CHARTING THE COURSE

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SDCERA

Strength. Service. Commitment.

San Diego County Employees
Retirement Association

San Diego County, CA

"To reach a port we must set sail—
Sail, not tie at anchor
Sail, not drift."
- Franklin D. Roosevelt

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

for fiscal year ended June 30, 2012

San Diego County Employees Retirement Association
San Diego County, California

MISSION STATEMENT

SDCERA's mission is to prudently manage the fund, efficiently administer benefits and provide superior service to SDCERA's membership.

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 administers 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

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INTRODUCTION

"The winds and waves are always on the side of the ablest navigators."

- Edward Gibbon

SDCERA

Strength. Service. Commitment.

Dear Board of Retirement Trustees:

I am pleased to submit this *Comprehensive Annual Financial Report* (CAFR) of the San Diego County Employees Retirement Association (SDCERA, Association, Fund or Plan) as of and for the year ended June 30, 2012.

This report tracks SDCERA's progress for the past fiscal year as we navigated a challenging economy. Despite uncertain financial markets, our vision is set on charting a course toward producing strong returns and providing secure benefits over time.

The financial markets are, like the universe, in constant motion; some aspects are predictable, and others are not. Our success is built on diligent observation of the changing economic environment and SDCERA's place in it today and into the future.

This report's theme offers inspiration from astronomical events and great thinkers, past and present.

ABOUT SDCERA

SDCERA is a public retirement system established by the County of San Diego on July 1, 1939, in response to the County Employees Retirement Law of 1937. The 1937 Act regulates 20 systems in counties across the State of California and has provided secure retirement income that has bolstered the state's economy for more than 70 years.

As San Diego County has grown to more than 3 million residents, SDCERA has become the financial guardian for the pension benefits of nearly 37,000 active and retired San Diego County employees who have spent their professional lives in public service. The Association administers service retirement, disability, death, health care and survivor benefits to members.

SDCERA is administered by a nine-member Board of Retirement made up of member-elected representatives, Board of Supervisors-appointed representatives, and the elected County Treasurer-Tax Collector, who holds a permanent seat on the Board of Retirement.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

Responsibility for the accuracy of the data in this report, along with the completeness and fairness of the presentation of financial information, rests with SDCERA's management. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to transparently present both the Fund's financial position and SDCERA's operational results. Detailed information is provided in the Management's Discussion and Analysis section.

MAJOR INITIATIVES AND SIGNIFICANT EVENTS

INVESTMENT RETURNS OUTPERFORM PEERS

In an economic climate where many pension funds are reporting returns ranging from 1% to 2%, SDCERA shined, outperforming 95% of its peers over the one-, two- and three-year periods ended June 30, 2012, as reported by the Wilshire Trust Universe Comparison Service (TUCS). The fiscal year-end return of 6.5% placed the Fund in the top 5% of public plans with assets over $1 billion.

This reinforces the prudence of SDCERA's management of its diversified portfolio that produces strong returns in up markets and protects those gains in down markets. Over the past 25 years, the Fund's average annual gains have been more than 9%, exceeding the 8% needed to fund the benefit.

STAKEHOLDER COMMUNICATIONS

As the debate about pensions continues, so does the potential for confusion about the purpose and design of the SDCERA fund. SDCERA maintains a clear and accurate presence in this public forum by keeping key stakeholders informed and engaged.

Through these efforts, stakeholders have learned about SDCERA's prudent investment strategy and cost-effective member benefits. They have also learned how the community benefits when local retired members receive a lifetime income stream. A recent study found that pensions support 324,761 jobs and accounted for $52.5 billion in economic output in California.

PENSION ADMINISTRATION SYSTEM

SDCERA is progressing through the testing of a new pension administration software system that will improve efficiency and customer service. Dedicated staff members are developing and evaluating test scenarios to ensure a smooth transition to the new system.

ACCOUNTING SYSTEM AND REPORTS

The accompanying basic financial statements are prepared using the accrual basis of accounting. Contributions from employers and members are recognized as revenue when earned. Benefit payments are recorded when due and payable in accordance with the terms of the plan. Other expenses are recorded when corresponding liabilities are incurred, regardless of when payment is due or made.

SDCERA management is responsible for the establishment and maintenance of internal controls designed to ensure that the assets are protected from theft or misuse. The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. Reasonable assurance recognizes the cost of a control relative to the benefits likely to be derived and that these judgments by management are based on estimates.

Macias Gini & O'Connell LLP, a certified public accounting firm, has audited the financial statements and related disclosures. The financial audit provides reasonable assurance that SDCERA's financial statements are presented in conformity with accounting principles generally accepted in the United States, including the reporting guidelines set forth by the applicable standards issued by the Governmental Accounting Standards Board (GASB), and are free from material misstatement.

INVESTMENT ACTIVITIES

For fiscal year 2012, SDCERA's gross gains were 6.5% outperforming 95% of its public fund peers with assets over $1 billion. Over the past 25 years, the average annual gains have been 9.2%, exceeding the 8% assumed rate of return needed to fund the benefit.

FUNDING

A retirement system's funded ratio, a ratio of valuation value of assets to the actuarial accrued liabilities, is one measurement by which it is typically evaluated. The higher the funded ratio, the more the public and members feel assured that the pension and other post employment benefits are secure.

Based on the most recent actuarial valuation report as of June 30, 2012, the valuation value of assets for the pension plan was $8.6 billion and the actuarial accrued liability totaled $10.9 billion, resulting in an unfunded actuarial accrued liability of $2.3 billion. SDCERA's funded ratio is 78.7%, surpassing both the average of 74.9% for public funds and Fitch Ratings' standard of 70% for adequate funding.

AWARDS AND ACHIEVEMENTS IN REPORTING

S&P CREDIT RATING: AAA

Standard & Poor's Ratings Services (S&P) affirmed the AAA issuer credit rating and stable outlook for SDCERA. The AAA rating is the highest possible, and it provides an assessment of the organization's overall capacity to pay its financial obligations. Significant returns in fiscal years 2010 and 2011, a diversified investment portfolio, strong fund management, an 81.5% actuarial funded ratio for the pension plan in fiscal year 2011 and strong credit quality of the plan sponsor (County of San Diego) were cited by S&P for SDCERA receiving the AAA rating.

EXCELLENCE IN FINANCIAL REPORTING

SDCERA was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) of the United States and Canada. This prestigious award recognizes conformance with the highest standards for state and local government financial reporting.

PLAN DESIGN AND ADMINISTRATION

The Public Pension Coordinating Council (PPCC) honored SDCERA for meeting the professional standards for plan design and administration as stipulated in the Public Pension Standards. SDCERA has received this award for eight consecutive years.

ACKNOWLEDGEMENTS

The goal of this CAFR is 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 funds. This report will enable the Board of Retirement, SDCERA members, the County of San Diego, and members of the general public to better appreciate that SDCERA exercises prudent management and is financially sound.

The compilation of this report could not have been accomplished without the dedication and cooperation of many people associated with SDCERA. I want to express my thanks to the Board and the staff for their dedication and commitment to SDCERA and continued success of the Fund.

Brian White
Chief Executive Officer
December 21, 2012

PPCC

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2012

Presented to

San Diego County Employees Retirement Association

In recognition of meeting professional standards for
plan funding 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, 2011

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

Christopher P Morrill

President

Jeffrey R. Esser

Executive Director

SDCERA BOARD OF RETIREMENT

David A. Myers
Chairman

E.F. "Skip" Murphy
Vice Chairman

Dick Vortmann
Secretary

Martin Cherry

Peter Q. Davis

Marc Doss

Dianne Jacob

Dan McAllister

Douglas Rose

ALTERNATE TRUSTEES

James W. Feeley

Tim Hancock

CHAIRMAN
David A. Myers
Elected by SDCERA Safety members
Present term expires December 31, 2013

VICE CHAIRMAN
E.F. "Skip" Murphy
Elected by SDCERA Retired members
Present term expires June 30, 2014

SECRETARY
Dick Vortmann
Appointed by County Board of Supervisors
Present term expires June 30, 2014

TRUSTEE
Martin Cherry
Elected by SDCERA General members
Present term expires June 30, 2013

TRUSTEE
Peter Q. Davis
Appointed by County Board of Supervisors
Present term expired June 30, 2012

TRUSTEE
Marc Doss
Appointed by County Board of Supervisors
Present term expires June 30, 2013

TRUSTEE
Dianne Jacob
Appointed by County Board of Supervisors
Present term expires December 31, 2013

TRUSTEE
Dan McAllister
County Treasurer-Tax Collector
Holds office during incumbency

TRUSTEE
Douglas Rose
Elected by SDCERA General members
Present term expires June 30, 2014

ALTERNATE TRUSTEE
James W. Feeley
Elected by SDCERA Retired members
Present term expires June 30, 2014

ALTERNATE TRUSTEE
Tim Hancock
Elected by SDCERA Safety members
Present term expires December 31, 2013

Board of Retirement

DAVID A. MYERS
Chairman
Elected by SDCERA Safety members

E.F. "SKIP" MURPHY
Vice Chairman
Elected by SDCERA Retired members

DICK VORTMANN
Secretary
Appointed by County Board of Supervisors

MARTIN CHERRY
Trustee
Elected by SDCERA General members

PETER Q. DAVIS
Trustee
Appointed by County Board of Supervisors

MARC DOSS
Trustee
Appointed by County Board of Supervisors

DIANNE JACOB
Trustee
Appointed by County Board of Supervisors

DAN MCALLISTER
Treasurer-Tax Collector
Holds office during incumbency

DOUGLAS ROSE
Trustee
Elected by SDCERA General members

JAMES W. FEELEY
Alternate trustee
Elected by SDCERA Retired members

TIM HANCOCK
Alternate trustee
Elected by SDCERA Safety members

SDCERA

Chief Executive Officer

BRIAN P. WHITE

Members

Investments

Public Markets

Portfolio Strategist

Private Markets

Member Services

JOHANNA SHICK
Director

Benefits Administration

Customer Service and Education

Communication

Operations

MARK MIMNAUGH
Chief Operating Officer

Investment Operations

Information Technology

Financial Services

Internal Audit

Administrative Services

Human Resources

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Refer to the investment section on **Page 62** for a listing of investment professionals who provide services to SDCERA.

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FINANCIAL

"By prevailing over all obstacles and distractions, one may unfailingly arrive at his chosen goal or destination."
- Christopher Columbus

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MGO Certified Public Accountants.

Sacramento
3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

Walnut Creek

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

To the Board of Retirement of the
San Diego County Employees Retirement Association
San Diego, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the San Diego County Employees Retirement Association (SDCERA), as of and for the fiscal year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of SDCERA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from SDCERA's 2011 financial statements and, in our report dated December 16, 2011, we expressed an unqualified opinion on the basic financial statements.

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 Standar*ds, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SDCERA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the San Diego County Employees Retirement Association as of June 30, 2012, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 9, based on the most recent pension plan actuarial valuation as of June 30, 2012, SDCERA's independent actuary determined that the value of SDCERA's actuarial accrued liability exceeded the actuarial value of its assets by $2.34 billion. The most recent pension plan actuarial value of assets as of June 30, 2012 does not reflect the remaining deferred investment losses that will be recognized in future years.

As described in Note 10, based on the most recent healthcare plan actuarial valuation as of June 30, 2012, SDCERA's independent actuary determined that the value of SDCERA's actuarial accrued liability exceeded the actuarial value of its assets by $180.24 million.

The financial statements include summarized prior year comparative information. Such information does not include all of the information required 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's basic financial statements for the fiscal year ended June 30, 2011, from which such summarized comparative information was derived.

In accordance with *Government Auditing Standards*, we have issued our report dated December 21, 2012, on our consideration of SDCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedules of Funding Progress and the Schedules of Employer Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on SDCERA's basic financial statements. The other supplemental schedules, introductory, investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Macias Gini & O'Connell LLP

Sacramento, California
December 21, 2012

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, Fund or Plan) as of and for the fiscal year ended June 30, 2012. 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 $8.5 billion as of the end of the fiscal year, an increase of $336.5 million over the prior year.
- Total additions to net assets were $868.6 million primarily from an investment gain of $454.8 million, employer contributions of $354.0 million and $59.8 million in member contributions. Total additions to net assets declining by $934.2 million or 51.8% from the prior year, SDCERA's total fund return exceeded the benchmark return by 79 basis points this fiscal year but the markets did not deliver the high level of returns experienced in the prior year.
- Total deductions to net assets were $532.1 million, an increase of $35.1 million or 7.1% over the prior year. Retirement benefits have risen $34.7 million, driven by a net increase in the number of retired members by 670, and a 4.4% increase in average monthly benefit. Health benefits have increased by $0.3 million and refunds have increased $0.3 million. Administrative expenses increased by $0.3 million and health care administrative expenses decreased by $0.5 million.
- During fiscal year 2012, the rate of return on investments was 5.9% 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, 2012, the date of our last actuarial pension plan valuation, the funded status (the ratio of the actuarial assets to the actuarial liabilities) was 78.7%.
- As of June 30, 2012, the date of the last actuarial valuation, the OPEB plan actuarial liability totaled $185.3 million with a funded ratio of 2.7%.

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 represents the net assets held in trust for both pension and health care benefits. The statement also presents summarized 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.

The statement also presents summarized prior year-end balances for comparative purposes. Both statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statements. 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 Pension and OPEB plans. Other Supplemental Information 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

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

Table 1: Net Assets
For the fiscal years ended June 30, 2012, and 2011
(dollars in thousands)

	06/30/2012	06/30/2011	Increase/ (Decrease)	% Change
Cash	$ 1,777,609	$ 2,108,780	$ (331,171)	(15.7)%
Receivables	123,786	30,389	93,397	307.3%
Investments	6,661,697	6,093,074	568,623	9.3%
Securities lending collateral	106,905	283,039	(176,134)	(62.2)%
Property, plant & equipment	12,025	10,901	1,124	10.3%
Total assets	**8,682,022**	**8,526,183**	**155,839**	**1.8%**
Liabilities to Brokers for Securities Lending	115,587	296,414	(180,827)	(61.0)%
Securities purchased	29,403	37,311	(7,908)	(21.2)%
Other	16,529	8,478	8,051	95.0%
Total liabilities	**161,519**	**342,203**	**(180,684)**	**(52.8)%**
Net assets held in trust for pension and health care benefits	**$ 8,520,503**	**$ 8,183,980**	**$ 336,523**	**4.1%**

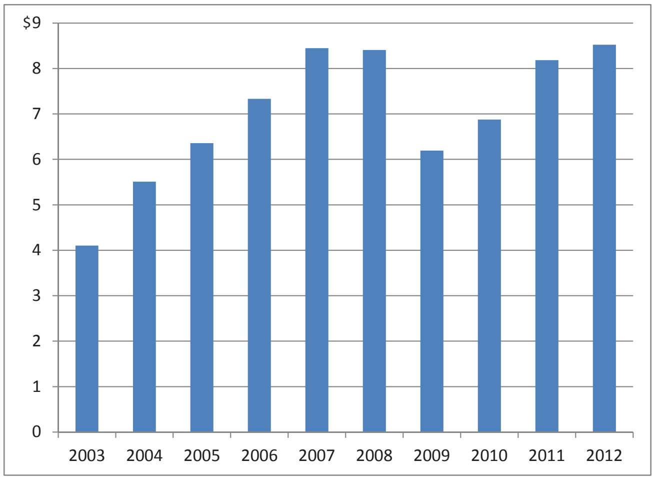
Table 2: Changes in Plan Net Assets
For the fiscal years ended June 30, 2012, and 2011
(dollars in thousands)

	06/30/2012	06/30/2011	Increase/ (Decrease)	% Change
Additions				
Employer pension contributions	$ 334,810	$ 303,809	$ 31,001	10.2%
Employer OPEB contributions	19,198	18,028	1,170	6.5%
Member pension contributions	59,778	43,994	15,784	35.9%
Net investment income	454,014	1,436,101	(982,087)	(68.4)%
Net securities lending income	812	886	(74)	(8.4)%
Total additions	868,612	1,802,818	(934,206)	(51.8)%
Deductions				
Retirement benefits	496,265	461,573	34,692	7.5%
Health benefits	21,299	20,971	328	1.6%
Refund of contributions	3,366	3,108	258	8.3%
Administrative expenses	10,866	10,514	352	3.3%
Health care administrative expenses	293	837	(544)	(65.0)%
Total deductions	532,089	497,003	35,086	7.1%
Increase in net assets held in trust for pension and health care benefits	$ 336,523	$ 1,305,815	$ (969,292)	(74.2)%
Beginning Net Assets	8,183,980	6,878,165		
Ending Net Assets	$ 8,520,503	$ 8,183,980		

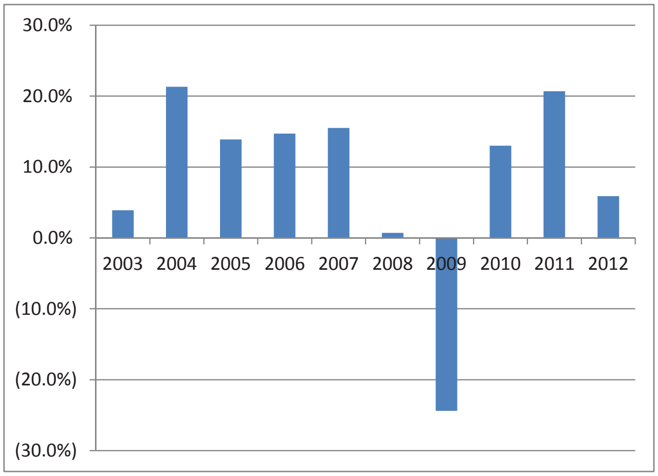
Net assets held in trust for pension and OPEB benefits as of June 30, 2012, were $8.5 billion, an increase of $336.5 million, or 4.1%, over the prior year. Investment returns of 5.9% generated $454.8 million in plan net asset increases from operations.

Total employer and member contributions, net of refunds, added $410.4 million, with member benefit payments of $517.6 million.

SDCERA Net Assets Held In Trust For Pension and OPEB Benefits 2003-2012 (dollars in billions)



SDCERA Investment Returns For the fiscal years ended June 30, 2003-2012



ADDITIONS TO RETIREMENT PLAN NET ASSETS

The primary sources financing the benefits SDCERA provides to its members are accumulated through income on investments and collection of employer and employee contributions. These income sources (Additions to Plan Net Assets) total $868.6 million for the fiscal year ended June 30, 2012, a decrease of $934.2 million over the prior year.

- Employer and member pension contributions were $394.6 million in fiscal year 2012, an increase of $46.8 million over the prior year. Combined employer contribution rates of 26.98% in fiscal year 2012 compared to 20.46% in fiscal year 2011, increased the Pension Annual Required Contribution (ARC) by $68.3 million. Member contributions increased by $15.8 million, fueled by a reduction in the employer offset rate.
- Employer OPEB contributions were $19.2 million in fiscal year 2012, an increase of $1.2 million over the prior year. This increase is primarily as a result of an increase in gross retirement salary.
- Net investment income equaled $454.8 million in fiscal year 2012, a decrease of $982.2 million, over prior year. This income was primarily comprised of net appreciation in the fair value of investments of $379.6 million and $160.5 million in interest and other income, offset by investment expenses of $86.1 million.

SDCERA Additions
For the fiscal year ended June 30, 2012
(dollars in millions)

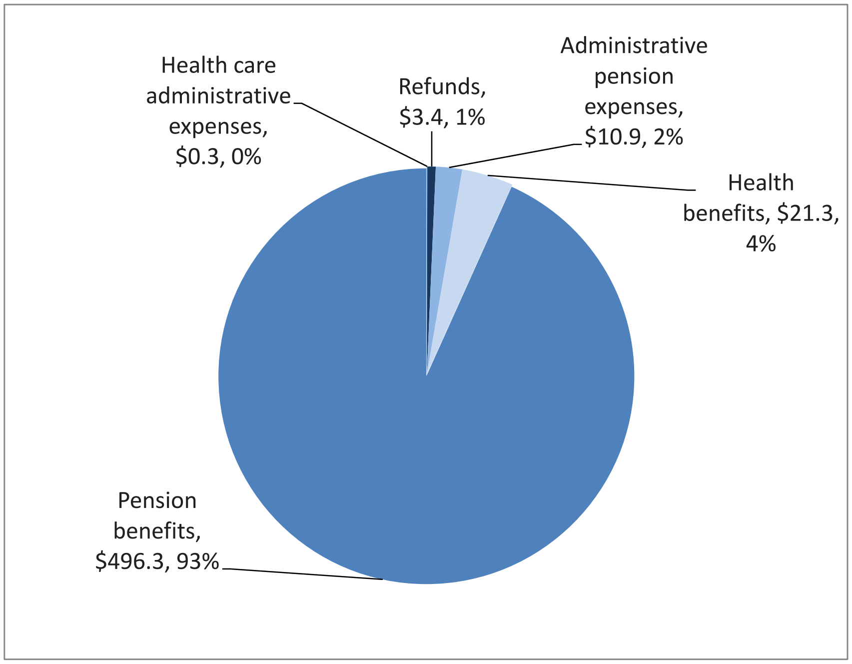
1. Pension contributions: $395 million
2. OPEB contributions: $19 million
3. Interest, dividends and securities lending income: $161 million
4. Net appreciation in fair value of investments: $380 million
5. Investment expense: ($86) million

DEDUCTIONS FROM RETIREMENT PLAN NET ASSETS

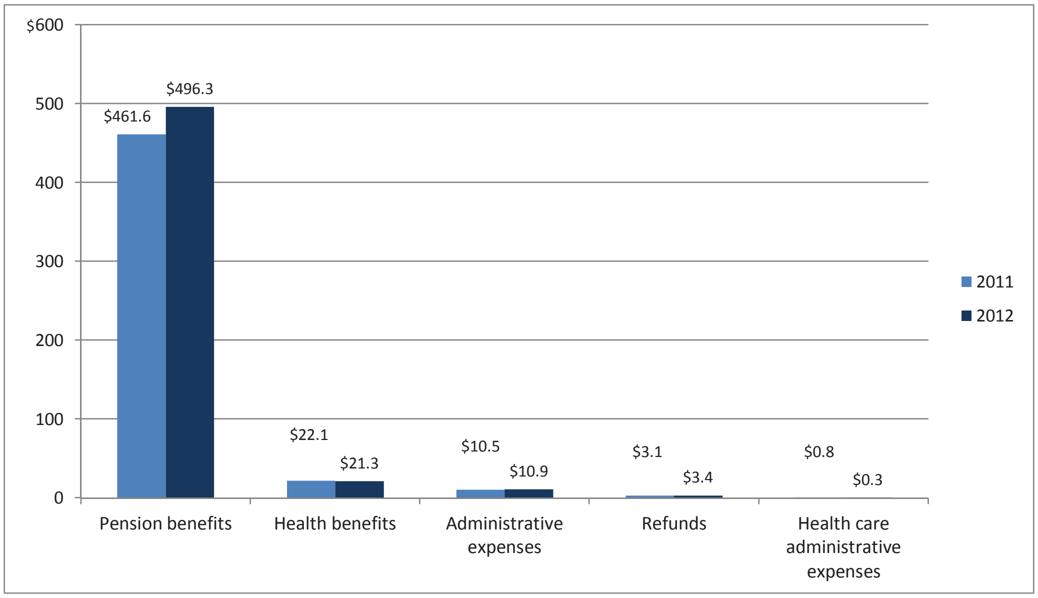
SDCERA's assets are primarily used to pay pension, health and survivor benefits, refund members' contributions and the costs for administering the plan. Deductions from retirement plan net assets for fiscal year ended June 30, 2012, totaled $532.1 million, an increase of $35.1 million, or 7.1%, over 2011.

Pension and health care benefits represent $35.0 million, of the year-over-year change primarily due to the increase in the number of retired members.

SDCERA Deductions
For the fiscal year ended June 30, 2012
(dollars in thousands)



SDCERA Deductions
For the fiscal year ended June 30
(dollars in thousands)



SUMMARY

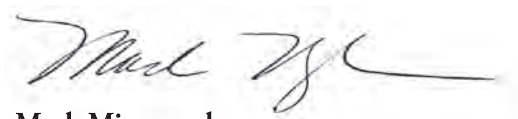
Plan net assets experienced a solid increase for the fiscal year ended June 30, 2012, and are currently at $8.5 billion. Net investment income contributed $454.8 million of the increase. Employer/employee contributions have delivered $413.8 million in assets to help fund $532.1 million in benefits and administrative expenses.

REQUESTS FOR FINANCIAL INFORMATION

This financial report is designed to provide the Board of Retirement, our members, 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, CA 92108



Mark Mimnaugh
Chief Operating Officer
December 21, 2012

"You have to know the past to understand the present."
- Dr. Carl Sagan

Statement of Plan Net Assets
As of June 30, 2012
(with summarized comparative amounts as of June 30, 2011)

	June 30, 2012			June 30, 2011
	Pension Plan	Health Care	Total Fund	Total Fund
Assets				
Cash and short-term investments				
Cash in County pool	$ 3,498,798	$ 2,079	$ 3,500,877	$ 2,890,546
Cash and cash equivalents with fiscal agents	215,708,682	128,177	215,836,859	354,563,560
Early Retiree Reinsurance Program (ERRP) cash	525,144	-	525,144	1,035,047
Collateral cash	1,556,820,921	925,079	1,557,746,000	1,750,290,646
Total cash and short-term investments	**1,776,553,545**	**1,055,335**	**1,777,608,880**	**2,108,779,799**
Receivables				
Contributions	3,775,213	2,243	3,777,456	2,888,756
Accrued interest and dividends	62,999,077	37,433	63,036,510	14,321,329
Settlement of securities sold	56,937,732	33,833	56,971,565	13,178,545
Total receivables	**123,712,022**	**73,509**	**123,785,531**	**30,388,630**
Investments at fair value				
Domestic equity securities	494,173,507	293,643	494,467,150	562,943,531
International equity securities	415,877,694	247,119	416,124,813	478,390,962
Total equity securities	**910,051,201**	**540,762**	**910,591,963**	**1,041,334,493**
United States government obligations	1,037,267,020	616,356	1,037,883,376	744,018,376
Domestic bonds	507,659,877	301,657	507,961,534	430,777,471
International bonds	813,757,674	483,544	814,241,218	791,251,449
Total bonds and cash	**2,358,684,571**	**1,401,557**	**2,360,086,128**	**1,966,047,296**
Securities lending collateral	106,841,254	63,486	106,904,740	283,039,064
Cash and securities for overlay futures	163,614,137	97,221	163,711,358	340,926,696
Cash and securities for swaps	227,683,571	135,292	227,818,863	561,002,326
Opportunistic	65,651,426	39,011	65,690,437	70,146,737
Hedge funds	837,731,698	497,790	838,229,488	735,747,145
Relative value	485,074,679	288,237	485,362,916	385,931,347
Infrastructure	193,403,255	114,922	193,518,177	138,792,361
Private equity	336,919,254	200,201	337,119,455	268,811,709
Real estate	900,303,656	534,971	900,838,627	520,950,790
Natural resources	171,308,748	101,794	171,410,542	52,778,719
Unallocated fund	7,314,997	4,347	7,319,344	10,604,791
Total investments	**6,764,582,447**	**4,019,591**	**6,768,602,038**	**6,376,113,474**
Capital assets, net	12,018,204	7,141	12,025,345	10,900,972
Total assets	**8,676,866,219**	**5,155,575**	**8,682,021,794**	**8,526,182,876**
Liabilities				
Liabilities to brokers for securities lending	115,517,911	68,642	115,586,553	296,413,606
Settlement of securities purchased	29,385,266	17,461	29,402,727	37,311,101
Professional services	8,703,558	5,172	8,708,730	5,470,936
Death benefits	654,940	-	654,940	602,407
Retirement benefits	206,786	-	206,786	410,262
Refunds to members	266,100	-	266,100	291,237
County advance contribution	5,514,067	-	5,514,067	931
ERRP funds	524,830	-	524,830	1,034,755
Cash in transit	377,381	224	377,605	399,919
Other	276,499	166	276,665	267,867
Total liabilities	**161,427,340**	**91,663**	**161,519,003**	**342,203,021**
Net assets held in trust for pension and health care benefits	**$ 8,515,438,880**	**$ 5,063,911**	**$ 8,520,502,791**	**$ 8,183,979,855**

The Notes to the Basic Financial Statements are an integral part of this statement.

Statement of Changes in Plan Net Assets
For the year ended June 30, 2012
(with summarized comparative amounts for June 30, 2011)

	June 30, 2012			June 30, 2011
	Pension Plan	Health Care	Total Fund	Total Fund
Additions to plan net assets				
Contributions				
Employer contributions	$ 334,810,375	$ 19,198,185	$ 354,008,560	$ 321,837,013
Plan member contributions	59,777,636	-	59,777,636	43,994,305
Total contributions	**394,588,011**	**19,198,185**	**413,786,196**	**365,831,318**
Investment income				
Net appreciation/(depreciation) in fair value of investments				
Stocks	(77,476,002)	(33,357)	(77,509,359)	251,172,944
Bonds	91,462,353	39,379	91,501,732	130,236,266
Foreign currency	(12,142,960)	(5,228)	(12,148,188)	100,725,881
Real estate & private equity	70,097,652	30,180	70,127,832	99,734,713
Energy fund	7,849,591	3,380	7,852,971	7,126,150
Opportunistic	26,671,044	11,483	26,682,527	64,793,778
Relative value	7,881,822	3,394	7,885,216	43,177,992
Multi-strategy fund	6,647,960	2,862	6,650,822	-
Infrastructure	10,931,501	4,707	10,936,208	22,040,519
Swaps	(66,961,180)	(28,830)	(66,990,010)	231,568,013
Futures	312,067,119	134,360	312,201,479	421,380,778
Securities lending	2,424,510	1,044	2,425,554	(3,482,164)
Total net appreciation in fair value of investments	**379,453,410**	**163,374**	**379,616,784**	**1,368,474,870**
Interest income				
Bonds	42,923,732	18,482	42,942,214	29,941,397
Cash	18,599,498	8,008	18,607,506	24,068,588
Total interest income	**61,523,230**	**26,490**	**61,549,720**	**54,009,985**
Other				
Dividends on stock investments	68,114,944	29,327	68,144,271	78,528,238
Real estate equity investment income	25,710,102	11,069	25,721,171	20,831,205
Private equity investment income	5,428,671	2,337	5,431,008	2,597,183
Natural resources investment income/loss	(430,913)	(186)	(431,099)	766,776
Commission recapture	5,963	3	5,966	24,115
Other income	67,109	29	67,138	11,611
Total other	**98,895,876**	**42,579**	**98,938,455**	**102,759,128**
Investment expenses	(86,053,455)	(37,050)	(86,090,505)	(89,142,465)
Securities lending income	509,354	220	509,574	924,173
Securities lending rebates and bank charges	301,804	130	301,934	(38,672)
Net securities lending	**811,158**	**350**	**811,508**	**885,501**
Net investment income	**454,630,219**	**195,743**	**454,825,962**	**1,436,987,019**
Total additions to plan net assets	**849,218,230**	**19,393,928**	**868,612,158**	**1,802,818,337**
Deductions from plan net assets				
Benefits				
Retirement benefits	494,674,645	-	494,674,645	460,327,993
Death benefits	1,590,312	-	1,590,312	1,245,487
Health benefits	-	21,298,588	21,298,588	20,971,275
Total benefits	**496,264,957**	**21,298,588**	**517,563,545**	**482,544,755**
Member refunds	3,366,473	-	3,366,473	3,108,374
Health care administrative expenses	117,261	175,890	293,151	836,944
Administrative expenses	10,866,053	-	10,866,053	10,513,519
Total deductions from plan net assets	**510,614,744**	**21,474,478**	**532,089,222**	**497,003,592**
Increase/(decrease) in net assets held in trust for pension and health care benefits	**338,603,486**	**(2,080,550)**	**336,522,936**	**1,305,814,745**
Net assets held in trust for pension and health care benefits				
Beginning of year	8,176,835,394	7,144,461	8,183,979,855	6,878,165,110
End of year	**$ 8,515,438,880**	**$ 5,063,911**	**$ 8,520,502,791**	**$ 8,183,979,855**

The Notes to the Basic Financial Statements are an integral part of this statement.

1 DESCRIPTION OF PLANS

San Diego County Employees Retirement Association (SDCERA, Association, Fund, 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, health, death and survivor benefits for its employees under the County Employees Retirement Law 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 administers a cost sharing, multiple-employer defined benefit pension plan and health care 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 619.515.6800.

All employees of the County of San Diego and other participating employers working in a permanent position at least 20 hours each week 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 credit.

PENSION PLAN

MEMBERSHIP

As of June 30, 2012, the SDCERA membership consisted of retired members or their beneficiaries, active members, terminated members eligible for benefits but not yet receiving them (deferred-vested members) and terminated nonvested (deferred-nonvested) members, as summarized in the Membership Summary on Page 23.

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 on or 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 former County Employees Retirement Law of 1937.

TIER STRUCTURE

General and Safety members eligible to enter the retirement system prior to October 1, 1978, were designated as Tier I members. On August 15, 1978, the County Board of Supervisors established by ordinance 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 active General members and all non-retired Safety members.

All active General members were converted to Tier A unless they elected to opt out during the one-time opt-out period that ended March 7, 2002. When Tier II was eliminated, all deferred General, Tier II members and active members who elected to opt out of Tier A were converted to Tier I. Tier I is closed to new entrants. The maximum Tier I benefit formula is 2.62% of average annual compensation at age 62, payable for life. The retirement formula is reduced at earlier ages with a 1.77% formula applicable for members retiring at age 55. Monthly final average compensation is based on the highest 26 consecutive pay periods of eligible earnings. Tier II is closed to new entrants. Tier II members who retired at or after age 61¼ (50 for Safety members) with 10 years of credited service receive a benefit equal to 2% of the average of their highest three-year annual salary or slightly higher as the retirement age advanced beyond 61¼.

General, Tier A members entered the system on or after March 8, 2002, and before August 28, 2009. Eligible General, Tier A members receive an annual retirement benefit 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 for members retiring at age 50. Members may retire with ten or more years of credited service or at any age with 30 or more years of credited service.

The maximum Safety, Tier A benefit formula is 3% of their final average compensation for each year of credited service at age 50. All Tier A members (both General and Safety) may retire from active service at age 70 regardless of the number of years of credited service. Monthly final average compensation for Tier A members is based on 26 consecutive pay periods of eligible earnings.

On July 21, 2009, the County Board of Supervisors closed Tier A to new entrants and approved by ordinance Tier B for General and Safety members, hired on or after August 28, 2009. Eligible Tier B members (both General and Safety) receive an annual retirement benefit, payable monthly for life.

The maximum General, Tier B benefit formula is 2.62% of their monthly final average compensation at age 62. The retirement formula is reduced at earlier ages with a 1.7% formula applicable for members retiring at age 55. General, Tier B members may retire when they are at least age 55 with 10 or more years of credit service or at any age with 30 or more years of credit.

The maximum Safety, Tier B benefit formula is 3% of monthly final average compensation at age 55. The retirement formula is reduced for earlier ages with 2.3% formula applicable for members retiring at age 50. Safety, Tier B members may retire when they are at least age 50 with 10 or more years of credited service or at any age with 20 or more years of credited service.

All Tier B members (both General and Safety) may retire from active service at age 70 regardless of the number of years of credited service. Monthly final average compensation for Tier B members is based on the highest three years (78 consecutive pay periods) of eligible earnings.

COST-OF-LIVING ADJUSTMENTS

Cost-of-living adjustments (COLA) are based on changes in the Consumer Price Index for the San Diego area. The COLA for Tier I and Tier A is limited to a maximum of 3% per year. The COLA for Tier B is limited to a maximum of 2%. Effective May 3, 2007, the Board of Retirement approved a permanent STAR COLA—a pre-funded supplemental cost-of-living increase benefit—for eligible members whose accumulations (COLA Bank) under Section 31870.1 equaled or exceeded 20% as of January 1, 2007 (Section 31874.3(c)(1)). Effective April 1, 2008, pursuant to Section 31874.3(c)(1), this benefit became subject to the same cost-of-living increase paid by SDCERA every April 1 pursuant to Section 31870.1.

DISABILITY BENEFITS

Disability retirement benefits are available to members who are found by the Board of Retirement to be permanently incapacitated. Members who are eligible for both a disability retirement benefit and a service retirement benefit receive the greater benefit. In general, members who are eligible for a nonservice-connected disability retirement may receive a benefit equal to 1.8% of monthly final average compensation per year of service credit. There is no age requirement; however, members must have at least five years of service credit to be eligible for this benefit. A service-connected disability retirement benefit equal to 50% of monthly final average compensation is available to eligible members, regardless of age or length of service.

DEATH BENEFITS

Death benefits are available to eligible beneficiaries of SDCERA members. Upon a retired member's death, the eligible beneficiary may receive a percentage of the member's retirement benefit based on the option selected at retirement. The eligible beneficiary of a member who received a service-connected disability retirement will receive a monthly continuance of 100% of the member's benefit.

Upon a member's death prior to retirement, survivor benefits that may be available are dependent on factors such as whether the member was vested or nonvested at the time of death, and whether the death was job related. The eligible beneficiary of a nonvested member whose death was nonservice-connected may receive a refund of the member's contributions plus interest and one month's salary for each year of service credit to a maximum of six months' salary. Generally, the eligible beneficiary of a vested member whose death was nonservice-connected may receive a monthly benefit equal to 60% of the retirement benefit the member would have received if he or she retired for a nonservice-connected disability on the date of death. The eligible beneficiary of a member whose death was service-connected may receive a monthly benefit equal to 50% of the member's monthly final average compensation.

SUPPLEMENTAL BENEFIT ALLOWANCE

A Supplemental Benefit Allowance (SBA) is available to General and Safety, Tier A members who have at least 10 years of SDCERA service credit at retirement. Tier A members receiving a retirement benefit based on a disability are eligible for the SBA regardless of years of service credit. The SBA is funded from existing reserves and a portion of possible future excess earnings from the SDCERA fund, to the extent there are available excess earnings allocable. The SBA is not a vested SDCERA benefit and is not guaranteed. It may be reduced or discontinued at any time.

The Supplemental Benefit Allowance (SBA) reduction, approved by the Board of Retirement in 2010, was implemented as of January 1, 2011. The current benefit is estimated to be reduced further in 2013 and, absent the allocation of any available excess earnings, will be eliminated entirely in approximately 2017.

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 service credit 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. Employer-paid contributions under various Memorandums of Understanding (salary negotiations) are not refundable.

Membership Summary
As of June 30, 2012

	General	Safety	Total
Active members			
General, Tier I	31	-	31
General, Tier A	11,750	-	11,750
General, Tier B	1,415	-	1,415
Safety, Tier A	-	2,985	2,985
Safety, Tier B	-	276	276
Total active members	**13,196**	**3,261**	**16,457**
Deferred (terminated) members			
General, Tier I	1,832	-	1,832
General, Tier A	2,505	-	2,505
General, Tier B	111	-	111
Safety, Tier A	-	577	577
Safety, Tier B	-	14	14
Total deferred (terminated) members	**4,448**	**591**	**5,039**
Retired members			
General, Tier I	5,295	-	5,295
General, Tier II	1,713		1,713
General, Tier A	5,883	-	5,883
General, Tier B	3	-	3
Safety, Tier I	-	501	501
Safety, Tier II	-	296	296
Safety, Tier A	-	1,475	1,475
Safety, Tier B	-	-	-
Total retired members	**12,894**	**2,272**	**15,166**
Total members	**30,538**	**6,124**	**36,662**

HEALTH CARE PLAN

DESCRIPTION OF PLAN

SDCERA administers an Other Post Employment Benefits (OPEB) health care plan on behalf of the County of San Diego, including its participating agencies.

HEALTH BENEFITS FOR RETIRED MEMBERS

The Board of Retirement has approved a health insurance allowance for retired Tier I and Tier II members. The allowance is paid from a 401(h) Trust account established by the Board of Retirement. This Health Benefits 401(h) account, which is commingled with total fund assets for investment purposes, is used exclusively to fund future retired member health benefit allowances and is funded by the County of San Diego and other participating agencies. The health insurance allowance is not a vested SDCERA benefit and is not guaranteed. It may be reduced or discontinued at any time.

Currently, a health allowance is paid to retired General and Safety, Tier I and Tier II members, with at least 10 years of SDCERA service credit. The allowance increases for each year of service credit, with the maximum allowance of $400 per month available for members with 20 or more years of SDCERA service credit. When members receiving the health allowance enroll in Medicare (generally at age 65), the allowance amount changes to $300 and they receive an additional $93.50 per month for Medicare Part B. Members who were granted a disability retirement and determined to be totally disabled are eligible for the maximum allowance. Members with less than 10 years of service credit who were granted a disability retirement and determined to be partially disabled are eligible for the minimum health insurance allowance.

The health allowance may be used toward a member's insurance premiums for an SDCERA-sponsored plan or toward insurance premiums paid to other providers elected by the member.

The Total Fund's Statement of Plan Net Assets is allocated between the Pension Plan and Health Care Plan based on their pro-rata share of Total Fund Assets after the balances and transactions specific to the Pension Plan and Health Care Plan are assigned. Health Care Plan assets are pooled with Pension Plan assets for the purpose of investment. While Pension and Health Care Contributions and Benefits are known, the total investment income of the pooled funds are allocated between the Pension and Health Care Plans. As a result, on the Statement of Changes in Plan Net Assets after Pension and Health Care contributions and benefits are reported, income of the fund is allocated to the Health Care Plan based on its pro-rata share of the total fund assets.

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 is recorded as an increase/(decrease) to investment income based on the valuation of investments, which includes realized and unrealized gains and losses on investments.

USE OF ESTIMATES

The preparation of SDCERA's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain financial statement amounts and disclosures. 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. Collateral cash is invested in fixed income and related cash securities with a maximum of 180 days effective duration. Short-term investments consist of cash held in money market accounts and securities readily convertible to cash.

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. 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 based on fair values.

VALUATION OF INVESTMENTS

SDCERA's investments include global equity, global fixed income, private equity, real estate, and other investments. The investments are reported at fair value, but the diversity of the investment types requires a variety of techniques to determine fair value. The majority of the investments are held by SDCERA's custodian bank.

The following outlines the general valuation processes and information sources:

GLOBAL EQUITY

The majority of the Association's equity securities are actively traded on major exchanges or over-the-counter. Fair value for exchange traded investments is determined as of the close of the trading date on the primary market or agreed upon exchange. Listed investments that are not traded on a particular day are valued at the last known price. Over-the-counter investments not traded on an exchange are valued based on prices obtained from a third party pricing source.

GLOBAL FIXED INCOME

Securities with an active market are valued using the last traded price on a specific date. Other securities not actively traded are valued by third party pricing sources using various inputs such as recent trades, price quotes, maturity and credit ratings.

PRIVATE EQUITY

The fair value of all private equity assets is determined by management based on valuations provided in good faith by the General Partner/Fund Manager consistent with the managers' valuation policies as outlined in the managers' documents. The assumptions used in the valuations are based upon the nature of the investment and the underlying business. The valuation techniques vary based upon investment type and involve a certain degree of expert judgment. In addition, private equity investments held by managers are subjected to annual independent audit.

REAL ESTATE

Separate accounts direct-owned properties are valued every three years through an independent third party appraisal consistent with the Uniform Standards of Professional Appraisal Practice.

Limited partner interests are valued based on the net asset value of the partnership which is determined by the general partner in accordance with the valuation policies as outlined in the managers' documents. The properties are generally valued through an independent third party appraisal performed on a rotational one to three year basis consistent with the Uniform Standards of Professional Appraisal Practice. During the interim years, real estate values are adjusted for market conditions and cash flow activities. In addition, real estate investments held in separate accounts and limited partner interests are subjected to annual independent audit.

There are three different valuation methods that may be used; 1) the market approach, 2) the income approach and 3) the cost approach. Observable inputs into the valuation techniques are preferred, but unobservable, including assumptions involving risks may also be included as deemed appropriate.

1. Market Approach—uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

2. Income Approach—uses valuation techniques to convert expected future amounts to a single present amount.
3. Cost Approach—is based on the amount that currently would be required to replace the service capacity of an asset.

Real estate investments are reported net of outstanding debts in the financial statements. As of June 30, 2012, SDCERA's share of outstanding debts on directly held real estate investments totaled approximately $151.5 million as summarized below:

Mortgage Loans Payable
As of the fiscal year ended June 30, 2012
(dollars in thousands)

Real estate investment	Loan origination/ assumption date	Interest rate	Maturity date	Monthly payment		Current loan amount
RREEF/One Jefferson Parkway	10/21/2011	4.53%	6/1/2018	$ 126	*	$ 33,500
RREEF/Highlands Ranch	9/21/2006	6.04%	10/5/2016	101	*	20,000
RREEF/Clifton Commons	4/1/2011	5.26%	5/1/2021	86	*	19,600
RREEF/The Hills of Corona	7/1/2003	5.16%	7/1/2013	98		16,883
RREEF/Sawgrass & Spectrum	12/28/2011	3.92%	1/1/2017	45	*	13,750
RREEF/405 Bothell Business Park	4/19/2006	5.93%	5/15/2016	67	*	13,500
RREEF/Stratford Station	8/3/2011	3.53%	9/1/2017	31	*	10,650
RREEF/Commerce Park	11/14/2003	5.89%	12/1/2013	47	*	9,560
RREEF/Terry Park Drive	3/19/2007	5.58%	4/1/2017	39	*	8,075
RREEF/Shops of Heatherfield	10/14/2011	5.52%	4/1/2017	45		7,322
Total						$ 152,840
Less: deferred financing costs						$1,317
Net mortgage loans payable						$ 151,523

*Interest only

OTHER EXTERNALLY MANAGED FUND STRUCTURES

Investments made in externally managed funds are recorded at fair value based on the proportionate interest in the net asset value of the funds. Acceptable fair valuation methods and applications are used that give the highest priority to unadjusted quoted prices in active markets for identical or equivalent assets.

DERIVATIVE FINANCIAL INSTRUMENTS

SDCERA utilizes a diverse group of derivative instruments across the total fund, including swaps, options, forwards and a variety of futures contracts. All derivatives are considered investments and the fair value of all derivative instruments are reported in the Statement of Net Assets.

Swaps allow SDCERA to exchange a money market return for the rights to the return of a specific index, such as MSCI World, U.S. high yield or commodity indices.

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 in 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.

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.

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.

CAPITAL ASSETS

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

Capital Assets
For the fiscal year ended June 30, 2012

	Balance 07/01/2011	Additions	Deletions & transfers	Balance 06/30/2012
Computer hardware, software, and maintenance	$ 6,220,671	$ 527,744	$ (1,560,535)	$ 5,187,880
Office furniture and fixtures	1,836,792	-	(487,327)	1,349,465
Leasehold improvements	1,963,236	-	(321,363)	1,641,873
Software in progress	9,474,803	1,610,849	(146,117)	10,939,535
Total capital assets	**19,495,502**	**2,138,593**	**(2,515,342)**	**19,118,753**
Accumulated depreciation--hardware, software, and maintenance	(5,884,900)	(214,027)	1,155,971	(4,942,956)
Accumulated depreciation--office furniture and fixtures	(1,703,815)	(83,146)	487,327	(1,299,634)
Accumulated depreciation--Leasehold improvements	(1,005,815)	(166,366)	321,363	(850,818)
Net capital assets	**$ 10,900,972**	**$ 1,675,054**	**$ (550,681)**	**$ 12,025,345**

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 to SDCERA 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.

SUMMARIZED PRIOR YEAR INFORMATION

The accompanying financial statements include certain prior year summarized comparative information in total, but 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, 2011, from which the summarized information was derived.

RECLASSIFICATIONS

Certain reclassifications have been made to June 30, 2011 balances to conform to the presentation as of and for the year ended June 30, 2012.

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 accordance with GASB Statement No. 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

It is the practice of the Fund to require investment managers to diversify by issue, maturity, sector, coupon and geography. As of June 30, 2012, SDCERA had the following investments and maturities in the table below:

Interest Rate Risk
(dollars in thousands)

		Investment Maturities (in years)			
Investment type	**Total fair value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Asset and mortgage backed securities	$171,379	$167,279	$3,568	$ -	$532
Certificates of deposits	16,887	16,887	-	-	-
Collateralized mortgage obligations	108,509	101,547	-	6,962	-
Commercial paper	158,035	158,035	-	-	-
Convertible bonds	99,179	6,976	53,300	10,391	28,512
Corporate bonds	532,661	293,719	141,251	91,715	5,976
Credit funds	134,388	5,372	95,644	32,311	1,061
Emerging market debt securities	810,254	68,061	287,235	171,369	283,589
Fixed income	587,888	279,466	308,422	-	-
International bonds	7,099	2,752	1,675	-	2,672
Mutual funds	443	443	-	-	-
Other	(26,122)	(26,122)	-	-	-
Private placements	740,725	355,697	317,207	64,528	3,293
Repurchase agreements	54,790	54,790	-	-	-
Treasuries inflation index	455,550	91	315,286	140,173	-
U.S. treasuries	305,136	18,987	-	-	286,149
Total	**$4,156,801**	**$1,503,980**	**$1,523,588**	**$517,449**	**$611,784**

CREDIT RISK

SDCERA assumes credit risk through two principal sources. By accepting both secured and unsecured debt obligations of various governments, corporate and consumer borrowers through its investment portfolio, the Fund is exposed to the creditworthiness of the underlying issuers. These holdings are well diversified and managed by professional investment managers. Secondly, the Fund engages in various over-the-counter (OTC) agreements that exchange one cash flow stream for another. These transactions represent mutual commitments between two counterparties who are expected to perform according to the terms of a contractual commitment. SDCERA has entered into ISDA Credit Support Annex (CSA) agreements with a diverse group of counterparties that require each party to set aside collateral, generally cash or U.S. Treasuries, on a daily basis to offset the change in market value of these contracts. Although SDCERA has no formal policy, as of June 30, 2012, SDCERA has no single issuer that exceeds 5% of the total investments or plan net assets.

SDCERA monitors the OTC risk and collateral daily. Through this combination of diversification and the introduction of CSA agreements, the fund addresses its principal source of credit risk emanating from OTC agreements. The following tables illustrate SDCERA's Fixed Income securities ratings as of June 30, 2012:

Credit Risk
(dollars in thousands)

Credit risk	Domestic core fixed income	Convertibles fixed income	High yield fixed income	Emerging market debt fixed income	Short-term investments	Total
Govt	$ 741,700	$ -	$ -	$ -	$ 18,987	$ 760,687
AAA	-	1,173	-	6,401	541,933	549,507
AA	-	-	-	7,130	724,530	731,660
A	-	4,728	-	273,298	356,487	634,513
BBB	-	5,983	9,879	303,116	123,724	442,702
BB	-	13,552	99,714	12,478	-	125,744
B	-	12,986	231,038	-	-	244,024
CCC	-	517	60,301	5,105	-	65,923
CC	-	-	1,188	-	-	1,188
C	115	-	443	-	-	558
NR	800	32,791	35,340	202,726	328,528	600,295
Total	**$742,615**	**$71,730**	**$438,013**	**$810,254**	**$2,094,189**	**$4,156,801**

Credit risk					
Credit risk	**Domestic core fixed income**	**Convertibles fixed income**	**High yield fixed income**	**Emerging market debt fixed income**	**Short-term investments**
Govt	99.9%	0.0%	0.0%	0.0%	0.9%
AAA	0.0%	1.6%	0.0%	0.8%	25.9%
AA	0.0%	0.0%	0.0%	0.9%	34.6%
A	0.0%	6.6%	0.0%	33.7%	17.0%
BBB	0.0%	8.3%	2.2%	37.4%	5.9%
BB	0.0%	18.9%	22.8%	1.5%	0.0%
B	0.0%	18.2%	52.7%	0.0%	0.0%
CCC	0.0%	0.7%	13.8%	0.6%	0.0%
CC	0.0%	0.0%	0.3%	0.0%	0.0%
C	0.0%	0.0%	0.1%	0.0%	0.0%
NR	0.1%	45.7%	8.1%	25.1%	15.7%
	100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**

DOMESTIC CORE FIXED INCOME PORTFOLIO

SDCERA's Domestic Core Fixed Income portfolio consists of government securities, corporate bonds, private placements, and other bonds. The overall weighted average rating for Domestic Core Fixed Income was mostly comprised of US government securities, which were rated AAA, but are exempt from the credit rating risk disclosures, excluding 0.1% 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 rating of the Convertibles Fixed Income Portfolio was BB, excluding 45.7% unrated securities.

HIGH YIELD FIXED INCOME PORTFOLIO

The weighted average rating of the High Yield Fixed Income Portfolio as of June 30, 2012, was B, excluding 8.1% 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, 2012, the Emerging Market Debt portfolio had an average credit rating of BBB, excluding 25.1% of unrated securities in the portfolio.

CUSTODIAL CREDIT RISK

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 allows international equity and fixed income managers to enter into foreign exchange contracts provided that the contracts have a maturity of one year of 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.

Net Exposure to Foreign Currency Risk
As of June 30, 2012
(dollars in thousands)

Currency name	Equity	Fixed income	Foreign Exchanges	Short-term investments	Total
MEXICAN PESO	$9,783	$105,981	$340	$37,786	$153,890
SOUTH AFRICAN RAND	29,999	74,786	-	-	104,785
BRAZIL REAL	16,986	84,753	-	-	101,738
POLISH ZLOTY	2,035	89,695	-	-	91,731
MALAYSIAN RINGGIT	7,343	79,810	-	-	87,153
INDONESIAN RUPIAH	13,213	71,383	-	-	84,597
NEW TURKISH LIRA	8,612	75,597	-	-	84,208
CANADIAN DOLLAR	74,570	(7,276)	119	3,783	71,195
THAILAND BAHT	2	1,945	-	56,894	56,086
JAPANESE YEN	8,281	47,805	(2,980)	-	55,861
OLD RUSSIAN RUBLES	-	55,016	-	-	55,016
SOUTH KOREAN WON	38,743	7,535	-	-	46,278
HONG KONG DOLLAR	45,072	-	1	-	45,073
EURO	38,328	3,808	198	2,227	44,562
HUNGARIAN FORINT	3,071	38,892	-	-	41,963
COLOMBIAN PESO	1,269	37,191	-	-	38,460
PERUVIAN NUEVO SOL	-	35,894	-	-	35,894
INDIAN RUPEE	14,863	20,418	(225)	-	35,056
NEW TAIWAN DOLLAR	29,183	-	-	-	29,183
POUND STERLING	8,162	4,100	133	-	12,395
NIGERIAN NAIRA	2,497	6,239	-	-	8,736
CHILEAN PESO	2,373	6,077	-	-	8,450
NORWEGIAN KRONE	-	8,022	-	-	8,022
KRONA	-	7,778	-	-	7,778
EGYPTIAN POUND	3,017	2,350	-	-	5,367
DANISH KRONE	-	-	(36)	2,329	2,293
Other (Less than $2 million holdings)	5,508	(77,136)	149	-	(71,479)
Total	**$362,910**	**$780,663**	**$(2,301)**	**$103,019**	**$1,244,291**

SECURITIES LENDING

SDCERA's investment policy permits the Plan to use investments and to enter into securities lending transactions. 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. Cash and non-cash collateral are pledged at 102% and 105% of the fair value of domestic securities and international 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. The security lending agents are required to indemnify SDCERA if the borrowers fail to return the borrowed securities.

SDCERA's securities lending transactions as of June 30, 2012, are summarized in the following table. The Fund lent $124,618,091 in securities and received cash and non-cash collateral of $127,719,747 from borrowers.

	Fair value of securities on loan	Collateral received value
Lent for cash collateral:		
U.S. T-strips	$ 59,664,639	$ 61,001,547
Domestic corporate	29,079,221	29,806,105
Domestic equities	20,740,159	21,254,063
Exchange traded	214,227	218,527
International equities	1,572,242	1,662,911
International corporate	1,452,444	1,643,400
Lent for securities collateral:		
U.S. T-bills	9,895,179	10,092,771
Agency discount notes	1,999,980	2,040,423
Total	**$ 124,618,091**	**$ 127,719,747**

In fiscal year 2012, SDCERA received a premium on all securities it held as collateral.

Cash collateral is invested by the agent in a separately managed short-term investment account which, as of June 30, 2012, had a weighted average maturity of 11 days. At June 30, 2012, short-term investments are comprised of 70% overnight Repurchase Agreements and 3% of Floating Rate Notes which were not rated. Asset Backed Securities represent 27% of the short-term investments, 39% of the Asset Backed Securities are rated AAA, 53% are rated A, and the remaining 8% are rated BBB/CCC. 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.

Securities lending investments	Fair value
Repurchase agreements	$ 74,411,612
Asset back floating	28,363,100
Floating rate notes	1,824,863
Other (cash)	2,305,165
Total	**$ 106,904,740**

DERIVATIVE INSTRUMENTS

The following derivative instruments are reported in the financial statements in the domestic equity, international equity, fixed income, real estate, futures, and swaps categories. The following schedule shows SDCERA's derivative investments as of June 30, 2012:

Derivatives Instruments (dollars in thousands)			
Derivative type	**Changes in fair value***	**Fair value**	**Notional value**
Forwards	$ (9,437)	$ (2,301)	$ 177,477
Futures	312,537	13,563	2,974,093
Swaps	(66,964)	25,803	9,762,695
Total	**$ 236,136**	**$ 37,065**	**$ 12,914,265**

* All changes in the fair value of these derivatives are reported as investment income in the Statement of Changes in Plan Net Assets.

FORWARDS

As of June 30, 2012, SDCERA has $110.4 million in exposure to foreign currency primarily through equity, fixed income and short-term investments. SDCERA also has $67.1 million in currency exposure through the overlay program.

Summary of SDCERA's forward contracts at June 30, 2012, are shown in the chart below:

Forward Contracts (dollars in thousands)		
	Notional value	**Fair value**
Fixed income	$ 3,973	$ 33
Overlay	67,100	454
Real estate	(20,697)	(1,823)
Other	127,101	(965)
Total	**$ 177,477**	**$ (2,301)**

FUTURES

Summary of SDCERA's futures contracts at June 30, 2012, are shown in the chart below:

Summary of Futures Contracts (dollars in thousands)		
	Notional value	**Fair value**
Global futures	$ 334,805	$ 8,456
Fixed income futures	2,098,247	(8,786)
Private equity futures	541,041	13,893
Total	**$ 2,974,093**	**$ 13,563**

SWAPS

The table below shows SDCERA's swaps investments by type:

Internally Managed Swaps
As of June 30, 2012
(dollars in thousands)

Description/ Counterparty	Effective date	Maturity date	Terms	6/30/2012 Notional value	6/30/2012 Fair value
1. Commodity swap					
Goldman Sachs	3/30/12	9/30/12	Pay 3 mos TBill, 0.40% & 0.47% spread. Settlement based on ENHGE139T & AGGSB2BT indexes pricing at monthly reset and termination date.	$ 176,171	$ 6,429
Lehman Brothers *	NA	NA	NA		(14,355)
Total commodity swap				176,171	(7,926)
2. Emerging equity swap					
Deutsche Bank	10/3/11	10/3/12	Pay 3 mos LIBOR, 0.25% spread. Settlement based on MSCI Daily TR Net Emerging Markets USD Index pricing at quarterly reset and expiration date.	51,865	442
Total emerging equity swap				51,865	442
3. Global equity swap					
Deutsche Bank	10/12/11	10/12/12	Receive 3 mos LIBOR, -0.50% spread. Settlement based on NDDUWI Index pricing at quarterly reset and expiration date.	540,307	15,443
Barclays	11/9/11	11/9/12	Pay 3 mos LIBOR, -0.50% spread. Settlement based on NDDUWI Index pricing at quarterly reset and expiration date.	267,602	9,672
Goldman Sachs	11/9/11	11/9/12	Pay 3 mos LIBOR, -0.50% spread. Settlement based on NDDUWI Index pricing at quarterly reset and expiration date.	267,602	7,252
Total global equity swap				**1,075,511**	**32,367**
4. High Yield swap:					
Barclays	10/1/11	10/1/12	Pay 3 mos LIBOR, 0.10% spread. Settlement based on LF98TRUU Index pricing at quarterly reset and expiration date.	22,429	60
Total Internally managed swaps				**$1,325,976**	**$24,943**

*Closed, pending transactions only.

Externally Managed Swaps As of June 30, 2012 (dollars in thousands)		
Description	Notional value	Fair value
Credit default swaps	$ 37,665	$ 204
Currency swaps	9,654	681
Interest rate swaps	8,389,400	(25)
Total Externally managed swaps	**$ 8,436,719**	**$ 860**

DERIVATIVE CREDIT RISK

For the internally managed Swaps, 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 that the counterparty cannot fulfill their obligation. The derivative instruments have a maturity of one year or less. A summary of counterparty credit ratings relating to forward contracts, futures, and swaps in asset positions as of June 30, 2012, is as follows:

Credit Risk Derivatives at Fair Value As of June 30, 2012 (dollars in thousands)			
Credit rating	**Swaps**	**Forwards**	**Futures**
AA	$ 104	$ 834	$ -
AA-	-	3,015	-
A+	25,359	8,610	-
A	14,362	1,160	22,349
Total subject to credit risk	**$ 39,825**	$ **13,619**	$ **22,349**

4 FUNDING POLICY—PENSION PLAN

Pension normal cost and the allocation of benefit values for 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 Plan until 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 salary 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. As required by Section 31873 of the California Government Code, the cost-of-living adjustment (COLA) for retired members is funded by both member and employer contributions. Because there is no requirement to account for these contributions separately they are shown combined with the basic contributions.

The Employers have negotiated to pay all or a portion of most member contributions. In some cases, the employers have 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 Employers are 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.

The following schedule summarizes the contribution rates in effect at June 30, 2012. These rates are based on the actuarial valuation as of June 30, 2010. Contribution rates are expressed as a percentage of covered payroll. The member contribution rates (weighted average) depicted vary according to age at entry, benefit tier level and certain negotiated contracts which provide for the employer to pay a portion of the member's contribution.

Member Classification	Average Member Rates	Employer Rate
General members	8.08%—10.33%	24.11%
Safety members	11.40%—13.20%	37.17%

During the year, pension contributions totaled $394,588,011, which included $59,777,636 in member contributions, and $334,810,375 in employer contributions, which includes $60,704,471 in member contributions paid by the employers.

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, SDCERA investment staff expenses, portfolio evaluation, custodian services and actuarial services for investment related activities, as provided in Section 31596.1 of the California Government Code. Outside legal expenses are paid from systems assets as provided in Section 31529.9 of the California Government Code.

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.

5 FUNDING POLICY—HEALTH CARE PLAN

The employer funds health allowances (OPEB) based on a biennial actuarial valuation. The Actuarial Valuation of Other Postemployment Benefits (OPEB) as of June 30, 2010, established the employer contribution rate of 1.91% of covered payroll which amounted to $19.2 million for the fiscal year ended June 30, 2012. The Internal Revenue Code limits employer contributions to a 401(h) account to a maximum of 25% of the employer's normal cost contributions to the pension plan. SDCERA is in compliance with this limit.

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 EMPLOYER CONTRIBUTIONS INCLUDES:

- Employer 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 employer contributions (pension) made in prior years for active members upon retirement

THE RESERVE FOR SUPPLEMENTAL BENEFIT ALLOWANCES designates funds that may be used for payment of the Supplemental Benefit Allowance.

THE RESERVE FOR DISABILITY SUPPLEMENTAL BENEFIT ALLOWANCES designates funds that may be used for payment of the Disability Supplemental Benefit Allowance. The initial $20.7 million funding in July 2007 was created by a transfer from undistributed earnings.

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.

THE CONTINGENCY RESERVE AND THE UNDISTRIBUTED EXCESS EARNINGS RESERVE 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 the reserve for Employer contributions for the sole purpose of payment of the cost of benefits described in the retirement law.

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, 2012.

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 MARKET STABILIZATION ACCOUNT represents the balance of deferred earnings created by a five-year smoothing of actual gains and losses compared to the assumed investment rate of return of 8.00%.

THE HEALTH BENEFITS 401(h) ACCOUNT, also known as the OPEB trust fund, 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 contributions from the employers 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 and investment earnings to the various reserve accounts of net assets are depicted in the following table:

Reserve As of June 30, 2012 (dollars in thousands)		
Reserve for member contributions	$	482,861
Reserve for employer contributions		1,898,397
Reserve for retirement allowances		5,639,213
Total	**$**	**8,020,471**
Reserve for supplemental benefits		69,015
Reserve for disability supplemental benefits		9,512
Reserve for smoothed market value transition		587,012
Reserve for market stabilization		(170,571)
Total retirement fund	**$**	**8,515,439**
Health benefits 401(h) account		5,064
Total fund	**$**	**8,520,503**

7 ADMINISTRATIVE EXPENSES

SDCERA's Board of Retirement annually adopts an administrative expense budget based on the accrued actuarial liability of the retirement system. By statute, the administrative expenses are charged against SDCERA's investment earnings and contributions are limited to twenty-one hundredths of one percent of the accrued actuarial liability of the retirement system as set forth under Government Code Section 31580.2.

SDCERA's Administrative Expenses For the year ended June 30, 2012	
Total Actuarial Accrued Liability (as of June 30, 2011)	$ 10,482,657,000
Maximum allowable for administrative expenses (.0021 X 10,482,657,000)	22,013,580
Actual administrative expenses for the fiscal year	10,866,053
Excess of allowance over actual administrative expenses	11,147,527
Actual administrative expenses as a percentage of total actuarial accrued liability	**0.10%**

8 COMMITMENTS AND CONTINGENCIES

DERIVATIVE INSTRUMENTS

SDCERA is party to financial instruments 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 counterparties to meet the terms of their contract. The risks of loss from these 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).

UNFUNDED COMMITMENTS

Not reflected in the accompanying Statement of Plan Net Assets are unfunded commitments to acquire real estate for investment totaling $187 million, infrastructure for $130 million, energy/natural resources funds for $288 million, and private equity for $530 million.

CONTINGENCIES

SDCERA is involved in litigation relating to various matters. In the opinion of management, after consultation with legal counsel, the outcome of these matters is not expected to have a material adverse effect on SDCERA's financial position.

9 PENSION DISCLOSURES

The required Schedule of Funding Progress immediately following the Notes to the Financial Statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The dollar amounts in the following table are in thousands.

Valuation date	(a) Valuation assets	(b) Actuarial accrued liability (AAL)	Unfunded AAL (UAAL) (b) - (a)	Funded ratio (a)/(b)	(c) Annual covered payroll	UAAL as % of covered payroll [(b)-(a)]/(c)
6/30/2012	$8,607,483	$10,943,172	$2,335,689	78.7%	$1,052,366	221.9%

The following summarizes the actuarial assumptions and methods used in the most recent actuarial valuation as of June 30, 2012 and the June 30, 2010, actuarial valuation, which was used to determine current year contribution rates.

Summary Actuarial Information		
Valuation Date	June 30, 2012	June 30, 2010
Actuarial Cost Method	Individual entry-age normal cost method	Individual entry-age normal cost method
Amortization Method	Level percent of payroll	Level percent of payroll
Remaining Amortization Period	20-year fixed (decreasing or closed) layered amortization periods for all UAAL.	20-year fixed (decreasing or closed) layered amortization periods for all UAAL.
Asset Valuation Method	Five-year smoothed market	Five-year smoothed market
Actuarial Assumptions		
Investment Rate of Return*	8.00%	8.00%
Projected Salary Increase (General/Safety)**	5.00% / 5.50%	5.00% / 5.50%
Cost-of-Living Adjustments for Retired Members	3.00% for Tier I and Tier A 2.00% for Tier B	3.00% for Tier I and Tier A 2.00% for Tier B
Inflation	3.50%	3.50%

*** Includes inflation of 3.50% for 2012 and 2010.***

***** Includes inflation of 3.50% for 2012 and 2010, across the board increase of 0.75% for 2012 and 0.50% for 2010, plus merit and longevity increases.***

Key findings from the June 30, 2012, actuarial valuation include the following:

- The ratio of the valuation value of assets to actuarial accrued liabilities, the funded ratio, decreased from 81.5% to 78.7%.
- The total employer contribution rate for fiscal year 2013-2014 will increase from 30.02% of payroll to 34.26% of payroll.
- The average member rate for fiscal year 2013-2014 will decrease from 10.80% of payroll to 10.59% of payroll primarily due to changes in demographic of members.
- The total unrecognized investment loss as of June 30, 2012, was $170.6 million, versus an unrecognized loss of $467.9 million in the June 30, 2011, valuation. This investment loss will be recognized in the determination of the actuarial value of assets for funding purposes over the next few years, to the extent it is not offset by recognition of investment gains derived from future experience.
- If the unrecognized investment losses were recognized immediately the funded ratio would decrease from 78.7% to 77.1%, up from 77.0% in the prior year valuation.
- If the unrecognized investment losses were recognized immediately the aggregate employer contribution rate for fiscal year 2013-2014 would increase from 34.26% of payroll to 35.42% of payroll, down from 33.02% in the prior year valuation.

10 OTHER POST EMPLOYMENT BENEFITS (OPEB)

The following tables summarize the most recent funded status and actuarial assumptions and methods for the OPEB plan. The dollar amounts in the following table are in thousands.

Valuation Date	(a) Valuation Assets	(b) Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	(c) Annual Covered Payroll	UAAL as % of Covered Payroll [(b)-(a)]/(c)
6/30/2012	$5,064	$185,302	$180,238	2.7%	$1,052,367	17.1%

Summary Actuarial Information for Health Care Plan		
Valuation Date	June 30, 2012	June 30, 2010
Actuarial Cost Method	Individual entry-age normal cost method	Individual entry-age normal cost method
Amortization Method	Separate declining 20-year bases starting June 30, 2007, amortized as level dollar amount.	Separate declining 20-year bases starting June 30, 2007, amortized as level dollar amount.
Remaining Amortization Period	14.9 years	Various
Asset Valuation Method	Market Value	Market Value
Actuarial Assumptions		
Investment Rate of Return*	8.00%	8.00%
Projected Salary Increase	Not Applicable	Not Applicable
Projected increase in maximum health insurance allowance (HIA)	None	None
Inflation Rate	Not Applicable	Not Applicable
Medical cost trend rate	8.00% graded down to ultimate rate of 5.00% over 10 years	10.00% graded down to ultimate rate of 5.00% over 10 years
Dental cost trend rate	5.00%	5.00%

* Includes inflation of 3.50% for 2012 and 2010.

ACTUARIAL VALUATIONS

Actuarial valuations for pension and OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. In addition, the projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

11 SUBSEQUENT EVENT

TIER C

On September 12, 2012, the California Public Employees' Pension Reform Act (PEPRA) was signed into law by Governor Jerry Brown, establishing a new tier for General and Safety employees entering SDCERA membership on or after January 1, 2013. The benefit formula for General members is 2.5% at age 67 and the Safety formula is 2.7% at age 57. Benefits under the new tier are based on a three-year final average compensation period and are eligible for a maximum cost-of-living increase of 2%. Additionally, PEPRA limits the amount of compensation SDCERA can use to calculate a Tier C retirement benefit to 100% of the Social Security taxable wage base limit for General members ($113,700 in 2013) and 120% for Safety members ($136,440 in 2013).

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedule I—Funding Progress (Pension Plan)
(dollars in thousands)

Valuation Date	(a) Valuation Assets[1]	(b) Actuarial Accrued Liability (AAL)[2]	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	(c) Annual Covered Payroll	UAAL as % of Covered Payroll [(b)-(a)]/(c)
6/30/07	$7,250,404	$8,082,517	$832,113	89.7%	$1,062,396	78.3%
6/30/08	8,236,926	8,722,294	485,368	94.4%	1,135,432	42.7%
6/30/09	8,413,065	9,198,636	785,571	91.5%	1,129,171	69.6%
6/30/10	8,433,310	9,999,161	1,565,851	84.3%	1,095,582	142.9%
6/30/11	8,542,291	10,482,657	1,940,366	81.5%	1,090,413	178.0%
6/30/12	8,607,483	10,943,172	2,335,689	78.7%	1,052,366	221.9%

(1) Excludes assets held for Health Benefit Reserve. Excludes assets for STAR COLA on and before June 30, 2007.
(2) Excludes liabilities held for Health Benefit Reserve. Excludes liabilities for STAR COLA on and before June 30, 2007.

Schedule II—Employer Contributions (Pension Plan)
(dollars in thousands)

Year Ended	Annual Required Contribution (ARC)	Contributions Made	% of Required Contributions Made
6/30/07	$ 234,106	$ 257,677	110.1
6/30/08	236,763	236,763	100.0
6/30/09	219,635	219,635	100.0
6/30/10	188,414	189,470	100.6
6/30/11	205,799	235,392	114.4
6/30/12	274,106	274,106	100.0

Source: The Segal Group, Inc. Annual Actuarial Valuation, June 30, 2012

Schedule III—Funding Progress (OPEB Plan) (dollars in thousands)						
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 (2 - 1)/(5)
6/30/07	$ *	$ 235,755	$ 235,755	0.0%	$ 1,020,991	21.2%
6/30/08	18,206	217,559	199,353	8.4%	1,135,432	17.6%
6/30/10	9,221	206,447	197,226	4.5%	1,095,582	18.0%
6/30/12	5,064	185,302	180,238	2.7%	1,052,366	17.1%

* The valuation does not include the actuarial value of assets held for benefits, however as of June 30, 2008, there were $18.2 million available for benefits.

Source: The Segal Group, Inc. Actuarial Valuation

Schedule IV—Employer Contributions (OPEB Plan) (dollars in thousands)			
Year Ended	Annual Required Contribution (ARC)	Contributions Made	% of Required Contributions Made
6/30/08	$ 23,616	$ 23,616	100.0%
6/30/09	23,237	23,237	100.0%
6/30/10	18,789	18,789	100.0%
6/30/11	18,028	18,028	100.0%
6/30/12	19,198	19,198	100.0%

Schedule V—Investment Expenses
For the year ended June 30, 2012
(dollars in thousands)

Individual or Firm	Net assets managed at fair value	Fees
Domestic equity managers		
Legato Capital Management (Legato Accounts)	$ 187,034	$ 1,357
Nicholas Applegate Convertibles	82,235	466
Unallocated cash/ securities	48	2
Total domestic equity managers		**1,825**
Emerging market equity managers		
Ballie Gifford	9	341
DFA Emerging Market Fund	133,004	258
Genesis Asset Management	215,574	1,337
Total emerging market equity managers		**1,936**
Emerging market debt		
Wellington	813,993	2,009
Total emerging market debt managers		**2,009**
High yield/credit managers		
BlackRock Credit Fund	27,370	121
Hotchkis & Wiley High Yield	285,180	716
Oaktree Capital Mgmt LLC	110,077	696
Silver Point Capital	14,637	592
Zazove Associates (HY Convertibles)	57,528	717
Total high yield/credit managers		**2,842**
TIPS		
State Street Global Assets (SSGA) -TIPS	455,550	120
Total TIPS		**120**
U.S. Treasuries		
Hoisington	286,282	281
Total U.S. Treasuries		**281**
Policy overlay		
Russell Investments Group	177,324	874
Total policy overlay manager		**874**
Global macro		
Blackrock Global Ascent	145,135	2,664
Blackrock Emerging Market Macro	-	276
Bridgewater Pure Alpha	51,967	2,366
Bridgewater Pure Alpha Major Market	62,012	3,046

Schedule V—Investment Expenses (Continued)		
Individual or Firm	**Net assets managed at fair value**	**Fees**
Campbell & Company	24	1,354
Graham Capital	42,910	3,675
Graham Capital - K4D	-	844
Kenmar (Base Fee + CTAs fee)	295,710	6,632
DE Shaw Heliant Fund, LLC	107,868	3,657
Total global macro		**24,514**
Relative value		
AQR Delta	334,277	1,580
BlueMountain L/S Credit Fund, LP	77,943	2,226
Carlson Capital Partner - Double Black Diamond	54,000	520
Carlson Capital Partner - Black Diamond	46,088	947
DE Shaw	11,015	324
Moon Capital	80,746	39
Saba Capital Management	104,383	2,568
UBS O'Connor	109,289	3,241
Total relative value		**11,445**
Real Assets Managers		
Infrastructure		
Brookfield Americas Infrastructure	39,242	640
Global Infrastructure Partners	75,014	1,452
JP Morgan Maritime Fund	1,323	1,127
Macquarie Infrastructure Partners II	77,940	1,125
Total infrastructure		**4,344**
Natural resources and other real assets		
Energy Funds (EnerVest, EnCap, Kayne, Merit)	36,703	681
Brookfield Brazil Agriland	22,055	750
Denham Commodity Partners VI	1,293	509
Falcon E & P Opportunities	26,561	968
Molpus Woodland	40,998	156
SSGA Materials	155,564	112
SSGA S&P MLP	192,114	160
Red Kite Mine Finance Fund I	24,864	597
Taurus Resources Fund No. 2	21,937	1,472
Total natural resources and other real assets		**5,405**
Real assets managers		**9,749**
Real estate managers		
Allegis Multifamily Trust	-	1
Allegis Value Trust, Inc.	21,822	152
AMB Japan Fund	43,402	625

Schedule V—Investment Expenses (Continued)		
Individual or Firm	**Net assets managed at fair value**	**Fees**
Amstar SD Partners	80,510	40
Blackstone Real Estate Partners VI	58,302	3,017
California Smart Growth Fund IV	15,506	237
Canyon Johnson	16,018	396
CB Richard Ellis Strategic V	35,347	363
Cornerstone (CHIEF)	5,372	134
Cornerstone Apartment Venture III	15,437	186
Hearthstone MSI&II-Homebuilding Investors LLC	70	1
JP Morgan CB Strategis Property Fund	215,917	297
La Salle Asia Op2	9,658	179
PRISA II	27,861	319
PRISA III	47,882	809
The RREEF Funds/Rio San Diego Plaza II	22,250	140
RREEF IMA	257,878	2,160
Southern California Smart Growth Fund	10,386	183
Trophy Property GP LTD	15,230	245
Total real estate managers		**9,484**
Private equity managers		
Bain Capital IX	6,502	131
Bain Capital IX Coinvestment	1,483	28
Bain Capital X	10,157	178
Baring Private Equity Asia V	9,748	1,000
Blackstone Capital Partners V	12,596	42
Blackstone Capital Partners VI	11,082	941
Capital Int’l PE Fund V, LP	6,961	53
Capital Int’l PE Fund VI, LP	5,608	813
Cerberus Institutional Partners II	3,653	9
Cerberus Institutional Partners IV	14,700	187
Charterhouse VIII	9,906	58
Coller International Partners V-A	6,439	111
DAG Venture - QP	-	21
Darwin Venture Capital	-	16
Drug Royalty II/LSRC II S.ar.I	6,625	469
Emerging Europe Growth Fund II	4,901	200
EQT VI	3,393	854
Gores Capital Partners	26,520	1,041
Gores Small Capitalization Partners, LP	2,400	130
Graham Partners	6,443	65
Greenbriar Equity Fund II, LP	3,454	172
GSO Capital Solutions Fund	31,443	92
Harbourvest International Private	3,789	95
Hellman & Friedman Investors VI, LLC	11,641	70
Hellman & Friedman Investors VII, LLC	2,915	173

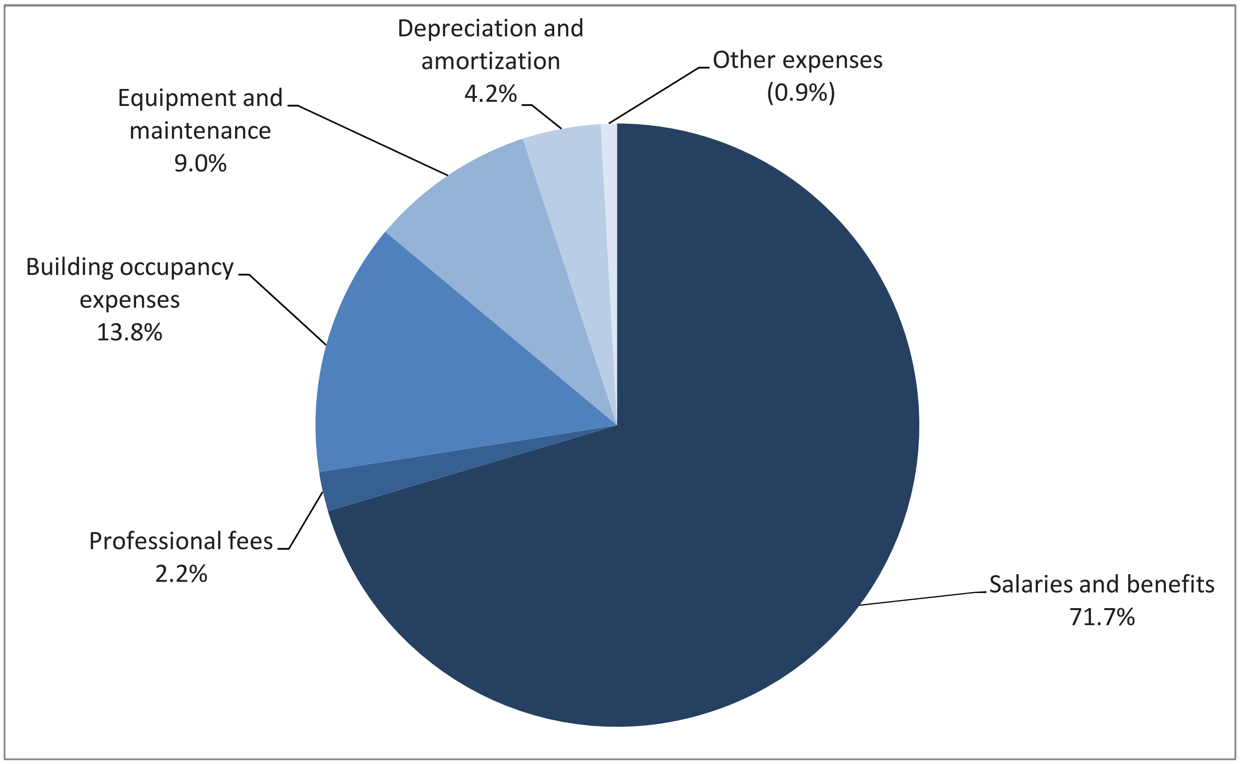
Schedule V—Investment Expenses (Continued)		
Individual or Firm	**Net assets managed at fair value**	**Fees**
Lexington Capital Partners V	2,606	31
Lexington Capital Partners VI	6,869	68
Northgate PE Partners II, LP	10,974	140
Northgate PE Partners III, LP	10,667	144
Oakhill Capital Management	1,390	1
Oaktree European Principal Fund III	22,972	896
OCM Opportunities Fund VI	2,480	40
OCM Opportunities Fund VII	4,430	85
OCM Opportunities Fund VII - B	7,623	138
Onex Partner III	6,496	262
Paul Capital Partners VIII-B, LP	6,936	89
Paul Capital Partners IX, LP	10,533	291
Providence Equity Partners V, LP	5,194	75
TA Associates Subordinated Debt Fund	77	(1)
TA Associates Subordinated Debt Fund II	2,471	75
TA Associates IX	937	7
TA Associates X, L.P.	8,204	290
Thomas Lee Equity	4,653	(108)
Total private equity managers		**9,472**
Other		
Pimco Collateral Cash	1,560,560	2,773
Total other		**2,773**
Master custodian		
BNY Mellon		1,007
Total master custodian		**1,007**
Other professional fees		
Albourne America LLC		640
Cost Effective Management Inc.		25
Hewitt Ennis Knupp		468
Salient Partners		1,676
Plexus Group		(7)
S&P Rating Services		8
The Segal Company		300
The Townsend Group		100
Total other professional fees		**3,210**
Administrative, support and other		**4,549**
Total investment expenses		**$ 86,091**

Schedule VI—Administrative Expenses
For the year ended June 30, 2012
(dollars in thousands)

Expense category	Pension	Health Care
Salaries and benefits	$ 7,786	$ 163
Professional fees	235	216
Building occupancy expenses	1,501	37
Equipment and maintenance	981	-
Depreciation and amortization	463	-
Other expenses*	(100)	(123)
Total administrative expenses	**$ 10,866**	**$ 293**

* Includes overhead expense allocations to Investments and Health Care.

Administrative Services by Category 2012



Schedule VII—Payments to Consultants
(dollars in thousands)

Type of Service	
Legal Services	$ 1,918
Computer Services	609
Actuarial Services	301
Audit Services	77
Health Care Consulting Services	112
Total Payments to Consultants	**$ 3,017**

INVESTMENTS

"The pessimist complains about the wind; the optimist expects it to change; the realist adjusts the sails."
- William Arthur Ward

Geminids Meteor Shower. © Image courtesy of evosia on Flickr in compliance with the license agreement.

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December 2, 2012

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

Dear Board of Trustees:

For the fiscal year ending June 30, 2012, SDCERA's portfolio generated a gross portfolio return of 6.52%, compared to the median fund[1] in the plan's universe, which generated a 1.46% return over the same period. This positioned SDCERA in the top decile of its peer group for the fiscal year. On a net of fee basis, the fund generated a 5.89% return compared to the fund's policy benchmark of 5.20%. SDCERA's strong absolute and relative performance is due to its focus on risk management and downside protection.

We began the fiscal year with continuing turbulence stemming from the sovereign debt crisis in the European periphery. As Greek and Spain's fiscal crisis evolved into a more profound funding crisis European policy makers weighed pragmatism to ensure the ongoing viability of the current economic system against the virtues of austerity aimed at correcting structural imbalances in these economies.

The developed world is plagued by three structural headwinds that do not lend themselves to quick solutions. The first relates to the cumulative level of deficit spending that has culminated in excessive levels of debt relative to GDP. The second issue relates to a deteriorating demographic picture that will result in a high ratio of retirees relative to working citizens. Elevated dependency ratios can result in higher levels of inflation and lower levels of growth as the value of fiat currency is devalued against a limited supply of consumable goods and services. Lastly, the global banking system is poorly capitalized, leaving little room for credit creation or a multiplier effect that would otherwise help stimulate the economy on the platform of accommodative central bank policies.

At the heart of it all, we are dealing with an over-indebted society that will likely take years if not decades to correct. When the level of debt overwhelms the output of an economic system there are only three ways to return to a state of normalcy: fiscal austerity (reduced spending or increased taxes), restructuring (forcing lenders to accept less than their full principal back as repayment for loans) or monetization of debt (i.e. paying back debt with devalued currency—a form of soft default that allows borrowers to pay back or repurchase their debt with a weaker currency). The first two solutions appear to be less likely outcomes in the current political environment as austerity measures are generally unpleasant for those upon whom they are imposed and restructuring would likely result in the complete destruction of our thinly capitalized global banking system that holds much of this stranded debt.

[1] TUCS Universe of public plans with greater than $1 billion in investable assets

Therefore, the most likely solution to this problem is an effort by central bank policy makers to weaken their currencies by holding interest rates low and purchasing the distressed debt of sovereign nations that would otherwise find no alternative funding mechanisms.

The final outcome of these measures is uncertain but they do appear to be happening. Total US debt is now greater than total US GDP. The Federal Reserve's balance sheet has grown from $800 billion at the beginning of the financial crisis in 2008 to just over $2.8 trillion with an open ended commitment to expand its balance sheet by an additional $40 billion each month or $480 billion each year. Despite these massive efforts to inflate, deflationary pressures seem to be reappearing in corporate profits, producer prices and persistently high levels of unemployment.

On the positive side, SDCERA's efforts to diversify its portfolio across assets with varying levels of sensitivity to growth, inflation and investor sentiment will likely offer a strong defense against the wide range of policy outcomes that might ensue.

Sincerely,

Lee Partridge
Portfolio Strategist

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

Asset class	Benchmark	Target %
Global developed equities	MSCI World Net Index	20
Emerging market equities	MSCI Emerging Markets Index	5
High yield fixed income/credit	ML High Yield Master II	5
Private equity	Russell 3000 + 3%	10
Total growth oriented assets	Weighted average of subcomponents	40
Emerging market debt	JP Morgan GBI--EM Global Diversified (Unhedged)	10
U.S. Treasuries	Barclay's 10-year UST Futures Index	40
Global macro	2/3 HFRI Macro + 1/3 Barclays CTA Indices	10
Relative value	Three-Month Treasury Bills + 2%	10
Total stable value assets	Weighted average of subcomponents	70
Treasury Inflation Protected Securities (TIPS)	Barclay's Capital U.S. TIPS	5
Real estate	NCREIF NPI	10
Natural resources and other real assets	1/3 GSCI + 1/3 Citi MLP + 1/6 S&P Materials Index + 1/6 S&P/TSX Materials Composite Index	10
Total inflation-sensitive assets	Weighted average of subcomponents	25
Total fund	Weighted average of subcomponents	135

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:

1. 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.

2. 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.

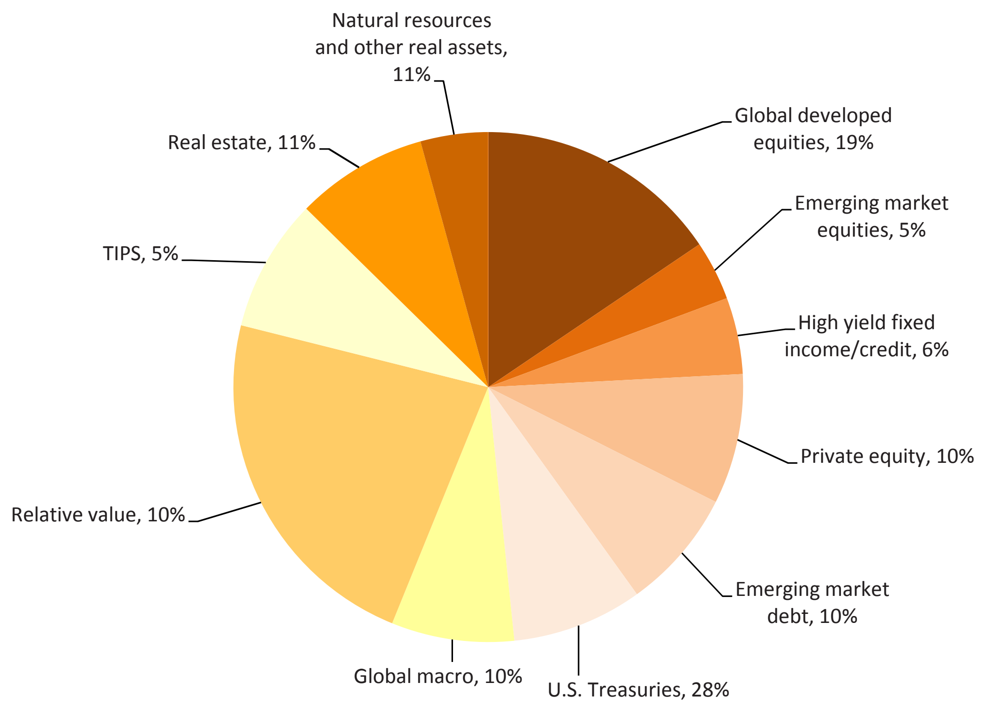
3. Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

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 Report
As of June 30, 2012
(dollars in thousands)

					Allocation % Percentage Limits			
					Target	Min.	Max.	
Asset Type	**Fair Value**	**Additional Exposure**	**Asset**	**% of Total**	**% Target**	**% Target**	**% Target**	**Within Limits**
Global developed equities	$345,988	$1,308,995	$1,654,983	19%	20%	15%	25%	YES
Emerging market equities	349,029	53,177	402,206	5%	5%	2%	10%	YES
High yield fixed income	494,852	22,780	517,632	6%	5%	2%	10%	YES
Private equity	411,811	466,690	878,501	10%	10%	5%	15%	YES
Emerging market debt	813,993	-	813,993	10%	10%	5%	15%	YES
Global macro	882,090	-	882,090	10%	10%	5%	15%	YES
Relative value	829,084	-	829,084	10%	10%	5%	15%	YES
U.S. Treasuries	345,011	2,076,205	2,421,216	28%	40%	20%	60%	YES
Real estate	899,172	(54)	899,118	11%	10%	5%	15%	YES
Natural resources and other real assets	929,284	(37,507)	891,777	11%	11%	5%	15%	YES
TIPS	455,599	-	455,599	5%	5%	2%	15%	YES
Cash & other assets and liabilities	1,764,590	(3,890,286)	(2,125,696)	(25%)	0%			N/A
Total	**$8,520,503**	**-**	**$8,520,503**	**100%**	**135%**			

Asset Allocation
As of June 30, 2012

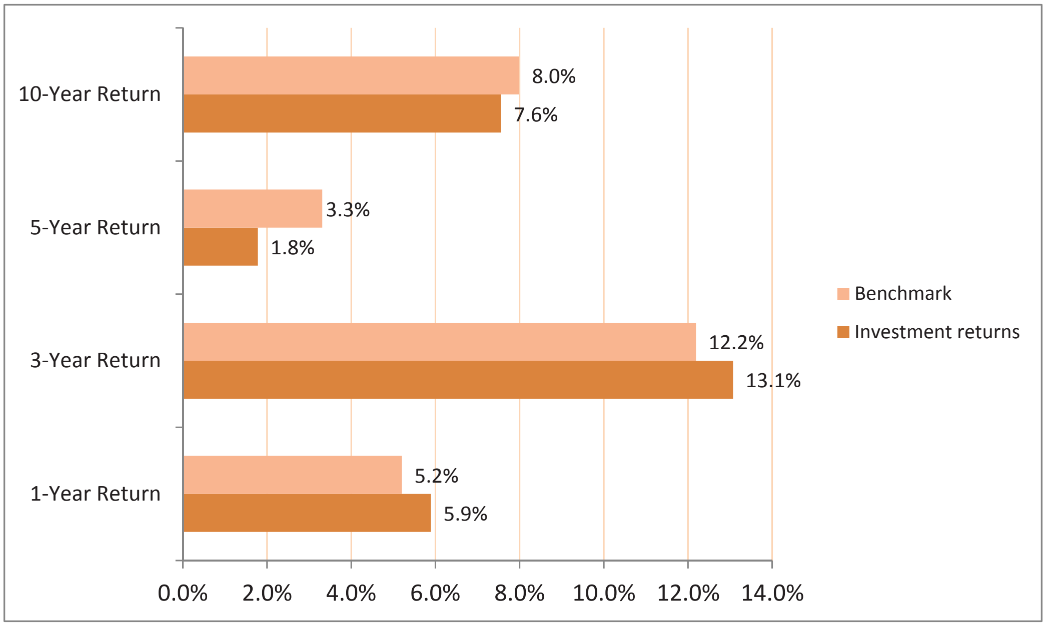


Exposure is expressed as a percent of the fund's net asset value and totals to 125%.

Performance Results, Annualized, Net of Fees For the years ended June 30								
	Performance				Benchmark*			
Asset class	1 Year	3 Year	5 Year	10 Year	1 Year	3 Year	5 Year	10 Year
Global developed equities	-3.19%	11.16%	-2.21%	N/A	-4.98%	12.20%	-1.75%	N/A
Emerging market equities	-12.26	12.53	1.62	15.89	-15.67	10.10	0.21	14.42
High yield fixed income	3.03	17.08	4.40	N/A	6.51	15.35	7.94	N/A
Private equity	3.62	12.45	2.27	N/A	7.16	13.94	4.28	N/A
Total growth oriented portfolio	-1.82	11.97	-0.25	N/A	-1.86	12.58	-0.50	N/A
Emerging market debt	-0.75	10.54	5.97	N/A	-1.69	11.52	8.31	N/A
U.S. bonds	15.83	9.75	N/A	N/A	11.41	8.09	N/A	N/A
Global macro	1.38	8.48	4.55	N/A	-1.93	5.88	-2.51	N/A
Relative value	0.49	5.85	N/A	N/A	2.04	5.66	N/A	N/A
Total stable value portfolio	7.91	9.57	7.90	N/A	6.50	7.88	7.18	N/A
TIPS	11.62	10.00	8.66	N/A	11.66	9.63	8.43	N/A
Real estate	10.18	8.18	-0.63	8.14	11.32	10.85	1.97	9.18
Natural resources and other real assets	-2.59	11.23	-0.76	N/A	-6.25	7.70	3.64	N/A
Total inflation sensitive portfolio	4.79	9.19	2.40	N/A	4.54	9.63	4.26	N/A
Grand total investments	5.89	13.07	1.78	7.56	5.20	12.19	3.31	7.99

*Benchmark index information can be found on Page 56.
Basis of caculation is time-weighted rates of return based on market values.

Performance Results
Total Fund Category
(annualized, net of fees)
As of June 30, 2012



"Good fortune is what happens when opportunity meets with planning."
- Thomas Alva Edison

Top 10 Holdings – Equity As of June 30, 2012		
Shares	Security name	Market value
603,638	Enterprise Products Partners	$30,930,411
244,886	Kinder Morgan Energy Partners	19,243,142
159,148	Plains All American Pipeline	12,860,750
265,677	Barrick Gold Corp.	9,994,323
228,026	Potash Corp of Saskatchewan	9,953,560
191,200	Ei Du Pont De Nemours & Co.	9,668,984
135,379	Magellan Midstream Partners	9,563,173
108,800	Monsanto Co.	9,006,464
198,112	Energy Transfer Partners LP	8,754,569
212,731	Linn Energy LLC	8,105,051

Top 10 Holdings – Fixed Income As of June 30, 2012		
Book value	Description	Market value
$199,569,662	U.S. Treasury Bd Prin Strip	$286,149,497
141,377,813	Federal Home Loan Mortgage Corp	141,013,000
90,031,940	Federal Home Loan Bk Cons BD	89,994,500
60,070,813	Bank of Nova Scotia	59,916,454
41,208,557	Toronto-Dominion Bank	41,427,788
37,550,450	Westpac Securities NZ LTD	36,928,150
34,865,409	Danfin Funding LTD	34,622,130
33,781,870	FNMA GTD Remic	33,822,649
32,041,500	Ontario Electricity Financial	31,503,600
30,175,977	Canadian Imperial Bank	30,175,977

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

"Few things are impossible to diligence and skill. Great works are performed not by strength, but by perseverance."
- Samuel Johnson

Investment Expenses by Category As of June 30, 2012 (dollars in thousands)	
Investment expenses	Fees
Global macro	$ 24,514
Relative value	11,445
Real estate	9,484
Private equity	9,472
Natural resources and other real assets	5,405
Administrative, support and other	4,550
Infrastructure	4,344
Other professional fees	3,210
High yield/credit managers	2,842
Other (short-term investments)	2,773
Emerging market debt	2,009
Emerging market equity managers	1,936
Domestic equity	1,825
Master custodian	1,007
Overlay	874
U.S. Treasuries	281
TIPS	120
Total investment expenses	$ 86,091

Commissions Paid — Domestic For the year ended June 30, 2012			
No.	Brokerage firm	Total commissions	% of Total commissions
1	State Street Global Markets LLC	$ 109,982	19.09%
2	BNY Convergex	30,204	5.24%
3	Baird, Robert W & Co., Inc.	24,507	4.25%
4	Weeden & Co.	24,009	4.17%
5	J.P.Morgan Securities, Inc.	21,844	3.79%
6	Stifel Nicolaus	16,396	2.85%
7	Tourmaline Partners LLC	16,334	2.83%
8	RBC Capital Markets LLC	15,497	2.69%
9	Jefferies & Co., Inc.	14,842	2.58%
10	Other*	302,553	52.51%
	Total	$ 576,168	100.00%

*Includes approximately 110 additional firms, each with less than 2.5% of total commissions.

Commissions Paid — International For the year ended June 30, 2012			
No.	Brokerage firm	Total commissions	% of Total commissions
1	Goldman Sachs & Co.	$ 229,161	72.21%
2	Morgan Stanley & Co.	41,410	13.05%
3	Citigroup Global Markets	9,055	2.85%
4	BNP Paribas Peregrine Sec Ltd	5,736	1.81%
5	UBS Equities & Securities	5,036	1.59%
6	Merrill Lynch	4,887	1.54%
7	Deutsche Bank Intl Equities	4,293	1.35%
8	CLSA India LTD	3,899	1.23%
9	China Int'l. Cap Corp Secs	3,422	1.08%
10	Other*	10,463	3.29%
	Total	$ 317,362	100.00%

* Includes approximately 11 additional firms, each with less than 5% of total commissions.

Summary of Retirement Portfolio by Manager/Asset Type As of June 30, 2012		
Securities description	Asset type	Market value
Global developed equity		
Nicholas Allianz Global Investors	Convertible	$ 82,234,987
Legato Capital Management, LLC	Growth-small & micro cap	187,033,706
Unallocated Securities	Other	48,203
Mondrian Investment Partners Limited	Large cap value	2,195
Pyramis Global Advisors (FKA - Fidelity)	Core	25,511
Artisan Partners, LP	Large cap growth	30,454
Global Equity Swap	Swaps	32,367,411
Russell Global Equity Overlay	Global equity overlay futures	44,245,277
Total global developed equity		345,987,744
Emerging market equity		
Ballie Gifford Overseas Ltd	Emerging markets	8,795
DFA Emerging Market Fund	Emerging markets	133,003,722
Genesis Investment Mgt	Emerging markets	215,574,167
Emerging Market Equity Swaps	Emerging market swaps	442,453
Total emerging market equity		349,029,137
High yield fixed income/credit		
Blackrock Credit Investors, LP	Credit funds	27,370,451
Hotchkis & Wiley Cap Mgt	High yield	285,179,882
Oaktree Capital Mgt	High yield	110,076,799
Zazove Associates, LLC	High yield	57,527,762
Silver Point Capital Fund, LP	Credit/multi-strategy	14,637,290
High Yield Swap	High yield swap	59,954
Total high yield fixed income		494,852,138
Private equity		
Private Equity	Private equity	337,460,226
Russell PE Overlay	PE overlay futures	74,350,635
Total private equity		411,810,861
Emerging market debt		
Wellington Mgt Co, LLP	Emerging market debt	813,992,749
Total emerging market debt		813,992,749
U.S. Treasuries		
Hoisington Investment Mgt Co	Treasuries	286,282,159
Russell U.S. Core Overlay	U.S. core overlay futures	58,728,566
Total U.S. Treasuries		345,010,725
Global macro		
Blackrock Global Ascent, Ltd	Global macro	145,135,447
Brevan Howard, LP	Global macro	176,463,664
Bridgewater Pure Alpha II, LLC	Global macro	51,966,784
Bridgewater Pure Alpha Major Market, LLC	Global macro	62,011,545
Campbell & Co, inc.	Collateral	24,297
DE Shaw Heliant Fund, LLC	Systematic & discret. macro	107,867,823

Summary of Retirement Portfolio by Manager/Asset Type (continued) As of June 30, 2012			
Securities description	Asset type		Market value
Graham Capital, Mgmt LP	Discretionary		42,910,171
Kenmar Global Investment Mgt, LLC	Collateral		295,710,300
Total asset allocation strategies			882,090,031
Relative value strategies			
AQR Delta Fund II, LP	Relative value		334,276,767
BlueMountain L/S Credit, LP	Long/short credit		77,943,006
Carlson Capital - Double Black Diamond, LP	Multi-strategy		53,999,778
Carlson Capital - Black Diamond, LP	Relative value		46,088,142
DE Shaw Composite Fund, LLC	Multi-strategy		11,015,351
Moon Capital, LP	EM long/short equity		80,745,880
Saba Capital Partners, LP	Relative value		104,382,654
Stark Investments	Multi-strategy		11,343,793
UBS O'Connor Market Neutral, LLC	Market neutral long/short equity		109,288,742
Total relative value strategies			829,084,113
TIPS			
Treasure Inflation Protected Securities	Inflation protected		455,599,039
Total TIPS			455,599,039
Real estate			
Real estate	Real estate		899,172,109
Total real estate			899,172,109
Natural resources & other real assets			
Cash and securities for commodity swaps	Commodity swaps		213,678,105
Natural resources & other real assets	Materials & commodity		522,087,910
Infrastructure	Global infrastructure		193,518,177
Total natural resources & other real assets			929,284,192
Other assets (collateral cash) and liabilities	Other		1,764,589,953
Net investment portfolio		$	8,520,502,791

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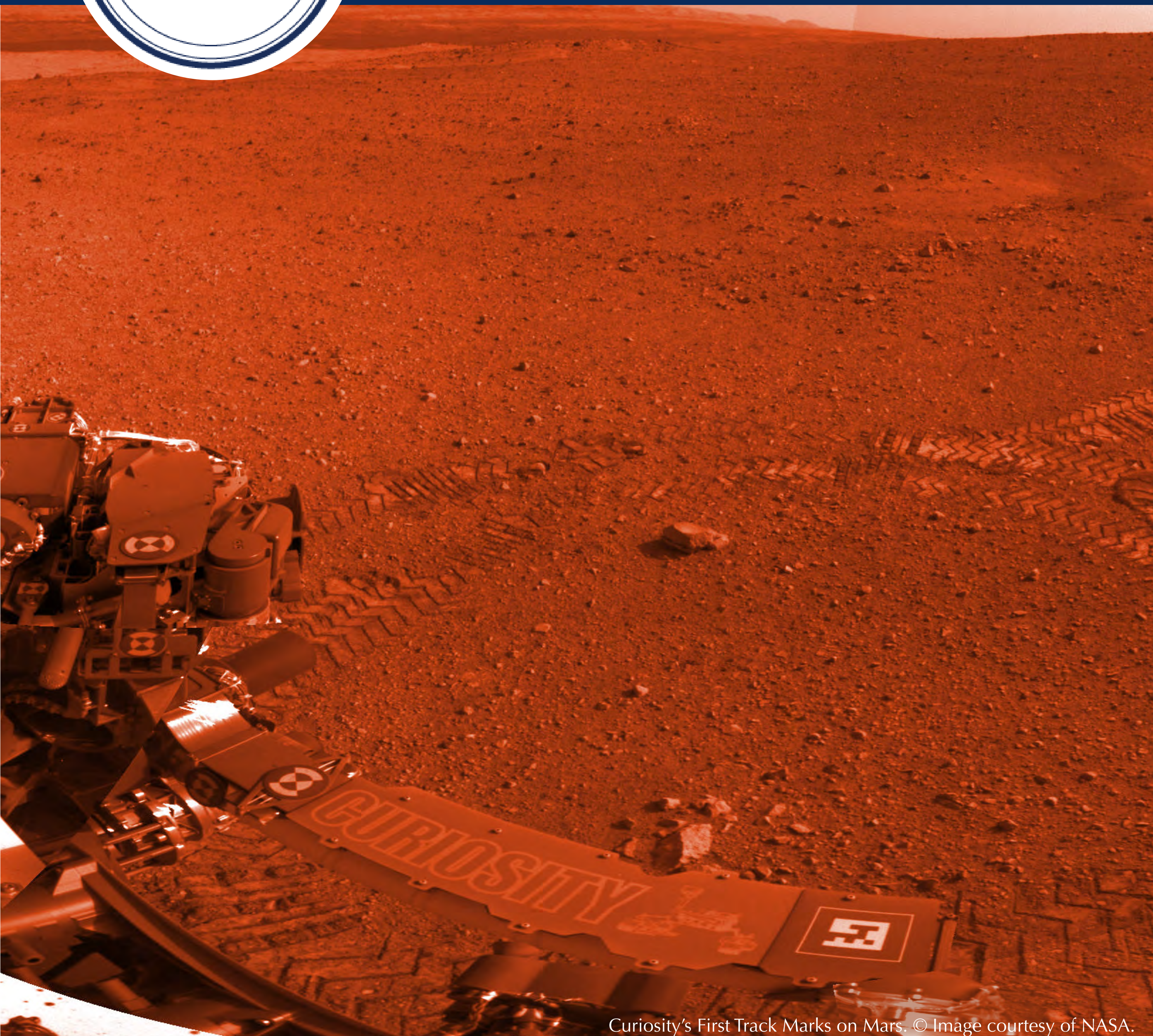
"If progress is to be steady we must have long term guides extending far ahead."

- Dwight D. Eisenhower



Curiosity's First Track Marks on Mars. © Image courtesy of NASA.

SEGAL

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VIA EMAIL AND USPS

November 20, 2012

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, 2012 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, it is our understanding that 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, 2012 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.

One of the general goals of an actuarial valuation is to establish contribution rates that fully fund the Association's liabilities, and that, as a percentage of payroll, remain as level as possible for each generation of active members. 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, 2012 is illustrated in the Schedule of Funding Progress and History of Employer Contribution Rates.

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

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

Board of Retirement
San Diego County Employees Retirement Association
November 20, 2012
Page 2

4. Solvency test;
5. Historical summary of assumptions;
6. History of employer contribution rates;
7. Schedule of benefit expenses by type;
8. Schedule of funding progress;
9. Membership summary;
10. Schedule of retiree members by type of retirement and option selected;
11. Average benefit payments (pension plan); and
12. Schedule of participating employers.

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2009 Experience Analysis or in conjunction with the June 30, 2012 actuarial valuation. It is our opinion that the assumptions used in the June 30, 2012 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, 2012 and those assumptions will be used in setting the contribution rates in the June 30, 2013 actuarial valuation. The 8.00% net investment earnings assumption has been developed without taking into consideration the impact of any future allocations of "excess earnings" as described in the Board's interest crediting and excess earnings policy.

In the June 30, 2012 valuation, the ratio of the valuation assets to actuarial accrued liabilities decreased from 81.5% to 78.7%. The employer's rate has increased from 30.02% of payroll to 34.26% of payroll, while the employee's rate decreased from 10.80% of payroll to 10.59% of payroll.

In the June 30, 2012 valuation, the actuarial value of assets included $170.6 million in deferred investment losses, which represented 2% of the market value of assets. If these deferred investment losses were recognized immediately in the actuarial value of assets, the funded percentage would decrease from 78.7% to 77.1% and the aggregate employer contribution rate, expressed as a percent of payroll, would increase from 34.26% to 35.42%.

The undersigned are Members of the American Academy of Actuaries and meet the qualification requirements to render the actuarial opinion contained herein.

Sincerely,

Paul Angelo

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

Andy Yeung

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

EK/gxk
Enclosures

SEGAL

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VIA E-MAIL AND USPS

December 5, 2012

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

Dear Members of the Board:

The Segal Company (Segal) performed a biennial actuarial valuation of the Other Post Employment Benefits (OPEB) funded through the San Diego County Employees Retirement Association Health Insurance Allowance program as of June 30, 2012. We believe that the actuarial valuation was prepared in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet with our understanding of the parameters of the Governmental Accounting Standards Board Statements No. 43 and No. 45.

As part of our valuation, Segal conducted an examination of all participant data for reasonableness. We did not audit the Plan's financial statements. For actuarial valuation purposes, plan assets are valued at Market Value. Under the method, the assets used to determine employer contribution rates equal market value of assets.

The Entry Age Normal Cost Method was used to determine the Annual Required Contribution (ARC) and the actuarial accrued liability. Under this method, the ARC provides for current cost (normal cost) plus a level dollar amount to amortize any unfunded actuarial accrued liability (UAAL). The UAAL is amortized over separate declining 20-year level dollar bases starting June 30, 2007 and the equivalent single amortization period as of June 30, 2012 is 14.9 years. The ARC has increased from 1.91% of payroll in the last valuation as of June 30, 2010 to 1.94% of payroll in the current valuation as of June 30, 2012. The funded ratio has decreased from 4.47% in the June 30, 2010 valuation to 2.73% in the June 30, 2012 valuation.

The method described above is used for the purposes of fulfilling the Plan's accounting and funding requirements.

Board of Retirement
San Diego County Employees Retirement Association
December 5, 2012
Page 2

A listing of supporting OPEB-related schedules Segal prepared to assist completing the Association's CAFR is provided below:

1. Schedule of actuarial methods and assumptions;
2. Summary of Plan benefits;
3. Retirees and beneficiaries added to and removed from retiree payroll;
4. Solvency test;
5. Average monthly OPEB benefit payments.

The actuarial valuation reflects a long-term perspective that involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. The assumptions used in this valuation were adopted by the Board based on the experience analysis during the period July 1, 2006 through June 30, 2009 and in conjunction with the June 30, 2012 actuarial valuation. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

The valuation was based upon the benefits provided under the terms of the substantive plan in effect at the time of the valuation. The schedules presented in the Actuarial Section have been prepared and/or reviewed by Segal. That valuation and these schedules were completed under the supervision of Thomas Bergman, ASA, MAAA, EA and Patrick Twomey, ASA, MAAA, EA. They are Members of the American Academy of Actuaries and meet their "General Qualifications Standards for Statements of Actuarial Opinions" to render the actuarial opinion contained in the valuation.

Sincerely,

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

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

TXB/gxk
Enclosures

Solvency Test (Pension Plan) (dollars in thousands)								
	Aggregate accrued liabilities for				Portion of accrued liability covered by reported assets			
Valuation date	Active member contributions[1]	Liability for retired members	Active members (employer financed portion)	Total	Valuation value of assets	Active member contributions	Liability for retired members	Active members (employer financed portion)
6/30/2007	$316,513	$3,924,551	$3,841,453	$8,082,517	$7,250,404	100%	100%	78.3%
6/30/2008	371,892	4,260,025	4,090,377	8,722,294	8,236,926	100%	100%	88.1%
6/30/2009	409,580	4,616,573	4,172,483	9,198,636	8,413,065	100%	100%	81.2%
6/30/2010	434,512	5,133,785	4,430,864	9,999,161	8,433,310	100%	100%	64.7%
6/30/2011	454,649	5,494,076	4,533,932	10,482,657	8,542,291	100%	100%	57.2%
6/30/2012	482,861	6,010,596	4,449,715	10,943,172	8,607,483	100%	100%	47.5%

[1] Liabilities for deferred-vested members are included in active member contributions.

Sources: The Segal Company, Annual Actuarial Valuation

Solvency Test (OPEB Plan) (dollars in thousands)								
Valuation date*	Active member contributions	Liability for retired participants	Liability for non-retired members (employer financed portion)	Total	Valuation assets	Active member contributions	Liability for retired participants	Liability for active members (employer financed portion)
6/30/2007	-	$219,656	$16,099	$235,755	$ -	0.0%	0.0%	0.0%
6/30/2008	-	204,348	13,211	217,559	18,206	0.0%	8.9%	0.0%
6/30/2010	-	194,792	11,655	206,447	9,221	0.0%	4.7%	0.0%
6/30/2012	-	176,173	9,129	185,302	5,064	0.0%	2.9%	0.0%

*Valuations performed biennially after 2008

Source: The Segal Company, Annual Actuarial Valuation

History of Employer Contribution Rates						
For the years ended June 30	General members			Safety members		
	Normal %	UAAL %	Total %	Normal %	UAAL %	Total %
2007	12.52	6.18	18.70	18.66	8.89	27.55
2008	12.46	3.99	16.45	18.77	5.87	24.64
2009	12.45	6.10	18.55	18.72	8.50	27.22
2010	13.06	11.05	24.11	20.92	16.25	37.17
2011	12.87	13.92	26.79	20.86	20.18	41.04
2012	13.04	17.81	30.85	21.33	24.59	45.92

Sources: The Segal Company, Annual Actuarial Valuation

Demographic Activity of Retired Members and Beneficiaries (Pension Plan)

Plan year ended June 30	Added to rolls		Removed from rolls		Rolls at end of year		% Increase in retiree allowance	Average annual allowance	Change in average benefit
	Number	Annual allowance *	Number	Annual allowance	Number	Annual allowance			
2007	802	$45,430,033	347	$6,531,337	12,504	$338,680,164	13.0%	$27,086	8.9%
2008	844	35,938,031	357	7,173,407	12,991	367,444,788	8.5%	28,285	4.4%
2009	868	38,221,329	406	7,899,309	13,453	397,766,808	8.3%	29,567	4.5%
2010	806	33,675,288	337	7,109,364	13,922	424,332,732	6.7%	30,479	3.1%
2011	996	40,668,972	422	9,718,980	14,496	455,282,724	7.3%	31,407	3.0%
2012	1,082	51,405,845	412	9,370,529	15,166	497,318,040	9.2%	32,792	4.4%

* Includes automatic cost-of-living adjustments granted on April 1.

Sources: The Segal Company, Annual Actuarial Valuation

Demographic Activity of Retired Members and Beneficiaries (OPEB Plan)

Plan year ended June 30*	Added to rolls		Removed from rolls		Rolls at end of year		% Increase in retiree allowance	Average annual allowance	Change in average benefit
	Number	Annual allowance***	Number	Annual allowance	Number	Annual allowance			
2007	N/A	N/A	N/A	N/A	6,450	$ 22,728,007**	N/A	$3,524	N/A
2008	260	$1,390,427	391	$1,362,384	6,319	22,756,050	0.1%	3,601	2.2%
2010	153	1,340,227	515	1,815,192	5,957	22,281,085	-2.1%	3,740	3.9%
2012	162	449,510	564	2,106,672	5,555	20,623,923	-7.4%	3,713	-0.7%

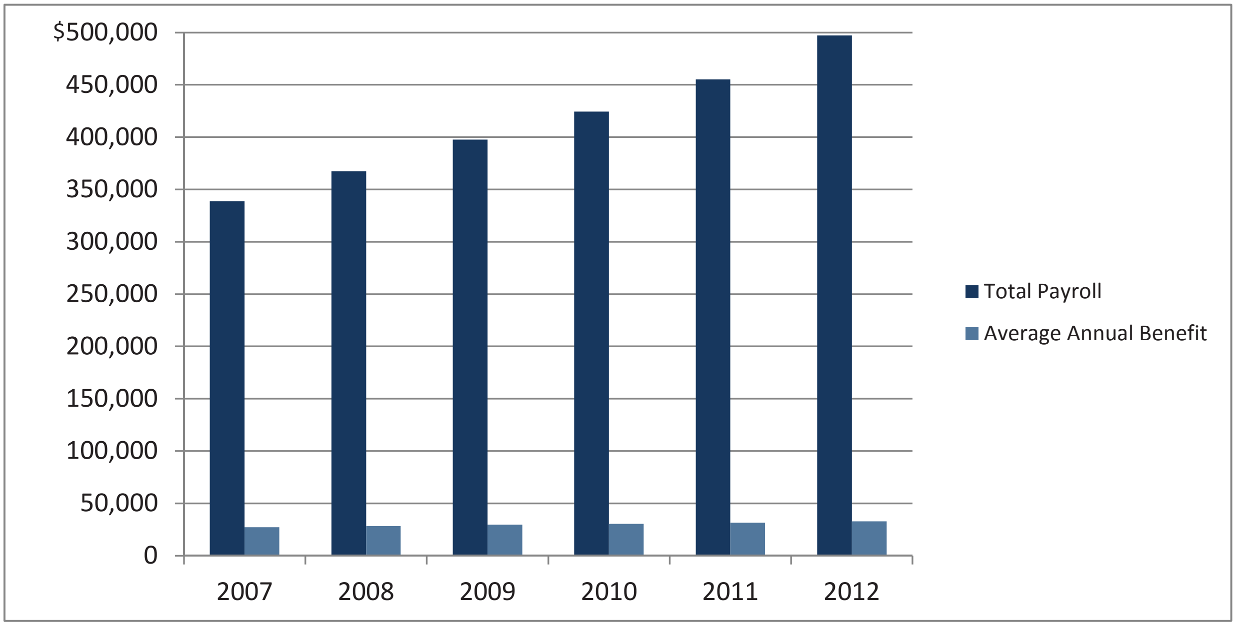
*Valuations performed biennially after 2008

**Projected based on June 30, 2006, valuation data

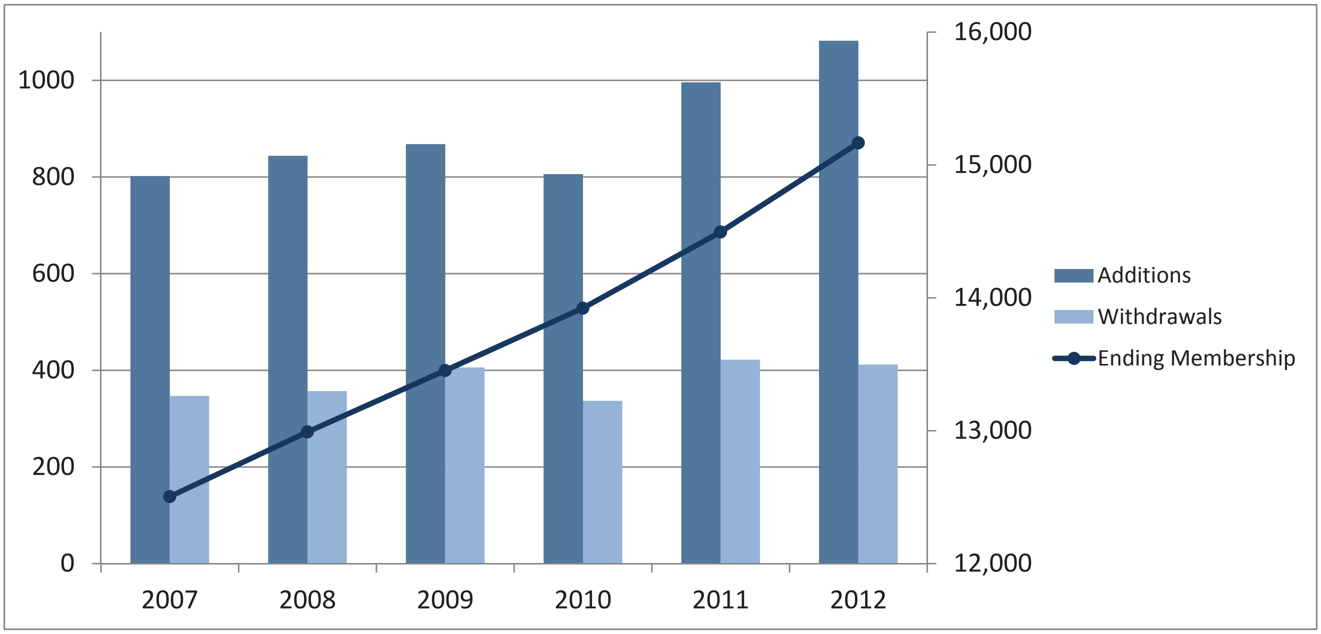
***Includes increase for continuing retirees

Source: The Segal Company, Annual Actuarial Valuation

Retirement Payroll & Average Annual Pension Benefits
For the years ended June 30

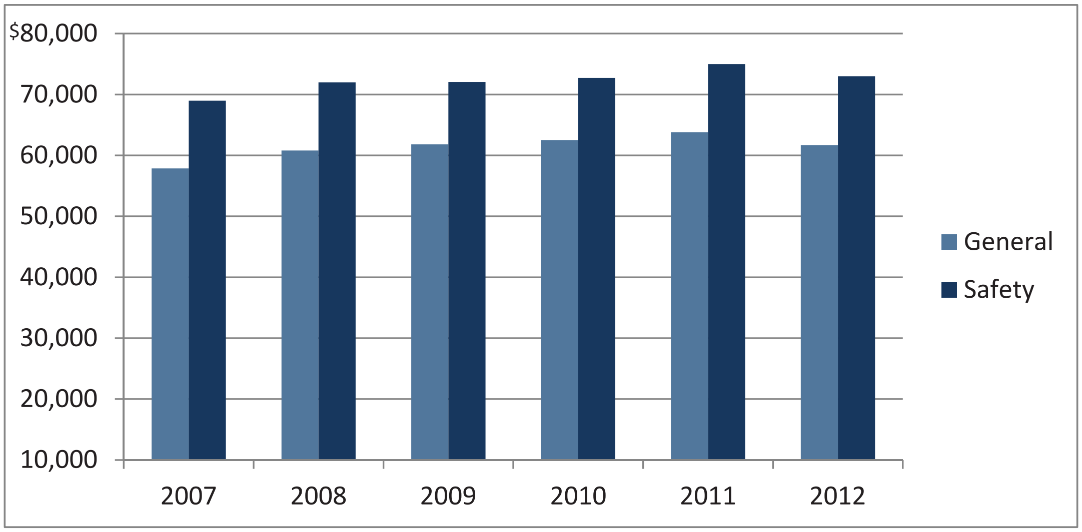


Membership Activity
For the years ended June 30

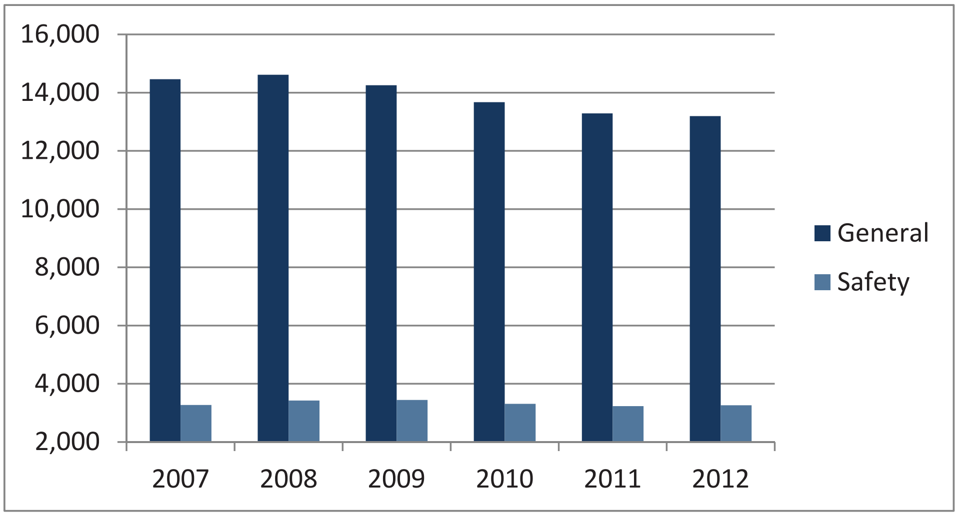


Source: The Segal Company, Annual Actuarial Valuation, June 30, 2012

Active Membership
Average Annual Salaries by Member Type
For the years ended June 30



Growth in Active Membership
For the years ended June 30



Source: The Segal Company, Annual Actuarial Valuation, June 30, 2012

Determination of Actuarial and Valuation Value of Assets
For the year ended June 30, 2012
(dollars in thousands)

Six month period From	Six month period To	Total actual market return (net)	Expected market return (net)	Investment gain/(loss)	Deferred factor	Deferred return
7/2007	12/2007	$311,315,142	$348,358,000	$(37,042,857)	0.0	$ -
1/2008	6/2008	(326,670,408)	360,831,645	(687,502,053)	0.1	(68,750,205)
7/2008	12/2008	(2,499,382,909)	346,476,271	(2,845,859,180)	0.2	(569,171,836)
1/2009	6/2009	345,409,043	242,171,217	103,237,826	0.3	30,971,348
7/2009	12/2009	977,086,049	254,188,608	722,897,441	0.4	289,158,976
1/2010	6/2010	(156,710,097)	291,649,269	(448,359,366)	0.5	(224,179,683)
7/2010	12/2010	957,426,830	274,046,127	683,380,703	0.6	410,028,422
1/2011	6/2011	469,046,670	309,910,021	159,136,649	0.7	111,395,655
7/2011	12/2012	(27,248,837)	326,604,743	(353,853,580)	0.8	(283,082,864)
1/2012	6/2012	471,208,747	323,365,533	147,843,214	0.9	133,058,892
1. Total deferred return						(170,571,295)
2. Net market value of assets						8,520,502,793
3. Actuarial value of assets						8,691,074,088
4. Non-valuation reserves						
a. Supplemental retirement reserve						69,015,623
b. 401(h) reserve						5,063,910
c. Disability supplement retirement reserve						9,511,577
d. Contingency reserve						-
e. Undistributed reserve						-
f. Subtotal						83,591,110
5. Valuation value of assets (Item 3 - Item 4f)						$8,607,482,978

Source: The Segal Company, Annual Actuarial Valuation, June 30, 2012

Actuarial Analysis of Financial Experience (Pension Plan)
(dollars in thousands)

	Plan years ended June 30					
	2012	2011	2010	2009	2008	2007
Prior valuation unfunded actuarial liability	$1,940,366	$1,565,851	$785,571	$485,368	$832,113	$1,232,275
Salary increase greater (less) than expected	(196,062)	(116,085)	(161,956)	(129,349)	42,224	20,023
Asset return less (greater) than expected	533,655	467,919	561,959	459,959	(391,427)	(347,898)
Other experience	74,197	22,681	(33,748)	(30,407)	2,458	(115,235)
Economic and non-economic assumption changes	(16,467)	-	414,025	-	-	42,948
Ending unfunded actuarial accrued liability	$2,335,689	$1,940,366	$1,565,851	$785,571	$485,368	$832,113

Source: The Segal Company

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 closed basis, as a level percent of pay with amortization layered.

Active member payroll in aggregate was assumed to increase 5.5% a year for those with more than five years of service and higher rates for those with less than five 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 was 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, retired members 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, 2006 through June 30, 2009, 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 8.00% 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	3.50%
Real Rate of Return	4.50%
Total	8.00%

Source: The Segal Company, Annual Actuarial Valuation, June 30, 2012

Consumer Price Index Urban Wage Earners & Clerical Workers Before 1978 All Urban Consumers after 1977 10-Year Moving Average	
June 30, 1972	3.3%
June 30, 1982	8.8%
June 30, 1992	3.8%
June 30, 2002	2.5%
June 30, 2012	2.5%
50-Year Average	**4.2%**

Salary increase rates used to project current pay for those upon which a benefit will be based, were revised in 2010. Rates vary by length of service, and consist of 3.50% for inflation plus the merit and longevity increases shown in the table below. When inflation rate is added to the longevity rates (below) the resulting maximum combined rate is 11.50% and the minimum combined rate is 4.25%.

Projected Salary Increase Rates

Years of Service	Safety	General
0	8.00%	6.00%
1	6.50%	4.75%
2	5.50%	3.75%
3	4.75%	2.75%
4	4.25%	2.25%
5+	1.25%	0.75%

Schedule of Active Member Valuation Data

Valuation Date	Employees	Total Payroll	% Change	Average Salary	% Change
06/30/07	17,733	$ 1,062,396,028	8.5	$ 59,911	6.8
06/30/08	18,041	1,135,431,988	6.9	62,936	5.0
06/30/09	17,699	1,129,170,721	(0.6)	63,799	1.4
06/30/10	16,981	1,095,581,953	(3.0)	64,518	1.1
06/30/11	16,523	1,090,413,350	(0.5)	65,994	2.3
06/30/12	16,457	1,052,366,941	(3.5)	63,946	(3.1)

Sources: The Segal Company, Annual Actuarial Valuation

Historical Summary of Assumptions
For the years ended June 30

Assumption	2012	2011	2010	2009	2008	2007	3 year average	5 year average
	Fiscal Year Ended							
Inflation [1]	1.7%	3.4%	1.4%	(0.6%)	4.6%	2.3%	1.40%	2.22%
Assumed [2]							3.58	3.65
Average pay increase	(3.1)	2.3	1.1	1.4	5.0	6.8	1.60	3.32
Assumed [3]							4.25	4.25
Merit & longevity pay increase	4.7	1.2	0.3	0.7	2.3	1.9	0.73	1.28
Assumed [4]							1.00	1.00
Total payroll	(3.5)	(0.5)	(3.0)	(0.6)	6.9	8.5	(1.37)	2.26
Assumed [3]							4.25	4.25
Investment return rate [7]	1.7	2.4	1.5	1.5	13.1	14.0	1.80	6.50
Assumed [5]							8.08	8.15
Real rate of investment return	0.0	(1.0)	0.1	2.1	8.5	11.7	0.40	4.28
Assumed [6]							4.50	4.50
Admin. expenses (% of assets)	0.1	0.1	0.1	0.1	0.1	0.1	0.10	0.10
Assumed							0.10	0.10

[1] Based on Consumer Price Index for San Diego, All items, 1982-84=100, change from June to June, different from the measure used to determine the annual COLA for retired members.

[2] Effective with June 30, 2010, valuation, this assumption has been reduced from 3.75% to 3.50%.

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

[4] Effective with June 30, 2010, valuation, this assumption has been changed from 1.0% to 0.75% for General members and from 1.00% to 1.25% for Safety members.

[5] Effective with June 30, 2010, valuation, this assumption has been decreased from 8.25% to 8.00%.

[6] Effective with June 30, 2006, valuation, this assumption has been increased from 4.25% to 4.5%.

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

Source: The Segal Company, Annual Actuarial Valuation

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 30% of General and 35% of Safety separating active members will continue employment with a reciprocal employer. General reciprocal members are assumed to receive 5.00% compensation increases per annum while Safety reciprocal members are assumed to receive 5.50% compensation increases per annum.

In May of 2010, SDCERA's Board adopted The Segal Group's recommendations regarding changes to the assumed rate of return, inflation rate, assumptions for retirement from active employment, deferred-vested retirement age, pre-retirement mortality, healthy life mortality, disabled life mortality, turnover (withdrawal and vested termination), disability (nonservice-connected and service-connected), salary increases and percentage of married members. On December 7, 2011, the Board also adopted Segal's recommendations on changes to the Employer and Employee Contribution Rate.

Disability Rates

	Nonservice-connected disability			Service-connected disability		
	General members		Safety members	General members		Safety members
Age	**Male**	**Female**		**Male**	**Female**	
20	0.00%	0.00%	0.00%	0.01%	0.00%	0.05%
25	0.00%	0.00%	0.00%	0.01%	0.02%	0.10%
30	0.01%	0.01%	0.02%	0.02%	0.05%	0.24%
35	0.02%	0.02%	0.05%	0.04%	0.10%	0.61%
40	0.04%	0.07%	0.08%	0.10%	0.13%	0.81%
45	0.07%	0.12%	0.10%	0.17%	0.21%	0.81%
50	0.12%	0.15%	0.10%	0.21%	0.25%	1.18%
55	0.19%	0.18%	0.10%	0.31%	0.30%	2.07%
60	0.22%	0.26%	0.10%	0.38%	0.33%	2.56%
65	0.22%	0.30%	0.04%	0.16%	0.13%	1.04%

The post-retirement mortality table used is the RP 2000 Combined Healthy Mortality Table with a two-year age setback for General members and a three-year age setback for Safety members. SDCERA's Board adopted this table in May 2010. 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 six-year age set forward on post-retirement mortality for General members and a three-year age setback for Safety members. Related values are shown below:

Healthy Life Mortality				
Sample ages	General		Safety	
	Male	Female	Male	Female
30	0.04	0.02	0.04	0.02
35	0.06	0.04	0.06	0.04
40	0.10	0.06	0.09	0.06
45	0.13	0.09	0.12	0.09
50	0.19	0.14	0.17	0.13
55	0.29	0.22	0.27	0.20
60	0.53	0.39	0.47	0.35

	Disabled Life Mortality			Disabled Life Mortality	
Sample ages	General		Sample ages	Safety	
	Male	Female		Male	Female
30	0.08	0.05	30	0.04	0.02
35	0.11	0.08	35	0.06	0.04
40	0.16	0.12	40	0.10	0.06
45	0.24	0.09	45	0.13	0.09
50	0.42	0.31	50	0.19	0.14
55	0.77	0.58	55	0.29	0.22
60	1.44	1.10	60	0.53	0.39

Withdrawal Rates With Less Than 5 Years of Service			
	Ordinary withdrawals (Less than 5 years of service)		
	General		Safety
Years of service	Male	Female	
0	12.25%	13.00%	11.00%
1	7.50%	8.25%	7.50%
2	5.75%	6.00%	3.75%
3	4.50%	5.25%	3.25%
4	4.25%	5.00%	3.25%

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) [2]		
	General			General		
Age	Male	Female	Safety	Male	Female	Safety
20	1.00%	1.25%	0.86%	6.16%	6.48%	3.42%
25	1.00%	1.25%	0.72%	5.76%	5.28%	3.12%
30	1.00%	1.16%	0.66%	4.94%	4.50%	2.58%
35	0.83%	0.83%	0.58%	3.72%	3.76%	1.94%
40	0.60%	0.55%	0.41%	3.02%	2.92%	1.34%
45	0.51%	0.34%	0.33%	2.67%	2.36%	1.04%
50	0.50%	0.25%	0.31%	2.50%	2.08%	0.88%
55	0.50%	0.25%	0.30%	2.50%	1.94%	0.80%
60	0.38%	0.25%	0.12%	2.50%	1.90%	0.32%

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

[2] No vested termination is assumed after a member is eligible for retirement.

Retirement Rates (%)				
	General		Safety	
Age	Tier I and Tier A	Tier B	Tier A	Tier B
48	-	-	4.0	3.0
49	50.0	-	7.0	3.0
50	8.0	-	15.0	12.0
51	5.0	-	13.0	12.0
52	5.0	-	13.0	12.0
53	5.0	-	15.0	12.0
54	7.0	-	15.0	12.0
55	12.0	6.0	16.0	19.0
56	12.0	7.0	20.0	23.0
57	13.0	9.0	24.0	27.0
58	14.0	9.0	30.0	32.0
59	16.0	9.0	30.0	32.0
60	20.0	10.0	30.0	45.0
61	21.0	14.0	30.0	45.0
62	25.0	20.0	35.0	45.0
63	26.0	20.0	35.0	45.0
64	30.0	20.0	35.0	45.0
65	30.0	30.0	75.0	100.0
66	30.0	30.0	75.0	100.0
67	30.0	30.0	75.0	100.0
68	35.0	30.0	75.0	100.0
69	40.0	30.0	75.0	100.0
70	75.0	100.0	100.0	100.0
71	75.0	100.0	100.0	100.0
72	75.0	100.0	100.0	100.0
73	75.0	100.0	100.0	100.0
74	75.0	100.0	100.0	100.0
75 and later	75.0	100.0	100.0	100.0

Source: The Segal Company, Annual Actuarial Valuation, June 30, 2012

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 Employer’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.

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 55% of women were assumed married at retirement.

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

STATISTICAL

"There are many ways of going forward, but only one way of standing still."

- Franklin D. Roosevelt

STATISTICAL SECTION OVERVIEW

There are five categories included in this section: financial trends, demographic and economic information, expenses, and operating information. The data disclosed in this section provides multi-year trend information that will assist in developing a better understanding of SDCERA's activities over time.

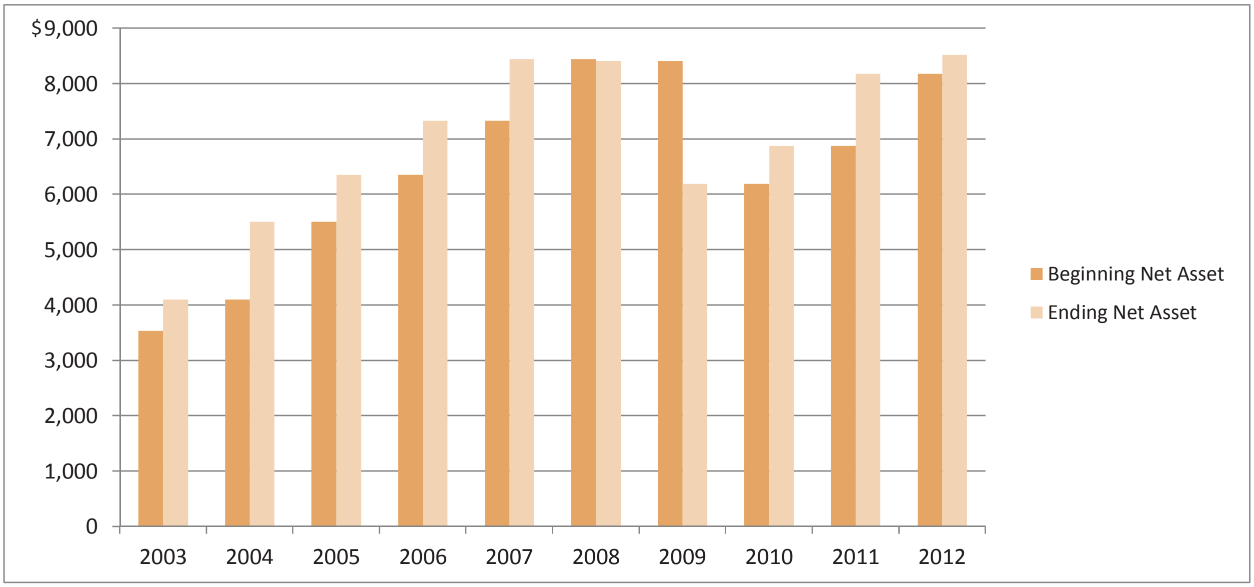
Financial trends information is presented in the Changes in Plan Net Assets and Benefit and Refund Deductions from Net Assets by Type schedules. The amount of additions by contributions from employees and employers as well as investment income is highlighted. In addition, the change in net assets by year for the last 10 fiscal years is shown.

Demographic and economic information is shown in the Retired Members by Type schedules and the Average Benefit Payments schedules. The Retired Members by Type schedules detail the number of retired members receiving benefits by payment level and by type of retirement. The Average Benefit Payments schedules show the number of retired members and the average monthly benefit for current and past years for the Pension and OPEB plans.

Expense information is included in the Changes in Plan Net Assets and the Benefit and Refund Deductions from Net Assets by Type schedules. Specifically, the administrative expenses, refunds and benefit payments of the Fund for the last 10 years are detailed.

Operating information is shown on the Schedule of Participating Employers. This schedule shows the total number of active, deferred and retired members by year and by employer for the last ten years.

SDCERA Net Asset Value
For the fiscal years ended June 30
(dollars in millions)



Changes in pension plan net assets*
For the last ten fiscal years ended June 30
(dollars in millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Additions										
Member Contributions (1)	$34.7	$33.6	$40.8	$41.9	$44.5	$45.5	$49.5	$46.4	$44.0	$59.8
Employer Contributions (2)	616.1	700.6	316.1	302.5	320.5	329.0	314.5	276.7	321.8	334.8
Investment Income (Net of expenses)	149.9	936.5	794.7	962.2	1119.3	(4.8)	(2,143.9)	830.8	1,437.0	454.6
Total Additions	$800.7	1,670.7	$1,151.6	$1,306.6	$1,484.3	$369.7	$(1,779.9)	$1,153.9	$1,802.8	$849.2
Deductions										
Administrative Expenses	$7.0	$7.4	$7.5	$8.0	$10.3	$10.5	$10.1	$10.4	$10.5	$10.9
Retirement Benefits (1) (3)	201.2	228.8	259.5	290.2	322.6	368.6	399.9	431.1	461.6	496.3
Health Benefits	19.9	26.5	32.6	32.9	35.3	24.4	23.9	23.6	21.8	-
Refunds	2.8	2.7	2.2	3.0	2.6	2.7	2.3	2.6	3.1	3.4
Total Deductions	$230.9	$265.4	$301.8	$334.1	$370.8	$406.2	$436.2	$467.7	$497.0	$510.6
Total Change in Net Assets	$569.8	$1,405.3	$849.8	$972.5	$1,113.5	$(36.5)	$(2,216.1)	$686.2	$1,305.8	$338.6

* Prior to 2012, health care net assets are included in this schedule

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.

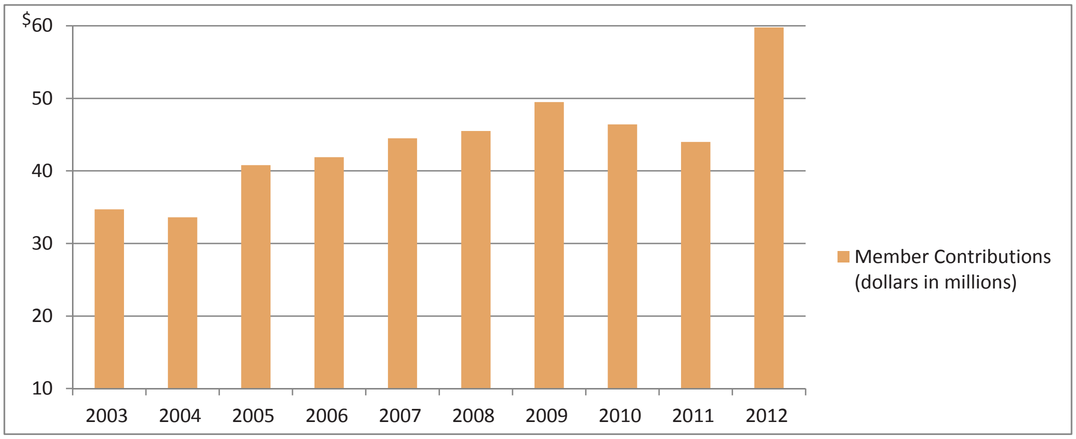
(3) Refer to benefit and refund deductions for detail.

Changes in Health Care Net Assets
For the fiscal year ended June 30
(dollars in millions)

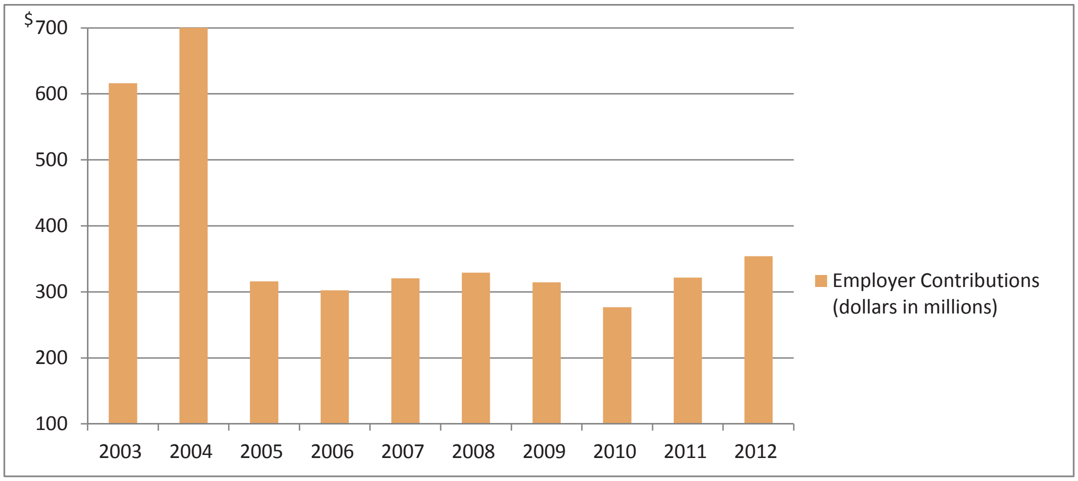
	2012
Additions	
Employer Contributions	$ 19.2
Investment Income (Net of expenses)	0.2
Total additions	19.4
Deductions	
Administrative Expenses	0.2
Health Benefits	21.3
Total deductions	21.5
Total change in net assets	$ (2.1)

ADDITIONS TO PLAN NET ASSETS BY SOURCE

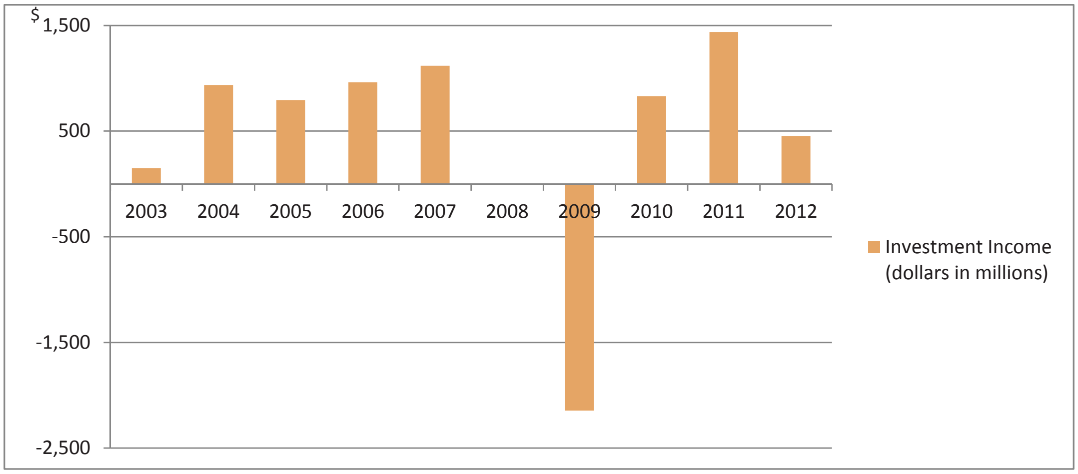
Member Contributions
(dollars in millions)



Employer Contributions
(dollars in millions)



Investment Income
(dollars in millions)



Benefit and Refund Deductions from Net Assets by Type
For the last ten fiscal years ended June 30
(dollars in millions)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Type of benefit										
Age and service	$161.1	$185.3	$209.5	$239.4	$295.3	$301.8	$310.8	$357.5	$386.8	$418.0
Disability - Duty	5.2	2.8	6.7	8.8	12.0	16.9	37.7	41.4	42.8	45.1
Disability - Non-duty	22.6	25.6	25.4	24.2	28.7	26.9	5.6	6.2	5.9	6.1
Death benefits	1.3	1.2	2.7	1.1	1.6	0.9	1.8	1.4	1.2	1.6
Survivors	12.3	15.1	15.2	16.7	20.3	22.0	24.0	24.5	24.8	25.5
Total	$202.5	$230.0	$259.5	$290.2	$357.9	$368.5	$379.9	$431.0	$461.5	$496.3
Type of refund										
Separation	1.5	1.5	2.2	3.0	2.6	2.7	2.3	2.6	3.1	3.4
Total	$1.5	$1.5	$2.2	$3.0	$2.6	$2.7	$2.3	$2.6	$3.1	$3.4

Retired Members by Type of Benefit
For the current and prior fiscal years ended June 30

Fiscal year 2012		Type of retirement [a]					
Amount of monthly benefit	Number of retired members	1	2	3	4	5	6
$0 - $1,000	3,391	2,711	536	20	11	101	12
1,001 - 2,000	4,064	3,050	456	10	349	188	11
2,001 - 3,000	2,844	2,081	203	4	510	36	10
3,001 - 4,000	1,718	1,334	104	-	261	12	7
4,001 - 5,000	1,003	918	30	-	49	5	1
5,001 - 6,000	711	665	15	-	29	2	-
6,001 - 7,000	518	481	6	-	30	1	-
7,001 - 8,000	341	319	2	-	20	-	-
8,001 - 9,000	218	204	1	-	13	-	-
9,001 - 10,000	118	112	2	-	4	-	-
Over 10,000	240	230	-	-	10	-	-
Total	15,166	12,105	1,355	34	1,286	345	41

Fiscal year 2011		Type of retirement [a]					
Amount of monthly benefit	Number of retired members	1	2	3	4	5	6
$0 - $1,000	3,451	2,720	569	19	13	116	14
1,001 - 2,000	3,968	2,975	428	9	368	175	13
2,001 - 3,000	2,707	1,937	203	4	518	35	10
3,001 - 4,000	1,575	1,238	97	1	221	13	5
4,001 - 5,000	912	846	21	1	41	2	1
5,001 - 6,000	640	593	11	-	34	2	-
6,001 - 7,000	470	443	5	-	22	-	-
7,001 - 8,000	301	281	1	-	19	-	-
8,001 - 9,000	179	169	2	-	8	-	-
9,001 - 10,000	97	92	1	-	4	-	-
Over 10,000	196	189	-	-	7	-	-
Total	14,496	11,483	1,338	34	1,255	343	43

[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: The Segal Company

Note: Above numbers are number of benefits paid. Some payees receive multiple benefits, i.e., retired member and surviving spouse.

Retired Members by Type of Benefit Option Selected
For the current and prior fiscal years ended June 30

Fiscal year 2012

Amount of monthly benefit	Number of retired members & beneficiaries	Option selected [b]						
		Unmodified	1	2	3	4	Death - Minor child supplement	Lump-sum installment
$0 - $1,000	3,391	3,195	54	119	2	3	2	16
1,001 - 2,000	4,064	3,908	57	80	5	6	-	8
2,001 - 3,000	2,844	2,744	41	46	4	7	-	2
3,001 - 4,000	1,718	1,658	20	32	1	6	-	1
4,001 - 5,000	1,003	945	23	26	1	8	-	-
5,001 - 6,000	711	688	7	9	1	6	-	-
6,001 - 7,000	518	498	7	9	-	4	-	-
7,001 - 8,000	341	333	2	4	-	2	-	-
8,001 - 9,000	218	211	2	1	-	4	-	-
9,001 - 10,000	118	114	1	1	-	2	-	-
Over 10,000	240	234	-	1	-	5	-	-
Total	15,166	14,528	214	328	14	53	2	27

Fiscal year 2011

Amount of monthly benefit	Number of retired members & beneficiaries	Option selected [b]						
		Unmodified	1	2	3	4	Death - Minor child supplement	Lump-sum installment
$0 - $1,000	3,451	3,250	56	120	2	3	1	19
1,001 - 2,000	3,968	3,830	53	67	5	7	-	6
2,001 - 3,000	2,707	2,610	35	49	3	8	-	2
3,001 - 4,000	1,575	1,519	19	29	1	6	-	1
4,001 - 5,000	912	860	21	24	1	6	-	-
5,001 - 6,000	640	619	7	7	1	6	-	-
6,001 - 7,000	470	452	7	8	-	3	-	-
7,001 - 8,000	301	294	2	3	-	2	-	-
8,001 - 9,000	179	173	2	1	-	3	-	-
9,001 - 10,000	97	95	-	1	-	1	-	-
Over 10,000	196	190	-	1	-	5	-	-
Total	14,496	13,892	202	310	13	50	1	28

[b]Option selected:

Unmodified plan: beneficiary receives 60 percent continuance.

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

Option 1 - Beneficiary receives lump-sum of 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

Death-Minor child Supplement - Paid to minor child of deceased member with no surviving spouse

Lump-sum installment - Death benefit paid in installments

Source: The Segal Company

Note: Above numbers are number of benefits paid. Some payees receive multiple benefits, i.e., retired member and surviving spouse.

Average Benefit Payments (Pension Plan)*
For 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 2012							
Average annual benefit	$12,316	$12,473	$21,098	$32,172	$48,805	$62,542	$80,469
Average monthly benefit	$1,026	$1,039	$1,758	$2,681	$4,067	$5,212	$6,706
Average final monthly salary	$9,243	$4,920	$5,066	$5,123	$6,137	$6,409	$6,856
Number of retired members	35	132	234	139	198	108	120
Fiscal year 2011							
Average annual benefit	$9,976	$11,658	$20,806	$30,700	$46,065	$58,157	$75,885
Average monthly benefit	$831	$972	$1,734	$2,558	$3,839	$4,846	$6,324
Average final monthly salary	$7,175	$4,631	$4,928	$5,265	$6,037	$5,991	$6,676
Number of retired members	40	146	209	118	185	82	104
Fiscal year 2010							
Average annual benefit	$8,472	$10,745	$20,486	$31,420	$45,480	$58,630	$78,128
Average monthly benefit	$706	$895	$1,707	$2,618	$3,790	$4,886	$6,511
Average final monthly salary	$6,342	$4,149	$5,833	$5,864	$6,656	$10,678	$6,992
Number of retired members	16	144	153	105	152	67	83
Fiscal year 2009							
Average monthly benefit	$841	$1,046	$1,576	$2,636	$3,496	$5,323	$6,720
Average final monthly salary	$5,263	$4,514	$4,571	$4,829	$5,367	$6,423	$6,883
Number of retired members	32	107	150	120	107	83	87
Fiscal year 2008							
Average monthly benefit	$868	$1,025	$1,731	$2,602	$3,422	$4,931	$6,198
Average final monthly salary	$4,944	$4,348	$4,440	$5,010	$5,653	$6,353	$6,356
Number of retired members	14	94	156	161	102	95	75
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

*includes only new retired members for fiscal year 2012
Source: The Segal Company

Average Benefit Payments (OPEB Plan)
For the fiscal years ended June 30

	Health Insurance Reimbursement	Medical Payments	Medicare Part B
Fiscal year 2012			
Average monthly benefit	$ 196	$ 243	$ 93
Number of retired members	1,148	4,331	4,657
Fiscal year 2010			
Average monthly benefit	$ 191	$ 249	$ 93
Number of retired members	1,341	4,924	5,164

"Know Thyself."
- Ancient Aphorism inscribed in the Temple of Apollo at Delphi in Greece

Schedule of Participating Employers
For the fiscal years ended June 30

	Total	County of San Diego	Superior Court	San Dieguito River Valley Joint Powers Authority	Local Agency Formation Commission	San Diego County Office of Education
Fiscal year 2012						
Number of covered employees	36,662	34,882	1,740	18	13	9
Percentage to total system	100.00 %	95.14	4.75	0.05	0.04	0.02
Rank		1	2	3	4	5
Fiscal year 2011						
Number of covered employees	36,144	33,631	2,464	22	14	13
Percentage to total system	100.00 %	93.05	6.82	0.06	0.04	0.04
Rank		1	2	3	4	5
Fiscal year 2010						
Number of covered employees	36,157	33,582	2,514	22	15	24
Percentage to total system	100.00 %	92.88	6.95	0.06	0.04	0.07
Rank		1	2	4	5	3
Fiscal year 2009						
Number of covered employees	36,447	33,850	2,539	20	13	25
Percentage to total system	100.00 %	92.87	6.97	0.05	0.04	0.07
Rank		1	2	4	5	3
Fiscal year 2008						
Number of covered employees	36,179	33,538	2,587	17	13	24
Percentage to total system	100.00 %	92.70	7.15	0.05	0.04	0.07
Rank		1	2	4	5	3
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

Note: Fiscal years 2003 to 2005 are restated to correct distribution among employers.

Source: The Segal Company

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