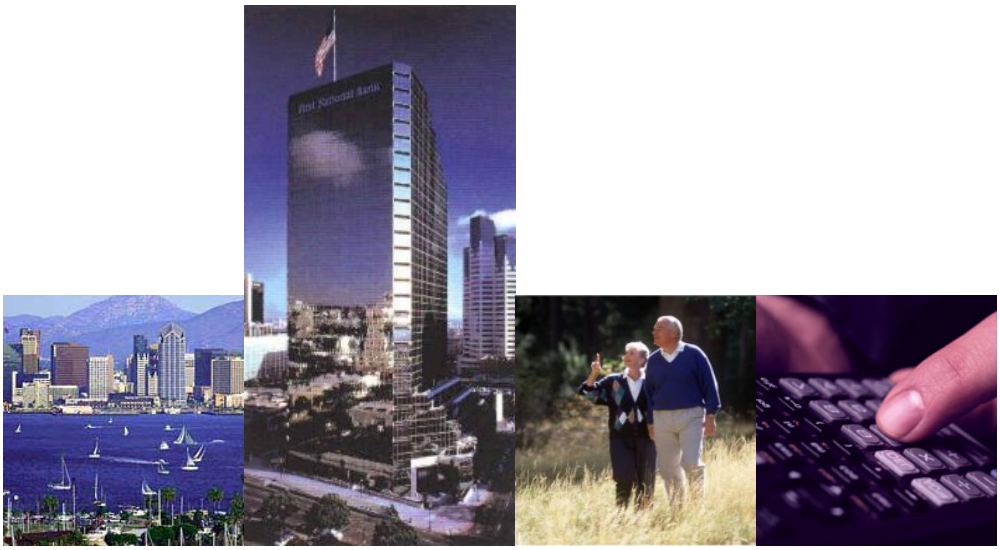
SDCERA
Supporting The Membership

San Diego County Employees Retirement Association

A Component Unit of the County of San Diego, California



Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2003

Issued by:

Brian P. White
Chief Executive Officer

Mark Mimnaugh
Chief Financial Officer

401 West A Street, Suite 1300 ● San Diego, CA 92101-7906 ● 619-515-0130 ● www.sdcera.org

ABOUT SDCERA

SDCERA is an independent association established by the County Employees Retirement Law of 1937. SDCERA provides retirement and associated benefits for eligible employees of the County of San Diego and other participating employers and is responsible for investing and managing its retirement funds under the direction of the Board of Retirement.

MISSION STATEMENT

SDCERA is committed now and in the future, to achieving its primary duty, which is to its members, by prudently managing the Fund, efficiently administering benefits, and providing superior service to members.

Copies of this report are available at the San Diego County Employees Retirement Association, 401 West A Street, Suite 1300, San Diego, California 92101-7906.

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2003
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INTRODUCTORY SECTION

San Diego County Employees Retirement Association
401 West A Street, Suite 1300 ● San Diego, CA 92101-7906
619-515-0130 ● www.sdcera.org

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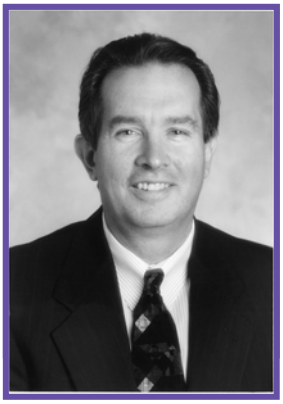
San Diego County Employees Retirement Association



Board of Retirement
San Diego County Employees Retirement Association
401 West A Street, Suite 1300
San Diego, California 92101-7906

Dear Board Members,

It is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) of San Diego County Employees Retirement Association (SDCERA, Association or Plan) for the year ended June 30, 2003.

San Diego County Employees Retirement Association is a public employee retirement system that was established by the County of San Diego on July 1, 1939, and is administered by the Board of Retirement (Board) to provide service retirement, disability, death and survivor benefits for its members under the California Government Code, Section 31450, et.seq. (County Employees Retirement Law of 1937).

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation of financial information rests with the management of the Association. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Association.

MAJOR INITIATIVES AND SIGNIFICANT EVENTS

The Board of Retirement completed a thorough asset/liability study in January which resulted in the Board adopting a new strategic asset allocation. A comparison of the old and new asset allocation is detailed in the Chief Investment Officers Report on page 30.

SDCERA implemented a new Pension Administration and Retirement Information System (PARIS) and it went live as of January 1, 2003. The integrated system is supported by SDCERA Information Technology staff and replaces multiple County developed systems with a single database. PARIS supports active, deferred and retired member recordkeeping, health benefits administration and retiree payroll.

In an effort to increase understanding and awareness of their SDCERA retirement benefits, the Communications and Education Division launched the Outreach program to visit active members around the County. More than 140 meetings have been scheduled throughout 2003.

SDCERA has also redesigned many portions of our website to provide more information to our members.

On October 3, 2002 the County received the proceeds from the issuance of pension obligation bonds and transferred $550.0 million to SDCERA to fund a major portion of the retirement system's accrued liability.

This letter of transmittal should be read in conjunction with Management's Discussion and Analysis which provides a narrative overview and analysis of financial activities for the year ended June 30, 2003.

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

The report is presented in five sections:

THE INTRODUCTORY SECTION contains this letter of transmittal, a description of the administrative organization and professional consultants used by the Association, as well as a summary of plan provisions. This letter of transmittal also contains a summary of major initiatives and significant events that occurred during the year.

THE FINANCIAL SECTION presents the financial condition and funding status of SDCERA. This section includes Management's Discussion and Analysis of SDCERA's financial activities. KPMG LLP, the Association's independent auditors, has audited the accompanying basic financial statements.

THE INVESTMENT SECTION provides an overview of SDCERA's investment program. This section contains the Chief Investment Officer's report, a summary of investment policies, the fund's strategic asset allocation, investment performance results and other portfolio information.

THE ACTUARIAL SECTION contains the independent actuary's certification, a summary of actuarial assumptions and methods, and actuarial statistics.

THE STATISTICAL SECTION presents information pertaining to SDCERA's operations on a multi-year basis.

ACCOUNTING SYSTEMS AND REPORTS

This 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) in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributions Plans*, Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures* and the County Employees Retirement Law of 1937.

The accompanying basic financial statements are prepared using the accrual basis of accounting. Contributions from employers and members are recognized as revenue when earned. Expenses are recorded when corresponding liabilities are incurred, regardless of when payment is due or made.

KPMG LLP, the Association's independent auditors, has audited the accompanying basic financial statements. Management believes that an adequate system of internal control is in place and that the accompanying statements, schedules and tables are fairly presented.

FINANCIAL AND ECONOMIC SUMMARY

The fiscal year ended June 30, 2003, began with a continuation of the extended bear market in equities but finished with a strong stock market rally. The year was marked by the overthrow of Saddam Hussein, a hesitant economic recovery, and a continuation of the bond market rally. By mid-2003, however, the economy and the financial markets were showing marked improvement. The total return of the S&P 500 during the fiscal year ended June 30, 2003, was 0.25%, not a very exciting return but nevertheless a striking improvement from the -18.00% return of the prior fiscal year. The total return of the Lehman Brothers Aggregate bond index was 10.40%, compared to 8.63% in the prior fiscal year. The annualized return of the S&P 500 during the three years ended June 30, 2003, was -11.20%, compared to 10.09% for the Lehman Brothers Aggregate bond index.

The fiscal year began as reports of yet additional accounting scandals and financial irregularities led to dramatic declines in equity prices of what at one point were highly respected major corporations. In response to these developments and to disappointing earnings reports, the stock market continued to retrench, while the bond market rallied in the flight to safety. During the course of the year, corporate earnings began to improve. The stock market rebounded after the successes of U.S. and British troops in Iraq and as investors realized that the worst-case scenario in Iraq was not happening. They also began to observe that the economic recovery in the United

States actually seemed to have staying power. As a result, the S&P 500 had a total return of 15.39% during the final quarter of the fiscal year. The rebound was particularly evident in small cap stocks. The total return of the Russell 2000 was 23.42% during the second quarter of 2003, compared to -1.64% for the fiscal year as a whole.

The retrenchment in international equities during the year was even steeper than that of U.S. equities. For the twelve months ended June 2003, the total return of the Citigroup Primary Market Index excluding the United States was -12.95% in local currency terms. As a result of the depreciation of the U.S. dollar, however, the return to U.S.-based investors was -4.70%. Emerging markets equities did relatively well, as the MSCI Emerging Markets Free index had a return of 4.04% in U.S. dollar terms for the fiscal year.

In the United States, efforts to stabilize and revive corporate profits in many cases resulted in a contraction in employment. Some of the after-effects of September 11 and the internet bubble have proven to be relatively long lasting. The unemployment rate was 6.4% in June 2003, compared to 5.8% a year earlier. Nevertheless, the economy continued to expand during the fiscal year, as real gross domestic product increased 2.5%. The Federal Reserve made its concern about the weak economy clear during the year, as it lowered the target federal funds rate from 1.75% as of June 30, 2002, to 1.00% as of June 30, 2003. Continued low interest rates have been particularly helpful to the housing and automobile industries. Despite some volatility in energy prices, inflation remained relatively subdued. The consumer price index rose 2.1% during the year. Excluding food and energy prices, the increase was only 1.5%.

The bond market experienced a dramatic change in investors' attitudes towards risk compared to a year earlier. While the default rate on corporate bonds was rising and major bankruptcies and accounting scandals were being announced, many investors fled from low-quality securities to U.S. government securities in search of a safe haven. As the default rate stabilized, as the economy began to revive, and as investors sought more attractive yields than available in government securities, funds flowed back into high yield securities. As a result, the total return of the Citigroup Cash Pay High Yield index was 24.76% during the fiscal year. Another area in the fixed income markets that provided unusually favorable returns was international bonds. The total return of the Citigroup Non-US$ World Government bond index was 17.90% during the fiscal year, which to a considerable extent was the result of the depreciation of the U.S. dollar.

The last several years have been trying for many investors, including SDCERA. SDCERA has certainly demonstrated the benefits of diversification, but we are also reminded of the volatility inherent in investing in equities. Nevertheless, many analyses over the years have demonstrated the long-term benefits to funding as a result of significant exposure to equities. Fortunately, the stock market appears to have stabilized. Problems certainly persist, as imports continue to surge and put pressure on employment in many industries. Moreover, the huge current account deficit requires considerable investments by foreigners and has already put significant downward pressure on the dollar. Despite these concerns, the outlook appears favorable for continued economic growth, improving corporate profits, and continued low inflation. These conditions are conducive to positive returns in the capital markets.

INVESTMENTS

On a market value basis, the total net assets held in trust increased from $3.5 billion at June 30, 2002, to $4.1 billion at June 30, 2003. For the fiscal year 2003, investments provided a return of 3.7%, net of fees, and reflected market conditions throughout the year. The Plan's annualized rate of return, net of fees, was -3.1% over the last three years and 3.4% over the last five years.

FUNDING

The actuarial accrued liability and actuarial value of assets of the Association on October 3, 2002, the date of our latest actuarial valuation totaled $5.2 billion and $4.3 billion, respectively. This results in an unfunded actuarial accrued liability of $0.9 billion. The Plan's resulting funded ratio of 82.5%, or the percentage computed by dividing the actuarial value of assets by the actuarial accrued liability, measures the current funded status and reflects the increase in costs associated with the County's benefit

enhancements approved in March 2002. On the basis of the 2002 valuation, the actuarial firm has indicated that the Association is in reasonably sound condition to meet obligations to Plan members.

As mentioned previously, on October 3, 2002, SDCERA received $550.0 million from the County related to its sale of taxable pension obligation bonds to help fund the increased actuarial accrued liability resulting primarily from the benefit enhancements.

A historical perspective of the Association's funding levels is presented in the Financial Section of this report.

PROFESSIONAL SERVICES

Professional consultants are appointed by the Board of Retirement to perform professional services that are essential to the effective and efficient operation of the Association. Opinions from our independent auditor, KPMG LLP, and our actuary, Gabriel, Roeder, Smith and Company are included in this report. Other consultants are listed on page 8 of this report. Additional information regarding investment professionals who provide services to the Association is located on page 38 of the Investment Section of this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the San Diego County Employees Retirement Association for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2002. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, and the contents must conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.
A Certificate of Achievement is valid for a period of one year only. We believe this current report continues to conform to the Certificate of Achievement program requirements, and we will submit it to GFOA.

ACCOUNTING PRINCIPLES AND INTERNAL CONTROLS

This CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB). Transactions of the Association are reported on the accrual basis of accounting.

Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

ACKNOWLEDGEMENTS

The compilation of this report could not have been accomplished without the dedication and cooperation of many people. It is intended to provide complete and reliable information that can be used as a basis for making management decisions, determining compliance with legal provisions and demonstrating responsible stewardship of system funds.

I would like to express my appreciation for the assistance from staff whose combined efforts have produced a report that will enable the Board of Retirement, the members of SDCERA and the County to better evaluate and understand the Association's financial condition and funding status. I also want to express my thanks to the Board and the retirement staff for their dedication and commitment to SDCERA, a combination that assures the Association's continued successful operation.

Copies of this report are available at:

San Diego County Employees Retirement Association
401 West A Street, Suite 1300
San Diego, California 92101-7906

Brian P. White
Chief Executive Officer
October 16, 2003

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Diego County Employees Retirement Association, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2002

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

Chairman
Dan McAllister
Treasurer - Tax Collector
Member mandated by law while he holds this elected position

Secretary
David E. DeVol
Appointed by the Board of Supervisors
Present term expires June 30, 2003

Trustee
Michael Branch
Appointed by the Board of Supervisors
Present term expires June 30, 2005

Trustee
Ralph B. "Skip" Coomber, III
Appointed by the Board of Supervisors
Present term expires December 31, 2004

Trustee
James W. Feeley
Elected by retired members
Present term expires June 30, 2005

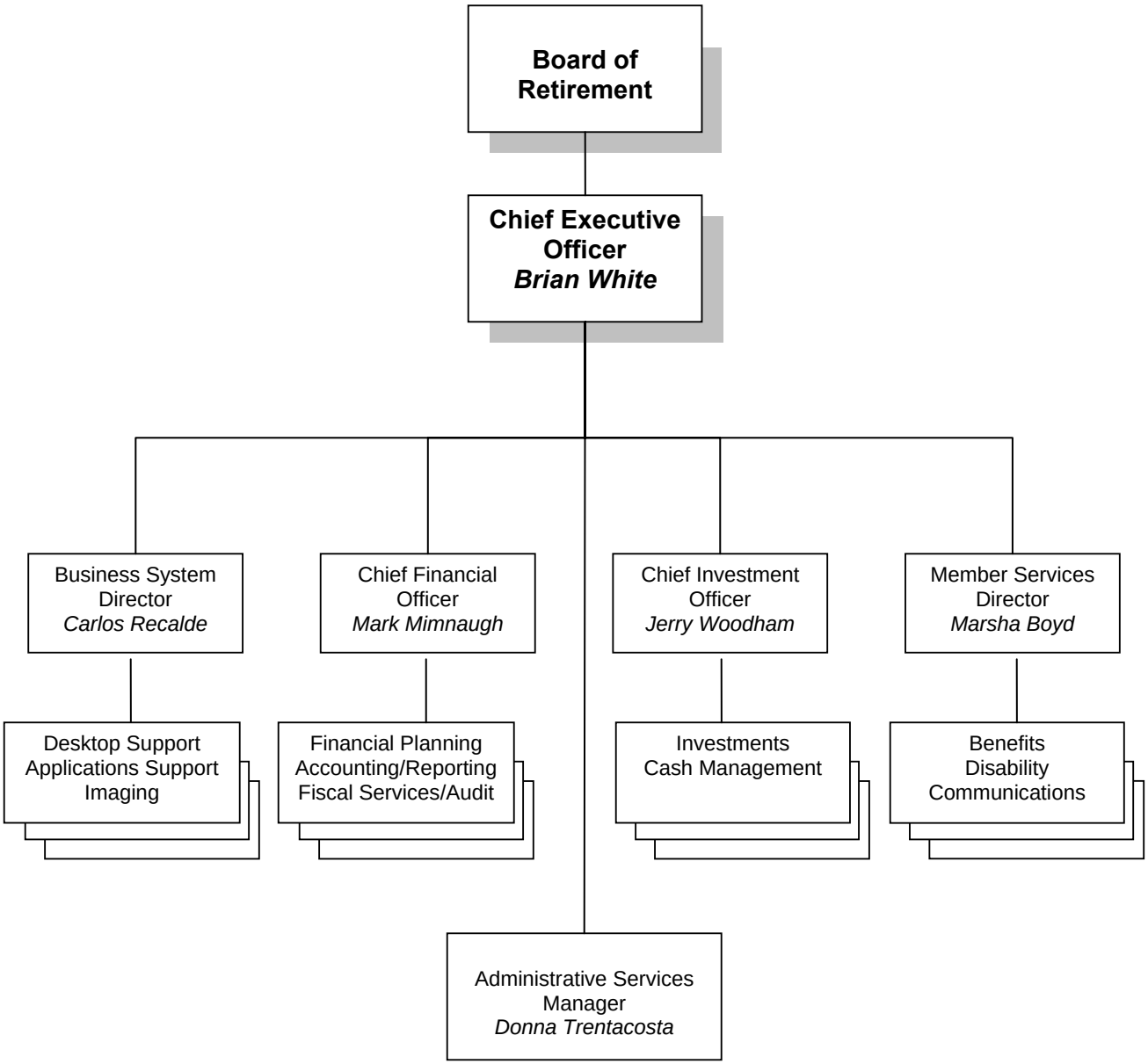
Trustee
David A. Myers
Elected by Safety members
Present term expires December 31, 2004

Trustee
Doug Rose
Elected by General members
Present term expires June 30, 2005

Trustee
Frank Russell Jr.
Appointed by the Board of Supervisors
Present term expires June 30, 2004

Trustee
Marilyn A. Wiczynski
Elected by General members
Present term expires June 30, 2004

San Diego County Employees Retirement Association



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San Diego, California 92101

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Ruth Claire Black, Esq
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County of San Diego
Office of County Counsel
1600 Pacific Highway
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Additional information regarding investment professionals who provide services to the Association is located on page 38 of the Investment Section of this report.

FINANCIAL SECTION

San Diego County Employees Retirement Association
401 West A Street, Suite 1300 • San Diego, CA 92101-7906
619-515-0130 • www.sdcera.org

KPMG

750 B Street
San Diego, CA 92101

Independent Auditors' Report

The Members of the San Diego
County Board of Retirement:

We have audited the accompanying basic financial statements of the San Diego County Employees Retirement Association (SDCERA), a component unit of the County of San Diego, California, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the management of SDCERA. 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. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the San Diego County Employees Retirement Association as of June 30, 2003, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and Schedules I and II in the Financial Section are not a required part of the basic financial statements of SDCERA, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules III and IV and the Investment, Actuarial, and Statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Schedules III and IV have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The information in the Investment, Actuarial, and Statistical sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

KPMG LLP

September 5, 2003

SDCERA
Supporting The Membership

San Diego County Employees Retirement Association

We are pleased to present a narrative overview and analysis of the financial activities of the San Diego County Employees Retirement Association (SDCERA, Association or Plan) for the fiscal year ended June 30, 2003. The information presented here, in conjunction with the Chief Executive Officer's Letter of Transmittal found in the Introductory Section provides you with a clear picture of the Association's overall financial status.

FINANCIAL HIGHLIGHTS

- Plan net assets, which represent funds available to pay current and future benefits, were $4.1 billion as of the end of the fiscal year.
- Net Assets increased by $570 million, or 16.1%. $550 million of the increase is as a direct result of the issuance of pension obligation bonds in October 2002.
- The County of San Diego contributions increased from $51 million in fiscal year 2002 to $616 million in fiscal year 2003 primarily because the County transferred $550 million in October 2002 from the issuance of pension obligation bonds.
- County employee contributions increased from $17 million to $35 million over the same period primarily as a result of the enhanced benefits program, implemented in March 2002.
- Benefits paid to retirees and members increased from $178 million in fiscal year 2002 to $223 million in fiscal year 2003.
- During fiscal year 2003 the rate of return on investments was a positive 3.7% on a market-value basis, net of fees.
- The Plan's funded ratio, a comparison of the actuarial value of the assets to the accrued pension benefit liability, was 82.5% as of October 3, 2002 the date of our latest actuarial valuation compared to our June 30, 2002 accrued pension benefit liability of 75.4%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to help the reader understand the purpose and meaning of the key components within SDCERA's basic financial statements. The financial statements are comprised of the following:

The Statement of Plan Net Assets presents assets and liabilities by major categories as of the fiscal year. The difference between assets and liabilities represent the net assets held in trust for pension benefits. The statement also presents prior year-end balances for comparative purposes. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of SDCERA is improving or deteriorating.

The Statement of Changes to Plan Net Assets provides information on the increases and decreases that caused the change in the net assets during the fiscal year. For the purposes of comparison, information pertaining to the previous year's *Statement of Changes in Plan Net Assets* is also provided.

Both statements are in compliance with Government Accounting Standards Board (GASB) Statements Nos. 25, 28, 34, 37 and 38. These pronouncements require certain disclosures, and also require state and local governments to report using the full accrual method of accounting. SDCERA complies with all material requirements of these pronouncements.

The Notes to the Basic Financial Statements are an integral part of the financial statements. They provide important background and detailed information that is essential to a full understanding of the data provided in the financial statements.

The Required Supplementary Information contains information and supporting schedules pertaining to SDCERA's actuarial methods and assumptions including data on the funded status of the plan. Supporting schedules are administrative expenses (presenting the overall cost of administering the fund), and investment expenses (costs associated with investing the assets of the fund).

FINANCIAL ANALYSIS

Tables 1 and 2 summarize and compare SDCERA's financial results for the current and prior fiscal years.

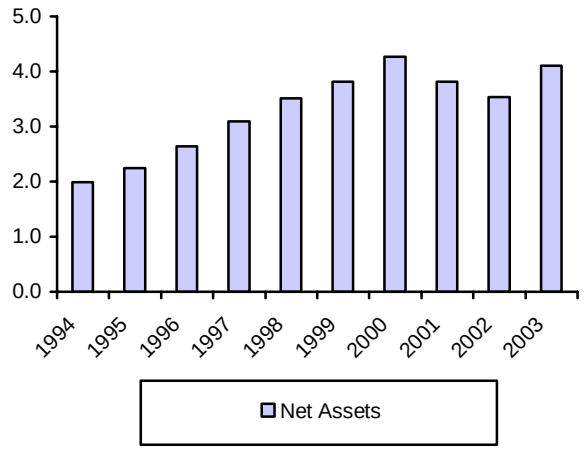
TABLE 1: SDCERA NET ASSETS

(THOUSANDS OF DOLLARS)

		06/30/2003	06/30/2002	Increase/ (Decrease)	Percentage Change
Cash	$	87,952	50,676	37,276	73.6%
Receivables		47,864	40,709	7,155	17.6%
Investments		4,075,273	3,504,730	570,543	16.3%
Securities Lending Collateral		329,126	250,748	78,378	31.3%
Property, Plant & Equipment		2,636	2,620	16	0.6%
Total Assets		4,542,851	3,849,483	693,368	18.0%
Liabilities to Brokers for Securities Lending		329,126	250,748	78,378	31.3%
Securities Purchased		98,232	57,284	40,948	71.5%
Other		12,145	7,871	4,274	54.3%
Total Liabilities		439,503	315,903	123,600	39.1%
Net Assets Held in Trust for Pension Benefits	$	**4,103,348**	**3,533,580**	**569,768**	**16.1%**

Net assets held in trust for pension benefits as of June 30, 2003, totaled $4.1 billion, an increase of $569.8 million, or 16.1%, over the prior year. After two years of net asset decreases and negative returns, results turned positive in 2003. The increase in net assets is primarily as a result of the $550 million contributed by the County from sale proceeds of pension obligation bonds. The funds were fully invested at June 30, 2003.

SDCERA NET ASSETS HELD IN TRUST FOR PENSION BENEFITS 1994-2003 (BILLIONS OF DOLLARS)



SDCERA INVESTMENT RETURNS 1994-2003

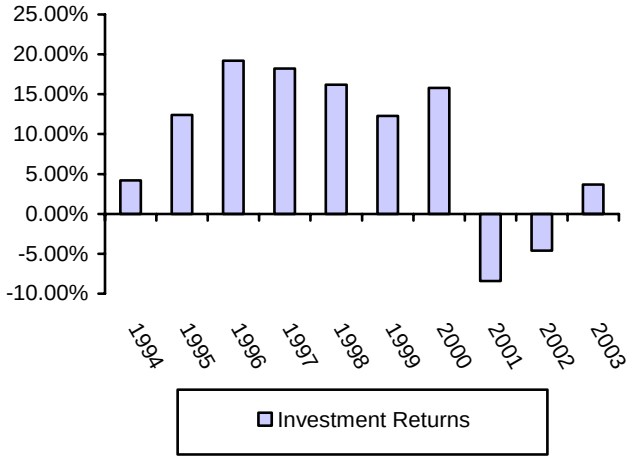


TABLE 2: CHANGES IN SDCERA NET ASSETS

(THOUSANDS OF DOLLARS)

		06/30/2003	06/30/2002	Increase/ (Decrease)	Percentage Change
Additions					
Employer Contributions	$	616,113	50,581	565,532	1118.1%
Member Contributions		34,666	17,346	17,320	99.9%
Net Investment Income		148,688	(165,652)	314,340	189.8%
Net Securities Lending Income		1,273	867	406	46.8%
Total Additions		800,740	(96,858)	897,598	926.7%
Deductions					
Retirement Benefits		202,550	163,594	38,956	23.8%
Health Benefits		19,964	14,312	5,652	39.5%
Refund of Contributions		1,451	890	561	63.1%
Administrative Expenses		7,007	7,633	(626)	-8.2%
Total Deductions		230,972	186,429	44,543	23.9%
Decrease in Net Assets Held in Trust for Pension Benefits	$	**569,768**	**(283,287)**	**853,055**	**301.1%**

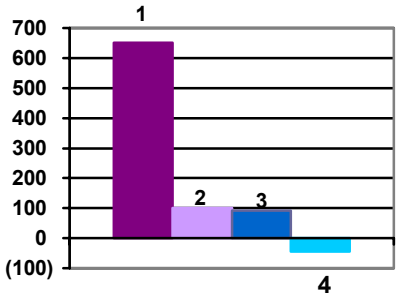
ADDITIONS TO RETIREMENT PLAN NET ASSETS

The primary sources financing the benefits SDCERA provides to its members are accumulated through income on investments and through the collection of employer and employee contributions.

These income sources (Additions to Retirement Plan Net Assets) total $800.7 million for the fiscal year ended June 30, 2003, an increase of $897.6 million over the prior year.

- Employer contributions were $616.1 million in fiscal year 2003, an increase of $565.5 million over the prior year. This increase is driven by substantial March 2002 benefit enhancement which raised the actuarial liability of future retirement benefits and required the County to contribute an additional $1.1 billion. The County contributed $550 million this year and will contribute the remainder over the next 15 years.

- Net investment income increased by $314.3 million, over prior year. This gain was primarily attributable to a net appreciation in the fair value of investments totaling $92.5 million and $101.4 million representing interest, dividends and securities lending income.



SDCERA'S ADDITIONS
(MILLIONS OF DOLLARS)

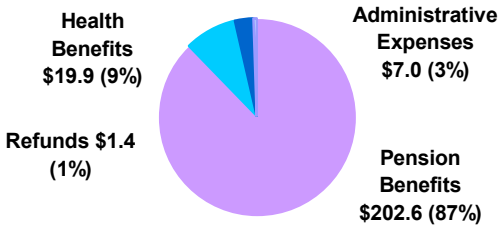
1. Retirement Contributions: $650.8 million
2. Interest, Dividends and Securities Lending Income: $101.4 million
3. Net Appreciation in Fair Value of Investments: $92.5 million
4. Investment Expenses: ($43.9 million)

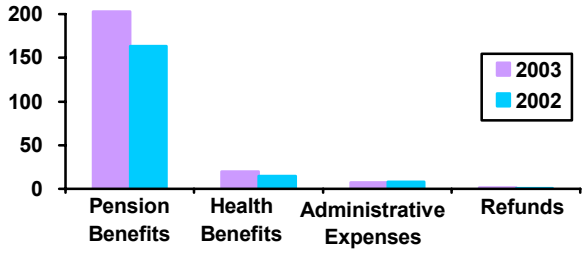
DEDUCTIONS FROM RETIREMENT PLAN NET ASSETS

The primary uses of SDCERA assets are for payment of benefits to retirees and their beneficiaries, refund of contributions to former members and the cost of administering the plan. Deductions from retirement plan net assets for fiscal year ended June 30, 2003 totaled $231.0 million, an increase of $44.5 million or 23.9% over 2002.

- The $44.5 million increase in retirement and health benefits paid resulted primarily from an increase in the number of new retirees and an increase in the average benefit amount as a result of the enhancements to the Plan that were adopted by the County Board of Supervisors in March 2002.

SDCERA'S DEDUCTIONS (MILLIONS OF DOLLARS)





SUMMARY

The plan's combined net assets increased during the past year after experiencing two consecutive years of declines in net asset value driven by investment losses. SDCERA's funded ratio has improved from 75.4% to 82.5% during the fiscal year due to the positive investment performance and additional county contributions. The current financial position results from a diversified investment program that prudently manages risk to maximize returns, an effective system of cost control and strategic planning.

REQUESTS FOR FINANCIAL INFORMATION

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investment managers and creditors with a general overview of SDCERA finances and to demonstrate SDCERA's accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional financial information to:

SDCERA
401 West A Street, Suite 1300
San Diego, California 92101-7906

Mark Mimnaugh
Chief Financial Officer
October 16, 2003

STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2003
(WITH COMPARATIVE AMOUNTS FOR JUNE 30, 2002)

	2003	2002
Assets		
Cash and Short-Term Investments		
Cash in County Pool	$ 14,835,466	$ 5,364,639
Cash and Cash Equivalents with Fiscal Agents	73,116,843	45,310,937
Total Cash and Short-Term Investments	**87,952,309**	**50,675,576**
Receivables		
Contributions	4,409,797	3,504,842
Accrued Interest and Dividends	14,826,962	14,933,781
Settlement of Securities Sold	28,626,750	22,270,399
Total Receivables	**47,863,509**	**40,709,022**
Investments at Fair Value		
Domestic Equity Securities	786,126,711	764,190,849
Cash, Cash Equivalents, and Securities for Domestic Equity Swaps and Futures	665,673,365	592,927,377
Total Domestic Equity Securities and Cash	**1,451,800,076**	**1,357,118,226**
International Equity Securities	975,909,709	860,010,560
Cash, Cash Equivalents, and Securities for International Swaps and Futures	-	24,742,432
Total International Equity Securities and Cash	**975,909,709**	**884,752,992**
Total Equity Securities and Cash	**2,427,709,785**	**2,241,871,218**
Securities Lending Collateral	**329,126,483**	**250,748,251**
United States Government Obligations	204,047,898	247,786,933
Domestic Corporate Bonds	364,595,547	321,490,215
International Bonds	595,927,229	266,961,634
Cash for Bond Swaps and Futures	11,644,590	13,977,219
Total Bonds and Cash	**1,176,215,264**	**850,216,001**
Alternative Equity	154,575,147	141,309,582
Real Estate	316,772,130	271,333,013
Total Investments	**4,404,398,809**	**3,755,478,065**
Property, Plant and Equipment, Net	2,636,321	2,620,541
Total Assets	**4,542,850,948**	**3,849,483,204**
Liabilities		
Liabilities to Brokers for Securities Lending	329,126,483	250,748,251
Settlement of Securities Purchased	98,231,506	57,283,819
Professional Services	7,994,703	4,671,780
Death Benefits	276,673	144,326
Retirement Benefits	173,040	150,060
Refunds to Members	128,399	52,215
Health Insurance Premiums	611,204	397,872
Cash in Transit	2,472,451	2,050,035
Other	488,368	404,685
Total Liabilities	**439,502,827**	**315,903,043**
Commitments and Contingencies (Note 8)		
Net Assets Held in Trust for Pension Benefits (see schedule of funding progress on page 26)	**$ 4,103,348,121**	**$ 3,533,580,161**

See accompanying notes to the basic financial statements beginning on page 16.

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2002)

	2003	2002
Additions to Plan Net Assets		
Contributions		
County Contributions	$ 616,112,726	$ 50,581,110
Plan Member Contributions	34,666,576	17,346,370
Total Contributions	**650,779,302**	**67,927,480**
Investment Income		
Net Appreciation (Depreciation) in Fair Value of Investments		
Stocks	(27,131,879)	(137,118,566)
Bonds	92,896,038	(3,214,314)
Foreign Currency	18,185,862	4,357,539
Real Estate	992,044	(3,176,672)
Swaps and Futures	(43,407,745)	(125,196,969)
Managed Futures	50,972,634	12,352,106
Total Net Appreciation (Depreciation) in Fair Value of Investments	**92,506,954**	**(251,996,876)**
Interest Income		
Bonds	50,933,578	57,414,559
Cash	9,627,675	12,149,249
Total Interest Income	**60,561,253**	**69,563,808**
Other		
Dividends on Stock Investments	29,616,771	27,105,660
Real Estate Equity Investment Income	13,206,938	11,985,340
Commission Recapture	251,353	282,419
Managed Futures Income (Loss)	(6,034,125)	13,348,573
Other Income	2,497,734	3,805,202
Total Other	**39,538,671**	**56,527,194**
Less: Investment Expenses	(43,918,845)	(39,746,864)
Net Investment Income (Loss)	**148,688,033**	**(165,652,738)**
Securities Lending Income	5,445,596	6,230,093
Less: Securities Lending Rebates and Bank Charges	(4,172,825)	(5,363,351)
Net Securities Lending Income	**1,272,771**	**866,742**
Total Additions to Plan Net Assets	**800,740,106**	**(96,858,516)**
Deductions from Plan Net Assets		
Benefits		
Service Retirement and Disability Benefits	189,779,897	153,772,271
Death Benefits	1,307,322	595,831
Health Benefits	19,963,751	14,312,373
STAR Cost of Living Allowance	11,463,122	9,225,575
Total Benefits	**222,514,092**	**177,906,050**
Member Refunds	1,451,436	889,997
Administrative Expenses	7,006,618	7,632,550
Total Deductions from Plan Net Assets	**230,972,146**	**186,428,597**
Increase (Decrease) in Net Assets Held in Trust for Pension Benefits	**$ 569,767,960**	**$ (283,287,113)**
Net Assets Held in Trust for Pension Benefits		
Beginning of Year	**$ 3,533,580,161**	**$ 3,816,867,274**
End of Year	**$ 4,103,348,121**	**$ 3,533,580,161**

See accompanying notes to the basic financial statements beginning on page 16.

1. DESCRIPTION OF PLAN

San Diego County Employees Retirement Association (SDCERA, Association or Plan) is the public employee retirement system established by the County of San Diego (County) on July 1, 1939, and is administered by the Board of Retirement (Board) to provide retirement, disability, death and survivor benefits for its employees under the County Employees Retirement Act of 1937. SDCERA, with its own governing board, is an independent governmental entity separate and distinct from the County of San Diego. SDCERA is a component unit of the County of San Diego. SDCERA's basic financial statements are included in the County's basic financial reports as a pension trust fund. SDCERA is a cost sharing, multiple-employer defined benefit plan for San Diego County and four participating agencies located in San Diego County. SDCERA's financial statements may be obtained by writing to the San Diego County Employees Retirement Association, 401 West A Street, Suite 1300 San Diego, California 92101, or by calling 619-515-0130.

All employees of the County of San Diego (other than hourly, emergency, temporary, provisional, seasonal and employees who work less than half time) are members of the San Diego County Employees Retirement Association. Coverage begins with the first biweekly payroll period in the month following employment. Benefits vest after five years of service.

There are two types of membership:

Safety Members

Permanent or interim employees engaged in the performance of active law enforcement are considered safety members and are not covered by Social Security. Probation officers were added to Safety membership in 1999.

General Members

All eligible employees not classified as Safety members, hired after January 1, 1958, are considered General members and are covered by Social Security. Employees who worked for the County prior to January 1, 1958, who did not choose to join the integrated plan, are covered only by the County Employees Retirement System as it was established under the County Employees Retirement Law of 1937.

Tier Structure

Members eligible to enter the system prior to October 1, 1978, were designated as Tier I members. On August 15, 1978, by ordinance, the County Board of Supervisors established a second tier (Tier II) of retirement benefits for employees entering the retirement system on or after October 1, 1978. On March 8, 2002, the County Board of Supervisors eliminated Tier II for General and Safety members. Tier A was established for General members and Safety members were consolidated into a new formula.

All General members were converted to Tier A unless they elected to opt out of Tier A during the one-time opt-out period offered prior to March 8, 2002. When Tier II was eliminated, all deferred general members with Tier II service credit and active members who elected to opt out of Tier A were converted to Tier I. Tier I is closed to new entrants. Tier I members who retire at or after age 57 with ten years of credited service are eligible for retirement benefit, payable for life, in an amount equal to 2% of their final compensation for each year of credited service or at a slightly higher percentage as the retirement age advances beyond 57. Final compensation is the average compensation subject to retirement during any 26 consecutive pay periods elected by the member. Members with 10 years of credited service may retire at or after age 50, at any age with 30 or more years of service or at age 70 regardless of the number of years of credited service.

Tier A is the current open system for General members eligible to enter the system on or after March 8, 2002. Members who retire at or after age 50 with 10 years of credited service are eligible for an annual retirement benefit. This benefit is payable monthly for life, in an amount equal to 3% of their final average compensation for each year of credited service at age 60. The retirement formula is reduced at earlier ages with a 2% formula applicable if the member retires at age 50. Final compensation for Tier A members is the average annual compensation subject to retirement during any 26 consecutive pay periods elected by the member. Members with 10 years of credited service may retire at or after age 50, at any age with 30 or more years of credited service, or at age 70 regardless of the number of years of credited service.

Safety members who retire at or after age 50 with 10 years of credited service are eligible for an annual retirement benefit. This benefit is payable monthly for life, in an amount equal to 3% of their final average compensation for each year of credited service at age 50. Final compensation for safety members is the average annual compensation subject to retirement during any 26 consecutive pay periods elected by the member. Members may also retire at any age with 20 or more years of credited service or at age 70 regardless of the number of years of credited service.

Cost-of-Living Adjustments

Cost-of-living adjustments are based on changes in the Consumer Price Index for the San Diego area and are limited to a maximum of 3% per year. A reserve for a Supplemental Targeted Adjustment for Retirees (STAR) cost-of-living allowance was established on June 30, 1998. This reserve increases benefits of certain retirees who have lost purchasing power over the years due to periods of high inflation.

At June 30, 2003, SDCERA membership consisted of retired members or their beneficiaries, active members and terminated members eligible for benefits but not yet receiving them (deferred members), as summarized in the table below.

Terminated Members' Deferred Retirement Benefit and Withdrawal Benefit

A member leaving covered employment after completing five years of credited service becomes eligible for a deferred retirement benefit, provided the member lives to the minimum service retirement age and does not withdraw his or her accumulated contributions.

Members with less than five years of credited service may either leave their accumulated contributions on deposits with SDCERA which will continue to accrue interest or be refunded their accumulated employee contributions with interest, except that County-paid employee contributions under various Memorandums of Understanding (salary negotiations) are not refundable.

Membership Summary

	General	Safety	Total
Active Members			
Tier I	83	-	83
Tier A	14,941	-	14,941
Safety	-	3,410	3,410
Total Active Members	**15,024**	**3,410**	**18,434**
Deferred (Terminated) Members			
Tier I	2,769	-	2,769
Tier A	678	-	678
Safety	-	343	343
Total Deferred (Terminated) Members	**3,447**	**343**	**3,790**
Retired Members			
Tier I	5,944	-	5,944
Tier II	1,934	-	1,934
Tier A	1,212	-	1,212
Safety	-	1,190	1,190
Total Retired Members	**9,090**	**1,190**	**10,280**
Total Members	**27,561**	**4,943**	**32,504**

DEATH AND DISABILITY BENEFITS

Non-Service Connected Disability
Eligibility: Five years of service
Benefit formula per year of service: In general, 1.8% of average compensation for Tier A, Tier I and Safety members per year of service

Service Connected Disability
Eligibility: No age or service requirements
Benefit: 50% of final compensation or a service retirement benefit, whichever is greater

Non-Service Connected Death Before Vesting
Benefit: Refund of employee contributions with interest plus one month's salary for each year of credited service to a maximum of six months' salary

Non-Service Connected Death After Vesting
Benefit: Generally, 60% of earned benefit payable to surviving eligible spouse or unmarried minor children

Service Connected Death
Benefit: 50% of final compensation payable to surviving eligible spouse or unmarried minor children

Death After Retirement – Service Connected or Non-Service Connected Disability
Benefit: Percentage of member's retirement benefit based on option selected at retirement

Service Connected Disability Survivorship Benefits
Benefit: 100% of member's retirement benefit continued to surviving eligible spouse or unmarried minor children

RETIREE HEALTH BENEFITS

Retiree health benefits may be available to eligible retirees to the extent that the Board of Retirement annually approves the payments of such benefits. The County's Board of Supervisors and the SDCERA Board of Retirement adopted a funding mechanism under section 401(h) of the Internal Revenue Code, which calls for a portion of the County's contributions to be recorded in a separate account each year. To ensure that the County's annual contribution for the funding of pension benefits is made whole and complete, the reserve for County contributions is reimbursed from accumulated investment earnings that exceed the assumed rate of return of the investment portfolio.

Currently, a medical allowance is paid to retirees, under 65 years of age, with at least 10 years of credited service in SDCERA, and the amount varies according to length of service. Those who are 65 or older, with at least 10 years of credited service, receive a medical allowance, and those who are eligible for Medicare, receive reimbursement for Part B of Medicare.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS NO. 34, NO. 37 AND NO. 38

SDCERA adopted the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, for the year ended June 30, 2000, although not required to adopt the new pronouncement until fiscal year 2002. GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* have also been implemented in the basic financial statements and accompanying notes. Implementation of GASB Statements No. 34, No. 37 and No. 38 had no effect on Plan net assets. The accrual basis of accounting has been applied in both the current and comparative years, including the Notes to the Basic Financial Statements and the Required Supplementary Information.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

SDCERA's operations are accounted for on an economic resources measurement focus and the accrual basis of accounting. Employer and employee contributions are recognized as revenue in the period in which employee services are performed. Investment income is recognized as revenue when earned. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Other expenses are recognized when the corresponding liabilities are incurred. The net appreciation (depreciation) in fair value of investments held by SDCERA is recorded as an increase

(decrease) to investment income based on the valuation of investments.

Use of Estimates

A number of estimates and assumptions have been made relating to the reporting of assets and liabilities, the disclosure of reserves and designation of plan assets to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Cash and Short-Term Investments

Cash and short-term investments consist of cash and securities with fiscal agents and deposits held in a pooled account with the County of San Diego. All participants in the pool proportionately share earnings and losses. Short-term investments consist of cash held in money market accounts and securities readily convertible to cash.

Cash Equivalents

Cash equivalents for swaps and futures consist of money market securities and collective short-term investments with original maturities of three months or less.

Investments

The County Employees Retirement Law of 1937 (Law) grants exclusive control to the Board of Retirement over the investment of SDCERA's investment portfolio. The Law allows for the Board to invest, or delegate the authority to invest, the investment portfolio through the purchase, holding, or sale of any form or type of investment, financial instrument or financial transaction when prudent in the informed opinion of the Board.

Investments are reported at fair value in the accompanying Statement of Plan Net Assets based upon closing sale prices reported on recognized securities exchanges on the last business day of the period. For listed securities having no sales reported and for unlisted securities, fair value is based upon last reported bid prices. All purchases and sales of investments are accounted for on a trade-date basis, and dividends declared but not received are accrued on the ex-dividend date. Realized and unrealized gains or losses of securities are determined on the basis of average cost.

Real estate investments consist of real estate equities primarily in office, industrial, retail and residential properties located throughout the United States. Real estate investments are reported at estimated fair value, which has been determined by appraisals performed by independent real estate advisors approximately every three years.

Cash, Cash Equivalents, and Securities for Swaps and Futures Contracts

SDCERA utilizes various financial instruments, such as equity swap agreements and stock and bond futures contracts that allow SDCERA to build portfolios with performance characteristics very similar to benchmarks and to manage allocation of risk. The Board has adopted a policy whereby cash, cash equivalents, and securities in amounts at least equal to the exposures resulting from these agreements are segregated and identified in the accounting records as "Cash, Cash Equivalents, and Securities for Swaps and Futures". The amounts reported reflect the fair value of the swap and futures contracts, which include cash, cash equivalents, securities, and any net unrealized gains and losses associated with the contracts.

These financial instruments are intended to be equivalent to the asset they are designed to emulate, and management believes such investments offer significant advantages over the direct investment in securities, including lower transaction fees and custody costs. SDCERA's use of swaps and futures is structured such that market exposure is fundamentally equivalent to the direct cash investments. SDCERA will only execute a swap agreement with counterparties rated A or higher. The use of swap agreements exposes the Plan to the risk of dealing with financial counterparties and their ability to meet the terms of the contracts. However, all swaps are fully collateralized by cash at least equal to the notional value of the most recent cash reset. Allowing insufficient collateral is strictly prohibited as a trading strategy by SDCERA's investment policies.

Income Taxes

The Internal Revenue Service has ruled that plans such as SDCERA's qualify under Section 401(a) of the Internal Revenue Code and are not subject to tax under present income tax laws.

On March 4, 1998, the Internal Revenue Service issued a favorable Tax Determination Letter. Accordingly, no provision for income taxes has been made in the accompanying basic financial statements, as the Plan is exempt from federal and state income taxes under the provisions of the Internal Revenue Code, Section 401, and the California Revenue and Taxation Code, Section 23701, respectively.

PROPERTY, PLANT AND EQUIPMENT

		Balance 07/01/2002	Additions	Deletions & Transfers	Balance 06/30/2003
Computer Hardware and Software	$	2,612,335	744,545	(63,230)	3,293,650
Office Furniture and Fixtures		530,520	1,016	(1,170)	530,366
Leasehold Improvements		321,363	-	-	321,363
Total Property, Plant and Equipment		3,464,218	745,561	(64,400)	4,145,379
Accumulated Depreciation		(843,677)	(665,381)	-	(1,509,058)
Net Property, Plant and Equipment	$	**2,620,541**	**80,180**	**(64,400)**	**2,636,321**

Capital assets are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method with a three to five year life for computer software, three years for hardware, and five to ten years for office equipment and leasehold improvements. The cost and accumulated depreciation of property, plant and equipment is depicted in the table above.

3. DEPOSITS AND INVESTMENTS

Cash and cash equivalents, at June 30, 2003, consisted of the following:

Description of Cash		Bank Balances & Carrying Amounts
Cash and Cash Equivalents with Fiscal Agents	$	87,952,309
Cash and Cash Equivalents for Futures with the Bank of New York		163,449,101
Total	$	**251,401,410**

The Plan's cash, cash equivalents and cash collateral on securities lending are categorized in the following manner:

Category 1: Includes cash, cash equivalents and cash collateral that are insured or collateralized with securities held by fiscal agent in the Plan's name. The entire balance of $251,401,410 is classified as Category 1 at June 30, 2003.

Category 2: Includes cash and cash equivalents collateralized with securities held by the pledging fiscal agent and trust department in the Plan's name.

Category 3: Includes collateralized cash and cash equivalents, held by fiscal agent but not in the Plan's name.

SECURITIES LENDING

Under provisions of state statutes, SDCERA lends U.S. government obligations and domestic and international bonds and equities to various brokers for collateral that will be returned for the same securities plus a fee in the future. The fiscal agent manages the securities lending program and receives cash as collateral. Collateral cash is pledged at 102% and 105% of the fair value of domestic securities and non-domestic securities lent, respectively. There are no restrictions on the amount of securities that can be lent at one time. The term to maturity of the securities loaned is generally matched with the term to maturity of the investment of the cash collateral. Such matching existed at the end of the fiscal year. As with other extensions of credit, SDCERA may bear the risk of delay in recovery or of rights in the collateral should the borrower of the securities fail financially.

SDCERA does not have the ability to pledge or sell collateral securities without a borrower default. At the end of the fiscal year, SDCERA has no credit risk exposure to borrowers.

DEPOSITS AND INVESTMENTS

The Plan's investments are categorized as:

Category 1: Includes investments that are insured and registered or for which the securities are held by the Plan or its agent in the Plan's name.

Category 2: Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Plan's name.

Category 3: Includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Plan's name.

A summary of Plan investments within the categories defined above as of June 30, 2003, follows:

	Investment Category				
Description	**1**	**3**	**Uncategorized**	**Total Fair Value**	**Cost**
U.S. Government Obligations:					
Not on securities loaned	$ 187,058,278	-	-	187,058,278	179,802,474
On securities loaned for cash collateral			16,989,620	16,989,620	16,821,064
Domestic Corporate Bonds:					
Not on securities loaned	290,421,332	-	-	290,421,332	303,478,027
On securities loaned for cash collateral			74,174,215	74,174,215	70,650,738
Domestic Equity Securities:					
Not on securities loaned	1,191,349,423	-	-	1,191,349,423	1,159,883,933
On securities loaned for cash collateral			156,040,736	156,040,736	131,734,660
International Equity Securities:					
Not on securities loaned	886,083,850	-	-	886,083,850	882,871,682
On securities loaned for cash collateral			48,448,742	48,448,742	46,796,637
International Bonds:					
Not on securities loaned	582,155,965	-	-	582,155,965	573,418,296
On securities loaned for cash collateral			7,753,787	7,753,787	8,215,083
Investment of Cash Collateral Received on Securities Lending:					
Bank Obligations	-	89,966,355		89,966,355	89,966,355
Mutual Funds	-	-	15,000,000	15,000,000	15,000,000
U.S. Corporate Obligations	-	158,734,437	-	158,734,437	158,734,437
Repurchase Agreements	-	65,425,691	-	65,425,691	65,425,691
Cash in County Pool	-	-	14,835,466	14,835,466	14,835,466
Total	**$ 3,137,068,848**	**314,126,483**	**333,242,566**	**3,784,437,897**	**3,717,634,543**

Note: There were no investments in Category 2 as of June 30, 2003.

Reconciliation of the summary of Plan investments on the preceding page to total investments per the Statement of Plan Net Assets available for benefits as of June 30, 2003, follows:

Total Investments per Statement of Plan Net Assets	$ **4,404,398,809**
Less: Investments in Real Estate and Alternative Equity	471,347,277
Less: Cash, Cash Equivalents, and Cash Collateral for Futures (included in deposits)	163,449,101
Plus: Cash in the County pool and Union Bank of California	14,835,466
Total Fair Value of Investments by Category	$ **3,784,437,897**

At June 30, 2003, $14,835,466 of the Plan's cash resources were invested in the County's Investment Pool and Union Bank of California, and are included in cash and short-term investments in the accompanying Statement of Plan Net Assets. Approximately 0.34% of investments of the Plan are in the County Pool. Monies invested in derivatives through the County Pool are considered immaterial.

4. FUNDING POLICY

Normal cost and the allocation of benefit values between service rendered before and after the valuation date were determined using an individual entry-age actuarial cost method having the following characteristics:

(i) The annual normal costs for each active member, payable from the date of entry into the system to the date of retirement, are sufficient to accumulate the value of the member's benefit at the time of retirement; and

(ii) Each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

Members are required by statute (Sections 31621, 31621.2, 31639.25 and 31676.17 of the California Government Code) to contribute a percentage of covered compensation to SDCERA. Member contribution rates are determined by an actuarial valuation and incorporate actuarial assumptions such as interest rate earned, annual salary increase rate and anticipated mortality among service retired members. (Note: Although Section 31873 of the California Government Code requires that the cost-of-living raises during retirement are to be funded by both member and County contributions, the cost of living contributions do not have to be accounted for separately and are now shown combined with the basic contributions.)

The County has negotiated to pay all or a portion of most, but not all, employee contributions. In some cases, the employer has agreed to pay a portion of the required employee contributions phased in over a five-year period. The employee contributions deducted from the employee's salary are treated as pre-tax contributions under Section 414(h) of the Internal Revenue Code.

The County is required by statute (Section 31453.5 and 31454 of the California Government Code) to contribute a percentage of covered salary to SDCERA. The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using an entry age actuarial funding method. In October 2002, the County of San Diego issued pension obligation bonds in the amount of $737.3 million. On October 3, 2002, the County transferred $550 million to the retirement fund for investment. The remaining amount was used by the County to retire a portion of the pension obligation bonds still outstanding from 1994. Beginning with the October 3, 2002 interim valuation, the unfunded actuarial accrued liabilities (UAAL) is amortized over 15 years, expressed as a level percentage of payroll and added to the computed normal cost.

Prior to the October 3, 2002 interim valuation, the UAAL was amortized over 10 years, also as a level percentage of payroll.

The following schedule summarizes the contribution rates in effect at June 30, 2003. Contribution rates are expressed as a percentage of covered payroll. The member contribution rates (weighted average) depicted below vary according to age at entry, benefit tier level and certain negotiated contracts which provide for the County to pay a portion of the member's contribution.

Member Classification	Member Rates	Employer Rate
General members	8.39% - 8.85%	None
Safety members	9.27%	6.87%

During the year, contributions totaled $650,779,302, which included $34,666,576 in employee contributions, $66,112,726 in employee contributions paid by the County and $550,000,000 from the proceeds of the pension obligation bonds issued in October 2002.

The SDCERA is an independent governmental entity. As such, the entire expense of administration of the retirement system is charged against the earnings of the Plan. Earnings from investments are reduced for investment managers' fees, portfolio evaluation, custodian services and actuarial services for investment-related activities, as provided in Section 31596.1 of the California Government Code.

5. ANNUAL PENSION COST

For the fiscal year ended June 30, 2002, the most recent annual actuarial valuation, the County's annual pension cost was zero. The County's actual contribution during the fiscal year ended June 30, 2002, totaled $5.3 million, resulting in a net pension obligation of $7.7 million as of June 30, 2002, compared to $15.5 million at the end of the prior year. The required contribution rates, as adopted by the SDCERA Board, were determined as part of the June 30, 2001 actuarial valuation based on entry-age actuarial cost method. The actuarial assumptions included (a) an 8.25% investment rate-of-return, (b) projected salary increases of 4.5% per year, and (c) cost-of-living increases for retirees of 3.0%.

6. RESERVES AND DESIGNATIONS OF PLAN ASSETS

Member and employer contributions are allocated to various legally required reserve accounts based on actuarial determinations. Member contribution reserves are fully funded. Cost-of-living reserves, which were shown separately in previous reports, are now combined with the appropriate basic reserve.

Set forth below are descriptions of the purpose of each reserve and designation account.

The reserve for member contributions includes:

- Contributions from plan members
- Contributions from Terminated members
- Contributions representing members who have bought back prior years of SDCERA service credit and for prior service in certain public agencies
- Contributions made by former employees who have not yet applied for their retirement benefits

The reserve for County contributions includes:

- County contributions to the retirement plan for active members

The reserve for retirement allowances includes:

- Amounts transferred from member contributions (annuity) received net of the employee's portion of benefits paid for retired pension members
- Amounts transferred from County contributions (pension) made in prior years for active members upon retirement

A STAR cost-of-living allowance reserve was established on June 30, 1998. This reserve benefits certain retirees who have lost purchasing power over the years due to periods of high inflation.

The reserve for health benefits designates funds that may be used for future payments under the retiree health benefits program and related administrative expenses.

The reserve for contingencies represents actual earnings that exceed the total interest credited to contributions and reserves up to 1.0% of the total assets of the retirement fund as of June 30, 2003. The reserve for undistributed earnings represents actual earnings that exceed the total interest credited to contributions and reserves in excess of 1.0% of the total assets of the retirement fund. Both reserves provide funds to offset deficiencies in interest earnings in other years, losses on investments, and other contingencies. To the extent that the actual earnings not credited to contributions and reserves exceeds 1.0% of the total assets of the retirement fund, the Board may authorize the payment of additional benefits as described in California Government Code Section 31592.2, 31592.4, 31691 and 31874.3, which include health benefits, Medicare and supplemental cost-of-living increases, or may transfer all, or any part, of such surplus in excess of 1.0% of total assets into County advance reserves for the sole purpose of payment of the cost of benefits described in the retirement law. Together, the reserve for undistributed earnings and the reserve for contingencies comprise 1.0% of Plan net assets as of June 30, 2003.

The reserve for unrealized earnings represents the difference between the book value and the fair value of Plan assets.

The health benefits 401(h) account was established based on the Board of Supervisors and the Board of Retirement adoption of a funding mechanism under section 401(h) of the Internal Revenue Code, which calls for a portion of the County's contributions to be recorded in a separate account each year. Any investment income earned on the account balance increases the balance and any losses reduce it.

Allocation of contributions to the various reserve accounts and designations of net assets are depicted in the table below.

Reserve		Thousands of Dollars
Reserve for Member Contributions:		
Active		193,474
Deferred		23,410
Unlocated Separated Members		24
Subtotal		**216,908**
Reserve for County Contributions		996,527
Reserve for Retirement Allowances		2,389,560
Total		**3,602,995**
Reserve for Health Benefits		269,140
Reserve for Star Cost-of-Living Allowance		48,537
Reserve for Undistributed Earnings		5,160
Reserve for Unrealized Earnings		141,884
Reserve for Contingencies		35,336
Total Retirement Fund		**4,103,052**
Health Benefits 401(h) Account		296
Total Fund	**$**	**4,103,348**

7. ADMINISTRATIVE EXPENSES

SDCERA's Board of Retirement annually adopts an administrative expense budget based on the total asset base at fair value on December 31 of the preceding year. By statute, the administrative expenses are charged against SDCERA's investment earnings and are limited to eighteen hundredths of one percent of the total assets of the retirement system as set forth under Government Code Section 31580.2.

SDCERA'S Administrative Expenses
For the year ended June 30, 2003

Total Asset Base, at fair value (December 31, 2001)	$3,943,328,476
Maximum Allowable for Administrative Expenses (.0018 X 3,943,328,476)	$7,097,991
Actual Administrative Expenses for the Fiscal Year	$7,006,618
Excess of Allowance over Actual Administrative Expenses	$91,373
Actual Administrative Expenses as a Percentage of Total Assets Base	0.18%

8. COMMITMENTS AND CONTINGENCIES

MANAGED FUTURES

SDCERA is party to financial instruments with off-balance sheet risk to generate earnings and stabilize excess earnings from active management of fixed income securities and common stocks. Managed futures contracts include, but are not limited to, contracts for delayed delivery of securities, commodities or currencies in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Risks arise from the possible inability of counter-parties to meet the terms of their contract. The risks of loss from these off-balance sheet financial instruments include minimal credit risks but include the possibility that future changes in market prices may make such financial instruments less valuable (market risk).

REAL ESTATE AND ALTERNATIVE EQUITY PURCHASE COMMITMENTS

Not reflected in the accompanying Statement of Plan Net Assets are commitments to acquire real estate for investment totaling $81.0 million and alternative equity for $102.3 million.

SUMMARY ACTUARIAL INFORMATION

Valuation Date	June 30, 2002
Actuarial Cost Method	Individual entry-age actuarial cost method
Amortization Method	Level percent of pay
Remaining Amortization Period	Ten years for 2002 plan and assumption changes; five years for gains and losses
Asset Valuation Method	Five-year smoothed market

ACTUARIAL ASSUMPTIONS

Investment Rate of Return*	8.25 %
Projected Salary Increase*	4.50 %
Cost-of-Living Adjustments for Retirees	3.00 %
Inflation	4.00 %

*Includes inflation of 4.0% for both the investment rate of return and projected salary increase.

SCHEDULE I – FUNDING PROGRESS
(THOUSANDS OF DOLLARS)

Valuation Date	(1) Valuation Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) - (1)	Funded Ratio (1)/(2)	Annual Covered Payroll	UAAL as % of Covered Payroll (3)/(5)
6/30/93	$ 1,438,093	$ 1,891,844	$ 453,751	76.0 %	$ 533,124	85.1 %
6/30/94	1,947,310	2,006,689	59,379	97.0	535,981	11.1
6/30/95	2,172,890	2,148,606	(24,284)	101.1	550,737	(4.4)
6/30/96	2,370,519	2,340,663	(29,856)	101.3	561,692	(5.3)
6/30/97	2,688,098	2,487,917	(200,181)	108.0	581,453	(34.4)
6/30/98	2,834,571	2,677,593	(156,978)	105.9	599,847	(26.2)
6/30/99	3,211,872	2,990,111	(221,761)	107.4	642,780	(34.5)
6/30/00	3,568,671	3,248,822	(319,849)	109.8	672,477	(47.6)
6/30/01	3,745,600	3,506,828	(238,772)	106.8	731,130	(32.7)
6/30/02	3,831,334	5,078,067	1,246,733	75.4	810,389	153.8

SCHEDULE II – CONTRIBUTIONS FROM THE COUNTY OF SAN DIEGO
(THOUSANDS OF DOLLARS)

Year Ended	Annual Required Contribution (ARC)	Contributions Made [1]	% of Required Contributions Made	Amortization Period (in years)	Net Pension Obligation
6/30/93	$ 63,989	$ 63,989	100.00 %	5.00	-
6/30/94	48,591	48,591	100.00	5.00	-
6/30/95	33,305	33,305	100.00	5.00	-
6/30/96	37,577	37,577	100.00	5.00	-
6/30/97	23,269	23,269	100.00	5.00	-
6/30/98	24,320	24,320	100.00	5.00	-
6/30/99	-	-	-	5.00	-
6/30/00	14,341	-	-	5.00	14,341
6/30/01	4,927	2,035	41.30	5.00	15,548
6/30/02	-	5,338	100.00	8.24	7,686

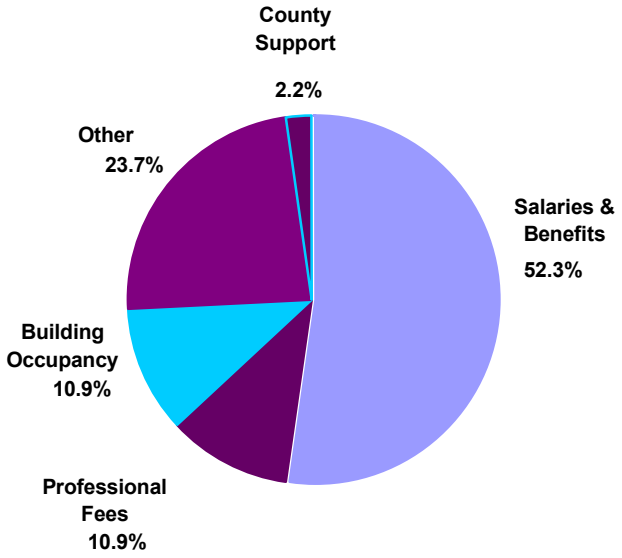
1 Excludes payments related to pension obligation bonds issued in 1994 and County pick up of employee contributions.

Source: Gabriel, Roeder, Smith & Company Annual Actuarial Valuation, June 30, 2002

SCHEDULE III – ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002
(THOUSANDS OF DOLLARS)

Expense Category		2003	2002
Salaries and Benefits	$	3,661	3,360
Professional Fees		766	1,722
Building Occupancy Expenses		767	675
County Administrative Support		153	399
Equipment and Maintenance		353	124
Other Expenses		1,306	1,353
Total Administrative Expenses	**$**	**7,006**	**7,633**

ADMINISTRATIVE EXPENSES BY CATEGORY
2003



SCHEDULE IV – INVESTMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2003
(THOUSANDS OF DOLLARS)

Individual or Firm	Net Assets Managed at Fair Value	Fees
Domestic Equity Managers		
Nicholas Applegate Convertible Bond	$ 286,803	585
Nicholas Applegate Emerging Growth	63,357	585
Denali Advisors, LLC	163,452	569
Numeric Investors - Large Cap	68,542	543
Duncan Hurst Capital Management - Small Cap	45,132	394
Duncan Hurst Capital Management - Large Cap	105,053	358
Dimensional Fund Adviser	156,802	342
Delta Asset Management - Large Cap	87,333	237
Duncan Hurst Capital Management - Micro Cap	21,512	186
Westridge Capital Management, Inc.	43,248	125
Total Domestic Equity Managers		**3,924**
International Equity Managers		
Quantitative Financial Strategies	-	4,271
Artisan Partners	176,274	829
Fidelity Management Trust Company	209,146	780
Delaware International Adviser	176,045	648
FX Concepts, Inc.	-	613
Capital Guardian Trust Company	145,469	602
Total International Equity Managers		**7,743**
Fixed Income Managers		
Kenmar	22,133	7,134
Managed Passive Futures	22,996	3,842
Pacific Investment Management Company	330,585	554
Rogge Global Partners, Inc.	36	543
W.R.Huff Asset Management Company	126,396	525
Oaktree Capital Management LLC	100,824	509
TCW Asset Management Company	135,130	370
Rothschild International Asset Management	95	209
Zazove Associates	24,554	55
Colchester Global Investments	181,450	52
Total Fixed Income Managers		**13,793**
Other Managers		
Zazove Associates	108,740	3,832
Bridgewater Associates, Inc.	106,779	1,415
Salus Capital Management	106,688	1,227
Freeman Associates (Investment Research Co.)	107,625	860
Lotsoff Capital Management	107,546	233
Total Other Managers		**7,567**

(Continued on the next page)

SCHEDULE IV – INVESTMENT EXPENSES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003
(THOUSANDS OF DOLLARS)

Individual or Firm	Net Assets Managed at Fair Value	Fees
Alternative Equity Managers		
Mission Ventures, LP	$ 12,814	$ 688
Forward Ventures Institutional Partners, LP	10,757	501
HarbourVest International Private Equity Partners III, LP	16,136	329
Capital Int'l. Global Emerging Markets Private Equity	9,986	311
Relational Investors, LLC	19,146	279
Oaktree Capital Management Opportunities Funds, LP	24,339	245
Sorrento Ventures CE, LP	4,690	185
Oakhill Capital Partners, LP	7,033	184
Cerberus Instutional Partners	9,204	180
TA Associates	3,304	159
Thomas Lee Equity Fund	3,471	154
Meritech Capital Partners, LP	2,555	134
Code, Hennessy & Simmons IV	5,178	120
Stinson Capital Partners, LP	9,068	120
Belvedere Capital	10,990	115
Arch Venture Partners	2,029	111
Blackstone Capital Partners IV	994	83
Lexington Capital Partners V	1,729	63
Total Alternative Equity Managers		**3,961**
Real Estate Managers		
REIT - REEF	110,636	600
ING Realty Associates, Inc.	13,009	219
Kennedy Associates Real Estate Counsel, Inc	17,509	75
Total Real Estate Managers		**894**
Master Custodian		
Bank of New York		1,045
Other Professional Fees		
Cambridge Capital Advisors		564
Mount Lucas Index Management		452
Rocaton		351
RP Consulting Group, Inc.		285
Gabriel, Roeder & Smith		109
The Townsend Group		100
Plexus		30
Other		54
Total Other Professional Fees		**1,945**
Administrative, Support and Other		**3,047**
Total Investment Expenses		**$ 43,919**

INVESTMENT SECTION

San Diego County Employees Retirement Association
401 West A Street, Suite 1300 • San Diego, CA 92101-7906
619-515-0130 • www.sdcera.org

SDCERA
Supporting The Membership

San Diego County Employees
Retirement Association

Members of the Board:

Investment and financial markets have returned to a more normal level of activity in fiscal year 2003. After two consecutive years of negative performance, the retirement fund earned a positive return of 3.7% net of fees in the fiscal year ended June 30, 2003. These positive returns were achieved despite the remarkably high volatility experienced throughout the year.

Financial scandals, accounting irregularities and insider trading dominated the news for the first six months of the year. The increasing lack of consumer confidence in corporations and the slowing in the economy were reflected in the first quarter negative return of 11.3%. In the second quarter, the retirement fund recorded a positive return of 4.5%. However the question on all our minds was "Where do we go from here? Will the economy move forward in a slow growth mode or do we slip into another recession?" The reality of war in Iraq at the end of the third quarter, coupled with concerns about the duration of the war led to negative returns of 1.5% in the fund for the quarter. By the end of the fiscal year the stock market made a remarkable recovery and the June 2003 quarter closed with a total return of 13.3%. The fund experienced extreme turbulence in the equity market and ultimately produced a positive return of 3.7% for the year.

We also focus on relative returns; how our returns compare with those of other institutional investors. Bank of New York, our custodian, provides this comparison on a quarterly basis. Within their data base, we are compared to public funds, corporate pension funds, Taft Hartley funds and eleemosynary funds. We are then further compared to all funds larger than $1 billion. We have a relatively high equity allocation compared to these funds and this has affected our relative ranking. During the past three years, when fixed income has out-performed equity, SDCERA's relative ranking has been at approximately 50%, which means we have performed equal to the median of these funds. Over longer periods of 5 to 10 years, equities have produced higher returns and SDCERA have ranked as high as the top 10% to 20% of funds. In fiscal year 2003, we ranked in the top 30% to 40%.

We monitor returns and volatility among other institutional investors for two reasons: First, we are interested in feedback regarding how well we are doing relative to other funds. Knowing that we are top or bottom quartile gives direct validation or warning regarding the portfolio. Second, to the extent that we can identify top funds, we can focus on their "best practices" and thereby improve our own.

The Board of Retirement reviews the fund's asset allocation every year and completes a full asset/liability review every three years. The most recent asset/liability study was completed in January 2003 and the strategic asset allocation was modified slightly at that time. The new allocation is shown in the table below and compared to the one it replaced. The changes were minor and resulted in the same expected return, with a somewhat lower expected standard deviation of returns. Forecast returns and volatility are for a 10 to 15 year period.

SDCERA STRATEGIC ASSET ALLOCATION

Investment Description	New	Old
Domestic Equity	32.5%	40.3%
International Equity	23.2%	25.0%
Alternative Assets	8.6%	7.0%
Total Equity	**64.3%**	**72.3%**
Real Estate	7.6%	7.0%
TIPS & Mortgage Backed	5.9%	6.7%
High Yield	7.8%	7.0%
Emerging Market Debt	4.1%	0.0%
International	0.0%	7.0%
Global	10.3%	0.0%
Total Fixed	**28.1%**	**20.7%**
Total Assets	**100.0%**	**100.0%**
Expected Return w/o Alpha	8.8%	8.8%
Standard Deviation	11.7%	12.4%

In January 2002, the Retirement Board set a goal to seek top quartile returns, combined with acceptable and reasonable risk, compared to similar funds. While Investment risk is unavoidable, we continue to attempt to identify and manage these risks, to keep them within acceptable limits. We have a well-diversified portfolio and this diversification is advantageous in the long term, provided that we do an adequate job of selecting strategies and managers. SDCERA has historically utilized several active alpha strategies in an ongoing attempt to produce acceptable combinations of return and volatility. This strategy continues today with the use of managed futures, transportable alpha, alternative assets (i.e. venture capital, buyouts, etc.) and currency overlay. These strategies have, over time, been positive contributors to returns and have in some cases actually decreased volatility of returns.

Current targeted returns are necessary in order to continue to provide the current combination of benefits and contributions. Meeting or exceeding those targets is the ultimate measure of the success of your current portfolio.

Sincerely,

Jerry Woodham
Chief Investment Officer
October 16, 2003

OVERVIEW OF SDCERA'S INVESTMENT POLICIES

SDCERA's investment program is managed in accordance with the California Government Code, Section 31450, et.seq. (County Employees Retirement Law of 1937), which provides that:

The Board, its officers and employees shall discharge their duties with respect to the system:

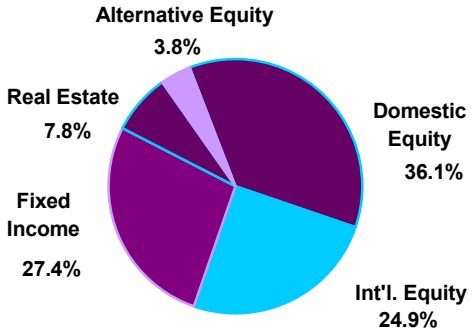
(a) Solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system.

(b) With the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

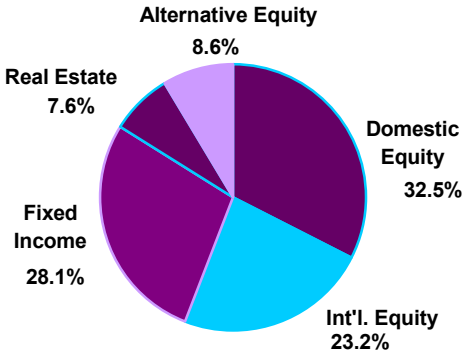
(c) Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

The Board has adopted an investment policy statement and related policies to ensure that the plan is managed to the prudent person standard. These policies set investment return and risk objectives (both at the manager and plan level) and provide for extensive diversification of assets, securities lending, commission recapture, value added strategies, proxy voting and corporate governance issues. Proxy voting issues are delegated to the investment managers to comply with Board policy.

ASSET ALLOCATION



TARGET ASSET ALLOCATION



Asset Type		Fair Value (1)	Percent of Total	Target Percent of Total
Domestic Equity	$	1,482,185	36.1%	32.5%
International Equity		1,023,499	24.9%	23.2%
Fixed Income		1,126,788	27.4%	28.1%
Real Estate		319,271	7.8%	7.6%
Alternative Equity		154,575	3.8%	8.6%
Other Assets and Liabilities		(2,970)	0.0%	0.0%
Total	$	**4,103,348**	**100.0%**	**100.0%**

(1) Each asset type includes accrued interest and dividends.

PERFORMANCE RESULTS
FOR THE YEARS ENDED JUNE 30

	1-Year Return	3-Year Return	5-Year Return	10-Year Return	Index	1-Year Return	3-Year Return	5-Year Return	10-Year Return
Total Fund	**3.72%**	**-3.14%**	**3.37%**	**8.39%**	Custom Benchmark (1)	4.11%	-4.21%	2.01%	7.64%
					Master Trust Median	3.88%	-2.33%	2.98%	8.92%
					Public Fund Sponsors Median	3.94%	-2.38%	2.55%	8.30%
					Actuarial Rate of Return	8.25%	8.25%	8.25%	8.25%
Domestic Equity	-1.44%	-8.22%	0.50%	10.18%	Custom Benchmark (2)	1.58%	-8.92%	-1.17%	9.00%
					Managed Equities Portfolios Median	-0.20%	-8.10%	0.77%	10.70%
					S&P 500	0.25%	-11.20%	-1.61%	10.04%
International Equity	-1.82%	-10.98%	-2.27%	N/A	Custom Benchmark (3)	-0.61%	-10.08%	-1.46%	3.10%
					Managed International Equities Portfolios Median	-4.39%	-10.97%	0.27%	6.08%
					Salomon World PMI ex U.S.	-4.70%	-12.62%	-3.04%	4.16%
Fixed Income	12.69%	7.32%	9.49%	9.78%	Custom Benchmark (4)	17.87%	8.99%	8.23%	8.79%
					Managed Fixed Income Portfolios Median	11.09%	10.09%	7.46%	7.48%
					Managed International Fixed Income Portfolios Median	17.23%	9.53%	7.00%	N/A
					Lehman Aggregate	10.40%	10.09%	7.54%	7.21%
Real Estate	10.49%	13.66%	10.96%	N/A	NCREIF Property Index (5)	7.13%	8.56%	10.24%	9.39%
					Real Estate Portfolios Median	6.16%	7.91%	9.24%	8.90%
Alternative Equity	-9.07%	-7.36%	-0.57%	N/A	Custom Benchmark (6)	-11.68%	-9.29%	13.21%	N/A

NOTES:

1. 27.6% Russell 1000 Index; 6.8% Russell 2000 Index; 3.3% First Boston Convertible; 14.4% Salomon World PMI ex U.S.; 3.6% Salomon EMI ex U.S.; 5.2% Baring Emerging Mkts; 7.8% Lehman Aggregate; 9.8% Salomon Non-US WGBI Unhedged; 7.8% Salomon Cash Pay High Yield; 2.7% Barclays US Inflation Linked; 3.4% Alternative Equity; 7.6% NCRIEF Property Index.

2. 73.2% Russell 1000 Index; 18.0% Russell 2000 Index; 8.8% First Boston Convertible.

3. 62.1% Salomon World PMI ex U.S.; 15.5% Salomon Extended Market Index; 22.4% Salomon EMI ex U.S.

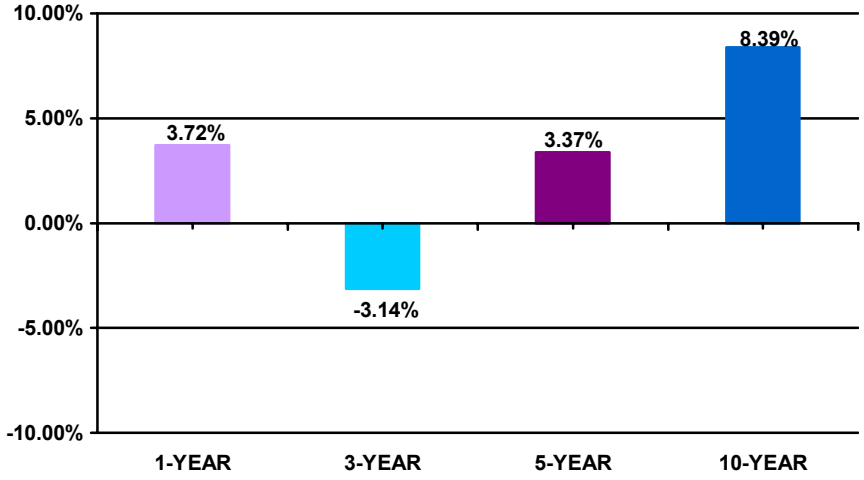
4. 27.8% Lehman Aggregate; 34.9% Salomon non-US Government GBI; 27.7% Salomon Cash Pay High Yield Index; 9.6% Barclays US Inflation Linked.

5. National Council of Real Estate Investment Fiduciaries, index and private real estate on a quarter lag.

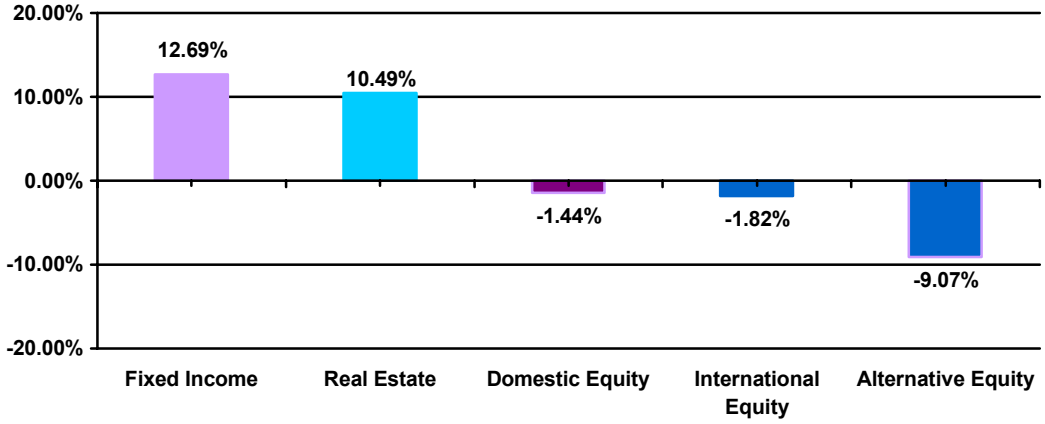
6. Cambridge Associates' total assets portfolio benchmark based on a pooled return of funds, on a quarter lag.

Return calculations reflect a time-weighted, market rate of return in accordance with the Association for Investment Management and Research's performance presentation standards.

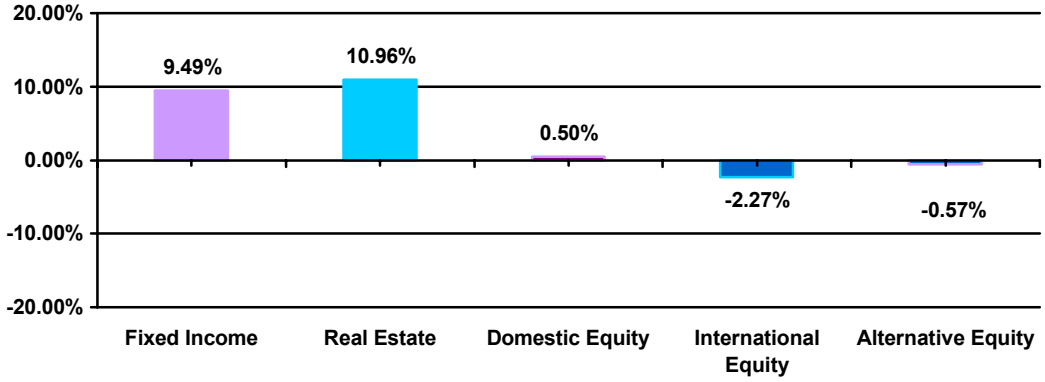
PERFORMANCE RESULTS – TOTAL FUND CATEGORY ANNUALIZED, NET OF FEES FOR THE YEAR ENDED JUNE 30, 2003



PERFORMANCE RESULTS BY INVESTMENT CATEGORY 1-YEAR RETURN, ANNUALIZED, NET OF FEES FOR THE YEAR ENDED JUNE 30, 2003



PERFORMANCE RESULTS BY INVESTMENT CATEGORY 5-YEAR RETURN, ANNUALIZED, NET OF FEES FOR THE YEAR ENDED JUNE 30, 2003



TOP 10 HOLDINGS – EQUITY
AS OF JUNE 30, 2003

Shares	Security Name	Market Value
393,996	Exxon Mobil Corp.	$ 14,148,396
495,816	GlaxoSmithKline PLC	10,006,320
207,662	Royal Dutch Petroleum	9,640,172
198,000	Canon Inc	9,087,713
58,663	Total SA	8,866,488
223,500	Simon Property Group Inc	8,723,205
39,932	Nestle SA	8,241,762
299,000	Prologis	8,162,700
199,485	Novartis AG	7,895,729
86,200	Procter & Gamble Co	7,687,316

TOP 10 HOLDINGS – FIXED INCOME
AS OF JUNE 30, 2003

Par/Book Value	Description	Market Value
20,990,435	U.S. Treasury Inflation Index Notes, 04/15/28	$ 25,630,417
17,980,057	U.S. Treasury Inflation Index Notes, 01/15/10	18,000,797
15,435,993	U.S. Treasury Inflation Index Notes, 04/15/29	17,419,567
15,942,058	U.S. Treasury Inflation Index Notes, 01/15/09	16,366,891
15,896,200	New Zealand Government, 11/15/06	16,147,883
14,684,175	Deutschland Republic, 01/05/06	14,553,409
12,229,500	Canadian Government, 09/01/07	12,353,198
11,990,109	Mexican Fixed Rate, 12/20/12	11,957,738
11,304,976	Deutschland Republic, 01/04/11	11,498,645
10,550,061	Republic of Italy, 01/23/06	10,925,409

COMMISSIONS PAID – DOMESTIC
FOR THE YEAR ENDED JUNE 30, 2003

No.	Brokerage Firm	Number of Shares Traded	Total Commissions	Cost of Commission per Share	% of Total Commissions
1	Lynch, Jones & Ryan Inc.	4,608,409	$ 206,334	$ 0.0448	10.00%
2	Jefferies & Company, Inc.	2,595,547	124,457	0.0480	6.00%
3	Instinet Corporation	2,497,000	115,977	0.0464	6.00%
4	Morgan Stanley & Co.	14,654,142	110,711	0.0076	5.00%
5	Standard & Poor's Inc.	2,137,958	106,844	0.0500	5.00%
6	Bear Stearns & Co.	6,610,646	106,047	0.0160	5.00%
7	Wachovia Securities LLC	2,296,401	93,806	0.0408	4.00%
8	Bank of America Securities LLC	7,271,785	93,429	0.0128	4.00%
9	Goldman Sachs and Co.	8,001,637	91,039	0.0114	4.00%
10	Credit Suisse First Boston	7,076,463	66,849	0.0094	3.00%
11	Lehman Brothers Inc.	3,000,215	66,492	0.0222	3.00%
12	Citigroup Global Markets Inc.	5,576,801	64,432	0.0116	3.00%
13	Other*	36,328,116	898,900	0.0247	42.00%
	Total	**102,655,120**	**$ 2,145,317**	**$ 0.0209**	**100.00%**

SDCERA has commission recapture arrangements with Frank Russell Securities, Lynch, Jones & Ryan, Capital Institutional Services (CIS), Abel Noser, Donaldson Co., Merrill Lynch, and Jefferies & Co.

*Includes approximately 140 additional firms, each with less than 2.3% of total commissions.

COMMISSIONS PAID – INTERNATIONAL
FOR THE YEAR ENDED JUNE 30, 2003

No.	Brokerage Firm	Number of Shares Traded	Total Commissions	Cost of Commission per Share	% of Total Commissions
1	Lehman Brothers Inc.	14,026,339	$ 159,767	$ 0.0114	20.00%
2	Merrill Lynch and Co., Inc.	13,392,455	101,670	0.0076	13.00%
3	Morgan Stanley & Co., Inc.	7,510,333	66,252	0.0088	9.00%
4	Credit Suisse First Boston	5,754,742	43,405	0.0075	6.00%
5	UBS Warburg	9,797,763	43,223	0.0044	6.00%
6	JPMorgan Chase Bank	2,827,304	31,989	0.0113	4.00%
7	Citigroup Global Markets Inc.	1,474,110	31,940	0.0217	4.00%
8	Goldman Sachs and Co.	2,869,044	30,858	0.0108	4.00%
9	Deutsche Banc Securities Inc.	2,781,514	25,445	0.0091	3.00%
10	ABN Amro Securities LLC	1,763,748	17,371	0.0098	2.00%
11	Other**	43,195,144	227,422	0.0053	29.00%
	Total	**105,392,496**	**$ 779,343**	**$ 0.0074**	**100.00%**

** Includes 114 additional firms, each with less than 2.0% of total commissions.

SUMMARY OF INVESTMENT PORTFOLIO BY TYPE
AS OF JUNE 30, 2003

Investment Description	Fair Market Value	% of Total Market Value
Domestic Equity		
Materials and Services	$ 159,155,428	3.9%
Financial	147,659,541	3.6%
Consumer Non-Durable	142,420,449	3.5%
Technology	128,620,914	3.1%
Energy	50,095,623	1.2%
Capital Goods and Services	42,176,966	1.0%
Utilities	33,030,262	0.8%
Consumer Durable	25,514,115	0.6%
Transportation	22,763,809	0.6%
Miscellaneous Common Stocks	11,336,186	0.3%
Convertible Securities	23,353,417	0.6%
Equitized Pool Cash (S&P 500 Futures)	93,486,659	2.3%
Manager's Equitized Cash (S&P 500 Futures)	9,818,903	0.2%
Equity Enhanced Passive (S&P 500 Swaps)	520,957,486	12.7%
Total Domestic Equity	**1,410,389,758**	**34.4%**
International:		
International Equity	975,909,709	23.8%
Eafetized Cash (EAFE Futures)	41,410,318	1.0%
Total International Equity	**1,017,320,027**	**24.8%**
Total Equity	**2,427,709,785**	**59.2%**
Fixed Income		
International Bonds	595,927,229	14.5%
Corporate Bonds	308,583,363	7.5%
Government Bonds	204,047,898	5.0%
Convertible Bonds	56,012,184	1.4%
Fixed Income Futures	11,644,590	0.3%
Total Fixed Income	**1,176,215,264**	**28.7%**
Other Investments		
Real Estate	316,772,130	7.7%
Alternative Equity	154,575,147	3.8%
Cash & Cash Equivalents with Fiscal Agents	87,952,309	2.1%
Other Assets and Liabilities	(59,876,514)	-1.5%
Total Other	**499,423,072**	**12.2%**
Net Investment Portfolio	**$ 4,103,348,121**	**100.0%**

SUMMARY OF INVESTMENT PORTFOLIO BY MANAGER/ASSET TYPE
AS OF JUNE 30, 2003

Securities Description	Asset Type	Market Value
Domestic Equity		
S&P 500 Enhanced	S&P 500 Index	520,957,486
Duncan Hurst Capital Management	Growth-Large/Mid Cap	167,309,613
Denali Asset Management	Value-Large Cap	162,508,453
Dimensional Fund Advisor	Value-Small Cap	156,802,247
Equitized Cash (Liquidity & Manager's)	S&P 500 Index	103,305,561
Delta Asset Management	Neutral Large Cap	85,138,762
Numeric Investors	Long/Short/Equitized S&P	68,541,889
Nicholas Applegate Emerging Growth	Growth-Small Cap	61,313,230
Westridge Capital Management, Inc.	Neutral Large Cap	37,465,012
Nicholas Applegate Convertible Bond	Convertible Preferred	35,839,661
Zazove Associates	Convertible Preferred	6,854,203
W. R. Huff	Convertible Preferred	2,403,729
OCM High Yield Convertible	Convertible Preferred	1,731,375
Oaktree Capital Management LLC	Convertible Preferred	218,537
Total Domestic Equity		**1,410,389,758**
International Equity		
Fidelity Management Trust Company	EAFE	208,999,501
Delaware International Advisor	EAFE Value	175,876,874
Artisan Partners	EAFE Growth	173,260,191
Capital Guardian Trust Company	Small Cap	145,469,239
Genesis	Emerging Markets	130,658,360
Capital Guardian Emerging Market	Emerging Markets	127,174,138
EAFEtized Cash	EAFE Local Index	41,410,318
Quantitative Financial Strategies	Currency Overlay	14,136,122
FX Concepts, Inc.	Currency Overlay	1,213,874
FX Concepts, Inc.	Currency Forwards	(878,590)
Total International Equity		**1,017,320,027**
Total Equity		**2,427,709,785**
Fixed Income		
Pacific Investment Management Company	Fixed Income	243,626,088
Colchester Global	International Fixed Income	178,044,775
Ashmore Emerging Markets	Emerging Markets Debt	148,102,284
Pacific Investment Management Company	Inflation Protection	138,911,141
W.R.Huff Asset Management Company	High Yield	100,694,613
TCW Asset Management Company	Mortgage Backed	99,738,851
Oaktree Capital Management LLC	High Yield	94,094,204
Nicholas Applegate Convertible Bond	Convertible	76,295,878
Managed Futures	Managed Futures	49,392,348
Zazove Associates	High Yield	16,842,721
OCM High Yield Convertible	High Yield	16,019,826
Fixed Income Futures	Fixed Income	11,644,590
Westridge Capital Management, Inc.	Fixed Income	2,696,490
Rothschild International Asset Management	International Fixed Income	75,911
Rogge Global Partners, Inc.	International Fixed Income	35,544
Total Fixed Income		**1,176,215,264**
Real Estate, Alternative Equity and Other		
Real Estate	Real Estate	316,772,130
Alternative Equity	Alternative Equity	154,575,147
Cash	Cash	87,952,309
Other Assets and Liabilities	Other	(59,876,514)
Net Investment Portfolio		**$ 4,103,348,121**

SCHEDULE OF SWAPS, FUTURES, BONDIZED, EAFETIZED AND EQUITIZED CASH AS OF JUNE 30, 2003

Description	NOTIONAL/ BOOK VALUE	MARKET VALUE
In Domestic Equity Swaps:		
S&P 500 SWAP 9/19/03	$ 79,317,102	$ 77,533,711
S&P 500 SWAP 6/18/04	14,599,261	14,187,539
S&P 500 SWAP 3/19/04	42,074,875	41,131,178
S&P 500 SWAP 6/18/04	62,857,593	61,084,909
S&P 500 SWAP 9/21/03	27,150,599	26,540,136
S&P 500 SWAP 12/19/03	27,424,600	26,808,047
S&P 500 SWAP 12/19/03	63,093,265	61,674,818
S&P 500 SWAP 3/29/04	60,118,033	68,210,991
S&P 500 SWAP 4/30/04	40,046,444	42,852,905
S&P 500 SWAP 3/19/04	38,337,881	37,478,001
S&P 500 SWAP 7/18/03	17,709,867	19,407,582
S&P 500 SWAP 11/28/03	42,728,355	44,047,668
Subtotal	**515,457,875**	**520,957,485**
Alpha Engine Managers		
Lotsoff Capital Management	106,589,804	107,546,236
Alpha STMM/STIF Cash	19,636,216	19,636,216
Bridgewater	105,803,507	106,779,096
Freeman Assoc.	100,808,920	107,625,225
Salus Capital Mgmt.	105,002,466	106,688,488
Zazove Associates	107,510,505	108,739,646
Total Alpha Engine Managers	**545,351,418**	**557,014,907**
Less: Notional Value of Swap Investments		515,457,875
Excess Collateralization		**$ 41,557,032**

Description		CASH	MARKET VALUE
In Futures:			
Domestic Equity Managers Equitized Cash		$ 10,246,638	$ 10,232,250
Eafe Futures		41,377,118	41,303,814
Equitized Liquidity		94,163,277	94,282,875
Fixed Income Futures (Bondized)		17,662,068	11,678,219
Total Futures		**163,449,101**	**157,497,158**
Less: Total Cash		251,401,410	
Excess Collateralization		87,952,309	
RECAP OF CASH:			
Cash in STMM with Bank of New York:			
Domestic Equity Managers	9,658,139		
Eafe Futures	37,744,517		
Equitized Cash	73,798,810		
Fixed Inc. Mgrs & RE Cash	87,942,209		
Fixed Income Futures (Bondized)	17,569,918		
Subtotal - Cash with the Bank of New York		**226,713,593**	
Cash in San Diego County Pool		13,634,058	
Cash on hand		100	
Cash at UBOC		1,201,408	
Margin Cash-Lehman		9,852,251	
Total Cash		**251,401,410**	
UNEQUITIZED CASH:			
Cash in Commercial Checking - Bank of New York		10,000	
Petty Cash		100	
Fixed Income Managers & REIT		87,942,209	
Excess Cash			**$ 87,952,309**

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ACTUARIAL SECTION

San Diego County Employees Retirement Association
401 West A Street, Suite 1300 ● San Diego, CA 92101-7906
619-515-0130 ● www.sdcera.org

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries
9171 Towne Centre Drive • Suite 440 • San Diego, California 92122 • 858-535-1300 • FAX 858-535-1415

October 7, 2003

Members of the Retirement Board
San Diego County Employees' Retirement Association

Members of the Board:

The fundamental financial objective of the San Diego County Employees' Retirement Association is to establish contribution rates which, expressed as percents of active member payroll, will remain approximately level from generation to generation of County taxpayers.

To test how well the fundamental objective is being achieved, annual actuarial valuations are made. These valuations adjust employer contributions, up or down as the case may be, for differences in the past year between assumed financial experiences and actual financial experiences. In addition, these valuations determine the reserve strength of the Association.

Using data as of June 30, 2002, an actuarial valuation was performed. A special interim valuation as of October 3, 2002 was performed to reflect issuance of a new Pension Obligation Bond. Summary information about the contribution rates and funded ratios are shown in this Annual Report. We relied on unaudited data given to us by the County. However, we performed a test as to reasonableness which preceded the commencement of our valuation work. For example, we compiled and analyzed a list of relevant summary data that incorporated average attained ages, average salaries, average benefit payout, and average service length for relevant subgroups of County participants for the June 30, 2002 valuation. We sent a letter summarizing such data to the County for their review and comment prior to commencement of our valuation work.

Assumptions concerning future experience are needed for computing employer contribution rates. Periodically, assumed and actual experience is compared. Periodically, one or more of the assumptions about the future are changed by the Retirement Board after consulting with the actuary. In the 2003 valuation, significant benefit enhancements were reflected. An assumption change regarding anticipated earlier retirement incidence was made.

All assumptions and methods for funding purposes are in accordance with GASB Statement #25.

The current funded ratio declined from 106.8% to 75.4% as of June 30, 2002 and increased to 82.5% as of the interim October 2002 valuation.

The required supplemental information presented in the Financial Section of this CAFR is as reported in the June 30, 2002 valuation. In addition, all schedules shown in the Actuarial Section of this CAFR are as reported in the special interim valuation as of October 3, 2003. A listing of these schedules is provided in the Table of Contents.

On the basis of the 2002 valuation, it is our opinion that the Association is in reasonably sound condition in accordance with actuarial principles of level cost financing.

Respectfully submitted,

Rick Roeder

Rick A. Roeder, EA, FSA, MAAA

SHORT-TERM SOLVENCY TEST
(THOUSANDS OF DOLLARS)

				Portion of Accrued Liability Covered by Valuation Assets			
Valuation Date	Active Member Contributions (1)	Liability for Retired Participants	Liability for Active Members (Employer Financed Portion)	Valuation Assets	Active Member Contributions	Liability for Retired Participants	Liability for Active Members (Employer Financed Portion)
06/30/94	$ 190,351	$ 921,331	$ 895,007	$ 1,947,310	100%	100%	97.0%
06/30/95	195,588	983,481	974,537	2,172,890	100%	100%	100.0%
06/30/96	190,164	1,023,047	1,127,452	2,370,519	100%	100%	100.0%
06/30/97	193,072	1,093,600	1,201,245	2,688,098	100%	100%	100.0%
06/30/98	198,968	1,193,667	1,284,958	2,834,571	100%	100%	100.0%
06/30/99	201,234	1,313,729	1,345,249	3,211,872	100%	100%	100.0%
06/30/00	202,531	1,463,827	1,582,464	3,568,671	100%	100%	100.0%
06/30/01	214,146	1,549,361	1,743,321	3,745,600	100%	100%	100.0%
06/30/02 **(2)**	204,572	2,046,485	2,827,010	3,831,334	100%	100%	75.4%

Note 1 Beginning in 1998, vested deferred members are included in Active Member Contributions.

Note 2 2002 liabilities reflect enhanced benefits approved by the County Board of Supervisors in March 2002, experience losses, projected earlier retirement trends and increased transfers to reserves not included as valuation assets ($117.2 million for health benefits and STAR COLA).

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, June 30, 2002

HISTORY OF EMPLOYER CONTRIBUTION RATES

Year Ended	General Members Normal %	General Members UAAL %	General Members Total %	Probation Members (Note 1) Normal %	Probation Members (Note 1) UAAL %	Probation Members (Note 1) Total %	Safety Members Normal %	Safety Members UAAL %	Safety Members Total %
06/30/94	3.88	2.34	6.22				10.83	1.50	12.33
06/30/95	3.89	(0.98)	2.91				11.57	(0.33)	11.24
06/30/96	4.18	(0.70)	3.48				10.91	(3.07)	7.84
06/30/97	5.70	(6.30)	(0.60)				12.21	(9.93)	2.28
06/30/98	6.17	(4.58)	1.59	10.46	(4.58)	5.88	12.45	(8.50)	3.95
06/30/99	5.81	(7.17)	(1.36)				11.72	(6.04)	5.68
06/30/00	5.90	(9.72)	(3.82)				11.82	(8.86)	2.96
06/30/01	5.96	(6.99)	(1.03)				11.90	(5.03)	6.87
06/30/02 **(2)**	10.77	18.21	28.98				19.61	23.36	42.97

Note 1 Probation members changed to separate status in fiscal year 1998. Probation members are included with Safety members beginning in 1999.

Note 2 Increased contribution requirements reflect enhanced benefits approved by the County Board of Supervisors in March 2002, experience losses, expected projected earlier retirement trends and increased transfers to reserves not included as valuation assets ($117.2 million for health benefits and STAR COLA).

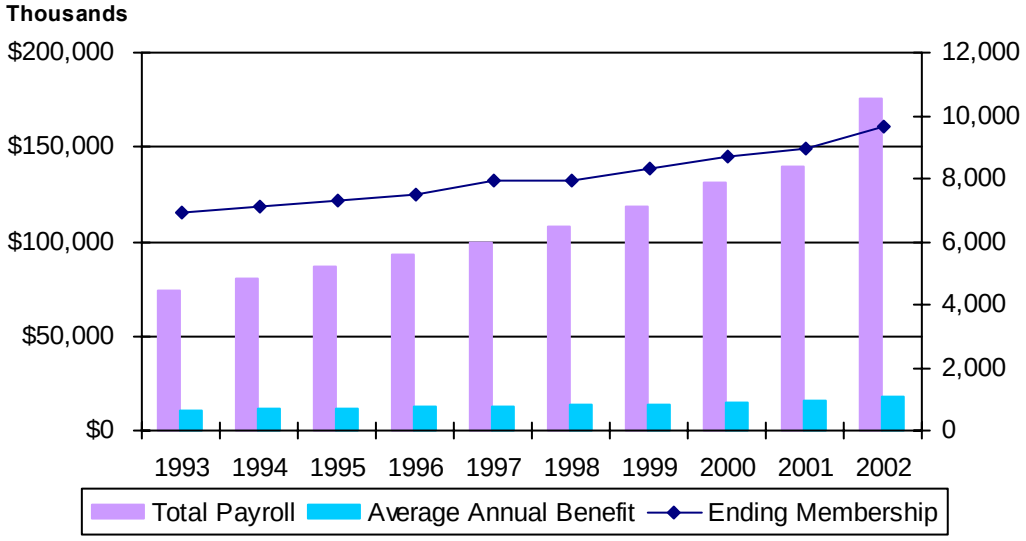
UAAL = Amortization of Unfunded Actuarial Accrued Liability

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, June 30, 2002

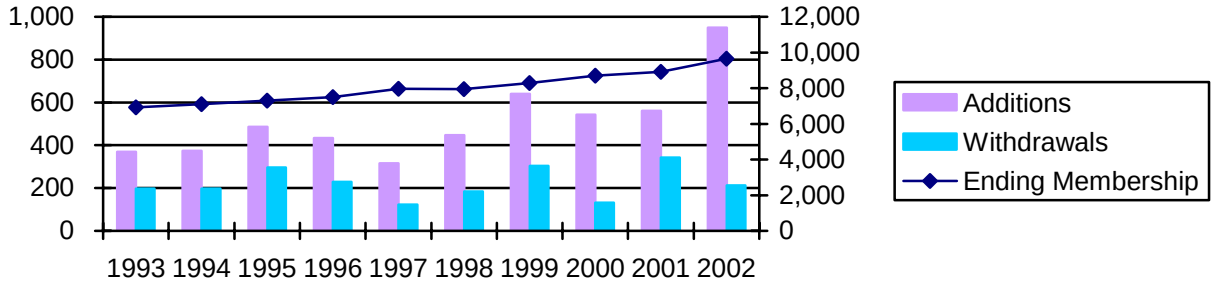
DEMOGRAPHIC ACTIVITY OF RETIREES AND BENEFICIARIES FOR THE YEARS ENDED JUNE 30

Fiscal Year	Beginning Membership	Added	Withdrew	Ending Membership	Total Retiree Payroll	% Change in Payroll	Average Annual Benefit	% Change in Average Benefit
1993	6,759	369	197	6,931	$ 74,286,817	8.1%	$ 10,718	5.4%
1994	6,931	373	198	7,106	80,270,720	8.1%	11,296	5.4%
1995	7,106	486	298	7,294	86,660,001	8.0%	11,881	5.2%
1996	7,294	434	229	7,499	93,627,577	8.0%	12,485	5.1%
1997	7,499	316	123	7,692	99,998,279	6.8%	13,000	4.1%
1998	7,692	447	184	7,955	107,752,376	7.8%	13,545	4.2%
1999	7,955	640	303	8,292	118,154,737	9.7%	14,249	5.2%
2000	8,292	543	132	8,703	131,163,025	11.0%	15,071	5.8%
2001	8,703	560	342	8,921	139,677,744	6.5%	15,657	3.9%
2002	8,921	949	213	9,657	175,767,933	25.8%	18,201	16.2%

RETIREMENT PAYROLL AND AVERAGE ANNUAL PENSION BENEFIT

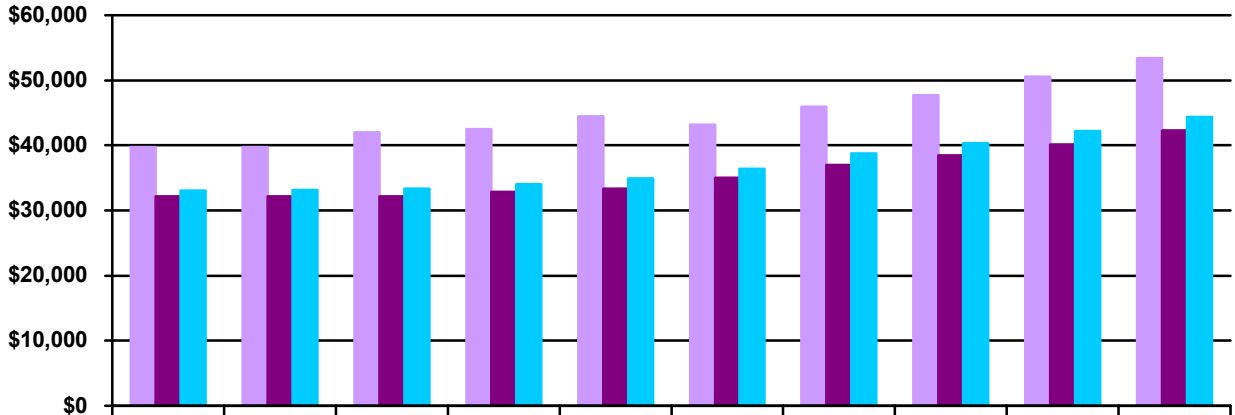


MEMBERSHIP ACTIVITY



Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, June 30, 2002

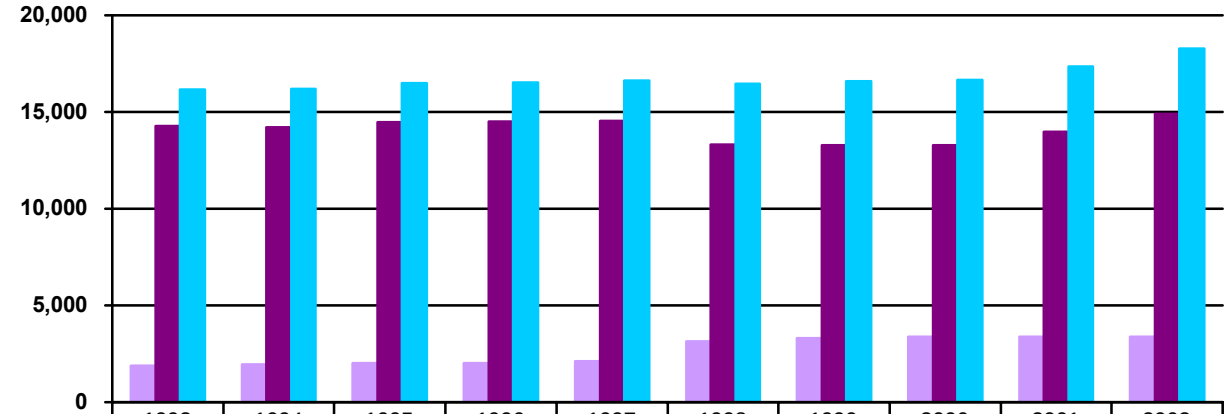
ACTIVE MEMBERSHIP HISTORY
AVERAGE ANNUAL SALARIES BY MEMBER TYPE
FOR THE YEARS ENDED JUNE 30



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Safety	$39,758	$39,760	$41,990	$42,469	$44,476	$43,144	$45,981	$47,660	$50,593	$53,384
General	$32,117	$32,210	$32,180	$32,814	$33,375	$35,039	$36,968	$38,480	$40,109	$42,303
Total	$33,003	$33,126	$33,378	$33,992	$34,954	$36,432	$38,771	$40,343	$42,150	$44,342

Note: Probation members changed to separate status in 1998 and were included in the Safety category beginning in 1999. The graph combines Safety and Probation members beginning in 1998 to facilitate trend analysis.

ACTIVE MEMBERSHIP HISTORY
GROWTH IN ACTIVE MEMBERSHIP
FOR THE YEARS ENDED JUNE 30



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Safety	1,873	1,964	2,015	2,017	2,107	3,132	3,316	3,382	3,376	3,362
General	14,281	14,216	14,485	14,507	14,528	13,309	13,263	13,287	13,970	14,914
Total	16,154	16,180	16,500	16,524	16,635	16,441	16,579	16,669	17,346	18,276

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, June 30, 2002

DEVELOPMENT OF FUNDING VALUE OF ASSETS FOR THE YEARS ENDED JUNE 30 (THOUSANDS OF DOLLARS)

		Plan Year Ended			
	Funding Value Details	**6/30/99[1]**	**6/30/00**	**6/30/01**	**6/30/02**
A	Funding Value, beg. of year	$ 2,834,571	$ 3,211,872	$ 3,568,671	$ 3,745,600
B	Gross Market Value, end of year	3,834,322	4,362,148	3,963,184	3,569,748
C	Gross Market Value, beg. of year	3,539,641	3,834,322	4,362,148	3,963,184
D	Non-investment Cash Flow	(76,466)	(85,172)	(91,990)	(95,505)
D1	Employer Contributions	-	38,167	41,123	50,581
E	Investment Income				
E1	Market total = **B - C - D**	371,147	612,998	(306,974)	(297,931)
E2	8.25% Recognition[2]	230,698	263,040	292,317	307,159
E3	Phase-in Recognition = **E1 - E2**	140,449	349,958	(599,291)	(605,090)
F	Phase-in Recognition				
F1	Current Year = **E3 x 20%**	28,090	69,992	(119,858)	(121,018)
F2	First Prior Year	50,828	28,090	69,992	(119,858)
F3	Second Prior Year	50,688	50,828	28,090	69,992
F4	Third Prior Year	57,150	50,688	50,828	28,090
F5	Fourth Prior Year	23,851	57,150	50,688	50,828
F6	Total Recognized Gain	210,607	256,748	79,740	(91,966)
G	Preliminary Funding Value End of Year = **A + D + E2 + F6**	3,199,410	3,646,488	3,848,738	3,865,288
H	Excludable Reserves				
H1	End of Year	199,080	276,897	380,035	413,988
H2	Beginning of Year	216,783	199,080	276,897	380,035
H3	Change = **H1 - H2**	(17,703)	77,817	103,138	33,953
I	**Final Funding Value = G - H3**	**$ 3,211,872**	**3,568,671**	**3,745,600**	**3,831,335**

[1] Reflects historical reconciliation adjustment of $5.2 million.

[2] The formula for recognition of the 8.25% assumed annual investment rate of return is based on level employer contributions and non-investment cash flow throughout the year. The recognition formula is (A+D1)*.0825 + (D-D1)*.04125.

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, June 30, 2002

ACTUARIAL COST METHODS

Normal cost and the allocation of benefit values between service rendered before and after the valuation date were determined using an individual entry-age actuarial cost method having the following characteristics:

1. The annual normal costs for each active member, payable from the date of entry into the system to the date of retirement, are sufficient to accumulate the value of the member's benefit at the time of retirement;

2. Each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

Financing of Unfunded Actuarial Accrued Liability. The balance of unfunded actuarial accrued liabilities is funded (or credited, if negative) over 15 years on an open basis, as a level percent of pay. The remaining unfunded accrued liabilities due to gains or losses are funded in five equal installments as in prior years.

Active member payroll in aggregate was assumed to increase 4.0% a year for the purpose of determining the level percent contributions, although individual annual salary increase rates will increase at least 4.5% per year for the purpose of projecting individual pay.

Deferred Member Actuarial Accrued Liability. Data provided to the actuary included date of hire, date of birth, date of termination and last pay. Service credit, highest average salary and deferred retirement age were estimated based on the data provided. The estimates were used to compute the retirement benefit upon which the liabilities are based.

ACTUARIAL ASSUMPTIONS

The contribution requirements and benefit values of the fund are calculated by applying actuarial assumptions to the benefit provisions and member information furnished using the actuarial cost methods described above.

The principal areas of financial risk that require assumptions about future experience are:

1. Long-term rates of investment return to be generated by the assets of the fund;
2. Patterns of pay increases to members;
3. Rates of mortality among members, retirees and beneficiaries;
4. Rates of withdrawal of active members (without entitlement to a retirement benefit);
5. Rates of disability among members; and
6. Age patterns of actual retirements.

In making a valuation, the monetary effect of each assumption is calculated for as long as a present-covered person survives. That period of time can be as long as a century.

Actual experience of the system will not coincide exactly with assumed experience, regardless of the choice of the assumptions, the skill of the actuary and the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The latest experience study was done in 1999, and resulting assumptions are reflected in the most recent actuarial valuation. The result is a continual series of adjustments (usually small) to the computed contribution rate. From time to time, it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations).

The investment return rate used for the actuarial valuation calculations was 8.25% a year, net of administrative expenses, compounded annually. This assumption, used to equate the value of payments due at different points in time, is adopted by the Retirement Board. The rate is comprised of two elements:

Components of Investment Return Rate	
Inflation	4.00%
Real Rate of Return	4.25%
Total	**8.25%**

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, June 30, 2002.

The inflation rate used for the actuarial valuation calculations was 4.0% per year, compounded annually. It represents the difference between the investment return rate and the assumed real rate of return.

Inflation actually experienced, as measured by the Consumer Price Index for urban wage earners, has been as follows:

Consumer Price Index Urban Wage Earners and Clerical Workers Before 1978
All Urban Consumers After 1977

10-Year Moving Average	
June 30, 1962	1.3%
June 30, 1972	3.3%
June 30, 1982	8.8%
June 30, 1992	3.8%
June 30, 2002	2.5%
50-Year Average	**3.9%**

Interest credited to member contributions is 8.25%, compounded semiannually.

Salary increase rates used to project current pay for those upon which a benefit will be based, were last revised in 1998, to reflect a total projected increase of 4.5%. Rates do not vary by age.

Components of Annual Rate of Salary Increase	
Inflation	4.00%
Merit and Longevity	0.50%
Total	**4.50%**

Additional merit and longevity increases for employees with less than five years of service are also incorporated in the actuarial analysis, as follows:

Years of Service at Valuation Date	Safety	General
0	6.00%	3.00%
1	5.00%	2.50%
2	4.00%	2.00%
3	2.50%	1.50%
4	1.25%	1.00%

HISTORIC SUMMARY OF PAYROLL

Valuation Date	Employees	Total Payroll	% Change	Average Salary	% Change
12/31/85	11,570	$ 280,560,958	--%	$ 24,249	--%
12/31/86	12,199	297,151,940	5.9%	24,359	0.5%
12/31/87	12,819	340,499,064	14.6%	26,562	9.0%
12/31/88	13,612	365,650,795	7.4%	26,862	1.1%
06/30/89	13,962	391,328,886	7.0%	28,028	4.3%
06/30/90	15,309	444,840,888	13.7%	29,057	3.7%
06/30/91	15,986	494,284,829	11.1%	30,920	6.4%
06/30/92	16,021	525,411,229	6.3%	32,795	6.1%
06/30/93	16,154	533,124,485	1.5%	33,003	0.6%
06/30/94	16,180	535,980,753	0.5%	33,126	0.4%
06/30/95	16,500	550,737,347	2.8%	33,378	0.8%
06/30/96	16,524	561,691,535	2.0%	33,992	1.8%
06/30/97	16,635	581,453,449	3.5%	34,954	2.8%
06/30/98	16,441	598,971,557	3.0%	36,432	4.2%
06/30/99	16,579	642,780,304	7.3%	38,771	6.4%
06/30/00	16,669	672,476,730	4.6%	40,343	4.1%
06/30/01	17,346	731,130,021	8.7%	42,150	4.5%
06/30/02	18,276	810,388,635	10.8%	44,342	5.2%

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, June 30, 2002

HISTORIC SUMMARY OF ASSUMPTIONS
YEAR ENDED JUNE 30

Assumption	Year Ended 6/30/02	6/30/01	6/30/00	6/30/99	6/30/98	3-Year Average	5-Year Average
Inflation [1]	2.9%	5.7%	4.7%	3.4%	1.4%	4.4%	3.6%
Assumed [3]						4.0%	4.0%
Average Pay Increase	5.2	4.5	4.1	6.4 [7]	4.2	4.6%	4.9%
Assumed [3]						4.0%	4.0%
Merit and Longevity Pay Increase	2.3	(1.2)	(0.6)	3.0	2.8 [6]	0.2%	1.2%
Assumed						0.5%	0.5%
Total Payroll	10.8	8.7	4.6	7.3 [7]	3.0	8.0%	6.8%
Assumed [3]						4.0%	4.0%
Investment Return Rate [2]	5.8	10.5	16.3	15.8	13.1	10.8%	12.2%
Assumed [4]						8.25%	8.25%
Real Rate of Investment Return	2.9	4.8	11.6	12.4	11.7	6.4%	8.6%
Assumed [5]						4.25%	4.25%
Admin. Expenses (% of Assets)	0.0	0.0	0.0	0.0	0.1	0.0%	0.0%
Assumed						0.0%	0.0%

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, June 30, 2002

[1] Based on Consumer Price Index for San Diego, All Items, 1982-84=100.
[2] Based on actuarial value of assets, not market value or book value.
[3] Effective with June 30, 1997 valuation, this assumption has been reduced from 4.5% to 4.0%.
[4] Effective with June 30, 1997 valuation, this assumption has been increased from 8.0% to 8.25%.
[5] Effective with June 30, 1997 valuation, this assumption has been increased from 3.5% to 4.25%.
[6] Includes certain items, such as pension compensation, that were previously excluded per the "Ventura" decision. This decision is discussed in Management's Discussion and Analysis in the Financial Section of the Comprehensive Annual Financial Report.
[7] Includes 0.3% increase due to inclusion of bonus pay.

Rates of separation from active membership are shown below (rates do not include separation on account of retirement or death). This assumption measures the probabilities of members remaining in employment. Starting with the June 30, 1997 valuation, all employees, eligible to retire, are assumed to not withdraw accumulated member contributions upon separation from service.

It is assumed that 100% of the Safety disabilities and 60% of the General and probation disabilities are duty-related. It is also assumed that 40% of separating active members will continue employment with a reciprocal employer and receive assumed inflation increases during their subsequent employment with a reciprocal employer.

The post-retirement mortality table used was the 1994 Uninsured Pensioner Mortality Table. SDCERA's Board has adopted the mortality table. This assumption is used to measure the probabilities of members dying after retirement and the probabilities of each benefit payment being made after retirement. There is a 3-year age set forward for disabilitants. Related values are shown below.

PERCENT OF ACTIVE MEMBERS SEPARATING WITHIN THE NEXT YEAR

		Disability			Other	
		General and Probation				
Sample Ages	Years of Service	Male	Female	Safety	General	Safety and Probation
All	0				22.75%	11.00%
	1				12.00%	6.00%
	2				9.75%	4.00%
	3				7.75%	4.00%
	4				6.50%	4.00%
20	5 and over	0.02%	0.00%	0.02%	15.00%	9.00%
25		0.02%	0.00%	0.02%	12.50%	9.00%
30		0.03%	0.02%	0.30%	8.50%	6.00%
35		0.07%	0.04%	0.68%	5.75%	2.50%
40		0.17%	0.08%	1.18%	4.25%	1.75%
45		0.31%	0.15%	1.78%	3.50%	1.25%
50		0.48%	0.24%	2.60%	2.50%	1.00%
55		0.70%	0.34%	0.00%	1.75%	1.00%
60		0.46%	0.42%	0.00%	1.75%	1.00%

POST-RETIREMENT MORTALITY RATES

Future Life Expectancy (Years)			% Dying Within Next Year		
	Retirees		Retirees		
Sample Ages	Male	Female	Male	Female	Sample Ages
45	34.68	39.01	0.17%	0.10%	45
50	30.01	34.24	0.28%	0.15%	50
55	25.49	29.53	0.48%	0.25%	55
60	21.20	24.97	0.86%	0.48%	60
65	17.26	20.69	1.56%	0.93%	65
70	13.77	16.77	2.55%	1.48%	70
75	10.66	13.11	4.00%	2.44%	75
80	7.97	9.88	6.67%	4.24%	80

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, June 30, 2002

The active member mortality table used was the 1994 Uninsured Pensioner Mortality Table. This assumption measures the probability of mortality before retirement. The rates include probability of ordinary death, line-of-duty death and death while eligible for retirement or disability.

Sample Ages	% Dying Within Next Year Male	Female
30	0.09%	0.04%
35	0.09%	0.05%
40	0.12%	0.08%
45	0.17%	0.10%
50	0.28%	0.15%
55	0.48%	0.25%
60	0.86%	0.48%
65	1.56%	0.93%

The rates of retirement used to measure the probability of eligible members retiring during the next year are depicted in the table below. These rates are new for the 2002 valuation and reflect accelerated retirement assumptions based on the benefit enhancements approved in March 2002.

Retirement Ages	Safety Members	Probation Members	General Members
48	5.0%	0.0%	0.0%
49	5.0%	0.0%	0.0%
50	20.6%	12.0%	6.0%
51	20.6%	14.0%	3.0%
52	20.6%	16.0%	5.0%
53	20.6%	18.0%	5.0%
54	20.6%	20.0%	6.0%
55	30.3%	20.0%	12.0%
56	30.3%	25.0%	13.0%
57	30.3%	30.0%	15.0%
58	35.3%	35.0%	15.0%
59	35.3%	35.0%	15.0%
60	50.3%	30.0%	15.0%
61	50.3%	30.0%	15.0%
62	50.3%	50.3%	23.0%
63	50.3%	50.3%	15.0%
64	50.3%	50.3%	20.0%
65	100.0%	100.0%	28.0%
66	100.0%	100.0%	28.0%
67	100.0%	100.0%	30.0%
68	100.0%	100.0%	30.0%
69	100.0%	100.0%	40.0%
70	100.0%	100.0%	100.0%

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, June 30, 2002

For deferred vested members, the following retirement assumption applies:

- Non-reciprocals: When initially eligible to retire
- Reciprocals: Later of age 55 or eligibility to retire

In determining eligibility to retire for this purpose, service "tacking" from date of separation of service is assumed.

The rates of employer pick-up vary by employee. Employees with fewer than five years of service have a lesser percentage of their employee contributions “picked up” than employees with five or more years of service.

All or part of the employee contribution rate is subject to potential "pick-up" by the employer. The member rates provided in the census are prior to any applicable pick-up. Such pick-ups and related accumulated interest are not to be refunded to employees at termination. The County's liability for potential refunds is reduced to reflect this. The crediting rate on member accounts is 4.125%, credited semiannually.

Rates provided in the census apply to salary amounts over $350 per month in the case of employees with integrated benefits. Rates applicable to the first $350 per month of salary are not provided. Due to the small portion of salary to which a different rate is applied and the substantial portion of total member contributions subject to employer pick-up, rates provided were assumed, for simplicity, to apply to total salary.

Survivor benefits: Marital status and spouses' census data were imputed with respect to active and deferred members.

Marital status: 80% of men and 50% of women were assumed married at retirement.

Spouse census: Women were assumed to be four years younger than men.

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STATISTICAL SECTION

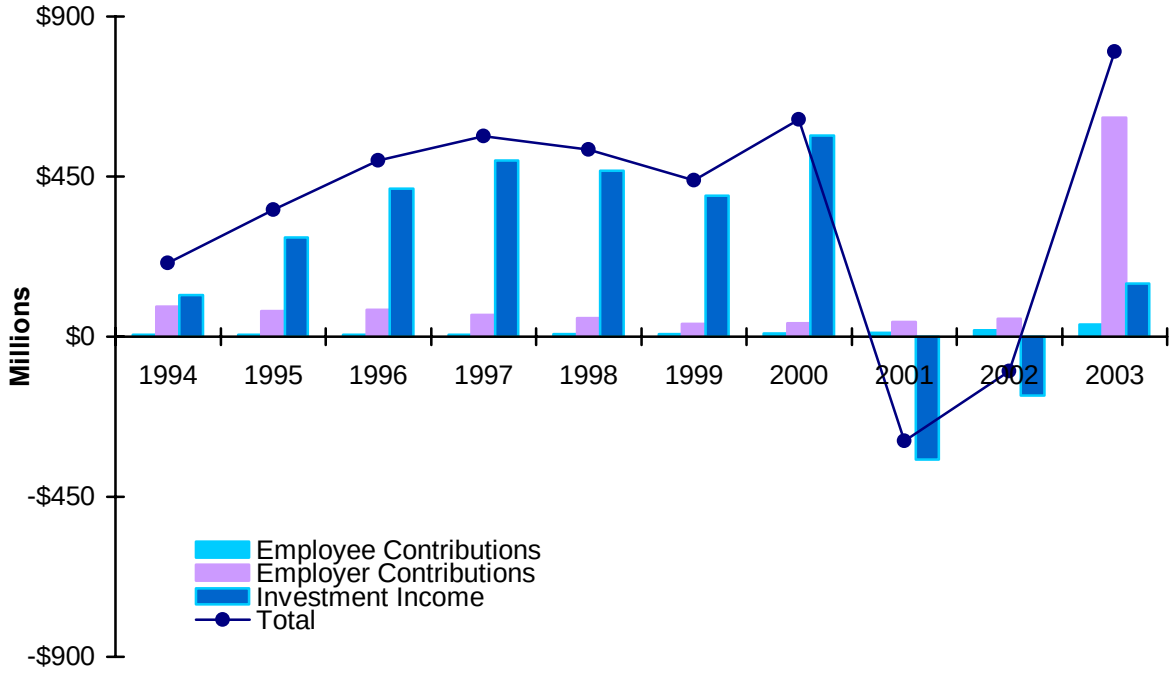
San Diego County Employees Retirement Association
401 West A Street, Suite 1300 ● San Diego, CA 92101-7906
619-515-0130 ● www.sdcera.org

ADDITIONS TO PLAN NET ASSETS BY SOURCE
FOR THE YEARS ENDED JUNE 30
(MILLIONS OF DOLLARS)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Employee Contributions	$ 5.4	$ 5.4	$ 5.3	$ 6.2	$ 6.7	$ 7.4	$ 8.4	$ 10.8	$ 17.3	$ 34.7
Employer Contributions (1)	83.9	71.5	74.8	61.6	51.8	36.4	38.1	41.1	50.6	616.1
Investment Income (2)	116.9	279.0	415.2	495.7	466.9	396.0	564.4	(344.8)	(164.8)	149.9
Total	**$ 206.2**	**$ 355.9**	**$ 495.3**	**$ 563.5**	**$ 525.4**	**$ 439.8**	**$ 610.9**	**$ (292.9)**	**$ (96.9)**	**$ 800.7**

NOTES:
(1) Includes County pick-ups of employee contributions and annual actuarially required contributions. Also, in 2003, the contributions include proceeds from $ 550 million pension obligation bond.
(2) Includes securities lending income

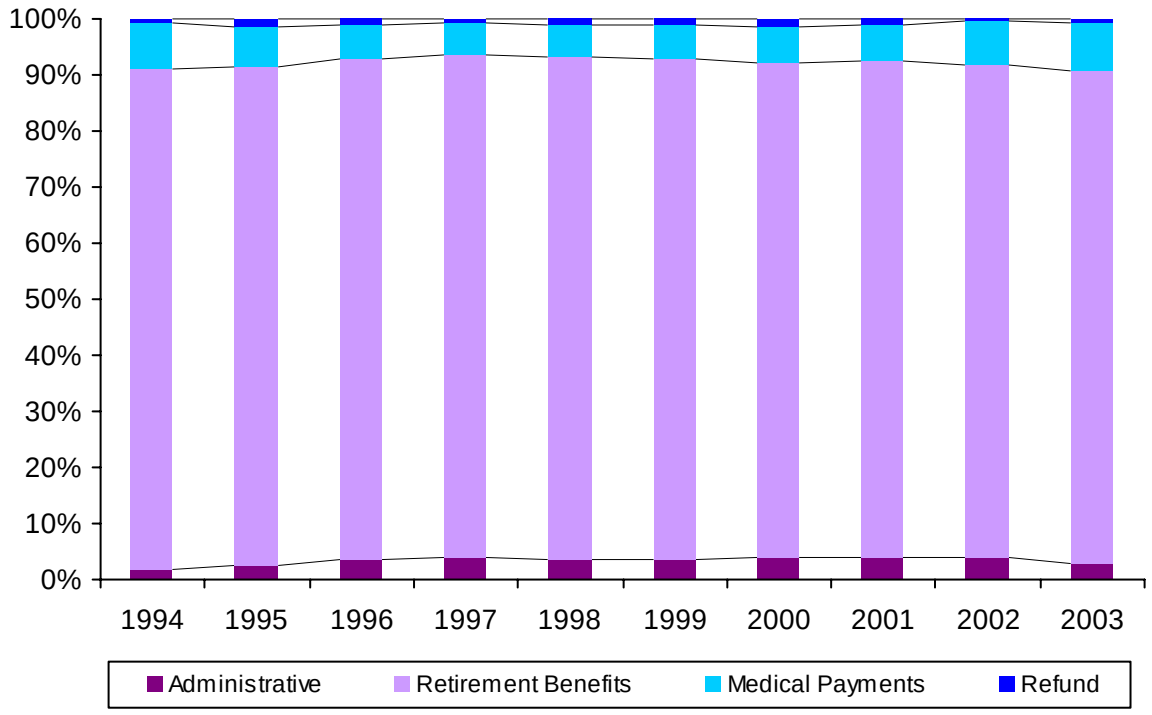
ADDITIONS TO PLAN NET ASSETS BY SOURCE



DEDUCTIONS FROM PLAN NET ASSETS BY TYPE
FOR THE YEARS ENDED JUNE 30
(MILLIONS OF DOLLARS)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Administrative Expenses	$ 1.2	$ 1.8	$ 2.7	$ 3.9	$ 4.5	$ 4.8	$ 5.3	$ 6.4	$ 7.6	$ 7.0
Retirement Benefits	77.5	86.8	90.2	97.0	103.7	121.3	132.8	144.1	163.6	202.5
Health Benefits	8.0	7.9	7.4	6.5	6.6	7.9	9.0	10.8	14.3	19.9
Refunds	1.2	0.7	1.5	1.3	0.9	1.4	1.7	1.6	0.9	1.5
Total	**$ 87.9**	**$ 97.2**	**$ 101.8**	**$ 108.7**	**$ 115.7**	**$ 135.4**	**$ 148.8**	**$ 162.9**	**$ 186.4**	**$ 230.9**

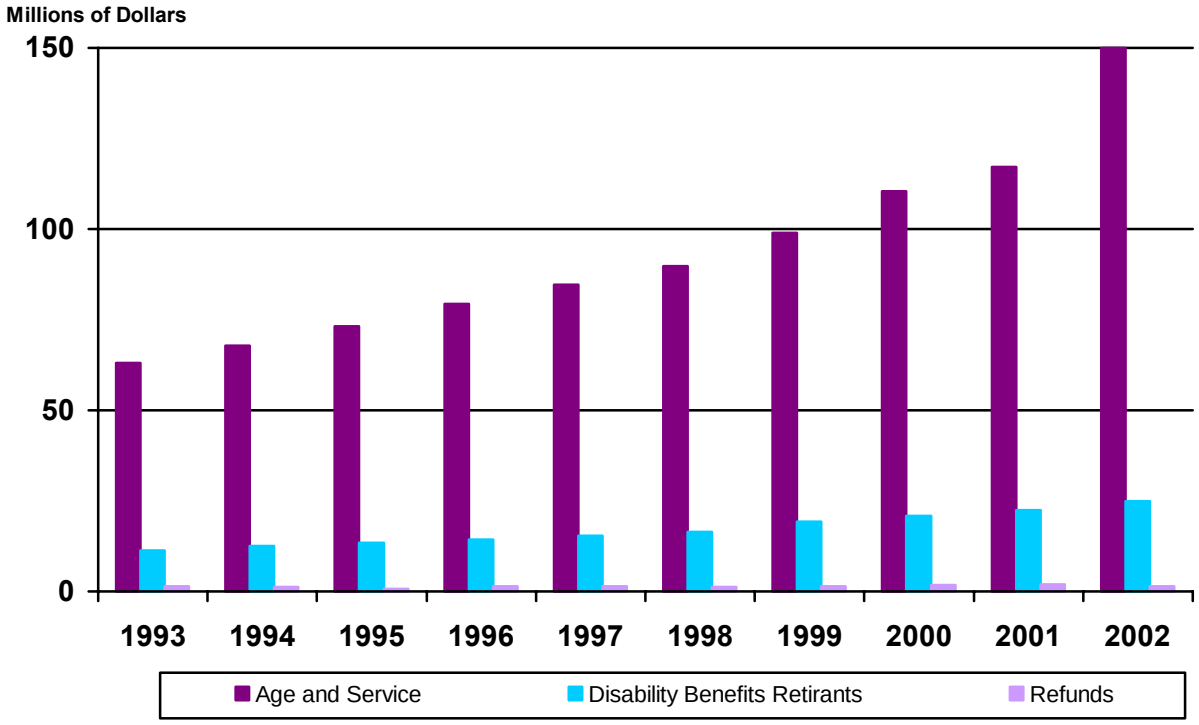
DEDUCTIONS FROM PLAN NET ASSETS BY TYPE



BENEFIT EXPENSES BY TYPE
FOR THE YEARS ENDED JUNE 30
(MILLIONS OF DOLLARS)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Age and Service										
Retirees	$ 59.9	$ 64.8	$ 69.9	$ 74.5	$ 79.2	$ 83.8	$ 91.9	$102.9	$109.0	$141.4
Survivors	2.2	2.1	2.3	3.6	4.0	4.5	5.4	6.0	6.5	7.6
Died in service	0.9	0.9	1.0	1.2	1.4	1.4	1.6	1.6	1.7	1.9
Total	**63.0**	**67.8**	**73.2**	**79.3**	**84.6**	**89.7**	**98.9**	**110.5**	**117.2**	**150.9**
Disability Benefits Retirants										
Duty	8.1	8.8	9.4	10.3	11.1	12.4	14.2	15.2	3.9	4.2
Non-Duty	2.3	2.6	2.8	2.8	3.0	3.1	3.4	3.6	16.4	18.3
Survivor	0.9	1.2	1.2	1.2	1.3	1.0	1.7	2.0	2.2	2.4
Total	**11.3**	**12.6**	**13.4**	**14.3**	**15.4**	**16.5**	**19.3**	**20.8**	**22.5**	**24.9**
Refunds										
Death	N/A	N/A	0.2	0.3	0.3	0.3	0.3	0.7	0.4	0.6
Separation	N/A	N/A	0.5	1.2	1.1	1.0	1.2	1.0	1.6	0.9
Total	**1.4**	**1.2**	**0.7**	**1.5**	**1.4**	**1.3**	**1.5**	**1.7**	**2.0**	**1.5**

BENEFIT EXPENSES BY TYPE



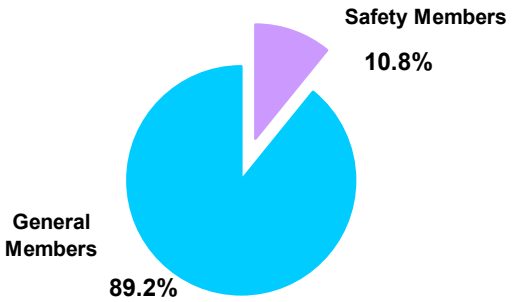
Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, June 30, 2002

RETIREES AND BENEFICIARIES
AS OF YEAR ENDED JUNE 30, 2002
TABULATED BY TYPE OF BENEFIT PAID (IN NUMBERS OF MEMBERS)

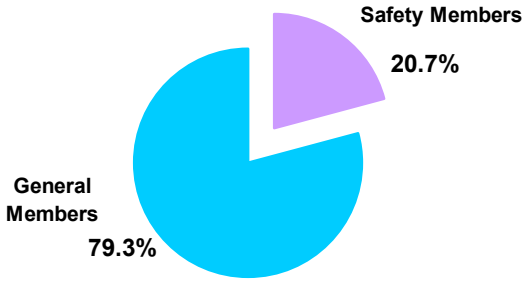
	General Members		Safety Members	
Type of Benefit	**Number of Retirees or Beneficiaries**	**Annual Benefit**	**Number of Retirees or Beneficiaries**	**Annual Benefit**
Service Retirement:				
Straight Life	1,269	$ 16,635,982	32	$ 928,525
Cash Refund Annuity	38	549,142	-	-
Joint and 50% Survivor	7	104,860	1	38,169
Joint and 100% Survivor	83	1,034,941	10	372,283
Automatic Joint and 60% Survivor	4,540	78,171,423	423	18,350,750
Social Security Equated	801	20,637,651	83	4,563,825
Beneficiary	751	6,914,748	31	651,076
Total Service Retirement	**7,489**	**124,048,747**	**580**	**24,904,628**
Non Duty Disability Retirement:				
Straight Life	113	1,100,258	2	30,305
Cash Refund Annuity	2	13,456	-	-
Joint and 50% Survivor	2	23,631	-	-
Joint and 100% Survivor	1	8,594	-	-
Automatic Joint and 60% Survivor	229	2,657,153	22	407,481
Beneficiary of Deceased Disabilitant	112	1,369,704	2	17,434
Duty Disability Retirement:				
Straight Life	108	1,779,990	61	1,408,288
Cash Refund Annuity	2	25,668	-	-
Joint and 50% Survivor	1	9,128	-	-
Automatic Joint and 100% Survivor	351	6,284,975	318	8,495,520
Other	10	99,816	14	205,156
Beneficiary of Deceased Disabilitant	29	454,805	24	558,909
Total Disability Retirement	**960**	**13,827,178**	**443**	**11,123,093**
Death Before Retirement	164	1,505,130	21	359,156
Total Allowances Paid	**8,613**	**$ 139,381,055**	**1,044**	**$ 36,386,877**

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, June 30, 2002

PLAN MEMBERSHIP



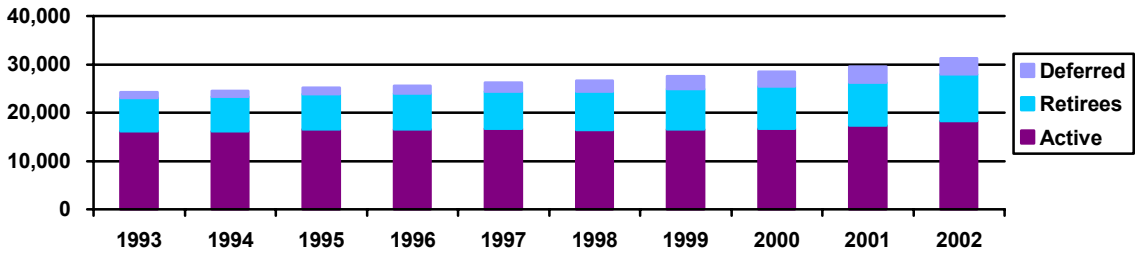
ALLOWANCES PAID



PLAN MEMBERSHIP, AVERAGE BENEFIT PAYMENT AND AVERAGE COVERED SALARY

Year Ended June 30	Retirees	Annual Benefits	Average Annual Benefits	Number of Active Employees	Annual Covered Salary	Average Salary	Deferred Members
1993	6,931	$ 74.3M	$10,718	16,154	$ 533.1M	$33,003	1,091
1994	7,106	80.3M	11,296	16,180	536.0M	33,128	1,189
1995	7,294	86.7M	11,881	16,500	550.7M	33,378	1,401
1996	7,499	93.6M	12,485	16,524	561.7M	33,922	1,588
1997	7,692	100.0M	13,000	16,635	581.5M	34,954	1,929
1998	7,955	107.8M	13,545	16,441	599.0M	36,432	2,271
1999	8,292	118.2M	14,250	16,579	642.8M	38,771	2,653
2000	8,703	131.2M	15,071	16,669	672.5M	40,343	3,081
2001	8,921	131.2M	15,657	17,346	731.1M	42,150	3,290
2002	9,657	175.8M	18,201	18,276	810.4M	44,342	3,290

PLAN MEMBERSHIP



ACTIVE MEMBERSHIP BY TIER (NUMBER OF MEMBERS)

Year Ended June 30	General Members		Probation Members		Safety Members	Total Membership
	Tier I	Tier A[1]	Tier I	Tier A[1]		
1993	2,616	11,665	-	-	1,873	16,154
1994	2,422	11,794	-	-	1,964	16,180
1995	2,267	12,218	-	-	2,015	16,500
1996	2,094	12,413	-	-	2,017	16,524
1997	1,944	12,584	-	-	2,107	16,635
1998	1,578	11,731	166	753 [2]	2,213	16,443
1999	1,528	11,735	-	-	3,316	16,579
2000	1,387	11,900	-	-	3,382	16,669
2001	1,311	12,659	-	-	3,376	17,346
2002	96	14,818	-	-	3,362	18,276

Note 1: Tier changes as of March 8, 2002, complicate year by year comparisons by tier. All active members moved to Tier A unless they specifically requested Tier I. Tier II and Safety tier distinctions have been eliminated for active members.

Note 2: Probation members changed to separate status in 1998 and were included in the Safety category beginning in 1999.

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, June 30, 2002

SCHEDULE OF PARTICPATING EMPLOYERS

County of San Diego

San Diego Superior Court

Local Agency Formation Commission

San Dieguito River Valley Joint Powers Authority

San Diego County Office of Education (closed to new members)