

San Luis Obispo County Pension Trust



*A Pension Trust Fund of the County of San Luis Obispo,
San Luis Obispo, California*



Comprehensive Annual Financial Report

**For the Years Ended
December 31, 2014 and December 31, 2013**

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Comprehensive Annual Financial Report

For the Years Ended
December 31, 2014 and December 31, 2013

San Luis Obispo County Pension Trust

*A Pension Trust Fund of the County of San Luis Obispo,
San Luis Obispo, California*

Issued By:

Carl A. Nelson, CFA
Executive Secretary

Amy Burke
Deputy Executive Secretary

Jennifer Alderete
Financial Accountant

San Luis Obispo County
Pension Trust
1000 Mill Street
San Luis Obispo, CA 93408
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www.SLOPensionTrust.org

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Photographs: Carl Nelson

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Introductory Section



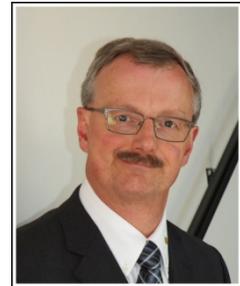
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June 22, 2015

San Luis Obispo County Pension Trust
Board of Trustees



Carl Nelson
Executive Secretary

Dear Board Members:

I am pleased to present this Comprehensive Annual Financial Report (CAFR) for the San Luis Obispo County Pension Trust (“SLOCPT” or the “Pension Trust”) for the years ended December 31, 2014 and 2013.

The Pension Trust is a public employee retirement system established by the County of San Luis Obispo (the “County”) on November 1, 1958. Ten years later the Board of Supervisors adopted the present By-Laws and the San Luis Obispo County Employees Retirement Plan (the “Plan”) to provide retirement benefits to employees of the County.

The Pension Trust is administered by the Board of Trustees (the “Board”) to provide retirement, disability, death, and survivor benefits for its members. The Pension Trust is established pursuant to Section 17 of Article XVI of the California Constitution and Government Code Sections 53215 et seq.

Responsibility for the accuracy of the data, along with the completeness and fairness of the presentation in this CAFR rests with the Pension Trust’s management. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present both the Pension Trust’s financial position and its operating results.

The Pension Trust and its Services:

The SLOCPT was established and has evolved over the years to provide retirement allowances and other benefits to the Miscellaneous, Probation and Safety members employed by the County and various agencies (collectively the “Plan Sponsor”) listed on the next page:

Introductory Section:

The Pension Trust is governed by the California Constitution, the California Government Code, and its bylaws (including the Plan) adopted by the San Luis Obispo County Board of Supervisors. The Board of Supervisors may adopt amendments to the Plan which may alter the benefits provided to SLOCPT members.

The Board of Trustees is responsible for managing and administering the Pension Trust in accordance with the laws of the United States and California, the County Code, the Bylaws, and the Plan. The Board is composed of seven members. Three Board members are appointed and serve at the pleasure of the County Board of Supervisors. The County Auditor/Controller-Treasurer/Tax Collector/Public Trustee serves as an ex-officio member of the Board. The three remaining Board members are elected by the Pension Trust's members at large for staggered three year terms without term limits. Board of Trustee elections are administered by the County Clerk and Recorder. Newly elected or re-elected Board members take office in July of the year they are elected.

The Board annually elects from its members a President and a Vice President. The operational management of the Pension Trust lays with the Executive Secretary who is appointed and serves at the pleasure of the Board. The Executive Secretary also acts as Secretary to the Board.

Financial Information:

Brown Armstrong Accountancy Corporation provides financial statement independent audit services to the Pension Trust. The independent audit states that the Pension Trust's financial statements are presented in conformity with Generally Accepted Accounting Principles (GAAP) and are free of material misstatement. Sufficient internal accounting controls exist to provide reasonable, but not absolute, assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules. The concept of reasonable assurance recognizes that first, the cost of a control should not exceed the benefits likely to be derived, and second, the valuation of costs and benefits requires estimates and judgments by management. Governmental Accounting Standards Board (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 Letter of Transmittal complements the information in the MD&A and should be read in conjunction with it. The MD&A can be found on pages 18 through 23.

Actuarial Funding Status:

The Pension Trust's funding objective is to meet its long-term benefit promises by targeting a well-funded status. Funded status refers to the difference between the level of actuarial accrued liability and the actuarial measurement of the Pension Trust's assets. The funded status of the Pension Trust is determined by two sources of funding:

- **Investment returns** obtained through investments of a level of risk consistent with the long-term objectives of the Pension Trust.
- **Employer appropriations** and **Employee contributions** as their respective portions of the total Annual Required Contribution (ARC). The relative allocation of the total ARC to Employer and Employee is typically the result of the collective bargaining process, or for unrepresented employees it is set by the Board of Supervisors.

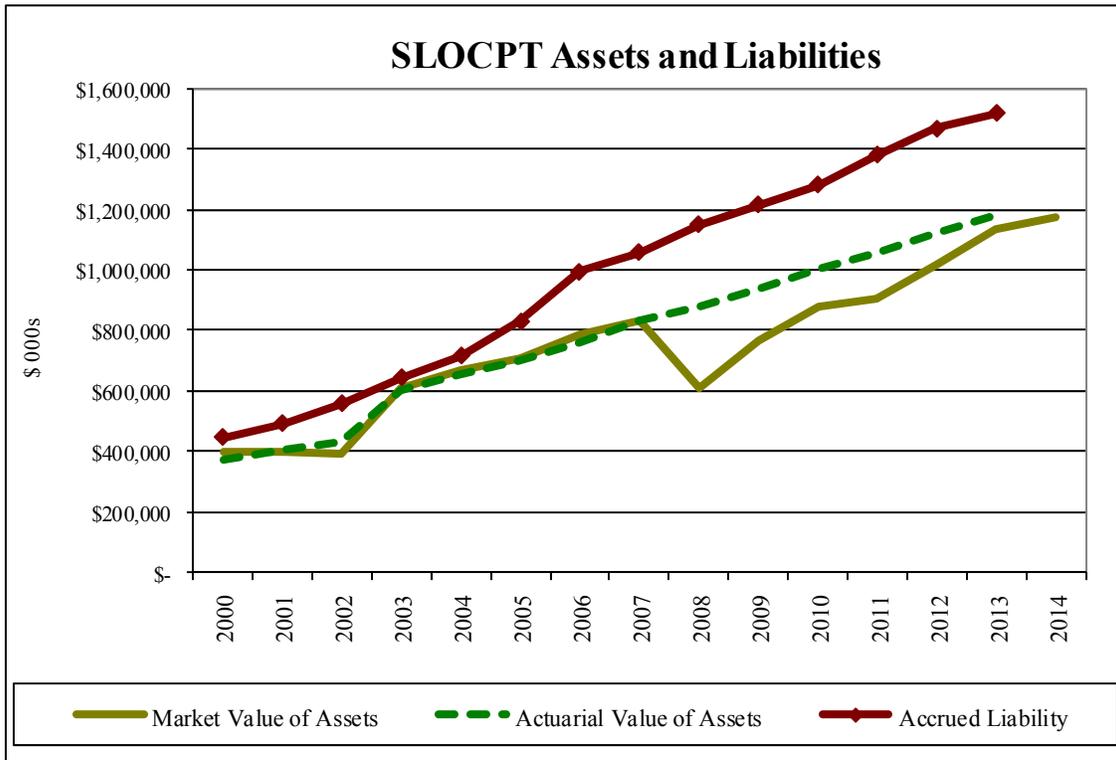
It is the policy of the County to contribute the full ARC each year through a combination of Employer appropriations and Employee contributions. The timing of when employer appropriation rate changes are implemented may vary depending on when the actuarial valuation is completed. Likewise, the timing and magnitude of employee contribution rate changes may vary depending on when various collective bargaining agreements are implemented.

The Pension Trust engages an independent actuarial firm to perform annual valuations on the Pension Trust. Additionally, actuarial experience studies are conducted biennially. The economic and demographic assumptions that are used in each annual actuarial valuation are approved by the Board and are typically based on the results of each biennial actuarial experience study and input from the Pension Trust's advisors. Each annual actuarial valuation serves as the basis for the ARC in aggregate to be collected from employer and employee contributions.

The most recent annual actuarial valuation available for financial reporting in this CAFR is the January 1, 2014 valuation. It is based on member data and financial results through December 31, 2013. The Pension Trust's actuary, Gabriel Roeder Smith, completed this annual valuation prior to the preparation of this CAFR. The most recent biennial actuarial experience study was completed by Gabriel Roeder Smith as of January 1, 2014. At the time of preparation of this CAFR, the January 1, 2015 valuation was being prepared, but the results were not yet available.

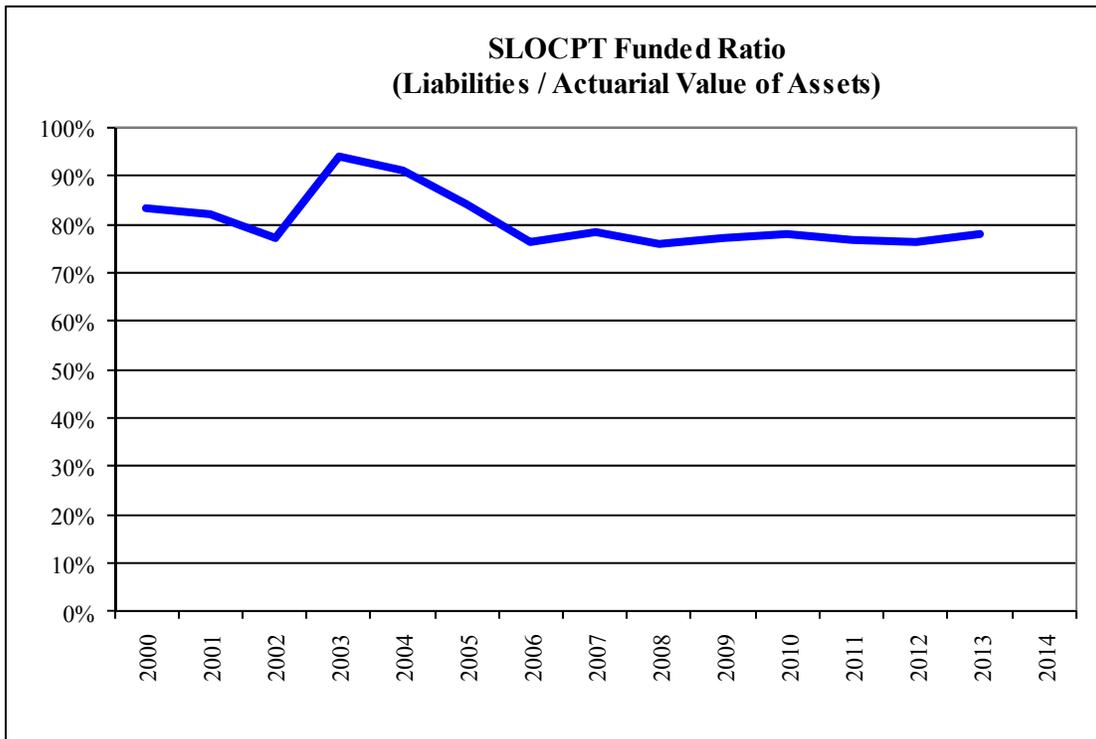
Based on the most recent actuarial valuation, the actuary computes (among other things) a level of Actuarial Accrued Liability (AAL) and an Actuarial Value of Assets (AVA). The AVA is a smoothed measure of market values of the Pension Trust's total assets that moderates yearly volatility in asset size. The difference between the AVA and the AAL (if negative) is referred to as the Unfunded Actuarial Accrued Liability (UAAL) and is a central focus of funding policy for the Retirement Plan. These actuarial measurements are discussed in more detail in the Actuarial Section of this CAFR.

Combined with the year-end Market Value of Assets (MVA) the history of these measures is shown in the following graph:



Source: Pension Trust financial records from annual actuarial valuations

The relationship of the AAL and AVA is the Funded Ratio of the Pension Trust which slightly increased to 77.9% as of year-end 2013. The history of the Pension Trust’s funded ratio is shown in the following graph:



Source: Pension Trust financial records from annual actuarial valuations

This Letter of Transmittal complements the information in the Actuarial Section and should be read in conjunction with it. The Actuarial Section can be found on pages 71 through 92.

Investments:

The Board has full authority over the investments of the Pension Trust and is responsible for the establishment of investment objective's strategies and policies. The Board may direct the investment of the Pension Trust into any form or type of investment deemed prudent in the informed opinion of the Board. Members of the Board serve in a fiduciary capacity to the Pension Trust and must discharge their duties accordingly.

The Board implements its investment function through the adoption of a written Investment Policy, the use of a professional Investment Consultant, the use of various professional investment managers and direction to Staff. The Pension Trust primarily uses external investment management firms to manage its portfolio. Additional information on the Pension Trust's Investment Policy and investment managers may be found in the Investment Section of this CAFR.

The Staff of the Pension Trust and the Investment Consultant (Wurts & Associates) closely monitor the investment activities of the total Trust assets and report regularly to the Board. The Investment Policy adopted by the Board considers the advice and input of Staff and the Investment Consultant and sets the asset allocation policy and management policies of the Board. The asset allocation policy incorporated into the Investment Policy is more fully discussed in the Investment Section of this CAFR.

For the years ended December 31st, the total time weighted rate of return gross of fees on the Pension Trust's assets as computed by the Investment Consultant are summarized below.

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
SLOCPT Total Returns	14.2%	3.4%	12.8%	13.8%	5.1%

Source: Wurts & Associates reports

For cumulative periods ending December 31, 2014, the annualize time weighted total rate of returns gross of fees are as follows.

	<u>1 year</u>	<u>3 years</u>	<u>5 years</u>	<u>10 years</u>
SLOCPT Total Returns	5.1%	10.5%	9.8%	5.7%

Source: Wurts & Associates 4th Quarter 2014 report and Pension Trust records for pre-2006 returns

This Letter of Transmittal complements the information in the Investment Section and should be read in conjunction with it. The Investment Section can be found on pages 55 through 70.

Service Efforts and Accomplishments:

Mission Statement -

No discussion of service efforts and accomplishments would be complete without beginning with the core mission statement for the organization. The Pension Trust's mission statement is:

The mission of the San Luis Obispo County Pension Trust is to adequately fund and promptly pay the benefits accrued by Employees of San Luis Obispo County pursuant to the provisions of the San Luis Obispo County Employees Retirement Plan and consistent with Article 16, Section 17 of the California State Constitution.

Furthermore, Section 53216.6 of Article 1.5 of the California Government Code provides, in part:

"The assets of the pension trust are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system."

Also, Section 17 of Article XVI of the California Constitution, at subsection (b) states, in part:

"The retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty."

Secondarily, the Board of Trustees in discharging its duty must also act, in so far as it is prudent to do so, to minimize employer appropriations.

Payment of Retirement Benefits -

The timely payment of retirement benefits is the core objective of the Pension Trust and it is still worth noting that this is indeed what happens – month after month. It is also of interest to note where retiree benefits are paid geographically. As of December 2014 the Pension Trust paid 2,401 benefit allowances to retirees, disability recipients, beneficiaries and survivors. During 2014 \$66.2 million was paid by the Pension Trust in recipients' benefits. Of this amount, approximately 79% was sent to addresses within San Luis Obispo County. The significance of this data is that the majority of retirement benefits paid by the Pension Trust are presumably spent within San Luis Obispo County and contribute in a material way to the local economy.

Pension Administration System Modernization -

The systems that support the operation of a defined benefit pension system with multiple tiers of benefits and numerous bargaining units are necessarily complex. The Pension Trust went "live" in 2006 with a proprietary Pension Administration System (PAS) custom developed for the Pension Trust. At that time there were no readily available off-the-shelf systems that could support the complexity of the Retirement Plan. Over the intervening years this PAS has served well, but as 2013-2014 progressed it became apparent that significant modernization of the proprietary software or its replacement would be necessary – a typical event for software systems as they age. Extensive analysis was performed in 2014 and with the support and recommendation of the ad hoc Technology Committee of the Board the decision was reached to initiate a PAS

replacement project. To that end a limited-scope updating of the 2006 vintage PAS was started in 2014 to extend its service life through the 2-3 years expected to be necessary for a replacement PAS to be procured. The Pension Trust is currently developing a Request for Proposal for a semi-customized commercial-off-the-shelf PAS system. Since 2006 a number of such systems have emerged and the acquisition of a replacement PAS in the 2015-2018 timeframe is anticipated to result in the ability to continue to meet the operating mission of the Pension Trust into the foreseeable future.

Investments -

The Investment Section of this CAFR discusses the investment function of the Pension Trust in more detail including its Investment Policy and asset allocation. Some of the key service efforts and accomplishments related to the Pension Trust's investments in 2014 were:

- Asset Allocation and Investment Policy – In February of 2014, upon recommendation from the investment consultant and staff, the Board approved modifications to the strategic asset allocation policy. A portion of the domestic and international equity allocation was shifted to fund a Bank Loan Debt portfolio.
- Floating Rate Debt - Bank Loans – the Board approved the addition of a Bank Loan allocation (5% of the total fund) to add a variable rate and credit-oriented exposure to the fixed income allocation in a fund managed by Pacific Asset Management.
- Core Bond portfolios – The Board approved the termination of PIMCO as the primary core bond manager and approved the addition of BlackRock and Dodge & Cox to manage the Pension Trust's core bond allocation starting in 2015.
- Local Real Estate – The Pension Trust's allocation to real estate is primarily invested in nationally diversified real estate funds. The Pension Trust also owns nine properties located in the San Luis Obispo area. These properties with a market value of approximately \$27.8 million are the last internally managed portfolio in the Pension Trust. During 2014 the Board approved the hiring of an external portfolio management firm, American Realty Advisors, to manage the properties and initiate a multi-year process to sell most of the local real estate properties.
- Value Added Real Estate - as a separate action from the local real estate changes noted above, the Board approved the addition of a Value Added Real Estate fund within the existing 10% allocation to real estate. This allocation will be in a commingled fund managed by American Realty Advisors.

Actuarial Valuations -

The Pension Trust and its Board consider the key assumptions in the annual actuarial valuation each year and generally expects to change assumptions biennially in conjunction with actuarial experience studies. The Board's stated policy is to reconsider changing any actuarial assumptions following receipt of the biennial actuarial experience studies. Logically, all

actuarial assumptions should be considered together since they are interrelated in many ways. Making necessary changes to the assumptions simultaneously may minimize the impact of such changes both financially and administratively.

The latest biennial actuarial experience study was completed in 2014 and its findings were considered in the setting of assumptions for the January 1, 2014 annual actuarial valuation. The current key actuarial assumptions used in the 2013 and 2014 actuarial valuations (the most recent available as of the date of this writing) were as follows:

- 7.25% Earning Assumption
- 3.25% Salary Growth Assumption
- 3.75% Payroll Growth Assumption

At the time of preparation of this CAFR, the January 1, 2015 actuarial valuation was being prepared but the results were not yet available. At the time of the preparation of this CAFR the January 1, 2015 Annual Actuarial Valuation was anticipated to not incorporate any changes to the key assumptions noted above.

Acknowledgements:

I sincerely thank the Board for its leadership and dedication to provide a strong retirement system. The Pension Trust has an unusually experienced and highly professional Board that works together and with Staff in an effective manner. I also thank the Pension Trust staff and advisors whose efforts make the successful operation of the Pension Trust possible. The Pension Trust is fortunate to have a small cadre of staff, legal counsel and advisors with long experience with the organization and in the public pension industry and a dedication to serving our members and our Board. Regarding this CAFR, I thank Amy Burke, Deputy Executive Secretary, and Jennifer Alderete, Financial Accountant, for their prodigious efforts in producing this fifth annual CAFR for the Pension Trust – including the significant changes caused by the implementation of GASB 67 accounting standards.

Respectfully submitted,



Carl A. Nelson, CFA
Executive Secretary and Chief Investment Officer
San Luis Obispo County Pension Trust



Government Finance Officers Association

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

Presented to

**San Luis Obispo
County Pension Trust
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2013

Executive Director/CEO



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2014***

Presented to

San Luis Obispo County Pension Trust

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink that reads 'Alan H. Winkle'.

Alan H. Winkle
Program Administrator

Board of Trustees

As of December 31, 2014



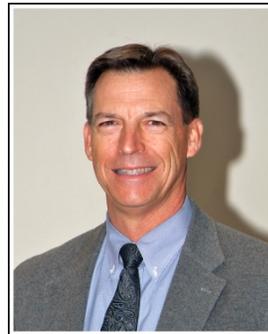
Matt Janssen
President
Elected Member
Present term
expires July 2015



Mike Dutra
Elected Member
Present term
expires July 2017



Will Clemens
Vice President
Elected Member
Present term
expires July 2016



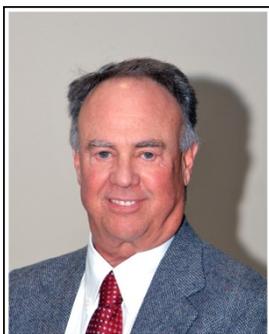
Jeff Hamm
Appointed Member



Guy Savage
Appointed Member

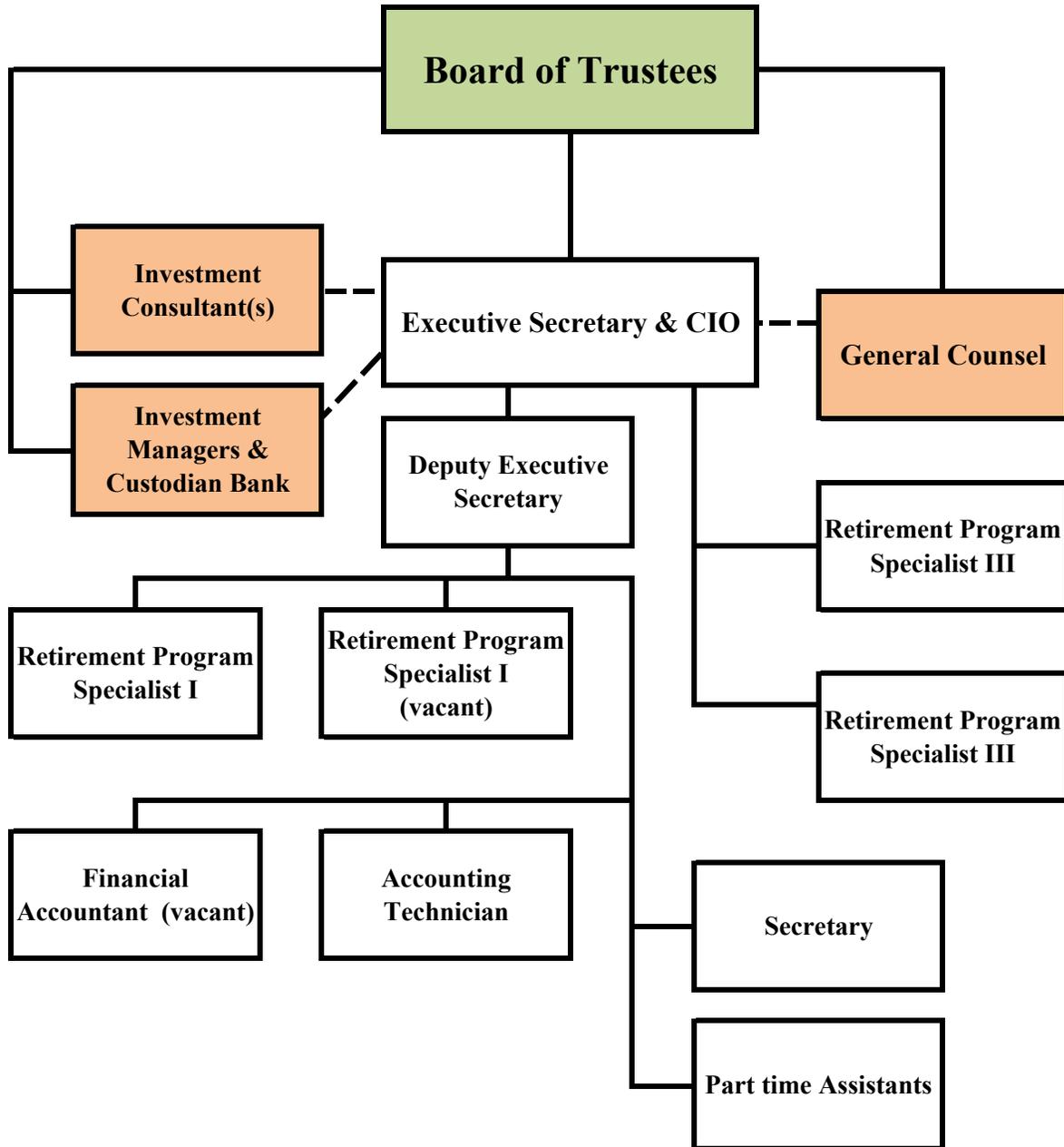


Gere Sibbach
Appointed Member



James Erb
Treasurer
Ex-Officio Member

San Luis Obispo County Pension Trust
 Organization Chart - December 31, 2014



See following page for outside consultants and investment managers.
 In addition, see Schedule of Investment Management Fees and Commissions in the Investment section for more information on outside investment managers.

Professional Consultants

As of December 31, 2014

Actuarial

Actuary

Leslie Thompson, FSA

Gabriel, Roeder, Smith

Legal Services

General Counsel

Chris Waddell

Olson Hagel & Fishburn, LLP

Litigation

Tom Winfield

McKenna Long and Aldridge, LLP

Plan Qualification & Fiduciary Counsel

Don Wellington

Step toe & Johnson, LLP

Audit

Auditor

Brown Armstrong Accountancy Corporation

Data Processing

Retirement Administration and Distribution
System (RAD) Software

Magenic Development Corp.

General Information Technology Support

County of San Luis Obispo Information
Technology Department

Investment Consultant

General Investment Consultant

Scott Whalen, CFA

Wurts & Associates

Investment Custodian

J.P. Morgan Chase

Investment Managers

Bonds, Notes, CMOs

Brandywine Global Investment Management

Pacific Asset Management Bank Loan Fund

Pacific Investment Management Company

State Street Global Advisors

Stone Harbor Investment Partners

Domestic Equities

Atlanta Capital Management

Mason Capital Partners

Research Affiliates

State Street Global Advisors

International Equities

Dodge & Cox

Vontobel Asset Management

Commodities

Gresham Investment Management

Alternative Investments / Private Equity

Harbourvest Partners

KKR Mezzanine Partners

Pacific Investment Management Company

Real Estate

Long Wharf Real Estate Partners

J.P. Morgan Investment Management

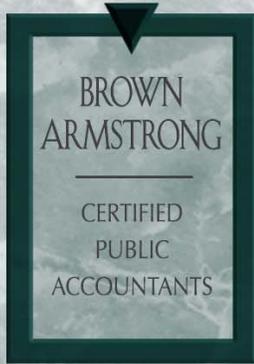
American Realty Advisors

Cash Overlay

Parametric

Financial Section





BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
San Luis Obispo County Pension Trust
San Luis Obispo, California

Report on the Financial Statements

We have audited the accompanying Statements of Fiduciary Net Position of the San Luis Obispo County Pension Trust (the Plan) as of December 31, 2014 and 2013, and the related Statements of Changes in Fiduciary Net Position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements and other supplementary information referred to above present fairly, in all material respects, the Fiduciary Net Position of the Plan as of December 31, 2014 and 2013, and the Changes in its Fiduciary Net Position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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STOCKTON, CA 95207
TEL 209.451.4833

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended December 31, 2014, the Plan implemented Government Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, which modified the current financial reporting of those elements. Our opinion is not modified with respect to the matter.

As discussed in Note 8 to the financial statements, the Net Pension Liability of the participating employers as of December 31, 2014 was \$422.5 million. The Fiduciary Net Position as a percentage of the total liability as of December 31, 2014, was 73.53%. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial information. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Plan's basic financial statements. The introductory section, other supplementary information, investment, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2015, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
June 22, 2015

San Luis Obispo County Pension Trust

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Phone (805) 781-5465 Fax (805) 781-5697
www.SLOPensionTrust.org



SAN LUIS OBISPO COUNTY PENSION TRUST MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 and 2013

June 22, 2015

We are pleased to provide this overview and analysis of the financial activities of the San Luis Obispo County Pension Trust (SLOCPT) for the years ended December 31, 2014 and 2013. SLOCPT was established on November 1, 1958. Some ten years later, the Board of Supervisors adopted the present By-Laws and San Luis Obispo County Employees Retirement Plan (the Plan) in order to improve the benefits to employees retiring after January 1, 1968. One of the principal objectives of the new 1968 Plan, and of subsequent amendments to that Plan, has been to provide benefits substantially comparable to those that would have been provided had the original Plan Sponsor, San Luis Obispo County (the County), elected to join the California Public Employees' Retirement System, but at a lesser cost to the County and its employees and with greater local control. SLOCPT is established pursuant to Section 17 of Article XVI of the California Constitution and Government Code Sections 53215 et seq.

Financial Highlights

SLOCPT's Fiduciary Net Position as of December 31, 2014 was \$1.173 billion. This represents an increase of \$37.6 million or 3.3% from the year ended December 31, 2013. The Fiduciary Net Position represents the net assets (total assets minus total liabilities) that are restricted and available for future payment of pension benefits to members and their beneficiaries as of the date reported.

Total additions to the Fiduciary Net Position in 2014 were \$108.1 million, which includes member and employer contributions of \$56.4 million and net investment income of \$51.7 million. Comparatively, in 2013 additions to the Fiduciary Net Position were \$187.1 million, which included member and employer contributions of \$55.3 million and net investment income of \$131.8 million. A reduction in net investment realized and unrealized gains was the main factor contributing to the net decrease in total additions over prior year.

For the year ended December 31, 2014 deductions to the Fiduciary Net Position totaled \$70.5 million, consisting of \$68.1 million in payments to Plan members and their beneficiaries and \$2.4 million in administrative and other expenses. For the year ended December 31, 2013 total deductions were \$64.8 million, with \$62.8 million in payments to members and beneficiaries and \$2.0 million in administrative expenses. Increases in the total number of retirees as well as the annual Cost of Living Adjustment (COLA) were the major causes of the increase in member payments.

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment earnings. As of January 1, 2014, the date of the last actuarial valuation that was approved

June 2014, the funded ratio for the Plan was 77.9%. In general, this indicates that for every dollar of benefits due, SLOCPT had approximately 77.9 cents available for payment.

Overview of the Financial Statements

The following discussion and analysis is intended to serve as an introduction to SLOCPT's financial statements, which are comprised of these components:

- 1. Statement of Fiduciary Net Position**
- 2. Statement of Changes in Fiduciary Net Position**
- 3. Notes to the Financial Statements**
- 4. Required Supplementary Information**
- 5. Other Supplemental Information**

The **Statement of Fiduciary Net Position** is a snapshot of major account balances as of December 31, 2014 and 2013. It indicates the value of assets available for future payments of benefits to retirees and their beneficiaries and any current liabilities that are owed at that date. This statement includes all assets and liabilities using a full accrual basis of accounting as required for fiduciary funds in governmental accounting.

The **Statement of Changes in Fiduciary Net Position** provides a detailed view of the current and prior year additions to and deductions from the Fiduciary Net Position. All of the year's additions and deductions are taken into account regardless of when cash is received or paid. Investment gains and losses are reported on a trade-date basis and both realized and unrealized gains and losses on investments are disclosed in these financial statements.

These two statements report the Fiduciary Net Position restricted for pension benefits – the difference between assets and liabilities – as a way to measure SLOCPT's financial position. Over time, increases and decreases in the Fiduciary Net Position are one indicator of the Plan's financial health improvement or deterioration.

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements including, but not limited to, a plan description, significant accounting policies, risk disclosures, and funded status. This section provides a detailed basis for assessing the Plan's overall financial health.

The **Required Supplementary Information** shows information concerning SLOCPT's progress in funding its obligations to provide pension benefits to members and their beneficiaries.

The **Other Supplementary Information** includes additional schedules that present more detailed information on the administrative and investment expenses of SLOCPT as well as information regarding each employer's pension expense and allocated pension liability.

These statements as a whole are presented in conformity with accounting principles generally accepted in the United States of America, as promulgated by the Governmental Accounting Standard Board (GASB). GASB requires certain disclosures and also requires local government pensions to report using the full accrual method of accounting. These statements comply with all material requirements of these pronouncements. They are presented in conformance with GASB Statement No. 34, "*Basic Financial Statements*"; GASB Statement No. 37, "*Management's Discussion and Analysis for State and Local Governments*"; GASB Statement No. 40, "*Deposit and Investment Risk Disclosures*"; and GASB Statement No. 67, "*Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*".

Financial Analysis

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings in the investment portfolio (net of investment expense).

The Fiduciary Net Position restricted for pension benefits as of December 31, 2014 totaled \$1.173 billion, an increase of \$37.6 million from prior year end. This increase was due primarily to realized gains within the domestic equity investment area, as well as dividend income received from these investments. During 2014 the rate of return on investments, as measured by SLOCPT's investment consultant, was 5.1% gross of fees.

In comparison, the Fiduciary Net Position restricted for pension benefits as of December 31, 2013, totaled \$1.136 billion, an increase of \$122.3 million from the prior year. The increase was due primarily to a large rebound in asset values in the international and domestic equity markets. During 2013 the rate of return on SLOCPT's investments, as measured by SLOCPT's investment consultant, was 13.8% gross of fees.

A table comparison of selected current and prior years' balances follows:

	2014	2013	Increase (Decrease)
Cash	\$ 42,130,016	\$ 34,395,473	\$ 7,734,543
Investments at Fair Value	1,137,652,333	1,139,609,581	(1,957,248)
Securities Sold	100,170,750	67,709,705	32,461,045
Other Receivables and Other Assets	4,129,129	3,932,167	196,962
Total Assets	1,284,082,228	1,245,646,926	38,435,302
Total Liabilities	110,746,166	109,928,309	817,857
Fiduciary Net Position	<u>\$ 1,173,336,062</u>	<u>\$ 1,135,718,617</u>	<u>\$ 37,617,445</u>

	2013	2012	Increase (Decrease)
Cash	\$ 34,395,473	\$ 26,729,382	\$ 7,666,091
Investments at Fair Value	1,139,609,581	1,028,989,309	110,620,272
Securities Sold	67,709,705	27,190,488	40,519,217
Other Receivables and Other Assets	3,932,167	3,875,381	56,786
Total Assets	1,245,646,926	1,086,784,560	158,862,366
Total Liabilities	109,928,309	73,348,501	36,579,808
Fiduciary Net Position	<u>\$ 1,135,718,617</u>	<u>\$ 1,013,436,059</u>	<u>\$ 122,282,558</u>

Additions to Fiduciary Net Position

There are three primary sources of funding for the payment of benefits: earnings on investments of assets, employer contributions, and active Plan member contributions. Income sources for the years ended December 31, 2014 and 2013 totaled \$108.1 million and \$187.1 million, respectively. While net investment earnings fell sharply, due mainly to the large rebound experienced in 2013, employer contributions increased while Plan member contributions fell slightly.

A contribution rate increase of 0.99% was implemented on December 22, 2013 for the majority of Plan participants depending on Bargaining Unit with the remaining rate increases being implemented throughout the year in correspondence with the bargaining process. This increase, coupled with a slight increase in total Active members, was the main driving force for the increase in Employer contributions. Comparatively, the slight decrease in Plan member contributions is explained by the addition of the Tier 3 benefit structure. Employer contribution rates are not determined by entry age as Plan member rates are but rather by bargaining unit and Tier placement. All members in a particular bargaining unit will have the same Employer contribution rate with only a very slight rate reduction for Tier 3 members. Conversely, Plan member rates can fluctuate drastically within a particular bargaining unit dependent on age of entry of the member and Tier placement. In other words as Tier 1 employees retire or terminate they are being replaced with Tier 3 employees who typically have lower Plan member contribution rates but similar Employer rates.

A table comparison of current year and prior year changes in Fiduciary Net Position follows:

	Year Ended 2014	Year Ended 2013	Increase (Decrease)
Employer Contributions	\$ 32,046,545	\$ 30,795,872	\$ 1,250,673
Plan Member Contributions	24,415,512	24,459,738	(44,226)
Net Investment Income	51,667,160	131,842,352	(80,175,192)
Total Additions	108,129,217	187,097,962	(78,968,745)
Total Deductions from Fiduciary Net Position	70,511,772	64,815,404	5,696,368
Net Increase in Fiduciary Net Position	<u>\$ 37,617,445</u>	<u>\$ 122,282,558</u>	<u>\$ (84,665,113)</u>

	Year Ended 2013	Year Ended 2012	Increase (Decrease)
Employer Contributions	\$ 30,795,872	\$ 30,942,038	\$ (146,166)
Plan Member Contributions	24,459,738	25,207,165	(747,427)
Net Investment Income	131,842,352	108,817,821	23,024,531
Total	187,097,962	164,967,024	22,130,938
Total Deductions from Fiduciary Net Position	64,815,404	57,881,345	6,934,059
Net Increase in Fiduciary Net Position	<u>\$ 122,282,558</u>	<u>\$ 107,085,679</u>	<u>\$ 15,196,879</u>

Deductions from Fiduciary Net Position

The Plan was created to provide lifetime retirement annuities, survivor benefits, and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes benefit payments, as designated by the Plan, refund of contributions to terminated employees, and the cost of administering the Plan. A steady increase in benefit payments can be expected as retired member participant counts increase and annual COLA is applied.

In March 2014, an agreement to accept a prefunded or advance payment of Employer contributions was established between SLOOPT's Board of Trustees and the Board of Supervisors. The agreement allowed two of SLOOPT's Employers to prepay their actuarially determined Employer contributions in July 2014 for fiscal year ended June 30, 2015. The associated discount given for prepayment of these receivables is amortized over the time frame used to calculate the prefunded amount (in this case, one year).

Below is a comparison of current and prior year deductions from the Plan:

	Year Ended 2014	Year Ended 2013	Increase (Decrease)
Benefits	\$ 66,162,944	\$ 60,237,341	\$ 5,925,603
Refund of Contributions	1,629,307	2,373,490	(744,183)
Death Benefits	302,770	150,448	152,322
Administrative Expenses	2,084,841	2,054,125	30,716
Prefunded Discount Amortization	331,910	-	331,910
	<u>\$ 70,511,772</u>	<u>\$ 64,815,404</u>	<u>\$ 5,696,368</u>

	Year Ended 2013	Year Ended 2012	Increase (Decrease)
Benefits	\$ 60,237,341	\$ 54,547,801	\$ 5,689,540
Refund of Contributions	2,373,490	1,138,238	1,235,252
Death Benefits	150,448	125,658	24,790
Administrative Expenses	2,054,125	2,069,648	(15,523)
Prefunded Discount Amortization	-	-	-
	<u>\$ 64,815,404</u>	<u>\$ 57,881,345</u>	<u>\$ 6,934,059</u>

The Plan as a Whole

Management believes that SLOOPT is in reasonably sound financial position to meet its obligations to the Plan members and their beneficiaries. The current financial position results from a diversified investment program that prudently balances expected risk and return, and an effective system of cost control and strategic planning.

New Pension Accounting and Financial Reporting Standards

On June 25, 2012, GASB voted to approve two new standards designed to substantially improve the accounting and financial reporting of public employee pensions by state and local governments. Statement No. 67, “*Financial Reporting for Pension Plans*”, revises existing guidance for the financial reports of most pension plans. Statement No. 68, “*Accounting and Financial Reporting for Pensions*”, revises and establishes new financial reporting requirements for governments that provide their employees with defined benefit pensions. These accounting and financial reporting standards represent the most significant fundamental changes in reporting requirements for pension plans and plan sponsors since 1994.

For SLOCPT, the new standards build upon the existing framework for financial reports, enhance the note disclosures and required supplementary information, and require the presentation of new information in the Notes to the Financial Statements. The new financial reporting provisions have been adopted by SLOCPT and are effective in the presentation of these financial statements.

The new standards require the County and outside districts to recognize their proportionate share of the long-term obligation for pension benefits as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. This proportionate share is based on the Plan sponsors' long-term contribution effort. The new financial reporting standards also enhance accountability and transparency through revised and new note disclosures and required supplementary information. For the County and outside districts, the new financial reporting provisions are effective for its fiscal year ending June 30, 2015.

SLOCPT met with key stakeholders from the County, outside districts, and external professional service providers to discuss requirements for implementation of the new accounting standards. These discussions provided the opportunity to open the lines of communication among the parties involved and work toward establishing timelines and a framework for preliminary implementation decisions.

Requests for Information

This financial report is designed to provide the Board of Trustees, our membership, taxpayers, and investment managers with a general overview of SLOCPT's finances and to demonstrate the accountability for the funds under its stewardship. Please address any questions about this report or requests for additional financial information to:

San Luis Obispo County Pension Trust
1000 Mill Street
San Luis Obispo, CA 93408

Respectfully submitted,



Carl A. Nelson
Executive Secretary and Chief Investment Officer

**SAN LUIS OBISPO COUNTY PENSION TRUST
STATEMENTS OF FIDUCIARY NET POSITION
DECEMBER 31, 2014 AND 2013**

	2014	2013
ASSETS		
Cash and Cash Equivalents	\$ 42,130,016	\$ 34,395,473
Receivables:		
Accrued Interest and Dividends Receivable	1,672,083	1,476,789
Accounts Receivable	2,593	6,229
Contributions Receivable	1,702,788	1,466,762
Securities Sold	100,170,750	67,709,705
Total Receivables	103,548,214	70,659,485
Investments, at Fair Value		
Bonds and Notes	243,335,386	235,194,163
International Fixed Income	132,284,869	116,589,933
Collateralized Mortgage Obligations	5,260,525	8,759,578
Domestic Equities	317,726,322	340,723,554
International Equities	271,396,419	267,610,676
Alternative Investments	64,158,619	73,001,695
Real Estate	103,490,193	97,722,859
Other Investments	-	7,123
Total Investments	1,137,652,333	1,139,609,581
Other Assets		
Prepaid Expenses	301,703	277,353
Capital Assets - Net of Accumulated Depreciation	449,962	705,034
Total Other Assets	751,665	982,387
Total Assets	\$ 1,284,082,228	\$ 1,245,646,926
LIABILITIES		
Securities Purchased	\$ 86,642,259	\$ 108,670,094
Accrued Liabilities	1,597,043	1,258,215
Prefunded Contributions	22,506,864	-
Total Liabilities	\$ 110,746,166	\$ 109,928,309
FIDUCIARY NET POSITION		
Net Position Restricted for Pensions	\$ 1,173,336,062	\$ 1,135,718,617

The accompanying notes are an integral part of these financial statements.

**SAN LUIS OBISPO COUNTY PENSION TRUST
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
ADDITIONS		
Contributions		
Employer Contributions	\$ 32,046,545	\$ 30,795,872
Plan Member Contributions	24,415,512	24,459,738
Total Contributions	56,462,057	55,255,610
Investment Income		
Realized and Unrealized Gains and Losses	26,096,960	96,396,611
Interest	5,545,469	5,829,239
Dividends	22,750,408	33,848,242
Real Estate Management Trust Income (Loss), Net	807,085	(111,791)
Real Estate Operating Income, Net	1,505,761	1,406,219
Other Investment Loss, Net	(5,483)	(6,007)
Investment Expenses	(5,033,040)	(5,520,161)
Net Investment Income	51,667,160	131,842,352
Total Additions	108,129,217	187,097,962
DEDUCTIONS		
Benefits		
Monthly Benefit Payments	66,162,944	60,237,341
Refund of Contributions	1,629,307	2,373,490
Death Benefits	302,770	150,448
Total Benefits	68,095,021	62,761,279
Other Deductions		
Administration and Actuarial	2,084,841	2,054,125
Prefunded Discount Amortization	331,910	-
Total Other Deductions	2,416,751	2,054,125
Total Deductions	70,511,772	64,815,404
Net Increase in Fiduciary Net Position	\$ 37,617,445	\$ 122,282,558
Net Position Restricted for Pensions - December 31, 2013 and December 31, 2012	\$ 1,135,718,617	\$ 1,013,436,059
Net Position Restricted for Pensions - December 31, 2014 and December 31, 2013	\$ 1,173,336,062	\$ 1,135,718,617

The accompanying notes are an integral part of these financial statements.

SAN LUIS OBISPO COUNTY PENSION TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the San Luis Obispo County Employees Retirement Plan (the Plan) are prepared on the accrual basis of accounting. All assets are invested and held pursuant to, and in accordance with, the Investment Policy of the Plan. Employee contributions and Employer appropriations are recognized as revenues in the period in which they are due pursuant to formal commitments and statutory or contractual requirements. Investment income is recognized as revenue when earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Other expenses are recognized when the corresponding liabilities are incurred. The net appreciation (depreciation) in fair value of investments held by the Plan is recorded as an increase (decrease) to investment income based on the valuation of investments at year-end.

Cash and Cash Equivalents

Cash and Cash Equivalents include deposits and short-term investments held in the San Luis Obispo County Pension Trust (SLOCPT)'s operating bank accounts and custodian bank. Short-term investments include cash held in short-term investment funds and other highly liquid investments. Short-term investments considered cash are recorded at cost, which approximates fair value.

Securities

Securities are stated at fair value based upon closing sales prices reported on recognized securities exchanged on the last business day of the period or, for listed securities having no sales reported and for unlisted securities, based on last reported bid prices. All purchases and sales of securities are accounted for on a trade-date basis, and dividends declared but not received are accrued on the ex-dividend date. Realized gains or losses of securities are determined on the basis of average cost. The calculation of realized gains and losses is independent of the calculation of the change in the fair value of investments. Realized gains and losses of the current period may include unrealized amounts from prior periods.

Private Equity

Private equities are valued on estimated fair values as determined by the investment manager.

Real Estate

Investment properties are valued at estimated fair value, which has been determined by appraisals performed by individual real estate advisors. Depreciation is not recorded on investment properties. The Plan holds a number of real estate investments, the larger portion of which is in the form of real estate commingled funds. The Plan's direct real estate holdings not in commingled real estate funds are invested in properties located in the County of San Luis Obispo.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Asset Allocation Policy and Long-Term Expected Rate of Return

The allocation of investment assets is reviewed and approved annually by the Board of Trustees (the Board) as outlined in the Investment Policy Statement. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully-funded status for the benefits provided to SLOCPT’s members and their beneficiaries. The following table displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return</u>
Fixed Income	35%	1.56%
Domestic Equities	23%	3.36%
International Equities	22%	6.55%
Alternative Investments	10%	4.10%
Real Estate	10%	4.10%
	<u>100%</u>	

The long-term expected real rate of return was determined using a building-block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

Prefunded Contributions

In March 2014, the Board of Trustees entered into an agreement with the Board of Supervisors to accept advanced payment of the employer appropriations and employer portions of employee contributions for the County and the San Luis Obispo County Air Pollution Control District (APCD). The advance payment amount and discount are determined and calculated by the Plan’s Actuary pursuant to the provisions of the Plan Section 16.05(c) and as instructed by the Trustees. The discount rate used by the Actuary was 6.75%, based on the current earning assumption of 7.25% less 0.50%. Actual payroll (and hence required contributions) will differ from the estimate and will require a “true-up” process to determine any shortfalls or overages at the County’s year end on June 30, 2015. Shortfalls will be collected within five (5) business days while overages will be used as credits to offset next year’s advance payment.

Administrative Expenses

Administrative expenses represent actuarial and professional fees, salaries of the Plan’s administrative personnel, insurance, occupancy costs, and services purchased from the County and other vendors and are paid from the assets of the Plan. Administrative expenses paid from the assets of the Plan are financed from both investment earnings and contributions.

Reserves

Employee and Employer contributions are allocated to various reserve accounts (titled “Member Deposits Reserve”, “Current Reserve”, and “COLA Reserve”, respectively) based on actuarial determinations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reserves (continued)

Reserve accounts are specified further in the Plan. The purpose of the Member Deposits Reserve, Current Reserve, and COLA Reserve is to account for the portion of SLOCPT's position that is attributable to the cumulative contributions and interest of members and the employers, respectively. The balances in various reserve accounts are presented as part of "Other Supplementary Information". Member Deposits Reserve and Current Reserve accounts are fully funded, but the aggregate of all reserve accounts is funded only to the extent of the Plan as a whole.

Income Taxes

The Internal Revenue Service has ruled that the Plan qualifies under Section 401(a) of the Internal Revenue Code and is therefore not subject to tax under income tax laws in effect at the time of its ruling. Accordingly, no provision for income taxes has been made in the accompanying financial statements, as the Plan is exempt from federal and state income taxes.

Management's Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions. These affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Market and Credit Risk

The Plan's exposure to credit loss in the event of nonperformance of its investments is limited to the carrying value of such instruments. The Plan's concentration of credit risk and market risk are dictated by the Plan's Investment Policy Statement. Investment securities are exposed to various risks, such as interest rate risk, market risk, and credit risk. Due to the level of risk associated with certain investment securities, and the level of uncertainty related to changes in the value of these investments, it is at least reasonably possible that changes in risks in the near-term could materially affect the amounts reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position.

Reclassifications

The financial statement presentation for 2013 has been changed to conform to the presentation in 2014.

Implementation of New Accounting Standards

On June 25, 2012, the Governmental Accounting Standards Board (GASB) approved new accounting and reporting standards for pensions. GASB Statement No. 67, "*Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*" was developed with the goal of improving financial reporting for state and local governmental pension plans. The requirements for GASB Statement No. 67 have been adopted and implemented by SLOCPT for the year ended December 31, 2014. Significant changes include the following: an actuarial calculation of Total and Net Pension Liability for financial reporting (will differ from the Net Pension Liability reported in the annual Actuarial Valuation used for funding purposes), the sensitivity of the Net Pension Liability to the discount rate, and investment activity disclosures.

NOTE 2 – PLAN DESCRIPTION

General

The Plan is a multiple-employer cost sharing contributory defined benefit pension plan consisting of five participating employers. Permanent employees of the County, the San Luis Obispo County Superior Courts (the Courts), APCD, the San Luis Obispo County Local Agency Formation Commission (LAFCO) and SLOCPT are required to participate in the Plan. The Plan is a pension trust fund of the County and is reported as a fiduciary fund in the financial reports of the County. The Plan exists, operates, and is constituted under the authority of Section 53215 of Section 17 of Article XVI of the California Constitution and Government Code Article 1.5 (Pension Trusts), of Chapter 2 (Officers and Employees), of Part 1 (Powers and Duties Common to Cities, Counties and Other Agencies), of Division 2 (Cities, Counties and Other Agencies), of Title 5 (Local Agencies) of the California Government Code.

Pursuant to the foregoing Government Code provisions, the County Board of Supervisors established the SLOCPT by the adoption of Chapter 2.56 of the San Luis Obispo County Code. Following the adoption of Chapter 2.56 of the County Code, the County Board of Supervisors adopted the By-Laws of the Plan. The Plan is a part of those By-Laws. The County Board of Supervisors has the sole authority to amend the Plan's provisions. Under terms of the Plan, governance of the Plan is assigned to the seven-member Board that consists of three members elected by the Plan participants, three members appointed by the County's Board of Supervisors, and the County's current Auditor Controller/Treasurer Tax Collector as the Ex-Officio member.

Membership

Active members are required to contribute to the Plan at rates currently ranging from 3.75% to 24.55% of includable compensation as defined in the Plan, depending upon the collective bargaining agreement under which the member is covered and their age of entry. Employers are required to contribute to the Plan at rates currently ranging from 14.19% to 28.39% of each employee's includable compensation as defined in the Plan, depending upon the collective bargaining agreement under which the employee is covered. The schedules of rates of contributions utilized are those adopted by the County Board of Supervisors upon recommendation of SLOCPT's Board. The Board bases its recommendations on the annual Actuarial Valuation Report. The Employers' appropriations and members' contributions are designed to annually fund the Plan's Actuarially Determined Contribution. Such contributions are currently invested in corporate notes, bonds, collateralized mortgage obligations, equities, futures, real estate investment funds, equity real estate holdings, alternative investments, and short-term cash investments. Contributions are credited interest as approved by the Board, currently 6.75%, and accumulated for each individual active member until the member terminates employment.

At the time of employment termination a member may choose to cash out the employee portion of their individual accrued balance, retire with a lifetime monthly benefit (depending on eligibility), or keep the money on deposit with SLOCPT until retirement eligibility is attained (depending on the member's vested status). A member becomes vested once they have accrued five (5) Pension Trust Service Credits (PTSCs). PTSCs are accumulated with every "normal" hour worked for a participating Employer. Normal hours include sick and vacation but exclude overtime. A member will not receive credit for more than 80 hours during a two-week pay cycle.

NOTE 2 – PLAN DESCRIPTION (continued)

Total members of the Plan were comprised of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Retirees and Beneficiaries Currently Receiving Benefits	2,401	2,250
Terminated Employees Entitled to But Not Yet Receiving Benefits	451	460
Active Plan Participants		
Vested	1,738	1,866
Nonvested	<u>812</u>	<u>655</u>
Total	<u><u>5,402</u></u>	<u><u>5,231</u></u>

The Plan has three tiers, which cover members classified as Miscellaneous, Safety and Probation. In general, members hired prior to January 1, 2011 would be in Tier 1, members hired between January 1, 2011 and December 31, 2012 are classified as Tier 2, and members hired on or after January 1, 2013 are classified as Tier 3. It is important to note that not all employers and/or collective bargaining units adopted Tier 2 provisions so there are some instances where a Tier 2 classification is absent for a particular employee group.

Benefits

The applicable retirement formula, minimum retirement age, compensation base, post-retirement Cost of Living Adjustment (COLA), COLA carryover, and final compensation maximum may differ depending upon the Plan provisions in effect at the member's date of hire, the member's classification, and the member's collective bargaining unit. The Plan permits retirement for most members at age 50 with five (5) or more PTSCs. Tier 3 Miscellaneous members with at least five (5) PTSCs are eligible to retire at age 52. A member's retirement formula is based on the following three components: 1) retirement age factor, 2) total accumulated PTSCs, and 3) final compensation. The retirement age factor is determined by the member's age at retirement, member class, Tier, and collective bargaining unit; these range anywhere from 1.000% to 3.165%. Final compensation is the highest one-year average for Tier 1 employees and may include a compensation pickup for various management bargaining units. Tier 2 and Tier 3 members' final compensation is based on the highest three-year average with no pickup. Members receive their accumulated benefits as a life annuity payable monthly upon retirement.

The Plan provides for an annual post-retirement COLA based on changes in the Consumer Price Index. The COLA is limited to a maximum 3% per year for Tier 1 members and 2% per year for Tier 2 and Tier 3 members. There is no minimum COLA requirement. The Board must approve the COLA annually.

In the event of total and permanent disability, upon satisfaction of membership requirements and other applicable provisions of the Plan, members may receive a disability allowance. Disability benefits are granted by the Board based upon medical evidence. There are two types of disability allowances available within the Plan: Ordinary Disability and Industrial Disability. Industrial Disability is granted only if the cause of the disability is determined to be incurred during on-the-job duties, and is limited to Safety and Probation members.

NOTE 2 – PLAN DESCRIPTION (continued)

Tier 1 members are eligible to participate in a Deferred Retirement Option Plan (DROP). This option allows members to effectively retire from the Plan but remain an active employee with their current employer. When a member elects to enter DROP their monthly benefit is calculated using the same formulas as if they had elected to retire. However, their monthly payment is directed to and accumulated in an investment account held for that individual by a third party. The member is restricted from accessing these funds until they officially elect to retire from employment. If elected, the member must participate a minimum of six months and is required to enter official retirement by the end of five years from the date of entrance into DROP.

The Plan also provides death benefits for both active employees and retired members. The death benefit calculation is determined by the status of the member at the time of his/her passing, retirement option selection if applicable, and the status of eligible beneficiaries.

NOTE 3 – DEPOSITS AND INVESTMENT RISK DISCLOSURES

Investment Stewardship

Except as otherwise expressly restricted by the California Constitution and by law, the Board may, at its discretion, invest or delegate the investment of the assets of the Plan through the purchase, holding, or sale of any form or type of instrument or financial transaction when prudent in the informed opinion of the Board. In addition, the Board has established an Investment Policy, which establishes specific asset allocation parameters that govern the compositional mix of cash, fixed income and equity securities, alternative investments, and real estate investments. The Plan currently employs an external investment consultant and external investment managers to manage its assets subject to the guidelines of the Investment Policy.

Investment Risk

Investments are subject to certain types of risks, including interest rate risk, credit risk (including custodial credit risk and concentrations of credit risk), and foreign currency risk. The following describes those risks:

Interest Rate Risk

The fair value of fixed income investments fluctuates in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those investments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed income investments may have call provisions that could result in shorter maturity periods. The Plan's Investment Policy controls interest rate risk in general through its approved asset allocation to fixed income investments and investment guidelines approved for each investment manager. Although the policy does not formally specify maturity limitations, interest rate risk for any given fixed income portfolio is controlled by investment guidelines particular to each portfolio or investment manager that do specify permissible minimum and maximum maturities relative to the relevant fixed income market index benchmark.

NOTE 3 – DEPOSITS AND INVESTMENT RISK DISCLOSURES (continued)

The following schedule is a list of fixed income and short-term investments and the related maturity schedule for the Plan as of December 31, 2014:

Investment Type	Investment Maturities (in years)				Fair Value
	Less Than 1 year	1-5 Years	6-10 Years	More than 10 years	
Collateralized Mortgages	\$ -	\$ -	\$ -	\$ 5,260,525	\$ 5,260,525
Corporate Bonds	1,354,533	25,753,408	49,566,090	16,757,798	93,431,829
Derivatives	(61,546,184)	-	-	-	(61,546,184)
Municipal Bonds	-	-	-	5,426,874	5,426,874
US Government & Agencies	-	12,717,465	88,745,995	83,272,122	184,735,582
Foreign Corporate Bonds	7,879,281	6,618,383	5,387,737	5,243,449	25,128,850
Foreign Government Bonds	8,120,051	35,064,765	31,471,064	24,811,118	99,466,998
Other Short Term Investments	28,976,306	-	-	-	28,976,306
Total	\$ (15,216,013)	\$ 80,154,021	\$ 175,170,886	\$ 140,771,886	\$ 380,880,780

For comparison, the following schedule is a list of fixed income and short-term investments and the related maturity schedule for the Plan as of December 31, 2013:

Investment Type	Investment Maturities (in years)				Fair Value
	Less Than 1 year	1-5 Years	6-10 Years	More than 10 years	
Collateralized Mortgages	\$ -	\$ -	\$ -	\$ 8,759,578	\$ 8,759,578
Corporate Bonds	3,939,309	8,787,157	13,500,709	15,238,108	41,465,283
Derivatives	(8,414,481)	-	-	-	(8,414,481)
Municipal Bonds	-	-	-	6,180,682	6,180,682
US Government & Agencies	-	63,996,862	62,984,674	68,510,934	195,492,470
Foreign Corporate Bonds	1,817,847	7,638,648	5,495,075	3,149,991	18,101,561
Foreign Government Bonds	4,970,178	33,871,060	35,287,077	22,139,626	96,267,941
Other Short Term Investments	2,690,640	-	-	-	2,690,640
Total	\$ 5,003,493	\$ 114,293,727	\$ 117,267,535	\$ 123,978,919	\$ 360,543,674

NOTE 3 – DEPOSITS AND INVESTMENT RISK DISCLOSURES (continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a financial institution's failure, the Plan would not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. Under the California Government Code, a financial institution is required to secure deposits in excess of \$250,000 made by state or local government units by pledging securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure governmental deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits. Such collateral is held by the pledging financial institution's trust department or agent in the Plan's name.

At year-end, the carrying amount of the Plan's cash deposits was \$42.130 million (which includes cash equivalents) and the bank balance was \$38.449 million. The difference between the bank balance and the carrying amount represents cash and cash equivalents held in transition by the Investment Custodian and various investment managers. Of the bank balance, \$634 thousand was covered by the Federal Deposit Insurance Corporation, and \$23.409 million was collateralized by the pledging financial institutions as required by Section 53652 of the California Government Code. The Plan's policy is to confirm the existence and allocation of the bank's collateral with the State of California Local Agency Commission not less than annually, and to confirm the existence of insurance in the Plan's name.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Plan would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, not registered in the Plan's name, and held by the counterparty. The Plan's investment securities are not exposed to custodial credit risk because all securities held by the Plan's custodial bank are in the Plan's name.

The Board's investment policies and guidelines permit investments in numerous specified asset classes to take advantage of professional investment management advice and a well-diversified portfolio. The investment portfolio contained no concentration of investments in any one entity (other than those issued or guaranteed by the U.S. Government) that represented 5% or more of the Fiduciary Net Position.

Credit Risk

The Plan's general investment policy is to apply the prudent person rule. Investments are made as a prudent person would be expected to act, with discretion and for the exclusive purposes of providing benefits, minimizing contributions, and defraying reasonable expenses of administering the Plan. Investments should be diversified so as to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so.

NOTE 3 – DEPOSITS AND INVESTMENT RISK DISCLOSURES (continued)

The following is a schedule of the credit risk ratings comparison of the Plan’s fixed income and short-term investments as of December 31, 2014 and 2013, as rated by Standard & Poor’s equivalent ratings:

Quality Rating	2014		2013	
	%	Fair Value	%	Fair Value
AAA	8.98%	\$ 34,198,697	10.14%	\$ 36,563,926
AA+	35.36%	134,672,221	43.41%	156,510,261
AA	0.57%	2,166,295	5.35%	19,289,332
AA-	1.62%	6,178,424	1.10%	3,975,709
A+	1.10%	4,197,135	0.71%	2,568,730
A	6.87%	26,156,518	8.31%	29,968,924
A-	2.33%	8,860,390	5.80%	20,925,091
BBB+	3.78%	14,380,491	2.42%	8,739,444
BBB	3.00%	11,425,688	3.21%	11,589,094
BBB-	2.50%	9,528,516	3.28%	11,818,291
Subtotal Investment Grade	66.10%	251,764,375	83.75%	301,948,802
BB+	1.10%	4,172,318	0.89%	3,192,908
BB	2.59%	9,872,654	2.65%	9,559,637
BB-	2.36%	9,005,748	0.93%	3,360,956
B+	5.78%	22,030,784	0.27%	984,280
B	3.50%	13,328,263	0.33%	1,200,341
B-	1.46%	5,574,784	0.22%	800,739
CCC+	1.17%	4,450,998	0.00%	-
CCC	0.47%	1,806,486	0.15%	528,150
CC	0.09%	327,046	0.16%	576,164
D	0.08%	307,808	0.11%	384,109
Not Rated	15.29%	58,239,516	10.54%	38,007,588
Subtotal Non-Investment Grade	33.90%	129,116,405	16.25%	58,594,872
Total Fixed Income and Short-Term Investments	100.00%	\$ 380,880,780	100.00%	\$ 360,543,674

Nationally recognized statistical rating organizations provide ratings of debt securities quality based on a variety of factors. For example, the financial condition of the issuers provides investors with some idea of the issuer’s ability to meet its obligations. Fixed-maturity investments may consist of rated or non-rated securities. Ratings can range from AAA (highest quality) to D (default). Debt securities with ratings of BBB or higher are considered investment grade issues, and debt securities with ratings of BB or lower are non-investment grade issues. Debt securities in the non-investment grade category are more speculative and are often referred to as “high-yield”. This reference is due to the fact that lower rated debt securities generally carry a higher interest rate to compensate the buyer for taking on additional risk.

NOTE 3 – DEPOSITS AND INVESTMENT RISK DISCLOSURES (continued)*Foreign Currency Risk*

Foreign currency risk is the risk that occurs when changes in exchange rates may adversely affect the fair value of an investment. The Plan's external investment managers may invest in international securities and must follow the Plan's Investment Policy pertaining to these types of investments. The Plan's policy on foreign currency risk is specified in its Investment Policy and does not place specific limitations on currency exposure. The Plan's Investment Policy controls currency exposure risk in general through its approved asset allocation to international investments which may be valued in various foreign currencies.

The Plan's exposure to foreign currency risk in U.S. Dollars as of December 31, 2014 and 2013 was as follows:

Currency	12/31/2014 Fair Value	12/31/2013 Fair Value	Increase (Decrease)
Euro Currency	\$ 65,153,539	\$ 69,875,873	\$ (4,722,334)
British Pound	46,610,074	50,348,266	(3,738,192)
Swiss Franc	30,381,873	34,857,354	(4,475,481)
Japanese Yen	18,972,319	18,897,473	74,846
South African Rand	16,437,358	16,744,757	(307,399)
Mexican Peso	15,926,550	16,512,326	(585,776)
Brazilian Real	11,720,820	10,461,860	1,258,960
Australian Dollar	11,492,348	5,392,297	6,100,051
Hong Kong Dollar	10,676,899	6,350,881	4,326,018
Turkish Lira	8,986,790	7,130,139	1,856,651
Canadian Dollar	8,469,493	9,692,239	(1,222,746)
Malaysian Ringgit	7,842,231	4,036,389	3,805,842
Thai Baht	5,964,427	3,664,786	2,299,641
Indonesian Rupiah	5,882,707	4,905,623	977,084
Swedish Krona	4,770,592	5,058,430	(287,838)
Russian Ruble	4,574,891	3,912,043	662,848
South Korean Won	4,393,800	3,922,249	471,551
Chilean Peso	4,374,607	2,405,869	1,968,738
Danish Krone	4,355,216	3,887,243	467,973
Polish Zloty	4,140,179	5,004,273	(864,094)
Indian Rupee	3,903,211	2,600,139	1,303,072
Columbian Peso	3,730,979	2,387,745	1,343,234
Venezuelan Bolivar	1,125,216	-	1,125,216
New Zealand Dollar	172,682	55,675	117,007
Argentine Peso	103,638	-	103,638
Hungarian Forint	-	1,061,220	(1,061,220)
Peruvian Nuevo Sol	-	979,217	(979,217)
Philippine Peso	-	752,502	(752,502)
Norwegian Krone	-	433,356	(433,356)
Total	<u>\$ 300,162,439</u>	<u>\$ 291,330,224</u>	<u>\$ 8,832,215</u>

NOTE 4 – INVESTMENTS

Bonds, Notes, and Collateralized Mortgage Obligations

The summary of investments held by the Plan in bonds, notes, and collateralized mortgage obligations at December 31, 2014 is as follows:

	<u>Cost</u>	<u>Fair Value</u>
Bonds and Notes - Domestic	\$ 162,404,258	\$ 161,746,558
Bonds and Notes - International	24,720,813	25,372,680
Collateralized Mortgage Obligations	4,367,641	5,260,525
Subtotal	<u>191,492,712</u>	<u>192,379,763</u>
Brandywine International Fixed Income Fund	41,129,502	57,560,617
Stone Harbor Local Markets Fund	57,281,803	49,351,572
State Street Global Assets TIPS Index Fund	20,934,024	22,411,210
Pacific Asset Management Bank Loan Fund	60,000,000	59,177,618
Subtotal	<u>179,345,329</u>	<u>188,501,017</u>
	<u>\$ 370,838,041</u>	<u>\$ 380,880,780</u>

The summary of investments held by the Plan in bonds, notes, and collateralized mortgage obligations at December 31, 2013 is as follows:

	<u>Cost</u>	<u>Fair Value</u>
Bonds and Notes	\$ 214,280,458	\$ 213,569,377
Bonds and Notes - International	20,434,968	17,739,310
Collateralized Mortgage Obligations	7,667,870	8,759,578
Subtotal	<u>242,383,296</u>	<u>240,068,265</u>
Brandywine International Fixed Income Fund	35,292,968	50,613,345
Stone Harbor Local Markets Fund	50,554,034	48,237,278
State Street Global Assets TIPS Index Fund	20,934,024	21,624,786
Subtotal	<u>106,781,026</u>	<u>120,475,409</u>
	<u>\$ 349,164,322</u>	<u>\$ 360,543,674</u>

NOTE 4 – INVESTMENTS (continued)

Domestic Equities

The summary of investments held by the Plan in domestic equities at December 31, 2014 is as follows:

	<u>Cost</u>	<u>Fair Value</u>
Atlanta Capital Small/Mid Cap Portfolio	\$ 29,157,354	\$ 48,438,643
Research Affiliates Fundamental Index Fund	38,210,070	44,795,439
State Street Global Assets S&P 500 Index Fund	16,075,618	27,255,252
Mason Diversified Equity Portfolio	81,485,425	123,164,976
Mason High Yield Equity Portfolio	59,155,535	74,072,012
	<u>\$ 224,084,002</u>	<u>\$ 317,726,322</u>

The summary of investments held by the Plan in domestic equities at December 31, 2013 is as follows:

	<u>Cost</u>	<u>Fair Value</u>
Atlanta Capital Small/Mid Cap Portfolio	\$ 28,933,265	\$ 51,366,257
Research Affiliates Fundamental Index Fund	42,536,842	49,196,802
State Street Global Assets S&P 500 Index Fund	28,033,421	41,794,117
Mason Diversified Equity Fund	80,188,691	125,817,425
Mason High Yield Equity Fund	55,210,350	72,548,953
	<u>\$ 234,902,569</u>	<u>\$ 340,723,554</u>

International Equities

The summary of investments held by the Plan in international equities at December 31, 2014 is as follows:

	<u>Cost</u>	<u>Fair Value</u>
Dodge & Cox International Stock Index Fund	\$ 135,553,776	\$ 144,563,382
Vontobel International Equity Fund	104,189,546	126,833,037
	<u>\$ 239,743,322</u>	<u>\$ 271,396,419</u>

NOTE 4 – INVESTMENTS (continued)

The summary of investments held by the Plan in international equities at December 31, 2013 is as follows:

	<u>Cost</u>	<u>Fair Value</u>
Dodge & Cox International Stock Index Fund	\$ 132,298,232	\$ 144,452,162
Vontobel International Equity Fund	101,791,262	123,158,514
	<u>\$ 234,089,494</u>	<u>\$ 267,610,676</u>

Alternative Investments

The summary of investments held by the Plan in alternative investments at December 31, 2014 is as follows:

	<u>Cost</u>	<u>Fair Value</u>
Gresham MTAP Commodity Builder Fund	\$ 42,000,000	\$ 33,856,788
Harbourvest Fund IX (buyout) LP	5,573,666	6,583,284
PIMCO Distressed Credit LP	1,860,847	9,636,984
KKR Mezzanine Debt Fund I LP	14,092,130	14,081,563
	<u>\$ 63,526,643</u>	<u>\$ 64,158,619</u>

The summary of investments held by the Plan in alternative investments at December 31, 2013 is as follows:

	<u>Cost</u>	<u>Fair Value</u>
Gresham MTAP Commodity Builder Fund	\$ 42,000,000	40,616,049
Harbourvest Fund IX (buyout) LP	3,150,187	3,441,374
PIMCO Distressed Credit LP	16,045,504	18,589,912
KKR Mezzanine Debt Fund I LP	11,044,734	10,354,360
	<u>\$ 72,240,425</u>	<u>\$ 73,001,695</u>

Real Estate Investment Trusts

A portion of the Plan's domestic equity investments may from time to time contain a portion invested in Real Estate Investment Trusts.

NOTE 4 – INVESTMENTS (continued)

Real Estate

The summary of investments held by the Plan in real estate at December 31, 2014 is as follows:

	<u>Cost</u>	<u>Fair Value</u>
Real Estate Held for Investment - Separate Account	\$ 29,623,667	\$ 27,784,860
Fidelity Real Estate Equity Growth Funds II & III	3,846,013	3,499,886
J.P. Morgan Strategic Properties Fund	55,236,828	72,205,447
	<u>\$ 88,706,508</u>	<u>\$ 103,490,193</u>

The summary of investments held by the Plan in real estate at December 31, 2013 is as follows:

	<u>Cost</u>	<u>Fair Value</u>
Real Estate Held for Investment - Separate Account	\$ 29,547,907	\$ 27,239,099
Fidelity Real Estate Equity Growth Funds II & III	6,313,815	5,516,296
J.P. Morgan Strategic Properties Fund	55,236,828	64,967,464
	<u>\$ 91,098,550</u>	<u>\$ 97,722,859</u>

The Real Estate Held for Investment – Separate Account is held in the form of a Title Holding Corporation organized in the State of California under the name Fiduciary Properties, Inc. (FPI), an Internal Revenue Code Section 501(c)(25) qualified subsidiary. The Internal Revenue Service approved FPI's request for determination as exempt from federal income tax on August 1, 1995. The following is a summary of FPI's financial position:

Title Holding Corporation's Financial Position
As of December 31

	<u>2014</u>	<u>2013</u>
Assets	\$ 27,918,966	\$ 27,358,812
Less: Liabilities	134,106	119,713
Net Assets	<u>\$ 27,784,860</u>	<u>\$ 27,239,099</u>
Net Income	<u>\$ 1,975,761</u>	<u>\$ 1,756,219</u>

FPI's historical tax returns and determination letter are available for public inspection at the offices of SLOCPT.

NOTE 4 – INVESTMENTS (continued)

Related Party Transactions

The Plan is the sole shareholder of FPI. The Plan occupies a portion of one of the real properties owned by FPI. The monetary value of the real property is included in assets available to pay benefits to members and their beneficiaries. The Plan does not compensate FPI for occupancy and FPI's financial results are reported on a consolidated basis within these financial statements.

Other Investments

In January 2012, the Board approved the formation of a wholly owned subsidiary limited liability company to account for and collect all costs and revenues associated with license fees anticipated to be received by other parties from the sale of SLOCPT's internally developed pension software RAD. The subsidiary was formed in July 2012 as a limited liability company under the State of California and named Retirement Benefits Software, LLC (RBS). The following is a summary of RBS's financial position as of December 31, 2014 and 2013:

	2014	2013
Assets	\$ -	\$ 7,615
Less: Liabilities	-	492
Net Assets	<u>\$ -</u>	<u>\$ 7,123</u>
Net Income	<u>\$ (5,484)</u>	<u>\$ (6,007)</u>

In 2014 the Board of Trustees elected to liquidate RBS and abandon efforts to market and sell RAD due to the large amount of capital required to make the business venture a viable investment.

Derivatives

The Board has authorized certain investment managers to invest in, or otherwise enter into transactions involving derivative financial instruments when, in the judgment of management, such transactions are consistent with the investment objectives established for a specific investment manager's assignment. A professional investment consultant is employed to monitor and review each investment manager's securities and derivative position as well as the manager's performance relative to established benchmark rates of return and risk measures. In management's opinion, derivative activities must be evaluated within the context of the overall portfolio performance and cannot be evaluated in isolation. Investment derivatives involve the following types of risks:

Derivatives Market Risk

Market risk is the risk of change in value of an instrument in response to changes in a market price or index. While all investments are subject to market risk, derivatives often have a higher degree of market risk than other types of investment instruments. Values of cash securities containing derivative features are often more susceptible to market risk than other types of fixed income securities because the amounts and/or timing of their scheduled cash flows may fluctuate under changing market conditions, according to their contractual terms. For other types of derivatives, amounts of contractual cash flows may be either positive or negative depending upon prevailing market conditions relative to the reference prices or rates,

NOTE 4 – INVESTMENTS (continued)

and thus the values of such instruments may be positive or negative, despite the fact that little or no cash is initially exchanged to enter into such contracts.

Derivatives Credit Risk

Credit risk of cash securities containing derivative features is based upon the creditworthiness of the issuers of such securities. The Plan establishes minimum credit requirements for such securities. Exchange-traded derivatives are generally considered to be of lower credit risk than over-the-counter derivatives due to the exchange's margin requirements.

Derivative financial instruments held by the Plan from time to time consist of the following:

Forward Contracts: A forward contract represents an agreement to buy or sell an underlying asset at a specified date in the future at a specified price. Payment for the transaction is delayed until the settlement or expiration date. A forward contract is a non-standardized contract that is tailored to each specific transaction. Forward contracts are privately negotiated and are intended to be held until the settlement date.

Futures Contracts: A futures contract represents an agreement to buy (long position) or sell (short position) an underlying asset, at a specified future date for a specified price. Payment for the transaction is delayed until a future date, which is referred to as the settlement or expiration date. Futures contracts are standardized contracts traded on organized exchanges.

Option Contracts: An option contract is a type of derivative security in which a buyer (purchaser) has the right, but not the obligation to buy or sell a specified amount of an underlying security at a fixed price by exercising the option before its expiration date. The seller (writer) has an obligation to buy or sell the underlying security if the buyer decides to exercise the option.

Swap Agreements: A swap is an agreement between two or more parties to exchange a sequence of cash flows over a period of time in the future. No principal is exchanged at the beginning of the swap. The cash flows the counterparties exchange are tied to a "notional" amount. A swap agreement specifies the time period over which the periodic payments will be exchanged. The Fair Value represents the gains or losses as of the prior marking-to-market.

The Investment Derivatives schedule below reports the fair value balances and notional amounts of derivatives outstanding as of December 31, 2014 as well as the fair value and changes in fair value of derivatives as of December 31, 2013:

Derivative Type	2014		2013	2014/2013
	Notional Amount	Fair Value	Fair Value	Change in Fair Value
Forward Contracts	\$ (3,200,000)	\$ (3,296,749)	\$ 4,187,124	\$ (7,483,873)
Futures Contracts	(193,200,000)	(2,243,489)	79,563,950	(81,807,439)
Options Contracts	(11,500,000)	(45,607)	(272,592)	226,985
Swap Agreements	(48,216,135)	(2,943,130)	1,412,904	(4,356,034)
	<u>\$(256,116,135)</u>	<u>\$ (8,528,975)</u>	<u>\$ 84,891,386</u>	<u>\$ (93,420,361)</u>

Note: Value does not include offsetting liability or asset associated with the position(s).

NOTE 4 – INVESTMENTS (continued)

All investment derivative positions are included in investments at fair value on the Statement of Fiduciary Net Position. All changes in fair value are reported in the Net Realized and Unrealized Gains and Losses of investments in the Statement of Changes in Fiduciary Net Position.

Commitments

The Plan participates in certain investments that require commitments of a specified amount of capital upfront that is then drawn down at a later time as the investment vehicle requires. The total unfunded capital commitment represents the amount of funds that the Plan could potentially be required to contribute at a future date. The Plan had unfunded capital commitments totaling \$19.035 million at December 31, 2014, and \$26.152 million at December 31, 2013.

Annual Money Weighted Rate of Return

For the year ended December 31, 2014, the annual money-weighted rate of return on investments, net of investment expense, was 4.54% percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTE 5 – CAPITAL ASSETS

Depreciation and amortization of capital assets is computed by the straight-line method based on the cost of the capital assets over the estimated useful lives of the capital assets, which range from 5 to 40 years. Capital assets are recorded at historical costs. Changes in capital assets are as follows:

	Balance Jan. 1, 2014	Additions	Deletions	Balance Dec. 31, 2014
Office Equipment	\$ 77,496	\$ -	\$ (19,028)	58,468
Software	2,524,414	-	-	2,524,414
Accumulated Depreciation	(1,896,876)	(255,072)	19,028	(2,132,920)
	<u>\$ 705,034</u>	<u>\$ (255,072)</u>	<u>\$ -</u>	<u>\$ 449,962</u>

	Balance Jan. 1, 2013	Additions	Deletions	Balance Dec. 31, 2013
Office Equipment	\$ 77,496	\$ -	\$ -	\$ 77,496
Software	2,524,414	-	-	2,524,414
Accumulated Depreciation	(1,639,672)	(257,204)	-	(1,896,876)
	<u>\$ 962,238</u>	<u>\$ (257,204)</u>	<u>\$ -</u>	<u>\$ 705,034</u>

Depreciation and amortization expenses for the years ended December 31, 2014 and 2013 were \$255,072 and \$257,204, respectively.

NOTE 6 – CONTRIBUTIONS AND RESERVES

Periodic contributions to the Plan are determined on an actuarial basis using the Entry Age Normal Cost Method. The Entry Age Normal Cost Method identifies a normal cost and an accrued liability. This method was adopted in 2001 by the Board. The Board also elected an initial amortization period for the payment of the unfunded accrued liability of 30 years. The amortization of the Unfunded Actuarial Accrued Liability is done as a level percent of payroll over a closed 30 year period (25 year as of December 31, 2014) for funding computations. Changes in the value of Plan assets have generally been smoothed over a five-year period to arrive at the Actuarial Value of Assets under the Entry Age Normal Cost Method. The Actuarial Value of Assets as of the most recent Actuarial Evaluation was \$1.183 million.

In June 2013, the Board unanimously passed the recommendation of an increase of 0.94% to the total contribution rate as recommended by the Actuary in the January 1, 2013 Actuarial Valuation. The increased total contribution rate took into consideration: a) continuing with the remaining 27 years of the 30-year amortization for unfunded liabilities that was reset in 2010 to 30 years and b) continuing the smoothing of the 2008 asset loss to a 10-year basis instead of the 5-year smoothing applied otherwise. With the Board of Supervisors’ approval, the Employers implemented the shared Employer and Employee increased total contribution rates for the majority of members in Tier 1 and Tier 2 effective December 22, 2013. The increase was adjusted to 0.99% to account for the deferred implementation. Tier 3 rates were unchanged due to the fact that valuation results were calculated prior to the first Tier 3 member entering the Plan. The rates were left unchanged in 2014 as determined in the January 1, 2014 Actuarial Valuation.

It is the policy of the Employers to contribute the full Annual Required Contribution (ARC) through a combination of Employer appropriations and employee contributions.

The net position restricted for pension benefits is allocated among various reserves. From January 1, 2014 through December 31, 2014, these reserves were generally credited with interest at the rate of 6.75% for Member Deposits and 7.25% for other reserves. Any interest or dividends earned in excess of the amount required to be credited to the various reserves is accumulated in the contingency reserve.

NOTE 7 – FUNDED STATUS

The Plan’s funded status based on the most recent actuarial valuation performed by Gabriel, Roeder, Smith and Company as of January 1, 2014, (the date of the most recent actuarial valuation for which data is available) is as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
1/1/14	\$ 1,182,924	\$ 1,518,751	\$ 335,827	77.9%	\$ 164,704	203.9%

Actuarial calculations are based on the benefits provided under the terms of the substantive Plan in effect at the time of each valuation and on the pattern of sharing of costs between the employers and Plan members to that point.

NOTE 7 – FUNDED STATUS (Continued)

The projection of benefits for financial reporting does not explicitly incorporate the potential effect of legal or contractual funding limitations on the pattern of cost-sharing between the employer and the Plan members in the future.

Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of the plan net position restricted for the payment of benefits. Actuarial valuations of an ongoing plan involve estimates of the value of the reported amounts and assumptions about the probability of occurrence of events far in the future.

NOTE 8 – NET PENSION LIABILITY

The components of net pension liability of the Plan at December 31, 2014 were as follows:

Net Pension Liability (\$ in thousands):

Total Pension Liability	\$ 1,595,820
Plan Fiduciary Net Position	<u>1,173,336</u>
Employers' Net Pension Liability	\$ 422,484

Plan net position as a percentage of total pension liability is 73.53%.

Actuarial Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of January 1, 2014 using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB Statement No. 67. Key methods and assumptions used in the latest actuarial valuations are presented below.

Actuarial Cost Method	Entry Age
Inflation	2.75 percent
Salary Increases	3.25 percent, including inflation, additional merit component applicable to first 7 years of service
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA. The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2009 to December 31, 2013.

NOTE 8 – NET PENSION LIABILITY (continued)

The long-term nominal expected rate of return on investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The nominal rates of return will differ from the real rates of return presented in Note 1 because the nominal rates of return include an inflation assumption while real rates of return do not. Best estimates of arithmetic nominal rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2014 (see the discussion of the Plan's Investment Policy) are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Nominal Rate of Return</u>
Fixed Income	35%	4.31%
Domestic Equities	23%	6.11%
International Equities	22%	9.30%
Alternative Investments	10%	6.85%
Real Estate	10%	6.85%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current contribution rate and that Employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Plan's net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Employers collectively, calculated using the discount rate of 7.25%, as well as what the Employers' net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.25%) or one percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Employers' net pension liability (\$ in thousands)	\$ 637,879	\$ 422,484	\$ 244,653

NOTE 9 – LITIGATION

The Plan is subject to legal proceedings and claims which have arisen in the ordinary course of its business and have not been finally adjudicated. These actions, when finally concluded and determined, will not, in the opinion of the management of the Plan, have a material adverse effect upon the financial position of the Plan.

NOTE 10 – SUBSEQUENT EVENTS

In compliance with Governmental Accounting Standards generally accepted in the United States of America, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in these financial statements.

Management has determined that no events require disclosure in accordance with Governmental Accounting Standards generally accepted in the United States of America. These subsequent events have been evaluated through June 22, 2015, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**SAN LUIS OBISPO COUNTY PENSION TRUST
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
MULTIYEAR**

Fiscal year ending December 31,	2014*
Total Pension Liability	
Service Cost	\$ 36,210,322
Interest on the Total Pension Liability	108,953,629
Benefit Changes	-
Differences Between Expected and Actual Experience	-
Assumption Changes	-
Benefit Payments	(66,162,944)
Refunds	(1,932,077)
Net Change in Total Pension Liability	77,068,930
Total Pension Liability - Beginning	1,518,751,027
Total Pension Liability - Ending (a)	\$1,595,819,957
 Fiduciary Net Position	
Employer Contributions	\$ 32,046,545
Employee Contributions	24,415,512
Pension Plan Net Investment Income	51,667,160
Benefit Payments	(66,162,944)
Refunds	(1,932,077)
Pension Plan Administrative Expense	(2,084,841)
Other	(331,910)
Net Change in Fiduciary Net Position	37,617,445
Fiduciary Net Position - Beginning	1,135,718,617
Fiduciary Net Position - Ending (b)	\$1,173,336,062
 Net Pension Liability - Ending (a)-(b)	\$ 422,483,895
 Fiduciary Net Position as a Percentage of Total Pension Liability	73.53%
 Covered Employee Payroll	167,343,323
 Net Pension Liability as a Percentage of Covered Employee Payroll	252.47%

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**SAN LUIS OBISPO COUNTY PENSION TRUST
SCHEDULE OF EMPLOYER CONTRIBUTIONS MULTIYEAR**

Fiscal Year Ended December 31,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Actual Contribution as a % of Covered Payroll
2005	\$ 20,007,977	\$ 18,209,481	\$ 1,798,496	\$ 135,188,509 *	13.47%
2006	\$ 22,017,780	\$ 19,177,491	\$ 2,840,289	\$ 143,902,100 *	13.33%
2007	\$ 33,840,580	\$ 24,014,202	\$ 9,826,378	\$ 152,116,782 *	15.79%
2008	\$ 34,933,644	\$ 30,860,282	\$ 4,073,362	\$ 162,435,795 *	19.00%
2009	\$ 30,957,311	\$ 31,427,297	\$ (469,986)	\$ 168,677,088 *	18.63%
2010	\$ 30,278,179	\$ 32,148,424	\$ (1,870,245)	\$ 160,443,939 *	20.04%
2011	\$ 30,051,687	\$ 30,435,940	\$ (384,253)	\$ 161,783,273 *	18.81%
2012	\$ 31,122,541	\$ 30,942,038	\$ 180,503	\$ 161,054,639 *	19.21%
2013	\$ 33,416,725	\$ 30,795,872	\$ 2,620,853	\$ 164,299,413 *	18.74%
2014	\$ 33,122,068	\$ 32,046,545	\$ 1,075,523	\$ 167,343,323	19.15%

* Covered Employee payroll shown for fiscal years prior to 2014 are based on expected covered payroll

**SAN LUIS OBISPO COUNTY PENSION TRUST
SCHEDULE OF ACTUARIAL METHODS AND ASSUMPTIONS**

Valuation Date	January 1, 2014
Notes	Actuarially determined contribution rates are calculated as of January 1, 2014. Members and employers contribute based on fixed rates. There were no benefit changes during the year.
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	Amortized over a closed 26-year period from January 1, 2014 ending December 31, 2039
Asset Valuation Method	5-year smoothed market
Investment Rate of Return	7.25%
Inflation Rate Assumption	2.75% per year
Salary Increases	3.25%. Composed of 2.75% inflation, plus 0.50% productivity increase rate, plus step-rate promotional increases for member with less than 8 years of service.
Cost of Living Adjustments	Tier 1 - 3.00% (limit) Tier 2 & 3 - 2.00% (limit)
Retirement Age	Experience-based table for rates based on age and service. Adopted by the Board on April 26, 2013 in conjunction with the six year experience study for the period ending June 30, 2012.
Mortality	Males: RP-2000 with generational mortality improvements using scale AA, a 105% multiplier and white collar adjustment. Females: RP-2000 with generational mortality improvements using scale AA, a 105% multiplier and white collar adjustment.

**SAN LUIS OBISPO COUNTY PENSION TRUST
SCHEDULE OF ANNUAL MONEY WEIGHTED RATE OF RETURN**

<u>Year Ended December 31</u>	<u>Annual Money Weighted Rate of Return Net of Investment Expense</u>
2014	4.54%

** Data prior to 2014 is not available in comparable format.*

OTHER SUPPLEMENTARY INFORMATION

**SAN LUIS OBISPO COUNTY PENSION TRUST
SCHEDULE OF CHANGES IN RESERVES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Member Deposits	Current Reserve	Retirees and Beneficiaries	Cost of Living Adj.	Contingency	Adjustments to Fair Value	
						Value	TOTAL
Balances January 1, 2014	\$ 300,615,795	\$ 128,450,159	\$ 643,871,804	\$ 310,822,433	\$ (487,922,168)	\$ 239,880,594	\$ 1,135,718,617
Contributions	24,415,512	23,943,029	-	8,103,516	-	-	56,462,057
Interest, Dividends, and Net Income	19,786,114	8,602,096	47,443,174	22,412,670	(72,673,854)	-	25,570,200
Net Increase in Fair Value of Investments	-	-	-	-	33,450,243	(7,353,283)	26,096,960
Actuarial Transfers (1)	-	(4,144,733)	4,144,733	-	-	-	-
Other Transfers	(81,516)	81,516	-	-	-	-	-
Retiree Reserve Transfers	(32,280,540)	(39,472,980)	71,753,520	-	-	-	-
Benefit Payments	-	-	(54,695,110)	(11,467,834)	-	-	(66,162,944)
Refund of Contributions	(1,629,307)	-	-	-	-	-	(1,629,307)
Death Benefits	(125,284)	(7,940)	(169,546)	-	-	-	(302,770)
Miscellaneous Income	-	-	-	-	-	-	-
Administrative Expenses	-	-	-	-	(2,084,841)	-	(2,084,841)
Discount Amortization	-	-	-	-	(331,910)	-	(331,910)
Balances December 31, 2014	\$ 310,700,774	\$ 117,451,147	\$ 712,348,575	\$ 329,870,785	\$ (529,562,530)	\$ 232,527,311	\$ 1,173,336,062

(1) Actuarially recommended transfer to reflect allocation of computed liabilities.

**SAN LUIS OBISPO COUNTY PENSION TRUST
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Personnel Services		
Salaries and Benefits	\$ 1,007,942	\$ 912,750
Total Personnel Services	<u>1,007,942</u>	<u>912,750</u>
Office Expenses		
Office Supplies	21,600	16,338
Postage	22,931	18,502
Telephone	4,488	3,876
Utilities	6,375	6,569
Total Office Expenses	<u>55,394</u>	<u>45,285</u>
Professional Services		
Accounting & Auditing	57,388	46,600
Actuarial	72,400	137,480
Data Processing	288,138	273,909
Legal	149,925	214,276
Medical	10,125	6,695
Human Resources Consulting	7,406	6,885
Other	6,924	6,684
Bank Charges	7,381	6,537
Total Professional Services	<u>599,687</u>	<u>699,066</u>
Other Administrative Expenses		
Maintenance and Custodial	20,149	19,940
Insurance	89,492	70,060
Memberships, Subscriptions & Publications	4,945	3,370
Printing and Reprographics	14,755	16,161
Transportation, Travel and Education	33,991	16,853
County Allocated Overhead	-	10,698
Property Management	-	-
Miscellaneous Administrative Expenses	3,414	2,738
Total Other Administrative Expenses	<u>166,746</u>	<u>139,820</u>
Depreciation & Amortization	255,072	257,204
TOTAL ADMINISTRATIVE EXPENSES	<u>\$ 2,084,841</u>	<u>\$ 2,054,125</u>

**SAN LUIS OBISPO COUNTY PENSION TRUST
SCHEDULE OF INVESTMENT EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
Investment Manager Fees	\$ 4,560,264	\$ 5,082,881
Custodial Fees	167,997	161,863
Investment Consultant	301,534	270,231
Other Investment Expenses	3,245	5,186
	5,033,040	5,520,161
Additional Investment Expenses Netted Against Investment Income and Gains/Losses		
Broker Commissions	112,433	173,454
Broker Fees	3,140	2,436
	\$ 5,148,613	\$ 5,696,051
TOTAL INVESTMENT EXPENSES		

**SAN LUIS OBISPO COUNTY PENSION TRUST
SCHEDULE OF PAYMENTS TO CONSULTANTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
Custodial Fees	\$ 167,997	\$ 161,863
Investment Consulting Services	301,534	270,231
Accounting & Auditing Services	57,388	46,600
Actuarial Services	72,400	137,480
Data Processing Services	288,138	273,909
Legal Services	149,925	214,276
Disability Medical Services	10,125	6,695
Human Resources Services	7,406	6,885
Payroll Processing Services	6,664	6,424
	\$ 1,061,577	\$ 1,124,363
TOTAL PAYMENTS TO CONSULTANTS		

Investment Section



Investment Section Overview

The Investment Section of the CAFR provides additional detailed information regarding the Pension Trust's investments. It includes a letter from the Pension Trust's Investment Consultant addressing the Trust's investment activities and the capital markets. Additionally, information is provided on:

- Investment Objectives
- Investment Policy
- Asset Allocation
- Historical Rates of Return
- Management Fees and Commissions
- Largest Investment Holdings

May 22, 2015

The Board of Retirement
c/o Mr. Carl Nelson
Executive Secretary
San Luis Obispo County Pension Trust
1000 Mill Street
San Luis Obispo, CA 93408

Dear Mr. Nelson:

Verus is pleased to have had the opportunity to serve the San Luis Obispo County Pension Trust for many years and to provide this investment review for the year ending December 31, 2014.

Capital Markets Review

Although domestic equity performance was more subdued in 2014 compared to the previous two years, the S&P 500 still provided a more than adequate return of 13.7% for the year. Commercial real estate in the US continues its solid run providing an 11.8% return for the year, as represented by the NCREIF Property Index.

The macroeconomic outlook in the US continues to improve, although at a slow pace. The Federal Reserve ended its biggest economic stimulus program in history in October 2014. Headline unemployment continues to drop and was measured at 5.5% as of March 31, 2015, down from 6.6% a year earlier. The broader U-6 Unemployment figure that includes discouraged and underemployed workers also improved, coming down to 10.9% from 12.6% the previous year. Finally, economic growth has been reasonable, if modest, with 2014 GDP coming in at 2.4%.

On the other hand, the market for non-US equities softened over 2014. Additionally, the US dollar's appreciation has been an added headwind for US based investors as currency translation mitigated investment gains. Non-US developed market equities, as represented by the MSCI EAFE, was down 4.5% for the year, and emerging market equities was also down over the same period with the MSCI EM index posting a -1.8% return.

Oil was a hot topic over the year as very few predicted WTI crude to drop to under \$50 per barrel. This affected many facets of the global economy. First, lower oil prices restricted inflation and contributed to keeping inflation expectations low. Second, countries that are heavily dependent on oil revenue saw their GDP take a hit, and here in the US, the shale oil industry was also faced with declining revenues to the point where some companies had to cut jobs. Third, directly within asset

holdings, commodity returns were held back by falling oil prices, which was compounded by the strengthening of the US dollar.

Performance Summary

Verus independently calculates the Plan’s performance using portfolio market valuation and transaction data provided by the Plan’s custodian bank, J.P. Morgan. Performance calculations are presented, to the greatest degree possible, in compliance with the Global Investment Performance Standards published by the CFA Institute.

Following strong market performance in 2012 and 2013, the Plan’s investments moderated somewhat in 2014, returning 5.1% before expenses and investment management fees. Domestic equities and real estate investments were the top contributors among the Plan’s traditional assets as the Plan’s domestic equity component returned 11.0%, while the real estate allocation provided a 10.4% return. The Plan is highly diversified across many different asset classes to mitigate large losses during market downturns. Consequently, The Plan’s allocations to international equity and fixed income, as well as commodities, detracted from results. International equities returned 1.4%, and international bonds returned -2.2%, largely a result of the appreciating US dollar. As for commodities, which makes up a relatively small 2.8% allocation of assets, this segment of the portfolio decreased 16% over the year, mainly affected by falling oil prices. Overall, and given market conditions, the Plan experienced reasonable growth, ending the year with nearly \$1.2 billion in assets.

Asset Allocation

In March of 2014, the Board adopted a revised strategic asset allocation, which is reflected in the following table:

ASSET CLASS	TARGET ALLOCATION
Domestic Equity	23%
International Equity	22%
Fixed Income	35%
Real Estate	10%
Alternatives*	10%

*Commodities, Private Equity

Plan Structure

In 2014, the Board continued to diversify the portfolio, and also provide additional protection against rising interest rates, by adding a 5% allocation to floating rate debt within the fixed income allocation. This will also allow the Plan to benefit the additional income generated as a result of higher yields associated with the asset class.



All of us here at Verus appreciate the opportunity to assist the SLOCPT Board in meeting the Plan's investment objectives. We look forward to continuing in our role of investment advisor and providing guidance to help navigate ever-changing markets.

Sincerely,

A handwritten signature in blue ink, appearing to read "Scott Whalen". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

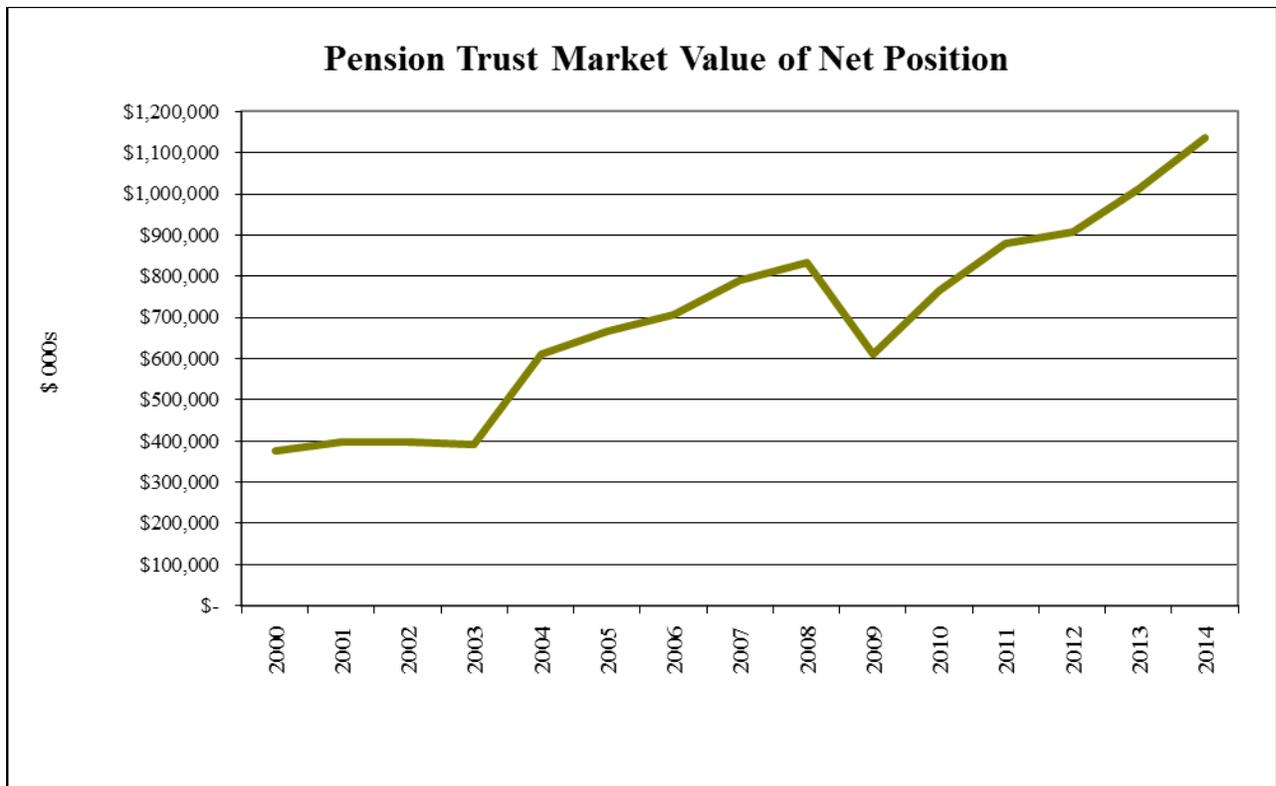
Scott J. Whalen, CFA
Executive Vice President, Senior Consultant

Summary of Investment Objectives

The Board of Trustees has adopted an Investment Policy Statement that governs the management of the Pension Trust's investments. The Board, through its adopted Investment Policy, directing staff and consultants and receiving regular reporting on investments, is responsible for overseeing the investments of the Pension Trust. This includes, but is not limited to, selecting acceptable asset classes; defining allowable ranges of holdings by asset class and by individual investment managers as a percent of assets; defining acceptable securities within each class; and establishing investment performance expectations. The Board will make revisions to this Investment Policy as necessary based on the advice of its investment consultant and staff. A copy of the current Investment Policy is available at www.SLOPensionTrust.org.

The primary objective for the investments of the Pension Trust is to exceed over the long run the actuarial assumption used for asset returns. The time horizon for the Pension Trust's Investment Policy is very long reflecting the long-term nature of the liabilities funded by the Trust. This long-term horizon influences the level of investment risk deemed appropriate by the Board. The investment policies and practices of the Pension Trust are intended to be consistent with the primary mission of the Trust; to pay benefits as they become due. A fundamental tenet underlying the Investment Policy is the prudent balancing of risk through broad diversification.

The following graph shows the growth in the year end market value of net position restricted for the payment of benefits for the Pension Trust over the last fifteen years.



Asset Allocation Policy

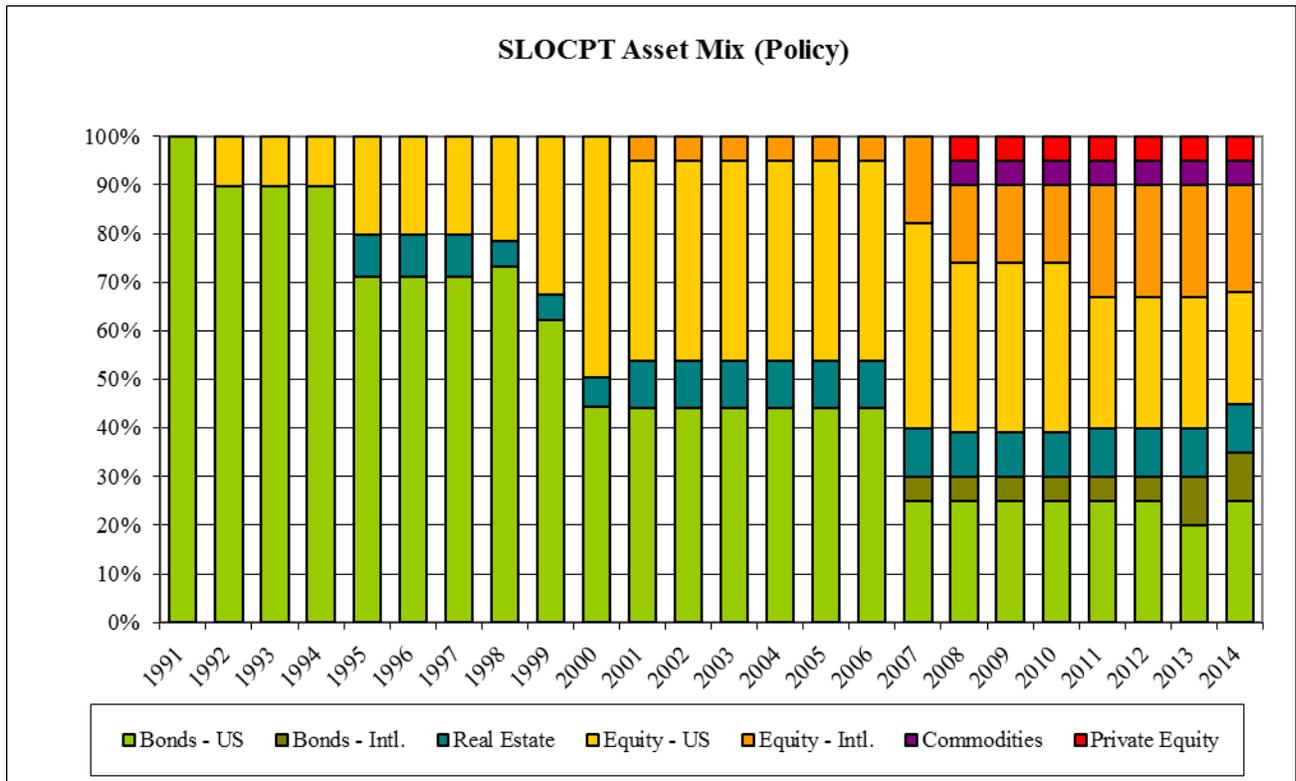
The Strategic Asset Allocation (SAA) asset mix incorporated into the Investment Policy is summarized below (amended March 2014):

San Luis Obispo County Pension Trust - Asset Allocation	12/31/2014 Actual	12/31/2014 Policy	Min.	Max.	Performance Benchmark
Equities - US					
Large Cap US Equity	23%	19%	14%	24%	varies with Mgr.
Small / Mid Cap US Equity	4%	4%	2%	9%	varies with Mgr.
Equities - US - Total	27%	23%	20%	33%	Russell 3000
Equities - International					
International	21%	14%	9%	19%	MSCI EAFE
International - Emerging Mkt.s	3%	8%	0%	13%	
Equities - Intl. - Total	24%	22%	9%	32%	MSCI ACWI ex. US
EQUITIES - Total	51%	45%	35%	65%	
Fixed Income					
Bonds - Core+	14%	15%	10%	30%	BC Aggregate Bond
Private Credit/Bank Loans	5%	5%	0%	10%	S&P LSTA
Bonds - Global	7%	5%	0%	10%	Citi World Govt. Bond
Bonds - Emerging Market	4%	5%	0%	10%	JPM GBI EM
Bonds - Inflation Linked	2%	5%	0%	10%	BC US TIPS
BONDS - Total	32%	35%	15%	60%	BC Aggregate Bond
Real Estate					
Real Estate - Core	7%	6%	0%	10%	NCREIF
Real Estate - Directly Owned	2%	4%	0%	5%	NCREIF
REAL ESTATE - Total	9%	10%	0%	15%	NCREIF
Commodities					
Commodities - Active	3%	5%	0%	10%	DJ UBS Commodities
COMMODITIES - Total	3%	5%	0%	10%	DJ UBS Commodities
Alternative Assets					
Private Equity	3%	5%	0%	10%	Russell 3000 + 3%
ALT. ASSETS - Total	3%	5%	0%	10%	Russell 3000 + 3%
Liquidity					
Cash & Cash Equivalents	1%	0%	0%	5%	T-Bills
Cash Overlay	0%	0%	NA	NA	Policy Mix
LIQUIDITY - Total	1%	0%	0%	5%	T-Bills
TOTAL (1)	100%	100%			

(1) Total investment asset basis does not include operating cash accounts, receivables or other assets included in the statement of plan net position. Actual allocation percentages will differ from Investments at Fair Value Schedule due to cash allocation.

Note: Opportunistic Investments may be authorized up to 10% of the total fund and deviate from the Target Asset Mix shown above.

The SAA adopted by the Pension Trust has changed over the years as shown in the following chart.

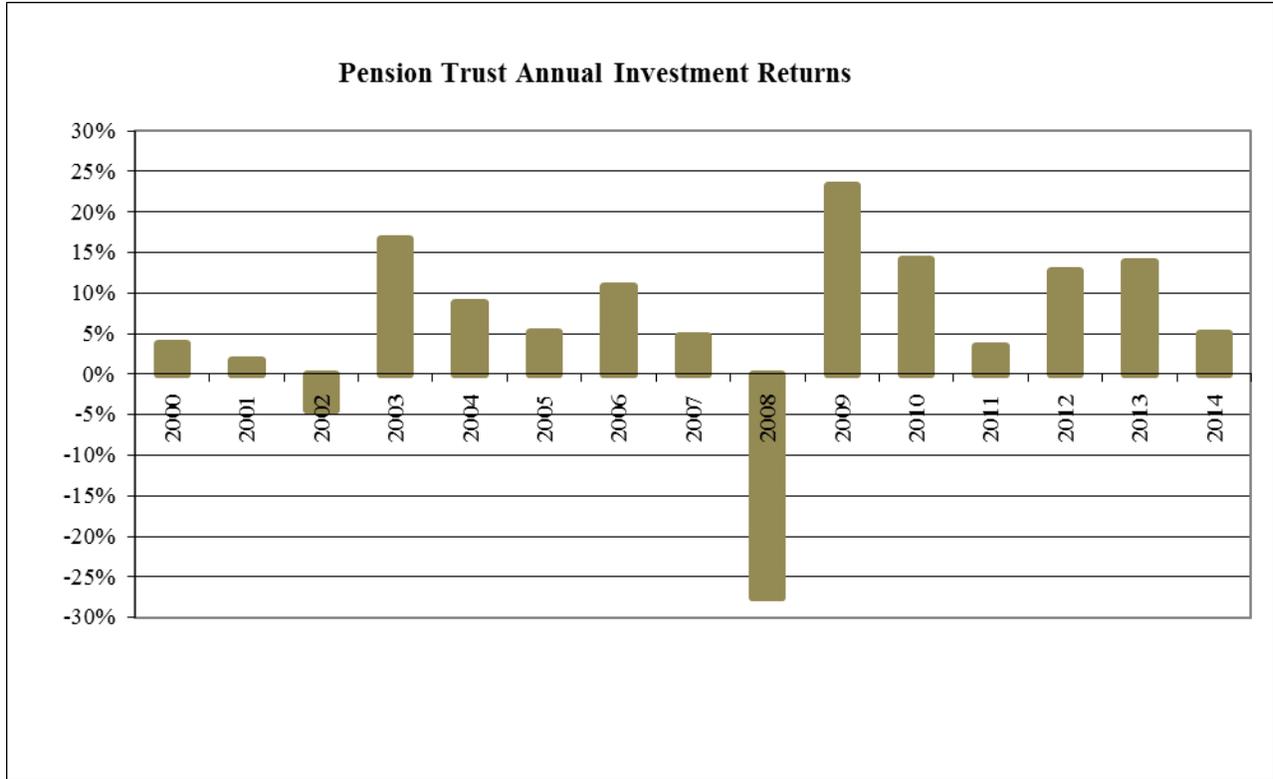


The Pension Trust employs multiple investment managers in different asset classes and with different styles of investing. Combined with strict limitations in the Investment Policy on the maximum exposure to individual investments and with regular rebalancing of the asset mix the diversification level of the investments is maintained. The investments of the Pension Trust may be held in separate accounts with the custodian bank for the Trust and with the investments managed by an external investment manager. The Pension Trust investments may also be held in commingled funds, mutual funds or in limited partnerships.

Proxy voting for securities held for the Pension Trust is specifically delegated by the Investment Policy to the investment manager for each portfolio (separate account or commingled fund / mutual fund). The investment managers are instructed to vote proxies purely in the best investment interests of the Trust.

Investment Results

For 2014 the Pension Trust achieved a rate of return of 5.1% gross of fees as measured by the Trust's investment consultant.



For periods ended December 31, 2014 the total market value based time-weighted rates of return on the Pension Trust's assets as computed by the Investment Consultant gross of fees are summarized below.

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
SLOCPT Total Returns	14.2%	3.4%	12.8%	13.8%	5.1%

Source: Wurts & Associates reports

For cumulative periods the annualized time weighted total rate of returns are as follows.

	<u>1 year</u>	<u>3 years</u>	<u>5 years</u>	<u>10 years</u>
SLOCPT Total Returns	5.1%	10.5%	9.8%	5.7%

Source: Wurts & Associates 4th Quarter 2014 report and Pension Trust records for pre 2006 returns

San Luis Obispo County Pension Trust
Investment Results Based on Fair Value
For the Fiscal Year Ended December 31, 2014

Annualized time-weighted rates of return based on market values

Investment Account		Current Year	3 Years	5 Years	Inception
Domestic Equities					
Mason Capital - Equity	g	13.0%	18.7%	17.0%	9/2002
<i>Index: Russell 3000</i>		<i>12.6%</i>	<i>20.5%</i>	<i>15.6%</i>	
Mason Capital - High Income Equity	g	9.1%	14.3%	14.3%	12/1997
<i>Index: DJ US Select Dividend</i>		<i>15.4%</i>	<i>18.2%</i>	<i>17.0%</i>	
Research Affiliates	g	12.7%	21.4%	16.8%	11/2007
SSGA S&P 500 Index Fund	g	13.7%	20.5%	< 5 yrs	2/2011
<i>Index: S&P 500</i>		<i>13.7%</i>	<i>20.4%</i>	<i>15.5%</i>	
Atlanta Capital	g	5.8%	19.0%	< 5 yrs	8/2010
<i>Index: Russell 2500</i>		<i>7.1%</i>	<i>20.0%</i>		
International Equities					
Dodge & Cox	g	0.7%	15.9%	8.5%	12/2007
Vontobel	g	3.6%	10.6%	8.9%	12/2007
<i>Index: MSCI EAFE</i>		<i>-4.5%</i>	<i>11.6%</i>	<i>5.8%</i>	
Domestic Fixed Income					
PIMCO	g	5.1%	3.4%	5.3%	10/2009
<i>Index: BC Aggregate Bonds</i>		<i>6.0%</i>	<i>2.7%</i>	<i>4.4%</i>	
SSGA TIPS Index Fund	g	3.6%	0.4%	< 5 yrs	7/2011
<i>Index: BC US TIPS</i>		<i>3.6%</i>	<i>0.4%</i>		
PAM Bank Loan Fund	g	< 1 yr			9/2014
<i>Index: S&P/LSTA Leveraged Loan Index</i>					
International Fixed Income					
Stone Harbor (emerging market debt)	g	-7.7%	< 3 yrs		7/2013
<i>Index: JPM GBI EM Global Div</i>		<i>-5.7%</i>			
Global Fixed Income					
Brandywine	g	2.9%	4.8%	5.4%	11/2007
<i>Index: JPM World Govt GLB</i>		<i>0.7%</i>	<i>-0.9%</i>	<i>2.1%</i>	
Real Estate					
Direct Real Estate Owned	g	6.1%	6.8%	2.7%	
FREG II Fund	g	-0.9%	3.8%	6.6%	10/2003
FREG III Fund	g	28.2%	20.2%	25.3%	7/2007
JP Morgan Strategic Properties Fund	g	11.2%	13.0%	13.8%	3/2008
<i>Index: NCREIF</i>		<i>11.8%</i>	<i>11.1%</i>	<i>12.1%</i>	

San Luis Obispo County Pension Trust
Investment Results Based on Fair Value (continued)

For the Fiscal Year Ended December 31, 2014

Annualized time-weighted rates of return based on market values

Investment Account		Current Year	3 Years	5 Years	Inception
Commodities					
Gresham MTAP	g	-16.0%	< 3 yrs		8/2013
<i>Index: Bloomberg Commodities</i>		-17.0%			
Private Equity					
HarbourVest Fund IX (buyout)					6/2011
Combined Private Equity	g	17.7%	14.9%	< 5 yrs	
<i>Index: Russell 3000 + 300BP</i>		15.9%	24.1%		
Opportunistic					
PIMCO Distressed Credit Fund					7/2010
KKR Mezzanine Debt Fund I					4/2011
Combined Opportunistic	g	13.4%	17.2%	< 5 yrs	
<i>Assumption Rate</i>		7.7%	7.7%		
Cash Account					
Treasury Pool		0.3%	0.3%	0.5%	
<i>Index: 91 day T-Bills</i>		0.0%	0.0%	0.1%	
TOTAL FUND (including Clifton Cash Overlay)					
Total Fund		5.1%	10.5%	9.8%	
<i>Index: Policy Index at 12/31/14= 23% Russell 3000, 22% MSCI ACWI ex. US, 35% BC Aggregate Bond, 10% NCREIF Property, 5% Bloomberg Commodity, 5% Russell 3000+300BP</i>		5.2%	10.0%	8.6%	

Note - Policy Index based on Asset Allocation Policy in place for each particular year.

n = Net of fees (e.g., a mutual fund) g = Gross of fees (e.g., separate accounts, commingled funds)

Includes only investment managers in place at December 31, 2014, however investment results of terminated managers are included in the Total Fund rate of return.

PAM Bank Loan funded September 2014

Source: Investment consultant, Wurts & Associates, quarterly investment reports

San Luis Obispo County Pension Trust

Schedule of Management Fees and Commissions

For the Fiscal Year Ended December 31, 2014 (Dollars in Thousands)

Management Fees	Fees 2014	Year End Assets Under Mgmt.	Fees as % of Year End Assets (a)
Domestic Equity			
Mason Capital - Equity	\$ 642	\$ 123,165	0.52%
Mason Capital - High Income Equity	438	74,072	0.59%
Research Affiliates	56	44,795	0.13%
SSGA S&P 500 Index Fund	20	27,255	0.07%
Atlanta Capital	417	48,439	0.86%
Total Domestic Equity	1,573	317,726	
International Equity			
Dodge & Cox (mutual fund)	N/A (e)	144,563	N/A
Vontobel	730	126,833	0.58%
Total International Equity	730	271,396	
Domestic Fixed Income			
PIMCO	604	192,379	0.31%
SSGA TIPS Index Fund	12	22,411	0.05%
PAM Bank Loan Fund	N/A (e)	59,178	0.49%
Total Domestic Fixed Income	616	273,968	
International and Global Fixed Income			
Brandywine	243	57,561	0.42%
Stone Harbor	N/A (e)	49,352	0.90%
Total Intl. and Global Fixed Income	243	106,913	
Real Estate			
Direct Real Estate Owned	- (b)	27,785	N/A
FREG Funds II & III	158	3,500	4.51%
JP Morgan Strategic Properties Fund	709	72,206	0.98%
Total Real Estate	867	103,491	
Commodities			
Gresham	N/A (e)	33,857	N/A
Private Equity			
HarbourVest Fund IX (buyout)	N/A (e)	6,583	N/A
PIMCO Distressed Credit Fund	234	9,637	2.43%
KKR Mezzanine Debt Fund I	279	14,081	1.98%
Total Private Equity	513	30,301	
Cash Overlay			
The Clifton Group	18	- (c)	N/A
Total Management Fees	4,560		

San Luis Obispo County Pension Trust

Schedule of Management Fees and Commissions

For the Fiscal Year Ended December 31, 2014 (Dollars in Thousands)

Other Investment Expenses	Fees 2014	Year end Assets Under Mgmt.	Fees as % of Year End Assets
Custodian Fees	168		0.01%
Investment Consultant	302		0.03%
Other Investment Expenses	3		0.00%
Total Other Investment Expenses	473		0.04%
TOTAL INVESTMENT EXPENSES AND ASSETS UNDER MANAGEMENT	\$ 5,033	\$ 1,137,652	0.44%

Broker Commissions	Commissions 2014
Broker Commissions	\$ 112 (d)
Broker Fees	3
Total Broker Commissions	\$ 115

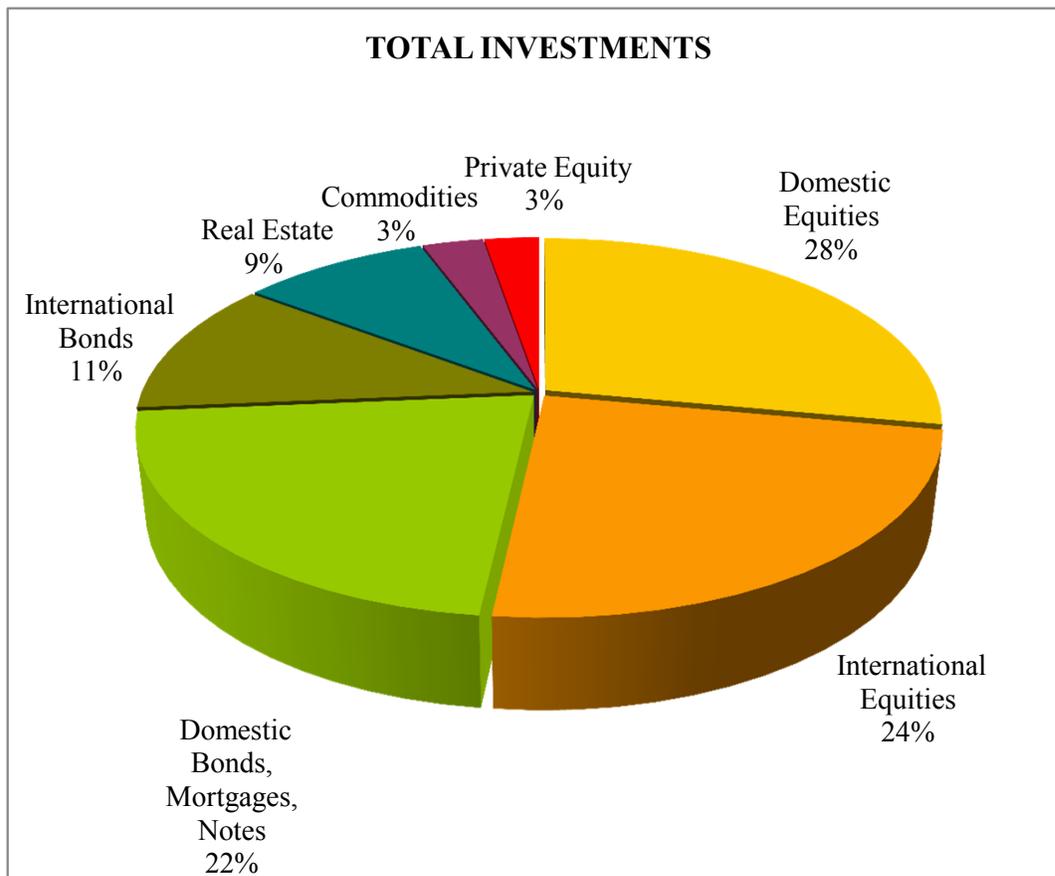
- (a) Investment management fees are typically charged quarterly based on market value and on a graduated scale. Therefore management fees compared to year end asset values is a simplified presentation that approximates the average fee rate.
- (b) Direct Real Estate owned, managed in-house.
- (c) Clifton Group Cash Overlay strategy has all of its underlying assets held in the "Cash" portion of the Fiduciary Net Position so is not reflected in "Investments" as presented in this schedule.
- (d) Included brokerage commissions for separate accounts only. Significant portions of the Pension Trust's investments are held in commingled funds. Brokerage commissions for commingled funds are netted against investment returns and are therefore not included in the total of commissions presented here.
- (e) Fees included in net asset value of investments.

SLOCPT participates in a commission recapture program offered by BNY/Convergex. Mason Capital Partners is the only investment manager to which this program applies. The net income from commission recapture is netted against the brokerage commissions for the applicable investment account.

Investment managers are instructed to seek best execution and to seek to minimize commission and market impact costs when trading securities.

San Luis Obispo County Pension Trust
Investments at Fair Value (Market Value)
 As of December 31, 2014 (Dollars in Thousands)

	<u>Fair Value</u>	<u>%</u>
Equities		
Domestic Equities	\$ 317,726	27.91%
International Equities	271,396	23.86%
Fixed Income		
Domestic Bonds, Mortgages, Notes	248,596	21.85%
International Bonds	132,285	11.63%
Real Estate		
	103,490	9.10%
Alternatives		
Commodities	33,857	2.98%
Private Equity	30,302	2.66%
TOTAL INVESTMENTS	<u>\$ 1,137,652</u>	<u>100.00%</u>



San Luis Obispo County Pension Trust
Schedule of Largest Stock and Bond Holdings
As of December 31, 2014 By Market Value

Largest Stock Holdings	Shares	Market Value
1 KINDER MORGAN INC DELAWARE USD0.01	150,243	\$ 6,356,800
2 TC PIPELINES USD0.01	84,482	6,016,808
3 ENTERPRISE PRODUCTS PARTNERS LP MLP USD 0	140,000	5,056,800
4 NOVARTIS AG ADR EACH REPR 1 CHF0.50(REGD)	50,000	4,633,000
5 SEMPRA ENERGY CORP NPV	40,200	4,476,672
6 PLAINS ALL AMER PI UNIT REP LIM PART INT	87,150	4,472,538
7 BUCKEYE PARTNERS LP MLP USD 0	57,000	4,312,620
8 PARKER-HANNIFIN CORP COMMON STOCK USD 0	32,800	4,229,560
9 GENERAL MILLS INC USD0.1	78,700	4,197,071
10 APPLE INC COMMON STOCK USD 0.00001	37,500	4,139,250
Total of 10 Largest Stock Holdings		<u>\$ 47,891,119</u>

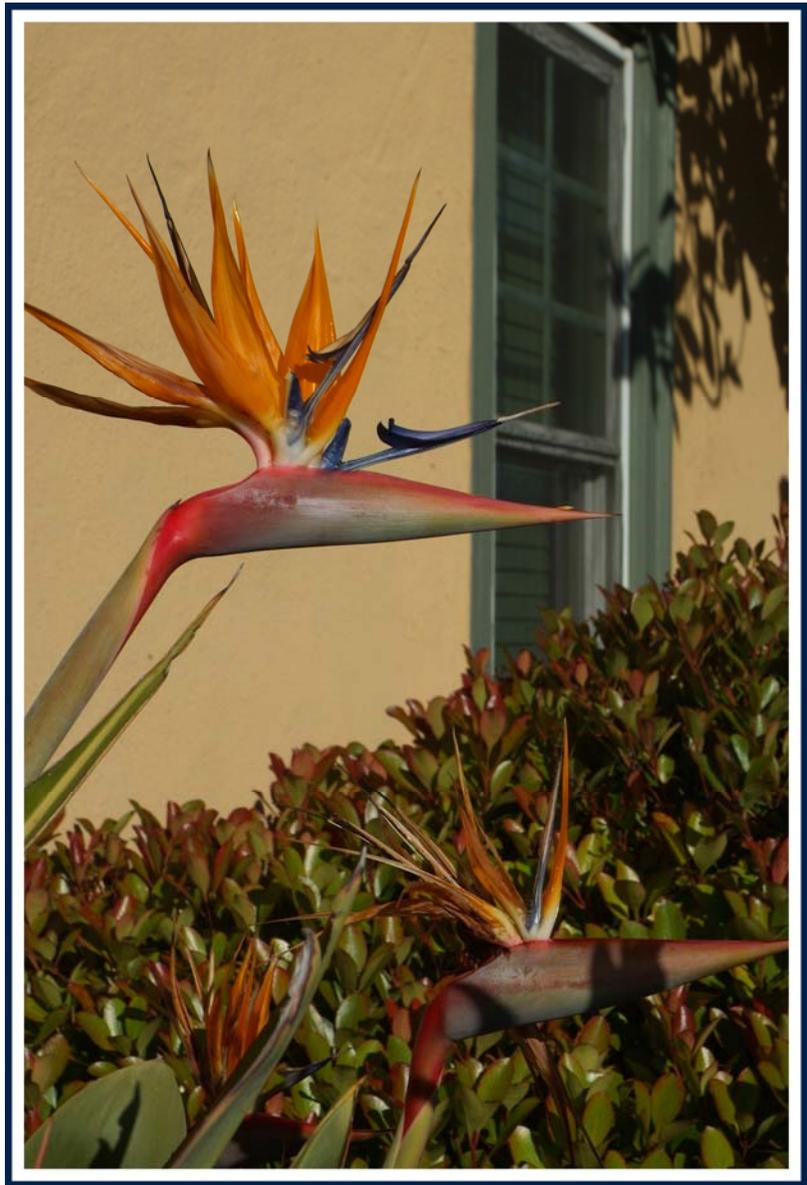
Largest Bond Holdings	Par Value	Market Value
1 TBA FNMA SINGLE FAMILY 15YR 3.5 1/15	\$ 32,000,000	\$ 33,805,120
2 UNITED STATES OF AMERICA NOTES FIXED 2.75%	21,400,000	22,518,578
3 UNITED STATES OF AMERICA BOND FIXED 3.125%	15,400,000	16,579,024
4 UNITED STATES OF AMERICA NOTES FIXED 2.125%	15,300,000	15,485,283
5 UNITED STATES OF AMERICA NOTES FIXED 2.25%	10,000,000	10,205,500
6 UNITED STATES OF AMERICA NOTES FIXED 2.25%	9,600,000	9,790,464
7 TBA FNMA SINGLE FAMILY 30YR 3 2/13	9,000,000	9,081,360
8 UNITED STATES OF AMERICA NOTES FIXED .125%	7,800,000	7,511,991
9 UNITED STATES OF AMERICA NOTES FIXED 2.125%	6,000,000	6,067,500
10 UNITED STATES OF AMERICA BOND ZERO CPN 15/FEB/2025	5,200,000	4,090,372
Total of 10 Largest Bond Holdings		<u>\$ 135,135,192</u>

Significant portions of the Pension Trust's investments are held in commingled funds. The securities listed above are from those held in separate accounts for the Pension Trust and do not include securities held in commingled funds.

A complete listing of the Pension Trust's investments is available upon request.

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Actuarial Section



Actuarial Section Overview

The Actuarial Section of the CAFR provides expanded reporting on the actuarial measures and valuations relative to the Pension Trust and the Plan. It is based on the latest available actuarial valuation which in this case is the Annual Actuarial Valuation as of January 1, 2014.

The Pension Trust engages an independent actuarial firm to perform annual valuations on the Pension Trust. Additionally, actuarial experience studies are conducted biennially. The economic and demographic assumptions that are used in each annual actuarial valuation are approved by the Board with the advice of the actuary and are typically based on the results of each biennial actuarial experience study and input from the Pension Trust's consultants and staff.

The most recent annual actuarial valuation available for financial reporting in this CAFR is the January 1, 2014 valuation. It is based on member data and financial results through December 31, 2013. The Pension Trust's actuary, Gabriel Roeder Smith, completed this annual valuation during 2014. The most recent Biennial Actuarial Experience Study was completed by Gabriel Roeder Smith as of January 1, 2014. Results of this Biennial Actuarial Experience Study were used in developing the assumptions used in the January 1, 2014 Annual Actuarial Valuation.

The Annual Actuarial Valuation as of January 1, 2014 including actuarial assumptions was approved by the Board of Trustees on July 28, 2014.

The Annual Actuarial Valuation as of January 1, 2015 based on data through December 31, 2014 is in the process of being developed at the time of the publication of this CAFR.

June 16, 2015

San Luis Obispo County Pension Trust
1000 Mill Street
San Luis Obispo, CA 93408

Members of the Board:

Submitted in this report are the results of the regular Actuarial Valuation as of January 1, 2014 of the San Luis Obispo County Pension Trust (SLOCPT). The valuation is performed annually and is intended to provide a measure of the funding status of the pension trust. This valuation provides information relative to the employer appropriation rates for the County's fiscal year beginning July 1, 2014.

This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, the combined operation of the assumptions and the methods applied in this valuation fairly represent past and anticipated future experience of the SLOCPT and meet the parameters required by GASB Statement No. 25. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. The senior consultant is a member of the American Academy of Actuaries and meets the qualification requirements to render the actuarial opinion contained herein.

Financial Objectives and Funding Policy

In the January 1, 2014 valuation, the Trust's funded status increased from 76.4% to 77.9%. The total annual required contribution is 34.23% as of January 1, 2014, compared to total charged rates of 33.61%. Effective January 1, 2014, there was a 1.0% rate increase bringing the charged rate to 34.61%. Therefore, due to the positive difference between the charged rate and the Annual Required Contribution, no increase is recommended in the charged rates at this time.

It is the policy of the Board to make recommendations regarding rate changes based on the actuarially determined rate of the Trust. This rate is based on the valuation results as of each annual actuarial valuation, with any required rate change effective in the future, and with the rate change adjusted for any delay past the valuation date. The actuarially determined contribution is based on a normal cost derived from the entry age normal funding method, and a closed amortization period of 30 years. As part of the funding policy, the Board amortized the 2008 asset loss over a 10 year period effective January 1, 2010. The Board also recommended as part of this amortization policy to accelerate the recognition of the asset loss should a contribution margin develop between the actuarially determined rate and the rate actually being charged. The Board is clear in its policy that it does not involve itself in recommending who should bear the rate increase.

Demographic Data and Asset Information

The member statistical data on which the valuation was based was furnished by the staff of the SLOCPT, together with pertinent data on financial operations. Data was reviewed for reasonableness and year-to-year consistency of certain key data elements, but was not audited by the actuary.

Assumptions and Methods

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the Plan's actuary. This valuation includes assumption changes adopted by the Board based on the Experience Study performed for the five-year period December 31, 2013. These changes include changing the retirement rates for Tier 2 members to match the Tier 3 rates and a change to the DROP methodology to more closely reflect actual experience.

The valuation results are developed using the Entry Age Cost Method. Under this method, normal cost is calculated as a constant percentage of the member's year-by-year projected, covered pay. The amortization of the unfunded actuarial accrued liabilities is done as a level percent of payroll over 26 years (30 year closed amortization period beginning with the January 1, 2010 valuation) for funding computations. In addition, the 2008 asset losses are recognized over 10 years, with recognition accelerated if a positive contribution margin develops. As of the January 1, 2014 valuation, the Board approved an acceleration in the recognition of the 2008 asset loss of \$10 million.

The enclosed exhibits provide further related information necessary to complete your filing. All other necessary information is available in the January 1, 2014 actuarial valuation report. The enclosed exhibits include:

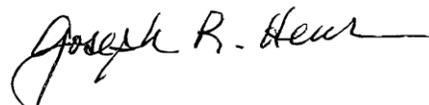
- Summary of Assumptions and Funding Methods
- Schedule of Active Members
- Schedule of Retirees and Beneficiaries
- Solvency Test
- Schedule of Funding Progress
- Schedule of Employer Contributions
- Development of Actuarial Value of Assets
- Analysis of Financial Experience
- Summary of Plan Provisions

We prepared the above tables but the SLOCPT prepared the other supporting schedules and the trend tables in the financial section based on information supplied in our report.

Respectfully submitted,
Gabriel, Roeder, Smith & Company



Leslie L. Thompson, FSA, FCA, EA, MAAA
Senior Consultant



Joseph R. Herm
Senior Analyst

ACTUARIAL METHODS AND ASSUMPTIONS USED FOR THE JANUARY 1, 2014 VALUATION

I. Valuation Date

The valuation date is December 31st of each plan year. This is the date as of which the actuarial present value of future benefits and the actuarial value of assets are determined. Valuations are performed annually.

II. Actuarial Cost Method

Normal cost and the allocation of benefit values between service rendered before and after the valuation date were determined using an individual entry age actuarial cost method having the following characteristics:

- (i) the annual normal costs for each active member, payable from the date of entry into the system to the date of retirement, are sufficient to accumulate the value of the member's benefit at the time of retirement;
- (ii) each annual normal cost is a constant percentage of the member's year-by-year projected covered pay;
- (iii) actuarial gains and losses are spread over the expected future working lifetimes of the remaining members.

Deferred and Reciprocal Member Actuarial Accrued Liability. Data provided includes date of birth, service credit, reciprocal status, and hourly pay rates at termination. The estimated benefit was used to compute the liabilities for reserve members. For reciprocal members, the estimated benefits were projected with 3.25% inflation from their date of termination to their assumed retirement date to compute those liabilities.

Amortization of Unfunded Actuarial Accrued Liabilities is done as a level percent of payroll over a closed 30 year period (26 years as of January 1, 2014) for funding computations.

III. Actuarial Value of Assets

The funding value of assets is based on the market value of assets with a five-year phase-in of actual investment return in excess of (less than) expected investment income. The asset losses that occurred in 2008 are smoothed over a ten year period with recognition accelerated if a contribution margin develops. Expected investment income is determined using the assumed investment return rate and the actuarial value of assets (adjusted for receipts and disbursements during the year). Returns are measured net of all administrative expenses.

IV. Actuarial Assumptions

A. Economic Assumptions

1. Investment return: 7.25%, compounded annually, net of administrative expenses. This is made up of a 2.75% inflation rate and a 4.50% real rate of return.
2. Salary increase rate: Inflation rate of 2.75% plus productivity increase rate of 0.5% plus an additional service-related merit component as shown below:

% Merit Increases in Salaries Next Year	
Service Index	Rate
1	5.25%
2	5.00%
3	4.00%
4	3.00%
5	2.00%
6	1.00%
7	0.50%
8 +	0.00%

3. Cost-of-living increases:

Assumed to increase the full 2.75% each year (2% for Tier 2 and Tier 3).
4. Payroll growth:

3.75% per year
5. Increase to maximum earnings limit for Tier 3 members:

2.75% per year
6. Contribution accumulation: Member contribution rates are recalculated on an actuarial basis at each actuarial study. Contributions are credited with 6.75% interest, compounded biweekly.

B. Demographic Assumptions

1. Mortality after termination or retirement -

- a. Healthy males – RP-2000 with generational mortality improvements using scale AA, a 105% multiplier and white collar adjustment
- b. Healthy females - RP-2000 with generational mortality improvements using scale AA, a 105% multiplier and white collar adjustment

See sample rates below:

Ages	% Dying Within Next Year Retirees	
	Men	Women
45	0.12%	0.09%
50	0.17%	0.14%
55	0.28%	0.25%
60	0.48%	0.46%
65	0.98%	0.86%
70	1.69%	1.50%
75	2.98%	2.45%
80	5.53%	4.16%
85	10.10%	7.25%

2. Mortality rates of active members – RP-2000 Employee Mortality Tables, projected to 2020 using scale AA, setback one year with a 90% multiplier for males, and setback three years with a 50% multiplier for females, as shown below for selected ages:

Ages	% of Active Members Dying Within Next Year	
	Men	Women
30	0.03%	0.01%
35	0.06%	0.01%
40	0.08%	0.02%
45	0.10%	0.03%
50	0.13%	0.05%
55	0.17%	0.07%
60	0.29%	0.14%
65	0.48%	0.21%
70	0.65%	0.30%

3. Disability mortality after termination or retirement- RP-2000 Disabled Mortality Tables, projected to 2020 using scale AA, with no setback and an 80% multiplier for males, and setback one year with a 50% multiplier for females, as shown below for selected ages:

Ages	% of Disabled Members Dying Within Next Year	
	Men	Women
30	1.63%	0.29%
35	1.63%	0.30%
40	1.54%	0.28%
45	1.39%	0.28%
50	1.61%	0.37%
55	1.93%	0.63%
60	2.44%	0.94%
65	3.03%	1.20%
70	3.70%	1.60%

4. Retirement –

- a. As shown below for Tier 1 members for selected ages (rates are only applied to members eligible for retirement):

Age	Percent of Eligible Active Members Retiring Within Next Year		
	Miscellaneous	Probation	Safety
50	4.0%	7.5%	12.0%
51	3.0%	7.5%	14.0%
52	3.0%	7.5%	10.0%
53	3.0%	7.5%	10.0%
54	4.0%	7.5%	12.0%
55	6.0%	10.0%	15.0%
56	6.0%	12.0%	12.0%
57	8.0%	12.0%	12.0%
58	8.0%	12.0%	12.0%
59	8.0%	12.0%	18.0%
60	10.0%	15.0%	25.0%
61	10.0%	15.0%	30.0%
62	20.0%	20.0%	40.0%
63	20.0%	20.0%	50.0%
64	20.0%	20.0%	75.0%
65	40.0%	40.0%	100.0%
66	30.0%	20.0%	
67	25.0%	20.0%	
68	25.0%	40.0%	
69	25.0%	50.0%	
70	100.0%	100.0%	

Current deferred vested members are assumed to retire at the later of age 60 (age 55 for Reserve Members) or attained age.

b. As shown below for Tier 2 and future Tier 3 members for selected ages (rates are only applied to members eligible for retirement):

Age	Percent of Eligible Active Members Retiring Within Next Year		
	Miscellaneous	Probation	Safety
50	3.0%	7.5%	9.0%
51	3.0%	7.5%	9.0%
52	3.0%	7.5%	10.0%
53	3.0%	7.5%	10.0%
54	3.0%	7.5%	10.0%
55	6.0%	7.5%	10.0%
56	6.0%	7.5%	10.0%
57	6.0%	7.5%	10.0%
58	6.0%	9.0%	11.0%
59	6.0%	9.0%	15.0%
60	8.0%	10.0%	20.0%
61	8.0%	10.0%	25.0%
62	20.0%	20.0%	30.0%
63	20.0%	20.0%	40.0%
64	20.0%	20.0%	60.0%
65	40.0%	40.0%	100.0%
66	30.0%	20.0%	
67	25.0%	20.0%	
68	25.0%	40.0%	
69	25.0%	50.0%	
70	100.0%	100.0%	

5. Rates of separation from active membership (for causes other than death or retirement) - As shown below for selected ages:

Sample Ages	% of Active Members Separating Within Next Year			
	Miscellaneous and Probation Members			
	Disability	Withdrawal < 5 years	Withdrawal ≥ 5 years	Vested Termination
20	0.00%	12.50%	8.50%	0.00%
25	0.00%	11.00%	7.75%	3.50%
30	0.01%	9.50%	3.75%	4.00%
35	0.04%	8.00%	2.00%	3.50%
40	0.06%	7.00%	1.25%	3.00%
45	0.09%	6.00%	0.50%	3.00%
50	0.11%	6.00%	0.00%	2.50%
55	0.14%	6.00%	0.00%	2.00%
60	0.16%	6.00%	0.00%	0.00%
64	0.18%	6.00%	0.00%	0.00%
GRS Table No.	762			1188

Sample Ages	% of Active Members Separating Within Next Year			
	Safety Members			
	Disability	Withdrawal < 5 years	Withdrawal ≥ 5 years	Vested Termination
20	0.00%	5.20%	1.50%	3.00%
25	0.03%	5.00%	1.50%	2.00%
30	0.13%	4.70%	1.00%	1.50%
35	0.23%	4.00%	0.50%	1.50%
40	0.33%	3.50%	0.50%	1.50%
45	0.43%	2.50%	0.00%	1.50%
50	0.53%	1.50%	0.00%	1.50%
55	0.63%	0.00%	0.00%	0.00%
60	0.73%	0.00%	0.00%	0.00%
64	0.81%	0.00%	0.00%	0.00%
GRS Table No.	761			1189

Vested termination rates and disability rates are applied after the member is eligible for reduced or unreduced retirement benefits. 100% of the Safety disabilities and 0% of the Miscellaneous and Probation disabilities are duty-related.

40% of Vested Terminations are assumed to be Reciprocal.

Based on Member Contribution Totals provided by Pension Trust, we are assuming that 10% of members' contribution account balances are for supplemental/additional benefits.

C. Other Assumptions

Member Refunds. All or part of the employee contribution rate is subject to potential "Pick Up" by the employer. Our understanding is that "Pick Ups", and related interest, are subject to refund.

Deferral Age. The assumed retirement age for future Reserve and Reciprocal members is age 57.

Active Death. 100% of active deaths are assumed to be duty related.

Survivor Benefits. Marital status and spouses' census data were imputed with respect to active and deferred members.

Marital Status - 70% of men and 50% of women were assumed married at retirement.

Spouse Census - Women were assumed to be 3 years younger than men for active employees.

Disability Benefits. Benefits are not assumed to be offset by Social Security benefits.

Line-of-Duty Death. Social Security offset equal to 27.5% of Final Compensation.

IRC Section 415 Limits. We are assuming that IRC Section 415 limits, although applicable to this plan, will not impact any individual.

D. Experience Analysis

An experience study was conducted covering the five year period ending December 31, 2013. That study provided a detailed analysis concerned the development of the long-term inflation rate, real rate of return and discount rate. The study also analyzed each major actuarial assumption (e.g. mortality, salary increases, retirement, termination and disability) and proposed assumptions consistent with the findings. The recommend changes were reviewed and approved by the Board and implemented effective with the January 1, 2014 actuarial valuation. For further information on the experience study and related assumption recommendation, the reader is requested to review the December 31, 2013 Actuarial Experience Study.

Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll	Average Annual Earnings	Percent Increase/(Decrease) In Average Earnings
1/01/2005	2,604	\$135,188,599	\$51,916	4.2
1/01/2006	2,582	143,902,100	55,733	7.4
1/01/2007	2,620	152,116,782	58,060	4.2
1/01/2008	2,662	162,435,795	61,020	5.1
1/01/2009	2,657	168,677,088	63,484	4.0
1/01/2010	2,506	160,443,939	64,024	0.9
1/01/2011	2,479	161,783,273	65,262	1.9
1/01/2012	2,446	161,054,639	65,844	0.9
1/01/2013	2,495	164,299,413	65,851	0.0
1/01/2014	2,521	164,704,467	65,333	-0.8

Schedule of Retirees and Beneficiaries Added to and Removed from Retiree Payroll*

Valuation Date	Number Added Since Last Valuation Date	Allowances for Additional Retirees and Beneficiaries	Number Removed Since Last Valuation Date	Allowances for Retirees and Beneficiaries Removed	Number	Pension Benefit Amount	Average Annual Benefit	Percent Increase in Average Benefit
1/01/2005					1,316	\$20,737,523	\$15,758	24.7%
1/01/2006					1,430	24,971,809	17,463	10.8%
1/01/2007					1,543	28,922,336	18,744	7.3%
1/01/2008					1,659	34,884,890	21,028	12.2%
1/01/2009	108	\$3,340,063	26	\$277,689	1,741	38,693,412	22,225	5.7%
1/01/2010	205	6,258,612	56	732,196	1,890	44,940,354	23,778	7.0%
1/01/2011	113	3,290,962	57	530,316	1,946	48,431,618	24,888	4.7%
1/01/2012	134	4,109,419	40	568,150	2,040	51,967,375	25,474	2.4%
1/01/2013	150	5,235,834	43	813,919	2,147	57,242,887	26,662	4.7%
1/01/2014	152	4,469,386	49	890,436	2,250	62,026,694	27,567	3.4%

* These values were not separately tracked until plan year commencing January 1, 2009.

Solvency Test

Valuation Date	Actuarial Accrued Liabilities			Valuation Assets	Portion of Accrued Liabilities Covered by Valuation Assets		
	(1) Retirees and Beneficiaries	(2) Terminated Vested Members	(3) Active Members		(1)	(2)	(3)
1/01/2005	\$255,032,103	\$38,348,714	\$421,704,126	\$651,750,502	100%	100%	85%
1/01/2006	311,440,547	46,939,449	472,909,687	700,059,687	100%	100%	72%
1/01/2007	373,943,523	53,191,715	567,725,915	759,758,136	100%	100%	59%
1/01/2008	453,878,074	45,733,758	557,512,516	829,763,572	100%	100%	59%
1/01/2009	507,043,008	52,398,299	590,772,838	875,602,263	100%	100%	54%
1/01/2010	582,967,652	51,802,198	581,383,207	937,278,758	100%	100%	52%
1/01/2011	620,202,009	55,563,786	606,292,540	1,000,168,850	100%	100%	54%
1/01/2012	701,729,018	58,707,055	618,113,241	1,057,921,875	100%	100%	48%
1/01/2013	788,045,517	56,293,118	623,662,043	1,122,150,539	100%	100%	45%
1/01/2014	847,672,409	58,811,804	612,266,814	1,182,923,978	100%	100%	45%

Schedule of Funding Progress

(\$ in Thousands)

Valuation Date	Valuation Assets ¹	Actuarial Liability ¹	Funded Ratio	Unfunded Actuarial Liability	Member Payroll	Ratio to Payroll
12/31/2004 ²	\$651,751	\$713,683	91.3%	\$61,932	\$135,189	45.8%
12/31/2004 ³	651,751	715,085	91.1%	63,334	135,189	46.8%
12/31/2005	700,060	803,124	87.2%	103,064	143,902	71.6%
12/31/2005 ⁴	700,060	818,864	85.5%	118,804	143,902	82.6%
12/31/2005 ^{2,4}	700,060	831,290	84.2%	131,230	143,902	91.2%
12/31/2006	759,758	912,458	83.3%	152,700	152,117	100.4%
12/31/2006 ²	759,758	920,285	82.6%	160,527	152,117	105.5%
12/31/2006 ^{2,5}	759,758	994,861	76.4%	235,103	152,117	154.6%
12/31/2006 ⁶	759,758	962,828	78.9%	345,850	152,117	227.4%
12/31/2007	829,764	1,055,868	78.6%	226,104	162,436	139.2%
12/31/2007 ⁷	829,764	1,057,124	78.5%	227,360	162,436	140.0%
12/31/2008	875,602	1,150,214	76.1%	274,612	168,677	162.8%
12/31/2009	937,279	1,216,153	77.1%	278,874	160,444	173.8%
12/31/2010	1,000,169	1,282,058	78.0%	281,889	161,783	174.2%
12/31/2011	1,057,922	1,334,545	79.3%	276,623	161,055	171.8%
12/31/2011 ^{2,8}	1,057,922	1,378,549	76.7%	320,627	161,055	199.1%
12/31/2012 ⁸	1,122,151	1,468,001	76.4%	345,850	164,299	210.5%
12/31/2013 ⁹	1,182,924	1,518,751	77.9%	335,827	164,704	203.9%

¹ Assets and liabilities do not include Employee Additional Reserve amounts (in \$) of:

12/31/2013	\$5,942,492	12/31/2008	\$10,397,974
12/31/2012	6,606,149	12/31/2007	11,507,242
12/31/2011	7,462,567	12/31/2006	12,181,467
12/31/2010	8,558,571	12/31/2005	12,773,875
12/31/2009	9,341,043	12/31/2004	13,601,745

² Reflects assumption changes.

³ Reflects benefit increases for Safety management and Court employees in BU #19 and BU #24-#27.

⁴ Reflects benefit increases for Safety non-management, Miscellaneous "Other" and SLOCEA Non-Court.

⁵ Reflects benefit increases for Probation and Safety members.

⁶ Reflects assumption change to 7.75%.

⁷ Reflects benefit increases for Miscellaneous Court employees in BU #18 and BU #20.

⁸ Reflects benefit provisions under Tier 2 for certain new members.

⁹ Reflects benefit provisions under Tier 3 for new members and assumption changes.

Schedule of Employer Contributions

Pension Benefits

Year Ended 31-Dec	Total Annual Required Contribution	Actual Employee Contribution	Actuarially Required Contributions (ARC) ³	Employer Contributions Made	Percent Contributed	Investment Return ¹	Net Pension Obligation Balance/(Asset)
2004	\$4,227,686	\$12,663,198	\$16,890,884	\$16,520,585	98%	6.5%	(\$129,305,544)
2005	5,874,058	14,133,919	20,007,977	18,209,481	91%	6.4%	(131,184,818)
2006	6,520,975	15,496,805	22,017,780	19,177,491	87%	7.8%	(132,036,486)
2007	16,434,264	17,406,316	33,840,580 ²	24,014,202	71%	8.4%	(124,651,921)
2008	12,093,156	22,840,488	34,933,644	30,860,282	88%	0.3%	(122,266,199)
2009	55,127,772	24,170,461	30,957,311 ⁴	31,427,297	102%	5.7%	(125,154,822)
2010	54,826,804	24,548,625	30,278,179 ⁴	32,148,424	106%	6.0%	(129,971,714)
2011	55,314,049	25,262,362	30,051,687 ⁴	30,435,940	101%	5.5%	(133,213,404)
2012	56,329,706	25,207,165	31,122,541 ⁴	30,942,038	99%	6.2%	(135,119,408)
2013	57,876,463	24,459,738	33,416,725 ⁴	30,795,872	92%	6.2%	(134,355,317)

¹ Based on actuarial value of assets.

² The figures represent the valuation year commencing January 1, 2007.

³ Effective July 1, 2008, the three part funding rate increase has been completed.

⁴ The ARC shown is the difference between the total annual required contribution and the actual employee contributions made. 2009 is the first year the disclosure has been shown to reflect the funding policy of the trust to fund the total annual required contribution through a combination of employer and employee contributions.

Development of Actuarial Value of Assets

San Luis Obispo County Pension Trust Development of Funding Value of Assets - January 1, 2014

	Plan Year Ended <u>December 31, 2008</u>	Plan Year Ended <u>December 31, 2009</u>	Plan Year Ended <u>December 31, 2010</u>	Plan Year Ended <u>December 31, 2011</u>	Plan Year Ended <u>December 31, 2012</u>	Plan Year Ended <u>December 31, 2013</u>
A. Funding Value Beginning of Year	\$829,763,572	\$875,602,263	\$937,278,758	\$1,000,168,850	\$1,057,921,875	\$1,122,150,539
B. Gross Market Value End of Year	610,286,800	764,988,635	880,953,414	906,350,380	1,013,436,059	1,135,718,617
C. Gross Market Value Beginning of Year	832,236,083	610,286,800	764,988,635	880,953,414	906,350,380	1,013,436,059
D. Non-Investment Cash Flow	12,619,013	10,219,995	5,910,357	1,284,151	(1,761,812)	(9,565,801)
E. Investment Income						
E1. Market Total =B-C-D	(234,568,296)	144,481,840	110,054,422	24,112,815	108,847,491	131,848,359
E2. Immediate Recognition	64,795,664	68,255,200	72,868,130	77,562,847	76,635,470	81,009,154
E3. Phased-in Recognition	(299,363,960)	76,226,640	37,186,292	(53,450,032)	32,212,021	50,839,205
F. Phased-in Recognition						
F1. Current Year=E3x20% *	(29,936,396) *	15,245,328	7,437,258	(10,690,006)	6,442,404	10,167,841
F2. First Prior Year	(4,246,161)	(29,936,396)	15,245,328	7,437,258	(10,690,006)	6,442,404
F3. Second Prior Year	4,829,104	(4,246,161)	(29,936,396)	15,245,328	7,437,258	(10,690,006)
F4. Third Prior Year	(3,747,506)	4,829,104	(4,246,161)	(29,936,396)	15,245,328	7,437,258
F5. Fourth Prior Year	415,705	(3,747,506)	4,829,104	(4,246,161)	(29,936,396)	15,245,328
F6. Continued Recognition of 2008 Asset Loss	0	0	0	0	0	(29,936,396)
F7. Additional Recognition of 2008 Asset Loss	0	0	(10,000,000) *	0	0	(10,000,000) *
F8. Total Recognized Cxm/(Loss)	(32,685,254)	(17,855,631)	(16,670,867)	(22,189,977)	(11,501,412)	(11,333,571)
G. Preliminary Funding Value						
=A+D+E2+F8	874,492,995	936,221,827	999,386,378	1,056,825,871	1,121,294,121	1,182,260,321
H. Excludable Assets						
H1. End of Year	10,397,974	9,341,043	8,558,571	7,462,567	6,606,149	5,942,492
H2. Beginning of Year	11,507,242	10,397,974	9,341,043	8,558,571	7,462,567	6,606,149
H3. Change=H1-H2	(1,109,268)	(1,056,931)	(782,472)	(1,096,004)	(856,418)	(663,657)
I. Final Funding Value=G-H3	\$875,602,263	\$937,278,758	\$1,000,168,850	\$1,057,921,875	\$1,122,150,539	\$1,182,923,978
J. Investment Return=(E2+F8)/(A+D/2)	3.84%	5.72%	5.98%	5.53%	6.16%	6.24%

*The Board originally decided to recognize the 2008 asset loss over 10 years with acceleration of the recognition in future years when the funding margin allowed it. The Board elected to accelerate recognition of \$10 million of the 2008 loss base for the year ending December 31, 2010 and an additional \$10 million for the year ending December 31, 2013.

Actuarial Analysis of Financial Experience
 Composite Gain (Loss) for January 1, 2005 through 2014

Valuation Date	Actuarial Gain (Loss)	Beginning of Year Accrued Liabilities	Gain (Loss) Percentage Attributable to Investments	Gain (Loss) Percentage Not Attributable to Investments	Total Gain (Loss) Percentage
1/1/2005	(\$10,820,472)	\$642,734,312	(1.15)%	(0.53)%	(1.68)%
1/1/2006	(36,097,371)	715,084,943	(1.34)%	(3.71)%	(5.05)%
1/1/2007	(12,682,702)	831,289,683	0.01 %	(1.54)%	(1.53)%
1/1/2008	(8,713,157)	962,827,691	0.50 %	(1.40)%	(0.90)%
1/1/2009	(39,999,218)	1,057,124,348	(3.09)%	(0.70)%	(3.78)%
1/1/2010	3,281,208	1,150,214,145	(1.55)%	1.84 %	0.29 %
1/1/2011	3,596,270	1,216,153,057	(0.55)%	0.85 %*	0.30 %
1/1/2012	12,704,448	1,282,058,335	(1.73)%	2.72 %	0.99 %
1/1/2013	(18,925,942)	1,378,549,314	(0.83)%	(0.54)%	(1.37)%
1/1/2014	(1,139,190)	1,468,000,678	(0.77)%	0.69 %*	(0.08)%

*The Board elected to accelerate recognition of \$10 million of the 2008 loss for the years ending December 31, 2010 and December 31, 2013.

**BRIEF SUMMARY OF BENEFIT PROVISIONS EVALUATED
EFFECTIVE JANUARY 1, 2014**

1. Membership Requirements – All regular permanent employees of the County or district covered by the County or agencies that have contracted with the County to participate in the Pension Trust.

2. Tiers
Tier 1 generally includes new members hired before January 1, 2011.

Tier 2 generally includes new members hired on or after January 1, 2011 and before January 1, 2013. Tier 2 only applies to members hired after the date each particular bargaining unit adopted Tier 2. Members hired in a bargaining unit that did not adopt Tier 2 are considered Tier 1 members.

Tier 3 includes all new members hired on or after January 1, 2013.

3. Final Compensation – Highest one-year average for employees in Tier 1 and “Pick Up” included as compensation for various management employees. Bargaining Units #4, 7, 8, 9, 10, 11, 12, 17, 24-27

Pick Up Percentage included in final average compensation:

<u>Bargaining Unit</u>	<u>Pick Up</u>
4,7,8,9,11,12	9.29%
10	13.55%
17	13.59%
17C	7.74%
24-27	7.74%

Highest three-year average for employees in Tier 2 and Tier 3

4. Member Contributions
Please refer to Appendix A. Employee contribution rates used in the January 1, 2014 valuation have not increased since the January 1, 2013 valuation.

5. Service Retirement
 - A. Eligibility - Age 50 with 5 years of service (Age 52 with 5 years of service for Miscellaneous members in Tier 3).

 - B. Benefit Formula - Final Compensation multiplied by Years of Credited Service multiplied by Retirement Age Factor.

**BRIEF SUMMARY OF BENEFIT PROVISIONS EVALUATED
EFFECTIVE JANUARY 1, 2014**

C. Retirement Age Factors

Safety					
Age	Tier 1 ¹	Tier 1 ²	Tier 2 ³	Tier 2 ⁴	Tier 3
50	2.30%	3.00%	2.000%	2.300%	2.00%
51	2.440	3.000	2.140	2.440	2.100
52	2.580	3.000	2.280	2.580	2.200
53	2.720	3.000	2.420	2.720	2.300
54	2.860	3.000	2.560	2.860	2.400
55	3.000	3.000	2.700	3.000	2.500
56	3.000	3.000	2.700	3.000	2.600
57+	3.000	3.000	2.700	3.000	2.700

Probation		
Age	Tier 1	Tier 3
50	2.30%	2.00%
51	2.440	2.100
52	2.580	2.200
53	2.720	2.300
54	2.860	2.400
55	3.000	2.500
56	3.000	2.600
57+	3.000	2.700

1 Safety Bargaining Units 6 & 7 and Non-Sworn Bargaining Units 3, 14, 15

2 Safety Bargaining Units 10 & 16 and Sworn Bargaining Units 15, 27, 28

3 Non-Sworn Safety members

4 Sworn Safety members

Miscellaneous			
Age	Tier 1	Tier 2	Tier 3
50	1.43%	1.092%	-
51	1.541	1.156	-
52	1.656	1.224	1.000%
53	1.770	1.296	1.100
54	1.885	1.376	1.200
55	2.000	1.460	1.300
56	2.117	1.552	1.400
57	2.233	1.650	1.500
58	2.350	1.758	1.600
59	2.466	1.874	1.700
60	2.583	2.000	1.800
61	2.699	2.134	1.900
62	2.816	2.272	2.000
63	2.932	2.418	2.100
64	3.049	2.458	2.200
65	3.165	2.500	2.300
66	3.165	2.500	2.400
67+	3.165	2.500	2.500

**BRIEF SUMMARY OF BENEFIT PROVISIONS EVALUATED
EFFECTIVE JANUARY 1, 2014**

- D. Maximum Benefit
 - a. Tier 1
 - 80% of Final Compensation for SLOCEA and Misc. Other.
 - 90% of Final Compensation for Safety and Probation.
 - 100% of Final Compensation for Miscellaneous Management.
 - b. Tier 2
 - 90% of Final Compensation for all of Tier 2
 - c. Tier 3
 - No maximum benefit applies but pensionable compensation is limited to the Social Security Taxable Wage Base

- 6. Ordinary Disability
 - A. Eligibility - Five years of service and less than 65 years old.
 - B. Benefit Formula - Greater of (1) 1.5% of Final Compensation times Credited Service, (2) 1/3 of Final Compensation if Credited Service is between 10 and 22.222 years, or (3) the earned Service Retirement Allowance (if eligible).

- 7. Line-of-Duty Disability
 - A. Eligibility - No age or service requirement for Safety members.
 - B. Benefit Formula - Greater of (1) 50% of Final Compensation, or (2) Service Retirement Allowance (if eligible).

- 8. Ordinary Death Before Eligible for Retirement (Basic Death Benefit)

Refund of employee contributions with interest plus lump sum of one and one-half month's compensation for each year of service to a maximum of eighteen months' Compensation.

- 9. Ordinary Death After Eligible for Retirement

50% of earned benefit payable to surviving eligible spouse or children until age 18, or benefit in (6) above if greater. Spouse can elect an actuarially-reduced 100% Joint and Survivor benefit.

- 10. Line-of-Duty Death (Safety only)

50% of Final Compensation. Benefit increased to 62.5%, 70% or 75%, respectively, if violent death and 1, 2, or 3 children.

- 11. Death After Retirement

50% of member's unmodified allowance continued to eligible spouse.
\$1,000 payable in lump sum to the beneficiary or the estate of the retiree.

**BRIEF SUMMARY OF BENEFIT PROVISIONS EVALUATED
EFFECTIVE JANUARY 1, 2014**

12. Withdrawal Benefits

A. Less than Five Years of Service

Refund of accumulated employee contributions with interest.

B. Five or More Years of Service

If contributions left on deposit, entitled to earned benefits commencing at any time after eligible to retire.

13. Post-Retirement Cost-of-Living Benefits

Based on changes in Consumer Price Index to a maximum of 3% per year (maximum of 2% per year for Tier 2 and Tier 3).

14. Deferred Retirement Option Program (DROP): A member may elect to participate in the Pension Trust's DROP. A member age 50 or more with 5 or more years of service may participate. An amount equal to the amount that would have been paid had the member retired, is deposited into a DROP account. The annual addition to the DROP account is increased each year by the Cost-of-Living Adjustment approved by the Board of Trustees not to exceed 3% per year. Deposits into the DROP account and participation in DROP cease at the earlier of 5 years of DROP participation or separation from service. Upon actual retirement the member may receive the DROP account balance in the form of a lump sum or as an annuity payment.

NOTE: The summary of major plan provisions is designed to outline principal plan benefits. If the County should find the plan summary not in accordance with the actual provisions, the County should alert the actuary **IMMEDIATELY** so proper provisions are valued.

Statistical Section



Statistical Section Overview

The Statistical Section of the CAFR provides additional detailed information to promote a more comprehensive understanding of this year's financial statements, note disclosures and supplemental information. In addition, this section provides multi-year trends for the financial and operational information important to an understanding of how the Pension Trust's financial position has changed over time.

The Pension Trust and the benefit provisions of the Retirement Plan account for active and retired members in three broad classes –

- Miscellaneous – members not included in the categories of Probation or Safety
- Probation – members employed as correctional officers and similar positions
- Safety - members employed as sworn public safety officers (e.g., Deputy Sheriffs)

The different classes generally have different retirement benefit levels, different employer appropriation rates and different employee contribution rates. Members may have blended service between the three membership classes. For example, a member may work a portion of their career as a Miscellaneous member and then change jobs to become a member of the Safety class. In such a case, their retirement would be a blend of the different retirement benefits under which they accrued benefits during the different portions of their career. Within each membership class there are also numerous bargaining units and unrepresented labor groups that may have differing retirement benefit provisions. Employer appropriation rates and employee contribution rates may also differ between the various bargaining units as determined by the employer, typically as part of a collective bargaining process.

Beginning at the end of 2010 and throughout 2011, a “Tier 2” level of retirement benefits was adopted by the Plan Sponsor for Miscellaneous and Safety membership classes. Tier 2 retirement benefits provide a lower level of retirement benefits for new-hire employees. The pension benefit in place for existing employees was not modified. The Tier 2 benefits put in place through year-end 2012 apply to new hires through December 31, 2012 in the majority of the County's Miscellaneous and Safety member workforce. Tier 2 benefits also apply to new hires with the Air Pollution Control District and the Pension Trust staff. The San Luis Obispo County Superior Court did not implement its participation in Tier 2 benefits.

Beginning on January 1, 2013 a new “Tier 3” level of benefits was added to the Retirement Plan in compliance with the California Public Employees Pension Reform Act put into law in 2012. This new Tier affects all new employees hired after January 1, 2013 and provides a lower level of benefits.

The actuarial data presented in this Statistical Section is based on the January 1, 2014 Annual Actuarial Valuation which reflects data as of year-end 2013.

San Luis Obispo County Pension Trust

Changes in Fiduciary Net Position

Last 10 fiscal years (Dollars in Thousands)

	2014	2013	2012	2011	2010
Additions					
Employer Appropriations	\$ 32,047	\$ 30,796	\$ 30,942	\$ 30,436	\$ 32,148
Member Contributions	24,415	24,460	25,207	25,262	24,549
Net Investment Income	51,667	131,842	108,818	24,113	110,054
Total Additions	\$ 108,129	\$ 187,098	\$ 164,967	\$ 79,811	\$ 166,751
Deductions					
Service Retirement Benefits	\$ 56,186	\$ 50,919	\$ 46,535	\$ 42,739	\$ 39,807
Disability Retirement Benefits	2,972	2,879	2,746	2,692	2,662
Beneficiary Retirement Benefits	3,541	3,352	2,905	2,769	2,486
DROP	3,464	3,087	2,362	2,215	1,846
Total Retirement Benefits	\$ 66,163	\$ 60,237	\$ 54,548	\$ 50,415	\$ 46,801
Refunds	1,629	2,374	1,138	1,659	1,642
Death Benefit	303	150	125	430	362
Administrative Expense	2,085	2,054	2,070	1,910	1,981
Discount Amortization	332	-	-	-	-
Total Deductions	\$ 70,512	\$ 64,815	\$ 57,881	\$ 54,414	\$ 50,786
Change in Fiduciary Net Position	\$ 37,617	\$ 122,283	\$ 107,086	\$ 25,397	\$ 115,965
	2009	2008	2007	2006	2005
Additions					
Employer Appropriations	\$ 31,427	\$ 30,860	\$ 24,014	\$ 19,177	\$ 18,209
Member Contributions	24,171	22,841	17,406	15,497	14,134
Net Investment Income	144,482	(234,539)	37,640	78,578	32,017
Total Additions	\$ 200,080	\$ (180,838)	\$ 79,060	\$ 113,252	\$ 64,360
Deductions					
Service Retirement Benefits	\$ 35,688	\$ 31,907	\$ 26,977	(a)	(a)
Disability Retirement Benefits	2,555	2,335	2,209	(a)	(a)
Beneficiary Retirement Benefits	2,131	1,788	1,498	(a)	(a)
DROP	1,654	1,068	1,416	(a)	(a)
Total Retirement Benefits	\$ 42,028	\$ 37,098	\$ 32,100	\$ 27,037	\$ 22,608
Refunds	1,575	2,016	1,588	1,459	1,858
Death Benefit	45	197	504	64	92
Administrative Expense	1,730	1,771	1,629	1,533	1,504
Total Deductions	\$ 45,378	\$ 41,082	\$ 35,821	\$ 30,093	\$ 26,062
Change in Fiduciary Net Position	\$ 154,702	\$ (221,920)	\$ 43,239	\$ 83,159	\$ 38,298

(a) To provide enhanced detail a breakdown of retirement benefits by type has been added to this schedule; however, disaggregated data was not available for years prior to 2007 when a recordkeeping system conversion took place.

Source: SLOCPT audited financial statements and detailed retiree payroll journals

San Luis Obispo County Pension Trust

Benefits by Class and Type

Last 10 fiscal years (Dollars in Thousands)

As of Dec. 31st each year		Service Retirement	Disability Retirement	Beneficiary Retirement	DROP Retirement	Termination Refunds	Death Benefit	TOTAL
2014	Miscellaneous	\$ 46,500	\$ 1,353	\$ 2,760	\$ 1,332	\$ 1,311	\$ 300	\$ 53,556
	Probation	1,923	146	99	-	60	1	2,229
	Safety	7,763	1,473	682	2,132	258	2	12,310
	TOTAL	56,186	2,972	3,541	3,464	1,629	303	68,095
2013	Miscellaneous	42,243	1,315	2,629	1,333	1,798	146	49,464
	Probation	1,727	143	94	-	263	-	2,227
	Safety	6,949	1,421	629	1,754	313	4	11,070
	TOTAL	50,919	2,879	3,352	3,087	2,374	150	62,761
2012	Miscellaneous	38,206	1,242	2,379	1,216	1,125	121	44,289
	Probation	1,642	129	91	-	-	-	1,862
	Safety	6,687	1,375	435	1,146	13	4	9,660
	TOTAL	46,535	2,746	2,905	2,362	1,138	125	55,811
2011	Miscellaneous	35,289	1,221	2,317	1,006	1,238	427	41,498
	Probation	1,445	105	90	-	85	-	1,725
	Safety	6,005	1,366	362	1,209	336	3	9,281
	TOTAL	42,739	2,692	2,769	2,215	1,659	430	52,504
2010	Miscellaneous	32,957	1,208	2,111	756	1,358	190	38,580
	Probation	1,341	88	70	-	161	171	1,831
	Safety	5,509	1,366	305	1,090	123	1	8,394
	TOTAL	39,807	2,662	2,486	1,846	1,642	362	48,805
2009	Miscellaneous	29,503	1,176	1,812	650	1,377	40	34,558
	Probation	1,153	76	49	-	79	1	1,358
	Safety	5,032	1,303	270	1,004	119	4	7,732
	TOTAL	35,688	2,555	2,131	1,654	1,575	45	43,648
2008	Miscellaneous	26,219	1,075	1,519	411	1,445	197	30,866
	Probation	960	66	35	-	207	-	1,268
	Safety	4,728	1,194	234	657	364	-	7,177
	TOTAL	31,907	2,335	1,788	1,068	2,016	197	39,311
2007	Miscellaneous	22,211	1,035	1,246	703	1,109	502	26,806
	Probation	704	43	35	-	25	-	807
	Safety	4,062	1,131	217	713	454	2	6,579
	TOTAL	26,977	2,209	1,498	1,416	1,588	504	34,192
2006	Miscellaneous (a)							23,188
	Probation							641
	Safety							4,730
	TOTAL							28,559
2005	Miscellaneous							20,014
	Probation							537
	Safety							4,006
	TOTAL							24,557

(a) To provide enhanced detail a breakdown of benefits by type has been added to this schedule; however, disaggregated data was not available for years prior to 2007 when a recordkeeping system conversion took place.

Source: SLOCPT detailed retiree payroll journals 2007-2014 data, SLOCPT Actuarial Valuations 2005-2006

San Luis Obispo County Pension Trust

Retiree Average Age and Average Monthly Benefit by Class

Last 10 fiscal years

As of most recent completed actuarial valuation dated January 1, 2014,
based on data as of December 31, 2013.

As of Dec. 31st each year		Avg. Age on Dec. 31st	Avg. Age at retirement ⁽¹⁾	Number of Recipients	Average Monthly Benefit
2013	Miscellaneous	69.0	58.7	1,968	\$ 2,099
	Probation	63.5	56.0	53	3,114
	Safety	64.4	52.7	229	3,809
	TOTAL	68.5	58.0	2,250	\$ 2,297
2012	Miscellaneous	68.9	58.7	1,875	\$ 2,026
	Probation	62.9	56.0	50	3,098
	Safety	64.0	52.5	222	3,677
	TOTAL	68.2	58.0	2,147	\$ 2,222
2011	Miscellaneous	68.7	58.6	1,785	\$ 1,927
	Probation	62.0	55.4	45	3,137
	Safety	63.8	52.3	210	3,567
	TOTAL	68.0	57.9	2,040	\$ 2,123
2010	Miscellaneous	68.4	58.6	1,711	\$ 1,879
	Probation	61.3	55.2	41	3,051
	Safety	63.3	52.0	194	3,585
	TOTAL	67.8	57.9	1,946	\$ 2,074
2009	Miscellaneous	68.1	58.6	1,665	\$ 1,803
	Probation	61.5	55.8	38	3,051
	Safety	63.3	51.8	187	3,355
	TOTAL	67.5	57.9	1,890	\$ 1,982
2008	Miscellaneous	68.3	58.5	1,532	\$ 1,670
	Probation	61.4	56.0	33	2,787
	Safety	63.3	51.8	176	3,260
	TOTAL	67.6	57.8	1,741	\$ 1,852
2007	Miscellaneous	67.9	58.4	1,461	\$ 1,579
	Probation	60.7	55.8	30	2,635
	Safety	62.8	51.8	168	3,106
	TOTAL	67.3	57.7	1,659	\$ 1,752
2006	Miscellaneous	68.2	58.5	1,369	\$ 1,435
	Probation	61.3	55.2	24	2,333
	Safety	63.2	51.5	150	2,602
	TOTAL	67.7	57.8	1,543	\$ 1,562
2005	Miscellaneous	68.7	58.7	1,264	\$ 1,331
	Probation	61.1	54.9	20	2,244
	Safety	62.6	51.5	146	2,423
	TOTAL	68.0	57.9	1,430	\$ 1,455
2004	Miscellaneous	69.1	58.7	1,165	\$ 1,221
	Probation	60.7	54.7	18	2,138
	Safety	62.6	50.6	133	2,012
	TOTAL	68.3	57.8	1,316	\$ 1,313

(1) For Service, DROP, and Disability Retirees, does not include Beneficiaries

Source: SLOCPT annual actuarial valuations - Annualized benefits as of Dec. 31st

San Luis Obispo County Pension Trust
Retired Members by Benefit Type and Amount
as of December 31, 2014

Annual Benefit Range and Class	Service Retirement Recipients	Disability Retirement Recipients	Beneficiary Retirement Recipients	DROP Retirement Recipients	TOTAL	% of Total
\$0-\$9,999						
<i>Miscellaneous</i>	447	29	63	-	539	22.4%
<i>Probation</i>	9	-	-	-	9	0.4%
<i>Safety</i>	13	-	2	-	15	0.6%
subtotal	469	29	65	-	563	23.4%
\$10,000-\$19,999						
<i>Miscellaneous</i>	495	45	49	1	590	24.6%
<i>Probation</i>	9	-	1	-	10	0.4%
<i>Safety</i>	19	2	11	-	32	1.3%
subtotal	523	47	61	1	632	26.3%
\$20,000-\$29,999						
<i>Miscellaneous</i>	315	13	26	4	358	14.9%
<i>Probation</i>	10	2	1	-	13	0.5%
<i>Safety</i>	22	12	5	2	41	1.7%
subtotal	347	27	32	6	412	17.2%
\$30,000-\$39,999						
<i>Miscellaneous</i>	166	4	13	4	187	7.8%
<i>Probation</i>	7	3	1	-	11	0.5%
<i>Safety</i>	20	13	4	1	38	1.6%
subtotal	193	20	18	5	236	9.8%
\$40,000-\$49,999						
<i>Miscellaneous</i>	113	-	5	4	122	5.1%
<i>Probation</i>	7	-	1	-	8	0.3%
<i>Safety</i>	16	13	1	6	36	1.5%
subtotal	136	13	7	10	166	6.9%
\$50,000-\$59,999						
<i>Miscellaneous</i>	91	1	4	6	102	4.2%
<i>Probation</i>	5	-	-	-	5	0.2%
<i>Safety</i>	17	1	-	5	23	1.0%
subtotal	113	2	4	11	130	5.4%

San Luis Obispo County Pension Trust
Retired Members by Benefit Type and Amount (continued)
as of December 31, 2014

Annual Benefit Range and Class	Service Retirement Recipients	Disability Retirement Recipients	Beneficiary Retirement Recipients	DROP Retirement Recipients	TOTAL	% of Total
\$60,000-\$69,999						
<i>Miscellaneous</i>	47	-	-	5	52	2.2%
<i>Probation</i>	2	-	-	-	2	0.1%
<i>Safety</i>	17	-	-	4	21	0.9%
subtotal	66	-	-	9	75	3.1%
\$70,000-\$79,999						
<i>Miscellaneous</i>	33	-	2	-	35	1.5%
<i>Probation</i>	4	-	-	-	4	0.2%
<i>Safety</i>	17	-	-	3	20	0.8%
subtotal	54	-	2	3	59	2.5%
\$80,000-\$89,999						
<i>Miscellaneous</i>	26	-	1	3	30	1.2%
<i>Probation</i>	1	-	-	-	1	0.0%
<i>Safety</i>	10	-	-	2	12	0.5%
subtotal	37	-	1	5	43	1.8%
\$90,000-\$99,999						
<i>Miscellaneous</i>	15	-	-	-	15	0.6%
<i>Probation</i>	1	-	-	-	1	0.0%
<i>Safety</i>	3	-	-	2	5	0.2%
subtotal	19	-	-	2	21	0.9%
\$100,000+						
<i>Miscellaneous</i>	43	-	1	5	49	2.0%
<i>Probation</i>	2	-	-	-	2	0.1%
<i>Safety</i>	11	1	1	-	13	0.5%
subtotal	56	1	2	5	64	2.7%
CUMMULATIVE TOTAL						
<i>Miscellaneous</i>	1,791	92	164	32	2,079	86.6%
<i>Probation</i>	57	5	4	-	66	2.7%
<i>Safety</i>	165	42	24	25	256	10.7%
	2,013	139	192	57	2,401	100.0%

Source: SLOCPT Pension Administration Software (RAD)

San Luis Obispo County Pension Trust

Member Data

Last 10 fiscal years

As of most recent completed actuarial valuation dated January 1, 2014,
based on data as of December 31, 2013.

Active Members (all classes)	Average Age	Average Service	Average Annual Pay
2013	47.1	10.9	\$ 65,333
2012	47.4	10.9	65,851
2011	47.7	11.1	65,844
2010	47.2	10.8	65,262
2009	46.8	10.3	64,024
2008	46.7	10.0	63,484
2007	46.3	9.7	61,020
2006	46.6	10.0	58,060
2005	46.7	10.0	55,733
2004	46.7	10.0	51,916

Number of Members	Active Members	Deferred Vested Members	Retiree and Beneficiary	Disability Recipients	TOTAL
2013	2,521	460	2,117	133	5,231
2012	2,495	445	2,015	132	5,087
2011	2,446	449	1,911	129	4,935
2010	2,479	475	1,817	129	4,900
2009	2,506	476	1,758	132	4,872
2008	2,657	489	1,610	131	4,887
2007	2,662	481	1,532	127	4,802
2006	2,620	504	1,416	127	4,667
2005	2,582	487	1,310	120	4,499
2004	2,604	462	1,196	120	4,382

*Source: SLOCPT annual actuarial valuations
- Data as of Dec. 31st each year*

San Luis Obispo County Pension Trust
Covered Employees by Employer

Last 10 fiscal years

Active Members (all classes)	San Luis Obispo County	Superior Courts of CA	Air Pollution Control District	Local Agency Formation Comm.	Oceano Services District	Pension Trust	TOTAL
2014							
Tier 1	1,712	119	24	3	-	3	1,861
Tier 2	301	-	-	-	-	1	302
Tier 3	380	5	-	-	-	2	387
Total	2,393	124	24	3	-	6	2,550
<i>% of total</i>	93.8%	4.9%	0.9%	0.1%	0.0%	0.2%	
2013 (a)							
Tier 1	1,884	129	24	3	-	5	2,045
Tier 2	281	-	-	-	-	1	282
Tier 3	189	4	-	-	-	1	194
Total	2,354	133	24	3	-	7	2,521
<i>% of total</i>	93.4%	5.3%	1.0%	0.1%	0.0%	0.3%	
2012							
Tier 1	2,054	134	24	3	-	5	2,220
Tier 2	274	-	-	-	-	1	275
Total	2,328	134	24	3	-	6	2,495
<i>% of total</i>	93.3%	5.4%	1.0%	0.1%	0.0%	0.2%	
2011 (b)							
Tier 1	2,184	147	24	3	-	7	2,365
Tier 2	81	-	-	-	-	-	81
Total	2,265	147	24	3	-	7	2,446
<i>% of total</i>	92.6%	6.0%	1.0%	0.1%	0.0%	0.3%	
2010 (c)	2,320	149	-	3	-	7	2,479
<i>% of total</i>	93.6%	6.0%	0.0%	0.1%	0.0%	0.3%	
2009	2,341	154	-	3	1	7	2,506
<i>% of total</i>	93.4%	6.1%	0.0%	0.1%	0.0%	0.3%	
2008	2,491	156	-	3	1	6	2,657
<i>% of total</i>	93.8%	5.9%	0.0%	0.1%	0.0%	0.2%	
2007	2,495	157	-	3	1	6	2,662
<i>% of total</i>	93.7%	5.9%	0.0%	0.1%	0.0%	0.2%	
2006	2,449	163	-	3	1	4	2,620
<i>% of total</i>	93.5%	6.2%	0.0%	0.1%	0.0%	0.2%	
2005	2,424	150	-	3	1	4	2,582
<i>% of total</i>	93.9%	5.8%	0.0%	0.1%	0.0%	0.2%	

(a) Beginning in 2013, all Employers instituted a reduced level of "Tier 3" retirement benefits for new hires.

(b) Beginning in 2011, some Employers instituted a reduced level of "Tier 2" retirement benefits for new hires.

(c) Prior to 2011 the Air Pollution Control District members were employees of San Luis Obispo County.

Source: SLOCPT payroll records - as of December 31st of each year

San Luis Obispo County Pension Trust



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