SDCERA

Strength. Service. Commitment.

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2006

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

SDCERA

Strength. Service. Commitment.

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."

ISSUED BY:

BRIAN P. WHITE
CHIEF EXECUTIVE OFFICER

MARK MIMNAUGH
CHIEF OPERATING OFFICER

DAVID DEUTSCH
CHIEF INVESTMENT OFFICER

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.

Copies of this report are available from SDCERA, at 2275 Rio Bonito Way, Suite 200, San Diego, CA 92108-1685.

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INTRODUCTION

SDCERA was established July 1, 1939 by the County of San Diego to provide retirement, disability, death and survivor benefits for its employees under the County Employees Act of 1937. SDCERA, with its own governing board, is an independent governmental entity separate and distinct from the County of San Diego.

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Brian White
CHIEF EXECUTIVE OFFICER

Board of Retirement
San Diego County Employees
Retirement Association
2275 Rio Bonito Way, Suite 200
San Diego, California 92108

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, 2006.

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, 2006.

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. Brown Armstrong Paulden McCown Starbuck Thornburgh & Keeter, 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

SDCERA established baseline "best practice" service standards for all customer service and operational functions. Quarterly progress reporting will be made to the Board of Retirement.

Developed new Call Center which will be implemented in first quarter of next year.

Implemented Medicare Part D as part of SDCERA's Medicare health plans.

SDCERA hired Mellon Bank as custodian and record keeper for the trust fund.

SDCERA initiated a new newsletter, "Extra," for active employees via email.

SDCERA received the Mid-size Public Fund of the Year award from Money Management Letter.

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.

Brown Armstrong, 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 $6.3 billion at June 30, 2005 to $7.3 billion at June 30, 2006. For the fiscal year 2006, investments provided a return of 14.68%, net of fees, and reflected market conditions throughout the year. The Plan's annualized rate of return, net of fees, was 16.58% over the last three years, 9.47% over the last five years, and 9.84% over the last 10 years.

Following the close of the fiscal year, one of our investment managers, Amaranth Partners, reported an account value of $92 million, resulting in a $83 million loss from the original $175 million investment. Amaranth Partners has ceased operations and is in the process of liquidating their remaining investment positions. The final recovery will not be known until that process has been completed.

FUNDING

The actuarial liability and the value of assets of the Association on June 30, 2006, the date of our latest actuarial valuation, totaled $7.5 billion and $6.3 billion, respectively. This results in an unfunded actuarial accrued liability of $1.2 billion. The Plan's resulting funded ratio of 83.6%, or the percentage computed by dividing the actuarial value of assets by the actuarial accrued liability, measures the current funded status. On the basis of the 2006 valuation, the actuarial firm has indicated that the Association is in reasonably sound condition to meet obligations to Plan members.

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, Brown Armstrong Paulden McCown Thornburgh Starbuck & Keeter, and our actuary, The Segal Company, are included in this report. Other consultants are listed on page 13 of this report. Additional information regarding investment professionals who provide services to the Association is located on page 52 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, 2005. 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 States 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 the GFOA.

PUBLIC PENSION STANDARDS AWARD

Public Pension Coordinating Council (PPCC) granted its 2005 achievement award to San Diego County Employees Retirement Association. 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
2275 Rio Bonito Way, Suite 200
San Diego, California 92108-1685

BP White

Brian P. White
Chief Executive Officer
October 12, 2006

PPCC

Public Pension Coordinating Council

Public Pension Standards

2006 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, 2005

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

President

Executive Director

SDCERA BOARD OF RETIREMENT


David A. Myers


James W. Feeley


Garry Sobeck


John Arnold


Laura DeMarco

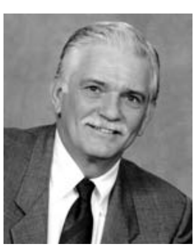

Mark Doss


Dianne Jacob


Dan McAllister


Douglas M. Rose


Warren L. Gibson


Skip Murphy

CHAIRMAN

David A. Myers
Elected by SDCERA Safety members
Present term expires December 31, 2007

VICE CHAIRMAN

James W. Feeley
Elected by SDCERA Retired members
Present term expires June 30, 2008

SECRETARY

Garry Sobeck
Elected by SDCERA General members
Present term expires June 30, 2007

TRUSTEE

John Arnold
Appointed by County Board of Supervisors
Present term expires June 30, 2006

TRUSTEE

Laura DeMarco
Appointed by County Board of Supervisors
Present term expires June 30, 2008

TRUSTEE

Mark Doss
Appointed by County Board of Supervisors
Present term expires June 30, 2007

TRUSTEE

Dianne Jacob
Appointed by County Board of Supervisors
Present term expires December 31, 2007

TRUSTEE

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

TRUSTEE

Douglas M. Rose
Elected by SDCERA General members
Present term expires June 30, 2008

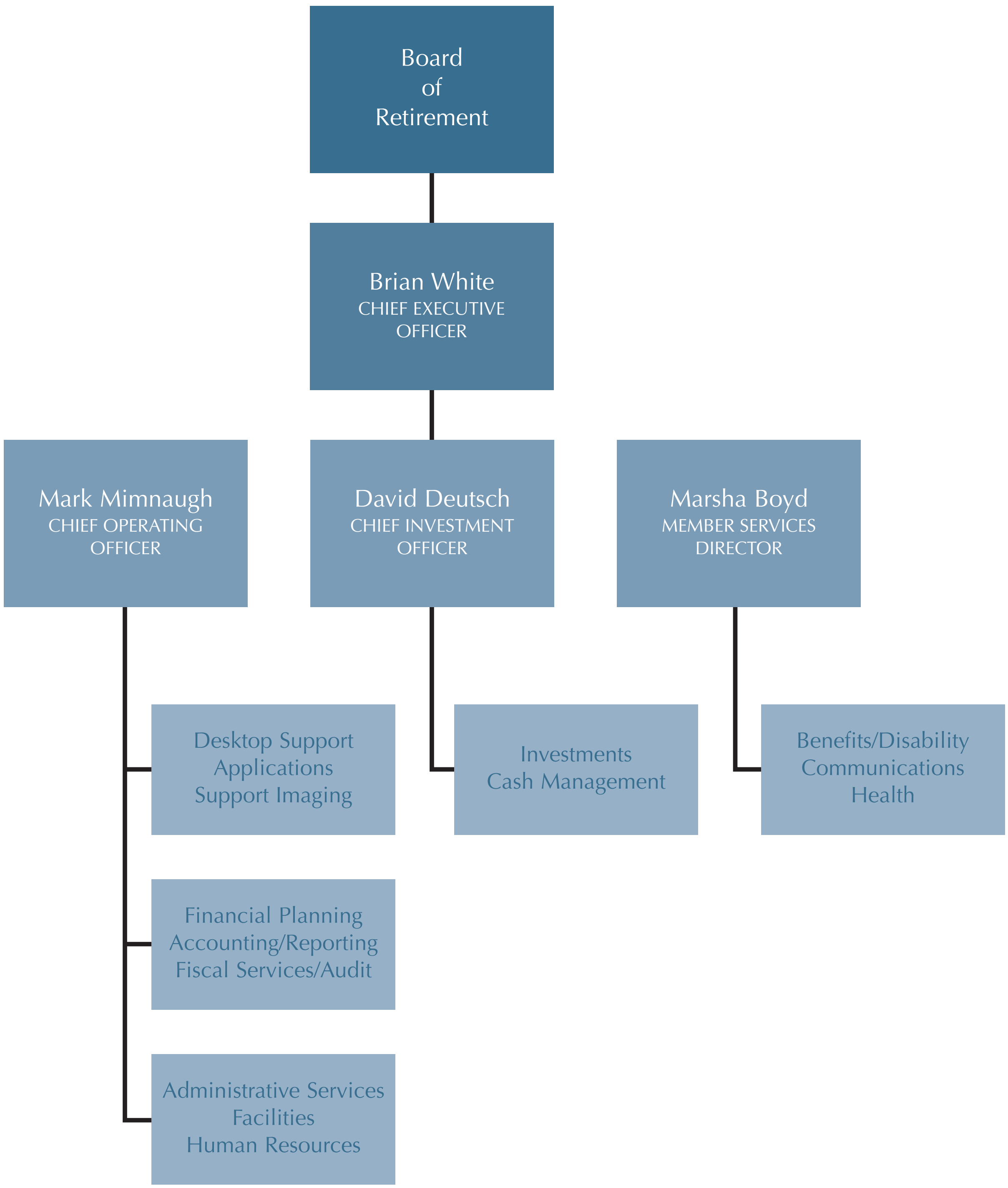
ALTERNATE TRUSTEE

Warren L. Gibson
Elected by SDCERA Safety members
Present term expires December 31, 2007

ALTERNATE TRUSTEE

Skip Murphy
Elected by SDCERA Retired members
Present term expires June 30, 2008

SAN DIEGO COUNTY EMPLOYEES RETIREMENT ASSOCIATION



CONSULTANTS

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Additional information regarding investment professionals who provide services to SDCERA is located in the Investments Section, page 52.

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FINANCIAL

SDCERA serves more than 34,000 active, retired and deferred members, as well as their beneficiaries, providing retirement benefits and a variety of related customer services that includes educational programs, member publications and a full-time call center.

SDCERA
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BROWN ARMSTRONG PAULDEN
MCCOWN STARBUCK THORNBURGH & KEETER
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of Plan Net Assets of the San Diego County Employees Retirement Association (SDCERA) as of June 30, 2006 and the related statement of Changes in Plan Net Assets for the year then ended. These financial statements are the responsibility of management of SDCERA. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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, 2006 and its Changes in 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 financial statements, in 2006 SDCERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 44, Economic Condition Reporting: The Statistical Section.

The Management's Discussion and Analysis (MD&A) and Required Supplementary Information (RSI) as listed in the table of contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the MD&A and express no opinion on it. The RSI has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supporting Schedules and Investment, Actuarial and Statistical sections as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. The Supporting Schedules 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. We did not audit the information contained in the Investment, Actuarial and Statistical sections and express no opinion on it.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
October 12, 2006

SDCERA

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Mark Mimnaugh
CHIEF OPERATING OFFICER

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, 2006. 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 $7.3 billion as of the end of the fiscal year, an increase of $972 million over the prior year.
- Total Additions to Net Assets were $1.3 billion primarily from earnings on and the appreciation in the fair value of investments of $1.0 billion and County contributions of $302 million.
- Total Deductions to Net Assets totaled $334 million, an increase of $32 million or 10.7% over the prior year. Retirement benefits have risen $31 million, driven by a net increase in the number of retired members (613) and a 5.2% increase in average monthly benefit.
- During fiscal year 2006, the rate of return on investments was 14.68% 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, 2006, the date of our last actuarial valuation, the funding status (the ratio of system assets to system liabilities) was 83.6%.

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, 40 and 44. 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 1-4 summarize and compare SDCERA's financial results for the current and prior fiscal years.

TABLE 1: NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006 AND 2005
(DOLLARS IN THOUSANDS)

	06/30/2006	06/30/2005	Increase/ (Decrease)	Percentage Change
Cash	$ 160,962	175,753	(14,791)	(8.4%)
Receivables	97,911	79,393	18,518	23.3%
Investments	7,280,912	6,328,736	952,176	15.0%
Securities Lending Collateral	603,019	503,190	99,829	19.8%
Property, Plant & Equipment	2,837	2,894	(57)	(2.0%)
Total Assets	8,145,641	7,089,966	1,055,675	14.9%
Liabilities to Brokers for Securities Lending	603,019	503,190	99,829	19.8%
Securities Purchased	196,737	212,335	(15,598)	(7.3%)
Other	14,937	15,968	(1,031)	(6.5%)
Total Liabilities	814,693	731,493	83,200	11.4%
Net Assets Held in Trust for Pension Benefits	**$ 7,330,948**	**6,358,473**	**972,475**	**15.3%**

TABLE 2: NET ASSETS

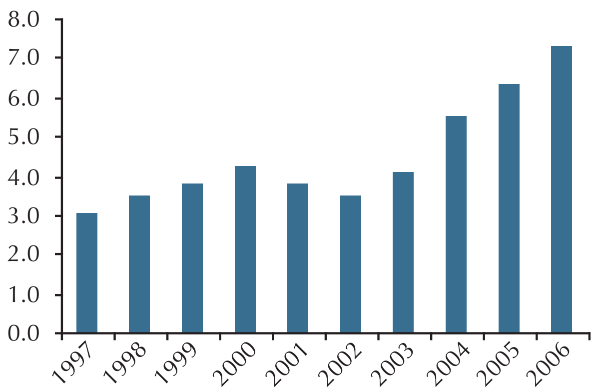
FOR THE FISCAL YEAR ENDED JUNE 30, 2005 AND 2004
(DOLLARS IN THOUSANDS)

	06/30/2005	06/30/2004	Increase/ (Decrease)	Percentage Change
Cash	$ 175,753	68,950	106,803	154.9%
Receivables	79,393	70,090	9,303	13.3%
Investments	6,328,736	5,419,583	909,153	16.8%
Securities Lending Collateral	503,190	375,485	127,705	34.0%
Property, Plant & Equipment	2,894	2,981	(87)	(2.9%)
Total Assets	7,089,966	5,937,089	1,152,877	19.4%
Liabilities to Brokers for Securities Lending	503,190	375,485	127,705	34.0%
Securities Purchased	212,335	43,752	168,583	385.3%
Other	15,968	9,213	6,755	73.3%
Total Liabilities	731,493	428,450	303,043	70.7%
Net Assets Held in Trust for Pension Benefits	**$ 6,358,473**	**5,508,639**	**849,834**	**15.4%**

Net assets held in trust for pension benefits as of June 30, 2006, were $7.3 billion, an increase of $972 million, or 15.3%, over the prior year. Strong investment returns of 14.68% generated $628 million in plan net asset increases from operations. County and employee contributions added another $344 million. The funds were fully invested as of June 30, 2006.

SDCERA NET ASSETS HELD IN TRUST

FOR PENSION BENEFITS 1997-2006
(BILLIONS OF DOLLARS)



SDCERA INVESTMENT RETURNS

1997-2006

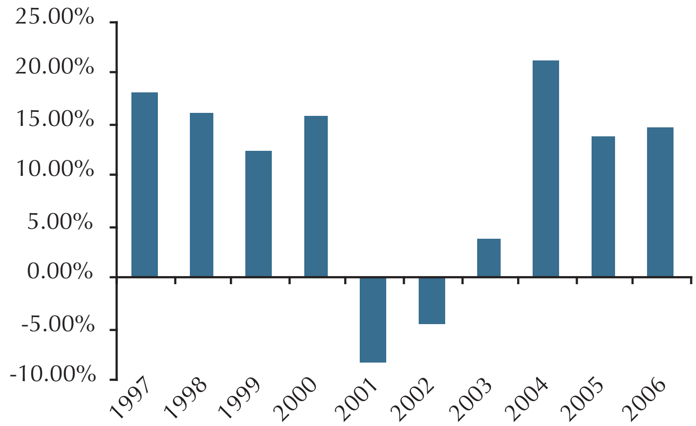


TABLE 3: CHANGES IN PLAN NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006 AND 2005
(DOLLARS IN THOUSANDS)

		06/30/2006	06/30/2005	Increase/ (Decrease)	Percentage Change
Additions					
Employer Contributions	$	302,460	316,074	(13,614)	-4.3%
Member Contributions		41,911	40,766	1,145	2.8%
Net Investment Income		960,008	793,459	166,549	21.0%
Net Securities Lending Income		2,197	1,300	897	69.0%
Total Additions		**1,306,576**	**1,151,599**	**154,977**	**13.5%**
Deductions					
Retirement Benefits		290,197	259,521	30,676	11.8%
Health Benefits		32,879	32,568	311	1.0%
Refund of Contributions		2,991	2,185	806	36.9%
Administrative Expenses		8,034	7,491	543	7.2%
Total Deductions		**334,101**	**301,765**	**32,336**	**10.7%**
Increase in Net Assets Held in Trust for Pension Benefits	**$**	**972,475**	**849,834**	**122,641**	**14.4%**

TABLE 4: CHANGES IN PLAN NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005 AND 2004
(DOLLARS IN THOUSANDS)

		06/30/2005	06/30/2004	Increase/ (Decrease)	Percentage Change
Additions					
Employer Contributions	$	316,074	700,583	(384,509)	-54.9%
Member Contributions		40,766	33,609	7,157	21.3%
Net Investment Income		793,459	935,174	(141,715)	-15.2%
Net Securities Lending Income		1,300	1,297	3	0.2%
Total Additions		**1,151,599**	**1,670,663**	**(519,064)**	**-31.1%**
Deductions					
Retirement Benefits		259,521	229,981	29,540	12.8%
Health Benefits		32,568	26,447	6,121	23.1%
Refund of Contributions		2,185	1,536	649	42.2%
Administrative Expenses		7,491	7,408	83	1.1%
Total Deductions		**301,765**	**265,372**	**36,393**	**13.7%**
Increase in Net Assets Held in Trust for Pension Benefits	**$**	**849,834**	**1,405,291**	**(555,457)**	**-39.5%**

ADDITIONS TO RETIREMENT PLAN NET ASSETS

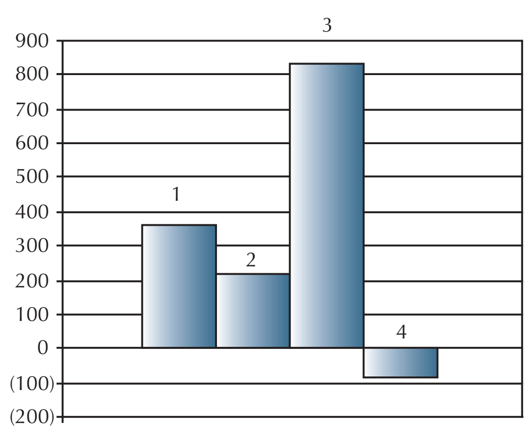
The primary sources financing the benefits SDCERA provides to its members are accumulated through income on investments and collection of employer and employee contributions.

These income sources (Additions to Retirement Plan Net Assets) total $1.3 billion for the fiscal year ended June 30, 2006, an increase of $155 million over the prior year.

- Employer and Employee contributions were $344 million in fiscal year 2006, a decrease of $13 million over the prior year. Combined contribution rates of 23.08% in Fiscal Year 2006 compared to 27.64% in Fiscal Year 2005 resulted in a $30 million decrease in required contributions for the county. This decrease was offset by $14 million more in additional contributions from the county, $2 million increase in employee offsets paid by the county and an increase of $1 million in employee contributions.
- Net investment income equaled $962 million in fiscal year 2006, a increase of $167 million, over prior year. This income was primarily net appreciation in the fair value of investments of $829 million and $219 million in interest and dividends, offset by investment expenses of $86 million.

SDCERA'S ADDITIONS

(MILLIONS OF DOLLARS) FOR THE FISCAL YEAR ENDED JUNE 30, 2006



1. Retirement Contributions: $344 million
2. Interest, Dividends and Securities Lending Income: $219 million
3. Net Appreciation in Fair Value of Investments: $829 million
4. Investment Expense: ($86 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, 2006 totaled $334 million, an increase of $32 million or 10.7% over 2005.

- Retirement and health benefits represent $31 million of the year-over-year change reflecting a net increase in the number of retirements and average benefit paid coupled with an increase in health benefit allowances.

SUMMARY

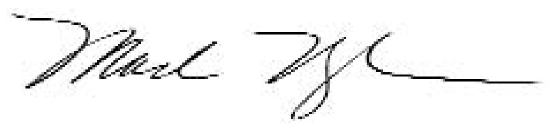
For the third consecutive year the plan's net assets experienced solid growth and are currently at $7.3 billion. Positive investment performance and additional contributions have delivered $1.3 billion in assets funding $0.3 billion in benefits and adding $1.0 billion in pension assets. The current financial 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:

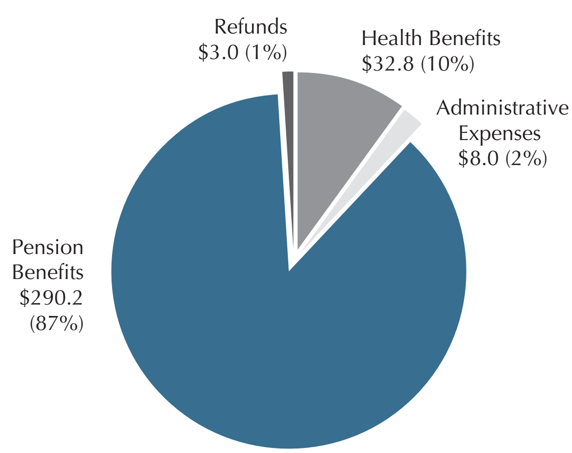
SDCERA
2275 Rio Bonito Way, Suite 200
San Diego, California 92108



Mark Mimnaugh
Chief Operating Officer
October 12, 2006

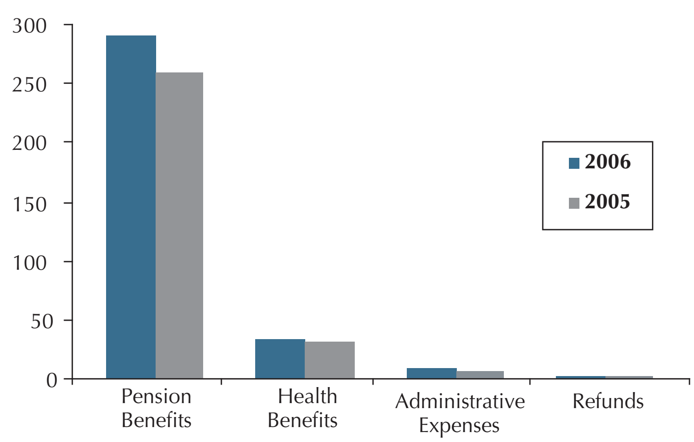
SDCERA'S DEDUCTIONS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(MILLIONS OF DOLLARS)



SDCERA'S DEDUCTIONS

(MILLIONS OF DOLLARS)



STATEMENT OF PLAN NET ASSETS

AS OF JUNE 30, 2006
(WITH SUMMARIZED COMPARATIVE AMOUNTS FOR JUNE 30, 2005)

	June 30, 2006			June 30, 2005
	Pension Plan	Healthcare	Total Fund	Total Fund
Assets				
Cash and Short-Term Investments				
Cash in County Pool	$ 2,932,884	$ 89,603	$ 3,022,487	$ 419,784
Cash and Cash Equivalents with Fiscal Agents	153,257,292	4,682,193	157,939,485	175,333,425
Total Cash and Short-Term Investments	**156,190,176**	**4,771,796**	**160,961,972**	**175,753,209**
Receivables				
Contributions	7,813,288	238,705	8,051,993	8,737,706
Accrued Interest and Dividends	24,515,978	748,992	25,264,970	23,509,238
Settlement of Securities Sold	62,679,777	1,914,942	64,594,719	47,146,013
Total Receivables	**95,009,043**	**2,902,639**	**97,911,682**	**79,392,957**
Investments at Fair Value				
Domestic Equity Securities	565,788,043	17,285,500	583,073,543	882,662,136
Cash, Cash Equivalents, and Securities for Domestic Equity Swaps and Alpha Engine	1,435,088,247	43,843,659	1,478,931,906	1,368,555,641
Total Domestic Equity Securities and Cash	**2,000,876,290**	**61,129,159**	**2,062,005,449**	**2,251,217,777**
International Equity Securities	1,790,834,284	54,712,125	1,845,546,409	1,489,824,642
Total International Equity Securities	**1,790,834,284**	**54,712,125**	**1,845,546,409**	**1,489,824,642**
Total Equity Securities and Cash	**3,791,710,574**	**115,841,284**	**3,907,551,858**	**3,741,042,419**
Securities Lending Collateral	**585,142,187**	**17,876,792**	**603,018,979**	**503,190,421**
United States Government Obligations	457,550,016	13,978,699	471,528,715	628,205,712
Domestic Corporate Bonds	581,621,234	17,769,223	599,390,457	557,566,084
International Bonds	825,149,992	25,209,317	850,359,309	794,671,254
Total Bonds and Cash	**1,864,321,242**	**56,957,239**	**1,921,278,481**	**1,980,443,050**
Cash and Securities for Overlay Futures	40,219,017	1,228,739	41,447,756	58,556,648
Cash and Securities for Commodity Swaps	371,466,643	11,348,749	382,815,392	0
Balanced Fund	320,502,163	9,791,724	330,293,887	0
Alternative Equity	233,838,963	7,144,060	240,983,023	218,658,861
Real Estate	443,007,360	13,534,404	456,541,764	330,034,780
Total Investments	**7,650,208,149**	**233,722,991**	**7,883,931,140**	**6,831,926,179**
Property, Plant and Equipment, Net	2,752,463	84,091	2,836,554	2,894,464
Total Assets	**7,904,159,831**	**241,481,517**	**8,145,641,348**	**7,089,966,809**
Liabilities				
Liabilities to Brokers for Securities Lending	585,142,187	17,876,792	603,018,979	503,190,421
Settlement of Securities Purchased	190,904,209	5,832,352	196,736,561	212,334,983
Professional Services	10,527,376	321,624	10,849,000	7,538,500
Death Benefits	526,201	16,076	542,277	332,569
Retirement Benefits	183,538	5,607	189,145	209,876
Refunds to Members	162,532	4,966	167,498	60,258
County Advance Contribution	665,740	-	665,740	3,183,591
Health Insurance Premiums	69,628	2,127	71,755	1,509,022
Cash in Transit	827,309	25,275	852,584	1,772,067
Other	1,551,936	47,414	1,599,350	1,362,227
Total Liabilities	**790,560,656**	**24,132,233**	**814,692,889**	**731,493,514**
Commitments and Contingencies (Note 9)				
Net Assets Held in Trust for Pension Benefits (see schedule of funding progress on page 39)	**$ 7,113,599,175**	**$ 217,349,284**	**$ 7,330,948,459**	**$ 6,358,473,295**

See accompanying notes to the basic financial statements beginning on page 24.

STATEMENT OF CHANGES IN PLAN NET ASSETS

AS OF JUNE 30, 2006
(WITH SUMMARIZED COMPARATIVE AMOUNTS FOR JUNE 30, 2005)

	June 30, 2006			June 30, 2005
	Pension Plan	Healthcare	Total Fund	Total Fund
Additions to Plan Net Assets				
Contributions				
County Contributions	$ 285,460,292	$ 17,000,000	$ 302,460,292	$ 316,074,788
Plan Member Contributions	41,911,209	0	41,911,209	40,765,818
Total Contributions	**327,371,501**	**17,000,000**	**344,371,501**	**356,840,606**
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments				
Stocks	543,234,807	19,919,795	563,154,602	345,090,515
Bonds	(25,855,065)	(948,075)	(26,803,140)	136,363,618
Foreign Currency	19,637,491	720,084	20,357,575	(15,776,823)
Real Estate & Alternative	81,786,112	2,999,003	84,785,115	80,733,761
Balanced Fund	5,106,633	187,254	5,293,887	0
S&P 500 Swaps and Alpha Engine	137,062,748	5,025,933	142,088,681	78,738,709
Commodity Swaps	6,745,001	247,331	6,992,332	0
Futures	31,635,706	1,160,045	32,795,751	32,910,334
Total Net Appreciation (Depreciation) in Fair Value of Investments	**799,353,433**	**29,311,370**	**828,664,803**	**658,060,114**
Interest Income				
Bonds	111,504,871	4,088,755	115,593,626	83,916,929
Cash	24,389,022	894,317	25,283,339	15,257,905
Total Interest Income	**135,893,893**	**4,983,072**	**140,876,965**	**99,174,834**
Other				
Dividends on Stock Investments	61,927,024	2,270,793	64,197,817	62,297,103
Real Estate Equity Investment Income	8,685,810	318,499	9,004,309	10,343,270
Alternative Equity	2,091,041	76,676	2,167,717	10,196,315
Commission Recapture	445,215	16,326	461,541	806,064
Managed Futures	0	0	0	(68,254)
Other Income	171,071	6,272	177,343	1,100,505
Total Other	**73,320,161**	**2,688,566**	**76,008,727**	**84,675,003**
Less: Investment Expenses	(82,516,559)	(3,025,787)	(85,542,346)	(48,451,024)
Securities Lending Income	18,535,621	679,680	19,215,301	11,195,652
Less: Securities Lending Rebates and Bank Charges	(16,416,356)	(601,969)	(17,018,325)	(9,895,736)
Net Securities Lending Income	**2,119,265**	**77,711**	**2,196,976**	**1,299,916**
Net Investment Income	**928,170,193**	**34,034,932**	**962,205,125**	**794,758,843**
Total Additions to Plan Net Assets	**1,255,541,694**	**51,034,932**	**1,306,576,626**	**1,151,599,449**
Deductions from Plan Net Assets				
Benefits				
Service Retirement and Disability Benefits	278,283,263	0	278,283,263	247,291,009
Death Benefits	1,203,846	0	1,203,846	1,210,761
Health Benefits	0	32,878,648	32,878,648	32,567,998
STAR Cost of Living Allowance	10,710,004	0	10,710,004	11,019,640
Total Benefits	**290,197,113**	**32,878,648**	**323,075,761**	**292,089,408**
Member Refunds	2,991,908	0	2,991,908	2,184,839
Administrative Expenses	8,033,793	0	8,033,793	7,490,889
Total Deductions from Plan Net Assets	**301,222,814**	**32,878,648**	**334,101,462**	**301,765,136**
Transfers	**17,000,000**	**(17,000,000)**	**0**	**0**
Increase (Decrease) in Net Assets Held in Trust for Pension Benefits	**$ 971,318,880**	**$ 1,156,284**	**$ 972,475,164**	**$ 849,834,313**
Net Assets Held in Trust for Pension Benefits				
Beginning of Year	**$ 6,142,280,295**	**$ 216,193,000**	**$ 6,358,473,295**	**$ 5,508,638,982**
End of Year	**$ 7,113,599,175**	**$ 217,349,284**	**$ 7,330,948,459**	**$ 6,358,473,295**

See accompanying notes to the basic financial statements beginning on page 24.

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 SDCERA, 2275 Rio Bonito Way, Suite 200, San Diego, California 92108, 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, 2006, 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 membership summary table on the next page.

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	64	-	64
Tier A	14,216	-	14,216
Safety	-	3,171	3,171
Total Active Members	**14,280**	**3,171**	**17,451**
Deferred (Terminated) Members			
Tier I	2,538	-	2,538
Tier A	1,647	-	1,647
Safety	-	502	502
Total Deferred (Terminated) Members	**4,185**	**502**	**4,687**
Retired Members			
Tier I	5,671	-	5,671
Tier II	1,881	-	1,881
Tier A	2,939	-	2,939
Safety	-	1,558	1,558
Total Retired Members	**10,491**	**1,558**	**12,049**
Total Members	**28,956**	**5,231**	**34,187**

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

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 with 96.5% in the United States and 3.5% International. 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.

DERIVATIVE FINANCIAL INSTRUMENTS

As of June 30, 2006, SDCERA utilized a diverse group of derivative instruments across the total fund, including swaps, options, forwards and a variety of futures contracts.

Swaps allow SDCERA to exchange a money market return for the rights to the return of a specific index, such as equity or commodity indices. As of June 30, 2006, SDCERA held S&P 500 swap contracts with a notional value of $1,397,191,220 and a fair value of $5,425,730, and a Goldman Sachs Commodity Index swap with a notional value of $346,898,576. SDCERA will only execute a swap agreement with a counterparty rated A or higher, as the use of swap agreements exposes the Plan to the risk the counterparty cannot fulfill their obligation. All swaps entered into by SDCERA are fully collateralized by cash at least equal to the notional value of the most recent reset. Allowing insufficient collateral is strictly prohibited by the Investment Policy.

Options and forwards are standard contracts utilized for exposure to the foreign currency markets due to the unlimited variation with respect to the size and term that is required by investors in this area. Options are contracts which give the buyer the right, but not the obligation, to buy or sell a specified quantity of a commodity, i.e. foreign currency, at a specified price within a specified period of time. Forwards are contracts on which a seller agrees to deliver a specified cash commodity to a buyer sometime in the future. Forward contracts are not traded on federally designated exchanges as the terms of the forward are not standardized, i.e. delivery time and amount are negotiated between the buyer and seller. SDCERA currently has $1 billion in exposure to foreign currency options and forwards through the Currency Overlay program, which is diversified across three currency overlay managers implementing four different strategies. In addition, SDCERA has $154,746,569 in currency exposure through the policy overlay program.

Futures contracts are standardized according to the quality, quantity and delivery time and location for each commodity or instrument. Futures contracts are also traded on organized exchanges thereby minimizing counterparty risk. Futures contracts have daily cash settlement and the Net gains and losses for the daily settlements are included in the Statement of Changes in Plan Net Assets.

As of June 30, 2006, SDCERA had the following futures balances:

	Notional Amount Long/(Short)
Policy Overlay	
International Equity	$ 14,407,936
Domestic Equity	60,026,790
International Fixed Income	147,068,200
Domestic Fixed Income	(21,154,938)
Managed Futures Overlay	275,000,000
Total	$ 475,347,988

Derivative instruments are designed to provide equivalent exposure to the assets they emulate. SDCERA's use of swaps and futures is structured such that market exposure is fundamentally equivalent to a direct cash investment. SDCERA believes such vehicles offer significant advantages over a direct investment in the asset, including efficient use of capital, and lower transaction and custody costs.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

		Balance 07/01/2005	Additions	Deletions & Transfers	Balance 06/30/2006
Computer hardware, software, maintenance	$	4,904,715	265,073	114,199	5,055,589
Office furniture and fixtures		596,720	209,593	-	806,313
Leasehold Improvements		321,363	281,082	-	602,445
Total Property, Plant and Equipment		5,822,798	755,748	114,199	6,464,347
Accumulated Depreciation		(2,928,334)	(699,459)	-	(3,627,793)
Net Property, Plant & Equipment	**$**	**2,894,464**	**56,289**	**114,199**	**2,836,554**

IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENTS

In the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006, the System implemented the provisions of Governmental Accounting Standards (GASB) Statement No. 44, Economic Condition Reporting: The Statistical Section. The statement is effective for periods beginning after June 15, 2005. This statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, guiding the preparation of the statistical section. Statement No. 44 establishes the objectives of the statistical section and the reporting requirements. Applying the provisions of this statement resulted in expanding the Statistical Section to include ten years of trend information and adding financial trend information on changes in plan net assets.

SUMMARIZED PRIOR YEAR INFORMATION

The accompanying financial statements include certain prior year summarized information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with SDCERA financial statements as of and for the year ended June 30, 2006, 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.

In March 2005 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 24% Domestic Equity, 25% International Equity, 31% Fixed Income, 10% Real Estate, 5% Commodities and 5% Alternative Equity.

In accordance with GASB Statement 40, Deposit and Investment Risk Disclosures, investment risk disclosure is required for; interest rate risk, credit risk (including custodial credit risk and concentrations of credit risk) and foreign currency risk.

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, 2006, SDCERA had the following investments and maturities in the table below:

INTEREST RATE RISK

(DOLLARS 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	$ 91,096	$ -	$ -	$ 424	$ 90,672
Collateralized mortgage obligations	119,714	-	241	159	119,314
Commercial paper	4,896	4,896			
Convertible Bonds	192,259	68,789	34,952	6,253	82,265
Corporate bonds	344,537	121,431	68,382	131,700	23,024
Emerging market debt securities	356,600	14,870	34,234	80,592	226,905
International bonds	248,291	4,209	83,200	90,848	70,036
International Governments	244,990	-	152,155	70,352	22,483
Managed Futures*	31,688	NA	NA	NA	NA
Municipals	-	-	-		
Private placements	30,448	902	6,941	15,641	6,964
Repurchase agreements	-				
Treasury inflation protected securities	232,808	384	64,491	97,362	70,570
US Treasuries	23,652	5,113	2,684	7,322	8,532
Total**	**$ 1,920,979**	**$ 220,594**	**$ 447,280**	**$ 500,653**	**$ 720,765**

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

** Excludes excess cash from Standish Mellon and PIMCO cash management.

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. Global and Tips Fixed Income managers are limited to 10% of a single issuer. High Yield and Convertible Fixed Income managers limit is 8% exposure in any single security, with the exception of United States Treasury and government agencies. As of June 30, 2006, 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 overall weighted average investment grade held in domestic fixed income portfolios shall be no lower than AA by Standard & Poor's and Fitch's, and Aa by Moody's. 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 are limited to 15% of the manager's portfolio. The overall weighted average grading for the Global fixed income portfolio shall be A-/A3 or higher. SDCERA has no policy for Emerging Market Fixed Income grading.

The following tables illustrates SDCERA's Fixed Income securities ratings as of June 30, 2006, shown as a percentage of the total portfolio:

CREDIT RISK

(DOLLARS IN THOUSANDS)

Credit Risk	Domestic Core Fixed Income	Global Fixed Income	High Yield Fixed Income	Emerging Market Debt Fixed Income	Total*
Gov't	$ 330,762	$ 94,592	$ 0	$ 0	$ 425,354
AAA	33,138	331,244	0	0	364,382
AA	6,445	6,489	0	0	12,934
A	20,606	104,854	79	30,061	155,600
BBB	29,874	83,878	7,426	64,366	185,545
BB	15,163	3,552	73,230	53,098	145,043
B	27,802	2,836	124,175	146,135	300,947
CCC	2,925	0	26,662	0	29,587
CC	846	0	3,676	0	4,522
C	0	0	4,952	0	4,952
NR	25,176	132,673	123,847	62,940	344,636
	$ 492,737	$ 760,118	$ 364,047	$ 356,600	$ 1,973,502

* Includes convertible securities for fixed income portfolio managers.

CREDIT RISK

Credit Risk	Domestic Core Fixed Income	Global Fixed Income	High Yield Fixed Income	Emerging Market Debt Fixed Income
Gov't	67.1%	12.4%	0.0%	0.0%
AAA	6.7%	43.6%	0.0%	0.0%
AA	1.3%	0.9%	0.0%	0.0%
A	4.2%	13.8%	0.0%	8.4%
BBB	6.1%	11.0%	2.0%	18.1%
BB	3.1%	0.5%	20.1%	14.9%
B	5.6%	0.4%	34.1%	41.0%
CCC	0.6%	0.0%	7.4%	0.0%
CC	0.2%	0.0%	1.0%	0.0%
C	0.0%	0.0%	1.4%	0.0%
NR	5.1%	17.4%	34.0%	17.6%
	100.0%	100.0%	100.0%	100.0%

DOMESTIC CORE FIXED INCOME PORTFOLIO

SDCERA's Domestic Core Fixed Income portfolio of government securities, collateralized mortgage obligations, corporate bonds, private placements, and other bonds. The overall weighted average rating for Domestic Fixed Income was AAA, excluding 5.1% of unrated securities.

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 A, excluding 17.4% of unrated securities.

HIGH YIELD FIXED INCOME PORTFOLIO

The weighted average quality of the High Yield Fixed Income Portfolio as of June 30, 2006 was B/BB, excluding 34.0% 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, 2006, the Emerging Market Debt portfolio was rated B, excluding 17.7% of unrated securities in the portfolio.

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.

FOREIGN CURRENCY RISK

SDCERA's investment policy allows international equity and fixed income 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, as well as currency overlay exposure.

Other currencies that represent less than $2 million in holdings are Philippine Peso, Columbian Peso, Sri Lanka Rupee and Zimbabwean Dollar.

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 NET EXPOSURE TO FOREIGN CURRENCY RISK IS AS FOLLOWS:

(THOUSANDS OF DOLLARS)

Currency	Fair Value
EURO CURRENCY UNIT	442,050
JAPANESE YEN	356,221
BRITISH POUND STERLING	264,894
U.S. DOLLAR	208,681
SOUTH KOREAN WON	96,655
HONG KONG DOLLAR	86,202
AUSTRALIAN DOLLAR	77,484
SWISS FRANC	69,730
CANADIAN DOLLAR	69,393
S AFRICAN COMM RAND	55,721
NEW TAIWAN DOLLAR	51,936
SINGAPORE DOLLAR	30,700
INDONESIAN RUPIAN	21,390
MEXICAN NEW PESO	18,312
NORWEGIAN KRONE	16,390
BRAZIL REAL	15,533
MALASIAN RINGGIT	8,099
DANISH KRONE	6,503
FORWARDS/OTHER	6,290
SWEDISH KRONA	6,111
EGYPTIAN POUND	5,714
THAILAND BAHT	5,442
INDIAN RUPEE	5,083
TURKISH LYRA	5,004
CHILEAN PESO	4,109
HUNGARIAN FORINT	3,850
NEW ZEALAND DOLLAR	3,737
NEW TURKISH LIRA	2,873
Other (Less than $2 million holdings)	2,789
Total	**1,946,896**

SDCERA's securities lending transactions as of June 30, 2006, are summarized in the following table. The Fund lent $591,768,886 in securities and received collateral of $45,080,849 and $557,938,130 in securities and cash, respectively from borrowers.

SECURITIES LENT

Securities Lent	SDCERA Securities Lent	Securities Received Value	Cash Received Value
Lent for Cash Collateral:			
U.S. Government and Agency securities	$ 10,000,476		10,173,104
International Governments securities	41,532,349		44,942,216
Treasury Inflation protected securities	181,295,240		182,915,582
Domestic Corporate Fixed Income securities	51,827,103		52,839,820
Domestic Equities	50,349,527		51,223,404
International Equities	211,971,150		215,844,004
Lent for Securities Collateral:			
U.S. Government and Agency securities	5,114,566	5,163,233	
Treasury Inflation protected securities	39,319,077	39,559,250	
International Equities	359,398	358,366	
Total	**$ 591,768,886**	**45,080,849**	**557,938,130**

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, 2006, presented at its 2006 value:

SECURITIES LENDING INVESTMENTS

Securities Lending Investments	Fair Value
U.S. Corporate Floating Rate	$ 285,748,062
Asset Back Securities	64,673,650
Commercial Paper	102,169,486
Certificates of Deposit Floating Rate	49,342,281
Interest Bearing	2,092,826
Repurchase Agreements	97,855,307
Other (Cash)	260,023
Total	**$ 602,141,635**

Cash collateral is invested in the agent's short-term investment pool, which as of June 30, 2006 had a weighted average maturity of 54 days. 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.

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, 2006. 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	9.06% -9.46%	21.34%
Safety members	11.28%	29.19%

During the year, contributions totaled $344,371,501, which included $41,911,209 in employee contributions, $285,460,292 in employer contributions paid by the County, which includes $41,208,513 in employee contributions paid by the County. In addition, $17,000,000 was transferred from the health benefits reserve to pension assets.

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 June 30, 2004 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 5.0% 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.

Effective July 1, 2005 the Board of Retirement approved a change in the calculation of excess earnings using the Actuarial Value of Assets rather than Book Value of Assets. This change eliminated the reserve for unrealized earnings and created a market stabilization account and the smoothed market value transition reserve, description of the purpose of these reserves is presented below.

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, 2006.

The reserve for undistributed excess earnings represents earnings on actuarial assets 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 market stabilization account represents the balance of deferred earnings created by a five-year smoothing of actual gains and losses compared to gains at the targeted return of 8.25%. As of June 30, 2006, the Market Stabilization Account is a positive amount due to significant market gains over the past 4 years.

The smoothed market value transition reserve represents the accumulated difference between the Actuarial Value of assets and the book or cost value of assets at June 30, 2005. This was a one-time adjustment to align the reserve balances with the Actuarial Value of 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.

Reserve	Fiscal Year End June 30,	
(DOLLARS IN THOUSANDS)	2006	2005
Reserve for Member Contributions:		
Active	$ 258,805	$ 232,417
Deferred	31,534	29,903
Unlocated Separated Members	0	0
Subtotal	**290,339**	**262,320**
Reserve for County Contributions	1,850,020	1,675,722
Reserve for Retirement Allowances	3,645,788	3,234,441
Total	**5,786,147**	**5,172,483**
Reserve for Health Benefits	207,339	193,820
Reserve for Star Cost-of-Living Allowance	54,448	55,158
Reserve for Undistributed Earnings	0	0
Reserve for Unrealized Earnings	0	851,055
Reserve for Contingencies	73,300	63,585
Reserve for Smoothed Market Value Transition	476,872	N/A
Reserve for Market Stabilization	722,800	N/A
Total Retirement Fund	**7,320,906**	**6,336,101**
Health Benefits 401(h) Account	10,042	22,373
Total Fund	**$ 7,330,948**	**$ 6,358,474**

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. A positive rate of return was generated in the Fiscal Year Ended June 30, 2006, therefore Government Code Section 31580.2 applies.

SDCERA'S ADMINISTRATIVE EXPENSES

FOR THE YEAR ENDED JUNE 30, 2006

Total Asset Base, at fair value (December 31, 2005)	$	7,135,413,029
Maximum Allowable for Administrative Expenses (.0018 X $7,135,412,777)	$	12,843,743
Actual Administrative Expenses for the Fiscal Year	$	8,033,793
Excess of Allowance over Actual Administrative Expenses	$	4,809,950
Actual Administrative Expenses as a Percentage of Total Assets Base		0.11%

8. LEASE OBLIGATIONS

A commitment under an operating lease agreement for office facilities provides for minimum future rental payments through June 30, 2017.

These future minimum rental payments as of June 30, 2006 are as follows:

Year Ending June 30	Amount West A Street	Amount Rio San Diego
2007	$ 655,037	$ 1,217,845
2008	670,790	1,254,227
2009-10	975,336	1,291,758
2011	0	1,330,438
2012	0	1,370,267
2013	0	1,411,244
2014	0	1,453,754
2015	0	1,497,413
2016	0	1,542,220
2017	0	1,588,560
Total	**$ 2,301,163**	**$ 13,957,726**

9. COMMITMENTS AND CONTINGENCIES

DERIVATIVE INSTRUMENTS

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. Derivative instruments 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 $190 million and alternative equity for $216 million.

LITIGATION

SDCERA is subject to legal proceedings and claims, which have risen in the ordinary course of its business and have not been finally adjudicated. These actions, when finally concluded and determined, will not, in the opinion of the management of SDCERA, have a material adverse effect upon the financial position of SDCERA.

10. SUBSEQUENT EVENTS

LOSS ON INVESTMENT IN AMARANTH PARTNERS

In the 3rd Quarter of the calendar year 2006, SDCERA experienced an $85 million loss on its original investment of $175 million with Amaranth Partners. The fund recorded a loss of $155 million in September 2006, reversing prior year gains of $72 million and reporting a current value of $92 million. Amaranth Partners expects to cease operations by March 2007 and is in the process of liquidating their remaining assets. The ultimate recovery on the account at this point is unknown.

SUMMARY ACTUARIAL INFORMATION

Valuation Date	June 30, 2006
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**	5.25 %
Cost-of-Living Adjustments for Retirees	3.00 %
Inflation	3.75 %

**Includes inflation of 3.75%.*

*** Includes inflation of 3.75%, across the board increase of 0.50%, plus merit and longevity increase.*

SCHEDULE I - FUNDING PROGRESS

(THOUSANDS OF DOLLARS)

Valuation Date	(1) Valuation Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) - (1)	Funded Ratio (1)/(2)	(5) Annual Covered Payroll	UAAL as % of Covered Payroll (3)/(5)
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
6/30/05	5,612,320	6,990,726	1,378,406	80.3	921,796	149.5
6/30/06	6,263,019	7,495,294	1,232,275	83.6	979,368	125.8

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
6/30/94	$ 48,591	$ 48,591	100.00
6/30/95	33,305	33,305	100.00
6/30/96	37,577	37,577	100.00
6/30/97	23,269	23,269	100.00
6/30/98	24,320	24,320	100.00
6/30/99	-	-	-
6/30/00	14,341	-	-
6/30/01	4,927	2,035	41.30
6/30/02	-	5,338	100.00
6/30/03	6,538	6,538	100.00
6/30/04	194,580	194,580	100.00
6/30/05	235,122	259,988	110.58
6/30/06	203,700	243,700	119.64

1 Excludes County pickup of member contributions and proceeds from Pension Obligation Bonds.

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

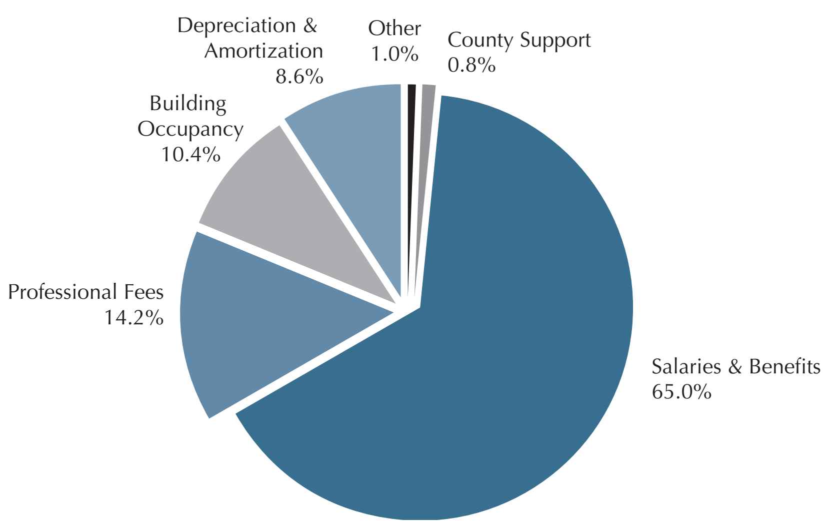
The Segal Group, Inc. Annual Actuarial Valuation since June 30, 2003

SCHEDULE III - ADMINISTRATIVE EXPENSES FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(THOUSANDS OF DOLLARS)

Expense Category	2006	2005
Salaries and Benefits	$ 5,219	$ 4,877
Professional Fees	1,139	1,085
Building Occupancy Expenses	836	721
County Administrative Support	64	73
Equipment and Maintenance	213	191
Depreciation and Amortization	694	687
Other Expenses*	(131)	(143)
Total Administrative Expenses	**$ 8,034**	**$ 7,491**

* Includes overhead expense allocations to Investments and Health Care.

ADMINISTRATIVE EXPENSES BY CATEGORY
2006



SCHEDULE IV - INVESTMENT EXPENSES

FOR THE YEAR ENDED JUNE 30, 2006 (THOUSANDS OF DOLLARS)

Individual or Firm	Assets Managed at Fair Value (net of fees)	Fees
Domestic Equity Managers		
Denali Advisors, LLC	$ -	$ 68
Dimensional Fund Advisors	232,845	855
Duncan Hurst Capital Management	170,074	1,701
Nicholas Applegate Capital Management (Emerging Growth)	-	58
Total Domestic Equity Managers		**2,682**
International Equity Managers		
Artisan Partners	351,467	2,287
Ballie Gifford Overseas	262,308	1,428
Berens Capital	22,412	498
Capital Guardian Trust Company	312,184	1,432
Fidelity Management Trust Company	416,851	1,324
Genesis Investment Management	210,519	1,485
Mondrian International Advisors	398,782	1,353
Total International Equity Managers		**9,807**
Overlay		
Barclay's Global Investors	11,834	727
Frank Russell	41,843	259
FX Concepts, Inc.	(912)	577
Kenmar	-	1,384
Managed Active Futures CTAs	24,871	6,205
Mellon Capital	(490)	914
Quantitative Financial Strategies	-	297
Total Overlay		**10,363**
Fixed Income Managers		
Ashmore Investment Management	356,600	2,553
Colchester Global Investments	353,897	1,078
Nicholas Applegate Capital Management (Convertibles)	114,273	603
Oaktree Capital Management	131,926	570
Pacific Investment Management Company	574,930	1,689
TCW Asset Management	130,850	1,370
W.R.Huff Asset Management Company	139,479	730
Zazove Associates	115,765	1,699
Total Fixed Income Managers		**10,292**
Alpha Managers		
Amaranth Partners	233,830	17,368
AQR Capital	51,342	448
Bridgewater Associates, Inc.	147,303	745
DE Shaw	191,928	11,440
Freeman Associates	93,222	993
Lotsoff Capital Management	176,399	553
Numeric Investors - Large Cap	-	185
Silverpoint	140,092	5,389
Western Asset Management (Absolute Return)	150,000	2
WG Trading	136,787	399
Total Alpha Managers		**37,522**
Other Managers		
Western Asset Management (Commodities)	335,581	431
Total Other Managers		**431**

(continued on next page)

SCHEDULE IV - INVESTMENT EXPENSES

FOR THE YEAR ENDED JUNE 30, 2006 (THOUSANDS OF DOLLARS)

Individual or Firm	Assets Managed at Fair Value (net of fees)	Fees
Alternative Equity Managers		
Apex Investment Fund V, LP	$ 4,331	$ 97
Arch Venture Partners V, LP	2,695	111
Blackstone Capital Partners IV, LP	13,637	6
Blackstone Capital Partners Fund V, LP	674	96
California Community Financial Institutions, LP	3,596	49
Capital Int'l. Global Emerging Markets PE Fund	4,990	43
Cerberus Institutional Partners, LP (Series Two)	8,997	51
Charterhouse Capital Partners VIII, LP	-	38
Code, Hennessy & Simmons IV, LP	6,397	47
Columbia Capital Equity Partners IV, LP	1,107	134
Darwin Venture Fund of Funds	1,308	80
EnerVest Institutional Fund X	4,192	279
Forward Ventures Institutional Partners III, LP	2,849	255
Forward Ventures Institutional Partners IV, LP	3,114	167
Graham Partners II, LP	1,808	153
HarbourVest International Private Equity Partners III, LP	19,974	295
Lexington Capital Partners V, LP	6,771	51
Lexington Capital Partners VI, LP	298	114
Lighthouse Capital Partners V, LP	7,836	185
Meritech Capital Partners, LP	6,850	100
Mission Ventures, LP	1,945	129
Mission Ventures II, LP	8,266	420
Northgate Private Equity Partners II, LP	2,554	141
Northgate Venture Partners II, LP	1,969	81
Oakhill Capital Partners, LP	5,001	82
Oak Investment Partners XII, LP	6,205	161
OCM Opportunities Fund II, LP	1,252	4
OCM Opportunities Fund III, LP	1,279	8
OCM Opportunities Fund IV, LP	748	13
OCM Opportunities Fund VI, LP	3,634	58
Paul Capital Partners VIII-B, LP	6,056	187
Relational Investors, LP	26,849	107
Sorrento Ventures CE, LP	4,085	264
Stinson Capital Partners, LP	23,187	315
TA IX, LP	6,516	172
TA Subordinated Debt Fund, LP	3,316	52
TPG Partners IV, LP	7,296	129
Total Alternative Equity Managers		**4,674**
Real Estate Managers		
Canyon Johnson Urban Fund	4,404	600
ING Realty Associates, Inc.	3,186	33
Kennedy Associates Real Estate Counsel, Inc	15,513	50
REIT - REEF	149,473	692
Southern California Smart Growth Fund	10,432	264
US Realty - Net Lease	3,114	36
Total Real Estate Managers		**1,675**
Master Custodian		
Bank of New York		1,175
Mellon Bank		831
Total Master Custodian		**2,006**
Other Professional Fees		
Cambridge Capital Advisors		501
Cliffwater Associates		121
Mount Lucas Management		906
Other		20
Rocaton		541
The Segal Company		228
The Townsend Group		100
Total Other Professional Fees		**2,417**
Administrative, Support and Other		**3,673**
Total Investment Expenses		**$ 85,542**

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INVESTMENTS

In 2006, SDCERA received the award for Mid-size Public Fund of the Year from Money Management Letter, an investment trade journal specializing in the defined benefit pension industry.

SDCERA

Strength. Service. Commitment.

SDCERA
Strength. Service. Commitment.

David Deutsch
CHIEF INVESTMENT OFFICER

TRUSTEES, BOARD OF RETIREMENT:

For the year ending June 30, 2006 the markets remained focused on the rising price of oil, increasing inflationary pressures, rising interest rates, and heightened geopolitical risk. During this period, the price of oil hit a high of $74.61 per barrel versus the prior period's peak of $60.54. The federal funds rate ended the period at 5.25%, after the Federal Reserve Bank raised rates 8 consecutive times (a total of 2.00%) during this period. Additionally, the introduction of a new Federal Reserve Chairman (Ben Bernanke) at the beginning of 2006 generated some market volatility as market participants tried to gauge his strategy in managing monetary policy.

At present, the markets appear to be concerned with a moderation of overall growth and possible recessionary fears. Real GDP rose 3.6% during the year, compared to 3.1% for the prior year. Inflation rose significantly during this period as the CPI was 4.3% versus 3.5% for this same time one year ago. Excluding food and energy, the CPI ended the period at 2.6%.

The US stock market generated positive returns across the different market caps (large, mid and small) and investment styles (growth and value). The S&P 500 Index returned 8.6% for the year compared to a return of 6.3% for the same period last year. Small cap stocks continued to outperform large cap stocks with the Russell 2000 earning 14.6%, and value outperformed growth.

Despite weakness in the global markets in mid-May to early June 2006, the non-US markets outperformed the US market for this period. The Morgan Stanley EAFE Index, excluding the US, had a total return of 27.1%. The more volatile segments of the market, emerging markets, performed particularly well, despite this market being severely punished during 2Q06. During the twelve months to June 30, 2006, the MSCI Emerging Markets Index generated a return of 35.9%. International small cap stocks generated strong returns as well, as the MSCI EAFE Small Cap returned 26.2% for the period.

Interest rates across the entire yield curve (short, intermediate and long) rose during the period with shorter maturities rising significantly more than longer-dated maturities, leaving the curve slightly inverted. For the one year ending June 30, 2006, the 6-month Treasury bill rate rose from 3.29% to 5.23% (+190 basis points), whereas the 30-year Treasury bond rose from 4.19% to 5.19% (+99 basis points). The total return of the Lehman Brothers Aggregate bond Index was slightly negative at -0.8% for the period, reflecting the overall rise in interest rates. Investors in non-investment grade bonds were modestly rewarded, as the total return of the Citigroup High Yield Bond index was 4.1%, significantly lower than the return of 10.4% for the same period last year. Global bond markets ended the period flat as the non-US fixed income markets came under the same pressure as the US as central banks continued their monetary tightening campaign as a preemptive action against inflation. The Lehman Brothers Global Aggregate Index (unhedged) generated a return of 0.25% during this period versus a return of 7.5% during the same period last year. During this period the US dollar weakened meaningfully versus the British pound and Euro and strengthened modestly versus the Japanese yen.

The SDCERA Fund (the Fund) performed well both in absolute terms and relative to its benchmarks and other peer funds. The Fund generated a net of fee return of 14.68% for the year against a policy benchmark return of 12.2%. Accordingly, SDCERA's active implementation of asset allocation policies added 2.5%, providing over $150 million additional earnings to the Fund. The Fund placed in the 5th percentile in the Wilshire Master Trust Universe of peer funds for the year and in the 1st percentile for the three year, five year, and ten year periods against all TUCS public funds with more than $1 billion in assets.

All but one of the asset classes and strategies posted positive returns for this period, including equity and fixed income assets as well as the funds of funds aggregated in-house by SDCERA to meet strategic objectives. These funds of funds include the Alpha Engine composed of direct absolute return strategies and multi-strategy hedge funds enhancing the performance of S&P 500 exposure, the Real Estate fund of funds, composed of multiple real estate investment vehicles, the private equity funds of funds, the venture capital fund of funds and the Managed Futures Overlay. The Active Currency Overlay was the only aggregate to post a negative return for the period.

While there were no changes to SDCERA's asset mix over the past year, the plan has taken steps to broaden the number of absolute return managers within the alpha engine and improve its risk/return profile through multi-strategy hedge funds. Accordingly, four multi-strategy hedge fund managers were added to the roster. In addition, SDCERA increased fund diversification within international exposures and in mortgage-backed securities by adding managers.

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

Investment Description	Allocation
Core US Fixed Income	6.0%
High Yield	7.0%
TIPS	4.0%
Non-US Fixed Income	8.0%
Emerging Market Debt	6.0%
Total Fixed Income	**31.0%**
Real Estate	**10.0%**
US Equity	24.0%
Non-US Equity	19.0%
Emerging Markets Equity	6.0%
Alternative Equity	5.0%
Total Equity	**54.0%**
Commodities	**5.0%**
Total Assets	**100.0%**
Expected Compound Annual Return	**8.17%**
Standard Deviation	**10.28%**

** As adopted by the SDCERA Board of Retirement*

Thank you.

David J. Deutsch, CFA
Chief Investment Officer
October 12, 2006

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.

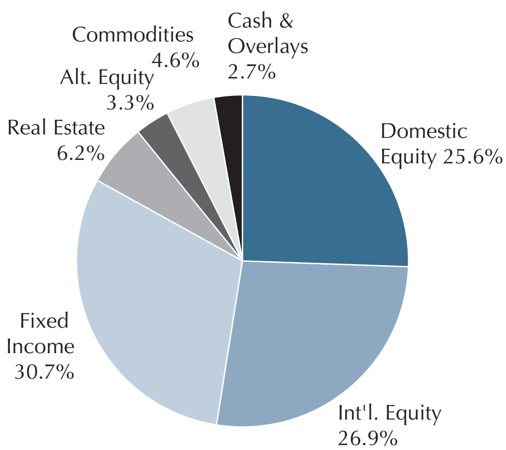
(b) With the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

(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.

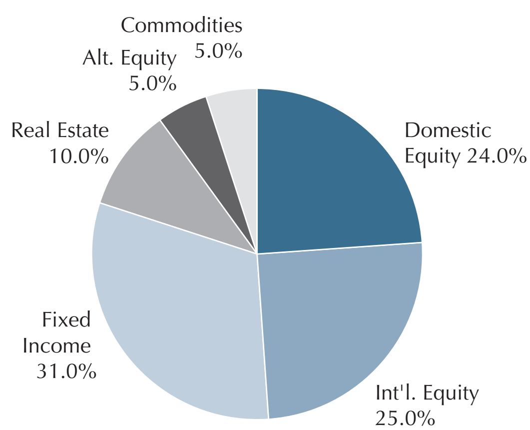
The Board has adopted an investment policy statement and related policies to ensure that the plan is managed to the prudent expert standard, required in California. These policies set investment return and risk objectives, both at the manager and plan level, and provide for the extensive diversification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

ASSET ALLOCATION

JUNE 30, 2006



TARGET ASSET ALLOCATION



Asset Type (THOUSANDS OF DOLLARS)		Fair Value (1)	Percent of Total	Target Percent of Total
Domestic Equity	$	1,874,985	25.6%	24.0%
International Equity		1,974,524	26.9%	25.0%
Fixed Income		2,248,052	30.7%	31.0%
Real Estate		458,994	6.2%	10.0%
Alternative Equity		240,983	3.3%	5.0%
Commodities		338,092	4.6%	5.0%
Overlays		102,191	1.4%	0.0%
Cash and other assets and liabilities		93,127	1.3%	0.0%
Total	**$**	**7,330,948**	**100.0%**	**100.0%**

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

PERFORMANCE RESULTS, ANNUALIZED, NET OF FEES

FOR THE YEARS ENDED JUNE 30

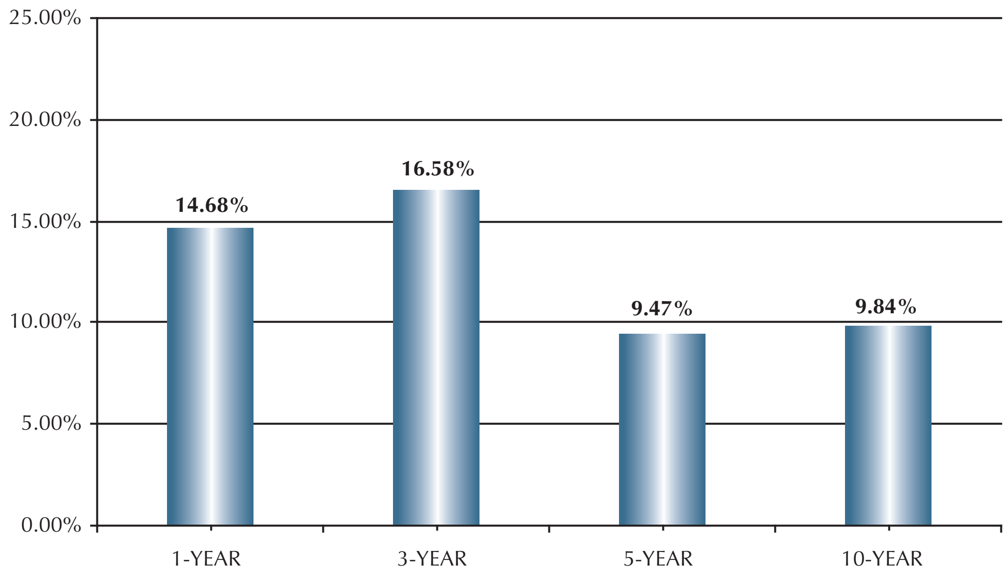
	1-Year Return	3-Year Return	5-Year Return	10-Year Return	Index	1-Year Return	3-Year Return	5-Year Return	10-Year Return
Total Fund	**14.68%**	**16.58%**	**9.47%**	**9.84%**	Custom Benchmark (1)	12.23%	14.35%	7.81%	8.13%
					Master Trust Median	9.28%	10.99%	6.10%	8.40%
					Public Fund Sponsors Median	9.44%	11.35%	6.27%	8.25%
					Actuarial Rate of Return	8.25%	8.25%	8.25%	8.25%
Domestic Equity	14.69%	15.34%	5.81%	9.52%	Managed Equities Portfolios Median	10.77%	13.95%	4.82%	8.81%
					Russell 3000	9.57%	12.56%	3.53%	8.52%
International Equity	32.49%	29.19%	14.88%	8.56%	Custom Benchmark (2)	29.33%	26.89%	13.25%	7.23%
					Managed International Equities Portfolios Median	26.15%	23.41%	10.47%	8.42%
					MSCI EAFE	26.57%	23.94%	10.02%	6.40%
Fixed Income	3.79%	7.65%	8.37%	9.72%	Custom Benchmark (3)	1.16%	5.44%	7.93%	7.09%
					Managed Domestic Fixed Income Portfolios Median	0.02%	2.41%	5.22%	6.29%
					Managed International Fixed Income Portfolios Median	1.44%	6.50%	10.88%	10.42%
					Lehman Aggregate	-0.81%	2.05%	4.97%	6.22%
Real Estate	18.07%	21.43%	17.65%	14.32%	NCREIF Property Index	20.19%	15.07%	11.67%	12.23%
					Real Estate Portfolios Median	18.24%	15.75%	12.02%	12.68%
Alternative Equity	23.63%	18.96%	7.24%	N/A	Custom Benchmark (4)	21.23%	20.37%	4.91%	N/A
Commodities	7.29%	N/A	N/A	N/A	GSCI Total Return	13.40%	N/A	N/A	N/A

NOTES:

1. 24.0% Russell 3000; 19.0% MSCI EAFE; 6.0% MSCI Emerging Markets; 6.0% Lehman Aggregate; 8.0% Citigroup Non-US Gov't. Bond; 6.0% JP Morgan Global EMBI; 7.0% Citigroup High Yield Cash Pay; 4.0% Barclays US Inflation Linked; 5.0% Commodities Index; 5.0% Private Equity; 10.0% Real Estate.
2. 76.0% MSCI EAFE; 24.0% MSCI Emerging Markets.
3. 19.35% Lehman Aggregate; 25.82% Citigroup Non-US Gov't. Bond; 19.35% JP Morgan Global EMBI; 22.58% Citigroup High Yield Cash Pay; 12.90% Barclays US Inflation Linked.
4. Cambridge Associates' total assets portfolio benchmark based on a pooled return of funds, on a quarter lag.

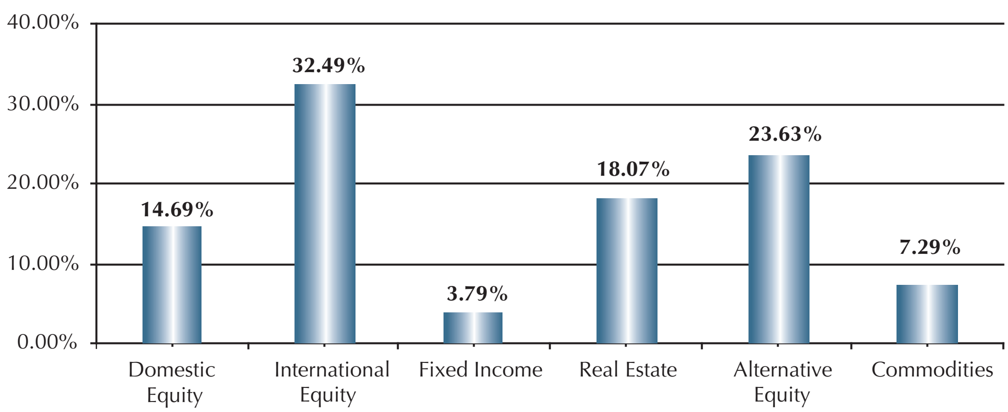
PERFORMANCE RESULTS - TOTAL FUND CATEGORY

ANNUALIZED, NET OF FEES
AS OF JUNE 30, 2006



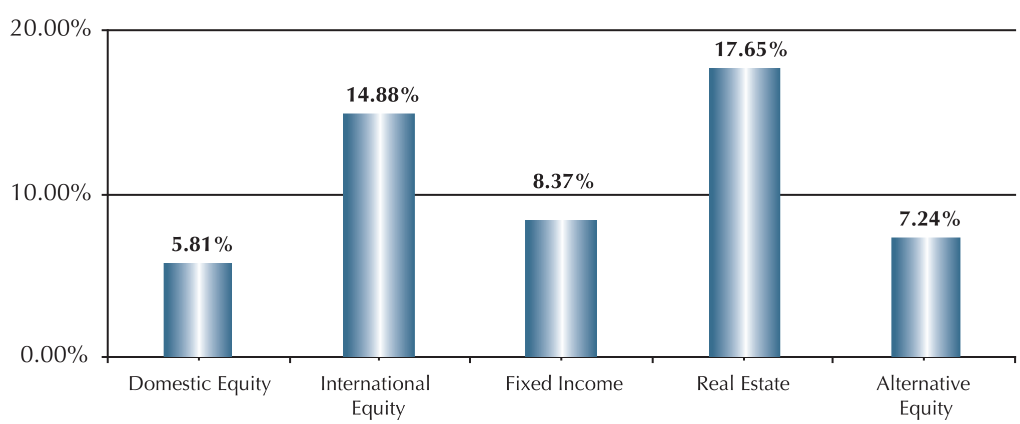
PERFORMANCE RESULTS BY INVESTMENT CATEGORY

1-YEAR RETURN, NET OF FEES
FOR THE YEAR ENDED JUNE 30, 2006



PERFORMANCE RESULTS BY INVESTMENT CATEGORY

5-YEAR RETURN, ANNUALIZED, NET OF FEES
FOR THE YEAR ENDED JUNE 30, 2006



TOP 10 HOLDINGS – DOMESTIC AND INTERNATIONAL EQUITY

AS OF JUNE 30, 2006

Shares	Security Name	Market Value
263,127	RWE AG	$ 21,885,899
1,850,199	BP Amoco Capital	21,575,934
524,476	ING Groep N.V	20,608,191
366,800	Toyota Motor, Inc	19,219,979
2,443,098	UniCredito Italian	19,118,068
627,505	GlaxoSmithKline PLC	17,536,694
155,247	UBS AG	16,982,121
253,542	Total SA	16,679,652
992,691	Telefonica SA	16,526,343
1,162,487	BG Group	15,534,312

TOP 10 HOLDINGS – FIXED INCOME

AS OF JUNE 30, 2006

Book Value	Description	Market Value
$ 56,048,328	Fannie Mae TBA, 07/01/35	$ 55,697,400
44,469,222	U.S. Treasury Inflation Index Notes, 01/15/15	41,908,553
31,680,774	U.S. Treasury Inflation Index Notes, 01/15/10	30,404,445
27,080,646	U.S. Treasury Inflation Index Notes, 04/15/29	28,887,332
26,722,168	UK Treasury Bonds, 03/07/08	27,815,699
27,292,410	New Zealand Government, 04/15/13	25,797,301
26,807,476	U.S. Treasury Inflation Index Notes, 07/15/12	25,592,015
22,652,830	Mexican Bonos, 12/07/23	25,113,568
26,095,110	Australia Commonwealth Bonds, 05/15/13	24,980,356
23,294,864	Sweden Kingdom Bonds, 01/28/09	24,231,690

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

INVESTMENT EXPENSES BY CATEGORY

Investment Expenses by Category	Fees (000's)
Domestic Equity	$ 2,683
International Equity	9,807
Fixed Income	10,292
Alpha Engine	37,933
Alternative Equity	4,675
Real Estate	1,675
Overlays	10,363
Master Custodian	2,006
Other Professional Fees	2,417
Administrative, Support and Other	3,691
Total Investment Expenses	**$ 85,542**

COMMISSIONS PAID – DOMESTIC EQUITY

FOR THE YEAR ENDED JUNE 30, 2006

No.	Brokerage Firm	Number of Shares Traded	Total Commissions	Cost of Commission per Share	% of Total Commissions
1	Bear Stearns & Co., Inc.	7,137,258	$ 351,949	$ 0.0493	16%
2	Investment Technology Group	8,762,276	219,179	0.0250	10%
3	Jefferies & Company, Inc.	1,671,852	77,825	0.0466	4%
4	Goldman Sachs & Co	1,405,325	69,191	0.0492	3%
5	Weeden & Co	2,737,240	68,835	0.0251	3%
6	UBS Securities, LLC	1,671,337	63,557	0.0380	3%
7	Lehman Brothers Inc.	1,203,670	60,184	0.0500	3%
8	Instinet Corporation	2,933,160	58,713	0.0200	3%
9	O'Neill William & Co	1,030,545	47,082	0.0457	2%
10	RBC Dominion Securities	935,905	43,383	0.0464	2%
11	Other*	31,145,114	1,136,459	0.0365	51%
	Total	**60,633,682**	**$ 2,196,357**	**$ 0.0362**	**100.00%**

*Includes approximately 135 additional firms, each with less than 2% of total commissions.

COMMISSIONS PAID – INTERNATIONAL EQUITY

FOR THE YEAR ENDED JUNE 30, 2006

No.	Brokerage Firm	Number of Shares Traded	Total Commissions	Cost of Commission per Share	% of Total Commissions
1	UBS Securities, LLC	25,281,168	$ 244,511	$ 0.0097	12%
2	Merrill Lynch	12,108,348	238,353	0.0197	12%
3	Deutsche Banc Securities Inc.	9,633,985	138,939	0.0144	7%
4	Morgan Stanley & Co., Inc.	15,496,998	127,345	0.0082	7%
5	JP Morgan Chase Bank	24,651,425	124,197	0.0050	6%
6	Goldman Sachs & Co	4,739,536	103,018	0.0217	5%
7	Credit Suisse First Boston	12,417,176	91,973	0.0074	5%
8	Lehman Brothers Inc.	8,949,268	90,549	0.0101	5%
9	Citigroup Global Markets Inc.	10,760,223	77,934	0.0072	4%
10	ABN Amro Securities, Inc.	17,847,592	65,377	0.0037	3%
11	Other**	42,281,933	655,100	0.0155	34%
	Total	**184,167,652**	**$ 1,957,296**	**$ 0.0106**	**100.00%**

** Includes approximately 128 additional firms, each with less than 3% of total commissions.

SDCERA has commission recapture arrangements with Frank Russell Securities, Lynch, Jones & Ryan, Abel Noser, and Donaldson Co.

SUMMARY OF INVESTMENT PORTFOLIO BY TYPE

AS OF JUNE 30, 2006

Investment Description	Fair Market Value	% of Total Market Value
Domestic Equity		
Financials	$ 390,124,076	5.3%
Information Technology	278,712,276	3.8%
Consumer Discretionary	250,419,757	3.4%
Industrials	240,566,443	3.3%
Consumer Staples	195,893,806	2.7%
Health Care	191,745,752	2.6%
Energy	175,145,584	2.4%
Telecommunications Services	55,550,809	0.8%
Utilities	54,601,924	0.7%
Materials	45,205,345	0.6%
ADR's	117,469,085	1.6%
Convertible Securities	66,570,592	0.9%
Total Domestic Equity	**2,062,005,449**	**28.1%**
International Equity	**1,845,546,409**	**25.2%**
Total Equity	**3,907,551,858**	**53.3%**
Fixed Income		
International Bonds	850,359,309	11.6%
Government Bonds	471,528,715	6.4%
Corporate Bonds	457,886,683	6.2%
Convertible Bonds	141,503,774	1.9%
Total Fixed Income	**1,921,278,481**	**26.2%**
Other Investments		
Real Estate	456,541,764	6.2%
Cash & Securities for Commodity Swaps	382,815,392	5.2%
Balance Fund	330,293,887	4.5%
Alternative Equity	240,983,023	3.3%
Cash & Cash Equivalents with Fiscal Agents	160,961,972	2.2%
Cash & Securities for Overlay	41,447,756	0.6%
Other Assets and Liabilities	(110,925,674)	-1.5%
Total Other	**1,502,118,120**	**20.5%**
Net Investment Portfolio	**$ 7,330,948,459**	**100.0%**

SUMMARY OF RETIREMENT PORTFOLIO BY MANAGER/ASSET TYPE

AS OF JUNE 30, 2006

Securities Description	Asset Type	Market Value
Domestic Equity		
Enhanced S&P 500	S&P 500 Index	$ 1,478,931,906
Dimensional Fund Advisors	Value-Small Cap	232,845,122
Duncan Hurst Capital Management	Growth-Small/Micro Cap	166,188,744
Baillie Gifford Overseas	Emerging Markets	86,175,332
Zazove Associates	Convertible Preferred	37,421,525
Artisan Partners	Large Cap Growth	17,201,464
Nicholas Applegate Capital Management	Convertible Preferred	14,719,244
W. R. Huff Asset Management Company	Convertible Preferred	11,973,090
Delaware International Advisor	Large Cap Value	10,590,319
Fidelity Company	Large Cap Growth	3,501,970
Oaktree Capital Management	Convertible Preferred	1,796,715
OCM High Yield Convertible	Convertible Preferred	660,018
Total Domestic Equity		**2,062,005,449**
International Equity		
Fidelity Investments Company	Core	408,850,628
Mondrian Investment Advisors	Large Cap Value	382,875,908
Artisan Partners	Large Cap Growth	326,567,021
Capital Guardian Trust Company	Small Cap	312,184,450
Genesis Investment Management	Emerging Markets	210,519,390
Baillie Gifford Overseas	Emerging Markets	173,204,339
Berens Capital	Emerging Markets	22,412,304
Barclay's Global Investors	Currency Overlay	12,763,495
Western Asset Management	Foreign Currency	4,354
Pacific Investment Management Company	Foreign Currency	999
Unallocated Securities	Foreign Currency	284
Zazove Associates	Foreign Currency	(189,594)
Mellon Capital	Currency Overlay	(490,214)
Barclay's Global Investors	Currency Overlay	(929,757)
Colchester Global Investments	Foreign Currency	(2,227,198)
Total International Equity		**1,845,546,409**
Total Equity		**3,907,551,858**
Fixed Income		
Ashmore Emerging Markets	Emerging Markets Debt	356,600,320
Colchester Global Investments	Global	350,342,163
Pacific Investment Management Company	Inflation Protection	333,614,008
Pacific Investment Management Company	Domestic	175,153,208
Pacific Investment Management Company	Global Ex U.S.	138,097,601
W.R.Huff Asset Management Company	High Yield	124,282,957
Oaktree Capital Management	High Yield	114,841,952
Nicholas Applegate Capital Management (Convertibles)	Convertibles	95,846,791
TCW Asset Management Company	Strategic MBS	78,393,835
Zazove Associates	High Yield Convertible	65,824,304
TCW Asset Management Company	Mortgage Backed	48,496,203
Managed Futures	Managed Futures	31,687,984
OCM High Yield Convertible	High Yield	8,851,339
Standish Mellon	Excess Earnings	(754,184)
Total Fixed Income		**1,921,278,481**
Real Estate, Alternative Equity and Other		
Real Estate	Real Estate	456,541,764
Cash and Securities for Commodity Swaps	Commodity Swaps	382,815,392
Bridgewater All Weather	All Weather	330,293,887
Alternative Equity	Alternative Equity	240,983,023
Overlay Cash and Securities	Overlay Cash and Securities	41,447,756
Cash	Cash	160,961,972
Other Assets and Liabilities	Other	(110,925,674)
Net Investment Portfolio		**$ 7,330,948,459**

SUMMARY OF DERIVATIVE FINANCIAL INSTRUMENTS

AS OF JUNE 30, 2006

The Policy Overlay program managed by Russell Investment Group utilizes futures contracts to securitize SDCERA's cash exposure and maintain target allocations through synthetic rebalancing. The Currency Overlay and Managed Futures Overlay programs utilize currency forward contracts and various financial and commodity futures for the purpose of adding value to SDCERA's Total Fund performance. SDCERA also employs swap contracts on the S&P 500 Index and the Goldman Sachs Commodity Index to gain synthetic passive exposure to these markets.

POLICY OVERLAY:

	Notional Amount Long/(Short)
Futures Exposure for Policy Overlay	
Equity	
International Equity	$ 14,407,936
US Large & Small Cap	60,026,790
Total Equity	74,434,726
Fixed Income	
Global ex US Fixed Income	147,068,200
US Fixed Income	(21,154,938)
Total Fixed Income	125,913,262
Total Futures Exposure	**200,347,988**
Currency Forwards Exposure for Policy Overlay	**154,746,569**
Total Exposure for Policy Overlay:	**$ 355,094,557**

Summary of Utilized Cash and Enhanced S&P 500 Swaps excess collateralization for Policy Overlay Futures:

	BOOK VALUE
Utilized Cash:	
Domestic Equity:	
Duncan Hurst Sm Cap	$ 2,343,410
Duncan Hurst Mic Cap	1,078,179
Total Domestic Equity Cash:	**3,421,589**
International Equity	
Artisan	6,183,306
Baillie Gifford	5,247,002
Mondrian	3,299,177
Fidelity	3,972,429
Total International Equity Cash:	**18,701,914**
Operational Cash	92,633,273
County Pool Cash	3,022,487
UBOC Cash	1,029,850
Overlay Futures Cash:	44,157,319
Subtotal:	**162,966,433**
Enhanced S&P 500 Excess Collateralization	77,724,237
Total:	**$ 240,690,670**

CURRENCY OVERLAY:	**NOTIONAL VALUE**
BGI	$ 350,000,000
FX Concepts	350,000,000
Mellon Capital	300,000,000
Total Exposure for Currency Overlay:	**$ 1,000,000,000**

MANAGED FUTURES OVERLAY:	**NOTIONAL VALUE**
Graham Capital	$ 60,000,000
Kenmar (CTA Choice)	125,000,000
SDCERA MLM	90,000,000
Total Exposure for Managed Futures Overlay:	**$ 275,000,000**

SWAPS INVESTMENTS:

ENHANCED S&P 500 SWAPS

	NOTIONAL VALUE	MARKET VALUE
S & P 500 SWAPS	1,397,191,220	1,402,616,950

Alpha Engine Managers	**BOOK VALUE**	**MARKET VALUE**
Enhanced STMM/STIF Cash	14,625,354	14,625,354
Amaranth	157,646,449	233,830,268
AQR Capital	46,416,208	51,342,456
Bridgewater	150,808,902	147,302,982
DE Shaw	174,955,503	191,927,867
Freeman Assoc.	57,686,275	63,256,860
Freeman Fair Value	30,389,494	29,965,576
Lotsoff Capital Management	176,228,404	176,398,882
Silver Point	120,213,139	140,092,200
Wamco Absolute Return	150,000,000	150,000,000
WG Trading	136,301,228	136,786,786
Zazove Associates	139,939,683	139,386,227
Total Alpha Engine	**1,355,210,641**	**1,474,915,457**
Less Notional Value of Swap Investments		(1,397,191,220)
Excess Collateralization		**77,724,237**

COMMODITY SWAPS

	NOTIONAL VALUE	MARKET VALUE
Commodity Index Swaps	346,898,576	346,898,576
	BOOK VALUE	**MARKET VALUE**
Western Asset Management	338,938,147	335,580,745
Less Notional Value of Commodity Swap Investments		(346,898,576)
Excess Collateralization		(11,317,831)

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ACTUARIAL

As of June 30, 2006, more than 12,000 retired members and beneficiaries were receiving retirement benefits totaling more than $290 million annually.

SDCERA

Strength. Service. Commitment.

SEGAL

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E-MAIL ADDRESSES
pangelo@segalco.com
ayeung@segalco.com

November 17, 2006

Board of Retirement
San Diego County Employees Retirement Association
2275 Rio Bonito Way, Suite 200
San Diego, CA 92108-1685

Re: **San Diego County Employees Retirement Association**

Dear Members of the Board:

The Segal Company prepared the June 30, 2006 actuarial valuation of the San Diego County Employees Retirement Association (SDCERA). We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

As part of the June 30, 2006 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 payroll to amortize any unfunded actuarial accrued liability (UAAL). Actuarial gains and losses are incorporated into the UAAL

Board of Retirement
San Diego County Employees Retirement Association
November 17, 2006
Page 2

Components of the UAAL are amortized as a level percentage of payroll 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, 2006 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 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;
4. Solvency test;
5. Historical summary of assumptions;
6. History of employer contribution rates;
7. Schedule of benefit expenses by type;
8. Schedule of funding progress; and
9. Schedule of retiree members by type of retirement and option selected.

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2003 Experience Analysis or in conjunction with the June 30, 2006 actuarial valuation. It is our opinion that the assumptions used in the June 30, 2006 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The next experience analysis is due to be performed as of June 30, 2006 and those assumptions will be used in setting the contribution rates in the June 30, 2007 actuarial valuation.

In the June 30, 2006 valuation, the ratio of the valuation assets to actuarial accrued liabilities increased from 80.3% to 83.6%. The employer's rate has decreased from 24.63% of payroll to 23.28% of payroll, while the employee's rate has increased from 10.19% of payroll to 10.23% of payroll.

Sincerely,

Paul Angelo

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

Andy Yeung

Andy Yeung, ASA, EA, MAAA
Associate Actuary

CZI/bqb
Enclosure

4001056v1/05536.002

SHORT-TERM SOLVENCY TEST[1]

(DOLLARS IN THOUSANDS)

					Portion of Accrued Liability Covered by Valuation Assets		
Valuation Date	Active Member Contributions[2]	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)
6/30/97	193,072	1,093,600	1,201,245	2,688,098	100%	100%	100.00%
6/30/98	198,968	1,193,667	1,284,958	2,834,571	100%	100%	100.00%
6/30/99	201,234	1,313,729	1,345,249	3,211,872	100%	100%	100.00%
6/30/00	202,531	1,463,827	1,582,464	3,568,671	100%	100%	100.00%
6/30/01	214,146	1,549,361	1,743,321	3,745,600	100%	100%	100.00%
6/30/02	204,572	2,046,485	2,827,010	3,831,334	100%	100%	75.40%
6/30/03[3]	216,908	2,552,755	3,083,462	4,417,766	100%	100%	53.40%
6/30/04	235,851	2,890,576	3,243,063	5,166,759	100%	100%	62.90%
6/30/05	262,320	3,315,888	3,412,518	5,612,320	100%	100%	59.80%
6/30/06	290,339	3,679,444	3,525,511	6,263,019	100%	100%	65.00%

(1) Data through June 30, 2002 was from the Association's June 30, 2003 CAFR.

(2) Beginning in 1998, vested deferred members are included in Active Member Contributions.

(3) 2002 liabilities reflect enhanced benefits approved by the County Board of Supervisors in March 2002, experience losses, projected earlier retirement trends and increased transfers to reserves not included as valuation assets ($117.2 million for health benefits and STAR COLA).

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[1]

	General Members			Probation Members[2]			Safety Members		
	Normal	UAAL	Total	Normal	UAAL	Total	Normal	UAAL	Total
Year Ended	%	%	%	%	%	%	%	%	%
6/30/97	5.70	(6.30)	(0.60)				12.21	(9.93)	2.28
6/30/98	6.17	(4.58)	1.59	10.46	(4.58)	5.88	12.45	(8.50)	3.95
6/30/99	5.81	(7.17)	(1.36)				11.72	(6.04)	5.68
6/30/00	5.90	(9.72)	(3.82)				11.82	(8.86)	2.96
6/30/01	5.96	(6.99)	(1.03)				11.90	(5.03)	6.87
6/30/02[3]	10.77	18.21	28.98				19.61	23.36	42.97
6/30/03	12.01	13.58	25.59				17.78	17.21	34.99
6/30/04	12.04	9.30	21.34				17.79	11.40	29.19
6/30/05	12.18	10.81	22.99				17.91	12.77	30.68
6/30/06	12.15	9.34	21.49				17.93	11.94	29.87

(1) Contribution rates through June 30, 2002 were from Association's June 30, 2003 CAFR.

(2) Probation members changed to separate status in fiscal year 1998. Probation members are included with safety members beginning in 1999.

(3) 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).

Sources: 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	Number	Annual Allowance[1][2]	Number	Annual Allowance[1][2]	Number	Annual Allowance[2]	% Increase in Retiree Allowance	Average Annual Allowance	Change in Average Benefit
1997	316		123		7,692	99,998,279	6.8%	13000	4.1%
1998	447		184		7,955	107,752,376	7.8%	13545	4.2%
1999	640		303		8,292	118,154,737	9.7%	14249	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%
2005	1,013	36,459,281	347	4,606,967	11,436	263,918,139	13.7%	23,078	7.1%
2006	975	41,577,431	362	5,714,102	12,049	299,781,468	13.6%	24,880	7.8%

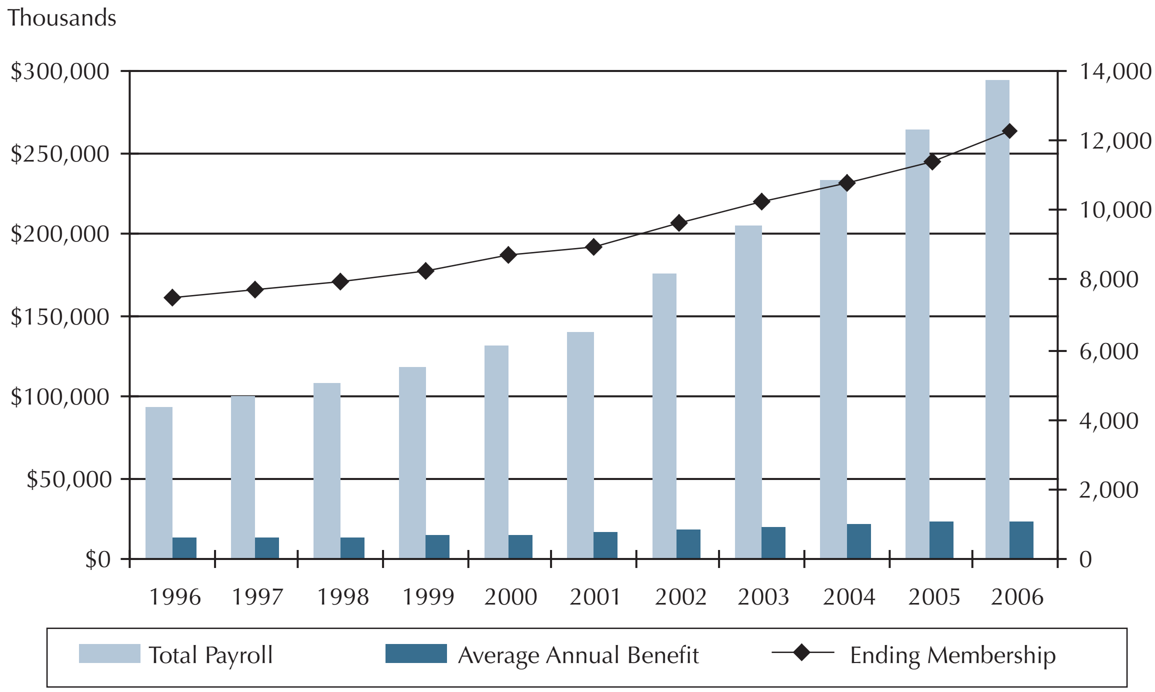
(1) Data through June 30, 2000 was from Association's June 30, 2003 CAFR

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

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

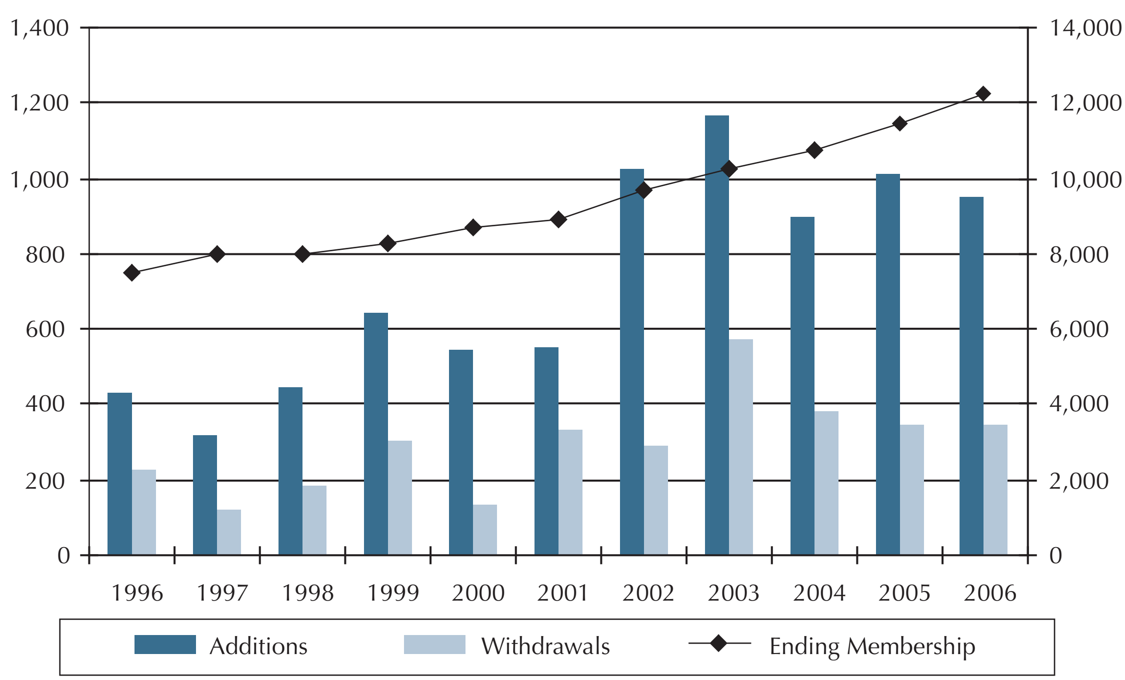
RETIREMENT PAYROLL AND AVERAGE ANNUAL PENSION BENEFIT

FOR THE YEARS ENDED JUNE 30



MEMBERSHIP ACTIVITY

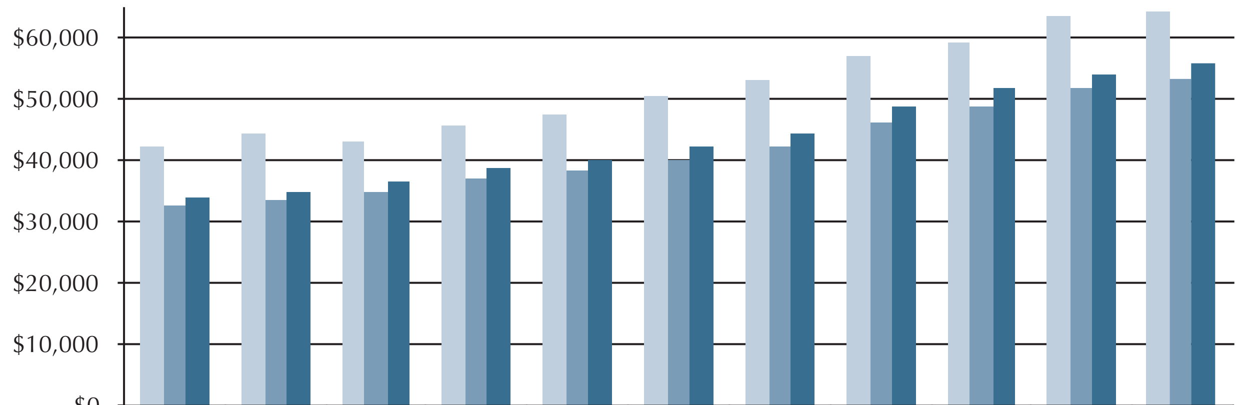
FOR THE YEARS ENDED JUNE 30



Source: The Segal Company, Annual Actuarial Valuation June 30, 2006

ACTIVE MEMBERSHIP HISTORY

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

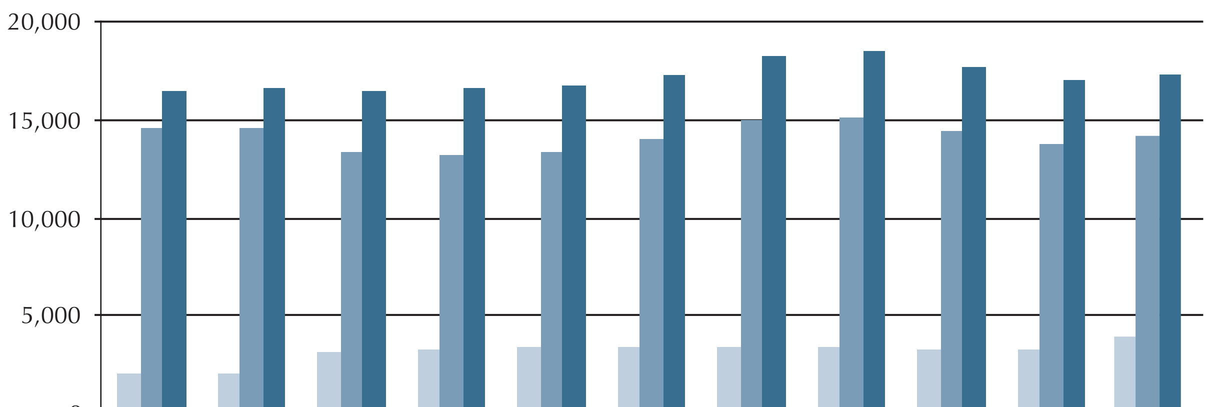


	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Safety	$42,469	$44,476	$43,144	$45,981	$47,660	$50,593	$53,384	$56,943	$59,510	$63,546	$63,974
General	$32,814	$33,375	$35,039	$36,968	$38,480	$40,109	$42,303	$46,108	$48,764	$52,129	$53,933
Total	$33,992	$34,954	$36,432	$38,771	$40,343	$42,150	$44,342	$49,071	$51,763	$54,287	$56,121

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

ACTIVE MEMBERSHIP HISTORY

GROWTH IN ACTIVE MEMBERSHIP
FOR THE YEARS ENDED JUNE 30



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Safety	2,017	2,107	3,132	3,316	3,382	3,376	3,362	3,409	3,271	3,209	3,171
General	14,507	14,528	13,309	13,263	13,287	13,970	14,914	15,057	14,446	13,771	14,280
Total	16,524	16,635	16,441	16,579	16,669	17,346	18,276	18,466	17,717	16,980	17,451

Source: The Segal Company, Annual Actuarial Valuation June 30, 2006

DETERMINATION OF ACTUARIAL AND VALUATION VALUE OF ASSETS

FOR THE YEAR ENDED JUNE 30, 2006
(THOUSANDS OF DOLLARS)

Six Month Period		Total Actual Market Return	Expected Market Return	Investment		
From	To	(net)	(net)	Gain/(Loss)	Deferred Factor	Deferred Return
1/2002	6/2002	($148,965,747)	$ 153,579,450	$ (302,545,197)	0.0	$ -
7/2002	12/2002	84,950,076	172,517,450	(87,567,374)	0.2	(17,513,475)
1/2003	6/2003	84,950,076	172,517,450	(87,567,374)	0.2	(17,513,475)
7/2003	12/2003	464,531,812	182,773,793	281,758,019	0.4	112,703,207
1/2004	6/2004	464,531,812	182,773,793	281,758,019	0.4	112,703,207
7/2004	12/2004	393,633,977	228,521,789	165,112,188	0.6	99,067,313
1/2005	6/2005	393,633,977	228,521,789	165,112,188	0.6	99,067,313
7/2005	12/2005	565,517,934	262,672,774	302,845,160	0.8	242,276,128
1/2006	6/2006	388,653,398	286,420,193	102,333,205	0.9	92,009,885

1. Total Deferred Return	$ 722,800,103
2. Net Market Value of Assets	7,330,948,460
3. Actuarial Value of Assets (Item 2 - Item 1)	6,608,148,357
4. Non-valuation Reserves	
a. Health Benefit Reserve	207,339,433
b. 401(h) Reserve	10,041,735
c. STAR COLA Reserve	54,448,028
d. Contingency Reserve	73,299,700
e. Undistributed Reserve	-
f. Subtotal	345,128,896
5. Valuation Value of Assets (Item 3 - Item 4f)	$ 6,263,019,461

Source: The Segal Company, Annual Actuarial Valuation June 30, 2006

ACTUARIAL COST METHODS

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

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

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

Financing of Unfunded Actuarial Accrued Liability. 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 5.25% 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, is adopted by the Retirement Board. The rate is comprised of two elements:

COMPONENTS OF INVESTMENT RETURN RATE

Inflation	3.75%
Real Rate of Return	4.50%
Total	**8.25%**

Source: The Segal Company, Annual Actuarial Valuation, June 30, 2006.

The inflation rate used for the actuarial valuation calculations was 3.75% 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 3.75% for inflation; plus "Across the Board" salary increases of 0.50% per year; 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%

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

FOR THE YEARS ENDED JUNE 30

Valuation Date	Employees	Total Payroll	% Change	Average Salary	% Change
06/30/96	16,524	561,691,535	2.0	33,992	1.8
06/30/97	16,635	581,453,449	3.5	34,954	2.8
06/30/98	16,441	598,971,557	3.0	36,432	4.2
06/30/99	16,579	642,780,304	7.3	38,771	6.4
06/30/00	16,669	672,476,730	4.6	40,343	4.1
06/30/01	17,346	731,130,021	8.7	42,150	4.5
06/30/02	18,276	810,388,635	10.8	44,342	5.2
06/30/03	18,466	906,139,698	11.8	49,071	10.7
06/30/04	17,717	917,081,642	1.2	51,763	5.5
06/30/05	16,980	921,795,559	0.5	54,287	4.9
06/30/06	17,451	979,367,931	6.2	56,121	3.4

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							
Assumption	2006	2005	2004	2003	2002	2001	3 Year Average	5 Year Average
Inflation [1]	0.00%	3.30%	3.70%	4.10%	2.90%	5.70%	3.6%	3.56%
Assumed [3]							3.92	3.95
Average Pay increase	3.4	4.9	5.5	8.5	5.2	4.5	4.60	5.50
Assumed [2]							4.17	4.10
Merit & Longevity Pay Increase	2.9	1.1	0.6	2.4	2.3	(1.2)	1.53	1.86
Assumed [4]							1.00	0.90
Total Payroll	6.2	0.5	1.2	9.6	10.8	8.7	2.63	5.66
Assumed [2]							4.17	4.10
Investment Return Rate [7]	10.8	6.5	5.7	3.7	5.8	10.5	7.67	6.50
Assumed [5]							8.25	8.25
Real Rate of investment Return	7.0	3.2	2.0	(0.4)	2.9	4.8	4.07	2.94
Assumed [6]							4.33	4.30
Admin. Expenses (% of Assets)	0.1	0.1	0.2	0.2	-	-	0.13	0.12
Assumed							0.13	0.12

[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] Effective with June 30, 2005 valuation, this assumption hsa been increased from 4.00% to 4.25%

[3] Effective with June 30, 2006 valuation, this assumption has been reduced from 4.00% to 4.25%

[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, 2006 valuation, this assumption has been increased from 4.25% to 4.50%

[7] Based on actuarial value of assets, not market value, or book value

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 Employee Contribution Rate.

DISABILITY RATES

	Non Service Connected Disability			Service Connected Disability		
	General Members			General Members		
Age	Male	Female	Safety Members	Male	Female	Safety Members
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, 2006

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

[1] Includes Disabled Retirement

WITHDRAWAL RATES WITH LESS THAN 5 YEARS OF SERVICE

Years of Service	Ordinary Withdrawals (Less than 5 years of service) – General – Male	General – Female	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 (More than 5 years of service)[1] – General – Male	General – Female	Safety	Vested Termination (More than 5 years of service)[1] – General – Male	General – Female	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	1.69%	1.53%	1.30%	6.39%	6.44%	2.41%
35	1.51%	1.19%	1.06%	5.36%	4.89%	1.67%
40	1.33%	0.86%	0.86%	4.33%	3.78%	1.30%
45	1.04%	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.

Source: The Segal Company, Annual Actuarial Valuation, June 30, 2006

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, 2006

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

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

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.

STATISTICAL

The SDCERA Call Center processes 55,000 calls annually, tracking each by subject matter to raise the association's awareness of those topics most important to members.

SDCERA

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CHANGES IN PLAN NET ASSETS

FOR THE LAST TEN FISCAL YEARS ENDED JUNE 30
(MILLIONS OF DOLLARS)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Additions										
Employee Contributions [1]	$ 6.2	$ 6.7	$ 7.4	$ 8.4	$ 10.8	$ 17.3	$ 34.7	$ 33.6	$ 40.8	$ 41.9
Employer Contributions [2]	61.6	51.8	36.4	38.1	41.1	50.6	616.1	700.6	316.1	302.5
Investment Income (Net of expenses)	495.7	466.9	396.0	564.4	(344.8)	(164.8)	149.9	936.5	794.7	962.2
Total Additions	**$ 563.5**	**$ 525.4**	**$ 439.8**	**$ 610.9**	**$ (292.9)**	**$ (96.9)**	**$ 800.7**	**$1,670.7**	**$1,151.6**	**$1,306.6**
Deductions										
Administrative Expenses	$ 3.9	$ 4.5	$ 4.8	$ 5.3	$ 6.4	$ 7.6	$ 7.0	$ 7.4	$ 7.5	$ 8.0
Retirement Benefits [1] [3]	97.0	103.7	121.3	132.8	144.1	163.0	201.2	228.8	259.5	290.2
Health Benefits	6.5	6.6	7.9	9.0	10.8	14.3	19.9	26.5	32.6	32.9
Refunds	1.3	0.9	1.4	1.7	1.6	1.5	2.8	2.7	2.2	3.0
Total Deductions	**$ 108.7**	**$ 115.7**	**$ 135.4**	**$ 148.8**	**$ 162.9**	**$ 186.4**	**$ 230.9**	**$ 265.4**	**$ 301.8**	**$ 334.1**
Total Change in Net Assets	**$ 454.8**	**$ 409.7**	**$ 304.4**	**$ 462.1**	**$ (455.8)**	**$ (283.3)**	**$ 569.8**	**$1,405.3**	**$ 849.8**	**$ 972.5**

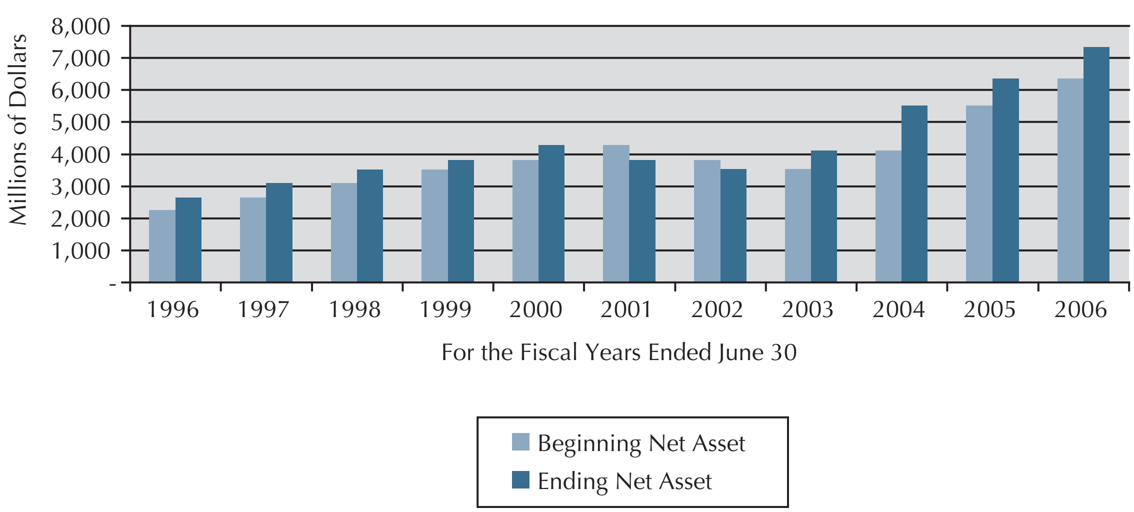
NOTES:

[1] Enhancement of Plan benefits in March 2002, resulted in an increase in member contributions and benefit payments.

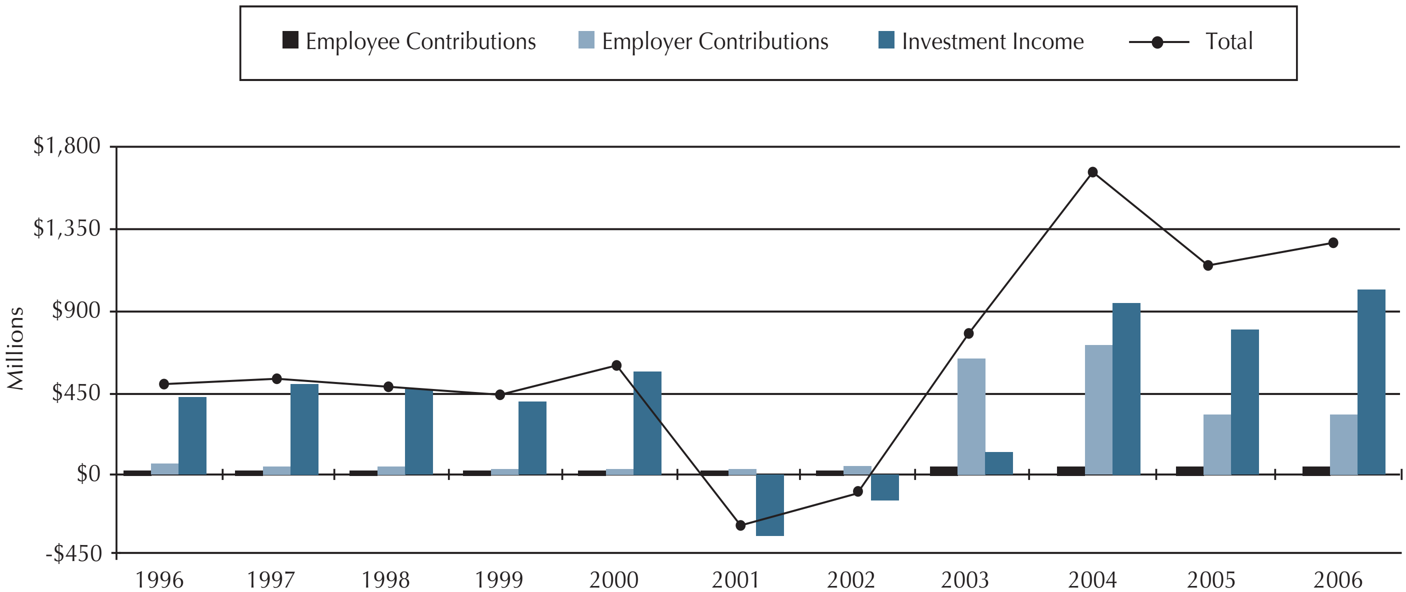
[2] Includes proceeds from Pension obligation bonds of $550 million in 2003 and $450 million in 2004.

[3] Refer to benefit and refund deductions for detail.

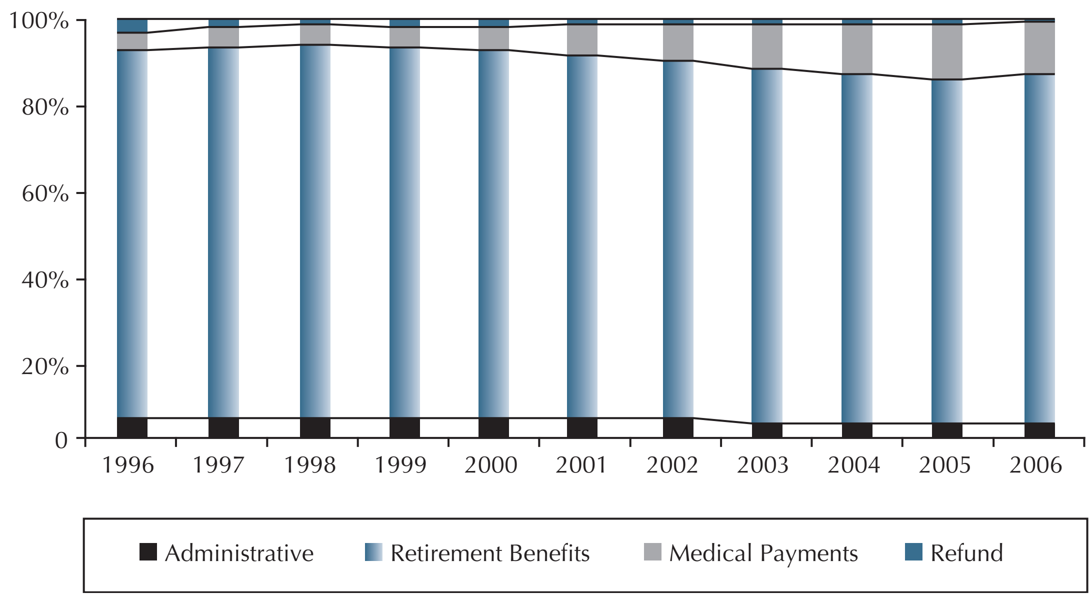
SDCERA NET ASSET VALUE



ADDITIONS TO PLAN NET ASSETS BY SOURCE



DEDUCTIONS FROM PLAN NET ASSETS BY TYPE

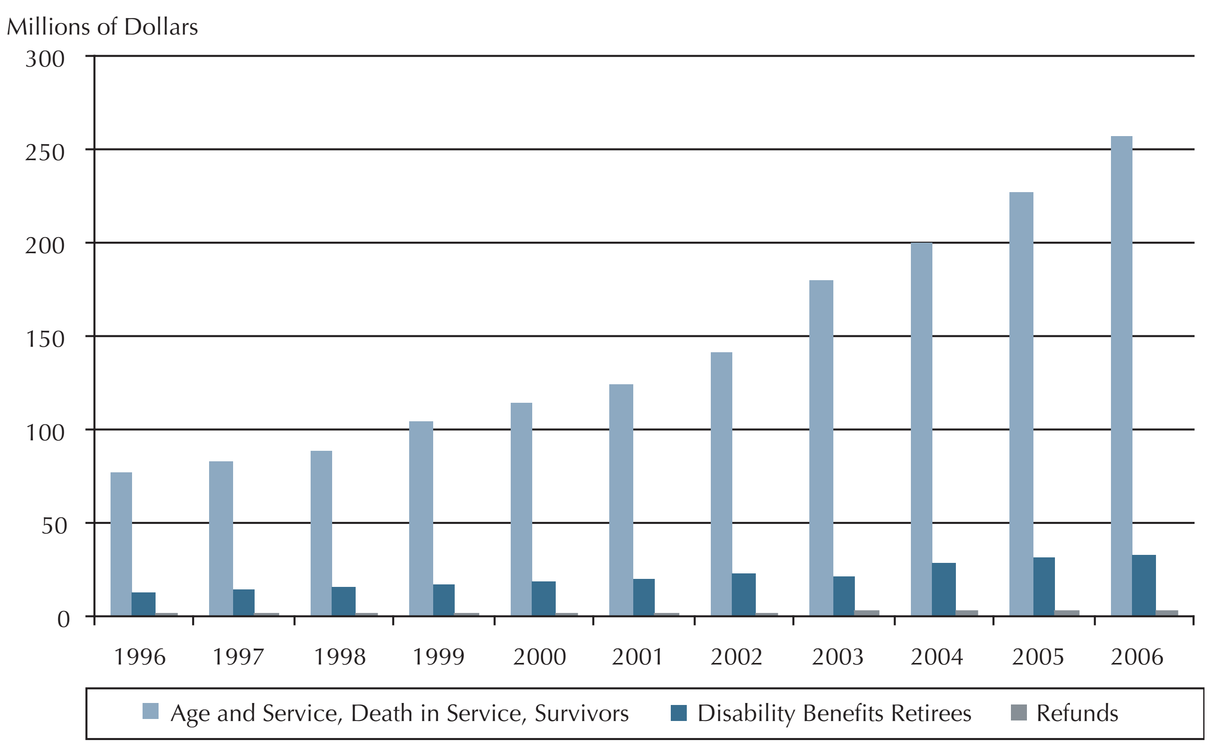


BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE

FOR THE LAST TEN FISCAL YEARS ENDED JUNE 30
(MILLIONS OF DOLLARS)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Type of Benefit										
Age and Service	$ 76.2	$ 81.3	$ 94.9	$ 104.4	$ 113.4	$ 130.5	$ 161.1	$ 185.3	$ 209.5	$ 239.4
Disability - Duty	11.1	12.4	14.3	15.2	3.9	4.2	5.2	2.8	6.7	8.8
Disability - Non-Duty	3.0	3.1	3.4	3.6	16.4	18.3	22.6	25.6	25.4	24.2
Death Benefits	1.4	1.4	1.6	1.6	1.7	0.6	1.3	1.2	2.7	1.1
Survivors	5.3	5.5	7.1	8.0	8.7	10.0	12.3	15.1	15.2	16.7
Total	**$ 97.0**	**$ 103.7**	**$ 121.3**	**$ 132.8**	**$ 144.1**	**$ 163.6**	**$ 202.5**	**$ 230.0**	**$ 259.5**	**$ 290.2**
Type of Refund										
Separation	1.3	0.9	1.4	1.7	1.6	1.5	1.5	1.5	2.2	3.0
Total	**$ 1.3**	**$ 0.9**	**$ 1.4**	**$ 1.7**	**$ 1.6**	**$ 1.5**	**$ 1.5**	**$ 1.5**	**$ 2.2**	**$ 3.0**

BENEFIT EXPENSES BY TYPE



RETIRED MEMBERS BY TYPE OF BENEFITS

FOR THE CURRENT AND PRIOR FISCAL YEAR ENDED JUNE 30

Fiscal Year 2006		Type of Retirement[a]					
Amount of Monthly Benefit	Number of Retired Members	1	2	3	4	5	6
$0 - $1,000	4,018	2,990	679	98	9	230	12
$1,001 - 2,000	3,646	2,659	288	29	101	562	7
$2,001 - 3,000	1,953	1,460	72	16	85	313	7
$3,001 - 4,000	880	783	15	5	35	42	-
$4,001 - 5,000	582	545	8	-	18	11	-
$5,001 - 6,000	398	376	2	-	15	5	-
$6,001 - 7,000	247	237	-	1	6	3	-
$7,001 - 8,000	138	132	1	-	3	2	-
$8,001 - 9,000	61	56	-	-	5	-	-
$9,001 - 10,000	39	36	-	-	2	1	-
Over 10,000	87	84	-	-	3	-	-
Total	**12,049**	**9,358**	**1,065**	**149**	**282**	**1,169**	**26**

Fiscal Year 2005		Type of Retirement[a]					
Amount of Monthly Benefit	Number of Retired Members	1	2	3	4	5	6
$0 - $1,000	3,873	2,880	651	100	7	223	12
$1,001 - 2,000	3,555	2,608	309	38	79	507	14
$2,001 - 3,000	1,934	1,336	125	16	67	388	2
$3,001 - 4,000	868	756	35	6	21	49	1
$4,001 - 5,000	515	482	6	2	14	11	-
$5,001 - 6,000	342	325	2	1	8	6	-
$6,001 - 7,000	205	194	3	-	4	4	-
$7,001 - 8,000	104	97	1	-	5	1	-
$8,001 - 9,000	56	53	-	-	2	1	-
$9,001 - 10,000	34	32	-	-	2	-	-
Over 10,000	66	63	-	-	3	-	-
Total	**11,552**	**8,826**	**1,132**	**163**	**212**	**1,190**	**29**

[a]Type of Retirement:

1 - Retired - Normal

2 - Beneficiary Payment - Surviving Spouse

3 - Beneficiary Payment - Non Spouse Survivor

4 - Duty Disability Retirement

5 - Nonduty Disability Retirement

6 - Beneficiary Payment - Disability

Source: SDCERA's Pension and Administration Information System (PARIS)

RETIRED MEMBERS BY TYPE OF BENEFITS OPTION

FOR THE CURRENT AND PRIOR FISCAL YEAR ENDED JUNE 30

Fiscal Year 2006

Amount of Monthly Benefit	Number of Retirees & Beneficiaries	Option Selected[b] Unmodified	1	2	3	4	Dth - Minor Child Supplement	Lump Sum Installment
$0 - $1,000	4,018	3,837	36	112	9	5	1	18
$1,001 - 2,000	3,646	3,534	38	50	6	12	-	6
$2,001 - 3,000	1,953	1,892	25	27	1	5	-	3
$3,001 - 4,000	880	848	7	14	1	8	2	-
$4,001 - 5,000	582	557	12	9	-	4	-	-
$5,001 - 6,000	398	387	6	4	-	1	-	-
$6,001 - 7,000	247	238	5	2	-	2	-	-
$7,001 - 8,000	138	134	1	-	-	3	-	-
$8,001 - 9,000	61	60	-	-	-	1	-	-
$9,001 - 10,000	39	39	-	-	-	-	-	-
Over 10,000	87	86	-	1	-	-	-	-
Total	12,049	11,612	130	219	17	41	3	27

Fiscal Year 2005

Amount of Monthly Benefit	Number of Retirees & Beneficiaries	Option Selected[b] Unmodified	1	2	3	4	Dth - Minor Child Supplement	Lump Sum Installment
$0 - $1,000	3,873	3,689	31	94	10	28	2	19
1,001 - 2,000	3,555	3,439	33	45	5	27	-	6
$2,001 - 3,000	1,934	1,879	24	21	2	5	-	3
$3,001 - 4,000	868	828	14	13	1	10	2	-
$4,001 - 5,000	515	497	9	6	-	3	-	-
$5,001 - 6,000	342	333	5	2	-	2	-	-
$6,001 - 7,000	205	201	3	1	-	-	-	-
$7,001 - 8,000	104	103	-	-	-	1	-	-
$8,001 - 9,000	56	55	-	-	-	1	-	-
$9,001 - 10,000	34	33	-	-	-	1	-	-
Over 10,000	66	66	-	-	-	-	-	-
Total	**11,552**	**11,123**	**119**	**182**	**18**	**78**	**4**	**28**

[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: SDCERA's Pension and Administration Retirement Information System (PARIS)

AVERAGE BENEFIT PAYMENTS

CURRENT AND FIVE 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 2006							
Average monthly benefit	$ 584	$ 976	$ 1,686	$ 2,620	$ 3,839	$ 4,458	$ 5,803
Average final monthly salary	$ 5,079	$ 3,972	$ 4,670	$ 5,061	$ 5,757	$ 5,481	$ 6,257
Number of retired members	29	122	184	184	101	125	104
Fiscal Year 2005							
Average monthly benefit	$ 501	$ 782	$ 1,464	$ 2,208	$ 3,000	$ 4,313	$ 5,453
Average final monthly salary	$ 3,400	$ 5,244	$ 3,923	$ 4,292	$ 4,699	$ 5,283	$ 5,850
Number of retired members	23	78	222	170	118	113	118
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

Note: Data for fiscal years 1997 to 2000, is not available in our current system.

SCHEDULE OF PARTICIPATING EMPLOYERS

FOR THE 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 2006							
Number of Covered Employees	**34,187**		31,825	2,316	20	12	14
Percentage to Total System	**100.00**	**%**	92.63	7.24	0.05	0.04	0.04
Rank			**1**	**2**	**3**	**5**	**4**
Fiscal Year 2005							
Number of Covered Employees	**33,089**		30,897	2,150	18	10	14
Percentage to Total System	**100.00**	**%**	92.98	6.89	0.05	0.03	0.04
Rank			**1**	**2**	**3**	**5**	**4**
Fiscal Year 2004							
Number of Covered Employees	**32,688**		30,523	2,130	16	10	9
Percentage to Total System	**100.00**	**%**	93.38	6.52	0.05	0.03	0.03
Rank			**1**	**2**	**3**	**4**	**5**
Fiscal Year 2003							
Number of Covered Employees	**31,793**		29,636	2,130	16	7	4
Percentage to Total System	**100.00**	**%**	93.22	6.70	0.05	0.02	0.01
Rank			**1**	**2**	**3**	**4**	**5**

Notes: Data for fiscal years 1997 to 2002, is not available in our current system.

Fiscal Years 2003 to 2005 are restated to correct distribution among employers.

SDCERA

Strength. Service. Commitment.

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

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