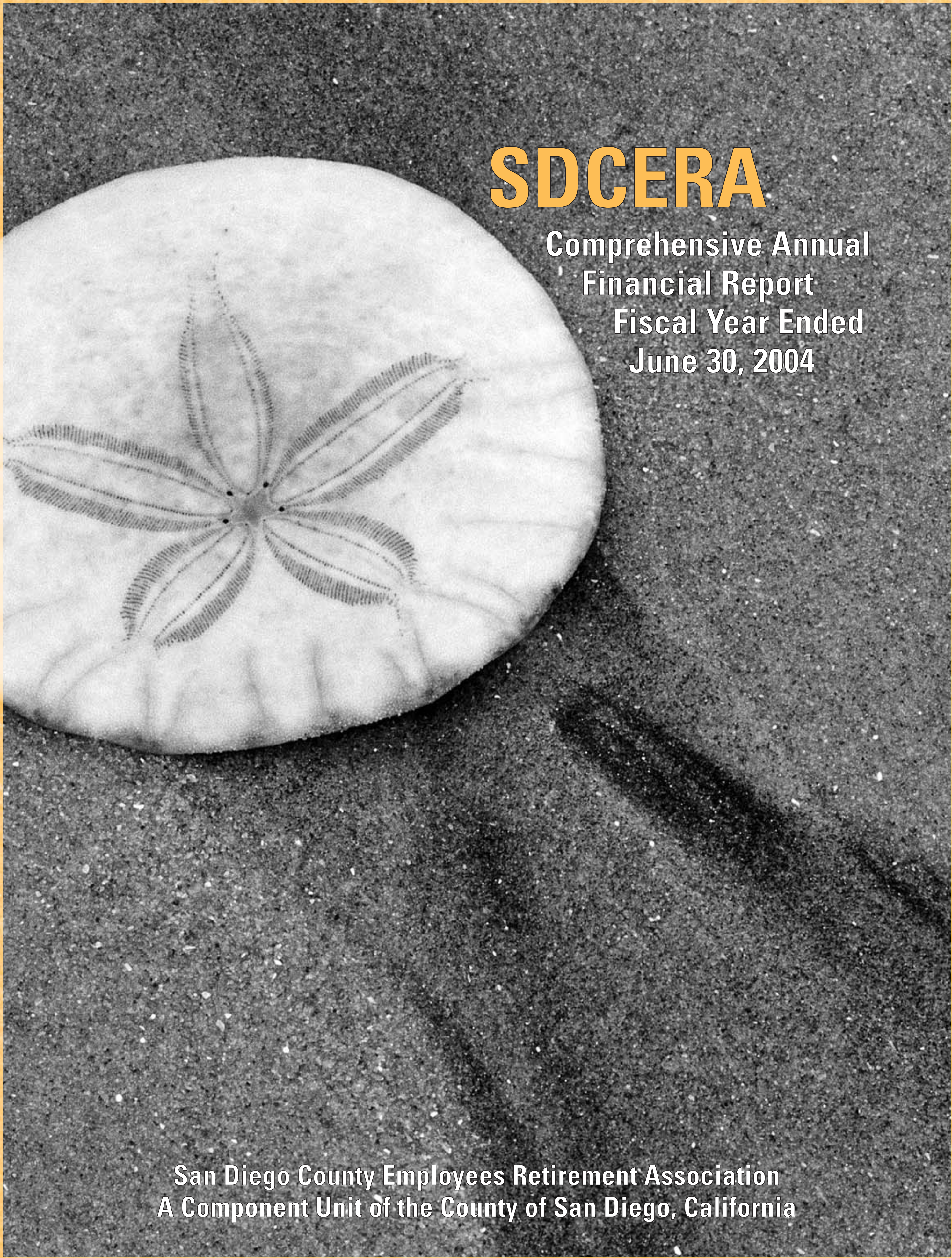


SDCERA

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2004

San Diego County Employees Retirement Association
A Component Unit of the County of San Diego, California

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, 2004

Issued by:

Brian P. White
Chief Executive Officer

Mark Mimnaugh
Chief Operating Officer

David Deutsch
Chief Investment 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 governed by the County Employees Retirement Law of 1937(Government Code Section 31450 et.seq.) as it has been adopted and implemented by the San Diego County Board of Supervisors and the SDCERA Board of Retirement. 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 a 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 from SDCERA,
at 401 West A Street, Suite 1300, San Diego, California 92101-7906.

SDCERA

Supporting The Membership

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2004
TABLE OF CONTENTS

INTRODUCTION SECTION

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, 2004.

The 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 a 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).

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, 2004.

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

The report is presented in five sections:

THE INTRODUCTION 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.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

Responsibility for the accuracy of the data, along with 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 fairly present both the financial position and the Association's operations results.

MAJOR INITIATIVES AND SIGNIFICANT EVENTS

The Board of Retirement completed a thorough Governance and Policy study which resulted in the adoption of fifteen new or updated Board Policies.

SDCERA completely redesigned its website to provide more information with easier accessibility for our members.

A three-year Strategic Communications Plan was adopted for the 2004-2006 period. Several new objectives were added to achieve goal of providing members with all of the information needed concerning their retirement benefits.

SDCERA issued the first comprehensive personalized benefits statement to our active and deferred members, replacing a prior generalized statement.

On June 29, 2004 the County of San Diego received the proceeds from the issuance of pension obligation bonds and transferred $450 million to SDCERA to fund a major portion of the system's accrued liability.

Standard and Poor's has affirmed a "AA+" rating and stable outlook for SDCERA

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) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributions Plans*; Statement No. 26, Financial Reporting for Postemployment Healthcare Plans – Administered by Defined Benefit Pension 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 Disclosure;, GASB Statement No. 40, Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3, GASB Statement No. 44, Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1;* 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 presented fairly.

INVESTMENTS

On a market value basis, the total net assets held in trust increased from $4.1 billion at June 30, 2003 to $5.5 billion at June 30, 2004. For the fiscal year 2004, investments provided a return of 21.3%, net of fees, and reflected market conditions throughout the year. The Plan's annualized rate of return, net of fees, was 6.3% over the last three years and 5.0% over the last five years, and 10.1% over the last 10 years.

FUNDING

The actuarial liability and the value of assets of the Association on June 30, 2004, the date of our latest actuarial valuation, totaled $6.4 billion and $5.2 billion, respectively. This results in an unfunded actuarial accrued liability of $1.2 billion. The Plan's resulting funded ratio of 81.1%, 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 by the Board in March 2002. On the basis of the 2004 valuation, the actuarial firm has indicated that the Association is in reasonably sound condition to meet obligations to Plan members.

As mentioned previously, on June 29, 2004, SDCERA received $450 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 2002 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, The Segal 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 42 in 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, 2003. 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 accounting principles generally accepted in the United State 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.

PUBLIC PENSION STANDARDS AWARD

Public Pension Coordinating Council (PPCC) granted its 2004 achievement award to San Diego County Employees Retirement Association. Only 53 public retirement systems in the United States qualified for the award in 2003. This award is in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.

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, SDCERA members 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:

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

BP White

Brian P. White
Chief Executive Officer
October 16, 2004

Public Pension Coordinating Council

Public Pension Standards

2004 Award

Presented to

San Diego County Employees Retirement Association

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle

Alan H. Winkle
Program Administrator

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, 2003

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

TRUSTEE
Laura DeMarco
Appointed by the County
Board of Supervisors
Present term expires
June 30, 2005

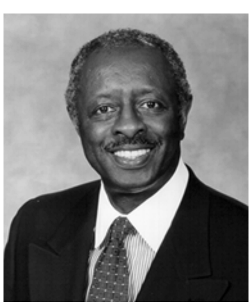
TRUSTEE
James W. Feeley
Elected by Retired
SDCERA members
Present term expires
June 30, 2005

TRUSTEE
Natalya Smith Gonzalez
Appointed by the County
Board of Supervisors
Present term expires
June 30, 2006

TRUSTEE
Dianne Jacob
Appointed by the County
Board of Supervisors
Present term expires
December 31, 2004

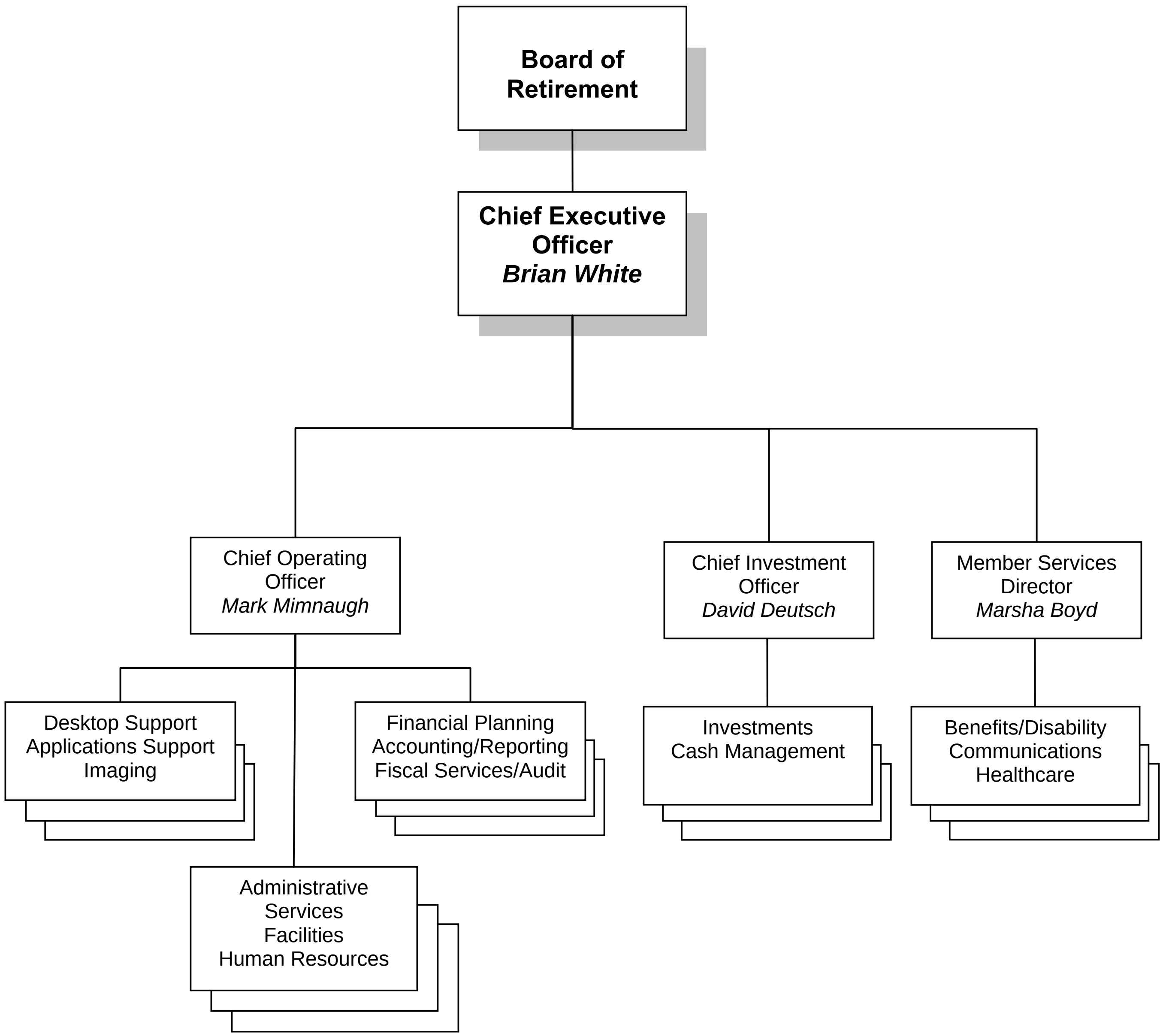
TRUSTEE
David A. Myers
Elected by Safety
SDCERA Members
Present term expires
December 31, 2004

TRUSTEE
Douglas M. Rose
Elected by General
SDCERA Members
Present term expires
June 30, 2005



TRUSTEE
Frank Russell, Jr.
Appointment by the County
Board of Supervisors
Present term expires
June 30, 2004

San Diego County Employees Retirement Association



AUDITOR

KPMG LLP
750 B Street, Suite 1500
San Diego, California 92101

INVESTMENT CONSULTANTS

The Bank of New York
One Wall Street
New York, New York 10286

Cambridge Capital Advisors, Inc.
One Winthrop Square, Suite 500
Boston, Massachusetts 02110-1276

RP Consulting Group, Inc.
4020 Park Street, Suite 102
St. Petersburg, Florida 33709

Rocaton Investment Advisors, LLC
28 Thorndal Circle
Darien, Connecticut 06820

The Townsend Group, Institutional Real Estate
1500 West Third Street, Suite 410
Cleveland, Ohio 44113-1453

BENEFITS CONSULTANT

William M. Mercer, Inc.
4695 Mac Arthur Court, Suite 600
Newport Beach, California 92660-1882

ACTUARY

The Segal Company
120 Montgomery Street, Suite 500
San Francisco, CA 94104

MASTER CUSTODIAN

The Bank of New York
One Wall Street
New York, New York 10286

LEGAL COUNSEL

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701 B Street, Suite 1255
San Diego, California 92101

Crowell & Moring LLP
3 Park Plaza, 20th floor
Irvine, California 92614-8505

Duckor, Spradling & Metzger
401 West A Street, Suite 2400
San Diego, California 92101-7915

Jones, Day, Reavis & Pogue
555 West 5th Street, Suite 4600
Los Angeles, California 90013-1025

Butterfield Schechter, LLP
10616 Scripps Summit Court, Suite 200
San Diego, CA 92131-3961

County of San Diego
Office of County Counsel
1600 Pacific Highway
San Diego, California 92101

Additional information regarding investment professionals who provide services to the Association is located on page 42 of the Investment Section of this report.

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FINANCIAL SECTION

KPMG

KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

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, 2004, 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. The prior year summarized comparative information has been derived from SDCERA's 2003 basic financial statements, and in our report thereon, dated September 5, 2003, we expressed an unqualified opinion on those statements.

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 net assets of the San Diego County Employees Retirement Association as of June 30, 2004, 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.

As discussed in note 2 to the basic financial statements, in 2004, SDCERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 26, *Financial Reporting for Postemployement Healthcare Plans Administered by Defined Benefit Plans*, and GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*.

Management's Discussion and Analysis and Schedules I and II of the Financial Section are not a required part of the basic financial statements 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 on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the San Diego County Employees Retirement Association's basic financial statements. The Introduction Section, 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 Introduction, Investment, Actuarial, and Statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

December 23, 2004

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, 2004. We believe that the information presented here, in conjunction with the Chief Executive Officer's Letter of Transmittal found in the Introduction 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 $5,509 million as of the end of the fiscal year, an increase of $1,405 million over the prior year.

- Total Additions to Net Assets were $1,671 million primarily from County contributions of $701 million, including $450 million in Pension Obligation Bond proceeds and appreciation in the fair value of investments of $936 million. This is an increase of $870 million over the prior year, or a change of 109%.

- Total Deductions to Net Assets totaled $265 million, an increase of $34 million or 15% over the prior year. Retirement benefits have risen $27 million, driven by a net increase in the number of retired members (596) and a 10% increase in average monthly benefit. Healthcare benefits, consisting of premium payments, increased $6 million due to an increase in the Health Allowance benefit.

- During fiscal year 2004, the rate of return on investments was a positive 21.3% on a market-value basis, net of fees.

- SDCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2004, the date of our last actuarial valuation, the funding status (the ratio of system assets to system liabilities) was 81.1%.

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 end. The difference between assets and liabilities represent the net assets held in trust for both pension benefits and health care benefits. The statement also presents prior year-end balances for comparative purposes. Over time, increases or decreases in plan net assets may serve as a useful indicator of whether the financial position of SDCERA is improving or deteriorating.

The Statement of Changes in Plan Net Assets provides information on the increases and decreases that caused the change in the net assets during the fiscal year. For comparison purposes, 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, 26, 28, 34, 37, 38, and 40. 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 requirements of these pronouncements, as applicable.

The Notes to the Basic Financial Statements are an integral part of the basic financial statements. They provide important background and detailed information that are 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.

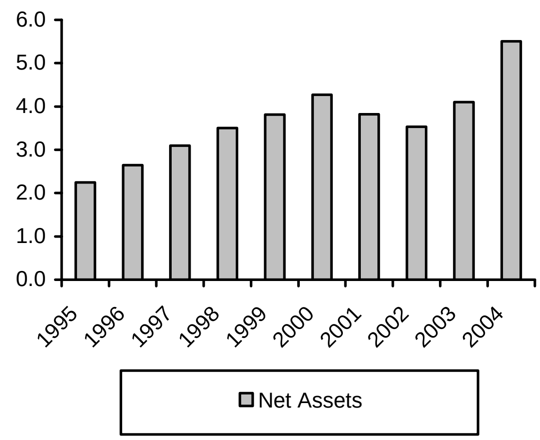
TABLE 1: SDCERA NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004 AND 2003
(THOUSANDS OF DOLLARS)

		06/30/2004	06/30/2003	Increase/ (Decrease)	Percentage Change
Cash	$	68,950	87,952	(19,003)	-21.6%
Receivables		70,090	47,864	22,226	46.4%
Investments		5,419,583	4,075,273	1,344,310	33.0%
Securities Lending Collateral		375,485	329,126	46,358	14.1%
Property, Plant & Equipment		2,981	2,636	345	13.1%
Total Assets		5,937,089	4,542,851	1,394,238	30.7%
Liabilities to Brokers for Securities Lending		375,485	329,126	46,358	14.1%
Securities Purchased		43,752	98,232	(54,479)	-55.5%
Other		9,212	12,145	(2,933)	-24.1%
Total Liabilities		428,449	439,503	(11,054)	-2.5%
Net Assets Held in Trust for Pension Benefits	$	**5,508,639**	**4,103,348**	**1,405,291**	**34.2%**

Net assets held in trust for pension benefits as of June 30, 2004, were $5,508,639, an increase of $1,405,291, or 34.2%, over the prior year. Strong investment returns of 21.3% generated $672,635 in plan net asset increases from operations.

Contributions by the County from the proceeds of pension obligation bonds raised net assets by $450,000 in the fiscal year ended June 30, 2004. Required County and employee contributions added another $282,656. The funds were fully invested as of June 30, 2004.

SDCERA NET ASSETS HELD IN TRUST FOR PENSION BENEFITS 1994-2004 (BILLIONS OF DOLLARS)



SDCERA INVESTMENT RETURNS 1994-2004

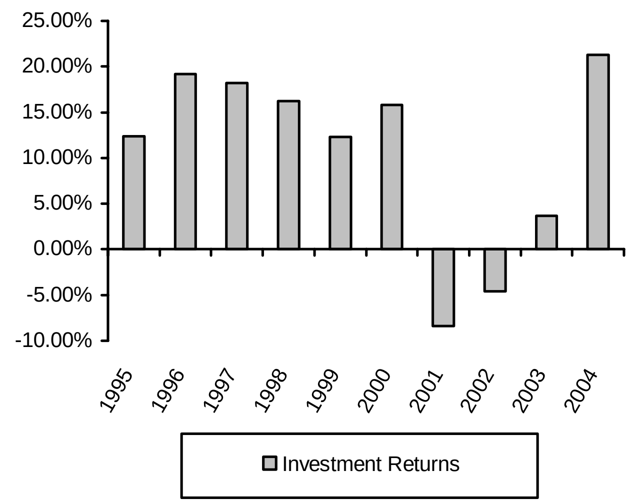


TABLE 2: CHANGES IN SDCERA NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004 AND 2003
(THOUSANDS OF DOLLARS)

		06/30/2004	06/30/2003	Increase/ (Decrease)	Percentage Change
Additions					
Employer Contributions	$	700,583	616,113	84,470	13.7%
Member Contributions		33,609	34,666	(1,057)	-3.0%
Net Investment Income		935,174	148,688	786,486	529.0%
Net Securities Lending Income		1,297	1,273	24	1.9%
Total Additions		1,670,663	800,740	869,923	108.6%
Deductions					
Retirement Benefits		229,982	202,550	27,431	13.5%
Health Benefits		26,447	19,964	6,483	32.5%
Refund of Contributions		1,536	1,451	85	5.8%
Administrative Expenses		7,408	7,007	401	5.7%
Total Deductions		265,372	230,972	34,400	14.9%
Increase in Net Assets Held in Trust for Pension Benefits	$	**1,405,291**	**569,768**	**835,523**	**146.6%**

ADDITIONS TO RETIREMENT PLAN NET ASSETS

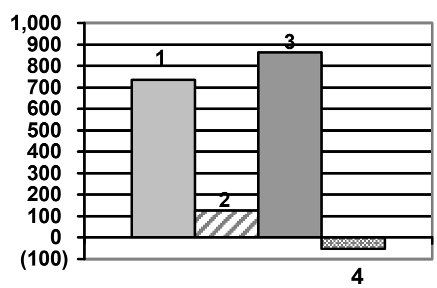
The primary sources financing the benefits SDCERA provides to its members are accumulated through income on investments and collection of employer and employee contributions.

These income sources (Additions to Retirement Plan Net Assets) total $1,670,663 for the fiscal year ended June 30, 2004, an increase of $869,923 over the prior year.

- Employer and Employee contributions were $734,192 in fiscal year 2004, an increase of $83,413 over the prior year. Combined contribution rates of 22.49% in Fiscal Year 2004 compared to 0.81% in Fiscal Year 2003 resulted in an $183,413 increase in required contributions. Offsetting that increase is a year over year decrease in pension obligation bond proceeds of $100,000.

- Net investment income equaled $935,174 in fiscal year 2004, an increase of $786,486, over prior year. This income was primarily net appreciation in the fair value of investments of $862,932 and $125,430 in interest and dividends.

SDCERA'S ADDITIONS
(MILLIONS OF DOLLARS)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004



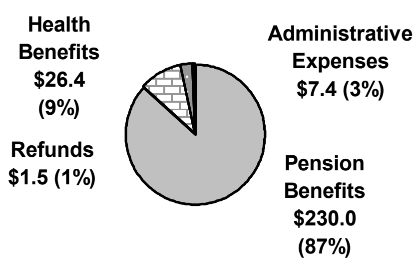
1. Retirement Contributions: $734.2 million
2. Interest, Dividends and Securities Lending Income: $125.4 million
3. Net Appreciation in Fair Value of Investments: $862.9 million
4. Investment Expenses: ($51.9 million)

DEDUCTIONS FROM RETIREMENT PLAN NET ASSETS

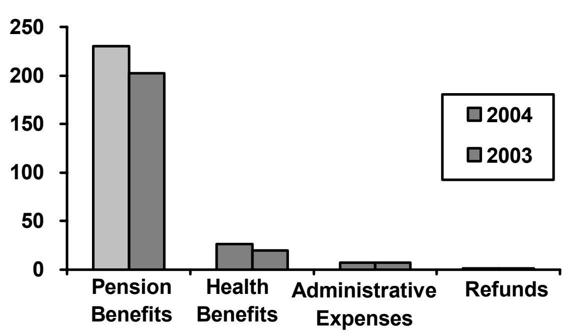
The primary uses of SDCERA assets are for the payment of benefits to retirees and their beneficiaries, the refund of contributions to former members and the cost of administering the plan. Deductions from retirement plan net assets for fiscal year ended June 30, 2004 totaled $265,372, an increase of $34,400 or 14.9% over 2003.

- Retirement and health benefits represent $33,915 of the year-over-year change reflecting a net increase in the number of retirements and average benefit paid coupled with health benefit enhancements.

SDCERA'S DEDUCTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(MILLIONS OF DOLLARS)



SDCERA'S DEDUCTIONS
(MILLIONS OF DOLLARS)



SUMMARY

The plan's combined net assets experienced dramatic growth in the fiscal year ended June 30, 2004, surpassing $5.5 billion. Positive investment performance and additional County contributions have combined to improve SDCERA's funding ratio from 75.5% as of June 30, 2003 to 81.1% at the end of this fiscal year. 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 Operating Officer
October 15, 2004

STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2004
(WITH SUMMARIZED COMPARATIVE AMOUNTS FOR JUNE 30, 2003)

	June 30, 2004			June 30, 2003
	Pension Plan	**Healthcare**	**Total Fund**	**Total Fund**
Assets				
Cash and Short-Term Investments				
Cash in County Pool	$ 10,486,640	$ 490,407	$ 10,977,047	$ 14,835,466
Cash and Cash Equivalents with Fiscal Agents	55,382,535	2,589,962	57,972,497	73,116,843
Total Cash and Short-Term Investments	**65,869,175**	**3,080,369**	**68,949,544**	**87,952,309**
Receivables				
Contributions	14,815,478	692,845	15,508,323	4,409,797
Accrued Interest and Dividends	18,187,994	850,561	19,038,555	14,826,962
Settlement of Securities Sold	33,954,902	1,587,900	35,542,802	28,626,751
Total Receivables	**66,958,374**	**3,131,306**	**70,089,680**	**47,863,510**
Investments at Fair Value				
Domestic Equity Securities	818,108,176	38,258,794	856,366,970	786,126,711
Cash, Cash Equivalents, and Securities for Domestic Equity Swaps and Futures	1,246,427,312	58,289,120	1,304,716,432	624,263,046
Total Domestic Equity Securities and	**2,064,535,488**	**96,547,914**	**2,161,083,402**	**1,410,389,757**
International Equity Securities	1,135,774,708	53,114,456	1,188,889,164	975,909,709
Cash, Cash Equivalents, and Securities for International Futures	57,531,726	2,690,469	60,222,195	41,410,318
Total International Equity Securities and Cash	**1,193,306,435**	**55,804,924**	**1,249,111,359**	**1,017,320,027**
Total Equity Securities and Cash	**3,257,841,923**	**152,352,838**	**3,410,194,761**	**2,427,709,784**
Securities Lending Collateral	**358,709,516**	**16,775,035**	**375,484,551**	**329,126,483**
United States Government Obligations	279,911,580	13,090,053	293,001,633	204,047,898
Domestic Corporate Bonds	422,893,564	19,776,599	442,670,163	364,595,547
International Bonds	494,574,684	23,128,764	517,703,448	595,927,229
Cash for Bond Futures	197,203,399	9,222,209	206,425,608	11,644,590
Short-Term Notes	46,189,996	2,160,073	48,350,069	0
Total Bonds and Cash	**1,440,773,223**	**67,377,698**	**1,508,150,921**	**1,176,215,264**
Alternative Equity	181,648,420	8,494,781	190,143,201	154,575,147
Real Estate	297,196,014	13,898,359	311,094,373	316,772,130
Total Investments	**5,536,169,096**	**258,898,711**	**5,795,067,807**	**4,404,398,808**
Property, Plant and Equipment, Net	2,847,866	133,180	2,981,046	2,636,321
Total Assets	**5,671,844,511**	**265,243,566**	**5,937,088,077**	**4,542,850,948**
Liabilities				
Liabilities to Brokers for Securities Lending	358,709,516	16,775,035	375,484,551	329,126,483
Settlement of Securities Purchased	41,797,774	1,954,671	43,752,445	98,231,506
Professional Services	5,667,939	265,061	5,933,000	7,994,703
Death Benefits	264,107	12,351	276,458	276,673
Retirement Benefits	138,095	6,458	144,553	173,040
Refunds to Members	207,549	9,706	217,255	128,399
Health Insurance Premiums	800,565	37,438	838,003	611,204
Cash in Transit	373,077	17,447	390,524	2,472,451
Other	1,349,210	63,096	1,412,306	488,368
Total Liabilities	**409,307,832**	**19,141,263**	**428,449,095**	**439,502,827**
Commitments and Contingencies (Note 9)				
Net Assets Held in Trust for Pension Benefits (see schedule of funding progress on page 29)	**$ 5,262,536,679**	**$ 246,102,303**	**$ 5,508,638,982**	**$ 4,103,348,121**

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, 2004
(WITH SUMMARIZED COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2003)

	June 30, 2004			June 30, 2003
	Pension Plan	**Healthcare**	**Total Fund**	**Total Fund**
Additions to Plan Net Assets				
Contributions				
County Contributions	$ 662,482,608	$ 38,100,000	$ 700,582,608	$ 616,112,726
Plan Member Contributions	33,609,422	0	33,609,422	34,666,576
Total Contributions	**696,092,030**	**38,100,000**	**734,192,030**	**650,779,302**
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments				
Stocks	547,682,848	1,110,178	548,793,026	(27,131,879)
Bonds	45,700,649	144,366	45,845,015	92,896,038
Foreign Currency	49,184,655	300,983	49,485,638	18,185,862
Real Estate & Alternative	61,606,431	532,950	62,139,381	992,044
Swaps and Futures	124,938,101	188,824	125,126,925	(43,407,745)
Managed Futures	31,348,321	193,101	31,541,422	50,972,634
Total Net Appreciation (Depreciation) in Fair Value of Investments	**860,461,005**	**2,470,402**	**862,931,407**	**92,506,954**
Interest Income				
Bonds	58,647,608	302,221	58,949,829	50,933,578
Cash	8,229,637	42,409	8,272,046	9,627,675
Total Interest Income	**66,877,245**	**344,630**	**67,221,875**	**60,561,253**
Other				
Dividends on Stock Investments	37,674,907	194,145	37,869,052	29,616,771
Real Estate Equity Investment Income	9,456,472	48,731	9,505,203	13,206,938
Commission Recapture	389,310	2,006	391,316	251,353
Managed Futures	(391,416)	(2,017)	(393,433)	(6,034,125)
Other Income	9,490,898	48,908	9,539,806	2,497,734
Total Other	**56,620,171**	**291,773**	**56,911,944**	**39,538,671**
Less: Investment Expenses	(51,891,165)	0	(51,891,165)	(43,918,845)
Securities Lending Income	5,024,218	25,891	5,050,109	5,445,596
Less: Securities Lending Rebates and Bank Charges	(3,733,734)	(19,241)	(3,752,974)	(4,172,825)
Net Securities Lending Income	**1,290,485**	**6,650**	**1,297,135**	**1,272,771**
Net Investment Income	**933,357,741**	**3,113,455**	**936,471,196**	**149,960,804**
Total Additions to Plan Net Assets	**1,629,449,771**	**41,213,455**	**1,670,663,226**	**800,740,106**
Deductions from Plan Net Assets				
Benefits				
Service Retirement and Disability Benefits	217,551,561	0	217,551,561	189,779,897
Death Benefits	1,147,750	0	1,147,750	1,307,322
Health Benefits	0	26,447,152	26,447,152	19,963,751
STAR Cost of Living Allowance	11,282,242	0	11,282,242	11,463,122
Total Benefits	**229,981,553**	**26,447,152**	**256,428,705**	**222,514,092**
Member Refunds	1,536,087	0	1,536,087	1,451,436
Administrative Expenses	7,407,573	0	7,407,573	7,006,618
Total Deductions from Plan Net Assets	**238,925,213**	**26,447,152**	**265,372,365**	**230,972,146**
Transfers	**38,100,000**	**(38,100,000)**	**0**	**0**
Increase (Decrease) in Net Assets Held in Trust for Pension Benefits	**$ 1,428,624,558**	**$ (23,333,697)**	**$ 1,405,290,861**	**$ 569,767,960**
Net Assets Held in Trust for Pension Benefits				
Beginning of Year	**$ 3,833,912,121**	**$ 269,436,000**	**$ 4,103,348,121**	**$ 3,533,580,161**
End of Year	**$ 5,262,536,679**	**$ 246,102,303**	**$ 5,508,638,982**	**$ 4,103,348,121**

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 a public employee retirement system established by the County of San Diego (County) on July 1, 1939, and is administered by a 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 SDCERA, 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 SDCERA. Membership begins with the first biweekly payroll period in the month following employment. Members are vested 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. Court Service Officers and Probation officers were added to Safety membership in 1998 and 1999, respectively.

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

General and Safety 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 ten 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 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 highest average annual compensation during any 26 consecutive pay periods elected by the member. Members with ten 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 ten 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 more than 20% of their purchasing power over the years due to periods of high inflation.

As of June 30, 2004, the SDCERA membership consisted of retired members or their beneficiaries, active members, terminated members eligible for benefits but not yet receiving them (deferred members) and terminated non-vested 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 retirement benefit, provided the member lives to the minimum service retirement age and does not withdraw his or her accumulated contributions.

Members who separate with less than five years of credited service may leave their accumulated contributions on deposit; withdraw their contributions with accumulated interest; or in limited cases, may be entitled to a retirement benefit. Contributions left on deposit with SDCERA continue to accrue interest. County-paid contributions under various Memorandums of Understanding (salary negotiations) are not refundable.

MEMBERSHIP SUMMARY

	General	Safety	Total
Active Members			
Tier I	76	-	76
Tier A	14,370	-	14,370
Safety	-	3,271	3,271
Total Active Members	**14,446**	**3,271**	**17,717**
Deferred (Terminated) Members			
Tier I	2,769	-	2,769
Tier A	1,116	-	1,116
Safety	-	395	395
Total Deferred (Terminated) Members	**3,885**	**395**	**4,280**
Retired Members			
Tier I	5,891	-	5,891
Tier II	1,917	-	1,917
Tier A	1,663	-	1,663
Safety	-	1,299	1,299
Total Retired Members	**9,471**	**1,299**	**10,770**
Total Members	**27,802**	**4,965**	**32,767**

DEATH AND DISABILITY BENEFITS

Non-Service Connected Disability
Eligibility: Five years of service credit; no age requirement.
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 credit requirements
Benefit: 50% of final average 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 average compensation payable to surviving eligible spouse or unmarried minor children

Death After Retirement – Service Retirement 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 payment 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 health allowance is paid to retirees, under 65 years of age, with at least ten years of credited service in SDCERA, and the amount varies according to total service credit. Those who are 65 or older, with at least ten years of credited service in SDCERA, receive a health allowance, and those who are eligible for Medicare, receive reimbursement for Part B of Medicare.

The Health Benefit Reserve is used exclusively to fund future retiree health benefit allowances. The assets in this reserve are commingled with total fund assets for investment purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS NO. 26, NO. 40 AND NO. 44

During the year ended June 30, 2004, SDCERA adopted the provisions of GASB Statement No. 26, Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans. This statement requires a separate statement of postemployment healthcare plan net assets and a statement of change in postemployment healthcare plan net assets. Adoption of this statement had no impact on the net assets or change in net assets of SDCERA.
In addition, SDCERA adopted the provisions of GASB Statement No. 40, Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3 for the year ended June 30, 2004. GASB Statement No. 44, Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1, has also been implemented in the statistical section. The provisions of statements No. 40 and No. 44 have been implemented although adoption is not required until fiscal year 2005 and 2006, respectively. Implementation of GASB Statements No. 40 and No. 44 had no effect on Plan Net Assets.

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 member contributions are recognized when due pursuant to formal commitments, as well as statutory or contractual requirements. 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 and securities 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. Of the amounts recorded for 2004 in Domestic Equity, $1,294,718,369 represents the notional amount of derivatives plus cash and cash equivalents and $9,998,063 represents the fair value of derivatives contracts. Bond and International Futures are mark-to-market so that the fair values reported equals the notional amount plus cash and cash equivalents.

These financial instruments are intended to be equivalent to the asset they are designed to emulate. 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

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, five to ten years for office equipment and leasehold improvements, and seven years for the Paris benefits source-code. The cost and accumulated depreciation of property, plant and equipment is depicted in the table below.

Property, Plant and Equipment		**Balance 07/01/2003**	**Additions**	**Deletions & Transfers**	**Balance 06/30/2004**
Computer Hardware and Software	$	3,293,650	1,264,993	205,110	4,353,534
Office Furniture and Fixtures		530,366	9,777	-	540,143
Leasehold Improvements		321,363	-	-	321,363
Total Property, Plant and Equipment		4,145,379	1,274,770	205,110	5,215,039
Accumulated Depreciation		(1,509,058)	(724,935)	-	(2,233,993)
Net Property, Plant and Equipment	$	**2,636,321**	**549,835**	**205,110**	**2,981,046**

SUMMARIZED PRIOR YEAR INFORMATION

The accompanying financial statements include certain prior year summarized information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with SDCERA financial statements as of and for the year ended June 30, 2003, from which the summarized information was derived.

3. DEPOSITS AND INVESTMENTS

SDCERA retains investment managers that specialize in the use of a particular asset class. Investment managers are subject to the guidelines and controls established in the SDCERA Investment Policy and contracts executed with the Board. SDCERA utilizes a third party as custodian over the plan assets.

Last year the Board of Retirement completed a comprehensive asset/liability study that resulted in a new asset allocation strategy. This strategy specified an asset allocation target of 32.5% Domestic Equity, 23.2% International Equity, 28.1% Fixed Income, 7.6% Real Estate and 8.6% Alternative Equity.

GASB has updated and modified custodial credit risk disclosure requirements related to investment risk. Investment risk disclosure is required for; interest rate risk, credit risk (including custodial credit risk and concentrations of credit risk) and foreign currency risk. SDCERA is an early implementer of the provisions of GASB Statement 40, Deposit and Investment Risk Disclosures-an amendment of GASB Statement No. 3.

INTEREST RATE RISK

SDCERA does not have a general policy to manage interest rate risk, but requires investment managers to diversify by issue, maturity, sector, coupon and geography.

As of June 30, 2004, SDCERA had the following investments and maturities in the table below: (Amounts are in thousands)

		Investment Maturities (in Years)			
Investment Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Asset and Mortgage Backed securities	$ 114,681	$ 6,418	$ 6,661	$ 157	$ 101,445
Collateralized Mortgage Obligations	18,136	411	-	1,807	15,917
Convertible Bonds	124,812	NA	NA	NA	NA
Corporate Bonds	330,717	35,078	111,302	156,680	27,657
Emerging Market Debt securities	192,129	29,053	14,286	34,502	114,288
International Bonds	175,659	8,141	112,936	30,020	24,563
Managed Futures	41,377	NA	NA	NA	NA
Municipals	8,613	2,956	-	2,810	2,847
Private Placements	9,456	2,941	734	3,448	2,333
Repurchase Agreements	14,947	14,947	-	-	-
Treasury Inflation Protected securities	119,750	-	37,816	37,446	44,488
US Treasuries	103,098	17,803	31,473	43,118	10,703
Total *	**$ 1,253,375**	**$ 117,748**	**$315,208**	**$309,988**	**$ 344,241**

* Investment maturities for Convertible Bonds and Managed Futures are not available and are therefore not included in the subtotals by maturity.

CREDIT RISK

Fixed income managers are expected to adhere to the following guidelines as a means of limiting credit risk. Domestic Fixed Income managers are limited within their portfolios to no more than 5% exposure in any single security, with the exception of United States Treasury and government agencies. High Yield and International Fixed Income managers limit is 10% exposure in any single security, with the exception of United States Treasury and government agencies. As of June 30, 2004, SDCERA has no single issuer that exceeds 5% of total fixed income investments.

SDCERA's Investment guidelines address fixed income quality requirements by investment category. The minimum investment grade held in domestic fixed income portfolios shall be no lower than "BBB" (as rated by Moody, Standard & Poor's, or Fitch's equivalent). Domestic high yield fixed income portfolios must have a weighted average quality of B/B+ or higher (Moody or Standard & Poor's equivalent). Not rated issues must be evaluated by the manager and determined that if rated they would not lower the weighted average below B/B+. SDCERA has no policy for Global and Emerging Market Fixed Income.

The following table illustrates SDCERA's Fixed Income securities ratings as of June 30, 2004, shown as a percentage of the total portfolio:

Credit Risk	Domestic Fixed Income	Global Fixed Income	High Yield Fixed Income	Emerging Market Debt Fixed Income
AAA	20.9%	49.5%	0.0%	0.0%
AA	0.9%	7.1%	0.0%	0.0%
A	0.5%	4.0%	0.7%	0.0%
BBB	2.0%	2.2%	7.9%	0.2%
BB	0.7%	0.5%	26.8%	1.2%
B	0.0%	0.0%	41.6%	86.9%
CCC	0.0%	0.0%	8.1%	0.0%
C	0.0%	0.0%	0.9%	0.0%
D	0.0%	0.0%	1.1%	0.0%
NR	0.0%	3.9%	12.9%	11.7%
Govt	75.0%	32.8%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%

Domestic Fixed Income Portfolio

SDCERA's Domestic Fixed Income portfolio of government securities, collateralized mortgage obligations, corporate bonds, private placements, and other bonds include 99.3% that are rated BBB or higher and 0.7% currently rated BB.

Global Fixed Income Portfolio

SDCERA's Global Fixed Income portfolio includes corporate bonds and sovereign debt. The weighted average rating for Global Fixed Income portfolio was AA/AAA, excluding 3.9% of unrated securities.

High Yield Fixed Income Portfolio

The weighted average quality of the High Yield Fixed Income Portfolio as of June 30, 2004 was B/BB, excluding 12.9% of unrated securities in the portfolio.

Emerging Market Debt

SDCERA's Emerging Market Debt portfolio invests in sovereign debt of emerging countries. As of June 30, 2004, the Emerging Market Debt portfolio was rated B, excluding 11.7% of unrated securities in the portfolio.

FOREIGN CURRENCY RISK

SDCERA's investment policy allows international managers to enter into foreign exchange contracts provided that the contracts have a maturity of one year or less and are limited to hedging currency exposure existing in the portfolio. SDCERA's exposure to foreign currency risk derives from its positions in foreign currency denominated international equity and fixed income investments.

SDCERA's net exposure to foreign currency risk is as follows: (Amounts are in thousands)

Currency	Fair Value
Australian Dollar	124,466
Brazilian Real	20,150
British Pound	320,977
Canadian Dollar	13,709
Chilean Peso	11,384
Chinese Yuan	10,353
Croatian Kuna	2,075
Czech Koruna	2,805
Danish Krone	8,372
Egyptian Pound	4,433
Euro Currency	307,431
Hong Kong Dollar	23,991
Hungarian Forint	6,200
Indian Rupee	27,227
Indonesian Rupiah	12,129
Israeli Shekel	3,095
Japanese Yen	344,107
Korean Won	76,796
Malaysian Ringgit	15,958
Mexican Peso	38,462
New Zealand Dollar	7,153
Norwegian Krone	3,457
Russian Rouble	15,321
Singapore Dollar	3,958
South African Rand	34,540
Swedish Krona	10,520
Swiss Franc	71,545
Taiwan Dollar	21,852
Thai Baht	12,983
Turkish Lira	5,154
Other (Less than $2 million holdings)	10,012
Total	**1,570,614**

Other currencies that represent less than $2 million in holdings are Argentine Peso, Botswana Pula, CFA Franc, Colombian Peso, Ecuador Sucre, Estonian Kroon, Ghanian Cedi, Kazakhstan Tenge, Kenyan Shilling, Moroccan Dirham, Omani Rial, Pakistani Rupee, Papua New Guinea Kina, Peruvian Nuevo Sol, Philippine Peso, Polish Zloty, Polynational, Slovak Koruna, Sri Lanka Rupee, Tunisian Dinar, Ukraine Hryvnia, Venezuelan Bolivar, Vietnam Dong, Zambian Kwacha and Zimbabwe Dollar.

CUSTODIAL CREDIT RISK

SDCERA does not have a general policy addressing custodial credit risk, but it is the practice of the Fund that all investments are insured, registered, or held by the plan or its agent in the Plan's name. Deposits are to be insured, registered or collateralized with securities held at fiscal agents in the Plan's name.

SECURITY LENDING

SDCERA lends U.S. government obligations, domestic and international bonds, and equities to various brokers with a simultaneous agreement to return collateral for the same securities plus a fee in the future. The securities lending agent manages the securities lending program and receives securities and 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 loaned securities is generally not matched with the term to maturity of the investment of the cash collateral.

SDCERA's securities lending transactions as of June 30, 2004, are summarized in the following table. The Fund lent $384,970,440 in securities and received collateral of $20,197,719 and $375,484,551 in securities and cash, respectively from borrowers.

Securities Lent ($)	SDCERA Securities Lent	Securities Received Value	Cash Received Value
Lent for Cash Collateral:			
U.S. Government and Agency securities	$ 26,430,166		$ 26,857,791
International Governments securities	1,760,840		1,794,546
Domestic Corporate Fixed Income securities	98,610,484		101,098,934
Domestic Equities	181,844,636		185,850,171
International Equities	56,949,839		59,883,109
Lent for securities collateral:			
International Equities	5,378,688	5,904,883	
US Government securities	1,042,495	1,064,762	
International Governments securities	12,953,292	13,228,074	
Total	**$ 384,970,440**	**$ 20,197,719**	**$ 375,484,551**

SDCERA receives a premium on all securities it holds as collateral. The cash collateral that was received from the borrowers was then invested in the following investment types as of June 30, 2004:

Securities Lending Investments	Fair Value
U.S. Corporate Floating Rate	$ 122,896,808
Asset Back Securities	23,543,760
Commercial Paper	7,997,313
Bank Notes	63,558,514
Certificates of Deposit Floating Rate	60,086,835
Time Deposits	15,009,375
Repurchase Agreements	82,775,302
Total	**$ 375,867,907**

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 because the amounts the system owes them exceed the amounts they owe the system. 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. In addition, the Bank of New York indemnifies SDCERA against all borrower default.

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 normal 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, member contributions. In some cases, the employer has agreed to pay a portion of the required member contributions phased in over a five-year period. The member contributions deducted from the member'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 individual entry age normal cost funding method. In June 2004, the County of San Diego issued pension obligation bonds in the amount of $454.1 million and transferred $450 million to the retirement fund for investment. 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. In February 1994, the County of San Diego issued pension obligation bonds in the amount of $430.4 million; the County transferred $428.5 million to the retirement fund for investment.

The current unfunded actuarial accrued liabilities (UAAL) are amortized over 20 years on a close basis, expressed as a level percentage of payroll and added to the computed normal cost. Prior to June 30, 2004, the UAAL was amortized over 15 years on an open basis, as a level percent of pay.

The following schedule summarizes the contribution rates in effect at June 30, 2004. 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%	19.72%
Safety members	9.27%	32.41%

During the year, contributions totaled $734,192,030, which included $33,609,422 in employee contributions, $644,970,629 in employer contributions paid by the County, which includes the $450,000,000 from the proceeds of the pension obligation bonds issued in June 2004, and $17,511,979 in employee contributions paid by the County. In addition, $38,100,000 was transferred from the health benefits reserve to pension assets.

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. ACTUARIAL ASSUMPTIONS

The required contribution rates, as adopted by the SDCERA Board of Retirement, were determined as part of the October 3, 2002 interim actuarial valuation based on an individual entry-age normal 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 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 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 more than 20% 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, 2004.

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 actual earnings not credited to contributions and reserves exceed 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.

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's 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 of net assets are depicted in the following table. (Amounts are in thousands)

	Fiscal Year End June 30,	
Reserve	**2004**	**2003**
Reserve for Member Contributions:		
Active	213,236	193,474
Deferred	22,615	23,410
Unlocated Separated Members	0	24
Subtotal	**235,851**	**216,908**
Reserve for County Contributions	1,471,110	996,527
Reserve for Retirement Allowances	2,883,450	2,389,560
Total	**4,590,411**	**3,602,995**
Reserve for Health Benefits	230,461	269,140
Reserve for Star Cost-of-Living Allowance	56,854	48,537
Reserve for Undistributed Earnings	0	5,160
Reserve for Unrealized Earnings	560,186	141,884
Reserve for Contingencies	55,086	35,336
Total Retirement Fund	**5,492,998**	**4,103,052**
Health Benefits 401(h) Account	15,641	296
Total Fund	**$ 5,508,639**	**$ 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. Effective February 14, 2003, Section 31580.3 was added to the Government Code to allow temporary relief to the systems that have experienced declines in net asset values. Expense of administration of the system may now be based on a previous fiscal year in which a positive rate of return for the retirement fund was generated and is limited to 0.23% of net asset value. For SDCERA, that previous fiscal year was 2000, so SDCERA's valuation date is December 31, 1999.

SDCERA's Administrative Expenses		
For the year ended June 30, 2004		
Net Plan Assets Base, at fair value (December 31, 1999)	$	4,303,813,313
Maximum Allowable for Administrative Expenses (.0023 x 4,303,813,313)	$	9,898,771
Actual Administrative Expenses for the Fiscal Year	$	7,407,573
Excess of Allowance over Actual Administrative Expenses	$	2,491,198
Actual Administrative Expenses as a Percentage of Net Plan Assets Base		0.17%

8. LEASE OBLIGATIONS

A commitment under an operating lease agreement for office facilities provides for minimum future rental payments through November 2009. These future minimum rental payments as of June 30, 2004 are as follows:

Year Ending June 30		Amount ($)
2004	$	623,533
2005		630,096
2006		639,285
2007		655,037
2008		670,790
2009-10		975,336
Total	**$**	**4,194,077**

9. 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 $19 million and alternative equity for $123 million.

SUMMARY ACTUARIAL INFORMATION	
Valuation Date	June 30, 2004
Actuarial Cost Method	Individual entry-age normal cost method
Amortization Method	Level percent of pay
Remaining Amortization Period	Twenty years close
Asset Valuation Method	Five-year smoothed market
ACTUARIAL ASSUMPTIONS	
Investment Rate of Return*	8.25 %
Projected Salary Increase*	5.00 %
Cost-of-Living Adjustments for Retirees	3.00 %
Inflation	4.00 %

*Includes inflation of 4.0%.

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)	(5) Annual Covered Payroll	UAAL as % of Covered Payroll (3)/(5)
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
6/30/03	4,417,766	5,853,125	1,435,359	75.5	906,140	158.4
6/30/04	5,166,759	6,369,490	1,202,731	81.1	917,081	131.1

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation until June 30, 2002
The Segal Group, Inc. Annual Actuarial Valuation since June 30, 2003

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)
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
6/30/01	4,927	2,035	41.30	5.00
6/30/02	-	5,338	100.00	5.00
6/30/03	6,538	6,538	100.00	8.24
6/30/04	194,580	194,580	100.00	15.00

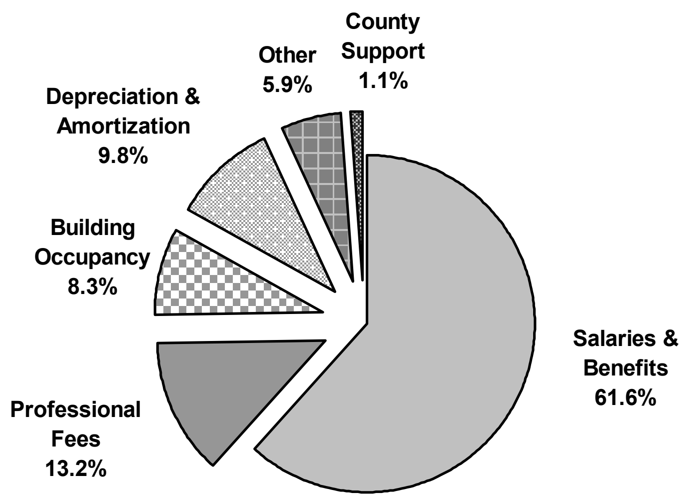
1 Excludes County pickup of member contributions and proceeds from Pension Obligation Bonds. For the plan year ended June 30, 2004, we have also excluded $391,000 in lump sum contributions paid by the County for two special district employers in order to maintain the District's and the County's proportional share of the UAAL after the bond issuance.

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation until June 30, 2002
The Segal Group, Inc. Annual Actuarial Valuation since June 30, 2003

SCHEDULE III – ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003
(THOUSANDS OF DOLLARS)

Expense Category		2004	2003
Salaries and Benefits	$	4,564	3,661
Professional Fees		979	766
Depreciation and Amortization		725	665
Building Occupancy Expenses		617	767
Equipment and Maintenance		340	353
County Administrative Support		83	153
Other Expenses		100	641
Total Administrative Expenses	**$**	**7,408**	**7,006**

ADMINISTRATIVE EXPENSES BY CATEGORY
2004



SCHEDULE IV – INVESTMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2004
(THOUSANDS OF DOLLARS)

Individual or Firm		Net Assets Managed at Fair Value	Fees
Domestic Equity Managers			
Nicholas Applegate Emerging Growth	$	81,708	704
Denali Advisors, LLC		220,100	673
Nicholas Applegate Convertible Bond		98,725	660
Duncan Hurst Capital Management - Small Cap		55,467	516
Dimensional Fund Advisor		229,965	464
Duncan Hurst Capital Management - Large Cap		151,760	265
Duncan Hurst Capital Management - Micro Cap		28,285	258
Delta Asset Management - Large Cap		0	218
Total Domestic Equity Managers			**3,758**
International Equity Managers			
Artisan Partners		228,028	1,542
Fidelity Management Trust Company		253,571	946
Capital Guardian Small Cap		221,017	859
Genesis		149,252	853
Delaware International Advisor		220,992	826
Capital Guardian Emerging Market		138,422	788
Foreign Currency Overlay			
FX Concepts, Inc.		0	770
Quantitative Financial Strategies		0	6,972
Total Foreign Currency Overlay			***7,742***
Total International Equity Managers			**13,555**
Fixed Income Managers			
Kenmar Base Fee		-	392
Managed Active Futures CTAs		16,452	4,975
Managed Passive Futures CTAs		20,661	4,347
Pacific Investment Management Company		370,572	1,544
Zazove Associates		90,894	1,213
Colchester Global Investments		245,921	796
Ashmore Emerging Markets		189,492	724
W.R.Huff Asset Management Company		142,929	654
Oaktree Capital Management LLC		132,864	578
TCW Asset Management Company		151,229	413
Total Fixed Income Managers			**15,634**
Other Managers			
Bridgewater Associates, Inc.		230,079	1,682
Freeman Associates (Investment Research Co.)		174,982	1,595
Zazove Associates		199,524	1,390
Lotsoff Capital Management		115,067	592
Salus Capital Management		93,018	565
W G Trading/Westridge Capital Management, Inc.		322,147	236
Numeric Investors		132,297	192
Total Other Managers			**6,251**

(Continued on the next page)

SCHEDULE IV – INVESTMENT EXPENSES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004
(THOUSANDS OF DOLLARS)

Individual or Firm	Net Assets Managed at Fair Value	Fees
Alternative Equity Managers		
Mission Ventures, LP	$ 12,943	$ 668
Relational Investors, LLC	27,980	638
Forward Ventures Institutional Partners, LP	9,020	516
HarbourVest International Private Equity Partners III, LP	20,242	397
Apex Investment Fund V, L.P.	1,857	335
Capital Int'l. Global Emerging Markets Private Equity	9,512	249
Stinson Capital Partners, LP	20,354	205
TA Associates	6,650	187
Sorrento Ventures CE, LP	5,362	186
Blackstone Capital Partners IV	4,491	172
Oaktree Capital Management Opportunities Funds, LP	16,027	169
Belvedere Capital	10,953	121
Arch Venture Partners	2,099	116
Cerberus Instutional Partners	12,669	115
Oakhill Capital Partners, LP	4,664	113
Thomas Lee Equity Fund	7,058	111
Lighthouse Capital Partners	926	106
Meritech Capital Partners, LP	4,348	105
Texas Pacific Group	1,350	88
Code, Hennessy & Simmons IV	7,496	73
Lexington Capital Partners V	3,942	0
Northgate Capital Group	200	0
Total Alternative Equity Managers		**4,668**
Real Estate Managers		
REIT - REEF	137,489	632
ING Realty Associates, Inc.	10,727	178
Kennedy Associates Real Estate Counsel, Inc	13,599	133
Total Real Estate Managers		**942**
Master Custodian		
Bank of New York		1,578
Other Professional Fees		
RP Consulting Group, Inc.		1,276
Cambridge Capital Advisors		609
Mount Lucas Management		450
Rocaton		410
The Segal Company		117
The London Group		106
The Townsend Group		100
Other		50
Total Other Professional Fees		**3,118**
Administrative, Support and Other		**2,388**
Total Investment Expenses		**$ 51,891**

INVESTMENT SECTION

SDCERA

Supporting The Membership

San Diego County Employees Retirement Association

Trustees, Board of Retirement:

The US economy continued to pick up in the second year of a recovery. The growth in the GDP ranged from good to outstanding, though constrained by unexpected slow job growth and a much heralded, much discounted increase in interest rates. Companies sensitive to the recovery or benefiting from high oil prices did especially well in the period. Events in the year clearly demonstrated increased evidence of sustainable global recovery in developed countries. Other influential issues included the ascent of China in global trade, continuing concerns about stability in Iraq and terrorism. Global equity markets reflected strong gains, while the global debt markets were lackluster.

The Standard & Poor's 500 index, a US equity benchmark, returned 19.11% for the year, following an increase of only 0.23% in the prior period. Most of the increase, however, was attributed to the fourth quarter of 2003. Small capitalization stocks had a particularly good year. The total return of the Russell 2000, which tracks US small cap equities, was 33.37% following a return of -1.64% in the prior year. Value stocks outperformed growth stocks across all capitalizations.

Bonds outperformed stocks dramatically during the prior bear market. Once conditions stabilized, however, investors sought out more risky investment options. The Lehman Brothers Aggregate bond index returned only 0.33% for the period, whereas the riskier high yield segment performed well with a total return of 10.04% as measured by the Citigroup Cash Pay High Yield Index.

The total return of the EAFE, an international stock benchmark, was 32.27% in US dollar terms, and the return of non-US bonds was better than the domestic indexes. The Citigroup World Government Non-US$ Bond Index returned 7.59%.

The SDCERA Fund (the Fund) performed very well both in absolute terms and relative to its benchmarks and universes of peer funds. For the year, the Fund returned 21.27%, which is in the second percentile among all funds in the Master Trust Universe as well as in the Public Funds Universe and in the first percentile among similar funds with assets in excess of $1 billion. Median fund performance for both universes was lower at approximately 16%. The Fund's policy benchmark earned 18.86% and therefore the implementation of the portfolio provided an excess return of 2.41% representing over $100 million in additional earnings to the Fund.

The largest share of excess return was earned in the domestic equity portfolio, dominated by the "Alpha Engine", an S&P 500 index enhancement strategy. The Alpha Engine is composed of multiple strategies coupled with exposure to the returns of the S&P 500 stocks through a Total Return Swap with a number of counterparties. SDCERA fixed income, including Treasury Inflation Protected Securities, high yield bonds, emerging market debt and global bonds, provided a smaller share of excess returns, ranking in the twelfth percentile of the Master Trust Universe for fixed income. Both real estate and alternative investments performed well for SDCERA, earning 20.23% and 20.00%, respectively.

The current asset allocation policy of the SDCERA is as follows:

Investment Description	Allocation
Domestic Equity	32.5%
International Equity	23.2%
Alternative Assets	8.6%
Total Equity	**64.3%**
Real Estate	7.6%
TIPS & Mortgage Backed	5.9%
High Yield	7.8%
Emerging Market Debt	4.1%
International	0.0%
Global	10.3%
Total Fixed	**28.1%**
Total Assets	**100.0%**
Expected Return w/o Active Component	8.8%
Standard Deviation	11.7%

SDCERA rebalances its investments to reach these strategic allocations regularly and continues to pursue strategies aimed at adding modest excess returns while diversifying risk. Such strategies include the Managed Futures Program, the Alpha Engine, private equity opportunities in targeted partnerships and an active currency overlay. The active approach to investing has contributed strongly to the excellent performance of the Fund.

The performance numbers presented herein reflect time-weighted return calculated on the basis of audited information received from SDCERA's custodian bank, The Bank of New York, and are consistent with AIMR (Association for Investment Management and Research) standards of performance and reporting.

Sincerely,

David J. Deutsch, CFA
Chief Investment Officer
October 15, 2004

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, in part:

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

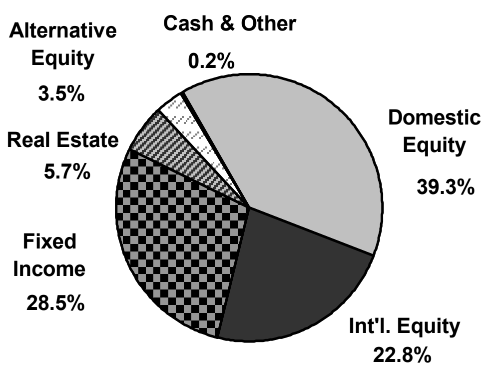
(a) *Solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system.*

(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.*

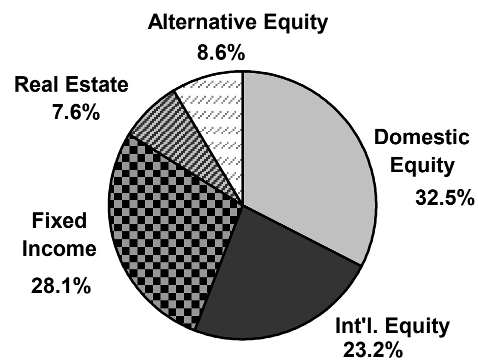
(c) *Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.*

The Board has adopted an investment policy statement and related policies to ensure that the plan is managed to the prudent expert standard, required in California. These policies set investment return and risk objectives, both at the manager and plan level, and provide for the extensive diversification of assets, securities lending, commission recapture, value added strategies, proxy voting and corporate governance issues.

ASSET ALLOCATION
June 30, 2004



TARGET ASSET ALLOCATION



Asset Type		Fair Value (1)	Percent of Total	Target Percent of Total
Domestic Equity	$	2,166,613	39.3%	32.5%
International Equity		1,258,661	22.8%	23.2%
Fixed Income		1,568,759	28.5%	28.1%
Real Estate		313,983	5.7%	7.6%
Alternative Equity (2)		190,143	3.5%	8.6%
Other Assets and Liabilities		10,480	0.2%	0.0%
Total	$	**5,508,639**	**100.0%**	**100.0%**

(1) Amounts are in thousands. Each asset type includes accrued interest and dividends.

(2) Due to the nature of the alternative equity portfolio, the target allocation of 8.6% is expected to be reached within a five year span. The funding and commitment levels as of June 30, 2004 are approximately 3.5% and 6.21%, respectively.

PERFORMANCE RESULTS, ANNUALIZED, NET OF FEES
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	**21.27%**	**6.32%**	**4.99%**	**10.05%**	Custom Benchmark (1)	18.86%	5.01%	3.27%	8.99%
					Master Trust Median	15.80%	4.09%	3.76%	10.16%
					Public Fund Sponsors Median	15.75%	4.12%	3.59%	9.65%
					Actuarial Rate of Return	8.25%	8.25%	8.25%	8.25%
Domestic Equity	23.30%	2.03%	1.94%	12.28%	Custom Benchmark (2)	21.49%	1.38%	0.21%	10.86%
					Managed Equities Portfolios Median	21.30%	1.15%	1.97%	12.56%
					S&P 500	19.11%	-0.71%	-2.20%	11.82%
International Equity	34.24%	7.59%	2.02%	5.39%	Custom Benchmark (3)	34.36%	7.77%	2.51%	4.24%
					Managed International Equities Portfolios Median	30.83%	5.45%	2.96%	7.10%
					Citigroup World PMI ex U.S.	31.25%	4.18%	0.86%	5.44%
Fixed Income	7.24%	8.72%	9.07%	10.55%	Custom Benchmark (4)	5.56%	10.15%	8.62%	9.48%
					Managed Fixed Income Portfolios Median	1.10%	6.78%	7.08%	7.54%
					Managed International Fixed Income Portfolios Median	5.70%	12.73%	7.29%	7.75%
					Lehman Aggregate	0.33%	6.36%	6.95%	7.39%
Real Estate	20.23%	14.81%	14.02%	12.25%	NCREIF Property Index (5)	10.83%	7.96%	9.41%	10.36%
					Real Estate Portfolios Median	10.63%	7.80%	9.15%	9.79%
Alternative Equity	20.00%	0.00%	10.90%	N/A	Custom Benchmark (6)	22.43%	-3.46%	8.42%	N/A

NOTES:

1. 27.6% Russell 1000 Index; 6.8% Russell 2000 Index; 3.3% First Boston Convertible; 14.4% Citigroup World PMI ex US; 3.6% Citigroup EMI ex U.S.; 5.2% Citigroup Emerging Markets; 3.2% Lehman Aggregate; 10.3% Lehman Global Aggregate; 7.8% Citigroup Cash Pay High Yield; 2.7% Barclays US Inflation Linked; 3.4% Alternative Equity; 7.6% NCRIEF Property Index; 4.1% JPM EMBI Global Dividend.

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

3. 62.1% Citigroup World PMI ex U.S.; 15.5% Citigroup EMI ex US; 22.4% Citigroup Emerging Markets.

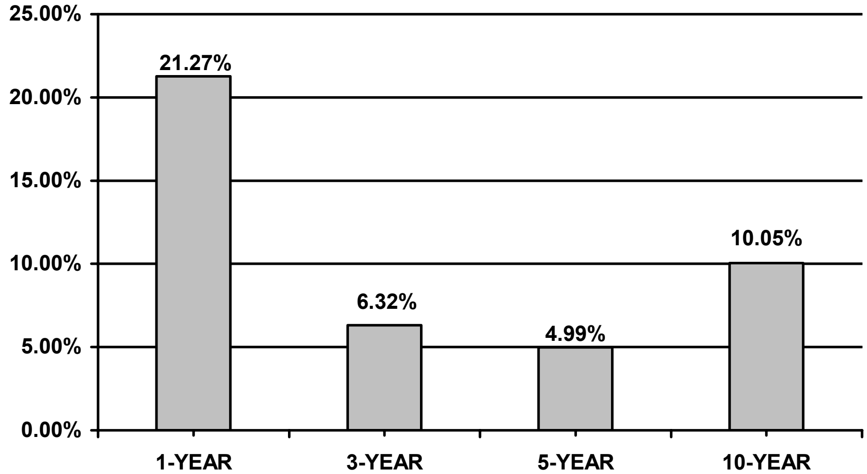
4. 11.4% Lehman Aggregate; 36.6% Lehman Global Aggregate; 27.8% Citigroup Cash Pay High Yield Index; 9.6% Barclays US Inflation Linked; 14.6% JPM EMBI Global Dividend.

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

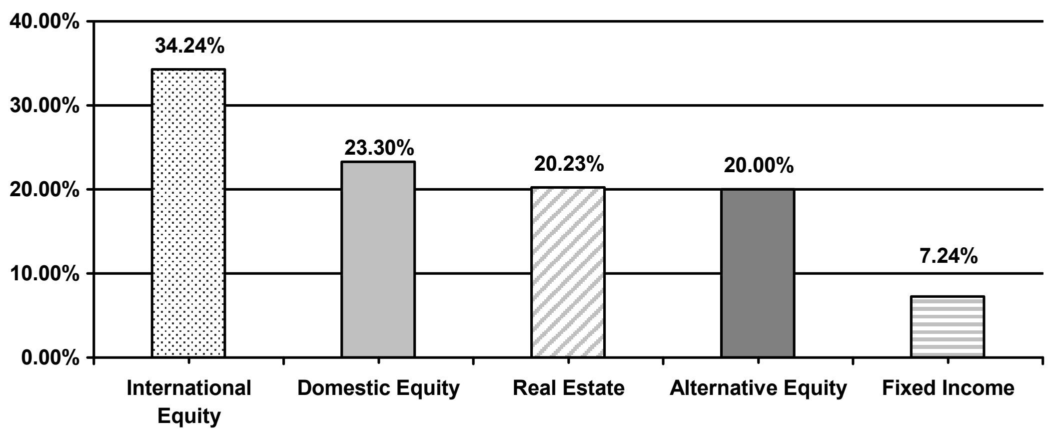
6. Cambridge Associates' total assets portfolio benchmark based on a pooled return of funds, on a quarter lag.

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

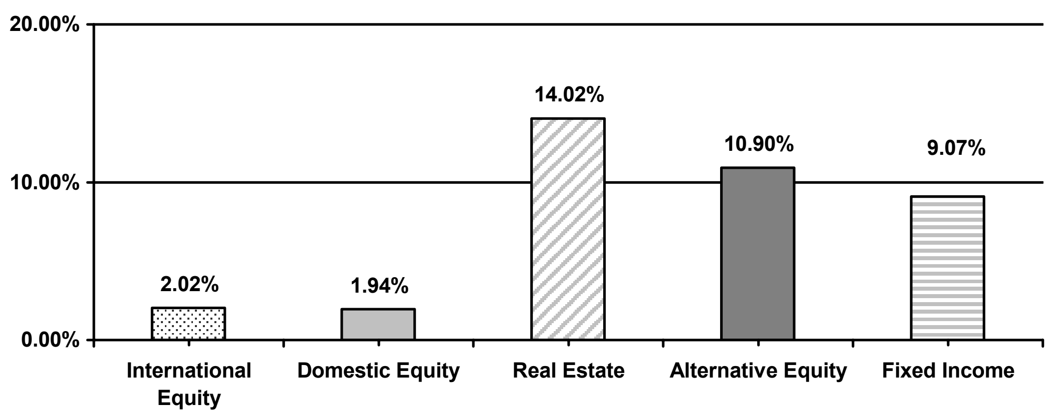
PERFORMANCE RESULTS – TOTAL FUND CATEGORY
ANNUALIZED, NET OF FEES
FOR THE YEAR ENDED JUNE 30, 2004



PERFORMANCE RESULTS BY INVESTMENT CATEGORY
1-YEAR RETURN NET OF FEES
FOR THE YEAR ENDED JUNE 30, 2004



PERFORMANCE RESULTS BY INVESTMENT CATEGORY
5-YEAR RETURN, ANNUALIZED, NET OF FEES
FOR THE YEAR ENDED JUNE 30, 2004



TOP 10 HOLDINGS – EQUITY
AS OF JUNE 30, 2004

Shares	Security Name	Market Value
280,826	Exxon Mobil Corp.	$ 12,471,483
223,300	Simon Property Group Inc	11,482,086
1,264,730	BP Amoco Capital	11,170,176
57,463	Total SA	10,955,654
359,400	Equity Residential SBI	10,684,962
183,800	Proctor & Gamble Co	10,006,072
494,270	GlaxoSmithKline PLC	10,003,724
285,100	Prologis	9,385,492
624,914	Telefonica SA	9,237,991
179,162	Royal Dutch Petroleum	9,194,614

TOP 10 HOLDINGS – FIXED INCOME
AS OF JUNE 30, 2004

Par/Book Value	Description	Market Value
23,761,061	U.S. Treasury Inflation Index Notes, 04/15/29	$ 25,972,222
18,153,890	U.S. Treasury Inflation Index Notes, 04/15/28	22,686,925
19,059,210	New Zealand Government, 11/15/06	19,763,820
18,602,287	U.S. Treasury Inflation Index Notes, 01/15/11	18,995,386
18,959,349	Australia Government, 11/15/06	17,924,539
17,687,641	U.S. Treasury Inflation Index Notes, 01/15/10	17,905,431
13,146,521	U.S. Treasury Inflation Index Notes, 01/15/09	13,227,665
12,622,708	New Zealand Government, 04/15/13	12,974,232
12,715,355	UK Treasury Bonds, 03/07/12	12,788,627
12,229,500	Canadian Goverment, 09/01/07	12,352,887

A complete list of the portfolio holdings is available upon request.

COMMISSIONS PAID – DOMESTIC
FOR THE YEAR ENDED JUNE 30, 2004

No.	Brokerage Firm	Number of Shares Traded	Total Commissions	Cost of Commission per Share	% of Total Commissions
1	Bear Stearns & Co.	7,229,459	$ 306,686	$ 0.0424	12.00%
2	Jefferies & Company, Inc.	6,456,521	238,010	0.0369	10.00%
3	Lynch, Jones & Ryan, Inc.	5,204,808	186,408	0.0358	7.00%
4	Merrill Lynch	3,269,224	125,646	0.0384	5.00%
5	Wave Securities, LLC	3,722,042	74,441	0.0200	3.00%
6	Instinet Corporation	1,486,038	69,694	0.0469	3.00%
7	Standard & Poor's, Inc.	1,344,500	66,427	0.0494	3.00%
8	Wachovia Securities, LLC	1,284,428	61,239	0.0477	2.00%
9	Bank Of America Securities	1,876,375	56,449	0.0301	2.00%
10	Citigroup Global Markets Inc.	1,173,498	54,473	0.0464	2.00%
11	O'Neil, William & Company	1,085,600	53,733	0.0495	2.00%
12	Lehman Brothers Inc.	1,064,299	50,685	0.0476	2.00%
13	Other*	35,855,503	1,158,054	0.0323	47.00%
	Total	**71,052,295**	**$ 2,501,945**	**$ 0.0352**	**100.00%**

*Includes approximately 133 additional firms, each with less than 1.86% of total commissions.

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

COMMISSIONS PAID – INTERNATIONAL
FOR THE YEAR ENDED JUNE 30, 2004

No.	Brokerage Firm	Number of Shares Traded	Total Commissions	Cost of Commission per Share	% of Total Commissions
1	Morgan Stanley & Co., Inc.	10,371,614	$ 96,171	$ 0.0093	9.00%
2	UBS Warburg	7,250,227	88,732	0.0122	9.00%
3	Merrill Lynch and Co., Inc.	10,738,141	88,533	0.0082	9.00%
4	Deutsche Banc Securities Inc.	7,721,229	68,893	0.0089	7.00%
5	Citigroup Global Markets Inc.	3,607,023	68,402	0.0190	7.00%
6	Lehman Brothers Inc.	3,876,964	59,605	0.0154	6.00%
7	Goldman Sachs and Co.	3,205,845	57,086	0.0178	6.00%
8	Dresdner Bank	2,913,518	53,210	0.0183	5.00%
9	Credit Suisse First Boston	7,496,322	45,990	0.0061	5.00%
10	JP Morgan Chase Bank	3,413,189	40,408	0.0118	4.00%
11	ABN Amro Securities	2,804,927	37,005	0.0132	4.00%
12	Exane Inc.	375,289	21,496	0.0573	2.00%
13	Other**	54,013,237	287,495	0.0053	27.00%
	Total	**117,787,525**	**$ 1,013,027**	**$ 0.0086**	**100.00%**

** Includes approximately 102 additional firms, each with less than 1.94% of total commissions.

SUMMARY OF INVESTMENT PORTFOLIO BY TYPE
AS OF JUNE 30, 2004

Investment Description	Fair Market Value	% of Total Market Value
Domestic Equity		
Financial	$ 398,392,002	7.1%
Materials and Services	383,538,312	7.0%
Technology	375,271,359	6.8%
Consumer Non-Durable	298,951,624	5.4%
Capital Goods and Services	218,098,992	4.0%
Consumer Durable	185,531,842	3.4%
Energy	152,494,568	2.8%
Utilities	69,327,825	1.3%
Transportation	20,421,151	0.4%
Miscellaneous Common Stocks	1,253,788	0.0%
Convertible Securities	57,801,939	1.0%
Total Domestic Equity	**2,161,083,402**	**39.2%**
International Equity	**1,249,111,358**	**22.7%**
Total Equity	**3,410,194,760**	**61.9%**
Fixed Income		
International Bonds	517,703,448	9.4%
Corporate Bonds	388,433,840	7.1%
Government Bonds	499,427,241	9.1%
Convertible Bonds	54,236,323	1.0%
Short Term Notes	48,350,069	0.9%
Total Fixed Income	**1,508,150,921**	**27.4%**
Other Investments		
Real Estate	311,094,373	5.6%
Alternative Equity	190,143,201	3.5%
Cash & Cash Equivalents with Fiscal Agents	68,949,544	1.3%
Other Assets and Liabilities	20,106,183	0.4%
Total Other	**590,293,301**	**10.7%**
Net Investment Portfolio	**$ 5,508,638,982**	**100.0%**

SUMMARY OF INVESTMENT PORTFOLIO BY MANAGER/ASSET TYPE
AS OF JUNE 30, 2004

Securities Description	Asset Type	Market Value
Domestic Equity		
S&P 500 Enhanced	S&P 500 Index	1,009,689,987
Equitized Cash (Liquidity & Manager's)	S&P 500 Index	295,046,902
Duncan Hurst Capital Management	Growth-Large/Mid Cap	230,591,795
Dimensional Fund Advisor	Value-Small Cap	229,965,123
Denali Investment Advisors	Value-Large Cap	218,802,923
Nicholas Applegate Emerging Growth	Growth-Small Cap	79,853,755
Nicholas Applegate Convertible Bond	Convertible Preferred	32,818,692
Zazove Associates	Convertible Preferred	31,286,615
Artisan Partners	Large Cap Growth	14,599,009
W. R. Huff	Convertible Preferred	8,762,436
Delaware International Advisor	Large Cap Value	5,959,655
OCM High Yield Convertible	Convertible Preferred	2,460,946
Oaktree Capital Management LLC	Convertible Preferred	897,084
Pimco	Preferred Stock	348,480
Total Domestic Equity		**2,161,083,402**
International Equity		
Fidelity Management Trust Company	Core	252,728,744
Capital Guardian Trust Company	Small Cap	221,016,581
Delaware International Advisor	Large Cap Value	214,417,722
Artisan Partners	Large Cap Growth	206,850,697
Genesis	Emerging Markets	149,251,611
Capital Guardian Emerging Market	Emerging Markets	138,421,774
EAFEtized Cash	International Futures	60,222,194
Pimco	Fixed Income	16,633,818
Colchester Global	Foreign Currency	1,719,494
Zazove Associates	Foreign Currency	83,522
FX Concepts, Inc.	Currency Forwards	(299,316)
FX Concepts, Inc.	Currency Overlay	(3,260,588)
Quantitative Financial Strategies	Currency Overlay	(8,674,895)
Total International Equity		**1,249,111,358**
Total Equity		**3,410,194,760**
Fixed Income		
Colchester Global	Global	239,649,815
Fixed Income Futures	Lehman Aggregate	206,425,608
Ashmore Emerging Markets	Emerging Markets Debt	189,491,754
Pimco	Domestic	137,348,155
W.R.Huff Asset Management Company	High Yield	123,369,055
TCW Asset Management Company	Mortgage Backed	120,310,574
Pimco Tips	Inflation Protection	115,110,344
Oaktree Capital Management LLC	High Yield	107,012,405
Pimco	Global Ex U.S.	105,277,853
Nicholas Applegate Convertible	Convertibles	63,485,583
Managed Futures	Managed Futures	41,376,933
Zazove Associates	High Yield Convertible	42,161,520
OCM High Yield Convertible	High Yield	17,131,322
Total Fixed Income		**1,508,150,921**
Real estate, Alternative Equity and Other		
Real Estate	Real Estate	311,094,373
Alternative Equity	Alternative Equity	190,143,201
Cash	Cash	68,949,544
Other Assets and Liabilities	Other	20,106,183
Net Investment Portfolio		**5,508,638,982**

SCHEDULE OF SWAPS, FUTURES, BONDIZED, EAFETIZED AND EQUITIZED CASH
AS OF JUNE 30, 2004

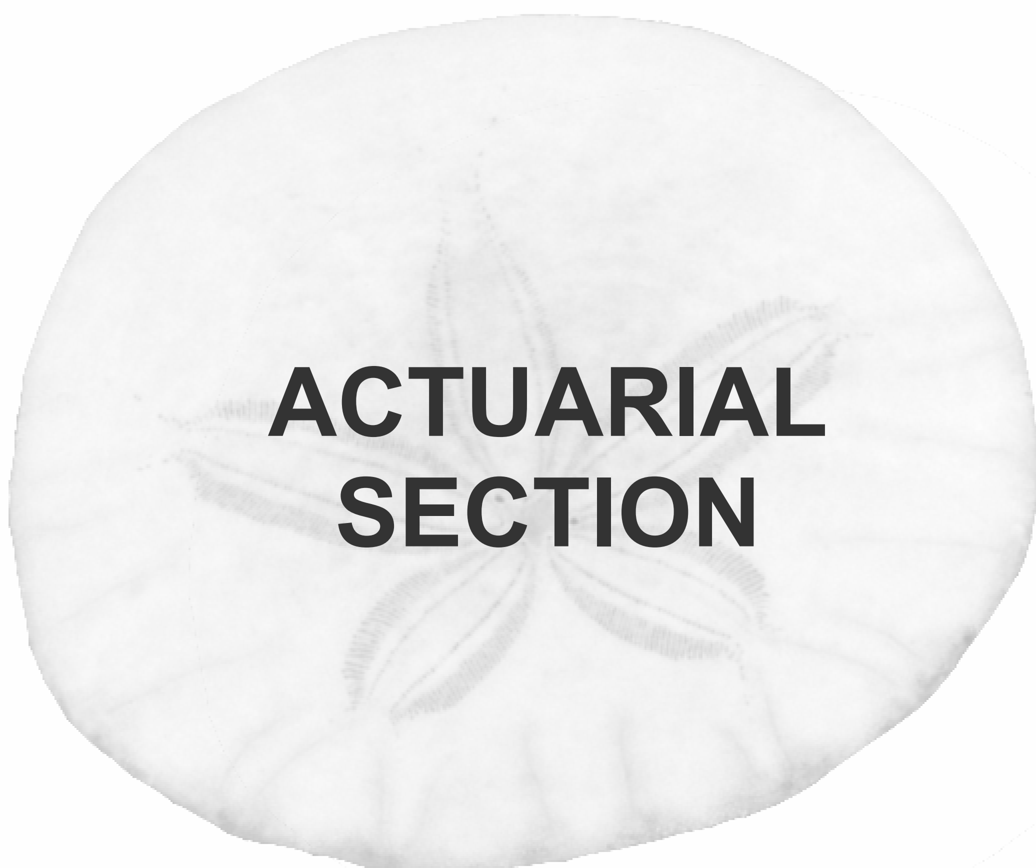
Description	NOTIONAL/ BOOK VALUE	MARKET VALUE
In Domestic Equity Swaps:		
S&P 500 SWAP 09/17/04	$ 91,981,845	$ 92,546,743
S&P 500 SWAP 6/17/05	16,750,851	16,934,756
S&P 500 SWAP 3/18/05	48,793,067	49,094,508
S&P 500 SWAP 6/17/05	72,121,332	72,913,139
S&P 500 SWAP 9/17/04	31,485,797	31,679,164
S&P 500 SWAP 12/17/04	31,803,549	31,998,868
S&P 500 SWAP 12/17/04	73,167,511	73,616,863
S&P 500 SWAP 3/28/05	80,621,024	81,215,425
S&P 500 SWAP 4/29/05	49,207,673	50,911,589
S&P 500 SWAP 3/18/05	44,459,378	44,734,046
S&P 500 SWAP 7/16/04	22,874,785	22,868,667
S&P 500 SWAP 11/26/04	51,304,894	52,360,141
S&P 500 SWAP 12/20/04	52,133,424	52,674,102
S&P 500 SWAP 12/20/04	72,986,794	73,743,743
S&P 500 SWAP 04/26/05	70,000,000	70,557,106
S&P 500 SWAP 04/26/05	65,000,000	65,517,313
S&P 500 SWAP 06/17/05	75,000,000	75,794,388
S&P 500 SWAP 06/17/05	50,000,000	50,529,425
Subtotal	**999,691,924**	**1,009,689,987**
Alpha Engine Managers		
Lotsoff Capital Management	104,289,514	104,437,627
Alpha STMM/STIF Cash	35,556,794	35,556,794
Bridgewater	163,479,395	165,374,517
Numeric	79,841,563	81,169,440
Freeman Assoc.	127,827,192	138,117,226
Salus Capital Mgmt.	88,517,609	92,620,703
WG Trading	196,791,073	201,674,424
Zazove Associates	201,903,945	197,975,967
Total Alpha Engine Managers	**998,207,086**	**1,016,926,701**
Less: Notional Value of Swap Investments		(999,691,924)
Excess Collateralization		**$ 17,234,776**

SCHEDULE OF SWAPS, FUTURES, BONDIZED, EAFETIZED AND EQUITIZED CASH
AS OF JUNE 30, 2004

Description		CASH	NOTIONAL VALUE
In Futures:			
Domestic Equity Managers Equitized Cash		$ 8,615,232	$ 8,841,510
Eafe Futures		50,081,946	50,920,351
Equitized Liquidity		52,761,936	52,763,850
POB Overlay S&P Future		236,157,311	237,294,720
POB Overlay International Future		9,491,503	10,304,352
POB Overlay Fixed Income Future		204,807,708	195,872,281
Total Futures Allocation		561,915,637	555,997,064
Pimco Cash Management (Excess Earnings)		1,458,509	
Total Cash		632,323,690	
* Unequitized Cash		68,949,544	
RECAP OF CASH:			
Cash in STMM with Bank of New York:			
Domestic Equity Managers	8,129,232		
Fixed Inc. Mgrs & RE Cash	68,939,444		
POB Overlay S&P Future	222,845,311		
POB Overlay International Future	8,868,641		
POB Overlay Fixed Income Future	203,339,508		
		512,122,137	
Cash in STMM with Pimco:			
Eafe Futures	47,015,587		
Equitized Cash	38,872,889		
Pimco Cash Management (Excess Earnings)	1,458,509		
		87,346,986	
Cash in San Diego County Pool		9,355,667	
Cash on Hand		100	
Cash at Union Bank of California		1,621,380	
Margin Cash-Lehman		21,877,420	
Total Cash		632,323,690	
UNEQUITIZED CASH:			
Cash in A/P Checking - Bank of New York		10,000	
Petty Cash		100	
Fixed Income Managers & REIT		68,939,444	
Non-US Equity Managers Cash in STMM			**68,949,544**

(1) Pension Obligation Bonds (POB) provided short term exposure to reflect the current asset allocation, prior to the distribution of funds to the investment managers at year end.

(2) Overlay exposure to the Lehman Aggregate index is structured as a mix of interest rate futures contracts. The notional value of the mix of contracts provides exposure equivalent to the targeted fixed cash asset and asset allocation policies. The difference between notional exposure and the cash asset is simply cash which is also in the overlay mix but which contributes no interest rate exposure.



ACTUARIAL SECTION

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

SEGAL

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

October 19, 2004

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

Dear Members of the Board:

The Segal Company prepared the June 30, 2004 actuarial valuation of the San Diego County Employees Retirement Association (SDCERA). We certify that the Retirement Association is in sound financial condition and that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

As part of the June 30, 2004 actuarial valuation, The Segal Company (Segal) conducted an examination of all participant data for reasonableness. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. We did not audit the Association's financial statements. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over a five-year period.

The funding objective of the Plan is to establish rates which, over time, will remain level as a percentage of payroll unless Plan benefit provisions are changed. Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payrolls to amortize any unfunded actuarial accrued liability (UAAL). Actuarial gains and losses are incorporated into the UAAL and are amortized over the same period.

Components of the UAAL are amortized as a level percentage of payrolls over a 20-year period. Future components of the UAAL will be amortized over separate 20-year periods. The progress being made towards meeting the funding objective through June 30, 2004 is illustrated in the Schedule of Funding Progress and History of Employer Contribution Rates.

A listing of supporting schedules Segal prepared for inclusion in the actuarial, statistical and financial sections of the Association's CAFR report is provided below:

1. Schedules of active member valuation data;
2. Historical summary of average payroll;
3. Retirees and beneficiaries added to and removed from retiree payroll;

Board of Retirement
San Diego County Employees Retirement Association
October 19, 2004
Page 2

4. Solvency test;
5. Historical summary of assumptions;
6. History of employer contribution rates;
7. Schedule of benefit expenses by type;
8. Schedule of retiree members by type of benefit; and
9. Schedule of funding progress.

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on our recommendations following the June 30, 2003 Experience Analysis or in conjunction with the June 30, 2004 actuarial valuation. It is our opinion that the assumptions used in the June 30, 2004 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The next experience analysis is due to be performed as of June 30, 2006.

In the June 30, 2004 valuation, the ratio of the valuation assets to actuarial accrued liabilities increased from 75.5% to 81.1%. The employer's rate has decreased from 27.64% of payroll to 23.03% of payroll, while the employee's rate has decreased from 9.89% of payroll to 9.85% of payroll.

Sincerely,

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

Andy Yeung, ASA, MAAA
Associate Actuary

AYY/hy

180780/05536.001

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 Value of Assets	Active Member Contributions	Liability for Retired Participants	Liability for Active Members (Employer Financed Portion)
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%
06/30/03	216,908	2,552,755	3,083,462	4,417,766	100%	100%	53.4%
06/30/04	235,851	2,890,576	3,243,063	5,166,759	100%	100%	62.9%

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 valuations assets ($117.2 million for health benefits and STAR COLA).

Sources: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, until June 30, 2002
The Segal Company, Annual Actuarial Valuation since June 30, 2003

HISTORY OF EMPLOYER CONTRIBUTION RATES

	General Members			Probation Members (1)			Safety Members		
Year Ended	Normal %	UAAL %	Total %	Normal %	UAAL %	Total %	Normal %	UAAL %	Total %
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),(3)**	10.77	18.21	28.98				19.61	23.36	42.97
06/30/03	12.01	13.58	25.59				17.78	17.21	34.99
06/30/04	12.04	9.30	21.34				17.79	11.40	29.19

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).

Note (3) An interim actuarial valuation as of October 3, 2002 was performed to reflect the County's contribution of $550 Million from the proceeds of a Pension Obligation Bond issue used to fund a major portion of the retirement system's accrued liability and a change in the amortization period for UAAL from 10 years to 15 years. The Board of Retirement adopted employer contribution rates for general members and safety members of 19.72% and 32.41% respectively based on that interim actuarial valuation.

UAAL = Amortization of Unfunded Actuarial Accrued Liability

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, until June 30, 2002
The Segal Company, Annual Actuarial Valuation since June 30, 2003

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

	Added to Rolls		Removed from Rolls		Rolls at End of Year				
Fiscal Year	No.	Annual Allowance (1) (2)	No.	Annual Allowance (1) (2)	No.	Annual Allowance (2)	% Increase in Retiree Allowance	Average Annual Allowance	Change in Average Benefit
1995	486		298		7,294	$ 86,660,001	--%	11,881	--%
1996	434		229		7,499	93,627,577	8.0%	12,485	5.1%
1997	316		123		7,692	99,998,279	6.8%	13,000	4.1%
1998	447		184		7,955	107,752,376	7.8%	13,545	4.2%
1999	640		303		8,292	118,154,737	9.7%	14,249	5.2%
2000	543		132		8,703	131,163,025	11.0%	15,071	5.8%
2001	549	$11,012,689	331	$ 2,497,970	8,921	139,677,744	6.5%	15,657	3.9%
2002	1,028	38,298,383	292	2,208,194	9,657	175,767,933	25.8%	18,201	16.2%
2003	1,168	34,998,385	572	5,369,873	10,253	205,396,444	16.9%	20,033	10.1%
2004	900	32,384,224	383	5,714,843	10,770	232,065,825	13.0%	21,547	7.6%

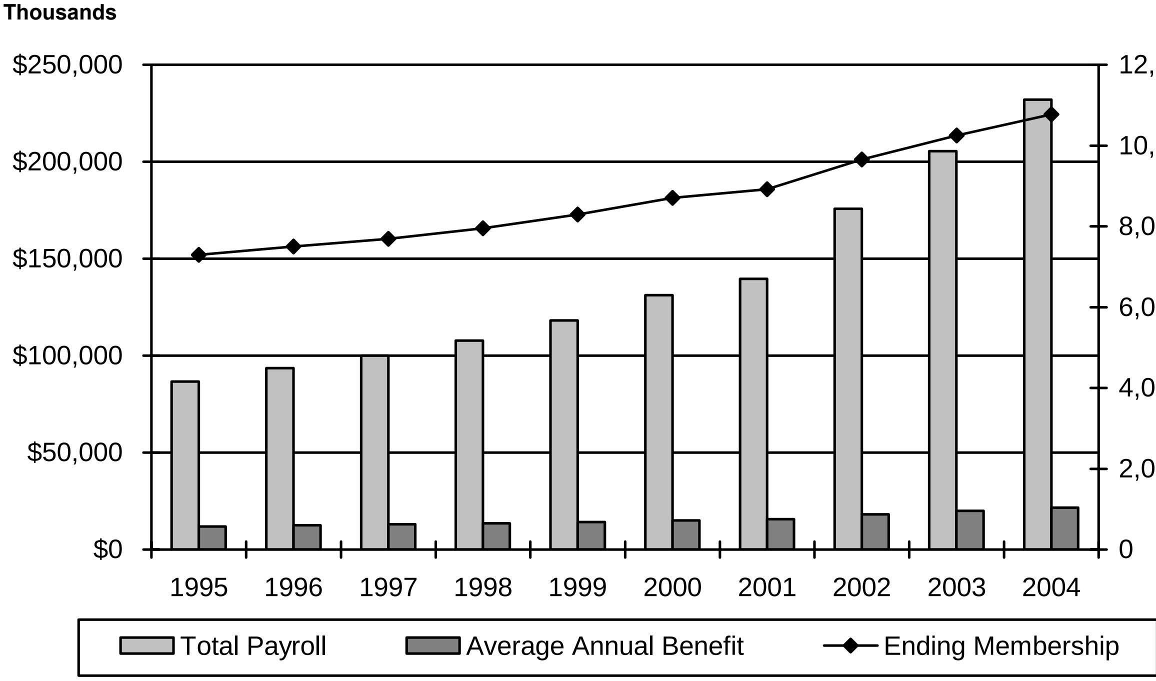
No. = Number

Note (1) Annual allowance added and removed from rolls not available prior to 6/30/2001.

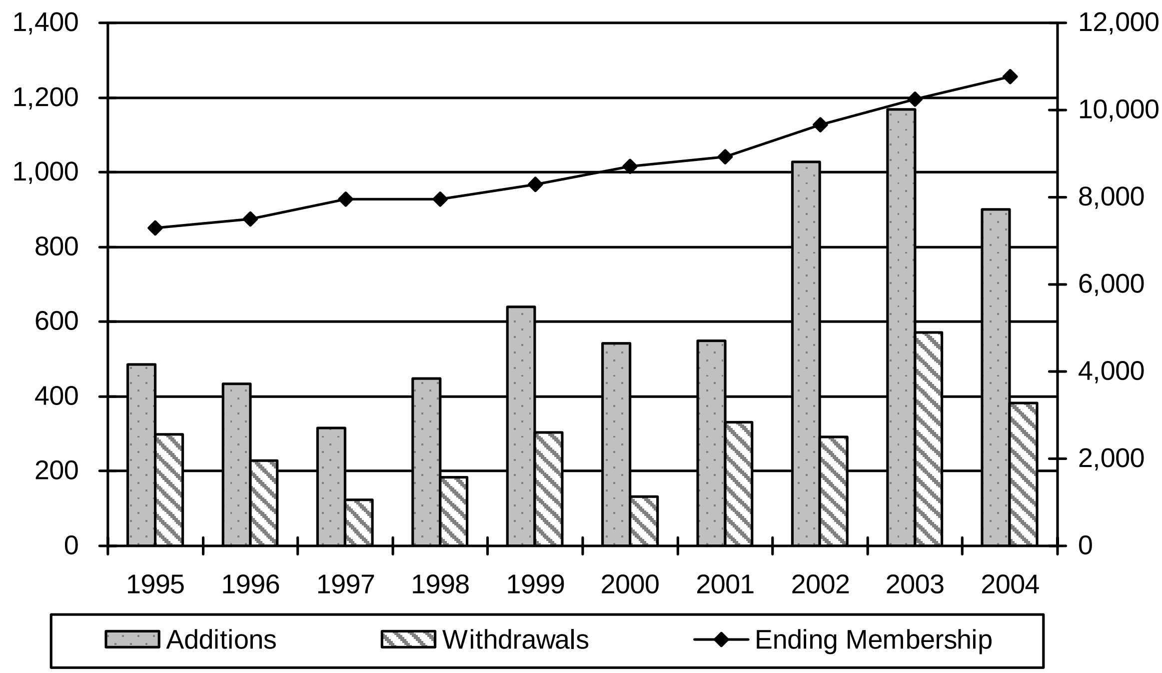
Note (2) Includes automatic cost of living adjustments granted April 1.

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, until June 30, 2000
The Segal Company, Annual Actuarial Valuation since June 30, 2001

RETIREMENT PAYROLL AND AVERAGE ANNUAL PENSION BENEFIT
FOR THE YEARS ENDED JUNE 30

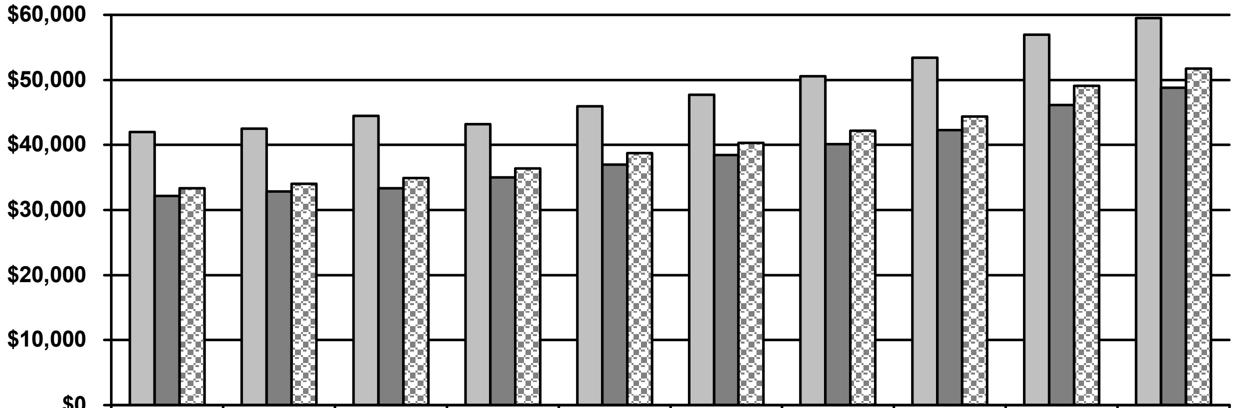


MEMBERSHIP ACTIVITY
FOR THE YEARS ENDED JUNE 30



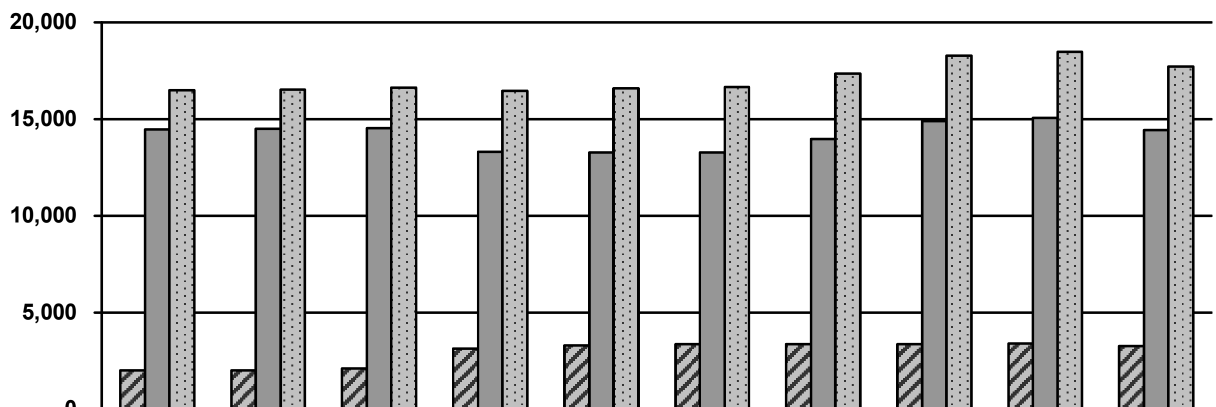
Sources: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, until June 30, 2000
The Segal Company Annual Actuarial Valuation since June 30, 2000

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



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Safety	$41,990	$42,469	$44,476	$43,144	$45,981	$47,660	$50,593	$53,384	$56,943	$59,510
General	$32,180	$32,814	$33,375	$35,039	$36,968	$38,480	$40,109	$42,303	$46,108	$48,764
Total	$33,378	$33,992	$34,954	$36,432	$38,771	$40,343	$42,150	$44,342	$49,071	$51,763

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



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Safety	2,015	2,017	2,107	3,132	3,316	3,382	3,376	3,362	3,409	3,271
General	14,485	14,507	14,528	13,309	13,263	13,287	13,970	14,914	15,057	14,446
Total	16,500	16,524	16,635	16,441	16,579	16,669	17,346	18,276	18,466	17,717

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.

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, until June 30, 2002
The Segal Company, Annual Actuarial Valuation, since June 30, 2003

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

		Plan Year Ended			
	Funding Value Details	**6/30/01**	**6/30/02**	**6/30/03**	**6/30/04**
A	Funding Value, beg. of year	$ 3,568,671	$ 3,745,600	$ 3,831,335	$ 4,417,766
B	Gross Market Value, end of year	3,963,184	3,569,748	4,103,348	5,508,639
C	Gross Market Value, beg. of year	4,362,148	3,963,184	3,506,634 [2]	4,103,348
D	Non-investment Cash Flow	(91,990)	(95,505)	426,814	476,227
E	Investment Income				
E1	Market total = **B - C - D**	(306,974)	(297,931)	169,900	929,064
E2	8.25% Recognition	292,317	307,159	345,035 [3]	365,548
E3	Phase-in Recognition = **E1 - E2**	(599,291)	(605,090)	(175,135)	563,516
F	Phase-in Recognition				
F1	Current Year = **E3 x 20%**	(119,858)	(121,018)	(35,028) [4]	112,703
F2	First Prior Year	69,992	(119,858)	(121,018)	(35,028)
F3	Second Prior Year	28,090	69,992	(119,858)	(121,018)
F4	Third Prior Year	50,828	28,090	69,992	(119,858)
F5	Fourth Prior Year	50,688	50,828	28,090	69,992
F6	Total Recognized Gain	79,740	(91,966)	(177,823) [4]	(93,210)
G	Preliminary Funding Value End of Year = **A + D + E2 + F6**	3,848,738	3,865,288	4,425,361	5,166,332
H	Excludable Reserves				
H1	End of Year	380,035	413,988	358,469	358,042
H2	Beginning of Year	276,897	380,035	350,874 [5]	358,469
H3	Change = **H1 - H2**	103,138	33,953	7,595	(427)
	Final Funding Value = G - H3	**$ 3,745,600**	**$ 3,831,335**	**$ 4,417,766**	**$ 5,166,759**

[2] Net Market Value, restated by Gabriel, Roeder, Smith & Company Oct. 3, 2002 Actuarial Valuation

[3] The formula for recognition of the 8.25% assumed annual investment rate of return is based on level contributions (except for an adjustment to reflect the timing of the issuance of Pension Obligation Bonds) and level non-investment cash flow throughout the year.

[4] Result may not be exact, due to rounding

[5] Restated by Gabriel, Roeder, Smith & Company Oct. 3, 2002 Actuarial Valuation

Sources: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, until June 30, 2002
The Segal Company, Annual Actuarial Valuation since June 30, 2003

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 normal 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. On June 17, 2004, SDCERA's Board adopted The Segal Company's recommendation regarding the amortization period. The balance of unfunded actuarial accrued liabilities is funded (or credited, if negative) over 20 years on a close basis, as a level percent of pay.

Active member payroll in aggregate was assumed to increase 5.0% a year for those with over 5 years of service and higher rates for those with less than 5 years, for the purpose of determining the level percent contributions although individual annual salary increase rates may be higher 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, service credit, and highest average salary. 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 for the period July 1, 2000 through June 30, 2003, 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, was 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: The Segal Company, Annual Actuarial Valuation, June 30, 2004.

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.

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%**

Salary increase rates used to project current pay for those upon which a benefit will be based, were revised in 2003. Rates vary by length of service, and consist of 4% for inflation plus the merit and longevity increases shown in the table below. The maximum combined rate is 11% and the minimum combined rate is 5%.

Years of Service	Safety	General
0	7.00%	4.00%
1	6.00%	3.50%
2	4.75%	3.00%
3	3.50%	2.50%
4	2.50%	2.00%
5+	1.00%	1.00%

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

SCHEDULE OF ACTIVE MEMBER VALUATION DATA FOR THE YEARS ENDED JUNE 30

Valuation Year	Employees	Total Payroll	% Change	Average Salary	% Change
1995	16,500	$ 550,737,347	--%	$ 33,378	--%
1996	16,524	561,691,535	2.0	33,992	1.8
1997	16,635	581,453,449	3.5	34,954	2.8
1998	16,441	598,971,557	3.0	36,432	4.2
1999	16,579	642,780,304	7.3	38,771	6.4
2000	16,669	672,476,730	4.6	40,343	4.1
2001	17,346	731,130,021	8.7	42,150	4.5
2002	18,276	810,388,635	10.8	44,342	5.2
2003	18,466	906,139,698	11.8	49,071	10.7
2004	17,717	917,081,642	1.2	51,763	5.5

Sources: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, until June 30, 2002
The Segal Company, Annual Actuarial Valuation since June 30, 2003

HISTORIC SUMMARY OF ASSUMPTIONS
FOR THE YEARS ENDED JUNE 30

	Fiscal Year Ended					3 Year	5 Year
Assumption	**2004**	**2003**	**2002**	**2001**	**2000**	**Average**	**Average**
Inflation [1]	3.70%	4.10%	2.90%	5.70%	4.70%	3.57%	4.22%
Assumed [3]						4.00	4.00
Average Pay increase	5.5	8.5	5.2	4.5	4.1	6.40	5.56
Assumed [3]						4.00	4.00
Merit & Longevity Pay Increase	0.6	2.4	2.3	(1.2)	(0.6)	1.77	0.70
Assumed [4]						0.83	0.70
Total Payroll	1.2	9.6	10.8	8.7	4.6	7.20	6.98
Assumed [3]						4.00	4.00
Investment Return Rate [2]	5.7	3.7	5.8	10.5	16.3	5.07	8.40
Assumed [5]						8.25	8.25
Real Rate of investment Return	2.0	(0.4)	2.9	4.8	11.6	1.50	4.18
Assumed [6]						4.25	4.25
Admin. Expenses (% of Assets)	0.2	0.2	-	-	-	0.13	0.08
Assumed						0.13	0.08

1 Based on June to June change in Consumer Price Index for San Diego, All Items, 1982-84=100. Please note that this index is different from the measure used to determine the annual retiree COLA.
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, 2003 valuation, this assumption has been increased from 0.5% to 1.0%
5 Effective with June 30, 1997 valuation, this assumption has been increased from 8.0% to 8.25%
6 Effective with June 30, 1997 valuation, this assumption has been increased from 3.5% to 4.25%

Source: Gabriel, Roeder, Smith & Company, Annual Actuarial Valuation, until June 30, 2002
The Segal Company, Annual Actuarial Valuation since June 30, 2003

Rates of separation from active membership are shown below. 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 also assumed that 35% of General and 40% of Safety separating active members will continue employment with a reciprocal employer. Reciprocal members are assumed to receive 5.0% compensation increases per annum.

In March of 2004, SDCERA's Board adopted The Segal Group's recommendations regarding changes to the Retirement Probability Rates, Post-Mortality Rate, Termination, Disability Incidence Rates, and Individual Salary Increases. On May 6, 2004, the Board also adopted Segal's recommendations on changes to the Member Contribution Rate.

PERCENT OF ACTIVE MEMBERS SEPARATING WITHIN THE NEXT YEAR

DISABILITY RATES

	Non-Service Connected Disability			Service Connected Disability		
	General Members		Safety Members	General Members		Safety Members
Age	Male	Female		Male	Female	
20	0.01%	0.00%	0.00%	0.01%	0.00%	0.01%
25	0.01%	0.00%	0.02%	0.01%	0.01%	0.04%
30	0.01%	0.01%	0.05%	0.02%	0.07%	0.20%
35	0.03%	0.06%	0.08%	0.04%	0.11%	0.48%
40	0.08%	0.16%	0.12%	0.11%	0.13%	0.72%
45	0.13%	0.22%	0.15%	0.19%	0.16%	0.92%
50	0.20%	0.25%	0.17%	0.30%	0.20%	1.36%
55	0.29%	0.28%	0.18%	0.43%	0.26%	1.84%
60	0.33%	0.36%	0.19%	0.38%	0.29%	2.00%

Source: The Segal Company, Annual Actuarial Valuation, June 30, 2004

The post-retirement mortality table used is the 1994 Group Annuity Mortality Table. SDCERA's Board adopted this table in March 2004. 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 7 year age set forward on post-retirement mortality for General members with disabled retirement. Related values are shown below.

POST-RETIREMENT MORTALITY RATES

Sample Ages	Healthy Life Mortality: General and Safety (1) Male	Healthy Life Mortality: General and Safety (1) Female	Disabled Life Mortality: General Male	Disabled Life Mortality: General Female
30	0.08%	0.04%	0.09%	0.06%
35	0.09%	0.05%	0.13%	0.08%
40	0.11%	0.07%	0.19%	0.11%
45	0.16%	0.10%	0.32%	0.17%
50	0.26%	0.14%	0.56%	0.29%
55	0.44%	0.23%	1.01%	0.58%
60	0.80%	0.44%	1.80%	1.08%

Note (1) Includes Disabled Retirement

ORDINARY WITHDRAWAL RATES
WITH LESS THAN 5 YEARS OF SERVICE

Years of Service	Ordinary Withdrawals: General Male	Ordinary Withdrawals: General Female	Ordinary Withdrawals: Safety
0	17.00%	19.00%	12.00%
1	11.00%	12.00%	11.00%
2	7.00%	8.00%	5.00%
3	6.00%	7.00%	4.50%
4	5.00%	6.50%	4.00%

ORDINARY WITHDRAWALS AND VESTED TERMINATION
WITH MORE THAN 5 YEARS OF SERVICE

Age	Ordinary Withdrawals (1): General Male	Ordinary Withdrawals (1): General Female	Ordinary Withdrawals (1): Safety	Vested Termination (2): General Male	Vested Termination (2): General Female	Vested Termination (2): Safety
20	1.80%	1.80%	1.66%	7.95%	9.33%	3.56%
25	1.80%	1.80%	1.50%	7.27%	8.22%	2.99%
30	1.73%	1.53%	1.30%	6.39%	6.44%	2.41%
35	1.51%	1.19%	1.06%	5.36%	4.89%	1.67%
40	1.34%	0.86%	0.86%	4.33%	3.78%	1.30%
45	1.00%	0.61%	0.70%	3.18%	2.67%	1.11%
50	0.79%	0.54%	0.54%	2.09%	1.56%	0.53%
55	0.61%	0.54%	0.48%	1.01%	0.78%	0.21%
60	0.54%	0.54%	0.19%	0.56%	0.56%	0.08%

(1) No withdrawal is assumed after a member is eligible for retirement.
(2) No vested termination is assumed after a member is eligible for retirement.

Source: The Segal Company, Annual Actuarial Valuation, June 30, 2004

RETIREMENT PROBABILITY

	Retirement Probability	
Age	**General**	**Safety**
48	0%	4%
49	0%	4%
50	6%	15%
51	3%	15%
52	5%	15%
53	6%	15%
54	6%	15%
55	12%	25%
56	13%	30%
57	15%	30%
58	17%	35%
59	20%	35%
60	20%	45%
61	25%	45%
62	25%	50%
63	25%	50%
64	25%	50%
65	30%	100%
66	30%	100%
67	30%	100%
68	30%	100%
69	40%	100%
70	100%	100%

Source: The Segal Company, Annual Actuarial Valuation, June 30, 2004

All or part of the member contribution rate is subject to potential "offset" by the employer. The member rates provided in the census are prior to any applicable offset. Such offsets and related accumulated interest are not to be refunded to members at termination. The County's liability for potential refunds is reduced to reflect this.

The rates of employer offsets vary by member. Members with fewer than five years of service have a lesser percentage of their employee contributions “offset” than employees with five or more years of service credit.

Member contributions are credited with 4.125% interest semiannually.

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

Retirement Age and Benefit for Deferred Vested Members: Marital status: 80% of men and 65% of women were assumed married at retirement.

Retirement Age and Benefit for Deferred Vested Members: Spouse census: Females (or male) spouses are 3 years younger (older) than their spouses.

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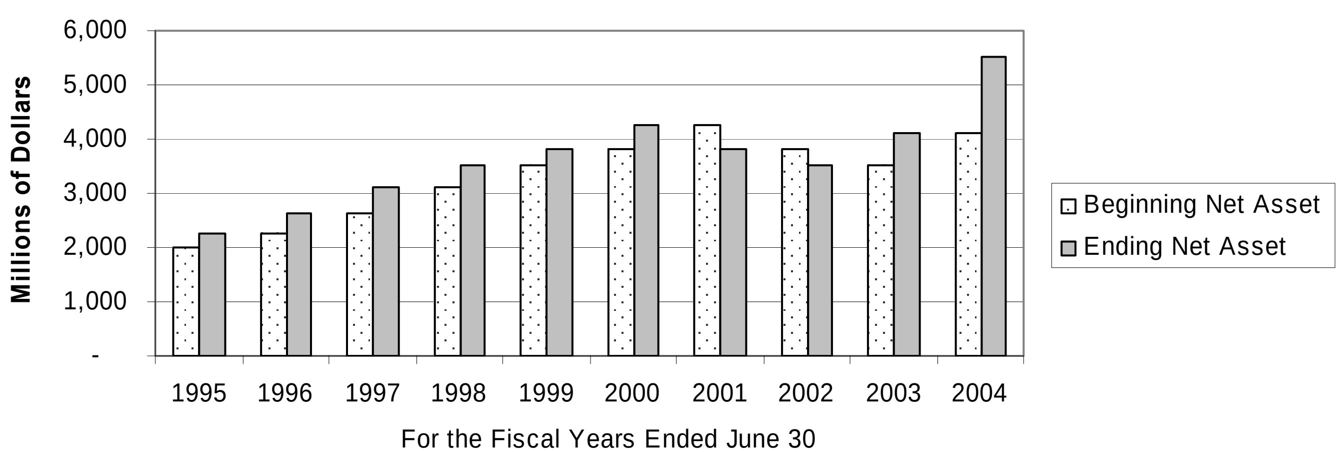
STATISTICAL SECTION

CHANGES IN PLAN NET ASSETS
FOR THE LAST TEN YEARS ENDED JUNE 30
(MILLIONS OF DOLLARS)

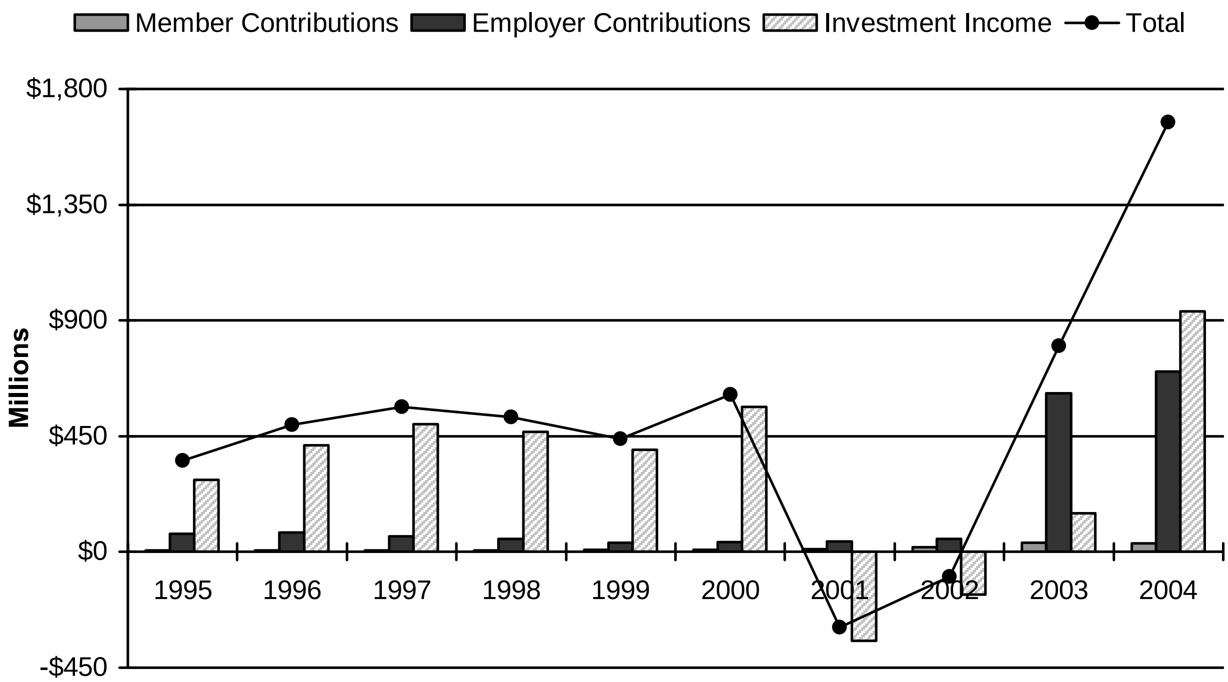
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Additions										
Member Contributions (1)	$ 5.4	$ 5.3	$ 6.2	$ 6.7	$ 7.4	$ 8.4	$ 10.8	$ 17.3	$ 34.7	$ 33.6
Employer Contributions (2)	71.5	74.8	61.6	51.8	36.4	38.1	41.1	50.6	616.1	700.6
Investment Income (Net of expenses)	279.0	419.1	495.7	466.9	396.0	564.4	(344.8)	(164.8)	149.9	936.5
Total Additions	**$ 355.9**	**$ 499.2**	**$ 563.5**	**$ 525.4**	**$ 439.8**	**$ 610.9**	**$ (292.9)**	**$ (96.9)**	**$ 800.7**	**$1,670.7**
Deductions										
Administrative Expenses	$ 1.8	$ 2.7	$ 3.9	$ 4.5	$ 4.8	$ 5.3	$ 6.4	$ 7.6	$ 7.0	$ 7.4
Retirement Benefits (1)	86.8	90.2	97.0	103.7	121.3	132.8	144.1	163.0	202.5	230.0
Health Benefits	7.9	7.6	6.5	6.6	7.9	9.0	10.8	14.3	19.9	26.5
Refunds	0.6	1.3	1.3	0.9	1.4	1.7	1.6	1.5	1.5	1.5
Total Deductions	**$ 97.1**	**$ 101.8**	**$ 108.7**	**$ 115.7**	**$ 135.4**	**$ 148.8**	**$ 162.9**	**$ 186.4**	**$ 230.9**	**$ 265.4**
Total Change in Net Assets	**$ 258.8**	**$ 397.4**	**$ 454.8**	**$ 409.7**	**$ 304.4**	**$ 462.1**	**$ (455.8)**	**$ (283.3)**	**$ 569.8**	**$1,405.3**

NOTES:
(1) Enhancement of Plan benefits in March 2002, resulted in an increase in members contribution and benefit payments.
(2) Includes proceeds from Pension obligation bonds of $550 million in 2003 and $450 million in 2004.

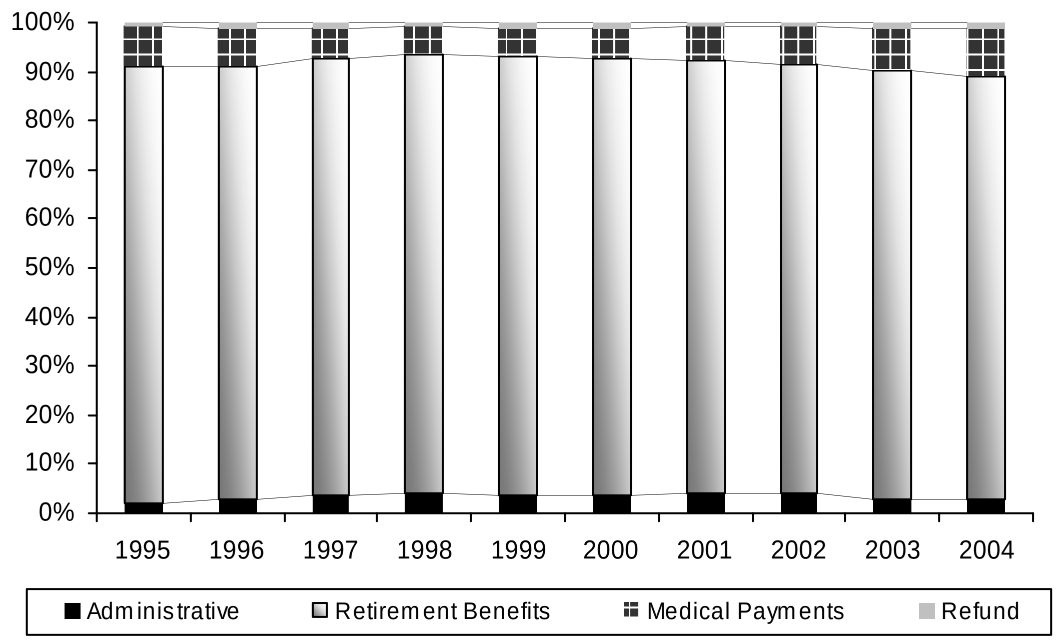
SDCERA NET ASSET VALUE



ADDITIONS TO PLAN NET ASSETS BY SOURCE



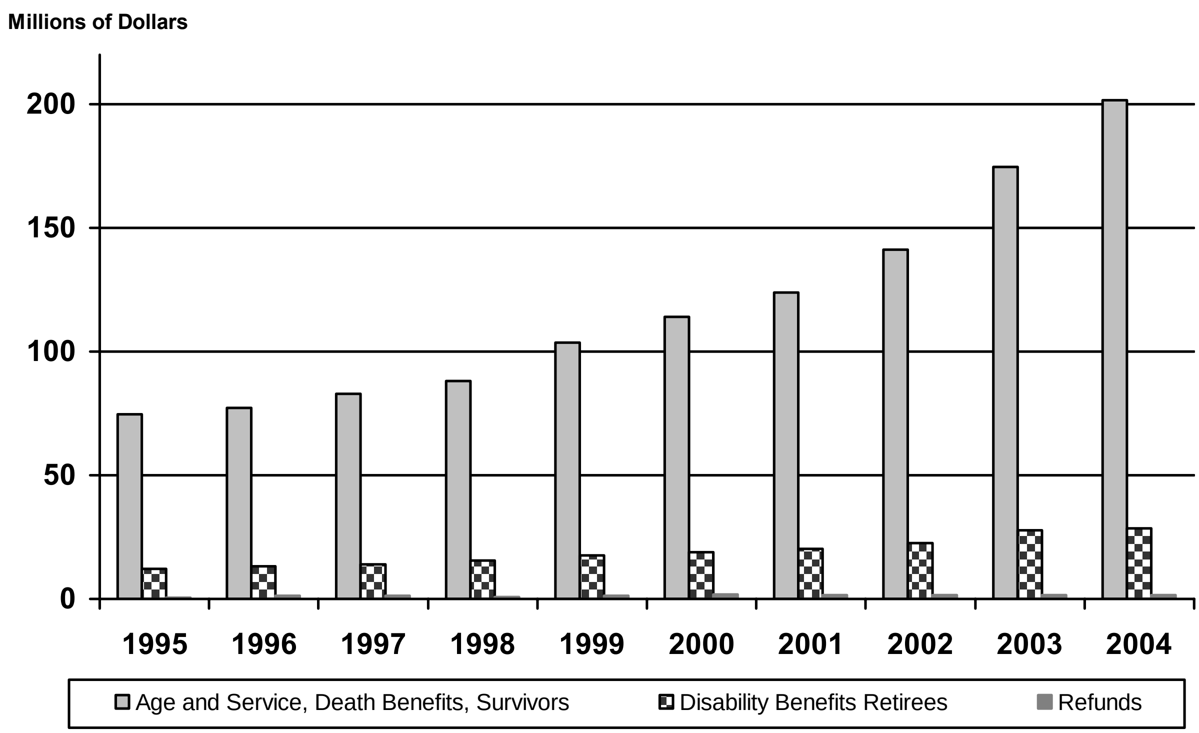
DEDUCTIONS FROM PLAN NET ASSETS BY TYPE



BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE
FOR THE LAST TEN YEARS ENDED JUNE 30
(MILLIONS OF DOLLARS)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Type of Benefit										
Age and Service	$ 70.1	$ 71.1	$ 76.2	$ 81.3	$ 94.9	$ 104.4	$ 113.4	$ 130.5	$ 161.1	$ 185.3
Service Connected Disability	9.4	10.3	11.1	12.4	14.3	15.2	3.9	4.2	5.2	2.8
Non-Service Connected Disability	2.8	2.8	3.0	3.1	3.4	3.6	16.4	18.3	22.6	25.6
Death Benefits	1.0	1.2	1.4	1.4	1.6	1.6	1.7	0.6	1.3	1.2
Survivors	3.5	4.8	5.3	5.5	7.1	8.0	8.7	10.0	12.3	15.1
Total	**$ 86.8**	**$ 90.2**	**$ 97.0**	**$ 103.7**	**$ 121.3**	**$ 132.8**	**$ 144.1**	**$ 163.6**	**$ 202.5**	**$ 230.0**
Type of Refund										
Separation	0.6	1.3	1.3	0.9	1.4	1.7	1.6	1.5	1.5	1.5
Total	**$ 0.6**	**$ 1.3**	**$ 1.3**	**$ 0.9**	**$ 1.4**	**$ 1.7**	**$ 1.6**	**$ 1.5**	**$ 1.5**	**$ 1.5**

BENEFIT EXPENSES BY TYPE



RETIRED MEMBERS BY TYPE OF BENEFITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement[a] 1	2	3	4	5	6
$0 - $1,000	4,188	3,099	798	3	51	233	4
$1,001 - $2,000	3,320	2,398	274	-	412	235	1
$2,001 - $3,000	1,541	1,129	70	-	271	70	1
$3,001 - $4,000	671	609	18	-	36	8	-
$4,001 - $5,000	420	394	4	-	17	5	-
$5,001 - $6,000	276	266	3	-	5	2	-
$6,001 - $7,000	157	113	38	-	6	-	-
$7,001 - $8,000	74	69	1	-	2	2	-
$8,001 - $9,000	41	38	-	-	2	1	-
$9,001 - $10,000	30	30	-	-	-	-	-
Over $10,000	52	50	-	-	1	1	-
Total	**10,770**	**8,195**	**1,206**	**3**	**803**	**557**	**6**

RETIRED MEMBERS BY TYPE OF BENEFITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement[a] 1	2	3	4	5	6
$0 - $1,000	4,288	3,174	799	1	51	256	7
$1,001 - $2,000	3,175	2,270	255	-	405	237	8
$2,001 - $3,000	1,367	999	57	-	249	61	1
$3,001 - $4,000	586	539	13	-	25	7	2
$4,001 - $5,000	345	326	5	-	12	2	-
$5,001 - $6,000	228	220	2	-	5	1	-
$6,001 - $7,000	120	115	-	-	5	-	-
$7,001 - $8,000	48	46	1	-	1	-	-
$8,001 - $9,000	37	35	-	-	1	1	-
$9,001 - $10,000	27	27	-	-	-	-	-
Over $10,000	32	31	-	-	1	-	-
Total	**10,253**	**7,782**	**1,132**	**1**	**755**	**565**	**18**

[a]**Type of Retirement:**
1 - Retired – Service Retirement
2 - Beneficiary Payment - Surviving Spouse
3 - Beneficiary Payment - Non Spouse Survivor
4 - Service Connected Disability Retirement
5 - Non-Service Connected Disability Retirement
6 - Beneficiary Payment - Disability

Source: The Segal Company, Annual Actuarial Valuation, June 30, 2003, and June 30, 2004

RETIRED MEMBERS BY TYPE OF BENEFIT OPTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Amount of Monthly Benefit	Number of Retired Members	Option Selected[b] Unmodified	1	2	3	4	Dth - Minor Child Supplement	Lump Sum Installment
$0 - $1,000	4,188	4,064	28	81	10	1	3	1
1,001 - 2,000	3,320	3,240	27	39	3	8	2	1
$2,001 - 3,000	1,541	1,498	19	18	1	5	-	-
$3,001 - 4,000	671	643	11	8	1	7	1	-
$4,001 - 5,000	420	400	6	8	-	6	-	-
$5,001 - 6,000	276	268	4	1	-	3	-	-
$6,001 - 7,000	157	153	1	1	-	2	-	-
$7,001 - 8,000	74	74	-	-	-	-	-	-
$8,001 - 9,000	41	40	-	-	-	1	-	-
$9,001 - 10,000	30	28	-	-	-	2	-	-
Over 10,000	52	51	-	-	-	1	-	-
Total	**10,770**	**10,459**	**96**	**156**	**15**	**36**	**6**	**2**

RETIRED MEMBERS BY TYPE OF BENEFIT OPTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Amount of Monthly Benefit	Number of Retired Members	Option Selected[b] Unmodified	1	2	3	4	Dth - Minor Child Supplement	Lump Sum Installment
$0 - $1,000	4,288	4,170	27	76	9	3	3	-
1,001 - 2,000	3,175	3,104	15	33	3	15	3	2
$2,001 - 3,000	1,367	1,328	12	12	2	13	-	-
$3,001 - 4,000	586	566	7	9	1	2	1	-
$4,001 - 5,000	345	335	2	5	-	3	-	-
$5,001 - 6,000	228	223	2	1	-	2	-	-
$6,001 - 7,000	120	117	1	-	-	2	-	-
$7,001 - 8,000	48	47	-	-	-	1	-	-
$8,001 - 9,000	37	36	-	-	-	1	-	-
$9,001 - 10,000	27	27	-	-	-	-	-	-
Over 10,000	32	32	-	-	-	-	-	-
Total	**10,253**	**9,985**	**66**	**136**	**15**	**42**	**7**	**2**

[b]**Option selected:**

Unmodified plan: beneficiary receives 60 percent continuance.

The following options reduce the retired member's monthly benefit:

Option 1 - Beneficiary receives lump sum or member's unused contributions
Option 2 - Beneficiary receives 100 percent of member's reduced monthly benefit
Option 3 - Beneficiary receives 50 percent of member's reduced monthly benefit
Option 4 – Split account paid to ex-spouse of member

Dth-Minor Child Supplement - Paid to minor child of deceased member with no surviving spouse
Lump sum installment - Death benefit paid in installments

Source: The Segal Company, Annual Actuarial Valuation, June 30, 2003, and June 30, 2004

AVERAGE BENEFIT PAYMENTS
FOR THE FISCAL YEARS ENDED JUNE 30

	Years credited service						
Retirement Effective	**0-5**	**5-10**	**10-15**	**15-20**	**20-25**	**25-30**	**30+**
Fiscal Year 2004							
Average monthly benefit	$510	$724	$1,344	$2,183	$2,990	$4,487	$5,819
Average final monthly salary	$4,074	$2,202	$3,525	$4,233	$4,444	$5,500	$6,374
Number of retired members	25	61	184	135	122	102	103
Fiscal Year 2003							
Average monthly benefit	$753	$769	$1,492	$1,846	$2,804	$4,578	$5,757
Average final monthly salary	$3,098	$2,647	$3,824	$3,552	$4,200	$5,494	$5,881
Number of retired members	33	89	192	114	132	107	131
Fiscal Year 2002							
Average monthly benefit	$831	$733	$1,219	$1,875	$2,510	$4,127	$5,483
Average final monthly salary	$2,301	$2,489	$3,093	$3,691	$3,626	$4,789	$5,520
Number of retired members	29	79	223	115	130	127	207
Fiscal Year 2001							
Average monthly benefit	$645	$945	$1,015	$1,277	$1,924	$2,706	$4,144
Average final monthly salary	$1,543	$1,928	$3,105	$3,264	$3,668	$4,084	$4,960
Number of retired members	21	44	103	48	51	30	40
Fiscal Year 2000							
Average monthly benefit	$726	$760	$978	$1,311	$1,758	$2,632	$3,850
Average final monthly salary	$2,948	$1,938	$3,250	$3,382	$3,473	$4,187	$4,858
Number of retired members	19	59	161	75	76	76	65
Fiscal Year 1999							
Average monthly benefit	$904	$1,788	$818	$1,278	$1,834	$2,403	$3,044
Average final monthly salary	$1,035	$3,334	$2,759	$3,158	$3,545	$4,052	$4,230
Number of retired members	25	104	113	61	55	48	28

SCHEDULE OF PARTICIPATING EMPLOYERS
FOR THE LAST TWO FISCAL YEARS ENDED JUNE 30

	Total Employers		County of San Diego	Superior Court	San Dieguito River Valley Joint Power Authority	Local Agency Formation Commission	San Diego County Office of Education
Fiscal Year 2004							
Number of Covered Employees	**32,767**		30,694	2,036	18	10	9
Percentage to Total System	**100.00**	%	93.67	6.21	0.05	0.03	0.03
Rank			**1**	**2**	**3**	**4**	**5**
Fiscal Year 2003							
Number of Covered Employees	**32,550**		30,761	1,755	18	7	9
Percentage to Total System	**100.00**	%	94.50	5.39	0.06	0.02	0.03
Rank			**1**	**2**	**3**	**5**	**4**

Note: Data for fiscal years 1995 to 2002, is not available in our current system.

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