SCERS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013
SACRAMENTO, CALIFORNIA

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended June 30, 2014 and 2013

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
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INTRODUCTION

Executive Staff

Richard Stensrud
Chief Executive Officer

Scott Chan
Chief Investment Officer

Robert L. Gaumer
General Counsel

Kathryn T. Regalia
Chief Operations Officer

John W. Gobel Sr.
Chief Benefits Officer

December 4, 2014

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, 2014 and 2013.

The System

SCERS is a cost-sharing 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, 2014, 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 statement 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 misstatements. 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 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 2013-2014, SCERS continued the implementation of the new asset allocation model.

For the fiscal year ended June 30, 2014, SCERS' investments provided a 16.6% rate of return (gross of fees), compared to the investment policy benchmark return of 15.6%.

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, 2014. Triennially, the System requests that its actuary perform an analysis of the appropriateness of all economic and non-economic assumptions. The most recent triennial analysis was performed as of June 30, 2013, and as a result of that analysis, the Board of Retirement approved certain changes to the actuarial assumptions, which were incorporated in the actuarial valuation as of June 30, 2014.

At June 30, 2014, SCERS' funding ratio was 85.2%, with the actuarial value of assets totaling $7.313 billion and the actuarial accrued liability totaling $8.581 billion. The increase in the funding ratio (up from 82.8%) was mainly due to investment returns on the actuarial value of assets (after "smoothing") higher than the 7.50% investment return assumption, and lower-than-expected active employee salary growth, offset to some degree by changes in actuarial assumptions. Deferred gains under the smoothing methodology exceeded deferred losses by $497.0 million as of June 30, 2014. 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 both of the fiscal years ended June 30, 2014 and 2013, administrative expenses, excluding IT costs were $5.1 million or 0.06% of the System's actuarial accrued liability.

Significant Events

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

- Established and adopted SCERS' Strategic Plan 2014-2018: 'Strengthening Our Foundation For the Future'.

- Conducted a SCERS Board election for new three-year terms for one Miscellaneous Board Member, one Retired Board Member, and one Alternate Retired Board Member. Diana Gin was re-elected as the Miscellaneous Board Member. Michael DeBord was elected as the Retired Board Member, and Martha J. Hoover was elected as the Alternate Retired Board Member.
- Hired a General Counsel.
- Established a policy regarding requests to facilitate communication by third parties with the SCERS membership.
- Began development of a policy regarding the retired annuitant employment.
- Worked with the County and Labor Relations on the impact of the employer and employee normal cost sharing as a result of CalPEPRA.
- Worked with SCERS' actuary Segal Consulting and SCERS' auditor Macias Gini & O'Connell to identify the impact and required changes as a result of GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25 ("*GASB 67"*)*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. Met with SCERS' participating employers to discuss and plan for the implementation of the new GASB Statements.
- Worked with the Segal Consulting to conduct the triennial experience study as of June 30, 2013.
- Nominated for the Small Public Plan of the Year by *Institutional Investor* magazine in the 12th Annual Hedge Fund Industry Awards.
- Nominated and named runner-up for financial publication *aiCIO*'*s* Industry Innovation Award for pension plans with under $15 billion in assets.
- SCERS Chief Investment Officer Scott Chan was named one of *aiCIO's* 2013 Power 100 Chief Investment Officers.
- Continued to work with Department of Technology ("DTech") to determine SCERS' information technology system needs, issued a Request for Information ("RFI"); and assessed vendors' products and services.
- Worked with Sacramento County Employee Benefits Office and DTech to implement all new medical vendors for pensioners into the payroll system.
- Worked with Sacramento Metropolitan Fire District ("SMFD") and DTech to modify the current payroll system to allow the deduction of the retiree portion of the health care premiums associated with the retiree's participation in the SMFD retiree health care plan from the monthly SCERS benefit payment to the retiree.
- Worked with the Sacramento County Retired Employees' Association ("SCREA") and DTech to modify the current payroll system to allow the deduction from monthly benefit payments of premiums for certain insurance products offered to SCREA members.
- Continued to enhance the COMPASS pension payroll system and Member and Benefit Accounting System for Employees ("MBASE") to identify and track information relevant to the CalPEPRA and potential Public Record Act requests.
- Worked with Sacramento County Personnel Actions and DTech to design and implement the retirement rate redesign for the normal cost sharing arrangements negotiated between the County and recognized employee organizations.
- Worked with DTech to move SCERS website content to SharePoint and to give the SCERS website a fresher look.
- Worked with DTech to enhance the online benefit calculator.

- Worked with DTech to migrate MBASE system to the new virtual server platform.
- Upgraded office desktop computers.
- Implemented changes in the SCERS record keeping system for the employer and employee normal cost sharing.
- Successfully hired and trained an Investment Officer.
- Established strategic partnership engagements with select investment managers to implement customized separate account portfolios designed to meet SCERS' investment needs.
- Began to execute on the strategic real estate plan created in 2013 including: (1) Restructuring core open-end commingled funds managers; (2) Selling several core real estate properties at favorable prices; and (3) Capitalized on low interest rates through selective leverage.
- Completed the implementation of the Equity manager structure, which included reducing SCERS' aggregate Equity exposure and reducing manager redundancies.
- Modified the International Equity structure to include a dedicated emerging markets small cap mandate.
- Implemented the new structure for the Fixed Income asset class, including: (1) Selection of a manager for a global opportunistic fixed income mandate; and (2) Selection of a strategic credit mandate.
- Assessed the investment manager lineup across SCERS' fund and made changes where necessary.

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, 2013 and 2012. 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 fifteenth consecutive year that the System has achieved this prestigious award.

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, 2013.

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

Richard Stensrud
Chief Executive Officer

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

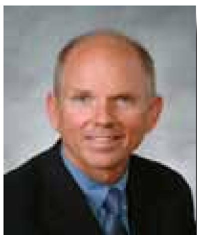
June 30, 2013

Executive Director/CEO

Board of Retirement

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

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

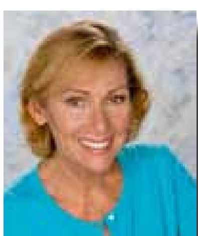


Vice President
Keith DeVore
Appointed by Board of Supervisors
Present term expires
June 30, 2015

Trustee
Michael DeBord
Elected by Retired Members
Present term expires
December 31, 2016

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

Trustee
Diana Gin
Elected by Miscellaneous Members
Present term expires
December 31, 2016



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

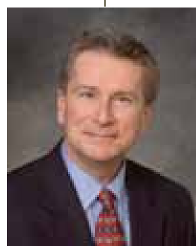
Ex-Officio
Julie Valverde
Sacramento County
Director of Finance
Member mandated by law

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

Alternate Retiree Trustee
Martha Hoover
Elected by Retired Members
Present term expires
December 31, 2016

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

Robert L. Gaumer
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

Employer	Date Entered System
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

Nossaman, LLP

Public Pension Consultants

Note: Investment professionals are listed on page 90, and a schedule of manager fees is located on pages 88 and 89 of this report in the Investment Section.

FINANCIAL

MGO Certified Public Accountants.

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, 2014 and 2013, 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, 2014 and 2013, 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 discussed in Note 2 to the basic financial statements, the System implemented the provisions of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25,* for the fiscal years ended June 30, 2013 and 2014.

As discussed in Note 4 to the basic financial statements, the total pension liability based on actuarial valuations as of June 30, 2014 and 2013, exceeded the System's fiduciary net position by $770.9 million and $1.4 billion, respectively. Actuarial valuations are very sensitive to the underlying actuarial assumptions, including a discount rate of 7.50 percent, which represents the long-term expected rate of return.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Employer Contributions, and Schedule of Annual Money-Weighted Rate of Return, as listed in the table of contents, 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 other supplemental information, introductory, investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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 December 2, 2014 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.

Macias Gini & O'Connell LLP

Sacramento, California
December 2, 2014

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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, 2014 and 2013. 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 Basic Financial Statements, Notes to the Basic Financial Statements, Required Supplementary Information, and Other Supplemental Information that follows.

FINANCIAL HIGHLIGHTS

As of June 30, 2014, SCERS' net position restricted for pension benefits ("net position") totaled $7.810 billion. This represented an increase of $1.022 billion or 15.1% from the $6.788 billion in SCERS net position as of June 30, 2013, which, in turn, represented an increase of $714.1 million or 11.8% over the $6.074 billion in net position as of June 30, 2012.

Additions to net position were $1.375 billion and $1.043 billion for the years ended June 30, 2014 and 2013, respectively. Strong investment performance was the primary reason for the increase in total additions for the years ended June 30, 2014 and 2013, with net investment gains of $1.156 billion and $824.0 million.

Deductions to net position were $353.3 million and $329.3 million for the years ended June 30, 2014 and 2013. The total deductions for the year ended June 30, 2014 increased by $24.0 million or 7.3% over the year ended June 30, 2013, which in turn, saw an increase in total deductions of $21.2 million or 6.9% over the year ended June 30, 2012. 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 2013-2014) 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, 2014, SCERS' total pension liability was $8.581 billion, up from $8.211 billion as of June 30, 2013. The net pension liability decreased from $1.423 billion as of June 30, 2013 to $770.9 million as of June 30, 2014. This decrease in net pension liability is mainly due to strong investment performance in fiscal year 2014 and lower-than-expected active employee salary growth offset to some degree by changes in actuarial assumptions. The fiduciary net position as a percentage of the total pension liability increased from 82.7% to 91.0%.

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 financial transactions 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 fiduciary net position as a percentage of the employers' total pension liability 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 includes the employers' net pension liability, actuarial assumptions used to calculate the net pension liability, historical trends and other required supplementary information related to SCERS' defined benefit pension plan as required by GASB Statement No. 67.

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 Employers' Net Pension Liability

SCERS' net position restricted for pension benefits as of June 30, 2014 totaled $7.810 billion, an increase of $1.022 billion or 15.1% from the $6.788 billion in net position as of June 30, 2013, which represented an increase of $714.1 million or 11.8% over the $6.074 billion in net position as of June 30, 2012. The increase in net position for the years ended June 30, 2014 and 2013 was due to strong investment performance.

For fiscal year ended June 30, 2014, the total fund return, gross of fees, was 1.0% above the return of the policy index benchmark. At the asset class level, fiscal year 2013-2014 investments in the fixed income, hedge fund and real assets segments of the portfolio outperformed the policy benchmarks, while investments in domestic equity, international equity, private equity and opportunistic segments of the portfolio under performed the policy benchmarks. 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. 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, 2014 compared to the prior year was the result of funding new investments and fulfilling capital commitments. The decrease in receivables and investment trade payables as of June 30, 2014 compared to the prior year was the result of an decrease in trading activity at the end of June by the external investment managers. The increase in securities lending collateral and securities lending liability reflected a higher level of activity in the securities lending industry.

NET POSITION

As of June 30

(Dollar Amounts Expressed in Millions)

Assets	2014	2013	Increase/ (Decrease)	% Change
Cash and short-term investments	$430.8	$574.1	($143.3)	(25.0)%
Receivables	112.2	207.1	(94.9)	(45.8)
Investments, at fair value	7,647.3	6,411.3	1,236.0	19.3
Securities lending collateral	313.5	255.6	57.9	22.7
Other assets	2.7	6.4	(3.7)	(57.8)
Total assets	8,506.5	7,454.5	1,052.0	14.1
Liabilities				
Other liabilities	40.6	30.5	10.1	33.1
Mortgages payable	143.4	131.6	11.8	9.0
Investment trades payable	199.0	248.8	(49.8)	(20.0)
Securities lending liability	313.5	255.6	57.9	22.7
Total liabilities	696.5	666.5	30.0	4.5
Net position restricted for pension benefits	$7,810.0	$6,788.0	$1,022.0	15.1%

NET POSITION

As of June 30

(Dollar Amounts Expressed in Millions)

Assets	2013	2012	Increase/ (Decrease)	% Change
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%

GASB Statement No. 67 replaces GASB Statement No. 25 and redefines pension liability and expense for financial reporting purposes and does not apply to contribution amounts for pension funding purposes. When measuring pension liability GASB uses the same actuarial cost method and the same type of discount rate as SCERS uses for funding. Therefore, the employers' total pension liability measure for financial reporting shown in this report is determined on the same basis as SCERS' actuarial accrued liability measure for funding.

SCERS retained an independent actuarial firm, Segal Consulting, to perform annual actuarial valuations to determine the employers' total pension liability 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 actuarial valuation is to determine the total pension liability in acordance with the parameters set forth in GASB Statement No. 67 and what future contributions will be needed by the members and participating employers, in conjunction with investment earnings, to pay the expected future benefits.

As of June 30, 2014, the employers' total pension liability was $8.581 billion, and the net pension liability (the total pension liability less the fiduciary net position) was $770.9 million. The plan fiduciary net position as a percentage of the total pension liability was 91.0%. In general terms, this ratio means that as of June 30, 2014, SCERS had approximately 91 cents available for each dollar of anticipated future liability.

The Required Supplementary Information presents additional information regarding the net pension liability and the Actuarial Section of this Report provides additional actuarial funding information.

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. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25*, 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 $(9.8) million as of June 30, 2013 to $497.0 million as of June 30, 2014.

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

(Dollar Amounts Expressed in Millions)

	2014	2013	2012
Employee Reserves	$713.6	$700.0	$674.0
Employer Reserves	2,564.8	2,433.9	2,358.9
Retiree Reserves	3,973.8	3,649.2	3,482.4
Retiree Death Benefit Reserves	15.2	14.7	14.6
Contingency Reserve	45.6	-	-
Total Allocated Reserves and Designations	7,313.0	6,797.8	6,529.9
Market Stabilization Reserve	497.0	(9.8)	(456.0)
Net position restricted for benefits, at fair value	$7,810.0	$6,788.0	$6,073.9

Changes in Fiduciary Net Position - Pension Trust Fund

The following tables present the changes in net position for the fiscal years ended June 30, 2014, 2013, and 2012, respectively.

CHANGE IN FIDUCIARY NET POSITION

For the Fiscal Years Ended June 30

(Dollar Amounts Expressed in Millions)

	2014	2013	Increase/ (Decrease)	% Change
Additions				
Employee contributions	$57.6	$68.3	($10.7)	(15.7)%
Employer contributions	210.5	189.7	20.8	11.0
Net gain from investment activities	1,156.0	824.0	332.0	40.3
Net income from securities lending	1.3	2.4	(1.1)	(45.8)
Other expense	(0.9)	(3.4)	2.5	73.5
Investment fees and expenses	(49.2)	(37.6)	(11.6)	(30.9)
Total additions	1,375.3	1,043.4	331.9	31.8
Deductions				
Withdrawal of contributions	2.7	2.7	0.0	0.0
Administrative expenses	5.7	5.7	0.0	0.0
Benefits paid	344.9	320.9	24.0	7.5
Total deductions	353.3	329.3	24.0	7.3
Increase in net position	1,022.0	714.1	307.9	43.1
Net position restricted for pension benefits, beginning	6,788.0	6,073.9	714.1	11.8
Net position restricted for pension benefits, ending	$7,810.0	$6,788.0	$1,022.0	15.1%

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	$6,788.0	$6,073.9	$714.1	11.8%

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, 2014, 2013, and 2012, total additions were $1.375 billion, $1.043 billion, and $241.4 million, respectively.

For the years ended June 30, 2014, 2013, and 2012, combined employer and employee contributions were $268.1 million, $258.0 million, and $244.8 million, respectively. Fiscal year 2013-2014 employee contributions decreased primarily due to the discontinuation of additional service credit purchases while the employer contributions increased due to an increase in the aggregated contribution rate. 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.

Net investment income/(loss) were $1.107 billion, $785.4 million, and $(3.4) million for the fiscal years ended June 30, 2014, 2013, and 2012, respectively. The net investment gains for the fiscal years ended June 30, 2014 and June 30, 2013 were due to strong investment returns, outperforming the benchmark. 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, 2014, 2013, and 2012, total deductions were $353.3 million, $329.3 million, and $308.1 million, respectively.

Deductions increased $24.0 million or 7.3% in the year ended June 30, 2014 and $21.2 million or 6.9% in the year ended June 30, 2013. The primary cause of the increase in deductions in both years was due to the increase in monthly benefit payments resulting from 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 both of the years ended June 30, 2014 and 2013, administrative expenses of $5.1 million, excluding IT costs, was 0.06% 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, 2014 AND 2013

(Dollar Amounts Expressed in Thousands)

	2014	2013
Assets		
Cash invested with Sacramento County Treasurer	$7,844	$7,783
Other cash and cash equivalents	51,713	64,285
Short-term investments with fiscal agents	371,219	501,998
Cash and short-term investments	430,776	574,066
Receivables		
Employee and employer contributions	7,923	8,328
Accrued investment income	29,410	19,758
Securities sold	74,836	179,053
Total receivables	112,169	207,139
Investments, at fair value		
Common and preferred stock - domestic	1,815,061	1,624,499
Common and preferred stock - international	1,972,842	1,639,738
US government and agency securities	584,608	557,701
Domestic corporate bonds	608,104	484,213
International bonds	292,759	259,756
Real assets	1,244,761	1,062,269
Hedge funds	759,869	561,309
Private equity	292,961	167,783
Opportunities	76,290	54,030
Securities lending collateral	313,536	255,615
Total investments	7,960,791	6,666,913
Other assets	2,739	6,367
Total assets	8,506,475	7,454,485
Liabilities		
Warrants payable	1,197	3,635
Accounts payable and other accrued liabilities	39,347	26,822
Mortgages payable	143,432	131,594
Investments purchased payable	198,962	248,824
Securities lending liability	313,536	255,615
Total liabilities	696,474	666,490
Net position restricted for pension benefits	$7,810,001	$6,787,995

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, 2014 AND 2013

(Dollar Amounts Expressed in Thousands)

	2014	2013
Additions		
Contributions		
Employee	$57,635	$68,242
Employer	210,503	189,664
Total contributions	268,138	257,906
Investment income		
From investment activities		
Net appreciation in investment fair value:		
Securities	765,699	585,769
Real assets	97,922	5,655
Hedge funds	69,442	47,360
Private equity	46,693	16,691
Opportunities	4,223	10,265
Interest	36,007	38,947
Dividends	99,771	91,562
Real assets	29,048	24,426
Opportunities	5,495	3,625
Private equity	1,660	(278)
Net gain from investment activities	1,155,960	824,022
From securities lending activities		
Securities lending income	904	1,794
Securities lending expense		
Borrower rebate income	672	1,384
Securities lending management fees	(273)	(767)
Net income from securities lending	1,303	2,411
Other expense	(945)	(3,370)
Investment fees and expenses	(49,166)	(37,614)
Net investment income	1,107,152	785,449
Total additions	1,375,290	1,043,355
Deductions		
Withdrawal of contributions	2,729	2,739
Administrative expenses	5,665	5,719
Benefits paid	344,890	320,828
Total deductions	353,284	329,286
Net increase	1,022,006	714,069
Net position restricted for pension benefits, beginning	6,787,995	6,073,926
Net position restricted for pension benefits, ending	$7,810,001	$6,787,995

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, 2014 AND 2013
(Dollar Amounts Expressed in Thousands)

	2014	2013
Assets		
Accounts receivable	$41	$327
Total assets	41	327
Liabilities		
Accounts payable	41	327
Total liabilities	41	327
Net Position	$ -	$ -

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

NOTE 1 - PLAN DESCRIPTION

The Sacramento County Employees' Retirement System ("SCERS" or the "System") is a cost-sharing multiple-employer 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, 2014, 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.

(Dollar Amounts Expressed in Thousands)

At June 30, 2014 and 2013, the System's membership consisted of:

Current Members:	2014	2013
Vested		
Miscellaneous Tier 1	149	191
Miscellaneous Tier 2	74	84
Miscellaneous Tier 3	8,343	8,587
Miscellaneous Tier 4	7	1
Miscellaneous Tier 5	2	-
Total Miscellaneous	8,575	8,863
Safety Tier 1	338	391
Safety Tier 2	1,378	1,354
Safety Tier 3	4	3
Safety Tier 4	10	1
Total Safety	1,730	1,749
Total Vested	10,305	10,612
Non-Vested		
Miscellaneous Tier 3	439	728
Miscellaneous Tier 4	289	299
Miscellaneous Tier 5	782	223
Total Miscellaneous	1,510	1,250
Safety Tier 2	29	70
Safety Tier 3	70	68
Safety Tier 4	135	26
Total Safety	234	164
Total Non-Vested	1,744	1,414
Total Current Members	12,049	12,026

(Dollar Amounts Expressed in Thousands)

Retirees and beneficiaries currently receiving benefits:	2014	2013
Miscellaneous - Service	6,518	6,226
Miscellaneous - Beneficiary	1,089	1,051
Miscellaneous - Nonservice-Connected Disability	295	289
Miscellaneous - Service-Connected Disability	182	180
Total Miscellaneous	8,084	7,746
Safety - Service	1,395	1,331
Safety - Beneficiary	322	310
Safety - Nonservice-Connected Disability	19	20
Safety - Service-Connected Disability	229	227
Total Safety	1,965	1,888
Total Retirees and Beneficiaries	10,049	9,634
Terminated employees entitled to benefits but not yet receiving them:		
Miscellaneous Tier 1	74	87
Miscellaneous Tier 2	205	213
Miscellaneous Tier 3	2,343	2,398
Miscellaneous Tier 4	46	37
Miscellaneous Tier 5	56	11
Total Miscellaneous	2,724	2,746
Safety Tier 1	102	114
Safety Tier 2	366	388
Safety Tier 3	4	1
Safety Tier 4	5	-
Total Safety	477	503
Total Terminated Members	3,201	3,249
Grand Total	**25,299**	**24,909**

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 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.

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, 2014 and 2013 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 custodial capacity or as an agent on behalf of the participating employers to fund the Retiree Medical and Dental Insurance Program. See Note 8 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.

Effective July 1, 2012, SCERS adopted the provisions of Government Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. The requirements of GASB Statement No. 67 separate funding from financial reporting and require changes in presentation of the notes to the financial statements and required supplementary information. Significant changes include an actuarial calculation of the total and net pension liability. It also includes comprehensive footnote disclosures regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investments activity disclosures. The total pension liability, determined in accordance with GASB Statement No. 67, is presented in Note 4 and in the Required Supplementary Information on page 66.

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 statutory requirements. Benefits and refunds are recognized when the benefits are currently 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, 2014 and 2013 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. TIPS have an active market for identical securities and can typically be valued using the close or last traded price on a specific date.

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, in some circumstances certain illiquid investments may require reporting financial information and valuations in accordance with accounting standards other than US GAAP, such as under International Financial Reporting Standards.

- 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.

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.

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 3 - Cash and Investments discloses the amount of securities lending non-cash collateral.

(Dollar Amounts Expressed in Thousands)

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.

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, 2013 balances to conform to the presentation as of and for the year ended June 30, 2014.

NOTE 3 - CASH AND INVESTMENTS

SECTION 1: INVESTMENT POLICIES

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 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…" 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.

Asset Allocation

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. The System's adopted asset allocation policy as of June 30, 2014 and 2013 is as follow:

Asset Class	Target Allocation
Domestic Equities	22.5%
International Equities	22.5%
Fixed Income	20.0%
Hedge Funds	10.0%
Private Equity	10.0%
Real Assets	15.0%
Opportunities	0.0%
Total	100.00%

SECTION 2: INVESTMENT SUMMARY

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 $7,844 and $7,783 at June 30, 2014 and 2013, respectively. The pool was not rated, and the weighted-average maturity of the pool was 293 days and 301 days at June 30, 2014 and 2013, 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, 2014 and 2013, other cash and cash equivalents constitute balances in bank demand deposit accounts of $51,713 and $64,285, respectively.

Short-Term Investments with Fiscal Agents

At June 30, 2014 and 2013, the fair value of the System's short-term investments with fiscal agents was $371,219 and $501,998, 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. For both of the fiscal years ended June 30, 2014 and 2013, the weighted-average maturities were 40 days. Investments in the STIF from all participating custodial clients of State Street were $55.4 billion and $40.4 billion on June 30, 2014 and 2013, 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, 2014 and 2013, the fair value of real asset investments were $1,244,761 and $1,062,269, respectively.

(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, 2014 and 2013, the fair value of hedge fund investments were $759,869 and $561,309, respectively.

Private Equity

This category of investments includes limited partnerships, commingled funds and FoF's that invest in domestic and international private buyouts, venture capital, mezzanine capital, and distressed debt. As of June 30, 2014 and 2013, the fair value of private equity investments were $292,961 and $167,783, respectively.

Opportunities

Opportunistic 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, 2014 and 2013, the fair values of opportunistic investments were $76,290 and $54,030 , 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, 2014 and 2013 is as follows:

	2014	2013
Hedge Funds	$16,923	$90,000
Opportunities	117,698	28,188
Private Equity	414,333	375,116
Real Assets	231,752	30,586
Grand Total	$780,706	$523,890

Annual Money-Weighted Rate of Return

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 16.18%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested. The annual money-weighted rate of return for the year ended June 30, 2013 is not available. Two year information will be presented in future years as it becomes available.

SECTION 3: 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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 were $338,797 and $331,810, respectively. 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.

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.

(Dollar Amounts Expressed in Thousands)

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.

Collateral and related securities on loan at June 30, 2014 and 2013 were as follows:

	2014		
Security on Loan Description	Cash Collateral Value	Other Collateral Value	Fair Value of Securities on Loan
U.S. government and agency obligations	$134,529	$21,721	$153,353
Domestic corporate bonds	19,236	1,233	20,063
Common and preferred stock – domestic	147,457	2,251	146,639
Common and preferred stock – international	12,314	56	11,755
Total	$313,536	$25,261	$331,810

	2013		
Security on Loan Description	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

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, 2014 and 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

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, 2014 and 2013, the weighted average maturity was 37 days and 29 days, respectively.

SECTION 4: 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.

(Dollar Amounts Expressed in Thousands)

The following tables depict the fixed income assets by credit rating as of June 30, 2014 and 2013:

Fixed Income
As of June 30, 2014

S&P Quality Rating	Total	Securitized Obligations	Credit Obligations	U.S. Government & Agency Obligations	International Government	Collateralized Mortgage Obligations	Mortgage Pass-Through		
							FHLMC	FNMA	GNMA
AAA	$62,760	$49,168	$2,334	$ -	$ -	$11,205	$ -	$53	$ -
AA+	64,588	25,475	9,794	15,113	-	14,206	-	-	-
AA	20,434	16,096	4,338	-	-	-	-	-	-
AA-	13,275	1,399	9,307	-	-	2,569	-	-	-
A+	35,302	17,368	13,300	-	-	4,634	-	-	-
A	31,889	5,629	24,401	-	-	1,859	-	-	-
A-	57,716	2,386	55,330	-	-	-	-	-	-
BBB+	59,161	3,233	54,845	-	-	1,083	-	-	-
BBB	63,468	2,772	60,149	-	-	547	-	-	-
BBB-	46,552	1,805	44,372	-	-	375	-	-	-
BB+	22,781	8,350	14,431	-	-	-	-	-	-
BB	14,954	-	13,048	-	1,375	531	-	-	-
BB-	8,364	-	8,010	-	354	-	-	-	-
B+	2,828	-	2,586	-	-	242	-	-	-
B	3,740	438	3,302	-	-	-	-	-	-
B-	7,179	2,322	1,686	-	-	3,171	-	-	-
CCC	1,067	-	-	-	-	1,067	-	-	-
CC	84	-	-	-	-	84	-	-	-
D	3,952	1,302	-	-	-	2,650	-	-	-
NA	351,818	-	-	326,525	-	-	-	-	25,293
NR	613,559	2,880	383,830	543	5,347	3,878	54,171	162,910	-
Total	$1,485,471	$140,623	$705,063	$342,181	$7,076	$48,101	$54,171	$162,963	$25,293

(Dollar Amounts Expressed in Thousands)

Fixed Income
As of June 30, 2013

S&P Quality Rating	Total	Securitized Obligations	Credit Obligations	U.S. Government & Agency Obligations	International Government	Collateralized Mortgage Obligations	Mortgage Pass-Through		
							FHLMC	FNMA	GNMA
AAA	$61,452	$32,165	$1,764	$ -	$10,530	$16,937	$ -	$56	$ -
AA+	353,465	22,334	21,996	20,363	4,530	16,080	51,571	216,591	-
AA	15,340	9,542	4,296	-	-	1,502	-	-	-
AA-	11,979	2,604	7,256	-	-	2,119	-	-	-
A+	32,489	9,844	9,049	-	2,033	11,563	-	-	-
A	39,399	10,611	28,136	-	-	652	-	-	-
A-	66,106	5,029	61,077	-	-	-	-	-	-
BBB+	54,080	9,014	42,602	-	-	2,464	-	-	-
BBB	68,366	3,402	64,454	-	-	510	-	-	-
BBB-	48,400	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

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.

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, 2014 and 2013, 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. 67. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are exempt from the disclosure requirements.

The System's investment policy does not allow more than 5% of the total portfolio fair value to be invested in any one issuer, and as of June 30, 2014 and 2013, 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.

(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, 2014 and 2013, the bank balance of cash and cash equivalents on deposit with SCERS' custodian bank and financial institutions totaled $17,786 and $23,347, respectively, of which $13,253 and $18,742 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, 2014 and 2013, deposits held in the System's name for the overlay strategy of $31,588 and $38,720, respectively, were not insured or not collateralized, and these deposits were exposed to custodial credit risk.

As of June 30, 2014 and 2013, 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.

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 ± 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, 2014

Type of Securities	Fair Value	Effective Duration	Benchmark Duration	Difference
Securitized Obligations				
Asset-Backed Securities	$89,064	4.19	2.41	1.78
Collateralized Mortgage-Backed Securities	51,559	3.63	3.59	0.04
Credit Obligations				
Commingled Fund	375,324	NA	NA	NA
Corporate Bonds	290,504	6.81	7.13	(0.32)
Municipals	959	5.34	NA	NA
Private Placement	888	3.53	NA	NA
Yankee	37,388	8.30	6.26	2.04
U.S. Government & Agency Obligations				
Agency Securities	15,656	3.68	3.72	(0.04)
U.S. Treasury	326,525	6.35	5.28	1.07
International Government	7,076	5.58	NA	NA
Collateralized Mortgage Obligations	48,101	3.37	NA	NA
Mortgage Pass-Through				
FHLMC	54,171	3.72	3.80	(0.08)
FNMA	162,963	4.12	3.98	0.14
GNMA	25,293	5.23	4.30	0.93
Total Fair Value with Weighted Average	$1,485,471	5.60	5.31	0.29

(Dollar Amounts Expressed in Thousands)

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

(Dollar Amounts Expressed in Thousands)

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, 2014 and 2013:

As of June 30, 2014

Local Currency Name	Cash & Cash Equivalents	Equity	Fixed Income	Private Equity	Opportunities	Total
Australian Dollar	$460	$84,731	$ -	$ -	$ -	$85,191
Brazilian Real	-	1,700	-	-	-	1,700
Canadian Dollar	831	87,065	-	-	-	87,896
Danish Krone	-	5,210	-	-	-	5,210
Euro Currency	3,538	346,262	5,347	35,317	-	390,464
Hong Kong Dollar	961	37,602	-	-	-	38,563
Indian Rupee	-	4,461	-	-	-	4,461
Indonesian Rupiah	5	845	-	-	-	850
Israeli Shekel	-	5,305	-	-	-	5,305
Japanese Yen	3,395	294,813	-	-	-	298,208
Mexican Peso	-	251	-	-	-	251
New Israeli Sheqel	22	-	-	-	-	22
New Zealand Dollar	34	9,582	-	-	-	9,616
Norwegian Krone	-	9,886	-	-	-	9,886
Philippine Peso	-	912	-	-	-	912
Pound Sterling	5,417	292,776	354	-	9,733	308,280
Singapore Dollar	216	20,685	-	-	-	20,901
South Korean Won	-	1,455	-	-	-	1,455
Swedish Krona	997	40,993	-	-	-	41,990
Swiss Franc	5	96,856	-	-	-	96,861
Total	$15,881	$1,341,390	$5,701	$35,317	$9,733	$1,408,022

(Dollar Amounts Expressed in Thousands)

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

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 5: HIGHLY SENSITIVE INVESTMENTS

As of June 30, 2014 and 2013, SCERS' investments included Collateralized Mortgage Obligations and Mortgage Pass-Through securities totaling $290,528 and $389,175 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.

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).

(Dollar Amounts Expressed in Thousands)

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, 2014 and 2013, total commodities investments were $203,666 and $185,307, 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, 2014 and 2013, 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, 2014 and 2013:

Investment Derivatives Instruments	Net Appreciation/ (Depreciation) in Fair Value of Investments through June 30, 2014	Fair Value at June 30, 2014		
		Classification	Amount	Notional
Futures (Domestic and Foreign)	$70,223	Fixed Income	$ -	$24,518
Foreign Currency Forwards	(3,492)	Accrued Investment Income Receivables	194	$229,995
Rights	531	Accrued Investment Income Receivables	-	-
Swaps	(595)	Account Payable and Other Accrued Liabilities	(595)	$(59,530)
Warrants	28	Accrued Investment Income Receivables	28	21,618 shares
Total Derivative Instruments	$66,695		$(373)	

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	Fixed Income	$ -	$52,626
Foreign Currency Forwards	7,415	Accrued Investment Income receivables	3,897	$282,824
Rights	213	Accrued Investment Income receivables	2	8,893 Shares
Total Derivative Instruments	$86,900		$3,899	

(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, 2014 or 2013 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, 2014 and 2013.

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, 2014 and 2013:

June 30, 2014

S&P Ratings	Foreign Currency Forwards
AA-	$256
A+	9
A	838
A-	317
Subtotal Investments in Asset Position	1,420
Investments in Liability Position	(1,226)
Total Investments in Asset/(Liability) Position	$194

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

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, 2014 and 2013 were $1,420 and $5,219. 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, 2014 and 2013, 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.

(Dollar Amounts Expressed in Thousands)

At June 30, 2014 and 2013, the System did not have any significant exposure to counterparty credit risk with any single party.

Interest Rate Risk

At June 30, 2014 and 2013, the System did not have any exposure to interest rate risk on its derivative investments.

Foreign Currency Risk

At June 30, 2014 and 2013, 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, 2014	Forward Contracts		
Currency Name	Net Receivables	Net Payables	Total Exposure
Australian Dollar	$19	$(122)	$(103)
Brazilian Real	22	(5)	17
Canadian Dollar	39	(307)	(268)
Swiss Franc	32	123	155
Chilean Peso	(5)	-	(5)
Yuan Renminbi	10	-	10
Czech Koruna	-	(10)	(10)
Danish Krone	-	17	17
Euro Currency	23	595	618
Pound Sterling	75	(229)	(154)
Hong Kong Dollar	-	1	1
Hungarian Forint	(29)	2	(27)
New Israeli Sheqel	(2)	(3)	(5)
Indian Rupee	(31)	-	(31)
Japanese Yen	3	(94)	(91)
South Korean Won	6	-	6
Mexican Peso (New)	(12)	(11)	(23)
Malaysian Ringgit	(1)	-	(1)
Norwegian Krone	(56)	36	(20)
New Zealand Dollar	201	(119)	82
Peruvian Nouveau Sol	(1)	-	(1)
Philippine Peso	(5)	-	(5)
Polish Zloty	(19)	(6)	(25)
Romanian Leu	7	-	7
New Russian Ruble	(1)	(5)	(6)
Swedish Krona	(17)	102	85
Singapore Dollar	3	-	3
Turkish Lira	(11)	(7)	(18)
South African Rand	(6)	(8)	(14)
Total	$244	$(50)	$194

(Dollar Amounts Expressed in Thousands)

As of June 30, 2013	Forward Contracts		
Currency Name	Net Receivables	Net Payables	Total Exposure
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

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, 2014 and 2013.

NOTE 4 – PENSION LIABILITY AND SIGNIFICANT ASSUMPTIONS

The employers' net pension liabilities (i.e. the total pension liability determined in accordance with GASB Statement No. 67 less the System's fiduciary net position) as of June 30, 2014 and 2013, are shown below:

Year Ending June 30	(1) Total Pension Liability	(2) Fiduciary Net Position	(3) Net Pension Liability (1) - (2)	(4) Fiduciary Net Position as a % of Total Pension Liability (2)/(1)
2014	$8,580,928	$7,810,001	$770,927	91.0%
2013	8,210,980	6,787,995	1,422,985	82.7

The actuarial valuation of the System involve estimates of the amounts reported and assumptions about probability of occurrence of events far into the future. Some examples include future salary increases and future employment mortality. The net pension liability is subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Triennially, the System requests that its actuary, Segal Consulting, perform an analysis of the appropriateness of all economic and non-economic assumptions. The most recent triennial analysis was performed as of June 30, 2013, and as a result of that analysis, the Board of Retirement approved certain changes to the actuarial assumptions, which were incorporated in the actuarial valuation as of June 30, 2014.

(Dollar Amounts Expressed in Thousands)

Disclosure of Information about Actuarial Methods and Assumptions

The required Schedule of Changes in Net Pension Liability immediately following the Notes to the Financial Statements presents multi-year trend information about whether the plan fiduciary net position is increasing or decreasing over time relative to the total pension liability.

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 used to measure the total pension liabilities as of June 30, 2014 and 2013:

Discount Rate:	7.50%	
Inflation rate:	3.25%	
Real across-the-board salary increase:	0.25%	
Miscellaneous projected salary increases*:	4.50% to 8.50%	
Safety projected salary increases*:	5.25% to 11.50%	
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%

Post-Retirement Mortality:

a) Service	For Miscellaneous Members and Beneficiaries - RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2022 For Safety Members - RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2022 set back one year for males and set forward two years for females
b) Disability	For Miscellaneous Members - RP-2000 Disabled Retiree Mortality Table projected with Scale BB to 2022 with no age adjustment for males and set forward three years for females For Safety Members - RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2022 set forward two years
c) Employee Contribution Rate	For Miscellaneous Members - RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2022 weighted 40% male and 60% female For Safety Members - RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2022 set back one year for males and set forward two years for females weighted 70% male and 30% female

(Dollar Amounts Expressed in Thousands)

Pre-Retirement Mortality:	Based upon the 6/30/2013 Experience Analysis
Other Assumptions:	See analysis of actuarial experience study for the period July 1, 2010 through June 30, 2013

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

Assumed Asset Allocation

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and projected arithmetic real rates of return for each major asset class, used in the derivation of the long-term expected investment rate of return assumption as of June 30, 2014 and 2013 are summarized in the table below:

Asset Class	Target Allocation	Real Rate of Return	Long Term Expected Portfolio Rate of Return
Domestic Equities	22.5%	6.83%	5.98%
International Equities	22.5%	8.38%	7.23%
Fixed Income	20.0%	1.24%	1.25%
Hedge Funds	10.0%	3.20%	3.20%
Private Equity	10.0%	12.82%	12.82%
Real Assets	15.0%	6.17%	5.64%
Opportunities	0.0%	0.0%	0.0%
Total Portfolio	100.00%	6.19%	5.67%
Inflation			3.25%
Expense adjustment			(0.40)%
Risk adjustment			(1.02)%
Total Long Term Expected Rate of Return			7.50%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The discount rate used to measure the total pension liability was 7.50% as of June 30, 2014 and 2013. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made based on the current contribution rate and that employer contributions will be made at the end of each pay period based on the actuarially determined contribution rates. For this purpose, only the employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service cost for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included.

Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments for current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Dollar Amounts Expressed in Thousands)

In accordance with GASB No. 67 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the employers' net pension liabilities as of June 30, 2014 and 2013, calculated using the discount rate of 7.50%, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.50%) or 1.00% higher (8.50%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	6.50%	7.50%	8.50%
Net pension liability as of June 30, 2014	$1,920,085	$770,927	$(178,224)
Net pension liability as of June 30, 2013	$2,529,384	$1,422,985	$507,863

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 1.91% to 17.28% 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 15.01% to 48.45% 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 21 years remaining as of June 30, 2014, 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, 2014 and 2013 totaled $268,138 and $257,906. Included in this total are employer contributions of $210,503 and $189,664 in fiscal years 2014 and 2013, respectively, of which $192,397 and $172,662 were made by the County of Sacramento. Member contributions were $57,635 and $68,242 in fiscal years 2014 and 2013, respectively. All contributions were made in accordance with actuarially-determined contribution requirements based on the actuarial valuations performed as of June 30, 2012 and 2011.

NOTE 6 – 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.

(Dollar Amounts Expressed in Thousands)

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.

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

Investment gains and losses are recognized (smoothed) over a seven-year period. Total allocated reserves and designations represents the smoothed actuarial value of assets. As of June 30, 2014 and 2013, total allocated reserves were $7,312,993 and $6,787,757, 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, 2014 and 2013, is as follows:

NET POSITION RESTRICTED FOR BENEFITS AT FAIR VALUE
As of June 30

	2014	2013
Employee Reserves	$713,613	$699,965
Employer Reserves	2,564,792	2,433,922
Retiree Reserves	3,973,778	3,649,192
Retiree Death Benefit Reserves	15,260	14,678
Contingency Reserve	45,550	-
Total allocated reserves and designations	7,312,993	6,797,757
Market Stabilization Reserve	497,008	(9,762)
Net position restricted for benefits, at fair value	$7,810,001	$6,787,995

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 - 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 three 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, 2014:

- County of Sacramento
- Sacramento Metropolitan Fire District
- Sacramento Employment and Training Agency

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, 2014, there were 174 annuitants receiving medical subsidy and 167 annuitants receiving dental subsidy. As of June 30, 2013, there were 1,230 annuitants receiving medical subsidy and 153 annuitants receiving dental subsidy.

Eligibility

County annuitants who retired after May 31, 2007 - According to the Program's Administrative Policy, only County annuitants from bargaining units 003, 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 2014 and 2013, 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.

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.

(Dollar Amounts Expressed in Thousands)

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

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:

	2014	2013
Beginning Balance	$131,594	$134,747
Additions	39,000	17,000
Deductions	(27,162)	(20,153)
Ending Balance	$143,432	$131,594

Future debt service requirements for outstanding mortgages are as follows:

Year Ending June 30	Interest	Principal	Total
2015	$5,438	$10,982	$16,420
2016	3,515	79,950	83,465
2017	1,946	-	1,946
2018	1,946	-	1,946
2019	1,445	13,500	14,945
2020 - 2024	2,100	39,000	41,100
Total	$16,390	$143,432	$159,822

(Dollar Amounts Expressed in Thousands)

NOTE 10 – LEASE OBLIGATIONS

SCERS has commitments under operating lease agreements for office facilities and equipment. Minimum future rental payments as of June 30, 2014 were as follows:

Year Ending June 30:	
2015	$558
2016	566
2017	569
2018	577
2019	587
2020-2021	1,102
Total	$3,959

Rental costs during the years ended June 30, 2014 and 2013 were $525 and $509, respectively.

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Schedule 1: Schedule of Changes in Net Pension Liability and Related Ratios

For the Fiscal Years Ended June 30

(Dollar Amounts Expressed In Thousands)

	2014	2013
Total pension liability*		
Service cost	$192,701	$187,329
Interest	617,240	589,783
Changes of benefit terms	-	-
Differences between expected and actual experience	(108,154)	(80,788)
Changes of assumptions	15,781	-
Benefit payments, including refunds of employee contributions	(347,620)	(323,567)
Net change in total pension liability	369,948	372,757
Total pension liability - beginning	8,210,980	7,838,223
Total pension liability - ending (a)	$8,580,928	$8,210,980
Plan fiduciary net position		
Contributions - employee	$57,635	$68,242
Contributions - employer	210,503	189,664
Net investment income	1,107,152	785,449
Benefit payments	(344,890)	(320,828)
Refunds of contributions	(2,729)	(2,739)
Administrative expenses	(5,665)	(5,719)
Net change in plan fiduciary net position	1,022,006	714,069
Plan fiduciary net position - beginning	6,787,995	6,073,926
Plan fiduciary net position - ending (b)	$7,810,001	$6,787,995
Net pension liability - ending (a-b)	$770,927	$1,422,985
Plan fiduciary net position as a percentage of the total pension liability	91.0%	82.7%
Covered-payroll	$858,343	$858,551
Net pension liability as a percentage of covered-payroll	89.8%	165.7%

* The pension liability is not available for years prior to June 30, 2013. Information will be presented in future years as it becomes available.

Schedule 2: Schedule of Employer Contributions

For the Last Ten Fiscal Years Ended June 30

(Dollar Amounts Expressed In Thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution (ADC)	$210,503	$189,664	$179,099	$182,921	$167,142	$177,011	$167,055	$156,805	$154,052	$99,083
Contributions in relation to the ADC	210,503	189,664	179,099	182,921	167,142	177,011	167,055	156,805	132,708	99,083
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$21,344 *	$ -
Covered-employee payroll**	$858,343	$858,551	$835,737	$818,804	$872,804	$923,375	$851,016	$798,800	$748,916	$786,921
Contributions in relation to the ADC as a percentage of covered-employee payroll	24.5%	22.1%	21.4%	22.3%	19.2%	19.2%	19.6%	19.6%	17.7%	13.9%

* Caused by the phase-in of the employer rates adopted by the Board in the June 30, 2004 actuarial valuation.

**Payroll for the years ending 2005 through 2012 are calculated by dividing the contribution dollar amount by the aggregated contribution rate.

Schedule 3: Schedule of Annual Money-Weighted Rate of Return

For the Fiscal Year Ended June 30

	2014
Annual money-weighted rate of return, net of investment expenses*	16.18%

* Information prior to June 30, 2014 is not available.

The schedules presented in the Required Supplementary Information provide information to help promote an understanding of the employers' net pension liability over time on a market value of assets basis. The Schedule of Changes in Net Pension Liability and Related Ratios includes historical trend information about the System's total pension liability and the progress made in accumulating sufficient assets to pay benefits when due. The Schedule of Employer Contributions presents historical trend information about the actuarially determined contribution and the actual contributions made. The Schedule of Annual Money-Weighed Rate of Return presents investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

CHANGE OF ASSUMPTIONS

Triennially, the System requests that its actuary perform an analysis of the appropriateness of all economic and non-economic assumptions. The most recent triennial analysis was performed as of June 30, 2013. As a result of that analysis, the Board of Retirement approved the following changes to the actuarial assumptions:

- The retirement rates were adjusted to reflect slightly later retirements.
- The mortality rates were adjusted to reflect a slight mortality improvement.
- Termination rates were adjusted to reflect lower incident of termination, with a higher proportion electing to receive a deferred vested benefit.
- Years of service instead of age was used in determining and applying the merit and promotional rates of salary increase.

METHODS AND ASSUMPTIONS USED TO ESTABLISH ACTUARIALLY DETERMINED CONTRIBUTION RATES

The following actuarial methods and assumptions were used to determine contribution rates reported in the Schedule of Employer Contributions:

Valuation date:	Actuarially determined contribution rates are calculated as of June 30, two years priro to the end of the fiscal year in which contributions are reported.
Actuarial cost method:	Entry age actuarial cost method
Amortization method:	Level percent of payroll (3.50% payroll growth assumed)
Remaining amortization period:	21 years (declining) as of June 30, 2014 for the outstanding balance of the June 30, 2012 UAAL. 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. Effective June 30, 2013 any changes in UAAL due to actuarial gains or losses or due to changes in actuarial assumption 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 change in UAAL due to retirement incentive programs will be amortized over a declining period of up to 5 years.
Asset valuation method:	The market value of assets less unrecognized returns in each of the last six 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 neccessary, so that the actuarial value of assets will stay within 30% of the market value of assets.

Actuarial assumptions:	
Investment rate of return:	7.50%, net of pension plan investment expense, including inflation
Inflation rate:	3.25%
Projected salary increases:	4.50% - 11.50% varying by service, including inflation
Assumed post-retirement benefit increase:	
	Miscellaneous Tier 1 3.40%
	Miscellaneous Tier 2 0.00%
	Miscellaneous Tier 3 2.00%
	Miscellaneous Tier 4 2.00%
	Safety Tier 1 3.40%
	Safety Tier 2 2.00%
	Safety Tier 3 2.00%
Other assumptions:	Same as those usd in June 30, 2014 funding actuarial valuation.
Other information:	All members with membership dates on or after January 1, 2013 enter the new tiers created by the California Public Employees' Pention Reform Act of 2013 (PEPRA).

Changes in Methods and Assumptions Used

6/30/05 - Inflation assumption decreased from 4.00% to 3.50%.

6/30/06 - Employee contribution crediting rate is equal to 5-year Treasury rate, assuming sufficient net earnings.

6/30/07 - Investment return assumption increased from 7.75% to 7.875%.
- Salary increase assumption increased from 5.45% to 5.65%.

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.

6/30/14 - Changes to post-retirement mortality rates and termination rates before retirement.
- Changes to retirement age and benefit for deferred vested members.
- Changes to annual rates of compensation increase.

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

Schedule I - Schedule of administrative expenses:

Type of expense:	2014	2013
Salaries and benefits	$3,300	$3,284
Professional fees	786	857
Rent and lease expense	460	432
Depreciation expense	36	36
Equipment purchases and maintenance	21	24
Other administrative expenses	1,062	1,086
Total administrative expenses	$5,665	$5,719

Schedule II - Schedule of investment fees and expenses:

Type of investment expense:	2014	2013
Domestic equity managers	$6,060	$6,749
International equity managers	8,745	7,587
Hedge fund managers	10,121	4,606
Private equity managers	7,049	3,919
Fixed income managers	3,094	1,947
Real asset managers	7,176	6,978
Opportunity portfolio managers	1,874	764
Strategic cash overlay managers	568	609
Custodian fees	511	505
Investment consulting fees	960	990
Other investment expenses and fees	3,008	2,960
Total investment fees and expenses	$49,166	$37,614

Schedule III - Schedule of payments to consultants:

Type of service:	2014	2013
Legal services	$1,696	$1,514
Medical consulting services	136	374
Actuarial services	465	182
Audit and consulting services	48	57
Total payments to consultants	$2,345	$2,127

Statements of Changes in Assets and Liabilities

AGENCY FUND

FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

(Dollar Amounts Expressed in Thousands)

Assets	2014	2013
Beginning accounts receivable balance	$327	$62
Additions	30,475	33,081
Deductions	(30,761)	(32,816)
Ending accounts receivable balance	$41	$327

Liabilities		
Beginning accounts payable balance	$327	$62
Additions	30,475	33,081
Deductions	(30,761)	(32,816)
Ending accounts payable balance	$41	$327

INVESTMENT

Introduction

For the fiscal year ended June 30, 2014, the Sacramento County Employees' Retirement System ('SCERS') achieved a 16.6% gross return. Studies have shown that earning excess returns is not easily accomplished over the long-term because a high percentage of active investment managers underperform market indices. However, SCERS' gross return exceeded its policy index by 1.0% and contributed approximately $37 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 global asset levels and the excess returns achieved by SCERS' investment program, SCERS has made a strong recovery since the Global Financial Crisis (GFC) in 2007-2009. Assets under management have climbed from a low of $4.4 billion at the beginning of the 2010-2011 fiscal year to $7.8 billion at the end of the current fiscal year, exceeding the prior peak set before the GFC of $6.0 billion.

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.

Market Overview

The market rally beginning in the 2012-2013 fiscal year, which was largely spurred by monetary easing across most developed nations, continued in the 2013-2014 fiscal year, with no significant risks materializing to derail the increase in asset prices. Valuations across asset classes continued to increase and were supported by positive changes in macroeconomic data globally, notwithstanding slow economic growth on an absolute basis. The rally was broad based and included the majority of assets globally including: Domestic equity (Russell 3000) up 25.2%; International equity (MSCI ex-ACWI) up 22.3%; Emerging markets equity (MSCI Emerging Markets) up 14.7%; Domestic fixed income (Barclays Aggregate) up 4.4%; Real estate (NFI-ODCE) up 12.7%; Hedge funds (HFRI Fund of Funds Composite) up 10.4%; and Commodities (Dow Jones Commodities TR) up 8.2%.

The Federal Reserve (Fed) managed several transitions during the year including successfully 'tapering' and exiting asset purchases of Mortgage Backed Securities and Treasuries and passing leadership to Janet Yellen. Accordingly, the ten year Treasury experienced some volatility but remained relatively in-line year-over-year at 2.5%, which is extremely low by historic standards. US inflation remained benign with the core Consumer Price Index, which strips out volatile food and energy prices, up 1.7% (and below the informal 2% target of the Fed). In Europe, the European Central Bank (ECB) cut rates and initiated a new plan aimed at lowering interest rates (particularly in the peripheral Euro Zone countries) and increasing lending and/or slowing the pace of banks' deleveraging. And, Japan continued implementation of its aggressive monetary stimulus to produce growth and stave off deflation.

As we enter the sixth fiscal year of recovery post the GFC, the developed nations' monetary policies appear to have successfully reflated assets to the degree that asset valuations now appear stretched in a number of areas. Higher valuations portend the possibility of lower long-term return expectations going forward, a scenario that is buttressed by a host of macroeconomic risks globally, that while currently dormant, could develop, gain momentum and dampen asset returns in the future.

While the majority of developed nations have successfully 'kicked the can down the road' by shifting debt to sovereign balance sheets, over the long-term significant potential risks remain including: (1) Developing a plan to solve significant fiscal imbalances and reduce high levels of debt; (2) Although Europe has created a 'safety net,' lower rates and an incentive for banks to increase lending, their efforts to provide greater liquidity remains unproven and Europe needs to generate higher sustained GDP growth; (3) Emerging markets such as China are slowing; (4) It is unclear whether there will be sustained growth in developed nations such as Japan apart from the unprecedented monetary stimulus; (5) The US is exiting monetary easing policies and is moving closer to an inflection point where interest rates may rise; and (6) Secularly slower GDP growth globally.

It is anticipated that this 'recipe' of high asset valuations, slow growth and the ongoing debate on the issues outlined above will likely produce greater volatility in asset prices and potentially lower asset returns going forward, compared to the prior five fiscal years.

Asset Allocation

SCERS' investment program is structured around a strategic asset allocation model established by the Board with the assistance of SCERS' investment staff, general investment consultant SIS, alternative assets consultant Cliffwater LLC (Cliffwater), and real estate consultant The Townsend Group (Townsend). The intent of the asset allocation model is to ensure the diversification of investments in a manner that achieves the desired rate of investment return with an acceptable level of investment risk. To achieve this, the asset allocation is broadly diversified between asset classes and within asset classes to provide consistent long term performance. The asset allocation targets are not tactical, but rather, are long term in nature, consistent with the long term nature of SCERS' benefit obligations. The asset allocation model is typically reviewed every three to five years, but the long term capital market assumptions for the various asset classes and sub-asset classes are reviewed and adjusted as appropriate each year. Research has shown that the asset allocation mix is the largest driver of investment performance.

SCERS' current asset allocation model was established pursuant to an asset allocation study conducted in the 2011-2012 fiscal year. A significant focus of that study was on reducing risk by increasing diversification for 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). 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.

SCERS' current asset allocation model is presented in the table below.

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

The process of transitioning SCERS' portfolio to the current target asset allocation began during the 2011-2012 fiscal year and has continued through the fiscal year just ended. It is anticipated that it will require a few years to reach the target allocation levels in certain of the alternative asset classes.

Investment Portfolio Implementation

In addition to providing assistance to the Board in establishing the asset allocation model, SCERS' investment staff and consultants assist in developing investment policy statements; conduct searches for and recommend the selection of investment managers; monitor investment manager performance and compliance; advise on developments in the investment markets; and analyze and develop recommendations for possible tactical adjustments and new investment initiatives.

SCERS utilizes external investment managers to invest the System's assets. As of June 30, 2014, SCERS' assets were invested across nineteen 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; ten hedge fund partnerships; two commodity fund partnerships; four 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 portfolio overlay program.

Portfolio activity during the fiscal year included the following:

- In Domestic Equity, an engagement with a small cap growth equity manager was terminated. A new manager for the mandate will be selected in the 2014-2015 fiscal year.

- In International Equity, SCERS added two emerging markets small cap managers to the sub-asset allocation mix and manager structure.

- In Fixed Income, SCERS engaged an investment manager to manage a customized separate account strategic credit mandate. SCERS also terminated a core plus bond engagement and engaged a new manager for the mandate.

- In Hedge Funds, SCERS continued to take steps to lower risk, enhance returns and lower the costs by building out the direct investment platform. This was accomplished in part by transforming a prior fund-of-funds relationship into a strategic investment partnership to manage a second diversified separate account, one that provides greater liquidity within the structure so that it can be drawn down to fund direct hedge fund engagements over the next three years. SCERS also established two direct hedge fund engagements in the 2013-2014 fiscal year.

- In Real Assets, SCERS conducted some re-balancing in the core real estate sub-asset class by disposing of assets in the separate account portfolios and investing in three domestic core and core plus real estate open-end funds and one international core plus real estate open-end fund. In the private real assets sub-asset class, SCERS continued to build its portfolio by establishing a strategic investment partnership to manage a customized separate account to invest in infrastructure and energy secondary interests. SCERS also established two direct energy infrastructure engagements.

- In Private Equity, SCERS continued implementation of the direct private equity investment platform, making seven fund commitments during the fiscal year.

- In the Opportunities asset class, SCERS made three fund commitments, with allocations drawn from the Real Assets asset class.

As previously noted, due to the longer investment period for private market commitments, the importance of maintaining vintage year diversification, and only investing with top tier managers, it will take several years for target allocation levels to be reached in the Private Equity and Real Assets asset classes.

SCERS' custodial bank is State Street California, Inc (State Street). In addition to asset custody services (including performance measurement), State Street provides securities lending services to SCERS and, through State Street Global Markets, administers a portfolio overlay program and a brokerage commission recapture program. The portfolio overlay program assures that SCERS' portfolio remains consistent with the asset allocation model through cost-effective re-balancing, use of investment proxies to close gaps relative to target allocation levels, and to eliminate 'cash drag.' For the fiscal year ended June 30, 2014, SCERS earned a net income of $1.3 million from securities lending and received commission recapture income of $0.16 million. SCERS does not use directed-brokerage or soft-dollar commissions to purchase any services.

SCERS' primary legal services regarding the investment program are provided by specialized outside legal counsel and fiduciary counsel.

During the fiscal year, investment educational sessions were provided to the Board by SCERS' staff, investment consultants and various investment managers to assist the Board in making decisions regarding new asset classes and possible new investment mandates. The educational sessions included presentations regarding: (1) Real estate development projects; (2) Private equity investing;

(3) Investment opportunities in real estate; (4) Emerging markets small cap equity investing; (5) Secondary investments in infrastructure and energy; (6) Opportunistic credits strategies; and (7) Investing in derivatives.

SCERS Investment Objectives

SCERS' investment objectives are set forth in the Board's Investment Policy and Objectives Statement (Investment Policy) and through customized investment policy statements for each asset class.

At the highest level, 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 7.5% 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, recognizing that those circumstances may change over time.

Diversify the Assets:

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

Create Reasonable Pension Investments Relative to Other Pension Funds:

SCERS' investment program must operate in compliance with all applicable State and Federal laws and regulations concerning the investment of pension assets. SCERS assessed its selection of investment vehicles and strategies relative to other private and public pension funds, with special emphasis on comparisons with public 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.

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, 2014, a majority of 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 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' general investment consultant SIS prepared the investment returns cited in this section using information it received from SCERS' custodian bank and investment managers.

SCERS' investment performance for the fiscal year ended June 30, 2014 was strong, reflecting positive performance across all of SCERS' major asset classes. Domestic and developed international equity led performance during the fiscal year. Due to significant macroeconomic factors, fixed income posted the lowest positive gains. For the period, SCERS' total fund return was 16.6%, gross of investment management fees and 16.1%, net of investment management fees. The gross return for the fiscal year was 1.0% above SCERS' policy weighted benchmark return of 15.6%, and was considerably above the actuarial return objective of 7.5%. Over the trailing five-year period, SCERS' annualized investment returns were 13.0% gross and 12.7% net. This five-year annualized return was above the actuarial return objective of 7.5% and SCERS' policy benchmark return of 12.5%.

SCERS also assesses its investment performance relative to 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 was 16.4%. SCERS ranked at the 50th percentile.

Domestic Equity is SCERS' largest investment asset class. For the fiscal year, SCERS' total domestic equity return was 24.1%, gross of fees. The return was below the benchmark Russell 3000 Index return of 25.2%, by 1.1%. For the three-year period, SCERS' domestic equity annualized return was 15.7%, gross of fees, compared to the Russell 3000 Index benchmark return of 16.5%. In the domestic equity segment of the InvestorForce Universe, SCERS ranked at the 74th percentile for one year and at the 60th percentile for three years.

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 24.7% return, gross of fees, which was 0.7% below the return of the Russell 1000 Index benchmark. The annualized investment return for large cap equity for three years was 16.3%, gross of fees, which was below the benchmark return of 16.6%. The one-year return for small cap equity investments was 23.5%, gross of fees. This return was slightly below the benchmark Russell 2000 Index return of 23.6%. For the three-year period, the small cap equity annualized return was 14.2%, gross of fees, which was 0.4% below the benchmark return of 14.6%.

International Equity returned 21.3% for the fiscal year, gross of fees. This was 1.0% below the benchmark MSCI ACWI ex-U.S. Index return of 22.3%. Annualized performance for the three-year period of 6.3%, gross of fees, was slightly above the benchmark return of 6.2%. In the international equity segment of the InvestorForce Universe, SCERS ranked at the 61st percentile for one year and at the 70th 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 23.2%, gross of fees, which was 0.9% below the benchmark MSCI EAFE Net Dividend Index return of 24.1%. Over the trailing three-year period, the established market annualized return was 8.1%, gross of fees, compared to a MSCI EAFE Net Dividend Index return of 8.6%. For the fiscal year, the emerging markets gross of fees return of 14.4% was below the return of the benchmark MSCI Emerging Markets Free Index return of 14.7%. For the three-year period, SCERS' annualized return of -2.3%, gross of fees, came in below the benchmark return of -0.1%, by 2.2%.

SCERS' Fixed Income investments had a fiscal year 6.3% return, gross of fees, which was 1.7% above the custom benchmark (comprised of 75% Barclays Aggregate Index / 12% Citigroup WGBI Index / 5% BofA Merrill Lynch US HY Master II Index / 5% Credit Suisse Leveraged Loans Index / 3% JP Morgan GBI EM Diversified Index) return of 4.6%. For the three-year period, the fixed income asset class annualized return was 5.1%, gross of fees, compared to the benchmark return of 3.7%. In the fixed income segment of the InvestorForce Universe, SCERS' Fixed Income return ranked in the 50th percentile for one year and at the 52nd percentile for three years.

SCERS' Hedge Fund investments had a fiscal year 10.4% return, gross of fees. For the three-year period, the hedge fund asset class annualized return was 6.8%. The performance objective for the hedge fund investments is the T-Bill plus five percent, which returned 5.0%. Another comparison measure is the HFRI Fund of Funds Composite Index, which returned 7.6% for the fiscal year. In the hedge fund segment of the InvestorForce Universe, SCERS' Hedge Fund return ranked in the 53rd percentile for one year and at the 29th percentile for three years.

The Real Assets asset class had a fiscal year 12.2% return, gross of fees, which was 5.1% above the benchmark CPI-U Headline Inflation Index + 5% return of 7.1%. For the three-year period, the real assets asset class annualized return was 4.2%.

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 separate accounts produced an 11.0% return, gross of fees, which was 1.7% below the benchmark return of 12.7%. SCERS' core open-ended funds achieved an 11.1% gross return compared to the benchmark return of 12.7%. SCERS' commodities funds were up 10.7%, which was 2.5% above the benchmark. During the fiscal year, SCERS did not have any allocations to TIPS and the performance of the private real assets is not yet meaningful.

The Private Equity investments had a return of 20.9%, gross of fees, for the fiscal year compared to the 25.4% 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 13th percentile for one year and at the 32nd 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 collectively achieved an 11.8% gross return, which was 3.8% below the 15.6% benchmark return.

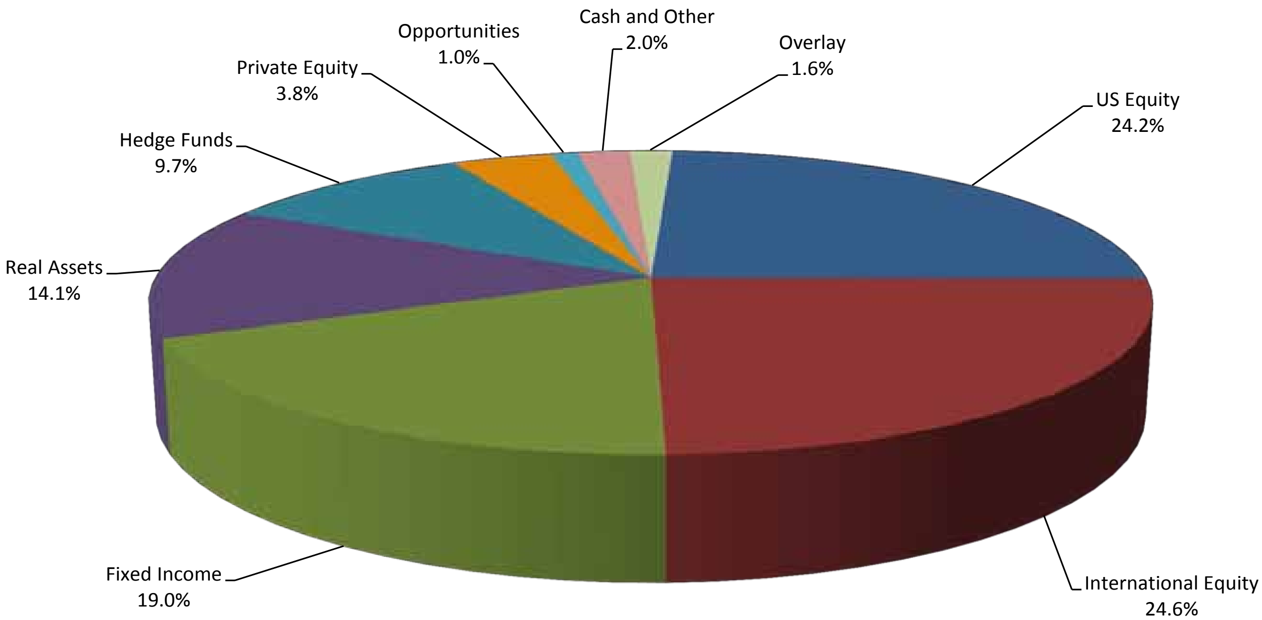
Additional information regarding SCERS' investment program can be found on the pages immediately following this Report.

Respectfully submitted,

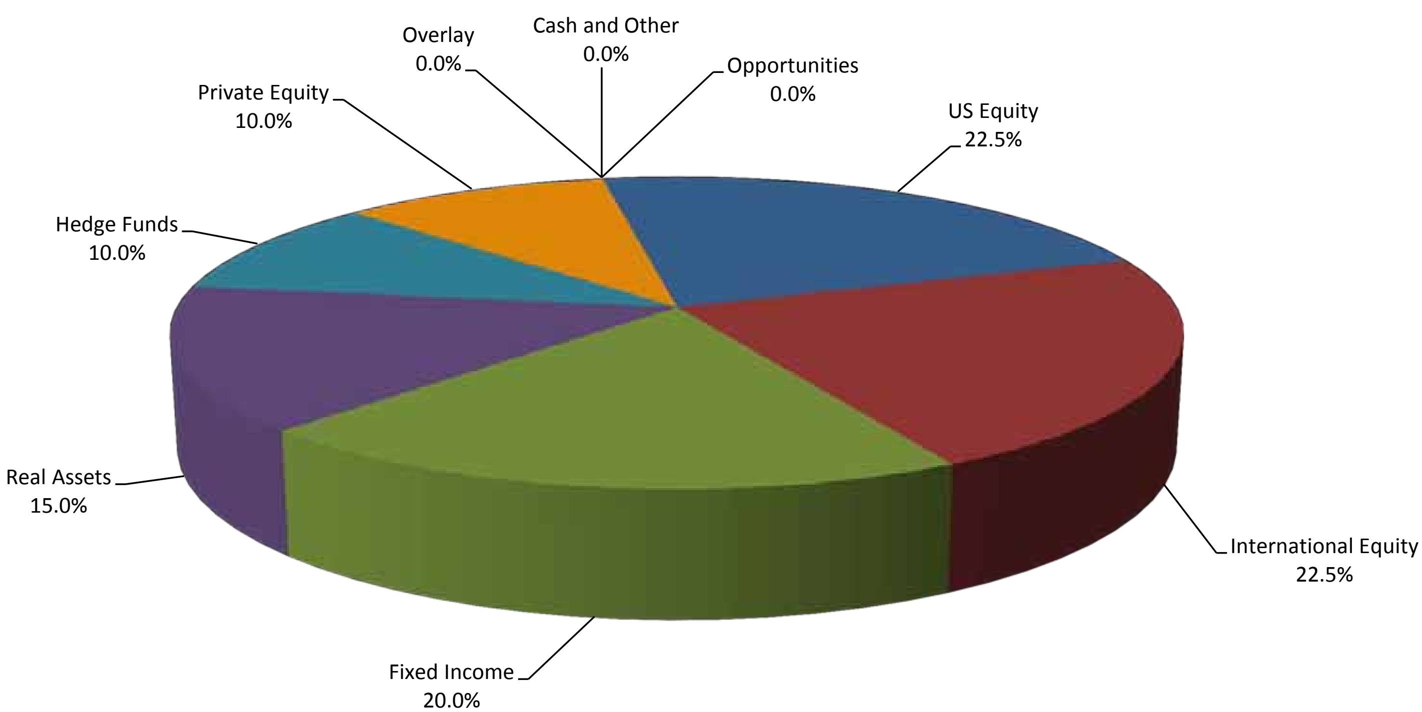
Scott Chan
Chief Investment Officer

Asset Allocation

SCERS' Asset Allocation as of June 30, 2014



Target Asset Allocation



The 2014 Actual Asset Allocation is based upon the Investment Summary adjusted to net out $143.4 million in leverage.

Investment Results

	For the Period Ended June 30, 2014		
		Annualized	
	1 Year	3 Years	5 Years
Domestic Equity			
Total Domestic Equity	24.1 %	15.7 %	19.4 %
IFx All DB US Eq Gross Median	25.0	16.0	19.3
Benchmark: Russell 3000 Index	25.2	16.5	19.3
International Equity			
Total International Equity	21.3	6.3	11.6
IFx All DB ex-US Eq Gross Median	22.0	7.2	12.2
Benchmark: MSCI ACWI ex-US Index	22.3	6.2	11.6
Fixed Income			
Total Fixed Income	6.3	5.1	7.9
IFx All DB Total Fix Inc Gross Median	6.2	5.2	7.1
Benchmark: Custom*	4.6	3.7	4.9
Hedge Funds			
Total Hedge Funds	10.4	6.8	7.4
IFx All DB Hedge Funds Gross Median	10.5	6.1	7.3
Benchmark: 91 day Treasury Bill + 5%	5.0	5.1	5.1
HFRI Fund of Funds Composite Index	7.6	3.3	4.2
Private Equity			
Total Private Equity**	20.9	11.6	9.2
IFx All DB Private Equity Net Median	13.0	9.3	12.0
Benchmark: Russell 1000 + 3% 1 Quarter Lag	25.4	17.8	23.9
Thomson Reuters C/A All PE 1 Quarter Lag	20.1	14.2	17.2
Real Assets			
Total Real Assets	12.2	4.2	9.0
Benchmark: CPI-U Headline + 5%	7.1	N/A	N/A
Opportunities			
Total Opportunities	11.8	13.1	18.7
Benchmark: Policy Index	15.6	12.9	10.3
Total Fund			
SCERS Total Fund-Gross	16.6	9.9	13.0
SCERS Total Fund-Net	16.1	9.5	12.7
IFx Public DB > $1B Gross Median	16.4	9.6	12.7
Benchmark: Asset Allocation Weightings***	15.6 %	9.5 %	12.5 %

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.

* The Benchmark consists of 75% Barclays Aggregate, 12% Citi WGBI, 5% BofA Merril Lynch US HY Master II, 5% Credit Suisse Leveraged Loans and 3% JPMorgan GBI EM Diversified.

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

*** The Benchmark consists of 22.5% Russell 3000, 22.5% MSCI ACWI ex U.S., 20% Fixed Income Custom, 10% T-Bill plus 5%, 10% Russell 1000 plus 3% and 15% CPI-U Headline plus 5%. From 1/1/2012 to 12/31/13, the Benchmark consisted of 22.5% Russell 3000, 22.5% ACWI ex U.S., 20% Barclays Aggregate, 10% T-Bill plus 5%, 10% Russell 1000 plus 3% 1Q Lag and 15% CPI-U Headline plus 5%.

Summary of Investment Assets

As of June 30, 2014

(Dollar Amounts Expressed in Thousands)

Equity	Fair Value	Percentage of Total Cash & Investments
Domestic		
AllianceBernstein L.P. - Large Cap Core Index	$1,025,169	12.69%
Brown Advisory - Large Cap Growth	103,064	1.28
CenterSquare Investment Management - U.S. REITS	91,662	1.13
Dalton, Greiner, Hartman, Maher - Small Cap Value	69,778	0.86
Eagle Capital - Large Cap Core	234,782	2.91
Huber Capital Management - Large Cap Value	116,020	1.44
JP Morgan Asset Management - Equity Active Extension (130/30)	112,276	1.39
M.A. Weatherbie - Small Cap Growth	70,388	0.87
Wedge Capital Management - Small Cap Value	70,523	0.87
Total Domestic Equity	1,893,662	
International		
Baring Asset Management - International Developed Growth	417,699	5.17
Capital International - Emerging Markets Growth Fund	284,374	3.52
CBRE Clarion Securities - International REITS	80,008	0.99
Lazard Asset Management - ACWI ex-US	421,994	5.22
LSV Asset Management - International Developed Value	472,696	5.85
Mondrian Emerging Markets Small Cap Equity Fund, L.P.	26,787	0.33
Mondrian Investment Partners - International Developed Small Cap Value	89,703	1.11
William Blair Emerging Markets Small Cap Growth Collective Investment Fund	25,461	0.32
William Blair - International Developed Small Cap Growth	102,609	1.27
Total International Equity	1,921,331	
Hedge Funds		
AQR Delta Fund II, L.P.	40,408	0.50
BlueCrest International LImited, L.P.	30,698	0.38
Brevan Howard Master Fund Limited, L.P.	34,310	0.42
Claren Road Credit Partners, L.P.	33,138	0.41
Elliott Associates, L.P.	17,997	0.22
Grosvenor Capital Management	537	0.01
Jana Partners Qualified, L.P.	40,177	0.50
Lakewood Capital Partners, L.P.	34,046	0.42
Laurion Capital Management, L.P.	34,466	0.43
Och-Ziff Domestic Partners II, L.P.	39,338	0.49
SC Absolute Return Fund, LLC	252,164	3.12
SC Absolute Return Fund, LLC Series B	168,101	2.08
Third Point Partners Qualified, L.P.	34,489	0.43
Total Hedge Funds	759,869	
Private Equity		
Abbott Capital Private Equity Fund VI, L.P.	42,652	0.53
Accel-KKR Capital Partners IV, L.P.	1,725	0.02
Garrison Opportunities Fund III, L.P.	23,780	0.29
H.I.G. Bayside Loan Opportunity Fund III (Europe)	9,383	0.12
H.I.G. Capital Partners V, L.P.	533	0.01

(Dollar Amounts Expressed in Thousands)

Equity	Fair Value	Percentage of Total Cash & Investments
Private Equity (continued)		
H.I.G. Europe Capital Partners II, L.P.	214	0.00
HarbourVest Partners International PEP VI, L.P.	21,767	0.27
HarbourVest Partners VIII, L.P.	41,238	0.51
Khosla Ventures IV Fund, L.P.	7,439	0.09
Marlin Equity IV, L.P.	2,199	0.03
New Enterprise Associates 14, L.P.	13,941	0.17
Private Equity Partners X, L.P.	58,854	0.73
RRJ Capital Master Fund II, L.P.	16,338	0.20
Summit Partners Credit Fund, L.P.	17,370	0.22
Summit Partners Venture Capital Fund III, L.P.	10,295	0.13
Thoma Bravo Fund XI, L.P.	942	0.01
TPG Opportunities Partners III, L.P.	2,495	0.03
Trinity Ventures XI, L.P.	5,259	0.07
Waterland Private Equity Fund V, L.P.	13,335	0.17
Wayzata Opportunities Fund III, L.P.	3,203	0.04
Total Private Equity	292,962	
Total Equities	4,867,824	
Fixed Income		
Domestic		
Metwest Asset Management	413,047	5.11
Neuberger Berman	374,858	4.64
SC Credit Opportunities Mandate, LLC (Brigade)	153,601	1.90
Transition Account	352,184	4.36
Total Domestic Fixed Income	1,293,690	
International		
Brandywine Global Investment Management, LLC	213,647	2.64
Metwest Asset Management	14,679	0.18
Neuberger Berman	20,855	0.26
Fixed Income Transition Account	43,747	0.54
Total International Fixed Income	292,928	
Total Fixed Income	1,586,618	
Real Assets		
BlackRock Realty Advisors - Separate Account	355,400	4.40
Blackstone Resources Select Offshore Fund	64,617	0.80
Cornerstone Patriot Fund	88,672	1.10
Cornerstone Realty - Separate Account	196,700	2.43
EnCap Energy Capital Fund IX, L.P.	8,698	0.11
Gresham Strategic Commodities Fund	40,668	0.50
Jamestown Premier Property Fund, L.P.	16,000	0.20

Summary of Investment Assets (Continued)
(Dollar Amounts Expressed in Thousands)

Real Assets	Fair Value	Percentage of Total Cash & Investments
Real Assets (continued)		
Metlife Core Property Fund, L.P.	38,072	0.47
Prime Property Fund, LLC	37,936	0.47
State Street Global Advisors - Real Asset Strategy (overlay proxy)	397,998	4.93
Total Real Assets	1,244,761	
Opportunities		
AEW Value Investors II, L.P.	10,504	0.13
Allegis Value Trust	25,538	0.32
Atalaya Special Opportunities Fund V, L.P.	9,584	0.12
European Real Estate Debt Fund II, L.P.	9,733	0.12
Hines US Office Value Fund II, L.P.	9,781	0.12
KKR Real Estate Partners Americas, L.P.	11,150	0.14
Total Opportunities	76,290	
Overlay		
State Street Global Advisors	117,225	1.45
Total Overlay	117,225	
Total Investments at Fair Value	**7,892,718**	
Cash		
Cash (Unallocated)	163,411	2.02
Other Cash & Cash Equivalents	21,902	0.27
Total Cash	185,313	
Total Cash & Investments	**8,078,031**	**100.00%**
Other Assets		
Other Assets	2,739	
Receivables	112,169	
Securities Lending Collateral	313,536	
Total Other Assets	428,444	
Total Assets	**8,506,475**	
Liabilities		
Warrants Payable	1,197	
Accounts Payable	39,347	
Mortgages Payable	143,432	
Investment Purchased Payable	198,962	
Securities Lending Liability	313,536	
Total Liabilities	696,474	
Net Position Restricted for Pension Benefits	**$7,810,001**	

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, 2014

Rank	Shares	Security Name	Fair Value (in thousands)
1	809,016	Microsoft Corp.	$33,736
2	345,190	Apple Inc.	32,079
3	238,610	Berkshire Hathaway Inc.	30,198
4	251,670	Exxon Mobil Corp.	25,338
5	555,493	Oracle Corp.	22,514
6	464,361	Citigroup Inc.	21,871
7	320,700	Kddi Corp.	19,561
8	444,814	Coca Cola Company	18,842
9	231,155	Shire PLC	18,062
10	770,802	Prudential PLC	17,674
Total of Ten Largest Stock Holdings			**$239,875**

A complete list of the stock holdings is available.

Ten Largest Bond Holdings (by Fair Value)

As of June 30, 2014

Rank	Par	Security Name	Interest Rate	Maturity	Fair Value (in thousands)
1	54,335,000	United States Treasury N/B	2.50%	5/15/2024	$54,258
2	35,478,000	United States Treasury N/B	1.50%	5/31/2019	35,301
3	35,260,000	United States Treasury N/B	1.63%	6/30/2019	35,260
4	25,000,000	United States Treasury N/B	0.25%	2/28/2015	25,026
5	19,057,000	United States Treasury N/B	3.63%	2/15/2044	20,111
6	17,438,000	FNMA TBS Jul 30YR Single Family	4.00%	12/1/2099	18,506
7	15,140,000	FNMA TBA	3.00%	12/1/2099	14,957
8	10,250,000	United States Treasury N/B	2.00%	5/31/2021	10,173
9	9,390,000	FNMA TBA 30YR Single Family Jul	3.50%	12/1/2099	9,666
10	7,944,017	FNMA Pool AI1190	4.50%	4/1/2041	8,684
Total of Ten Largest Bond Holdings					**$231,942**

A complete list of the bond holdings is available.

Schedule of Manager Fees

For the Year Ended June 30, 2014
(Dollar Amounts Expressed in Thousands)

Domestic Equity	
Alliance Bernstein L.P.	$207
Brown Advisory	190
CenterSquare Investment Management	501
Dalton, Greiner, Hartman, Maher & Co., LLC	412
Eagle Capital Management	1,646
Huber Capital Management	785
JP Morgan Asset Management	737
M.A. Weatherbie & Co., Inc.	627
Turner Investment Partners	295
Wedge Capital Management, LLP	660
Total Domestic Equity	6,060
International Equity	
Baring Asset Management	1,893
Capital International, Inc	1,836
CBRE Clarion Securities	190
Lazard Asset Management	1,169
LSV Asset Management	1,872
Mondrian Emerging Markets Small Cap Equity Fund, L.P.	142
Mondrian Investment Partners	603
William Blair & Co.	898
William Blair Emerging Markets Small Cap Growth Collective Investment Fund	142
Total International Equity	8,745
Hedge Funds	
AQR Delta Fund II, L.P.	469
BlueCrest International Limited, L.P.	613
Brevan Howard Master Fund Limited, L.P.	230
Claren Road Credit Partners, L.P.	752
Elliott Associates, L.P.	236
Jana Partners Qualified, L.P.	2,038
Lakewood Capital Partners, L.P.	363
Laurion Capital Management, L.P.	234
Och-Ziff Domestic Partners II, L.P.	1,764
SC Absolute Return Fund, LLC	1,808
SC Absolute Return Fund, LLC - Series B	959
Third Point Partners Qualified, L.P.	655
Total Hedge Funds	10,121
Private Equity	
Abbott Capital Private Equity Fund VI, L.P.	663
Accel-KKR Capital Partners IV, L.P.	324
Garrison Opportunities Fund III, L.P.	1,093
H.I.G. Bayside Loan Opportunity Fund III (Europe)	600
HarbourVest Partners International PEP VI, L.P.	438
HarbourVest Partners VIII, L.P.	500
Khosla Ventures IV Fund, L.P.	73

(Dollar Amounts Expressed in Thousands)

Private Equity (cont.)	
Marlin Equity IV, L.P.	191
New Enterprise Associates 14, L.P.	259
Private Equity X, L.P.	561
RRJ Capital Master Fund II, L.P.	657
Summit Partners Credit Fund, L.P.	(12)
Thoma Bravo Fund XI, L.P.	1
TPG Opportunities Partners III, L.P.	345
Trinity Ventures XI, L.P.	470
Waterland Private Equity Fund V, L.P.	436
Wayzata Opportunities Fund III, L.P.	450
Total Private Equity	7,049
Fixed Income	
Bradford & Marzec Global Fixed Income Management	865
Brandywine Global Investment Management, LLC	787
Metropolitan West Asset Management	585
Neuberger Berman Fixed Income, LLC	212
SC Credit Opportunities Mandate, LLC (Brigade)	645
Total Fixed Income	3,094
Real Assets	
BlackRock Realty Advisors - Separate Account	2,735
Blackstone Resources Select Offshore Fund	596
Cornerstone Patriot Fund	752
Cornerstone Realty - Separate Account	904
EnCap Energy Capital Fund IX, L.P.	495
Jamestown Premier Property Fund, L.P.	261
MetLife Core Property Fund, L.P.	89
Prime Property Fund, LLC	282
State Street Global Advisors - Real Asset Strategy	794
Strategic Commodities Fund	267
Total Real Assets	7,175
Opportunities	
AEW Value Investors II, L.P.	146
Allegis Value Trust	144
Atalaya Special Opportunities Fund V, L.P.	337
Europe Real Estate Debt Fund II, L.P.	964
Hines U.S. Office Value Fund II, L.P.	258
KKR Real Estate Partners Americas, L.P.	25
Total Opportunities	1,874
Overlay	
State Street Global Advisors	568
Total Overlay	568
Total Manager Fees	**$44,686**

Investment Professionals

As of June 30, 2014

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.
Wedge Capital Management, LLP

Equity - International
Baring Asset Management
Capital International, Inc.
CBRE Clarion Securities
Lazard Asset Management
LSV Asset Management
Mondrian Emerging Markets Small Cap Equity Fund, L.P.
Mondrian Investment Partners
William Blair & Co.
William Blair Emerging Markets Small Cap Growth Fund

Fixed Income
Brandywine Global Investment Management, LLC
Metropolitan West Asset Management
Neuberger Berman Fixed Income, LLC
SC Credit Opportunities Mandate, LLC

Hedge Funds
AQR Delta Fund II, L.P.
BlueCrest International Limited, L.P.
Brevan Howard Master Fund Limited, 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.
Laurion Capital Management, 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.
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.
Private Equity Partners X, L.P.
RRJ Capital master Fund II, L.P.
Summit Partners Credit Fund, L.P.
Summit Partners Venture Capital Fund III, L.P.
Thoma Bravo Fund XI, L.P.
TPG Opportunities Partners III, L.P.
Trinity Ventures XI, L.P.
Waterland Private Equity Fund V, L.P.
Wayzata Opportunities Fund III, L.P.

Opportunities
AEW Value Investors II, L.P.
Allegis Value Trust
Atalaya Special Opportunities Fund V, L.P.
European Real Estate Debt Fund II, L.P.
Hines US Office Value Fund II, L.P.
KKR Real Estate Partners Americas, L.P.

Real Assets
BlackRock Realty Advisors - Separate Account
Blackstone Resources Select Offshore Fund
Cornerstone Realty - Separate Account
Cornerstone Patriot Fund
EnCap Energy Capital Fund IX, L.P.
Jamestown Premier Property Fund, L.P.
MetLife Core Property Fund, LLC
Prime Property Fund, LLC
State Street Global Advisors - Real Asset Strategy
Strategic Commodities Fund

Strategic Cash Overlay
State Street Global Advisors

Investment Consultants
Cliffwater, LLC
Strategic Investment Solutions
The Townsend Group

Proxy Advisor
Glass Lewis & Co.
Institutional Shareholder Service

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

Schedule of Equity Brokerage Commissions

For the Year Ended June 30, 2014

Brokerage Firm	Commission Per Share	Shares/Par Value	Total Commission	Total of Commission
Instinet U.K. Ltd.	$0.0216	4,357,991	$94,214	5.75%
Hsbc Bankplc	0.0108	7,922,490	85,509	5.22
Capital Institutional Svcs Inc Equities	0.0430	1,441,378	61,961	3.78
J.P. Morgan Clearing Corp.	0.0081	6,605,175	53,631	3.27
Ubs Ag.	0.0080	6,578,345	52,694	3.22
Deutsche Bank Securities Inc.	0.0085	5,990,021	50,950	3.11
Liquidnet Inc.	0.0266	1,735,486	46,188	2.82
Citigroupglobal Markets Limited	0.0042	10,612,769	44,322	2.71
Jp Morgansecurities Plc.	0.0207	2,101,148	43,494	2.66
Barclays Capital	0.0101	4,112,819	41,638	2.54
Credit Suisse Securities (USA), LLC	0.0063	6,052,289	38,300	2.34
Morgan Stanley Co. Incorporated	0.0122	3,034,926	37,100	2.26
Goldman Sachs International	0.0091	3,806,786	34,762	2.12
Investment Technology Group Inc.	0.0355	962,204	34,127	2.08
Themis Trading, LLC	0.0396	859,668	34,047	2.08
Merrill Lynch International	0.0034	9,347,626	31,816	1.94
Ubs Securities Asia Ltd.	0.0028	11,384,516	31,740	1.94
Ubs Securities, LLC	0.0175	1,631,417	28,536	1.74
Convergexexecution Solutions, LLC	0.0456	503,315	22,948	1.40
Goldman Sachs + Co.	0.0067	3,219,627	21,701	1.32
State Street Global Markets	0.0100	2,022,312	20,236	1.24
Rbc Capital Markets	0.0275	690,107	18,978	1.16
Fidelity Capital Markets	0.0050	3,564,407	17,829	1.09
Barclays Capital Le	0.0302	575,447	17,391	1.06
Citigroupglobal Markets Inc.	0.0036	4,798,434	17,342	1.06
Bloombergtradebook, LLC	0.0199	846,643	16,856	1.03
Citigroupglobal Markets Inc.	0.0195	862,320	16,795	1.03
All Other Brokerage Firms*	0.0105	59,495,209	622,947	38.03
Total Brokerage Commissions	$0.0099	165,114,875	$1,638,052	100.00%
Brokerage Commission Recapture			(137,700)	
Net Brokerage Commissions			**$1,500,352**	

*All other brokerage firms is comprised of approximately 230 additional firms, each receiving less than 1% of total commissions. A complete list of brokerage fees is available.

ACTUARIAL

Segal Consulting

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December 1, 2014

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, 2014 annual 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 and SCERS' funding policy that was last reviewed with the Board in 2013. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters set by Actuarial Standards of Practice (ASOPs).

As part of the June 30, 2014 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 six years. Deferred gains and losses as of June 30, 2013 have been combined and will be recognized over a six-year period starting July 1, 2013. Investment gains/losses established after July 1, 2013 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 (21 years as of June 30, 2014). 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 (4 years as of June 30, 2014) 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, 2014 is illustrated in the Schedule of Funding Progress.

Notes number 1, 4 and 5 to the Basic Financial Statements and the Required Supplemental Information (RSI) included in the Financial Section were prepared by the System based on the results of the Governmental Accounting Standards Board Statement 67 (GASBS 67) actuarial valuation as of June 30, 2014 prepared by Segal. For the Financial Section of the Comprehensive Annual Financial Report, Segal provided the Schedule of Changes in Net Pension Liability and Schedule of Employer Contributions as shown in the RSI. A listing of the other supporting schedules Segal prepared for inclusion in the Actuarial and Statistical Sections of the System's CAFR is provided below. These schedules were prepared based on the results of the actuarial valuation as of June 30, 2014 for funding purposes.

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, 2013 Experience Analysis and the June 30, 2014 Review of Economic Assumptions. It is our opinion that the assumptions used in the June 30, 2014 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, 2016 and assumptions approved in that analysis will be applied in the June 30, 2017 valuation.

In the June 30, 2014 valuation, the ratio of the valuation assets to actuarial accrued liabilities increased from 82.8% to 85.2%. The employer's rate has decreased from 27.40% of payroll to 24.37% of payroll, while the employee's rate has increased from 6.39% of payroll to 7.79% of payroll. (27.40% and 6.39% are the employer's and employee's rates, respectively, before the adjustment to reflect most County members in the legacy tiers agreeing to pick up an additional

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portion of the total Normal Cost in 2014/2015. The rates are 26.64% and 7.17%, respectively, after the adjustment.)

In the June 30, 2014 valuation, the actuarial value of assets included $497.0 million in deferred investment gains, which represented about 6% of the market value of assets. If these deferred investment gains were recognized immediately in the actuarial value of assets, the funded percentage would increase from 85.2% to 91.0% and the aggregate employer contribution rate, expressed as a percent of payroll, would decrease from 24.4% to 20.3%.

The undersigned are Members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

Paul Angelo

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

Andy Yeung

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

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Enclosures

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GASB Statement No. 67 rules only redefine pension liability and expense for financial reporting purposes, and do not apply to contribution amounts for pension funding purposes. Employers and plans can still develop and adopt funding policies under current practices. SCERS' Board of Retirement and management staff are responsible for establishing and maintaining the System's funding policy. When measuring pension liability GASB uses the same actuarial cost method (Entry Age method) and the same type of discount rate (expected return on assets) as SCERS uses for funding. This means that Normal Cost component of the annual plan cost is determined on the same basis for funding and financial reporting.

The following assumptions and methods have been adopted by the Board for the June 30, 2014 valuation on November 5, 2014.

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 projected with Scale BB to 2022 For Safety Members - RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2022 set back one year for males and set forward two years for females
b) Disability	For Miscellaneous Members - RP-2000 Disabled Retiree Mortality Table projected with Scale BB to 2022 with no age adjustment for males and set forward three years for females For Safety Members - RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2022 set forward two years
c) Employee Contribution Rate	For Miscellaneous Members - RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2022 weighted 40% male and 60% female For Safety Members - RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2022 set back one year for males and set forward two years for females weighted 70% male and 30% female
Pre-Retirement Mortality:	Based upon the 6/30/2013 Experience Analysis
Withdrawal Rates:	Based upon the 6/30/2013 Experience Analysis
Disability Rates:	Based upon the 6/30/2013 Experience Analysis
Service Retirement Rates:	Based upon the 6/30/2013 Experience Analysis

Salary Increases:	Merit and longevity increases are based upon the 6/30/2013 Experience Analysis plus 3.25% inflation and across the board salary increases of 0.25% per year
Actuarial Value of Assets:	The market value of assets less unrecognized returns in each of the last six 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. Deferred gains and loses as of June 30, 2013 have been combined and will be recognized in equal amounts over a six-year period starting July 1, 2013.
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:	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 23 years as of June 30, 2012. 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. Any new UAAL as a result of changes in actuarial assumptions or methods will be amortized over a period of 20 years. 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.
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 - 40% Safety Members - 50%

Summary of Plan Provisions

Briefly summarized below are the major provisions of the County Employees' Retirement Law of 1937, as amended through June 30, 2014, 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.

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/ (decrease) in Average Pay*
6/30/2014	Miscellaneous	10,085	$679,079	$67.3	(0.15)%
	Safety	1,964	200,920	102.3	(0.01)
	Total	12,049	$879,999	$73.0	0.00%
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%
6/30/2007	Miscellaneous	12,327	$654,497	$53.1	4.16%
	Safety	2,389	177,987	74.5	4.53
	Total	14,716	$832,484	$56.6	4.18%
6/30/2006	Miscellaneous	12,052	$614,358	$51.0	2.34%
	Safety	2,360	168,214	71.3	7.88
	Total	14,412	$782,572	$54.3	3.24%
6/30/2005	Miscellaneous	11,378	$566,749	$49.8	0.72%
	Safety	2,350	155,265	66.1	0.08
	Total	13,728	$722,014	$52.6	0.70%

*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.

Retirees 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
6/30/2014	9,634	674	259	10,049	$355,765	$31,335	$6,746	7.42%	$35,403
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
6/30/2007	7,108	563	207	7,464	206,887	23,837	3,881	10.68	27,718
6/30/2006	6,784	509	185	7,108	186,931	18,698	3,212	9.03	26,299
6/30/2005	6,291	706	213	6,784	171,445	23,273	3,421	13.10	25,272

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)
6/30/2014	$7,312,993	$8,580,928	$1,267,935	85.2%	$879,999	144.1%
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
6/30/2007	5,406,461	5,788,336	381,875	93.4	832,484	45.9
6/30/2006	4,848,953	5,214,915	365,962	93.0	782,572	46.8
6/30/2005	4,530,583	4,860,882	330,299	93.2	722,015	45.7

*Includes contingency reserve and retiree death benefit reserves.

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

See Schedule 2: Schedule of Employer Contributions provided as Required Supplementary Information for actuarially determined and actual contributions.

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)
6/30/2014	$632,969	$4,939,239	$3,008,720	$8,580,928	$7,321,993	100%	100%	58%
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
6/30/2007	520,420	2,920,508	2,347,408	5,788,336	5,406,461	100	100	84
6/30/2006	509,257	2,615,466	2,090,192	5,214,915	4,848,953	100	100	82
6/30/2005	474,613	2,444,406	1,941,863	4,860,882	4,530,583	100	100	83

Events affecting year to year comparability:

6/30/05 - Inflation assumption decreased from 4.00% to 3.50%.

6/30/06 - Employee contribution crediting rate is equal to 5-year Treasury rate, assuming sufficient net earnings.

6/30/07 - Investment return assumption increased from 7.75% to 7.875%.
- Salary increase assumption increased from 5.45% to 5.65%.

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.

6/30/14 - Changes to post-retirement mortality rates and termination rates before retirement.
- Changes to retirement age and benefit for deferred vested members.
- Changes to annual rates of compensation increase.

* 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									
	2014	2013	2012	2011	2010*	2009	2008	2007	2006	2005
Prior Valuation Unfunded Actuarial Liability	$1,413	$1,308	$962	$874	$932	$433	$382	$366	$330	$314
Salary Increase Greater (Less) than Expected	(138)	(113)	(102)	(68)	(110)	42	55	68	12	(35)
Asset Return Less (Greater) than Expected	(38)	152	257	209	3	445	9	(93)	23	107
Plan Improvements	-	-	-	-	-	-	-	-	-	(2)
Other Experience	15	66	58	(31)	(59)	12	(13)	(15)	1	49
Economic and Non-Economic Assumption Changes	16	-	133	(22)	108	-	-	56	-	(103)
Ending Unfunded Actuarial Accrued Liability	$1,268	$1,413	$1,308	$962	$874	$932	$433	$382	$366	$330

* 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

	Miscellaneous		Safety	
Age	**Male**	**Female**	**Male**	**Female**
25	0.04%	0.02%	0.04%	0.02%
30	0.04	0.02	0.04	0.03
35	0.07	0.04	0.07	0.05
40	0.10	0.07	0.10	0.08
45	0.14	0.11	0.13	0.12
50	0.20	0.16	0.19	0.19
55	0.34	0.24	0.30	0.30
60	0.58	0.41	0.52	0.51
65	0.98	0.74	0.88	0.93

Note: All Miscellaneous pre-retirement deaths are assumed to be nonservice-connected. For Safety, 50% 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	0.16
35	0.05	0.26
40	0.08	0.45
45	0.16	0.61
50	0.26	0.80
55	0.36	1.26
60	0.52	2.10

(1) 25% of Miscellaneous disabilities are assumed to be service-connected disabilities. The other 75% 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.

Rate (%)		
Withdrawal (<5 Years of Service)		
Years of Service	Miscellaneous	Safety
0	13.00%	8.00%
1	8.00	6.00
2	7.00	5.00
3	6.00	4.00
4	5.50	3.00

Note: 75% of the Miscellaneous members and 50% of the Safety members are assumed to elect a withdrawal of contributions upon separation, while the remaining 25% and 50% 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.

Withdrawal (5+ Years of Service)		
Age	Miscellaneous	Safety
20	5.00%	2.50%
25	5.00	2.50
30	4.70	2.50
35	4.20	2.20
40	3.40	1.85
45	2.70	1.60
50	2.20	1.50
55	1.85	1.50
60	1.30	1.50
65	1.00	0.00

Note: 50% of the Miscellaneous members and 20% of the Safety members are assumed to elect a withdrawal of contributions upon separation, while the remaining 50% and 80% 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, 2014 for the following five objectives: financial trends; revenue capacity; debt capacity; demographic and economic; and operating.

Financial trends are presented on pages 113 to 117. 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 113, 115, and 116. The schedules contain information regarding the contribution rate history for the last ten years.

Demographic and economic information is presented on pages 118 to 122. 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 123 and 124. 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
2014	$57,635	$210,503	$1,107,152	$1,375,290
2013	68,242	189,664	785,449	1,043,355
2012	65,690	179,098	(3,414)	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	(234,086)	(14,889)
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

*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, 2005 through 2014

Schedule of Deductions by Type

(Dollar Amounts Expressed in Thousands)

	Benefits Paid						
Year Ended June 30:	Service*	Survivor Benefits	Retiree Death Benefits	Health and Dental Benefits	Administrative Expenses	Withdrawals	Total
2014	$341,756	$2,116	$1,018	$ -	$5,665	$2,729	$353,284
2013	317,308	2,225	1,295	-	5,719	2,739	329,286
2012	295,598	2,284	882	-	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

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

Source: Audited Financial Statements from June 30, 2005 through 2014

Schedule of Administrative Expenses

For the Last Ten Fiscal Years Ended June 30

(Dollar Amounts Expressed in Thousands)

Type of Expenses	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Salaries and Benefits	$3,300	$3,284	$3,530	$3,755	$3,215	$3,184	$3,130	$3,352	$2,718	$2,734
Professional Fees	786	857	1,146	1,137	719	842	942	629	808	440
Equipment Purchases and Maintenance	21	24	44	35	29	62	41	85	70	73
Rent and Lease Expense	460	432	458	444	576	603	571	648	612	596
Depreciation Expense	36	36	37	17	5	5	5	5	3	27
Other Administrative Expenses	1,062	1,086	1,073	1,183	1,364	1,284	1,177	1,099	850	1,392
Total	$5,665	$5,719	$6,288	$6,571	$5,908	$5,980	$5,866	$5,818	$5,061	$5,262

Source: Audited Financial Statements from June 30, 2005 through 2014

Schedule of Changes in Net Position

For the Last Ten Fiscal Years Ended June 30

(Dollar Amounts Expressed In Thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Employee contributions	$57,635	$68,242	$65,690	$57,151	$52,413	$54,623	$52,142	$42,871	$41,959	$36,916
Employer contributions	210,503	189,664	179,098	182,921	167,142	177,011	167,054	156,805	132,708	529,618
Net investment income/(loss)	1,107,152	785,449	(3,414)	1,206,775	617,481	(1,318,447)	(234,086)	891,506	527,863	419,481
Total additions	1,375,290	1,043,355	241,374	1,446,847	837,036	(1,086,813)	(14,890)	1,091,182	702,530	986,015
Benefits paid	344,890	320,828	298,764	276,161	253,092	232,376	214,891	195,997	178,362	162,511
Withdrawals	2,729	2,739	3,040	4,433	4,932	3,302	3,177	4,434	4,622	3,463
Administrative expenses	5,665	5,719	6,288	6,571	5,908	5,980	6,575	5,818	5,061	5,262
Total deductions	353,284	329,286	308,092	287,165	263,932	241,658	224,643	206,249	188,045	171,236
Change in net position	1,022,006	714,069	(66,718)	1,159,682	573,104	(1,328,471)	(239,533)	884,933	514,485	814,779
Net position, beginning	$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
Net position, ending	$7,810,001	$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

Source: Audited Financial Statements from June 30, 2005 through 2014

Schedule of Employer Contribution Rates

Actuarial Valuation for Year Ended	COUNTY*									COURT				SPECIAL DISTRICTS			
	Miscellaneous					Safety				Miscellaneous				Miscellaneous			Safety
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 1	Tier 2	Tier 3	Tier 4	Tier 1	Tier 2	Tier 3	Tier 5	Tier 1	Tier 3	Tier 5	Tier 3
6/30/2014	17.58%	16.55%	19.24%	15.96%	14.87%	42.59%	41.56%	39.92%	35.13%	18.55%	17.54%	20.65%	14.87%	26.16%	28.26%	22.48%	N/A
6/30/2013**	22.91	20.71	23.29	17.91	17.14	43.59	41.92	41.06	35.61	22.91	20.71	23.29	17.14	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	20.83	18.28	21.18	15.01	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	-	19.09	16.55	19.36	-	25.59	25.90	-	57.40
6/30/2010*****	18.11	15.63	18.49	-	-	35.03	30.60	-	-	18.11	15.63	18.49	-	24.45	24.94	-	54.42
6/30/2009	18.15	15.75	18.60	-	-	38.95	34.66	-	-	18.15	15.75	18.60	-	24.58	25.26	-	49.86
6/30/2008	15.46	13.07	15.88	-	-	33.65	29.53	-	-	15.46	13.07	15.88	-	22.08	22.57	-	39.25
6/30/2007	15.04	12.58	15.43	-	-	34.71	30.61	-	-	15.04	12.58	15.43	-	21.98	22.41	-	41.15
6/30/2006	15.89	12.95	15.73	-	-	36.01	31.67	-	-	15.89	12.95	15.73	-	22.26	22.13	-	41.94
6/30/2005	16.10	13.14	15.88	-	-	35.18	30.84	-	-	16.10	13.14	15.88	-	22.78	22.56	-	39.71

Source: Actuarial Valuations from June 30, 2005 though 2014

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, 2014 is used to determine rates for the fiscal year 2015-2016.

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

** Effective July 1, 2014, subsequent to the completion of the actuarial valuation for the year ended June 30, 2013, the County and several bargaining groups entered into agreement for members to pick up an additional portion of the total normal cost in fiscal year 2014-2015. The County employer contribution rates shown have not been adjusted to reflect the members agreeing to pick up an additional portion of the total normal cost.

*** 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.

Schedule of Benefits Paid and Withdrawals by Type

For the Last Ten Fiscal Years Ended June 30

(Dollar Amounts Expressed in Thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Type of Benefit										
Service Retirement Benefits	$341,756	$317,308	$295,598	$273,062	$250,192	$229,659	$212,061	$193,376	$175,745	$160,154
Survivor Benefits	2,116	2,225	2,284	2,032	1,993	1,749	1,865	1,681	1,608	1,545
Death Benefits-Before Retirement	312	542	189	448	361	346	345	447	454	285
Death Benefits-After Retirement	706	753	693	619	546	622	621	492	553	525
Retiree Health and Dental Insurance	-	-	-	-	-	-	-	1	2	2
Total Benefits Paid	$344,890	$320,828	$298,764	$276,161	$253,092	$232,376	$214,892	$195,997	$178,362	$162,511
Type of Withdrawal										
Death	$445	$547	$365	$463	$526	$601	$111	$725	$715	$411
Separation	2,211	2,153	2,663	3,898	4,303	2,550	2,940	3,492	3,409	2,802
Miscellaneous	73	39	12	72	103	151	126	217	498	250
Total Withdrawals	$2,729	$2,739	$3,040	$4,433	$4,932	$3,302	$3,177	$4,434	$4,622	$3,463

Source: Audited Financial Statements from June 30, 2005 through 2014

Schedule of Distribution of Retired Members and Beneficiaries by Type and by Monthly Amount

As of June 30, 2014

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement* 1	2	3	4	5	6	7	8	9	10	11	12	13	17	Option Selected** Unmodified	1	2	3	4
$1 - $499	833	603	21	3	6	4	92	23	16	-	25	-	31	-	9	607	67	136	9	14
500 - 999	1,342	939	40	10	-	1	135	83	65	3	21	1	41	-	3	1,073	100	139	11	19
1,000 - 1,499	1,322	939	75	25	8	5	135	35	50	1	12	1	32	4	-	1,107	65	122	17	11
1,500 - 1,999	1,096	789	55	22	39	14	101	25	9	5	10	-	23	4	-	923	55	105	7	6
2,000 - 2,499	971	763	23	12	45	9	72	7	7	8	9	1	11	4	-	838	45	78	5	5
2,500 - 2,999	778	622	7	3	34	20	62	4	2	9	3	-	5	7	-	681	31	51	7	8
3,000 - 3,499	634	482	6	3	45	34	40	1	-	12	3	-	6	1	1	549	26	49	4	6
3,500 - 3,999	543	432	2	-	36	25	20	-	-	17	2	-	2	7	-	482	20	34	-	7
4,000 - 4,499	459	394	-	-	16	13	23	1	-	6		-	3	3	-	419	11	24	2	3
4,500 - 4,999	382	349	1	-	7	4	12	1	-	5	1	-	1	1	-	352	8	19	1	2
5,000 & over	1,689	1,601	3	-	34	12	20	2	1	10	3	-	1	2	-	1,543	32	91	12	11
Total	**10,049**	**7,913**	**233**	**78**	**270**	**141**	**712**	**182**	**150**	**76**	**89**	**3**	**156**	**33**	**13**	**8,574**	**460**	**848**	**75**	**92**

* 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

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, 2014

Miscellaneous Members

	Monthly Allowances				
	Count	Basic	COL	Total	Average Benefit
Service Retirement					
Unmodified	5,498	$12,149,559	$2,773,585	$14,923,144	$2,714
Option 1	352	511,138	135,882	647,020	1,838
Option 2, 3, & 4	668	1,259,461	204,895	1,464,356	2,192
Total	6,518	$13,920,158	$3,114,362	$17,034,520	$2,614
Non-Service Disability					
Unmodified	259	$272,962	$113,025	$385,987	$1,490
Option 1	22	17,866	9,531	27,397	1,245
Option 2, 3, & 4	14	14,529	3,573	18,102	1,293
Total	295	$305,357	$126,129	$431,486	$1,463
Service Disability					
Unmodified	171	$267,352	$146,699	$414,051	$2,421
Option 1	7	9,564	5,539	15,103	2,158
Option 2, 3, & 4	4	4,434	2,192	6,626	1,657
Total	182	$281,350	$154,430	$435,780	$2,394
Beneficiary	1,089	$879,574	$608,168	$1,487,742	$1,366
Total Miscellaneous	8,084	$15,386,439	$4,003,089	$19,389,528	$2,399

Safety Members

	Monthly Allowances				
	Count	Basic	COL	Total	Average Benefit
Service Retirement					
Unmodified	1,263	$6,197,424	$1,555,525	$7,752,949	$6,139
Option 1	35	118,879	39,455	158,334	4,524
Option 2, 3, & 4	97	429,280	72,125	501,405	5,169
Total	1,395	$6,745,583	$1,667,105	$8,412,688	$6,031
Non-Service Disability					
Unmodified	16	$22,371	$15,113	$37,484	$2,343
Option 1	1	850	98	948	948
Option 2, 3, & 4	2	4,579	363	4,942	2,471
Total	19	$27,800	$15,574	$43,374	$2,283
Service Disability					
Unmodified	210	$596,745	$269,601	$866,346	$4,125
Option 1	13	33,737	14,016	47,753	3,673
Option 2, 3, & 4	6	$11,921	6,008	17,929	2,988
Total	229	$642,403	289,625	$932,028	$4,070
Beneficiary	322	$544,089	$325,356	$869,445	$2,700
Total Safety	1,965	$7,959,875	$2,297,660	$10,257,535	$5,220
Total Miscellaneous and Safety	**10,049**	**$23,346,314**	**$6,300,749**	**$29,647,063**	**$2,950**

Source: Actuarial Valuation as of June 30, 2014

Note: Refer to page 118 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+
7/1/13 - 6/30/14							
Average monthly benefit	$488	$1,216	$1,558	$2,583	$4,490	$5,190	$7,239
Average monthly final average salary	$7,757	$6,710	$5,223	$6,071	$7,727	$7,345	$8,539
Number of retired members	17	62	128	85	75	77	72
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

Source: SCERS Retired Member Pension Payroll Data

Schedule of Average Benefit Payments

For the Last Ten Fiscal Years

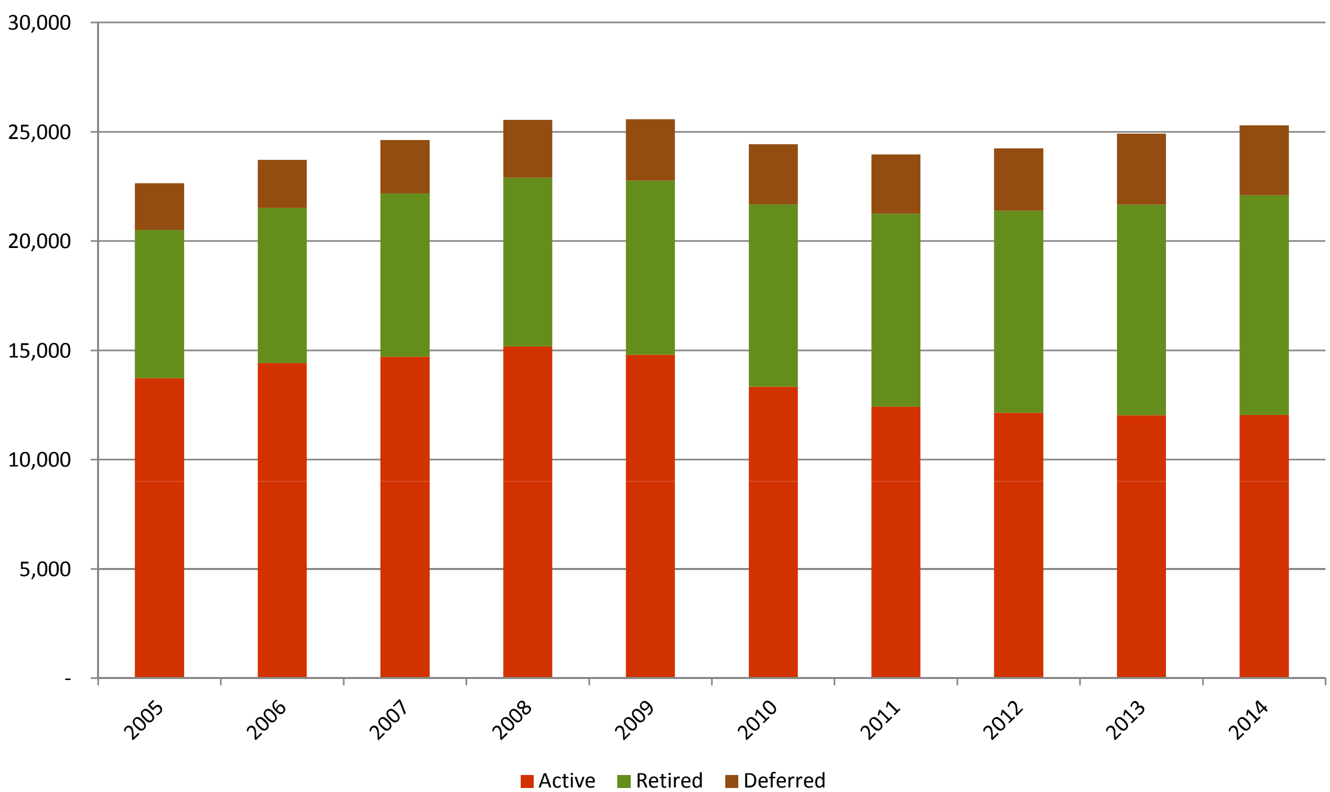
As Of	Years Since Retirement 0-5	5-10	10-15	15-20	20-25	25-30	30 +
6/30/14:							
Average monthly benefit	$3,240	$3,392	$3,177	$2,503	$2,493	$2,026	$1,709
Number of retired members	2,809	2,254	1,726	1,199	901	586	574
6/30/13:							
Average monthly benefit	$3,272	$3,412	$2,603	$2,400	$2,438	$1,902	$1,676
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

Source: Actuarial Valuations from June 30, 2005 through 2014

Growth of System Membership

Year Ended June 30:	Active Members	Retired Members	Deferred Members	Total
2014	12,049	10,049	3,201	25,299
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

System Membership at a Glance



Source: Actuarial Valuations from June 30, 2005 through 2014

Schedule of Principal Participating Employers and Active Members - Summary

Current Fiscal Year and Nine Fiscal Years Ago

	2014			2005		
Participating Employer	Covered Employees	Rank	Percent of Total System	Covered Employees	Rank	Percent of Total System
County of Sacramento**	10,790	1	89.55%	13,086	1	95.32%
Superior Court**	625	2	5.19	-	13	0.00
S.E.T.A	547	3	4.54	544	2	3.96
Sunrise Recreation and Park District	22	4	0.18	28	3	0.21
Carmichael Recreation and Park District	21	4	0.17	17	4	0.12
Orangevale Recreation and Park District	13	6	0.11	15	5	0.11
Mission Oaks Recreation and Park District	12	7	0.10	10	6	0.07
Elected Officials*	8	8	0.07	8	7	0.06
Elk Grove Cosumnes Cemetery District	6	9	0.05	4	10	0.03
Fair Oaks Cemetery District	4	10	0.03	5	9	0.04
Galt-Arno Cemetery District	1	11	0.01	3	11	0.02
U.C. Davis Medical Center	-	12	0.00	1	12	0.01
Sacramento Metropolitan Fire District	-	12	0.00	7	8	0.05
Total	**12,049**		**100.00%**	**13,728**		**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 - Detail

For the Last Ten Fiscal Years Ended June 30

SCERS Member Agency	Plan	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Carmichael Recreation and Park District	Misc.	21	21	20	22	26	29	24	27	15	17
Elk Grove Cosumnes Cemetery District	Misc.	6	5	5	2	3	4	3	4	5	4
Fair Oaks Cemetery District	Misc.	4	4	4	3	4	4	4	5	5	5
Galt-Arno Cemetery District	Misc.	1	1	1	1	1	3	3	3	3	3
Mission Oaks Recreation and Park District	Misc.	12	12	12	13	14	13	13	12	11	10
Orangevale Recreation and Park District	Misc.	13	15	15	15	16	17	12	15	14	15
Sacramento Metropolitan Fire District	Safety	-	-	-	3	3	4	6	6	6	7
S.E.T.A.	Misc.	547	565	566	568	584	604	597	598	562	544
Sunrise Recreation and Park District	Misc.	22	21	21	23	26	28	28	24	29	28
U.C. Davis Medical Center	Misc.	-	-	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.	633	651	652	655	682	710	692	696	652	634
	Safety	1	1	1	4	4	5	7	7	7	8
Superior Court Members**	Misc.	625	632	698	745	765	807	843	814	-	-
Sacramento County Members	Misc.	8,827	8,830	8,906	9,121	9,865	10,937	11,190	10,817	11,400	10,744
	Safety	1,963	1,912	1,898	1,909	2,024	2,337	2,448	2,382	2,353	2,342
Total Members	Misc.	10,085	10,113	10,256	10,521	11,312	12,454	12,725	12,327	12,052	11,378
	Safety	1,964	1,913	1,899	1,913	2,028	2,342	2,455	2,389	2,360	2,350
	Total	12,049	12,026	12,155	12,434	13,340	14,796	15,180	14,716	14,412	13,728

*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

SCERS

Sacramento County Employees' Retirement System

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