

*San Francisco Employees' Retirement System*

# Annual Report

For Fiscal Year Ended June 30, 2012



**SFERS**

San Francisco Employees' Retirement System

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## SFERS at a Glance

As of June 30, 2012

Plan Net Assets Market Value:	\$15.3 billion
Total Benefits Paid:	\$968 million
Average Member Contribution Rate:	7.50%
Employer Contribution Rate (during FY 2011-12):	18.09%
Annualized Return on Total Fund:	1.67%

### Membership

<b>Total Membership:</b>	<b>53,287</b>		
<b>Active:</b>	<b>28,097</b>	<b>Retired:</b>	<b>25,190</b>
Miscellaneous:	24,878	Miscellaneous:	20,755
Police:	1,883	Police:	2,355
Fire:	1,336	Fire:	2,080

### Retirements (during fiscal year 2011-12)

<b>Total Retirements:</b>	<b>1,342</b>
Miscellaneous:	1,164
Police:	130
Fire:	48

<b>Average Service Credit at Service Retirement:</b>	<b>21.7 years</b>	<b>Average Age at Service Retirement:</b>	<b>60.0 Years</b>
Miscellaneous:	20.8 Years	Miscellaneous:	60.6 Years
Police:	28.5 Years	Police:	56.3 Years
Fire:	24.5 Years	Fire:	55.6 Years

# The Retirement System



## History

Initially established by approval of City voters on November 2, 1920 and the California State Legislature on January 12, 1921, the San Francisco Employees' Retirement System (SFERS) is deeply rooted in the history and culture of the City and County of San Francisco (CCSF), and is profoundly committed to serving the retirement needs of its members. Originally established as a fund to assist families and orphans of firefighters and police, today the Retirement System serves more than 53,000 active and retired employees of the City and County of San Francisco and their survivors.

Under the direction of the Executive Director, the System's management team administers two employee benefit programs for eligible employees of the City and County:

- San Francisco Employees' Retirement System pension plan, a defined benefit plan.
- San Francisco Deferred Compensation Plan, an IRC §457(b) defined contribution plan.

Specific San Francisco City Charter sections and/or Administrative Code provisions mandate each of these benefit plans (see "SFERS Plan Benefits Structure" on page 33).

## The Pension Plan

The SFERS Pension Plan is a tax-qualified defined benefit plan that provides for the following benefits upon separation: service and disability retirement, refund or vesting allowance, and pre- and post-retirement death

benefits to beneficiaries. Defined benefit plans are funded through employee and employer contributions and investment earnings.

SFERS has a reciprocity agreement with CalPERS, California county retirement systems covered by the 1937 Act Retirement Law, and certain other local, independent retirement systems that have a reciprocity contract with CalPERS (listed on the CalPERS website).

## The San Francisco 457(b) Deferred Compensation Plan

The San Francisco Deferred Compensation Plan (SFDCP), a voluntary IRC §457(b) plan was adopted in 1979, and allows City employees to elect to voluntarily defer receipt and taxation of a portion of their regular earnings until after they retire or separate from service. The SFDCP offers members an opportunity to supplement pension income during retirement.

## Our Members

SFERS members include eligible employees of the City and County of San Francisco, the San Francisco Unified School District, the San Francisco Community College District, and the San Francisco Trial Courts.

Uniformed employees working for the City's Police and Fire Departments are covered by SFERS Safety Plans. Eligible civilian (non-Safety Plan) employees of the City are covered by the SFERS Miscellaneous Plan. Sheriff, Undersheriff, and deputized personnel of the Sheriff's

Department hired after January 7, 2012 are covered by SFERS Sheriffs Plan. While Probation Officers, District Attorney Investigators and Juvenile Court Counselors hired after January 7, 2012 are covered by SFERS Miscellaneous Safety Plan.

## Our Mission

The San Francisco City and County Employees' Retirement System is dedicated to securing, protecting and prudently investing the pension trust assets, administering mandated benefit programs, and providing promised benefits to the active and retired members of the City and County of San Francisco.

## Administration

The Executive Director and the senior management team comprise the Administration Division which oversees all other divisions in the department – Investments, Retirement Services, Finance, Actuarial Services, Information Systems, Communications, Human Resources, and the Deferred Compensation Plan. The Administration team manages the day-to-day activities of the System including records management, systems administration and member services.

Additionally, the Administration Division provides support to the Retirement Board in the preparation of meeting materials such as agendas and supporting documents, minutes and public notice requirements for Board and committee meetings. The senior management staff regularly interfaces with Board members, coordinating new trustee orientation and assists in facilitation of on-going educational opportunities.

In addition to oversight of the Retirement System activities and support of the Retirement Board, the Administration Division is responsible for fulfilling Public Records Requests in accordance with the City's Sunshine Act, State of California Public Records Act, and Federal Freedom of Information Act.

## Finance

The Finance Division is responsible for operations and trust accounting, as well as providing financial information to the senior management team to facilitate short and long-term planning, control, and decision-making.

An essential role for the Finance Division is the preparation and reporting of the Retirement System's financial statements in accordance with generally accepted accounting principles applicable to public employee retirement systems.

## Actuarial Services

The SFERS Retirement Board contracts with a consulting actuarial firm to produce and report to the Retirement Board and Retirement System staff, actuarial information related to the benefit structure and funding status of the Retirement System. The Retirement Board's current consulting actuarial firm is Cheiron.

SFERS Actuarial Services Coordinator oversees the work of the consulting actuary, participates in the presentation of actuarial reports to the Retirement Board, and provides other in-house actuarial services.

Each year, the consulting actuarial firm conducts an actuarial valuation of the Retirement System's assets and liabilities in order to assess its funded status and to determine the appropriate level of employer contributions to the Fund for the next fiscal year. This report reflects the Plan's actuarial valuation prepared by Cheiron, based on data through June 30, 2012.



## Investments

The Retirement System's investment objective is to maximize long-term rates of return on investments within prudent guidelines.

The Investment Division's professional staff serves as a resource to the Retirement Board in the development of investment policies and practices and in the performance of its fiduciary responsibilities to the SFERS Trust.

The Investment Division's professional staff, supported by a group of professional consulting firms hired by the Retirement Board, analyzes, develops and recommends asset allocation mixes, manages investment portfolios, and monitors the activities and performance of external investment managers.

## Retirement Services

SFERS dedicates extensive resources to serving the members. The Retirement Services Division provides a wide array of services to SFERS members and their survivors including active and retired member counseling, active and retired member recordkeeping, communications and outreach, pre-retirement education, member payroll accounting, retiree payroll and tax reporting, calculation and termination of benefits, and death payments.

Applications for disability retirement and subsequent hearings before Administrative Hearing Officers are coordinated by the Retirement Services Division. See the "Retirement Services" section to review the 2011-12 Disability Hearing Report.

In Fiscal Year 2011-12, Member Services enrolled 2,408 new members and added 1,342 new retirees. Annual benefit payments totaled \$968 million, paid to over 25,000 retirees and their beneficiaries.

To help educate members about benefits under SFERS, Retirement Services conducted four retirement seminars

for the City's miscellaneous members and four retirement seminars for the City's safety members.

## The Retirement Board

The Retirement System and its members benefit greatly from the leadership of an experienced and long tenured Retirement Board. The Board oversees Plan administration, Trust fund investment, member benefit processing and communication, and actuarial funding on behalf of the interests of members.

Within the scope of its duties, the Board establishes and follows policies governing the administration, management, and operation of the City's retirement plans; manages the investment of the Retirement System's assets; approves disability benefit determinations; and approves actuarial assumptions used to determine long-term benefit promises of the SFERS Pension Plan.

The Retirement Board generally meets once each month to review and to approve important elements of Retirement System business. The Retirement Board is composed of seven members: three members elected by the active and retired members of SFERS; three members appointed by the Mayor in accordance with §12.100 of the San Francisco City Charter; and one member, the President of the Board of Supervisors or his or her designee, appointed from among the other members of the Board of Supervisors.



## The Retirement Board as of June 30, 2012



### **PRESIDENT**

#### **Al Casciato**

Captain, Police Department  
Elected Member  
Term Expires: 02/20/2015



### **Victor Makras**

President  
Makras Real Estate  
Appointed Member  
Term Expires: 02/20/2015



### **VICE PRESIDENT**

#### **Brenda Wright**

Senior Vice President  
Regional Manager Community  
Development  
Wells Fargo & Company  
Appointed Member  
Term Expires: 02/20/2013



### **Herb Meiberger, CFA**

Retiree  
Elected Member  
Term Expires: 02/20/2017



### **Joseph D. Driscoll, CFA**

Captain, Fire Department  
Elected Member  
Term Expires: 02/20/2016



### **Wendy Paskin-Jordan**

Partner and Managing Director  
Paskin & Kahr Capital Management, LLC  
Appointed Member  
Term Expires: 02/20/2015



### **Sean Elsbernd**

Member, Board of Supervisors  
Ex-Officio Member  
Term Expires: 01/07/2013



## A Message From The President

On behalf of the Retirement Board and Retirement System staff, I present the Annual Report for Fiscal Year 2011-12. This report offers information about the Retirement System's Plans, its members and beneficiaries, services provided, and investments of the Trust Fund's assets.

I want to extend my sincerest gratitude to the active and retired members of the City and County of San Francisco Retirement System who have supported me during my 17 year career on the Retirement Board. It has been an honor and a pleasure to serve you. And to my distinguished colleagues with who I have served alongside over the years, it has been quite a run.

Of our many accomplishments as fiduciaries, the one I am most proud is helping to safeguard future benefits for our hard working City employees. With prudent decision-making, the Trust Fund grew to more than double its value—from \$6.7 billion in 1995, my first year on the Board, to \$15.3 billion as of June 30, 2012.

Reflecting on this fiscal year, we should all be encouraged by the signs of progress demonstrated in the undertakings achieved by the Board and staff:

- Though the return on investments this year fell short of the assumed rate of return, we continue to monitor and adjust the investment strategy to ensure long-term prosperity for the Plan.
- Upon recommendation from our consulting actuarial firm, we approved implementing a three-year phase-in reduction of the investment return, price inflation and wage inflation assumptions more aligned with the modern market environment.
- We revised sub-asset class targets and ranges to further diversify the investment portfolio and maximize return potential.
- Staff successfully implemented new Plan provisions mandated under the voter approved pension initiative, Proposition C of November 2011.
- We are offering our members greater opportunity for retirement savings under the SFDCP by adding Target Date Funds—investment portfolios managed automatically through preset asset allocations driven by a member's targeted retirement date. And coming soon, a Roth deferral option intended to soften members' tax burden in retirement

Finally, our retirees and their beneficiaries continue to receive promised pensions and regular COLAs according to Charter mandates and we expect this trend to continue.

On behalf of the entire Board and staff, I assure you that we will continue to make every effort to administer the retirement benefits effectively and efficiently and to invest the Trust Fund assets for maximum return consistent with safety and prudence.

With best wishes,



Al Casciato, President  
*Retirement Board, City and County of San Francisco*

# Retirement Board Action During Fiscal Year 2011-12



In fulfilling its duty as fiduciary of the retirement trust assets, and to ensure the health of the investment portfolio with the goal of providing benefits to members into perpetuity, the Retirement Board reviewed, approved, adopted and/or participated in the following actions during the fiscal year ended June 30, 2012:

## Actuarial

The Retirement System's funding objective is to meet long term benefit obligations through contributions and investment income. Each year, the Retirement Board looks to the consulting actuary and staff Actuary to recommend appropriate actuarial assumptions to provide the required funding for the promised benefits. The recommendations are based on results from the Economic Experience Analysis conducted each year as well as, Demographic Experience Analyses conducted every three years.

For Fiscal Year 2012, the Retirement System's consulting actuary, Cheiron, presented to the Retirement Board, its recommendation for actuarial assumptions based on results from the annual Economic Experience Analysis for the Retirement System and taking into account Proposition C of November 2011.

Proposition C, a ballot initiative passed by the voters of the City and County of San Francisco in November 2011, initiated cost-sharing of contributions between the employer (City) and the employees to fund the Plan. Under Proposition C, in years when the City is required to pay more into the pension plan, most SFERS members are required to pay more into the pension plan to offset

against the City's employer contributions. And in years when the City is required to pay less into the pension plan, the City will pick up a percentage of employee contributions on behalf of SFERS members.

From the results of the Economic Experience Analysis, the consulting actuary recommended and the Board adopted the following actuarial assumptions to be phased-in over a three-year period:

- Reduction of the investment return assumption from 7.75% to 7.50%
- Reduction of the price inflation assumption from 3.50% to 3.25%
- Reduction of the wage inflation assumption from 4.00% to 3.75%

The actuarial assumptions adopted by the Retirement Board better reflect today's economic conditions and will over time, help to sustain the long-term funding objective for the Plan.

Additionally, the Retirement Board approved a 2% Basic COLA adjustment effective July 1, 2012 for retired miscellaneous members (new and old plans) and new plan safety members who retired on or before July 1, 2012.

## Investments

In keeping with the annual investment plan, the investment team brings before the Board, new investment opportunities to meet the objectives of enhancing both the structure and diversity of the investment portfolio and sustaining long-term performance.

The Retirement Board approved and revised several policies, plans and/or guidelines essential to positioning the portfolio to benefit from opportunities in the current financial markets while promoting the long-term viability of the Retirement Trust, including the following:

- A revised annual Real Estate Investment Strategy which replaces the NPI + 150 basis points benchmark with a multi-year (up to 15 years) net return goal of 8.0%, based on a projected realignment of the portfolio.
- An annual Investment Plan for Alternative Investments approving new commitments up to \$350 million during calendar year 2012
- Revised sub-asset class targets and ranges (see details in the Investments section on page 26)
- Revised Investment Policy Statement reflecting changes to the sub-asset class allocation structure
- Reduced the investment return assumption target from 7.75% to 7.50% to be implemented over a three-year period

Additionally, during fiscal year 2011-12, under the authorization of the Board and in line with the 2012 Annual Investment Plan for the Alternative Investment Program, the investment team committed \$305 million to the program, with an additional \$75 million allocated to the Real Estate portfolio (see page 28 for a detailed schedule of these investments).

## Personnel

The Retirement Board appoints two staff positions in carrying out the overall administration and operations of the Retirement System: The Executive Director and the Actuarial Services Coordinator. In April 2012, the Board unanimously appointed Jay Huish as Executive Director.

## Education

The Retirement Board strives to improve competency and enhance understanding of institutional investing and

overall Board governance through education. During fiscal year 2011-12, SFERS Trustees attended conferences, roundtables, symposiums and other educational forums offering diverse topics about pension management, global investment trends, economic outlook, and institutional real estate.

In addition, the Board participated in a Retreat commencing discussions to address new initiatives with regard to group decision making, strategic planning, and Retirement Board evaluation.

## Litigation/Legislation

The Retirement System executive staff and the Office of the City Attorney continuously review and report to the Board, on-going or anticipated litigation, and proposed legislative changes with likely or imminent affect to the SFERS.

## Requests for Proposals (RFP)

Running a complex business such as the Retirement System requires collaboration between SFERS staff and a network of professional consultants including investment management experts. The Retirement System gains access to consultants by issuing RFPs and conducting a competitive bid process. During fiscal year 2011-12, the Board issued, reviewed and/or approved the following RFPs/RFQs:

- Organizational Consulting Services
- Passive Investment Management Services for the Public Markets Portfolio
- Investment Legal Services for Active Emerging Markets Equity Management
- Target Date Fund Consulting Services for the Deferred Compensation Plan
- Investment Consulting Services for the Deferred Compensation Plan

## 457(b) SFDCP

The Retirement System administers the City's 457(b) Deferred Compensation Plan whereby active members have an opportunity to accumulate additional retirement savings intended to supplement pension benefits with voluntary contributions. The SFDCP Manager oversees the San Francisco 457(b) Deferred Compensation Plan (SFDCP). The Plan is administered on a daily basis by a third party administrator, Great-West Retirement Services (GWRs). The SFDCP Manager continuously monitors the Plan for enhancement opportunities that will benefit our members as they save for retirement.

During this fiscal year, the Board approved eight new asset classes as part of the underlying structure of the SFDCP Target Date Funds, eliminating the three SFDCP Lifestyle Portfolios (asset allocation funds), and replacing underperforming funds in the SFDCP Small Cap Growth, SFDCP Mid Cap Value Equity Portfolio and SFDCP Large Cap Growth Equity Portfolio (blended fund with 50% of the portfolio assets).

The Board also adopted a Roth provision and Normal Retirement Age Policy. The Roth deferral option will allow participants additional flexibility in tax structure for retirement income. Additionally, the Board approved two requests for proposal; one for target date fund consulting and one for general investment consulting. Detailed information about the SFDCP is available beginning on page 39.



## Letter from the Executive Director

It is truly an honor to serve as Executive Director for the San Francisco Employees' Retirement System. Having been appointed by the Retirement Board on April 25th, I once again express my sincere appreciation to the members of the Retirement Board for their confidence in my ability to lead this System. And on behalf of the Retirement System, I extend a special note of gratitude to President Casciato and Supervisor Sean Elsbernd for their valued service to the System as members of the Retirement Board.

With that, I am pleased to present this annual report of the Retirement System for Fiscal Year 2012.

As Executive Director, providing stability and continuity of leadership is of the utmost importance. I fully intend to maintain SFERS track record providing retired members with the benefits to which they are entitled each month, making certain our active members are well informed and therefore, well prepared to transition into retirement, and to do so in such a way that embodies SFERS' reputation for integrity, as well as outstanding performance and service.

At fiscal year end, Plan assets were valued at \$15.3 billion and the pension trust fund posted a positive return—up 1.67% for the fiscal year. More importantly, SFERS made benefit payments in excess of \$968 million to more than 25,000 retirees and their survivors during the fiscal year.

Also during Fiscal Year 2012, SFERS took on several significant projects:

- We successfully planned and implemented changes required to administer the provisions of Proposition C of 2011 including adding two new employee groups, integrating employee contribution rates that may vary from year to year for active members, and new Supplemental COLA provisions for retired members.
- Along with the Annual Member Statement, we also provided members with “A Guide to Understanding Your Benefits” aimed at expanding members' understanding of their benefit entitlements under the pension plan.
- The Deferred Compensation Plan (SFDCP) launched Target Date Funds providing an opportunity for members to invest retirement savings in a vehicle that automatically rebalances according to a member's projected retirement date and a revamped website with streamlined access to the most popular tools and information.

We will continue this trend into Fiscal Year 2012-13. Looking ahead:

- We have begun implementation of a major document management system to streamline our records management process, making member record retrieval more efficient.
- Our new website will launch offering a new member-only portal providing 24/7 access to individual account data, statements and electronic forms.

Again, I am pleased at the opportunity to lead the Retirement System. Together with a dedicated team of Retirement staff and an experienced Board, we are all committed to the SFERS mission. We are also committed to providing the SFERS members with quality service and information so that retirement is a rewarding experience.

Respectfully,



Jay P. Huish

## SFERS Executive Staff as of June 30, 2012

**Jay P. Huish**

Executive Director

**Vacant**

Deputy Director for Administration

**Robert L. Shaw, CFA**

Interim Deputy Director for Investments

**Norm Nickens**

Executive Assistant to the Executive Director

**Carol Cypert, CRA, RPA**

Deferred Compensation Manager

## SFERS Management Staff as of June 30, 2012

**Jim Burruel**

Finance Manager

**Alison Johnson**

Communications Manager

**Ray Lane, ASA, EA, MAAA**

Actuarial Services Coordinator

**Craig Lee**

Information Systems Manager

**Maria Newport**

Retirement Administrator

**Dianne Owens-Lewis**

Human Resources Manager

**Vacant**

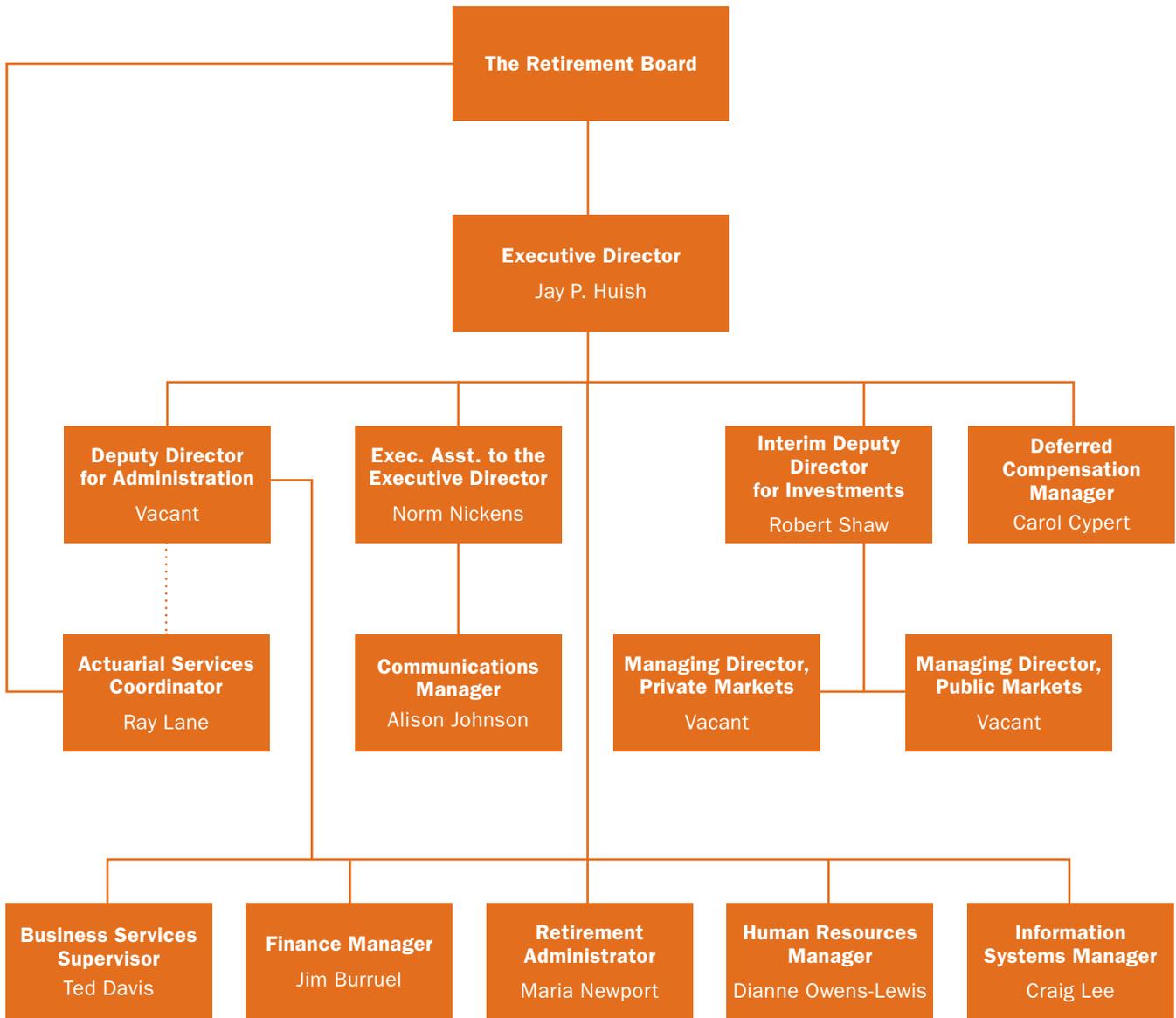
Managing Director, Public Markets

**Vacant**

Managing Director, Private Markets



SFERS Organizational Chart  
as of June 30, 2012



# Finance Division

Oversees the System's Financial Position and Reports Operating Results



The Finance Division is responsible for oversight of operations and trust accounting as well as, providing management with key financial information to facilitate planning, control, and decision-making. The Finance Division also prepares and reports the Retirement System's financial statements in accordance with generally accepted accounting principles applicable to a public employee retirement system. Disclosures as required by Governmental Accounting Standards Board (GASB) are included in the financial statements and other required supplemental reports.

In addition to financial oversight, the Finance Division provides statistical and financial data used for actuarial projections, cash flow projections, and determination of required city contributions to ensure that the Employees' Retirement System is appropriately funded.

The accounting and financial reporting functions are divided into several major activities:

- > Investments Accounting
- > Member and Employer Contributions Accounting
- > Benefits Payment Accounting
- > Employees' Deferred Compensation Accounting
- > Budget and Appropriations Control
- > General Ledger and Financial Reporting

The audited Statements of Plan Net Assets and Statements of Changes in Plan Net Assets (pages 18 and 19) for fiscal years ended June 30, 2012 and 2011, provide a general overview of the City and County of San Francisco Employees' Retirement System's finances for the Plan Year ended June 30, 2012.

Readers who have questions regarding the financial information provided in this report are encouraged to visit the SFERS website at [www.sfers.org](http://www.sfers.org) to view the full set of audited Financial Statements and Supplemental Schedule as prepared by the City's independent auditors, Macias Gini & O'Connell, LLP.



## SFERS Financial Highlights

The management of the City and County of San Francisco Employees' Retirement System is pleased to provide these highlights of the financial activities of the Plan for Fiscal Year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with the full Financial Statements and following supplementary information (reported in thousands unless otherwise indicated).

### FISCAL YEAR 2012

- The assets of the Retirement System exceeded its liabilities at the close of the year ended June 30, 2012. The Plan held \$15.294 billion of net assets in trust for pension benefits. All of the net assets are available to meet the Retirement System's ongoing obligations to plan participants and their beneficiaries.
- The Retirement System's funding objective is to meet long term benefit obligations through contributions and investment income. As of July 1, 2012, the date of the last actuarial valuation, the funded ratio for the Retirement System was 82.6%. In general, this indicates that for every dollar of benefits promised, the Retirement System has approximately \$0.83 of assets available for payment.
- For the year ended June 30, 2012, the Retirement System's net investment gain of \$80.402 million represents a 0.52% increase in plan net assets. (This return is based on plan net assets as of the beginning of the fiscal year.)
- Total net assets held in trust for pension benefits decreased by \$305.115 million or 2.0%, primarily as a result of market conditions and the net difference between contributions received by the Plan and benefit payments made from the Plan.
- Members' contributions to the Plan amounted to \$198.160 million, an increase of \$16.405 million or 9.03% from the prior year.

- In order to maintain the fiscal soundness of the Plan, required employer contributions to the Plan totaled \$410.797 million for the year ended June 30, 2012.
- Total deductions from the Plan were \$994.474 million, an increase of 8.6% from the prior year due to increased benefits paid during the current fiscal year.

## Overview of Financial Statements

The following discussion and analysis are intended to serve as an introduction to the Retirement System's financial statements, which are comprised of the following components:

1. Statements of Plan Net Assets are snapshots of account balances as of the close of the fiscal year – June 30, 2012 and 2011. They indicate the total assets as of June 30, 2012 and 2011, total liabilities at those dates and the net assets available for future payment of retirement benefits and operating expenses.
2. Statements of Changes in Plan Net Assets provide a view of additions to and deductions from the Plan during the fiscal years ended June 30, 2012 and 2011.

The statements of plan net assets and the statements of changes in plan net assets report information about the Retirement System's financial activities, prepared using the accrual basis of accounting. Contributions to the Plan are recognized when due and benefits and refunds are recognized and payable in accordance with the terms of the Plan.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value derived from third party pricing services. Purchases and sales of investments are recorded on a trade date basis. Alternative investments

represent the Retirement System's interest in limited partnerships. The fair values of the Retirement System's partnership interests and real estate investments are based on net asset values provided by the general partners.

Investments in forward currency contract investments are commitments to purchase and sell stated amounts of foreign currency. Changes in fair value of open contracts are immediately recognized as gains or losses. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges.

Additional information on the Retirement System's investments can be found in Note 4 of SFERS' full audited financial statements.

## FISCAL YEAR 2012

- Member contributions for the year ended June 30, 2012 increased by \$16.405 million, or 9.03% from the prior year. This is primarily due to an increase in the member contribution rates for all safety members during the year. For example, with the passage of Proposition D in 2010, the member contribution rate for all new safety members hired on or after July 1, 2010 increased from 7.5% to 9.0% of covered compensation. In addition pursuant to collective bargaining agreements with the safety labor organizations, the member contribution rate for all safety members who were hired on or before June 30, 2012 was also increased from 7.5% to 9.0% of covered pay.
- In order to maintain the fiscal soundness of the Plan, \$410.797 million in required employer contributions were made during the year ended June 30, 2012. The increase of \$101.974 million in required employer contributions reflect an increase in the employer contribution rate from 13.56% in Fiscal Year 2011 to 18.09% in Fiscal Year 2012, due to the continued recognition of investment losses from the year ended June 30, 2009.

- Net investment income decreased by \$2.807 billion from the prior year. The majority of the decrease is attributed to the \$2.805 billion decrease in net appreciation in fair market value of investments primarily as a result of the decline in the international equity markets. Interest income also decreased by \$12.883 million due mainly to turmoil in the domestic fixed income market.
- Benefit payments to Plan participants increased by \$78.784 million, or 8.9%, consistent with the \$54.5 million increase in retirement allowances initiated and paid during the year as well as, \$8.7 million in basic COLA and Supplemental COLA paid to most retired members effective July 1, 2011.
- Refunds of contributions decreased by \$518,000 or 4.5%, primarily as a result of fewer permanent workforce reductions implemented by the City and County during the year ended June 30, 2012.

## Requests for information

This Finance Division report is designed to provide a general overview of the Retirement System's finances for the years ended June 30, 2012 and 2011. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to:

Jay Huish  
Executive Director  
City and County of San Francisco  
Employees' Retirement System  
30 Van Ness Avenue, Suite 3000  
San Francisco, CA 94102

## Statements of Plan Net Assets

Years Ended June 30, 2012 and 2011

ASSETS	2012	2011
	<i>(in thousands)</i>	
Deposits	\$33,296	\$43,981
Accounts Receivable:		
Contributions Receivable – Members	10,854	9,017
Contributions Receivable – City and County	23,234	16,022
Investment Income Receivable:		
Interest	23,080	26,057
Dividends	9,816	12,410
Securities Lending	571	637
Receivable from Brokers, General Partners, Others	317,884	60,566
Investments at Fair Value:		
Short-Term Investments	706,721	726,811
Debt Securities:		
U. S. Government Securities	1,036,859	1,050,322
Other Debt Securities	3,010,690	3,218,676
Equity Securities	7,220,971	7,366,821
Real Estate	1,403,412	1,266,863
Alternative Investments	2,021,472	1,977,187
Foreign currency contracts, Net	(15,790)	(16,046)
Investments in Lending Agents' Short-Term Investment Pool	914,105	892,579
<b>Total Investments:</b>	<b>\$16,298,440</b>	<b>\$16,483,213</b>
<b>Total Assets:</b>	<b>\$16,717,175</b>	<b>\$16,651,903</b>
LIABILITIES	2012	2011
Payable to brokers	\$463,386	\$126,903
DROP (Deferred Retirement Option Program)	27,257	17,641
Other liabilities	15,438	15,063
Payable to borrowers of securities	917,390	893,457
<b>Total Liabilities:</b>	<b>\$1,423,451</b>	<b>\$1,053,064</b>
<b>Net Assets Held in Trust for Pension Benefits:</b>	<b>\$15,293,724</b>	<b>\$15,598,839</b>

## Statements of Changes in Plan Net Assets

Years Ended June 30, 2012 and 2011

ASSETS	2012	2011
	<i>(in thousands)</i>	
<b>ADDITIONS</b>		
Member contributions:		
Miscellaneous	\$152,090	\$149,148
Police	27,258	19,453
Firefighter	18,542	13,154
<b>Total Member Contributions</b>	<b>198,160</b>	<b>181,755</b>
Employer contributions:		
Miscellaneous	344,942	250,367
Police	39,389	34,887
Firefighter	26,466	23,569
<b>Total Employer Contributions</b>	<b>410,797</b>	<b>308,823</b>
Investment income (expenses):		
Interest	195,517	208,400
Dividends	170,759	159,671
Net Appreciation (depreciation) in Fair Value of Investments	(246,965)	2,557,950
Securities lending income	4,718	5,697
Investment Expenses	(44,540)	(44,579)
Securities Lending Borrower Rebates and Expenses	913	436
<b>Investment gain, net</b>	<b>80,402</b>	<b>2,887,575</b>
<b>Total Additions</b>	<b>\$689,359</b>	<b>\$3,378,153</b>
<b>DEDUCTIONS</b>		
Benefits	968,528	889,744
Refunds of Contributions	11,030	11,548
Administrative Expenses	13,661	13,544
Other Admin. Expenses - OPEB	1,255	1,264
<b>Total Deductions</b>	<b>\$994,474</b>	<b>\$916,100</b>
<b>Net (Decrease)/Increase</b>	<b>\$(305,115)</b>	<b>\$2,462,053</b>
<b>Net Assets Held in Trust for Pension Benefits</b>		
<b>Beginning of Year</b>	<b>\$15,598,839</b>	<b>\$13,136,786</b>
<b>End of Year</b>	<b>\$15,293,724</b>	<b>\$15,598,839</b>

## Pension Fund Investment Income

Fiscal Year 2011-12

	Realized Gain/Loss	Unrealized Gain/Loss	Total (in thousands)
<b>Income</b>			
Interest Earned			\$195,516,615
Dividends Earned			170,759,356
Securities Lending Income-Net			5,630,687
Recaptured Commission Income			145,825
Real Estate Income			69,757,703
Alternative Investment Income			(1,351,965)
Investment Expenses			(44,540,337)
<b>Total Income<sup>1</sup>:</b>			<b>\$395,917,884</b>
<b>Net Appreciation in Fair Values:</b>			
Short-Term Securities	\$(2,114,626)	\$(103,834)	\$(2,218,460)
Equities	68,545,421	(565,671,371)	(497,125,950)
Debt Securities	59,386,199	27,320,149	86,706,348
Real Estate	1,720,385	106,451,573	108,171,958
Alternative Investments	146,890,700	(90,373,865)	56,516,835
Other Assets	(14,885,944)	(52,680,923)	(67,566,867)
<b>Total Net Appreciation:</b>	<b>\$259,542,135</b>	<b>\$(575,058,271)</b>	<b>\$(315,516,136)</b>
<b>Total Income (including Net Appreciation):</b>			<b>\$80,401,749</b>

1. Total investment income excludes employee and employer contributions.

## Pension Fund Disbursements

Fiscal Year 2011-12

Payments/Expenses	Amount (in thousands)
Service Retirement Payments	\$716,744
Disability Retirement Payments	161,782
Proposition C – Cost of Living Adjustment	57,233
Death Allowance Payments	3,979
Death Benefits	2,157
Normal Contributions Paid as Death Benefit	3,786
Retired Annuitant Rolls (Option 1 Death Benefit)	2,062
DROP Program Accrued Retirement Benefits	24,571
Refunds of Contributions	7,244
Administrative Expenses: Retirement Services/Administration	14,916
<b>Total Payments &amp; Expenses</b>	<b>\$994,474</b>
<b>Increase From FY 2010-11:</b>	<b>\$78,374</b>

### 3 Year Comparison of Contributions

#### Employer (City and County) Contributions (in thousands)

Member Plan	Plan Year 2011-12	Plan Year 2010-11	Plan Year 2009-10
Miscellaneous Plan	\$344,942	\$250,367	\$182,899
Firefighter Plan	26,466	23,569	16,389
Police Plan	39,389	34,887	24,326
<b>Total</b>	<b>\$410,797</b>	<b>\$308,823</b>	<b>\$223,614</b>

#### Employee Contributions (in thousands)

Member Plan	Plan Year 2011-12	Plan Year 2010-11	Plan Year 2009-10
Miscellaneous Plan	\$152,090	\$149,148	\$157,416
Firefighter Plan	18,542	13,154	13,065
Police Plan	27,528	19,453	19,467
<b>Total</b>	<b>\$198,160</b>	<b>\$181,755</b>	<b>\$189,948</b>



### 3 Year Comparison of Actual Administrative Expenditures

#### Retirement Services & Administration Divisions (in thousands)

Description of Expenditures	Retirement Services/Administration		
	2011-12	2010-11	2009-10
Personnel Services	\$10,033	\$9,763	\$9,271
Equipment Purchase	29	40	19
Materials and Supplies	139	139	163
Services of Other Departments	2,066	2,238	1,822
Other Services	2,649	2,628	2,558
<b>Total</b>	<b>\$14,916</b>	<b>\$14,808</b>	<b>\$13,833</b>

#### Investment Division (in thousands)

Description of Expenditures	Investment Division		
	2011-12	2010-11	2009-10
Personnel Services	\$1,726	\$1,853	\$1,978
Equipment Purchase	0	0	0
Materials and Supplies	4	6	2
Services of Other Departments	152	298	728
Other Services	42,658	42,422	40,899
<b>Total</b>	<b>\$44,540</b>	<b>\$44,579</b>	<b>\$43,607</b>



# Actuarial Services Division

Measures the Actuarial Value of Plan Assets and Liabilities in Accordance with a Legally Mandated and Actuarially Prudent Funding Plan



## Overview

The Board appoints the in-house actuary (Actuarial Services Coordinator) and contracts with an independent consulting actuary to provide actuarial expertise for the operation of the Retirement System. The Consulting Actuary prepares and signs all actuarial valuations needed for prudent administration of the System, including the annual Actuarial Valuation. The actuarial valuation measures the funding status of the plan, and recommends the level of City contributions for the coming fiscal year, both in accordance with actuarial method and assumptions previously approved by the Board. The Board has final responsibility for approving the City contribution rate each year. The Actuarial Services Coordinator is directly responsible to the Board for managing and overseeing the actuarial function for the System, including the Actuarial Valuation and other activities including:

- Compiling and testing of membership data submitted to the consulting actuary for the actuarial valuation.
- Coordinating the consulting actuary's preparation of the annual Actuarial Valuation presented to the Retirement Board at its January meeting.
- Preparation of required disclosures of actuarial information required by the Governmental Accounting Standards Board (GASB) for SFERS financial statements.

- Coordinating the consulting actuary's preparation of operating factors and other data needed to administer benefits, including benefit conversion factors, cost of living increases and the credited interest rate applied to member accounts.
- Coordinating the consulting actuary's preparation of experience studies to evaluate and select actuarial assumptions and methods used in the annual actuarial valuation.
- Preparation and presentation of educational sessions on actuarial subjects for Board members and executive management, as needed.

Key results from the most recent Actuarial Valuation, as of July 1, 2012 are presented on page 25.



## Actuarial Assumptions and Method

The main actuarial assumptions used to measure the System's liabilities for future benefits payments were:

	July 1, 2012	July 1, 2011
Investment Return	7.58% per year	7.66% per year
Wage Inflation	3.83% per year	3.91% per year
Price Inflation	3.33% per year	3.41% per year
Mortality	RP 2000 Mortality Tables	RP 2000 Mortality Tables

The actuarial funding methods used are as follows:

- > entry age normal cost method
- > unfunded liability due to benefit increases amortized as a level percentage of payroll over 20 years
- > unfunded liability due to actuarial gains and losses, assumption changes and miscellaneous items amortized as a level percentage of payroll over 15 years beginning on the valuation date

The assets were valued using a 5-year smoothing of investment return greater than or less than the expected investment return.

## Key Results

Using the method and assumptions detailed above, the key findings of the latest valuation were:

### Funded Status as of July 1, 2012

Actuarial Liability	\$19.394 billion
Actuarial Value of Assets	\$16.028 billion
Unfunded Actuarial Liability <Surplus>	\$3.366 billion
Funded Status (assets / liabilities)	82.6%

## Employer (City and County) Contribution Rates

The retirement contribution rates that will be paid by the City in Fiscal Years 2012-13 and 2013-14 as derived from the following actuarial valuation results:

	FY 2013-14 valuation results as of July 1, 2012	FY 2012-13 valuation results as of July 1, 2011
Normal Cost	17.91%	17.90%
Unfunded Actuarial Liability	7.88%	3.66%
Remaining Cost of Propositions	6.11%	6.21%
Employee Contributions	(7.53%)	(7.51%)
Administrative Expenses	0.45%	0.45%
<b>Board Approved City Contribution Rate</b>	<b>24.82%</b>	<b>20.71%</b>

# Investments

Dedicated to securing, protecting and prudently investing the Pension trust assets



## Outlook

Although both fiscal and monetary policies remained very accommodative around the globe in Fiscal Year 2012, investment results were dominated by the mixed themes of uncertainty and recovery. Domestic uncertainty continues to be in the forefront as investors worry over persistently high unemployment, low levels of economic growth and an unknown political environment that result in the consumer limiting their spending. The international markets are dealing with a similar set of issues as growth rates in the emerging markets (more specifically, China) are being reduced while much of the periphery of western Europe (Spain, Italy, Greece, etc.) is seeing negative growth as they struggle with the potential political, social and economic impacts of austerity. In this environment, investors remain cautious. With this perspective, the System continues to follow its policies and procedures with respect to the long-term asset allocation and takes a long-term view to manage through both difficult and prosperous times by employing a disciplined approach to the investment of the System's assets.

For the Fiscal Year ended June 30, 2012, the San Francisco Employees' Retirement System (the "System") returned +1.67%.

During the fiscal year, staff and consultants reviewed the Fund's sub-asset class allocation in the Public Market (Equities and Fixed Income) segments and made several minor adjustments. Staff also evaluated and updated Investment Plans for Private Markets (Alternatives and Real Estate).

## Overview

The Retirement System's investment strategies and the composition of its aggregate portfolio have changed considerably over the years since its inception. However, the Retirement System's investment objective has essentially remained the same: **to maximize long-term rates of return on investments within prudent guidelines.**

In order to achieve the investment objective, the Retirement Board approved the following asset allocation policy in September 2012:

Asset Class	Policy Target	Policy Range	Actual
US Equity	23.5%	20-27%	27.4%
International Equity	23.5%	20-27%	21.5%
Global Fixed Income	25.0%	20-35%	27.1%
Alternative Assets	16.0%	10-20%	13.4%
Real Estate	12.0%	9-15%	10.1%
Cash	0.0%	0-1%	0.5%

*Percentages based on total plan assets minus dedicated cash, STEP segregated cash and currency overlay.*



## Investment Performance Highlights for Fiscal Year Ended June 30, 2012

The Retirement System investment portfolio returned 1.67% for the Fiscal Year ended June 30, 2012, but lagged the policy benchmark return of 2.33%. Both U.S. equities (+2.64%) and Alternatives (+5.76%) posted positive returns, but were significantly behind their policy benchmarks, which were up +3.84% and +10.70%, respectively.

### Equity

Public equities (-5.31%) were a mixed bag during the Fiscal Year. The System's U.S. equities rose 2.61%, but lagged the Russell 3000 (+3.84%) by 124 basis points as poor performance in small cap stocks hurt results. Conversely, Non-U.S. equities (-14.65%) posted their worst performance in 3 years, but were ahead of MSCI ACWI (ex-us) IMI benchmark (-14.79%) by 14 basis points.

### 2011-12 Equity Manager Changes:

- Pyramis Global Advisors. In July 2011, Pyramis Global Advisors was added to the System's international small cap equity managers as a complement to Dimensional Fund Advisors. The mandate was funded with \$157.3 million. An additional \$85 million was added in September 2011.
- Dimensional Fund Advisors. As part of a search for emerging market equity managers, Dimensional Fund Advisors was retained to manage assets in Emerging Market Small Company (\$85 million in September 2011) and Emerging Market Core (\$75 million in November 2011).
- Capital International. In addition to Dimensional Fund Advisors, Capital International was retained for Emerging Market Equities with an initial allocation of \$75 million in November 2011.

- Artio Global Investors. In January 2012, Artio Global Investors was terminated as an International Equity manager for SFERS. The assets, approximately \$311 million, were transitioned to the Northern Trust EAFE passive index account.

### Fixed Income

The Fixed Income Portfolio matched its benchmark and returned 7.37% for the Fiscal Year ended June 30, 2012.

During the Fiscal Year, approximately \$623 million was raised from various Fixed Income Portfolios for the purposes of providing for the System's retirement benefit payments; funding fixed income opportunistic strategies and an aggregate index portfolio; and to adjust total Fixed Income assets to meet the Board approved asset allocation target of 25%.

### 2011-12 Fixed-Income Manager Changes:

- Cerburus Levered Loans. The Retirement Board approved a commitment of up to \$25 million in the Cerberus Levered Loan Opportunistic Fund I, L.P., which will be part of the opportunistic segment of fixed-income;
- Western Asset Management. In January 2011, the Retirement Board approved the termination of Western Asset Management, which had managed a Core-Plus bond portfolio. The assets, approximately \$310 million, were transitioned to the Blackrock U.S. Aggregate Bond index fund and other active Core-Plus bond managers.
- The Retirement Board approved changes in investment guidelines for Prima Capital Advisors, a Commercial Mortgage Manager. These changes were made mainly for the purpose of providing purchasing flexibility.

## Alternative Investments

In December 2011, the Retirement Board approved the annual investment plan for the Alternative Investment Program – recommending an investment pace of \$350 million for Calendar Year 2012. During the Fiscal Year, new commitments were made by Staff in a broad set of private equity and venture capital limited partnerships and included investment management firms that currently managed assets for SFERS as well newly selected firms with strategies designed to improve the diversification and return of the portfolio. As of June 30, 2012, the market value for alternative investments was \$2.0 billion or 13.2% of the total investment portfolio.

The alternative investment portfolio returned 5.76% for the Fiscal Year. Over the past 5-years, the portfolio has earned 7.38% - exceeding the benchmark (S&P 500 + 5%) by 214 basis points.

### FY 2011-12 Alternative Investments Commitments:

#### Buy Out:

- American Securities Partners VI, \$25 million
- Green Equity Investors VK, \$20 million
- Hony Capital Fund V, \$20 million
- Thoma Bravo Fund X, \$20 million

#### Venture Capital:

- Bain Capital Ventures 2012, \$20 million
- Canaan Partners IX, \$30 million
- Institutional Venture Partners XIV, \$30 million
- Mayfield XIV, \$10 million
- New Enterprise Associates 14, \$20 million

#### Special Situations:

- Apollo European Principal Finance Fund II, \$25 million
- Oaktree Opportunities Fund, IX, \$30 million
- Windjammer Senior Equity Fund IV, \$30 million

## Real Estate

In May 2012, the Retirement Board approved the Annual Real Estate Investment Strategy. The Strategy provides for a target allocation of \$400 million in private real estate investments and an additional \$50 million allocation to public real estate investments. The Fiscal 2013 Investment Strategy also calls for a strategy shift over time away from core real estate and towards valued-add and opportunistic investments.

For the Fiscal Year ended June 30, 2012, the real estate portfolio had one-year and five-year returns of 20.11% and -1.38%, respectively. During Fiscal Year 2012, the Retirement Board approved a change to the benchmark for real estate – shifting from NCREIF (National Council of Real Estate Investment Fiduciaries) + 1.5% to a flat 8%. Consequently, the benchmark's results represent a blend of the two benchmarks. The five-year results (+3.52%) continue to reflect the impact of unrealized losses taken from appraisals by certified appraisal professionals between the third quarter of 2008 and the fourth quarter of 2010 (2.5 years) and the negative impact of leverage on assets with declining values. As of June 30, 2012, the market value of SFERS' real estate portfolio was \$1.5 billion and represented 10.1% of the total fund.

SFERS' investment staff continues to review investment opportunities for those that fit with the long-term real estate investment strategy and that are aligned with anticipated demographic, technological and regulatory trends while offering attractive risk adjusted returns.

### 2011-2012 Real Estate Commitments:

- Almanac Realty Securities VI, \$50 million
- Fortress Japan Opportunity Fund II, \$25 million

As of June 30, 2012, approximately 10.9% of SFERS' trust assets were managed internally. This consisted of \$1.3 billion in domestic equities and \$344 million in domestic bonds. The balance of the portfolio was managed by external investment management firms that specialized in specific asset classes – including domestic and international equities, global fixed-income, alternative investments and real estate.

## San Francisco Employees' Retirement System

### Summary of Investments (in thousands)

at June 30, 2012

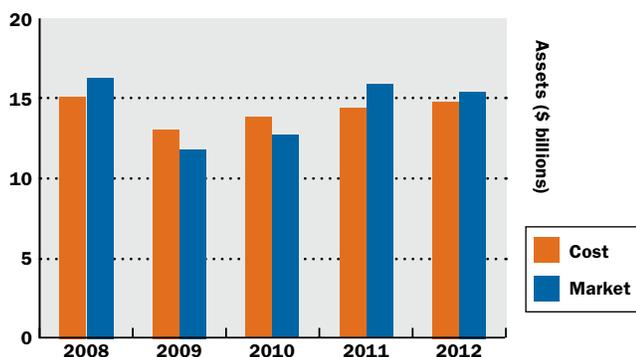
at June 30, 2011

Asset Class	Market	% of Portfolio	Market	% of Portfolio
<b>Equities</b>				
U.S. Equities	4,169,625	27.3%	4,167,179	27.0%
International Equities	3,286,774	21.5%	3,593,150	23.3%
<b>Total Equities</b>	<b>7,456,399</b>	<b>48.8%</b>	<b>7,760,329</b>	<b>50.3%</b>
<b>Global Fixed Income</b>	<b>4,110,599</b>	<b>26.9%</b>	<b>4,277,257</b>	<b>27.7%</b>
<b>Alternative Investments</b>				
Buyout	984,280	6.4%	979,089	6.3%
Venture	580,610	3.8%	531,889	3.4%
Special Situations	463,790	3.0%	423,589	2.7%
<b>Total Alternative Investments</b>	<b>2,028,680</b>	<b>13.3%</b>	<b>1,934,567</b>	<b>12.5%</b>
<b>Real Estate</b>	<b>1,538,946</b>	<b>10.1%</b>	<b>1,318,989</b>	<b>8.5%</b>
<b>Cash</b>	<b>154,535</b>	<b>1.0%</b>	<b>149,320</b>	<b>1.0%</b>
<b>Total Investment Portfolio</b>	<b>15,289,159</b>	<b>100.0%</b>	<b>15,440,462</b>	<b>100.0%</b>

Investment portfolio totals are net of management fees and expenses and therefore does not track to pension net assets reported in SFERS audited financial statements.

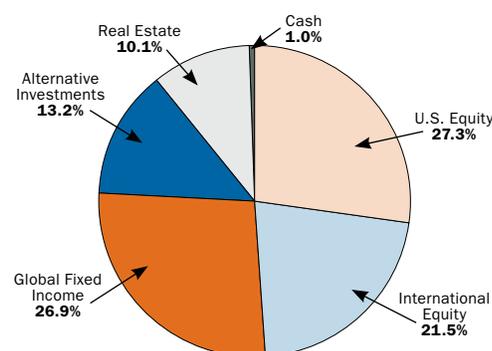
### Pension Fund Net Assets

as of June 30, 2012



### Asset Allocation

as of June 30, 2012



For the Fiscal Year ended June 30, 2012, the investment portfolio of the Retirement System rose by 1.67% on mixed results in the asset classes employed. U.S. Equities (+2.61%), Fixed-Income (+7.37%), Real Estate (+20.11%) and Alternatives (+5.76%) and climbed while Non-U.S. Equities (-14.65%) dropped.

## Investment Portfolio Performance

### Annualized Returns for the Periods ending 6/30/2012

(Net of fees and expenses)

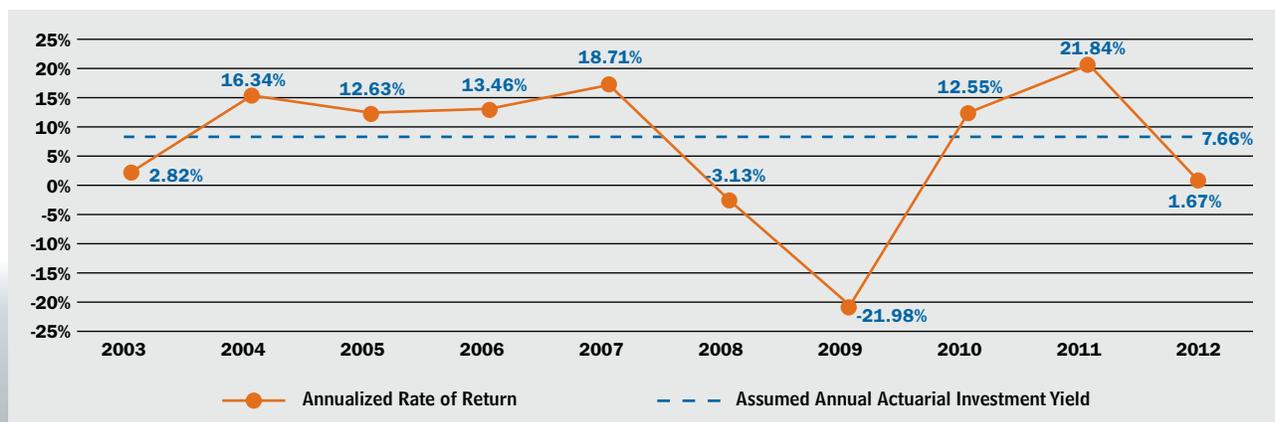
	1-YEAR	3-YEARS	5-YEARS	10-YEARS	20-YEARS
<b>Domestic Equity</b>	<b>2.61%</b>	<b>16.24%</b>	<b>0.00%</b>	<b>5.22%</b>	<b>8.33%</b>
Benchmark: Russell 3000	3.84%	16.73%	0.39%	5.81%	8.51%
<b>International Equity</b>	<b>-14.18%</b>	<b>7.48%</b>	<b>-5.47%</b>	<b>6.49%</b>	<b>7.80%</b>
Benchmark: International Equity Policy <sup>1</sup>	-14.79%	7.36%	-4.21%	6.97%	6.20%
<b>Global Fixed Income</b>	<b>7.37%</b>	<b>12.11%</b>	<b>5.73%</b>	<b>6.72%</b>	<b>7.16%</b>
Benchmark: Fixed Income Policy <sup>2</sup>	7.36%	7.55%	6.76%	5.88%	6.54%
<b>Alternative Assets</b>	<b>5.76%</b>	<b>16.00%</b>	<b>7.38%</b>	<b>13.09%</b>	<b>15.65%</b>
Benchmark: Alternative Investments Policy <sup>3</sup>	10.70%	22.15%	5.24%	10.64%	14.28%
<b>Real Estate</b>	<b>20.11%</b>	<b>4.03%</b>	<b>-1.38%</b>	<b>5.83%</b>	<b>14.28%</b>
Benchmark: Gross NPI +1.5% <sup>4</sup>	10.51%	6.06%	3.52%	9.28%	8.95%
<b>TOTAL FUND</b>	<b>1.67%</b>	<b>11.71%</b>	<b>1.02%</b>	<b>6.67%</b>	<b>8.17%</b>
Weighted Policy Benchmark <sup>5</sup>	2.33%	12.11%	2.55%	7.12%	7.62%

Source: The Northern Trust Company

- Int'l Equity Policy consists of 100% MSCI ACWI IMI Ex-US (ND) from 09/30/08 through current, 100% MSCI ACWI Ex-US (ND) from 01/31/2001 through 09/30/2008, 100% MSCI ACWI Ex-US (GD) previous to 01/31/2001.
- Total Fixed Income Policy consists of 100% BC Universal from 6/30/07 through current, 75% BC Universal/25% BC Global Aggregate from 9/30/05 to 6/30/07, 80%/20% from 9/30/02 to 9/30/05, 100% BC Universal 9/30/00 to 9/30/02, and 100% BC Aggregate previous to 9/30/00.
- Alt. Inv. Policy consists of the S&P500 + 600 bps through 12/31/02, + 500 bps thereafter. For periods less than one year, the excess 500 basis points are prorated.
- The Real Estate benchmark consists of NPI (NCREIF Property Index) + 150 basis points through 9/30/2011 and a flat 8% annual return thereafter.
- The current SFERS weighted policy consists of 23.5% Russell 3000, 23.5% MSCI-ACWI IMI ex-US (ND), 25% Barclays US Universal, 12% SFERS Real Estate Benchmark and 16% SFERS Alternatives Investment Benchmark. Performance for 20 years includes staff calculations of policy performance for fiscal years 1993, 1994 and 1995 based on asset class benchmark performance and policy weight estimates for the specific fiscal years.

## Annual Rates of Return Last Ten Years

### Periods ending June 30



# Retirement Services Division

Providing members with information and education about retirement benefits and services



## Overview

SFERS employs a dedicated team of knowledgeable professionals who offer extensive services to SFERS members and their beneficiaries. Under the direction of the Deputy Director, the Retirement Services Division conducts new member enrollments, prepares benefits calculations, counsels active and retired members, provides pre-retirement education, as well as oversees member communications, retiree payroll and tax reporting, termination benefits and death payments.

## Division Report

The Retirement Services team is the face of the organization—the front line and back bone of Retirement System operations, each year providing thousands of SFERS members with information and tools to help them effectively plan and prepare for retirement. SFERS strives to provide this flagship group the resources best suited to serve the needs of SFERS dynamic membership.

A City Charter amendment passed by the voters in November 2011 established five new benefit plans. The additional plans bring the total Plans administered by SFERS for active members to 15. Also, provisions for employee contributions to the Retirement System changed, providing for cost-sharing of employee and employer contributions required to fund retirement benefits for SFERS members.

The Retirement Services team responded by implementing business processes to ensure continuity of service to which members have become accustomed.

Additionally, Retirement Services is the first SFERS Division to begin transitioning from our current document management system to a new state-of-the-art enterprise content management system. SFERS also launched a new and improved website providing 24/7 member access to SFERS information, forms and services.

## SFERS Plan Membership

The Retirement System administers a total of 15 benefit structures for active members of the City and County of San Francisco's pension plan according to employee group: two Firefighter Old Plans and three Firefighter New Plans; one Police Old Plan and three Police New Plans; one Miscellaneous Old Plan and three Miscellaneous New Plans; one Miscellaneous Safety Plan; and one Sheriffs Plan.

Generally, employees who became members of SFERS prior to City Charter amendments passed by the voters in November 1976 are covered under the Old Plans, whereas employees who became SFERS members after the November 1976 Charter amendments are covered by the New Plans.

While the November 1976 Charter amendments established the first New Plan benefit structures, subsequent New Plan benefits currently in effect for Miscellaneous members were established by Charter amendments passed in November 2000, June 2010, and November 2011. New Plan benefits currently in effect for Safety members were established by Charter amendments passed in November 2002, June 2010, and November 2011.

Additionally, New Plan benefits were established for two new member groups: Miscellaneous Safety members and Sheriffs members by a Charter amendment passed in November 2011. A description of each Plan by Charter section is found on page 33.

SFERS members include employees of the City and County of San Francisco, the San Francisco Unified School District, the San Francisco Community College District, as well as the Trial Courts.

Beginning on September 5, 1995, employees hired into positions not eligible for SFERS membership, who earn 1040 hours of compensation or more during

any 12-month period, become eligible for retirement membership on the first day of the pay period following the pay period in which the member earns 1040 hours of compensation.

On January 1, 2003, members of the Safety Old Plans were eligible to become members of SFERS under San Francisco Charter Sections A8.595 and A8.596 respectively, while members of the Safety New Plans automatically became members of SFERS under San Francisco Charter Sections A8.597 and A8.598 under provisions of Proposition H passed by the voters in November 2002.

Members of the Miscellaneous Plan became eligible for Social Security coverage under the Federal Old-Age and Survivors Disability Insurance (FICA), beginning September 1959 (San Francisco Charter Section A8.514). In the past, members covered under Social Security were able to elect to reduce their contributions to the Retirement System by a portion of the amount contributed to Social Security annually. These members accrued account shortages and will have reduced pensions upon retirement if the shortages are not paid prior to retirement. This reduced contribution provision is no longer available to SFERS members.

Members of the Sheriffs and Miscellaneous Safety Plans became members of SFERS under San Francisco Charter Sections A8.608 and A8.610, respectively under provisions of Proposition C passed by the voters in November 2011.

Additionally, employees in certain job classifications of the City and County of San Francisco are eligible for membership in other retirement systems. For example, deputized personnel of the Sheriff's Department, institutional police officers, district attorney investigators, and probation officers hired before January 7, 2012 are members of CalPERS; full-time school teachers hired after June 30, 1972 are members of the State Teachers Retirement System.

## SFERS Plan Benefits Structure:

MEMBERSHIP GROUP	SERVICE RETIREMENT BENEFIT
<b>Miscellaneous Old Plan A8.509</b> <ul style="list-style-type: none"> <li>Miscellaneous employees who became members before November 2, 1976</li> </ul>	2.3% @ age 62; maximum benefit 75% of final compensation
<b>Miscellaneous New Plan Tier I A8.587</b> <ul style="list-style-type: none"> <li>Miscellaneous employees who became members on or after November 2, 1976</li> </ul>	2.3% @ age 62; maximum benefit 75% of final compensation
<b>Miscellaneous New Plan Tier II A8.600</b> <ul style="list-style-type: none"> <li>Miscellaneous employees who became members on or after July 1, 2010 and before January 7, 2012</li> </ul>	2.3% @ age 62; maximum benefit 75% of final compensation
<b>Miscellaneous New Plan Tier III A8.603</b> <ul style="list-style-type: none"> <li>Miscellaneous employees who became members on or after January 7, 2012</li> </ul>	2.3% @ age 65; maximum benefit 75% of final compensation
<b>Police Old Plan A8.595</b> <ul style="list-style-type: none"> <li>Police officers who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003</li> </ul>	3.0% @ age 55; maximum benefit 90% of final compensation
<b>Police New Plan Tier I A8.597</b> <ul style="list-style-type: none"> <li>Police officers who became members on or after November 2, 1976 and were eligible for Proposition H benefits effective January 1, 2003</li> </ul>	3.0% @ age 55; maximum benefit 90% of final compensation
<b>Police New Plan Tier II A8.602</b> <ul style="list-style-type: none"> <li>Police officers who became members on or after July 1, 2010 and before January 7, 2012</li> </ul>	3.0% @ age 55; maximum benefit 90% of final compensation
<b>Police New Plan Tier III A8.605</b> <ul style="list-style-type: none"> <li>Police officers who became members on or after January 7, 2012</li> </ul>	3.0% @ age 58; maximum benefit 90% of final compensation
<b>Firefighter Old Plan A8.588</b> <ul style="list-style-type: none"> <li>Firefighters who were members on January 1, 2003, who did not elect Proposition H</li> </ul>	2.7% @ age 55; maximum benefit 75% of final compensation
<b>Firefighter Old Plan A8.596</b> <ul style="list-style-type: none"> <li>Firefighters who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003</li> </ul>	3.0% @ age 55; maximum benefit 90% of final compensation
<b>Firefighter New Plan Tier I A8.598</b> <ul style="list-style-type: none"> <li>Firefighters who became members on or after November 2, 1976 and were eligible for 2002 Proposition H benefits effective January 1, 2003</li> </ul>	3.0% @ age 55; maximum benefit 90% of final compensation
<b>Firefighter New Plan Tier II A8.601</b> <ul style="list-style-type: none"> <li>Firefighters who became members on or after July 1, 2010 and before January 7, 2012</li> </ul>	3.0% @ age 55; maximum benefit 90% of final compensation
<b>Firefighter New Plan Tier III A8.604</b> <ul style="list-style-type: none"> <li>Firefighters who became members on or after January 7, 2012</li> </ul>	3.0% @ age 58; maximum benefit 90% of final compensation
<b>Sheriffs Plan A8.608</b> <ul style="list-style-type: none"> <li>Sheriffs, undersheriffs and all deputized personnel of the Sheriff's Department who became members on or after January 7, 2012</li> </ul>	3.0% @ age 58; maximum benefit 90% of final compensation
<b>Miscellaneous Safety Plan A8.610</b> <ul style="list-style-type: none"> <li>Probation Officers, District Attorney Investigators and Juvenile Court Counselors who became members on or after January 7, 2012</li> </ul>	2.7% @ age 58; maximum benefit 90% of final compensation

## SFERS Membership Summary

SFERS active membership falls within three categories:

1. Active Members who are currently on City and County Payroll
2. Vested Members who have left City and County employment with five or more years of SFERS service, but have left their contributions on account with SFERS and elected to receive a vested retirement allowance at a later date
3. Reciprocal Members who, after leaving City and County employment, have accepted employment with a reciprocal employer and elected to leave their contributions on account with SFERS regardless of SFERS service to be eligible to receive a reciprocal benefit when they retire concurrently from both employers

As of June 30, 2012, there were 30,247 members of the Miscellaneous Plans, 2,003 members of the Police Plans and 1,396 members of the Firefighter Plans.

### SFERS Active Membership as of June 30, 2012

Plan Membership Group	Number of Members			
	Active	Vested	Reciprocal	Total
Miscellaneous Old Plan Members Before November 2, 1976	128	21	3	152
Miscellaneous New Plan Members On And After November 2, 1976	24,750	4,412	933	30,095
Police Old Plan Members Before November 2, 1976	1	0	0	1
Police New Plan Members On And After November 2, 1976	1,882	105	15	2,002
Firefighter Old Plan Members Before November 2, 1976	5	0	0	5
Firefighter New Plan Members On And After November 2, 1976	1,331	38	22	1,391
<b>TOTALS:</b>	<b>28,097</b>	<b>4,576</b>	<b>973</b>	<b>33,646</b>

## Retirement Statistics

### Plan Year Ended June 30, 2012

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2011-12, as well as benefits payment summaries and comparisons.

The following table summarizes major activities of the SFERS Retirement Services Division during Plan Years 2011-12 and 2010-11:

Activity	2011-12	2010-11
Retirement Estimates Requests	1030	1054
Retirement Appointments Scheduled	2439	2565
Retirement Appointments Attended	2119	2143
Buyback Appointments Scheduled	942	1175
Personnel Transactions:		
New Members (New Hires)	1332	1232
New Members (1040 Hours Membership)	796	753
Rehires	180	150
Police Recruits	69	29
Fire Recruits	31	41
Sheriff Recruits	0	0
Pre-Retirement Seminars	8	4
Registered Attendees At Pre-Retirement Seminars	614	449

The Retirement Services Division sponsored and conducted four retirement seminars during Plan Year 2011-12. These seminars provided individualized benefits counseling for 507 Miscellaneous Plan members considering retirement within the next five years. Retirement staff also participated in four retirement seminars sponsored by the Police Officers Association and by the Fire Department.

## New Retirements

*Effective during Plan Year Ended June 30, 2012*

Member Group	Service <sup>1</sup>	Vesting	Industrial Disability	Ordinary Disability	Total
Miscellaneous	899	240	N/A	25	1164
Police	126	3	1	0	130
Firefighter	41	3	4	0	48
<b>TOTALS</b>	<b>1066</b>	<b>246</b>	<b>5</b>	<b>25</b>	<b>1342</b>

The total number of new retirements effective during Plan Year 2011-12 was 4.4% higher than retirements in Plan Year 2010-2011. Service retirements represent 79.4% of the total of new retirements processed.

Miscellaneous retirements represented 86.7% of the total retirements processed in Plan Year 2011-12, a increase from 86.2% in Plan Year 2010-2011.

Police retirements represented 9.7% of the total retirements processed in Plan Year 2011-12, an increase from 7.5% in Plan Year 2010-2011.

Firefighter retirements represented 3.6% of the total retirements processed in Plan Year 2011-12, a decrease from 8.3% in Plan Year 2010-2011.

## Deferred Retirement Option Program (DROP)

*Effective during Plan Year Ended June 30, 2012*

Member Group	Exited Participation	Term Of Drop	Remaining Participants
Police Officer	55	36 months	110
Sergeant	32	24 months	27
Inspector	33	24 months	45
Lieutenant	22	12 months	2
Captain	14	12 months	0
<b>TOTALS</b>	<b>156</b>		<b>184</b>

1. Total service retirements in Plan Year 2011-12 include applications for industrial or ordinary disability which have qualified for service retirement but are pending decision on disability application.

**Total Retirement Allowances**  
Retired Members and Survivor Continuation Benefits  
as of June 30, 2012

Member Category	Service Retirements	Disability Retirements <sup>1</sup>	Death in Line of Duty	Total
<b>Miscellaneous</b>	<b>18,829</b>	<b>1,926</b>	<b>N/A</b>	<b>20,755</b>
Member	16,568	1,404	N/A	17,972
Continuation	2,261	522	N/A	2,783
<b>Police</b>	<b>1,443</b>	<b>752</b>	<b>34</b>	<b>2,229</b>
Member	1,144	517	0	1,661
Continuation	299	235	34	568
<b>Firefighter</b>	<b>1,194</b>	<b>983</b>	<b>29</b>	<b>2,206</b>
Member	999	755	0	1,754
Continuation	195	228	29	452
<b>TOTAL</b>	<b>21,466</b>	<b>3,661</b>	<b>63</b>	<b>25,190</b>

**Monthly Retirement Benefits Payable**  
Retired Members and Survivor Continuation Benefits (in thousands)  
as of June 30, 2012

Member Category	Service Retirements	Disability Retirements <sup>1</sup>	Death in Line of Duty	Total
Miscellaneous	\$47,375	\$3,626	N/A	\$51,001
Police	9,998	4,300	182	14,480
Firefighter	7,690	6,672	131	14,493
<b>TOTAL</b>	<b>\$65,063</b>	<b>\$14,598</b>	<b>\$313</b>	<b>\$79,974</b>

1. Includes Ordinary Disability (Miscellaneous, Police, and Fire) and Industrial Disability (Police and Fire).

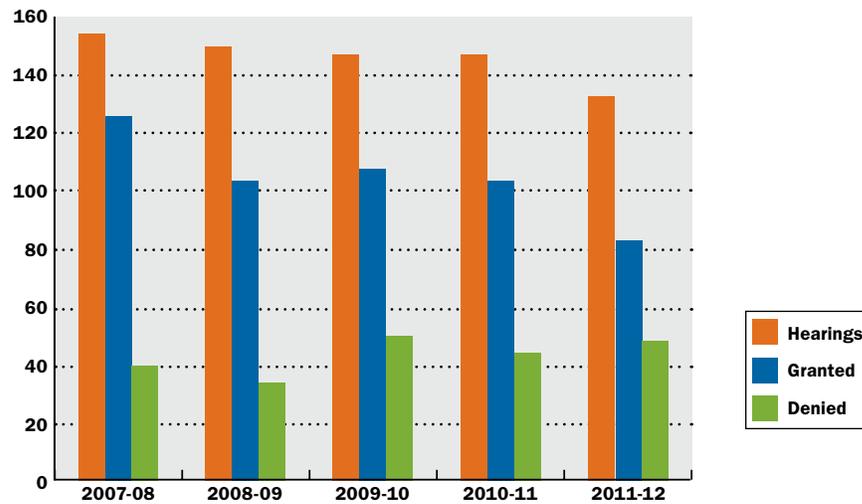
## Disability Retirement Hearing Report

A member or legal agent, acting on behalf of a member, can initiate a claim for disability retirement (ordinary and industrial) by filing an application with the SFERS. The Retirement System gathers medical documentation related to the claim, and forwards the application with supporting medical documentation to the City Attorney's office for review. All such applications are adjudicated by an independent hearing officer, in accordance with the provisions of San Francisco Charter A8.518. The table below provides a summary of disability retirement hearings in the fiscal year ending June 30, 2012.

### Hearing Officer Report<sup>1</sup> Fiscal Year Ended June 30, 2012

Cases	Total # of Hearings	Total # Granted	Total # Denied
Industrial Disability Retirements	56	30	21
Ordinary Disability Retirements	68	43	13
Death Benefits	5	2	1
Petitions For Rehearing	0	0	12
CalPERS	6	7	0
<b>TOTAL</b>	<b>135</b>	<b>82</b>	<b>47</b>

### Hearing Officer Report Five-Year Comparison



1. The Hearing Officer Report represents cases processed in the period July 1, 2011 – June 30, 2012, and may reflect cases pending from prior periods.

# San Francisco 457(B) Deferred Compensation Plan

Providing members with opportunities to maximize retirement savings



The San Francisco 457(b) Deferred Compensation Plan (SFDCP) was adopted in 1979 and allows City employees to voluntarily elect to defer receipt and taxation of a portion of their regular earnings until after they retire or separate from service. This method of tax deferral has become an increasingly popular vehicle utilized by City employees as they save for their future.

The Plan offers a diverse selection of 25 core investment funds including access to a self-directed brokerage option. During the past fiscal year, total assets for the SFDCP grew at approximately 7%, while the average account balance per participant grew to \$85,990. The SFDCP also grew in deferrals.

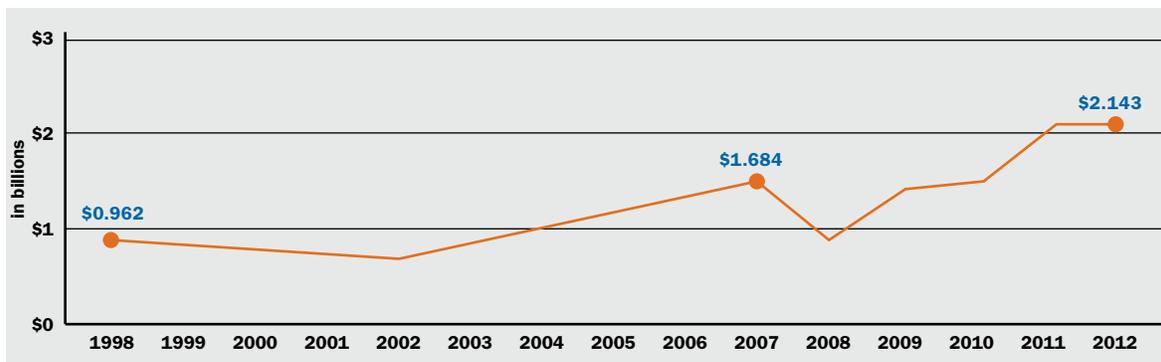
The Deferred Compensation Division oversees and monitors the City's 457(b) Deferred Compensation Plan through a third-party plan administrator, Great-West Retirement Services (GWRS).

GWRS offers SFDCP participants beneficial plan features including low participant fees, an enhanced core lineup of investment options, a customized website and communications, enhanced online transactions, and a local service center in San Francisco.

Additionally, the Deferred Compensation Division administers the hardship withdrawal program, qualified domestic relations orders, payroll deferrals, requests for proposals, SFDCP News, and review of investment fund assessments.

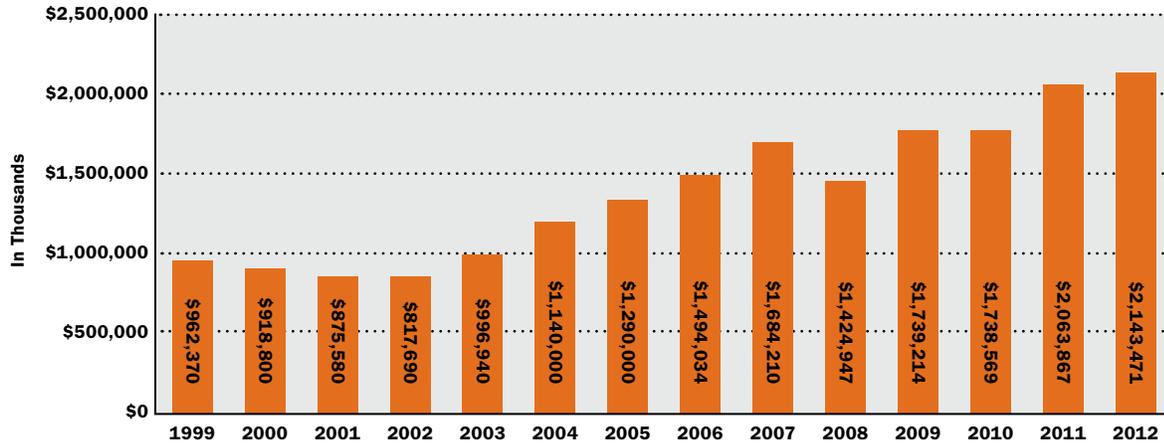
As of June 30, 2012, there were 24,197 participants in the SFDCP with Plan assets valued at \$2.143 billion. The charts and tables on pages 40-44 provide detailed information about the 25 core investment funds that make up the City's 457(b) Deferred Compensation Plan, as well as customer service activity and participation for Fiscal Year 2011-12.

## SFDCP Assets Under Management

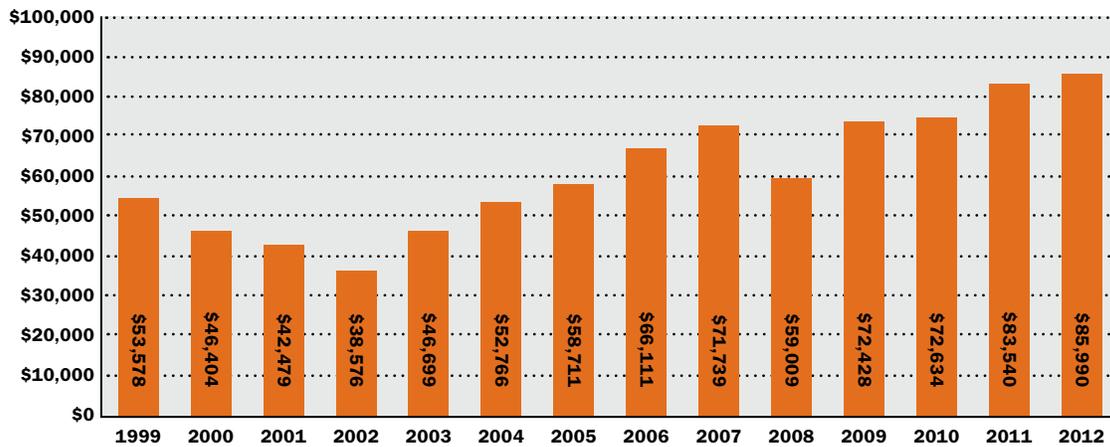


SFDCP Historical Annual Plan Growth Summary  
As of 06/30/2012

Plan Assets



Average Account Balance



## SFDCP Values As of June 30, 2012

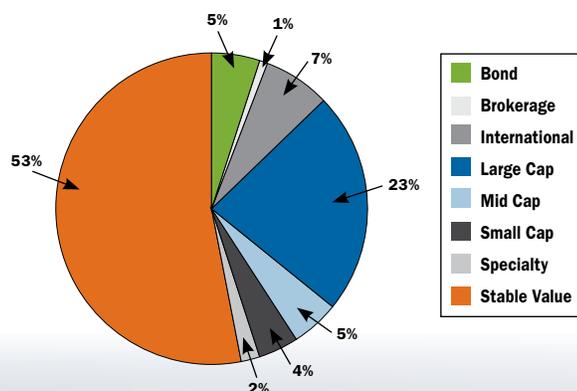
Funds	Total Assets	Percent of Total Assets	Annual Percentage
SFDCP Stable Value Portfolio	\$935,239,806	43.63%	3.68%
SFDCP Large Cap Growth Equity Portfolio	\$233,368,263	10.89%	3.96%
SFDCP International Equity	\$111,343,777	5.19%	-12.67%
SFDCP Large Cap Core Equity - S&P 500 Index	\$106,431,985	4.97%	5.45%
SFDCP Core Bond Portfolio	\$86,906,461	4.05%	6.96%
SFDCP Mid Cap Core Equity Portfolio	\$50,664,239	2.36%	-1.00%
SFDCP Small Cap Value Equity Portfolio	\$40,716,128	1.90%	-2.79%
SFDCP Small Cap Growth Equity Portfolio	\$23,942,639	1.12%	-15.38%
SFDCP Real Estate Portfolio	\$34,553,122	1.61%	10.25%
SFDCP Large Cap Value Equity Portfolio	\$26,217,350	1.22%	0.41%
SFDCP Large Cap Core Equity Active Portfolio	\$26,419,154	1.23%	6.11%
SFDCP Mid Cap Value Equity Portfolio	\$15,062,830	0.70%	-6.91%
SFDCP Mid Cap Growth Equity Portfolio	\$16,469,528	0.77%	-2.78%
Target Date Funds <sup>1</sup>	\$404,675,865	18.88%	—
TD Ameritrade	\$12,061,173	0.56%	—
SFDCP Small Cap Core Equity Portfolio	\$9,772,113	0.46%	-9.23%
SFDCP Large Cap Social Equity Portfolio	\$9,626,856	0.45%	2.90%
<b>TOTAL PLAN ASSETS</b>	<b>\$2,143,471,289</b>		

\* Assets are rounded up to the nearest dollar

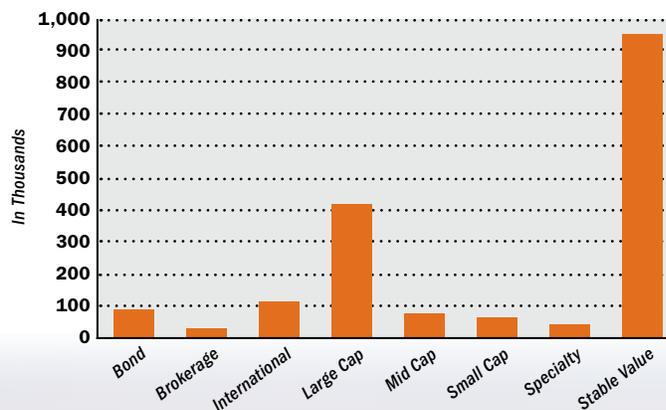
<sup>1</sup> Term Portfolios were eliminated and assets were mapped to SFDCP Target Date Funds.

## SFDCP Asset Summary as of June 30, 2012

Participation by Asset Class - Percent of Assets



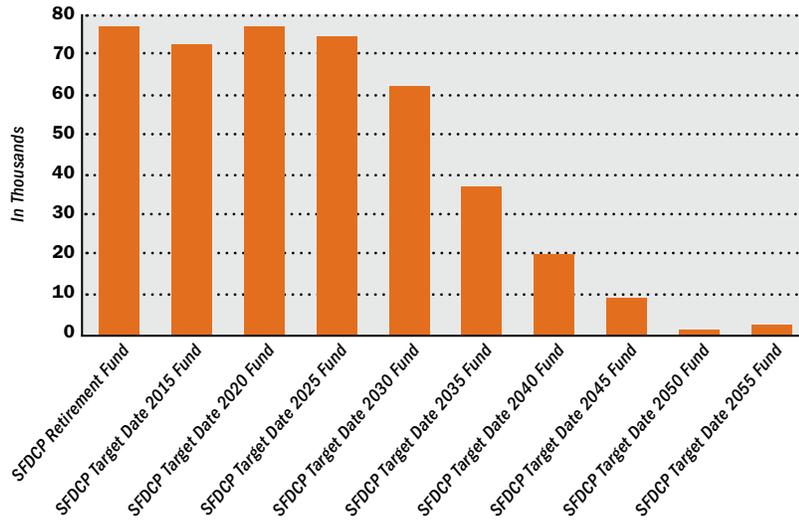
Participation by Asset Class - Investment Value



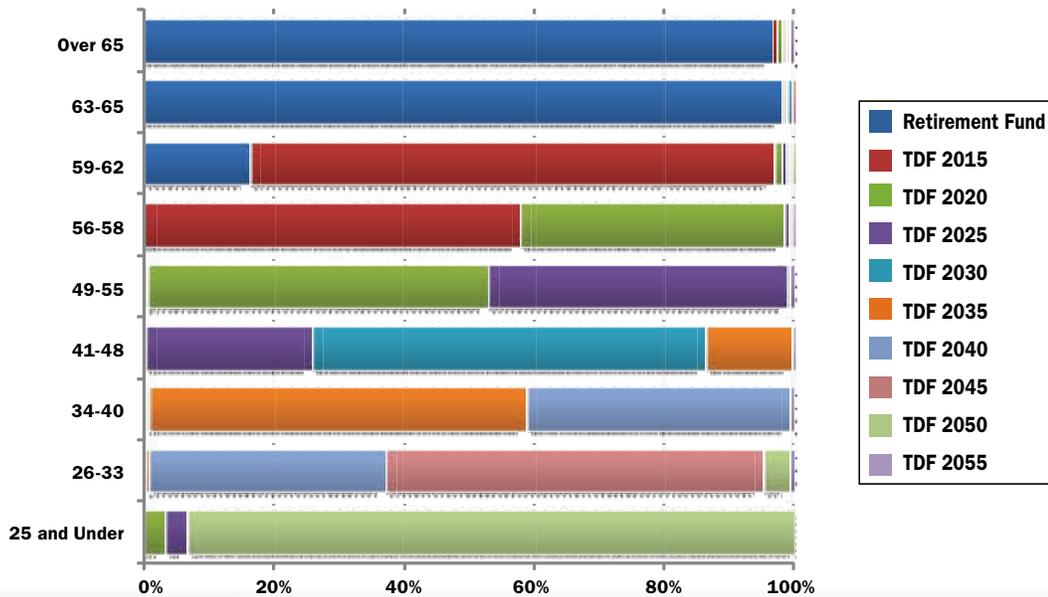
## SFDCP Target Date Funds (TDFs)

The most significant change with respect to the investment line-up was the addition of the custom SFDCP Target Date Funds (TDFs). Approximately, \$400 million was mapped from the long-, mid- and near-term portfolios to the TDFs based on participant age.

### SFDCP Assets Invested in the Target Date Funds as of June 30, 2012



### Target Date Funds by Age Group as of June 30, 2012



**SFDCP Statistics Summary**  
*Plan Year Ended June 30, 2012*

<b>Asset Summary</b>	
Beginning Assets	\$2,064,142,268
Contributions	118,600,973
Roll-ins	14,047,463
Earnings	29,645,479
Less Distributions	(82,964,894)
<b>Ending Assets</b>	<b>\$2,143,471,289</b>
<b>Participant Summary</b>	
Beginning Participants	24,361
New Participants	870
Less Full Distributions	(1,034)
<b>Ending Participants</b>	<b>24,197</b>
<b>Service Summary</b>	
<b>Field Office</b>	
Group Meetings	473
Group Meeting Attendees	3,264
Field Individual Counseling Sessions	7,081
Office Individual Counseling Sessions	875
Phone Calls	10,887
<b>Home Office</b>	
KeyTalk Calls	17,601
Customer Service Calls	4,717
Web Logins	216,824



## SFDCP Participation by Department

Plan Year Ended June 30, 2012

Department Name	Participation	Department Name	Participation
Academy of Sciences	100%	Human Resources	61%
Administrative Services	76%	Human Rights Commission	45%
Adult Probation	59%	Human Services	68%
Airport	78%	Juvenile Probation	64%
Animal Care, Control	71%	Law Library	100%
Art Commission	53%	Mayor	48%
Asian Arts Museum	96%	MTA Administration	72%
Assessor/ Recorder	76%	Permit Appeals	67%
Board of Supervisors	56%	Police Department	70%
Building Inspection Commission	56%	Port of San Francisco	64%
Business & Economic Development	100%	Public Defender	78%
Child Support Services	74%	Public Health	66%
Children & Family Commission	88%	Public Health – Comm Health Network	65%
Children, Youth & Families	100%	Public Library	78%
City Attorney	65%	PUC - Clean Water Program	71%
City Planning	58%	PUC – General Office	73%
Civil Service	80%	PUC - Water Department	76%
Commission on Status of Women	50%	PUC - Hetch Hetchy	86%
Controller	68%	Public Works	63%
District Attorney	62%	Recreation & Park	61%
Elections	80%	Rent Arbitration Board	65%
Emergency Communication	69%	Retirement System	86%
Environment Commission	77%	Sheriff	81%
Ethics Commission	80%	Telecom & Info Services	56%
Fine Arts Museum	80%	Treasurer/Tax Collector	73%
Fire Department	62%	Trial Courts & County Clerk	61%
Health Service Systems	81%	War Memorial	67%