



Office of the City Treasurer

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City of Sacramento

QUARTERLY INVESTMENT REPORT *International Funds* *SCERS*

December 31, 2007

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INTRODUCTION

On February 27, 2006 the AIFM Board authorized the City Treasurer's Office to allocate up to 5% of the total SCERS' assets to a portfolio of non-US securities, which amounted to \$17.32 million. An allocation to international securities will enable the retirement system to reduce the investment risk through diversification while providing growth opportunities outside of the U.S. To date, net allocations to the fund totaled \$25.360 million.

STRATEGY

- Utilize exchange traded funds (ETFs) or IShares to get liquid, cost-effective exposure to non-U.S. equity markets. The IShares trade and settle in U.S. dollars.
- Utilize American Depositary Receipts (ADRs) to overweight individual companies within the IShares' universes. ADRs are stocks of foreign companies that trade in the U.S. markets. The ADRs trade and settle in U.S. dollars thereby eliminating currency risk associated with the transaction.
- To gain broad international exposure the portfolio will hold at least 50% of its assets in an IShare that tracks the MSCI EAFE Index. The MSCI EAFE Index is recognized as the pre-eminent benchmark in the U.S. to measure internationally equity performance. It comprises 21 MSCI country indices, representing the developed markets outside of North America: Europe, Australasia and the Far East. As of 12/31/05, the MSCI EAFE Index contained 1,137 securities with a total market capitalization of over \$10.2 trillion.
- Add value to the portfolio by overweighting regions within the MSCI EAFE that we believe will outperform the index.
- Enhance the portfolio by holding IShares and ADRs of emerging markets that we believe will outperform the MSCI EAFE. Examples include, but are not limited to China, Hong Kong, Latin America, Taiwan and India or other investments as deemed prudent by the Treasurer.

OBJECTIVES

INTERNATIONAL FUNDS (COMBINED)

- Exceed the earning assumption for the asset class as presented in the 2006 Asset Allocation and Strategy Recommendation (10%).
 - Out-perform the hybrid international benchmark*, excluding dividends, on a long-term basis.
- *MSCI EAFE (67%) and Nikkei (33%)

CANADA

- Out-perform the MSCI Canada Index (Bloomberg: MXCA), excluding dividends, on a long-term basis

CHINA

- Out-perform the FTSE/Xinhua 25 Index (Bloomberg: FXTID), excluding dividends, on a long-term basis.

EAFE

- Out-perform the MSCI EAFE Index, excluding dividends, on a long-term basis.

JAPAN

- Out-perform the Nikkei 225 Index (Bloomberg: NKY), excluding dividends, on a long-term basis.

LATIN AMERICA

- Out-perform the S&P Latin America 40 Index (Bloomberg: NIHNV), excluding dividends, on a long-term basis.

TAIWAN/INDIA

- Out-perform the MSCI Taiwan Index (Bloomberg: MSEUSTW)/BSE Sensex 30 Index, excluding dividends, on a long-term basis.

HIGHLIGHTS

The combined rates of return for International funds as of December 31, 2007 were: -3.33% for month-to-date, 0.99% for quarter-to-date, 12.07% for fiscal-year-to-date, and 15.19% for inception-to-date (see table on pages 8 - 14 for comparison with its benchmarks). Rates are annualized for periods longer than 12 months.

The combined portfolio was 96.64% invested with 3.36% or \$1.06 million in cash. Purchases and sales totaled \$11.059 million and \$11.515 million respectively.

>>> *ECONOMIC COMMENTARY* <<<

OVERVIEW

After November's turbulence, U.S. financial markets are closing the year on a quieter note. There are still concerns about liquidity at year-end, but recent actions by central banks around the world have at least halted the ongoing deterioration in financial markets. However, the level of uncertainty remains high and further negative headlines about losses and asset write-offs among the major U.S. banks and brokers remains likely. Still, there is also encouraging news, such as continued foreign investment in U.S. financial firms, which helps to replenish the bank equity affected by the collapse of the subprime mortgage-backed securities market.

Stock markets started December on a strong note, but have already given back most of those early gains. For the year, U.S. stocks are still showing a slight increase. Following a sharp rally in November, Treasury yields staged a tentative rebound in the past few weeks. Fixed income credit markets have also shown signs of stabilizing after the Lehman Credit Index experienced one of the worst months in its history in November. Finally, the U.S. dollar benefitted from weaker economic news abroad, as well as rate cuts in other developed markets, extending November's positive returns into December.

ECONOMY AND POLICY

The major economic event of the quarter was the concerted action by a number of major central banks to address the sharp deterioration in global liquidity conditions, which rattled financial markets in November. Following a third cut in both the Funds and Discount rates since the crisis started in August, the Federal Reserve decided to make billions of U.S. dollars available, not just to U.S. banks, but also to foreign institutions that need dollars. These institutions would otherwise tap into U.S. inter-bank for their funding.

While the Federal Reserve is addressing the tense liquidity situation on Wall Street, the real economy continues to produce positive surprises and has, thus far, failed to support the more bearish outlook by a number of economists. Retail sales rebounded strongly in November, job growth continued to expand at a moderate pace, and even home sales posted a tentative rebound in October. More troublesome, however, was the surprise inflation pick-up in November in both the producer and consumer sectors, which was more broad-based than previously expected, and not driven solely by energy prices.

The U.S. macroeconomic outlook for 2008 depends in large part on short term evolution of the financial market crisis. A significant decline in bank lending as a result of their losses and balance sheet contraction could adversely impact business investment and consumer spending, which are otherwise supported by loan inventories, growing capacity utilization and tight labor markets. While we see this as the single greatest risk to our macro outlook, we believe there is

still an abundance of global capital, and the Federal Reserve has demonstrated the willingness to ensure the proper functioning of the financial system.

Another challenge for the economy in 2008 will be the housing market crisis. We expect new construction activity to continue to contract through most of the year. However, demand should stabilize in the first half and rebound later in the year. Coupled with a sharp drop in newly completed homes coming to the market, this should help to reduce the excess capacity of unsold homes.

Given our baseline scenario for next year, we would expect U.S. equities to have a moderately positive 2008. Lower interest rates and a recovering economy should support higher stock prices. However, profit growth is unlikely to rebound to 2005 levels. The main risks to our forecast are a continuation of the financial markets crisis into next year and an intensification of the housing crisis with even greater declines in both sales and new construction. The longer the two crises last, the more they undermine the offsets that have prevented a more serious slowdown in the U.S. As with so many things in life, timing is everything. We believe that the central banks will take the necessary steps to address the issues still plaguing the financial system.

City of Sacramento
Performance Summary
International Funds
SCERS
December 31, 2007

PORTFOLIO COMPOSITION

December 31, 2007

Asset Class	Market Value	Pct Assets	Yield
Equities	30,483,600	96.64	1.03
Cash and Equiv.	1,059,397	3.36	4.93
TOTAL PORTFOLIO	31,542,997	100.00	1.16

PORTFOLIO ACTIVITY SUMMARY

From 09-30-07 to 12-31-07

Portfolio Value on 09-30-07	31,331,058
Contributions	7,970,000
Withdrawals	-8,074,106
Realized Gains	736,820
Unrealized Gains	-579,780
Interest	101,805
Dividends	57,200
Portfolio Value on 12-31-07	31,542,997

TWR FOR SELECTED PERIODS

**ANNUALIZED
GROSS OF FEES**

December 31, 2007

	Month To Date	Quarter To Date	Year To Date	Inception To Date	Since 06-30-07
Portfolio	-3.33	0.99	13.88	15.19	12.07
International Blend (67%mscieafe/33%nikkei225)	-2.32	-4.30	1.76	7.88	-5.64

City of Sacramento
Performance Summary

Canada
SCERS

December 31, 2007

PORTFOLIO COMPOSITION

December 31, 2007

Asset Class	Market Value	Pct Assets	Yield
TOTAL PORTFOLIO	0	0.00	0.00

PORTFOLIO ACTIVITY SUMMARY

From 09-30-07 to 12-31-07

Portfolio Value on 09-30-07	0
Contributions	0
Withdrawals	0
Realized Gains	0
Unrealized Gains	0
Interest	0
Dividends	0
Portfolio Value on 12-31-07	0

TWR FOR SELECTED PERIODS

ANNUALIZED
GROSS OF FEES

December 31, 2007

	Month To Date	Quarter To Date	Year To Date	Inception To Date	Since 06-30-07
Portfolio	0.00	0.00	-17.60	-10.66	0.00
MSCI Canada	1.22	-1.25	8.19	10.55	0.63

City of Sacramento
Performance Summary

China
SCERS

December 31, 2007

PORTFOLIO COMPOSITION

December 31, 2007

Asset Class	Market Value	Pct Assets	Yield
Equities	5,606,250	87.51	0.58
Cash and Equiv.	800,220	12.49	4.93
TOTAL PORTFOLIO	6,406,470	100.00	1.13

PORTFOLIO ACTIVITY SUMMARY

From 09-30-07 to 12-31-07

Portfolio Value on 09-30-07	11,886,796
Contributions	0
Withdrawals	-6,400,573
Realized Gains	832,693
Unrealized Gains	26,177
Interest	61,376
Dividends	0
Portfolio Value on 12-31-07	6,406,470

TWR FOR SELECTED PERIODS

ANNUALIZED
GROSS OF FEES

December 31, 2007

	Month To Date	Quarter To Date	Year To Date	Inception To Date	Since 06-30-07
Portfolio	-1.70	4.72	37.30	52.82	42.86
FTSE/Xinhua 25	-5.35	-2.35	53.62	57.97	33.89

City of Sacramento
Performance Summary

EAFE

SCERS

December 31, 2007

PORTFOLIO COMPOSITION

December 31, 2007

Asset Class	Market Value	Pct Assets	Yield
Equities	11,429,900	99.78	1.74
Cash and Equiv.	24,869	0.22	4.96
TOTAL PORTFOLIO	11,454,769	100.00	1.75

PORTFOLIO ACTIVITY SUMMARY

From 09-30-07 to 12-31-07

Portfolio Value on 09-30-07	11,005,960
Contributions	850,000
Withdrawals	-8,294
Realized Gains	-15,117
Unrealized Gains	-388,758
Interest	10,979
Dividends	0
Portfolio Value on 12-31-07	11,454,769

TWR FOR SELECTED PERIODS

ANNUALIZED

GROSS OF FEES

December 31, 2007

	Month To Date	Quarter To Date	Year To Date	Inception To Date	Since 06-30-07
Portfolio	-6.31	-3.29	6.93	7.95	-4.07
MSCI EAFE	-2.30	-2.04	8.62	13.51	-0.39

City of Sacramento
Performance Summary

Japan
SCERS

December 31, 2007

PORTFOLIO COMPOSITION

December 31, 2007

Asset Class	Market Value	Pct Assets	Yield
Equities	2,392,200	92.81	0.75
Cash and Equiv.	185,384	7.19	4.94
TOTAL PORTFOLIO	2,577,584	100.00	1.05

PORTFOLIO ACTIVITY SUMMARY

From 09-30-07 to 12-31-07

Portfolio Value on 09-30-07	2,763,907
Contributions	0
Withdrawals	-1,493
Realized Gains	0
Unrealized Gains	-189,000
Interest	4,170
Dividends	0
Portfolio Value on 12-31-07	2,577,584

TWR FOR SELECTED PERIODS

**ANNUALIZED
GROSS OF FEES**

December 31, 2007

	Month To Date	Quarter To Date	Year To Date	Inception To Date	Since 06-30-07
Portfolio	-5.11	-6.69	-11.57	-5.63	-7.51
Nikkei 225	-2.38	-8.80	-11.13	-3.01	-15.61

City of Sacramento
Performance Summary
Latin America
SCERS
December 31, 2007

PORTFOLIO COMPOSITION

December 31, 2007

Asset Class	Market Value	Pct Assets	Yield
Equities	10,049,700	99.81	0.55
Cash and Equiv.	18,988	0.19	4.77
TOTAL PORTFOLIO	10,068,688	100.00	0.56

PORTFOLIO ACTIVITY SUMMARY

From 09-30-07 to 12-31-07

Portfolio Value on 09-30-07	3,474,526
Contributions	6,650,000
Withdrawals	-5,800
Realized Gains	0
Unrealized Gains	-61,848
Interest	11,811
Dividends	0
Portfolio Value on 12-31-07	10,068,688

TWR FOR SELECTED PERIODS

**ANNUALIZED
GROSS OF FEES**

December 31, 2007

	Month To Date	Quarter To Date	Year To Date	Inception To Date	Since 06-30-07
Portfolio	-1.09	5.17	25.72	12.46	17.65
S&P Latin Am 40	-0.89	3.79	46.73	34.73	16.93

City of Sacramento
Performance Summary

India
SCERS

December 31, 2007

PORTFOLIO COMPOSITION

December 31, 2007

Asset Class	Market Value	Pct Assets	Yield
Equities	1,005,550	97.11	0.96
Cash and Equiv.	29,936	2.89	5.04
TOTAL PORTFOLIO	1,035,486	100.00	1.07

PORTFOLIO ACTIVITY SUMMARY

From 09-30-07 to 12-31-07

Portfolio Value on 09-30-07	2,199,870
Contributions	470,000
Withdrawals	-1,657,946
Realized Gains	-80,756
Unrealized Gains	33,649
Interest	13,469
Dividends	57,200
Portfolio Value on 12-31-07	1,035,486

TWR FOR SELECTED PERIODS

**ANNUALIZED
GROSS OF FEES**

December 31, 2007

	Month To Date	Quarter To Date	Year To Date	Inception To Date	Since 06-30-07
Portfolio	5.08	4.54	21.63	5.86	16.49
MSCI Taiwan	-1.33	-7.66	5.43	10.22	-3.90
BSE Sensex 30	4.77	17.33	47.15	44.65	38.47

City of Sacramento
PORTFOLIO APPRAISAL
International Funds
SCERS
December 31, 2007

Quantity	Security Symbol	Security	Unit Cost	Total Cost	Price	Market Value	Accrued Interest	Market Value + Accrd. Int.	Pct. Assets	Cur. Yield	S & P	Moody
CASH AND EQUIVALENTS												
	miscintrec	Misc Interest Receivable		16,111		16,111		16,110.64	0.05	4.00		
	PoolA	Pool A Cash		953,228		953,228		953,227.77	3.02	4.93		
	intreceiv	Pool A Interest Receivable		90,058		90,058		90,058.17	0.29	5.11		
				<u>1,059,397</u>		<u>1,059,397</u>		<u>1,059,396.58</u>	<u>3.36</u>	<u>4.93</u>		
COMMON STOCK												
MATERIALS												
13,000	mt	Arcelor Mittal Class A N Y Registry	74.76	971,901	77.35	1,005,550		1,005,550.00	3.19	0.96		
METALS												
31,000	bbi	Bhp Billiton Plc Sponsored ADR	63.04	1,954,143	61.30	1,900,300		1,900,300.00	6.02	1.53		
4,000	rtp	Rio Tinto PLC Sponsored ADR	309.33	1,237,308	419.90	1,679,600		1,679,600.00	5.32	0.99		
				<u>3,191,451</u>		<u>3,579,900</u>		<u>3,579,900.00</u>	<u>11.35</u>	<u>1.28</u>		
ENERGY												
25,000	tsl	Trina Solar Limited Spon ADR	43.20	1,080,072	53.80	1,345,000		1,345,000.00	4.26	0.00		
INTERNATIONAL PASSIVE INDEX-CHINA												
25,000	fxi	Ishares Tr Ftse Xnhua Idx	141.84	3,546,071	170.45	4,261,250		4,261,250.00	13.51	0.77		
INTERNATIONAL PASSIVE INDEX-EAFE												
32,000	ewz	Ishares Inc Msci Brazil	81.29	2,601,289	80.70	2,582,400		2,582,400.00	8.19	0.18		
100,000	efa	Ishares Tr Msci Eafe Idx	79.64	7,963,990	78.50	7,850,000		7,850,000.00	24.89	1.95		
				<u>10,565,279</u>		<u>10,432,400</u>		<u>10,432,400.00</u>	<u>33.07</u>	<u>1.51</u>		
INTERNATIONAL PASSIVE INDEX-JAPAN												
180,000	ewj	Ishares Inc Msci Japan	14.65	2,636,200	13.29	2,392,200		2,392,200.00	7.58	0.75		
INTERNATIONAL PASSIVE INDEX-LATIN AMERICA												
30,000	ilf	Ishares Tr S&p Ltn Am 40	237.37	7,121,145	248.91	7,467,300		7,467,300.00	23.67	0.68		
				<u>29,112,120</u>		<u>30,483,600</u>		<u>30,483,600.00</u>	<u>96.64</u>	<u>1.03</u>		
TOTAL PORTFOLIO				30,171,516		31,542,997	0	31,542,996.58	100.00	1.16		

City of Sacramento
PURCHASE AND SALE
International Funds
SCERS
From 10-01-07 To 12-31-07

Trade Date	Settle Date	Security Symbol	Security	Quantity	Unit Price	Amount
MATERIALS						
PURCHASES						
12-12-07	12-17-07	mt	Arcelor Mittal Class A N Y Registry	6,500	75.97	493,829.70
12-21-07	12-27-07	mt	Arcelor Mittal Class A N Y Registry	6,500	73.55	478,071.75
METALS						
PURCHASES						
10-26-07	10-31-07	rtp	Rio Tinto PLC Sponsored ADR	1,000	366.60	366,598.00
10-26-07	10-31-07	bbl	Bhp Billiton Plc Sponsored Adr	3,000	77.21	231,641.10
10-30-07	11-02-07	bbl	Bhp Billiton Plc Sponsored Adr	2,000	75.86	151,721.00
12-21-07	12-27-07	bbl	Bhp Billiton Plc Sponsored Adr	11,000	61.42	675,588.10
ENERGY						
PURCHASES						
11-30-07	12-05-07	tsl	Trina Solar Limited Spon Adr	25,000	43.20	1,080,072.50
INTERNATIONAL PASSIVE INDEX-EAFE						
PURCHASES						
10-30-07	11-02-07	efa	Ishares Tr Msci Eafe Idx	10,000	85.12	851,160.00
11-30-07	12-05-07	ewz	Ishares Inc Msci Brazil	20,000	81.22	1,624,496.00
12-21-07	12-27-07	ewz	Ishares Inc Msci Brazil	12,000	81.40	976,792.80
INTERNATIONAL PASSIVE INDEX-LATIN AMERICA						
PURCHASES						
10-23-07	10-26-07	ilf	Ishares Tr S&p Ltn Am 40	8,000	252.08	2,016,640.00
10-30-07	11-02-07	ilf	Ishares Tr S&p Ltn Am 40	8,000	264.08	2,112,619.20
						11,059,230.15
METALS						
SALES						
10-22-07	10-25-07	rtp	Rio Tinto PLC Sponsored ADR	2,000	331.63	663,269.85
10-22-07	10-25-07	bbl	Bhp Billiton Plc Sponsored Adr	10,000	72.75	727,512.86

City of Sacramento
PURCHASE AND SALE
International Funds
SCERS
From 10-01-07 To 12-31-07

Trade Date	Settle Date	Security Symbol	Security	Quantity	Unit Price	Amount
PASSIVE INDEX						
SALES						
10-19-07	10-24-07	ifn	India Fd Inc Com	40,000	52.28	2,091,243.98
INTERNATIONAL PASSIVE INDEX-CHINA						
SALES						
10-19-07	10-24-07	fxi	Ishares Tr Ftse Xnhua Idx	40,000	200.82	<u>8,032,693.07</u>
						11,514,719.76

City of Sacramento
COMMISSION PURPOSE

International Funds

SCERS

From 10-01-07 to 12-31-07

	Commission Amount	Avg. Commission Per Share	Percent of Total Commission
Commission Purpose - Undefined			
Instinet	6,150	0.030	100.0%
Subtotal	6,150	0.030	100.0%
TOTAL	6,150	0.030	100%