Moving Forward

ACHIEVING YOUR PERSONAL BEST

SDCERA

Strength. Service. Commitment.

Comprehensive Annual Financial Report

Fiscal year ended June 30, 2014

San Diego County Employees Retirement Association

San Diego County, CA

This material is available in alternative formats upon request.
Please contact 619.515.6800.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for fiscal year ended June 30, 2014

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.) and by the California Public Employees' Pension Reform Act of 2013 (Government Code Section 7522 et seq.) as they have 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

Comprehensive Annual Financial Report
Fiscal year ended June 30, 2014

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 fiscal year ended June 30, 2014.

This year's CAFR theme of "moving forward – a personal best" recognizes the fund's disciplined commitment to continuous improvement. This cycle of evaluation and reevaluation propels the organization closer to its long-term goals for the betterment of our members. This deliberate process benefitted SDCERA in the past fiscal year as the fund has achieved a 13.44% net return.

Regardless of the market's short-term fluctuations, our members expect a deliberate and consistent approach in the administration of their retirement benefit to provide for a secure future. SDCERA accomplishes this by planning and setting long-term goals, benchmarking progress, and making prudent adjustments based on evolving market conditions. The process will repeat again as SDCERA looks forward to the next cycle.

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 for thousands of individuals for nearly 75 years.

As San Diego County has grown to more than three million residents, SDCERA has become the financial guardian for the pension benefits for nearly 39,000 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, two alternate Board members, 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

SDCERA INVESTMENT RETURN EXCEEDS ACTUARIAL ASSUMED RATE OF RETURN

Generating a fiscal year-end gross return of 13.86% and a net return of 13.44%, SDCERA's diversified investment portfolio exceeded the fund's actuarial assumed rate of return of 7.75%, outperforming the portfolio's benchmark. SDCERA's portfolio incurred less estimated standard deviation investment risk than

87% of its public plan peers with assets over $1 billion for the three-years ended June 30, 2014 according to the Wilshire Trust Universe Comparison Service.

The fund generated a 25-year annualized gross return of 9.4%. This remains at a level that continues to support SDCERA's long-term investment objectives. The portfolio's objectives are two-fold: protect assets and earnings in down markets while generating investment returns that meet or exceed our assumed rate of return over the long term.

SDCERA'S FUND CLIMBS TO RECORD HIGH $10.3 BILLION IN ASSETS

The close of the fiscal year recorded a milestone with the fund's assets growing to an all-time record of $10.3 billion. The fund is withstanding pockets of turbulence over the long-term as the fund's diversified portfolio has protected members' assets and responded nimbly to changing markets.

BOARD INITIATES ASSET ALLOCATION/INVESTMENT GOVERNANCE REVIEW

As part of exercising its fiduciary duty, SDCERA's Board began deliberations on a revised asset allocation and investment governance structure. The over-arching goals for this process are to reevaluate the current investment strategy, improve the portfolio's efficiency, strengthen accountability of the fund's management, and maintain security of the funds held in trust for members.

SDCERA's Board, staff and consultants covered a number of comprehensive topics, including governance structure, an asset/liability study, risk tolerance assessments, capital market assumptions, asset diversification, risk diversification, economic sensitivity, stress tests, asset allocation modeling, and performance/risk metrics reporting. This prudent re-assessment process exemplifies SDCERA's conviction to re-examination, analysis, planning, accountability and best practices.

IMPLEMENTATION OF NEW PENSION ADMINISTRATION SYSTEM

A new pension administration system finalized the testing phase for parallel processing of services within the new and existing systems. Prospective plans for SDCERA's 2014-2015 fiscal year include transitioning this new system to the fund's official system of record, which will improve service levels and efficiency.

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 2014, SDCERA's gross gains were 13.86%, outperforming the portfolio's benchmark gross return of 13.65% for the same period. The fund's one-year net-of-fees estimated return of 13.44% also exceeded the 7.75% actuarial assumed rate of return needed to fund the benefit. Three- and five-year gross returns generated an annualized gross return of 9.49% and 12.67% respectively for the period that ended June 30, 2014.

Investment Performance as of June 30, 2014

	1 Yr	3 Yr	5 Yr	10 Yr	25 Yr
Gross	13.86%	9.49%	12.67%	7.85%	9.43%
Net	13.44%	8.97%	12.05%	7.18%	8.85%
Benchmark	13.65%	8.55%	11.42%	7.81%	-

SDCERA'S FUNDING STATUS AND PROGRESS TOWARD FUNDING GOALS

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 is secure.

Based on the most recent actuarial valuation report as of June 30, 2014, the valuation value of assets for the pension plan was $9.8 billion and the actuarial accrued liability totaled $12.1 billion, resulting in an unfunded actuarial accrued liability of $2.3 billion. A funded ratio of 100 percent means that the obligations of a plan to pay benefits are fully funded. SDCERA's funded ratio is 80.9%, surpassing the average of 71.5% for public funds.

AWARDS AND ACHIEVEMENTS IN REPORTING

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.

ACKNOWLEDGEMENTS

This transmittal letter serves to highlight information within the CAFR for members of the public who may be unfamiliar with this type of comprehensive financial document. The CAFR is a complete and reliable source of information to demonstrate SDCERA's responsible stewardship of funds and assists with the fund's commitment to transparency by supplying the public with SDCERA's basis for prudent financial management decisions.

Throughout FY 2014 and beyond, this information-rich document is referenced by a variety of stakeholders and acts as SDCERA's historic financial record and resource. I am appreciative of the commitment and discipline exhibited by each Board member, staff member and associate that played a role in producing this document and their respective contribution towards the success of SDCERA's mission. These individuals truly embody our theme of "moving forward – a personal best".

B White

Brian White
Chief Executive Officer
December 10, 2014

PPCC

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2014

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

Alan H. Winkle
Program Administrator

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Diego County

Employees Retirement Association

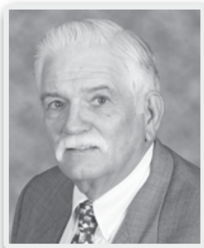
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

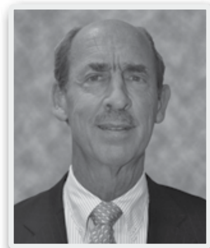
Executive Director/CEO

SDCERA BOARD OF RETIREMENT



E.F. "Skip" Murphy
Chairman

David A. Myers
Vice Chairman



Dick Vortmann
Secretary

Kristina Maxwell

Mark E. Oemcke

Dianne Jacob

Dan McAllister

David B. Moore

Douglas Rose

ALTERNATE TRUSTEES

James W. Feeley

Tim Hancock

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

VICE CHAIRMAN
David A. Myers
Elected by SDCERA Safety members
Present term expires December 31, 2016

SECRETARY
Dick Vortmann
Appointed by County Board of Supervisors
Present term expires June 30, 2017

TRUSTEE
Kristina Maxwell
Elected by SDCERA General members
Present term expires June 30, 2016

TRUSTEE
Mark E. Oemcke
Appointed by County Board of Supervisors
Present term expires June 30, 2016

TRUSTEE
Dianne Jacob
Appointed by County Board of Supervisors
Present term expires December 31, 2016

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

TRUSTEE
David B. Moore
Appointed by County Board of Supervisors
Present term expires June 30, 2015

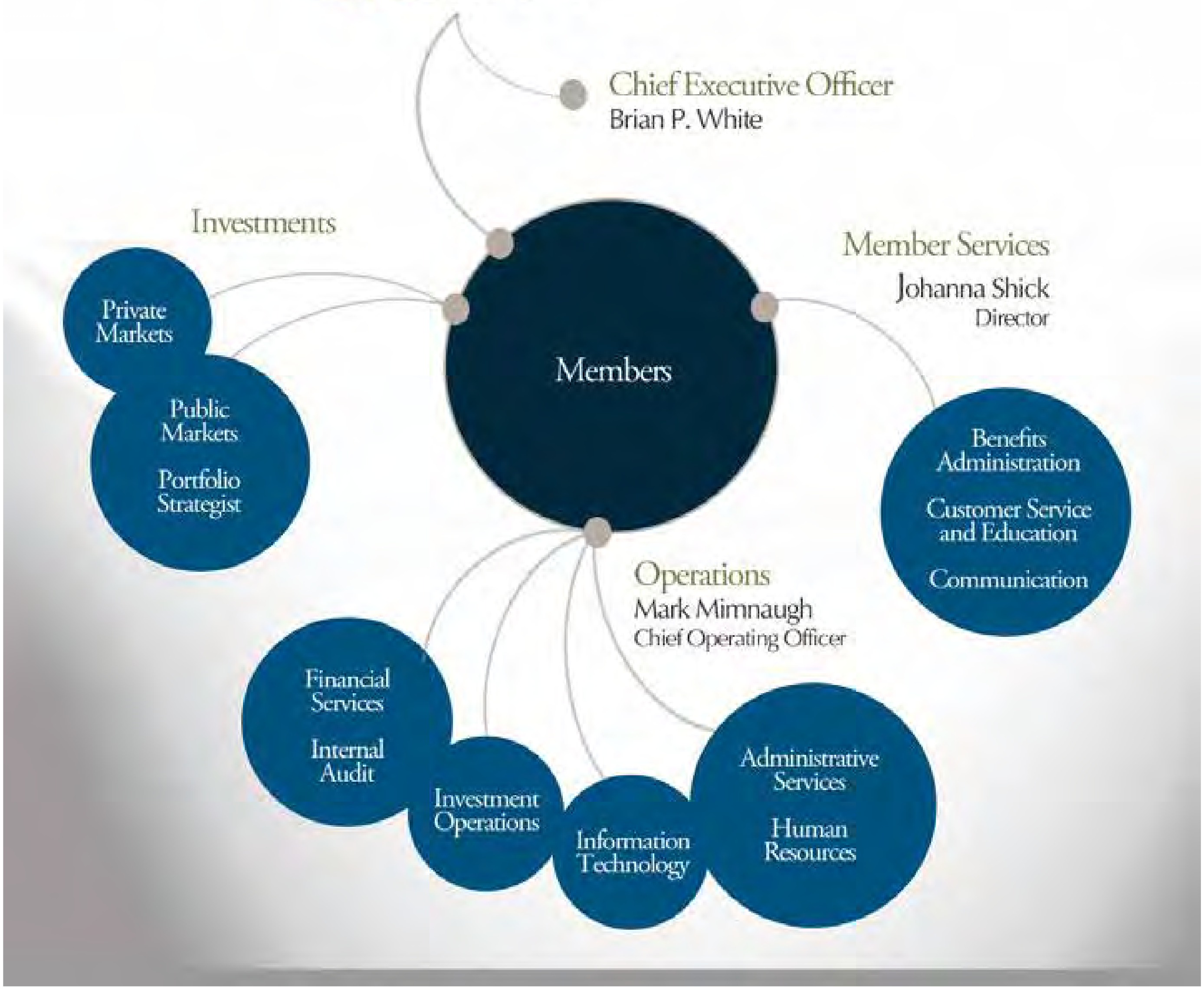
TRUSTEE
Douglas Rose
Elected by SDCERA General members
Present term expires June 30, 2014

ALTERNATE TRUSTEE
James W. Feeley
Elected by SDCERA Retired members
Present term expires June 30, 2017

ALTERNATE TRUSTEE
Tim Hancock
Elected by SDCERA Safety members
Present term expires December 31, 2016

Board of Retirement

SDCERA



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AUDITOR

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MASTER CUSTODIAN

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Refer to the Investments section on **Page 74** for a listing of investment professionals who provide services to SDCERA.

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Vista, CA 92083

FINANCIAL

Comprehensive Annual Financial Report

Fiscal year ended June 30, 2014

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

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the San Diego County Employees Retirement Association (SDCERA), as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise SDCERA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the San Diego County Employees Retirement Association, as of June 30, 2014, and the changes in plan net position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2 to the basic financial statements, SDCERA implemented the provisions of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25*, for the fiscal year ended June 30, 2014.

As discussed in Note 9 to the basic financial statements, the total pension liability based on the most recent actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014, exceeded SDCERA's fiduciary net position by $2.1 billion. The actuarial valuation is very sensitive to the underlying actuarial assumptions, including a discount rate of 7.75 percent, which represents the long-term expected rate of return.

As discussed in Note 10, based on the most recent biennial health care plan actuarial valuation as of June 30, 2014, SDCERA's independent actuary determined that SDCERA's actuarial accrued liability exceeded the actuarial value of its assets by $164.5 million.

Our opinion is not modified with respect to these matters.

Other Matters

Prior-Year Comparative Information

The financial statements include partial 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 financial statements for the fiscal year ended June 30, 2013, from which such partial information was derived.

We have previously audited SDCERA's 2013 financial statements, and we expressed an unmodified audit opinion on the financial statements in our report dated December 11, 2013. In our opinion, the partial comparative information presented herein as of and for the fiscal year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Investment Returns – Pension Plan, Schedule of Contractually Required Contributions – Pension Plan, Schedule of Funding Progress – OPEB Plan, and Schedule of Employer Contributions – OPEB Plan, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SDCERA's basic financial statements. The other supplemental information, introductory, investment, actuarial, and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental 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. Such information has 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 information is 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 9, 2014 on our consideration of SDCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SDCERA's internal control over financial reporting and compliance.

Macias Gini É O'Connell LLP

San Diego, California
December 9, 2014

SDCERA

Strength. Service. Commitment.

We are pleased to present Management's Discussion and Analysis (MD&A), an 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, 2014. We believe that the information presented here, in conjunction with the Basic Financial Statements and the Notes to the Basic Financial Statements provide you with a clear picture of the Association's overall financial status.

OVERVIEW OF THE CAFR

The CAFR is SDCERA's annual report to its constituents and provides a wealth of information about the health of the fund. The report is comprised of five sections, all of which combine to tell the SDCERA story for the fiscal year ended June 30, 2014.

The report begins with an introduction that gives the Chief Executive Officer the opportunity to discuss the health of the plan and to highlight some of the most significant initiatives and events that have occurred during the reporting period. Also provided in this section is an introduction to the Board of Retirement, staff and a comprehensive listing of the key consultants who advise staff on the administration of the fund.

Financial is the next section of the CAFR; as the name implies, it provides information about the financial performance of the fund over the period. This section begins with the Independent Auditor's Report, which renders an opinion on the presentation of these financial statements. The Chief Financial Officer provides some context to the core financial statements, Statement of Plan Net Position and Statement of Changes in Plan Net Position in the Management's Discussion and Analysis. Here, he provides analysis on the annual results and makes comparisons to the prior year. The accompanying Notes to the Financial Statements are an integral part of the basic financial statements, providing details that are essential to fully understanding the financial statements.

Investment is the third section; here you will find the Portfolio Strategist's report on investment activities as well as asset allocation and performance information. This section also provides interesting information on concentration of Equity and Fixed Income holdings, investment expense by asset class and a complete listing of SDCERA's portfolio by manager.

Actuarial is the fourth section and provides a wealth of demographic information on the SDCERA membership. The first two charts present the Solvency of the Pension and OPEB plan; this represents the percent of active member benefits covered in the event that the County ceases to be a going concern, this number is 49.9% this year up from 45.7% in the prior year. Historical information on employer contributions, demographic activity of retired members and beneficiaries and membership data is presented. This section provides details of many of the key actuarial data points including the determination of the valuation value of assets (VVA) which are the assets available to pay pension benefits and the unfunded actuarial accrued liability (UAAL) which is the difference between VVA and the actuarial accrued liability. The Funding Progress (Pension Plan) schedule previously included in Required Supplemental Information is now included in the Actuarial section and provides information on historical funded ratios that is of interest to our readers. Finally, there is a detailed description of all of the assumptions that are used to develop the Fiscal Year

Ended June 30, 2014 Actuarial Valuation. The Fiscal Year Ended June 30, 2014 Actuarial Valuation and prior year valuations are available on the SDCERA website.

Statistical, the final section of the report, presents trend data, typically 10 years, of financial, membership, benefit and participant employer information.

FINANCIAL HIGHLIGHTS

- Plan net position, which represents funds restricted for current and future benefits, was $10.2 billion as of the end of the fiscal year, an increase of $1.1 billion over the prior year.
- Total additions to net position were $1.7 billion primarily from an investment gain of $1.2 billion, employer pension contributions of $394.7 million and $78.9 million in member contributions. Total additions to net position increased by $595.8 million or 53.2% from the prior year. SDCERA's total fund returned 13.44%, 21 basis points below the benchmark return, but exceeded the assumed rate of return of 7.75%.
- Total deductions to net position were $593.4 million, an increase of $18.3 million or 3.2% over the prior year. Retirement benefits have risen $17.5 million; driven by a net increase in the number of retired members of 476 and a 2.1% increase in average monthly benefit. Health benefits have decreased by $0.4 million, refunds are flat to the prior year. Administrative expenses increased by $1.3 million.
- During fiscal year 2014, the rate of return on investments was 13.44% on a market value basis, net of fees.
- SDCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. Our actuary estimates that as of June 30, 2014 the plan's funded status (the ratio of the actuarial assets to the actuarial liabilities) is 80.9%. In addition, the plan's fiduciary net position as a percentage of total pension liability is 82.65%.
- As of June 30, 2014, the date of the last actuarial valuation, the OPEB plan unfunded actuarial accrued liability totaled $164.4 million with a funded ratio of 2.8%.

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. SDCERA has two Financial Statements; the Notes to the Basic Financial Statements, five Required Supplementary Schedules of historical trend information, and Other Supplemental Information. The Basic Financial Statement and the required disclosures are in compliance with the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB), utilizing the accrual basis of accounting.

The Other Post-Employment Benefit Program (OPEB Program or Retiree Healthcare) is presented as OPEB. The assets and liabilities related to OPEB are held in trust by SDCERA and so their activities are shown as a separate column in the Basic Financial Statements.

The Statement of Plan Net Position presents assets and liabilities by major categories as of the fiscal year end. The difference between assets and liabilities represent the net position restricted for both pension benefits and OPEB benefits. The statement also presents summarized prior year-end balances for comparative purposes.

Over time, increases or decreases in plan net position may serve as a useful indicator of whether the financial position of SDCERA is improving or deteriorating.

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

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.

SDCERA implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25* (GASB 67), during the year ended June 30, 2014. GASB 67 replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

Below is a list of new or expanded footnotes required by GASB 67 disclosed in the notes to the basic financial statements:

- Plan membership – expanded table
- Investments:
  - ➔ Allocation by Asset Class
  - ➔ Expected Long Term Rate of Return by Asset Class
  - ➔ Annual Money Weighted Rate of Return
- Components of Net Pension Liability – Summary level information
  - ➔ Total Pension Liability
  - ➔ Plan Fiduciary Net Position
  - ➔ Net Pension Liability
  - ➔ Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
- Collective Sensitivity Test
- Significant Actuarial Assumptions used to Measure Total Pension Liability
  - ➔ Inflation Rate, Salary Changes, Cost of Living Adjustments, Mortality Tables
  - ➔ Date of Actuarial Valuation and whether roll-forward procedures were used
  - ➔ Date of most recent Experience Study

- Discount Rate
  - ➔ Discount Rate used in the Measurement of the Total Pension Liability
  - ➔ Assumptions made about projected cash flows
  - ➔ Long Term Expected Rate of Return and how it was determined
  - ➔ If a Municipal bond Rate was used, the bond rate and source of the rate
  - ➔ Periods of projected benefit payments applicable to each rate
  - ➔ Assumed investment asset allocation and the long term expected real rate of return for each major asset class

Prior to the new GASB pension reporting requirements, the Required Supplementary Information (RSI) contained schedules of funding progress and the actuarial assumptions and methods used from a funding valuation perspective. With the divergence of the financial accounting and reporting requirements from the long term funding perspective, these tables are no longer included in the RSI. However, the tables on long term funding prospective are presented in the Actuarial Section of the CAFR.

Preparation of the RSI section under the new GASB pension reporting standards is a bit awkward as the OPEB plan also included in the RSI continues to be reported on a funding value basis. This could be confusing to readers, so explanatory notes have been added preceding the disclosure tables. GASB 67 requires the following RSI disclosures:

- 10-Year Schedule of Changes in Net Pension Liability (only two presented)
- Schedule of Plan Net Position as a Percentage of Total Pension Liability
- Schedule of Net Pension Liability as a Percentage of Covered-Employee Payroll
- 10-Year Schedule of Contractually Required Contributions
- 10-Year Schedule of Annual Money-Weighted Rate of Returns (only three presented)

The Schedule of Changes in Net Pension Liability list the elements that comprise both the total pension liability and the plan net position. The elements of the total pension liability include such things as annual service cost, the impact of actuarial gains and losses, and changes in assumptions about future economic or demographic factors affecting the member population. Actuarial assumptions typically only change as a result of an experience study, which SDCERA conducts every three years, the next experience study will be conducted in 2016 based on the three-year period ended June 30, 2015.

In addition, GASB 67 requires that the plan presents the plan net position from the Schedule of Changes in Net Pension Liability as a percentage of the total pension liability, and the net pension liability as a percentage of total covered-employee payroll. These additional schedules are combined with the Schedule of Changes in Net Pension Liability as a single table.

In the initial year of implementation, historical data is not available to present the required 10-year comparison, so this table can be built prospectively. However, since beginning balances of total pension liability and plan net position are still required, the prior year schedule is provided.

The 10-Year Schedule of Contractually Required Contributions is similar to last year's, reporting requirement that displayed annual required contributions and the percentage of these contributions recognized in the SDCERA financials. A key difference is that the new schedule displays the covered-employee payroll and the contributions as a percentage of covered-employee payroll.

The 10-Year Schedule of Annual Money-Weighted Rate of Returns is a new requirement. Since this was not a prior reporting requirement, the 10-Year history can be built prospectively like the 10-Year Schedule of changes in Net Pension Liability.

Funding Progress (OPEB Plan), which is a Required Supplementary Schedule, contains historical trend information about the actuarially funded status of the OPEB Plan and the progress made in accumulating sufficient assets to pay benefits when due. Employer Contributions (OPEB) present historical trend information about the annual required contributions of the employer and the actual contribution made.

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

As of June 30, 2014, SDCERA's net position restricted for pension and OPEB benefits was $10.2 billion, an increase of $1.1 billion or 12.4 percent from the prior year, due primarily to positive investment returns. The $10.2 billion in Net Position Restricted for Benefits means that total assets of $10.3 billion exceeded total liabilities of $0.1 billion. For the fiscal year ended June 30, 2014, SDCERA's portfolio gained 13.44% (net of fees) while retiree benefits and other expenses experienced only moderate increases.

For the Fiscal Year ended June 30, 2014, the fund increased its net position by $1.1 billion, $1.2 billion in net investment income, $0.5 billion in employer and employee contributions offset by $0.6 billion in benefit payments and administrative expenses.

An overview of the current year results along with a comparison to the previous year results is presented below.

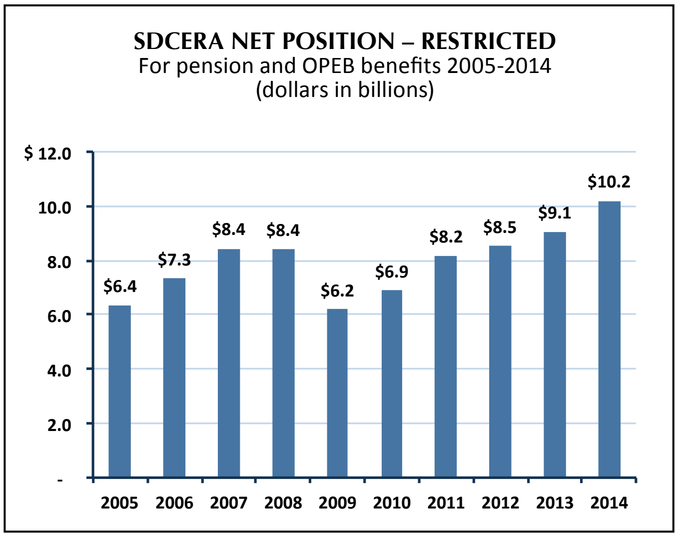
TABLE 1: NET POSITION
As of June 30, 2014 and 2013
(dollars in thousands)

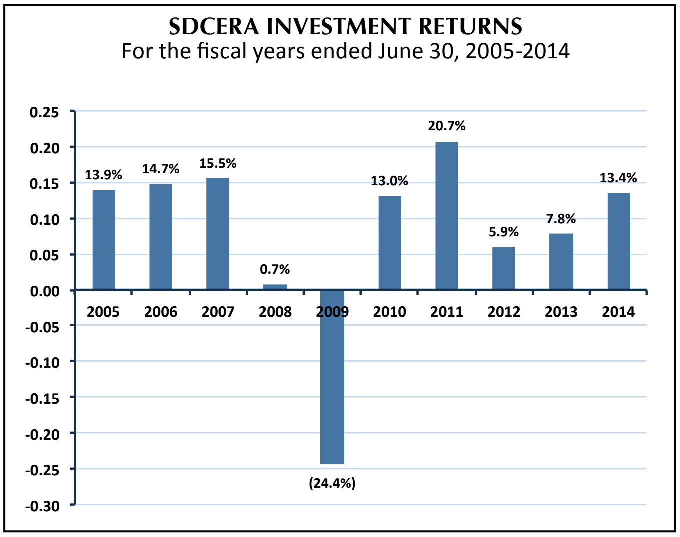
	06/30/2014	06/30/2013	Increase/ (Decrease)	% Change
Cash and Short-Term Investments	$3,482,716	$2,541,304	$941,412	37.0%
Securities lending cash collateral	85,248	23,760	61,488	258.8%
Receivables	456,719	17,107	439,612	2569.8%
Investments	6,254,229	6,515,747	(261,518)	(4.0%)
Capital assets, net	13,503	12,360	1,143	9.2%
Total assets	**10,292,415**	**9,110,278**	**1,182,137**	**13.0%**
Collateral payable for securities lending	85,490	24,748	60,742	245.4%
Investments purchased	8,006	9,847	(1,841)	(18.7%)
Other	13,481	11,489	1,992	17.3%
Total liabilities	**106,977**	**46,084**	**60,893**	**132.1%**
Net Position Restricted for Pension and OPEB Benefits	**$10,185,438**	**$9,064,194**	**$1,121,244**	**12.4%**

MAJOR VARIANCE EXPLANATIONS

- The increase in Cash and Short-Term Investments balances represents $0.9 billion of collateral for the Risk Parity Portfolio.
- The increase in Receivables of $0.4 billion is as a result of end of year liquidations of various investment securities.
- Total Investments has seen a reduction of $0.3 billion as assets have shifted out of various asset classes to fund the increase in cash collateral for the Risk Parity portfolio.

TABLE 2: CHANGES IN PLAN NET POSITION For the fiscal years ended June 30, 2014 and 2013 (dollars in thousands)	06/30/2014	06/30/2013	Increase/ (Decrease)	% Change
Additions				
Employer pension contributions	$394,698	$357,893	$36,805	10.3%
Employer OPEB contributions	20,208	19,025	1,183	6.2%
Member pension contributions	78,920	71,718	7,202	10.0%
Net investment income	1,219,604	667,298	552,306	82.8%
Net securities lending income	1,249	2,902	(1,653)	(56.9%)
Total additions	1,714,679	1,118,836	595,843	53.3%
Deductions				
Retirement benefits	558,015	540,506	17,509	3.2%
Health benefits	19,975	20,407	(432)	(2.1%)
Refund of contributions	2,736	2,778	(42)	(1.5%)
Administrative expenses	12,709	11,454	1,255	11.0%
Total deductions	593,435	575,145	18,290	3.2%
Net increase in net position	$1,121,244	$543,691	$577,553	106.2%
Net position restricted for pension and OPEB Benefits				
Beginning of year	9,064,194	8,520,503		
End of year	$10,185,438	$9,064,194		





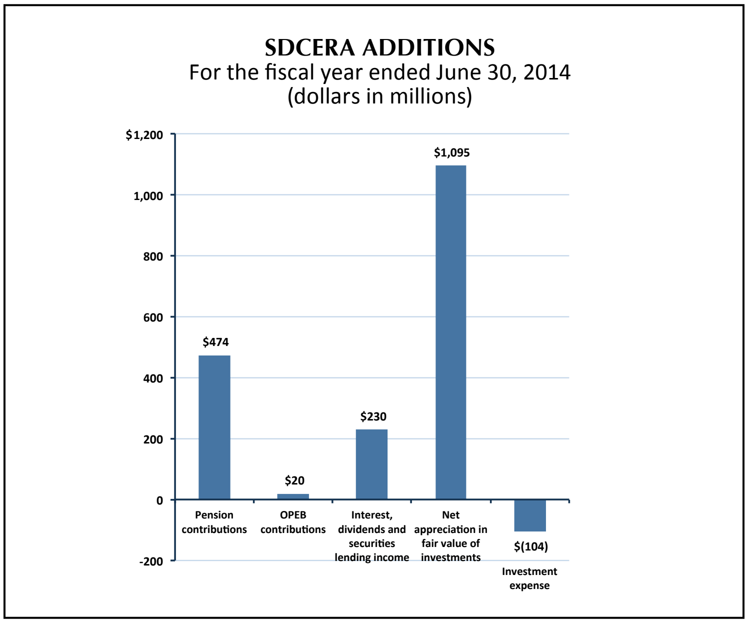
ADDITIONS TO PLAN NET POSITION

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 Net Position) total $1,714.7 million for the fiscal year ended June 30, 2014, an increase of $595.8 million over the prior year.

- Employer and member pension contributions were $473.6 million in fiscal year 2014, an increase of $44.0 million over the prior year. Combined employer contribution rates of 34.04% in fiscal year 2014 compared to 29.96% in fiscal year 2013, increased the Pension Annual Required Contribution (ARC) by $55.7 million, offset by $14.2 million in excess contributions in the previous year and a decrease in the employer offset of $4.7 million. Employee contributions increased by $7.2 million, $4.7 million in employer offset reductions and $2.5 million from an increase in payroll.

- Employer OPEB contributions were $20.2 million in the fiscal year 2014, $1.2 million higher than the prior year, primarily because of an increase in active payroll.

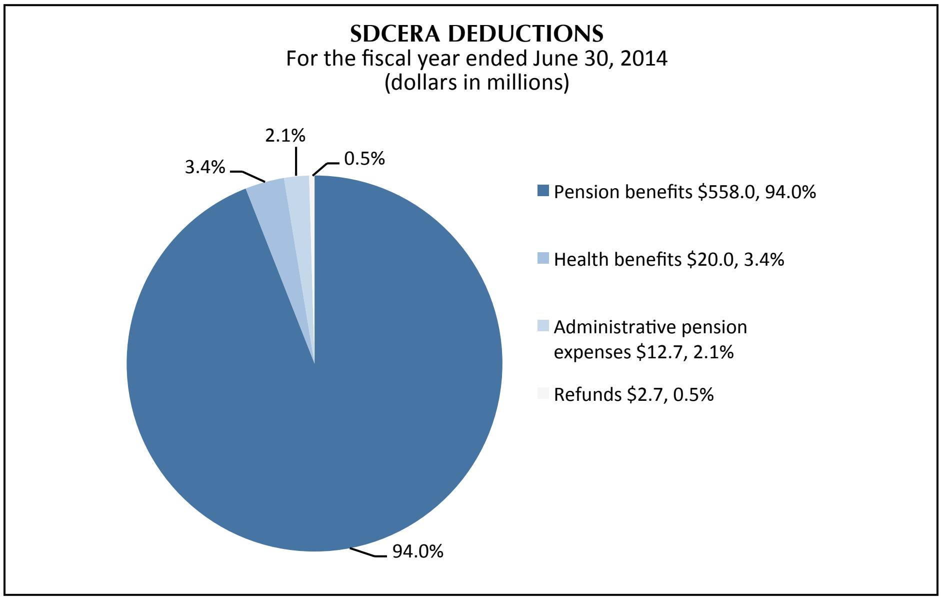
- Net Investment Income equaled $1,220.9 million in fiscal year 2014, an increase of $550.7 million over the prior year. This fiscal year's investment return of 13.44 percent (net of fees) exceeded the actuarial assumed investment earnings rate of 7.75 percent. This income was primarily driven by the equity portfolio of $541.5 million, with contributions from the overlay program of $252.7 million, the fixed income portfolio of $154.9 million and the private markets of $320.5 million, offset by $104.3 million in investment expenses.

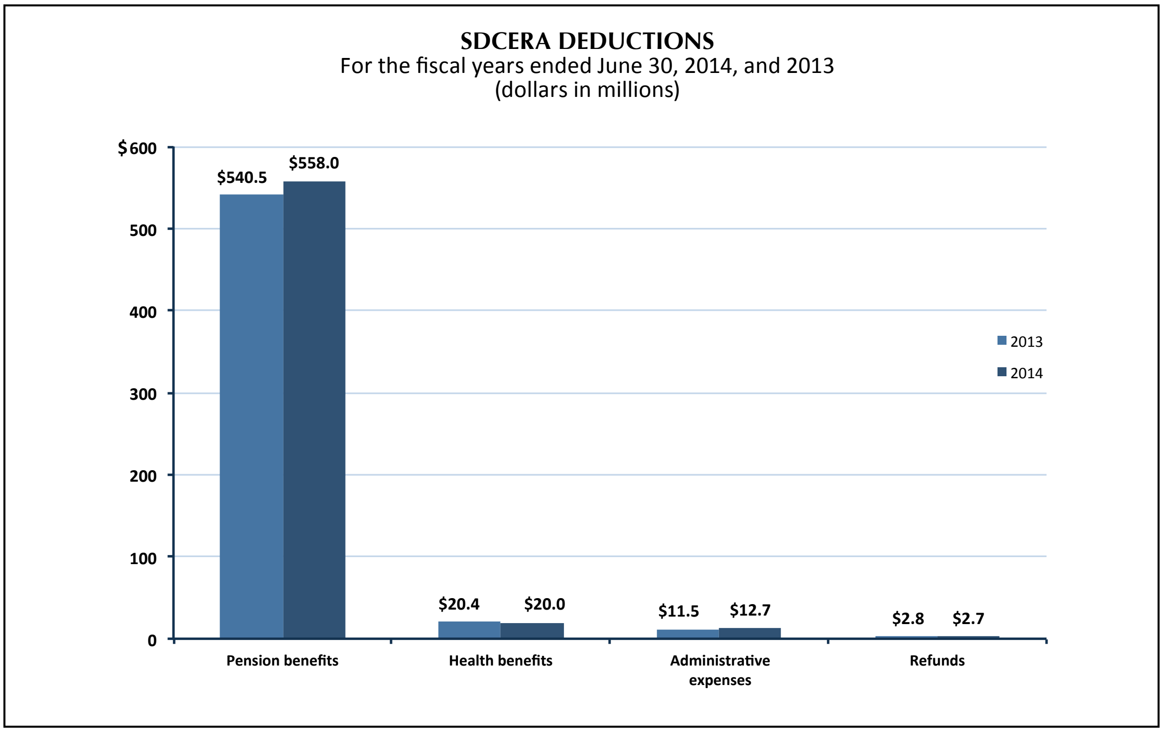


DEDUCTIONS FROM PLAN NET POSITION

SDCERA's assets are primarily used to pay pension, disability, health and survivor benefits, refund members' contributions and to cover the cost to administer the plan. Deductions from plan net position for fiscal year ended June 30, 2014 totaled $593.4 million, an increase of $18.3 million, or 3.2% over 2013.

Retirement benefits represent $17.5 million of the year-over-year change primarily due to the increase in the number of retired members.





PLAN ADMINISTRATION

SDCERA Membership

The table below provides comparative SDCERA membership data for the last two fiscal years. SDCERA's membership increased by 1,219 members or 3.2%.

SDCERA MEMBERSHIP
As of June 30, 2014 and 2013

	2014	2013
Active Members	17,466	16,891
Retired Members	16,373	15,820
Terminated Vested (Deferred)	5,091	5,000
Total Membership	**38,930**	**37,711**

Administrative Expenses

The SDCERA Board of Retirement approved the annual budget which controls administrative expenses and represented approximately 0.12 percent of the actuarial accrued liability.

The table below provides a comparison of the actual administrative expenses for the fiscal years ended 2014 and 2013. The actuarial accrued liability was used to calculate the statutory budget amount. SDCERA's expenditures are well below the limit imposed by the law for both years.

BUDGET-TO-ACTUAL ANALYSIS OF ADMINISTRATIVE EXPENSES
As of June 30, 2014 and 2013
(Dollars in Thousands)

	2014	2013
Basis for Budget Calculation (Actuarial Accrued Liability)		
Actual Administrative Expenses	$ 12,709	$ 11,454
Basis for Budget Calculation	10,943,172	10,482,657
Administrative Expenses as a Percentage of		
The Basis for Budget Calculation	0.12%	0.11%
Limit per Statute	0.21%	0.21%

ACTUARIAL VALUATIONS

The annual actuarial valuation is similar to an inventory process. On the valuation date, the assets available for the payment of retirement benefits are valued. These assets are compared with actuarial liabilities, which are the actuarial present value of all future benefits expected to be paid for each member. The purpose of the funding valuation is to determine the contributions, both employees and employers, needed to pay for all expected future benefits.

This fiscal year SDCERA's actuary prepared two actuarial valuations each with a defined purpose.

A Governmental Accounting Standards Board (GASB) 67 Actuarial Valuation as of June 30, 2014 was prepared by the Actuary to develop and present the employers' Pension Liability required by GASB 67. To accommodate the annual reporting requirements of our plan sponsors and allow time for the audit firms to conduct a financial review of the results of this valuation, this valuation used the prior year valuation as the basis for calculating the total pension liability and then "rolls forward" the liabilities to June 30, 2014. The plan fiduciary net position is actual as of the end of the current fiscal year, June 30, 2014. This valuation determined that the SDCERA Total Pension Liability was $12.3 billion compared to a fiduciary net position of $10.2 billion, resulting in the employers' Net Pension Liability of $2.1 billion and a fiduciary net position as a percentage of the total pension liability of 82.65%.

The second valuation is the Annual Actuarial Valuation as of June 30, 2014, this valuation is performed to determine whether the assets and contributions are sufficient to provide the prescribed benefit, and is the basis for developing the employer and employee contribution rates for the following year. This valuation determined that the Actuarial Accrued Liability (AAL) of the SDCERA pension plan was $12.1 billion, the valuation value of assets (VVA) was $9.8 billion, the Unfunded Actuarial Accrued Liability (UAAL) was $2.3 billion and the funded ratio (VVA/AAL) is 80.9%.

In June 2013, the SDCERA Board of Retirement adopted a new Actuarial Funding Policy. Beginning with the June 30, 2014 valuation the Entry Age method shall be applied to the projected retirement benefits in determining the Normal Cost and the Actuarial Accrued Liability (AAL), with the Normal Cost determined as a level percentage of compensation. Both the Normal Cost and the AAL will be determined on an individual basis with the total of the individual Normal Costs expressed as a percentage of total compensation. The Board also made adjustments to the Unfunded Actuarial Accrued Liability (UAAL) amortization policy.

- Any new UAAL as a result of actuarial gains or losses identified in the annual valuation as of June 30 will be amortized over a period of 20 years;
- Any new UAAL as a result of change in actuarial assumptions or methods will be amortized over a period of 20 years;
- Unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis:
  - a) With the exception noted in b. below, the increase in UAAL as a result of any plan amendments will be amortized over a period of 15 years;
  - b) increase in UAAL resulting from a temporary retirement incentive will be funded over 5 years;
- If an overfunding exists so that there is a surplus, any prior UAAL amortization layers will be considered fully amortized, and any subsequent UAAL will be amortized as the first of a new series of amortization layers. If the amount of such surplus is in excess of 20% of the AAL it will be amortized over an "open" amortization period of 30 years (per Section 7522.52 of CalPEPRA).

In May 2013, the Board of Retirement adopted a decrease in the investment return assumption from 8.00% to 7.75%, effective for the June 30, 2013 actuarial valuation.

Milliman, an independent consulting actuary, completed an Actuarial Audit of SDCERA's June 30, 2012 Actuarial Valuation and found that the actuarial work performed by Segal was reasonable, appropriate, and accurate. No changes to the valuation were recommended.

FAIR VALUE, RATES OF RETURN, FUNDED RATIO, AND FIDUCIARY NET POSITION AS A PERCENT OF TOTAL PENSION LIABILITY

The table below provides a four-year history of investment and actuarial returns and the actuarial funded ratio. An expanded version of this table, which provides ten years of information, can be found in the Investment and Actuarial Sections.

The investment returns have been positive over the last four years, exceeding the assumed rate of return in three of those years. The funded ratio has steadily increased over the period reaching an 80.9% funded ratio this fiscal year. The funded ratio on a Market Value basis is 83.3% when deferred gains of $285.5 million are recognized.

FAIR VALUE, RATES OF RETURN, FUNDED RATIO, AND FIDUCIARY NET POSITION AS A PERCENT OF TOTAL PENSION LIABILITY
For the Last Four Fiscal Years Ended June 30
(dollars in thousands)

Fiscal Year-End	Total Investment Portfolio Fair Value	Total Fund Return (gross of fees)	Return on Smoothed Valuation Assets	Actuarial Assumed Rate of Return	Funded Ratio	Fiduciary Net Position as a Percent of Total Pension Liability
2011	$ 8,255,064	21.62%	2.42%	8.00%	81.50%	N/A
2012	8,518,152	6.42%	1.72%	8.00%	78.70%	N/A
2013	9,062,295	8.25%	7.77%	7.75%	79.00%	76.18%
2014	10,176,985	13.82%	7.77%	7.75%	80.90%	82.65%

Note: N/A indicates that there is no data for that fiscal year.

DERIVATIVES

SDCERA utilizes derivatives in its portfolio 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 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.

As of June 30, 2014 SDCERA's investment portfolio had an additional $7.5 billion in exposure to the Global Equity Markets ($1.6 billion), US Treasuries ($0.3 billion), Private Equity ($0.4 billion), Commodities ($0.2 billion) and Risk Parity ($5.0 billion).

INVESTMENT RISKS

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, this CAFR presents investment risk disclosures for: interest rate risk, credit risk (including custodial credit risk and concentrations of credit risk) and foreign currency risk. Interest rate risk is presented on page 40 and lists all investments in the SDCERA portfolio that have an interest component, their fair market value and the number of years until maturity. Credit risk is represented by a chart on page 41 that lists the credit ratings (dollars and percent) of all fixed income securities in the SDCERA portfolio. Finally foreign currency risk is represented on page 43 as a listing of all the foreign currencies present in the SDCERA portfolio as of June 30, 2014.

INTEREST CREDITS FOR RESERVE ACCOUNTS

Pursuant to CERL, SDCERA credits interest semiannually on December 31 and June 30 to all valuation accounts that have been on deposit six months prior to such dates. The Board of Retirement's policy is to credit interest on a semi-annual basis equal to the actual earnings of the fund for that semiannual period or one half of the current actuarial interest assumption rate adopted by the Board whichever is lower, but with a minimum interest crediting rate of zero.

The semiannual interest crediting rate applied on December 31 was 3.758% which represented the actual earning of the fund. On June 30 the fund credited interest at 3.875% which equals one-half of the current actuarial interest assumption rate.

ECONOMIC FACTORS

The U.S. economy continued to improve steadily with the Federal Reserve (Fed) providing the support with continued quantitative easing, buying bonds albeit at a smaller rate than previous years and maintaining low long-term yields. Positive growth continued, evidenced by the stock market increase, rebounding housing prices, and the revival of household wealth all sustaining consumer confidence.

Moving forward, the U.S. economy is expected to produce moderate Gross Domestic Product growth. However, continued Fed tapering and global crisis may present a degree of volatility in financial markets.

The global economy grew at a modest pace with Europe rebounding slowly from a recession, growth slowing in China, and economic policies in Japan continuing to accelerate economic activity. All of this is tempered with Russia's continued interference in Ukraine, and the increased threat of unrest in the Middle East, Africa and Central Asia.

For the fiscal year ended June 30, 2014, SDCERA's total fund return was 13.44%, net of fees 21 basis points below its Policy benchmark.

OTHER POST-EMPLOYMENT BENEFITS (OPEB) TRUST

SDCERA administers a healthcare program (OPEB) for its retirees, negotiating rates for numerous healthcare plans, collecting premiums from members and paying the vendors. Tier I and II retirees are eligible to receive a healthcare allowance depending on years of service. The OPEB is funded by the employer and is held in trust for that purpose. The Trust is commingled with the Pension assets for investment purposes, actual earnings are allocated to the Trust based on its percentage of Assets under Management.

As reflected in the Statement of Changes in Plan Net Position, the fund began the fiscal year with a balance of $3.9 million, received the annual required contribution of $20.2 million, distributed $20.0 million in healthcare allowances and received $0.5 million in earnings for the fiscal year ended June 30, 2014.

The balance in the OPEB trust account was $4.7 million on June 30, 2014.

NEW PENSION ACCOUNTING AND FINANCIAL REPORTING STANDARDS

On June 25, 2012, the Government Accounting Standards Board (GASB) voted to approve two new standards designed to substantially improve the accounting and financial reporting of public employee pensions by state and local governments. Statement No. 67*, Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25,* revises existing guidance for the financial reports of most pension plans. Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27,* revises and establishes new financial reporting requirements for governments that provide their employees with defined benefit pensions. These accounting and financial reporting standards represent the most significant fundamental changes in reporting requirements for pension plans (SDCERA), the plan sponsor (San Diego County) and participating employers (special districts) since 1994.

As discussed in the preceding sections of this MD&A, SDCERA implemented GASB Statement No. 67 effective for fiscal year ending June 30, 2014.

The new standards require San Diego County and outside districts to recognize their proportionate share of long-term obligation for pension benefits as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. This proportionate share is based on the plan sponsors' long-term contribution effort. The new financial reporting standards also enhance accountability and transparency through revised and new note disclosures and required supplementary information. For San Diego County and the special districts, the new financial reporting provisions are effective for their fiscal year ending June 30, 2015.

SDCERA gathered key stakeholders from the County, special districts, and external professional service providers to discuss requirements for implementation of the new accounting standards. These sessions provided the opportunity to educate and open a dialog among the parties involved and develop a timeline and framework for implementation.

GASB issued the *Implementation Guide for GASB Statement No. 67* in late June 2013. We have discussed the implementation plan with the Audit, Budget and Finance Committee of the SDCERA Board of Retirement. The *Implementation Guide for GASB Statement No. 68* was issued in January 2014.

CURRENTLY KNOWN FACTS, CONDITIONS, DECISIONS

In April 2014, the Board of Retirement accepted a new asset allocation effective July 1, 2014 that incorporated a 20% Risk Parity sleeve that would have a 15% variation margin and allow five times leverage. At its September 18, 2014 Board meeting the Board of Retirement decided to reduce the Risk Parity sleeve variation margin to 7%, allowing only two times leverage. In December 2014, the Board of Retirement adopted a linear in-house governance model, ending the outsourced CIO model it had previously adopted.

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 4, 2014

STATEMENT OF PLAN NET POSITION
As of June 30, 2014
(with summarized comparative amounts as of June 30, 2013)

	June 30, 2014			June 30, 2013
	Pension Plan	Health Care	Total Fund	Total Fund
Assets				
Cash and short-term investments				
Cash in County pool	$ 768,163	$ 358	$ 768,521	$ 4,209,807
Cash and cash equivalents with fiscal agents	286,409,634	133,414	286,543,048	205,377,203
Early Retiree Reinsurance Program cash	39	-	39	19,005
Collateral cash	3,193,916,805	1,487,770	3,195,404,575	2,331,698,188
Total cash and short-term investments	**3,481,094,641**	**1,621,542**	**3,482,716,183**	**2,541,304,203**
Securities lending cash collateral	**85,208,061**	**39,691**	**85,247,752**	**23,759,372**
Receivables				
Contributions	5,785,388	2,695	5,788,083	4,334,567
Accrued interest and dividends	19,634,331	9,144	19,643,475	8,480,812
Settlement of investments sold	431,086,583	200,806	431,287,389	4,291,726
Total receivables	**456,506,302**	**212,645**	**456,718,947**	**17,107,105**
Investments at fair value				
Domestic equity securities	339,054,492	157,936	339,212,428	325,614,429
International equity securities	433,762,071	202,052	433,964,123	560,281,754
Total equity securities	**772,816,563**	**359,988**	**773,176,551**	**885,896,183**
United States government obligations	169,824,478	79,107	169,903,585	757,452,394
Domestic bonds	708,044,691	329,817	708,374,508	517,391,290
International bonds	1,006,671,452	468,922	1,007,140,374	884,776,145
Total fixed income securities	**1,884,540,621**	**877,846**	**1,885,418,467**	**2,159,619,829**
Cash and securities for futures	372,427,204	173,482	372,600,686	278,643,327
Cash and securities for swaps	105,234,787	49,020	105,283,807	8,143,429
Opportunistic	64,677,446	30,128	64,707,574	7,046,478
Hedge funds	492,145,293	229,248	492,374,541	692,904,637
Relative value	510,108,760	237,616	510,346,376	591,451,125
Private equity	502,265,274	233,962	502,499,236	409,139,861
Real estate	978,450,047	455,776	978,905,823	988,833,392
Infrastructure	216,099,605	100,662	216,200,267	226,426,446
Natural resources	352,550,995	164,223	352,715,218	267,642,463
Total investments	**6,251,316,595**	**2,911,951**	**6,254,228,546**	**6,515,747,170**
Capital assets, net	**13,497,031**	**6,287**	**13,503,318**	**12,360,236**
Total assets	**10,287,622,630**	**4,792,116**	**10,292,414,746**	**9,110,278,086**
Liabilities				
Collateral payable for securities lending	85,450,227	39,804	85,490,031	24,748,165
Settlement of investments purchased	8,002,238	3,728	8,005,966	9,846,732
Professional services	9,680,248	4,509	9,684,757	9,421,367
Death benefits	872,584	-	872,584	747,066
Retirement benefits	392,123	-	392,123	305,455
Refunds to members	545,192	-	545,192	306,993
County advance contribution	-	-	-	312,829
ERRP funds	-	-	-	18,538
Cash in transit	282,253	131	282,384	352,310
Other	1,702,816	795	1,703,611	24,999
Total liabilities	**106,927,681**	**48,967**	**106,976,648**	**46,084,454**
Net position restricted for pension and OPEB benefits	**$ 10,180,694,949**	**$ 4,743,149**	**$ 10,185,438,098**	**$ 9,064,193,632**

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

STATEMENT OF CHANGES IN PLAN NET POSITION
For the year ended June 30, 2014
(with summarized comparative amounts for June 30, 2013)

	June 30, 2014			June 30, 2013
	Pension Plan	Health Care	Total Fund	Total Fund
Additions to Plan net position				
Contributions				
Employer contributions	$ 394,698,023	$ 20,208,132	$ 414,906,155	$ 376,917,941
Plan member contributions	78,920,054	-	78,920,054	71,718,077
Total contributions	**473,618,077**	**20,208,132**	**493,826,209**	**448,636,018**
Investment income				
Net appreciation/(depreciation) in fair value of investments				
Stocks	163,097,730	68,260	163,165,990	81,403,023
Bonds	66,293,653	27,746	66,321,399	(59,544,974)
Foreign currency	(1,773,669)	(742)	(1,774,411)	(2,768,306)
Real estate and private equity	183,655,161	76,864	183,732,025	91,269,413
Natural resources	20,123,325	8,422	20,131,747	10,545,931
Opportunistic	14,965,504	6,263	14,971,767	67,710,796
Relative value	14,322,611	5,994	14,328,605	41,126,568
Multi-strategy fund	1,607,224	673	1,607,897	4,952,245
Infrastructure	35,775,099	14,973	35,790,072	21,931,345
Swaps	314,124,752	131,469	314,256,221	183,556,887
Futures	281,966,524	118,010	282,084,534	125,312,257
Total net appreciation in fair value of investments	**1,094,157,914**	**457,932**	**1,094,615,846**	**565,495,185**
Interest income				
Bonds	51,614,707	21,603	51,636,310	34,424,667
Cash	36,942,382	15,461	36,957,843	19,339,707
Total interest income	**88,557,089**	**37,064**	**88,594,153**	**53,764,374**
Other				
Dividends on stock investments	78,756,160	32,961	78,789,121	93,914,459
Real estate equity investment income	50,346,532	21,071	50,367,603	33,943,940
Private equity investment income	5,031,520	2,106	5,033,626	7,030,986
Natural resources investment income	6,459,834	2,704	6,462,538	5,423,552
Commission recapture	-	-	-	1,240
Other income	6	-	6	86
Total other	**140,594,052**	**58,842**	**140,652,894**	**140,314,263**
Less: investment expenses	**(104,215,250)**	**(43,617)**	**(104,258,867)**	**(92,275,860)**
Net investment income, other than securities lending	**1,219,093,805**	**510,221**	**1,219,604,026**	**667,297,962**
Securities lending appreciation	746,202	312	746,514	2,323,701
Securities lending income	127,838	54	127,892	288,555
Add: securities lending premiums and agent fees	374,788	158	374,946	289,658
Net securities lending	**1,248,828**	**524**	**1,249,352**	**2,901,914**
Net investment income	**1,220,342,633**	**510,745**	**1,220,853,378**	**670,199,876**
Total additions to plan net position	**1,693,960,710**	**20,718,877**	**1,714,679,587**	**1,118,835,894**
Deductions from Plan net position				
Benefits				
Retirement benefits	556,491,410	-	556,491,410	539,172,804
Death benefits	1,523,156	-	1,523,156	1,332,648
Health benefits	-	19,974,887	19,974,887	20,407,372
Total benefits	**558,014,566**	**19,974,887**	**577,989,453**	**560,912,824**
Member refunds	2,736,221	-	2,736,221	2,778,423
Administrative expenses	12,709,447	-	12,709,447	11,453,806
Total deductions from plan net position	**573,460,234**	**19,974,887**	**593,435,121**	**575,145,053**
Increase in net position	**1,120,500,476**	**743,990**	**1,121,244,466**	**543,690,841**
Net position restricted for pension and OPEB benefits				
Beginning of year	9,060,194,473	3,999,159	9,064,193,632	8,520,502,791
End of year	**$ 10,180,694,949**	**$ 4,743,149**	**$ 10,185,438,098**	**$ 9,064,193,632**

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, by calling 619.515.6800 or visit the SDCERA website at www.sdcera.org/CAFR/cafr_2014.pdf.

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 accruing five years of service credit.

MEMBERSHIP

As of June 30, 2014, 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 32.

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 who entered the retirement system prior to October 1, 1978, were 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. Both Tier I and Tier II are closed to new entrants.

The maximum General, Tier I benefit formula is approximately 2.62% of monthly final average compensation at age 62. The maximum General, Tier II benefit formula is approximately 2.43% of monthly final average compensation at age 65. The maximum Safety, Tier I and Safety, Tier II benefit formula is approximately 2.62% of monthly compensation at age 55. Monthly final average compensation is based on the highest 26 consecutive pay periods (one year) of eligible earnings for Tier I members and the highest 78 consecutive pay periods (three years) for Tier II members.

General, Tier A members entered the system on or after March 8, 2002, and before August 28, 2009. The maximum General, Tier A benefit formula is approximately 3% of monthly final average compensation at age 60. The maximum Safety, Tier A benefit formula is 3% of monthly final average compensation at age 50. Monthly final average compensation for Tier A members is based on the highest 26 consecutive pay periods (one year) of eligible earnings. Tier A members may retire at age 50 with 10 or more years of service credit, or at any age with 30 or more years of service credit (20 years for Safety members). All Tier A members (both General and Safety) may retire from active service at age 70 regardless of the number of years of service credit.

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 and before December 1, 2012. The maximum General, Tier B benefit formula is approximately 2.62% of monthly final average compensation at age 62. The maximum Safety, Tier B benefit formula is 3% of monthly final average compensation at age 55. Monthly final average compensation for Tier B members is based on the highest 78 consecutive pay periods (three years) of eligible earnings. General, Tier B members may retire when they are at least age 55 with 10 or more years of service credit or at any age with 30 or more years of service credit. Safety, Tier B members may retire when they are at least age 50 with 10 or more years of service credit, or at any age with 20 or more years of service credit. All Tier B members (both General and Safety) may retire from active service at age 70 regardless of the number of years of service credit.

On September 12, 2012, the California Public Employees' Pension Reform Act (PEPRA) was signed into law by Governor Jerry Brown, establishing Tier C 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. Monthly final average compensation for Tier C members is based on the highest 78 consecutive pay periods (three years) of eligible earnings. 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 ($115,064 in 2014) and 120% for Safety members ($138,077 in 2014).

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 retired Tier I, Tier II and Tier A members is limited to a maximum of 3% per year. The COLA for retired Tier B and Tier C members 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. 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 was reduced in 2013 and, absent the allocation of any available excess earnings, will be eliminated entirely in approximately 2016.

TERMINATED MEMBERS' DEFERRED RETIREMENT BENEFIT AND WITHDRAWAL BENEFIT

A member leaving covered employment after having five years of service credit becomes eligible for a retirement benefit, provided the member lives to the minimum service retirement age and does not withdraw his or her accumulated member 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, 2014

	General	Safety	Total
Active members			
General, Tier I	29	-	29
General, Tier A	10,330	-	10,330
General, Tier B	1,766	-	1,766
General, Tier C	1,770	-	1,770
Safety, Tier A	-	2,710	2,710
Safety, Tier B	-	489	489
Safety, Tier C	-	372	372
Total active members	**13,895**	**3,571**	**17,466**
Deferred (terminated) members			
General, Tier I	1,573	-	1,573
General, Tier A	2,473	-	2,473
General, Tier B	277	-	277
General, Tier C	159	-	159
Safety, Tier A	-	556	556
Safety, Tier B	-	46	46
Safety, Tier C	-	7	7
Total deferred (terminated) members	**4,482**	**609**	**5,091**
Retired members			
General, Tier I	5,172	-	5,172
General, Tier II	1,634	-	1,634
General, Tier A	6,996	-	6,996
General, Tier B	9	-	9
Safety, Tier I	-	493	493
Safety, Tier II	-	294	294
Safety, Tier A	-	1,773	1,773
Safety, Tier B	-	2	2
Total retired members	**13,811**	**2,562**	**16,373**
Total members	**32,188**	**6,742**	**38,930**

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 (HIA) 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 HIA is not a vested SDCERA benefit and is not guaranteed. It may be reduced or discontinued at any time.

Currently, an HIA benefit 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 HIA become eligible for 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 allowance.

The HIA may be used toward a member's insurance premiums for an SDCERA-sponsored plan or toward medical, dental and prescription insurance premiums paid to other providers elected by the member.

The Total Fund's Statement of Plan Net Position 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 Position 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 equity, fixed income, private equity, infrastructure, natural resources, 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:

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.

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, INFRASTRUCTURE AND NATURAL RESOURCES

The fair value of all private equity, infrastructure and natural resources 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, 2014, SDCERA's share of outstanding debts on directly held real estate investments totaled approximately $316.4 million as summarized below:

MORTGAGE LOANS PAYABLE
As of the fiscal year ended June 30, 2014
(dollars in thousands)

	Principal	Interest	Total
2015	$ 35,039.3	$ 10,462.0	$ 45,501.3
2016	15,545.1	12,767.5	28,312.6
2017	164,846.4	11,634.1	176,480.5
2018	41,456.3	6,135.1	47,591.4
2019	29,903.4	3,093.3	32,996.7
2020-2024	29,600.0	2,288.0	31,888.0
Total	**$316,390.5**	**$46,380.0**	**$362,770.5**

OTHER EXTERNALLY MANAGED FUND STRUCTURES

Investments made in externally managed funds, such as hedged funds and relative value, 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 Plan Net Position.

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 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 Position.

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
As of fiscal year ended June 30, 2014

	Balance 07/01/2013	Additions	Deletions and transfers	Balance 06/30/2014
Capital assets not being depreciated				
Software in progress	$11,501,357	$ 883,087	$ 29,843	$12,354,601
	11,501,357	**883,087**	**29,843**	**12,354,601**
Capital assets being depreciated				
Computer hardware, software, and maintenance	5,185,671	1,348,303	620,752	5,913,222
Office furniture and fixtures	1,464,392	-	-	1,464,392
Leasehold improvements	1,641,872	-	-	1,641,872
	8,291,934	**1,348,303**	**620,752**	**9,019,486**
Less accumulated depreciation for:				
Computer hardware, software, and maintenance	(5,090,592)	(246,805)		(5,337,397)
Office furniture and fixtures	(1,325,278)	(27,610)		(1,352,888)
Leasehold improvements	(1,017,186)	(163,298)		(1,180,484)
	(7,433,056)	**(437,713)**	**-**	**(7,870,769)**
Net capital assets being depreciated	**858,879**	**910,590**	**620,752**	**1,148,717**
Net capital assets	**$12,360,236**	**$1,793,677**	**$650,595**	**$13,503,318**

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.

RECLASSIFICATION

Certain reclassifications have been made to the comparative totals as of and for the year ended June 30, 2013, to conform to the presentation as of June 30, 2014.

SUMMARIZED PRIOR YEAR INFORMATION

The accompanying financial statements include certain prior year summarized comparative information in total, but do 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's financial statements as of and for the fiscal year ended June 30, 2013, from which the summarized information was derived.

IMPLEMENTATION OF NEW ACCOUNTING STANDARD

Effective July 1, 2013, SDCERA adopted the provisions of Government Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.* The requirements for GASB No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of the total and net pension liability. It also includes comprehensive footnote disclosures regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investments activity disclosures.

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.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2014, although SDCERA has no formal policy, the System had no single issuer that exceeds 5% of total investments per GASB Statement No. 40 disclosure requirements or any one issuer which represents 5% or more of total net position in accordance with GASB Statement No. 67. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are exempt from the disclosure requirements.

HIGHLY SENSITIVE INVESTMENTS

As of June 30, 2014, SDCERA's investments included Collateralized Mortgage Obligations and Mortgage Pass-Through securities totaling $217.3 million. These securities are highly sensitive to interest rate fluctuations in that they are subject to early payment in a period of declining interest rates. The resulting reduction in expected total cash flows affects the fair value of these securities.

ANNUAL RATE OF RETURN

For the fiscal year ended June 30, 2014, the annual money-weighted rate of return on the plan net of investment expenses was 13.39%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the timing of cash flows and the changing amounts actually invested.

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, 2014, SDCERA had the following investments and maturities in the table below:

INTEREST RATE RISK
(dollars in thousands)

		Investment Maturities (in years)			
Investment type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Asset and mortgage backed securities	$ 45,625	$ 29,622	$ 16,003	$ -	$ -
Certificates of deposits	181,303	171,803	9,500	-	-
Collateralized mortgage obligations	204,309	162,683	5,198	3,475	32,953
Commercial paper	455,231	455,231	-	-	-
Convertible bonds	240,116	20,102	131,799	35,656	52,559
Corporate bonds	1,624,726	1,174,914	403,361	46,451	-
Emerging market debt securities	24,250	24,250	-	-	-
Municipal bonds	444,211	399,748	44,463		
International bonds	35,327		35,327	-	
Private placements	744,869	310,425	346,858	74,802	12,784
Repurchase agreements	70,668	70,668	-	-	-
US Treasuries	173,915	4,011	-	-	169,904
Total	**$4,244,550**	**$2,823,457**	**$992,509**	**$160,384**	**$268,200**

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.

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, 2014:

CREDIT RISK
(dollars in thousands)

Ratings	Domestic core fixed income	Convertibles fixed income	High yield fixed income	Short-term investments	Total
Govt	$169,904	$ -	$ -	$ 150,760	$ 320,664
AAA	-	-	-	399,307	399,307
AA	-	-	-	647,880	647,880
A	-	16,837	-	1,456,776	1,473,613
BBB	-	24,365	-	215,334	239,699
BB	-	36,964	56,350	3,161	96,475
B	-	40,313	122,924	1,655	164,892
CCC	-	2,940	28,703	-	31,643
NR	983	122,168	6,695	740,531	870,377
Total	**$170,887**	**$243,587**	**$214,672**	**$3,615,404**	**$4,244,550**

CREDIT RISK

Ratings	Domestic core fixed income	Convertibles fixed income	High yield fixed income	Short-term investments
Govt	99.4%	0.0%	0.0%	4.2%
AAA	0.0%	0.0%	0.0%	11.0%
AA	0.0%	0.0%	0.0%	17.9%
A	0.0%	6.9%	0.0%	40.3%
BBB	0.0%	10.0%	0.0%	6.0%
BB	0.0%	15.2%	26.2%	0.1%
B	0.0%	16.5%	57.3%	0.0%
CCC	0.0%	1.2%	13.4%	0.0%
NR	0.6%	50.2%	3.1%	20.5%
	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 credit rating for Domestic Core Fixed Income was mostly comprised of U.S. government securities, which were rated AAA, but are exempt from the credit rating risk disclosures, excluding 0.6% 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 credit rating of the Convertibles Fixed Income Portfolio was BB, excluding 50.2% of unrated securities.

HIGH YIELD FIXED INCOME PORTFOLIO

The weighted average credit rating of the High Yield Fixed Income Portfolio as of June 30, 2014, was B, excluding 3.1% 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, 2014, the Emerging Market Debt portfolio consisted of securities held in a commingled fund.

In addition, SDCERA holds fixed income investments in commingled funds. The following table summarizes the interest and credit risks for fixed income, commingled fund investments:

COMMINGLED FUNDS
As of June 30, 2014
(dollars in thousands)

Funds	Fair Value	Weighted Average Maturity (in years)	Ratings
Wellington CIF II Trust	$1,007,141	5.24	NR
Oaktree Expanded High Yield	241,992	6.59	NR
Blackrock Credit Investors	6,302	NA	NR
Total	**$1,255,435**		

NR represents those securities that are not rated. As of June 30, 2014 Blackrock Credit Investors was only invested in equity securities.

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 or less and are limited to hedging currency exposure existing in the portfolio. SDCERA's exposure to foreign currency risk derives from its positions in foreign currency denominated international equity and fixed income investments.

NET EXPOSURE TO FOREIGN CURRENCY RISK
As of June 30, 2014
(dollars in thousands)

Currency name	Equity	Fixed income	Real assets	Foreign Exchanges	Short-term investments	Total
EURO	$ 80,345	$(24,390)	$ -	$102,689	$117,689	$ 276,333
JAPANESE YEN	-	-	-	113,525	1,002	114,527
SOUTH AFRICAN RAND	38,279	67,274	-	-	-	105,553
MALAYSIAN RINGGIT	9,581	89,058	-	-	-	98,639
POLISH ZLOTY	3,964	89,576	-	-	-	93,540
MEXICAN PESO	18,273	74,953	-	-	305	93,531
NEW TURKISH LIRA	11,562	81,824	-	-	-	93,386
BRAZIL REAL	29,045	59,639	-	-	-	88,684
POUND STERLING	14,066	-	-	35,586	35,328	84,980
INDONESIAN RUPIAH	8,870	70,811	-	-	-	79,681
RUSSIAN RUBLE	5,204	69,811	-	-	-	75,015
THAILAND BAHT	16,231	47,028	-	-	-	63,259
HUNGARIAN FORINT	1,420	49,173	-	-	-	50,593
HONG KONG DOLLAR	50,503	-	-	-	-	50,503
NEW TAIWAN DOLLAR	44,095	-	-	-	-	44,095
AUSTRALIAN DOLLAR	-	(10,133)	-	26,005	26,712	42,584
INDIAN RUPEE	30,255	10,601	-	-	-	40,856
COLOMBIAN PESO	1,619	37,534	-	-	-	39,153
SOUTH KOREAN WON	49,532	(11,752)	-	-	-	37,780
NIGERIAN NAIRA	5,140	19,912	-	-	-	25,052
ROMANIA NEW LEI	-	20,375	-	-	-	20,375
PERUVIAN NUEVO SOL	-	15,653	-	-	-	15,653
CHINESE YUAN	2,537	5,101	-	-	-	7,638
SINGAPORE DOLLAR	3,038	-	-	-	-	3,038
URUQUAY PESO	-	2,454	-	-	-	2,454
EGYPTIAN POUND	-	2,417	-	-	-	2,417
Other (Less than $2 million holdings)	15,183	(40,417)	(136)	-	-	(25,370)
Total	**$438,742**	**$726,502**	**$ (136)**	**$277,805**	**$181,036**	**$1,623,949**

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, 2014, are summarized in the following table. The Fund lent $86.3 million in securities and received cash and non-cash collateral of $88.3 million from borrowers.

SECURITIES LENDING TRANSACTIONS	SDCERA Securities Lent	Cash and Non-Cash Collateral
Lent for cash collateral		
Domestic corporate	$52,027,741	$53,272,670
Domestic equities	4,229,379	4,317,508
US T-Strips	27,300,350	27,899,853
Lent for securities collateral		
US Government Debt	2,648,091	2,701,641
International equities	92,993	99,197
Total	**$86,298,554**	**$88,290,869**

In fiscal year 2014, 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, 2014, had a weighted average maturity of 32 days. At June 30, 2014, short-term investments are comprised of 68% overnight Repurchase Agreements and 14% Time Deposits. Asset-backed Securities represent 18% of the short-term investments. Of the Asset-backed Securities, 34% are rated AAA, 9% are rated A, and the remaining 57% are rated A. 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 SDCERA owes them exceed the amounts they owe SDCERA.

SECURITIES LENDING INVESTMENTS	Fair Value
Repurchase agreements	$58,288,725
Asset-Backed floating	15,026,437
Time Deposits	11,900,000
Other (cash)	32,590
Total	**$85,247,752**

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, 2014:

DERIVATIVES INSTRUMENTS
(dollars in thousands)

Derivative type	Changes in fair value*	Fair value	Notional value
Forwards	$ (43)	$(1,589)	$ 277,805
Futures	281,515	-	5,538,585
Swaps	314,242	68,276	1,463,902
Total	**$595,714**	**$66,687**	**$7,280,292**

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

FORWARDS

As of June 30, 2014, SDCERA has $277.8 million in exposure to foreign currency primarily through short-term investments.

A summary of SDCERA's forward contracts at June 30, 2014, are shown in the chart below:

FORWARD CONTRACTS
(dollars in thousands)

	Notional value	Fair value
Cash and Cash Equivalents with fiscal agents	$277,805	$(1,589)
Total	**$277,805**	**$(1,589)**

FUTURES

A summary of SDCERA's futures contracts at June 30, 2014, are shown in the chart below:

SUMMARY OF FUTURES CONTRACTS
(dollars in thousands)

	Notional Value
Risk Parity Futures	$ 220,154
Fixed Income Futures	(185,057)
Risk Parity Futures	4,993,103
Risk Parity Futures	368,314
Managed Futures	142,071
Total	**$5,538,585**

SWAPS

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

INTERNALLY MANAGED SWAPS
As of June 30, 2014
(dollars in thousands)

Description/ Counterparty	Effective date	Maturity date	Terms	6/30/2014 Notional value	6/30/2014 Fair value
1. Commodity swap					
Goldman Sachs	3/31/14	9/30/14	Pay 3 mos TBill, 0.35% and 0.30% spread. Settlement based on the Goldman Sachs Commodity Index pricing at monthly reset and termination date.	$ 180,919	$ 4,146
Total commodity swap				**180,919**	**4,146**
2. Global equity swap					
Deutsche Bank	11/8/13	11/10/14	Pay 3 mos LIBOR, -0.15% spread. Settlement based on the MSCI World net Equity Index pricing at quarterly reset and expiration date.	424,841	29,658
Goldman Sachs	10/15/13	10/14/14	Pay 3 mos LIBOR, -0.11% spread. Settlement based on the MSCI World net Equity Index pricing at quarterly reset and expiration date.	738,148	34,503
Total global equity swap				**1,162,989**	**64,161**
3. Trend strategy swaps					
Goldman Sachs	June '14	Sept'14	Daily settlement based on the São Paulo Stock Exchange and the South Korean Stock Exchange indexes future contract pricing. Pay 7 bps commission.	1,094	1,186
Total trend strategy swaps				**1,094**	**1,186**
4. Risk parity swaps					
Goldman Sachs	June '14	Sept'14	Daily settlement based on the São Paulo Stock Exchange and the South Korean Stock Exchange indexes future contract pricing. Pay 7 bps commission.	67,394	(721)
Total risk parity swaps				**67,394**	**(721)**
Total Internally managed swaps				**$1,412,396**	**$68,772**

EXTERNALLY MANAGED SWAPS
As of June 30, 2014
(dollars in thousands)

Description	Notional value	Fair value
Currency swaps	$51,506	$(494)
Total	**$51,506**	**$(494)**

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 position as of June 30, 2014, is as follows:

CREDIT RISK DERIVATIVES AT FAIR VALUE
As of June 30, 2014
(dollars in thousands)

Credit rating	Swaps	Forwards
A	$69,492	$ -
A-	-	208
Total subject to credit risk	**$69,492**	**$208**

4 FUNDING POLICY—PENSION PLAN

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

(i) The annual normal costs for each active member, payable from the date of entry into the Plan until retirement, would accumulate to the amount necessary to fully fund the member's retirement related benefits; 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 7522.30, 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 some 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 (Sections 7522.30, 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, 2014. Contribution rates for Tier I, Tier A, and Tier B members (General and Safety) are based on the actuarial valuation as of June 30, 2012. Contribution rates for Tier C members (General and Safety) are based on recommendations made by The Segal Company and approved by the Board of Retirement as required by PEPRA. The member contribution rates (weighted average) depicted vary according to membership tier. Rates for Tier I, Tier A, and Tier B members also vary depending on entry age and certain negotiated contracts which provide for the employer to pay a portion of the member's contribution.

CONTRIBUTION RATES

Member Classification	Tier	Average Member Rates	Employer Rate
General members	Tier I, Tier A and Tier B	7.92% - 10.09%	30.85%
	Tier C	7.05%	25.14%
Safety members	Tier A and Tier B	11.16% -13.04%	45.92%
	Tier C	12.58%	37.73%

During the year, pension contributions totaled $473,618,077. This included $78,920,054 in member contributions, and $394,698,023 in employer contributions, which includes $40,856,772 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 SDCERA's 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 Post Employment Benefits (OPEB) as of June 30, 2012, established the employer contribution rate of 1.94% of covered payroll which amounted to $20.2 million for the fiscal year ended June 30, 2014. 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 Sections 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, 2014.

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 7.75%.

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. This mechanism 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 position are depicted in the following table:

RESERVE As of June 30, 2014 (dollars in thousands)		
Reserve for member contributions	$	631,296
Reserve for county contributions		1,539,200
Reserve for retirement allowances		6,971,125
Total	**$**	**9,141,621**
Reserve for supplemental benefits		32,259
Reserve for disability supplemental benefits		5,568
Reserve for undistributed earnings		-
Reserve for contingencies		32,960
Reserve for smoothed market value transition		682,811
Reserve for market stabilization		285,476
Total retirement fund	**$**	**10,180,695**
Health benefits 401(h) account		4,743
Total fund	**$**	**10,185,438**

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 fiscal year ended June 30, 2014		
Total Actuarial Accrued Liability (as of June 30, 2013)	$	11,631,237,000
Maximum allowable for administrative expenses (.0021 X 11,631,237,000)		24,425,598
Actual administrative expenses for the fiscal year		12,709,447
Excess of allowance over actual administrative expenses		11,716,150
Actual administrative expenses as a % of total Actuarial Accrued Liabilities		**0.11%**

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 Position are unfunded commitments to acquire real estate for $124 million, infrastructure for $131 million, natural resources funds for $292 million, private credit (reported in opportunistic funds) for $168 million, and private equity for $676 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 components of the employers' net pension liability of the defined benefit pension plan as of June 30, 2014 is as follows:

NET PENSION LIABILITY ($ IN MILLIONS)	
	June 30, 2014
Total pension liability	$12,318.41
Plan fiduciary net position	$10,180.69
Employers' net pension liability	$ 2,137.71
Plan fiduciary net position as a percentage of the total pension liability	82.65%

Note: Net Pension Liability is a financial reporting requirement of GASB 67. See page 22 for more information.

The net pension liability was measured as of June 30, 2014 and determined based upon rolling forward the total pension liability from actuarial valuation as of June 30, 2013.

ACTUARIAL ASSUMPTIONS: The following significant actuarial assumptions were used to measure the total pension liability as of June 30, 2014:

Inflation	3.25%
Salary increases	General: 4.75% to 10.00% and Safety: 5.00% to 12.00% vary by service, including inflation
Discount rate	7.75%, net of pension plan investment expense, including inflation
Cost-of-living adjustment	Maximum of 3% for TIER I, II and A Maximum of 2% for TIER B and C
Date of last experience study	July 1, 2009 through June 30, 2012

Mortality rates are based on the RP-2000 mortality table projected with Scale AA to 2016 with a two-year age setback for males and a one-year age setback for females. For safety the same mortality table is used with a one-year setback for males and no age setback for females. For members with a disability 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.

The allocation of investment assets within the SDCERA portfolio is approved by the Board of Retirement. Plan assets are managed on a total return basis with a long-term objective of achieving the assumed rate of return.

The long-term expected rate of return on pension plan investments, a new GASB 67 disclosure requirement, was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions are summarized in the following table:

ASSET CLASS REAL RATE OF RETURN

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity (U.S. and Non-U.S. Developed)	20%	6.37%
Emerging Market Equity	5%	8.42%
High Yield Bonds	5%	3.30%
TIPS	5%	0.48%
Emerging Market Debt	10%	4.36%
US Treasuries	40%	0.59%
Real Estate	10%	4.87%
Natural Resources and Other Real Assets	10%	6.49%
Hedge Funds - Macro	10%	6.89%
Hedge Funds - Relative Value	10%	3.20%
Private Equity	10%	10.83%
Total (1)	**135%**	

(1) The total portfolio asset allocation is greater than 100% to reflect the portfolio's leveraged asset allocation.

DISCOUNT RATE: The discount rate used to measure the total pension liability was 7.75% as of June 30, 2014. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rates and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE: The following, a required disclosure of GASB 67, presents the employers' net pension liability as of June 30, 2014, calculated using the discount rate of 7.75%, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE			
	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employers' net pension liability as of June 30, 2014 (in $ millions)	$3,745.1	$2,137.7	$790.4

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)	(c) Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	(d) Annual Covered Payroll	UAAL as % of Covered Payroll (c)/(d)
6/30/2014	$4,743	$169,192	$164,449	2.8%	$1,122,864	14.6%

The following summarizes the actuarial assumptions and methods used in the most recent actuarial valuation as of June 30, 2014, and the June 30, 2012 actuarial valuation, which was used to determine current year contribution rates

SUMMARY ACTUARIAL INFORMATION FOR HEALTH CARE PLAN		
Valuation date	June 30, 2014	June 30, 2012
Actuarial cost method	Entry Age Normal	Entry Age Normal
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	Various (Separate declining 20-year basis starting June 30, 2007, amortized as level dollar amount)	Various (Separate declining 20-year basis starting June 30, 2007, amortized as level dollar amount)
Asset valuation method	Market Value	Market Value
Actuarial Assumptions		
Investment rate of return*	7.75%	8.00%
Projected salary increase	4.75%	5.00%
Projected increase in maximum Health Insurance Allowance (HIA)	None	None
Inflation rate	3.25%	3.50%
Medical cost trend rate	7.00% graded down to ultimate rate of 5.00% over 8 years	8.50% graded down to ultimate rate of 5.00% over 7 years
Dental cost trend rate	5.00%	5.00%

* Includes inflation of 3.50% for 2012 and 3.25% for 2014.

ACTUARIAL VALUATIONS

Actuarial valuations for the OPEB plan 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.

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. 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 relative to the actuarial accrued liability for benefits over time.

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 relative to the actuarial accrued liability for benefits over time.

REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

The schedule of changes in net pension liability display the components of the total pension liability and plan fiduciary net position for each year, calculated in conformity with the requirements of GASB 67. Covered-employee payroll represents the total eligible wages of active members of the plan.

SCHEDULE I—CHANGES IN EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS JUNE 30,
(dollars in thousands)

Total pension liability	2014	2013
Service cost	$ 275,060.2	$ 258,308.3
Interest	906,177.1	881,863.1
Change of benefit terms	-	-
Differences between expected and actual experience	(194,580.1)	(161,274.7)
Changes of assumptions	-	258,993.3
Benefit payments, including refunds of employee contributions	(560,750.8)	(543,283.9)
Net change in total pension liability	**$ 425,906.4**	**$ 694,606.1**
Total pension liability - beginning	**$11,892,502.6**	**$11,197,896.5**
Total pension liability - ending (a)	**$12,318,409.0**	**$11,892,502.6**
Plan fiduciary net position		
Contributions - employer	394,698.0	357,893.1
Contributions - employee	78,920.1	71,718.1
Net investment income	1,220,342.6	669,882.1
Benefit payments, including refunds of employee contributions	(560,750.8)	(543,283.9)
Administrative expense	(12,709.4)	(11,453.8)
Other	-	-
Net change in plan fiduciary net position	**$ 1,120,500.5**	**$ 544,755.6**
Plan fiduciary net position - beginning	9,060,194.5	8,515,438.9
Plan fiduciary net position - ending (b)	**$10,180,694.9**	**$ 9,060,194.5**
Employers' net pension liability - ending (a) - (b)	**$ 2,137,714.1**	**$ 2,832,308.1**
Plan fiduciary net position as a percentage of the total pension liability	82.65%	76.18%
Covered-employee payroll	1,072,896.0	1,028,420.3
Employers' net pension liability as a percentage of covered-employee payroll	199.25%	275.40%

Notes to Schedule:
Benefit changes: all members with membership dates on or after January 1, 2013 enter the new tiers created by the California Public Employees' Pension Reform Act of 2013 (PEPRA).
Data for years prior to 2013 is not available, information will be presented in future years as it becomes available.

This table presents the annual money-weighted rate of return as required by GASB 67. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the timing of cash flows and the changing amounts actually invested. Performance information presented on page 70 in the Investment Section is calculated on a time-weighted rate of return basis.

SCHEDULE II—INVESTMENT RETURNS (PENSION PLAN)*			
	2014	2013	2012
Annual Money-Weighted Rate of Return Net of Investment Expense	13.39 %	7.87%	5.82%

* Data for years prior to 2012 is not available. Information will be presented in future years as it becomes available.

The table below displays the annual required contributions for SDCERA employers based on the actuarially determined rate, and the percentage of these contributions paid by the employer each year.

SCHEDULE III—EMPLOYER CONTRIBUTIONS (PENSION PLAN)
(dollars in thousands)

Year Ended June 30	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions *	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2005	$ 235,122	$ 259,988	$ (24,866)	$ 898,203	28.95%
2006	203,700	243,700	(40,000)	931,453	26.16%
2007	231,300	258,200	(26,900)	989,321	26.10%
2008	236,763	236,763	-	1,051,373	22.52%
2009	219,635	219,635	-	1,102,242	19.93%
2010	188,414	189,470	(1,056)	1,050,985	18.03%
2011	205,799	235,392	(29,593)	1,036,693	22.71%
2012	274,106	274,106	-	1,047,414	26.17%
2013	298,128	312,288	(14,160)	1,028,420	30.37%
2014	353,841	353,841	-	1,072,896	32.98%

* Excludes employer pickup of member contributions and proceeds from Pension Obligation Bonds.

Actuarial valuation methods and assumptions

Valuation date	Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported
Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level percent of payroll (4.00% payroll growth assumed)

Remaining amortization period	Prior to July 1, 2013, the Association's UAAL was amortized over 20-year fixed (i.e. decreasing) layered amortization periods. As of July 1, 2013, any new UAAL resulting from plan amendments is amortized over separate decreasing 15-year periods; early retirement incentive programs (ERIPs) are amortized over separate decreasing periods of up to 5 years; assumption and method changes are amortized over separate decreasing 20-year periods; and experience gains/losses are amortized over separate decreasing 20-year periods.
Asset valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on market value and is recognized over a five-year period. The Actuarial Value of Assets is reduced by the value of the non-valuation reserves and designations. Deferred gains and losses as of June 30, 2012 have been combined and will be recognized in equal amounts over a period of four and a half years from that date.
Actuarial assumptions:	
Investment rate of return	For funding purposes, 7.75%, net of pension plan investment expense, including inflation
Inflation rate	3.25%
Real across-the-board salary increases	0.75%
Projected salary increases	General: 4.75% to 10.00% and Safety: 5.00% to 12.00%, vary by service, including inflation
Cost of living adjustments	3.00% of retirement income for Tier 1 and Tier A 2.00% of retirement income for Tier B and Tier C
Other assumptions	Same as those used in the June 30, 2013 funding actuarial valuation and that will be used in the June 30, 2014 funding actuarial valuation.
Other information:	All members with membership dates on or after January 1, 2013 enter the Tier C created by the California Public Employees' Pension Reform Act of 2013 (CalPEPRA).

SCHEDULE IV—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)	(4) Annual Covered Payroll	UAAL as % of Covered Payroll (3)/(4)
6/30/07	$ *	$ 235,755	$ 235,755	0.0%	$ 1,020,991	23.1%
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%
6/30/14	4,743	169,192	164,449	2.8%	1,122,864	14.6%

* 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 V—EMPLOYER CONTRIBUTIONS (OPEB PLAN) (dollars in thousands)			
Fiscal Year Ended	Annual Required Contribution (ARC)	Contributions Made	% of Required Contributions Made
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%
6/30/13	19,024	19,024	100.0%
6/30/14	20,208	20,208	100.0%

OTHER SUPPLEMENTAL INFORMATION

SCHEDULE VI—INVESTMENT EXPENSES
For the fiscal year ended June 30, 2014
(dollars in thousands)

Individual or Firm		Fees
Domestic equity managers		
Allianz Global Investors	$	920
Total domestic equity managers		**920**
Emerging market equity managers		
DFA Emerging Market Fund		1,277
Genesis Asset Management		1,512
Total emerging market equity managers		**2,789**
Emerging market debt		
Wellington		3,382
Total emerging market debt managers		**3,382**
High yield/credit managers		
Hotchkis & Wiley High Yield		195
Oaktree Capital Mgmt LLC		1,162
Silver Point Capital		340
Zazove Associates (HY Convertibles)		389
Total high yield/credit managers		**2,086**
Opportunistic		
Oaktree European Dislocation Fund		105
DE Shaw Alkali II		64
Apollo Credit Opportunity Fund III		57
Total opportunistic managers		**226**
TIPS		
State Street Global Assets (SSGA) - TIPS		117
Total TIPS		**117**
US Treasuries		
Hoisington		240
Total US Treasuries		**240**
Policy overlay		
Russell Investments Group		18
Total policy overlay manager		**18**

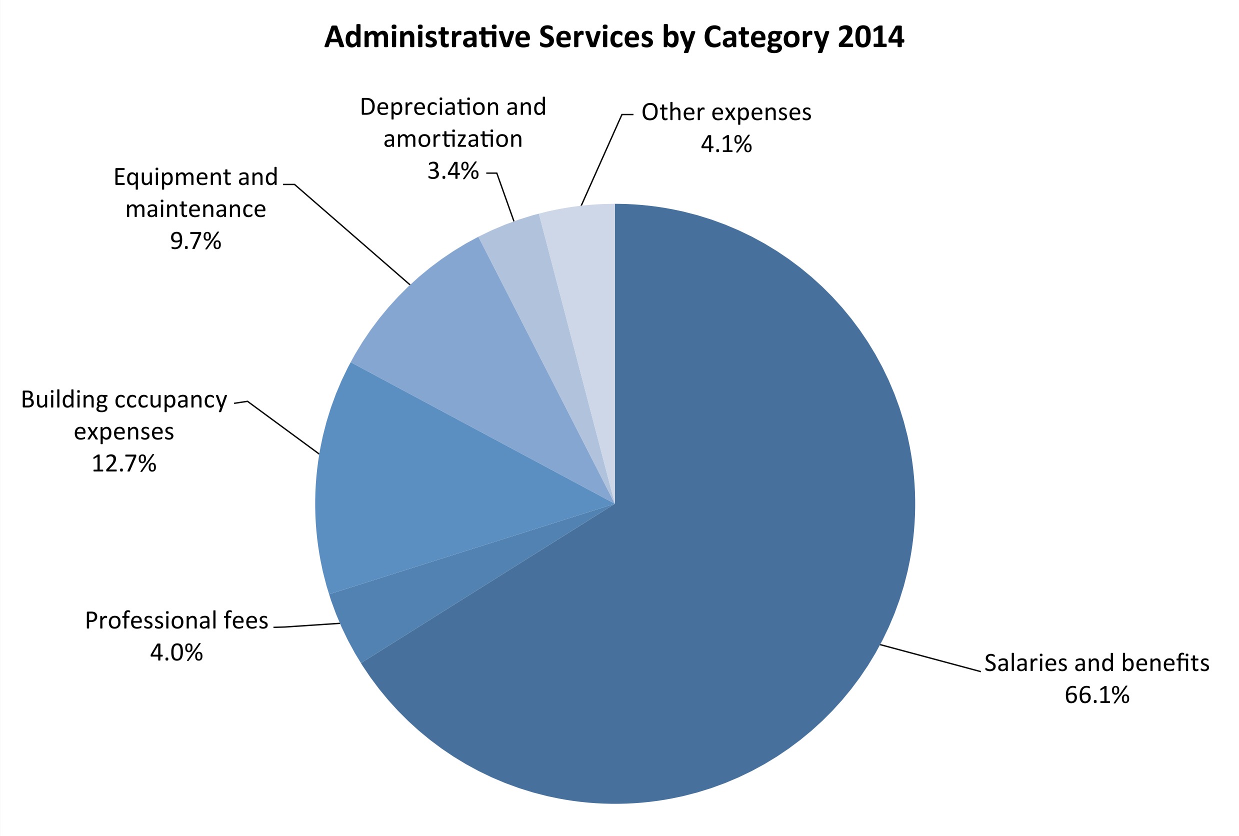
SCHEDULE VI—INVESTMENT EXPENSES (CONTINUED)	
Individual or Firm	**Fees**
Global macro	
Brevan Howard	4,277
Bridgewater Pure Alpha II	3,435
Bridgewater Pure Alpha Major Market	3,641
Cantab	955
De Shaw Heliant Fund, LLC	2,460
Kenmar (Base Fee + CTAs fee)	770
Total global macro	**15,538**
Relative value	
AQR Delta	3,220
Blue Mountain Credit Alternative	5,049
DE Shaw	246
Moon Capital	959
Saba Capital Management	1,668
Total relative value	**11,142**
Real assets managers	
Infrastructure	
Actis Energy 3	529
Brookfield Americas Infrastructure	2,871
Global Infrastructure Partners	1,059
JP Morgan Maritime Fund	1,125
Macquarie Infrastructure Partners II	987
Total infrastructure	**6,571**
Natural resources and other real assets	
Energy Funds (EnerVest, EnCap, Kayne, Merit)	930
Amerra Agri Fund II	1,153
Brookfield Brazil Agriland	862
Denham Commodity Partners VI	1,289
Falcon E & P Opportunities	1,475
Hancock Agricultural Investment Group	211
Molpus Woodland	405
SSGA Materials	119
SSGA S&P MLP	138
Red Kite Mine Finance Fund I	1,369
Taurus Resources Fund No. 2	1,125
Total natural resources and other real assets	**9,076**
Real estate managers	

SCHEDULE VI—INVESTMENT EXPENSES (CONTINUED)	
Individual or Firm	**Fees**
Allegis Value Trust, Inc.	153
AMB Japan Fund	207
Amstar SD Partners	3,311
Blackstone Real Estate Partners VI	5,102
California Smart Growth Fund IV	196
Canyon Johnson	309
CB Richard Ellis Strategic V	(255)
Cornerstone (CHIEF)	18
Cornerstone Apartment Venture III	89
Hearthstone MSII-Homebuilding Investors LLC	2
JP Morgan CB Strategies Property Fund	2,204
La Salle Asia Op2	23
PRISA II	324
PRISA III	936
The Rreef Funds/Rio San Diego Plaza II	123
RREEF IMA	2,429
Southern California Smart Growth Fund	155
Trophy Property GP LTD	8
Total real estate managers	**15,334**
Private equity managers	
Bain Capital IX, LP	111
Bain Capital IX - Coinvestment, LP	24
Bain Capital X, LP	232
Baring Asia Private Equity V	1,819
Blackstone Capital Partners IV	42
Blackstone Capital Partners V, LP	37
Blackstone Capital Partners VI, LP	1,781
Capital Int'l PE Fund V, LP	57
Capital Int'l PE Fund VI, LP	706
Cerberus Institutional Partners II, LP	227
Cerberus Institutional Partners IV, LP	1,263
Charterhouse VIII	77
Coller International Partners V-A	91
Drug Royalty II/LSRC II S.ar.I	283
Drug Royalty II Co-Investment/LSRC II S.ar.I	(54)
Drug Royalty III, LP	900
Emerging Europe Growth Fund II, LP	158
EQT VI, LP	802
Fountain Vest Capital Growth II	1,000
Gores Capital Partners III. LP	915
Gores Small Capitalization Partners, LP	289
Graham Partners II, LP	47
Greenbriar Equity Fund II, LP	146
GSO Capital Solutions Fund	1,946

SCHEDULE VI—INVESTMENT EXPENSES (CONTINUED)	
Individual or Firm	**Fees**
GSO Capital Solutions Fund II	180
Hellman & Friedman Investors VI, LLC	1,084
Hellman & Friedman Investors VII, LLC	220
Lexington Capital Partners V, LP	6
Lexington Capital Partners VI, LP	55
New Mountain Capital Partners IV, LP	1,021
Northgate PE Partners II, LP	122
Northgate PE Partners III, LP	142
OCM Opportunities Fund VI	22
OCM Opportunities Fund VII	33
OCM Opportunities Fund VII - B	33
Oaktree European Princial Fund III	803
Onex Partner III	167
Paul Capital Partners VIII-B, LP	117
Paul Capital Partners IX, LP	180
Providence Equity Partners V, LP	32
SSG Capital Partners III, LP	155
TA Associates Subordinated Debt Fund II	76
TA Associates X, L.P.	253
Texas Pacific Group	(6)
TPG Asia VI	1,207
Thomas Lee Equity Fund V,	(13)
Total private equity managers	**18,788**
Other	
Pimco Collateral Cash	3,761
Total other	**3,761**
Master custodian	
BNY Mellon	1,042
Total master custodian	**1,042**
Other professional fees	
Albourne America LLC	640
Integrity Capital	7,809
S&P Rating Services	7
The Segal Company	216
The Townsend Group	100
Wurts and Associates	740
Total other professional fees	**9,512**
Administrative, support and other (*)	**3,717**
Total investment expenses	**$ 104,259**

SCHEDULE VII—ADMINISTRATIVE EXPENSES For the fiscal year ended June 30, 2014 (dollars in thousands)		
Expense category	**Pension**	**Health care**
Salaries and benefits	$ 8,398	$ 193
Professional fees	513	103
Building occupancy expenses	1,615	31
Equipment and maintenance	1,227	-
Depreciation and amortization	438	-
Other expenses*	518	(327)
Total administrative expenses	**$ 12,709**	**$ -**

* Includes overhead expense allocations to Investments and Health Care.



SCHEDULE VIII—PAYMENTS TO CONSULTANTS (dollars in thousands)	
Type of Service	
Legal services	$ 1,508
Computer services	820
Actuarial services	216
Audit services	223
Health care consulting services	92
Total payments to consultants	**$ 2,859**

INVESTMENTS

Comprehensive Annual Financial Report

Fiscal year ended June 30, 2014

Salient Partners L.P.
4265 San Felipe, 8th Floor
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October 9, 2014

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

Dear Trustees:

The fiscal year began with a rally in domestic equity markets as the S&P 500 rebounded to a record high following the June 2013 Federal Open Market Committee (FOMC) "taper tantrum." Global developed markets followed the US's lead as investors exhibited renewed confidence that global monetary policy would continue to remain accommodative, keeping short-term interest close to zero for an extended period of time. While global developed markets enjoyed double-digit gains across the board, the developing world and commodities lagged.

During the first half of the fiscal year, US interest rates normalized as the FOMC chose to shy away from market consensus and delay tapering its asset purchase program. Uncertainty regarding economic growth, a potential government shutdown and another debt ceiling debate left policy makers little choice but to hold off their plans to withdraw monetary stimulus and increase short-term interest rates. Outside the US, investors showed renewed optimism in Europe as the European Union showed signs of an economic stabilization, with a number of confidence indicators increasing to post-crisis highs. The European Central Bank (ECB) remained active during the fiscal year and unexpectedly cut its benchmark interest rate to a record low in second quarter.

During the second half of the fiscal year, the FOMC remained top-of-mind for many investors, who devoted significant attention and scrutiny to the monthly meeting minutes. The FOMC began its taper program in January but continued provide forward guidance that the policy rate would remain low until signs of sustainable growth were more broadly evident. Global Equities continued to soar throughout the third and fourth quarters despite an extremely cold winter in the US that crippled economic growth, growing tensions in the Ukraine and growing concerns over the health of the Chinese economy.

Much like the last fiscal year, the intervention of both the FOMC and ECB evidenced a continuation of investor dependence on accommodative central bank policies to fuel asset prices. The side effects of central bank involvement in markets can manifest themselves in three ways. First, monetary policy intervention, whether stimulative or restrictive, can lead to higher correlations among asset classes. Second, correlations tend to increase within asset classes (i.e. all stocks move together). Lastly, investors in search of yield are forced into more speculative assets that offer higher potential returns. Consequently, when these effects are at an extreme–much like we saw during the early part of the fiscal year–investors are penalized for diversification and rewarded for certain forms of concentrated risk.

U.S. economic data was largely positive throughout the fiscal year, as we continued to see a steadily decreasing unemployment rate and an improving housing market. Central bank policy remains at a key juncture. The release of the June 2014 FOMC meeting minutes indicated that the committee believes the economy has "rebounded," but still has some distance to go to meet its employment and inflation targets.

For the year ending June 30, 2014, SDCERA's portfolio generated a gross portfolio return of 13.86%, compared to the median fund in the plan's universe, which generated a 17.44% return over the same period. This positioned SDCERA in the 85th percentile of its peer group for the fiscal year according to Wilshire Associates Trust Universe Comparison Service (TUCS) data of public plans with greater than $1 billion in investable assets. On a net-of-fee basis, the fund generated a 13.44% return compared to the fund's policy benchmark of 13.65% and well above SDCERA's actuarial rate of return of 7.75%. The fund generated a 9.49% gross return for the three-year period ending June 30, 2014, outpacing 33% of its peers with lower risk than 87% of its peers. The SDCERA fund continues to satisfy its core objective of generating consistent returns that meet the plan's actuarial assumptions while managing the level of risk as measured by the variability of returns over time.

BNY Mellon, SDCERA's custodian calculated the asset class and total fund returns. The asset class performance is based on the time-weighted rates of return. Total fund performance is based on the weighted average returns of the asset classes.

Sincerely,

Lee Partridge
Portfolio Strategist

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

ASSET ALLOCATION POLICY		
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
US Treasuries	Barclay's 10-year UST Futures Index	40
Asset allocation strategies	2/3 HFRI Macro + 1/3 Barclays CTA Indices	10
Relative value strategies	Three-Month Treasury Bills + 2%	10
Total stable value assets	**Weighted average of subcomponents**	**70**
Treasury Inflation Protected Securities	Barclay's Capital US 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.

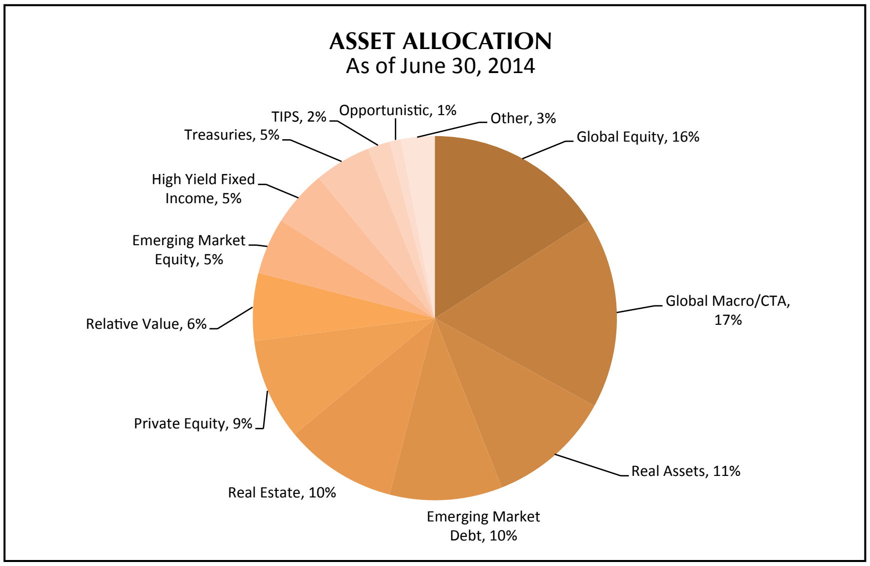
3. Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

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, 2014
(dollars in thousands)

					Allocation %				
						Percentage Limits			
						Target	Min.	Max.	
Asset Type	**Market Value**	**Cash Collateral**	**Exposure**	**Asset Allocation w/Exposure**	**% Actual**	**% Target**	**% Target**	**% Target**	**Within Limits**
Global Equity	$ 368,043	$ (85,197)	$ 1,383,143	$ 1,665,989	16%	20%	15%	25%	YES
Emerging Market Equity	513,958			513,958	5%	5%	2%	10%	YES
High Yield Fixed Income	512,751			512,751	5%	5%	2%	10%	YES
Private Equity	545,955	(41,730)	368,314	872,539	9%	10%	5%	15%	YES
Emerging Market Debt	1,012,288			1,012,288	10%	10%	5%	15%	YES
Global Macro/CTA (Including Risk Parity)	1,693,466			1,693,466	17%	10%	5%	15%	NO
Relative Value	624,723			624,723	6%	10%	5%	15%	YES
Treasuries	233,265	(17,977)	343,472	558,760	5%	40%	20%	60%	NO
Core Bond*	750			750	0%	0%	0%		
Real Estate	978,906			978,906	10%	10%	5%	15%	YES
Real Assets	963,454	(5,129)	180,919	1,139,244	11%	10%	5%	15%	YES
TIPS	198,864			198,864	2%	5%	2%	15%	YES
Opportunistic	58,903			58,903	1%	0%			YES
Other**	2,480,112	150,033	(2,275,848)	354,297	3%	0%			N/A
Total	**$10,185,438**	**$ -**	**$ -**	**$10,185,438**	**100%**	**135%**			

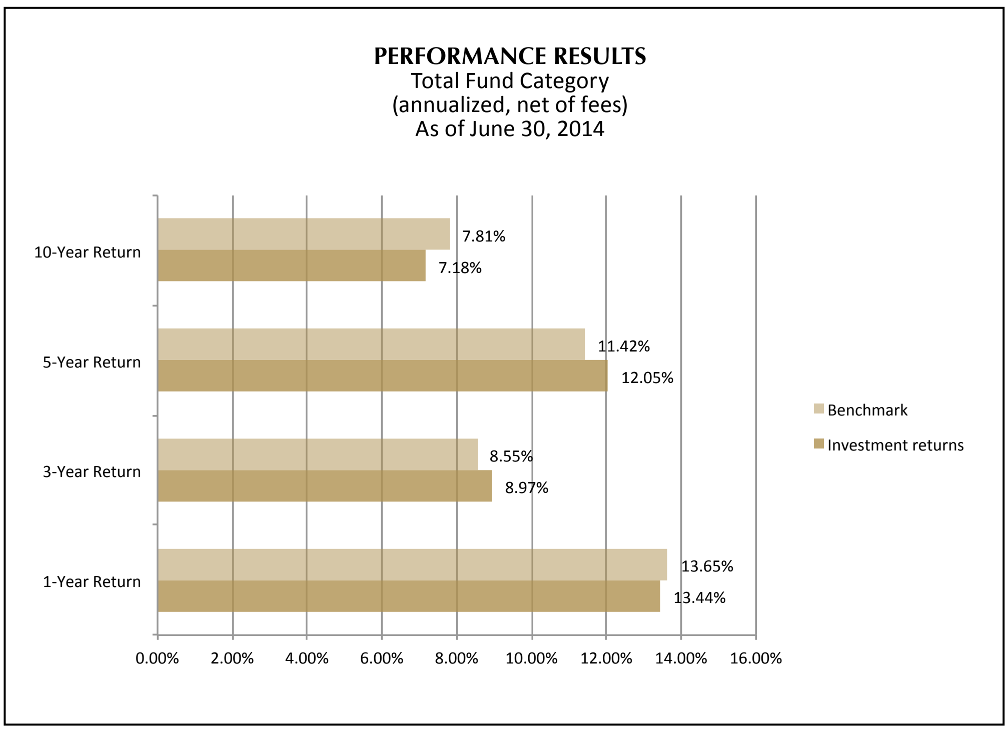
Note that some allocations are outside their limits because transition to the accepted portfolio as of July 1, 2014 began in June 2014.
*Core Bond - PIMCO
**Available Cash Less the Derivatives Notional



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**
Public developed equity	23.75%	11.99%	14.86%	N/A	24.05	11.81	15.75	N/A
Emerging market equity	16.43	2.15	11.60	13.76	14.68	0.06	9.58	12.30
High yield fixed income/credit	11.94	8.99	14.24	N/A	11.80	9.27	13.46	N/A
Private equity	22.90	13.79	15.12	N/A	26.77	17.89	17.73	N/A
Total growth oriented portfolio	**20.79**	**10.76**	**14.20**	**N/A**	**22.06**	**11.59**	**15.10**	**N/A**
Emerging market debt	4.00	2.30	7.82	N/A	3.91	1.16	7.87	N/A
US bonds	1.36	4.26	5.28	N/A	2.72	3.76	4.83	N/A
Global macro/CTA	4.68	3.05	6.62	N/A	1.32	-0.29	3.71	N/A
Relative value	1.14	2.63	4.99	N/A	2.04	2.05	4.21	N/A
Total stable value portfolio	**3.16**	**3.75**	**6.37**	**N/A**	**2.67**	**2.73**	**5.03**	**N/A**
US TIPS	2.87	3.01	5.44	N/A	4.44	3.55	5.56	N/A
Real estate	11.43	9.36	8.49	6.91	11.18	11.01	10.85	8.84
Natural resources and other real assets	15.85	7.04	11.62	N/A	17.58	5.28	9.23	N/A
Total inflation sensitve portfolio	12.09	7.33	8.96	N/A	12.36	7.45	9.35	N/A
Grand total investments	**13.44**	**8.97**	**12.05**	**7.18**	**13.65**	**8.55**	**11.42**	**7.81**

*Benchmark index information can be found on Page 68.
Basis of calculation is time-weighted rates of return based on market values.



TOP 10 HOLDINGS – EQUITY
As of June 30, 2014

Shares	Security name	Market value
320,923	Enterprise Products Partners	$25,125,062
232,850	Energy Transfer Equity Partners	13,724,179
158,067	Kinder Morgan Energy Partners	12,994,688
201,433	Plains All American Pipeline	12,096,052
124,920	Magellan Midstream Partners	10,498,277
82,548	Monsanto Co	10,297,038
189,600	Dow Chemical Co	9,756,816
144,600	Ei Du Pont De Nemours & Co	9,462,624
153,998	Energy Transfer Equity	8,927,264
5,530,000	Micron Technology Inc	7,123,359

TOP 10 HOLDINGS – FIXED INCOME
As of June 30, 2014

Book value	Description	Market value
$164,405,548	US Treasury NT Prin Strip	$169,903,585
126,538,077	Dexia Credit Local	126,911,541
75,611,442	Bank Nederlandse Gemeenten	75,828,272
63,058,860	FNMA GTD Remic	63,345,067
49,993,930	Development Bank of Japan	49,985,200
46,000,000	Goldman Sachs Group Inc	46,005,980
42,550,790	Norddeutsche Landesbank	42,598,856
41,912,442	Erste Abwicklungsanstalt	41,891,542
38,535,615	Svensk ExportKredit AB	38,570,070
37,994,194	DNB BoligKreditt AS	37,769,600

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

INVESTMENT EXPENSES BY CATEGORY
INVESTMENT EXPENSES
For the fiscal year ended June 30, 2014
(dollars in thousands)

Investment expenses	Net assets managed at fair value	Fees
Global Macro	$ 606,140	$ 15,538
Relative value	624,723	11,142
Risk Parity	1,087,326	-
Private equity	545,955	18,787
Real estate	978,906	15,335
Natural resources and other real assets	747,253	9,076
Other professional fees	-	9,512
Infrastructure	216,200	6,570
Administrative, support and other	-	3,717
Emerging market Equity Managers	513,958	2,789
Other (short-term investments) - Pimco Collateral Cash	2,480,951	3,761
Emerging market debt	1,012,288	3,382
High yield/credit managers	512,751	2,086
Domestic equity	368,043	920
Master custodian	-	1,042
Overlay	-	18
Opportunistic	58,903	227
US Treasuries	233,265	240
TIPS	198,776	117
Total investment expenses	**$ 10,185,438**	**$ 104,259**

COMMISSIONS PAID — DOMESTIC For the year ended June 30, 2014			
No.	**Brokerage firm**	**Total commissions**	**% of Total commissions**
1	Goldman Sachs & Co	$548,626	91.18%
2	Credit Suisse	26,323	4.37%
3	Barclays Bank	5,084	0.84%
4	Abel Noser Corp	3,368	0.56%
5	J.P.Morgan Securities Inc.	2,152	0.36%
6	Piper Jaffray Inc.	2,073	0.34%
7	Investment Technology Group	1,962	0.33%
8	J.P.Morgan Chase Bank	1,493	0.25%
9	Jefferies & Co Inc	810	0.13%
10	Other*	9,838	1.64%
	Total	**$601,729**	**100.00%**

*Includes approximately 29 additional firms, each with less than 0.13% of total commissions.

COMMISSIONS PAID — INTERNATIONAL For the year ended June 30, 2014			
No.	**Brokerage firm**	**Total commissions**	**% of Total commissions**
1	Goldman Sachs & Co	$ 181,103	85.32%
2	Credit Suisse	25,878	12.19%
3	Barclays Bank	5,084	2.40%
4	Citigroup Global Markets	199	0.09%
	Total	**$ 212,264**	**100.00%**

SUMMARY OF INVESTMENT PORTFOLIO BY MANAGER/ASSET TYPE
As of June 30, 2014

Securities description	Asset type	Market value	Percent of total portfolio
Global equity			
Allianz Global Investors	Convertible	$ 282,783,236	2.8%
Unallocated Securities	Other	63,511	0.0
Global Equity Swap	Swaps	64,160,788	0.6
Global Equity Overlay	Global equity overlay futures	21,035,897	0.2
Total global developed equity		**368,043,432**	**3.6**
Emerging market equity			
DFA Emerging Markrt Fund	Emerging markets	163,143,075	1.6
Genesis	Emerging markets	270,818,461	2.6
Emerging Market Equity ETF	Emerging markets	79,996,367	0.8
Total emerging market equity		**513,957,904**	**5.0**
High yield fixed income/credit			
Blackrock Credit Investors, LP	Credit funds	6,302,244	0.1
Hotchkis & Wiley Cap Mgt	High yield	249,356,736	2.3
Oaktree Capital Mgt	High yield	245,372,763	2.4
Silver Point	Credit/multi-strategy	11,719,089	0.1
Total high yield fixed income		**512,750,831**	**4.9**
Private equity			
Private Equity	Private equity	504,225,051	5.0
PE Overlay	PE overlay futures	41,730,040	0.4
Total private equity		**545,955,092**	**5.4**
Emerging market debt			
Wellington	Emerging market debt	1,012,287,871	9.9
Total emerging market debt		**1,012,287,871**	**9.9**
US Treasuries			
Hoisington	Treasuries	215,288,359	2.1
US Core Overlay	US core overlay futures	17,976,796	0.2
Total US Treasuries		**233,265,155**	**2.3**
Asset allocation strategies			
Brevan Howard	Global macro	186,028,902	1.8
Bridgewater Pure Alpha II	Global macro	80,250,190	0.8
Bridgewater Pure Alpha Major Market	Global macro	62,503,113	0.6
Cantab	Managed Futures	106,090,064	1.1
De Shaw Heliant Fund	Systematic & Discret. Macro	124,201,841	1.2
Trend Strategy	Global Macro Futures Overlay	47,065,882	0.5
Total asset allocation strategies		**606,139,992**	**6.0**
Risk Parity			
Risk Parity Collateral Cash	Short-term Cash Investment	896,022,923	8.8
Risk Parity Futures	Futures	138,052,587	1.4
Risk Parity CDS	Global Macro	53,250,301	0.5
Total risk parity		**1,087,325,812**	**10.7**

SUMMARY OF INVESTMENT PORTFOLIO BY MANAGER/ASSET TYPE (CONTINUED)
As of June 30, 2014

Securities description	Asset type	Market value	Percent of total portfolio
Relative value strategies			
AQR Delta	Relative value	369,365,662	3.6
Blue Mountain Credit Alternatives	Relative Value	139,771,661	1.4
De Shaw	Multi-strategy	8,304,761	0.1
Moon Capital	EM long/short equity	15,060,646	0.1
Saba Capital Partners	Relative value	86,415,532	0.8
Stark Investments	Multi-strategy	5,804,637	0.1
Total relative value strategies		**624,722,898**	**6.1**
Opportunistic			
Oaktree European Dislocation Fund	High Yield	8,876,208	0.1
Apollo Credit Opportunity Fund III	Private Credit	42,341,450	0.4
De Shaw Alkali II	Private Credit	7,685,278	0.1
Total opportunistic		**58,902,937**	**0.6**
TIPS			
Treasure Inflation Protected Securities	Inflation protected	87,708	0.0
SSGA TIPS	Inflation protected	198,776,360	2.0
Total TIPS		**198,864,068**	**2.0**
Real estate			
Real Estate	Real estate	978,905,823	9.6
Total real estate		**978,905,823**	**9.6**
Natural resources and other real assets			
Cash and securities for commodity swaps	Commodity swaps	5,129,245	0.1
Natural resources & other real assets	Materials & commodity	742,124,662	7.3
Infrastructure	Global infrastructure	216,200,267	2.1
Total natural resources & other real assets		**963,454,173**	**9.5**
Other assets (collateral cash) and liabilities	Other	2,480,862,111	24.4
Net investment portfolio		**$ 10,185,438,098**	**100.0%**

While the total market value agrees with the financial statements, market value by asset type will not when presented by manager. Individual manager totals by asset type include all the holdings of each manager including cash, while the financial statements break out manager holdings by asset type.

ACTUARIAL

Comprehensive Annual Financial Report
Fiscal year ended June 30, 2014

Segal Consulting

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VIA EMAIL AND USPS

November 19, 2014

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 – June 30, 2014 Actuarial Valuation for Funding Purposes

Dear Members of the Board:

Segal Consulting (Segal) prepared the June 30, 2014 annual 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 and SDCERA's funding policy that was last reviewed with the Board in 2013. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters set by Actuarial Standards of Practice (ASOPs). (With the exception of the inclusion of the liabilities for benefits paid after the Section 415(b) limit was applied to the retirees in pay status and the Supplemental Benefit Allowance, the same assumptions and methods have also been used for financial reporting purposes under Govenmental Accounting Standards Board Statement No. 67.)

As part of the June 30, 2014 actuarial valuation, 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 Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize any unfunded actuarial accrued liability (UAAL). Actuarial gains and losses are incorporated into the UAAL.

Board of Retirement
San Diego County Employees Retirement Association
November 19, 2014
Page 2

Components of the UAAL through June 30, 2013 are amortized as a level percentage of payroll over a 20-year period. Thereafter, components of the UAAL that arise due to actuarial experience gains and losses as well as changes in assumptions or methods are amortized over separate 20-year periods. Effective with the June 30, 2013 valuation, any change in the UAAL that arises due to plan amendments is amortized over separate 15-year periods. Also, any change in the UAAL that arises due to retirement incentives is amortized over separate periods of up to 5 years. The progress being made towards meeting the funding objective through June 30, 2014 is illustrated in the Schedule of Funding Progress.

Notes number 1, 4 and 9 to the Basic Financial Statements and the Required Supplementary Information (RSI) included in the Financial Section were prepared by the Association based on the results of the Government Accounting Standard (GAS) 67 actuarial valuation as of June 30, 2014 prepared by Segal. A listing of the other supporting schedules Segal prepared for inclusion in the actuarial, statistical and financial sections of the Association's CAFR is provided below. These schedules have been prepared based on the results of the actuarial valuation as of June 30, 2014 for funding purposes.

Actuarial Section

1. Schedule of active member valuation data;
2. Historical summary of average payroll;
3. Retirees and beneficiaries added to and removed from retiree payroll;
4. Solvency test;
5. Historical summary of assumptions;
6. History of employer contribution rates;
7. Schedule of funding progress;
8. Actuarial Analysis of Financial Experience;

Statistical Section

9. Schedule of benefit expenses by type;
10. Schedule of retiree members by type of retirement and option selected;
11. Average benefit payments (pension plan);
12. Schedule of participating employers; and

Board of Retirement
San Diego County Employees Retirement Association
November 19, 2014
Page 3

Financial Section

13. Membership summary

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2012 Experience Analysis (for both the economic and non-economic assumptions) prior to the June 30, 2013 valuation or in conjunction with a general discussion of the economic assumptions (in particular the investment return assumption) for the June 30, 2014 actuarial valuation. It is our opinion that the assumptions used in the June 30, 2014 valuation produce results, which, in the aggregate, anticipate 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 for the non-economic assumptions is due to be performed as of June 30, 2015 and those assumptions will be used in setting the contribution rates in the June 30, 2016 actuarial valuation. The Retirement Board is in the process of evaluating the long term asset allocation and the 7.75% net investment earnings assumption has not yet been revised to reflect that long term asset allocation. Furthermore, the 7.75% assumption has not been developed to take 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, 2014 valuation, the ratio of the valuation assets to actuarial accrued liabilities increased from 79.0% to 80.9%. The aggregate employer's rate has decreased from 35.55% of payroll to 35.00% of payroll, while the average employee's rate has decreased from 11.55% of payroll to 11.48% of payroll.

In the June 30, 2014 valuation, the actuarial value of assets included $285.5 million in deferred investment gains, which represented about 3% of the market value of assets. If these deferred investment gains were recognized immediately in the actuarial value of assets, the funded percentage would increase from 80.9% to 83.3% and the aggregate employer contribution rate, expressed as a percent of payroll, would decrease from 35.00% to 33.19%.

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

Andy Yeung

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

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

AW/gxk
Enclosures

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VIA E-MAIL AND USPS

November 25, 2014

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 –
June 30, 2014 Actuarial Valuation for Health Insurance Allowance

Dear Members of the Board:

Segal Consulting (Segal) performed a biennial actuarial valuation of the Other Postemployment Benefits (OPEB) funded through the San Diego County Employees Retirement Association Health Insurance Allowance program as of June 30, 2014. We certify 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.

The Entry Age 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, 2014 is 12.8 years. The ARC has decreased from 1.94% of payroll in the last valuation as of June 30, 2012 to 1.78% of payroll in the current valuation as of June 30, 2014. The funded ratio has increased from 2.73% in the June 30, 2012 valuation to 2.80% in the June 30, 2014 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
November 25, 2014
Page 2

A listing of the supporting OPEB-related schedules Segal prepared to assist with the completion of 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 June 30, 2012 experience analysis and in conjunction with a general discussion of the economic assumptions (in particular the investment return assumption) for the June 30, 2014 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 Dave Bergerson, ASA, MAAA, EA. They are Members of the American Academy of Actuaries and meet their "General Qualification Standards for Statements of Actuarial Opinion" 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

JEM/hy
Enclosures

SOLVENCY TEST (PENSION PLAN)
(dollars in thousands)

Valuation date	Aggregate accrued liabilities for: Active member contributions[1]	Liability for retired members	Active members (employer financed portion)	Total	Valuation value of assets	Portion of accrued liability covered by reported assets: Active member contributions	Liability for retired members	Active members (employer financed portion)
6/30/05	$262,320	$3,315,888	$3,412,518	$6,990,726	$5,612,320	100%	100%	59.8%
6/30/06	290,339	3,679,444	3,525,511	7,495,294	6,263,019	100%	100%	65.0%
6/30/07	316,513	3,924,551	3,841,453	8,082,517	7,250,404	100%	100%	78.3%
6/30/08	371,892	4,260,025	4,090,377	8,722,294	8,236,926	100%	100%	88.1%
6/30/09	409,580	4,616,573	4,172,483	9,198,636	8,413,065	100%	100%	81.2%
6/30/10	434,512	5,133,785	4,430,864	9,999,161	8,433,310	100%	100%	64.7%
6/30/11	454,649	5,494,076	4,533,932	10,482,657	8,542,291	100%	100%	57.2%
6/30/12	482,861	6,010,596	4,449,715	10,943,172	8,607,483	100%	100%	47.5%
6/30/13	551,337	6,577,083	4,502,817	11,631,237	9,186,032	100%	100%	45.7%
6/30/14	631,296	6,885,584	4,624,269	12,141,149	9,824,431	100%	100%	49.9%

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

Source: 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)
6/30/07	-	$219,656	$16,099	$235,755	$ -	0.0%	0.0%	0.0%
6/30/08	-	204,348	13,211	217,559	18,206	0.0%	8.9%	0.0%
6/30/10	-	194,792	11,655	206,447	9,221	0.0%	4.7%	0.0%
6/30/12	-	176,173	9,129	185,302	5,064	0.0%	2.9%	0.0%
6/30/14	-	162,113	7,079	169,192	4,743	0.0%	2.9%	0.0%

*Valuations performed biennially after 2008
Source: The Segal Company, Annual Actuarial Valuation

HISTORY OF EMPLOYER PENSION CONTRIBUTION RATES

For the years ended June 30	General members: Normal %	UAAL %	Total %	Safety members: Normal %	UAAL %	Total %
2005	12.18	10.81	22.99	17.91	12.77	30.68
2006	12.15	9.34	21.49	17.93	11.94	29.87
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
2013	13.31	19.96	33.27	20.73	23.34	44.07
2014	13.34	19.17	32.51	20.40	22.44	42.84

Source: The Segal Company, Annual Actuarial Valuation

DEMOGRAPHIC ACTIVITY OF RETIRED MEMBERS AND BENEFICIARIES (PENSION PLAN)

	Added to rolls		Removed from rolls		Rolls at end of year				
Plan year ended June 30	Number	Annual allowance *	Number	Annual allowance	Number	Annual allowance	% Increase in retiree allowance	Average annual allowance	Change in average benefit
2005	1,013	$36,459,281	347	$4,606,967	11,436	$263,918,139	13.7%	$23,078	7.1%
2006	975	41,577,431	362	5,714,102	12,049	299,781,468	13.6%	24,880	7.8%
2007	802	45,430,033	347	6,531,337	12,504	338,680,164	13.0%	27,086	8.9%
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%
2013	1,077	44,953,478	423	10,603,202	15,820	531,668,316	6.9%	33,607	2.5%
2014	926	40,013,206	373	9,912,670	16,373	561,768,852	5.7%	34,311	2.1%

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

Source: The Segal Company, Annual Actuarial Valuation

DEMOGRAPHIC ACTIVITY OF RETIRED MEMBERS AND BENEFICIARIES (OPEB PLAN)

	Added to rolls		Removed from rolls		Rolls at end of year				
Plan year ended June 30*	Number	Annual allowance***	Number	Annual allowance	Number	Annual allowance	% Increase in retiree allowance	Average annual allowance	Change in average benefit
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)%
2014	148	896,902	517	2,072,409	5,186	19,448,416	(5.7)%	3,750	1.0%

*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

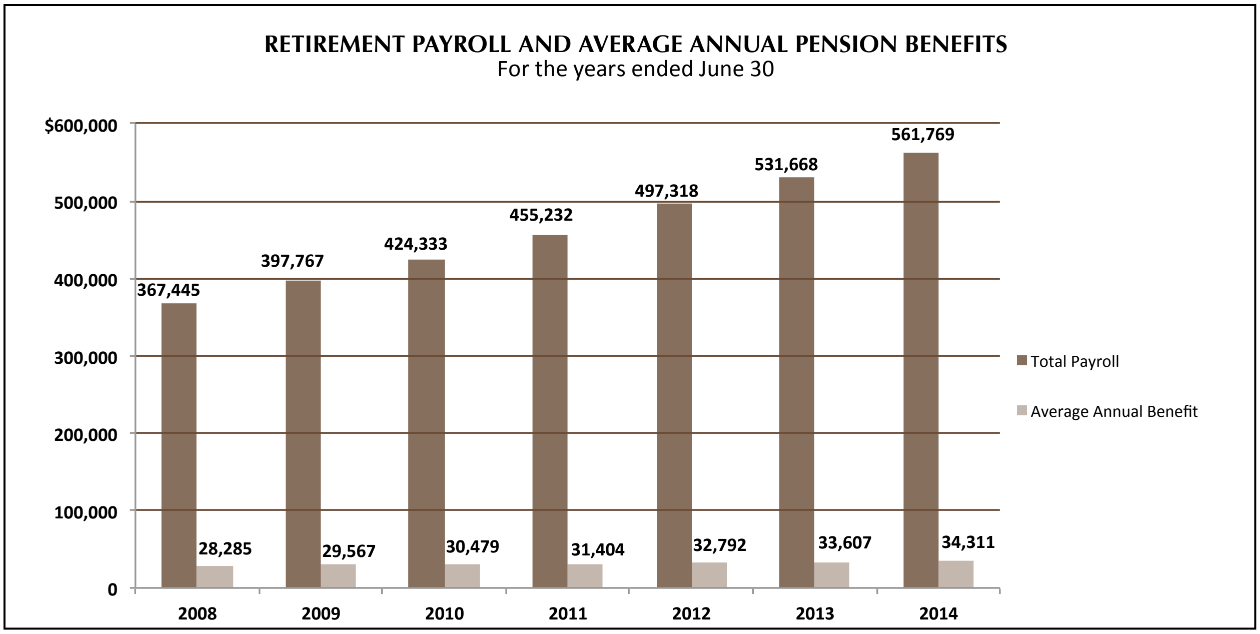
FUNDING PROGRESS (PENSION PLAN)
(dollars in thousands)

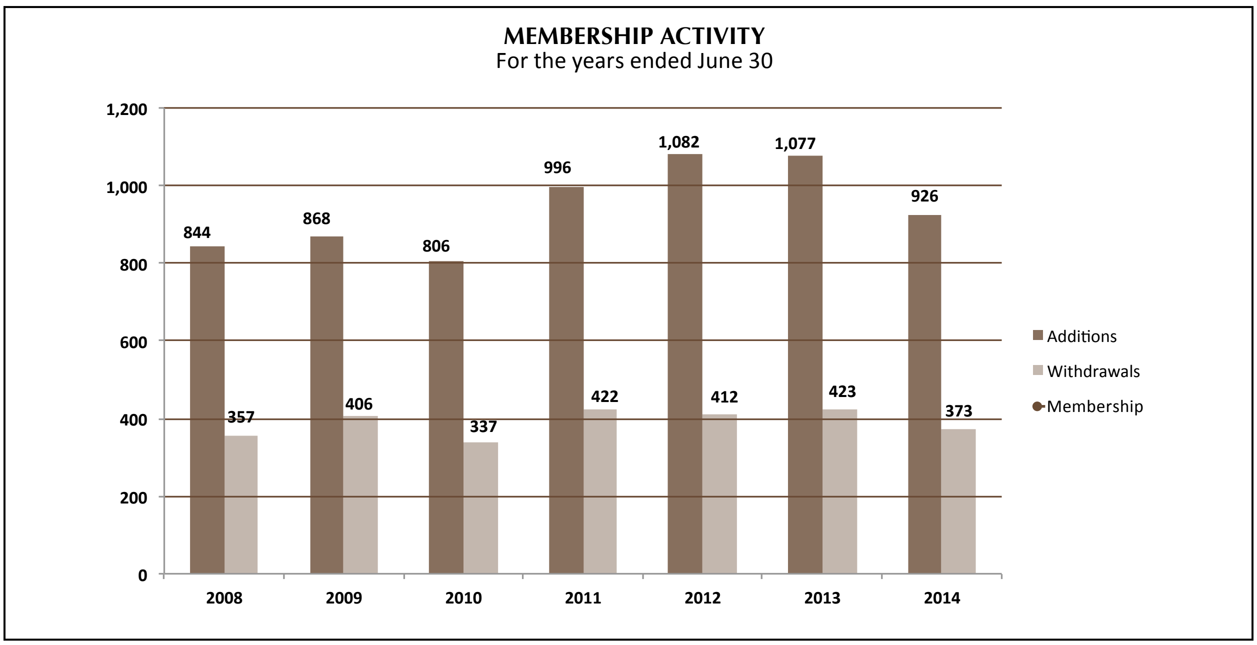
Valuation Date	(a) Valuation Assets(1)	(b) Actuarial Accrued Liability (AAL)(2)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	(c) Annual Covered Payroll	UAAL as % of Covered Payroll [(b)-(a)]/(c)
6/30/05	$5,612,320	$6,990,726	$1,378,406	80.3%	$921,796	149.5%
6/30/06	6,263,019	7,495,294	1,232,275	83.6	979,368	125.8
6/30/07	7,250,404	8,082,517	832,113	89.7	1,062,396	78.3
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	177.9
6/30/12	8,607,483	10,943,172	2,335,689	78.7	1,052,366	221.9
6/30/13	9,186,032	11,631,237	2,445,205	79.0	1,067,792	229.0
6/30/14	9,824,431	12,141,149	2,316,718	80.9	1,122,864	206.3

(1) Excludes assets held for Health Benefit Reserve.

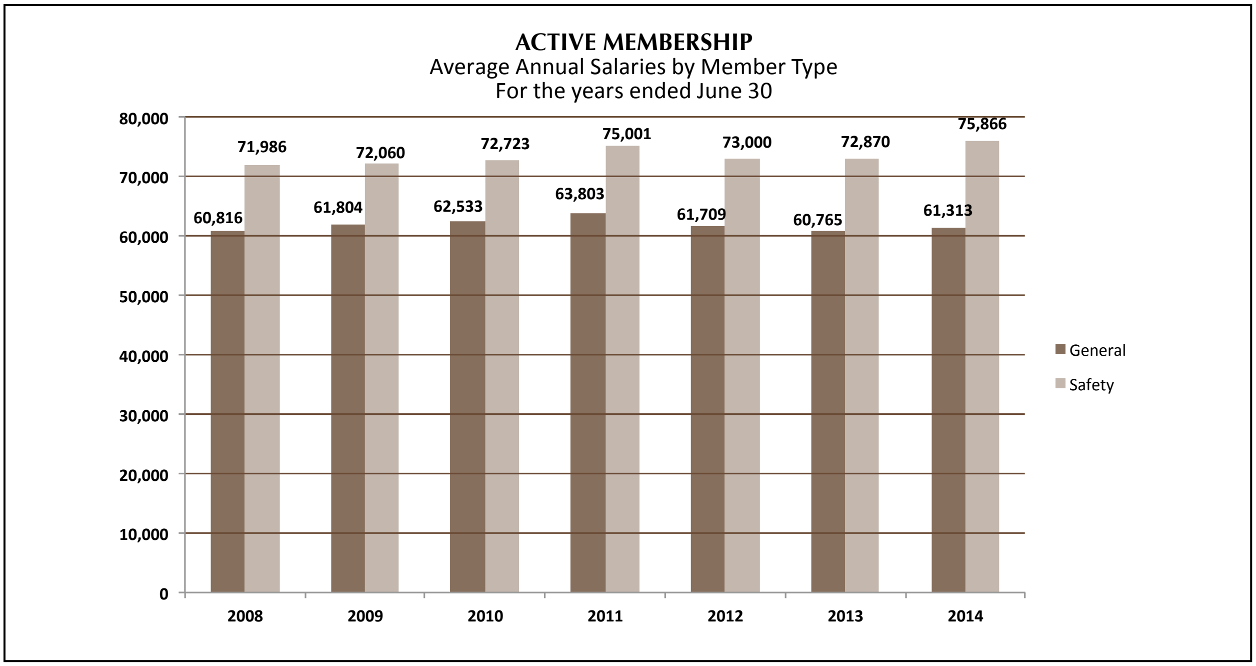
(2) Excludes liabilities held for Health Benefit Reserve.

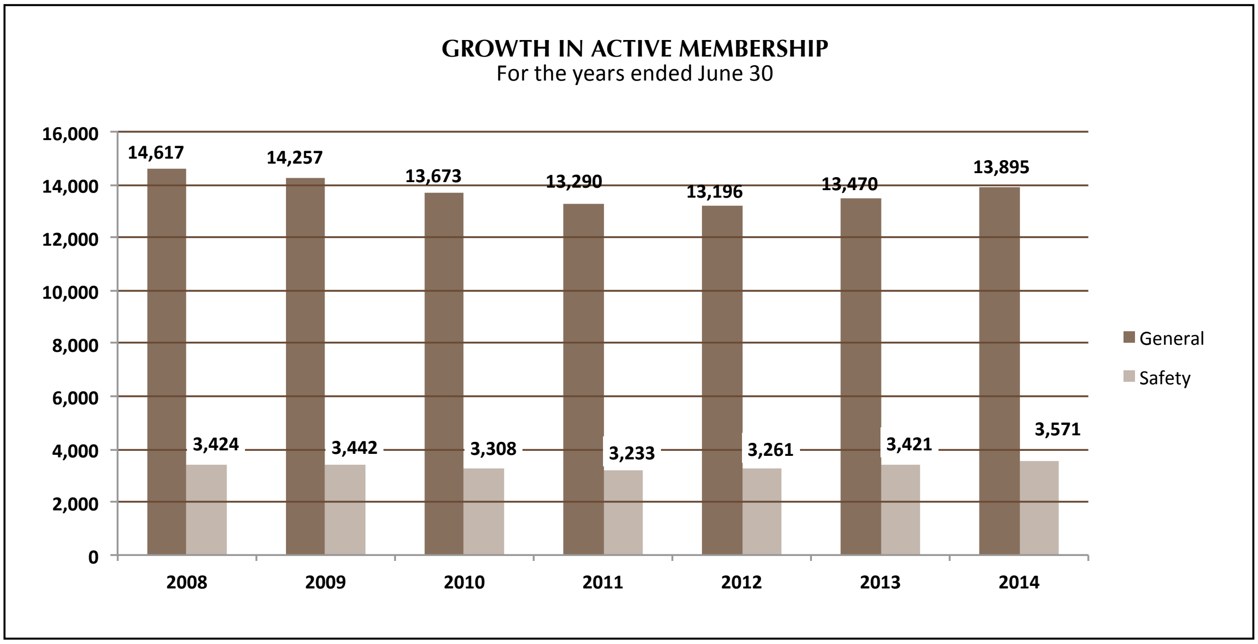
Source: The Segal Company, Annual Actuarial Valuation





Source: The Segal Company, Annual Actuarial Valuation, June 30, 2014





Source: The Segal Company, Annual Actuarial Valuation, June 30, 2014

DETERMINATION OF ACTUARIAL AND VALUATION VALUE OF ASSETS
For the year ended June 30, 2014
(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
6/2012 Combined net deferred loss*				$(170,571,295)	0.6	$ (94,761,831)
7/2012	12/2012	$595,958,895	$329,280,436	266,678,459	0.6	160,007,076
1/2013	6/2013	62,787,174	350,146,351	(287,359,177)	0.7	(201,151,424)
7/2013	12/2013	529,642,752	350,592,044	179,050,708	0.8	143,240,566
1/2014	6/2014	678,501,180	369,454,642	309,046,538	0.9	278,141,885
1. Total deferred return						285,476,272
2. Net market value of assets						10,185,438,096
3. Actuarial value of assets						9,899,961,824
4. Non-valuation reserves						
a. Supplemental retirement reserve						32,258,653
b. 401(h) reserve						4,743,149
c. Disability supplement retirement reserve						5,568,267
d. Contingency reserve						32,960,463
e. Undistributed reserve						0
f. Subtotal						75,530,532
5. Valuation value of assets (Item 3 - Item 4f)						$9,824,431,292

* Net deferred loss as of June 30, 2012, was combined and will be recognized over 4.5 years.
Source: The Segal Company, Annual Actuarial Valuation, June 30, 2014

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE (PENSION PLAN)
(dollars in thousands)

	Plan years ended June 30 2014	2013	2012	2011	2010	2009
Prior valuation unfunded actuarial liability	$2,445,205	$2,335,689	$1,940,366	$1,565,851	$785,571	$485,368
Salary increase less than expected	(35,468)	(169,406)	(196,062)	(116,085)	(161,956)	(129,349)
Asset return less (greater) than expected	(2,155)	19,304	533,655	467,919	561,959	459,959
Other experience	(90,864)	(4,136)	74,197	22,681	(33,748)	(30,407)
Economic and non-economic assumption changes	-	263,754	(16,467)	-	414,025	-
Ending unfunded actuarial accrued liability	**$2,316,718**	**$2,445,205**	**$2,335,689**	**$1,940,366**	**$1,565,851**	**$785,571**

Source: The Segal Company, Annual Actuarial Valuation

ACTUARIAL COST METHODS

The methods and assumptions used to develop the actuarial valuations for funding purposes and for financial reporting purposes are the same except for one component that goes into development of the investment rate of return assumption. The investment rate of return assumption for funding purposes is 7.75%, net of both expected administration and investment expenses. The investment rate of return assumption for financial reporting purposes is 7.75%, net of only expected investment expense. Both assumptions comply with Actuarial Standards of Practice.

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.

The Entry Age Actuarial Cost Method is considered a reasonable funding method under the Actuarial Standards of Practice. This method produces individual Normal Costs that are determined as a level percentage of covered payroll over each member's career and therefore produces a cost that remains as level as possible. The Entry Age Actuarial Cost Method is also considered a model practice by the California Actuarial Advisory Panel.

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.

On June 6, 2013, SDCERA's Board adopted The Segal Company's recommendation for using alternative periods for funding future changes in UAAL. Effective with the June 30, 2013, valuation, any change in the UAAL that arises due to plan amendments will be amortized over separate 15-year declining amortization periods. Any change in the UAAL that arises due to retirement incentives is amortized over separate declining amortization periods of up to five years.

Active member payroll in aggregate was assumed to increase 4.0% a year for the purpose of determining the level percent contributions towards funding the unfunded actuarial accrued liabilities, 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.

Benefit provisions are described in detail beginning on page 29.

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, 2009, through June 30, 2012, 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 funding purposes is 7.75%, net of both expected administration and investment expenses. The investment return rate used for financial reporting purposes is 7.75%, net of only expected investment expenses. 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	3.25%
Real Rate of Return	4.50%
Total	**7.75%**

Source: The Segal Company, Annual Actuarial Valuation, June 30, 2014

CONSUMER PRICE INDEX URBAN WAGE EARNERS AND CLERICAL WORKERS BEFORE 1978 ALL URBAN CONSUMERS AFTER 1977 10-YEAR MOVING AVERAGE	
June 30, 1962	1.3%
June 30, 1972	3.3%
June 30, 1982	8.8%
June 30, 1992	3.8%
June 30, 2002	2.5%
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 2013. Rates vary by length of service, and consist of 3.25% 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 11.25% and the minimum combined rate is 4.00%.

PROJECTED SALARY INCREASE RATES

Years of Service	Safety	General
0	8.00%	6.00%
1	5.75%	4.50%
2	5.00%	4.00%
3	4.75%	3.00%
4	4.25%	2.25%
5+	1.00%	0.75%

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Employees	Total Payroll	% Change	Average Salary	% Change
06/30/05	16,980	$ 921,795,559	0.5	$54,287	4.9
06/30/06	17,451	979,367,931	6.2	56,121	3.4
06/30/07	17,733	1,062,396,028	8.5	59,911	6.8
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)
06/30/13	16,891	1,067,792,128	1.5	63,217	(1.1)
06/30/14	17,466	1,122,864,480	5.2	64,289	1.7

Source: The Segal Company, Annual Actuarial Valuation

HISTORICAL SUMMARY OF ASSUMPTIONS
For the years ended June 30

	Fiscal Year Ended							
Assumption	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	3 year average	5 year average
Inflation [1]	2.4%	0.9%	1.7%	3.4%	1.4%	(0.6)%	1.67%	1.96%
Assumed [2]							3.33	3.40
Average pay increase	1.7	(1.1)	(3.1)	2.3	1.1	1.4	(0.83)	0.18
Assumed [3]							4.08	4.15
Merit and longevity pay increase	3.3	3.3	4.7	1.2	0.3	0.7	3.77	2.56
Assumed [4]							0.87	0.92
Total payroll	5.2	1.5	(3.5)	(0.5)	(3.0)	(0.6)	1.07	(0.06)
Assumed [3]							4.08	4.15
Investment return rate [7]	8.1	7.7	1.7	2.4	1.5	1.5	5.83	4.28
Assumed [5]							7.83	7.90
Real rate of investment return	5.7	6.8	0.0	(1.0)	0.1	2.1	4.17	2.32
Assumed [6]							5.40	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 COLA for retired members.
(2) Effective with June 30, 2013, valuation, this assumption has been reduced from 3.50% to 3.25%.
(3) Effective with June 30, 2013, valuation, this assumption has been reduced from 4.25% to 4.00%.
(4) Effective with June 30, 2013, valuation, this assumption of 0.75% has remained unchanged for General members and decreased from 1.25% to 1.00% for Safety members.
(5) Based on actuarial value of assets, not market value or book value.
(6) Effective with June 30, 2013, valuation, this assumption has been decreased from 8.00% to 7.75%.
(7) This assumption has stayed at 4.50% since the June 30, 2006, valuation.

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 25% of General and 30% of Safety separating active members will continue employment with a reciprocal employer. General reciprocal members are assumed to receive 4.75% compensation increases per annum while Safety reciprocal members are assumed to receive 5.00% compensation increases per annum.

In May of 2013, 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 5, 2013, 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%	0.03%
25	0.00%	0.00%	0.00%	0.01%	0.01%	0.08%
30	0.01%	0.01%	0.00%	0.01%	0.03%	0.19%
35	0.02%	0.02%	0.02%	0.03%	0.06%	0.49%
40	0.04%	0.06%	0.06%	0.06%	0.09%	0.65%
45	0.06%	0.10%	0.07%	0.16%	0.14%	0.65%
50	0.10%	0.14%	0.07%	0.23%	0.17%	1.22%
55	0.18%	0.17%	0.07%	0.28%	0.25%	1.96%
60	0.22%	0.22%	0.07%	0.33%	0.30%	2.26%
65	0.22%	0.25%	0.03%	0.20%	0.18%	2.72%

For General members the post retirement mortality table used is the RP-2000 Combined Healthy Mortality Table projected with Scale AA to 2016 with a two-year age setback for Males and a one-year age setback for Females.

For Safety the post retirement mortality table used is the RP-2000 Combined Health Mortality Table projected with Scale AA to 2016 with a one-year age setback for Males and no age setback for Females. This assumption is used to measure the probabilities of members dying after retirement and the probabilities of each benefit payment being made after retirement. For members with a disability 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	0.09	0.05	0.09	0.06
45	0.11	0.08	0.12	0.09
50	0.14	0.12	0.15	0.13
55	0.21	0.21	0.23	0.24
60	0.41	0.41	0.46	0.47

DISABLED LIFE MORTALITY

Sample ages	General		Sample ages	Safety	
	Male	Female		Male	Female
30	0.06	0.03	30	0.06	0.03
35	0.09	0.05	35	0.09	0.05
40	0.11	0.07	40	0.11	0.07
45	0.14	0.11	45	0.14	0.11
50	0.21	0.17	50	0.21	0.17
55	0.41	0.35	55	0.41	0.35
60	0.80	0.71	60	0.80	0.71

WITHDRAWAL RATES WITH LESS THAN 5 YEARS OF SERVICE			
	Ordinary withdrawals (Less than 5 years of service)		
	General		
Years of service	Male	Female	Safety
0	13.50%	14.50%	11.50%
1	8.25%	9.25%	8.00%
2	5.70%	6.50%	4.00%
3	4.30%	6.00%	3.00%
4	4.05%	5.50%	2.75%

Of all terminating members, 60% will choose a refund of contributions and 40% will choose a deferred-vested benefit.

WITHDRAWAL RATES FOR TERMINATION WITH MORE THAN 5 YEARS OF SERVICE			
	Termination (More than 5 years of service) [1]		
	General		
Age	Male	Female	Safety
20	5.46%	5.43%	3.71%
25	4.56%	5.23%	3.19%
30	4.08%	4.64%	2.62%
35	3.54%	3.79%	2.00%
40	2.69%	2.88%	1.35%
45	2.31%	2.35%	1.08%
50	2.42%	2.25%	1.00%
55	2.50%	2.25%	1.22%
60	2.50%	2.25%	1.58%
65	2.50%	2.25%	0.68%

[1] Of all terminating members, 15% will choose a refund of contributions and 85% will choose a deferred-vested benefit. Termination rates are zero at ages where members are expected to retire.

RETIREMENT RATES (%)						
	General			Safety		
Age	Tier I and Tier A	Tier B	Tier C	Tier A	Tier B	Tier C
48	-	-	-	4.0	3.0	-
49	55.0	-	-	8.0	3.5	-
50	7.0	-	-	14.0	11.0	14.0
51	5.0	-	-	12.0	11.0	9.5
52	5.0	-	-	12.0	11.0	9.5
53	5.0	-	-	15.0	11.0	9.5
54	9.0	-	-	15.0	12.0	10.5
55	11.0	5.5	4.0	16.0	19.0	16.5
56	11.0	6.5	4.5	18.0	22.0	19.0
57	11.0	7.5	5.5	20.0	20.0	20.0
58	12.0	7.5	5.5	21.0	21.0	21.0
59	15.0	7.5	5.5	22.0	22.0	22.0
60	20.0	10.0	7.5	25.0	25.0	25.0
61	20.0	13.0	10.0	30.0	30.0	30.0
62	24.0	19.0	14.0	30.0	30.0	30.0
63	25.0	19.0	15.0	30.0	30.0	30.0
64	28.0	19.0	16.0	30.0	30.0	30.0
65	31.0	30.0	26.0	60.0	60.0	60.0
66	31.0	30.0	30.0	60.0	60.0	60.0
67	31.0	30.0	30.0	60.0	60.0	60.0
68	35.0	30.0	30.0	60.0	60.0	60.0
69	37.0	30.0	30.0	60.0	60.0	60.0
70	50.0	50.0	50.0	100.0	100.0	100.0
71	50.0	50.0	50.0	100.0	100.0	100.0
72	50.0	50.0	50.0	100.0	100.0	100.0
73	50.0	50.0	50.0	100.0	100.0	100.0
74	50.0	50.0	50.0	100.0	100.0	100.0
75 and later	100.0	100.0	100.0	100.0	100.0	100.0

Source: The Segal Company, Annual Actuarial Valuation, June 30, 2014

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: 75% 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.

A ten year schedule of actuarially determined and actual contributions is provided for your reference on page 57.

STATISTICAL

Comprehensive Annual Financial Report
Fiscal year ended June 30, 2014

STATISTICAL SECTION OVERVIEW

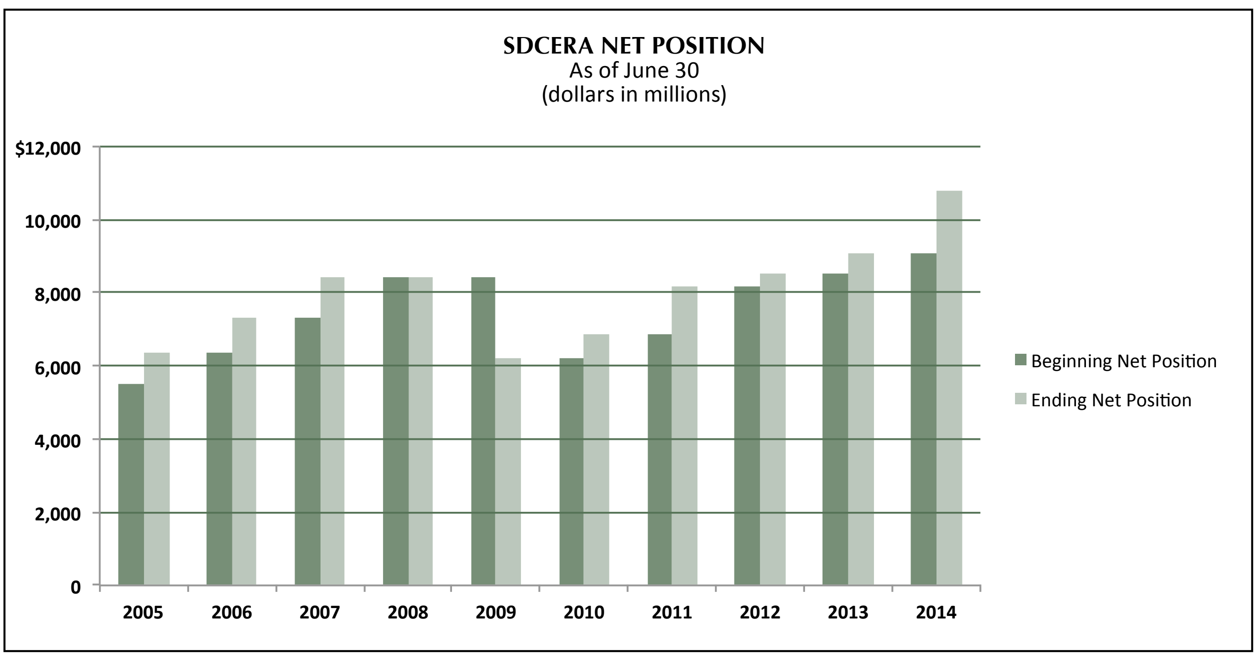
There are five categories included in this section: financial trends, demographic and economic information, expenses, and operating information. The data disclosed in this section provides multi-year trend information that will assist in developing a better understanding of SDCERA's activities over time.

Financial trends information is presented in the Changes in Plan Net Position and Benefit and Refund Deductions from Net Position 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 plan net position 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 Position and the Benefit and Refund Deductions from Net Position 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 10 years.



CHANGES IN PENSION PLAN NET POSITION*
For the last 10 fiscal years ended June 30
(dollars in millions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Additions										
Employee Contributions (1)	$40.8	$41.9	$44.5	$45.5	$49.5	$46.4	$44.0	$59.8	$71.7	$78.9
Employer Contributions (2)	316.1	302.5	320.5	329.0	314.5	276.7	321.8	334.8	357.9	394.7
Investment Income (Net of expenses)	794.7	962.2	1119.3	(4.8)	(2,143.9)	830.8	1,437.0	454.6	669.9	1,220.4
Total Additions	**$1,151.6**	**$1,306.6**	**$1,484.3**	**$369.7**	**(1,779.9)**	**$1,153.9**	**1,802.8**	**$849.2**	**$1,099.5**	**$1,694.0**
Deductions										
Administrative Expenses	$7.5	$8.0	$10.3	$10.5	$10.1	$10.4	$10.5	$10.9	$11.4	$12.7
Retirement Benefits (1) (3)	259.5	290.2	322.6	368.6	399.9	431.1	461.6	496.3	540.5	558.0
Health Benefits	32.6	32.9	35.3	24.4	23.9	23.6	21.8	-	-	-
Refunds	2.2	3.0	2.6	2.7	2.3	2.6	3.1	3.4	2.8	2.8
Total Deductions	**$301.8**	**$334.1**	**$370.8**	**$406.2**	**$436.2**	**$467.7**	**$497.0**	**$510.6**	**$554.7**	**$573.5**
Total Change in Net Position	**$849.8**	**$972.5**	**$1,113.5**	**$(36.5)**	**$(2,216.1)**	**$686.2**	**$1,305.8**	**$338.6**	**$544.8**	**$1,120.5**

* In years prior to 2012, health care net position is included in this schedule

NOTES:

(1) Includes proceeds from pension obligation bonds of $450 million in 2004.

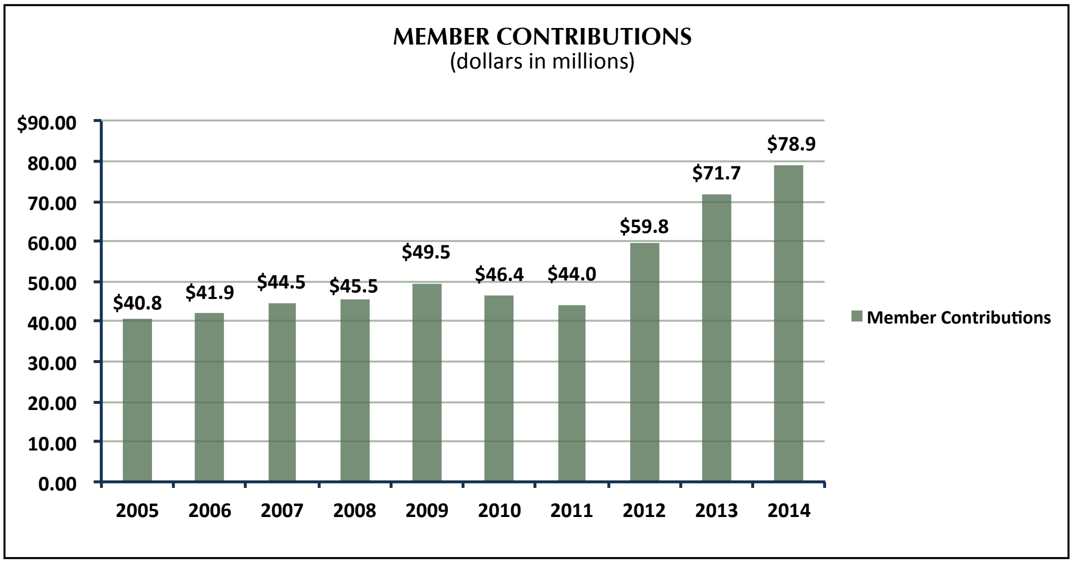
(2) Includes proceeds from Pension obligation bonds of $550 million in 2003 and $450 million in 2004.

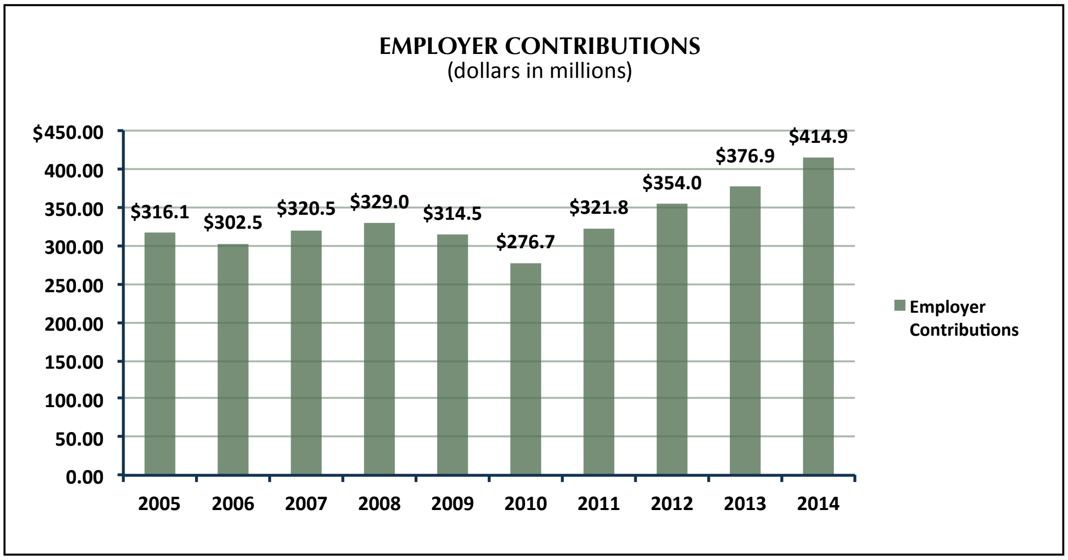
(3) Refer to benefit and refund deductions for detail.

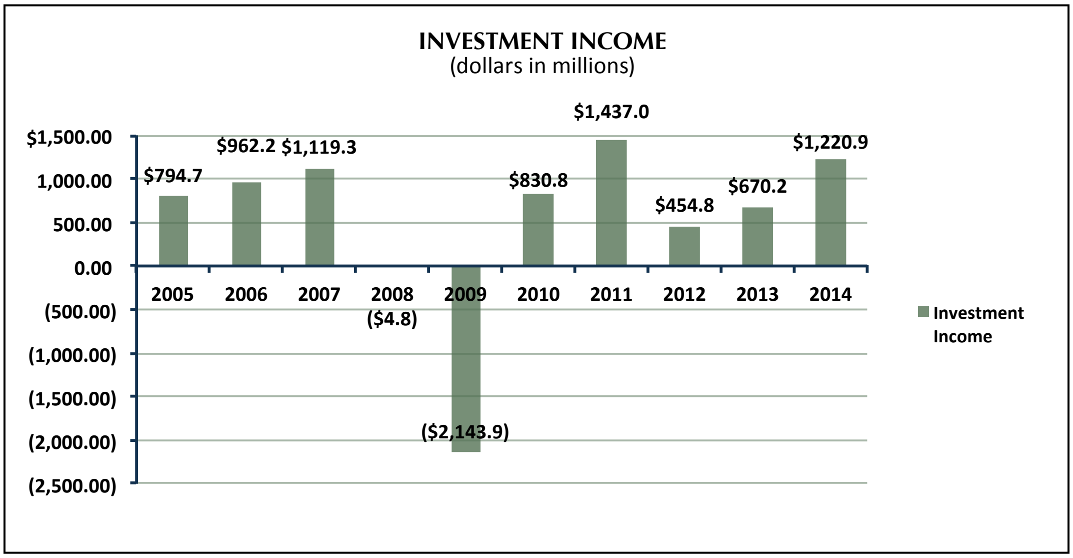
CHANGES IN OPEB NET POSITION
For the fiscal year ended June 30
(dollars in millions)

	2012	2013	2014
Additions			
Employer Contributions	$19.2	$19.0	$20.2
Investment Income (Net of expenses)	0.2	0.3	0.5
Total additions	$19.4	$19.3	$20.7
Deductions			
Administrative Expenses	0.2	-	-
Health Benefits	21.3	20.4	20.0
Total deductions	21.5	20.4	20.0
Total change in net position	$(2.1)	$(1.1)	$0.7

ADDITIONS TO PLAN NET POSITION BY SOURCE







BENEFIT AND REFUND DEDUCTIONS FROM NET POSITION BY TYPE
For the last 10 fiscal years ended June 30
(dollars in millions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Type of benefit										
Age and service	$209.5	$239.4	$295.3	$301.8	$310.8	$357.5	$386.8	$418.0	$456.0	$470.3
Disability - Duty	6.7	8.8	12.0	16.9	37.7	41.4	42.8	45.1	48.0	49.1
Disability - Non-duty	25.4	24.2	28.7	26.9	5.6	6.2	5.9	6.1	6.3	6.6
Death benefits	2.7	1.1	1.6	0.9	1.8	1.4	1.2	1.6	1.3	1.5
Survivors	15.2	16.7	20.3	22.0	24.0	24.5	24.8	25.5	28.9	30.5
Total	**$259.5**	**$290.2**	**$357.9**	**$368.5**	**$379.9**	**$431.0**	**$461.5**	**$496.3**	**$540.5**	**$558.0**
Type of refund										
Separation	2.2	3.0	2.6	2.7	2.3	2.6	3.1	3.4	2.8	2.7
Total	**$2.2**	**$3.0**	**$2.6**	**$2.7**	**$2.3**	**$2.6**	**$3.1**	**$3.4**	**$2.8**	**$2.7**

RETIRED MEMBERS BY TYPE OF BENEFIT

For the current and prior fiscal years ended June 30

Fiscal year 2014 — Type of retirement [a]

Amount of monthly benefit	Number of retired members	1	2	3	4	5	6
$0 - $1,000	3,410	2,775	516	14	10	79	16
1,001 - 2,000	4,220	3,223	466	14	304	199	14
2,001 - 3,000	3,033	2,288	225	8	453	46	13
3,001 - 4,000	2,003	1,506	124	1	348	15	9
4,001 - 5,000	1,138	1,013	49	1	69	5	1
5,001 - 6,000	786	710	27	1	43	4	1
6,001 - 7,000	623	577	12	-	32	1	1
7,001 - 8,000	425	399	5	-	21	-	-
8,001 - 9,000	276	259	1	-	15	-	1
9,001 - 10,000	155	144	3	-	8	-	-
Over 10,000	304	288	2	-	14	-	-
Total	**16,373**	**13,182**	**1,430**	**39**	**1,317**	**349**	**56**

Fiscal year 2013 — Type of retirement [a]

Amount of monthly benefit	Number of retired members	1	2	3	4	5	6
$0 - $1,000	3,378	2,727	532	11	9	86	13
1,001 - 2,000	4,142	3,147	462	7	319	196	11
2,001 - 3,000	2,961	2,209	223	3	478	38	10
3,001 - 4,000	1,886	1,434	121	1	309	13	8
4,001 - 5,000	1,072	971	39	-	55	6	1
5,001 - 6,000	744	687	16	-	39	2	-
6,001 - 7,000	572	530	11	-	30	1	-
7,001 - 8,000	405	381	5	-	19	-	-
8,001 - 9,000	249	234	1	-	14	-	-
9,001 - 10,000	135	122	4	-	9	-	-
Over 10,000	276	264	-	-	12	-	-
Total	**15,820**	**12,706**	**1,414**	**22**	**1,293**	**342**	**43**

[a]Type of Retirement:

1 - Service retirement

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., someone who is a retired member and a surviving spouse.

RETIRED MEMBERS BY TYPE OF BENEFIT OPTION SELECTED

For the current and prior fiscal years ended June 30

Fiscal year 2014

Amount of monthly benefit	Number of retired members and beneficiaries	Option selected [b]						
		Unmodified	1	2	3	4	Death - Minor child supplement	Lump-sum installment
$0 - $1,000	3,410	3,197	52	141	2	3	-	15
1,001 - 2,000	4,220	4,040	63	98	5	7	-	7
2,001 - 3,000	3,033	2,920	41	61	2	6	-	3
3,001 - 4,000	2,003	1,932	28	37	1	4	-	1
4,001 - 5,000	1,138	1,081	18	29	2	8	-	-
5,001 - 6,000	786	760	8	12	-	6	-	-
6,001 - 7,000	623	597	10	11	-	5	-	-
7,001 - 8,000	425	416	3	4	-	2	-	-
8,001 - 9,000	276	267	1	2	1	5	-	-
9,001 - 10,000	155	150	2	2	-	1	-	-
Over 10,000	304	296	-	2	-	6	-	-
Total	**16,373**	**15,656**	**226**	**399**	**13**	**53**	**-**	**26**

Fiscal year 2013

Amount of monthly benefit	Number of retired members and beneficiaries	Option selected [b]						
		Unmodified	1	2	3	4	Death - Minor child supplement	Lump-sum installment
$0 - $1,000	3,378	3,177	54	126	2	3	-	16
1,001 - 2,000	4,143	3,973	62	88	5	7	-	8
2,001 - 3,000	2,960	2,854	40	56	2	6	-	2
3,001 - 4,000	1,886	1,816	27	35	1	6	-	1
4,001 - 5,000	1,072	1,015	19	30	2	6	-	-
5,001 - 6,000	744	718	10	9	-	7	-	-
6,001 - 7,000	572	550	8	10	-	4	-	-
7,001 - 8,000	405	396	4	3	1	1	-	-
8,001 - 9,000	249	241	2	1	-	5	-	-
9,001 - 10,000	135	130	1	2	-	2	-	-
Over 10,000	276	270	-	1	-	5	-	-
Total	**15,820**	**15,140**	**227**	**361**	**13**	**52**	**-**	**27**

[b] Option selected:

Unmodified plan: beneficiary receives 60 percent continuance.

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

Option 1 - Beneficiary receives lump-sum 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 beneficiary(ies)

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., someone who is a retired member and a 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 2014							
Average annual benefit	$8,743	$10,779	$21,114	$34,509	$43,163	$66,107	$77,237
Average monthly benefit	$729	$898	$1,759	$2,876	$3,597	$5,509	$6,436
Average final monthly salary	$5,972	$4,439	$4,985	$5,721	$5,650	$6,922	$6,760
Number of retired members	40	127	207	107	122	115	78
Fiscal year 2013							
Average annual benefit	$9,841	$12,071	$20,662	$32,694	$50,152	$66,810	$82,334
Average monthly benefit	$820	$1,006	$1,722	$2,725	$4,179	$5,568	$6,861
Average final monthly salary	$7,418	$4,639	$5,046	$5,498	$6,413	$7,028	$7,099
Number of retired members	46	155	252	141	160	121	84
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

* Includes only new retired members for fiscal year 2013
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 2014			
Average monthly benefit	$ 196	$ 243	$ 93
Number of retired members	1,148	4,331	4,657
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

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 2014						
Number of covered members	38,930	36,435	2,444	25	13	13
Percentage to total system	100.00 %	93.59	6.28	0.07	0.03	0.03
Rank		1	2	3	4	5
Fiscal year 2013						
Number of covered members	37,711	36,017	1,653	19	13	9
Percentage to total system	100.00 %	95.51	4.38	0.05	0.04	0.02
Rank		1	2	3	4	5
Fiscal year 2012						
Number of covered members	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 members	36,144	33,631	2,464	22	14	13
Percentage to total system	100.00 %	93.05	6.82	0.06	0.04	0.03
Rank		1	2	3	4	5
Fiscal year 2010						
Number of covered members	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 members	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 members	36,179	33,538	2,587	17	13	24
Percentage to total system	100.00 %	92.70	7.15	0.05	0.03	0.07
Rank		1	2	4	5	3
Fiscal year 2007						
Number of covered members	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 members	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 members	32,043	29,795	2,208	16	10	14
Percentage to total system	100.00 %	92.99	6.89	0.05	0.03	0.04
Rank		1	2	3	5	4

Note: Fiscal years 2003 to 2005 are restated to correct distribution among employers.
Source: The Segal Company

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