

City and County of San Francisco

Retirement System Annual Report

For the Year Ended June 30, 2003



City and County of San Francisco Employees' Retirement System

MISSION STATEMENT

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

**Annual Report
For Fiscal Year Ended June 30, 2003**

Table of Contents

President's Message.	3
The Retirement System.	4
Members of the 2002-2003 SFERS Retirement Board.	5
SFERS Senior Administrative Staff.	6
Highlights of Retirement Board Activities for Fiscal Year 2002-2003.	7
SFERS Administration.	10
Investment Division.	13
Retirement Services Division.	19
Fiscal Division.	30
Actuarial Summary.	36

President's Message

INVESTING ASSETS ● PROVIDING BENEFITS ● SERVING MEMBERS

December, 2003

On behalf of the San Francisco Retirement System Board and staff, I am pleased to present, in its 71st year, the Annual Report for the fiscal year 2002-2003.

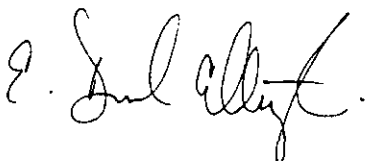
Below are some highlights affecting our participants and the management of the System that occurred during the year:

- ◆ As a result of an asset liability study and asset allocation report, the Board adopted a new Investment Policy to guide the prudent placement of plan assets.
- ◆ The Communications Plan adopted by the Board provides additional services to our members. Retirement staff now conducts one-day Pre-Retirement seminars and Mid-Career Retirement planning seminars to inform members of their benefits and help in estimating pension benefits, as well as an overview of the deferred compensation plan.
- ◆ The Retirement Board adopted its first Business Plan to prioritize initiatives for the System and to serve as a guide for budget development.
- ◆ The voters approved increased retirement benefits for police and firefighters in the November 2002 Election and the Retirement System conducted elections necessary to establish coverage for pre 1976 hires and paramedic officers. The Proposition H enhanced benefits are being paid for retirements effective on or after January 1, 2003.
- ◆ In an effort to continue its priority on governance issues, the Board adopted Terms of Reference for the Board and each of its committees as well as overall governance principles. Further, each policy affecting the Board is regularly under review for relevance, effectiveness and revision.

We are very proud of these accomplishments. Speaking specifically to investments, the Retirement Board remains diligent and dedicated to our mission statement to protect and prudently invest the Pension Fund's assets. Even with the City's budget deficit, the State of California's economic climate and negative world events, the value of the Pension Fund remains strong and the Investment Portfolio continues to grow. We remain committed to providing exemplary service to the City's employees and retirees and to ensure the security of benefits for the plan's retirees and beneficiaries.

Finally, the Retirement Board would like to thank our staff for their hard work and commitment. As an institution with over 50,000 participants, we would not have been able to achieve these accomplishments, let alone day-to-day activities, without staff's diligence and commitment to excellence. Participants need to know that.

With best wishes,



E. David Ellington, President
Retirement Board, City and County of San Francisco

The Retirement System

The San Francisco Employee's Retirement System was created under the direction of the San Francisco Board of Administration in 1922. The current Retirement System structure was established in the 1932 San Francisco City Charter. The Retirement System and its staff are responsible for administering two employee benefit programs for the City and County of San Francisco:

- San Francisco Employees' Retirement System Pension Plan, a defined benefit plan, and
- San Francisco Deferred Compensation Plan, an IRS § 457 plan.

Each of these benefit plans is mandated by specific San Francisco City Charter sections and/or Administrative Code provisions.

The San Francisco Employees' Retirement System Pension Plan provides retirement, disability and death benefits to its miscellaneous and safety members.

The San Francisco Deferred Compensation Plan, a voluntary IRS § 457 Plan, provides participants a method of deferring from current taxation part of their salary during employment for distribution after retirement.

The Retirement Board

The Retirement Board of the San Francisco Employees' Retirement System is responsible for managing the investment of the Retirement System's assets, establishing policies governing the administration, management, and operation of the retirement plans, and reviewing and approving benefit determinations. The Retirement Board generally meets once each month and reviews and approves important elements of Retirement System business, including:

Pension Fund Investment

The Retirement Board monitors investment performance, establishes investment strategies, selects and monitors outside investment managers, monitors investment alternatives, and establishes and reviews the Retirement System's social investment policies.

Actuarial Funding

The Retirement Board reviews plan funding annually and approves actuarial and economic assumptions used to meet long-term benefit promises of the SFERS Pension Plan.

Active and Retired Members

The Retirement Board reviews and approves member retirement benefits, including service and disability retirements, and other active or retired member claims related to special circumstances or litigation. Each year, the Retirement Board reviews and approves cost-of-living adjustments (COLAs) for retired members as determined by the San Francisco City Charter.

Administration and Management

The Retirement Board reviews and approves the SFERS Pension Plan's administrative, investment, and operations budget in accordance with the San Francisco City Charter and the California Constitution and the San Francisco Deferred Compensation Plan budget in accordance with the San Francisco Administrative Code.

Members of the 2002-2003 SFERS Retirement Board

The Retirement Board is composed of seven members: three elected by the active and retired members of SFERS; three appointed by the Mayor in accordance with §12.100 of the San Francisco City Charter; and the President of the Board of Supervisors or his or her designee from among the other members of the Board of Supervisors.

Current members of the Retirement Board and their term expiration dates are:

William Breall, M.D. Cardiologist	Appointed Member February 2004
Al Casciato Lieutenant, Police Department	Elected Member February 2005
Joseph D. Driscoll, C.F.A. Lieutenant, Fire Department	Elected Member February 2006
E. David Ellington Entrepreneur/Attorney	Appointed Member February 2004
Herb Meiberger, C.F.A. Security Analyst, Retirement Department	Elected Member February 2007
Gerardo Sandoval Member, Board of Supervisors	Ex-Officio Member January 2004
Brenda Wright Senior Vice President Regional Manager Community Development	Appointed Member February 2008

SFERS Senior Administrative Staff

Administration:

Clare M. Murphy	Executive Director
Jay Huish	Deputy Director
Carol Cypert, CRA, CRC	Deferred Compensation Manager
Shauna Marie Rose	Executive Assistant

Investment Division:

David Kushner, C.F.A.	Deputy Director of Investments
Carl Wilberg Equities	Senior Investment Officer
Richard Picket Fixed Income	Senior Investment Officer
Glen Schwartz Alternative Investments	Senior Investment Officer
Donald Holcher Real Estate	Senior Investment Officer

Retirement Services Division:

Maria Newport	Retirement Administrator
---------------	--------------------------

Fiscal Division:

Ted Wong	Acting Chief Accountant
----------	-------------------------

Actuary Division:

Clare M. Murphy	Acting Actuary
-----------------	----------------

Highlights of Retirement Board Activities for Fiscal Year 2002-2003

◆ General Administrative Highlights

The Retirement Board continued its focus on Governance Principles and Policies throughout the fiscal year.

In September the Board considered its committee structure and approved a Board Development assessment process and tool. Further, the Board considered and adopted Terms of Reference for the Board, Committees, President and Vice President and adopted a list of governance principles.

In November the Board adopted its first Business Plan to guide the budget development process for the fiscal year 2003-2004.

At the August 2002 meeting, the Board welcomed E. David Ellington to its membership and in March, the Board elected Mr. Ellington President and Mr. Joseph Driscoll as Vice-President. Supervisor Gerardo Sandoval was appointed to the Board as the Board of Supervisors designee starting February 2003.

During Fiscal Year 2002-03, the Board addressed a number of the actuarial matters. Over the course of the year the Board discussed and refined the job description and specification of the in-house actuarial position prior to announcing the position for examination. With the assistance of Towers Perrin Consulting actuaries, the Board discussed and adopted the interest rate to be credited to member accounts and changed the purchase opportunities at 6.25%. The Board reviewed and adopted the valuation of the plan based on July 1, 2002, data and established the employer contribution rates for fiscal year 2003-04 at zero percent, requiring no monies from the City and County of San Francisco. Further, the Board conducted a request for proposed process regarding consulting actuarial services, interviewed four finalists in May 2003 and selected Towers Perrin for an additional five-year assignment.

In March, the Retirement Board carefully reviewed the basic cost of living report and adopted a 2% cost of living adjustment for retirees who retired on or before July 1, 2002 and a 1% cost of living adjustment for those who retired after July 1, 2002 through July 1, 2003. This basic cola was payable on July 1, 2003. At the same meeting the Board reviewed the report on supplemental cost of living adjustment; however it was unable to adopt any further benefits as no excess earnings had been achieved during the 2001-2002 fiscal year.

The Board also adopted resolutions, policies, and procedures relating to benefit issues including the revision of procedures for payment of ex-spouses prior to retirement of member with procedures for accounting for resulting member (Gilmore) shortages.

◆ Deferred Compensation

The Retirement Board reviewed the Investment Performance Analysis provided by KPMG for the years ending June 30, 2001 and June 30, 2002 and appointed the Deferred Compensation Committee on Investment Options to evaluate the current fund lineup. As a result of the recommendation of the Deferred Compensation Committee on Investment Options, the Retirement Board enhanced the core investment fund lineup by adding seven new investment options and deleting three investment options as follows:

Highlights of Retirement Board Activities for Fiscal Year 2002-2003 (Continued)

◆ Deferred Compensation (Continued)

Investment options added to the core investment lineup:

Vanguard® 500 Index Fund – Investors Shares

ING VP Index Plus MidCap Portfolio – Class R

ING JP Morgan MidCap Value Portfolio – Class R

ING VP International Value Portfolio – Class R

CCSF Long Term Portfolio

CCSF Mid Term Portfolio

CCSF Near Term Portfolio

Investment options deleted from the core investment lineup:

Calvert Social Balanced Portfolio

AIM V.I. Growth Fund – Series I Shares

ING VP International Equity Portfolio – Class R

In February 2004, the contractual agreement with ING Financial Advisors will expire. Staff requested approval from the Retirement Board to prepare a Request for Proposal (RFP) to retain a consultant to assist staff to solicit bids for Plan Administrator through an alliance structure. In May 2003, the Retirement Board authorized a contract with Mercer Investment Consulting to assist in the preparation of a RFP for Plan Administrator of the Deferred Compensation Plan.

The Retirement Board continues to monitor the Deferred Compensation Plan to ensure participants are provided with on-going enhancements, well performing investment funds and a competitive fee structure.

◆ Investment Division Highlights

Throughout the fiscal year the Retirement Board reviewed the performance of the Trust Fund and the performance and adherence to guidelines by individual managers. The Investment Division, working with the Fund's General Consultant (Angeles Investment Advisors) completed a detailed Asset/Liability analysis, followed by a thorough Asset Allocation study, which resulted in changes to the Fund's asset and sub-asset class allocation structure. As a part of this process, the Investment Division recommended, and the Board approved, a new Investment Policy, which incorporated the asset allocation recommendations and implemented a defined policy for rebalancing of assets.

As a result of changes in the Fund's asset allocation, a number of manager searches were conducted throughout the fiscal year. In addition, with the assistance of Cambridge Associates, a detailed review of the Fund's Alternative Investment Program was undertaken, which culminated in a Request for Proposal for

Highlights of Retirement Board Activities for Fiscal Year 2002-2003 (Continued)

an Alternative Investment Consultant. After spending considerable time interviewing potential candidates, Staff recommended, and the Board selected, Portfolio Advisors, LLC.

The Retirement Board issued a Request for Proposal for Custodial Services. Northern Trust, the Fund's custodian since 1996, was retained for an additional five-year term.

The following is a summary of the investment activity that the Retirement Board and staff accomplished during Fiscal Year 2002-2003, organized by the major segments of the capital markets:

◆ **Equity**

As a part of the restructuring of the Equity Asset class stemming from the Asset Allocation study completed early in the fiscal year, two new sub-asset classes were added. As a result of these changes, the Board approved issuance of Requests for Proposal for managers of Convertible Securities and International Value Equities. Following these searches, the Board approved retention of Advent Capital Management LLC and Zazove Associates, LLC to manage convertible securities portfolios, and Causeway Capital Management LLC, and LSV Asset Management were added to actively manage international large capitalization value stocks. Finally, the Board approved use of international and domestic exchange traded funds (ETFs) to provide liquidity and flexibility.

In compliance with the Board approved policy for Asset Allocation rebalancing, funds were shifted between managers as assets were reallocated within and between the sub-asset classes comprising the equity portion of the total fund.

◆ **Fixed Income**

As a result of the Asset Allocation study completed early in the fiscal year, the Board approved minor changes to weightings within the Fixed Income asset class. Therefore, there were no fixed income manager changes required in Fiscal Year 2002-2003.

In compliance with the Board approved policy for Asset Allocation rebalancing, funds were shifted between managers as assets were reallocated within and between the sub-asset classes comprising the Fixed Income portion of the total fund.

◆ **Alternative Investments**

During the fiscal year ending June 30, 2003, the Retirement Board approved conducting a search for an alternative asset consultant to assist with the activities of the alternative investment program. After an exhaustive review of the respondents to a Request for Proposal, the Retirement Board selected Portfolio Advisors, a Connecticut-based firm, to provide non-discretionary consulting services.

◆ **Real Estate**

As a result of the Asset Allocation study completed early in the Fiscal Year, the Retirement Board approved an increase in the target weight for Real Estate from 8% to 12% of total fund assets.

SFERS ADMINISTRATION

Administering mandated benefit programs and providing promised benefits

Administration Division

The Administration Division manages the daily activities of the SFERS and oversees all other Divisions in the Department – Investments, Operations, Member Services, Human Resources and Fiscal Divisions. The Administration Division provides administrative support to the Retirement Board in preparation of agendas, minutes and public notice requirements for the Board's meetings and committee meetings. Administrative staff interfaces with Board members in travel requests, orientation of new Board members, and facilitates on-going educational opportunities for Board members.

Public Records Requests are managed and administered by the Administration Division in accordance with the City's Record and Retention Policy. The Disability applications and subsequent hearings before an Administrative Law Judge are processed by Administrative Office in consultation with the Workers Compensation Division of the Department of Human Resources. *(See chart on page 12..)*

Actuarial Services

The SFERS Retirement Board appoints an Actuary and a Consulting Actuary to provide actuarial expertise to the Retirement Board and Retirement System staff in the development and implementation of new benefit provisions or programs and in reporting actuarial information related to the benefit structure and funding of the Retirement System.

San Francisco 457 Deferred Compensation Plan

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

The SFERS Deferred Compensation Division oversees and monitors the City's Deferred Compensation Plan through a third-party plan administrator, currently ING Financial Advisors, LLC. The Deferred Compensation division administers the hardship withdrawal application process, qualified domestic relations orders, payroll deductions, requests for proposals, and reviews of investment fund assessments by KPMG for the plan.

During the past year the Deferred Compensation Plan grew in assets and in number of participants. The Plan offers a diverse selection of 24 core investment funds including a fixed account and access to a self-directed brokerage option. The three new CCSF Portfolios are Lifestyle funds that were designed by ING Financial Advisors, LLC exclusively for the City and County of San Francisco. Lifestyle portfolios are multi-asset type investment options that are intended to be managed in accordance with a participant's retirement time horizon, long-term return expectations, and overall tolerance for risk. Lifestyle funds provide diversified investment choices for those seeking assistance in making their asset allocation decision.

The following table provides detailed information related to the City's Deferred Compensation Plan Fiscal Year 2002-2003.

**CITY AND COUNTY OF SAN FRANCISCO 457 PLAN
DEFERRED COMPENSATION: CHANGES IN PLAN VALUES
ING Financial Advisors, LLC
06/30/02 – 06/30/03**

Fund Name	Assets as of 06/30/2002	Assets as of 06/30/2003	Percent Change
ING Fixed Account – 457/401	\$302,309,124	\$362,118,045	+19.78%
Janus Twenty Fund	\$84,638,874	\$84,492,784	-0.17%
ING T. Rowe Price Growth Equity Portfolio – Initial Class	\$70,508,280	\$71,348,634	+1.19%
ING VP Balanced Portfolio Inc. – Class R	\$66,472,543	\$64,965,016	-2.27%
AIM V.I. Capital Appreciation Fund – Series I Shares	\$61,554,130	\$54,589,143	-11.32%
Janus Aspen Series Worldwide Growth Portfolio – Inst. Shares	\$41,119,241	\$35,970,708	-12.52%
ING VP Index Plus LargeCap Portfolio – Class R	\$38,400,123	\$35,345,018	-7.96%
Janus Aspen Series Balanced Portfolio – Inst. Shares	\$35,980,873	\$35,286,424	-1.93%
ING VP Bond Portfolio – Class R	\$21,386,845	\$29,042,371	+35.80%
Ariel Fund	\$27,911,637	\$23,952,694	-14.18%
ING VP Money Market Portfolio – Class R	\$20,645,231	\$17,066,411	-17.34%
Janus Aspen Series Flexible Income Portfolio – Inst. Shares	\$6,068,331	\$13,373,460	+120.38%
ING JP Morgan Fleming International Portfolio – Initial Class	\$11,605,313	\$12,147,839	+4.68% ¹
ING VP Value Opportunity Portfolio – Class R	\$13,288,713	\$11,948,494	-10.09%
Vanguard® 500 Index Fund – Investor Shares	\$0.00	\$10,781,988	New Fund ²
ING VP Growth Portfolio – Class R\$9,5	94,343	\$10,290,803	+7.26%
ING VP Small Company Portfolio – Class R	\$5,450,171	\$5,831,393	+7.00%
ING Ultimate Account	\$5,316,722	\$4,982,781	-6.28%
Citizens Emerging Growth Fund® - Administrative Shares	\$3,553,325	\$3,534,546	-0.53%
CCSF Mid Term Portfolio	\$0.00	\$2,382,717	New Fund ³
CCSF Long Term Portfolio	\$0.00	\$1,373,683	New Fund ³
ING VP Index Plus MidCap Portfolio – Class R	\$0.00	\$1,248,419	New Fund ²
ING JP Morgan MidCap Value Portfolio – Initial Class	\$0.00	\$1,186,601	New Fund ²
CCSF Near Term Portfolio	\$0.00	\$1,031,009	New Fund ³
ING VP International Value Portfolio – Class R	\$0.00	\$834,000	New Fund ²
Calvert Social Balanced Portfolio	\$7,247,427	\$0.00	Fund Closed ⁴
AIM V.I. Growth Fund – Series I Shares	\$6,533,606	\$0.00	Fund Closed ⁴
ING VP International Equity Portfolio – Class R	\$3,054,245	\$0.00	Fund Closed ⁴
Total Investment Funds at ING Financial Advisors, LLC	\$842,639,097	\$895,124,981	+6.23%
Total Annuity Assets at ING Financial Advisors, LLC	1,877,293	1,826,273	
Total Annuity Assets at Hartford	32,829,423	30,248,164	
TOTAL PLAN ASSETS	\$877,345,813	\$927,199,418	+5.68%

* 2002 Individual Investment Funds are rounded up to the nearest dollar and may vary from the 2001-2002 annual report, however the total Investment Fund balance remains the same.

¹ Sub-advisor replaced December 16, 2002

² Investment option added to menu September 3, 2002

³ Investment option added to menu November 18, 2002

⁴ Investment option closed November 18, 2002

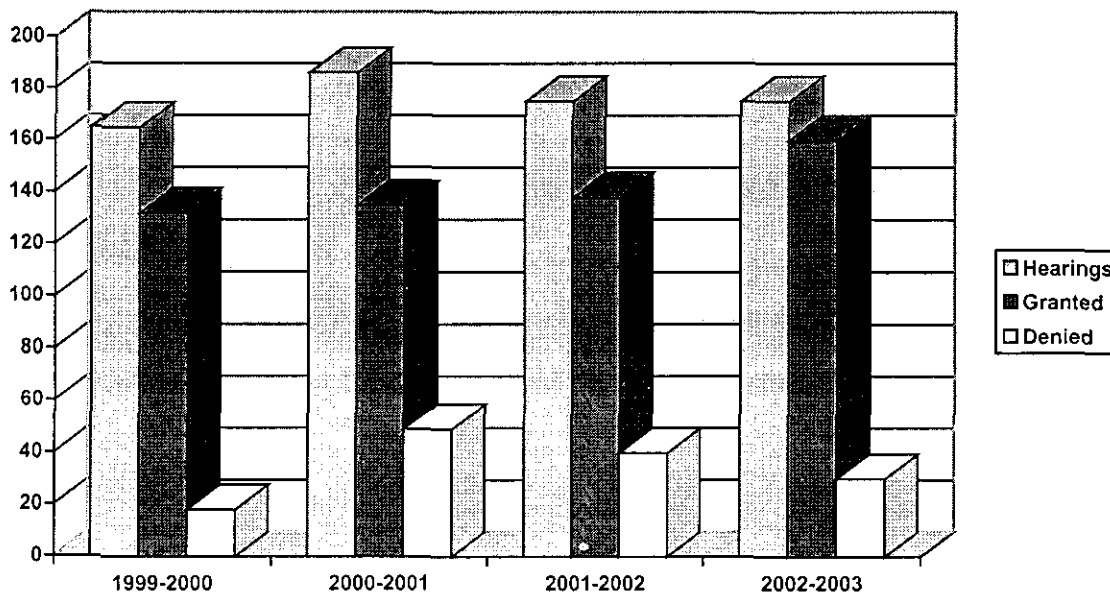
Number of Active Plan Participants:	21,281
Number of Retirees Not Receiving Benefits	1,187
Retirees Receiving Benefits from Hartford:	649
Retirees Receiving Benefits from ING:	1,033
 Total Retiree Assets:	 \$195,454,573

HEARING OFFICER REPORT FISCAL YEAR ENDED JUNE 30, 2003

CASES	TOTAL NO. OF HEARINGS	TOTAL NO. GRANTED	TOTAL NO. DENIED
Industrial Disability Retirements	61	60	5
Ordinary Disability Retirements	100	90	12
Death Benefits	7	3	0
Petitions for Rehearing	1	4	11
PERS	4	3	2
Reinstatements	2	0	0
TOTAL	175	160	30

**The number of hearings does not equal number of decisions because many decisions are held over from the previous year due to the time required in the preparation of cases for disability hearings and are not reported.*

HEARING OFFICER REPORT FOUR-YEAR COMPARISON



INVESTMENT DIVISION

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

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

The Investment Division's professional staff serves as a resource to the Retirement Board in the development of investment policies and practices and in the performance of its fiduciary responsibilities to the SFERS Trust. Investment Division professional staff analyzes, develops and recommends asset allocation mixes, manages investment portfolios, and monitors the activities and performance of external investment managers.

As of June 30, 2003, approximately 21.64% of SFERS trust assets were managed internally, including \$641.6 million in domestic bonds and \$1.63 billion in domestic equities. The balance of the portfolio was managed externally by investment firms specializing in asset classes including global and domestic fixed income, international and domestic equities, real estate and alternative investments.

Investment Performance Highlights for Fiscal Year Ended June 30, 2003

For the Fiscal year ended June 30, 2003, the Investment portfolio of the Retirement System experienced the effects of continued turbulence in the capital markets. The stellar returns of the Fixed income portfolios allowed total fund returns to remain in plus territory, achieving a total rate of return for the fiscal year of 2.82%. Real Estate turned in a modest 4.7% return for the year, while Equities (both Domestic and International) and Alternative Investments both posted negative results.

◆ **Equity**

The combined U.S. Equity portfolio returned -1.82% versus the Russell 3000 benchmark return of 0.77%. While in absolute terms this performance was a substantial improvement over the prior fiscal year return of -13.3%, under performance by a few active managers created a substantial drag on the Fund versus the Russell 3000 benchmark. The non-U.S. Equity composite declined by -4.77% versus the international benchmark return of -6.06%. The Alternative Asset portfolio reported a -11.74% return for the year compared with its benchmark's return of 6.25% (S & P 500 Index + 6% through 12/31/02, plus 5% thereafter).

◆ **Fixed Income**

A continued weak economy and accommodative monetary policy due to fears of deflationary pressures combined to lower interest rates to levels not seen in over thirty years. As a result, the Fixed Income asset class had the best performance within the fund, turning in a stellar 16.1% rate of return for the fiscal year ended June 30 (versus the benchmark Lehman Universal/Aggregate return of 11.51%). Domestic Fixed Income returns of 15.4% for the Fiscal Year far surpassed expectations and exposure to Global Fixed Income securities enhanced the return further, providing a 17.7% rate of return for the Fiscal Year. Staff concentrated on the enhancement of internal systems focused on more efficient monitoring of compliance with prescribed investment manager guidelines and more effective managing of the Internal Fixed Income Portfolio.

INVESTMENT DIVISION (Continued)

◆ Alternative Investments

Portfolio Advisor's first assignment was to conduct a strategic review of the alternative investment program, to be completed early in Fiscal 2004. Given the declining returns of the equity markets and the inability to tap capital markets, the Initial Public Offering (IPO) market, a primary vehicle for realizing returns in Private Equity, essentially "dried up", with little activity throughout the Fiscal Year. As a result, the Fund revised the benchmark return for the asset class, from S&P500 plus 600 basis points (6%), to S&P 500 plus 500 basis points (5%).

The declining equity market also allowed the Fund to maintain the target of 12% allocated to the Alternative portfolio. As a result, the Fund's pace of new investments slowed dramatically during the fiscal year.

◆ Real Estate

Low interest rates have contributed to real estate commercial market performance in spite of lower demand and increased vacancies. Presently, it is staff's belief that institutional real estate markets are not in equilibrium and will recover once jobs are added to the economic recovery and demand for space returns. The performance of SFERS' real estate portfolio has exceeded the National Property Index benchmark for the one-year, three-year and five-year periods. The Plan's real estate portfolio should continue to show stabilized performance and continue to outperform its benchmark.

While the investment returns for the past Fiscal Year were disappointing, on a longer term basis, the investment performance for SFERS has been very strong on both an absolute and relative basis as shown in the table on the next page:

INVESTMENT PORTFOLIO PERFORMANCE ANNUALIZED RETURNS FOR THE PERIODS ENDING 6/30/2003

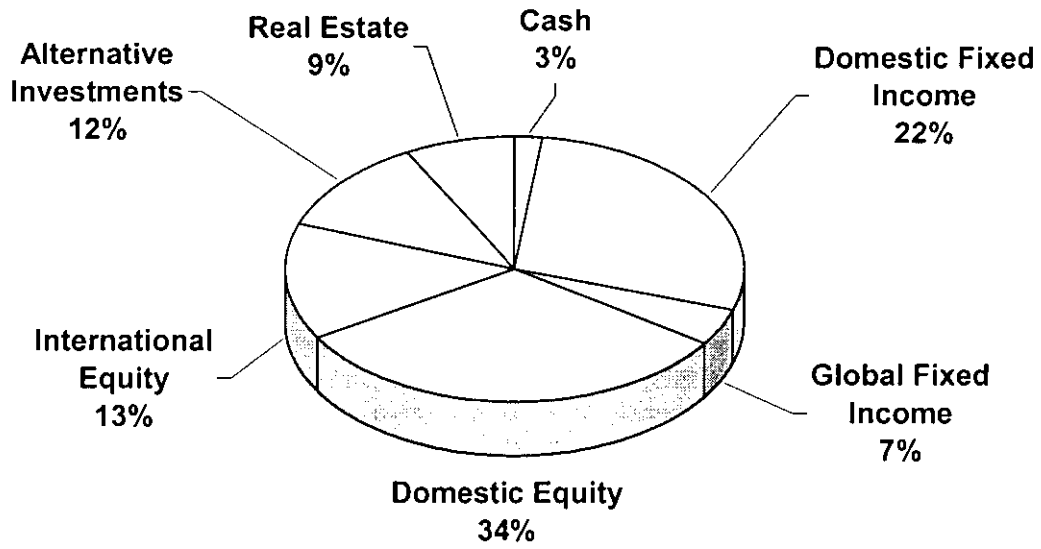
	One Year	3 Years	5 Years
Domestic Equity (benchmark: Russell 3000)	-1.82% 0.77%	-9.83% -10.47%	-0.65% -1.13%
International Equity (benchmark: MSCI ACWI Free ex US)	-4.77% -4.19%	14.98% -12.48%	-0.04% -2.81%
Domestic Fixed Income (benchmark: Lehman Universal)	15.44% 11.51%	11.41% 10.01%	8.41% 7.50%
Global Fixed Income (benchmark: Lehman Global)	17.70% 9.02%	10.81% 6.75%	7.48% 5.49%
Real Estate (benchmark: NCREIF)	10.90% 7.60%	9.30% 8.20%	10.30% 9.80%
Alternative Assets (benchmark: S&P + 6% through 12/31/02 plus 5% thereafter)	-11.74% 6.25%	-14.40% -5.20%	9.41% 4.39%
TOTAL Fund (weighted policy benchmark)	2.82% 3.93%	4.16% -3.02%	3.98% 2.55%

Source: Real Estate returns as calculated by the Townsend Group. All other returns as calculated by The Northern Trust Company.

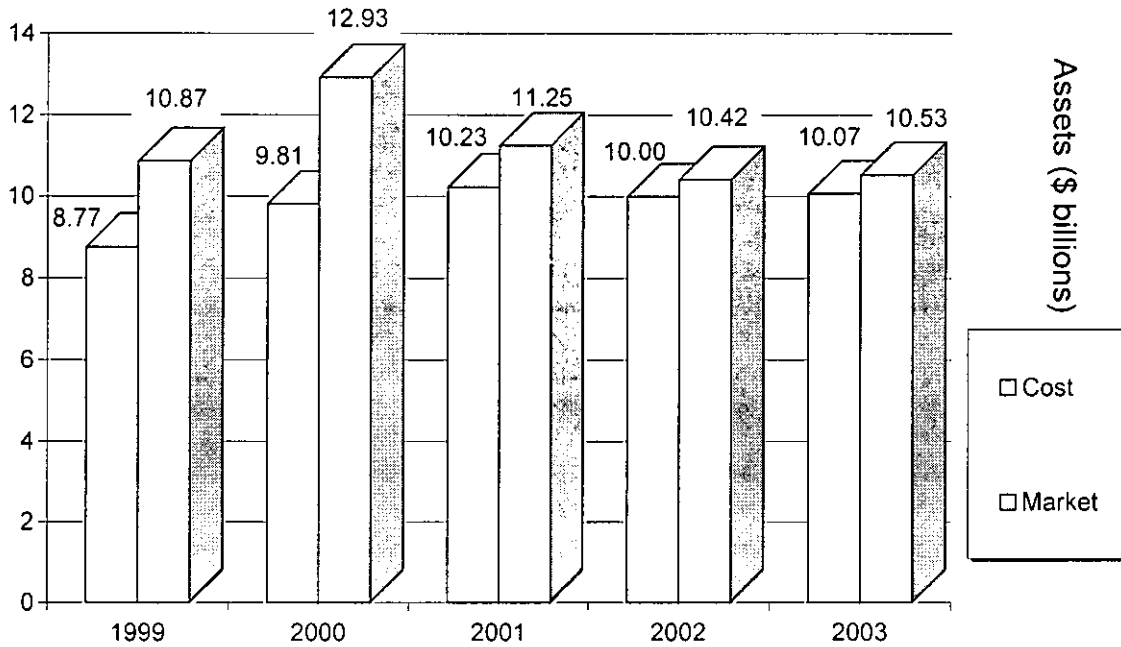
The following pages contain charts illustrating:

- ◆ Asset Allocation as of June 30, 2003
- ◆ SFERS Trust Fund Assets
- ◆ Investment Portfolio Performance
- ◆ Investment Earnings and Assets
- ◆ Portfolio Investment as of June 30, 2003

ASSET ALLOCATION AS OF JUNE 30, 2003 - MARKET VALUE



PENSION FUND NET ASSETS



INVESTMENT EARNINGS AND ASSETS
THREE YEAR HISTORY
(NOT INCLUDING ASSETS RECEIVABLE BUT NOT YET INVESTED)

Fiscal Year Ended June 30:

	2003	2002	2001
--	------	------	------

Investment Earnings

Equity Dividend Income	\$ 73,414,536	\$ 63,875,140	\$ 65,121,941
Real Estate Income	45,588,220	48,951,277	48,987,091
Alternative Investment Income	2,082,909	(6,686,655)	(11,172,920)
Realized Gains/(Loss)	(57,840,866)	(324,762,200)	360,191,823
Unrealized Gains/(Loss)	181,844,163	(539,134,907)	(2,119,255,360)
Other Income: Interest, Securities Lending, Dollar Roll and Recaptured Commissions	182,580,112	224,561,374	256,017,416
Total Investment Earnings	\$ 427,669,074	(\$ 533,195,971)	(\$ 1,400,110,009)

Fiscal Year Ended June 30:

	2003	2002	2001
--	------	------	------

Portfolio Assets - Fair Value

Fixed Income	\$ 3,015,932,047	\$ 3,374,601,919	\$ 3,402,051,535
Equities	5,002,450,859	4,796,110,459	5,361,633,163
Real Estate	953,533,290	820,844,105	875,014,860
Alternative Investments	1,249,167,293	1,218,142,257	1,363,120,151
Money Market Assets	305,012,031	203,444,843	244,519,844
Total Fair Value of Portfolio	\$ 10,526,095,520	\$ 10,413,143,583	\$ 11,246,339,553

**SAN FRANCISCO CITY AND COUNTY EMPLOYEE RETIREMENT SYSTEM
SUMMARY OF ASSETS AS OF JUNE 30, 2003**

Category	Cost	% of Total	Market	% of Total
Cash & Cash Equivalents	\$468,308,137.92	4.65%	\$305,012,030.68	2.90%
EQUITIES				
Basic industries	163,740,143.68	1.63%	172,688,654.63	1.64%
Capital goods industries	114,590,134.70	1.14%	159,257,741.55	1.51%
Consumer durables	56,721,536.37	0.56%	54,612,534.97	0.52%
Consumer non-durables & services	815,946,918.82	8.10%	1,026,702,830.05	9.75%
Energy	140,317,903.24	1.39%	161,914,080.38	1.54%
Financial services	511,271,873.77	5.08%	630,091,072.67	5.99%
Miscellaneous	178,017,098.94	1.77%	579,037,817.38	5.50%
Technology	421,362,389.36	4.18%	413,260,357.11	3.93%
Utilities	465,897,484.09	4.63%	411,977,185.24	3.91%
Foreign Stock	1,335,908,074.42	13.26%	1,392,908,584.96	13.23%
EQUITIES TOTAL	4,203,773,557.39	41.74%	5,002,450,858.94	47.52%
FIXED INCOME				
Basic industries	132,032,721.71	1.31%	143,592,275.54	1.36%
Capital goods industries	25,430,686.02	0.25%	29,325,999.15	0.28%
Consumer durables	6,454,880.21	0.06%	6,575,632.65	0.06%
Consumer non durables & services	117,768,815.83	1.17%	115,879,887.97	1.10%
Energy	10,123,056.64	0.10%	10,622,570.25	0.10%
Financial services	625,672,753.04	6.21%	665,073,716.83	6.32%
Miscellaneous	173,957,957.14	1.73%	176,472,482.27	1.68%
Mortgages	116,610,116.95	1.16%	122,857,533.03	1.17%
Technology	29,256,853.13	0.29%	25,457,667.31	0.24%
US Government	984,714,557.94	9.78%	895,163,980.82	8.50%
Utilities	42,472,531.30	0.42%	46,108,008.88	0.44%
Foreign government and corporate	699,794,951.51	6.95%	778,802,292.76	7.40%
FIXED INCOME TOTAL	2,964,289,881.42	29.43%	3,015,932,047.46	28.65%
OTHER INVESTMENTS				
Real Estate	893,816,573.57	8.87%	953,533,290.00	9.06%
Venture Capital & Partnerships	1,541,889,183.33	15.31%	1,249,167,293.00	11.87%
OTHER INVESTMENTS TOTAL	2,435,705,756.90	24.18%	2,202,700,583.00	21.87%
GRAND TOTAL	\$ 10,072,077,333.63	100.00%	\$ 10,526,095,520.08	100.00%

RETIREMENT SERVICES DIVISION

Administering mandated benefit programs and providing promised benefits

The Retirement Services Division provides a wide range of services to SFERS members and their beneficiaries. Services provided include active and retired member counseling, member payroll accounting, calculation of benefits, establishment of pension payment, active and retired member recordkeeping, member communications and pre-retirement counseling.

SFERS Plan Membership

The Retirement System administers three separate benefit plans for the City and County of San Francisco: the Firefighter Plan, the Police Plan and the Miscellaneous Plan. Each of these plans consists of multiple tiers. Generally, firefighter, police and miscellaneous employees who became members of SFERS prior to City Charter amendments passed by the voters in November 1976 are covered under the Old Firefighter, Police or Miscellaneous Plans respectively. Firefighters, police and miscellaneous employees who became SFERS members after the November 1976 Charter amendments are covered by the New Police, Firefighter and Miscellaneous Plans respectively. Current Firefighter Plan and Police Plan benefits are established by Charter amendment passed in November 2002 and current New Plan Miscellaneous benefits are established by Charter amendment passed in November 2000. Miscellaneous Plan members have been covered under the Social Security System since September 1959 (City Charter §8.514).

SFERS members include employees of the San Francisco Unified School District, the San Francisco Community College District, Trial Courts, as well as the City and County of San Francisco. Plan membership is in effect as long as member contributions remain on deposit with SFERS.

Employees in certain job classifications of the City and County of San Francisco may also be eligible for membership in other retirement systems.

In 1968, deputized personnel of the Sheriff's Department were authorized to transfer to the State of California Public Employees' Retirement System (CalPERS). Airport Police and Institutional Police personnel were authorized to transfer to CalPERS in 1984 and 1985, respectively. District Attorney Investigators similarly were authorized to transfer to CalPERS in 1986.

In 1972, schoolteachers were authorized to transfer to the State Teachers Retirement System (STRS).

On September 1, 1990, employees who were Adult and Juvenile Probation Officers on that date became CalPERS members for all prospective service rendered in qualified job classes. Past service credit was transferred for most members in September 1996.

On September 1, 1995, Retirement System membership rules were changed: employees who had earned not less than 1040 hours of compensation during any 12-month period became eligible for retirement membership on the first day of the pay period following the payperiod in which the member earns 1040 hours of compensation.

On December 27, 1997, Airport Police Officers became members of the SFERS under City Charter §8.559 and §8.586 (Police New Plan).

On February 21, 1998, Miscellaneous Plan members in paramedic job classes who were members of SFERS under City Charter §§8.509 and 8.584, became members of SFERS under City Charter §8.588 (Fire New Plan).

On January 1, 2003, Old Plan Firefighter and Old Plan Police members were eligible to become members of SFERS under City Charter §§8.597 and 8.595 respectively, while New Plan Firefighter and New Plan Police members automatically became members of SFERS under City Charter §§8.598 and 8.596.

Other Plan Membership Charter References:

CHARTER SECTION	EMPLOYEE GROUP
8.508-1	Teachers – STRS
8.505	Port Employees – CalPERS
8.506	Sheriff's Deputies – CalPERS
8.506-2	Airport Police Officers, Institutional Police Officers, District Attorney Investigators, Probation Officers – CalPERS
8.506-3	Housing Authority Police – CalPERS

SFERS Membership

SFERS active membership falls within three categories:

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

As of June 30, 2003, there were 30,024 members of the Miscellaneous Plans, 2,309 members of the Police Plans and 1,825 members of the Firefighter Plans.

SFERS ACTIVE MEMBERSHIP AS OF JUNE 30, 2003

PLAN MEMBERSHIP GROUP	NUMBER OF ACTIVE MEMBERS			
	ACTIVE	VESTED	RECIPROCAL	TOTAL
Old Miscellaneous Plan members before November 2, 1976	1,892	43	4	1,939
New Miscellaneous Plan members on or after November 2, 1976	26,610	858	617	28,085
Old Police Plan members before November 2, 1976	189	1	0	190
New Police Plan members on or after November 2, 1976	2,071	31	17	2,119
Old Firefighter Plan members before November 2, 1976	229	0	0	229
New Firefighter Plan members on or after November 2, 1976	1,582	9	5	1,596
TOTALS:	32,573	942	643	34,158

Miscellaneous Plan members comprise approximately 87.9% of the total SFERS Plan membership, with approximately 6.5% of the total Miscellaneous Plan members being employees who were hired before November 2, 1976.

Police officers and firefighters comprise approximately 6.8% and 5.3% of the total membership, respectively.

Miscellaneous Plan members are members of the Social Security System (City Charter § 8.514). Social Security coverage was first made available to City and County employees in September 1959. Members covered under Social Security may elect to reduce their contributions to the Retirement System by a portion of the amount contributed to Social Security annually. These members will have account shortages and will have reduced pensions on retirement if the shortages are not paid prior to retirement.

**EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES
AS A PERCENTAGE OF COVERED PAYROLL**

COVERED PLAN YEAR	POLICE	FIREFIGHTER	MISCELLANEOUS
1995-1996 (1 st half)	14.79%	12.44%	4.98%
1995-1996 (2 nd half)	12.69%	10.58%	4.29%
1996-1997 (1 st half)	0%	0%	1.83%
1996-1997 (2 nd half)	0%	0%	0%
1998-2003	0%	0%	0%

Note: Rates of contribution are composite rates for Old and New groups.

**EMPLOYEE CONTRIBUTION RATES
AS A PERCENTAGE OF COVERED PAYROLL**

PLAN MEMBERSHIP GROUP	RATE OF CONTRIBUTION
Miscellaneous (Old)*	8.00%
Miscellaneous (New)	7.50%
Police (Old)	7.00%
Police (New)	7.50%
Firefighter (Old)	7.00%
Firefighter (New)	7.50%

*Contributions for Old Plan Miscellaneous Employees (City Charter § 8.509) are based on gross income. Contributions for other groups are based on gross income minus overtime compensation.

SFERS Retirement Services

The following table summarizes the major activities of the SFERS Retirement Services Division during Plan Years 2001-2002 and 2002-2003:

ACTIVITY	2001-2002	2002-2003
Retirement Appointments	1582	1669
Retirement Applications Processed	903	950
Buyback Appointments	N/A	1597
Personnel Transactions:	2405	1703
New Members (New Hires)	1351	844
New Members (1040 hours membership)	709	591
Rehires	140	127
Fire Recruits	64	48
Police Recruits	92	84
Sheriff Recruits	49	9
Visitors	16,321	11,782
Incoming Correspondence	17,262	13,698
Home Visits	20	24
Group Presentations	20	18
Beneficiary Changes	1262	1351
Refund Packets	1593	1283
Verification of Pension or Benefit Data	494	1224
Electronic Fund Transfer (new and changes)	1978	2321
Other activities (address changes, name changes, etc.)	1995	2193
Pre-retirement Seminars	5	4
Registered Attendees at Pre-retirement Seminars	801	748
Mid-career Retirement Planning Seminars	1	2
Registered Attendees at Mid-Career Seminars	83	198
New Member Retirement Planning Seminars	0	1
Registered Attendees at New Member Seminars	0	98

Retirement appointments increased 5.5% and retirement applications processed increased 5.2% in Plan Year 2002-2003 over the prior Plan Year.

SFERS Retirement Services Division staff sponsored and conducted four pre-retirement seminars during Plan Year 2002-2003 that provided individualized benefit counseling for over 700 Miscellaneous Plan members considering retirement within the next five years. Retirement staff also sponsored and conducted one mid-career retirement planning seminar and one new member retirement planning seminar for Miscellaneous Plan members. Retirement staff also participated in a retirement seminar sponsored by the Police Officers Association.

SFERS Plan Member Communications: During Plan Year 2002-2003, SFERS Retirement Services Division produced and distributed over 34,100 Annual Member Statements to active SFERS members.

SFERS Retirement Statistics for Plan Year Ended June 30, 2003

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2002-2003, as well as benefits payment summaries and comparisons:

New Retirements Processed During Plan Year Ended June 30, 2003

MEMBER GROUP	SERVICE	VESTING	INDUSTRIAL DISABILITY	ORDINARY DISABILITY	TOTAL
Miscellaneous	535	157	N/A	58	750
Firefighter	113	0	15	0	128
Police	81	2	5	0	88
TOTALS:	* 729	159	20	58	966

*Total service retirements in Plan Year 2002-2003 includes applications for industrial or ordinary disability which have qualified for service retirement but are pending decision on disability application.

The total number of new retirements processed in Plan Year 2002-2003 was 9.6% higher than retirements processed in Plan Year 2001-2002. Service retirements represent 75.5% of the total of new retirements processed.

Miscellaneous retirements represented 77.6% of the total retirements processed in Plan Year 2002-2003, a decrease from 87.3% in Plan Year 2001-2002.

Firefighter retirements represented 13.3% of the total retirements processed in Plan Year 2002-2003, an increase from 6.8% in Plan Year 2001-2002.

Police retirements represented 9.1% of the total retirements processed in Plan Year 2002-2003, an increase from 5.9% in Plan Year 2001-2002.

Miscellaneous Plan Members Plan Year Ended June 30, 2003 Service Credit at Retirement

YEARS OF SERVICE	SERVICE RETIREMENTS	VESTING RETIREMENTS	ORDINARY DISABILITY	TOTAL	PERCENT OF TOTAL
0-5	13	2	0	15	2.0%
6-10	10	73	0	83	11.1%
11-15	77	42	13	132	17.6%
16-20	85	35	25	145	19.3%
21-25	98	2	8	108	14.4%
26-30	112	3	9	124	16.5%
31-35	86	0	3	89	11.9%
36-40	49	0	0	49	6.5%
Over 40	5	0	0	5	0.7%
TOTAL	535	157	58	750	100.0%
PERCENT	71.3%	20.9%	7.7%	100.0%	

Approximately 64.4% of the total Miscellaneous Plan retirements had less than 26 years of service. The average number of years of service credited to Miscellaneous Plan retirees who retired in Plan Year 2002-2003 was 20.7 years.

Miscellaneous Plan service retirees were credited with an average of 23.6 years of service while those who retired for ordinary disability were credited with an average of 19.3 years of service.

AGE AT RETIREMENT

AGE	SERVICE	VESTING	ORDINARY DISABILITY	TOTAL	PERCENT OF TOTAL
Under 55	38	97	36	171	22.8%
55-60	135	45	22	202	26.9%
61-65	232	9	0	241	32.1%
Over 65	130	6	0	136	18.1%
TOTAL	535	157	58	750	100.0%

The average age of all Miscellaneous Plan members who retired in Plan Year 2002-2003 was 59.8 years; the average age of Miscellaneous Plan members who retired for Ordinary Disability was 52.4 years.

POLICE AND FIREFIGHTER PLAN MEMBERS PLAN YEAR ENDED JUNE 30, 2003

SERVICE CREDIT AT RETIREMENT For Plan Year Ended June 30, 2003

YEARS OF SERVICE	SERVICE RETIREMENTS	VESTING RETIREMENTS	INDUSTRIAL DISABILITY*	TOTAL	PERCENT OF TOTAL
0-5	1	0	4	5	2.3%
6-10	7	0	1	8	3.7%
11-15	0	0	2	2	0.9%
16-20	2	1	0	3	1.4%
21-25	11	1	0	12	5.6%
26-30	80	0	6	86	39.8%
31-35	80	0	6	86	39.8%
36-40	13	0	1	14	6.5%
TOTAL	194	2	20	216	100%
PERCENT	89.8%	0.9%	9.3%	100%	

* There were no Ordinary Disability retirements processed for Police and Firefighter Plan members in Plan Year 2002-2003

Approximately 13.9% of the total Police and Firefighter Plan retirements had less than 26 years of service. The average number of years of service credited to Police and Firefighter Plan retirees who retired in Plan Year 2002-2003 was 28.4 years.

Police and Firefighter Plan service retirees were credited with an average of 29.2 years of service while those who retired for industrial disability were credited with an average of 22.3 years of service.

AGE AT RETIREMENT FOR PLAN YEAR ENDED JUNE 30, 2003

AGE	SERVICE	VESTING	INDUSTRIAL DISABILITY	TOTAL	PERCENT OF TOTAL
Under 55	50	2	13	65	30.1%
55-60	119	0	5	124	57.4%
61-65	20	0	2	22	10.2%
Over 65	5	0	0	5	2.3%
TOTAL	194	2	20	216	100.0%

The average age of all Police and Firefighter Plan members who retired in Plan Year 2002-2003 was 56.2 years.

**TOTAL RETIREMENT ALLOWANCES AS OF JUNE 30, 2003
RETIRED MEMBERS AND SURVIVOR CONTINUATION BENEFITS**

MEMBER CATEGORY	SERVICE RETIREMENTS	DISABILITY RETIREMENTS*	DEATH IN LINE OF DUTY	TOTAL
Number of Retirement Allowances as of 6/30/2003:				
MISCELLANEOUS	12,576	1,813	N/A	14,389
Member	10,346	1,284	N/A	11,630
Continuation	2,230	529	N/A	2,759
FIREFIGHTER	833	882	46	1,761
Member	578	614	-	1,192
Continuation	255	268	46	569
POLICE	1,171	763	51	1,985
Member	871	489	-	1,360
Continuation	300	274	51	625
TOTAL	14,580	3,458	97	18,135

*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)

As of June 30, 2003, the total number of retirement allowances paid to retired members represented 78.2% of the total allowances paid; continuation allowances represented 21.8% of the total allowances paid.

**MONTHLY RETIREMENT BENEFITS PAYABLE AS OF JUNE 30, 2003
RETIRED MEMBERS AND SURVIVOR CONTINUATION BENEFITS**

MEMBER CATEGORY	SERVICE RETIREMENTS	DISABILITY RETIREMENTS*	DEATH IN LINE OF DUTY	TOTAL
Monthly Retirement Benefits Payable as of June 30, 2003:				
MISCELLANEOUS	\$ 21,293,430	\$ 2,251,001	N/A	\$ 23,544,431
FIREFIGHTER	3,647,236	3,545,324	\$ 182,337	7,374,897
POLICE	4,668,422	2,386,515	150,504	7,205,441
TOTAL	\$ 29,609,088	\$ 8,182,840	\$ 332,841	\$ 38,124,769

*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)

Monthly retirement allowances paid to Miscellaneous Plan members and continuants represent 61.8% of the total monthly retirement allowances paid during Plan Year 2002-2003.

Monthly retirement allowances paid to service retirees represented 77.7% of the total monthly retirement allowances and monthly disability benefits represented 21.5% of the total monthly retirement allowances paid during Plan Year 2002-2003.

DEATH BENEFITS PAID – 3 YEAR COMPARISON

PLAN YEAR	2002-2003	2001-2002	2000-2001
NUMBER OF DEATHS:			
Active Members	57	52	77
Retired Members	513	568	528
Continuants	214	183	172
TOTAL	784	803	777
NUMBER OF DEATH BENEFITS PAID:			
DUE TO ACTIVE MEMBER DEATHS			
Refund of Contributions	72	63	77
Industrial Death Allowances	0	0	2
6 Months Earnable Salary	70	57	74
SUBTOTAL	142	120	153
DUE TO RETIRED MEMBER DEATHS			
Continuation	250	249	231
Option 1 (Refund of Member Accumulated Contributions)	42	30	49
\$100/Year for Each Year of Service (Maximum \$3,000)	618	519	522
SUBTOTAL	910	798	802
TOTAL	1052	918	955

The number of death notices received during Plan Year 2002-2003 decreased by 2.4% from Plan Year 2001-2002.

There was an 18.3% increase in the number of benefits paid due to the death of active members in Plan Year 2002-2003 from the previous Plan Year. In Plan Year 2002-2003, the total number of death benefits payments processed due to the deaths of active and retired members increased 14.6% over the previous Plan Year.

WITHDRAWAL OF CONTRIBUTIONS – 3 YEAR COMPARISON

	MEMBER ACCOUNTS	PERCENT VARIANCE PRIOR YEAR	AMOUNT WITHDRAWN	PERCENT VARIANCE PRIOR YEAR
As of 6/30/2003				
Miscellaneous	817		\$ 7,955,804	
Firefighter	4		104,476	
Police	16		153,997	
TOTAL	837	(36.9%)	\$ 8,214,277	(15.2%)
As of 6/30/2002				
Miscellaneous	1280		\$ 9,232,179	
Firefighter	13		140,111	
Police	33		318,718	
TOTAL	1326	(3.8%)	\$ 9,691,008	(8.5%)
As of 6/30/2001				
Miscellaneous	1334		\$10,221,516	
Firefighter	13		223,032	
Police	31		145,789	
TOTAL	1378	116.0%	\$10,590,337	50.5%

Fiscal Division

Administering mandated benefit programs and providing promised benefits

The Fiscal Division is responsible for providing financial information to management for planning, control, and decision-making purposes. Financial reporting includes the preparation of the Retirement System's financial position and operating results in accordance with generally accepted accounting principles applicable to a public employee retirement system. Financial statements and required supplemental information include:

- Net Assets held in trust for Pension Benefits
- Statement of Changes in Plan Net Assets
- Actuarial Report and Historical Information
- Disclosures as required by Governmental Accounting Standards Board (GASB)

The Accounting and financial reporting functions are divided into several major activities, which include:

- Investments accounting
- Accounting for member and employer contributions
- Benefits payment accounting
- Accounting for employees' deferred compensation
- Budget and appropriations control
- General ledger and all financial reporting

In addition, the Fiscal Division provides statistical and financial data for actuarial projections, cash flow projections, and calculation of required city contributions to ensure that the employees' Retirement System is adequately funded at all times.

The accompanying audited statements of net assets available for pension benefits as of June 30, 2003, and 2002 and the related statements of changes in net assets held in trust for pension benefits are presented to provide information on the financial status of the pension trust fund. These financial statements provide a general overview of the City and County of San Francisco Employees' Retirement System's finances for the Plan Year ended June 30, 2003. We encourage readers who may have questions regarding any of the financial information provided to request from SFERS the full set of audited *Financial Statements and Supplemental Schedule* as prepared by the independent auditors.

**SFERS ACTUAL ADMINISTRATIVE EXPENDITURES
3 YEAR COMPARISON
RETIREMENT SERVICES/ADMINISTRATION DIVISIONS**

Description of Expenditures	Retirement Services/Administration		
	2002-2003	2001-2002	2000-2001
Personnel Services	\$ 4,500,386	\$ 4,061,839	\$ 3,906,243
Equipment Purchase	74,669	337,752	105,933
Materials and Supplies	88,733	47,862	49,831
Services of Other Departments	4,941,764	6,174,528	5,978,896
Other Services	1,139,438	1,204,578	1,214,225
TOTAL	\$ 10,744,990	\$ 11,826,559	\$ 11,255,128

**SFERS ACTUAL ADMINISTRATIVE EXPENDITURES
3 YEAR COMPARISON
INVESTMENT DIVISION**

Description of Expenditures	Investment Division		
	2002-2003	2001-2002	2000-2001
Personnel Services	\$ 1,427,269	\$ 1,499,912	\$ 1,328,812
Equipment Purchase	7,105	21,654	39,431
Materials and Supplies	6,660	10,024	12,557
Services of Other Departments	293,847	320,148	754,095
Other Services	18,955,247	16,146,391	21,241,255
TOTAL	\$ 20,690,128	\$ 17,998,129	\$ 23,376,150

**SFERS ACTUAL ADMINISTRATIVE EXPENDITURES
3 YEAR COMPARISON
ALL DIVISIONS**

GRAND TOTAL	\$ 31,435,118	\$ 29,824,688	\$ 34,631,278
--------------------	----------------------	----------------------	----------------------

**SFERS PENSION FUND INVESTMENT INCOME
FISCAL YEAR 2002-2003**

	REALIZED GAIN/LOSS	UNREALIZED GAIN/LOSS	TOTAL
INCOME			
City and County Contributions			\$ -
Employee Contributions			182,069,864
Interest Earned			174,461,071
Dividends Earned			73,414,536
Securities Lending Income-Net			6,510,040
Dollar Roll Income – Net			1,158,461
Recaptured Commission Income – Net			450,540
Real Estate Income			45,588,220
Alternative Investment Income			2,082,909
Investment Expenses			(21,453,915)
TOTAL INCOME:			\$ 464,281,726
NET APPRECIATION IN FAIR VALUES			
Short-Term Securities	\$ (34,981)	\$ 4,855,331	\$ 4,820,350
Equities	(275,040,548)	(32,567,058)	(307,607,606)
Debt Securities	124,291,831	171,396,640	295,688,471
Real Estate	6,446,610	(4,778,293)	1,688,317
Venture Capital	(9,900,640)	(26,581,461)	(36,482,101)
Other Assets	96,396,862	69,519,004	165,915,866
TOTAL NET APPRECIATION:	\$ (57,840,866)	\$ 181,844,163	\$ 124,003,297
TOTAL INCOME including NET APPRECIATION:			\$ 588,285,023
Increase/(Decrease) From FY 2001–2002:			\$ 982,875,738

**SFERS PENSION FUND DISBURSEMENTS
PLAN YEAR 2002-2003**

PAYMENTS/EXPENSES	AMOUNT
Service Retirement Payments	\$ 325,822,872
Disability Retirement Payments	93,601,926
Proposition C – Cost of Living Adjustment	20,875,330
Death Allowance Payments	3,621,500
Death Benefits	3,676,490
Normal Contributions Paid as Death Benefit	3,645,171
Retired Annuitant Rolls (Option 1 Death Benefit)	1,020,325
Refunds of Contributions	8,214,277
Administrative Expenses: Retirement Services/Administration	10,744,990
TOTAL PAYMENTS & EXPENSES:	\$ 471,222,881
Increase/(Decrease) From FY 2001-2002:	\$ 35,683,982

SFERS CONTRIBUTIONS – 3 YEAR COMPARISON

Employer (City and County) Contributions

The City and County of San Francisco had not been required to make employer contributions since 1996 due to the funding status of the Plan.

Employee Contributions

MEMBER PLAN	PLAN YEAR 2002-2003	PLAN YEAR 2001-2002	PLAN YEAR 2000-2001
Miscellaneous Plan	\$ 156,350,260	\$ 133,268,640	\$ 124,007,174
Firefighter Plan	11,744,300	10,386,844	9,767,082
Police Plan	13,975,304	12,262,637	11,428,791
TOTAL	\$ 182,069,864	\$ 155,918,122	\$ 145,203,047

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
YEARS ENDED JUNE 30, 2003 AND 2002
Information derived from audited Financial Statements

	<u>2003</u>	<u>2002</u>
	(in thousands)	
Additions:		
Members' contributions:		
Miscellaneous	\$ 156,350	\$ 133,269
Firefighter	13,975	12,263
Police	<u>11,744</u>	<u>10,387</u>
Total Contributions	\$ <u>182,069</u>	\$ <u>155,919</u>
Investment income (expenses)		
Interest	\$ 174,461	\$ 212,806
Dividends	73,415	63,875
Net (depreciation) appreciation in fair value of investments	172,125	(820,574)
Securities lending income	22,288	35,676
Fixed coupon dollar repurchase agreement income	4,197	7,791
Investment expenses	(21,454)	(18,517)
Securities lending borrower rebates and expenses	(15,778)	(24,505)
Fixed coupon dollar repurchase agreement finance charges and expenses	<u>(3,038)</u>	<u>(7,061)</u>
Investment gain/(loss), net	\$ <u>406,216</u>	\$ <u>(550,509)</u>
Total additions/(deductions)	\$ <u>588,285</u>	\$ <u>(394,590)</u>
Deductions:		
Benefits	\$ 452,264	\$ 413,899
Refunds of contributions	8,214	9,814
Administrative expenses	<u>10,745</u>	<u>11,827</u>
Total Deductions	\$ <u>471,223</u>	\$ <u>435,540</u>
Net increase/(decrease)	\$ 117,062	\$ 830,130
Net assets held in trust for pension benefits:		
Beginning of year	\$ <u>10,415,950</u>	\$ <u>11,246,080</u>
End of year	\$ <u>10,533,012</u>	\$ <u>10,415,950</u>

Actuarial Summary

The Retirement System pays an array of benefits to members and their survivors -- service retirement, disability retirement, and survivor benefits, in addition to contribution plus interest refunds to members who withdraw from the System. These benefits are funded from a combination of employee contributions, City contributions and investment returns earned on those contributions.

Each year, the Retirement System conducts an actuarial valuation of its assets and liabilities in order to assess the funded status of the System and to determine appropriate levels of City contributions to the Fund for the next Fiscal Year. The Plan valuation at the beginning of the Fiscal Year was carried out by the actuarial consulting firm of Towers Perrin based on June 30, 2002 data. The results were first published in December 2002.

Assumptions and Method

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

Investment Returns	8.25% per year
Base Wage Increases	4.50% per year
Merit and Promotion	Wage Increases 1.3%, approximately (varies by group and years of service)
Retiree Mortality	1983 Group Annuity Mortality Table

The actuarial funding method used was as follows:

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

The assets were valued using a 5-year phase-in of realized and unrealized capital gains and losses.

Key Results

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

FUNDED STATUS

Actuarial Liability	9,415,905,000
Actuarial Value of Assets	<u>11,102,516,000</u>
Unfunded Liability (Surplus)	\$ <1,686,611,000>
Funded Status (assets / liabilities)	118%

EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES

The retirement contribution rates to be paid by the City in Fiscal Year 2003-2004 were derived from the following actuarial valuation results:

Normal Cost	13.97%
Unfunded Liability & Other Costs	(11.35)%
Employee Contributions	7.52%
City Contribution Rate	(0.42)%
Board Approved City Contribution Rate	0.0%

Cover Photo: Tom Paiva Photography