

FOR THE FISCAL YEARS ENDED
JUNE 30, 2012 AND 2011
SACRAMENTO, CALIFORNIA





MESSAGE TO SCERS MEMBERS

On behalf of the Board of Retirement and Staff of the Sacramento County Employees' Retirement System ('SCERS' or 'the System'), I am pleased to present the SCERS Annual Financial Report Summary ('Report') for the fiscal year ended June 30, 2012. This Report provides information on the financial status of your retirement system and is based on the Comprehensive Annual Financial Report ('CAFR') prepared by SCERS each year. The full CAFR for the fiscal years ended June 30, 2012 and 2011, and other important information about your retirement system, can be found on the SCERS website, www.scers.org.

Your SCERS benefits play an important role in your retirement security, so you should have confidence that SCERS is adhering to the highest fiduciary and professional standards in the management and expenditure of the assets of the System. Accordingly, our goal in providing this Report is to help you confirm that SCERS is responsible, accountable and transparent with respect to the management of the \$6 billion SCERS pension trust, and that we are successfully meeting our long term responsibilities to our stakeholders.

With respect to this last point, it is important to note that SCERS continues to be in a strong financial position, with a funded ratio of more than 83%, one of the highest funding ratios among California public employee retirement systems. SCERS' long term investment horizon and approach to management of the pension trust helps smooth out the ups and downs of the financial markets so that no one year can dramatically impact the stability of the fund. As a result, while the financial markets were flat in fiscal year 2011-2012, SCERS' annualized total fund return for the trailing three-year period is 11.4% and is 8.1% over the last 26 years, comfortably above the target investment return of 7.5%. Finally, SCERS continues to maintain a positive cash flow, with annual income from employer and employee contributions and the investment program, well in excess of benefit payments and System expenses. Together, this is strong evidence that your SCERS benefits remain secure and will be paid as promised.

In sum, we believe this Report will allow you to confirm the financial health and fiduciary integrity of your retirement system. We also believe it reflects the high standards and professionalism you should expect as a member of SCERS. For additional information, we encourage you to review the extensive array of financial, actuarial and benefit information available on the SCERS website, as well as the retirement-related news items and educational materials that can be found there.

All of us at SCERS are committed to addressing the questions and needs you may have regarding your retirement benefits, so please feel free to contact SCERS at sacretire@saccounty.net or call us at (916) 874-9119 if we can be of any assistance.

Respectfully Submitted,



Richard Stensrud
Chief Executive Officer

FINANCIAL STATEMENTS

Fiduciary Net Assets

Net assets represent the accumulation of assets that exceed liabilities, which are available to meet SCERS' obligations to plan participants and beneficiaries. As of June 30, 2012, the net assets held in trust for pension benefits ("net assets") totaled \$6.074 billion which represents a decrease of \$66.7 million or 1.1% from the \$6.141 billion in net assets as of June 30, 2011. The net assets as of June 30, 2011 increased \$1.160 billion or 23.3% over the \$4.981 billion in net assets as of June 30, 2010. The lower investment income for the fiscal year ended June 30, 2012 was due to an investment downturn in the second half of the fiscal year, while improved investment returns were the primary reason for the increase in total additions for the year ended June 30, 2011.

CHANGE IN FIDUCIARY NET ASSETS For the Fiscal Years Ended June 30 (Dollar Amounts Expressed in Millions)

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

CHANGE IN FIDUCIARY NET ASSETS For the Fiscal Years Ended June 30 (Dollar Amounts Expressed in Millions)

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



Additions to Net Assets

(Dollar Amounts Expressed in Millions)

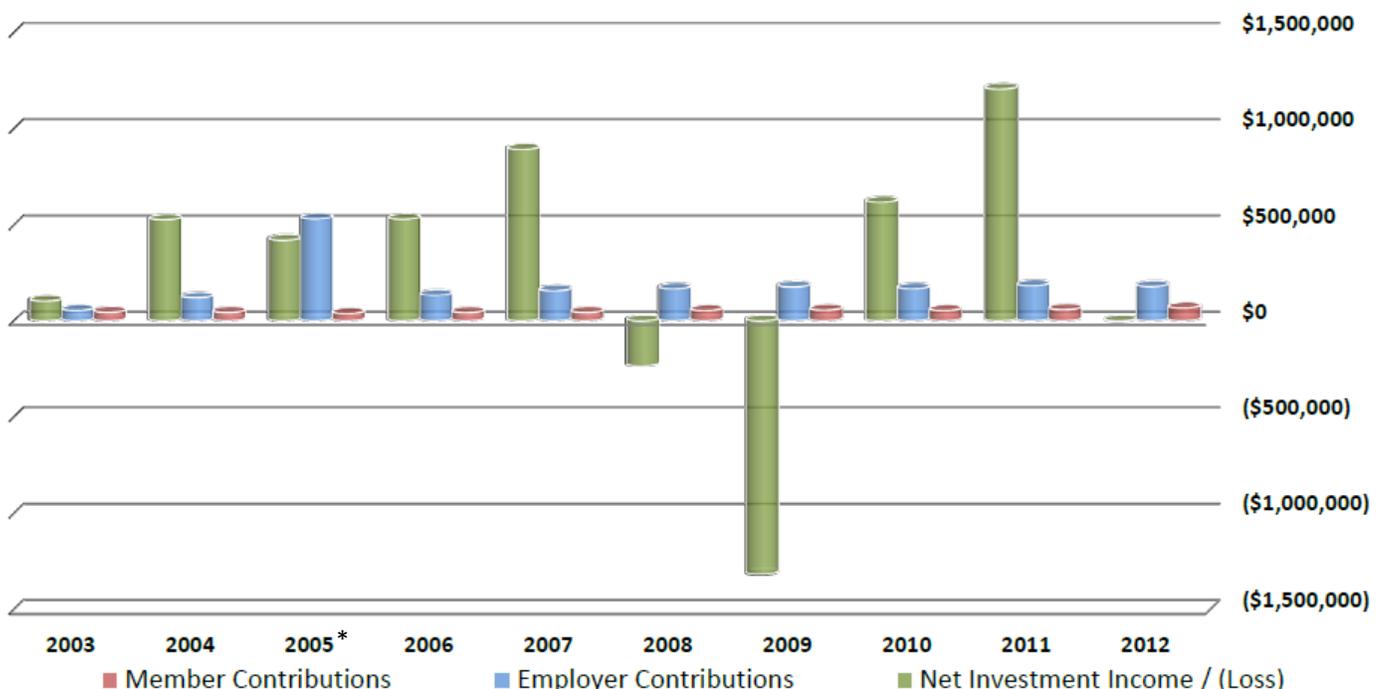
Year Ended June 30	Employee Contributions	Employer Contributions	Net Investment Income / (Loss)	Total
2012	\$65.7	\$179.1	\$(3.4)	\$241.4
2011	57.2	182.9	1,206.7	1,446.8
2010	52.4	167.1	617.5	837.0
2009	54.6	177.0	(1,318.4)	(1,086.8)
2008	52.1	167.1	(234.8)	(15.6)
2007	42.9	156.8	891.5	1,091.2
2006	42.0	132.7	527.9	702.6
2005	36.9	529.6*	419.5	986.0
2004	42.9	119.1	525.2	687.2
2003	43.7	52.8	100.8	197.3

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

Financing for the benefits SCERS provides to its participants comes primarily from income on investments and the retirement contributions made by employers and employees. For the fiscal years ended June 30, 2012, 2011 and 2010, the total additions were \$241.4 million, \$1.447 billion and \$837.0 million, respectively.

Net investment gains/(losses) were \$(3.4) million, \$1.207 billion and \$617.5 million for the fiscal years ended June 30, 2012, 2011 and 2010, respectively.

For the years ended June 30, 2012, 2011 and 2010, the combined employer and employee contributions were \$244.8 million, \$240.1 million and \$219.5 million, respectively. The increase in employer and employee contributions in the fiscal year ended June 30, 2012 was primarily due to additional service credit purchases and a slight increase in contribution rates. The employer contributions decreased due to a slight decrease in the aggregated contribution rate and a decrease in total annual compensation, as Sacramento County continued to re-structure its workforce. In the fiscal year ended June 30, 2011, employer and employee contributions increased primarily due to an increase in contribution rates.



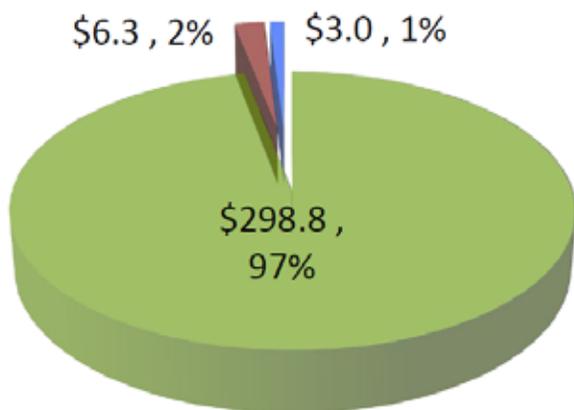
* In the fiscal year ended June 30, 2005, employer contributions included \$420.0 and \$10.5 in proceeds from pension obligation bonds issued by the County of Sacramento and Sacramento Metropolitan Fire District, respectively.

Deductions from Net Assets

(Dollar Amounts Expressed in Millions)

SCERS' assets were used for the payment of benefits to members and their beneficiaries, for the payment of contribution withdrawals to terminated employees, and for the cost of administering the retirement system. For the years ended June 30, 2012 and 2011, total deductions were \$308.1 million and \$287.2 million, respectively. The primary reasons for the increase in deductions in both years were an increase in the number of retired members and the annual cost-of-living adjustment paid to retirees and beneficiaries.

Fiscal Year 2011-2012 Deductions



Year Ended June 30:	Pension Benefits	Administrative and Other Expenses	Withdrawal	Total
2012	\$298.8	\$6.3	\$3.0	\$308.1
2011	276.2	6.6	4.4	287.2
2010	253.1	5.9	4.9	263.9
2009	232.3	6.0	3.3	241.6
2008	214.9	5.9	3.2	224.0
2007	196.0	5.8	4.4	206.2
2006	178.4	5.1	4.6	188.0
2005	162.5	5.3	3.5	171.2
2004	153.8	6.7	4.0	164.4
2003	123.1	31.8	2.9	157.8

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

- Pension Benefits
- Administrative and Other Expenses
- Withdrawal

Reserves

SCERS' reserves are established in accordance with requirements of the County Employees' Retirement Law of 1937, after satisfying administrative and investment expenses. For actuarial purposes, SCERS utilizes a multi-year smoothing methodology under which a portion of the market gains and losses is recognized and allocated to the reserves through interest crediting. Gains or losses incurred prior to July 1, 2008 are amortized over a five-year period. Gains or losses incurred after July 1, 2008 are amortized over a seven-year period. The difference between market value of assets (equivalent to fiduciary net assets) and the smoothed actuarial value of assets is tracked in the market stabilization reserve. As of June 30, 2012 and 2011, the market stabilization reserve was \$(456.0) million and \$(280.2) million, respectively.

Net Assets Available for Benefits at Fair Value

(Dollar Amounts Expressed in Millions)

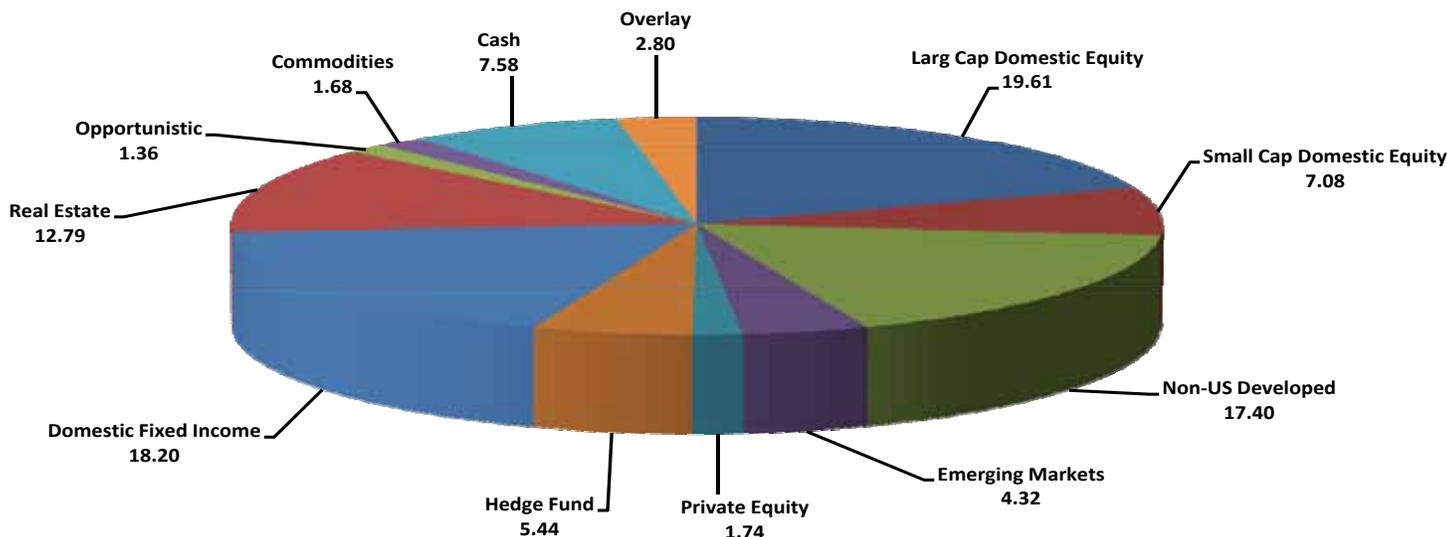
As of June 30	2012	2011
Employee Reserves	\$674.0	\$655.8
Employer Reserves	2,358.9	2,339.4
Retiree Reserves	3,482.4	3,333.2
Retiree Death Benefit Reserves	14.6	14.7
Retiree Health Care Benefits Designations	-	0.7
Contingency Reserve	-	77.0
Total allocated reserves and designation	6,529.9	6,420.8
Market Stabilization Reserve	(456.0)	(280.2)
Net assets available for benefits, at fair value	\$6,073.9	\$6,140.6



INVESTMENT PERFORMANCE

Asset Allocation as of June 30, 2012

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



Annualized Returns*

Asset Class	Fair Value (In Millions)	1 Year	3 Years	5 Years
Domestic Equity	\$1,616.1	1.8%	16.8%	(0.5)%
International Equity	1,320.7	(16.0)	6.5	(4.4)
Hedge Fund of Funds	322.6	(2.4)	4.6	(0.9)
Private Equity**	110.6	1.2	4.3	N/A
Fixed Income	1,152.6	8.1	10.8	8.7
Real Estate***	905.5	11.1	11.8	0.1
Futures Overlay	161.6	N/A	N/A	N/A
Opportunities	184.7	6.6	20.2	N/A
Cash*	478.7	0.0	0.2	0.6
Total Cash and Investments	\$6,253.1	0.5%	11.8%	0.8%

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

** Although fair value reported is as of June 30, 2012, returns cited are delayed one quarter.

*** Although fair value reported is as of June 30, 2012, returns cited for certain Real Estate segments are delayed one quarter.

Based on peer comparison, SCERS' one-year performance ranked in the 29th percentile (1st being the best percentile rank) in the State Street/ICC Universe for public funds with assets greater than \$1 billion.

Investment Performance (continued)

(Dollar Amounts Expressed in Millions)

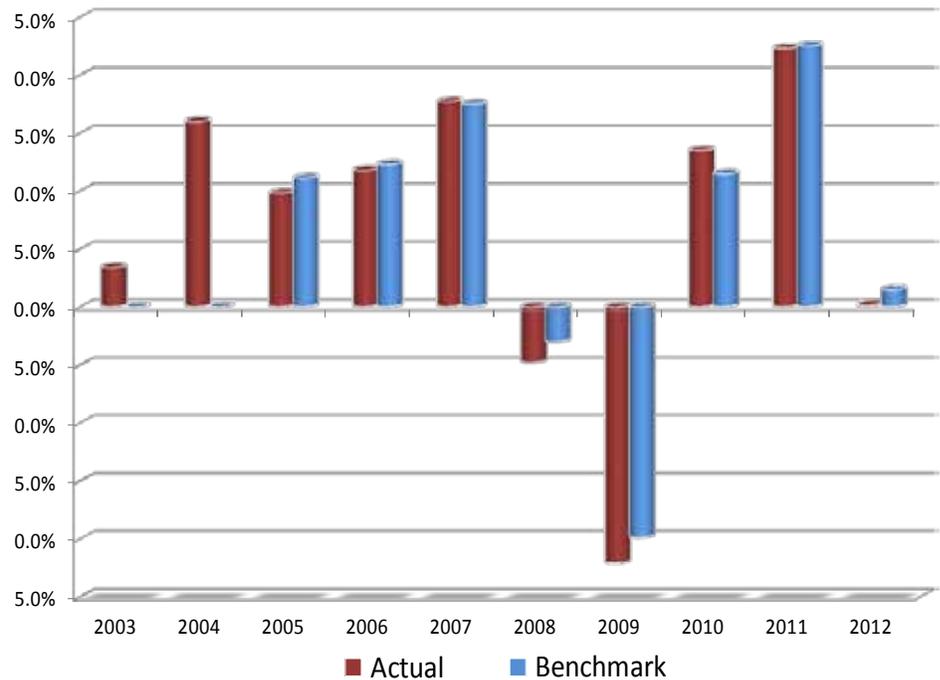
For the fiscal year ended June 30, 2012, SCERS' investments provided a 0.2% gain (net of fees) compared to a 22.3% gain (net of fees) for the fiscal year ended June 30, 2011.

The flat investment return for the fiscal year ended June 30, 2012 was due to the global investment markets remaining down most of the second half of the fiscal year.

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

Net Investment Returns

Fiscal Year Ended June 30



Note: Benchmark returns were not available for fiscal years 2003 and 2004.

ACTUARIAL SUMMARY

Actuarial Funding Status

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

An actuarial valuation is similar to an inventory process. On the valuation date, the assets available for the payment of retirement benefits are appraised. These assets are compared with the actuarial liabilities, which are the actuarial present value of all future benefits expected to be paid with respect to each member. The purpose of the valuation is to determine what future contributions will be needed from the members and participating employers to pay all expected future benefits. To help reduce year-to-year volatility in employer contribution rates due to fluctuations in investment performance, SCERS smoothes the calculation of actuarial assets over a multi-year period. Unrecognized return established before July 1, 2008 is recognized over a five-year period. Unrecognized return established after July 1, 2008 is recognized over a seven-year period. This not only stabilizes contribution rates, but also improves the ability of an employer to plan for possible future increases or decreases in costs. As of June 30, 2012, deferred losses under the smoothing methodology exceeded deferred gains by \$456.0 million.

Actuarial Summary (continued)

(Dollar Amounts Expressed in Millions)

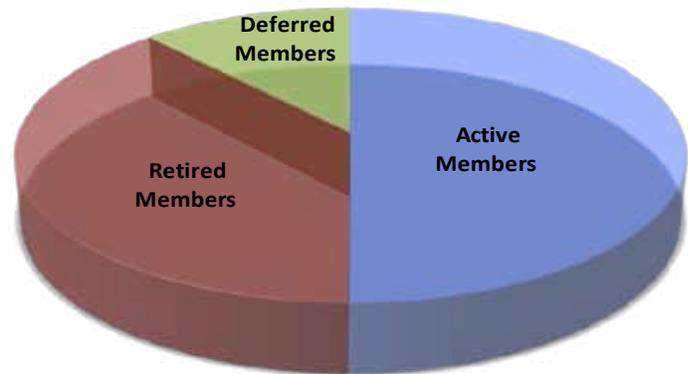
As of June 30, 2012, SCERS' funding ratio was 83.3%, with the actuarial value of assets totaling \$6.530 billion and the actuarial accrued liability totaling \$7.838 billion. In general terms, this ratio means that as of June 30, 2012 SCERS has approximately 83 cents available for each dollar of anticipated future liability.

As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio
2012	\$6,529.9	\$7,838.2	\$1,308.3	83.3%
2011	6,420.8	7,382.9	962.1	87.0
2010	6,217.0	7,090.5	873.5	87.7
2009	5,730.2	6,662.0	931.8	86.0
2008	5,930.8	6,363.4	432.6	93.2

System Membership

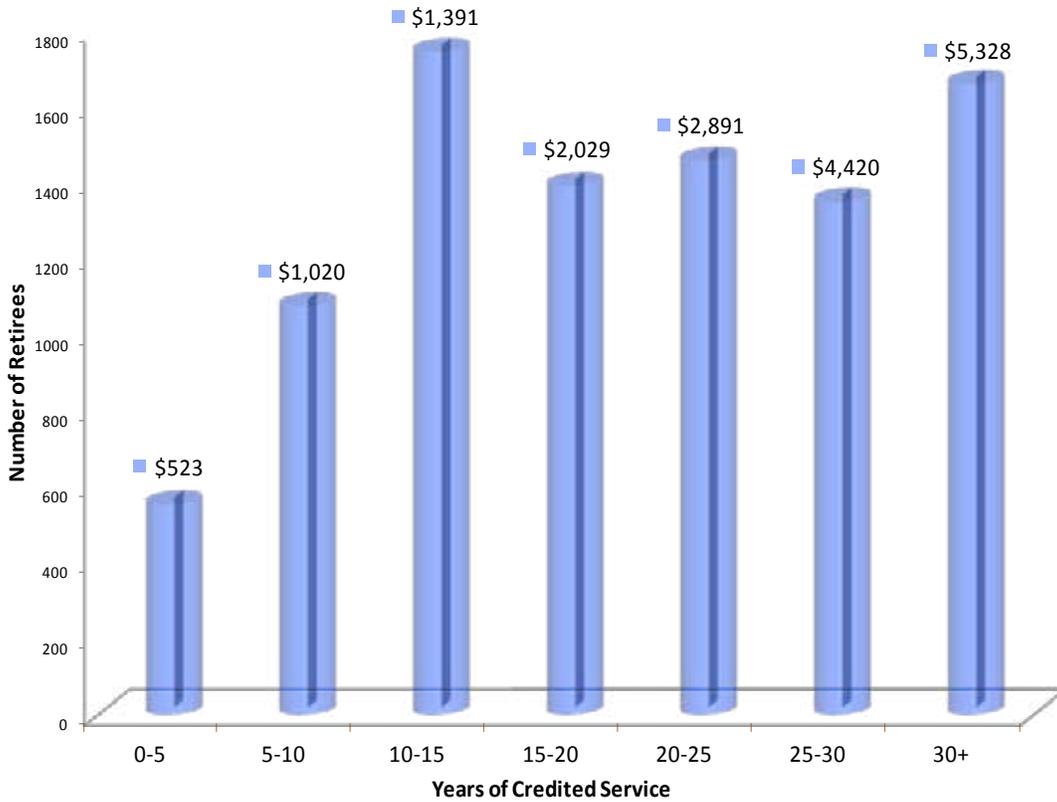
Fiscal Year 2011-2012

SCERS' members include permanent full-time and part-time employees of the County of Sacramento; Superior Court of California, County of Sacramento; and eleven Special Districts. As of June 30, 2012, SCERS had 12,155 active members (a decrease of 2.2%), 9,239 retired members (an increase of 4.7%), and 2,851 deferred members (a increase of 5.2%).



As of June 30	Active Members	Retired Members	Deferred Members	Total
2012	12,155	9,239	2,851	24,245
2011	12,434	8,821	2,710	23,965
2010	13,340	8,346	2,740	24,426
2009	14,796	7,968	2,818	25,582
2008	15,180	7,709	2,661	25,550
2007	14,716	7,464	2,437	24,617
2006	14,412	7,108	2,192	23,712
2005	13,728	6,784	2,135	22,647
2004	13,672	6,291	2,110	22,073
2003	14,133	5,882	1,885	21,900

Retired Members



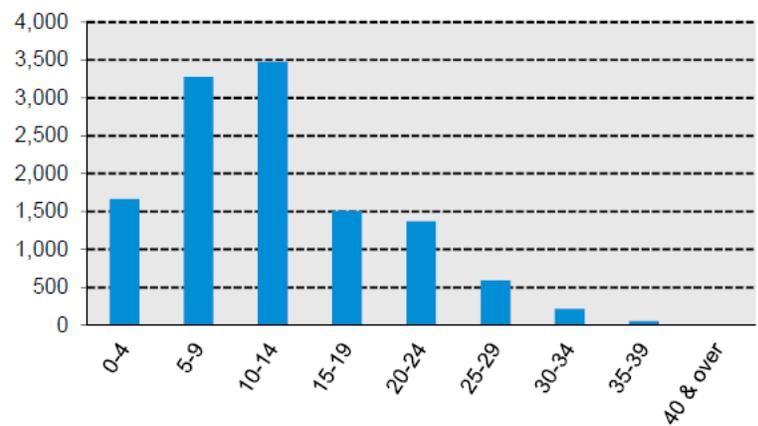
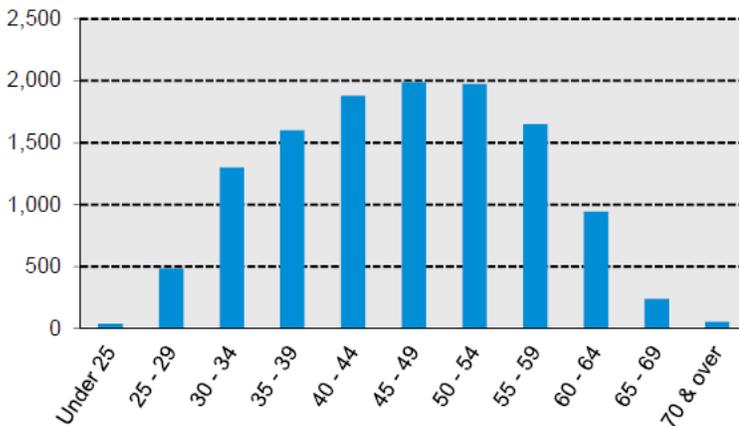
The graph shows a distribution of the current retired members based on their years of credited service and the corresponding average monthly benefit payments as of June 30, 2012.

- 63.5% of retired members have more than 15 years of credited service
- Average benefit is \$2,780 per month or \$33,360 per year
- Monthly benefit is higher for longer service
- Average age of retired members is 68.8

Active Members

Plan costs are affected by the age, years of service and compensation of active members. As of June 30, 2012, there were 12,155 active members with an average age of 46.8 and average years of service of 12.6 years.

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



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

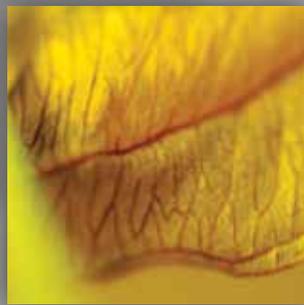


SCERS MISSION STATEMENT AND CORE VALUES

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

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

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



SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

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