

A photograph of a forest path lined with large redwood trees and wooden railings. The path is paved and leads into the distance, flanked by tall, thick tree trunks. Sunlight filters through the dense green canopy above. The overall scene is peaceful and natural.

The Journey to Retirement

Popular Annual Financial Report for the Years Ended December 31, 2007 and 2006

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

A Pension Trust Fund of the County of Alameda and Participating Employers • Oakland, California

LETTER FROM THE CHIEF EXECUTIVE OFFICER



Charles F. Conrad

Dear Members,
I am pleased to submit this Popular Annual Financial Report (PAFR) of the Alameda County Employees' Retirement Association for the Years Ended December 31, 2007 and 2006.

The PAFR, which is based on ACERA's Comprehensive Annual Financial Report (CAFR) for 2006 and 2007, provides a summary of ACERA's overall financial condition and accomplishments for the year. The selected financial data it presents, conform with generally accepted accounting principles and are consistent with information contained in the CAFR.

ACERA's investment performance in 2007 was good despite the weakening U.S. economy and the subprime mortgage industry crisis. The actuarial funded ratio of the plan and member services improved. The Supplemental Retiree Benefits Reserve was strengthened, and the Postemployment Benefit funded status reached a conserva-

tively calculated 84%. We established an enterprise risk management structure and improved the resolution of disability cases by 33%. We also began converting to a paperless office environment.

For complete financial information on ACERA's Fund, including our Governmental Accounting Standards Board (GASB) reporting requirement, please consult the CAFR, which is available online at www.acera.org or call our office at 1.800.838.1932 for a hard copy.

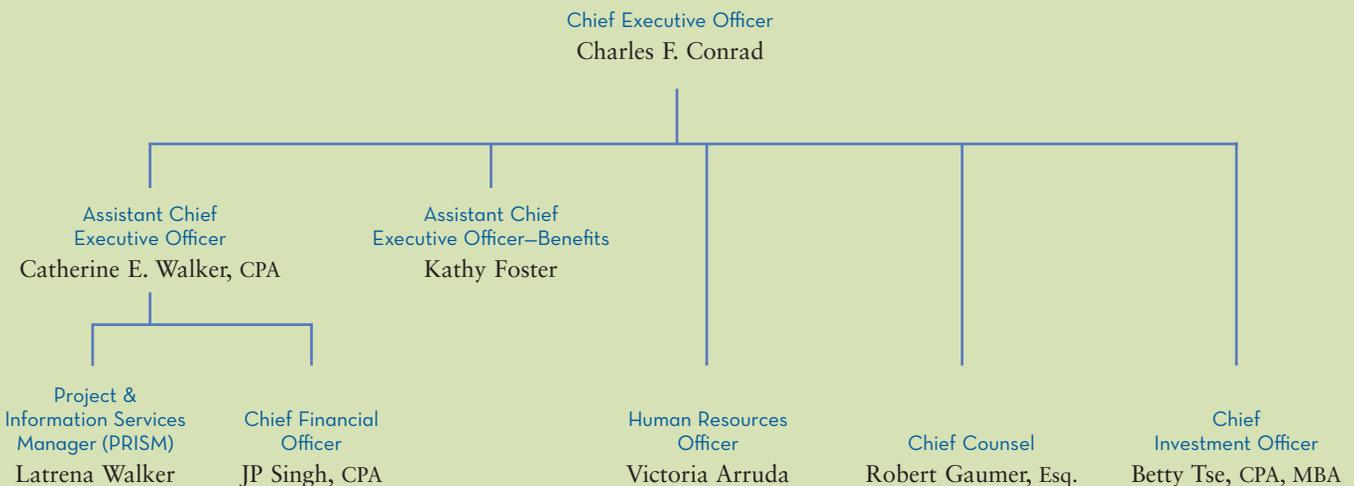
I would like to thank the staff, our investment advisors, and the many people who have worked so diligently to ensure ACERA's success.

Sincerely,

Charles F. Conrad
Chief Executive Officer

Administrative Organization Chart

As of December 31, 2007



ACCOMPLISHMENTS FOR FISCAL YEAR 2007

Administration

As of the latest actuarial evaluation dated December 31, 2006 for the Pension Plan, the actuarial accrued liability was \$4,825.2 million; the actuarial value of assets was \$4,127.9 million; the unfunded actuarial accrued liability was \$697.3 million; and the funded ratio was 85.5%. Participating Employers contributed 100% of the annual required contributions to the Pension Plan. The December 31, 2007 actuarial valuation, which will include a triennial experience study, will be completed after the publication of this PAFR.

Investments

ACERA's net assets increased to \$5.6 billion. The portfolio investment rate of return was 8.8%.

ACERA Board of Retirement (Board)

Elections were held for five Board positions. The following members were elected:

- General—Trevor White
- Safety—Dale Amaral
- Alternate Safety—Darryl L. Walker
- Retired—Liz Koppenhaver
- Alternate Retired—David Safer

Board Actions

- Adopted a more aggressive asset allocation to ensure ACERA's long-term financial integrity.
- Developed and adopted the first Emerging Investment Manager Policy.
- Initiated the Emerging Manager (EM) Program to identify small investment firms that can add value to the investment portfolio.
- Allocated 1% of the portfolio to the Emerging Manager (EM) Program.
- Retained AQR Capital Management (AQR) as ACERA's first quantitative international equity manager.



The Journey to Retirement

Louise Pietila

- 1** Year Hired:
1948
- 2** First Job:
I went to work as a clerk for Bill Hageman and together we started the retirement system. I'm its first employee! Although Bill's office was in the balcony of the Treasurer's Office in the County Courthouse, I spent my first three months in the basement going through all the old payroll records so that I could establish the employment history of everyone employed by the County at that time. From all that information I created a system for posting the employees' payroll information.
- 3** Last Job:
After working as Bill's assistant for five years, I needed to earn more to support my young daughter, so I took an exam and landed the job of business manager for the County's new Public Health Services department. I prepared all the County health services budgets, which were submitted to the Supervisors on the first of February every year.
- 4** Date Retired:
1976 after 25 years with the Public Health Services Department
- 5** On Retirement:
When my husband retired, we moved to Arizona, built a house in Lake Havasu, and traveled. After 19 years I moved back to the Bay Area to be near family and now play golf four times a week in the Rossmore community where I live. I also go to all the meetings of REAC and ACERA.
- *** On Retiree Benefits:
Our retirement system is one of the best in the State. Before I retired I was familiar with all the other county retirement systems. Back then, ours was considered one of the best, and still is! ACERA has done an excellent job with its investments, with keeping us level and our benefits stable.



The Journey to Retirement

Charlotte Yip

- 1 Year Hired:
1986
- 2 First Job:
Clerk II in the Personnel Department at Fairmont Hospital. I was secretary to Norma Imwalle, the Personnel Director.
- 3 Last Job:
Supervising Clerk I in Social Services at the Franklin Street satellite office.
- 4 Career Highlight:
When I was a supervisor in Central Personnel, I got to see how departments changed and consolidated, and how new positions were created. You think government stands still but it doesn't. It evolves and changes.
- 5 Date Retired:
September 1, 2001
- 6 On Retirement:
It's wonderful. I don't have to get up early and fight traffic. And now I have time to volunteer for Meals on Wheels for Japanese seniors and to do my crafts. I throw pots, make jewelry, and can jump in and out of all kinds of classes, like Japanese doll-making.
- * On Retiree Benefits:
You can't beat ACERA's benefits. Whenever I compare with other seniors, I always come out on top. We even get a COLA, something most other retirees don't get.



Charlotte Yip, circa 1995, while working with the Department of Social Services.

County and Participating Employers

Collaborated with Participating Employers on GASB Statements No. 43 and 45 (OPEB), Internal Revenue Code 401(h) accounts, and payroll transmittals.

Implicit Subsidy

The Board has not approved the transfer of funds for the 2007 implicit subsidy to reimburse the County for the additional premium cost incurred from having early non-medicare eligible retirees included in the County's medical insurance plans.

Disability Case Processing

Reduced the processing time for disability cases from an average of 18 months to an average of 12 months—a 33% improvement—by implementing streamlined disability procedures.

Active and Deferred Member Statements

Redesigned member statements to include retirement benefit estimates. Focus group feedback was positive; the new statements will debut in early 2008.

Award for Outstanding Achievement in Popular Annual Financial Reporting

ACERA's 2006 PAFR received the Government Finance Officers Association of the United States and Canada (GFOA) Award for Outstanding Achievement in Popular Annual Financial Reporting. This prestigious national award recognizes conformance with the highest standard for preparation of state and local government popular reports. To earn the award, our 2006 PAFR conformed to the GFOA standards for creativity, presentation, understandability, and reader appeal.

The PAFR Award is granted separately from and is in no way related to the CAFR award. ACERA's PAFR for the year 2007 conforms to the GFOA's PAFR reporting requirement, and we are submitting it to GFOA for award consideration.

FINANCIAL REVIEW

Additions to and Deductions from ACERA's Net Assets for the Years Ended December 31, 2007 and 2006

The primary funding sources for ACERA member benefits are employer contributions, member contributions, and net investment income. For 2007, total additions to plan net assets were \$661.5 million, \$199.3 million less than in 2006. In 2007, ACERA's net investment income decreased by \$206.9 million.

The four main categories of deductions from ACERA's net assets are retirement benefits, the Postemployment Medical Benefits, member refunds, and the expense of administering the system. Overall, deductions from ACERA's net assets for 2007 totaled \$296.8 million. This was an increase of \$26.9 million or 10% over the year 2006, and was primarily due to the fact that retirement benefits rose 9%.

As a result of these additions and deductions, ACERA's plan net assets totaled \$5.6 billion—the highest figure since the Fund's inception in 1948. The total reflects an increase of \$364.7 million or 7% over the year 2006.

Increase in ACERA's Net Assets

ACERA's portfolio grew by 7% in 2007 in large part because of the leadership and oversight demonstrated by the Board in meeting ACERA's long-term investment goals. The Board made two major changes to the structure of the domestic and international equities asset classes without changing their target asset allocation. In the real estate asset class, the Board decided to move the portfolio closer to the allocation target of 9%. The Board also adopted ACERA's first Emerging Investment Manager (EM) Policy. This policy governs ACERA's EM Program, which will consist of a single emerging investment manager-of-managers (MoM) who will blend portfolios of various emerging equity



The Journey to Retirement

F. Dennis Valentine

- 1 Year Hired:
1971
- 2 First Job:
Started out as a laborer in Maintenance & Construction (M&C), working on the crews that maintain over 300 miles of flood control channels located throughout the county.
- 3 Last Job:
Field Supervisor I of the M&C troubleshooting crew.
- 4 Career Memory:
Back when flood control was fairly new, I had real good mentors and tried to glean as much knowledge and experience to make things easier on the men and women I eventually supervised. During the Oakland Hills fires, all of us in flood control were on 24-hour call, expediting crews and coordinating with fire departments and the Coast Guard. We worked long hours and didn't eat too much, but we didn't mind. It was pretty sad to see people lose everything.
- 5 Date Retired:
June 15, 2007 from the Public Works Department
- 6 On Retirement:
I'm a Tier I and have nothing to complain about. For 36 years I was able to take care of my family real well. I tell the young, with the County you don't worry...you can put money in deferred compensation, which really accumulates. Now my wife and I are enjoying retirement thoroughly. We're not world travelers but we get away to the coast with family and relax at favorite restaurants.
- * Advice:
Be wise with spending and keep your nose clean. Do your work and do it well, and everything will be okay. Don't carry grudges or have a chip on your shoulder. You'll miss the folks you worked with. I still meet them out in the field for coffee now and just talk.

Total ACERA's Net Assets

(Dollars in Billions)

	2007	2006	Increase (Decrease) Amount	Percent Change
Pension Plan	\$ 4.880	\$ 4.648	\$ 0.232	5%
Postemployment Medical Benefits	0.617	0.496	0.121	24%
Non-OPEB Benefits	0.078	0.066	0.012	18%
Total ACERA	\$ 5.575	\$ 5.210	\$ 0.365	7%

Changes in ACERA's Net Assets (Condensed)

For the Years Ended December 31, 2007 and 2006 (Dollars in Millions)

	2007	2006	Increase (Decrease) Amount	Percent Change
ADDITIONS				
Member Contributions	\$ 72.4	\$ 70.2	\$ 2.2	3%
Employer Contributions	130.0	127.1	2.9	2%
Net Investment Income	430.9	637.8	(206.9)	-32%
Other Income	0.9	0.4	0.5	125%
Post-Employment Medical Benefits Transfers on Behalf of Employers	27.3	19.0	8.3	44%
Employer Implicit Subsidy from Post-Employment Medical Benefits	-	6.3	(6.3)	-100%
Total Additions	661.5	860.8	(199.3)	-23%
DEDUCTIONS				
Retirement Benefit Payments	224.8	205.8	19.0	9%
Post-Employment Medical Benefits	24.7	22.2	2.5	11%
Post-Employment Medical Benefits Transfers to Pension Plan on Behalf of Employers	27.3	19.0	8.3	44%
Member Refunds	7.8	5.8	2.0	34%
Employer Implicit Subsidy to Pension Plan	-	6.3	(6.3)	-100%
Administration	12.2	10.8	1.4	13%
Total Deductions	296.8	269.9	26.9	10%
Beginning Plan Net Assets	5,210.1	4,619.2	590.9	13%
Increase in Plan Net Assets	364.7	590.9	(226.2)	-38%
Ending Plan Net Assets	\$ 5,574.8	\$ 5,210.1	\$ 364.7	7%

investment managers. The Board allocated an initial funding of 1% of ACERA's total portfolio to the EM Program.

Throughout the year the Board evaluated the effectiveness of all investment policies, programs and investment managers. The Board also presided over the first full year of operation of ACERA's Directed Brokerage (DB) program. The DB program's objective is to recapture a portion of the trade commissions paid to brokers.

GASB Requirements

The Governmental Accounting Standards Board (GASB) is an independent, private-sector, not-for-profit organization that, through an open and thorough due process, establishes and improves standards of financial accounting and reporting for U.S. state and local governments. Governments and the accounting industry recognize GASB as the official source of generally accepted accounting principles for state and local governments.

In 2006, ACERA implemented GASB requirements for Other Postemployment Medical Benefits (OPEB). This is reflected in the above table combining the assessment of the financial status of the Pension Plan, Post Employment Medical Benefits, and Non-OPEB Benefits.

Funded Status

The December 31, 2007 actuarial valuation for the Pension Plan, which will include a triennial experience study, will not be completed until after the publication of this report. The valuation determines the progress made in accumulating sufficient assets to pay benefits when due. As of the December 31, 2006 actuarial valuation, ACERA's funded status was 85.5%, up from 83.2%. The improved funding status resulted from an increase in the actuarial value of assets of \$346.0 million, along with an increase of the assumed interest rate from 7.9% to 8.0%.



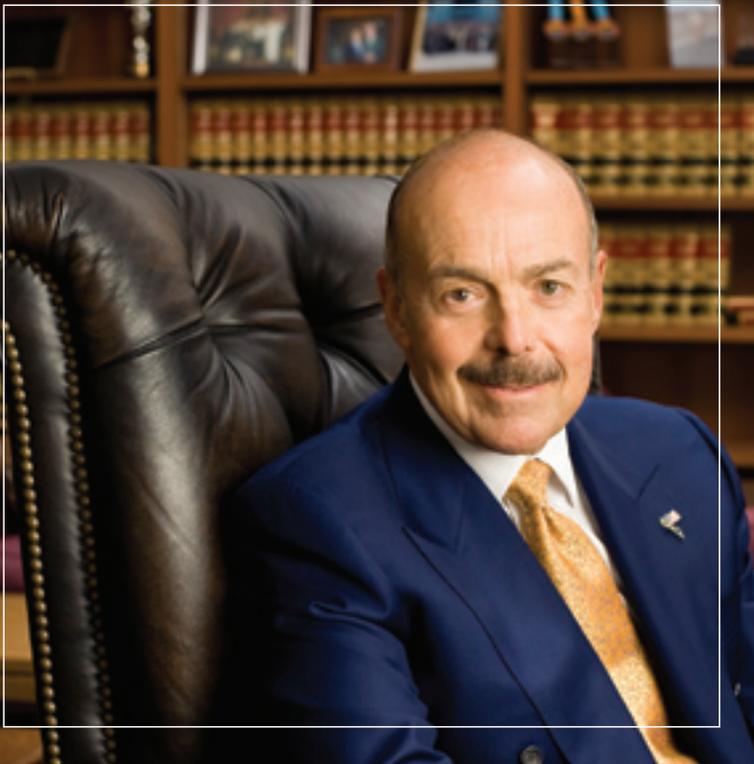
The Journey to Retirement

Ernestine McHugh

- 1 Year Hired:
1965
- 2 First Job:
Emergency Room Nurse at Fairmont Hospital, San Leandro
- 3 Last Job:
Assistant Director of Nursing at Fairmont. I started out there as a staff nurse and was eventually promoted to Head Nurse and then Supervising Nurse.
- 4 Career Highlight:
I loved the activity, the people and the challenges. As a Supervising Nurse, you can't afford to make friends with staff, but I treasure the friendships with four of the nurses in my department and some of the outstanding physicians I worked with, including Dr. Michael Callahan who is working with staff to set up a residency program in ER medicine at UC San Francisco. Dr. Callahan still comes to visit me.
- 5 Date Retired:
September 26, 1980
- 6 In Retirement:
As soon as I retired I took off and traveled the world, visiting everywhere but India and China. I wanted to see the Seven Wonders of the World, including Victoria Falls in Zimbabwe, and spent one month in Africa on safari. My companion and I also liked going to the mountains, climbing, and nature photography but broken hips limit my climbing now.
- * Reflection:
Material things can be replaced, but friendship cannot. It's the only thing that really matters.



Ernestine McHugh, circa 1980, while working at Fairmont Hospital.



The Journey to Retirement

Kenneth Burr

- 1** Year Hired:
1979
- 2** First Job:
Deputy District Attorney, Alameda County District Attorney's Office
- 3** Last Job:
Senior Deputy District Attorney
- 4** On My Career as a DA:
I tried more felony jury trials than any other attorney in the Alameda County District Attorney's Office. Most were murder and sexual assault cases, and a number of them attracted extensive media attention, even on a national level. I developed a reputation as an expert in the trial of these types of cases and frequently lectured to prosecutors and law enforcement agencies across the U.S.
- 5** Date Retired:
November 19, 1997 on appointment to the Alameda County Superior Court as a judge.
- 6** On Retirement:
I am honored and privileged to serve the People of California as a judge, though I do wish that I could have continued under the ACERA Tier I retirement system.
- *** On Work as a Judge:
Ironically, I have spent most of my time on the bench handling civil cases. My friends tell me that I am a lot more boring now as a judge than I was as a Deputy DA. In a civil case what is fascinating to a judge isn't fascinating to most other people, including attorneys. However, you hear a wide variety of cases, so you are constantly learning and being mentally challenged.



Kenneth Burr, circa 1985, while working with the Alameda County District Attorney's Office.

Supplemental COLA and New SRBR Allocations

The funding of the supplemental Cost of Living Allowance (COLA) is considered annually by ACERA's Board of Retirement and is paid out of the Supplemental Retiree Benefit Reserve (SRBR), an account administered by the Board for additional benefits, such as monthly medical allowance for health care premiums, supplemental COLAs, and supplemental death benefits. Supplemental benefits are non-vested benefits subject to available SRBR assets. Consequently, they may be reduced or eliminated at the Board's discretion.

The supplemental COLA program was restructured in 1998 to provide a benefit that maintains retiree purchasing power at no less than 85% of the original benefit, as authorized by the County Employees Retirement Law of 1937. Plainly speaking, if it now takes a \$1.00 to purchase what 85 cents used to purchase, then you've lost 15% of your purchasing power. When this occurs, a retiree may qualify for supplemental COLA to make up the difference.

The 2007 SRBR Study extended the projected expiration of the funds to the year 2025 from 2023. The Segal Company, ACERA's actuarial firm, revised the annual medical inflation assumption based on long-term trends in medical costs.

Supplemental COLA benefit payments for calendar year 2007 were \$4.4 million. In 2006, the Board of Retirement approved the allocation of SRBR funds to Postemployment Medical Benefits and Non-OPEB Benefits. As of December 31, 2007, the SRBR had \$695.9 million in net assets, which will fund the SRBR through the year 2025 for OPEB and 2024 for Non-OPEB Benefits.

Financial Report Issued by Charles F. Conrad, Chief Executive Officer and Catherine E. Walker, CPA, Assistant Chief Executive Officer

INVESTMENTS

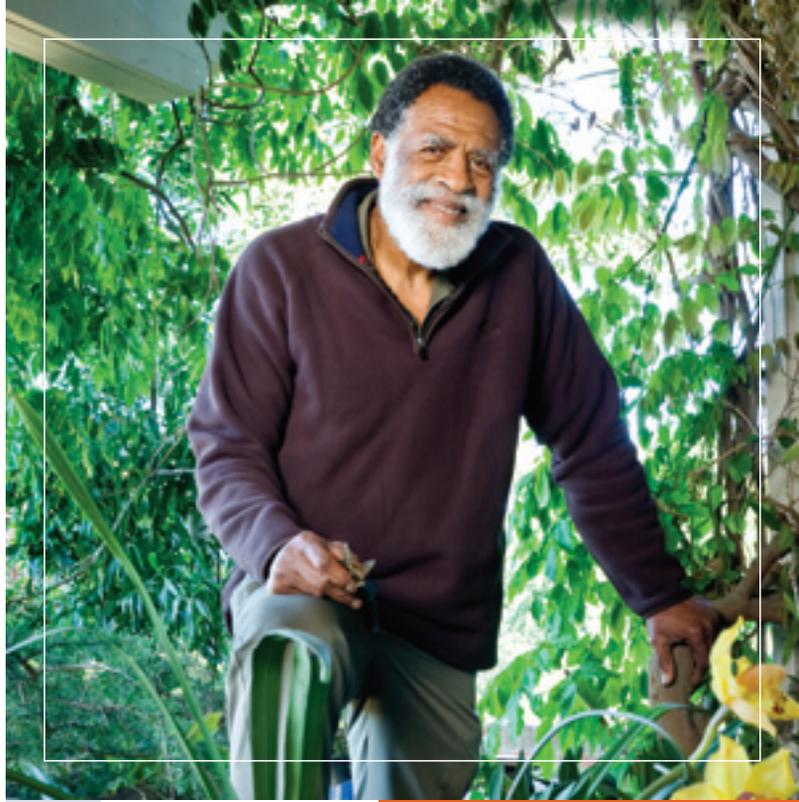
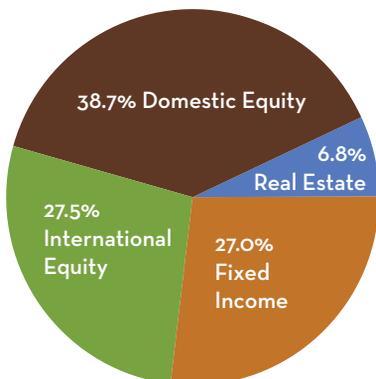
ACERA's primary investment goal is to achieve a level of portfolio performance that will fund the system as fully as possible so that ACERA's benefit costs never become a burden upon future generations of members and taxpayers.

Although ACERA is dedicated to preserving the retirement system's capital, the portfolio's investment managers take on varying degrees of investment risk to achieve higher long-term returns. ACERA's assets are exclusively managed by external professional investment management firms. Professional investment consultants working with ACERA's investment staff closely monitor the activity of these investment management firms and assist the Board in implementing ACERA's investment policies and long-term strategies. As a result, ACERA is today one of California's strongest retirement associations, with \$5.6 billion in assets.

The total ACERA Fund returned 8.8% in 2007 and ranked in the upper 35th percentile for public pension funds of greater than \$100 million in assets. The Fund outperformed the public pension fund median by 0.5%. Over the longer term, the Fund also fared well. Its three-year return of 10.6% was only 0.1% short of the Policy Index and ranked in the upper 22nd percentile, while the five-year return of 14.0% beat the Policy

Actual Asset Allocation

As of December 31, 2007



The Journey to Retirement

Arnold X.C. Perkins

- 1** Years Hired:
1980 and 1993
- 2** First Job:
Homeless Coordinator, Mental Health Department, Alameda County
- 3** Last Job:
Public Health Director, Alameda County
- 4** Career Highlight:
I started out as Director of Drug and Alcohol for the County in 1993 but was reassigned after eight months to begin planning the new Public Health department. As its Director, I wanted to put the "public" back in Public Health. The turning point came around 2000 when the staff came to recognize that they are both students and servants of the community.
- 5** Date Retired:
December 30, 2006
- 6** In Retirement:
Now I get to do everything I love to do but don't have the pressure of politics and budgets. I volunteer with the Manhood/Fatherhood and Positive Minds programs, serve on several boards, and advise U.S. Judge Felton Henderson and the warden of San Quentin on prison health. My passion is community wellness, especially that of young people who are reentering our community after being incarcerated.
- 7** Reflection:
I loved working with the County, which allowed me to be a community servant. It was an exquisite experience. The majority of the people were exceptional and understood that Public Health is a social justice and social change agency.
- *** Advice:
Be open and willing to explore the outer and inner edges of oneself. Welcome the young. Let them take things to the next step.

Index by 0.4% and ranked in the upper 13th percentile.

We attribute the Fund's success to the Board's carefully structured asset allocation strategy—41.0% U.S. Equity, 22.0% International Equity, 28.0% Fixed Income, and 9.0% Real Estate—and to the timely implementation and close monitoring of this strategy by ACERA's investment staff in collaboration with ACERA's investment consultants.

So despite the unpredictability of the U.S. economy and capital markets, the Board remains committed to a long-term investment strategy to achieve and maintain a fully-funded status for the Pension Plan. The strategy incorporates strong

Growth of Investments

(Ten Years Ending December 31, 2007)

Dollars in Billions



MEMBERS OF THE 2008 BOARD OF RETIREMENT



BACK ROW, LEFT TO RIGHT: Mr. Keith Carson FIRST VICE CHAIR APPOINTED BY AND MEMBER OF THE BOARD OF SUPERVISORS, Mr. Darryl Walker, ALTERNATE ELECTED BY SAFETY MEMBERS, Mr. Dale E. Amaral ELECTED BY SAFETY MEMBERS, Mr. Trevor S. White CHAIR ELECTED BY GENERAL MEMBERS, L. Kenneth Brooks APPOINTED BY THE BOARD OF SUPERVISORS, Ms. Liz Koppenhaver ELECTED BY RETIRED MEMBERS

FRONT ROW, LEFT TO RIGHT: Ms. Annette Cain-Darnes APPOINTED BY THE BOARD OF SUPERVISORS, Mr. David M. Safer, ALTERNATE ELECTED BY RETIRED MEMBERS, Ms. Elizabeth Rogers SECOND VICE CHAIR ELECTED BY GENERAL MEMBERS, Ms. Ophelia B. Basgal APPOINTED BY THE BOARD OF SUPERVISORS, Mr. Donald R. White ALAMEDA COUNTY TREASURER-TAX COLLECTOR EX-OFFICIO MEMBER

controls for managing risk and ensuring compliance with all relevant fiduciary standards. It emphasizes prudent diversification, active rebalancing to maintain appropriate asset allocation, and rigorous supervision of professional investment managers.

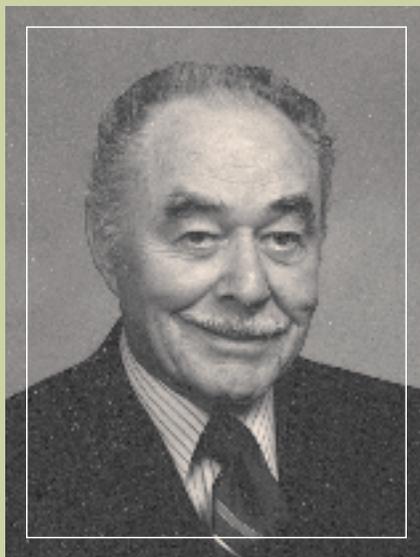
With a solid investment performance in various asset classes in 2007, ACERA's portfolio added value that will help reduce the plan's costs and increase future benefits. By diversifying among four major asset classes, the Board achieved a reasonably good return for members and their beneficiaries in a challenging year, without assuming undue risk.

ACERA'S MEMBERSHIP

ACERA's members include active employees of the County of Alameda, the employees of the Superior Court of California for the County of Alameda, and the employees of five other Participating Employers located in "special districts" within the County but not under the jurisdiction of the Alameda County Board of Supervisors. These five are Alameda County Medical Center, Alameda County Office of Education, First 5 Alameda County, Housing Authority of Alameda County, and Livermore Area Recreation and Park District. Participating Employers collectively share the risks and costs, including benefit costs, of supporting ACERA's multi-employer defined benefit retirement plan.

As of December 31, 2007, ACERA had 10,980 active members (an increase of 2.8% from 2006), 1,766 deferred members, and 7,244 retired members, beneficiaries, and survivors. The numbers reflect an increase of 304 active members, 108 deferred members and 352 retired members, including beneficiaries and survivors.

This report is printed with soy-based inks on 100% recycled paper with 50% post-consumer waste, processed chlorine-free, and manufactured with 100% certified renewable energy. Design: Tobi Designs (tobidesigns.com) Copywriting and editing: Virginia Kean Retiree and Board photos: Richard Morgenstein Photography (morgenstein.com) Special thanks to Bob Klein and Oliveto Restaurant & Cafe



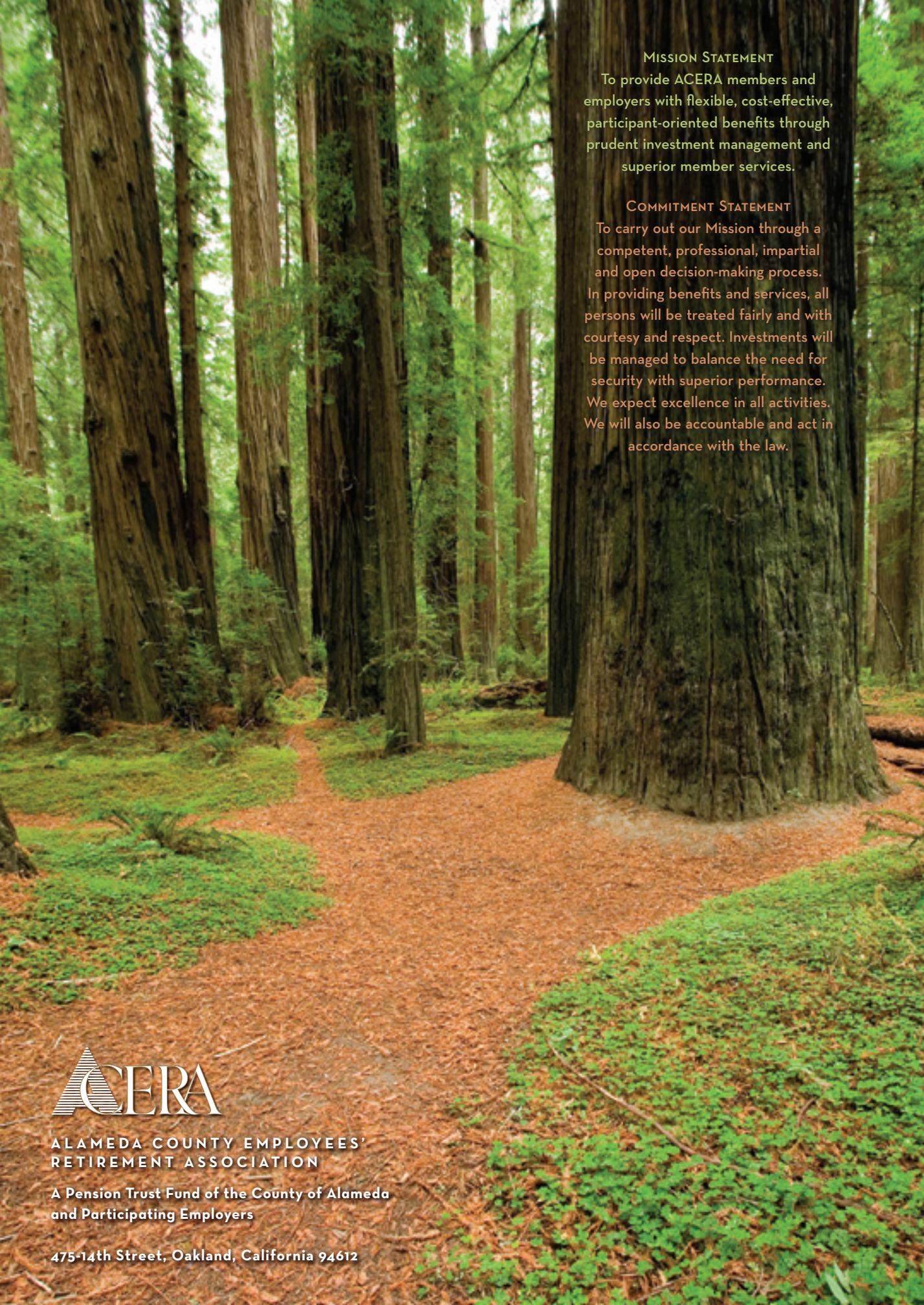
Irving Mahoney, 2002.

"Retirement is wonderful, but I really enjoyed working for the County."

A fifth generation Californian whose ancestors came with Juan Battista's expedition in the 1730s, Irving Mahoney was born in Oakland and lived there all his life. When he graduated from high school during the Great Depression, jobs were hard to come by so he took any odd job he could get until his father told him about a test for a County job. Three hundred took that test and Mr. Mahoney was one of the five who got the job. In December 1936, he went to work as an elevator operator at the new County Courthouse.

In March 1942 Mr. Mahoney enlisted in the Army Air Force and after the war returned to work in the County Recorder's Office. Two years later he moved to the County's department of Weights and Measures down on 5th near the Estuary tube. He checked scales and anything that needed to be weighed or measured throughout the County for accuracy, including gas pumps and fabric stores.

After retiring on February 8, 1972, he and his wife took five trips to Europe, buying a Mercedes-Benz, BMW or Fiat each time and driving it around before shipping it home. Recently he and a nephew and the nephew's wife drove out to see the Grand Canyon, stopping at lookouts to admire the layers of rock and colors. Irving Mahoney died on April 18, 2008.



MISSION STATEMENT

To provide ACERA members and employers with flexible, cost-effective, participant-oriented benefits through prudent investment management and superior member services.

COMMITMENT STATEMENT

To carry out our Mission through a competent, professional, impartial and open decision-making process. In providing benefits and services, all persons will be treated fairly and with courtesy and respect. Investments will be managed to balance the need for security with superior performance. We expect excellence in all activities. We will also be accountable and act in accordance with the law.



ALAMEDA COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION

A Pension Trust Fund of the County of Alameda
and Participating Employers

475-14th Street, Oakland, California 94612