



Annual Financial Report Summary

FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010
SACRAMENTO, CALIFORNIA



SACRAMENTO COUNTY
EMPLOYEES'
RETIREMENT SYSTEM



MESSAGE TO SCERS MEMBERS

As Chief Executive Officer of the Sacramento County Employees' Retirement System ('SCERS' or 'the System'), I am pleased to present the SCERS Annual Financial Report Summary for the fiscal year ended June 30, 2011. This report provides information on the financial status of your retirement system and is based on the Comprehensive Annual Financial Report ('CAFR') prepared by the System each year. The full CAFR for the fiscal years ended June 30, 2011 and 2010, and other important information about your retirement system, can be found on the SCERS website, www.scers.org.

SCERS' investment performance for the fiscal year ended June 30, 2011 improved dramatically from the negative levels of 2008-2009, with SCERS' total fund returning 22.7%, gross of fees, for the period. This resulted in an increase of more than \$1.160 billion in SCERS' net assets compared to the previous fiscal year, illustrating how, as a long-term investor, SCERS is able to capitalize on the investment opportunities that often follow a market downturn. The strong investment returns and increase in assets also illustrates SCERS' capacity for recovering from disruptions in the financial markets.

On a cautionary note, while the investment performance for the past two fiscal years has been strong, the investment markets have been weaker in the current fiscal year to-date, which may present challenges in meeting the investment return assumption for the fiscal year. It is also unclear how much growth there will be in the economy over the next few years, which can also curtail investment performance.

That being said, SCERS has made remarkable progress in recovering from the market collapse, and the remaining impact of that negative experience is back within manageable levels. SCERS continues to be in strong financial condition, with an 87% funded ratio. SCERS also continues to maintain a strong, positive cash flow, with income from employer and employee contributions and investments comfortably in excess of benefit payments and expenses. Accordingly, irrespective of the pace of economic recovery, because of the way SCERS is designed and operated, SCERS' benefits will remain secure and be paid as promised.

I hope that you find the information in this report helpful in assessing the financial health of your retirement system. I also invite you to review the extensive array of financial, actuarial and benefit information available on the SCERS website, as well as the news items and educational materials. I believe you will see that SCERS operates in an open and transparent manner designed to let our stakeholders confirm that we carry out our responsibilities in managing the retirement system in accordance with the highest fiduciary and professional standards.

On behalf of the SCERS Board of Retirement, and the rest of the staff at SCERS, we look forward to continuing to address your retirement questions and needs.

Respectfully Submitted,



Richard Stensrud
Chief Executive Officer

FINANCIAL STATEMENTS

Fiduciary Net Assets

Net assets represent the accumulation of assets which exceed liabilities, which are available to meet SCERS' obligations to plan participants and beneficiaries. SCERS had \$6.141 billion in net assets held in trust for pension benefits as of June 30, 2011. This represented an increase of \$1.160 billion or 23.3% from the \$4.981 billion in net assets as of June 30, 2010. The net investment gain for the fiscal year ended June 30, 2011 was due to improved investment returns as SCERS continued to experience a strong recovery from the negative levels of fiscal year 2008-2009.

CHANGE IN FIDUCIARY NET ASSETS

For the Fiscal Years Ended June 30

(Dollar Amounts Expressed in Millions)

	2011	2010	Increase/ (Decrease)	% Change
Additions				
Employee contributions	\$57.2	\$52.4	\$4.8	9.2%
Employer contributions	182.9	167.1	15.8	9.5
Net income from investment activities	1,228.4	635.1	593.3	93.4
Net income from securities lending	2.0	2.3	(0.3)	(13.0)
Other income	4.7	4.8	(0.1)	(2.1)
Investment fees and expenses	(28.4)	(24.7)	(3.7)	(15.0)
Total additions	1,446.8	837.0	609.8	72.9
Deductions				
Benefits paid	276.2	253.1	23.1	9.1
Withdrawal of contributions	4.4	4.9	(0.5)	(10.2)
Administrative expenses	6.6	5.9	0.7	11.9
Total deductions	287.2	263.9	23.3	8.8
Increase in net assets	1,159.6	573.1	586.5	102.3
Net assets held in trust for pension benefits, beginning	4,981.0	4,407.9	573.1	13.0
Net assets held in trust for pension benefits, ending	\$6,140.6	\$4,981.0	\$1,159.6	23.3%

Additions to Net Assets

Financing for the benefits SCERS provides to its participants comes primarily from income on investments and the retirement contributions made by employers and employees. For the fiscal year ended June 30, 2011, the total additions were \$1.447 billion. For the fiscal year ended June 30, 2010, the total additions were \$837.0 million.

Net investment gains were \$1.207 billion and \$617.5 million for the fiscal years ended June 30, 2011 and 2010, respectively.

For the years ended June 30, 2011 and 2010, the combined employer and employee contributions were \$240.1 million and \$219.5 million, respectively. The increases in employer and employee contributions in fiscal year 2011 were primarily due to an increase in contribution rates.

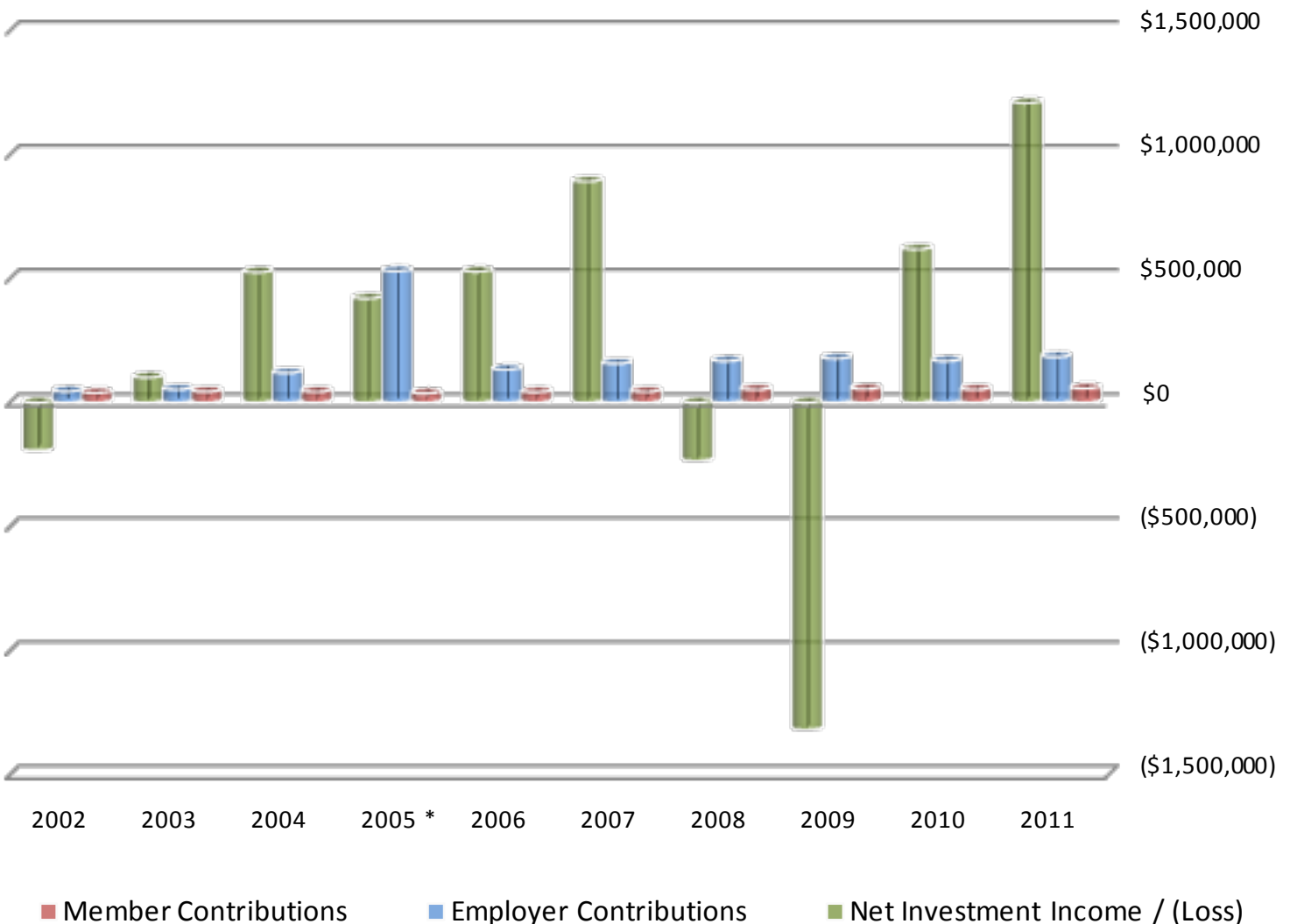


Additions to Net Assets (continued)

(Dollar Amounts Expressed in Millions)

Year Ended June 30:	Employee Contributions	Employer Contributions	Net Investment Income / (Loss)	Total
2011	\$57.2	\$182.9	\$1,206.7	\$1,446.8
2010	52.4	167.1	617.5	837.0
2009	54.6	177.0	(1,318.4)	(1,086.8)
2008	52.1	167.1	(234.8)	(15.6)
2007	42.9	156.8	891.5	1,091.2
2006	42.0	132.7	527.9	702.6
2005	36.9	529.6*	419.5	986.0
2004	42.9	119.1	525.2	687.2
2003	43.7	52.8	100.8	197.3
2002	38.4	44.5	(194.1)	(111.2)

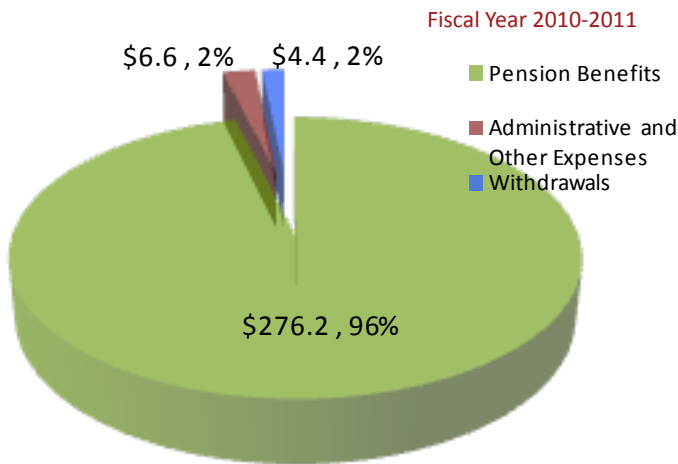
Financing for the benefits SCERS provides to its participants comes primarily from income on investments and the retirement contributions made by employers and employees.



* In fiscal year 2004-2005, employer contributions included \$420.0 and \$10.5 in proceeds from pension obligation bonds (POB) issued by the County of Sacramento and Sacramento Metropolitan Fire District, respectively.

Deductions from Net Assets

(Dollar Amounts Expressed in Millions)



SCERS' assets were primarily used for the payment of benefits to members and their beneficiaries, for the payment of contribution withdrawals to terminated employees, and for the cost of administering the retirement system. For the years ended June 30, 2011 and 2010, total deductions were \$287.2 million and \$263.9 million, respectively. The primary reasons for the increase in deductions were higher monthly benefit payments resulting from the annual cost-of-living adjustment and a net increase in retirees.

Year Ended June 30:	Pension Benefits	Administrative and Other Expenses	Withdrawal	Total
2011	\$276.2	\$6.6	\$4.4	\$287.2
2010	253.1	5.9	4.9	263.9
2009	232.3	6.0	3.3	241.6
2008	214.9	5.9	3.2	224.0
2007	196.0	5.8	4.4	206.2
2006	178.4	5.1	4.6	188.1
2005	162.5	5.3	3.5	171.3
2004	153.8	6.7	4.0	164.5
2003	123.1	31.8	2.9	157.8
2002	113.5	5.5	3.5	122.5

Note: For the years ended June 30, 2004 and 2003, Administrative and Other Expenses include retroactive benefits of \$0.8 and \$25.9, respectively, related to the Ventura litigation settlement.

Reserves

SCERS' reserves are established in accordance with requirements of the County Employees' Retirement Law of 1937, after satisfying administrative and investment expenses. For actuarial purposes, SCERS utilizes a multi-year smoothing methodology under which a portion of the market gains and losses is recognized and allocated to the reserves through interest crediting. Gains or losses incurred prior to July 1, 2008 are amortized over a five-year period. Gains or losses incurred after July 1, 2008 are amortized over a seven-year period. The difference between market value of assets (equivalent to fiduciary net assets) and the smoothed actuarial value of assets is tracked in the market stabilization reserve. As of June 30, 2011 and 2010, the market stabilization reserve was \$(280.2) million and \$(1,236.0) million, respectively.

Net Assets Available for Benefits at Fair Value

(Dollar Amounts Expressed in Millions)

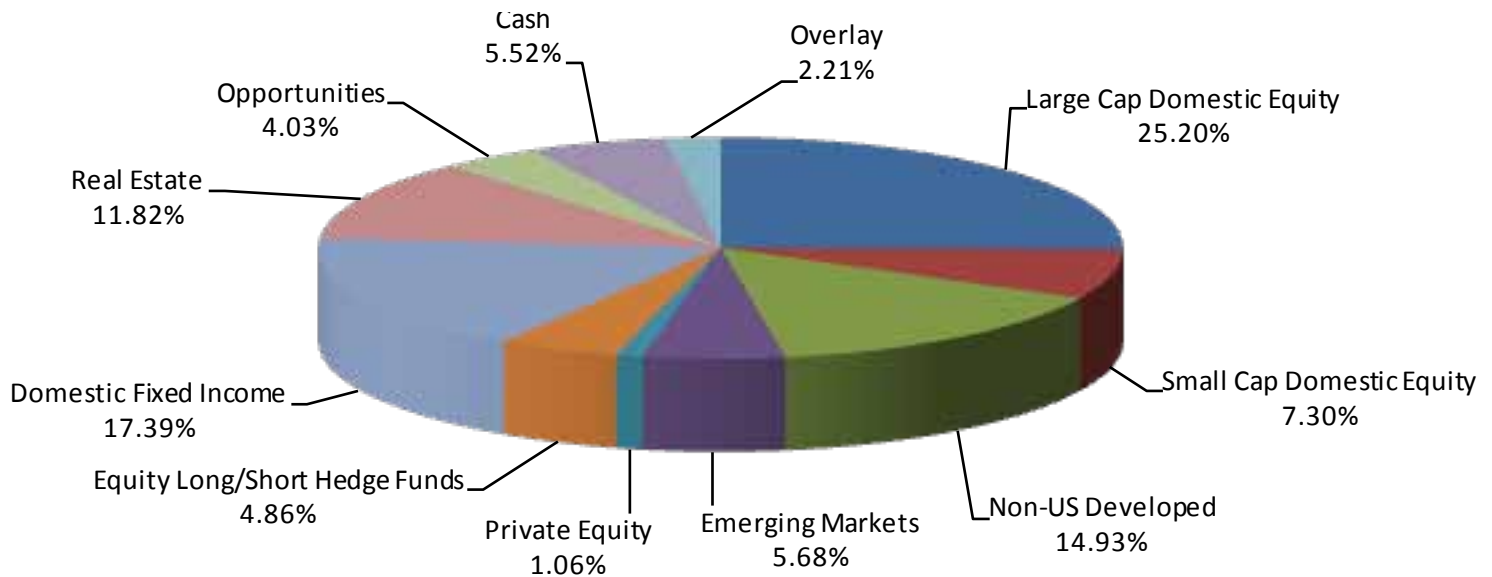
As of June 30	2011	2010
Employee reserves	\$655.8	\$648.6
Employer reserves	2,339.4	2,358.6
Retiree reserves	3,333.2	3,116.5
Retiree death benefit reserves	14.7	14.7
Retiree health care benefits designations	0.7	1.6
Contingency reserve	77.0	77.0
Total allocated reserves and designation	6,420.8	6,217.0
Unallocated earnings	-	-
Smoothed actuarial value of assets	6,420.8	6,217.0
Market stabilization reserve	(280.2)	(1,236.0)
Net assets available for benefits, at fair value	\$6,140.6	\$4,981.0



INVESTMENT PERFORMANCE

Asset Allocation as of June 30, 2011

SCERS maintains an overall investment policy designed to achieve a diversified investment portfolio. An integral part of the investment policy is the strategic asset allocation, which is designed to provide an optimal mix of asset classes with return expectations that correspond to expected liabilities. The strategic asset allocation also emphasizes maximum diversification of the portfolio to protect the System from the possibility that a particular asset class may experience poor investment performance in a given period.



Annualized Returns*

Asset Class	Fair Value (In Millions)	1 Year	3 Years	5 Years
Domestic Equity	\$1,993.4	33.2%	3.9%	2.8%
International Equity	1,261.7	28.9	1.3	4.7
Hedge Fund of Funds	298.1	11.4	(0.4)	2.9
Private Equity**	68.4	8.8	(19.7)	N/A
Fixed Income	1,160.1	7.2	10.0	8.4
Real Estate***	859.5	27.4	(4.3)	1.3
Futures Overlay	135.6	N/A	N/A	N/A
Opportunities	247.9	30.7	(0.9)	N/A
Cash*	352.9	0.4	0.0	1.7
Total Cash and Investments	\$6,337.6	22.7%	2.7%	4.1%

* Returns shown on a gross of fee basis and includes the overlay, which rebalances asset classes and invests un-invested cash to replicate asset allocation policy targets

** Although fair value reported is as of June 30, 2011, returns cited are delayed one quarter.

*** Although fair value reported is as of June 30, 2011, returns cited for certain Real Estate segments are delayed one quarter.

Based on peer comparison, SCERS' one-year performance ranked in the 30th percentile in the State Street/ICC Universe for public funds with assets greater than \$1 billion.

Investment Performance (continued)

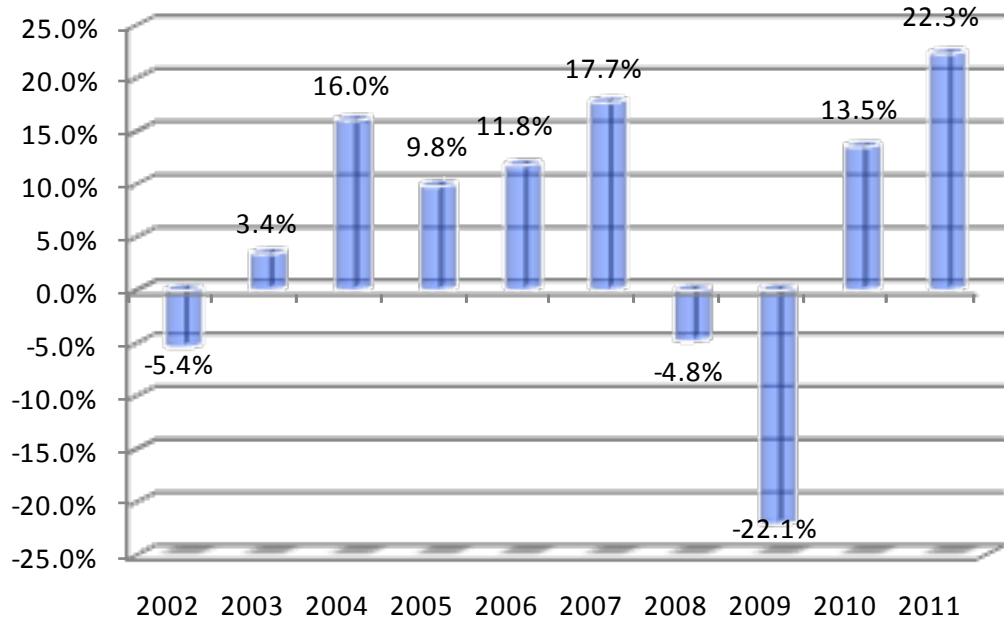
For the fiscal year ended June 30, 2011, SCERS' investments provided a 22.3% gain (net of fees) compared to a 13.5% gain (net of fees) for the fiscal year ended June 30, 2010.

The net investment gain for the fiscal year ended June 30, 2011 was due to improved investment returns as SCERS continued to experience a strong recovery from the negative levels of fiscal year 2008-2009.

The overriding investment philosophy followed by SCERS continues to center on the principle of diversification and the search for long-term value. For the latest information, review the SCERS website, www.scers.org.

Net Investment Returns

Fiscal Year Ended June 30



ACTUARIAL SUMMARY

Actuarial Funding Status

SCERS' overall funding objective is to meet long-term benefit promises by maintaining a well-funded plan status through a combination of superior investment returns and employer and employee contributions which are both minimized and maintained as level as possible for each generation of active members. SCERS retains an independent actuarial firm, The Segal Company, to perform an annual actuarial valuation to monitor the funding status of the System.

An actuarial valuation is similar to an inventory process. On the valuation date, the assets available for the payment of retirement benefits are appraised. These assets are compared with the actuarial liabilities, which are the actuarial present value of all future benefits expected to be paid with respect to each member. The purpose of the valuation is to determine what future contributions will be needed from the members and participating employers to pay all expected future benefits. To help reduce year-to-year volatility in employer contribution rates due to fluctuations in investment performance, SCERS smooths the calculation of actuarial assets over a multi-year period. Unrecognized return established before July 1, 2008 is recognized over a five-year period. Unrecognized return established after July 1, 2008 is recognized over a seven-year period. This not only stabilizes contribution rates, but also improves the ability of an employer to plan for possible future increases or decreases in costs. As of June 30, 2011, deferred losses under the smoothing methodology exceeded deferred gains by \$280.2 million.



Actuarial Summary (continued)

(Dollar Amounts Expressed in Millions)

As of June 30, 2011, SCERS' funding ratio was 87%, with the actuarial value of assets totaling \$6,420.8 million and the actuarial accrued liability totaling \$7,382.9 million. In general terms, this ratio means that as of June 30, 2011, SCERS has approximately 87 cents available for each dollar of anticipated future liability.

As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio
2011	\$6,420.8	\$7,382.9	\$962.1	87.0%
2010	6,217.0	7,090.5	873.5	87.7
2009	5,730.2	6,662.0	931.8	86.0
2008	5,930.8	6,363.4	432.6	93.2
2007	5,406.4	5,788.3	381.9	93.4

System Membership

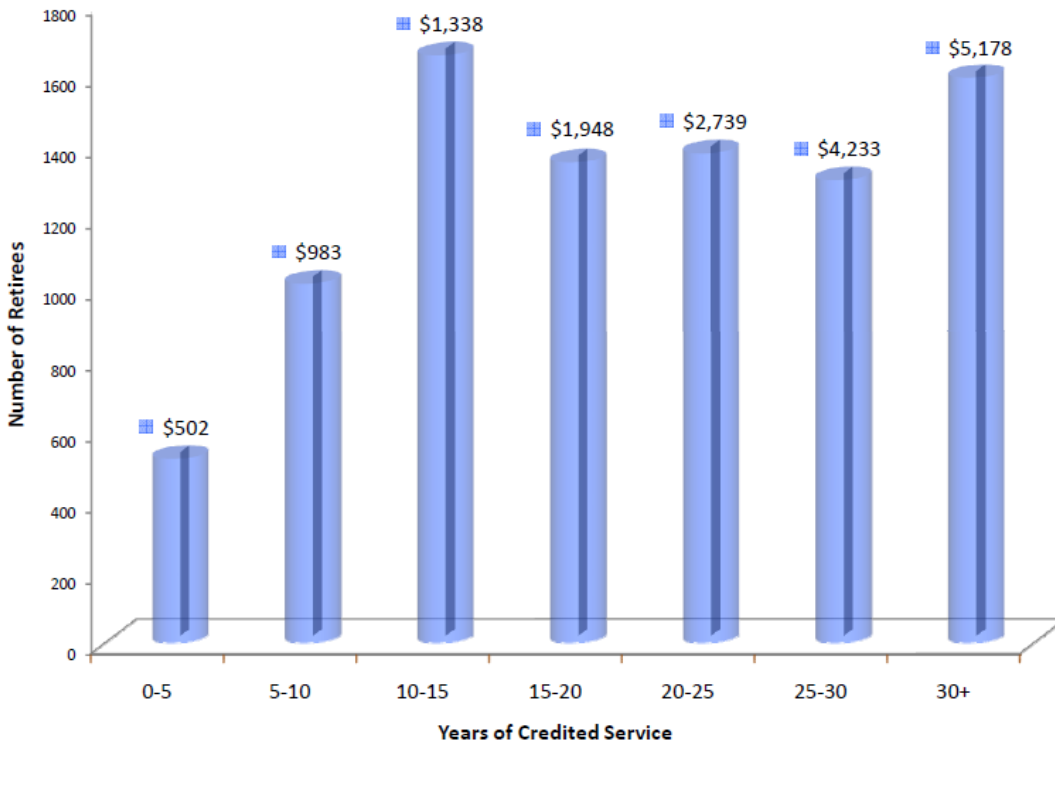
SCERS' members include permanent full-time and part-time employees of the County of Sacramento; Superior Court of California, County of Sacramento; and eleven Special Districts. As of June 30, 2011, SCERS had 12,434 active members (a decrease of 6.8%), 8,821 retired members (an increase of 5.7%), and 2,710 deferred members (a decrease of 1.1%).

Fiscal Year 2010-2011



As of June 30	Active Members	Retired Members	Deferred Members	Total
2011	12,434	8,821	2,710	23,965
2010	13,340	8,346	2,740	24,426
2009	14,796	7,968	2,818	25,582
2008	15,180	7,709	2,661	25,550
2007	14,716	7,464	2,437	24,617
2006	14,412	7,108	2,192	23,712
2005	13,728	6,784	2,135	22,647
2004	13,672	6,291	2,110	22,073
2003	14,133	5,882	1,885	21,900
2002	14,033	5,742	1,944	21,719

Retired Members



The graph shows a distribution of the current retired members based on their years of credited service and the corresponding average monthly benefit payments as of June 30, 2011.

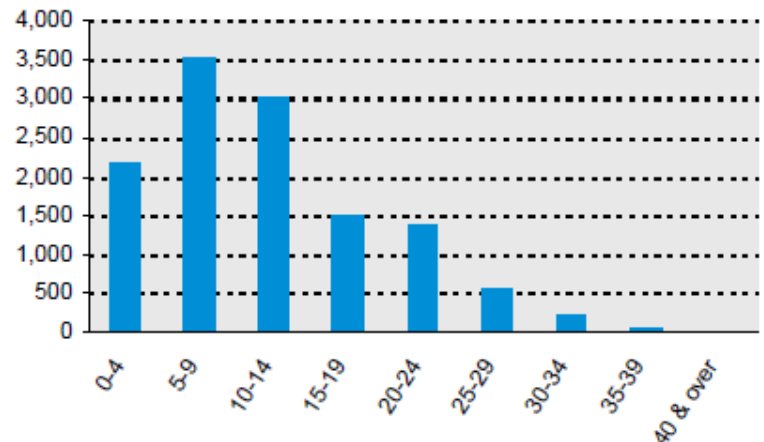
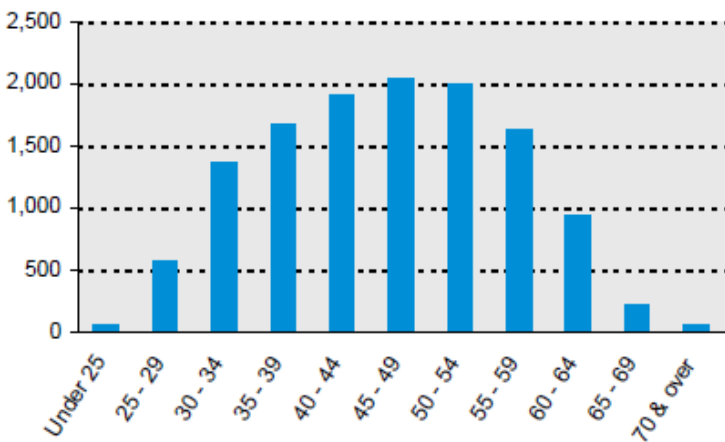
- 64% of retired members have more than 15 years of credited service
- Average benefit is \$2,683 per month or \$32,196 per year
- Monthly benefit is higher for longer service
- Average age of retired members is 68.7

■ Average Monthly Benefit Payments

Active Members

Plan costs are affected by the age, years of service and compensation of active members. As of June 30, 2011, there were 12,434 active members with an average age of 46.4 and average years of service of 12.1 years.

The graphs below show a distribution of active members by age and by years of service.



This Annual Financial Report Summary is derived from the information contained in SCERS' Comprehensive Annual Financial Report (CAFR) but does not include all information required for conformity with Generally Accepted Accounting Principles (GAAP). The CAFR, which provides more detailed information and is produced in conformity with GAAP, is available online at www.scers.org.



SCERS MISSION STATEMENT AND CORE VALUES

We are dedicated to providing the highest level of retirement services and managing system resources in an effective and prudent manner.

In fulfilling our mission as a retirement system, we are committed to:

-  The highest levels of professionalism and fiduciary responsibility
-  Acting with integrity
-  Competent, courteous and respectful service to all
-  Open and fair processes
-  Safeguarding confidential information
-  Cost-effective operations
-  Stable funding and minimal contribution volatility
-  Effective communication and helpful education
-  Maintaining a highly competent and committed staff
-  Continuous improvement
-  Planning strategically for the future



WWW.SCERS.ORG



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