

The Fiduciary

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Pension Trust Annual Financial Report for Year Ended 2008



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

Special Points of Interest

- Annual Report to the Members:
- Financial Information
- Funding Information
- Investment Policy Changes

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ACTUARIAL UPDATE

The Pension Trust is undergoing its annual Actuarial Valuation. At the time of this writing, the valuation process has not been not completed. The report is expected to be ready for review by the Trustees at their Regular Meeting scheduled for August 24, 2009.

The Pension Trust is an independent retirement trust for the employees of San Luis Obispo County, the Superior Court of California in San Luis Obispo County and LAFCO. The Pension Trust is a defined benefit plan and all benefits payable are determined in accordance with the provisions of the Retirement Plan. Currently there are several Member Classifications under the Plan - Miscellaneous Management and Miscellaneous Represented Members; Safety Management and Safety Represented Members; and Probation Officer Management and Probation Officer Represented Members. Each of these Member Classifications are covered by different benefit formulas. Under all the formulas a Member must have attained age 50 and have accrued 5 years of Pension Trust service credit to qualify for service retirement. Members who are eligible to retire are entitled to annual retirement benefits, which are paid on a monthly basis for life.

The Plan provides death benefits for active and retired employees. The Basic Death Benefit payable for active Members is composed of the Member's Accumulated Contributions plus a benefit equal to 1.5

months of salary for each year of service up to 12 years (under this provision a maximum of 18 months salary could be paid in addition to the return of Accumulated Contributions). The surviving spouse of a Member who is eligible to retire at the time of death can elect a monthly allowance in lieu of the basic death benefit. Death benefits for Retired Participants depend on the option selected at retirement. There is a \$1,000 lump sum death benefit payable for death after retirement.

The Plan also provides for disability retirement if a Member becomes permanently disabled from performing the duties of his or her position. The Plan provides for two types of Disability Retirement, Ordinary Disability Retirement and Industrial Disability Retirement. Ordinary Disability Retirement benefits are available to all Members who are vested in the Plan (that is Members who have earned five years of Service Credit under the Plan). Industrial Disability Retirement benefits are available to Safety Members who become permanently disabled in the course of performing their duties.

In the event of a conflict between this summary and the provisions of the Retirement Plan, the provisions of the Retirement Plan shall take precedence.

FINANCIAL HIGHLIGHTS

As of January 1, 2009 total membership in the Plan had increased 1.8% from 4,802 to 4,887.

	<u>2008</u>	<u>2009</u>	<u>Change</u>
Miscellaneous Members	2,271	2,267	- 0.2%
Safety Members	286	283	- 1.0%
Probation Members	105	107	+1.9%
TOTAL ACTIVE MEMBERS:	2,662	2,657	- 0.2%
Retirees and Beneficiaries	1,659	1,741	+ 4.9%
Reserve Participants	481	489	+1.7%
TOTAL MEMBERS & PARTICIPANTS:	4,802	4,887	+1.8%

Annual Report (continued)

**SAN LUIS OBISPO COUNTY PENSION TRUST
STATEMENT OF CHANGES IN PLAN NET ASSETS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

ADDITIONS	<u>2008</u>	<u>2007</u>
Contributions		
County Contributions	30,860,282	24,014,202
Employee Contributions	<u>22,840,488</u>	<u>17,406,316</u>
Total Contributions	<u>53,700,770</u>	<u>41,420,518</u>
Investment Income (Loss)		
Net Increase in Fair Value of Investments	(239,703,297)	25,823,443
Realized Gains and Losses	(19,363,148)	25,703,244
Interest	15,351,027	19,436,904
Dividends	9,221,757	13,955,298
Real Estate Management Trust Income	1,131,289	1,131,146
Real Estate Operating Income, Net	1,587,675	1,798,700
Investment Expenses	(2,764,423)	(1,442,991)
Net Investment Income	<u>(234,539,120)</u>	<u>37,639,747</u>
Total Additions (Losses)	<u>(180,838,350)</u>	<u>79,060,265</u>
DEDUCTIONS		
Benefits		
Monthly Benefit Payments	37,097,572	32,100,134
Termination Refunds	2,016,696	1,587,852
Death Benefits	<u>196,772</u>	<u>504,176</u>
Total Benefits	39,311,040	34,192,162
Other Expenses		
Administration and Actuarial	<u>1,770,717</u>	<u>1,629,010</u>
Total Deductions	<u>41,081,757</u>	<u>35,821,172</u>
Net Increase (Decrease) in Net Assets	<u>(221,920,107)</u>	<u>43,239,093</u>
Net Assets Held in Trust for Pension Benefits -		
December 31, 2007 and December 31, 2006	<u>832,236,907</u>	<u>788,996,990</u>
Net Assets Held in Trust for Pension Benefits -		
Prior Period Adjustment		(29,176)
December 31, 2008 and December 31, 2007	<u>610,286,800</u>	<u>832,236,907</u>

Investment Performance—Through June 30, 2009

For the quarter ended June 30, 2009, the Pension Trust Investment Portfolio garnered a preliminary total return of **13.7%**. Year to date, the preliminary return for the Trust portfolio was **5.0%**.

Returns were driven by recovery in the equity markets and by significant returns generated by the Pension trust fixed income Portfolio. The fixed income portfolio experienced a 17.2% return in the second quarter with a 10.9% return year to date.

This reflects somewhat of a rebound of confidence in corporate issuers as the credit crisis works through its lengthy process.

For the year ended June 30, 2009, the portfolio return was still negative coming in at **-20.7%** (which compares favorably to Cal-PERS decline of **-23.4%** return for the same period).

After a relatively robust first two months to the second quarter, the financial markets stalled somewhat in June. The S&P 500 return

for the second quarter came in at 15.9% although June's return was only 0.2%. For the year to date the return on the S&P 500 has been 3.2%.

International stocks and emerging markets turned in even stronger returns year to date.

The bond market has been impacted by increasing yields, particularly in Treasuries as debt issuance to finance Federal stimulus continues.

More information is available on our web site: slopensiontrust.org

FINANCIAL HIGHLIGHTS

(continued from page 1)

The San Luis Obispo County Pension Trust's plan net assets as of December 31, 2008 were \$610,286,800. The plan net assets are held in trust for payment of pension benefits to participants and their beneficiaries and all of the net assets are available to meet the Pension Trust's ongoing obligations.

Total net assets decreased by \$221,920,107 primarily as a result of realized and unrealized losses on nearly every type of investment asset except international fixed income securities and local real estate.

Economic factors significantly affected the operating results of the current period. For example the year 2008 saw most broad market indices experience declines of thirty to forty percent in U.S. dollar terms.

This contrasts to the all time

highs in these indices occurring in late 2007. The largest bankruptcy in US history suddenly occurred during 2008; several major nationwide banks failed and major credit agencies were taken over by the federal government. One of the nation's major insurance companies required the largest government bailout in history during the year and several well-known Wall Street firms were forced into bankruptcy or sold under duress.

Pension Trust's funding objective is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2007 (January 1, 2008), the date of the last available actuarial valuation, the funded ratio for the Pension Trust was 78.5%. In general, this indicates that for every dollar of benefits due we had approximately \$0.79 of assets available for payment as of

that date. As this is written, the actuarial valuation for January 1, 2009 is underway. Results are expected to show a further decline in the funding ratio as a result of the market performance for 2008.

Total additions (losses) to plan net assets for the year were \$(180,838,350), which includes member and employer contributions of \$53,700,770, and net investment loss of \$(234,539,120).

Benefit payments for 2008 totaled \$39,311,040. Administrative Expenses totaled \$1,770,717 or 0.29% of total assets. A complete copy of the Financial Statement and accompanying Report to the Board of Trustees is available for viewing or download on our web site:

www.slopensiontrust.org

MEETINGS OF THE BOARD OF TRUSTEES

The Board of Trustees meets on the fourth Monday of each month in the County Administration Building. Meetings are held in the Board of Supervisors chambers unless otherwise noted and begin at 9:30 A.M. meetings are open to the public and your attendance is welcome and encouraged.

2009

July 27
August 24
September 28

October 26
November 23
December 14

2010

January 25
February 22
March 22

April 26
May 24
June 28

July 26
August 23
September 27

October 25
November 22
December 20
(December's meeting will be held in Room 161/162 in the County Administration Building)

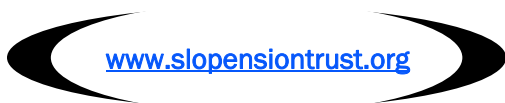




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CHANGES TO THE PENSION TRUST INVESTMENT POLICY

REVISED ASSET ALLOCATION TARGETS

The Board of Trustees recently adopted several important changes to the Pension Trust Investment Policy and Asset Allocation. Most notable, the Board reduced the target for Hedge Funds from 5% to 0% and increased the target for Domestic Fixed Income from 15% to 20%.

The effect of this change is to reduce the overall risk exposure of the portfolio while having a minimal impact on the total returns the investment portfolio is expected to generate.

Asset Allocation is the term used to describe how assets are invested in a diversified portfolio.

By allocating funds to different types of investments, the investor diversifies their risk. Diversification is a way to reduce risk to the whole investment fund while seeking the higher returns expected from taking on risk in any particular asset class. History shows that the asset allocation decision accounts for 90%–95% of a fund's total return.

Asset Allocation

Equities (Stocks)

Large Cap U.S.	26%
Small/Mid Cap U.S.	9%
International Large Cap	11%
International Small Cap	3%
Emerging Markets	2%
Alternative Investments *	15%

Fixed Income (Bonds) & Real Estate

U.S. Core Fixed Income	20%
International Fixed Income	5%
Real Estate	9%

* Alternatives include 5% Commodities, 5% Private Equity and 5% infrastructure