

Sonoma County Employees' Retirement Association
433 Aviation Boulevard, Suite 100
Santa Rosa, CA 95403-1069

SCERA Management

Gary J. Bei, *Retirement Administrator*
Leslie M. Garrison, *Assistant Retirement Administrator*
Cathy Lanz, *Retirement Accounting Manager*
James L. Failor, *Retirement Investment Officer*
Diane Ginn, *Department Information Systems Coordinator*
Helen C. Olson, *Retirement Benefits Coordinator*

SCERA Board of Retirement*

John Pels, *Chairman*

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Mike Chrystal
Rod Dole
Greg Jahn
Tim Smith
Sharon Stockham
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Tom Ford (Alternate Trustee)

*as of December 31, 2008

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**Insert Cover Here with Logo, SCERA Title Block, and Report Title
Block Fiscal Year Ended December 31, 2008**

Comments From SCERA's Administrator

I am pleased to present this summary of the Annual Financial Report for the year ending December 31, 2008. The Comprehensive Annual Financial Report (CAFR) provides a more complete overview of SCERA's financial position and operating results and is available at the Retirement Association's office or on-line at www.scretire.com.

Fund Status

SCERA's funding objective is to meet long-term benefit obligations through employer and employee contributions and investment income. The actuarial valuation completed by The Segal company as of December 31, 2008 determined the funding status for the system was approximately 84%. The funded ratio is computed by the actuary and uses the actuarial value of assets that incorporates smoothing of investment returns over a five-year period. If the market value of assets were used as of December 31, 2008, the funded ratio of SCERA would be approximately 57%.

Cost of Living Adjustment (COLA)

In January 2008, the Retirement Board met to consider whether the reserves were sufficient to grant a purchasing power COLA to be implemented in April 2008. The estimated cost to bring all retirees up to 80% of their original benefit was \$7.9 million. The Retirement Board voted unanimously to grant a purchasing power COLA to SCERA retirees effective with the April 30, 2008 benefit payment.

In January 2009, the Retirement Board met to consider whether there were adequate reserves to grant a COLA in April of 2009. Reserve levels had been negatively impacted by the extreme and unusual conditions of the financial markets in 2008 and the resulting impact on SCERA investment returns. In addition to not having reserves, the final CPI rate for 2008 came in flat at 0.0%, unchanged from 2007. As a point of reference, the last time the CPI was flat or negative was in the 1950's. As a result of the CPI for 2008, there was not a necessity to grant a COLA this year to maintain the purchasing power of the retirees.

The Retirement Fund as a Whole

For the year ended December 31, 2008 the SCERA investment portfolio experienced a return of -29.5% compared to a return of 9.7% for the year ended December 31, 2007. The SCERA fund annualized returns over the last 3, 5, and 10 and 15-year periods, were -4.0%, 1.5%, 2.5% and 6.3%, respectively.

Investments

It was a busy year in the area of investments. In January 2008, SCERA's Board approved increased allocations to non-US and global equities. The higher allocations to non-US equities is consistent with the growing share they represent of the world's stock market and provides a diversification benefit to the Plan's total investment return. After these changes, the Plan's total stock portfolio was split 60%/40% between US and non-US stocks, respectively. The resulting Policy allocations for the entire Plan became: 33% US equities, 17% non-US equities, 15% global equities, 21% fixed income, 13% real estate and 1% cash. Global equity managers, Capital Guardian and Templeton Investment Counsel, were funded in April 2008 and a third non-US equity manager, Artio Global Investors, was funded in June 2008. After due deliberation, the SCERA Board determined that a partial short extension strategy was an appropriate investment approach for SCERA's Plan. In February 2008, the Board decided to pursue this strategy by converting the Jacobs Levy long-only Russell 3000 benchmark account to a 130/30 account. This change necessitated the engagement of a prime broker. After a search, the Board selected Credit Suisse as the prime brokers for the strategy. The Jacobs Levy account was converted to the 130/30 strategy at the beginning of January 2009.

2008 was a challenging year for SCERA's investment managers as most struggled to beat their benchmarks. Compared to the State Street Public Fund Universe, SCERA's Plan underperformed the median fund in 2008. This was largely due to SCERA's modestly higher than average exposure to stocks, which underperformed long-term expectations significantly in 2008. The underperformance of managers relative to their benchmarks is to be expected at times as manager styles move in and out of favor. As of the year earlier period most of SCERA's investment managers were outperforming their benchmarks. Regarding the higher than average equity allocations of the Plan, equities have consistently outperformed other asset classes over longer periods through they are more volatile over shorter periods. Because SCERA has a longtime horizon, it can manage the modestly higher volatility of a higher allocation to equities and will benefit over the long-term from the proven higher return of the asset class. Even with this recent downdraft included, SCERA's 30-year return through March 31, 2009 is a healthy 8.2%, net of fees.

Integrated Pension System (IPS)

The IPS continues to be one of SCERA's top priorities in 2008 and 2009, with plans to go live with the new system by the end of 2009. SCERA is working to complete the design review and testing phases of this project.

Actuarial Analysis

In 2008, the Segal Company completed a policy review for the amortization of the Unfunded Actuarial Liability (UAAL) resulting in the adoption of a layered approach to UAAL amortization and change to a 20-year UAAL amortization period.

Certificate of Achievement

The GFOA has given an Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) to SCERA for the fiscal year ended December 31, 2007. The PAFR is sent to all SCERA members and includes highlights of the annual CAFR. This was the fourth year the PAFR was submitted to the GFOA for review and we are very pleased to have received this prestigious national award.

Respectfully submitted,



Gary J. Bei
Retirement Administrator

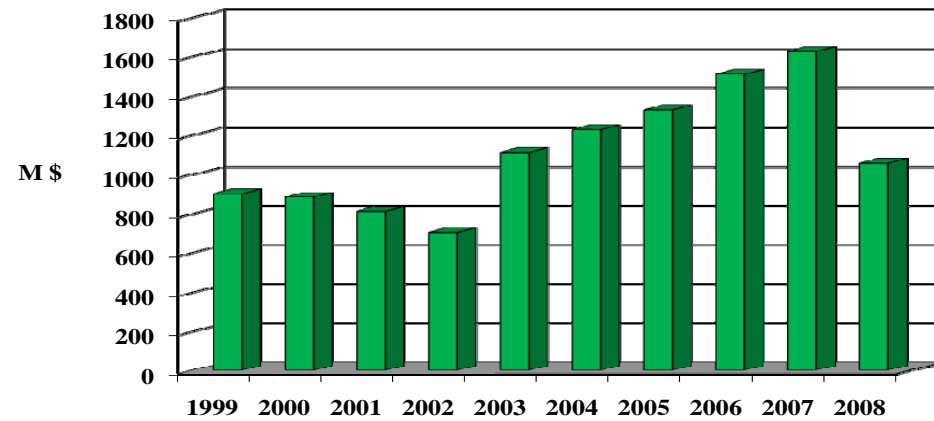
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

(All \$ in Millions)

Fiscal year ending 12/31	Total Fund Net Assets	Increase (Decrease) in Net Assets
2008	\$1,057.1	\$(570.1)
2007	1,627.2	114.9
2006	1,512.3	184.7
2005	1,327.6	100.7
2004	1,226.9	116.9
2003	1,110.0	406.3
2002	703.7	(108.0)
2001	811.7	(72.8)
2000	884.5	(17.9)
1999	\$ 902.4	\$ 109.8

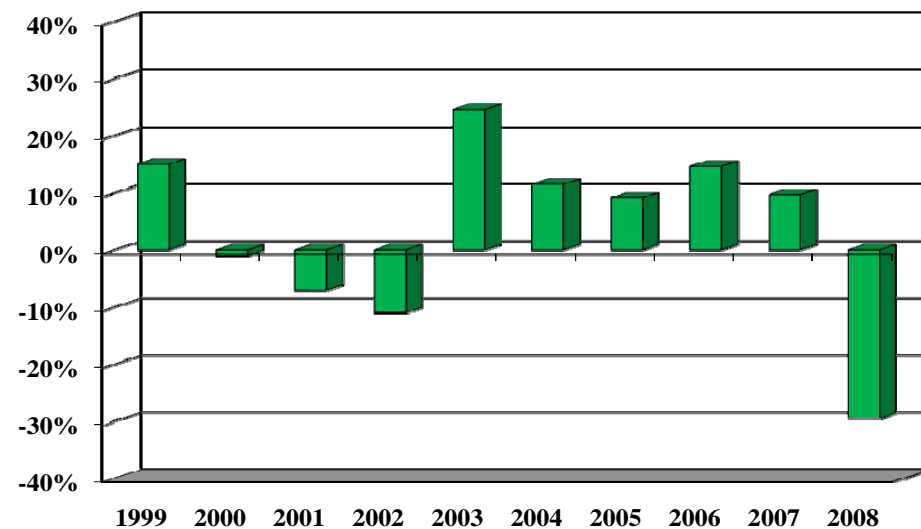
Total Fund Net Assets are the assets at market value available to pay benefits.

SCERA Net Assets Held in Trust for Pension Benefits



INVESTMENT RETURNS

SCERA Investment Return



PENSION BENEFIT ASSETS AND INVESTMENT RETURNS

(All \$ in Millions) Fiscal Year Ended December 31, 2008

Investment	Market Value	Percent Actual	2008 Return	3-Year Return	5-Year Return
Domestic Equity	\$ 362.9	32.3%	-40.7%	-10.2%	-2.2%
Benchmark: Russell 3000			-37.3%	-8.6%	-2.0%
International Equity	194.0	17.3%	-41.9%	-5.7%	2.4%
Benchmark: MSCI AC World ex-US			-45.5%	-7.0%	2.6%
Global Equity	168.5	15.0%	-31.6%	-3.1%	N/A
Benchmark: MSCI AC World			-42.2%	-7.9%	-0.1%
Fixed Income	222.4	19.8%	-11.9%	-0.4%	1.5%
Benchmark: BC Aggregate			5.2%	5.5%	4.7%
Real Estate	160.6	14.3%	-3.2%	10.4%	11.7%
Benchmark: NCREIF Index			3.1%	12.4%	13.4%
Cash	14.6	1.3%	2.3%	4.2%	3.5%
Total SCERA Fund	\$1,123.0	100%	-29.5%	-4.0%	1.5%
Benchmark: SCERA Policy Index			-26.3%	-2.9%	1.9%

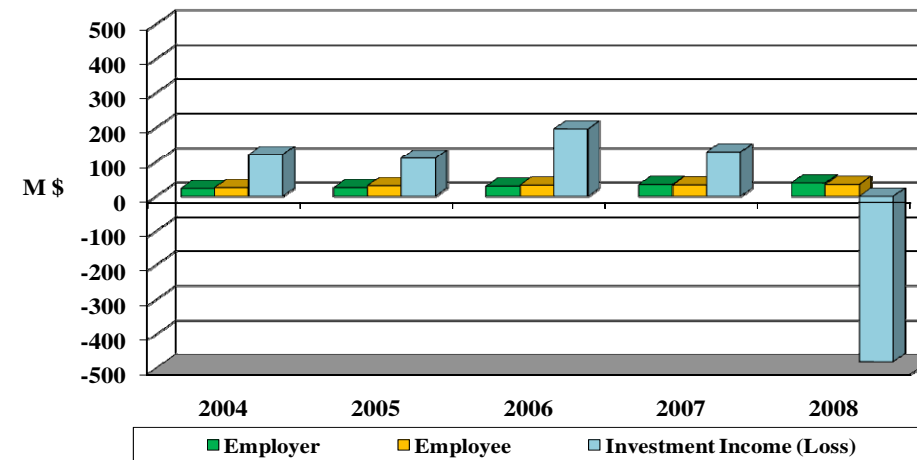
This chart shows the market value at fiscal year end, the actual percent of each asset type as a percentage of the entire portfolio and the investment returns for 1-year, 3-year and 5-year periods. The returns are shown before investment fees and administrative expenses. Benchmarks are market return comparisons for similar investments to the SCERA investment portfolio. The SCERA Policy Index provides an overall market return measure for the SCERA fund and represents the weighted average market return for SCERA investment classes.

FUND REVENUE

(All \$ in Millions)

Fiscal year ending 12/31	Employer Pension Contributions	Employee Pension Contributions	Net Investment Income (Loss)
2008	\$38.6	\$34.1	\$(553.4)
2007	34.3	32.8	129.4
2006	29.4	32.2	196.1
2005	25.0	30.6	110.7
2004	\$22.9	\$25.3	\$ 122.0

SCERA Revenue



The primary sources of funds to finance retirement benefits are accumulated through income on investments and through the collection of employee and employer contributions. Net Investment Income is the total interest and dividends earned by all investments as well as the change in market value of all investments, less investment fees.

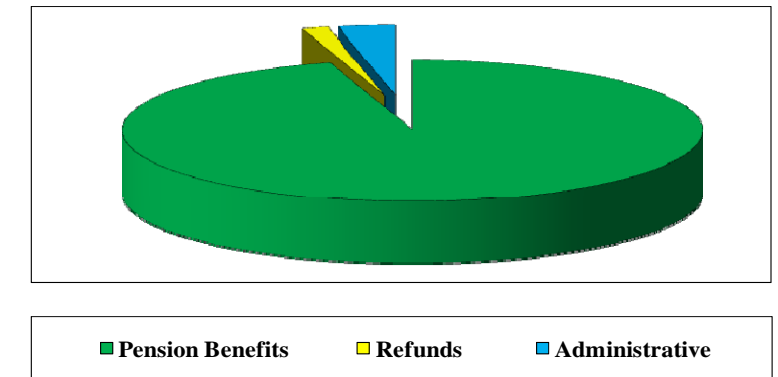
FUND EXPENSES

(All \$ in Millions)

Fiscal year Ending 12/31	Pension Benefits	Refunds	Other Expense	Admin Expense
2008	\$85.3	\$1.3	\$0.3	\$2.5
2007	77.5	1.1	0.4	2.4
2006	69.9	0.8	0.4	2.0
2005	62.1	1.2	0.3	1.9
2004	\$50.5	\$0.7	\$0.1	\$2.0

The primary uses of assets are the payment of pension benefits to retirees and their beneficiaries, refund of contributions to former employees, and the cost of administering the system.

SCERA Expenses



HISTORICAL MEMBERSHIP

Fiscal year ending 12/31	Number of Active Members	Number of Retired Members & Beneficiaries	Average Annual Benefit Received
2008	4,193	3,399	\$25,560
2007	4,248	3,282	24,660
2006	4,194	3,095	23,217
2005	4,230	2,939	21,812
2004	4,178	2,722	\$20,257

Membership includes the total number of active employees paying into the plan and the total number of retired members and beneficiaries drawing monthly pension benefits.

Average Annual Benefit is the average benefit received including the basic retirement pension plus COLAs.

More detailed information can be found in the CAFR which is available at:

SCERA
433 Aviation Boulevard, Suite 100
Santa Rosa, CA 95403
or on our web site at www.scretire.com.