



Introduction

2010



Asparagus officinalis L.

*Let there be seasons so that our tongues
will be rich in asparagus and limes.*

San Joaquin County Employees' Retirement Association



Picking Asparagus

Asparagus (Asparagus officinalis)

San Joaquin County is the principal asparagus production area of California.

California is the leading asparagus producing state in the United States.

About 30% of California asparagus production is exported, primarily to Japan, Europe and Canada.



Letter from Chair of the Board



On behalf of the Board of Retirement, I am pleased to present this Comprehensive Annual Financial Report for the San Joaquin County Employees' Retirement Association.

This CAFR is provided to all participating employers, and to the employee and retiree organizations that represent the members of SJCERA; the dedicated public employees who provide services, assistance, and support to the people of San Joaquin County.

As fiduciaries, we take very seriously the trust you have placed in us to prudently manage plan assets, ensure proper funding of earned benefits, and minimize risk.

During these challenging economic times, it is not surprising that we find ourselves focusing on the basics: tending to the fundamentals of our field, carefully planting seeds that will flourish in the seasons ahead, responsibly managing our resources, monitoring the environmental forces influencing our growth, and harvesting sustainable retirement income security for our members and beneficiaries.

We thank the Audit Committee of the Board for its independent oversight of SJCERA's accounting and financial reporting as reflected in this CAFR.

We appreciate the dedicated effort of SJCERA staff and the partnership of our professional consultants and advisors who contribute to the continued successful operation of SJCERA.

Dave Souza
Chair, Board of Retirement

Letter of Transmittal



San Joaquin County Employees' Retirement Association

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May 31, 2011

Board of Retirement
6 S. El Dorado Street, Suite 400
Stockton, CA 95202

Dear Board Members:

As the Chief Executive Officer of the San Joaquin County Employees' Retirement Association (SJCERA), I am pleased to present the Comprehensive Annual Financial Report (CAFR) for the years ended December 31, 2010 and 2009.



This CAFR is intended to provide users with extensive and reliable information for making management decisions and determining compliance with legal provisions, and demonstrates the responsible management and stewardship of SJCERA. The management of SJCERA is responsible for both the accuracy of the data and the completeness and fairness of the presentation in this CAFR. 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. This Letter of Transmittal is presented as a narrative introduction, overview and analysis and should be read in conjunction with the Management's Discussion and Analysis included in the Financial Section of this CAFR.

SJCERA AND ITS SERVICES

SJCERA Mission Statement

We are trusted financial stewards committed to provide excellent service and lifetime retirement benefits to our members.

SJCERA was established by the San Joaquin County Board of Supervisors by Ordinance No. 485, dated June 28, 1946, and is governed by the California State Constitution and the County Employees Retirement Law of 1937 (CERL), California Government Code, Section 31450 et. seq. SJCERA is a multi-employer public employee retirement system that provides retirement, disability, and survivors' benefits to eligible general and safety members employed by the County of San Joaquin and nine other public agencies:

- Lathrop-Manteca Rural Fire Protection District
- Mountain House Community Services District
- San Joaquin Local Agency Formation Commission
- San Joaquin County Historical Society and Museum
- San Joaquin County Law Library
- San Joaquin County Mosquito and Vector Control District



- San Joaquin County Superior Court
- Tracy Public Cemetery District
- Waterloo-Morada Rural Fire Protection District

The SJCERA Board of Retirement is responsible for establishing policies governing the administration of the retirement plan, determining benefit allowances, and managing the investment of plan assets. The Board oversees the Chief Executive Officer and staff in the performance of their duties in accordance with the CERL and the bylaws, policies, and procedures adopted by the Board. The San Joaquin County Board of Supervisors, as the sponsor of the plan, may also adopt resolutions as authorized by the CERL that affect benefits of SJCERA members.

The SJCERA Board of Retirement is a ten-member board: The County Treasurer serves as an ex-officio member. Four members are appointed by the San Joaquin County Board of Supervisors, one of which is a County Supervisor. Five members are participants in the plan and are elected by SJCERA members: Two are elected by active General members; one is elected by active Safety members; and two are elected by retired members, one of which is the alternate retired member and only votes in the absence of the retired member. With the exception of the County Treasurer and the County Supervisor, board members serve three-year terms with no term limits.

HIGHLIGHTS OF YEAR 2010

SJCERA ended calendar year 2010 with earnings on its total portfolio of 12.0% and \$1.94 billion in market value of assets. In 2009, the portfolio earned 14.7%, making 2010 the second consecutive year, since the decline of 30% in 2008, that actual earnings have exceeded the Board's assumed annual earnings rate (7.75% in 2010, and 8.16% in 2009). These recent gains are a significant improvement from a post-financial crisis low of \$1.56 billion in 2009. As of December 2010, SJCERA has earned back \$387 million of the \$668 million drawdown in 2008, with another \$281 million needed to reach the high point of \$2.23 billion in 2007.

While total assets have increased substantially, it is important to note that accrued liabilities of the plan have also increased from \$2.3 billion to \$2.9 billion during the same period (December 2007 through December 2010). Successfully addressing this funding gap will require: 1) increased retirement contributions; 2) benefits management through plan design changes to reduce costs over the long-term; and 3) positive earnings on the investment of plan assets at or above the assumed annual earnings rate.

Historically, 70 cents of every dollar of benefits paid to retirees and their beneficiaries are generated from investment earnings. Defined benefit plans out-perform defined contribution plans and offer greater retirement security, and are thus more successful for attracting and retaining full-career public employees. At the same time, the recent substantial investment losses have presented a significant cost management challenge for employers. This challenge will continue until such time as the investment markets can generate sufficient investment returns to negate the earnings shortfall and return to a more stable cost environment.

Fortunately, our retirement systems are endowed with the features that will allow us to address the challenges that face us. First, we are built to ride out market disruptions and to

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be well-positioned to capitalize as the market recovers. We have unique advantages in the investment markets. We have tremendous reach, able to include international markets, emerging markets, and private markets in our portfolio, with a low cost of investment relative to our assets. We have no fixed investment horizons, as individuals do. In most cases, the yields from the plan's income-generating investments is more than sufficient to pay benefits for the foreseeable future. Defined benefit plans are the ultimate long-term investors.

Investing plan assets with the liabilities in mind has been a key component of the Board's work in recent years on funding policy, investment policy, asset allocation, and investment manager structure. Rather than simply looking to maximize the return from individual asset classes, there is an improved awareness of risk in terms of growth, liquidity, and inflation. Late in 2010, the Board outlined its plan for conducting an asset and liability study in 2011. SJCERA's investment consultant and actuary will be working together on modeling plan liabilities and assets. The output of such a study is highly dependent on the quality of the assumptions used and degree to which the models reproduce the real-world processes it seeks to emulate. The most valuable result will be to provide the Board with insight into the interactions of the numerous variables involved in the funding of plan liabilities, and the potential as well as probable risks and rewards associated with each possible course of action.

Second, we have the ability to adjust the manner in which we fund the system. In 2009, the Board modified its funding policy to help stabilize the employer contribution rate using methods consistent with actuarial standards of practice and the long-term funding horizon. Without this policy change, the composite employer contribution rate would have risen from 27% of covered payroll to nearly 40% in 2010. Under the revised funding policy, the composite employer contribution rate was less than 29% in 2009, and just under 32% of covered payroll in 2010.

Third, the design of the benefit plan can be changed to respond to new developments. Generally, the employers and their active employees determine retirement benefit plan design through the collective bargaining process. State and local governments will be grappling with severe budget shortfalls for some time to come. Stakeholders of public defined benefit plans will need to determine what plan design changes are appropriate and how best to implement them. Some key considerations in this effort include:

- Benefit Adequacy – What is the reasonable level of replacement income that should come from an employer-provided pension benefit? At what age and for what length of service should a public employee receive that level of replacement income? How does the pension benefit compare to other sources of retirement income?
- Sustainability – What will help assure that defined benefit plans remain available for future generations of public employees? What is a reasonable cost to provide such a plan?
- Shared Responsibility – What is a reasonable and appropriate way to share the cost and risks associated with a defined benefit plan?

Answering these questions in a way that ensures future generations of taxpayers will be served by a knowledgeable, skilled, and experienced public work force at a reasonable cost is



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a necessary, yet worthwhile, challenge. The ultimate objective remains unchanged: To ensure individuals who dedicate their career in service to the public have an adequate and secure retirement income.

A major initiative for SJCERA in 2010 was in response to the Internal Revenue Service's (IRS) stated objective of ensuring all public defined benefit retirement plans are operating in compliance with applicable federal laws and rules to maintain status as a qualified tax-exempt plan. We participated in a coordinated effort with other county retirement systems in California to conform the CERL to federal requirements. Working with tax counsel Hanson Bridgett LLP, SJCERA also completed a comprehensive self-audit of plan operations to identify any potential compliance issues and submit a request for plan determination letter and voluntary compliance program correction application with the IRS. The IRS has received hundreds of public plan requests for determination letters within the filing window defined for governmental plans. We expect it will take many months, perhaps more than a year, before the IRS provides a response to SJCERA's request. In the meantime, SJCERA has made updates to documents and ongoing operations that we believe ensure continued and enhanced compliance with federal requirements.

Additionally, the Board of Retirement adopted a Placement Agent Information Disclosure Policy and received completed disclosure forms from all of SJCERA's investment managers in compliance with this new policy. SJCERA's Board members, employees and consultants are subject to numerous legal requirements related to ethical conduct, compliance with their fiduciary responsibilities, and to prevent conflicts of interest. This new policy enhances the transparency of the investment decision-making process by requiring broad, timely, and updated disclosure of any relationships between SJCERA's current or prospective investment managers and placement agents these managers may use to secure or increase an investment by SJCERA. The Board also revised its delegation of authority for real estate investments to provide a more efficient process for the Board to make investment decisions for and oversee its real estate portfolio through its Real Estate Committee.

Two special elections were conducted in 2010 to fill vacant positions on the Board of Retirement. In the first special election, Lawrence Mills, who was then serving as the Alternate Retirement Member, was elected to complete the remaining term of the Retired Member position, vacant due to resignation. Subsequently, Richard Callistro won a special election to complete the remaining term of the Alternate Retired Member position.

FINANCIAL INFORMATION

SJCERA's management is responsible for the accuracy, completeness, fair presentation of information, and all disclosures in this report, as well as for establishing and maintaining an internal control structure that ensures SJCERA's financial reporting is accurate and reliable and that SJCERA's assets are protected from loss, theft, or misuse.

Brown Armstrong Accountancy Corporation, a certified public accounting firm, has audited the financial statements and related disclosures. The financial audit provides assurance that SJCERA's financial statements are presented in conformity with generally accepted accounting principles (GAAP) in the United States of America as promulgated by the Governmental

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Accounting Standards Board (GASB) and are free from material misstatement. Internal controls are sufficient to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules. The accompanying basic financial statements and transactions of the organization are prepared on the accrual basis of accounting.

ACTUARIAL FUNDING STATUS

SJCERA's funding objective is to satisfy all benefit commitments by following an actuarially prudent funding plan, obtaining superior investment returns consistent with established risk controls, and minimizing employer contributions to the retirement fund. The advantage of a well-funded plan is that the benefits earned by plan 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, SJCERA smoothes the calculation of actuarial assets over a rolling five-year period. This not only stabilizes contribution rates but also improves the ability of employers to plan for possible future adjustments to the retirement contribution rates.

SJCERA engages an independent actuarial consulting firm to perform an annual actuarial valuation of the pension plan. The purpose of the annual valuation is to reassess the value of the benefit commitments and compare this to the assets expected to be available to support those commitments so employer and employee contribution rates can be adjusted accordingly. Economic assumptions are reviewed annually. The most recent annual actuarial valuation was performed by EFI Actuaries, Inc. as of January 1, 2010.

Additionally, every three years, a triennial experience study is performed and the non-economic assumptions are reviewed. The experience study compares the assumed rate at which SJCERA's members terminate employment, retire, become disabled, or die to the actual experience of the plan for the previous three years. If actual experience differs significantly from what was expected, the assumptions are adjusted as appropriate. The most recent triennial experience study was completed by EFI Actuaries, Inc., for the three years ending December 31, 2009. As a result of this study, the Board approved modest changes in demographic and salary growth assumptions, adopted new mortality tables, and lowered its long-term inflation rate assumption by one-quarter of a percent, resulting in an assumed nominal rate of return of 7.75% (formerly 8.0%). The Board directed its actuary to incorporate these changes in assumptions into the annual actuarial valuation as of January 1, 2010.

Defined benefit pension plans must rely on professional pension actuaries to determine plan liabilities and funding requirements based on the demographic and economic assumptions and funding policy adopted by the plan's governing body. Because the work of the pension actuary is a critical component of plan administration, and consistent with its past practice, the Board of Retirement engaged a second actuarial firm in 2010 to perform an independent parallel annual valuation and triennial experience study. Gabriel Roeder Smith (GRS) performed the actuarial audit services to validate the methods, assumptions, and results of SJCERA's retained actuary. The results of GRS' work were consistent with the results of EFI Actuaries, with less than a one percent difference in both the actuarial accrued liability and total employer cost as a percentage of payroll.



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The actuarial funding status is determined from a long-term, ongoing perspective. The valuation determines the progress made in accumulating sufficient assets to pay benefits when due. As of January 1, 2010, the pension plan's actuarial accrued liability was \$2.77 billion, the actuarial value of assets was \$1.95 billion, and the unfunded actuarial accrued liability was \$821 million. The funding status (the ratio of plan assets to plan liabilities) was 70.4%. A more detailed discussion of funding is provided in the Actuarial Section of this report. In 2009, the Board of Retirement deemed one-half of the unprecedented decline in market value of assets experienced in 2008 as an Extraordinary Actuarial Loss to be separately amortized as a level percentage of pay over a closed 30-year period. The Board also modified the funding policy for the plan to amortize the remaining unfunded actuarial accrued liability (UAAL) using a 20-year open period until January 1, 2014. Thereafter, the amortization period will be decreased by one year in each valuation report until a 12-year amortization period is reached. Previously, the plan's entire UAAL was amortized as a level percentage of pay over an open 10-year period.

In 2010, the Board lowered its assumed annual rate of return on investments to 7.75%. The actual return on investments for calendar year 2010 was 13.0%. As of January 1, 2010, deferred losses under the five-year smoothing method exceeded deferred gains by \$477 million. For the annual actuarial valuation as of January 1, 2011, the portion of the deferred losses to be recognized are expected to be significantly offset by the portion of 2010 investment gains to be recognized. As a result, required contributions are expected to remain stable for the next year.

INVESTMENTS

The California Constitution and the CERL confer exclusive control and fiduciary responsibility for investing SJCERA's funds on the Board of Retirement. Board members are legally required to carry out their duties under a standard of care in California commonly known as the "prudent expert rule." The prudent expert rule requires fiduciaries to discharge their duties solely in the interest of the fund participants and beneficiaries and with the degree of diligence, care and skill that a prudent person familiar with such retirement and investment matters would ordinarily exercise under similar circumstances in a like capacity.

The Board has adopted investment policies that establish the investment program goals, asset allocation, performance objectives, investment management policies, and risk controls on investments. These provide the framework for the management of SJCERA's investments and define the principal duties of the Board, custodian bank, and investment managers. The asset allocation is an integral part of the Board's investment policy and is designed to provide an optimal mix of asset classes with return expectations that correspond to expected liabilities, while reducing overall risk. A summary of SJCERA's asset allocation can be found in the Investment Section of this report.

Under the CERL, the Board is authorized to invest in any form or type of investment deemed prudent in the informed opinion of the Board. The Board delegates much discretion to professional investment managers subject to investment policy and guidelines approved by the Board. SJCERA's assets are managed exclusively by external professional investment

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managers. The statement of investment policy outlines the responsibility for the investment of the fund and the degree of risk that is deemed appropriate for the fund. Investment advisors are to execute the investment policy in accordance with the statutory authority, the Board policy and their respective guidelines, but are to use full discretion within the policy and guidelines.

The Board uses the services of a general investment consultant, Strategic Investment Solutions, Inc., and a real estate investment consultant, ORG Real Property, who, together with SJCERA staff, assist the Board in formulating investment policies and objectives, setting asset allocation, developing investment manager guidelines, and monitoring investment manager performance and compliance.

For the year ended December 31, 2010, the portfolio gained 13.0% before fees, ranking in the 61st percentile of public defined benefit retirement plans with assets over \$100 million. The Board's economic assumptions anticipate a 7.75% annualized rate of return. SJCERA's annualized rate of return before fees was -3.6% over the last three years, 1.8% over the last five-years, and 4.7% over the last ten years. For the year ended December 31, 2009, the SJCERA investment portfolio experienced a positive return of 14.7% before fees, ranking in the 84th percentile of the same comparison universe.

The Investment Section of this report presents a summary of SJCERA's investment results, asset allocation, investment holdings, and other investment-related information.

PROFESSIONAL SERVICES

Professional consultants and investment managers are retained by the Board of Retirement to provide professional services that are essential to the effective and efficient operations of SJCERA. The consultants and investment managers retained by the Board are listed on page 17 of this report.

This report includes an opinion from SJCERA's independent auditors, a letter from its general investment consultant, and a letter of certification from SJCERA's actuary.

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 SJCERA for its Comprehensive Annual Financial Report for the Year Ended December 31, 2009. The Certificate of Achievement, reproduced on page 12, is a national award recognizing excellence in the preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we will again submit it to GFOA for appraisal.



PUBLIC PENSION COORDINATING COUNCIL

SJCERA received the Public Pension Coordinating Council (PPCC), Public Pension Standards Award, in recognition of meeting the professional standards for plan design and administration as set forth in the Public Pension Standards. This award is presented by the PPCC, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS) and the National Council on Teacher Retirement (NCTR).

ACKNOWLEDGEMENT

This report is intended to provide complete and reliable information as the basis for making management decisions, determining compliance with legal provisions, and demonstrating the Board's responsible stewardship of SJCERA. The compilation of this report reflects the combined and dedicated effort of the SJCERA staff, in particular Lily Cherng, Retirement Financial Officer, and Greg Frank, Management Analyst.

I appreciate the Board of Retirement for its leadership and dedication, which provide the basis for a strong retirement system. I value the staff of the SJCERA team and their commitment and diligent effort to provide consistently excellent service to our active and retired members. I am grateful for the partnership of our consultants and advisors, and the many people whose dedicated efforts assure the successful operation of SJCERA.

Respectfully submitted,

Annette St. Urbain
Chief Executive Officer

Certificate of Achievement for Excellence in Financial Reporting

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to
San Joaquin County
Employees' Retirement Association
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



Public Pension Coordinating Council

**Public Pension Standards Award
For Funding and Administration
2010**

Presented to

**San Joaquin County
Employees' Retirement Association**

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

Members of the Board of Retirement as of December 31, 2010



David Souza,
Chair
Elected by
Safety Members



Steve Bestolarides,
Vice-Chair
Appointed by Board
of Supervisors



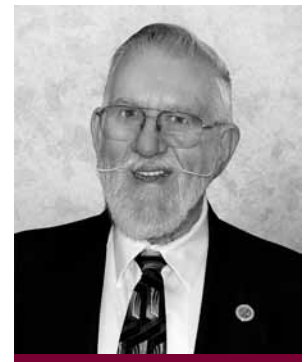
Raymond McCray,
Secretary
Appointed by Board
of Supervisors



Shabbir Khan,
Treasurer-Tax Collector
Ex-Officio Member



Michael Restuccia,
Appointed by Board
of Supervisors



Ed O'Neill,
Appointed by Board
of Supervisors



Margo Praus,
Elected by General
Members



J.C. Weydert,
Elected by General
Members



Lawrence Mills,
Elected by Retired
Members



Richard Callistro,
Elected by Retired
Members - Alternate



San Joaquin County Employees' Retirement Association Staff



STANDING ROWS:
(left to right)

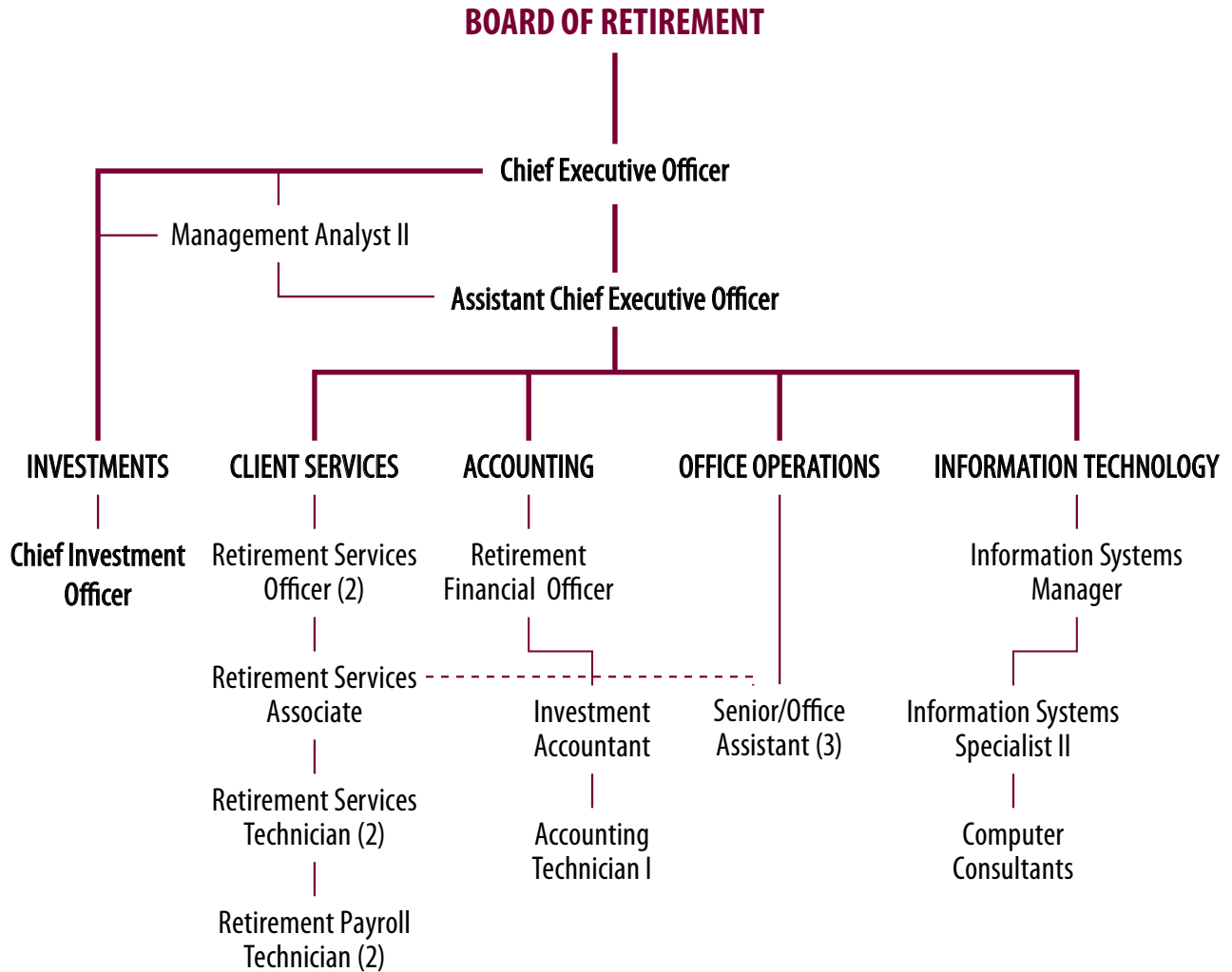
Chris Johnson, Debra Khan, Beatriz Garcia, Maria Sandoval,
Tallie Claypool, Tim Ankcorn, Marissa Smith, Greg Frank,
Melinda DeOliveira, Jordan Regevig, Nieves Atterberry,
Stephanie Conner

SEATED ROW:
(left to right)

Lily Cherng, Nancy Calkins, Annette St. Urbain,
Patricia Pabst, Mercy Tayabas

Administrative Organization Chart

San Joaquin County Employees' Retirement Association





List of Professional Consultants

CONSULTING SERVICES

Actuary

EFI Actuaries

Auditors

Brown Armstrong Accountancy
Corporation

Custodian

Northern Trust Company - Institutional
Trust Account Manager

Information Systems

IG, Incorporated

Investment Consultants

ORG Portfolio Management
Strategic Investment Solutions

Legal Counsel

Hanson, Bridgett, Marcus, Vlahos
& Rudy
Haydel and Ornellas
Kroloff, Belcher, Smart, Perry
& Christopherson
Morrison & Foerster
San Joaquin County Counsel

Securities Lending

Northern Trust Company - Institutional
Trust Account Manager

INVESTMENT MANAGERS

U.S. Equity

Bernzott Capital Advisors
Blackrock
Capital Prospects
Castleark Management
Channing Capital Management
Chinook Capital Management
Crosswind Investments
Dodge & Cox Investment Managers
InView Investment Management

Keeley Asset Management
Legato Capital Management
Research Affiliates
Riverbridge Partners
Stephens Investment Group
Ten Asset Management
Walthausen & Co

Non-U.S. Equity

Blackrock
Research Affiliates

Fixed Income

Dodge & Cox Investment Managers
Mesa West Capital
Prima Capital Advisors
Stone Harbor Investment Partners

Real Estate

Alpine Woods Capital Investors
AMB Capital Partners
Colony Realty Partners
Greenfield Partners
INVESCO Real Estate
Legacy Partners
Miller Global Properties
RREEF
Walton Street Capital

Alternative Assets/Currency Overlay

AlphaEngine Global Investment
Solutions
Arrowhawk Capital Partners
Bridgewater Associates
Clifton Group
FX Concepts
Mount Lucas Management
Research Affiliates
Schroders Investment Management

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