



SDCERS

San Diego City Employees' Retirement System

A Component Unit of the City of San Diego

Comprehensive Annual Financial Report

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

San Diego City Employees' Retirement System

A Component Unit of the City of San Diego

A Defined Benefit Pension Plan for
Employees of the City of San Diego, the San Diego Unified Port District
and the San Diego County Regional Airport Authority.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The San Diego City Employees' Retirement System's (SDCERS) mission is to deliver accurate and timely benefits to its members, retirees and beneficiaries and ensure the Trust Fund's safety, integrity and growth.

Issued by:

Mark A. Hovey

Chief Executive Officer

Robert J. Buscher

Chief Financial Officer

401 West A Street, Suite 400, San Diego, CA 92101-7991

(619) 525-3600 / Toll Free (800) 774-4977

www.sdcers.org

Contents

1. Introductory Section

Transmittal Letter from the Chief Executive Officer	2
GFOA Certificate of Excellence	5
Organization	
Board of Administration	6
Board of Administration Committees	7
Organization Chart	8
Report from SDCERS' Board President	9
Professional Services	10

2. Financial Section

Independent Auditor's Report	12
Management's Discussion and Analysis	14
Financial Statements	
Statement of Plan Net Assets	22
Statement of Changes in Plan Net Assets	23
Statement of Fiduciary Assets and Liabilities – Agency Funds	24
Notes to the Financial Statements	25
Required Supplementary Information	
Schedules of Funding Progress	54
Notes to the Schedules of Funding Progress	55
Schedules of Plan Sponsor Contributions.....	57
Notes to the Schedules of Plan Sponsor Contributions.....	59
Other Supplementary Information - Supporting Schedules	
Schedule of Administrative Expenses	60
Schedule of Fees Paid to Investment Professionals.....	61
Schedule of Payments to Consultants.....	62
Statement of Changes in Assets and Liabilities – Agency Funds.....	64

3. Investment Section

Investment Consultant's Statement, provided by Hewitt EnnisKnupp	66
Asset Class Investment Returns	68
Investment Managers.....	69
Summary of Investment Goals and Philosophy.....	70
Target and Actual Asset Allocation	71
Schedules of Largest Equity and Fixed Income Holdings.....	72
Schedule of Commissions	73
Growth of Investments, at Fair Value	74

4. Actuarial Section

Actuary's Certification Letter	76
Summary of June 30, 2010 Valuation Results	78
Summary of SDCERS' Benefit Provisions	100

5. Statistical Section

Changes in Plan Net Assets	110
Changes in Plan Net Assets by Plan Sponsor	110
Additions to Plan Net Assets by Source.....	111
Deductions from Plan Net Assets by Type	112
Allowances Being Paid – Service and Disability Retirees and Beneficiaries.....	113
Retired Members by Type of Benefit.....	116
Average Benefit Payment Amounts.....	117
Average Benefit Payment Amounts by Year of Retirement.....	118
Active Members	119
Inactive Members.....	120
Participating Plan Sponsors	121



1. INTRODUCTORY

Transmittal Letter



December 6, 2011

To the Participants, Plan Sponsors and Trustees of the San Diego City Employees' Retirement System:

I am pleased to present the San Diego City Employees' Retirement System's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011 (FY 2011).

SDCERS' Background and History. SDCERS was established in 1927 by the City of San Diego to provide retirement, disability and death benefits to its participants. Employees of the San Diego Unified Port District became members of SDCERS in 1963, and employees of the San Diego County Regional Airport Authority became members in 2003.

To attain the appropriate level of funding for each member, SDCERS' actuary specifies a formula to calculate the amount that would need to be contributed by participating Plan Sponsors and members each year until retirement. SDCERS invests these contributions utilizing a long-term investment strategy consisting of a diversified mix of equities, fixed income, real estate, and private equity. Plan sponsor and member contributions, along with investment earnings, represent the three funding sources from which SDCERS pays benefits and its operational expenses.

Investment Results. SDCERS' investment returns were strong for FY 2011, with final results of 24.2% compared to 13.4% for FY 2010. As of June 30, 2011, SDCERS' annualized total investment return was 4.4% over the past three years, 4.8% over the past five years, and 6.9% over the past ten years, which is in the top 6% for public pension plans.

It is important to remember that SDCERS' obligations reach well into the future. As such, SDCERS' investment philosophy and strategy remain focused on long-term results. SDCERS has never, and should never, manage its portfolio for the short-term. Our long-standing, disciplined strategy of a well-balanced portfolio has and will continue to work over the long-term.

Investment returns have been unstable since July 1, 2011, with uncertainty on federal spending cuts and the European economy creating volatility in the investment markets. Since our goal is to achieve long-term results, SDCERS remains focused on sound investment strategies that should moderate this volatility over time. SDCERS' target and actual asset allocations as of June 30, 2011, and recent and long-term investment performance, are included in the Investment Section.

Funding Status. SDCERS engages an independent actuarial consulting firm to conduct annual actuarial valuations. The valuation purpose is to reassess benefit commitments for comparison with the assets expected to be available to support those commitments so employer and member contribution rates can be adjusted accordingly.

The June 30, 2010 actuarial valuations, the most recent available, for our three Plan Sponsors are summarized in this CAFR, and show that the City's plan is 67.1% funded, the Unified Port District's plan is 75.3% funded and the Airport Authority's plan is 96.0% funded. The City and Unified Port District ratios are relatively stable from a year ago, while the Airport Authority ratio showed improvement due to additional employer contributions above the Annual Required Contribution (ARC). Given the actuarial asset smoothing methodology used in the valuations, investment gains from FY 2010 were partially offset by losses from FY 2009. Investment gains in FY 2011 will also be smoothed, with 75% of gains from FY 2011 deferred to future actuarial valuations. Historical trend information regarding funded status is provided in the Financial and Actuarial Sections of this report.

FY 2010 CAFR Receives GFOA Certificate of Achievement. The Government Finance Officers Association (GFOA) awarded SDCERS' FY 2010 CAFR the Certificate of Achievement for Excellence in Financial Reporting. This Certificate of Achievement "is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management." This award continues our renewed recognition that began with the FY 2008 CAFR and is the direct result of extraordinary work by our Finance, Investment and Legal teams.

Selection of New Pension Administration Software. Following an exhaustive evaluation of available pension administration software alternatives that would enhance operating efficiencies and functionality over our current software, SDCERS hired Sagitec Solutions LLC to provide our next generation system. SDCERS also retained L.R. Wechsler as our implementation vendor for this project. The multi-year project is scheduled to go live in January 2014 and is expected to deliver more timely, accurate data and important efficiency improvements.

Operational Initiative to Correct Historical Purchase of Service Credit (PSC) Underpricing. In response to a June 2010 appellate court ruling, SDCERS undertook a major operational initiative to correct PSC underpricing that originated in 2003/2004. Approximately 2,000 current and former City and Airport employees were affected by the PSC underpricing. These employees are now making choices to receive a refund and reduce their service time, accept a pro-rated reduction of their service time or pay additional funds to comply with the court's ruling. The correction process is expected to be completed by the end of December 2011.

Investment Team Making Things Happen. SDCERS' Investment team again had an ambitious and productive year. A key accomplishment was the completion of a comprehensive risk analysis. The objective of the analysis was to ensure key risks that could impact SDCERS' portfolio were identified and that adequate processes and controls exist to monitor and mitigate those risks. With outside consultant Hewitt EnnisKnupp's assistance, it was determined that SDCERS has policies and procedures in place to monitor and minimize each of the risks identified, and that the portfolio is being managed in a prudent and efficient manner. The Investment team also issued an updated Investment Policy Statement, and completed an asset allocation review which resulted in new asset classes for emerging market debt, infrastructure and an opportunity fund. Finally, an investment manager structure review was completed, leading SDCERS to move approximately 25% of the portfolio value to passive (i.e., index) funds to reduce investment risk and outside management fees.

SDCERS Employees Receive Recognition. In October 2011, SDCERS recognized three employee "Superstars" for FY 2011: Chris Linen, Michelle Wegner-Maleki and Robyn Bullard. These colleagues had an extremely positive impact on SDCERS and our participants, and we are very proud of their accomplishments. Their contributions have been, and will continue to be, invaluable to SDCERS.

Audited Financial Statements. The financial statements included in this CAFR have been prepared by SDCERS' management, which is responsible for the integrity and fairness of the data presented, including the amounts that must be based on estimates and judgments. The accounting policies followed in preparation of these financial statements conform to accounting principles generally accepted in the United States of America. The basic financial statements are presented in accordance with the Governmental Accounting Standards Board (GASB). All the financial information presented is consistent with these financial statements. GASB Statement No. 34 requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This Transmittal Letter complements the MD&A, which follows the report of the independent auditors, and should be read in conjunction with it.

SDCERS' management is responsible for the accuracy, completeness and fair presentation of information, and all disclosures in this report. The accounting firm of Macias Gini & O'Connell LLP provides audit services to SDCERS. Their opinion on the financial statements states that SDCERS' financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatements.

Introductory Section

Internal Controls. SDCERS has established and maintains a framework of internal controls to provide reasonable assurance that assets are properly safeguarded, transactions are properly executed and the financial statements are free from material misstatement. However, we recognize that even sound internal controls have their inherent limitations. Therefore, internal controls are reviewed to ensure that SDCERS' operating policies and procedures are being adhered to and that the controls are adequate to ensure accurate and reliable financial reporting and to safeguard SDCERS' assets. Our Internal Auditor reviews our internal controls and operations, and reports regularly to the Board's Audit Committee, which reviews the audit findings and recommendations for improvement in internal controls and the actions of management to implement these recommendations, if any.

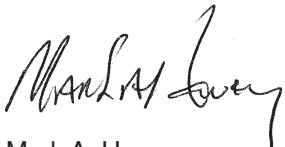
Acknowledgments. I would like to express my personal appreciation to our Trustees and Audit Committee members who, without compensation, have provided the leadership, direction and support that have made all of our recent achievements possible. Our Plan Sponsors, members and the citizens of our community have been well-served by the Trustees' and Audit Committee members' stewardship of SDCERS.

I would particularly like to thank former Board members Susan S. Gonick, David A. Hall and Franklin R. Lamberth, who completed their service in FY 2011, and especially thank former Board President Mark C. Sullivan for providing outstanding leadership over the past several years. Each will be greatly missed by SDCERS. This year, SDCERS welcomes elected members Patrick S. Lane, Thomas A. Sullivan and Richard E. Wilken to the Board.

Finally, I would like to thank my SDCERS colleagues. Each staff member works hard and diligently to provide financial security for our members, retirees and beneficiaries. SDCERS' staff is dedicated and committed to ensuring the System's stability and success. Their individual efforts, combined with those of a great group of professional advisors and investment managers, are key to our ongoing success.

It is a pleasure and an honor to serve you.

Respectfully submitted,



Mark A. Hovey

Chief Executive Officer

**San Diego City Employees' Retirement System
GFOA Certificate of Excellence**

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**San Diego City
Employees' Retirement System
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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.



Linda C. Davison

President

Jeffrey R. Emer

Executive Director

**San Diego City Employees' Retirement System
Board of Administration
As of June 30, 2011**

BOARD OF ADMINISTRATION			Raymond G. Ellis, President MAYORAL APPOINTEE
Herb W. Morgan, Vice President MAYORAL APPOINTEE		Alan J. Arrollado ELECTED SAFETY (FIRE) MEMBER	
	Gregory J. Bych EX-OFFICIO, MAYORAL DESIGNEE		V. Wayne Kennedy MAYORAL APPOINTEE
Edward W. Kitrosser MAYORAL APPOINTEE		Patrick S. Lane ELECTED GENERAL MEMBER	
	Steven W. Meyer ELECTED GENERAL MEMBER		Mark E. Demcke MAYORAL APPOINTEE
Thomas A. Sullivan ELECTED SAFETY (POLICE) MEMBER		Richard R. Tartre MAYORAL APPOINTEE	
	Richard E. Wilken ELECTED RETIREE	Vacant MAYORAL APPOINTEE	

San Diego City Employees' Retirement System
Board of Administration Committees
As of June 30, 2011

In addition to regular Board duties, SDCERS Trustees also participate in one or more standing committees that review policies and procedures related to various areas of SDCERS' administration, report their findings and make recommendations to SDCERS' Board. The composition and responsibilities of the standing committees as of June 30, 2011 were as follows:

Audit Committee

<p>Marilyn Creson Brown (Chair)* H. Michael Collins* Raymond G. Ellis Edward W. Kitrosser David W. Kramer*</p>	<p>Responsible for providing oversight of financial reporting process; the system of internal controls; and the independent audit process. Recommends to the full Board the acceptance of the CAFR, as well as acknowledgment and receipt of the external auditor's Report to the Board of Administration and opinion on the audited financial statements. Develops the performance plan and evaluates the performance of the Internal Auditor. The Audit Committee Charter requires three members to be independent, non-Board members appointed by the Board and such members are denoted by the "*" at left.</p>
---	---

Business and Governance Committee

<p>Raymond G. Ellis (Chair) V. Wayne Kennedy Edward W. Kitrosser Steven W. Meyer</p>	<p>Responsible for reviewing SDCERS' business and procedures; reviewing actuarial valuations; reviewing the annual budget; developing Board rules; and facilitating training programs for Board members.</p>
---	--

Disability Committee

<p>Alan J. Arrollado (Chair) Raymond G. Ellis Edward W. Kitrosser Patrick S. Lane Richard R. Tartre Richard E. Wilken</p>	<p>Responsible for reviewing staff recommendations on disability applications and making recommendations to the Board; recommending to the Board final decisions on adjudicator findings with regard to disability retirement applications; and making recommendations for changes to the disability retirement process.</p>
--	--

Executive Committee

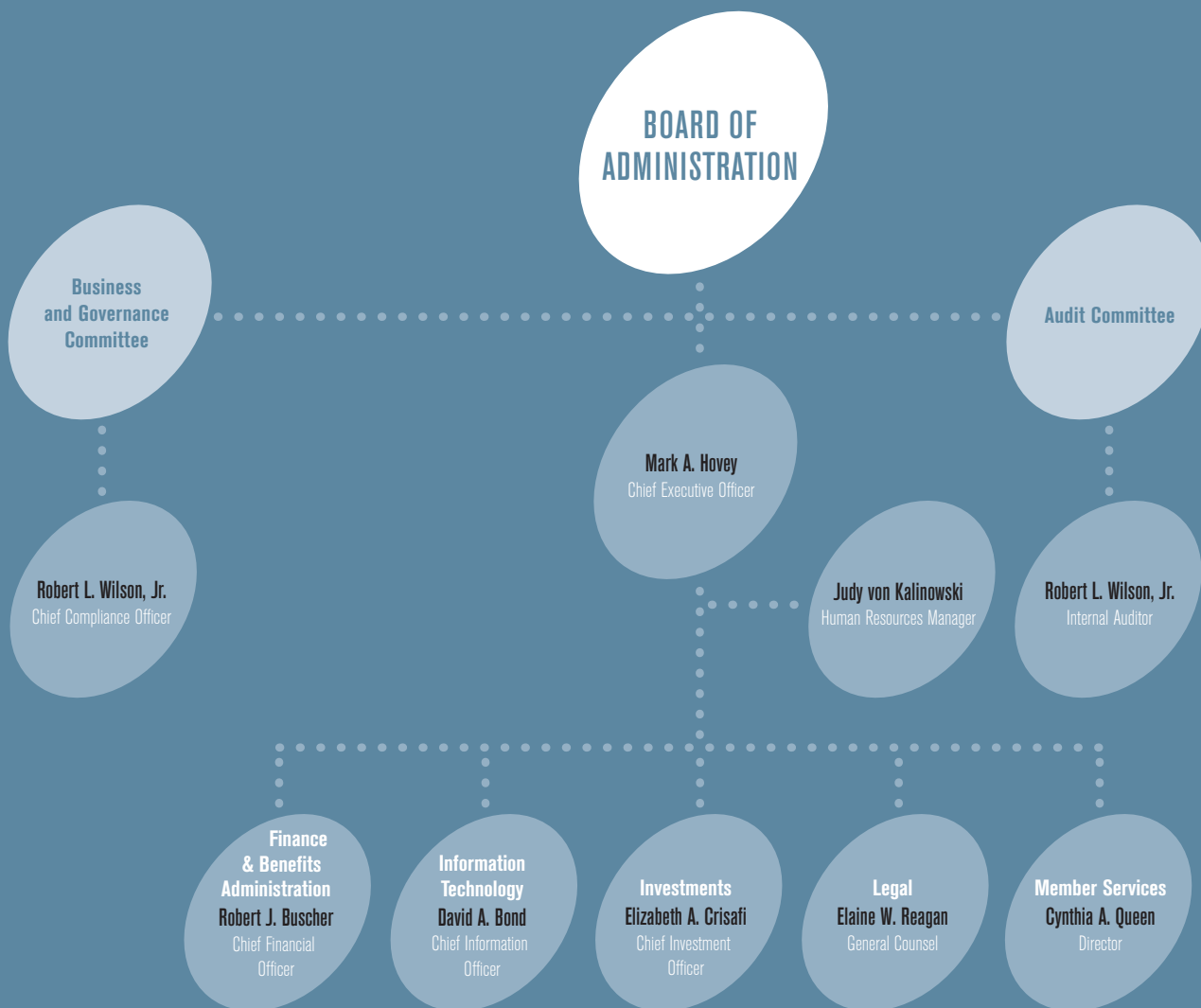
<p>Raymond G. Ellis (Chair) Alan J. Arrollado Steven W. Meyer</p>	<p>Responsible for reviewing Board agendas; and developing the performance plan and evaluating the performance of the Chief Executive Officer and the Chief Compliance Officer.</p>
--	---

Investment Committee

<p>Steven W. Meyer (Chair) Gregory J. Bych Raymond G. Ellis Herb W. Morgan Mark E. Oemcke Richard R. Tartre</p>	<p>Responsible for monitoring investment performance; hiring and terminating investment managers and consultants; and recommending changes to the Investment Policy Statement.</p>
--	--

**San Diego City Employees' Retirement System
Organization Chart
As of June 30, 2011**

SDCERS' MEMBERS, RETIREES AND BENEFICIARIES



Report from SDCERS' Board President

December 6, 2011

Dear SDCERS Constituents:

As the elected Board President of the San Diego City Employees' Retirement System (SDCERS), I am pleased to present the Comprehensive Annual Financial Report for Fiscal Year 2011. This past year has been very strong in many respects, but has had several major challenges, too.

The investment and financial results were very solid. Our overall portfolio experienced gains in excess of 24%, which far exceeded the assumed rate of return of 7.75% and added approximately \$1 billion to the assets of the System. As we have noted in the past, meeting this return objective is paramount to ensuring that approximately 70% of the benefits we pay out to members comes from investment returns.

Mark Hovey has made a smooth transition into his role as CEO of SDCERS. Mark successfully recruited several new staff members to round out his very capable executive and management team. The SDCERS staff, working closely with the Board of Administration, has continued to control organizational costs and made further progress in driving investment management costs down. The result is a stronger, more stable trust fund.

However, SDCERS still has challenges to resolve. We have invested tremendous time, energy and effort in fulfilling the court ordered Purchase of Service Credit (PSC) correction. This has impacted every department and employee within SDCERS. While we have made significant progress in helping our members navigate this extremely complicated resolution, we are still in the midst of this task. Legal challenges and subsequent litigation continue with the City of San Diego and members affected by the PSC correction. We will endeavor to resolve these matters in the most efficient and cost effective manner. We have not yet replaced our Board colleague, Susan Gonick, who resigned in March as a result of concerns over trustee indemnification. We continue to work diligently on filling this position and addressing the underlying issue of indemnification.

The SDCERS Board is committed to continuing to defend its independence from any political influence and to continue prudently managing plan assets for the purpose of administering the promised benefits to the approximately 20,000 active, deferred and retired SDCERS members and their beneficiaries.

I would like to extend the Board's appreciation to our members and retirees for their ongoing support, and to our staff for their effort and commitment to the continued successful operation of SDCERS. I would also like to express my deep gratitude to each member of the SDCERS Board of Administration for their dedication and efforts throughout this past year.

Sincerely,

A handwritten signature in black ink, appearing to read "Ray Ellis", is written over a light blue horizontal line.

Raymond G. Ellis

President, SDCERS Board of Administration

San Diego City Employees' Retirement System
Professional Services
As of June 30, 2011

Actuary Cheiron McLean, VA	
Consulting and Professional Services	
San Diego Data Processing Corporation San Diego, CA	Aon Risk Services, Inc. of So Cal Irvine, CA
Levi, Ray & Shoup Springfield, IL	Sagitec Solutions, LLC Little Canada, MN
Linea Solutions Los Angeles, CA	JPI Printing, Inc. San Diego, CA
Custodian State Street Bank & Trust Company Alameda, CA	
Independent Auditor Macias Gini & O'Connell LLP Certified Public Accountants San Diego, CA	
Investment Consultant Hewitt EnnisKnupp, Inc. Chicago, IL	
Real Estate Consultant The Townsend Group San Francisco, CA	
Private Equity Consultants	
Credit Suisse Securities (USA) LLC New York, NY	StepStone Group LLC San Diego, CA

SDCERS' medical and legal service providers are identified in Other Supplementary Information in the Financial Section. SDCERS' investment managers are identified in the Investment Section.