



FOR THE FISCAL YEARS ENDED
JUNE 30, 2013 AND 2012
SACRAMENTO, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT





COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

ISSUED BY:

RICHARD STENSRUD

Chief Executive Officer

KATHRYN T. REGALIA, CPA, CGMA

Chief Operations Officer

THUYET DANG

Accounting Manager

SACRAMENTO COUNTY
EMPLOYEES' RETIREMENT SYSTEM

980 9TH STREET, SUITE 1900
SACRAMENTO, CA 95814

WWW.SCERS.ORG

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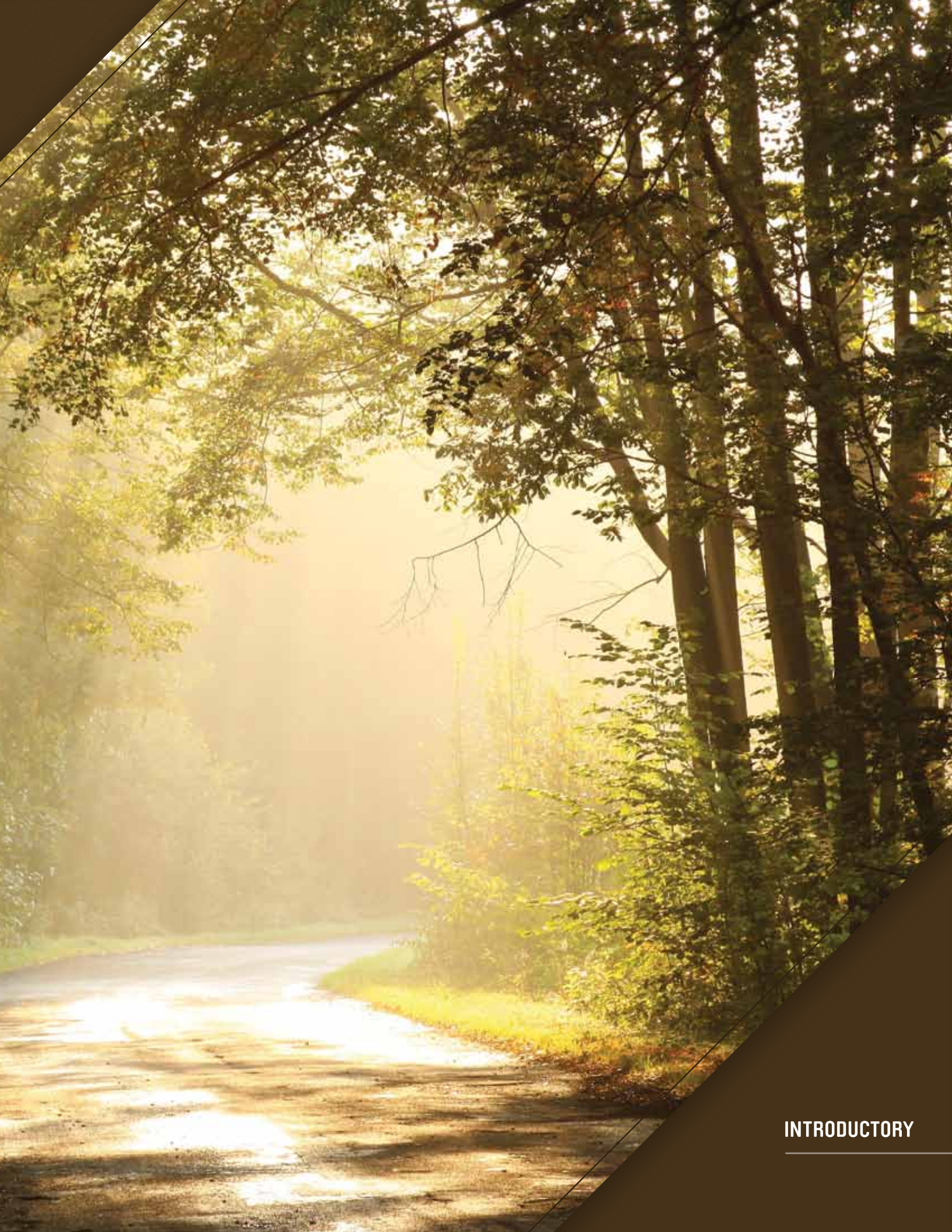
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INTRODUCTORY

LETTER OF TRANSMITTAL



Executive Staff
Richard Stensrud
Chief Executive Officer
Scott Chan
Chief Investment Officer
Kathryn T. Regalia
Chief Operations Officer
John W. Gobel Sr.
Chief Benefits Officer

November 26, 2013

Board of Retirement
Sacramento County Employees' Retirement System
980 9th Street, Suite 1900
Sacramento, CA 95814

Dear Board Members:

As Chief Executive Officer of the Sacramento County Employees' Retirement System ("SCERS" or the "System"), I am pleased to present this Comprehensive Annual Financial Report ("CAFR" or the "Report") for the fiscal years ended June 30, 2013 and 2012.

The System

SCERS is a multiple-employer public employee retirement system, enacted and administered in accordance with the provisions of the County Employees Retirement Law of 1937 (California Government Code Section 31450, et seq.) ("1937 Act") and the California Public Employees' Pension Reform Act of 2013 ("CalPEPRA"). Since its establishment by the Sacramento County Board of Supervisors in 1941, SCERS has provided retirement, disability, and survivors' benefits to eligible participants of the System. Under Article XVI, Section 17 of the Constitution of the State of California, the SCERS Board of Retirement is vested with plenary authority and fiduciary responsibility for the investment of monies and the administration of the System. Together, the provisions of the State Constitution and the 1937 Act establish SCERS as a separate and independent governmental entity from the public employers that participate in SCERS. At June 30, 2013, the County of Sacramento; Superior Court of California, County of Sacramento; and eleven Special Districts participated in SCERS.

The Comprehensive Annual Financial Report

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation in this CAFR rests with the management of the System. To the best of management's knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System.



I trust that readers of this Report and participants of the System will find this information helpful in understanding SCERS and its commitment to financial integrity and participant service.

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

Accounting System and Reports

Management of SCERS is responsible for establishing and maintaining internal controls designed to ensure that the System's assets are protected from loss, theft, or misuse. Responsibility for the accuracy, completeness, and fair presentation of information, and all disclosures in this CAFR and in the System's records, rests with SCERS' management. Macias Gini & O'Connell LLP, a certified public accounting firm, has audited the financial statements and related disclosures. The financial audit provides reasonable assurance that SCERS' financial statements are presented in conformity with accounting principles generally accepted in the United States and are free from material misstatement. The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) The cost of a control should not exceed the benefits likely to be derived; and (2) The assessment of costs and benefits requires estimates and judgments by management.

This report has been prepared in accordance with generally accepted accounting principles ("GAAP") as promulgated by the Governmental Accounting Standards Board ("GASB"). GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management's discussion and analysis ("MD&A"). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The System's MD&A can be found immediately following the independent auditor's report.

Investments – General Authority and SCERS

Article XVI, Section 17 of the Constitution of the State of California provides that "...notwithstanding any other provisions of law or this Constitution, the Retirement Board of a public pension or

LETTER OF TRANSMITTAL (CONTINUED)

retirement system shall have plenary authority and fiduciary responsibility for investment of monies and administration of the system...” Article XVI, Section 17(a) further provides that “...the Retirement Board of a public pension or retirement system shall have sole and exclusive fiduciary responsibility over the assets...”

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.

In August 2011, the SCERS Board approved a new asset allocation model designed to lower the overall risk of SCERS’ portfolio by increasing the allocation to asset classes that produce greater diversification and decreasing the equity risk exposure. During fiscal year 2012-2013, SCERS continued the implementation of the new asset allocation model.

For the year ended June 30, 2013, SCERS’ investments provided a 13.2% rate of return (gross of fees), compared to the investment policy benchmark return of 10.9%.

More detailed information regarding SCERS’ strategic asset allocation, professional investment advisors, and investment performance can be found in the Investment Section of this Report.

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. The greater the level of overall plan funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the investment potential. The advantage of a well-funded plan is that the benefits earned by participants are funded during their working careers and not by future generations of taxpayers.

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 rolling seven-year period. This not only stabilizes contribution rates but also improves the ability of the employer to plan for possible future increases or decreases in the rates.

SCERS engaged an independent actuarial consulting firm, Segal Consulting, to conduct its annual actuarial valuation as of June 30, 2013. Triennially, the System requests that its actuary perform an analysis of the appropriateness of all economic and non-economic assumptions. The triennial analysis as of June 30, 2013 will commence in early 2014. The result of that analysis will be presented to the Board of Retirement for approval. The changes to the actuarial assumptions, if any, will be incorporated in the actuarial valuation as of June 30, 2014.

In August 2012, the SCERS Board received an actuarial audit report by consulting actuary EFI Associates regarding the actuarial work performed for SCERS by Segal Consulting. The key objectives of an actuarial audit are to: (1) Confirm the reasonableness of the assumptions



and methodology for compliance with the 1937 Act, SCERS' regulations and policies, and for compliance with generally accepted actuarial principles and practices; (2) Verify the accuracy of funding computations; (3) Verify that appropriateness of recommended contribution rates; (4) Confirm that the actuarial analysis is being done properly; (5) Confirm that the calculation of liabilities is being performed accurately; and (6) Determine that the valuation reflects information required to be disclosed under relevant reporting standards.

EFI concluded that the actuarial assumptions and methods used by Segal Consulting in the valuation were reasonable, in compliance with the law, and in accordance with generally accepted actuarial principles. EFI further concluded that the liabilities and costs presented by Segal Consulting in the actuarial valuation were accurate and computed in accordance with generally accepted actuarial principles. Finally, EFI concluded that the actuarial valuation prepared by Segal Consulting contained all information that must be disclosed under the relevant reporting standards.

Effective January 1, 2013, SCERS implemented new benefit tiers for County and Special District employees hired on or after that date as mandated by CalPEPRA. The new tiers provide a lower benefit formula than the existing tiers. Additional information can be found in the Notes to the Basic Financial Statements.

At June 30, 2013, SCERS' funding ratio was 82.8%, with the actuarial value of assets totaling \$6.798 billion and the actuarial accrued liability totaling \$8.211 billion. The decrease in the funding ratio (down from 83.3%) was mainly due to investment returns on actuarial value of assets (returns after "smoothing") lower than the 7.50% investment return assumption and changes in actuarial assumptions, offset to some degree by lower-than-expected active employee salary growth. Deferred losses under the smoothing methodology exceeded deferred gains by \$9.8 million as of June 30, 2013. As disclosed in more detail in the MD&A, the small amount of deferred losses indicates that the cost impact of the 2007-2009 collapse of the investment markets has been nearly fully addressed, and if actuarial assumptions continue to be met going forward, the cost and funded status of the plan should stabilize and be poised to improve. Deferred investment gains/(losses) are amortized over a seven-year period.

Budget

The Board of Retirement approves SCERS' annual budget. The 1937 Act limits SCERS' annual administrative expenses, excluding the costs of administration for computer software and hardware and computer technology consulting services ("IT costs"), to twenty-one hundredths of one percent (0.21%) of the System's actuarial accrued liability. SCERS' administrative expenses have historically been below the limitation. For the years ended June 30, 2013 and 2012, administrative expenses, excluding IT costs were \$5.1 million and \$5.7 million, respectively, or 0.06% and 0.08%, respectively, of the System's actuarial accrued liability.

Significant Events

The following are significant events which occurred during the fiscal year:

- ◇ Engaged consultant EFI Actuaries to conduct an audit of SCERS' engaged actuary, Segal Consulting. EFI characterized the SCERS actuarial audit as the 'cleanest' audit they have conducted.



LETTER OF TRANSMITTAL (CONTINUED)

- ◇ Conducted a SCERS Board election for new three-year terms for one Miscellaneous Board Member, one Safety Board Member, and one Alternate Safety Board Member. Kathy O'Neil and John Conneally were re-elected as the Miscellaneous and Alternate Safety Members. Chris A. Pittman was elected as the Safety Member.
- ◇ Worked with the Sacramento County Voter Registration and Elections to conduct a pilot of an online voting system for the SCERS Board election.
- ◇ Extended the Custodial Agreement with State Street.
- ◇ Identified the impact and required changes resulting from the proposed legislation ("AB 340") and subsequent enactment of CalPEPRA, which affected all new Miscellaneous and Safety members hired on or after January 1, 2013.
- ◇ Worked with all SCERS employers to educate them about the legal implications of the new law and to address IT system requirements for payroll and reporting of contributions.
- ◇ Worked with Sacramento County Department of Technology to modify SCERS' system to accommodate the new employee plans and tiers structure.
- ◇ Worked with Sacramento County Department of Technology, Sacramento Superior Court, Department of Finance and the Sacramento Employment and Training Agency ("SETA") to configure their payroll systems to implement the provisions of CalPEPRA.
- ◇ Implemented the closure of "Additional Retirement Credit" purchases and completed 209 purchase requests for over \$8.3 million of additional retirement credits as required by CalPEPRA.
- ◇ Implemented the new Miscellaneous Tier 5 and Safety Tier 4 for SCERS members as required by CalPEPRA.
- ◇ Implemented parameters to determine retirement-eligible compensation and to determine whether an otherwise eligible element of compensation would be excluded from the retirement benefit calculation because it was paid for the purpose of enhancing the retirement benefit as mandated by CalPEPRA.
- ◇ Implemented the clarifying changes to CalPEPRA regarding the removal of Social Security integration of benefits and contributions.
- ◇ Identified potential modifications to the approach to evaluating disability retirement application.
- ◇ Issued a Request for Proposals for professional audit services.
- ◇ Continued to develop and implement a comprehensive communications plan, integrating a SCERS 'brand' concept.
- ◇ Completed the integration of wireless networking within the SCERS office space.
- ◇ Continued to work with Sacramento County Department of Technology to determine SCERS' information technology system requirements, modify and enhance SCERS' systems to accommodate operational needs, and to plan strategically for future information technological needs.



- ◇ Worked with Bryce Consulting and Sacramento County Human Resources to finalize the class studies for SCERS Benefits staff positions to appropriately represent the duties and skillsets required of SCERS' unique positions. Updated class specifications and retitled many of the positions as a result of the studies.
- ◇ Conducted a search for and hired the Townsend Group as SCERS' real estate consultant.
- ◇ Restructured the long-term direction, sub-asset class structure and investment manager structure of SCERS' real estate program and began execution of these plans.
- ◇ Undertook a manager and sub asset class structure analysis in fixed income, resulting in: (1) The search for and hire of a global fixed income manager and; (2) The creation of a strategic credit mandate.
- ◇ With the expectation that it will take approximately three years to fully implement the direct hedge fund program, an interim hedge fund component comprising of a more liquid multi-strategy separate account was created to reach SCERS' target hedge fund allocation of 10%.
- ◇ Modified the hedge fund asset class structure to include a hedge fund replication component.
- ◇ Continued to execute on plans to restructure the equities asset class including rationalization of managers in redundant investment strategies to benefit from scale cost savings.
- ◇ Identified, performed due diligence and made direct investments in hedge funds, private equity, opportunities and private real assets funds, resulting in nine new investment engagements.
- ◇ Modified the overlay program to match the new asset allocation classes, allocation targets, and changes to the manager structure.
- ◇ Verified SCERS' international equity foreign exchange trading costs were in-line with industry standards and benchmarks by hiring an independent third party to conduct a cost analysis on foreign exchange trading.
- ◇ Created a new investment policy statement for the real estate sub asset class and modified the investment policies for private equity, hedge funds, and opportunities asset classes.
- ◇ Staff appointed to two advisory board seats for private funds in venture capital and core real estate.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to SCERS for its comprehensive annual financial report for the fiscal years ended June 30, 2012 and 2011. In order to be granted this national award, a governmental entity must publish an easily readable and efficiently organized CAFR that meets the highest standards of governmental financial reporting. This was the fourteenth consecutive year that the System has achieved this prestigious award.



LETTER OF TRANSMITTAL (CONTINUED)

A Certificate of Achievement is valid for a period of one year. Management believes that this current comprehensive annual financial report continues to meet the requirements for earning a Certificate of Achievement, and it will be submitted to the GFOA for consideration for the award.

SCERS also received the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting (“PAFR”) for the fiscal year ended June 30, 2012.

Acknowledgements

This Report is intended to provide complete and reliable information with respect to the responsible stewardship of SCERS. The compilation of this Report is a product of the combined and dedicated effort of the System’s Staff. This Report is also a reflection of the leadership of the SCERS Board in assuring the prudent fiduciary oversight of SCERS. I would like to take this opportunity to express my thanks to the SCERS Board, Staff, and advisors for their commitment to SCERS and for working so diligently to ensure the successful operation of the System.

Respectfully submitted,



Richard Stensrud
Chief Executive Officer



CERTIFICATE OF ACHIEVEMENT



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Sacramento County Employees' Retirement System California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO



BOARD OF RETIREMENT



President
James A. Diepenbrock
Appointed by Board of Supervisors
Present term expires June 30, 2015



1st Vice President
John B. Kelly
Appointed by Board of Supervisors
Present term expires December 31, 2015



Trustee
Keith DeVore
Appointed by Board of Supervisors
Present term expires June 30, 2015



Trustee
Richard B. Fowler II
Appointed by Board of Supervisors
Present term expires June 30, 2016



Trustee
Diana Gin
Elected by Miscellaneous Members
Present term expires December 31, 2013



Trustee
Kathy O'Neil
Elected by Miscellaneous Members
Present term expires December 31, 2015



Trustee
Chris A. Pittman
Elected by Safety Members
Present term expires December 31, 2015



Ex-Officio
Julie Valverde
Sacramento County Director of Finance
Member mandated by law



Trustee
Nancy Wolford-Landers
Elected by Retired Members
Present term expires December 31, 2013



Alternate Safety Trustee
John Conneally
Elected by Safety Members
Present term expires December 31, 2015



Alternate Retiree Trustee
Michael DeBord
Elected by Retired Members
Present term expires December 31, 2013



ORGANIZATION CHART

BOARD OF RETIREMENT



Richard Stensrud
Chief Executive Officer

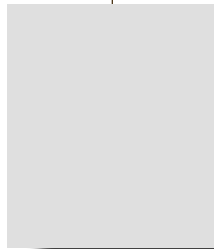


Scott Chan
Chief Investment Officer



Steve Davis
Deputy
Chief Investment Officer

- Investment policy and objectives
- Investment compliance and performance reporting
- Asset allocation rebalancing
- Conduct manager searches
- Manager due diligence
- Proxy voting and corporate governance
- Board education on investment issues



Vacant
General Counsel

- Legal representation and counsel to SCERS Board and staff
- Coordinate and oversee the selection and work of outside legal counsel
- Evaluation of securities litigation
- Analysis of state and federal legislation
- Legislative proposals, contracts, resolutions and opinions
- Legal education programs
- Legal service planning and budgeting



John W. Gobel, Sr.
Chief Benefits Officer



Suzanne Likarich
Retirement Services Manager

- Service, disability, deferred, and reciprocal retirements
- Pension payroll administration
- Seminar presentations and member retirement counseling
- Retirement publications and communications
- Death benefits and service credit purchases
- Community property interest resolution



Kathryn T. Regalia
Chief Operations Officer



Thuyet Dang
Accounting Manager

- Accounting and financial reporting
- Budgeting and cash flow analysis
- Human resources
- Facilities and safety
- Information technology and telecommunications
- Administration and records

PARTICIPATING EMPLOYERS

<u>Employer</u>	<u>Date Entered System</u>
County of Sacramento	July 1, 1941
County of Sacramento, Elected Officials: Board of Supervisors Sheriff Assessor District Attorney	July 1, 1941
U.C. Davis Medical Center*	July 1, 1941
Sacramento Metropolitan Fire District**	March 1, 1957
Sunrise Recreation and Park District	August 1, 1961
Fair Oaks Cemetery District	March 1, 1962
Carmichael Recreation and Park District	January 1, 1967
Florin Fire District**	July 1, 1974
Mission Oaks Recreation and Park District	February 1, 1976
Sacramento Employment and Training Agency ("S.E.T.A.")	June 1, 1979
Orangevale Recreation and Park District	March 3, 1987
Elk Grove Cosumnes Cemetery District	April 28, 1987
Galt-Arno Cemetery District	July 1, 1987
Superior Court of California, County of Sacramento***	June 25, 2006

* The final participating member from UC Davis Medical Center retired in January 2013.

** Florin Fire District terminated its membership on June 30, 1996. Members are currently part of Sacramento Metropolitan Fire District.

*** Prior to June 25, 2006, Superior Court member information was included in the totals for the County of Sacramento.



PROFESSIONAL CONSULTANTS

Actuary
Segal Consulting

Auditor
Macias Gini & O'Connell LLP

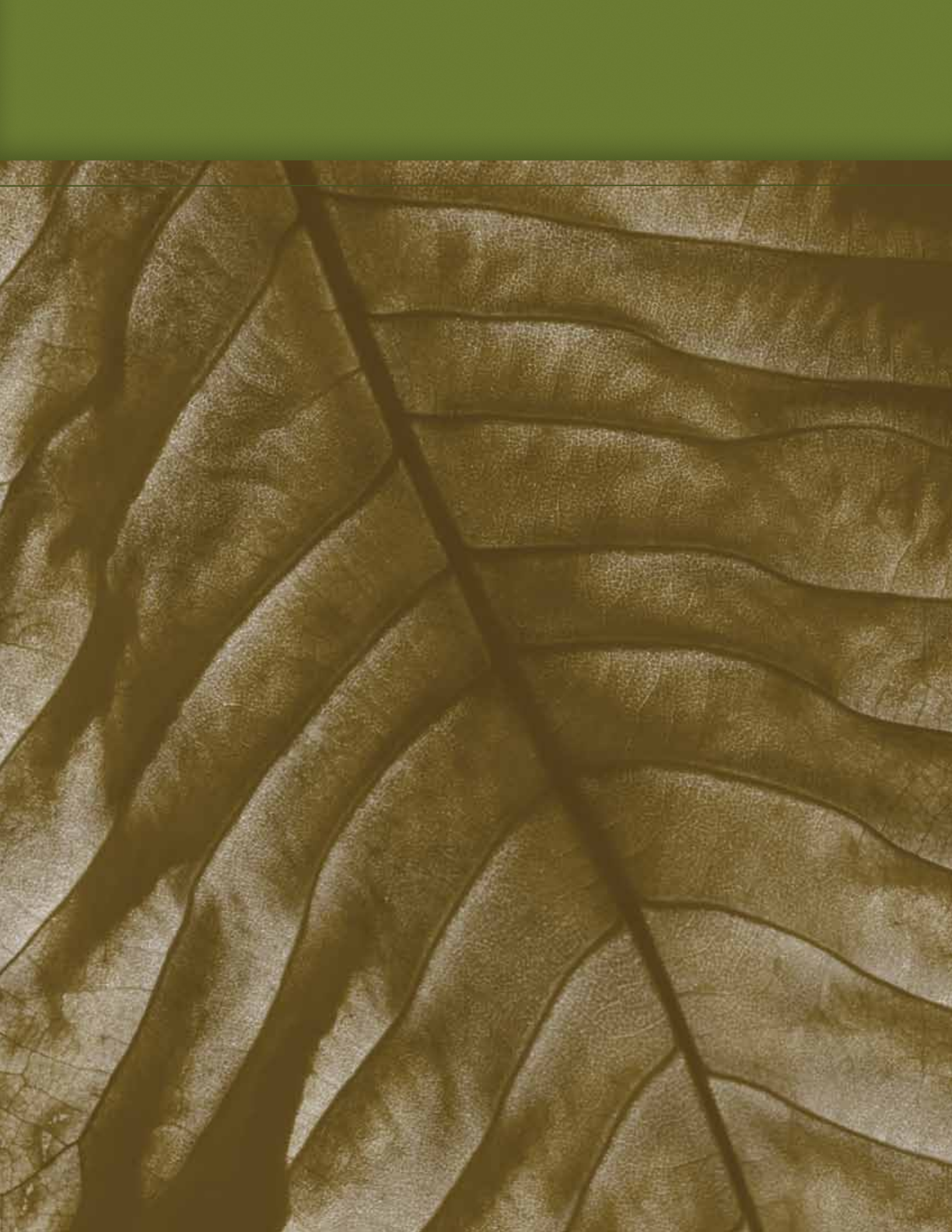
Custodian
State Street California, Inc.

Investment Consultant
Cliffwater, LLC
Strategic Investment Solutions, Inc.
The Townsend Group

Legal Counsel
County of Sacramento,
Office of the County Counsel
Jones Day
Nossaman, LLP
Public Pension Consultants

Note: Investment professionals are listed on page 86, and a schedule of manager fees is located on pages 84 and 85 of this report in the Investment Section.







FINANCIAL

INDEPENDENT AUDITOR'S REPORT



Sacramento
3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

Walnut Creek

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

INDEPENDENT AUDITOR'S REPORT

To the Board of Retirement of the
Sacramento County Employees' Retirement System
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Sacramento County Employees' Retirement System (the System) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the System'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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Sacramento County Employees' Retirement System as of June 30, 2013 and 2012, and the changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note 6 to the basic financial statements, based on the most recent actuarial valuation as of June 30, 2013, the System's independent actuaries determined that, at June 30, 2013, the actuarial accrued liability exceeded the actuarial value of assets by \$1.413 billion. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 24 through 31, the schedule of funding progress on page 64, and the schedule of employer contributions on page 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

The other supplemental information in the financial section 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 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 taken as a whole.

The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2013 on our consideration of the System'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 the System's internal control over financial reporting and compliance.

Maclean Meiri & O'Connell LLP

Sacramento, California
November 26, 2013



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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis ("MD&A") of the financial activities of the Sacramento County Employees' Retirement System ("SCERS") for the years ended June 30, 2013 and 2012. Readers are encouraged to consider the narrative overview and information presented in this MD&A in conjunction with the Letter of Transmittal beginning on page 6 of this Report and the Financial Statements, Notes to the Basic Financial Statements, Required Supplementary Information, and Other Supplemental Information that follows.

FINANCIAL HIGHLIGHTS

As of June 30, 2013, SCERS' net position restricted for pension benefits ("net position") totaled \$6.788 billion. This represented an increase of \$714.1 million or 11.8% from the \$6.074 billion in SCERS net position as of June 30, 2012, which, in turn, represented a decrease of \$66.7 million or 1.1% over the \$6.141 billion in net position as of June 30, 2011.

Additions to net position were \$1.043 billion, \$241.4 million, and \$1.447 billion for the years ended June 30, 2013, 2012, and 2011, respectively. Strong investment performance was the primary reason for the increase in total additions for the year ended June 30, 2013, with net investment gains of \$824.0 million. Additions to net position for the year ended June 30, 2012 were solely due to the employee and employer contributions, since the investment activities resulted in a net loss of \$3.4 million, after expenses, due to an investment downturn in the second half of the fiscal year.

Deductions to net position were \$329.3 million and \$308.1 million for the years ended June 30, 2013 and 2012. The total deductions for the year ended June 30, 2013 increased by \$21.2 million or 6.9% over the year ended June 30, 2012, which in turn, saw an increase in total deductions of \$20.9 million or 7.3% over the year ended June 30, 2011. Increased monthly benefit payments due to an increase in the number of retirees and the annual cost-of-living adjustment were the primary reasons for the increase in total deductions for both years.

SCERS' funding objective is to meet long-term benefit obligations through contributions and investment income. In order to help achieve level and predictable contribution costs from one year to the next, SCERS bases the determination of contribution rates on an actuarial asset valuation method that gradually adjusts to the market value of assets ("asset smoothing"). Under this actuarial asset valuation methodology, any investment market returns for the year that are above or below the assumed investment return rate (7.50% for fiscal year 2012-2013) are recognized over seven years ("smoothing"). This 'smoothed' value is referred to as the 'Actuarial Value of Assets.' By using the Actuarial Value of Assets to determine the contribution rates, SCERS is able to avoid the year-to-year volatility in contribution rates that would come from using the market value of assets.

As of June 30, 2013, the funded ratio of SCERS (i.e., the ratio of the actuarial value of assets to actuarial accrued liability) was 82.8%, down from 83.3% as of June 30, 2012. The strong investment performance in the 2010, 2011, and 2013 fiscal years has substantially reduced the future impact of the investment losses incurred in 2008 and 2009. Per the actuarial valuation report, the total unrecognized investment loss as of June 30, 2013 totaled \$9.8 million, a substantial decrease from \$456.0 million as of June 30, 2012. Absent unfavorable actuarial experience, the recognition of the \$9.8 million of net deferred losses over the next six year is expected to have virtually no impact on the System's funded ratio and the aggregate employer contribution rate. Conversely, favorable actuarial experience over the period should result in improvement in the System's funded ratio and lower employer costs.



The System's unfunded actuarial accrued liability increased from \$1.308 billion as of June 30, 2012 to \$1.413 billion as of June 30, 2013. This increase is mainly due to investment returns (after "smoothing") lower than the 7.50% investment return assumption and changes in actuarial assumptions, offset to some degree by lower-than-expected active employee salary growth.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A serves as an introduction to the basic financial statements and other information accompanying the basic financial statements, which are comprised of the following components:

- ◇ Statements of Fiduciary Net Position - Pension Trust Fund
- ◇ Statements of Changes in Fiduciary Net Position - Pension Trust Fund
- ◇ Statements of Fiduciary Net Position - Agency Fund
- ◇ Notes to the Basic Financial Statements
- ◇ Required Supplementary Information
- ◇ Other Supplemental Information

The **Statements of Fiduciary Net Position - Pension Trust Fund** are snapshots of account balances at fiscal year end. These statements reflect assets available for future payments to retirees and their beneficiaries, and liabilities owed as of fiscal year end.

The **Statements of Changes in Fiduciary Net Position - Pension Trust Fund** reflect all the activities that occurred during the year and show the impact of those activities as additions or deductions to the plan. The trend of additions versus deductions to the plan will indicate whether SCERS' financial position is improving or deteriorating over time.

The fiduciary fund statements report SCERS' net position restricted for pension benefits. Over time, increases or decreases in net position serve as one indicator of whether SCERS' financial health is improving or deteriorating. Other factors, such as market conditions or the System's funded status, should also be considered in measuring the System's overall health.

The **Statements of Fiduciary Net Position - Agency Fund** reflect assets held by SCERS in a custodial capacity or as an agent on behalf of others and do not measure the results of operations.

The **Notes to the Basic Financial Statements** are an integral part of the financial reports and provide additional information that is essential for a full understanding of the data provided in the financial statements.

In addition to the financial statements and accompanying notes, this Report presents certain **Required Supplementary Information** concerning SCERS' progress in funding its obligations to provide benefits to System members. The schedule of funding progress includes historical trend information about the actuarially funded status of the plan and the progress made in accumulating sufficient assets to pay benefits when due. The schedule of employer contributions presents historical trend information about the annual required contribution of the employers and the actual contributions made. These schedules provide information to help promote an understanding of the changes in the funded status of the plan over time.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Schedules of administrative expenses, investment management expenses, payments to consultants, and statements of changes in assets and liabilities for the agency fund are presented as **Other Supplemental Information** following the Required Supplementary information.

FINANCIAL ANALYSIS

Assets and Funded Ratio

SCERS' net position restricted for pension benefits as of June 30, 2013 totaled \$6.788 billion, an increase of \$714.1 million or 11.8% from the \$6.074 billion in net position as of June 30, 2012, which, in turn, represented a decrease of \$66.7 million or 1.1% over the \$6.141 billion in net position as of June 30, 2011. The increase in net position for the year ended June 30, 2013 was due to strong investment performance. For the fiscal year ended June 30, 2013, investments in all asset classes within the SCERS portfolio generated positive returns and outperformed the policy benchmarks except for the private equity and real asset segments. The decrease in net position for the year ended June 30, 2012 was due to investment returns being flat and the benefits and expenses paid during the year exceeding the contributions received. At the asset class level, for the fiscal year ended June 30, 2012, the domestic fixed income and real asset segments outperformed the policy benchmarks while underperformance occurred in the remaining segments. All of the net position is available to meet SCERS' obligations to plan participants and beneficiaries.

The decrease in cash and short-term investments as of June 30, 2013 compared to the prior year was the result of funding new investments and fulfilling capital commitments. The increase in receivables and investment trade payables as of June 30, 2013 compared to the prior year was the result of an increase in trading activity by the external investment managers. The decrease in securities lending liability and securities lending collateral reflected a lower level of activity in the securities lending industry.

NET POSITION

As of June 30

(Dollar Amounts Expressed in Millions)

	2013	2012	Increase/ (Decrease)	% Change
Assets				
Cash and short-term investments	\$574.1	\$779.8	\$(205.7)	(26.4)%
Receivables	207.1	89.9	117.2	130.4
Investments, at fair value	6,411.3	5,473.3	938.0	17.1
Securities lending collateral	255.6	538.4	(282.8)	(52.5)
Other assets	6.4	3.4	3.0	88.2
Total assets	7,454.5	6,884.8	569.7	8.3
Liabilities				
Other liabilities	30.5	32.3	(1.8)	(5.6)
Mortgages payable	131.6	134.8	(3.2)	(2.4)
Investments purchased payable	248.8	105.4	143.4	136.1
Securities lending liability	255.6	538.4	(282.8)	(52.5)
Total liabilities	666.5	810.9	(144.4)	(17.8)
Net position restricted for pension benefits	\$6,788.0	\$6,073.9	\$714.1	11.8%



NET POSITION

As of June 30

(Dollar Amounts Expressed in Millions)

Assets	2012	2011	Increase/ (Decrease)	% Change
Cash and short-term investments	\$779.8	\$647.6	\$132.2	20.4%
Receivables	89.9	98.8	(8.9)	(9.0)
Investments, at fair value	5,473.3	5,730.0	(256.7)	(4.5)
Securities lending collateral	538.4	594.8	(56.4)	(9.5)
Other assets	3.4	3.3	0.1	3.0
Total assets	6,884.8	7,074.5	(189.7)	(2.7)
Liabilities				
Other liabilities	32.3	27.6	4.7	17.0
Mortgages payable	134.8	137.7	(2.9)	(2.1)
Investments purchased payable	105.4	173.8	(68.4)	(39.4)
Securities lending liability	538.4	594.8	(56.4)	(9.5)
Total liabilities	810.9	933.9	(123.0)	(13.2)
Net position restricted for pension benefits	\$6,073.9	\$6,140.6	\$(66.7)	(1.1)%

SCERS retained an independent actuarial firm, Segal Consulting, to perform annual actuarial valuations to determine the funded status of the System and annual required contribution rates. 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 liability, which is 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 by the members and participating employers, in conjunction with investment earnings, to pay all expected future benefits.

As of June 30, 2013, the funded ratio of SCERS (i.e., the ratio of the actuarial value of assets to actuarial accrued liability) was 82.8%, down from the funded ratio of 83.3% as of June 30, 2012. In general terms, this ratio means that as of June 30, 2013, SCERS had approximately 83 cents available for each dollar of anticipated future liability.

The Required Supplementary Information and Actuarial Section of this Report provide additional actuarial information.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Reserves

SCERS' reserves are established in accordance with the requirements of the 1937 Act, utilizing contributions and the accumulation of investment income, after satisfying administrative and investment expenses. Under GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, investments are stated at fair value instead of cost and include the recognition of unrealized gains and losses. In addition, for actuarial purposes, SCERS utilizes a seven-year smoothing methodology under which a portion of the market gains and losses is recognized and allocated to the reserves through interest crediting. The difference between the market value of assets (equivalent to the net position restricted for pension benefits) and the smoothed actuarial value of assets is tracked in the market stabilization reserve.

Higher-than-expected investment performance for the year changed SCERS' market stabilization reserve from \$(456.0) million as of June 30, 2012 to \$(9.8) million as of June 30, 2013.

NET POSITION RESTRICTED FOR BENEFITS AT FAIR VALUE AS OF JUNE 30

(Dollar Amounts Expressed in Millions)

	2013	2012	2011
Employee Reserves	\$700.0	\$674.0	\$655.8
Employer Reserves	2,433.9	2,358.9	2,339.3
Retiree Reserves	3,649.2	3,482.4	3,333.3
Retiree Death Benefit Reserves	14.7	14.6	14.7
Retiree Health Care Benefit Designations	-	-	0.7
Contingency Reserve	-	-	77.0
Total allocated reserves and designations	6,797.8	6,529.9	6,420.8
Market Stabilization Reserve	(9.8)	(456.0)	(280.2)
Net position restricted for benefits, at fair value	\$6,788.0	\$6,073.9	\$6,140.6



Changes in Fiduciary Net Position - Pension Trust Fund

The following tables present the changes in net position for the fiscal years ended June 30, 2013, 2012, and 2011, respectively.

CHANGE IN FIDUCIARY NET POSITION

For the Fiscal Years Ended June 30

(Dollar Amounts Expressed in Millions)

	2013	2012	Increase/ (Decrease)	% Change
Additions				
Employee contributions	\$68.3	\$65.7	\$2.6	4.0%
Employer contributions	189.7	179.1	10.6	5.9
Net gain from investment activities	824.0	27.4	796.6	2,907.3
Net income from securities lending	2.4	2.7	(0.3)	(11.1)
Other expense	(3.4)	(4.2)	0.8	(19.0)
Investment fees and expenses	(37.6)	(29.3)	(8.3)	28.3
Total additions	1,043.4	241.4	802.0	332.2
Deductions				
Withdrawal of contributions	2.7	3.0	(0.3)	(10.0)
Administrative expenses	5.7	6.3	(0.6)	(9.5)
Benefits paid	320.9	298.8	22.1	7.4
Total deductions	329.3	308.1	21.2	6.9
Increase/(decrease) in net position	714.1	(66.7)	780.8	1,170.6
Net position restricted for pension benefits, beginning	6,073.9	6,140.6	(66.7)	(1.1)
Net position restricted for pension benefits, ending	<u>\$6,788.0</u>	<u>\$6,073.9</u>	<u>\$714.1</u>	<u>11.8%</u>



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CHANGE IN FIDUCIARY NET POSITION

For the Fiscal Years Ended June 30
(Dollar Amounts Expressed in Millions)

	2012	2011	Increase/ (Decrease)	% Change
Additions				
Employee contributions	\$65.7	\$57.2	\$8.5	14.9%
Employer contributions	179.1	182.9	(3.8)	(2.1)
Net gain from investment activities	27.4	1,228.4	(1,201.0)	(97.8)
Net income from securities lending	2.7	2.0	0.7	35.0
Other income/(expenses)	(4.2)	4.7	(8.9)	(189.4)
Investment fees and expenses	(29.3)	(28.4)	(0.9)	3.2
Total additions	241.4	1,446.8	(1,205.4)	(83.3)
Deductions				
Withdrawal of contributions	3.0	4.4	(1.4)	(31.8)
Administrative expenses	6.3	6.6	(0.3)	(4.5)
Benefits paid	298.8	276.2	22.6	8.2
Total deductions	308.1	287.2	20.9	7.3
Increase/(decrease) in net position	(66.7)	1,159.6	(1,226.3)	(105.8)
Net position restricted for pension benefits, beginning	6,140.6	4,981.0	1,159.6	23.3
Net position restricted for pension benefits, ending	\$6,073.9	\$6,140.6	\$(66.7)	(1.1)%

Additions to Net Position

Financing for the benefits SCERS provides to its members comes primarily through the collection of employer and member (employee) retirement contributions and from income on investments. For the years ended June 30, 2013, 2012, and 2011, total additions were \$1.043 billion, \$241.4 million, and \$1.447 billion, respectively.

For the years ended June 30, 2013, 2012, and 2011, combined employer and employee contributions were \$258.0 million, \$244.8 million, and \$240.1 million, respectively. Fiscal year 2012-2013 employee contributions increased primarily due to additional service credit purchases while the employer contributions increased due to an increase in the aggregated contribution rate. Fiscal year 2011-2012 employee contributions increased primarily due to additional service credit purchases and a slight increase in contribution rates while the employer contributions decreased due to a slight decrease in the aggregated contribution rate and a decrease in total annual compensation as Sacramento County continued to re-structure its workforce.

Net investment income/(loss) were \$785.4 million, \$(3.4) million, and \$1.207 billion for the fiscal years ended June 30, 2013, 2012, and 2011, respectively. The net investment gain for the fiscal year ended June 30, 2013 was due to strong investment returns, outperforming the benchmark. The net investment loss for the fiscal year ended June 30, 2012 was the result of significant volatility in the global financial markets, which remained down for most of the second half of the fiscal year. The Investment Section of this Report provides a detailed discussion of the investment markets and investment performance.



Deductions from Net Position

SCERS' net position was primarily used for the payment of benefits to members and their beneficiaries, for the payment of contribution refunds to terminated employees, and for the cost of administering the System. For the years ended June 30, 2013, 2012, and 2011, total deductions were \$329.3 million, \$308.1 million, and \$287.2 million, respectively.

Deductions increased \$21.2 million or 6.9% in the year ended June 30, 2013 and \$20.9 million or 7.3% in the year ended June 30, 2012. The primary cause of the increase in deductions in both years was increased monthly benefit payments due to an increase in the number of retired members and the annual cost-of-living adjustment paid to retirees and beneficiaries.

The Board of Retirement approves SCERS' annual budget. The 1937 Act limits SCERS' annual administrative expenses, excluding the costs of administration for computer software and hardware and computer technology consulting services ("IT costs"), to twenty-one hundredths of one percent (0.21%) of the System's actuarial accrued liability. For the years ended June 30, 2013 and 2012, administrative expenses of \$5.1 million and \$5.7 million, excluding IT costs, were 0.06% and 0.08%, respectively, of the System's actuarial accrued liability. SCERS' administrative expenses have historically been below the limitation.

SCERS' FIDUCIARY RESPONSIBILITIES

SCERS' Board of Retirement and management staff are fiduciaries of the pension trust fund. Under the California Constitution and California state law, the net position must be used exclusively for the benefit of plan participants and their beneficiaries.

REQUESTS FOR INFORMATION

This Report is designed to provide the Board of Retirement, SCERS members, participating employers, taxpayers, and other stakeholders and interested parties with a general overview of SCERS' finances and to show accountability for the money SCERS receives.

Questions about this Report or requests for additional financial information may be addressed to:

Sacramento County Employees' Retirement System
980 9th Street, Suite 1900
Sacramento, CA 95814

Copies of this Report are available at the above address and on the System's web site at www.scers.org.



STATEMENTS OF FIDUCIARY NET POSITION

PENSION TRUST FUND
AS OF JUNE 30, 2013 AND 2012
(Dollar Amounts Expressed in Thousands)

	2013	2012
Assets		
Cash invested with Sacramento County Treasurer	\$7,783	\$7,890
Other cash and cash equivalents	64,285	45,824
Short-term investments with fiscal agents	501,998	726,120
Cash and short-term investments	574,066	779,834
Receivables		
Employee and employer contributions	8,328	6,587
Accrued investment income	19,758	34,229
Securities sold	179,053	49,096
Total receivables	207,139	89,912
Investments, at fair value		
Common and preferred stock - domestic	1,624,499	1,792,604
Common and preferred stock - international	1,639,738	1,326,577
US government and agency securities	557,701	522,883
Domestic corporate bonds	484,213	494,744
International bonds	259,756	55,454
Real assets	1,062,269	747,333
Hedge funds	561,309	322,609
Private equity	167,783	110,645
Opportunities	54,030	100,463
Securities lending collateral	255,615	538,443
Total investments	6,666,913	6,011,755
Other assets	6,367	3,351
Total assets	7,454,485	6,884,852
Liabilities		
Warrants payable	3,635	979
Accounts payable and other accrued liabilities	26,822	31,355
Mortgages payable	131,594	134,747
Investments purchased payable	248,824	105,402
Securities lending liability	255,615	538,443
Total liabilities	666,490	810,926
Net position restricted for pension benefits	\$6,787,995	\$6,073,926

The notes to the basic financial statements are an integral part of this statement.



STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

PENSION TRUST FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012
(Dollar Amounts Expressed in Thousands)

	2013	2012
Additions		
Contributions		
Employee	\$68,242	\$65,690
Employer	189,664	179,099
Total contributions	<u>257,906</u>	<u>244,789</u>
Investment income		
From investment activities		
Net appreciation/(depreciation) in investment fair value:		
Securities	585,769	(144,667)
Real assets	5,655	25,017
Hedge funds	47,360	(6,443)
Private equity	16,691	(23,297)
Opportunities	10,265	31,177
Interest	38,947	45,506
Dividends	91,562	71,121
Real assets	24,426	25,667
Private equity	(278)	(7,880)
Opportunities	3,625	11,211
Net gain from investment activities	<u>824,022</u>	<u>27,412</u>
From securities lending activities		
Securities lending income	1,794	2,277
Securities lending expense		
Borrower rebate income	1,384	1,238
Securities lending management fees	(767)	(811)
Net income from securities lending	<u>2,411</u>	<u>2,704</u>
Other expense	(3,370)	(4,220)
Investment fees and expenses	<u>(37,614)</u>	<u>(29,311)</u>
Net investment income/(loss)	<u>785,449</u>	<u>(3,415)</u>
Total additions	<u>1,043,355</u>	<u>241,374</u>
Deductions		
Withdrawal of contributions	2,739	3,040
Administrative expenses	5,719	6,288
Benefits paid	320,828	298,764
Total deductions	<u>329,286</u>	<u>308,092</u>
Net increase/(decrease)	714,069	(66,718)
Net position restricted for pension benefits, beginning	<u>6,073,926</u>	<u>6,140,644</u>
Net position restricted for pension benefits, ending	<u>\$6,787,995</u>	<u>\$6,073,926</u>

The notes to the basic financial statements are an integral part of this statement.



STATEMENTS OF FIDUCIARY NET POSITION

AGENCY FUND
AS OF JUNE 30, 2013 AND 2012
(Dollar Amounts Expressed in Thousands)

	<u>2013</u>	<u>2012</u>
Assets		
Accounts receivable	<u>\$327</u>	<u>\$62</u>
Total assets	<u>327</u>	<u>62</u>
Liabilities		
Accounts payable	<u>327</u>	<u>62</u>
Total liabilities	<u>327</u>	<u>62</u>
Net Position	<u>\$ -</u>	<u>\$ -</u>

The notes to the basic financial statements are an integral part of this statement.



NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - PLAN DESCRIPTION

The Sacramento County Employees' Retirement System ("SCERS" or the "System") is a multiple-employer, cost-sharing public employee retirement system which operates under the County Employees Retirement Law of 1937 (Section 31450 et seq. of the California Government Code) and the California Public Employees' Pension Reform Act of 2013 ("CalPEPRA"). The System was created by resolution of the Sacramento County (the "County") Board of Supervisors on July 1, 1941, to provide retirement, disability, and death benefits for qualified employees of Sacramento County and participating Special Districts ("Special Districts" or "Member Districts"). SCERS is governed by a nine member Board of Retirement; four are appointed by the County Board of Supervisors, four are elected by the members of the System (two by the Miscellaneous members, one by the Safety members and one by the Retiree members), and the County Director of Finance serves as an Ex-Officio member. An alternate Safety member and an alternate Retiree member are also elected by those respective member groups. The System is legally and fiscally independent of the County.

At June 30, 2013, participating local government employers consisted of the County of Sacramento; Superior Court of California, County of Sacramento ("Superior Court"); and eleven Special Districts.

The System's membership consists of the following categories:

- Safety Tier 1 - Includes employees whose principal duties consist of law enforcement or fire suppression work or who occupy positions designated by law as safety positions and who have a membership start-date prior to June 25, 1995.
- Safety Tier 2 - Includes employees whose principal duties consist of law enforcement or fire suppression work or who occupy positions designated by law as safety positions and who have a membership start-date on or after June 25, 1995 but prior to January 1, 2012.
- Safety Tier 3 - Includes employees whose principal duties consist of law enforcement or fire suppression work or who occupy positions designated by law as safety positions and who have a membership start-date on or after January 1, 2012 but prior to January 1, 2013.
- Safety Tier 4 - Includes employees whose principal duties consist of law enforcement or fire suppression work or who occupy positions designated by law as safety positions and who have a membership start-date on or after January 1, 2013.
- Miscellaneous Tier 1 - Includes all members other than Safety who have a membership start-date prior to September 27, 1981.
- Miscellaneous Tier 2 - Includes all members other than Safety who have a membership start-date on or after September 27, 1981 and prior to June 27, 1993 and who elected not to become members of Miscellaneous Tier 3.
- Miscellaneous Tier 3 - Includes all members other than Safety who have a membership start-date on or after June 27, 1993, and those Miscellaneous Tier 2 members who elected to become members of this class. The Miscellaneous Tier 3 is closed to employees of Sacramento County who have membership start-date on or after January 1, 2012.
- Miscellaneous Tier 4 - Includes members other than Safety who are employees of Sacramento County and have a membership start-date on or after January 1, 2012 but prior to January 1, 2013.
- Miscellaneous Tier 5 - Includes all members other than Safety who have a membership start-date on or after January 1, 2013.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

At June 30, 2013 and 2012, the System's membership consisted of:

Current Members:	2013	2012
Vested		
Miscellaneous Tier 1	191	238
Miscellaneous Tier 2	84	87
Miscellaneous Tier 3	8,587	8,411
Miscellaneous Tier 4	1	1
Total Miscellaneous	8,863	8,737
Safety Tier 1	391	438
Safety Tier 2	1,354	1,315
Safety Tier 3	3	1
Safety Tier 4	1	-
Total Safety	1,749	1,754
Total Vested	10,612	10,491
Non-Vested		
Miscellaneous Tier 3	728	1,398
Miscellaneous Tier 4	299	121
Miscellaneous Tier 5	223	-
Total Miscellaneous	1,250	1,519
Safety Tier 2	70	109
Safety Tier 3	68	36
Safety Tier 4	26	-
Total Safety	164	145
Total Non-Vested	1,414	1,664
Total Current Members	12,026	12,155



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Retirees and beneficiaries currently receiving benefits:	2013	2012
Miscellaneous - Service	6,226	5,940
Miscellaneous - Beneficiary	1,051	1,014
Miscellaneous - Nonservice-Connected Disability	289	293
Miscellaneous - Service-Connected Disability	180	180
Total Miscellaneous	7,746	7,427
Safety - Service	1,331	1,271
Safety - Beneficiary	310	293
Safety - Nonservice-Connected Disability	20	20
Safety - Service-Connected Disability	227	228
Total Safety	1,888	1,812
Total Retirees and Beneficiaries	9,634	9,239
Terminated employees entitled to benefits but not yet receiving them:		
Miscellaneous Tier 1	87	101
Miscellaneous Tier 2	213	229
Miscellaneous Tier 3	2,398	2,067
Miscellaneous Tier 4	37	3
Miscellaneous Tier 5	11	-
Total Miscellaneous	2,746	2,400
Safety Tier 1	114	129
Safety Tier 2	388	322
Safety Tier 3	1	-
Total Safety	503	451
Total Terminated Members	3,249	2,851
Grand Total	24,909	24,245

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Pension Benefits

The System's benefits are established by the provisions of the County Employees Retirement Law of 1937 and CalPEPRA and provide for retirement, death, and disability benefits. All permanent full-time and part-time employees of the County, Superior Court and Member Districts are eligible to participate in the System. Upon reaching five years of service, participants have earned the right to receive a retirement benefit, subject to certain restrictions if retirement is prior to attaining age 50 or if less than 10 years of service has been achieved for Miscellaneous Tier 1, 2, 3 and 4 and Safety Tier 1, 2, and 3, or prior to attaining age 52 or if less than 5 years of service has been achieved for Miscellaneous Tier 5, or prior to attaining age 50 or if less than 5 years of service has been achieved for Safety Tier 4.

Effective June 29, 2003 the County Board of Supervisors adopted new benefit formulas for all SCERS members, including the employees of Member Districts, for service credit prospectively from June 29, 2003, and for County employees, retroactively to service credit which precedes that date. In accordance with applicable retirement law, each SCERS Member District's governing body determined whether or not to apply these formulas retroactively for service credit earned prior to June 29, 2003 by their employees.

Retirement benefits under Safety Tiers 1 and 2 and Miscellaneous Tiers 1, 2 and 3 are as follows:

- Members covered under Safety Tier 1 who retire at age 50, or thereafter, are entitled to a retirement benefit, payable monthly for life, equal to 3 percent of their final-average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 4 percent annually. Final-average salary is the member's average salary for the highest twelve consecutive months of credited service.
- Members covered under Safety Tier 2 who retire at age 50, or thereafter, are entitled to a retirement benefit, payable monthly for life, equal to 3 percent of their final-average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final-average salary is the member's average salary for the highest thirty-six consecutive months of credited service.
- Members covered under Miscellaneous Tier 1 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, which is equal to 1.48 percent of their final-average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 4 percent annually. Final-average salary is the member's average salary for the highest twelve consecutive months of credited service.
- Members covered under Miscellaneous Tier 2 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 1.48 percent of their final-average salary for each year of credited service. There is no cost-of-living adjustment. Final-average salary is the member's average salary for the highest thirty-six consecutive months of credited service.
- Members covered under Miscellaneous Tier 3 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 1.48 percent of their final-average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final-average salary is the member's average salary for the highest thirty-six consecutive months of credited service.

The retirement benefits of Miscellaneous Tier 1, 2, and 3 members who retire after age 50 are increased by an age factor for each quarter year of age up to a maximum of 2.61 percent of final-average salary for each year of credited service at age 62.

Members whose employers determined not to retroactively apply the formulas to service credit earned prior to June 29, 2003 will continue to have their retirement benefits for that service calculated pursuant to the formulas in effect at the time the service was earned (i.e., Safety and Miscellaneous members who retire at



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

age 50 earn 2 percent and 1.1 percent, respectively, of their final-average salary for each year of credited service).

Effective January 1, 2012, the County Board of Supervisors adopted new tiers for County employees hired on or after January 1, 2012, but before January 1, 2013. Retirement benefits under these new tiers are as follows:

- Members covered under Safety Tier 3 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 2.29 percent of their final-average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final-average salary is the member's average salary for the highest thirty-six consecutive months of credited service.
- Members covered under Miscellaneous Tier 4 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 1.18 percent of their final-average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final-average salary is the member's average salary for the highest thirty-six consecutive months of credited service.

The retirement benefits of Safety Tier 3 members who retire after age 50 are increased by an age factor for each quarter year of age up to a maximum of 3 percent of final-average salary for each year of credited service at age 55. The retirement benefits of Miscellaneous Tier 4 members who retire after age 50 are increased by an age factor for each quarter year of age up to a maximum of 2.43 percent of final-average salary for each year of credited service at age 65.

Effective January 1, 2013, with the implementation of CalPEPRA the County Board of Supervisors adopted new tiers for employees of the County, Superior Court and Member Districts who are eligible to participate in the System and who were hired on or after January 1, 2013. Retirement benefits under these new tiers are as follows:

- Members covered under Safety Tier 4 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 2 percent of their final-average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final-average salary is the member's average salary for the highest thirty-six consecutive months of credited service.
- Members covered under Miscellaneous Tier 5 who retire at age 52 are entitled to a retirement benefit, payable monthly for life, equal to 1 percent of their final-average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final-average salary is the member's average salary for the highest thirty-six consecutive months of credited service.

The retirement benefits of Safety Tier 4 members who retire after age 50 are increased by an age factor for each quarter year of age up to a maximum of 2.7 percent of final-average salary for each year of credited service at age 57. The retirement benefits of Miscellaneous Tier 5 members who retire after age 52 are increased by an age factor for each quarter year of age up to a maximum of 2.5 percent of final-average salary for each year of credited service at age 67.

Member Termination

Upon separation from employment with a participating employer, members' accumulated contributions are refundable with interest accrued through the prior six-month period ended June 30 or December 31. Interest on member accounts is credited semiannually on June 30 and December 31. Withdrawal of such accumulated contributions results in forfeiture of the related benefits.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Financing

Benefits payable by the System are financed through member contributions, employer contributions, and earnings from investments. Member contributions are required by law. Contribution rates, which are actuarially determined, are based on age at entry into the System (a single rate is used for members entering the System after January 1, 1975). County, Superior Court and Member Districts' contributions are actuarially determined to provide for the balance of contributions needed. This rate includes an additional amount required to partially fund the annual cost-of-living increases for retired members of the Miscellaneous Tier 1, Tier 3, Tier 4 and Tier 5 and Safety Tiers. All contribution rates are reviewed and revised annually. The authority for both benefit provisions and contribution obligations is derived from the County Employees Retirement Law of 1937 and CalPEPRA.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. SCERS has fiduciary funds at June 30, 2013 and 2012 which include pension trust and agency funds. The pension trust fund is used to report resources that are required to be held in trust for the members and the beneficiaries of the defined benefit pension plan, and the agency fund accounts for assets held by SCERS in a trustee capacity or as an agent on behalf of the participating employers to fund the Retiree Medical and Dental Insurance Program. See Note 3 for a detailed description of the program. The pension trust fund is accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. The agency fund is custodial in nature and does not measure the results of operations. Assets and liabilities are recorded using the accrual basis of accounting.

The System has adopted Governmental Accounting Standards Board ("GASB") Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as its source of accounting and reporting principles. Investments are valued at their fair value, which results in the recognition of fair value gains and losses. Member and employer contributions are recognized when due pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Investment purchases and sales are recorded on the trade date, not the settlement date.

Valuation of Investments

The majority of the investments held at June 30, 2013 and 2012 are in the custody of, or controlled by, State Street Bank, the System's custodian. The System's investments consist of domestic and international fixed income, domestic and international equities, hedge funds, private equity, opportunities, and real assets. Investments are reported at fair value. The diversity of the investment types that the System has entered into requires a wide range of techniques to determine fair value. The overall valuation processes and information sources by major asset classifications are as follows:

Cash and Short-Term Investments

Cash deposited in the Sacramento County Treasurer's pool is stated at fair value. The value of the System's pool shares is determined on an amortized cost basis, which approximates fair value.



Short-term investments, which include highly-liquid investments expected to be utilized by the System within 30-90 days, are reported at fair value. These investments may include securities, which have a maturity in excess of 90 days but are readily marketable.

Equity

The majority of the System's domestic and international equity securities are actively traded on major stock exchanges or over-the-counter. Investments listed or traded on a securities exchange are valued at fair value as of the close of trading on the valuation day. Fair value is determined based on the last reported trade price on the exchange considered to be the primary market for such security. Listed investments that are not traded on a particular day are valued at the last known price which is deemed best to reflect their fair value. Investments not traded on a securities exchange, but which are traded in any other market or over-the-counter, are valued based on prices obtained from third party service providers.

Fixed Income

Fixed income consists primarily of negotiable obligations of the U.S. Government and U.S. Government-sponsored agencies, U.S. and non-U.S. corporations, securitized offerings backed by residential and commercial mortgages, and non-dollar denominated sovereign states. Certain securities, such as U.S. government bonds, have an active market for identical securities and can typically be valued using the close or last traded price on a specific date. Other securities that are not as actively traded are valued by pricing vendors, which use modeling techniques that include market observable inputs required to develop a fair value. Typical inputs include recent trades, yields, price quotes, cash flows, maturity, credit ratings and other assumptions based upon the specifics of the asset type.

Real Assets

Real assets are comprised of a mix of assets that include: (1) Core and core plus real estate; (2) Private real assets (infrastructure, energy, timber, agriculture and other natural resources); (3) Commodities; and (4) Treasury Inflation-Protected Securities ("TIPS").

Core and core plus real estate is held either directly via a real estate holding entity or as a limited partner in a commingled fund. Properties owned directly are subject to annual independent third party appraisals performed in accordance with the Uniform Standards of Professional Appraisal Practice. Real estate investments in a commingled fund are long-term and illiquid in nature. As a result, investors are subject to redemption restrictions which generally limit distributions and restrict the ability of limited partners to exit a partnership investment prior to its dissolution. Limited partner interest in commingled funds is valued by using the net asset value ("NAV") of the partnership. The most significant input into the NAV of such an entity is the value of its investment holdings. These holdings are valued by the general partners on a continuous basis, audited annually and periodically appraised by an independent third party. The valuation assumptions are based upon both market and property specific inputs which are not observable and involve a certain degree of expert judgment. Certain real estate investments are leveraged, and the corresponding liability is recorded in the statements of fiduciary net position. Refer to Note 9 for disclosures regarding mortgage obligations.

Private real assets investments are made both on a direct basis in limited partnerships, commingled funds, and separate accounts, and through externally managed fund-of-funds ("FoF"). Valuation methodologies in private real assets investments are consistent with the section described below in private equity.

Commodity interests traded on a United States or foreign exchange are valued at their last reported settlement price on the valuation date on the exchange on which such interests were purchased or sold. Commodity interests not traded on a United States or foreign exchange are valued at the mean between their last "bid" and "asked" prices on the date as of which the value is being determined, as reported by a reliable source selected in good faith by the fund manager.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Private Equity

Private equity investments are made both on a direct basis in limited partnerships, commingled funds, and separate accounts, and through externally managed FoF's. Each FoF manager's investments consist of portfolio funds and co-investments as well as marketable securities held from time to time as a result of a distribution from a portfolio fund. Direct private equity fund investments consist of securities in portfolio companies as well as marketable securities. Private equity investments are long-term and illiquid in nature. As a result, investors are subject to redemption restrictions which generally limit distributions and restrict the ability of limited partners to exit a partnership investment prior to its dissolution. Limited partner interest in commingled funds is valued by using the NAV of the partnership. The most significant input into the NAV of such an entity is the value of its investment holdings. These holdings are valued by the general partners on a continuous basis, audited annually and periodically appraised by an independent third party.

Typically, the fair value of all investments is determined by the fund manager in good faith and in compliance with the definition of fair value under U.S. generally accepted accounting principles or "GAAP" (Financial Accounting Standards Board ("FASB") Accounting Standards Codification, Topic 820, *Fair Value Measures and Disclosures*). In some circumstances, partnership agreements require reporting financial information and valuations in accordance with accounting standards other than GAAP, such as under International Financial Reporting Standards. The measure of fair value by the fund manager is typically conducted on a quarterly basis. Marketable securities are valued according to the most recent public market price with appropriate discounts to reflect any contractual or regulatory restriction upon sale.

The fair value of each investment as reported does not necessarily represent the amount that may ultimately be realized, since such amounts depend upon future circumstances that cannot reasonably be determined until the position is actually liquidated. The fund's evaluation of the fair value of portfolio funds is based on the most recent available valuation information provided to it by the portfolio funds, adjusted for subsequent distributions from and capital contributions to such portfolio funds, if any. The evaluation of the fair value of co-investments is based on the most recent information available at the time of valuation ascribed to such investments by the sponsor partnership. If the manager does not agree with this valuation, holds different securities than the sponsor partnership, is unable to obtain the sponsor partnership's valuation, or has information that results in a different valuation, it may use its own internal evaluation of fair value. The assumptions are based upon the nature of the investment and the underlying business. The valuation techniques vary based upon investment type and involve a certain degree of expert judgment.

Hedge Funds

Hedge fund investments are made both on a direct basis in limited partnerships, commingled funds, and separate accounts, and through externally managed customized separate accounts ("CSA"). Each CSA manager's investments consist of portfolio funds and co-investments as well as marketable securities held from time to time as a result of a distribution from a portfolio fund.

Hedge fund investments are generally less liquid as compared to equities and fixed income and more liquid as compared to private equity. Direct hedge fund investments consist of securities traded on national security exchanges, as well as illiquid securities. The fund's evaluation of the fair value of portfolio funds is based on the most recent available valuation information provided to it by the portfolio funds, adjusted for subsequent distributions from and capital contributions to such portfolio funds, if any. Typically, the fair value of investments is determined by the fund manager in good faith and in compliance with the following guidelines:

- The value of illiquid investments is determined by the fund manager in good faith and in compliance with the definition of fair value under US GAAP (FASB Accounting Standards Codification, Topic 820); provided, however, that in some circumstances certain illiquid investments may require reporting financial information and valuations are in accordance with accounting standards other than US GAAP, such as under International Financial Reporting Standards.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

- Securities that are traded on a national securities exchange are valued at their last reported sales prices on the valuation date on the national securities exchange on which such securities are principally traded or on a consolidated tape which includes such exchange, or, if there are no sales on such date on such exchange or consolidated tape, at the mean between the last “bid” and “asked” prices at the close of trading on such date on the largest national securities exchange on which such securities are traded.
- Securities not traded on a national securities exchange, but traded over the counter, are valued at the last reported sales price as reported by the Nasdaq National Market of the Nasdaq Stock Market, or if such prices are not reported by the Nasdaq Stock Market, as reported by the National Quotation Bureau, Inc.; or if such prices are not reported by the National Quotation Bureau, the valuation of options or notional principal contracts not traded on a national securities exchange may be determined in good faith by a reliable source selected by the fund manager.
- Commodity interests traded on a United States or foreign exchange are valued at their last reported settlement price on the valuation date on the exchange on which such interests were purchased or sold. Commodity interests not traded on a United States or foreign exchange are valued at the mean between their last “bid” and “asked” prices on the date as of which the value is being determined, as reported by a reliable source selected in good faith by the fund manager.
- Short-term money market instruments and bank deposits are valued at cost plus accrued interest to the date of valuation.

Opportunities

Opportunities investments are tactical investments that can be made across the full scope of the allowable asset classes and investment vehicles, including securities traded on national exchanges and illiquid private securities. Once a tactical investment opportunity is made, capital is drawn from the most appropriate underlying asset class to fund the opportunities allocation (equity, fixed income, hedge funds, private equity or real assets). Accordingly, opportunities investments are valued by the methodology of the underlying asset class as described above.

Securities Lending

Securities lending transactions are short-term collateralized loans of the System’s securities for the purpose of generating additional investment income. For each lending transaction, the System receives either cash collateral or non-cash collateral. The underlying securities out on loan are reported on the System’s statements of fiduciary net position as if the lending transactions had not occurred. Cash collateral received for the loaned securities is reported as a securities lending liability on the System’s statements of fiduciary net position. Cash collateral is reinvested in the lending agent’s cash collateral investment pool and is valued at fair value. Non-cash collateral held is not reported on the statements of fiduciary net position nor is there a corresponding liability reported on these statements as the System does not have the ability to pledge or sell them without a borrower default. Note 4 - Cash and Investments discloses the amount of securities lending non-cash collateral.

Other Assets

Other assets consist of other accounts receivable, prepaid expenses, net capital assets, and security deposits.

Administrative Expenses

Administrative costs are financed through employer and employee contributions and earnings from investments.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Reclassification

Certain reclassifications have been made to June 30, 2012 balances to conform to the presentation as of and for the year ended June 30, 2013.

Implementation of New Accounting Pronouncement

Effective July 1, 2012, SCERS adopted the provisions of Government Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and also requires related disclosures.

NOTE 3 - RETIREE MEDICAL AND DENTAL INSURANCE PROGRAM

Plan Description

The Sacramento County Retiree Medical and Dental Insurance Program (the "Program") is a multiple-employer medical and dental plan, which is sponsored and administered by the County of Sacramento and financed by eleven participating employers. SCERS' role in regard to the Program is limited to maintaining data provided by the administrator, collecting monies from the eleven participating employers and remitting premium payments. The activities of the Program are accounted for in the agency fund. SCERS does not provide any funding for the Program.

Below is the list of employers participating in the Program as of June 30, 2013:

- Carmichael Recreation and Park District
- County of Sacramento
- County of Sacramento Elected Officials
- Elk Grove Consumnes Cemetery District
- Fair Oaks Cemetery District
- Galt Arno Cemetery District
- Mission Oaks Recreation and Park District
- Orangevale Recreation and Park District
- Sacramento Metropolitan Fire District
- Sacramento Employment and Training Agency
- Sunrise Recreation and Park District

The Program provides medical and/or dental subsidy/offset payments to eligible retirees. The Sacramento County Board of Supervisors, at its own discretion, sets the amount of subsidy/offset payment available to eligible County retirees on a year-to-year basis. The medical subsidy amounts for special districts' retirees are varied and are established by each of the member districts. As of June 30, 2013, there were 1,230 retired members and beneficiaries currently receiving medical subsidies. As of June 30, 2012, there were 1,650 retired members and beneficiaries receiving medical subsidies.



Eligibility

Annuitants who retired on or before May 31, 2007 - According to the Programs' Administrative Policy, only annuitants who retired on or before May 31, 2007 for any reason and received a SCERS monthly retirement benefit of less than \$2,000 as of August 1, 2012 are eligible for the monthly medical subsidy of \$40 during the 2013 calendar year.

County annuitants who retired after May 31, 2007 - According to the Program's Administrative Policy, only County annuitants from bargaining units 001, 003, 005, 007, 008, 010, 020, 021, and 025 who retired after May 31, 2007 may be eligible for a premium subsidy/offset depending on the annuitant's credited service hours and type of retirement. For calendar years 2013 and 2012, the monthly dental subsidy is \$25, and the monthly medical subsidy amounts range from \$122 to \$244 depending on the annuitant's credited service hours. For calendar year 2013, the subsidies were only available for coverage through June 30, 2013 for all bargaining units except 003.

Special Districts' annuitants - The medical subsidy amounts for special districts' annuitants are varied and are established by each of the member districts.

There are no vested benefits associated with the Program. The Program does not create any contractual, regulatory, or other vested entitlement to present or future retirees, their spouses, or dependents for medical and/or dental benefits, or subsidy/offset payments at any particular level, or at all. Sacramento County and other participating employers may, in their sole discretion, amend or terminate, in whole or in part, the Program by Resolution of the Board of Supervisors.

Contributions and Reserves

The System does not have any authority to establish or amend the obligations of the plan members and employers to contribute to the Program. SCERS does not determine the contribution rate or collect the required contributions from employers. SCERS' role in regards to the Program is limited to collecting monies from Sacramento County and paying the premiums when due. Monies received by the System in excess of liabilities to pay premiums are recognized as liabilities payable to the County. There are no net position or legally required reserve accounts for the Program.

In accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, each participating employer is required to disclose the Program information with regard to funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress, and actuarial methods and assumptions used.

Request for Information

Requests for additional financial information regarding the Program may be addressed to:

County of Sacramento, Department of Finance
Auditor-Controller Division
700 H Street, Room 3650
Sacramento, CA 95814



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

NOTE 4 - CASH AND INVESTMENTS

SECTION 1: INVESTMENT SUMMARY

The investment authority for the System rests primarily through the “prudent person rule”, as set forth in Section 31595 of the County Employees Retirement Law of 1937, which establishes a standard for all fiduciaries, including anyone with investment authority on behalf of the System.

Cash Invested with Sacramento County Treasurer

The System invests cash held for benefit payments and general operations in the County Treasurer’s pool. The County Treasury Oversight Committee is responsible for regulatory oversight of the pool. The System’s share of the County Treasurer’s pool is separately accounted for, and interest earned, net of related expenses, is apportioned quarterly based on the relationship of the System’s average daily cash balance to the total of the pooled cash and investments.

The fair value of the System’s cash invested with the County Treasurer totaled \$7,783 and \$7,890 at June 30, 2013 and 2012, respectively. The pool was not rated, and the weighted-average maturity of the pool was 301 days and 259 days at June 30, 2013 and 2012, respectively.

Interest earned but not received from the County Treasurer at year end is reported as a component of accrued investment income on the statements of fiduciary net position. Cash and investments included within the County Treasurer’s pool are described in the County’s Comprehensive Annual Financial Report.

Other Cash and Cash Equivalents

At June 30, 2013 and 2012, other cash and cash equivalents constitute balances in bank demand deposit accounts of \$64,285 and \$45,824, respectively.

Short-Term Investments with Fiscal Agents

At June 30, 2013 and 2012, the fair value of the System’s short-term investments with fiscal agents was \$501,998 and \$726,120, respectively. The total consisted of investments in the State Street Short-Term Investment Fund (“STIF”). The STIF is designed to provide qualified benefit plans with an investment vehicle that may be accessed on a daily basis. The STIF is limited to investing in securities that are rated A-1 by Moody’s Investors Services and P-1 by Standard & Poor’s Corporation at the time of issuance. The STIF is not rated by credit rating agencies. Most investments range in maturity from overnight to 90 days with up to 20% of the STIF’s value eligible for investment between 90 days and 13 months. The weighted-average maturities were 40 and 31 days at June 30, 2013 and 2012. Investments in the STIF from all participating custodial clients of State Street were \$40.4 billion and \$35.3 billion on June 30, 2013 and 2012, respectively.

Real Assets

Real assets are comprised of investments in limited partnerships, commingled funds, separate accounts and direct investments in a mix of assets that include: (1) Core and core plus real estate; (2) Private real assets (infrastructure, energy, timber, agriculture and other natural resources); (3) Commodities; and (4) TIPS.

Direct investments include offices, apartments, retail and industrial properties (refer to Note 9 to the financial statements for mortgages payable related to directly held real estate investments). As of June 30, 2013 and 2012, the fair value of real asset investments were \$1,062,269 and \$747,333, respectively.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Hedge Funds

This category of investment includes limited partnerships, commingled funds and customized separate accounts that invest in domestic and international investment strategies including: (1) Market neutral strategies such as equity or fixed income market neutral, fixed income arbitrage, and convertible bond arbitrage; (2) Event driven strategies such as risk arbitrage, merger arbitrage, distressed debt, credit and other event-driven strategies; (3) Equity and credit long/short strategies where there is combination of long and short positions primarily in exchange traded securities, with a net market exposure less than 100% of that of the overall equity or fixed income market. Strategies may be focused on U.S., non-U.S., and/or specialty mandates; (4) Global Macro strategies such as all market portfolios, opportunistic long-only, managed futures, currency, dedicated short selling strategies or other specialty strategies; and (5) Multi-strategies where hedge funds invest using a combination of previously described strategies. As of June 30, 2013 and 2012, the fair value of hedge fund investments were \$561,309 and \$322,609, respectively.

Private Equity

This category of investment includes limited partnerships, commingled funds and FoF's that invest in domestic and international private venture capital, mezzanine capital, buyouts, and distressed debt. As of June 30, 2013 and 2012, the fair value of private equity investments were \$167,783 and \$110,645, respectively.

Opportunities

Opportunity investments are tactical investments that can be made in any allowable asset class and investment vehicle, including securities traded on national exchanges and illiquid private securities. The allocation to tactical investment opportunities is 0% to 5% of the total fund. Once an opportunities investment is made, capital is drawn from the most appropriate underlying asset class to fund the opportunities allocation (equity, fixed income, hedge funds, private equity or real assets). As of June 30, 2013 and 2012, the fair value of opportunity investments were \$54,030 and \$100,463, respectively.

Unfunded Commitments

Based on its asset allocation model, SCERS has committed to invest in a variety of investment portfolios in the different asset classes. A summary of the unfunded capital commitments by asset class as of June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Hedge Funds	\$90,000	\$27,000
Opportunities	28,188	4,335
Private Equity	375,116	259,331
Real Assets	30,586	10,700
Grand Total	<u>\$523,890</u>	<u>\$301,366</u>



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

SECTION 2: SECURITIES LENDING

State statutes permit the System to participate in securities lending transactions and, pursuant to a Securities Lending Authorization Agreement, the System has authorized State Street Bank and Trust Company ("State Street") to act as its agent in lending the System's securities to broker-dealers and banks pursuant to an approved loan agreement.

During the years ended June 30, 2013 and 2012, on behalf of the System, State Street loaned securities held by State Street as custodian, including U.S. government and agency obligations, domestic corporate bonds, and domestic and international equities and received, as collateral, U.S. and foreign currency, securities issued or guaranteed by the U.S. government, sovereign debt of foreign countries, and irrevocable bank letters of credit. The System does not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers are required to deliver collateral for each loan equal to a minimum of 100% of the market value of the loaned security.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, securities lending collateral reported in the statement of fiduciary net position represents only cash collateral which is invested in the lending agent's cash collateral investment pool. During fiscal years ended June 30, 2013 and 2012, SCERS did not impose any restrictions on the amount of the loans that State Street made on its behalf. During fiscal years ended June 30, 2013 and 2012, there were no failures to return loaned securities or pay distributions thereon by any borrowers. Moreover, there were no losses resulting from a default of the borrowers or State Street.

During the fiscal years ended June 30, 2013 and 2012, SCERS and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. Since the System held collateral from borrowers greater than the amounts borrowed, on June 30, 2013 and 2012, the System had minimal credit risk exposure to the borrowers. Furthermore, the lending agreement with the custodian requires the custodian to indemnify the System if the borrower fails to return the securities. The total collateral held and the fair value of the securities on loan as of June 30, 2013 were \$258,348 and \$249,840, respectively. The total collateral held and the fair value of the securities on loan as of June 30, 2012 were \$546,914 and \$544,152, respectively.

Additional information regarding the cash collateral investment pool (collateral pool) follows:

Method for Determining Fair Value. The fair value of investments held by the collateral pool is based upon valuations provided by a recognized pricing service.

Policy for Utilizing Amortized Cost Method. Because the collateral pool does not meet the requirements of Rule 2a-7 of the Investment Company Act of 1940, State Street has valued the collateral pool investments at fair value for reporting purposes.

Regulatory Oversight. The collateral pool is not registered with the Securities and Exchange Commission. State Street, and consequently the investment vehicles it sponsors (including the collateral pool), are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the System's position in the collateral pool is the same as the value of the collateral pool shares.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Collateral and related securities on loan at June 30, 2013 and 2012 were as follows:

Security on Loan Description	2013		
	Cash Collateral Value	Other Collateral Value	Fair Value of Securities on Loan
U.S. government and agency obligations	\$44,355	\$1,331	\$44,900
Domestic corporate bonds	48,360	-	47,433
Common and preferred stock – domestic	95,861	1,071	94,312
Common and preferred stock – international	67,039	331	63,195
Total	\$255,615	\$2,733	\$249,840

Security on Loan Description	2012		
	Cash Collateral Value	Other Collateral Value	Fair Value of Securities on Loan
U.S. government and agency obligations	\$87,681	\$6,892	\$91,896
Domestic corporate bonds	57,800	-	56,574
Common and preferred stock – domestic	369,086	379	371,155
Common and preferred stock – international	23,876	1,200	24,527
Total	\$538,443	\$8,471	\$544,152

Securities Lending Collateral Credit Risk

All of the cash collateral received for securities lending is invested in the State Street Quality D Short-Term Investment Fund, which is not rated by credit rating agencies. At the time of purchase, all securities with maturities of 13 months or less must be rated at least A1, P1 or F1 and all securities with maturities in excess of 13 months must be rated A- or A3 by any two of the nationally-recognized statistical rating organizations or, if unrated, be of comparable quality. The fund may invest in other State Street managed vehicles provided they conform to the guidelines. As of June 30, 2013, since the System held collateral from borrowers greater than the amounts borrowed, the System had minimal credit risk exposure to the borrowers.

Securities Lending Collateral Interest Rate Risk

Cash collateral from loans of securities is invested in the State Street Quality D Short-Term Investment Fund. Quality D's Investment Policy Guidelines provide that the Investment Manager shall maintain the dollar-weighted average maturity of the Quality D fund in a manner that the Investment Manager believes is appropriate to the objective of the Quality D Fund; provided that (i) in no event shall any Eligible Security be acquired with a remaining legal final maturity of greater than 18 month, (ii) the Investment Manager shall maintain a dollar-weighted average maturity of the Quality D Fund not to exceed 75 calendar days and (iii) the Investment Manager shall maintain a dollar-weighted average maturity to final of the Quality D Fund not to exceed 180 calendar days. As of June 30, 2013 and 2012, the weighted average maturity was 29 days and 36 days, respectively.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

SECTION 3: DEPOSIT AND INVESTMENT RISKS

Pursuant to GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, the following schedules disclose the System's investments subject to certain types of risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. This is measured by the assignment of ratings by nationally-recognized statistical rating organizations.

SCERS utilizes external investment managers to manage its portfolios. SCERS' Investment Policy specifies that fixed income investments will include both active and enhanced index investments in U.S. Treasury and agency securities, corporate bonds, mortgage-backed and asset-backed securities and non-dollar denominated sovereign and corporate debt.

The actively-managed investments will have a minimum average credit quality rating of A by Moody's Investor Services or A by Standard and Poor's Corporation. Portfolio diversification is constrained by the following parameters in order to minimize overall market and credit risk:

- No more than 10% of the portfolio will be concentrated in any one issuer except U.S. Government and agency securities.
- No more than 20% of the portfolio will be invested in high yield or below investment grade straight securities.
- No more than 15% of the portfolio will be invested in convertible securities, which include bonds and preferred issues.
- No more than 20% of the portfolio will be invested in non-U.S. dollar bonds.

The System's policy is that the enhanced index investments will have a credit quality rating similar to the Barclays Capital Aggregate Index. Portfolio diversification is constrained by the following parameters in order to minimize overall market and credit risk:

- The maximum holding in a single issuer, excluding U.S. Government and government-sponsored enterprises, is 5% of the portfolio's total market value.
- The minimum individual issue credit rating is BBB- by S&P, or an equivalent rating by Moody's, Fitch or Dominion Bond Rating Service.
- The portfolio duration will be within ± 0.25 years of the index duration as measured by the manager.
- All securities must be denominated in U.S. dollars.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

The following tables depict the fixed income assets by credit rating as of June 30, 2013 and 2012:

Fixed Income As of June 30, 2013

S&P Quality Rating	Total	Securitized Obligations	Credit Obligations	U.S.		Collateralized Mortgage Obligations	Mortgage Pass-Through		
				Government & Agency Obligations	International Government		FHLMC	FNMA	GNMA
AAA	\$61,452	\$32,165	\$1,764	\$ -	\$10,530	\$16,937	\$ -	\$56	\$ -
AA+	353,466	22,334	21,996	20,363	4,530	16,080	51,571	216,591	-
AA	15,339	9,542	4,296	-	-	1,502	-	-	-
AA-	11,979	2,604	7,256	-	-	2,119	-	-	-
A+	32,490	9,844	9,049	-	2,033	11,563	-	-	-
A	39,399	10,611	28,136	-	-	652	-	-	-
A-	66,106	5,029	61,077	-	-	-	-	-	-
BBB+	54,079	9,014	42,602	-	-	2,464	-	-	-
BBB	68,366	3,402	64,454	-	-	510	-	-	-
BBB-	48,401	2,749	44,945	-	-	706	-	-	-
BB+	15,394	5,223	10,171	-	-	-	-	-	-
BB	13,801	5,015	6,687	-	-	2,099	-	-	-
BB-	8,582	1,643	6,506	-	-	433	-	-	-
B+	8,004	1,725	6,010	-	-	269	-	-	-
B	4,122	566	3,519	-	-	37	-	-	-
B-	5,044	-	2,181	-	-	2,863	-	-	-
CCC	4,765	-	-	-	-	4,765	-	-	-
CC	93	-	-	-	-	93	-	-	-
D	1,077	1,077	-	-	-	-	-	-	-
NA	242,503	-	-	221,367	-	-	-	-	21,136
NR	247,208	-	210,480	-	-	10,112	17,897	8,720	-
Total	\$1,301,670	\$122,543	\$531,129	\$241,730	\$17,093	\$73,204	\$69,468	\$225,367	\$21,136



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Fixed Income As of June 30, 2012

S&P Quality Rating	Total	Securitized Obligations	Credit Obligations	U.S.	International Government	Collateralized Mortgage Obligations	Mortgage Pass-Through		
				Government & Agency Obligations			FHLMC	FNMA	GNMA
AAA	\$92,336	\$50,840	\$3,218	\$ -	\$1,835	\$31,486	\$ -	\$4,957	\$ -
AA+	315,010	10,046	12,839	15,264	7,829	7,153	89,991	171,888	-
AA	3,083	806	753	-	-	1,524	-	-	-
AA-	11,832	5,118	6,714	-	-	-	-	-	-
A+	38,851	25,012	12,960	-	-	879	-	-	-
A	26,722	7,501	16,221	-	-	3,000	-	-	-
A-	83,860	11,025	71,908	-	-	927	-	-	-
BBB+	35,448	3,236	32,043	-	-	169	-	-	-
BBB	67,396	4,158	62,634	-	-	604	-	-	-
BBB-	46,614	603	46,011	-	-	-	-	-	-
BB+	16,448	-	13,892	-	-	2,556	-	-	-
BB	17,125	1,712	14,189	-	-	1,224	-	-	-
BB-	6,988	-	4,479	-	-	2,509	-	-	-
B+	6,316	-	6,316	-	-	-	-	-	-
B	5,976	710	3,411	-	-	1,855	-	-	-
B-	4,665	-	3,568	-	-	1,097	-	-	-
CCC+	3,927	-	-	-	-	3,927	-	-	-
CCC	10,541	1,742	-	-	-	8,799	-	-	-
CC	4,079	-	-	-	-	4,079	-	-	-
D	3,360	846	-	-	-	2,514	-	-	-
NA	203,968	-	-	185,758	-	-	-	-	18,210
NR	68,536	1,686	22,338	-	6,981	716	20,904	15,911	-
Total	\$1,073,081	\$125,041	\$333,494	\$201,022	\$16,645	\$75,018	\$110,895	\$192,756	\$18,210

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2013 and 2012, the System had no single issuer that exceeds 5% of total investments per GASB Statement No. 40 disclosure requirements or any one issuer which represents 5% or more of total net position in accordance with GASB Statement No. 25. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are exempt from the disclosure requirements.

The System's investment policy does not allow more than 5% of the total portfolio market value to be invested in any one issuer, and as of June 30, 2013 and 2012, the System had no issuer that exceeds 5% of total portfolio market value. As noted in the previous discussion of credit risk, manager investment guidelines place limitations on the maximum holdings in any one issuer.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Custodial Credit Risk

Custodial credit risk is the risk that in the event a financial institution or counterparty fails, the System would not be able to recover the value of its deposits, investments, or securities. As of June 30, 2013 and 2012, the bank balance of cash and cash equivalents on deposit with SCERS' custodian bank and financial institutions totaled \$23,347 and \$19,390, respectively, of which \$22,158 and \$4,492 were not insured by Federal Depository Insurance Corporation ("FDIC") and were exposed to custodial credit risk. The System believes that the risk is not significant because the cash is held with major financial institutions.

As of June 30, 2013 and 2012, deposits held in the System's name for the overlay strategy of \$38,720 and \$24,453, respectively, were not insured or not collateralized, and these deposits were exposed to custodial credit risk.

As of June 30, 2013 and 2012, 100% of the System's investments held with the custodian were held in the System's name, and the System is not exposed to custodial credit risk related to these investments. There are no general policies relating to custodial credit risk.

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. NA represents those securities that are exempt from the rating disclosure requirements, and NR represents those securities that are not rated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment guidelines negotiated with the actively-managed external portfolio managers give the managers the discretion to deviate within $\pm 20\%$ from the effective duration of the relevant Barclays Capital Aggregate benchmark based on the portfolio total.

The following tables depict the duration in years of the long-term fixed income portfolio vs. the benchmark.

Long-Term Fixed Income Investments Duration

As of June 30, 2013

Type of Securities	Fair Value	Effective Duration	Benchmark Duration	Difference
Securitized Obligations				
Asset-Backed Securities	\$65,736	4.99	2.80	2.19
Collateralized Mortgage-Backed Securities	56,807	3.60	3.12	0.48
Credit Obligations				
Commingled Fund	208,680	NA	NA	NA
Corporate Bonds	295,829	6.32	6.83	(0.51)
Municipals	7,391	8.81	11.28	(2.47)
Yankees	19,229	5.73	6.07	(0.34)
U.S. Government & Agency Obligations				
Agency Securities	20,363	3.43	3.72	(0.29)
U.S. Treasury	221,367	5.71	5.16	0.55
International Government	17,093	3.38	NA	NA
Collateralized Mortgage Obligations	73,204	4.30	NA	NA
Mortgage Pass-Through				
FHLMC	69,468	4.21	4.13	0.08
FNMA	225,367	4.87	4.30	0.57
GNMA	21,136	5.86	4.62	1.24
Total Fair Value with Weighted Average Duration	\$1,301,670	5.31	5.22	0.09

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Long-Term Fixed Income Investments Duration

As of June 30, 2012

Type of Securities	Fair Value	Effective Duration	Benchmark Duration	Difference
Securitized Obligations				
Asset-Backed Securities	\$52,449	4.83	3.25	1.58
Collateralized Mortgage-Backed Securities	72,592	3.91	3.10	0.81
Credit Obligations				
Commingled Fund	21,720	NA	NA	NA
Corporate Bonds	296,937	5.70	6.77	(1.07)
Private Placement	672	NA	NA	NA
Yankees	14,165	7.07	6.07	1.00
U.S. Government & Agency Obligations				
Agency Securities	15,264	4.24	3.26	0.98
U.S. Treasury	185,758	7.51	5.53	1.98
International Government	16,645	4.15	NA	NA
Collateralized Mortgage Obligations	75,018	3.11	NA	NA
Mortgage Pass-Through				
FHLMC	110,895	2.52	2.06	0.46
FNMA	192,756	3.08	2.14	0.94
GNMA	18,210	7.82	2.25	5.57
Total Fair Value with Weighted Average Duration	\$1,073,081	7.24	4.61	2.63

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following tables represent cash and investments held in a foreign currency as of June 30, 2013 and 2012:

As of June 30, 2013

Local Currency Name	Cash & Cash Equivalents	Equity	Fixed Income	Private Equity	Total
Australian Dollar	\$575	\$61,024	\$5,313	\$ -	\$66,912
Canadian Dollar	3,092	72,635	3,373	-	79,100
Danish Krone	-	9,072	-	-	9,072
Euro Currency	56	269,301	-	15,645	285,002
Hong Kong Dollar	164	32,765	-	-	32,929
Indian Rupee	-	2,933	-	-	2,933
Indonesian Rupiah	-	385	-	-	385
Israeli Shekel	16	8,094	-	-	8,110
Japanese Yen	-	241,039	-	-	241,039
Malaysian Ringgit	-	221	-	-	221
Mexican Peso	-	210	-	-	210
New Zealand Dollar	-	1,929	8,407	-	10,336
Norwegian Krone	-	7,650	-	-	7,650
Pound Sterling	502	249,721	-	-	250,223
Singapore Dollar	28	24,868	-	-	24,896
South Korean Won	-	790	-	-	790
Swedish Krona	714	34,853	-	-	35,567
Swiss Franc	-	84,902	-	-	84,902
Turkish Lira	-	1,145	-	-	1,145
Total	\$5,147	\$1,103,537	\$17,093	\$15,645	\$1,141,422



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

As of June 30, 2012

Local Currency Name	Cash & Cash Equivalents	Equity	Fixed Income	Private Equity	Total
Australian Dollar	\$773	\$77,928	\$11,141	\$ -	\$89,842
Brazilian Real	-	1,896	-	-	1,896
Canadian Dollar	4,679	69,083	1,334	-	75,096
Danish Krone	-	1,852	-	-	1,852
Euro Currency	4,373	225,500	-	10,046	239,919
Hong Kong Dollar	691	34,487	-	-	35,178
Indian Rupee	-	1,405	-	-	1,405
Indonesian Rupiah	-	1,114	-	-	1,114
Israeli Shekel	7	7,522	-	-	7,529
Japanese Yen	3,038	175,128	-	-	178,166
New Zealand Dollar	-	1,293	6,123	-	7,416
Norwegian Krone	50	8,281	-	-	8,331
Philippine Peso	17	571	-	-	588
Polish Zloty	-	713	-	-	713
Pound Sterling	4,055	243,680	-	-	247,735
Singapore Dollar	-	27,132	-	-	27,132
South African Rand	-	2,416	-	-	2,416
South Korean Won	8	425	-	-	433
Swedish Krona	487	21,728	-	-	22,215
Swiss Franc	73	55,499	-	-	55,572
Thailand Baht	-	463	-	-	463
Turkish Lira	-	992	-	-	992
Total	\$18,251	\$959,108	\$18,598	\$10,046	\$1,006,003

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held as a form of investment. Foreign currency is held temporarily in foreign accounts until it is able to be repatriated or expended. The System does not have a foreign currency risk policy.

SECTION 4: HIGHLY SENSITIVE INVESTMENTS

As of June 30, 2013 and 2012, SCERS' investments included Collateralized Mortgage Obligations and Mortgage Pass-Through securities totaling \$389,175 and \$396,879, respectively. These securities are highly sensitive to interest rate fluctuations in that they are subject to early payment in a period of declining interest rates. The resulting reduction in expected total cash flows affects the fair value of these securities.

The System's investment policy allows investments in commodities and futures. SCERS' investments include an allocation of 2% of total fund assets in commodities and commodity futures as part of the Real Assets asset class. Commodities are a real asset class that produces a different pattern of returns to other asset classes. Unique supply and demand factors and the way commodities are traded are the main reasons for the low correlation between commodities and stocks and bonds. Not only is correlation low with traditional asset classes in general, but importantly, commodities tend to perform well when stocks and bond prices fall.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Spot commodity prices have historically been a poor investment and have declined in real terms. However, investment in collateralized commodity futures provides similar returns to stocks over the long term. The futures market is an efficient way for producers to hedge the price risk by forward-selling commodities at lower prices relative to spot prices to investors and speculators generating a roll yield (backwardation).

In general, commodities are volatile investments that are prone to large price spikes. By investing in commodity futures, investors get exposure to short-term price movement and risk, as well as long-term price trends. This price volatility and the need for producers to hedge their production provides the fundamental rationale for why investment managers pay the risk premium to speculators and long-only investors in the commodity markets.

As of June 30, 2013 and 2012, total commodities investments were \$185.3 million and \$111.1 million, respectively. The investments consist of commodity futures hedge fund-of-funds, a commodity index fund, and a commodity futures strategic fund.

Derivatives

The System's investment policy allows investment managers to use derivative instruments for certain purposes and within certain parameters. Such instruments include currency forward contracts, currency futures, floater/inverse floater debt instruments, interest-only and principal-only notes, and exchange traded financial futures and options. The System permits the use of derivatives to minimize the exposure of certain investments to adverse fluctuations in financial and currency markets. The System does not permit the use of derivatives for speculative use or to create leverage. As of June 30, 2013 and 2012, the derivative instruments held by the System are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized as incurred in the Statement of Changes in Fiduciary Net Position.

The tables below present the related net appreciation/(depreciation) in fair value, the fair value amounts and the notional amounts of derivative instruments outstanding at June 30, 2013 and 2012:

Investment Derivatives Instruments	Net Appreciation/ (Depreciation) in Fair Value of Investments through June 30, 2013	Fair Value at June 30, 2013		
		Classification	Amount	Notional
Futures (domestic and foreign)	\$79,272		\$ -	\$52,626
Foreign currency forwards	7,415	Accrued investment income receivables	3,897	\$282,824
Rights	213	Common and preferred stock - international	2	8,893 Shares
Total Derivative Instruments	\$86,900		\$3,899	

Investment Derivatives Instruments	Net Appreciation/ (Depreciation) in Fair Value of Investments through June 30, 2012	Fair Value at June 30, 2012		
		Classification	Amount	Notional
Futures (domestic and foreign)	\$38,674		\$ -	\$190,066
Foreign currency forwards	(6,739)	Accrued investment income receivables	(4,116)	\$278,171
Rights	70	Common and preferred stock - international	1	325 shares
Warrants	(19)	Common and preferred stock - domestic	-	-
Total Derivative Instruments	\$31,986		\$(4,115)	



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Futures contracts are financial instruments that derive their value from underlying indices or reference rates and are marked-to-market at the end of each trading day. Daily settlement of gains and losses occur on the following business day. As a result, the instruments themselves have no fair value at June 30, 2013 or 2012 or at the end of any trading day. Daily settlement of gains and losses is a risk control measure to limit counterparty credit risk. Futures variation margin amounts are settled each trading day and recognized in the financial statements under net appreciation/(depreciation) in fair value of investments as they are incurred.

Foreign currency forward contracts are obligations to buy or sell a currency at a specified exchange rate and quantity on a specific future date. The fair value of the foreign currency forwards is the unrealized gain or loss calculated based on the difference between the specified exchange rate and the closing exchange rate at June 30, 2013 and 2012.

Counterparty Credit Risk

Below is a schedule showing the counterparty credit ratings of the System's non-exchange traded investment derivative instruments outstanding and subject to loss at June 30, 2013 and 2012:

June 30, 2013

S&P Ratings	Foreign Currency Forwards
AA-	\$1,252
A+	752
A	3,215
Subtotal Investments in Asset Position	5,219
Investments in Liability Position	(1,322)
Total Investments in Asset/(Liability) Position	\$3,897

June 30, 2012

S&P Ratings	Foreign Currency Forwards
AA-	\$69
A+	198
A	119
Subtotal Investments in Asset Position	386
Investments in Liability Position	(4,502)
Total Investments in Asset/(Liability) Position	\$(4,116)

The System could be exposed to risk if the counterparties to derivative contracts are unable to meet the terms of the contracts. The System's investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. The System anticipates that the counterparties will be able to satisfy their obligations under the contracts.

The aggregate fair value of investment derivative instruments in an asset position subject to counterparty risk at June 30, 2013 and 2012 were \$5.2 million and \$0.4 million. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. The System did not have any master netting agreements with its counterparties at June 30, 2013 and 2012, except that certain investment managers used netting arrangements at their discretion to minimize counterparty risks. The above schedule presents exposure for similar instruments with the same counterparty on a net basis.

At June 30, 2013 and 2012, the System did not have any significant exposure to counterparty credit risk with any single party.

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Interest Rate Risk

At June 30, 2013 and 2012, the System did not have any exposure to interest rate risk on its derivative investments.

Foreign Currency Risk

At June 30, 2013 and 2012, the System is exposed to foreign currency risk on its investments in forward contracts denominated in foreign currencies as presented in the following tables:

As of June 30, 2013	Forward Contracts		Total Exposure
	Net Receivables	Net Payables	
Australian Dollar	\$(822)	\$1,999	\$1,177
Canadian Dollar	(3)	121	118
Danish Krone	10	16	26
Euro Currency	293	350	643
Hong Kong Dollar	1	(1)	-
Israeli Shekel	4	14	18
Japanese Yen	694	6	700
New Zealand Dollar	(64)	349	285
Norwegian Krone	(33)	48	15
Pound Sterling	(241)	741	500
Singapore Dollar	(33)	67	34
Swedish Krona	(34)	156	122
Swiss Franc	184	75	259
Total	\$(44)	\$3,941	\$3,897

As of June 30, 2012	Forward Contracts		Total Exposure
	Net Receivables	Net Payables	
Australian Dollar	\$197	\$(1,036)	\$(839)
Canadian Dollar	-	(71)	(71)
Danish Krone	(28)	(29)	(57)
Euro Currency	(676)	(734)	(1,410)
Hong Kong Dollar	1	(1)	-
Israeli Shekel	(16)	4	(12)
Japanese Yen	(14)	114	100
New Zealand Dollar	53	(146)	(93)
Norwegian Krone	(17)	(26)	(43)
Pound Sterling	(668)	(316)	(984)
Singapore Dollar	(33)	(42)	(75)
Swedish Krona	(9)	(124)	(133)
Swiss Franc	(258)	(241)	(499)
Total	\$(1,468)	\$2,648	\$(4,116)



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

The System has investments in futures contracts. As indicated on the preceding pages, futures variation margin accounts are settled each trading day and recognized as realized gains/(losses) as they are incurred. As a result, the foreign futures contracts have no fair value at June 30, 2013 and 2012.

NOTE 5 - CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

Contributions to the plan are made pursuant to Section 31584 of the County Employees Retirement Law of 1937. The System's funding policy provides for periodic contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate adequate assets to pay benefits when due. Members of the System are required to contribute, and such contributions range from 1.86% to 14.22% of annual covered salary depending on the member's tier, employer, and bargaining unit. Each employer of the System is obligated by state law to make all required contributions to the plan and depending on the participating employer and their employees' tiers, such contribution rates range from 13.10% to 66.00% of covered payroll. The required contributions include current service cost and amortization of any unfunded prior service cost as of June 30, 2012 over a period of 22 years remaining as of June 30, 2013, amortization of any unfunded service costs resulting in actuarial gains or losses and amortization of any unfunded service costs resulting from changes in actuarial assumptions and methods over a 20-year period, amortization of any unfunded service costs resulting from plan amendments over a 15 year period and amortization of any unfunded service costs resulting from retirement incentive programs over a period of up to 5 years.

Employer contribution rates are determined using the entry age normal cost method based on a level percentage of payroll. The System also uses this actuarial method to amortize the unfunded liability, if applicable. Contributions for the years ended June 30, 2013 and 2012 totaled \$257,906 and \$244,789. Included in this total are employer contributions of \$189,664 and \$179,099 in fiscal years 2013 and 2012, respectively, of which \$172,662 and \$162,514 were made by the County of Sacramento. Member contributions were \$68,242 and \$65,690 in fiscal years 2013 and 2012, respectively. All contributions were made in accordance with actuarially-determined contribution requirements based on the actuarial valuations performed as of June 30, 2011 and 2010. The actuarial valuations performed as of June 30, 2011 and June 30, 2010 utilized a 25-year declining amortization period; a 7.75% assumed investment rate of return; a 3.50% inflation rate; a 3.25% projected salary increases; and a 3.40% assumed post-retirement benefit increases for Miscellaneous Tier 1 and Safety Tier 1.

NOTE 6 – FUNDED STATUS

The System's funded status based on the most recent actuarial valuation as of June 30, 2013 is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2013	\$6,797,757	\$8,210,980	\$1,413,223	82.8%	\$877,657	161.0%

As of June 30, 2013, the unrecognized investment loss totaled \$9.8 million and the unfunded actuarial accrued liability ("UAAL") increased to \$1,413.2 million from \$1,308.3 million as of June 30, 2012. This increase in UAAL is due to investment returns (after smoothing) lower than the 7.50% investment return assumption and changes in actuarial assumptions offset to some degree by lower than expected salary increases. Unless offset by future investment gains or other favorable experience, the recognition of the \$9.8 million investment losses over the next six years is expected to have a slight impact on the System's future funded ratio and the aggregate employer contributions.

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Disclosure of Information about Actuarial Methods and Assumptions

The required Schedule of Funding Progress immediately following the Notes to the Financial Statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial Methods and Assumptions:

The following significant actuarial assumptions were utilized as part of the actuarial valuation dated June 30, 2013:

Actuarial cost method:	Entry age cost method
Amortization method:	Level percent of payroll for total unfunded liability
Remaining amortization period*:	Declining 25-year amortization period with 22 years remaining as of June 30, 2013 for the outstanding balance of the June 30, 2012 UAAL. The UAAL established as a result of the Early Retirement Incentive Program for the Sacramento County Law Enforcement Managers Association ("LEMA") members is amortized over a 10-year period, beginning June 30, 2010. Effective June 30, 2013, any changes in UAAL due to actuarial gains or losses or due to changes in actuarial assumptions or methods will be amortized over a 20-year closed period effective with each valuation. Any change in UAAL that arises due to plan amendments will be amortized over its own declining 15-year period and any changes in UAAL due to retirement incentive programs will be amortized over a declining period of up to 5 years.
Asset valuation method**:	7-year smoothed fair value
Investment rate of return***:	7.50%
Inflation rate****:	3.25%
Real across-the-board salary increase:	0.25%
Miscellaneous projected salary increases*****:	4.89% to 11.30%
Safety projected salary increases*****:	3.50% to 9.51%
Assumed post-retirement benefit increase*****:	Miscellaneous Tier 1 3.25% Miscellaneous Tier 2 0.00% Miscellaneous Tier 3 2.00% Miscellaneous Tier 4 2.00% Miscellaneous Tier 5 2.00% Safety Tier 1 3.25% Safety Tier 2 2.00% Safety Tier 3 2.00% Safety Tier 4 2.00%

*Prior to June 30, 2010 valuation, the UAAL was amortized over a 30-year closed amortization period, with 24 years remaining as of June 30, 2009.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

**The market value of assets plus (or minus) net unrecognized returns (or losses). Unrecognized returns (or losses) are equal to the difference between actual and expected returns on a market value basis. Unrecognized returns are recognized over a seven-year period. The actuarial value is further adjusted, if necessary, to be within 30% of the market value.

*** June 30, 2011 and 2010 valuation utilized a 7.75% investment rate of return.

**** June 30, 2011 and 2010 valuation utilized a 3.50% inflation rate.

***** Includes inflation at 3.25% plus real across-the-board salary increase of 0.25% plus merit and longevity increases.

***** June 30, 2011 and 2010 valuation utilized a 3.40% assumed post-retirement benefit increase for Miscellaneous Tier 1 and Safety Tier 1.

NOTE 7 - PLAN TERMINATION

California Government Code Section 31483 allows the governing body of the County, Superior Court or Special District, through the adoption of an ordinance or resolution, to terminate the applicability of the plan to employees of the County, Superior Court, or Special District whose services commence after a given future date.

NOTE 8 – RESERVES

Member and employer contributions are allocated to various legally required reserve accounts based on actuarial determinations. Descriptions of the purpose for the reserve and designated accounts are provided below.

Employee reserves represent the balance of member contributions. Additions include member contributions and interest earnings. Deductions include refunds of member contributions and transfers to retiree reserves.

Employer reserves represent the balance of employer contributions for future retirement payments to current active members. Additions include contributions from the employer and interest earnings. Deductions include transfers to retiree reserves, lump sum death benefits, and payments under California Government Code Sections 31725.5 and 31725.6 related to alternative employment for members otherwise entitled to disability retirement benefits.

Retiree reserves represent the balance of transfers from employee reserves, employer reserves, and interest earnings, less payments to retired members.

Retiree death benefit reserves represent the balance of funds for lump sum death benefits for retirees. Additions include interest earnings and, if necessary, employer contributions. Deductions include payments to beneficiaries of retired members who are deceased.

Retiree health care benefit designations include transfers made by the System from unallocated earnings in prior years to provide funding for a non-vested health and dental insurance premium offset for retirees. Funding of and payments for the retiree health care premium offsets were made in accordance with section 401(h) of the Internal Revenue Code. Effective July 1, 2004, funding for health care premium offsets for retirees has been provided solely from general revenues by those employers who have elected to continue the payments for their members.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Contingency reserve was created to serve as a reserve against deficiencies in future earnings and unexpected expenses.

Smoothed actuarial value of assets. Investment gains and losses are recognized (smoothed) over a seven-year period. As of June 30, 2013 and 2012, total allocated reserves were \$6,797,757 and \$6,529,894, respectively.

Market stabilization reserve represents the difference between the smoothed actuarial value of assets and the net position restricted for benefits at fair value.

A summary of the various reserve accounts, which comprise of net position restricted for pension benefits at June 30, 2013 and 2012, is as follows:

NET POSITION RESTRICTED FOR BENEFITS AT FAIR VALUE

As of June 30

	2013	2012
Employee Reserves	\$699,965	\$674,006
Employer Reserves	2,433,922	2,358,852
Retiree Reserves	3,649,192	3,482,412
Retiree Death Benefit Reserves	14,678	14,624
Total allocated reserves and designations	6,797,757	6,529,894
Market Stabilization Reserve	(9,762)	(455,968)
Net position restricted for benefits, at fair value	\$6,787,995	\$6,073,926

NOTE 9 – MORTGAGES PAYABLE

The System has real estate investments secured by long-term mortgage obligations which are recourse loans. Activities related to such mortgages were as follows for the years ended June 30:

	2013	2012
Beginning Balance	\$134,747	\$137,694
Additions	17,000	27,000
Deductions	(20,153)	(29,947)
Ending Balance	\$131,594	\$134,747

Future debt service requirements for outstanding mortgages are as follows:

Year Ending

June 30	Interest	Principal	Total
2014	\$4,896	\$162	\$5,058
2015	4,530	37,982	42,512
2016	2,115	79,950	82,065
2017	546	-	546
2018	546	-	546
2019 - 2023	45	13,500	13,545
Total	\$12,678	\$131,594	\$144,272



NOTE 10 – LEASE OBLIGATIONS

SCERS has commitments under operating lease agreements for office facilities and equipment. Minimum future rental payments as of June 30, 2013 were as follows:

<u>Year Ending June 30:</u>	
2014	\$538
2015	546
2016	556
2017	567
2018	577
2019-2021	1,689
Total	<u><u>\$4,473</u></u>

Rental costs during the years ended June 30, 2013 and 2012 were \$509 and \$525, respectively.

NOTE 11 – FUTURE ACCOUNTING PRONOUNCEMENTS

In June 2012, GASB approved Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, and Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. Statement No. 67 addresses reporting by pension plans that administer benefits for governments and is effective for financial statements for periods beginning after June 15, 2013. Statement No. 68, which primarily relates to reporting by governments that provide pensions to their employees, is effective for fiscal years beginning after June 15, 2014. These standards were subsequently published in August 2012.

Significant provisions of the standards that will either directly or indirectly impact the System are as follows:

- Incorporating ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes into projections of benefit payments, if an employer’s past practice and future expectations of granting them indicate they are essentially automatic.
- Using a discount rate that applies (a) the expected long-term rate of return on pension plan investments for which plan assets are expected to be available to make projected benefit payments, and (b) the interest rate on a tax-exempt 20-year AA/Aa or higher rated municipal bond index to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.
- Adopting a single actuarial cost allocation method – entry age normal – rather than the current choice among six attribution methods.
- Requiring more extensive note disclosures and required supplementary information.
- Requiring the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule I - Schedule of funding progress (Dollar amounts expressed in thousands):

A six-year schedule of the funding progress of the System is presented herewith as required supplementary information. This information is intended to help users assess the System's funding status on an ongoing basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
2008	\$5,930,758	\$6,363,355	\$432,597	93.2%	\$902,971	47.9%
2009	5,730,215	6,661,993	931,778	86.0	968,130	96.2
2010*	6,216,994	7,090,497	873,503	87.7	912,644	95.7
2011	6,420,824	7,382,897	962,073	87.0	880,766	109.2
2012	6,529,895	7,838,223	1,308,328	83.3	875,672	149.4
2013	6,797,757	8,210,980	1,413,223	82.8	877,657	161.0

The funded ratio compares the actuarial value of assets to the actuarial accrued liabilities of the plan as calculated under GASB requirements. High ratios indicate a well-funded plan that is well positioned to pay benefits when they are due. Lower ratios may indicate recent changes to benefit structures, funding of the plan below actuarial requirements, poor asset performance, or a variety of other changes.

The UAAL increased from \$1,308.3 million as of June 30, 2012 to \$1,413.2 million as of June 30, 2013. The funded ratio decreased from 83.3% to 82.8%. The increase in UAAL is mainly due to investment returns (after smoothing) lower than the 7.50% investment return assumption and changes in actuarial assumptions offset to some degree by lower than expected salary increases during 2012-2013.

Events affecting year to year comparability:

6/30/10 - Investment return assumption decreased from 7.875% to 7.75%.

6/30/11 - Modification in non-economic assumptions.

6/30/12 - Investment return assumption decreased from 7.75% to 7.50%;

- Inflation assumption decreased from 3.50% to 3.25%;

- Salary increase assumption decreased from 5.65% to 5.40%;

- COLA increase assumption for Tier 1 decreased from 3.40% to 3.25%.

6/30/13 - Actuarial cost method changed from Aggregate Entry Age Normal Cost Method to Individual Entry Age Normal Cost Method.

- Changes to the amortization periods used for various future changes in liability:

- UAAL established as a result of Early Retirement Incentive Program for LEMA is amortized over a 10-year period beginning June 30, 2010;
- UAAL as a result of actuarial gains or losses as of June 30, will be amortized over a 20-year period;
- UAAL as a result of changes in actuarial assumptions or methods to be amortized over a 20 year period;
- Change in UAAL as a result of plan amendments to be amortized over a 15-year period;
- UAAL as a result from retirement incentive programs will be amortized over a period up to 5 years.

* The June 30, 2010 results have been revised to reflect the correct actuarial accrued liability which was overstated in the June 30, 2010 valuation.



REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

Schedule II - Schedule of employer contributions (Dollar amounts expressed in thousands):

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2008	\$167,054	100.0%
2009	177,011	100.0
2010	167,142	100.0
2011	182,921	100.0
2012	179,099	100.0
2013	189,664	100.0

To calculate the required contribution, assumptions are made about future events that effect the amount and timing of benefits to be paid and assets to be accumulated. Each year actual experience is measured against the assumptions. If overall experience is more favorable than anticipated (an actuarial gain), the contribution requirement will decrease from the previous year. On the other hand, the contribution requirement will increase if overall actuarial experience is less favorable than expected. If assumptions are changed, the contribution requirements are adjusted to take into account a change in experience anticipated for all future years.



OTHER SUPPLEMENTAL INFORMATION

FOR THE FISCAL YEARS ENDED JUNE 30
(Dollar Amounts Expressed in Thousands)

Schedule I - Schedule of administrative expenses:

Type of expense:	2013	2012
Salaries and benefits	\$3,284	\$3,530
Professional fees	857	1,146
Rent and lease expense	432	458
Depreciation expense	36	37
Equipment purchases and maintenance	24	44
Other administrative expenses	1,086	1,073
Total administrative expenses	\$5,719	\$6,288

Schedule II - Schedule of investment fees and expenses:

Type of investment expense:	2013	2012
Domestic equity managers	\$6,749	\$6,622
International equity managers	7,587	4,845
Fixed income managers	1,947	1,796
Hedge fund managers	4,606	2,943
Real asset managers	6,978	4,800
Private equity managers	3,919	2,970
Opportunity portfolio managers	764	1,933
Strategic cash overlay managers	609	473
Custodian fees	505	493
Investment consulting fees	990	750
Other investment expenses and fees	2,960	1,686
Total investment fees and expenses	\$37,614	\$29,311

Schedule III - Schedule of payments to consultants:

Type of service:	2013	2012
Legal services	\$1,514	\$1,282
Medical consulting services	374	345
Actuarial services	182	102
Audit and consulting services	57	57
Total payments to consultants	\$2,127	\$1,786



STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUND

FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

(Dollar Amounts Expressed in Thousands)

Assets	<u>2013</u>	<u>2012</u>
Beginning accounts receivable balance	\$62	\$30
Additions	33,081	34,348
Deductions	<u>(32,816)</u>	<u>(34,316)</u>
Ending accounts receivable balance	<u><u>\$327</u></u>	<u><u>\$62</u></u>
Liabilities		
Beginning accounts payable balance	\$62	\$30
Additions	33,081	34,348
Deductions	<u>(32,816)</u>	<u>(34,316)</u>
Ending accounts payable balance	<u><u>\$327</u></u>	<u><u>\$62</u></u>







INVESTMENT

CHIEF INVESTMENT OFFICER'S REPORT

Introduction

For the fiscal year ended June 30, 2013, Sacramento County Employees' Retirement System ("SCERS") achieved a 13.2% gross return, and SCERS' net position was \$6.8 billion. Studies have shown that earning excess returns is not easily accomplished over the long-term because 80% of active investment managers underperform indices. However, SCERS' return exceeded its policy index by 2.3% and contributed approximately \$129 million of additional value to SCERS in this fiscal year alone, over and above the markets, net of all fees. Due to the significant increase in the value of SCERS' assets, SCERS has made a strong recovery since the global financial crisis in 2007-2009.

Global uncertainty surrounding fiscal and monetary policies and mixed performance across asset classes in the prior year resulted in a somber investment outlook at the beginning of fiscal year 2013. In the U.S., investors worried about the impending 'fiscal cliff' and potential spending cuts. Austerity in the Eurozone caused another recession, and the potential for one of the larger peripheral countries requiring a bailout loomed large. Question marks arose regarding the likelihood of a 'hard landing' in China. As these fears failed to materialize into more significant issues, the majority of equity markets rallied throughout the year. The Russell 1000 Index and the MSCI World ex-US Index were up 21.2% and 14.1%, respectively.

Developed nations globally appeared coordinated in providing monetary easing in the U.S., Japan and Europe, which helped fuel the equity market rally. The Federal Reserve ("Fed") announced 'QE3' and extended low federal funds rates until at least mid-2015. In the third quarter of 2012, the European Central Bank ("ECB") announced Outright Monetary Transactions ("OMT") to purchase an unlimited amount of sovereign bonds from Eurozone member states that apply to receive funds, provided that the issuing countries agree to certain austerity measures. Japan took unprecedented steps by communicating a seemingly unlimited amount of stimulus until growth returns and deflation reverses. While monetary easing was synchronized globally, the developed nations differed in regards to the stage and amount of quantitative easing. Europe provided the least amount, focusing instead on a combination of easing and austerity measures. On the other hand, Japan was still in the beginning stages of perhaps the largest program. And, based on comments from Fed President Ben Bernanke, speculation began in the second quarter of 2012 regarding the Fed tapering its monthly asset purchase program sooner than anticipated.

As a result, U.S. interest rates, including yields on the 10-year and 30-year Treasury bonds, increased significantly and the yield curve steepened and shifted up through the year. Despite the rise, interest rates remained extremely low by historic standards. As rates increased, fixed income performance struggled and the Barclays Capital Aggregate Index was down 0.7%. A closer look at the Index shows that performance was mixed across bond sectors as evidenced by the government segment down 0.6%, but the high yield segment posted a 9.5% gain. Despite the continued liquidity provided by the Fed's actions, inflation remained muted with the core Consumer Price Index ("CPI"), which strips out volatile food and energy prices, up 1.6% (and below the informal 2% target of the Fed).

Another lagger was the MSCI Emerging Markets Equity Index only managed a 3.2% return and significantly underperformed equity markets in the U.S. and international developed markets for reasons including: (1) The speculation of Fed tapering caused significant underperformance in emerging countries relying on global liquidity in respect to large current account deficits; and (2) A slowdown in the growth rate of China. These issues also appeared to negatively affect commodity prices with the Dow Jones UBS Commodity Index down 8.0%.



In the U.S., consumer confidence and slow gross domestic product (“GDP”) growth was buoyed by increasing stock markets and a significant recovery in housing prices. These positive developments were balanced by slow growth in employment. However, with slower employment growth and inflation in check, the Fed continued its accommodative stance.

As investors consider the future, risks appear balanced between the upside and downside. The majority of developed nations have successfully ‘kicked the can down the road’ by shifting debt to sovereign balance sheets, but over the long-term significant issues remain, including: (1) Developing a plan to solve significant fiscal imbalances and reduce high levels of debt; (2) Europe (through its OMT system) has created a safety net, but arguably still needs to provide greater liquidity and generate sustained growth; (3) Emerging markets such as China are slowing; and (4) It is unclear whether there will be sustained growth in developed nations such as Japan apart from the unprecedented monetary stimulus. However, in the interim, it has become clear that the global central banks have orchestrated coordinated monetary easing which has the potential to continue to encourage investors to consider higher risk assets as the cycle matures, regardless of fundamentals.

In fiscal year 2012, SCERS completed an asset/liability study which established a new long-term asset allocation mix. The allocation mix drives the overall direction of SCERS' portfolio, and research shows that approximately 90% of returns can be attributed to this decision. The asset allocation targets are not tactical, but rather are long-term in nature and thus are typically reviewed every 3-5 year.

A significant part of the asset/liability study focused on reducing risk by increasing diversification across SCERS' portfolio and, in particular, creating an asset allocation structure that would perform well across different economic environments and risk factors (such as interest rates, duration, foreign exchange, the equity risk premium, and inflation). To that end, potential asset allocation mixes were compared for optimal results relative to a variety of risk measures including:

- Volatility or standard deviation
- Risk factor exposures
- Performance in different economic environments
- Stress tests
- Cash flow analysis

This analysis led to the following enhancements in the asset allocation mix:

- Increased alternative assets to reduce risk of total portfolio
- Established a real assets class to hedge inflation risks, generate income and diversify the portfolio
- Revised approach/role for opportunities asset class
- Reduced equity risk exposure
- Improved performance in other economic environments and ‘stress case’ scenarios
- Increased expected returns with similar volatility (standard deviation)



CHIEF INVESTMENT OFFICER'S REPORT (CONTINUED)

The asset allocation changes are summarized in the table below:

Asset Class	Previous Target Allocation	Current Target Allocation
Equities		
Domestic Equities	32.0%	22.5%
International Equities	21.0%	22.5%
Equities Total	53.0%	45.0%
Fixed Income	20.0%	20.0%
Private Equity	5.0%	10.0%
Real Assets		
Core Private Real Estate	9.0%	7.0%
Commodities	2.0%	2.0%
TIPs, ILBs	0.0%	0.0%
Private Real Assets	0.0%	6.0%
Real Assets Total	11.0%	15.0%
Hedge Funds	5.0%	10.0%
Opportunities	6.0%	0.0%

Another objective in the asset allocation analysis was to establish clearly defined roles and objectives for each asset class to avoid duplication in sources of return and risk caused by the overlap between asset classes. By removing areas of overlap, SCERS will benefit from an increased level of diversification. This resulted in the restructuring of asset classes such as hedge funds and real assets, and redefining and reclassifying some sub asset classes. For example, REITs were moved to the Equity asset class, Value-add Real Estate was moved to the Opportunities asset class, a Real Assets asset class was created to include core real estate, private real assets, commodities and TIPS, and Hedge Funds were diversified to include multiple investment strategies.

The process of transitioning SCERS' portfolio to the new target asset allocation began during fiscal year 2012 and significant progress was made in executing the plan in 2013. However, changes will continue to occur over the following fiscal years as well. The investment sections in the current CAFR have been modified to mirror the changes in the asset allocation.

SCERS' investment performance for the fiscal year ended June 30, 2013 was strongly positive, reflecting the differences in performance outlined above between countries and by asset classes. Domestic equity, international developed equity and private equity led performance during the fiscal year, while the most significant detractors of performance were commodities, fixed income and emerging market equity. For the period, SCERS' total fund return was 13.2%, gross of investment management fees and 12.8%, net of investment management fees. The gross return for the fiscal year was 2.3% above SCERS' policy weighted benchmark return of 10.9%, and was above the actuarial return objective of 7.5%. Over the trailing five-year period, SCERS' annualized investment returns were 4.3% gross and 4.0% net. This five-year annualized return was below the actuarial return objective of 7.5% and SCERS' policy benchmark return of 4.6%.



During the fiscal year, educational sessions were provided by SCERS' Staff, investment consultant and various investment managers to assist the Board in making decisions regarding new asset classes and possible new investment strategies. The educational sessions included presentations regarding: (1) Fixed income asset class structure; (2) Event driven hedge fund investing; (3) Private equity investing in emerging markets; (4) Long/short corporate credit investing; (5) Real estate asset class structure; (6) Global fixed income strategies; (7) International real estate investing; (8) Short selling securities; and (9) Investing in derivatives.

SCERS' general investment consultant, Strategic Investment Solutions, Inc. ("SIS"), prepared the investment returns cited in this transmittal using information it receives from SCERS' custodian bank and investment managers.

General Information

SCERS utilizes external investment managers to invest the System's assets. As of June 30, 2013, there were seventeen separate account portfolios; one domestic equity commingled fund; one international equity closed-end mutual fund; one international equity partnership; one global opportunistic fixed income fund; eleven hedge fund partnerships; two commodity fund partnerships; five real estate funds; four private equity fund-of-funds partnerships; fourteen private equity fund partnerships; one private real assets fund partnership; a real asset strategy commingled fund; one opportunistic debt fund partnership; and a strategic cash overlay program. The Board uses the services of SIS as a general consultant, Cliffwater, LLC as an alternative assets consultant and Townsend Group as a real estate consultant, to assist in developing the investment policy, prepare asset/liability studies, advise on the asset allocation, help conduct manager searches and assist in monitoring investment manager performance. SCERS' primary legal services regarding the investment program are provided by outside specialized legal counsel and fiduciary counsel.

During the fiscal year, in Domestic Equity, engagements were terminated with Thompson Siegel and Walmsley (domestic small cap value) and Principal Global Investors (domestic REIT).

In International Equity, no significant changes were made during the fiscal year.

SCERS restructured the Fixed Income asset class by adding two new components designed to bring greater diversification to the Fixed Income portfolio and to mitigate potential duration and interest rate risks. The modifications to the structure included: (1) Establishing an opportunistic global fixed income mandate; and (2) Creating a strategic credit mandate.

In Hedge Funds, SCERS continued to take steps to lower risk, enhance returns and lower the cost of the program by building out its direct investments. This was accomplished in part in 2012 by transforming SCERS' fund-of-funds relationship with Grosvenor Capital into a strategic partnership with a diversified separate account. In fiscal year 2013, SCERS created a similar diversified separate account, designed with greater liquidity to fund direct hedge fund investments over the next three years. SCERS also invested in three direct hedge funds, AQR DELTA Fund II, L.P., Lakewood Capital Partners, L.P. and JANA Partners Qualified, L.P.

During the fiscal year, in Real Assets, SCERS' core real estate advisors acquired one industrial core property and disposed of one industrial core property. An engagement with the Granite Property Fund, a core open-end commingled fund managed by BlackRock was terminated. SCERS also made a commitment to a private real assets fund, EnCap Energy Capital Fund IX, L.P.



CHIEF INVESTMENT OFFICER'S REPORT (CONTINUED)

In Private Equity, SCERS continued implementation of the direct private equity program approved in May 2011. SCERS made seven commitments during the fiscal year to H.I.G. Bayside Loan Opportunity Fund III, L.P.; H.I.G. Capital Partners V, L.P.; H.I.G. Europe Capital Partners II, L.P.; Trinity Ventures XI, L.P.; Wayzata Opportunities Fund III, L.P.; Marlin Equity Partners IV, L.P.; and RRJ Capital Master Fund II, L.P. In addition, SCERS continues to meet the capital calls for commitments to private equity fund-of-funds and direct funds made in current and prior years. Because of the long investment period for SCERS' private equity commitments, it will take a number of years before most of the current commitments will be called and invested. As a result, this asset class will continue to be well below the 10.0% target for the next several years.

In Opportunities, SCERS made one commitment to Atalaya Special Opportunities Fund, L.P.

SCERS' custodial bank is State Street California, Inc ("State Street"). In addition to custodial services (including performance measurement), State Street provides securities lending services to SCERS and, through State Street Global Markets, administers an overlay program and a commission recapture program. For the fiscal year ended June 30, 2013, SCERS earned a net income of \$2.4 million from securities lending and received recapture income of \$0.2 million. SCERS does not use directed-brokerage or soft-dollar commissions to purchase any services.

SCERS Investment Objectives

SCERS' investment objectives are set forth in the Board's Investment Policy and Objectives ("Investment Policy"). SCERS' investment objectives are:

Provide for Present and Future Benefit Payments - The overall investment objective of SCERS is to invest pension assets solely in the interest of providing benefits to the participants and their beneficiaries, while attempting to minimize employer contributions and defraying administrative costs. The investment of contributions and other fund assets in accordance with the Investment Policy is intended to accomplish this and maintain adequate funding of SCERS' liabilities over time. The goal of the Board is to design an investment portfolio that will achieve and exceed the annualized actuarial assumed rate of 7.50% over a market cycle. The Board strives to achieve this level of return with a high level of confidence and with an acceptable level of risk.

Make Prudent Investments - In accordance with the fiduciary standards of care, skill, prudence and diligence, the Board strives to produce an investment return based on levels of liquidity and investment risk that are prudent and reasonable under present circumstances. Such circumstances may change over time.

Diversify the Assets - The Board diversifies the investments of SCERS to maximize the investment return and maintain acceptable investment risk.

Create Reasonable Pension Investments Relative to Other Pension Funds - SCERS' pension investment program must operate in compliance with all applicable State and Federal laws and regulations concerning the investment of pension assets. SCERS judges its selection of investment vehicles and policies against a customized benchmark based on SCERS' asset allocation but also assesses how SCERS compares to other private and public pension funds.

Establish Policy and Objective Review Process - Annually, SCERS conducts a formal review of its Investment Policy and undertakes an updated asset/liability study at least every five years.



Summary of Proxy Voting Guidelines and Procedures

As a fiduciary, the Board has an obligation to manage SCERS' assets in the best interest of the plan participants. The Board has established a Proxy Voting and Corporate Governance Policy to assist with this goal. This policy provides guidance for voting proxies and acting on corporate action issues, such as mergers and acquisitions. For the fiscal year ended June 30, 2013, all proxies were voted through an electronic voting platform provided by Institutional Shareholder Services, with the assistance of research and analysis provided by Institutional Shareholder Services and Glass Lewis & Co.

Summary of Asset Allocation

The Board develops the strategic asset allocation primarily with the assistance of the general consultant, SIS. SCERS' alternative assets consultant, Cliffwater, collaborates with SIS and provides assistance on the strategic asset allocation for the alternative assets. The intent of the asset allocation policy is to ensure the diversification of investments in a manner that achieves the desired rate of investment return with an acceptable investment risk. The actual and policy allocation for each asset class is shown in the pie chart in the materials that follow. SCERS adjusts its long-term capital market assumptions as appropriate each year. The capital market assumptions included in the Investment Policy are estimated to give SCERS an 8.0% annualized total rate of return over the next ten years with a standard deviation of returns of 13.4%. SCERS utilizes active investment management to achieve the target earnings rate. The asset allocation is broadly diversified between asset classes as well as within each class in a manner that ensures consistent long-term performance in line with the policy objectives.

Summary of Investment Results

SCERS monitors capital market investment returns through reference to recognized and easily obtainable market indices, which are used as asset class benchmarks. The benchmark index performance by asset class for one, three and five years is shown on the Investment Results schedule. The asset class benchmark returns are weighted by the asset allocation to provide a policy-weighted return based on SCERS' asset allocation model. SCERS presents its returns using a time-weighted rate of return methodology based upon market values. SCERS' total investment return for the fiscal year ended June 30, 2013 was 13.2%, gross of fees and 12.8% net of fees. SCERS' policy-weighted benchmark return for the fiscal year was 10.9%.

SCERS also compares its performance against the performance of a peer group of other public funds utilizing a series of universe comparisons provided by SIS. For the fiscal year, the median public fund in the InvestorForce Universe of public funds with assets of greater than one billion dollars had a return of 12.0%. SCERS ranked at the 30th percentile.

Domestic Equity is SCERS' largest investment asset class. For the fiscal year, SCERS' total domestic equity return was 21.7%, gross of fees. The return was above the benchmark Russell 3000 Index return of 21.5%, by 0.2%. For the three-year period, SCERS' domestic equity annualized return was 18.4%, gross of fees, compared to the Russell 3000 Index benchmark return of 18.6%. In the domestic equity segment of the InvestorForce Universe, SCERS ranked at the 53rd percentile for one year and at the 54th percentile for three years.



CHIEF INVESTMENT OFFICER'S REPORT (CONTINUED)

The Domestic Equity sub-asset allocation divides investments by stock market capitalization and investment style. The large cap domestic equity investments had a fiscal year 22.1% return, gross of fees, which was 0.9% above the return of the Russell 1000 Index benchmark. The annualized investment return for large cap equity for three years was 18.6%, gross of fees, which was in-line with the benchmark return of 18.6%. The one-year return for small cap equity investments was 24.2%, gross of fees. This return was in-line with the benchmark Russell 2000 Index return of 24.2%. For the three-year period, the small cap equity annualized return was 18.0%, gross of fees, which was 0.7% lower than the benchmark return of 18.7%.

International Equity returned 16.3% for the fiscal year, gross of fees. This was 2.2% above the benchmark MSCI ACWI ex-U.S. Index return of 14.1%. Annualized performance for the three-year period of 8.5%, gross of fees, was in-line with the benchmark return of 8.5%. In the international equity segment of the InvestorForce Universe, SCERS ranked at the 44th percentile for one year and at the 72nd percentile for three years.

SCERS' international equity investments are classified into two categories, developed markets and emerging markets, determined by country. For the fiscal year, SCERS' developed market investments returned 18.6%, gross of fees, which was 0.5% below the benchmark MSCI EAFE Net Dividend Index return of 19.1%. Over the trailing three-year period, the established market annualized return was 10.3%, gross of fees, compared to a MSCI EAFE Net Dividend Index return of 10.6%. For the fiscal year, the emerging markets gross of fees return of 3.9% was above the return of the benchmark MSCI Emerging Markets Free Index return of 3.2%. For the three-year period, SCERS' annualized return of 0.4%, gross of fees, came in below the benchmark return of 3.7%, by 3.3%.

SCERS' Fixed Income investments had a fiscal year 1.1% return, gross of fees, which was 1.8% above the benchmark Barclays Capital Aggregate Index return of -0.7%. For the three-year period, the fixed income asset class annualized return was 5.4%, gross of fees, compared to the benchmark return of 3.5%. In the fixed income segment of the InvestorForce Universe, SCERS' Fixed Income return ranked in the 49th percentile for one year and at the 50th percentile for three years.

SCERS' Hedge Fund investments had a fiscal year 13.2% return, gross of fees. The performance objective for the hedge fund investments is the T-Bill plus five percent, which returned 5.1%. Another comparison measure is the HFRI Fund of Funds Composite Index, which returned 10.5% for the fiscal year. In the hedge fund segment of the InvestorForce Universe, SCERS' Hedge Fund return ranked in the 15th percentile for one year and at the 10th percentile for three years.

The Real Assets asset class had a fiscal year 4.7% return, gross of fees, which was 1.5% below the benchmark CPI-U Headline Inflation Index + 5% return of 6.2%. Since the asset class has been recently created, a three year performance return has not yet been calculated.

The Real Assets sub-asset allocation divides investments into four categories, including: (1) Core and core plus real estate; (2) Private real assets such as infrastructure, energy, timber, agriculture or other natural resources; (3) Commodities; and (4) Treasury Inflation Protected Securities (TIPS). SCERS' core real estate separate accounts produced an 11.0% return, gross of fees, which was 0.8% below the benchmark return of 11.8%. SCERS' core real estate open-ended funds achieved an 11.2% gross return compared to the benchmark return of 12.2%. SCERS' commodities funds were down 5.5%, which was 2.5% above the benchmark. During the fiscal year, SCERS did not have any allocations to TIPS and added one private real assets fund, the performance of which is not yet meaningful.



The Private Equity investments had a return of 13.7%, gross of fees, for the fiscal year compared to the 17.4% return of the asset class benchmark, the Russell 1000 Index plus three percent. The underperformance for SCERS' investments reflects the J-curve effect on the private equity fund-of-fund investments, which are early in their investment cycle with amounts of committed capital still being called and invested. In the private equity segment of the InvestorForce Universe, SCERS' Private Equity return ranked in the 7th percentile for one year and at the 81st percentile for three years. Please note that the returns of the private equity asset class and benchmark are delayed one quarter.

The Opportunities investments are tactical investments across SCERS' investible asset classes and universe. When an opportunities investment is made, its capital is drawn from the asset class which best fits the risk and return characteristics of the underlying investments. For the fiscal year, SCERS' Opportunities investments were comprised of three value-add real estate funds, and various debt funds, that successfully returned capital and gains during the year. Opportunities achieved a 22.6% gross return, which was 23.3% above the -0.7% benchmark return.

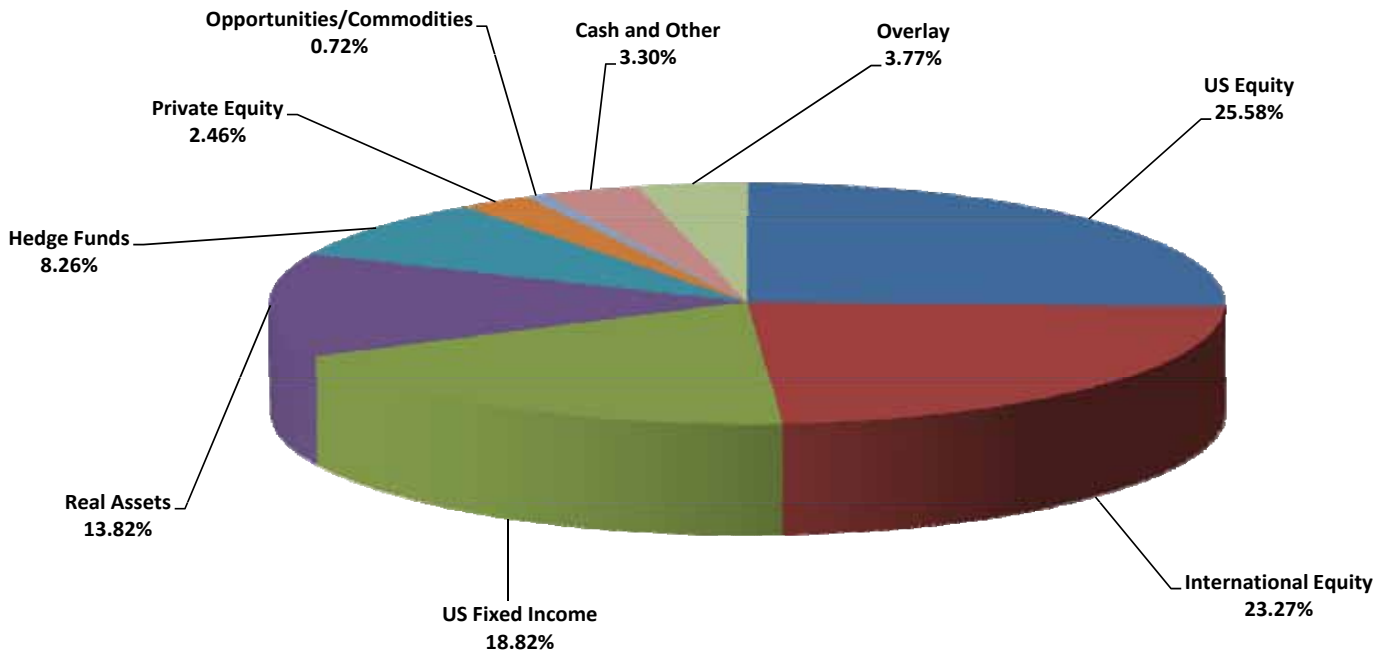
Respectfully submitted,



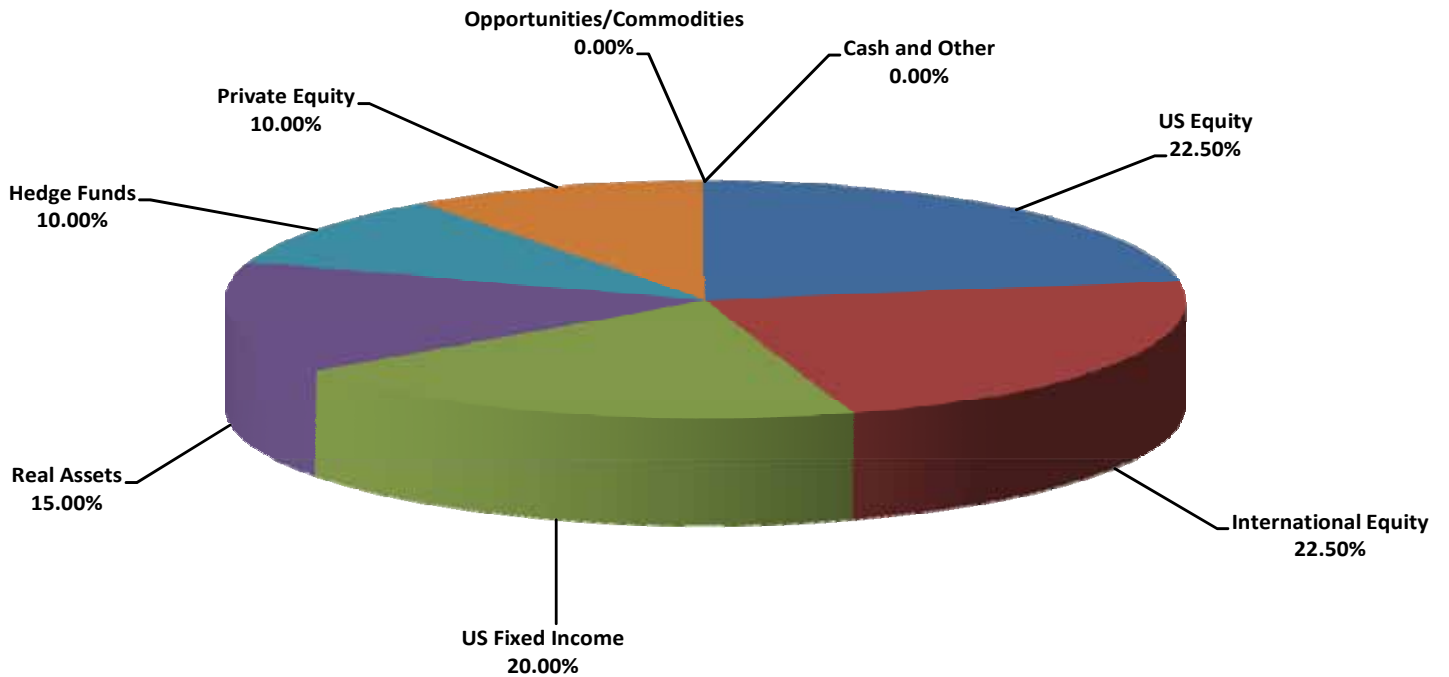
Scott Chan
Chief Investment Officer

ASSET ALLOCATION

SCERS' Asset Allocation as of June 30, 2013



Target Asset Allocation



The 2013 Actual Asset Allocation is based upon the Investment Summary adjusted to net out \$131.6 million in leverage.



INVESTMENT RESULTS

For the Period Ended June 30, 2013

	1 Year	Annualized 3 Years	5 Years
Domestic Equity			
Total Domestic Equity	21.7 %	18.4 %	6.9 %
IFx All DB US Eq Gross Median	21.8	18.5	7.3
Benchmark: Russell 3000 Index	21.5	18.6	7.2
International Equity			
Total International Equity	16.3	8.5	0.6
IFx All DB ex-US Eq Gross Median	15.8	9.5	0.0
Benchmark: MSCI ACWI ex-US Index	14.1	8.5	(0.3)
Fixed Income			
Total Fixed Income	1.1	5.4	7.8
IFx All DB Total Fix Inc Gross Median	1.0	5.4	6.8
Benchmark: Barclays Aggregate Index	(0.7)	3.5	5.2
Real Assets			
Total Real Assets	4.7	N/A	N/A
Benchmark: CPI-U Headline + 5%	6.2	N/A	N/A
Hedge Funds			
Total Hedge Funds	13.2	7.2	1.8
IFx All DB Hedge Funds Gross Median	10.5	5.6	1.5
Benchmark: 91 day Treasury Bill + 5%	5.1	5.1	5.3
Private Equity			
Total Private Equity*	13.7	7.7	(9.9)
IFx All DB Private Equity Net Median	7.8	11.2	4.8
Benchmark: Russell 1000 + 3% 1 Quarter Lag	17.4	15.3	8.3
Opportunities			
Total Opportunities	22.6	19.2	4.8
Benchmark: Barclays Aggregate Index	(0.7)	3.5	5.2
Total Fund			
SCERS Total Fund-Gross	13.2	11.9	4.3
SCERS Total Fund-Net	12.8	11.5	4.0
IFx Public DB > \$1B Gross Median	12.0	11.3	5.0
Benchmark: Asset Allocation Weightings**	10.9 %	11.9 %	4.6 %

Notes: Unless noted, returns were prepared by SCERS investment consultant, and shown on a gross of fee basis and included the overlay effect. Return calculations were prepared using a time weighted rate of return.

* Investment return and index return are one quarter in arrears.

** The Benchmark consists of 22.5% Russell 3000, 22.5% ACWI ex U.S., 20% Barclays Aggregate, 10% T-Bill plus 5%, 10% Russell 1000 plus 3% and 15% CPI-U Headline plus 5%. From 1/1/2008 to 12/31/11, the Benchmark consisted of 30% Russell 3000 Index, 20% ACWI ex U.S., 20% Barclays Aggregate, 12% NCREIF Property, 3% NAREIT Property, 5% T-Bill plus 5%, 5% Dow Jones UBS Commodities, and 5% S&P 500 plus 2%.



SUMMARY OF INVESTMENT ASSETS

As of June 30, 2013

(Dollar Amounts Expressed in Thousands)

Equity	Fair Value	Percentage of Total Cash & Investments
Domestic		
Alliance Bernstein L.P. - Large Cap Core Index	\$965,861	13.83%
Brown Advisory - Large Cap Growth	86,387	1.24
CenterSquare Investment Management - U.S. REITS	78,800	1.13
Dalton, Greiner, Hartman, Maher - Small Cap Value	55,850	0.80
Eagle Capital Management - Large Cap Core	190,683	2.73
Huber Capital Management - Large Cap Value	95,422	1.37
JP Morgan Asset Management - Equity Active Extension (130/30)	87,954	1.26
M.A. Weatherbie and Company - Small Cap Growth	60,061	0.86
Turner Investment Partners - Small Cap Growth	56,891	0.81
Wedge Capital Management - Small Cap Value	55,266	0.79
Transition	296	0.00
Total Domestic Equity	1,733,471	
International		
Baring Asset Management - International Developed Growth	361,924	5.18
Capital International - Emerging Markets Growth Fund	272,772	3.90
CBRE Clarion Securities - International REITS	68,733	0.98
Lazard Asset Management - ACWI ex-US	333,695	4.78
LSV Asset Management - International Developed Value	382,880	5.48
Mondrian Investment Partners - International Developed Small Cap Value	73,731	1.06
William Blair and Company - International Developed Small Cap Growth	85,136	1.22
Total International Equity	1,578,871	
Hedge Funds		
AQR Delta Fund II, L.P.	39,322	0.56
BlueCrest Capital, L.P.	30,217	0.43
Claren Road Credit Partners, L.P.	32,738	0.47
Elliott Associates, L.P.	2,793	0.04
Grosvenor Capital Management	1,832	0.03
Lakewood Capital Partners, L.P.	12,000	0.17
Och-Ziff Domestic Partners II, L.P.	36,078	0.52
SC Absolute Return Fund, LLC	226,251	3.24
SC Absolute Return Fund, LLC Series B	148,413	2.12
Third Point Partners Qualified, L.P.	31,665	0.45
Total Hedge Funds	561,309	
Private Equity		
Abbott Capital Private Equity Fund VI, L.P.	28,094	0.40
Accel-KKR Capital Partners IV, L.P.	346	0.00
Garrison Opportunities Fund III, L.P.	8,214	0.12
Goldman Sachs Private Equity Partners X, L.P.	45,120	0.65
H.I.G. Bayside Loan Opportunity Fund III (Europe)	3,295	0.05
HarbourVest Partners International PEP VI, L.P.	11,104	0.16
HarbourVest Partners VIII, L.P.	38,184	0.55
Khosla Ventures IV Fund, L.P.	3,662	0.05



SUMMARY OF INVESTMENT ASSETS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Equity	Fair Value	Percentage of Total Cash & Investments
Private Equity (continued)		
New Enterprise Associates 14, L.P.	5,946	0.09
RRJ Capital Master Fund II, L.P.	790	0.01
Summit Partners Credit Fund, L.P.	11,058	0.16
Summit Partners Venture Capital Fund III, L.P.	4,870	0.07
Trinity Ventures XI, L.P.	1,063	0.02
Waterland Private Equity Fund V, L.P.	4,541	0.07
Wayzata Opportunities Fund III, L.P.	1,496	0.02
Total Private Equity	167,783	
Total Equities	4,041,434	
Fixed Income		
Domestic		
Bradford & Marzec Inc.	312,583	4.47
Metwest Asset Management	425,659	6.09
Neuberger Berman	382,204	5.47
Total Domestic Fixed Income	1,120,446	
International		
Bradford & Marzec Inc.	33,380	0.48
Brandywine Global Investment Management, LLC	197,137	2.82
Metwest Asset Management	14,399	0.21
Neuberger Berman	17,323	0.25
Total International Fixed Income	262,239	
Total Fixed Income	1,382,685	
Real Assets		
BlackRock Realty Advisors - Separate Account	335,400	4.80
Blackstone Resources Select Offshore Fund	58,749	0.84
Cornerstone Patriot Fund	81,911	1.17
Cornerstone Realty - Separate Account	186,650	2.67
EnCap Energy Capital Fund IX, L.P.	2,134	0.03
Gresham Strategic Commodities Fund	37,114	0.53
Other Commingled Trusts	12	0.00
State Street Global Advisors - Real Asset Strategy	360,299	5.16
Total Real Assets	1,062,269	
Opportunities		
AEW Value Investors II, L.P.	17,167	0.25
Allegis Value Trust	24,757	0.35
Hines US Office Value Fund II, L.P.	12,087	0.17
PIMCO Distressed Debt Fund	19	0.00
Total Opportunities	54,030	

(continued)



SUMMARY OF INVESTMENT ASSETS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

	<u>Fair Value</u>	<u>Percentage of Total Cash & Investments</u>
Overlay		
State Street Global Advisors	256,270	3.67
Total Overlay	<u>256,270</u>	
Total Investments at Fair Value	<u>6,796,688</u>	
Cash		
Cash (Unallocated)	166,521	2.38
Other Cash & Cash Equivalents	22,155	0.32
Total Cash	<u>188,676</u>	
Total Cash & Investments	<u>6,985,364</u>	<u>100.00%</u>
Other Assets		
Other Assets	6,367	
Receivables	207,139	
Securities Lending Collateral	255,615	
Total Other Assets	<u>469,121</u>	
Total Assets	<u>7,454,485</u>	
Liabilities		
Warrants Payable	3,635	
Accounts Payable	26,822	
Mortgages Payable	131,594	
Investment Purchased Payable	248,824	
Securities Lending Liability	255,615	
Total Liabilities	<u>666,490</u>	
Net Position Restricted for Pension Benefits	<u><u>\$ 6,787,995</u></u>	

Note: Investment assets at portfolio level include cash and cash equivalents and short-term investments with fiscal agents.



TEN LARGEST STOCK HOLDINGS (BY FAIR VALUE)

As of June 30, 2013

Rank	Shares	Security Name	Fair Value (in thousands)
1	923,666	Microsoft Corp.	\$31,894
2	281,312	Exxon Mobil Corp.	25,416
3	63,399	Apple Inc.	25,111
4	28,117	Google Inc.	24,753
5	215,218	Sanofi	22,274
6	194,376	Berkshire Hathaway Inc.	21,755
7	226,030	Wal-Mart Stores Inc.	16,837
8	416,906	Coca Cola Company	16,722
9	553,948	Pfizer Inc.	15,516
10	186,474	PepsiCo Inc.	15,252
Total of Ten Largest Stock Holdings			\$215,530

A complete list of the stock holdings is available.

TEN LARGEST BOND HOLDINGS (BY FAIR VALUE)

As of June 30, 2013

Rank	Par	Security Name	Interest Rate	Maturity	Fair Value (in thousands)
1	21,770,000	Federal Natl Mtg Assn TBA	3.50%	8/1/2099	\$22,042
2	20,655,000	United States Treasury N/B	1.38%	6/30/2018	20,644
3	20,000,000	United States Treasury N/B	0.25%	6/30/2014	20,012
4	13,545,006	Tsy Infl LX N/B	0.13%	4/15/2017	13,897
5	12,770,000	FNMA TBA 30YR Single Family	3.50%	12/1/2099	12,964
6	12,657,000	FNMA Tba Jul 15YR	2.50%	12/1/2099	12,730
7	11,449,848	FNMA Pool AI0933	5.00%	10/1/2041	12,582
8	11,585,000	Federal Natl Mtg Assn TBA	2.50%	12/1/2099	11,627
9	10,650,000	United States Treasury N/B	0.38%	6/15/2015	10,653
10	10,810,000	FNMA Conv TBA 30YR	3.00%	12/1/2099	10,533
Total of Ten Largest Bond Holdings					\$147,684

A complete list of the bond holdings is available.



SCHEDULE OF MANAGER FEES

For the Year Ended June 30, 2013
(Dollar Amounts Expressed in Thousands)

Domestic Equity

Alliance Bernstein L.P.	\$178
Brown Advisory	157
CenterSquare Investment Management	240
Dalton, Greiner, Hartman, Maher & Co., LLC	843
Eagle Capital Management	1,309
Huber Capital Management	629
JP Morgan Asset Management	582
M.A. Weatherbie & Co., Inc.	883
Principal Global Investors, LLC	185
Thompson Siegel & Walmsley LLC	478
Turner Investment Partners	598
Wedge Capital Management, LLP	667
Total Domestic Equity	6,749

International Equity

Baring Asset Management	1,685
Capital International, Inc	1,812
CBRE Clarion Securities	290
Lazard Asset Management	962
LSV Asset Management	1,589
Mondrian Investment Partners	518
William Blair & Co.	731
Total International Equity	7,587

Fixed Income

Bradford & Marzec Global Fixed Income Management	885
Brandywine Global Investment Management, LLC	96
Metropolitan West Asset Management	751
Neuberger Berman Fixed Income, LLC	215
Total Fixed Income	1,947

Hedge Funds

AQR Delta Fund II, L.P.	49
BlueCrest Capital, L.P.	618
Claren Road Credit Partners, L.P.	615
Elliott Associates, L.P.	41
Och-Ziff Domestic Partners II, L.P.	840
SC Absolute Return Fund, LLC	1,635
SC Absolute Return Fund, LLC - Series B	262
Third Point Partners Qualified, L.P.	546
Total Hedge Funds	4,606



SCHEDULE OF MANAGER FEES (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Private Equity

Abbott Capital Private Equity Fund VI, L.P.	662
Accel-KKR Capital Partners IV, L.P.	127
Garrison Opportunities Fund III, L.P.	97
Goldman Sachs Private Equity Partners X, L.P.	738
H.I.G. Bayside Loan Opportunity Fund III (Europe)	264
HarbourVest Partners International PEP VI, L.P.	416
HarbourVest Partners VIII, L.P.	500
Khosla Ventures IV Fund, L.P.	87
New Enterprise Associates 14, L.P.	249
RRJ Capital master Fund II, L.P.	112
Summit Partners Credit Fund, L.P.	(37)
Trinity Ventures XI, L.P.	149
Waterland Private Equity Fund V, L.P.	417
Wayzata Opportunities Fund III, L.P.	138
Total Private Equity	3,919

Real Assets

BlackRock Granite Property Fund	471
BlackRock Realty Advisors - Separate Account	3,498
Blackstone Resources Select Offshore Fund	645
Cornerstone Realty - Separate Account	917
Cornerstone Patriot Fund	729
EnCap Energy Capital Fund IX, L.P.	265
State Street Global Advisors - Real Asset Strategy	173
Strategic Commodities Fund	280
Total Real Assets	6,978

Opportunities

AEW Value Investors II, L.P.	183
Hines U.S. Office Value Fund II, L.P.	265
PIMCO Distressed Debt Fund	142
UBS Realty Investors, LLC	174
Total Opportunities	764

Overlay

State Street Global Advisors	609
Total Overlay	609

Total Manager Fees**\$33,159**

INVESTMENT PROFESSIONALS

As of June 30, 2013

Equity - Domestic

Alliance Bernstein L.P.
Brown Advisory
CenterSquare Investment Management
Dalton, Greiner, Hartman, Maher & Co. LLC
Eagle Capital Management
Huber Capital Management
JP Morgan Asset Management
M.A. Weatherbie & Co., Inc.
Turner Investment Partners
Wedge Capital Management, LLP

Equity - International

Baring Asset Management
Capital International, Inc.
CBRE Clarion Securities
Lazard Asset Management
LSV Asset Management
Mondrian Investment Partners
William Blair & Co.

Opportunities

AEW Value Investors II, L.P.
Allegis Value Trust
Atalaya Special Opportunities Fund V, L.P.
Hines US Office Value Fund II, L.P.
PIMCO Distressed Debt Fund

Hedge Funds

AQR Delta Fund II, L.P.
BlueCrest Capital, L.P.
Claren Road Credit Partners, L.P.
Elliott Associates, L.P.
Grosvenor Capital Management
Jana Partners Qualified, L.P.
Lakewood Capital Partners, L.P.
Och-Ziff Domestic Partners II, L.P.
SC Absolute Return Fund, LLC
SC Absolute Return Fund, LLC- Series B
Third Point Partners Qualified, L.P.

Private Equity

Abbott Capital Private Equity Fund VI, L.P.
Accel-KKR Capital Partners IV, L.P.
Garrison Opportunities Fund III, L.P.
Goldman Sachs Private Equity Partners X, L.P.
H.I.G. Bayside Loan Opportunity Fund III (Europe)
H.I.G. Capital Partners V, L.P.
H.I.G. Europe Capital Partners II, L.P.
HarbourVest Partners VIII, L.P.
HarbourVest Partners International PEP VI, L.P.
Khosla Ventures IV Fund, L.P.
Marlin Equity IV, L.P.
New Enterprise Associates 14, L.P.
RRJ Capital master Fund II, L.P.
Summit Partners Credit Fund, L.P.
Summit Partners Venture Capital Fund III, L.P.
Trinity Ventures XI, L.P.
Waterland Private Equity Fund V, L.P.
Wayzata Opportunities Fund III, L.P.

Fixed Income

Bradford & Marzec Global Fixed Income Management
Brandywine Global Investment Management, LLC
Metropolitan West Asset Management
Neuberger Berman Fixed Income LLC

Real Assets

BlackRock Granite Property Fund
BlackRock Realty Advisors - Separate Account
Blackstone Resources Select Offshore Fund
Cornerstone Realty - Separate Account
Cornerstone Patriot Fund
EnCap Energy Capital Fund IX, L.P.
Gresham Strategic Commodities Fund
State Street Global Advisors - Real Asset Strategy
Other Commingled Trusts

Strategic Cash Overlay

State Street Global Advisors

Legal Counsel

Foley & Lardner LLP
Jenner & Block LLP
Nossaman LLP
Public Pension Consultants
Stroock & Stroock & Lanvan LLP

Investment Consultant

Cliffwater LLC
Strategic Investment Solutions, Inc.
The Townsend Group

Proxy Advisor

Glass Lewis & Co.
Institutional Shareholder Services



SCHEDULE OF EQUITY BROKERAGE COMMISSIONS

For the Year Ended June 30, 2013

Brokerage Firm	Commission Per Share	Shares/Par Value	Total Commission	Total of Commission
Citigroup Global Markets Inc.	\$0.005	32,861,540	\$156,108	7.77%
Capital Institutional Services, Inc.	0.043	2,169,895	93,421	4.65
Instinet Europe Limited	0.019	4,247,640	80,088	3.99
Liquidnet, Inc.	0.020	3,825,017	75,921	3.78
HSBC Bank PLC	0.020	2,872,817	57,775	2.88
Investment Technology Group Inc.	0.030	1,766,598	53,386	2.66
ConvergEx Execution Solutions, LLC	0.041	1,276,002	52,511	2.61
Deutsche Bank Securities Inc	0.013	4,068,735	51,237	2.55
Themis Trading LLC	0.040	1,279,541	51,182	2.55
UBS AG	0.007	7,608,588	50,693	2.52
Merrill Lynch International	0.003	12,830,519	43,829	2.18
J.P. Morgan Clearing Corp.	0.006	7,220,037	43,224	2.15
Credit Suisse Securities (USA) LLC	0.005	7,432,201	38,226	1.90
Morgan Stanley Co Incorporated	0.008	4,856,809	36,758	1.83
UBS Securities Asia Limited	0.002	13,243,843	32,277	1.61
J.P. Morgan Securities Plc.	0.013	2,282,699	30,185	1.50
Goldman Sachs & Co.	0.009	3,323,288	30,054	1.50
UBS Securities LLC	0.029	925,241	26,951	1.34
Instinet LLC	0.029	876,563	25,039	1.25
Cantor Fitzgerald & Co.	0.031	783,052	24,183	1.20
Macquarie Bank Limited	0.002	10,239,141	23,145	1.15
Credit Suisse Securities (Europe) LTD	0.011	2,159,987	22,785	1.13
Merrill Lynch Pierce Fenner & Smith Inc.	0.035	608,573	21,329	1.06
Hongkong And Shanghai Banking Corp.	0.002	8,889,600	21,006	1.05
RBC Capital Markets	0.024	849,260	20,056	1.00
All Other Brokerage Firms*	0.013	66,107,369	847,392	42.19
Total Brokerage Commissions	\$0.010	204,604,555	\$2,008,761	100.00%
Brokerage Commission Recapture			(116,971)	
Net Brokerage Commissions			\$1,891,790	

*All other brokerage firms is comprised of approximately 247 additional firms, each receiving less than 1% of total commissions. A complete list of brokerage fees is available.







ACTUARIAL

ACTUARIAL CERTIFICATION LETTER



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

November 1, 2013

Board of Retirement
Sacramento County Employees' Retirement System
980 9th Street, Suite 1900
Sacramento, CA 95814

Re: Actuarial Valuation for the Sacramento County Employees' Retirement System

Dear Members of the Board:

Segal Consulting (Segal) prepared the June 30, 2013 actuarial valuation of the Sacramento County Employees' Retirement System. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

As part of the June 30, 2013 actuarial valuation, Segal conducted an examination of all participant data for reasonableness. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. We did not audit the System'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 actual investment return at market value and the expected investment return from the prior five years. Investment gains/losses established before July 1, 2008 have been recognized over a five-year period. Investment gains/losses established after July 1, 2008 will be recognized over a seven-year period and the deferred return is further adjusted, if necessary, so that the actuarial value of assets will stay within 30% of the market value of assets.

One of the general goals of an actuarial valuation is to establish contribution rates which, over time, will remain level as a percentage of payroll unless Plan benefit provisions are changed. 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). The UAAL is amortized over different periods depending on the source.



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The UAAL established as a result of the Early Retirement Incentive Program for members of the Sacramento County Law Enforcement Managers Association (LEMA) is amortized as a level percentage of payroll over a 10-year period beginning June 30, 2010. The System's remaining outstanding balance of the June 30, 2012 UAAL is amortized as a level percentage of payroll over a declining 23-year period (22 years as of June 30, 2013). Effective with the June 30, 2013 valuation, the change in UAAL that arises due to actuarial gains or losses or from changes in actuarial assumptions or methods at each valuation is amortized as a level percentage of payroll over its own declining 20-year period. Any change in UAAL that arises due to plan amendments will be amortized as a level percentage of payroll over its own declining 15-year period and any change in UAAL due to retirement incentive programs will be amortized as a level percentage of payroll over its own declining period of up to 5 years. A 5-year period is used to amortize the increase in UAAL as a result of earlier than expected retirement for members of the Deputy Sheriffs' Association who submitted an application to retire before June 30, 2015. The progress being made towards meeting the funding objective through June 30, 2013 is illustrated in the Schedule of Funding Progress.

For the Financial Section of the Comprehensive Annual Financial Report, Segal provided the Schedule of Funding Progress and Schedule of Employer Contributions as shown in the Required Supplementary Information. A listing of the other supporting schedules Segal prepared for inclusion in the actuarial, statistical, and financial sections of the System's CAFR is provided below:

1. Retirees and beneficiaries added to and removed from retiree payroll;
2. Solvency test; and
3. Schedule of retiree members by type of benefit.

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2010 Experience Analysis, the June 30, 2012 Review of Economic Assumptions or in conjunction with our November 30, 2012 study regarding new tiers of benefit for members with membership dates on or after January 1, 2013. It is our opinion that the assumptions used in the June 30, 2013 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 is due to be performed as of June 30, 2013 and assumptions approved in that analysis will be applied in the June 30, 2014 valuation.

For members with membership dates on or after January 1, 2013, they have been enrolled and reported in the new Miscellaneous Tier 5 and Safety Tier 4 under the California Public Employees' Pension Reform Act of 2013 (CALPEPRA).



ACTUARIAL CERTIFICATION LETTER (CONTINUED)

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In the June 30, 2013 valuation, the ratio of the valuation assets to actuarial accrued liabilities decreased from 83.3% to 82.8%. The employer's rate has increased from 25.00% of payroll to 27.57% of payroll, while the employee's rate has decreased from 6.42% of payroll to 6.39% of payroll.

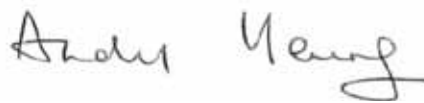
In the June 30, 2013 valuation, the actuarial value of assets included \$9.8 million in deferred investment losses, which represented about 0.1% of the market value of assets. If these deferred investment losses were recognized immediately in the actuarial value of assets, the funded percentage would decrease from 82.8% to 82.7% and the aggregate employer contribution rate, expressed as a percent of payroll, would increase from 27.57% to 27.65%.

The undersigned are Members of the American Academy of Actuaries and meet the qualification standards to render the actuarial opinion contained herein.

Sincerely,



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



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

MYM/bqb
Enclosures



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SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

The following assumptions and methods have been adopted by the Board for the June 30, 2013 valuation on November 6, 2013.

Assumptions:

Valuation Interest Rate and

Rate of Return on Investments: 7.50% net of administration and investment expenses

Inflation Assumption: 3.25%

Cost-of-Living Adjustment: 3.25% for Miscellaneous and Safety Tier 1 Members
0.00% for Miscellaneous Tier 2 Members
2.00% for Miscellaneous Tier 3, Tier 4 and Tier 5 and
Safety Tier 2, Tier 3 and Tier 4 Members

Employee Contribution Crediting

Rate: 5-year Treasury rate, assuming sufficient net investment earnings

Post-Retirement Mortality:

- a) Service
 - For Miscellaneous Members and Beneficiaries - RP-2000 Combined Healthy Mortality Table set back two years
 - For Safety Members - RP-2000 Combined Healthy Mortality Table set back one year
- b) Disability
 - For Miscellaneous Members - RP-2000 Disabled Retiree Mortality Table set forward one year
 - For Safety Members - RP-2000 Combined Healthy Mortality Table set back one year
- c) Employee Contribution Rate
 - For Miscellaneous Members - RP-2000 Combined Healthy Mortality Table set back two years weighted 40% male and 60% female
 - For Safety Members - RP-2000 Combined Healthy Mortality Table set back one year weighted 70% male and 30% female

Pre-Retirement Mortality:

Based upon the 6/30/2010 Experience Analysis

Withdrawal Rates:

Based upon the 6/30/2010 Experience Analysis

Disability Rates:

Based upon the 6/30/2010 Experience Analysis

Service Retirement Rates:

Based upon the 6/30/2010 Experience Analysis

Salary Increases:

Merit and longevity increases are based upon the 6/30/2010 Experience Analysis plus 3.25% inflation and across the board salary increases of 0.25% per year



SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Actuarial Value of Assets:	The market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between actual and expected returns on a market value basis and is recognized over a seven-year period. The deferred return is further adjusted, if necessary, so that the actuarial value will stay within 30% of the market value of assets.
Valuation Value of Assets:	Actuarial value of assets reduced by the value of non-valuation reserves and designations.
Actuarial Cost Method:	Entry Age Cost Method. Entry Age is the age at the members' hire date. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are based on costs allocated as a level percentage of compensation, as if the current benefit formulas have always been in effect.
Amortization Policy:	<p>The UAAL established as a result of the Early Retirement Incentive Program for LEMA members is amortized over a 10-year period beginning June 30, 2010. The balance of the UAAL as of June 30, 2012 shall be amortized separately from any future changes in UAAL over a period of 22 years as of June 30, 2013.</p> <p>Any new UAAL as a result of actuarial gains or losses identified in the annual valuation as of June 30 will be amortized over a period of 20 years.</p> <p>Any new UAAL as a result of changes in actuarial assumptions or methods will be amortized over a period of 20 years.</p> <p>The change in UAAL as a result of any plan amendments will be amortized over a period of 15 years and the change in UAAL resulting from retirement incentive programs will be amortized over a period of up to 5 years.</p>
Percentage of Members Married at Retirement:	80% for male members and 55% for female members
Retirement Age for Deferred Vested Members:	Miscellaneous Members - 59 Safety Members - 53
Percentage Eligible for Reciprocal Benefits:	Miscellaneous Members - 50% Safety Members - 60%



SUMMARY OF PLAN PROVISIONS

Briefly summarized below are the major provisions of the County Employees' Retirement Law of 1937, as amended through June 30, 2013, that are applicable to the Sacramento County Employees' Retirement System.

Membership

Miscellaneous employees entering before September 27, 1981 are Tier 1 members. Miscellaneous employees entering on or after September 27, 1981 and June 27, 1993 are members of Tier 2 or Tier 3, respectively. County Miscellaneous employees entering on or after January 1, 2012 but prior to January 1, 2013 are members of Tier 4. Miscellaneous employees entering on or after January 1, 2013 are members of Tier 5. Safety members entering before June 25, 1995 are Tier 1 members. Safety members entering on or after June 25, 1995 are Tier 2 members. County Safety employees entering on or after January 1, 2012 but prior to January 1, 2013 are members of Tier 3. Safety members entering on or after January 1, 2013 are members of Tier 4.

Final Average Salary

Final average salary ("FAS") is defined as the highest 12 consecutive months of compensation earnable for Miscellaneous and Safety Tier 1, highest 36 consecutive months for Miscellaneous Tier 2, Tier 3, Tier 4 and Tier 5 and Safety Tier 2, Tier 3 and Tier 4.

Return of Contributions

Upon separation from service, a member may elect to leave his or her contributions on deposit. If the member has five or more years of service, he or she may elect to receive a deferred benefit when eligible for retirement. If the member has less than five years of service, he or she may request a return of contributions, plus interest, at any time.

Service Retirement Benefit

Miscellaneous Tier 1, Tier 2, Tier 3 and Tier 4 and Safety Tier 1, Tier 2 and Tier 3 members with 10 years of service who have attained the age of 50 are eligible to retire. All members with 30 years of service (20 years for Safety), regardless of age, are eligible to retire.

Miscellaneous Tier 5 and Safety Tier 4 members with 5 years of service who have attained the age of 52 (age 50 for Safety) are eligible to retire.

The benefit expressed as a percentage of monthly FAS per year of service, depending on age at retirement, is illustrated below for typical ages. For members whose benefit is integrated with Social Security, the benefit is reduced by one-third of the percentage shown below times the first \$350 of monthly FAS per year of service after January 1, 1956.

Age	Miscellaneous Tier 1, 2 and 3	Miscellaneous Tier 4	Miscellaneous Tier 5	Safety Tier 1 and 2	Safety Tier 3	Safety Tier 4
50	1.48%	1.18%		3.00%	2.29%	2.00%
52			1.00%			
55	1.95%	1.49%	1.30%	3.00%	3.00%	2.50%
57 and over						2.70%
60	2.44%	1.92%	1.80%	3.00%	3.00%	
62	2.61%	2.09%	2.00%	3.00%	3.00%	
65			2.30%			
65 and over	2.61%	2.43%		3.00%	3.00%	
67 and over			2.50%			



Disability Benefit

Members with five years of service, regardless of age, are eligible for nonservice-connected disability.

For Miscellaneous Tier 1 members, the benefit is 1.5% (1.8% for Safety Tier 1 members) of FAS for each year of service. If this benefit does not equal one-third of FAS, the benefit is increased by the same percentage of FAS for the years which would have been credited to age 65 (age 55 for Safety members), but the total benefit in this case cannot be more than one-third of FAS.

For Tier 2, Tier 3, Tier 4 and Tier 5 members, the benefit is 20% of FAS for the first five years of service plus 2% for each additional year for a maximum of 40% of FAS.

If the disability is service connected, the member may retire regardless of length of service, with a benefit of 50% of FAS or 100% Service Retirement benefit, if greater.

Death Benefit (Before Retirement)

In addition to the return of contributions, a death benefit is payable to the member's beneficiary or estate equal to one month's salary for each completed year of service under the retirement system, based on the final year's average salary, but not to exceed six (6) month's salary.

If a member dies while eligible for service retirement or nonservice-connected disability, the spouse receives 60% of the allowance that the member would have received for retirement.

If a member dies in the performance of duty, the spouse receives 50% of the member's final average salary or 100% of Service Retirement benefit, if greater.

Death Benefit (After Retirement)

If a member dies after retirement, a \$4,000 lump sum burial allowance is paid to the beneficiary or estate.

If the retirement was for service-connected disability, 100% of the member's allowance as it was at death is continued to the eligible spouse for life.

If the retirement was for other than service-connected disability and the member elected the unmodified option, 60% of the member's allowance is continued to an eligible spouse for life.

An eligible spouse is a surviving spouse who was married to the member at least one year prior to the date of retirement.

Maximum Benefit

The maximum benefit payable to a member or beneficiary is 100% of FAS for Miscellaneous Tier 1, Tier 2, Tier 3 and Tier 4 and Safety Tier 1, Tier 2 and Tier 3. There is no maximum benefit for Miscellaneous Tier 5 and Safety Tier 4 members.

Cost-of-Living

The maximum increase in retirement allowance is 4% per year for Miscellaneous and Safety Tier 1 members and 2% for Safety Tier 2, Tier 3 and Tier 4, and Miscellaneous Tier 3, Tier 4 and Tier 5 members. Miscellaneous Tier 2 members have no cost-of-living benefit. The cost-of-living increases effective in the month of April are based on the change in the Consumer Price Index for the calendar year preceding April.



SUMMARY OF PLAN PROVISIONS (CONTINUED)

Contribution Rates

Basic member contribution rates are based on the age-nearest birthday at entry into the System (single rate for entrants after January 1, 1975). The rates are such as to provide an average annuity at age 55 equal to $1/240$ of FAS for Miscellaneous Tier 1, 2 and 3 members, at age 60 equal to $1/120$ of FAS for Miscellaneous Tier 4 members and $1/100$ of FAS at age 50 for Safety Tier 1, Tier 2 and Tier 3 members. For Miscellaneous Tier 5 and Safety Tier 4 members, the rates are 50% of the Normal Cost rate. For members integrated with Social Security, the above contributions are reduced by one-third of that portion of such contribution payable with respect to the first \$350 of monthly salary. Cost-of-living contribution rates are designed to pay for one-half of the future cost-of-living costs. Member contributions are refundable upon termination from the system.

The employer contribution rates are actuarially determined to provide for the balance of the contributions needed to fund the benefits promised under the Retirement System.



SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Plan Type	Number	Annual Payroll (in thousands)	Annual Average Pay (in thousands)	% Increase in Average Pay*
6/30/2013	Miscellaneous	10,113	\$681,789	\$67.4	0.30%
	Safety	1,913	195,868	102.4	4.38
	Total	12,026	\$877,657	\$73.0	1.39%
6/30/2012	Miscellaneous	10,256	\$689,438	\$67.2	0.75%
	Safety	1,899	186,234	98.1	4.70
	Total	12,155	\$875,672	\$72.0	1.69%
6/30/2011	Miscellaneous	10,521	\$701,494	\$66.7	3.73%
	Safety	1,913	179,272	93.7	2.52
	Total	12,434	\$880,766	\$70.8	3.51%
6/30/2010	Miscellaneous	11,312	\$727,445	\$64.3	4.38%
	Safety	2,028	185,283	91.4	6.65
	Total	13,340	\$912,728	\$68.4	4.59%
6/30/2009	Miscellaneous	12,454	\$767,501	\$61.6	10.58%
	Safety	2,342	200,629	85.7	8.51
	Total	14,796	\$968,130	\$65.4	10.00%
6/30/2008	Miscellaneous	12,725	\$709,159	\$55.7	4.96%
	Safety	2,455	193,812	78.9	5.96
	Total	15,180	\$902,971	\$59.5	5.15%

*Reflects the increase in average salary for members at the beginning of the year versus those at the end of the year. It does not reflect the average salary increases received by members who worked the full year.



**RETIRES AND BENEFICIARIES ADDED TO AND REMOVED FROM RETIREE PAYROLL**

Plan Year End	At Beginning of Year	Added During Year	Removed During Year	At End of Year	Annual Retiree Payroll (in thousands)	Payroll added During Year (in thousands)	Payroll Removed During Year (in thousands)	% Increase In Annual Retiree Payroll	Average Annual Allowance
6/30/2013	9,239	635	240	9,634	\$331,176	\$29,416	\$6,431	7.46%	\$34,376
6/30/2012	8,821	660	242	9,239	308,191	29,693	5,511	8.51	33,358
6/30/2011	8,346	699	224	8,821	284,009	29,805	5,009	9.57	32,197
6/30/2010	7,968	599	221	8,346	259,213	19,276	4,639	5.98	31,058
6/30/2009	7,709	503	244	7,968	244,576	25,347	5,440	8.86	30,695
6/30/2008	7,464	490	245	7,709	224,669	22,527	4,745	8.60	29,144

Note: Participants are counted once for each benefit received.

SCHEDULE OF FUNDING PROGRESS (Dollar Amounts Expressed in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets* (a)	Actuarial Accrued of Liability (AAL)* (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
6/30/2013	\$6,797,757	\$8,210,980	\$1,413,223	82.8%	\$877,657	161.0%
6/30/2012	6,529,895	7,838,223	1,308,328	83.3	875,672	149.4
6/30/2011	6,420,824	7,382,897	962,073	87.0	880,766	109.2
6/30/2010**	6,216,994	7,090,497	873,503	87.7	912,644	95.7
6/30/2009	5,730,215	6,661,993	931,778	86.0	968,130	96.2
6/30/2008	5,930,758	6,363,355	432,597	93.2	902,971	47.9

*Includes contingency reserve, retiree health benefit reserves, retiree death benefit reserves, and amount over reserved benefits.

** The June 30, 2010 results have been revised to reflect the correct actuarial accrued liability which was overstated in the June 30, 2010 valuation.

SOLVENCY TESTS (Dollar Amounts Expressed in Thousands)

Valuation Date	Active Member Contributions	Retired/Vested Members	Active Members (Employer Financed Portion)	Total	Actuarial Value of Assets	Active Member Contributions	Retired/Vested Members	Active Members (Employer Financed Portion)
6/30/2013	\$619,660	\$4,566,212	\$3,025,108	\$8,210,980	\$6,797,757	100%	100%	53%
6/30/2012	595,979	4,284,864	2,957,380	7,838,223	6,529,895	100	100	56
6/30/2011	576,633	3,930,252	2,876,012	7,382,897	6,420,824	100	100	67
6/30/2010*	571,866	3,626,664	2,891,967	7,090,497	6,216,994	100	100	70
6/30/2009	561,461	3,399,695	2,700,837	6,661,993	5,730,215	100	100	66
6/30/2008	551,181	3,150,635	2,661,539	6,363,355	5,930,758	100	100	84

Events affecting year to year comparability:

- 6/30/10 - Investment return assumption decreased from 7.875% to 7.75%.
- 6/30/11 - Modification in non-economic assumptions.
- 6/30/12 - Investment return assumption decreased from 7.75% to 7.50%;
 - Inflation assumption decreased from 3.50% to 3.25%;
 - Salary increase assumption decreased from 5.65% to 5.40%;
 - COLA increase assumption for Tier 1 decrease from 3.40% to 3.25%.
- 6/30/13 - Actuarial cost method changed from Aggregate Entry Age Normal Cost Method to Individual Entry Age Normal Cost Method.
 - Changes to the amortization periods used for various future changes in liability:
 - UAAL established as a result of Early Retirement Incentive Program for LEMA is amortized over a 10-year period beginning June 30, 2010;
 - UAAL as a result of actuarial gains or losses as of June 30 will be amortized over a 20-year period;
 - UAAL as a result of changes in actuarial assumptions or methods to be amortized over a 20-year period;
 - Change in UAAL as a result of plan amendments to be amortized over a 15-year period;
 - UAAL as a result from retirement incentive programs will be amortized over a period up to 5 years.

* The June 30, 2010 results have been revised to reflect the correct actuarial accrued liability which was overstated in the June 30, 2010 valuation.

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE (Dollar Amounts Expressed in Millions)

	Plan Years Ended June 30					
	2013	2012	2011	2010* 2009 2008		
Prior Valuation Unfunded Actuarial Liability	\$1,308	\$962	\$874	\$932	\$433	\$382
Salary Increase Greater (Less) than Expected	(113)	(102)	(68)	(110)	42	55
Asset Return Less (Greater) than Expected	152	257	209	3	445	9
Other Experience	66	58	(31)	(59)	12	(13)
Economic and Non-Economic Assumption Changes	-	133	(22)	108	-	-
Ending Unfunded Actuarial Accrued Liability	\$1,413	\$1,308	\$962	\$874	\$932	\$433

* The June 30, 2010 results have been revised to reflect the correct actuarial accrued liability which was overstated in the June 30, 2010 valuation.



PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT

Rate (%)				
Mortality				
Age	Miscellaneous		Safety	
	Male	Female	Male	Female
25	0.04%	0.02%	0.04%	0.02%
30	0.04	0.02	0.04	0.02
35	0.06	0.04	0.07	0.04
40	0.10	0.06	0.10	0.06
45	0.13	0.09	0.14	0.10
50	0.19	0.14	0.20	0.16
55	0.29	0.22	0.32	0.24
60	0.53	0.39	0.59	0.44
65	1.00	0.76	1.13	0.86

Note: All Miscellaneous pre-retirement deaths are assumed to be nonservice-connected. For Safety, 25% pre-retirement deaths are assumed to be nonservice-connected and the rest are assumed to be service-connected.

Rate (%)		
Disability		
Age	Miscellaneous ⁽¹⁾	Safety ⁽²⁾
20	0.00%	0.10%
25	0.01	0.10
30	0.03	0.19
35	0.05	0.34
40	0.08	0.49
45	0.16	0.64
50	0.26	0.82
55	0.36	1.68
60	0.61	0.00

(1) 20% of Miscellaneous disabilities are assumed to be service-connected disabilities. The other 80% are assumed to be nonservice-connected disabilities.

(2) 90% of Safety disabilities are assumed to be service-connected disabilities. The other 10% are assumed to be nonservice-connected disabilities.



PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT (CONTINUED)

Rate (%)		
Withdrawal (<5 Years of Service)		
Years of Service	Miscellaneous	Safety
0	15.00%	10.00%
1	9.00	6.00
2	8.00	5.00
3	6.00	4.00
4	5.00	3.00

Withdrawal (5+ Years of Service)*		
Age	Miscellaneous	Safety
20	5.10%	3.00%
25	4.85	3.00
30	4.60	3.00
35	4.35	2.70
40	3.80	2.20
45	2.90	1.70
50	2.02	0.00
55	1.58	0.00
60	0.00	0.00

*50% of the Miscellaneous members and 40% of the Safety members are assumed to elect a withdrawal of contributions upon separation, while the remaining 50% and 60% of Miscellaneous and Safety members, respectively, are assumed to elect a deferred retirement benefit. No withdrawal is assumed after a member is eligible to retire.





STATISTICAL

SUMMARY OF STATISTICAL DATA

Issued in May 2004, pronouncement GASB Statement No. 44, *Economic Conditioning Reporting: The Statistical Section* establishes and modifies requirements related to the supplementary information presented in this section of the report.

The pension trust fund is accounted for under the accrual basis of accounting. Information is provided for the last ten years ended June 30, 2013 for the following five objectives: financial trends; revenue capacity; debt capacity; demographic and economic; and operating.

Financial trends are presented on pages 107 to 111. The schedules contain trend information to aid in understanding how the System's financial performance has changed over time.

Revenue capacity is presented on pages 107, 109, and 110. The schedules contain information regarding the contribution rate history for the last ten years.

Demographic and economic information is presented on pages 112 to 116. These schedules offer demographic and economic indicators to enhance understanding of the environment within which the System's financial activities take place. The schedules show the average monthly benefit payments followed by the System membership.

Operating information is presented on pages 117 and 118. These schedules contain pension plan data to assist in understanding how the information in the financial report relates to the pension plan the System administers. This section includes the schedules of principal participating employers and active members.



SCHEDULE OF ADDITIONS BY SOURCE

(Dollar Amounts Expressed in Thousands)

Year Ended June 30:	Member Contributions	Employer Contributions	Net Investment Income / (Loss)	Total
2013	\$68,242	\$189,664	\$785,449	\$1,043,355
2012	65,690	179,099	(3,415)	241,374
2011	57,151	182,921	1,206,775	1,446,847
2010	52,413	167,142	617,481	837,036
2009	54,623	177,011	(1,318,447)	(1,086,813)
2008	52,142	167,055	(234,795)	(15,598)
2007	42,871	156,805	891,506	1,091,182
2006	41,959	132,708	527,863	702,530
2005	36,916	529,618*	419,481	986,015
2004	42,864	119,144	525,239	687,247

*This total includes \$420,000 and \$10,535 in proceeds from pension obligation bonds ("POB") issued by the County of Sacramento and Sacramento Metropolitan Fire District, respectively.

Source: Audited Financial Statements from June 30, 2004 through 2013

SCHEDULE OF DEDUCTIONS BY TYPE

(Dollar Amounts Expressed in Thousands)

Year Ended June 30:	Benefits Paid							Total
	Service*	Survivor Benefits	Retiree Death Benefits	Health and Dental Benefits	Administrative Expenses	Withdrawals		
2013	\$317,308	\$2,225	\$1,295	\$ -	\$5,719	\$2,739	\$329,286	
2012	295,787	2,284	693	-	6,288	3,040	308,092	
2011	273,510	2,032	619	-	6,571	4,433	287,165	
2010	250,553	1,993	546	-	5,908	4,932	263,932	
2009	230,005	1,749	622	-	5,980	3,302	241,658	
2008	212,406	1,865	621	-	5,866	3,177	223,935	
2007	193,823	1,681	492	1	5,818	4,434	206,249	
2006	176,199	1,608	553	2	5,061	4,622	188,045	
2005	160,439	1,545	525	2	5,262	3,463	171,236	
2004	139,008	1,817	629	12,311	6,653	3,990	164,408	

Note: For the year ended June 30, 2004, Administrative Expenses include retroactive benefits of \$807 related to a litigation settlement.

*Amounts reported here include both service retirement benefits and active death benefits.

Source: Audited Financial Statements from June 30, 2004 through 2013





SCHEDULE OF ADMINISTRATIVE EXPENSES

For the Last Ten Fiscal Years Ended June 30

(Dollar Amounts Expressed in Thousands)

Type of Expenses	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Salaries and Benefits	\$3,284	\$3,530	\$3,755	\$3,215	\$3,184	\$3,130	\$3,352	\$2,718	\$2,734	\$2,663
Professional Fees	857	1,146	1,137	719	842	942	629	808	440	583
Equipment Purchases and Maintenance	24	44	35	29	62	41	85	70	73	89
Rent and Lease Expense	432	458	444	576	603	571	648	612	596	596
Depreciation Expense	36	37	17	5	5	5	5	3	27	14
Other Administrative Expenses	1,086	1,073	1,183	1,364	1,284	1,177	1,099	850	1,392	1,901
Total	\$5,719	\$6,288	\$6,571	\$5,908	\$5,980	\$5,866	\$5,818	\$5,061	\$5,262	\$5,846

Note: For the year ended June 30, 2004, this schedule does not include retroactive benefits of \$807 related to a litigation settlement.

Source: Audited Financial Statements from June 30, 2004 through 2013

SCHEDULE OF CHANGES IN NET POSITION

For the Last Ten Fiscal Years Ended June 30
(Dollar Amounts Expressed In Thousands)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Employee contributions	\$68,242	\$65,690	\$57,151	\$52,413	\$54,623	\$52,142	\$42,871	\$41,959	\$36,916	\$42,864
Employer contributions	189,664	179,099	182,921	167,142	177,011	167,055	156,805	132,708	529,618	119,144
Net investment income/(loss)	785,449	(3,415)	1,206,775	617,481	(1,318,447)	(234,795)	891,506	527,863	419,481	525,239
Total additions	1,043,355	241,374	1,446,847	837,036	(1,086,813)	(15,598)	1,091,182	702,530	986,015	687,247
Benefits paid	320,828	298,764	276,161	253,092	232,376	214,892	195,997	178,362	162,511	153,765
Withdrawals	2,739	3,040	4,433	4,932	3,302	3,177	4,434	4,622	3,463	3,990
Administrative expenses	5,719	6,288	6,571	5,908	5,980	5,866	5,818	5,061	5,262	6,653
Total deductions	329,286	308,092	287,165	263,932	241,658	223,935	206,249	188,045	171,236	164,408
Change in net position	714,069	(66,718)	1,159,682	573,104	(1,328,471)	(239,533)	884,933	514,485	814,779	522,839
Net position, beginning	6,073,926	6,140,644	4,980,962	4,407,858	5,736,329	5,975,862	5,090,929	4,576,444	3,761,665	3,238,826
Net position, ending	\$6,787,995	\$6,073,926	\$6,140,644	\$4,980,962	\$4,407,858	\$5,736,329	\$5,975,862	\$5,090,929	\$4,576,444	\$3,761,665

Source: Audited Financial Statements from June 30, 2004 through 2013

* For the year ended June 30, 2004, Administrative Expenses include retroactive benefits of \$807 related to a litigation settlement.





SCHEDULE OF EMPLOYER CONTRIBUTION RATES

Actuarial Valuation for Year Ended	COUNTY and COURT*										SPECIAL DISTRICTS					
	Miscellaneous					Safety					Miscellaneous					Safety
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 1
6/30/2013	22.91%	20.71%	23.29%	17.91%	17.14%	43.59%	41.92%	41.06%	35.61%		30.00%	30.50%	24.19%			N/A
6/30/2012**	20.83	18.28	21.18	16.33	15.01	41.85	37.00	35.55	29.28		27.77	28.25	22.03			N/A
6/30/2011***	19.09	16.55	19.36	14.19	-	37.19	32.38	29.50	-		25.59	25.90	-			57.40
6/30/2010****	18.11	15.63	18.49	-	-	35.03	30.60	-	-		24.45	24.94	-			54.42
6/30/2009	18.15	15.75	18.60	-	-	38.95	34.66	-	-		24.58	25.26	-			49.86
6/30/2008	15.46	13.07	15.88	-	-	33.65	29.53	-	-		22.08	22.57	-			39.25
6/30/2007	15.04	12.58	15.43	-	-	34.71	30.61	-	-		21.98	22.41	-			41.15
6/30/2006	15.86	12.95	15.73	-	-	36.01	31.67	-	-		22.26	22.13	-			41.94
6/30/2005	16.10	13.14	15.88	-	-	35.18	30.84	-	-		22.78	22.56	-			39.71
6/30/2004*****	15.29	11.49	13.94	-	-	33.23	28.57	-	-		20.87	19.56	-			38.19

Source: Actuarial Valuations from June 30, 2004 through 2013

Note: Actuarial Valuations are prepared subsequent to a fiscal year-end and determine rates which pertain to the following fiscal year. For example, the Actuarial Valuation as of June 30, 2013 is used to determine rates for the fiscal year 2014-2015.

* Effective for the June 30, 2012 Actuarial Valuation, County and Court includes County elected officials (Board of Supervisors, Sheriff, District Attorney and Assessor).

** Miscellaneous Tier 5 and Safety Tier 4 plans were established effective January 1, 2013.

*** Miscellaneous Tier 4 and Safety Tier 3 plans were established effective January 1, 2012.

**** Contribution rates for Safety members were revised to adjust for the overstatement of the unfunded actuarial accrued liability (UAAL) contribution rate in the June 30, 2010 valuation.

***** Rates were adjusted to reflect the proceeds from Sacramento County's pension obligation bonds that were received on July 1, 2004.

SCHEDULE OF BENEFITS PAID AND WITHDRAWALS BY TYPE

For the Last Ten Fiscal Years Ended June 30
(Dollar Amounts Expressed in Thousands)

Type of Benefit	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Service Retirement Benefits	\$317,308	\$295,598	\$273,062	\$250,192	\$229,659	\$212,061	\$193,376	\$175,745	\$160,154	\$138,907
Survivor Benefits	2,225	2,284	2,032	1,993	1,749	1,865	1,681	1,608	1,545	1,817
Death Benefits-Before Retirement	542	189	448	361	346	345	447	454	285	101
Death Benefits-After Retirement	753	693	619	546	622	621	492	553	525	629
Retiree Health and Dental Insurance	-	-	-	-	-	-	1	2	2	12,311
Total Benefits Paid	\$320,828	\$298,764	\$276,161	\$253,092	\$232,376	\$214,892	\$195,997	\$178,362	\$162,511	\$153,765
Type of Withdrawal										
Death	\$547	\$365	\$463	\$526	\$601	\$111	\$725	\$715	\$411	\$738
Separation	2,153	2,663	3,898	4,303	2,550	2,940	3,492	3,409	2,802	2,878
Miscellaneous	39	12	72	103	151	126	217	498	250	374
Total Withdrawals	\$2,739	\$3,040	\$4,433	\$4,932	\$3,302	\$3,177	\$4,434	\$4,622	\$3,463	\$3,990

Source: Audited Financial Statements from June 30, 2004 through 2013

SCHEDULE OF DISTRIBUTION OF RETIRED MEMBERS AND BENEFICIARIES BY TYPE AND BY MONTHLY AMOUNT

As of June 30, 2013

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement*																	Option Selected**			
		1	2	3	4	5	6	7	8	9	10	11	12	13	17	Unmodified	1	2	3	4		
\$1 - \$499	845	615	21	2	6	3	92	26	21	-	23	-	28	-	8	623	62	136	9	15		
500 - 999	1,334	930	43	9	1	1	141	81	60	3	23	1	37	1	3	1,075	97	131	12	19		
1,000 - 1,499	1,295	922	76	26	8	4	133	32	51	1	9	2	26	4	1	1,090	61	117	16	11		
1,500 - 1,999	1,045	748	54	21	45	12	94	23	9	5	11	-	19	4	-	889	49	94	7	6		
2,000 - 2,499	917	722	18	12	44	9	65	8	6	10	8	-	11	4	-	791	47	70	4	5		
2,500 - 2,999	763	606	8	2	36	20	63	3	2	9	2	-	6	6	-	663	30	55	6	9		
3,000 - 3,499	594	444	5	3	48	35	35	1	-	13	3	-	5	2	-	523	21	42	3	5		
3,500 - 3,999	515	414	1	-	29	22	24	1	-	13	2	-	2	7	-	452	24	31	1	7		
4,000 - 4,499	437	377	-	-	16	12	19	2	-	6	-	-	2	3	-	402	10	23	1	1		
4,500 - 4,999	364	336	1	-	9	3	7	-	-	5	2	-	-	1	-	329	9	20	4	2		
5,000 & over	1,525	1,443	4	-	33	11	17	2	1	9	2	-	2	1	-	1,394	30	82	9	10		
Total	9,634	7,557	231	75	275	132	690	179	150	74	85	3	138	33	12	8,231	440	801	72	90		

* Type of Retirement:

- 1 Service Retirement
- 2 Nonservice-Connected Disability, age 55 and older
- 3 Nonservice-Connected Disability, under age 55
- 4 Service-Connected Disability ("SCD"), age 55 and older
- 5 Service-Connected Disability, under age 55
- 6 Beneficiary of Service Retiree
- 7 Survivor Death Benefits ("SDB")
- 8 Beneficiary of Nonservice-Connected Disability Retiree
- 9 Beneficiary of Service-Connected Disability Retiree
- 10 Divorce-Receiving Benefits
- 11 Interim Nonservice-Connected Disability Retirement
- 12 Non-Member Receiving Benefits
- 13 Survivor Death Benefits-SCD
- 14 Beneficiary of SDB
- 15 Beneficiary of SDB-SCD
- 16 Beneficiary of Non-Member
- 17 Beneficiary of Divorce-Receiving Benefits

Source: SCERS Retired Member Pension Payroll Data

** Option Selected:

Unmodified: Qualified service retirement or nonservice-connected disability retirement beneficiary receives 60 percent continuance. Qualified service-connected disability retirement beneficiary receives 100 percent continuance.

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

- Option 1 - Beneficiary receives lump sum or member's unused contributions.
- Option 2 - Beneficiary having an insurable interest in member's life receives 100 percent of member's reduced monthly benefit.
- Option 3 - Beneficiary having an insurable interest in member's life receives 50 percent of member's reduced monthly benefit.
- Option 4 - Benefits paid to person having an insurable interest in member's life as nominated by member's written designation.



SCHEDULE OF RETIREE MEMBERS BY TYPE OF BENEFIT

As of June 30, 2013

Miscellaneous Members

	Count	Monthly Allowances			Average Benefit
		Basic	COL	Total	
Service Retirement					
Unmodified	5,256	\$11,244,225	\$2,609,238	\$13,853,463	\$2,636
Option 1	338	486,516	134,262	620,778	1,837
Option 2, 3, & 4	632	1,178,855	180,414	1,359,269	2,151
Total	6,226	\$12,909,596	\$2,923,914	\$15,833,510	\$2,543
Non-Service Disability					
Unmodified	255	\$261,109	\$108,478	\$369,587	\$1,449
Option 1	21	17,272	8,685	25,957	1,236
Option 2, 3, & 4	13	12,359	3,663	16,022	1,232
Total	289	\$290,740	\$120,826	\$411,566	\$1,424
Service Disability					
Unmodified	169	\$261,355	\$139,240	\$400,595	\$2,370
Option 1	7	9,564	5,243	14,807	2,115
Option 2, 3, & 4	4	4,434	2,062	6,496	1,624
Total	180	\$275,353	\$146,545	\$421,898	\$2,344
Beneficiary	1,051	\$812,679	\$584,592	\$1,397,271	\$1,329
Total Miscellaneous	7,746	\$14,288,368	\$3,775,877	\$18,064,245	\$2,332

Safety Members

	Count	Monthly Allowances			Average Benefit
		Basic	COL	Total	
Service Retirement					
Unmodified	1,205	\$5,710,150	\$1,429,950	\$7,140,100	\$5,925
Option 1	35	118,879	36,368	155,247	4,436
Option 2, 3, & 4	91	394,388	62,146	456,534	5,017
Total	1,331	\$6,223,417	\$1,528,464	\$7,751,881	\$5,824
Non-Service Disability					
Unmodified	17	\$25,953	\$16,824	\$42,777	\$2,516
Option 1	1	850	79	929	929
Option 2, 3, & 4	2	4,579	266	4,845	2,423
Total	20	\$31,382	\$17,169	\$48,551	\$2,428
Service Disability					
Unmodified	208	\$586,508	\$260,740	\$847,248	\$4,073
Option 1	13	33,737	13,079	46,816	3,601
Option 2, 3, & 4	6	\$11,921	5,666	17,587	2,931
Total	227	\$632,166	\$279,485	\$911,651	\$4,016
Beneficiary	310	\$509,465	\$312,185	\$821,650	\$2,650
Total Safety	1,888	\$7,396,430	\$2,137,303	\$9,533,733	\$5,050
Total Miscellaneous and Safety	9,634	\$21,684,798	\$5,913,180	\$27,597,978	\$2,865

Source: Actuarial Valuation as of June 30, 2013

Note: Refer to page 112 for the description of retirement options.

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

For the Last Ten Fiscal Years

Retirement Effective Date	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
7/1/12 - 6/30/13							
Average monthly benefit	\$494	\$994	\$1,652	\$2,832	\$3,936	\$5,519	\$6,151
Average monthly final average salary	\$7,477	\$5,415	\$5,608	\$6,613	\$6,831	\$7,730	\$7,524
Number of retired members	28	63	128	69	77	73	55
7/1/11 - 6/30/12							
Average monthly benefit	\$504	\$1,093	\$1,631	\$2,703	\$3,986	\$5,740	\$6,064
Average monthly final average salary	\$7,652	\$6,041	\$5,545	\$6,279	\$7,059	\$8,120	\$7,246
Number of retired members	35	77	118	58	102	66	75
7/1/10 - 6/30/11							
Average monthly benefit	\$461	\$1,017	\$1,500	\$2,580	\$3,620	\$6,026	\$5,920
Average monthly final average salary	\$6,797	\$5,576	\$5,245	\$6,104	\$6,559	\$8,466	\$7,394
Number of retired members	21	82	118	69	112	94	80
7/1/09 - 6/30/10							
Average monthly benefit	\$422	\$992	\$1,623	\$2,501	\$3,239	\$4,789	\$5,714
Average monthly final average salary	\$6,582	\$5,306	\$5,549	\$6,071	\$6,022	\$7,278	\$6,930
Number of retired members	30	69	87	78	75	65	75
7/1/08 - 6/30/09							
Average monthly benefit	\$462	\$900	\$1,727	\$2,232	\$4,074	\$6,298	\$7,227
Average monthly final average salary	\$6,968	\$5,425	\$5,697	\$5,397	\$6,893	\$8,437	\$8,369
Number of retired members	14	52	68	60	58	58	66
7/1/07 - 6/30/08							
Average monthly benefit	\$359	\$977	\$1,626	\$2,202	\$3,151	\$5,729	\$6,171
Average monthly final average salary	\$5,974	\$5,428	\$5,467	\$5,874	\$5,729	\$7,992	\$7,685
Number of retired members	25	35	75	56	53	44	52
7/1/06 - 6/30/07							
Average monthly benefit	\$512	\$874	\$1,536	\$2,341	\$3,228	\$4,756	\$5,652
Average monthly final average salary	\$6,856	\$4,747	\$5,220	\$5,331	\$5,884	\$6,508	\$6,868
Number of retired members	27	55	83	71	74	69	86
7/1/05 - 6/30/06							
Average monthly benefit	\$381	\$917	\$1,409	\$2,029	\$2,838	\$4,561	\$4,858
Average monthly final average salary	\$5,824	\$5,345	\$4,933	\$5,069	\$5,415	\$6,500	\$6,150
Number of retired members	25	45	63	73	64	62	83
7/1/04 - 6/30/05							
Average monthly benefit	\$349	\$949	\$1,220	\$1,800	\$2,585	\$4,010	\$4,871
Average monthly final average salary	\$5,725	\$4,960	\$4,361	\$4,662	\$4,832	\$5,732	\$5,816
Number of retired members	36	43	90	83	96	84	123
7/1/03 - 6/30/04							
Average monthly benefit	\$437	\$993	\$1,368	\$1,992	\$2,893	\$4,136	\$5,520
Average monthly final average salary	\$5,089	\$4,719	\$4,658	\$4,686	\$5,211	\$5,834	\$6,330
Number of retired members	22	45	98	90	85	127	278

Source: SCERS Retired Member Pension Payroll Data



SCHEDULE OF AVERAGE BENEFIT PAYMENTS

For the Last Ten Fiscal Years

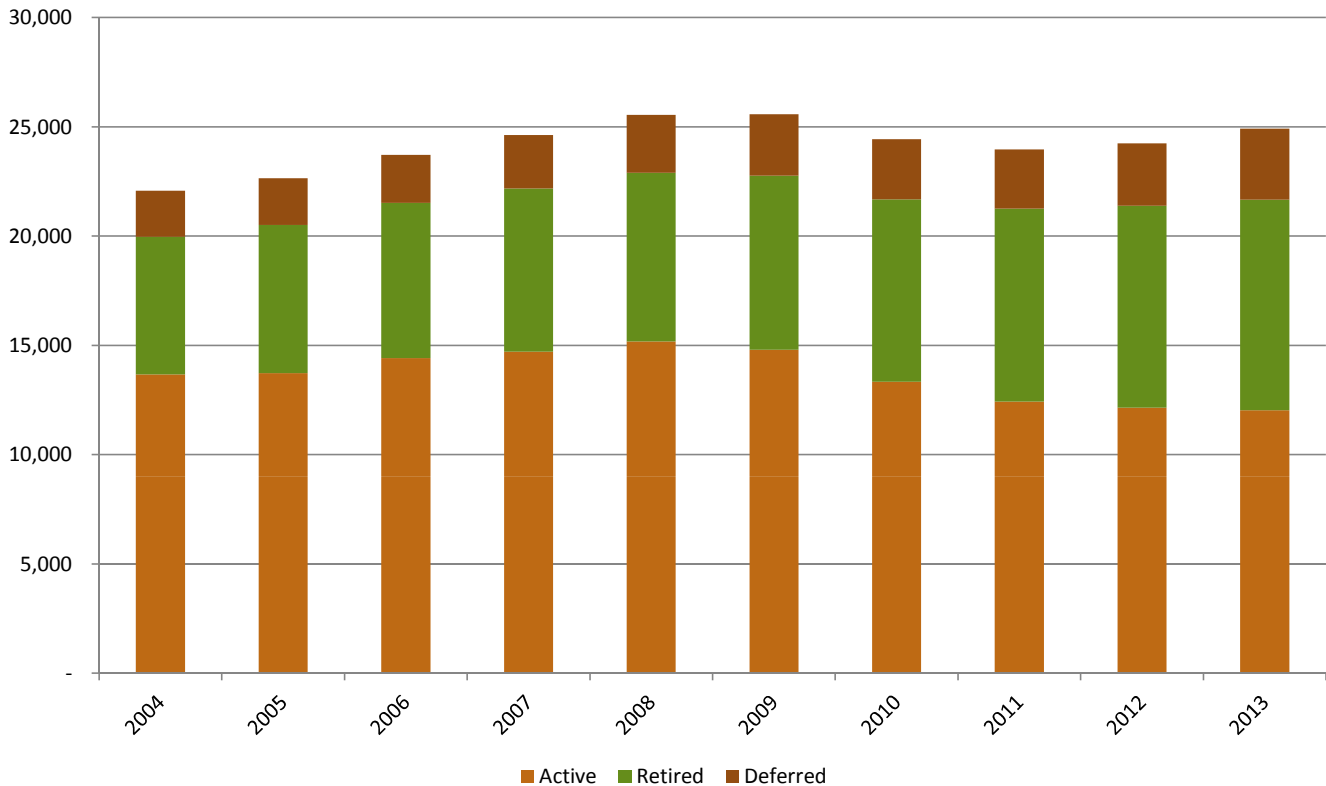
As Of	Years Since Retirement						
	0-5	5-10	10-15	15-20	20-25	25-30	30 +
6/30/13:							
Average monthly benefit	\$3,272	\$3,412	\$2,603	\$2,400	\$2,438	\$1,902	\$1,676
Number of retired members	2,635	2,512	1,368	1,123	882	590	524
6/30/12:							
Average monthly benefit	\$3,237	\$3,355	\$2,352	\$2,449	\$2,142	\$1,805	\$1,643
Number of retired members	2,468	2,467	1,314	1,140	813	562	475
6/30/11:							
Average monthly benefit	\$3,209	\$3,173	\$2,336	\$2,400	\$1,936	\$1,728	\$1,594
Number of retired members	2,417	2,216	1,298	1,110	792	563	425
6/30/10:							
Average monthly benefit	\$3,150	\$3,022	\$2,343	\$2,318	\$1,911	\$1,704	\$1,351
Number of retired members	2,206	2,019	1,360	1,058	744	547	412
6/30/09:							
Average monthly benefit	\$3,133	\$2,886	\$2,309	\$2,322	\$1,884	\$1,590	\$1,276
Number of retired members	2,247	1,787	1,299	1,012	726	527	370
6/30/08:							
Average monthly benefit	\$3,197	\$2,199	\$2,214	\$2,250	\$1,751	\$1,501	\$1,226
Number of retired members	2,582	1,373	1,207	997	730	509	311
6/30/07:							
Average monthly benefit	\$3,041	\$2,133	\$2,237	\$1,948	\$1,636	\$1,449	\$1,120
Number of retired members	2,458	1,383	1,226	930	709	495	263
6/30/06:							
Average monthly benefit	\$2,871	\$2,105	\$2,165	\$1,749	\$1,576	\$1,393	\$1,049
Number of retired members	2,232	1,365	1,199	921	692	468	231
6/30/05:							
Average monthly benefit	\$2,806	\$2,095	\$2,129	\$1,736	\$1,509	\$1,281	\$1,007
Number of retired members	1,927	1,402	1,181	913	675	453	233
6/30/04:							
Average monthly benefit	\$2,574	\$2,090	\$2,056	\$1,693	\$1,392	\$1,187	\$918
Number of retired members	1,793	1,353	1,090	834	650	400	171

Source: Actuarial Valuations from June 30, 2004 through 2013

GROWTH OF SYSTEM MEMBERSHIP

Year Ended June 30:	Active Members	Retired Members	Deferred Members	Total
2013	12,026	9,634	3,249	24,909
2012	12,155	9,239	2,851	24,245
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

SYSTEM MEMBERSHIP AT A GLANCE



Source: Actuarial Valuations from June 30, 2004 through 2013



SCHEDULE OF PRINCIPAL PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS

Current Fiscal Year and Nine Fiscal Years Ago

Participating Employer	2013			2004		
	Covered Employees	Rank	Percent of Total System	Covered Employees	Rank	Percent of Total System
County of Sacramento**	10,742	1	89.32%	13,023	1	95.25%
Superior Court**	632	2	5.26	-	13	0.00
S.E.T.A	565	3	4.70	549	2	4.02
Sunrise Recreation and Park District	21	4	0.17	26	3	0.19
Carmichael Recreation and Park District	21	4	0.17	18	4	0.13
Orangevale Recreation and Park District	15	6	0.12	16	5	0.12
Mission Oaks Recreation and Park District	12	7	0.10	12	6	0.09
Elected Officials*	8	8	0.08	8	7	0.05
Elk Grove Cosumnes Cemetery District	5	9	0.04	4	11	0.03
Fair Oaks Cemetery District	4	10	0.03	5	9	0.04
Galt-Arno Cemetery District	1	11	0.01	3	10	0.02
U.C. Davis Medical Center	-	12	0.00	1	11	0.01
Sacramento Metropolitan Fire District	-	12	0.00	7	8	0.05
Total	12,026		100.00%	13,672		100.00%

*Elected Officials - consisted of Board of Supervisors (5), Assessor (1), District Attorney (1), and Sheriff (1).

**Prior to June 25, 2006, Superior Court member information was included in the totals for the County of Sacramento.

Source: SCERS Active Member Data

SCHEDULE OF PRINCIPAL PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS

For the Last Ten Fiscal Years Ended June 30

SCERS Member Agency	Plan	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Carmichael Recreation and Park District	Misc.	21	20	22	26	29	24	27	15	17	18
Elk Grove Cosumnes Cemetery District	Misc.	5	5	2	3	4	3	4	5	4	4
Fair Oaks Cemetery District	Misc.	4	4	3	4	4	4	5	5	5	5
Galt-Arno Cemetery District	Misc.	1	1	1	1	3	3	3	3	3	3
Mission Oaks Recreation and Park District	Misc.	12	12	13	14	13	13	12	11	10	12
Orangevale Recreation and Park District	Misc.	15	15	15	16	17	12	15	14	15	16
Sacramento Metropolitan Fire District	Safety	-	-	3	3	4	6	6	6	7	7
S.E.T.A.	Misc.	565	566	568	584	604	597	598	562	544	549
Sunrise Recreation and Park District	Misc.	21	21	23	26	28	28	24	29	28	26
U.C. Davis Medical Center	Misc.	-	1	1	1	1	1	1	1	1	1
Elected Officials*	Misc.	7	7	7	7	7	7	7	7	7	7
Elected Officials*	Safety	1	1	1	1	1	1	1	1	1	1
Total Special District Members	Misc.	651	652	655	682	710	692	696	652	634	641
Safety		1	1	4	4	5	7	7	7	8	8
Superior Court Members**	Misc.	632	698	745	765	807	843	814	-	-	-
Sacramento County Members	Misc.	8,830	8,906	9,121	9,865	10,937	11,190	10,817	11,400	10,744	10,743
Safety		1,912	1,898	1,909	2,024	2,337	2,448	2,382	2,353	2,342	2,280
Total Members	Misc.	10,113	10,256	10,521	11,312	12,454	12,725	12,327	12,052	11,378	11,384
Safety		1,913	1,899	1,913	2,028	2,342	2,455	2,389	2,360	2,350	2,288
Total		12,026	12,155	12,434	13,340	14,796	15,180	14,716	14,412	13,728	13,672

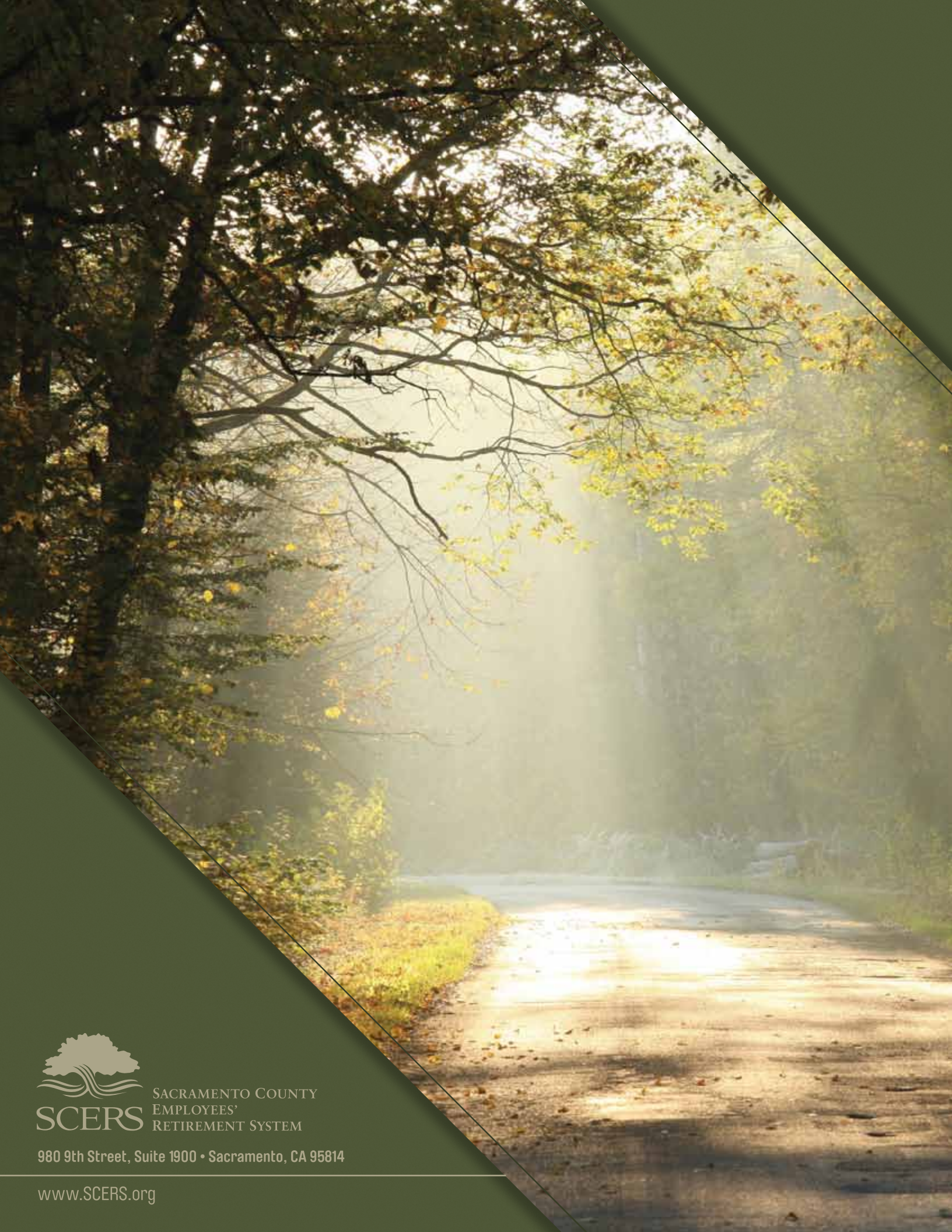
*Elected Officials - consisted of Board of Supervisors (5), Assessor (1), District Attorney (1), who were miscellaneous members, and one Sheriff who was a safety member.

**Prior to June 25, 2006, Superior Court member information was included in the totals for the County of Sacramento.

Source: SCERS Active Member Data







SACRAMENTO COUNTY
EMPLOYEES'
RETIREMENT SYSTEM

980 9th Street, Suite 1900 • Sacramento, CA 95814

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