



SDCERS

San Diego City Employees' Retirement System

A Component Unit of the City of San Diego

Popular Annual Financial Report

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

INTRODUCTION

We are pleased to present this Popular Annual Financial Report (PAFR) to the active and retired Members of our three plan sponsors: the City of San Diego, the San Diego Unified Port District and the San Diego County Regional Airport Authority.

The information provided in the PAFR is a snapshot of the detailed information contained in SDCERS' Comprehensive Annual Financial Report (CAFR). The PAFR provides a concise summary of SDCERS' financial health, investment performance and key accomplishments throughout the past fiscal year. For more in-depth information, we encourage you to view the CAFR by visiting www.sdcers.org and clicking on the Forms and Publications button.

For the fiscal year ended June 30, 2011, SDCERS' investment returns yielded perhaps the year's best news, with a strong performance of 24.2%, compared to 13.4% for FY 2010. These solid results added approximately \$1 billion to the assets of the System, and far exceeded the assumed rate of return of 7.75%. The results were driven by strong U.S. stock returns, up nearly 33%. In addition, the portfolio's bias to small company stocks helped, as they outpaced large company stocks by nearly seven percentage points. International stocks and real estate were also notable contributors, returning 30.5% and 27.4%, respectively, over the fiscal year.

Assets under management finished fiscal year 2011 at their highest year-end level ever. However, since July 1, 2011, investment returns have been less stable, due to market volatility created by uncertainty on federal spending cuts and the European economy. SDCERS, as always, pays close attention to these trends but remains driven by the longer-term picture. Our sound investment strategies are expected to moderate this market volatility over time.

With the media spotlight currently on public pension plans, Members have asked about the future of their retirement benefits. It is important to understand that changes that may take place to retirement benefits in the future do not affect the retirement benefits currently in place. For example, closing the pension system to new hires would not affect the contribution rates for those already in the pension system, and would have no effect on SDCERS' ability to pay current Member retirement benefits. SDCERS has sufficient assets to pay benefits for decades to come, and will continue to follow its long-standing, disciplined strategy of a well-balanced portfolio that works to the benefit of all our Members and our plan sponsors.

Sincerely,




Mark A. Hovey
Chief Executive Officer

INVESTMENTS

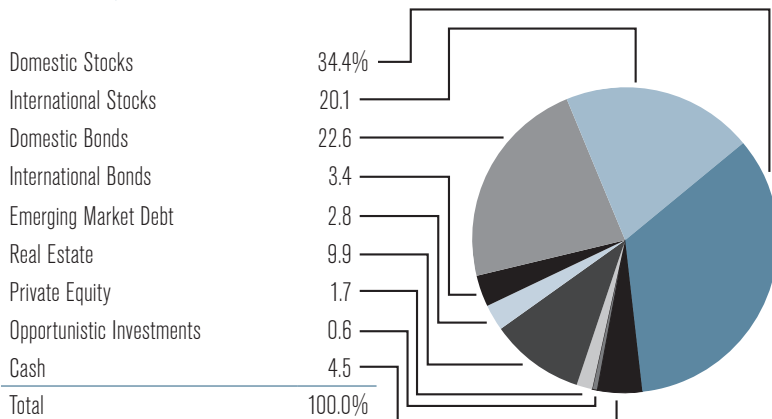
SDCERS' portfolio continues to progress towards the investment structure that is consistent with the program's long-term goals of investing and performing for the long term. To that end, SDCERS' Investment team completed several ambitious initiatives in FY2011.

One key accomplishment this year was the completion of a comprehensive risk analysis. The object of the analysis was to ensure that key investment risks that could impact SDCERS' portfolio were identified and that adequate processes and controls existed to monitor and mitigate those risks. With the help of outside consultant Hewitt EnissKnupp, it was determined SDCERS has policies and procedures in place to monitor and minimize each of the risks identified, and that the portfolio was being managed in a prudent and efficient manner.

The Investment team also completed an asset allocation review, which resulted in the addition of new asset classes in emerging market debt, infrastructure and opportunistic strategies. Finally an investment manager structure review was completed, leading SDCERS to move approximately 25% of the portfolio value to passive funds to reduce investment risk and outside management fees.

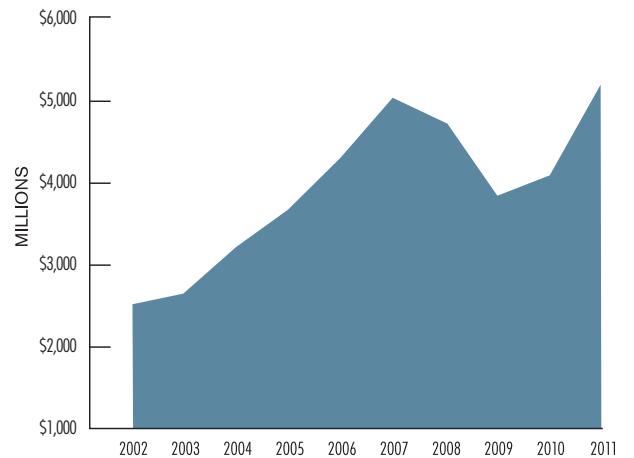
ACTUAL ASSET ALLOCATION

As of June 30, 2011



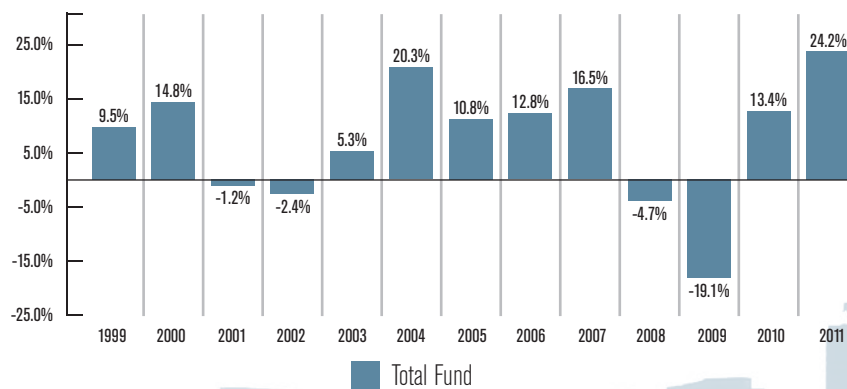
GROWTH OF INVESTMENTS, AT FAIR VALUE

For Ten Years Ended June 30, 2011



HISTORICAL INVESTMENT PERFORMANCE

Periods Ending June 30th



* Total Fund returns are shown net of investment management fees beginning July 1, 2010. Returns prior to July 1, 2010 are gross of investment management fees.

FINANCIALS

STATEMENT OF PLAN NET ASSETS

As of June 30, 2011 (Dollars in Thousands)

	2011				2010
	City of San Diego	Unified Port District	Airport Authority	Total	Total
Cash & Cash Equivalents	\$360,302	\$19,973	\$6,392	\$386,667	\$404,513
Receivables	79,976	3,348	2,155	85,479	85,028
Investments, at Fair Value	4,584,838	254,154	81,334	4,920,326	3,835,399
Securities Lending Cash Collateral	304,331	16,870	5,399	326,600	492,171
Capital Assets plus Prepaid Expenses	2,155	120	38	2,313	1,625
TOTAL ASSETS	\$5,331,602	\$294,465	\$95,318	\$5,721,385	\$4,818,736
Current Liabilities	179,212	8,215	3,011	190,438	149,322
DROP Liabilities	423,668	9,830	1,049	434,547	391,283
Securities Lending Obligations	304,331	16,870	5,399	326,600	492,171
TOTAL LIABILITIES	\$907,211	\$34,915	\$9,459	\$951,585	\$1,032,776
PLAN NET ASSETS	\$4,424,391	\$259,550	\$85,859	\$4,769,800	\$3,785,960

This table depicts a summary presentation of the assets and liabilities of SDCERS. The Plan Net Assets shown are available for future payments of benefits to retirees and beneficiaries of SDCERS.

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the years ended June 30 (Dollars in Thousands)

	2011				2010
	City of San Diego	Unified Port District	Airport Authority	Total	Total
Plan Sponsor Contributions	\$229,297	\$11,501	\$4,300	\$245,098	\$207,334
Member Contributions and Other Contributions	100,644	6,378	3,877	110,899	73,347
Net Investment Earnings (Losses)	970,353	53,830	15,668	1,039,851	491,338
TOTAL ADDITIONS	\$1,300,294	\$71,709	\$23,845	\$1,395,848	\$772,019
Benefit Payments	321,227	14,113	1,120	336,460	296,554
Refunds of Member Contributions	34,380	272	467	35,119	3,478
Administrative Expenses	14,468	788	295	15,551	14,968
DROP Interest Expense	24,366	477	35	24,878	25,375
TOTAL DEDUCTIONS	\$394,441	\$15,650	\$1,917	\$412,008	\$340,375
NET INCREASE (DECREASE)	905,853	56,059	21,928	983,840	431,644
NET ASSETS AT JULY 1	3,518,538	203,491	63,931	3,785,960	3,354,316
NET ASSETS AT JUNE 30	\$4,424,391	\$259,550	\$85,859	\$4,769,800	\$3,785,960

This table illustrates the additions and deductions to the net assets for FY 2011 as compared to FY 2010. The payment of retirement benefits accounts for the majority of deductions from the fund.

Funded Ratio and Unfunded Accrued Liability (UAL)

As of June 30 (Dollars in Thousands)

Plan Sponsor		2006	2007	2008	2009	2010
City of San Diego	Funded Ratio	79.9%	78.8%	78.1%	66.5%	67.1%
	UAL (billions)	\$1.0	\$1.2	\$1.3	\$2.1	\$2.1
Unified Port District	Funded Ratio	92.1%	93.5%	92.0%	77.5%	75.3%
	UAL (millions)	\$174	\$16.0	\$21.5	\$64.8	\$76.7
Airport Authority	Funded Ratio	111.7%	109.0%	102.3%	86.9%	96.0%
	UAL (millions)	\$(4.3)	\$(4.2)	\$(1.3)	\$8.9	\$3.0

The chart above summarizes key information from the most current independent actuarial valuation performed for SDCERS. The Funded Ratio is the relative percentage of actuarial assets to actuarial liabilities. The UAL (Unfunded Accrued Liability) is the difference in dollars between actuarial assets and actuarial liabilities.

SELECTED ACCOMPLISHMENTS

Selection of New Pension Administration Software

Following an exhaustive evaluation of available pension administration software alternatives to address shortcomings in our current software, SDCERS hired Sagitec Solutions LLC to provide our next generation system. SDCERS also retained L.R. Wechsler, a leading pension administration system implementation vendor, for this multi-year project. The project kicked off in 2011 and is scheduled to go live in January 2014. The new system is expected to deliver more timely, accurate data and important efficiency improvements in our administration of retirement benefits, as well as enhancements to Member resources such as the website's Member Portal.

Review of Board Charters, Policies Resolutions and Rules

During 2011, the SDCERS Board completed its triennial review of its Board Charters, Policies, Resolutions and Rules. During that review, the Board amended various charters, policies and rules to provide stronger governance over its management of the System and more clarity for SDCERS' Members and Retirees regarding its implementation of benefits. SDCERS' Board Charters, Policies, Resolutions and Rules can be located on the SDCERS' website at www.sdcers.org.

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.

By the Numbers...

1,889

Number of individual counseling sessions conducted by SDCERS' Retirement Counselors covering topics such as the Deferred Retirement Option Plan (DROP), service retirement, purchased service credit, termination and disability retirement.

29,113

Number of calls from Members, beneficiaries and others received by our Call Center and Counseling staff requesting assistance with registering for the website's Member Portal; scheduling appointments to meet with counseling staff; and City of San Diego's Retiree Health Enrollment questions.

60

Number of retirement seminars, new employee orientations, benefits fairs, retiree meetings and other Member outreach conducted to educate and inform our active and retired members.

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

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

for the Fiscal Year Ended

June 30, 2010



Linda C. Davidson
President

Jeffrey L. Esser
Executive Director

SDCERS received an award from The Government Finance Officers Association (GFOA) of the United States and Canada for Outstanding Achievement in Popular Annual Financial Reporting, for its Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2010.

SDCERS Membership as of June 30, 2011

City of San Diego

Active & Inactive Members	10,686
Retired Members & DROP Participants	7,902

Unified Port District

Active & Inactive Members	751
Retired Members & DROP Participants	464

Airport Authority

Active & Inactive Members	419
Retired Members & DROP Participants	38

Total SDCERS Membership 20,260



401 WEST A STREET, SUITE 400, SAN DIEGO, CA 92101-7991
TOLL FREE (800) 774-4977 LOCAL (619) 525-3600

This Popular Annual Financial Report (PAFR) is a summary depiction of SDCERS' audited financial statements and other information contained in SDCERS' Comprehensive Annual Financial Report (CAFR). The complete audited financial statements and pertinent notes to the financial statements can be found in SDCERS' 2011 CAFR. While the PAFR does not conform to Generally Accepted Accounting Principles (GAAP), SDCERS' CAFR does and provides a comprehensive overview of SDCERS' financial and operating results.

SDCERS' CAFR is available for review at www.sdcers.org, under "Forms and Publications," or at the SDCERS office.