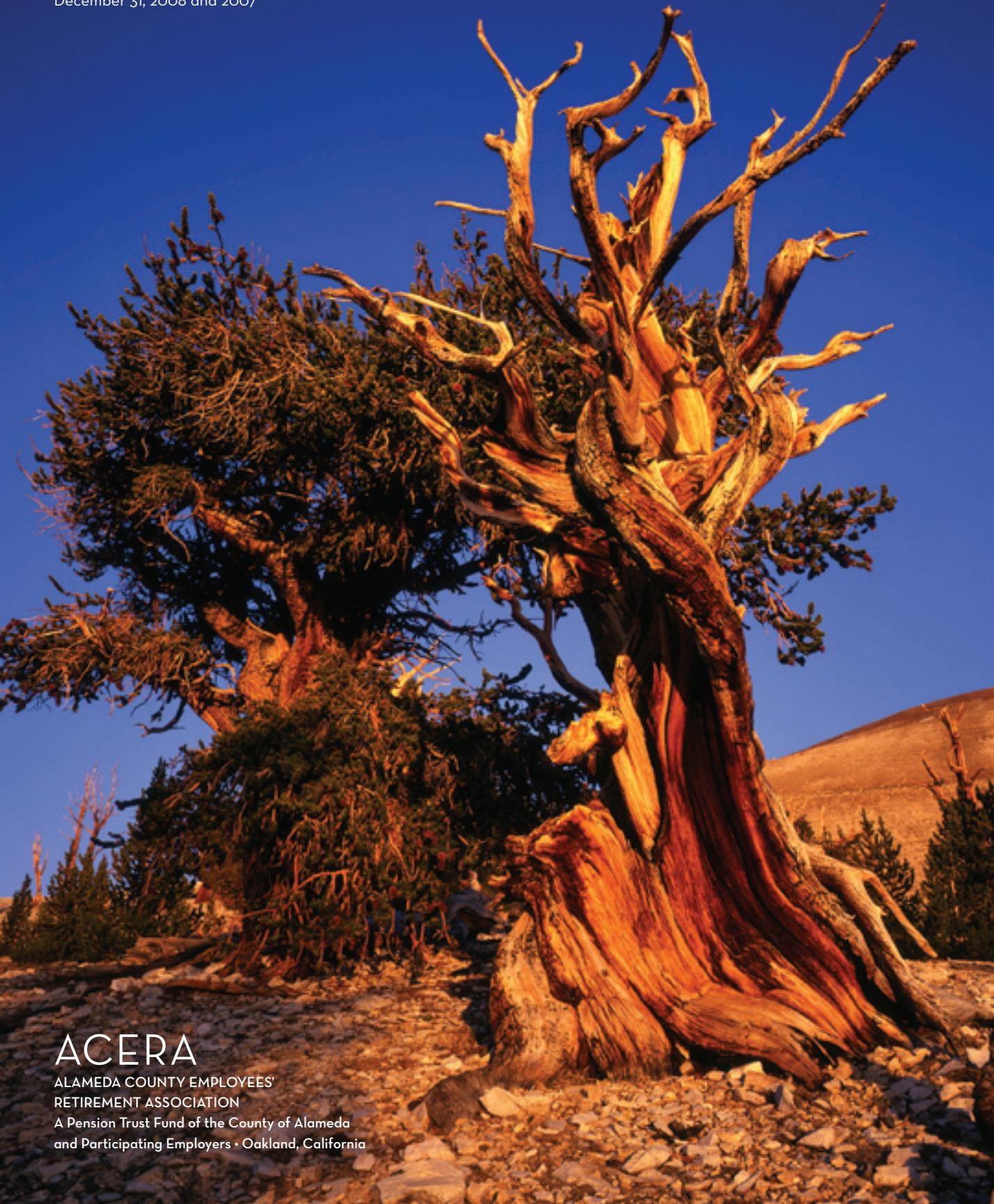


Withstanding Turbulence

Popular Annual Financial Report for the Years Ended
December 31, 2008 and 2007



ACERA

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, 2008 and 2007.

The PAFR, which is based on ACERA's Comprehensive Annual Financial Report (CAFR) for 2007 and 2008, provides a summary of ACERA's overall financial condition and accomplishments for the year. The selected financial data it presents conform to generally accepted accounting principles and are consistent with information contained in the CAFR.

The extraordinary economic circumstances over the past year are unparalleled in my 36 years of experience in California's public pension systems. What began with some price weakness in certain overheated regional housing markets and delinquencies in lower credit quality mortgages in 2007, progressed during 2008 into a systemic crisis that threatened at times to bring on the collapse of the global financial system. All institutional investors suffered significant paper losses from this market downturn and resulting economic recession.

ACERA's total Retirement Fund sustained a 32% drop, down to \$3.8 billion from \$5.6 billion.

An unfortunate effect of the Retirement Fund's reduced asset base and negative investment income is a reduction in cash flow that must be made up by an increase in funding to the Retirement Fund. Retirement benefits are set by statute and can not be changed. ACERA Member contribution rates can not increase to fund losses. The single remaining factor that is subject to change is the employer contributions to the Fund. Employer contributions will begin to increase in the next one to two years, which is the worst time for the employers who are suffering from the same economic malady as all institutions. The ACERA Board of Retirement will explore every possibility to mitigate the severity of that increase.

ACERA is a long-term investor with a well-diversified, conservative portfolio. ACERA expects financial markets to recover, but it may be several years before that occurs. It is important to note that ACERA has no liquidity problem and has enough assets to pay accrued benefits for members and retirees for many years to come.

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.

Sincerely,

A handwritten signature in blue ink that reads "Charles F. Conrad". The signature is written in a cursive, flowing style.

Charles F. Conrad
Chief Executive Officer



New home construction in California comes to a halt as the housing market dries up

On January 18, 2008, President George W. Bush called on Congress to give the U.S. economy a “shot in the arm” with an election-year package of temporary tax cuts and other measures worth up to \$150 billion.



Rising rates of foreclosure

U.S. foreclosure activity in July 2008 rose 55 percent from a year earlier as a slump in once-sizzling housing markets forced yet more borrowers to default on their mortgages.

ACERA BOARD OF RETIREMENT

Board Changes

In March 2008, Mr. L. Kenneth Brooks resigned. The Alameda County Board of Supervisors appointed Ms. Rosie Rios to this position.

In July 2008, Mr. Trevor White resigned due to his appointment to the Superior Court in Contra Costa County. Board elections were held in December 2008 for this position, and Mr. George Wood was elected to ACERA’s Board of Retirement as the Trustee representing the General Members. Mr. Wood will serve the remainder of Mr. White’s term which ends December 31, 2010.

Board Actions

- Adopted a more aggressive asset allocation by allocating 10% to Private Equity and Alternatives investments to ensure the long-term financial integrity of the system.
- Established the Private Equity and Alternatives Return Leading Strategies (PEARLS) Policy to govern all Private Equity and Alternatives investments.
- Made commitments to two Private Equity managers.
- Liquidated investments in Salus Capital Management and JPMorgan Alternative Property Fund.
- Hired Bivium Capital Partners, ACERA’s first Emerging Manager of Managers, to manage a U.S. Equity all-cap mandate.
- Approved the addition of hearing aid coverage under the Kaiser Senior Advantage Plan of \$1,000 for one device (up to two devices maximum) every 36 months at an additional \$9.14 per month.

Much of northern California is affected by smoke from wildfires

The California wildfires are visible in a NASA satellite image from July 9, 2008. The Butte Lightning Complex, a wildfire that burned from June 21 to July 29 near Paradise, eventually destroyed 106 homes and burned 59,440 acres.



Phelps wins 8 Olympic gold medals

Michael Phelps broke Mark Spitz's record of seven gold medals in a single Olympics at the 2008 Beijing Games.

Turning to green energy solutions

Solar panels sit on a roof at Google headquarters in Mountain View, CA, which will help reduce the company's carbon footprint.



ACCOMPLISHMENTS FOR FISCAL YEAR 2008

Annual Participating Employer Meeting

ACERA hosted its third Annual Participating Employer Meeting and collaborated with Participating Employers on several projects, including GASB (OPEB), Internal Revenue Code 401(h) and 401(a)(17), payroll transmittals, and impacts of the market crisis and the actuarial valuation process.

Employer Handbook

ACERA completed and distributed a handbook for its seven Participating Employers that details all pertinent processes and expands on the information in the Participating Employer Inter-Agency Agreement.

Electronic Document Management System

ACERA continued to make progress planning its comprehensive Electronic Document Management System (EDMS) project. All paper documents will undergo electronic conversion to improve information accuracy and efficiency, reduce duplication and costs, and provide a central location to capture and share information generated from paper documents. ACERA began analyzing its current operational processes to develop a comprehensive electronic workflow process. The project, which consists of three phases, is targeted for completion in 2011.

Record Retention Policy

ACERA adopted a Record Retention Policy to facilitate the creation of an Electronic Document Management System. The policy outlines the requisite retention periods for all types of ACERA records, both electronic and paper.

Electronic Contract Management

ACERA completed development and implementation of an electronic contract management system. This fully searchable system tracks service providers, contract expiration, and certain documentation compliance requirements. Implementation of this system is an important component of ACERA's Business Continuity Plan.



Global warming melts icebergs

Research has found the world is warming faster than predicted by the United Nations' top climate change body, with harmful emissions exceeding worst-case estimates.



Price of gas in San Francisco on July 1, 2008

U.S. gasoline demand remained in a slump as high prices at the pump trimmed demand for the fuel.



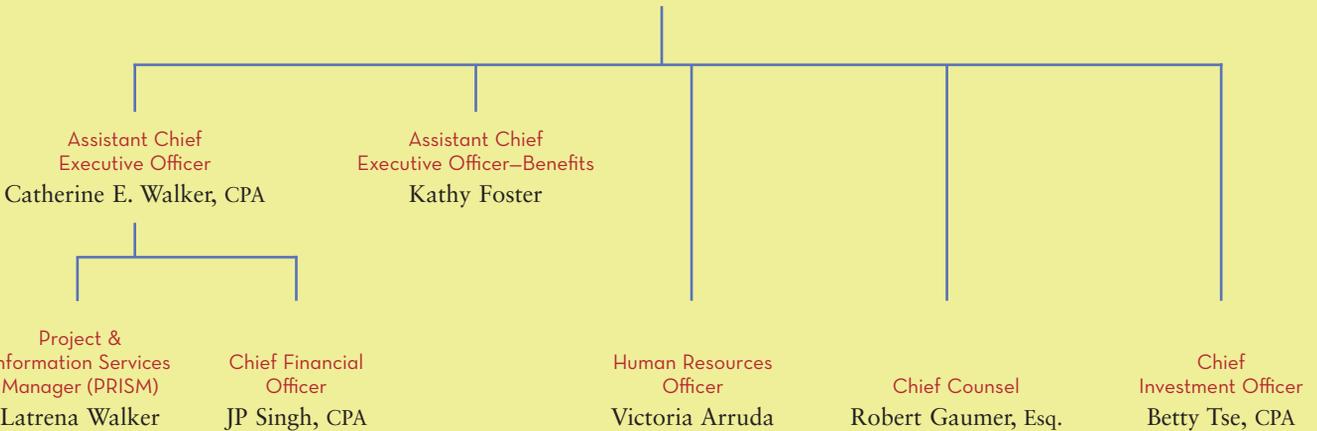
Commuters turn to casual carpooling

High gas prices are encouraging some San Francisco commuters to try an unorthodox travel strategy called casual carpooling, an efficient but unofficial way to move between home and work.

Administrative Organization Chart

As of December 31, 2008

Chief Executive Officer
Charles F. Conrad



IndyMac Bank is seized by FDIC in July, 2008
A total of 25 banks failed in 2008 and an additional 21 failed in the first quarter of 2009.



First Presidential Debate 9/27/08

Senator John McCain and Senator Barack Obama shake hands at the start of the first U.S. Presidential Debate in Oxford, Mississippi.



Financial industry meltdown

People walk out of the closed Lehman Brothers carrying boxes of their belongings as security guards look on in New York on September 15, 2008. AIG and Citicorp receive federal bailouts.

FINANCIAL REVIEW

Additions to and Deductions from ACERA's Net Assets for the Years Ended December 31, 2008 and 2007

The primary funding sources for ACERA member benefits are employer contributions, member contributions, and net investment income. For 2008, total additions to plan net assets were negative \$1,447.8 million, which is \$2,109.3 million less than in 2007. In 2008, ACERA's net investment income decreased by \$2,116.1 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 2008 totaled \$321.0 million. This was an increase of \$24.2 million or 8% over the year 2007, and was primarily due to the fact that retirement benefit payments rose 8%.

As a result of these additions and deductions, ACERA's plan net assets totaled \$3.8 billion. The total reflects a decrease of \$1,768.8 million or -32% over the year 2007. This large decrease is due primarily to paper investment losses as a result of the global financial market turmoil of 2008.

Supplemental Retiree Benefit Reserve (SRBR)

ACERA is one of three '37 Act counties to administer a Supplemental Retiree Benefits Reserve (SRBR), which is funded from regular earnings and 50% of earnings in excess of the assumed actuarial interest rates. The SRBR provides funding for non-vested benefits such as a portion of health care contributions (as a Monthly Medical Allowance) and Supplemental COLAs to retired members and their beneficiaries. Non-vested benefits are subject to available SRBR assets. Consequently, they may be reduced or eliminated at the Board's discretion.

As of December 31, 2008, the SRBR held \$688.5 million in net assets. This total will fund the current benefit structure through the year 2030 for Postemployment Medical Benefits and year 2026 for Non-OPEB Benefits (Other Postemployment Benefits, e.g., Supplemental COLA and Active Death Benefits), even if no new excess investment



October 15, 2008 stock market crash
 Wall Street had its worst day since the 1987 stock market crash as bleak economic data fed worries that all the efforts to unlock credit markets may not stave off a severe recession. The week of October 6th is referred to as the black week as the Dow Jones fell 18% in a single week.



Record voter turnout
 62% of eligible voters turned out in the November 4, 2008 presidential election, a 40-year record.

U.S. automakers ask government for help
 Automotive industry leaders from Ford, Chrysler, and General Motors testify on Capitol Hill in Washington on November 18, 2008.



Total ACERA's Net Assets

(Dollars in Millions)

	2008	2007	Increase (Decrease) Amount	Percent Change
Pension Plan	\$ 3,117.5	\$ 4,878.9	\$ (1,761.4)	-36%
Postemployment Medical Benefits	612.5	617.5	(5.0)	-1%
Non-OPEB Benefits	76.0	78.4	(2.4)	-3%
Total ACERA	\$ 3,806.0	\$ 5,574.8	\$ (1,768.8)	-32%

earnings are available. The current funded level of the SRBR is at 96.0% for Postemployment Medical Benefits and 38.5% for Non-OPEB Benefits, using a very conservative methodology based on GASB Statement No. 43 OPEB guidelines.

Supplemental COLA

The Supplemental Cost of Living Allowance (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 \$1.15 to purchase what \$1.00 used to purchase, then 15% of purchasing power has been lost. When this occurs, a retiree may qualify for Supplemental COLA to make up the difference.

The funding of the Supplemental COLA is considered annually by ACERA's Board of Retirement and is paid out of the Supplemental Retiree Benefit Reserve (SRBR). Supplemental COLA benefit payments for calendar year 2008 were \$4.1 million.



Consumer spending down
Retailers take steep discounts to entice shoppers leading up to the holidays.



Emergency landing in Hudson River
On January 15, 2009, a U.S. Airways jet with more than 150 people on board came down into the frigid Hudson River off Manhattan after apparently hitting a flock of geese. All crew and passengers survived, and the captain is honored as a hero.



Inauguration of Obama
President Barack Obama is sworn in as the 44th President.

Changes in ACERA's Net Assets (Condensed) For the Years Ended December 31, 2008 and 2007 (Dollars in Millions)

	2008	2007	Increase/(Decrease) Amount	Percent Change
ADDITIONS				
Member Contributions	\$ 75.6	\$ 72.4	\$ 3.2	4%
Employer Contributions	129.7	130.0	(0.3)	0%
Net Investment Income	(1,685.2)	430.9	(2116.1)	-491%
Other Income	0.5	0.9	(0.4)	-44%
Post-Employment Medical Benefits Transfers on Behalf of Employers	28.5	27.3	1.2	4%
Employer Implicit Subsidy* from Post-Employment Medical Benefits	3.1	-	3.1	100%
Total Additions	(1,447.8)	661.5	(2,109.3)	-319%
DEDUCTIONS				
Retirement Benefit Payments	242.9	224.8	18.1	8%
Post-Employment Medical Benefits	26.7	24.7	2.0	8%
Post-Employment Medical Benefits Transfers to Pension Plan on Behalf of Employers	28.5	27.3	1.2	4%
Member Refunds	6.5	7.8	(1.3)	-17%
Employer Implicit Subsidy* to Pension Plan	3.1	-	3.1	100%
Administration	13.3	12.2	1.1	9%
Total Deductions	321.0	296.8	24.2	8%
Beginning ACERA's Net Assets	5,574.8	5,210.1	364.7	7%
Increase/(Decrease) in ACERA's Net Assets	(1,768.8)	364.7	(2,133.5)	-585%
Ending ACERA's Net Assets	\$ 3,806.0	\$ 5,574.8	(\$ 1768.8)	-32%

*The County negotiates health care provider contracts covering both active and retired members. This arrangement results in "blended" medical premium rates which are lower for early retirees (an "implicit subsidy"). ACERA reimburses the County for the cost of the subsidy.



Historical inauguration day
Hundreds of thousands of people fill the National Mall grounds during the inauguration of Barack Obama.



Help for struggling banks
On February 10, 2009, U.S. Treasury Secretary Timothy Geithner announced a plan to take \$500 billion in bad assets off the books of struggling banks and expand a Federal Reserve program to support up to \$1 trillion in asset-backed securities.

The first African-American U.S. President and his family take residence in the White House
President Barack Obama visits with his daughters Malia and Sasha and kisses his wife, First Lady Michelle Obama, in a private study off the Oval Office.



ACTUARIAL VALUATION

ACERA engages an independent actuarial consulting firm to conduct annual actuarial valuations of the Pension Plan, the OPEB Plan, and the Non-OPEB Plan. The purpose of the valuation is to reassess the magnitude of the benefit commitments. This is compared to the assets expected to be available to support those commitments so employer and member contribution rates can be adjusted accordingly.

The December 31, 2008 actuarial valuation, which includes the results of the triennial experience study dated July 7, 2008, will be completed after the publication of this PAFR.

As of the latest actuarial evaluation dated December 31, 2007 for the Pension Plan, the actuarial accrued liability was \$5,112.4 million; the actuarial value of assets was \$4,560.2 million; the unfunded actuarial accrued liability was \$552.2 million; and the funded ratio was 89.2%

which is up from 85.5%. The improved funding status resulted from an increase in the actuarial value of assets of \$432.4 million, and reflects a strong Fund performance in 2007 and the prior 4 years. The funded ratio is an actuarial estimate of our ability to pay projected benefit obligations. Funded ratios for five and ten years prior were 92.5% in 2002 and 104.3% in 1997. The lower funded ratio as compared to 1997 reflects market volatility in 2001. Participating Employers contributed 100% of the annual required contributions to the Pension Plan.

INVESTMENTS

The County Employees Retirement Act of 1937 and the California Constitution confer the authority and fiduciary responsibility for investing ACERA's funds on the Board of Retirement. In addition, Board members are legally required to carry out their duties in the manner of a prudent person familiar with such retirement and investment matters acting under similar

Plan to help homeowners avoid foreclosure

The Obama administration launched a \$75 billion foreclosure relief plan, as new data showed one in five U.S. homeowners with mortgages owe more than their house is worth.



President Barack Obama signs stimulus package bill
Obama signed a \$787 billion economic stimulus bill into law on February 17, 2009.



Bernard Madoff brought to justice
On March 12, 2009, multimillionaire swindler Madoff, the 70-year-old former Nasdaq chairman, pleaded guilty to fraud in one of the largest Ponzi schemes in history.

circumstances. This prudent expert rule permits the Board to make investment allocation decisions and diversify investment holdings to reduce overall risk and increase returns.

The prudent expert rule also permits the Board to establish an investment policy based on professional advice and counsel,

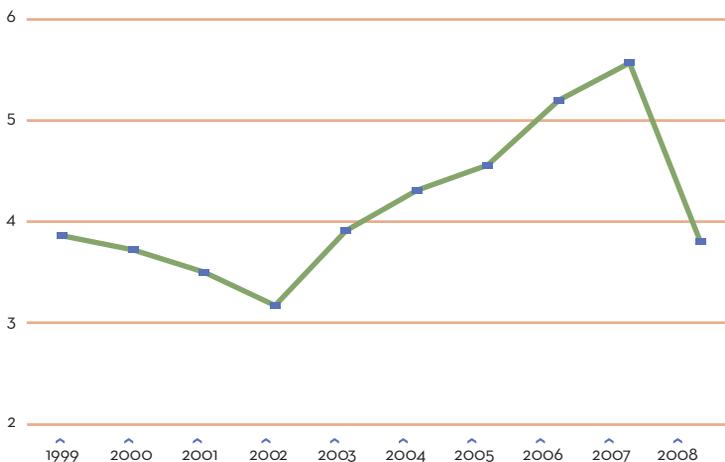
and allows for the delegation of investment authority to professional investment managers. ACERA's investment policy outlines the responsibility for the investment of the funds and the degree of risk deemed appropriate for ACERA's investments. Investment managers are contractually bound to carry out their responsibilities in accordance with the Board of Retirement's investment policy and to follow specific contractual guidelines.

For the years ended December 31, 2008 and 2007, ACERA's investments provided a negative 30.3% and positive 8.8% rate of return, respectively. ACERA's annualized rate of return over the last three years was negative 4.6%, and over the last five years was positive 1.2%. The annualized fund return for the last twenty years was positive 8.4%

In March 2008, the Board added a new allocation of 10% to Private Equity and Alternatives investments. To implement the new asset class, the Board also adopted a new Private Equity and

Growth of Investments

(Ten Years Ending December 31, 2008)
Dollars in Billions





War in Iraq continues its toll
 President Obama meets with General Odierno, Commanding General, Multi-National Force-Iraq, during the President's visit with U.S. troops at Camp Victory, Baghdad, Iraq on April 7, 2009.



World's leaders meet to strategize
 U.S. President Barack Obama arrives on stage for a news conference at the G20 Summit in London on April 2, 2009. World leaders agreed on a trillion-dollar deal to combat the deepest economic downturn since the Great Depression.



Tent cities sprout across the country
 Sacramento's tent city has seen an increase in population as unemployment numbers grow in the U.S.

Alternatives Return Leading Strategy (PEARLS) policy. The PEARLS policy allows a 5% allocation in Private Equity investments such as buyouts and venture capital investments, and another 5% allocation in Alternatives investments such as absolute return and commodity investments. ACERA's Board approved \$75 million in private equity investments in 2008.

ACERA'S MEMBERSHIP

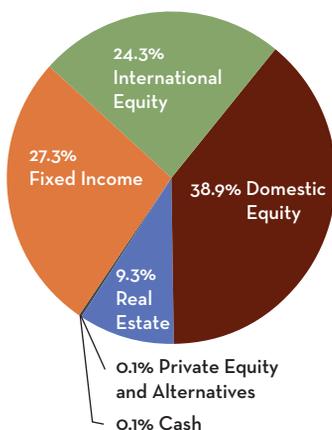
ACERA's members include active employees of the County of Alameda, the employees of the Superior Court of California for the County of Alameda, and the employees of five other Participating Employers located in "special districts" within the County but not under the jurisdiction of the Alameda County 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 cost sharing, multi-employer defined benefit retirement plan.

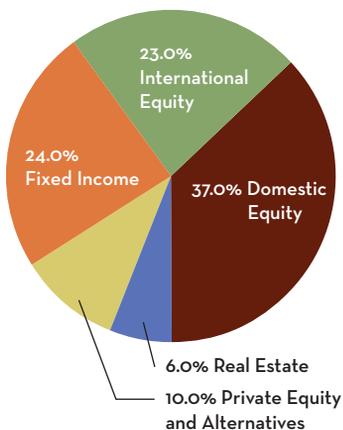
As of December 31, 2008, ACERA had 11,136 active members (an increase of 1.4% from 2007), 1,819 deferred members (an increase of 3.0% from 2007), and 7,193 retired members, beneficiaries, and survivors (an increase of 2.2% from 2007). The numbers reflect an increase of 156 active members, 53 deferred members, and 155 retired members, including beneficiaries and survivors.

Actual Asset Allocation

As of December 31, 2008



Target Asset Allocation



MEMBERS OF THE ACERA 2009 BOARD OF RETIREMENT



Elizabeth Rogers

CHAIR

Elected by
General Members

David M. Safer

ALTERNATE

Elected by
Retired Members

Ophelia B. Basgal

Appointed by the
Board of Supervisors

Annette Cain-Darnes

FIRST VICE CHAIR

Appointed by the
Board of Supervisors

Rosie Rios

Appointed by the
Board of Supervisors

Keith Carson

Appointed by and
Member of the
Board of Supervisors

Dale E. Amaral

Elected by
Safety Members

George Wood

SECOND VICE CHAIR

Elected by
General Membe

Darryl L. Walker

ALTERNATE

Elected by
Safety Members

Liz Koppenhaver

Elected by
Retired Members

Donald R. White

EX-OFFICIO MEMBER

Treasurer-Tax Collector,
County of Alameda

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

475-14th Street, Oakland, California 94612