

NEW APPROACHES TO TODAY'S CHALLENGES



sacrs

ALAMEDA

CONTRA COSTA

FRESNO

IMPERIAL

KERN

LOS ANGELES

MARIN

MENDOCINO

MERCED

ORANGE

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN JOAQUIN

SAN MATEO

SANTA BARBARA

SONOMA

STANISLAUS

TULARE

VENTURA

ALAMEDA COUNTY

BOARD of RETIREMENT

TRUSTEES

Mr. Dale E. Amaral, elected Safety, the Alameda County Sheriff's Office, is presently second vice—chair of the Board of Retirement and vice chair of the Audit Committee. He also serves on the Operations and Retirees Committees, and sits on the Audit, GASB, and Governance Committees.

Ms. Ophelia B. Basgal, appointed by Board of Supervisors, Pacific Gas and Electric Company, is first vice chair of the Board of Retirement. She is also chairs the Operations Committee and sits on the Actuarial, By—Laws, GASB, and Governance Committees.

Ms. Annette Cain—Darnes, appointed by Board of Supervisors, chairs the Investment Committee and is on the Operations and Retirees Committees. She also serves on the By—Laws, Evaluation, and GASB Committees.

Mr. Keith Carson, appointed by Board of Supervisors, Alameda County Board of Supervisors, currently chairs ACERA's Actuarial Committee and is a member of the GASB Committee; he also sits on the Investment Committee.

Mr. L. Darryl Gray, elected General, Alameda County Community Development Agency, chairs the ACERA Board of Retirement and is a member of its Investment Committee, as well the Actuarial, Audit, and Governance Committees.

Mr. David M. Safer, elected Retired, chairs the Retirees Committee and sits on the Investment Committee. He also serves on the Actuarial, By—Laws, Evaluation, GASB, and Governance Committees.

Mr. Sandre R. Swanson, appointed by Board of Supervisors, sits on the Investment, Operations, and Retirees Committees, as well as on the Actuarial and Audit Committees.

Mr. Donald R. White, ex—officio, Alameda County Treasurer—Tax Collector, chairs the Audit and GASB Committees. He is also a member of the Investment Committee and the Evaluation Committee.

Mr. Trevor S. White, elected General, Alameda County District Attorney's Office, serves on every Board Committee: Investment, Operations, and Retirees and Actuarial, Audit, By—Laws, Evaluation, and GASB Committees.

Ms. Liz Koppenhaver, Alternate Retired, appointed by ACERA Board of Retirement, serves on the Retirees Committee, in the absence of the elected Retired member. She also serves on the Actuarial, By—Laws, Evaluation, GASB,

and Governance Committees, in the absence of the elected Retired member.

Mr. Darryl Walker, elected Alternate Safety, votes in the absence of any elected member, except the Retired Member representative, to ensure elected Board and Committee member representation at all times.

ELECTIONS

A member of ACERA's Board of Trustees is duty—bound to administer the retirement system while simultaneously minimizing employer contributions and defraying reasonable expenses. This duty to members and their beneficiaries is priority number one.

The Second, Third, Seventh, and Eighth ACERA Board member seats are filled by election in designated months. This December's election is for the Second seat representing General Members. Any General ACERA Member may run for the Second seat and only active and deferred General Members may vote. Candidate nomination petitions and other election information are available through November 6th by contacting ACERA at 510.628.3003 or 510.628.3078 and requesting an Election Information Packet. The packet contains the following:

1. A Letter to the Candidate from ACERA's CEO
2. Notice of Election explaining the Registrar's role
3. 2006 Election Schedule detailing the election process timeline from beginning to end
4. ACERA's Election Policy on Campaigning and Use of Email
5. A Candidate's Statement Sample Form
6. General Member Nomination Petition
7. Statement of Intent to Serve
8. 2005 ACERA Comprehensive Annual Financial Report (CAFR)

Elections are by secret ballot conducted by ACERA and canvassed by the Alameda County Registrar of Voters. Official ballots will be distributed to all General Members with the payroll on December 1, 2006. Deferred General Members will receive their ballot at their last known address. Ballots must be received by the Registrar of Voters by 5: 00 am on December 20, 2006.

Open Directed Brokerage Program

The ACERA Board has established an open Directed Brokerage (DB) program designed to take advantage of the industry—accepted practice of recapturing a portion of trade commissions paid to brokers. The primary goals of ACERA's DB program are to 1) recapture 50% or more of commissions paid on a specific percentage of trades sent to correspondent brokers on a timely basis; 2) construct the percentage of trades subject to recapture to allow investment managers access to the research they need; 3) seek "Best Execution" through third-party administration and outside consultant monitoring; and 4) encourage local and emerging broker participation through the use of an open correspondent network program.

Subsequently, the Board has also established a DB Policy to govern ACERA's DB program and hired Capital Institutional Services, Inc. as ACERA's DB program third-party administrator.

INVESTMENT

During the second quarter of 2006, the Board adopted new Fixed Income and International Equity manager structures for ACERA and concluded ACERA's Asset/Liability study. By 6/30/06, Staff had successfully implemented the Board's newly adopted target asset allocation and manager structure by executing the rebalancing plan. The Board also approved a \$30 million investment in the RREEF America REIT II (RARII) fund, an open-end, stable, commingled fund.

Most major U.S. equity indices posted negative returns in the second quarter. The DJIA, S&P500, and NASDAQ returned 0.94%, -1.44%, and -7.01%, respectively. The Federal Funds rate ended at 5.25%, 50 bps higher than the first quarter. Under this rising rate environment, bond index returns were mixed. The Lehman Aggregate Bond Index lost 0.08%.

In the second quarter, ACERA's total fund returned -0.4%, trailing its policy index by 0.2%. However, the fund's performance was ranked in the upper 18th percentile among public funds greater than \$100 million. The fund's three- and five-year returns of 13.1% and 8.2% continued to outperform each of their respective policy indices. As a result, the fund's investment returns were ranked in the upper quartile of all public funds for the last three and five years. As of 6/30/06, the market value of the total fund was \$4,747,643,920.

INVESTMENT RETURNS FOR 2ND QUARTER, 2006*

Asset Class	2 nd Quarter	1 Year	3 Year	5 Year
DOMESTIC EQUITY	-2.5%	8.5%	12.0%	4.0%
INTERNATIONAL EQUITY	0.6%	28.4%	24.0%	10.6%
FIXED INCOME (U.S. & Global)	0.4%	1.6%	5.3%	8.0%
REAL ESTATE	4.8%	16.7%	16.8%	11.7%
TOTAL FUND	-0.4%	11.7%	13.1%	8.2%
Policy Index**	-0.2%	10.9%	12.6%	7.5%

Target and Actual Asset Allocation as of 2nd Quarter, 2006

Asset Class	Target	Actual
DOMESTIC EQUITY	39.0%	41.8%
INTERNATIONAL EQUITY	22.0%	23.7%
FIXED INCOME	30.0%	28.8%
REAL ESTATE	9.0%	4.9%
CASH	0.0%	0.8%

*Returns for periods greater than one year are annualized. Results of all publicly traded investments are presented in conformance with CFA Institute presentation standards.

** Effective April 1, 2003, the Policy Index is 39% Russell 3000/ 23% Lehman Aggregate/ 4% Citigroup WGBI-ex US/ 3% Lehman High Yield/ 22% MSCI AC World-ex US Free/ 9% NCREIF Property Index.

ADMINISTRATION

ACERA will end the 2006 budget year slightly under the Board-approved operating budget and administrative expenses will be within the permissible limit.

The following are significant accomplishments for the 2006 budget year:

- The tri-annual actuarial valuation was completed and employer and employee contribution rates were reduced.



ALAMEDA COUNTY *CONTINUED*

- Individual inter—agency contracts were completed and all ACERA Participating Employers and individual 401(h) were accounts established.
- A directed brokerage program for securities was established.
- The disability application, processing, and adjudication processes were completely redesigned.
- Medicare Part D (prescription drug program) was integrated into ACERA plans.
- Electronic Fund Transfer services were moved to Wells Fargo Bank.
- Retired Member Surveys were completed.
- A service level and cost—efficiency benchmarking project was initiated.
- The first phase of our disaster recovery and relocation plan was completed.

ACCOUNTING*PAFR: Popular Annual Financial Report*

ACERA produces a traditional financial report, the Comprehensive Annual Financial Report (CAFR), each year. It is submitted to the Government Finance Officers Association (GFOA) for consideration for the Certificate of Achievement for Excellence in Financial Reporting. The CAFR is a thick document utilizing generally accepted accounting principles and is distributed to Board Members, government officials, and others with a background in reading complex financial data.

For several years, ACERA published a mini version of the CAFR called the Annual Report to Members (ARM); it was designed to meet the needs of a broader audience than that served by a traditional financial report, such as the CAFR. The ARM was mailed directly to all Members and stuffed in the inner pocket of the CAFR.

The GFOA does more than simply encourage governments to prepare these smaller and more accessible financial reports for laypeople, it issues an award for doing so: the Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR). For the first time, ACERA has produced its own PAFR. It follows a pattern similar to the old ARM, while meeting the very specific requirements of the GFOA PAFR award program.

OPERATIONS**BENEFITS DEPARTMENT**

The ACERA Benefits Department recently underwent reorganization. The department has five units: Active, Disability, Member Accounts, Record Retention, and Retiree Benefits. It now has two additional Assistant Benefits Managers who will manage the Retiree Benefits and the Disability Units. This new structure will contribute greatly to the efficient processing of member benefit requests by streamlining the managerial components of the process.

NEW MID—CAREER PLANNING AND IMPROVED PRE—RETIREMENT PLANNING SEMINARS NOW OFFERED

Pre—Retirement: ACERA reviews the retirement benefit formula, retirement allowance options, retirement application process, and post retirement benefits, including health, dental, vision, and death benefits.

Mid—Career: ACERA provides information to those ready to start planning their retirement on what it means to be a vested member and to participate in a defined benefit plan. Additional information is presented on reciprocal retirement agency benefits, service purchases, re—deposits, termination options, and benefit formula components.

DISABILITY PROCEDURES

ACERA's role is to facilitate the application process for the Member. Toward this goal, the *ACERA Disability Retirement Handbook* will soon be available as a member—friendly plain—English companion document to the recently revised ACERA Disability Retirement Procedures that governs the filing, decision, and review of disability applications under the County Employees Retirement Law of 1937. The revised Retirement Procedures are effective November 1, 2006.

FROM GM TO CEO

The title of ACERA's chief administrator has changed from General Manager to Chief Executive Officer. Accordingly, the title of Deputy General Manager is now Assistant Chief Executive Officer. These titles are consistent with other retirement associations throughout the state of California.

CONTRA COSTA COUNTY

BOARD

Since the Spring 2006 conference, there have been no changes to our Board.

ACCOUNTING

The Accounting Division is preparing to upgrade software systems in 2007. Seamless integration with the new benefits system is important, not only for routine transactions, but also for priority projects. Our current system, J.D. Edwards, has proved sufficient to meet our current needs while we housed information on the older AS400 system. However, our goal is to improve the functionality of our accounting system when integrated with the new benefits software system and infrastructure. We are in the process of reviewing possible vendors for the RFI/RFP process.

BENEFITS

We reported in Spring SACRs "What's New" that Contra Costa County, our largest member employer, was still in contract talks with union members. As of this writing, a settlement appears imminent for general employees, but negotiations continue for safety groups.

S.B. 524, legislation affecting only Contra Costa County, is on the governor's desk for signature as of this date. This bill would, until January 1, 2012, authorize the Contra Costa County Board of Supervisors to establish different retirement benefits for different bargaining units of safety employees represented by the Contra Costa County Deputy Sheriffs' Association, and the unrepresented groups of safety employees in similar job classifications and the supervisors and managers of those employees, as specified, pursuant to a resolution making those provisions applicable to that county. This bill also creates the ability to restructure safety tiers prospectively for these safety members.

CCCERA's timeline for the new retiree payroll system is on track, with the "go live" date for the payroll portion set for late fall. The design verification of total system requirements has been completed, thanks to intensive work from upper level management. Our core system, which includes all member information, calculations, employer web access, active member web access, and integration with imaging, is expected to "go live" in mid 2007.

We are in the midst of auditing all active member service files in anticipation of conversion needs. In addition, we are working closely with all employers to conform to our new wage, contribution and demographic reporting requirements.

IT/IMAGING

Our IT Coordinator has been busy updating our existing systems in preparation for implementation of our new pension benefits software. CCCERA relied on a legacy Novell network and an old version of GroupWise. We converted to a Windows environment, and new, compatible GroupWise software. Our imaging software (and attendant process) is also being upgraded and configured, to allow for front end scanning and streamlined work flow in the future, including bar code capability. Powerful new servers have been installed to handle the sophisticated software and databases of the new system.

Since March of this year, virtually all our infrastructure has been renewed. As the system moves forward new challenges occur. At the same time, excitement is building as we see what the system will accomplish for our members, and for our staff.

PERSONNEL

While staffing is static, CCCERA is revising job descriptions and titles to fit the new tasks created by the pension administration system. We are also thinking ahead to succession planning, since several of our top managers may retire within the next five years.

INVESTMENTS

In July of 2006, the Board hosted a second educational session on commodities. This was the second education seminars on commodities, in preparation for investing a 2% allocation in this asset class. Our investment consultant, Milliman, is conducting a search for likely candidates. We expect to hire a commodities investment manager in early 2007.

We recently finalized a commitment of \$85 million to ING Clarion Commercial Mortgage Securitization Fund II, LLC, a commercial mortgage investment managed by ING Clarion Capital. This allocation is part of CCCERA's total domestic fixed income allocation. In addition, the Board made an additional commitment of \$50 million to a private equity fund—of—funds portfolio managed by Adams Street, pending final contract and due diligence review.

This fall we began benchmark analyses for all of CCCERA's investment managers in order to evaluate our monitoring process, thereby ensuring managers are held to the highest, most prudent standards. We expect to have this study completed before the end of the year.



FRESNO COUNTY

The current Trustees of the Fresno County Board of Retirement include:

Steve J. Jolly, Chair	A. Papaleo
Vera Dominguez, Vice Chair	Stephanie Savrnoch
Michael Cardenas	John P. Souza
Vicki Crow	William Storey
Phil Larson	Ronald S. Frye, Retired Alternate

The results of the Actuarial Audit completed by The Segal Company were presented to the Board. The primary focus of the audit was on matching the core numbers on which the plan's ultimate costs depend, that is, the present value of future benefits. Although some minor errors were noted, overall, the audit did not identify any major errors or concerns. For example, the total regular plus settlement present value of future benefits and actuarial accrued liability as of June 30, 2005 were 1.2% and 2.9% greater, respectively, than that calculated by FCERA's actuary, which is well below the 5% industry standard threshold for audit reviews.

A search for an International Equity Value Manager has begun. Our investment consulting firm, Wurts & Associates, presented the search criteria for the Board's approval in September. Over the next several months, staff will be working with our Investment Consultant, Wurts & Associates on the search process. In addition, FCERA is performing due diligence on two private equity core real estate managers to select one manager and bring the real estate mandate to its target allocation.

As part of FCERA's plans for improvement, the Board interviewed consultants to evaluate FCERA's governance processes and develop a Board Governance framework. As a result, last September, Cortex Applied Research, Inc. was selected for the project. Cortex is scheduled to present preliminary findings to the Board at its October retreat.

The final compensation litigation project that began in November 2004 continues. We are a little behind schedule due to delays in hiring, training, and learning curves. The project was divided into three phases: phase 1, which consists of those members that retired after January 1, 2001 (1,108 members); phase 2, which consists of those members that retired between October 5, 1997 and December 31, 2000 (498 members); and phase 3, which consists of those members that retired prior to October 5, 1997 (2,542 members). As of August 2006, 96% of the phase 1 group and 91% of the phase 2 group have been completed. Due to the additional processing requirements for phase 3 members, only 48% of these recalculations have been completed.

Position reclassifications were completed at the management level resulting in the upgrade of the following positions: Becky Van Wyk, Chief Accountant, has been promoted to Assistant Retirement Administrator; Carol Sheela, Retirement Supervisor, has been promoted to Benefits Manager; and finally, Conor Hinds, Senior Accountant, has been promoted to Supervising Accountant.

IMPERIAL COUNTY

BOARD MEMBERS

Karen Vogel won her election to the office of Treasurer/Tax Collector/Retirement Administrator in June of this year.

There has been no change to the Board membership since the last conference.

STAFF

The Retirement Board, at their September 20th meeting, voted to implement the retirement staff re-organization plan submitted to them by the Retirement Administrator Karen Vogel. The re-organization plan was a product of a committee established by the Board of Retirement in May of this year. The committee was made up of the Retirement Administrator Karen Vogel, Board Member Jurg Heuberger and the Retirees' Association President Charles Jernigan. The key elements of the re-organization are to create an independent Retirement Administrator, who will be an "at-will employee" of the Retirement Board, and to consolidate four other positions in the office.

INVESTMENTS

The Retirement Board has concluded their search for managers in two new asset classes for ICERS. In the Emerging Market sector the Board hired Emerging Markets Management Group and in the Real Estate sector they hired RREEF and ING Real Estate. Mercer Investment Consulting Inc. conducted both searches for the Board.

BENEFIT NEWS

The Board of Retirement at their September 20, 2006 meeting approved a purchasing power supplemental benefit to all retirees. This benefit, which will become effective January 1, 2007, will grant increase to all retirees who have fallen below an 85% purchasing power threshold since their retirement. ICERS continues to see a record numbers of new retirees. The primary driver of this trend is the new benefit granted to the general members last year. (Government code section 31676.14)

KERN COUNTY

ELECTIONS IN NOVEMBER

An election for the Kern County Board of Retirement will be held November 21, 2006. Kern County Employees' Retirement Association (KCERA) members will cast their ballots to fill three seats: the Second, Seventh and Seventh Alternate.

The Second member is elected by KCERA's general members, while the Seventh and Seventh Alternate members are elected by KCERA's safety members. Terms for newly-elected Board members will begin in January 2007 and expire December 31, 2010.

Board of Retirement Trustee Farewell News

Howard Eddy, a district attorney investigator III in Kern County District Attorney's Office, retired in October 2006. Mr. Eddy, a Board trustee since June 2005, was appointed in a special election, after running unopposed.

In addition, three trustees will be stepping down from Kern County Employees' Retirement Association (KCERA) Board of Retirement at the end of this year.

Phil Franey, Kern County's treasurer—tax collector, will bid farewell to the Board when he retires at the end of the year. Mr. Franey has served on the Board for 20 years and has been involved with SACRS since 1981, when he served as the assistant treasurer for Kern County. Upon his retirement, Alternate Jackie Denney, who now serves as deputy treasurer—tax collector, will take over the position.

Tony Plante, fire captain with the Kern County Fire Department, will not seek reelection this year. He was elected by safety members to the Seventh Member seat and has served on the Board since 1995. Mr. Plante also was Board Chair from 2004—2005.

Jordan Kaufman, whose term expires in December 2006, will not seek reelection. Mr. Kaufman, senior administrative analyst with the Kern County Administrative Office, will become the new deputy treasurer—tax collector. Kaufman was elected to the Second Member seat after defeating four opponents in a special election in October 2005.

PENSION ADMINISTRATION SYSTEM CONSULTING

KCERA is seeking proposals for pension administration system consulting services to assist in the development of the Request for Proposal (RFP), procurement and planning and implementation of a new, comprehensive benefits system to replace its current antiquated application. Responses to the RFP are due to KCERA by October 13, 2006.

ACCOUNTING SOFTWARE IMPLEMENTATION PROJECT

A search is under way to acquire an integrated financial software application, along with consulting services to assist KCERA staff in its implementation. The new integrated financial software application will incorporate all accounting functions. KCERA's Information Technology Committee interviewed two finalists at a meeting on September and will recommend hiring Sikich, ICS Technology to the Board in October.

Facility Assessment Project

The Los Angeles firm, American Realty Advisors, has been hired to provide services related to facility assessment needs and market analysis for the KCERA offices. At present, leased space in the County Administrative Building is inadequate to ensure maximum productivity, efficiency and privacy to clients. American Realty will develop a space plan for current and future operations; complete an office relocation evaluation; evaluate lease, purchase and build options; and make recommendations for project plan development and project oversight.



LOS ANGELES COUNTY *CONTINUED*

BOARD NEWS

Board Elections to fill expiring terms were held in the summer of 2006 with the following results:

BOARD OF RETIREMENT

Simon Russin was re-elected for his ninth consecutive term as a member of the Board of Retirement. Mr. Russin has served continuously on this Board since 1983.

BOARD OF INVESTMENTS

Herman Santos was re-elected for a 2nd term.

In addition, Waltha Smith was appointed to the Board of Retirement.

The Boards completed their search for a new Chief Executive Officer to replace Marsha Richter who retired on October 16, 2006. By unanimous vote, the Boards selected Gregg Rademacher. Gregg has served as LACERA's Assistant Executive Officer since 1996. He is well-known to the SACRS community having served as Chair of the By-laws Committee for a number of years.

INVESTMENT NEWS

For the fiscal year ended June 30, 2006, the total fund surpassed its benchmark by 200 basis points and finished the year at 13%. This was driven by solid returns in International Equity, Private Equity, and Real Estate. This marks the third straight year of double digit returns far exceeding the plan's 7.75% actuarial return assumption. With the market correction fully realized in our actuarial valuation of plan assets, we expect our funding status to climb above the current 85.8% level.

Approved a \$300 million allocation to a domestic equity Corporate Governance mandate and retained the investment firms of: Blum Capital Partners, Relational Investors, LLC, and Shamrock Holdings, Inc.

The Board of Investments selected Wilshire Associates to serve as the plan's General Consultant.

Enhanced Core Fixed Income Search is almost complete. Finals interviews will be held in September.

Enhanced Index Fund Manager search is almost complete. Finalist candidates will be recommended at the September meeting.

A Request for Proposal is in process for a separate account private equity advisor.

Terminated Schroder's Investment Management's Pacific Basin mandate.

BENEFIT NEWS

Public Protection Act of 2006

We are working diligently to implement the various changes required by the Public Protection Act of 2006. The first implementation phase was to modify our business processes to allow employees to use 457 transfers to complete service credit purchase for the enhancement of pension benefits. The members who had a service credit purchase contract in process as of the date the President signed the bill were called and offered the opportunity to revisit their payment election. Forms, letters, and Outreach materials are being updated to reflect this new payment option. Phase two will address the retired safety member's ability to pay insurance premiums with pre-tax dollars. We expect that this will be communicated and implemented prior to year end.

LACERA RESOURCE CONFERENCE

Our LACERA Resource Conference provides an opportunity for participating employers (personnel officers and technicians) to join together and get first-hand information about LACERA and have questions answered by pension plan experts. Additionally, it provides the opportunity to improve our business relationship with the plan sponsor and to position LACERA as a valuable and trusted resource. The net result is improved customer service for our membership. Four conferences were held over the summer months. Each conference was held during a morning session in the LACERA Board room followed by a non-hosted networking lunch at local Pasadena restaurants.

This year's technical agenda focused on the Sworn Statement process and why getting the employee data to the retirement system correctly and timely is best for the employee and will make the plan sponsor's job easier in the long run. Participants were provided a comprehensive briefing on the new member process followed by the opportunity to critique the process and give suggestions for improvement. This group discussion and white-board approach was well received and provided valuable insight into improvements to make the process easier for departmental personnel. Conference participants were offered an employer hot line number to receive immediate support. The day's agenda included Disability Application and investigation, Post Retirement Employment, Long-Term Disability and Plan E, and eResources.

MARIN COUNTY

We are proud to announce the addition of Karin Carmin to our staff as Retirement Manager. Karin replaces Maggie Johnston, who retired in August after 25 years of county service (and 18 in the Retirement Department). Karin is an attorney who comes to us with significant experience in claims and benefits processing with both American Express

Life Assurance and Fireman's Fund Insurance. She lives in Novato (northern Marin County) with her son and daughter. She earned her BS from UC Berkeley and her JD from University of San Francisco. Please join me in welcoming Karin to our team.

MENDOCINO COUNTY

No news to report.

MERCED COUNTY

July elections resulted in a new Board member, Ronald Kinchloe representing miscellaneous employees and replacing Donald Washburn. MCERA wishes to thank Mr. Washburn for his many years of service.

As the result of an RFP process, MCERA selected Mellon Global as its new custodian effective November 1, 2006. MCERA has been working with Mellon's implementation team to complete the conversion from Bank of New York and expects a smooth transition to its new custodian.

Beginning in October 2006, the Board of Retirement initiated a system of two Board meetings per month. A gen-

eral meeting addressing administrative and benefit issues is held the second Thursday of each month and a finance meeting addressing investment and fiscal issues is held the fourth Thursday of each month. Under this new system, the Board of Retirement expects to have more time to address increasingly complex administrative and fiscal issues.

Regarding investments, the Board soon expects to review the results of a search for a new international small cap manager begun earlier this year and has requested a new asset allocation study to be completed by their financial consultant in 2007.



ORANGE COUNTY

- 1. Medical Investment Trust**—OCERS is in the process of establishing a medical investment trust for the use of participating employers in funding retiree medical ‘benefits’. (Under current arrangements in Orange County the funds are actually used to pay grants to assist retirees in paying medical premiums.) As of this writing AB 2863 is still pending action by the Governor. If the bill is not approved OCERS has plans for establishing a trust as allowed under current law. In either case, before the end of the year we will be in a position to invest money to help fund grants for retiree medical premiums.
- 2. Changes to Retiree Medical Plan**—Orange County has made significant changes to its medical plan and the associated grant program for retirees. At this point the changes apply to general members and retirees. The County is having discussions with the safety personnel. This item generated quite a bit of press coverage around the state. Here are the significant elements.

Current	Future
Retirees pooled with actives for premium calculation	Retirees pooled separately starting 1—1—2008
Retiree plan same as active plan	Possible customized retiree plans starting 1—1—2008
Grant to assist with premium—\$15.99 per year of service, to maximum of 25 years	No change
COLA maximum for grant, 5% annually	COLA maximum, 3% annually starting 1—1—2008
Grant the same regardless of age at retirement	<ul style="list-style-type: none"> • Grant amount reduced 7.5% for each year retire before age 60 • Grant amount increased 7.5% for each year retire after age 60 • Applies to future retirees, not current retirees
Grant not reduced once covered by Medicare	Grant reduced by 50% once Medicare eligible (does not apply to current retirees over 65)
Grant funded by 1% payroll deduction from active employees, plus 1% of pay from County	\$0 payroll deduction; County pays Annual Required Contribution to a trust (initially 3—3.5% of pay)

- 3. Board Chair**—Rich White has been elected Chair of the OCERS Board. The Vice—Chair is Reed Royalty. The terms for OCERS officers normally correspond with the calendar year, and officers may serve two years maximum. Rich became Chair following Tom Lightvoet’s decision (planned) to relinquish the chairmanship in June. Tom continues to serve on the OCERS Board. Rich is in his second term as the elected safety member of the OCERS Board.
- 4. Investment Consultant**—Early this summer OCERS completed searches for both a general consultant and a real estate consultant. Callan was selected for both roles. Callan has been the general consultant for OCERS for an extended period, but has not served as OCERS real estate consultant previously.
- 5. Change in County Treasurer**—John Moorlach, who has served as County Treasurer for over 10 years will be leaving that position in January to take a seat on the Board of Supervisors. His replacement as Treasurer is Chriss Street. Congratulations to both on their respective election victories.

SACRAMENTO COUNTY

No news to report.

SANTA BARBARA COUNTY

The Board recently approved an investment in a secondary fund of funds private equity portfolio managed by Lexington Partners.

As a result of requests for proposals PCA was selected as real estate consultant and Hamilton Lane was selected as private equity consultant.

The Board approved Arden as fund of funds hedge fund manager for its second real return investment strategy. The Board issued an RFP for actuarial services which closed in early October.

The Board has been working on a strategic plan and has made revisions in the conducting and reporting of meetings to improve flow and communications. The Board is also discussing their roles and expectations in System operations.

The Santa Barbara County Retirement System unveiled a new logo and branding for member communications.

We have added two positions and moved our Santa Maria office to a new location. Our Benefits Supervisor, Julie Salley, has announced her plans to retire in November. A statewide recruitment is underway.

SAN BERNARDINO COUNTY

SBCERA has several new staff that has joined our organization. Mike O’Kelly will join SBCERA on October 30 as the Chief of Fiscal Services. Mike worked for SBCERA in 2003 as a Supervising Accountant III. Most recently he was the Finance Officer at the Treasurer/Tax Collector’s Office.

Also, in the SBCERA Fiscal Services Division, we have the following new staff:

Sandra Hosch	Systems Accountant II
Yusuf Singleton	Accountant II
Ruben Gasco	Accounting Technician
Rebecca Marquez	Payroll Technician

In the Member Services Division, we welcome Pamela Collette as a Retirement Specialist.

The Board of Retirement and Board of Supervisors approved a new Assistant Chief Investment Officer position for SBCERA. Further information pertaining to the position, including the recruitment, is coming in the near future.

SBCERA’s new and improved website is live! This site has been enhanced to provide members with hands—on opportunities to manage and improve their retirement account. Some of the highlights include better access to forms, improved website navigation, enhanced SEARCH capabilities (powered by Google) and improved access to important documents. There is also a Web Member Services area that will put members in direct contact with their account information. Web Member Services includes two new powerful tools that will help SBCERA members: the **Retirement Benefit Calculator** and **Service Purchase Contract Estimator**. Members are able to use these tools to develop estimates that will aid you in your pre—retirement planning.

Road Show 2006 is underway. Each year SBCERA’s Communication Officer, Danielle De Palma —along with representatives from Human Resources, Social Security and ING (the County’s deferred compensation provider)— hit the road to present pre—retirement information for invited members who are near retirement. This year about 4,800 members were invited to attend one of 20 seminars taking place in different venues throughout San Bernardino County. The seminars are being held on select days from October 4, 2006 through November 6, 2006.



SAN DIEGO COUNTY

DISABILITY PROCESS

SDCERA has been hard at work on a comprehensive re-engineering of its disability process. The proposed system regulations and procedures are designed to streamline the disability system to promote efficient case flow, as well as professional and effective management and disposition of cases.

INVESTMENTS

SDCERA continues to diversify the investment program with the addition of four new managers, three in the absolute return space and one to the high yield program. The staff is also evaluating a variety of new ideas, including an in-house beta management strategy, active commodities and infrastructure.

SDCERA RELOCATION

SDCERA began operation in its new headquarters in the Mission Valley area of San Diego on Sept. 25, 2006. Management and staff phone numbers and e-mail addresses remain the same, although the Call Center's local number is now 619.515.6800.

NEW LOGO AND SLOGAN

SDCERA has a few changes this year, including an identity change with a new logo and slogan (shown below). The new design offers a simpler, professional approach and has an element of symbolism. The interlocking letters are symbolic to SDCERA's connection with its membership. The slogan "Strength. Service. Commitment." speaks not only to our member services, but to our investment side as well.



Strength. Service. Commitment.

CALL CENTER TECHNOLOGY

To coincide with the office move, the Call Center unveiled its new integrated phone system. It provides callers an automatic call back option vs. waiting on hold, and provides SDCERA with improved messaging and statistical tracking.

ALTERNATE RETIRED BOARD ELECTION

A special election was held August 15 for the Retirement Board's alternate retired seat, which was left vacant as a result of E. F. "Skip" Murphy's resignation. Katherine Ryan was voted as new alternate retired board member and filled the seat September 19.

SDCERA EXPANDS TEAM

Johanna Shick joins SDCERA as the manager for the Communications and Education unit. Johanna previously worked eight years as the client services/communications manager for the Washington State Department of Retirement Systems. Patrick Rafferty is SDCERA's newest investment officer. Patrick is a Chartered Financial Analyst and has worked ten years in the finance field.

SAN JOAQUIN COUNTY

BOARD OF RETIREMENT

- Ms. Margo Praus was re-elected (uncontested) to the General Member position on the Board.
- Ms. Judith Courtney was re-elected (uncontested) to the Retiree Member position on the Board.
- Mr. Ed O'Neill, III was re-appointed to the Board of Retirement.

ACTUARIAL RESULTS

- Funding ratio moved to 89.2% (from 91.3%) primarily the result of implementation of new post retirement mortality tables for general members and investment shortfall.
- The Board continues to hold to an investment return of 8.00% compounded.

- The Board approved the Actuary's recommendation to change the inflation assumption from 4.25% to 3.50%; increase the merit and longevity assumption from 1.50% to 2.25%; these results changed the real rate of return to 4.50%.

INVESTMENTS

The Board has continued to focus on Alternative Investment Strategies:

- Moved from a Currency Overlay Strategy based on the ten (10) major currencies to forty-two (42) possible pairings (FX Concepts).
- Moved from a Currency Overlay Strategy to a Pure Alpha Strategy wherein currency represents only 31% of the investments (Bridgewater Associates).

- Hired a multi—strategy hedge fund as a alpha port to the S & P Index (FrontPoint Partners, LLC).
- Hired an absolute return fixed income manager that uses LIBOR as a base rather than the Lehman Brothers Aggregate Bond Index (Stone Harbor Partners).
- Added a Non—U.S. REIT manager (Alpine Capital).

BENEFITS

- The limited funding for the class action (Ventura) settlement for post—82 retiree is exhausted. (\$10 per year of county service, maximum of 30 years). It will be restored on a prospective basis when excess earnings are generated again.

HEALTH

- Board of Supervisors will allow retirees to use their sick leave bank accruals as reimbursement for any health insurance premiums, not just health plans sponsored by the County.

- The initial OPEB report from the Actuary found the County's unfunded liability to be at \$17.9 million for the sick leave bank as of December 31, 2005. (County does not contribute to retiree health). County plans to meet obligation by funding liability over the next ten (10) years.

OPERATIONS

The Board has directed staff to release the following Request for Information (RFI's):

- Third party health care administrator to handle retiree health premiums.
- Auditor for the year 2006.
- Actuary to conduct valuation and experience studies through December 31, 2006.

STAFFING

Board of Retirement has begun the process to replace the Retirement Administrator.

SAN MATEO COUNTY

BOARD NEWS

For the 2006—2007 fiscal year the board elected **Tom Bryan**, chair; **Emily Tashman**, Vice Chair; and **Bette Stuart**, Secretary. Mr. Bryan was first elected to the board for the 1986—1987 fiscal year. This is his third time serving as chair.

Deputy Sheriff David Wozniak was elected to a position on the Board of Retirement at the June 2006 election. **Paul Hackleman**, County Benefits Manager, was re—elected to his board position at that same election.

For the 2006—2007 fiscal year the board will have two new alternate members. In the June election, **Alma Salas** was elected to serve as an alternate in the event of the absence of any member elected by the membership, except for the retiree—selected member. The board voted to name **John Murphy** as the Alternate Retired Member.

Also in June, the Board of Supervisors reappointed **Emily Tashman** and **James Hooley** to their positions on the Board of Retirement.

MEMBER SERVICES

The board and staff welcomed the return of Assistant Executive Director **Scott Hood** in July. Mr. Hood is a Lieutenant Colonel in the Army Reserve. He was away from the office for approximately one year serving in Iraq.

SamCERA issued a request for proposals in August for a comprehensive information technology plan. Responses are under review.

INVESTMENT SERVICES

For the one—year period ended June 30, 2006, the investment portfolio outperformed its benchmark and returned 10.66%. *SamCERA's* Net Assets Held in Trust for Pension Benefits grew by approximately \$190 million last fiscal year. The balance as of June 30, 2006, was approximately \$1.8 billion. *SamCERA* will work with investment consultant Strategic Investment Services to conduct an asset/liability study in Fall 2006.

ACTUARIAL SERVICES

The June 30, 2006, Actuarial Valuation resulted in a reduction in county contribution rate of 0.45 percent of salary. Member contribution rates were unchanged.



In September the board began discussing development of an "Undistributed Earnings Policy." For the ninth consecutive year, the Government Finance Officers Association (GFOA) has awarded *SamCERA* its Certificate of Achievement for Excellence in Financial Reporting. This award was in recognition of our Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2005. The certificate is reproduced on page 10.

SamCERA is also the recipient of the Government Finance Officers Association (GFOA) Award for Outstanding Achievement in Popular Annual Financial Reporting for the third year running. We received this honor for our Popular Annual Financial Report (PAFR), for the fiscal year ended June 30, 2005.

SONOMA COUNTY

- Board Membership, Elections and Appointments—Ex officio Trustee Tom Ford retired and was replaced by Sonoma County Auditor/Controller Rod Dole who was sworn in by the Board of Supervisors as Auditor/Controller Treasurer/Tax Collector at their meeting on September 26, 2006.
- The Retired Member Trustee Robert L. Nissen is stepping down from the Retirement Board effective December 31, 2006 and a special election will be required. Alternate Retired Trustee Mike Chrystal has expressed interest in running for the remainder of the term for the Retired Member Trustee position. The Retirement Board at their meeting held on July 20, 2006 chose to adopt a contingent special election process to fill the remainder of the term of the Retired Member Trustee position and possibly the Alternate Retired Member Trustee.
- An investment manager search to select a Broad Mandate U.S. Equity Manager is in process.
- An asset allocation change was made to reduce the cash allocation to 1% and increase core real estate to 9%. The total real estate allocation is now 13%: core real estate 9% and value—added real estate 4%.
- Kohlberg & Associates is completing a custody fee benchmarking study.
- Gabriel Roeder Smith & Company recently completed a triennial actuarial experience study.
- The requirements specification phase of the Integrated Pension System Project is complete with the assistance of Linea Solutions. A software supplier RFP and implementation services consultant RFP are in development.
- Two new staff positions have been added and hiring is in process: Department Information Systems Coordinator and Investment Officer.

STANISLAUS COUNTY

The Stanislaus County Employees' Retirement Association's Retirement Board has struggled for over one year with how best to manage dwindling excess earnings and rising expenditures for retiree health allowances. On September 13, 2006 the Retirement Board determined that the current allowance would be maintained through 2007, but beginning in January 2008, many retirees will experience about a one-third decrease.

We did have some good news: The Retirement Board and the Board of Supervisors agreed to allow retirees to be pooled with employees in the insurance pools for determining medical insurance premiums for the next five years. This has kept a non-Medicare retiree's monthly medical insurance premium at around \$410-\$440 for 2007.

For the price of approximately five months of retiree ad hoc benefits (about \$2.7 million), StanCERA purchased a 66 years' condominium interest in a newly erected office building along with adjacent parking. On June 22, 2006... we moved in! The Retirement Board now meets in its own Board Room with seating around the table for 20. Staff enjoy over 7,000 square feet with spacious cubicles, three inner offices (a first for StanCERA), meeting room (seats 8) and conference room (seats 12). And if that were not enough... there are still over 5,000 square feet that StanCERA can lease to another tenant (or two). The new "digs" are in the sixth (top) floor of the building, giving StanCERA a

NEW PHYSICAL ADDRESS:

STANCERA
832 12TH STREET, SUITE 600
MODESTO, CA 95354

The "old" Post Office box for regular U.S. mail is still correct: P. O. Box 3150, Modesto, CA 95353-3150. E-mail addresses and phone numbers are all the same. This has been quite a "moving" experience for all of us!

StanCERA finished its third June in a row with annual earnings in excess of the actuary's assumed rate of 8.16%. (helping to offset the prior three years that did not meet that expectation). Board members approved increasing the allocation of investments to International Equities and added a 5% Special Situations Fund for investment into asset classes not currently funded such as real estate, private equity, venture capital, etc.

We have made great strides in implementing our new integrated technology system. The active members' data is "up and running" and includes benefit estimates and member statements. Retiree data has been loaded and the final testing of payroll modules is under way. We plan to be fully operational in 2007.

TULARE COUNTY

By the time this notice is read by SACRS participants, TCERA will almost certainly have reached over \$1 billion in total assets. While such news may make some of you smile, and others chuckle out loud, for a plan of our size it represents a major milestone and reflects many years of effort on the part of TCERA's Trustees, staff, consultants and investment managers. Investment returns for the retirement association have been excellent in the short-term (13.4% for the 1-year period ending June 30th) and also for the long-term (10.4% for the 10-year period ending June 30, 2006). These numbers rank TCERA in the 5th percentile of public funds included in the Independent Consultants Cooperative (ICC) sample for both the 1-year and 10-year timeframes.

TCERA's investment portfolio continues to change and evolve. Since the last SACRS conference, the retirement plan has hired Western Asset Management Company to handle the core-plus portion of our fixed income investments. In addition, the Retirement Board Trustees have made a \$30,000,000 commitment to value-added real estate and have hired TA Associates Realty as the manager for this sector of the portfolio.

Trustee changes continue to occur. Mr. Bob Bates has joined the Retirement Board as an appointed member replacing long-term Board Trustee, Leanne Malison, who resigned her position on the Retirement Board to become the Assistant Retirement Administrator with TCERA. In January,



newly elected Treasurer/Tax—Collector/Auditor, Rita Woodard, will officially take her seat on the Retirement Board as the new ex—officio member.

Finally, the Tulare County Board of Supervisors reached agreements with the bargaining units covering all General employees in the County to increase retirement benefits to the 2% at age 57 formula (Section 31676.12). This

change was made retroactive to July 1, 2005 and is for service earned with TCERA on and after that date. The TCERA Board and staff, working in conjunction with Tulare County staff, are now close to completing a program by which plan members will be allowed to convert prior service to the new formula by paying the additional employee and employer costs for the service credit conversion.

VENTURA COUNTY

BOARD MEMBERS

There have been no changes in Board membership since the Spring Conference. William W. Wilson remains the Board Chair with Tracy Towner Vice—Chair. The Board will hold its annual retreat this fall to discuss future investment strategies.

ADMINISTRATION

The Board completed its triennial actuarial investigation and modified several actuarial assumptions including those relating to rates of retirement, mortality, member withdrawals, and salaries.

INVESTMENTS

The Board hired Guggenheim Real Estate and RREEF to manage \$25 million each in core plus/value added real estate mandates.

LITIGATION

Plaintiffs filed an appeal in VCERA's excess earnings lawsuit, *George Mathews, Et Al. v. VCERA and County of Ventura*, seeking to overturn VCERA's and the County of Ventura's favorable decision in the superior court regarding the treatment of excess earnings as valuation assets and the resulting reductions in County contribution rates.