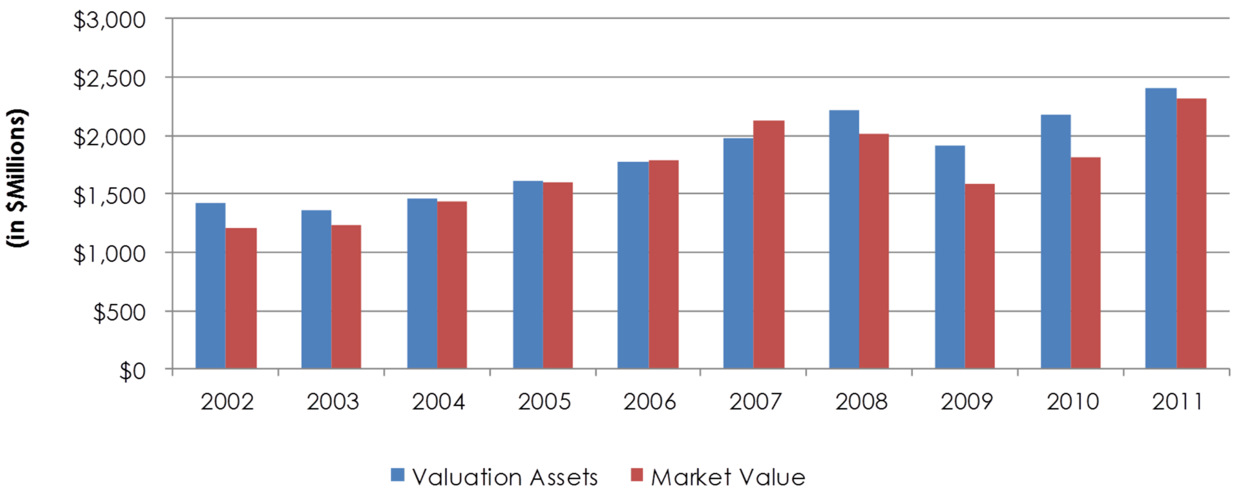
(c) When an investment is made in deeds of trust and mortgages, the fees stipulated in any agreement entered into with a bank or mortgage service company to service such deeds of trust and mortgages.

(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."*

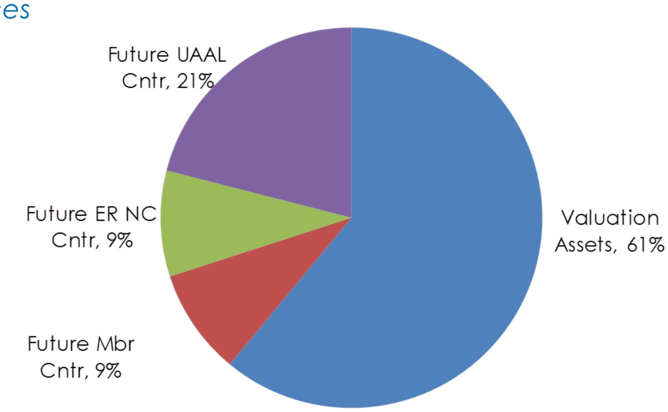
SamCERA's professional services budget is driven by contractual agreements with its actuary, custodian, investment consultant, and investment managers.

APPLICABLE VALUATION ASSETS

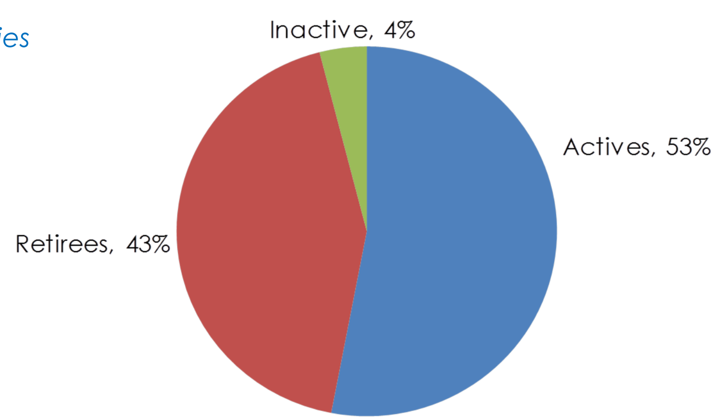


ACTUARIAL RESOURCES AND LIABILTIES

Resources



Liabilities



INVESTMENT SECTION

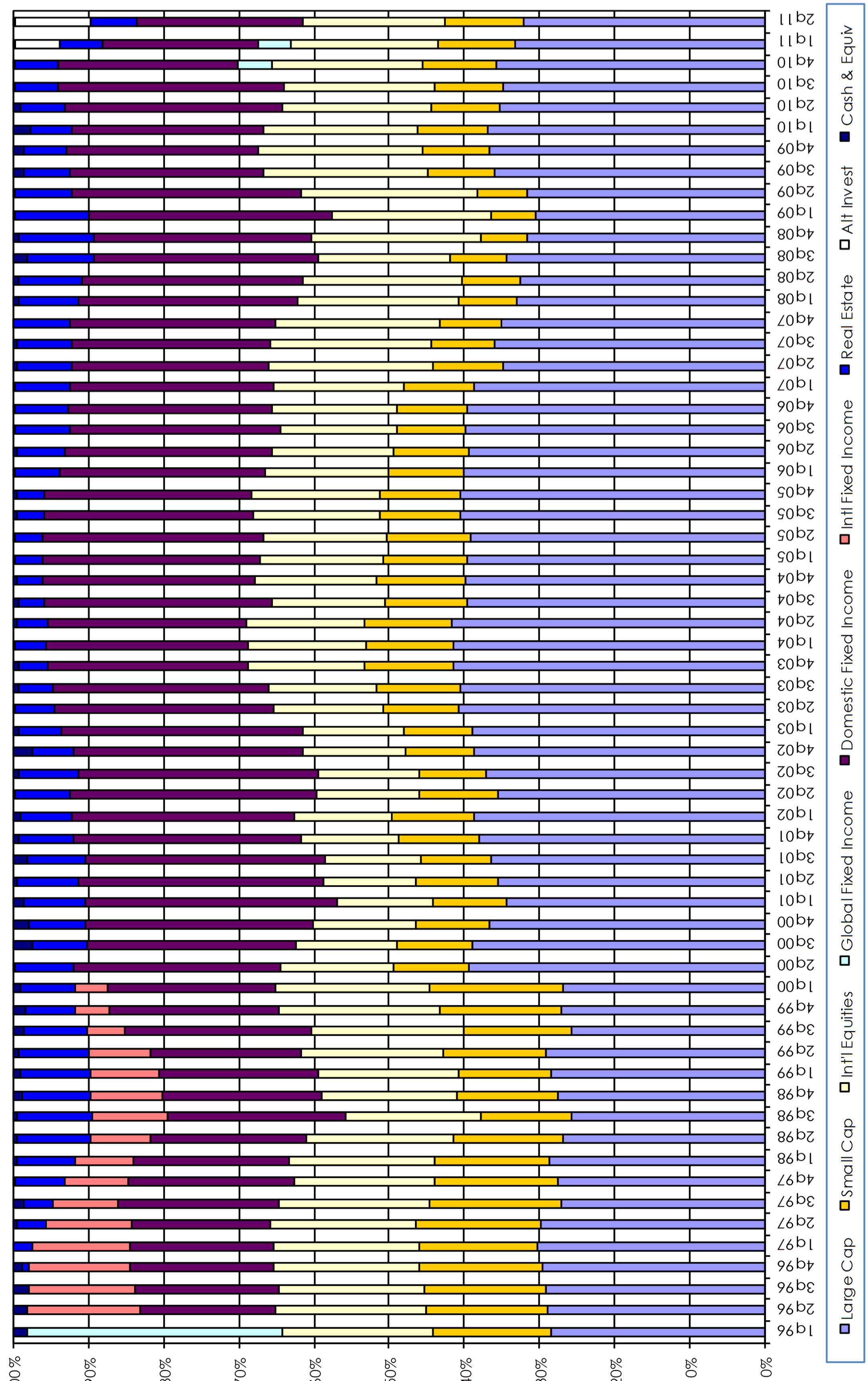
23.9%

Total Fund Return

SamCERA had a record year for investment return, ranking in the top 15th percentile of peer retirement systems.

ACTUAL HISTORICAL QUARTERLY ASSET ALLOCATION

Period ending June 30, 2011



CHIEF INVESTMENT OFFICER'S REPORT

SamCERA

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

Gary Clifton
SamCERA
Chief Investment Officer

Board of Retirement
San Mateo County Employees' Retirement Association

Dear Trustees:

On behalf of *SamCERA's* investment operations, I am pleased to present reports on the pension fund's investments and portfolio performance for the period ended June 30, 2011. This data was compiled by *SamCERA's* investment staff, its investment consultant Strategic Investment Solutions, and the master custodian State Street Bank & Trust. The reported performance is presented in accordance with Global Investment Performance Standards (GIPS).

SamCERA achieved record returns for the fiscal year ended June 30, 2011. In fact, it was the second straight year of exceptionally positive market returns which follow the dramatic market slide of August 2008 through March 2009.

The fiscal year return for the composite portfolio of 23.9% places the association's performance in the top 15th percentile of peer retirement systems. *SamCERA's* strong two-year performance of 18.2% ranks the association in the 33rd percentile for peer systems. Both years strongly outperformed the association's actuarial assumption rate of 7.75%.

SamCERA's performance for the fiscal year was led by appreciation in the equity portfolios, especially the domestic equity portfolios. Domestic small cap equities returned 40.8%, while domestic large cap equities returned 32.4%. *SamCERA's* international equity portfolios lagged at a respectable 26.8%. Rounding out the composite portfolio's performance, the commercial real estate portfolio returned 24.8% and the fixed income portfolio returned 8.68%.

The combination of portfolio appreciation and investment income added approximately $454 million to the fund, raising the net portfolio market value to $2.318 billion.

The association partially attributes the portfolio's strong rebound from the severe market downturn of 2008 to the board's decision to further diversify the portfolio. The board restructured the passive / active mix of the domestic large cap equity allocation in August of 2009. Passively managed assets were allocated to four active managers. Two of the active mandates were for "core" portfolios each of which has a different investment strategy. The other two mandates were allocated to growth and value styles. The first step toward diversification in the bond portfolio began in December of 2009 when the board invested in the Public-Private Investment Program for Legacy Assets. The program was designed to provide liquidity for so-called "toxic fixed income assets" on the balance sheets of financial institutions. In August 2010, *SamCERA* funded two new bond strategies. One was to take advantage of credit opportunities. The other was a hedge against inflation through investment in Treasury Inflation Protection Securities. The bond portfolio restructuring was completed in January 2011, when the association funded an international fixed income portfolio.

To further diversify, the trustees commissioned an asset liability modeling study. At the Board of Retirement's August 24, 2010 meeting, the trustees adopted a new asset allocation. The new allocation allows for 20% of the portfolio to be invested in alternative investments. The components of the alternative portfolio are 8% private equity, 6% risk parity, 3% commodities and 3% hedge funds. Funding for alternative investments comes by reducing equities from 67% to 53%, fixed income from 27% to 22% and real estate from 6% to 5%. *SamCERA* does not have an allocation to cash.

As of June 30, 2011, the allocations to the risk parity and hedge fund mandates were fully implemented. Implementation of the private equity strategies will be carried out over the next several years to diversify vintage years. By the fiscal year end, the board had made a total of $70 million in capital commitments to four separate private equity funds. Of that commitment, $4.7 million had been called. The allocation to commodities, the remaining alternative investment mandate, was implemented in August, after the close of the fiscal year.

To recap, the fiscal year started out uniformly weak as the U.S. Federal Reserve said that the country's economic recovery was "more modest" that had been anticipated. The market feared a double-dip recession. At the Jackson Hole conference near the end of August, Federal Reserve Chairman Bernanke informed the financial markets that they should anticipate further quantitative easing (QEII) in the near future. In response, the global equity markets began a powerful rally.

The strong rally in equities since the end of August 2010 took a breather at the end of November 2010. U.S. indices were flat to slightly up for the month, with the exception being small caps, which continued to advance. The markets began to see problems abroad. The Irish government asked the European Union and the International Monetary Fund for a bail out to help it meet the costs of propping up its struggling banks. There were also worries about the need of a bail out for Portugal and Spain.

In December, President Obama reached a compromise on a series of legislative measures with Republicans in Congress that included keeping the Bush-era tax cuts for another two years and extending benefits for the unemployed. Those measures improved significantly the outlook for the economy in 2011 and breathed renewed strength into the recovery.

Dramatic overseas headlines overshadowed mundane domestic news in January. Shockwaves rippled throughout the Middle East after month-long protests in Tunisia forced the country's ruler of 23 years to step down and flee. Protests spread to Egypt, Bahrain, Libya and other countries in the region. It was the beginning of what would be known as the "Arab Spring." Equity volatility increased slightly toward month-end as investors fretted over potential spillover effects, such as a decrease in shipping traffic through the strategically vital Suez Canal or the possibility of protests spreading to oil-rich Saudi Arabia.

By March 2011, easy monetary policy and effective corporate restructurings were a one two punch too powerful for those outside events to overcome. Improved demand, rising corporate profit margins, and even employment data had sustained the lift to financial markets. Then on March 11 at 2:46 p.m. JST a massive 9.0-magnitude earthquake occurred near the northeastern coast of Japan, creating extremely destructive tsunami waves. The earthquake and tsunami served to dampen global markets and disrupt global supply chains.

The markets continued to lose confidence throughout the rest of the fiscal year. In April Standard & Poor's lowered its long-term outlook on Treasury securities to "negative" from "stable" for the first time ever, raising the possibility of a credit downgrade for the U.S. government. Market indexes reversed course and slumped sharply in May over fears of a slowdown in the U.S. economy and pressure by global events. A clear plan for resolving the sovereign debt crisis in Europe remained elusive, Japan's sovereign credit rating was threatened with possible downgrades from rating agencies, and there was little progress made on plans to address long-term fiscal imbalances in the U.S. The broad US equity market, as represented by the Russell 3000 Index, finished the quarter ended June 30, 2011 essentially flat.

As I mentioned, Standard & Poor's lowered its outlook for the United States government in April 2011. Subsequent to the closing of the fiscal year, on August 5th, Standard & Poor's removed for the first time the AAA rating the U.S. held for 70 years. It downgraded long-term U.S. debt to AA+, a score that ranks below more than a dozen governments. The rating agency also put the new grade on "negative outlook," meaning the U.S. has little chance of regaining the top rating in the near term.
Standard & Poor's said the downgrade "reflects our opinion that the fiscal consolidation plan that Congress and the administration agreed to falls short of what

would be necessary to stabilize the government's medium-term debt dynamics." It also blamed the weakened "effectiveness, stability, and predictability" of U.S. policy-making and political institutions at a time when challenges were mounting.

One would expect the downgrade of the U.S. government securities to have a negative impact upon the price of government issues. However, the immediate impact was the reverse. Shortly after the downgrade, the markets were rocked by news that Greece may default on its government debt. This news caused a flight to quality, which meant money rushing to the relative security of the United States, and bolstered the price of U.S. government obligations.

Most market participants are concerned that the fundamental underpinnings that caused the 2008 market plunge have only been partially rectified. Until those fundamentals are under control, we will see continued volatility in world markets. These concerns, resulting in market uncertainty, support the board's actions toward greater diversification.

While it is unlikely that future years will be as exceptional for *SamCERA* as was 2010-2011, we are certainly pleased the association achieved record returns for the fiscal year, and we believe the portfolio is better positioned for today's evolving world economy.

Respectfully submitted,

Gary Clifton

Gary Clifton
Chief Investment Officer
October 19, 2011

STRATEGIC INVESTMENT SOLUTIONS, INC.

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SAN FRANCISCO, CALIFORNIA 94104

TEL 415/362-3484 ■ FAX 415/362-2752

October 19, 2011

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

Dear Board Members:

During fiscal year 2011, global capital markets continued to rebound from the extraordinary market trauma of the fall of 2008 and its aftermath. Despite a backdrop of continued substandard economic and employment growth, and growing fears of a renewed systemic crisis from sovereign bond defaults, investor confidence generally strengthened during the year.

It was a strongly positive year for risk assets and for overall portfolios that, like the *SamCERA* portfolio, showed fidelity to their strategic plans and investment horizons. Global Equities and risk assets of all kinds produced high absolute returns during the year. The broad US Equity market, as measured by the Russell 3000 Index, returned 32.4% during the year. The Russell 1000 large cap component of US Equity gained 31.9%, while the small cap Russell 2000 fared even better, returning 37.4%. International Equity investments, which for US-based investors were helped by the weakness of the US dollar, provided slightly lower, though still very robust, returns: the Developed Markets index returned 30.9%, while Emerging Markets came in slightly lower at 28.2%. Investment Grade US Bonds (Barclays Aggregate) provided modest, but still positive returns for investors; with bonds essentially earning their coupons in a period of flat interest rates, and returning 3.9% for the year. High yield bonds returned 15.3%, reflecting the continuation of improvement in the credit environment during the year. After lagging the recovery in 2010, the real estate asset class rebounded in 2011 as the NCREIF ODCE Index of institutional Real Estate posted a 20.4% return.

PLAN INVESTMENT RESULTS

In this generally positive capital market environment, the *SamCERA* portfolio performed extraordinarily well during fiscal 2011. The San Mateo County Employees' Retirement Association (the Association) total Plan returned 23.9%, far above the Association's 7.75% actuarial return expectation. The plan also performed well above its peers, performing 2.3% better than the Independent Consultants Cooperative (ICC) Large Public Fund Universe median plan return of 21.6%.

The Association's US Equity portfolio outperformed its equity policy benchmark by 1.08% during the fiscal year, which placed it in the 48th percentile of the universe, just above its median peer. Within the US Equity asset class, the large cap managers as a group returned 32.4% for the year, besting the Russell 1000 index by 40 basis points and the average institutional large cap composite, which returned 31.2%, by 120 basis points. The managers in aggregate performed in the 37th percentile of the peer universe. Among the large cap managers, noteworthy performance was achieved by the value manager Barrow Hanley, which bested its benchmark by over 5% during fiscal 2011. The strong showing of the US large cap managers was augmented by the comparably strong performance of the Small Cap Composite, which returned 40.8% for fiscal 2011, more than 300 basis points ahead of the Russell 2000 index and over 200 basis points ahead of the median peer, placing the composite in the 37th percentile in its universe. Jennison, the Association's small cap core manager, enjoyed a particularly good year, beating its benchmark index by over 500 basis points.

In the one negative note for the portfolio, during fiscal 2011, both of *SamCERA's* International Equity managers failed to keep pace with their benchmarks. The International Equity Composite returned 26.8%, trailing the benchmark's return of 30.3%. The International Equity Composite return also trailed the median peer return of 30.4% by 360 basis points, and performed in the 80th percentile of the peer universe. At this writing, *SamCERA* is in the process of a enhancing the structure of its international equity portfolio by introducing a dedicated Small Cap and Emerging markets mandates.

The Plan's Total Fixed Income Composite return of 8.7% significantly exceeded the Barclays Aggregate Index's 3.9%, and the plan's hybrid total Fixed Income Benchmark return of 5.0%, for the fiscal year. All three of *SamCERA's* core bond managers continued to perform far above their benchmarks as their recoveries from the bond market debacle of 2008 continued through fiscal 2011. The Association's PPIP Fund managed by Angelo Gordon, created to participate in the US Government's Public-Private Investment Program, enjoyed an exceptional year, returning 25.9% and remaining strongest of the eight managers selected for the PPIP program. The Association also funded mandates in Opportunistic Credit, Unconstrained Global, and TIPS during the year. The composite's 8.7% return for the fiscal year was in the 25th percentile and 379 basis points ahead of the median peer in the Independent Consultants' Cooperative (ICC) Large Public Fund Universe.

Real Estate was yet another bright spot in the *SamCERA* portfolio. For the year ended June 2011, the NCREIF ODCE index posted a 20.4% return while the Association's Real Estate Composite was more than 4% higher at 24.8%. The real estate manager's return was also over 6% above the median manager in the real estate universe, placing the composite in the 25th percentile overall among its peers.

ASSET ALLOCATION AND MANAGER STRUCTURE

During fiscal 2011 *SamCERA* completed an asset allocation study that led to a strategic broadening of the *SamCERA* portfolio to include substantial allocations to Private Equity, Commodities, Hedge Funds and other Alternative Investments. Much of the year was devoted to selecting managers and completing the funding of these strategic initiatives, along with the completion of the funding of the new fixed income structure

Letter to SamCERA
October 19, 2011
Page 3

discussed above. The funding of the Private Equity portfolio, which commenced in 2011, is expected to be completed over the next three to five years.

During fiscal 2011 *SamCERA* also undertook a reexamination of the structure of its International Equity portfolio. The Association determined that it could increase both the diversification and the return potential of the portfolio by introducing dedicated small cap and emerging markets mandates. As the year ended, work to select managers for these mandates was in progress, with funding expected early in fiscal 2011.

During fiscal 2011 the *SamCERA* portfolio produced extraordinary absolute and peer-relative returns that were generated for its participants in a risk averse, cost effective, and prudent fashion. The Association re-evaluated and reaffirmed its long term strategic plan, while also completing the process of diversifying the portfolio with enhanced public equity, fixed income and alternatives portfolios structures. The *SamCERA* plan has capitalized on its strengths and, through much hard work, has taken advantage of the investment opportunities made available to it by the recent market crisis. SIS firmly believes that the many strategic enhancements that the Association is in the process of completing will enable it to continue to serve its participants with excellent results for years to come.

Sincerely,

Strategic Investment Solutions

Patrick Thomas
Senior Vice President

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

Investment Philosophy, Objectives, and Policies

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

Investment Philosophy

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

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

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

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

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

Investment Objectives

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

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

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

Provide for the full funding of the Pension Benefit Obligation.

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

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

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

Investment Policies

It is the Investment Policy of the Board of Retirement to pursue an investment strategy which reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. On August 24, 2010, the Board of Retirement concluded an asset/liability modeling study and adopted a new asset allocation to guide the structure of the investment portfolio. The new allocation allows for 20% of the portfolio to be invested in alternative investments, including private equity, risk parity, commodities and hedge funds.

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

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

ASSET ALLOCATION AS A PERCENTAGE OF FAIR VALUE

ASSET CLASS	Allocation	June 30 actual
Equity	53.0%	58.8%
Bonds	22.0%	25.9%
Alternatives	20.0%	9.6%
Real Estate	5.0%	5.5%
Cash	0.0%	0.2%
Total	100.0%	100.0%

EQUITY MANAGEMENT STYLE	Allocation	June 30 actual
Domestic Large Cap		
Indexed	6.5%	6.2%
Actively Managed	21.5%	24.5%
	28.0%	30.7%
Domestic Small Cap (Actively Managed)	7.0%	10.2%
International Equities (Actively Managed)	18.0%	17.9%
Total Equity	53.0%	58.8%

BOND MANAGEMENT STYLE	Allocation	June 30 actual
Domestic Bond Managers		
Enhanced Index	3.8%	4.9%
Actively Managed	13.7%	16.4%
	17.5%	21.3%
Global Bond Managers (Actively Managed)	4.5%	4.6%
Total Bonds	22.0%	25.9%

ALTERNATIVE INVESTMENT MANAGEMENT STYLE	Allocation	June 30 actual
Private Equity (Actively Managed)	8.0%	0.2%
Hedge Fund (Actively Managed)	3.0%	3.0%
Commodities (Actively Managed)	3.0%	0.0%
Risk Parity (Actively Managed)	6.0%	6.4%
Total Alternative Investment	20.0%	9.6%

REAL ESTATE MANAGEMENT STYLE	Allocation	June 30 actual
Real Estate (Actively Managed)	5.0%	5.5%
Total Real Estate	5.0%	5.5%
TOTAL CASH & CASH EQUIVALENT	0.0%	0.2%
Total Assets	**100.0%**	**100.0%**

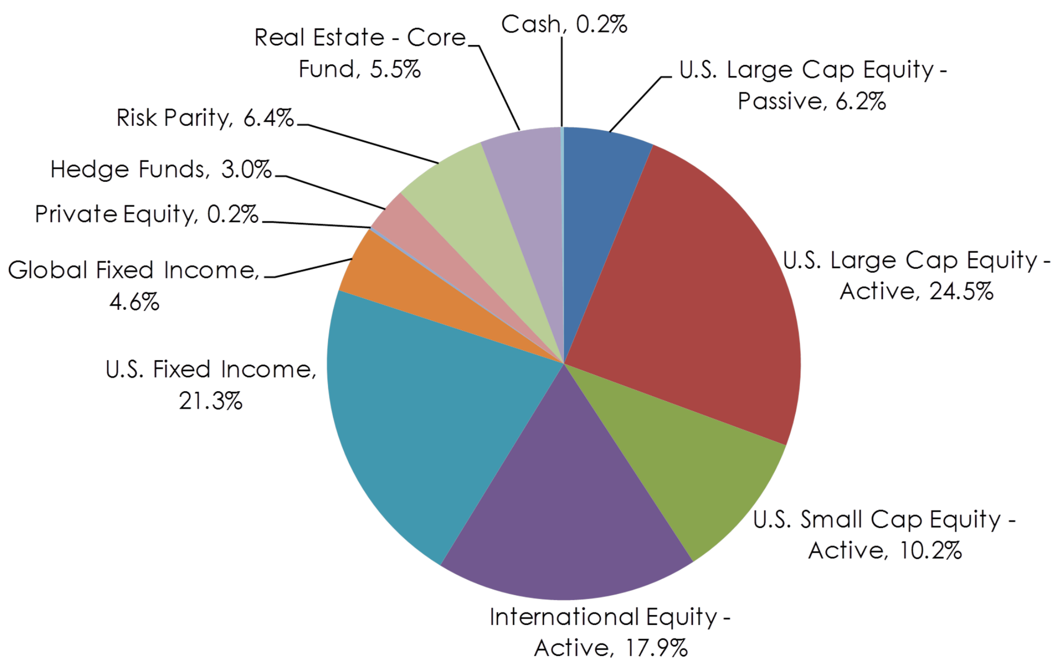
MARKET VALUE OF ASSET ALLOCATION

Asset Allocation	Market Value*
Large Capitalized Domestic Equities	$708,343,849
Small Capitalized Domestic Equities	$234,522,271
International Equities	$413,826,908
Total Equities	$1,356,693,028
Domestic Bonds	$489,363,118
Global Bonds	$106,143,892
Total Bonds	$595,507,010
Alternative Investments	$219,347,947
Real Estate	$135,475,106
Cash & Cash Equivalents	$10,752,738
Net Assets Held in Trust	**$2,317,775,829**

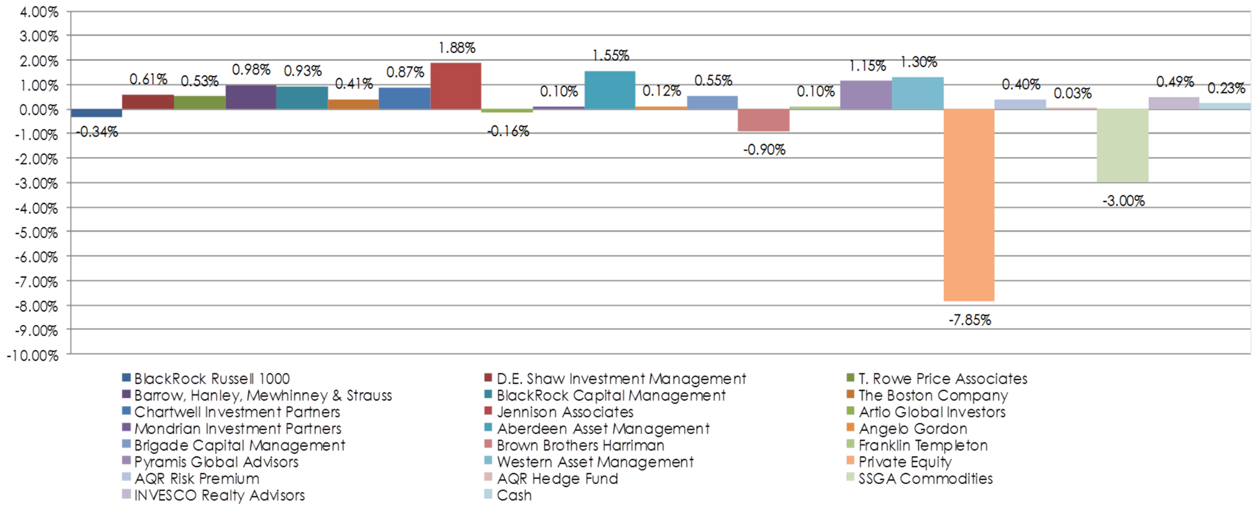
* Value includes investment receivables and payables. For market value without receivables and payable, refer to detailed schedule by managers on page 84.

ASSET ALLOCATION

As of June 30, 2011



PERCENT OF DEVIATION FROM ASSET ALLOCATION



SCHEDULE OF PORTFOLIO RETURNS

Performance as of June 30, 2011

Asset Category	One Year	Two Years	Three Years	Five Years
DOMESTIC EQUITY				
Large Cap				
BlackRock Russell 1000	32.00%	23.38%	3.76%	3.38%
D.E. Shaw Investment Management, LLC	30.46%	N/A	N/A	N/A
T. Rowe Price Associates	30.42%	N/A	N/A	N/A
Barrow, Hanley, Mewhinney & Strauss	33.98%	N/A	N/A	N/A
BlackRock Capital Management, Inc.	33.96%	N/A	N/A	N/A
Large Cap Composite	32.35%	22.59%	2.76%	2.12%
Small Cap				
The Boston Company	26.40%	N/A	N/A	N/A
Chartwell Investment Partners	49.89%	35.18%	7.20%	5.53%
Jennison Associates	43.13%	34.71%	10.24%	N/A
Small Cap Composite	40.80%	33.02%	6.98%	1.31%
INTERNATIONAL EQUITY				
Artio Global Management	24.87%	16.55%	-5.31%	1.08%
Mondrian Investment Partners	28.76%	17.52%	0.32%	3.62%
International Composite	26.81%	17.04%	-2.50%	2.37%
Total Equity Composite	31.84%	22.25%	1.80%	2.09%
BONDS				
Core				
Aberdeen Asset Management	6.60%	12.07%	5.12%	4.92%
Pyramis Global Advisors	6.05%	10.19%	8.46%	6.68%
Western Asset Management	7.93%	13.04%	8.62%	6.73%
Credit				
Angelo Gordon GECC PPI Fund	25.92%	N/A	N/A	N/A
Brigade Capital Management	N/A	N/A	N/A	N/A
Treasury Inflation Protected Securities (TIPS)				
Brown Brothers Harriman	N/A	N/A	N/A	N/A
Global				
Franklin Templeton Investments	N/A	N/A	N/A	N/A
Total Bond Composite	8.68%	12.76%	8.05%	6.56%
ALTERNATIVE INVESTMENT				
Private Equity				
ABRY Fund II	N/A	N/A	N/A	N/A
ABRY Fund VII	N/A	N/A	N/A	N/A
Regiment	N/A	N/A	N/A	N/A
Sheridan Production Partners	N/A	N/A	N/A	N/A
Hedge Fund				
AQR Delta Hedge Fund	N/A	N/A	N/A	N/A
Risk Parity				
AQR Global Risk Premium	N/A	N/A	N/A	N/A
Commodities				
SSGA/SSARIS Multisource Commodities	N/A	N/A	N/A	N/A
Total Alternative Composite	N/A	N/A	N/A	N/A
REAL ESTATE				
Invesco Realty Advisors Core Fund	24.80%	7.57%	-6.71%	0.18%
Total Real Estate Composite	24.80%	7.57%	-6.71%	0.18%
CASH				
Cash Composite	1.04%	0.95%	-0.24%	1.51%
TOTAL FUND				
Composite Investment Portfolio	23.92%	18.23%	3.26%	3.45%
Policy Benchmark	24.06%	18.05%	4.28%	4.76%

SCHEDULE OF INVESTMENT PORTFOLIO BY ASSET CLASS AND MANAGER

As of June 30, 2011

Investment Manager	**Asset Class**	**Assets Under Management**	
DOMESTIC EQUITY			
BlackRock Russell 1000	Russell 1000 Index Fund	$142,029,424	
D.E. Shaw Investment Management, LLC	Large Cap Core	$111,815,754	
T. Rowe Price Associates	Large Cap Core	$109,808,406	
Barrow, Hanley, Mewhinney & Strauss	Large Cap Value	$169,172,885	
BlackRock Capital Management, Inc.	Large Cap Growth	$168,461,395	
The Boston Company	Small Cap Value	$49,368,398	
Chartwell Investment Partners	Small Cap Growth	$59,454,391	
Jennison Associates	Small Cap Core	$122,166,580	
Total Domestic Equity			$932,277,233
INTERNATIONAL EQUITY			
Artio Global Management	Large Cap Growth	$192,875,990	
Mondrian Investment Partners	Large Cap Value	$205,877,182	
Total International Equity			$398,753,172
Total Equity			$1,331,030,405
DOMESTIC BONDS			
Aberdeen Asset Management	Core Bonds	$120,900,042	
Angelo Gordon GECC PPI Fund	Credit Opportunity Bonds	$38,865,339	
Brigade Capital Management	Credit Opportunity Bonds	$50,141,760	
Brown Brothers Harriman	Treasury Inflation Protection Securities	$46,196,580	
Pryamis Global Advisors	Enhanced Bond Index	$113,091,421	
Western Asset Management	Core Plus Bonds	$112,557,936	
Total Domestic Bonds			$481,753,078
GLOBAL BONDS			
Franklin Templeton	Global Bonds	$103,539,324	
Total Global Bonds			$103,539,324
Total Bonds			$585,292,402
ALTERNATIVE INVESTMENTS			
ABRY Advanced Security Fund II. L.P.	Private Equity	$2,010,055	
ABRY Partners VII. L.P.*	Private Equity	-	
Regiment Capital Special Situations Fund V, LP*	Private Equity	-	
Sheridan Prodution Partners II-B, L.P.	Private Equity	$1,730,921	
AQR Delta Fund	Hedge Fund	$69,986,272	
AQR Global Risk Premium	Risk Parity	$145,620,699	
SSGA/SSARIS Multisource Commodities*	Commodities	-	
Total Alternative Investment			$219,347,947
REAL ESTATE			
Invesco Realty Advisors	U.S. Core Real Estate Fund		$135,475,106
Unequitized Cash			$262,133,666
Receivables & Prepaid Expenses			$164,534,870
<less> Current Liabilities			$380,038,567
Net Portfolio as of June 30, 2011			**$2,317,775,829**

* *SamCERA* has signed agreements and made capital commitments as of June 30, 2011.

Schedule of Top Ten Equities and Fixed Income Securities

As of June 30, 2011

*Top 10 Equity Securities**

Shares	Exchange	Ticker	Company Name		Market Value
24,100	NASDAQ	AAPL	APPLE INC.	$	8,089,647
70,900	NYSE	SWK	Stanley Black & Decker Inc	$	5,108,345
97,000	NYSE	COF	Capital One Financial Corp	$	5,011,990
88,600	NYSE	DHR	DANAHER CORP.	$	4,694,914
177,200	NYSE	PFE	Pfizer	$	4,636,689
88,600	NYSE	JNJ	Johnson & Johnson	$	4,423,580
48,426	NYSE	XOM	ExxonMobil	$	3,940,908
57,900	NYSE	KO	COCA-COLA CO.	$	3,896,091
221,400	NYSE	SLM	SLM Corp	$	3,721,734
221,400	NYSE	PG	PROCTER & GAMBLE CO.	$	3,680,703

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

Top 10 Fixed Income Securities

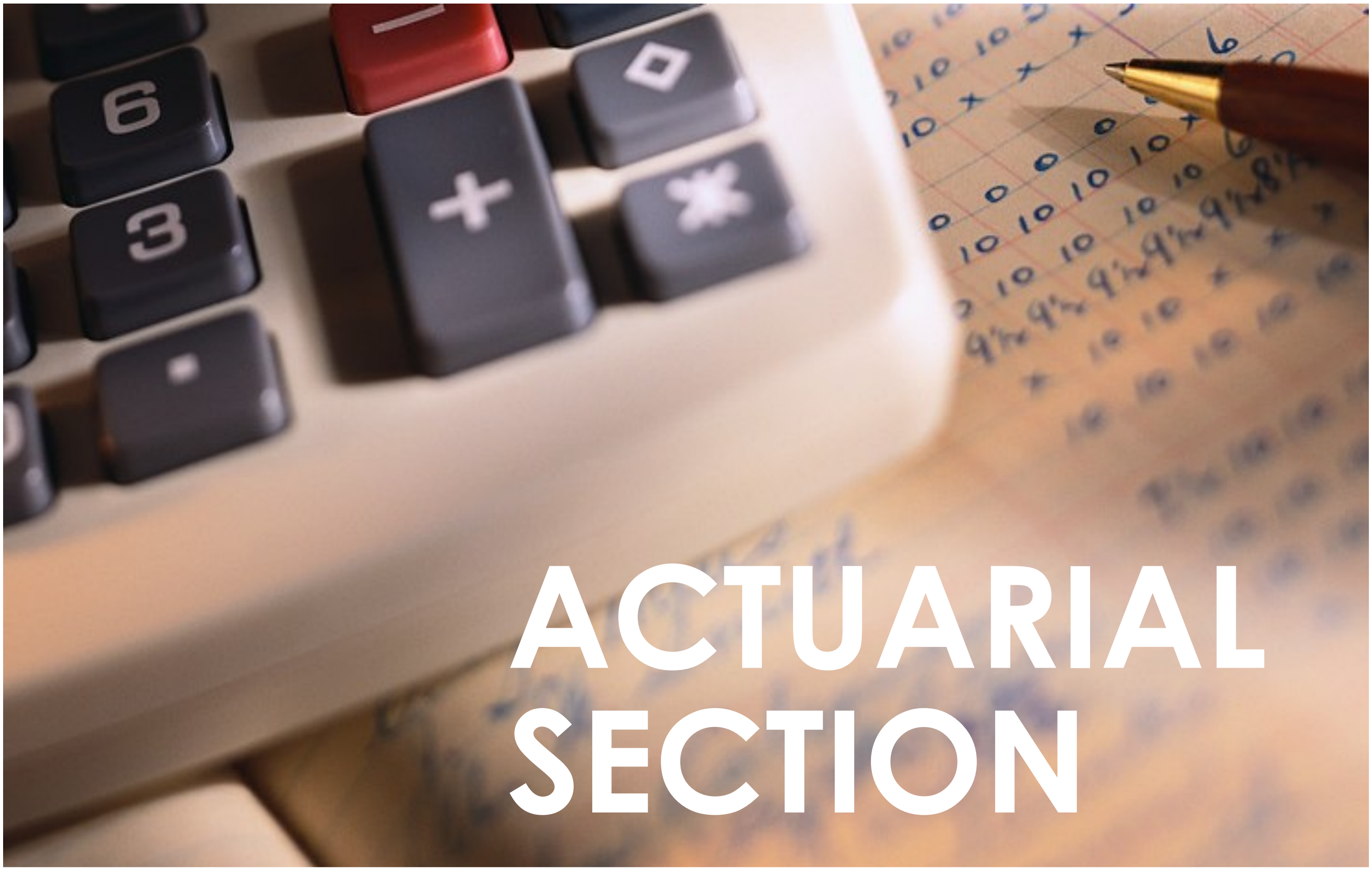
Par/Book Value	Security	Coupon	Maturity	Rating S&P	Rating-Moodys	Issue ID	Market Value
$ 8,163,630	US Treasury Notes (TIPS)	2.375	1/15/2017	AAA	Aaa	912828GD6	$ 9,402,359
6,105,106	US Treasury Notes (TIPS)	1.875	7/15/2015	AAA	Aaa	912828EA4	6,784,640
5,810,689	US Treasury Bonds (TIPS)	2.375	1/15/2025	AAA	Aaa	912810FR4	6,742,326
4,800,000	FNMA 30YR JUL FWD	5.500	7/1/2041	AAA	Aaa	01F052672	5,190,000
4,803,341	US Treasury Notes (TIPS)	3.000	7/15/2012	AAA	Aaa	912828AF7	5,078,466
4,846,022	US Treasury Notes	1.50	6/30/2016	AAA	Aaa	912828QR4	4,784,190
4,276,875	GNMA II 30YR POOL 4772	5.000	8/20/2040	AAA	Aaa	36202FJR8	4,666,026
3,788,000	US Treasury Note	3.125	05/15/2021	AAA	Aaa	912828QN3	3,792,474
3,400,000	FNMA 30YR JUL FWD	6.000	7/1/2041	AAA	Aaa	01F060675	3,734,689
3,236,217	US Treasury Note	2.63	7/31/2014	AAA	Aaa	912828LC2	3,445,763

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, 2011 and 2010

	2011	2010
INVESTMENT MANAGERS		
Aberdeen Asset Management	$343,853	$390,993
ABRY Fund II	$101,111	$0
ABRY Fund VII	$0	$0
Angelo Gordon	$350,000	$0
AQR Delta Fund	$58,333	$0
AQR Global Risk Premium	$191,921	$0
Artio Global Management	$1,027,524	$942,496
AXA Rosenberg	$0	$157,794
Barrow, Hanley, Mewhinney, & Strauss	$707,566	$574,230
BlackRock Capital Management (Index)	$89,096	$173,592
BlackRock Capital Management (Growth)	$745,677	$553,149
Brandes Investment Partners	$0	$11,236
Brigade Capital Management	$323,122	$0
Brown Brothers Harriman	$65,146	$0
Chartwell Investment Partners	$402,670	$300,510
D.E. Shaw investment Management, LLC	$526,081	$421,132
Franklin Templeton	$210,795	$0
Invesco realty advisors	$568,140	$631,782
Jennison Associates	$865,082	$685,083
Mondrian Investment Partners	$446,594	$510,044
Pyramis Global Advisors	$230,119	$244,677
Regiment	$0	$0
Sheridan Production Partners	$225,000	$0
State Street Global Advisors	$0	$0
T. Rowe Price Associates	$365,744	$306,556
The Boston Company	$401,617	$315,278
Western Asset Management	$365,642	$391,708
Total	$8,610,833	$6,610,260
INVESTMENT CONSULTANT		
Strategic Investment Solutions	$366,667	$200,820
ACTUARIAL CONSULTING		
Milliman	$43,667	$76,733
Segal Company	$25,000	$0
Total	$68,667	$76,733
MASTER CUSTODIAN		
State Street Bank and Trust Company	$236,793	$140,569
Total Professional Services	**$9,282,960**	**$7,028,382**



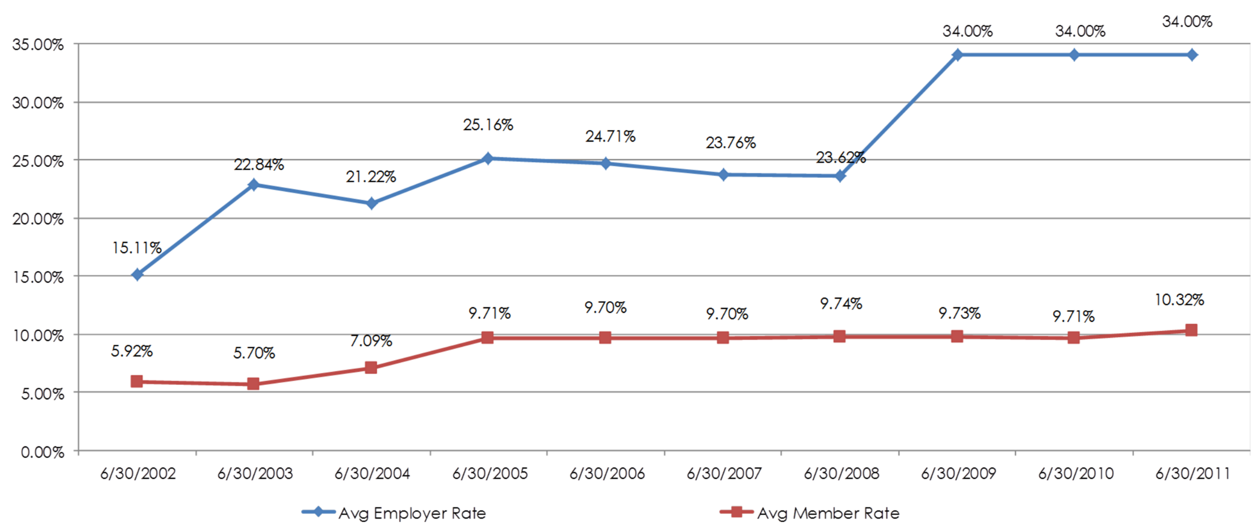
ACTUARIAL SECTION

7.75%

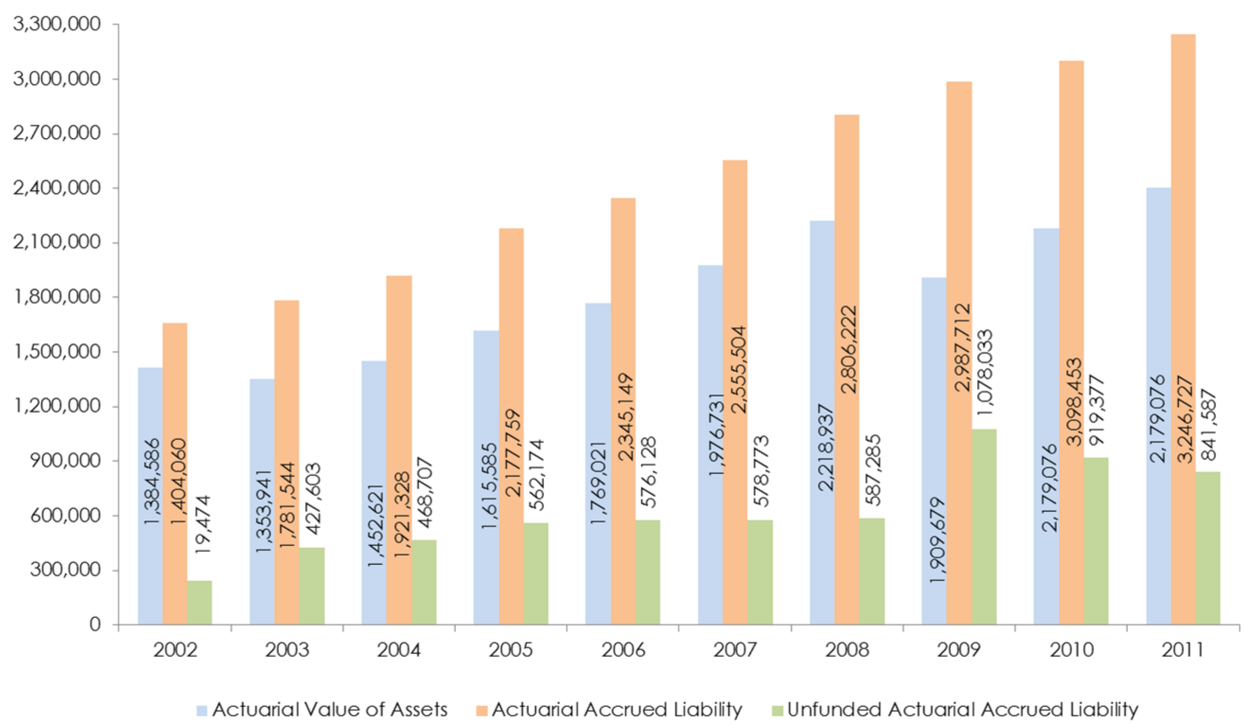
Rate of Return

Future investment earnings are assumed to accrue at an annual rate of 7.75%, compounded annually.

HISTORY OF EMPLOYER AND MEMBER CONTRIBUTION RATES



SCHEDULE OF ACTUARIAL ASSETS VS. LIABILITIES



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October 19, 2011

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, 2009	63.9%
June 30, 2010	70.3%
June 30, 2011	74.1%

The funded ratio has increased in the last year primarily due to contributions in excess of the annual cost of benefits.

It is our opinion that *SamCERA* will continue to maintain a sound financial condition as of June 30, 2011 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 closed 15-year layers which are determined annually. It should be noted that the 2011 valuation results defer a portion of the market loss on assets that occurred in the fiscal year ending June 30, 2009 and earlier. Thus, the funded ratio is expected to be lower once that market loss is reflected in the 2012 and later valuations unless earnings continue to exceed the assumed rate.

The June 30, 2011 valuation results are based on the membership data and the asset information provided by *SamCERA*. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes, although we have not audited the data at the source. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is found to be materially inaccurate or incomplete, our calculations will need to be revised.

The valuation is also based on our understanding of *SamCERA's* current benefit provisions and the actuarial assumptions which were last reviewed and adopted by the Board in 2011. The assumptions were based on the triennial investigation of experience study report as of April 30, 2011. Assumptions will be reviewed again in 2014.

Milliman

Board of Retirement
October 19, 2011
Page 2

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

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

We assisted *SamCERA* staff in preparing the supporting schedules in this section and the trend tables in the financial section are based on information supplied in prior actuarial reports, as well as our June 30, 2011 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, 2011 valuation was performed in accordance with the Actuarial Standards Board (ASB) standards of practice and by qualified actuaries. We are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Sincerely,

Nick Collier

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

NJC/nlo

ACTUARIAL ASSUMPTIONS AND COST METHOD

The actuary assumptions used in the valuations are intended to estimate the future experience of the members of *SamCERA* and of *SamCERA* itself in areas that affect the projected benefit flow and anticipated investment earnings. The actuarial assumptions used to determine the liabilities for the June 30, 2011, 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 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, 2011 is amortized over new 15 -year periods, referred to as 15-year layered amortization.

ACTUARIAL ASSUMPTIONS AND COST METHOD

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	Original unfunded amount (UAAL) as of June 30, 2008, is amortized over 15 years as of the valuation date. Future actuarial gains and losses will be amortized over new 15-year periods (including the change in UAAL as of June 30, 2011). 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	7.75%
Price Inflation (CPI)	3.50%
Payroll Increases	4.00%
Average Projected Salary Increases	5.20%
*Attributed to Inflation	4.00%
*Attributed to Adjustments for Merit and Longevity	1.20%

Actuarial Asset Valuation Method

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

Investment Rate of Return

Future investment earnings are assumed to accrue at an annual rate of 7.75%, compounded annually, net of both investment and administrative expenses. This rate was adopted effective for the June 30, 2005, valuation and reaffirmed by the board for use in the June 30, 2011, valuation.

Projected Salary Increase

The rate of annual salary increases assumed for the purpose of the valuation is 5.20%. It is comprised of two components, inflation and merit and longevity increases. The inflation component is 4.0%. The merit and longevity component on average is 1.20%. This rate was adopted effective for the June 30, 2005, valuation and reaffirmed by the board for use in the June 30, 2011, valuation.

Cost-of-Living Adjustments

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

Post-retirement Mortality Rates

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

Post-retirement Mortality – Service Retirement

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

Safety Males: Same as General.

General Females: RP-2000 Healthy Annuitant Mortality Table for Females with adjustment

PROJECTED SALARY INCREASE

Actuarial Assumption	6/30/11	6/30/10	Change
Annual Inflation Rate	3.50%	3.50%	0.00%
Annual Investment Return	7.75%	7.75%	0.00%
Average Annual Salary Increases	5.20%	5.20%	0.00%

for white collar workers. Ages are set back three years.

Safety Females: Same as General.

Post-retirement Mortality – Disability Retirement

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

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

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

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

Separation from Active Status

The probabilities of separation from active status are shown on page 99.

Summary of Plan Provisions

The Association provides basic retirement, disability and death benefits based on a defined benefit formula which uses final average salary, 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 and 4. The benefits of Tier 3 are reduced by Social Security benefits received by the member.

The plan sponsor has established ten defined benefit tiers based on a member's date of entry into *SamCERA*. Tiers 1, 2 & 4 are open to all members depending on their entry date and membership class (General, Safety or Probation/Safety.) Only General members are eligible for Tier 3.

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

Eligibility for Tiers is dependent upon the following entry dates

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

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

Tier 3 – General members may elect to participate in Tier 3. After five years of service, Tier 3 members can elect membership under the open contributory tier. Members currently working in a contributory tier with Tier 3 service may purchase an upgrade of their Tier 3 service.

Tier 4 – Employees hired after July 12, 1997, (if Tier 3 is not elected.)

Eligibility for service retirement allowance is dependent upon the following

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

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

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

Final Compensation

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

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

Monthly Allowance

General Members Tiers 1, 2 & 4: 1/60 x Final Compensation x General Age Factor x Years of Service.

All Safety & Probation Members: 3% x Final Compensation x Safety Age Factor x Years of Service.

Tier 3 General members: (a)+(b)-(c) where

(a) 2% x Final Compensation x Years of Service (up to 35 years), plus

(b) 1% x Final Compensation x Years of Service in excess of 35 years (up to 10), minus

(c) Estimated Primary Insurance Amount (PIA) x Years of Covered Service (up to 35 years) divided by 35.

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

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

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

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

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

It should be noted that the 34.00% 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. On September 27, 2011, the Board of Retirement voted to retain the contribution rate from the June 30, 2009, actuarial valuation for a second year rather than the lower rate calculated in the June 30, 2010, valuation. A history of employer rates by class is on Page 95.

SUMMARY OF RECOMMENDATIONS

EMPLOYER CONTRIBUTION RATES

	06/30/11	06/30/10	Change
Normal Cost Rate	11.25%	11.57%	-0.32%
Rate of Contribution to Unfunded Actuarial Accrued Liability	22.75%	22.43%	0.32%
Total Employer Rate	34.00%	34.00%	0.00%

It should be noted that the 34.00% 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. On September 27, 2011, the Board of Retirement voted to retain the contribution rate from the June 30, 2009, actuarial valuation for the second consecutive year rather than the lower rate calculated in the June 30, 2011, valuation. A history of employer rates by class is on Page 96.

MEMBER CONTRIBUTION RATES (1)

		07/01/11	07/01/10	Change (2)
GENERAL MEMBERS – COUNTY (3)				
Tier 1 & Tier 2	Age 25	9.06%	9.03%	0.03%
	35	10.25%	10.22%	0.03%
	45	11.71%	11.67%	0.04%
Tier 4	Age 25	8.80%	8.78%	0.02%
	35	9.94%	9.91%	0.03%
	45	11.29%	11.26%	0.03%
GENERAL MEMBERS – SMCM&VCD (4)				
Tier 1 & Tier 2	Age 25	6.06%	6.03%	0.03%
	35	7.25%	7.22%	0.03%
	45	8.71%	8.67%	0.04%
Tier 4	Age 25	5.80%	5.78%	0.02%
	35	6.94%	6.91%	0.03%
	45	8.29%	8.26%	0.03%
SAFETY MEMBERS – OTHER THAN DEPUTY SHERIFF (5)				
Tier 1 & Tier 2	Age 25	13.21%	13.16%	0.05%
	35	14.85%	14.78%	0.07%
	45	16.59%	16.52%	0.07%
Tier 4	Age 25	12.86%	12.81%	0.05%
	35	14.43%	14.37%	0.06%
	45	15.90%	15.83%	0.07%
PROBATION MEMBERS (REFLECTS EMPLOYER PICK-UP)				
Tier 1 & Tier 2	Age 25	10.07%	10.03%	0.04%
	35	11.38%	11.33%	0.05%
	45	12.77%	12.71%	0.06%
Tier 4	Age 25	9.79%	9.75%	0.04%
	35	10.99%	10.99%	0.00%
	45	12.16%	12.16%	0.00%

(1) The San Mateo County employer and member contribution rates include cost sharing. The San Mateo County Mosquito and Vector Control District does not have cost sharing. Does not include members of the California Nurses Association, who will also contribute 25% of the cost of COLA beginning with the 2011 actuarial valuation.
(2) The change represents the rates effective 07/01/2012 (based on the 6/30/11 valuation) minus the 07/01/2011 rates (based on the 6/30/10 valuation).
(3) 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.
(4) Beginning with the 6/30/2010 actuarial valuation, all current and future Mosquito and Vector Control District members contribute the same basic member rates as General County members.
(5) Cost sharing varies for Deputy Sheriffs as follows: If employee is less 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%.

SUMMARY OF SIGNIFICANT ACTUARIAL STATISTICS AND MEASURES

ASSOCIATION MEMBERSHIP	**6/30/11**	**6/30/10**	**Change**
ACTIVE MEMBERS			
Number of Members	5,245	5,347	-1.9%
Average Age	45.7	45.4	0.7%
Average Credited Service	10.6	10.2	3.9%
Total Active Payroll in Thousands	$432,542	$437,130	-1.0%
Average Monthly Salary	$6,872	$6,813	0.9%
RETIRED MEMBERS			
Number of Members			
Service Retirement	3,242	3,108	4.3%
Disability Retirement	370	365	1.4%
Beneficiaries	535	529	1.1%
Average Age	71.3	71.3	0.0%
Total Retiree Payroll in Thousands	$129,835	$122,141	6.3%
Average Monthly Pension	$2,706	$2,601	4.0%
INACTIVE VESTED MEMBERS	1,190	1,207	-1.4%
ASSET AND LIABILITY VALUES(1)			
ASSET VALUES			
Market Value in Thousands	$2,317,493	$1,815,896	27.6%
Return on Market Value(2)	23.70%	12.2%	1,150 bps
Valuation Assets in Thousands	$2,405,140	$2,179,076	10.4%
Return on Valuation Assets	7.2%	12.7%	-550 bps
LIABILITY VALUES			
Actuarial Accrued Liability in Thousands	$3,246,727	$3,098,453	4.8%
Unfunded Actuarial Accrued Liability in Thousands	$841,587	$919,377	-8.5%
Deferred Asset (Gains)/Losses	$87,647	$363,179	-75.9%
REQUIRED COUNTY CONTRIBUTION RATE FOR ALL PLANS AS A PERCENTAGE OF TOTAL PAYROLL			
Gross Normal Cost	21.57%	21.28%	29 bps
Less: Member Contributions	10.32%	9.71%	61 bps
County Normal Cost	11.25%	11.57%	-32 bps
UAAL Amortization	22.75%	22.43%	32 bps
Total County Rate	34.00%	34.00%	0 bps
FUNDED RATIO			
GASB Number 25 (3)	74.1%	70.3%	5.4%

(1) After the completion of the actuarial valuation, there was a restatement of approximately $280,000 in investment related fees resulting in a slight variance from the financial statement.
(2) Differs from CAFR due to timing of contributions and benefit payments and treatment of expenses.
(3) Based on actuarial value of assets for June 30, 2011, and June 30, 2010, 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)
6/30/02	$1,416,850	$190,450	$866,985	$785,082	100%	100%	46%
6/30/03	$1,353,941	$202,551	$858,273	$915,108	100%	100%	32%
6/30/04	$1,452,621	$259,731	$942,765	$718,832	100%	100%	35%
6/30/05	$1,615,585	$281,231	$1,133,351	$763,177	100%	100%	26%
6/30/06	$1,769,021	$317,521	$1,234,005	$793,623	100%	100%	27%
6/30/07	$1,976,731	$359,484	$1,348,013	$848,007	100%	100%	32%
6/30/08	$2,218,937	$385,300	$1,550,875	$870,047	100%	100%	32%
6/30/09	$1,909,679	$412,147	$1,670,547	$905,018	100%	90%	0%
6/30/10	$2,179,076	$449,355	$1,745,146	$903,952	100%	99%	0%
6/30/11	$2,405,140	$485,126	$1,866,219	$895,382	100%	100%	6%

(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
6/30/02	$1,416,821	$1,660,566	$243,745	85.3%	$301,891	80.74%
6/30/03	$1,353,941	$1,781,544	$427,603	76.0%	$323,896	132.02%
6/30/04	$1,452,621	$1,921,328	$468,707	75.6%	$365,385	128.28%
6/30/05	$1,615,585	$2,177,759	$562,174	74.2%	$334,315	168.16%
6/30/06	$1,769,021	$2,345,149	$576,128	75.4%	$368,972	156.14%
6/30/07	$1,976,731	$2,555,504	$578,773	77.4%	$407,812	141.92%
6/30/08	$2,218,937	$2,806,222	$587,285	79.1%	$416,243	141.09%
6/30/09	$1,909,679	$2,987,712	$1,078,033	63.9%	$436,424	247.02%
6/30/10	$2,179,076	$3,098,453	$919,377	70.3%	$428,559	214.53%
6/30/11	$2,405,140	$3,246,727	$841,587	74.1%	$424,061	198.46%

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 increased dramatically from June 30, 2009. The most significant reasons for the increase in the funded ratio was the market appreciation of investments and contributions by the employer and employee.

HISTORY OF EMPLOYER CONTRIBUTION RATES

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

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

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

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

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

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

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

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

	General Member		
Year	Normal	UAAL	Total
2007	8.50%	7.76%	16.26%
2008	8.55%	8.04%	16.59%
2009	8.25%	15.09%	23.34%
2010	11.70%	16.35%	28.05%
2011	11.48%	16.96%	28.44%

HISTORY OF EMPLOYER CONTRIBUTION RATES: COUNTY

	General Member (excluding Nurses)			General Member Nurses			Safety Member			Probation Member		
Year	Normal	UAAL	Total	Normal	UAAL	Total	Normal	UAAL	Total	Normal	UAAL	Total
2001	9.95%	0.71%	10.66%	Same as General			17.81%	1.51%	19.32%	17.94%	1.16%	19.10%
2002	9.71%	0.70%	10.41%	Same as General			17.22%	1.50%	18.72%	16.76%	1.17%	17.93%
2003	11.00%	4.60%	15.60%	Same as General			21.99%	12.74%	34.73%	23.45%	8.10%	31.55%
2004	9.76%	8.25%	18.01%	Same as General			15.34%	24.82%	40.16%	16.17%	15.28%	31.45%
2005	10.36%	10.38%	20.74%	Same as General			20.43%	32.02%	52.45%	21.10%	16.43%	37.53%
2006	10.49%	9.97%	20.46%	Same as General			20.18%	30.52%	50.70%	21.59%	14.85%	36.44%
2007	10.19%	9.46%	19.65%	Same as General			19.94%	29.32%	49.26%	20.83%	14.06%	34.89%
2008	10.16%	9.81%	19.97%	Same as General			19.32%	27.31%	46.63%	20.05%	12.81%	32.86%
2009	10.11%	18.40%	28.51%	Same as General			19.21%	51.83%	71.04%	19.92%	23.84%	43.76%
2010	10.05%	18.46%	28.51%	Same as General			19.01%	52.03%	71.04%	19.85%	23.91%	43.76%
2011	9.71%	18.80%	28.51%	8.70%	19.81%	28.51%	18.97%	52.07%	71.04%	19.52%	24.24%	43.76%

ACTIVE MEMBER VALUATION DATA

Valuation Date		Members (1)	Annual Salary	Average Annual Salary	% Change Average Salary
2002	General	4,159	$250,344,000	$60,192	6.7%
	Safety	431	$34,405,000	$79,824	5.1%
	Probation	282	$17,142,000	$60,792	6.8%
	Total	4,872	$301,891,000	$61,968	6.6%
2003	General	4,213	$267,150,000	$63,408	5.3%
	Safety	434	$37,973,000	$87,492	9.6%
	Probation	290	$18,773,000	$64,740	6.5%
	Total	4,937	$323,896,000	$65,964	6.4%
2004	General	4,487	$303,786,879	$67,700	6.8%
	Safety	411	$40,796,852	$99,202	13.4%
	Probation	288	$20,800,813	$72,225	11.6%
	Total	5,186	$365,384,544	$70,448	6.8%
2005	General	4,411	$304,289,437	$68,984	1.9%
	Safety	409	$39,999,593	$97,799	-1.4%
	Probation	278	$20,123,863	$72,388	0.2%
	Total	5,098	$364,412,893	$71,482	1.4%
2006	General	4,614	$312,934,324	$67,823	-1.7%
	Safety	428	$41,407,772	$96,747	-1.1%
	Probation	313	$22,009,210	$70,317	-2.9%
	Total	5,355	$376,351,306	$70,280	-1.7%
2007	General	4,767	$346,319,017	$72,649	7.1%
	Safety	443	$45,386,411	$102,452	5.9%
	Probation	329	$24,364,268	$74,056	5.3%
	Total	5,539	$416,069,696	$75,116	6.9%
2008	General	4,743	$353,518,525	$74,535	2.6%
	Safety	432	$46,326,906	$107,238	4.7%
	Probation	325	$24,741,003	$76,126	2.8%
	Total	5,500	$424,586,434	$77,198	2.8%
2009	General	4,777	$370,760,830	$77,614	4.1%
	Safety	436	$48,120,081	$110,367	2.9%
	Probation	330	$26,270,802	$79,608	4.6%
	Total	5,543	$445,151,713	$80,309	4.0%
2010	General	4,609	$363,305,740	$78,825	1.6%
	Safety	425	$48,576,912	$114,299	3.6%
	Probation	313	$25,247,595	$80,663	1.3%
	Total	5,347	$437,130,247	$81,752	1.8%
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	$432,542,047	$82,468	0.90%

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

Demographic Activity of Retirees and Beneficiaries

	Retirees and Beneficiaries [1]								
Year	At Beginning Of Year	Addition	Withdrawal	At End of Year	Annual Payroll Increase (in 000s)	Annual Payroll Decrease (in 000s)	Total Retiree Payroll (in 000s)	Percent Increase In Payroll	Average Annual Allowance
6/30/02	3,253	194	138	3,309	N/A	N/A	$66,974	7.3%	$19,524
6/30/03	3,309	128	115	3,322	N/A	N/A	$69,451	3.7%	$20,112
6/30/04	3,466	193	120	3,539	N/A	N/A	$75,493	8.7%	$21,336
6/30/05	3,539	238	95	3,682	N/A	N/A	$84,183	11.5%	$22,860
6/30/06	3,519	206	112	3,613	N/A	N/A	$91,006	8.1%	$25,188
6/30/07	3,613	155	74	3,694	N/A	N/A	$98,790	8.6%	$26,748
6/30/08	3,694	218	70	3,842	N/A	N/A	$109,616	11.0%	$28,536
6/30/09	3,842	159	66	3,935	$12,717	$3,281	$119,052	8.6%	$30,252
6/30/10	3,935	163	96	4,002	$9,076	$3,240	$124,888	4.9%	$31,212
6/30/11	4,002	209	64	4,147	$19,539	$2,916	$135,675	8.6%	$32,472

(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.

Actuarial Analysis of Financial Experience ($000)

Summary of (Gains) / Losses	Change In Liability				
	2011	2010	2009	2008	2007
Unfunded Liability as of July 1	$919,377	$1,078,033	$587,285	$578,773	$576,128
Expected Change in UAAL	($31,508)	$27,388	($11,786)	($31,649)	($16,745)
Salary (Gain) / Loss	($51,831)	($43,598)	($10,081)	($19,946)	$ 45,157
Retiree COLA more / (less) than expected	($27,561)	($41,258)	$ 1,080	$ 937	($3,380)
Assets (Gain) / Loss	$12,548	($88,485)	$522,444	($20,078)	($22,639)
Change due to Assumption Changes	$19,402			$ 61,011	
Miscellaneous Experience	$1,160	($12,703)	($10,909)	$ 18,237	$ 252
Change Due to New Formula					
Unfunded Liability as of June 30	$841,587	$919,377	$1,078,033	$587,285	$578,773

RATES OF SEPARATION FROM ACTIVE SERVICE

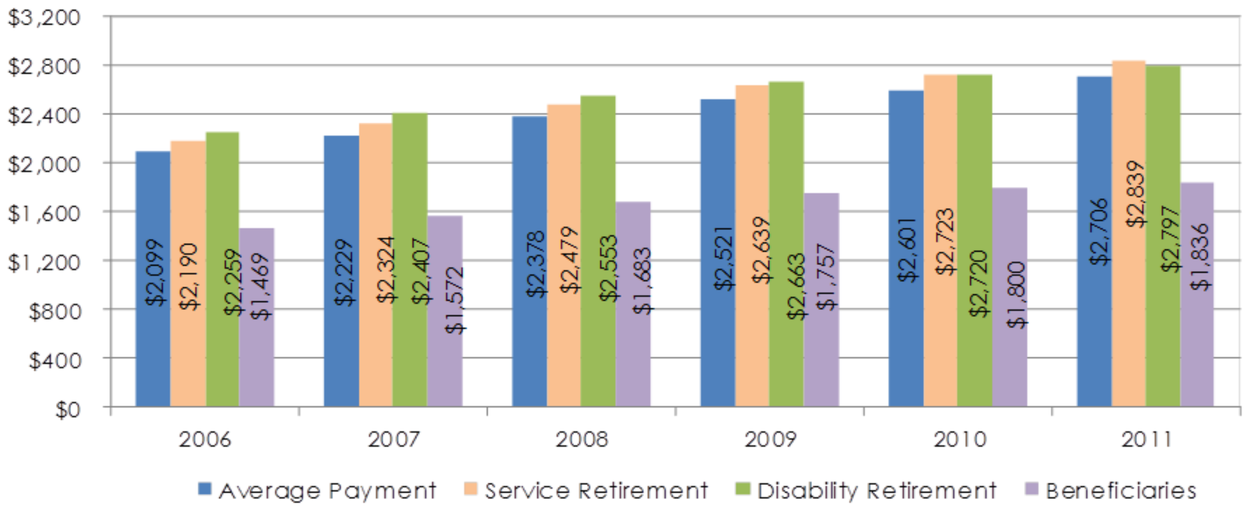
Service Retirement: Member retires after meeting age and service requirements for reasons other than disability.
Withdrawal: Member terminates and elects a refund of member contributions, or a deferred vested retirement benefit.
Service Disability: Member receives disability retirement; disability is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

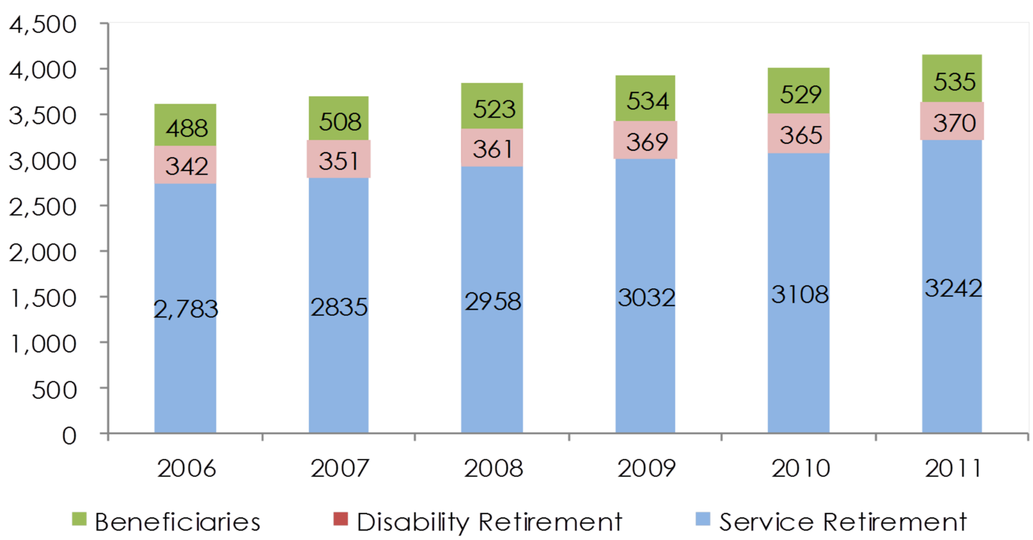
PROBABILITY OF SEPARATION DURING ACTIVE SERVICE

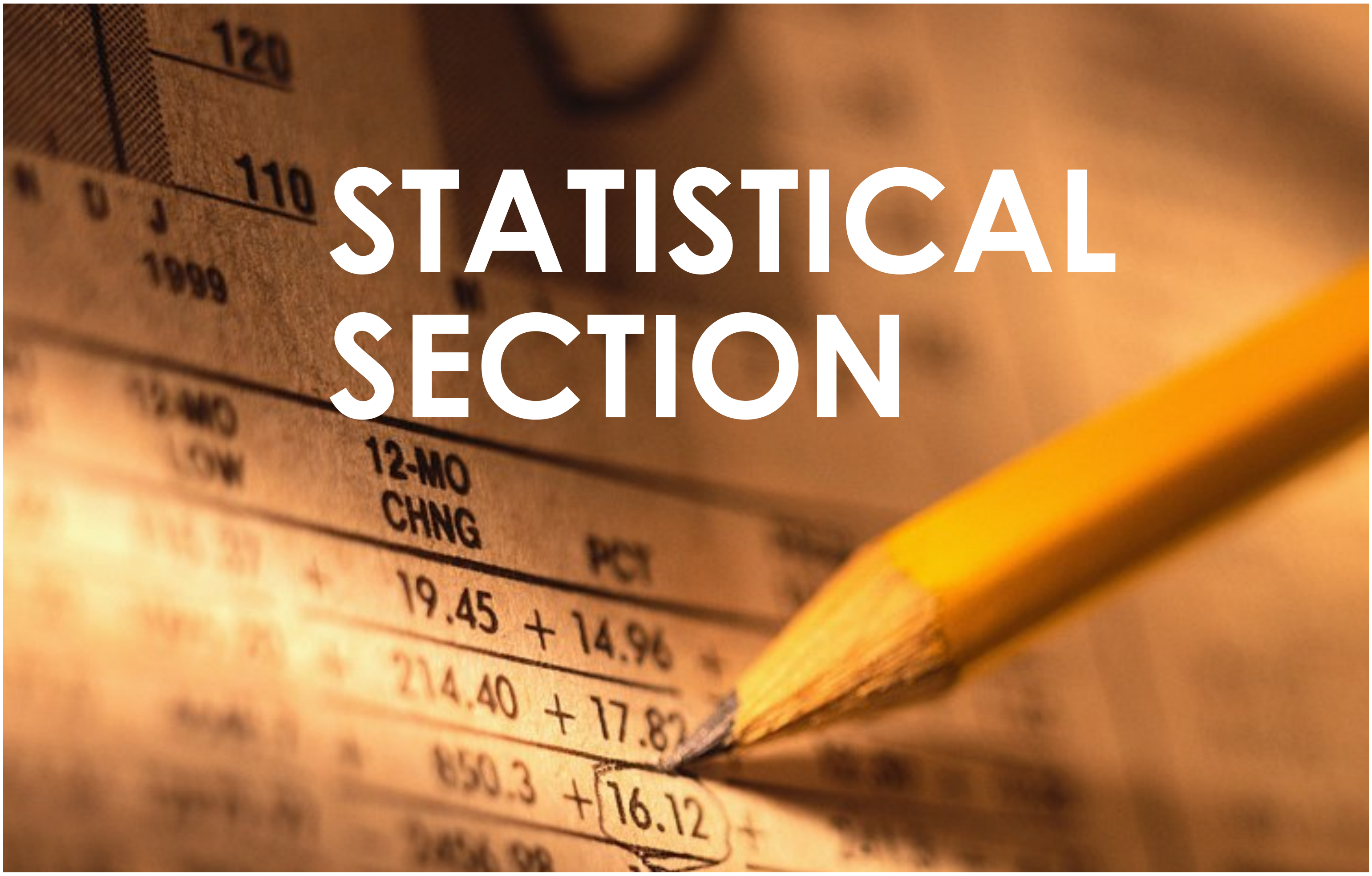
Years of Service	Other Terminations Ordinary	Other Terminations Vested	Age	Disability Ordinary	Disability Service	Death while Active Ordinary	Death while Active Service	Service Retirement
General Plan 1, 2 & 4 Male Members								
0	0.1300	0.0000	20	0.0002	0.0004	0.0003	0.0000	0.0000
5	0.0285	0.0348	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 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 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 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

AVERAGE MONTHLY BENEFIT PAYMENT



RETIREES BY CATEGORY





STATISTICAL SECTION

$638 million

TOTAL FUND ADDITION

Net investment income was $438 million, followed by employer contribution of $151 million and member contributions of $49 million.

INTRODUCTION TO THE STATISTICAL SECTION

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

CHANGE IN PENSION PLAN NET ASSETS LAST TEN FISCAL YEARS

as of June 30 (in thousands of dollars)

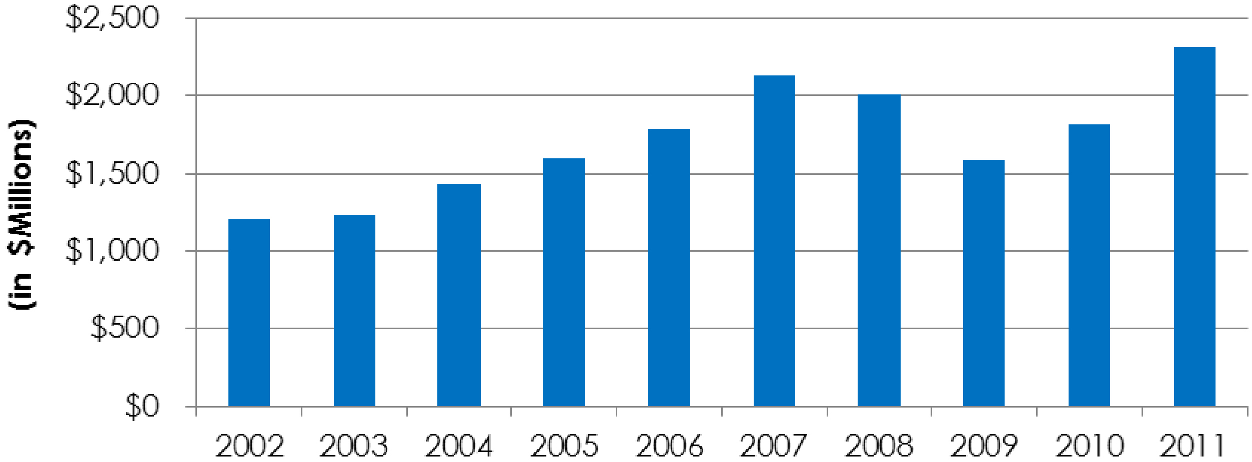
	2011	2010	2009	2008	2007
Additions					
Employer Contributions	$150,475	$106,265	$106,123	$105,340	$100,550
Member Contributions	49,013	50,319	50,372	60,111	42,696
Total Contributions	199,488	156,584	156,495	165,451	143,246
Investment Income (net of expenses)	437,654	195,412	(457,309)	(178,379)	298,260
Security Lending Income	530	743	1,631	1,699	0
Miscellaneous Additions	73	41	(16)	181	26
Total Additions (Declines)	637,745	352,780	(299,199)	(11,048)	441,532
Deductions					
Retiree Benefits	129,835	122,141	113,991	103,970	94,788
Member Refunds	2,474	2,736	2,795	3,075	2,244
Administrative Expenses	3,547	3,373	3,287	2,774	2,582
Other Expenses	10	33	67	8	201
Total Deductions	135,866	128,283	120,140	109,827	99,815
Change in Pension Plan Net Assets	**$501,879**	**$224,497**	**($419,339)**	**($120,875)**	**$341,717**

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

as of June 30 (in thousands of dollars)

	2006	2005	2004	2003	2002
Additions					
Employer Contributions	$76,090	$76,931	$60,042	$36,070	$33,541
Member Contributions	39,962	33,647	27,094	22,650	16,627
Total Contributions	116,052	110,578	87,136	58,720	50,168
Investment Income (net of expenses)	166,826	140,132	193,107	39,142	(82,410)
Security Lending Income	0	0	0	0	0
Miscellaneous Additions	49	79	226	8	0
Total Additions (Declines)	282,927	250,789	280,469	97,870	(32,242)
Deductions					
Retiree Benefits	87,915	83,182	74,016	68,989	65,186
Member Refunds	2,258	1,458	1,734	1,206	1,551
Administrative Expenses	2,086	2,235	1,912	1,887	1,509
Other Expenses	40	4	719	0	0
Total Deductions	92,299	86,879	78,381	72,082	68,246
Change in Pension Plan Net Assets	**$190,628**	**$163,910**	**$202,088**	**$25,788**	**($100,488)**

Total Plan Net Assets



Schedule of Employer Contributions

(in thousands of dollars)

Year End	Actuarially Required Contributions (ARC)	Contributions Made As a % of ARC
6/30/02	$33,541	100%
6/30/03	$36,070	100%
6/30/04	$60,042	100%
6/30/05	$76,931	100%
6/30/06	$76,090	100%
6/30/07	$100,550	100%
6/30/08	$105,340	100%
6/30/09	$106,123	100%
6/30/10	$106,265	100%
6/30/11	$150,475	100%

Summary of revenue by Source

(in thousands of dollars)

Year End	Employee Contribution	Employer Contribution	Investment Income	Total Contributions
6/30/02	$16,627	$33,541	($82,410)	($32,242)
6/30/03	$22,650	$36,070	$39,150	$97,870
6/30/04	$27,094	$60,042	$193,333	$280,469
6/30/05	$33,647	$76,931	$140,211	$250,789
6/30/06	$39,963	$76,090	$166,874	$282,927
6/30/07	$42,696	$100,550	$298,286	$441,532
6/30/08	$60,111	$105,340	($176,043)	($10,592)
6/30/09	$50,372	$106,123	($455,694)	($299,199)
6/30/10	$50,319	$106,265	$196,196	$352,780
6/30/11	$49,013	$150,475	$438,257	$637,745

Schedule of Expenses by Type

(in thousands of dollars)

Year End	Administrative Expenses	Other Expenses	Retirement Benefits Paid	Member Refunds	Total
6/30/02	$1,509	$0	$65,186	$1,551	$68,246
6/30/03	$1,887	$0	$68,989	$1,206	$72,082
6/30/04	$1,912	$719	$74,016	$1,734	$78,381
6/30/05	$2,235	$4	$83,182	$1,458	$86,879
6/30/06	$2,086	$40	$87,915	$2,258	$92,299
6/30/07	$2,582	$201	$94,788	$2,244	$99,815
6/30/08	$3,231	$8	$103,970	$3,075	$110,284
6/30/09	$3,287	$67	$113,991	$2,795	$120,140
6/30/10	$3,373	$33	$122,141	$2,736	$128,283
6/30/11	$3,547	$10	$129,835	$2,474	$135,866

SUMMARY OF RETIRED AND INACTIVE MEMBER BENEFITS

RETIRED MEMBERS	2011	2010	2009	2008	2007
Service Retirement					
Number	3,242	3,108	3,032	2,958	2,835
Annual Allowance					
Basic Only	87,254,000	79,007,000	73,038,000	66,704,000	59,687,000
COLA	$23,212,000	$22,542,000	$22,964,000	$21,289,000	$19,382,000
Total	$110,466,000	$101,549,000	$96,002,000	$87,993,000	$79,069,000
Average Monthly Payment	$2,839	$2,723	$2,639	$2,479	$2,324
Disability Retirement					
Number	370	365	369	361	351
Annual Allowance					
Basic Only	$9,414,000	$8,988,000	$8,722,000	$8,214,000	$7,571,000
COLA	$3,005,000	$2,926,000	$3,070,000	$2,847,000	$2,569,000
Total	$12,419,000	$11,914,000	$11,792,000	$11,061,000	$10,140,000
Average Monthly Payment	$2,797	$2,720	$2,663	$2,553	$2,407
Beneficiaries					
Number	535	529	534	523	508
Annual Allowance					
Basic Only	$6,672,000	$6,309,000	$6,052,000	$5,757,000	$5,220,000
COLA	$5,118,000	$5,116,000	$5,206,000	$4,805,000	$4,361,000
Total	$11,790,000	$11,425,000	$11,258,000	$10,562,000	$9,581,000
Average Monthly Payment	$1,836	$1,800	$1,757	$1,683	$1,572
Total Retired Members					
Number	4,147	4,002	3,935	3,842	3,694
Annual Allowance					
Basic Only	103,340,000	94,304,000	87,812,000	80,675,000	72,478,000
COLA	31,335,000	30,584,000	31,240,000	28,941,000	26,312,000
Total	$134,675,000	$124,888,000	$119,052,000	$109,616,000	$98,790,000
Average Monthly Payment	$2,706	$2,601	$2,521	$2,378	$2,229
INACTIVE MEMBERS	1,190	1,207	1,230	1,225	1,151

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

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

Summary of Retired and Inactive Member Benefits (Continued)

RETIRED MEMBERS	2006	2005	2004	2003	2002
Service Retirement					
Number	2,783	2,865	2,706	2,638	2,638
Annual Allowance					
Basic Only	54,942,000	49,760,000	41,723,000	36,260,000	36,260,000
COLA	$18,188,000	$17,759,000	$17,502,000	$16,668,000	$16,668,000
Total	$73,130,000	$67,519,000	$59,225,000	$52,928,000	$52,928,000
Average Monthly Payment	$2,190	$1,964	$1,824	$1,672	$1,672
Disability Retirement					
Number	342	334	339	316	316
Annual Allowance					
Basic Only	$6,915,000	$6,575,000	$6,164,000	$5,061,000	$5,061,000
COLA	$2,356,000	$2,205,000	$2,172,000	$2,049,000	$2,049,000
Total	$9,271,000	$8,780,000	$8,336,000	$7,110,000	$7,110,000
Average Monthly Payment	$2,259	$2,191	$2,049	$1,875	$1,875
Beneficiaries					
Number	488	483	494	477	477
Annual Allowance					
Basic Only	$4,659,000	$4,084,000	$4,250,000	$3,548,000	$2,950,000
COLA	$3,946,000	$3,800,000	$3,682,000	$3,388,000	$2,886,000
Total	$8,605,000	$7,884,000	$7,932,000	$6,936,000	$5,836,000
Average Monthly Payment	$1,469	$1,360	$1,338	$1,212	$1,108
Total Retired Members					
Number	3,613	3,682	3,539	3,431	3,102
Annual Allowance					
Basic Only	66,516,000	60,419,000	52,137,000	44,869,000	37,023,000
COLA	24,490,000	23,764,000	23,356,000	22,105,000	18,169,000
Total	$91,006,000	$84,183,000	$75,493,000	$66,974,000	$55,192,000
Average Monthly Payment	$2,099	$1,905	$1,778	$1,627	$1,483
INACTIVE MEMBERS	1,089	872	877	833	646

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.

Schedule of Average Monthly Salary of Active Members

(by tier and membership type)

	2011	2010	2009	2008	2007
General Tier 1	$7,630	$7,543	$7,534	$7,252	$7,175
General Tier 2	$7,208	$7,193	$7,120	$6,872	$6,688
General Tier 3	$5,968	$5,818	$5,791	$5,619	$5,287
General Tier 4	$6,398	$6,348	$6,212	$5,914	$5,714
General Tier Total	$6,599	$6,569	$6,468	$6,211	$6,054
Safety Tier 1	$12,073	$11,578	$10,889	$11,113	$10,212
Safety Tier 2	$10,789	$10,548	$10,135	$9,612	$9,299
Safety Tier 4	$9,230	$8,931	$8,610	$8,349	$7,882
Safety Tier Total	$9,730	$9,525	$9,197	$8,937	$8,538
Probation Tier 1	$7,533	$8,922	$9,751	$9,791	$8,522
Probation Tier 2	$7,349	$7,393	$7,341	$6,960	$6,899
Probation Tier 4	$6,505	$6,456	$6,291	$5,978	$5,766
Probation Tier Total	$6,719	$6,722	$6,634	$6,344	$6,171
Average	$6,872	$6,813	$6,692	$6,433	$6,260

Schedule of Average Monthly Salary of Active Members (Continued)

(by tier and membership type)

	2006	2005	2004	2003	2002
General Tier 1	$6,749	$6,582	$6,514	$6,070	$5,806
General Tier 2	$6,148	$6,045	$5,980	$5,573	$5,311
General Tier 3	$4,988	$5,216	$5,101	$4,747	$4,737
General Tier 4	$5,315	$5,476	$5,281	$4,886	$4,545
General Tier Total	$5,652	$5,747	$5,642	$5,284	$5,016
Safety Tier 1	$10,019	$9,701	$9,516	$8,500	$7,820
Safety Tier 2	$8,585	$8,482	$8,530	$7,518	$6,853
Safety Tier 4	$7,403	$7,564	$7,582	$6,465	$5,789
Safety Tier Total	$8,062	$8,150	$8,267	$7,291	$6,652
Probation Tier 1	$7,735	$7,216	$6,856	$6,548	$6,253
Probation Tier 2	$6,479	$6,390	$6,291	$5,800	$5,542
Probation Tier 4	$5,444	$5,741	$5,711	$4,924	$4,502
Probation Tier Total	$5,860	$6,032	$6,019	$5,395	$5,066
Average	$5,857	$5,955	$5,871	$5,467	$5,164

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

	2011	2010	2009	2008	2007
COUNTY OF SAN MATEO					
General Members	4,476	4,589	4,758	4,718	4,742
Safety Members	446	425	436	432	443
Safety/Probation Members	305	313	330	325	329
Total	5,227	5,327	5,524	5,475	5,514
SAN MATEO COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT					
General Members Total	18	20	19	25	25
Total Active Membership	**5,245**	**5,347**	**5,543**	**5,500**	**5,539**

Schedule of Participating Employers and active Members (Continued)

	2006	2005	2004	2003	2002
COUNTY OF SAN MATEO					
General Members	4,594	4,391	4,474	4,202	4,175
Safety Members	428	409	411	434	431
Safety/Probation Members	313	278	288	290	293
Total	5,335	5,078	5,173	4,926	4,899
SAN MATEO COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT					
General Members Total	20	20	13	11	11
Total Active Membership	**5,355**	**5,098**	**5,186**	**4,937**	**4,910**

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COMPLIANCE SECTION

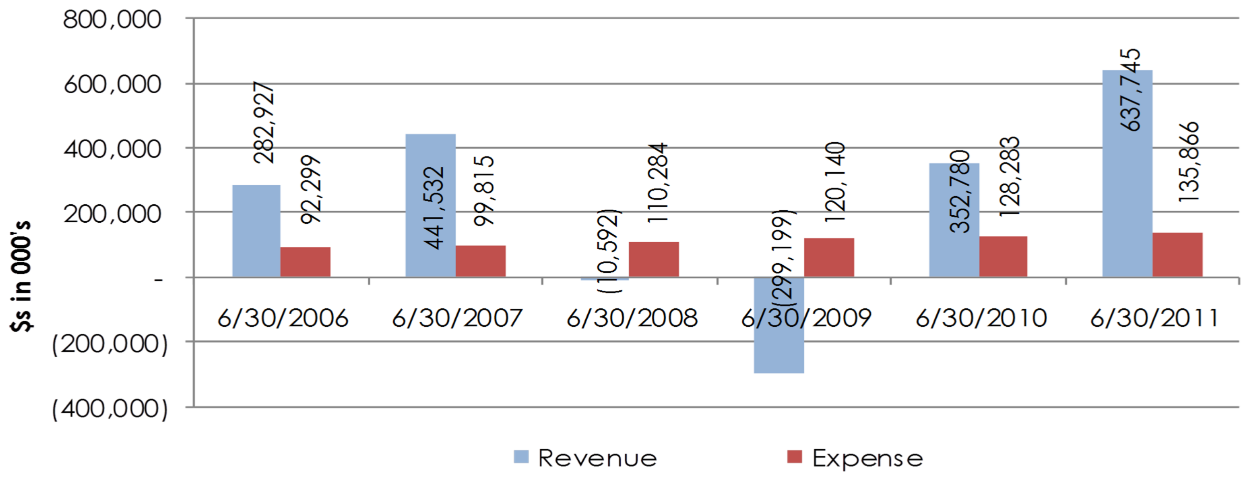
74.1%

FUNDED RATIO

SamCERA's Funded Ratio is trending up from a low of 63.9% on June 30, 2009.

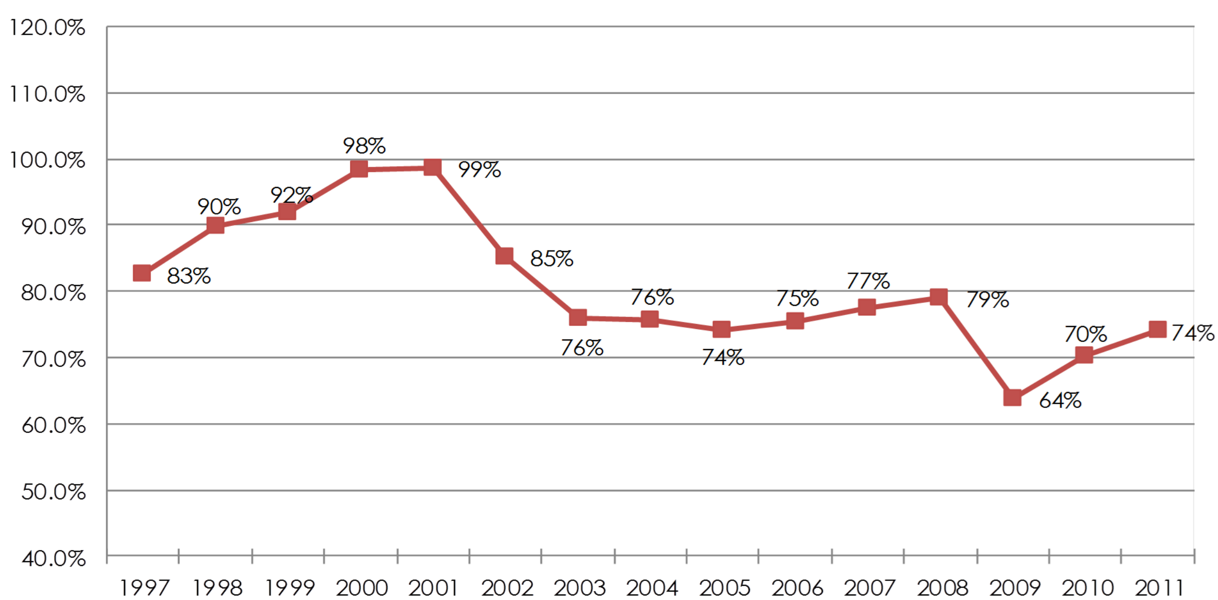
SAMCERA'S REVENUE AND EXPENSE

FY 2006-2011



SAMCERA'S FUNDING RATIO (GASB 25 BASIS)

FY 1997-2011



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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*

Board of Retirement
San Mateo County Employees' Retirement Association

We have audited the financial statements of the San Mateo County Employees' Retirement Association (SamCERA), as of and for the year ended June 30, 2011, and have issued our report thereon dated October 19, 2011. We conducted our audit in accordance with auditing standard generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements of SamCERA as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered SamCERA's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SamCERA's internal control. 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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of SamCERA's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Audit Committee, the Board of Retirement, and management of SamCERA, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
October 19, 2011

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To order your own copy of *SamCERA's 2011 Comprehensive Annual Financial Report*, contact *SamCERA* at:

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

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

www.samcera.org

SamCERA

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