



2015 POPULAR ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2015
Redwood City, State of California



A MESSAGE FROM THE CEO: STABILITY IN UNCERTAIN MARKETS



Despite a mixed year in the markets, SamCERA was able to improve its financial health in fiscal year 2014-15. Although this year's net investment earnings came up short of our long-term target, SamCERA still increased its funded level (generally defined as the fund's assets divided by its liabilities) by 3.8% to 82.6%. That's our highest level since 2002, and a strong indicator of overall plan health. To put this year's performance in perspective, it is important to understand that SamCERA has established an investment strategy to meet an assumed earnings rate over the long-term (in this case, 30 years) while minimizing risk. Because SamCERA invests for the long-term, periodic short-term underperformance relative to this long-term target can be expected and periods of exceptional performance, like the several year stretch before this year, help lessen the impact of down years. This is reflected in our current funded level, which has been bolstered by the recognition of deferred gains from previous years.

(Continued on the back page)



INTRODUCTION

This Popular Annual Financial Report is a condensed version of the San Mateo County Employees' Retirement Association's (SamCERA) Comprehensive Annual Financial Report (CAFR), which is prepared in accordance with generally accepted accounting principles in the United States of America. The CAFR provides in-depth information about the financial, investment, actuarial, statistical, and compliance aspects of SamCERA and is available online at samcera.org.

ABOUT SAMCERA

SamCERA is a cost-sharing multiple-employer, defined benefit pension plan established to provide pension benefits for predominantly all permanent employees of the County of San Mateo (the County), the Superior Court of the County of San Mateo, and the San Mateo County Mosquito and Vector Control District. At June 30, 2015, SamCERA has 11,117 members.

The management of SamCERA is vested in the Board of Retirement consisting of nine members: the first member is the County Treasurer; the second and third members are general members of SamCERA elected by their peers; the fourth, fifth, sixth and ninth members are qualified electors of the County and appointed by the County Board of Supervisors; the seventh member is elected by and a member of SamCERA's safety membership; and the eighth member is a retired member elected from the retired membership.

In addition, there is one elected Safety Member Alternate and one elected Retired Member Alternate.

MISSION AND GOALS

SamCERA exists to serve as loyal fiduciary for its members and as prudent administrator of the retirement system. SamCERA will continue to pursue its three major goals:

- Provide caring, fair, accurate, timely and knowledgeable professional services and information to members and other stakeholders.
- Prudently manage the assets in order to appropriately fund the actuarial liabilities of the retirement system to ensure the ability to pay all earned benefits while minimizing the costs to employers.
- Constantly improve the effectiveness of SamCERA's services and the efficiency of its operations.

MEMBER SERVICES & RESOURCES

SamCERA has a comprehensive education program with resources to help members anticipate future financial needs and plan for a lifelong retirement.

Members may contact SamCERA for a one-on-one counseling session to get ready for retirement. In addition, members can get a retirement estimate through SamCERA's Web Member Services. These services are easy, and fast!

SUMMARY OF SIGNIFICANT ACTUARIAL STATISTICS AND MEASURES

	2015	2014	Relative Change
Active Members			
Number of Members	5,095	5,004	1.8 %
Average Age	45.5	45.8	(0.7)%
Average Credited Service	11.0	11.2	(1.8)%
Total Active Payroll (In Thousands)	\$462,640	\$429,407	7.7 %
Average Monthly Salary	\$7,567	\$7,151	5.8 %
Retired Members			
Number of Members			
Service Retirement	3,628	3,525	2.9 %
Disability Retirement	442	428	3.3 %
Beneficiaries	568	565	0.5 %
Average Age	71.3	71.3	-
Actual Retiree Benefits Paid (In Thousands)	\$168,109	\$159,342	5.5 %
Average Monthly Pension	\$3,160	\$3,021	4.6 %
Number of Inactive Members			
	1,384	1,304	6.1 %
Assets			
Fair Value of Fund (In Thousands)	\$3,454,476	\$3,291,694	4.9 %
Return on Market Value	3.5%	17.3%	
Valuation Assets (In Thousands)	\$3,343,550	\$2,993,187	11.7 %
Return on Valuation Assets	9.7%	3.7%	
Liability Values (In Thousands)			
Actuarial Accrued Liability	\$4,045,786	\$3,797,042	6.6 %
Unfunded Actuarial Accrued Liability	\$702,236	\$803,855	(12.6)%
Deferred Asset (Gains) / Losses	(\$77,153)	(\$268,273)	
Funded Ratio			
Based on valuation assets	82.6%	78.8%	4.8 %
Statutory Employer Contribution Rate for All plans Combined as a Percent of Total Payroll			
Gross Normal Cost	21.94%	22.22%	(1.3)%
Less: Member Contributions	(11.52)%	(11.42)%	0.9 %
Employer Normal Cost	10.42%	10.80%	(3.5)%
UAAL Amortization	21.93%	23.94%	(8.4)%
Total Employer Rate	32.35%	34.74%	(6.9)%
Funded Ratio	82.60%	78.80%	4.8 %

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



SAMCERA'S STATEMENT OF FIDUCIARY NET POSITION

As of June 30 (In Thousands)

	2015	2014	Increase (Decrease)	
			Amount	Percentage
Assets				
Cash and cash equivalents	\$ 51,162	\$ 78,672	\$ (27,510)	-35%
Cash management overlay	26,273	21,446	4,827	23%
Security lending cash collateral	99,387	-	99,387	---
Receivables	27,174	20,881	6,293	30%
Prepaid expense	8	8	-	0%
Investments at fair value	3,373,248	3,203,688	169,560	5%
Capital assets, net	3,206	-	3,206	---
Total assets	3,580,458	3,324,695	255,763	8%
Liabilities				
Investment management fees	2,043	2,788	(745)	-27%
Due to broker for investments purchased	21,246	27,187	(5,941)	-22%
Securities lending cash collateral due to borrowers	99,387	-	99,387	---
Other	3,306	3,026	280	9%
Total liabilities	125,982	33,001	92,981	282%
Net position restricted for pensions	\$ 3,454,476	\$ 3,291,694	\$ 162,782	5%

MORE ABOUT THE TABLE ABOVE

The **Statement of Fiduciary Net Position** is a snapshot of account balances at fiscal year-end. The difference between assets and liabilities is “net position,” which represents funds available to pay pension benefits.

At June 30, 2015, SamCERA’s net position was \$3.45 billion, or 5%, over the prior fiscal year. The increase was due to market appreciation of assets and contributions received.

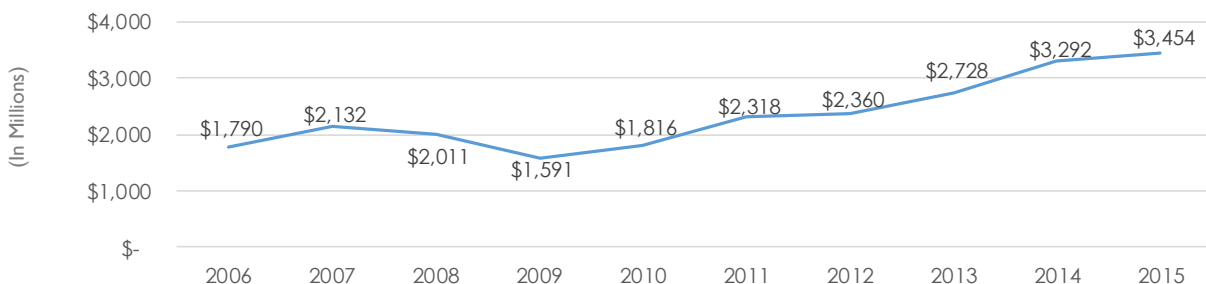
SamCERA’s investment portfolio returned 3.5% in fiscal year 2015 compared to 17.3% in fiscal year 2014. This fairly large decline in investment return was primarily due to numerous global concerns such as the economic downturn in China, decline in oil prices, and market uncertainty in Europe and the Middle East.

GOOD FINANCIAL STANDING

Increases and decreases in the fiduciary net position over time may serve as a useful indicator of whether the financial health of SamCERA is improving or declining. Despite recent market volatility and increased retirement benefits, the overall financial position of SamCERA has improved. SamCERA remains in a good financial position to meet its obligations to members and beneficiaries.

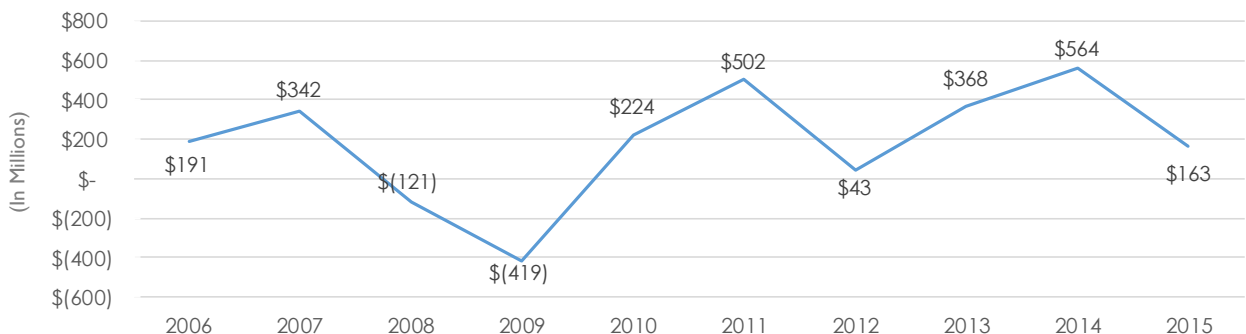
SAMCERA'S NET POSITION

For the fiscal years ended June 30

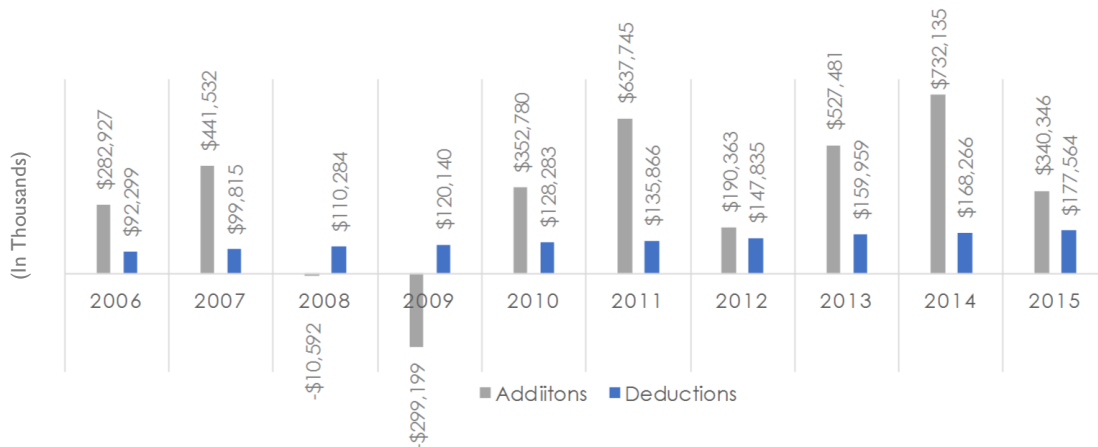


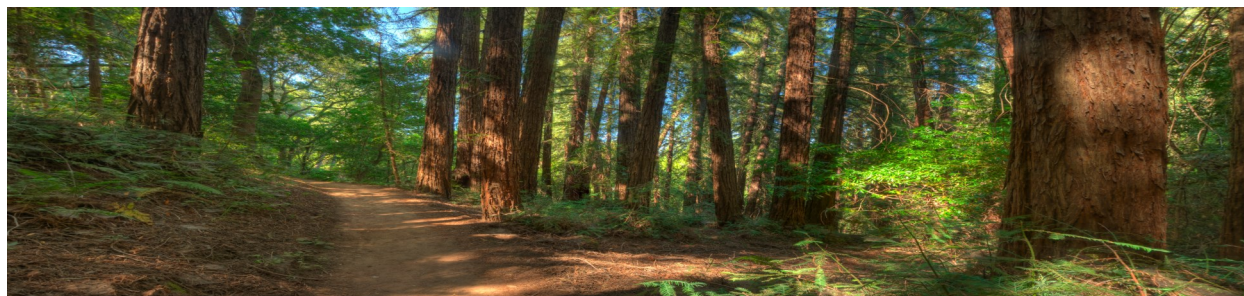
CHANGE IN SAMCERA'S NET POSITION

For the fiscal years ended June 30



ADDITIONS TO AND DEDUCTIONS FROM SAMCERA'S FUND (LAST 10 YEARS)





SAMCERA'S STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Fiscal Years Ended June 30 (In Thousands)

	2015	2014	Increase (Decrease)	
			Amount	Percentage
Additions				
Employer contributions	\$ 180,704	\$ 202,877	\$ (22,173)	-11%
Member contributions	48,012	46,594	1,418	3%
Net investment income	111,320	482,050	(370,730)	-77%
Net security lending income	310	435	(125)	-29%
Other	-	179	(179)	-100%
Total additions	340,346	732,135	(391,789)	-54%
Deductions				
Service retirement allowance	147,267	139,036	8,231	6%
Disability retirement allowance	20,039	19,267	772	4%
Survivor, death and other benefits	803	1,039	(236)	-23%
Member refunds	3,357	3,214	143	4%
Administrative expense	5,350	4,914	436	9%
Technology information expense	629	731	(102)	-14%
Other expense	119	65	54	83%
Total deductions	177,564	168,266	9,298	6%
Net Increase	162,782	563,869	(401,087)	-71%
Net position restricted for pensions				
Beginning of year	3,291,694	2,727,825	563,869	21%
End of year	\$ 3,454,476	\$ 3,291,694	\$ 162,782	5%

MORE ABOUT THE TABLE ABOVE

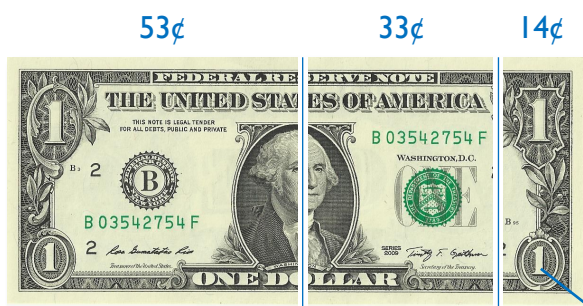
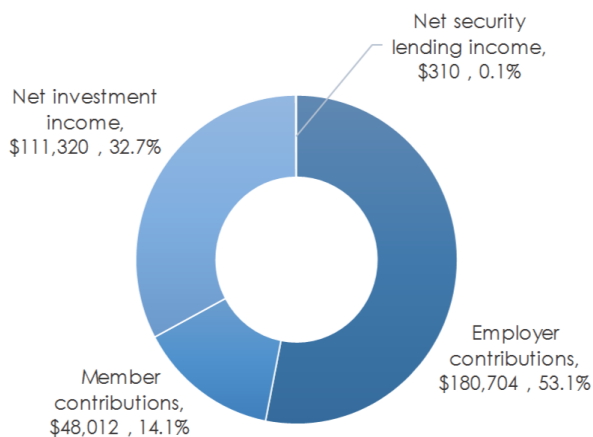
The [Statement of Changes in Fiduciary Net Position](#) provides information about SamCERA's financial activities during fiscal year 2015.

[Total additions to fiduciary net position](#) decreased \$392 million to \$340 million this year from \$732 million last year. The decrease was primarily from a \$371 million decline in net investment income as the market conditions were shadowed by numerous global concerns such as the economic downturn in China, decline in oil prices, and market uncertainty in Europe and the Middle East.

[Deductions from fiduciary net position](#) increased \$9 million to \$177 million from \$168 million last year. Most of this increase was from an increased number of service retirement allowances for retirees with higher pension benefit amounts.

WHERE DID SAMCERA'S MONEY COME FROM?

For the Fiscal Year Ended June 30, 2015 (Dollar Amounts in Thousands)



This graphic uses the same information in the pie chart above. It shows the breakdown of every dollar SamCERA received this fiscal year.

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

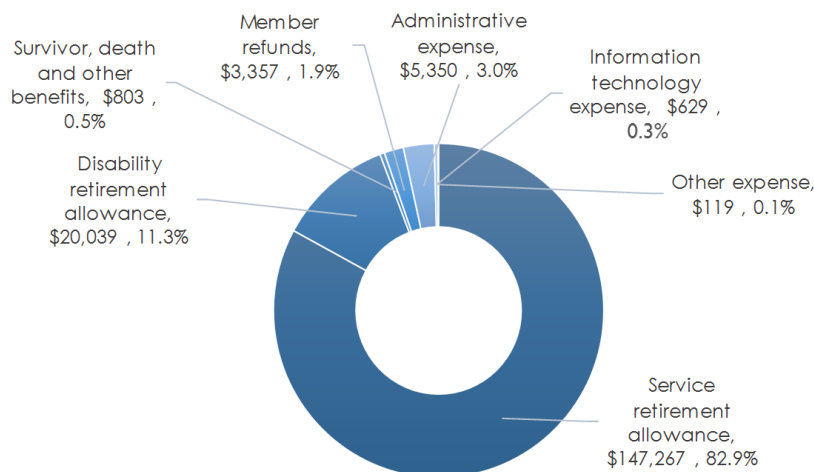
Employer Contributions
This is the money paid to SamCERA from employers for employees' pension benefits.

Net Investment Income
This includes earnings from stocks, bonds, alternatives, real estate, and other investments, minus fees.

Employee Contributions
This is the money active employees pay into the fund for future benefits.

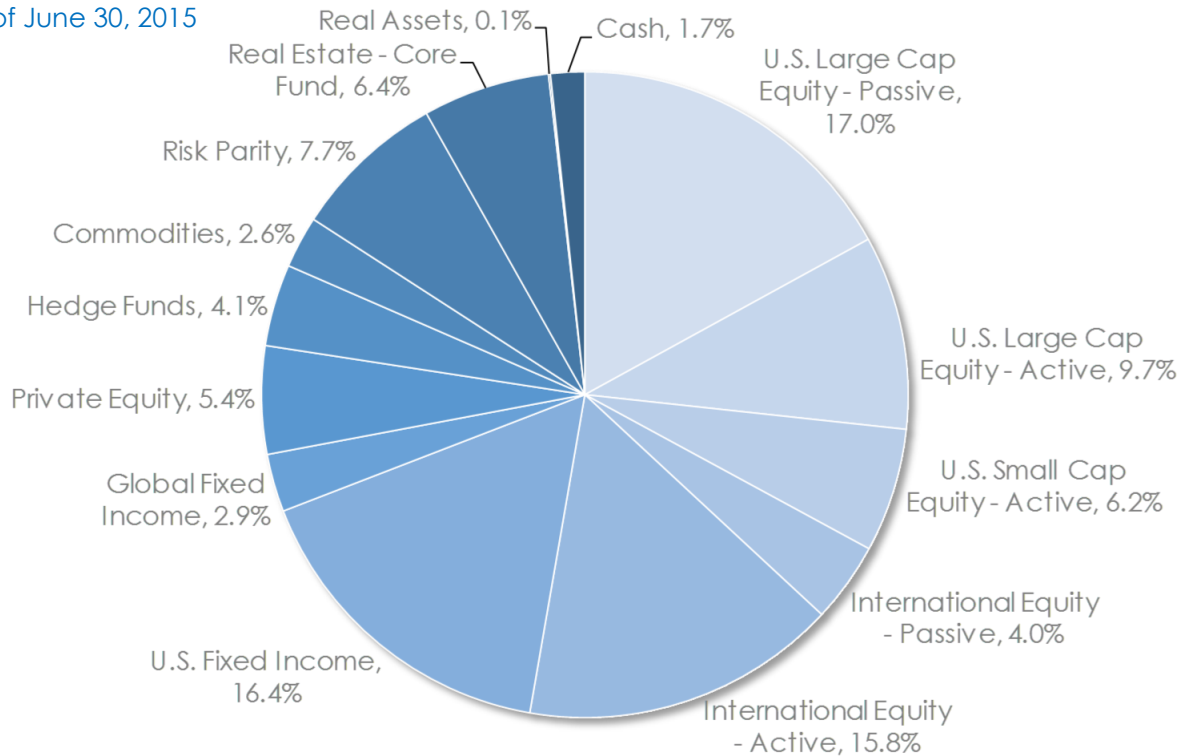
WHERE DID SAMCERA'S MONEY GO?

For the Fiscal Year Ended June 30, 2015 (Dollar Amounts in Thousands)



ASSET ALLOCATION

As of June 30, 2015



INVESTMENT POLICY

SamCERA’s Investment Policy is aimed at reducing risk through a prudent diversification of the investment portfolio across a board selection of distinct classes. The Board conducted an asset liability study in fiscal year 2014 and subsequently approved a new target asset allocation outlined in SamCERA’s Investment Policy. The Board undertakes an in-depth asset and liability study every three to five years.

ASSET ALLOCATION

Asset Allocation divides the investment portfolio among different asset classes such as equities, fixed income, real assets, and private equity. The newly adopted target asset allocation consists of 50% in equities, 20% in fixed income, 16% in alternatives, 8% in risk parity, and 6% in real asset. As of June 30, 2015, actual asset allocation was 52.7% in equities, 19.3% in fixed income, 12.2% in alternative, 7.7% in risk parity, 6.4% in real estate, and 1.7% in cash and cash equivalents.

SamCERA’s asset allocation strategy calls for half of the portfolio to be invested in the stock market. Items in the chart above labeled with “Equity” are part of this investment, which is divided among domestic and international markets.

PORTFOLIO PERFORMANCE

Following up on the positive double-digit returns of the past two fiscal years, SamCERA's portfolio returned 3.5% net of investment manager fees for the fiscal year ended June 30, 2015.

This fiscal-year results are strong relative to SamCERA's peers, and are above median among large (greater than \$1 billion in assets) public retirement plans. This year, U.S. equities generally provided strong returns, as economic activity in the U.S. was low but generally positive. For markets outside of the U.S., several factors impacted returns.

Heightened geopolitical concerns, including situations in Greece, Syria, and Ukraine, weighed on global markets during the year. In addition, weaker growth prospects in China, steep drops in the price of oil and other commodities, and fears of Eurozone deflation and the resulting quantitative easing program announced by the European Central Bank, all contributed to significant price volatility across global stock, bond, currency, and commodity markets.

During the year, SamCERA maintained its asset allocation discipline by continuing to actively rebalance the portfolio to its long-term policy asset allocation portfolio weights. Asset allocation and risk diversification continue to be of primary focus as SamCERA navigates the market volatility going forward.

INVESTMENT PORTFOLIO PERFORMANCE

As of June 30, 2015 (In Millions)

Investment Asset Class	Fair Value	Investment Return			
		1 Year	2 Years	3 Years	5 Years
Domestic U.S. Equity	\$1,122	2.6%	13.0%	16.9%	17.1%
International Equity	676	-4.2%	7.8%	10.1%	7.7%
Bond Composite	665	0.8%	3.9%	4.2%	5.5%
Alternative Investments	426	7.9%	8.5%	6.8%	N/A
Risk Parity	265	-1.4%	8.0%	6.4%	N/A
Real Estate	219	16.1%	13.2%	13.2%	14.3%
Cash	81	0.7%	0.5%	0.5%	0.6%
Total Investment Portfolio	\$3,454	3.5%	10.2%	11.3%	11.2%

Real Estate

Leads Earnings

SamCERA's real estate portfolio was this year's top performing asset class.



SamCERA has taken advantage of investment opportunities as they have evolved, while adhering to a well thought out strategic plan. SamCERA is reaping the rewards of its diligence and discipline, and [we] firmly believe that SamCERA has constructed a diversified portfolio that will continue to serve its participants well.

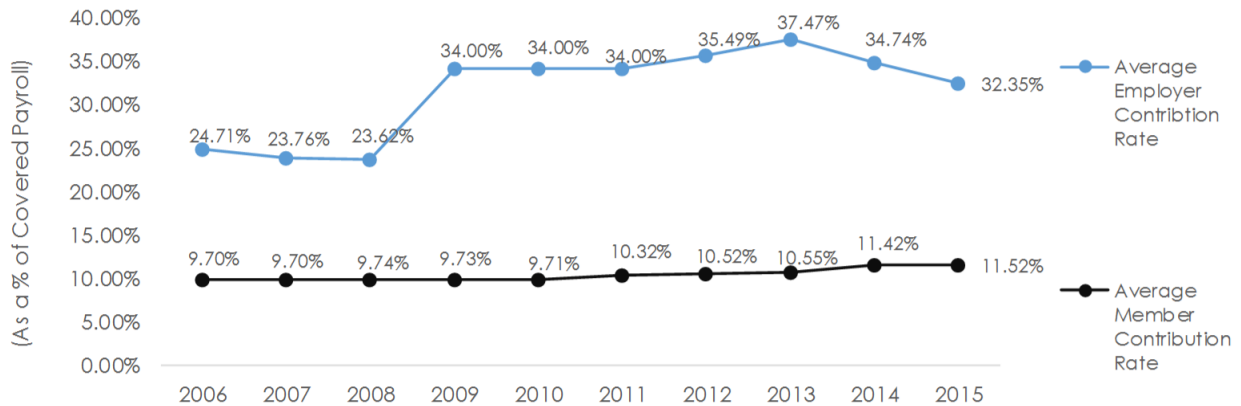
-Strategic Investment Solutions (SamCERA's Investment Management Consultant)

ACTUARIAL VALUATION

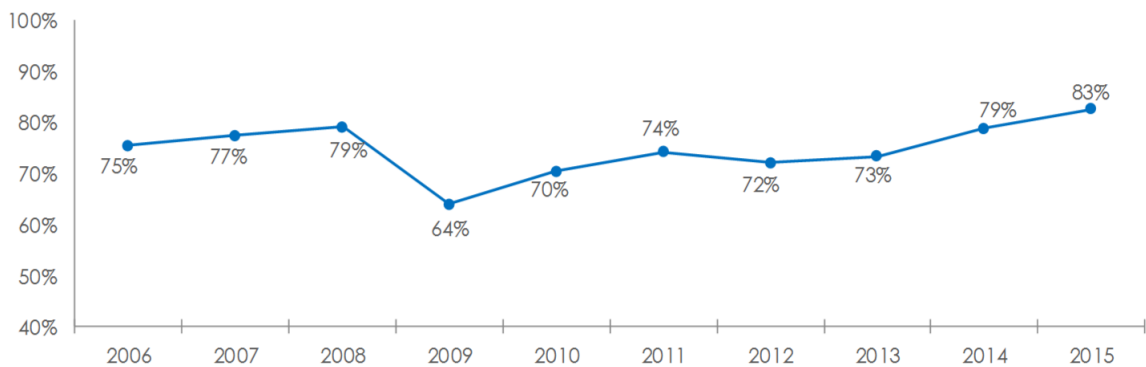
SamCERA retains an independent actuary to perform an annual actuarial valuation. The purpose of this valuation is two-fold: (1) to determine required contributions from employers and members to pay the projected future benefits, and (2) to monitor SamCERA’s funded status.

Contributions are based on various factors such as market fluctuations, plan amendments, and changes in actuarial assumptions and member demographics. The funded ratio compares SamCERA’s assets and liabilities as a measure of its financial health at a point in time.

EMPLOYER AND MEMBER CONTRIBUTION RATES FOR THE FISCAL YEARS ENDED JUNE 30



FUNDED RATIO AS OF JUNE 30

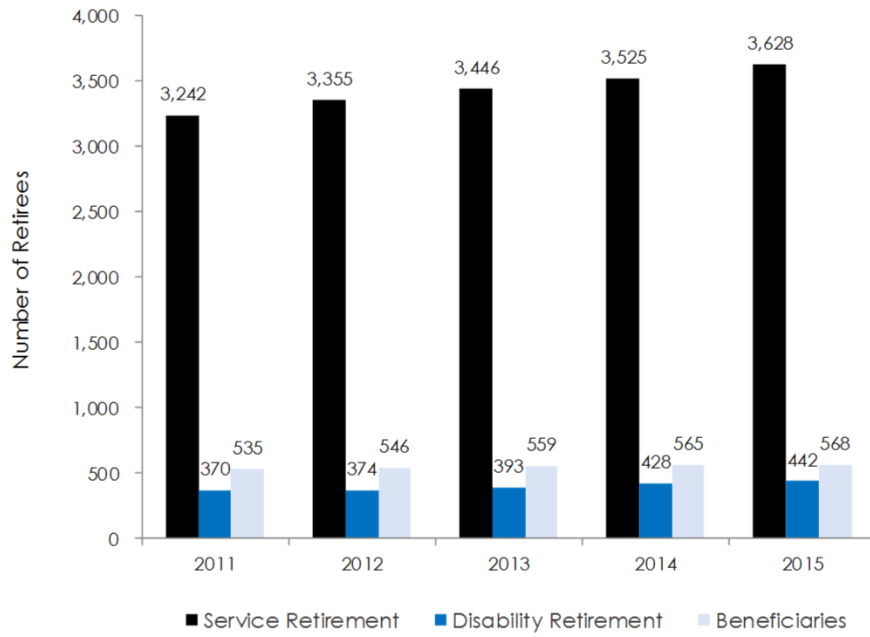


FUNDED STATUS AND FUNDING PROGRESS

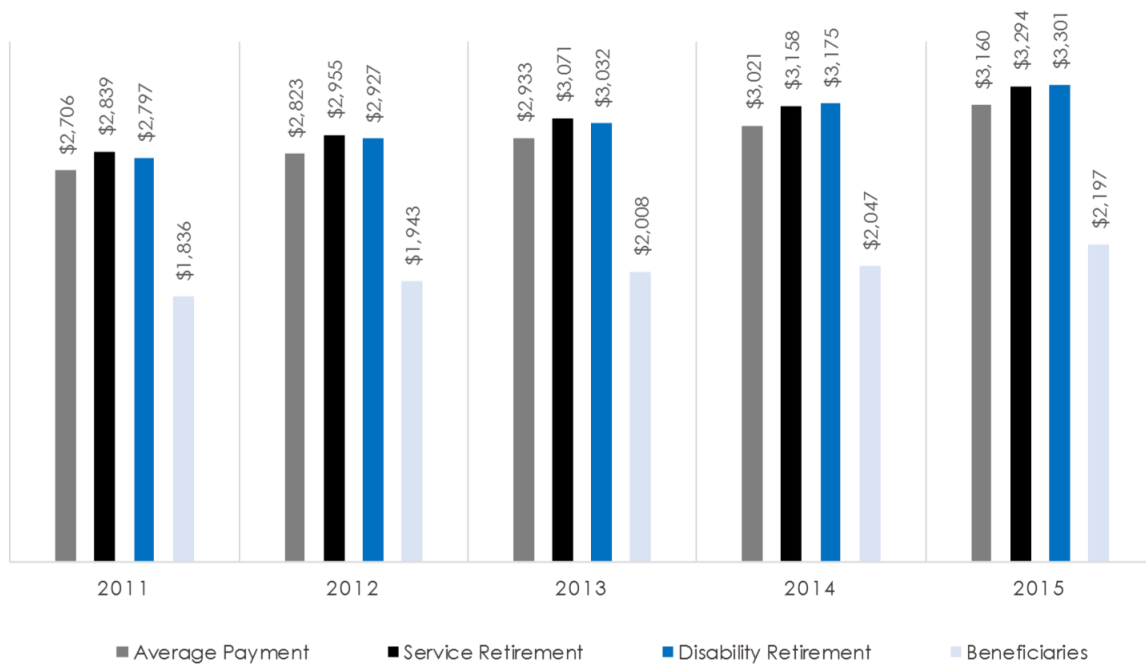
According to the latest actuarial valuation as of June 30, 2015, the pension plan was 83% funded. The funded status is simply the ratio of plan assets to plan liabilities. The difference between these two amounts represents the unfunded liability, which was \$702 million.

Over the year, the improvement in funded ratio was mainly due to the recognition of deferred investment gains from prior years and employer contributions to pay down unfunded liabilities.

NUMBER OF RETIREES



AVERAGE MONTHLY RETIREE BENEFIT PAYMENTS





For the 12th consecutive year, the Government Finance Officers Association (GFOA) of the United States and Canada presented an award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) to SamCERA in recognition its PAFR for the fiscal year ended June 30, 2014.

Find SamCERA on the web at:

www.samcera.org

A MESSAGE FROM THE CEO

(Continued from the front page)

Regarding our investment performance, this year's net earnings of 3.5% were below SamCERA's assumed earnings rate of 7.25%. The assumed earnings rate is the average rate we expect over a 30-year time period, given our mix of investments and the assumed long-term returns for each segment of our portfolio. Naturally, some years will be above this rate and some below, depending on the financial markets. Nonetheless, the overall portfolio still outperformed its policy benchmark, a standard used to evaluate performance. Additionally, the fund performed above the median relative to its peers, a continuation of its consistent improvement in peer ranking. This improvement can be directly attributed to prudent investment policy decisions by the SamCERA Board of Retirement.

The fund's position continues to strengthen due to sound management and proactive funding on two fronts. First, the continued commitment by the San Mateo County Board of Supervisors to make supplemental contributions toward the unfunded actuarial accrued liability (UAAL) is already having a significant impact. Second, aggressive funding policies by the Board of Retirement continue to ensure that employer contributions are making a direct impact on the UAAL. These

funding policies include an assumed rate of return of 7.25%, and the use of an accounting method which layers the unfunded liability over a rolling 15-year period rather than a more conventional fixed 30-year period. If the fund consistently meets its assumed rate of return, SamCERA's actuary estimates that the UAAL is on pace to be paid off in 8 years, even without the supplemental contributions. With the supplemental contributions, the actuary estimates the UAAL will be paid off one year earlier. The Board's proactive funding policies have once again earned SamCERA recognition from Roeder Financial as the third most actuarially conservative California public pension fund in a ranking of state retirement systems.

Even in a year where financial markets have yielded uneven results, the Board of Supervisors' financial commitment and the Board of Retirement's funding policies work in concert to better position SamCERA to meet the needs of its members now and in the future.

Scott Hood
SamCERA
Chief Executive Officer