

SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SDCERS

NAVIGATING THE PENSION ROAD

A DEFINED BENEFIT PENSION PLAN TRUST FOR EMPLOYEES OF
THE CITY OF SAN DIEGO, THE SAN DIEGO UNIFIED PORT DISTRICT
AND THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY.

A FIDUCIARY COMPONENT UNIT OF THE CITY OF SAN DIEGO

San Diego City Employees' Retirement System

A Fiduciary Component Unit of the City of San Diego

A Defined Benefit Pension Plan Trust for
Employees of the City of San Diego, the San Diego Unified Port District
and the San Diego County Regional Airport Authority.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The San Diego City Employees' Retirement System's (SDCERS) mission
is to deliver accurate and timely benefits to its participants
and ensure the Trust Fund's safety, integrity and growth.

Issued by:

Mark A. Hovey
Chief Executive Officer

Ted A. LaSalvia
Controller

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Table of Contents

1. Introductory Section

Transmittal Letter from the Chief Executive Officer and Board President	2
GFOA Certificate of Achievement	6
Organization	
Board of Administration	7
Board of Administration Committees	8
Organization Chart	9
Professional Services	10

2. Financial Section

Independent Auditor's Report	12
Management's Discussion and Analysis	15
Financial Statements	
Statement of Plan Net Position	24
Statement of Changes in Plan Net Position	25
Statement of Assets and Liabilities – Agency Funds	26
Notes to the Basic Financial Statements	27
Required Supplementary Information	
Schedules of Changes in Net Pension Liability (Asset) and Related Ratios	60
Schedules of Plan Sponsor Contributions	63
Schedule of Investment Returns	64
Notes to Required Supplementary Information	65
Other Supplemental Information	
Schedule of Administrative Expenses	67
Schedule of Investment Expenses	68
Schedule of Payments to Consultants	69
Statement of Changes in Assets and Liabilities – Agency Funds	71

3. Investment Section

Investment Consultant's Statement.....	74
Asset Class Investment Returns	76
Investment Managers.....	77
Summary of Investment Goals and Philosophy.....	78
Long-Term Strategic Target and Actual Asset Allocation	79
Schedules of Largest Equity and Fixed Income Holdings.....	80
Schedule of Commissions	81
Growth of Investments, at Fair Value	82
Fiscal Year Investment Results.....	83

4. Actuarial Section

Actuary's Certification Letter	86
Summary of June 30, 2015 Valuation Results	89
Summary of SDCERS' Benefit Provisions	112

5. Statistical Section

Changes in Plan Net Position.....	124
Changes in Plan Net Position by Plan Sponsor.....	124
Additions to Plan Net Position by Source	125
Deductions from Plan Net Position by Type.....	126
Allowances Being Paid – Service and Disability Retirees and Beneficiaries.....	127
Retired Members by Type of Benefit.....	130
Average Benefit Payment Amounts.....	131
Average Benefit Payment Amounts by Year of Retirement.....	132
Active Members	134
Inactive Members.....	135
Participating Plan Sponsors	136

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INTRODUCTORY



Transmittal Letter



November 23, 2016

To the Participants, Plan Sponsors, and Trustees of the San Diego City Employees' Retirement System:

We are pleased to present the San Diego City Employees' Retirement System's (SDCERS) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2016 (FY 2016).

SDCERS' Background and History. SDCERS was established in 1927 by the City of San Diego (City) to provide retirement, disability, and death benefits to its participants. Two additional Plan Sponsors were added when employees of the San Diego Unified Port District (Port) became members of SDCERS in 1963, and employees of the San Diego County Regional Airport Authority (Airport) became members in 2003.

To attain the appropriate level of funding for each member, SDCERS' actuary specifies a formula to calculate the amount that would need to be contributed by participating Plan Sponsors and members each year until retirement. SDCERS invests these contributions utilizing a long-term investment strategy consisting of a diversified mix of equity, fixed income, real estate, private equity, and infrastructure investments. Plan sponsor and member contributions, along with investment earnings, represent the three funding sources from which SDCERS pays benefits and its operational expenses.

In 2012, the City's plan was closed to all new members except sworn police officers as a result of the voter-approved Proposition B. SDCERS works with its actuarial and investment consultants to review system risk and to determine if any modifications to the risk profile of the portfolio are needed due to the partial City plan closure. At this time, no significant changes are required. SDCERS continues to receive contributions from over 7,900 City members, as well as all Port and Airport members, and will invest these funds over the life of members' careers and throughout their retirement. SDCERS strictly monitors cash flow, investment risk, and returns.

Investment Results. SDCERS' investment returns for FY 2016 were 1.1% net of fees, compared to 3.3% for FY 2015. As of June 30, 2016, SDCERS' annualized total investment return net of fees was 6.8% over the past three years and 6.9% over the past five years. Over the past 10 years, SDCERS' investment returns were 5.9%, which is in the top 25% for public pension plans.

SDCERS' Chief Investment Officer, Liza Crisafi, received the Institutional Investor Small Public Pension of the Year award at the 7th Annual U.S. Investment Management Awards in New York City. The award ceremony recognized U.S. institutional investors whose innovative strategies and fiduciary accomplishments have resulted in impressive returns, as well as U.S. money managers in 39 asset classes who stood out in the eyes of the investor community for their exceptional performance, risk management and service.

SDCERS' investment philosophy strategy remains focused on long-term results. Our long-standing, disciplined strategy of a well-balanced portfolio will continue to provide members with sustainable benefits for their retirement. Each year, SDCERS reviews portfolio risk and asset allocation to manage the fiscal health of the fund. The most recent reviews indicated no significant investment policy or asset allocation changes are needed at present.

New Accounting Standards. The FY 2016 CAFR incorporates a new financial reporting standard, GASB Statement No. 72, as required by the Governmental Accounting Standards Board (GASB). This statement addresses accounting and financial reporting issues related to fair value measurements. The Financial Section note disclosures have accordingly been expanded.

Funding Status. SDCERS engages an independent actuary to conduct annual actuarial valuations for funding purposes. Our three Plan Sponsors' June 30, 2015 actuarial valuations, the most recent available, are summarized in this CAFR. The valuations show the City's plan is 75.6% funded, the Port's plan is 78.8% funded, and the Airport's plan is 97.2% funded. All three Plan Sponsor funding ratios improved from a year ago, and all three Plan Sponsors continued their strong funding trend of paying 100% of their Actuarially Determined Contributions (ADC) in FY 2016. Historical trend information regarding funded status is provided in the Actuarial Section of this report.

FY 2015 CAFR Receives GFOA Certificate of Achievement. The Government Finance Officers Association (GFOA) awarded SDCERS' FY 2015 CAFR the Certificate of Achievement for Excellence in Financial Reporting. This Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management. This award continues our renewed recognition that began with the FY 2008 CAFR and is the direct result of extraordinary work by our finance, investment and legal teams.

Status of Pension Reform Implementation. Proposition B, approved by the City of San Diego voters in 2012, closed the defined benefit retirement plan to City employees hired after the effective date, other than for sworn police officers. Proposition B is currently subject to ongoing litigation between the City and its labor unions. On December 29, 2015, the California Public Employee Relations Board (PERB) issued a ruling finding the City violated the law, and ordered the City to, among other things, meet and confer with the unions, to reimburse the unions for costs and attorney's fees for the unions' anticipated legal action to overturn Proposition B, and to make the affected employees whole. PERB acknowledged it has no authority to invalidate the 2012 municipal election.

Introductory Section

On January 25, 2016, the City of San Diego petitioned the Fourth Appellate District Court of Appeal to vacate the PERB ruling. SDCERS will continue to monitor the outcome of the appeal.

In September 2012, California Governor Jerry Brown signed the Public Employees' Pension Reform Act of 2013 (PEPRA) into law. As of January 2013, the Port and Airport Plans are governed by the provisions of their plan documents and PEPRA, which is contained in the California Government Code. PEPRA does not apply to cities with their own Charter, as is the case with the City's plan.

Member Communications. Again in FY 2016, a top operational focus was the continued pursuit of excellence in serving our members. Performance benchmarks are now utilized as a key measure of Call Center customer service, monitored daily, and reported to the SDCERS Board at each meeting. Automating a health insurance option eliminated the need to process manual reimbursements for more than 100 members. Several improvements were made to the Member Portal registration process, including enhanced security features to protect member data. More changes and improvements are in the works for FY 2017.

Continued Pursuit of Investment Program Excellence. During the fiscal year, SDCERS and its general investment consultant, Aon Hewitt, completed a triennial Asset Liability study. This study confirmed the current investment mix of 78% return seeking assets and 22% risk reducing assets was appropriate given the fund's long-term time horizon and that the fund is well diversified. The investment team also conducted a comprehensive review of risks associated with running an investment program. The conclusion reached by staff and Aon Hewitt was that SDCERS has policies and procedures in place that effectively monitor, manage, and minimize risks to the investment program.

SDCERS Employees Recognized for Leadership Activities. CEO Mark Hovey was elected President of the California Association of Public Retirement Systems Board of Directors. In addition, several SDCERS employees were panelists or chairpersons at conferences and networking functions this past year: Corey Buu-Hoan, Liza Crisafi, Mark Hovey, Ted LaSalvia, Lee Parravano, Marcelle Rossman and Johnny Tran. We're proud of these employees for providing leadership and representing SDCERS' mission at events across the country.

Audited Financial Statements. The financial statements included in this CAFR have been prepared by SDCERS' management, who are responsible for the integrity and fairness of the data presented, including the amounts that must be based on estimates and judgments. The accounting policies followed in preparation of these financial statements conform to accounting principles generally accepted in the United States. The basic financial statements presented are accompanied by a narrative introduction and financial overview and analysis in the form of Management's Discussion and Analysis (MD&A). This Transmittal Letter complements the MD&A, which follows the report of the independent auditor, and should be read in conjunction with it.

SDCERS' management is responsible for the accuracy, completeness and fair presentation of information, and all disclosures in this report. The auditing firm of Macias Gini & O'Connell LLP provides audit services to SDCERS. Their opinion on the financial statements states that SDCERS' financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatements.

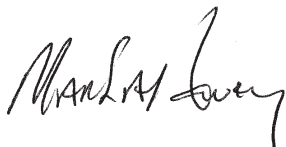
Internal Controls. SDCERS has established and maintains a framework of internal controls to provide reasonable assurance that assets are properly safeguarded, transactions are properly executed, and the financial statements are free from material misstatement. However, we recognize that even sound internal controls have inherent limitations. Because the cost of a control should not exceed the benefits to be derived, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements. Therefore, internal controls are reviewed to ensure SDCERS' adherence to operating policies and procedures, and that the controls are adequate to ensure accurate and reliable financial reporting and to safeguard SDCERS' assets. Our Internal Auditor reviews internal controls and operations, and reports regularly to the Board's Audit Committee. The Audit Committee then reviews the audit findings and internal control recommendations, and the actions of management to implement these recommendations.

Acknowledgments. We would like to express our appreciation to the Trustees and Audit Committee members who, without compensation, have provided the leadership, direction and support that have made our recent achievements possible. Plan Sponsors, members and the citizens of our community have been well served by the stewardship of the Board's Trustees and Audit Committee members.

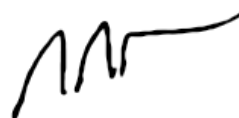
We would especially like to thank Elected Retiree Trustee Richard E. Wilken for five years of commitment and service to the SDCERS Board. Independent Investment Committee member Carina E. Coleman became a Mayoral appointee to the Board in FY 2016.

Finally, we would like to thank the SDCERS staff. Each one works very hard to support our mission and our members. Their individual efforts, combined with those of a great group of professional advisors and investment managers, are essential to our ongoing success.

In your service,



Mark A. Hovey
Chief Executive Officer



Alan J. Arrollado
President, SDCERS Board of Administration

**San Diego City Employees' Retirement System
GFOA Certificate of Achievement**



Government Finance Officers Association

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

Presented to

**San Diego City
Employees' Retirement System
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

A handwritten signature in black ink, reading "Jeffrey R. Egan".

Executive Director/CEO

**San Diego City Employees' Retirement System
Board of Administration
As of June 30, 2016**

BOARD OF ADMINISTRATION			Alan J. Arrollado, President ELECTED SAFETY (FIRE) MEMBER
Valentine S. Hoy, Vice President MAYORAL APPOINTEE			Carol Broad MAYORAL APPOINTEE
	Carina E. Coleman MAYORAL APPOINTEE		Natasha L. Collura EX-OFFICIO, MAYORAL DESIGNEE
	William W. Haynor MAYORAL APPOINTEE		Edward W. Kitrosser MAYORAL APPOINTEE
	Thanasi K. Prevolos MAYORAL APPOINTEE		James H. Steel ELECTED GENERAL MEMBER
	Thomas A. Sullivan ELECTED SAFETY (POLICE) MEMBER		K. Denise Thompson MAYORAL APPOINTEE
	Jeffrey J. Wallace ELECTED GENERAL MEMBER		VACANT ELECTED RETIREE

San Diego City Employees' Retirement System
Board of Administration Committees
As of June 30, 2016

In addition to regular Board duties, SDCERS Trustees also participate in one or more standing committees that review policies and procedures related to various areas of SDCERS' administration, report their findings and make recommendations to SDCERS' Board. The composition and responsibilities of the standing committees as of June 30, 2016 were as follows:

Audit Committee

K. Denise Thompson (Chair) Edward W. Kitrosser Greg Kowieski* David W. Kramer* James B. Smith*	Responsible for providing oversight of financial reporting process, the system of internal controls, and the independent audit process. Recommends to the full Board the acceptance of the CAFR, as well as acknowledgment and receipt of the independent auditor's report to the Board of Administration and opinion on the audited financial statements. Develops the performance plan and evaluates the performance of the Internal Auditor. The Audit Committee Charter requires three members to be independent, non-Board members appointed by the Board and such members are denoted by the "*" at left.
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Business and Governance Committee

Valentine S. Hoy (Chair) Alan J. Arrollado Carol Broad Edward W. Kitrosser Thomas A. Sullivan	Responsible for reviewing SDCERS' business and procedures, reviewing actuarial valuations, reviewing the annual budget, developing Board rules, and facilitating training programs for Board members.
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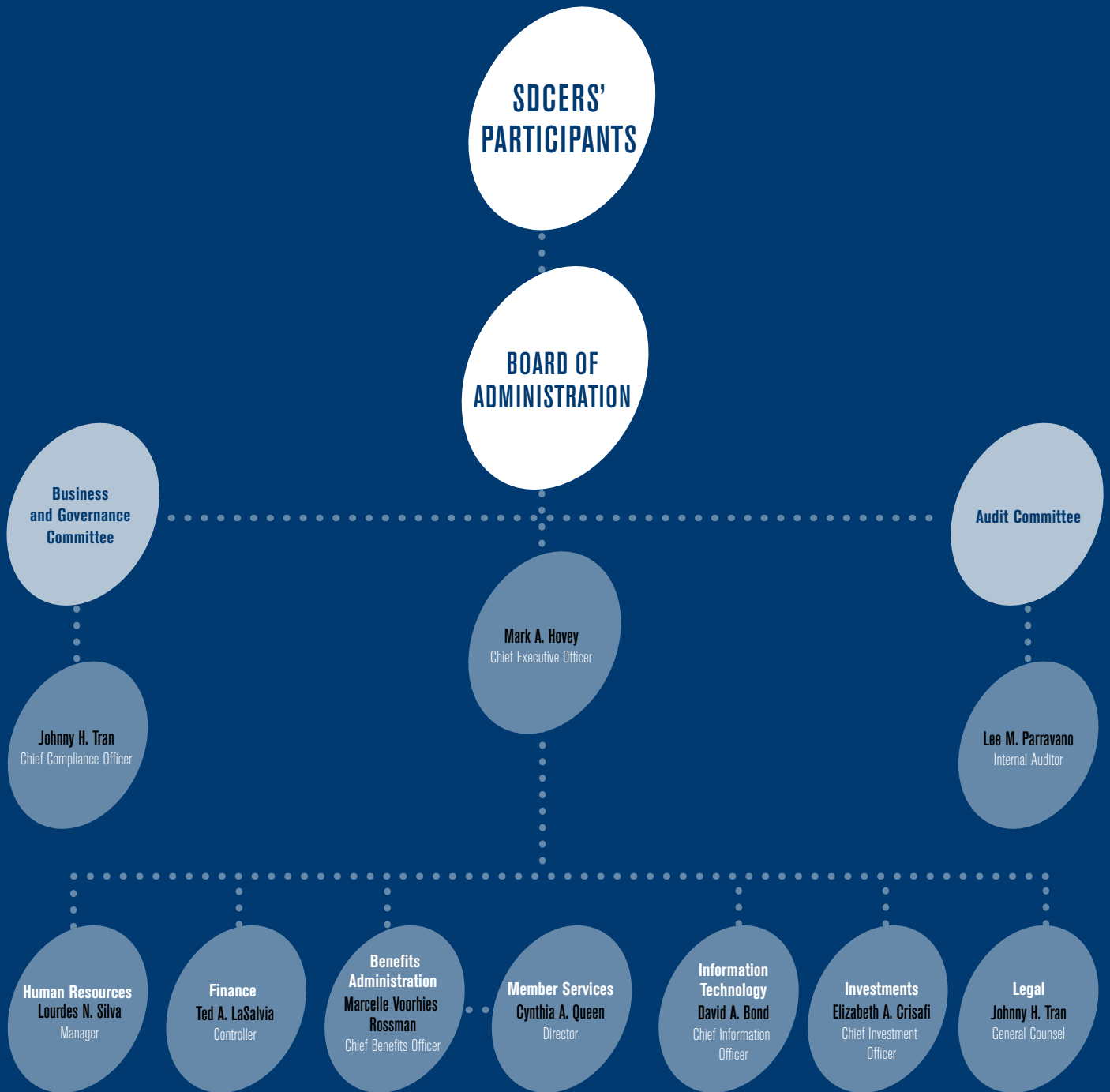
Disability Committee

Natasha L. Collura (Chair) Alan J. Arrollado Edward W. Kitrosser Thanasi K. Preovolos	Responsible for reviewing staff recommendations on disability applications and making recommendations to the Board, recommending to the Board final decisions on adjudicator findings with regard to disability retirement applications, and making recommendations for changes to the disability retirement process.
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Investment Committee

William W. Haynor (Chair) Alan J. Arrollado Carol Broad Carina E. Coleman James H. Steel Jeffery J. Wallace	Responsible for monitoring investment performance, hiring and terminating investment managers and consultants, and recommending changes to the Investment Policy Statement.
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**San Diego City Employees' Retirement System
Organization Chart
As of June 30, 2016**



San Diego City Employees' Retirement System
Professional Services
As of June 30, 2016

Actuary
Cheiron
McLean, VA

Consulting and Professional Services

Barney & Barney, LLC
San Diego, CA

Robert Half
International, Inc.
San Diego, CA

CGI Technologies,
Fairfax, VA

Atos IT Solutions,
Sugarland, TX

Sagitec Solutions, LLC
Little Canada, MN

Custodian

State Street Bank & Trust Company
Sacramento, CA

Independent Auditor

Macias Gini & O'Connell LLP
Certified Public Accountants
San Diego, CA

Investment Consultant

Aon Hewitt
Chicago, IL

Real Estate Consultant

Aon Hewitt
Chicago, IL

Private Equity and Infrastructure Consultants

GCM Grosvenor Private Markets
New York, NY

StepStone Group LLC
San Diego, CA

SDCERS' medical and legal service providers are identified in Other Supplemental Information in the Financial Section. SDCERS' investment managers are identified in the Investment Section.

FINANCIAL

2



- Century City
- Los Angeles
- Newport Beach
- Oakland
- Sacramento
- San Diego
- San Francisco
- Walnut Creek
- Woodland Hills

Independent Auditor’s Report

To the Board of Administration of the
San Diego City Employees’ Retirement System
San Diego, California

Report on the Financial Statements

We have audited the accompanying financial statements of the San Diego City Employees’ Retirement System (the System), a fiduciary component unit of the City of San Diego, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the System’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position and the assets and liabilities of the agency funds of the San Diego City Employees’ Retirement System, as of June 30, 2016, and the changes in the plan net position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Notes 1 and 3 to the basic financial statements, effective July 1, 2015, the System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. As a result of the implementation of GASB Statement No. 72, the System disclosed its investments in accordance with the fair value hierarchy.

As discussed in Note 4 to the basic financial statements, based on the actuarial valuations as of June 30, 2015, rolled forward to June 30, 2016, the total pension liabilities for the City of San Diego, the San Diego Unified Port District, and the San Diego County Regional Airport Authority exceeded the plans' net position by \$2.7 billion, \$132.6 million, and \$18.1 million, respectively. The actuarial valuations are very sensitive to the underlying actuarial assumptions, including a discount rate of 7.00 percent, which represents the long-term expected rate of return.

Our opinion is not modified with respect to these matters.

Other Matters*Prior-Year Comparative Information*

The financial statements include partial prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements for the fiscal year ended June 30, 2015, from which such partial information was derived.

We have previously audited the System's 2015 financial statements, and we expressed an unmodified audit opinion on the financial statements in our report dated November 25, 2015. In our opinion, the partial comparative information presented herein as of and for the fiscal year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The introductory section, the other supplemental information in the financial section, and the investment, actuarial and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2016 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

San Diego, California
November 23, 2016

Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis provides an overview and analysis of the San Diego City Employees' Retirement System's (SDCERS) financial condition as of and for the fiscal year ended June 30, 2016 (FY 2016), with results also compared to the fiscal year ended June 30, 2015 (FY 2015).

SDCERS' funding objective is to meet long-term benefit obligations through plan sponsor and member contributions and earnings on invested assets. SDCERS has three plan sponsors: the City of San Diego (City), the San Diego Unified Port District (Port) and the San Diego County Regional Airport Authority (Airport).

SDCERS' Board of Administration (Board) adopted a Declaration of Group Trust, effective July 1, 2007. The Internal Revenue Service (IRS) issued a favorable determination letter with respect to the Group Trust on September 10, 2009. Under the Group Trust, the City, Port and Airport plans are treated as separate plans, with assets of each pooled for investment purposes only. For FY 2016, the financial statements for each plan sponsor are presented in separate columns in the basic financial statements as required by for retirement systems that administer more than one plan. In addition, management's discussion and analysis compares financial information between FY 2016 and FY 2015 for the total of all three plans.

Financial Highlights

As of June 30, 2016, the SDCERS Group Trust had \$6.808 billion in total net position restricted for the payment of pension benefits compared to total net position of \$6.885 billion at June 30, 2015. This represents a decrease of \$77.1 million from FY 2015. Operationally, the FY 2016 decrease of \$77.1 million reflects plan sponsor and member contributions of \$338.6 million, Deferred Retirement Option Plan (DROP) member and sponsor contributions of \$5.4 million, and net investment earnings of \$69.7 million, offset by benefit payments and administrative expenses of \$490.8 million.

For FY 2016, total contributions plus net investment gains resulted in total additions of \$413.7 million to the Group Trust net position, a decrease of \$162.4 million from FY 2015 total additions of \$576.1 million. A decrease in net investment earnings of \$154.4 million was the primary factor in the decrease over the prior fiscal year.

For the fiscal year ended June 30, 2016, deductions from Group Trust net position for benefits and expenses totaled \$490.8 million, a \$27.6 million or 6.0% increase compared to FY 2015 deductions of \$463.2 million. An increase in the total number of retirees and DROP participants in FY 2016 and annual cost of living increases were the primary factors for the increase.

The June 30, 2014 actuarial valuation for each plan sponsor determined the actuarially determined contribution amounts for FY 2016. Actuarial valuations are performed for each plan sponsor annually as of June 30th and are presented to the Board for approval. Economic assumptions are reviewed annually by SDCERS' actuary and presented to the Board for review and if necessary, approval.

Financial Highlights (continued)

An indicator of funding status is the ratio of the Plan Net Position to the Total Pension Liability (TPL). The Net Pension Liability (NPL) is the liability of the plan sponsors to plan members for retirement benefits provided through the individual pension plans. Changes in actuarial assumptions can significantly impact the TPL and NPL, and performance in the stock and bond markets can substantially impact the fair value of assets and the Plan Net Position.

The NPL for the City, Port and Airport as of June 30, 2016 is \$2.651 billion, \$132.6 million and \$18.1 million, respectively. The Plan Net Position as a percentage of the TPL for the City, Port and Airport is 70.4%, 73.5% and 88.8%, respectively. The NPL as a percentage of covered employee payroll for the City, Port and Airport is 551.4%, 395.8% and 62.1% as of June 30, 2016, respectively.

Historical trend information concerning the changes in NPL, employer contributions, and investment returns are presented as Required Supplementary Information in the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios, Schedule of Plan Sponsor Contributions, and Schedule of Investment Returns with associated actuarial methods and assumptions located in the Notes to Required Supplementary Information. Additional information is presented in Note 5. *Contributions*, and in the Actuarial Section. The Actuarial Valuations can be found online at www.sdcers.org.

As discussed in Note 8. *Legal Actions*, SDCERS is involved in litigation matters. SDCERS' management does not believe that the outcome of these matters will have a material adverse impact on SDCERS' financial condition.

A San Diego voter-approved ballot initiative closed the current City defined benefit plan to non-Police Members hired on or after July 20, 2012. Existing litigation filed by labor unions against the City may affect the validity of the ballot initiative. Additionally, SDCERS has implemented the California Public Employees' Pension Reform Act of 2013 (PEPRA) affecting the Port and Airport retirement plans. PEPRA was effective January 1, 2013.

In January 2015, the SDCERS' Board voted to add an explicit administrative expense assumption for funding purposes and phase in the impact over three years beginning with the June 30, 2014 actuarial valuations for each plan sponsor.

At its November 13, 2015 meeting, the SDCERS Board voted to reduce the discount rate and wage inflation assumptions by 0.25% over a two-year period. The discount rate was reduced from 7.25% to 7.125% for the June 30, 2015 valuation, and to 7.0% for the June 30, 2016 valuation. The wage inflation rate was reduced from 3.3% to 3.175% for the 2015 valuation and 3.05% for the 2016 valuation.

Overview of the Financial Statements

SDCERS' financial statements, notes to the financial statements, and supplementary information are comprised of the following six items:

1. Statement of Plan Net Position,
2. Statement of Changes in Plan Net Position,
3. Statement of Assets and Liabilities – Agency Funds,
4. Notes to the Basic Financial Statements,
5. Required Supplementary Information, and
6. Other Supplemental Information.

The **Statement of Plan Net Position** presents the major categories of assets and liabilities and their related values for the Group Trust. It presents the assets available for future payments of benefits to retirees and beneficiaries and current liabilities that are owed as of June 30, 2016, with comparative totals as of June 30, 2015. As of July 1, 2007, the City, Port and Airport plans were separated into independent, qualified, single employer governmental defined benefit plans and trusts. Accordingly, the interests of each plan and trust are accounted for separately in the Statement of Plan Net Position.

The **Statement of Changes in Plan Net Position** provides an income statement presentation of annual additions to and deductions from Group Trust plan position for FY 2016, with comparative totals for FY 2015. The FY 2016 Statement also presents separate reporting for the City, Port and Airport, consistent with the Statement of Plan Net Position.

The **Statement of Assets and Liabilities – Agency Funds** is a balance sheet presentation of assets and liabilities for the Agency Funds as of June 30, 2016. It discloses the assets available to cover future payments to members eligible for Preservation of Benefit distributions and City Retiree Health costs. It also reflects liabilities owed.

The **Notes to the Basic Financial Statements** provide additional information essential to a full understanding of the data presented in the audited financial statements. This section provides a quantitative and qualitative basis for assessing SDCERS' financial condition and the changes in its net position. Note 1. *Summary of Significant Accounting Policies* provides information on the assumptions and methods used in the presentation of SDCERS' financial statements. It also provides the basis for accounting treatment of stated values under accounting principles generally accepted in the United States of America (U.S. GAAP) that are unique to a public employee retirement system.

The **Required Supplementary Information (RSI)** is an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The Schedule of Changes in Net Pension Liability (Asset) and Related Ratios provides information on the sources of changes in the NPL for each Plan Sponsor. The schedule also provides information about the components of the NPL and related ratios, including the pension plan's fiduciary net position as a percentage of the TPL, and the NPL as a percentage of covered-employee payroll. The RSI also presents a Schedule of Plan Sponsor Contributions and a Schedule of Investment Returns.

The **Other Supplemental Information** includes a Schedule of Administrative Expenses, a Schedule of Investment Expenses, a Schedule of Payments to Consultants and a Statement of Changes in Assets and Liabilities – Agency Funds.

SDCERS' management is responsible for the accuracy, completeness and fair presentation of this information and all disclosures in accordance with U.S. GAAP.

Financial Analysis

Tables 1 and 2 summarize and compare SDCERS' plan net position and the changes in plan net position for the current and prior fiscal year for the Group Trust.

The Group Trust's total plan net position held in trust for the payment of defined benefit pension benefits as of June 30, 2016 totaled \$6.808 billion, a decrease of \$77.1 million compared to net position of \$6.885 billion as of June 30, 2015. The total plan net position is available to meet SDCERS' ongoing retirement and disability payment obligations to retirees and beneficiaries. A comparative summary is presented in Table 1 below.

Table 1: Condensed Plan Net Position (Dollars in Thousands)

	2016	2015	Percentage Change
Cash and Cash Equivalents	\$156,024	\$140,752	10.9%
Receivables	205,300	154,852	32.6
Investments, at Fair Value	6,823,993	6,923,351	-1.4
Securities Lending Collateral	184,192	207,945	-11.4
Capital Assets plus Prepaid Expenses	6,405	6,927	-7.5
Total Assets	\$7,375,914	\$7,433,827	-0.8%
Current Liabilities	\$371,976	\$329,155	13.0%
Supplemental Benefits Payable	11,616	11,404	1.9
Securities Lending Obligations	184,420	208,245	-11.4
Total Liabilities	\$568,012	\$548,804	3.5%
Plan Net Position	\$6,807,902	\$6,885,023	-1.1%

Reserves

Pension plans establish reserves for various anticipated liabilities. SDCERS' reserves have been established to account for employer and employee contributions, the accumulation of current retired member expected benefits and other items.

The largest reserve balance is for accumulated benefits payable to retired SDCERS members. This comprises approximately 55.3% of plan net position (\$3.765 billion reserved for current retired members out of \$6.808 billion in plan net position) as of June 30, 2016. A complete listing of SDCERS' reserves and corresponding balances for FY 2016 are presented in Note 6. *Reserve Balances*.

Current Year Results

Key elements of FY 2016 results and year-over-year comparisons are summarized below.

Additions to Plan Net Position, necessary to pay current retirement benefits and accrue for future retirement benefits, are accumulated from plan sponsor and member contributions and the earnings on invested assets (net of investment management fees and related expenses). For FY 2016, contributions and investment gains combined to provide total additions of \$413.7 million, a decrease of \$162.4 million over FY 2015 total additions of \$576.1 million. The decrease is attributable to lower investment returns and a decline in the number of active contributing members in FY 2016.

Deductions from Plan Net Position reflect SDCERS' administration of lifetime retirement annuities, survivor benefits, DROP benefits, and permanent disability benefits. The costs of these programs include one-time and recurring pension benefit payments and refunds of contributions to terminated members. Deductions for FY 2016 were \$490.8 million, an increase of \$27.6 million compared to FY 2015 deductions of \$463.2 million. The increase results from the growth in the number of retired members and refunds to members.

A comparative summary of additions and deductions is presented in Table 2 below.

Table 2: Condensed Changes in Plan Net Position (Dollars in Thousands)

	2016	2015	Percentage Change
Additions:			
Plan Sponsor Contributions	\$275,343	\$283,804	-3.0%
Member Contributions and Other Contributions	63,284	63,103	0.3
DROP Contributions	5,407	5,130	5.4
Net Investment Earnings	69,667	224,107	-68.9
Total Additions	\$413,701	\$576,144	-28.2%
Deductions:			
Benefit Payments	\$449,268	\$425,755	5.5%
Refund of Member Contributions	6,479	4,725	37.1
Administrative Expenses	11,907	9,716	22.6
DROP Interest Expense	23,168	23,017	0.7
Total Deductions	\$490,822	\$463,213	6.0%
Changes in Plan Net Position	(77,121)	112,931	-168.3
Beginning Plan Net Position	6,885,023	6,772,092	1.7
Ending Plan Net Position	\$6,807,902	\$6,885,023	-1.1%

FY 2016 plan sponsor contributions totaled \$275.3 million, a decrease of \$8.5 million or 3.0% compared to contributions of \$283.8 million in FY 2015. The total of the Actuarial Determined Contribution (ADC) for all three plan sponsors in FY 2016 was lower than the ADC in FY 2015 as a result of the actuarial recognition of investment gains and losses and net changes in economic assumptions as detailed in the June 30, 2014 actuarial valuations. For further information about plan sponsor contributions, see Note 5. *Contributions* in the Notes to the Basic Financial Statements and the Schedules of Plan Sponsor Contributions in the Required Supplementary Information.

FY 2016 member contributions and member contributions paid by plan sponsors totaled \$63.3 million, an increase of \$0.2 million, or 0.3%, compared to contributions of \$63.1 million in FY 2015. The slight increase resulted from Purchase Service Credit (PSC) purchases which totaled \$5.9 million for FY 2016 compared to \$4.0 million in FY 2015 offset by a decrease in the member portion of contributions paid by Plan Sponsors and a decrease in the number of active members making contributions.

Financial Section

In FY 2016, net investment earnings totaled \$69.7 million, a decrease of \$154.4 million or 68.9% from FY 2015 investment returns of \$224.1 million due to lower investment returns. For FY 2016, investment earnings resulted from net appreciation in the fixed income portfolio of \$29.4 million, real estate portfolio of \$105.3 million, private equity and infrastructure portfolio of \$45.3 million and dividend, interest and other income of \$91.3 million offset by a decrease in the equity portfolio of \$169.2 million and investment expenses of \$32.4 million. Investment expenses increased \$1.0 million compared to \$31.4 million in FY 2015.

A report on SDCERS' investment activity prepared by Aon Hewitt, SDCERS' investment consultant, is included in the Investment Section. This report provides commentary on specific asset class investment returns, index returns and peer group performance. The Investment Section also includes information about SDCERS' FY 2016 and long-term investment performance.

SDCERS' one-year investment return as of June 30, 2016 was 1.0%, net of investment management fees on a money-weighted rate of return basis and 1.1% on a time-weighted rate of return. According to Aon Hewitt, SDCERS' annualized total investment return was 5.9% for the past ten years, which is in the top 25% for public pension plans.

In FY 2016, member benefit payments totaled \$449.3 million, an increase of \$23.5 million or 5.5% from FY 2015's payments of \$425.8 million. A 4.0% increase in the total number of retirees and DROP participants in FY 2016 and annual cost of living increases contributed to the increased payments.

In FY 2016, refunds of member contributions totaled \$6.5 million, an increase of \$1.8 million or 37.1% compared to \$4.7 million in refunds for FY 2015. The increase was due to current year refunds of member contributions associated with active member turnover and inactive member refunds.

FY 2016 administrative expenses totaled \$11.9 million, an increase of \$2.2 million or 22.6% higher than FY 2015 expenses of \$9.7 million. The increase is the result of the FY 2015 reversal of the Net Pension Obligation (NPO) and Other Post Employment Benefits (OPEB) obligations, which are not considered obligations of the Group Trust.

FY 2016 DROP interest expenses totaled \$23.2 million, an increase of \$0.2 million or 0.7% from FY 2015 expenses of \$23.0 million due to an increase in the number of DROP participants and annuitants.

Analysis of Balances and Results by Plan Sponsor

Tables 3 and 4 summarize and compare SDCERS' financial results for the current and prior fiscal year by plan sponsor.

Table 3: Condensed Plan Net Position by Sponsor (Dollars in Thousands)

	As of June 30, 2016			As of June 30, 2015		
	City	Port	Airport	City	Port	Airport
Cash and Cash Equivalents	\$114,086	\$17,256	\$24,682	\$108,844	\$13,986	\$17,922
Receivables	190,308	11,029	3,963	143,416	8,491	2,945
Investments, at Fair Value	6,342,649	359,301	122,043	6,434,940	364,598	123,813
Securities Lending Collateral	170,423	9,984	3,785	192,680	11,192	4,073
Capital Assets plus Prepaid Expenses	5,929	352	124	6,406	382	139
Total Assets	\$6,823,395	\$397,922	\$154,597	\$6,886,286	\$398,649	\$148,892
Current Liabilities	\$345,345	\$19,694	\$6,937	\$305,496	\$17,388	\$6,271
Supplemental Benefits Payable	11,306	277	33	11,116	260	28
Securities Lending Obligations	170,638	9,995	3,787	192,961	11,207	4,077
Total Liabilities	\$527,289	\$29,966	\$10,757	\$509,573	\$28,855	\$10,376
Plan Net Position	\$6,296,106	\$367,956	\$143,840	\$6,376,713	\$369,794	\$138,516

The City plan net position of \$6.296 billion at June 30, 2016 decreased \$80.6 million or 1.3% from \$6.377 billion at June 30, 2015. The decrease for FY 2016 is the result of a decrease in total assets of \$62.9 million and an increase in total liabilities of \$17.7 million. The decline in assets was primarily due to the decline in investments of \$92.3 million and securities lending collateral of \$22.3 million, offset by an increase in cash and cash equivalents of \$5.2 million and receivables of \$46.9 million resulting from investment sales. The increase in liabilities was associated with increased current liabilities of \$39.8 million related to the purchases of investments offset by a reduction in securities lending obligations of \$22.3 million. Year-over-year changes in other assets or liabilities were not significant.

The Port plan net position of \$368.0 million at June 30, 2016 decreased \$1.8 million or 0.5% from \$369.8 million at June 30, 2015. Similar to the City, the decrease for FY 2016 is the result of a decrease in total assets of \$0.7 million and an increase in total liabilities of \$1.1 million. The decline in assets resulted from a decreased investments portfolio of \$5.3 million and securities lending collateral of \$1.2 million, offset by an increase in cash and equivalents of \$3.3 million and receivables of \$2.5 million related to investment sales. The increase in liabilities was due to an increase in current liabilities of \$2.3 million resulting from the purchases of investments offset by a reduction in securities lending obligations of \$1.2 million. Year-over-year changes in other assets or liabilities were not significant.

The Airport plan net position of \$143.8 million at June 30, 2016 increased \$5.3 million or 3.8% from \$138.5 million at June 30, 2015. The increase for FY 2016 reflects an increase in total assets of \$5.7 million reduced by an increase in total liabilities of \$0.4 million. The Airport plan is younger than the other two plans and has a higher funded ratio combined with lower retirement benefit payments at this time. The growth in assets resulted from the growth in cash of \$6.8 million, receivables of \$1.0 million due to investment sales, offset by a decline in investment value of \$1.8 million and securities lending collateral of \$0.3 million. The increase in liabilities reflects increased current liabilities of \$0.7 million related to the purchase of investments offset by a reduction in securities lending obligations of \$0.3 million. Year-over-year changes in other assets or liabilities were not significant.

Financial Section

Table 4: Condensed Changes in Plan Net Position by Sponsor (Dollars in Thousands)

	For The Fiscal Year Ended June 30, 2016			For The Fiscal Year Ended June 30, 2015		
	City	Port	Airport	City	Port	Airport
Additions:						
Plan Sponsor Contributions	\$256,976	\$14,419	\$3,948	\$265,660	\$14,321	\$3,823
Member Contributions and Other Contributions	56,920	3,404	2,960	56,643	3,624	2,836
DROP Contributions	5,024	276	107	4,800	251	79
Net Investment Earnings	64,155	3,861	1,651	207,653	12,064	4,390
Total Additions	\$383,075	\$21,960	\$8,666	\$534,756	\$30,260	\$11,128
Deductions:						
Benefit Payments	\$424,049	\$22,400	\$2,819	\$402,242	\$21,191	\$2,322
Refunds of Member Contributions	6,067	245	167	4,489	114	122
Administrative Expenses	10,901	687	319	8,693	691	332
DROP Interest Expense	22,665	466	37	22,507	471	39
Total Deductions	\$463,682	\$23,798	\$3,342	\$437,931	\$22,467	\$2,815
Changes in Plan Net Position	(80,607)	(1,838)	5,324	96,825	7,793	8,313
Beginning Plan Net Position	6,376,713	369,794	138,516	6,279,888	362,001	130,203
Ending Plan Net Position	\$6,296,106	\$367,956	\$143,840	\$6,376,713	\$369,794	\$138,516

The City plan net position decreased \$80.6 million in FY 2016 compared to an increase of \$96.8 million in FY 2015, as FY 2016 total additions decreased \$151.7 million over FY 2015. Net investment earnings of \$64.2 million, reflecting a decrease of \$143.5 million over FY 2015 due to lower investment returns, accounted for most of the decrease. Plan sponsor contributions in FY 2016 were down \$8.7 million or 3.3% over FY 2015, and member contributions in FY 2016 slightly increased \$0.3 million or 0.5% from FY 2015 due to higher member PSC contributions offset by lower member contributions from fewer active members.

Total deductions of \$463.7 million increased \$25.8 million or 5.9% in FY 2016. Benefit payments of \$424.0 million increased \$21.8 million or 5.4% primarily due to an increased number of retirees and cost of living adjustments. Refunds of member contributions increased \$1.6 million, due to higher refunds requested in the current year compared to FY 2015. Administrative expenses increased \$2.2 million or 25.4% resulting from a one-time reversal of the Net Pension Obligation (NPO) and Other Postemployment Benefits (OPEB) obligation in FY 2015. DROP interest expense of \$22.7 million was up \$0.2 million or 0.7% from FY 2015 as the result of an increase in the number of retirees receiving a DROP benefit, offset by a decrease in the DROP annuity interest rate in FY 2016.

The Port plan net position decreased \$1.8 million in FY 2016, as total additions of \$22.0 million decreased \$8.3 million or 27.4% from FY 2015. Net investment earnings were \$3.9 million, a decrease of \$8.2 million in FY 2016 due to lower investment returns compared to net investment earnings of \$12.1 million in FY 2015. Plan Sponsor contributions increased 0.7% in FY 2016 compared to FY 2015 due to an increase in the Port's ADC, which was fully paid. Member contributions decreased by \$0.2 million or 6.1% due to a decline in active contributing members and an increase in DROP members for the current year.

Total deductions were \$23.8 million in FY 2016, up \$1.3 million from FY 2015. Benefit payments were up \$1.2 million or 5.7% in FY 2016 reflecting an increase in the number of retirees and cost of living adjustments. Year-over-year changes in other deduction line items were not material.

The Airport plan net position increased \$5.3 million in FY 2016, as total additions of \$8.7 million decreased \$2.5 million or 22.1% from FY 2015. The increase in net position was primarily driven by net investment earnings of \$1.7 million and plan sponsor and member contributions of \$3.9 million and \$3.0 million, respectively, exceeding total deductions for the current year.

Total deductions were \$3.3 million in FY 2016, an increase of \$0.5 million from FY 2015 reflecting an increase in benefit payments and DROP payments of \$0.5 million in FY 2016. Year-over-year changes in other deduction line items were not material.

Other Information

Proposition B: Amendments to the San Diego City Charter Affecting Retirement Benefits

The San Diego voter-approved ballot initiative "Comprehensive Pension Reform" (Proposition B) became effective July 20, 2012. This law closed the current City defined benefit (DB) plan to non-Police Members initially hired on or after July 20, 2012, and was replaced with a defined contribution (DC) plan for non-Police Members hired after that date. The City administers the DC plan through a third party. This law affects contribution rates for both the City, as plan sponsor and newly hired City Police Members, and was incorporated into the actuarial consultant's June 30, 2014 valuation that established contributions for FY 2016.

Proposition B is the subject of ongoing litigation and this litigation may affect its validity. The June 30, 2015 actuarial valuation (the latest available at this time) assumes the validity of Proposition B and it has been fully implemented by SDCERS.

Requests For Information

This Financial Report is designed to provide a general overview of SDCERS finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: SDCERS, Finance Department, 401 West A Street, Suite 400, San Diego, CA, 92101, or by calling 800-774-4977.

Financial Section

San Diego City Employees' Retirement System

Statement of Plan Net Position

As of June 30, 2016 (with Comparative Totals as of June 30, 2015)

(Dollars in Thousands)

	2016				2015
	City	Port	Airport	Total	Total
ASSETS					
Cash and Cash Equivalents					
Cash on Deposit with Wells Fargo Bank	\$764	\$196	\$231	\$1,191	\$1,615
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	113,322	17,060	24,451	154,833	139,137
Total Cash and Cash Equivalents	114,086	17,256	24,682	156,024	140,752
Receivables					
Member - Purchased Service Contracts	1,566	285	43	1,894	2,424
Plan Sponsor and Member Contributions	4,010	198	167	4,375	4,159
Investment Income Receivable	8,865	495	164	9,524	6,590
Securities Sold	175,867	10,051	3,589	189,507	141,679
Total Receivables	190,308	11,029	3,963	205,300	154,852
Investments, at Fair Value					
Domestic Fixed Income Securities	1,612,511	91,085	31,006	1,734,602	1,781,246
International Fixed Income Securities	414,954	23,730	8,163	446,847	432,202
Domestic Equity Securities	1,404,809	78,923	26,386	1,510,118	1,671,938
International Equity Securities	1,019,670	57,486	19,273	1,096,429	1,201,799
Global Equity Securities	301,357	17,085	5,504	323,946	334,108
Real Estate	770,276	43,863	15,180	829,319	753,721
Private Equity and Infrastructure	819,072	47,129	16,531	882,732	748,337
Total Investments	6,342,649	359,301	122,043	6,823,993	6,923,351
Securities Lending Collateral	170,423	9,984	3,785	184,192	207,945
Total Investments Including Securities Lending Collateral	6,513,072	369,285	125,828	7,008,185	7,131,296
Prepaid Expenses	124	6	1	131	155
Capital Assets at Cost, Net of Accumulated Depreciation of \$3,524					
TOTAL ASSETS	\$6,823,395	\$397,922	\$154,597	\$7,375,914	\$7,433,827
LIABILITIES					
Accounts Payable and Other Liabilities	\$1,214	\$136	\$29	\$1,379	\$1,190
Accrued Investment Fees	5,238	297	98	5,633	7,224
Accrued Wages and Benefits	808	45	16	869	902
Supplemental Benefits Payable	11,306	277	33	11,616	11,404
Securities Purchased	338,085	19,216	6,794	364,095	319,839
Securities Lending Obligations for Cash Collateral	170,638	9,995	3,787	184,420	208,245
TOTAL LIABILITIES	\$527,289	\$29,966	\$10,757	\$568,012	\$548,804
NET POSITION RESTRICTED FOR PENSION BENEFITS	\$6,296,106	\$367,956	\$143,840	\$6,807,902	\$6,885,023

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

San Diego City Employees' Retirement System

Statement of Changes in Plan Net Position

For the Fiscal Year Ended June 30, 2016 (with Comparative Totals for the Fiscal Year Ended June 30, 2015)

(Dollars in Thousands)

	2016				2015
	City	Port	Airport	Total	Total
ADDITIONS					
Contributions					
Plan Sponsor	\$256,976	\$14,419	\$3,948	\$275,343	\$283,804
Members Portion Paid by Plan Sponsor	54	2,265	1,771	4,090	4,242
Members	50,827	1,107	1,184	53,118	54,705
Members for Purchased Service	5,916	9	3	5,928	3,956
Earned Interest on Purchased Service Installment Contracts	123	23	2	148	200
DROP Contributions	5,024	276	107	5,407	5,130
Total Contributions	318,920	18,099	7,015	344,034	352,037
Investment Earnings					
Net Appreciation (Depreciation) in Fair Value of Investments					
Equity Securities	(156,841)	(9,103)	(3,251)	(169,195)	11,443
Fixed Income Securities	27,196	1,603	627	29,426	(19,804)
Real Estate	97,406	5,723	2,200	105,329	65,403
Private Equity and Infrastructure	41,888	2,464	943	45,295	93,694
Security Lending	65	4	2	71	(9)
Total Net Appreciation in Fair Value of Investments	9,714	691	521	10,926	150,727
Dividend Income	41,211	2,403	884	44,498	43,672
Interest Income	26,760	1,561	577	28,898	37,172
Real Estate Income	8,770	505	165	9,440	16,447
Private Equity and Infrastructure Income	5,777	337	125	6,239	5,124
Other Income	1,051	61	23	1,135	1,485
Securities Lending Income					
Gross Earnings	1,415	83	31	1,529	1,208
Less: Borrower Rebates and Bank Charges	(595)	(35)	(13)	(643)	(310)
Net Securities Lending Income	820	48	18	886	898
Total Investment Income	94,103	5,606	2,313	102,022	255,525
Investment Expenses	(29,948)	(1,745)	(662)	(32,355)	(31,418)
Net Investment Income	64,155	3,861	1,651	69,667	224,107
TOTAL ADDITIONS	\$383,075	\$21,960	\$8,666	\$413,701	\$576,144
DEDUCTIONS					
Benefit Payments					
Monthly Retirement and Disability Allowances	\$357,422	\$19,731	\$2,520	\$379,673	\$356,378
DROP Payments	54,857	2,369	242	57,468	57,304
13th Check	6,181	287	39	6,507	6,253
Corbett Benefits	5,157	-	-	5,157	5,242
Death Benefits	432	13	18	463	578
Total Benefit Payments	424,049	22,400	2,819	449,268	425,755
Refund of Member Contributions	6,067	245	167	6,479	4,725
Administrative Expenses	10,901	687	319	11,907	9,716
DROP Interest Expense	22,665	466	37	23,168	23,017
TOTAL DEDUCTIONS	\$463,682	\$23,798	\$3,342	\$490,822	\$463,213
INCREASE (DECREASE) IN NET POSITION	(80,607)	(1,838)	5,324	(77,121)	112,931
NET POSITION RESTRICTED FOR PENSION					
BENEFITS AT JULY 1	6,376,713	369,794	138,516	6,885,023	6,772,092
NET POSITION RESTRICTED FOR PENSION					
BENEFITS AT JUNE 30	\$6,296,106	\$367,956	\$143,840	\$6,807,902	\$6,885,023

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

**San Diego City Employees' Retirement System
Statement of Assets and Liabilities - Agency Funds**

As of June 30, 2016

(Dollars in Thousands)

ASSETS	Total	
Cash and Cash Equivalents	\$ 34	
Accounts Receivable	<u>24</u>	
TOTAL ASSETS	<u>\$ 58</u>	
LIABILITIES		
Sundry Trust Liability	<u>\$ 58</u>	
TOTAL LIABILITIES	<u>\$ 58</u>	-

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

San Diego City Employees' Retirement System Notes to the Basic Financial Statements June 30, 2016

1. Summary of Significant Accounting Policies

Basis of Accounting

SDCERS' financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, establishes financial reporting standards for defined benefit pension plans.

SDCERS' financial statements are prepared using the accrual basis of accounting, and accounted for on the flow of economic resources measurement focus. SDCERS is considered part of the City's financial reporting entity, and SDCERS' financial statements are included in the City's Comprehensive Annual Financial Report (City's CAFR). SDCERS is included in the City's CAFR as a fiduciary component unit and reported as a pension trust fund in its fiduciary funds. Separate financial statements are presented for the retirement system and agency funds, which are excluded from the retirement system financial statements.

Member contributions are recognized in the period in which they are due. Plan sponsor contributions are recognized when received or due pursuant to legal requirements. Benefits and refunds are recognized when currently due and payable in accordance with SDCERS' Group Trust Agreement. SDCERS' investments are stated at fair value. Investment income is recognized in accordance with GASB Statement No. 67 and is stated net of investment management fees and related expenses.

The Board of Administration (Board) adopted a Declaration of Group Trust, effective July 1, 2007, to fulfill requirements in the City Charter and Municipal Code that the assets of each SDCERS Plan be used to pay benefits and expenses relating only to that Plan. Under the Group Trust, the City of San Diego (City), San Diego Unified Port District (Port) and San Diego County Regional Airport Authority (Airport) plans are legally treated as separate plans. Unlike a multiple-employer plan, under a group trust the assets of one employer's plan are not legally available to pay benefits under any other employer's plan if one or more of the employers become insolvent. Assets of each sponsor's plan are pooled for investment purposes only.

The City, Port, and Airport approved their respective Participation and Administration Agreements, and in September 2007, the San Diego City Council adopted a necessary enabling resolution approving each Agreement. To confirm the separation of the City, Port and Airport plans, SDCERS filed requests with the IRS for separate determination letters for the Group Trust, City, Port and Airport. The Internal Revenue Service issued a favorable determination letter for the Group Trust in September 2009, for the Port plan and trust in August 2012 and updated determination letters for the City in June 2014 and the Airport in September 2014. Effective January 1, 2017, the IRS will phase out its determination letter program for the five-year remedial filing cycle for individually-designed plans. The financial statements for each plan sponsor are presented in separate columns in the basic financial statements as required by for retirement systems that administer more than one plan.

SDCERS acts as agent for the City, Airport and Port Preservation of Benefit (POB) Plans and for the City Post-Employment Healthcare Benefit Plan (HCB Plan). The agency fund accounts for assets held by SDCERS in an agent capacity on behalf of the City and Port. During FY 2016 there were no Airport retirees who qualified for POB payments. The agency funds are custodial in nature and do not measure the results of operations. In October 2008, the IRS issued three Private Letter Rulings approving the three POB Plans and confirming that each plan is a qualified governmental excess benefit arrangement under Internal Revenue Code (IRC) Section 415(m), established to pay promised benefits to retirees and beneficiaries of the defined benefit (DB) plans that exceed the IRC Section 415(b) limits. The California Public Employees' Pension Reform Act of 2013 (PEPRA) permits public employers to provide replacement benefit plans to employees first hired under an existing plan prior to January 1, 2013.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

Receivables

SDCERS' receivables reflect accrued plan sponsor and member contributions due to SDCERS pursuant to legal requirements and member contributions for executed purchase of service credit contracts where payment is pending, net of an allowance for contract cancellations. See Note 5. *Contributions*.

Securities sold represent a receivable of cash under trade date accounting. Cash is received as of the transaction settlement date, which is typically trade date plus one to three business days.

Investments

The Board has the authority to delegate investment management duties to outside advisors, to seek the advice of outside investment counsel and to provide oversight and monitoring of the investment managers it hires. Additional discretion beyond the City Charter is provided for under the California State Constitution and other relevant authorities whereby the Board may, at its discretion, invest funds in any form or type of investment, financial instrument or financial transaction.

SDCERS' investment managers manage all investments, which are held in SDCERS' name and stated at fair value in the accompanying Statement of Plan Net Position. SDCERS' custodial bank, State Street Bank and Trust Company (State Street), provides the fair values of exchange traded assets (fixed income and equity investments). Through its agents, SDCERS also holds investments in non-publicly traded institutional investment funds. These institutional investment funds are comprised of exchange traded securities, the fair values of which are provided by the respective investment managers. Real estate assets are stated at appraised values as determined by SDCERS' real estate managers and third-party appraisal firms. Private equity and infrastructure assets are measured at fair value using the net asset value (NAV) per share or its equivalent by their respective investment managers giving consideration to the financial condition and operating results of the portfolio companies, and other factors deemed relevant. These fair values are reviewed by SDCERS' private equity and infrastructure consultants.

Capital Assets

Purchased capital assets are recorded at historical cost. SDCERS capitalizes assets with an estimated useful life in excess of one year and must meet or exceed a capitalization threshold of \$5,000. Assets are depreciated using the straight-line method over the following useful lives:

Office Equipment	10-15 years
Computer Equipment	3 years
Intangible Assets	5 years

Accumulated depreciation/amortization and depreciation/amortization expense as of and for the fiscal year ended June 30, 2016 were \$3.5 million and \$0.9 million, respectively.

Liabilities

Liabilities reflect financial obligations of SDCERS as of June 30, including the repayment of securities lending cash collateral at a future date. Securities purchased represent a payable of cash that is required under trade date accounting to settle pending purchases on a settlement date basis, which is typically trade date plus one to three business days.

Certain supplemental benefits payable to City retired members commonly known as the 13th Check and the Corbett settlement are contingent on the realization of sufficient investment earnings as established under San Diego Municipal Code Sections 24.1501 through 24.1503.5 and are measured as of June 30th of each fiscal year. Port and Airport retired members are also eligible to receive the 13th Check supplemental benefit subject to the same contingency on the realization of sufficient investment earnings as established under the relevant sections of the plan sponsor plan documents. In years in which sufficient earnings are not realized, the 13th Check and the Corbett

San Diego City Employees' Retirement System

Notes to the Basic Financial Statements (continued)

June 30, 2016

benefits are not paid. The Corbett benefit is carried forward and paid in future years when sufficient earnings are realized and is accrued yearly. The 13th Check does not carry forward to future years and is accrued only in fiscal years when there are sufficient realized earnings as established in the Municipal Code or relevant section of the plan sponsor plan documents to pay the benefit. Unpaid balances as of the end of the fiscal year are reported as Supplemental Benefits Payable in the Statement of Plan Net Position.

Expenses

SDCERS' administrative expenses, which include actuarial services and other operational costs, are financed by contributions from plan sponsors. Investment expenses include fees for investment management, custodial bank services and other investment operational costs are financed by investment earnings and contributions from plan sponsors. Both types of expenses are reflected as reductions in plan net position.

Income Taxes

Under Internal Revenue Code Section 401(a) and California Revenue and Taxation Code Section 23701, SDCERS' Group Trust and the three separate defined benefit plans participating in the Group Trust are exempt from federal and state income taxes. Accordingly, no provision for income taxes is made in the financial statements. While a determination letter is not required for a defined benefit plan to be tax-qualified, it confirms SDCERS' status as a qualified governmental pension plan.

Use of Estimates

The preparation of SDCERS' financial statements in conformity with GAAP requires SDCERS' management to make estimates and assumptions that affect the reported amounts of net position restricted for pension benefits as of the date of the financial statements. These estimates also affect the actuarial information included in the footnotes and the Required Supplementary Information as of the valuation date, the changes in plan net position during the reporting period and, when applicable, disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

New GASB Pronouncements

GASB Statement No. 72

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which is intended to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establish general principles for measuring fair value, provide additional fair value application guidance, and enhance disclosures about fair value measurements. This statement became effective in FY 2016. GASB Statement No. 72 establishes a three level hierarchy of inputs to valuation techniques used to measure fair value and requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. In addition, the standard requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Pension systems should organize these disclosures by type of assets or liability reported at fair value. The statement also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

GASB Statement No. 76

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement became effective in FY 2016 and establishes the hierarchy of GAAP for all state and local governments. The GAAP hierarchy sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting that a governmental entity should apply.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

Future GASB Pronouncements

GASB Statement No. 82

In March 2016, GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73* to address certain issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement will become effective in fiscal year 2017.

Comparative Totals

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with SDCERS' financial statements as of and for the fiscal year ended June 30, 2015, from which the summarized information was derived.

2. Plan Descriptions

General

SDCERS is governed by a 13-member Board responsible for the administration of retirement benefits for City, Port and Airport members, and for overseeing the investment portfolio of the retirement system's trust fund. The Board is comprised of seven appointed members, four active members, one retired member, and one ex-officio member. As of June 30, 2016, the Board had one vacancy.

SDCERS administers three separate single employer defined benefit pension plans for the City, Port and Airport, and SDCERS provides service retirement, disability retirement, death and survivor benefits to its participants. In addition, the retirement system provides a cost of living adjustment (COLA) benefit to all participants subject to changes in the consumer price index with maximum increases of two-percent per year and a cost of living (COL) annuity to most participants based upon accumulated member cost of living contributions. Employees of the Port became members of SDCERS in 1963. Pursuant to an amendment to the San Diego City Charter in 2002, the Port contracts directly with SDCERS to administer its defined benefit plan. On January 1, 2003, the State of California established the Airport as a separate agency. In 2003, the Airport entered into an agreement with SDCERS to have SDCERS administer its defined benefit plan.

From January 1, 2003 through June 30, 2007, SDCERS administered a qualified multiple-employer defined benefit plan for the City, Port and Airport. However, as of July 1, 2007, the City, Port and Airport plans were separated into independent, qualified, single employer governmental defined benefit plans and trusts. The assets of the three separate plans and trusts were pooled in the SDCERS Group Trust, which was established as of July 1, 2007. SDCERS invests and administers the Group Trust as a common investment fund and accounts separately for the proportional interest of each plan and trust that participates in the Group Trust.

SDCERS acts as a common, independent investment and administrative agent for the City, Port and Airport, whose plans cover all eligible employees. In a defined benefit plan, pension benefits are actuarially determined by a member's age at retirement, number of years of service credit and final compensation, typically based on the highest salary earned over a one-year or three-year period. Airport and Port Safety members who are participants under PEPRAs are subject to all PEPRAs provisions including a pensionable compensation cap. The Port's Miscellaneous plan members are not subject to the PEPRAs benefit formula and the cap on pensionable salary based on the SDCERS actuary certifying that the Miscellaneous plan has a lower normal cost. All other PEPRAs provisions apply. SDCERS also coordinates the benefits for the City's post-employment healthcare benefit plan.

The Port and Airport plans provide for five-year vesting for employees to be eligible to receive pension benefits. Beginning January 1, 2009, new Port non-safety employees do not begin to earn a benefit until their sixth year of employment. The City plan requires ten years of service for its employees to vest for a pension benefit.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

Contributions

SDCERS' uses actuarial developed methods and assumptions to determine what level of contributions are required to achieve and maintain an appropriate funded status for each plan. The actuarial process uses a funding method that attempts to create a pattern of contributions that is both stable and predictable. The actual employer and member contributions rates in effect each year are based upon actuarial valuations performed by an independent actuary and adopted by the Board annually.

The actuarial valuations for each of the plan sponsors are completed as of June 30 of each year. Once accepted by the Board, the approved contribution rates for each plan sponsor apply to the fiscal year beginning 12 months after the valuation date. For FY 2016, the actuarially determined contribution rates for plan sponsors and members were developed in the June 30, 2014 actuarial valuations. SDCERS' Board approved the valuations for the City, Port and Airport on March 13, 2015.

The funding objective of SDCERS is to fully fund the plans' liabilities with contributions that are a level percentage of payroll for the Police portion of the City plan, and that are a level dollar amount for the City's non-Police portion of the plan. Under this approach, the contribution rate is based on the normal cost rate and an amortization of any unfunded actuarial liability (UAL).

Membership

Except as otherwise noted, all City, Port and Airport employees receiving employment benefits participate in SDCERS. City salaried employees hired on or after August 11, 1993 but before July 20, 2012, became members of SDCERS upon employment, except for elected officers who had the option to join. In June 2012, the San Diego electorate passed Proposition B which amended the City Charter to close entrance to the SDCERS defined benefit plan for all City employees, other than sworn police officers, who are initially hired on or after July 20, 2012. The employees initially hired on or after July 20, 2012, are placed in a defined contribution plan administered by the City through a third party. SDCERS does not administer the defined contribution plan.

Beginning in 1997, City and Port members became eligible to purchase an additional five years of service credit in addition to their actual employment service credit. Airport members became eligible to purchase an additional five years of service credit at inception of their plan on January 1, 2003. The five-year purchase may be applied toward the vesting requirements for the City members, but not for Port or Airport members. The option to purchase an additional five years of service credit was discontinued by the City, Port and Airport for employees hired on or after July 1, 2005, October 1, 2005 and October 3, 2006, respectively.

The Airport and the Port Safety members hired on or after January 1, 2013 are subject to PEPRA. PEPRA reduces the benefit formula, raises the retirement age, applies a three year final compensation period and imposes a cap on pensionable salary. PEPRA prohibits retroactive benefit enhancements, excludes certain types of compensation from pensionable pay and requires that the member pay 50% of the normal cost. For all members employed by the Airport and Port, PEPRA eliminated the purchase of nonqualified service credit or "air time" after January 1, 2013.

On May 17, 2013, the SDCERS Board voted to discontinue the purchase of additional service credit (permissive service) through post tax payments and post-tax installment payment plans (excluding purchases of grandfathered service credit made by grandfathered members). A member who is not a grandfathered member may pay for purchases of service credit after this date by pre-tax funds only, such as: direct transfers from the City Supplemental Pension Savings Plan, 401(k) account, Deferred Compensation account, qualified IRAs, or any other qualified retirement plans. Purchases of service credit still allowed under PEPRA for the Port and the Airport must be made with pre-tax funds. The length of the installment contracts that were established prior to this Board rule change varies, but generally may not exceed the lesser of 15 years or the member's first eligible retirement date.

SDCERS participants consist of retirees (retired members and beneficiaries receiving benefits, and Deferred Retirement Option Plan (DROP) participants) and members (active members and inactive members who will be entitled to benefits but are not yet receiving them).

San Diego City Employees' Retirement System

Notes to the Basic Financial Statements (continued)

June 30, 2016

The following membership table provides information on the number of members by category for each plan sponsor. SDCERS' total number of participants increased by 80 members in FY 2016, reflecting a net decrease of 309 active and inactive members and an increase of 389 retirees and DROP participants.

As of June 30, 2016

	City General Members	City Safety Members	Port General Members	Port Safety Members	Airport All Members	Total Members
Active	4,596	2,175	251	111	385	7,518
Inactive	2,265	590	243	38	113	3,249
Retirees	5,078	3,242	420	93	74	8,907
DROP Participants	717	420	26	19	16	1,198
Totals	12,656	6,427	940	261	588	20,872

City Post-Employment Healthcare Benefit Plan

Pursuant to the San Diego Municipal Code, SDCERS processes health insurance premium payments and healthcare reimbursement requests pertaining to the City's HCB Plan for eligible retirees. Post-employment healthcare benefits for members retiring from City employment are based on their health eligibility status. SDCERS also coordinates a special healthcare benefit for spouses and dependents of eligible City employees killed in the line of duty. The HCB Plan activity is reported within the CAFR's Statement of Assets and Liabilities – Agency Funds. The Statement of Changes in Assets and Liabilities – Agency Funds is included in the City's CAFR.

Preservation of Benefit (POB) Plan Activity

In 2008, the IRS issued three Private Letter Rulings approving the City, Port and Airport POB Plans and confirming that each plan is a qualified governmental excess benefit arrangement under IRC Section 415(m), established to pay promised benefits to retirees and beneficiaries of the DB Plans that exceed the IRC Section 415(b) limits.

The POB Plans are unfunded within the meaning of the federal tax laws, requiring the plan sponsor to fund the Plans on a pay-as-you-go basis. The plan sponsor retains title to any assets, including cash that they designate to pay POB Plan benefits. Benefits payable from and the costs of administering the POB Plans, as determined by SDCERS and its actuary, are paid by the respective plan sponsor. For FY 2016, there were no payments to or from the Airport POB Plan.

The City made monthly payments into the POB Plan in FY 2016 totaling \$1.6 million. A balance of \$13.0 thousand remained in the fund at June 30, 2016 and will be carried forward to pay the City's FY 2017 POB Plan expenses.

The Port made monthly payments into the POB Plan in FY 2016 totaling \$0.3 million. A balance of \$3.4 thousand remained in the fund at June 30, 2016 and will be carried forward to pay the Port's FY 2017 POB Plan expenses.

POB Plan activity is presented within the Statement of Assets and Liabilities - Agency Funds, the Statement of Changes in Assets and Liabilities – Agency Funds, and is also included in the City's, Port's and Airports' CAFRs.

3. Deposits and Investments

Cash and Cash Equivalents

At June 30, 2016, SDCERS' cash balance was \$1.2 million. Cash and cash equivalents on deposit with custodial bank and fiscal agents was \$154.8 million, which includes cash collateral for SDCERS' cash overlay program of \$51.0 million and residual cash held in each manager's portfolio of \$103.8 million, which is invested overnight by SDCERS' custodial bank. SDCERS does not have a target allocation to cash; any cash or cash equivalent balances on deposit are reserved for paying benefits and SDCERS' operational expenses.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

Investments

The Board has exclusive authority over the administration and investment of SDCERS' Trust Fund assets pursuant to Section 144 of the Charter of the City and the California State Constitution Article XVI, Section 17.

The Board is authorized to invest in bonds, notes or other obligations, common stock, preferred stock, real estate investments, private equity, infrastructure and pooled vehicles. The risks and correlations of each asset class and investment manager are considered relative to an entire portfolio. Investment policies permit the Board to invest in financial futures contracts provided the contracts do not hedge SDCERS' Trust Fund portfolio. Financial futures contracts are recorded at fair value each day and must be settled at expiration date. Changes in the fair value of the contracts results in the recognition of a gain or loss.

Net investment income includes the net appreciation (depreciation) in the fair value of investments, interest income, dividend income and other income not included in the appreciation (depreciation) in the fair value of investments, less total investment expenses, including investment management and custodial fees and all other significant investment-related costs. SDCERS' realized gains totaled \$124.2 million for the year ended June 30, 2016. Realized gains and losses are independent of the calculation of net appreciation (depreciation) in the fair value of investments. Unrealized gains and losses on investments sold in the current year that had been held for more than one year were included in the net appreciation (depreciation) in the fair value of investments reported in the prior year and current year. Pursuant to the San Diego Municipal Code, realized gains and losses determine whether certain contingent benefits will be paid each fiscal year. Realized gains and losses are reported in the net appreciation (depreciation) in fair value of investments on the financial statements.

SDCERS' policy in regard to the allocation of invested assets is established and may be amended by SDCERS' Board. The asset allocation policy is reviewed and approved on an annual basis. Through its investment objectives and policies, the Board emphasizes generating a rate of return above inflation and the preservation of capital. Investments are made only after the risk/reward trade-offs are evaluated. SDCERS' assets are managed on a total return basis, which takes into consideration both investment income and capital appreciation. While SDCERS recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns.

The following was SDCERS' adopted asset allocation policy as of June 30, 2016:

ASSET CLASS	TARGET ALLOCATION
U.S. Equity	21.0%
Non-U.S. Equity	15.0
Global Equity	5.0
U.S. Fixed Income	22.0
Emerging Market Debt	5.0
Real Estate	11.0
Private Equity and Infrastructure	13.0
Opportunity Fund	8.0
Total	100.0%

For the fiscal year June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 1.0%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

Fair Value Measurements

Pursuant to the requirements of GASB Statement No. 72, *Fair Value Measurement and Application*, SDCERS has provided a summary of the measures of fair value as of the end of the reporting period. SDCERS categorizes their fair value measurements within the fair value hierarchy established by generally accepted accounting principles set forth in GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

- Level 1 Unadjusted quoted prices for identical instruments in active markets.
- Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.
- Level 3 Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

Where inputs used to measure fair value fall into different fair value levels, fair value measurements are categorized based on the lowest level input that is significant to the valuation. SDCERS' assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The table on pages 35 and 36 shows the fair value leveling of the investments for the pension system.

Short-term securities generally include investments in money market-type securities reported at cost plus accrued interest, which approximates fair value.

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt and fixed income derivative securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices. Index linked fixed income securities are valued by multiplying the external market price by the applicable day's Index Ratio. Level 2 fixed income securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market. Equity and equity derivative securities classified in Level 2 are securities whose values are derived daily from associated traded securities.

Real estate assets classified in Level 3 are real estate investments generally valued using the income approach or appraisal approach by SDCERS' real estate managers and third-party appraisal firms. SDCERS' policy is to obtain an external appraisal a minimum of every three years for properties or portfolios that the pension system has some degree of control or discretion. Appraisals are performed by an independent appraiser with preference for Member Appraisal Institute (MAI) designated appraisers. The appraisals are performed using generally accepted valuation approaches applicable to the property type.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
Investments and Derivative Instruments Measured at Fair Value
As of June 30, 2016
(Dollars in Thousands)

	Fair Value Measures Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments by Fair Value Level				
Short-Term Securities	\$6,619	\$ -	\$6,619	\$ -
Fixed Income Securities:				
Asset-Backed Securities	62,560	-	62,560	-
Commercial Mortgage-Backed Securities	20,576	-	20,576	-
Collateralized Mortgage Obligations	50,622	-	50,622	-
Corporates	354,710	-	354,710	-
Government & Agency Obligations	296,242	-	296,242	-
Mortgage Backed Securities	291,482	-	291,482	-
Total Fixed Income Securities	1,076,192	-	1,076,192	-
Equity Securities				
Consumer Discretionary	107,579	107,579	-	-
Consumer Staples	48,433	48,433	-	-
Energy	64,818	64,818	-	-
Financials	125,639	125,639	-	-
Healthcare	132,403	132,403	-	-
Industrials	53,778	53,778	-	-
Information Technology	122,687	122,687	-	-
Materials	23,228	23,228	-	-
Real Estate Investment Trust	99,948	99,948	-	-
Telecommunication Services	17,164	17,164	-	-
Utilities	13,768	13,768	-	-
Total Equity Securities	809,445	809,445	-	-
Real Estate	373,395	-	-	373,395
Total Investments by Fair Value Level	\$2,265,651	\$809,445	\$1,082,811	\$373,395
Investments Measured at the Net Asset Value (NAV)				
Equity Investments				
Commingled Domestic Equity Funds	\$1,143,032			
Commingled International Equity Funds	905,665			
Commingled Global Equity Funds	159,213			
Total Equity Investments Measured at the NAV	2,207,910			
Fixed Income Investments				
Commingled Domestic Fixed Income Funds	10,178			
Commingled International Fixed Income Funds	1,100,863			
Total Fixed Income Investments Measured at the NAV	1,111,041			
Real Estate Investments				
Real Estate Limited Partnerships	214,072			
Commingled Real Estate Funds	155,050			
Total Real Estate Investments Measured at the NAV	369,122			
Private Equity & Infrastructure Investments				
Commingled Private Equity & Infrastructure Funds	882,732			
Invested Securities Lending Collateral				
Commingled Equity Securities	58,698			
Commingled Fixed Income Securities	125,494			
Total Invested Securities Lending Collateral Measured at the NAV	184,192			
Total Investments Measured at the NAV	4,754,997			
Total Investments Measured at Fair Value¹	\$7,020,648			

San Diego City Employees' Retirement System

Notes to the Basic Financial Statements (continued)

Investments and Derivative Instruments Measured at Fair Value (Continued)

As of June 30, 2016

(Dollars in Thousands)

	Fair Value Measures Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investment Derivative Instruments				
Fixed Income Securities				
Credit Default Swaps	\$ (309)	\$ -	\$ (309)	\$ -
Foreign Currency Forwards	319	-	319	-
Interest Rate Swaps	(12,370)	-	(12,370)	-
Options - Foreign Currency	(5)	-	(5)	-
Options - Fixed Income	29	-	29	-
Options - Futures	(16)	-	(16)	-
Total Fixed Income Derivative Securities	(12,352)	-	(12,352)	-
Total Investment Derivative Instruments ¹	\$ (12,352)	\$ -	\$ (12,352)	\$ -

¹ Total investments measured at fair value plus total investment derivatives differs from the total investments including securities lending collateral on the Statement of Plan Net Position because of investment receivables and payables unrealized gains and losses. Total investments measured at fair value excludes \$111 thousand of unrealized losses as of June 30, 2016.

Investments Measured at the NAV

As of June 30, 2016

(Dollars in Thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity Investments				
Commingled Domestic Equity Funds	\$1,143,032	\$ -	Daily	0-5 Days
Commingled International Equity Funds	905,665	-	Daily, Monthly	0-30 Days
Commingled Global Equity Funds	159,213	-	Daily	None
Total Equity Investments Measured at the NAV	2,207,910	-		
Fixed Income Investments				
Commingled Domestic Fixed Income Funds	10,178	-	Daily	None
Commingled International Fixed Income Funds	1,100,863	46,250	Daily	0-5 Days
Total Fixed Income Investments Measured at the NAV	1,111,041	46,250		
Real Estate Investments				
Real Estate Limited Partnerships	214,072	197,855	Not Eligible	N/A
Commingled Real Estate Funds	155,050	-	Monthly	None
Total Real Estate Investments Measured at the NAV	369,122	197,855		
Private Equity & Infrastructure Investments				
Commingled Private Equity & Infrastructure Funds	882,732	467,522	Not Eligible	N/A
Invested Securities Lending Collateral				
Equity Securities	58,698	-	Daily	3 Days
Fixed Income Securities	125,494	-	Daily	3 Days
Total Invested Securities Lending Collateral	184,192	-		
Total Investments Measured at the NAV	\$4,754,997	\$711,627		

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the preceding table on page 36.

Equity Investments

Commingled Domestic Equity Funds consist of a large cap passive index fund, a large cap growth passive index fund, a small cap growth passive index fund, and a fund that invests in U.S small cap value equities. The Commingled International Equity Funds consist of a broad international equity passive index funds with exposure to both developed and emerging markets, two funds that invest in emerging market equities, and a fund that invests in international small cap equities. The Commingled Global Equity Funds consists of two funds that invest in both international and U.S. equities. The fair values of the investments in these types have been determined using the NAV per shares of the investments.

Fixed Income Investments

The Commingled Domestic Fixed Income Funds consist of four funds that invest in domestic fixed income securities and one broad based domestic fixed income passive index fund. The Commingled International Fixed Income Funds consist of three emerging market debt funds and two funds that invest in global credit strategies. The fair values of the investments in these types have been determined using the NAV per shares of the investments.

Real Estate Investments

The Commingled Real Estate Funds consist of two open-ended commingled funds and 21 real estate limited partnerships that are invested in apartments, retail, industrial and office assets throughout the United States, Europe and Asia. Although the open-ended commingled funds are private investments, they can be redeemed on a monthly basis, subject to available liquidity, and the fair value of these investments has been determined using the NAV per shares of the investments. Investments in the limited partnerships can never be redeemed with the funds. Instead, the nature of these investments is that distributions from each investment will be received as the underlying investments are liquidated. Because it is probable that any individual investment will be sold, the fair value of each individual investment has been determined using the NAV per share (or its equivalent) of SDCERS' ownership interest in partners' capital.

Private Equity and Infrastructure Investments

The Commingled Private Equity and Infrastructure Funds consist of two limited partnerships that are managed by two discretionary advisors. Generally, the limited partnerships invest in venture capital, growth equity, buyouts, special situations, mezzanine, and distressed debt. These investments are considered illiquid and cannot be redeemed during the lives of the partnerships. Instead, the nature of these investments is that distributions from each investment will be received as the underlying investments are liquidated. Because it is probable that any individual investment will be sold, the fair value of each individual investment has been determined using the NAV per share (or its equivalent) of SDCERS' ownership interest in partners' capital.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

Securities Lending

SDCERS has entered into an agreement with State Street, its custodial bank, to lend domestic and international equity and fixed income securities to broker-dealers and banks in exchange for pledged collateral that will be returned for the same securities plus a fee in the future. All securities loans can be terminated on demand by either the lender or the borrower.

State Street manages SDCERS' securities lending program and receives cash and/or securities as collateral. Borrowers are required to deliver collateral for each loan equal to 102% for domestic loans and 105% for international loans. State Street does not have the ability to pledge or sell collateral securities delivered absent a borrower default. During FY 2016, SDCERS had no credit risk exposure to borrowers because the amounts provided to State Street on behalf of SDCERS, in the form of collateral plus accrued interest, exceeded the amounts broker-dealers and banks owed to State Street on behalf of SDCERS for securities borrowed. In addition, State Street has indemnified SDCERS by agreeing to purchase replacement securities or return cash collateral if a borrower fails to return or pay distributions on a loaned security. SDCERS incurred no losses during the fiscal year resulting from any reported default of the borrowers or State Street. Non-cash collateral (securities and letters of credit) are not reported in SDCERS' financial statements.

When lending its securities on a fully collateralized basis, SDCERS may encounter various risks related to securities lending agreements. These risks include operational risk, borrower or counterparty default risk and collateral reinvestment risk. State Street is required to maintain its securities lending program in compliance with applicable laws of the United States and all countries in which lending activities take place, as well as all rules, regulations and exemptions from time to time promulgated and issued under the authority of those laws.

As of June 30, 2016, securities on loan collateralized by cash had a fair value of \$181.5 million, and SDCERS received cash collateral of \$184.4 million, which was reported as securities lending obligations in the accompanying Statement of Plan Net Position. The collateral value exceeds the fair value of the securities on loan because borrowers are required to deliver collateral for each loan up to 102% for domestic loans and 105% for international loans. As of June 30, 2016, securities on loan collateralized by securities, irrevocable letters of credit or tri-party collateral had a fair value of \$217.1 million, and a collateral value of \$233.6 million, which was not reported as assets or liabilities in the accompanying Statement of Plan Net Position. The total collateral pledged to SDCERS at June 30, 2016 for its securities lending activities was \$418.0 million.

SDCERS and the borrowers maintain the right to terminate securities lending transactions upon notice. The cash collateral received for lent securities is invested by State Street, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment fund, or collateral pool. State Street maintains two collateral pools: a liquidity pool and a duration pool. As of June 30, 2016, these collateral pools are not rated by the nationally-recognized statistical rating organizations (NRSROs).

As of June 30, 2016, SDCERS had \$178.9 million invested in the Quality D liquidity collateral pool, which had an average duration of 43 days and an average weighted final maturity of 83 days; SDCERS had \$5.2 million invested in the Quality D duration pool, which had an average duration of 45 days and an average weighted final maturity of 2,211 days. Duration is the weighted time average until cash flows are received in the collateral pool, and is measured in days. Alternatively, the weighted average final maturity measures when all final maturities in the portfolio will occur. The duration of the investments made with cash collateral does not generally match the duration of the loans. This is because the loans are terminable at any time by SDCERS or the borrower.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

Fixed Income Instruments

SDCERS' investment portfolio includes fixed income strategies to diversify the investment portfolio. The percentage allocated to these strategies is based on information derived from an Asset/Liability Study performed every three years. The returns of fixed income strategies vary less than equity returns. SDCERS' target asset allocation policy is reviewed each year. SDCERS' long-term target allocation to fixed income strategies as of June 30, 2016 was 27%, which includes domestic fixed income and emerging market debt. The fixed income allocation is externally-managed and is comprised as follows: 22% to core domestic fixed income, which is benchmarked against the Barclays Capital Intermediate Aggregate Bond Index; and 5% to emerging market debt, which is benchmarked 40% to JP Morgan Emerging Market Bond Index Global Diversified and 60% to JP Morgan Government Bond Index-Emerging Market Global Diversified. A 2% target allocation to convertible bond securities, which is benchmarked to the Merrill Lynch All Convertibles All Qualities Index, is not included in the fixed income allocation, but instead is included in the domestic equity allocation. However, given that these convertible securities have fixed income attributes, the convertible bond allocation is included in the Portfolio Risk analysis. SDCERS' overall portfolio diversification limits the fixed income invested in the debt security of any one issuer to 10% of the portfolio at the time of the initial commitment, except for U.S. Government obligations (or agencies and instruments of the U.S. Government) to minimize overall market and credit risk.

Credit Risk

Credit risk is the risk that an issuer or other underlying borrower to a debt instrument will not fulfill its obligations. NRSROs assign ratings to measure credit risk. These rating agencies assess a firm's or government's willingness and ability to repay its debt obligations based on many factors.

SDCERS employs two core bond managers that invest primarily in U.S. fixed income and derivative securities, fixed income mutual funds and some non-U.S. fixed income securities. SDCERS also invests in three emerging market debt commingled funds, one passive core fixed income index fund, and two opportunistic global credit funds. The investment management agreements between SDCERS and its two core bond managers contain specific investment guidelines that identify permitted fixed income investments. One of SDCERS' domestic core fixed income managers has limited tactical discretion to invest in non-U.S. fixed income securities.

The permitted securities and derivatives for the two domestic core fixed income managers include U.S. Government and agency obligations, collateralized mortgage obligations, U.S. corporate securities, commercial mortgage backed securities, asset backed securities, futures, forwards, options, interest rate swaps and credit default swaps. Investment guidelines include minimum average portfolio quality of AA- rating (fair value weighted) for SDCERS' domestic fixed income manager and minimum average portfolio quality of A+ for SDCERS' domestic fixed income manager with limited tactical discretion to invest in non-US fixed income securities; and a minimum credit quality at time of purchase of BBB- for the two domestic fixed income managers.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

The permitted securities for SDCERS' domestic convertible bond portfolio include convertible bonds, convertible preferred stocks, common stocks (due to forced conversions) and synthetic convertibles. SDCERS' domestic convertible bond portfolio will generally maintain an average quality rating of at least B.

The following table identifies the credit quality of SDCERS' fixed income strategies based on portfolio holdings as of June 30, 2016.

Credit Quality of SDCERS' Fixed Income Strategies
(Domestic & International)
As of June 30, 2016
(Dollars in Thousands)

S&P Quality Rating ⁴	Total Fair Value	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Collateralized Mortgage Obligations	Corporates ¹	Government & Agency Obligations ²	Mortgage Backed Securities	Short-Term/ Other
U.S. Treasuries	\$223,165	\$-	\$-	\$-	\$-	\$223,165	\$-	\$-
GNMA Securities	64,638	-	-	33,148	-	-	31,490	-
AAA	29,461	22,692	5,107	23	821	818	-	-
AA+	79,307	12,528	1,734	2,129	4,184	58,732	-	-
AA	11,619	4,667	-	36	3,115	3,801	-	-
AA-	14,914	928	940	241	10,669	2,136	-	-
A+	18,752	1,596	-	5,903	8,051	3,202	-	-
A	35,485	2,475	-	256	32,754	-	-	-
A-1+	127	127	-	-	-	-	-	-
A-	32,953	-	-	2,504	30,449	-	-	-
BBB+	61,077	-	-	1,680	58,342	1,055	-	-
BBB	29,601	1,452	-	26	28,123	-	-	-
BBB-	34,971	-	-	16	34,955	-	-	-
BB+	14,402	-	-	-	14,315	87	-	-
BB	4,775	-	-	77	4,698	-	-	-
BB-	7,268	-	-	-	7,268	-	-	-
B+	9,822	-	-	-	8,916	906	-	-
B	6,414	-	61	-	6,353	-	-	-
B-	5,120	-	-	881	4,239	-	-	-
D	63	-	63	-	-	-	-	-
NR ⁵	1,497,515	16,095	12,671	3,702	97,458	2,340	259,992	1,105,257 ³
Totals	\$2,181,449	\$62,560	\$20,576	\$50,622	\$354,710	\$296,242	\$291,482	\$1,105,257

¹ Corporate Bonds include convertible bonds from SDCERS' convertible bond manager.

² Includes international and municipal holdings.

³ Includes fixed income mutual fund investments of \$1,111,041. These institutional quality fund investments are not directly rated by major credit rating agencies.

⁴ Credit ratings with qualifiers and ratings outlooks have been combined to show the credit rating as of June 30, 2016.

⁵ NR represents those securities that are not rated by one of the NRSROs.

Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk; however, U.S. Government Agency securities other than U.S. Treasuries and GNMA Securities, which are not rated, have been included in this credit risk disclosure as AA+ to reflect the credit rating of the issuer.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

Custodial Credit Risk

Custodial credit risk is the risk that if a financial institution or counterparty fails, SDCERS would not be able to recover the value of its deposits, investments or securities. As of June 30, 2016, 100% of SDCERS' investments were held in SDCERS' name, and SDCERS is not exposed to custodial credit risk related to these investments. SDCERS' uninvested cash balances held in a demand deposit account (DDA) are subject to custodial credit risk. Such a balance or deposit with the bank establishes a debtor-creditor relationship and is not subject to the protection afforded SDCERS' other investments. Cash balances held in Short-Term Investment Funds (STIF) at State Street are held in SDCERS' name and are not subject to custodial credit risk. As of June 30, 2016, SDCERS held \$141.4 million in STIF and a cash balance of \$13.4 million. SDCERS does not have a specific policy relating to custodial credit risk because the majority of SDCERS' assets are held in SDCERS' name and are not available to satisfy the obligations of State Street to its creditors.

SDCERS' custodial bank acts as its securities lending agent. SDCERS is exposed to custodial risk for the securities lending collateral such that certain collateral is received in the form of letters of credit, tri-party collateral or securities collateral. The fair value of non-cash collateral totaled \$233.6 million as of June 30, 2016. The non-cash collateral is not held in SDCERS' name and cannot be sold without a borrower default. The cash collateral held by SDCERS' custodian in conjunction with the securities lending program, which totaled \$184.4 million as of June 30, 2016, is also at risk as it is invested in pooled vehicles managed by the custodian. The investment characteristics of the collateral pools are disclosed in the Securities Lending section in this Note.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the relative size of an investment in a single issuer. As of June 30, 2016, SDCERS had no single issuer that exceeded 5% of total investments, or that exceeded 5% of plan net position (excluding investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments). With respect to the concentration of credit risk by issue, SDCERS' Investment Policy Statement states that not more than 10% of the fixed income portfolio shall be invested in the debt security of any one issue at the time of initial commitment, except for U.S. Government and Agency obligations. While SDCERS does not have a general investment policy on the concentration of credit risk by issuer, each manager's specific investment guidelines place limitations on the maximum holdings in any one issuer.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Fixed income portfolios use duration to measure how a change in interest rates will affect the value of the portfolio. SDCERS does not have a general investment policy that addresses interest rate risk. Rather, each investment manager's specific investment guidelines place limits on each portfolio to manage interest rate risk.

Convertible bonds are generally less sensitive to changes in interest rates and more sensitive to the profitability of the underlying issuer. Company fundamentals are the overriding factor in the bond's return, while fluctuations in interest rates have significantly less impact.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

The following table identifies the durations of SDCERS' domestic and international fixed income strategies based on portfolio holdings:

SDCERS' Fixed Income Portfolios (Domestic & International)
Portfolio Duration Analysis
As of June 30, 2016
(Dollars in Thousands)

Type of Security	Effective Duration (in years)	Fair Value ¹
Asset-Backed Securities		
Asset-Backed Securities	0.35	\$62,560
Commercial Mortgage-Backed Securities		
Commercial Mortgage-Backed Securities	2.43	20,576
Collateralized Mortgage Obligations		
Collateralized Mortgage Obligations	0.40	50,622
Corporate Bonds²		
Bank Loans	0.15	4,004
Corporate Bonds	2.79	204,198
Government & Agency Obligations³		
Municipals	5.16	6,976
Foreign	2.54	7,370
Treasury Securities	5.96	281,896
Mortgage-Backed Securities		
Mortgage-Backed Securities	2.14	291,482
Short-Term/Other^{3,4}		
Cash Equivalents	-	-
Total	3.64	\$929,684

¹ Fair Value does not include convertible bonds, mutual funds and derivative instruments of \$1,251,765. These securities do not exhibit interest rate risk and/or duration cannot be calculated.

² Corporates do not include convertible securities of \$146,508.

³ Duration could not be calculated for the derivative instruments, short-term instruments and mutual funds of \$1,105,257 within the Short-Term/Other category. Although the duration was not available for these securities, the weighted average maturity was calculated for the mutual funds. The following table depicts the weighted average maturity for the mutual funds.

⁴ This fund is early in its lifecycle and the weighted average maturity is not applicable for the current underlying investments.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

The following table depicts the weighted average maturity for the mutual funds (Dollars in Thousands):

Name of Institutional Mutual Fund	Fair Value	Weighted Average Maturity (In Years)
BlackRock U.S. Debt NL Fund	\$655,572	1.55
Davidson Kempner Special Opportunities Fund III ⁴	3,428	-
GCM WindandSea Fund	121,508	2.40
Investec Emerging Market Debt	105,841	8.05
Metropolitan West Floating Rate	2,415	4.66
Metropolitan West High Yield Bond Fund	739	4.73
PIMCO Pac Investment Management Ser	902	7.02
PIMCO PAPS Short-Term Floating NAV II Portfolio	6,122	0.13
Stone Harbor	114,350	8.59
Wellington Trust Company CIF II Opportunistic	100,164	10.87
Total	\$1,111,041	

Investments Highly Sensitive to Interest Rate Changes

Certain terms in fixed income securities may increase the sensitivity of their fair values to changes in interest rates. The Portfolio Duration Analysis table discloses the degree to which SDCERS' investments are sensitive to interest rate changes due simply to the remaining term to maturity. The total values of securities that are highly sensitive to interest changes due to factors other than term to maturity are shown in the following table:

Investments Highly Sensitive to Interest Rate Changes

As of June 30, 2016

(Dollars in Thousands)

Type of Security	Fair Value	Percent of Fixed Income Portfolio
Adjustable Rate Notes	\$7,404	0.3%
Asset-Backed Securities	30,889	1.4
Floating Rate Notes	60,939	2.8
Range Notes	11,857	0.6
Total	\$111,089	5.1%

Although SDCERS does not have an investment policy that pertains directly to investments that are highly sensitive to interest changes, this risk is mitigated by diversification of issuer, credit quality, maturity and security selection.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following table represents securities held in a foreign currency as of June 30, 2016:

Foreign Currency Risk¹

As of June 30, 2016

(All Values are in U.S. Dollars, in thousands)

Local Currency Name	Cash	Equity	Fixed Income	Options	Real Estate	Total
Australian Dollar	\$-	\$6,099	\$-	\$(5)	\$6,190	\$12,284
Brazilian Real	3	765	-	-	-	768
British Pound	789	53,111	3,599	-	5,903	63,402
Canadian Dollar	(318)	7,193	1,232	-	-	8,107
Danish Krone	-	4,238	-	-	-	4,238
Euro Currency	229	71,149	11,212	-	32,016	114,606
Hong Kong Dollar	22	15,894	-	-	4,442	20,358
Japanese Yen	550	64,553	2,340	-	7,766	75,209
Mexican Peso	153	-	52	-	-	205
New Taiwan Dollar	-	450	-	-	-	450
New Zealand Dollar	-	841	-	-	623	1,464
Norwegian Krone	-	935	-	-	-	935
Polish Zloty	16	-	-	-	-	16
Singapore Dollar	-	589	-	-	1,535	2,124
South Korean Won	-	3,455	-	-	-	3,455
Swedish Krona	12	8,951	-	-	-	8,963
Swiss Franc	-	24,913	-	-	-	24,913
Thai Baht	-	422	-	-	-	422
Total	\$1,456	\$263,558	\$18,435	\$(5)	\$58,475	\$341,919

¹ This schedule does not include the foreign currency exposure to two international equity, one global equity, two emerging market equity and three emerging market debt (fixed income) institutional mutual fund investments.

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held by SDCERS as an investment. Foreign currency is held temporarily in foreign accounts until it is able to be repatriated or expended to settle trades. An important component of the diversification benefit of non-domestic investments comes from foreign currency exposure. SDCERS does not have a general investment policy in place to manage foreign currency risk or to hedge against fluctuations in foreign currency exposure. Instead, SDCERS' investment managers may hedge currencies at their discretion pursuant to their specific investment guidelines included in each of their investment management agreements.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

Derivative Instruments

As of June 30, 2016, the derivative instruments held by SDCERS are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized in the Statement of Changes in Plan Net Position.

SDCERS' investment managers, as permitted by their specific investment guidelines, may enter into transactions involving derivative financial instruments, consistent with the objectives established by the SDCERS' Investment Policy Statement. These instruments include futures, options, swaps, forwards, warrants and rights. By Board policy, these investments may not be used to leverage SDCERS' portfolio, i.e., use derivatives to increase the portfolio's notional exposure to any given asset class. These instruments are used in an attempt to enhance the portfolio's performance and/or reduce the portfolio's risk.

All investment derivatives discussed below are addressed in the Portfolio Risk discussion, which precedes this section. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

The following table provides a summary of the derivative instruments outstanding as of June 30, 2016:

Investment Derivative Disclosure

(Dollars in Thousands)

Investment Derivative Instruments	Net Appreciation (Depreciation) in Fair Value	Fair Value at June 30, 2016		
	Amount	Classification	Amount	Notional (Dollars)
Credit Default Swaps	\$(108)	Domestic Fixed Income	\$(309)	\$21,257
Fixed Income Futures	6,733	Domestic Fixed Income	-	41,970
Fixed Income Options	320	Domestic Fixed Income	29	131,200
Foreign Currency Futures	(337)	Domestic Fixed Income	-	6,000
Foreign Currency Options	6	Domestic Fixed Income	(5)	(1,042)
Futures Options	323	Domestic Fixed Income	(16)	(59)
Foreign Currency Forwards	(52)	Domestic Fixed Income	319	33,409
Index Futures	(8,368)	Domestic Fixed Income	-	78
Interest Rate Swaps	(14,205)	Domestic Fixed Income	(12,370)	234,695
Rights	35	Domestic Equity	-	-
Total Derivative Instruments	\$(15,653)		\$(12,352)	\$467,508

Some derivative instruments, such as credit default swaps and interest rate swaps, are not exchange traded and are priced using quarterly Over-the-Counter trading data.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

Futures contracts are financial instruments that derive their value from underlying indices or reference rates and are marked-to-market at the end of each trading day. Daily settlement of gains and losses occur on the following business day. As a result, the futures contracts do not have a fair value as of June 30, 2016. Daily settlement of gains and losses is a risk control measure to limit counterparty credit risk. Futures variation margin amounts are settled each trading day and recognized in the financial statements under net appreciation (depreciation) in fair value of investments as they are incurred.

Foreign currency forward contracts are obligations to buy or sell a currency at a specified exchange rate and quantity on a specific future date. The fair value of the foreign currency forwards is the unrealized gain or loss calculated based on the difference between the specified exchange rate and the closing exchange rate at June 30, 2016.

Counterparty Credit Risk

The following table illustrates the counterparty credit ratings of SDCERS' non-exchange traded investment derivative instruments outstanding and subject to loss:

Counterparty Credit Risk
As of June 30, 2016
(Dollars in Thousands)

Counterparty Name	Fair Value	S&P Rating
Bank of America N.A.	\$10	A
Citibank N.A.	20	A
Credit Suisse International	17	A
Goldman Sachs International	4	A
HSBC Bank USA	2	AA-
JPMorgan Chase Bank N.A.	1	A+
Morgan Stanley CME	259	BBB+
National Australia Bank Limited	484	AA-
UBS AG	156	A+
Total	\$953	

The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk at June 30, 2016 was \$1.0 million. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. At June 30, 2016, SDCERS did not have any significant exposure to counterparty credit risk with any single party. SDCERS does not have any specific policies relating to the posting of collateral or master netting agreements.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

Derivative Custodial Credit Risk

At June 30, 2016, all of SDCERS' investments in derivative instruments were held in SDCERS' name and were not exposed to custodial credit risk.

Derivative Interest Rate Risk

At June 30, 2016, SDCERS was exposed to interest rate risk on its investments in interest rate swaps, options and credit default swaps. The table below illustrates the maturity periods of these derivative instruments.

Investment Maturities

(Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
Credit Default Swaps	\$ (309)	\$ 17	\$ 132	\$ -	\$ (458)
Fixed Income Options	29	-	29	-	-
Interest Rate Swaps	(12,370)	-	(3,442)	(2,291)	(6,637)
Total	\$ (12,650)	\$ 17	\$ (3,281)	\$ (2,291)	\$ (7,095)

Derivative Instruments Highly Sensitive to Interest Rate Changes

Credit default swaps, fixed income futures, options and interest rate swaps are highly sensitive to changes in interest rates. The table below reflects the fair value and notional amount of these derivative instruments.

Derivative Instruments Highly Sensitive to Interest Rate Changes

As of June 30, 2016

(Dollars in Thousands)

Investment Type	Fair Value	Notional
Credit Default Swaps	\$ (309)	\$ 21,257
Fixed Income Futures	-	41,970
Fixed Income Options	29	131,200
Interest Rate Swaps	(12,370)	234,695
Total	\$ (12,650)	\$ 429,122

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

Derivative Foreign Currency Risk

At June 30, 2016, SDCERS was exposed to foreign currency risk on its investments in options, currency forward contracts and interest rate swaps denominated in foreign currencies.

Foreign Currency Risk
(Dollars in Thousands)

Currency Name	Foreign Currency Forwards				
	Options/Rights/ Warrants	Net Receivables	Net Payables	Swaps	Total
Australian Dollar	\$ (5)	\$ 2	\$ -	\$ -	\$ (3)
Canadian Dollar	-	-	3	-	3
Euro Currency	-	(185)	653	220	688
Pound Sterling	-	-	(20)	(294)	(314)
Japanese Yen	-	-	(129)	-	(129)
Mexican Peso	-	-	(5)	52	47
Subtotal	\$ (5)	\$ (183)	\$ 502	\$ (22)	\$ 292
Investments Denominated in USD	13	-	-	(12,657)	(12,644)
Total	\$ 8	\$ (183)	\$ 502	\$ (12,679)	\$ (12,352)

In addition to the investments listed in the above table, SDCERS has investments in foreign futures contracts with a total notional value of \$1.2 million and in foreign index futures with a total notional value of \$4.1 million. As indicated previously, futures variation margin amounts are settled each trading day and recognized as realized gains/losses as they are incurred. As a result, the foreign futures contracts have no fair value at June 30, 2016.

Contingent Features

At June 30, 2016, SDCERS did not hold any positions in derivatives containing contingent features.

Real Estate

SDCERS' target allocation to real estate is 11%. The Board has established the following portfolio composition targets: 10% in public real estate securities and 90% in private real estate investments. The private portfolio is further diversified with a target of 70% in core real estate and 30% in value-add and opportunistic real estate. No more than 40% of SDCERS' real estate portfolio is allocated to non-U.S. real estate investment opportunities.

Certain real estate investments are leveraged. In those cases, partnerships have been established to purchase properties through a combination of equity contributions from SDCERS, other investors and through the utilization of debt. SDCERS engages real estate advisors and operating partners who are responsible for managing a portfolio's daily activities, performance and reporting. As of June 30, 2016, real estate investments totaled \$829.3 million and unfunded capital commitments totaled \$197.9 million. Pursuant to a policy, SDCERS has established a maximum leverage limit of 50% at the portfolio level. As of June 30, 2016, SDCERS' real estate portfolio had leverage of 30.0%. SDCERS' share of outstanding debt in the real estate portfolio is \$129.4 million, excluding obligations of limited partnership interests in commingled funds. This balance of debt is comprised of all non-recourse loans that currently bear interest at rates ranging from 3.11% to 6.04% and maturity dates that range from April 2017 through June 2023.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

The following table illustrates the mortgage loans that SDCERS has outstanding as of June 30, 2016 (Dollars in Thousands):

Fiscal Year Ending June 30	Principal	Interest	Total
2017	\$244	\$4,843	\$5,087
2018	22,778	4,035	26,813
2019	41,611	3,275	44,886
2020	6,851	2,157	9,008
2021	12,650	1,692	14,342
2022-23	45,235	1,997	47,232
Total	\$129,369	\$17,999	\$147,368

Private Equity and Infrastructure

Private Equity assets are generally defined as direct investments in projects or companies that are privately negotiated and typically do not trade in a capital market. The risk is that these instruments are usually equity interests that are generally illiquid and long-term in nature.

Infrastructure is a subset of Private Equity, defined as permanent essential assets society requires to facilitate the orderly operation of the economy, such as roads, water supply, sewers, power and telecommunications. The risk is that these investments are usually equity interests that are generally illiquid and long-term in nature.

SDCERS' target allocation to private equity and infrastructure is 13%, with a portfolio composition focused on value and current income producing strategies. Unfunded capital commitments as of June 30, 2016 totaled \$467.5 million. As of June 30, 2016, private equity and infrastructure investments totaled \$882.7 million.

4. Net Pension Liability of Plan Sponsors

Measurements as of the reporting date are based on the Plan Net Position as of June 30, 2016 and the Total Pension Liability (TPL) as of the valuation date, June 30, 2015, with updated procedures to roll forward to June 30, 2016. There were changes in actuarial assumptions as of the measurement date so the update procedures include the addition of service cost and interest cost offset by actual benefit payments, plus an adjustment due to the assumption changes.

The Net Pension Liability (NPL) for each of the plan sponsors as of June 30, 2016, is as shown below (Dollars in Thousands):

	City	Port	Airport
Total Pension Liability	\$8,946,660	\$500,595	\$161,952
Plan Net Position	6,296,106	367,956	143,840
Net Pension Liability	\$2,650,554	\$132,639	\$18,112
Plan Net Position as a Percentage of the Total Pension Liability	70.4%	73.5%	88.8%

Actuarial valuations of the plan sponsors involve the use of estimates and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality and future salary increases.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

Actuarial measurements of the total pension liability are subject to revision as actual results are compared with past expectations and new estimates are made about the future.

The membership data, actuarial methods, and plan provisions were based upon the June 30, 2015 actuarial valuations. The actuarial assumptions used in the June 30, 2015 valuations were updated to reflect the results of a full experience study performed by the actuary for the period July 1, 2010 – June 30, 2015 and adopted by SDCERS' Board in September 2016, and the results of an economic experience study performed by the actuary.

A summary of the updated actuarial assumptions as of the June 30, 2015 actuarial valuations, the full experience study, and the economic experience study is shown below.

Actuarial Assumptions

	City	Port	Airport
Valuation date	6/30/2015	6/30/2015	6/30/2015
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Actuarial Assumptions:			
Discount Rate	7.00%	7.00%	7.00%
Wage inflation ¹	0.00% for FY16-18, 3.05% thereafter	3.05%	3.05%
Additional merit increase	0.5% - 8.0%	0.5% - 8.0%	0.5% - 5.0%
Cost of living increase	1.90%	1.90%	1.90%

¹ Additional merit salary increases of 0.50% to 8.00% based on a participant's years of service, and membership group are also assumed.

Mortality: Healthy retired members use the California Public Employees' Retirement System (CalPERS) Post-Retirement Mortality Table base rates from the CalPERS January 2014 experience study, with a 10% increase to female rates, projected 20 years from the 2009 base year using a variation of Scale MP-2015 from the Society of Actuaries. The scale was modified using the Society of Actuaries' model implementation tool with rates converging to the ultimate rate in 2019 (instead of 2029) and an ultimate rate of improvement of 0.75% (instead of 1.0%) up to age 85 and decreasing to 0.60% (instead of 0.85%) at age 95.

For further information regarding actuarial assumptions and policies, see the Actuarial and Statistical Sections of this CAFR.

Long-Term Expected Rates of Return

Expected return estimates for equity and fixed income are developed using a geometric (long-term compounded) building block approach: 1) expected returns based on observable information in the equity and fixed income markets and consensus estimates for major economic and capital market inputs, such as earnings and inflation, and 2) where necessary, judgment-based modifications are made to these inputs. Return assumptions for other assets classes are based on historical results, current market characteristics, and professional judgment from SDCERS' general investment consultant specialist research teams.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

Best estimates of geometric long-term real rates of return and nominal rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the following table:

Long-Term Expected Real and Nominal Rates of Return
as of June 30, 2016

Asset Class	Long-Term Expected Real Rates of Return	Long-Term Expected Nominal Rates of Return
U.S. Equity	4.5%	6.7%
Non-U.S. Developed Equity	5.5	7.8
Global Equity	5.1	7.3
U.S. Fixed Income	0.9	3.0
Emerging Market Debt	3.7	5.9
Real Estate	3.6	5.8
Private Equity and Infrastructure	6.6	8.8
Opportunity Fund	4.4	6.6

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that the employees will continue to contribute to SDCERS at the current rates and the plan sponsors will continue their historical practice of contributing to SDCERS based on an actuarially determined contribution, reflecting a payment equal to annual Normal Cost, an amount necessary to amortize the remaining UAL, the phased-in portion of annual expected administrative expenses, and the amount needed to avoid negative amortization, if any. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the discount rate of 7.00% was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability of the City, Port and Airport, as of June 30, 2016, calculated using the discount rate of 7.00%, as well as what the net pension liability for each Plan Sponsor would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate (Dollars in Thousands):

	1% Decrease 6.00 %	Discount Rate 7.00 %	1% Increase 8.00 %
City's Net Pension Liability	\$3,698,196	\$2,650,554	\$1,785,986
Port's Net Pension Liability	\$194,893	\$132,639	\$81,289
Airport's Net Pension Liability (Asset)	\$41,056	\$18,112	(\$787)

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

5. Contributions

SDCERS' uses actuarial developed methods and assumptions to determine what level of contributions are required to achieve and maintain an appropriate funded status for each plan. The actuarial process uses a funding method that attempts to create a pattern of contributions that is both stable and predictable. The actual employer and member contributions rates in effect each year are based upon actuarial valuations performed by an independent actuary and adopted by the Board annually.

The actuarial valuations for each of the plan sponsors are completed as of June 30 of each year. Once accepted by the Board, the approved rates for each plan sponsor apply to the fiscal year beginning 12 months after the valuation date. For FY 2016, the actuarially determined contribution rates for plan sponsors and members were developed in the June 30, 2014 actuarial valuations. SDCERS' Board approved the valuations for the City, Port and Airport on March 13, 2015.

In January 2015, the SDCERS' Board voted to add an explicit administrative expense assumption for funding purposes and phase in the impact over three years beginning with the June 30, 2014 actuarial valuations for each plan sponsor.

The funding objective of SDCERS is to fully fund the plans' actuarially accrued liabilities with contributions which, over time will remain as a level percent of payroll for the Port, Airport, and Police portion of the City plan and level dollar amounts for the City's non-Police portion of the plan. Under this approach the contribution rate is based on the normal cost rate and an amortization of any UAL.

SDCERS' funding policy provides for periodic plan sponsor contributions at actuarially determined amounts designed to accumulate sufficient assets to pay vested benefits to SDCERS' members. Contributions are calculated under the Entry Age Normal (EAN) actuarial funding method, whereby the normal cost rate is computed as the average level percent of pay required to fund the retirement benefits for all members between the dates of hire and assumed dates of retirement.

The difference between the EAN actuarial liability and the actuarial value of assets is the UAL. The UAL as of the June 30, 2015 actuarial valuation, the most recent available, is split into several tiers, each using a different amortization period. The UAL is amortized by annual payments. The payments are determined as a level percentage of pay, assuming payroll increases of 3.175% per year, for the Police portion of the City plan, the Port and the Airport. This assumption is scheduled to decline to 3.05% for the June 30, 2016 actuarial valuation. The payments for the non-Police portion of the City plan are determined as level dollar amounts.

The City, Port and Airport make annual plan sponsor contributions to SDCERS based upon the Actuarial Determined Contribution (ADC) as determined by SDCERS' actuary.

The complete Actuarial Valuations for the City, Port and Airport are available at www.sdcers.org.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

The following table illustrates the required FY 2016 plan sponsors' contribution rates, as a percent of covered payroll, as calculated annually by SDCERS' actuary, Cheiron:

FY 2016 Contribution Rates

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	City (June 30, 2014, Actuarial Valuation)											Weighted Total
	General Old Plan	General 2009 Plan	Elected Officers	Police Old Plan	Police 2009 Plan	Police 2012 Plan	Police 2012 No COL Plan	Police Prop B	Fire Old Plan	Fire 2012 Plan	Lifeguard	
Normal Cost ¹	8.46%	7.98%	27.05%	13.29%	13.47%	12.83%	14.59%	14.66%	13.13%	14.75%	13.48%	10.43%
Amortization Payment ²	48.58	1.33	59.40	66.01	2.66	1.39	0.66	0.00	79.30	0.58	54.33	48.71
Administrative Expenses	0.95	0.15	1.44	1.32	0.27	0.24	0.25	0.24	1.54	0.25	1.13	0.98
Total Contribution Rate	57.99	9.46	87.89	80.62	16.40	14.46	15.50	14.90	93.97	15.58	68.94	60.12

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	Port (June 30, 2014, Actuarial Valuation)				Weighted Total
	General	Miscellaneous	Executives	Police	
Normal Cost ¹	11.28%	7.86%	11.75%	16.07%	12.57%
Amortization Payment ²	31.62	0.00	61.05	30.81	29.32
Administrative Expenses	0.73	0.13	1.24	0.80	0.71
Total Contribution Rate	43.63	7.99	74.04	47.68	42.60

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	Airport (June 30, 2014, Actuarial Valuation)			Weighted Total
	General	PEPRA	Executives	
Normal Cost ¹	12.50%	6.85%	11.78%	11.36%
Amortization Payment ²	1.44	0.00	4.14	1.23
Administrative Expenses	0.38	0.19	0.43	0.34
Total Contribution Rate	14.32	7.04	16.35	12.93

¹Rates assume that contributions are made uniformly during the plan year.

²In years where there is an unfunded actuarial liability (UAL), in order to avoid "negative amortization" the amortization payment can never be less than full interest on the UAL.

Members are required to contribute a percentage of their annual salary to fund the annuity portion of their individual benefit. Contributions vary according to the member's age at the time of enrollment and member's group (e.g., safety, general, miscellaneous and elected officers).

Member contribution assumptions include an actuarial discount rate of 7.25% and a wage inflation rate of 3.30%. These assumptions are reflected in the June 30, 2014 valuation, which impacted contribution rates for members and plan sponsors beginning July 1, 2015.

In November 2012, the Board approved revised contribution rates for new members as defined by PEPRA for the Port Safety Plan and the Airport effective January 1, 2013.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

Member average contribution rates for FY 2016 from the June 30, 2014 actuarial valuations for each member class are shown below. Averages shown apply to salary amounts over \$400 per month in the case of members with social security integrated benefits.

	City	Port	Airport
General Members ¹	9.13%	9.85%	10.09%
Safety Members ²	14.29	13.38	n/a
All Members	11.08	11.02	10.09

¹General Members include Elected Officers, Executives, Miscellaneous and PEPRAs Members, as applicable.

²Safety Members include Police, Fire and Lifeguard Members, as applicable.

All or part of the member's contribution rate may be subject to a reduction for member contributions paid by the employer, as determined through annual meet and confer negotiations between the employers and employee bargaining groups. The rates above (actuarially determined amounts) are shown before any applicable reduction. Except as noted, member contributions paid by the employer and related accumulated interest are not refunded to the members at termination; only a member's actual contributions made plus credited interest are refunded to a member at termination of employment, upon the member's request. Airport executive member contributions paid by the employer are eligible to be refunded to a member at termination of employment. PEPRAs members for the Port and Airport are not eligible for employer paid contributions.

For FY 2016, the City did not have contractual agreements to pay member contributions.

For FY 2016, the Port paid the following portion of members' contributions, stated as a percentage of a member's salary:

- For General Members: 6.00% to 7.00%
- For Safety Members: 8.80%
- For Executive Members: 7.50% to 10.30%

For FY 2016, the Airport paid the following portion of members' contributions, stated as a percentage of a member's salary:

- For General Members: 7.00% to 8.50%
- For Executive Members: 8.50% plus 100% of the otherwise payable employee contributions amount in excess of 8.5%

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

SDCERS' members are allowed to purchase certain types of service credit, usually related to periods of missing service credit or missing employee contributions. The San Diego Municipal Code provides that City members may purchase service credit. For Airport members and Port members, their respective plan documents outline the purchase of service credit provisions.

Beginning in 1997, City and Port members became eligible to purchase an additional five years of service credit, in addition to their actual employment service credit. Airport members became eligible to purchase an additional five years of service credit at inception of their Plan on January 1, 2003. The five-year purchase may be applied toward the vesting requirements for the City members, but not for Port or Airport members. The option to purchase an additional five years of service credit was discontinued by the City, Port and Airport for employees hired on or after July 1, 2005, October 1, 2005 and October 3, 2006, respectively. As of January 1, 2013 PEPRA prohibited the purchase of additional service credit or "air time" for Port and Airport members.

On May 17, 2013, the Board discontinued the purchase of additional service credit (permissive service), through post-tax payments and post-tax installment payment plans, (excluding grandfathered members making grandfathered purchases). A member who is not a grandfathered member may pay for purchases of service credit after this date by pre-tax funds only, such as: direct transfers from the City's Supplemental Pension Savings Plan, 401(k) account, Deferred Compensation account, qualified IRAs, or any other qualified retirement plan. Purchases of service credit still allowed under PEPRA for the Port and the Airport must be made with pre-tax funds. The length of the installment contracts that were established prior to this Board rule change varies, but generally may not exceed the lesser of 15 years or the member's first eligible retirement date.

As of June 30, 2016, a total of 163 members were making payments on installment contracts. Service credits purchased under an installment contract are not an actuarial liability of SDCERS until the purchase is paid by the member. A receivable for purchased service contracts totaling \$1.9 million, net of an allowance for contract cancellations of \$0.1 million, has been included in the accompanying Statement of Plan Net Position at June 30, 2016.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

6. Reserve Balances

The San Diego Municipal Code authorizes the Board to establish reserve accounts based on the advice of its actuary. Annual adjustments to the Trust Fund's reserves are a result of realized investment gains or losses and member and plan sponsor contributions received. These changes are distributed in accordance with the San Diego Municipal Code.

Reserve balances as of June 30, 2016 (Dollars in Thousands):

Reserve for Current Retired Members	\$3,765,429
Reserve for Member Contributions	1,001,081
Reserve for DROP	557,583
Reserve for Plan Sponsor Contributions	363,091
Reserve for Receivables	1,894
Reserve for Supplemental COLA	178
Undistributed Earnings Reserve	40,119
Total Reserves¹	\$5,729,375

¹ Total reserves differ from the net position restricted for benefit payments reported in the Statement of Plan Net Position because investments are reported at fair value in the financial statements. The total reserves in this table exclude the accumulated unrealized gains totaling \$1.079 billion as of and for the fiscal year ended June 30, 2016.

Reserve for Current Retired Members. Upon retirement, member contribution balances are transferred from Reserve for Member Contributions to this reserve, along with sufficient funds from the Plan Sponsor Contributions Reserve, to fund the expected present and future cost of benefits for existing retirees.

Reserve for Member Contributions. This represents the accumulated contributions, plus accumulated allocated interest, held on account for all active and inactive members.

Reserve for Deferred Retirement Option Plan (DROP). Balances representing accumulated deferred retirement benefits, plus accumulated allocated interest, held on account for members participating in DROP. DROP accounts receive a member's pension allowance, 3.05% of salary contributed by the DROP member and a 100% matching contribution (3.05%) by the employer, plus interest calculated at the current DROP interest crediting rate, credited quarterly. Reserve for DROP for each Plan Sponsor at June 30, 2016 is as follows (Dollars in Thousands):

	City	Port	Airport	Total
Reserve for DROP	\$539,362	\$15,071	\$3,150	\$557,583

Reserve for Receivables. This represents the balance of funds expected to be received in the future consisting mainly of member contributions for purchase of service credit installment contracts and any invoiced contributions.

Reserve for Plan Sponsor Contributions. This represents the otherwise unallocated accumulated contributions, plus accumulated allocated interest, of all participating plan sponsors.

Reserve for Supplemental COLA. These are funds appropriated by the applicable plan sponsor each year as part of its budget process and transferred to SDCERS to pay the Supplemental COLA Benefit to retirees of that plan sponsor whose effective date of retirement was prior to June 30, 1982, for the rest of their lives and then to their survivors for the remainder of their lives. The benefit is not paid in any month in which the plan sponsor has failed to provide sufficient funds to pay the benefit. System assets are not used to pay this benefit.

Undistributed Earnings Reserve. This represents the balance of earnings remaining after the annual distribution to the member and plan sponsor reserve accounts in accordance with the Board established assumed rate of interest. At the beginning of each fiscal year, any Undistributed Earnings (Losses) from the prior fiscal year are credited to the Reserve for Plan Sponsor Contributions.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

7. Lease

Operating Lease

The following is a schedule of future minimum rental payments required under an operating lease entered into by SDCERS that has an initial, non-cancelable lease term in excess of one year as of June 30, 2016:

Year Ending June 30, (Dollars in Thousands)

2017	\$965
2018	993
2019	1,023
2020	1,054
2021	1,086
2022 - 2023	2,366
<u>Total</u>	<u>\$7,487</u>

Rent expense related to the operating lease was \$0.9 million for the year ended June 30, 2016.

8. Legal Actions

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

Purchase Service Credit (PSC) Litigation

Abutin, et. al. v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2013-00077737-CU-OE-CTL. Based on the decision in *Baidya vs. SDCERS*, plaintiffs have filed a request to dismiss the action.

Bass, et. al., v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2013-00077556-CU-OE-CTL. Based on the decision in *Lancaster vs. SDCERS*, plaintiffs have filed a request to dismiss the action.

Bao, et. al., vs. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2014-00009006-CU-NP-CTL. Based on the decision in *Baidya vs. SDCERS* and related cases, plaintiffs have filed a request to dismiss the action.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

Patrick Lenhart, et al. v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2011-00096587-CU-BC-CTL

On August 19, 2011, a complaint was filed against SDCERS on behalf of a class of certain SDCERS "safety members" who are or were City of San Diego employees (or their beneficiaries) who purchased underpriced PSCs between August 15 and November 1, 2003, and whose alleged PSC contracts were thereafter not honored following the Court of Appeal decision of June 7, 2010 in the case *City Of San Diego v. San Diego City Employees' Retirement System*, San Diego Superior Court, Case No. 37-2007-0008192-CU-WM-CTL. The Superior Court granted SDCERS' Motion for Summary Judgment and entered judgment in favor of SDCERS. Plaintiffs appealed the ruling. The Court of Appeal issued its rulings, affirming the Superior Court's rulings in favor of SDCERS with one exception related to a breach of contract claim. That one exception will return to the Superior Court for further proceedings. SDCERS believes the lawsuit is without merit and will vigorously defend against the claims. The outcome of this matter is not expected to have a material adverse impact on SDCERS' financial condition.

Agnew, et. al. v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2013-00077705-CU-OE-CTL

On November 27, 2013, a complaint was filed by 115 members of SDCERS who are or were employees of the City of San Diego (or their beneficiaries) who purchased underpriced PSCs between August 15 and November 1, 2003, and whose alleged PSCs were thereafter not honored by SDCERS following the Court of Appeal's decision of June 7, 2010 in the case *City of San Diego v. San Diego City Employees' Retirement System*, San Diego Superior Court, Case No. 37-2007-0008192-CU-WM-CTL. Following the decision in *Lenhart vs. SDCERS*, plaintiffs are pursuing a breach of contract claim. SDCERS believes the lawsuit is without merit and will vigorously defend against the claims. The outcome of this matter is not expected to have a material adverse impact on SDCERS' financial condition.

Goodman v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2015-00024268-CU-BC-CTL

On July 18, 2016, a complaint was filed by three members who allege SDCERS breach their purchase of service contracts when SDCERS corrected those purchases following the Court of Appeal decision of June 7, 2010, in the case *City of San Diego v. San Diego City Employees' Retirement System*, San Diego Superior Court, Case No. 37-2007-0008192-CU-WM-CTL. The plaintiffs request unspecified damages. SDCERS believes the lawsuit is without merit and will vigorously defend against the claims. The outcome of this matter is not expected to have a material adverse impact on SDCERS' financial condition.

Other Litigation

Krolikowski v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2015-00006255-CU-OE-CTL

On February 24, 2015, a complaint was filed by a SDCERS member concerning SDCERS' recoupment of pension benefit amounts overpaid to Plaintiff. The complaint seeks a judicial determination and writ of mandate declaring that the pension benefit amount originally paid to Plaintiff is correct, that SDCERS is barred from recouping any overpayment by the statute of limitations, and that SDCERS may not take money from Plaintiff's pension. The complaint also alleged causes of action for breach of common law and constitutional fiduciary duties and conversion. On May 23 and 25, 2016, the matter went to trial. The Court issued its Statement of Decision in favor of SDCERS and entered Judgment for SDCERS. Plaintiff has filed an appeal. SDCERS believes the lawsuit is without merit and will vigorously defend against the claims. The outcome of this matter is not expected to have a material adverse impact on SDCERS' financial condition.

San Diego City Employees' Retirement System
Notes to the Basic Financial Statements (continued)
June 30, 2016

Van Putten v. San Diego City Employees' Retirement System, San Diego Superior Court, Case No. 37-2015-00021007-CU-OE-CTL

On June 23, 2015, a complaint was filed by a SDCERS member concerning SDCERS' recoupment of pension benefit amounts overpaid to Plaintiff. The complaint seeks a judicial determination and writ of mandate declaring that the pension benefit amount originally paid to Plaintiff is correct, that SDCERS is barred from recouping any overpayment by the statute of limitations, and that SDCERS may not take money from Plaintiff's pension. The complaint also alleged causes of action for breach of common law and constitutional fiduciary duties and conversion. On May 23 and 25, 2016, the matter went to trial. The Court issued its Statement of Decision in favor of SDCERS and entered Judgment for SDCERS. Plaintiff has filed an appeal. SDCERS believes the lawsuit is without merit and will vigorously defend against the claims. The outcome of this matter is not expected to have a material adverse impact on SDCERS' financial condition.

Additional information on these matters is available at www.sdcers.org.

San Diego City Employees' Retirement System Required Supplementary Information

City Schedule of Changes in Net Pension Liability and Related Ratios For the Fiscal Years Ended June 30, (Dollars in Thousands)

	2016	2015	2014 ¹
Total Pension Liability			
Service Cost	\$93,804	\$102,687	\$107,003
Interest	573,760	554,988	537,875
Differences Between Expected and Actual Experience	21,285	46,416	-
Changes in Assumptions	620,314	-	-
Benefit Payments and Refunds of Contributions	(452,781)	(429,238)	(384,980)
Net Change in Total Pension Liability	856,382	274,853	259,898
Total Pension Liability - Beginning	8,090,278	7,815,425	7,555,527
Total Pension Liability - Ending	\$8,946,660	\$8,090,278	\$7,815,425
Plan Net Position			
Contributions - Plan Sponsor	\$259,543	\$268,061	\$279,644
Contributions - Member	59,377	59,042	65,481
Net Investment Income	64,155	207,653	935,052
Benefit Payments and Refunds of Contributions	(452,781)	(429,238)	(384,980)
Administrative Expense	(10,901)	(8,693)	(10,467)
Net Change in Plan Net Position	(80,607)	96,825	884,730
Plan Net Position - Beginning	6,376,713	6,279,888	5,395,158
Plan Net Position - Ending	\$6,296,106	\$6,376,713	\$6,279,888
Net Pension Liability - Ending	\$2,650,554	\$1,713,565	\$1,535,537
Plan Net Position as a Percentage of the Total Pension Liability	70.4%	78.8%	80.4%
Covered Employee Payroll ²	\$480,662	\$480,536	\$499,463
Net Pension Liability as a Percentage of Covered Employee Payroll	551.4%	356.6%	307.4%

¹ Data is not available for years prior to FY 2014.

² Covered Employee Payroll represented above is based on pensionable earnings provided by the Plan Sponsor for the prior fiscal year.

San Diego City Employees' Retirement System Required Supplementary Information

Port

Schedule of Changes in Net Pension Liability and Related Ratios For the Fiscal Years Ended June 30, (Dollars in Thousands)

	2016	2015	2014 ¹
Total Pension Liability			
Service Cost	\$7,648	\$7,969	\$8,388
Interest	32,102	30,611	29,357
Differences Between Expected and Actual Experience	(2,244)	4,572	-
Changes in Assumptions	35,813	-	-
Benefit Payments and Refunds of Contributions	(23,110)	(21,775)	(18,763)
Net Change in Total Pension Liability	50,209	21,377	18,982
Total Pension Liability - Beginning	450,386	429,009	410,027
Total Pension Liability - Ending	\$500,595	\$450,386	\$429,009
Plan Net Position			
Contributions - Plan Sponsor	\$16,822	\$16,887	\$16,595
Contributions - Member	1,277	1,309	1,542
Net Investment Income	3,860	12,064	53,656
Benefit Payments and Refunds of Contributions	(23,110)	(21,776)	(18,762)
Administrative Expense	(687)	(691)	(729)
Net Change in Plan Net Position	(1,838)	7,793	52,302
Plan Net Position - Beginning	369,794	362,001	309,699
Plan Net Position - Ending	\$367,956	\$369,794	\$362,001
Net Pension Liability - Ending	\$132,639	\$80,592	\$67,008
Plan Net Position as a Percentage of the Total Pension Liability	73.5%	82.1%	84.4%
Covered Employee Payroll ²	\$33,512	\$33,273	\$34,528
Net Pension Liability as a Percentage of Covered Employee Payroll	395.8%	242.2%	194.1%

¹ Data is not available for years prior to FY 2014.

² Covered Employee Payroll represented above is based on pensionable earnings provided by the Plan Sponsor for the prior fiscal year.

San Diego City Employees' Retirement System Required Supplementary Information

Airport

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios For the Fiscal Years Ended June 30, (Dollars in Thousands)

	2016	2015	2014 ¹
Total Pension Liability			
Service Cost	\$6,205	\$6,155	\$6,099
Interest	10,278	9,327	8,466
Differences Between Expected and Actual Experience	(2,179)	346	-
Changes in Assumptions	10,474	-	-
Benefit Payments and Refunds of Contributions	(3,023)	(2,483)	(2,913)
Net Change in Total Pension Liability	21,755	13,345	11,652
Total Pension Liability - Beginning	140,197	126,852	115,200
Total Pension Liability - Ending	\$161,952	\$140,197	\$126,852
Plan Net Position			
Contributions - Plan Sponsor	\$5,772	\$5,665	\$5,671
Contributions - Member	1,243	1,073	1,019
Net Investment Income	1,651	4,390	18,303
Benefit Payments and Refunds of Contributions	(3,023)	(2,483)	(2,914)
Administrative Expense	(319)	(332)	(332)
Net Change in Plan Net Position	5,324	8,313	21,747
Plan Net Position - Beginning	138,516	130,203	108,456
Plan Net Position - Ending	\$143,840	\$138,516	\$130,203
Net Pension Liability (Asset) - Ending	\$18,112	\$1,681	(\$3,351)
Plan Net Position as a Percentage of the Total Pension Liability (Asset)	88.8%	98.8%	102.6%
Covered Employee Payroll²	\$29,189	\$27,955	\$26,380
Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	62.1%	6.0%	-12.7%

¹ Data is not available for years prior to FY 2014.

² Covered Employee Payroll represented above is based on pensionable earnings provided by the Plan Sponsor for the prior fiscal year.

San Diego City Employees' Retirement System
Required Supplementary Information (continued)

City
Schedule of Plan Sponsor Contributions
For the Ten Years Ended June 30 (2007 - 2016)

(Dollars in Thousands)

Fiscal Year	Actuarially Determined Contribution (ADC)	Contributions in Relation to the ADC	Contribution Deficiency/ (Excess) ^{1,2}	Covered Employee Payroll ³	Contributions as a Percentage of Covered Payroll
2016	\$254,900	\$254,900	\$-	\$480,662	53.03%
2015	263,600	263,600	-	480,536	54.86
2014	275,400	275,400	-	499,463	55.14
2013	231,100	231,143	(43)	511,091	45.23
2012	231,200	231,200	-	514,265	44.96
2011	229,100	229,297	(197)	530,238	43.24
2010	154,200	192,533	(38,333)	536,591	35.88
2009	161,700	162,475	(775)	535,774	30.33
2008	137,700	165,581	(27,881)	512,440	32.31
2007	162,000	169,126	(7,126)	534,103	31.67

¹ Contributions for 2010 were made at a full actuarially-determined rate using the Entry Age Normal method. In addition, the City made contributions above this amount associated with the final settlement of litigation associated with the UAL.

² Contributions for 2008 were made at a full actuarially-determined rate using the Projected Unit Credit method. In addition, the City made contributions above this amount to ensure no negative amortization of the UAL.

³ Covered Employee Payroll represented above is based on pensionable earnings provided by the Plan Sponsor for the prior fiscal year.

Port
Schedule of Plan Sponsor Contributions
For the Ten Years Ended June 30 (2007 - 2016)

(Dollars in Thousands)

Fiscal Year	Actuarially Determined Contribution (ADC)	Contributions in Relation to the ADC	Contribution Deficiency/ (Excess) ⁴	Covered Employee Payroll ⁵	Contributions as a Percentage of Covered Payroll
2016	\$14,400	\$14,400	\$-	\$33,512	42.97%
2015	14,300	14,300	-	33,273	42.98
2014	13,900	13,900	-	34,528	40.26
2013	13,200	13,200	-	35,873	36.80
2012	12,600	12,600	-	34,632	36.38
2011	11,500	11,501	(1)	39,165	29.37
2010	7,200	7,201	(1)	40,370	17.84
2009	7,300	7,340	(40)	38,635	19.00
2008	6,900	6,900	-	37,160	18.57
2007	8,300	9,300	(1,000)	33,927	27.41

⁴ Contributions for 2007 were made at a full actuarially-determined rate using the Projected Unit Credit method. In addition, the Port made contributions above this amount to achieve certain funding level thresholds.

⁵ Covered Employee Payroll represented above is based on pensionable earnings provided by the Plan Sponsor for the prior fiscal year.

San Diego City Employees' Retirement System
Required Supplementary Information (continued)

Airport
Schedule of Plan Sponsor Contributions
For the Ten Years Ended June 30 (2007 - 2016)
(Dollars in Thousands)

Fiscal Year	Actuarially Determined Contribution (ADC)	Contributions in Relation to the ADC	Contribution Deficiency/ (Excess) ¹	Covered Employee Payroll ²	Contributions as a Percentage of Covered Payroll
2016	\$3,666	\$3,948	\$(282)	\$29,189	13.53%
2015	3,823	3,823	-	27,955	13.67
2014	2,900	3,728	(828)	26,380	14.13
2013	2,600	2,600	-	24,840	10.47
2012	3,800	3,800	-	25,148	15.11
2011	4,300	4,300	-	25,596	16.80
2010	3,000	7,600	(4,600)	24,693	30.78
2009	3,000	3,035	(35)	23,488	12.92
2008	2,200	2,520	(320)	21,957	11.48
2007	2,600	2,962	(362)	19,116	15.49

¹ Contributions for 2010, 2014 and 2016 were made at a full actuarially-determined rate using the Entry Age Normal method. In addition, the Airport made contributions above this amount to achieve certain funding level thresholds.

² Covered Employee Payroll represented above is based on pensionable earnings provided by the Plan Sponsor for the prior fiscal year.

Schedule of Investment Returns
Annual Money-Weighted Rate of Return,
Net of Investment Expense²
For the Fiscal Years Ended June 30,

Year ¹	Return %
2016	1.00%
2015	3.28
2014	16.84

¹ Data for the money-weighted rate of return is not available for years prior to FY 2014.

² The Annual Money-Weighted Rate of Return is applicable to all Plan Sponsors.

**San Diego City Employees' Retirement System
Required Supplementary Information
Notes to Required Supplementary Information**

1. Changes of Benefit Terms

There were no changes of benefit terms for the fiscal year ended June 30, 2016.

2. Methods and Assumptions Used to Determine Contributions

The actuarially determined contribution rates in the Schedules of Plan Sponsor Contributions for FY 2016 are calculated using the June 30, 2014 actuarial valuation, which is one year prior to the beginning of the plan year.

The following actuarial methods and assumptions were used to determine contributions reported in that schedule for the fiscal year ended June 30, 2016:

	City	Port	Airport
Valuation date	6/30/2014	6/30/2014	6/30/2014
Actuarial cost method	Entry Age Normal. Prior to the 2007 valuation, Projected Unit Credit was used.	Entry Age Normal. Prior to the 2007 valuation, Projected Unit Credit was used.	Entry Age Normal. Prior to the 2007 valuation, Projected Unit Credit was used.
Asset valuation method	Expected Value Method. Prior to the 2006 valuation, the "book value" smoothing method was used. The actuarial value of assets was set to the market value for the 2006 valuation, with the new smoothing method first applying to investment experience for the 2007 fiscal year.	Expected Value Method. Prior to the 2006 valuation, the "book value" smoothing method was used. The actuarial value of assets was set to the market value for the 2006 valuation, with the new smoothing method first applying to investment experience for the 2007 fiscal year.	Expected Value Method. Prior to the 2006 valuation, the "book value" smoothing method was used. The actuarial value of assets was set to the market value for the 2006 valuation, with the new smoothing method first applying to investment experience for the 2007 fiscal year.
Amortization Method	Closed periods. Payments are a level percentage of payroll (Police) or level dollar (non-Police). In the 2007 valuation, the amortization period was reduced from 27 to 20 years, with subsequent gains or losses amortized over different periods depending on the source. In the 2012 valuation, as a result of Proposition B, the UAL for the non-Police portion of the Plan was re-amortized over a closed 15-year period with level dollar payments.	Closed periods with payments as a level percentage of payroll. In the 2007 valuation, the amortization policy was modified so that future gains or losses would be amortized over different periods depending on the source.	Closed periods with payments as a level percentage of payroll. In the 2007 valuation, the amortization policy was modified so that future gains or losses would be amortized over different periods depending on the source.
Discount rate	7.25%. The discount rate was reduced from 8.00% to 7.75% in the 2008 valuation, from 7.75% to 7.50% in the 2011 valuation, and from 7.50% to 7.25% in the 2013 valuation.	7.25%. The discount rate was reduced from 8.00% to 7.75% in the 2008 valuation, from 7.75% to 7.50% in the 2011 valuation, and from 7.50% to 7.25% in the 2013 valuation.	7.25%. The discount rate was reduced from 8.00% to 7.75% in the 2008 valuation, from 7.75% to 7.50% in the 2011 valuation, and from 7.50% to 7.25% in the 2013 valuation.
Amortization growth rate	3.30%. Same pattern of changes described below for salary increase assumption (excluding freezes).	3.30%. Same pattern of changes described below for salary increase assumption.	3.30%. Same pattern of changes described below for salary increase assumption (excluding freezes).

**San Diego City Employees' Retirement System
Required Supplementary Information
Notes to Required Supplementary Information** (continued)

2. Methods and Assumptions Used to Determine Contributions

	City	Port	Airport
Salary increases	3.30% (following assumed freezes in FYs 2013-2018) plus merit component based on employee classification and years of service. The across-the-board salary increase assumption was reduced from 4.25% to 4.00% in the 2008 valuation, from 4.00% to 3.75% in the 2011 valuation, and from 3.75% to 3.30% in the 2013 valuation. In the 2011 valuation a two-year salary freeze assumption (for FYs 2013-2014) was added and in the 2013 valuation an additional four-year freeze was assumed (FYs 2015-2018).	3.30% plus merit component based on employee classification and years of service. The across-the-board salary increase assumption was reduced from 4.25% to 4.00% in the 2008 valuation, from 4.00% to 3.75% in the 2011 valuation, and from 3.75% to 3.30% in the 2013 valuation.	3.30% plus merit component based on employee classification and years of service. The across-the-board salary increase assumption was reduced from 4.25% to 4.00% in the 2008 valuation, from 4.00% to 3.75% in the 2011 valuation, and from 3.75% to 3.30% in the 2013 valuation. In the 2011 valuation a two-year salary freeze assumption (for FYs 2013-2014) was added.
Cost of living increase	2.00%	2.00%	2.00%

Mortality: Healthy retired members use the RP-2000 Combined Mortality Table (male and female). For Safety female members, rates are set forward one year. From 2004-2007 (valuation years), the UP-1994 table was used, with a two-year set back for males and females. From 2008-2010, the RP-2000 Combined Mortality Table was used, with a two-year set forward for males and females. In September 2016, SDCERS' Board of Administration adopted the results of a full experience study performed by the actuary covering the period July 1, 2010 through June 30, 2015. The results of this study will impact the June 30, 2016 actuarial valuations.

A complete description of the methods and assumptions used to determine the contribution for the year ended June 30, 2016 can be found in the June 30, 2014 actuarial valuation reports, which are available online at www.sdcers.org.

San Diego City Employees' Retirement System
Other Supplemental Information

Schedule of Administrative Expenses
For the Fiscal Year Ended June 30, 2016

(Dollars in Thousands)

Salaries and Personnel ¹	\$5,892
Information and Technology Services	
Data Processing and Computer Services	909
Contracted Services	862
Total Information and Technology Services	<u>1,771</u>
Legal/External	
Litigation/Fiduciary/Tax/General	711
Disability	47
Total Legal/External	<u>758</u>
General Operations	
Rent	942
Depreciation Expense	899
Actuary Services	505
Office Operations Expenses	474
Fiduciary Insurance	402
Audit Services	119
Disability Processing	73
Travel and Training	72
Total General Operations	<u>3,486</u>
Grand Total	<u>\$11,907</u>

¹ Personnel expense of \$1.1 million can be readily identified as investment related costs and are reported as investment expenses in the Statement of Changes in Plan Net Position.

San Diego City Employees' Retirement System
Other Supplemental Information (continued)

Schedule of Investment Expenses
For the Fiscal Year Ended June 30, 2016

(Dollars in Thousands)

	Fair Value of Assets Under Management ¹	Total Fees Paid
Domestic Equity Managers	\$1,665,658	\$2,875
International Equity Managers	1,105,360	3,620
Global Equity Managers	328,851	1,994
Domestic Fixed Income Managers	1,597,482	1,890
Emerging Market Debt Strategies	320,355	1,867
Real Estate Managers	725,353	8,384
Private Equity and Infrastructure Managers	882,732	6,239
Opportunistic Strategies	233,211	2,451
Cash & Cash Overlay	119,824	185
Total	\$6,978,826	\$29,505
Other Investment Services Fees		
SDCERS Salaries and Personnel		\$1,050
Custodian Services		291
Investment Consultants		720
Investment Accounting Applications		16
Legal Services		142
General Operations		24
Taxes		504
Other		103
Total Other Investment Service Fees		\$2,850
Total Fees Paid to Investment Professionals		\$32,355

¹ Fair Values of Assets Under Management for SDCERS' investment managers include total investments at fair value (based on trade date), by investment strategy, as detailed in the actual asset allocation as depicted in the Investment Section of this CAFR. The audited financial statements classify SDCERS' aggregate portfolio by security type, cash, stocks, bonds, real estate, and private equity and infrastructure.

San Diego City Employees' Retirement System
Other Supplemental Information (continued)

Schedule of Payments to Consultants
For the Fiscal Year Ended June 30, 2016
(Dollars in Thousands)

Individual or Firm	Amount	Nature of Service
Legal Firms & Professional Legal Services ¹	\$758	Legal, Arbitration, Mediation, Court Reporting
CGI Technologies	672	Computer/Applications Support
Sagitec Solutions, LLC	595	Pension Administration System Development
Cheiron, Inc.	505	Actuary
Barney & Barney, LLC	402	Fiduciary Insurance
Atos IT Solutions and Services, Inc.	402	Computer/Applications Support
Macias Gini & O'Connell LLP	119	Audit
Doctors & Disability Services ¹	55	Medical Consulting
Sikich, LLP	14	Computer/Applications Support
Various Providers	44	Various Contractual Services
Total Payments to Consultants and Professional Service Providers	\$3,566	

¹See next page for full listing.

San Diego City Employees' Retirement System
Other Supplemental Information (continued)

Schedule of Payments to Consultants (continued)
For the Fiscal Year Ended June 30, 2016

SDCERS used the following Doctors' services:

California Orthopedic Institute Medical Associates, Inc.

Dr. William S. Adsit, M.D.

Dr. Drew Peterson, M.D.

Dr. William Tontz, Jr.

Girard Orthopedic Surgeons

Dr. Michael Kimball, M.D.

Southwest & Associates

Dr. Robert S. Warren, M.D.

Dr. Neil Tayyab, M.D.

Other Doctors

Dr. William P. Curran, Jr., M.D.

Dr. David G. Smith, M.D.

Dr. Shen Ye Wang, M.D.

SDCERS paid the following Legal & Professional Legal Services Firms:

Brown Law Group, ALC

Cox, Castle & Nicholson, LLP

Geary Cortes (Disability Hearing Officer)

Gibbs & Fuerst, LLP

Ice Miller Legal and Business Advisors

JAMS (Judicial Arbitration Services)

Judicate West

K&L Gates, LLP

Kirby Noonan Lance & Hoge LLP

Nossaman LLP

Olson Hagel & Fishburn LLP

Peterson & Associates

San Diego City Employees' Retirement System
Other Supplemental Information (continued)

Statement of Changes in Assets and Liabilities - Agency Funds
For the Fiscal Year Ended June 30, 2016
(Dollars in Thousands)

	City Preservation of Benefits Fund			
	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
ASSETS				
Cash on Deposit with Wells Fargo Bank	\$11	\$1,600	\$1,598	\$13
TOTAL ASSETS	\$11	\$1,600	\$1,598	\$13
LIABILITIES				
Sundry Trust Liability	\$11	\$1,600	\$1,598	\$13
TOTAL LIABILITIES	\$11	\$1,600	\$1,598	\$13
Port Preservation of Benefits Fund				
	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
ASSETS				
Cash on Deposit with Wells Fargo Bank	\$7	\$273	\$277	\$3
TOTAL ASSETS	\$7	\$273	\$277	\$3
LIABILITIES				
Sundry Trust Liability	\$7	\$273	\$277	\$3
TOTAL LIABILITIES	\$7	\$273	\$277	\$3
Preservation of Benefits Funds - Combined				
	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
ASSETS				
Cash on Deposit with Wells Fargo Bank	\$18	\$1,873	\$1,875	\$16
TOTAL ASSETS	\$18	\$1,873	\$1,875	\$16
LIABILITIES				
Sundry Trust Liability	\$18	\$1,873	\$1,875	\$16
TOTAL LIABILITIES	\$18	\$1,873	\$1,875	\$16

San Diego City Employees' Retirement System
Other Supplemental Information (continued)

Statement of Changes in Assets and Liabilities - Agency Funds
For the Fiscal Year Ended June 30, 2016

(Dollars in Thousands)

	Post Employment Healthcare Benefit Plan Fund			Balance June 30, 2016
	Balance June 30, 2015	Additions	Deductions	
ASSETS				
Cash on Deposit with Wells Fargo Bank	\$9	\$41,726	\$41,717	\$18
Accounts Receivable	–	24	–	24
TOTAL ASSETS	\$9	\$41,750	\$41,717	\$42
LIABILITIES				
Sundry Trust Liability	\$9	\$41,750	\$41,717	\$42
TOTAL LIABILITIES	\$9	\$41,750	\$41,717	\$42

	Total Agency Funds			Balance June 30, 2016
	Balance June 30, 2015	Additions	Deductions	
ASSETS				
Cash on Deposit with Wells Fargo Bank	\$27	\$43,599	\$43,592	\$34
Accounts Receivable	–	24	–	24
TOTAL ASSETS	\$27	\$43,623	\$43,592	\$58
LIABILITIES				
Sundry Trust Liability	\$27	\$43,623	\$43,592	\$58
TOTAL LIABILITIES	\$27	\$43,623	\$43,592	\$58



INVESTMENT

3

Investment Consultant's Statement



October 10, 2016

Mr. Mark Hovey
Chief Executive Officer
San Diego City Employees' Retirement System
401 West A Street, Suite 400
San Diego, CA 92101

Dear Mr. Hovey,

The following letter is intended to provide a brief overview of the capital markets and performance of San Diego City Employees' Retirement System's (SDCERS) investments during the fiscal year ending June 30, 2016. The SDCERS Trust Fund earned a fiscal year return of 1.1%, net-of-investment manager fees, and ended the year with \$6.8 billion.

The 2016 fiscal year began and ended with significant market volatility, without much reprieve during the year. The health of the global economy and the actions of central banks around the globe continued to drive investor sentiment and capital market returns. The year began with rising fears that the global economic picture may be worse than expected, triggered by a surprise devaluation of the Chinese Yuan and collapse of the Chinese stock market. The U.S. Federal Reserve's (Fed) decision to not raise interest rates at its September meeting reinforced these concerns and capital markets reacted strongly, selling off in August and September before posting a quick recovery. This marked the first of three whipsaw events over the year. The highly anticipated U.S. Federal Fund's Rate hike did eventually occur on December 16, and while viewed as a vote of confidence for the U.S. economy, it was mostly shrugged off as a non-event. The second sharp downturn came in January 2016, prompted again by global growth fears, largely stemming from China, and coupled with dovish comments from the Fed. Pledged support from the European Central Bank and Bank of Japan, both of which slashed benchmark interest rates into negative territory, among other easing measures, aided a quick recovery and generally supported positive investor sentiment through much of the latter half of the fiscal year. The final whipsaw event followed the UK's vote to leave the European Union in June. Surprised by the outcome, global equity markets declined sharply before generally recovering before fiscal year-end.

Though there were periods where capital markets seemed unpredictable, various positive economic releases did provide some stability throughout the year. Further, with support from global central banks and expectations of delayed rate hikes from the Fed, investors' concerns regarding global growth eased and two ongoing themes reversed course: the decline in energy prices and the strengthening of the U.S. dollar. The price of oil reached a low of \$26/barrel before rallying back to over \$50/barrel by year-end. The U.S. dollar also reversed course, declining during the second half of the year. Though investors' concerns generally eased as the year progressed, the appetite for safe-haven investments did not. Despite the Fed's initial rate hike, interest rates fell across the U.S. yield curve. Global growth concerns, low inflation and uncertainty abroad increased demand for U.S. Treasuries and caused rates to decline.



Diversification across asset classes was vital to weathering the volatility during the past fiscal year. The diverging trend between U.S. and non-U.S. equity market returns continued, as the broad U.S. equity market, represented by the DJ U.S. Total Stock Market Index, returned a positive 2.0%. International market returns were much more reflective of the ongoing concerns, as developed international markets declined 10.2% and emerging markets declined 12.1% in USD terms, represented by the MSCI EAFE and MSCI Emerging Markets Indices, respectively. Emerging market returns were significantly impacted by currency depreciation relative to the U.S. dollar. Though commodities bounced back during the second half of the year, the Bloomberg Commodity Index still ended the year down 13.3%. Risk aversion throughout the year heightened demand for U.S. fixed income, which provided some relief from weak equity markets. The Barclays Aggregate Bond Index returned 6.0% over the twelve-month period. Long U.S. government bonds were the greatest beneficiaries, returning 19.0% over the year. Private core real estate also provided double-digit returns, posting a 10.8% return, represented by the NCREIF-ODCE Index.

The SDCERS Trust Fund's fiscal year return of 1.1% on a time-weighted basis, though modest, marks the Fund's seventh consecutive year of positive investment earnings. Negative global equity returns over the year were the cause of low Total Fund earnings. The Plan's diversified asset mix, including allocations to U.S. core fixed income, emerging market debt, real estate, private equity/infrastructure and opportunistic strategies, each which produced positive results, offset the weak public equity market returns. On a relative basis, the Total Fund trailed its Policy Benchmark return of 2.2%. The primary driver of relative performance was SDCERS' greater exposure to U.S. small cap securities which declined 6.7% relative to the positive 2.2% return of the broad U.S. equity market. Relative to its peer group¹, the Total Fund's return was ahead of the median plan's return for the one-year period, ranking in the top 30th percentile of the universe. Long-term performance of the SDCERS Trust Fund continues to be strong, as it has returned an annualized 6.8% and 6.9% over the trailing three- and five-year periods, respectively.

During the 2016 fiscal year, the SDCERS Trust Fund progressed towards its long-term asset allocation targets. The private equity/infrastructure allocation ended the year at its long-term target of 13.0% of Total Fund assets. SDCERS also made a new commitment to a distressed credit manager, bringing the total committed capital in the opportunity fund to \$260 million. At the end of the year, approximately 75% of that capital has been invested with a market value of \$194 million and representing 2.8% of Total Fund assets. The asset allocation and investment structure of the Plan undergo ongoing monitoring and evaluation to ensure they are in line with SDCERS' investment objectives and the current market environment. We continue to believe the SDCERS Trust Fund is well-diversified and appropriately structured to meet the long-term objectives of the System.

Sincerely,

Steve Voss
Partner

Katie Comstock
Senior Consultant

¹ Universe data is compiled by BNY Mellon and Investment Metrics. The universe includes only U.S. public pension plan total fund returns.

San Diego City Employees' Retirement System
Asset Class Investment Returns^{1, 2, 3}
For the Periods Ended June 30, 2016

	Annualized Performance			
	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Domestic Equity Performance	-0.9%	9.7%	10.5%	7.0%
Benchmark: Dow Jones U.S. Total Stock Market (100% weight)	2.0%	11.0%	11.5%	7.8%
International Equity Performance	-8.9%	2.0%	1.0%	1.4%
Benchmark: MSCI AC World Ex-US IMI Index (94.4% weight)	-9.7%	1.6%	0.4%	2.2%
MSCI Emerging Markets Index (5.6% weight)				
Global Equity Performance	-2.5%	5.1%	N/A	N/A
Benchmark: MSCI All-Country World Index	-3.7%	6.0%	5.4%	4.3%
Domestic Fixed Income Performance	3.7%	2.8%	3.2%	5.6%
Benchmark: Barclays Intermediate Aggregate Bond Index (100% weight)	4.4%	3.2%	3.3%	4.5%
Emerging Market Debt Performance	3.9%	0.8%	1.9%	N/A
Benchmark: JPM EMBI Global Diversified (40% weight)	5.2%	0.9%	1.6%	6.7%
JPM GBI-EM Global Diversified (60% weight)				
Opportunity Fund Performance⁵	3.2%	N/A	N/A	N/A
Benchmark: MSCI All Country World Index IMI (78% weight)	-1.9%	5.6%	5.1%	4.8%
Barclays Intermediate Aggregate Bond Index (22% weight)				
Real Estate Performance	14.2%	12.2%	12.0%	5.6%
Benchmark: NFI-ODCE + 50 basis points (90.0% weight)	11.5%	12.2%	11.9%	6.1%
FTSE EPRA/NAREIT Developed REIT Index (10.0% weight)				
Private Equity and Infrastructure Performance^{4,5}	5.6%	N/A	N/A	N/A
Benchmark: Annualized 10% Rate of Return (100% Weight)	10.0%	10.0%	10.0%	10.0%
Total Fund Performance⁶	1.1%	6.8%	6.9%	5.9%
Performance Benchmark, comprised of:	2.2%	7.1%	7.0%	6.2%
Dow Jones U.S. Total Stock Market Index (25.6%);				
International Equity Benchmark (17.7%);				
Barclays Intermediate Agg (23.2%);				
Custom Real Estate Benchmark (11.0%);				
MSCI AC World Index (5.0%); Emerging Market Debt Benchmark (5.0%);				
Private Equity Benchmark (10.0%); and Opportunity Fund Benchmark (2.5%)				

¹ Basis of calculation is time-weighted rates of return based on market values.

² Long-Term Performance: 3-year, 5-year and 10-year performance benchmarks may have been comprised of different indices and percentage weights due to changes in SDCERS' asset allocation strategy over time.

³ Net of fees returns began to be calculated in FY2011. Prior to that, all returns are gross of fees.

⁴ SDCERS' Board approved the combination of the Private Equity and Infrastructure allocations in November 2014.

⁵ This allocation is currently being funded. Performance will not be available until a meaningful allocation is reached.

⁶ The 1-year gross of fees return for the Total Fund Performance was 1.3%.

San Diego City Employees' Retirement System
Investment Managers
As of June 30, 2016

Domestic Equity Investment Managers		
Allianz Global Investors Capital San Diego, CA	Dodge & Cox San Francisco, CA	BlackRock Institutional Trust Company San Francisco, CA
Fisher Investments Woodside, CA	Dimensional Fund Advisors Santa Monica, CA	
Domestic Fixed Income Investment Managers		
Pacific Investment Management Company (PIMCO) Newport Beach, CA	The TCW Group, Inc./MetWest Los Angeles, CA	BlackRock Institutional Trust Company San Francisco, CA
Global Equity Investment Managers		
Grantham, Mayo, Van Otterloo & Co. LLC Boston, MA	Walter Scott & Partners Limited Edinburgh, Scotland	
International Equity Investment Managers		
Brandes Investment Partners San Diego, CA	Grantham, Mayo, Van Otterloo & Co. LLC Boston, MA	BlackRock Institutional Trust Company San Francisco, CA
CopperRock Capital Partners Boston, MA	Aberdeen Asset Management Philadelphia, PA	Neuberger Berman New York, NY
Emerging Market Debt Investment Managers		
Stone Harbor Investment Partners New York, NY	Wellington Management Company Boston, MA	Investec Asset Management London, England
Real Estate Investment Managers		
Colony Capital, LLC Los Angeles, CA	Invesco Real Estate Dallas, TX	Pacific Coast Capital Partners El Segundo, CA
Cornerstone Real Estate Advisers Glastonbury, CT	J.P. Morgan Asset Management New York, NY	RREEF Funds San Francisco, CA
Europa Capital London, England	Long Wharf Real Estate Partners (Fidelity) Boston, MA	Greystar Real Estate Partners, LLC Charleston, SC
Normandy Real Estate Partners (Capmark) Morristown, NJ	UBS Realty Investors Hartford, CT	CBRE Global Investors Los Angeles, CA
Mesa West Capital Los Angeles, CA	Torchlight Investors New York, NY	Alcion Ventures Boston, MA
		Brookfield Asset Management Toronto, ON
Private Equity and Infrastructure Consultants		
GCM Grosvenor Private Markets Los Angeles, CA	StepStone Group, LLC San Diego, CA	
Opportunity Fund Investment Managers		
GCM Grosvenor (Global Credit Fund) Chicago, IL	Torchlight Investors (Opportunistic Real Estate) New York, NY	The Carlyle Group (Opportunistic Real Estate) Washington, DC
LaSalle Investment Management (Opportunistic Real Estate) San Francisco, CA	Davidson Kempner Capital Management (Global Credit Fund) New York, NY	
Cash Overlay Investment Manager		
	Parametric Minneapolis, MN	

**San Diego City Employees' Retirement System
Summary of Investment Goals and Philosophy
As of June 30, 2016**

Consistent with SDCERS' Mission Statement, the goal of SDCERS' investment program is to generate long-term returns that, when combined with employer and employee contributions, will result in sufficient assets to pay the present and future obligations of SDCERS. The following objectives are intended to assist in achieving this goal:

- SDCERS should earn, on a long-term average basis, a total rate of return in excess of SDCERS' actuarial investment return assumption of 7.25% for FY 2016. At its November 13, 2015 Board meeting, the SDCERS Board voted to reduce the long-term expected rate of return (discount rate) over a two-year period. The total rate of return was reduced from 7.25% to 7.125% for FY 2017 and to 7.0% for FY 2018.
- SDCERS should seek to earn a return in excess of its policy benchmark over the long term.
- SDCERS' assets will be managed on a total return basis, which takes into consideration both investment income and capital appreciation. While SDCERS recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns.

To achieve these objectives, SDCERS allocates its investment assets with a strategic, long-term perspective of the capital markets.

It is the purpose of SDCERS' investment program to ensure that sufficient financial assets are available to provide SDCERS' participants and their beneficiaries with all benefits due as specified in SDCERS' plan documents. Therefore, the participants' and beneficiaries' financial interests shall take precedence over all other financial interests. In addition, SDCERS manages its investment program based on principles outlined under the Prudent Expert standard. SDCERS also diversifies the investments so as to maximize the probability of achieving the actuarial rate of return while minimizing risk.

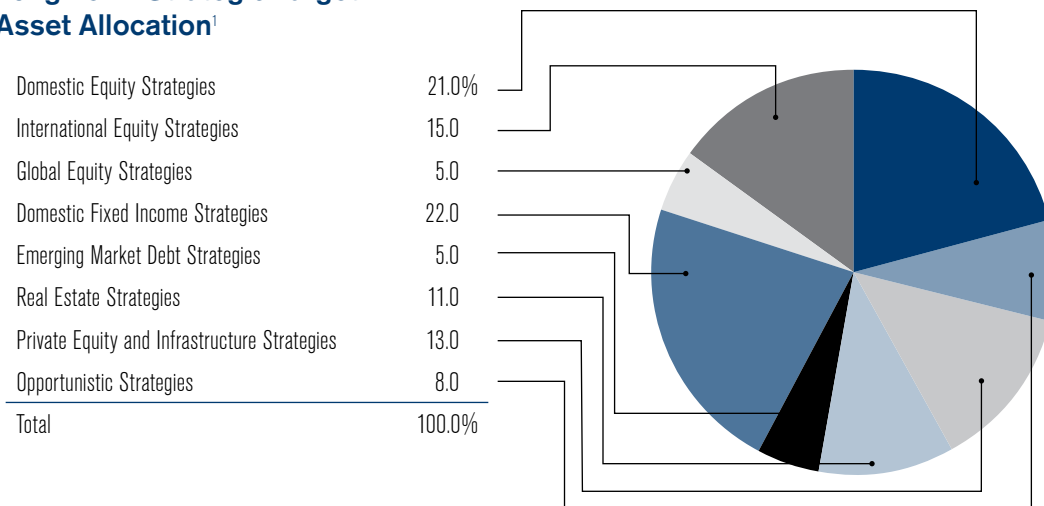
* * *

These goals and objectives are found in SDCERS' Investment Policy Statement (IPS). The IPS encompasses the investment goals, objectives and policies of the SDCERS Trust Fund. The purpose of the IPS is to assist the Board, the Investment Committee and Staff to effectively supervise and monitor SDCERS' investment program.

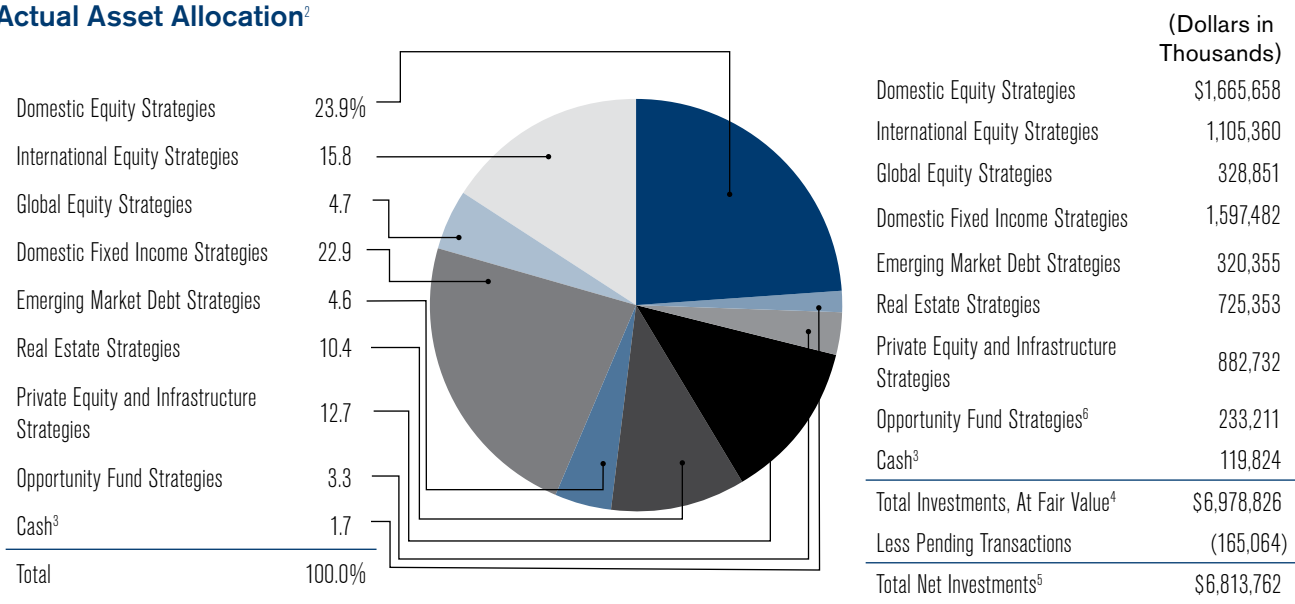
A copy of the IPS is available upon request or on SDCERS' website at www.sdcers.org.

San Diego City Employees' Retirement System Long-Term Strategic Target and Actual Asset Allocation As of June 30, 2016

Long-Term Strategic Target Asset Allocation¹



Actual Asset Allocation²



¹The long-term strategic target asset allocation presented above is a long-term goal for the asset allocation. Due to the complexity of funding asset classes, SDCERS expects to move the portfolio to these asset classes and weights over time. To track the portfolio's progress, SDCERS uses the following interim asset allocation weights: domestic equity 23.8%, international equity 17.5%, global equity 5%, domestic fixed income 23.2%, emerging market debt 5%, real estate 11%, private equity and infrastructure 12.0% and opportunity fund 2.5%.

²Actual asset allocation values illustrated above are based upon SDCERS' investment managers' specific strategies. Each portfolio, including all securities and cash held by an investment manager, is categorized based upon the strategy that SDCERS hired that manager to execute. Investment strategy totals by asset class here will differ from those that appear in the audited financial statements. For GASB reporting purposes, investments in the audited financial statements are classified by security type: i.e., cash, equities, fixed income, real estate, private equity and infrastructure, not by investment strategy.

³SDCERS does not have a target allocation to cash.

⁴Total Investments at fair value include amounts reported as Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents in the Audited Financial Statements.

⁵Investment balances are presented using the accrual basis of accounting.

⁶In October 2010, the opportunity fund was added as a new asset class with a maximum allocation of 8%. Three opportunistic real estate investments and two opportunistic credit funds currently reside within this allocation.

San Diego City Employees' Retirement System Schedule of Largest Equity and Fixed Income Holdings

At June 30, 2016 (Shares and Dollars in Thousands)

Schedule of Largest Equity Holdings

Rank	Shares	Equity Securities	CUSIP	Fair Value	Percentage of Total Net Investments
1	217	Microsoft Corp.	594918104	\$11,078	0.2%
2	127	Schlumberger LTD.	806857108	10,067	0.2
3	193	Wells Fargo & Co.	949746101	9,130	0.2
4	140	Capital One Financial Corp.	14040H105	8,891	0.1
5	13	Alphabet Inc.	02079K107	8,746	0.1
6	293	Cisco Systems, Inc.	17275R102	8,398	0.1
7	112	Time Warner Inc.	887317303	8,214	0.1
8	35	Charter Communications Inc.	16119P108	8,088	0.1
9	609	Bank of America Corp.	060505104	8,075	0.1
10	118	Charles Schwab Corp.	20030N101	7,715	0.1
Total				\$88,402	1.3%

Schedule of Largest Fixed Income Holdings

Rank	Shares	Fixed Income Securities	CUSIP	Fair Value	Percentage of Total Net Investments
1	57,200	Interest Rate Swap - Rec USD Variable 3 Month LIBOR 1% 16 Dec 2019	99S003430	\$57,200	0.8%
2	55,600	Interest Rate Swap - Rec USD Variable 3 Month LIBOR 1% 15 Jun 2019	99SORDS96	55,600	0.8
3	38,000	FNMA TBA 30 Year 4% 16 Aug 2046	01F040685	40,706	0.6
4	30,775	U.S. Treasury Note 0.75% 28 Feb 2018	912828UR9	30,859	0.5
5	28,000	FNMA TBA 30 Year 3.5% 16 Aug 2046	01F032682	29,509	0.4
6	21,900	Interest Rate Swap - Rec GBP Variable 6 Month LIBOR 1% 21 Sep 2018	99SOREL00	29,276	0.4
7	27,100	Interest Rate Swap - Rec USD Variable 3 Month LIBOR 1% 16 Dec 2045	99S001C09	27,100	0.4
8	22,200	FNMA TBA 30 Year 3% 16 Aug 2046	01F030686	22,997	0.3
9	18,900	U.S. Treasury Note 1.125% 30 Jun 2021	912828S27	18,994	0.3
10	16,595	FNMA TBA 30 Year 4.5% 16 Aug 2046	01F042681	18,104	0.3
Total				\$330,345	4.8%

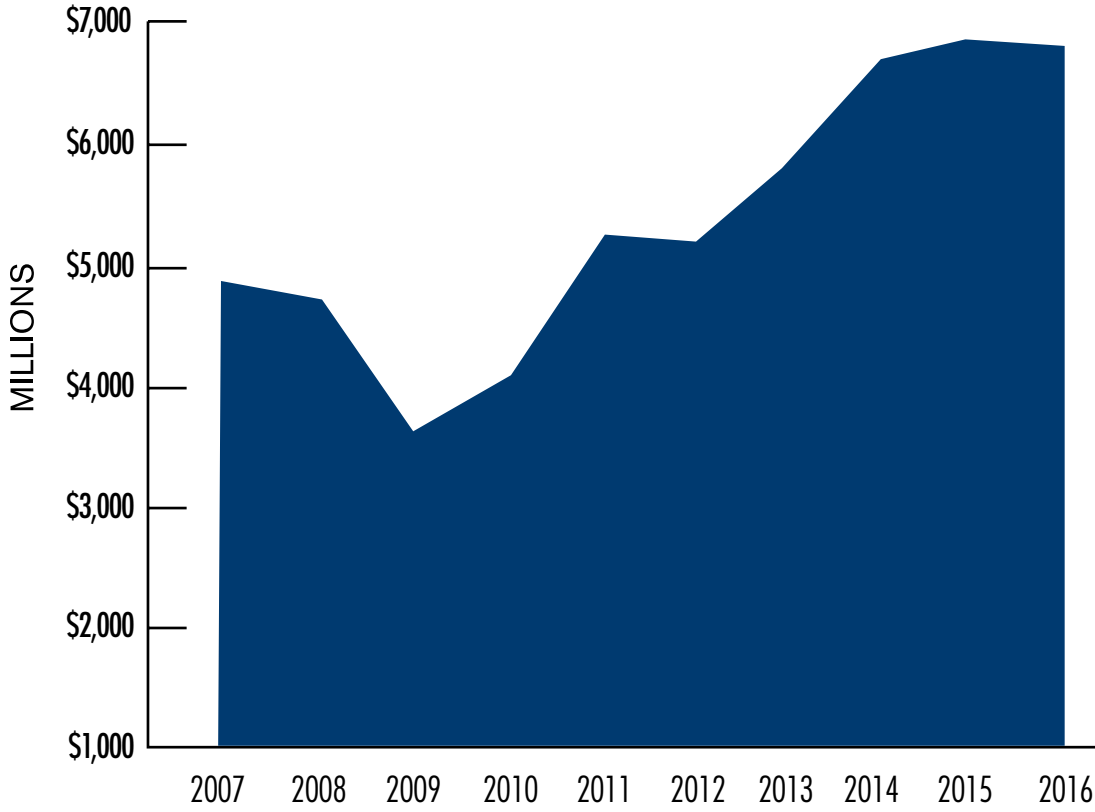
A complete list of portfolio holdings is available upon request.

San Diego City Employees' Retirement System
Schedule of Commissions¹
Top 25 Brokerage Firms Used
For the Year Ended June 30, 2016 (Shares and Dollars in Thousands)

Rank	Broker Name	Shares	Base Commission	Commission Per Share
1	Goldman Sachs & Co.	1,279,387	\$115	\$0.00009
2	Merrill Lynch and Co., Inc.	42,379	59	0.00139
3	Morgan Stanley Co., Inc.	1,531,366	39	0.00003
4	UBS AG	74,992	28	0.00038
5	J.P. Morgan Securities, Inc.	604,156	18	0.00003
6	Deutsche Bank AG	437,464	17	0.00004
7	Macquarie Bank Limited	1,345	13	0.00955
8	Citigroup Global Markets, Inc.	1,349,567	13	0.00001
9	Jefferies LLC	61,749	12	0.00019
10	Credit Suisse International	1,784,282	11	0.00001
11	Raymond James and Associates, Inc.	4,042	9	0.00212
12	Instinet LLC	696	8	0.01121
13	Sanford C. Bernstein and Co.	949	7	0.00727
14	Barclays Bank PLC	914,705	7	0.00001
15	Knight Equity Markets, L.P.	252	6	0.02506
16	Cowen and Company	893	5	0.00601
17	Pershing LLC	53,203	4	0.00008
18	Liquidnet, Inc.	192	4	0.01998
19	Jones Trading International Ltd.	135	4	0.02782
20	ConvergEx Group	108	4	0.03431
21	BTIG, LLC	138	3	0.02517
22	BNP Paribas SA	128,790	3	0.00003
23	ISI Group, Inc.	103	3	0.02940
24	Investment Technology Group, Inc.	782	3	0.00375
25	Cantor Fitzgerald and Co.	33,004	3	0.00009
	All Other Brokers	7,314,492	54	0.00001
	Total	15,619,171	\$452	\$0.00003

¹This schedule contains trading information which includes equities and fixed income. Commissions for fixed income trades are implicitly included in the price of a security that is bought or sold, rather than explicitly stated for equities. This will cause some of the commission per share numbers to seem artificially low.

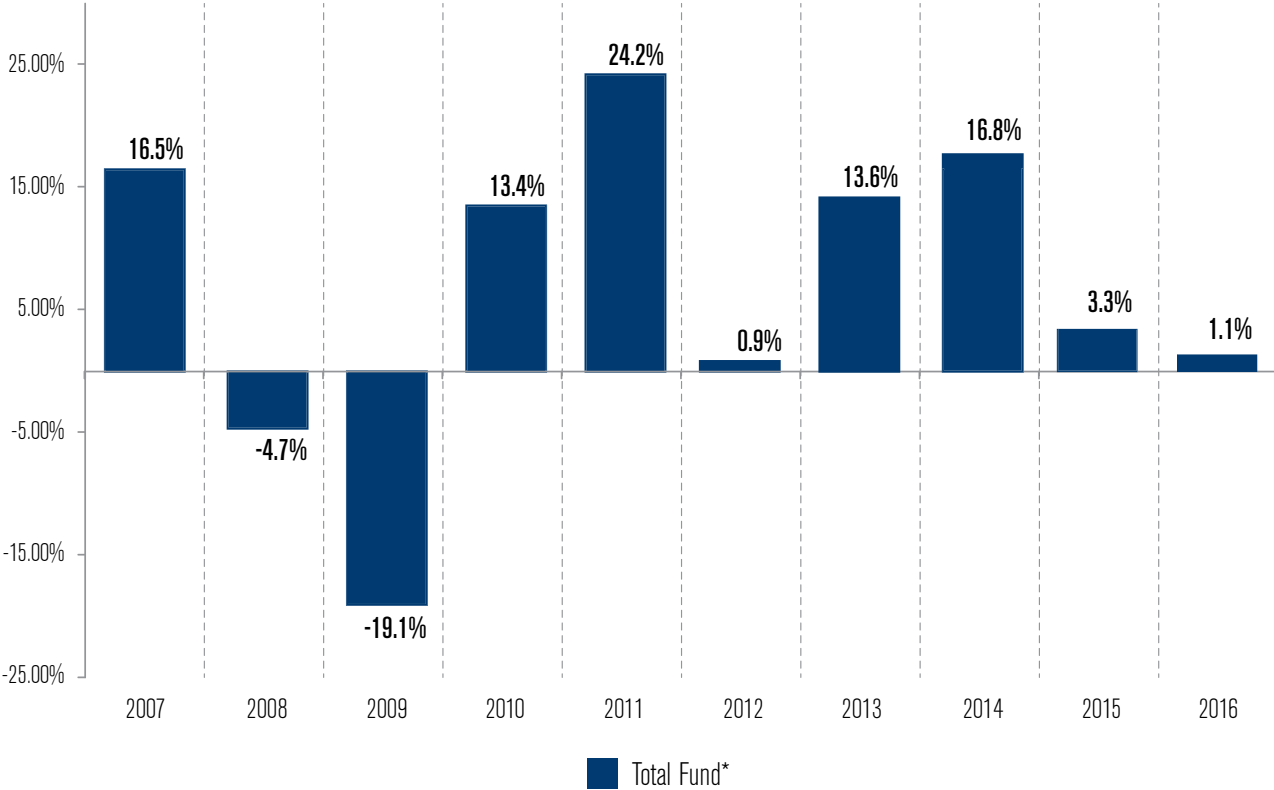
**San Diego City Employees' Retirement System
Growth of Investments, at Fair Value
For Ten Years Ended June 30**



Fiscal Year	Fair Value ¹ (Dollars in Thousands)
2016	\$6,813,762
2015	6,890,918
2014	6,768,783
2013	5,815,027
2012	5,151,968
2011	5,182,482
2010	4,161,807
2009	3,697,249
2008	4,663,861
2007	4,922,362

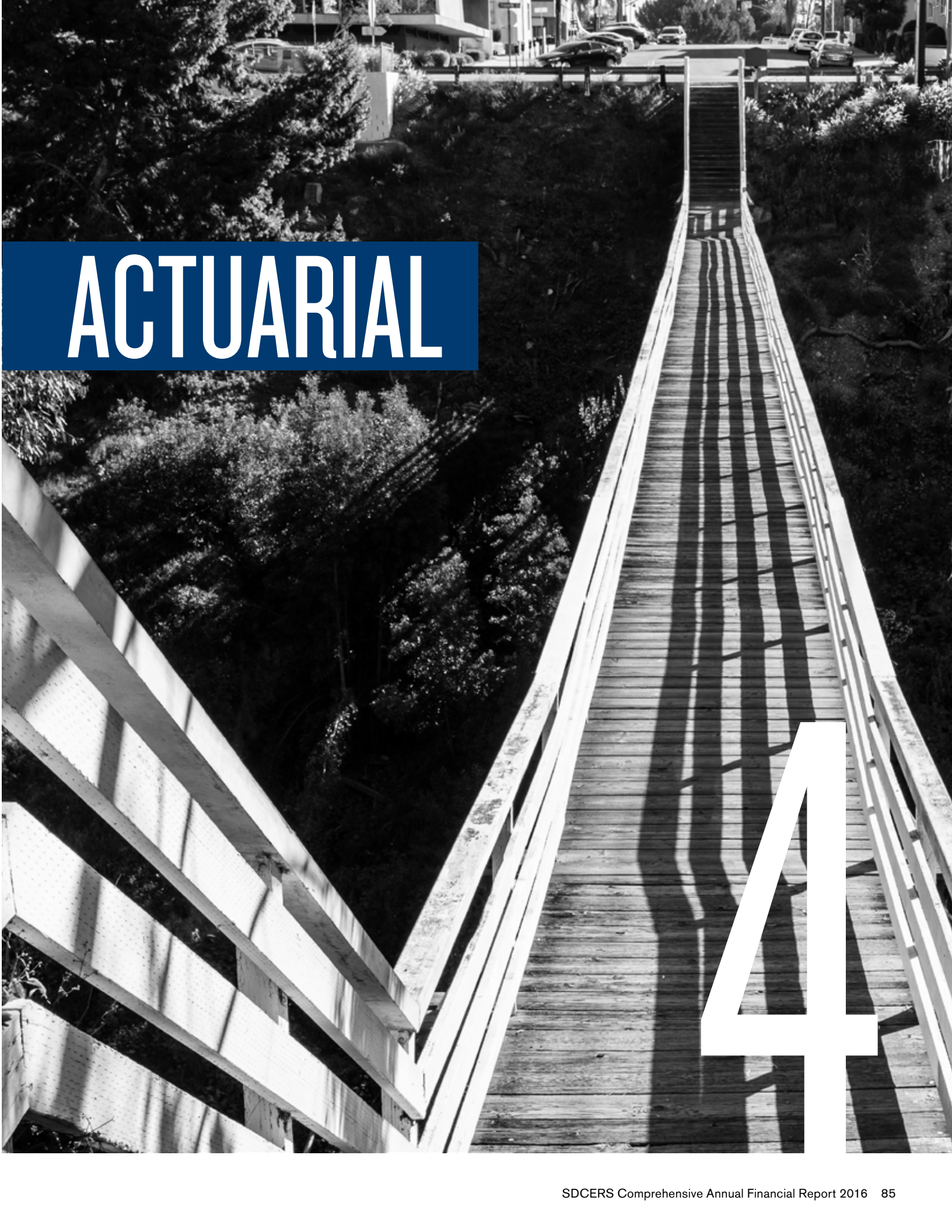
¹Fair value includes investments, cash and cash equivalents on deposit, net of pending transactions (receivable for securities sold and liability for securities purchased). Investment balances are presented using the accrual basis of accounting.

**San Diego City Employees' Retirement System
Fiscal Year Investment Results
For Ten Years Ended June 30**



*Total Fund returns are shown net of investment management fees beginning FY 2011. Returns prior to FY 2011 are gross of investment management fees.

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ACTUARIAL

4

Actuary's Certification Letter



Classic Values, Innovative Advice

November 9, 2016

Members of the Retirement Board
San Diego City Employees' Retirement System
401 West A Street, Suite 400
San Diego, California 92101

Re: Actuarial Certification Letter

Dear Members of the Board:

Actuarial valuations for the San Diego City Employees' Retirement System (SDCERS) are performed annually. The results of the June 30, 2015 actuarial valuations of SDCERS are summarized in this letter.

Funding Objective

The funding objective of SDCERS with respect to its plans open to new hires is to fully fund the System's liabilities with contributions which, over time, will remain a level percent of payroll. The open plans include plans sponsored by the Unified Port District, the Airport Authority, and the City of San Diego with respect to the Police portion of the plan. For the plans closed to new hires, the funding objective is to fully fund these plans by 2027 with level dollar annual payments. The closed plans consist of plans sponsored by the City of San Diego for its General Employees, Firefighters, and Lifeguards. The System's funding policy is adopted by the SDCERS Board with significant input from the actuary.

Funding Method

The actuarial funding method used by SDCERS is the Entry Age Normal (EAN) actuarial funding method. The normal cost rate is determined by taking the value, as of entry age into the plan, of each Member's projected future benefits. This value is then divided by the value, also at entry age, of the each Member's expected future salary. The normal cost rate is multiplied by current salary to determine each Member's normal cost. Finally, the normal cost is reduced by the Member contribution to produce the employer normal cost. The actuarial liability under the EAN method is equal to the present value of all future benefits to be paid to current and former Members less the present value of future employer normal costs and Member contributions on behalf of current Members. Finally, the difference between the EAN actuarial liability and the actuarial value of assets is the unfunded actuarial liability (UAL). The UAL is amortized over the periods described below for each plan sponsor.

Amortization of Unfunded Actuarial Liability

In May 2007, the SDCERS Board adopted the following closed amortization periods, which have been used to calculate the portion of the June 30, 2015 contribution that is attributable to the UAL for all three plan sponsors. The amortization period for the then-existing June 30, 2007 UAL for each plan sponsor was set at 20 years for the City, 14 years for the Unified Port District, and 14 years for the Airport Authority. For all three plan sponsors, the amortization of future experience gains and losses was set at 15 years, and the amortization of changes in actuarial

Members of the Retirement Board
 November 9, 2016
 Page 2

methods or assumptions were set at 30 years. The amortization period for plan amendments was set at five years for the City, and 20 years for the Unified Port District and the Airport Authority.

With the closure of the non-Police portion of the City plan to new hires effective July 20, 2012, the existing UAL layers attributable to that portion of the plan have been collapsed into a single amount that will be amortized over 15 years. Finally, the Board also adopted an additional UAL cost component to ensure that there is no negative amortization of the UAL in any year for any of these three plan sponsors.

Assumptions and Methods

The June 30, 2015 valuation results reflect two changes in economic assumptions from the basis used in the June 30, 2014 valuations. In November 2015, the SDCERS Board voted to reduce the discount rate and wage inflation assumptions each by 0.125%. These assumption changes have been reflected in the June 30, 2015 valuation. The Board also voted to reduce both assumptions by an additional 0.125% in the next valuation.

The June 30, 2015 valuation results also reflect the second year of the three-year phase-in of expected administrative expenses. At the January 2015 Board Meeting, the Board voted to account for expected administrative expenses explicitly in the actuarially determined contribution (ADC), with a three-year phase in.

All other assumptions and methods remain the same as in the June 30, 2014 valuation. The assumptions as a whole represent our best estimate for the future experience of SDCERS. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from these assumptions, the true cost of SDCERS could vary from our results.

The assumptions and methods used in performing this valuation meet the parameters set by Government Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, as well as applicable Actuarial Standards of Practice set out by the Actuarial Standards Board.

Plan Provisions

For the City of San Diego, Lifeguard Members hired on or after July 1, 2011 first appeared in the census data with the June 30, 2015 valuation. Benefits for Members in this tier are the same as those for Fire and Police Members hired on or after January 1, 2012. For the Unified Port District, PEPRA participants first appeared in the census data with the June 30, 2015 valuation.

All other plan provisions remain the same as in the June 30, 2014 valuation.

Reliance on Others

In preparing our report, we relied on information (some oral and some written) supplied by SDCERS' staff. This information includes, but is not limited to, plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics

Members of the Retirement Board
November 9, 2016
Page 3

of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

Supporting Schedules

Using historical information along with results developed by Cheiron, we prepared all supporting schedules to be found in the Actuarial Section and most in the Statistical Section of this CAFR.

Compliance with Code of San Diego §24.0100-0200 and Charter section 149


As we are not attorneys we cannot confirm with absolute certainty, but to the best of our knowledge we have complied with the Code of San Diego §24.0100-0200 in valuing the benefits provided to future and current retirees of SDCERS – City Employees. In addition to §24.0100-0200, we have complied with Charter section 149 in valuing the benefits provided to future and current retirees of the San Diego Unified Port District and the San Diego Airport Authority.

Certification

To the best of our knowledge, this report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

Sincerely,
Cheiron


Gene Kalwarski, FSA, EA, MAAA
Principal Consulting Actuary


David Holland, FSA, EA, MAAA
Consulting Actuary

San Diego City Employees' Retirement System Summary of June 30, 2015 Valuation Results

Overview

The primary purpose of the actuarial valuation and this report is to measure, describe and identify as of the valuation date:

- The financial condition of the System,
- Historical trends in the financial condition of the System,
- The SDCERS actuarially determined contribution rates, and
- Information required for the Comprehensive Annual Financial Report (CAFR).

On the pages that follow, we present the following information and schedules from our actuary:

1. The actuary's general comments on the valuation,
2. Historical trends showing the System's funding progress and contributions,
3. Detailed information on the contribution rate, unfunded actuarial liability and the actuarially determined contribution,
4. Summary of actuarial assumptions and methods,
5. Schedule of active member valuation data,
6. Schedule of retirees and beneficiaries added to and removed from the rolls,
7. Solvency test,
8. Analysis of financial experience, and
9. Schedules of funding progress and employer contributions, and
10. Summary of SDCERS benefit provisions and Deferred Retirement Option Plan (DROP) program.

Note that these liabilities are not applicable for settlement purposes, including the purchase of annuities and the payment of lump sums.

San Diego City Employees' Retirement System **Summary of June 30, 2015 Valuation Results** (continued)

1. General Comments

The June 30, 2015 valuation results reflect the November 2015 Board decision to reduce the discount rate, wage inflation, and DROP interest crediting and annuity conversion rate assumptions. In addition, the June 30, 2015 valuation reflects the second year of the three-year phase-in of expected administrative expenses. At the January 2015 Board Meeting, the Board voted to account for expected administrative expenses explicitly in the actuarially determined contribution (ADC), with a three-year phase in.

For the Port and Airport, the California Public Employees' Pension Reform Act (PEPRA) was effective January 1, 2013 and has a significant impact on the plan provisions for most employees hired on or after that date. For the Airport, PEPRA participants first appeared in the census data with the June 30, 2014 valuation. For the Port, PEPRA participants first appeared in the census data with the June 30, 2015 valuation.

For the City, the June 30, 2015 valuation is the first valuation that includes Members of the Lifeguard-2011 Plan.

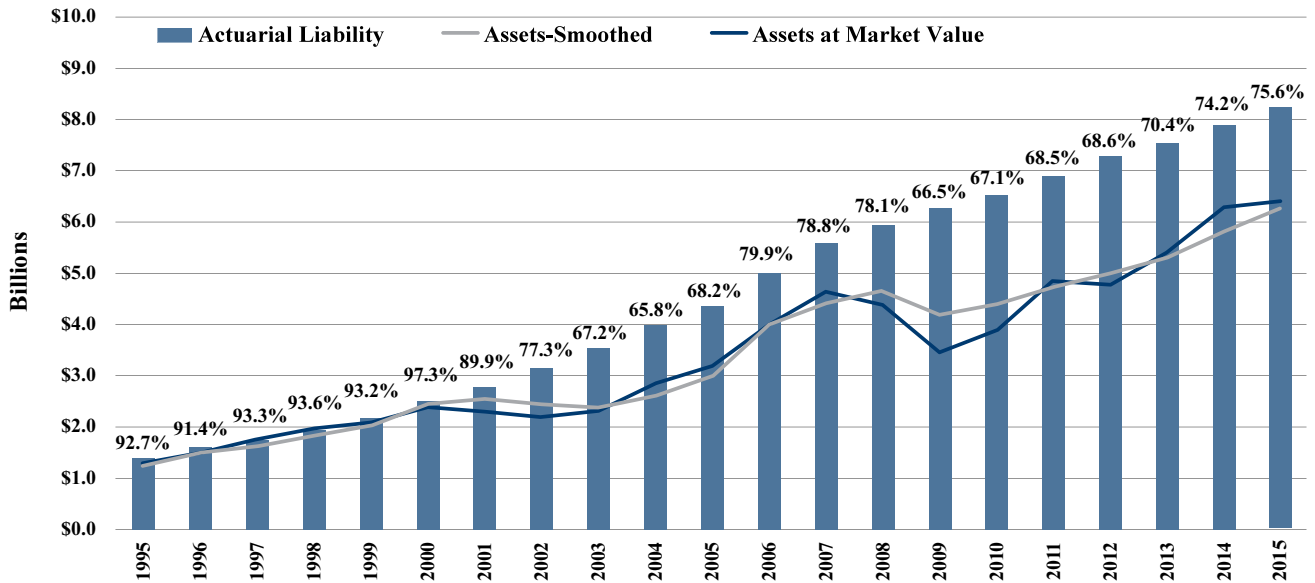
More details on the actuarial assumptions and plan provisions can be found in the Actuarial Assumptions and Methods section of this CAFR.

Effective with the June 30, 2014 valuation, GASB disclosures (67 and 68, previously 25 and 27) have been removed from the actuarial valuation report and are presented in a stand-alone report, which will generally be issued in October of each year.

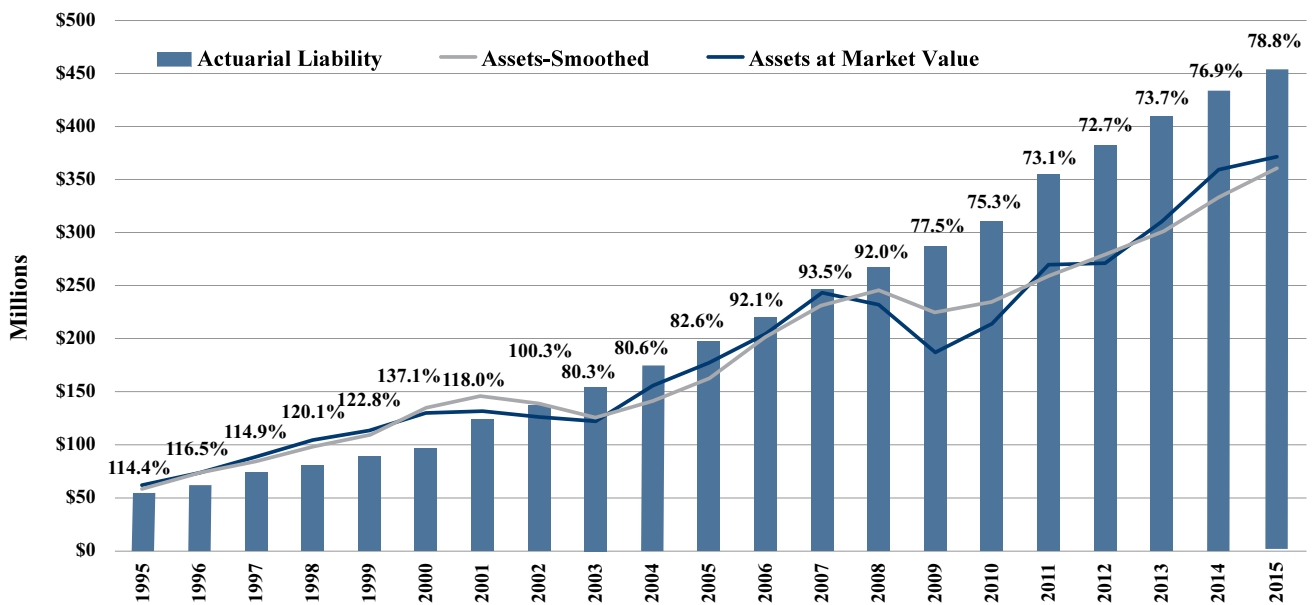
San Diego City Employees' Retirement System
Summary of June 30, 2015 Valuation Results (continued)

2. Historical Trends and Funding Progress
Assets and Liabilities

SDCERS - City Assets and Liabilities 1995 - 2015



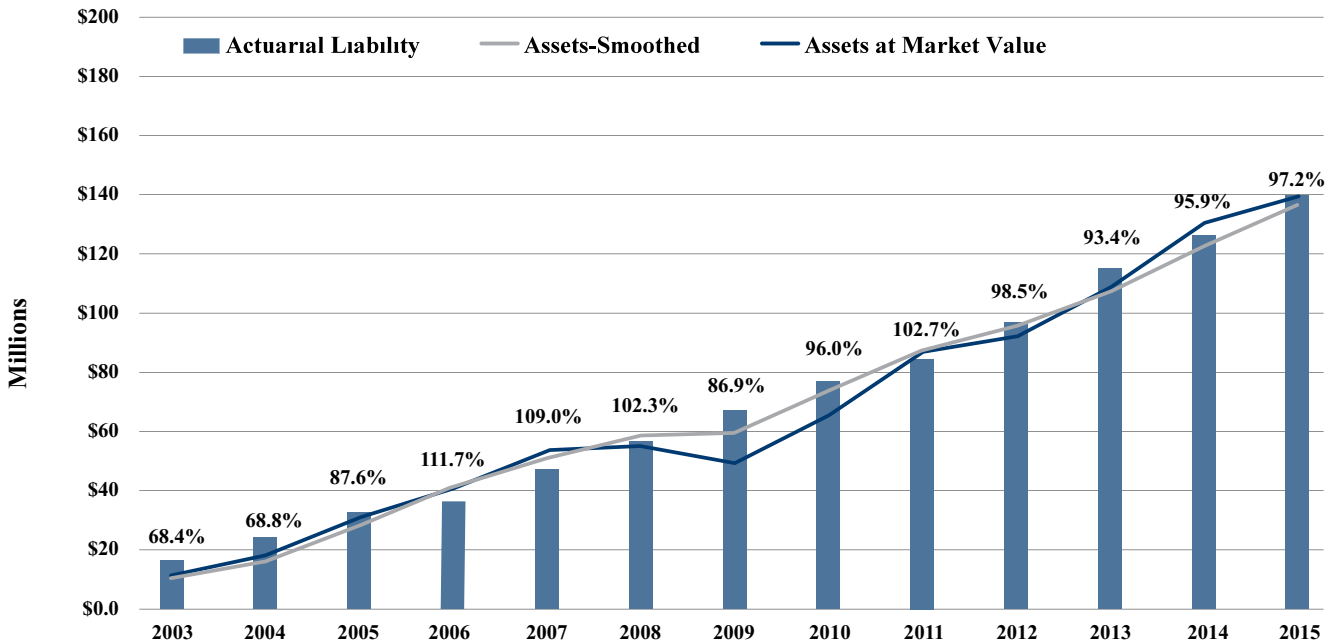
SDCERS - Port Assets and Liabilities 1995 - 2015



San Diego City Employees' Retirement System
Summary of June 30, 2015 Valuation Results (continued)

2. Historical Trends and Funding Progress
Assets and Liabilities

SDCERS - Airport Assets and Liabilities 2003 - 2015



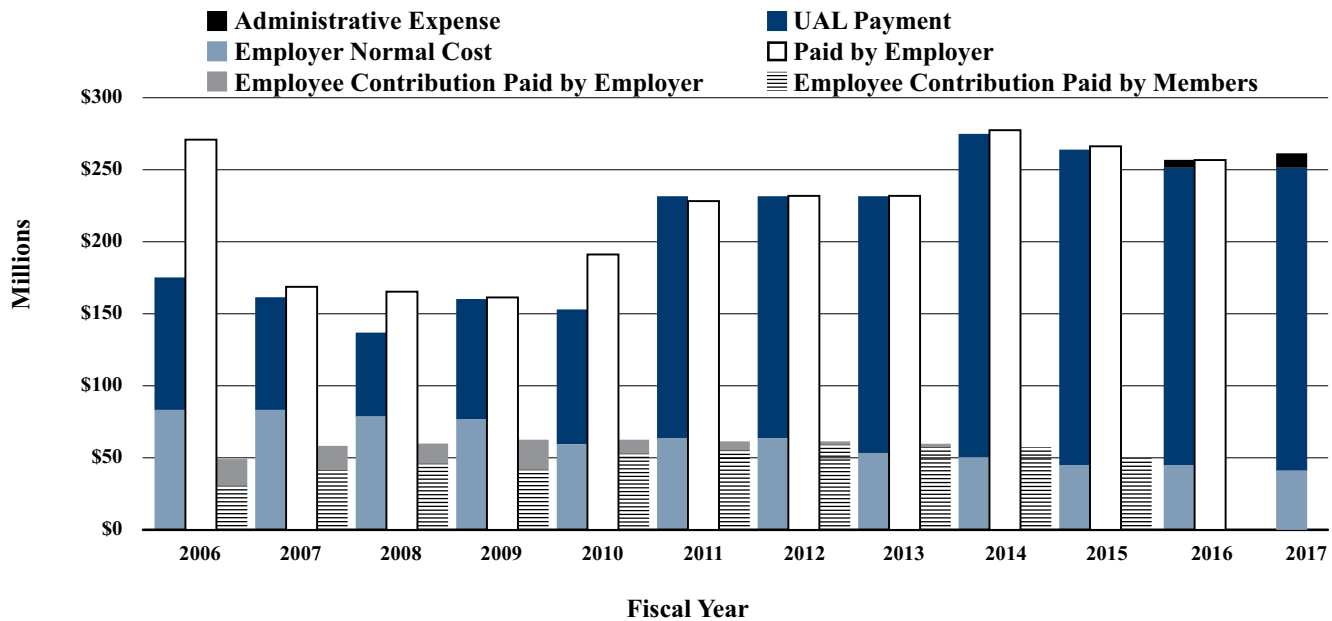
For all three plan sponsors' funding purposes, the target amount is represented by the top of the bar. We compare the actuarial value of assets to this measure of actuarial liability in developing the funded ratio which is shown as percentages in each year.

For the periods shown, the most significant decline to the funding ratios was in 2009 due to the market losses of 2008 and 2009. Since 2009, the City's funding ratio has been increasing steadily each year. The Port's funding ratio decreased slightly in the years following 2009 but has since increased over the last three years. Following 2009, the Airport's funding ratio has been above 90%.

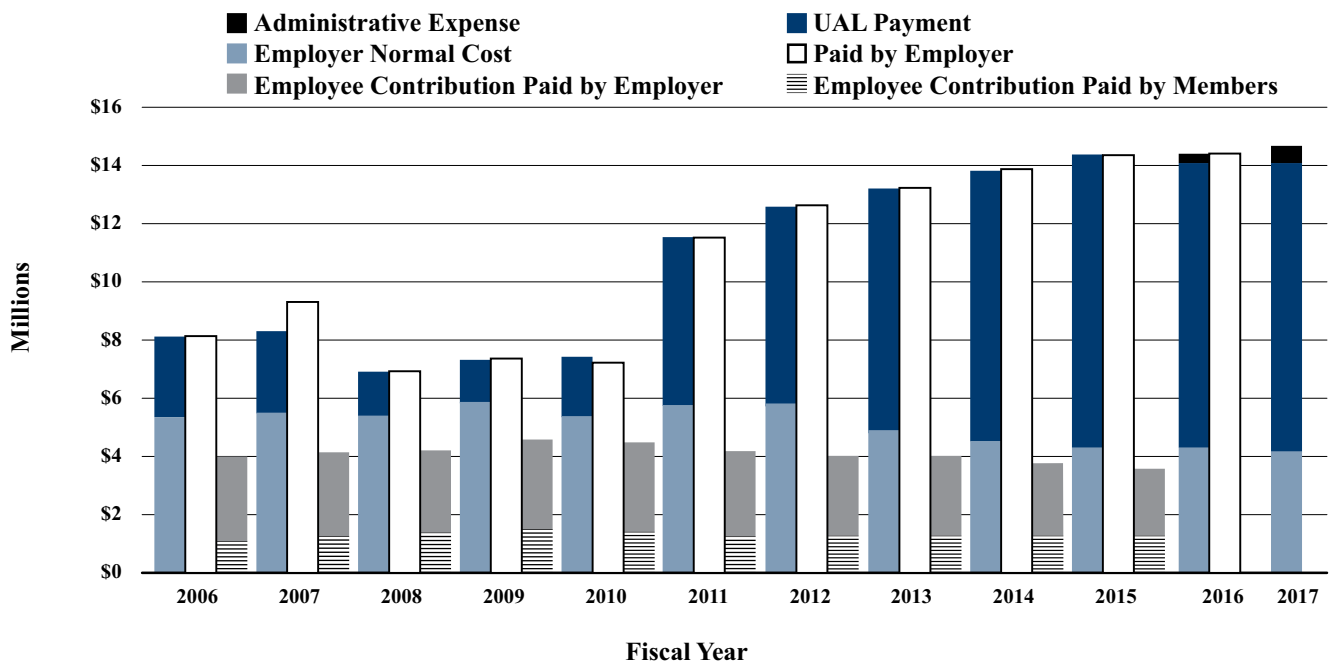
San Diego City Employees' Retirement System
Summary of June 30, 2015 Valuation Results (continued)

3. Contribution Amounts

SDCERS - City and Member Contributions FY 2006 – 2017



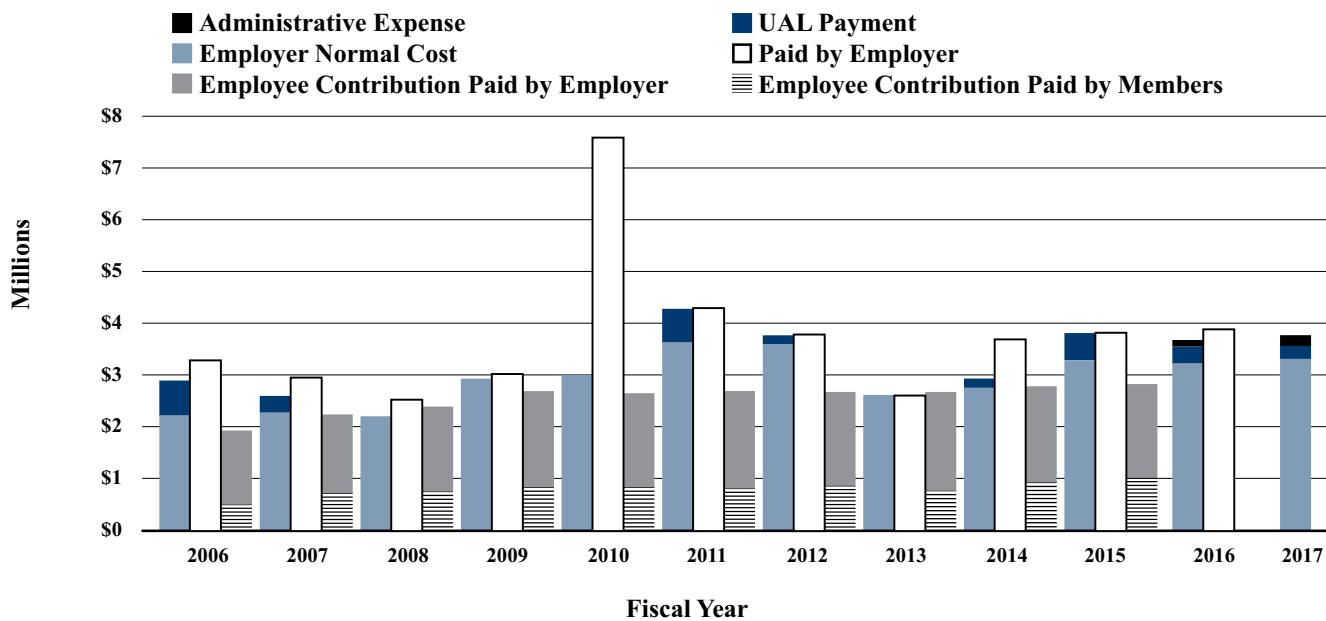
SDCERS – Port and Member Contributions FY 2006 - 2017



San Diego City Employees' Retirement System
Summary of June 30, 2015 Valuation Results (continued)

3. Contribution Amounts

SDCERS - Airport and Member Contributions 2006 - 2017



These charts compare the actual contributions made by the plan sponsor (white bars) to the actuarially determined contributions (ADC). The ADC is broken out by component - Employer Normal Cost plus UAL Payment, plus Administrative Expense (light blue, dark blue, and black bars). The contributions paid by the plan sponsor are based on the Board's adopted funding practice of normal cost plus amortization of the various UAL components, including the requirement beginning in FY 2009 that there is no negative amortization and the requirement beginning in FY 2016 to fund the administrative expenses. The FY 2017 ADC reflects the second year of the three-year phase-in of the administrative expense assumption. Other than the City prior to 2006, all three plan sponsors have consistently contributed at or above the ADC during the periods shown.

In addition, employee contributions paid by the plan sponsor (grey bars) and the Members (striped bars) are also shown. A substantial portion of employee contributions continue to be "offset" (paid for) by the Port and the Airport, whereas for the City such offsets have disappeared almost completely in recent years.

San Diego City Employees' Retirement System Summary of June 30, 2015 Valuation Results (continued)

3. Contribution Rate, UAL and ADC Information

SDCERS - City

Valuation Date	June 30, 2015	June 30, 2014
Unfunded Actuarial Liability (millions)	\$2,001.7	\$2,030.1
Funding Ratio	75.6%	74.2%
City Contribution Rate	62.0%	60.1%
Fiscal Year	2017	2016
Actuarially Determined Contribution		
• if paid at the beginning of the year	\$261.1 million	\$254.9 million
• if paid throughout the year	\$270.2 million	\$263.9 million

SDCERS - City - Membership Total

Valuation as of:	June 30, 2015	June 30, 2014	% Change
Active Counts	7,038	7,272	-3.2%
Terminated Vested	2,907	2,920	-0.4
Disabled	1,190	1,197	-0.6
Retirees	6,648	6,414	3.6
Beneficiaries	1,265	1,211	4.5
Total City Members	19,048	19,014	0.2%
Active Member Payroll	\$480,662,378	\$480,535,973	0.0%
Average Pay per Active Member	68,295	66,080	3.4
Benefits in Pay Status	\$419,209,660	\$398,603,107	5.2%
Average Benefit	46,052	45,183	1.9

SDCERS - City - Assets & Liabilities

Entry Age Normal (EAN) Liabilities	June 30, 2015	June 30, 2014	% Change
Actives	\$2,348,027,257	\$2,275,740,035	3.2%
Terminated Vested	278,422,504	278,692,976	-0.1
Disabled	473,590,631	460,414,291	2.9
Retirees	4,879,583,609	4,644,460,467	5.1
Beneficiaries	226,328,553	199,395,610	13.5
Total Actuarial (EAN) Liability	\$8,205,952,554	\$7,858,703,379	4.4%
Market Value Assets	\$6,387,828,761	\$6,292,855,000	1.5%
Actuarial Value Assets	6,204,243,990	5,828,593,547	6.4
Unfunded Actuarial Liability	\$2,001,708,564	\$2,030,109,833	-1.4%
Funding Ratio-Actuarial Value	75.6%	74.2%	1.4%

SDCERS - City - Change in UAL (Dollars in Millions)

1. UAL at June 30, 2014:	\$2,030.1
2. Expected change in UAL*	(198.3)
3. Investment experience loss	
a. Anticipated loss/(gain)	(111.9)
b. Actual loss/(gain)	(60.5)
c. Difference (b - a)	51.4
4. Liability experience loss	25.7
5. Reduction in discount rate and wage inflation assumptions	95.8
6. Administrative expense	N/A
7. Employee contributions paid greater than expected	(3.2)
8. Other misc. (includes purchased service)	0.2
9. Total change in UAL: sum of 2 through 8	(28.4)
10. UAL at June 30, 2015: 1 + 9	\$2,001.7

* Includes projected phase-in of investment gains or losses.

SDCERS - City - Change in ADC (Dollars in Millions)

1. ADC at June 30, 2014	\$254.9
2. Expected change in ADC*	(6.8)
3. Investment experience loss	
a. Anticipated increase/(decrease)	(11.7)
b. Actual increase/(decrease)	(6.3)
c. Difference (b - a)	5.4
4. Liability experience loss	2.1
5. Reduction in discount rate and wage inflation assumptions	6.8
6. Employee contributions paid greater than expected	(0.3)
7. Other misc. (includes purchased service)	(0.9)
8. Total change in ADC: sum of 2 through 7	6.2
9. ADC at June 30, 2015: 1 + 8	\$261.1

* Includes projected phase-in of asset gains or losses and phase-in of an additional one-third of the administrative expense assumption

San Diego City Employees' Retirement System Summary of June 30, 2015 Valuation Results (continued)

3. Contribution Rate, UAL and ADC Information

SDCERS - Port

	Valuation Date	June 30, 2015	June 30, 2014
Unfunded Actuarial Liability (millions)		\$96.2	\$100.0
Funding Ratio		78.8%	76.9%
Port Contribution Rate		43.0%	42.6%
	Fiscal Year	2017	2016
Actuarially Determined Contribution			
• if paid at the beginning of the year		\$14.6 million	\$14.4 million
• if paid throughout the year		\$15.1 million	\$14.9 million

SDCERS - Port - Membership Total

Valuation as of:	June 30, 2015	June 30, 2014	% Change
Active Counts	377	385	-2.1%
Terminated Vested	284	285	-0.4
Disabled	62	64	-3.1
Retirees	392	375	4.5
Beneficiaries	82	79	3.8
Total Port Members	1,197	1,188	0.8%
Active Member Payroll	\$33,512,411	\$33,272,693	0.7%
Average Pay per Active Member	88,892	86,423	2.9
Benefits in Pay Status	\$22,743,044	\$21,033,503	8.1%
Average Benefit	42,431	40,605	4.5

SDCERS - Port - Assets & Liabilities

Entry Age Normal (EAN) Liabilities	June 30, 2015	June 30, 2014	% Change
Actives	\$150,323,266	\$155,838,187	-3.5%
Terminated Vested	18,275,399	16,404,679	11.4
Disabled	20,503,209	19,332,018	6.1
Retirees	251,008,677	228,491,095	9.9
Beneficiaries	13,662,977	13,205,708	3.5
Total Actuarial (EAN) Liability	\$453,773,528	\$433,271,687	4.7%
Market Value Assets	\$370,053,588	\$362,246,000	2.2%
Actuarial Value Assets	357,599,720	333,228,645	7.3
Unfunded Actuarial Liability	\$96,173,807	\$100,043,042	-3.9%
Funding Ratio-Actuarial Value	78.8%	76.9%	1.9%

SDCERS - Port - Change in UAL (Dollars in Millions)

1. UAL at June 30, 2014:	\$100.0
2. Expected change in UAL*	(10.6)
3. Investment experience loss	
a. Anticipated loss/(gain)	(7.1)
b. Actual loss/(gain)	(4.1)
c. Difference (b - a)	3.0
4. Liability experience gain	(1.9)
5. Reduction in discount rate and wage inflation assumptions	5.5
6. Administrative expense	N/A
7. Employee contributions paid less than expected	0.2
8. Other misc. (includes purchased service)	(0.1)
9. Total change in UAL: sum of 2 through 8	(3.9)
10. UAL at June 30, 2015: 1 + 9	\$96.2

* Includes projected phase-in of investment gains or losses.

SDCERS - Port - Change in ADC (Dollars in Millions)

1. ADC at June 30, 2014	\$14.4
2. Expected change in ADC*	(0.2)
3. Investment experience loss	
a. Anticipated increase/(decrease)	(0.7)
b. Actual increase/(decrease)	(0.4)
c. Difference (b - a)	0.3
4. Liability experience gain	(0.4)
5. Reduction in discount rate and wage inflation assumptions	0.4
6. Employee contributions paid less than expected	0.0
7. Other misc. (includes purchased service)	0.1
8. Total change in ADC: sum of 2 through 7	0.2
9. ADC at June 30, 2015: 1 + 8	\$14.6

* Includes projected phase-in of asset gains or losses and phase-in of an additional one-third of the administrative expense assumption

San Diego City Employees' Retirement System Summary of June 30, 2015 Valuation Results (continued)

3. Contribution Rate, UAL and ADC Information

SDCERS - Airport

Valuation Date	June 30, 2015	June 30, 2014
Unfunded Actuarial Liability (millions)	\$3.9	\$5.3
Funding Ratio	97.2%	95.9%
Airport Contribution Rate	12.7%	12.9%
Fiscal Year	2017	2016
Actuarially Determined Contribution		
• if paid at the beginning of the year	\$3.8 million	\$3.7 million
• if paid throughout the year	\$3.9 million	\$3.8 million

SDCERS - Airport - Membership Total

Valuation as of:	June 30, 2015	June 30, 2014	% Change
Active Counts	368	362	1.7%
Terminated Vested	99	90	10.0
Disabled	2	2	0.0
Retirees	68	59	15.3
Beneficiaries	6	6	0.0
Total Airport Members	543	519	4.6%
Active Member Payroll	\$29,189,357	\$27,955,455	4.4%
Average Pay per Active Member	79,319	77,225	2.7
Benefits in Pay Status	\$3,047,331	\$2,668,801	14.2%
Average Benefit	40,096	39,833	0.7

SDCERS - Airport - Assets & Liabilities

Entry Age Normal (EAN) Liabilities	June 30, 2015	June 30, 2014	% Change
Actives	\$93,497,678	\$87,468,059	6.9%
Terminated Vested	6,908,747	5,275,901	30.9
Disabled	465,879	461,499	0.9
Retirees	37,707,392	32,759,997	15.1
Beneficiaries	1,206,938	1,208,631	-0.1
Total Actuarial (EAN) Liability	\$139,786,634	\$127,174,087	9.9%
Market Value Assets	\$138,544,185	\$130,228,000	6.4%
Actuarial Value Assets	135,858,959	121,917,826	11.4
Unfunded Actuarial Liability	\$3,927,675	\$5,256,261	-25.3%
Funding Ratio-Actuarial Value	97.2%	95.9%	1.3%

SDCERS - Airport - Change in UAL (Dollars in Millions)

1. UAL at June 30, 2014:	\$5.3
2. Expected change in UAL*	(2.0)
3. Investment experience loss	
a. Anticipated loss/(gain)	(1.8)
b. Actual loss/(gain)	(0.9)
c. Difference (b - a)	0.9
4. Liability experience gain	(1.8)
5. Reduction in discount rate and wage inflation assumptions	1.6
6. Administrative expense	N/A
7. Employee contributions paid greater than expected	0.0
7. Increase in negative amortization cost component	N/A
9. Other misc. (includes purchased service)	0.0
10. Total change in UAL: sum of 2 through 9	(1.3)
11. UAL at June 30, 2015: 1 + 10	\$3.9

* Includes projected phase-in of investment gains or losses.

SDCERS - Airport - Change in ADC (Dollars in Millions)

1. ADC at June 30, 2014:	\$3.7
2. Expected change in ADC*	0.0
3. Investment experience loss	
a. Anticipated increase/(decrease)	(0.2)
b. Actual increase/(decrease)	(0.1)
c. Difference (b - a)	0.1
4. Liability experience gain	(0.2)
5. Reduction in discount rate and wage inflation assumptions	0.2
6. Employee contributions paid greater than expected	0.0
7. Increase in negative amortization cost component	0.1
8. Other misc. (includes purchased service)	(0.1)
9. Total change in ADC: sum of 2 through 8	0.1
10. ADC at June 30, 2015: 1 + 9	\$3.8

* Includes projected phase-in of asset gains or losses and phase-in of an additional one-third of the administrative expense assumption

San Diego City Employees' Retirement System Summary of June 30, 2015 Valuation Results (continued)

4. Summary of Assumptions and Methods

The SDCERS Board has the authority to select economic and demographic assumptions for the Plan. The assumptions described on the following pages reflect the results of a full experience study performed by Cheiron in 2011 covering the period July 1, 2007 through June 30, 2010, as well as an economic experience study performed by Cheiron and presented to the SDCERS Board in November 2015.

A. Actuarial Funding Method

The Entry Age Normal funding method was used for active employees, whereby the normal cost rate is computed as the average level annual percent of pay required to fund the retirement benefits for all Members between their dates of hire and assumed dates of retirement. The EAN actuarial liability is the difference between the plan's total present value of future benefits and the present value of future normal costs, calculated for each sub-group (e.g., General). The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets, and is allocated to each sub-group based on its liability.

The unfunded actuarial liability is amortized by annual payments. The payments are determined as a level percentage of pay, assuming payroll increases 3.175% per year, for the Police portion of the City plan, the Port, and the Airport. The payments for the non-Police portion of the City plan are determined as level dollar amounts. For all three plan sponsors, if necessary, there is an additional UAL cost component to ensure that there is no negative amortization in any year. The UAL for FY 2017 is amortized over several different periods, which as of June 30, 2015, are as follows:

City

2015 Police Assumption Change – 30 years (level percentage of pay)
2015 Police Experience Gain – 15 years (level percentage of pay)
2015 Non-Police Assumption Change – 30 years (level dollar payments)
2015 Non-Police Experience Gain – 15 years (level dollar payments)
2014 Police Experience Gain – 14 years (level percentage of pay)
2014 Non-Police Experience Gain – 14 years (level dollar payments)
2013 Police Salary Freeze – 13 years (level percentage of pay)
2013 Police Assumption Change – 28 years (level percentage of pay)
2013 Police Experience Loss – 13 years (level percentage of pay)
2013 Non-Police Salary Freeze – 13 years (level dollar payments)
2013 Non-Police Assumption Change – 28 years (level dollar payments)
2013 Non-Police Experience Loss – 13 years (level dollar payments)
2012 Non-Police UAL – 12 years (level dollar payments)
2012 Method Change – 27 years
2012 Experience Loss – 12 years
2011 Assumption Change – 26 years
2011 Experience Gain – 11 years
2010 Experience Gain (PSC) – 9 years
2010 Experience Loss – 10 years
2009 Experience Loss – 9 years
2008 Experience Loss – 8 years
2008 Assumption Change – 23 years
2007 Original UAL – 12 years

San Diego City Employees' Retirement System

Summary of June 30, 2015 Valuation Results (continued)

Port

2015 Assumption Change – 30 years
 2015 Experience Gain – 15 years
 2014 Experience Gain – 14 years
 2013 Assumption Change – 28 years
 2013 Experience Gain – 13 years
 2012 Method Change – 27 years
 2012 Experience Loss – 12 years
 2011 Assumption Change – 26 years
 2011 Plan Change (ERIP) – 16 years
 2011 Experience Gain – 11 years
 2010 Experience Loss – 10 years
 2009 Experience Loss – 9 years
 2008 Experience Loss – 8 years
 2008 Assumption Change – 23 years
 2007 Original UAL – 6 years

Airport

2015 Assumption Change – 30 years
 2015 Experience Gain – 15 years
 2014 Experience Gain – 14 years
 2013 Assumption Change – 28 years
 2013 Experience Loss – 13 years
 2012 Method Change – 27 years
 2012 Experience Loss – 12 years
 2011 Assumption Change – 26 years
 2011 Experience Gain – 11 years
 2010 Experience Gain (PSC) - 10 years
 2010 Experience Gain – 10 years
 2009 Experience Loss – 9 years
 2008 Experience Gain – 8 years
 2008 Assumption Change – 23 years
 2007 Original UAL – 6 years

For all three plan sponsors, if necessary, there is an additional UAL cost component to ensure that there is no negative amortization in any year.

B. Asset Valuation Method

For the purposes of determining each plan sponsor's actuarially determined contribution, SDCERS' actuaries use a smoothed actuarial value of assets. The asset smoothing method dampens the volatility in asset values that could occur because of the fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. Assets are assumed to be used exclusively for the provision of retirement benefits and expenses.

The actuarial value of assets each year is equal to 100% of the expected actuarial value of assets plus 25% of the difference between the current market value of assets and the expected actuarial value of assets. In no event will the actuarial value of assets ever be less than 80% of the market value of assets, nor ever greater than 120% of the market value of assets.

The expected actuarial value of assets is equal to the prior year's actuarial value of assets increased with actual contributions made, decreased with actual disbursements made, and all items (prior assets, contributions, and disbursements) are further adjusted with expected investment returns for the year.

C. Method Changes Since Last Valuation

None.

San Diego City Employees' Retirement System
Summary of June 30, 2015 Valuation Results (continued)

Long Term Assumptions Used to Determine System Costs and Liabilities

D. Demographic Assumptions

Mortality

To reflect improvements in mortality since the date of the tables, the mortality tables have been modified to reflect actual experience through June 30, 2010 and include a projection to 2013. All active members follow the RP2000 Combined Healthy table (male and female) projected to 2013.

Rates of Mortality for Active Lives at Selected Ages

General and Safety

Age	Male	Female
20	0.03%	0.02%
25	0.03	0.02
30	0.04	0.02
35	0.07	0.04
40	0.10	0.06
45	0.13	0.09
50	0.17	0.13
55	0.28	0.25
60	0.55	0.47
65	1.06	0.91
70	1.83	1.57

50% of active member deaths are assumed to be industrial deaths for Safety members and all active member deaths are assumed to be non-industrial deaths for other members.

To reflect improvements in mortality since the date of the tables, the mortality tables have been modified to reflect actual experience through June 30, 2010. No modifications have been made to project future mortality improvements. In the next experience study, SDCERS' actuaries will examine the mortality experience and consider the projection of future improvement.

All retired healthy members use the RP2000 Combined Healthy table (male and female). Safety female members use the RP2000 Combined Healthy female table, set forward one year.

Rates of Mortality for Retired Healthy Lives at Selected Ages

Age	General		Safety	
	Male	Female	Male	Female
40	0.11%	0.07%	0.11%	0.08%
45	0.15	0.11	0.15	0.12
50	0.21	0.17	0.21	0.19
55	0.36	0.27	0.36	0.31
60	0.67	0.51	0.67	0.58
65	1.27	0.97	1.27	1.10
70	2.22	1.67	2.22	1.86
75	3.78	2.81	3.78	3.10
80	6.44	4.59	6.44	5.08
85	11.08	7.74	11.08	8.64
90	18.34	13.17	18.34	14.46

San Diego City Employees' Retirement System

Summary of June 30, 2015 Valuation Results (continued)

To reflect improvements in mortality since the date of the tables, the mortality tables have been modified to reflect actual experience through June 30, 2010. No modifications have been made to project future mortality improvements. In the next experience study, SDCERS' actuaries will examine the mortality experience and consider the projection of future improvement.

The mortality tables used for disabled retirees are variations of the CalPERS Disability Tables (male and female).

Rates of Mortality for Disabled Lives at Selected Ages

Age	General		Safety	
	Male	Female	Male	Female
40	1.45%	0.67%	0.19%	0.20%
45	1.65	0.99	0.25	0.26
50	1.63	1.25	0.44	0.36
55	1.86	1.58	0.56	0.55
60	2.19	1.63	0.78	0.80
65	2.99	1.97	1.39	1.18
70	3.76	3.02	2.24	1.72
75	5.42	3.92	3.59	2.67
80	7.90	5.56	6.93	4.53
85	12.48	9.58	11.80	8.02

Termination of Employment (Prior to Normal Retirement Eligibility)

Rates of termination vary by plan sponsor.

SDCERS - City Rates of Termination

Service	General	Safety
0	11.00%	8.80%
1	10.00	7.72
2	9.00	6.62
3	8.00	5.53
4	7.00	4.41
5	6.00	3.31
6	5.00	3.16
7	5.00	3.09
8	4.00	3.01
9	3.50	2.94
10	3.50	2.89
11	3.50	2.77
12	3.25	2.70
13	3.25	2.63
14	3.25	2.58
15	3.25	2.52
16	3.25	2.46
17	3.25	2.41
18	3.25	2.38
19	3.25	2.37
20	3.25	2.35
21	3.25	2.34
22+	3.25	2.33

For the City, 20% of terminating employees, with 10+ years of service at termination, are assumed to subsequently work for a reciprocal employer and receive 3.675% pay increases per year.

San Diego City Employees' Retirement System
Summary of June 30, 2015 Valuation Results (continued)

SDCERS - Port Rates of Termination			SDCERS - Airport Rates of Termination	
Service	General	Safety	Service	General
0	11.00%	8.80%	0	11.00%
1	10.00	7.72	1	10.00
2	9.00	6.62	2	9.00
3	8.00	5.53	3	8.00
4	7.00	4.41	4	7.00
5	5.50	3.31	5	5.50
6	4.50	3.16	6	4.50
7	4.50	3.09	7	4.50
8	4.25	3.01	8	4.00
9	4.25	2.94	9	4.00
10	4.00	2.89	10	3.00
11	4.00	2.77	11	3.00
12	4.00	2.70	12	3.00
13	4.00	2.63	13	3.00
14	4.00	2.58	14	3.00
15	4.00	2.52	15	3.00
16	4.00	2.46	16	3.00
17	4.00	2.41	17	3.00
18	4.00	2.38	18	3.00
19	4.00	2.37	19	3.00
20	4.00	2.35	20	3.00
21	4.00	2.34	21	3.00
22+	4.00	2.33	22+	3.00

For the Port and Airport, 10% of terminating employees, with 5+ years of service at termination, are assumed to subsequently work for a reciprocal employer and receive 3.8% pay increases per year.

Disability

Rates of Disability at Selected Ages

Age	General	Safety
20	0.02%	0.25%
25	0.03	0.25
30	0.04	0.25
35	0.06	0.35
40	0.08	0.45
45	0.12	0.55
50	0.20	0.65
55	0.35	0.75
60	0.45	—

60% of the General disabilities and 80% of the Safety disabilities are assumed to be industrial disability retirements. Non-industrial disability retirement is subject to a 10-year service requirement.

Family Composition

80% of men and 55% of women were assumed married at retirement. A female spouse is assumed to be three years younger than her male spouse.

San Diego City Employees' Retirement System
Summary of June 30, 2015 Valuation Results (continued)

Retirement

Rates of retirement vary by plan sponsor.

SDCERS - City
Rates of Retirement by Age and Service

Service	General		Safety - Old Plan	
	Prior to age 62	Age 62 or greater	Prior to age 55	Age 55 or greater
10	--%	60.0%	--%	40.0%
11	--	45.0	--	40.0
12	--	45.0	--	40.0
13	--	45.0	--	40.0
14	--	45.0	--	40.0
15	--	40.0	--	31.5
16	--	40.0	--	31.5
17	--	40.0	--	31.5
18	--	40.0	--	31.5
19	--	40.0	--	31.5
20	50.0	55.0	35.0	50.0
21	35.0	35.0	20.0	25.0
22	37.5	35.0	25.0	30.0
23	40.0	35.0	30.0	35.0
24	42.5	35.0	35.0	40.0
25	45.0	45.0	40.0	45.0
26	47.5	45.0	45.0	50.0
27	50.0	45.0	50.0	55.0
28	52.5	45.0	55.0	60.0
29	55.0	45.0	60.0	65.0
30	57.5	50.0	100.0	100.0
31	60.0	50.0	100.0	100.0
32	60.0	55.0	100.0	100.0
33	60.0	55.0	100.0	100.0
34	60.0	55.0	100.0	100.0
35+	100.0	100.0	100.0	100.0

San Diego City Employees' Retirement System
Summary of June 30, 2015 Valuation Results (continued)

SDCERS - City
Rates of Retirement by Age
For All New Tiers

Age	General	Safety
50	--%	10%
51	--	10
52	--	10
53	--	10
54	--	20
55	3	40
56	3	40
57	3	40
58	5	50
59	5	80
60	10	85
61	15	90
62	20	100
63	30	100
64	40	100
65	50	100
66	50	100
67	50	100
68	50	100
69	50	100
70	100	100

SDCERS - City
Rates of Retirement at Selected Ages

Age	Elected Officials
50	--%
51	--
52	--
53	15
54	1
55	5
56	3
57	4
58	5
59	6
60	60
61	25
62	37
63	23
64	34
65	68
66	69
67	74
68	80
69	90
70	100

In addition, if a Police-2009 Plan, a Police-2012 Plan, a Police-2012 No COL Plan, a Police Prop B Plan, a Life-guard-2011 Plan, or a Fire-2012 Plan Member has both attained age 55 and completed at least 30 years of service, 100% retirement is assumed.

For vested deferred members, we assume that retirement will occur provided they have at least 10 years of service on the later of attained age or:

General Members: Earlier of age 62 or age 55 and 20+ years of service

Safety Members: Earlier of age 55 or age 50 and 20+ years of service

For vested deferred Elected Officials, we assume that retirement will occur provided they have at least four years of service on the later of attained age or the earlier of age 55 or age 53 and at least eight years of service.

If the inactive participant is not vested, the liability is the participant's contribution with interest.

San Diego City Employees' Retirement System
Summary of June 30, 2015 Valuation Results (continued)

SDCERS - Port
Rates of Retirement by Service Years

Service	General		Safety	
	Prior to age 62	Age 62 or greater	Prior to age 55	Age 55 or greater
5-9	--%	30.0%	--%	9.0%
10	--	40.0	--	40.0
11	--	35.0	--	40.0
12	--	35.0	--	40.0
13	--	35.0	--	40.0
14	--	35.0	--	40.0
15	--	32.5	--	31.5
16	--	32.5	--	31.5
17	--	32.5	--	31.5
18	--	32.5	--	31.5
19	--	32.5	--	31.5
20	40.5	40.0	35.0	50.0
21	33.3	25.0	20.0	25.0
22	35.1	25.0	25.0	30.0
23	36.9	25.0	30.0	35.0
24	38.7	25.0	35.0	40.0
25	40.5	37.5	40.0	45.0
26	42.3	37.5	45.0	50.0
27	44.1	37.5	50.0	55.0
28	45.9	37.5	55.0	60.0
29	47.7	37.5	60.0	65.0
30	49.5	42.5	100.0	100.0
31	51.3	42.5	100.0	100.0
32	53.1	47.5	100.0	100.0
33	54.9	47.5	100.0	100.0
34	56.7	47.5	100.0	100.0
35+	100.0	100.0	100.0	100.0

SDCERS - Airport
Rates of Retirement by Service Years

Service	Prior to age 62	Age 62 or greater
5-9	--%	9.0%
10	--	33.3
11	--	33.3
12	--	33.3
13	--	33.3
14	--	33.3
15	--	33.3
16	--	33.3
17	--	33.3
18	--	33.3
19	--	33.3
20	30.0	40.5
21	15.0	33.3
22	17.5	35.1
23	20.0	36.9
24	22.5	38.7
25	25.0	40.5
26	27.5	42.3
27	30.0	44.1
28	32.5	45.9
29	35.0	47.7
30	37.5	49.5
31	40.0	51.3
32	40.0	53.1
33	40.0	54.9
34	40.0	56.7
35+	100.0	100.0

For vested deferred participants of the Port and the Airport, we assume that retirement will occur provided they have at least five years of service (for Port members, at least ten years of service if terminated prior to December 31, 2002) on the later of attained age or:

General Members: Earlier of age 62 or age 55 and 20+ years of service

Safety Members: Earlier of age 55 or age 50 and 20+ years of service

If the inactive participant is not vested, the liability is the contributions with interest.

San Diego City Employees' Retirement System
Summary of June 30, 2015 Valuation Results (continued)

E. Economic Assumptions

- Investment Return: SDCERS' assets are assumed to earn 7.125% net of investment expenses. This assumption is scheduled to decline to 7.00% for the 2016 valuation.
- Interest Credited to Member Contributions: 7.125%, compounded annually.
- Administrative Expense: Administrative expenses are assumed to be \$12.8 million for the City, \$738,000 for the Port, and \$297,250 for the Airport for FY 2017, increasing by 2.50% annually. Of this amount, two-thirds has been included in the FY 2017 ADC. For FY 2018 and for all fiscal years following, 100% of the expected administrative expense will be added to the ADC.
- Rate of Wage Increase: 3.175% compounded annually (following an assumed freeze in FYs 2017-2018 for City. A freeze had also been assumed for FYs 2013 and 2014 for Airport Authority and for FYs 2013-2016 for City).

Additional Merit Wage Increase:	Years of Service at Valuation Date	General	Safety
	0	5.00%	8.00%
1	4.00%	7.00%	
2	3.00%	6.00%	
3	2.00%	3.50%	
4	1.00%	2.00%	
5+	0.50%	0.50%	

- Rate of Increase in Cost-of-Living: 2.00% compounded per annum, compounded annually.
 3.175% assumed annual adjustment for the closed group of Special Safety Officers.

Total Payroll Increase (For amortization): 3.175% compounded per annum. This assumption is scheduled to decline to 3.05% for the 2016 valuation.

COL Annuity Benefit: For active members, the COL annuity benefit is valued by adding to the liabilities one-sixth of accumulated member contribution accounts and using load factors for future member contributions. The load is 2.5% for the Port and 2.0% for the Airport, and varies by membership for the City as follows:

General	Police	Fire	Lifeguard
2.19%	3.51%	3.69%	3.58%

For PEPRA Participants of the Airport, the load factor is developed so that the normal cost rate is equal to one-sixth of the employee contribution rate.

For terminated vested participants, one-sixth of the accumulated member contribution accounts are recognized as a liability for the COL annuity.

F. Assumption Changes Since Last Valuation

In November 2015, the SDCERS Board voted to reduce the discount rate and wage inflation assumptions by 0.125% from 7.25% to 7.125% and 3.3% to 3.175%, respectively. These assumption changes have been reflected in these results. The Board also voted to reduce both assumptions by an additional 0.125% in the next valuation.

Given the reduction in the discount rate and wage inflation assumptions, adjustments to the employee contribution rates for Members of the City as required under San Diego City Charter Section 143 ("substantially equal") were made and reflected in these results.

In January 2015, the Board voted to account for expected administrative expenses explicitly in the actuarially determined contribution (ADC) with a three-year phase in. This being the second year of the phase in, the portion of the assumed administrative expenses included in the ADC was adjusted from one-third to two-thirds.

The DROP interest crediting and annuity rates used to value the liability for account balances were decreased from 1.8% to 1.7% and from 3.6% to 3.0%, respectively, to reflect the Board's adoption of these rates at its November 2015 meeting.

San Diego City Employees' Retirement System
Summary of June 30, 2015 Valuation Results (continued)

5. Schedule of Active Member Valuation Data

SDCERS - City

<u>Valuation Date</u>	<u>Active Members</u>	<u>Annual Payroll¹</u>	<u>Average Annual Payroll</u>	<u>% Increase In Average Annual Pay</u>
6/30/2015	7,038	\$480,662,378	\$68,295	3.35%
6/30/2014	7,272	480,535,973	66,080	0.10
6/30/2013	7,566	499,463,072	66,014	-0.23
6/30/2012	7,724	511,090,601	66,169	0.26
6/30/2011	7,792	514,264,750	65,999	1.07
6/30/2010	8,120	530,238,356	65,300	0.68
6/30/2009	8,273	536,591,287	64,861	2.74
6/30/2008	8,487	535,774,438	63,129	4.64
6/30/2007	8,494	512,440,197	60,330	0.38
6/30/2006	8,887	534,102,800	60,099	1.70

SDCERS - Port

<u>Valuation Date</u>	<u>Active Members</u>	<u>Annual Payroll¹</u>	<u>Average Annual Payroll</u>	<u>% Increase In Average Annual Pay</u>
6/30/2015	377	\$33,512,411	\$88,892	2.86%
6/30/2014	385	33,272,693	86,423	4.37
6/30/2013	417	34,528,283	82,802	0.41
6/30/2012	435	35,872,676	82,466	10.49
6/30/2011	464	34,632,573	74,639	1.39
6/30/2010	532	39,164,664	73,618	2.85
6/30/2009	564	40,370,258	71,578	4.68
6/30/2008	565	38,634,835	68,380	2.87
6/30/2007	559	37,159,870	66,476	4.24
6/30/2006	532	33,927,372	63,773	1.45

SDCERS - Airport

<u>Valuation Date</u>	<u>Active Members</u>	<u>Annual Payroll¹</u>	<u>Average Annual Payroll</u>	<u>% Increase In Average Annual Pay</u>
6/30/2015	368	\$29,189,357	\$79,319	2.71%
6/30/2014	362	27,955,455	77,225	1.58
6/30/2013	347	26,380,323	76,024	4.37
6/30/2012	341	24,839,570	72,843	-0.36
6/30/2011	344	25,148,489	73,106	-0.89
6/30/2010	347	25,595,623	73,763	0.97
6/30/2009	338	24,693,427	73,057	6.06
6/30/2008	341	23,488,283	68,881	1.64
6/30/2007	324	21,956,656	67,767	4.58
6/30/2006	295	19,115,804	64,799	4.51

¹ Beginning with FY 2012, reported payroll includes across the board increases for the upcoming fiscal year. Historical data for prior years does not include those increases.

San Diego City Employees' Retirement System
Summary of June 30, 2015 Valuation Results (continued)

6. Schedule of Retirees and Beneficiaries Added to and Removed From Rolls

SDCERS - City

Year Ended	Added			Removed			Total			% Increase In Annual Allowances	Average Annual Allowances
	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age		
6/30/2015	507	\$20,835,315	59.1	226	\$6,281,172	80.4	9,103	\$419,209,660	66.9	5.17%	\$46,052
6/30/2014	587	25,462,105	58.5	219	5,501,855	81.2	8,822	398,603,107	66.7	7.26	45,183
6/30/2013	443	19,731,540	57.5	194	4,468,578	80.8	8,454	371,628,344	66.7	6.13	43,959
6/30/2012	493	22,347,927	57.6	190	4,458,749	79.7	8,205	350,163,968	66.5	7.17	42,677
6/30/2011	515	22,410,486	57.2	194	4,665,675	78.3	7,902	326,748,899	66.4	7.68	41,350
6/30/2010	439	19,192,613	58.0	227	4,443,897	79.6	7,581	303,457,616	66.4	7.01	40,029
6/30/2009	629	28,495,488	57.7	200	3,531,559	80.9	7,369	283,586,563	66.3	11.69	38,484
6/30/2008	446	19,239,330	58.2	185	3,487,942	79.8	6,940	253,894,388	66.6	8.43	36,584
6/30/2007	486	19,465,413	59.2	208	3,634,273	81.8	6,679	234,162,141	66.5	9.55	35,059
6/30/2006	619	24,676,720	56.6	213	3,150,596	80.7	6,401	213,747,320	66.6	18.62	33,393

SDCERS - Port

Year Ended	Added			Removed			Total			% Increase In Annual Allowances	Average Annual Allowances
	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age		
6/30/2015	32	\$1,733,799	57.9	14	\$297,954	76.2	536	\$22,743,044	68.3	8.13%	\$42,431
6/30/2014	42	2,319,752	59.5	9	333,982	74.5	518	21,033,503	68.2	12.65	40,605
6/30/2013	21	958,662	59.4	11	484,745	72.9	485	18,670,937	68.1	4.61	38,497
6/30/2012	27	980,818	64.3	16	271,767	74.7	475	17,847,929	67.6	6.09	37,575
6/30/2011	78	4,003,858	58.7	16	319,641	80.7	464	16,823,951	67.1	30.32	36,259
6/30/2010	20	931,654	58.3	9	123,377	79.7	402	12,910,177	68.3	8.78	32,115
6/30/2009	38	1,315,959	60.4	8	189,559	77.8	391	11,867,970	68.1	12.20	30,353
6/30/2008	24	825,588	61.6	12	207,767	74.8	361	10,577,682	68.2	8.09	29,301
6/30/2007	38	1,147,197	62.5	14	276,143	80.1	349	9,786,345	67.9	12.09	28,041
6/30/2006	29	1,131,237	57.4	10	335,265	80.2	325	8,731,137	68.2	14.09	26,865

SDCERS - Airport

Year Ended	Added			Removed			Total			% Increase In Annual Allowances	Average Annual Allowances
	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age		
6/30/2015	9	\$347,737	62.7	-	\$-	N/A	76	\$3,047,331	65.1	14.18%	\$40,096
6/30/2014	16	614,884	60.4	-	-	N/A	67	2,668,801	64.5	32.52	39,833
6/30/2013	6	285,905	61.1	1	21,407	77.3	51	2,013,899	64.8	17.33	39,488
6/30/2012	8	448,928	61.0	-	-	N/A	46	1,716,384	64.5	36.26	37,313
6/30/2011	12	326,099	63.2	-	-	N/A	38	1,259,629	64.3	35.54	33,148
6/30/2010	4	130,624	60.9	-	-	N/A	26	929,350	63.8	18.84	35,744
6/30/2009	5	286,756	57.2	-	-	N/A	22	782,035	63.3	62.84	35,547
6/30/2008	5	148,248	59.3	-	-	N/A	17	480,239	64.1	46.61	28,249
6/30/2007	5	115,187	65.0	-	-	N/A	12	327,559	65.1	57.72	27,297
6/30/2006	1	21,612	53.5	1	39,833	65.5	7	207,688	64.1	-6.00	29,670

San Diego City Employees' Retirement System
Summary of June 30, 2015 Valuation Results (continued)

7. Aggregate Accrued Liabilities Solvency Test

SDCERS - City

Valuation Date	Aggregate Accrued Liabilities for (Dollars in Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(A)	(B)	(C)		(A)	(B)	(C)
	<u>Active Member Contributions</u>	<u>Retirees And Beneficiaries</u>	<u>Remaining Active Members' Liabilities</u>	<u>Reported Assets¹</u>			
6/30/2015 ⁴	\$779,487	\$5,579,503	\$1,843,962	\$6,204,244	100.00%	97.23%	0.00%
6/30/2014	741,628	5,304,270	1,812,805	5,828,594	100.00	95.90	0.00
6/30/2013 ⁴	709,796	4,975,550	1,870,181	5,317,778	100.00	92.61	0.00
6/30/2012	662,488	4,625,110	1,974,133	4,982,442	100.00	93.40	0.00
6/30/2011 ⁴	627,447	4,344,218	1,945,510	4,739,399	100.00	94.65	0.00
6/30/2010	584,296	3,912,113	2,030,816	4,382,047	100.00	97.08	0.00
6/30/2009	535,797	3,673,185	2,072,655	4,175,229	100.00	99.08	0.00
6/30/2008 ⁴	522,966	3,286,668	2,153,916	4,660,346	100.00	100.00	39.50
6/30/2007 ³	482,526	3,101,594	2,013,532	4,413,411	100.00	100.00	41.19
6/30/2006 ²	456,562	2,822,203	1,703,935	3,981,932	100.00	100.00	41.27

SDCERS - Port

Valuation Date	Aggregate Accrued Liabilities for (Dollars in Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(A)	(B)	(C)		(A)	(B)	(C)
	<u>Active Member Contributions</u>	<u>Retirees And Beneficiaries</u>	<u>Remaining Active Members' Liabilities</u>	<u>Reported Assets¹</u>			
6/30/2015 ⁴	\$21,857	\$285,175	\$146,742	\$357,600	100.00%	100.00%	34.46%
6/30/2014	22,613	261,029	149,630	333,229	100.00	100.00	33.14
6/30/2013 ⁴	23,744	230,880	155,402	302,322	100.00	100.00	30.69
6/30/2012	21,236	218,954	141,824	277,822	100.00	100.00	26.53
6/30/2011 ⁴	19,138	207,854	127,845	259,315	100.00	100.00	25.28
6/30/2010	21,999	150,188	138,280	233,788	100.00	100.00	44.55
6/30/2009	20,784	137,803	130,112	223,879	100.00	100.00	50.18
6/30/2008 ⁴	19,397	123,029	124,611	245,580	100.00	100.00	82.78
6/30/2007 ³	18,374	115,021	113,143	230,585	100.00	100.00	85.90
6/30/2006 ²	16,140	101,542	102,955	203,286	100.00	100.00	83.15

SDCERS - Airport

Valuation Date	Aggregate Accrued Liabilities for (Dollars in Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(A)	(B)	(C)		(A)	(B)	(C)
	<u>Active Member Contributions</u>	<u>Retirees And Beneficiaries</u>	<u>Remaining Active Members' Liabilities</u>	<u>Reported Assets¹</u>			
6/30/2015 ⁴	\$14,033	\$39,380	\$86,373	\$135,859	100.00%	100.00%	95.45%
6/30/2014	12,949	34,430	79,795	121,918	100.00	100.00	93.41
6/30/2013 ⁴	13,384	26,779	75,037	107,616	100.00	100.00	89.89
6/30/2012	11,371	22,438	63,416	95,793	100.00	100.00	97.74
6/30/2011 ⁴	11,132	16,133	56,778	86,309	100.00	100.00	103.99
6/30/2010	10,611	11,832	54,004	73,401	100.00	100.00	94.36
6/30/2009	9,120	9,924	48,827	58,981	100.00	100.00	81.79
6/30/2008 ⁴	7,335	6,341	43,131	58,096	100.00	100.00	102.99
6/30/2007 ³	6,681	4,288	35,668	50,812	100.00	100.00	111.71
6/30/2006 ²	5,402	2,783	28,720	41,222	100.00	100.00	115.03

¹ Actuarial Value of Assets.

² Reflects contingent liabilities (Corbett pre-July 1, 2000 for the City only and 13th check for all plan sponsors), DRDP reserves, supplemental COLA reserves, and IRC section 415 limits.

³ The actuarial liability on June 30, 2007 and after is based on the entry age actuarial funding method. All prior years are based on the projected unit credit actuarial funding method.

⁴ Reflects revised actuarial and economic assumptions.

San Diego City Employees' Retirement System
Summary of June 30, 2015 Valuation Results (continued)

8. Analysis of Financial Experience

Gain and Loss in Accrued Liability

Resulting from Differences Between Assumed Experience and Actual Experience

Development of Gain/(Loss) SDCERS - City

Valuation Date	Investment Income	Combined Liability Experience	Financial Experience Gain (or Loss)	Non-Recurring Gain (or Loss) Items	Composite Gain (or Loss) During Year
6/30/2015	\$60,483,393	\$(25,677,899)	\$34,805,494	\$(92,819,181)	\$(58,013,687)
6/30/2014	154,272,465	(28,100,573)	126,171,892	3,079,669	129,251,561
6/30/2013	24,968,204	(40,640,350)	(15,672,146)	37,857,388	22,185,242
6/30/2012	(62,151,335)	(40,430,537)	(102,581,872)	(16,289,062)	(118,870,935)
6/30/2011	89,255,659	40,764,366	130,020,025	(177,193,785)	(47,173,759)
6/30/2010	(141,536,346)	70,506,309	(71,030,037)	90,933,819	19,903,782
6/30/2009	(811,380,431)	(7,525,648)	(818,906,079)	8,244,901	(810,661,178)
6/30/2008	(81,306,075)	31,375,539	(49,930,537)	(47,421,879)	(97,352,416)
6/30/2007	74,938,588	(39,748,777)	35,189,811	(225,348,741)	(190,158,930)

Development of Gain/(Loss) SDCERS - Port

Valuation Date	Investment Income	Combined Liability Experience	Financial Experience Gain (or Loss)	Non-Recurring Gain (or Loss) Items	Composite Gain (or Loss) During Year
6/30/2015	\$4,094,200	\$1,906,267	\$6,000,467	\$(5,654,814)	\$345,653
6/30/2014	9,630,889	(3,907,523)	5,723,366	(382,992)	5,340,374
6/30/2013	2,471,939	2,915,682	5,387,622	(10,117,448)	(4,729,826)
6/30/2012	(2,056,053)	(5,096,839)	(7,152,892)	(1,768,281)	(8,921,173)
6/30/2011	3,393,967	(3,782,326)	(388,359)	(18,830,773)	(19,219,132)
6/30/2010	(7,317,424)	(1,513,654)	(8,831,078)	62,510	(8,768,568)
6/30/2009	(42,227,122)	(2,379,929)	(44,607,050)	843,209	(43,763,842)
6/30/2008	(4,428,892)	2,429,387	(1,999,505)	(2,615,672)	(4,615,176)
6/30/2007	4,899,047	(1,904,568)	2,994,479	(3,322,298)	(327,819)

Development of Gain/(Loss) SDCERS - Airport

Valuation Date	Investment Income	Combined Liability Experience	Financial Experience Gain (or Loss)	Non-Recurring Gain (or Loss) Items	Composite Gain (or Loss) During Year
6/30/2015	\$899,235	\$1,823,632	\$2,722,867	\$(1,592,701)	\$1,130,166
6/30/2014	2,845,308	(1,223,934)	1,621,374	1,115,469	2,736,843
6/30/2013	316,719	(4,308,779)	(3,992,059)	(1,715,295)	(5,707,354)
6/30/2012	(1,291,682)	(510,059)	(1,801,741)	(2,175,243)	(3,976,984)
6/30/2011	2,117,232	2,691,583	4,808,814	(18,725)	4,790,090
6/30/2010	(1,903,032)	1,930,821	27,790	6,826,579	6,854,369
6/30/2009	(9,584,108)	(1,391,991)	(10,976,099)	1,083,115	(9,892,984)
6/30/2008	(1,350,066)	1,842,772	492,707	(1,944,924)	(1,452,217)
6/30/2007	909,618	266,769	1,176,387	(2,029,171)	(852,784)

San Diego City Employees' Retirement System Summary of June 30, 2015 Valuation Results (continued)

9. Schedules of Funding Progress (Dollars in Thousands) and Employer Contributions

The Required Supplementary Information in the Financial Section of the CAFR contains a 10-year schedule of employer contributions for each of the plan sponsors. The schedules of funding progress are shown below.

SDCERS - City

Valuation Date	AVA	Continuation Indicators				
		AL	UAL	Funded Ratio	Member Payroll ⁴	UAL Ratio to Member Payroll
6/30/2015 ³	\$6,204,244	\$8,205,953	\$2,001,709	75.6%	\$480,662	416.4%
6/30/2014	5,828,594	7,858,703	2,030,110	74.2	480,536	422.5
6/30/2013 ³	5,317,778	7,555,527	2,237,749	70.4	499,463	448.0
6/30/2012	4,982,442	7,261,731	2,279,289	68.6	511,091	446.0
6/30/2011 ³	4,739,399	6,917,175	2,177,776	68.5	514,265	423.5
6/30/2010	4,382,047	6,527,224	2,145,176	67.1	530,238	404.6
6/30/2009	4,175,229	6,281,636	2,106,407	66.5	536,591	392.6
6/30/2008 ³	4,660,346	5,963,549	1,303,203	78.1	535,774	243.2
6/30/2007 ²	4,413,411	5,597,653	1,184,242	78.8	512,440	231.1
6/30/2006 ¹	3,981,932	4,982,699	1,000,768	79.9	534,103	187.4

SDCERS - Port

Valuation Date	AVA	Continuation Indicators				
		AL	UAL	Funded Ratio	Member Payroll ⁴	UAL Ratio to Member Payroll
6/30/2015 ³	\$357,600	\$453,774	\$96,174	78.8%	\$33,512	287.0%
6/30/2014	333,229	433,272	100,043	76.9	33,273	300.7
6/30/2013 ³	302,322	410,026	107,705	73.7	34,528	311.9
6/30/2012	277,822	382,013	104,191	72.7	35,873	290.4
6/30/2011 ³	259,315	354,837	95,521	73.1	34,632	275.8
6/30/2010	233,788	310,467	76,679	75.3	39,165	195.8
6/30/2009	223,879	288,698	64,819	77.5	40,370	160.6
6/30/2008 ³	245,580	267,036	21,456	92.0	38,635	55.5
6/30/2007 ²	230,585	246,538	15,953	93.5	37,160	42.9
6/30/2006 ¹	203,286	220,637	17,351	92.1	33,927	51.1

SDCERS - Airport

Valuation Date	AVA	Continuation Indicators				
		AL	UAL	Funded Ratio	Member Payroll ⁴	UAL Ratio to Member Payroll
6/30/2015 ³	\$135,859	\$139,787	\$3,928	97.2%	\$29,189	13.5%
6/30/2014	121,918	127,174	5,256	95.9	27,955	18.8
6/30/2013 ³	107,616	115,200	7,584	93.4	26,380	28.7
6/30/2012	95,793	97,225	1,432	98.5	24,840	5.8
6/30/2011 ³	86,309	84,042	-2,266	102.7	25,148	-9.0
6/30/2010	73,401	76,447	3,047	96.0	25,596	11.9
6/30/2009	58,981	67,871	8,890	86.9	24,693	36.0
6/30/2008 ³	58,096	56,808	-1,288	102.3	23,488	-5.5
6/30/2007 ²	50,812	46,637	-4,176	109.0	21,957	-19.0
6/30/2006 ¹	41,222	36,905	-4,317	111.7	19,116	-22.6

¹ Reflects revised actuarial methodologies.

² Reflects revised actuarial methodologies, including the return to the most widely-accepted funding method, Entry Age Normal (EAN).

³ Reflects revised actuarial assumptions.

⁴ Beginning with FY 2012, reported payroll includes across the board increases for the upcoming fiscal year. Historical data for prior years does not include those increases.

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions
As of June 30, 2015

10. Summary of SDCERS' Benefit Provisions

The following pages illustrate the various benefit provisions for the City's, Port's and Airport's SDCERS participants. For a complete description of these benefits, please see Member Publications on the SDCERS website at www.sdcers.org.

City

1. Membership Requirements

Membership is mandatory from the first day of employment with the City for all full, three-quarter, and half-time salaried, classified and unclassified employees initially hired before July 20, 2012. (§24.0104)

Membership is mandatory from the first day of employment for Police Recruits hired between July 1, 1991 and June 30, 2013. (§24.0104)

Membership is mandatory for all sworn police officers (§24.0104)

Membership is permissive for Elected Officers who initially assume or are initially hired office prior to July 20, 2012. (§24.1702)

2. Final Compensation for Calculation of Benefits

Highest one year period for General Members hired before July 1, 2009 and Elected Members regardless of hire date; Police Safety Members on active City payroll before January 1, 2012; Lifeguard Safety Members on active City payroll before July 1, 2011; and Fire Safety Members on active payroll before January 1, 2012. (§24.0103)

The average of the three highest years at any time during membership for General Members hired after June 30, 2009, Police Safety Members hired after December 31, 2011 but before July 1, 2013; Lifeguard Safety Members hired after June 30, 2011; and Fire Safety Members hired after December 31, 2011. (§24.0103)

Highest consecutive 36 months for Police Safety Members hired after June 30, 2013. (§24.0103)

3. Service Retirement Eligibility

General Members - Age 62 with 10 years of service credit, or age 55 with 20 years of service credit. (City Charter §141)

Safety Members (includes Fire, Lifeguard & Police) - Age 55 with 10 years of service credit, or age 50 with 20 years of service credit. (City Charter §141)

Elected Officers - Age 55 with 4 years of service. Eligible to retire at any age with 8 years of service, however, benefit is reduced by 2% per year and for each full and fractional year under age 55. (§24.1704)

Port

Membership is mandatory upon first day of employment for all full-time Port employees. (§0103)

Highest one-year period, for General Members hired before October 1, 2006, and Safety Members hired before January 1, 2010. (§0102)

Highest three-year period, for General Members hired on or after October 1, 2006 and Miscellaneous Members. (§0102)

Final three year period for Safety Members hired on or after January 1, 2010. (§0102)

Highest consecutive 36 months for Safety Members hired on or after January 1, 2013. (Gov. Code §7522.32)

General Members - Age 62 with 5 years of service credit, or age 55 with 20 years of service credit. (§0300)

Miscellaneous Members – Age 62 with 5 years of service credit, or age 55 with 20 years of service credit. (§0301)

Safety Members hired before January 1, 2010 - Age 55 with 5 years of service credit, or age 50 with 20 years of service credit. (§0302)

Safety Members hired on or after January 1, 2010- Age 55 with 5 years of service credit, or any age with 30 years of service credit. (§0302)

Safety Members hired on or after January 1, 2013 - Age 50 with 5 or more years of service credit. (Gov. Code §7522.25)

Airport

Membership is mandatory upon first day of employment for all full-time Airport employees. (§0103)

Highest one-year period for General Members hired before January 1, 2013. (§0102)

Highest 36 consecutive months for General Members hired on or after January 1, 2013. (§0102)

General Members hired before January 1, 2013 – Age 62 with 5 years of service credit or age 55 with 20 years of service credit. (§0300)

General Members hired on or after January 1, 2013 – Age 52 with 5 years of service credit. (§0300)

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2015

City

**Benefit Formula Per
Year of Service**

General Members

General Members who joined the System before July 1, 2002 - Choice of: (1) 2.0% per year of service at age 55, increasing to 2.55% at age 65, with an additional 10% added to Final Compensation; (2) 2.25% per year of service at age 55, increasing to 2.55% at age 65; or, (3) 2.5% per year of service at age 55, increasing to 2.8% at age 65, not to exceed 90% of Final Compensation. (§24.0402)

General Members who joined the System on or after July 1, 2002 and prior to July 1, 2009 - 2.5% per year of service at age 55, increasing to 2.8% per year of service at age 65, not to exceed 90% of Final Compensation. (§24.0402)

For General Members hired on or after July 1, 2009, 1.0% per year of service at age 55, increasing to 2.6% at age 65, not to exceed 80% of Final Compensation. (§24.0402.0001)

Safety Members

(City - Fire, Police & Lifeguard,
Port - Harbor Police)

Police Safety Members hired before July 1, 2009 - Choice of: (1) 2.5% per year of service at age 50, increasing to 2.99% at age 55, with an additional 10% added to Final Compensation, not to exceed 90% of Final Compensation; or, (2) 3.0% per year of service at age 50 and above, not to exceed 90% of Final Compensation. (§24.0403)

Fire Safety Members hired before January 1, 2012 - Choice of: (1) 2.5% per year of service at age 50, increasing to 2.99% at age 55, with an additional 10% added to Final Compensation, not to exceed 90% of Final Compensation or (2) 3.0% per year of service at age 50 and above, not to exceed 90% of Final Compensation. (§24.0403)

Lifeguard Safety Members hired before July 1, 2011 - Choice of: (1) 2.2% per year of service at age 50, increasing to 2.77% at age 55, with an additional 10% added to Final Compensation, not to exceed 90% of Final Compensation or (2) 3.0% per year of service at age 50 and above, not to exceed 90% of Final Compensation. (§24.0403)

Police Safety Members hired on or after July 1, 2009, Fire Safety Members hired on or after January 1, 2012, and Lifeguard Safety Members hired on or after July 1, 2011 - 2.5% at age 50, increasing to 3.0% at age 55, not to exceed 90% of Final Compensation. (§24.0403.0001, §24.0403.0002 and §24.0403.0003)

Police Safety Members hired on or after July 1, 2013 - 2.5% at age 50, increasing to 3.0% at age 55, not to exceed 80% of Final Compensation when retiring at age 55. A 3% annual reduction factor applies to benefits when retiring prior to age 55. (§24.0405.0002 and City Charter §141.1)

Elected Officers

3.5% per year of service. (§24.1705) A 2% reduction factor applies for each year or fractional year for Elected Officers retiring prior to age 55. (§24.1704)

Port

For General Members hired before November 10, 2001 - Choice of (1) 2.0% per year of service at age 55, increasing to 2.55% at age 65, with an additional 10% added to final compensation; (2) 2.25% per year of service at age 55, increasing to 2.55% at age 65; or (3) 2.5% per year of service at age 55, increasing to 3.0% at age 65, not to exceed 90% of final compensation. (§ 0300)

General Members hired on or after November 10, 2001 - 2.5% per year of service at age 55, increasing to 3.0% at age 65, not to exceed 90% of final Average Compensation. (§ 0300)

Miscellaneous Members hired on or after January 1, 2009 - (a) 0.75% per year of service for the first through fifth years of service credit; (b) 1% per year of service for the sixth through tenth years of service credit; (c) 1.25% per year of service for the eleventh through fifteenth years of service credit; and (d) 1.5% per year for each additional year of service beginning with the member's sixteenth year of service credit. (§0301)

Executive Members who take office before January 1, 2013 - 3% per year of service at age 55. (§0300)

Executive Members who take office on or after January 1, 2013 - a blended benefit based on their two categories of service. (§0300)

Airport

Andrecht-Covered Members (§0102) - Choice of: (1) 2.0% per year of service at age 55, increasing to 2.55% at age 65, with an additional 10% added to Final Compensation; (2) 2.25% per year of service at age 55, increasing to 2.55% at age 65; or (3) 2.5% per year of service at age 55, increasing to 3.0% at age 65, not to exceed 90% of Final Compensation. (§0300)

Non- Andrecht-Covered Members (§0102) - 2.5% per year of service at age 55, increasing to 3.0% at age 65, not to exceed 90% of Final Compensation. (§0300)

General Members hired on or after January 1, 2013 - 1% per year of service at age 52, increasing to 2.5% at age 67, not to exceed 90% of Final Compensation. (§0300)

Executive Members who enter into that membership category before January 1, 2013 - 3% per year of service at age 55. (§0300)

Executive Members who enter into that membership category - a blended benefit based on their two categories of service. (§0300)

Safety Members hired before January 1, 2010 - Choice of (1) 2.5% per year of service at age 50, increasing to 2.7% at age 55, with 10% increase in final compensation or (2) 3.0% per year of service at age 50 not to exceed 90% of final compensation. (§0302)

N/A

Safety Members hired on or after January 1, 2010 - 3% per year of service at age 50, not to exceed 90% of final compensation. (§0300)

Safety Members hired on or after January 1, 2013 - 2% per year of service at age 50, increasing to 2.7% at age 57, not to exceed 90% of final compensation. (Gov. Code §7522.25)

N/A

N/A

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
 As of June 30, 2015

City

Choice of:

Retirement Payment Options

Maximum Benefit - Provides the maximum monthly allowance to the member for their lifetime and guarantees their eligible surviving spouse or registered domestic partner, who has been designated as a beneficiary, a 50% automatic continuance after the member dies for the rest of his or her life. If unmarried, the member may choose to receive a lump sum refund of surviving spouse contributions and interest or treat them as voluntary additional contributions to provide a larger annuity benefit for the member. (§24.0402, §24.0402.0001 and §24.0403)

Option 1 - Receive a reduced monthly retirement allowance until the member's death. If the member dies before they receive the total amount of their accumulated contributions, SDCERS will pay the balance to their beneficiary or estate. If the member dies after their annuity payments exceed their accumulated contributions, no payments will be made to the member's beneficiary or estate. (§24.0603)

Option 2 - Receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance equal to 100% of the member's reduced monthly retirement allowance for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary. (§24.0605)

Option 3 - Receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance equal to 50% of the member's reduced monthly benefit for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary. (§24.0606)

Option 4 - Receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance based on a percentage of the member's reduced monthly benefit in an amount selected by the member, for the rest of his or her life. The higher the percentage to the beneficiary and the greater the age difference between the member and their beneficiary, the greater the reduction in the member's monthly retirement allowance. (§24.0607)

Social Security Integrated Option - The member may select this option in addition to one of the other five payment choices only if the member is eligible to receive a Social Security benefit. The member would receive an initial increased monthly allowance from SDCERS based on their estimated Social Security benefit. When the member turns 65, SDCERS will then reduce their monthly retirement allowance for the remainder of their life. This modified allowance may be further modified on an actuarial basis under Options 1, 2, 3, or 4. (§24.0608)

Port

Airport

Choice of:

Maximum Benefit - Provides the maximum monthly allowance to the member for their lifetime and guarantees their eligible surviving spouse or registered domestic partner who is designated as a beneficiary a 50% automatic continuance after the member dies for the rest of his or her life. If unmarried, the member may choose to receive a lump sum refund of surviving spouse contributions and interest or treat them as voluntary additional contributions to provide a larger annuity benefit for the member. (§0300, §0301, §0302)

Maximum Benefit - Provides the maximum monthly allowance to the member for their lifetime and guarantees their eligible surviving spouse or registered domestic partner who is designated as a beneficiary a 50% automatic continuance after the member dies for the rest of his or her life. If unmarried, the member may choose to receive a lump sum refund of surviving spouse contributions and interest or treat them as voluntary additional contributions to provide a larger annuity benefit for the member. (§0300)

Option 1 - Receive a reduced monthly retirement allowance until the member's death. If the member dies before they receive the total amount of their accumulated contributions, SDCERS will pay the balance to their beneficiary or estate. If the member dies after their annuity payments exceed their accumulated contributions, no payments will be made to the member's beneficiary or estate. (§0602)

Option 1 - Receive a reduced monthly retirement allowance until the member's death. If the member dies before they receive the total amount of their accumulated contributions, SDCERS will pay the balance to their beneficiary or estate. If the member dies after their annuity payments exceed their accumulated contributions, no payments will be made to the member's beneficiary or estate. (§0602)

Option 2 - Receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance equal to 100% of the member's reduced monthly retirement allowance for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary. (§0604)

Option 2 - Receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance equal to 100% of the member's reduced monthly retirement allowance for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary. (§0604)

Option 3 - Receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance equal to 50% of the member's reduced monthly benefit for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary. (§0605)

Option 3 - Receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance equal to 50% of the member's reduced monthly benefit for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary. (§0605)

Option 4 - Receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance based on a percentage of the member's reduced monthly benefit in an amount selected by the member, for the rest of his or her life. The higher the percentage to the beneficiary and the greater the age difference between the member and their beneficiary, the greater the reduction in the member's monthly retirement allowance. (§0606)

Option 4 - Receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance based on a percentage of the member's reduced monthly benefit in an amount selected by the member, for the rest of his or her life. The higher the percentage to the beneficiary and the greater the age difference between the member and their beneficiary, the greater the reduction in the member's monthly retirement allowance. (§0606)

Social Security Integrated Option - N/A

Social Security Integrated Option - The member may select this option in addition to one of the other five payment choices only if the member is eligible to receive a Social Security benefit. The member would receive an initial increased monthly allowance from SDCERS based on their estimated Social Security benefit. When the member turns 65, SDCERS will then reduce their monthly retirement allowance for the remainder of their life. This modified allowance may be further modified on an actuarial basis under Options 1, 2, 3, or 4. (§0607)

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2015

	City
4. Non-Industrial Disability Eligibility	Ten years of service credit. (City Charter §141)
Benefit Formula Per Year of Service	<p>General Members - Greater of: (1) 1.5% per year of service multiplied by final compensation; (2) one-third of final compensation; or, (3) the earned service retirement benefit, if eligible. (§24.0502, 24.0506)</p> <p>Safety Members - Greater of: (1) 1.8% per year of service multiplied by final compensation; (2) one-third of final compensation; or, (3) the earned service retirement benefit, if eligible. (§24.0502, 24.0504)</p> <p>Elected Officers - Earned service retirement benefit. (§24.1706)</p>
5. Industrial Disability Eligibility	No age or service requirement. (§24.0501)
Benefit Formula Per Year of Service	<p>General Members - Greater of: (1) 1.5% per year of service multiplied by final compensation; (2) one-third of final compensation; or, (3) the earned service retirement benefit, if eligible. (§24.0502, 24.0506)</p> <p>Safety Members - Greater of: (1) 1.8% per year of service multiplied by final compensation; (2) one-third of final compensation; or, (3) the earned service retirement benefit, if eligible. (§24.0502, 24.0504)</p> <p>Elected Officers - Earned service retirement benefit. (§24.1706)</p>
6. Non-Industrial Death Before Eligible to Retire	Refund of employee contributions with interest plus one-twelfth of the Member's final compensation multiplied by the Member's years of Creditable Service, not to exceed one-half of the Member's final compensation. (§24.0702)
7. Non-Industrial Death After Eligible to Retire for Service	50% of the monthly allowance the Member would have received if the Member had retired on the day they died payable to the eligible surviving spouse or domestic partner designated as a beneficiary, or dependent child(ren) under 18 years of age. (§24.0704)
8. Industrial Death	50% of the final compensation preceding death, payable to eligible surviving spouse or registered domestic partner designated as a beneficiary, or child(ren) under 18 years of age. (§24.0705)
9. Death After Retirement	\$2,000 payable in lump sum to the beneficiary or to the next of kin of the retiree. If none of the above, SDCERS can pay towards funeral expenses. (§24.0706, §24.0707, §24.0710)

Port	Airport
Ten years of service credit. (§0504)	Ten years of service credit. (§0502)
<p>General Members hired before January 1, 2009 - Greater of (1) 1.5% per year of service multiplied by final compensation; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible. (§0506)</p> <p>Miscellaneous Members hired on or after January 1, 2009 - Greater of (1) 0.1875% per year of service multiplied by final compensation; (2) 11% of final compensation; or (3) earned service retirement benefit. (§0507)</p> <p>Safety Members - Greater of (1) 1.8% per year of service multiplied by final compensation; (2) one-third of final compensation; or (3) the earned service retirement benefit. (§0505)</p>	Choice of: (1) 1.5% per year of service multiplied by final compensation; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible. (§0503)
No age or service requirement for General or Safety Members. Miscellaneous Members must have 5 years of Port employment to be eligible for an industrial disability benefit. (§0500)	No age or service requirement. (§0500)
<p>General Members hired before January 1, 2009, greater of one-third of final compensation or the earned service retirement benefit, if eligible. (§0502)</p> <p>Miscellaneous Members hired on or after January 1, 2009, the greater of 11% of final compensation or earned service retirement benefit, if eligible. (§0503)</p> <p>Safety Members greater of one-half of final compensation or the earned service retirement benefit. (§0501)</p>	Greater of one-third of final compensation or the earned service retirement benefit, if eligible. (§0501)
Refund of employee contributions with interest plus one-twelfth of Member's final compensation multiplied by the years of service credit not to exceed one-half of the Member's final compensation. (§0701)	Refund of employee contributions with interest plus one-twelfth of Member's final compensation multiplied by the years of service credit not to exceed one-half of the Member's final compensation. (§0701)
50% of the monthly allowance the member would have received if the Member had retired on the day they died payable to eligible surviving spouse or registered domestic partner designated as a beneficiary, or dependent child(ren) under 21 years of age. (§0703)	50% of the monthly allowance the member would have received if the Member had retired on the day they died payable to eligible surviving spouse or registered domestic partner designated as a beneficiary, or dependent child(ren) under 21 years of age. (§0703)
50% of the final compensation preceding death, payable to eligible surviving spouse or registered domestic partner designated as a beneficiary, or dependent child(ren) under 21 years of age. General Members hired on or after January 1, 2009 must have 5 years of Port employment to be eligible for an industrial death benefit. (§0704)	50% of the final compensation preceding death, payable to eligible surviving spouse or registered domestic partner designated as a beneficiary, or dependent child(ren) under 21 years of age. (§0704)
\$2,000 payable in lump sum to the beneficiary or to the next of kin of the retiree. If none of the above, SDCERS can pay towards funeral expenses. (§0705, §0706, §0708)	\$2,000 payable in lump sum to the beneficiary or to the next of kin of the retiree. If none of the above, SDCERS can pay towards funeral expenses. (§0705, §0706, §0708)

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2015

City

10. Withdrawal Provisions	If a Member's employment is discontinued other than by death or retirement the Board will pay the Member, upon request, their accumulated contributions, including interest compounded annually. (§24.0206, §24.0306)
11. Post-Retirement Cost-of-Living Adjustment	Based on changes in Consumer Price Index, increases a maximum of 2% per year and decreases limited to the initial retirement allowance. (§24.1505)
12. COL Annuity	Actuarial equivalent of accumulated contributions in cost of living annuity account at time of retirement. (§24.1507)
13. Member Contributions	Based on the Member's age at the Member's nearest birthday on the effective day of membership. (§24.0201, §24.0301)
14. Internal Revenue Code Compliance	The Plan complies with applicable sections of the Internal Revenue Code Provisions (§24.1004)
15. Blended Benefit with Participating Agencies	Members may retire and receive benefits from multiple Plans (e.g. – a City police officer could have also worked for the Port or Airport). (§24.0103, Port and Airport Plans §0400)

Port	Airport
<p>If a Member's employment is discontinued other than by death or retirement the Board will pay the Member, upon request, their accumulated contributions, including interest compounded annually. (§0205)</p>	<p>If a Member's employment is discontinued other than by death or retirement the Board will pay the Member, upon request, their accumulated contributions, including interest compounded annually. (§0205)</p>
<p>Based on changes in Consumer Price Index, increases a maximum of 2% per year and decreases limited to the initial retirement allowance. (§1301)</p>	<p>Based on changes in Consumer Price Index, increases a maximum of 2% per year and decreases limited to the initial retirement allowance. (§1301)</p>
<p>Actuarial equivalent of accumulated contributions in cost of living annuity account at time of retirement. (§0300)</p>	<p>Actuarial equivalent of accumulated contributions in cost of living annuity account at time of retirement. (§0300)</p>
<p>Based on the Member's age at the Member's nearest birthday on the effective day of membership. (§0200).</p>	<p>Based on the Member's age at the Member's nearest birthday on the effective day of membership. (§0200).</p>
<p>The Plan complies with applicable sections of the Internal Revenue Code Provisions. (§1000)</p>	<p>The Plan complies with applicable sections of the Internal Revenue Code Provisions. (§1000)</p>
<p>Members may retire and receive benefits from multiple Plans (e.g., a Port member could have also worked for the Airport or the City). (Port and Airport Plans §0400 City §24.0103)</p>	<p>Members may retire and receive benefits from multiple Plans (e.g. – an Airport member could have also worked for the Port or the City). (Port and Airport Plans §0400, City §24.0103)</p>

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2015

Deferred Retirement Option Plan (DROP)

The Deferred Retirement Option Plan (DROP) is a voluntary program created by SDCERS' plan sponsors (employers) to provide SDCERS' members (employees) with an alternative method to accrue benefits in SDCERS. (City – Article 4, Division 14; Port and Airport Division 12)

The DROP benefit was eliminated and is no longer available for City employees hired on or after July 1, 2005 (§24.1402), for Port employees hired on or after October 1, 2005, and for Airport employees hired on or after October 3, 2006.

For actuarial valuation purposes, SDCERS' members entering DROP are considered "retired" the date they enter DROP. An SDCERS' member's decision to enter DROP is irrevocable. If an SDCERS member participates in DROP, they will have access to a lump sum benefit in addition to their normal monthly retirement allowance when they retire. DROP was initially offered by SDCERS' plan sponsors on a trial basis for a three-year period ending March 31, 2000. It has since become a permanent retirement option for eligible members. SDCERS' members are eligible to participate in DROP when they are eligible for a service retirement. A DROP participant continues to work for his/her respective plan sponsor and receives a regular paycheck. Both the plan sponsor and the DROP Participant cease making normal cost retirement contributions to SDCERS, and the DROP participant stops earning creditable service. A DROP participant continues to receive most of the employer-offered benefits available to regular employees.

An SDCERS member must select a retirement option when they enter DROP. If the DROP participant elects to leave a continuance to a beneficiary, the DROP participant must name a beneficiary at that time as well. The selection of a retirement option and the designation of a beneficiary for a continuance are irrevocable and cannot be changed once the first payment is made into a DROP account.

SDCERS members electing to enter DROP must agree to participate in the program for a specific period of time, up to a maximum of 5 years; this specific time period cannot be modified once agreed to. A DROP participant must end employment with their plan sponsor on or before the end of the selected DROP participation period.

When an SDCERS member participates in DROP, a DROP account is set up for that individual, the money credited to a DROP account comes from six sources:

1. A DROP participant's DROP contributions – 3.05% of salary each pay period of participation in DROP (no employee contributions are made to SDCERS during this time);
2. The plan sponsor's DROP contributions – 3.05% of salary each pay period of participation in DROP (no employer contributions are made to SDCERS during this time);
3. The DROP participant's monthly retirement allowance, as determined when entering DROP;
4. The COLA (cost of living adjustment) increases to a monthly retirement allowance that occurs while participating in DROP;
5. SDCERS' Supplemental Benefit (13th Check) payments made while participating in DROP; and
6. Interest credited to the DROP account each quarter, at the rate determined by SDCERS' Board.

The DROP benefit is the value of a DROP participant's account at the end of the DROP participation period. It is available either in a lump sum or periodic distribution. Once a participant leaves DROP, they begin receiving their monthly retirement allowance directly.

SDCERS will distribute the funds in a participant's DROP account when they leave employment and begin retirement. The distribution can be made as a single lump sum, periodic payments in 240 equal monthly payments, or as otherwise allowed by SDCERS' Board, subject to the applicable provisions of the Internal Revenue Code.

STATISTICAL

5

Statistical Section

This section provides additional historical perspective, context and detail in order to provide a more comprehensive understanding of this year's financial statements, note disclosures and supplementary information. This section also provides multi-year trends of financial and operating information to facilitate comprehensive understanding of how SDCERS' financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for SDCERS' net position, additions, deductions and different types of retirement benefits. The financial and operating trend information is located on the following pages.

San Diego City Employees' Retirement System

Changes in Plan Net Position

For the Years Ended June 30

10-Year Review (Dollars in Thousands)

Fiscal Year	Additions	Deductions	Net Change	Net Position	
				Beginning of Year	End of Year
2016	\$413,701	\$490,822	(\$77,121)	\$6,885,023	\$6,807,902
2015	576,144	463,213	112,931	6,772,092	6,885,023
2014	1,376,963	418,184	958,779	5,813,313 ²	6,772,092
2013	1,037,021	425,147	611,874	4,710,508	5,322,382
2012	345,778	405,070	(59,292)	4,769,800	4,710,508
2011	1,395,848	412,008	983,840	3,785,960	4,769,800
2010	772,019	340,375	431,644	3,354,316	3,785,960
2009	(707,507)	323,024	(1,030,531)	4,384,847	3,354,316
2008	(166)	296,707	(296,873)	4,681,720	4,384,847
2007	945,919	278,023	667,896	4,013,825	4,681,720

San Diego City Employees' Retirement System Changes in Plan Net Position by Plan Sponsor¹

For the Years Ended June 30 (Dollars in Thousands)

City	Fiscal Year	Additions	Deductions	Net Change	Net Position	
					Beginning of Year	End of Year
City	2016	\$383,075	\$463,682	(\$80,607)	\$6,376,713	\$6,296,106
	2015	534,756	437,931	96,825	6,279,888	6,376,713
	2014	1,280,177	395,447	884,730	5,395,158 ²	6,279,888
	2013	961,806	403,486	558,320	4,359,360	4,917,680
	2012	319,813	384,844	(65,031)	4,424,391	4,359,360
	2011	1,300,294	394,441	905,853	3,518,538	4,424,391
	2010	718,158	325,750	392,408	3,126,130	3,518,538
	2009	(667,706)	309,584	(977,290)	4,103,420	3,126,130
	2008	(1,560)	284,166	(285,726)	4,389,146	4,103,420
Port	2016	\$21,960	\$23,798	(\$1,838)	\$369,794	\$367,956
	2015	30,260	22,467	7,793	362,001	369,794
	2014	71,793	19,491	52,302	309,699 ²	362,001
	2013	56,670	19,272	37,398	260,865	298,263
	2012	19,382	18,067	1,315	259,550	260,865
	2011	71,709	15,650	56,059	203,491	259,550
	2010	37,282	13,355	23,927	179,564	203,491
	2009	(35,155)	12,419	(47,574)	227,138	179,564
	2008	(772)	11,558	(12,330)	239,468	227,138
Airport	2016	\$8,666	\$3,342	\$5,324	\$138,516	\$143,840
	2015	11,128	2,815	8,313	130,203	138,516
	2014	24,993	3,246	21,747	108,456 ²	130,203
	2013	18,545	2,389	16,156	90,283	106,439
	2012	6,583	2,159	4,424	85,859	90,283
	2011	23,845	1,917	21,928	63,931	85,859
	2010	16,579	1,270	15,309	48,622	63,931
	2009	(4,646)	1,021	(5,667)	54,289	48,622
	2008	2,166	983	1,183	53,106	54,289

¹ In March 2007, the Board adopted a Declaration of Group Trust, effective July 1, 2007. Under the Group Trust, the City, Port and Airport plans are legally treated as separate plans. Prior to July 1, 2007, the SDCERS plan was a multiple-employer plan and changes in net assets were not captured for each individual plan sponsor.

² In FY 2014, SDCERS' DROP benefits were accounted for under the requirements of GASB 67, which resulted in an adjustment to beginning Net Position. Beginning Net Position for the City, Port and Airport was increased by \$477,478, \$11,436, and \$2,017, respectively.

San Diego City Employees' Retirement System
Additions to Plan Net Position by Source
For Fiscal Years Ended June 30
(Dollars in Thousands)

	Fiscal Year	Plan Sponsor Contributions	Member Contributions Paid By Plan Sponsors	Member Contributions	Member Contributions for Service Purchased	Earned Interest on PSC Installment Contracts ¹	Drop Contributions ²	Net Investment Income	Other Income	Total Additions
Dollars	2016	\$275,343	\$4,090	\$53,118	\$5,928	\$148	\$5,407	\$68,532	\$1,135	\$413,701
% of Total		66.6%	1.0%	12.8%	1.4%	0.0%	1.3%	16.6%	0.3%	100.0%
Dollars	2015	283,804	4,242	54,705	3,956	200	5,130	222,622	1,485	576,144
% of Total		49.3	0.7	9.5	0.7	0.0	0.9	38.6	0.3	100.0
Dollars	2014	294,888	4,484	60,101	5,149	264	5,066	1,006,232	779	1,376,963
% of Total		21.4	0.3	4.4	0.4	0.0	0.4	73.1	0.0	100.0
Dollars	2013	246,943	5,364	61,539	7,374	323	-	714,594	884	1,037,021
% of Total		23.9	0.5	5.9	0.7	0.0	-	68.9	0.1	100.0
Dollars	2012	247,600	5,444	62,759	(2,428)	315	-	31,228	860	345,778
% of Total		71.6	1.6	18.2	-0.7	0.1	-	9.0	0.2	100.0
Dollars	2011	245,098	11,247	58,094	40,935	623	-	1,039,545	306	1,395,848
% of Total		17.6	0.8	4.2	2.9	0.0	-	74.5	0.0	100.0
Dollars	2010	207,334	12,313	56,340	3,936	758	-	491,045	293	772,019
% of Total		26.9	1.6	7.3	0.5	0.1	-	63.6	0.0	100.0
Dollars	2009	172,850	25,284	45,362	4,167	927	-	(956,422)	325	(707,507)
% of Total		24.4	3.6	6.4	0.6	0.1	-	-135.1	0.0	100.0
Dollars	2008	175,001	20,217	47,287	7,262	1,022	-	(251,290)	335	(166)
% of Total		105,422.3	12,178.9	28,486.1	4,374.7	615.7	-	-151,379.5	201.8	100.0
Dollars	2007	181,388	22,729	43,928	6,043	1,352	-	689,860	619	945,919
% of Total		19.2	2.4	4.6	0.7	0.1	-	72.9	0.1	100.0

¹ Earned Interest on PSC Installment Contracts was presented separately in the Statement of Changes in Plan Net Position to conform with generally accepted accounting principles. In prior years, Earned Interest on PSC Installment Contracts was included in Member (Employee) Contributions for Purchased Service in the Statement of Changes in Plan Net Position.

² In FY 2014, SDCERS implemented GASB 67 which required the DROP benefit to be accounted for as a component of Net Position with recognition of DROP contributions, interest and payments in the Statement of Plan Net Position. Prior to July 1, 2013, the DROP benefit was accounted for as a liability with DROP contributions, interest and payments included as changes to the DROP liability.

**San Diego City Employees' Retirement System
Deductions from Plan Net Position by Type
For Fiscal Years Ended June 30**

(Dollars in Thousands)

	Fiscal Year	Retirement, Death and Disability Benefits	Drop Payments ¹	Administrative Expenses	DROP Program Interest Expense	Refund of Member Contributions	Total Deductions
Dollars	2016	\$391,800	\$57,468	\$11,907	\$23,168	\$6,479	\$490,822
% of Total		79.9%	11.7%	2.4%	4.7%	1.3%	100.0%
Dollars	2015	368,451	57,304	9,716	23,017	4,725	463,213
% of Total		79.5	12.4	2.1	5.0	1.0	100.0
Dollars	2014	341,321	40,147	11,528	22,446	2,742	418,184
% of Total		81.6	9.6	2.8	5.4	0.6	100.0
Dollars	2013	382,060		12,979	26,044	4,064	425,147
% of Total		89.9		3.0	6.1	1.0	100.0
Dollars	2012	361,018		11,839	26,867	5,346	405,070
% of Total		89.1		2.9	6.7	1.3	100.0
Dollars	2011	336,460		14,600	24,878	35,119	411,057
% of Total		81.8		3.6	6.1	8.5	100.0
Dollars	2010	296,554		14,968	25,375	3,478	340,375
% of Total		87.1		4.4	7.5	1.0	100.0
Dollars	2009	277,131		14,726	27,098	4,069	323,024
% of Total		85.8		4.5	8.4	1.3	100.0
Dollars	2008	254,014		15,776	23,050	3,867	296,707
% of Total		85.6		5.3	7.8	1.3	100.0
Dollars	2007	235,263		19,103	20,263	3,394	278,023
% of Total		84.6		6.9	7.3	1.2	100.0

¹ In FY 2014, SDCERS implemented GASB 67 which required the DROP benefit to be accounted for as a component of Net Position with recognition of DROP contributions, interest and payments in the Statement of Plan Net Position. Prior to July 1, 2013, the DROP benefit was accounted for as a liability with DROP contributions, interest and payments included as changes to the liability.

San Diego City Employees' Retirement System
Allowances Being Paid - Service and Disability Retirees and Beneficiaries
As of Years Ended June 30

		City					
	As of Fiscal Year ¹	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement ²	Total Deaths After Retirement	Total Allowances Being Paid	
No. of Allowances	2015	6,648	1,190	32	1,233	9,103	
Annual Allowances		\$355,083,956	\$40,946,485	\$951,605	\$22,227,614	\$419,209,660	
No. of Allowances	2014	6,414	1,197	24	1,187	8,822	
Annual Allowances		337,838,017	39,993,657	696,390	20,075,043	398,603,107	
No. of Allowances	2013	6,042	1,212	25	1,175	8,454	
Annual Allowances		312,528,881	39,597,716	711,764	18,789,983	371,628,344	
No. of Allowances	2012	5,796	1,221	25	1,163	8,205	
Annual Allowances		293,127,220	38,696,914	702,400	17,637,434	350,163,968	
No. of Allowances	2011	5,480	1,236	26	1,160	7,902	
Annual Allowances		271,206,018	38,033,989	715,740	16,793,152	326,748,899	
No. of Allowances	2010	5,189	1,241	27	1,124	7,581	
Annual Allowances		249,905,055	37,142,983	702,943	15,706,635	303,457,616	
No. of Allowances	2009	4,975	1,257	27	1,110	7,369	
Annual Allowances		231,698,837	36,337,577	688,948	14,861,201	283,586,563	
No. of Allowances	2008	4,597	1,244	28	1,071	6,940	
Annual Allowances		205,288,070	34,628,149	617,394	13,360,775	253,894,388	
No. of Allowances	2007	4,354	1,245	28	1,052	6,679	
Annual Allowances		187,827,705	33,422,130	605,485	12,306,821	234,162,141	
No. of Allowances	2006	4,118	1,237	29	1,017	6,401	
Annual Allowances		170,186,825	31,992,059	594,020	10,974,416	213,747,320	

¹ Data for all years is final data from the respective June 30 valuations.

² Total Deaths Before Retirement represents one-time payments to members' beneficiaries and refund of members' contributions, plus interest.

San Diego City Employees' Retirement System
Allowances Being Paid - Service and Disability Retirees and Beneficiaries (continued)
As of Years Ended June 30

	As of Fiscal Year ¹	Total Service Retirements	Port Total Disability Retirements	Total Deaths Before Retirement ²	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	2015	392	62	1	81	536
Annual Allowances		\$19,572,584	\$1,686,471	\$7,134	\$1,476,855	\$22,743,044
No. of Allowances	2014	375	64	-	79	518
Annual Allowances		17,991,965	1,616,266	-	1,425,272	21,033,503
No. of Allowances	2013	346	64	-	75	485
Annual Allowances		15,717,792	1,592,871	-	1,360,274	18,670,937
No. of Allowances	2012	342	64	-	69	475
Annual Allowances		15,235,817	1,561,905	-	1,050,207	17,847,929
No. of Allowances	2011	336	63	-	65	464
Annual Allowances		14,482,254	1,362,780	-	978,917	16,823,951
No. of Allowances	2010	282	62	1	57	402
Annual Allowances		10,778,285	1,276,645	11,601	843,646	12,910,177
No. of Allowances	2009	268	63	1	59	391
Annual Allowances		9,744,449	1,279,376	11,387	832,758	11,867,970
No. of Allowances	2008	246	60	1	54	361
Annual Allowances		8,693,247	1,184,093	11,177	689,165	10,577,682
No. of Allowances	2007	233	61	1	54	349
Annual Allowances		7,910,275	1,175,107	10,970	689,993	9,786,345
No. of Allowances	2006	211	62	1	51	325
Annual Allowances		6,949,595	1,175,661	10,106	595,775	8,731,137

¹ Data for all years is final data from the respective June 30 valuations.

² Total Deaths Before Retirement represents one-time payments to members' beneficiaries and refund of members' contributions, plus interest.

San Diego City Employees' Retirement System
Allowances Being Paid - Service and Disability Retirees and Beneficiaries (continued)
As of Years Ended June 30

			Airport			
	As of Fiscal Year ¹	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement ²	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	2015	68	2	2	4	76
Annual Allowances		\$2,913,320	\$35,926	\$25,785	\$72,300	\$3,047,331
No. of Allowances	2014	59	2	2	4	67
Annual Allowances		2,536,340	35,427	25,784	71,250	2,668,801
No. of Allowances	2013	45	2	-	4	51
Annual Allowances		1,909,883	34,380	-	69,636	2,013,899
No. of Allowances	2012	41	1	-	4	46
Annual Allowances		1,633,186	14,916	-	68,282	1,716,384
No. of Allowances	2011	33	1	-	4	38
Annual Allowances		1,178,216	14,630	-	66,783	1,259,629
No. of Allowances	2010	23	1	-	2	26
Annual Allowances		875,275	14,349	-	39,726	929,350
No. of Allowances	2009	20	1	-	1	22
Annual Allowances		745,037	14,074	-	22,924	782,035
No. of Allowances	2008	16	-	-	1	17
Annual Allowances		457,761	-	-	22,478	480,239
No. of Allowances	2007	11	-	-	1	12
Annual Allowances		305,519	-	-	22,040	327,559
No. of Allowances	2006	6	-	-	1	7
Annual Allowances		186,076	-	-	21,612	207,688

¹ Data for all years is final data from the respective June 30 valuations.

² Total Deaths Before Retirement represents one-time payments to members' beneficiaries and refund of members' contributions, plus interest.

San Diego City Employees' Retirement System
Retired Members by Type of Benefit¹
For the Year Ended June 30, 2015²

City

Amount of Monthly Benefit	Total Allowances Paid	Type of Retirement		
		Service Retirements	Disability Retirements	Death Beneficiaries
\$0 - \$1,000	945	324	83	538
\$1,001 - \$2,000	1,567	726	417	424
\$2,001 - \$3,000	1,510	1,136	219	155
\$3,001 - \$4,000	1,388	1,056	253	79
\$4,001 - \$5,000	926	825	60	41
\$5,001 - \$6,000	929	869	45	15
\$6,001 - \$7,000	740	683	49	8
\$7,001 - \$8,000	513	467	44	2
\$8,001 - \$9,000	287	272	12	3
\$9,001 - \$10,000	127	122	5	0
Over \$10,000	171	168	3	0
	9,103	6,648	1,190	1,265

Port

Amount of Monthly Benefit	Total Allowances Paid	Type of Retirement		
		Service Retirements	Disability Retirements	Death Beneficiaries
\$0 - \$1,000	72	31	4	37
\$1,001 - \$2,000	117	61	31	25
\$2,001 - \$3,000	92	71	8	13
\$3,001 - \$4,000	81	64	13	4
\$4,001 - \$5,000	50	46	4	0
\$5,001 - \$6,000	32	30	1	1
\$6,001 - \$7,000	34	34	0	0
\$7,001 - \$8,000	15	14	0	1
\$8,001 - \$9,000	13	13	0	0
\$9,001 - \$10,000	8	7	1	0
Over \$10,000	22	21	0	1
	536	392	62	82

Airport

Amount of Monthly Benefit	Total Allowances Paid	Type of Retirement		
		Service Retirements	Disability Retirements	Death Beneficiaries
\$0 - \$1,000	4	4	0	0
\$1,001 - \$2,000	23	16	2	5
\$2,001 - \$3,000	19	18	0	1
\$3,001 - \$4,000	12	12	0	0
\$4,001 - \$5,000	2	2	0	0
\$5,001 - \$6,000	4	4	0	0
\$6,001 - \$7,000	5	5	0	0
\$7,001 - \$8,000	3	3	0	0
\$8,001 - \$9,000	1	1	0	0
\$9,001 - \$10,000	1	1	0	0
Over \$10,000	2	2	0	0
	76	68	2	6

¹Data above reflects the number of retirement allowances paid. Death beneficiaries include QDROs, and do not include lump sum payments to beneficiaries for members who died before or after retirement.

² Data for FY 2015 is the most recent available from SDCERS' actuary.

**San Diego City Employees' Retirement System
Average Benefit Payment Amounts
As of Years Ended June 30**

Fiscal Year ¹	Number of Allowances	Annual Allowances Paid	Averages				
			Annual Allowance	Percentage Increase (Decrease) Over Prior Year	Attained Age	Age At Retirement ²	Service Years At Retirement
City							
2015	9,103	\$419,209,660	\$46,052	1.92%	66.9	55.6	23.7
2014	8,822	398,603,107	45,183	2.78	66.7	55.5	23.7
2013	8,454	371,628,344	43,959	3.00	66.7	55.4	23.8
2012	8,205	350,163,968	42,677	3.21	66.5	55.4	23.7
2011	7,902	326,748,899	41,350	3.30	66.4	55.3	23.8
2010	7,581	303,457,617	40,029	4.01	66.4	55.3	23.7
2009	7,369	283,586,563	38,484	5.19	66.3	55.3	23.6
2008	6,940	253,894,388	36,584	4.35	66.6	55.0	23.5
2007	6,679	234,162,141	35,059	4.99	66.5	54.8	23.5
2006	6,401	213,747,320	33,393	11.10	66.6	54.8	23.4
Port							
2015	536	\$22,743,044	\$42,431	4.50%	68.3	57.6	18.7
2014	518	21,033,503	40,605	5.48	68.2	57.6	18.5
2013	485	18,670,937	38,497	2.45	68.1	57.6	18.4
2012	475	17,847,929	37,575	3.63	67.6	57.7	18.5
2011	464	16,823,951	36,259	12.90	67.1	57.6	18.6
2010	402	12,910,178	32,115	5.81	68.3	57.8	17.6
2009	391	11,867,970	30,353	3.59	68.1	57.9	17.6
2008	361	10,577,683	29,301	4.49	68.2	57.6	17.7
2007	349	9,786,345	28,041	4.38	67.9	57.6	17.5
2006	325	8,731,137	26,865	7.42	68.2	57.5	17.5
Airport							
2015	76	\$3,047,331	\$40,096	0.66%	65.1	61.8	15.8
2014	67	2,668,801	39,833	0.87	64.5	61.6	15.9
2013	51	2,013,899	39,488	5.83	64.8	61.8	15.7
2012	46	1,716,384	37,313	12.56	64.5	62.0	15.7
2011	38	1,259,628	33,148	-7.26	64.3	62.0	15.5
2010	26	929,350	35,744	0.55	63.8	61.4	16.9
2009	22	782,035	35,547	25.83	63.3	61.3	16.6
2008	17	480,239	28,249	3.49	64.1	62.7	17.0
2007	12	327,559	27,297	-8.00	65.1	64.6	14.6
2006	7	207,688	29,670	-6.00	64.1	63.8	14.7

¹ Data for all years is final data from the respective June 30 valuations.

² Service and Disability retirees only, beneficiaries are excluded.

San Diego City Employees' Retirement System
Average Benefit Payment Amounts by Year of Retirement¹
As of Fiscal Years Ended June 30²

City		Years of Creditable Service						
		0-5	6-10	11-15	16-20	21-25	26-30	31+
2015	Average Monthly Benefit	\$809	\$2,171	\$2,146	\$3,285	\$4,526	\$5,840	\$5,046
	Average Final Monthly Salary	7,335	8,136	5,357	6,044	6,444	7,049	5,746
	Number of New Retirees	5	16	49	89	99	100	48
2014	Average Monthly Benefit	791	1,829	2,377	3,114	4,330	5,694	4,805
	Average Final Monthly Salary	7,731	5,863	5,966	5,618	6,220	6,848	5,218
	Number of New Retirees	5	24	34	92	103	115	41
2013	Average Monthly Benefit	-	2,749	1,759	2,702	3,835	5,331	5,471
	Average Final Monthly Salary	-	8,399	5,375	5,614	6,159	6,809	6,224
	Number of New Retirees	-	7	45	33	109	113	56
2012	Average Monthly Benefit	1,101	-	1,641	3,165	3,693	5,524	5,306
	Average Final Monthly Salary	13,908	-	4,898	6,349	5,942	6,853	6,166
	Number of New Retirees	2	-	38	24	127	118	59
2011	Average Monthly Benefit	916	1,966	1,834	3,219	3,831	5,621	5,367
	Average Final Monthly Salary	7,559	9,458	5,298	6,531	6,105	7,042	5,870
	Number of New Retirees	4	1	25	31	139	90	66
2010	Average Monthly Benefit	525	1,304	1,840	2,502	3,786	5,480	5,425
	Average Final Monthly Salary	5,050	6,757	5,142	5,127	5,975	6,783	5,927
	Number of New Retirees	2	6	29	19	119	90	58
2009	Average Monthly Benefit	1,132	1,312	1,794	2,996	3,816	5,651	5,580
	Average Final Monthly Salary	11,391	6,365	5,120	6,072	6,077	7,169	6,152
	Number of New Retirees	3	5	46	32	165	152	82
2008	Average Monthly Benefit	128	1,101	1,716	2,358	3,421	5,357	5,455
	Average Final Monthly Salary	5,022	3,553	5,098	4,828	5,623	6,951	6,128
	Number of New Retirees	2	9	34	23	122	106	69
2007	Average Monthly Benefit	1,323	1,744	1,498	2,245	3,091	5,737	5,277
	Average Final Monthly Salary	2,624	9,753	4,766	4,545	5,250	7,271	5,938
	Number of New Retirees	1	5	35	26	147	92	78
2006	Average Monthly Benefit	228	2,068	1,712	2,316	3,340	5,250	5,150
	Average Final Monthly Salary	5,998	6,112	4,804	5,152	5,445	6,564	5,705
	Number of New Retirees	1	3	32	24	165	149	112
Port	Average Monthly Benefit	\$433	\$770	\$3,360	\$5,474	\$4,922	\$9,187	\$-
	Average Final Monthly Salary	5,816	9,410	5,683	11,593	8,338	12,163	-
	Number of New Retirees	2	3	7	6	12	3	-
2014	Average Monthly Benefit	830	2,900	2,020	6,733	5,687	11,276	-
	Average Final Monthly Salary	5,816	9,410	5,683	11,593	8,338	12,163	-
	Number of New Retirees	2	3	7	6	12	3	-
2013	Average Monthly Benefit	44	933	2,089	3,466	4,231	7,624	-
	Average Final Monthly Salary	2,264	7,023	5,884	7,358	6,409	9,302	-
	Number of New Retirees	1	3	2	3	2	5	-
2012	Average Monthly Benefit	654	1,661	1,288	-	5,070	7,453	7,023
	Average Final Monthly Salary	8,371	8,930	4,905	-	8,510	9,275	8,706
	Number of New Retirees	1	4	3	-	4	1	2
2011	Average Monthly Benefit	-	2,756	2,300	2,824	5,028	6,285	5,246
	Average Final Monthly Salary	-	13,653	6,664	5,567	7,543	7,922	5,833
	Number of New Retirees	-	1	6	7	22	22	6
2010	Average Monthly Benefit	104	2,570	2,566	3,775	4,193	7,125	7,642
	Average Final Monthly Salary	4,126	8,805	6,953	7,523	6,929	8,058	8,648
	Number of New Retirees	1	2	3	2	3	2	3
2009	Average Monthly Benefit	76	1,073	2,916	2,695	4,727	4,523	2,684
	Average Final Monthly Salary	5,629	4,790	8,284	5,326	7,274	10,093	5,553
	Number of New Retirees	1	4	6	4	8	3	2
2008	Average Monthly Benefit	222	490	1,237	2,308	4,223	5,484	-
	Average Final Monthly Salary	5,225	3,263	2,951	4,425	6,940	6,512	-
	Number of New Retirees	2	1	6	7	2	6	-
2007	Average Monthly Benefit	133	1,419	2,311	3,625	2,893	3,127	5,023
	Average Final Monthly Salary	5,347	5,155	6,829	7,494	4,870	4,446	6,304
	Number of New Retirees	3	3	4	9	10	1	1
2006	Average Monthly Benefit	369	2,861	1,440	3,415	4,175	5,949	5,196
	Average Final Monthly Salary	4,437	7,552	4,632	7,449	6,544	7,670	6,127
	Number of New Retirees	4	3	2	3	8	4	2

¹ Retirees only (including DROP participants); beneficiaries excluded.

² Data for FY 2015 is the most recent available from SDCERS' actuary.

San Diego City Employees' Retirement System
Average Benefit Payment Amounts by Year of Retirement¹ (continued)
As of Fiscal Years Ended June 30²

			Years of Creditable Service						
			0-5	6-10	11-15	16-20	21-25	26-30	31+
Airport	2015	Average Monthly Benefit	\$1,240	\$1,768	\$3,563	\$2,967	\$-	\$5,939	\$6,140
		Average Final Monthly Salary	10,038	6,082	9,825	5,786	-	7,711	6,808
		Number of New Retirees	1	3	2	2	-	1	1
	2014	Average Monthly Benefit	820	2,109	2,638	7,333	\$-	5,915	-
		Average Final Monthly Salary	4,981	8,175	7,169	13,179	-	7,683	-
		Number of New Retirees	1	6	2	3	-	1	-
	2013	Average Monthly Benefit	-	1,666	-	-	4,981	-	-
		Average Final Monthly Salary	-	8,864	-	-	9,543	-	-
		Number of New Retirees	-	2	-	-	2	-	-
	2012	Average Monthly Benefit	882	1,349	7,679	-	4,057	10,070	-
		Average Final Monthly Salary	14,912	6,234	16,867	-	6,444	11,001	-
		Number of New Retirees	1	2	2	-	2	1	-
	2011	Average Monthly Benefit	-	1,804	2,788	2,839	-	-	-
		Average Final Monthly Salary	-	8,273	9,021	5,051	-	-	-
		Number of New Retirees	-	2	5	1	-	-	-
	2010	Average Monthly Benefit	-	1,926	-	-	802	-	7,986
		Average Final Monthly Salary	-	8,496	-	-	4,117	-	9,289
		Number of New Retirees	-	1	-	-	1	-	1
	2009	Average Monthly Benefit	-	877	-	8,125	-	-	5,409
		Average Final Monthly Salary	-	5,996	-	15,016	-	-	7,338
		Number of New Retirees	-	1	-	2	-	-	1
	2008	Average Monthly Benefit	928	-	-	2,929	2,169	3,339	-
		Average Final Monthly Salary	8,466	-	-	5,484	3,908	4,424	-
		Number of New Retirees	1	-	-	2	1	1	-
2007	Average Monthly Benefit	-	1,038	2,827	2,271	-	-	-	
	Average Final Monthly Salary	-	3,951	6,470	4,504	-	-	-	
	Number of New Retirees	-	2	1	2	-	-	-	
2006	Average Monthly Benefit	-	-	-	-	-	-	-	
	Average Final Monthly Salary	-	-	-	-	-	-	-	
	Number of New Retirees	-	-	-	-	-	-	-	

¹ Retirees only (including DROP participants); beneficiaries excluded.

² Data for FY 2015 is the most recent available from SDCERS' actuary.

Statistical Section

San Diego City Employees' Retirement System
Active Members
As of Years Ended June 30

Fiscal Year ^{1,2}	Number of Members	Salaries	Averages			
			Annual Salary	Percentage Increase (Decrease) Over Prior Year	Current Age	Years of Service Credit
City						
2015	7,038	\$480,662,378	\$68,295	3.35%	44.9	13.7
2014	7,272	480,535,973	66,080	0.10	44.7	13.4
2013	7,566	499,463,072	66,014	-0.23	44.5	13.3
2012	7,724	511,090,601	66,169	0.26	44.3	13.2
2011	7,792	514,264,750	65,999	1.07	44.1	13.5
2010	8,120	530,238,356	65,300	0.68	43.7	13.1
2009	8,273	536,591,287	64,861	2.74	43.4	13.0
2008	8,487	535,774,438	63,129	4.64	43.5	13.2
2007	8,494	512,440,197	60,330	0.38	43.6	13.1
2006	8,887	534,102,801	60,099	1.70	43.3	12.9
Port						
2015	377	\$33,512,411	\$88,892	2.86%	46.6	12.6
2014	385	33,272,693	86,423	4.37	46.5	12.6
2013	417	34,528,283	82,802	0.41	45.9	12.5
2012	435	35,872,676	82,466	10.49	45.1	11.5
2011	464	34,632,573	74,639	1.39	44.5	10.6
2010	532	39,164,664	73,618	2.85	45.0	10.8
2009	564	40,370,258	71,578	4.68	44.3	9.9
2008	565	38,634,835	68,380	2.87	44.3	9.7
2007	559	37,159,870	66,476	4.24	44.5	9.9
2006	532	33,927,372	63,773	1.45	44.8	10.0
Airport						
2015	368	\$29,189,357	\$79,319	2.71%	48.1	9.5
2014	362	27,955,455	77,225	1.58	47.6	9.2
2013	347	26,380,323	76,024	4.37	48.1	9.9
2012	341	24,839,570	72,843	-0.36	47.7	9.3
2011	344	25,148,489	73,106	-0.89	47.1	9.0
2010	347	25,595,623	73,763	0.97	46.8	8.5
2009	338	24,693,427	73,057	6.06	46.4	8.0
2008	341	23,488,283	68,881	1.64	45.5	7.2
2007	324	21,956,656	67,767	4.58	45.4	7.2
2006	295	19,115,804	64,799	4.51	44.9	7.2

¹ Data for all years is final data from the respective June 30 valuations.

² Beginning with FY 2012, reported payroll includes across the board increases for the upcoming fiscal year. Historical data for prior years does not include those increases.

San Diego City Employees' Retirement System
Inactive Members¹
As of Years Ended June 30

Fiscal Year ²	Number of Inactive Members	Total Contribution Balances	Averages		
			Current Age	Years of Service Credit	Contribution Balance
City					
2015	2,907	\$137,649,546	47.1	6.1	\$47,351
2014	2,920	133,420,493	46.7	6.2	45,692
2013	2,971	134,186,414	46.2	6.6	45,165
2012	2,892	123,281,448	45.8	6.7	42,628
2011	2,894	120,243,558	45.4	7.1	41,549
2010	2,874	112,729,129	44.9	7.2	39,224
2009	2,827	106,837,122	44.4	7.4	37,792
2008	2,743	100,703,014	44.2	7.7	36,713
2007	2,606	90,347,344	43.8	7.7	34,669
2006	2,359	71,328,108	43.6	7.4	30,237
Port					
2015	284	\$5,803,736	49.9	4.7	\$20,436
2014	285	5,286,762	49.5	4.5	18,550
2013	286	5,071,031	49.2	4.4	17,731
2012	290	5,094,210	49.0	4.4	17,566
2011	287	4,770,466	48.4	4.5	16,622
2010	289	4,619,732	47.8	4.4	15,985
2009	281	4,043,994	47.1	4.3	14,391
2008	276	3,987,972	46.6	4.6	14,449
2007	254	3,345,129	46.1	4.6	13,170
2006	261	3,909,366	46.2	5.1	14,978
Airport					
2015	99	\$2,125,985	46.0	4.5	\$21,475
2014	90	1,719,513	45.6	4.1	19,106
2013	79	1,414,252	46.7	4.0	17,902
2012	76	1,316,550	46.7	3.7	17,323
2011	75	1,250,452	45.9	3.8	16,673
2010	72	1,104,304	46.7	3.7	15,338
2009	68	921,442	46.9	3.5	13,551
2008	62	1,033,782	46.4	4.1	16,674
2007	52	736,406	47.6	4.3	14,162
2006	45	597,226	46.6	4.1	13,272

¹ Inactive members are former active members of SDCERS who have left employment of the plan sponsor and have contributions still on deposit with SDCERS. Inactive SDCERS' members may or may not be vested to receive a retirement benefit in the future.

² Data for all years is final data from the respective June 30 valuations.

**San Diego City Employees' Retirement System
Participating Plan Sponsors**



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This comprehensive Annual Financial Report is available on SDCERS' website, www.sdcers.org in the Adobe Portable Document Format (PDF file).