

# 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, 2005

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## PRESIDENT'S MESSAGE

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### INVESTING ASSETS ● PROVIDING BENEFITS ● SERVING MEMBERS

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December, 2005

On behalf of the San Francisco Retirement System Board and staff, I am pleased to present, in its 73<sup>rd</sup> year, the Annual Report for the fiscal year **2004-2005**. Below are some highlights affecting our participants and the management of the System that occurred during the year.

- ◆ The Board approved a Business and Communications Plan adopted to provide more effective and efficient services to our members. Retirement staff now conducts one-day Pre-Retirement 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 Board also initiated semi-annual newsletters to active and retired members to better educate them on plan provisions and inform them of changes occurring during the year.
- ◆ The Board initiated a process to enhance the System's web site, starting with web-based appointment scheduling, access to change of address and Electronic Funds Transfer authorization forms, and the posting of current and prior annual reports. Additional enhancements are being planned.
- ◆ The Board authorized an actuarial audit and survey of "best practices" of other pension funds.
- ◆ The Board implemented a currency overlay program on our international portfolio to reduce risk.
- ◆ The Board adopted Supplemental Cost of Living Adjustments (COLAs) for retirees effective July 1, 2004.
- ◆ In an effort to continue its priority on governance issues, the Board updated various policies. Further, each policy affecting the Board is regularly under review for relevance, effectiveness and revision.

We are very proud of these accomplishments. In regard to investments, the Retirement Board remains diligent and dedicated to our mission statement to protect and prudently invest the Pension Fund's assets. The value of the Pension Fund remains strong and the Investment Portfolio continues to grow with changes in the world's capital markets. We remain committed to providing exemplary service to the City's employees and retirees and to ensuring the security of benefits for the plan's retirees and beneficiaries.

Finally, the Retirement Board would like to thank our staff for their continued hard work, commitment, and focus on customer service. 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 dedicated service and commitment to excellence. The Board appreciates the efforts of staff, and wants to make sure that all active members, retirees and beneficiaries of the plan know that.

With best wishes,

**Joe Driscoll**  
Retirement Board, City and County of San Francisco

## **THE RETIREMENT SYSTEM**

The San Francisco Employees' Retirement System (SFERS) 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(b) Plan.

Specific San Francisco City Charter sections and/or Administrative Code provisions mandate each of these benefit plans.

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(b) 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 2004-2005 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:

Al Casciato Lieutenant, Police Department	Elected Member February 2010
Joseph D. Driscoll, C.F.A. Lieutenant, Fire Department	Elected Member February 2006
E. David Ellington Entrepreneur/Attorney	Appointed Member February 2009
Michael Kim Partner Rustic Canyon Partners	Appointed Member February 2009
Herb Meiberger, C.F.A. Security Analyst, San Francisco Employees' Retirement System	Elected Member February 2007
Gerardo Sandoval Member, Board of Supervisors	Ex-Officio Member January 2006
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
Norm Nickens	Executive Assistant

### **INVESTMENT DIVISION:**

David Kushner, C.F.A.	Deputy Director for Investments
William Coaker, MBA, CFP, CIMA Equities	Senior Investment Officer
Donald Holcher Real Estate	Senior Investment Officer
Richard Piket Fixed Income	Senior Investment Officer
Glen Schwartz Alternative Investments	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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## 2004 - 2005 San Francisco Employees' Retirement System and Board Highlights:

### Financial (Note: financial information is generally presented in thousands in the report)

- The assets of SFERS exceeded its liabilities at the close of the year ended June 30, 2005. The Plan held \$13,135,263 of net assets in trust for pension benefits. All of the net assets are available to meet SFERS' ongoing obligations to plan participants and their beneficiaries.
- SFERS' funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2004, the date of the last actuarial valuation, the funded ratio for SFERS was 104%. In general, this indicates that for every dollar of benefits due, we have approximately \$1.04 of assets available for payment.
- For the year ended June 30, 2005, SFERS' net investment gain was \$1,534,997 compared to net investment gain of \$1,710,888 in the prior year. This represents a 12.9% investment gain for the year ended June 30, 2005.
- Total net assets held in trust for pension benefits increased by \$1,227,905, or 10.3%, primarily due to the Plan's investment gain offset against the net difference between contributions received by the Plan and benefit payments made from the Plan.
- Members' contributions to the Plan amounted to \$164,365 compared to \$170,550 in the prior year, a decrease of \$6,185, or 3.6%.
- In order to maintain the fiscal soundness of the Plan, the City and County of San Francisco (the City and County) was required to make employer contributions to the Plan that totaled \$83,664 for the year ended June 30, 2005.
- Total deductions increased from \$507,093 in the prior year to \$555,121, an increase of 9.5%, due to increased benefits paid during the fiscal year.

### General Operations

- August 2004, SFERS implemented a new format for the annual member statements sent to all active members.
- November 2004, the Retirement Board approved establishment of a 401(a) Tax Deferred Plan for deferral of lump-sum payments of vacation pay, sick leave, and compensatory time.
- November 2004, the Retirement Board approved the annual 2004-05 Business Plan, including a Communications Plan establishing semi-annual newsletters for active and retired members.
- January 2005, the Retirement Board adopted a resolution urging the Mayor and Board of Supervisors to oppose a proposed Assembly Constitutional Amendment that would have limited California public employees to defined contribution pension plans.
- April 2005, the Retirement Board received a report on Proposition F Early Retirement costs for retirements effective through January 31, 2005. The Proposition F Early Retirement Program was extended by the Board of Supervisors through FY 2005-06.

## **Actuarial Activities**

- October 2004, the Retirement Board approved a recommendation to provide for interim actuarial support services.
- December 2004, the Retirement Board reviewed economic experience analysis and adopted revised economic assumptions.
- December 2004, the Retirement Board approved Supplemental Cost of Living Adjustments for retirees' retroactive to July 1, 2004.
- January 2005, the Retirement Board reviewed the SFERS demographic experience over the period June 30, 2001 to June 30, 2004 and adopted new demographic assumptions.
- February 2005, the Retirement Board reviewed and adopted an Actuarial Valuation as of July 1, 2004 and adopted employer contribution rate for 2005-06, a credited interest rate for 2005-06, and new operating factor tables.

## **Investment**

- July 2004, the Retirement Board approved parameters for purchase and sale of secondary partnership interests.
- September 2004, the Retirement Board approved a new policy on disclosure of information in the Real Estate and Alternative Investment Classes.
- November 2004, approved a recommendation to invest up to \$50 million in Secondary Co-Investment Fund-of-Funds
- November 2004, the Retirement Board approved the selection of Barclays Global Investors, N.A., Bridgewater Associates, Inc., and Pareto Partners to manage a currency overlay program.
- February 2005, the Retirement Board approved a recommendation for Proxy Voting Guidelines for 2005.
- March 2005, the Retirement Board approved a recommendation for the adoption of Currency Management Program Investment Guidelines.
- April 2005, the Retirement Board approved an addendum to the previously adopted Proxy Voting Guidelines in the area of majority vs. plurality voting.

## **Alternative Investment Program**

- July 2004, the Retirement Board approved a recommendation to commit up to \$15 million with Knightsbridge Fund VI, LP.
- August 2004, the Retirement Board approved a recommendation to invest up to \$10 million with Parish Capital Management.



- September 2004, the Retirement Board approved a recommendation to invest up to \$15 million in Providence Equity Partners Fund V.
- September 2004, the Retirement Board approved a recommendation to invest up to \$15 million in Matlin Patterson Global Opportunities Partners II.
- October 2004, the Retirement Board approved a recommendation to invest up to €20 million in APAX Partners VI.
- November 2004, approved recommendation to invest up to \$20 million in ABRY Partners
- January 2005, the Retirement Board approved a recommendation to invest up to \$25 million in Weston Presidio V, LP.
- February 2005, the Retirement Board approved a recommendation to invest up to \$20 million in Oak Hill Capital Partners II, LP.
- April 2005, the Retirement Board approved a recommendation to commit up to \$15 million to Bay Partners XI, LP.
- May 2005, the Retirement Board approved a recommendation to invest up to \$30 million in Summit Partners VII, LP.
- June 2005, the Retirement Board approved a recommendation to commit up to €15 million to Palamon European Equity Partners II, LP.

## **Real Estate**

- June 2005, the Retirement Board discussed entry into international real estate, including the approval of a recommendation to invest up to \$50 million in the AMB Japan Fund.

## **Litigation**

- During the year, the SFERS and the Office of the City Attorney pursued a number of securities litigation actions, including Enron, Safety-Kleen, and AIG.
- September 2004, the Retirement Board approved an RFP for Outside Legal Services (excluding securities litigation) and in May 2005, the Retirement Board approved the outside counsel list.
- April 2005, the Retirement Board approved a separate RFQ for Securities Litigation and Class Action Counsel.
- May 2005, with the recommendation of the Office of the City Attorney, the Retirement Board approved a settlement in Safety-Kleen bond-holders litigation.

## **Deferred Compensation**

- July 2004, the Retirement Board approved a revised core investment fund line-up and mapping for the 457(b) Deferred Compensation Plan
- September 2004, the Retirement Board approved an RFP for a 457(b) Deferred Compensation Plan Investment Consultant.
- April 2005, the Retirement Board approved the selection of Angeles Investment as the Investment Consultant for the 457(b) Deferred Compensation Plan.

## **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 the Administration Division 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(B) 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 18 core investment funds including a fixed account and access to a self-directed brokerage option.

## Deferred Compensation

The Retirement Board reviewed the Investment Performance Analysis provided by KPMG Investment Advisors and appointed the Deferred Compensation Review Committee to evaluate the core investment fund lineup.

The Retirement Board reviewed responses to the Request for Proposal (RFP) for Investment Consultant in 2004-05 and selected Angeles Investment Advisors, LLC with a three-year contract to expire in 2009 including an option to extend for one two-year renewal or two one-year renewals.

As a result of the RFP process for Plan Administrator in the 2003-2004 fiscal year, the Retirement Board elected to make changes to the core investment fund lineup effective September 27, 2004. Changes included elimination of under performing funds, addition of new funds with lower expense ratios, and a new custom generic naming convention for all core investment funds.

### **Changes To The Core Investment Lineup During The 2004-2005 Fiscal Year:**

<b>PREVIOUS INVESTMENT FUND TRANSFERRED ON 09/27/04</b>	<b>TO ⇒</b>	<b>NEW INVESTMENT FUND (CUSTOM NAME) Underlying Investment Fund(s) Name</b>
ING VP International Value Portfolio - Class I	⇒	<b>SFDCP International Equity Portfolio</b> EuroPacific Growth Fund® - Class R-4
Ariel Fund	⇒	<b>SFDCP Small Cap Value Equity Portfolio</b> Ariel Fund
No current investment option in this investment style	N/A	<b>SFDCP Small Cap Core Equity Portfolio</b> 50% SFDCP Small Cap Value Equity Portfolio 50% SFDCP Small Cap Growth Equity Portfolio
ING VP Small Company Portfolio - Class I	⇒	<b>SFDCP Small Cap Growth Equity Portfolio</b> Vanguard® Variable Insurance Fund – Small Company Growth Portfolio
ING JPMorgan Mid Cap Value Portfolio - Initial Class	⇒	<b>SFDCP Mid Cap Value Equity Portfolio</b> ING JPMorgan Mid Cap Value Portfolio - Initial Class
ING VP Index Plus MidCap Portfolio - Class I	⇒	<b>SFDCP Mid Cap Core Equity Portfolio</b> Fidelity® VIP Mid Cap Portfolio - Initial Class
No current investment option in this investment style	N/A	<b>SFDCP Mid Cap Growth Equity Portfolio</b> Goldman Sachs Growth Opportunities - I Shares
ING VP Value Opportunity Portfolio - Class I	⇒	<b>SFDCP Large Cap Value Equity Portfolio</b> Lord Abbett Affiliated Fund - Class Y
No current investment option in this investment style	N/A	<b>SFDCP Large Cap Core Equity – Active Portfolio</b> Fidelity® VIP Contrafund® Portfolio - Initial Class
ING VP Index Plus LargeCap Portfolio - Class I	⇒	<b>SFDCP Large Cap Core Equity - S&amp;P 500 Index</b> Vanguard® Institutional Index Fund - Institutional Shares
Vanguard® 500 Index Fund - Investor Shares	⇒	
CCSF Long Term Portfolio	⇒	<b>SFDCP Long Term Portfolio</b> A diversified portfolio comprised of core investment options.

PREVIOUS INVESTMENT FUND TRANSFERRED ON 09/27/04	TO ⇒	NEW INVESTMENT FUND (CUSTOM NAME) Underlying Investment Fund(s) Name
Citizens Emerging Growth Fund - Administrative Shares	⇒	<b>SFDCP Large Cap Social Equity Portfolio</b> Vanguard® Calvert Social Index Fund – Investor Shares
AIM V.I. Capital Appreciation Fund Series - I Shares	⇒	<b>SFDCP Large Cap Growth Equity Portfolio</b> 50% ING T. Rowe Price Growth Equity Portfolio - Initial Class 50% The Growth Fund of America® - Class R-4
ING T. Rowe Price Growth Equity Portfolio – Initial Class	⇒	
ING VP Growth Portfolio - Class I	⇒	
ING VP Balanced Portfolio - Class I	⇒	<b>SFDCP Mid Term Portfolio</b> A diversified portfolio comprised of core investment options.
CCSF Mid Term Portfolio	⇒	
CCSF Near Term Portfolio	⇒	<b>SFDCP Near Term Portfolio</b> A diversified portfolio comprised of core investment options.
ING VP Intermediate Bond Portfolio - Class I	⇒	<b>SFDCP Core Bond Portfolio</b> PIMCO Total Return Fund - Institutional Shares
ING Fixed Account – 457/401	⇒	<b>SFDCP Stable Value Portfolio</b> ING Fixed Account – 457/401
ING VP Money Market Portfolio - Class I	⇒	
ING Ultimate Account (Self-Directed Brokerage)	⇒	Harrisdirect (Self-Directed Brokerage)

Other significant enhancements to the Plan by the Retirement Board include a semi-annual 457(b) Deferred Compensation Plan Newsletter entitled “SFDCP News”. SFDCP News includes featured articles about program enhancements, provides participants with ongoing education, showcases investment performance, and communicates system enhancements made to the deferred compensation custom web site managed by ING Life Insurance and Annuity Company (ING).

The Retirement Board continues to monitor the 457(b) Deferred Compensation Plan to ensure participants are provided with on-going enhancements, well performing investment funds and a competitive fee structure.

The following table provides detailed information related to the City's 457(b) Deferred Compensation Plan for Fiscal Year 2004-2005.

**CITY AND COUNTY OF SAN FRANCISCO**  
**457(b) DEFERRED COMPENSATION PLAN**  
**PLAN VALUES 06/30/05**

PREVIOUS INVESTMENT FUND TRANSFERRED ON 09/27/2004	TO ⇒	NEW INVESTMENT FUND	ASSETS AS OF 06/30/2005	PERCENT OF CURRENT ASSETS
ING VP International Value Portfolio - Class I	⇒	SFDCP International Equity Portfolio	\$72,292,387	6.07%
Ariel Fund	⇒	SFDCP Small Cap Value Equity Portfolio	\$52,128,702	4.38%
No option in this investment style	⇒	SFDCP Small Cap Core Equity Portfolio	\$1,900,603	0.16%
ING VP Small Company Portfolio - Class I	⇒	SFDCP Small Cap Growth Equity Portfolio	\$15,175,118	1.28%
ING JPMorgan Mid Cap Value Portfolio - Initial Class	⇒	SFDCP Mid Cap Value Equity Portfolio	\$10,474,274	0.88%
ING VP Index Plus MidCap Portfolio - Class I	⇒	SFDCP Mid Cap Core Equity Portfolio	\$26,286,634	2.21%
No option in this investment style	⇒	SFDCP Mid Cap Growth Equity Portfolio	\$1,143,630	0.10%
ING VP Value Opportunity Portfolio - Class I	⇒	SFDCP Large Cap Value Equity Portfolio	\$19,608,192	1.65%
No option in this investment style	⇒	SFDCP Large Cap Core Equity – Active Portfolio	\$5,757,802	0.48%
ING VP Index Plus LargeCap Portfolio - Class I	⇒	SFDCP Large Cap Core Equity - S&P 500 Index	\$77,657,432	6.52%
Vanguard® 500 Index Fund – Investor Shares	⇒	SFDCP Large Cap Core Equity - S&P 500 Index		
AIM V.I. Capital Appreciation Fund Series - I Shares	⇒	SFDCP Large Cap Growth Equity Portfolio		
ING T. Rowe Price Growth Equity Portfolio – Initial Class	⇒	SFDCP Large Cap Growth Equity Portfolio		
ING VP Growth Portfolio - Class I	⇒	SFDCP Large Cap Growth Equity Portfolio		
Citizens Emerging Growth Fund - Administrative Shares	⇒	SFDCP Large Cap Social Equity Portfolio	\$4,905,632	0.41%
CCSF Long Term Portfolio	⇒	SFDCP Long Term Portfolio	\$22,369,766	1.88%
ING VP Balanced Portfolio - Class I	⇒	SFDCP Mid Term Portfolio	\$140,359,129	11.79%
CCSF Mid Term Portfolio	⇒	SFDCP Mid Term Portfolio		
CCSF Near Term Portfolio	⇒	SFDCP Near Term Portfolio		
ING VP Intermediate Bond Portfolio - Class I	⇒	SFDCP Core Bond Portfolio	\$35,051,128	2.94%
ING Fixed Account – 457/401	⇒	SFDCP Stable Value Portfolio	\$461,088,143	38.73%
ING VP Money Market Portfolio - Class I	⇒	SFDCP Stable Value Portfolio		
ING Ultimate Account (Self-Directed Brokerage)	⇒	Harrisdirect (Self-Directed Brokerage)	\$6,848,519	0.58%
<b>Total Investment Funds at ING</b>			<b>\$1,190,465,559</b>	<b>100.00%</b>
<b>Total Annuity Assets at ING</b>			<b>\$1,710,710</b>	
<b>Total Annuity Assets at The Hartford</b>			<b>\$26,480,375</b>	
<b>TOTAL PLAN ASSETS</b>			<b>\$1,218,656,644</b>	

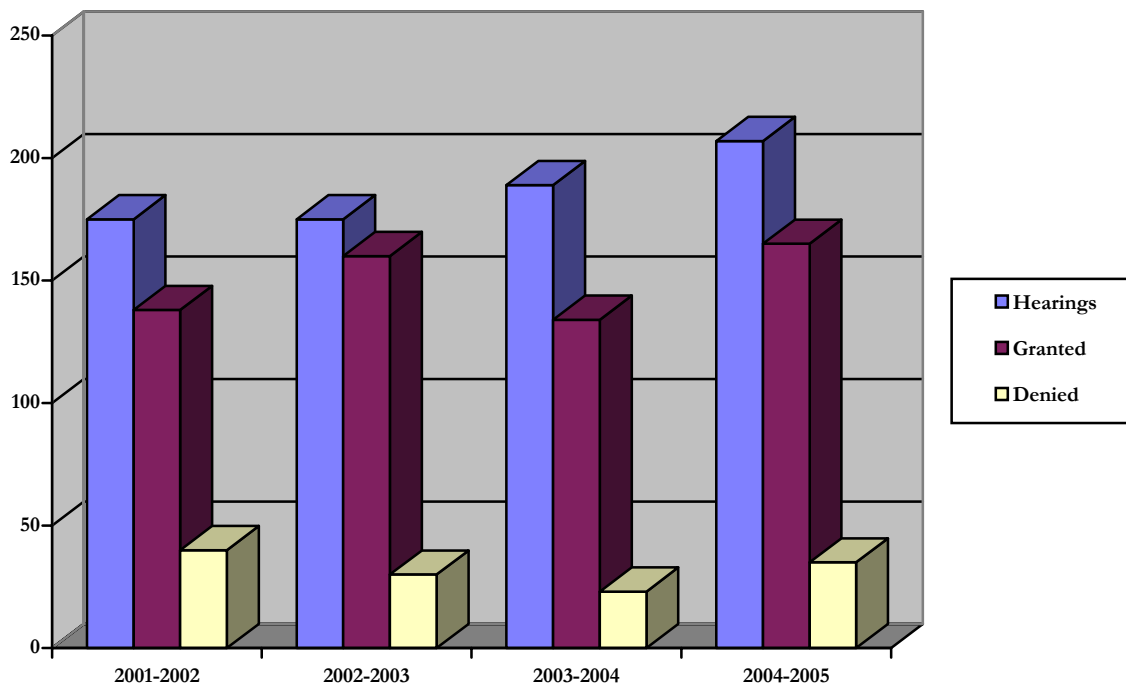
Number of Active Plan Participants: 21,790  
Number of Retirees Not Receiving Benefits 1,317  
Retirees Receiving Benefits from Hartford: 547  
Retirees Receiving Benefits from ING: 1,077  
Total Retiree Assets: \$218,572,894

## HEARING OFFICER REPORT FISCAL YEAR ENDED JUNE 30, 2005

CASES	TOTAL NO. OF HEARINGS	TOTAL NO. GRANTED	TOTAL NO. DENIED
INDUSTRIAL DISABILITY RETIREMENTS	91	70	16
ORDINARY DISABILITY RETIREMENTS	107	86	7
DEATH BENEFITS	1	0	0
PETITIONS FOR REHEARING	NA	2	11
PERS	8	7	0
REINSTATEMENTS	0	0	0
<b>TOTAL</b>	<b>207</b>	<b>165</b>	<b>35</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's 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, 2005, approximately 21% of SFERS Trust Fund assets were managed internally, including \$798.3 million in domestic bonds and \$1.81 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, 2005**

For the fiscal year ended June 30, 2005, 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 12.63%. Equities (Domestic and International combined) continued double-digit growth, returning 11.20%. On a broad asset class basis, the stellar performers for the year were Alternative Investments, returning 22.74%, and Real Estate, returning 17.47%. Fixed Income returns rebounded to 10.71% led primarily by Global Fixed Income exposure.

#### ◆ **Equity**

Returns for the combined equity portfolio were 11.20%. The US equity portfolio return was 7.89%, underperforming the Russell 3000 benchmark return of 8.05% by 16 basis points. The International equity portfolio offset the modest returns of the domestic markets, returning 17.88%, exceeding the benchmark of 16.47% by 1.41%. The strongest returns were achieved in the emerging markets sector of the portfolio (returning 34.33%); however, all sectors of the portfolio contributed to the positive returns.

#### ◆ **Fixed Income**

Despite rising short-term interest rates, the Fixed Income portfolio turned in a strong performance for the fiscal year ended June 30, 2005. The Fixed Income asset class provided a 10.71% rate of return for the fiscal year versus the benchmark Lehman Universal/Aggregate return of 7.58%. Domestic Fixed Income returns of 9.12% for the fiscal year were sound and the Trust's exposure to Global Fixed Income securities enhanced the return substantially, providing a 15.13% rate of return for the fiscal year. Retirement staff concentrated on investment manager guidelines and the more effective management of the internal Fixed Income portfolio.

◆ **Alternative Investments**

The one-year performance of SFERS' Alternative Investment portfolio was a 22.7% return as of June 30, 2005. Over a ten-year investment period, the Alternative Investment portfolio provided a 17.7% annualized return, exceeding the performance benchmark for the portfolio - the S&P 500 plus 500 basis points over a rolling ten-year period – by 178 basis points.

◆ **Real Estate**

The Real Estate portfolio's return of 17.47% outperformed its benchmark – the PREA National Property Index (NPI) – by 1.92% for the fiscal year ended June 30, 2005. For the three-year period ended June 30, 2005, the Real Estate portfolio return of 10.1% underperformed the NPI three-year benchmark of 10.74%; however, for the five-year period ended June 30, 2005, the portfolio return of 11.06% exceeded the NPI five-year benchmark return of 11.02%.

During the fiscal year, the Retirement Board approved a target allocation of up to 12% of the Real Estate portfolio in international assets. While SFERS has invested in European funds historically, this allocation is extremely small relative to the total Real Estate portfolio. In June 2005, as a first step toward increasing international exposure where long-term growth rates and expected returns are greater than those available in the US, the Retirement Board approved an investment in Japanese industrial properties through the AMB Japan Fund.



## INVESTMENT PORTFOLIO PERFORMANCE

### ANNUALIZED RETURNS FOR THE PERIODS ENDING 6/30/2005

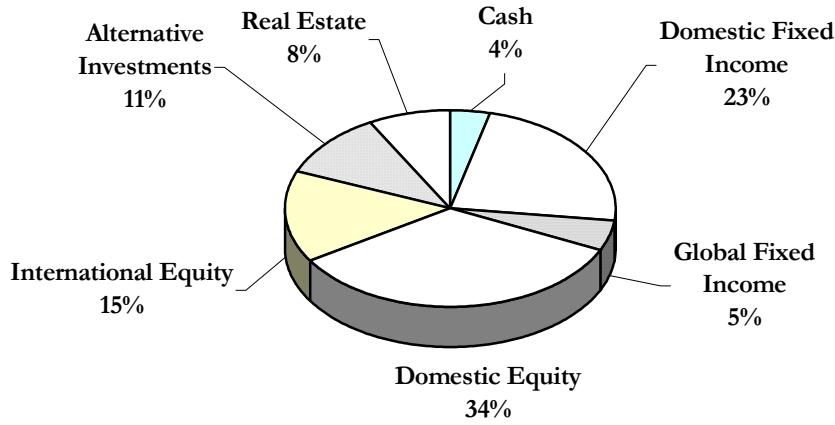
	One Year	3 Years	5 Years
DOMESTIC EQUITY (benchmark: Russell 3000)	7.89% 8.05%	8.76% 9.46%	-0.80% -1.35%
INTERNATIONAL EQUITY (benchmark: MSCI ACWI Free ex US)	17.88% 16.47%	14.60% 13.63%	-0.58% 0.42%
DOMESTIC FIXED INCOME (benchmark: Lehman Universal)	9.12% 7.42%	9.09% 6.56%	9.24% 7.63%
GLOBAL FIXED INCOME (benchmark: Lehman Global)	15.13% 8.20%	12.03% 5.74%	10.21% 5.69%
REAL ESTATE (benchmark: NCREIF)	17.47% 15.55%	10.07% 10.74%	9.43% 10.15%
ALTERNATIVE ASSETS (benchmark: S&P500 + 6% through 12/31/02 and S&P500 + 5% thereafter)	22.74% 11.32%	9.92% 14.28%	-1.15% 3.63%
<b>TOTAL FUND</b> <b>(weighted policy benchmark)</b>	<b>12.63%</b> <b>10.64%</b>	<b>10.44%</b> <b>9.79%</b>	<b>2.91%</b> <b>3.02%</b>

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

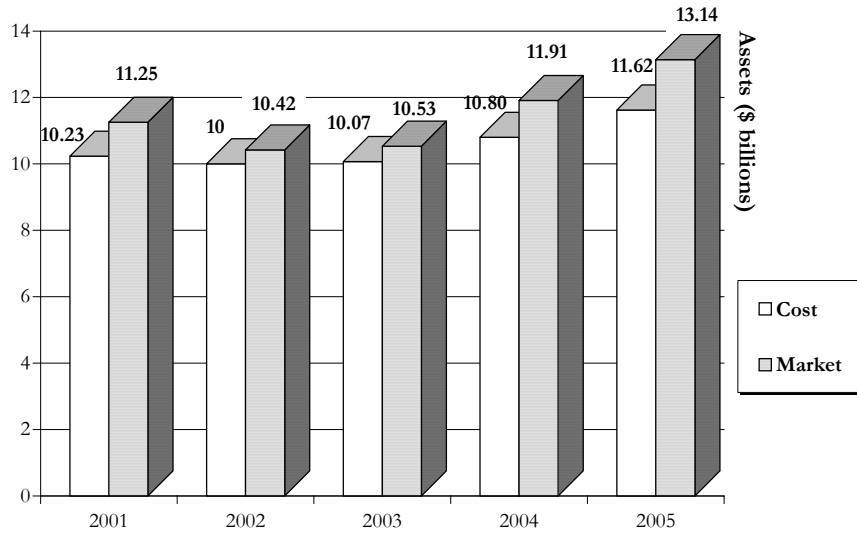
The following pages contain charts illustrating:

- ◆ Asset Allocation as of June 30, 2005
- ◆ SFERS Trust Fund Assets
- ◆ Investment Portfolio Performance
- ◆ Investment Earnings and Assets
- ◆ Portfolio Investment as of June 30, 2005

**ASSET ALLOCATION AS OF JUNE 30, 2005  
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:

2005	2004	2003
------	------	------

**INVESTMENT EARNINGS**

EQUITY DIVIDEND INCOME	\$ 121,030,110	\$ 95,691,417	\$ 73,414,536
REAL ESTATE INCOME	50,043,062	58,276,612	45,588,220
ALTERNATIVE INVESTMENT INCOME	82,763,365	40,142,042	2,082,909
REALIZED GAINS/(LOSS)	561,435,485	649,859,830	(57,840,866)
UNREALIZED GAINS/(LOSS)	551,073,327	721,511,931	181,844,163
INTEREST	188,211,091	161,531,000	174,461,000
OTHER INCOME: INTEREST, SECURITIES LENDING, DOLLAR ROLL AND RECAPTURED COMMISSIONS	8,053,200	8,576,106	8,119,112
<b>TOTAL INVESTMENT EARNINGS</b>	<b>\$ 1,562,609,640</b>	<b>\$ 1,735,588,938</b>	<b>\$ 427,669,074</b>

FISCAL YEAR ENDED JUNE 30:

2005	2004	2003
------	------	------

**PORTFOLIO ASSETS - FAIR VALUE**

FIXED INCOME	\$ 3,629,226,794	\$ 3,381,353,573	\$ 3,015,932,047
EQUITIES	6,425,337,310	5,947,900,326	5,002,450,859
REAL ESTATE	1,084,785,351	958,368,355	953,533,290
ALTERNATIVE INVESTMENTS	1,436,795,576	1,311,960,487	1,249,167,293
MONEY MARKET ASSETS	559,117,965	307,606,100	305,012,031
<b>TOTAL FAIR VALUE OF PORTFOLIO</b>	<b>\$ 13,135,262,996</b>	<b>\$ 11,907,188,841</b>	<b>\$ 10,526,095,520</b>

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

**SUMMARY OF ASSETS AS OF JUNE 30, 2005**

CATEGORY	COST	% OF TOTAL	MARKET	% OF TOTAL
<b>CASH &amp; CASH EQUIVALENTS</b>	\$ 554,515,919	4.78%	\$ 559,117,965	4.26%
<b>EQUITIES</b>				
BASIC INDUSTRIES	114,964,279	0.99%	150,548,945	1.15%
CAPITAL GOODS INDUSTRIES	168,212,704	1.45%	241,023,407	1.83%
CONSUMER DURABLES	58,516,846	0.50%	60,355,532	0.46%
CONSUMER NON-DURABLES & SERVICES	872,181,917	7.51%	1,132,390,571	8.62%
ENERGY	110,126,530	0.95%	195,800,343	1.49%
FINANCIAL SERVICES	528,223,646	4.55%	718,289,968	5.47%
MISCELLANEOUS	941,262,176	8.17%	1,308,306,210	9.96%
TECHNOLOGY	445,459,754	3.83%	503,877,424	3.84%
UTILITIES	159,487,055	1.37%	195,792,886	1.49%
FOREIGN STOCK	1,587,346,771	13.66%	1,918,952,024	14.61%
<b>EQUITIES SUBTOTAL</b>	4,985,781,678	42.92%	6,425,337,310	48.92%
<b>FIXED INCOME</b>				
BASIC INDUSTRIES	10,959,915	0.09%	12,084,276	0.09%
CAPITAL GOODS INDUSTRIES	-	-	-	-
CONSUMER DURABLES	-	-	-	-
CONSUMER NON-DURABLES & SERVICES	17,645,022	0.15%	18,102,297	0.14%
ENERGY	5,885,792	0.05%	6,442,763	0.05%
FINANCIAL SERVICES	505,023,121	4.35%	536,840,581	4.09%
MISCELLANEOUS	943,525,030	8.12%	989,481,140	7.53%
MORTGAGES	10,298,719	0.09%	10,206,789	0.08%
TECHNOLOGY	2,696,500	0.02%	580	0.00%
US GOVERNMENT	1,340,171,597	11.54%	1,366,463,600	10.40%
UTILITIES	7,928,262	0.07%	8,492,727	0.06%
FOREIGN GOVERNMENT AND CORPORATE	643,728,861	5.54%	681,112,041	5.19%
<b>FIXED INCOME SUBTOTAL</b>	3,487,863,819	30.02%	3,629,226,794	27.63%
<b>OTHER INVESTMENTS</b>				
<b>REAL ESTATE</b>	972,081,187	8.37%	1,084,785,351	8.26%
<b>VENTURE CAPITAL &amp; PARTNERSHIPS</b>	1,617,002,865	13.92%	1,436,795,576	10.94%
<b>OTHER INVESTMENTS SUBTOTAL</b>	2,589,084,052	22.29%	2,521,580,927	19.20%
<b>GRAND TOTAL</b>	\$ 11,617,245,468	100.00%	\$ 13,135,262,996	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 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 pay period 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, 2005, there were 28,950 members of the Miscellaneous Plans, 2,190 members of the Police Plans and 1,665 members of the Firefighter Plans.

### SFERS ACTIVE MEMBERSHIP AS OF JUNE 30, 2005

PLAN MEMBERSHIP GROUP	NUMBER OF ACTIVE MEMBERS			
	ACTIVE	VESTED	RECIPROCAL	TOTAL
OLD MISCELLANEOUS PLAN MEMBERS BEFORE NOVEMBER 2, 1976	1,090	307	9	1,406
NEW MISCELLANEOUS PLAN MEMBERS ON OR AFTER NOVEMBER 2, 1976	24,349	2,417	733	27,499
OLD POLICE PLAN MEMBERS BEFORE NOVEMBER 2, 1976	97	0	0	97
NEW POLICE PLAN MEMBERS ON OR AFTER NOVEMBER 2, 1976	1,998	84	13	2,095
OLD FIREFIGHTER PLAN MEMBERS BEFORE NOVEMBER 2, 1976	88	2	0	90
NEW FIREFIGHTER PLAN MEMBERS ON OR AFTER NOVEMBER 2, 1976	1,544	23	8	1,575
<b>TOTALS:</b>	<b>29,164</b>	<b>2,833</b>	<b>763</b>	<b>32,760</b>

Miscellaneous Plan members comprise approximately 88.2% of the total SFERS Plan membership, with approximately 4.8% of the total Miscellaneous Plan members being employees who were hired before November 2, 1976.

Police officers and firefighters comprise approximately 6.7% and 5.1% of the total membership, respectively.

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

COVERED PLAN YEAR	POLICE	FIREFIGHTER	MISCELLANEOUS
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%
2004-2005	4.48%	4.48%	4.48%
2005-2006	6.58%	6.58%	6.58%

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 2003-2004 and 2004-2005:

ACTIVITY	2003-2004	2004-2005
RETIREMENT APPOINTMENTS	1475	1349
RETIREMENT APPLICATIONS PROCESSED	1123	1272
BUYBACK APPOINTMENTS	2613	1518
PERSONNEL TRANSACTIONS:	1559	1444
NEW MEMBERS (NEW HIRES)	758	717
NEW MEMBERS (1040 HOURS MEMBERSHIP)	598	410
REHIRES	114	145
FIRE RECRUITS	0	78
POLICE RECRUITS	89	90
SHERIFF RECRUITS	0	4
VISITORS	11,782	11,074
INCOMING CORRESPONDENCE	13,698	12,714
HOME VISITS	24	16
GROUP PRESENTATIONS	18	37
BENEFICIARY CHANGES	1351	1330
REFUND PACKETS	1283	1425
VERIFICATION OF PENSION OR BENEFIT DATA	1224	884
ELECTRONIC FUND TRANSFER (NEW AND CHANGES)	2321	2810
OTHER ACTIVITIES (ADDRESS CHANGES, NAME CHANGES, ETC.)	2193	2108
PRE-RETIREMENT SEMINARS	4	6
REGISTERED ATTENDEES AT PRE-RETIREMENT SEMINARS	748	640
MID-CAREER RETIREMENT PLANNING SEMINARS	2	2
REGISTERED ATTENDEES AT MID-CAREER SEMINARS	198	210
NEW MEMBER RETIREMENT PLANNING SEMINARS	1	1
REGISTERED ATTENDEES AT NEW MEMBER SEMINARS	98	62

Retirement appointments decreased 8.5% and retirement applications processed increased 13.3% in Plan Year 2004-2005 over the prior Plan Year.

SFERS Retirement Services Division staff sponsored and conducted six pre-retirement seminars during Plan Year 2004-2005 that provided individualized benefit counseling for 640 Miscellaneous Plan members considering retirement within the next five years. Retirement staff also sponsored and conducted two mid-career retirement planning seminars and one new member retirement planning seminar for Miscellaneous Plan members. Retirement staff also participated in retirement seminars sponsored by the Police Officers Association, the Unified School District and the Community College District.

**SFERS Plan Member Communications:** During Plan Year 2004-2005, SFERS Retirement Services Division produced and distributed over 32,000 Annual Member Statements to active SFERS members.

## SFERS RETIREMENT STATISTICS FOR PLAN YEAR ENDED JUNE 30, 2005

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2004-2005, as well as benefits payment summaries and comparisons:

### NEW RETIREMENTS EFFECTIVE DURING PLAN YEAR ENDED JUNE 30, 2005

MEMBER GROUP	SERVICE	VESTING	INDUSTRIAL DISABILITY	ORDINARY DISABILITY	TOTAL
MISCELLANEOUS	863	274	N/A	41	1,178
FIREFIGHTER	56	0	9	0	65
POLICE	60	3	10	0	73
<b>TOTALS:</b>	<b>* 979</b>	<b>277</b>	<b>19</b>	<b>41</b>	<b>1,316</b>

\*Total service retirements in Plan Year 2004-2005 includes 184 Early Retirement Program elections as well as 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 2004-2005 was 33.7% higher than retirements in Plan Year 2003-2004 due primarily to the Early Retirement Program offered to certain Miscellaneous members during the year. Service retirements represent 74.4% of the total of new retirements processed.

Miscellaneous retirements represented 89.5% of the total retirements processed in Plan Year 2004-2005, an increase from 83.4% in Plan Year 2003-2004.

Firefighter retirements represented 4.9% of the total retirements processed in Plan Year 2004-2005, a decrease from 9.2% in Plan Year 2003-2004.

Police retirements represented 5.5% of the total retirements processed in Plan Year 2004-2005, a decrease from 7.4% in Plan Year 2003-2004.

## MISCELLANEOUS PLAN RETIREMENTS

### SERVICE CREDIT AT RETIREMENT

YEARS OF SERVICE	SERVICE RETIREMENT	VESTING RETIREMENT	ORDINARY DISABILITY	TOTAL	PERCENT OF TOTAL
0-4	9	6	0	15	1.3%
5-9	17	127	0	144	12.2%
10-14	83	79	19	181	15.4%
15-19	131	55	11	197	16.7%
20-24	208	6	6	220	18.7%
25-29	157	1	4	162	13.7%
30-34	156	0	1	157	13.3%
35-39	93	0	0	93	7.9%
40 and above	9	0	0	9	0.8%
<b>TOTAL</b>	<b>863</b>	<b>274</b>	<b>41</b>	<b>1178</b>	<b>100.0%</b>
<b>PERCENT</b>	<b>73.3%</b>	<b>23.3%</b>	<b>3.5%</b>	<b>100.0%</b>	

Approximately 64.3% 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 2004-2005 was 21.2 years.

Miscellaneous Plan service retirees were credited with an average of 24.6 years of service while those who retired for ordinary disability were credited with an average of 16.9 years of service.

### AGE AT RETIREMENT

AGE	SERVICE	VESTING	ORDINARY DISABILITY	TOTAL	PERCENT OF TOTAL
UNDER 55	88	153	27	268	22.8%
55-59	184	72	14	270	22.9%
60-64	379	21	0	400	34.0%
65 AND OVER	212	28	0	240	20.4%
<b>TOTAL</b>	<b>863</b>	<b>274</b>	<b>41</b>	<b>1178</b>	<b>100.0%</b>

The average age of all Miscellaneous Plan members who retired in Plan Year 2004-2005 was 59.9 years; the average age of Miscellaneous Plan members who retired for Ordinary Disability was 52.2 years.

## POLICE AND FIREFIGHTER PLAN MEMBERS

### SERVICE CREDIT AT RETIREMENT

YEARS OF SERVICE	SERVICE RETIREMENTS	VESTING RETIREMENTS	INDUSTRIAL DISABILITY*	TOTAL	PERCENT OF TOTAL
0-4	0	1	1	2	1.5%
5-9	8	1	4	13	9.4%
10-14	2	0	2	4	2.9%
15-19	2	1	2	5	3.6%
20-24	9	0	1	10	7.2%
25-29	35	0	4	39	28.3%
30-34	53	0	3	56	40.6%
35 AND	7	0	2	9	6.5%
<b>TOTAL</b>	<b>116</b>	<b>3</b>	<b>19</b>	<b>138</b>	<b>100%</b>
<b>PERCENT</b>	<b>84.1%</b>	<b>2.2%</b>	<b>13.8%</b>	<b>100%</b>	

\* There were no Ordinary Disability retirements processed for Police and Firefighter Plan members in Plan Year 2004-2005

Approximately 24.6% 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 2004-2005 was 26.4 years.

Police and Firefighter Plan service retirees were credited with an average of 27.7 years of service while those who retired for industrial disability were credited with an average of 20.7 years of service.

### AGE AT RETIREMENT

AGE	SERVICE	VESTING	INDUSTRIAL DISABILITY	TOTAL	PERCENT OF TOTAL
UNDER 55	40	3	13	56	40.6%
55-59	61	0	5	66	47.8%
60-64	15	0	1	16	11.6%
65 AND OVER	0	0	0	0	0.0%
<b>TOTAL</b>	<b>116</b>	<b>3</b>	<b>19</b>	<b>138</b>	<b>100.0%</b>

The average age of all Police and Firefighter Plan members who retired in Plan Year 2004-2005 was 55.4 years.

**TOTAL RETIREMENT ALLOWANCES AS OF JUNE 30, 2005**  
**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 6/30/2005:</b>				
<b>MISCELLANEOUS</b>	<b>13,720</b>	<b>1,900</b>	<b>N/A</b>	<b>15,620</b>
MEMBER	11,385	1,356	N/A	12,741
CONTINUATION	2,335	544	N/A	2,879
<b>FIREFIGHTER</b>	<b>915</b>	<b>922</b>	<b>42</b>	<b>1,879</b>
MEMBER	649	665	-	1,314
CONTINUATION	266	257	42	565
<b>POLICE</b>	<b>1,257</b>	<b>763</b>	<b>54</b>	<b>2,074</b>
MEMBER	942	484	-	1,426
CONTINUATION	315	279	54	648
<b>TOTAL</b>	<b>15,892</b>	<b>3,585</b>	<b>96</b>	<b>19,573</b>

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

As of June 30, 2005, the total number of retirement allowances paid to retired members represented 79.1% of the total allowances paid; continuation allowances represented 20.9% of the total allowances paid.

**MONTHLY RETIREMENT BENEFITS PAYABLE AS OF JUNE 30, 2005**  
**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, 2005:</b>				
<b>MISCELLANEOUS</b>	\$ 25,663,956	\$ 2,592,901	N/A	\$28,256,857
<b>FIREFIGHTER</b>	4,479,036	4,181,613	\$ 126,226	8,786,875
<b>POLICE</b>	5,649,582	2,662,718	187,410	8,499,710
<b>TOTAL</b>	<b>\$ 35,792,574</b>	<b>\$ 9,437,232</b>	<b>\$ 313,636</b>	<b>\$45,543,442</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 62.0% of the total monthly retirement allowances paid during Plan Year 2004-2005.

Monthly retirement allowances paid to service retirees represented 78.6% of the total monthly retirement allowances and monthly disability benefits represented 20.7% of the total monthly retirement allowances paid during Plan Year 2004-2005.

## DEATH BENEFITS PAID – 3 YEAR COMPARISON

PLAN YEAR	2004-2005	2003-2004	2002-2003
<b>NUMBER OF DEATHS:</b>			
ACTIVE MEMBERS	54	55	57
RETIRED MEMBERS	504	530	513
CONTINUANTS	205	191	214
<b>TOTAL</b>	<b>763</b>	<b>776</b>	<b>784</b>
<b>NUMBER OF DEATH BENEFITS PAID:</b>			
<b>DUE TO ACTIVE MEMBER DEATHS</b>			
REFUND OF CONTRIBUTIONS	56	81	72
INDUSTRIAL DEATH ALLOWANCES	0	0	0
6 MONTHS EARNABLE SALARY	51	77	70
<b>SUBTOTAL</b>	<b>107</b>	<b>158</b>	<b>142</b>
<b>DUE TO RETIRED MEMBER DEATHS</b>			
CONTINUATION	234	276	250
OPTION 1 (REFUND OF MEMBER ACCUMULATED CONTRIBUTIONS)	37	34	42
\$100/YEAR FOR EACH YEAR OF SERVICE (MAXIMUM \$3,000)	485	606	618
<b>SUBTOTAL</b>	<b>756</b>	<b>916</b>	<b>910</b>
<b>TOTAL</b>	<b>863</b>	<b>1074</b>	<b>1052</b>

The number of death notices received during Plan Year 2004-2005 decreased by 1.7% from Plan Year 2003-2004.

There was a 32.3% increase in the number of benefits paid due to the death of active members in Plan Year 2004-2005 from the previous Plan Year. In Plan Year 2004-2005, the total number of death benefits payments processed due to the deaths of active and retired members increased 19.6% 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 6/30/2005</b>				
MISCELLANEOUS	664		\$ 8,355,336	
FIREFIGHTER	0		0	
POLICE	15		167,039	
<b>TOTAL</b>	<b>679</b>	<b>(4.1%)</b>	<b>\$ 8,522,375</b>	<b>11.3%</b>
<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>

## 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, 2005, and 2004 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, 2005. 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 ADMINISTRATIVE EXPENDITURES  
3 YEAR COMPARISON  
RETIREMENT SERVICES/ADMINISTRATION DIVISIONS**

DESCRIPTION OF EXPENDITURES	RETIREMENT SERVICES/ADMINISTRATION		
	2004-2005	2003-2004	2002-2003
PERSONNEL SERVICES	\$ 4,790,890	\$ 4,386,050	\$ 4,500,386
EQUIPMENT PURCHASE	49,742	77,999	74,669
MATERIALS AND SUPPLIES	153,149	132,526	88,733
SERVICES OF OTHER DEPARTMENTS	4,092,215	4,795,078	4,941,764
OTHER SERVICES	1,507,484	1,318,664	1,139,438
<b>TOTAL</b>	<b>\$ 10,593,480</b>	<b>\$ 10,710,317</b>	<b>\$ 10,744,990</b>

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

DESCRIPTION OF EXPENDITURES	INVESTMENT DIVISION		
	2004-2005	2003-2004	2002-2003
PERSONNEL SERVICES	\$ 1,659,436	\$ 1,429,766	\$ 1,427,269
EQUIPMENT PURCHASE	33,227	0	7,105
MATERIALS AND SUPPLIES	6,125	12,314	6,660
SERVICES OF OTHER DEPARTMENTS	401,532	287,425	610,800
OTHER SERVICES	25,074,914	22,581,091	18,638,294
<b>TOTAL</b>	<b>\$ 27,175,234</b>	<b>\$ 24,310,596</b>	<b>\$ 20,690,128</b>

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

<b>GRAND TOTAL</b>	<b>\$ 37,768,714</b>	<b>\$ 35,020,913</b>	<b>\$ 31,435,118</b>
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**SFERS PENSION FUND INVESTMENT INCOME  
PLAN YEAR 2004-2005**

	REALIZED GAIN/LOSS	UNREALIZED GAIN/LOSS	TOTAL
<b>INCOME</b>			
CITY AND COUNTY CONTRIBUTIONS			\$83,663,367
EMPLOYEE CONTRIBUTIONS			164,365,209
INTEREST EARNED			188,211,091
DIVIDENDS EARNED			121,030,110
SECURITIES LENDING INCOME - NET			7,047,737
DOLLAR ROLL INCOME – NET			366,908
RECAPTURED COMMISSION INCOME – NET			271,729
REAL ESTATE INCOME			50,043,062
ALTERNATIVE INVESTMENT INCOME			82,763,365
INVESTMENT EXPENSES			(27,175,234)
<b>TOTAL INCOME:</b>			<b>\$670,587,344</b>
<b>NET APPRECIATION IN FAIR VALUES</b>			
SHORT-TERM SECURITIES	\$ 3,372,621	\$ 15,402,490	\$ 18,775,111
EQUITIES	361,408,663	198,999,078	560,407,741
DEBT SECURITIES	65,751,717	101,338,072	167,089,789
REAL ESTATE	17,492,882	78,616,885	96,109,767
VENTURE CAPITAL	113,167,772	156,873,904	270,041,676
OTHER ASSETS	241,830	(181,481)	60,349
<b>TOTAL NET APPRECIATION:</b>	<b>\$ 561,435,485</b>	<b>\$ 551,048,948</b>	<b>\$ 1,112,484,433</b>
<b>TOTAL INCOME AND NET APPRECIATION:</b>			<b>\$ 1,783,071,777</b>
<b>INCREASE/(DECREASE) FROM FY 2003–2004:</b>			<b>\$ (98,367,030)</b>

**SFERS PENSION FUND DISBURSEMENTS  
PLAN YEAR 2004-2005**

<b>PAYMENTS/EXPENSES</b>	<b>AMOUNT</b>
SERVICE RETIREMENT PAYMENTS	\$ 394,806,623
DISABILITY RETIREMENT PAYMENTS	105,494,822
PROPOSITION C – COST OF LIVING ADJUSTMENT	25,884,556
DEATH ALLOWANCE PAYMENTS	3,983,088
DEATH BENEFITS	2,330,591
NORMAL CONTRIBUTIONS PAID AS DEATH BENEFIT	1,987,804
RETIRED ANNUITANT ROLLS (OPTION 1 DEATH BENEFIT)	1,474,318
REFUNDS OF CONTRIBUTIONS	8,565,088
ADMINISTRATIVE EXPENSES: RETIREMENT SERVICES/ADMINISTRATION	10,593,480
<b>TOTAL PAYMENTS &amp; EXPENSES:</b>	<b>\$ 555,120,370</b>
<b>INCREASE/(DECREASE) FROM FY 2003-2004:</b>	<b>\$ 48,045,259</b>

## SFERS CONTRIBUTIONS – 3 YEAR COMPARISON

### Employer (City and County) Contributions

Up until Plan Year 2004-2005, 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.

MEMBER PLAN	PLAN YEAR 2004-2005	PLAN YEAR 2003-2004	PLAN YEAR 2002-2003
MISCELLANEOUS PLAN	\$ 69,122,769	\$ -	\$ -
FIREFIGHTER PLAN	6,184,668	-	-
POLICE PLAN	8,355,929	-	-
<b>TOTAL</b>	<b>\$ 83,663,366</b>	<b>\$ -</b>	<b>\$ -</b>

### Employee Contributions

MEMBER PLAN	PLAN YEAR 2004-2005	PLAN YEAR 2003-2004	PLAN YEAR 2002-2003
MISCELLANEOUS PLAN	\$ 139,442,651	\$ 144,973,403	\$ 156,350,260
FIREFIGHTER PLAN	10,689,574	11,778,242	11,744,300
POLICE PLAN	14,232,985	13,798,516	13,975,304
<b>TOTAL</b>	<b>\$ 164,365,210</b>	<b>\$ 170,550,161</b>	<b>\$ 182,069,864</b>

**SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**STATEMENTS OF PLAN NET ASSETS**  
**JUNE 30, 2005 AND 2004**

Information derived from audited Financial Statements

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
	(in thousands)	
Deposits	\$ 17,986	\$ 16,441
Contributions receivable – members	4,922	4,542
Contributions receivable – City and County	2,736	-
Investment income receivable:		
Interest	26,616	23,280
Dividends	8,096	6,404
Securities lending	1,579	719
Dollar Roll	201	225
Receivables from brokers, general partners, others	54,247	103,941
Investments at fair value		
Short-term bills and notes	622,621	808,181
Debt securities:		
U. S. government securities	1,372,895	1,263,547
Other debt securities	2,256,332	2,117,807
Equity securities	6,425,337	5,947,900
Real Estate	1,084,786	958,368
Venture capital	1,436,796	1,311,960
Forward currency contracts, net	13,254	-
Investments in lending agents' short term investment pool	<u>1,600,111</u>	<u>1,356,618</u>
TOTAL INVESTMENTS:	<u>\$ 14,812,132</u>	<u>\$ 13,764,381</u>
TOTAL ASSETS:	<u>\$ 14,928,515</u>	<u>\$ 13,919,933</u>
 <u>LIABILITIES</u> 		
Payable to brokers	\$ 98,585	\$ 446,432
Obligations under fixed coupon dollar repurchase agreements	85,000	199,000
Foreign Currency Contracts, net	-	3,558
Other liabilities	9,556	6,967
Payable to borrowers of securities	<u>1,600,111</u>	<u>1,356,618</u>
TOTAL LIABILITIES:	<u>1,793,252</u>	<u>2,012,575</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	<u>\$ 13,135,263</u>	<u>\$ 11,907,358</u>

**SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**STATEMENTS OF CHANGES IN PLAN NET ASSETS**  
**YEARS ENDED JUNE 30, 2005 AND 2004**  
Information derived from audited Financial Statements

	<u>2005</u>	<u>2004</u>
	(in thousands)	
<b>ADDITIONS</b>		
<b>Member contributions:</b>		
Miscellaneous	\$ 139,442	\$ 144,973
Firefighter	14,233	13,799
Police	10,690	11,778
<b>Total Member Contributions</b>	<b>\$ 164,365</b>	<b>\$ 170,550</b>
<b>City and County contributions:</b>		
Miscellaneous	\$ 69,123	\$ -
Firefighter	8,356	-
Police	6,185	-
<b>Total City Contributions</b>	<b>\$ 83,664</b>	<b>\$ -</b>
<b>Investment income (expenses)</b>		
Interest	188,854	161,532
Dividends	121,030	95,691
Net (depreciation) appreciation in fair value of investments	1,245,926	1,470,606
Securities lending income	34,183	15,391
Fixed coupon dollar repurchase agreement income	4,923	3,083
Investment expenses	(28,228)	(24,700)
Securities lending borrower rebates and expenses	(27,135)	(8,786)
Fixed coupon dollar repurchase agreement finance charges and expenses	(4,556)	(1,928)
<b>Investment gain/(loss), net</b>	<b>1,534,997</b>	<b>1,710,888</b>
<b>Total additions/(deductions)</b>	<b>\$ 1,783,026</b>	<b>\$ 1,881,438</b>
<b>DEDUCTIONS</b>		
Benefits	535,963	488,448
Refunds of contributions	8,565	7,935
Administrative expenses	10,593	10,710
<b>Total Deductions</b>	<b>\$ 555,121</b>	<b>\$ 507,093</b>
<b>Net increase/(decrease)</b>	<b>\$ 1,227,905</b>	<b>\$ 1,374,345</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>		
Beginning of year	<u>\$ 11,907,358</u>	<u>\$ 10,533,013</u>
End of year	<u>\$ 13,135,263</u>	<u>\$ 11,907,358</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, 2004 data. The results were first published in February 2005.

### ASSUMPTIONS AND METHOD

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

<b>Investment Returns</b>	<b>8.00% 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>1994 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	10,885,455,000
Actuarial Value of Assets	<u>11,299,997,000</u>
Unfunded Liability <Surplus>	\$ <414,542,000>
Funded Status (assets / liabilities)	104%

## Employer (City and County) Contribution Rates

The retirement contribution rates to be paid by the City in Fiscal Year 2005-2006 were derived from the following actuarial valuation results:

<b>NORMAL COST</b>	15.06%
<b>UNFUNDED LIABILITY &amp; OTHER COSTS</b>	(0.96)%
<b>EMPLOYEE CONTRIBUTIONS</b>	7.52%
<b>CITY CONTRIBUTION RATE</b>	6.58%
<b>BOARD APPROVED CITY CONTRIBUTION RATE</b>	6.58%