

# FINANCIAL SECTION

## Notes to Basic Financial Statements

December 31, 2016 and 2015

At December 31, 2016 and 2015, SERS investments measured at fair value are shown in the following tables:

### Investments Measured at Fair Value (2016)

(\$ thousands)

	Fair Value	Level 1	Level 2	Level 3
<b>Fixed income</b>				
Government	\$1,632,961	\$ -	\$1,632,961	\$ -
Corporates	747,509	-	725,878	21,631
Asset- and mortgage-backed securities	554,952	-	548,438	6,514
Private placements	511,178	-	452,196	58,982
Sovereign debt	249,606	-	249,606	-
Agencies	80,429	-	80,429	-
<b>Equity</b>				
Domestic common and preferred stocks	6,562,205	6,552,295	9,910	-
Foreign common and preferred stocks	5,414,830	5,406,965	-	7,865
Commingled equity funds	155,951	155,951	-	-
<b>Real estate</b>				
Real estate separate accounts	1,032,233	-	-	1,032,233
REITs	221,501	221,501	-	-
MLPs	245,009	245,009	-	-
<b>Other</b>				
Other investments <sup>1/</sup>	197	396	(199)	-
<b>Total</b>	<b>\$17,408,561</b>	<b>\$12,582,117</b>	<b>\$3,699,219</b>	<b>\$1,127,225</b>

<sup>1/</sup>Represents derivative instruments and other securities where portions of which are reported in various captions on the Statements of Fiduciary Net Position including short-term investments, U.S. government securities, corporate and foreign bonds and notes, common and preferred stocks, real estate, and private equity.

# FINANCIAL SECTION

## Notes to Basic Financial Statements

December 31, 2016 and 2015

### Investments Measured at Fair Value (2015)

(\$ thousands)

	Fair Value	Level 1	Level 2	Level 3
<b>Fixed Income</b>				
Government	\$1,875,233	\$ -	\$1,875,233	\$ -
Corporates	894,929	-	874,160	20,769
Asset- and mortgage-backed securities	721,908	-	713,034	8,874
Private placements	500,770	-	405,603	95,167
Sovereign debt	245,552	-	243,697	1,855
Agencies	111,702	-	111,702	-
<b>Equity</b>				
Domestic common and preferred stocks	5,253,949	5,242,078	11,871	-
Foreign common and preferred stocks	4,587,171	4,578,405	-	8,766
Commingled equity funds	142,623	142,623	-	-
<b>Real estate</b>				
Real estate separate accounts	1,244,449	-	-	1,244,449
REITs	340,060	340,060	-	-
MLPs	211,818	211,818	-	-
<b>Other</b>				
Other investments <sup>1/</sup>	1,259	536	609	114
<b>Total</b>	<b>\$16,131,423</b>	<b>\$10,515,520</b>	<b>\$4,235,909</b>	<b>\$1,379,994</b>

<sup>1/</sup>Represents derivative instruments and other securities where portions of which are reported in various captions on the Statements of Fiduciary Net Position including short-term investments, U.S. government securities, corporate and foreign bonds and notes, common and preferred stocks, real estate, and private equity.

Private equity limited partnerships are valued at the NAV of SERS ownership interest in partners' capital, which approximates fair value. NAV is determined by the general partners using assumptions and estimates that have been reviewed and approved by valuation committees. Since private equity investments in such partnerships are generally illiquid with holding periods lasting seven to 10 years, the value realized by SERS upon disposition may differ from estimated values reflected in the financial statements. SERS Private Equity program is categorized into the following strategies:

- **Buyouts** is characterized chiefly by investments in established private or

publicly listed firms that are undergoing a fundamental change in operations or strategy.

- **Special Situations** is characterized chiefly by investments in funds that acquire distressed companies or companies in need of restructuring, funds from the secondary market, and funds providing mezzanine financing.
- **Venture Capital** is characterized chiefly by high-risk investments in new or young companies following a growth path (early, late, and balanced stage funds) in technology and other value-added sectors.