Orange County Employees Retirement System
Orange County, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 2006

Orange County Employees Retirement System
Orange County, California

Comprehensive Annual Financial Report

For the Year Ended December 31, 2006

The Orange County Employees Retirement System (OCERS) pledges to provide secure retirement and disability benefits, quality information concerning those benefits, and prompt, professional and courteous service that meets the highest standards of excellence. In carrying out that role, the Board of Retirement and staff are committed to act for the exclusive benefit of the plan and its participants, manage assets of the plan prudently, and administer benefits with impartiality.

ISSUED BY:

Keith Bozarth
Chief Executive Officer

PREPARED BY:

Stephen Cadena
Assistant Chief Executive Officer

Michelle Williamson, PhD
Director of Finance

Robert Kinsler
Public Relations Analyst

Orange County Employees Retirement System
2223 Wellington Avenue, Santa Ana, CA 92701
Toll Free (888) 570-6277 Local Dialing (714) 558-6200
Web site: www.ocers.org

Photography courtesy of Peggy Delaney (Fire Authority), and OCERS' various Plan Sponsors
Cover photo: Robert Kinsler (OCERS)

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SECTION 1

> INTRODUCTION

LETTER OF TRANSMITTAL

RETIREMENT SYSTEM

Serving the Active and Retired Members of:

City of Rancho Santa Margarita

City of San Juan Capistrano

County of Orange

Orange County Cemetery District

Orange County Children & Families Commission

Orange County Employees Retirement System

Orange County Fire Authority

Orange County Local Agency Formation Commission

Orange County Public Law Library

Orange County Sanitation District

Orange County Transportation Authority

Orange County Vector Control District

Superior Court of California, County of Orange

Transportation Corridor Agencies

June 1, 2007

Board of Retirement
Orange County Employees Retirement System
2223 Wellington Avenue
Santa Ana, CA 92701

Dear Board Members:

It is with great pleasure that we submit the Comprehensive Annual Financial Report (CAFR) of the Orange County Employees Retirement System (OCERS) for the calendar year ended December 31, 2006, the System's 62nd year of operation. Information contained in this report is designed to provide a complete and accurate review of the year's operations and is the responsibility of the OCERS' management. Please review the basic financial statements in conjunction with the Management's Discussion and Analysis pages 14-17.

The CAFR was prepared in conformity with accounting principles generally accepted in the United States of America and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB) and the County Employees Retirement Law of 1937.

Brown Armstrong Accountancy Corp., independent auditors, has audited the basic financial statements. Management believes that internal control is adequate and that the accompanying statements, schedules and tables are fairly presented.

Profile of OCERS:

The Orange County Employees Retirement System (OCERS) provides retirement benefits for employees of the County and certain districts. The role of the Orange County Employees Retirement System is to provide secure retirement and disability benefits, quality information concerning those benefits, and prompt, professional and courteous service that meets the highest standards of excellence. In carrying out that role, the Board of Retirement and staff are committed to act for the exclusive benefit of the plan and its participants, manage assets of the plan prudently, and administer benefits with impartiality.

OCERS Economic Condition:

OCERS' funding objective is to meet long-term benefit obligations through contributions and investment income. For the year of 2006 the funding ratio of the System was 73.77%. A six-year history of OCERS' funding progress is presented on

Board of Retirement
June 1, 2007

page 32.

For year 2006, OCERS experienced an increase of $909,338,738 in plan net assets. Details of the components of this increase are included in the Statement of Changes in Plan Net Assets on page 19.

Funding goal:

Following the negative investment markets from early in the decade, major revisions in OCERS' actuarial regimen and various benefit changes, OCERS funded ratio declined and required contributions increased. In the three years since those changes occurred the actuarial valuations have shown stable contribution requirements and gradually improving funding, consistent with the basic financial goal.

The Orange County Employees Retirement System's basic financial goal is to establish contributions which fully fund the System's liabilities and which, as a percentage of payroll, remain as level as possible 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.

Due to improved market conditions during 2006, the total additions to plan net assets, including net appreciation in fair value of investments, were $1,245,149,975. This amount includes member and employer contributions of $414,949,964, net investment income of $828,147,188, net security lending income of $1,316,925 and net commission recapture income and other of $735,898. Net investment income, excluding net security lending income and net commission recapture income, was $368,219,893 more than the prior year. This difference was attributable mainly to a $338,485,883 increase in net appreciation in fair value of investments over the prior year. Details of the additions to plan net assets are included in the Statement of Changes in Plan Net Assets on page 19.

Deductions for 2006, excluding investment management and security lending fees, were $335,811,237 which represented an increase of $60,930,872 over the prior year. This increase was the result of higher retirement benefit payments, an increase in the number of retirees and an increase in refunds/withdrawals to terminated members.

Major Initiatives:

During 2006 OCERS continued to make modest modifications in its investment program to enhance diversification and the prospects for incremental return. The system diversified its real estate portfolio, made commitments to timber and absolute return strategies and made additional commitments to private equity.

OCERS began the installation of an image system for all member records and will complete that project in 2007. The ability of members to access personal account information on-line was enhanced as were opportunities to conduct transactions, including the retirement application, on-line. At the same time OCERS conducted a record number of retirement planning and other

Board of Retirement
June 1, 2007

seminars for members, maintaining our dual focus on quality 'in-person' service, along with better electronic capabilities.

In an effort to assist plan sponsors and members to address the need to fund other post employment benefit (OPEB) obligations, OCERS began providing investment services for OPEB funds. This service provides higher return and lower cost investment for the plan sponsors, lowering the long-term liability. OCERS provides this service as a third-party administer. OPEB reporting will remain the responsibility of the individual plan sponsor.

Awards and Acknowledgements:

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to OCERS for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2005 (page 5).

This was the twelfth consecutive year that OCERS has achieved this prestigious award. The Certificate of Achievement is a national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such basic financial statements must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA for evaluation.

We would like to take this opportunity to thank the members of the System for their confidence in OCERS during the past year. We also want to express our thanks to the Board of Retirement for its dedicated effort in supporting the System through this past year. Likewise, we thank the consultants and staff for their commitment to OCERS and for their diligent work to assure the System's continued successful operation.

Respectfully submitted,

Keith Bozarth
Chief Executive Officer

Michelle Williamson
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Orange County Employees Retirement System California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2005

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.

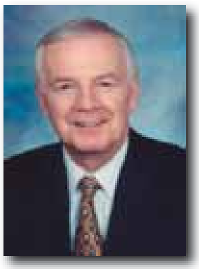
President

Executive Director

MEMBERS OF THE BOARD OF RETIREMENT

As of December 31, 2006

Richard A. White, Jr.
Chair
Elected by
Safety Members



Reed L. Royalty
Vice-Chair
Appointed by the
Board of Supervisors

Thomas J. Lightvoet
Appointed by the
Board of Supervisors

Frank E. Eley
Elected by
General Members

Arthur Hidalgo
Appointed by the
Board of Supervisors

George W. Jeffries
Appointed by the
Board of Supervisors

David J. Thompson
Alternate
Elected by
Safety Members

Russell Baldwin
Elected by
General Members

Chriss W. Street
Ex-Officio Member
Treasurer-Tax Collector
County of Orange

Robert A. Griffith
Elected by
Retired Members

ORGANIZATION OF OCERS

Board of Retirement

The Board of Retirement is responsible for establishing policies governing the administration of the retirement plan, disability determinations, assuring benefit payments, establishing investment policy for the system and monitoring execution of its policies. The Board of Retirement consists of nine members and one alternate. Four members of the Board of Retirement are appointed by the Board of Supervisors of the County; four members are elected by active members of the system of which one is the alternate member; one member is elected by the retirees; and the Treasurer of the County is an ex-officio member.

Executive

This department consists of the Chief Executive Officer (CEO) who implements and executes policies promulgated by the Board of Retirement. Two assistant CEOs, Senior Internal Auditor, General Counsel and the Chief Investment Officer (CIO) assist the CEO in the daily operations of the system.

Investment Department

This department is responsible for the administration and management of the investment program, in accordance with policies, regulations, and guidelines set forth by the Board of Retirement. It is responsible for the interface with investment managers, including monitoring investment performance objectives, adherence to investment guidelines, conducting due diligence visits to investment managers' sites, and interviewing prospective investment managers. This department is also responsible for the interface with outside investment consultants in reviewing and evaluating all investment managers' performance and quarterly investment manager fees.

External Operations Department

This department is comprised of the following divisions: Member Services, Disabilities and Communications.

The Member Services Division is responsible for providing all benefit services to the members of the system. This includes benefit calculations, preparation of data to support applications for retirement, preparation of the retiree payroll, membership counseling and pre-retirement seminars.

The Disability Division is responsible for reviewing claims and medical records; interviewing applicants and witnesses; preparing written reports of findings and recommendations; and making presentations to the Retirement Board regarding the disposition of cases.

The Communications Division is responsible for producing publications such as the Comprehensive Annual Financial Report, a quarterly news magazine and brochures, as well as producing content for the Web site and Board of Retirement Extranet. The Communications division also conducts Financial Strategy seminars for upwards of 420 members annually.

Internal Operations Department

This department is comprised of the following divisions: Finance, Information Technology and Administrative Services.

The Finance Division is responsible for all the financial records and reports of OCERS. This includes the preparation of the Comprehensive Annual Financial Report, monthly and quarterly financial statements and the annual operating budget. The Finance Division also maintains OCERS' system of internal control; balances retirement payroll, refunds of contribution and interest to members; process transmittals and balances members' contributions, reconciles investment portfolios and processes all invoices for goods received and services rendered.

The Information Technology Division is responsible for OCERS' network systems, personal computers and Web site, while providing programming and technical support to our Benefits Administration System. In addition, this division is responsible for the production of retiree payroll and administering all audio/visual services.

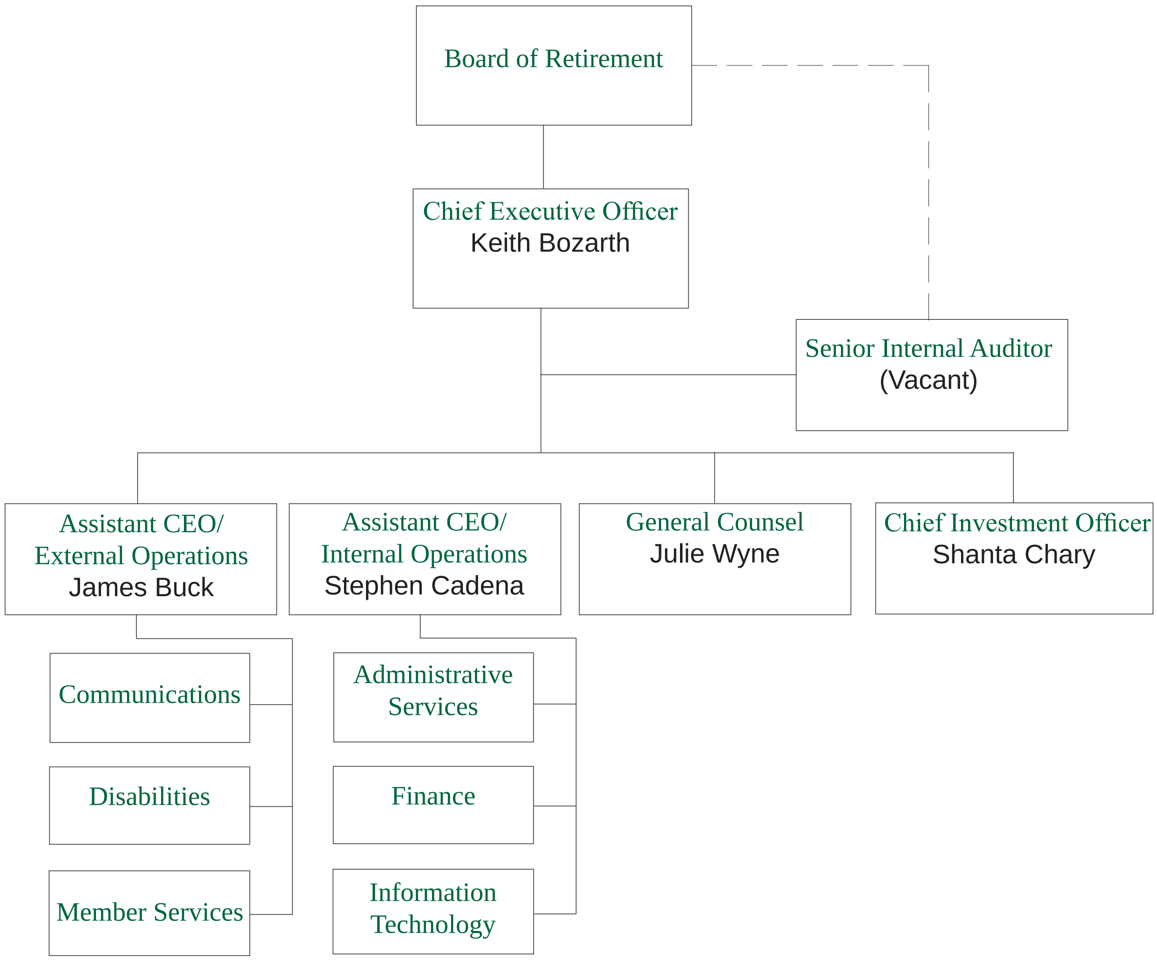
The Administrative Services Division is responsible for providing the contract administration, purchasing, and human resources functions of OCERS.

Legal Department

This department provides legal advice and representation to the Board of Retirement and the Orange County Employees Retirement System on a wide variety of issues. Among other things, this includes issues involving disability retirements, investments, legislation, vendor contracts, and family law.

Administrative Organization Chart

As of December 31, 2006



List of Professional Consultants

As of December 31, 2006

Actuary

The Segal Company

Investment Consultant

Callan Associates, Inc.

Real Estate Consultant

Callan Associates, Inc.

Independent Auditor

Brown Armstrong Accountancy Corporation

Investment Counsel

Stradling, Yocca, Carlson & Rauth

Fiduciary Counsel

Reed Smith, LLP

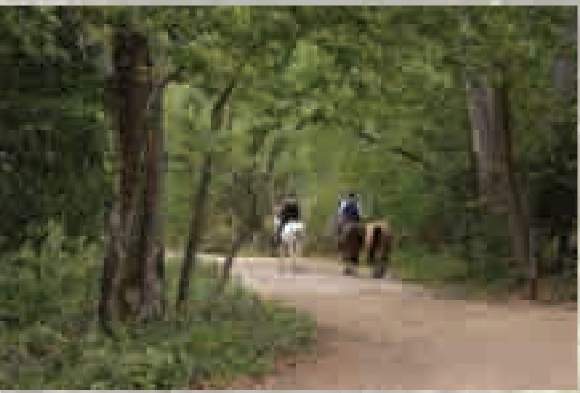
Tax Counsel

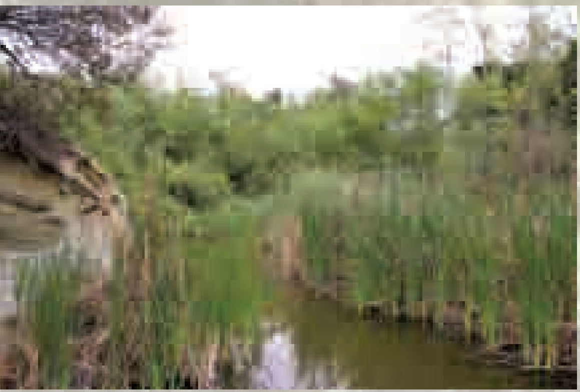
Foley & Lardner

Custodian

State Street California

Note: List of Investment Managers is located on page 56 of the Investment Section of this report.





SECTION 2

>FINANCIAL

BROWN ARMSTRONG
PAULDEN McCOWN STARBUCK THORNBURGH & KEETER
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Retirement of the
Orange County Employees' Retirement System

We have audited the accompanying statement of plan net assets of the Orange County Employees' Retirement System (OCERS) as of December 31, 2006 and 2005 and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of management of OCERS. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit 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 audit provides a reasonable basis for our opinion.

As discussed in the notes to the financial statements, in 2006 OCERS adopted the provisions of GASB Statements No. 44, *Economic Condition Reporting: The Statistical Section*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Orange County Employees' Retirement System as of December 31, 2006 and 2005 and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (MD&A) and the schedules designated as required supplementary information in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information designated as other supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of OCERS. Such information 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. The other data included in this report, designated as the investment, actuarial and statistical sections in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on such data.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2007, on our consideration of OCERS's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
May 29, 2007

Management's Discussion and Analysis

OCERS management is pleased to provide this overview and the analysis of the financial activities of the Orange County Employees Retirement System (OCERS) for the year ended December 31, 2006. Please review it in conjunction with the Letter of Transmittal (starting on page 2) and the Basic Financial Statements beginning on page 18.

Financial Highlights:

- Net Assets Held in Trust for Pension Plan Benefits, as reported in the Statement of Plan Net Assets, totaled $6,987,107,123 an increase of $909,338,738 or 14.96% from the prior year, primarily as a result of the increases in the fair market values of investments and increases in contributions.

- Total Additions, as reported in the Statement of Changes in Plan Net Assets were $1,245,149,975 the major components of which are the appreciation in the fair value of investments and the increases in contributions.

- Total Deductions, as reported in the Statement of Changes in Plan Net Assets, were $335,811,237. This represents an increase of $60,930,872 over the prior year primarily as a result of the increases in benefit payments.

- The Segal Company is OCERS' actuary. The latest actuarial valuation completed as of December 31, 2006 indicates that the funding status (the ratio of system assets to system liabilities) is 73.77%.

Overview of Financial Statements:

This section serves as an introduction to the Basic Financial Statements that are comprised of these components:

1. Statement of Plan Net Assets (page 18): This is a snapshot of account balances at the end of the calendar year. This statement reflects assets available for future payments to members and their beneficiaries and any current liabilities that are owed.

2. Statement of Changes in Plan Net Assets (page19): This report reflects all of the financial activities that occurred during the calendar year and shows the impact of those activities as Additions to or Deductions from the Plan.

3. Notes to Basic Financial Statements (pages 20-30): The Notes are an integral part of the financial reports; they provide detailed discussion to key policies, programs and activities that occurred during the year.

4. Required Supplementary Information (pages 32-34): This section includes the Schedule of Funding Progress that shows the historical trend for the actuarial funding status of the Plan; the Schedule of Employer Contributions shows the annual required contributions, the percentage of contributions made and the list of significant factors affecting trends in actuarial information.

The Other Supplementary Information (pages 35-38), the Investment Section (pages 42-57), the Actuarial Section (pages 58-81) and the Statistical Section (pages 86-98) provide additional detailed financial, investment, actuarial, and statistical data supporting information reported in the Basic Financial Statements.

Plan Net Assets:

	December 31			Increase/ (Decrease) Amount	Increase/ (Decrease) Amount	Increase/ (Decrease) Amount
	2006	**2005**	**2004**	**2006-2005**	**2006-2004**	**2005-2004**
Current Assets	$1,029,229,082	$869,352,668	$1,143,083,811	$159,876,414	($113,854,729)	($273,731,143)
Investments	6,985,545,129	6,072,342,982	5,356,914,386	913,202,147	1,628,630,743	715,428,596
Capital Assets	2,672,298	3,105,062	3,558,420	(432,764)	(886,122)	(453,358)
Total Assets	$8,017,446,509	$6,944,800,712	$6,503,556,617	$1,072,645,797	$1,513,889,892	$441,244,095
Total Liabilities	$1,030,339,386	$867,032,327	$946,561,222	$163,307,059	$83,778,164	($79,528,895)
Total Plan Net Assets	**$6,987,107,123**	**$6,077,768,385**	**$5,556,995,395**	**$909,338,738**	**$1,430,111,728**	**$520,772,990**

Revenues – Additions to Plan Net Assets:

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through interest credited to the reserves. Total contributions for 2006, including prepaid employer contributions, were $414,949,964. Investment gains, including net appreciation in fair market value of investments, net securities lending income, net commission recapture income and net of investment expenses for the year ended December 31, 2006, totaled $830,200,011. (See page 19).

Overall additions to plan net assets were $909,338,738 due primarily to investment gains and an increase in overall contributions.

Additions to Plan Net Assets:

	Years Ended December 31			Increase/ (Decrease) Amount	Increase/ (Decrease) Amount	Increase/ (Decrease) Amount
	2006	**2005**	**2004**	**2006-2005**	**2006-2004**	**2005-2004**
Employer Contributions	$277,368,459	$226,129,626	$194,430,021	$51,238,833	$82,938,438	$31,699,605
Employee Contributions	137,581,505	107,543,611	81,930,032	30,037,894	55,651,473	25,613,579
Net Investment Income	830,200,011	461,980,118	569,000,875	368,219,893	261,199,136	(107,020,757)
Total Additions	**$1,245,149,975**	**$795,653,355**	**$845,360,928**	**$449,496,620**	**$399,789,047**	**($49,707,573)**

Expenses – Deductions from Plan Net Assets:

OCERS was created to provide lifetime retirement annuities, survivor benefits and permanent disability benefits to qualified member and their beneficiaries. The cost of such programs includes recurring benefit payments, as designated by the Plan, refund of contributions to terminated employees and the cost of administering the system. Deductions for the year ended December 31, 2006, totaled $335,811,237 (see page 19).

Deductions from Plan Net Assets :

	Years Ended December 31			Increase/ (Decrease) Amount	Increase/ (Decrease) Amount	Increase/ (Decrease) Amount
	2006	2005	2004	2006-2005	2006-2004	2005-2004
Benefits Paid	$309,696,154	$257,928,554	$230,684,018	$51,767,600	$79,012,136	$27,244,536
Withdrawals/Refunds	8,969,775	6,998,941	7,844,738	1,970,834	1,125,037	(845,797)
Administrative Expenses	9,599,841	9,952,870	9,463,418	(353,029)	136,423	489,452
Prepaid Unearned Contributions	7,545,467	0	0	7,545,467	7,545,467	0
Total Deductions	**$335,811,237**	**$274,880,365**	**$247,992,174**	**$60,930,872**	**$87,819,063**	**$26,888,191**

Reserves:

OCERS' reserves are established from contributions and the amount of interest credited to reserve accounts at the actuarially assumed rate of 7.50% on the balances as of 6/30/06 and 7.75% to be applied on balances of 12/31/06 on a bi-annual basis. The Active Members Reserve account was credited with an interest rate of 5.0% on a semi-annual basis; the remaining 2.50% was credited to the Employer Advanced Reserve, also on a semi-annual basis. Reserve balances are as follows:

Reserve Analysis:	Years Ended December 31		
	2006	2005	2004
Active Members Reserve	$1,174,367,567	$1,075,609,561	$1,007,575,995
Retired Members Reserve	2,977,689,920	2,987,743,608	2,655,783,489
Employer Advanced Reserve	1,889,517,683	1,470,964,580	1,422,783,343
Retired Members Benefit Account	6,580,845	10,629,690	9,820,069
Unclaimed Reserves	1,317,031	1,202,293	0
Unreserved Net Assets	937,634,076	531,618,653	461,213,499
Sub-total	$6,987,107,123	$6,077,768,385	$5,556,995,395
Less: Accounts Receivable for Interest Credited to Reserves	($365,336,114)	($301,176,798)	($301,183,788)
Net Total Reserve	**$6,621,771,009**	**$5,776,591,587**	**$5,255,811,607**

Investment and Economic Summary:

In 2006, the economic environment was challenging. The Federal Reserve continued to raise rates and at the end of the year, the Fed Funds Rate was at 5.25, up from 4.25% from the previous year. The economy was also impacted by, a significant increase in the cost of oil, and the value of the dollar.

For the year, OCERS fund was up 13.55% exceeding the actuarial earnings assumption rate of 7.5%. Over the three year period, the fund was up 11.25% while the five year return was at 9.30%. During the year, there were positive returns in both domestic and international equities. For the year, the Russell 3000 index was up 15.72%, while MSCI EAFE index was up 26.34%. Domestic bonds were in positive territory despite continued tightening by the Federal Reserve. Returns in the real estate and alternatives asset classes were strong.

Capital Assets:

OCERS' investment in capital assets decreased from $3,105,062 to $2,672,298 (net of accumulated depreciation and amortization). This investment in capital assets includes equipment, furniture and computer system installation. The decrease is due to current year depreciation (see page 24).

Changes in OCERS' Plan Net Assets:
Positive market returns and increases in contributions were the primary factors in an increase in net assets by $909,338,738 thereby accounting for an increase over the prior year. Key elements of this increase are described in the section that follows:

Changes In Plan Net Assets:	**Years Ended December 31**		
	2006	**2005**	**2004**
Contributions Received	$414,949,964	$333,673,237	$276,361,053
Net Investment Income	828,147,188	460,431,356	568,027,269
Net Securities Lending Income and Other Income	2,052,823	1,548,762	973,606
Participants' Benefits and Death Benefits	(309,696,154)	(257,928,554)	(230,684,018)
Withdrawals and Refunds	(8,969,775)	(6,998,941)	(7,844,738)
Admin Expenses and Prepaid Unearned Contributions	(17,145,308)	(9,952,870)	(9,463,418)
Increases (Decreases) in Plan Net Assets	$909,338,738	$520,772,990	$597,369,754

OCERS' Fiduciary Responsibilities:

OCERS' Board and management members are fiduciaries of the pension trust fund. Under the California Constitution, the assets can be used only for the benefit of plan participants and their beneficiaries and reasonable expenses of operation.

Requests for Information:

This financial report is designed to provide the Board of Retirement, members, beneficiaries, taxpayers, investment managers, and participating employers with a general overview of OCERS' financial condition. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

OCERS
Attention: Michelle Williamson
2223 Wellington Avenue
Santa Ana, CA 92701

Michelle Williamson
Finance Director

Statement of Plan Net Assets

	Years Ended December 31 2006	2005
ASSETS		
Cash and Short-Term Investments		
Cash and Cash Equivalents (Note E)	$ 237,237,264	$ 187,238,274
Collateral Held for Securities Lent (Note F)	719,456,688	627,056,237
Total Cash and Short-Term Investments	**956,693,952**	**814,294,511**
Receivables		
Investment Income	22,309,517	18,932,869
Securities Sales	12,784,604	16,690,150
Employer/Employee Contributions	37,078,867	19,395,388
Other Receivables	362,142	39,750
Total Receivables	**72,535,130**	**55,058,157**
Investments, at Fair Value (Notes B-2 and F)		
United States Government Debt Securities and Corporate Bonds	2,076,853,725	1,868,540,675
Foreign Bonds	610,675,026	472,432,213
Domestic Equity Securities	1,704,672,978	1,479,275,968
International Equity Securities	1,902,510,425	1,638,303,493
Real Estate	541,570,830	473,453,797
Venture Capital and Limited Partnership Interests	149,262,145	140,336,836
Total Investments	**6,985,545,129**	**6,072,342,982**
Capital Assets, Net (Note B-3)	2,672,298	3,105,062
Total Assets	**8,017,446,509**	**6,944,800,712**
LIABILITIES		
Collateral Held for Securities Lent (Note F)	719,456,688	627,056,237
Securities Purchased	207,431,026	162,407,066
Prepaid Unearned Contributions (Note C)	70,940,574	47,687,436
Retiree Payroll Payable	22,486,790	19,926,857
Other	10,024,308	9,954,731
Total Liabilities	**1,030,339,386**	**867,032,327**
Net Assets Held in Trust for Pension Plan Benefits*	**$ 6,987,107,123**	**$ 6,077,768,385**

*See Schedule of Funding Progress on page 32.

(See accompanying notes to financial statements beginning on page 20.)

Statement of Changes in Plan Net Assets

	Years Ended December 31 2006	2005
ADDITIONS		
Contributions (Note C)*		
Employer	$ 277,368,459	$ 226,129,626
Employee	137,581,505	107,543,611
Total Contributions	**414,949,964**	**333,673,237**
Investment Income:		
Net Appreciation in Fair Value of Investments (Note F)	664,490,530	326,004,647
Interest on:		
Domestic and International Securities	81,732,842	73,854,867
Cash with County Treasurer (Note E)	870,058	417,350
Domestic Dividends	10,032,597	10,483,148
Real Estate Income	35,924,197	26,869,115
International Dividends	33,379,895	13,492,789
Venture Capital and Limited Partnership	20,154,977	27,321,680
Total Investment Income	**846,585,096**	**478,443,596**
Less Investment Expenses	(18,437,908)	(18,012,240)
Net Investment Income	**828,147,188**	**460,431,356**
Securities Lending Revenue (Note F)	1,660,288	1,780,852
Less Securities Lending Fees (Note F)	(343,363)	(355,566)
Net Securities Lending Income	**1,316,925**	**1,425,286**
Income from Commission Recapture-Net/Other	735,898	123,476
Total Additions	**1,245,149,975**	**795,653,355**
DEDUCTIONS		
Participants' Benefits	309,102,051	257,396,816
Death Benefits	594,103	531,738
Member Withdrawals and Refunds	8,969,775	6,998,941
Administrative Expenses (Note H)	9,599,841	9,952,870
Prepaid Unearned Contributions (Note H)	7,545,467	-
Total Deductions	**335,811,237**	**274,880,365**
NET INCREASE	**909,338,738**	**520,772,990**
NET ASSETS HELD IN TRUST FOR PENSION PLAN BENEFITS		
Beginning of Year	6,077,768,385	5,556,995,395
End of Year	**$ 6,987,107,123**	**$ 6,077,768,385**

* Employer contributions reflect cash payments only. Please see Note C on page 25 for amounts transferred from the County Investment Account.

(See accompanying notes to financial statements beginning on page 20.)

A. Description and History of Plan

The following is a brief description of the Orange County Employees Retirement System (OCERS). Participants should refer to their Summary Plan Description for more complete information.

1. General

OCERS is a cost-sharing multiple-employer, defined benefit pension plan covering substantially all employees of the County of Orange (County) and of the following agencies:

- City of San Juan Capistrano
- Orange County Cemetery District
- Orange County Children and Families Commission
- Orange County Department of Education (closed to new members)
- Orange County Employees Retirement System
- Orange County Fire Authority (OCFA)
- Orange County In-Home Supportive Services Public Authority
- Orange County Local Agency Formation Commission
- Orange County Public Law Library
- Orange County Sanitation District
- Orange County Superior Court
- Orange County Transportation Authority (OCTA)
- Orange County Vector Control District
- Transportation Corridor Agencies
- University of California, Irvine Medical Center and Campus (closed to new members)

The participating entities share proportionally in all risks and costs, including benefit costs. One actuarial valuation is performed for OCERS as a whole, and contribution rates vary among participating entities.

Following an effort by the employees of Orange County, a proposition was submitted to the people of Orange County. As a result of the General Election, OCERS was established in 1945 under the provisions of the County Employees Retirement Law of 1937 (County Retirement Law). OCERS provides members with retirement, death, disability, and cost-of-living benefits. OCERS is a related organization of the County of Orange, California.

The Retirement Board consists of nine members of which four are appointed by the County's Board of Supervisors, four are elected by the members of OCERS, the County Treasurer is an ex-officio member and an alternate member is elected by the safety members. The County of Orange is not financially accountable for OCERS.

The Board of Supervisors adopted certain sections of the Government Code for members employed after September 20, 1979. These members are designated as Tier II members. The established formula for Tier II members produces reduced allowances. Members employed prior to September 21, 1979, are designated as Tier I members. The specific differences between Tier I and Tier II are discussed below.

2. Membership

All regular full-time employees or part-time employees scheduled to work 20 hours or more per week for the County or other participating employers become members of the plan upon employment.

3. Monthly Salary Base for Benefits

Highest one-year average for Tier I members; three-year average for Tier II members.

4. Service Retirement

a. Eligibility: Ten years of service and age 50, or 30 years of service and any age (20 years for safety members), or age 70 with any service.

b. Benefit Formula per Year of Service:

Firefighters, Law Enforcement and Probation Safety – 3%

City or San Juan Capistrano – 2%

County of Orange, except AFSCME bargaining unit – 2%

Orange County Children & Families Commission – 2%

Orange County Fire Authority General – 2%

Orange County Local Agency Formation Commission – 2%

Orange County Public Law Library – 2%

Orange County Sanitation District – 2%

Orange County Superior Court – 2%

Orange County Employees Retirement System – 2%

Transportation Corridor Agencies – 2%

All other General members: Tier 1 – 2% Tier II – 1.6667%

Benefits are reduced or increased for retirement ages according to the following sections of the County Employees Retirement Law of 1937:

Firefighters	31664.1
Law Enforcement	31664.1
Probation Safety	31664.1
City of San Juan Capistrano	31676.19
Orange County Children & Families Comm	31676.19
Orange County Fire Authority General	31676.19
OCERS	31676.19
County of Orange, except those in the AFSCME bargaining unit	31676.19
Orange County Superior Court	31676.19
Orange County Local Agency Formation Commission	31676.19
Orange County Public Law Library	31676.18
Orange County Sanitation District	31676.18
Transportation Corridor Agencies	31676.16
All other General members:	
• Tier I	31676.12
• Tier II	31676.1

5. Non-Service Connected Disability

a. Eligibility: Five years of service.

b. Benefit Formula per Year of Service:

Tier I

1.8% x Years of Service Credit x Final One Year Average Monthly Compensation. (If benefit is less than 1/3 of final average monthly compensation, the number of years to age 62 can be added to the years of service credit in order to pay up to a maximum of one-third of final average monthly compensation.)

Tier II

1.5% x Years of Service Credit x Final Three Year Average Monthly Compensation. (If benefit is less than 1/3 of final average monthly compensation, the number of years to age 65 can be added to the years of service credit in order to pay up to a maximum of one-third of final average monthly compensation.)

6. Service Connected Disability

a. Eligibility: No age or service requirement.

b. Benefit: 50% of final average monthly compensation, or service retirement if the benefits are higher.

7. Active Member Death

a. If a member with less than five years of service dies in a non-work related incident, the spouse/Qualified Domestic Partner or dependent children will receive the member's refundable retirement contributions plus interest. In addition, the beneficiary will receive one month's salary for each completed year that the member served to a maximum of six months.

b. If the member was eligible for a service retirement or a non-service connected disability retirement at the time of death, the qualified surviving spouse/Qualified Domestic Partner or child has the following options:

- Refund of employee contributions with interest plus one month's salary for each year of service to a maximum of six months' salary;

or

- 60% of earned benefit payable to surviving eligible spouse/Qualified Domestic Partner;

or

- Combined benefit equal to a lump-sum payment plus a reduced monthly allowance.

If no eligible spouse/Qualified Domestic Partner or child exists, the named beneficiary receives refund of employee contributions with interest plus one month's salary for each year of service to a maximum of six months' salary.

c. Service Connected Death:

If a member dies in a job-related incident, the spouse/Qualified Domestic Partner or qualified child is eligible for a monthly allowance equal to 50 percent of the member's final average salary.

d. $750 Burial Benefit:

A burial allowance of $750 is payable to deceased member's beneficiary or estate if the member had 10 years of service with the County or district at the time of the member's death.

e. If a safety member dies in the line of duty, the spouse/Qualified Domestic Partner may be eligible for an additional 25% of the service connected death allowance for each qualified child, from the County or district contributions and a one-time lump sum payment to the spouse/Qualified Domestic Partner equal to the annual compensation earnable of the deceased member at the rate of pay when the member died.

8. Death After Retirement

a. Non-Service Connected Disability Retirement:

60% of member's unmodified allowance continued to eligible spouse/Qualified Domestic Partner or eligible child. (Member may elect a modified allowance at time of retirement.)

b. Service Connected Disability Retirement:

The continuance is 100% to the eligible spouse/Qualified Domestic Partner or eligible child if the member retired with a service connected disability.

c. $1,000 Burial Benefit:

A burial allowance of $1,000 is payable to the deceased retiree's beneficiary or estate.

d. Service Retirement:

Benefit depends upon option chosen.

9. Termination of Employment

Members may elect a refund of accumulated contributions and interest. Contributions left on deposit continue to draw interest regardless of the amount of service the member has earned. Terminating members who decide to leave their contributions on deposit and have at least five years of service are eligible for benefits at retirement age.

10. Post-Retirement Cost-of-Living Benefits

The annual Cost-of-Living Adjustment (COLA) is intended to increase retirement payments to account for inflation. The COLA applies to all retired members who retired on or before April 1 of that year. Retirees receive an increase equal to the actual U.S. Department of Labor Consumer Price Index (CPI) as it relates to the Orange County area, which includes Orange, Los Angeles and Riverside counties. The COLA is limited to a maximum of 3% per year. Amounts in excess of 3% are "banked" for the future and may be applied to a future year in which the change is less than 3%. In addition to the annual Cost-of-Living Adjustment (COLA), the Board of Retirement may grant a STAR (Supplemental Targeted Adjustment for Retirees) COLA for eligible retirees who have lost more than 20% of their purchasing power to inflation since retirement. The adjustment allows retirees to keep at least 80% of their purchasing power, regardless of how many years they have been retired.

11. Employer Contributions

Determined by Entry Age Normal with level percent of pay amortization of Unfunded Actuarial Accrued Liability.

12. Member Contributions

Articles 6 and 6.8 of the 1937 Act define the methodology to be used in the calculation of member basic contribution rates for General members and Safety members, respectively. The basic contribution rate is determined so that the accumulation of a member's basic contributions made in a given year until a certain age will be sufficient to fund an annuity at that age that is equal to:

1/200 of Final Average Salary for General Plan A;

1/120 of Final Average Salary for General Plan B;

1/100 of Final Average Salary for General Plans G, H, I, and J;

1/120 of Final Average Salary for General Plans M and N ;

1/200 of Final Average Salary for Safety Plan E and;

1/100 of Final Average Salary for Safety Plan F.

The Annuity age is 60 for General Plans A, B, M, and N; 55 for Plans G, H, I, and J; and 50 for Safety Plans E and F. It is assumed that contributions are made annually at the same rate, starting at entry age. In addition to their basic contributions, members pay one-half of the total normal cost necessary to fund their cost-of-living benefits. Accumulation includes semi-annual crediting of interest at the assumed investment earning rate.

13. Active and Retired Members

The following is a summary of OCERS' membership composition at December 31, 2006 and 2005:

Active and Deferred Personnel
(unaudited)

	December 31	
	2006	**2005**
Active General Members		
County and Agencies Paid by County Payroll	15,981	15,657
Outside Agencies	3,120	3,155
Subtotal - Active General Members	19,101	18,812
Active Safety Members		
County and Agencies Paid by County Payroll	2,834	2,852
Outside Agencies	815	801
Subtotal - Active Safety Members	3,649	3,653
Total Active Members	22,750	22,465
Deferred (General & Safety) Members		
Regular	2,442	1,720
Employment with Other Agencies (Reciprocity)	736	689
Subtotal - Deferred Members	3,178	2,409
Total Active and Deferred Personnel	**25,928**	**24,874**

Benefit Recipients
(unaudited)

	December 31, 2006			December 31, 2005		
	General	**Safety**	**Total**	**General**	**Safety**	**Total**
Service Retirement	7,430	973	8,403	6,920	879	7,799
Survivors	854	78	932	824	79	903
Alternate Payees QDRO	133	43	176	118	30	148
Subtotal	8,417	1,094	9,511	7,862	988	8,850
Service Connected Disability	617	369	986	604	349	953
Survivors	50	22	72	48	21	69
Alternate Payees QDRO	5	18	23	6	16	22
Subtotal	672	409	1,081	658	386	1,044
Nonservice-Connected Disability	256	13	269	256	13	269
Survivors	287	19	306	287	18	305
Alternate Payees QDRO	4	0	4	4	0	4
Subtotal	547	32	579	547	31	578
Active Death Survivors	9	2	11	16	0	16
Total Recipients	**9,645**	**1,537**	**11,182**	**9,083**	**1,405**	**10,488**

14. Employee Purchased Annuities

OCERS formerly provided accounts for additional member contributions as allowed under Government Code Section 31627.

On December 16, 2002 the Board of Retirement adopted resolution 02-005 to terminate the Employee Purchased Annuities program with an effective date of December 31, 2002. Members receiving a monthly distribution were given the choice of continuing to receive that distribution or receiving a lump sum payout of their balance as of December 31, 2002. Members who were not receiving a monthly distribution were given the choice of receiving a lump sum payout of their balance as of December 31, 2002 or having their balances rolled over to a qualified plan or IRA.

15. Federal Income Tax Status

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

B. Summary of Significant Accounting Policies

1. Basis of Accounting

OCERS' financial statements are prepared on the accrual basis of accounting. Contributions from employers and members are recognized when due pursuant to formal commitments, as well as statutory requirements; benefits and refunds are recognized when payable in accordance with the provisions of the plan. Investment income is recognized as revenue when earned. The net appreciation (depreciation) in fair value of assets held by OCERS is recorded as an increase (decrease) to investment income based on the valuation of investments at year end. Expenses are recorded when corresponding liabilities are incurred, regardless of when payment is due.

2. Valuation of Investments

Quoted market prices are used to value United States Government and agency securities, corporate and foreign bonds and debentures, and domestic and international common stocks. Real estate equity investments are stated at fair value, determined by independent appraisals performed on the properties held. The values of venture capital funds and limited partnership investments were determined by the investment managers based on the underlying financial statements and performance of the investments and acceptable valuation methodologies.

3. Capital Assets

Capital assets are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method with a 10 year useful life for computer software, and 5 to 15 years for equipment and furniture. The cost and accumulated depreciation of capital assets at December 31, 2006 and 2005, were as follows:

	2006	2005
Furniture and Equipment	$ 1,161,234	$ 1,161,234
Computer Software	4,087,266	4,087,266
Total Capital Assets (at cost)	**5,248,500**	**5,248,500**
Less Accumulated Depreciation	(2,576,202)	(2,143,438)
Total Capital Assets Net of Depreciation	**$ 2,672,298**	**$ 3,105,062**

Depreciation expense for the year ended 2006 and 2005 was $432,764 and $453,358, respectively.

4. Implementation of New Accounting Pronouncements

OCERS implemented GASB Statement No. 44, Economic Condition Reporting: The Statistical Section, effective for the year ended December 31, 2006. The Statistical Section has been expanded to include ten years of trend information, plus Financial Trend Information regarding changes in plan net assets.

5. Subsequent Events

Additional Portfolio Activity –
January: The Board approved an allocation of $60 million to Mesirow Financial Private Equity under our Venture Capital/Private Equity asset allocation. $4.2 million funded in December 2006. Liquidated $75 million from Capital Guardian and transferred $74 million to the BGI EAFE Index Fund and $1 million to fund AQR Capital. Funded Aberdeen for $250 million from prepayments of plan sponsor contributions. $14 million in Real Estate net contributions, including $16.8 million for the purchase of Riverpark 500 by CB Richard Ellis. Funded $1.2 million for the Adams Street 2007 Global offerings.

February: Liquidated approximately $300 million from the BGI EAFE Index Fund to fund AQR Capital with $199.2 million and Mercator with $98.5 million.

Received $17.1 million in net distributions in Real Estate, including $13.7 in proceeds from the sale of Skyler Ridge by Sentinel.

March: Received $17.4 in net distributions from Real Estate including $15.2 million in proceeds from the sale of Bristol Place Apartments by Sentinel.

C. Contributions Required and Contributions Made

1. Authority

As a condition of participation under the provisions of the County Employees Retirement Law of 1937, members are required to contribute a percentage of their annual compensation to OCERS. See page 22 article 12 for the methodology used to compute member contributions.

2. Member Contributions

Present members' accumulated contributions at December 31, 2006 and 2005, were $1,174,367,567 and $1,075,609,561, respectively, including interest credited. Interest was credited at an interest rate of 5.0% per annum with 2.5% credited as of June 30, on the balance of the members' accounts as of the prior December 31 and 2.5% credited as of December 31 on the balance of the members' accounts as of the prior June 30. The incremental difference between the 5% that is credited to employee contributions and the actuarially then-assumed rate of 7.75% is credited to the Employer Reserve account.

3. Funding Objective

The County and participating agencies' funding policy is to make periodic contributions to OCERS in amounts that, when combined with members' contributions and with investment income, will fully provide for all members' benefits by the time they retire.

4. Pension Obligation Bonds

In September 1994, the County of Orange issued $320 million in Pension Obligation Bonds (POB) of which $318.3 million in proceeds were paid to OCERS to fund the County's portion of the Unfunded Actuarial Accrued Liability (UAAL). The proceeds received were recorded as employer contributions in calendar year 1994.

For accounting purposes, OCERS maintains the proceeds for the POB's in the County Investment Account (Investment Account). OCERS and the County of Orange, a single participating district, entered into an agreement which provided an offsetting credit based upon an amount actuarially determined to deplete the County Investment Account over the then remaining UAAL amortization period. The offsetting credits for years 2006, 2005, 2004, 2003, 2002 and 2001 were $11,000,000, $9,675,306, $3,579,000, $26,209,000, $65,180,000, and $41,319,000, respectively.

The County determines annually how the account will be applied to contribution requirements.

5. Combined Employer and Employee Contributions Received

	2006	2005	2004
Normal Cost	$ 274,046,804	$ 204,553,221	$ 183,339,000
Amortization of Unfunded Actuarial Accrued Liability	140,903,160	129,120,016	93,022,000
Total	**$ 414,949,964**	**$ 333,673,237**	**$ 276,361,000**

The Orange County Employees Retirement System (OCERS), as an employer, has also participated in the program. On an annual basis, OCERS has made contributions to the System in accordance with the actuarially-determined rates. For the years ended December 31, 2006, 2005 and 2004, OCERS contributed $584,123, $607,833, and $430,632, respectively. 100% of the required contributions were paid each year.

During the year, contributions totaled $414,949,964 which included $277,368,495 in employer contributions and $137,581,505 in employee contributions. Government Code Section 31582(b) allows the Board of Supervisors to authorize advance payment of all or part of the county's estimated annual contribution to the retirement fund. Code Section 31585 makes the same advance payment option available to the other sponsors. Participating employers have made advance payments in 2006 of the employers estimated annual contributions discounted by the assumed interest rate in effect. At the end of the fiscal year, a "true up" is completed and employers are either billed for an underpayment or apply their overpayment towards the following year contributions. At the end of the 2006 calendar year, a total of $70,940,574 remained as prepayments for the sponsors to be applied in 2007.

The Memorandum of Understanding (MOU) between OCERS and certain participating employers required that Employer Contributions must increase by the lesser of .50% of pay or the amount necessary to increase

OCERS' Unallocated Fund Balance (UFB) to 3% of OCERS' adjusted total assets.

D. Plan Termination

There are no Plan termination provisions available to the County under the Employees Retirement Law of 1937. Special Districts may terminate their participation if a majority of the members in their Plan vote in the affirmative to do so. On November 26, 2006 the City of Rancho Santa Margarita terminated their participation in OCERS.

E. Cash and Cash Equivalents

At any given time, OCERS' investment portfolios may contain funds not yet invested in securities. These funds are invested in short-term money market funds including the Orange County Treasurer's Investment Pool. In addition, OCERS maintains an operating cash balance at a local financial institution that is used for retirement payroll and other operational expenses. On December 31, 2006, OCERS had money market funds of $180,686,050 invested with OCERS' master trust custodian bank, State Street California, $30,734,051 invested with Wells Fargo Bank and $25,817,163 invested with the Orange County Treasurer's Investment Pool. All of the cash invested is uninsured and uncollateralized; interest on the money market funds and in the Orange County Treasurer's Investment Pool are computed on an average daily balance. The total amount of Cash and Cash Equivalents as of December 31, 2006 was $237,237,264.

F. Investments

OCERS is in conformance with the "County Employees Retirement Law of 1937" and the California Government Code. California law follows the "prudent person" rule for investing by retirement systems.

For the 2005 fiscal year, OCERS has implemented the Governmental Accounting Standards Board Statement 40. In accordance with GASB 40, OCERS discloses investments that are subject to certain risks: Custodial Credit Risk, Concentration of Credit Risk, Interest Rate Risk, and Foreign Currency Risk. The GASB 40 disclosures replace the investments risk categories table included in the 2004 OCERS Comprehensive Annual Financial Report.

Credit Risk

Credit Risk is the risk that an issuer or other party to an investment will not fulfill its obligations. OCERS seeks to maintain a

Fixed Income Securities

Most fixed income securities are rated by one or more corporate credit rating agencies such as Moody's, Standard and Poors, or Fitch IBCA. These ratings help potential investors determine the risk associated with investing in a specific company, investing instrument or market. A non-rated (NR/NA) security does not necessarily indicate a lower quality security. Presented below are two tables listing fair values of fixed income investments categorized by rating as of December 31, 2006.

Investment Type	Aaa	Aa	A	Baa	Ba
Collateralized Mortgage Obligations	16,406,843	-	-	-	-
Convertible Bonds	-	-	-	-	2,973,500
Corporate Bonds	56,380,726	50,925,342	27,959,351	42,670,983	40,960,691
Federal Home Loan Mortgage Corp	7,769,790		-	-	-
Federal National Mortgage Assn	183,975,568	-	-	-	-
Government Issues	1,783,560,355	7,488,324	121,218,340	8,285,170	16,385,150
Government National Mortgage Assn II	3,480,747	-	-	-	-
Municipals	300,000	817,676	-	4,568,914	-
Other Asset-Backed Securities	16,778,115	-	-	686,801	2,333,154
Interest Rate Swap	-	-	-	-	-
Grand Totals	2,068,652,144	59,231,342	149,177,691	56,211,867	62,652,495

Investment Type	B	Caa	NR/NA	WR	Total Fair Value
Collateralized Mortgage Obligations	-	-	5,549,965	-	21,956,808
Convertible Bonds	2,964,850	2,536,219	4,258,099	968,625	13,701,293
Corporate Bonds	56,045,847	13,461,333	59,574,403	-	347,978,675
Federal Home Loan Mortgage Corp	-	14,825,185	1,007,187	-	8,776,977
Federal National Mortgage Assn	-	-	88,140,151	-	272,115,719
Government Issues	832,514	-	41,786,105	-	1,979,555,957
Government National Mortgage Assn II	-	-	-	-	3,480,747
Municipals	-	-	1,452,880	-	7,139,470
Other Asset-Backed Securities	-	2,074,655	8,909,225	-	30,781,949
Interest Rate Swap	-	-	2,041,155	-	2,041,155
Grand Totals	59,843,210	18,072,206	212,719,170	968,625	2,687,528,751

Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that in the event of a financial institution's failure, OCERS would not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. OCERS' deposits are not exposed to custodial credit risk as its deposits are eligible for and covered by "pass-through insurance" in accordance with applicable law and FDIC rules and regulations. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, OCERS would not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. OCERS' investment securities are not exposed to custodial credit risk because all securities are held by OCERS' custodial bank in OCERS' name.

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. OCERS' policy is to attempt to achieve its investment return objective with an appropriate level of risk using an efficient combination of investable assets. OCERS does not have a formal risk policy specific to interest rate risk. OCERS manages total fund level risk by setting portfolio level guidelines for each investment manager.

Concentration of Credit Risk

Concentration Risk is the risk of financial loss that results from investing too much from the total portfolio in any one investment. Investments in mutual funds help limit exposure to concentration risk because these investment types represent a collection or grouping of individual investments. The table below represents the 10 largest investments by OCERS as of December 31, 2006. OCERS did not invest in any single issue of security totaling more than five percent of the System's net assets.

Schedule of Largest Equity Holdings (by Fair Value)
December 31, 2006

Stock	Security Description	Fair Value
Sumitomo Mitsui Group	Common Stock	$ 16,750,619
Microsoft Corp	Common Stock	15,784,892
Goldman Sachs Group, Inc.	Common Stock	15,138,639
Royal Bank Scot Group	Common Stock	15,013,410
CISCO Systems Inc.	Common Stock	13,393,340
Sanofi Aventis	Common Stock	12,959,665
Vodafone Group	Common Stock	11,966,741
Novartis AG	Common Stock	11,756,214
Royal Dutch Shell	Common Stock	10,877,371
ING Group NV	Common Stock	10,824,971

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. OCERS recognizes that some level of risk must be assumed to achieve the system's long term investment objectives. OCERS' policy is to attempt to achieve its investment return objective with an appropriate level of risk using an efficient combination of investable assets. OCERS does not have a formal risk policy specific to foreign currency risk. OCERS manages total fund level risk by setting portfolio level guidelines for each investment manager.

Net Appreciation

During 2006 and 2005, OCERS' investments (including investments bought and sold, as well as held during each year) appreciated in value by $664,490,530 and by $326,004,647, respectively.

	Years Ended December 31 2006	2005
Net Appreciation (Depreciation) in Fair Value as Determined by Quoted Market Prices:		
Domestic Equity Securities	$ 178,580,127	$ 71,194,896
United States Government Debt Securities, Corporate & Foreign Bonds & Debentures	36,088,855	(27,603,443)
International Equity Securities	380,227,240	241,082,668
Subtotal	594,896,222	284,674,121
Net Appreciation (Depreciation) in Fair Value as Determined by Estimated Fair Value:		
Real Estate	45,379,480	37,853,907
Alternative	24,214,828	3,476,619
Total Net Appreciation	**$ 664,490,530**	**$ 326,004,647**

Securities Lending and Custodial Risk

OCERS' investment policy permits the pension trust fund to participate in a securities lending program. Domestic and international equities as well as domestic and international fixed income securities are loaned to brokers who provide collateral in the form of cash. This collateral must equal 102 percent of the fair market value for domestic loans and 105 percent of the fair market value for international loans and the values are priced daily. OCERS invests the collateral in short-term securities that cannot be pledged or sold by OCERS unless the borrower defaults. Income is also realized from the securities lending fees paid by the broker-borrower. OCERS' practice is to match the term to maturity of the securities lent with the term to maturity of the collateral investment. There are no restrictions on the amount of securities that can be lent at any one time. OCERS experienced no violations of its securities lending provisions in 2006. Securities on loan at year-end to various securities brokers for 2006 and 2005, at fair market values were $719,456,688 and $627,056,237, respectively.

State Street California serves as OCERS' broker for its securities lending program. State Street California holds securities purchased with collateral for OCERS in a separate collateral account. State Street California, OCERS' custodial bank, provides indemnification against dealer default. OCERS experienced no losses on its securities lending program for the years ended December 31, 2006 and 2005.

Gross security lending revenue for 2006 and 2005 were $1,660,288 and $1,780,852, respectively. At year end, the system has no credit risk exposure to borrowers because the amounts the system owes the borrowers exceed the amounts the borrowers owe the system.

International Investments

Investments in international securities are managed by investment managers. Other investments are held in pooled funds, all of which are invested in equities of companies located in international markets.

Alternative Investments

OCERS has utilized two different methods of investing in alternatives. The first is to employ a management firm to invest in both limited partnerships and direct private placements. The second method is for OCERS to participate as a limited partner in a limited partnership fund. As of December 31, 2006, OCERS had approximately $149,262,145 of open commitments in four alternative investments. Alternative investments may include venture capital, corporate finance, buyout, energy, oil and gas.

Derivative Holdings Held for Trading Purposes

OCERS may hold derivatives in its domestic fixed income portfolio (See note F for other derivative investments). The investment objective of holding derivative securities is to achieve favorable yields and advantageous risk/reward profiles. The U.S. Government and like agencies guarantee the majority of these securities.

Securities	Fair Value 2006	Fair Value 2005
FHLMC	$ 8,776,977	$ 8,272,541
FNMA	272,115,719	257,678,657
GNMA	3,480,747	4,555,132
CMO	21,956,807	12,536,803
Others	2,041,155	25,034,238
Total Derivative Securities	**$ 308,371,405**	**$ 308,077,371**

G. Financial Investments with Off Balance Sheet Risk

Forward Currency, Financial Future, Options and Swap Contracts

OCERS' international investment managers invest in forward currency contracts. These 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. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in exchange and interest rates. OCERS' balances for the forward currency receivables and payable accounts are based upon the currencies' contract exchange rates in relation to their market exchange rates at December 31, 2006 and 2005. An accounts receivable balance that is greater than the payable balance represents a net gain on the contracts. An accounts receivable balance that is less than the payable balance indicates a net loss.

OCERS is required to maintain a deposit with the broker as collateral to support open futures contracts.

H. Administrative Expenses and Prepaid Unearned Contributions

The total administrative expenses for the years ended December 31, 2006 and 2005 were $9,599,841 and $9,952,870, respectively. Section 31580.2 of the Government Code limits the annual administrative expenses of the retirement system to 18/100 (18 basis points) of the total assets of the retirement system. Additionally, Section 31596.1 of the Government Code allows certain costs to be excluded from the statutory limitation. The limitations for the years ended December 31, 2006 and 2005 were $13,001,008 and $10,939,983, respectively. Administrative expenses subject to the statutory limitation for the years ended December 31, 2006 and 2005 were $8,204,444 and $8,445,952, respectively. These expenses are financed mostly by investment income. The excluded costs are included in the amounts classified as administrative expenses for OCERS' financial statements.

The deductions for 2006 include a discount on Prepaid Unearned Contributions of $7,545,467. In 2005 the Prepaid Unearned Contributions expense of $1,762,468 was netted in Employer contributions.

I. Reserve Accounts

The plan net assets of $6,987,102,123 as of December 31, 2006 include reserves of $6,049,408,046 and unreserved net assets of $937,634,077. The unreserved net assets include the County Investment Account. The reserve balances as of December 31, 2006 are as follows:

	Active Members Reserve	Retired Members Reserve	Employer Advanced Reserve	RMBR Reserve	Unclaimed Reserve	Unreserved Net Assets	Total Plan Net Assets
General Ledger Balance	$1,174,367,567	$2,977,689,920	$1,889,517,683	$6,580,845	$1,317,031	$937,634,076	$6,987,107,123
Less: Accounts Receivable for Interest Credited to Reserves	(46,349,742)	(194,026,873)	(124,959,499)	-	-	-	(365,336,114)
Net Reserves	**$1,128,017,825**	**$2,783,663,047**	**$1,764,588,184**	**$6,580,845**	**$1,317,031**	**$937,639,076**	**$6,621,771,009**

The Additional Retiree Benefit Account (ARBA) results from a Memorandum of Understanding (MOU) with the County of Orange and subsequently with all employers. The amounts maintained in the ARBA are to be applied to health insurance or other supplemental benefits for OCERS' retirees. There were no transfers to the ARBA accounts in years 2006 and 2005 because the UFB was zero; the remaining balance of ARBA account was used to credit interest to other reserves.

The Retirement Board adopted the creation of the Retired Members Benefit Reserve (RMBR) for OCERS' retirees in the year 2002 to ensure the continued funding of the retiree supplemental benefits for three years. All participating agencies could transfer a projected three year benefit payment to the RMBR balance that was created as a sub-account of the Employer Advanced Reserve Account. The RMBR account will be used to pay additional benefits to retirees in lieu of payments out of the ARBA balance in circumstances where the ARBA balance is depleted. The RMBR balance will not receive the bi-annual interest credit and it will be funded on a three year rolling method. The balance of the RMBR on December 31, 2006 was approximately $6,580,845. The County of Orange terminated their RMBR agreement on December 31, 2006.

J. Reclassification of Financial Statement Presentation

Certain reclassifications have been made to the 2005 financial statements to conform with the 2006 financial statement presentation. Such reclassifications had no effect on net increase in net plan assets as previously reported.

Required Supplementary Information

Schedule of Funding Progress
(Dollars in Thousands)

Actuarial Valuation Date December 31	Actuarial Value ($) of Plan Assets (a)	Actuarial Accrued Liability ($) (b)	Total Unfunded Actuarial Accrued Liability (UAAL) ($) (b-a=c)	Funded Ratio (%) (a/b)	Covered Payroll ($) (d)	UAAL as a Percentage (%) of Covered Payroll (c/d)
2001	4,586,844	4,843,899	257,055	94.69%**	1,122,763	22.89%
2002	4,695,675	5,673,754	978,079	82.76%	1,242,348	78.73%
2003	4,790,099	6,099,433	1,309,334	78.53%	1,243,964	105.25%
2004*	5,245,821	7,403,972	2,158,151	70.85%	1,257,085	71.68%
2005	5,786,617	8,089,627	2,303,010	71.53%	1,276,764	180.38%
2006	6,466,085	8,765,045	2,298,960	73.77%	1,322,952	173.78%

*Effective December 31, 2004 the actuarial valuation of plan assets was changed to a 5-year smoothing methodology based on market value rather than a rolling 5-year modified book value. Restated per Segal's report dated December 31, 2005.

**Please see Letter of Transmittal, page 3 [Funding goal] for a detailed explanation.

Note:

1. The 12/31/01, 12/31/02, 12/31/03, 12/31/04, 12/31/05 and 12/31/06 actuarial value of assets exclude $221,643,000, $143,675,000, $143,744,000, $155,245,000 $158,218,736 and $168,223,633 of the County Investment Account balances respectively.

Schedule of Employer Contributions

	Annual Required Contribution*	Percentage Contributed**
2001	$12,060,000	100%
2002	$13,289,000	100%
2003	$124,243,000	100%
2004*	$194,430,000	100%
2005***	$227,892,000	100%
2006	$277,368,000	100%

* Employer contributions reflect cash payments only. Please see note C on page 25 for amounts transferred from the County Investment Account.

** Annual Required Contributions do not reflect discounts provided due to interest awarded on prepayments.

*** The difference between the annual required contribution and the actual contribution (page 19) is the prepaid discount.

Latest Actuarial Valuation Methods and Assumptions

The historical trend information about the Orange County Employees Retirement System is presented as required supplementary information. The information is intended to help users assess the status of the fund on a going-concern basis and to evaluate the progress made in accumulating assets for paying benefits when due.

Actuarial Assumptions and Method

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2006
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll.
Remaining amortization period	28 years
Asset valuation method	5 year smoothing between the actual market value and the expected (currently at 7.75%) return on market value
Actuarial assumptions	
Investment rate of return	7.75%
Projected Salary Increases	3.50% per annum
Includes inflation at	3.50% subject to Tier maximum
Cost-of-living adjustments	3.00% per annum with excess banked

Significant Factors Affecting Trends in Actuarial Information

2006 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

The City of Rancho Santa Margarita terminated their participation in OCERS effective December 31, 2006.

2005 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

The Investment rate of return was increased to 7.75% effective December 31, 2004.

The Actuarial Cost method was changed to Entry Age Normal effective December 31, 2005.

Salary scale changed from 4.5% to 3.5% per annum per individual.

Reset amortization period for all members to 30 years.

Retirement formula for General Members of the County of Orange, (except for AFSCME bargaining unit) changed to 2.7% at 55 effective July 1, 2005.

Retirement formula for the Orange County Superior Court changed to 2.7% at 55 effective July 1, 2005.

Retirement formula for the Sanitation District changed to 2.5% at 55 effective July 1, 2005.

Retirement formula for the Transportation Corridor Agencies changed to 2% at 55 effective July 1, 2005.

Retirement formula for the Orange County Public Law Library changed to 2.5% at 55 (future service only) effective July 1, 2005.

Retirement formula for LAFCO was changed to 2.7% at 55 (future service only) effective July 1, 2005.

Retirement formula for the Children and Families Commission of Orange County changed to 2.7% at 55 (future service only) effective December 23, 2005.

Retirement formula for OCERS' management changed to 2.7% at 55 (future service only) effective July 1, 2005.

Retirement formula for probation officers changed to 3% at 50 (future service only) effective June 10, 2005.

2004 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

Effective January 1, 2004, the actuarial value of assets will be calculated by smoothing the difference between the actual and the expected (currently 7.5% per annum) return on market value.

Retirement formula for General Members of the Orange County Fire Authority changed to 2.7% at 55 effective July 1, 2004.

2003 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

The City of Rancho Santa Margarita adopted a 2.5% at 55.

Retirement formula for the City of San Juan Capistrano changed to 2.7% at 55.

2002 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

Retirement formula for Fire Authority personnel changed to 3% at 50.

Significant Factors Affecting Trends in Actuarial Information (Continued)

All probation officers' status changed from General to Safety with a retirement formula of 2% at 50 effective June 28, 2002.

Interest rate assumption changed from 8.0% to 7.5%.

Salary scale changed from 5.5% to 4.5%.

Reset amortization period to 30 years except for actuarial gains and losses related to Fire Authority and Law Enforcement personnel.

2001 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

Retirement formula for Law Enforcement personnel changed to 3% at 50.

1998 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

Reduced termination rates.
Moved retirement age slightly older.
Changed Pre-retirement Mortality Table from 1971 GAM to 1983 GAM.

1997 California Supreme Court Decision - Ventura County

Expanded the definition of compensation earnable.

1995 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

Salary scale changed from 6.0% to 3.5% per annum per individual through the year 2000, and 5.5% thereafter.

1993 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

Changed Mortality Table from 1971 GAM (for regular retirement) to 1983 Group Annuity. Changed Expectations of Life After Disability from 80% of Mortality Table to 60%.

Other Supplementary Information

Schedule of Administrative Expenses

	Years Ended December 31	
	2006	**2005**
Expenses Subject to the Statutory Limitation:		
Personnel Services:		
Board Members' Allowance	$ 12,900	$ 13,100
Employee Salaries and Benefits	4,659,673	4,821,842
Total Personnel Services	4,672,573	4,834,942
Office Operating Expenses:		
Operating Expenses	1,153,710	860,799
Professional Services	1,057,035	1,452,669
Rent/Leased Real Property	888,362	844,184
Depreciation/Amortization	432,764	453,358
Total Office Operating Expenses	3,531,871	3,611,010
Total Expenses Subject to the Statutory Limitation*	8,204,444	8,445,952
Expenses Not Subject to the Statutory Limitation:		
Commingled Interest Cost	20,333	14,946
Actuarial Fees	427,456	400,090
Consulting/Research Fees	342,846	320,300
Custodial Services	177,958	180,000
Investment Department Expenses	368,776	572,689
Legal Costs	58,028	18,893
Total Expenses Not Subject to the Statutory Limitation	1,395,397	1,506,918
Total Administrative Expenses	**$9,599,841**	**$9,952,870**

(*Please see note H on page 29.)

Schedule of Investment Expenses
For the Years Ended December 31, 2006 and 2005

	2006	2005
Investment Expense by Category		
Domestic/Global Fixed Income	$ 3,868,510	$ 3,411,195
Domestic Equity	4,214,285	4,017,036
Real Estate	3,074,454	3,556,711
Limited Partnership	1,105,995	674,831
Venture Capital	1,351,076	3,058,850
International Equity	4,823,588	3,293,617
Subtotal	18,437,908	18,012,240
Security Lending Fees		
Security Lending Fees	343,363	355,566
Total Investment Expenses	**$ 18,781,271**	**$ 18,367,806**

Schedule of Payments for Professional Services
Years Ended December 31, 2006 and 2005

Name of Firms	Type of Services	2006	2005
Professional Expenses Subject to the Statutory Limitation			
County of Orange	Various Services	$ 54,147	$ 91,399
Netifice Communication, Inc.	Internet Usage	10,920	17,182
Manpower, Inc.	Temporary Personnel	18,768	42,465
Select Personnel Services	Temporary Personnel	72,210	15,504
E-Partners	System Consulting	1,781	3,526
Hanson Bridgett	Legal Services	38,007	8,938
Foley & Lardner	Legal Services	4,014	3,616
Reed Smith	Legal Services	114,752	-
Steefel, Levitt & Weiss	Legal Services	50,965	192,558
Schott & Lites Advocates	Legislative Counseling	18,000	18,000
Link, Murrel & Company	Audit Services	33,532	111,841
The Berwyn Group	Mortality Verification	3,420	3,772
Brown Armstrong	Audit Services	95,470	0
Financial Management Specialists	Financial Strategy Seminars	10,500	20,716
Iron Mountain	Offsite Data Storage	5,621	5,350
Linea Solutions	System Consulting	256,174	345,101
Levi, Ray, & Shoup, Inc.	System Improvement	55,850	99,700
Various Professional Firms	Other Services	212,904	473,001
Total Professional Expenses Subject to the Statutory Limitation		**$ 1,057,035**	**$ 1,452,669**
Professional Expenses Not Subject to the Statutory Limitation			
Callan Associates, Inc./ The Townsend Group	Performance Evaluation	287,046	282,000
Informa Investment Solutions (Effron Enterprises, Inc.)	Performance Evaluation	800	800
G. Shilling	Board and Staff Education	-	5,000
ISI Group	Performance Evaluation	25,000	25,000
Douglas Gillespie	Performance Evaluation	-	2,500
Zephyr Associates, Inc.	Performance Evaluation	-	5,000
State Street Bank and Trust Company	Custodian Services	177,958	180,000
County of Orange	Commingled Interest Cost	20,333	14,946
Towers Perrin	Actuarial Services	-	5,920
The Segal Company	Actuarial Services	427,456	394,170
Stradling, Yocca, Carlson, & Rauth	Legal Counsel	-	18,893
Davis, Mendel & Regenstein	Legal Counsel	30,000	-
Investment Department Expenses	Investment Expenses	426,804	572,689
Total Professional Expenses Not Subject to the Statutory Limitation		**1,395,397**	**1,506,918**
Total All Professional Expenses		**$ 2,452,432**	**$ 2,959,587**

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SECTION 3

>INVESTMENTS

CALLAN ASSOCIATES

April 24, 2007

Board of Retirement
Orange County Employees Retirement System
2223 Wellington Avenue
Santa Ana, California 92701-3101

Dear Board Members:

This letter reviews the investment performance of the Orange County Employees' Retirement System (OCERS) for the calendar year ended December 31, 2006.

The System's custodian during the calendar year, State Street Bank and Trust Company, independently prepared the underlying performance data. The performance calculations were made in compliance with GIPS Performance Presentation Standards. Callan Associates Inc. (Callan) serves as OCERS' independent investment consultant and evaluates the System's performance in relation to market benchmarks, appropriate manager peer groups and other public pension funds.

OCERS' primary investment objective is to prudently and expertly invest the System's assets, in accordance with governing law and industry practices, in a manner that will ensure the System's ability to pay promised benefits to participants and their beneficiaries. In pursuit of this objective, OCERS' Board periodically evaluates the System's liabilities, expected contributions and potential earnings. This analysis is used to evaluate alternative investment policies. The Board selects a strategic investment policy that balances growth potential and acceptable risk. A policy benchmark index is constructed that mirrors the System's strategic asset allocation policy. This policy benchmark is a custom market index comprised of stock, bond and real estate indices weighted in the same proportions as the System's investment policy.

Market Environment

For the fourth consecutive year, the domestic equity markets extended their positive total returns with very attractive total returns. The S&P 500 rose 15.79%, and the Russell 3000 Stock Index was up 15.72%. As has been the case throughout the market recovery of recent years, "Value" oriented benchmarks and investment management styles outpaced "Growth" oriented measures.

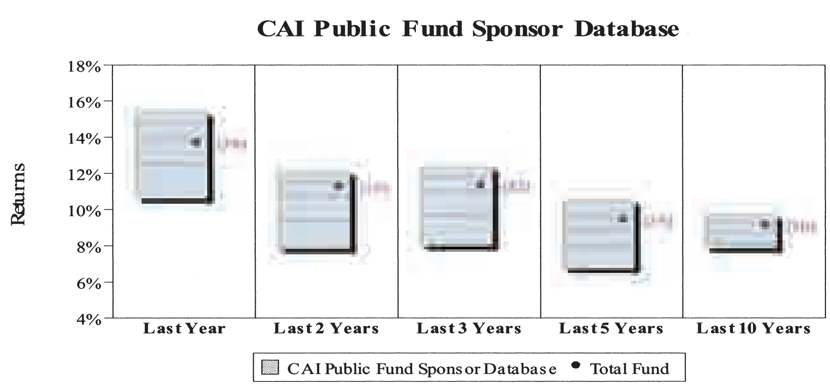
Within the fixed income market, the Lehman Aggregate Bond Index posted a return of only 4.33% for the year. Investment grade credit bonds (4.26%) outpaced government bonds (3.48%) as interest rates, particularly at the shorter end of the maturity spectrum, rose during the year. The mortgage-backed securities segment of the investment grade bond market was the best performing (5.22%). Below investment grade bonds continued to outpace investment grade markets; yield spreads between below investment grade and investment grade are now very small.

The resurgence in the overseas stock markets that began in the 2003 continued strongly in 2006. Measured in U.S. dollar terms, international stocks outperformed domestic stock indices by a wide margin. The difference was largely attributable to the weakness of the U.S. dollar. The MSCI EAFE Index advanced 26.34% for the year. Measured in local currency terms, the EAFE Index gained 16.46%. Emerging markets continued to surge as evidenced by the MSCI Emerging Markets Index, which advanced 32.59%.

Performance
For the calendar year, OCERS' total fund had a time-weighted total return of 13.55%. The return slightly lagged the System's strategic policy benchmark target return of 13.97%. This ranked in the 59th percentile of Callan's Public Fund database. Returns for trailing 2-, 3-, 5- and 10-year periods all rank above median. The System's risk-adjusted return ranked in the top quartile of Callan's Public Fund Database.

OCERS' Strategic Policy Benchmark Index is currently comprised of the following indices in the percentages as indicated: Lehman Brothers U.S. Universal Bond (19%); MSCI EAFE (18%); Russell 3000 (18%); NCREIF Total (10%); Lehman US TIPS (10%); Citigroup Non-$ Government Bond Hedged (3.6%); Citigroup Non-US World Gov't Bond (6.4%); OCERS Non-traditional (5%); MSCI Emerging Markets (5%); and the 3-month Treasury Bill + 7% (5%).

The graph below depicts the Total Fund relative to Callan's Total Public Fund Database for cumulative periods ended December 31, 2006.



The System's well-diversified and comparatively conservative allocation strategy was the primary driver in the achievement of strong relative performance results for all periods that include the difficult bear market of 2000-2002. OCERS' active stock managers, in aggregate, trailed appropriate market benchmarks in 2006 while the System's active bond managers added value in 2006. OCERS' stock and bond managers also have added value in the vast majority of longer cumulative periods ended 2006.

OCERS' domestic bond component (excluding TIPS) again outperformed the bond market for the year (+5.89% versus +4.97% for the Lehman U.S. Universal Bond Index). The outperformance for the year was largely attributable to OCERS managers' emphasis on credit bonds. Over the long-term, OCERS' aggregate bond composite continues to outperform market indices and peers. For the fourteen and one-half years ended 12/31/06, OCERS' bond composite ranks in the first percentile of the Public Fund database; the 7.99% annualized return exceeds the target index return of 6.76%.

OCERS' U.S. equity composite gained 13.74% in 2006. This result trailed both the Russell 3000 Stock Index return of 15.72% and the Callan Public Fund Domestic Equity peer group median. Over almost all cumulative periods considered, OCERS' domestic equity composite has achieved very strong comparative returns. For example, the trailing five-year annualized return of 8.24% ranked in the 26th percentile and exceeded the target benchmark return of 7.17%.

OCERS' international equities achieved an unusually attractive absolute composite return of 26.27%. This result narrowly lagged the MSCI AC World Index ex-US return of 27.16% and the Public Fund database median of 26.41%.

In summary, calendar 2006 was another strong year that has helped extend OCERS' strong long-term record of very competitive returns.

Sincerely,

Michael J. O'Leary, Jr., CFA
Executive Vice President

Investment Returns

The table below details the annualized rates of return for the different asset categories over various time periods ended December 31, 2006. The returns for each asset class represent the composite returns of all the manager portfolios within that asset class. All returns are gross of fees except for alternative assets and real estate, where some of the fees are deducted at source. The method of computation of investment return is time-weighted approximation.

	1 Year	**3 Year**	**5 Year**
Domestic Equity	13.74%	11.72%	8.24%
Russell 3000 Index	15.72%	11.19%	7.17%
International Equity	26.27%	20.81%	14.84%
MSCI AC World Ex US Index	27.16%	21.81%	16.87%
MSCI EAFE Index	26.34%	19.93%	14.98%
Domestic Fixed	5.89%	5.00%	6.77%
Lehman Bros. Universal Index	4.97%	4.21%	5.64%
TIPS	0.91%	N/A	N/A
Lehman Bros TIPS Index	0.41%	3.85%	7.19%
International Fixed Income	5.60%	4.47%	7.40%
*Intl Fixed Income Target Index**	5.04%	3.85%	4.04%
Absolute Return	6.13%	N/A	N/A
*Absolute Return Target Index***	11.85%	N/A	N/A
Cash & Equivalents	5.46%	3.34%	2.76%
Real Estate	18.62%	16.70%	12.93%
NCREIF Property Index	16.59%	17.02%	13.27%
Alternative Investments	22.45%	18.95%	9.35%
Total Fund	13.55%	11.25%	9.30%
*Composite Policy Benchmark****	13.97%	11.81%	9.43%

* Intl Fixed Income Target Index = Citi Non-US Govt Hedged Index through 3/31/04 and 50% Citi Non-US Govt Bond and 50% Citi Non-US Govt Hedged thereafter.

** Absolute Return Target Index = 3-month Treasury Bill + 7%

*** Policy Benchmark = 19.0% LB US Universal Index + 18.0% MSCI EAFE Index + 18.0% Russell 3000 + 10.0% NCREIF Total Index + 10.0% LB US TIPS Index + 3.6% Citi Non-US Govt Hedged + 6.4% Citi Non-US Govt Bond Index + 5.0% OCERS-Non Traditional + 5.0% MSCI Emerging Markets + 5.0% 3-month Treasury Bill + 7%

STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

General

This statement is intended to set forth the factors involved in the management of investment assets for the Orange County Employees Retirement System (the System). The responsibility of the Board (with the participation of its Investment Committee, Staff and Advisors) is to establish broad investment policy, guidelines and objectives for the total fund and its component parts, to select independent investment managers and to monitor the activities of the investment managers. The responsibility of each investment manager is to develop and implement management strategies in accordance with the stated investment policies, guidelines and objectives, in a manner consistent with the "prudent man" rule for similar funds, i.e., with care, skill, prudence and diligence, with full discretion subject to the guidelines and applicable statutes. The investment manager is responsible for administration of the investment program within parameters established.

Strategic Asset Allocation Policy and Maintenance

The Board periodically undertakes strategic asset allocation studies. Such studies define the targeted level of diversification among the various major asset classes and the range in which they are permitted to fluctuate. When significant changes are made to the plan, a transition plan is adopted.

In normal circumstances, asset levels are permitted to fluctuate around targeted levels, and cash inflows are administered by staff in a manner that is consistent with maintenance of the desired level of diversification. When asset fluctuations and/or external cash flows take actual allocation outside the accepted range, cash inflows shall be directed toward the underallocated asset categories and cash outflows shall be directed from the overallocated asset classes.

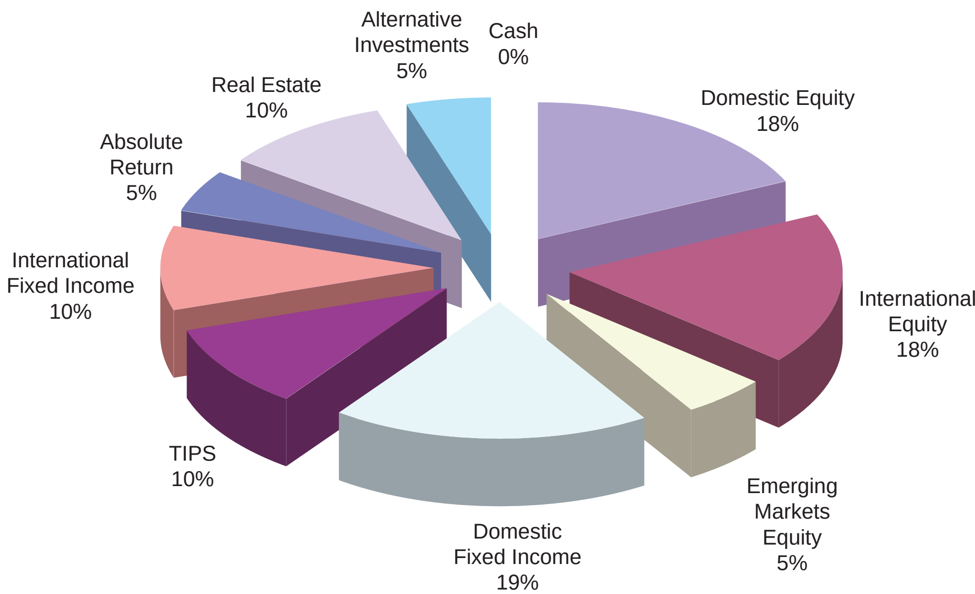
Should expected external flows be judged by staff to be insufficient to bring the plan within permitted ranges within a 12 month period, staff shall inform the Investment Committee. The Investment Committee then will formulate a recommendation to shift assets that will be presented to the full Board.

Program Administration and Manager Structure

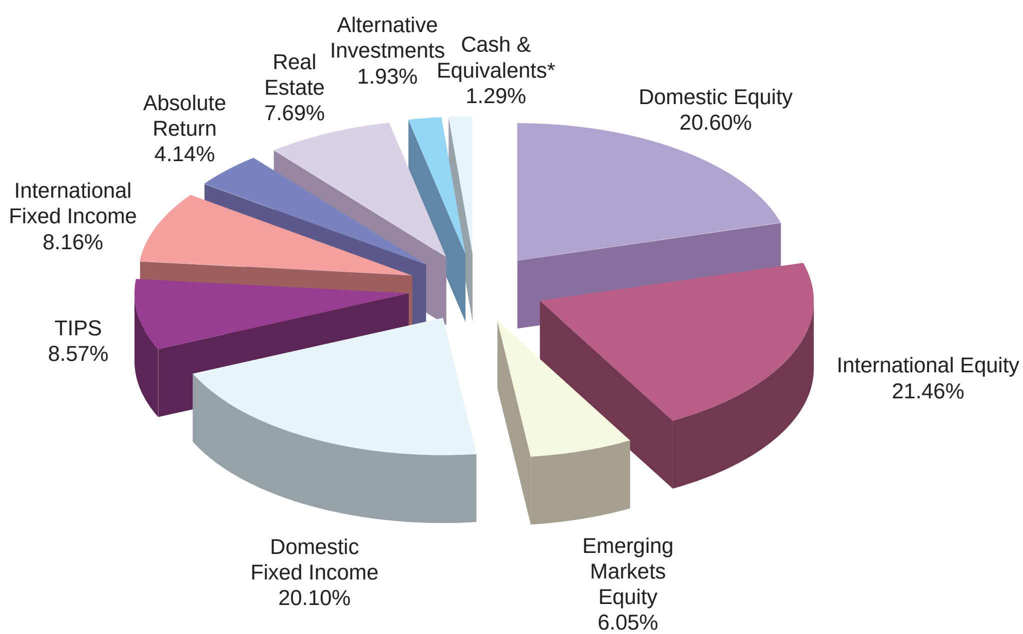
For each major asset class, the System shall diversify assets by employing managers with demonstrated skill in their particular areas of expertise. The System will retain managers who utilize varied investment approaches and allocate assets in a manner that is consistent with the overall strategic plan. So, for example, the sum of all domestic equity managers should exhibit characteristics that are similar, but not necessarily identical, to the overall equity market. When asset fluctuation causes the asset class to exhibit characteristics that are dissimilar from the plan, staff shall direct cash flows to or from the various managers so that actual characteristics are consistent with the plan. Should unusual circumstances create a significant imbalance that cannot be corrected through the routine allocation of external cash flows, the Investment Committee shall formulate a recommendation for Board consideration.

Asset Diversification
December 31, 2006

Policy

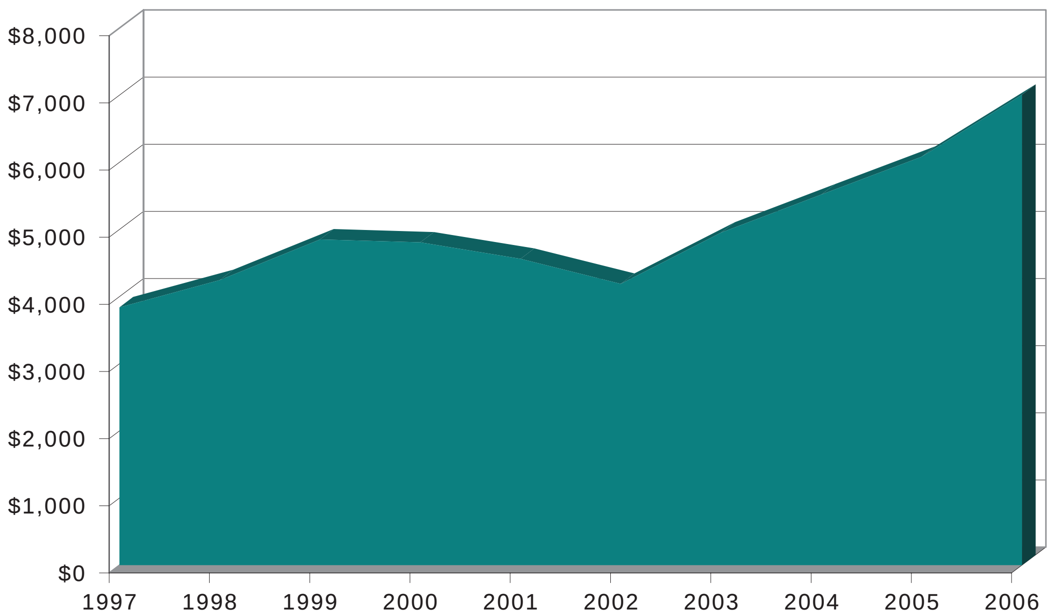


Actual

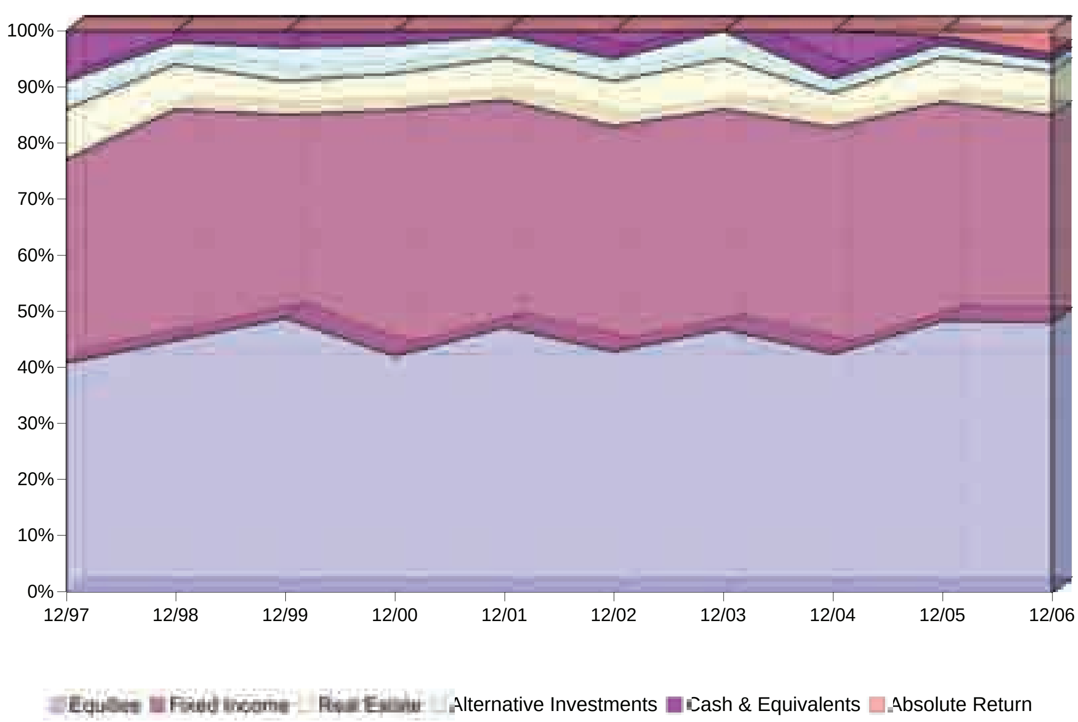


*Does not include OCERS operating cash accounts

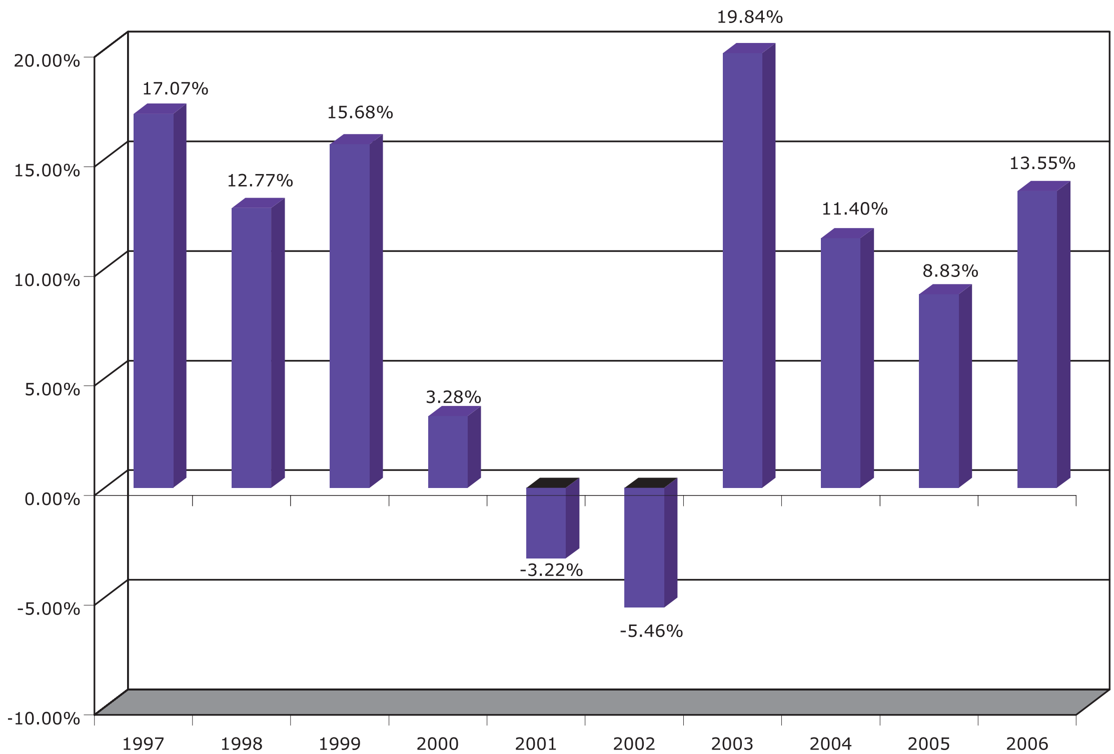
Growth of System Net Assets at Fair Value
for Ten Years Ended December 31, 2006
(in Millions of Dollars)



Historical Asset Allocation
(Actual)
December 1997 – December 2006



History of Performance
(Based on Fair Value)
December 1997 – December 2006



COMMISSION RECAPTURE PROGRAM

OCERS implements a direct brokerage program where investment managers are encouraged to trade with four brokerage firms, Abel Noser, Capital Institutional Services, Rochdale Securities, and Alfa, Inc. For domestic equity, OCERS recaptures about 75% of the commission, 60% for fixed income and 50% for international equity. For the year ended December 31, 2006 the System generated $378,781 in Commission Recapture dollars.

Schedule of Commissions for the Year Ended December 31, 2006

Broker Name	Shares/ Par Value	Commission (Base)	Commission Per Share
ABEL NOSER CORPORATION	958,064	36,655	0.038260
ABG SECURITIES AS (STOCKHOLM)	27,200	635	0.023359
ABN AMRO ASIA LIMITED	319,000	41	0.000131
ABN AMRO AUSTRALIA LIMITED	10,581	252	0.023873
ABN AMRO BANK N. V. HONG KONG	310,000	1,098	0.003544
ABN AMRO BANK NV	515,367	7,731	0.015001
ABN AMRO BANK NV HONG KONG BRANCH	386,777	110	0.000285
ADP CLEARING & OUTSOURCING SERVICES, INC	12,700	444	0.035000
AVONDALE PARTNERS LLC	9,200	460	0.050000
ROBERT W. BAIRD, , & COMPANY INCORPORATED	199,105	9,383	0.047129
BANC/AMERICA SECUR.LLC MONTGOMEY DIV	666,571	26,569	0.039861
BANCO ESPIRITO SANTO DE INVEST	11,846	25	0.002162
BANCO ESPIRITO SANTO DE INVESTMENT	71,000	159	0.002244
BAYERISCHE HYPO UND VEREINSBANK AG	17,975	1,254	0.069791
BAYERISCHE HYPO UND VEREINSBANK MUNICH	457	4	0.010153
BAYPOINT TRADING LLC	153,610	5,184	0.033752
BEAR STEARNS & CO INC	560,592	26,119	0.046593
BEAR STEARNS SECURITIES CORP	1,131,969	76,278	0.067386
BEAR STEARNS SECURITIES CORP.	51,137	1,487	0.029088
BLEY INVESTMENT GROUP	15,000	631	0.042067
BNY BROKERAGE INC	762,406	29,068	0.038127
BREAN MURRAY	7,290	364	0.050000
BRIDGE TRADING COMPANY	8,550	427	0.050000
BROADCORT CAPITAL (MERRILL LYNCH)	15,000	750	0.050000
BROCKHOUSE & COOPER INC MONTREAL	5,300	211	0.039994
BROCKHOUSE & COOPER, INC.	11,390	386	0.033951
BROWN BROTHERS HARRIMAN & CO	18,500	925	0.050000
B-TRADE SERVICES LLC	2,461,015	42,999	0.017472
C.E. UNTERBERG, TOWBIN	34,560	1,728	0.050000
CANACCORD ADAMS INC.	10,579	423	0.040000
CANTOR FITZ EUROPE	1,838,948	3,095	0.001683
CANTOR FITZGERALD & CO.	185,375	8,582	0.046296
CANTOR FITZGERALD AND CO	21,400	771	0.036067
CAPEL, JAMES HSBC SECURITIES INC.	176,980	7,832	0.044254
CAZENOVE & CO	76,149	1,294	0.016997
CHASE SECURITIES INC	7,096	2,974	0.419109
CIBC WORLD MARKETS CORP	310,440	14,327	0.046152
CIBC WORLD MKTS INC	53,500	2,109	0.039422
CITIGROUP GLOBAL MARKETS ASIA LIMITED	151,200	21	0.000143
CITIGROUP GLOBAL MARKETS AUSTRALIA PTR	135,207	862	0.006375
CITIGROUP GLOBAL MARKETS INC	658,339	27,141	0.041227
CITIGROUP GLOBAL MARKETS INC SALOMON	357	1,742	4.879552

Brokerage Firms	Number of Shares Traded	Commission (Base)	Commission Per Share
CITIGROUP GLOBAL MARKETS INC.	1,846,738	19,674	0.010653
CITIGROUP GLOBAL MARKETS INC/SALOMON	218	1,248	5.724771
CITIGROUP GLOBAL MARKETS LIMITED	1,471,691	12,299	0.008357
COLLINS STEWART INC.	214,140	7,213	0.033685
COMPASS POINT RESEARCH AND TRADING	858,140	34,323	0.039998
COWEN & CO., LLC	289,623	11,854	0.040932
CRAIG - HALLUM	43,947	1,788	0.040705
CREDIT AGRICLE INDOSUEZ	51,692	63	0.001238
CREDIT AGRICOLE INDOSUEZ CHEUVREUX	449,105	9,288	0.020682
CREDIT LYONNAIS SECURITIES	138	1,188	8.612319
CREDIT RESEARCH & TRADING LLC	3,000	150	0.050000
CREDIT SUISSE FIRST BOSTON (EUROPE) LTD	800,501	17,300	0.021612
CREDIT SUISSE FIRST BOSTON CORPORATION	218,669	9,488	0.043394
CREDIT SUISSE SECURITIES (USA) LLC	726,829	24,253	0.033369
CS FIRST BOSTON (HONG KONG) LIMITED	1,589,498	13,417	0.008441
CSFB AUSTRALIA EQUITIES LTD	369,108	2,901	0.007860
DAIWA SBCM EUROPE	127,216	3,278	0.025774
DAIWA SECURITIES AMERICA INC	357,542	2,337	0.006539
DAVENPORT& CO. OF VIRGINIA, INC.	5,600	280	0.050000
DAVIDSON D.A. & COMPANY INC.	57,202	2,288	0.040000
DAVY (J&E)	33,800	1,382	0.040907
DBS VICKERS SECURITIES (SINGAPORE)	738,000	260	0.000353
DEN DANSKE BANK	3,600	100	0.027892
DEUTSCHE BANK AG LONDON	649,424	14,144	0.021779
DEUTSCHE BANK ALEX BROWN	5,124	178	0.034910
DEUTSCHE BANK SECURITIES INC	178,446	6,721	0.037668
DEUTSCHE MORGAN GRENFELL SECS	388,740	130	0.000335
DEUTSCHE SECURITIES ASIA LIMITED	1,616,100	3,185	0.001971
DEUTSCHE SECURITIES NEW ZEALAND	42,795	14	0.000344
E TRADE SECURITIES LIMITED	7,000	309	0.044163
EDWARDS AG SONS INC	138,231	6,429	0.046510
ENSKILDA SECURITIES AB	1,700	82	0.048794
EXANE S.A.	11,100	1,165	0.105023
FERRIS BAKER WATTS INC	3,300	165	0.050000
FIRST ALBANY CAPITAL INC.	114,480	4,181	0.036523
FIRST ANALYSIS SECURITIES CORP	34,609	1,384	0.040000
FIRST TENNESSEE SECURITIES CORP	1,900	66	0.035000
FOX PITT KELTON INC	80,190	3,912	0.048784
FRIEDMAN BILLINGS & RAMSEY	114,592	5,241	0.045739
GARP STEARNS & SECURITIES CO	9,400	470	0.050000
GLOBAL EQUITIES	2,859	11	0.003970
GOLDMAN SACHS & CO	792,024	39,113	0.049384
GOLDMAN SACHS EXECUTION & CLEARING	24,735	247	0.010000
GOLDMAN SACHS INTERNATIONAL	1,824,131	10,452	0.005730
GOLDMAN SACHS INTERNATIONAL LONDON	241,610	4,639	0.019201
GORDON HASKETT	15,030	640	0.042608
GREEN STREET ADVISORS	13,500	675	0.050000
HARRIS NESBITT CORP	26,040	1,302	0.050000
HARRIS NESBITT CORP.	1,400	49	0.035000
HIBERNIA SOUTHCOAST CAPITAL INC	8,600	430	0.050000
HONG KONG AND SHANGHAI BANKING CORP	142,542	4,152	0.029134
HOWARD WEIL DIVISION LEGG MASON	25,920	1,296	0.050000

Brokerage Firms	Number of Shares Traded	Commission (Base)	Commission Per Share
HSBC BANKPLC	96,900	4,211	0.043461
HSBC SECURITIES, INC (JAMES CAPEL)	3,900	117	0.030000
ING BANK N V	1,200	56	0.046775
ING FINANCIAL MARKETS LLC	11,300	226	0.020000
INSTINET	90,990	4,401	0.048373
INSTINET U.K. LTD	787,895	2,777	0.003526
INSTINET CLEARING SERVICES, INC.	1,534,900	13,568	0.008840
INVESTEC SECURITIES	3,500	252	0.072189
INVESTMENT TECHNOLOGY GROUP INC.	1,464,536	19,946	0.013619
INVESTMENT TECHNOLOGY GROUP LTD	1,545,054	12,062	0.007807
ISI GROUP INC	6,600	290	0.043939
ITG AUSTRALIA LTD.	453,309	412	0.000911
ITG CANADA	33,000	1,380	0.041839
ITG EUROPE LIMITED	600	20	0.034567
ITG INC	13,400	550	0.041085
ITG SECURITIES (HK) LTD	1,174,816	751	0.000640
IVY SECURITIES, INC.	23,420	936	0.040000
IXIS SECURITIES	148,107	865	0.005840
J B WERE AND SON	316,536	2,526	0.007983
J P MORGAN SECURITIES INC	285,712	13,959	0.048859
J.P. MORGAN SECURITIES LIMITED	87,990	6,663	0.075734
JANNEY MONTGOMERY, SCOTT INC	18,250	912	0.050000
JEFFERIES& COMPANY INC	3,414,297	76,301	0.022348
JMP SECURITIES	4,600	161	0.035000
JOH BERENBERG GOSSLER AND CO	86,214	888	0.010305
JOHNSON RICE & CO	35,875	1,747	0.048711
JONES & ASSOCIATES INC	68,425	2,699	0.039452
JP MORGAN SECURITIES LIMITED	653,428	12,502	0.019133
JPMORGAN SECURITIES(ASIA PACIFIC)LTD	1,175,099	1,741	0.001482
KAUFMAN BROTHERS	5,900	295	0.050000
KBC FINANCIAL PRODUCTS UK LTD	517,202	6,393	0.012362
KEEFE BRUYETTE & WOODS INC	88,975	4,237	0.047628
KEPLER EQUITIES PARIS	2,500	123	0.049380
KING & ASSOCIATES, INC	2,600	130	0.050000
KLEINWORT BENSON SECURITIES LIMITED	904,212	9,418	0.010416
KNIGHT SECURITIES	95,730	3,955	0.041314
LA BRANCHE FINANCIAL	885,900	27,743	0.031317
LAZARD CAPITAL MARKETS LLC	170,990	7,734	0.045231
LEERINK SWANN AND COMPANY	290,760	14,466	0.049752
LEHMAN BROTHERS INC	547,131	25,367	0.046364
LEHMAN BROTHERS INC.	173	562	3.250000
LEHMAN BROTHERS INTERNATIONAL (EUROPE)	1,658,016	16,288	0.009824
LEHMAN BROTHERS SECS (ASIA)	2,468,714	12,608	0.005108
LIQUIDNET INC	525,125	10,569	0.020128
LONGBOW SECURITIES LLC	3,600	108	0.030000
LYNCH JONES AND RYAN INC	1,129,740	56,487	0.050000
M M WARBURG	3,100	176	0.056955
MACQUARIE EQUITIES LIMITED (SYDNEY)	384,313	309	0.000805
MACQUARIE EQUITIES NEW ZEALAND	57,594	25	0.000448
MACQUARIE SECURITIES LIMITED	1,139,850	5,075	0.004453
MACQUARIE SECURITIES LTD SEOUL	14,120	2,383	0.168781
MCDONALD AND COMPANY SECURITIES, INC.	30,720	1,536	0.050000

Brokerage Firms	Number of Shares Traded	Commission (Base)	Commission Per Share
MERRILL LYNCH & CO INC	12,500	493	0.039514
MERRILL LYNCH INTERNATIONAL	517,837	8,899	0.017186
MERRILL LYNCH PIERCE FENNER AND S	2,036,628	18,477	0.009073
MERRILL LYNCH PROFESSIONAL CLEARING CORP	486,645	23,054	0.047374
MERRILL LYNCH,PIERCE,FENNER & SMITH, INC	730,218	42,086	0.057636
MIDWEST RESEARCH SECURITIES	197,140	9,857	0.050000
MIZUHO SECURITIES USA INC	115,900	3,038	0.026216
MOORS & CABOT INC	11,400	456	0.040000
MORGAN KEEGAN & CO INC	30,508	1,316	0.043147
MORGAN STANLEY AND CO. INTERNATIONAL	1,362,909	33,209	0.024367
MORGAN STANLEY CO INCORPORATED	949,700	21,008	0.022122
MORGAN STANLEY SECURITIES LIMITED	72,980	102	0.001408
NATEXIS BLEICHROEDER INC	31,340	1,567	0.050000
NATIONAL FINANCIAL SERVICES CORP.	16,358	545	0.033337
NBC CLEARING SERVICES INCORPORATED	30,600	1,222	0.039947
NCB STOCKBROKERS LTD	5,700	227	0.039981
NEEDHAM & COMPANY	16,762	670	0.040000
NEONET SECURITIES AB	11,664	94	0.008127
NESBITT BURNS	111,200	4,376	0.039354
NEXT GENERATION EQUITY RESEARCH LLC	15,200	760	0.050000
NOMURA INTERNATIONAL (HONG KONG) LTD	427,210	102	0.000240
NOMURA INTERNATIONAL PLC	613,707	2,283	0.003721
NOMURA SECURITIES INTERNATIONAL INC	11,173,883	82,891	0.007418
NUMIS SECURITIES LIMITED	205,428	1,532	0.007461
NYFIX TRANSACTION SERVICES	240	2	0.010000
ODD LOT SALE	50	13	0.262000
OPPENHEIMER & CO. INC.	228,790	11,084	0.048448
PACIFIC GROWTH EQUITIES	71,080	3,554	0.050000
PEEL HUNT & COMPANY LIMITED	570	3	0.006158
PERSHING DLJ S L	558,200	22,442	0.040205
PERSHING LLC	76,587	2,748	0.035894
PERSHING SECURITIES LIMITED	605,398	19,962	0.032975
PETRIE PARKMAN & CO INC	46,580	2,329	0.050000
PICKERING ENERGY PARTNERS, INC	36,830	1,841	0.050000
PIPELINE TRADING SYSTEMS LLC	71,370	1,427	0.020000
PIPER JAFFRAY	27,469	1,011	0.036815
POLCARI/WEICKER DIV OF GARBAN CORP	2,300	46	0.020000
PRINCETON SECURITIES	49,170	1,475	0.030000
PRITCHARD CAPITAL PARTNERS LLC	80,840	4,042	0.050000
PRUDENTIAL EQUITY GROUP	301,093	13,640	0.045302
RABOBANK NETHERLAND	24,500	1,138	0.046452
RAYMOND JAMES AND ASSOCIATES INC	70,660	3,533	0.050000
RBC CAPITAL MARKETS	601,570	29,927	0.049748
RBC DAIN RAUSCHER INC	29,044	1,161	0.040000
RBC DOMINION SECURITIES	61,600	2,473	0.040147
ROBOTTI &COMPANY	12,600	630	0.050000
S.G. COWEN & CO., LLC	270,068	12,763	0.047261
SALOMON SMITH BARNEY KOREA LTD	1,400	1,781	1.272164
SANDERS MORRIS MUNDY	1,750	61	0.035000
SANDLER O'NEILL & PARTNERS LP	236,000	11,304	0.047899
SANFORD C. BERNSTEIN LTD	37,800	1,005	0.026589
SANFORD C. BERNSTEIN CO LLC	595,450	28,330	0.047578

Brokerage Firms	Number of Shares Traded	Commission (Base)	Commission Per Share
SANTANDER CENTRAL HISPANO BOLSA	7,800	143	0.018342
SCOTIA CAPITAL (USA) INC	132,490	5,200	0.039249
SCOTT & STRINGFELLOW, INC	78,528	3,289	0.041891
SHENYIN WANGUO SECURITIES (HK) LTD	10,000	2	0.000280
SIDOTI & COMPANY LLC	14,600	730	0.050000
SIMMONS & COMPANY INTERNATIONAL	25,716	1,139	0.044320
SOCIETE GENERALE LONDON BRANCH	17,000	1,396	0.082121
STANFORD GROUP CO	146,310	7,306	0.049938
STATE STREET BANK & TRUST CO LONDON	4,300	89	0.020737
STATE STREET BROKERAGE SERVICES	15,540	704	0.045335
STEPHEN M. FERRETTI INC.	200	4	0.020000
STEPHENS, INC.	487,135	18,172	0.037305
STERNE, AGEE & LEACH, INC.	22,530	1,126	0.050000
STIFEL NICOLAUS & CO INC	449,249	21,583	0.048045
SUNTRUST CAPITAL MARKETS, INC.	77,201	3,267	0.042329
SVENSKA HANDELSBANKEN LONDON BRANCH	1,900	53	0.028221
THINK EQUITY PARTNERS LLC	41,697	2,003	0.048049
THOMAS WEISEL PARTNERS	49,703	2,105	0.042356
THOMAS WEISEL PARTNERS LLC	205,422	9,653	0.046993
TORONTO DOMINION SECURITIES	70,300	2,809	0.039960
U S CLEARING INSTITUTIONAL TRADING	519,100	21,654	0.041715
UBS AG	3,623,504	84,569	0.023339
UBS AG LONDON	260,336	227	0.000874
UBS SECURITIES ASIA LTD	163,714	1,526	0.009324
UBS SECURITIES CANADA INC	6,000	234	0.039073
UBS SECURITIES LLC	575,382	13,953	0.024251
UBS WARBURG (HONG KONG) LIMITED	141,000	31	0.000226
UOB KAY HIAN (HONG KONG) LTD	447,200	74	0.000168
UOB KAY HIAN PRIVATE LIMITED	504,000	171	0.000340
VERITAS SECURITIES	347,100	8,677	0.025000
WACHOVIA CAPITAL MARKETS, LLC	68,047	3,299	0.048482
WARBURG DILLION READ (ASIA) LTD	1,104,029	10,376	0.009399
WEDBUSH MORGAN SECURITIES INC	4,440	222	0.050000
WEEDEN & CO.	324,927	14,132	0.043493
WESTMINSTER RESEARCH ASSOCIATION	49,600	2,480	0.050000
WILLIAM BLAIR & COMPANY, L.L.C	125,990	5,375	0.042668
WILLIAM SMITH SECURITIES	4,800	240	0.050000
ZACKS & COMPANY	200	8	0.040000

Investment Summary
December 31, 2006
(Dollars in Thousands)

Investment	Fair Value	Percentage
Domestic Equity	$ 1,443,340	20.60%
International Equity	1,503,750	21.46%
International Emerging Market	424,166	6.05%
Domestic Fixed Income	1,408,247	20.10%
Global TIPS	600,778	8.57%
International Fixed Income	571,738	8.16%
Cash and Cash Equivalents	90,488	1.29%
Real Estate	538,866	7.69%
Alternative Investments	134,978	1.93%
Absolute Return	290,210	4.14%
Total *	**$ 7,006,561**	**100.00%**

* The table above is provided directly from State Street and does not reflect funds held at Wells Fargo Bank, accounts receivable, accounts payable, depreciation or capital assets. (see page 18)

Schedule of Largest Equity Holdings (by Fair Value)**
December 31, 2006

Stock	Security Description	Fair Value
Sumitomo Mitsui Group	Common Stock	$ 16,750,618
Microsoft Corp	Common Stock	15,784,891
Goldman Sachs Group, Inc.	Common Stock	15,138,639
Royal Bank Scot Group	Common Stock	15,013,410
CISCO Systems Inc.	Common Stock	13,393,339
Sanofi Aventis	Common Stock	12,959,665
Vodafone Group	Common Stock	11,966,741
Novartis AG	Common Stock	11,756,214
Royal Dutch Shell	Common Stock	10,877,370
ING Group NV	Common Stock	10,824,970

Schedule of Largest Fixed Income Holdings (by Fair Value)**
December 31, 2006

Bonds	Moody's Quality Rating	Fair Value
FNMA POOL 5.50%, 12/1/2099	AAA	$ 64,144,525
UNITED STATES TREAS NTS 2.00%, 1/15/2014	AAA	61,342,575
UNITED STATES TREAS NTS 2.00%, 7/15/2014	AAA	45,735,371
UNITED STATES TREAS BDS 3.63%, 4/15/2028	AAA	45,388,960
UNITED STATES TREAS BDS 2.38%, 1/15/2025	AAA	43,213,730
UNITED STATES TREAS NTS 2.50%, 7/15/2016	AAA	39,777,609
UNITED STATES TREAS NTS 0.88%, 4/15/2010	AAA	39,593,927
UNITED STATES TREAS BDS 3.88%, 4/15/2029	AAA	36,832,858
UNITED STATES TREAS NTS 4.25%,1/15/2010	AAA	36,368,002
UNITED STATES TREAS NTS 3.00%, 7/15/2012	AAA	33,852,451

** A complete listing of portfolio holdings is available for review at the OCERS' office.

List of Investment Managers

As of December 31, 2006

Domestic Equity

Artisan Partners

Barclays Global Investors

Cadence Capital Management

Capital Guardian Trust Company

Dodge & Cox

Peregrine Capital Management

Washington Capital

Domestic Fixed Income

Barclays Global Investors

Loomis, Sayles & Company

Pacific Investment Management Company (PIMCO)

International Equity

Alliance Bernstein

AXA Rosenberg International

Barclays Global Investors

Capital Guardian Trust Company

Globeflex Capital

William Blair

International Fixed Income

Mondrian Investment Partners, Ltd.

State Street Global Advisors

Absolute Return

Bridgewater Associates

List of Investment Managers

As of December 31, 2006

(Continued)

Real Estate

Domestic

American Realty Advisors

CB Richard Ellis

Sentinel Real Estate Corporation

International

Rockspring Property Investment Managers, Ltd.

Non-Traditional Investments

Managers

Adams Street Partners

HarbourVest Partners, LLC
Mesirow Financial

Limited Partnerships

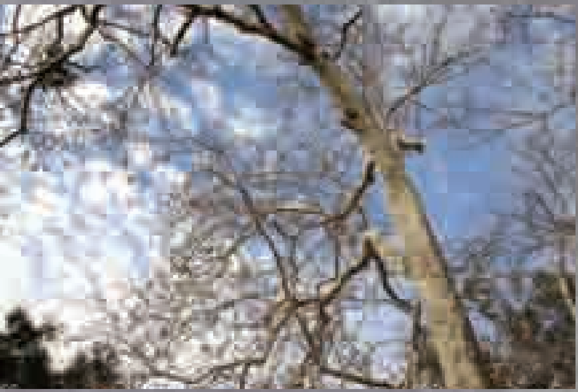
TCW Asset Management Company

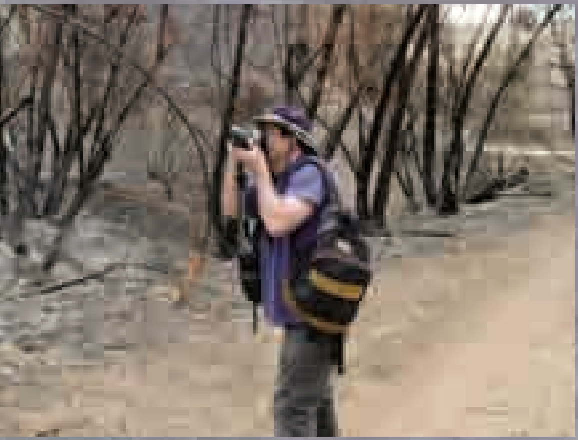
Timber

Hancock Timber Resource Group

Securities Lending Program

State Street Corporation





SECTION 4

ACTUARIAL

THE SEGAL COMPANY
120 Montgomery Street, Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

May 24, 2007

Board of Retirement
Orange County Employees Retirement System
2223 Wellington Avenue
Santa Ana, CA 92701-3101

Dear Members of the Board:

The Segal Company (Segal) prepared the December 31, 2006 annual actuarial valuation of the Orange County Employees Retirement System. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

The funding method used by the System is called the Entry Age Normal Actuarial Cost Method. The funding objective of the System is to reduce the outstanding balance of the December 31, 2004 unfunded actuarial accrued liability (UAAL) to zero over a 30-year period commencing December 31, 2004. Any increases or decreases in UAAL that arise in future years due to actuarial gains or losses will be amortized over separate 15-year periods. The progress being made toward the realization of the financing objectives through December 31, 2006 is illustrated in the attached Exhibits I, II and X.

As part of the December 31, 2006 actuarial valuation, Segal conducted an examination of all participant data for reasonableness. Summaries of the employee data used in performing the actuarial valuations are provided in our valuation report. We did not audit the System's financial statements. For actuarial valuation purposes, Plan assets are valued at actuarial value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the actual and expected return on market value over a five-year period. The development of the actuarial value as of December 31, 2006 is provided in Exhibit V.

Board of Retirement
Orange County Employees Retirement System
May 24, 2007
Page 2

A listing of supporting schedules Segal prepared for inclusion in the actuarial, statistical and financial sections of the System's CAFR is as follows:

1. History of Unfunded Actuarial Accrued Liability (Exhibit I);
2. History of Employer Contribution Rates (Exhibit II);
3. Summary of Active Membership (Exhibit III);
4. Summary of Retired Membership (Exhibit IV);
5. Development of Actuarial and Valuation Value of Assets (Exhibit V);
6. Short-Term Solvency Test (Exhibit VI);
7. Actuarial Methods and Assumptions (Exhibit VII);
8. Summary of Major Plan Provisions (Exhibit VIII);
9. Experience Analysis (Exhibit IX); and
10. Schedule of Funding Progress (Exhibit X).

The valuation assumptions used in this valuation were included in the Actuarial Section. Those assumptions were adopted by the Retirement Board on February 21, 2006. It is our opinion that the assumptions used in the December 31, 2006 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The next experience analysis is due to be performed as of December 31, 2007.

In the December 31, 2006 valuation, the ratio of the valuation value of assets to actuarial accrued liabilities increased from 71.53% to 73.77%. The aggregate employer rate (average of the County and all special districts rates combined) has decreased from 24.27% of payroll to 24.01% of payroll. The aggregate employee's rate has decreased from 10.39% of payroll to 10.36% of payroll. The employer's rate developed in the December 31, 2005 valuation reflects the second (and final) year of a 3-year phase-in of the rate increase for OCTA.

Sincerely,

Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President & Actuary

Andy Yeung, ASA, MAAA, EA
Associate Actuary

Orange County Employees Retirement System

Exhibit I

HISTORY OF UNFUNDED ACTUARIAL ACCRUED LIABILITY

(In Thousand Dollars)

Valuation Date	Actuarial Accrued Liability	Valuation Value of Assets*	Unfunded Actuarial Accrued Liability	Ratio of Assets to Actuarial Accrued Liability	Annual Active Member Compensation	Ratio of Unfunded Actuarial Accrued Liability to Active Compensation
12/31/97	3,332,967	3,128,132	204,835	93.85%	781,890	26.20%
12/31/98	3,682,686	3,504,708	177,978	95.17%	863,199	20.62%
12/31/99	4,017,279	3,931,744	85,535	97.87%	912,490	9.37%
12/31/00	4,335,025	4,497,362	(162,337)	103.74%	994,669	(16.32%)
12/31/01	4,843,899	4,586,844	257,055	94.69%	1,122,763	22.89%
12/31/02	5,673,754	4,695,675	978,079	82.76%	1,242,348	78.73%
12/31/03	6,099,433	4,790,099	1,309,334	78.53%	1,243,964	105.25%
12/31/04	7,403,972	5,245,821	2,158,151	70.85%	1,257,085	171.68%
12/31/05	8,089,627	5,786,617	2,303,010	71.53%	1,276,764	180.38%
12/31/06	8,765,045	6,466,085	2,298,960	73.8%	1,322,952	173.78%

Notes:

- The 12/31/06 valuation included the following changes:
  There is a new Rate Group #10, for General members of Orange County Fire Authority (OCFA) (previously with members in Rate Group #2). City of Rancho Santa Margarita (RSM), Rate Group #4, withdrew from OCERS effective November 26, 2006.
- The 12/31/05 valuation included the following changes:
  Assumption Changes:
  The System has provided Segal with salary, years of service and eligibility for reciprocal benefit data for terminated vested members. Their benefits are now calculated using those data elements. In the December 31, 2004 valuation, the following assumption was used to estimate their benefits.

  Liability for a current deferred vested member is estimated at 3.35 times the member's total basic plus COLA member contribution account balance.
- The 12/31/04 valuation included the following changes:
  Methodology and procedure changes:
  The differences between Segal and the prior actuary's valuation system and procedures increased the UAAL by $107 million.

  Assumption changes:
  Changes in salary scale, withdrawal and retirement assumptions in the December 31, 2004 triennial experience study increased the UAAL by $580 million.

  Changes in inflation assumption, funding method and investment return assumption decreased UAAL by $183 million.

  Benefit changes:
  Certain employers improved benefits that increased the UAAL by $365 million. The improvements were:

  Probation adopted 3.0% of final average pay at age 50 on service earned after June 30, 2005.

  Transportation Corridor Agency adopted 2% of final average salary at age 55 for all service.

Orange County Employees Retirement System

HISTORY OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (Cont.)

The Orange County Sanitation District adopted 2.5% of final average pay at age 55 on all service. Law Library adopted the same formula but for future service only.

The Orange County General, with the exception of bargaining unit AFSCME, Orange County Superior Court and Orange County Fire Authority adopted 2.7% of final average pay at age 55 on all service.

The Orange County Local Agency Formation Commission and Orange County Employees Retirement System (management employees) adopted 2.7% of final average pay at age 55 on service earned after June 30, 2005.

- The 12/31/03 valuation included the following benefit changes:

  The City of San Juan Capistrano adopted a new benefit formula, which produces benefits of 2.7% of final average pay at age 55.

  The City of Rancho Santa Margarita adopted a new benefit formula, which produces benefits of 2.5% of final average pay at age 55.

- The 12/31/02 valuation included changes to the interest rate and salary increase assumptions. The interest rate changed from 8.0% to 7.5% and the salary increase assumption from 5.5% to 4.5%. These changes increased employer rates and generally decreased member contribution rates slightly. The retirement benefit for Firefighters was changed to a 3% per year of service benefit payable unreduced at age 50. Probation Officers became Safety Members with a portion of service for Tier II members converted to Safety Member service at less than one-for-one.

- The 12/31/01 valuation included changes to the assumed withdrawal rates, the assumed termination rates, the assumed service connected disability rates and the assumed retirement rates. These changes increased both member and employer contribution rates. The retirement benefit for Law Enforcement was changed to a 3% per year of service benefit payable unreduced at age 50.

- The 12/31/98 valuation included changes to the assumed withdrawal rates, the assumed preretirement mortality and the assumed retirement rates. These changes increased both member and employer contribution rates.

- The 12/31/97 valuation included an increase in plan benefits to reflect the impact of the California Supreme Court decision in the Ventura County case regarding compensation earnable.

- Each year's assets exclude an amount as shown in the following table of the County's unamortized 1994 funding of its portion of the Unfunded Actuarial Accrued Liability, which funding for 1995 was being amortized over a 14-year period beginning July 1, 1994 and for 1996 and later was being amortized over a 28-year period beginning July 1, 1996. Beginning July 1, 2003, the County can utilize this amount at its discretion to fund any portion of the employer contribution.

Valuation Date	Amount Excluded from Assets
12/31/97	$322,333,000
12/31/98	$302,909,000
12/31/99	$286,139,000
12/31/00	$272,789,000
12/31/01	$221,643,000
12/31/02	$143,675,000
12/31/03	$143,744,000
12/31/04	$155,245,000
12/31/05	$158,219,000*
12/31/06	$168,224,000**

* *Please note that for the December 31, 2005 valuation, we also excluded an additional $45,925,000 in prepaid employer contributions.*

** *For the December 31, 2006 valuation, we also excluded an additional $70,941,000 in prepaid employer contributions.*

Orange County Employees Retirement System

Exhibit II

HISTORY OF EMPLOYER CONTRIBUTION RATES

Employer Contribution Rate (% of pay)

Valuation Date	GENERAL	SAFETY
12/31/1997	Normal Cost (NC) 3.77 UAAL (1.91) Total 1.86	Normal Cost (NC) 6.79 UAAL 19.65 Total 26.44
12/31/1998	NC 4.35 UAAL (2.35) Total 2.00	NC 8.00 UAAL 16.41 Total 24.41
12/31/1999	NC 4.56 UAAL (3.60) Total 0.96	NC 8.27 UAAL 13.95 Total 22.22
12/31/2000	NC 4.94 UAAL (3.98) Total 0.96	NC 8.57 UAAL 0.16 Total 8.73

	Non-OCTA	*OCTA*	*Rancho Santa Margarita*	*San Juan Capistrano*	*Law Enforcement*	*Fire Authority*	*Probation*
12/31/2001	NC 5.04 UAAL 0.62* Total 5.66	NC 4.20 UAAL 0.77* Total 4.97	N/A	NC 5.04 UAAL 0.62* Total 5.66	NC 15.87 UAAL 9.15* Total 25.02	NC 10.30 UAAL 1.89* Total 12.19	NC 5.04 UAAL 0.62* Total 5.66
12/31/2002	NC 5.44 UAAL 3.71* Total 9.15	NC 4.36 UAAL 3.87* Total 8.23	N/A	NC 5.44 UAAL 3.71* Total 9.15	NC 16.53 UAAL 21.34* Total 37.87	NC 17.85 UAAL 16.81* Total 34.66	NC 4.38 UAAL 4.19* Total 8.57
12/31/2003**	NC 5.56 UAAL 7.07* Total 12.63	NC 4.41 UAAL 7.05* Total 11.46	NC 1.77 UAAL 3.43* Total 5.20	NC 7.22 UAAL 10.96* Total 18.18	NC 16.86 UAAL 22.53* Total 39.39	NC 17.98 UAAL 15.40* Total 33.38	NC 4.02 UAAL 8.73* Total 12.75

Orange County Employees Retirement System

HISTORY OF EMPLOYER CONTRIBUTION RATES (Cont.)

Employer Contribution Rate (% of pay)

	General (Non-OCTA)	*General (2.7% @ 55)*	*General (OCTA)*	*General (2.5% @ 55, non-RSM)*	*General (Rancho Santa Margarita)*	*General (2.0% @ 55)*	*General (2.7% @ 55, OCFA)*	*Law Enforcement*	*Fire Authority*	*Probation*
12/31/2004 ***,****	NC 9.55% UAAL 6.08% Total 15.63%	NC 11.74% UAAL 10.49% Total 22.23%	NC 11.71% UAAL 1.39% Total 13.10%	NC 10.80% UAAL 9.35% Total 20.15%	NC 10.53% UAAL 2.30% Total 12.83%	NC 11.45% UAAL 7.09% Total 18.54%	See General (2.7% @ 55)	NC 20.43% UAAL 17.22% Total 37.65%	NC 20.33% UAAL 13.52% Total 33.85%	NC 21.37% UAAL 12.04% Total 33.41%
12/31/2005 ***,****	NC 9.33% UAAL 5.00% Total 14.33%	NC 11.46% UAAL 11.10% Total 22.56%	NC 11.36% UAAL 3.60% Total 14.96%	NC 10.54% UAAL 10.33% Total 20.87%	NC 10.81% UAAL 1.92% Total 12.73%	NC 11.49% UAAL 5.87% Total 17.36%	See General (2.7% @ 55)	NC 20.15% UAAL 17.18% Total 37.33%	NC 20.04% UAAL 13.98% Total 34.02%	NC 20.76% UAAL 11.18% Total 31.94%
12/31/2006 ****, *****	NC 9.19% UAAL 5.31% Total 14.50%	NC 11.36% UAAL 10.84% Total 22.20%	NC 11.25% UAAL 4.77% Total 16.02%	NC 10.55% UAAL 10.79% Total 21.34%	N/A	NC 12.03% UAAL 6.01% Total 18.04%	NC 11.43% UAAL 12.81% Total 24.24%	NC 20.19% UAAL 15.86% Total 36.05%	NC 19.93% UAAL 13.50% Total 33.43%	NC 20.61% UAAL 11.64% Total 32.25%

* *Includes an additional 0.50% of pay as required under an agreement between OCERS and the County.*
** *Excludes the cost of benefit improvements for certain employers adopted after December 31, 2003.*
*** *After reflecting three-year phase-in of the total rate increase calculated in the 2004 and 2005 valuations for OCTA.*
**** *Excludes contributions to RMBR/ABRA, if applicable.*
***** *For 12/31/2006, General (2.7% @ 55) excludes OCFA.*

Orange County Employees Retirement System

Exhibit III

SUMMARY OF ACTIVE MEMBERSHIP

Valuation Date	Number	Annual Salary	Annual Average Salary	Increase in Average Salary (%)
12/31/97				
General	16,266	$643,115,556	$39,537	(0.24)
Safety	2,427	138,774,560	57,179	(0.45)
Total	18,693	$781,890,116	$41,828	(0.29)
12/31/98				
General	16,976	$706,507,935	$41,618	5.26
Safety	2,456	156,691,236	63,799	11.58
Total	19,432	$863,199,171	$44,422	6.20
12/31/99				
General	17,801	$738,956,477	$41,512	(0.25)
Safety	2,556	173,533,473	67,893	6.42
Total	20,357	$912,489,950	$44,824	0.90
12/31/00				
General	18,382	$809,054,612	$44,016	6.04
Safety	2,605	185,614,420	71,256	4.95
Total	20,987	$994,669,032	$47,400	5.76
12/31/01				
General	19,653	$921,057,200	$46,860	6.46
Safety	2,676	201,705,606	75,372	5.78
Total	22,329	$1,122,762,806	$50,280	6.08
12/31/02				
General	19,002	$976,660,649	$51,398	9.68
Safety	3,721	265,638,289	71,389	(5.28)
Total	22,723	$1,242,348,938	$54,674	8.74
12/31/03				
General	19,023	$985,534,535	$51,808	0.80
Safety	3,649	258,429,279	70,822	(0.79)
Total	22,672	$1,243,963,814	$54,868	0.35
12/31/04				
General	18,928	$1,003,061,000	$52,993	2.29
Safety	3,574	254,024,000	71,076	0.36
Total	22,502	$1,257,085,000	$55,866	1.82
12/31/05				
General	18,816	$1,011,214,000	$53,742	1.41
Safety	3,651	265,550,000	72,733	2.25
Total	22,467	$1,276,764,000	$56,828	1.72
12/31/06				
General	19,129	$1,049,095,000	$54,843	2.05
Safety	3,662	273,857,000	74,783	2.82
Total	22,791	$1,322,952,000	$58,047	2.15

Excludes Deferred and Pending members.

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Orange County Employees Retirement System

EXHIBIT IV

SUMMARY OF RETIRED MEMBERSHIP

		Added to Rolls		Removed from Rolls					
Plan Year Ending	At Beginning of Year	Number	Annual Allowance (in 000's)*	Number	Annual Allowance (in 000's)	At End of Year	Annual Allowance (in 000's)	% Increase in Annual Allowance	Average Monthly Allowance
1997	6,631	505	--	(224)	--	6,912	109,661	9.93	1,322
1998	6,912	547	--	(215)	--	7,244	125,440	14.39	1,443
1999	7,244	549	--	(256)	--	7,537	137,543	9.65	1,521
2000	7,537	618	--	(240)	--	7,915	149,003	8.33	1,569
2001	7,915	606	--	(305)	--	8,216	162,553	9.09	1,649
2002	8,216	727	--	(255)	--	8,688	186,286	14.60	1,787
2003	8,688	793	--	(402)	--	9,079	210,913	13.22	1,936
2004	9,079	638	$26,663	(284)	($4,715)	9,433	232,861	10.41	2,057
2005	9,433	1,024	56,669	(239)	(4,081)	10,218	285,449	22.58	2,328
2006	10,218	965	46,950	(268)	(5,580)	10,915	326,819	14.49	2,495

* *Includes COLA granted during the plan year.*

Note: Annual allowances exclude RMBR and STAR COLA.

Orange County Employees Retirement System

Exhibit V

DEVELOPMENT OF ACTUARIAL AND VALUATION VALUE OF ASSETS

As of December 31, 2006

Plan Year Ending	Total Actual Market Return (net)	Expected Market Return (net)	Investment Gain/(Loss)	Deferred Factor	Deferred Return
2004	$544,457,000	$362,744,000	$181,713,000	0.4	$72,685,000
2005	$441,178,000	$421,743,000	$19,435,000	0.6	$11,661,000
2006	$787,330,000	$463,198,000	$324,132,000	0.8	$259,306,000

(1)	Total Deferred Return	$343,652,000
(2)	Net Market Value of Assets (Excludes $168,224,000 in County Investment Account and $70,941,000 in Prepaid Employer Contributions)	$6,817,726,000
(3)	Actuarial Value of Assets (2) – (1)	$6,474,074,000
(4)	Non-valuation Reserves	
(a)	Unclaimed member deposit	$1,317,000
(b)	Medicare medical insurance reserve	$91,000
(c)	Retired member benefit reserve (RMBR)	$6,581,000
(d)	Subtotal	$7,989,000
(5)	Valuation Value of Assets (3) - (4)(d)	$6,466,085,000

Orange County Employees Retirement System

Exhibit VI

SHORT-TERM SOLVENCY TEST

($ Amounts in Thousands)

Valuation Date	(1) Active Member Contributions	(2) Liability for Inactive Participants	(3) Liability for Active Members (Employer Financed Portion)	Valuation Value of Assets	Portion of Accrued Liability Covered by Valuation Assets (%)		
					(1)	(2)	(3)
12/31/97	$523,770	$1,554,017	$1,255,180	$3,128,132	100	100	83.68
12/31/98	567,932	1,632,708	1,482,047	3,504,708	100	100	87.99
12/31/99	618,463	1,782,432	1,616,383	3,931,744	100	100	94.71
12/31/00	671,152	1,911,328	1,752,545	4,497,362	100	100	100.00
12/31/01	739,084	2,085,697	2,019,118	4,586,844	100	100	87.27
12/31/02	858,121	2,496,133	2,319,500	4,695,675	100	100	57.83
12/31/03	852,016	2,843,236	2,404,180	4,790,099	100	100	45.54
12/31/04	949,528	3,137,714	3,316,730	5,245,821	100	100	34.93
12/31/05	1,002,279	3,723,611	3,363,737	5,786,617	100	100	31.53
12/31/06	1,087,804	4,274,829	3,402,412	6,466,085	100	100	32.43

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Orange County Employees Retirement System

Exhibit VII

ACTUARIAL METHODS AND ASSUMPTIONS

Section 1 – Post-Retirement Mortality Rates

Healthy: For General Members and Beneficiaries: 1994 Group Annuity Mortality Table set forward one year.

For Safety Members and Beneficiaries: 1994 Group Annuity Mortality Table set forward one year.

Disabled: For General Members and Safety members: 1994 Group Annuity Mortality Table set forward five years.

Employee Contribution Rates and Optional Benefits: For General members, 1994 Group Annuity Mortality Table set forward one year weighted 40% male and 60% female.

For Safety and Probation members, 1994 Group Annuity Mortality Table set forward one year weighted 80% male and 20% female.

Section 2 - Termination Rates Before Retirement:

Healthy Mortality:

	Rate (%) Mortality			
	General		Safety	
Age	Male	Female	Male	Female
25	0.07%	0.03%	0.07%	0.03%
30	0.08	0.04	0.08	0.04
35	0.09	0.05	0.09	0.05
40	0.12	0.08	0.12	0.08
45	0.17	0.10	0.17	0.10
50	0.29	0.16	0.29	0.16
55	0.49	0.26	0.49	0.26
60	0.90	0.51	0.90	0.51
65	1.62	0.97	1.62	0.97

All pre-retirement deaths are assumed to be non-service connected.

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Section 2 - Termination Rates Before Retirement (continued):

Disability Incidence Rates:

	Rate (%) Disability			
Age	**General all other[1]**	**General OCTA[2]**	**Safety – Law & Fire[3]**	**Safety - Probation[4]**
20	0.00%	0.00%	0.03%	0.00%
25	0.03	0.00	0.08	0.06
30	0.08	0.03	0.16	0.16
35	0.13	0.08	0.32	0.20
40	0.18	0.28	0.52	0.20
45	0.20	0.58	0.72	0.20
50	0.23	0.76	0.98	0.20
55	0.31	0.92	2.24	0.20
60	0.41	1.30	3.60	0.08

(1) 60% of General all other disabilities are assumed to be duty disabilities. The other 40% are assumed to be ordinary disabilities.

(2) 70% of General - OCTA disabilities are assumed to be duty disabilities. The other 30% are assumed to be ordinary disabilities.

(3) 85% of Safety – Law Enforcement and Fire disabilities are assumed to be duty disabilities. The other 15% are assumed to be ordinary disabilities.

(4) 85% of Safety - Probation disabilities are assumed to be duty disabilities. The other 15% are assumed to be ordinary disabilities.

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Section 2 - Termination Rates Before Retirement (continued):

Withdrawal Rates:

Rate (%)

Withdrawal (< 5 Years of Service)

Years of Service	General all other	General OCTA	Safety – Law & Fire	Safety - Probation
0	10.0%	10.0%	3.0%	11.0%
1	8.0	7.0	2.0	10.0
2	6.0	6.0	2.0	8.0
3	6.0	5.0	1.0	6.0
4	5.0	4.0	1.0	5.0

Withdrawal (5+ Years of Service) (1)

Age	General all other	General OCTA	Safety – Law & Fire	Safety – Probation
20	5.0%	3.0%	1.0%	5.0%
25	5.0	3.0	1.0	5.0
30	5.0	3.0	1.0	5.0
35	4.4	3.0	0.9	4.4
40	3.7	3.0	0.6	3.7
45	2.9	3.0	0.5	2.9
50	2.2	2.7	0.2	2.2
55	1.4	1.9	0.0	1.4
60	0.4	0.6	0.0	0.4

(1) *15% of all terminated vested members will choose a refund of contributions and 85% will choose a deferred vested benefit.*

SEGAL

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Retirement Rates:

	Rate (%)		
Age	General	Safety – Law and Fire[(1)]	Safety – Probation[(1)]
50	3.0%	10.0%	4.0%
51	3.0	15.0	6.0
52	3.0	20.0	8.0
53	3.0	20.0	10.0
54	3.0	20.0	15.0
55	4.0	25.0	20.0
56	5.0	25.0	25.0
57	6.0	30.0	25.0
58	7.0	30.0	30.0
59	9.0	40.0	30.0
60	11.0	100.0	40.0
61	13.0	100.0	50.0
62	15.0	100.0	60.0
63	17.0	100.0	100.0
64	19.0	100.0	100.0
65	25.0	100.0	100.0
66	20.0	100.0	100.0
67	20.0	100.0	100.0
68	20.0	100.0	100.0
69	20.0	100.0	100.0
70	100.0	100.0	100.0

[(1)] Retirement rate is 100% after a member accrues a benefit of 100% of final average earnings.

Retirement Age and Benefit for Deferred Vested Members:

For current deferred vested members, we make the following retirement assumption:

General Age:	57
Safety Age:	53

We assume that 40% of future General Safety deferred vested members are reciprocal. For reciprocals, we assume 5.10% compensation increases per annum.

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Liability Calculation for Current Deferred Vested Members: Liability for a current deferred vested member is calculated based on salary, service, and eligibility for reciprocal benefit as provided by the Retirement System. For those members without salary and/or service information, we assumed a refund of account balance.

Future Benefit Accruals: 1.0 year of service per year of employment. There is no assumption to anticipate conversion of unused sick leave at retirement.

Unknown Data for Members: Same as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male.

Percent Married: 80% of male members; 50% of female members are assumed to be married at retirement or time of pre-retirement death.

Age of Spouse: Female (or male) spouses are four years younger (or older) than their spouses.

Net Investment Return: 7.75%; net of investment and adminsitrative expenses.

Employee Contribution Crediting Rate: 5.00%, compounded semi-annually.

Consumer Price Index: Increase of 3.50% per year, retiree COLA increases due to CPI subject to a 3.0% maximum change per year.

Salary Increases:

Annual Rate of Compensation Increase (%)

Inflation: 3.50%, plus the following Merit and Promotional

Age	General	Safety
20	7.0%	6.0%
25	5.2	5.1
30	3.4	3.6
35	2.2	1.8
40	1.7	0.7
45	1.6	0.5
50	1.4	0.5
55	0.9	0.5
60	0.6	0.0
65+	0.6	

There are assumed to be no "across the board" salary increases (other than inflation).

Orange County Employees Retirement System

ACTUARIAL METHODS AND ASSUMPTIONS (CONT'D)

Annual Payoffs Assumptions:

Additional payoffs are expected to be received during a member's final average earnings period. The percentages used in this valuation are:

	Final One Year Salary	Final Three Year Salary
General Members	4.50%	2.10%
Safety-Probation	4.50%	2.10%
Safety-Law	9.30%	6.30%
Safety-Fire	5.10%	2.40%

Please note that the annual payoffs assumptions are the same for service and disability retirements.

Actuarial Value of Assets:

Market value of assets less unrecognized returns in each of the last five years. Unrecognized return in equal to the difference between the actual and the expected return on a market value basis, and is recognized over a five-year period.

Valuation Value of Assets:

The Valuation Value of Assets is the Actuarial Value of Assets reduced by the value of the non-valuation reserves.

Actuarial Cost Method:

Entry Age Normal Actuarial Cost Method. Entry Age is the current age minus Vesting Credit. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salaries, with Normal Cost determined as a level percentage of individual salary, as if the current benefit accrual rate had always been in effect. The outstanding balance of the December 31, 2004 unfunded Actuarial Accrued Liability is amortized over a declining 28-year period. Any increases or decreases in unfunded actuarial accrued liability that arise in future years due to actuarial gains or losses will be amortized over separate 15-year periods.

Please note that for Probation members who have prior benefit service in another General OCERS plan, the normal cost rate for the current plan is calculated assuming their Entry Age is the date they entered service with their current plan.

Orange County Employees Retirement System

Exhibit VIII

SUMMARY OF MAJOR PLAN PROVISIONS

This section summarizes the major provisions of OCERS included in the valuation. It is not intended to be, nor should it be interpreted as, a complete statement of all plan provisions.

Membership Eligibility:	Membership with OCERS begins with the day of employment in an eligible position by the County or a participating employer.
General Plans	
2.5% @ 55 Plans	*(Orange County Sanitation District and Law Library[(1)])*
Plan G	General members hired before September 21, 1979.
Plan H	General members hired on or after September 21, 1979.
2.7% @ 55 Plans	*(City of San Juan Capistrano, Orange County Employees except bargaining unit AFSCME members, Orange County Superior Court, Orange County Local Agency Formation Commission[(1)], Orange County Employees Retirement System[(2)], Children and Family Commission[(3)] and Orange County Fire Authority)*
Plan I	General members hired before September 21, 1979.
Plan J	General members hired on or after September 21, 1979.
	[(1)] *Improvement is prospective only for service after June 23, 2005.*
	[(2)] *Improvement for management employees is prospective only for service after June 30, 2005.*
	[(3)] *Improvement is prospective only for service after December 22, 2005.*
2.0% @ 55 Plans	*(Transportation Corridor Agency)*
Plan M	General members hired before September 21, 1979.
Plan N	General members hired on or after September 21, 1979.
All Other General Employers	
Plan A	General members hired before September 21, 1979.
Plan B	General members hired on or after September 21, 1979.
Safety Plans	
Law Enforcement, Fire Protection and Probation Members	
Plan E	Safety members hired before September 21, 1979.
Plan F	Safety members hired on or after September 21, 1979.

Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Final Compensation for Benefit Determination:	
Plans A, E, G , I and M	Highest consecutive twelve months of compensation earnable. (§31462.1) (FAS1)
Plans B, F, H, J and N	Highest consecutive thirty-six months of compensation earnable. (§31462) (FAS3)
Service:	Years of service. (Yrs)
Service Retirement Eligibility:	
General	Age 50 with 10 years of service, or age 70 regardless of service, or after 30 years, regardless of age. (§31672)
Safety	Age 50 with 10 years of service, or after 20 years, regardless of age. (§31663.25)
	All part time employees over age 55 with 10 years of employment may retire with 5 years of service.

Benefit Formula:

General Plans

2.5% @ 55	**Retirement Age**	**Benefit Formula**
Plan G (§31676.18)	50	(2.00% x FAS1 x Yrs)
Tier 1	55	(2.50% x FAS1 x Yrs)
	60	(2.50% x FAS1 x Yrs)
	62	(2.62% x FAS1 x Yrs)*
	65	(2.62% x FAS1 x Yrs)*
Plan H (§31676.18)	50	(2.00% x FAS3 x Yrs)
Tier 2	55	(2.50% x FAS3 x Yrs)
	60	(2.50% x FAS3 x Yrs)
	62	(2.50% x FAS3 x Yrs)
	65	(2.50% x FAS3 x Yrs)

* *Reflects benefit factors from Plan A as they provide a better benefit than those under 2.5% @ 55.*

2.7% @ 55	**Retirement Age**	**Benefit Formula**
Plan I (§31676.19)	50	(2.00% x FAS1 x Yrs)
Tier 1	55	(2.70% x FAS1 x Yrs)
	60	(2.70% x FAS1 x Yrs)
	62	(2.70% x FAS1 x Yrs)
	65	(2.70% x FAS1 x Yrs)

Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Plan J (§31676.19)	50	(2.00% x FAS3 x Yrs)
Tier 2	55	(2.70% x FAS3 x Yrs)
	60	(2.70% x FAS3 x Yrs)
	62	(2.70% x FAS3 x Yrs)
	65	(2.70% x FAS3 x Yrs)

2.0% @ 55	**Retirement Age**	**Benefit Formula**
Plan M (§31676.16)	50	(1.43% x FAS1 x Yrs)
	55	(2.00% x FAS1 x Yrs)
	60	(2.34% x FAS1 x Yrs)**
	62	(2.62% x FAS1 x Yrs)**
	65	(2.62% x FAS1 x Yrs)**
Plan N (§31676.16)	50	(1.43% x FAS3 x Yrs)
	55	(2.00% x FAS3 x Yrs)
	60	(2.26% x FAS3 x Yrs)
	62	(2.37% x FAS3 x Yrs)
	65	(2.43% x FAS3 x Yrs)***

*** Reflects benefit factors from Plan A as they provide a better benefit than those under 2.0% @ 55.*
**** Reflects benefit factors from Plan B as they provide a better benefit than those under 2.0% @ 55.*

All Other General Members	**Retirement Age**	**Benefit Formula**
Plan A (§31676.12)	50	(1.34% x FAS1 x Yrs)
	55	(1.77% x FAS1 x Yrs)
	60	(2.34% x FAS1 x Yrs)
	62	(2.62% x FAS1 x Yrs)
	65	(2.62% x FAS1 x Yrs)
Plan B (§31676.1)	50	(1.18% x FAS3 x Yrs)
Tier 2	55	(1.49% x FAS3 x Yrs)
	60	(1.92% x FAS3 x Yrs)
	62	(2.09% x FAS3 x Yrs)
	65	(2.43% x FAS3 x Yrs)

Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Safety Plans

	Retirement Age	Benefit Formula
Plan E (§31664.1)	50	(3.00% x FAS1 x Yrs)
Tier 1	55	(3.00% x FAS1 x Yrs)
	60	(3.00% x FAS1 x Yrs)
Plan F (§31664.1)	50	(3.00% x FAS3 x Yrs)
Tier 2	55	(3.00% x FAS3 x Yrs)
	60	(3.00% x FAS3 x Yrs)

Maximum Benefit: 100% of Highest Average Compensation.
(§31676.1, §31676.12, §31676.16, §31676.18, §31676.19, §31664.1)

Ordinary Disability:

General Plans

Plans A, B, G, H, I, J, M and N

Eligibility Five years of service. (§31720)

Benefit Formula

Plans A, G, I, and M:
1.8% per year of service, and if the benefit does not exceed one-third of Final Compensation, the service is projected to 62, but the total benefit cannot be more than one-third of Final Compensation. (§31727.2)

Plans B, H , J and N:
1.5% per year of service, and if the benefit does not exceed one-third of Final Compensation, the service is projected to 65, but the total benefit cannot be more than one-third of Final Compensation. (§31727.1)

Safety Plans

Plans E and F

Eligibility Five years of service. (§31720)

Benefit Formula

1.8% per year of service. If the benefit does not exceed one-third of Final Compensation, the service is projected to 55, but the total benefit cannot be more than one-third of Final Compensation (§31727).

For all members, 100% of the service retirement benefit will be paid, if greater.

Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Line-of-Duty Disability:

All Members	
Eligibility	No age or service requirements. (§31720)
Benefit Formula	50% of the Final Compensation or 100% of Service Retirement benefit, if greater. (§31727.4)

Pre-Retirement Death:

All Members	
Eligibility	None.
Benefit	Refund of employee contributions with interest plus one month's compensation for each year of service to a maximum of six month's compensation. (§31781) A lump sum benefit in the amount of $1,000 is payable upon death of a member (with 10 years of service) to his/her eligible beneficiary. (§31790)
Death in line of duty	50% of Final Compensation or 100% of Service Retirement benefit, if greater, payable to spouse or minor-children. (§31787).
	OR
Vested Members	
Eligibility	Five years of service.
Benefit	60% of the greater of Service or Ordinary Disability Retirement benefit payable to eligible surviving spouse (§31765.1, §31781.1), in lieu of §31781.

Death After Retirement:

All Members	
Service or Ordinary Disability Retirement	60% of member's unmodified allowance continued to eligible spouse. (§31760.1) A lump sum benefit in the amount of $1,000 is payable upon death of a member (with 10 years of service) to his/her eligible beneficiary. (§31790) An eligible spouse is a surviving spouse who was married to the member at least one year prior to the date of retirement. (§31760.1)
Line-of-Duty Disability	100% of member's allowance continued to eligible spouse. (§31786) A lump sum benefit in the amount of $1,000 is payable upon death of a member (with 10 years of service) to his/her eligible beneficiary. (§31790)

Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Withdrawal Benefits:	
Less than Five Years of Service	Refund of accumulated employee contributions with interest or earned benefit at age 70 (§31628). Effective January 1, 2003, A member may also elect to leave their contributions on deposit in the retirement fund. (§31629.5)
Five or More Years of Service	If contributions left on deposit, entitled to earned benefits commencing at any time after eligible to retire. (§31700)
Post-retirement Cost-of-Living Benefits:	Future changes based on Consumer Price Index to a maximum of 3% per year, excess "banked." (§31870.1)
Supplemental Benefit:	Non-vested supplemental COLA and medical benefits are also paid by the System to eligible retirees and survivors. These benefits have been excluded from this valuation.

Member Contributions:

General Plans:

Plan A	
Basic	Provide for an average annuity at age 60 equal to 1/200 of FAS1. (§31621.5)
Cost-of-Living	Provide for one-half of future Cost-of-Living costs.
Plan B	
Basic	Provide for an average annuity at age 60 equal to 1/120 of FAS3. (§31621)
Cost-of-Living	Provide for one-half of future Cost-of-Living costs.
Plans G, H, I and J	
Basic	Provide for an average annuity at age 55 equal to 1/100 of FAS3 (FAS1 for Plans G and I). (§31621.8)
Cost-of-Living	Provide for one-half of future Cost-of-Living costs.
Plan M	
Basic	Provide for an average annuity payable at age 60 equal to 1/120 of FAS1. (§31621).
Cost of Living	Provide for one-half of future Cost-of-Living costs.

Orange County Employees Retirement System

SUMMARY OF MAJOR PLAN PROVISIONS (CONT'D)

Plan N

Basic	Provide for an average annuity payable at age 60 equal to 1/120 of FAS3. (§31621).
Cost of Living	Provide for one-half of future Cost-of-Living costs.

Safety Plans:

Plans E

Basic	Provide for an average annuity at age 50 equal to 1/200 FAS1. (§31639.5)
Cost-of-Living	Provide for one-half of future Cost-of-Living costs.

Plans F

Basic	Provide for an average annuity at age 50 equal to 1/100 of FAS3. (§31639.25)
Cost-of-Living	Provide for one-half of future Cost-of-Living costs.

Other Information:	Safety members with 30 or more years of service are exempt from paying member contributions. The same applies for General members hired on or before March 7, 1973.
Plan Amendments:	City of Rancho Santa Margarita withdrew from the plan effective November 26, 2006.

NOTE: The summary of major plan provisions is designed to outline principle plan benefits as interpreted for purposes of the actuarial valuation. If the System should find the plan summary not in accordance with the actual provisions, the System should alert the actuary so they can both be sure the proper provisions are valued.

Orange County Employees Retirement System

Exhibit IX

EXPERIENCE ANALYSIS
($000)

Gains & Losses in Actuarial Accrued Liabilities During Years Ended December 31, Resulting from Differences Between Assumed Experience & Actual Experience					
	Gains (or Losses) Per Year				
Type of Activity	**2002**	**2003**	**2004**	**2005**	**2006**
Retirements	$(82,392)	$(119,420)	--	--	--
Disabilities	(8,012)	24,833	--	--	--
Withdrawal From Employment	(15,328)	(1,962)	--	--	--
Pay Increases	(91,887)	103,234	$41,647	$(16,544)	$(21,679)
Investment Income	(220,329)	(287,828)	50,536	39,536	112,612
Mortality	(7,422)	7,574	--	--	--
Other	(18,001)	(35,343)	(61,019)	(65,468)	(39,155)
Gain (or Loss) During Year From Experience	**$(443,371)**	**$(308,912)**	**$31,164**	**$(42,476)**	**$51,778**
Nonrecurring Items:					
Method and Procedure Changes	**--**	--	(106,630)	15,335	--
Plan Amendments and Assumption Changes	(238,027)	(2,338)	(762,372)	--	--
Composite Gain (or Loss) During Year	**$(681,398)**	**$(311,250)**	**$(837,838)**	**$(27,141)**	**$51,778**

Orange County Employees Retirement System

Exhibit X

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date December 31	Valuation Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c)
2001	$4,586,844,000	$4,843,899,000	$257,055,000	94.69%	$1,122,763,000	22.89%
2002	4,695,675,000	5,673,754,000	978,079,000	82.76%	1,242,348,000	78.73%
2003	4,790,099,000	6,099,433,000	1,309,334,000	78.53%	1,243,964,000	105.25%
2004	5,245,821,000	7,403,972,000	2,158,151,000	70.85%	1,257,085,000	171.68%
2005	5,786,617,000	8,089,627,000	2,303,010,000	71.53%	1,276,764,000	180.38%
2006	6,466,085,000	8,765,045,000	2,298,960,000	73.77%	1,322,952,000	173.78%

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SECTION 5

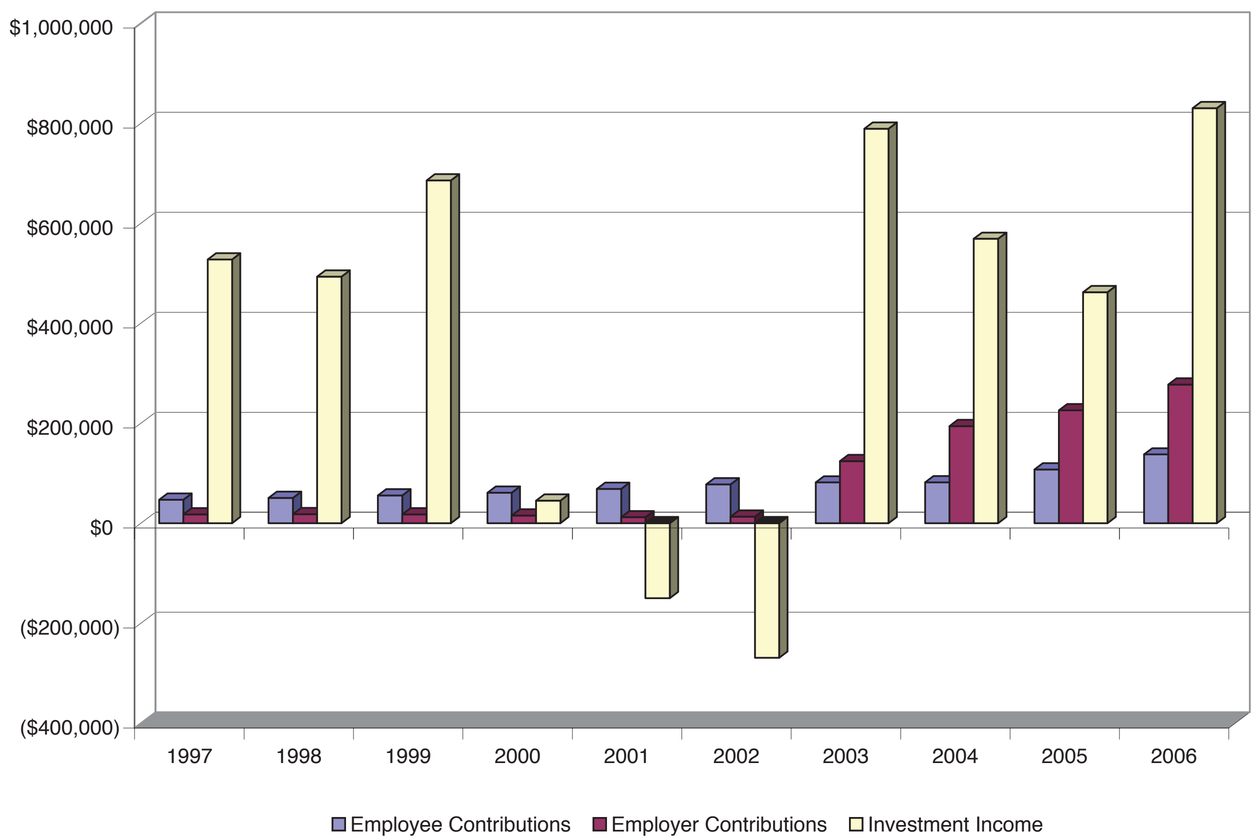
STATISTICAL

Schedule and Graph of Revenues by Source

(Dollars in Thousands)

1997 – 2006

Years Ended December 31	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Employee Contributions	$47,011	$50,557	$55,693	$61,179	$68,635	$77,917	$81,581	$81,931	$107,544	$137,582
Employer Contributions	$17,570	$17,977	$17,591	$15,561	$12,060	$13,289	$124,243	$194,430	$226,130	$277,368
Investment Income*	$527,609	$493,491	$685,718	$45,284	($149,858)	($269,188)	$789,086	$569,000	$461,980	$830,200
Total	$592,190	$562,025	$759,002	$122,024	($69,163)	($177,982)	$994,910	$845,361	$795,654	$1,245,150



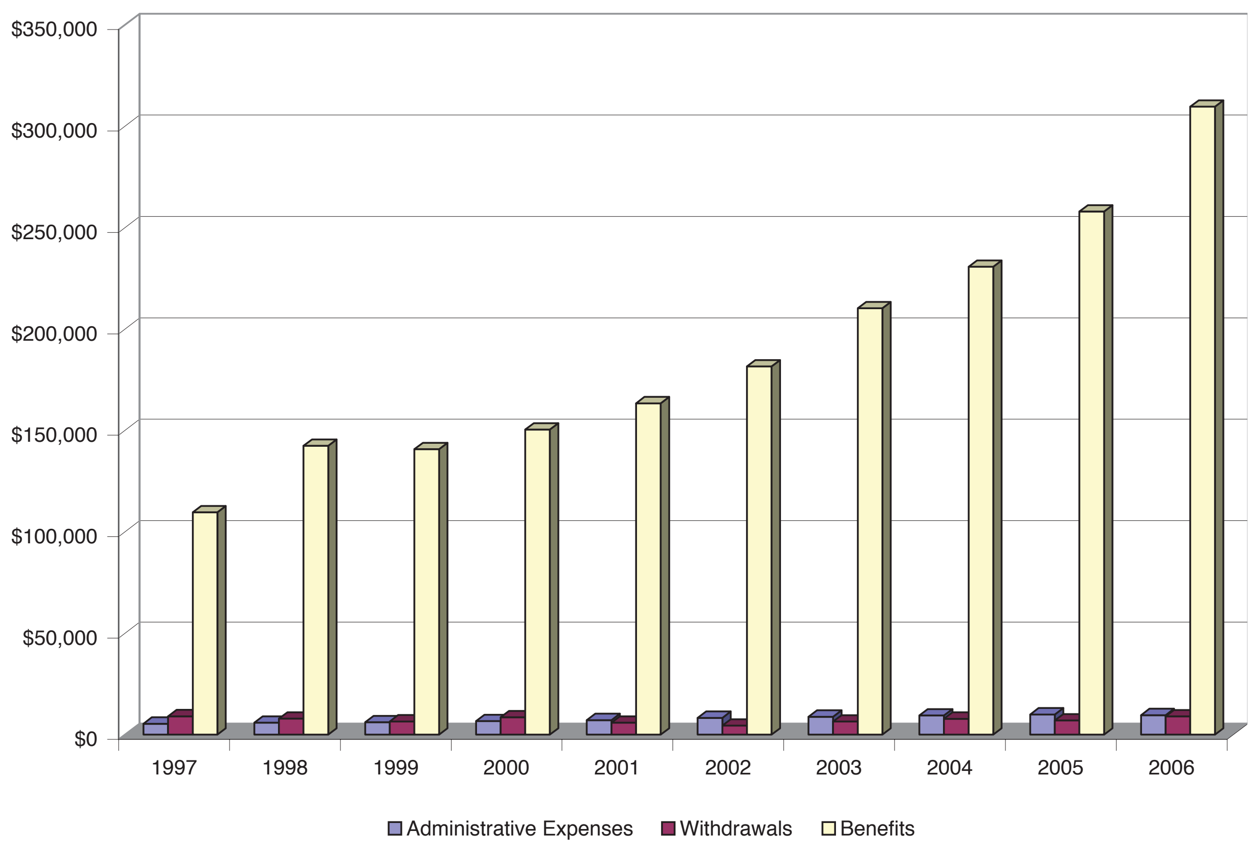
* Investment Income includes net appreciation (depreciation) less investment manager fees and security lending fees.

Schedule and Graph of Expenses by Type

(Dollars in Thousands)

1997 – 2006

Years Ended December 31	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Administrative Expenses	$5,392	$5,850	$6,094	$6,631	$7,146	$8,279	$8,848	$9,463	$9,953	$9,600
Withdrawals	$9,048	$7,848	$6,513	$8,515	$5,896	$4,482	$6,412	$7,845	$6,999	$8,970
Benefits	$109,660	$142,457	$140,736	$150,466	$163,378	$181,549	$210,273	$230,684	$257,929	$309,696
Total	$124,100	$156,155	$153,343	$165,612	$176,420	$194,310	$225,533	$247,992	$274,881	$328,266

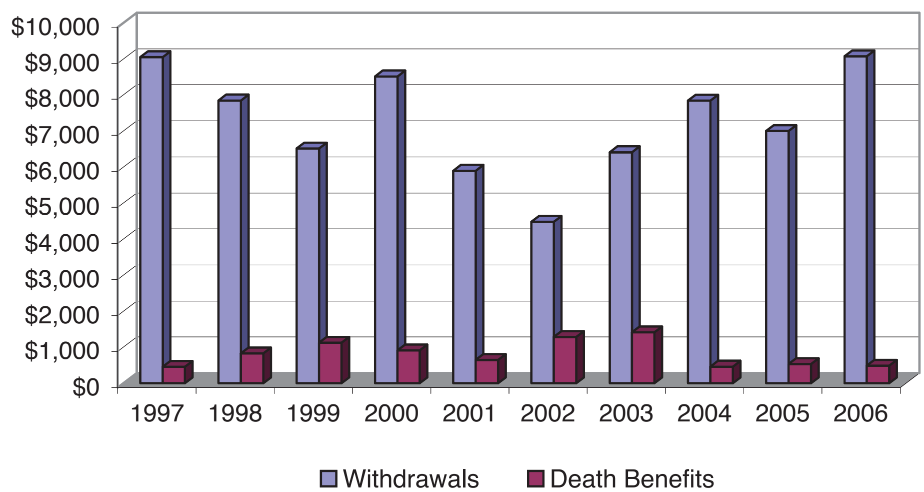


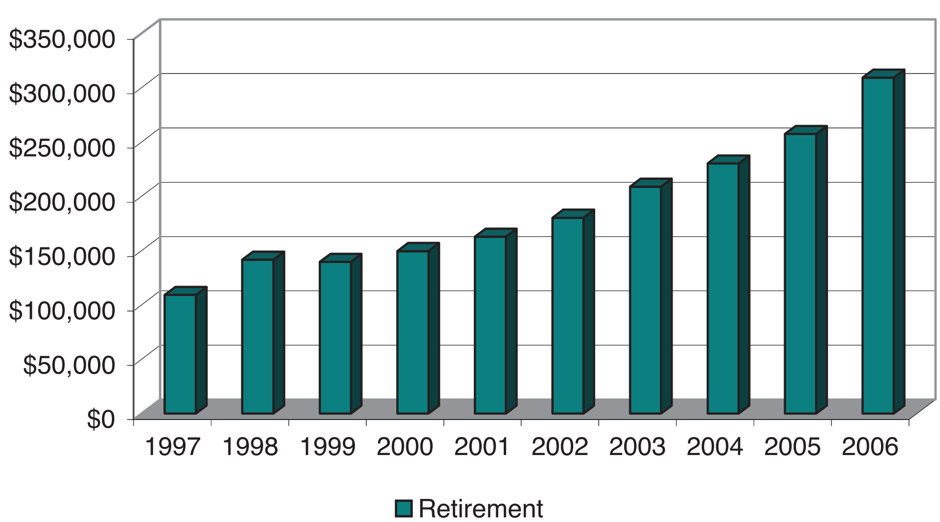
Schedule and Graphs of Benefit Expenses by Type

(Dollars in Thousands)

1997 – 2006

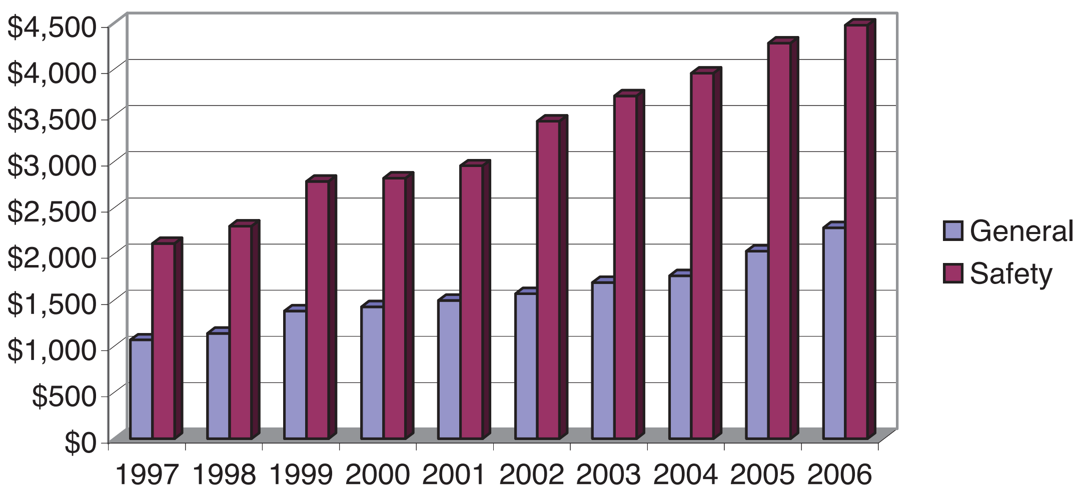
Years Ended December 31	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Withdrawals	$9,048	$7,848	$6,513	$8,515	$5,896	$4,482	$6,412	$7,845	$6,999	$8,970
Retirement	$109,206	$141,629	$139,611	$149,555	$162,732	$180,263	$208,861	$230,225	$257,397	$309,102
Death Benefits	$454	$828	$1,125	$911	$646	$1,286	$1,412	$459	$532	$594
Total	$118,708	$150,305	$147,249	$158,981	$169,274	$186,031	$216,685	$238,529	$264,928	$318,666





Schedule and Graph of Average Monthly Pension Check 1997 – 2006

Years Ended December 31	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Members	$1,070	$1,140	$1,385	$1,429	$1,498	$1,572	$1,691	$1,766	$2,031	$2,286
Safety	$2,115	$2,302	$2,788	$2,822	$2,955	$3,438	$3,713	$3,959	$4,283	$4,479



Schedule of Benefit Recipients by Type of Benefit
December 31, 2006

Monthly Benefit	1	2	3	4	5	6	7	Total
$0-500	705	190	5	14	44	67	2	1,027
$501-1,000	1,156	287	4	60	142	45	5	1,699
$1,001-1,500	1,203	170	71	112	72	29	1	1,658
$1,501-2,000	973	105	213	38	46	29	1	1,405
$,2001-2,500	759	69	241	25	28	12	1	1,135
$2,501-3,000	643	37	154	7	20	8	0	869
$3,001-3,500	489	27	138	6	8	4	1	673
$3,501-4,000	433	17	61	4	7	6	0	528
$4,001-4,500	355	14	31	0	3	3	0	406
$4,501-5,000	298	4	21	1	1	0	0	325
$5,001-5,500	246	4	15	1	2	0	0	268
$5,501-6,000	238	2	9	0	2	0	0	251
$6,001-6,500	168	3	3	0	0	0	0	174
$6,501-7,000	175	1	2	0	2	0	0	180
Over $7,000	562	2	18	1	1	0	0	584
Total	8,403	932	986	269	378	203	11	11,182

Definition of Terms

Eligible Spouse: A member's spouse is considered eligible if the member has been married for at least one year at the time of retirement and remains married throughout the member's retirement.

Eligible Child: An eligible child is an unmarried child under the age of 18, or under the age of 22 if a full-time student.

Type of Retirement Benefit

1. Normal Retirement for age and service
2. Survivor Payment - normal retirement
3. Service Connected Disability Retirement
4. Nonservice-Connected Disability Retirement
5. Survivor Payment - disability retirement
6. QDRO's (retirees, alternate payees)
7. Active Deaths

Schedule of Benefit Recipients by Option Selected
December 31, 2006

Monthly Benefit	JSURV	SL100	SL60	SLIFE	SLR60	UNMJS	Total Payees*
$0-500	116	0	3	124	0	784	1,027
$501-1,000	185	0	11	225	4	1,274	1,699
$1,001-1,500	185	1	5	215	1	1,251	1,658
$1,501-2,000	193	0	1	206	0	1,005	1,405
$2,001-2,500	167	0	1	122	0	845	1,135
$2,501-3,000	161	1	2	113	0	592	869
$3,001-3,500	152	2	0	74	0	445	673
$3,501-4,000	96	2	0	83	0	347	528
$4,001-4,500	113	1	0	46	0	246	406
$4,501-5,000	120	0	0	47	0	158	325
$5,001-5,500	97	0	0	52	0	119	268
$5,501-6,000	92	0	1	48	0	110	251
$6,001-6,500	74	0	0	25	0	75	174
$6,501-7,000	62	0	0	33	0	85	180
Over $7,000	233	0	0	68	0	283	584
Total	2,046	7	24	1,481	5	7,619	11,182

Definition of Options

JSURV: Contingent joint survivor.

SL100: Single life with 100% joint survivor adjustment.

SL60: Single life with 60% adjustment.

SLIFE: Lifetime payment.

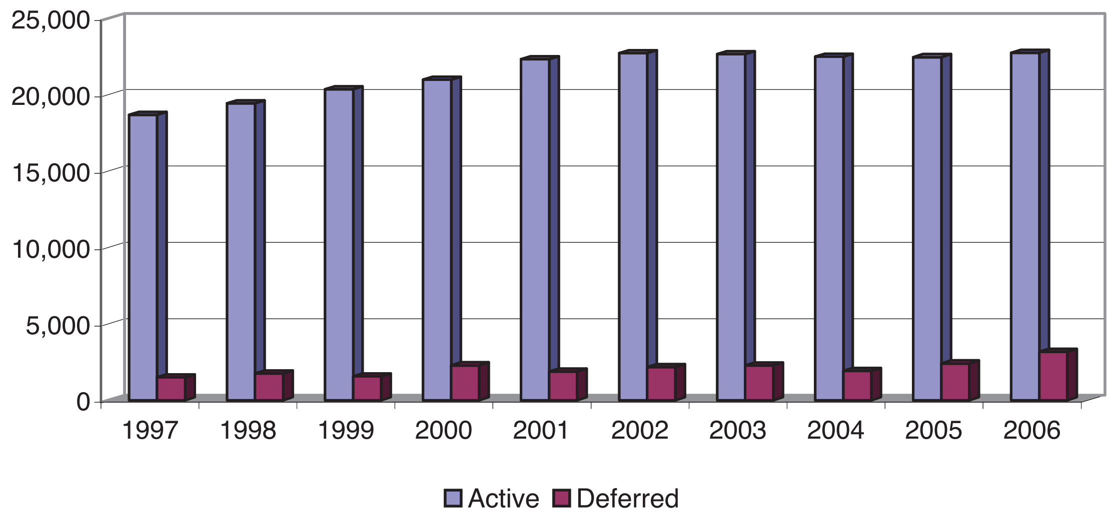
SLR60: Single life with 60% adjustment with reduction.

UNMJS: Unmodified with joint survivor.

* Total payees includes 203 Qualified Domestic Relations Orders (QDRO) payees and 11 Active Death Survivors.

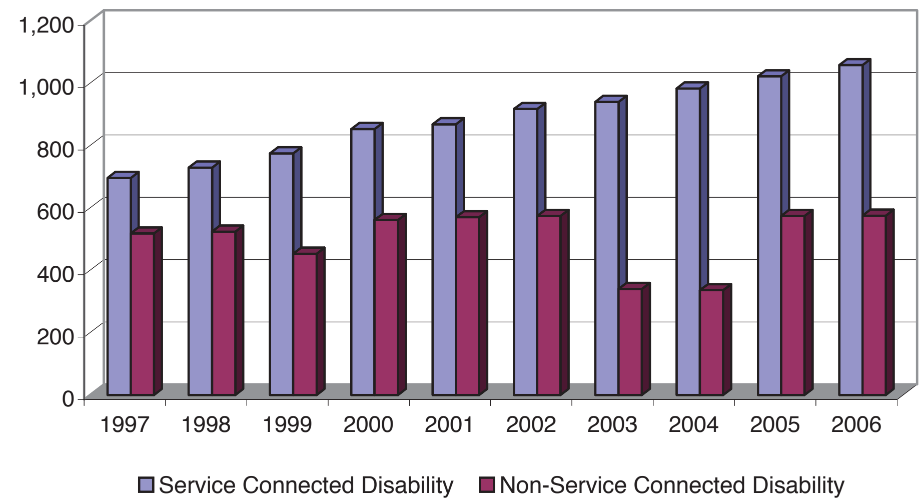
Schedule and Graph of Active and Deferred Members 1997 – 2006

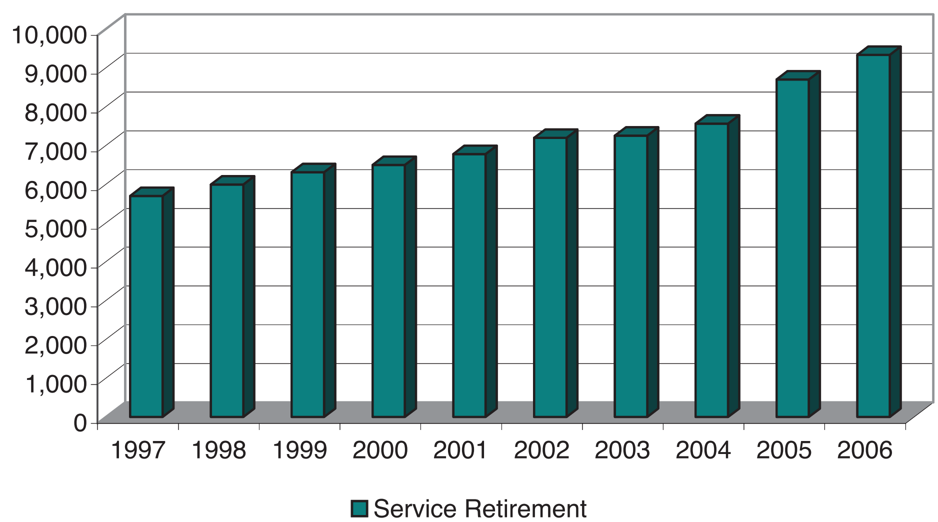
Years Ended December 31	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Active	18,693	19,432	20,357	20,987	22,329	22,723	22,672	22,502	22,465	22,750
Deferred	1,496	1,750	1,553	2,285	1,872	2,177	2,278	1,910	2,409	3,178
Total	20,189	21,182	21,910	23,272	24,201	24,900	24,950	24,412	24,874	25,928



Schedule and Graphs of Benefit Recipients 1997 – 2006

Years Ended December 31	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Service Connected Disability	696	729	775	853	868	917	940	983	1,022	1,058
Non-Service Connected Disability	518	524	453	561	570	574	340	336	574	575
Service Retirement	5,698	5,991	6,309	6,501	6,778	7,197	7,255	7,567	8,702	9,335
Total	6,912	7,244	7,537	7,915	8,216	8,688	8,535[1]	8,886[2]	10,298[3]	10,968[4]

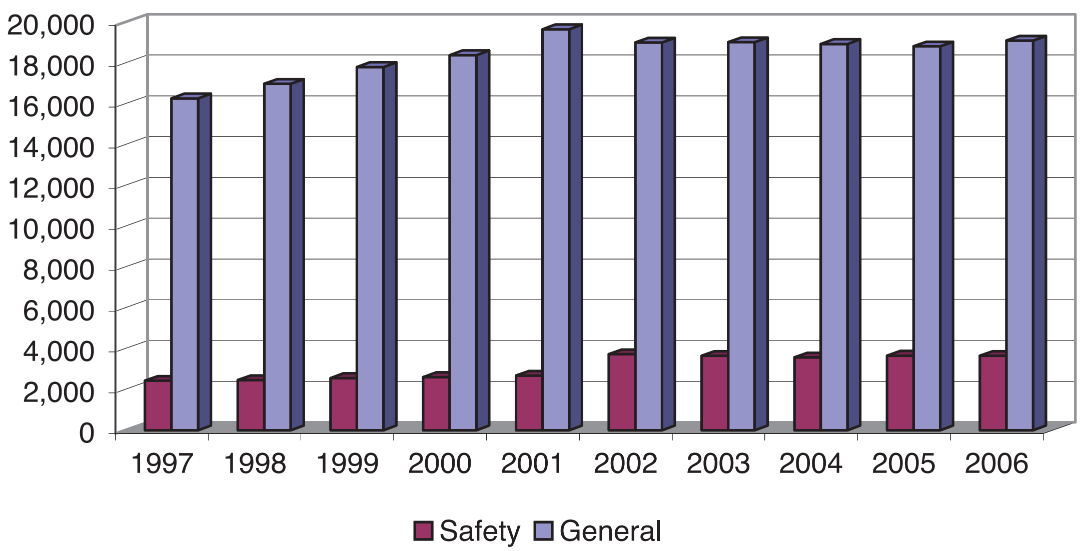




[1]Excludes 129 Qualified Domestic Relations Orders (QDRO) payees and 399 Active Death Survivors.
[2]Excludes 153 Qualified Domestic Relations Orders (QDRO) payees and 394 Active Death Survivors.
[3]Excludes 174 Qualified Domestic Relations Orders (QDRO) payees and 16 Active Death Survivors.
[4]Excludes 203 Qualified Domestic Relations Orders (QDRO) payees and 11 Active Death Survivors.

Schedule and Graph of
Active Members by Membership Classification*
1997 – 2006

Years Ended December 31	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General	16,266	16,976	17,801	18,382	19,653	19,002	19,023	18,935	18,812	19,101
Safety	2,427	2,456	2,556	2,605	2,676	3,721	3,649	3,567	3,653	3,649
Total	18,693	19,432	20,357	20,987	22,329	22,723	22,672	22,502	22,465	22,750



* Excludes members with Deferred Status

History of Actuarial Assumption Rates for the Period January, 1945 – December, 2006

The table shown below is a comprehensive history of the interest rate assumption and the salary assumption rates corresponding to the Orange County Employees Retirement System since the inception of the system. These rates are adopted by the Retirement Board and used by the consulting actuary in the creation of the actuarial valuation of the system.

Specifically, the interest rate assumption estimates the rate at which the funds of the system's investment portfolio will realize earnings over many years into the future. The salary assumption rate estimates the relative increases in the salary of a member from the date of the valuation to the estimated date of separation of the member from active service.

History of OCERS Actuarial Assumption Rates

Effective Date	Interest Rate	Salary Assumption Rate
1/1/45	2.50%	0.00%
7/1/62	3.50%	0.00%
12/31/65	4.00%	0.00%
7/1/69	4.50%	0.00%
6/30/70	5.00%	0.00%
8/31/73	5.75%	0.00%
7/1/75	6.00%	0.00%
7/1/81	7.25%	5.00%
7/1/89	7.50%	5.50%
7/1/91	8.00%	6.00%
7/1/96	8.00%	3.50%
7/1/00	8.00%	5.50%
7/1/03	7.50%	4.50%
12/31/04	7.75%	3.50%

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
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