



**SFERS**  
**SFERS**

**San Francisco Employees' Retirement System**  
*Providing Opportunities for Retirement Since 1889*

# Annual Report

*For Fiscal Year Ended June 30, 2008*



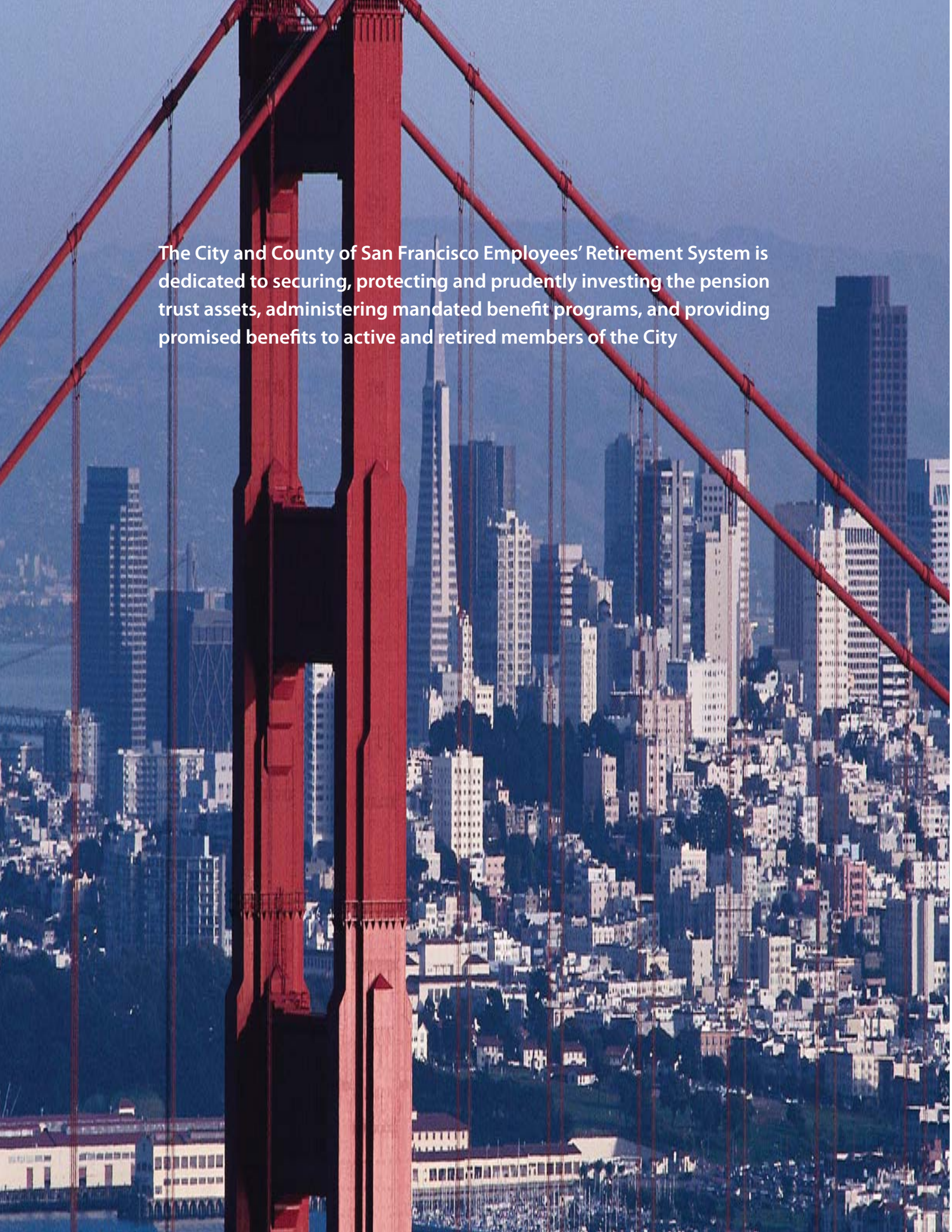
*Securing, protecting and prudently investing the pension trust assets*



*Administering mandated benefit programs*



*Providing promised benefits*



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

# Table of Contents

---

## 1 Introduction

|   |    |
|---|----|
| SFERS at a Glance . . . . .                     | 3  |
| The Retirement System . . . . .                 | 4  |
| The Retirement Board . . . . .                  | 7  |
| A Message from the President . . . . .          | 8  |
| Board Actions for Fiscal Year 2007-08 . . . . . | 9  |
| From the Executive Director . . . . .           | 11 |
| SFERS Senior Staff . . . . .                    | 12 |
| SFERS Organizational Chart . . . . .            | 14 |

---

## 2 Investments

|  |    |
|--|----|
| Deputy Director for Investments Report . . . . . | 17 |
| Performance Highlights . . . . .                 | 18 |
| Summary of Investments . . . . .                 | 22 |
| Investment Performance . . . . .                 | 23 |

---

## 3 Finance

|   |    |
|---|----|
| Overview . . . . .  | 25 |
| Statements of Plan Net Assets . . . . .                       | 26 |
| Statements of Changes in Plan Net Assets . . . . .            | 27 |
| Pension Fund Investment Income . . . . .                      | 28 |
| Pension Fund Disbursements . . . . .                          | 29 |
| 3-Year Comparison of Contributions . . . . .                  | 30 |
| 3-Year Comparison of Actual Administrative Expenses . . . . . | 31 |

---

## 4 Retirement Services

|                                      |    |
|--------------------------------------|----|
| Overview & Plan Membership . . . . . | 33 |
| Charter References . . . . .         | 34 |
| Membership Summary . . . . .         | 35 |
| Contribution Rates . . . . .         | 36 |
| Retirement Statistics . . . . .      | 37 |

---

## 5 San Francisco Deferred Compensation Plan (SFDCP)

|                           |    |
|---------------------------|----|
| Overview . . . . .        | 41 |
| Fund Values . . . . .     | 42 |
| Plan Statistics . . . . . | 43 |

---

## Appendix

|                                     |    |
|-------------------------------------|----|
| Actuarial Summary . . . . .         | 45 |
| Disability Hearing Report . . . . . | 46 |



## **Introduction**

*Administering mandated benefit programs and providing promised benefits*

# SFERS at a Glance

as of June 30, 2008

|  |                            |
|--|----------------------------|
| <b>Plan Net Assets:</b>                        | <b>\$15.8 Billion</b>      |
| <b>Funded Ratio:</b>                           | <b>110%</b> (as of 7/1/07) |
| <b>Total Benefits Paid:</b>                    | <b>\$690 Million</b>       |
| Member Contribution Rate:<br>(post 1976 Plans) | 7.5%                       |
| Employer Contribution Rate:                    | 5.9%                       |

## Membership *(during fiscal year 2007-08)*

|                          |               |                 |               |
|--------------------------|---------------|-----------------|---------------|
| <b>Total Membership:</b> | <b>52,164</b> |                 |               |
| <b>Active:</b>           | <b>30,650</b> | <b>Retired:</b> | <b>21,514</b> |
| Miscellaneous:           | 26,878        | Miscellaneous   | 17,396        |
| Police:                  | 2,243         | Police:         | 2,141         |
| Fire:                    | 1,529         | Fire:           | 1,977         |

## Retirements *(during fiscal year 2007-08)*

|  |                   |   |                   |
|--|-------------------|---|-------------------|
| <b>Total Retirements:</b>                            | <b>783</b>        |   |                   |
| Miscellaneous:                                       | 672               |   |                   |
| Police:  | 66                |   |                   |
| Fire:  | 45                |   |                   |
| <b>Average Service Credit at Service Retirement:</b> | <b>25.3 Years</b> | <b>Average Age at Service Retirement:</b> | <b>57.4 Years</b> |
| Miscellaneous:                                       | 20.4 Years        | Miscellaneous:                            | 59.6 Years        |
| Police:  | 26.9 Years        | Police:                                   | 55.5 Years        |
| Fire:  | 28.5 Years        | Fire:                                     | 57.2 Years        |

# The Retirement System

## History

The San Francisco Employees' Retirement System (SFERS) was created by the voters as a part of the San Francisco City Charter established in 1889. 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 "Plan Membership Charter References" on page 34).

## The Pension Plan

The SFERS Pension Plan is a qualified defined benefit plan that provides for the following benefits upon separation: service and disability retirement, refund or vesting allowance, and pre- and post-retirement death benefits to beneficiaries. Defined benefit plans are funded through employee and employer contributions and investment earnings.

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

## The San Francisco Deferred Compensation Plan (SFDCP)

The San Francisco Deferred Compensation Plan, a voluntary IRS §457(b) 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. The SFDCP offers members an opportunity to supplement pension income during retirement.

## Our Members

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.

## 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 to the active and retired members of the City and County of San Francisco.

## Administration

The Executive Director and the senior staff team comprise the Administration Division which oversees all other Divisions in the Department – Investments, Finance, Retirement Services, Information Systems, and Human Resources, as well as manages the day-to-day activities of the System including a network of professional consultants. The Administration Division also provides administrative support to the Retirement Board

in the preparation of meeting materials such as agendas and supporting documents, minutes and public notice requirements for the Board's and committee meetings. Additionally, Administrative staff interfaces with Board members in processing travel requests, orientation of new Board members, and facilitation of on-going educational opportunities for Board members.

In addition to overseeing Retirement System activities and supporting the Retirement Board, the Administration Division manages and administers Public Records Requests in accordance with the City's Sunshine Act, State of California Public Records Act, and Federal Freedom of Information Act.

Applications for disability retirement, and subsequent hearings before an Administrative Law Judge, are processed by the Administration Division as well, in consultation with the Workers Compensation Division of the Department of Human Resources. See the Appendix for the 2007-08 Disability Hearing Report.

## **Investments**

The Retirement System's investment objective is 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.

## **Finance**

The Finance Division is responsible for trust accounting as well as providing financial information to senior 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 presented in this report include disclosures as required by Governmental Accounting Standards Board (GASB).

## **Actuarial Services**

The SFERS funding objective is to provide all promised benefits by adhering to a legally mandated and actuarially prudent funding plan, achieving superior investment returns within prudent risk controls, and minimizing employer contributions to the retirement fund.

The SFERS Retirement Board appoints an Actuary and contracts with a Consulting Actuary firm 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.

At the end of this fiscal year, the contract for the current consulting actuary expired. As a result, the Retirement Board approved a request for proposal (RFP) in search of a firm to provide consulting actuary services. In May 2008, upon staff's recommendation, the Board approved the selection of a new consulting actuary. Beginning July 1, 2008, Cheiron, a well-respected actuarial and financial consultancy firm specializing in institutional pension plans, will serve as the consulting actuary to the Retirement System.

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. This report reflects Plan valuation for the Fiscal Year carried out by the actuarial consulting firm of Towers Perrin, based on data through June 30, 2007.

## Retirement Services

The SFERS dedicates extensive resources to serving our members. The Retirement Services Division provides a wide range of services to SFERS members and their beneficiaries including active and retired member counseling, member communications, active and retired member recordkeeping, pre-retirement education, member payroll accounting, retiree payroll and tax reporting, calculation of benefits, termination benefits and death payments.

Fiscal year 2007-08 was yet another busy year. We enrolled 3,236 new members and added 783 new retirees. Our annual benefit payments totaled \$690 million and paid 21,514 retirees, their beneficiaries and exiting members. Additionally, Retirement Services conducted nine Pre-Retirement Seminars and one Mid-Career Seminar for the City’s miscellaneous members.

## 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 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.



# The Retirement Board



Left to right: Sean Elsbernd; Richard H. Peterson, Jr.; Herb Meiberger; Brenda Wright; Vice President, Joe Driscoll; Al Casciato; and Michael Kim, President

## SFERS Board Members

### President

#### **Michael Kim**

Partner  
Rustic Canyon Partners  
Appointed Member

### Vice President

#### **Joseph D. Driscoll, C.F.A.**

Lieutenant, Fire Department  
Elected Member

#### **Al Casciato**

Captain, Police Department  
Elected Member

#### **E. David Ellington**

Appointed Member  
*Through January 2008*

#### **Sean Elsbernd**

Member, Board of Supervisors  
Ex-Officio Member

#### **Herb Meiberger, C.F.A.**

Retiree  
Elected Member

#### **Richard H. Peterson, Jr.**

JMA Ventures, LLC  
Appointed Member  
*Beginning March 2008*

#### **Brenda Wright**

Senior Vice President  
Regional Manager Community Development  
Wells Fargo & Company  
Appointed Member

# A Message From The President

It has been an honor to serve as President of the San Francisco Employees' Retirement System (SFERS) Retirement Board for the fiscal year ending on June 30, 2008. As Trustees of the Retirement Board, we have a fiduciary duty to make careful, deliberate and measured decisions to strengthen the long term health of the Retirement System for its members. The Retirement Board works closely with the SFERS staff to identify and implement policies for the benefit of its 53,000 active and retired members, and their survivors.

On behalf of the Retirement Board and the SFERS staff, attached is the Annual Report for Fiscal Year 2007-2008. Below are several highlights of our key accomplishments.

- In response to our growing investment portfolio and increasingly sophisticated asset allocation, the Board initiated a review of the Investment Division staff organization to ensure we have sufficient human resources and the appropriate structure to manage our investment portfolio. We engaged an outside management consultant to assist us in this review, and the Board approved several recommendations, which increased the number of senior investment staff. The Executive Director and the senior staff at SFERS successfully marshaled this increased budget request through the City's budget process.
- The Board approved the implementation of an Investment Risk Management program, intended to identify and quantify various sources of risk within the Fund. The program includes the review and analysis of risks, determination of appropriate risk parameters and the procurement of systems required to effectively and efficiently monitor these risks in the SFERS investment portfolio. These risk assessment systems are currently being implemented.
- The Board conducted its annual review of the asset allocation of the investment portfolio. We reviewed statistical projections of various asset allocation scenarios, representing varying actuarial assumptions to gain a better understanding of how the Plan's assets and liabilities interact. We approved an asset allocation policy for FY 2008-09, consistent with our long-term performance objectives.
- The Board approved nearly \$680 million in investment allocations in accordance with investment policies and with respect to achieving targeted diversification and long-term performance goals. As of June 30, 2008, SFERS was fully funded with assets at 110% of liabilities. SFERS continues to be one of the highest funded public pension funds in the United States.
- We review the Third Party Administrator and Stable Value Fund Portfolio Manager every five years. During this fiscal year, the Board approved an RFP with the intent of offering SFDCP participants enhanced investment options at the lowest possible cost. Additionally, a new fund allocation was approved by the Board for the San Francisco 457(b) Deferred Compensation Plan. These will be implemented during the 2008-2009 fiscal year.

On behalf of the Retirement Board, I want to extend our appreciation to the members for their continued support, and to the SFERS staff for their effort and commitment to the System.

Sincerely,



Michael Kim, President  
Retirement Board, City and County of San Francisco

# Board Actions During Fiscal Year 2007-08

In fulfilling its duty as fiduciary of the retirement trust assets, and to ensure the health of the investment portfolio with the goal of providing benefits to members into perpetuity, the Retirement Board reviewed, approved, adopted and/or participated in the following actions during the fiscal year ended June 30, 2008:

## Investments

In accordance with the annual investment plan, the investment team brings before the Board new investment opportunities with the objective of enhancing the structure and diversity of the investment portfolio and sustaining long-term performance.

In fiscal year 2007-08, under the authorization of the Board, the investment team committed \$490 million to the Alternative Investments portfolio, \$90 million to the Real Estate portfolio and \$100 million to the Fixed Income portfolio (see pages 18 – 21 for a detailed schedule of these investments).

Additionally, the Board adopted several new or revised policies, plans and/or guidelines essential to the overall governance of the retirement trust:

- Revised Investment Policy Statement
- Investment guidelines for eight managers
- Amendment to 2007 Annual Investment Plan for Alternative Investment Program to Increase Allowed Commitment Total
- Strategic Investment Plan for Alternative Investment Program
- Annual Investment Plan for Real Estate for Fiscal Year 2008-09
- Strategic Investment Plan for Real Estate
- Assumptions for Asset Liability Modeling Process Recommended by Staff and Investment Consultant
- Revised Asset Allocation Recommended by Staff and Investment Consultant
- Adopted an updated list of companies recommended for review regarding target divestment in Sudan, according to Level III of Social Investment Policy
- Institutional Shareholder Services (ISS) as Proxy Voting Service Provider
- Proxy Voting Guidelines for 2008

## Actuarial

SFERS' primary obligation is to secure promised benefits for its members. In order to fulfill this obligation, the Retirement Board contracts with a consulting actuarial firm, whose principal responsibility is to prepare special studies of the plan and its populations on an annual basis, and to provide the Retirement Board with reports and recommended actions regarding key funding and benefit decisions.

During 2007-2008 the Retirement Board approved the following actuarial decisions:

- Consulting Actuary's Economic Experience Analysis and Economic Assumptions
- Consulting Actuary's Actuarial Valuation as of June 30, 2007
- Consulting Actuary's recommended Credited Interest Rate of 5% for fiscal year 2007-08
- Consulting Actuary's recommended Employer Contribution Rate of 4.99% for fiscal year 2008-09
- Authorized Consulting Actuary to Conduct a Cost Analysis of Proposed Benefit Enhancement for June 2008 Ballot
- Supplemental COLA Report from Consulting Actuary
- Basic COLA for Retirees subject to Charter Section A8.526, Effective July 1, 2008

Additionally the Retirement Board conducted its five year request for proposal for actuarial services. At the June 10, 2008 meeting, the Board selected Cheiron to serve as consulting actuary effective July 1, 2008. The Board recognized the seventeen years of service by Towers Perrin, the outgoing consulting actuarial firm.

## Governance

The Board oversees routine as well as complex matters, in accordance with Board policies which impact the overall administration and operations of the Retirement System. For fiscal year 2007-08, the Board reviewed, approved, and/or adopted the following oversight matters:

- SFERS Business Plan for 2008-09
- SFERS Budget for Fiscal Year 2008-09
- Reconsidered Board Policy on Qualification for Dependent Adult Child or Dependent Parent Continuation Benefits Adopted May 8, 2007

- Staff Recommendation to Amend the Administrative Code Sections Governing the Purchase of Public Service
- Retention of Northern Trust as Global Custodian
- Executive and Investment Division Structures and Executive and Investment Staff Compensation
- Semi Annual Review of Disability Application Process
- Board Governance Manual

## Education

The Retirement Board strives to improve competency and enhance understanding of pension investments and overall Board governance through education. During fiscal year 2007-08, members of the Board attended conferences, roundtables, symposiums and other like forums offering diverse topics such as risk and reward (in investing), principles of pension management, presenting data and information, and investing in Asia, to name a few. The Board also participated in its first-ever Board Retreat.

At the Retreat, members of the Board and SFERS senior staff listened to presentations about investment legal risks and investing in infrastructure, as well as discussed the effectiveness of the Board's decision-making processes and characteristics of an effective Executive Director. Additionally, during the fiscal year, members of the Board participated in educational opportunities presented by SFERS Investment staff—Asset Liability Modeling Process and by the City Attorney's Office—Gift Ordinance Regulations and Statement of Incompatible Activities.

## Litigation/Legislation

The Retirement System Senior Administration Staff 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. There were no significant litigation issues during fiscal year 2007-08; however, two voter approved charter amendments affected the SFERS.

- Deferred Retirement Option Program (DROP) for eligible members of the Police Department, effective July 1, 2008.
- Proposition B, providing an enhanced retirement benefit and COLA provision for miscellaneous members, effective January 11, 2009

## Requests for Proposals (RFP)

Running a complex business such as the Retirement System requires collaboration between SFERS staff and a network of expert professional consultants, primarily for investments. The Retirement System gains access to these consultants by issuing RFPs. During fiscal year 2007-08, the Board issued, reviewed and approved the following RFPs:

- Enhanced Index Equity Management Services
- Risk Management System
- Global Real Estate Securities Manager(s)
- Alternative Investment Consultant
- Global Custody Services
- Consulting Actuary Services

## 457(b) SFDCP

The Retirement System 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 administered by a third party administrator (ING Life Insurance and Annuity Company), and is managed by the SFERS Deferred Compensation Manager. The Deferred Compensation Manager continuously monitors the Plan for enhancement opportunities that will benefit our members as they save for retirement. Accordingly, the staff submits to the Board, scheduled reports provided by Angeles Investment Advisors, and an Annual Plan Review provided by ING, regarding performance and administration of the 457(b) Deferred Compensation Plan.

Additionally, during fiscal year 2007-08, the Board reviewed and approved a number of matters for the purpose of improving performance and administration of the SFDCP:

- Selected Segal Advisors as Consultant to Evaluate Plan Structure and Administration of the San Francisco 45(b) Deferred Compensation Plan (SFDCP)
- LSV Conservative Value Equity Fund as the 457(b) SFDCP Large Cap Value Equity Portfolio
- RFP for Third Party Administration and Stable Value Portfolio Manager of the SFDCP

# From the Executive Director

As the Executive Director of the San Francisco Employees' Retirement System, I am pleased to share with you the Retirement System's achievements over the last fiscal year.

## Outlook

The Retirement System remains in good health. As measured on July 1, 2007, our pension portfolio continues to be fully funded at 110%. That means, for every dollar promised to pay your benefits, we have one dollar ten cents (\$1.10) available to pay those benefits.

The investment portfolio returned -3.31% for the fiscal year, a reflection of a challenging market. Despite market woes, the Plan paid \$690 million in benefits over the fiscal year. However, the challenges we faced with the market this year exposed broader issues: In order to sustain our growing asset pool and sophisticated allocation structure, we will need to expand our Investments and Operations staff. The additional staff will help us achieve the investment performance and the service levels you have come to expect from SFERS.

## 2007-08 In Review

In fiscal year 2007-08, the Retirement System's staff implemented processes to support a new benefit program, the Deferred Retirement Option Program (DROP) for eligible members of the San Francisco Police Department, and a benefits enhancement for miscellaneous members.

The DROP, established by the voters on the February 5th ballot, was effective July 1, 2008. A dedicated Member Services team has been educating and enrolling all interested and eligible members.

A benefit enhancement for miscellaneous members was established by the voters on the June 3rd ballot. The enhancement changes the age factor for members 60 years and older who retire on or after January 11, 2009, and changes the way in which COLAs are calculated.

In May, the Retirement System selected a new consulting actuary, Cheiron, after a long relationship with Towers Perrin. We are very confident that Cheiron will more than meet the Retirement System's needs in providing the type of actuarial services most suitable to our benefit structure.

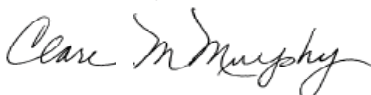
We hired a Communications Manager who is working to improve our communications tools such as our newsletters and web content to keep you better connected with us at the Retirement System.

## Moving Forward

We continue to seek ways of streamlining processes and implementing more efficient systems for conducting our business. For example, our Administration staff is finalizing a new disability retirement case management system—intended to shorten the time it takes to process these types of retirements. Our management team is working on an emergency preparedness plan to ensure staff's safety and to minimize impact to members in the event of a disaster. Additionally, Communications is redesigning the SFERS website to provide a more useful communication and information tool for our members.

I look forward to providing our members with the exceptional service and benefits they have come to expect, as we forge new ways to serve our great members.

Warmest Regards,



Clare M. Murphy

# SFERS Senior Staff

## Administration:

**Clare M. Murphy**  
Executive Director

**Norm Nickens**  
Executive Assistant to the Executive Director

**Jay Huish**  
Deputy Director

**Maria Newport**  
Retirement Administrator

**Jim Burruel**  
Finance Manager

**Dianne Owens-Lewis**  
Human Resources Manager

**Alison M. Johnson**  
Communications Manager

**Craig Lee**  
Information Systems Manager

**Carol Cypert, CRA, CRC**  
Deferred Compensation Manager

**Clare M. Murphy**  
Acting Actuary

## Legal:

**Caryn Bortnick**  
Deputy City Attorney

## Investments:

**David E. Kushner, CFA**  
Deputy Director for Investments

**Robert Shaw**  
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

## Administration



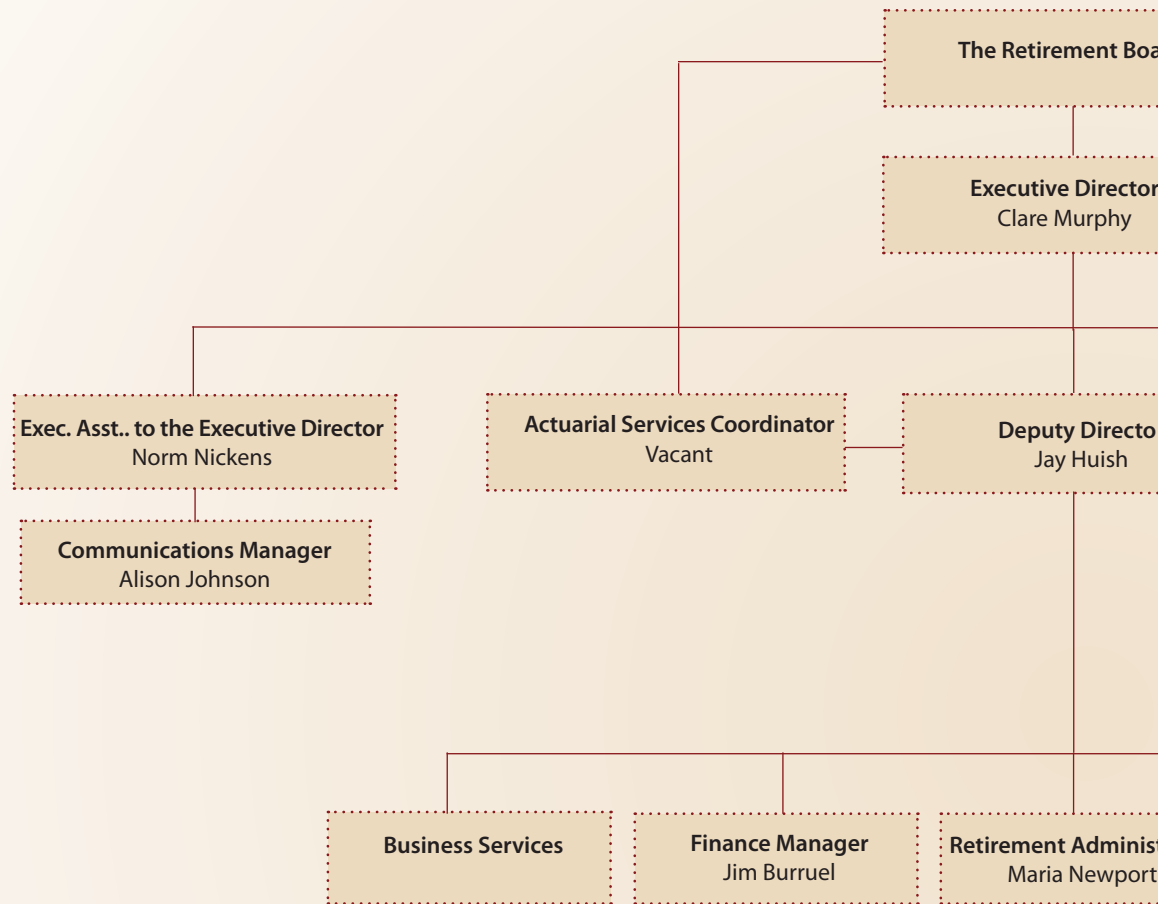
*Front Row: Alison Johnson, Communications Manager; Craig Lee, Information Systems Manager; Clare Murphy, Executive Director; Norm Nickens, Executive Assistant to the Executive Director; and Dianne Owens-Lewis, Human Resources Manager* **Back Row:** Jim Burruel, Finance Manager; Jay Huish, Deputy Director; Maria Newport, Retirement Administrator; and Carol Cypert, Deferred Compensation Manager

## Investments

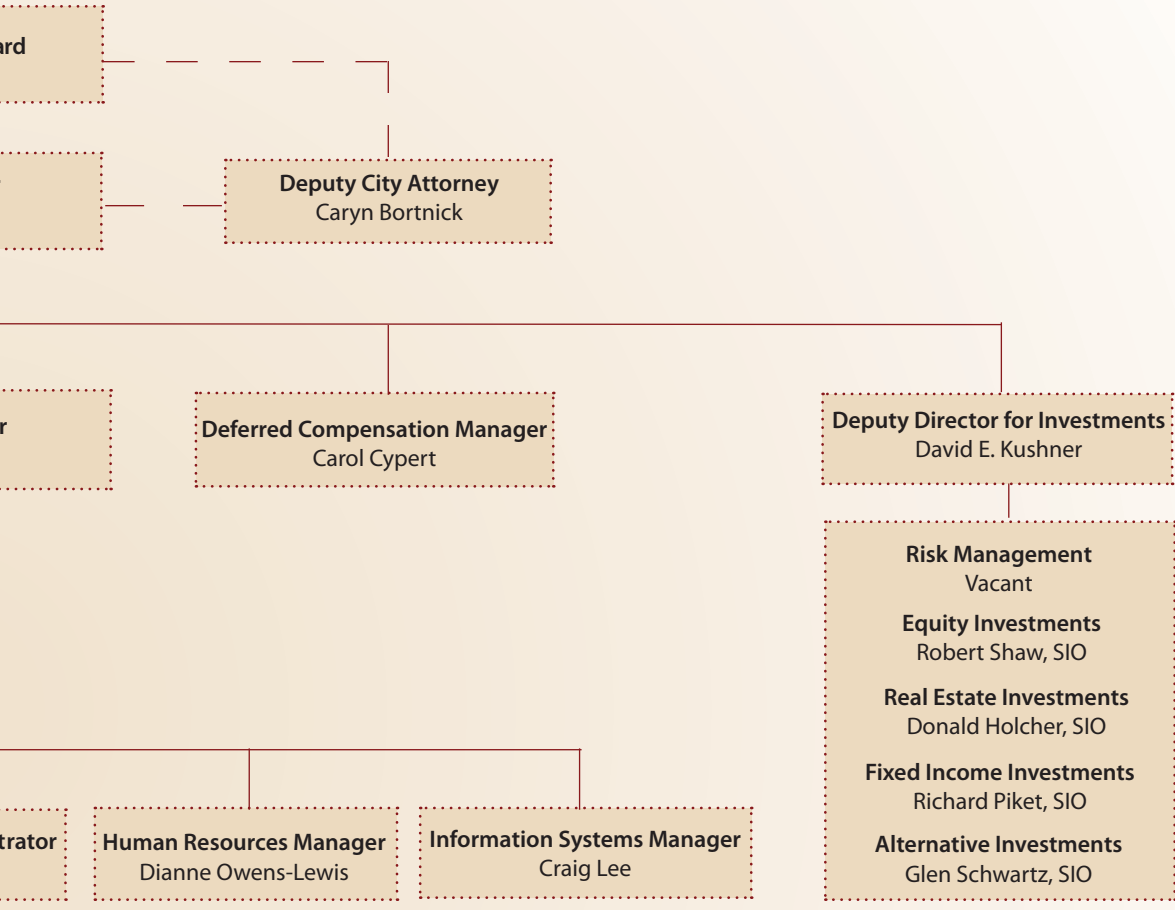


*Left to right: Glen Schwartz, SIO Alternative Investments; Robert Shaw, SIO Equities; David Kushner, Deputy Director for Investments; Richard Pickett, SIO Fixed Income; and Don Holcher, SIO Real Estate*

# SFERS Organizational Chart









## **Investments**

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

# Deputy Director for Investments Report

## Summary

The U.S. economy encountered significant challenges in 2008 and the economic outlook for the year ahead is uncertain. The headwinds of the housing and financial market crisis and credit crunch combined with elevated food and energy prices have translated into sluggish economic growth and a worrisome inflationary situation.

For the Fiscal Year 2008, the System posted a -3.13% return versus -2.77% from the Policy Benchmark. All asset classes except Alternatives trailed their respective indices, with the greatest underperformance coming from the fixed income portfolio, which suffered from its more aggressive posture.

SFERS' portfolio ranks well against category peers (Public Funds with assets in excess of \$1 billion). The System is well above the median across all periods, and places in the top quartile of public funds over the trailing three and five years.

SFERS' assets were within allowable asset allocation ranges at the close of the fiscal year. SFERS' portfolio was modestly underweight U.S. Equity (26.3% vs. 28%), while equity exposure abroad was slightly greater than its target (20.7% vs. 20.0%). Fixed Income matched its target at 30%. Alternatives finished the fiscal year at 10.6% of total assets (versus 12.0% target) and Real Estate was slightly overweight (11.7% vs. 10.0% for the target).

*David E. Kushner, CFA*

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.

In order to achieve the investment objective, the Retirement Board approved the following asset allocation policy in October 2008:

| Asset Class          | Policy Target | Policy Range | Actual |
|----------------------|---------------|--------------|--------|
| US Equity            | 26%           | 22-30%       | 26.3%  |
| International Equity | 23%           | 20-26%       | 20.7%  |
| Global Fixed Income  | 25%           | 22-28%       | 30.0%  |
| Alternative Assets   | 14%           | 10-18%       | 10.6%  |
| Real Estate          | 12%           | 9-15%        | 11.7%  |
| Cash                 | 0%            | 0-1%         | 0.7%   |

**Investment Performance Highlights for Fiscal Year Ended June 30, 2008**

The Retirement System investment portfolio returned -3.13% for the fiscal year ended June 30, 2008, underperforming the policy benchmark return of -2.77%. Overall, Alternative Investments and Real Estate were the stronger performers, while Equities (both domestic and international) posted negative returns and Fixed Income narrowly closed positive under the mortgage meltdown and resulting credit crunch. Skilled staff and experienced investment managers minimized losses and added value to the portfolio by taking advantage of market opportunities, especially in the alternative investments arena, to maneuver the portfolio through a turbulent market during the fiscal year.

**Equity**

Returns for the combined equity portfolio were -11.49% for the fiscal year, underperforming the total equity policy benchmark return of -10.11% by 138 basis points. The US equity portfolio return was -13.53%, underperforming the Russell 3000 benchmark return of -12.69% by 84 basis points. The International equity portfolio was also down for the year, returning -8.89% underperforming the benchmark return of -6.64% by 225 basis points.

2007-08 Equity Commitments/Enhancements:

- Approved Revised Investment Guidelines for Mazama Capital (SMID Growth Equity)
- Approved Quantitative Management Associates (QMA) as Enhanced Index Equity Manager
- Approved Investment Guidelines for QMA and INTECH (Large Cap Growth Equity Manager)
- Approved Amended Investment Guidelines for William Blair (International Equity) and Mondrian (Emerging Markets Equity)

## Fixed Income

The Fixed Income Portfolio had a flat performance for the Fiscal Year ending June 30, 2008 posting a 0.53% return. While the Core, Core Plus and Emerging Markets Debt managers earned solid positive returns, the domestic high yield managers posted negative returns due to a major credit crisis which began in the first half of calendar 2007.

Also during the year, in accordance with staff and consultant recommendation, the Retirement Board approved amended investment guidelines for the high yield CMBS Managers Hyperion and Pyramis Investment Advisors. The Board also reviewed and approved investment guidelines for Manager Cash (short-term investment account), the Securities Lending Collateral Investment Account, and the Dollar Roll Investment Account.

2007-08 Fixed Income Commitments:

- TCW Special Mortgage Credit Fund (Fixed Income Opportunistic Fund), \$25 million
- Western Asset Management Levered Loan Opportunity Fund, \$25 million
- ABRY Advanced Securities Fund, LP (Fixed Income Opportunistic Fund), \$25 million
- Fidelity Real Estate Opportunistic Income Fund, LP, \$25 million

## Alternative Investments

The Retirement Board approved an amendment to the annual investment plan for the Alternative Investment Program approved in 2007, recommending an increased investment pace of approximately \$525 million for calendar year 2008. 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 \$1.7 billion, or 10.6% of the total fund assets.

The alternative investment portfolio returned 18.91% for the fiscal year. Over a ten-year period, the portfolio earned an 11.44% annualized return, exceeding the performance benchmark (the S&P 500 + 5%) by 306 basis points over a rolling ten-year period.

2007-08 Alternative Investments Commitments:

Buy Out:

- Capital International Private Equity Fund V, \$20 million
- Friedman Fleischer and Lowe Fund III, LP, \$40 million
- Oak Hill Capital Partners III, LP, \$40 million
- GenNx360 Capital Partners, LP, \$10 million
- Capvis Equity III, LP, \$20 million
- ABRY Partners VI, LP, \$40 million
- Actis Emerging Markets 3, LP, \$20 million
- Advent International GPE VI, LP, €20 million
- Apollo VII, LP, \$30 million
- TPG VI, LP, \$30 million

- Madison Dearborn VI, LP, \$30 million
- Riverstone/Carlyle Global Energy and Power IV, LP, \$30 million
- Western Presidio Capital VI, LP, \$30 million
- First Reserve Fund XII, LP, \$40 million

Venture:

- Tamir Fishman Ventures II, LP and Tamir Fishman Ventures III, LP, \$15 million
- Technology Crossover Ventures VII, LP, \$25 million
- Canaan VIII, LP, \$20 million
- Clarus Lifesciences II, LP, \$10 million
- Summit Partners Europe Private Equity Fund, €10 million

Special Situations:

- Squadron Asia Pacific, \$15 million
- Sankaty Credit Opportunities Fund IV, L.P., \$30 million

Additionally, on April 8, 2008, the Retirement Board approved the retention of Portfolio Advisors as the consultant for alternative investments.

## Real Estate

As with other SFERS investments, the Real Estate portfolio is a reflection of the changes in the global credit markets. For the long-term, SFERS continues to find real estate an attractive asset class which continues to provide diversification from other asset classes such as equities, fixed income and alternative investments. In addition, it offers stable and attractive risk-adjusted performance. Historically, during higher inflationary periods, investors turn to and benefit from “hard assets” such as real estate.

In 2007, the Retirement Board approved an allocation of up to \$150 million for a global real estate securities search. In February 2008, the Board approved European Investors, Inc. and ING Clarion Real Estate Securities for Global Real Estate Securities Management Services. This allocation will increase the percentage of the real estate portfolio invested internationally.

For fiscal year 2008-09, the Retirement Board approved the Annual Real Estate Investment Plan and Strategic Plan for Real Estate. The Plans provide for a target allocation of new funds of \$200 million. For the first half of calendar 2008, the Retirement Board has authorized \$103 million in new funding for SFERS’ real estate portfolio.

At the end of the fiscal year, the Retirement Board increased the target allocation to Real Estate to 12%, with an allowable range of 8% - 13% of total plan assets. At fiscal year-end, SFERS’ real estate portfolio was \$1.717 billion in equity (before debt and unfunded commitments) or 10.7% of the total fund assets.

SFERS’ real estate consultant reports that the real estate portfolio provided an 11.49% net return for the trailing one-year period ending June 30, 2008. For the three-year and five-year periods, the net returns were 16.44% and 14.99% respectively. The SFERS uses the National Property Index (NPI) plus 1.5% as reported by Pension Real Estate Association (the industry’s association of institutional investors) for benchmarking real estate returns. For the five-year period ended June 30, 2008, the NPI return (on a gross basis) plus 1.5% was 16.57%.

Under current conditions in the economy, tighter credit and a slow down in real estate transactions, SFERS will delay investing new capital except for exceptional and opportunistic situations where SFERS capitalizes on taking good assets from financially distressed sellers.

Furthermore, in light of the global credit crisis and with the slow down in real estate transaction volume, SFERS will look for its third party managers to focus on asset management issues such as leasing and maintaining the competitive position of the properties to ensure that when economic conditions improve, the real estate portfolio will be well positioned for the future benefits, objectives and goals of SFERS real estate investment program.

2007-08 Real Estate Commitments:

- CIM Urban REIT Fund III, \$50 million
- Five Arrows Realty Securities V, LP, \$40 million

As of June 30, 2008, approximately 14% of SFERS trust assets were managed internally, including \$702 million in domestic bonds and \$1.5 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.

## San Francisco Employees' Retirement System

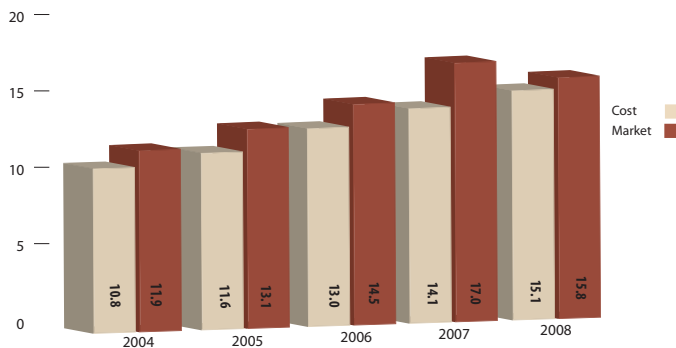
### Summary of Investments<sup>1</sup>

| Asset Class                          | at June 30, 2008        |                | at June 30, 2007        |                |
|--------------------------------------|-------------------------|----------------|-------------------------|----------------|
|                                      | Market Value<br>(\$000) | % of Portfolio | Market Value<br>(\$000) | % of Portfolio |
| Equities                             |                         |                |                         |                |
| U.S. Equities                        | 4,138,513               | 26.1%          | 4,958,204               | 29.2%          |
| International Equities               | 3,226,693               | 20.4%          | 3,877,612               | 22.9%          |
| <b>Total Equities</b>                | <b>\$7,365,206</b>      | <b>46.5%</b>   | <b>\$8,835,816</b>      | <b>52.1%</b>   |
| <b>Global Fixed Income</b>           | <b>4,540,996</b>        | <b>28.7%</b>   | <b>\$4,254,684</b>      | <b>25.1%</b>   |
| Alternative Investments              |                         |                |                         |                |
| Buyout                               | 850,211                 | 5.4%           | 766,806                 | 4.5%           |
| Venture                              | 554,999                 | 3.5%           | 577,344                 | 3.4%           |
| Special Situations                   | 281,717                 | 1.8%           | 260,503                 | 1.5%           |
| <b>Total Alternative Investments</b> | <b>\$1,686,927</b>      | <b>10.7%</b>   | <b>\$1,604,653</b>      | <b>9.5%</b>    |
| <b>Real Estate</b>                   | <b>\$1,788,561</b>      | <b>11.3%</b>   | <b>\$1,698,685</b>      | <b>10.0%</b>   |
| <b>Cash</b>                          | <b>\$450,831</b>        | <b>2.8%</b>    | <b>\$558,205</b>        | <b>3.3%</b>    |
| <b>Total Investment Portfolio</b>    | <b>\$15,832,521</b>     | <b>100.0%</b>  | <b>\$16,952,043</b>     | <b>100.0%</b>  |

Source: Williams, Adley & Company, LLP

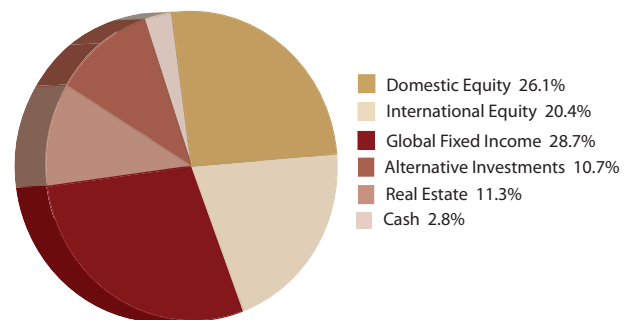
### Pension Fund Net Assets

as of June 30, 2008



### Asset Allocation

as of June 30, 2008



1. Cash includes cash "set aside" for payment of benefits and expenses, and transactions in progress.



For the Fiscal year ended June 30, 2008, the Investment portfolio of the Retirement System suffered from continued economic malaise amid the “credit crisis” ending the fiscal year down -3.13%. On a broad asset class basis, Alternative Investments and Real Estate added the most value for the year, returning 18.91% and 11.49%, respectively. Total Equities finished down -11.49% and Fixed Income returns, while modestly positive, also showed vulnerability to the “credit crunch”, with the total Fixed Income Portfolio returning 0.53% for the year.

### Investment Portfolio Performance vs. Benchmark Returns

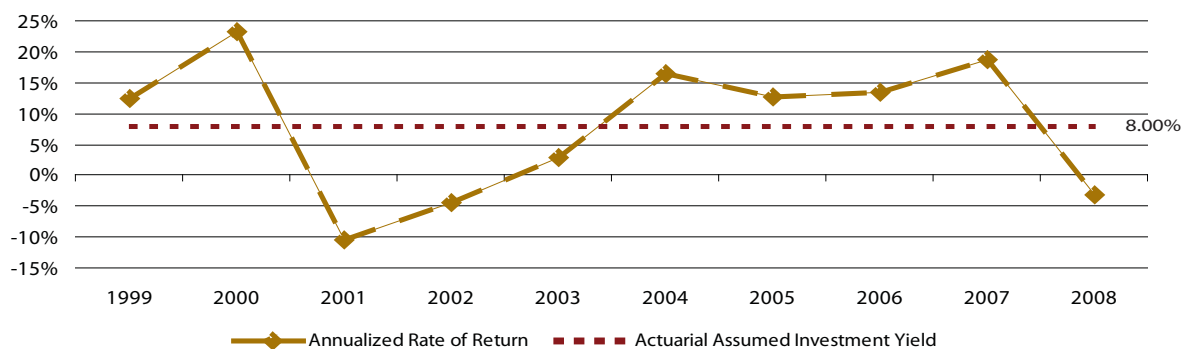
Annualized Returns for the Periods Ending 6/30/08  
(Net of fees and expenses)

| Asset Class   | 1-Year        | 3-Years      | 5-Years      |
|---|---------------|--------------|--------------|
| <b>Domestic Equity</b>  | <b>-13.53</b> | <b>3.79</b>  | <b>7.94</b>  |
| <i>Russell 3000</i>   | <i>-12.69</i> | <i>4.73</i>  | <i>8.37</i>  |
| <b>International Equity</b>   | <b>-8.89</b>  | <b>14.56</b> | <b>18.90</b> |
| <i>MSCI ACWI Free ex US</i>   | <i>-6.64</i>  | <i>15.67</i> | <i>18.94</i> |
| <b>Global Fixed Income</b>  | <b>0.53</b>   | <b>3.26</b>  | <b>4.71</b>  |
| <i>Lehman Global</i>  | <i>6.22</i>   | <i>4.01</i>  | <i>4.07</i>  |
| <b>Real Estate<sup>1</sup></b>  | <b>11.49</b>  | <b>16.44</b> | <b>14.99</b> |
| <i>Gross NPI + 1.5%</i>   | <i>15.08</i>  | <i>18.25</i> | <i>16.57</i> |
| <b>Alternative Assets</b>   | <b>18.91</b>  | <b>29.00</b> | <b>26.45</b> |
| <i>Through 13/31/06: S&amp;P + 6%; Beginning 1/1/07: S&amp;P + 5%</i> | <i>-8.12</i>  | <i>9.41</i>  | <i>12.58</i> |
| <b>Total Fund</b>   | <b>-3.13</b>  | <b>9.28</b>  | <b>11.32</b> |
| <i>Weighted Policy Benchmark</i>                                      | <i>-2.77</i>  | <i>8.53</i>  | <i>10.24</i> |

Source: The Northern Trust Company

### Ten-Year Annualized Rates of Return

Periods Ending June 30



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



## **Finance**

*Oversees the System's financial position and reports operating results*

## Overview

The Finance Division oversees trust accounting as well as provides management with key financial information to facilitate planning, control, and overall System oversight. The Finance Division also prepares and reports the Retirement System's financial position and operating results in accordance with generally accepted accounting principles applicable to a public employee retirement system. Disclosures as required by Governmental Accounting Standards Board (GASB) are included in the financial statements and other required supplemental reports.

In addition to financial oversight, the Finance 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 accounting and financial reporting functions are divided into several major activities:

- Investments Accounting
- Member and Employer Contributions Accounting
- Benefits Payment Accounting
- Employees' Deferred Compensation Accounting
- Budget and Appropriations Control
- General Ledger and Financial Reporting

The audited Statements of Plan Net Assets and Statements of Changes in Plan Net Assets (pages 28 and 29) for fiscal years ended June 30, 2008 and 2007, demonstrate the financial condition 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, 2008.

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.

## Statements of Plan Net Assets

Years Ended June 30, 2008 and 2007

| <b>Assets</b>   | <b>2008</b><br>(\$000) | <b>2007</b><br>(\$000) |
|---|------------------------|------------------------|
| Deposits  | \$ 77,554              | \$ 77,027              |
| Contributions Receivable – Members                          | 7,635                  | 4,009                  |
| Contributions Receivable – City and County                  | 5,826                  | 7,680                  |
| Investment Income Receivable:                               |                        |                        |
| Interest  | 39,844                 | 36,538                 |
| Dividends   | 11,297                 | 11,296                 |
| Securities lending Income                                   | 3,364                  | 492                    |
| Fixed Coupon Dollar Repurchase Agreement Income             | 1,381                  | 1,923                  |
| Receivables from Brokers, General Partners, Others          | 330,883                | 853,921                |
| Investments at Fair Value:                                  |                        |                        |
| Short-Term Investments                                      | 879,724                | 1,426,876              |
| Debt Securities:  |                        |                        |
| U. S. Government Securities                                 | 1,358,339              | 2,021,509              |
| Other Debt Securities                                       | 3,182,657              | 2,233,174              |
| Equity Securities   | 7,365,206              | 8,835,816              |
| Real Estate   | 1,788,561              | 1,698,685              |
| Venture Capital   | 1,686,927              | 1,604,653              |
| Forward Currency Contracts, Net                             | -                      | 10,466                 |
| Investments in Lending Agents' Short-Term Investment Pool   | 1,567,442              | 2,220,679              |
| Total Investments   | \$ 17,828,856          | \$ 20,051,858          |
| Total Assets  | \$ 18,306,640          | \$ 21,044,744          |
| <b>Liabilities</b>  | <b>2008</b>            | <b>2007</b>            |
| Payable to Brokers  | 561,394                | 1,390,144              |
| Obligations Under Fixed Coupon Dollar Repurchase Agreements | 322,063                | 468,164                |
| Foreign Currency Contracts, Net                             | 504                    | -                      |
| Other Liabilities   | 22,716                 | 13,714                 |
| Payable to Borrowers of Securities                          | 1,567,442              | 2,220,679              |
| Total Liabilities   | 2,474,119              | 4,092,701              |
| <b>Net Assets Held in Trust For Pension Benefits:</b>       | <b>\$ 15,832,521</b>   | <b>\$ 16,952,043</b>   |

Source: Williams, Adley & Company, LLP

## Statements of Changes in Plan Net Assets

Years Ended June 30, 2008 and 2007

| Additions   | 2008<br>(\$000)       | 2007<br>(\$000)      |
|---|-----------------------|----------------------|
| Member Contributions:   |                       |                      |
| Miscellaneous   | \$ 156,203            | \$ 148,453           |
| Police  | 16,823                | 15,491               |
| Firefighter   | 12,097                | 11,803               |
| <b>Total Member Contributions</b>                                     | <b>185,123</b>        | <b>175,747</b>       |
| City and County Contributions:  |                       |                      |
| Miscellaneous   | 111,548               | 110,317              |
| Police  | 13,114                | 12,602               |
| Firefighter   | 9,398                 | 9,682                |
| <b>Total City &amp; County Contributions</b>                          | <b>134,060</b>        | <b>132,601</b>       |
| Investment Income (Expenses):   |                       |                      |
| Interest  | 254,737               | 239,088              |
| Dividends   | 183,940               | 167,408              |
| Net Appreciation (Depreciation) in Fair Value of Investments          | (1,103,894)           | 2,424,598            |
| Securities Lending Income   | 54,550                | 106,208              |
| Fixed Coupon Dollar Repurchase Agreement Income                       | 8,638                 | 27,050               |
| Investment Expenses   | (51,079)              | (44,009)             |
| Securities Lending Borrower Rebates and Expenses                      | (69,352)              | (98,375)             |
| Fixed Coupon Dollar Repurchase Agreement Finance Charges and Expenses | (12,972)              | (25,129)             |
| <b>Investment Gain/(Loss), Net</b>                                    | <b>(735,432)</b>      | <b>2,796,839</b>     |
| <b>Total Additions/(Deductions)</b>                                   | <b>\$ (416,249)</b>   | <b>\$ 3,105,187</b>  |
| Deductions  | 2008                  | 2007                 |
| Benefits  | 682,230               | 631,159              |
| Refunds of Contributions  | 8,449                 | 7,645                |
| Administrative Expenses   | 12,594                | 11,362               |
| <b>Total Deductions</b>   | <b>\$ 703,273</b>     | <b>\$ 650,166</b>    |
| <b>Net Increase/(Decrease)</b>  | <b>\$ (1,119,522)</b> | <b>\$ 2,455,021</b>  |
| Net Assets Held in Trust For Pension Benefits:                        |                       |                      |
| <b>Beginning of Year</b>  | <b>\$ 16,952,043</b>  | <b>\$ 14,497,022</b> |
| <b>End of Year</b>  | <b>\$ 15,832,521</b>  | <b>\$ 16,952,043</b> |

Source: Williams, Adley & Company, LLP

## Pension Fund Investment Income

Fiscal Year 2007-08

| Income  | Realized Gain/Loss     | Unrealized Gain/Loss     | Total                     |
|---|------------------------|--------------------------|---------------------------|
| Interest Earned                                   |                        |                          | \$ 254,736,769            |
| Dividends Earned                                  |                        |                          | 183,940,184               |
| Securities Lending Income-Net                     |                        |                          | (14,802,019)              |
| Dollar Roll Income – Net                          |                        |                          | (4,334,002)               |
| Recaptured Commission Income – Net                |                        |                          | (261,269)                 |
| Real Estate Income                                |                        |                          | 67,769,565                |
| Alternative Investment Income                     |                        |                          | 34,354,180                |
| Investment Expenses                               |                        |                          | (50,595,830)              |
| <b>Total Income<sup>1</sup></b>                   |                        |                          | <b>\$ 470,807,578</b>     |
| <b>Net Appreciation in Fair Values</b>            |                        |                          |                           |
| Short-Term Securities                             | (33,924,497)           | \$4,975,276              | (28,949,221)              |
| Equities  | (453,388,305)          | (1,642,191,733)          | (2,095,580,038)           |
| Debt Securities                                   | (57,899,952)           | (265,762,992)            | (323,662,944)             |
| Real Estate                                       | (19,722,697)           | 43,312,325               | 23,589,628                |
| Venture Capital                                   | (178,464,653)          | (102,844,508)            | (281,309,161)             |
| Other Assets                                      | (10,346,175)           | 2,522,488                | (7,823,687)               |
| <b>Total Net Appreciation</b>                     | <b>\$(753,746,279)</b> | <b>\$(1,959,989,144)</b> | <b>\$(2,713,735,423)</b>  |
| <b>Total Income (Including Net Appreciation):</b> |                        |                          | <b>\$ (2,242,927,845)</b> |

Source: Williams, Adley & Company, LLP

1. Total Income excludes employee and employer contributions.

## Pension Fund Disbursements

Plan Year 2007-08

| Payments/Expenses   | Amount                |
|---|-----------------------|
| Service Retirement Payments                                 | \$ 500,397,989        |
| Disability Retirement Payments                              | 132,134,373           |
| Proposition C – Cost of Living Adjustment                   | 37,977,595            |
| Death Allowance Payments                                    | 3,889,719             |
| Death Benefits  | 2,783,617             |
| Normal Contributions Paid as Death Benefit                  | 3,538,505             |
| Retired Annuitant Rolls (Option 1 Death Benefit)            | 1,508,422             |
| Refunds of Contributions                                    | 8,448,995             |
| Administrative Expenses: Retirement Services/Administration | 12,594,680            |
| <b>Total Payments &amp; Expenses</b>                        | <b>\$ 703,273,895</b> |

Source: Williams, Adley & Company, LLP

## 3-Year Comparison of Contributions

### Employer (City & County) Contributions

| Member Plan        | 2007-08               | 2006-07               | 2005-06               |
|--------------------|-----------------------|-----------------------|-----------------------|
| Miscellaneous Plan | \$ 111,548,066        | \$ 110,317,193        | \$ 104,064,428        |
| Firefighter Plan   | 9,398,037             | 9,681,960             | 9,696,305             |
| Police Plan        | 13,113,815            | 12,602,415            | 12,772,942            |
| <b>Total</b>       | <b>\$ 134,059,918</b> | <b>\$ 132,601,568</b> | <b>\$ 126,533,675</b> |

### Employee Contributions

| Member Plan        | 2007-08               | 2006-07               | 2005-06               |
|--------------------|-----------------------|-----------------------|-----------------------|
| Miscellaneous Plan | \$ 156,203,410        | \$ 148,452,563        | \$ 136,664,886        |
| Firefighter Plan   | 12,096,680            | 11,802,825            | 11,313,204            |
| Police Plan        | 16,822,537            | 15,491,371            | 14,715,115            |
| <b>Total</b>       | <b>\$ 185,122,627</b> | <b>\$ 175,746,759</b> | <b>\$ 162,693,205</b> |



## 3-Year Comparison of Actual Administrative Expenditures

### Retirement Services & Administration Divisions

| Expenditure                   | 2007-08              | 2006-07              | 2005-06              |
|-------------------------------|----------------------|----------------------|----------------------|
| Personnel Services            | \$ 7,194,372         | \$ 6,014,410         | \$ 5,149,655         |
| Equipment Purchase            | 39,323               | 0                    | 29,023               |
| Materials and Supplies        | 220,590              | 119,260              | 146,280              |
| Services of Other Departments | 3,470,726            | 3,739,136            | 3,956,423            |
| Other Services                | 1,669,669            | 1,489,065            | 1,939,980            |
| <b>Total</b>                  | <b>\$ 12,594,680</b> | <b>\$ 11,361,871</b> | <b>\$ 11,221,361</b> |

### Investment Division

| Expenditure                   | 2007-08              | 2006-07              | 2005-06              |
|-------------------------------|----------------------|----------------------|----------------------|
| Personnel Services            | \$ 1,608,135         | \$ 1,589,905         | \$ 1,533,095         |
| Equipment Purchase            | 48,186               | 34,069               | 6,622                |
| Materials and Supplies        | 9,255                | 16,397               | 6,032                |
| Services of Other Departments | 409,449              | 368,399              | 408,353              |
| Other Services                | 48,444,904           | 41,435,148           | 35,499,830           |
| <b>Total</b>                  | <b>\$ 50,519,929</b> | <b>\$ 43,443,918</b> | <b>\$ 37,453,932</b> |



## **Retirement Services**

*Providing members with information and education about retirement benefits and services*

## Overview

SFERS employs a dedicated team of knowledgeable professionals who offer invaluable services to our members and their beneficiaries. Under the direction of the Deputy Director, the Retirement Services Division conducts new member enrollments, benefits calculations, active and retired member counseling, pre-retirement education, as well as oversees member communications, retiree payroll and tax reporting, termination benefits and death payments.

### SFERS Plan Membership

The Retirement System administers six benefit structures for the City and County of San Francisco's pension plan according to employee group: Police New Plan and Old Plan, Firefighter New Plan and Old Plan, and Miscellaneous New Plan and Old Plan. Generally, employees who became members of SFERS prior to City Charter amendments passed by the voters in November 1976 are covered under the Old Plans, whereas employees who became SFERS members after the November 1976 Charter amendments are covered by the New Plans.

While the November 1976 Charter amendments established the New Plans, New Plan benefits currently in effect for Miscellaneous members were established by Charter amendment passed in November 2000, and New Plan benefits currently in effect for Safety members were established by Charter amendment passed in November 2002. A description of each Plan by Charter section is found on page 34.

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.

Beginning on September 1, 1995, 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 Safety Old Plans were eligible to become members of SFERS under San Francisco Charter Sections A8.597 and A8.595 respectively, while members of the Safety 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.

Additionally, employees in certain job classifications of the City and County of San Francisco are eligible for membership in other retirement systems. For example, deputized personnel of the Sheriff's Department, institutional police officers, district attorney investigators, and probation officers are members of CalPERS; full-time school teachers hired after June 30, 1972 are members of the State Teachers Retirement System.

## SFERS Plan Membership Charter References

| Charter Section                            | Employee Group   |
|--|--|
| 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 and A8.588  | Firefighters who elected 1981 Proposition F (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 Plan Membership Summary

SFERS Active Membership falls within three categories:

1. Active Members who are currently on City and County and other qualified employers 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, 2008, there were 31,508 members of the Miscellaneous Plans, 2,312 members of the Police Plans and 1,576 members of the Firefighter Plans.

### SFERS Active Membership

*as of June 30, 2008*

| Plan Membership Group                                       | Active        | Vested       | Reciprocal | Total         |
|---|---------------|--------------|------------|---------------|
| Old Miscellaneous Plan Members Before November 2, 1976      | 598           | 48           | 6          | 652           |
| New Miscellaneous Plan Members on or After November 2, 1976 | 26,280        | 3,761        | 815        | 30,856        |
| Old Police Plan Members Before November 2, 1976             | 37            | 0            | 0          | 37            |
| New Police Plan Members on or After November 2, 1976        | 2,206         | 42           | 27         | 2,275         |
| Old Firefighter Plan Members Before November 2, 1976        | 17            | 0            | 0          | 17            |
| New Firefighter Plan Members on or After November 2, 1976   | 1,512         | 26           | 21         | 1,559         |
| <b>Total</b>  | <b>30,650</b> | <b>3,877</b> | <b>869</b> | <b>35,396</b> |

# Contribution Rates

## Employer (City and County) Contribution Rates<sup>1</sup>

*as a Percentage of Covered Payroll*

| Covered Plan Year | Police | Firefighter | Miscellaneous |
|-------------------|--------|-------------|---------------|
| 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%         |
| 2008-2009         | 4.99%  | 4.99%       | 4.99%         |

## Employee Contribution Rates<sup>1</sup>

*as a Percentage of Covered Payroll*

| Plan Membership Group            | Rate of Contribution |
|----------------------------------|----------------------|
| 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.

# Retirement Statistics

Plan Year ended June 30, 2008

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2007-08, as well as benefits payment summaries and comparisons.

The following table summarizes major activities of the SFERS Retirement Services Division during Plan Years 2007-08 and 2006-07:

| Activity  | 2007-08 | 2006-07 |
|---|---------|---------|
| Retirement Estimate Requests                    | 1070    | 1228    |
| Retirement Appointments                         | 1806    | 1646    |
| Retirement Applications Processed               | 996     | 929     |
| Buyback Appointments                            | 1844    | 1745    |
| Personnel Transactions:                         | 3236    | 2961    |
| New Members (New Hires)                         | 1728    | 1457    |
| New Members (1040 Hours Membership)             | 938     | 917     |
| Rehires   | 170     | 187     |
| Police Recruits                                 | 342     | 315     |
| Fire Recruits                                   | 58      | 85      |
| Pre-Retirement Seminars                         | 9       | 9       |
| Registered Attendees at Pre-Retirement Seminars | 827     | 931     |
| Mid-Career Retirement Planning Seminars         | 1       | 1       |
| Registered Attendees at Mid-Career Seminars     | 76      | 79      |
| New Member Retirement Planning Seminars         | 0       | 3       |
| Registered Attendees at New Member Seminars     | 0       | 148     |

The Retirement Services Division sponsored and conducted nine pre-retirement seminars during Plan Year 2007-08. These seminars provided individualized benefits counseling for 827 Miscellaneous Plan members considering retirement within the next five years. Retirement staff also sponsored and conducted one mid-career retirement planning seminar 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, 2008*

| Member Group  | Service                | Vesting    | Industrial Disability | Ordinary Disability | Total      |
|---------------|------------------------|------------|-----------------------|---------------------|------------|
| Miscellaneous | 468                    | 187        | N/A                   | 17                  | <b>672</b> |
| Police        | 55                     | 5          | 6                     | 0                   | <b>66</b>  |
| Firefighter   | 43                     | 0          | 2                     | 0                   | <b>45</b>  |
| <b>Totals</b> | <b>566<sup>1</sup></b> | <b>192</b> | <b>8</b>              | <b>17</b>           | <b>783</b> |

The total number of new retirements effective during Plan Year 2007-08 was 29.4% lower than retirements in Plan Year 2006-07. Service retirements represent 72.3% of the total of new retirements processed.

Miscellaneous retirements represented 85.8% of the total retirements processed in Plan Year 2007-08, relatively equal to 85.4% in Plan Year 2006-07.

Police retirements represented 8.4% of the total retirements processed in Plan Year 2007-08, an increase from 6.0% in Plan Year 2006-07.

Firefighter retirements represented 5.8% of the total retirements processed in Plan Year 2007-08, a decrease from 8.6% in Plan Year 2006-07.

1. Total service retirements in Plan Year 2007-08 include applications for industrial or ordinary disability which have qualified for service retirement but are pending decision on disability application.



## Total Retirement Allowances

Retired Members and Survivor Continuation Benefits  
as of June 30, 2008

| Member Category      | Service Retirements | Disability Retirements <sup>1</sup> | Death in Line of Duty | Total         |
|----------------------|---------------------|-------------------------------------|-----------------------|---------------|
| <b>Miscellaneous</b> | <b>15,033</b>       | <b>1,907</b>                        | <b>N/A</b>            | <b>16,940</b> |
| Member               | 12,597              | 1,385                               | N/A                   | 13,982        |
| Continuation         | 2,436               | 522                                 | N/A                   | 2,958         |
| <b>Police</b>        | <b>1,319</b>        | <b>780</b>                          | <b>42</b>             | <b>2,141</b>  |
| Member               | 972                 | 500                                 | -                     | 1,472         |
| Continuation         | 347                 | 280                                 | 42                    | 669           |
| <b>Firefighter</b>   | <b>966</b>          | <b>965</b>                          | <b>36</b>             | <b>1,967</b>  |
| Member               | 694                 | 696                                 | -                     | 1,390         |
| Continuation         | 272                 | 269                                 | 36                    | 577           |
| <b>Total</b>         | <b>17,318</b>       | <b>3,652</b>                        | <b>78</b>             | <b>21,048</b> |

## Monthly Retirement Benefits Payable

Retired Members and Survivor Continuation Benefits  
as of June 30, 2008

| Member Category | Service Retirements | Disability Retirements <sup>1</sup> | Death in Line of Duty | Total               |
|-----------------|---------------------|-------------------------------------|-----------------------|---------------------|
| Miscellaneous   | \$32,674,307        | \$3,013,273                         | N/A                   | \$35,687,580        |
| Police          | 6,977,013           | 3,321,005                           | 179,015               | 10,477,033          |
| Firefighter     | 5,677,221           | 5,249,678                           | 166,427               | 11,093,326          |
| <b>Total</b>    | <b>\$45,328,541</b> | <b>\$11,583,956</b>                 | <b>\$345,442</b>      | <b>\$57,257,939</b> |

1. Includes ordinary disability (Miscellaneous, Police and Fire) and industrial disability (Police and Fire).



## **San Francisco Deferred Compensation Plan**

*Providing members with opportunities to maximize retirement savings*

# San Francisco Deferred Compensation Plan (SFDCP) 457(b) Plan Overview

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. 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 42 provides detailed information about the 19 core investment funds that make up the City's 457(b) Deferred Compensation Plan for Fiscal Year 2007-08.

## San Francisco Deferred Compensation Plan

Fund Values as of 06/30/08

| Fund Name                                      | Total Assets              | Percent of Total Assets |
|--|---------------------------|-------------------------|
| Ameritrade - Self Directed Brokerage Account   | \$10,888,848.84           | 0.66%                   |
| SFDCP Core Bond Portfolio                      | 54,823,370.61             | 3.33%                   |
| SFDCP International Equity Portfolio           | 138,460,095.31            | 8.41%                   |
| SFDCP Large Cap Core Equity - Active Portfolio | 26,431,979.54             | 1.60%                   |
| SFDCP Large Cap Core Equity - S&P 500 Index    | 84,388,930.08             | 5.12%                   |
| SFDCP Large Cap Growth Equity Portfolio        | 245,115,584.51            | 14.88%                  |
| SFDCP Large Cap Social Equity Portfolio        | 5,375,351.07              | 0.33%                   |
| SFDCP Large Cap Value Equity Portfolio         | 21,066,052.24             | 1.28%                   |
| SFDCP Long Term Portfolio                      | 74,680,909.59             | 4.53%                   |
| SFDCP Mid Cap Core Equity Portfolio            | 43,518,475.57             | 2.64%                   |
| SFDCP Mid Cap Growth Equity Portfolio          | 4,715,483.13              | 0.29%                   |
| SFDCP Mid Cap Value Equity Portfolio           | 14,250,404.74             | 0.86%                   |
| SFDCP Mid Term Portfolio                       | 205,402,983.52            | 12.47%                  |
| SFDCP Near Term Portfolio                      | 13,731,085.82             | 0.83%                   |
| SFDCP Real Estate Portfolio                    | 12,319,093.87             | 0.75%                   |
| SFDCP Small Cap Core Equity Portfolio          | 4,413,590.43              | 0.27%                   |
| SFDCP Small Cap Growth Equity Portfolio        | 14,752,519.55             | 0.90%                   |
| SFDCP Small Cap Value Equity Portfolio         | 32,713,187.61             | 1.99%                   |
| SFDCP Stable Value Portfolio                   | 640,072,292.77            | 38.86%                  |
| <b>Total Investment Funds At ING</b>           | <b>\$1,647,120,238.80</b> | <b>100.00%</b>          |
| Total Annuity Assets At ING                    | \$1,720,084.13            |                         |
| Total Annuity Assets At The Hartford           | <b>\$21,285,692.68</b>    |                         |
| <b>Total Plan Assets</b>                       | <b>\$1,670,126,015.61</b> |                         |

## San Francisco Deferred Compensation Plan

Statistics as of 06/30/08

|  |                         |
|--|-------------------------|
| Number of Plan Participants:               | 23,916                  |
| Number of Active Plan Participants:        | 15,191                  |
| Number of Retirees Not Receiving Benefits: | 2,917                   |
| Retirees Receiving Benefits From Hartford: | 463                     |
| Retirees Receiving Benefits From ING:      | 1,121                   |
| Total Retiree Assets:                      | <b>\$346,925,322.74</b> |

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, a change of the underlying investment option of the SFDCP Large Cap Value Equity Portfolio

### Changes to the Core Investment Lineup during Fiscal Year 2007-08:

| <b>Previous Investment Fund</b>  | ⇒ | <b>New Investment Fund</b>  |
|--|---|---|
| Underlying Investment Fund Name  |   | Underlying Investment Fund Name   |
| <b>SFDCP Large Cap Value Equity Portfolio</b><br>Lord Abbett Affiliated, Class Y | ⇒ | <b>SFDCP Large Cap Value Equity Portfolio</b><br>LSV Conservative Value Equity Fund |

As a result of the change to the underlying core investment fund, 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.

## **Appendix**

# Actuarial Summary

## Assumptions and Method

The main assumptions used to measure the System's funded status to pay future benefits payments were:

|                   |                                    |
|-------------------|------------------------------------|
| Investment Yield  | 8.00% per year                     |
| Wage Inflation    | 4.50% per year                     |
| Price Inflation   | 3.50% per year                     |
| Retiree Mortality | 1994 Group Annuity Mortality Table |

The actuarial funding methods used are 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 investment return greater than or less than the actuarial assumed investment return (8%).

## Key Results

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

### Funded Status as of July 1, 2007

|   |                   |
|---|-------------------|
| Actuarial Liability                         | 13,541,388,000    |
| Actuarial Value of Assets                   | 14,929,287,000    |
| Unfunded Actuarial Liability <Surplus>      | <\$1,387,899,000> |
| <b>Funded Status (assets / liabilities)</b> | <b>110%</b>       |

## Employer (City & County) Contribution Rates

The retirement contribution rates to be paid by the City in Fiscal Year 2007-08 were derived from the July 1, 2006 actuarial valuation:

|  |              |
|--|--------------|
| Normal Cost                                  | 16.60%       |
| Unfunded Actuarial Liability                 | (7.15)%      |
| Remaining Cost of Propositions               | 3.52%        |
| Employee Contributions                       | 7.51%        |
| Administrative Expenses                      | 0.45%        |
| <b>Board Approved City Contribution Rate</b> | <b>5.91%</b> |

Readers who have questions regarding the information provided in this summary may contact SFERS and request the full actuarial report as prepared by SFERS' consulting actuary, Towers Perrin.

# Disability Retirement Hearing Report

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, 2008.

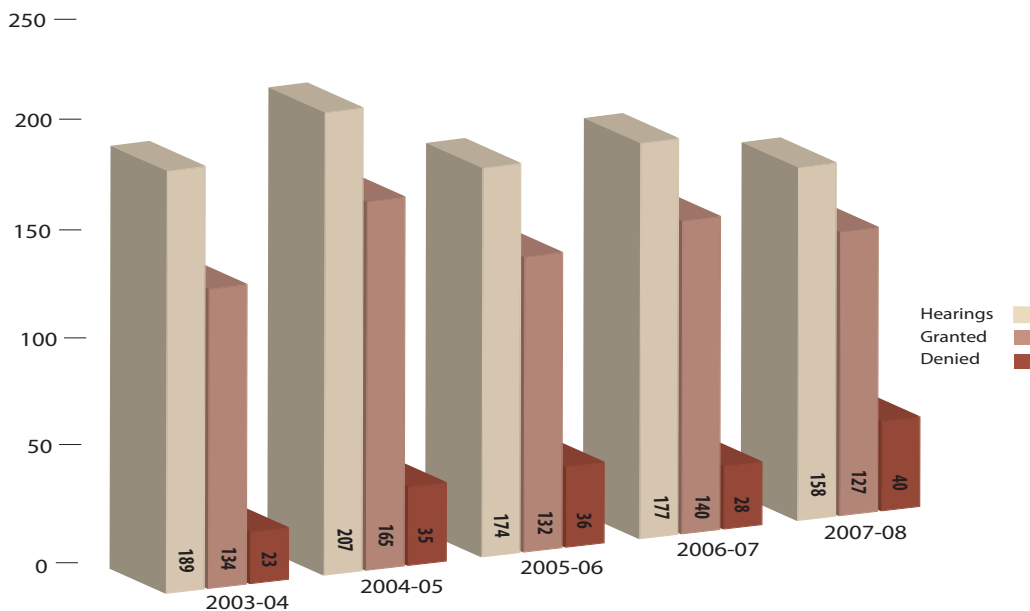
## Hearing Officer Report<sup>1</sup>

Fiscal Year ended June 30, 2008

| Case Category                     | # Of Hearings | # Granted  | # Denied  |
|-----------------------------------|---------------|------------|-----------|
| Industrial Disability Retirements | 66            | 45         | 19        |
| Ordinary Disability Retirements   | 82            | 71         | 12        |
| Death Benefits                    | 2             | 2          | 0         |
| Petitions for Rehearings          | 0             | 1          | 8         |
| PERS                              | 7             | 7          | 1         |
| Reinstatements                    | 1             | 1          | 0         |
| <b>Total</b>                      | <b>158</b>    | <b>127</b> | <b>40</b> |

## Hearing Officer Report

5-Year Comparison



1. The Hearing Officer Report represents cases processed in the period July 1, 2007 – June 30, 2008, and may reflect cases pending from prior periods.





The San Francisco Employees' Retirement System Senior Management Team extends sincere gratitude to the entire SFERS staff for their hard work and dedication during the year.

## **SFERS Staff During Fiscal Year 2007-08**

### ***Administration***

Timothy Benetti  
Mark Cervantes  
Cristina Garcia  
Kathleen Kissick  
Josephine Perez  
Mhalou Villamejor

### ***Accounting***

Christine Deng  
Michael Ma  
Raymond Ng  
Phil Samson  
Ted Wong  
James Yung

### ***Business Services***

Allan Amber  
Emmanuel Anyiam  
Ted Davis  
Deborah Rio  
Diane Souvannavong

### ***Human Resources***

Terry Goodson  
Edward To

### ***Information Services***

An Hoang  
Irene Miranda  
Vinny To  
Gus Vallejo

### ***Investments***

Marie Aure-Flieder  
Mark Coleman  
Daniel Han  
Bret Jepsen  
David Simpson  
Cynthia Wong

### ***Retirement Services***

Carolina Acosta  
Joseph Almeida  
Lois Black  
Dorothy Boutte  
Debbie Carmel  
Imelda Cerezo  
Esther Chan  
Felix Chan  
Allan Chang  
Grace Chin  
Linda Cochran

Nydia Daniel  
Mark Davis  
Bonnie Decker  
Candace Fan  
Mary Fong  
Michael Guess  
John Ho  
Sue Hwang  
Loan Le  
Iris Lee  
Emmett Lew  
Rheba Martin  
Reggie Neri  
Michael Olsen  
Margaret Price  
Robert Quinonez  
Eric Resendez  
Diane Terrell  
Phuong Tieu  
Vicky Tong  
Bill Tran  
Joanne Vargas  
Alyce Wong  
Margaret Yapp



**SFERS**  
**SFERS**

**San Francisco Employees' Retirement System**

*Providing Opportunities for Retirement Since 1889*

*City and County of San Francisco Employees' Retirement System*

---

*30 Van Ness, Suite 3000 (3rd Floor) • San Francisco, CA • 94102*

*phone 415 487-7000 • [www.sfgov.org/sfers](http://www.sfgov.org/sfers)*