

# **CITY AND COUNTY OF SAN FRANCISCO EMPLOYEES' RETIREMENT SYSTEM**

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**ANNUAL REPORT  
FOR FISCAL YEAR ENDED JUNE 30, 2007**

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## **A MESSAGE FROM THE PRESIDENT**

### **INVESTING ASSETS • PROVIDING BENEFITS • SERVING MEMBERS**

On behalf of the San Francisco Employees' Retirement System (SFERS) Board and staff, I am pleased to present the Annual Report for Fiscal Year 2006-07.

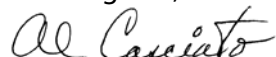
The SFERS' Retirement Board and the staff work diligently to provide the highest quality service and benefits to our more than 30,000 active and 20,000 retired members and their survivors, in the most cost-effective manner.

As I reflect on this fiscal year, it is rewarding to me that I am able to acknowledge the many accomplishments achieved by the Board and staff, in our continuous efforts to ensure each member's experience with the Retirement System is a valuable one. Below is a list of the key accomplishments achieved during the year.

- The SFERS was named Large Plan of the Year by Money Management Letter.
- The investment portfolio returned 18.71%, outperforming the policy benchmark by 71 basis points (0.71%). The investment portfolio grew \$2.4 billion over the fiscal year from \$14.5 billion at June 30, 2006 to \$16.9 billion at June 30, 2007. Consequently, our pension portfolio continues to be fully funded at 109%—one of the highest funded ratios in the country for a public pension fund. And, once again, our exceptional performance will allow the SFERS to pay retirees the 3% voter approved supplemental COLA for Fiscal Year 2006-07.
- A revised Investment Policy Statement (IPS) was approved by the Board to reflect recently amended sub asset class targets and ranges and a new policy overview for opportunistic strategies allocations within the US equity, international equity and fixed income asset classes. The revised IPS reflects our commitment to maintain a diversified portfolio so as to maximize investment returns, minimize contributions, and provide benefits to participants and their beneficiaries.
- Modifications to the San Francisco 457(b) Deferred Compensation Plan Investment Policy Statement were approved by the Board. Much like the pension portfolio IPS, the modified Deferred Compensation Plan IPS provides for enhanced investment options within the Plan and provides for investment advice to aid participants in making prudent decisions when investing for retirement.
- The Board continues to seek out opportunities for education in the area of governance, aimed at improving the overall administration of the SFERS. Board members participated in a variety of educational opportunities such as presentations on conflict of interest issues; seminars about investment opportunities, risk management programs, and fiscal compliance and reporting; and conferences related to pension fund management and oversight.

We have enjoyed a very successful year and we look forward to even greater accomplishments for next year. On behalf of the Retirement Board, I would like to thank our staff for their tireless work and commitment, and the members for their unwavering confidence and trust.

Best Regards,



Al Casciato, President

Retirement Board, City and County of San Francisco

## **THE RETIREMENT SYSTEM**

The San Francisco Employees' Retirement System (SFERS) was created by the voters as a part of the San Francisco City Charter established in the late 1880's. 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.
- 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 (see "SFERS Plan Descriptions" on page 33).

### **OUR MISSION**

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

### **THE PENSION PLAN**

The SFERS Pension Plan is a qualified defined benefit plan that provides three opportunities for retirement: vesting retirement, service retirement, and disability retirement (to its Miscellaneous and Safety (Firefighter and Police) members), and pre- and post-retirement death benefits to their beneficiaries.

The SFERS has reciprocity with CalPERS, CalSTRS, the county retirement systems subject to the 1937 Act Retirement Law, and other local, independent retirement systems that have a reciprocity contract with CalPERS (listed in the CalPERS Annual Financial Report).

### **THE 457(b) PLAN**

The San Francisco Deferred Compensation Plan, a voluntary IRS §457(b) Plan adopted in 1979, provides participants a method of deferring from current taxation part of their salary during employment for distribution after retirement or upon separation from service.

### **THE RETIREMENT BOARD**

The Retirement Board of the San Francisco Employees' Retirement System oversees Plan administration, pension fund investment, member benefits, and actuarial funding. Within the scope of their duties, the Board establishes policies governing the administration, management, and operation of the retirement plans; manages the investment of the Retirement System's assets; reviews and approves benefit determinations; and approves actuarial and economic assumptions used to meet long-term benefit promises of the SFERS Pension Plan. A full description of Board duties is available in the Board Policy Manual. The Retirement Board generally meets once each month to review and to approve important elements of Retirement System business.

## THE 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.

### 2006-07 Retirement Board members and their term expiration dates

Board President Al Casciato, Captain, Police Department	Elected Member February 2010
Board Vice President Michael Kim Partner Rustic Canyon Partners	Appointed Member February 2009
Joseph D. Driscoll, C.F.A. Captain, Fire Department	Elected Member February 2011
E. David Ellington Entrepreneur/Attorney	Appointed Member February 2009
Sean Elsbernd Member, Board of Supervisors	Ex-Officio Member January 2008
Herb Meiberger, C.F.A. Retiree	Elected Member February 2012
Brenda Wright Senior Vice President Regional Manager Community Development Wells Fargo & Company	Appointed Member February 2008

## **2006 - 07 San Francisco Employees' Retirement System Fiscal Year in Review**

We are pleased to report the San Francisco Employees' Retirement System accomplished a number of objectives in several key areas during the fiscal year. Consequently, the pension trust remains healthy and fully funded.

### **PLAN ASSETS**

Plan assets grew by \$2.4 billion over the fiscal year from \$14.5 billion at June 30, 2006 to \$16.9 at June 30, 2007. Employee and employer contributions to the Plan accounted for \$308.3 million of net revenues while investment income accounted for \$2.8 billion. A total of \$650.2 million was disbursed from the Plan in benefits payments and expenses.

### **MEMBER SERVICES**

The SFERS takes great pride in providing first-rate services to our more than 50,000 active and retired members and their survivors. In fiscal year 2006-07, we offered four Pre-Retirement Seminars for members planning to retire within five years, two Mid-Career Seminars for members planning to retire within ten years, and one New Member Retirement Seminar for members with less than five years of credited service. Our goal is to provide information and education to help facilitate understanding of available retirement benefits, and to provide members ample time to prepare for retirement.

### **ACTUARIAL**

A number of actuarial matters were addressed during the fiscal year, most notably, the introduction of the new Consulting Actuary team from Towers Perrin. The Consulting Team presented material to the Board describing the actuarial valuation process, and detailing the implementation of recommendations resulting from the actuarial audit which had been commissioned during the prior fiscal year.

Our pension portfolio continues to be fully funded at 109%—one of the highest funded ratios in the country for a public pension fund. Strong performance contributed to the SFERS ability to pay retirees the 3% voter approved supplemental COLA for Fiscal Year 2006-07. Also, the Retirement Board reviewed and approved the position description for the Actuarial Services Coordinator.

Additionally, the Retirement Board reviewed and approved the following actions:

- Actuarial Services Coordinator position (actively being recruited)
- Supplemental COLA Report
- Economic Experience Analysis and Adoption of Economic Assumptions
- Adjustment to Balance Sheet Amounts Regarding GASB 27
- Credited Interest Rate for July 1, 2007
- Adoption of Actuarial Valuation as of June 30, 2006
- Adoption of Employer Contribution Rates Effective July 1, 2007
- Approval of Cost of Living Adjustment (COLA) for Retirees Subject to Charter Section A8.526

## **INVESTMENTS**

The investment portfolio returned 18.71%, outperforming the policy benchmark by 71 basis points (0.71%). The investment portfolio grew \$2.4 billion over the fiscal year from \$14.5 billion at June 30, 2006 to \$16.9 billion at June 30, 2007.

The Retirement Board adopted several new/revised investment policies so as to ensure the health of the investment portfolio, and with the goal of providing benefits to members into perpetuity:

- Revised Asset Allocation
- Amended Sub Asset Class Targets and Ranges
- Revised Investment Policy Statement
- Policy Overview for Opportunistic Strategies
- Strategic Investment Plan for Alternative Investment Program
- Calendar Year 2007 Annual Investment Plan for Alternative Investment Program
- Proxy Voting Guidelines for 2007
- Real Estate Strategic Investment Plan
- Fiscal Year 2007-08 Annual Investment Plan for Real Estate
- Procedures Related to Investments in Corporations Conducting Business in Sudan under Level III of its Social Investment Policy, adopting a list of 28 companies to be divested and prohibited from future investment

Additionally, under the authorization of the Retirement Board, and in accordance with the annual investment plan, the Investment team made the following commitments in alternative investments, real estate and equities, aimed at enhancing the structure and diversity of the portfolio, and improving long-term performance. See page 25 for a detailed schedule of these investments:

- \$535 million invested in alternative investments
- \$100 million invested in real estate
- \$25 million invested in special situation funds within equities

Furthermore, during the fiscal year the Board authorized issuance of Requests for Proposals (RFPs) for a General Consultant (approving continued retention of Angeles Investment Advisors as General Consultant for the Fund), and a Proxy Service provider (retaining the services of Institutional Shareholder Services).

## **Education**

The Retirement Board strives to improve competency and enhance understanding of pension investments through education. During the fiscal year, members of the Board participated in the following educational opportunities:

- Global and Core Plus Fixed Income (the prior classifications of Domestic and Global Fixed Income were combined into a single category of Core Plus Fixed Income). This resulted in the issuance of a Request for Proposal and the selection of four Core Plus managers.
- Risk management. This resulted in the adoption of a preliminary framework for managing, monitoring and reporting on different types of risk within the investment program of the Trust Fund.
- Global Real Estate Securities. A Request for Proposal to secure Global Real Estate managers will be issued during the 2007-08 Fiscal year.
- Enhanced Index investments. A Request for Proposal to secure Enhanced Index managers will be issued during the 2007-08 Fiscal year.

## **GOVERNANCE**

In accordance with Board policies, the Board oversees routine governance matters. For fiscal year 2006-07, the Board reviewed and/or approved the following matters, essential to SFERS operations:

- Semi-Annual Business Plan Implementation Report
- Semi-Annual Review of the Disability Application Process
- Business Plan for 2007-08, Including Communications Plan
- 2006-07 SFERS Budget
- Review and Approval of the Board Governance Manual:
  1. Deferred Compensation Plan Committee Terms of Reference
  2. Finance Committee Terms of Reference
  3. Governance Committee Terms of Reference
  4. Investment Committee Terms of Reference
  5. Personnel Committee Charter Terms of Reference

## **LITIGATION/LEGISLATION**

The SFERS Administration and the Office of the City Attorney continuously review and report to the Board, on-going or anticipated litigation, and proposed legislative changes that could impact the SFERS such as:

- SFERS upheld in final appeal of the Veterans Police Officers Association Class Action Lawsuit
- The Pension Protection Act of 2006
- Legislation introduced at the Federal and State level that could lead to divestment from firms conducting business in the Islamic Republic of Iran
- Two bills related to Sudan divestment by California State pension plans signed by the Governor
- A new commission to review public pensions and health benefits established by the Governor

## **Current Year Business Plan Initiatives**

Successful management of SFERS is contingent upon strategic planning and execution of internal business processes. The SFERS Senior Administration work diligently to employ systemic controls that allow for transparent operations. In fiscal year 2006-07, the SFERS Administration implemented the following initiatives:

- Business Resumption/Disaster Recovery Planning
- Imaging projects IDOC and ADOC
- Successful Implementation of a new accounting general ledger application
- Investment risk management project
- Replacement of automated telephone system
- Phase III of the Pension Administration System

In addition, the Administration team implemented the following Policy Amendments:

- Board Travel Policy
- Board Communications Policy
- Business Planning Policy
- Executive Director Performance Evaluation Policy
- Monitoring & Reporting Policy
- Service Provider Selection Policy
- Policy Regarding Qualification for Dependent Adult Child or Dependent Parent Continuation Benefits



- Board Development Process
- Retirement Board Terms of Reference
- Vice President Terms of Reference
- Executive Director Terms of Reference

### **DEFERRED COMPENSATION PLAN**

The SFERS offers active members an opportunity to acquire additional retirement savings intended to supplement pension benefits with voluntary contributions to a Deferred Compensation 457(b) Plan. The 457(b) Plan is managed by the Deferred Compensation Manager who continuously monitors the Plan for enhancement opportunities that will benefit our members as they save for retirement. Accordingly, the staff submits scheduled reports to the Board (a Semi-Annual Investment Performance Analysis, provided by Angeles Investment Advisors and an Annual Plan Review; provided by ING Life Insurance and Annuity Company) regarding the performance and administration of the 457(b) Deferred Compensation Plan.

Additionally, the Board adopted a number of policy and Plan amendments as recommended by staff and consultants, for the purpose of improving performance and administration of the 457(b) Deferred Compensation Plan:

- Modifications to the San Francisco 457(b) Deferred Compensation Plan Investment Policy Statement;
- Modifications to the investment structure of the San Francisco 457(b) Deferred Compensation Plan Stable Value Fund;
- Amendments to the 457(b) Deferred Compensation Plan Document;
- Amendments to the 457(b) Deferred Compensation Plan Unforeseeable Emergency Withdrawal Policy
- Change of the underlying investment option of the SFDCP Stable Value Fund, SFDCP Mid Cap Value Equity Portfolio, SFDCP Mid Cap Growth Equity Portfolio, and SFDCP Small Cap Value Equity Portfolio.

Furthermore, the Board reviewed and approved a RFP to secure a Consultant for the purpose of evaluating the City and County of San Francisco 457(b) Deferred Compensation Plan Structure in preparation of the RFP for plan administration in 2008.

# SFERS ADMINISTRATION

## *Administering mandated benefit programs and providing promised benefits*

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 the 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.

### SENIOR ADMINISTRATIVE STAFF

#### Administration:

Clare M. Murphy	Executive Director
Jay Huish	Deputy Director
Carol Cypert, CRA, CRC	Deferred Compensation Manager
Norm Nickens	Executive Assistant
Alison Johnson	Communications Manager

#### Investments:

David Kushner, CFA	Deputy Director for Investments
William Coaker, MBA, CFP, CIMA, CFA	Senior Investment Officer, Equities
Donald Holcher	Senior Investment Officer, Real Estate
Richard Piket	Senior Investment Officer, Fixed Income
Glen Schwartz	Senior Investment Officer, Alternative Investments

#### Retirement Services:

Maria Newport	Retirement Administrator
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#### Fiscal:

Jim Burruel	Finance Manager
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#### Actuary:

Clare M. Murphy	Acting Actuary
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In addition to overseeing Retirement System activities and supporting the Retirement Board, the Administration Division administers the following services.

### **PUBLIC RECORDS REQUESTS**

Public Records Requests are managed and administered by the Administration Division in accordance with the City's Sunshine Act, State of California Public Records Act, and Federal Freedom of Information Act.

### **DISABILITY RETIREMENT APPLICATIONS**

Applications for disability retirement, 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. In fiscal year 2006-07, the Retirement Board created a new Actuarial Services Coordinator position to oversee the SFERS actuarial activities. Until the position of Actuarial Services Coordinator is filled, the Retirement Board has appointed Executive Director Clare Murphy as Acting Actuary.

## 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, 2006 data. The results were first published in February 2007.

## ASSUMPTIONS AND METHOD

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

<b>Investment Yield</b>	<b>8.00% per year</b>
<b>Wage Inflation</b>	<b>4.50% per year</b>
<b>Price Inflation</b>	<b>3.50% per year</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	12,515,463,000
Actuarial Value of Assets	<u>13,597,646,000</u>
Unfunded Liability <Surplus>	\$<1,082,183,000>
Funded Status (assets / liabilities)	109%

## EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES

The retirement contribution rates to be paid by the City in Fiscal Year 2007-08 were derived from the following actuarial valuation results:

<b>NORMAL COST</b>	16.60%
<b>AMORTIZATION OF PLAN SURPLUS</b>	(3.18)%
<b>EMPLOYEE CONTRIBUTIONS</b>	7.51%
<b>CITY CONTRIBUTION RATE</b>	5.91%
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<b>BOARD APPROVED CITY CONTRIBUTION RATE</b>	5.91%

## **SAN FRANCISCO 457(B) DEFERRED COMPENSATION PLAN**

The 457(b) 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 Plan offers a diverse selection of 19 core investment funds including access to a self-directed brokerage option. During the past year the 457(b) Deferred Compensation Plan grew in assets and in number of participants.

The SFERS Deferred Compensation Division oversees and monitors the City's 457(b) 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, requests for proposal, SFDCP News, and review of investment fund assessments.

The table on page 13 provides detailed information related to the City's 457(b) Deferred Compensation Plan for Fiscal Year 2006-07.

## 457(B) DEFERRED COMPENSATION PLAN

*Values as of 06/30/07*

FUND NAME	TOTAL ASSETS	PERCENT OF TOTAL ASSETS
AMERITRADE - SELF DIRECTED BROKERAGE ACCOUNT	\$10,243,989.72	0.63%
SFDCP CORE BOND PORTFOLIO	\$37,740,676.33	2.33%
SFDCP INTERNATIONAL EQUITY PORTFOLIO	\$142,467,154.44	8.80%
SFDCP LARGE CAP CORE EQUITY - ACTIVE PORTFOLIO	\$20,009,891.00	1.24%
SFDCP LARGE CAP CORE EQUITY - S&P 500 INDEX	\$100,117,528.40	6.19%
SFDCP LARGE CAP GROWTH EQUITY PORTFOLIO	\$282,086,498.35	17.43%
SFDCP LARGE CAP SOCIAL EQUITY PORTFOLIO	\$6,927,574.63	0.43%
SFDCP LARGE CAP VALUE EQUITY PORTFOLIO	\$29,138,819.29	1.80%
SFDCP LONG TERM PORTFOLIO	\$63,315,086.48	3.91%
SFDCP MID CAP CORE EQUITY PORTFOLIO	\$44,066,106.77	2.72%
SFDCP MID CAP GROWTH EQUITY PORTFOLIO	\$7,204,302.11	0.45%
SFDCP MID CAP VALUE EQUITY PORTFOLIO	\$23,978,920.65	1.48%
SFDCP MID TERM PORTFOLIO	\$206,435,710.43	12.76%
SFDCP NEAR TERM PORTFOLIO	\$10,684,635.61	0.66%
SFDCP REAL ESTATE PORTFOLIO	\$20,950,313.15	1.29%
SFDCP SMALL CAP CORE EQUITY PORTFOLIO	\$4,751,972.77	0.29%
SFDCP SMALL CAP GROWTH EQUITY PORTFOLIO	\$20,589,016.59	1.27%
SFDCP SMALL CAP VALUE EQUITY PORTFOLIO	\$41,707,080.31	2.58%
SFDCP STABLE VALUE PORTFOLIO	\$546,101,634.80	33.74%
TOTAL INVESTMENT FUNDS AT ING	\$1,618,516,911.83	<b>100.00%</b>
TOTAL ANNUITY ASSETS AT ING	\$1,800,590.72	
TOTAL ANNUITY ASSETS AT THE HARTFORD	\$24,117,558.37	
<b>TOTAL PLAN ASSETS</b>	<b>\$1,644,435,060.92</b>	

Number of Plan Participants:	23,021
Number of Active Plan Participants:	14,842
Number of Retirees Not Receiving Benefits:	2,774
Retirees Receiving Benefits from Hartford:	476
Retirees Receiving Benefits from ING:	1,119
Total Retiree Assets:	\$336,136,752.00

The Retirement Board reviewed the Investment Performance Analysis provided by Angeles Investment Advisors and appointed the Deferred Compensation Review Committee to evaluate the core investment fund lineup. As a result of the review, the Deferred Compensation Investment Review Committee recommended to the full Retirement Board, structural changes for the SFDCP Stable Value Fund, and changes of the underlying investment option of the SFDCP Small Cap Value Equity Portfolio, SFDCP Mid Cap Growth Equity Portfolio, and SFDCP Mid Cap Value Equity Portfolio.

#### **Changes To The Core Investment Lineup During The 2006-2007 Fiscal Year:**

<b>PREVIOUS INVESTMENT FUND</b> Underlying Investment Fund Name	<b>TO</b>	<b>NEW INVESTMENT FUND</b> Underlying Investment Fund Name
<b>SFDCP Stable Value Fund</b> ING Fixed Account 401/457	→	<b>SFDCP Stable Value Fund</b> ING Stabilizer
<b>SFDCP Small Cap Value Equity Portfolio</b> Ariel Fund	→	<b>SFDCP Small Cap Value Equity Portfolio</b> Target Small Cap Value
<b>SFDCP Mid Cap Growth Equity Portfolio</b> Goldman Sachs Growth Opportunities, Institutional Class	→	<b>SFDCP Mid Cap Growth Equity Portfolio</b> Columbia Acorn, Class Z
<b>SFDCP Mid Cap Value Equity Portfolio</b> ING JPMorgan Mid Cap Value Portfolio, Initial Class	→	<b>SFDCP Mid Cap Value Equity Portfolio</b> Riversource Mid Cap Value, Class R4

As a result of the change to the underlying core investment funds, modifications were also made to the SFDCP Long Term Portfolio, SFDCP Mid Term Portfolio, and SFDCP Near Term Portfolio.

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



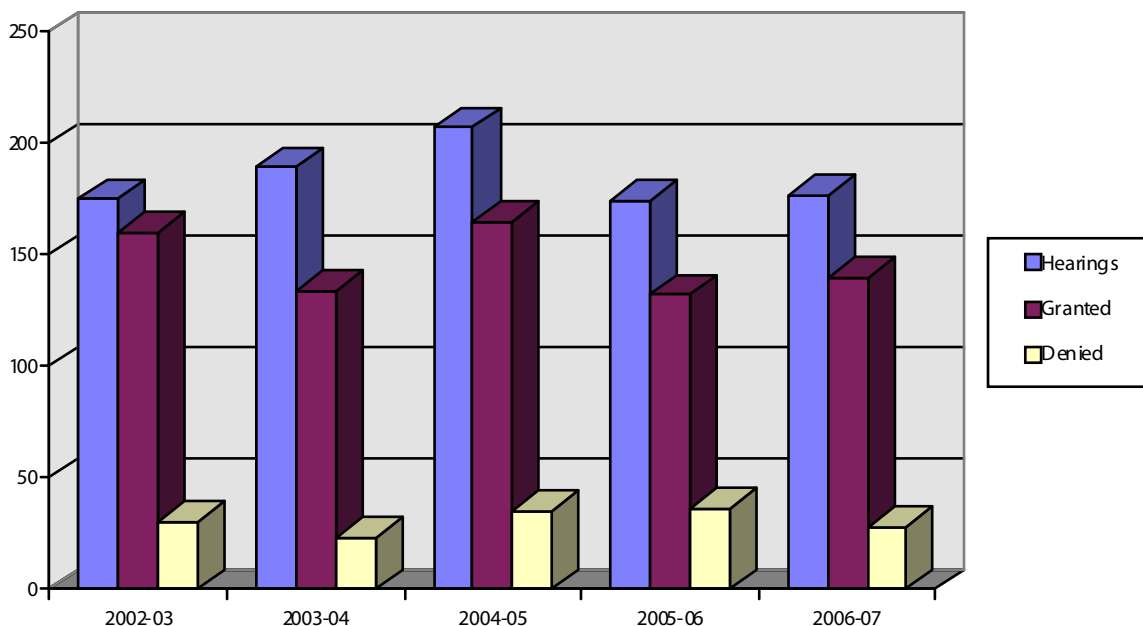
## DISABILITY RETIREMENT

A member or, legal agent acting on behalf of the member can initiate a claim for disability retirement (ordinary and industrial) by filing an application with the SFERS. The Retirement System makes a preliminary determination about the claim, and if in order, forwards the application to the City Attorney's office for review. If uncontested by SFERS counsel, the application is referred to the American Arbitration Association or the Office of Administrative Hearings for hearing. All such applications shall be adjudicated by an independent hearing officer, in accordance with the provisions of San Francisco Charter A8.518. The table below provides a summary of disability retirement hearings in the fiscal year ending June 30, 2007.

### HEARING OFFICER REPORT<sup>1</sup> Fiscal Year Ended June 30, 2007

CASES	TOTAL # OF HEARINGS	TOTAL # GRANTED	TOTAL # DENIED
INDUSTRIAL DISABILITY RETIREMENTS	71	53	9
ORDINARY DISABILITY RETIREMENTS	91	78	8
DEATH BENEFITS	1	1	1
PETITIONS FOR REHEARING	3	2	10
PERS	11	6	0
REINSTATEMENTS	0	0	0
<b>TOTAL</b>	<b>177</b>	<b>140</b>	<b>28</b>

### HEARING OFFICER REPORT Five-Year Comparison



1. The Hearing Officer Report represents cases processed in the period July 1, 2006 – June 30, 2007, and may reflect cases pending from prior periods.

## FISCAL DIVISION

### ***Administering mandated benefit programs and providing promised benefits***

The Fiscal Division is responsible for trust accounting as well as, providing financial information to management to help facilitate planning, control, and decision-making. 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 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 Plan Net Assets and Statements of Changes in Plan Net Assets for fiscal years ended June 30, 2007 and 2006, 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, 2007.

Readers who have questions regarding the financial information provided in this report are encouraged to contact SFERS and request the full set of audited *Financial Statements and Supplemental Schedule* as prepared by the City's independent auditors, Williams, Adley & Company, LLP.

**SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**STATEMENTS OF PLAN NET ASSETS**  
*Years Ended June 30, 2007 and 2006*  
*Information derived from audited Financial Statements*

<b>ASSETS</b>	<b>2007</b>	<b>2006</b>
	<i>(in thousands)</i>	
Deposits	\$77,027	\$24,728
Contributions receivable – members	4,009	5,688
Contributions receivable – City and County	7,680	4,720
Investment income receivable:		
Interest	36,538	30,864
Dividends	11,296	8,662
Securities lending	492	1,048
Dollar Roll	1,923	424
Receivables from brokers, general partners, others	853,921	133,277
Investments at fair value:		
Short-term investments	1,426,876	943,168
Debt securities:		
U. S. government securities	2,021,509	1,151,022
Other debt securities	2,233,174	2,518,880
Equity securities	8,835,816	7,197,575
Real Estate	1,698,685	1,316,852
Venture capital	1,604,653	1,492,752
Forward currency contracts, net	10,466	–
Investments in lending agents' short-term investment pool	<u>2,220,679</u>	<u>2,040,873</u>
<b>TOTAL INVESTMENTS:</b>	<b>\$20,051,858</b>	<b>\$16,661,122</b>
<b>TOTAL ASSETS:</b>	<b>\$21,044,744</b>	<b>\$16,870,533</b>
<b>LIABILITIES</b>		
Payable to brokers	\$1,390,144	\$209,422
Obligations under fixed coupon dollar repurchase agreements	468,164	99,141
Foreign Currency Contracts, net	–	12,825
Other liabilities	13,714	11,250
Payable to borrowers of securities	<u>2,220,679</u>	<u>2,040,873</u>
<b>TOTAL LIABILITIES:</b>	<b>4,092,701</b>	<b>2,373,511</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:</b>	<b>\$16,952,043</b>	<b>\$14,497,022</b>

**SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**STATEMENTS OF CHANGES IN PLAN NET ASSETS**  
*Years Ended June 30, 2007 and 2006*  
*Information derived from audited Financial Statements*

	<b>2007</b>	<b>2006</b>
	<i>(in thousands)</i>	
<b>ADDITIONS</b>		
Member contributions:		
Miscellaneous	\$148,453	\$136,665
Police	15,491	11,313
Firefighter	<u>11,803</u>	<u>14,715</u>
<b>Total Member Contributions</b>	<b>175,747</b>	<b>162,693</b>
City and County contributions:		
Miscellaneous	110,317	104,064
Police	12,602	9,696
Firefighter	<u>9,682</u>	<u>12,773</u>
<b>Total City &amp; County Contributions</b>	<b>132,601</b>	<b>126,533</b>
Investment income (expenses):		
Interest	239,088	227,637
Dividends	167,408	144,493
Net appreciation (depreciation) in fair value of investments	2,424,598	1,337,830
Securities lending income	106,208	77,358
Fixed coupon dollar repurchase agreement income	27,050	5,467
Investment expenses	(44,009)	(40,785)
Securities lending borrower rebates and expenses	(98,375)	(67,909)
Fixed coupon dollar repurchase agreement finance charges and expenses	<u>(25,129)</u>	<u>(5,372)</u>
<b>Investment gain/(loss), net</b>	<b>2,796,839</b>	<b>1,678,719</b>
<b>Total additions/(deductions)</b>	<b>\$3,105,187</b>	<b>\$1,967,945</b>
<b>DEDUCTIONS</b>		
Benefits	631,159	586,245
Refunds of contributions	7,645	8,719
Administrative expenses	<u>11,362</u>	<u>11,222</u>
<b>Total Deductions</b>	<b>\$650,166</b>	<b>\$606,186</b>
<b>Net increase/(decrease)</b>	<b>\$2,455,021</b>	<b>\$1,361,759</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>		
<b>Beginning of year</b>	<b>\$14,497,022</b>	<b>\$13,135,263</b>
<b>End of year</b>	<b>\$16,952,043</b>	<b>\$14,497,022</b>

The following four pages contain reports detailing SFERS pension trust income and disbursements, and comparing employer and employee contributions and administrative expenditures for the three year period July 1, 2004 – June 30, 2007.

**SFERS PENSION FUND INVESTMENT INCOME**  
**Fiscal Year 2006-07**

	REALIZED GAIN/LOSS	UNREALIZED GAIN/LOSS	TOTAL
<b>INCOME</b>			
Interest Earned			239,087,753
Dividends Earned			167,408,043
Securities Lending Income-Net			7,833,522
Dollar Roll Income – Net			1,920,980
Recaptured Commission Income – Net			(208,396)
Real Estate Income			24,760,864
Alternative Investment Income			54,427,648
Investment Expenses			(43,557,668)
<b>TOTAL INCOME<sup>1</sup>:</b>			<b>\$538,788,082</b>
<b>NET APPRECIATION IN FAIR VALUES:</b>			
Short-Term Securities	(\$28,540,884)	\$21,465,226	(\$7,075,658)
Equities	687,587,866	886,875,918	1,574,463,784
Debt Securities	73,024,484	(21,597,161)	51,427,323
Real Estate	21,787,647	382,838,280	404,625,927
Venture Capital	220,026,179	95,502,315	315,528,494
Other Assets	665,759	5,530,924	6,196,683
<b>TOTAL NET APPRECIATION:</b>	<b>\$974,551,051</b>	<b>\$1,370,615,502</b>	<b>\$2,345,166,553</b>
<b>TOTAL INCOME (including Net Appreciation):</b>			<b>\$2,883,954,635</b>
<b>INCREASE/(DECREASE) FROM FY 2005-06:</b>			<b>\$1,205,235,733</b>

1. Total income excludes employee and employer contributions.

**SFERS PENSION FUND DISBURSEMENTS**  
*Plan Year 2006-07*

<b>PAYMENTS/EXPENSES</b>	<b>AMOUNT</b>
Service Retirement Payments	\$463,232,183
Disability Retirement Payments	122,880,668
Proposition C – Cost of Living Adjustment	33,641,610
Death Allowance Payments	3,896,688
Death Benefits	2,678,827
Normal Contributions Paid as Death Benefit	3,412,834
Retired Annuitant Rolls (Option 1 Death Benefit)	1,416,248
Refunds of Contributions	7,644,996
Administrative Expenses: Retirement Services/Administration	11,361,871
<b>TOTAL PAYMENTS &amp; EXPENSES</b>	<b>\$650,165,925</b>
<b>INCREASE/(DECREASE) FROM FY 2005-06:</b>	<b>\$43,980,130</b>

## SFERS CONTRIBUTIONS – 3 YEAR COMPARISON

### *Employer (City and County) Contributions*

<b>MEMBER PLAN</b>	<b>PLAN YEAR 2006-07</b>	<b>PLAN YEAR 2005-06</b>	<b>PLAN YEAR 2004-05</b>
MISCELLANEOUS PLAN	\$110,317,193	\$104,064,428	\$69,122,769
FIREFIGHTER PLAN	9,681,960	9,696,305	6,184,668
POLICE PLAN	12,602,415	12,772,942	8,355,930
<b>TOTAL</b>	<b>\$132,601,568</b>	<b>\$126,533,675</b>	<b>\$83,663,367</b>

### *Employee Contributions*

<b>MEMBER PLAN</b>	<b>PLAN YEAR 2006-07</b>	<b>PLAN YEAR 2005-06</b>	<b>PLAN YEAR 2004-05</b>
MISCELLANEOUS PLAN	\$148,452,563	\$136,664,886	\$139,442,651
FIREFIGHTER PLAN	11,802,825	11,313,204	10,689,574
POLICE PLAN	15,491,371	14,715,115	14,232,984
<b>TOTAL</b>	<b>\$175,746,759</b>	<b>\$162,693,205</b>	<b>\$164,365,209</b>

## SFERS ACTUAL ADMINISTRATIVE EXPENDITURES - 3 YEAR COMPARISON

### *Retirement Services/Administration Divisions*

DESCRIPTION OF EXPENDITURES	RETIREMENT SERVICES/ADMINISTRATION		
	2006-07	2005-06	2004-05
Personnel Services	\$6,014,410	\$5,149,655	\$4,790,890
Equipment Purchase	0	29,023	49,742
Materials and Supplies	119,260	146,280	153,149
Services of Other Departments	3,739,136	3,956,423	4,092,215
Other Services	1,489,065	1,939,980	1,507,484
<b>TOTAL</b>	<b>\$11,361,871</b>	<b>\$11,221,361</b>	<b>\$10,593,480</b>

### *Investment Division*

DESCRIPTION OF EXPENDITURES	INVESTMENT DIVISION		
	2006-07	2005-06	2004-05
Personnel Services	\$1,589,905	\$1,533,095	\$1,659,436
Equipment Purchase	34,069	6,622	33,227
Materials and Supplies	16,397	6,032	6,125
Services of Other Departments	368,399	408,353	401,532
Other Services	41,435,148	35,499,830	25,074,914
<b>TOTAL</b>	<b>\$43,443,918</b>	<b>\$37,453,932</b>	<b>\$27,175,234</b>

### *All Divisions*

DESCRIPTION OF EXPENDITURES	ALL DIVISIONS		
	2006-07	2005-06	2004-05
<b>GRAND TOTAL</b>	<b>\$54,805,789</b>	<b>\$48,675,293</b>	<b>\$37,768,714</b>



## 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 years since its inception. However, the Retirement System's investment objective has essentially remained the same: to maximize long-term rates of return on investments within prudent guidelines.

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, 2007, approximately 17% of SFERS trust assets were managed internally, including \$751 million in domestic bonds and \$2.2 billion in domestic equities. The balance of the portfolio was managed externally by investment firms that specialize in specific asset classes including international and domestic equities, global fixed income, alternative investments and real estate.

In order to achieve the investment objective, the Retirement Board approved the following asset allocation policy in September 2007:

<b>Asset Class</b>	<b>Policy Target</b>	<b>Policy Range</b>	<b>Actual</b>
US Equity	28%	22-34%	29.2%
International Equity	20%	16-24%	22.9%
Global Fixed Income	30%	24-36%	25.1%
Alternative Assets	12%	9-15%	9.5%
Real Estate	10%	8-13%	10.0%
Cash	0%	0-1%	3.3%

### **Investment Performance Highlights for Fiscal Year Ended June 30, 2007**

For the Fiscal year ended June 30, 2007, the Investment portfolio of the Retirement System benefited from continued economic and capital market growth, ending the fiscal year with a return of 18.71%. On a broad asset class basis, Alternative Investments, Equities and Real Estate were the stellar performers for the year, returning 29.33%, 23.6%, and 16.50%, respectively. Fixed Income returns were strengthened by exposure to higher performing areas including Emerging Markets debt and High Yield, with the total Fixed Income Portfolio returning 7.27% for the year.

### **Equity**

Returns for the combined equity portfolio were 23.60% for the fiscal year, underperforming the total equity policy benchmark return of 24.01% by 41 basis points. The US equity portfolio return was 18.86%, underperforming the Russell 3000 benchmark return of 20.07% by 121 basis points. The International equity portfolio offset the modest underperformance of the domestic markets returning 30.07%, outperforming the benchmark return of 29.62% by 45 basis points.

2006-07 Commitments/Enhancements:

- September 12, 2006, Ashmore Global Special Situations Fund III., \$25 Million
- July 11, 2006, Approval of International Developed Markets Equity Guidelines
- Completed a search for International Developed Markets Equity managers

## Fixed Income

The Fixed Income portfolio pulled out a strong performance for the fiscal year. The asset class provided a 7.27% rate of return for fiscal year ended June 30, 2007—versus the benchmark Lehman Universal/Aggregate return of 6.17%. Domestic Fixed Income contributed to the performance with a sound 6.96% return for the fiscal year, and exposure to Global Fixed Income securities enhanced the portfolio with a solid 8.04% return for the fiscal year.

At the end of the fiscal year the Retirement Board approved a major restructuring of the fixed income asset class. Recognizing that fixed income markets have greatly expanded and become more universal in nature, two of the System's global bond managers were replaced by four new Core-Plus mandates. The total fixed income portfolio is now measured against the Lehman Universal Index as a standard of performance. This index includes bond investments in the expanding emerging markets debt and corporate high yield bond sectors.

### 2006-07 Commitments/Enhancements:

- July 11, 2006, Approval of Revised Investment Guidelines for Oaktree Capital Management (High Yield Fixed Income Manager)
- September 12, 2006 Approval of Revised Investment Guidelines for Prima Capital Management (Mortgage Fixed Income Manager)
- November 14, 2006, Approval to Terminate W.R. Huff (High Yield Manager)
- December 12, 2006, Approval of Request for Proposal for Core-Plus Fixed Income Manager(s)
- May 8, 2007, Approval of Finalist(s) for Core Plus Fixed Income Management
- June 12, 2007, Approval of Investment Guidelines for Core Plus Fixed Income Manager(s)

## Alternative Investments

The Retirement Board approved an annual investment plan for the Alternative Investment Program recommending an investment pace of approximately \$525 million for calendar year 2007. The new commitments were invested in a diversified set of private equity limited partnerships sponsored by investment management firms currently managing money for SFERS, or newly selected investment management firms with strategies aimed at enhancing the portfolio. At fiscal year-end, the market value for alternative investments was \$1.6 billion, or 9.47% of the total fund assets.

The alternative investment portfolio returned 29.33% for the fiscal year. Over a ten-year period, the portfolio earned a 19.11% annualized return, exceeding the performance benchmark (the S&P 500 + 5% over a rolling ten-year period) by 535 basis points.

### 2006-07 Alternative Investments Commitments:

#### Buy Out:

- July 11, 2006, Avenue Asia Special Situations Fund IV, L.P., \$20 million
- September 12, 2006, Cerberus Institutional Partners L.P. – Series 4, \$20 Million
- December 12, 2006, Hellman & Friedman Fund VI, \$40 million
- January 9, 2007, Thomas H. Lee Fund VI, \$40 Million
- February 13, 2007, Providence Equity Partners VI, L.P., \$30 Million
- February 13, 2007, Doughty Hanson & Co. V, L.P., €23 million
- March 20, 2007, Apax Europe VII, L.P., €23 million
- March 20, 2007, Sun Capital Partners, V, L.P., \$30 Million
- May 8, 2007, Institutional Venture Partners XII, L.P., \$20 million

#### Venture:

- July 11, 2006, SyncomV, L.P., \$10 Million
- September 12, 2006, Sofinnova Venture Partners VII, L.P., \$15 Million
- January 9, 2007, Technology Partners Fund VIII, \$20 million

#### Special Situations:

- September 12, 2006, Parish Capital Fund II, L.P., \$10 million
- January 9, 2007, Sankaty Credit Opportunities Fund III, L.P., \$20 million
- February 13, 2007, Greenpark International Investors III, L.P., €23 million
- March 20, 2007, OCM Opportunities Fund VII, L.P., \$30 million
- April 10, 2007, Weathergage Venture Capital, L.P., \$20 million
- April 10, 2007, Merit Energy, \$25 million
- June 12, 2007, MatlinPatterson Global Opportunities Partners III, \$30 million
- June 12, 2007, Parish Capital Special Opportunity Fund I, \$20 million

## Real Estate

Real Estate continues to be an attractive asset class for SFERS. It provides diversification against other asset classes such as equities, fixed income and alternative investments, along with attractive comparable risk-adjusted performance. During 2006 and the first half of 2007, capital allocations to purchase real estate by pension plans continued to increase. Real Capital Analytics reported that over the last five years transaction volumes have increased 33 percent annually. Liquidity and low cost debt continue to support higher sale prices.

The real estate allocation approved by the Retirement Board is 10%, with an allowable range of 8% - 13% of total plan assets. At fiscal year-end, SFERS' real estate portfolio was \$1.7 billion in equity (before debt and unfunded commitments), 10% of total plan assets.

SFERS' real estate consultant reports that the real estate portfolio provided a 16.5% net return for the trailing one-year period ending June 30, 2007. For the three-year and five-year periods, the net returns were 19.8% and 15.8% respectively. The SFERS uses the National Property Index (NPI) plus 1.5% as reported by Pension Real Estate Associate (the industry's association of institutional investors) for benchmarking real estate returns. For the five-year period ended June 30, 2007, the NPI return (on a gross basis) plus 1.5% was 16.1%, compared to SFERS real estate net return of 15.8%.

The Retirement Board approved an allocation of up to \$150 million for a global real estate securities search. This allocation will increase the percentage of the real estate portfolio invested internationally. The search will be completed in fiscal year 2007-08.

#### 2006-07 Real Estate Commitments:

- November 14, 2006, Capmark 50/50 Multifamily Co-investment Program, increased by \$25 million
- November 14, 2006, Capmark 50/50 Co-investment for High Return Sector, \$75 million

**INVESTMENT PORTFOLIO PERFORMANCE<sup>1</sup>**  
**Annualized Returns for the Periods ending 6/30/2007**  
(Net of fees and expenses)

	<b>ONE YEAR</b>	<b>3 YEARS</b>	<b>5 YEARS</b>
<b>DOMESTIC EQUITY</b> <i>Benchmark: Russell 3000</i>	<b>18.86%</b> 20.07%	<b>11.74%</b> 12.44%	<b>10.71%</b> 11.53%
<b>INTERNATIONAL EQUITY</b> <i>Benchmark: MSCI ACWI Free ex US</i>	<b>30.07%</b> 29.62%	<b>24.83%</b> 24.52%	<b>19.95%</b> 19.45%
<b>GLOBAL FIXED INCOME</b> <i>Benchmark: Lehman Global</i>	<b>7.27%</b> 6.17%	<b>6.64%</b> 4.45%	<b>7.76%</b> 5.00%
<b>REAL ESTATE<sup>1</sup></b> <i>Benchmark: Gross NPI +1.5%</i>	<b>16.50%</b> 19.00%	<b>19.80%</b> 19.80%	<b>15.80%</b> 16.10%
<b>ALTERNATIVE ASSETS</b> <i>Benchmark: S&amp;P + 6% through 12/31/06; S&amp;P + 5% beginning 1/1/07</i>	<b>29.33%</b> 25.59%	<b>30.37%</b> 16.68%	<b>19.11%</b> 15.71%
<b>TOTAL FUND</b> <i>Weighted Policy Benchmark</i>	<b>18.71%</b> 18.00%	<b>14.90%</b> 13.30%	<b>12.66%</b> 11.71%

1. Real Estate returns calculated by the Townsend Group and are net of fees and expenses.

**PORTFOLIO INVESTMENTS**  
*as of June 30, 2007*

CATEGORY	COST	% OF TOTAL	MARKET	% OF TOTAL
Cash & Cash Equivalents	\$482,846,959	3.43%	\$558,205,607	3.29%
<b>EQUITIES</b>				
Consumer Discretionary	434,995,199	3.09%	535,572,661	3.16%
Consumer Staples	191,528,321	1.36%	282,152,230	1.66%
Energy	235,604,857	1.67%	439,774,722	2.59%
Financials	660,342,572	4.69%	931,863,556	5.50%
Health Care	467,260,619	3.32%	594,317,341	3.51%
Industrials	326,891,829	2.32%	491,176,351	2.90%
Information Technology	603,936,754	4.29%	769,390,163	4.54%
Materials	77,126,107	0.55%	119,683,449	0.71%
Miscellaneous	287,315,631	2.04%	513,194,522	3.03%
Telecommunication Services	112,365,269	0.80%	146,838,357	0.87%
Utilities	86,349,545	0.61%	134,241,232	0.79%
Foreign Stock	2,986,853,012	21.21%	3,877,611,848	22.87%
<b>Equities Total</b>	<b>\$6,470,569,716</b>	<b>45.95%</b>	<b>\$8,835,816,432</b>	<b>52.12%</b>
<b>FIXED INCOME</b>				
Consumer Discretionary	\$27,367,974	0.19%	\$27,049,501	0.16%
Consumer Staples	11,794,221	0.08%	11,715,524	0.07%
Energy	5,557,421	0.04%	5,529,570	0.03%
Financials	35,853,866	0.25%	36,304,059	0.21%
Health Care	12,123,435	0.09%	12,000,707	0.07%
Industrials	5,291,906	0.04%	5,190,902	0.03%
Information Technology	2,416,050	0.02%	2,343,963	0.01%
Materials	3,985,671	0.03%	4,040,040	0.02%
Miscellaneous	1,868,543,944	13.27%	1,839,122,933	10.85%
Telecommunication Services	4,368,714	0.03%	4,419,922	0.03%
US Government	2,025,737,868	14.38%	2,021,509,157	11.92%
Utilities	10,390,770	0.07%	9,979,470	0.06%
Foreign government and corporate	236,317,667	1.68%	275,477,765	1.63%
<b>Fixed Income Total</b>	<b>\$4,249,749,508</b>	<b>30.18%</b>	<b>\$4,254,683,513</b>	<b>25.10%</b>
<b>OTHER INVESTMENTS</b>				
Real Estate	\$1,137,372,003	8.08%	\$1,698,684,826	10.02%
Venture Capital & Partnerships	1,742,000,153	12.37%	1,604,653,365	9.47%
<b>Other Investments Total</b>	<b>\$2,879,372,155</b>	<b>20.45%</b>	<b>\$3,303,338,191</b>	<b>19.49%</b>
<b>Grand Total</b>	<b>\$14,082,538,338</b>	<b>100.00%</b>	<b>\$16,952,043,743</b>	<b>100.00%</b>

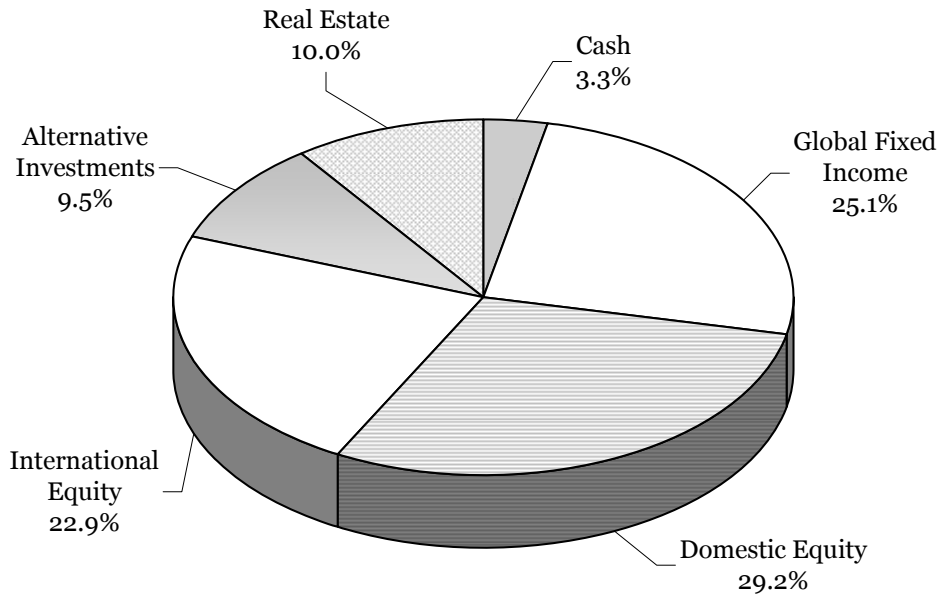
**INVESTMENT EARNINGS AND ASSETS**  
*Three Year History*

<b>FISCAL YEAR ENDED JUNE 30:</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>INVESTMENT EARNINGS</b>			
Equity Dividend Income	\$167,408,043	\$144,493,457	\$121,030,110
Real Estate Income	24,760,864	43,634,714	50,043,062
Alternative Investment Income	54,427,648	131,252,248	82,763,365
Realized Gains/(Loss)	974,551,051	1,138,492,694	561,435,485
Unrealized Gains/(Loss)	1,370,615,502	24,037,082	551,073,327
Interest	239,087,753	227,637,389	188,211,091
Other Income:			
Securities Lending, Dollar Roll and Recaptured Commissions	9,997,788	9,955,052	8,053,200
<b>Total Investment Earnings</b>	<b>\$2,840,848,649</b>	<b>\$1,719,502,636</b>	<b>\$1,562,609,640</b>

<b>FISCAL YEAR ENDED JUNE 30:</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>PORTFOLIO ASSETS - FAIR VALUE</b>			
Fixed Income	\$4,254,683,513	\$3,669,901,141	\$3,629,226,794
Equities	8,835,816,432	7,197,574,709	6,425,337,310
Real Estate	1,698,684,826	1,316,852,291	1,084,785,351
Alternative Investments	1,604,653,365	1,492,752,429	1,436,795,576
Money Market Assets	558,205,607	819,941,471	559,117,965
<b>Total Fair Value of Portfolio</b>	<b>\$16,952,043,743</b>	<b>\$14,497,022,041</b>	<b>\$13,135,262,996</b>

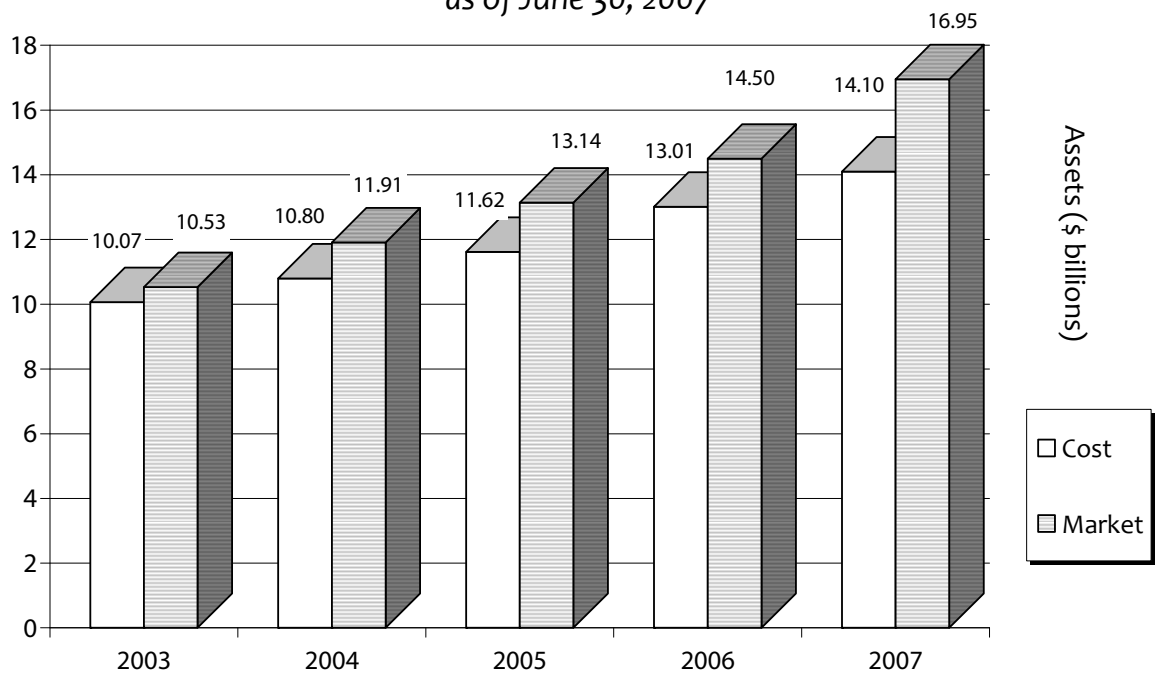
## ASSET ALLOCATION BY MARKET VALUE

*as of June 30, 2007*



## PENSION FUND NET ASSETS

*as of June 30, 2007*



## 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 include:

- *Active and Retired Member Counseling*
- *Active and Retired Member Recordkeeping*
- *Member Payroll Accounting*
- *Calculation of Benefits*
- *Member Communications*
- *Pre-retirement Education*
- *Payroll and Tax Reporting*

### SFERS PLAN MEMBERSHIP

The Retirement System administers three separate benefit plans for the City and County of San Francisco according to employee group: they are the Police Plan, the Firefighter Plan, and the Miscellaneous Plan. Each of these plans consists of a New Plan and an Old Plan. Generally, police, firefighter 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 Plans. Police, firefighters and miscellaneous employees who became SFERS members after the November 1976 Charter amendments are covered by the New Plans. Current Police and Firefighter Plan benefits were established by Charter amendment passed in November 2002 and current Miscellaneous Plan benefits were established by Charter amendment passed in November 2000. A description of each Plan by Charter section is found on page 33.

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.

On September 1, 1995, Retirement System membership rules were changed: employees hired into positions not eligible for SFERS membership, who earn 1040 hours of compensation or more during any 12-month period become eligible for retirement membership on the first day of the pay period following the pay period in which the member earns 1040 hours of compensation.

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

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

Employees in certain job classifications of the City and County of San Francisco are 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).



## SFERS PLAN MEMBERSHIP CHARTER REFERENCES:

<b><u>Charter Section</u></b>	<b><u>Employee Group</u></b>
S.F. Charter Section A8.509	Miscellaneous employees who became members before November 2, 1976
S.F. Charter Section A8-587	Miscellaneous employees who became members on or after November 2, 1976
S.F. Charter Section A8-559	Police officers who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003
S.F. Charter Sections A8-559-14 and A8.586	Police officers who elected 1981 Proposition F (Buyout) benefits
S.F. Charter Section A8-595	Police officers who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003
S.F. Charter Section A8-597	Police officers who became members on or after November 2, 1976 and were eligible for Proposition H benefits effective January 1, 2003
S.F. Charter Section A8-585	Firefighters who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003
S.F. Charter Section A8-585-14 A8.588	Firefighters who elected 1981 Proposition F and (Buyout) benefits
S.F. Charter Section A8-596	Firefighters who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003
S.F. Charter Section A8-598	Firefighters who became members on or after November 2, 1976 and were eligible for 2002 Proposition H benefits effective January 1, 2003

## SFERS MEMBERSHIP SUMMARY

SFERS active membership falls within three categories:

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

As of June 30, 2007, there were 30,340 members of the Miscellaneous Plans, 2,184 members of the Police Plans and 1,536 members of the Firefighter Plans.

### SFERS ACTIVE MEMBERSHIP *as of June 30, 2007*

PLAN MEMBERSHIP GROUP	NUMBER OF MEMBERS			TOTAL
	ACTIVE	VESTED	RECIPROCAL	
<b>OLD MISCELLANEOUS PLAN</b> MEMBERS BEFORE NOVEMBER 2, 1976	690	18	7	715
<b>NEW MISCELLANEOUS PLAN</b> MEMBERS ON OR AFTER NOVEMBER 2, 1976	25,918	2,967	740	29,625
<b>OLD POLICE PLAN</b> MEMBERS BEFORE NOVEMBER 2, 1976	51	0	0	51
<b>NEW POLICE PLAN</b> MEMBERS ON OR AFTER NOVEMBER 2, 1976	2,040	84	9	2,133
<b>OLD FIREFIGHTER PLAN</b> MEMBERS BEFORE NOVEMBER 2, 1976	28	0	0	28
<b>NEW FIREFIGHTER PLAN</b> MEMBERS ON OR AFTER NOVEMBER 2, 1976	1,463	27	18	1,508
<b>TOTALS:</b>	<b>30,190</b>	<b>3,096</b>	<b>774</b>	<b>34,060</b>

New Miscellaneous Plan members comprise approximately 89.1% of the total SFERS Plan membership, while Old Miscellaneous Plan members (employees hired before November 2, 1976) make up approximately 2.4% of total Miscellaneous Plan members.

Police officers and firefighters comprise approximately 6.4% and 4.5% of the total membership, respectively.

**EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES<sup>1</sup>**  
*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%
2004-2005	4.48%	4.48%	4.48%
2005-2006	6.58%	6.58%	6.58%
2006-2007	6.24%	6.24%	6.24%
2007-2008	5.91%	5.91%	5.91%

**EMPLOYEE CONTRIBUTION RATES**  
*As a Percentage of Covered Payroll*

<b>PLAN MEMBERSHIP GROUP</b>	<b>RATE OF CONTRIBUTION</b>
MISCELLANEOUS (OLD) <sup>2</sup>	8.00%
MISCELLANEOUS (NEW)	7.50%
POLICE (OLD)	7.00%
POLICE (NEW)	7.50%
FIREFIGHTER (OLD)	7.00%
FIREFIGHTER (NEW)	7.50%

1. Contribution Rates are composite rates for Old and New groups.

2. Contributions for Old Plan Miscellaneous Employees (S.F. Charter Section A8.509) are based on gross income. Contributions for other groups are based on gross income minus overtime compensation.

## SFERS RETIREMENT STATISTICS

*Plan Year Ended June 30, 2007*

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2006-07, as well as benefits payment summaries and comparisons:

The following table summarizes major activities of the SFERS Retirement Services Division during Plan Years 2006-07 and 2005-06:

ACTIVITY	2006-07	2005-06
RETIREMENT ESTIMATES REQUESTS	1228	1234
RETIREMENT APPOINTMENTS	1646	1691
RETIREMENT APPLICATIONS PROCESSED	929	1150
BUYBACK APPOINTMENTS	1745	2006
PERSONNEL TRANSACTIONS:	2961	2166
NEW MEMBERS (NEW HIRES)	1457	936
NEW MEMBERS (1040 HOURS MEMBERSHIP)	917	790
REHIRES	187	194
POLICE RECRUITS	315	150
FIRE RECRUITS	85	96
ONE-STOP APPOINTMENT PROCESSING	567	n/a
VISITORS	9,559	10,701
HOME VISITS	16	14
GROUP PRESENTATIONS	12	7
BENEFICIARY CHANGES	1192	1328
REFUND PACKETS	1212	1348
VERIFICATION OF PENSION OR BENEFIT DATA	830	967
ELECTRONIC FUND TRANSFER (NEW AND CHANGES)	2348	2534
OTHER ACTIVITIES (ADDRESS CHANGES, NAME CHANGES, ETC.)	2139	2216
PRE-RETIREMENT SEMINARS	9	6
REGISTERED ATTENDEES AT PRE-RETIREMENT SEMINARS	931	544
MID-CAREER RETIREMENT PLANNING SEMINARS	1	2
REGISTERED ATTENDEES AT MID-CAREER SEMINARS	79	242
NEW MEMBER RETIREMENT PLANNING SEMINARS	3	1
REGISTERED ATTENDEES AT NEW MEMBER SEMINARS	148	32

Retirement appointments decreased 2.7% and retirement applications processed decreased 19.2% in Plan Year 2006-07 over the prior Plan Year.

SFERS Retirement Services Division sponsored and conducted nine pre-retirement seminars during Plan Year 2006-07. These seminars provided individualized benefits counseling for 931 Miscellaneous Plan members considering retirement within the next five years. Retirement staff also sponsored and conducted one mid-career retirement planning seminar and three new member retirement planning seminars for Miscellaneous Plan members. Retirement staff also participated in retirement seminars sponsored by the Police Officers Association, the Fire Department, the Unified School District, the Community College District, Human Services Department and the Public Utilities Commission (including Hetch Hetchy).

**NEW RETIREMENTS EFFECTIVE DURING**  
*Plan Year Ended June 30, 2007*

<b>MEMBER GROUP</b>	<b>SERVICE</b>	<b>VESTING</b>	<b>INDUSTRIAL DISABILITY</b>	<b>ORDINARY DISABILITY</b>	<b>TOTAL</b>
MISCELLANEOUS	731	188	N/A	28	947
POLICE	56	3	7	1	67
FIREFIGHTER	89	0	5	1	95
<b>TOTALS</b>	<b>876<sup>1</sup></b>	<b>191</b>	<b>12</b>	<b>30</b>	<b>1,109</b>

The total number of new retirements effective during Plan Year 2006-07 was 3.6% higher than retirements in Plan Year 2005-06 despite of the decrease in Early Retirement Program elections during the year (from 80 elections in Plan Year 2005-06 to 25 elections in Plan Year 2006-07). Service retirements represent 79.0% of the total of new retirements processed.

Miscellaneous retirements represented 85.4% of the total retirements processed in Plan Year 2006-07, a decrease from 86.7% in Plan Year 2005-06.

Police retirements represented 6.0% of the total retirements processed in Plan Year 2006-07, no change from 6.0% in Plan Year 2005-06.

Firefighter retirements represented 8.6% of the total retirements processed in Plan Year 2006-07, an increase from 7.3% in Plan Year 2005-06.

1. Total service retirements in Plan Year 2006-07 include applications for industrial or ordinary disability which have qualified for service retirement but are pending decision on disability application.

## MISCELLANEOUS PLAN RETIREMENTS

### SERVICE CREDIT AT RETIREMENT

YEARS OF SERVICE	SERVICE RETIREMENT	VESTING RETIREMENT	ORDINARY DISABILITY	TOTAL	PERCENTAGE OF TOTAL
0-4	9	1	0	10	1.1%
5-9	12	108	0	120	12.7%
10-14	82	38	12	132	13.9%
15-19	90	39	8	137	14.5%
20-24	172	1	5	178	18.8%
25-29	126	1	1	128	13.5%
30-34	157	0	2	159	16.8%
35-39	78	0	0	78	8.2%
40 AND ABOVE	5	0	0	5	0.5%
<b>TOTAL</b>	<b>731</b>	<b>188</b>	<b>28</b>	<b>947</b>	<b>100.0%</b>
<b>PERCENT</b>	<b>77.2%</b>	<b>19.8%</b>	<b>3.0%</b>	<b>100.0%</b>	

Approximately 60.9% 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 2006-07 was 21.8 years.

Miscellaneous Plan service retirees were credited with an average of 24.9 years of service while those who retired for ordinary disability were credited with an average of 17.6 years of service.

### AGE AT RETIREMENT

AGE	SERVICE	VESTING	ORDINARY DISABILITY	TOTAL	PERCENT OF TOTAL
UNDER 55	48	113	23	184	19.4%
55-59	134	48	5	187	19.8%
60-64	354	20	0	374	39.5%
65 AND OVER	195	7	0	202	21.3%
<b>TOTAL</b>	<b>731</b>	<b>188</b>	<b>28</b>	<b>947</b>	<b>100.0%</b>

The average age of all Miscellaneous Plan members who retired in Plan Year 2006-07 was 60.4 years; the average age of Miscellaneous Plan members who retired for Service was 62.2 years; and the average age of Miscellaneous Plan members who retired for Ordinary Disability was 50.9 years.

## POLICE AND FIREFIGHTER PLAN MEMBERS

### SERVICE CREDIT AT RETIREMENT

YEARS OF SERVICE	SERVICE RETIREMENTS	VESTING RETIREMENTS	INDUSTRIAL DISABILITY <sup>1</sup>	TOTAL	PERCENT OF TOTAL
0-4	0	0	1	1	0.6%
5-9	7	1	1	9	5.6%
10-14	4	0	4	8	4.9%
15-19	3	2	1	6	3.7%
20-24	6	0	1	7	4.3%
25-29	74	0	2	76	46.9%
30-34	43	0	3	46	28.4%
35 AND OVER	8	0	1	9	5.6%
<b>TOTAL</b>	<b>145</b>	<b>3</b>	<b>14</b>	<b>162</b>	<b>100%</b>
<b>PERCENT</b>	<b>89.5%</b>	<b>1.9%</b>	<b>8.6%</b>	<b>100%</b>	

Approximately 19.1% 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 2006-07 was 28.1 years.

Police and Firefighter Plan service retirees were credited with an average of 27.2 years of service while those who retired for industrial disability were credited with an average of 20.3 years of service.

### AGE AT RETIREMENT

AGE	SERVICE RETIREMENTS	VESTING RETIREMENTS	INDUSTRIAL DISABILITY <sup>1</sup>	TOTAL	PERCENT OF TOTAL
UNDER 55	43	3	12	58	35.8%
55-59	86	0	2	88	54.3%
60-64	12	0	0	12	7.4%
65 AND OVER	4	0	0	4	2.5%
<b>TOTAL</b>	<b>145</b>	<b>3</b>	<b>14</b>	<b>162</b>	<b>100.0%</b>

The average age of all Police and Firefighter Plan members who retired in Plan Year 2006-07 was 55.8 years.

1. There were two Ordinary Disability retirements processed for Police and Firefighter Plan members in Plan Year 2006-07.

**TOTAL RETIREMENT ALLOWANCES**  
*Retired Members and Survivor Continuation Benefits*  
*as of June 30, 2007*

MEMBER CATEGORY	SERVICE RETIREMENTS	DISABILITY RETIREMENTS <sup>1</sup>	DEATH IN LINE OF DUTY	TOTAL
<b>NUMBER OF RETIREMENT ALLOWANCES AS OF 6/30/2007:</b>				
<b>MISCELLANEOUS</b>	<b>14,629</b>	<b>1,920</b>	<b>N/A</b>	<b>16,549</b>
MEMBER	12,217	1,388	N/A	13,605
CONTINUATION	2,412	532	N/A	2,944
<b>POLICE</b>	<b>1,287</b>	<b>782</b>	<b>47</b>	<b>2,116</b>
MEMBER	955	502	-	1,457
CONTINUATION	332	280	47	659
<b>FIREFIGHTER</b>	<b>951</b>	<b>952</b>	<b>37</b>	<b>1,940</b>
MEMBER	684	691	-	1,375
CONTINUATION	267	261	37	565
<b>TOTAL</b>	<b>16,867</b>	<b>3,654</b>	<b>84</b>	<b>20,605</b>

As of June 30, 2007, the total number of retirement allowances paid to retired members represented 79.8% of the total allowances paid; continuation allowances represented 20.2% of the total allowances paid.

**MONTHLY RETIREMENT BENEFITS PAYABLE**  
*Retired Members and Survivor Continuation Benefits*  
*as of June 30, 2007*

MEMBER CATEGORY	SERVICE RETIREMENTS	DISABILITY RETIREMENTS <sup>1</sup>	DEATH IN LINE OF DUTY	TOTAL
<b>MONTHLY RETIREMENT BENEFITS PAYABLE AS OF JUNE 30, 2007:</b>				
<b>MISCELLANEOUS</b>	\$30,075,635	\$2,964,565	N/A	\$33,040,200
<b>POLICE</b>	6,345,031	3,025,476	182,920	9,553,427
<b>FIREFIGHTER</b>	5,399,380	4,860,541	\$120,544	10,380,465
<b>TOTAL</b>	<b>\$41,820,046</b>	<b>\$10,850,582</b>	<b>\$303,464</b>	<b>\$52,974,092</b>

Monthly retirement allowances paid to Miscellaneous Plan members and continuants represent 62.4% of the total monthly retirement allowances paid during Plan Year 2006-07.

Monthly retirement allowances paid to service retirees represented 78.9% of the total monthly retirement allowances and monthly disability benefits represented 20.5% of the total monthly retirement allowances paid during Plan Year 2006-07.

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



## DEATH BENEFITS PAID – 3 YEAR COMPARISON

PLAN YEAR	2006-07	2005-06	2004-05
<b>NUMBER OF DEATHS:</b>			
ACTIVE MEMBERS	63	39	54
RETIRED MEMBERS	558	563	504
CONTINUANTS	216	212	205
<b>TOTAL</b>	<b>837</b>	<b>814</b>	<b>763</b>

The number of active and retired member deaths processed during Plan Year 2006-07 increased by 2.8% from Plan Year 2005-06.

## WITHDRAWAL OF CONTRIBUTIONS – 3 YEAR COMPARISON

MEMBER ACCOUNTS	PERCENT VARIANCE PRIOR YEAR	AMOUNT WITHDRAWN	PERCENT VARIANCE PRIOR YEAR
<b>AS OF 6/30/2007</b>			
MISCELLANEOUS	587	\$7,284,236	
POLICE	15	138,253	
FIREFIGHTER	0	0	
<b>TOTAL</b>	<b>602</b>	<b>\$7,422,489</b>	<b>(16.6%)</b>
<b>AS OF 6/30/2006</b>			
MISCELLANEOUS	627	\$8,833,467	
POLICE	7	70,432	
FIREFIGHTER	0	0	
<b>TOTAL</b>	<b>634</b>	<b>\$8,903,899</b>	<b>4.5%</b>
<b>AS OF 6/30/2005</b>			
MISCELLANEOUS	664	\$8,355,336	
POLICE	15	167,039	
FIREFIGHTER	0	0	
<b>TOTAL</b>	<b>679</b>	<b>\$8,522,375</b>	<b>11.3%</b>