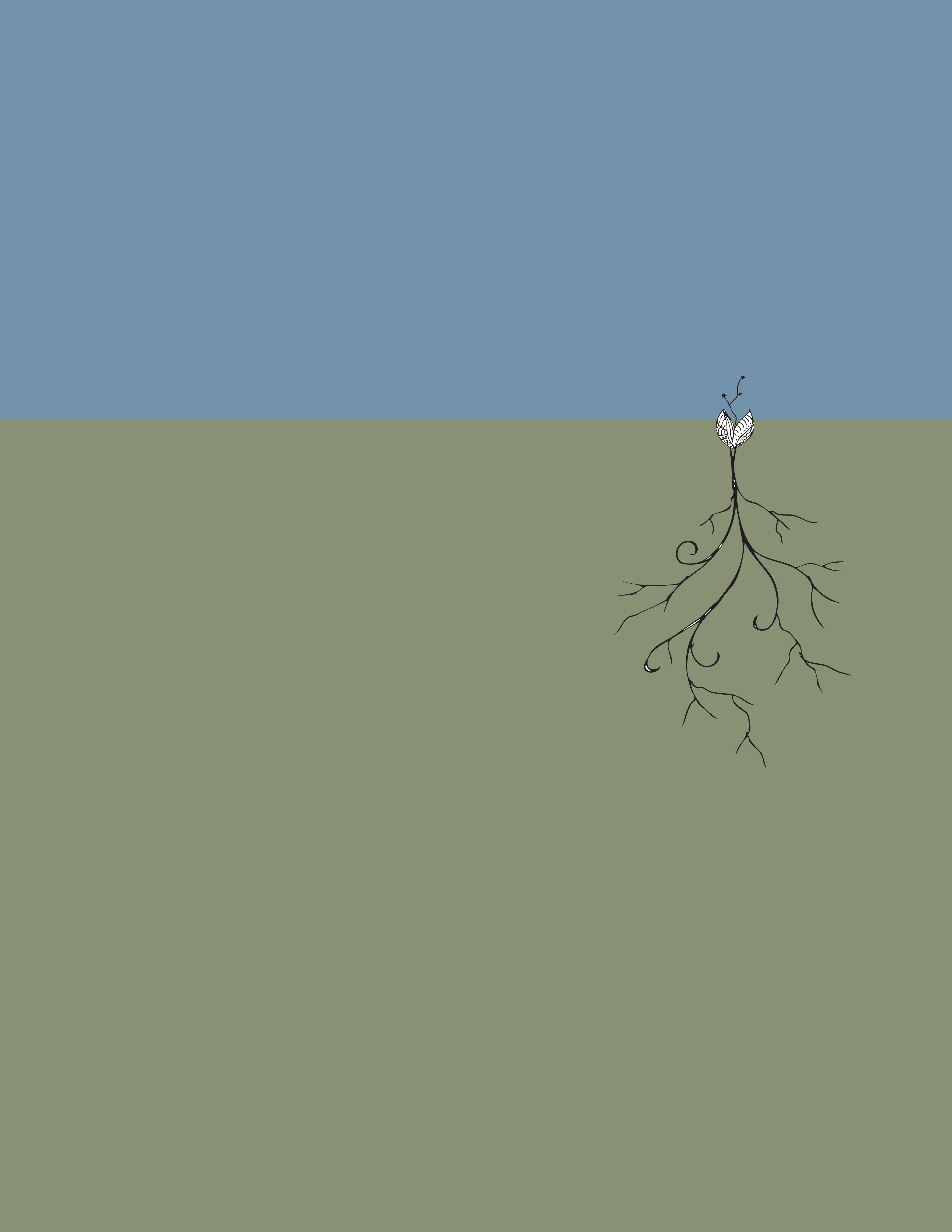
Cul•ti•vate

To foster the growth of.

SDCERA

Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2007
San Diego County Employees Retirement Association, San Diego County, 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."

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.

ISSUED BY:

BRIAN P. WHITE
CHIEF EXECUTIVE OFFICER

MARK MIMNAUGH
CHIEF OPERATING OFFICER

DAVID DEUTSCH
CHIEF INVESTMENT OFFICER

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

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SDCERA

Strength. Service. Commitment.

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, 2007.

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, 2007.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

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

MAJOR INITIATIVES AND SIGNIFICANT EVENTS

- The Board of Retirement approved a Supplemental Benefit Allowance (SBA) available to General, Tier A members or Safety members covered by the 3% at 50 formula, effective July 1, 2007. Members are eligible for the SBA if they have at least 10 years of SDCERA service credit at the time of retirement.
- SDCERA launched a new web site with expanded sections specific to Active, Retired and Deferred members for easier navigation.
- Based on member feedback, SDCERA streamlined its retirement seminars to offer both a Mid-Career Seminar and Late-Career Seminar to members, focusing on career-specific information based on members' years of service.
- SDCERA completed the relocation of its offices to a new location in Mission Valley.

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. 28, Accounting and Financial Reporting for Securities Lending Transactions, 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; Statement No. 40, Deposit and Investment Risk Disclosures-an amendment of GASB Statement No. 3, Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, 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 $7.3 billion at June 30, 2006 to $8.4 billion at June 30, 2007. For the fiscal year 2007, investments provided a return of 15.4%, net of fees, and reflected market conditions throughout the year. The Plan's annualized rate of return, net of fees, was 14.6% over the last three years, 13.7% over the last five years, and 9.6% over the last 10 years.

FUNDING

The actuarial liability and the value of assets of the Association on June 30, 2007, the date of our latest actuarial valuation, totaled $8.1 billion and $7.3 billion, respectively. This results in an unfunded actuarial accrued liability of $0.8 billion. The Plan's resulting funded ratio of 89.7%, or the percentage computed by dividing the actuarial value of assets by the actuarial accrued liability, measures the current funded status.

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 Starbuck & Keeter, and our actuary, The Segal Company, are included in this report. Other consultants are listed on page 11 of this report. Additional information regarding investment professionals who provide services to the Association is located on page 54 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, 2006. 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 GFOA.

PUBLIC PENSION STANDARDS AWARD

Public Pension Coordinating Council (PPCC) granted its 2007 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*
November 30, 2007

Public Pension Coordinating Council

Public Pension Standards

2007 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
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, 2006

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
Chairman


Garry Sobeck
Vice Chairman


Laura DeMarco
Secretary


John Arnold
Trustee


Marc Doss
Trustee


James W. Feeley
Trustee


Dianne Jacob
Trustee


Dan McAllister
Trustee


Douglas M. Rose
Trustee


Warren L. Gibson
Alternate Trustee


Kay Ryan
Alternate Trustee

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

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

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

TRUSTEE
John Arnold
Appointed by County Board of Supervisors
Present term expires June 30, 2009

TRUSTEE
Marc 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

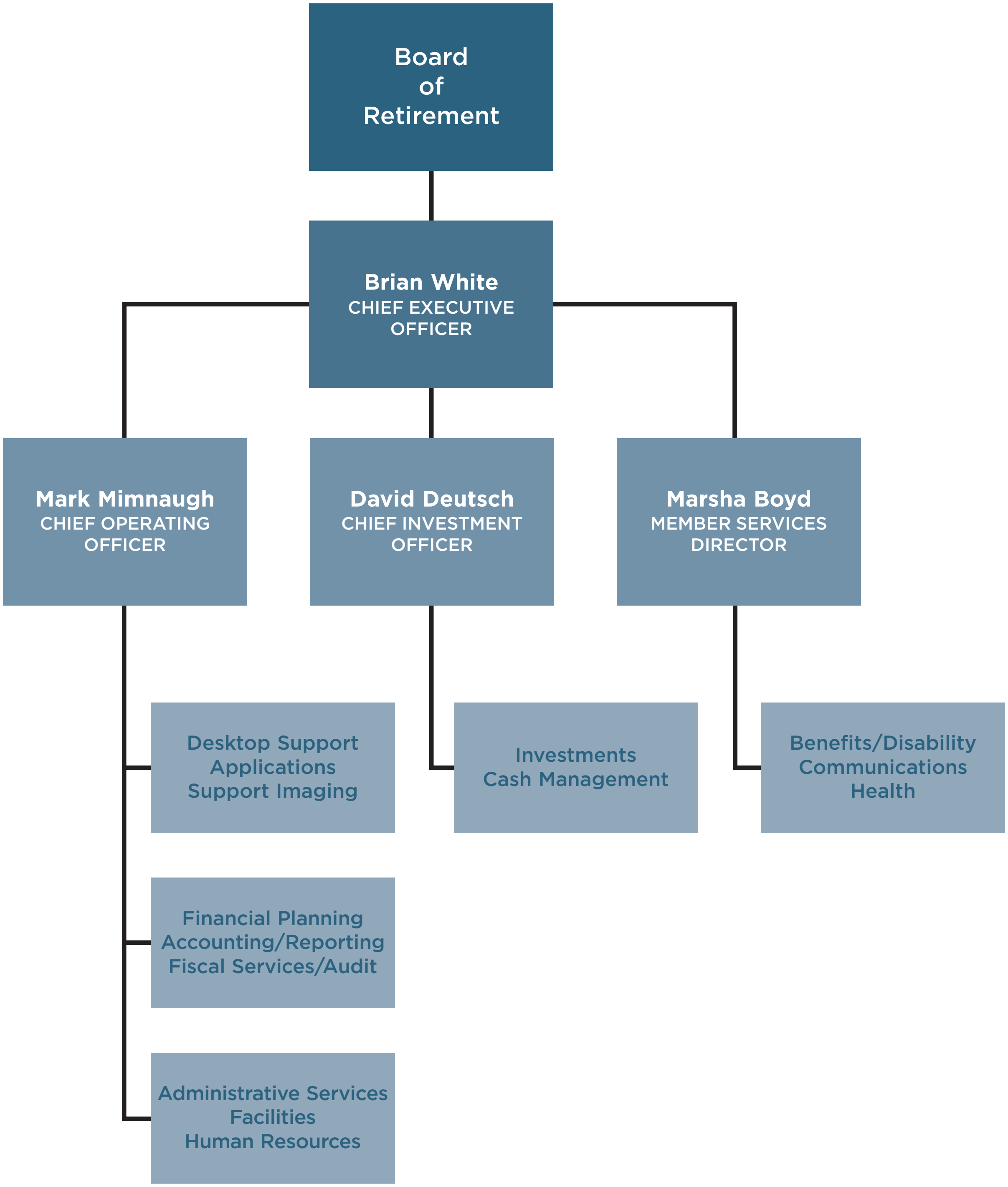
TRUSTEE
Dan McAllister
Treasurer-Tax Collector
Member mandated by law while he holds this position

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
Kay Ryan
Elected by SDCERA Retired members
Present term expires June 30, 2008

SAN DIEGO COUNTY EMPLOYEES RETIREMENT ASSOCIATION



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San Diego, CA 92101-3532

Additional information regarding investment professionals who provide services to SDCERA is located in the Investments Section, page 42.

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Fi•nan•cial

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, 2007 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, 2007 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 2007 SDCERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

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

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Required Supplementary Information as listed in the table of contents is presented for purposes of additional analysis, as required by GASB, and is not a required part of the basic financial statements. This information is the responsibility of SDCERA's management. Such information has been subjected to the auditing procedures applied by us in the audit of the 2007 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2007 basic financial statements taken as a whole. The Other Supplementary information as listed in the table of contents, and the Investment, Actuarial and Statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements of SDCERA. The Other Supplementary information as listed in the table of contents 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. We did not audit the information contained in the investment, actuarial and statistical sections and express no opinion on it.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 30, 2007, on our consideration of SDCERA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
November 30, 2007

SAN DIEGO COUNTY EMPLOYEES RETIREMENT ASSOCIATION

SDCERA

Strength. Service. Commitment.

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, 2007. 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 $8.4 billion as of the end of the fiscal year, an increase of $1.1 billion over the prior year.

- Total Additions to Net Assets were $1.5 billion primarily from earnings on and the appreciation in the fair value of investments of $1.1 billion and County contributions of $321 million.

- Total Deductions to Net Assets totaled $371 million, an increase of $37 million or 11% over the prior year. Retirement benefits have risen $32 million, driven by a net increase in the number of retired members (455) and a 8.9% increase in average monthly benefit.

- During fiscal year 2007, the rate of return on investments was 15.36% 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, 2007, the date of our last actuarial valuation, the funding status (the ratio of system assets to system liabilities) was 89.7%.

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, 28, 34, 37, 38, 40, and 43. 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, 2007 AND 2006

(DOLLARS IN THOUSANDS)

	06/30/2007	06/30/2006	Increase/ (Decrease)	Percentage Change
Cash	$ 271,309	160,962	110,347	68.6%
Receivables	242,828	97,911	144,917	148.0%
Investments	8,438,428	7,280,912	1,157,516	15.9%
Securities Lending Collateral	889,363	603,019	286,344	47.5%
Property, Plant & Equipment	3,528	2,837	691	24.4%
Total Assets	9,845,456	8,145,641	1,699,815	20.9%
Liabilities to Brokers for Securities Lending	889,363	603,019	286,344	47.5%
Securities Purchased	497,907	196,737	301,170	153.1%
Other	13,681	14,937	(1,256)	(8.4%)
Total Liabilities	1,400,951	814,693	586,258	72.0%
Net Assets Held in Trust for Pension Benefits	**$ 8,444,505**	**7,330,948**	**1,113,557**	**15.2%**

TABLE 2: NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006 AND 2005

(DOLLARS IN THOUSANDS)

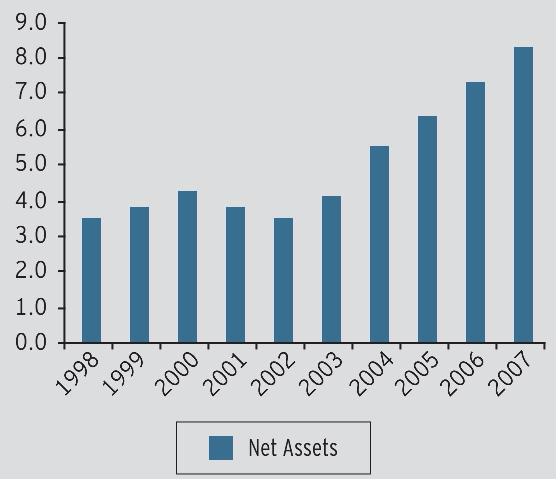
	06/30/2006	06/30/2005	Increase/ (Decrease)	Percentage Change
Cash	$ 160,962	175,753	(14,791)	(8.4%)
Receivables	97,911	79,393	18,518	23.3%
Investments	7,280,912	6,328,736	952,176	15.0%
Securities Lending Collateral	603,019	503,190	99,829	19.8%
Property, Plant & Equipment	2,837	2,894	(57)	(2.0%)
Total 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%**

Net assets held in trust for pension benefits as of June 30, 2007, were $8.4 billion, an increase of $1.1 billion, or 15.2%, over the prior year. Strong investment returns of 15.36% generated $1.1 billion of investment earnings with county and employee contributions contributing another $365 million. These earnings were used to fund $358 million in member benefits and also $10 million in operating expenses to administer the fund.

SDCERA NET ASSETS HELD IN TRUST

FOR PENSION BENEFITS 1998–2007

(BILLIONS OF DOLLARS)



SDCERA INVESTMENT RETURNS

1998–2007

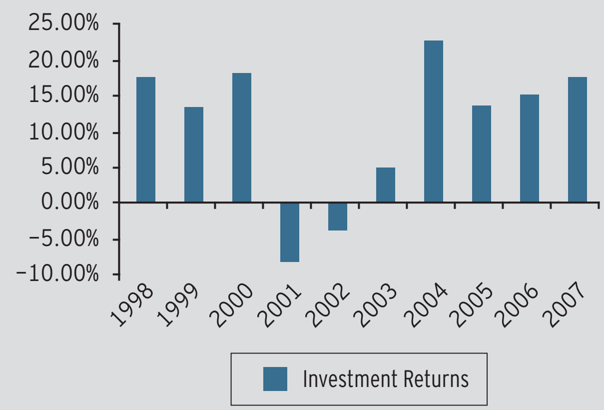


TABLE 3: CHANGES IN PLAN NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007 AND 2006

(DOLLARS IN THOUSANDS)

	06/30/2007	06/30/2006	Increase/ (Decrease)	Percentage Change
Additions				
Employer Contributions	$ 320,533	302,460	18,073	6.0%
Member Contributions	44,504	41,911	2,593	6.2%
Net Investment Income	1,116,778	960,008	156,770	16.3%
Net Securities Lending Income	2,467	2,197	270	12.3%
Total Additions	1,484,282	1,306,576	177,706	13.6%
Deductions				
Retirement Benefits	322,594	290,197	32,397	11.2%
Health Benefits	35,308	32,879	2,429	7.4%
Refund of Contributions	2,574	2,991	(417)	(13.9%)
Administrative Expenses	10,249	8,034	2,215	27.6%
Total Deductions	370,725	334,101	36,624	11.0%
Increase in Net Assets Held in Trust for Pension Benefits	**$ 1,113,557**	**972,475**	**141,082**	**14.5%**

TABLE 4: 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%
Decrease in Net Assets Held in Trust for Pension Benefits	**$ 972,475**	**849,834**	**122,641**	**14.4%**

ADDITIONS TO RETIREMENT PLAN NET ASSETS

The primary sources financing the benefits SDCERA provides to its members are through income on investments and collection of employer and employee contributions. These income sources (Additions to Retirement Plan Net Assets) total $1.5 billion for the fiscal year ended June 30, 2007, an increase of $178 million over the prior year.

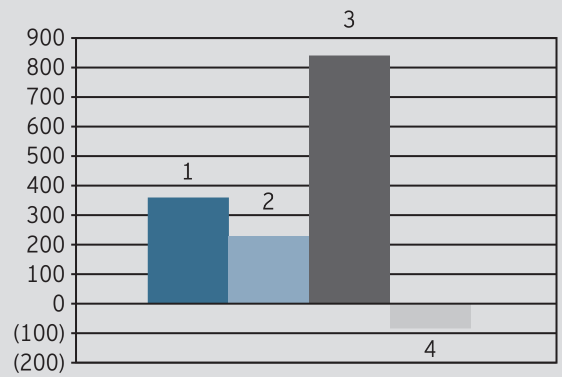
- Employer and Employee contributions were $365 million in Fiscal Year 2007, an increase of $21 million over the prior year. Combined contribution rates of 24.69% in Fiscal Year 2007 compared to 23.08% in Fiscal Year 2006 resulted in a $30 million increase in required contributions for the county. This increase was offset by a $16 million reduction in additional contributions from the county. Employee offsets paid by the county increased $4 million, while employee contributions increased another $3 million.

- Net investment income equaled $1.1 billion in fiscal year 2007, an increase of $157 million, over the prior year. This income was primarily net appreciation in the fair value of investments of $965 million and $241 million in interest and dividends, offset by investment expenses of $87 million.

SDCERA'S ADDITIONS

(MILLIONS OF DOLLARS)

FOR THE FISCAL YEAR ENDED JUNE 30, 2007



1. Retirement Contributions: $365 million
2. Interest, Dividends and Securities Lending Income: $241 million
3. Net Appreciation in Fair Value of Investments: $965 million
4. Investment Expense: ($87 million)

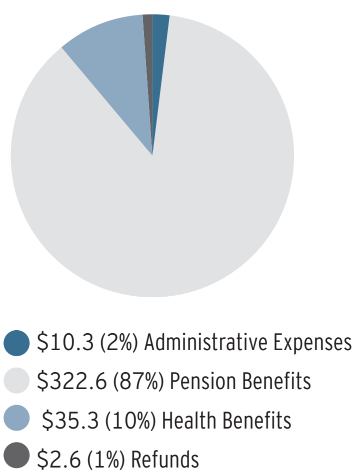
DEDUCTIONS FROM RETIREMENT PLAN NET ASSETS

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, 2007 totaled $371 million, an increase of $37 million or 11% over 2006.

- Retirement and health benefits represent $35 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 the number of health benefit allowances.

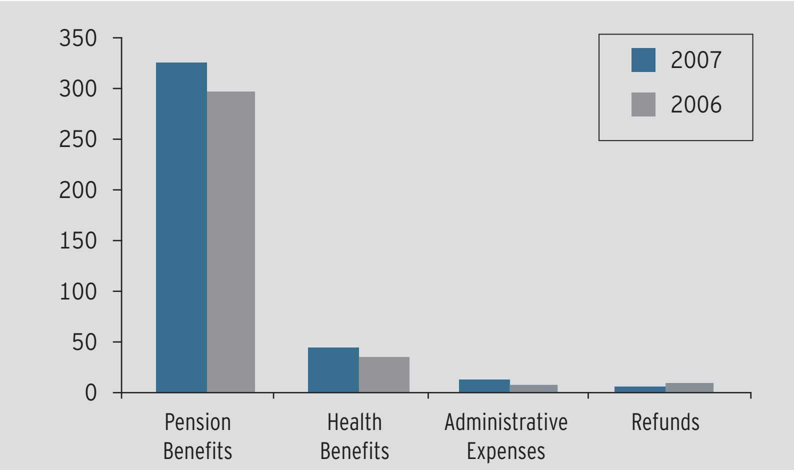
SDCERA'S DEDUCTIONS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(MILLIONS OF DOLLARS)



SDCERA'S DEDUCTIONS

(MILLIONS OF DOLLARS)



SUMMARY

For the third consecutive year the plan's net assets experienced solid growth and are currently at $8.4 billion. Positive investment performance and additional contributions have delivered $1.5 billion in assets funding $0.4 billion in benefits and adding $1.1 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*
November 30, 2007

STATEMENT OF PLAN NET ASSETS

AS OF JUNE 30, 2007
(WITH SUMMARIZED COMPARATIVE AMOUNTS FOR JUNE 30, 2006)

	June 30, 2007			June 30, 2006
	Pension Plan	**Healthcare**	**Total Fund**	**Total Fund**
Assets				
Cash and Short–Term Investments				
Cash in County Pool	$ 7,020,279	$ 156,141	$ 7,176,420	$ 3,022,487
Cash and Cash Equivalents with Fiscal Agents	258,385,717	5,746,845	264,132,562	157,939,485
Total Cash and Short–Term Investments	**265,405,996**	**5,902,986**	**271,308,982**	**160,961,972**
Receivables				
Contributions	7,409,378	164,794	7,574,172	8,051,993
Accrued Interest and Dividends	30,363,877	675,333	31,039,210	25,264,970
Settlement of Securities Sold	199,770,951	4,443,174	204,214,125	64,594,719
Total Receivables	**237,544,206**	**5,283,301**	**242,827,507**	**97,911,682**
Investments at Fair Value				
Domestic Equity Securities	635,479,279	14,133,912	649,613,191	583,073,543
Cash, Cash Equivalents, and Securities for Domestic Equity Swaps and Alpha Engine	1,545,061,004	34,364,231	1,579,425,235	1,478,931,906
Total Domestic Equity Securities and Cash	**2,180,540,283**	**48,498,143**	**2,229,038,426**	**2,062,005,449**
International Equity Securities	2,103,549,091	46,785,754	2,150,334,845	1,845,546,409
Total International Equity Securities and Cash	**2,103,549,090**	**46,785,755**	**2,150,334,845**	**1,845,546,409**
Total Equity Securities and Cash	**4,284,089,374**	**95,283,897**	**4,379,373,271**	**3,907,551,858**
Securities Lending Collateral	**870,012,599**	**19,350,248**	**889,362,847**	**603,018,979**
United States Government Obligations	800,570,615	17,805,765	818,376,380	471,528,715
Domestic Bonds	580,254,156	12,905,631	593,159,787	599,390,457
International Bonds	983,807,866	21,881,207	1,005,689,073	850,359,309
Total Bonds and Cash	**2,364,632,637**	**52,592,603**	**2,417,225,240**	**1,921,278,481**
Cash and Securities for Overlay Futures	57,196,333	1,272,123	58,468,456	41,447,756
Cash and Securities for Commodity Swaps	461,226,044	10,258,286	471,484,330	382,815,392
Balanced Fund	336,676,742	7,488,143	344,164,885	330,293,887
Alternative Equity	304,935,558	6,782,176	311,717,734	240,983,023
Real Estate	446,072,923	9,921,261	455,994,184	456,541,764
Total Investments	**9,124,842,210**	**202,948,737**	**9,327,790,947**	**7,883,931,140**
Property, Plant and Equipment, Net	3,451,695	76,770	3,528,465	2,836,554
Total Assets	**9,631,244,107**	**214,211,794**	**9,845,455,901**	**8,145,641,348**
Liabilities				
Liabilities to Brokers for Securities Lending	870,012,599	19,350,248	889,362,847	603,018,979
Settlement of Securities Purchased	487,073,477	10,833,168	497,906,645	196,736,561
Professional Services	9,981,385	221,999	10,203,384	10,849,000
Death Benefits	484,966	10,786	495,752	542,277
Retirement Benefits	89,892	1,999	91,891	189,145
Refunds to Members	178,532	3,971	182,503	167,498
County Advance Contribution	3,447	–	3,447	665,740
Health Insurance Premiums	1,185,393	26,365	1,211,758	71,755
Cash in Transit	407,870	9,072	416,942	852,584
Other	1,052,116	23,475	1,075,591	1,599,350
Total Liabilities	**1,370,469,677**	**30,481,083**	**1,400,950,760**	**814,692,889**
Commitments and Contingencies (Note 9)				
Net Assets Held in Trust for Pension Benefits (see schedule of funding progress on page 40)	**$ 8,260,774,430**	**$ 183,730,711**	**$ 8,444,505,141**	**$ 7,330,948,459**

See accompanying notes to the basic financial statements beginning on page 22.

STATEMENT OF CHANGES IN PLAN NET ASSETS

FOR THE YEAR ENDING JUNE 30, 2007

(WITH SUMMARIZED COMPARATIVE AMOUNTS FOR JUNE 30, 2006)

	June 30, 2007			June 30, 2006
	Pension Plan	**Healthcare**	**Total Fund**	**Total Fund**
Additions to Plan Net Assets				
Contributions				
County Contributions	$ 278,933,228	$ 41,600,000	$ 320,533,228	$ 302,460,292
Plan Member Contributions	44,503,572	0	44,503,572	41,911,209
Total Contributions	**323,436,800**	**41,600,000**	**365,036,800**	**344,371,501**
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments				
Stocks	619,309,218	936,284	620,245,502	563,154,602
Bonds	111,849,629	169,097	112,018,726	(26,803,140)
Foreign Currency	(2,296,573)	(3,472)	(2,300,045)	20,357,575
Real Estate & Alternative	75,671,002	114,401	75,785,403	84,785,115
Balanced Fund	14,376,701	21,735	14,398,436	5,293,887
S&P 500 Swaps and Alpha Engine	178,118,008	269,282	178,387,290	142,088,681
Commodity Swaps	(61,077,530)	(92,338)	(61,169,868)	6,992,332
Futures	27,918,949	42,208	27,961,157	32,795,751
Total Net Appreciation (Depreciation) in Fair Value of Investments	**963,869,404**	**1,457,197**	**965,326,601**	**828,664,803**
Interest Income				
Bonds	111,399,484	168,416	111,567,900	115,593,626
Cash	29,777,441	45,018	29,822,459	25,283,339
Total Interest Income	**141,176,925**	**213,434**	**141,390,359**	**140,876,965**
Other				
Dividends on Stock Investments	78,957,149	119,369	79,076,518	64,197,817
Real Estate Equity Investment Income	10,373,229	15,682	10,388,911	9,004,309
Alternative Equity	7,261,248	10,978	7,272,226	2,167,717
Commission Recapture	337,759	511	338,270	461,541
Other Income	177,733	268	178,001	177,343
Total Other	**97,107,118**	**146,808**	**97,253,926**	**76,008,727**
Less: Investment Expenses	(87,060,582)	(131,620)	(87,192,202)	(85,542,346)
Securities Lending Income	39,839,144	60,230	39,899,374	19,215,301
Less: Securities Lending Rebates and Bank Charges	(37,376,205)	(56,506)	(37,432,711)	(17,018,325)
Net Securities Lending Income	**2,462,939**	**3,724**	**2,466,663**	**2,196,976**
Net Investment Income	**1,117,555,802**	**1,689,545**	**1,119,245,347**	**962,205,125**
Total Additions to Plan Net Assets	**1,440,992,602**	**43,289,545**	**1,484,282,147**	**1,306,576,626**
Deductions from Plan Net Assets				
Benefits				
Service Retirement and Disability Benefits	321,356,143	0	321,356,143	278,283,263
Death Benefits	1,238,024	0	1,238,024	1,203,846
Health Benefits	0	35,308,118	35,308,118	32,878,648
STAR Cost of Living Allowance	0	0	0	10,710,004
Total Benefits	**322,594,167**	**35,308,118**	**357,902,285**	**323,075,761**
Member Refunds	2,574,071	0	2,574,071	2,991,908
Administrative Expenses	10,249,109	0	10,249,109	8,033,793
Total Deductions from Plan Net Assets	**335,417,347**	**35,308,118**	**370,725,465**	**334,101,462**
Transfers	**41,600,000**	**(41,600,000)**		
Increase (Decrease) in Net Assets Held in Trust for Pension Benefits	**$ 1,147,175,255**	**$ (33,618,573)**	**$ 1,113,556,682**	**$ 972,475,164**
Net Assets Held in Trust for Pension Benefits				
Beginning of Year	**$ 7,113,599,175**	**$ 217,349,284**	**$ 7,330,948,459**	**$ 6,358,473,295**
End of Year	**$ 8,260,774,430**	**$ 183,730,711**	**$ 8,444,505,141**	**$ 7,330,948,459**

See accompanying notes to the basic financial statements beginning on page 22.

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 related organization 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. Effective May 3, 2007, the Board of Retirement approved a permanent STAR COLA pre-funded supplemental cost-of-living increase benefit. Eligible members are those whose accumulations (COLA Bank) under Section 31870.1 equaled or exceeded 20 percent as of January 1, 2007 (Section 31874.3(c)(1)). By this definition, eligible members are Tier I members who retired on or before March 31, 1982 and Tier II members who retired on or before March 31, 1989. The Permanent STAR COLA benefit will be equal to the STAR COLA amount payable as of April 1, 2007 under Section 31874.3(b). Effective April 1, 2008, pursuant to Section 31874.3(c)(1), this benefit will be subject to the same cost-of-living increase paid by SDCERA on every April 1 of up to 3% per annum pursuant to Section 31870.1.

As of June 30, 2007, 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 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	69	–	69
Tier A	14,392	–	14,392
Safety	–	3,272	3,272
Total Active Members	**14,461**	**3,272**	**17,733**
Deferred (Terminated) Members			
Tier I	2,437	–	2,437
Tier A	1,979	–	1,929
Safety	–	542	542
Total Deferred (Terminated) Members	**4,366**	**542**	**4,908**
Retired Members			
Tier I	5,740	–	5,740
Tier II	1,867	–	1,867
Tier A	3,217	–	3,217
Safety	–	1,680	1,680
Total Retired Members	**10,824**	**1,680**	**12,504**
Total Members	**29,651**	**5,494**	**35,145**

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 and direct real estate investments primarily in office, industrial, retail, hotel and residential properties with 91.5% in the United States and 8.5% 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, 2007, 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, 2007, SDCERA held S&P 500 swap contracts with a notional value of $1,619,966,020 and a fair value of ($13,192,046), and a Goldman Sachs Commodity Index swap with a notional value of $434,404,257. 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 futures through the Currency Overlay program, which is diversified across three currency overlay managers implementing four different strategies. In addition, SDCERA has ($104,327,062) 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, 2007, SDCERA had the following futures balances:

	Notional Amount Long/(Short)
Policy Overlay	
International equity	$ (25,116,873)
Domestic Equity	60,454,630
International Fixed Income	180,817,578
Domestic Fixed Income	127,483,250
S&P 500 Futures Overlay	(14,396,300)
Managed Futures Overlay	335,000,000
Total	$ 664,242,285

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, 2007

	Balance 07/01/2006	Additions	Deletions & Transfers	Balance 06/30/2007
Computer hardware, software, and maintenance	$ 5,055,589	301,481	123,706	5,233,364
Office furniture and fixtures	806,313	877,791	–	1,684,104
Leasehold Improvements	602,445	554,966	–	1,157,411
Total Property, Plant and Equipment	6,464,347	1,734,238	123,706	8,074,879
Accumulated Depreciation	(3,627,793)	(918,621)	–	(4,546,414)
Net Property, Plant & Equipment	**$ 2,836,554**	**815,617**	**123,706**	**3,528,465**

IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENT

In 2007, SDCERA implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Post Employment Benefit Plans other than Pension Plans.*

GASB Statement No. 43 establishes uniform financial reporting standards for other post employment benefits (OPEB) plans. OPEB includes post employment healthcare, as well as other forms of post employment benefits when provided separately from a pension plan. Post employment healthcare benefits include medical, dental, vision, hearing, and other health-related benefits.

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, 2007, SDCERA had the following investments and maturities in the table below: (Amounts are in thousands)

INTEREST RATE RISK

		Investment Maturities (in Years)			
Investment Type	**Fair Value**	**Less than 1**	**1–5**	**6–10**	**More than 10**
Asset and mortgage backed securities	$ 345,803	$ –	$ –	$ –	$ 345,803
Collateralized mortgage obligations	114,597	–	94	247	114,256
Commercial paper	2	–	–	–	2
Convertible Bonds	159,729	54,115	39,678	8,506	57,430
Corporate bonds	309,187	92,094	78,527	84,915	53,651
Emerging market debt securities	419,966	2,125	140,186	62,008	215,648
International bonds	614,852	36,077	278,556	191,855	108,364
International Governments	8,395	–	4,717	–	3,677
Managed Futures*	72,745	NA	NA	NA	NA
Private placements	31,873	1,177	7,952	13,987	8,756
Treasury inflation protected securities	250,171	3,073	72,859	103,227	71,012
US Treasuries	64,017	5,905	4,532	3,103	50,478
Total	**$ 2,391,337**	**$ 194,566**	**$ 627,101**	**$ 467,848**	**$ 1,029,077**

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

CREDIT RISK

Fixed income managers are expected to adhere to the following guidelines as a means of limiting credit risk. Domestic Fixed Income managers are limited within their portfolios to no more than 5% exposure in any single security, with the exception of United States Treasury and government agencies. 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, 2007, 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). The overall weighted average grading for the Global fixed income portfolio shall be A-/A3 or higher. The Convertibles Fixed Income portfolio must have an overall weighted average credit quality of B/B+ 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, 2007, shown as a percentage of the total portfolio:

CREDIT RISK

Credit Risk	Domestic Core Fixed Income	Global Fixed Income	Convertibles Fixed Income	High Yield Fixed Income	Emerging Market Debt Fixed Income	Total
Gov't	$ 277,311	$ 57,150	$ 0	$ 0	$ 0	$ 334,461
AAA	36,331	297,076	0	17,221	0	350,627
AA	1,675	4,728	3,250	0	0	9,653
A	4,244	290,760	13,430	93	0	308,526
BBB	39,222	128,161	20,467	2,257	80,184	270,290
BB	27,384	37,270	14,916	26,506	144,698	250,774
B	20,473	1,463	28,502	88,568	116,369	255,375
CCC	0	0	3,454	18,789	3,886	26,129
CC	0	0	0	0	0	0
C	0	0	0	0	0	0
D	0	0	0	234	0	234
NR	22,661	214,122	25,891	98,655	72,704	434,035
	$ 429,301	**$ 1,030,730**	**$ 109,910**	**$ 252,323**	**$ 417,841**	**$ 2,240,104**

Credit Risk	Domestic Fixed Income	Global Fixed Income	Convertibles Fixed Income	High Yield Fixed Income	Emerging Market Debt Fixed Income
Govt	64.6%	5.5%	0.0%	0.0%	0.0%
AAA	8.5%	28.8%	0.0%	6.8%	0.0%
AA	0.4%	0.5%	3.0%	0.0%	0.0%
A	1.0%	28.2%	12.2%	0.0%	0.0%
BBB	9.1%	12.4%	18.6%	0.9%	19.2%
BB	6.4%	3.6%	13.6%	10.5%	34.6%
B	4.8%	0.2%	26.0%	35.1%	27.9%
CCC	0.0%	0.0%	3.1%	7.5%	0.9%
CC	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%
D	0.0%	0.0%	0.0%	0.1%	0.0%
NR	5.2%	20.8%	23.5%	39.1%	17.4%
	100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**

DOMESTIC CORE FIXED INCOME PORTFOLIO

SDCERA's Core Domestic 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 5.2% 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 AA/AAA, excluding 20.8% of unrated securities.

CONVERTIBLES FIXED INCOME PORTFOLIO

SDCERA Convertibles Fixed Income Portfolio invests in convertible bonds, convertible preferred stock and readily tradable private placements. The overall weighted average of the Convertibles Fixed Income Portfolio was BB/BBB, excluding 23.5% of unrated securities.

HIGH YIELD FIXED INCOME PORTFOLIO

The weighted average quality of the High Yield Fixed Income Portfolio as of June 30, 2007 was B/BB, excluding 39.1% 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, 2007, the Emerging Market Debt portfolio was rated B, excluding 17.4% 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 Argentina Peso, Austria Shilling, Azmbian Kwacha, Bahraini Dinar, Belgium Francs, Cedi, China Yuan Renminbi, Columbian Peso, Finland Markkaa, Hryvna & Karbovanet, Jardanian Dinar, Kenya Shilling, Kroon, Kuwaiti Dinar, Lari, Lebanese Pound, Leu, Lev, Litas, Mauritius Ruppe, Morcoccan Dirham, Nigerian Naira, Phillipine Peso, Pula, Quatari Riyal, Rand, Rial Omani, Romanian, Saudi Riyal, Sri Lankan Rupee, Tenge, Tunisian Dinar, United Arab Emirates Dirham, West African Franc and Zimbabwe Dollar.

SDCERA'S NET EXPOSURE TO FOREIGN CURRENCY RISK IS AS FOLLOWS:

(THOUSANDS OF DOLLARS)
AS OF JUNE 30, 2007

Currency	Fair Value
EURO CURRENCY UNIT	533,467
JAPANESE YEN	314,879
BRITISH POUND STERLING	249,753
AUSTRALIAN DOLLAR	106,183
SWISS FRANC	104,779
HONG KONG DOLLAR	103,908
SOUTH KOREAN WON	98,618
CANADIAN DOLLAR	88,643
NEW TAIWAN DOLLAR	57,610
S AFRICAN COMM RAND	49,429
SINGAPORE DOLLAR	29,224
BRAZIL REAL	27,489
GERMANY DEUTSCHE MARK	26,933
NORWEGIAN KRONE	23,096
MEXICAN NEW PESO	21,630
INDONESIAN RUPIAN	20,650
SWEDISH KRONA	16,679
DANISH KRONE	13,251
MALAYSIAN RINGGIT	12,418
NEW TURKISH LIRA	11,458
INDIAN RUPEE	10,278
EGYPTIAN POUND	8,882
NETHERLANDS GUILDERS	8,506
THAILAND BAHT	7,077
FRANCE FRANCS	6,607
HUNGARIAN FORINT	5,944
LUXEMBOURG FRANCS	5,758
ITALY LIRE	5,607
NEW ZEALAND DOLLAR	4,722
RUSSIAN FEDERATION RUBLES	2,835
GREECE DRACHMAE	2,734
IRELAND POUND	2,250
CHILEAN PESO	2,029
Other (Less than $2 million holdings)	19,443
Total	**2,002,769**

SECURITY LENDING

SDCERA lends U.S. government obligations, domestic and international bonds, and equities to various brokers with a simultaneous agreement to return collateral for the same securities plus a fee in the future. The securities lending agent manages the securities lending program and receives securities and cash as collateral. Collateral cash is pledged at 102% and 105% of the fair value of domestic securities and non-domestic securities lent, respectively. There are no restrictions on the amount of securities that can be lent at one time. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the cash collateral.

SDCERA's securities lending transactions as of June 30, 2007, are summarized in the following table. The Fund lent $892,172,893 in securities and received collateral of $32,221,714 and $889,362,847 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	$ 6,203,858		6,303,430
International Governments securities	107,470,605		112,222,273
Treasury Inflation protected securities	252,470,416		256,152,391
Domestic Corporate Fixed Income securities	49,078,034		50,402,850
Domestic Equities	130,865,552		135,930,363
International Equities	314,233,426		328,351,540
Lent for Securities Collateral:			
U.S. Government and Agency securities	2,340,470	2,384,919	
Treasury Inflation protected securities	29,042,734	29,348,125	
International Equities	467,798	488,670	
Total	**$ 892,172,893**	**32,221,714**	**889,362,847**

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, 2007:

SECURITIES LENDING INVESTMENTS

Securities Lending Investments	Fair Value
U.S. Corporate Floating Rate	$ 571,034,734
Asset Back Securities	226,337,687
Commercial Paper	5,077,608
Certificates of Deposit Floating Rate	8,215,730
Interest Bearing	22,383,313
Repurchase Agreements	54,108,826
Other (Cash)	1,677,621
Total	**$ 888,835,519**

Cash collateral is invested in the agent's short-term investment pool, which as of June 30, 2007 had a weighted average maturity of 37 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, 2007. 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	9.17% –9.80%	22.99%
Safety members	11.65%	30.68%

During the year, contributions totaled $365,036,800, which included $44,503,572 in employee contributions, $320,533,227 in employer contributions paid by the County, which includes $62,855,838 in employee contributions paid by the County. In addition, $41,600,000 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. As provided in Section 31529.2 of the California Government Code, the cost of outside legal services is paid from plan assets.

5. ACTUARIAL ASSUMPTIONS

The required contribution rates, as adopted by the SDCERA Board of Retirement, were determined as part of the June 30, 2005 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 5.25% 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.

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. Effective May 3, 2007 the Board of Retirement approved a permanent STAR COLA pre-funded supplemental cost-of-living increase benefit. Eligible members are those whose accumulations (COLA Bank) under Section 31870.1 equaled or exceeded 20 percent as of January 1, 2007 (Section 31874.3(c)(1)). By this definition, eligible members are Tier I members who retired on or before March 31, 1982 and Tier II members who retired on or before March 31, 1989. the Permanent STAR COLA benefit will be equal to the STAR COLA amount payable as of April 1, 2007 under Section 31874.3(b). Effective April 1, 2008, pursuant to Section 31874.3(c)(1), this benefit will be subject to the same cost-of-living increase paid by SDCERA on every April 1 of up to 3% per annum pursuant to Section 31870.1.

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, 2007.

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 retirement benefits, 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, 2007, 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, 2007	2006
Reserve for Member Contributions:		
Active	$ 295,217	$ 258,805
Deferred	34,150	31,534
Unlocated Separated Members	0	0
Subtotal	**329,367**	**290,339**
Reserve for County Contributions	2,479,460	1,850,020
Reserve for Retirement Allowances	3,924,551	3,645,788
Total	**6,733,378**	**5,786,147**
Reserve for Health Benefits	164,865	207,339
Reserve for Star Cost–of–Living Allowance	0	54,448
Reserve for Undistributed Earnings	20,704	0
Reserve for Unrealized Earnings	0	0
Reserve for Contingencies	84,445	73,300
Reserve for Smoothed Market Value Transition	517,026	476,872
Reserve for Market Stabilization	905,221	722,800
Total Retirement Fund	**8,425,639**	**7,320,906**
Health Benefits 401(h) Account	18,866	10,042
Total Fund	**$ 8,444,505**	**$ 7,330,948**

7. ADMINISTRATIVE EXPENSES

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

SDCERA's Administrative Expenses For the year ended June 30, 2007	
Total Asset Base, at fair value (December 31, 2006)	$ 9,244,792,103
Maximum Allowable for Administrative Expenses (.0018 X 9,244,792,103)	$ 16,640,626
Actual Administrative Expenses for the Fiscal Year	$ 10,249,109
Excess of Allowance over Actual Administrative Expenses	$ 6,391,517
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, 2007 are as follows:

Year Ending June 30	Amount West A Street	Amount Rio San Diego
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	**$1,646,126**	**$12,739,881**

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 $204 million and alternative equity for $687 million.

10. SUBSEQUENT EVENTS

CHANGE IN RETIREE HEALTH BENEFITS

On May 3, 2007 the Board of Retirement adopted a change in the eligibility for retiree health benefits. Effective July 1, 2007 only Tier I and II members would be eligible for a non-taxable health allowance. The benefit will continue at the current level of benefit. The County will contribute on a bi-weekly basis into the 401(h) account, which is the funding mechanism for the non-taxable health benefit. County contributions to the 401(h) account will not be reimbursed to the reserve for County contributions from accumulated investment earnings that exceed the assumed rate of return of the investment portfolio.

ADOPTION OF A PENSION SUPPLEMENT FOR TIER A MEMBERS

On May 3, 2007 the Board of Retirement established a pension supplement for Tier A members that would provide between a $200 and $400 taxable supplemental pension benefit. The Board of Retirement will review the ancillary benefits allowance policy(ies) on an annual basis. The Board also approved maintenance of five-year funding of the Tier A pension supplement.

EXCESS EARNINGS POLICY CHANGE

On May 3, 2007 the Board of Retirement adopted a change in the excess earnings policy to introduce the funded ratio as the determining factor in allowing the Board of Retirement discretion as to the use of excess earnings. If the funded ratio is below 90% the Board of Retirement is required to use excess earnings to fund the pension liability. If the funded ratio is between 90% and 100%, 25% of excess earnings are available at the discretion of the Board of Retirement. If the funded ratio is between 100% and 115%, 50% of excess earnings are available at the discretion of the Board of Retirement. If the funded ratio exceeds 115%, the Board of Retirement has full discretion as to the use of excess earnings.

11. OTHER POST EMPLOYMENT BENEFITS (OPEB)

DESCRIPTION OF PLAN

SDCERA administers an Other Post Employment Benefits program on behalf of the County of San Diego, including its participating agencies.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As mentioned in Note 1, when related to the accounting of the OPEB plan, SDCERA presents information according to the principles and reporting guidelines as set forth by the Governmental Accounting Standards Board.

CONTRIBUTIONS

San Diego County's Board of Supervisors and the SDCERA Board of Retirement adopted a funding mechanism under section 401(h) of the Internal Revenue Service 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. The assets in the 401(h) reserve are commingled with total fund assets for investment purposes.

EMPLOYER DISCLOSURES

Participating employers, upon their implementation of the related GASB Statement 45, are required to disclose additional information with regard to the funding policy, the employer's annual OPEB costs and contributions made, the funded status and the funding progress of the employer's individual plan, and actuarial methods and assumptions used.

OPEB ACTUARIAL VALUATION

The San Diego County Employees Retirement Association's Other Post Employment Benefits Program actuarial valuation was conducted by The Segal Company, as of June 30, 2007. The valuation was performed in accordance with GASB 43 requirements to satisfy financial statement reporting guidelines that apply to organizations that administer the benefits program. The valuation will need to be conducted at least every two years.

The actuarial assumptions utilized for this valuation were based on decisions made after June 30, 2007. The detailed changes to the retiree health care program, as of July 1, 2007, are listed under Note 10, Subsequent Events.

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)
6/30/07	$ *	$ 235,755	$235,755	0.0%	$ 1,020,991	21.2%

*The valuation does not include the actuarial value of assets held for benefits, however as of June 30, 2007, there were $18.8 million available for benefits.

No information is available to report on the Schedule of Employer Contributions for the OPEB program until the Employer implements GASB Statement 45 for the fiscal year ending June 30, 2008.

SCHEDULE I - FUNDING PROGRESS – PENSION PLAN

(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)
6/30/02	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
6/30/07	7,250,404	8,082,517	832,113	89.7	1,062,396	78.3

SCHEDULE II – EMPLOYER CONTRIBUTIONS – PENSION PLAN

(THOUSANDS OF DOLLARS)

Year Ended	Annual Required Contribution (ARC)	Contributions Made[1]	% of Required Contributions Made
6/30/02	–	5,338	100.0
6/30/03	6,538	6,538	100.0
6/30/04	194,580	194,580	100.0
6/30/05	235,122	259,988	110.6
6/30/06	202,445	242,443	119.8
6/30/07	231,300	258,200	111.6

[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

SUMMARY ACTUARIAL INFORMATION FOR PENSION PLAN

Valuation Date	June 30, 2007
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 increases.

SCHEDULE III - FUNDING PROGRESS (OPEB)

(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)
6/30/07	$ *	$ 235,755	$ 235,755	0.0%	$ 1,020,991	21.2%

* The valuation does not include the actuarial value of assets held for benefits, however as of June 30, 2007, there were $18.8 million available for benefits.

EMPLOYER CONTRIBUTIONS – OPEB

Note: There is no information to report. The Employer will implement GASB 45 in the fiscal year ending June 30, 2008.

SUMMARY ACTUARIAL INFORMATION FOR OPEB

Valuation Date	June 30, 2007
Actuarial Cost Method	Individual entry-age normal cost method
Amortization Method	Level percent of pay
Remaining Amortization Period	Twenty years close

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 increases.

SCHEDULE IV - INVESTMENT EXPENSES

FOR THE YEAR ENDED JUNE 30, 2007

(THOUSANDS OF DOLLARS)

Individual or Firm	Net Assets Managed at Fair Value	Fees
Domestic Equity Managers		
Dimensional Fund Adviser	$ 274,557	$ 1,020
Duncan Hurst Capital Management	192,731	1,693
Total Domestic Equity Managers		**2,713**
International Equity Managers		
Artisan Partners	403,783	2,716
Baille Gifford	264,779	1,723
Beren's Capital	29,673	738
Capital Guardian Trust Company	368,698	1,408
Pyramis Global Advisors	501,531	1,514
Genesis	279,913	1,520
Mondrian International Adviser	445,585	1,649
Total International Equity Managers		**11,268**
Overlay		
Barclay's Global Investors	23,576	2,045
Campbell & Company	25,815	2,033
Frank Russell	58,885	350
FX Concepts, Inc.	2,560	610
Graham Capital	16,521	2,386
Kenmar Base Fee	0	790
Managed Active Futures CTAs	23,971	5,656
Mellon Capital Management	(539)	1,125
Total Overlay		**14,995**
Fixed Income Managers		
Ashmore Emerging Markets	417,841	2,814
Bridgewater Associates, Inc.	344,165	527
Colchester Global Investments	415,847	1,271
Goldentree	55,776	2,034
Nicholas Applegate Convertibles	134,415	665
Oaktree Capital Management LLC	139,019	563
Pacific Investment Management Company	710,565	1,687
TCW Asset Management	130,929	1,239
W.R.Huff Asset Management Company	0	229
Zazove Associates	126,105	330
Total Fixed Income Managers		**11,359**
Alpha Managers		
Amaranth Partners	$ 17,139	$ (8,931)
AQR Capital	81,539	2,498
Barclay's Global Investors	127,140	254
Bridgewater Associates, Inc.	93,417	2,072
DE Shaw	175,766	20,577
Freeman Associates	95,734	747
Lotsoff Capital Management	154,269	369
Silverpoint	166,886	8,961
Western Asset Management	160,228	631
WG Trading	145,001	569
Zazove Associates	149,241	2,133
Total Other Managers		**29,880**
Other Managers		
Western Asset Management	428,682	474
Total Other Managers		**474**

(Continued on next page)

SCHEDULE IV - INVESTMENT EXPENSES

FOR THE YEAR ENDED JUNE 30, 2007

(THOUSANDS OF DOLLARS)

Individual or Firm	Net Assets Managed at Fair Value	Fees
Alternative Equity Managers		
Apex Investment Fund V	$ 4,765	$ 88
Apex Investment Fund VI	1,666	162
Arch Venture Partners V	3,831	99
Bain Capital	3,390	11
Bain Capital Co–Investment	900	0
Belvedere Capital	537	1
Blackstone Capital Partners V	5,654	40
Capital Int'l. Global Emerging Markets Private Equity	7,379	30
Cerberus Instutional Partners II	7,020	32
Cerberus Instutional Partners IV	3,952	33
Charterhouse Capital Partners VIII	5,868	196
Code, Hennessy & Simmons IV	2,089	45
Coller International Partners V–A	1,070	147
Columbia Capital Equity Partners IV	3,502	221
Darwin Venture Capital	2,539	80
Encap Energy Capital Fund VI	1,746	173
EnerVest Institutional Fund X	9,335	114
EnerVest Institutional Fund XI	3,871	169
Forward Ventures Institutional Partners III	124	36
Forward Ventures Institutional Partners IV	2,656	143
Graham Partners II	4,201	43
HarbourVest International Private Equity Partners III	21,903	262
Hellman & Friedman VI	2,585	7
Lexington Capital Partners V	5,053	80
Lexington Capital Partners VI	2,060	133
Lighthouse	9,427	144
Merit Energy	1,322	0
Meritech Capital Partners II	5,445	64
Mission Ventures	1,917	119
Mission Ventures II	8,892	370
Northgate Private Equity Partners II	6,611	205
Northgate Venture Partners II	3,898	123
Northgate Venture Partners III	1,691	116
Oak Investment Partners XI	7,471	173
Oak Investment Partners XII	3,359	220
Oakhill Capital Partners	4,104	36
OCM Opportunities Fund II	113	1
OCM Opportunities Fund III	719	1
OCM Opportunities Fund IV	1,152	8
OCM Opportunities Fund VI	6,672	62
OCM Opportunities Fund VII	1,506	41
Paul Capital Partners VIII	8,192	188
Relational Investors, LLC	36,477	254
Sofinova Venture Partners, VII	162	39
Sorrento Ventures CE	4,068	124
TA IX	5,833	162
TA X	4,879	96
TA Subordinated Debt Fund	1,680	62
TA Subordinated Debt Fund II	2,495	4
Total Alternative Equity Managers		**4,957**
Real Estate Managers		
California Smart Growth Fund IV	6,420	93
Canyon Johnson Urban Fund	11,236	600
Concert Realty	41	24
Kennedy Associates Real Estate Counsel, Inc	0	49
REIT – REEF	167,521	787
Southern California Smart Growth Fund	14,380	268
Total Real Estate Managers		**1,821**
Master Custodian		
Bank of New York		7
Mellon Bank		2,008
Total Master Custodian		**2,015**
Other Professional Fees		
Albourne America		118
Bear Measurisk		128
Cambridge Capital Advisors		540
Capital Market Risk Advisors		88
Cliffwater Associates		264
Ennis Knupp		75
Mcube Investment Technologies		229
Mount Lucas Index Management		850
Plexus		31
Rocaton		131
The Segal Company		252
The Townsend Group		100
Wilshire Associates		36
Other		26
Total Other Professional Fees		**2,868**
Administrative, Support and Other (1)		**4,842**
Total Investment Expenses		**$87,192**

(1) Represents the reversal of prior year incentive fee accrual

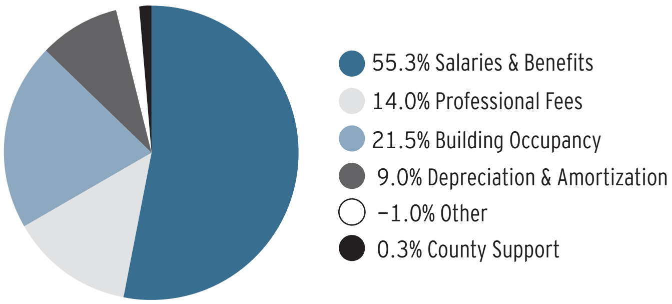
SCHEDULE V - ADMINISTRATIVE EXPENSES

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(THOUSANDS OF DOLLARS)

Expense Category	2007	2006
Salaries and Benefits	$ 5,668	5,219
Professional Fees	1,438	1,139
Building Occupancy Expenses	2,205	836
County Administrative Support	27	64
Equipment and Maintenance	153	213
Depreciation and Amortization	918	694
Other Expenses*	(160)	(131)
Total Administrative Expenses	**$ 10,249**	**8,034**

* Includes overhead expense allocations to Investments and Health Care.

ADMINISTRATIVE EXPENSES BY CATEGORY 2007



SCHEDULE VI - PAYMENTS TO CONSULTANTS

(IN THOUSANDS)

Type of Service	
Legal Services	$ 173.5
Actuarial Services	221.0
Medical Consulting Services	44.1
Audit Services	108.8
Total Payments to Consultants	**$ 547.4**

In•vest•ments

SAN DIEGO COUNTY EMPLOYEES
RETIREMENT ASSOCIATION

SDCERA

Strength. Service. Commitment.

TRUSTEES, BOARD OF RETIREMENT:

For the fiscal year ending June 30, 2007, the markets remained focused on fluctuating oil prices, rising interest rates, widespread woes in the sub-prime lending arena, and a general uncertainty as to the future direction of the market. Rising interest payments and declining home prices led to numerous sub-prime mortgage defaults, and ultimately widened the spreads on asset-backed securities (ABS). The price of oil dropped significantly during the third and fourth quarter of 2006, reaching $50.51 per barrel in January, before rebounding and closing at $70.47 on June 29, 2007. The Federal Open Market Committee (FOMC) met 8 times during the fiscal year but kept its target for the federal funds rate unchanged at 5.25%.

Real GDP rose 1.9% during the year compared to 3.6% for the prior year. Strong consumer spending and positive GDP growth in the third and fourth quarters of 2006 were negated by a below-trend rate of growth in the first quarter of 2007. The primary drivers of first quarter 2007 performance were the meltdown in the U.S. housing market and a market correction beginning in China that stretched across the globe. Inflation decreased significantly during this period as the CPI was 2.7% versus 4.3% for this same period one year ago. Reduced inflation worries in the first half of the fiscal year drove this decrease. Excluding food and energy, the CPI ended the period at 2.2%.

The U.S. 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 20.6% for the year compared to a return of 8.6% for the same period last year. Most value stocks had higher returns than growth stocks over the entire fiscal year; however, growth stocks outperformed value stocks during the final two quarters. There was also a shift in market cap performance with large cap stocks outperforming small cap stocks, as the Russell 2000 Index earned 16.4% during this period.

Global economic growth, high commodity prices, and increased liquidity helped non-U.S. markets continue to outperform the U.S. market for the fiscal year period. Performance was driven by strong returns in the Latin American region due to the rising value of regional currencies and continued economic growth. The Morgan Stanley EAFE Index, excluding the U.S., returned 27.0%. During the twelve months to June 30, 2007, the MSCI Emerging Markets Index generated a return of 45.0%, up from a 35.9% return over the same period last year. International small cap stocks generated strong returns as well, as the MSCI EAFE Small Cap returned 25.2% for the period.

The yield curve has remained inverted for much of the past year where short-term Treasuries and cash had higher yields than longer-term bonds. The impact of the abrupt rise in long-term Treasury bond yields amidst stronger global economic growth and tighter monetary policies led to a flattening of the yield curve by the end of the second quarter. Bonds with maturities between two - and ten-year terms, however, still remained fairly flat compared to a year ago. Yields on bonds with maturities less than two years actually declined in a flight to quality as sub prime mortgage fears dominated headlines during this period. For the one year ending June 30, 2007, the 6-month Treasury bill rate fell from 5.24% to 4.94% (-30 basis points), whereas the 30-year Treasury bond fell from 5.19% to 5.12% (-7 basis points). The total return of the Lehman Brothers Aggregate Bond Index was 6.1% for the period, despite rising Treasury yields and widening spreads towards the end of the period. Investors in non-investment grade bonds were highly rewarded, as the total return of the Citigroup High Yield Bond Index was 11.6%, significantly higher than the return of 4.1% for the same period last year. Global bond markets ended the period on a high note. The Lehman Brothers Global Aggregate Bond Index (unhedged) generated a return of 4.7% during this period versus a return of 0.25% during the same period last year. During this period the U.S. dollar weakened meaningfully versus the British pound and Euro and strengthened modestly versus the Japanese yen.

The SDCERA Fund (the Fund) did well in absolute terms but underperformed relative to its policy benchmark and other peer funds. The Fund generated a net of fee return of 15.4% for the year against a policy benchmark return of 16.4%. Accordingly, SDCERA's active implementation of asset allocation policies detracted 1.0%, resulting in a loss of over $70 million additional earnings to the Fund. The Fund placed in the 83rd percentile in the Wilshire Master Trust Universe of peer funds for the year and in the 7th and 5th percentiles for the three year and five year periods against all TUCS public funds with more than $1 billion in assets. The Fund's policy benchmark was ranked in the 69th percentile for the period.

All but one of the asset classes and strategies of the Fund posted positive returns for this period, including equity and fixed income assets, as well as alternative investments undertaken to meet strategic objectives. These investments 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 portfolio, composed of multiple real estate investment vehicles, and Private Equity partnerships, denoted in-house as the Private Equity, Venture Capital, and Opportunistic Funds. Other alternative strategies include the Managed Futures and Active Currency overlays and a passive long Commodities strategy. Only the passive commodities strategy posted 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, the Fund added Bridgewater Pure Alpha II and BGI Multi-Strategy Fund strategies to the roster. The Fund also added Goldentree Opportunity Fund as an additional manager to the High Yield portfolio during this period. The SDCERA Board of Retirement hired Ennis Knupp + Associates as General Investment Consultant replacing Rocaton Investment Advisers during the year.

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

Investment Description		Allocation
Domestic Equity		24.0%
International Equity		19.0%
Emerging Markets Equity		6.0%
Alternative Equity		5.0%
Total Equity		54.0%
Real Estate		10.0%
TIPS/Core		10.0%
High Yield		7.0%
Emerging Market Debt		6.0%
Non–US Fixed Income (unhedged)		8.0%
Total Fixed Income		31.0%
Commodities		5.0%
Total Assets		100.0%
Expected Compound Annual Return	7.00%*	8.17%**
Expected Risk	11.49%*	10.28%**

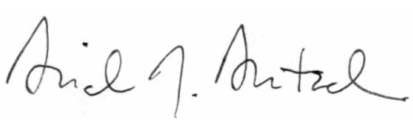
*Based on EnnisKnupp Capital Market Expectations (Second Half 2007)

**Based on Rocaton Investment Advisors long term expectations (2006)

Thank you.

David J. Deutsch, CFA

Chief Investment Officer



November 30, 2007

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.

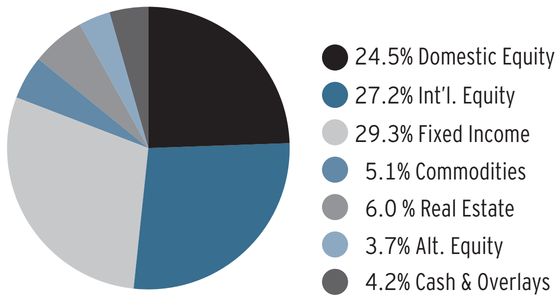
(b) With the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

(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.

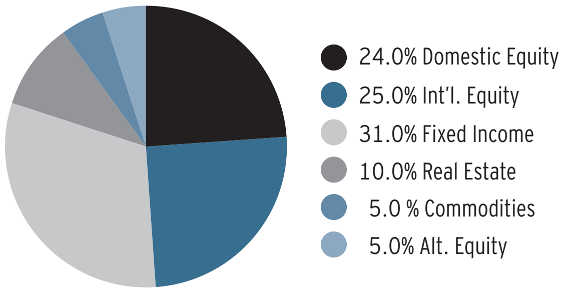
The Board has adopted an investment policy statement and related policies to ensure that the plan is managed to the prudent expert standard, required in California. These policies set investment return and risk objectives, both at the manager and plan level, and provide for the extensive diversification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

ASSET ALLOCATION

JUNE 30, 2007



TARGET ASSET ALLOCATION



Asset Type	Fair Value	Percent of Total	Target Percent of Total
Domestic Equity	$ 2,068,736	24.5%	24.0%
International Equity	2,293,961	27.2%	25.0%
Fixed Income	2,474,891	29.3%	31.0%
Real Estate	507,152	6.0%	10.0%
Alternative Equity	311,718	3.7%	5.0%
Commodities	428,682	5.1%	5.0%
Currency Overlay	156,468	1.8%	0.0%
Cash and other assets and liabilities	202,898	2.4%	0.0%
Total	**$ 8,444,505**	**100.0%**	**100.0%**

Investment data are presented using the accrual accounting method.

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	**15.4%**	**14.6%**	**13.7%**	**9.6%**	Custom Benchmark (1)	16.4%	13.5%	12.6%	8.0%
					Master Trust Median	17.7%	13.9%	11.6%	8.4%
					Public Fund Sponsors Median	16.1%	13.1%	10.9%	8.0%
					Actuarial Rate of Return	8.25%			
Domestic Equity	12.8%	12.0%	11.4%	8.5%	Russell 3000	20.1%	12.5%	11.5%	7.6%
Non-US Equity – Developed Markets	27.9%	25.0%	19.7%	8.8%	MSCI EAFE	27.5%	22.7%	18.2%	8.0%
Non-US Equity – Emerging Markets	45.6%	40.2%	32.2%	11.2%	MSCI Emerging Markets Index	45.5%	38.7%	30.7%	9.4%
Fixed Income – TIPS	3.9%	3.9%	6.3%	N/A	Barclay's US Inflation Linked Bond Index	3.9%	3.8%	6.1%	N/A
Fixed Income – High Yield	15.1%	10.8%	13.6%	8.1%	Citigroup HY Cash-Pay Index	11.6%	8.7%	12.3%	6.5%
Fixed Income – Emerging Market Debt	17.2%	19.7%	N/A	N/A	JP Morgan Global EMBI	11.7%	12.0%	N/A	N/A
Fixed Income – Global	3.0%	N/A	N/A	N/A	Fixed Income-Global Custom Benchmark (2)	3.9%	N/A	N/A	N/A
All-Weather	4.2%	N/A	N/A	N/A	All-Weather Custom Benchmark (3)	10.1%	N/A	N/A	N/A
Commodities	-13.5%	N/A	N/A	N/A	Goldman Sachs Commodity Index	-14.0%	N/A	N/A	N/A
Real Estate	13.9%	19.2%	17.7%	14.2%	Real Estate Custom Benchmark (4)	15.2%	19.8%	16.8%	14.2%
Alternative Equity	17.6%	20.1%	13.5%	7.6%	Alternative Equity Custom Benchmark (5)	20.2%	19.6%	12.2%	15.0%
Cash	6.9%	N/A	N/A	N/A	Citigroup 90-Day T-Bill Index	5.1%	N/A	N/A	N/A

Return calculations reflect a time-weighted, market rate of return.

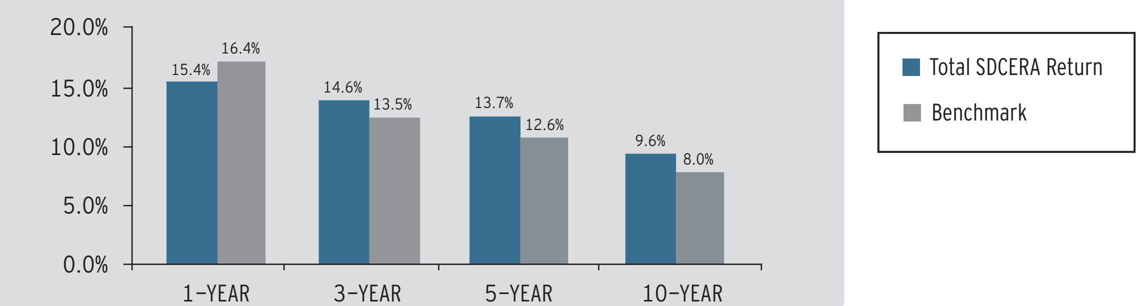
NOTES:

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% Goldman Sachs Commodity; 5.0% Private Equity; 10.0% Real Estate.
2. 10.0% Lehman Aggregate; 10.0% Citigroup Non-US Gov't. Bond; 40.0% JP Morgan Global EMBI; 40.0% Citigroup High Yield Cash Pay.
3. 68.0% NACREIF; 32.0% NAREIT, on a quarter lag.
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, 2007



TOP 10 HOLDINGS - EQUITY

AS OF JUNE 30, 2007

Shares	Security Name	Market Value
304,765	Total SA	$ 24,803,038
1,989,264	Lloyds TSB	22,190,849
261,455	Bayer AG	19,809,362
2,208,997	UniCredito Italian	19,779,683
852,238	Telefonica SA	19,037,375
2,365,642	Intesa Sanpaolo	17,667,895
45,646	Nestle SA	17,355,610
1,037,375	BG Group	17,098,186
268,700	Toyota Motor, Inc	16,971,214
300,893	Novartis AG	16,939,962

TOP 10 HOLDINGS - FIXED INCOME

AS OF JUNE 30, 2007

Book Value	Description	Market Value
43,280,108	U.S. Treasury Inflation Index Notes, 01/15/15	$ 40,651,674
35,812,427	Australian Commonwealth Bonds, 02/15/17	36,845,053
30,059,431	Poland Government Bonds, 09/28/07	34,387,879
33,774,280	U.S. Treasury Inflation Index Notes, 01/15/26	32,923,358
30,298,376	Australian Commonwealth Bonds, 08/15/10	32,446,553
29,753,952	U.S. Treasury Inflation Index Notes, 01/15/14	29,145,448
27,634,124	U.S. Treasury Inflation Index Notes, 04/15/29	28,914,384
24,219,536	Mexican Bonos, 12/05/24	27,392,547
24,255,470	New Zealand Government Bonds, 04/15/13	27,316,456
27,473,960	U.S. Treasury Inflation Index Notes, 01/15/10	25,883,432

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

INVESTMENT EXPENSES BY CATEGORY

Investment Expenses by Category	Fees (000's)
Domestic Equity	$ 2,714
International Equity	11,268
Overlay	14,995
Fixed Income	11,359
Alpha Engine	29,880
Other Managers	474
Alternative Equity	4,957
Real Estate	1,821
Master Custodian	2,015
Other Professional Fees	2,868
Administrative, Support and Other	4,842
Total Investment Expenses	**$ 87,192**

COMMISSIONS PAID – DOMESTIC EQUITY

FOR THE YEAR ENDED JUNE 30, 2007

No.	Brokerage Firm	Total Commissions	% of Total Commissions
1	Instinet Corporation	$ 160,246	11.76%
2	Bear Stearns	116,281	8.53%
3	Jefferies & Company	86,261	6.33%
4	Goldman Sachs	67,747	4.97%
5	William O'Neil & Company	62,496	4.59%
6	UBS Securities	54,384	3.99%
7	Merrill Lynch	46,151	3.39%
8	Lehman Brothers	38,931	2.86%
9	Oppenheimer & Company	34,849	2.56%
10	Morgan Stanley	34,105	2.50%
11	Stifel, Nicolaus	28,220	2.07%
12	RBC Capital Markets	27,823	2.04%
13	Other*	605,068	44.41%
	Total	**$ 1,362,560**	**100.00%**

*Includes approximately 116 additional firms, each with less than 2% of total commissions.

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

COMMISSIONS PAID - INTERNATIONAL EQUITY

FOR THE YEAR ENDED JUNE 30, 2007

Summary of International Broker Commissions

No.	Brokerage Firm	Total Commissions	% of Total Commissions
1	Credit Suisse First Boston	$ 219,449	10.12%
2	Morgan Stanley	203,218	9.37%
3	UBS Securities	180,565	8.33%
4	Merrill Lynch	156,573	7.22%
5	JP Morgan Chase Bank	119,616	5.52%
6	Goldman Sachs	113,936	5.25%
7	Lehman Brothers	110,322	5.09%
8	Deutsche Banc Securities	108,391	5.00%
9	Citigroup Global Markets	102,747	4.74%
10	Other**	854,016	39.37%
	Total	**$ 2,168,832**	**100.00%**

** Includes approximately 105 additional firms, each with less than 3% of total commissions.

SUMMARY OF INVESTMENT PORTFOLIO BY TYPE

AS OF JUNE 30, 2007

Investment Description	Fair Market Value	% of Total Market Value
Domestic Equity		
Financials	$ 401,328,854	4.8%
Information Technology	324,081,287	3.8%
Consumer Discretionary	268,201,242	3.2%
Industrials	263,274,878	3.1%
Consumer Staples	213,360,419	2.5%
Health Care	200,762,291	2.4%
Energy	193,976,476	2.3%
Telecommunications Services	66,586,577	0.8%
Utilities	62,472,412	0.7%
Materials	49,278,067	0.6%
ADR's	118,778,076	1.4%
Convertible Securities	66,937,846	0.8%
Total Domestic Equity	**2,229,038,426**	**26.4%**
International Equity	**2,150,334,845**	**25.5%**
Total Equity	**4,379,373,271**	**51.9%**
Fixed Income		
International Bonds	1,005,689,073	11.9%
US Government Obligations	818,376,380	9.7%
Domestic High Yield Bonds	248,128,504	2.9%
Domestic Investment Grade Bonds	235,321,263	2.8%
Domestic Convertible Bonds	109,710,020	1.3%
Total Fixed Income	**2,417,225,240**	**28.6%**
Other Investments		
Real Estate	471,484,330	5.6%
Cash and Securities for Commodity Swaps	455,994,184	5.4%
Bridgewater All Weather	344,164,885	4.1%
Alternative Equity	311,717,734	3.7%
Cash & Cash Equivalents with Fiscal Agents	271,308,982	3.2%
Overlay Cash and Securities	58,468,456	0.7%
Other Assets and Liabilities	(265,231,941)	−3.1%
Total Other	**1,647,906,630**	**19.5%**
Net Investment Portfolio	**$ 8,444,505,141**	**100.0%**

SUMMARY OF RETIREMENT PORTFOLIO BY MANAGER/ASSET TYPE

AS OF JUNE 30, 2007

Securities Description	Asset Type	Market Value
Domestic Equity		
S&P 500 Enhanced	S&P 500 Index	1,579,425,235
Dimensional Fund Advisors	Value–Small Cap	274,557,109
Duncan Hurst Capital Management	Growth–Small/Micro Cap	189,340,160
Baillie Gifford	Emerging Markets	81,543,275
Zazove Associates	Convertible Preferred	39,148,926
Nicholas Applegate Convertible Bond	Convertible Preferred	23,869,255
Artisan Partners	Large Cap Growth	20,967,421
Mondrian Investment Partners	Large Cap Value	9,941,911
Pyramis Global Advisors	Large Cap Growth	6,224,942
Oaktree Capital Management LLC	Convertible Preferred	3,919,664
Unallocated Securities	Other	100,528
Total Domestic Equity		**2,229,038,426**
International Equity		
Pyramis Global Advisors	Core	489,130,239
Mondrian Investment Partners	Large Cap Value	430,771,900
Artisan Partners	Large Cap Growth	376,719,435
Capital Guardian Trust Company	Small Cap	368,697,647
Genesis	Emerging Markets	279,913,380
Baillie Gifford	Emerging Markets	179,005,546
Beren's Capital	Emerging Markets	29,673,051
Barclay's Global Investors	Currency Overlay	23,576,282
Pimco	Foreign Currency	821,667
Unallocated Securities	Foreign Currency	658
Western Asset Management	Foreign Exchange Contracts	(13,066)
Zazove Associates	Exchange Contracts	(66,237)
Mellon Capital	Currency Overlay	(538,941)
Colchester Global	Exchange Contracts	(27,356,716)
Total International Equity		**2,150,334,845**
Total Equity		**4,379,373,271**
Fixed Income		
PIMCO Tips	Inflation Protection	620,850,546
Colchester Global	Global	432,240,705
Ashmore Emerging Markets	Emerging Markets Debt	417,840,971
PIMCO	Domestic	218,191,874
PIMCO	Global Ex U.S.	172,576,487
Oaktree Capital Management	High Yield	129,201,387
Nicholas Applegate Convertible	Convertibles	109,710,020
TCW Asset Management Company	Strategic MBS	77,457,648
Managed Futures	Managed Futures	72,745,253
Zazove Associates	High Yield Convertible	67,344,696
Goldentree	High Yield	55,776,495
TCW Asset Management Company	Mortgage Backed	46,144,383
Standish Mellon Excess Earnings	Excess Earnings	(2,855,225)
Total Fixed Income		**2,417,225,240**
Real Estate, Alternative Equity and Other		
Cash and Securities for Commodity Swaps	Commodity Swaps	471,484,330
Real Estate	Real Estate	455,994,184
Bridgewater All Weather	All Weather	344,164,885
Alternative Equity	Alternative Equity	311,717,734
Cash	Cash	271,308,982
Overlay Cash and Securities	Overlay Cash and Securities	58,468,456
Other Assets and Liabilities	Other	(265,231,941)
Net Investment Portfolio		**8,444,505,141**

SUMMARY OF DERIVATIVE FINANCIAL INSTRUMENTS

AS OF JUNE 30, 2007

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 investments. 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.

A. POLICY OVERLAY:

	Notional Amount Long/(Short)
Futures Exposure for Policy Overlay	
Overlay Futures	
Equity	
International Equity	(25,116,873)
US Large & Small Cap	60,454,630
Total Equity	35,337,757
Fixed Income	
Global ex US Fixed Income	180,817,578
US Fixed Income	127,483,250
Total Fixed Income	308,300,828
Total Overlay Futures	343,638,585
S&P 500 Futures	
Equity SP500	(14,396,300)
Total Futures Exposures	**329,242,285**
Currency Forwards Exposure for Policy Overlay	**(104,327,062)**
Total Exposure for Policy Overlay:	**224,915,223**

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

	BOOK VALUE
Utilized Cash:	
Domestic Equity	
Duncan Hurst Small Cap	2,674,496
Duncan Hurst Micro Cap	1,179,100
Total Domestic Equity Cash:	3,853,596
International Equity	
Artisan	4,227,549
Baillie Gifford	3,460,624
Mondrian	2,508,033
Pyramis (Fidelity)	4,381,339
Total International Equity Cash:	14,577,546
Operational Cash	195,324,891
County Pool Cash	7,176,420
UBOC Cash	1,511,350
Overlay Futures Cash	60,182,320
S&P Futures Cash	1,596,960
Subtotal:	284,223,082
Managed Futures Collateral	71,985,310
Enhanced S&P 500 Excess Collateralization	(26,885,891)
Total:	**329,322,501**

B. 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**

C. MANAGED FUTURES OVERLAY:

	NOTIONAL VALUE
Campbell & Co	60,000,000
Graham Capital	60,000,000
Kenmar (CTA Choice)	125,000,000
SDCERA MLM	90,000,000
Total Exposure for Managed Futures Overlay:	**335,000,000**

D. SWAPS INVESTMENTS:

ENHANCED S&P 500 SWAPS

	NOTIONAL VALUE	MARKET VALUE
Total S&P 500 SWAPS	1,619,966,020	1,606,773,973
Alpha Engine Managers	**BOOK VALUE**	**MARKET VALUE**
Enhanced STIF Cash	226,719,576	226,719,576
Amaranth	17,138,551	17,138,551
AQR Capital	74,414,059	81,538,891
BGI Multi-Strategy	125,000,000	127,140,328
Bridgewater Pure Alpha	89,014,677	93,416,925
DE Shaw	118,530,210	175,766,200
Freeman Assoc.	63,440,369	64,124,975
Freeman Fair Value	31,102,362	31,609,433
Lotsoff Capital Management	151,111,575	154,268,867
Silver Point	140,838,298	166,886,117
Wamco Absolute Return	150,000,000	160,228,490
WG Trading	144,515,244	145,000,802
Zazove Associates	148,343,557	149,240,974
Total Alpha Engine	**1,480,168,479**	**1,593,080,129**
Less Notional Value of Swap Investments		(1,619,966,020)
Excess Collateralization		(26,885,891)

COMMODITY SWAPS

	NOTIONAL VALUE	MARKET VALUE
Commodity Swaps	434,404,257	435,254,138
	BOOK VALUE	**MARKET VALUE**
Western Asset Management	419,662,714.0	418,900,996
Less Notional Value of Commodity Swap Investments		(434,404,257)
Excess Collateralization		(15,503,261)

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Ac•tu•ar•i•al

SEGAL

THE SEGAL COMPANY
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T 415.263.8200 F 415.263.8290 www.segalco.com

November 15, 2007

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, 2007 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, 2007 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.

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, 2007 is illustrated in the Schedule of Funding Progress and History of Employer Contribution Rates.

Board of Retirement
San Diego County Employees Retirement Association
November 15, 2007
Page 2

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, 2006 Experience Analysis or in conjunction with the June 30, 2007 actuarial valuation. It is our opinion that the assumptions used in the June 30, 2007 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, 2009 and those assumptions will be used in setting the contribution rates in the June 30, 2010 actuarial valuation.

In the June 30, 2007 valuation, the ratio of the valuation assets to actuarial accrued liabilities increased from 83.6% to 89.7%. The employer's rate has decreased from 23.27% of payroll to 20.58% of payroll, while the employee's rate has increased from 10.23% of payroll to 10.38% of payroll.

Sincerely,

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

Andy Yeung, ASA, EA, MAAA
Vice President and Associate Actuary

CZI/kek
Enclosure

4029373v1/05536.002

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%
6/30/07	329,367	3,924,551	3,841,453	8,082,517	100%	100%	78.30%

[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
6/30/07	12.52	6.18	18.70				18.66	8.89	27.55

[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%
2007	802	45,430,033	347	6,531,337	12,504	338,680,164	13.0%	27,086	8.9%

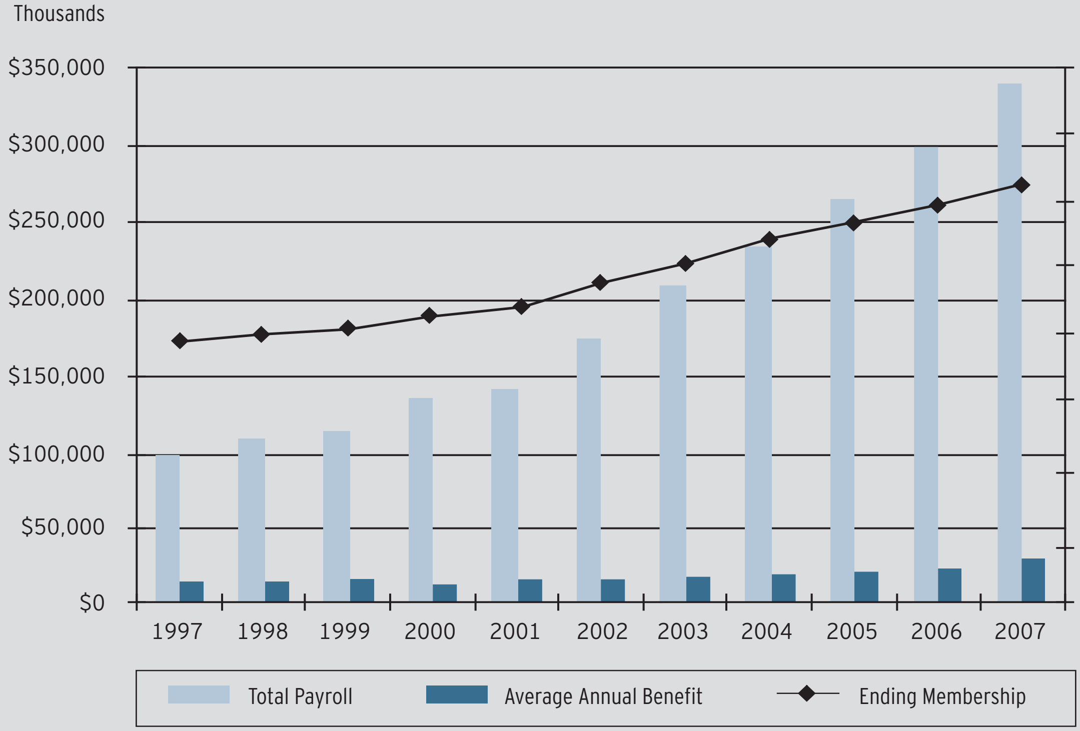
[1] Data through June 30, 2000 was from Association's June 30, 2003 CAFR

[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

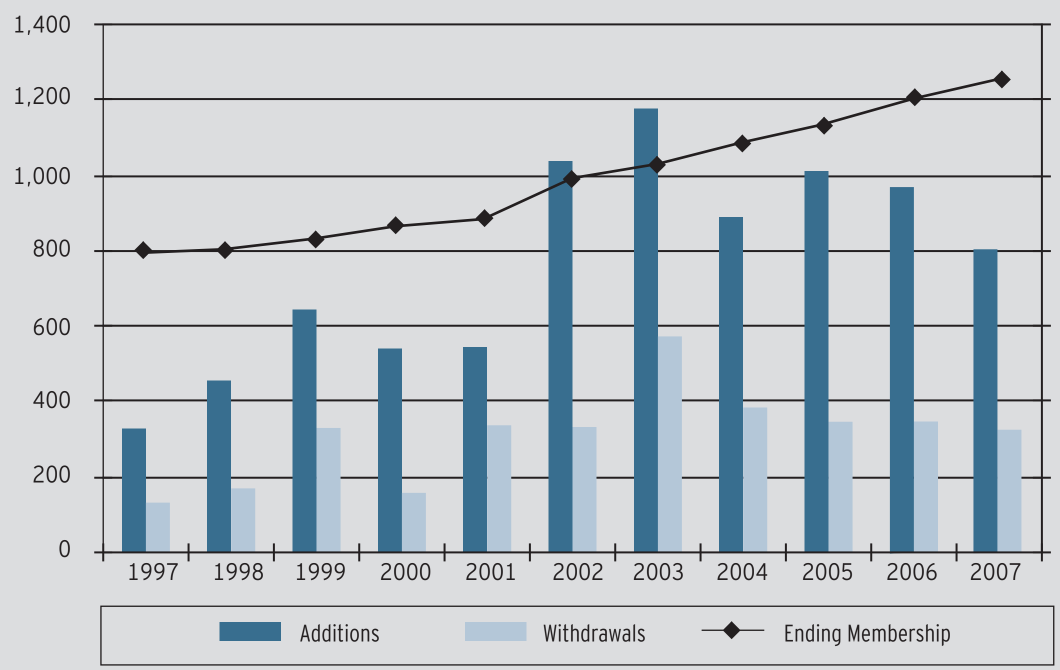
RETIREMENT PAYROLL AND AVERAGE ANNUAL PENSION BENEFIT

FOR THE YEARS ENDED JUNE 30



MEMBERSHIP ACTIVITY

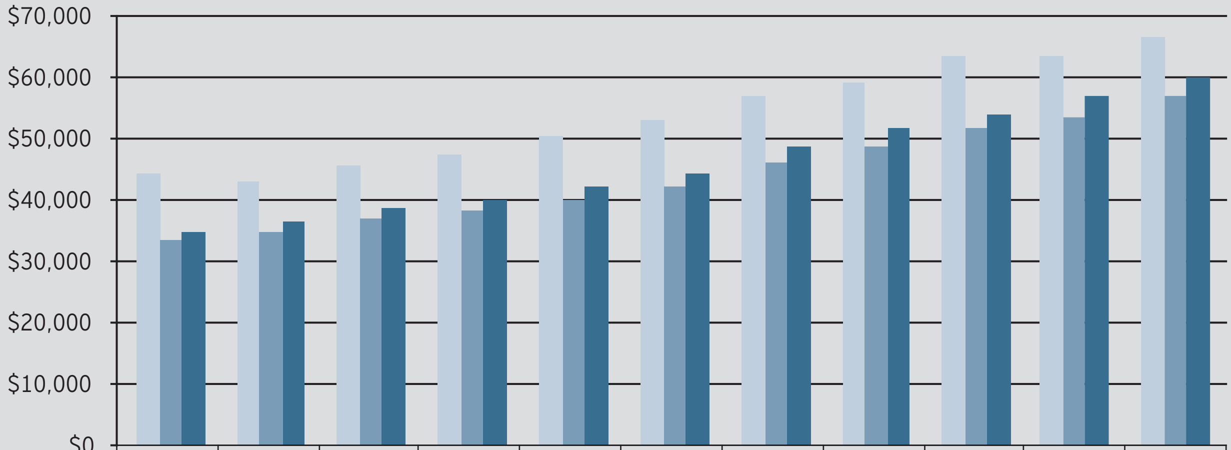
FOR THE YEARS ENDED JUNE 30



Source: The Segal Company, Annual Actuarial Valuation June 30, 2007

ACTIVE MEMBERSHIP HISTORY
AVERAGE ANNUAL SALARIES BY MEMBER TYPE

FOR THE YEARS ENDED JUNE 30

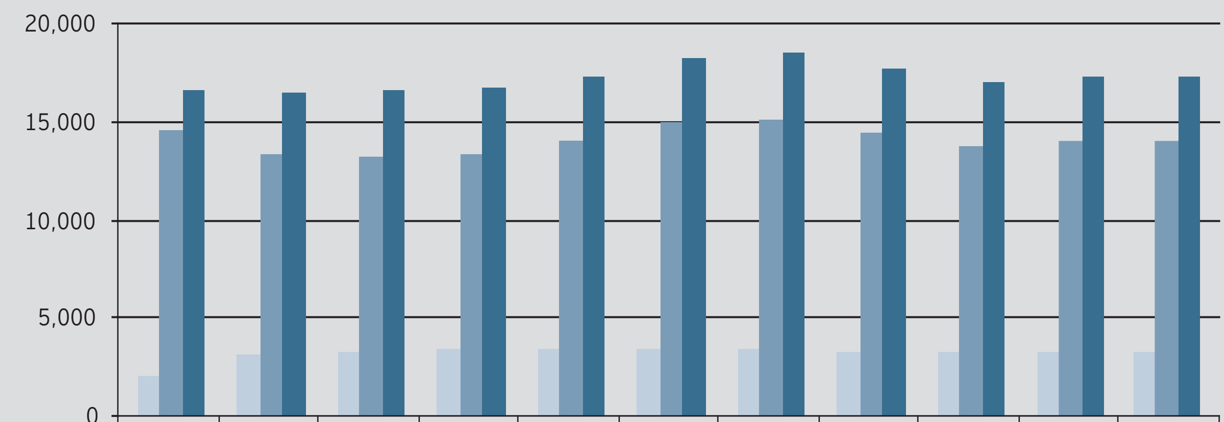


	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Safety	$44,476	$43,144	$45,981	$47,660	$50,593	$53,384	$56,943	$59,510	$63,546	$65,974	$68,982
General	$33,375	$35,039	$36,968	$38,480	$40,109	$42,303	$46,108	$48,764	$52,129	$53,933	$57,858
Total	$34,954	$36,432	$38,771	$40,343	$42,150	$44,342	$49,071	$51,763	$54,287	$56,121	$59,911

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



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Safety	2,107	3,132	3,316	3,382	3,376	3,362	3,409	3,271	3,209	3,171	3,272
General	14,528	13,309	13,263	13,287	13,970	14,914	15,057	14,446	13,771	14,280	14,461
Total	16,635	16,441	16,579	16,669	17,346	18,276	18,466	17,717	16,980	17,451	17,733

Source: The Segal Company, Annual Actuarial Valuation June 30, 2007

DETERMINATION OF ACTUARIAL AND VALUATION VALUE OF ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

(THOUSANDS OF DOLLARS)

Six Month Period		Total Actual Market Return	Expected Market Return	Investment Gain/(Loss)	Deferred Factor	Deferred Return
From	To	(net)	(net)			
1/2003	6/2003	84,950,076	172,517,450	(87,567,374)	0.0	–
7/2003	12/2003	464,531,812	182,773,793	281,758,019	0.2	56,351,604
1/2004	6/2004	464,531,812	182,773,793	281,758,019	0.2	56,351,604
7/2004	12/2004	393,633,977	228,521,789	165,112,188	0.4	66,044,875
1/2005	6/2005	393,633,977	228,521,789	165,112,188	0.4	66,044,875
7/2005	12/2005	565,517,934	262,672,774	302,845,160	0.6	181,707,096
1/2006	6/2006	388,653,398	286,420,193	102,233,205	0.7	71,563,244
7/2006	12/2006	556,128,897	302,680,212	253,448,685	0.8	202,758,948
1/2007	6/2007	552,867,341	325,757,782	227,109,559	0.9	204,398,603
1. Total Deferred Return						$ 905,220,849
2. Net Market Value of Assets						8,444,505,140
3. Actuarial Value of Assets (Item 2 – Item 1)						7,539,284,291
4. Non–valuation Reserves						
a. Health Benefit Reserve						164,865,161
b. 401(h) Reserve						18,865,550
c. Contingency Reserve						84,445,051
d. Undistributed Reserve						20,704,060
e. Subtotal						288,879,822
5. Valuation Value of Assets (Item 3 – Item 4e)						$ 7,250,404,469

Source: The Segal Company, Annual Actuarial Valuation June 30, 2007

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 5.0% a year for those with over 5 years of service and higher rates for those with less than 5 years, for the purpose of determining the level percent contributions although individual annual salary increase rates may be higher per year for the purpose of projecting individual pay.

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

ACTUARIAL ASSUMPTIONS

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

The principal areas of financial risk that require assumptions about future experience are:
1. Long-term rates of investment return to be generated by the assets of the fund;
2. Patterns of pay increases to members;
3. Rates of mortality among members, retirees and beneficiaries;
4. Rates of withdrawal of active members (without entitlement to a retirement benefit);
5. Rates of disability among members; and
6. Age patterns of actual retirements.

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

Actual experience of the system will not coincide exactly with assumed experience, regardless of the choice of the assumptions, the skill of the actuary and the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The latest experience study was done for the period July 1, 2000 through June 30, 2003, and resulting assumptions are reflected in the most recent actuarial valuation. The result is a continual series of adjustments (usually small) to the computed contribution rate. From time to time, it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations).

The investment return rate used for the actuarial valuation calculations was 8.25% a year, net of administrative expenses, compounded annually. This assumption, used to equate the value of payments due at different points in time, 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, 2007.

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 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	7.50%	4.50%
1	6.00%	4.00%
2	5.00%	3.25%
3	4.00%	2.50%
4	3.00%	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
06/30/97	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
06/30/07	17,733	1,062,396,028	8.5	59,911	6.8

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

HISTORIC SUMMARY OF ASSUMPTIONS

FOR THE YEARS ENDED JUNE 30

	Fiscal Year Ended							3 Year	5 Year
Assumption	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**Average**	**Average**
Inflation [1]	2.30%	3.75%	3.30%	3.70%	4.10%	2.90%	5.70%	3.13%	3.44%
Assumed [3]								3.83	3.90
Average Pay increase	6.8	3.4	4.9	5.5	8.5	5.2	4.5	5.03	5.82
Assumed [3]								4.25	4.15
Merit & Longevity Pay Increase	1.9	2.9	1.1	0.6	2.4	2.3	(1.2)	1.97	1.78
Assumed [4]								1.00	1.00
Total Payroll	8.5	6.2	0.5	1.2	9.6	10.8	8.7	5.07	5.20
Assumed [3]								4.25	4.15
Investment Return Rate [2]	14.0	10.8	6.5	5.7	3.7	5.8	10.5	10.43	8.14
Assumed [5]								8.25	8.25
Real Rate of Investment Return	11.7	7.0	3.2	2.0	(0.4)	2.9	4.8	7.30	4.70
Assumed [6]								4.42	4.35
Admin. Expenses (% of Assets)	0.1	0.1	0.1	0.2	0.2	–	–	0.10	0.14
Assumed								0.10	0.14

[1] Based on June to June change in Consumer Price Index for San Diego, All Items, 1982–84=100. Please note that this index is different from the measure used to determine the annual retiree COLA.

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

[3] Effective with June 30, 1997 valuation, this assumption has been reduced from 4.5% to 4.0%

[4] Effective with June 30, 2003 valuation, this assumption has been increased from 0.5% to 1.0%

[5] Effective with June 30, 1997 valuation, this assumption has been increased from 8.0% to 8.25%

[6] Effective with June 30, 1997 valuation, this assumption has been increased from 3.5% to 4.25%

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

Rates of separation from active membership are shown below. This assumption measures the probabilities of members remaining in employment. Starting with the June 30, 1997 valuation, all employees, eligible to retire, are assumed to not withdraw accumulated member contributions upon separation from service.

It is also assumed that 35% of General and 40% of Safety separating active members will continue employment with a reciprocal employer. Reciprocal members are assumed to receive 5.0% compensation increases per annum.

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

DISABILITY RATES

	Non Service Connected Disability			Service Connected Disability		
	General Members		Safety	General Members		Safety
Age	Male	Female	Members	Male	Female	Members
20	0.00%	0.00%	0.00%	0.01%	0.00%	0.03%
25	0.00%	0.00%	0.00%	0.01%	0.01%	0.08%
30	0.01%	0.01%	0.04%	0.02%	0.04%	0.22%
35	0.02%	0.03%	0.06%	0.04%	0.08%	0.48%
40	0.03%	0.08%	0.06%	0.11%	0.16%	0.72%
45	0.06%	0.13%	0.08%	0.19%	0.23%	0.92%
50	0.10%	0.18%	0.10%	0.30%	0.28%	1.48%
55	0.17%	0.23%	0.10%	0.38%	0.33%	2.28%
60	0.23%	0.28%	0.10%	0.43%	0.38%	2.84%

Source: The Segal Company, Annual Actuarial Valuation, June 30, 2007

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

	Healthy Life Mortality		Disabled Life Mortality	
	General and Safety [1]		General	
Sample Ages	Male	Female	Male	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

	Ordinary Withdrawals (Less than 5 years of service)		
	General		
Years of Service	Male	Female	Safety
0	16.00%	17.00%	12.00%
1	10.00%	11.00%	11.00%
2	7.50%	8.00%	6.00%
3	6.00%	7.00%	4.50%
4	5.50%	6.50%	4.00%

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

	Ordinary Withdrawals (More than 5 years of service) [1]			Vested Termination (More than 5 years of service) [1]		
	General			General		
Age	Male	Female	Safety	Male	Female	Safety
20	1.00%	1.80%	0.83%	8.40%	8.40%	3.56%
25	1.00%	1.80%	0.75%	7.40%	7.40%	2.99%
30	0.94%	1.53%	0.65%	6.40%	5.80%	2.41%
35	0.84%	1.02%	0.67%	5.10%	4.40%	1.91%
40	0.74%	0.68%	0.65%	3.60%	3.40%	1.46%
45	0.58%	0.42%	0.53%	2.70%	2.40%	0.99%
50	0.44%	0.30%	0.41%	2.20%	2.00%	0.68%
55	0.34%	0.30%	0.36%	1.40%	1.40%	0.48%
60	0.30%	0.30%	0.14%	1.00%	1.00%	0.16%

[1] No withdrawal is assumed after a member is eligible for retirement.

Source: The Segal Company, Annual Actuarial Valuation, June 30, 2007

RETIREMENT PROBABILITY

	Retirement Probability	
Age	**General**	**Safety**
48	0%	4%
49	0%	4%
50	8%	15%
51	5%	15%
52	5%	15%
53	6%	15%
54	8%	15%
55	12%	20%
56	13%	25%
57	15%	30%
58	17%	35%
59	20%	35%
60	20%	45%
61	25%	45%
62	27%	45%
63	29%	45%
64	30%	45%
65	30%	100%
66	30%	100%
67	30%	100%
68	40%	100%
69	40%	100%
70	100%	100%

Source: The Segal Company, Annual Actuarial Valuation, June 30, 2007

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.

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Sta•tis•ti•cal

CHANGES IN PLAN NET ASSETS

FOR THE LAST TEN FISCAL YEARS ENDED JUNE 30

(MILLIONS OF DOLLARS)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Additions										
Employee Contributions [1]	$ 6.7	$ 7.4	$ 8.4	$ 10.8	$ 17.3	$ 34.7	$ 33.6	$ 40.8	$ 41.9	$ 44.5
Employer Contributions [2]	51.8	36.4	38.1	41.1	50.6	616.1	700.6	316.1	302.5	320.5
Investment Income (Net of expenses)	466.9	396.0	564.4	(344.8)	(164.8)	149.9	936.5	794.7	962.2	1119.3
Total Additions	**$ 525.4**	**$ 439.8**	**$ 610.9**	**$(292.9)**	**$ (96.9)**	**$800.7**	**$1,670.7**	**$1,151.6**	**$1,306.6**	**$1,484.3**
Deductions										
Administrative Expenses	$ 4.5	$ 4.8	$ 5.3	$ 6.4	$ 7.6	$ 7.0	$ 7.4	$ 7.5	$ 8.0	$ 10.3
Retirement Benefits [1] [3]	103.7	121.3	132.8	144.1	163.0	201.2	228.8	259.5	290.2	322.6
Health Benefits	6.6	7.9	9.0	10.8	14.3	19.9	26.5	32.6	32.9	35.3
Refunds	0.9	1.4	1.7	1.6	1.5	2.8	2.7	2.2	3.0	2.6
Total Deductions	**$ 115.7**	**$ 135.4**	**$ 148.8**	**$ 162.9**	**$ 186.4**	**$230.9**	**$ 265.4**	**$ 301.8**	**$ 334.1**	**$ 370.8**
Total Change in Net Assets	**$ 409.7**	**$ 304.4**	**$ 462.1**	**$(455.8)**	**$(283.3)**	**$569.8**	**$1,405.3**	**$ 849.8**	**$ 972.5**	**$1,113.5**

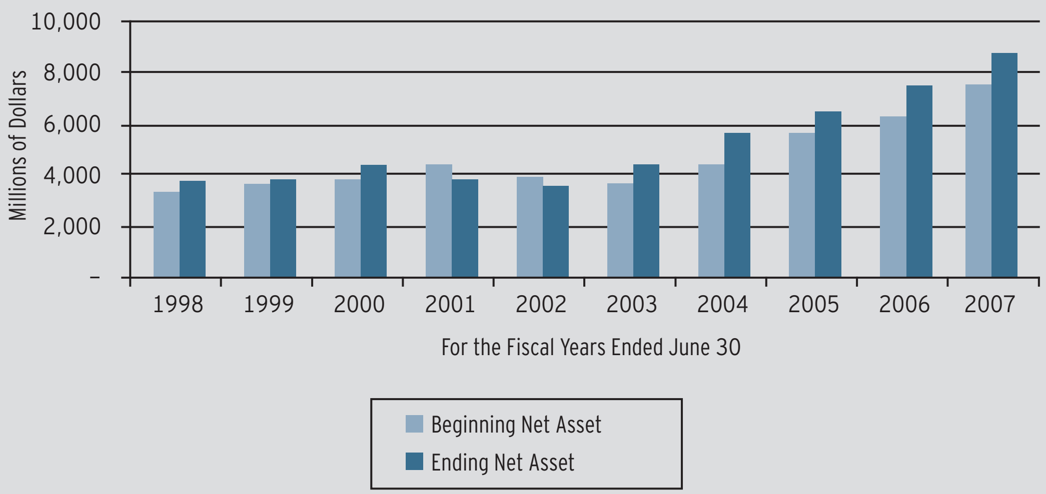
NOTES:

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

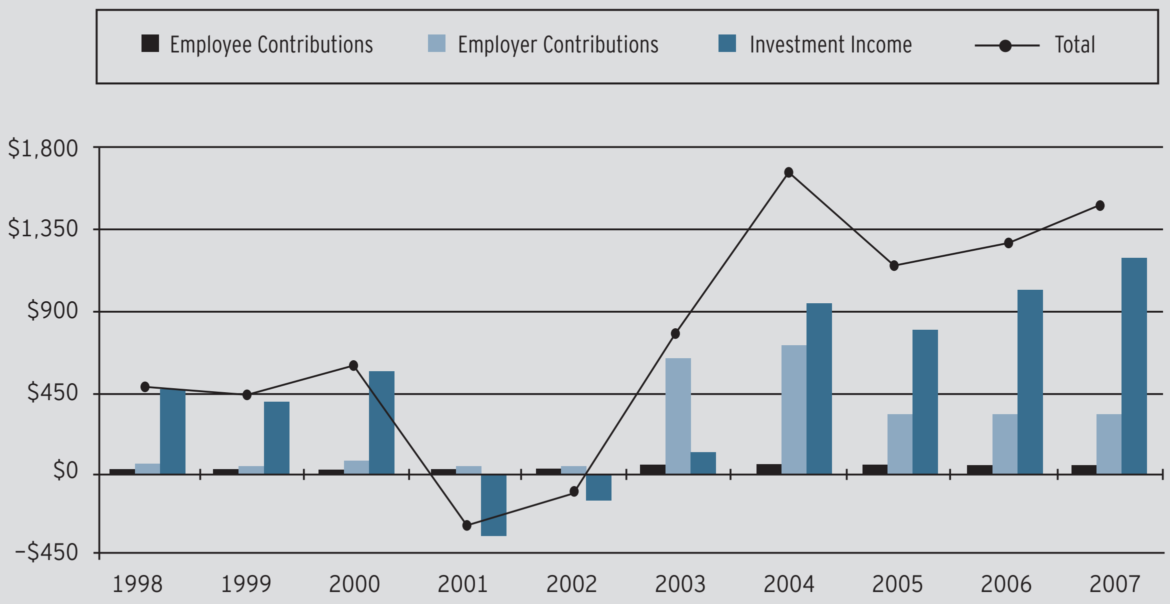
[2] Includes proceeds from Pension obligation bonds of $550 million in 2003 and $450 million in 2004.

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

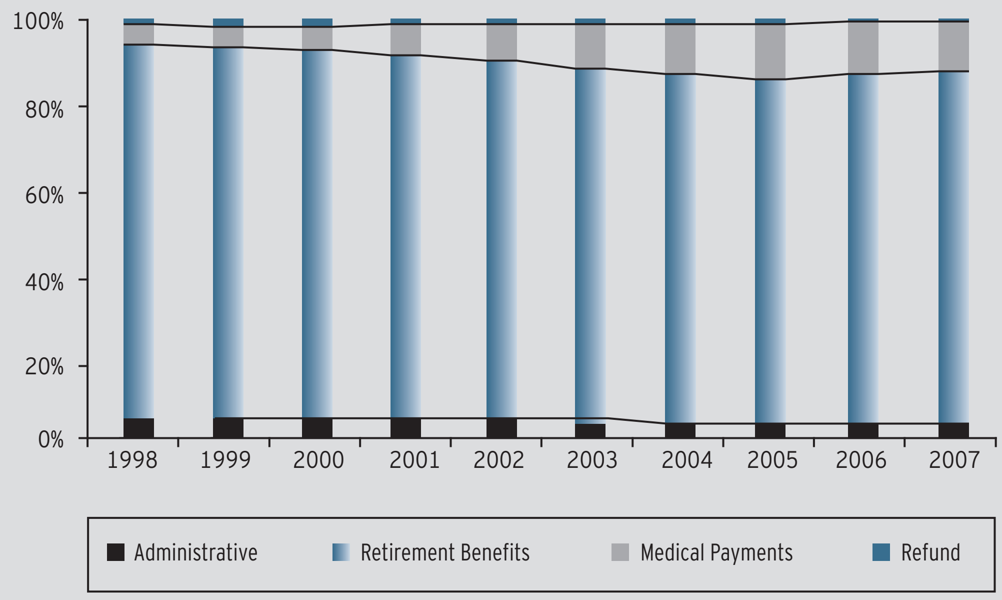
SDCERA NET ASSET VALUE



ADDITIONS TO PLAN NET ASSETS BY SOURCE



DEDUCTIONS FROM PLAN NET ASSETS BY TYPE



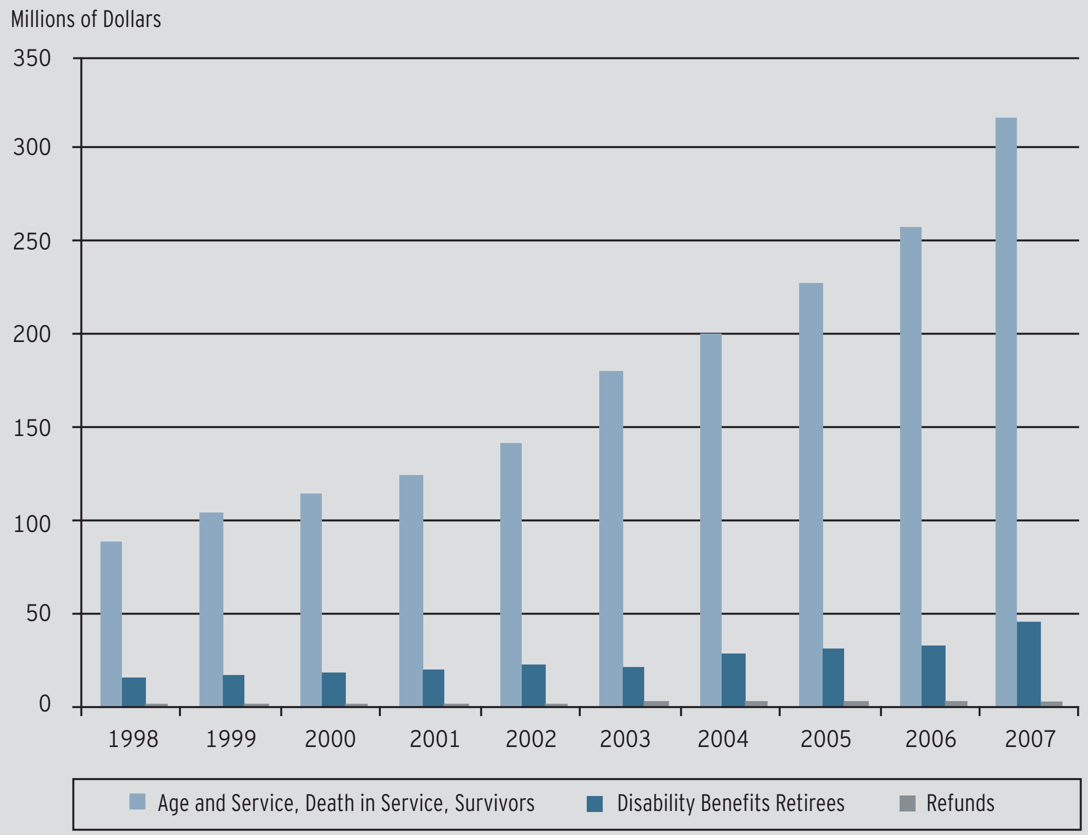
BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE

FOR THE LAST TEN FISCAL YEARS ENDED JUNE 30

(MILLIONS OF DOLLARS)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Type of Benefit										
Age and Service	$ 81.3	$ 94.9	$ 104.4	$ 113.4	$ 130.5	$ 161.1	$ 185.3	$ 209.5	$ 239.4	$ 295.3
Disability – Duty	12.4	14.3	15.2	3.9	4.2	5.2	2.8	6.7	8.8	12.0
Disability – Non–Duty	3.1	3.4	3.6	16.4	18.3	22.6	25.6	25.4	24.2	28.7
Death Benefits	1.4	1.6	1.6	1.7	0.6	1.3	1.2	2.7	1.1	1.6
Survivors	5.5	7.1	8.0	8.7	10.0	12.3	15.1	15.2	16.7	20.3
Total	**$103.7**	**$121.3**	**$ 132.8**	**$ 144.1**	**$ 163.6**	**$ 202.5**	**$ 230.0**	**$ 259.5**	**$ 290.2**	**$ 357.9**
Type of Refund										
Separation	0.9	1.4	1.7	1.6	1.5	1.5	1.5	2.2	3.0	2.6
Total	**$ 0.9**	**$ 1.4**	**$ 1.7**	**$ 1.6**	**$ 1.5**	**$ 1.5**	**$ 1.5**	**$ 2.2**	**$ 3.0**	**$ 2.6**

BENEFIT EXPENSES BY TYPE



RETIRED MEMBERS BY TYPE OF BENEFITS

FOR THE CURRENT AND PRIOR FISCAL YEAR ENDED JUNE 30

Fiscal Year 2007		Type of Retirement[a]					
Amount of Monthly Benefit	Number of Retired Members	1	2	3	4	5	6
$0 – $1,000	3,618	2,751	582	92	8	182	3
1,001 – 2,000	3,704	2,729	341	28	107	491	8
$2,001 – 3,000	2,254	1,612	133	13	96	394	6
$3,001 – 4,000	1,092	912	42	5	62	69	2
$4,001 – 5,000	642	595	11	1	20	15	–
$5,001 – 6,000	485	456	5	–	20	4	–
$6,001 – 7,000	293	281	–	1	7	4	–
$7,001 – 8,000	175	163	–	–	8	4	–
$8,001 – 9,000	78	73	1	–	4	–	–
$9,001 – 10,000	52	49	–	–	2	1	–
Over 10,000	111	106	–	–	5	–	–
Total	**12,504**	**9,727**	**1,115**	**140**	**339**	**1,164**	**19**

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**

[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 2007

		Option Selected[b]						
Amount of Monthly Benefit	**Number of Retirees & Beneficiaries**	**Unmodified**	**1**	**2**	**3**	**4**	**Dth – Minor Child Supplement**	**Lump Sum Installment**
$0 – $1,000	3,618	3,450	35	100	4	3	8	18
1,001 – 2,000	3,704	3,603	43	41	2	8	1	6
$2,001 – 3,000	2,254	2,195	24	25	2	6	–	2
$3,001 – 4,000	1,092	1,059	9	16	1	6	1	–
$4,001 – 5,000	642	611	16	9	–	5	1	–
$5,001 – 6,000	485	464	8	8	–	5	–	–
$6,001 – 7,000	293	281	6	2	–	3	1	–
$7,001 – 8,000	175	172	1	–	–	2	–	–
$8,001 – 9,000	78	77	–	–	–	1	–	–
$9,001 – 10,000	52	51	–	–	–	1	–	–
Over 10,000	111	106	–	1	–	4	–	–
Total	**12,504**	12,069	142	202	9	44	12	26

FISCAL YEAR 2006

		Option Selected[b]						
Amount of Monthly Benefit	**Number of Retirees & Beneficiaries**	**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

[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 SIX FISCAL YEARS ENDED JUNE 30

	Years of credited service						
Retirement Effective	**0–5**	**5–10**	**10–15**	**15–20**	**20–25**	**25–30**	**30+**
Fiscal Year 2007							
Average monthly benefit	$ 749	$ 958	$ 1,756	$ 2,380	$ 3,307	$ 4,494	$ 6,331
Average final monthly salary	$ 6,918	$ 4,774	$ 4,738	$ 4,800	$ 5,110	$ 6,043	$ 6,611
Number of retired members	27	83	145	143	99	94	85
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 2007							
Number of Covered Employees	**35,249**		32,830	2,365	20	12	22
Percentage to Total System	**100.00**	%	93.14	6.71	0.06	0.03	0.06
Rank			**1**	**2**	**4**	**5**	**3**
Fiscal Year 2006							
Number of Covered Employees	**33,055**		30,619	2,392	18	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	**32,043**		29,795	2,208	16	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

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