

# 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, 2004**

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## PRESIDENT'S MESSAGE

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### INVESTING ASSETS ● PROVIDING BENEFITS ● SERVING MEMBERS

December, 2004

On behalf of the San Francisco Employees' Retirement System (SFERS) Board and staff, I am pleased to present the Annual Report for Fiscal Year 2003-04.

The Retirement Board and staff at SFERS work steadily to provide excellent services to our 52,156 members and their survivors without additional resources.

Below are some of the highlights affecting our members and the management of the system that occurred during the year:

- The "Early Retirement" charter amendment passed and created a new and unique demand for retirement counseling. The tightening City budget and layoff notices brought more members to our offices for counseling.
- SFERS management information system (MIS) continues to improve. This enables the retirement counselors to give more timely and up-to-date information to members applying for retirement or seeking to update their personal records. The annual statement provided to members regarding their account balances has also improved.
- We have enabled the Investment Staff to use more cost effective investment tools when rebalancing the portfolio. Our senior investment officers and consultants have worked diligently to achieve small, but significant, investment improvements in fixed income, real estate and the alternatives area of private equity.
- Our investment returns were 16.7%, which is twice the expected actuarial rate of return upon which we use to determine the liability value of all the promised benefits. This was an exceptional year and moved us to the level of \$11.9 billion. This helps keep our funded ratio at 108% (one of the highest public funds in the United States). More importantly, it will lead to paying the voter approved supplemental COLA for the Fiscal Year 2004-05 to retirees at the rate of 3% rather than 2%.
- Retirement seminars to educate active employees about their benefits increased. We continue to survey members for suggestions on how to improve these seminars and services in general. All this is part of our Communications Plan.
- The Retirement Board continues to improve our own rules of governance so the decision-making will improve. This helps set the policies for retirement counseling and investing that will benefit all the members.
- We continue to improve the Deferred Compensation savings plan that covers half of the active employees, including finding better investment choices and lowering fees for members.

The Retirement Board would like to thank our staff for their continued hard work and commitment.

With best wishes,

Joe Driscoll  
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 2003-2004 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 Term Ended: 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 2009
Michael Kim Private Equity Partner	Appointed Member February 2009
Herb Meiberger, C.F.A. Security Analyst, Retirement Department	Elected Member February 2007
Gerardo Sandoval Member, Board of Supervisors	Ex-Officio Member January 2005
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 Piket 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
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### **FISCAL DIVISION:**

Jim Burruel	Finance Manager
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### **ACTUARY DIVISION:**

Clare M. Murphy	Acting Actuary
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## HIGHLIGHTS OF RETIREMENT BOARD ACTIVITIES FOR FISCAL YEAR 2003-2004

### ◆ GENERAL ADMINISTRATIVE HIGHLIGHTS

As in recent years the Retirement Board continued its focus on Governance Principles and Policies throughout 2003-2004. The structure of the Board committees was finalized in July and appointments to the seven committees were approved in August of 2003. The standing committees are:

- Alternative Investment Committee
- Benefit Interpretation Review Committee
- Deferred Compensation Committee
- Finance Committee
- Governance Committee
- Personnel Committee
- Public Investment Committee

Over several meetings the Board reviewed and amended the Code of Conduct and revised the Monitoring and Reporting and Travel policies. Finally, in the governance area, the Board reviewed its fiduciary compliance and development efforts.

Consistent with the Board's Business Planning policy the Board adopted its second Business Plan to direct the development of the budget for 2004-2005 and reviewed the status of initiatives established for the 2003-2004 fiscal year.

Throughout the year the Board and the Personnel Committee pursued filling the position of Actuary. Despite strenuous recruitment efforts and the identification of a highly qualified candidate, the position remains unfilled.

The March 2004 meeting marked the conclusion of 15 years of service as a Retirement Board Trustee by William S. Breall, M.D. His colleagues thanked Dr. Breall for his dedication and care in serving the participants. At the April 2004 meeting, the Board welcomed Michael Kim to its membership, and in June the Board elected Mr. Joseph Driscoll as President and Ms. Brenda Wright as Vice-President. Supervisor Gerardo Sandoval continued to serve as the Board of Supervisors designee.

During Fiscal Year 2003-04, the Board addressed a number of the actuarial matters. In recognition of the potential impact of reinstating required employer contributions, the Retirement Board extended the actuarial review over a three month period and conducted two special meetings in addition to the three regular meetings prior to establishing the employer rate of contributions for 2004-2005 at 4.48% of covered payroll. In addition, the Board reviewed the cost analysis of several proposed charter amendments, including the targeted early retirement proposal.

In March, the Retirement Board carefully reviewed the basic cost of living report and adopted a 2% cost of living adjustment (COLA) 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, 2004. This basic COLA was payable on July 1, 2004. 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 2002-2003 fiscal year.

The Retirement Board received reports regarding outstanding litigation, most notably the determination of the California Supreme Court to deny review of the *Mason vs SFERS* Appeals Court decision affirming the Retirement System's method of benefit calculation.

## **HIGHLIGHTS OF RETIREMENT BOARD ACTIVITIES FOR FISCAL YEAR 2003-2004 (CONTINUED)**

### **◆ DEFERRED COMPENSATION**

The Retirement Board reviewed responses to the Request for Proposal for Plan Administrator (RFP) in 2003 and selected ING Life Insurance and Annuity Company to administer the Deferred Compensation Plan (“Plan”) with a five (5) year contract to expire in the year 2009. As a result of the RFP process, the Retirement Board elected to make changes to the core investment fund lineup effective January 30, 2004 which included a rate increase to the ING Fixed Account, the elimination of the Janus funds and ING JP Morgan Fleming International Portfolio.

The Retirement Board reviewed Investment Performance Analysis provided by Mercer Investment Consulting and KPMG Investment Advisors and appointed the Deferred Compensation Review Committee to evaluate the current fund lineup. Subsequent enhancements to the core investment fund lineup are expected in the 2004 – 2005 fiscal year. As a result of the recommendation of the Deferred Compensation Committee, the Retirement Board eliminated the following investment options from the core investment fund:

- Janus Twenty Fund
- Janus Aspen Series Worldwide Growth Portfolio - Institutional Shares
- Janus Aspen Series Balanced Portfolio – Institutional Series
- Janus Aspen Series Flexible Income Portfolio – Institutional Shares
- ING JP Morgan Fleming International Portfolio – Initial Class

Other significant enhancements to the Plan by the Retirement Board include implementation of the Investment Policy Statement and Unforeseeable Emergency Withdrawal Policy.

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 (“the Board”) reviewed the performance of the Trust Fund (“the Fund”) and the adherence to guidelines by individual managers. The Investment Division, working with the Fund’s General Consultant, Angeles Investment Advisors, completed four manager searches and also initiated searches for two new mandates: Currency Overlay and an Emerging Manager Program.

The Board continued the process of reviewing and revising manager investment guidelines. During the year, the Board approved investment guidelines for six new managers and revisions to guidelines for six existing managers. The Board also approved minor revisions to the structure of the International Equity sub-asset class allocation.

Also during the fiscal year, the Board received educational presentations on Real Estate Investment Trusts (REITs) and use of currency overlay programs in institutional portfolios.



## **HIGHLIGHTS OF RETIREMENT BOARD ACTIVITIES FOR FISCAL YEAR 2003-2004 (CONTINUED)**

**Following is a summary of the investment activities accomplished by the Retirement Board and Staff during the fiscal year 2003-2004, organized by major capital market segments.**

### **◆ Equity**

Modifications to the roster of Equity managers occurred throughout the fiscal year with the issuance of four Requests for Proposal. The Board approved a Staff recommendation to retain two international small cap managers to replace two managers who either underwent significant personnel changes or suffered performance difficulties. For similar reasons, the Board also approved replacement of one large cap international equity manager. In the US portfolio, a small/mid cap growth manager was selected to replace a small cap growth manager who had both lost senior personnel and experienced weak performance. In addition, a US large cap value manager was selected to actively manage a portfolio previously managed on an indexed basis.

An evaluation was conducted for employing a fund of funds of emerging managers. This evaluation resulted in the Board's adoption of a "Policy on Emerging Managers in Public Markets". Upon the adoption of the Policy, the Board authorized a Request for Proposal to retain a "Fund of Funds Manager" to assist in creation and oversight of an emerging manager program. After a thorough review, the Board determined that additional time was required for maturation of the fund of funds manager candidates before such a program could be implemented.

During the fiscal year, the Board was also presented with an educational session related to the use of currency management in International Equity portfolios, which led to the Board's authorization of a Request for Proposal to retain manager(s) for currency management. This search was still in process at the end of the fiscal year.

Finally, 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 Fund.

### **◆ Fixed Income**

There were no Fixed Income manager changes required in fiscal year 2003-2004.

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 Fund.

### **◆ Alternative Investments**

The Board approved an annual investment plan for Alternative Investments that recommended an investment pace of approximately \$150 million for the calendar year 2004. The new commitments were made to a diversified set of private equity limited partnerships sponsored by the existing Alternative Investment managers, and/or by newly selected investment firms that appear to have strategies which will enhance the Portfolio. As of June 30, 2004, the market value of Alternative Investments was \$1.3 billion, or 11% of the total Fund assets.

◆ **Real Estate**

Throughout the fiscal year, the Board continued to monitor the Real Estate's underweight to the target exposure. Looking ahead, Real Estate will focus closely on asset quality and sustainable cash flow before making new acquisitions. SFERS continues to find Real Estate an attractive asset class, and on a longer-term, risk/reward basis, Real Estate should continue to contribute to SFERS' diversified investment program.

As of June 30, 2004, the market value of Real Estate \$958 million, or 8% of the 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.

#### **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. The Retirement Board has appointed Executive Director Clare Murphy as Acting Actuary until the position of in-house actuary is filled.

#### **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 Life Insurance and Annuity Company. The Deferred Compensation division administers the hardship withdrawal program, qualified domestic relations orders, payroll deferrals, request for proposals, and review of investment fund assessments.

During the past year the Deferred Compensation Plan grew in assets and in number of participants. The Plan offers a diverse selection of 20 core investment funds including a fixed account and access to a self-directed brokerage option.

The following table provides detailed information related to the City's Deferred Compensation Plan Fiscal Year 2003-2004.

**CITY AND COUNTY OF SAN FRANCISCO 457 PLAN**  
**DEFERRED COMPENSATION: CHANGES IN PLAN VALUES**  
**ING Financial Advisors, LLC**  
**06/30/03 – 06/30/04**

<b>FUND NAME</b>	<b>ASSETS AS OF 06/30/2003</b>	<b>ASSETS AS OF 06/30/2004</b>
ING FIXED ACCOUNT – 457/401	\$362,118,045	\$396,390,597
JANUS TWENTY FUND	\$84,492,784	0.00*
ING T. ROWE PRICE GROWTH EQUITY PORTFOLIO – INITIAL CLASS	\$71,348,634	\$163,632,766
ING VP BALANCED PORTFOLIO INC. – CLASS I	\$64,965,016	\$108,846,613
AIM V.I. CAPITAL APPRECIATION FUND – SERIES I SHARES	\$54,589,143	\$64,534,932
JANUS ASPEN SERIES WORLDWIDE GROWTH PORTFOLIO – INST. SHARES	\$35,970,708	0.00*
ING VP INDEX PLUS LARGE CAP PORTFOLIO – CLASS I	\$35,345,018	\$41,506,397
JANUS ASPEN SERIES BALANCED PORTFOLIO – INST. SHARES	\$35,286,424	0.00*
ING VP BOND PORTFOLIO – CLASS I	\$29,042,371	\$31,338,631
ARIEL FUND	\$23,952,694	\$45,777,967
ING VP MONEY MARKET PORTFOLIO – CLASS I	\$17,066,411	\$13,085,025
JANUS ASPEN SERIES FLEXIBLE INCOME PORTFOLIO – INST. SHARES	\$13,373,460	0.00*
ING JP MORGAN FLEMING INTERNATIONAL PORTFOLIO – INITIAL CLASS	\$12,147,839	0.00*
ING VP VALUE OPPORTUNITY PORTFOLIO – CLASS I	\$11,948,494	\$16,275,089
VANGUARD® 500 INDEX FUND – INVESTOR SHARES	\$10,781,988	\$30,371,403
ING VP GROWTH PORTFOLIO – CLASS I	\$10,290,803	\$12,813,647
ING VP SMALL COMPANY PORTFOLIO – CLASS I	\$5,831,393	\$16,388,470
ING ULTIMATE ACCOUNT	\$4,982,781	\$5,931,795
CITIZENS EMERGING GROWTH FUND® - ADMINISTRATIVE SHARES	\$3,534,546	\$6,122,114
CCSF MID TERM PORTFOLIO	\$2,382,717	\$12,017,494
CCSF LONG TERM PORTFOLIO	\$1,373,683	\$8,490,028
ING VP INDEX PLUS MIDCAP PORTFOLIO – CLASS I	\$1,248,419	\$11,143,154
ING JP MORGAN MIDCAP VALUE PORTFOLIO – INITIAL CLASS	\$1,186,601	\$5,902,550
CCSF NEAR TERM PORTFOLIO	\$1,031,009	\$3,226,595
ING VP INTERNATIONAL VALUE PORTFOLIO – CLASS I	\$834,000	\$61,868,012
<b>TOTAL INVESTMENT FUNDS AT ING FINANCIAL ADVISORS, LLC</b>	<b>\$895,124,981</b>	<b>\$1,055,663,279</b>
<b>TOTAL ANNUITY ASSETS AT ING FINANCIAL ADVISORS, LLC</b>	<b>1,826,273</b>	<b>\$1,760,703</b>
<b>TOTAL ANNUITY ASSETS AT HARTFORD</b>	<b>30,248,164</b>	<b>\$28,553,634</b>
<b>TOTAL PLAN ASSETS</b>	<b>\$927,199,418</b>	<b>\$1,085,977,616</b>

\* Investment Option Closed January 30, 2004

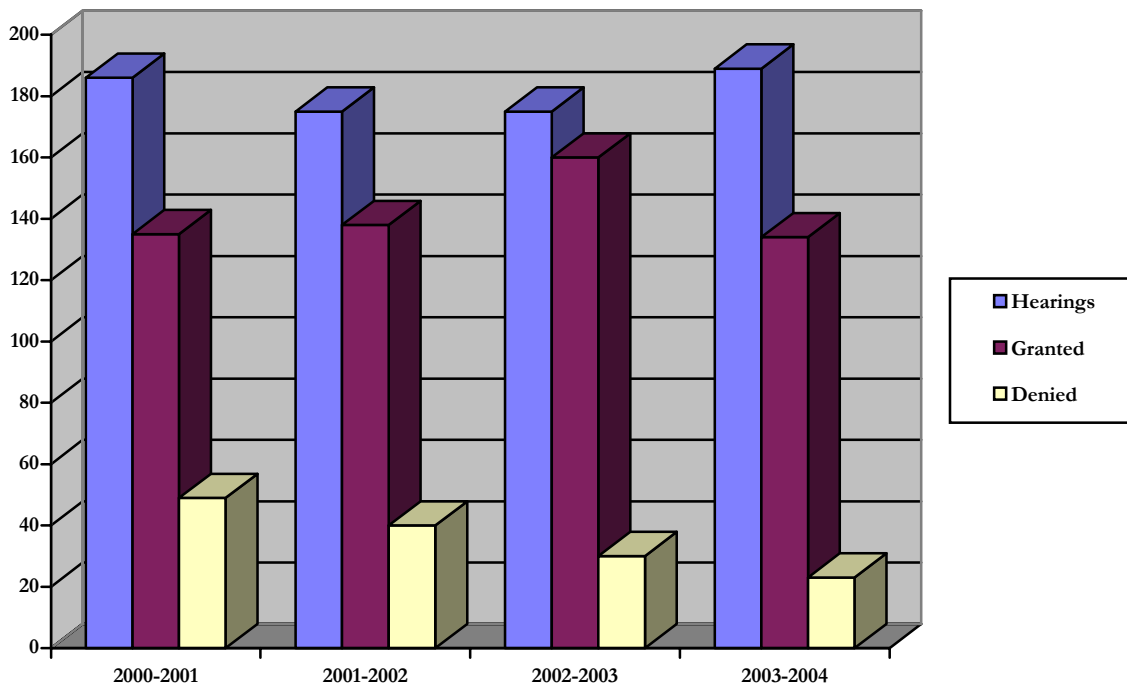
Number of Active Plan Participants:	21,535
Number of Retirees Not Receiving Benefits	622
Retirees Receiving Benefits from Hartford:	577
Retirees Receiving Benefits from ING:	1,032
 Total Retiree Assets:	 \$195,475,970

## HEARING OFFICER REPORT FISCAL YEAR ENDED JUNE 30, 2004

CASES	TOTAL NO. OF HEARINGS	TOTAL NO. GRANTED	TOTAL NO. DENIED
INDUSTRIAL DISABILITY RETIREMENTS	77	45	5
ORDINARY DISABILITY RETIREMENTS	97	78	3
DEATH BENEFITS	6	4	3
PETITIONS FOR REHEARING	0	0	10
PERS	7	5	2
REINSTATEMENTS	2	2	0
<b>TOTAL</b>	<b>189</b>	<b>134</b>	<b>23</b>

\*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 70 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. The 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, 2004, approximately 22% of SFERS Trust Fund assets were managed internally, including \$714.8 million in domestic bonds and \$1.9 billion in domestic equities. The balance of the portfolio was managed externally by investment firms specializing in asset classes including Domestic and Global Fixed Income, Domestic and International Equities, Real Estate and Alternative Investments.

### **INVESTMENT PERFORMANCE HIGHLIGHTS FOR FISCAL YEAR ENDED JUNE 30, 2004**

For the fiscal year ended June 30, 2004, the Investment Portfolio of the Retirement System was a beneficiary of a rebound in economic and capital market growth, ending the fiscal year with a return of 16.34%. Total Equity (Domestic and International combined) resumed its double-digit growth to 25.46% and Alternative Investments 22.68%. Fixed Income returned 3.26% and Real Estate returned 12.60% as reported by The Townsend Group, the SFERS Real Estate Consultant.

#### ◆ **Equity**

The combined return of Domestic Equity and International Equity of 25.46% marked the first fiscal year of positive result since June 2000. US Equity return of 21.46% exceeded the Russell 3000 benchmark return of 20.46% by 1.0%. The very strong performance of small cap stocks contributed significantly with returns nearly twice those of other holdings. International Equity return of 34.08% exceeded the benchmark of 32.03% by 2.05%, contributed to mainly by the strong performance of the emerging markets sector.

#### ◆ **Fixed Income**

A strengthening economy and less accommodative monetary policy combined to increase short-term interest rates during the latter part of the fiscal year. As a result, Fixed Income had a low but relatively good performance within the Fund, turning in a 3.26% rate of return for the fiscal year ending June 30, versus the benchmark return of 0.85%. Domestic Fixed Income return of 3.07% for the fiscal year was relatively good. Exposure to Global Fixed Income, which provided a fiscal year return of 3.77%, enhanced the return of Total Fixed Income further.

#### ◆ **Alternative Investments**

The Alternative Investment Portfolio provided a return of 22.68% for the fiscal year ended June 30, 2004. Over a ten-year investment period, the Portfolio provided a 17.23% annualized return, which

## INVESTMENT DIVISION (Continued)

successfully achieved its benchmark return. The benchmark for Alternative Investments is the S&P 500 plus 500 basis points.

### ◆ Real Estate

As part of its continuous review process, the Board approved a new Real Estate benchmark, which is 200 basis points above the National Property Index (NPI). Real Estate assets were sold at higher than historical valuations and the sales proceeds along with debt were used to acquire cash generating Core assets, both of which contributed to the achievement of above benchmark performance. Real Estate return of 12.6% outperformed the NPI return of 10.8% by 1.8% for the fiscal year ended 2004. For the three-year and five-year periods, Real Estate returned 10.1% and 10.8%, exceeding the NPI returns of 8.0% and 9.4% by 2.1% and 1.4% respectively.

## INVESTMENT PORTFOLIO PERFORMANCE

### ANNUALIZED RETURNS FOR THE PERIODS ENDING 6/30/2004

	One Year	3 Years	5 Years
DOMESTIC EQUITY (benchmark: Russell 3000)	21.46% 20.46%	1.12% 0.15%	-0.15% -1.07%
INTERNATIONAL EQUITY (benchmark: MSCI ACWI Free ex US)	34.08% 32.03%	5.01% 4.87%	2.86% 0.70%
DOMESTIC FIXED INCOME (benchmark: Lehman Universal/Aggregate)	3.07% 1.01%	8.82% 6.66%	8.37% 7.05%
GLOBAL FIXED INCOME (benchmark: Lehman Global Aggregate/CG WGBI)	3.77% 0.21%	9.46% 5.17%	8.64% 4.69%
REAL ESTATE (benchmark: National Property Index+2%)	12.60% 13.10%	10.10% 10.10%	10.80% 11.60%
ALTERNATIVE ASSETS (benchmark: S&P500 + 6% through 12/31/02 plus S&P500 + 5% thereafter)	22.68% 25.11%	-1.54% 5.31%	10.16% 3.8%
<b>TOTAL FUND</b> <b>(weighted policy benchmark)</b>	<b>16.34%</b> <b>15.15%</b>	<b>4.54%</b> <b>3.97%</b>	<b>4.73%</b> <b>2.92%</b>

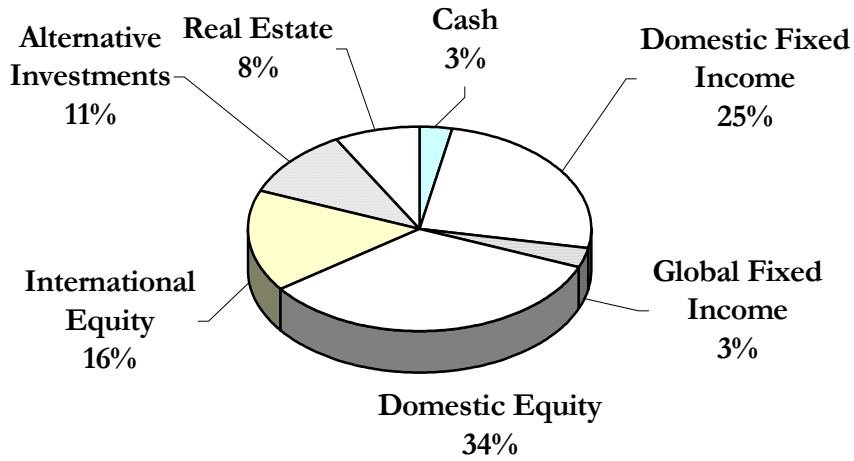
*Source: Real Estate returns as calculated by the Townsend Group. All other returns as calculated by The Northern Trust Company.*

The following pages contain charts illustrating:

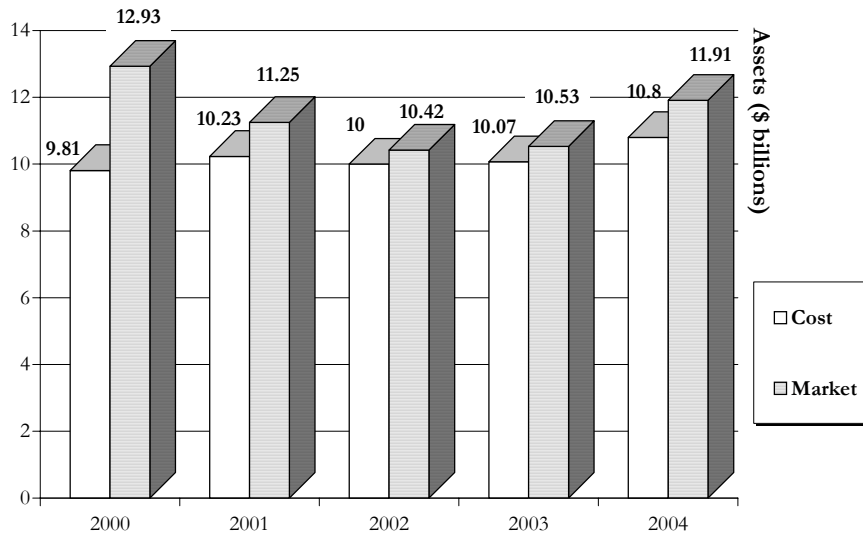
- ◆ Asset Allocation as of June 30, 2004
- ◆ SFERS Trust Fund Assets
- ◆ Investment Portfolio Performance
- ◆ Investment Earnings and Assets
- ◆ Portfolio Investment as of June 30, 2004



## ASSET ALLOCATION AS OF JUNE 30, 2004 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:

2004	2003	2002
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**INVESTMENT EARNINGS**

EQUITY DIVIDEND INCOME	\$ 95,691,417	\$ 73,414,536	\$ 63,875,140
REAL ESTATE INCOME	58,276,612	45,588,220	48,951,277
ALTERNATIVE INVESTMENT INCOME	40,142,042	2,082,909	(6,686,655)
REALIZED GAINS/(LOSS)	649,859,830	(57,840,866)	(324,762,200)
UNREALIZED GAINS/(LOSS)	721,511,931	181,844,163	(539,134,907)
OTHER INCOME: INTEREST, SECURITIES LENDING, DOLLAR ROLL AND RECAPTURED COMMISSIONS	170,107,106	182,580,112	224,561,374
<b>TOTAL INVESTMENT EARNINGS</b>	<b>\$ 1,735,588,938</b>	<b>\$ 427,669,074</b>	<b>(\$ 533,195,971)</b>

FISCAL YEAR ENDED JUNE 30:

2004	2003	2002
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**PORTFOLIO ASSETS - FAIR VALUE**

FIXED INCOME	\$ 3,381,353,573	\$ 3,015,932,047	\$ 3,374,601,919
EQUITIES	5,947,900,326	5,002,450,859	4,796,110,459
REAL ESTATE	958,368,355	953,533,290	820,844,105
ALTERNATIVE INVESTMENTS	1,311,960,487	1,249,167,293	1,218,142,257
MONEY MARKET ASSETS	307,606,100	305,012,031	203,444,843
<b>TOTAL FAIR VALUE OF PORTFOLIO</b>	<b>\$ 11,907,188,841</b>	<b>\$ 10,526,095,520</b>	<b>\$ 10,413,143,583</b>

**SAN FRANCISCO CITY AND COUNTY EMPLOYEE RETIREMENT  
SYSTEM**

**SUMMARY OF ASSETS AS OF JUNE 30, 2004**

CATEGORY	COST	% OF TOTAL	MARKET	% OF TOTAL
<b>CASH &amp; CASH EQUIVALENTS</b>	\$ 271,935,419.95	2.50%	\$ 307,606,100.34	2.58%
<b>EQUITIES</b>				
BASIC INDUSTRIES	160,584,806.21	1.48%	196,857,457.86	1.65%
CAPITAL GOODS INDUSTRIES	181,739,767.69	1.67%	265,349,616.03	2.23%
CONSUMER DURABLES	54,147,288.64	0.50%	68,454,560.52	0.57%
CONSUMER NON-DURABLES & SERVICES	898,344,002.12	8.27%	1,190,223,174.47	10.00%
ENERGY	157,095,736.20	1.45%	221,941,018.07	1.86%
FINANCIAL SERVICES	716,578,562.88	6.60%	914,469,579.85	7.68%
MISCELLANEOUS	136,919,051.24	1.26%	330,341,163.78	2.77%
TECHNOLOGY	509,934,345.31	4.70%	576,959,497.68	4.85%
UTILITIES	463,811,212.11	4.27%	484,116,009.26	4.07%
FOREIGN STOCK	1,436,318,519.39	13.23%	1,699,188,248.12	14.27%
<b>EQUITIES SUBTOTAL</b>	4,715,473,291.79	43.42%	5,947,900,325.64	49.95%
<b>FIXED INCOME</b>				
BASIC INDUSTRIES	321,402,834.56	2.96%	318,812,792.96	2.68%
CAPITAL GOODS INDUSTRIES	28,434,290.84	0.26%	30,229,746.80	0.25%
CONSUMER DURABLES	3,374,655.00	0.03%	3,456,262.49	0.03%
CONSUMER NON-DURABLES & SERVICES	115,868,878.13	1.07%	117,437,709.36	0.99%
ENERGY	23,508,740.78	0.22%	24,119,040.87	0.20%
FINANCIAL SERVICES	771,898,749.24	7.11%	797,189,847.87	6.70%
MISCELLANEOUS	195,433,531.21	1.80%	217,187,947.98	1.82%
MORTGAGES	98,687,426.33	0.91%	96,936,966.60	0.81%
TECHNOLOGY	19,576,954.01	0.18%	17,631,742.49	0.15%
US GOVERNMENT	1,294,939,903.62	11.92%	1,263,546,840.08	10.61%
UTILITIES	43,113,037.23	0.40%	44,187,529.66	0.37%
FOREIGN GOVERNMENT AND CORPORATE	417,789,389.54	3.85%	450,617,146.14	3.78%
<b>FIXED INCOME SUBTOTAL</b>	3,334,028,390.49	30.70%	3,381,353,573.30	28.40%
<b>OTHER INVESTMENTS</b>				
<b>REAL ESTATE</b>	983,992,461.00	9.06%	958,368,355.00	8.05%
<b>VENTURE CAPITAL &amp; PARTNERSHIPS</b>	1,555,077,666.91	14.32%	1,311,960,486.72	11.02%
<b>OTHER INVESTMENTS SUBTOTAL</b>	2,539,070,127.91	23.38%	2,270,328,841.72	20.90%
<b>GRAND TOTAL</b>	<b>\$ 10,860,507,230.14</b>	<b>100.00%</b>	<b>\$ 11,907,188,841.00</b>	<b>100.00%</b>

## 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 are members of the Social Security System since September 1959 (City Charter § 8.514). In the past, members covered under Social Security were able to elect to reduce their contributions to the Retirement System by a portion of the amount contributed to Social Security annually. These members accrued account shortages and will have reduced pensions upon retirement if the shortages are not paid prior to retirement.

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 (e.g., deputized personnel of the Sheriff's Department, institutional police officers, district attorney investigators, and probation officers are members of CalPERS; school teachers are members of the State Teachers Retirement System).

On September 1, 1995, Retirement System membership rules were changed: employees who earn 1040 hours of compensation or more 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 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 under provisions of Proposition H passed by the voters in November 2002.

SFERS Plan Membership Charter References:

<b>CHARTER SECTION</b>	<b>EMPLOYEE GROUP</b>
8.509	Miscellaneous employees who became members before November 2, 1976
8.587	Miscellaneous employee who became members on or after November 2, 1976
8.559	Police officers who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003
8.559-14 and 8.586	Police officers who elected 1981 Proposition F (Buyout) benefits
8.595	Police officers who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003
8.597	Police officers who became members on or after November 2, 1976 and were eligible for Proposition H benefits effective January 1, 2003
8.585	Firefighters who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003
8.585-14 and 8.588	Firefighters who elected 1981 Proposition F (Buyout) benefits
8.596	Firefighters who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003
8.598	Firefighters who became members on or after November 2, 1976 and were eligible for 2002 Proposition H benefits effective January 1, 2003

## 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, 2004, there were 29,470 members of the Miscellaneous Plans, 2,231 members of the Police Plans and 1,681 members of the Firefighter Plans.

### SFERS ACTIVE MEMEBERSHIP AS OF JUNE 30, 2004

PLAN MEMBERSHIP GROUP	NUMBER OF ACTIVE MEMBERS			
	ACTIVE	VESTED	RECIPROCAL	TOTAL
<b>OLD MISCELLANEOUS PLAN</b> MEMBERS BEFORE NOVEMBER 2, 1976	1,638	23	10	1,671
<b>NEW MISCELLANEOUS PLAN</b> MEMBERS ON OR AFTER NOVEMBER 2, 1976	26,175	929	695	27,799
<b>OLD POLICE PLAN</b> MEMBERS BEFORE NOVEMBER 2, 1976	120	0	0	120
<b>NEW POLICE PLAN</b> MEMBERS ON OR AFTER NOVEMBER 2, 1976	2,063	31	17	2,111
<b>OLD FIREFIGHTER PLAN</b> MEMBERS BEFORE NOVEMBER 2, 1976	123	0	0	123
<b>NEW FIREFIGHTER PLAN</b> MEMBERS ON OR AFTER NOVEMBER 2, 1976	1,540	12	6	1,558
<b>TOTALS:</b>	<b>31,659</b>	<b>995</b>	<b>728</b>	<b>33,382</b>

Miscellaneous Plan members comprise approximately 88.2% of the total SFERS Plan membership, with approximately 5.7% of the total Miscellaneous Plan members being employees who were hired before November 2, 1976.

Police officers and firefighters comprise approximately 6.7% and 5.0% of the total membership, respectively.

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

<b>COVERED PLAN YEAR</b>	<b>POLICE</b>	<b>FIREFIGHTER</b>	<b>MISCELLANEOUS</b>
1995-1996 (1 <sup>ST</sup> HALF)	14.79%	12.44%	4.98%
1995-1996 (2 <sup>ND</sup> HALF)	12.69%	10.58%	4.29%
1996-1997 (1 <sup>ST</sup> HALF)	0%	0%	1.83%
1996-1997 (2 <sup>ND</sup> HALF)	0%	0%	0%
1998-2004	0%	0%	0%

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

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

<b>PLAN MEMBERSHIP GROUP</b>	<b>RATE OF CONTRIBUTION</b>
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 2002-2003 and 2003-2004:

ACTIVITY	2002-2003	2003-2004
RETIREMENT APPOINTMENTS	1669	1475
RETIREMENT APPLICATIONS PROCESSED	950	1123
BUYBACK APPOINTMENTS	1597	2613
PERSONNEL TRANSACTIONS:	1703	1559
NEW MEMBERS (NEW HIRES)	844	758
NEW MEMBERS (1040 HOURS MEMBERSHIP)	591	598
REHIRES	127	114
FIRE RECRUITS	48	0
POLICE RECRUITS	84	89
SHERIFF RECRUITS	9	0
VISITORS	11,855	11,782
INCOMING CORRESPONDENCE	12,303	13,698
HOME VISITS	23	24
GROUP PRESENTATIONS	7	18
BENEFICIARY CHANGES	1335	1351
REFUND PACKETS	1114	1283
VERIFICATION OF PENSION OR BENEFIT DATA	697	1224
ELECTRONIC FUND TRANSFER (NEW AND CHANGES)	2461	2321
OTHER ACTIVITIES (ADDRESS CHANGES, NAME CHANGES, ETC.)	2044	2193
PRE-RETIREMENT SEMINARS	6	4
REGISTERED ATTENDEES AT PRE-RETIREMENT SEMINARS	763	748
MID-CAREER RETIREMENT PLANNING SEMINARS	1	2
REGISTERED ATTENDEES AT MID-CAREER SEMINARS	156	198
NEW MEMBER RETIREMENT PLANNING SEMINARS	1	1
REGISTERED ATTENDEES AT NEW MEMBER SEMINARS	83	98

Retirement appointments decreased 11.6% and retirement applications processed increased 18.2% in Plan Year 2003-2004 over the prior Plan Year.

SFERS Retirement Services Division staff sponsored and conducted four pre-retirement seminars during Plan Year 2003-2004 that provided individualized benefit counseling for 763 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 seminars sponsored by the Police Officers Association, the Unified School District and the Community College District.

**SFERS Plan Member Communications:** During Plan Year 2003-2004, SFERS Retirement Services Division produced and distributed over 33,700 Annual Member Statements to active SFERS members.



## SFERS RETIREMENT STATISTICS FOR PLAN YEAR ENDED JUNE 30, 2004

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2003-2004, as well as benefits payment summaries and comparisons:

### NEW RETIREMENTS EFFECTIVE DURING PLAN YEAR ENDED JUNE 30, 2004

MEMBER GROUP	SERVICE	VESTING	INDUSTRIAL DISABILITY	ORDINARY DISABILITY	TOTAL
MISCELLANEOUS	586	195	N/A	40	821
FIREFIGHTER	78	0	12	0	90
POLICE	67	1	5	0	73
<b>TOTALS:</b>	<b>* 731</b>	<b>196</b>	<b>17</b>	<b>40</b>	<b>984</b>

\*Total service retirements in Plan Year 2003-2004 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 effective during Plan Year 2003-2004 was 1.9% higher than retirements in Plan Year 2002-2003. Service retirements represent 74.3% of the total of new retirements processed.

Miscellaneous retirements represented 83.4% of the total retirements processed in Plan Year 2003-2004, an increase from 77.6% in Plan Year 2002-2003.

Firefighter retirements represented 9.2% of the total retirements processed in Plan Year 2003-2004, a decrease from 13.3% in Plan Year 2002-2003.

Police retirements represented 7.4% of the total retirements processed in Plan Year 2003-2004, a decrease from 9.1% in Plan Year 2002-2003.

### MISCELLANEOUS PLAN MEMBERS PLAN YEAR ENDED JUNE 30, 2004 SERVICE CREDIT AT RETIREMENT

YEARS OF SERVICE	SERVICE RETIREMENT	VESTING RETIREMENT	ORDINARY DISABILITY	TOTAL	PERCENT OF TOTAL
0-4	11	0	0	11	1.3%
5-9	12	117	1	130	15.8%
10-14	85	31	18	134	16.3%
15-19	103	41	13	157	19.1%
20-24	130	4	4	138	16.8%
25-29	97	2	2	101	12.3%
30-34	91	0	1	92	11.2%
35-39	53	0	1	54	6.6%
40 and above	4	0	0	4	0.5%
<b>TOTAL</b>	<b>586</b>	<b>195</b>	<b>40</b>	<b>821</b>	<b>100.0%</b>
<b>PERCENT</b>	<b>71.4%</b>	<b>23.7%</b>	<b>4.9%</b>	<b>100.0%</b>	

Approximately 69.4% of the total Miscellaneous Plan retirements had less than 25 years of service. The average number of years of service credited to Miscellaneous Plan retirees who retired in Plan Year 2003-2004 was 19.9 years.

Miscellaneous Plan service retirees were credited with an average of 23.2 years of service while those who retired for ordinary disability were credited with an average of 16.6 years of service.

### AGE AT RETIREMENT

AGE	SERVICE	VESTING	ORDINARY DISABILITY	TOTAL	PERCENT OF TOTAL
UNDER 55	45	108	23	176	21.4%
55-59	110	49	17	176	21.4%
60-64	256	28	0	284	34.6%
65 AND OVER	175	10	0	185	22.6%
<b>TOTAL</b>	<b>586</b>	<b>195</b>	<b>40</b>	<b>821</b>	<b>100.0%</b>

The average age of all Miscellaneous Plan members who retired in Plan Year 2003-2004 was 59.9 years; the average age of Miscellaneous Plan members who retired for Ordinary Disability was 50.9 years.

**POLICE AND FIREFIGHTER PLAN MEMBERS  
PLAN YEAR ENDED JUNE 30, 2004**

**SERVICE CREDIT AT RETIREMENT  
FOR PLAN YEAR ENDED JUNE 30, 2004**

YEARS OF SERVICE	SERVICE RETIREMENTS	VESTING RETIREMENTS	INDUSTRIAL DISABILITY*	TOTAL	PERCENT OF TOTAL
0-4	0	0	0	0	0.0%
5-9	7	0	4	11	6.8%
10-14	0	0	2	2	1.2%
15-19	1	0	2	3	1.8%
20-24	8	1	0	9	5.5%
25-29	46	0	2	48	29.4%
30-34	73	0	5	78	47.9%
35 AND OVER	10	0	2	12	7.4%
<b>TOTAL</b>	<b>145</b>	<b>1</b>	<b>17</b>	<b>163</b>	<b>100%</b>
<b>PERCENT</b>	<b>89.0%</b>	<b>0.6%</b>	<b>10.4%</b>	<b>100%</b>	

\* There were no Ordinary Disability retirements processed for Police and Firefighter Plan members in Plan Year 2003-2004

Approximately 15.3% of the total Police and Firefighter Plan retirements had less than 25 years of service. The average number of years of service credited to Police and Firefighter Plan retirees who retired in Plan Year 2003-2004 was 28.5 years.

Police and Firefighter Plan service retirees were credited with an average of 29.4 years of service while those who retired for industrial disability were credited with an average of 21.4 years of service.

**AGE AT RETIREMENT  
FOR PLAN YEAR ENDED JUNE 30, 2004**

AGE	SERVICE	VESTING	INDUSTRIAL DISABILITY	TOTAL	PERCENT OF TOTAL
UNDER 55	49	1	9	59	36.2%
55-59	74	0	5	79	48.5%
60-64	20	0	3	23	14.1%
65 AND OVER	2	0	0	2	1.2%
<b>TOTAL</b>	<b>145</b>	<b>1</b>	<b>17</b>	<b>163</b>	<b>100.0%</b>

The average age of all Police and Firefighter Plan members who retired in Plan Year 2003-2004 was 55.8 years.

**TOTAL RETIREMENT ALLOWANCES AS OF JUNE 30, 2004**  
**RETIRED MEMBERS AND SURVIVOR CONTINUATION BENEFITS**

MEMBER CATEGORY	SERVICE RETIREMENTS	DISABILITY RETIREMENTS*	DEATH IN LINE OF DUTY	TOTAL
<b>NUMBER OF RETIREMENT ALLOWANCES AS OF 6/30/2004:</b>				
<b>MISCELLANEOUS</b>	<b>13,057</b>	<b>1,851</b>	<b>N/A</b>	<b>14,908</b>
MEMBER	10,766	1,311	N/A	12,077
CONTINUATION	2,291	540	N/A	2,831
<b>FIREFIGHTER</b>	<b>878</b>	<b>902</b>	<b>43</b>	<b>1,823</b>
MEMBER	621	649	-	1,270
CONTINUATION	257	253	43	553
<b>POLICE</b>	<b>1,222</b>	<b>766</b>	<b>55</b>	<b>2,043</b>
MEMBER	914	488	-	1,402
CONTINUATION	308	278	55	641
<b>TOTAL</b>	<b>15,157</b>	<b>3,519</b>	<b>98</b>	<b>18,774</b>

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

As of June 30, 2004, the total number of retirement allowances paid to retired members represented 78.6% of the total allowances paid; continuation allowances represented 21.4% of the total allowances paid.

**MONTHLY RETIREMENT BENEFITS PAYABLE AS OF JUNE 30, 2004**  
**RETIRED MEMBERS AND SURVIVOR CONTINUATION BENEFITS**

MEMBER CATEGORY	SERVICE RETIREMENTS	DISABILITY RETIREMENTS*	DEATH IN LINE OF DUTY	TOTAL
<b>MONTHLY RETIREMENT BENEFITS PAYABLE AS OF JUNE 30, 2004:</b>				
<b>MISCELLANEOUS</b>	<b>\$ 23,044,942</b>	<b>\$ 2,444,488</b>	<b>N/A</b>	<b>\$ 25,489,430</b>
<b>FIREFIGHTER</b>	<b>4,185,738</b>	<b>3,710,524</b>	<b>\$ 120,573</b>	<b>8,016,835</b>
<b>POLICE</b>	<b>5,088,275</b>	<b>2,451,325</b>	<b>168,541</b>	<b>7,708,141</b>
<b>TOTAL</b>	<b>\$ 32,318,955</b>	<b>\$ 8,606,337</b>	<b>\$ 289,114</b>	<b>\$ 41,214,406</b>

\*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 2003-2004.

Monthly retirement allowances paid to service retirees represented 78.4% of the total monthly retirement allowances and monthly disability benefits represented 20.9% of the total monthly retirement allowances paid during Plan Year 2003-2004.

## DEATH BENEFITS PAID – 3 YEAR COMPARISON

PLAN YEAR	2003-2004	2002-2003	2001-2002
<b>NUMBER OF DEATHS:</b>			
ACTIVE MEMBERS	55	57	52
RETIRED MEMBERS	530	513	568
CONTINUANTS	191	214	183
<b>TOTAL</b>	<b>776</b>	<b>784</b>	<b>803</b>
<b>NUMBER OF DEATH BENEFITS PAID:</b>			
<b>DUE TO ACTIVE MEMBER DEATHS</b>			
REFUND OF CONTRIBUTIONS	81	72	63
INDUSTRIAL DEATH ALLOWANCES	0	0	0
6 MONTHS EARNABLE SALARY	77	70	57
<b>SUBTOTAL</b>	<b>158</b>	<b>142</b>	<b>120</b>
<b>DUE TO RETIRED MEMBER DEATHS</b>			
CONTINUATION	276	250	249
OPTION 1 (REFUND OF MEMBER ACCUMULATED CONTRIBUTIONS)	34	42	30
\$100/YEAR FOR EACH YEAR OF SERVICE (MAXIMUM \$3,000)	606	618	519
<b>SUBTOTAL</b>	<b>916</b>	<b>910</b>	<b>798</b>
<b>TOTAL</b>	<b>1074</b>	<b>1052</b>	<b>918</b>

The number of death notices received during Plan Year 2003-2004 decreased by 1.0% from Plan Year 2002-2003.

There was an 11.3% increase in the number of benefits paid due to the death of active members in Plan Year 2003-2004 from the previous Plan Year. In Plan Year 2003-2004, the total number of death benefits payments processed due to the deaths of active and retired members increased 2.1% over the previous Plan Year.

## WITHDRAWAL OF CONTRIBUTIONS – 3 YEAR COMPARISON

	MEMBER ACCOUNTS	PERCENT VARIANCE PRIOR YEAR	AMOUNT WITHDRAWN	PERCENT VARIANCE PRIOR YEAR
<b>AS OF 6/30/2004</b>				
MISCELLANEOUS	681		\$ 7,179,989	
FIREFIGHTER	2		42,737	
POLICE	25		435,118	
<b>TOTAL</b>	<b>708</b>	<b>(15.4%)</b>	<b>\$ 7,657,844</b>	<b>(6.8%)</b>
<b>AS OF 6/30/2003</b>				
MISCELLANEOUS	817		\$ 7,955,804	
FIREFIGHTER	4		104,476	
POLICE	16		153,997	
<b>TOTAL</b>	<b>837</b>	<b>(36.9%)</b>	<b>\$ 8,214,277</b>	<b>(15.2%)</b>
<b>AS OF 6/30/2002</b>				
MISCELLANEOUS	1280		\$ 9,232,179	
FIREFIGHTER	13		140,111	
POLICE	33		318,718	
<b>TOTAL</b>	<b>1326</b>	<b>(3.8%)</b>	<b>\$ 9,691,008</b>	<b>(8.5%)</b>

## 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, 2004, and 2003 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, 2004. 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**

DESCRIPTION OF EXPENDITURES	RETIREMENT SERVICES/ADMINISTRATION		
	2003-2004	2002-2003	2001-2002
PERSONNEL SERVICES	\$ 4,386,050	\$ 4,500,386	\$ 4,061,839
EQUIPMENT PURCHASE	77,999	74,669	337,752
MATERIALS AND SUPPLIES	132,526	88,733	47,862
SERVICES OF OTHER DEPARTMENTS	4,795,078	4,941,764	6,174,528
OTHER SERVICES	1,318,664	1,139,438	1,204,578
<b>TOTAL</b>	<b>\$ 10,710,317</b>	<b>\$ 10,744,990</b>	<b>\$ 11,826,559</b>

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

DESCRIPTION OF EXPENDITURES	INVESTMENT DIVISION		
	2003-2004	2002-2003	2001-2002
PERSONNEL SERVICES	\$ 1,429,766	\$ 1,427,269	\$ 1,499,912
EQUIPMENT PURCHASE	0	7,105	21,654
MATERIALS AND SUPPLIES	12,314	6,660	10,024
SERVICES OF OTHER DEPARTMENTS	287,425	610,800	344,631
OTHER SERVICES	22,581,091	18,638,294	16,121,908
<b>TOTAL</b>	<b>\$ 24,310,596</b>	<b>\$ 20,690,128</b>	<b>\$ 17,998,129</b>

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

<b>GRAND TOTAL</b>	<b>\$ 35,20,913</b>	<b>\$ 31,435,118</b>	<b>\$ 29,824,688</b>
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**SFERS PENSION FUND INVESTMENT INCOME  
FISCAL YEAR 2002-2003**

	REALIZED GAIN/LOSS	UNREALIZED GAIN/LOSS	TOTAL
<b>INCOME</b>			
CITY AND COUNTY CONTRIBUTIONS			\$ -
EMPLOYEE CONTRIBUTIONS			170,550,162
INTEREST EARNED			161,532,291
DIVIDENDS EARNED			95,691,417
SECURITIES LENDING INCOME-NET			6,604,340
DOLLAR ROLL INCOME – NET			1,155,092
RECAPTURED COMMISSION INCOME – NET			438,923
REAL ESTATE INCOME			58,276,612
ALTERNATIVE INVESTMENT INCOME			40,142,042
INVESTMENT EXPENSES			(24,323,833)
<b>TOTAL INCOME:</b>			<b>\$ 510,067,046</b>
<b>NET APPRECIATION IN FAIR VALUES</b>			
SHORT-TERM SECURITIES	\$ 656,403	\$ (7,642,741)	\$ (6,986,338)
EQUITIES	447,862,682	720,680,501	1,168,543,183
DEBT SECURITIES	39,907,336	(91,485,729)	(51,578,393)
REAL ESTATE	28,057,783	6,543,201	34,600,984
VENTURE CAPITAL	133,291,773	93,416,699	226,708,472
OTHER ASSETS	83,853	0	83,853
<b>TOTAL NET APPRECIATION:</b>	<b>\$ 649,859,830</b>	<b>\$ 721,511,931</b>	<b>\$ 1,371,371,761</b>
<b>TOTAL INCOME AND NET APPRECIATION:</b>			<b>\$ 1,881,438,807</b>
<b>INCREASE/(DECREASE) FROM FY 2002–2003:</b>			<b>\$ 1,293,153,783</b>

## SFERS PENSION FUND DISBURSEMENTS PLAN YEAR 2003-2004

PAYMENTS/EXPENSES	AMOUNT
SERVICE RETIREMENT PAYMENTS	\$ 358,584,155
DISABILITY RETIREMENT PAYMENTS	96,253,603
PROPOSITION C – COST OF LIVING ADJUSTMENT	22,387,596
DEATH ALLOWANCE PAYMENTS	3,692,157
DEATH BENEFITS	2,724,833
NORMAL CONTRIBUTIONS PAID AS DEATH BENEFIT	3,490,378
RETIRED ANNUITANT ROLLS (OPTION 1 DEATH BENEFIT)	1,296,619
REFUNDS OF CONTRIBUTIONS	7,935,453
ADMINISTRATIVE EXPENSES: RETIREMENT SERVICES/ADMINISTRATION	10,710,317
<b>TOTAL PAYMENTS &amp; EXPENSES:</b>	<b>\$ 507,075,111</b>
<b>INCREASE/(DECREASE) FROM FY 2001-2002:</b>	<b>\$ 35,852,230</b>

## 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 2003-2004	PLAN YEAR 2002-2003	PLAN YEAR 2001-2002
MISCELLANEOUS PLAN	\$ 144,973,403	\$ 156,350,260	\$ 133,268,640
FIREFIGHTER PLAN	11,778,242	11,744,300	10,386,844
POLICE PLAN	13,798,516	13,975,304	12,262,637
<b>TOTAL</b>	<b>\$ 170,550,161</b>	<b>\$ 182,069,864</b>	<b>\$ 155,918,121</b>

**SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**STATEMENTS OF PLAN NET ASSETS**  
**JUNE 30, 2004 AND 2003**

Information derived from audited Financial Statements

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
	(in thousands)	
Deposits	\$ 6,441	\$ 12,684
Contributions receivable – members	4,542	9,175
Investment income receivable:		
Interest	23,280	24,624
Dividends	6,404	5,106
Securities lending	719	356
Dollar Roll	225	163
Receivables from brokers, general partners, others	103,941	122,992
Investments at fair value		
Short-term bills and notes	808,181	1,161,448
Debt securities:		
U. S. government securities	1,263,547	1,137,162
Other debt securities	2,117,807	1,911,606
Equity securities	5,947,900	4,715,575
Real Estate	958,368	953,533
Venture capital	1,311,960	1,249,167
Forward currency contracts, net	—	2,802
Investments in lending agents' short term investment pool	<u>1,356,618</u>	<u>1,107,990</u>
Total investments	<u>\$ 13,764,381</u>	<u>\$ 12,239,283</u>
Total assets	<u>\$ 13,919,933</u>	<u>\$ 12,414,382</u>
 <u>LIABILITIES</u> 		
Payable to brokers	\$ 446,432	\$ 560,809
Obligations under fixed coupon dollar repurchase agreements	199,000	205,782
Foreign Currency Contracts, net	3,558	—
Other liabilities	6,968	6,789
Payable to borrowers of securities	<u>1,356,618</u>	<u>1,107,990</u>
Total liabilities	<u>2,012,575</u>	<u>1,881,370</u>
Net assets held in trust for pension benefits	<u>\$ 11,907,358</u>	<u>\$ 10,533,013</u>

**SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**STATEMENTS OF CHANGES IN PLAN NET ASSETS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**  
Information derived from audited Financial Statements

	<u>2004</u>	<u>2003</u>
	(in thousands)	
<b>ADDITIONS</b>		
<b>Members' contributions:</b>		
Miscellaneous	\$ 144,973	\$ 156,350
Firefighter	13,799	13,975
Police	11,778	11,744
<b>Total Contributions</b>	<b>\$ 170,550</b>	<b>\$ 182,069</b>
<b>Investment income (expenses)</b>		
Interest	161,532	174,461
Dividends	95,691	73,415
Net (depreciation) appreciation in fair value of investments	1,470,606	172,125
Securities lending income	15,391	22,288
Fixed coupon dollar repurchase agreement income	3,083	4,197
Investment expenses	(24,700)	(21,454)
Securities lending borrower rebates and expenses	(8,786)	(15,778)
Fixed coupon dollar repurchase agreement finance charges and expenses	(1,928)	(3,038)
Investment gain/(loss), net	1,710,889	406,216
<b>Total additions/(deductions)</b>	<b>\$ 1,881,439</b>	<b>\$ 588,285</b>
<b>DEDUCTIONS</b>		
Benefits	488,448	452,264
Refunds of contributions	7,935	8,214
Administrative expenses	10,710	10,744
<b>Total Deductions</b>	<b>\$ 507,093</b>	<b>\$ 471,222</b>
<b>Net increase/(decrease)</b>	<b>\$ 1,374,345</b>	<b>\$ 117,063</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>		
Beginning of year	<u>\$ 10,533,013</u>	<u>\$ 10,415,950</u>
End of year	<u>\$ 11,907,358</u>	<u>\$ 10,533,013</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, 2003 data. The results were first published in December 2003.

### ASSUMPTIONS AND METHOD

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

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

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	10,249,896,000
Actuarial Value of Assets	<u>11,173,636,000</u>
Unfunded Liability <Surplus>	\$ <923,740,000>
Funded Status (assets / liabilities)	109%

### 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:

<b>NORMAL COST</b>	15.19%
<b>UNFUNDED LIABILITY &amp; OTHER COSTS</b>	(6.80)%
<b>EMPLOYEE CONTRIBUTIONS</b>	7.53%
<b>CITY CONTRIBUTION RATE</b>	4.48%
<b>BOARD APPROVED CITY CONTRIBUTION RATE</b>	4.48%