SDCERA

SAN DIEGO COUNTY EMPLOYEES RETIREMENT ASSOCIATION
SAN DIEGO COUNTY, CA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SDCERA

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SAN DIEGO COUNTY, CA

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FOR THE FISCAL YEAR ENDED JUNE 30, 2017

PREPARED BY

DAVID B. WESCOE CHIEF EXECUTIVE OFFICER

GREGORY J. BYCH CHIEF FINANCIAL OFFICER

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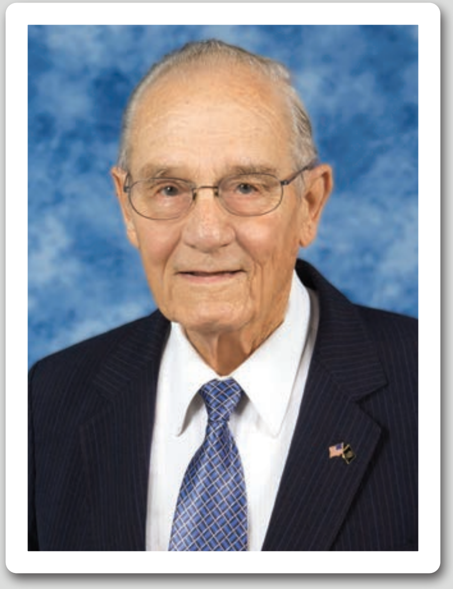
ACTUARIAL

STATISTICAL

THIS CAFR IS DEDICATED TO FORMER TRUSTEE JAMES W. FEELEY



JIM FEELEY RETIRED FROM SDCERA'S BOARD OF RETIREMENT ON JUNE 30, 2017, AFTER 33 YEARS OF BOARD SERVICE, MAKING JIM THE LONGEST-SERVING TRUSTEE IN SDCERA HISTORY.

"It has been a great honor for many people to serve with Jim Feeley on the SDCERA Board of Retirement. We all are going to miss him. Jim has not only served SDCERA with distinction for decades, but he has been a model public servant. On behalf of the Board, I'd like to thank Jim for his many contributions and wish him the very best."

– SDCERA Board Chair Dianne Jacob

INTRODUCTION

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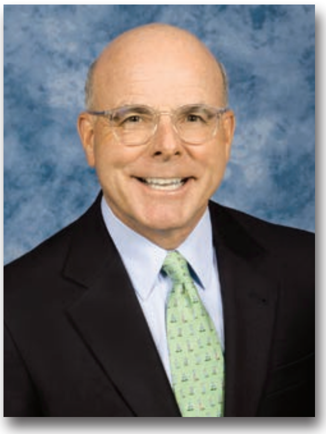


TO THE TRUSTEES, MEMBERS AND BENEFICIARIES, PLAN SPONSOR AND PARTICIPATING EMPLOYERS OF THE SAN DIEGO COUNTY EMPLOYEES RETIREMENT ASSOCIATION:

I am pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the San Diego County Employees Retirement Association (SDCERA) for the fiscal year ended June 30, 2017 (FY 2017).

SDCERA BACKGROUND

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 retirement, disability, death, survivor and health benefits for more than 42,000 Members who are either active, retired or former employees of SDCERA's Plan Sponsor (the County of San Diego), or our four Participating Employers (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).

SDCERA's Board of Retirement (Board) has exclusive control and fiduciary responsibility for administering SDCERA benefits and investing Trust Fund assets. The Board's nine Trustees include four Trustees appointed by the San Diego County Board of Supervisors, four Trustees elected by Members (two elected by active General Members, one elected by active Safety Members and one elected by Retired Members) and the San Diego County Treasurer-Tax Collector. Active Safety Members and Retired Members each elect an alternate Trustee.

INVESTMENTS

SDCERA's FY 2017 net investment return was 12.0 percent. As of June 30, 2017, the three-, five-and ten-year Trust Fund annualized net-of-fees time-weighted returns were 4.9 percent, 7.1 percent and 4.4 percent, respectively. Trust Fund assets totaled $11.4 billion as of June 30, 2017, an all-time high.

SDCERA's Investment Policy Statement defines the Trust Fund's investment objectives, governing principles and asset allocation. The principles are powerful: transparency, accountability and responsibility. Since Chief Investment Officer Steve Sexauer and I joined SDCERA in 2015, we have reduced investment management costs by $40 million per year, which, based on SDCERA's current investment return assumption compounded annually, will save the Trust Fund hundreds of millions of dollars in the coming years. Steve's Chief Investment Officer Report and more information about SDCERA's FY 2017 investment operations are included in the Investments section.

ACTUARIAL VALUATION AND REVIEW

Segal Consulting, an independent actuary, prepared SDCERA's FY 2017 Actuarial Valuation and Review that summarizes the actuarial data used in the valuation and establishes the funding requirements for fiscal year 2019. SDCERA's Plan Sponsor and Participating Employers paid their actuarially determined contributions. Highlights of Segal's Valuation and Review and certification letter are included in the Actuarial section.

The Plan's funded status (the ratio of the actuarial value of assets to actuarial liabilities) was 77.4 percent as of June 30, 2017, compared to 76.9 percent for FY 2016. With respect to funded ratios, it is important to keep in mind the admonition of The American Academy of Actuaries: "While the funded ratio may be a useful measure, understanding a pension plan's funding progress should not be reduced to a single measure or benchmark at a single point in time... [the funded ratio] is most meaningful when viewed together with other relevant information" including a plan sponsor's revenue, assets or payroll, level of debt and cash flow. (The American Society of Actuaries, Issue Brief, July 2012.) For example, an important fact with respect to SDCERA's Plan Sponsor, the County of San Diego, is that it is one of the most financially secure and economically vibrant counties in the country, as evidenced by its triple-A ratings from Moody's, Standard & Poor's and Fitch Ratings.

ORGANIZATION HIGHLIGHTS

CONTINUED FOCUS ON FISCAL MANAGEMENT. It is axiomatic that "a penny saved is a penny earned." But, for a public pension system, it is even better than that: each penny saved continues to earn interest, compounded year after year. As a result, SDCERA management rigorously focuses on expense controls and, where possible, expense reduction. Since FY 2015, SDCERA's staff has been reduced by one-third, saving more than $4 million annually, and operating expenses have dropped by more than 20 percent.

FISCAL YEAR 2017 ACTION PLAN RESULTS. SDCERA's senior management team agreed on a comprehensive FY 2017 Action Plan, and each of the Action Plan's goals was achieved. FY 2017 Action Plan highlights include:

Alignment of Investment Fees with Trust Fund Goals. Investment staff evaluated Trust Fund investments for opportunities to better align investment management fees with Trust Fund goals and results.

Enhancing SDCERA's Communications. Our FY 2017 goal was to reach more Members and stakeholders more effectively, and we did. Monthly emails were sent to active Members featuring information about pertinent retirement topics. Quarterly retirement seminars and outreach events are targeted to specific Member groups. Staff presented dozens of new employee orientations. We hosted SDCERA's first-ever Annual Member Meeting and three Member "Meet & Greet" meetings. Staff also held smaller outreach events for Members.

In addition to meeting Members where they work, we have improved the environment and customer service for Members visiting SDCERA's office. SDCERA's new first-floor Member Service Center is designed to ensure that Members receive quality service in a quality space. Finally, many improvements were made to SDCERA's website to make its information easier to understand and navigate.

Transitioning the administration of SDCERA-sponsored Retiree Health Insurance Program. SDCERA engaged Mercer's world-class health service organization to assist in administering SDCERA-sponsored retiree health insurance plans. For the first time ever, an SDCERA Open Enrollment website provided Members with an online form submittal option.

Implementing a Member Data Integrity Plan. Staff defined requirements, developed and implemented a Data Integrity Plan to ensure Member data is accurate and properly maintained.

Optimizing Processes, Policies and Procedures. Staff evaluated scores of current processes, policies and procedures to determine whether they should be improved or eliminated and evaluated what new policies or procedures should be developed.

Enhancing PROMiS Functionality. The Member Benefits Division continued its focus on maintaining, updating and enhancing the functionality of PROMiS, SDCERA's pension administration system.

Developing a Document Management Strategy. Staff implemented a new document management strategy and document repository to store archival records.

Investing in SDCERA's Human Capital. An organization's success starts with talent. Recruiting, retaining and motivating talented staff members are key components of SDCERA's mission. SDCERA hired 11 and promoted nine very talented people in FY 2017.

Training. SDCERA continued onsite training and development with the "Lunch and Learn" and Book Club programs and created a comprehensive "onboarding" training curriculum for new employees. Among other training highlights, various staff participated in the LEAD San Diego program, the Vistage Key Executive Program, the County's Supervisor Academy and the Chartered Financial Analyst Institute's Certificate in Investment Performance Measurement Program. The Benefits Division worked with Progressive Edge Consulting to improve process mapping and workflow expertise.

Measuring Organizational Performance. Various performance-measurement tools and evaluation processes were implemented to measure organizational performance.

FINANCIAL INTEGRITY

Financial Statements. SDCERA's management is responsible for the accuracy of the data and the completeness and fairness of the presentation of financial information in this CAFR. To the best of management's knowledge, this data is accurate in all material respects and is reported in a manner designed to present SDCERA's operating results and Trust Fund financial position transparently.

Detailed financial information is provided in Management's Discussion and Analysis in the Financial section. SDCERA's financial statements are prepared using the accrual basis of accounting. Contributions from our Plan Sponsor, Participating Employers and active 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.

Brown Armstrong Accountancy Corporation, an independent certified public accounting firm, has audited SDCERA's financial statements and related disclosures. Their independent 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.

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 judgments by management are based on estimates.

ACHIEVEMENTS IN FINANCIAL REPORTING AND PLAN ADMINISTRATION

SDCERA's FY 2016 CAFR was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. This award recognizes conformity with the highest standards for state and local government financial reporting. In addition, the Public Pension Coordinating

Council honored SDCERA with its 2017 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.

SDCERA BOARD OF RETIREMENT UPDATE

In November 2016, Board Chair Dianne Jacob received the Women Who Mean Business Award from the *San Diego Business Journal*. Ms. Jacob is the first woman to serve as Chair of SDCERA's Board of Retirement since the organization's inception in 1939. She first was appointed to the Board by the San Diego County Board of Supervisors in May 2004 and was reappointed to the Board for a fifth term in October 2016.

In May 2017, Samantha Begovich was re-elected to the General Member Second seat, Skip Murphy was re-elected to the Retired Member Eighth seat and Susan Mallett was elected to the Retired Alternate Member seat on the Board. Each is serving a three-year term that began on July 1, 2017.

In June 2017, the San Diego County Board of Supervisors reappointed Richard Vortmann to the Board for a three-year term beginning on July 1, 2017. This is Mr. Vortmann's third term on the Board.

CAFR DEDICATION TO JAMES W. FEELEY

It is with great respect and affection that the FY 2017 CAFR is dedicated to former Trustee James W. Feeley. Jim retired from the Board on June 30 as the longest-serving Trustee in SDCERA's history, with over three decades of service. During his tenure, Jim served the Membership with dedication and distinction. He is a true public servant who embodies the County's motto, "The Noblest Motive is the Public Good."

ACKNOWLEDGEMENTS

FY 2017 was a great year for SDCERA, and I want to express my personal appreciation to Board Chair Dianne Jacob, Vice Chair Mark Oemcke and Secretary Samantha Begovich and their Trustee colleagues for their leadership, advice and support. I also want to thank my SDCERA staff colleagues for their hard work and dedication to our mission. None of our successes would be possible without them.

Sincerely,

David B. Wescoe
Chief Executive Officer
December 1, 2017

PPCC

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2017

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

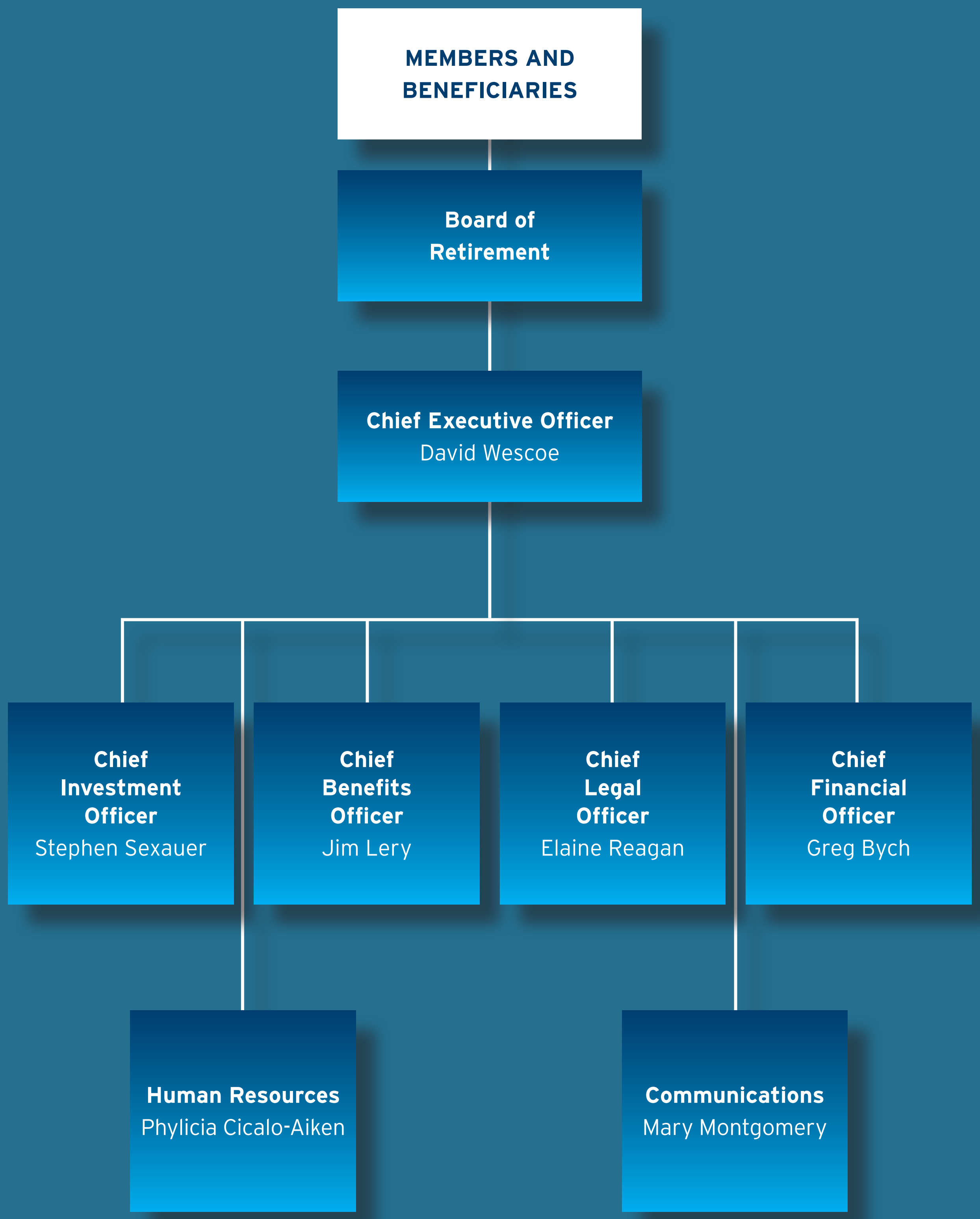
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Jeffrey R. Emer

Executive Director/CEO


MEMBERS AND BENEFICIARIES
Board of Retirement
Chief Executive Officer
David Wescoe
Chief Investment Officer
Stephen Sexauer
Chief Benefits Officer
Jim Lery
Chief Legal Officer
Elaine Reagan
Chief Financial Officer
Greg Bych
Human Resources
Phylicia Cicalo-Aiken
Communications
Mary Montgomery

Dianne Jacob
Chair

Mark Oemcke
Vice Chair

Samantha Begovich
Secretary

R.W. "Bob" Goodchild

Dan McAllister

E.F. "Skip" Murphy

David Myers

Richard Tartre

Richard Vortmann

ALTERNATE TRUSTEES

Tim Hancock

Susan Mallett

CHAIR

Dianne Jacob
Appointed by County Board of Supervisors
Term expires June 30, 2020

VICE CHAIR

Mark Oemcke
Appointed by County Board of Supervisors
Term expires June 30, 2019

SECRETARY

Samantha Begovich
Elected by SDCERA General Members
Term expires June 30, 2020

R.W. "Bob" Goodchild
Elected by SDCERA General Members
Term expires June 30, 2019

Dan McAllister
County Treasurer-Tax Collector
Holds office during incumbency

E.F. "Skip" Murphy
Elected by SDCERA Retired Members
Term expires June 30, 2020

David Myers
Elected by SDCERA Safety Members
Term expires December 31, 2019

Richard Tartre
Appointed by County Board of Supervisors
Term expires June 30, 2018

Richard Vortmann
Appointed by County Board of Supervisors
Term expires June 30, 2020

ALTERNATE TRUSTEES

Tim Hancock
Elected by SDCERA Safety Members
Term expires December 31, 2019

Susan Mallett
Elected by SDCERA Retired Members
Term expires June 30, 2020

CONSULTANTS
As of June 30, 2017

AUDITOR

Brown Armstrong
Accountancy Corporation
4200 Truxtun Avenue, Suite 300
Bakersfield, CA 93309

INVESTMENTS

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50 Danbury Road
Wilton, CT 06897

Aon Hewitt Investment Consulting, Inc.
200 East Randolph Street
Chicago, IL 60601

The Townsend Group
Institutional Real Estate
1500 West Third Street, Suite 410
Cleveland, OH 44113-1453

HEALTH

Mercer
17901 Von Karman Avenue, Suite 1102
Irvine, CA 92614

ACTUARY

Segal Consulting
100 Montgomery Street, Suite 500
San Francisco, CA 94104-4308

CUSTODIAN

The Bank of New York
Mellon Trust Company, NA
400 S. Hope Street
Los Angeles, CA 90071

Note: A list of investment managers is on page 71 in the Investment section.

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FINANCIAL

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SUITE 150
STOCKTON, CA 95207
TEL 209.451.4833

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

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, 2017, the related statement of changes in plan net position for the year then ended, and the related notes to the basic financial statements, which collectively comprise SDCERA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 basic financial statements referred to above present fairly, in all material respects, the plan net position of SDCERA as of June 30, 2017, 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.

Other Matters

Required Supplemental 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 supplemental 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 the basic 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 November 20, 2017, 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.

Report on Summarized Comparative Information

We have previously audited SDCERA's June 30, 2016 financial statements, and our report dated December 9, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2016, is consistent in all material respects, with the audited financial statements from which it has been derived.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 20, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 or Plan), for the fiscal year ended June 30, 2017 (FY 2017). MD&A is intended to help the reader understand the purpose and meaning of the key components of SDCERA's financial statements. We believe the information presented here, in conjunction with the Basic Financial Statements and the Notes to the Basic Financial Statements, provides an accurate picture of SDCERA's overall financial status.

SDCERA's funding objective is to meet long-term benefit obligations through Plan Sponsor, Participating Employer and Member contributions and earnings on invested assets. SDCERA has one Plan Sponsor (the County of San Diego) and four Participating Employers (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).

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

The FY 2017 Financial section is comprised of the Independent Auditor's Report, MD&A, the Statement of Fiduciary Net Position, Statement of Changes in Fiduciary 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 an overview and analysis of FY 2017 financial activities. The MD&A should be read in conjunction with the CEO's Letter of Transmittal in the Introduction section and the financial statements that immediately follow the MD&A.
- The **Statement of Fiduciary 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 owed as of June 30, 2017, with comparative totals as of June 30, 2016 (FY 2016).
- The **Statement of Changes in Fiduciary Net Position** is the financial statement that provides an income statement presentation of annual additions to and deductions from the Fund as of June 30, 2017, with comparative totals as of June 30, 2016.
- 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 Supplemental Information (Unaudited)** provides information on the sources of changes in the Net Pension Liability for the Plan Sponsor and 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 Supplementary Information also presents a Schedule of Investment Returns and a Schedule of Plan Sponsor Contributions.

- 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.

These financial statements and the required disclosures are in compliance with Generally Accepted Accounting Principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB), utilizing the accrual basis of accounting.

FINANCIAL HIGHLIGHTS

- The Fiduciary Net Position, which represents funds restricted for current and future benefits, was $11.4 billion at the end of FY 2017, an increase of $1.1 billion, or 11.1 percent, from FY 2016.

- Total additions to Fiduciary Net Position were $1.8 billion, primarily from investment gains of $1.2 billion, employer contributions of $459.2 million and Member contributions of $113.2 million. Year-over-year, total additions increased by $1.2 billion, or +206.8 percent, primarily because of higher investment returns. The net investment return for FY 2017 was 12.0 percent.

- Total deductions from Fiduciary Net Position were $682.3 million, an increase of $20.9 million, or 3.2 percent, over the prior year. Retirement benefits increased $21.5 million due to an increase of 513 retired Members and a 2.6 percent increase in the average monthly benefit payment.

- Employer and Member contributions to the Plan increased by $42.5 million over the prior year. Employer contributions increased from $425.3 million to $459.2 million, or 7.9 percent. Member contributions increased from $104.6 million to $113.2 million, or 8.2 percent. Member contributions include $634,038 in health plan administration fees. There were employer Other Post Employment Benefits (OPEB) contributions to the Plan of $20.4 million.

- The funding objective of a retirement system is to meet its long-term benefit obligations through contributions and investment income. Segal Consulting, an independent actuary (Segal), reported that the Plan's funded status (the ratio of the actuarial value of assets to actuarial liabilities) was 77.4 percent as of June 30, 2017. In addition, in accordance with the GASB Statement No. 67 reporting requirements, the Plan's fiduciary net position as a percentage of the Total Pension Liability was 75.6 percent.

- SDCERA's Unfunded Actuarial Accrued Liability (UAAL) is $3.37 billion, an increase of $52 million compared to the FY 2016 UAAL of $3.32 billion.

- SDCERA's FY 2017 net investment return was 12.0 percent, which exceeded the Plan's 7.25 percent investment return assumption. However, SDCERA's net investment return for the three-, five- and ten-year periods was below the investment return assumption.

- Total Investment Expenses in FY 2017 were $71.9 million, a reduction of $1.9 million, or (2.6) percent, from FY 2016 expenses of $73.8 million.

- As of June 30, 2017, the Other Post Employment Benefits (OPEB) Plan had assets of $10.6 million, Actuarial Liabilities of $153.3 million and an Unfunded Actuarial Accrued Liability (UAAL) of $142.7 million, for a funded ratio of 6.9 percent. The OPEB Plan is closed. For FY 2017, the number of participants declined by 199 to 4,740, and employer contributions exceeded benefits paid by $2.8 million.

- This CAFR complies with GASB Statement No. 74, Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans. Statement No. 74 addresses accounting and financial reporting issues related to the post employment benefits other than pensions and replaces GASB Statement No. 43.

FINANCIAL ANALYSIS

As of June 30, 2017, SDCERA's Fiduciary Net Position was $11.4 billion, an increase of $1.1 billion, or 11.1 percent from the prior year. The increase in net position is attributed to contributions plus investment interest income for the year exceeding benefit payments. The $11.4 billion in Net Position Restricted for Benefits is comprised of total assets of $12.5 billion exceeding total liabilities of $1.1 billion. For FY 2017, SDCERA's portfolio investment performance gained 12.0 percent (net of investment expenses) while retiree benefits and other expenses experienced only moderate increases.

For FY 2017, SDCERA's net position increased by $1.1 billion, attributed to $1.2 billion in net investment income plus $572 million in employer and member contributions offset by $682.3 million in benefit payments and administrative expenses.

An overview of FY 2017 results along with comparative totals for FY 2016 is presented below.

TABLE 1: FIDUCIARY NET POSITION

As of June 30, 2017 and 2016
(dollars in thousands)

	2017	2016	Increase/ (Decrease)	% Change
Cash, cash equivalents and collateral cash	$ 278,898	$ 512,589	$ (233,691)	(45.6%)
Securities lending cash collateral	38,383	54,236	(15,853)	(29.2%)
Receivables	914,718	519,973	394,745	75.9%
Investments	11,343,269	9,806,634	1,536,635	15.7%
Property, plant & equipment	9,577	11,029	(1,452)	(13.2%)
Total assets	**$12,584,845**	**$10,904,461**	**$1,680,384**	**15.4%**
Collateral payable for securities lending	38,414	54,297	(15,883)	(29.3%)
Investments purchased	1,114,764	558,257	556,507	99.7%
Other	23,989	22,849	1,140	5.0%
Total liabilities	**$ 1,177,167**	**$ 635,403**	**$ 541,764**	**85.3%**
Fiduciary Net Position at June 30	**$11,407,678**	**$10,269,058**	**$1,138,620**	**11.1%**

The increase in the Investments and Receivables balances and the decrease in the Cash, Cash Equivalents and Collateral Cash positions results primarily from asset growth (12.0 percent net of investment expense), contributions allocated pursuant to the Investment Policy Statement, and an investment guideline account change resulting in reassignment of an account from Collateral Cash to Investments.

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

SDCERA NET POSITION
For pension and OPEB benefits June 30, 2008–2017
(dollars in billions)

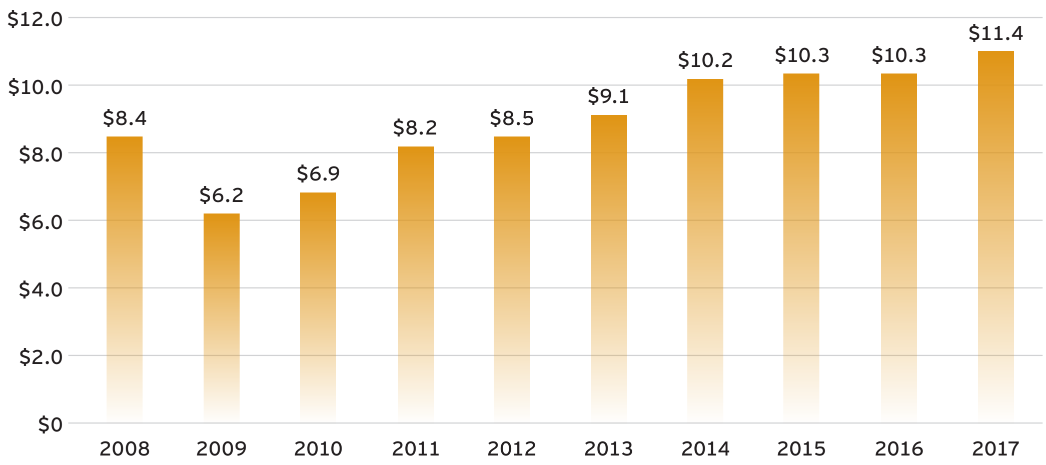


Table 2 reflects FY 2017 Changes in Fiduciary Net Position due to current year contributions, investment income and benefit and administrative expenses:

TABLE 2: CHANGES IN FIDUCIARY NET POSITION
For the years ended June 30, 2017 and 2016
(dollars in thousands)

	2017	2016	Increase/ (Decrease)	% Change
Additions				
Employer pension contributions	$ 438,827	$ 405,586	$ 33,241	8.2%
Employer OPEB contributions	20,409	19,719	690	3.5%
Member contributions	113,213	104,636	8,577	8.2%
Net investment income	1,248,057	62,999	1,185,058	1,881.1%
Net securities lending income	461	631	(170)	(27.0%)
Total additions	**$ 1,820,967**	**$ 593,571**	**$1,227,396**	**206.8%**
Deductions				
Retirement benefits	647,068	625,470	21,598	3.5%
Health benefits	17,594	18,443	(849)	(4.6%)
Refund of contributions	3,558	3,625	(67)	(1.8%)
Administrative expenses	14,127	13,875	252	1.8%
Total deductions	**$ 682,347**	**$ 661,413**	**$ 20,934**	**3.2%**
Net increase (decrease) in net position	**$ 1,138,620**	**$ (67,842)**	**$1,206,462**	**1,778.3%**
Fiduciary Net Position at beginning of year	10,269,058	10,336,900		
Fiduciary Net Position at end of year	**$11,407,678**	**$10,269,058**		

ADDITIONS TO FIDUCIARY NET POSITION

The primary sources financing the benefits SDCERA provides to its Members are accumulated income on investments and collection of employer and Member contributions. These income sources (Additions to Net Position) total $1.8 billion for FY 2017, an increase of $1.2 billion over the prior year.

- **Employer and Member contributions** were $572.4 million in FY 2017, an increase of $42.5 million over the prior year. The average employer contribution rate in effect for FY 2017 was 42.5 percent, compared to 41.9 percent the prior year. The average Member contribution rate in effect for FY 2017 was 11.8 percent, compared to 12.0 percent in FY 2016.

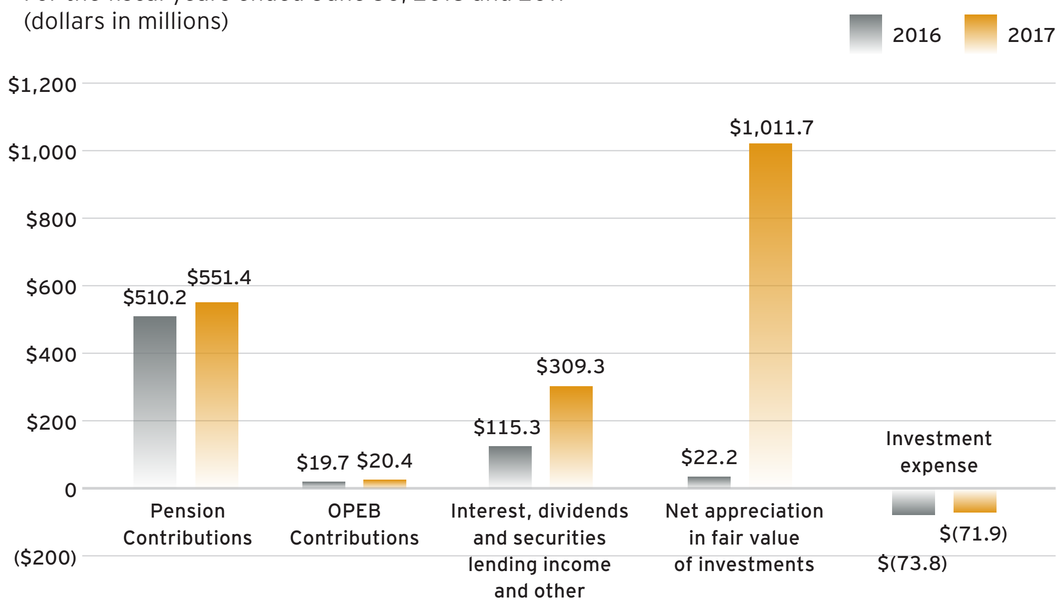
- **Employer Other Post Employment Benefits (OPEB) Plan contributions** were $20.4 million in FY 2017, 0.7 million more than the prior year. Relative to the prior valuation conducted on June 30, 2016, the OPEB UAAL decreased by $8.9 million, to $142.7 million, the result of contributions to the UAAL exceeding benefits paid, and the Plan's funded status (the ratio of the actuarial value of assets to the actuarial accrued liability) increased to 6.9 percent from 4.9 percent in FY 2016. The OPEB Plan balance is $10.6 million at June 30, 2017.

- **Net Investment Income** totaled $1.2 billion in FY 2017, an increase of $1.1 billion over the prior year. FY 2017's investment return of 12.0 percent (net of fees) exceeded the actuarial assumed investment earnings rate of 7.25 percent. Investment income was primarily driven by net market appreciation in the fair value of investments of $1 billion and stock dividends plus interest income of $199.7 million and income from equities, real estate and private equity totaling $108.5 million, offset by $71.8 million in investment expenses.

The chart below compares the Net Plan Additions by category for FY 2017 and FY 2016.

SDCERA NET ADDITIONS

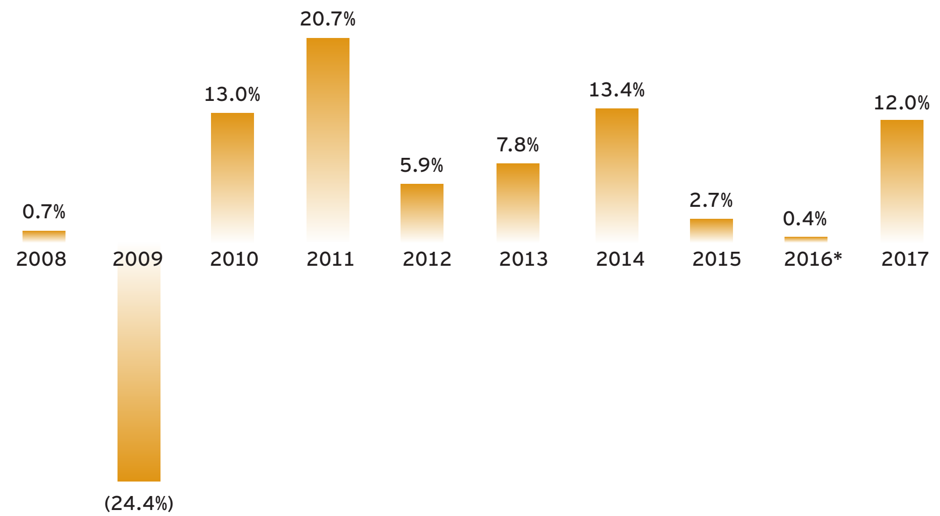
For the fiscal years ended June 30, 2016 and 2017
(dollars in millions)



The chart below reports the one-year annual investment return performance for the last 10 fiscal years.

SDCERA ANNUAL INVESTMENT RETURNS

For the last 10 years ended June 30



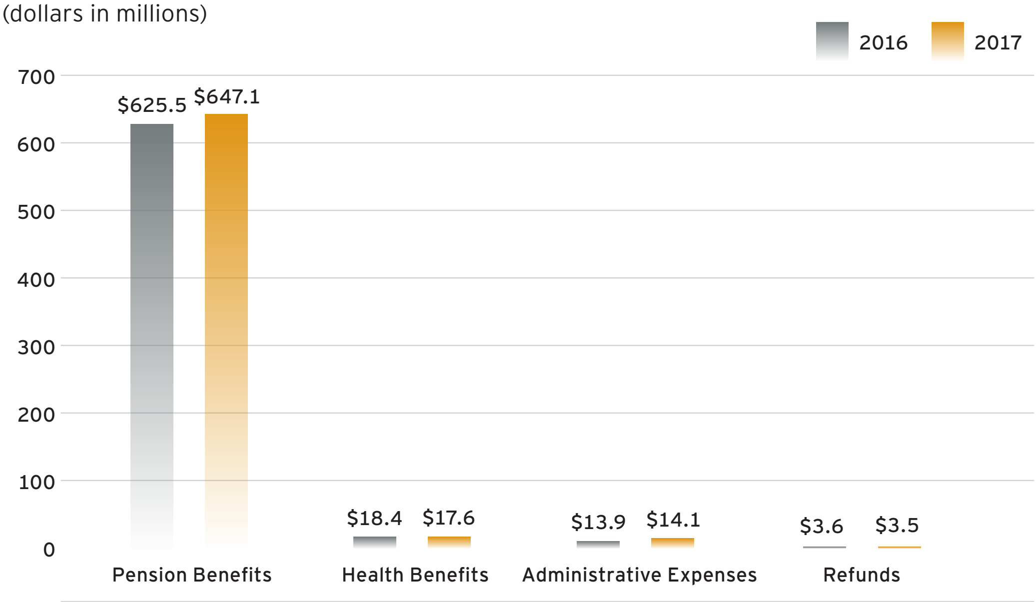
*SDCERA's FY 2016 return has been restated from the 0.45 percent reported in the FY 2016 CAFR.

DEDUCTIONS FROM FIDUCIARY NET POSITION

SDCERA's assets are used primarily to pay pension, disability and survivor benefits, to refund terminating Members' contributions and to pay for administrative costs. Deductions from Fiduciary Net Position for FY 2017 totaled $682.3 million, of which $664.6 million, or 97.4 percent, paid for retirement and health insurance benefits. This represented a 3.2 percent increase over the FY 2016 deductions total of $661.4 million. The increase in benefits paid is the result of FY 2017 Member retirements and annual cost of living increases. The chart below compares Plan deductions by category for FY 2017 and FY 2016.

SDCERA DEDUCTIONS

For the fiscal years ended June 30, 2016 and 2017
(dollars in millions)



PLAN ADMINISTRATION

SDCERA MEMBERSHIP

The table below provides SDCERA Membership data at June 30 for the past two years. Total Membership at June 30, 2017 was 41,900, an increase of 985 Members, or 2.4 percent, compared to June 30, 2016.

SDCERA MEMBERSHIP SUMMARY

As of June 30, 2017 and 2016

Category	2017	2016	Change
Active Members	17,994	17,768	226
Retired Members	18,247	17,734	513
Terminated Vested (Deferred)	5,659	5,413	246
Total Membership	**41,900**	**40,915**	**985**

ADMINISTRATIVE EXPENSES

The County Employees Retirement Law of 1937 (CERL) Section 31580.2 identifies Administrative Expense as the "entire expense of administration of the retirement system" and states that this expense may not exceed "twenty-one hundredths of one percent of the accrued actuarial liability of the retirement system." SDCERA's actual FY 2017 Administrative Expense was $11.3 million, or 8 hundredths of one percent (0.08) of the Accrued Actuarial Liability.

The table below compares the actual administrative expenses for FY 2017 and FY 2016 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 CERL for both years. See Schedule VII in the Other Supplemental Information section for additional details about Administrative Expenses.

COMPLIANCE WITH STATUTORY LIMITATION ON ADMINISTRATIVE EXPENSES
As of June 30, 2017 and 2016
(dollars in thousands)

	2017	**2016**
Basis for Budget Calculation (Actuarial Accrued Liability):		
Actual Administrative Expenses	$ 11,287	$ 13,875
AAL as Basis for Budget Calculation	$ 14,349,090	$ 13,080,080
Administrative Expenses as a Percentage of:		
The Basis for Budget Calculation	0.08%	0.11%
Limit per Statute	0.21%	0.21%

ACTUARIAL VALUATIONS

For FY 2017, Segal prepared 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, 2017, the AAL was $14.937 billion and the Valuation Value of Assets (VVA) was $11.566 billion, leaving a UAAL of $3.371 billion. The funded ratio for the Plan is 77.4 percent on the VVA basis.

Commencing 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 2017 GASB 67 AVR valuation determined that the employer's Total Pension Liability was $15.084 billion compared to a fiduciary plan net position of $11.397 billion, resulting in the employers' Net Pension Liability of $3.686 billion. The Plan's Fiduciary Net Position as a percentage of the Total Pension Liability for June 30, 2017 is 75.56 percent.

In September 2015, the Board voted to decrease the investment return assumption from 7.75 percent to 7.50 percent, effective for the FY 2015 actuarial valuation. In June 2016, the Board adopted another decrease in the investment return assumption from 7.50 percent to 7.25 percent effective with the June 30, 2016 valuation.

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

The table below provides a six-year history of investment and actuarial returns and the actuarial funded ratio. Additional information, which provides 10 years of information, is in the Investment and Actuarial sections.

Net investment returns for the Plan were 12.0 percent in FY 2017 and 0.40 percent in FY 2016. SDCERA's FY 2016 return has been restated from the 0.45 percent reported in the FY 2016 CAFR.

The Valuation Value of Assets (VVA) basis smooths investment gains and losses over five years and other actuarial assumptions over a varying period of years. Investment losses from 2009 have now been factored out of the VVA rate of investment return.

The Plan's FY 2017 funded ratio on the VVA basis increased to 77.4 percent. On a Market Value of Assets basis for asset valuations, the Fiduciary Net Position as a Percent of Total Pension Liability increased to 75.6 percent from 70.5 percent due primarily to investment returns greater than projected in FY 2017. Additional information about funding progress in the Plan is 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 six fiscal years ended June 30
(dollars in thousands)

Fiscal Year Ended	Total Investment Portfolio at Fair Value*	Annual Investment Return (net of fees)	Annual Return on Valuation Value of Assets	Actuarial Assumed Rate of Return	Funded Ratio on Valuation Value of Assets	Fiduciary Net Position as a Percent of Total Pension Liability
2012	8,515,439	5.9%	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%
2016	10,261,268	0.4%	5.70%	7.25%	76.9%	70.48%
2017	11,397,065	12.0%	5.74%	7.25%	77.4%	75.56%

* Excludes assets for OPEB account.
** There is no data for that fiscal year.

INTEREST CREDITS FOR RESERVE ACCOUNTS

SDCERA credits interest semiannually, effective December 31 and June 30, to all Member accounts that have been on deposit six months prior to such dates. An interest crediting rate is calculated based upon reserve balances and current year earnings. In accordance with the Board's policy, this rate cannot exceed one-half of the assumed investment rate of return or be less than zero. The interest credited on December 31, 2016 was 2.52 percent and on June 30, 2017 was 3.11 percent.

OTHER POST EMPLOYMENT BENEFITS (OPEB)

SDCERA administers a health insurance program for retirees, negotiating rates for numerous health insurance plans, collecting premiums from Members and paying the vendors. Tier I and II retirees may be eligible to receive a health insurance allowance based on years of service. The OPEB Plan is funded by the employer to pay annual benefits. For investment purposes, assets of the OPEB Plan are pooled with Fund assets 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, 2017. That valuation reported Plan assets of $10.6 million, an Unfunded Actuarially Accrued Liability of $147.2 million, and a funded ratio of 6.9 percent. The OPEB Plan is funded annually by the County of San Diego on an actuarially determined basis. The next scheduled OPEB valuation will be performed as of June 30, 2019.

The health insurance program began FY 2017 with a balance of $7.8 million, received employer contributions of $20.4 million, paid out $17.6 million in health insurance benefits, and received $215 thousand in investment earnings. The OPEB Plan ended with a balance of $10.6 million at June 30, 2017.

REQUESTS FOR FINANCIAL INFORMATION

Please address any questions about this Financial section or requests for additional financial information to Gregory J. Bych, Chief Financial Officer, SDCERA, 2275 Rio Bonito Way, San Diego, CA 92108.

STATEMENT OF FIDUCIARY NET POSITION

As of June 30, 2017
(with summarized comparative amounts as of June 30, 2016)

	June 30, 2017			June 30, 2016
	Pension Plan	Health Care	Total Fund	Total Fund
Assets				
Cash and short-term investments				
Cash in County pool	$ 5,014,628	$ –	$ 5,014,628	$ 619,394
Cash and cash equivalents with fiscal agents	273,609,031	274,449	273,883,480	203,360,939
Collateral cash	–	–	–	308,608,379
Total cash and short-term investments	**278,623,659**	**274,449**	**278,898,108**	**512,588,712**
Securities lending cash collateral	**38,344,338**	**38,462**	**38,382,800**	**54,236,367**
Receivables				
Contributions	3,906,867	–	3,906,867	9,296,172
Accrued interest and dividends	22,794,270	22,864	22,817,134	16,473,567
Settlement of investments sold	887,103,735	889,826	887,993,561	494,202,783
Total receivables	**913,804,872**	**912,690**	**914,717,562**	**519,972,522**
Investments at fair value				
Domestic equity securities	1,515,898,326	1,520,550	1,517,418,876	2,441,911,794
International equity securities	1,508,377,842	1,513,006	1,509,890,848	291,426,517
Total equity securities*	**3,024,276,168**	**3,033,556**	**3,027,309,724**	**2,733,338,311**
United States government obligations	674,271,175	676,340	674,947,515	518,157,349
Domestic bonds	3,851,354,738	3,863,173	3,855,217,911	3,092,201,879
International bonds	575,910,792	577,678	576,488,470	402,063,785
Total fixed income securities	**5,101,536,705**	**5,117,191**	**5,106,653,896**	**4,012,423,013**
Cash and securities for futures	265,768,703	266,584	266,035,287	132,805,332
Opportunistic	113,868,759	114,218	113,982,977	127,151,617
Hedge funds	–	–	0	199,203,950
Relative value	351,361,134	352,439	351,713,573	335,224,923
Private equity	765,865,843	768,216	766,634,059	642,516,909
Real estate	947,854,778	950,763	948,805,541	974,996,044
Infrastructure	284,090,535	284,962	284,375,497	240,652,896
Natural resources	477,280,160	478,744	477,758,904	408,320,936
Total investments	**11,331,902,785**	**11,366,673**	**11,343,269,458**	**9,806,633,931**
Capital assets, net	**9,577,126**	**–**	**9,577,126**	**11,028,927**
Total assets	**12,572,252,780**	**12,592,274**	**12,584,845,054**	**10,904,460,459**
Liabilities				
Collateral payable for securities lending	38,375,731	38,493	38,414,224	54,296,915
Settlement of investments purchased	1,113,646,476	1,117,064	1,114,763,540	558,256,752
Professional services	5,596,523	5,614	5,602,137	7,994,548
Death benefits	1,095,611	–	1,095,611	760,193
Retirement benefits	1,137,399	–	1,137,399	404,763
Refunds to Members	680,897	–	680,897	554,329
County advance contribution	5,308,303	–	5,308,303	–
PCORI fees	–	10,812	10,812	–
Health insurance premiums	–	125,417	125,417	–
Health insurance	–	672,715	672,715	–
Cash in transit	94,199	94	94,293	98,466
Other	9,252,885	9,279	9,262,164	13,036,863
Total liabilities	**1,175,188,024**	**1,979,488**	**1,177,167,512**	**635,402,829**
Net position restricted for pension and healthcare benefits	**$ 11,397,064,756**	**$ 10,612,786**	**$ 11,407,677,542**	**$ 10,269,057,630**

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

*FY 2017 Total equity securities reflects a change in the classification of certain domestic and international equity funds. Based on the FY 2017 classification, FY 2016 domestic and international equity securities would have been $1,323,265,801 and $1,410,072,510, respectively.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the year ended June 30, 2017
(with summarized comparative amounts for June 30, 2016)

	June 30, 2017			June 30, 2016
	Pension Plan	**Health Care**	**Total Fund**	**Total Fund**
Additions to plan net position				
Contributions				
Employer contributions	$ 438,827,140	$ 20,408,644	$ 459,235,784	$ 425,305,597
Plan Member contributions	112,579,051	634,038	113,213,089	104,636,306
Total contributions	**551,406,191**	**21,042,682**	**572,448,873**	**529,941,903**
Investment income				
Net appreciation/(depreciation) in fair value of investments				
Stocks	612,426,121	105,547	612,531,668	(85,343,167)
Bonds	(58,718,039)	(10,120)	(58,728,159)	(39,203,396)
Foreign currency	32,050,991	5,524	32,056,515	(30,066,459)
Real estate & private equity	162,847,689	28,066	162,875,755	154,555,135
Natural resources	53,200,954	9,169	53,210,123	(22,721,951)
Opportunistic	(25,449,602)	(4,386)	(25,453,988)	(30,020,984)
Relative value	18,635,737	3,212	18,638,949	14,539,541
Multi-strategy fund	–	–	–	(2,852,998)
Infrastructure	31,792,580	5,479	31,798,059	19,129,518
Swaps	–	–	–	18,107,874
Futures	184,737,448	31,838	184,769,286	42,767,670
Total net appreciation in fair value of investments	**1,011,523,879**	**174,329**	**1,011,698,208**	**38,890,783**
Interest income				
Bonds	196,312,099	33,833	196,345,932	(8,617,703)
Cash	3,364,945	580	3,365,525	2,625,082
Total interest income	**199,677,044**	**34,413**	**199,711,457**	**(5,992,621)**
Other				
Dividends on stock investments	34,211,746	5,896	34,217,642	42,429,982
Real estate equity investment income	38,177,824	6,580	38,184,404	44,938,307
Private equity investment income	20,363,446	3,510	20,366,956	12,871,084
Natural resources investment income/(loss)	15,754,328	2,715	15,757,043	3,667,867
Other income	–	–	–	30
Total other	**108,507,344**	**18,701**	**108,526,045**	**103,907,270**
Less: investment expenses	**(71,866,464)**	**(12,386)**	**(71,878,850)**	**(73,806,750)**
Net investment income, other than securities lending	**1,247,841,803**	**215,057**	**1,248,056,860**	**62,998,682**
Securities lending appreciation/(depreciation)	29,119	5	29,124	104,362
Securities lending income	368,560	64	368,624	207,355
Less: securities lending rebates and bank charges	63,843	11	63,854	318,856
Net securities lending	**461,522**	**80**	**461,602**	**630,573**
Net investment income	**1,248,303,325**	**215,137**	**1,248,518,462**	**63,629,255**
Total additions to plan net position	**1,799,709,516**	**21,257,819**	**1,820,967,335**	**593,571,158**
Deductions from plan net position				
Benefits				
Retirement benefits	645,325,892	-	645,325,892	623,841,232
Death benefits	1,741,274	–	1,741,274	1,629,046
Health benefits	-	17,594,425	17,594,425	18,443,230
Total benefits	**647,067,166**	**17,594,425**	**664,661,591**	**643,913,508**
Member refunds	3,558,466	-	3,558,466	3,624,725
Administrative expenses	13,287,049	840,317	14,127,366	13,875,078
Total deductions from plan net position	**663,912,681**	**18,434,742**	**682,347,423**	**661,413,311**
Increase/(decrease) in net position for pension and health insurance benefits	**1,135,796,835**	**2,823,077**	**1,138,619,912**	**(67,842,153)**
Net position restricted for pension and health insurance benefits				
Beginning of year	**10,261,267,921**	**7,789,709**	**10,269,057,630**	**10,336,899,783**
End of year	**$ 11,397,064,756**	**$ 10,612,786**	**$ 11,407,677,542**	**$ 10,269,057,630**

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. DESCRIPTION OF PLANS

The San Diego County Employees Retirement Association (SDCERA) is a public employee retirement system established by the County of San Diego (County) on July 1, 1939, and is administered by a Board of Retirement (Board) to provide retirement, disability, death and survivor benefits for its Members and beneficiaries under the County Employees Retirement Law of 1937 (CERL). SDCERA administers a cost-sharing, multiple-employer, defined benefit pension plan and health insurance program for the County and four Participating Employers located in San Diego County.

All employees of the County and other Participating Employers working in a permanent position for at least 20 hours each week are SDCERA Members. Membership begins with the first biweekly payroll period in the month following employment. Members are vested after accruing five years of service credit.

MEMBERSHIP

SDCERA Membership consists of retired Members, 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 on page 28 provides the number of Members in each category as of June 30, 2017.

There are two groups of Members:

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.

SDCERA MEMBERSHIP DETAIL BY PLAN

As of June 30, 2017

	General	Safety	Total
Active Members			
General, Tier I	23	–	23
General, Tier A	8,367	–	8,367
General, Tier B	1,575	–	1,575
General, Tier C	4,453	–	4,453
Safety, Tier A	–	2,294	2,294
Safety, Tier B	–	473	473
Safety, Tier C	–	809	809
Total active Members	**14,418**	**3,576**	**17,994**
Deferred (terminated) Members			
General, Tier I	1,350	–	1,350
General, Tier A	2,423	–	2,423
General, Tier B	458	–	458
General, Tier C	793	–	793
Safety, Tier A	–	498	498
Safety, Tier B	–	70	70
Safety, Tier C	**–**	**67**	**67**
Total deferred (terminated) Members	5,024	635	5,659
Retired Members			
General, Tier I	4,879	–	4,879
General, Tier A *	10,286	–	10,286
General, Tier B	19	–	19
General, Tier C	1	–	1
Safety, Tier A **	–	3,059	3,059
Safety, Tier B	–	3	3
Safety, Tier C	**–**	**–**	**–**
Total retired Members	**15,185**	**3,062**	**18,247**
Total Membership	**34,627**	**7,273**	**41,900**

* Includes Members from General Tier II and General Tier A
** Includes Members from Safety Tier I, Safety Tier II and Safety Tier A
Source: Segal Company, Actuarial Valuation Report, June 30, 2017

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 and established Tier A 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 on 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 is approximately 2.62 percent of monthly final average compensation at age 62. The maximum General Tier II benefit is approximately 2.43 percent of monthly final average compensation at age 65. The maximum Safety Tier I and Safety Tier II benefit is approximately 2.62 percent of monthly final average 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 no earlier than 10 years after their original date of entry into Membership at age 50 with 5 or more years of service credit, or at any age with 30 or more years of service credit (20 years for Safety Members). 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 is approximately 2.62 percent of monthly final average compensation at age 62. The maximum Safety Tier B benefit 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 no earlier than 10 years after their original date of entry into Membership and when they are at least age 55 with 5 or more years of service credit or at any age with 30 or more years of service credit. Safety Tier B Members may retire no earlier than 10 years after their original date of entry into Membership and when they are at least age 50 with 5 or more years of service credit, or at any age with 20 or more years of service credit. Tier B Members (both General and Safety) may retire from active service at age 70 regardless of the number of years of service credit.

In 2012, the California Public Employees' Pension Reform Act (PEPRA) 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 months preceding their hire date with the County. The benefit formula for General Tier C 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. The minimum retirement age for Tier C Members is age 52 with 5 years of service. Additionally, PEPRA limits the amount of compensation SDCERA can use to calculate a Tier C retirement benefit. For the fiscal year ended June 30, 2017, the limit was $118,775 for General Members and $142,530 for Safety Members.

COST-OF-LIVING ADJUSTMENTS

Cost-of-living adjustments (COLA) are based on changes in the Consumer Price Index for San Diego County. 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 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.

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 non-service-connected disability retirement may receive a benefit equal to 1.8 percent of monthly final average compensation per year of service credit up to a maximum of 33 1/3 percent of monthly FAC. There is no age requirement, but 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 retirement option the Member 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. The eligible beneficiary will receive a one-time lump sum $3,500 death 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 months 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 non-service-connected may receive a monthly benefit equal to 60 percent of the retirement benefit the Member would have received if they retired for a non-service-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) was available to General and Safety Tier A Members who had 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 was funded from existing reserves and a portion of possible future excess earnings from the Fund, to the extent there were available excess earnings. The SBA is not a vested SDCERA benefit and is not guaranteed. It may be reduced or discontinued at any time.

Final full SBA payments for non-disability retired Members were made in August 2016. At the current rate of drawdown, the disability supplemental benefit allowance is expected to terminate in 2018.

TERMINATED MEMBERS' DEFERRED RETIREMENT BENEFIT AND WITHDRAWAL BENEFIT

A Member leaving covered employment with 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 fewer 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 INSURANCE ALLOWANCE PROGRAM

SDCERA administers an Other Post Employment Benefits (OPEB) health insurance allowance program (OPEB Plan) on behalf of the County of San Diego.

HEALTH BENEFITS FOR RETIRED MEMBERS

The Board has approved a Health Insurance Allowance (HIA) for eligible retired Tier I and Tier II Members. The allowance is paid from a Health Benefits 401(h) Trust established by the Board and the County's Board of Supervisors. This Health Benefits 401(h) Trust, which is pooled with total Fund assets for investment purposes, is used exclusively to fund future retired Member health insurance allowances and program administration and is funded by the County. The HIA is not a vested SDCERA benefit and is not guaranteed. It may be reduced or discontinued at any time.

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

SDCERA's Statement of Fiduciary 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. The total investment income of the pooled funds is allocated between the Plan and OPEB Plan based on their 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 of accounting. Employer and Member contributions are recognized when due pursuant to formal commitments, as well as statutory or contractual requirements. Investment income is recognized as revenue when earned. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Other expenses are recognized when the corresponding liabilities are incurred. The net appreciation/(depreciation) in fair value of investments is recorded as an increase/(decrease) to investment income based on the valuation of investments, which includes realized and unrealized gains and losses on investments.

USE OF ESTIMATES

The preparation of SDCERA's financial statements, in accordance with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain financial statement amounts and disclosures. Actual results could differ from those estimates.

CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments consist of cash and securities 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 270 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 the Board exclusive control over 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

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 based on valuations provided in good faith by the General Partners/Fund Managers consistent with the manager's valuation policies as outlined in the manager's 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 subject to annual independent audit.

REAL ESTATE

Direct-owned properties are held in separate accounts. 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 manager's 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 subject to an annual independent audit.

There are three different valuation methods that may be used for real estate: 1) the market approach, which uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities, 2) the income approach, which uses valuation techniques to convert expected future amounts to a single present amount, and 3) the cost approach, which is based on the amount that currently would be required to replace the service capacity of an asset. Observable inputs into the valuation are preferred, but unobservable inputs, including assumptions involving risks, may also be included as deemed appropriate.

Real estate investments are reported net of outstanding debts in the financial statements. As of June 30, 2017, SDCERA's share of outstanding principal debts on directly-held real estate investments totaled approximately $296.7 million as summarized below:

MORTGAGE LOANS PAYABLE

As of the fiscal year ended June 30, 2017
(dollars in thousands)

Fiscal year payable	Principal(1)	Interest(2)	Total
2018	$ 70,246	$ 9,904	$ 80,150
2019	71,995	8,191	80,186
2020	10,044	7,002	17,046
2021	65,286	4,998	70,284
2022	38,000	1,819	39,819
2023-2027	41,150	2,230	43,380
Total	**$296,721**	**$34,144**	**$330,865**

1. Principal includes amortization and terminal principal payments for the loan balance as of June 30, 2017.
2. Interest includes interest payments on the forecasted loan balances, inclusive of additional draws after June 30, 2017.

OTHER EXTERNALLY-MANAGED FUND STRUCTURES

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

DERIVATIVE FINANCIAL INSTRUMENTS

SDCERA utilizes a diverse group of derivative instruments across the 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 Fiduciary 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 foreign currency markets. Options are contracts that give the buyer the right, but not the obligation, to buy or sell a specified quantity of a commodity (e.g., 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 because terms of the forward are not standardized (e.g., 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 and are 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 Fiduciary 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.

CAPITAL ASSETS

Capital assets are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method with a three-to-ten 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 following table:

CAPITAL ASSETS

For the fiscal year ended June 30, 2017

	Balance 07/01/2016	Additions	Deletions & transfers	Balance 06/30/2017
Capital assets being depreciated				
Computer hardware, software, and maintenance	$18,940,205	$ 666,962	$656,607	$18,950,560
Office furniture and fixtures	1,467,464	–	–	1,467,464
Leasehold improvements	1,641,872	159,675	–	1,801,547
Total capital assets being depreciated	**22,049,541**	**826,637**	**656,607**	**22,219,571**
Less accumulated depreciation for:				
Computer hardware, software, and maintenance	(8,112,744)	(1,492,574)	–	(9,605,318)
Office furniture and fixtures	(1,402,398)	(20,533)	–	(1,422,931)
Leasehold improvements	(1,505,472)	(108,724)	–	(1,614,196)
Total accumulated depreciation	(11,020,614)	(1,621,831)	–	(12,642,445)
Net capital assets	**$11,028,927**	**$(795,194)**	**$656,607**	**$ 9,577,126**

Note: FY 2017 depreciation expense totaled $1,621,831.

INCOME TAXES

The Internal Revenue Service (IRS) 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. Accordingly, no provision for income taxes has been made in the accompanying basic financial statements. On June 16, 2016, the IRS issued SDCERA a favorable Tax Determination Letter.

IMPLEMENTATION OF NEW ACCOUNTING STANDARD

Effective July 1, 2016, SDCERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 74, Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans. The requirements for GASB Statement No. 74 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 Other Post Employment Benefit (OPEB) liability. It also includes comprehensive footnote disclosure regarding the OPEB liability, including sensitivity analysis of the OPEB liability to changes in the discount and health care trend rate.

3. DEPOSITS AND INVESTMENTS

SDCERA retains investment managers that specialize in particular asset classes who are subject to the guidelines and controls established in SDCERA's Investment Policy Statement (IPS) and contracts executed with the Board and staff. SDCERA utilizes a third-party custodian to custody 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 an investment in a single issuer. As of June 30, 2017, the Fund had no single issuer that exceeded five percent of total investments pursuant to GASB Statement No. 40 disclosure requirements or any one issuer that represented 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 GASB disclosure requirements.

HIGHLY-SENSITIVE INVESTMENTS

As of June 30, 2017, SDCERA's investments included collateralized mortgage obligations and mortgage-backed securities totaling $193.4 million. These securities are highly sensitive to interest rate fluctuations and are subject to early payment in a period of declining interest rates.

ANNUAL RATE OF RETURN

In FY 2017, the annual money-weighted rate of return for the Plan net of investment expenses was 12.0 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 return for the Plan, which was 12.0 percent.

INTEREST RATE RISK

SDCERA requires investment managers to diversify by issue, maturity, sector, coupon and geography. As of June 30, 2017, SDCERA had the following investments and maturities:

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	$ 102,986	$ 44,519	$ 34,648	$ –	$ 23,819
Certificates of deposits	82,204	82,204	–	–	–
Collateralized mortgage obligations	90,439	83,869	–	–	6,570
Commercial paper	403,181	403,181	–	–	–
Convertible bonds	1,194	–	1,194	–	–
Corporate bonds	2,405,660	617,643	1,007,213	767,289	13,515
Municipal bonds	21,316	7,752	13,564	–	–
International bonds	598,674	534,687	63,987	–	–
Private placements	1,065,115	558,126	237,661	232,617	36,711
Repurchase agreements	11,024	11,024	–	–	–
US Governments	465,278	90,580	205,741	1,656	167,301
US Treasuries	97,502	-	97,502	-	-
Total	**$ 5,344,573**	**$ 2,433,585**	**$ 1,661,510**	**$ 1,001,562**	**$ 247,916**

CREDIT RISK

SDCERA assumes credit risk through two principal sources. First, by accepting both secured and unsecured debt obligations of various government, corporate and consumer borrowers through its investment portfolio, the Fund is exposed to the credit risk 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 International Swaps and Derivatives Association (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 monthly. 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, 2017:

CREDIT RISK
As of June 30, 2017
(dollars in thousands)

Ratings	Domestic Core Fixed Income	Convertible Fixed Income	High-Yield Fixed Income	Short-Term Assets	Total
Govt	$ 562,780	$ –	$ –	$ –	$ 562,780
AAA	1,087,350	–	–	419,002	1,506,352
AA	98,675	–	–	195,903	294,578
A	202,248	–	–	845,098	1,047,346
BBB	268,570	–	–	239,830	508,400
BB	–	–	241,011	6,819	247,830
B	–	–	339,745	–	339,745
CCC	–	1,194	53,764	–	54,958
CC	–	–	844	–	844
C	–	–	–	–	–
D	–	–	–	–	–
NR	–	–	147,349	634,391	781,740
	$2,219,623	**$1,194**	**$782,713**	**$2,341,043**	**$5,344,573**

CREDIT RISK PERCENTAGE OF HOLDINGS
As of June 30, 2017

Ratings	Domestic Core Fixed Income	Convertible Fixed Income	High–Yield Fixed Income	Short–Term Assets
Govt	25.4%	0.0%	0.0%	0.0%
AAA	49.0%	0.0%	0.0%	17.9%
AA	4.4%	0.0%	0.0%	8.4%
A	9.1%	0.0%	0.0%	36.1%
BBB	12.1%	0.0%	0.0%	10.2%
BB	0.0%	0.0%	30.8%	0.3%
B	0.0%	0.0%	43.4%	0.0%
CCC	0.0%	100.0%	6.9%	0.0%
CC	0.0%	0.0%	0.1%	0.0%
C	0.0%	0.0%	0.0%	0.0%
D	0.0%	0.0%	0.0%	0.0%
NR	0.0%	0.0%	18.8%	27.1%
	100.0%	**100.0%**	**100.0%**	**100.0%**

DOMESTIC CORE FIXED INCOME

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.

CONVERTIBLE FIXED INCOME

SDCERA's Convertible Fixed Income portfolio invests in convertible bonds. The overall weighted average credit rating of the Convertible Fixed Income portfolio was CCC.

HIGH-YIELD FIXED INCOME

The weighted average credit rating of the High-Yield Fixed Income portfolio as of June 30, 2017, was B, excluding 6.0 percent of unrated securities.

SHORT-TERM ASSETS

Short-term assets consist of fixed income securities with maturities of one year or less.

FOREIGN CURRENCY RISK

SDCERA's exposure to foreign currency risk derives from the foreign currency positions set out below.

NET EXPOSURE TO FOREIGN CURRENCY RISK

As of June 30, 2017
(dollars in thousands)

Currency name	Equity	Fixed income	Foreign Exchanges	Short-term Assets	Total
JAPANESE YEN	$113,377	$307,164	$7,347	$8,042	$435,930
EURO	310,482	41	(34)	2,891	313,380
DANISH KRONE	6,753	219,019	(9,338)	–	216,434
HONG KONG DOLLAR	159,208	–	–	–	159,208
SOUTH KOREAN WON	131,917	–	–	–	131,917
NEW TAIWAN DOLLAR	95,251	–	–	–	95,251
INDIAN RUPEE	84,645	–	–	–	84,645
POUND STERLING	76,705	3,799	(52)	1,693	82,145
SOUTH AFRICAN RAND	57,704	–	–	–	57,704
BRAZIL REAL	57,218	–	(253)	–	56,965
CANADIAN DOLLAR	22,273	22,004	(797)	–	43,480
AUSTRALIAN DOLLAR	27,263	9,995	(454)	–	36,804
SWISS FRANC	34,998	–	–	–	34,998
MEXICAN PESO	30,336	–	–	–	30,336
THAILAND BAHT	23,027	–	–	–	23,027
MALAYSIAN RINGGIT	17,650	–	–	1,840	19,490
INDONESIAN RUPIAH	18,891	–	–	–	18,891
NEW TURKISH LIRA	15,246	–	–	–	15,246
SWEDISH KRONA	12,452	–	(8)	–	12,444
RUSSIAN RUBLES	12,365	–	–	–	12,365
CHINESE YUAN	11,145	–	–	–	11,145
POLISH ZLOTY	10,137	–	–	–	10,137
PHILIPPINE PESOS	9,610	–	–	–	9,610
CHILEAN PESO	7,707	–	–	–	7,707
SINGAPORE DOLLAR	7,580	–	–	–	7,580
NORWEGIAN KRONE	4,743	–	–	–	4,743
VIETNAMESE DONG	3,994	–	–	–	3,994
HUNGARIAN FORINT	3,671	–	–	–	3,671
COLOMBIAN PESO	3,101	–	–	–	3,101
QATARI RIYAL	2,738	–	–	–	2,738
UNITED ARAB EMIRATES DIRHAM	2,710	–	–	–	2,710
NIGERIAN NAIRA	2,330	–	–	–	2,330
Other (Less than $2 million holdings)	7,860	–	(22)	–	7,838
Total	**$1,385,087**	**$562,022**	**$(3,611)**	**$14,466**	**$1,957,964**

CUSTODIAL CREDIT RISK

It is the practice of the Plan 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.

SECURITIES LENDING

SDCERA's IPS permits the Plan 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, 2017, are summarized in the following table. The Plan lent $41.6 million in securities and received cash and non-cash collateral of $42.6 million from borrowers.

SECURITIES LENDING TRANSACTIONS

(dollars)
As of June 30, 2017

	SDCERA Securities Lent	Cash and Non–Cash Collateral
Lent for cash collateral:		
Domestic corporate	$ 31,568,665	$ 32,373,405
Domestic equities	5,702,312	5,846,819
International equities	184,675	194,000
Lent for securities collateral:		
US Government Debt	3,471,337	3,542,181
US Government Mortgages	629,463	642,544
Total	**$ 41,556,452**	**$ 42,598,949**

Cash collateral is invested by the agent in a separately managed short-term investment account. At June 30, 2017, short-term investments consist of 79 percent overnight Repurchase Agreements and 19 percent Time Deposits. Asset-backed Securities and Other represent 2 percent of the short-term investments. The Asset-backed Securities are rated A. SDCERA does not have the ability to pledge or sell collateral securities without a borrower default. At the end of FY 2017, SDCERA had no credit risk exposure to borrowers.

SECURITIES LENDING INVESTMENTS

(dollars)
As of June 30, 2017

	Fair Value
Repurchase agreements	$ 30,534,363
Asset-Backed floating	636,795
Time Deposits	7,200,000
Other (cash)	11,642
Total	**$ 38,382,800**

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 private equity categories.

DERIVATIVES INSTRUMENTS SUMMARY
For the fiscal year ended June 30, 2017
(dollars in thousands)

Derivative type	Changes In Fair Value*	Fair value	Notional value
Forwards	$ 31,359	$ (3,611)	$ 574,226
Futures	184,769	(446)	1,054,834
Options	(30)	169	–
Swaps	–	49,119	1,822,596
Total	**$ 216,098**	**$ 45,231**	**$ 3,451,656**

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

FORWARD CONTRACTS

As of June 30, 2017, SDCERA has $574.2 million in exposure to foreign currency primarily through short-term investments.

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

FORWARD CONTRACTS
As of June 30, 2017
(dollars in thousands)

	Notional Value	Fair Value
Cash and Cash Equivalents with fiscal agents	$ 27,572	$ 459
Foreign Currency Contracts	546,654	(4,070)
Total	**$ 574,226**	**$ (3,611)**

FUTURE CONTRACTS

A summary of SDCERA's futures contracts at June 30, 2017, is shown in the chart below:

FUTURES CONTRACTS
As of June 30, 2017
(dollars in thousands)

Category	Notional value	Fair value
Fixed Income Futures	$ (22,891)	$ 107
Managed Futures	1,077,725	(553)
Total	**$ 1,054,834**	**$ (446)**

OPTIONS

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

OPTIONS
As of June 30, 2017
(dollars in thousands)

Option Type	Notional Value	Fair Value
Put	$ –	$ 169
Total	**$ –**	**$ 169**

SWAPS

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

EXTERNALLY MANAGED SWAPS
As of June 30, 2017
(dollars in thousands)

Type	Description/Counterparty	Notional Value	Fair Value
Cleared Credit Default Swaps	Intercontinental Exchange Holdings	$ 9,238	$ 41
Total Return Swaps	Citibank	285,273	15,669
Total Return Swaps	Deutsche Bank	869,049	14,130
Total Return Swaps	Merrill Lynch International	373,763	3,614
Total Return Swaps	UBS	285,273	15,665
Total		**$ 1,822,596**	**$49,119**

DERIVATIVE CREDIT RISK

The derivative instruments have a maturity of one year or less. A summary of counterparty credit ratings relating to swaps and forward contracts in SDCERA's asset position as of June 30, 2017 is as follows:

CREDIT RISK OF DERIVATIVES AT FAIR VALUE
As of June 30, 2017
(dollars in thousands)

Credit rating	Swaps	Forwards
A+	$31,334	$8,135
A-	14,130	–
Total subject to credit risk	**$45,464**	**$8,135**

FAIR VALUE OF INVESTMENTS

SDCERA measures and records its investments using fair value measurement guidelines in accordance with Generally Accepted Accounting Principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- **Level 1**: Quoted prices for identical investments in active markets;
- **Level 2**: Observable inputs other than quoted market prices; and,
- **Level 3**: Unobservable inputs.

At June 30, 2017, SDCERA had the following recurring fair value measurements.

FAIR VALUE MEASUREMENTS

	Total at 6/30/2017	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments by Fair Value				
Equity Securities				
Domestic Equity Securities	$ 1,517,418,876	$ 166,101,723	$ 707,182,281	$ 644,134,872
International Equity Securities	1,509,890,848	131,184,023	974,587,983	404,118,842
Total Equity Securities	**$ 3,027,309,724**	**$ 297,285,746**	**$ 1,681,770,264**	**$ 1,048,253,714**
Fixed Income Securities				
U.S. Government Obligations	$ 674,947,514	$ 461,668,837	$ 213,278,677	$ 0
Domestic Bonds	3,855,217,912	0	3,789,121,349	66,096,563
International Bonds	576,488,470	0	576,488,470	0
Total Fixed Income Securities	**$ 5,106,653,896**	**$461,668,837**	**$4,578,888,496**	**$ 66,096,563**
Infrastructure Funds	**$ 210,594,521**	**$ 0**	**$ 0**	**$ 210,594,521**
Natural Resources Funds	**203,990,816**	**0**	**0**	**203,990,816**
Private Equity	**254,041,323**	**0**	**0**	**254,041,323**
Real Estate Funds	**487,967,561**	**0**	**0**	**487,967,561**
Collateral from Securities Lending	**38,382,800**	**0**	**38,382,800**	**0**
Total Investments by Fair Value	**$ 9,328,940,641**	**$758,954,583**	**$ 6,299,041,560**	**$ 2,270,944,498**

Investments measured at Net Asset Value (NAV)	
Relative Value Funds (1)	$ 351,713,573
Private Credit Funds (2)	113,982,977
Private Equity (3)	512,592,736
Natural Resources Funds (4)	273,768,088
Infrastructure Funds (5)	73,780,976
Real Estate Funds (6)	460,837,980
Cash and Securities for Futures	266,035,287
Total Investments measured at NAV	**$ 2,052,711,617**
Total investments Measured at Fair Value	**$ 11,381,652,258**

Derivatives				
Forwards	$ (3,611,502)	$ 0	$ (3,611,502)	$ 0
Futures	(445,865)	(445,865)	0	0
Options	169,490	0	169,490	0
Swaps	49,118,478	0	49,118,478	0
Total Derivatives	**$ 45,230,601**	**$ (445,865)**	**$ 45,676,466**	**$ 0**

Fixed Income and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Fixed Income and equity securities classified in Level 2 are valued using the matrix pricing, market corroborated pricing, and inputs such as yield curves and indices. Securities classified in Level 3 are valued using investment manager pricing for private placements, private equities and real estate.

Investments valued using the net asset value (NAV) per share (or its equivalent) are considered "alternative investments" and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. SDCERA values these investments based on the partnerships' audited financial statements. If June 30 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than June 30. If June 30 valuations are not available, the value is progressed from the most recently available valuation taking into account subsequent calls and distributions. The following table presents the unfunded commitments, redemption frequency (if currently eligible), and the redemption notice period for SDCERA's alternative investments measured at NAV:

INVESTMENTS MEASURED AT NET ASSET VALUE (NAV)

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Relative Value Funds (1)	351,713,573	–	Monthly	75 days
Private Credit Funds (2)	113,982,977	62,752,095	Not Eligible	N/A
Private Equity (3)	512,592,736	316,512,667	Not Eligible	N/A
Natural Resources Funds (4)	273,768,088	28,951,251	Not Eligible	N/A
Infrastructure Funds (5)	73,780,976	11,881,191	Not Eligible	N/A
Real Estate Funds (6)	460,837,980	84,307,502	Quarterly	45 days
Cash and Securities for Futures	266,035,287	–	Not Eligible	N/A
Total Investments measured at NAV	**$ 2,052,711,617**	**$ 504,404,706**		

(1) **Relative Value Funds.** This includes one fund that aims to deliver efficient exposure to a well-diversified portfolio of hedge fund risk premiums, which capture the core essence of most hedge fund strategies. The investment objective of the Plan is to produce high risk-adjusted returns while targeting a low long term average correlation to traditional markets. The Fund attempts to capture the key insights of well-known hedge fund strategies by using a rigorous, dynamic investment process to build a portfolio that holds the same broad range of global securities. NAV figures noted in the report are calculated by multiplying the holdings of particular instruments as reported to International Fund Services (IFS) and the relevant prices obtained or calculated in accordance with the pricing methodology that IFS is directed to use by the Investment Manager of the Fund. Long and short positions in instruments and other offsetting positions are reflected in the NAV figures on a net basis.

(2) **Private Credit Funds**. This includes four funds that primarily focus on credit investment strategies that are often less liquid in nature. These funds may consist of primary and secondary opportunities encompassing performing, stressed and distressed public and private securities primarily within corporate credit, including senior loans, high yield, mezzanine, debtor in possession financings, rescue or bridge financings, and other debt investments. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the investments. NAV is measured by using the mark-to-market value of the aggregate principal amount of the underlying collateralized loan obligations.

(3) **Private Equity Funds.** This includes 42 private equity funds that are principally comprised of illiquid, non-publicly traded securities and are realized as distributions are made. Investments in these Limited Partnership investments are stated at fair value in accordance with Generally Accepted Accounting Principles of the United States of America and Accounting Standards Codification (ASC Topic 820), Fair Value Measurement (ASC Topic 820).

(4) **Natural Resource Funds.** This includes 10 funds that cover anything that is mined or collected in raw form. Natural resource investing overlaps with more specialized types of investing, including oil and gas investing, precious metals investing, minerals and (base) metals investing and so on. Liquidity risk includes the risk of not being able to liquidate investments in a timely manner at a reasonable price. Illiquidity may result from the absence of an established market for the investments, as well as legal, contractual or other restrictions on their resale by the Fund. Dispositions of investments may be subject to contractual and other limitations on transfer (including prepayment penalties with respect to property-level debt) or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms that could be obtained upon any disposition thereof. This illiquidity could adversely affect the Plan's ability to dispose of properties at targeted levels. Investments are stated at a fair value, which reflects the amount for which these assets could be exchanged between knowledgeable, willing parties in an orderly arm's-length transaction.

(5) **Infrastructure Funds**. This includes two infrastructure funds whose investment strategy is to invest throughout emerging markets in companies whose principal business is focused on developing, operating, constructing and owning power and energy infrastructure assets. The net asset value of the Plan's shares of common stock is computed based upon the value of the securities and other assets and liabilities held by the Fund(s).

(6) **Real Estate Funds.** This includes seven real estate funds that invest both in U.S. and foreign commercial real estate. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the Plan's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated.

4. PENSION PLAN FUNDING POLICY

Pension normal cost and the allocation of benefit values between service rendered before and after the valuation date are 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 compensation.

Members are required by statute to contribute a percentage of covered compensation to SDCERA. Member contribution rates are determined by an actuarial valuation and incorporate actuarial assumptions such as interest rate earned, annual salary increase rate and anticipated mortality among service retired Members. 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, 2017. 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	9.32% – 13.18%	39.45%
	Tier C	8.33%	32.98%
Safety Members	Tier A and Tier B	12.35% – 15.92%	55.74%
	Tier C	14.77%	47.89%

During FY 2017, pension contributions totaled $551.4 million. This included $112.6 million in Member contributions, and $438.8 million in employer contributions, which includes $20.8 million in Member contributions paid by employers.

SDCERA is an independent governmental entity. As such, its administration expense is charged against the earnings of the Plan. Earnings from investments are reduced for investment management fees, SDCERA investment staff expenses, portfolio evaluation, custodian services, actuarial services for investment related activities, and outside legal expenses.

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. Pursuant to the Earnings Policy and as permitted by statute; 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; and if the funded ratio exceeds 115 percent, the Board has full discretion as to the use of excess earnings.

5. HEALTH INSURANCE ALLOWANCE PROGRAM FUNDING POLICY

The County funds health insurance 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 $20.4 million for the FY 2017. 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.

MEMBER CONTRIBUTION RESERVE INCLUDES:

- Contributions from Plan Members.
- Contributions from non-vested 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 vested terminated Members who have not yet applied for their retirement benefits.

EMPLOYER CONTRIBUTION RESERVE INCLUDES:

- Employer contributions to the Plan for active Members.

RETIREMENT ALLOWANCE RESERVE 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.

- Amounts transferred from the STAR COLA reserve to pay the STAR COLA benefit that was created by the Board in 2007.

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

DISABILITY SUPPLEMENTAL BENEFIT RESERVE 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.

UNDISTRIBUTED EXCESS EARNINGS RESERVE represents earnings on actuarial assets and 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.

STATUTORY CONTINGENCY 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, 2017.

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, 2017
(dollars in thousands)

Member Contribution Reserve	$ 1,021,169
Employer Contribution Reserve	2,528,042
Retirement Allowance Reserve	7,194,591
Total	**$ 10,743,802**
Supplemental Benefit Reserve	62
Disability Supplemental Benefit Reserve	1,492
Undistributed Excess Earnings Reserve	8,080
Statutory Contingency Reserve	0
Smoothed Market Value Transition Reserve	823,124
Market Stabilization Account	(179,495)
Total retirement fund	**$ 11,397,065**
Health Benefits 401(h) account	10,613
Total fund	**$ 11,407,678**

7. ADMINISTRATIVE EXPENSES

The Board annually adopts an administrative expense budget. By statute, the administrative expenses charged against SDCERA's investment earnings and contributions are limited to twenty-one hundredths of one percent of the Fund's accrued actuarial liability.

ADMINISTRATIVE EXPENSE LIMITATION

For the fiscal year ended June 30, 2017

Total Actuarial Accrued Liability (as of June 30, 2016)	$	14,349,090,000
Maximum allowable for administrative expenses (.0021 X $14,349,090,000)	$	30,133,089
Actual administrative expenses for the fiscal year	$	11,286,929
Excess of allowance over actual administrative expenses	$	18,846,160
Actual administrative expenses as a percentage of total Actuarial Accrued Liabilities		0.08%

8. COMMITMENTS AND CONTINGENCIES

DERIVATIVE INSTRUMENTS

SDCERA is party to financial instruments to generate 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 $84.3 million, real assets for $40.8 million, private credit for $62.8 million and private equity for $316.5 million. SDCERA meets these commitments from Plan assets over multiple fiscal years.

LEASE COMMITMENTS

SDCERA has operating leases for office facilities and equipment. Operating lease payments are recorded as expenses when paid or incurred. The future minimum lease commitments are as follows:

FUTURE MINIMUM LEASE COMMITMENTS

(dollars)

	Operating Leases	
Fiscal Year Ending June 30	**Equipment**	**Building**
2018	$ 17,288	$ 1,425,804
2019	17,288	1,466,900
2020	17,288	1,508,058
2021	7,006	1,551,576
2022	–	1,597,457
2023	–	1,645,703
2024	–	1,694,017
2025	–	1,742,401
2026	–	1,793,157
2027		–
Total Future Minimum Lease Payments	**$ 58,870**	**$14,425,073**

9. PENSION DISCLOSURES

The components of the Employers' Net Pension Liability of the Plan as of June 30, 2017, are as follows:

EMPLOYERS' NET PENSION LIABILITY (GASB STATEMENT NO.67)

As of June 30, 2017
(dollars in millions)

Total pension liability	$15,084.1
Plan fiduciary net position	$ 11,397.1
Employers' net pension liability	$3,687.0
Plan fiduciary net position as a percentage of the total pension liability	75.56%

Note: Net Pension Liability is a financial reporting requirement of GASB Statement No. 67. See Managements Discussion and Analysis for more information.

Source: Segal Consulting, GASB Statement No. 67 Actuarial Valuation Report, June 30, 2017.

The net pension liability was measured as of June 30, 2017, and determined based upon rolling forward the total pension liability from the actuarial valuation as of June 30, 2016.

ACTUARIAL ASSUMPTIONS: The following significant actuarial assumptions were used to measure the total pension liability as of June 30, 2017:

Inflation	3.00%
Salary increases	General: 4.25% to 10.25% and Safety: 4.50% to 12.00% vary by service, including inflation
Discount rate	7.25% 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, 2012 through June 30, 2015

Mortality rates for General Members and beneficiaries are based on the Headcount-Weighted RP-2014 Health Annuitant Mortality Table projected 20 years with the two-dimensional scale MP2015D, set forward one year for females. For Safety Members, the same mortality table is used with a two-year setback. For General Members with a disability retirement, there is a five-year age set forward for males and four-year set forward for females on post-retirement mortality. For Safety Members with a disability retirement, there is a one-year age set forward.

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 investment rate of return.

The long-term assumed investment 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 assumed investment 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 and a risk margin. 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
Large Cap U.S. Equity	17.685%	5.80%
Small Cap U.S. Equity	1.965%	6.47%
Developed International Equity	16.200%	6.97%
Emerging Markets Equity	9.150%	8.93%
U.S. Core Bonds	10.000%	0.84%
High Yield Bonds	5.000%	3.47%
Global Bonds	2.000%	0.49%
Bank Loan	5.000%	2.34%
Cash & Equivalents	2.000%	(0.46%)
Real Estate	4.500%	4.45%
Value Added Real Estate	4.500%	7.10%
Hedge Fund (Fund to Funds)	8.000%	4.40%
Private Real Asset	6.000%	9.00%
Private Equity	8.000%	9.00%
Total	**100%**	

DISCOUNT RATE: The discount rate used to measure the total pension liability was 7.25 percent as of June 30, 2017. 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 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, 2017.

SENSITIVITY OF THE NET PENSION LIABILITY 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, 2017, calculated using the discount rate of 7.25 percent, as well as what the employer's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point higher (8.25 percent) and 1-percentage-point lower (6.25 percent) than the current rate:

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

As of June 30, 2017
(dollars in millions)

Valuation Date	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Employer's net pension liability as of June 30, 2017	$5,759.0	$3,687.0	$1,984.4

Source: Segal Consulting, Government Accounting Standards (GAS) 67 Actuarial Valuation as of June 30, 2017.

10. OTHER POST EMPLOYMENT BENEFITS (OPEB)

The components of the Employer's Net OPEB Liability of the Plan as of June 30, 2017, are as follows:

EMPLOYER'S NET OTHER POST EMPLOYMENT BENEFITS (OPEB) LIABILITY (GASB STATEMENT NO. 74)

As of June 30, 2017
(dollars in thousands)

Total OPEB liability	$153,345.6
OPEB fiduciary net position	$10,612.8
Employer's net OPEB liability	$142,732.8
OPEB fiduciary net postion as a percentage of the total OPEB liability	6.92%

Note: Net OPEB Liability is a financial reporting requirement of GASB Statement No. 74. See Management's Discussion and Analysis for more information.

Source: Segal Consulting, GASB Statement No. 74, June 30, 2017

The Net OPEB Liability (NOL) was measured as of June 30, 2017. The Plan's Fiduciary Net Position was valued as of the measurement date, and the Total OPEB Liability (TOL) was determined based upon the results of the funding actuarial valuations as of June 30, 2017.

ACTUARIAL ASSUMPTIONS: The following significant actuarial assumptions were used to measure the TOL as of June 30 2017:

Inflation	3.00%
Salary Increases	General: 4.50% to 9.75%, including inflation
Discount Rate	7.25%
Health Care Trend	6.50% graded to ultimate 4.50% over 8 years
Health Insurance Allowance subsidy increase	0.00%

The long-term expected rate of return on Plan investments, a GASB Statement No. 74 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 and a risk margin. 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
Large Cap U.S. Equity	17.685%	5.80%
Small Cap U.S. Equity	1.965%	6.47%
Developed International Equity	16.200%	6.97%
Emerging Markets Equity	9.150%	8.93%
U.S. Core Bonds	10.000%	0.84%
High Yield Bonds	5.000%	3.47%
Global Bonds	2.000%	0.49%
Bank Loan	5.000%	2.34%
Cash & Equivalents	2.000%	(0.46%)
Real Estate	4.500%	4.45%
Value Added Real Estate	4.500%	7.10%
Hedge Fund (Fund to Funds)	8.000%	4.40%
Private Real Asset	6.000%	9.00%
Private Equity	8.000%	9.00%
Total	**100%**	

DISCOUNT RATE: The discount rate used to measure the Total OPEB Liability was 7.25 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed employer contributions will be made at the 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 OPEB Liability as of June 30, 2017.

SENSITIVITY OF THE NET OPEB LIABILITY TO CHANGES IN THE DISCOUNT RATE: The following, a required disclosure of GASB Statement No. 74, presents the employer's net OPEB liability as of June 30, 2017, calculated using the discount rate of 7.25 percent, as well as what the employers' net OPEB liability would be if it were calculated using a discount rate that is one percentage point higher (8.25 percent) and one percentage point lower (6.25 percent) than the current rate:

SENSITIVITY OF THE NET OPEB LIABILITY TO CHANGES IN THE DISCOUNT RATE
As of June 30, 2017
(dollars in millions)

Valuation Date	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Employers' net OPEB liability as of June 30, 2017	$154.1	$142.7	$132.8

Source: Segal Consulting, GAS 74 Actuarial Valuation as of June 30, 2017 .

SENSITIVITY OF THE NET OPEB LIABILTY TO CHANGES IN THE TREND RATE: The following, a required disclosure of GASB Statement No. 74, presents the employer's net OPEB as of June 30, 2017, calculated using the trend rate of 6.50 percent, as well as what the employer's net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point higher (7.50 percent) and 1-percentage-point lower (5.50 percent) than the current rate. Because the current benefits for most Members are limited by the fixed dollar health insurance allowance levels, the trend assumption has little effect on the net OPEB liability:

SENSITIVITY OF THE NET OPEB LIABILITY TO CHANGES IN THE TREND RATE
As of June 30, 2017
(dollars in millions)

Valuation Date	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Employers' net OPEB liability as of June 30, 2017	$142.3	$142.7	$143.1

Source: Segal Consulting, GAS 74 Actuarial Valuation as of June 30, 2017

11. SUBSEQUENT EVENTS

SDCERA has evaluated subsequent events from June 30, 2017 through November 21, 2017, the date the financial statements were issued, and concluded that none have occurred that require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

Schedule I below displays the components of the total pension liability and 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 five years ending June 30
(dollars in thousands)

Total pension liability	**2017**	**2016**	**2015**	**2014**	**2013**
Service cost	$ 322,159	$ 301,126	$ 286,960	$ 275,060	$ 258,308
Interest	1,041,401	981,703	941,789	906,177	881,864
Differences between expected and actual experience	(188,131)	(20,774)	(126,948)	(194,580)	(161,275)
Changes of assumptions	0	788,402	309,945	0	258,993
Benefit payments, including refunds of employee contributions	(650,626)	(629,095)	(592,259)	(560,751)	(543,284)
Net change in total pension liability	**$ 524,803**	**$ 1,421,362**	**$ 819,487**	**$ 425,906**	**$ 694,606**
Total pension liability - beginning	**14,559,259**	**13,137,896**	**12,318,409**	**11,892,503**	**11,197,897**
Total pension liability - ending (a)	**$ 15,084,062**	**$ 14,559,258**	**$ 13,137,896**	**$ 12,318,409**	**$ 11,892,503**
Plan fiduciary net position					
Contributions – employer	$ 438,827	$ 405,586	$ 414,771	$ 394,698	$ 357,893
Contributions – Member	112,579	104,636	98,590	78,920	71,718
Net investment income	1,248,303	63,686	242,576	1,220,343	669,882
Benefit payments, including refunds of Member contributions	(650,626)	(629,095)	(592,259)	(560,751)	(543,284)
Administrative expense	(13,287)	(13,875)	(14,043)	(12,709)	(11,454)
Net change in plan fiduciary net position	**$ 1,135,796**	**$ (69,062)**	**$ 149,635**	**$ 1,120,501**	**$ 544,755**
Plan fiduciary net position - beginning	10,261,268	10,330,330	10,180,695	9,060,194	8,515,439
Plan fiduciary net position - ending (b)	**$ 11,397,064**	**$ 10,261,268**	**$ 10,330,330**	**$ 10,180,695**	**$ 9,060,194**
Plan net pension liability - ending (a) - (b)	**$ 3,686,997**	**$ 4,297,990**	**$ 2,807,566**	**$ 2,137,714**	**$ 2,832,309**
Plan fiduciary net position as a percentage of the total pension liability	75.56%	70.48%	78.63%	82.65%	76.18%
Covered employee payroll	$ 1,181,480	$ 1,140,883	$ 1,120,001	$ 1,072,896	$ 1,028,420
Plan net pension liability as a percentage of covered employee payroll	312.07%	376.73%	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).

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 amounts actually invested. In contrast, performance information presented on page 69 in the Investment Section is calculated on a time-weighted rate of return basis.

SCHEDULE II—INVESTMENT RETURNS (PENSION PLAN)

	2017	2016	2015	2014	2013	2012
Annual Money-Weighted Rate of Return Net of Investment Expense	11.95%	1.43%	2.13%	13.39%	7.87%	5.82%

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 10 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
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%
2016	382,753	382,753	–	1,140,883	33.55%
2017	418,011	418,011	–	1,181,479	35.38%

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, 2017 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 for total unfunded actuarial accrued liability (UAAL)
Remaining amortization period	Prior to July 1, 2013, the Plan'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	7.25%, net of pension plan investment expense, including inflation
Inflation rate	3.00%
Real across-the-board salary increases	0.50%
Projected salary increases	General: 4.25% to 10.25% and Safety: 4.50% to 12.00%, vary by service, including inflation
Other assumptions	See analysis of actuarial experience during the period July 1, 2012 through June 30, 2015

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)
6/30/08	$ 18,206	$ 217,559	$ 199,353	8.4%	$ 1,135,432	17.6%
6/30/10	9,221	206,447	197,226	4.5%	1,095,582	18.0%
6/30/12	5,064	185,302	180,238	2.7%	1,052,366	17.1%
6/30/14	4,743	169,192	164,449	2.8%	1,122,864	14.6%
6/30/16	7,790	159,417	151,627	4.9%	1,206,940	12.6%
6/30/17	10,613	153,346	142,733	6.9%	1,253,224	11.4%

Source: The Segal Consulting Actuarial Valuation

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

SCHEDULE V - EMPLOYER CONTRIBUTIONS (OPEB PLAN)

(dollars in thousands)

Year Ended June 30	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll(1)(2)	Contributions as a Percentage of Covered Employee Payroll
2008	$ 23,616	$ 23,616	$ –	$ 1,051,373	2.25%
2009	23,237	23,237	–	1,102,242	2.11%
2010	18,789	18,789	–	1,050,985	1.79%
2011	18,028	18,028	–	1,036,693	1.74%
2012	19,198	19,198	–	1,047,414	1.83%
2013	19,025	19,025	–	1,028,420	1.85%
2014	20,208	20,208	–	1,072,896	1.88%
2015	21,111	21,111	–	1,120,001	1.88%
2016	19,719	19,719	–	1,140,883	1.73%
2017	20,409	20,409	–	1,181,479	1.73%

(1) Covered employee payroll represents compensation earnable and pensionable compensation. Only compensation earnable and pensionable compensation that would possibly go into the determination of retirement benefits are included.

(2) Includes payroll for active employees who will not be eligible for a benefit from the OPEB Plan.

Source: Segal Consulting, Government Accounting Standards (GAS) 74 Actuarial Valuation and Review of Health Insurance Allowance Plan as of June 30, 2017.

Schedule VI below displays the changes in employer's OPEB liability and related ratios:

SCHEDULE VI - CHANGES IN EMPLOYERS' NET OPEB LIABILITY AND RELATED RATIOS

For the fiscal year ending June 30, 2017
(dollars in thousands)

Total OPEB liability		
Service cost	$	38,305
Interest		10,922,719
Changes due to experience gain and assumption changes		561,922
Benefit payments		(17,594,425)
Net change in total OPEB liability	$	(6,071,479)
Total OPEB liability - beginning		159,417,107
Total OPEB liability - ending (a)	$	153,345,628
Plan fiduciary net position		
Employer contributions	$	20,408,644
Net investment income		215,137
Benefit payments		(17,594,425)
Administrative expense		(840,317)
Other - Retiree contributions		634,038
Net change in plan fiduciary net position	$	2,823,077
Plan fiduciary net position - beginning		7,789,709
Plan fiduciary net position - ending (b)		10,612,786
Employers' net OPEB liability - ending (a) - (b)	$	142,732,842
Plan fiduciary net position as a percentage of the total OPEB liability		6.9%
Covered employee payroll [(1)(2)]	$	1,181,479,673
Plan net OPEB liability as percentage of covered payroll		12.08%

(1) Covered employee payroll represents compensation earnable and pensionable compensation. Only compensation earnable and pensionable compensation that would possibly go into the determination of retirement benefits are included

(2) Includes payroll for active employees who will not be eligible for a benefit from the Health Insurance Allowance fund.

OTHER SUPPLEMENTAL INFORMATION

Schedule VII below displays investment expenses for FY 2017.

SCHEDULE VII - INVESTMENT EXPENSES

For the fiscal year ended June 30, 2017
(dollars in thousands)

Global Equity	$ 235
US Equity	4,397
Non-US Equity : Developed	3,571
Non-US Equity : Emerging	2,511
Fixed Income	1,776
Alternative Beta/ Opportunistic/Other	2,938
Real Estate	13,682
Private Equity	23,964
Private Real Assets	14,941
Administrative, In–House Staff and Other	1,584
Custodian Services	628
Consulting Services	1,366
Actuarial Services	286
Total Investment Expenses	**$ 71,879**

Schedule VIII below displays administrative expenses for FY 2017.

SCHEDULE VIII - ADMINISTRATIVE EXPENSES

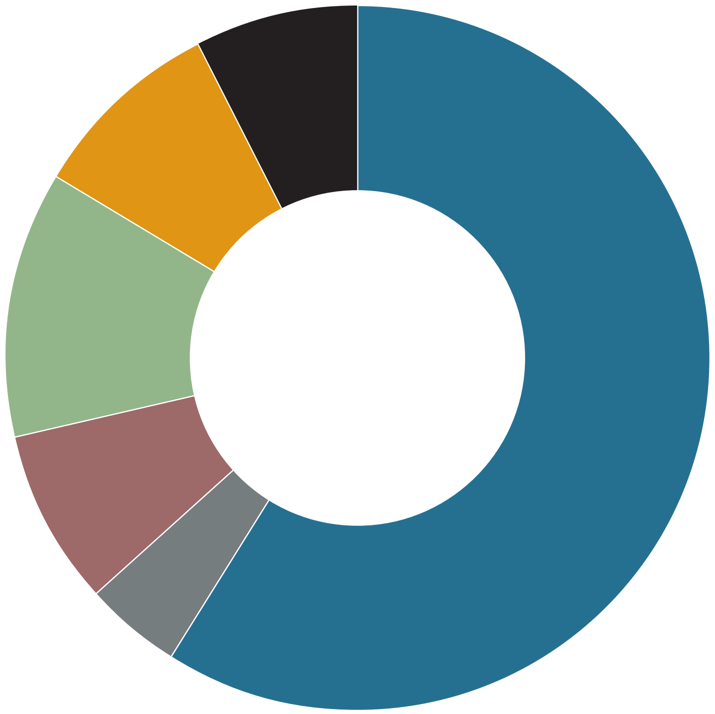
For the fiscal year ended June 30, 2017
(dollars in thousands)

Expense category	Pension Plan	Health Insurance
Salaries and benefits	$ 7,851	$ 199
Professional fees	601	603
Leased real property	1,091	27
Depreciation and amortization	1,627	0
Computer maintenance/consulting	1,164	0
Operating expenses*	953	11
Total Administrative Expenses	**$ 13,287**	**$ 840**

* Includes overhead, travel, training, supplies and utilities allocated to the Pension and OPEB Plan.

PENSION PLAN — ADMINISTRATIVE EXPENSES BY CATEGORY

For the fiscal year ended June 30, 2017



SCHEDULE IX - PAYMENTS TO CONSULTANTS

(dollars in thousands)

Type of Service		
Legal services	$	349
Computer services		562
Actuarial services		286
Audit services		114
Health insurance consulting services		603
Total payments to consultants	**$**	**1,914**

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INVESTMENTS

I am pleased to report SDCERA's investment results for the fiscal year ended June 30, 2017 (FY 2017).

FY 2017 was a year of accelerating growth in global economic activity and corporate profits. These positive economic results were reflected in the net return of the Trust Fund of 12.0 percent. For the three-, five-, and ten-year periods ending June 30, 2017, Trust Fund annualized net-of-fee time-weighted returns were 4.9 percent, 7.1 percent, and 4.4 percent, respectively.

Beginning with FY 2017, SDCERA Trust Fund net-of-fee performance reflects all investment management and performance fees. This change in calculation and reporting methodology reflects SDCERA's continuing effort to ensure transparency and accountability in performance reporting.

Central to the Investment Division's work in FY 2017 was improving the alignment between the risk-return objectives of SDCERA's Trust Fund and the fees paid to the investment management firms hired to manage Trust Fund assets.

Our fee strategy is to align the skills, expertise, and work of SDCERA's investment managers and the fees paid to them with Trust Fund objectives. The details of alignment between investment managers and SDCERA are specified in our investment management agreements (IMAs). We are implementing IMAs with clear and transparent measurements of value added and fees paid that are structured with prudent incentives and risk controls. These IMAs will result in an additional two to three dollars in the Trust Fund for every dollar paid in investment management performance fees.

We have made progress in our alignment and fees work. Since the end of FY 2015, investment management fees decreased from $112 million $72 million, saving $40 million per year. Going forward, the ultimate measure of success for fees paid is whether there is measurable value added to the growth of SDCERA's Trust Fund. We will continue to negotiate IMAs that will match fees paid to dollars added to the Trust Fund. This ensures that the fees paid are prudent and value-added fees.

Looking ahead to FY 2018, our efforts remain focused on the variables we have the most control over: diversification, costs, and the alignment of the incentives between the Trust Fund's investment managers and our long-term risk-return objectives. Our overall mandate is to prudently diversify against the risk of loss and to maximize returns. This we will continue to do.

Sincerely,

Stephen Sexauer
Chief Investment Officer
December 1, 2017

SDCERA's Asset Allocation Policy is as follows:

ASSET ALLOCATION POLICY
As of June 30, 2017

Asset class	Benchmark	Target %
Total Public Markets Equity	MSCI ACWI IMI Index	**45**
Global Equity	MSCI ACWI IMI Index	3
US Equity	MSCI USA IMI Index	18
Non-US Equity: Developed	MSCI EAFE IMI Index	15
Non–US Equity: Emerging	MSCI Emerging Markets IMI Index	9
Total Fixed Income	Bloomberg Barclays US Intermediate Aggregate Index	**24**
Alternative Beta/Opportunistic/ Other	T–Bills + 500 bps	**8**
Total Private Assets	1/3 NCREIF ODCE Index + 50 bps & 2/3 MSCI ACWI IMI + 200 bps	**23**
Real Estate	NCREIF ODCE + 50 bps*	9
Private Equity	MSCI ACWI IMI + 200 bps**	8
Private Real Assets	MSCI ACWI IMI +200 bps	6
Total fund		**100**

* Given the structure of the real estate portfolio, which includes an allocation to non-core investments, a 50 basis points premium has been added to the core index for benchmarking purposes.

**Secondary benchmarks consisting of applicable peer data (vintage year, geography, etc.) and Public Market Equivalent type reference points will be used.

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:

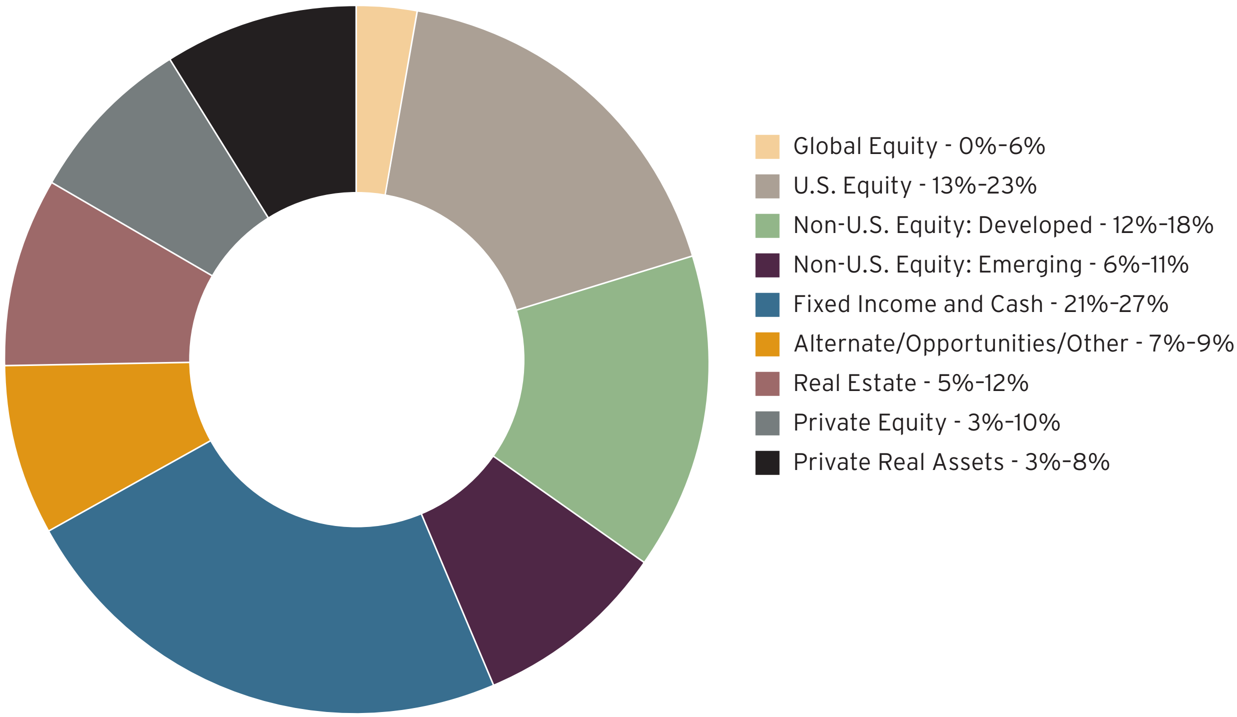
1. Solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system,

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

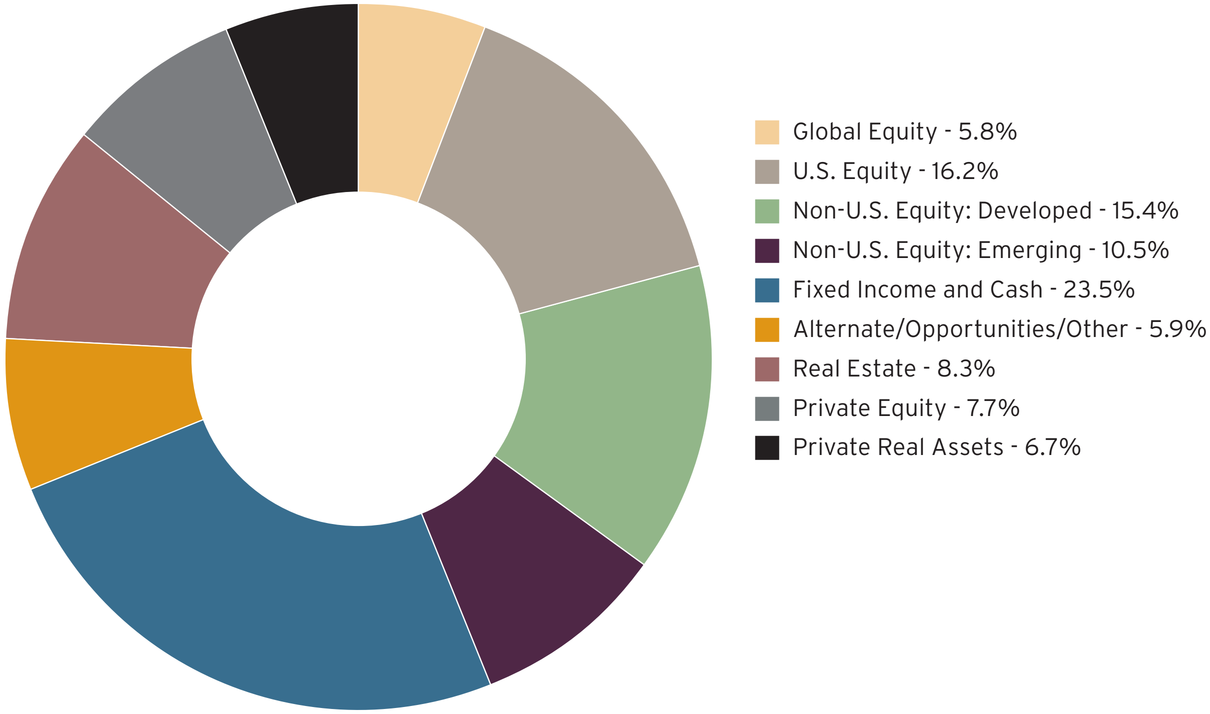
3. Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

The Board has adopted an Investment Policy Statement (IPS) to ensure that the Trust Fund is managed to the prudent person standard. The IPS sets investment return and risk objectives for the Trust Fund, and provides for diversification of Trust Fund assets. The IPS also addresses liquidity, securities lending, commission recapture and proxy voting.

POLICY



ACTUAL



PERFORMANCE RESULTS, ANNUALIZED, NET OF FEES*

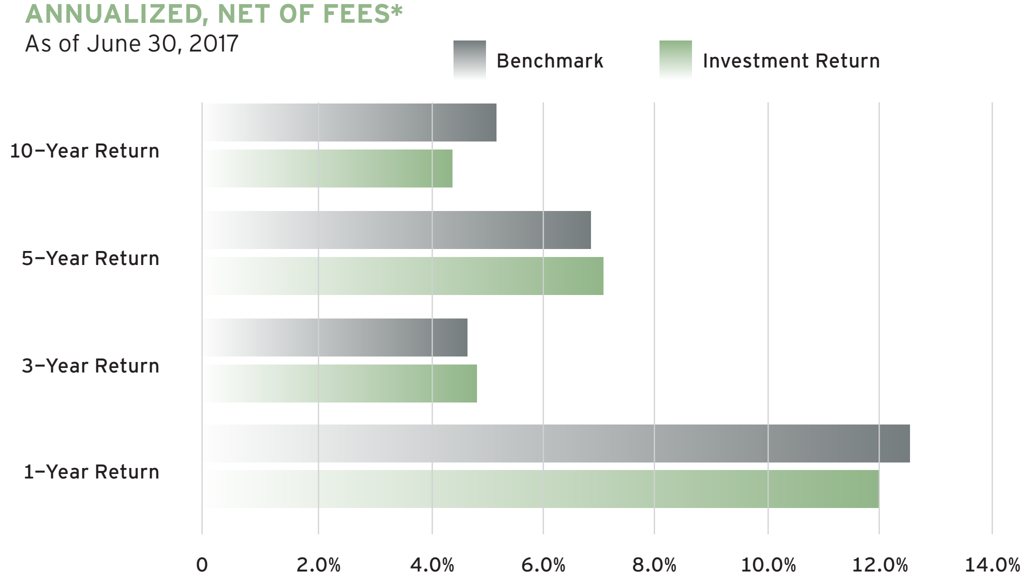
As of June 30, 2017

Asset Class (with benchmarks)	1-Year	3-Year	5-Year	10-Year
Global Equity	18.8%	5.5%	11.3%	n/a
MSCI ACWI IMI Index	19.0	4.9	10.7	n/a
U.S. Equity	17.6	6.9	12.6	
MSCI USA IMI Index	17.7	8.5	13.9	6.8
Non–U.S. Equity: Developed	20.8	1.4	n/a	n/a
MSCI EAFE IMI Index	20.7	1.7	n/a	n/a
Non-U.S. Equity: Emerging	23.2	0.8	4.5	3.0
MSCI Emerging Markets IMI Index	22.8	1.0	4.1	2.0
Fixed Income	1.6	2.1	2.3	2.0
Bloomberg Barclays U.S. Intermediate Aggregate Bond Index	(0.2)	2.0	1.9	4.0
Alternative Beta/Opportunistic/Other	2.7	5.6	4.9	n/a
T–Bill + 500bps	5.5	5.2	5.2	n/a
Real Estate	8.6	12.3	11.0	n/a
NCREIF ODCE Net + 50 bps	7.5	10.9	11.3	n/a
Private Equity	14.8	8.3	12.6	n/a
MSCI ACWI IMI + 200 bps	21.4	7.0	13.0	n/a
Private Real Assets	13.6	3.6	6.1	n/a
MSCI ACWI IMI + 200 bps	21.4	7.0	13.0	n/a
Total Fund	**12.0%**	**4.9%**	**7.1%**	**4.4%**
Total Fund Benchmark	**12.5%**	**4.7%**	**6.9%**	**5.1%**

*Annual time-weighted rate of return. The three-, five- and ten-year returns reflect the FY 2016 restated return of 0.40 percent.

PERFORMANCE RESULTS TOTAL INVESTMENTS ANNUALIZED, NET OF FEES*

As of June 30, 2017



*Annual time-weighted rate of return. The three-, five- and ten-year returns reflect the FY 2016 restated return of 0.40 percent.

TOP HOLDINGS—EQUITY
As of June 30, 2017

Security name	Shares	Market Value
Apple Inc.	34,258	$4,933,837
Amazon.com Inc.	4,308	4,170,144
Facebook Inc.	26,502	4,001,272
Johnson & Johnson	30,170	3,991,189
Tencent Holdings Ltd.	83,900	3,000,708
Pfizer Inc.	82,762	2,779,976
Unitedhealth Group Inc.	14,872	2,757,566
AT&T Inc.	71,293	2,689,885
McDonald's Corp.	16,787	2,571,097
Cisco Systems Inc.	80,261	2,512,169

TOP HOLDINGS—FIXED INCOME
As of June 30, 2017

Security name	Par	Market Value
US Treasury Note 1.875% 03/31/2022	93,900,000	$93,955,401
US Treasury–CPI Inflation 0.125% 04/15/2020	88,760,663	88,897,354
US Treasury Note 1.375% 01/31/2021	74,500,000	73,719,985
US Treasury Bond 3.875% 08/15/2040	45,000,000	53,548,200
Japan Bank for International Cooperation VAR RT 11/13/2018	47,500,000	47,419,250
US Treasury Bond 3.750% 08/15/2041	32,370,000	37,899,443
Credit Suisse AG (New York) VAR RT 01/29/2018	33,100,000	33,197,645
US Treasury Bond 3.125% 11/15/2041	30,000,000	31,767,300
General Motors Financial Company Inc VAR RT 04/10/2018	31,200,000	31,428,384
Fannie Mae GTD REMIC P/T 13–121 FA VAR RT 12/25/2043	28,215,706	28,302,893

Note: A complete list of investments is available from SDCERA.

COMMISSIONS PAID — DOMESTIC

For the fiscal year ended June 30, 2017

Brokerage Firm	Total Commissions	% of Total Commissions
Merrill Lynch Pierce Fenner Inc.	$ 82,407	63.9%
Credit Suisse	23,680	18.4%
J.P. Morgan Clearing Corp	7,661	5.9%
Morgan Stanley & Co Inc.	3,582	2.8%
National Financial Services Corp.	2,032	1.6%
Stifel Nicolaus	1,763	1.4%
Piper Jaffray & Co.	1,264	1.0%
BMO Capital Markets Corp.	1,235	1.0%
ICBC Financial Services	1,220	1.0%
Other *	4,217	3.3%
Total	**$ 129,061**	**100.0%**

* Includes 10 additional firms, each with 0.82% or less of total commissions

COMMISSIONS PAID — INTERNATIONAL

For the fiscal year ended June 30, 2017

Brokerage Firm	Total Commissions	% of Total Commissions
Merrill Lynch International	$ 57,041	33.7%
Royal Bank of Canada	112,407	66.3%
Total	**$ 169,448**	**100.0%**

SUMMARY OF INVESTMENT PORTFOLIO AND INVESTMENT EXPENSES BY ASSET CLASS

As of June 30, 2017

Asset Class	Net Assets at Fair Value	Assets as % of Total	Investment Expenses
Global Equity	$ 656,104,311	5.8%	$ 234,835
US Equity	1,853,401,589	16.2%	4,397,328
Non–US Equity: Developed	1,757,294,305	15.4%	3,570,912
Non–US Equity: Emerging	1,196,101,702	10.5%	2,510,893
Total Public Markets Equity	**5,462,901,907**	**47.9%**	**10,713,968**
Total Fixed Income	**2,564,305,656**	**22.5%**	**1,776,185**
Total Alternative Beta/Opportunistic/Other	**672,619,711**	**5.9%**	**2,938,105**
Real Estate	949,305,541	8.3%	13,682,206
Private Equity	880,474,012	7.7%	23,963,551
Private Real Assets	761,546,166	6.7%	14,941,253
Total Private Assets	**2,591,325,719**	**22.7%**	**52,587,010**
Cash and Other Assets and Liabilities	116,524,549	1.0%	0
Total Net Assets	**$ 11,407,677,542**	**100.0%**	**$ 68,015,268**
Other Investment Expense:			
Administrative, In–House Staff and Other			$ 1,583,893
Custodian Services			627,918
Consulting Services			1,366,077
Actuarial Services			285,694
Total Other Investment Expense			**3,863,582**
Total Investment Expenses			**$ 71,878,850**

INVESTMENT MANAGERS
As of June 30, 2017

Global Equity
- Allianz Global Investors
- BlackRock Institutional Trust Company

U.S. Equity
- BlackRock Institutional Trust Company
- Pacific Investment Management Company

Non-US Equity: Developed
- BlackRock Institutional Trust Company
- Pacific Investment Management Company

Non-US Equity: Emerging
- BlackRock Institutional Trust Company
- Dimensional Fund Advisors
- Genesis Group
- Pacific Investment Management Company

Fixed Income
- Bank of New York Mellon
- BlackRock Institutional Trust Company
- Hotchkis & Wiley Capital Management
- Hoisington Investment Management Company
- Oaktree Capital Management, LP
- Pacific Investment Management Company
- Ryan Labs Asset Management

Alternative Beta/Opportunistic
- Allianz Global Investors
- AQR Capital Management, LLC
- Cantab Capital Partners

Private Equity
- Apollo Capital Management
- Bain Capital
- Baring Private Equity Asia
- Cerberus Capital Management, LP
- Charterhouse Capital Partners, LLP
- Coller Capital
- D.E . Shaw & Company
- DRI Capital
- EQT Fund Management, Ltd
- FountainVest Partners
- Graham Partners
- Greenbriar Equity Group, LLC
- HarbourVest Partners, LLC
- Hellman & Friedman, LLC
- Horizon Capital
- Lexington Partners Advisors, LP
- New Mountain Capital, LLC
- Northgate Capital
- Oak Hill Capital Partners
- Oaktree Capital Management, LP
- Onex Capital
- Paul Capital
- Providence Equity Partners, LLC
- Public Pension Capital, LLC
- Silver Point Capital
- SSG Capital Management, Ltd
- Stark Investments
- TA Associates
- The Blackstone Group
- The Capital Group
- The Gores Group
- TPG Capital

Private Real Assets
- Actis Capital, LLP
- Amerra Capital Management, LLC
- Brookfield Asset Management
- Denham Capital Management, LP
- EnCap Investments, LP
- EnerVest, Ltd
- Falcon E&P Opportunities GP, LLC
- Global Infrastructure Partners
- Hancock Agricultural Investment Group
- J.P. Morgan Asset Management
- Kayne Anderson Capital Advisors, LP
- Macquarie Infrastructure Partners, Inc
- Merit Energy Company
- Molpus Woodland Group
- RK Capital Management, LLP
- Taurus Funds Management Pty Ltd
- The Energy & Minerals Group

Real Estate
- Ascentris-SD Partners, LP
- Barings Real Estate Advisors
- Canyon Partners Real Estate, LLC
- Deutsche Asset Management
- J.P. Morgan Asset Management
- La Salle Investment Management
- Pacific Coast Capital Partners, LLC
- The Blackstone Group
- Trophy Property Development, LP
- UBS Realty Investors, LLC

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ACTUARIAL

Segal Consulting

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

VIA EMAIL AND USPS

November 8, 2017

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, 2017 Actuarial Valuation for Funding Purposes

Dear Members of the Board:

Segal Consulting (Segal) prepared the June 30, 2017 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 including: (1) the liability for benefits paid after the Section 415(b) limit was applied to the retirees in pay status and (2) in both the liability and the asset the outstanding balance in the Supplemental Benefit Allowance Reserves, 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, 2017 actuarial valuation, Segal conducted an examination of all participant data for reasonableness. Summaries of the member 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 8, 2017
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 performed a substantive review of the pension component of 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, 2017 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, 2017 for funding purposes.

<u>Actuarial Section</u>

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 actual experience versus assumptions;
6. History of employer contribution rates;
7. Schedule of funding progress;
8. Actuarial Analysis of Financial Experience;

<u>Statistical Section</u>

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

<u>Financial Section</u>

13. Membership summary

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Board of Retirement
San Diego County Employees Retirement Association
November 8, 2017
Page 3

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2015 Triennial Experience Analysis and became effective with the June 30, 2016 valuation. It is our opinion that the assumptions used in the June 30, 2017 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 2019, and the assumptions adopted by the Board at that time will be used in setting the contribution rates in the June 30, 2019 valuation. The current 7.25% investment return 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, 2017 valuation, the ratio of the valuation assets to actuarial accrued liabilities has increased from 76.9% to 77.4%. The average employer's rate has increased from 41.87% of payroll to 42.52% of payroll, while the average member's rate has decreased from 12.00% of payroll to 11.87% of payroll.

In the June 30, 2017 valuation, the actuarial value of assets included $171.7 million in deferred investment losses, which represented about 1.5% 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 77.4% to 76.3% and the aggregate employer contribution rate, expressed as a percent of payroll, would increase from 42.52% to 43.50%.

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

AW/hy
Enclosures

5512693v1/05536.002

Segal Consulting

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VIA E-MAIL and USPS

November 8, 2017

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, 2017 Actuarial Valuation for Health Insurance Allowance**

Dear Members of the Board:

Segal Consulting (Segal) performed an actuarial valuation of the Other Postemployment Benefits (OPEB) funded through the San Diego County Employees Retirement Association (SDCERA) Health Insurance Allowance program as of June 30, 2017. We certify that the actuarial valuation was prepared in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet with our understanding of the parameters of the Governmental Accounting Standards Board (GASB) Statement No. 74.

As part of our valuation, Segal conducted an examination of all participant data for reasonableness. We did not audit the Plan's financial statements. For actuarial valuation purposes, plan assets are valued at Market Value.

The Entry Age Cost Method was used to determine the Annual Required Contribution (ARC) and the actuarial accrued liability. Under this method, the ARC[1] provides for current cost (normal cost[1]) plus a level dollar amount to amortize any Unfunded Actuarial Accrued Liability (UAAL[1]). The UAAL is amortized over separate declining 20-year level dollar bases starting June 30, 2007 and the equivalent single amortization period as of June 30, 2017 is 10.0 years. The ARC has decreased from 1.65% of payroll in the last valuation as of June 30, 2016 to 1.59% of payroll in the current valuation as of June 30, 2017. The funded ratio has increased from 4.89% in the June 30, 2016 valuation to 6.92% in the June 30, 2017 valuation.

---

1 In valuations for financial reporting purposes under GASB Standards No. 74 and 75, the Normal Cost is referred to as the Service Cost; the Actuarial Accrued Liability (AAL) is referred to the as the Total OPEB Liability (TOL), the UAAL is referred to as the Net OPEB Liability (NOL) and the ARC is referred to as the Actuarially Determined Contribution (ADC).

Board of Retirement
San Diego County Employees Retirement Association
November 8, 2017
Page 2

The method described above is used for the purposes of fulfilling the Plan's accounting and funding requirements. A listing of the supporting OPEB-related schedules Segal prepared to assist with the completion of the Association's CAFR is provided below:

1. Schedule of actuarial methods and assumptions;

2. Summary of Plan benefits;

3. Retirees and beneficiaries added to and removed from retiree payroll;

4. Solvency test; and

5. Average monthly benefit payments.

The actuarial valuation reflects a long-term perspective that involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. The assumptions used in this valuation were adopted by the Board based on the July 1, 2012 through June 30, 2015 Experience Study dated June 2, 2016. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

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

Sincerely,

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

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

AW/bqb
Attachment

SOLVENCY TEST (PENSION PLAN)

Last Ten Fiscal 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)
6/30/08	$371,892	$4,260,025	$4,090,377	$8,722,294	$8,236,926	100%	100%	88.1%
6/30/09	409,580	4,616,573	4,172,483	9,198,636	8,413,065	100%	100%	81.2%
6/30/10	434,512	5,133,785	4,430,864	9,999,161	8,433,310	100%	100%	64.7%
6/30/11	454,649	5,494,076	4,533,932	10,482,657	8,542,291	100%	100%	57.2%
6/30/12	482,861	6,010,596	4,449,715	10,943,172	8,607,483	100%	100%	47.5%
6/30/13	551,337	6,577,083	4,502,817	11,631,237	9,186,032	100%	100%	45.7%
6/30/14	631,296	6,885,584	4,624,269	12,141,149	9,824,431	100%	100%	49.9%
6/30/15	758,538	7,493,615	4,827,927	13,080,080	10,535,590	100%	100%	47.3%
6/30/16	861,198	8,360,237	5,127,655	14,349,090	11,030,635	100%	100%	35.3%
6/30/17	1,021,169	8,787,965	5,128,738	14,937,872	11,566,926	100%	100%	34.3%

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

SOLVENCY TEST (OPEB PLAN)

(dollars in thousands)

Valuation Date*	Active Member Contributions	Liability For Retired Participants	Liability For Non-Retired Members (Employer Financed Portion)	Total	Valuation Assets	Active Member Contributions	Liability For Retired Participants	Liability For Active Members (Employer Financed Portion)
6/30/07	$–	$ 219,656	$ 16,099	$ 235,755	$ –	0.0%	0.0%	0.0%
6/30/08	–	204,348	13,211	217,559	18,206	0.0%	8.9%	0.0%
6/30/10	–	194,792	11,655	206,447	9,221	0.0%	4.7%	0.0%
6/30/12	–	176,173	9,129	185,302	5,064	0.0%	2.9%	0.0%
6/30/14	–	162,113	7,079	169,192	4,743	0.0%	2.9%	0.0%
6/30/16	–	152,802	6,615	159,417	7,790	0.0%	5.1%	0.0%
6/30/17	–	147,223	6,123	153,346	10,613	0.0%	7.2%	0.0%

*Valuations performed biennially for 2008-2016. Source: Segal Consulting, OPEB Actuarial Valuation 6/30/2017.
Source: Segal Consulting, OPEB Actuarial Valuation June 30, 2017.

HISTORY OF EMPLOYER PENSION CONTRIBUTION RATES

Last Ten Fiscal Years
(dollars in thousands)

	General Members			Safety Members		
For the years ended June 30	Normal %	UAAL %	Total %	Normal %	UAAL %	Total %
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	12.96	20.93	33.89	20.40	24.21	44.61
2016	13.56	24.65	38.21	21.49	33.12	54.61
2017	13.12	25.25	38.37	21.15	34.27	55.42

Source: Segal Consulting, Actuarial Valuation and Review

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
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%
2016	1,001	45,335,508	453	11,854,880	17,734	630,569,336	5.3%	35,557	2.0%
2017	966	47,315,942	453	12,110,822	18,247	665,774,456	5.6%	36,487	2.6%

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

Source: Segal Consulting, Actuarial Valuation and Review

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%
2016	133	397,523	577	2,353,550	4,742	17,492,119	(10.1%)	3,689	(1.6%)
2017	117	830,210	295	1,088,060	4,564	17,234,269	(1.5%)	3,776	2.4%

*Valuations performed biennially for 2008-2016. Source: Segal Consulting, OPEB Actuarial Valuation June 30, 2017.

Source: Segal Consulting, OPEB Actuarial Valuation June 30, 2017.

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 Annual Covered Payroll [(b)−(a)]/(c)
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	10,535,337	13,080,080	2,544,743	80.5	1,163,363	218.7
6/30/16	11,030,635	14,349,090	3,318,455	76.9	1,206,941	274.9
6/30/17	11,566,926	14,937,872	3,370,946	77.4	1,253,222	268.9

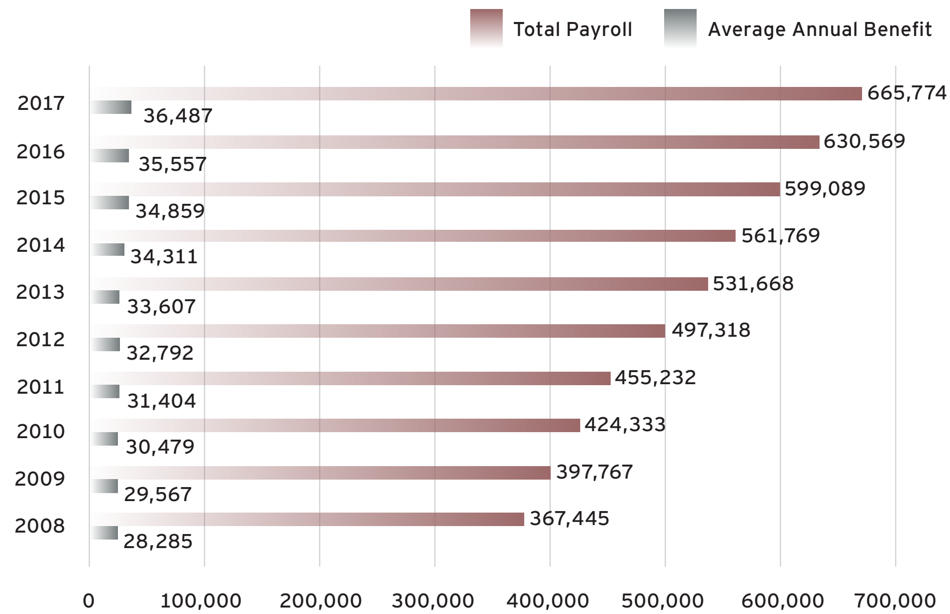
(1) Excludes assets for Supplemental Benefit and Health Benefit Reserves.

(2) Excludes liabilities for Supplemental Benefit and Health Benefit Reserves.

Source: Segal Consulting, Actuarial Valuation and Review

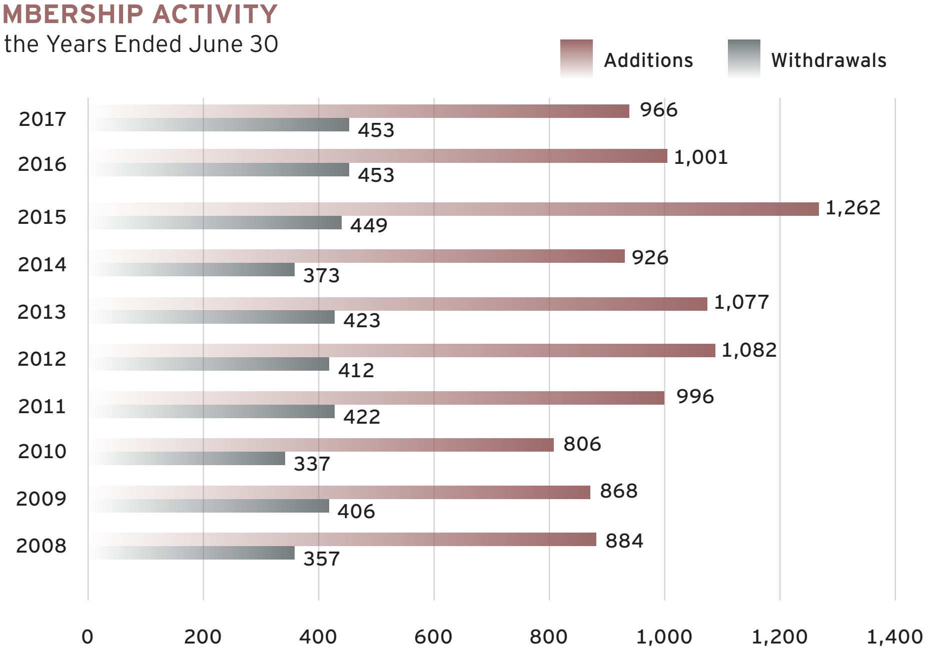
RETIREMENT PAYROLL AND AVERAGE ANNUAL PENSION BENEFITS

For the Years Ended June 30



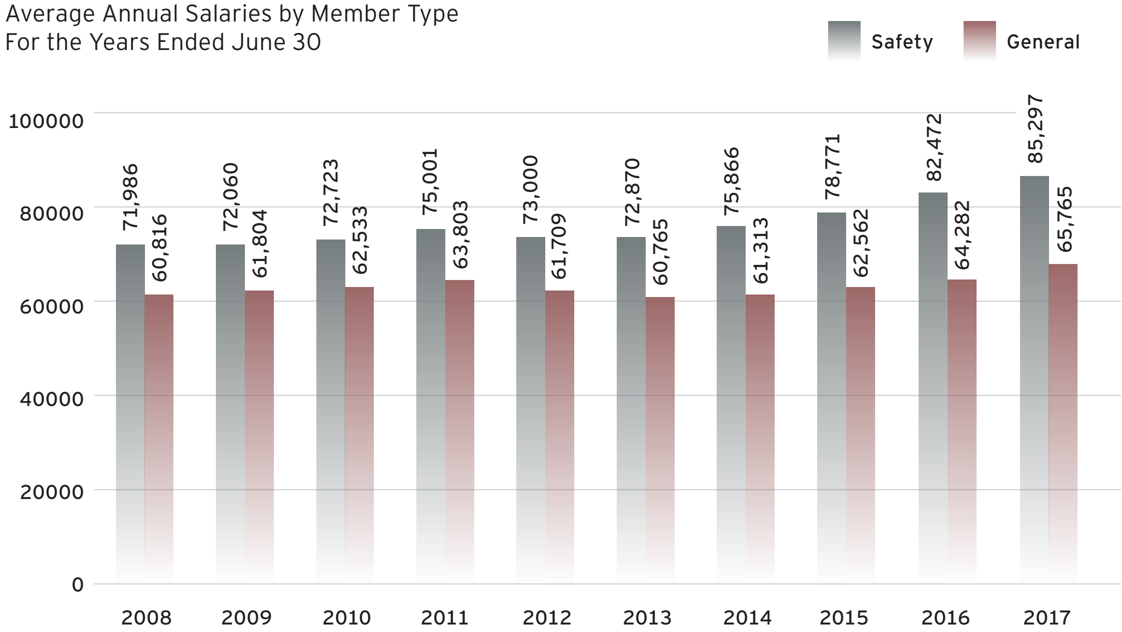
MEMBERSHIP ACTIVITY

For the Years Ended June 30



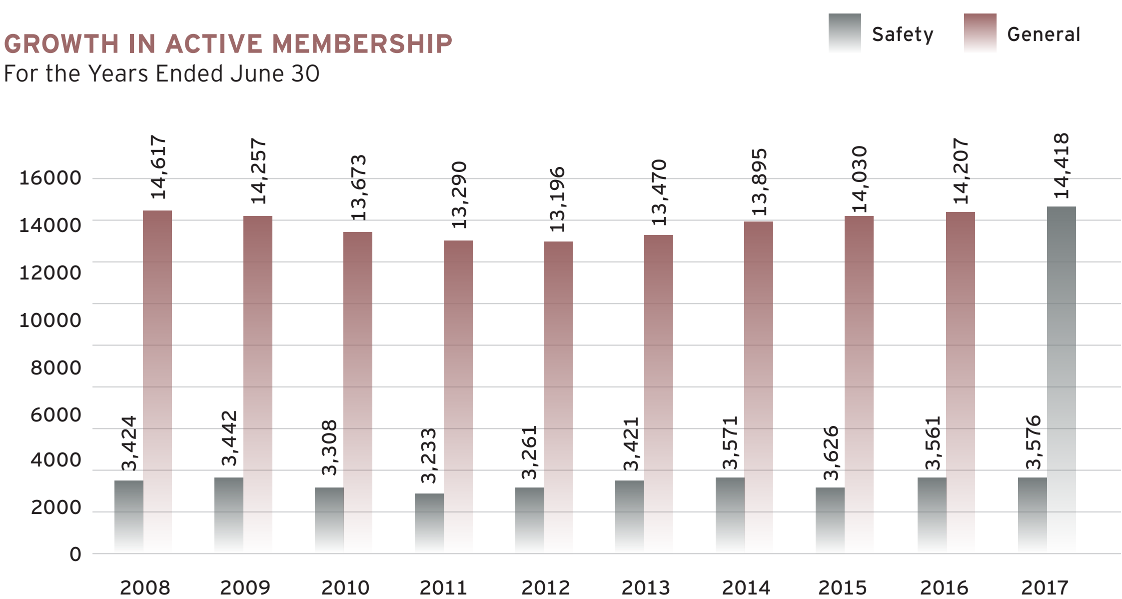
ACTIVE MEMBERSHIP

Average Annual Salaries by Member Type
For the Years Ended June 30



GROWTH IN ACTIVE MEMBERSHIP

For the Years Ended June 30



Source: The Segal Company, Annual Actuarial Valuation

DETERMINATION OF ACTUARIAL AND VALUATION VALUE OF ASSETS

For the year ended June 30, 2017

Six month period From	Six month period To	Total Actual Market Return (Net)	Expected Market Return (Net)	Investment Gain/(Loss)	Deferred Factor	Deferred Return
1/2013	6/2013	$62,787,174	$350,146,351	$(287,359,177)	0.1	$(28,735,918)
7/2013	12/2013	529,642,752	350,592,044	179,050,708	0.2	35,810,142
1/2014	6/2014	678,501,180	369,454,642	309,046,538	0.3	92,713,962
7/2014	12/2014	119,504,895	394,295,090	(274,790,196)	0.4	(109,916,078)
1/2015	6/2015	109,066,220	397,349,983	(288,283,763)	0.5	(144,141,881)
7/2015	12/2015	(191,207,912)	386,704,127	(577,912,039)	0.6	(346,747,224)
1/2016	6/2016	240,985,994	377,344,430	(136,358,436)	0.7	(95,450,905)
7/2016	12/2016	428,031,532	371,539,799	56,491,733	0.8	45,193,386
1/2017	6/2017	807,091,824	385,289,150	421,802,674	0.9	379,622,407
1. Total deferred return						(171,652,110)
2. Net market value of assets						11,407,677,542
3. Actuarial value of assets						11,579,329,652
4. Non-valuation reserves						
a. Supplemental retirement reserve						61,658
b. 401(h) reserve						10,612,786
c. Disability supplement retirement reserve						1,492,420
d. Contingency reserve						236,455
e. Undistributed reserve						0
f. Subtotal						12,403,319
5. Valuation value of assets (Item 3 – Item 4f)						$11,566,926,333

Source: Segal Consulting, Actuarial Valuation and Review

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE (PENSION PLAN)

Last seven years
(dollars in thousands)

	Plan years ended June 30 2017	2016	2015	2014	2013	2012	2011
Prior valuation unfunded actuarial liability	$ 3,318,455	$ 2,544,743	$ 2,316,718	$2,445,205	$2,335,689	$ 1,940,366	$ 1,565,851
Salary increase greater (less) than expected	(40,360)	(46,093)	(56,977)	(35,468)	(169,406)	(196,062)	(116,085)
Asset return less (greater) than expected	165,322	188,601	(15,862)	(2,155)	19,304	533,655	467,919
Other experience	(72,471)	(140,579)	(19,530)	(90,864)	(4,136)	74,197	22,681
Economic and non-economic assumption changes	–	771,783	320,394	–	263,754	(16,467)	–
Ending unfunded actuarial accrued liability	**$3,370,946**	**$3,318,455**	**$2,544,743**	**$2,316,718**	**$2,445,205**	**$2,335,689**	**$1,940,366**

Source: Segal Consulting, Actuarial Valuation and Review

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 7.25 percent, net of both expected administration and investment expenses. The investment rate of return assumption for financial reporting purposes is 7.25 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, 2012, through June 30, 2015, 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 7.25 percent, net of both expected administration and investment expenses. The investment return rate used for financial reporting purposes is 7.25 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	4.25%
Total	7.25%

Source: Segal Consulting, Actuarial Valuation and Review

Salary increase rates used to project current pay for those upon which a benefit will be based, were revised in 2016. Rates vary by length of service, and consist of 3.00 percent for inflation plus "across the board" salary increases of 0.50 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 12.00 percent and the minimum combined rate is 4.25 percent.

PROJECTED SALARY INCREASE RATES

Years of Service	General	Safety
0	6.75%	8.50%
1	5.00%	6.25%
2	4.50%	5.00%
3	3.50%	4.75%
4	2.50%	4.50%
5	1.50%	2.25%
6	1.40%	1.60%
7	1.30%	1.40%
8	1.20%	1.20%
9	1.10%	1.10%
10	1.00%	1.00%
11	0.95%	1.00%
12	0.90%	1.00%
13	0.85%	1.00%
14	0.80%	1.00%
15+	0.75%	1.00%

Source: Segal Consulting, Actuarial Valuation and Review

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Employees	Total Payroll	% Change	Average Salary	% Change
06/30/08	18,041	$1,135,431,988	6.9	$62,936	5.0
06/30/09	17,699	1,129,170,721	(0.6)	63,799	1.4
06/30/10	16,981	1,095,581,953	(3.0)	64,518	1.1
06/30/11	16,523	1,090,413,350	(0.5)	65,994	2.3
06/30/12	16,457	1,052,366,941	(3.5)	63,946	(3.1)
06/30/13	16,891	1,067,792,128	1.5	63,217	(1.1)
06/30/14	17,466	1,122,864,480	5.2	64,289	1.7
06/30/15	17,656	1,163,362,748	3.6	65,891	2.5
06/30/16	17,768	1,206,940,234	3.7	67,928	3.1
06/30/17	17,994	1,253,223,398	3.8	69,647	2.5

Source: Segal Consulting, Actuarial Valuation and Review

HISTORICAL SUMMARY OF ASSUMPTIONS

For the years ended June 30

Assumption	2017	2016	2015	2014	2013	3-year average	5-year average
Inflation [1]	3.3%	2.0%	0.8%	2.4%	0.9%	2.02%	1.87%
Assumed [2]						3.00	3.10
Average pay increase	2.5	3.1	2.5	1.7	(1.1)	2.70	2.45
Assumed [3]						3.58	3.75
Merit and longevity pay increase	2.3	1.7	2.6	3.3	3.3	2.20	2.64
Assumed [4]						0.81	0.81
Total payroll	3.8	3.7	3.6	5.2	1.5	3.70	3.56
Assumed [3]						3.58	3.75
Investment return rate [5]	5.7	5.5	7.7	8.1	7.7	6.30	6.94
Assumed [6]						7.33	7.50
Real rate of investment return	2.4	3.5	6.9	5.7	6.8	4.28	5.07
Assumed [7]						4.33	4.40
Admin. expenses (% of assets)	0.1	0.1	0.1	0.1	0.1	0.10	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 This assumption has remained unchanged at 3.00% since the June 30, 2015 valuation
3 Effective with June 30, 2016 valuation, this assumption has been reduced from 3.75% to 3.50%.
4 This assumption has remained unchanged at 0.75% for General members and at 1.0% for Safety members since the June 30, 2013 valuation.
5 Based on actuarial value of assets, not market value or book value.
6 Effective with the June 30, 2016 valuation, this assumption has been decreased from 7.50% to 7.25%.
7 Effective with the June 30, 2016 valuation, this assumption has been decreased from 4.50% to 4.25%.

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 20 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 4.25 percent compensation increases per annum while Safety reciprocal members are assumed to receive 4.50 percent compensation increases per annum.

DISABILITY RATES

	Nonservice-Connected Disability		Service-Connected Disability	
Age	**General Members**	**Safety Members**	**General Members**	**Safety Members**
20	0.00%	0.00%	0.00%	0.03%
25	0.00%	0.00%	0.01%	0.08%
30	0.01%	0.00%	0.03%	0.18%
35	0.02%	0.05%	0.04%	0.33%
40	0.05%	0.08%	0.06%	0.52%
45	0.09%	0.08%	0.13%	0.63%
50	0.11%	0.08%	0.17%	1.22%
55	0.14%	0.10%	0.26%	1.84%
60	0.17%	0.12%	0.31%	2.30%
65	0.22%	0.05%	0.23%	2.50%

Source: Segal Consulting, Actuarial Valuation and Review

For General Members and all Beneficiaries, the post-retirement mortality table used is the Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with the two-dimensional scale MP2015D, set forward one year for females.

For Safety members, the post-retirement mortality table used is the Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with the two-dimensional scale MP2015D, set back two years. 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 five-year age set forward for males and four year set forward for females on post-retirement mortality for General members and a one-year age set forward for Safety members. Related values are shown below:

MORTALITY RATES

Sample ages	General		Safety	
	Male	Female	Male	Female
25	0.03	0.01	0.03	0.01
30	0.03	0.02	0.03	0.02
35	0.04	0.02	0.04	0.02
40	0.04	0.03	0.04	0.03
45	0.07	0.05	0.07	0.05
50	0.11	0.08	0.11	0.08
55	0.20	0.13	0.20	0.13
60	0.35	0.19	0.35	0.19
65	0.60	0.27	0.60	0.27

Source: Segal Consulting, Actuarial Valuation and Review

WITHDRAWAL RATES WITH LESS THAN 5 YEARS OF SERVICE

Years of service	Ordinary withdrawals (Less than 5 year of service)*	
	General	Safety
0	11.75%	9.00%
1	8.50%	7.00%
2	7.00%	4.00%
3	5.75%	3.00%
4	5.50%	2.90%

*65% of all terminating members will choose a refund of contributions and 35% will choose a deferred vested benefit.
Source: Segal Consulting, Actuarial Valuation and Review

WITHDRAWAL RATES – VESTED TERMINATION WITH 5 OR MORE YEARS OF SERVICE

Age	Ordinary Withdrawals and Vested*	
	General	Safety
20	5.35%	3.30%
25	4.84%	3.12%
30	4.20%	2.40%
35	3.64%	1.76%
40	2.86%	1.24%
45	2.44%	0.88%
50	2.40%	1.04%
55	2.40%	1.08%
60	2.40%	1.00%
65	2.40%	0.40%

*20% of all terminating members will choose a refund of contributions and 80% will choose a deferred vested benefit.
Termination rates are zero at ages where members are expected to retire.
Source: Segal Consulting, Actuarial Valuation and Review

RETIREMENT RATES (%)

	General			Safety		
Age	Tier I and Tier A	Tier B	Tier C	Tier A	Tier B	Tier C
45	–	–	–	2.0	2.0	–
46	–	–	–	2.0	2.0	–
47	–	–	–	2.0	2.0	–
48	–	–	–	3.0	3.0	–
49	65.0	–	–	9.0	3.5	–
50	6.0	–	–	14.0	11.0	14.0
51	4.0	–	–	12.0	11.0	9.5
52	4.0	–	4.0	11.0	10.0	9.5
53	5.0	–	4.0	15.0	11.0	9.5
54	6.0	–	4.0	15.0	12.0	10.5
55	10.0	5.0	4.0	15.0	19.0	16.5
56	10.0	6.0	4.5	18.0	22.0	19.0
57	10.0	7.0	5.5	18.0	20.0	20.0
58	11.0	7.0	5.5	19.0	20.0	20.0
59	15.0	7.0	5.5	20.0	20.0	22.0
60	18.0	9.0	7.0	22.0	22.0	22.0
61	20.0	13.0	10.0	25.0	25.0	25.0
62	23.0	19.0	14.0	25.0	25.0	25.0
63	24.0	19.0	15.0	25.0	25.0	25.0
64	25.0	19.0	15.0	25.0	25.0	25.0
65	31.0	30.0	26.0	50.0	50.0	50.0
66	35.0	30.0	30.0	50.0	50.0	50.0
67	33.0	30.0	30.0	50.0	50.0	50.0
68	32.0	30.0	30.0	50.0	50.0	50.0
69	31.0	30.0	30.0	50.0	50.0	50.0
70	35.0	35.0	35.0	100.0	100.0	100.0
71	35.0	35.0	35.0	100.0	100.0	100.0
72	35.0	35.0	35.0	100.0	100.0	100.0
73	35.0	35.0	35.0	100.0	100.0	100.0
74	40.0	40.0	40.0	100.0	100.0	100.0
75 and later	100.0	100.0	100.0	100.0	100.0	100.0

Source: Segal Consulting, Actuarial Valuation and Review

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: male retirees are 3 years older than their spouses, and female retirees are 2 years younger 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

STATISTICAL SECTION OVERVIEW

There are four categories included in this section: financial trends, demographic and economic information, expenses, and membership information. This data provides multi-year trend information with respect to SDCERA's activities over time.

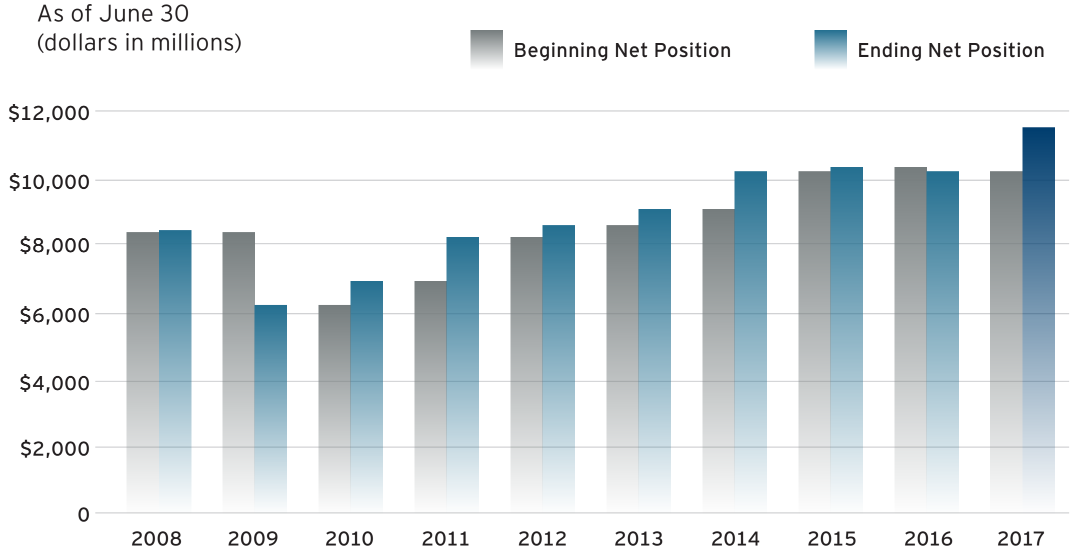
Financial trend information for the last 10 fiscal years is presented in the Net Position chart, the Changes in Pension Plan Net Position schedule and the Benefit and Refund Deductions from Net Position by Type schedules. The amount of additions from member contributions, employer contributions and investment 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 Pension Plan and OPEB Plan) show the number of Retired Members and the average monthly benefit for the last 10 years for the Pension 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. Administrative expenses, refunds and benefit payments of the Fund for the last 10 years are set out in detail.

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.

SDCERA NET POSITION
As of June 30
(dollars in millions)



CHANGES IN PENSION PLAN NET POSITION*

For the fiscal year ended June 30
(dollars in millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
ADDITIONS										
Member Contributions(1)	$ 45.5	$ 49.5	$ 46.4	$ 44.0	$ 59.8	$ 71.7	$ 78.9	$ 98.6	$ 104.6	$ 112.6
Employer Contributions(2)	329.0	314.5	276.7	321.8	334.8	357.9	394.7	414.8	405.6	438.8
Investment Income (Loss) (Net of expenses)	(4.8)	(2,143.9)	830.8	1,437.0	454.6	669.9	1,220.4	242.5	63.6	1,248.3
Total Additions	**$ 369.7**	**$(1,779.9)**	**$1,153.9**	**$1,802.8**	**$849.2**	**$1,099.5**	**$1,694.0**	**$755.9**	**$573.8**	**$1,799.7**
DEDUCTIONS										
Administrative Expenses	$ 10.5	$ 10.1	$ 10.4	$ 10.5	$ 10.9	$ 11.4	$ 12.7	$ 14.0	$ 13.8	$13.3
Retirement Benefits(1) (3)	368.6	399.9	431.1	461.6	496.3	540.5	$ 558.0	$ 589.7	$ 625.5	$ 647.1
Health Benefits	24.4	23.9	23.6	21.8	-	-	-	-	-	-
Refunds	2.7	2.3	2.6	3.1	3.4	2.8	2.8	2.6	3.6	3.5
Total Deductions	**$ 406.2**	**$ 436.2**	**$ 467.7**	**$ 497.0**	**$ 510.6**	**$ 554.7**	**$ 573.5**	**$606.3**	**$642.9**	**$ 663.9**
Total Change in Pension Plan Net Position	**$ (36.5)**	**$(2,216.1)**	**$ 686.2**	**$1,305.8**	**$338.6**	**$ 544.8**	**$ 1,120.5**	**$ 149.6**	**$ (69.1)**	**$1,135.8**

* Prior to 2012, includes health care net position.
Notes:
(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.

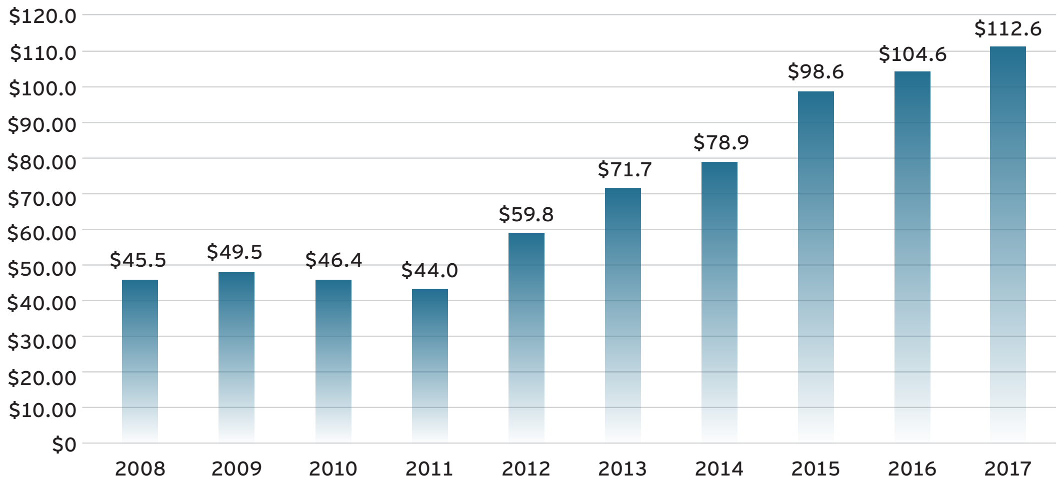
CHANGES IN OPEB NET POSITION

For the fiscal year ended June 30
(dollars in millions)

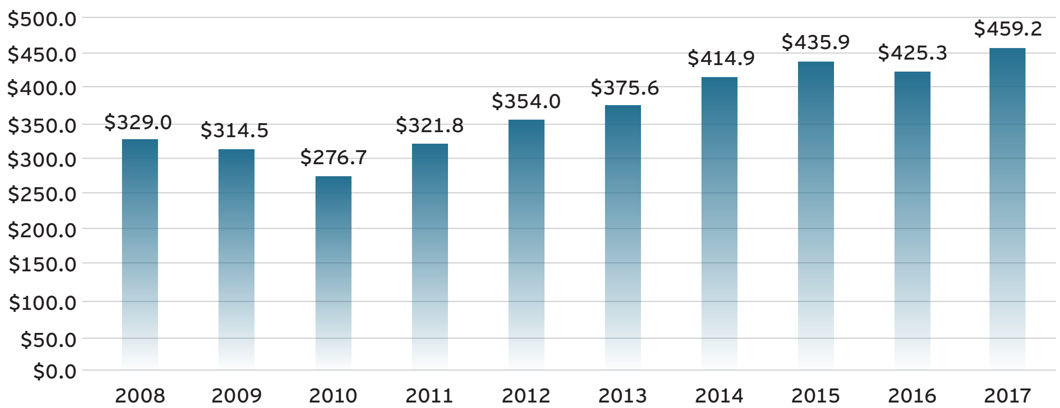
	2012	2013	2014	2015	2016	2017
Additions						
Employer Contributions	19.2	19.0	20.2	21.0	19.7	21.0
Investment Income (Net of expenses)	0.2	0.3	0.5	0.1	0.0	0.2
Total additions	**$19.4**	**$19.3**	**$20.7**	**$21.1**	**$19.7**	**$21.2**
Deductions						
Administrative Expenses	$0.2	$–	$–	$–	$0.1	$0.8
Health Benefits	21.3	20.4	20.0	19.3	18.4	17.6
Total deductions	$21.5	$20.4	$20.0	$19.3	$18.5	$18.4
Total change in OPEB Plan Net Position	**$ (2.1)**	**$ (1.1)**	**$ 0.7**	**$ 1.8**	**$ 1.2**	**$ 2.8**

ADDITIONS TO FIDUCIARY NET POSITION BY SOURCE

MEMBER CONTRIBUTIONS
For the fiscal year ended June 30
(dollars in millions)

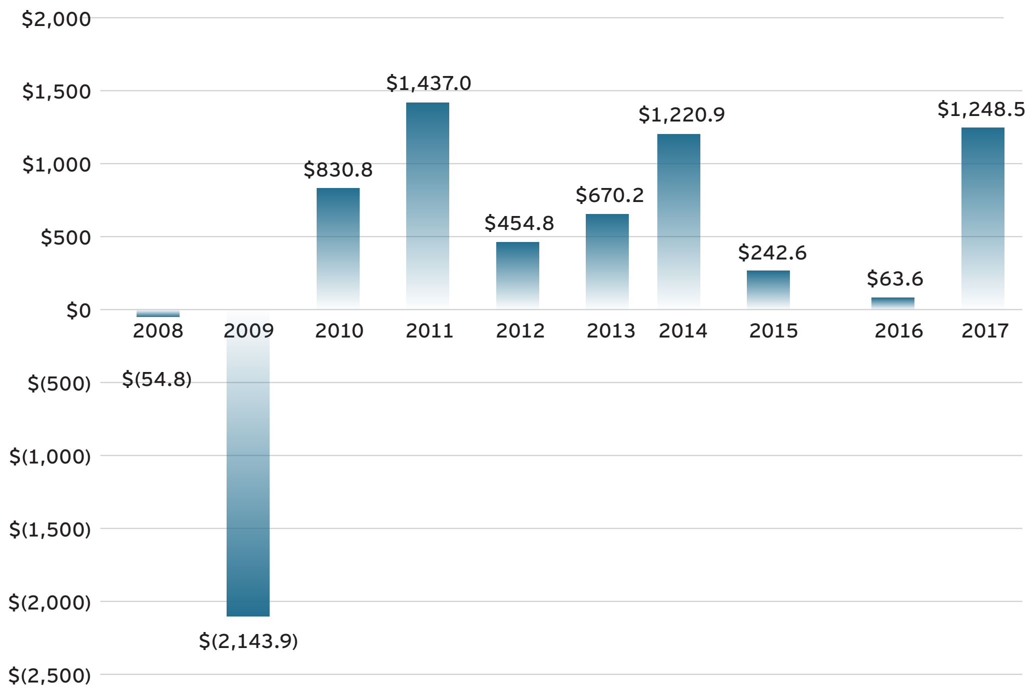


EMPLOYER CONTRIBUTIONS
For the fiscal year ended June 30
(dollars in millions)



INVESTMENT INCOME (LOSS)

For the fiscal year ended June 30
(dollars in millions)



BENEFIT AND REFUND DEDUCTIONS FROM NET POSITION BY TYPE

For the last 10 fiscal years ended June 30 (dollars in millions)

Type of benefit	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Age and service	$ 301.8	$ 310.8	$ 357.5	$ 386.8	$ 418.0	$ 456.0	$ 470.3	$ 490.1	$ 520.6	$ 539.3
Disability - Duty	16.9	37.7	41.4	42.8	45.1	48.0	49.1	49.8	51.9	53.5
Disability - Non-duty	26.9	5.6	6.2	5.9	6.1	6.3	6.6	6.3	6.3	5.9
Death benefits	0.9	1.8	1.4	1.2	1.6	1.3	1.5	1.2	1.6	1.7
Survivors	22.0	24.0	24.5	24.8	25.5	28.9	30.5	42.3	45.0	46.6
Total	**$ 368.5**	**$ 379.9**	**$ 431.0**	**$ 461.5**	**$ 496.3**	**$ 540.5**	**$ 558.0**	**$ 589.7**	**$ 625.4**	**$ 647.0**
Type of refund										
Separation	2.7	2.3	2.6	3.1	3.4	2.8	2.7	2.6	3.6	3.6
Total	**$ 2.7**	**$ 2.3**	**$ 2.6**	**$ 3.1**	**$ 3.4**	**$ 2.8**	**$ 2.7**	**$ 2.6**	**$ 3.6**	**$ 3.6**

RETIRED MEMBERS BY TYPE OF BENEFIT

Fiscal year 2017		Type of Retirement*					
Amount of Monthly Benefit	**Number of Retired Members**	**1**	**2**	**3**	**4**	**5**	**6**
$0 – $1,000	3,509	2,715	444	161	15	46	128
1,001 – 2,000	4,506	3,337	452	127	282	186	122
2,001 – 3,000	3,203	2,410	239	47	386	57	64
3,001 – 4,000	2,381	1,733	123	22	424	13	66
4,001 – 5,000	1,427	1,201	65	8	126	6	21
5,001 – 6,000	963	871	36	4	42	3	7
6,001 – 7,000	752	689	16	–	43	1	3
7,001 – 8,000	511	474	8	1	27	–	1
8,001 – 9,000	354	331	4	1	18	–	–
9,001 – 10,000	224	211	2	–	10	–	1
Over 10,000	417	399	1	–	15	–	2
Total	**18,247**	**14,371**	**1,390**	**371**	**1,388**	**312**	**415**

RETIRED MEMBERS BY TYPE OF BENEFIT

Fiscal Year 2016		Type of Retirement*					
Amount of Monthly Benefit	**Number of Retired Members**	**1**	**2**	**3**	**4**	**5**	**6**
$0 – $1,000	3,534	2,729	416	190	14	55	130
1,001 – 2,000	4,424	3,271	421	133	283	197	119
2,001 – 3,000	3,205	2,378	240	59	407	53	68
3,001 – 4,000	2,248	1,647	101	18	403	15	64
4,001 – 5,000	1,332	1,140	62	10	100	6	14
5,001 – 6,000	910	828	32	3	39	2	6
6,001 – 7,000	708	652	12	–	39	1	4
7,001 – 8,000	491	454	8	1	28	–	–
8,001 – 9,000	331	314	3	–	14	–	–
9,001 – 10,000	187	174	2	–	10	–	1
Over 10,000	364	347	1	–	14	–	2
Total	**17,734**	**13,934**	**1,298**	**414**	**1,351**	**329**	**408**

*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, Annual Actuarial Valuation

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

RETIRED MEMBERS BY TYPE OF BENEFIT OPTION SELECTED

Fiscal Year 2017

		Option Selected*						
Amount of Monthly Benefit	Number of Retirees and Beneficiaries	Unmodified	1	2	3	4	Death - Minor Child Supplement	Lump-Sum Installment
$0 – $1,000	3,509	3,294	52	156	2	3	1	1
1,001 – 2,000	4,506	4,303	66	122	4	9	–	2
2,001 – 3,000	3,203	3,075	40	73	3	12	–	–
3,001 – 4,000	2,381	2,291	30	49	–	10	–	1
4,001 – 5,000	1,427	1,370	17	29	2	9	–	–
5,001 – 6,000	963	922	11	24	–	6	–	–
6,001 – 7,000	752	732	7	13	–	–	–	–
7,001 – 8,000	511	492	7	10	–	2	–	–
8,001 – 9,000	354	345	1	3	2	3	–	–
9,001 – 10,000	224	217	3	4	–	–	–	–
Over 10,000	417	410	2	2	–	3	–	–
Total	**18,247**	**17,451**	**236**	**485**	**13**	**57**	**1**	**4**

RETIRED MEMBERS BY TYPE OF BENEFIT OPTION SELECTED

Fiscal Year 2017

		Option Selected*						
Amount of Monthly Benefit	Number of Retirees and Beneficiaries	Unmodified	1	2	3	4	Death - Minor Child Supplement	Lump-Sum Installment
$0 – $1,000	3,534	3,320	52	156	2	3	–	1
1,001 – 2,000	4,424	4,235	63	112	4	9	–	1
2,001 – 3,000	3,205	3,079	41	69	3	13	–	–
3,001 – 4,000	2,248	2,160	29	49	1	8	–	1
4,001 – 5,000	1,332	1,278	16	27	2	9	–	–
5,001 – 6,000	910	873	11	21	–	5	–	–
6,001 – 7,000	708	687	7	14	–	–	–	–
7,001 – 8,000	491	474	6	7	1	3	–	–
8,001 – 9,000	331	321	3	4	1	2	–	–
9,001 – 10,000	187	184	2	1	–	–	–	–
Over 10,000	364	357	1	3	–	3	–	–
Total	**17,734**	**16,968**	**231**	**463**	**14**	**55**	**-**	**3**

*Option 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 of member's unused contributions
Option 2 - Beneficiary receives 100 percent of member's reduced monthly benefit
Option 3 - Beneficiary receives 50 percent of member's reduced monthly benefit
Option 4 - Split account paid to ex-spouse of member.
Death-Minor Child Supplement - Paid to minor child of deceased member with no surviving spouse.
Lump sum installment - Death benefit paid in installments.
Source: The Segal Company, Annual Actuarial Valuation
Note: Above amounts are number of benefits paid. Some payees receive multiple benefits, ie., Retiree and surviving spouse.

AVERAGE BENEFIT PAYMENTS (PENSION PLAN)

For fiscal year ended June 30

	Years of Credited Service						
Retirement Effective	**0-5**	**5-10**	**10-15**	**15-20**	**20-25**	**25-30**	**30+**
2017							
Average annual benefit	$ 6,215	$ 13,432	$ 22,049	$ 32,922	$ 47,252	$ 70,354	$ 82,145
Average monthly benefit	$518	1,119	1,837	2,743	3,938	5,863	6,845
Average final monthly salary	$ 7,829	$ 5,149	$ 5,272	$ 5,722	$ 6,280	$ 7,302	$ 7,205
Number of retired members	32	108	168	161	100	151	77
2016							
Average annual benefit	$ 7,845	$ 12,054	$ 21,110	$ 35,637	$ 43,210	$ 62,040	$ 78,949
Average monthly benefit	$ 654	$ 1,005	$ 1,759	$ 2,970	$ 3,601	$ 5,170	$ 6,579
Average final monthly salary	$ 7,067	$ 5,076	$ 5,238	$ 5,984	$ 5,865	$ 6,538	$ 7,000
Number of retired members	26	133	163	162	124	136	97
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
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
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
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
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
2010							
Average annual benefit	$ 10,745	$ 20,486	$ 31,420	$ 45,480	$ 58,630	$ 78,128	$ 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
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
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

Source: Segal Consulting

AVERAGE BENEFIT PAYMENTS (OPEB)

For the fiscal year ended June 30

	Health Insurance Reimbursement	Medical Payments	Medicare Part B
2017			
Average monthly benefit	$ 214	$ 245	$ 94
Number of retired members	931	3,512	4,005
2016			
Average monthly benefit	$ 197	$ 265	$ 94
Number of retired members	918	3,375	4,050
2014			
Average monthly benefit	$ 196	$ 243	$ 93
Number of retired members	1,148	4,331	4,657
2012			
Average monthly benefit	$ 196	$ 243	$ 93
Number of retired members	1,148	4,331	4,657
2010			
Average monthly benefit	$ 191	$ 249	$ 93
Number of retired members	1,341	4,924	5,164

Source: Segal Consulting, OPEB Actuarial Valuation reports.

SCHEDULE OF PARTICIPATING EMPLOYERS

For the fiscal year 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
2017						
Number of covered employees	41,900	39,316	2,534	26	13	11
Percentage to total system	100.00%	93.83	6.05	0.06	0.03	0.03
Rank		1	2	3	4	5
2016						
Number of covered employees	40,915	38,403	2,461	25	15	11
Percentage to total system	100.00%	93.86	6.01	0.06	0.04	0.03
Rank		1	2	3	4	5
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
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	
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
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
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
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
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
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

Source: Segal Consulting

SDCERA

San Diego County Employees
Retirement Association
San Diego County, CA

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