

Summary Annual Financial Report

For the Fiscal Year ended 6/30/2010

San Mateo County
Employees' Retirement Association

SamCERA



Introduction

SamCERA's Comprehensive Annual Financial Report is the source of the data in this summary. The goal of the Summary Report is to provide an easy to read format that allows members and others to quickly assess the financial status of the retirement system.

Financial Reporting Standards Achieved

For the 13th consecutive year, the Government Finance Officers Association (GFOA) has awarded SamCERA its Certificate of Achievement for Excellence in Financial Reporting. This award was in recognition of SamCERA's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2009.

SamCERA continues to maintain the highest financial reporting standards while providing quality services to its members.



The Road Back

by David Bailey, Chief Executive Officer

The last few years have been challenging for public pension plans. With investment markets declining and employer contributions increasing, public plans have received increasing examination as society seeks solutions to the larger financial crisis brought on by the Great Recession. Rising pension plan costs have prompted a national debate about not only plan costs but benefits levels and the methods used to project future costs.

Regarding plan costs: As a result of the steep decline in the fund value in recent fiscal years, SamCERA, like nearly all defined benefit plans, increased its required employer contributions to keep plan funding on track. Fortunately, the most recent fiscal year was a good one for the fund, with total earnings of 12.8%.

Even with the strong earnings for FY 2009-10, the need for higher employer contributions is likely to continue for several years because most of the losses of recent years remain to be made up. The Retirement Board voted in September to maintain employer rates at their current level when the new fiscal year begins in July 2011. Member contribution rates are not affected by investment gains or losses and will be unchanged for the next fiscal year.

Regarding plan benefits: Benefits are protected by law for active and retired members. Employers may negotiate lower benefit levels for employees to be hired in the fu-

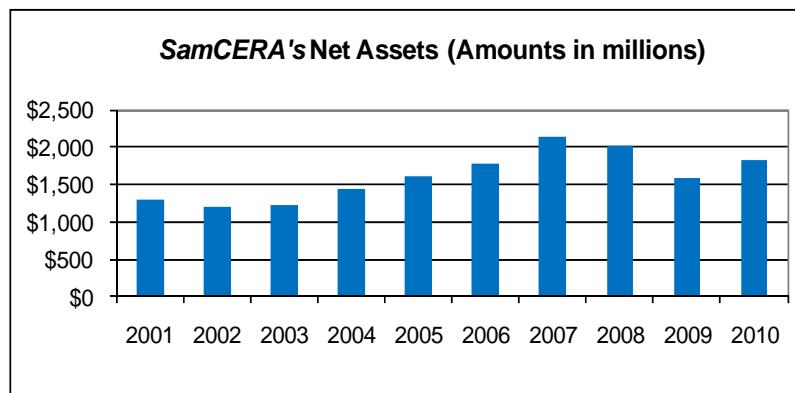
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Condensed Statement Summary of Net Assets	6/30/2010	6/30/2009	Dollar Change	Percent Change
Investments at Fair Value	\$1,753,167,629	\$1,565,558,673	\$187,608,956	12%
Other Assets	\$352,017,057	\$264,382,782	\$87,634,275	33%
Total Assets	\$2,105,184,686	\$1,829,941,455	\$275,243,231	15%
Total Liabilities	\$289,288,231	\$238,541,897	\$50,746,334	21%
Net Assets	\$1,815,896,455	\$1,591,399,558	\$224,496,897	14%

Condensed Statement Change in Net Assets	6/30/2010	6/30/2009	Dollar Change	Percent Change
Employer Contribution	\$106,265,329	\$106,123,055	\$142,274	0.1%
Employee Contribution	\$50,318,477	\$50,371,591	-\$53,114	-0.1%
Net Investment Gain	\$196,154,476	-\$455,678,042	\$651,832,518	143%
Other Revenue	\$41,474	-\$15,957	\$57,431	360%
Total Additions	\$352,779,756	-\$299,199,353	\$651,979,110	218%
Retiree Benefit	\$122,141,091	\$113,990,807	\$8,150,284	7%
Member Refund	\$2,736,025	\$2,794,916	-\$58,891	-2%
Admin Expense	\$3,372,967	\$3,286,995	\$85,972	3%
Other Expense	\$32,776	\$67,139	-\$34,363	-51%
Total Disbursement	\$128,282,859	\$120,139,857	\$8,143,002	7%
Net Additions	\$224,496,897	-\$419,339,210	\$643,836,107	154%

Economic Events Experienced in FY 2009-2010

The year began with signs that improvements in the capital markets were underway. Global equity markets rallied strongly and credit markets began to function more normally as liquidity and confidence returned. As the year progressed, investor consensus grew that the risk of a systematic market failure had passed and markets continued their uneven but largely positive path. Investor fear abruptly returned in the last quarter of the fiscal year, but as the new year began positive sentiment has returned.



Asset Allocation

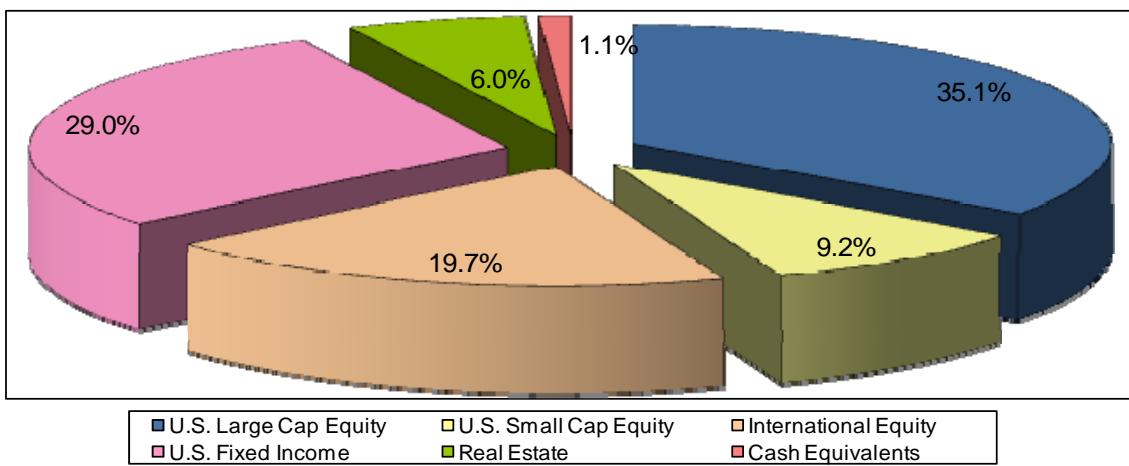
The biggest challenge facing the fund last year was to properly diversify the plan's assets. To meet the challenge the trustees embarked upon a study to model the assets and liabilities.

The study was completed in August, after the close of the fiscal year. The board adopted a new asset allocation, which allows for 20% of the portfolio to be invested in alternative assets. The alternative portfolio will be represented by private equity, which will be 8% of the total portfolio, risk parity 6%, commodities 3%, and hedge fund strategies 3%. Funding for the alternatives comes by reducing equities from 67% to 53%, fixed income from 27% to 22% and real estate from 6% to 5%.

Investments at Fair Market Value (Amounts in 000s)

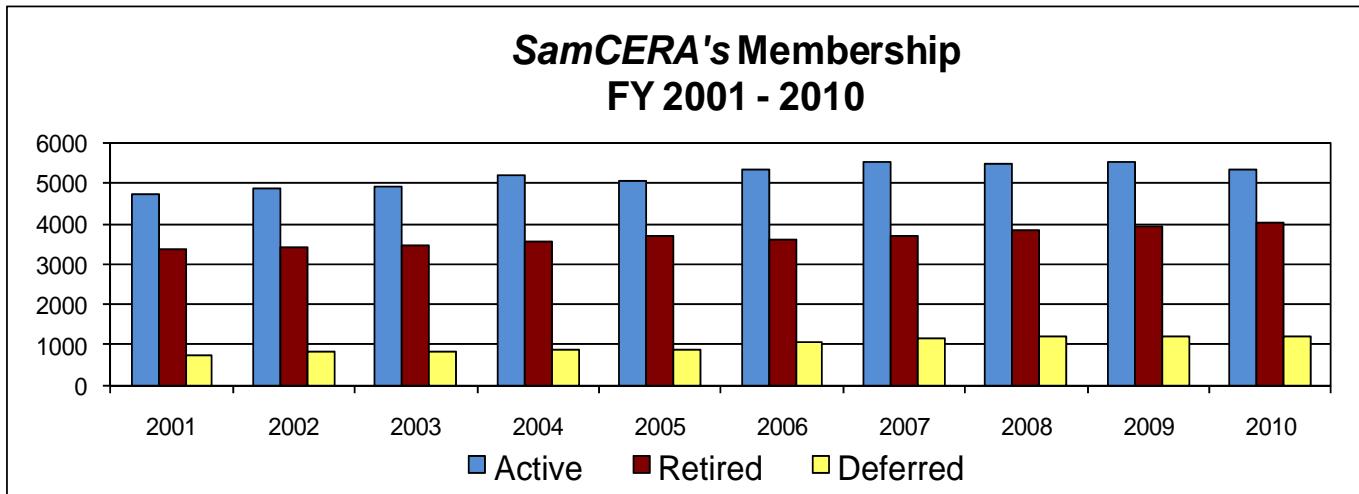
Investment Asset Class	Market Value 6/30/2010	1 Yr Return	3 Yr Return	5 Yr Return
Large Cap U.S. Equity	\$637,489	13.55%	-10.87%	-1.49%
Small Cap U.S. Equity	\$166,563	25.67%	-12.63%	-3.27%
International Equity	\$357,559	8.02%	-12.66%	2.52%
U.S. Fixed Income	\$525,730	17.00%	5.97%	4.79%
Real Estate	\$109,210	-7.29%	-10.92%	0.06%
Cash	\$19,345	0.85%	0.72%	2.04%
Total	\$1,815,896	12.80%	-6.39%	1.14%

Asset Allocation as of June 30, 2010



First Membership Decline in Recent Years

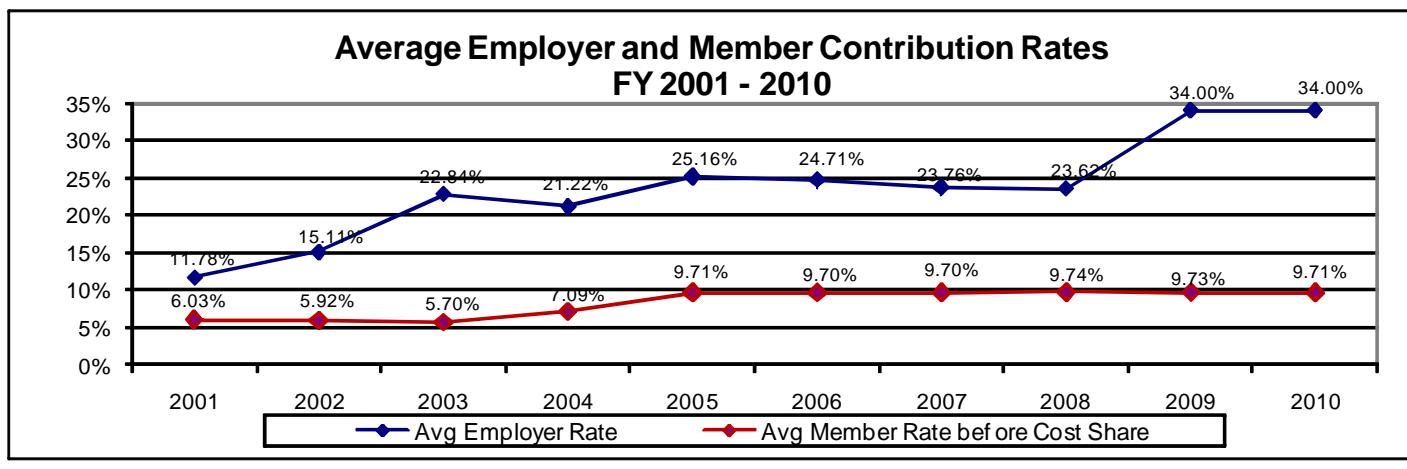
SamCERA's members include all permanent employees and retirees of the County of San Mateo and the San Mateo County Mosquito & Vector Control District. Membership declined 1.4% during fiscal year 2009-2010. As of June 30, 2010, there were a total of 10,556 members. The total included a decline of 3.5% in active members (from 5,543 to 5,347), a 1.7% increase in retirees and beneficiaries (3,935 to 4,002), and a 1.9% decline in deferred members (1,230 to 1,207). More than 85% of members are General Members. The remainder are law enforcement employees - either Safety or Probation Safety Members. The average active member was 45.4 years old with 10.2 years of service and earned \$6,813 per month.



Additions and Deductions to Fiduciary Net Assets

SamCERA's net assets are held in trust for pension benefits. During the fiscal year ending 6/30/2010, total net assets increased \$224.5 million or about 14% primarily as a result of positive investment returns. The actuarial funded ratio, determined by taking total valuation assets as a percentage of actuarial accrued liability increased from 63.9% to 70.3%; the number indicates that assets are 30% less than liabilities. Total revenue (additions to fiduciary net assets) for the year was \$352.8 million with employer contributions of \$106.3 million, member contributions of \$50.3 million, and investment gains of \$196.2 million. Total expenses (deductions in fiduciary net assets) increased about 6.8% from \$120.1 million to \$128.3 million. Expenses included \$122.2 million in benefit payments, \$2.7 million in member refunds and \$3.4 million in administrative expenses. The average monthly pension benefit increased 3.2% from \$2,521 to \$2,601.

The average retiree was 71.3 years old and received \$2,601 per month.



SamCERA

San Mateo County Employees' Retirement Association

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www.samcera.org



Copies of the Comprehensive Annual Financial Report and this report are available on the SamCERA website, or you may call 650-599-1234 for a copy.

The Road Back

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ture, but current employees and retirees have a contract right to continue to earn the same retirement benefits they are earning today.

Regarding methods to project future costs: SamCERA projects future earnings to average 7.75% per year over the long term, which is about average among U.S. pension plans. SamCERA reviews its actuarial assumptions in the fall of each year working with Milliman, Inc., a respected and long-established pension actuarial firm. While the Retirement Board may consider a lower assumed earnings rate, a radical downward shift is not supported by historical earnings records or by the long-term earnings projections of its investment consulting firm, Strategic Investment Solutions of San Francisco.

Over the last several months the Retirement Board has continued to diversify the fund, thoughtfully increasing the number and variety of investment approaches. Its efforts were recognized in March 2010 with a nomination as the Mid-Sized Plan of the Year by "The Money Management Letter."

The U.S economy has recovered from every recession and is in the process of recovering from the current one. The road back to stronger plan funding may be bumpy, but the SamCERA board and staff will continue to work hard to keep the plan on track. Last year's 12+% earnings are a step in the right direction, and as the world and U.S. economies recover so will SamCERA.

2009-2010 Board of Retirement

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Lee Buffington, Secretary, County Treasurer

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Bette Perrotton Stuart

David Spinello

Eric Tashman

Lauryn Agnew

Natalie Kwan Lloyd

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John Murphy, Retired Member Alternate



2009-2010 Staff

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Chezelle Milan, Retirement Senior Accountant

Christopher Hawkins, Retirement Sys Technologist

David Bailey, Chief Executive Officer

Elizabeth LeNguyen, Retirement Analyst

Gary Clifton, Chief Investment Officer

Gladys Smith, Retirement Benefits Manager

Janell LeBlanc, Senior Retirement Analyst

Joyce Balajadia, Retirement Support Specialist

Lilibeth Dames, Retirement Investment Analyst

Mabel Wong, Retirement Finance Officer

Mel Cruz, Retirement Analyst—Controller

Scott Hood, Assistant Executive Officer

Sue Thompson, Retirement Analyst

Tariq Ali, Retirement Chief Technology Officer

Funding Ratio (Actuarial Value of Assets over Actuarial Accrued Liabilities)

