SDCERA

Strength. Service. Commitment.

Comprehensive Annual Financial Report

For the Fiscal Year ended June 30, 2015

San Diego County Employees Retirement Association
San Diego, CA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year ended June 30, 2015

San Diego County Employees Retirement Association
San Diego, CA

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INTRODUCTION

Comprehensive Annual Financial Report

For the Fiscal Year ended June 30, 2015

Strength. Service. Commitment.

December 15, 2015

To the Board of Trustees of the San Diego County Employees Retirement Association:

I am pleased to present this Comprehensive Annual Financial Report (CAFR) of the San Diego County Employees Retirement Association (SDCERA or the Association) for the fiscal year ended June 30, 2015 (FY 2015).

SDCERA BACKGROUND AND HISTORY

SDCERA is a public retirement system established by the County of San Diego on July 1, 1939, pursuant to the County Employees Retirement Law of 1937. SDCERA administers service retirement, disability, death, healthcare, and survivor benefits for more than 40,000 active and retired employees of the County of San Diego, the San Diego Local Agency Formation Commission, the San Dieguito River Park Joint Powers Authority, the San Diego County Office of Education and the Superior Court of California, County of San Diego.

The Board of Retirement (Board) administers the Association. The Board's nine Trustees include the San Diego County Treasurer-Tax Collector, four Trustees elected by Members (two by the General Members, one by active Safety Members and one by retirees), and four Trustees appointed by the San Diego County Board of Supervisors. In addition, active Safety Members and retirees each elect an alternate Trustee.

INVESTMENTS

For FY 2015, SDCERA reported a net investment return of 2.68 percent. As of June 30, 2015, SDCERA's three-year net investment return was 7.86 percent, the five-year net return was 9.90 percent, the 10-year net return was 6.08 percent, and the 25-year net return was 8.43 percent. SDCERA's assets under management as of June 30, 2015 were $10.3 billion.

During FY 2015, the Board voted to move management of the Association's Trust Fund assets to an internal Chief Investment Officer from an outsourced portfolio strategist. In May, Steve Sexauer was hired as SDCERA's Chief Investment Officer, and he subsequently successfully transitioned $5 billion from the outsourced portfolio strategist to a carefully constructed transition portfolio. Then, the Board and staff engaged in a thorough and thoughtful process to update SDCERA's Investment Policy Statement (IPS) and Trust Fund asset allocation. This process included reviewing asset and risk diversification, stress tests, asset allocation modeling, and performance/risk metrics reporting. The IPS and asset allocation clearly articulate SDCERA's investment goals, objectives, and risk and return measures, and provide operating objectives and guidelines to the Board and staff. Most importantly, each is a key component in SDCERA's transparent process of prudent portfolio management. You can read the IPS at http://www.sdcera.org/investments.htm.

ACTUARIAL VALUATION AND REVIEW

SDCERA has retained Segal Consulting, an independent actuary, to prepare SDCERA's FY 2015 Actuarial Valuation and Review. The Valuation and Review, which is located in the Actuarial section of this CAFR, summarizes the actuarial data used in the Valuation and establishes the funding requirements for fiscal year 2016. SDCERA's Plan Sponsor and each participating employer paid their entire FY 2015 actuarially determined contribution.

One measurement in an actuarial valuation that receives a lot of attention is a retirement plan's funded ratio, which is the ratio of the actuarial value of assets to actuarial liabilities. Generally, the higher the funded ratio is, the healthier the plan. Based on Segal's FY 2015 Actuarial Valuation, SDCERA's funded ratio is 80.5 percent.

NEW EXECUTIVE LEADERSHIP TEAM

I became Chief Executive Officer in September 2015 after serving as Interim CEO since April. During my tenure, we have hired Chief Financial Officer Greg Bych, Chief Investment Officer Steve Sexauer and Chief Legal Officer Elaine Reagan. These three individuals bring great talent and experience to SDCERA's Senior Management Team, and, together, they comprise one of the strongest management trios of any pension fund anywhere.

FISCAL YEAR 2016 ACTION PLAN

The Senior Management Team has developed a comprehensive Fiscal Year 2016 Action Plan that includes many important objectives and goals that, when complete, will improve our operations and plan administration, enabling us to serve our Members better. Two major goals already have been accomplished. With the hiring of Chief Investment Officer Steve Sexauer, the adoption of the new IPS and asset allocation and related activities, the transition to an in-house investment program is complete. In addition, with the hiring of Chief Legal Officer Elaine Reagan, SDCERA is establishing its first-ever in-house legal department. Hiring Steve and Elaine and bringing responsibility for legal services and investment management in-house will improve SDCERA's operational efficiency and effectiveness.

FINANCIAL INTEGRITY

Financial Statements. Responsibility for the accuracy of the data in this CAFR, along with the completeness and fairness of the presentation of financial information, rests with SDCERA's management. To the best of our knowledge, the reported data is accurate in all material respects and is reported in a manner designed to present transparently the Trust Fund's financial position and SDCERA's operational results. Detailed information is provided in Management's Discussion and Analysis, and I encourage you to read it carefully. The accompanying financial statements are prepared using the accrual basis of accounting. Contributions from our Plan Sponsor, Participating 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.

Internal Controls. SDCERA's management is responsible for the establishment and maintenance of internal controls designed to ensure that Trust Fund assets are protected from theft or misuse. 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 judgements by management are based on estimates.

Brown Armstrong Accountancy Corporation has audited SDCERA's financial statements and related disclosures. Their 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, and are free from material misstatement.

ACHIEVEMENTS IN FINANCIAL REPORTING AND PLAN ADMINISTRATION

SDCERA's CAFR for the fiscal year ended June 30, 2014 was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada. This prestigious award recognizes conformance with the highest standards for state and local government financial reporting. In addition, the Public Pension Coordinating Council honored SDCERA with its 2015 Public Pension Standards Award for Funding and Administration in recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.

ACKNOWLEDGEMENTS

I want to express my personal appreciation to Board Chair Skip Murphy and SDCERA's Trustees for their leadership and support. I also want to thank my SDCERA staff colleagues for their focus, hard work and dedication to our Members' wellbeing during a year of significant transition. Our Members, Plan Sponsor, Participating Employers and the citizens of our community benefit by their efforts.

Sincerely,

David B. Wescoe
Chief Executive Officer

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
_2015_

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

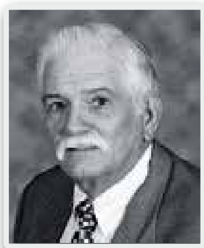
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Jeffrey R. Emer

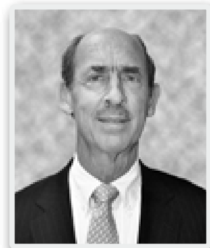
Executive Director/CEO

SDCERA BOARD OF RETIREMENT



E.F. "Skip" Murphy
Chairman

David A. Myers
Vice Chairman



Richard H. Vortmann
Secretary

Kristina Maxwell

Mark E. Oemcke

Dianne Jacob

Dan McAllister

David B. Moore

Samantha Begovich

ALTERNATE TRUSTEES

James W. Feeley

Tim Hancock

CHAIRMAN
E.F. "Skip" Murphy
Elected by SDCERA Retired members
Present term expires June 30, 2017

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

SECRETARY
Richard H. 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

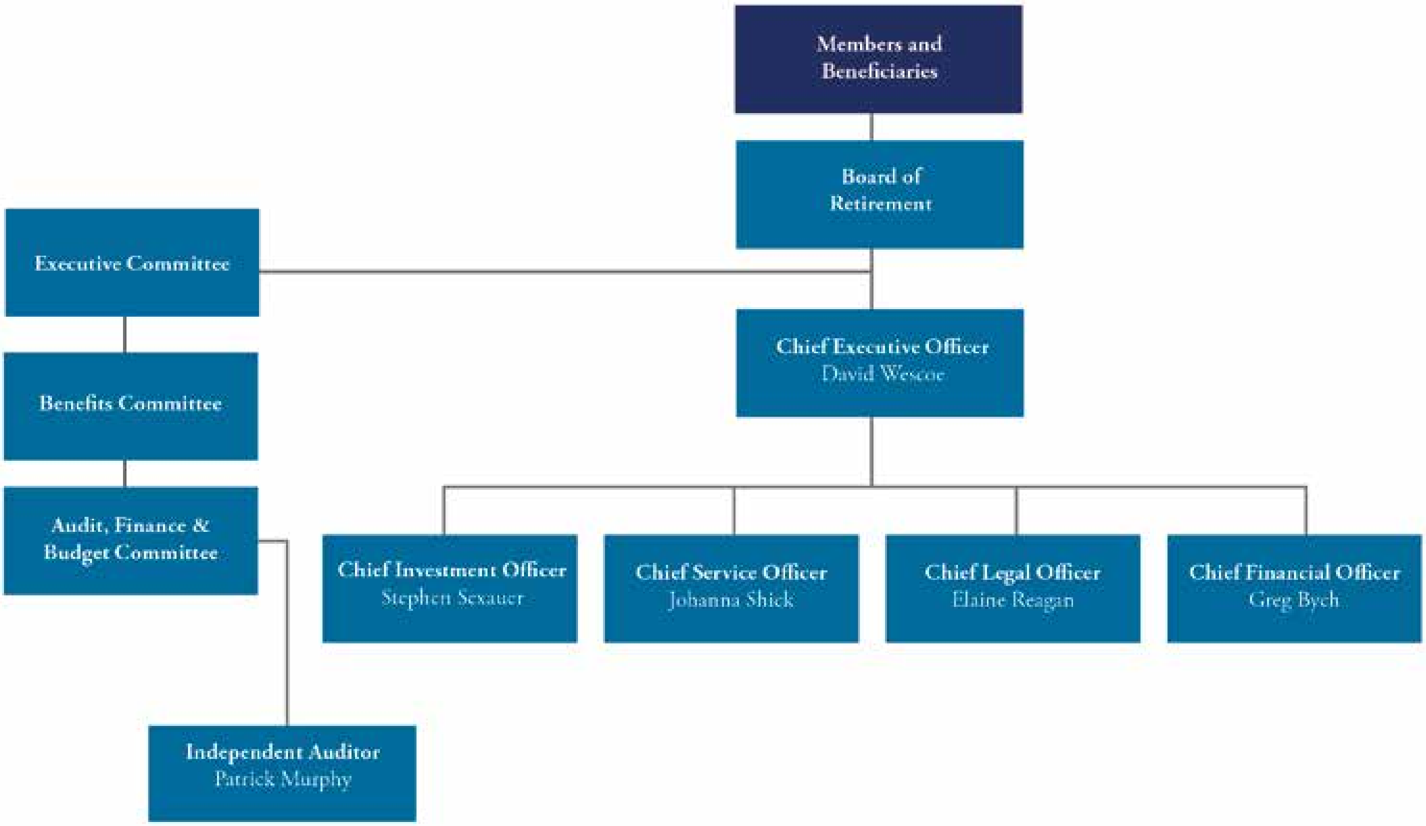
TRUSTEE
David B. Moore
Appointed by County Board of Supervisors
Term expired June 30, 2015

TRUSTEE
Samantha Begovich
Elected by SDCERA General members
Present term expires June 30, 2017

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

SDCERA ORGANIZATIONAL CHART



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FINANCIAL

Comprehensive Annual Financial Report

For the Fiscal Year ended June 30, 2015

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REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of San Diego County Employees Retirement Association (SDCERA), which comprise the statement of plan net position as of June 30, 2015, and the related statement of changes in plan net position for the year then ended, and the related notes to the financial statements, which collectively comprise SDCERA's basic financial statements as listed in the table of contents. The financial statements as of and for the year ended June 30, 2014, were audited by other auditors whose report dated December 9, 2014, expressed an unmodified opinion on those financial statements.

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 of 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 SDCERA'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 SDCERA'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 SDCERA as of June 30, 2015, and the changes in plan net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 9 to the basic financial statements, the total pension liability of the participating employers as of June 30, 2015, was $13,137.9 million. The fiduciary net position as a percentage of the total liability as of June 30, 2015, was 78.63%. The actuarial valuations are very sensitive to the underlying actuarial assumptions, including a discount rate of 7.5%, which represents the long-term expected rate of return. Our opinion is not modified with respect to this matter.

Additionally, as discussed in Note 2 to the financial statements, the financial statements include investments that are not listed on national exchanges or for which quoted market prices are not available. These investments include private equity, real estate, and hedge funds. Such investments totaled $2,038.5 million (20% of total assets) at June 30, 2015. Where a publicly listed price is not available, the management of SDCERA uses alternative sources of information including audited financial statements, unaudited interim reports, independent appraisals, and similar evidence to determine the fair value of the investments. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplemental information, as noted in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), 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 Supplemental Information

Our audit was conducted for the purpose of forming an opinion on these financial statements. The other supplemental information and the introduction, investments, 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, as noted in the table of contents, 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 introduction, investments, actuarial, and statistical sections, as noted in the table of contents, 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 11, 2015, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SDCERA's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 11, 2015

SDCERA

Strength. Service. Commitment.

To the Board of Retirement:

I am 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), for the fiscal year ended June 30, 2015 (FY 2015). We believe the information presented here, in conjunction with the Basic Financial Statements and the Notes to the Basic Financial Statements, provide an accurate picture of the Association's overall financial status.

SDCERA's funding objective is to meet long-term benefit obligations through participating employer and member contributions and earnings on invested assets. SDCERA has five participating employers: the County of San Diego, the San Diego Local Agency Formation Commission, the San Dieguito River Valley Joint Powers Authority, the San Diego County Office of Education and the Superior Court of California, County of San Diego.

This Comprehensive Annual Financial Report (CAFR) is SDCERA's annual report to its constituents and provides financial and other information about the Fund. The CAFR is comprised of five sections: Introduction, Financial, Investments, Actuarial and Statistical.

OVERVIEW OF THE FINANCIAL SECTION

The Financial section is comprised of the Independent Auditor's Report, MD&A, the Statement of Plan Net Position, Statement of Changes in Plan Net Position, Notes to the Basic Financial Statements, Required Supplementary Information and Other Supplemental Information. Here is an overview of these key components:

- The **Independent Auditor's Report**, prepared by Brown Armstrong Accountancy Corporation, renders an opinion on the fair presentation of SDCERA's financial statements.
- The **MD&A** provides readers an overview and analysis of the financial activities for FY 2015. The MD&A should be read in conjunction with the transmittal letter beginning on page 1 and the financial statements which immediately follow this discussion.
- The **Statement of Plan Net Position** is the financial statement that presents the major categories of assets and liabilities and their related values for the Fund. It presents the assets available for future payments of benefits to retirees and beneficiaries and the current liabilities that are owed as of June 30, 2015, with comparative totals as of June 30, 2014 (FY 2014).
- The **Statement of Changes in Plan Net Position** is the financial statement that provides an income statement presentation of annual additions to and deductions from the Fund during FY 2015 with comparative totals for FY 2014.
- The **Notes to the Basic Financial Statements** provide additional information essential to a full understanding of the data presented in the audited financial statements. This section provides a quantitative and qualitative basis for assessing SDCERA's financial condition.

- The **Required Supplementary Information** provides information on the sources of changes in the Net Pension Liability for each participating employer. The statement also provides information about the components of the Net Pension Liability and related ratios, including the Plan's fiduciary net position as a percentage of the Total Pension Liability, and the Net Pension Liability as a percentage of covered-employee payrolls. The Required Supplemental Information also presents a Schedule of Plan Sponsor Contributions and a Schedule of Investment Returns.

- The **Other Supplemental Information** includes a Schedule of Investment Expenses, a Schedule of Administrative Expenses, and a Schedule of Payments to Consultants by Type of Service.

This MD&A is intended to help the reader understand the purpose and meaning of the key components of SDCERA's financial statements. These financial statements 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.

FINANCIAL HIGHLIGHTS

- Plan Net Position, which represents funds restricted for current and future benefits, was $10.3 billion as of the end of FY 2015, an increase of $151 million over FY 2014.

- Total additions to Plan Net Position were $777 million, primarily from investment gains of $243 million, employer contributions of $436 million and $98 million in member contributions. Year-over-year, total additions declined by $938 million, or -54.7 percent, due to lower investment returns. The investment return for FY 2015 was 2.68 percent and 13.4 percent return for FY 2014.

- Total deductions from Plan Net Position were $626 million, an increase of $32 million or 5.4 percent over the prior year. Retirement benefits increased $32 million due to a net increase of 813 in the number of retired members and a 2.1 percent increase in average monthly benefit.

- The funding objective of a retirement system is to meet its long-term benefit obligations through contributions and investment income. SDCERA's actuary, Segal Consulting, reported that the Plan's funded status (the ratio of the actuarial value of assets to actuarial liabilities) was 80.5 percent at June 30, 2015. In addition, in accordance with the GASB Statement No. 67 reporting requirements, the Plan's fiduciary net position as a percentage of SDCERA's employer's Total Pension Liability was 82.65 percent.

- As of June 30, 2014, the date of the most recent bi-annual actuarial valuation, the Other Postemployment Benefits (OPEB) Plan had assets of $4.7 million, Actuarial Liabilities of $169.1 million and an Unfunded Actuarial Accrued Liability (UAAL) of $164.4 million, for a funded ratio of 2.8 percent. The OPEB Plan is essentially funded on a pay-as-you-go basis.

- In September 2015, the Board of Retirement (Board) voted to lower several actuarial assumptions on the advice of Segal Consulting, SDCERA's actuary. The inflation assumption rate was reduced from 3.25 percent to 3.00 percent, the salary increase assumption was lowered from 4.00 percent to 3.75 percent, and the investment return assumption was lowered from 7.75 percent to 7.50 percent. Segal Consulting applied these changes to the FY 2015 actuarial valuation, which is used to set both employer and member contribution rates for fiscal year 2017. The assumption changes will result in projected increases to the average employer and member contribution rates of 2.33 percent and 0.42 percent respectively.

- For FY 2015, the UAAL increased by $227 million when compared to FY 2014's UAAL of $2.317 billion. The Board's adoption of more conservative actuarial assumptions for the investment rate of return, inflation and salary increase percentages increased the actuarial liability by over $320 million, offsetting a $92 million reduction in liabilities from other annual experience activities. However, the adoption of these more conservative actuarial assumptions will strengthen the Trust Fund over the long term.

FINANCIAL ANALYSIS

As of June 30, 2015, SDCERA's Plan Net Position was $10.3 billion, an increase of $0.1 billion or 1.5 percent from the prior year. Despite a relatively flat year for returns on investments, the slight increase in net position is attributed to contributions plus investment income exceeding benefit payments for the year. The $10.3 billion in Net Position Restricted for Benefits is comprised of total assets of $10.4 billion exceeding total liabilities of $0.1 billion. For FY 2015, SDCERA's portfolio investment performance gained 2.68 percent (net of investment expenses) while retiree benefits and other expenses experienced only moderate increases.

For FY 2015, the Fund increased its net position by $151 million, attributed to $243 million in net investment income plus $534 million in employer and member contributions offset by $626 million in benefit payments and administrative expenses.

An overview of FY 2015 results along with comparative totals for FY 2014 is presented below.

TABLE 1: NET POSITION
As of June 30, 2015 and 2014
(dollars in thousands)

	2015	2014	Increase/ (Decrease)	% Change
Cash, cash equivalents and collateral cash	$4,743,035	$3,482,716	$1,260,319	36.2%
Securities lending cash collateral	84,964	85,248	(283)	(0.3%)
Receivables	33,799	456,719	(422,920)	(92.6%)
Investments	5,586,541	6,254,229	(667,687)	(10.7%)
Property, plant & equipment	12,479	13,503	(1,024)	(7.6%)
Total assets	**$10,460,818**	**$10,292,415**	**$168,404**	**1.6%**
Collateral payable for Securities lending	85,129	85,490	(361)	(0.4%)
Investments purchased	12,224	8,006	4,218	52.7%
Other	26,565	13,481	13,085	97.1%
Total liabilities	**$123,918**	**$106,977**	**$16,942**	**15.8%**
Plan Net Position at June 30	**$10,336,900**	**$10,185,438**	**$151,464**	**1.5%**

The significant increase in the Cash, Cash Equivalents and Collateral Cash positions, together with the corresponding decrease in the Investments and Receivables balances year-over-year, is attributed to changes in assets held in the investment portfolio, which began in FY 2014. In April 2014, the Board modified its investment policy and approved implementation of a risk parity investment strategy. This strategy shifted assets from various investment asset classes to fund the increase in collateral cash for the risk parity portfolio, which permitted the use of leverage at the total Fund portfolio level. On November 5, 2015, the Board adopted a new Investment Policy Statement that does not permit the Fund to be leveraged at the total Fund level. This change reduces the Fund's overall investment risk.

The bar graph below illustrates the Ending Net Position for the last ten years as of June 30:

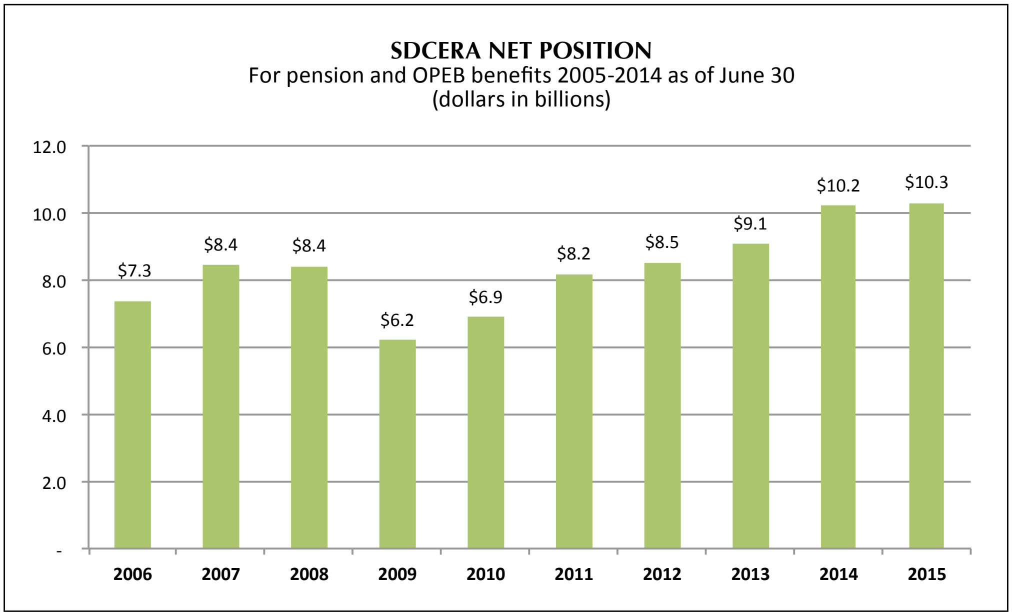


Table 2 reflects the Changes in Plan Net Position that occurred in FY 2015 due to current year contributions, investment income and benefit and administrative expenses:

TABLE 2: CHANGES IN PLAN NET POSITION
As of June 30, 2015 and 2014
(dollars in thousands)

	2015	2014	Increase/ (Decrease)	% Change
Additions				
Employer pension contributions	$414,771	$394,698	$20,073	5.1%
Employer OPEB contributions	21,111	20,208	903	4.5%
Member pension contributions	98,590	78,920	19,670	24.9%
Net investment income	242,100	1,219,604	(977,504)	(80.1%)
Net securities lending income	538	1,249	(711)	(56.9%)
Total additions	$777,110	$1,714,679	$(937,569)	(54.7%)
Deductions				
Retirement benefits	589,684	558,015	31,669	5.7%
Health benefits	19,346	19,975	(629)	(3.1%)
Refund of contributions	2,575	2,736	(160)	(5.8%)
Administrative expenses	14,043	12,709	1,333	10.5%
Total deductions	$625,648	$593,435	$32,213	5.4%
Net increase in net position	$151,462	$1,121,244	$(969,782)	(86.5%)
Plan Net Position at beginning of year	10,185,438	9,064,194		
Plan Net Position at end of year	$10,336,900	$10,185,438		

ADDITIONS TO PLAN NET POSITION

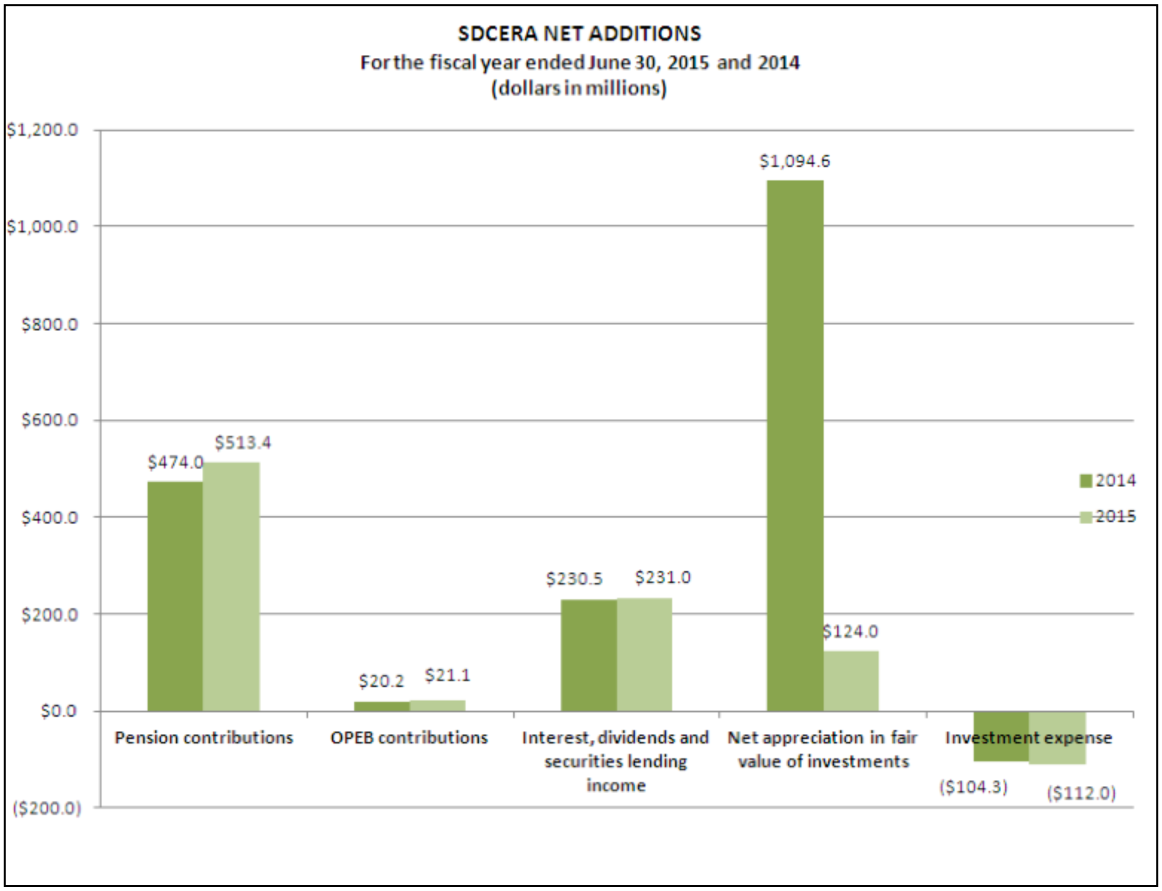
The primary sources financing the benefits SDCERA provides to its members are accumulated through income on investments and collection of employer and member contributions. These income sources (Additions to Net Position) total $777.1 million for FY 2015, a reduction of $937.6 million over the prior year.

- **Employer and member contributions** were $534 million in FY 2015, an increase of $39.7 million over the prior year. The average employer contribution rate in effect for FY 2015 was 35.79 percent, compared to 34.26 percent the prior year. Average member contribution rates increased as well, to 11.69 percent in FY 2015 from 10.59 percent in FY 2014.

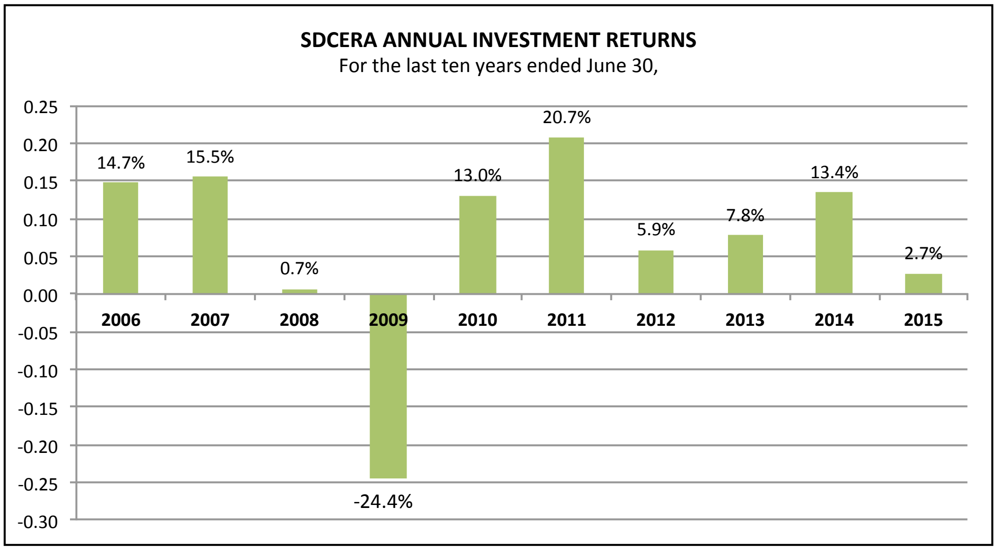
- **Employer Other Postemployment Benefits (OPEB) Plan contributions** were $21.1 million in FY 2015, $0.9 million higher than the prior year, primarily because of an increase in active payroll. This slight increase to contributions, paired with a slight decrease in benefits payments, allowed the OPEB Plan balance to increase by approximately $1.8 million at June 30, 2015.

- **Net Investment Income** totaled $242.1 million in FY 2015, a decrease of $977.5 million over the prior year. FY 2015's investment return of 2.68 percent (net of fees) was below the actuarial assumed investment earnings rate of 7.50 percent. Investment income was primarily driven by net market appreciation in the equity portfolio of $124 million, interest earned from the fixed income portfolio of $86 million and stock dividends plus income from real estate and private equity holdings totaling $144 million, offset by $112 million in investment expenses.

The chart below compares the Net Plan Additions by category for FY 2015 and FY 2014.

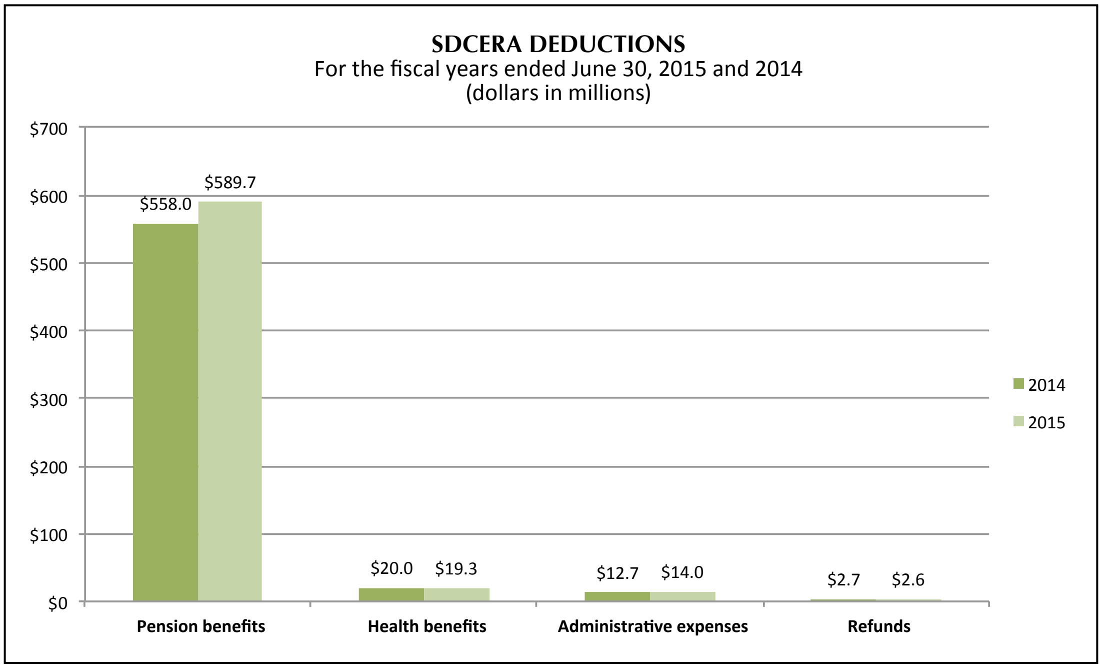


The chart below reports the one-year annual investment return performance for the last ten fiscal years.



DEDUCTIONS FROM PLAN NET POSITION

SDCERA's assets are primarily used to pay pension, disability, health and survivor benefits, to refund terminating members' contributions and to pay for administrative costs of the Plan. Deductions from Plan Net Position for FY 2015 totaled $625.7 million, of which $609.0 million (or 97.3 percent) was paid for retirement and healthcare benefits. This represented a 5.4 percent increase over the deductions total of $593.4 million in FY 2014. The increase in benefits paid is due to new member retirements and annual cost of living increases. The chart below compares Plan deductions by category for FY 2015 and FY 2014.



PLAN ADMINISTRATION

SDCERA Membership

The table below provides comparative SDCERA membership data at June 30 for the last two years. Total membership at June 30, 2015 increased by 1,186 members, or 3.0 percent, compared to June 30, 2014.

SDCERA MEMBERSHIP
As of June 30, 2015 and 2014

	2015	2014	Change
Active Members	17,656	17,466	190
Retired Members	17,186	16,373	813
Terminated Vested (Deferred)	5,274	5,091	183
Total Membership	**40,116**	**38,930**	**1,186**

Administrative Expenses

With some exclusions, administrative expenses are limited by state law to 0.21 percent of the Actuarially Accrued Liability (AAL) for the Plan. SDCERA's actual administrative expenses were 0.12 percent, well below the limit for FY 2015.

The table below compares the actual administrative expenses for FY 2015 and FY 2014 to their respective annual limits. The AAL was used to calculate the statutory budget amount. SDCERA's expenditures are well below the limit imposed by the County Employees Retirement Law of 1937 for both years. Also, see Schedule VII in the Other Supplemental Information section for additional details about Administrative Expenses.

COMPLIANCE WITH STATUTORY LIMITATION ADMINISTRATIVE EXPENSES
As of June 30, 2015 and 2014
(dollars in Thousands)

	2015	2014
Basis for Budget Calculation (Actuarial Accrued Liability)		
Actual Administrative Expenses	$ 14,043	$ 12,709
AAL Basis for Budget Calculation	$11,631,237	$10,943,172
Administrative Expenses as a Percentage of		
The Basis for Budget Calculation	0.12%	0.12%
Limit per Statute	0.21%	0.21%
Actual administrative expenses as a percent of total Actuarial Accrued Liabilities		0.12%

ACTUARIAL VALUATIONS

SDCERA's actuary, Segal Consulting, prepared two actuarial valuations for FY 2014: the Actuarial Valuation and Review report (AVR) and the GASB No. 67 Actuarial Valuation report (GASB 67 AVR).

The AVR was performed to determine whether the assets and contributions to the Plan are sufficient to provide the prescribed benefits. The AVR is also the basis for developing the employer and member contribution rates for the following year. At June 30, 2015, the AAL was $13.080 billion and the Valuation Value of Assets (VVA) was $10.536 billion, leaving a UAAL of $2.544 billion. The funded ratio for the Plan is 80.5 percent on the VVA basis.

Begun in FY 2014, the GASB 67 AVR is prepared to comply with the requirements of GASB Statement No. 67 that defines rules for reporting pension liability and expense for financial reporting purposes. The FY 2015 GASB 67 AVR valuation determined that the employer's Total Pension Liability was $13.138 billion compared to a fiduciary plan net position of $10.330 billion, resulting in the employers' Net Pension Liability of $2.808 billion. The Plan's Fiduciary Net Position as a percentage of the Total Pension Liability for June 30, 2015 is 78.63 percent.

In September 2015, the Board adopted a decrease in the investment return assumption from 7.75 percent to 7.50 percent, effective for the FY 2015 actuarial valuation.

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. Additional information, which provides ten years of information, can be found in the Investment and Actuarial sections.

Investment returns have been positive over the last four years. Investment returns for the Fund in FY 2015 were 2.68 percent and 13.4 percent in FY 2014. The annual returns on the VVA continued to compare favorably to the actuarial assumed rates of return. The VVA basis smooths investment gains and losses over five years and other actuarial assumptions over a varying period of years. The significant investment losses from the 2009 economic recession have now been factored out of the VVA rate of investment return.

This year, the Plan's funded ratio on the VVA basis declined slightly to 80.5 percent, after increasing each of the two prior fiscal years. On a Market Value of Assets basis for asset valuations, the Fiduciary Net Position as a Percent of Total Pension Liability declined to 78.6 percent from 83.3 percent, due primarily to the reduced investment returns in FY 2015. Additional information about funding progress in the Plan can be found in the Actuarial Section.

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	Annual Investment Return (net of fees)	Annual Return on Valuation of Assets	Actuarial Assumed Rate of Return	Funded Ratio on Valuation Value of Return	Fiduciary Net Position as a Percent of Total Pension Liability
2012	8,515,439	5.4%	1.72%	8.00%	78.7%	N/A
2013	9,060,194	7.8%	7.77%	7.75%	79.0%	76.18%
2014	10,180,695	13.4%	7.77%	7.75%	80.9%	82.65%
2015	10,330,330	2.7%	7.91%	7.50%	80.5%	78.63%

INTEREST CREDITS FOR RESERVE ACCOUNTS

SDCERA credits interest semiannually on December 31 and June 30 to all member accounts that have been on deposit six months prior to such dates. Depending upon reserve balances and current year earnings, an interest crediting rate is calculated. In accordance with the Board's policy, this rate cannot exceed one-half of the assumed rate of return. The interest credited on December 31, 2014 and June 30, 2015 were both 3.875 percent.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SDCERA administers a healthcare program for its retirees, negotiating rates for numerous healthcare plans, collecting premiums from members and paying the vendors. Tier I and II retirees may be eligible to receive a healthcare allowance based on years of service. The OPEB Plan is funded by the employer to pay annual benefits. For investment purposes, assets of the Plan are commingled with pension assets for investment purposes and investment earnings are allocated to the OPEB Plan based on its percentage of total assets.

An actuarial valuation is performed for the OPEB Plan on a biennial basis, with the most recent valuation performed as of June 30, 2014. That valuation reported plan assets of $4.7 million, an actuarially accrued liability of $169.2 million, and a funded ratio of 2.8 percent. The OPEB Plan is funded annually by SDCERA's employers on a pay-as-you-go basis. The next scheduled OPEB valuation will be performed as of June 30, 2016.

The health care program began FY 2015 with a balance of $4.7 million, received employer contributions of $21.1 million, paid out $19.3 million in healthcare benefits, and received $63 thousand in investment earnings. The OPEB Plan ended the year with a balance of $6.6 million at June 30, 2015.

SUBSEQUENT EVENTS

In July 2015, the Board voted to terminate the agreement with its outsourced portfolio strategist and eliminate the risk parity investment strategy. With the move to an in-house investment program, the Board authorized its Chief Investment Officer to transfer the outsourced portion of the investment portfolio to transitional portfolio holdings, pending approval of a revised Investment Policy Statement (IPS). SDCERA successfully transferred approximately $5 billion in assets to the transition portfolio in August 2015. In September 2015, the Board and staff engaged in a thorough process to update the IPS and related asset allocation. Now complete, the IPS articulates SDCERA's investment goals, objectives, and risk and return measures, providing operating objectives and guidelines for long-term asset growth.

REQUESTS FOR FINANCIAL INFORMATION

Please address any questions about this report or requests for additional financial information to me at SDCERA, 2275 Rio Bonito Way, Suite 200, San Diego, CA 92108.

Sincerely,

Greg Bych
Chief Financial Officer
December 15, 2015

STATEMENT OF PLAN NET POSITION
As of June 30, 2015
(with summarized comparative amounts as of June 30, 2014)

	June 30, 2015			June 30, 2014
	Pension Plan	Health Care	Total Fund	Total Fund
Assets				
Cash and short-term investments				
Cash in County pool	$ 613,410	$ 390	$ 613,800	$ 768,521
Cash and cash equivalents with fiscal agents	177,304,340	112,749	177,417,089	286,543,048
Early Retiree Reinsurance Program (ERRP) cash	-	-	-	39
Collateral cash	4,562,103,110	2,901,074	4,565,004,184	3,195,404,575
Total cash and short-term investments	**4,740,020,860**	**3,014,213**	**4,743,035,073**	**3,482,716,183**
Securities lending Cash collateral	**84,910,040**	**53,995**	**84,964,035**	**85,247,752**
Receivables				
Contributions	5,216,326	3,317	5,219,643	5,788,083
Accrued interest and dividends	17,291,144	10,996	17,302,140	19,643,475
Settlement of investments sold	11,270,485	7,167	11,277,652	431,287,389
Total receivables	**33,777,955**	**21,480**	**33,799,435**	**456,718,947**
Investments at fair value				
Domestic equity securities	391,304,040	248,833	391,552,873	339,212,428
International equity securities	337,464,051	214,596	337,678,647	433,964,123
Total equity securities	**728,768,091**	**463,429**	**729,231,520**	**773,176,551**
United States government obligations	157,937,084	100,433	158,037,517	169,903,585
Domestic bonds	750,159,452	477,032	750,636,484	708,374,508
International bonds	448,693,673	285,328	448,979,001	1,007,140,374
Total fixed income securities	**1,356,790,209**	**862,793**	**1,357,653,002**	**1,885,418,467**
Cash and securities for futures	592,331,742	376,668	592,708,410	372,600,686
Cash and securities for swaps	14,537,080	9,244	14,546,324	105,283,807
Opportunistic	114,264,917	72,662	114,337,579	64,707,574
Hedge funds	245,491,420	156,109	245,647,529	492,374,541
Relative value	321,606,752	204,512	321,811,264	510,346,376
Private equity	588,560,211	374,269	588,934,480	502,499,236
Real estate	981,312,518	624,024	981,936,542	978,905,823
Infrastructure	224,703,755	142,891	224,846,646	216,200,267
Natural resources	414,623,623	263,662	414,887,285	352,715,218
Total investments	**5,582,990,318**	**3,550,263**	**5,586,540,581**	**6,254,228,546**
Capital assets, net	**12,470,935**	**7,930**	**12,478,865**	**13,503,318**
Total assets	**10,454,170,108**	**6,647,881**	**10,460,817,989**	**10,292,414,746**
Liabilities				
Collateral payable for securities lending	85,074,845	54,100	85,128,945	85,490,031
Settlement of investments purchased	12,216,181	7,768	12,223,949	8,005,966
Professional services	15,281,149	9,717	15,290,866	9,684,757
Death benefits	737,857	-	737,857	872,584
Retirement benefits	373,115	-	373,115	392,123
Refunds to members	503,902	-	503,902	545,192
Cash in transit	207,028	132	207,160	282,384
Other	9,446,405	6,007	9,452,412	1,703,611
Total liabilities	**123,840,482**	**77,724**	**123,918,206**	**106,976,648**
Net postion restricted for pension and health care benefits	**$ 10,330,329,626**	**$ 6,570,157**	**$ 10,336,899,783**	**$ 10,185,438,098**

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, 2015
(with summarized comparative amounts for June 30, 2014)

	June 30, 2015			June 30, 2014
	Pension Plan	Health Care	Total Fund	Total Fund
Additions to plan net position				
Contributions				
Employer contributions	$ 414,771,256	$ 21,110,711	$ 435,881,967	$ 414,906,155
Plan member contributions	98,590,114	-	98,590,114	78,920,054
Total contributions	**513,361,370**	**21,110,711**	**534,472,081**	**493,826,209**
Investment income				
Net appreciation/(depreciation) in fair value of investments				
Stocks	(90,946,386)	(23,447)	(90,969,833)	163,165,990
Bonds	(110,601,706)	(28,514)	(110,630,220)	66,321,399
Foreign currency	3,684,318	950	3,685,268	(1,774,411)
Real estate & private equity	151,035,202	38,938	151,074,140	183,732,025
Natural resources	664,697	172	664,869	20,131,747
Opportunistic	27,319,133	7,043	27,326,176	14,971,767
Relative value	26,497,174	6,831	26,504,005	14,328,605
Multi-strategy fund	1,979,730	510	1,980,240	1,607,897
Infrastructure	927,236	239	927,475	35,790,072
Swaps	(56,531,977)	(14,574)	(56,546,551)	314,256,221
Futures	169,967,075	43,819	170,010,894	282,084,534
Total net appreciation in fair value of investments	**123,994,496**	**31,967**	**124,026,463**	**1,094,615,846**
Interest income				
Bonds	40,179,305	10,359	40,189,664	51,636,310
Cash	45,589,692	11,753	45,601,445	36,957,843
Total interest income	**85,768,997**	**22,112**	**85,791,109**	**88,594,153**
Other				
Dividends on stock investments	70,435,177	18,159	70,453,336	78,789,121
Real estate equity investment income	65,762,265	16,954	65,779,219	50,367,603
Private equity investment income	12,829,079	3,307	12,832,386	5,033,626
Natural resources investment income/(loss)	(4,554,201)	(1,174)	(4,555,375)	6,462,538
Other income	11	-	11	6
Total other	**144,472,331**	**37,246**	**144,509,577**	**140,652,894**
Less: investment expenses	**(112,198,617)**	**(28,926)**	**(112,227,543)**	**(104,258,867)**
Net investment income, other than securities lending	**242,037,207**	**62,399**	**242,099,606**	**1,219,604,026**
Securities lending appreciation/(depreciation)	77,349	20	77,369	746,514
Securities lending income	127,825	33	127,858	127,892
Less: securities lending rebates and bank charges	332,742	86	332,828	374,946
Net securities lending	**537,916**	**139**	**538,055**	**1,249,352**
Net investment income	**242,575,123**	**62,538**	**242,637,661**	**1,220,853,378**
Total additions to plan net position	**755,936,493**	**21,173,249**	**777,109,742**	**1,714,679,587**
Deductions from plan net position				
Benefits				
Retirement benefits	588,468,688	-	588,468,688	556,491,410
Death benefits	1,215,003	-	1,215,003	1,523,156
Health benefits	-	19,346,241	19,346,241	19,974,887
Total benefits	**589,683,691**	**19,346,241**	**609,029,932**	**577,989,453**
Member refunds	2,575,454	-	2,575,454	2,736,221
Administrative expenses	14,042,671	-	14,042,671	12,709,447
Total deductions from plan net position	**606,301,816**	**19,346,241**	**625,648,057**	**593,435,121**
Increase/(decrease) in net position for pension and health care benefits	**149,634,677**	**1,827,008**	**151,461,685**	**1,121,244,466**
Net position restricted for pension and health care benefits				
Beginning of year	**10,180,694,949**	**4,743,149**	**10,185,438,098**	**9,064,193,632**
End of year	**$ 10,330,329,626**	**$ 6,570,157**	**$ 10,336,899,783**	**$ 10,185,438,098**

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

1. DESCRIPTION OF PLANS

The 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 (CERL). SDCERA administers a cost-sharing multiple-employer defined benefit pension plan (Plan or Fund) and health care plan for the County and four participating employers located in San Diego County. SDCERA's financial statements may be obtained by visiting the SDCERA's website at www.sdcera.org/CAFR/cafr_2015.pdf.

All employees of the County 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

The SDCERA membership consists 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. The SDCERA Membership Detail by Plan table provides the number of members in each category as of June 30, 2015.

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 CERL.

SDCERA MEMBERSHIP DETAIL BY PLAN
As of June 30, 2015

	General	Safety	Total
Active members			
General, Tier I	34	-	34
General, Tier A	9,683	-	9,683
General, Tier B	1,678	-	1,678
General, Tier C	2,635	-	2,635
Safety, Tier A	-	2,570	2,570
Safety, Tier B	-	495	495
Safety, Tier C	-	561	561
Total active members	**14,030**	**3,626**	**17,656**
Deferred (terminated) members			
General, Tier I	1,480	-	1,480
General, Tier A	2,458	-	2,458
General, Tier B	370	-	370
General, Tier C	352	-	352
Safety, Tier A	-	531	531
Safety, Tier B	-	56	56
Safety, Tier C	-	27	27
Total deferred (terminated) members	**4,660**	**614**	**5,274**
Retired members			
General, Tier I	5,139	-	5,139
General, Tier II and Tier A	9,272	-	9,272
General, Tier B	11	-	11
General, Tier C	1	-	1
Safety, Tier II and Tier A	-	2,762	2,762
Safety, Tier B	-	1	1
Safety, Tier C	-	-	-
Total retired members	**14,423**	**2,763**	**17,186**
Total members	**33,113**	**7,003**	**40,116**

TIER STRUCTURE

General and Safety members who entered the retirement system prior to October 1, 1978, are Tier I members. On August 15, 1978, the County Board of Supervisors established a second tier (Tier II) of retirement benefits for employees entering the retirement system on or after October 1, 1978.

On March 8, 2002, the County Board of Supervisors eliminated Tier II for General and Safety members. Tier A was established for 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 percent of monthly final average compensation at age 62. The maximum General Tier II benefit formula is approximately 2.43 percent of monthly final average compensation at age 65. The maximum Safety Tier I and Safety Tier II benefit formula is approximately 2.62 percent 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 percent of monthly final average compensation at age 60. The maximum Safety Tier A benefit formula is 3 percent 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 percent of monthly final average compensation at age 62. The maximum Safety Tier B benefit formula is 3 percent 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 and established Tier C for General and Safety employees entering SDCERA membership on or after January 1, 2013 who meet the PEPRA definition of New Member. PEPRA defines a New Member as an employee who has not been a member of a California public retirement system within the six month preceding their hire date with the County. The benefit formula for General members is 2.5 percent at age 67 and the Safety formula is 2.7 percent 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. In 2015, the limit for General members was $117,020 and $140,424 for Safety members.

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 percent per year. The COLA for retired Tier B and Tier C members is limited to a maximum of 2 percent. Effective May 3, 2007, the Board approved a permanent Supplemental Targeted Adjustment for Retirees (STAR) COLA, a pre-funded supplemental cost-of-living increase benefit, for eligible members whose accumulations (COLA Bank) equaled or exceeded 20 percent as of January 1, 2007. Effective April 1, 2008, this benefit became subject to the same cost-of-living increase paid by SDCERA every April 1.

DISABILITY BENEFITS

Disability retirement benefits are available to members who are found by the Board 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 percent 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 the non-service-connected disability benefit. A service-connected disability retirement benefit equal to 50 percent 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 and selected the unmodified benefit option will receive a monthly continuance of 100 percent 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 non-service-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 percent 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 percent 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 or service credit. The SBA is funded from existing reserves and a portion of possible future excess earnings from the 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 SBA reduction, approved by the Board 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 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 are not refundable.

HEALTH CARE PLAN

DESCRIPTION OF PLAN

SDCERA administers an Other Post Employment Benefits (OPEB) health care plan (OPEB Plan) on behalf of the County and SDCERA's other participating employers.

HEALTH BENEFITS FOR RETIRED MEMBERS

The Board has approved a Health Insurance Allowance (HIA) for eligible retired Tier I and Plan Tier II members. The allowance is paid from a 401(h) Trust established by the Board. This Health Benefits 401(h) Trust, which is commingled with total Fund assets for investment purposes, is used exclusively to fund future retired member health insurance allowances and is funded by the County and other participating employers. 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 become eligible for Medicare (generally at age 65), their HIA allowance changes to $300 per month, plus reimbursement for Medicare Part B premiums. 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 Fund's Statement of Plan Net Position is allocated between the Plan and OPEB Plan based on their pro-rata share of total Fund assets after the balances and transactions specific to the Plan and OPEB Plan are assigned. OPEB Plan assets are pooled with Plan assets for the purpose of investment. The total investment income of the pooled funds is allocated between the Plan and OPEB Plan. Fund income is allocated to the OPEB Plan based on its pro-rata share of total Fund assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

SDCERA's operations are accounted for on the accrual basis for 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 US, 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. 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

CERL grants exclusive control to the Board over the investment of SDCERA's investment portfolio. It allows 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 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 of 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 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 Partners/Fund Managers 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 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 partners 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 are preferred, but unobservable inputs, 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, 2015, SDCERA's share of outstanding debts on directly held real estate investments totaled approximately $306.9 million as summarized below:

MORTGAGE LOANS PAYABLE
As of the fiscal year ended June 30, 2015
(dollars in thousands)

Fiscal year payable	Principal	Interest	Total
2016	$ 83,806	$ 9,411	$ 93,217
2017	98,027	8,347	106,374
2018	36,809	5,483	42,292
2019	16,510	3,345	19,855
2020	10,000	2,658	12,658
2021-2025	61,750	4,982	66,732
Total	**$306,902**	**$34,226**	**$341,128**

OTHER EXTERNALLY MANAGED FUND STRUCTURES

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

DERIVATIVE FINANCIAL INSTRUMENTS

SDCERA utilizes a diverse group of derivative instruments across the total Fund, including swaps, options, forwards and a variety of futures contracts. All derivatives are considered investments and the fair value of all derivative instruments are reported in the Statement of 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 accumulate depreciation. Depreciation is calculated using the straight-line method with a three-to-five year life for computer software, three years for hardware, and five to ten years for office equipment and leasehold improvements. The cost and accumulated depreciation of capital assets is depicted in the table below:

CAPITAL ASSETS
For the fiscal year ended June 30, 2015

Fiscal year payable	Balance 07/01/2014	Additions	Deletions & transfers	Balance 06/30/2015
Capital assests not being depreciated				
Software in progress	$12,354,601	$118,113	$12,472,714	$0
Total capital assets not being depreciated	**12,354,601**	**118,113**	**12,472,714**	**0**
Capital assets being depreciated				
Computer hardware, software, and maintenance	5,913,222	13,193,208	509,965	18,596,465
Office furniture and fixtures	1,464,392	3,072	-	1,467,464
Leasehold improvements	1,641,872	-	-	1,641,872
Total capital assets being depreciated	**9,019,486**	**13,196,280**	**509,965**	**21,705,801**
Less accumulated depreciation for:				
Computer hardware, software, and maintenance	(5,337,397)	(1,167,544)	-	(6,504,941)
Office furniture and fixtures	(1,352,888)	(25,938)	-	(1,378,826)
Leasehold improvements	(1,180,484)	(162,685)	-	(1,343,169)
Total accumulated depreciation	**(7,870,769)**	**(1,356,167)**	**-**	**(9,226,936)**
Net capital assets being depreciated	**1,148,717**	**11,840,113**	**509,965**	**12,478,865**
Net capital assets	**$13,503,318**	**$11,958,226**	**$12,982,679**	**$12,478,865**

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 January 29, 2014, 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.

IMPLEMENTATION OF NEW ACCOUNTING STANDARD

Effective July 1, 2013, SDCERA adopted the provisions of Governmental Accounting Standards Board (GASB) 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 Statement 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 classes. Investment managers are subject to the guidelines and controls established in SDCERA's Investment Policy Statement (IPS) and contracts executed with the Board. SDCERA utilizes a third-party as custodian over 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, 2015, the Fund had no single issuer that exceeds five percent of total investments per GASB Statement No. 40 disclosure requirements or any one issuer which represents five percent 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, 2015, SDCERA's investments included Collateralized Mortgage Obligations and Mortgage Pass-Through securities totaling $237.3 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

In FY 2015, the annual money-weighted rate of return for the Plan net of investment expenses was 2.13 percent. The money-weighted rate of return reflects investment performance, net of investment expense, adjusted for the timing of cash flows and the amounts invested. The money-weighted rate of return is different than the time-weighted rate of retrun for the Plan, which was 2.68 percent.

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, 2015, 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	$ 99,141	$ 83,857	$ 15,284	$ -	$ -
Certificates of deposits	16,550	16,550	-	-	-
Collateralized mortgage obligations	217,449	187,611	1,165	-	28,673
Commercial paper	566,021	568,469	(2,448)	-	-
Convertible bonds	235,268	13,709	161,382	27,914	32,263
Corporate bonds	2,474,324	1,875,644	328,220	267,622	2,838
Credit funds	-	-	-	-	-
Emerging market debt securities	448,978	41,800	121,314	146,681	139,183
Municipal bonds	20,484	7,756	12,728	-	-
International bonds	796,672	781,645	15,027	-	-
Managed futures	-	-	-	-	-
Mutual funds	-	-	-	-	-
Private placements	875,629	601,638	188,948	77,829	7,214
Repurchase agreements	10,240	10,240	-	-	-
Treasuries Inflation Index	-	-	-	-	-
US Governments	-	-	-	-	-
US Treasuries	606,464	606,464	-	-	-
Total	**$6,367,220**	**$4,795,383**	**$841,620**	**$520,046**	**$210,171**

CREDIT RISK

SDCERA assumes credit risk through two principal sources. First, 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. Second, 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, 2015:

CREDIT RISK
As of June 30, 2015
(dollars in thousands)

Ratings	Domestic core fixed income	Convertibles fixed income	High yield fixed income	Emerging market debt fixed income	Short-term investments	Total
Govt*	$606,464	$ -	$ -	$ -	$ -	$ 606,464
AAA	-	-	-	1,706	389,848	391,554
AA	-	-	-	-	859,611	859,611
A	-	11,225	-	158,445	1,998,815	2,168,485
BBB	-	33,139	10,400	242,673	405,703	691,915
BB	-	35,109	181,232	9,788	9,970	236,099
B	-	31,637	259,524	-	26,462	317,623
CCC	-	6,619	49,891	-	4,013	60,523
CC		-	-	-	-	0
C		-	-	-	-	0
D		-	967	-	-	967
NR		117,539	21,500	36,367	858,573	1,033,979
Total	**$606,464**	**$235,268**	**$523,514**	**$448,979**	**$4,552,995**	**$6,367,220**

*US Treasury Bills

CREDIT RISK As a percentage of holdings As of June 30, 2015					
Ratings	Domestic core fixed income	Convertibles fixed income	High yield fixed income	Emerging market debt fixed income	Short-term investments
Govt*	100.0%	0.0%	0.0%	0.0%	0.0%
AAA	0.0%	0.0%	0.0%	0.4%	8.6%
AA	0.0%	0.0%	0.0%	0.0%	18.9%
A	0.0%	4.8%	0.0%	35.3%	43.9%
BBB	0.0%	14.1%	2.0%	54.1%	8.9%
BB	0.0%	14.9%	34.6%	2.2%	0.2%
B	0.0%	13.4%	49.6%	0.0%	0.6%
CCC	0.0%	2.8%	9.5%	0.0%	0.1%
CC	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%
D	0.0%	0.0%	0.2%	0.0%	0.0%
NR	0.0%	50.0%	4.1%	8.0%	18.8%
	100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**

*US Treasury Bills

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.

CONVERTIBLES FIXED INCOME PORTFOLIO

SDCERA's 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 percent of unrated securities.

HIGH YIELD FIXED INCOME PORTFOLIO

The weighted average credit rating of the High Yield Fixed Income Portfolio as of June 30, 2015 was B, excluding 4.1 percent of unrated securities.

EMERGING MARKET DEBT

SDCERA's Emerging Market Debt portfolio invests in sovereign debt of emerging countries. As of June 30, 2015, the Emerging Market Debt portfolio consisted of securities held in a commingled fund.

In addition, SDCERA holds fixed income investments in commingled funds. The interest and credit risks for the Emerging Market Debt portfolio are included in the preceeding Credit Risk tables.

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, 2015
(dollars in thousands)

Currency name	Equity	Fixed income	Real assets	Foreign Exchanges	Short-term investments	Total
JAPANESE YEN	$0	$0	$0	($763)	$459,693	$458,930
DANISH KRONE	0	0	0	16,063	208,291	224,354
BRAZIL REAL	21,904	43,820	0	12,658	90,220	168,602
EURO	104,190	13,454	0	(295)	11,148	128,497
SOUTH AFRICAN RAND	28,327	45,616	0	(347)	0	73,596
MEXICAN PESO	14,571	51,004	0	(273)	0	65,302
NEW TURKISH LIRA	8,709	46,200	0	0	0	54,909
POLISH ZLOTY	3,990	45,886	0	0	0	49,876
HONG KONG DOLLAR	49,220	0	0	0	0	49,220
THAILAND BAHT	11,888	34,975	0	0	0	46,863
MALAYSIAN RINGGIT	7,550	38,926	0	0	0	46,476
INDIAN RUPEE	38,303	5,657	0	0	0	43,960
INDONESIAN RUPIAH	4,857	38,073	0	0	0	42,930
SOUTH KOREAN WON	40,383	0	0	0	0	40,383
NEW TAIWAN DOLLAR	33,862	0	0	0	0	33,862
POUND STERLING	9,074	(3,278)	0	(140)	22,746	28,402
HUNGARIAN FORINT	1,678	25,233	0	0	0	26,911
RUSSIAN RUBLE	3,218	23,302	0	0	0	26,520
COLOMBIAN PESO	1,063	24,290	0	0	0	25,353
AUSTRALIAN DOLLAR	0	(1,571)	0	(349)	25,605	23,685
PHILIPPINE PESO	3,626	5,478	0	0	0	9,104
NIGERIAN NAIRA	2,966	5,478	0	0	0	8,444
ROMANIAN NEW LEI	0	7,229	0	0	0	7,229
CHILEAN PESO	2,631	4,086	0	0	0	6,717
PERUVIAN NUEVO SOL	135	3,637	0	0	0	3,772
EGYPTIAN POUND	441	2,245	0	0	0	2,686
CAYMANIAN DOLLAR	0	2,335	0	0	0	2,335
URUGUAYAN PESO	0	2,110	0	0	0	2,110
Other (Less than $2 million holdings)	14,915	(19,890)	0	(105)	0	(5,080)
Total	**$407,501**	**$444,295**	**$0**	**$26,449**	**$817,703**	**$1,695,948**

SECURITIES LENDING

SDCERA's IPS 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 percent and 105 percent 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, 2015, are summarized in the following table. The Fund lent $92.9 million in securities and received cash and non-cash collateral of $95.3 million from borrowers.

SECURITIES LENDING TRANSACTIONS
(whole dollars)
As of June 30, 2015

	SDCERA Securities Lent	Cash and Non-Cash Collateral
Lent for cash collateral		
Domestic corporate	$52,024,330	$ 53,299,378
Domestic equities	5,823,326	5,952,659
US T-Strips	25,311,505	25,876,907
Lent for securities collateral		
US Government Debt	9,782,264	10,131,393
International equities	-	-
Total	**$92,941,425**	**$95,260,337**

In FY 2015, 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. At June 30, 2015, short-term investments are comprised of 48 percent overnight Repurchase Agreements and 38 percent Time Deposits. Asset-backed Securities and Other represent 14 percent of the short-term investments. Of the Asset-backed Securities, 13 percent are rated AAA, 11 percent are rated A+, and the remaining 76 percent 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 As of June 30, 2015 (whole dollars)	
	Fair Value
Repurchase agreements	$40,331,876
Asset-Backed floating	9,557,479
Time Deposits	32,270,000
Other (cash)	2,804,679
Total	**$84,964,034**

DERIVATIVE INSTRUMENTS

The derivative instruments presented in the following table are reported in the financial statements in the domestic equity, international equity, fixed income and real estate categories.

DERIVATIVES INSTRUMENTS SUMMARY As of June 30, 2015 (dollars in thousands)			
Derivative type	**Changes in fair value***	**Fair value**	**Notional value**
Forwards	$(14,576)	$26,447	$1,048,011
Futures	170,011	207	4,495,846
Options	-	(2,689)	-
Swaps	(56,547)	70,323	3,428,015
Total	**$ 98,888**	**$94,288**	**$8,971,872**

* 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, 2015, SDCERA has $1,048.0 million in exposure to foreign currency primarily through short-term investments.

A summary of SDCERA's forward contracts are shown in the chart below:

FORWARD CONTRACTS As of June 30, 2015 (dollars in thousands)		
	Notional value	**Fair value**
Cash and Cash Equivalents with fiscal agents	$1,048,011	$26,447
Total	**$1,048,011**	**$26,447**

FUTURES

A summary of SDCERA's futures contracts at June 30, 2015, is shown in the chart below:

FUTURES CONTRACTS
As of June 30, 2015
(dollars in thousands)

Category	Notional value	Fair value
Global Futures	$ 689,132	$(1,158)
Fixed Income Futures	682,866	-
Risk Parity Futures	2,367,313	5,383
Private Equity Futures	502,354	1,081
Managed Futures	254,181	(5,099)
Total	**$4,495,846**	**$ 207**

OPTIONS

The table below show SDCERA's option investments by type:

OPTIONS
As of June 30, 2015
(dollars in thousands)

Category	Notional value	Fair value
Call	$ —	$(2,114)
Put	—	(575)
Total	**$ —**	**$(2,689)**

SWAPS

The tables below show SDCERA's swaps investments by type:

INTERNALLY MANAGED SWAPS
As of June 30, 2015
(dollars in thousands)

Type	Description/Counterparty	Notional value	Fair value
Cash and Cash Equivalents	Collateral Cash	$ -	$ 47,285
Credit Default Swaps	Intercontinental Exchange Holdings	1,367,620	34,325
Global Equity Swaps	Deutsche Bank	646,070	(6,003)
Global Equity Swaps	Goldman Sachs	795,837	(12,074)
Risk Parity Swaps	Goldman Sachs	67,453	(78)
Trend Strategy Swaps	Goldman Sachs	39,329	48
Total		**$2,916,309**	**$ 63,503**

EXTERNALLY MANAGED SWAPS As of June 30, 2015 (dollars in thousands)		
Description	Notional Value	Fair Value
Currency Swaps	$51,506	$9,269
Interest Rate Swaps	460,200	(2,449)
Total	**$511,706**	**$6,820**

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 swaps and forward contracts in asset position as of June 30, 2015, is as follows:

CREDIT RISK DERIVATIVES AT FAIR VALUE As of June 30, 2015 (dollars in thousands)		
Credit rating	**Swaps**	**Forwards**
A	$106,782	$4,155
A-	-	5,521
Total subject to credit risk	**$106,782**	**$9,676**

4. PENSION PLAN FUNDING POLICY

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 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. The 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.

Employers have negotiated to pay all or a portion of some member contributions. The member contributions deducted from the member's salary are treated as pre-tax contributions under Section 414(h) of the Internal Revenue Code.

Employers are required by statute 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, 2015. Contribution rates for Tier I, Tier A, and Tier B members (General and Safety) are based on rates recommended by the actuary and approved by the Board. Contribution rates for Tier C members (General and Safety) are based on recommendations made by the actuary and approved by the Board 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	8.74% - 11.45%	33.05%
	Tier C	7.74%	26.91%
Safety members	Tier A and Tier B	11.46% - 13.88%	42.84%
	Tier C	13.22%	35.66%

During FY 2015, pension contributions totaled $513.3 million. This included $98.6 million in member contributions, and $414.8 million in employer contributions, which includes $26.2 million in member contributions paid by employers.

SDCERA is an independent governmental entity. As such, the entire expense of administration of the Association 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. Outside legal expenses are paid from SDCERA's assets.

On May 3, 2007, the Board adopted a change in the Interest Crediting and Excess Earnings Policy (Earnings Policy) to introduce the funded ratio as the determining factor in allowing the Board discretion as to the use of excess earnings. If the funded ratio is below 90 percent, the Board is required to use excess earnings to fund the pension liability. If the funded ratio is between 90 percent and 100 percent, 25 percent of excess earnings are available at the Board's discretion. If the funded ratio is between 100 percent and 115 percent, 50 percent of excess earnings are available at the Board's discretion. If the funded ratio exceeds 115 percent, the Board has full discretion as to the use of excess earnings.

5. HEALTH PLAN FUNDING POLICY

The County and participating employers fund health allowances based on a biennial actuarial valuation. The Actuarial Valuation of Other Post Employment Benefits (OPEB) as of June 30, 2014, established the employer contribution rate of 1.78 percent of covered payroll which amounted to $19.9 million for the FY 2015. The Internal Revenue Code limits employer contributions to a 401(h) account to a maximum of 25 percent 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.

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.

RESERVE FOR EMPLOYER CONTRIBUTIONS INCLUDES:

- Employer contributions to the Plan for active members.

RESERVE FOR RETIREMENT ALLOWANCES INCLUDES:

- Amounts transferred from member contributions (annuity) received net of the employer's portion of benefits paid for retired Plan members.
- Amounts transferred from employer contributions (pension) made in prior years for active members upon retirement.

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

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 transfer from undistributed earnings.

RESERVE FOR UNDISTRIBUTED EXCESS EARNINGS represents earnings on actuarial assets that is the source of funds for crediting interest to reserves semi-annually and for other uses at Board discretion, as permitted by statue and subject to the Earnings Policy.

CONTINGENCY RESERVE AND UNDISTRIBUTED EXCESS EARNINGS RESERVE represents actual earnings that exceed the total interest credited to contributions and reserves up to 1.0 percent of the total assets of the retirement fund as of June 30, 2015.

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.

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.

HEALTH BENEFITS 401(H) ACCOUNT also known as the OPEB Plan, was established based on the Board of Supervisors and the Board'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 plan position are depicted in the following table:

RESERVE ACCOUNT BALANCES As of June 30, 2015 (dollars in thousands)		
Reserve for member contributions	$	758,538
Reserve for employer contributions		1,880,794
Reserve for retirement allowances		7,159,251
Total	**$**	**9,798,583**
Reserve for supplemental benefits		18,147
Reserve for disability supplemental benefits		4,413
Reserve for undistributed earnings		0
Reserve for contingencies		21,823
Reserve for smoothed market value transition		736,754
Reserve for market stabilization		(249,390)
Total retirement fund	**$**	**10,330,330**
Health benefits 401(h) account		6,570
Total fund	**$**	**10,336,900**

7. ADMINSTRATIVE EXPENSES

The Board annually adopts an administrative expense budget based on the accrued actuarial liability of the Association. 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 Association.

ADMINISTRATIVE EXPENSE LIMITATION For the fiscal year ended June 30, 2015		
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	$	14,042,671
Excess of allowance over actual administrative expenses	$	10,382,927
Actual administrative expenses as a percent of total Actuarial Accrued Liabilities		**0.12%**

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 $120.5 million, real assets for $277.3 million, private credit for $100 million and private equity for $667.2 million. SDCERA meets these commitments from Plan assets over multiple fiscal years.

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 Plan as of June 30, 2015 are as follows:

EMPLOYER'S NET PENSION LIABILITY (GASB STATEMENT NO. 67) As of June 30, 2015 (dollars in thousands)	
Total pension liability	$13,137.9
Plan fiduciary net position	$10,330.3
Employers' net pension liability	$2,807.6
Plan fiduciary net position as a percentage of the total pension liability	78.63%

Note: Net Pension Liability is a financial reporting requirement of GASB Statement No. 67. See page 21 for more information.
Source: Segal Consulting, GASB Statement No. 67 Actuarial Valuation Report, June 30, 2015

The net pension liability was measured as of June 30, 2015 and determined based upon rolling forward the total pension liability from the actuarial valuation as of June 30, 2014.

ACTUARIAL ASSUMPTIONS: The following significant actuarial assumptions were used to measure the total pension liability as of June 30, 2015:

Inflation	3.00%
Salary increases	General: 4.50% to 9.75% and Safety: 4.75% to 11.75% vary by service, including inflation
Discount rate	7.50% 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 for General members are based on the RP-2000 mortality table projected with Scale AA to 2017 with a two-year age setback for males and a one-year age setback for females. For Safety members, 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. 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 GASB Statement No. 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%
Treasure Inflation Protected Securities (TIPS)	5%	0.48%
Emerging Market Debt	10%	4.36%
U.S. 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 7.50 percent as of June 30, 2015. 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 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 Plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

SENSITIVITY OF THE NET PENSION LIABILTY TO CHANGES IN THE DISCOUNT RATE: The following, a required disclosure of GASB Statement No. 67, presents the employers' net pension liability as of June 30, 2015, calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point higher (8.50 percent) and 1-percentage-point lower (6.50 percent) than the current rate:

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE As of June 30, 2015			
Valuation Date	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employers' net pension liability as of June 30, 2015 (dollars in millions)	$4,546.1	$2,807.6	$1,369.5

Source: Segal Consulting, GASB Statement No. 67 Actuarial Valuation as of June 30, 2015

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.

OPEB FUNDED STATUS
As of the latest valuation date
(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)
6/30/2014	4,743	169,192	164,449	2.8%	1,122,864	14.6%

The next biennial OPEB Plan valuation is scheduled to be performed for the year ending June 30, 2016.
Source: Segal Consulting, OPEB Actuarial Valuation June 30, 2014

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

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.

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 at June 30, 2007, amortized as level dollar amount	Separate declining 20 year bases starting at June 30, 2007, amortized as level dollar amount
Remaining Amortization Period	Various (Separate declining 20 year bases starting at June 30, 2007, amortized as level dollar amount)	Various (Separate declining 20 year bases starting at 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%

* The next scheduled valuation for the OPEB plan is for the year ending June 30, 2016

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

Source: Segal Consulting, OPEB Annual Actuarial Valuation reports

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 Basic 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 Basic 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.

11. SUBSEQUENT EVENTS

In July 2015, the Board voted to terminate the agreement with SDCERA's outsourced portfolio strategist and eliminate the risk parity investment strategy. With the move to an in-house investment program, the Board authorized SDCERA's Chief Investment Officer to transfer the outsourced portion of the investment portfolio to transitional portfolio holdings. SDCERA transferred approximately $5 billion in assets to the transition portfolio in August 2015. In November 2015, the Board adopted a new Investment Policy Statement, which includes a new asset allocation.

REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

Schedule I below displays the components of the total pension liability plan fiduciary net position for each year, calculated in conformity with the requirements of GASB Statement No. 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
for the three years ending June 30
(dollars in thousands)

Total pension liability	2015	2014	2013
Service cost	$286,962	$275,060	$258,308
Interest	941,788	906,177	881,863
Change of benefit terms	0	0	0
Differences between expected and actual experience	(126,948)	(194,580)	(161,275)
Changes of assumptions	309,945	0	258,993
Benefit payments, including refunds of employee contributions	(592,259)	(560,751)	(543,284)
Net change in total pension liability	**$819,487**	**$425,906**	**$694,606**
Total pension liability - beginning	**12,318,409**	**11,892,503**	**11,197,897**
Total pension liability - ending (a)	**$13,137,896**	**$12,318,409**	**$11,892,503**
Plan fiduciary net position			
Contributions - employer	414,771	394,698	357,893
Contributions - member	98,590	78,920	71,718
Net investment income	242,575	1,220,343	669,882
Benefit payments, including refunds of member contributions	(592,259)	(560,751)	(543,284)
Administrative expense	(14,043)	(12,709)	(11,454)
Other	0	0	0
Net change in plan fiduciary net position	**$149,635**	**$1,120,500**	**$544,756**
Plan fiduciary net position - beginning	10,180,695	9,060,194	8,515,439
Plan fiduciary net position - ending (b)	**$10,330,330**	**$10,180,695**	**$9,060,194**
Association's net pension liability - ending (a) - (b)	**$2,807,567**	**$2,137,714**	**$2,832,308**
Plan fiduciary net position as a percentage of the total pension liability	78.63%	82.65%	76.18%
Covered employee payroll	$1,120,001	$1,072,896	$1,028,420
Plan net pension liability as percentage of covered employee payroll	250.68%	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.

Schedule II below presents the annual money-weighted rate of return as required by GASB Statement No. 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 64 in the Investment Section is calculated on a time-weighted rate of return basis.

SCHEDULE II—INVESTMENT RETURNS (PENSION PLAN)*

	2015	2014	2013	2012
Annual Money-Weighted Rate of Return Net of Investment Expense	2.13%	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.

Schedule III 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 - LAST TEN FISCAL YEARS
(amounts 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
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%
2015	386,041	386,041	-	1,120,001	34.47%

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

Listed below are the key actuarial methods and assumptions adopted by the SDCERA Board and utilized by the actuary in the preparation of the June 30, 2015 Actuarial Valuation Report:

Actuarial valuation methods:

Valuation	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 five 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, 7.50%, net of pension plan investment expense, including inflation
Price inflation rate	3.00%
Wage inflation rate	3.75% comprised of 3.00% inflation plus 0.75% "across the board" salary increases
Merit and longevity salary increase range	General: 0.75% to 6.00%; Safety: 1.00% to 8.00%
Annual rate of compensation increase	General: 4.50% to 9.75% and Safety: 4.75% to 11.75%, varies by service, including inflation
Cost of living adjustments	3.00% of retirement income for Tier I and Tier A 2.00% of retirement income for Tier B and Tier C
Other assumptions	Same as those used in the June 30, 2014 funding actuarial valuation and that will be used in the June 30, 2015 funding actuarial valuation
Other information	All members with membership dates on or after January 1, 2013 enter the Tier C created by PEPRA

Schedule IV below displays the funding progress of the OPEB Plan.

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)
6/30/2008	18,206	217,559	199,353	8.4%	1,135,432	17.6%
6/30/2010	9,221	206,447	197,226	4.5%	1,095,582	18.0%
6/30/2012	5,064	185,302	180,238	2.7%	1,052,366	17.1%
6/30/2014	4,743	169,192	164,449	2.8%	1,122,864	14.6%

The next biennial OPEB Plan valuation is scheduled to be performed for the year ending June 30, 2016.

Source: Segal Consulting Actuarial Valuations

Schedule V below displays the employer contributions to the OPEB Plan.

SCHEDULE V - EMPLOYER CONTRIBUTIONS (OPEB PLAN)
(dollars in thousands)

Fiscal Year Ended	Annual Required Contribution (ARC)	Contributions Made	% of Required Contributions Made
6/30/2010	$18,789	$18,789	100.0%
6/30/2011	$18,028	$18,028	100.0%
6/30/2012	$19,198	$19,198	100.0%
6/30/2013	$19,024	$19,024	100.0%
6/30/2014	$20,208	$20,208	100.0%
6/30/2015	$21,111	$21,111	100.0%

OTHER SUPPLEMENTAL INFORMATION

Schedule VI below displays investment expenses for FY 2015.

SCHEDULE VI—INVESTMENT EXPENSES
For the fiscal year ended June 30, 2015
(dollars in thousands)

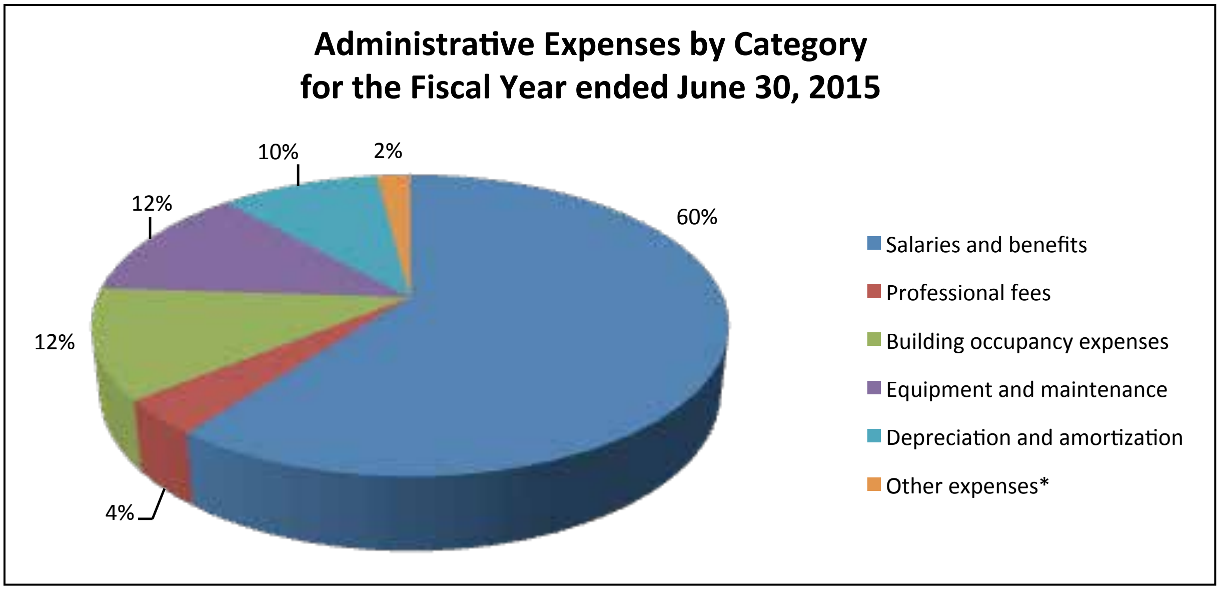
Global Developed Equity	$ 1,477
Emerging Market Equity	1,996
High Yield Fixed Income/Credit	1,187
Private Equity	22,817
Emerging Market Debt	771
U.S. Treasuries	243
Asset Allocation Strategies	12,161
Relative Value Strategies	6,472
Opportunistic	923
Treasury Inflation Protected Securities	(5)
Real Estate	25,949
Infrastructure, Natural Resources and Other Real Assets	15,685
Other Assets	4,296
Administrative, support and other	3,786
Master Custodian	2,067
Other Professional Services	12,403
Total investment expenses	**$112,228**

Schedule VII below displays administrative expenses for FY 2015.

SCHEDULE VII—ADMINISTRATIVE EXPENSES
For the fiscal year ended June 30, 2015
(dollars in thousands)

Expense category	Pension Plan	OPEB Plan
Salaries and benefits	$ 8,481	220
Professional fees	536	83
Building occupancy expenses	1,660	31
Equipment and maintenance	1,726	0
Depreciation and amortization	1,356	0
Other expenses*	283	(334)
Total administrative expenses	**$ 14,043**	**$ 0**

* Includes overhead expense allocations to the Plan and OPEB Plan.



Schedule VIII details payments to consultants in FY 2015.

SCHEDULE VIII—PAYMENTS TO CONSULTANTS (dollars in thousands)		
Type of Service		
Legal services	$	1,348
Computer services		983
Actuarial services		271
Audit services		136
Health care consulting services		79
Total payments to consultants	**$**	**2,817**

INVESTMENTS

Comprehensive Annual Financial Report
For the Fiscal Year ended June 30, 2015

Strength. Service. Commitment.

December 15, 2015

To the Board of Retirement:

Following a nearly seven-year period of strong portfolio investment returns that began after the 2008-2009 recession and resulting stock and bond market losses, market conditions during the fiscal year ended June 30, 2015 (FY 2015) proved more challenging, with slower economic growth, slower earnings growth, and higher asset valuations. This is reflected in the return of the total SDCERA Trust Fund of 2.68 percent.

During FY 2015, the U.S. economy continued to improve and grow at a steady rate of about 2 percent, with household income growing and U.S. unemployment near 5 percent. The Federal Reserve System continued its now seven-year program to keep interest rates low. The low-rate push by central banks to stimulate post-recession economic growth in the U.S., Europe, and many parts of Asia kept rates low, but put significant strain on households and investment programs that rely on saving income to fund current expenditures.

Looking forward, the U.S. economy is expected to continue to produce moderate Gross Domestic Product growth. The household sector is stronger, having paid down or written off debt. Both wages and spending are growing. Business profitability is high, and balance sheets are strong. These strengths offset the economic struggles of low growth and high unemployment in Europe, a slower growing Chinese economy, and stresses in emerging markets driven by the Chinese slowdown and the associated drop in commodity prices. The increased threat of unrest in the Middle East, Africa, and Central Asia has added to economic and policy uncertainty.

Given the current challenges and outlook, it is helpful to review SDCERA's Trust Fund returns from a long-term perspective. For the three and five fiscal year periods ending June 30, 2015, the portfolio returns were 7.86 percent and 9.90 percent, respectively. During the past 10 years, the returns have been 6.08 percent, and during the past 25 years the returns have been 8.43 percent.

It is worth noting that the global, U.S. and San Diego County economies have seen great gains in economic growth, income, wages, profits, and quality of life during the past 25 years. This growth has helped drive the gains in the value of SDCERA's Trust Fund. And, while the past 25 years contained many challenges and market corrections, on average, gains in global growth have been matched by the gains in SDCERA's portfolio. Reflecting current economic circumstances and the Trust Fund's long-term growth objectives, SDCERA's portfolio is prudently diversified, and the portfolio holdings are positioned to yield returns in a variety of economic and market circumstances.

In July 2015, SDCERA's Board of Retirement voted to approve a plan to transition to an in-house investment program, after which SDCERA successfully transitioned $5 billion of Trust Fund assets from an outsourced portfolio strategist to a carefully constructed transition portfolio. Following this transition, SDCERA's Board and staff engaged in a detailed and careful process to update SDCERA's Investment Policy Statement (IPS) and associated asset allocation. This work was completed in November, when the Board unanimously adopted both.

The six-chapter IPS is important, and you can read it on SDCERA's website at http://www.sdcera.org/investments.htm. The IPS describes the investment philosophy and strategies that will be used to develop SDCERA Trust Fund objectives and contains specific information on subjects such as risk tolerance, liquidity requirements and governance.

SDCERA's mission to serve our Members will continue for many decades, and I am proud to be able to play a part in that work.

Sincerely,

Steve Sexauer

Stephen Sexauer
Chief Investment Officer

SDCERA's current Asset Allocation Policy is as follows:

ASSET ALLOCATION POLICY As of June 30, 2015		
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**
Treasure 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, that provides, in part:

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

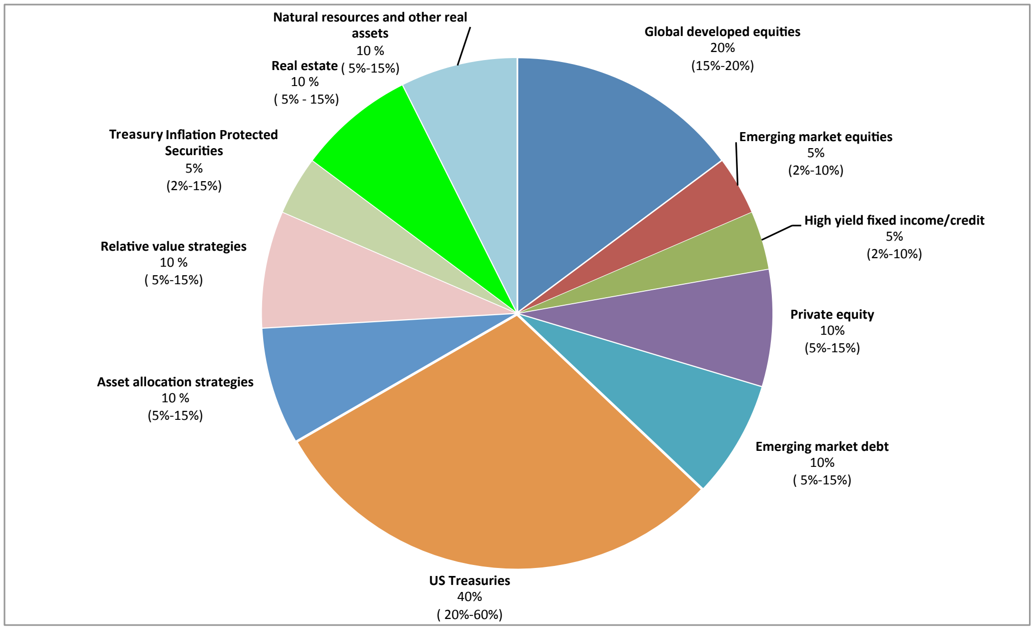
1. Solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system,

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, and

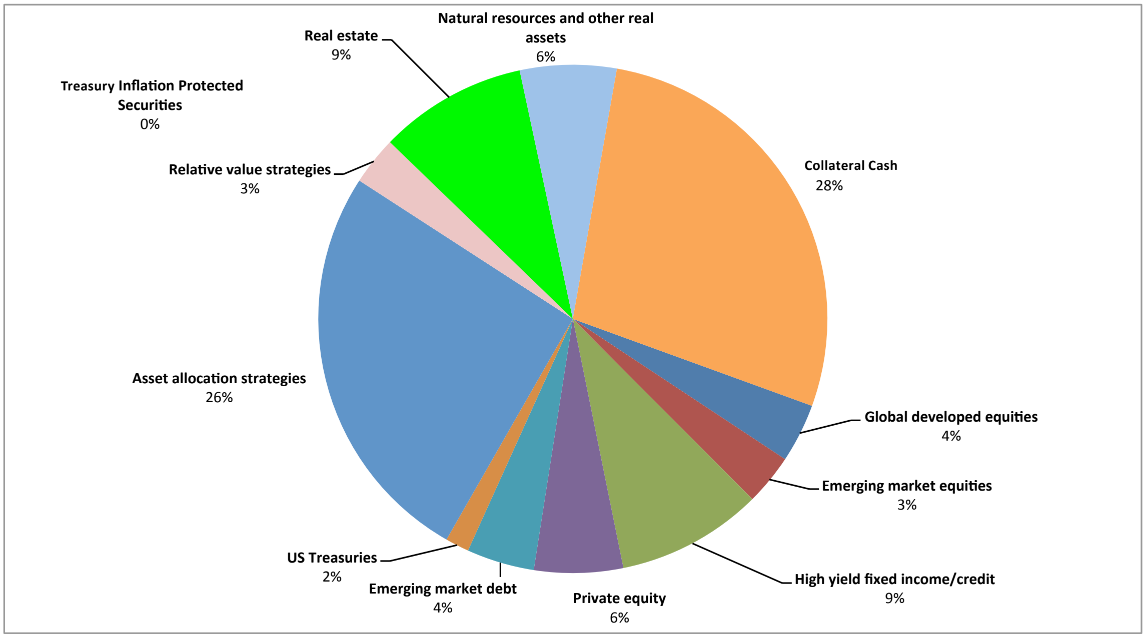
3. Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

The Board has adopted an Investment Policy Statement and related policies to ensure that the Plan is managed to the prudent expert standard. 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.

Policy

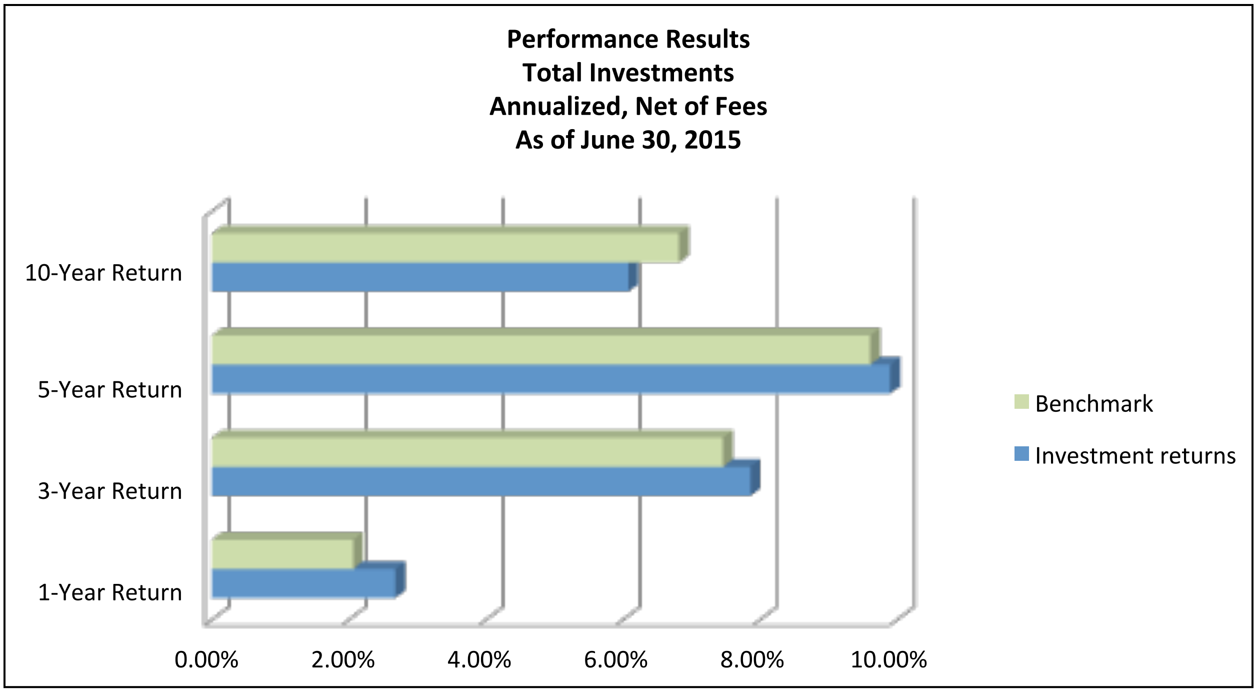


Actual



PERFORMANCE RESULTS, ANNUALIZED, NET OF FEES
For the fiscal year ended June 30, 2015

Asset Class (with benchmarks)	1 Year	3 Year	5 Year	10 Year
Global Developed Equity	1.31%	13.70%	13.33%	n/a
Global Equity Benchmark	0.71	14.00	12.93	n/a
Emerging Markets Equity	(8.67)	3.52	4.13	9.13%
MSCI Emerging Markets Index	(4.77)	4.08	4.03	8.46
High Yield Fixed Income/Credit	(0.38)	7.78	8.25	n/a
HY Fixed Income Benchmark	(0.55)	6.80	8.41	n/a
Private Equity	7.59	15.23	13.11	n/a
SDCERA Alternative Custom Idx Benchmark	11.63	19.50	18.01	11.97
Total Growth Oriented	**1.96**	**12.16**	**11.58**	**n/a**
Growth Oriented Strategies Benchmark	**2.95**	**13.39**	**12.72**	**n/a**
Emerging Market Debt	(15.19)	(2.92)	1.31	n/a
EMD Benchmark	(15.39)	(3.78)	0.94	n/a
U.S. Bonds Composite II	(8.32)	(3.55)	0.71	n/a
US Treasuries Benchmark	3.65	1.29	3.69	n/a
Managed Futures	18.80	8.64	6.56	n/a
Total Global Macro CTA Benchmark	4.96	1.99	2.15	n/a
Relative Value Strategies	9.74	5.69	5.33	n/a
Total Relative Value Benchmark	2.02	2.05	2.06	n/a
Total Diversifying Assets	**3.65**	**2.36**	**4.30**	**n/a**
Total Diversifying Assets Benchmark	**(0.55)**	**0.41**	**2.73**	**n/a**
Total TIPS	4.02	0.62	4.12	n/a
TIPS Custom Benchmark	(1.73)	(0.76)	3.29	n/a
Real Estate Composite	13.80	10.54	13.82	5.83
SDCERA Hybrid RE Custom Index Benchmark	13.45	11.71	14.08	7.86
Natural Resources + ORA	(7.51)	5.21	7.70	n/a
Natural Resources & ORA Benchmark	(6.09)	5.35	7.59	n/a
Total Real Assets	2.29	6.46	9.33	n/a
Total Real Assets Benchmark	3.36	7.04	9.69	n/a
Total Fund	**2.68%**	**7.86%**	**9.90%**	**6.08%**
Total Fund Benchmark	**2.06%**	**7.46%**	**9.61%**	**6.82%**



TOP 10 HOLDINGS—EQUITY
As of June 30, 2015

Security name	Shares Held	Book Value	Market value
Enterprise Product Partners	873,822	$18,691,585	$26,118,540
Energy Transfer Equity LP	309,826	8,965,809	19,881,534
Ei Du Pont De Nemours & Co.	234,600	11,749,386	15,002,670
Dow Chemical Co.	280,800	10,344,495	14,368,536
Energy Transfer Partners LP	273,573	12,434,811	14,280,511
Monsanto Co.	123,348	10,184,917	13,147,663
Magellan Midstream Partners LP	154,727	5,971,204	11,353,867
Plains All American Pipeline LP	251,216	8,131,758	10,945,481
Lyondell Basell Industries	101,800	7,233,997	10,538,336
Praxair Inc.	74,700	7,796,711	8,930,385

TOP 10 HOLDINGS—FIXED INCOME As of June 30, 2015		
Description	**Market value**	**Book value**
JAPAN TREASURY DISCOUNT BILL	$458,869,819	$459,225,289
U S TREASURY BILL	191,169,340	184,752,430
NYKREDIT REALKREDIT A/S	124,696,930	137,451,834
DEXIA CREDIT LOCAL	129,098,970	129,335,548
VERIZON COMMUNICATIONS INC	64,554,261	65,677,856
BRAZIL LETRAS DO TESOURO NACIO	53,848,597	63,924,957
BANK NEDERLANDSE GEMEENTE REGS	63,936,444	63,841,407
GOLDMAN SACHS GROUP INC	58,704,744	58,807,165
REALKREDIT DANMARK A/S	53,401,062	54,484,645
NRW BANK REGS	52,845,363	52,884,923

COMMISSIONS PAID — DOMESTIC For the year ended June 30, 2015		
Brokerage firm	**Total commissions**	**% of Total commissions**
Goldman Sachs & Co.	$1,593,583	82.39%
Credit Suisse	242,806	12.55%
Barclays Bank	54,146	2.80%
Merrill Lynch Pierce Fenner Smith Inc.	31,020	1.60%
Deutsche Bank Sec. Inc.	2,914	0.15%
Abel Noser Corp.	2,294	0.12%
Wells Fargo Securities LLC	2,118	0.11%
Stifel Nicolaus	1,302	0.07%
Barclays Capital Inc	750	0.04%
Other *	3,218	0.17%
TOTAL	**$1,934,151**	**100.00%**

* Includes 17 additional firms, each with 0.03% or less of total commissions

COMMISSIONS PAID—INTERNATIONAL
For the year ended June 30, 2015

Brokerage firm	Total commissions	% of Total commissions
Goldman Sachs & Co	$2,362,836	87.83%
Credit Suisse	242,647	9.02%
Barclays Bank	54,146	2.01%
Merrill Lynch Pierce Fenner Smith	28,704	1.07%
Deutsche Bank	2,023	0.07%
Total	**$2,690,356**	**100.00%**

* Includes 17 additional firms, each with 0.03% or less of total commissions

SUMMARY OF INVESTMENT PORTFOLIO AND INVESTMENT EXPENSES BY ASSET CLASS

As of June 30, 2015

Asset Class		Net assets at fair value	Assets as % of Total	Investment Expenses
Global Developed Equity		$ 391,552,873	3.8%	$ 1,476,844
Emerging Market Equity		337,678,647	3.3%	1,996,289
High Yield Fixed Income/Credit *		864,974,063	8.4%	2,109,495
Private Equity		588,934,481	5.7%	22,816,436
Total Growth Oriented Assets		**2,183,140,064**	**21.2%**	**28,399,064**
Emerging Market Debt		448,979,000	4.3%	771,456
U.S. Treasuries		158,037,517	1.5%	243,222
Asset Allocation Strategies **		2,702,712,613	26.1%	12,161,033
Relative Value Strategies		321,811,264	3.1%	6,472,210
Total Stable Value Assets		**3,631,540,394**	**35.0%**	**19,647,921**
Treasury Inflation-Protected Securities (TIPS)		77,963	0.0%	(5,229)
Real Estate		981,936,541	9.5%	25,948,915
Infrastructure		224,846,646	2.2%	6,343,662
Natural Resources & Other Real Assets		414,887,285	4.0%	9,341,612
Total Inflation Sensitive Assets		**1,621,748,435**	**15.7%**	**41,628,960**
Collateral Cash Held for Investments		2,715,115,872	26.3%	4,296,181
Cash and Other Assets and Liabilities		185,355,018	1.8%	0
Total Net Assets		**$10,336,899,783**	**100.0%**	**$93,972,126**
Other Investment Professional Services and Administrative Support Expenses:				
Administrative and Staff Support	SDCERA staff			$ 3,785,654
BNY Mellon	Custodial bank			2,067,287
Integrity Capital (Salient)	Investment management			10,556,262
Albourne America LLC	Investment advisory			640,000
S&P Rating Services	Subscription			7,500
The Segal Company	Actuarial			271,214
The Townsend Group	Investment advisory			187,500
Wurts and Associates (Verus)	Investment advisory			740,000
Total Other Investment Professional Services and Administrative Expenses:				**18,255,417**
Total Investment Expenses				**$112,227,543**

* Includes Opportunistic Portfolio

** Includes Risk Parity Portfolio and Hedge Funds

INVESTMENT MANAGERS
For the fiscal year ended June 30, 2015

Domestic Equity Managers
- Legato Capital Management (Legato Accounts)
- Nicholas Applegate Conv
- Unallocated cash/ securities
- International Equity Swaps
- Global Equity Swaps
- Global Equity Overlay

Emerging Market Equity Managers
- DFA Emerging Market Fund
- Genesis Asset Management
- Emerging Market Equity ETF

Emerging Market Debt
- Wellington

High Yield/Credit Managers
- BlackRock Credit Fund
- Hotchkis & Wiley High Yield
- Oaktree Capital Mgmt LLC
- Silver Point Capital
- Zazove Associates (HY Conv.)

Opportunistic
- Oaktree European Dislocation Fund
- DE Shaw Alkali II
- Apollo Credit Opportunity Fund III

Treasury Inflation Protected Securities
- Treasure Inflation Protected Securities
- State Street Global Assets (SSGA) -TIPS

United States Treasuries
- Hoisington
- US Core Overlay

Global Macro
- Brevan Howard
- Bridgewater Pure Alpha II
- Bridgewater Pure Alpha Major Market
- Campbell & Company
- Cantab
- De Shaw Heliant Fund, LLC
- Kenmar
- Trend Strategy

Relative Value
- AQR Delta
- Blue Mountain Credit Alternative
- BlueMountain L/S Credit Fund, LP
- Carlson Capital Partner - Double Black Diamond
- Carlson Capital Partner - Black Diamond
- DE Shaw
- Moon Capital
- Saba Capital Management
- Stark Investments
- UBS O'Connor

Infrastructure
- Actis Energy 3
- Brookfield Americas Infrastructure
- Global Infrastructure Partners
- JP Morgan Maritime Fund
- Macquarie Infrastructure Partners II

Natural Resources and Other Real Assets
- Energy Funds (EnerVest, EnCap, Kayne, Merit)
- Amerra Agri Fund II
- Brookfield Brazil Agriland
- Denham Commodity Partners VI
- EMG III LP and Co-investments
- Falcon E & P Opportunities
- Hancock Agricultural Investment Group
- Molpus Woodland
- SSGA Materials
- SSGA S&P MLP
- Red Kite Mine Finance Fund I
- Taurus Resources Fund No. 2

Real Estate
- Allegis Value Trust, Inc.
- AMB Japan Fund
- Amstar SD Partners
- Blackstone Real Estate Partners VI
- California Smart Growth Fund IV
- Canyon Johnson
- CB Richard Ellis Strategic V
- Cornerstone (CHIEF)
- Cornerstone Apartment Venture III
- Hearthstone MSII-Homebuilding Investors LLC
- JP Morgan CB Strategis Property Fund
- La Salle Asia Op2
- PRISA II
- PRISA III
- The Rreef Funds/Rio San Diego Plaza II
- RREEF IMA
- Southern California Smart Growth Fund
- Trophy Property GP LTD

Private Equity
- Bain Capital IX, LP
- Bain Capital IX - Coinvestment, LP
- Bain Capital X, LP
- Baring Asia Private Equity V
- Blackstone Capital Partners IV
- Blackstone Capital Partners V, LP
- Blackstone Capital Partners VI, LP
- Capital Int'l PE Fund V, LP
- Capital Int'l PE Fund VI, LP
- Cerberus Institutional Partners II, LP
- Cerberus Institutional Partners IV, LP
- Charterhouse VIII
- Code, Hennessy & Simmons IV, LP
- Coller International Partners V-A
- Drug Royalty II/LSRC II S.ar.I
  - Drug Royalty II Co-Investment/ LSRC II S.ar.I
- Drug Royalty III, LP
- Emerging Europe Growth Fund II, LP
- EQT VI, LP
- Fountain Vest Capital Growth II
- Gores Capital Partners III. LP
- Gores Small Capitalization Partners, LP
- Graham Partners II, LP
- Greenbriar Equity Fund II, LP
- GSO Capital Solutions Fund
- GSO Capital Solutions Fund II

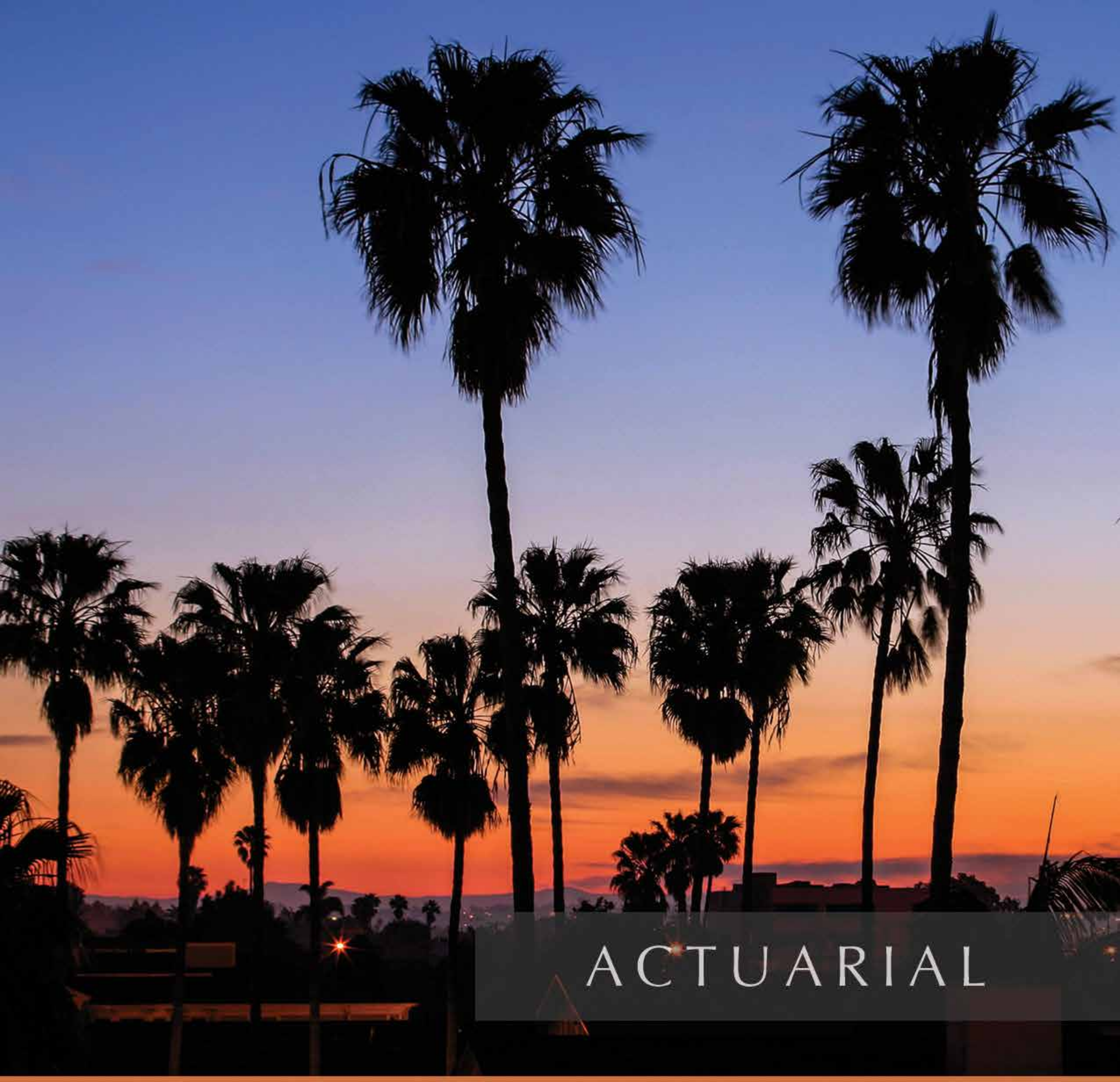
INVESTMENT MANAGERS (CONTINUED)
For the fiscal year ended June 30, 2015

Private Equity
- HarbourVest Partners International Private Equity III
- Hellman & Friedman Investors VI, LLC
- Hellman & Friedman Investors VII, LLC
- Lexington Capital Partners V, LP
- Lexington Capital Partners VI, LP
- New Mountain Capital Partners IV, LP
- Northgate PE Partners II, LP
- Northgate PE Partners III, LP
- Oak Hill Capital Partners, LP
- OCM Opportunity Fund II, LP
- OCM Opportunity Fund III, LP
- OCM Opportunity Fund IV, LP
- OCM Opportunities Fund VI
- OCM Opportunities Fund VII
- OCM Opportunities Fund VII - B
- Oaktree European Principal Fund III
- Onex Partner III
- Paul Capital Partners VIII-B, LP
- Paul Capital Partners IX, LP
- Providence Equity Partners V, LP
- SSG Capital Partners III, LP
- TA Associates Subordinated Debt Fund II
- TA Associates IX. LP
- TA Associates X, L.P.
- Texas Pacific Group
- TPG Asia VI
- Thomas Lee Equity Fund V,
- Private Equity Overlay

Other
- Pimco Collateral Cash

Master custodian
- Bank of New York Mellon

Other professional fees
- Albourne America LLC
- Integrity Capital (Salient)
- S&P Rating Services
- The Segal Company
- The Townsend Group
- Verus (Wurts and Associates)



ACTUARIAL

Comprehensive Annual Financial Report
For the Fiscal Year ended June 30, 2015

Segal Consulting

100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 www.segalco.com

VIA EMAIL AND USPS

November 23, 2015

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, 2015 Actuarial Valuation for Funding Purposes

Dear Members of the Board:

Segal Consulting (Segal) prepared the June 30, 2015 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. 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 Governmental Accounting Standards Board Statement No. 67.)

As part of the June 30, 2015 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 10 six-month interest crediting periods.

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 23, 2015
Page 2

Effective with the June 30, 2004 valuation, the Association's UAAL has been amortized using 20-year fixed (i.e., decreasing) layered amortization periods. The 20-year period was last reaffirmed when the Board reviewed its actuarial funding policy in 2013. As a result of the review in 2013, effective with the June 30, 2013 valuation, any change in the UAAL that arises due to plan amendments is amortized over separate 15-year decreasing amortization periods. Also, any change in the UAAL that arises due to retirement incentives is amortized over separate decreasing amortization periods of up to 5 years.

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, 2015 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, 2015 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

Financial Section

13. Membership summary

Board of Retirement
San Diego County Employees Retirement Association
November 23, 2015
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The non-economic valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2012 Triennial Experience Analysis and became effective with the June 30, 2013 valuation. The economic assumptions were adopted by the Board based on an interim review of those assumptions as of June 30, 2015. It is our opinion that the assumptions used in the June 30, 2015 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 full review of the economic and non-economic assumptions will be performed in early 2016, and the assumptions adopted by the Board at that time will be used in setting the contribution rates in the June 30, 2016 valuation. That analysis will include the investment earnings assumption, which includes a real return component based on the final asset allocation recently adopted by the Board. Furthermore, the current 7.50% 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, 2015 valuation, the ratio of the valuation assets to actuarial accrued liabilities has decreased from 80.9% to 80.5%. The average employer’s rate has increased from 34.73% of payroll to 36.84% of payroll, while the average employee’s rate has increased from 11.35% of payroll to 11.73% of payroll.

In the June 30, 2015 valuation, the actuarial value of assets included $249.4 million in deferred investment losses, which represented about 2.4% of the market value of assets. If these deferred investment losses were recognized immediately in the actuarial value of assets, the funded percentage would decrease from 80.5% to 78.6% and the aggregate employer contribution rate, expressed as a percent of payroll, would increase from 36.84% to 38.37%.

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

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

AW/bbf
Enclosures

SOLVENCY TEST (PENSION PLAN)
For the last ten years
(dollars in thousands)

	Aggregate accrued liabilities for				Portion of accrued liability covered by reported assets			
Valuation date	Active member contributions[1]	Liability for retired members	Active members (employer financed portion)	Total	Valuation value of assets	Active member contributions	Liability for retired members	Active members (employer financed portion)
6/30/2006	$290,339	$3,679,444	$3,525,511	$7,495,294	$6,263,019	100%	100%	65.0%
6/30/2007	316,513	3,924,551	3,841,453	8,082,517	7,250,404	100%	100%	78.3%
6/30/2008	371,892	4,260,025	4,090,377	8,722,294	8,236,926	100%	100%	88.1%
6/30/2009	409,580	4,616,573	4,172,483	9,198,636	8,413,065	100%	100%	81.2%
6/30/2010	434,512	5,133,785	4,430,864	9,999,161	8,433,310	100%	100%	64.7%
6/30/2011	454,649	5,494,076	4,533,932	10,482,657	8,542,291	100%	100%	57.2%
6/30/2012	482,861	6,010,596	4,449,715	10,943,172	8,607,483	100%	100%	47.5%
6/30/2013	551,337	6,577,083	4,502,817	11,631,237	9,186,032	100%	100%	45.7%
6/30/2014	631,296	6,885,584	4,624,269	12,141,149	9,824,431	100%	100%	49.9%
6/30/2015	758,538	7,493,615	4,827,927	13,080,080	10,535,590	100%	100%	47.3%

[1] Liabilities for vested deferred members are included in active member contributions.
Source: Segal Consulting, Annual Actuarial Valuation

SOLVENCY TEST (OPEB PLAN)
(dollars in thousands)

Valuation date[1]	Active member contributions	Liability for retired participants	Liability for non-retired members (employer financed portion)	Total	Valuation assets	Active member contributions	Liability for retired participants	Liability for active members (employer financed portion)
6/30/2007	-	$219,656	$16,099	$235,755	$ -	0.0%	0.0%	0.0%
6/30/2008	-	204,348	13,211	217,559	18,206	0.0%	8.9%	0.0%
6/30/2010	-	194,792	11,655	206,447	9,221	0.0%	4.7%	0.0%
6/30/2012	-	176,173	9,129	185,302	5,064	0.0%	2.9%	0.0%
6/30/2014	-	162,113	7,251	169,364	4,743	0.0%	2.9%	0.0%

[1]Valuations are performed biennially after 2008. The next scheduled valuation is June 30, 2016.
Source: Segal Consulting, OPEB Actuarial Valuation June 30, 2014.

HISTORY OF EMPLOYER PENSION CONTRIBUTION RATES
For the last ten years

For the years ended June 30	General members			Safety members		
	Normal %	UAAL %	Total %	Normal %	UAAL %	Total %
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
2015	13.31	20.93	34.24	20.64	24.21	44.85

Source: Segal Consulting, Annual Actuarial Valuation

DEMOGRAPHIC ACTIVITY OF RETIRED MEMBERS AND BENEFICIARIES (PENSION PLAN)

Last Ten Fiscal Years
(dollars in thousands)

Plan year ended June 30	Added to rolls: Number	Added to rolls: Annual allowance *	Removed from rolls: Number	Removed from rolls: Annual allowance	Rolls at end of year: Number	Rolls at end of year: Annual allowance	% Increase in retiree allowance	Average annual allowance	Change in average benefit
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%
2015	1,262	49,273,532	449	11,953,676	17,186	599,088,708	6.6%	34,859	1.6%

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

Source: Segal Consulting, Annual Actuarial Valuation

DEMOGRAPHIC ACTIVITY OF RETIRED MEMBERS AND BENEFICIARIES (OPEB PLAN)

(dollars in thousands)

Plan year ended June 30*	Added to rolls: Number	Added to rolls: Annual allowance	Removed from rolls: Number	Removed from rolls: Annual allowance	Rolls at end of year: Number	Rolls at end of year: 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 are performed biennially after 2008. The next scheduled valuation is June 30, 2016.

Source: Segal Consulting, OPEB Actuarial Valuation June 30, 2014.

FUNDING PROGRESS (PENSION PLAN)

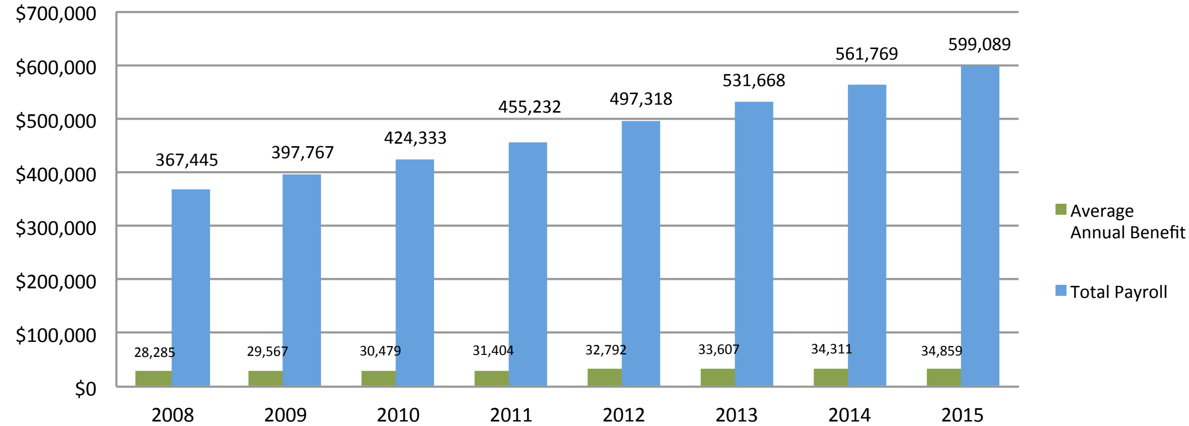
Last Ten Fiscal Years
(dollars in thousands)

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)
6/30/06	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%
6/30/15	10,535,590	13,080,080	2,544,490	80.5%	1,163,363	218.7%

(1) Excludes assets held for Health Benefit Reserve.
(2) Excludes liabilities held for Health Benefit Reserve.
Source: Segal Consulting, Annual Actuarial Valuation

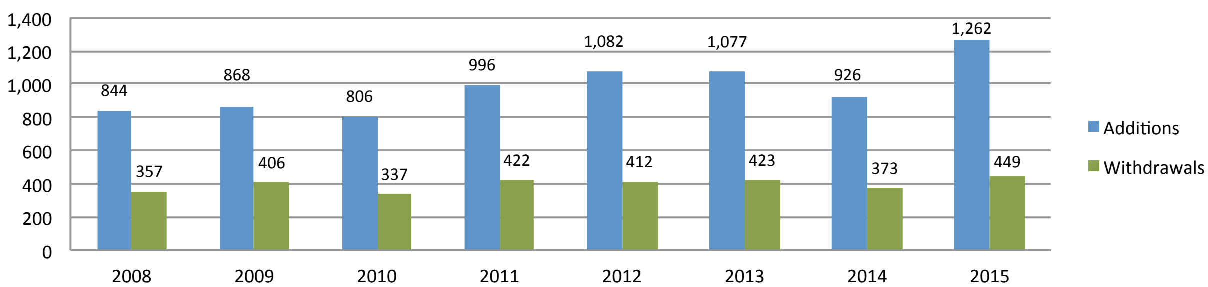
Retirement Payroll and Average Annual Pension Benefits

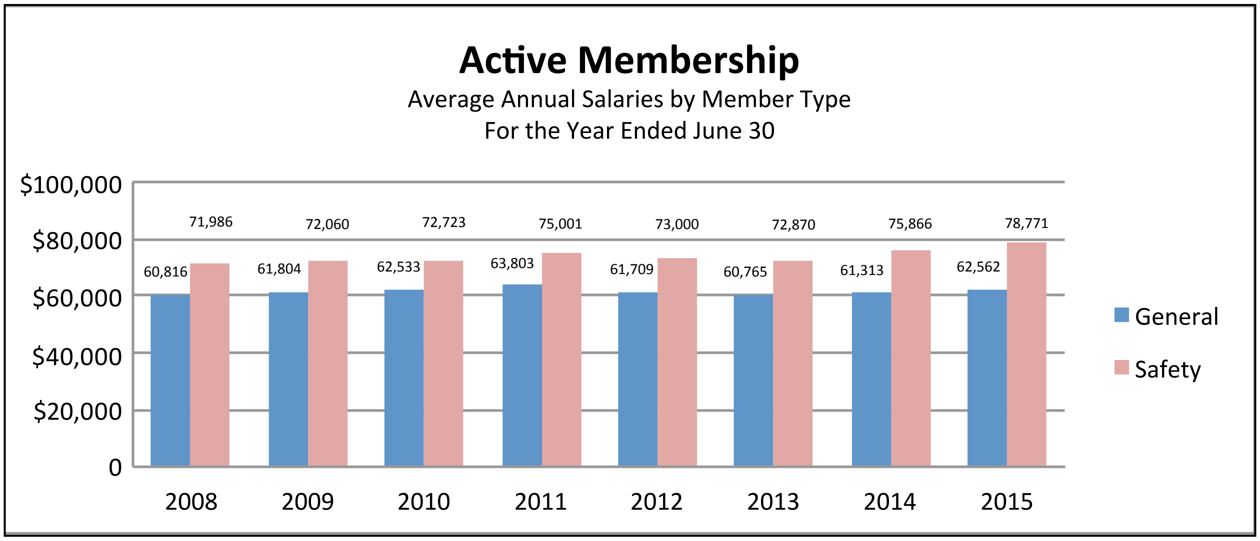
For the Years Ended June 30

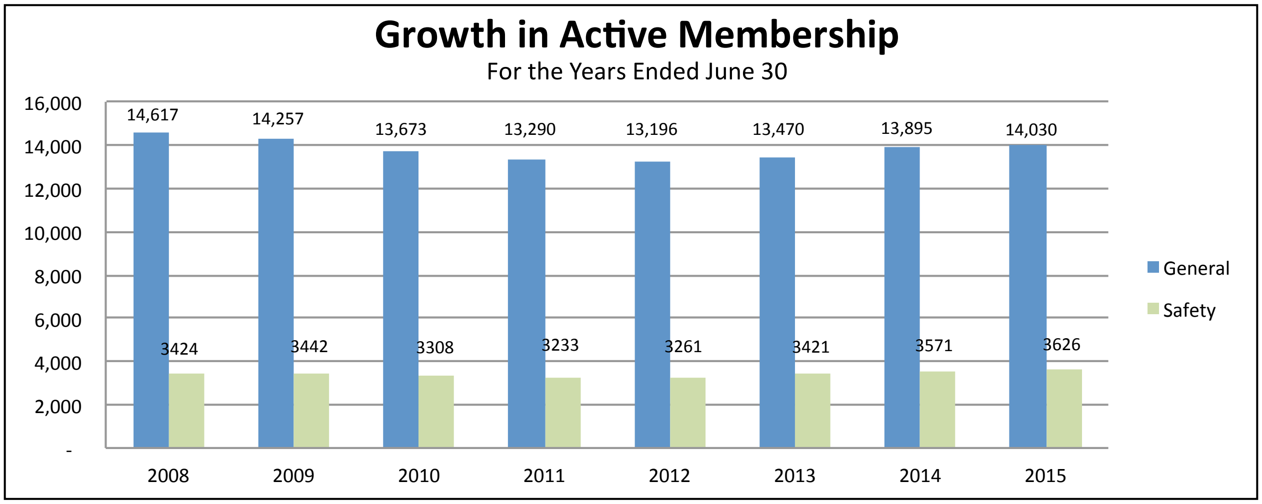


Membership Activity

For the Years Ended June 30







Source: Segal Consulting, Annual Actuarial Valuation, June 30, 2015

DETERMINATION OF ACTUARIAL AND VALUATION VALUE OF ASSETS
For the year ended June 30, 2015

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)	0.3333	$(56,857,098)
7/2012	12/2012	$595,958,895	$329,280,436	266,678,459	0.4	106,671,384
1/2013	6/2013	62,787,174	350,146,351	(287,359,177)	0.5	(143,679,589)
7/2013	12/2013	529,642,752	350,592,044	179,050,708	0.6	107,430,425
1/2014	6/2014	678,201,180	369,454,642	309,046,538	0.7	216,332,577
7/2014	12/2014	119,504,895	394,295,090	(274,790,196)	0.8	(219,832,156)
1/2015	6/2015	109,066,220	397,349,983	(288,283,763)	0.9	(259,455,387)
1. Total deferred return						(249,389,844)
2. Net market value of assets						10,336,899,783
3. Actuarial value of assets						10,586,289,627
4. Non-valuation reserves						
a. Supplemental retirement reserve						18,147,494
b. 401(h) reserve						6,570,157
c. Disability supplement retirement reserve						4,412,720
d. Contingency reserve						21,822,529
e. Undistributed reserve						0
f. Subtotal						50,952,900
5. Valuation value of assets (Item 3 - Item 4f)						$10,535,336,727

* Net deferred loss as of June 30, 2012 was combined and will be recognized over 4.5 years.
Source: Segal Consulting, Annual Actuarial Valuation, June 30, 2015

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

	Plan years ended June 30 2015	2014	2013	2012	2011	2010
Prior valuation unfunded actuarial liability	$2,316,718	$2,445,205	$2,335,689	$1,940,366	$1,565,851	$ 785,571
Salary increase less than expected	(56,977)	(35,468)	(169,406)	(196,062)	(116,085)	(161,956)
Asset return less (greater) than expected	(15,862)	(2,155)	19,304	533,655	467,919	561,959
Other experience	(19,783)	(90,864)	(4,136)	74,197	22,681	(33,748)
Economic and non-economic assumption changes	320,394	-	263,754	(16,467)	-	414,025
Ending unfunded actuarial accrued liability	**$2,544,490**	**$2,316,718**	**$2,445,205**	**$2,335,689**	**$1,940,366**	**$1,565,851**

Source: Segal Consulting, 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 7.50 percent, net of both expected administration and investment expenses. The investment rate of return assumption for financial reporting purposes is 7.50 percent, net of 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.

DEFERRED MEMBER ACTUARIAL ACCRUED LIABILITY

Data provided to the actuary about deferred members included date of hire, date of birth, date of termination, years of service credit earned, 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 in Note 1, *Description of Plans*, in the Financial section of this report.

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 presently-covered member or beneficiary 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 calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account 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 7.50 percent, net of both expected administration and investment expenses. The investment return rate used for financial reporting purposes is 7.50 percent, 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 Board. The rate is comprised of two elements:

COMPONENTS OF INVESTMENT RATE OF RETURN	
Inflation	3.00%
Real Rate of Return	4.50%
Total	**7.50%**

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 3.00 percent for inflation plus “across the board” salary increases of 0.75 percent per year 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 11.75 percent and the minimum combined rate is 4.50 percent.

PROJECTED SALARY INCREASE RATES

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

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Employees	Total Payroll	% Change	Average Salary	% Change
6/30/2006	17,451	979,367,931	6.2	56,121	3.4
6/30/2007	17,733	1,062,396,028	8.5	59,911	6.8
6/30/2008	18,041	1,135,431,988	6.9	62,936	5.0
6/30/2009	17,699	1,129,170,721	(0.6)	63,799	1.4
6/30/2010	16,981	1,095,581,953	(3.0)	64,518	1.1
6/30/2011	16,523	1,090,413,350	(0.5)	65,994	2.3
6/30/2012	16,457	1,052,366,941	(3.5)	63,946	(3.1)
6/30/2013	16,891	1,067,792,128	1.5	63,217	(1.1)
6/30/2014	17,466	1,122,864,480	5.2	64,289	1.7
6/30/2015	17,656	1,163,362,748	3.6	65,891	2.5

Source: Segal Consulting, Annual Actuarial Valuation

HISTORICAL SUMMARY OF ASSUMPTIONS
For the years ended June 30

Assumption	2015	2014	2013	2012	2011	3 year average	5 year average
Inflation [1]	0.8%	2.4%	0.9%	1.7%	3.4%	1.37%	1.84%
Assumed [2]						1.37%	3.30
Average pay increase	2.5	1.7	(1.10)	(3.10)	2.3	3.17	0.46
Assumed [3]						1.03	4.05
Merit and longevity pay increase	2.6	3.3	3.3	4.7	1.2	3.92	3.02
Assumed [4]						3.07	0.89
Total payroll	3.6	5.2	1.5	(3.50)	(0.50)	0.81	1.26
Assumed [3]						3.43	4.05
Investment return rate [5]	7.7	8.1	7.7	1.7	2.4	3.92	5.52
Assumed [6]						7.83	7.80
Real rate of investment return	6.9	5.7	6.8	0.0	(1.00)	7.67	3.68
Assumed [7]						6.47	4.50
Admin. expenses (% of assets)	0.1	0.1	0.1	0.1	0.1	4.50	0.10
Assumed						0.10	0.10

Note:
(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 retiree COLA.
(2) Effective with June 30, 2015 valuation, this assumption has been reduced from 3.25% to 3.00%.
(3) Effective with June 30. 2015 valuation, this assumption has been reduced from 4.00% to 3.75%.
(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, 2015 valuation, this assumption has been decreased from 7.75% to 7.50%.
(7) This assumption has stayed at 4.50% since the June 30, 2006 valuation.

Source: Segal Consulting, 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 with a vested benefit are assumed to not withdraw accumulated member contributions upon separation from service.

It is also assumed that 25 percent of General members and 30 percent of Safety members separating from active SDCERA membership will continue employment with a reciprocal employer. General reciprocal members are assumed to receive 4.50 percent compensation increases per annum while Safety reciprocal members are assumed to receive 4.75 percent compensation increases per annum.

In September 2015, the Board adopted recommendations from its actuary regarding changes to the assumed rate of return, inflation rate, and wage inflation assumptions. In December 2015, the Board also adopted the actuary's recommendations on changes to the Employer and Employee Contribution Rate, to take effect on July 1, 2016.

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 members, the post-retirement mortality table used is the RP-2000 Combined Health Mortality Table projected to 2016 with Scale AA with a one-year age setback for males and no 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		Safety	
	Male	Female	Male	Female
30	0.06	0.03	0.06	0.03
35	0.09	0.05	0.09	0.05
40	0.11	0.07	0.11	0.07
45	0.14	0.11	0.14	0.11
50	0.21	0.17	0.21	0.17
55	0.41	0.35	0.41	0.35
60	0.80	0.71	0.80	0.71

WITHDRAWAL RATES WITH LESS THAN 5 YEARS OF SERVICE			
Years of service	Ordinary withdrawals (Less than 5 years of service)[1]		
	General		Safety
	Male	Female	
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%

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

Age	Ordinary Withdrawals (Less than 5 years of service) [2]		
	General		
	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] No withdrawal is assumed after a member is eligible for retirement.

[2] Secondary Assumption

For members with less than 5 years of service, 60% of all terminating members will choose a refund of contributions and 40% will choose a deferred vested benefit.

For members with 5 or more years of service, 15% of all terminating members will choose a refund of contributions and 85% will choose a deferred vested benefit.

RETIREMENT RATES (%)

Age	General			Safety		
	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	6.0	-	-	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: Segal Consulting, Annual Actuarial Valuation, June 30, 2015

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 refund is reduced to reflect this.

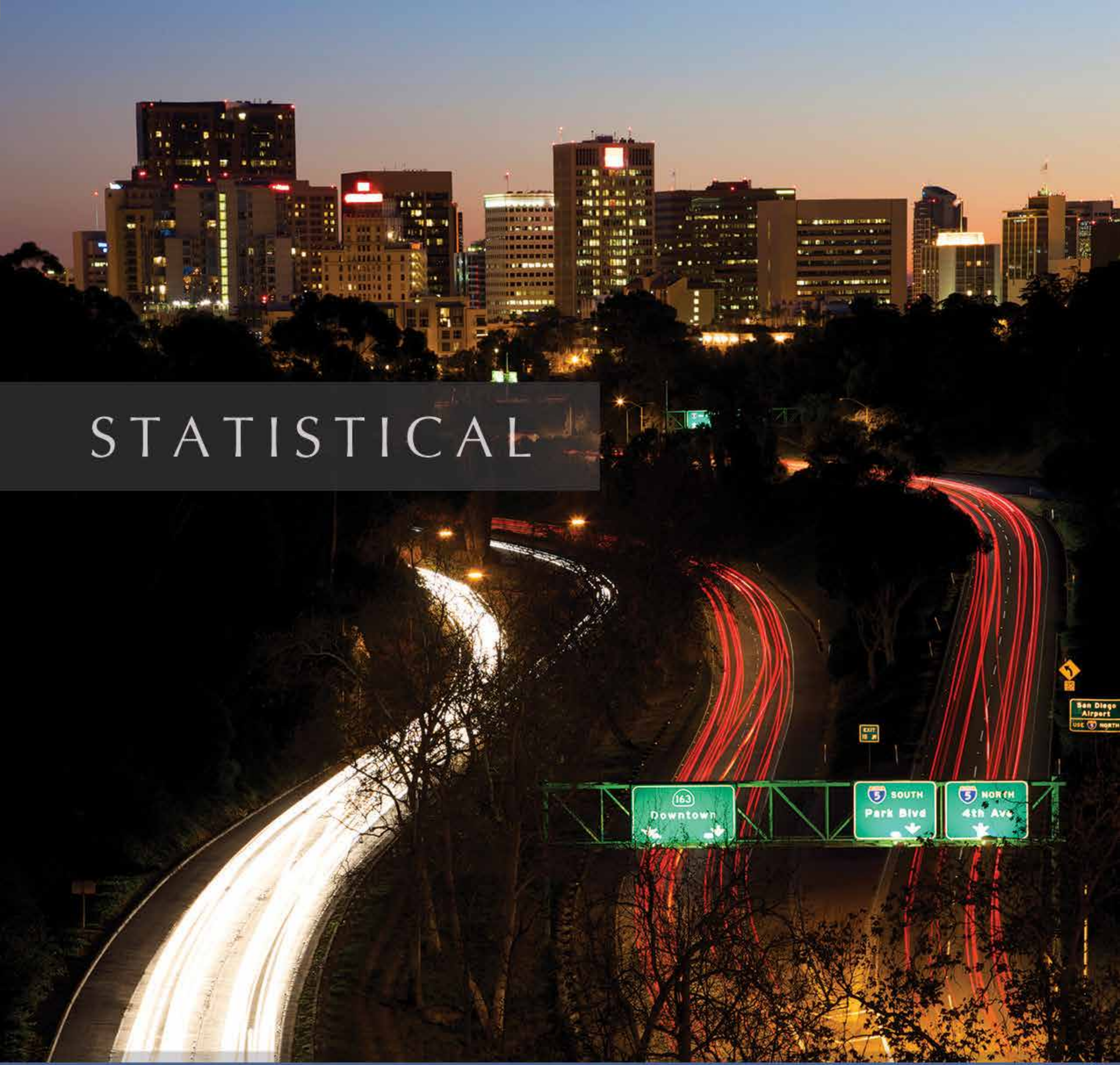
The rates of employer pick-up vary by employee. Employees with fewer than five years of service have a lesser percentage of their employee contributions “picked up” than employees with five or more years of service.

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 percent of men and 55 percent 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 can be found in the Financial Section, Required Supplemental Information, as *Schedule III – Employer Contributions (Pension Plan).*



STATISTICAL

Comprehensive Annual Financial Report

For the Fiscal Year ended June 30, 2015

STATISTICAL SECTION OVERVIEW

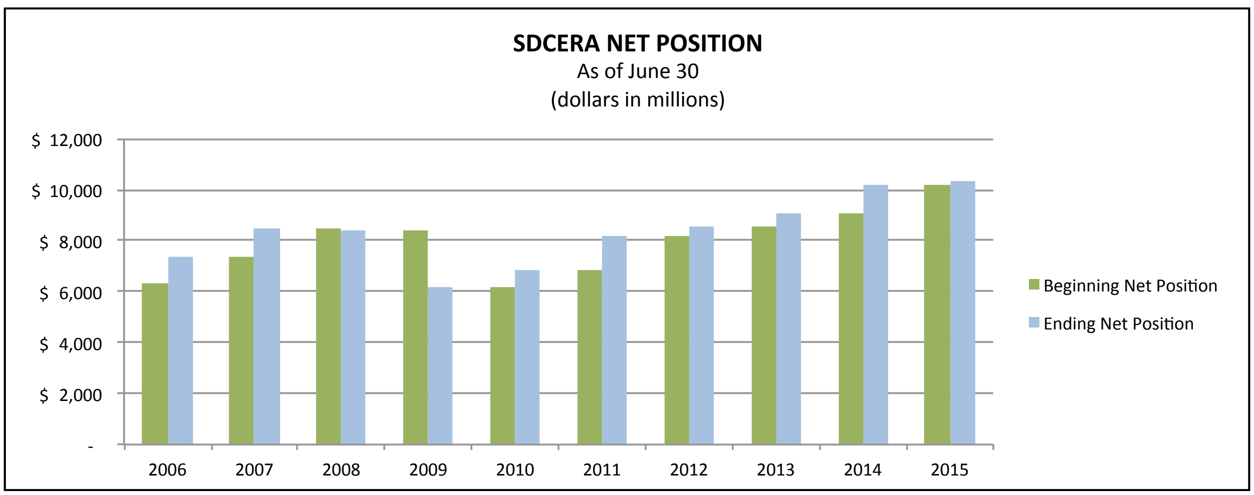
There are four categories included in this section: financial trends, demographic and economic information, expenses, and membership information. The data disclosed in this section provides multi-year trend information that will assist in developing a better understanding of SDCERA's activities over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

Financial trend information for the last 10 fiscal years is presented in the Net Position chart, the Changes in Pension Plan Net Position schedule and the Benefit and Refund Deductions from Net Position by Type schedules. The amount of additions from member contributions, employer contributions and investment income from the last 10 years is presented.

Demographic and economic information is shown in the Retired Members by Type schedules and the Average Benefit Payments schedules. The Retired Members by Type of Benefit schedule details the number of retired members receiving benefits by payment level and by type of retirement for the current and prior fiscal years. The Retired Members by Type of Benefit Option Selected schedule provides a matrix of the payment options and beneficiary choices members selected at their retirement, stratified by monthly payment amounts. The Average Benefit Payments schedules (for both the Plan and OPEB Plan) show the number of retired members and the average monthly benefit for the last ten years for the Plan and last three biennial periods for the OPEB Plan.

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 ten years are detailed.

Membership information is shown on the Schedule of Participating Employers. This schedule shows the number of covered members 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)

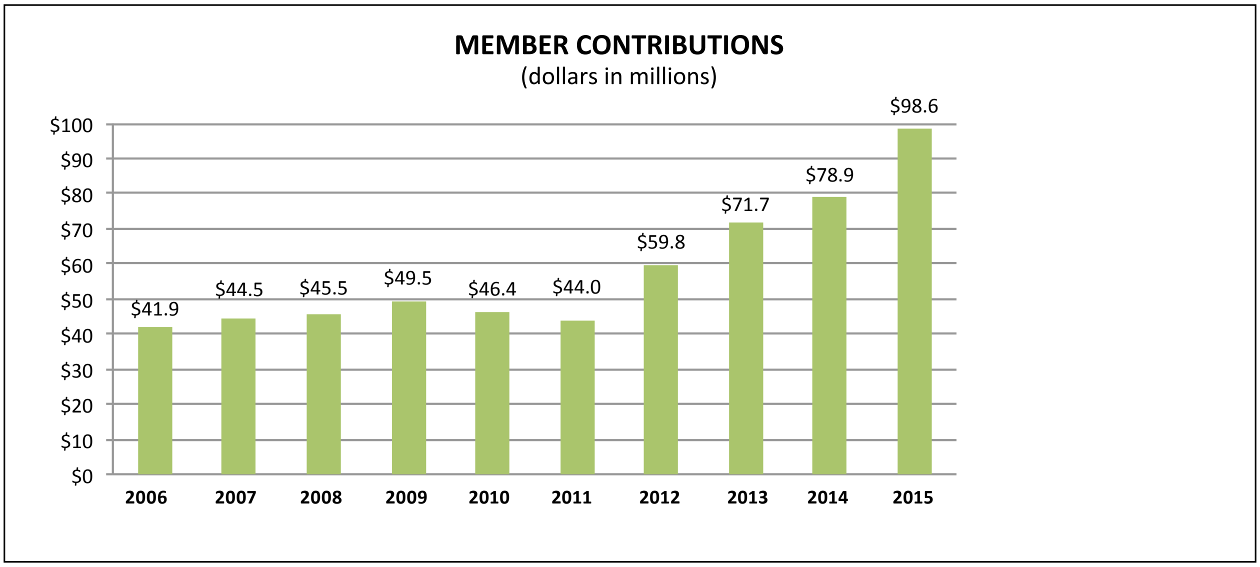
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
ADDITIONS										
Member Contributions (1)	$41.9	$44.5	$45.5	$49.5	$46.4	$44.0	$59.8	$71.7	$78.9	$98.6
Employer Contributions (2)	302.5	320.5	329.0	314.5	276.7	321.8	334.8	357.9	394.7	414.8
Investment Income (Net of expenses)	962.2	1,119.3	(4.8)	(2,143.9)	830.8	1,437.0	454.6	669.9	1,220.4	242.5
Total Additions	**$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**	**$755.9**
DEDUCTIONS										
Administrative Expenses	$8.0	$10.3	$10.5	$10.1	$10.4	$10.5	$10.9	$11.4	$12.7	$14.0
Retirement Benefits (1) (3)	290.2	322.6	368.6	399.9	431.1	461.6	496.3	540.5	558.0	589.7
Health Benefits	32.9	35.3	24.4	23.9	23.6	21.8	-	-	-	-
Refunds	3.0	2.6	2.7	2.3	2.6	3.1	3.4	2.8	2.8	2.6
Total Deductions	**$334.1**	**$370.8**	**$406.2**	**$436.2**	**$467.7**	**$497.0**	**$510.6**	**$554.7**	**$573.5**	**$606.3**
Total Change in Net Position	**$972.5**	**$1,113.5**	**($36.5)**	**($2,216.1)**	**$686.2**	**$1,305.8**	**$338.5**	**$544.8**	**$1,120.5**	**$149.6**

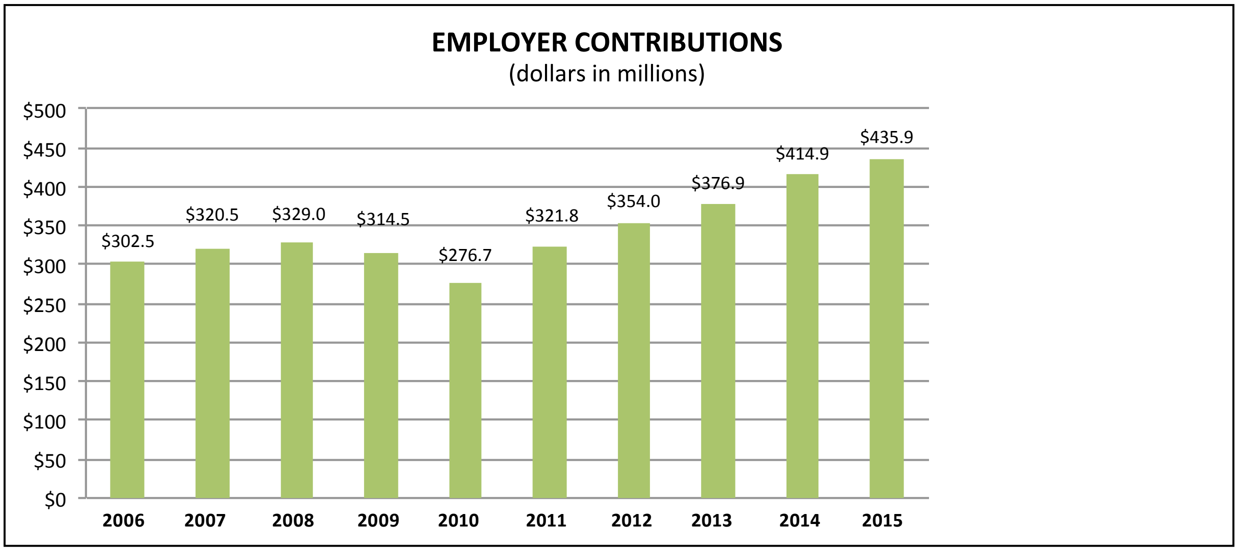
* Prior to 2012, health care net assets are included in this chart
(1) Enhancement of Plan benefits in March 2002 resulted in an increase in member contribution and benefit payments
(2) Includes proceeds from pension obligation bonds of $550 million in 2003 and $450 million in 2004
(3) Refer to benefit and refund deductions for detail

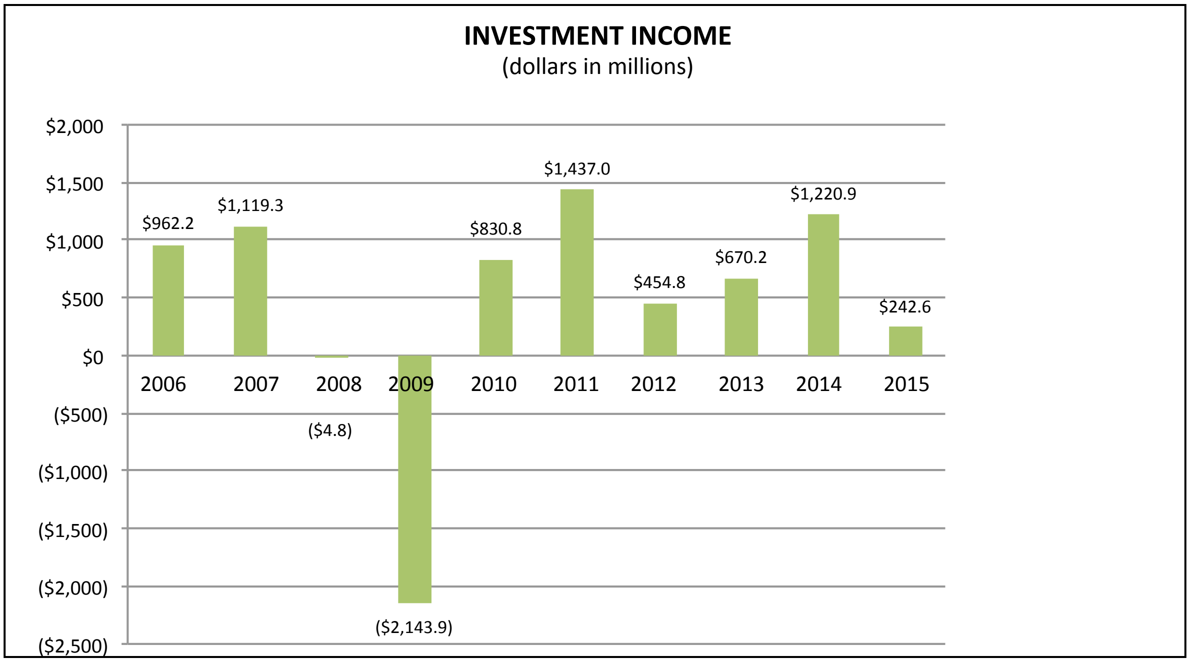
CHANGES IN OPEB NET POSITION
For the fiscal year ended June 30
(dollars in millions)

	2013	2014	2015
Additions			
Employer Contributions	$19.0	$20.2	$21.0
Investment Income (Net of expenses)	0.3	0.5	0.1
Total additions	**19.3**	**20.7**	**21.1**
Deductions			
Administrative Expenses	-	-	-
Health Benefits	20.4	20.0	19.3
Total deductions	20.4	20.0	19.3
Total change in net position	**($1.1)**	**$0.7**	**$1.8**

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)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Type of benefit										
Age and service	$239.4	$295.3	$301.8	$310.8	$357.5	$386.8	$418.0	$456.0	$470.3	$490.1
Disability - Duty	8.8	12.0	16.9	37.7	41.4	42.8	45.1	48.0	49.1	49.8
Disability - Non-duty	24.2	28.7	26.9	5.6	6.2	5.9	6.1	6.3	6.6	6.3
Death benefits	1.1	1.6	0.9	1.8	1.4	1.2	1.6	1.3	1.5	1.2
Survivors	16.7	20.3	22.0	24.0	24.5	24.8	25.5	28.9	30.5	42.3
Total	**$290.2**	**$357.9**	**$368.5**	**$379.9**	**$431.0**	**$461.5**	**$496.3**	**$540.5**	**$558.0**	**$589.7**
Type of refund										
Separation	3.0	2.6	2.7	2.3	2.6	3.1	3.4	2.8	2.7	2.6
Total	**$3.0**	**$2.6**	**$2.7**	**$2.3**	**$2.6**	**$3.1**	**$3.4**	**$2.8**	**$2.7**	**$2.6**

RETIRED MEMBERS BY TYPE OF BENEFIT
For the current and prior fiscal years ended June 30

Fiscal year 2015		Type of retirement [a]					
Amount of monthly benefit	Number of retired members	1	2	3	4	5	6
$0 - $1,000	3,536	2,710	425	182	10	68	141
1,001 - 2,000	4,372	3,219	415	118	297	194	129
2,001 - 3,000	3,107	2,280	221	54	433	47	72
3,001 - 4,000	2,113	1,552	91	19	376	17	58
4,001 - 5,000	1,248	1,090	55	6	83	4	10
5,001 - 6,000	870	785	31	4	41	4	5
6,001 - 7,000	667	615	12	-	35	1	4
7,001 - 8,000	464	431	5	1	27	-	-
8,001 - 9,000	304	289	3	-	12	-	-
9,001 - 10,000	175	162	2	-	9	-	2
Over 10,000	330	314	1	-	15	-	-
Total	**17,186**	**13,447**	**1,261**	**384**	**1,338**	**335**	**421**

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**

[a]Type of Retirement:

1 - Normal/Early Retirement for age and service

2 - Beneficiary payment - Surviving spouse

3 - Beneficiary payment - Non spouse survivor

4 - Service Connected Disability Retirement

5 - Non-service Connected Disability Retirement

6 - Beneficiary payment - Disability

Source: Segal Consulting

Note: Above numbers are number of benefits paid. Some payees receive multiple benefits, ie, retiree and surviving spouse.

RETIRED MEMBERS BY TYPE OF BENEFIT OPTION SELECTED

For the current and prior fiscal years ended June 30

Fiscal year 2015

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	3,536	3,328	53	149	2	3	-	1
1,001 - 2,000	4,372	4,192	61	105	4	9	-	1
2,001 - 3,000	3,107	2,995	41	60	3	8	-	-
3,001 - 4,000	2,113	2,028	30	45	1	8	-	1
4,001 - 5,000	1,248	1,198	14	26	2	8	-	-
5,001 - 6,000	870	837	13	15	-	5	-	-
6,001 - 7,000	667	645	9	13	-	-	-	-
7,001 - 8,000	464	449	4	6	1	4	-	-
8,001 - 9,000	304	297	2	3	1	1	-	-
9,001 - 10,000	175	170	2	2	-	1	-	-
Over 10,000	330	325	-	2	-	3	-	-
Total	**17,186**	**16,464**	**229**	**426**	**14**	**50**	**-**	**3**

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**

[b] Benefit selected:

Unmodified plan: beneficiary receives 60 percent continuance. (100 percent continuance for service-connected disability)

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

Option 1 - Beneficiary receives lump sum or member's unused contributions

Option 2 - Beneficiary receives 100 percent of member's reduced monthly benefit

Option 3 - Beneficiary receives 50 percent of member's reduced monthly benefit

Option 4 - Split account paid to 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: Segal Consulting

Note: Above numbers are number of benefits paid. Some payees receive multiple benefits, 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 2015							
Average annual benefit	$15,796	$12,134	$22,655	$36,351	$48,394	$67,321	$80,473
Average monthly benefit	$1,316	$1,011	$1,888	$3,029	$4,033	$5,610	$6,706
Average final monthly salary	$7,434	$5,024	$5,477	$6,025	$6,538	$6,784	$7,284
Number of retired members	36	139	182	134	112	154	92
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	$6,790	$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

Source: Segal Consulting

AVERAGE BENEFIT PAYMENTS (OPEB) 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

Source: The Segal Consulting, OPEB Acruarial Valuation reports
Note: The next scheduled OPEB Actuary Valuation Report is scheduled for the fiscal year ending June 30, 2016.

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 2015						
Number of covered employees	40,116	37,513	2,552	26	14	11
Percentage to total system	100.00 %	93.52	6.36	0.06	0.03	0.03
Rank		1	2	3	4	5
Fiscal year 2014						
Number of covered employees	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 employees	37,711	36,017	1,653	19	13	9
Percentage to total system	100.00 %	95.51	4.38	0.05	0.03	0.02
Rank		1	2	3	4	5
Fiscal year 2012						
Number of covered employees	36,662	34,882	1,740	18	13	9
Percentage to total system	100.00 %	95.14	4.75	0.05	0.04	0.02
Rank		1	2	3	4	5
Fiscal year 2011						
Number of covered employees	36,144	33,631	2,464	22	14	13
Percentage to total system	100.00 %	93.05	6.82	0.06	0.04	0.04
Rank		1	2	3	4	5
Fiscal year 2010						
Number of covered employees	36,157	33,582	2,514	22	15	24
Percentage to total system	100.00 %	92.88	6.95	0.06	0.04	0.07
Rank		1	2	4	5	3
Fiscal year 2009						
Number of covered employees	36,447	33,850	2,539	20	13	25
Percentage to total system	100.00 %	92.87	6.97	0.05	0.04	0.07
Rank		1	2	4	5	3
Fiscal year 2008						
Number of covered employees	36,179	33,538	2,587	17	13	24
Percentage to total system	100.00 %	92.70	7.15	0.05	0.03	0.07
Rank		1	2	4	5	3
Fiscal year 2007						
Number of covered employees	35,249	32,830	2,365	20	12	22
Percentage to total system	100.00 %	93.14	6.71	0.06	0.03	0.06
Rank		1	2	4	5	3
Fiscal year 2006						
Number of covered employees	33,055	30,619	2,392	18	12	14
Percentage to total system	100.00 %	92.63	7.24	0.05	0.04	0.04
Rank		1	2	3	5	4

Source: Segal Consulting

SDCERA

Strength. Service. Commitment.

San Diego County Employees Retirement Association
2275 Rio Bonito Way, Suite 200
San Diego, CA 92108

Member Service Center:
619.515.6800

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888.4.SDCERA

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