



SFERS

San Francisco Employees' Retirement System



San Francisco Employees' Retirement System

Annual Report

For Fiscal Year Ended June 30, 2010

Table of Contents

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TABLE OF CONTENTS

INTRODUCTION

The Retirement System	3
The Retirement Board	6
A Message from the President.....	7
Board Actions for Fiscal Year 2009-10	8
Letter From the Executive Director	11
SFERS Management Staff	12
SFERS Organizational Chart.....	13

FINANCE

Overview	15
SFERS Financial Highlights	16
Statements of Plan Net Assets	19
Statements of Changes in Plan Net Assets	20
Pension Fund Investment Income.....	21
Pension Fund Disbursements	22
3-Year Comparison of Contributions	23
3-Year Comparison of Actual Administrative Expenses	24

ACTUARIAL

Overview	27
Assumptions and Method.....	28
SFERS Historical Contribution Rates	29

INVESTMENTS

Overview	31
Performance Highlights	32
Summary of Investments.....	33
Investment Performance	35

MEMBER SERVICES

Overview	37
Plan Membership.....	38
Plan Benefits Structure	39
Membership Summary	40
Retirement Statistics	41
Disability Hearing Report.....	44

SAN FRANCISCO DEFERRED COMPENSATION PLAN (SFDGP)

Overview	47
Fund Values.....	48
Plan Statistics	49

SFERS AT A GLANCE

AS OF JUNE 30, 2010

Plan Net Assets Market Value:	\$13.1 billion
Total Benefits Paid:	\$804.8 million
Average Member Contribution Rate:	7.50%
Employer Contribution Rate:	9.49%

Membership

Total Membership:	51,722		
Active:	28,222	Retired:	23,500
Miscellaneous:	24,689	Miscellaneous:	19,227
Police:	2,139	Police:	2,214
Fire:	1,394	Fire:	2,059

Retirements *(during fiscal year 2009-10)*

Total Retirements:	1,540
Miscellaneous:	1,410
Police:	63
Fire:	67

Average Service Credit at

Service Retirement:	23.7 years
Miscellaneous:	23.4 Years
Police:	26.1 Years
Fire:	27.3 Years

Average Age at Service

Retirement:	61.5 Years
Miscellaneous:	62.1 Years
Police:	55.0 Years
Fire:	56.0 Years

The Retirement System

HISTORY

Officially established on April 1, 1922, the San Francisco Employees' Retirement System (SFERS) is deeply rooted in the history and culture of the City and County of San Francisco (CCSF), and is profoundly committed to serving the retirement needs of its members. Originally established as a fund to assist families and orphans of firefighters and police, today the Retirement System serves more than 51,000 active and retired employees of the City and County of San Francisco and their survivors.

Under the direction of the Executive Director, the System's management team administers two employee benefit programs for eligible employees of the City and County:

- San Francisco Employees' Retirement System Pension Plan, a Defined Benefit Plan.
- San Francisco Deferred Compensation Plan, an IRC §457(b) Plan.

Specific San Francisco City Charter sections and/or Administrative Code provisions mandate each of these benefit plans (see "SFERS Plan Structure" on page 39).

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 a reciprocity agreement with CalPERS, California county retirement systems covered by the 1937 Act Retirement Law, and certain other local, independent retirement systems that have a reciprocity contract with CalPERS (listed on the CalPERS website).

THE SAN FRANCISCO 457(b) DEFERRED COMPENSATION PLAN

The San Francisco Deferred Compensation Plan (SFDCP), a voluntary IRC §457(b) Plan was adopted in 1979, and 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 eligible employees of the City and County: the City and County of San Francisco, the San Francisco Unified School District, the San Francisco Community College District, as well as the Trial Courts.

Uniformed employees working for the City's police and Fire Departments are covered by SFERS Safety Plans. Eligible civilian (non-Safety Plan) employees of the City are covered by the SFERS Miscellaneous Plan.

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 management team comprise the Administration Division which oversees all other Divisions in the Department – Investments, Member Services, Finance, Actuarial Services, Information Systems, Communications, Human Resources, and the Deferred Compensation Plan. The Administration team manages the day-to-day activities of the System including records management, systems administration and member service.

Additionally, the Administration Division provides support to the Retirement Board in the preparation of meeting materials such as agendas and supporting documents, minutes and public notice requirements for Board and committee meetings. The senior management staff regularly interfaces with Board members, coordinating new trustee orientation and assists in facilitation of on-going educational opportunities.

In addition to oversight of the Retirement System activities and supporting the Retirement Board, the Administration Division is responsible for fulfilling 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 coordinated



by the Administration Division as well, in consultation with the Workers Compensation Division of the Department of Human Resources. See Member Services for the 2009-10 Disability Hearing Report.

FINANCE

The Finance Division is responsible for operations and trust accounting, as well as providing financial information to the senior management team to facilitate short and long-term planning, control, and decision-making.

An essential role for the Finance Division is the preparation and reporting of the Retirement System's financial statements and in accordance with generally accepted accounting principles applicable to public employee retirement systems.

ACTUARIAL SERVICES

The SFERS Retirement Board contracts with a consulting actuary firm to provide actuarial expertise and systems to the Retirement Board and Retirement System staff and in reporting actuarial information related to the benefit structure and funding status of the Retirement System.

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 employer contributions

to the Fund for the next fiscal year. This report reflects Plan valuation for the fiscal year prepared by the consulting actuary firm, Cheiron, based on data through June 30, 2010.

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's professional staff, supported by a group of professional consulting firms, analyzes, develops and recommends asset allocation mixes, manages investment portfolios, and monitors the activities and performance of external investment managers.

MEMBER SERVICES

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

In Fiscal Year 2009-10, Member Services enrolled 1,557 new members and added 2,015 new retirees. Annual benefit payments totaled \$805 million, paid to 23,500 retirees and their beneficiaries as well as members electing to refund their SFERS account.

To help educate members about their benefits under SFERS, Member Services conducted four retirement seminars for the City's miscellaneous members and one retirement seminar for the City's safety members.

THE RETIREMENT BOARD

The System and its members benefit greatly from the leadership of an experienced and long tenured Retirement Board of the San Francisco Employees' Retirement System. The Board oversees Plan administration, Trust fund investment, member benefit processing and communication, and actuarial funding on behalf of the interests of members.

Within the scope of its duties, the Board establishes and follows policies governing the administration, management, and operation of the City's retirement plans; manages the investment of the Retirement System's assets; reviews and approves disability benefit determinations; and approves actuarial assumptions used to determine long-term benefit promises of the SFERS Pension Plan.

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 members elected by the active and retired members of SFERS; three members appointed by the Mayor in accordance with §12.100 of the San Francisco City Charter; and one member, the President of the Board of Supervisors or his or her designee, appointed from among the other members of the Board of Supervisors.

Retirement Board Members During Fiscal Year 2009-10



PRESIDENT
Richard H. Peterson, Jr.
 Real Estate Investor
 Appointed Member
 Left the Board: 05/17/2010



VICE PRESIDENT
Al Casciato
 Captain, Police Department
 Elected Member
 Term Expires: 02/21/2015



Joseph D. Driscoll, C.F.A.
 Captain, Fire Department
 Elected Member
 Term Expires: 02/20/2011



Herb Meiberger, C.F.A.
 Retiree
 Elected Member
 Term Expires: 02/20/2012



Sean Elsbernd
 Member, Board of Supervisors
 Ex-Officio Member
 Term Expires: 01/07/2011



Brenda Wright
 Senior Vice President
 Regional Manager Community Development
 Wells Fargo & Company
 Appointed Member
 Term Expires: 02/21/2015



Michael Kim
 Partner
 Cendana Capital
 Appointed Member
 Left the Board: 09/16/2009

RETIREMENT BOARD MEMBERS AS OF PUBLICATION DATE



From left to right: Victor Makras (appointed August 2010); Joseph Driscoll, elected member; Al Casciato, President, elected member; Wendy Paskin-Jordan (appointed August 2010); Herb Meiberger, elected member; and Sean Elsbernd, member Board of Supervisors. (not pictured, Brenda Wright, Vice President, appointed member)

A Message From The President

As commissioners of the Board of the San Francisco Employees' Retirement System (SFERS) we have the serious responsibility to oversee the administration of retirement benefits provided to the employees of the City and County of San Francisco for the valuable public service they have provided. We serve on behalf of the membership, to ensure that the benefits they earn are available to them at retirement, as promised. Thanks to prudent investment guidelines and funding principles established over the years, I can report with confidence that the outlook for the System is encouraging.



I am pleased to inform you that the Retirement System continues to be soundly-funded at 91% based on the actuarial value of assets of \$16.1 billion. Instrumental in this positive funding status were the outstanding fiscal year net investment gain of \$1.65 billion or 12.55% for the System's investment portfolio, a considerable rally from an unfavorable return the previous year resulting from the prolonged economic downturn. In particular, this sharp turnaround can be credited, in part, to the forethought of allocating more than \$500 million to investments designed to take advantage of opportunities created by an uncertain market environment. However, understanding that we are not yet out of the woods, the Board and staff continue to evaluate strategies and tools aimed at optimizing real returns on the investment portfolio.

The City's budget woes led to record level retirements this year. Yet in an effort to uphold SFERS' reputation as a valued service provider, staff processed retirement applications for all members desiring retirement by fiscal year end. The Board commends the SFERS staff for contributing to the System's successes and for continuing to serve the members and their beneficiaries at the high level they have come to expect.

Further, in June 2010, the voters approved a charter amendment that changes the formula for calculating final compensation for service retirements from a one-year formula to a two-year formula, and modifying the contribution toward pension costs from 7.5% to 9.0% of pay for safety members hired on or after July 1, 2010.

The Board will continue to encourage development of professional staff and consultants in order to sustain our growing fund. Of note, this year we appointed an Actuarial Services Coordinator to oversee the work of the consulting actuary. This is a critical move for assessing the funded status of the System to determine appropriate levels of employer contributions to the Trust.

Finally, I extend sincere gratitude to the dedicated Retirement staff who persevered during difficult times, to our members for their unwavering confidence and support, and to my volunteer colleagues on the Board who consistently offer expert insight in carrying out their roles as fiduciaries.

It has been an honor presiding over this committed and talented Board for the past year, and we pledge to continue in the pursuit of excellence in serving the members.

Respectfully,

A handwritten signature in black ink, appearing to read "Richard H. Peterson, Jr.", written in a cursive style.

Richard H. Peterson, Jr., President
Retirement Board, City and County of San Francisco

Retirement Board Action During Fiscal Year 2009-10

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, 2010:

ACTUARIAL

In accordance with a newly adopted policy governing the System's credited interest rate, the Board approved the reduction of the credited interest rate (the rate of interest members earn on their account balances) from 4.75% to 4.00%. The credited interest rate also impacts calculations of monthly benefits for members who elect an optional form of payment with an enhanced death benefit, buyback payments for account shortages, and vesting allowances for miscellaneous members.



INVESTMENTS

In keeping with the annual investment plan, the investment team brings before the Board, new investment opportunities with the objectives of enhancing both the

structure and diversity of the investment portfolio and sustaining long-term performance.

The Retirement Board approved and revised several policies, plans and/or guidelines essential to positioning the portfolio to take advantage of newly created market opportunities arising out of a persistent fiscal downturn, promoting the long-term viability of the Retirement Trust. The action having the greatest impact to the portfolio was the adoption of a revised strategic investment plan for alternative investments that stipulates the portfolio will be managed under "suggested guidelines or best practices" as endorsed by the greater limited partner community with 70% of commitments in funds domiciled in North America and 30% exposure to international funds.

Additionally during fiscal year 2009-10, under the authorization of the Board and in line with the 2010 Annual Investment Plan for the Alternative Investment Program, the investment team committed \$178 million to the program, with an additional \$75 million allocated to the Real Estate portfolio (see pages 31-33 for a detailed schedule of these investments).

BOARD POLICIES

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. In fiscal year 2009-10, the Board reviewed and approved two new policies significant to the oversight of Trust assets and member benefits provisions.

The Board adopted a Credited Interest Rate Policy which provides that the interest rate charged on member accounts be determined by common economic indicators, namely the 5-year CD rate.



The Retirement Board approved and adopted a policy which promotes transparency in the use of placement agents in connection with SFERS investment decisions. The policy requires the disclosure of payments by placement agents to certain public officials in connection with System investments in or through external managers, as well as prohibits payment of placement agent fees to the Fund. Furthermore, the policy prohibits the System from entering into any agreement with an external manager that does not agree to comply with its policy. Additionally, the Board approved the SFERS business plan and budget for 2010-11, as well as updated provisions within the Board Governance Policy impacting code of conduct, the Board's planning process, and education needs assessment.

EDUCATION

The Retirement Board strives to improve competency and enhance understanding of institutional investing and overall Board governance through education. During fiscal year 2009-10, SFERS Trustees attended conferences, roundtables, symposiums and other educational forums offering diverse topics about investing in the environment and technology, investment opportunities in Asian markets, multi-employer benefits plans, Trustee accountability, and fiduciary oversight.

LITIGATION/LEGISLATION

The Retirement System executive staff and the Office of the City Attorney continuously review and report to the Board, on-going or anticipated litigation, and proposed legislative changes with likely or imminent affect to the SFERS. In Fiscal Year 2009-10, voters approved a charter amendment increasing pension contributions for public safety employees (police and fire) hired on or after July 1, 2010, from 7.5% to 9.0% of pay, and modifying the average final compensation calculation for pensions from a one-year formula to a two-year formula for all employees hired on or after July 1, 2010.

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 managing the System's investment portfolio. The Retirement System gains access to its consultants by issuing RFPs and conducting a competitive bid process. During Fiscal Year 2009-10, the Board issued, reviewed and approved the following RFPs/RFQs:

- Investment Management Services for Active International Small Cap Equity Management
- Investment Management Services for Passive Barclays Capital Aggregate Bond Index Management (excluding tobacco)
- Investment Management Services for Equity Real Estate Portfolio
- Tax Counsel

457(b) SFDCP

The Retirement System administers a 457(b) Deferred Compensation Plan whereby active members have an opportunity to accumulate additional retirement savings intended to supplement pension benefits with voluntary contributions. The SFDCP

Manager oversees the San Francisco 457(b) Deferred Compensation Plan (SFDCP). The Plan is administered on a daily basis by a third party administrator, Great-West Retirement Services (GWRS). The SFDCP Manager continuously monitors the Plan for enhancement opportunities that will benefit our members as they save for retirement.

Accordingly, the SFDCP staff submits to the Board, two scheduled reports: one is prepared by the Plan's investments consultant Angeles Investment Advisors, and the other an Annual Plan Review, provided by GWRS, highlighting Plan performance and activity.

During this fiscal year, the Board continued to engage in discussions concerning the introduction of Target Date Funds (TDF) into the SFDCP lineup of investment options. TDFs would provide participants with the ability to reallocate automatically the asset mix (stocks, bonds, cash equivalents) in its portfolio according to a selected time frame corresponding with a participant's anticipated retirement date. TDFs are designed as hands-off, long-term investments to help minimize the participant's need to make complex decisions concerning asset allocation and diversification for his/her retirement savings account.

Last year, the Board approved Great-West Retirement Services (GWRS) as the Third Party Administrator (TPA) for the SFDCP. Since the transition to GWRS, members have benefited from improved plan features including lower participant fees, an enhanced core lineup of investment options, a customized website and communications, enhanced online transactions and a local service center in San Francisco. Detailed information about the SFDCP begins on page 48.

Letter from the Executive Director



It is with great pride, that I present the many successful endeavors achieved by the Retirement System over this last fiscal year.

In my early tenure as Executive Director, I could not have imagined serving a more devoted group. SFERS' members firmly support the Retirement System, understanding that SFERS maintains as its highest priority, safeguarding the nest egg promised to the thousands of hard-working public employees across the City. Even now during public pension industry turmoil shaped by public scrutiny and complex reform legislation, the membership recognizes that it is these epic times that test the true strength and character of any organization.

While the past year has been marked by its fair share of economic and industry unrest, SFERS has shown great resiliency. The Trust returned 12.55% in fiscal year 2010, largely the result of an upturn in alternative and fixed income investment performance, as the Country labors toward economic recovery.

Most telling, the Fund remains sound with Plan assets valued at \$13.1 billion at fiscal year end, up more than \$1.0 billion from fiscal year 2009. The System paid more than three-quarters of a billion dollars in benefits to more than 23,000 retirees and their survivors during the fiscal year, evidence of the System's positive liquidity position.

Also, fiscal year 2010 was marked by an unprecedented number of retirements, virtually double the System's annual average. Driven by a combination of one of the most challenging budget cycles in decades running concurrent with the expiration of a major wellness benefit, staff is credited with processing more than 2,000 retirement applications for the fiscal year, nearly half of them occurring between the months of April and June.

The dedicated SFERS Member Services staff demonstrated great ingenuity in developing and delivering tools which streamlined the preparation and presentation of benefits calculations for members desiring retirement by fiscal year-end, pulling off an extraordinary accomplishment in the history of the Plan. It is the people at SFERS who represent the most significant facet of what truly makes the SFERS brand special!

Moving forward, SFERS will carry out plans to further cultivate its staff, upgrade technology and enhance communications as ways of innovating the administration of benefits for our membership, and to achieve the immediate and on-going priorities for the System.

Innovation is embedded in the SFERS vision making the outlook for the future very exciting on many fronts. For one, the technology team is leading the way for a new Enterprise Content Management (ECM) system that will upgrade document and knowledge management practices and streamline information retrieval processes. Additionally, development of a state-of-the-art website is in the pipeline which will support a new level of functionality, offering members a gateway to individual account data, self-service applications for estimating benefits, and on-line learning tools.

Members may be rest assured that providing high quality service to our members at a reasonable cost is pivotal as we strive to carry out our mission.

Respectfully,

A handwritten signature in black ink, appearing to read "Gary A. Amelio". The signature is fluid and cursive, with a large, stylized initial "G".

Gary A. Amelio

Executive Staff



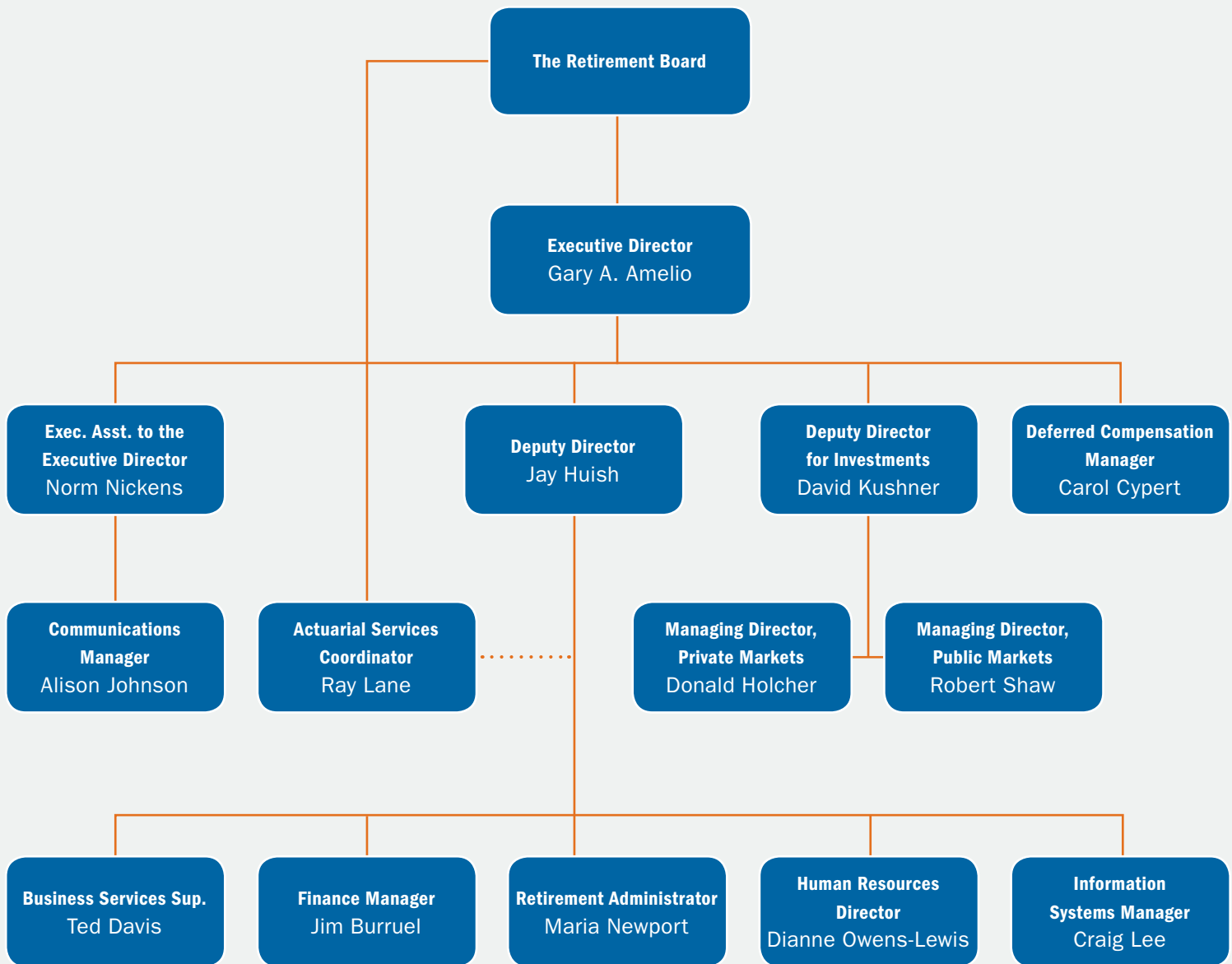
Left to right: David Kushner, Deputy Director for Investments; Carol Cypert, Deferred Compensation Manager; Gary A. Amelio, Executive Director; Norm Nickens, Executive Assistant to the Executive Director; and Jay Huish, Deputy Director.

Senior Management Staff



Top to bottom and left to right: Robert Shaw, Managing Director, Public Markets; Norm Nickens, Executive Assistant to the Executive Director; Jay Huish, Deputy Director; Maria Newport, Retirement Administrator; Craig Lee, Information Systems Manager; Jim Burruel, Finance Manager; Alison Johnson, Communications Manager; Gary A. Amelio, Executive Director; David Kushner, Deputy Director for Investments; Carol Cypert, Deferred Compensation Manager; and Ray Lane, Actuarial Services Coordinator. (not pictured: Dianne Owens-Lewis, Human Resources Director and Donald Holcher, Managing Director, Private Markets)

SFERS Organization Chart



Finance Division



FINANCE DIVISION

Oversees the System's Financial Position and Reports Operating Results

The Finance Division is responsible for oversight of operations and trust accounting as well as, providing management with key financial information to facilitate planning, control, and decision-making. The Finance Division also prepares and reports the Retirement System's financial statements 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 used 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 19 and 20) for Fiscal Years ended June 30, 2010 and 2009, 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, 2010.



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, Macias Gini & O'Connell, LLP.

SFERS Financial Highlights

The management of the City and County of San Francisco Employees' Retirement System is pleased to provide these highlights of the financial activities of the Plan for Fiscal Year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the full Financial Statements and following supplementary information.

Fiscal Year 2010

- The assets of the Retirement System exceeded its liabilities at the close of the year ended June 30, 2010. The Plan held \$13,136,786,000 of net assets in trust for pension benefits. All of the net assets are available to meet the Retirement System's ongoing obligations to plan participants and their beneficiaries.
- The Retirement System's funding objective is to meet long term benefit obligations through contributions and investment income. As of July 1, 2009, the date of the last actuarial valuation, the funded ratio for the Retirement System was 97.0%. In general, this indicates that for every dollar of benefits promised, the Retirement System has approximately \$0.97 of assets available for payment.
- For the year ended June 30, 2010, the Retirement System's net investment gain of \$1,655,102,000 represents a 13.92% increase in plan net assets. (This return is based on plan net assets as of the beginning of the fiscal year.)
- Total net assets held in trust for pension benefits increased by \$1,250,058,000 or 10.5%, primarily as a result of market increase and the net difference between contributions received by the Plan and benefit payments made from the Plan.
- Members' contributions to the Plan amounted to \$189,948,000, a decrease of \$3,015,000 or 1.56% from the prior year.
- In order to maintain the fiscal soundness of the Plan, required employer contributions to the Plan totaled \$223,614,000 for the year ended June 30, 2010.
- Total deductions from the Plan were \$818,606,000, an increase of 8.9% from the prior year due to increased benefits paid during the current fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

The following discussion and analysis are intended to serve as an introduction to the Retirement System's financial statements, which are comprised of the following components:

1. **Statements of Plan Net Assets** are snapshots of account balances as of the close of the year – June 30, 2010 and 2009. They indicate the total assets as of June 30, 2010 and 2009, total liabilities at those dates and the net assets available for future payment of retirement benefits and operating expenses.
2. **Statements of Changes in Plan Net Assets** provide a view of additions to and deductions from the Plan during the years ended June 30, 2010 and 2009.

The statements of plan net assets and the statements of changes in plan net assets report information about the Retirement System's financial activities, prepared using the accrual basis of accounting. Contributions to the Plan are recognized when due and benefits and refunds are recognized and payable in accordance with the terms of the Plan.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value derived from third party pricing services. Purchases and sales of investments are recorded on a trade date basis. Alternative investments represent the Retirement System's interest in limited partnerships. The fair values of the Retirement System's partnership interests and real estate investments are based on net asset values provided by the general partners.

Investments in forward currency contract investments are commitments to purchase and sell stated amounts of foreign currency. Changes in fair value of open contracts are immediately recognized as gains or losses. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges.

Additional information on the Retirement System's investments can be found in Note 4 of the full report.

Fiscal Year 2010

- Member contributions for the year ended June 30, 2010 decreased by \$3,016,000 or 1.56% lower than the prior year. This is primarily due to the reduction in Plan covered compensation as a result of workforce reductions implemented by the City as well as compensation give-backs negotiated by and between the City and County of San Francisco (City and County) and labor organizations representing Plan members in response to the City's budget shortfall.
- In order to maintain the fiscal soundness of the Plan, employer contributions representing 9.49% of covered pay were required from the employers during the year ended June 30, 2010.
- Securities lending income increased by \$60,223,000 or 236.2% due to increased lending activities as a result of economic lending conditions and opportunities. The related rebates and expenses also show a corresponding increase in the amount of \$2,439,000, or 155.4%.
- Investment expenses for the year increased by \$7,325,000 or 20.2%, reflective of the overall investment portfolio performance which resulted in increased fees paid to investment managers during the year ended June 30, 2010.
- Benefit payments to Plan participants increased by \$63,661,000 or 8.7%, consistent with the unprecedented increase in the number of retirement allowances initiated and paid during the year as well as the Basic COLA paid to most retired members effective July 1, 2009.
- Refunds of contributions increased by \$2,056,000 or 30.6%, as a primary result of workforce reductions implemented by the City in response to the City's budget shortfall.
- Administrative expenses increased by \$882,000 or 6.8%, consistent with SFERS budgeted positions that were filled during the fiscal year.
- Other administrative expenses for OPEB decreased by \$53,000 or 4.31%. These OPEB expenses reflect the department's annual required contribution (ARC), interest on net OPEB obligation, and adjustment to the ARC, as allocated by the City and County based on city-wide payroll expenses for fiscal year 2010.

OTHER INFORMATION

The Retirement System has successfully defended three class action lawsuits related to final compensation through final appeals to the California Supreme Court. There continue to be on-going lawsuits against the Retirement System brought by individuals related to benefits being paid. The Retirement System continues to vigorously defend these lawsuits to protect the assets of the trust.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Retirement System's finances for the years ended June 30, 2010 and 2009. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to:

Gary A. Amelio
Executive Director
City and County of San Francisco
Employees' Retirement System
30 Van Ness Avenue, Suite 3000
San Francisco, CA 94102

Statements of Plan Net Assets

YEARS ENDED JUNE 30, 2010 AND 2009

ASSETS	2010	2009
	<i>(in thousands)</i>	
Deposits	\$ 16,433	\$ 34,170
Accounts Receivable		
Accounts Receivable-Airport Police Transfer from CalPERS	0	6,351
Contributions Receivable – Members	11,088	8,286
Contributions Receivable – City and County	8,075	5,344
Investment Income Receivable:		
Interest	25,681	27,526
Dividends	10,060	9,026
Securities lending	1,219	7,859
Receivable from brokers, general partners, others	155,528	185,725
Investments at Fair Value:		
Short-Term Investments	583,208	504,096
Debt Securities:		
U.S. Government Securities	1,177,473	1,053,552
Other Debt Securities	2,881,362	2,662,681
Equity Securities	5,733,593	5,114,484
Real Estate	1,009,001	1,181,932
Venture Capital	1,763,500	1,511,250
Forward Currency Contracts, Net	6,387	2,094
Investments in Lending Agents' Short-Term Investment Pool	964,858	837,074
TOTAL INVESTMENTS:	\$ 14,119,382	\$ 12,867,163
TOTAL ASSETS:	\$ 14,347,466	\$ 13,151,450
LIABILITIES	2010	2009
Payable to Brokers	\$ 219,697	\$ 366,728
DROP	8,653	4,143
Other Liabilities	15,828	12,020
Payable to Borrowers of Securities	966,502	881,830
TOTAL LIABILITIES:	\$ 1,210,680	\$ 1,264,721
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	\$ 13,136,786	\$ 11,886,729

Statements of Changes In Plan Net Assets

YEARS ENDED JUNE 30, 2010 AND 2009

ADDITIONS	2010	2009
	<i>(in thousands)</i>	
Member Contributions:		
Miscellaneous	\$ 157,416	\$ 161,386
Police	19,467	18,566
Police-Airport Transfer from CalPERS	0	6,350
Firefighter	13,065	13,012
Total Member Contributions	189,948	199,314
City and County Contributions:		
Miscellaneous	182,899	98,306
Police	24,326	12,910
Firefighter	16,389	8,535
Total City & County Contributions	223,614	119,751
Investment Income (Expenses):		
Interest	195,166	232,926
Dividends	139,161	144,815
Net Appreciation (Depreciation) in Fair Value of Investments	1,334,257	(3,815,666)
Securities Lending Income	34,730	(25,493)
Fixed Coupon Dollar Repurchase Agreement Income	0	(9,104)
Investment Expenses	(44,206)	(37,110)
Securities Lending Borrower Rebates and Expenses	(4,007)	(1,568)
Fixed Coupon Dollar Repurchase Agreement Finance Charges and Expenses	0	(1,650)
Investment Gain/(Loss), Net	1,655,101	(3,512,850)
Total Additions/(Deductions)	\$ 2,068,663	\$ (3,193,785)
DEDUCTIONS		
Benefits	792,776	732,342
Refunds of contributions	11,997	6,714
Administrative expenses	12,655	12,951
Other Admn. Expenses - OPEB	1,178	1,231
Total Deductions	\$ 818,606	\$ 752,007
Net increase/(decrease)	\$ 1,250,057	\$ (3,945,792)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	\$ 11,886,729	\$ 15,832,521
End of year	\$ 13,136,786	\$ 11,886,729

Pension Fund Investment Income

FISCAL YEAR 2009-10

	REALIZED GAIN/LOSS	UNREALIZED GAIN/LOSS	TOTAL
INCOME			
Interest Earned			195,166,142
Dividends Earned			139,160,875
Securities Lending Income-Net			30,723,110
Dollar Roll Income – Net			0
Recaptured Commission Income			88,582
Real Estate Income			64,707,365
Alternative Investment Income			47,559,543
Investment Expenses			(44,205,743)
TOTAL INCOME¹:			\$ 433,199,874
NET APPRECIATION IN FAIR VALUES:			
Short-Term Securities	34,294,645	66,842,169	101,136,814
Equities	289,924,884	330,134,881	620,059,765
Debt Securities	65,949,131	430,314,380	496,263,511
Real Estate	(15,026,614)	(305,752,523)	(320,779,137)
Alternative Investments	29,189,659	265,737,657	294,927,316
Other Assets	2,100,280	28,109,318	30,209,598
TOTAL NET APPRECIATION:	\$ 406,431,985	\$ 815,385,882	\$ 1,221,817,867
TOTAL INCOME (including Net Appreciation):			\$ 1,655,017,741

1. Total income excludes employee and employer contributions.

Pension Fund Disbursements

PLAN YEAR 2009-10

PAYMENTS/EXPENSES	AMOUNT
Service Retirement Payments	\$ 593,048,332
Disability Retirement Payments	149,121,930
Proposition C – Cost of Living Adjustment	35,286,878
Death Allowance Payments	3,942,153
Death Benefits	2,533,571
Normal Contributions Paid as Death Benefit	3,227,239
Retired Annuitant Rolls (Option 1 Death Benefit)	1,848,572
DROP Program Accrued Retirement Benefits	6,993,932
Refunds of Contributions	8,770,031
Administrative Expenses: Retirement Services/Administration	13,833,088
TOTAL PAYMENTS & EXPENSES	\$ 818,605,726
INCREASE/(DECREASE) FROM FY 2008-09:	\$ 66,598,255

3 Year Comparison of Contributions

EMPLOYER (CITY AND COUNTY) CONTRIBUTIONS

MEMBER PLAN	PLAN YEAR 2009-2010	PLAN YEAR 2008-2009	PLAN YEAR 2007-2008
MISCELLANEOUS PLAN	\$ 182,899,285	\$ 98,305,683	\$ 111,548,066
FIREFIGHTER PLAN	16,388,581	8,534,677	9,398,037
POLICE PLAN	24,325,952	12,909,608	13,113,815
TOTAL	\$ 223,613,818	\$ 119,749,968	\$ 134,059,918

EMPLOYEE CONTRIBUTIONS

MEMBER PLAN	PLAN YEAR 2009-2010	PLAN YEAR 2008-2009	PLAN YEAR 2007-2008
MISCELLANEOUS PLAN	\$ 157,416,116	\$ 161,385,899	\$ 156,203,410
FIREFIGHTER PLAN	13,065,314	13,012,377	12,096,680
POLICE PLAN	19,466,843	24,916,935	16,822,537
TOTAL	\$ 189,948,273	\$ 199,315,211	\$ 185,122,627

3 Year Comparison of Actual Administrative Expenditures

RETIREMENT SERVICES & ADMINISTRATION DIVISIONS

DESCRIPTION OF EXPENDITURES	RETIREMENT SERVICES/ADMINISTRATION		
	2009-10	2008-09	2007-08
Personnel Services	\$ 9,270,816	\$ 8,624,045	\$ 7,194,372
Equipment Purchase	19,300	0	39,323
Materials and Supplies	162,797	167,372	220,590
Services of Other Departments	1,822,153	1,675,812	3,470,726
Other Services	2,558,022	2,484,098	1,669,669
TOTAL	\$ 13,833,088	\$ 12,951,327	\$ 12,594,680

INVESTMENT DIVISION

DESCRIPTION OF EXPENDITURES	INVESTMENT DIVISION		
	2009-10	2008-09	2007-08
Personnel Services	\$ 1,977,608	\$ 1,595,310	\$ 1,608,135
Equipment Purchase	0	0	48,186
Materials and Supplies	2,459	1,689	9,255
Services of Other Departments	727,978	825,417	409,449
Other Services	40,899,063	37,201,644	48,444,904
TOTAL	\$ 43,607,108	\$ 39,624,060	\$ 50,519,929

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Actuarial Services Division



ACTUARIAL SERVICES DIVISION

Measuring the Actuarial Value of Plan Assets and Liabilities in Accordance with a Legally Mandated and Actuarially Prudent Funding Plan

OVERVIEW

The Board appoints the in-house actuary (Actuarial Services Coordinator) and contracts with an independent consulting actuary to provide actuarial expertise for the operation of the Retirement System. The Consulting Actuary prepares and signs all professional actuarial valuations needed for prudent administration of the System, including the annual Actuarial Valuation. The actuarial valuation measures the funding status of the plan, and recommends the level of City contributions for the coming fiscal year, both in accordance with actuarial method and assumptions previously approved by the Board. The Board has final responsibility for approving the City contribution rate each year. The Actuarial Services Coordinator is directly



responsible to the Board for managing and overseeing the actuarial function for the System, including the Actuarial Valuation and other activities including:

- Compiling and testing of membership data submitted to the consulting actuary for the actuarial valuation.
- Coordinating the consulting actuary's preparation of the annual Actuarial Valuation presented to the Retirement Board at its January meeting.
- Preparation of required disclosures of actuarial information required by the Governmental Accounting Standards Board (GASB) for SFERS financial statements.
- Coordinating the consulting actuary's preparation of actuarial factors and other data needed to administer benefits, including benefit conversion factors, cost of living increases and the credited interest rate applied to member accounts.
- Coordinating the consulting actuary's preparation of experience studies to evaluate and select actuarial assumptions and methods used in the annual actuarial valuation.
- Preparation and presentation of educational sessions on actuarial subjects for Board members and executive management, as needed.

The following pages contain key results from the most recent Actuarial Valuation, as of July 1, 2010.

Actuarial Assumptions and Method

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

Investment Return	7.75% per year
Wage Inflation	4.00% per year
Price Inflation	3.50% per year
Mortality	RP 2000 Mortality Tables

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.

KEY RESULTS

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

FUNDED STATUS AS OF JULY 1, 2010

Actuarial Liability	\$17,643,400,000
Actuarial Value of Assets	\$16,069,100,000
Unfunded Actuarial Liability <Surplus>	\$ 1,574,300,000
Funded Status (assets/liabilities)	91.1%

EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES

The retirement contribution rates paid by the City in Fiscal Year 2009-10 were derived from the following actuarial valuation results as of July 1, 2008:

Normal Cost	18.16%
Unfunded Actuarial Liability	(7.03)%
Remaining cost of propositions	5.41%
Employee Contributions	7.50%
Administrative Expenses	0.45%
Board Approved City Contribution Rate	9.49%

Historical Employer Contribution Rates

The contribution rates paid by the City and County of San Francisco to fund the pension plan for the City's retired miscellaneous and safety employees has fluctuated over the years. Below is a table of contribution rates dating back more than 30 years.

EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES¹

As a Percentage of Covered Payroll

Effective Date	Miscellaneous	Police	Fire
July 1, 1981	16.99	88.36	90.48
July 1, 1982	17.00	92.50	91.00
July 1, 1983	17.00	96.00	105.00
July 1, 1984	18.00	91.00	104.00
July 1, 1985	18.00	92.00	106.00
July 1, 1986	18.00	92.00	106.00
July 1, 1987	18.00	86.00	99.00
July 1, 1988	16.00	81.5	96.50
July 1, 1989	15.00	79.00	92.00
July 1, 1990	15.00	78.00	91.00
July 1, 1991 – February 14, 1991	13.00	67.00	79.00
February 15, 1991 – June 30, 1992	13.00	34.70	54.60
July 1, 1992 – August 14, 1992	12.67	50.57	67.49
August 15, 1992 – January 29, 1993	12.67	24.04	49.29
January 30, 1993 – June 30, 1993	9.08	29.91	43.17
July 1, 1993 – December 31, 1993	7.36	26.92	40.02
January 1, 1994 – June 30, 1994	5.39	19.76	19.47
July 1, 1994	5.39	19.76	19.47
July 1, 1995 – December 31, 1995	4.98	14.79	12.44
January 1, 1996 – June 30, 1996	4.29	12.69	10.58
July 1, 1996	1.83	0.00	0.00
July 1, 1998 – June 30, 2004	0.00	0.00	0.00
July 1, 2004	4.48	4.48	4.48
July 1, 2005	6.58	6.58	6.58
July 1, 2006	6.24	6.24	6.24
July 1, 2007	5.91	5.91	5.91
July 1, 2008	4.99	4.99	4.99
July 1, 2009	9.49	9.49	9.49
July 1, 2010	13.56	13.56	13.56
July 1, 2011	18.09	18.09	18.09

1. Contribution rates beginning 7/1/80 and after, are composite rates for Old and New groups.

Investment Division



Investment Division

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

OUTLOOK

Aggressive Government monetary and fiscal stimulus programs produced a substantial financial market rebound in the Fiscal Year ended June 30, 2010. As a result the San Francisco Employees' Retirement System ("System") experienced a much improved return of 12.55% on investments for the Fiscal Year. With interest rates remaining at record lows, sluggish economic growth and high unemployment, the outlook for the financial markets is very uncertain. The 2010 mid-term elections and expiring tax cut programs in a contentious political environment have resulted in fragile and highly volatile market conditions. The System continues to adhere to investment policies and programs designed to take a longer term view, and manage through both difficult and prosperous times with a disciplined approach to the investment of the System's assets.



During the Fiscal Year, Staff, in conjunction with external consultants, continued to make progress on the System's Risk Management capabilities. Staff and consultants also reviewed the Fund's sub-asset class allocation in the Public Market (Equities and Fixed Income) segments and made minor adjustments.

OVERVIEW

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 September 2009:

Asset Class	Policy Target	Policy Range	Actual
US Equity	26%	22-30%	24.5%
International Equity	23%	20-26%	21.6%
Global Fixed Income	25%	20-35%	31.5%
Alternative Assets	14%	10-18%	13.5%
Real Estate	12%	9-15%	8.2%
Cash	0%	0-1%	0.7%

Percentages based on total plan assets minus dedicated cash, STEP segregated cash and currency overlay.

INVESTMENT PERFORMANCE HIGHLIGHTS FOR FISCAL YEAR ENDED JUNE 30, 2010

The Retirement System investment portfolio returned 12.55% for the fiscal year ended June 30, 2010, outperforming the policy benchmark return of 11.38%. All asset classes posted positive returns for the Fiscal Year, except for Real Estate.

EQUITY

The combined public equity portfolio returned 13.61% for the fiscal year, underperforming the total equity policy benchmark return of 13.81% by 20 basis points. The US equity portfolio return was 15.64%, which lagged the Russell 3000 benchmark return of 15.72% by 8 basis points. The International equity portfolio (including currency overlay) rose 12.02%, outperforming the benchmark return of 11.49% by 53 basis points. Without currency overlay, the international equity portfolio lagged by 24 basis points (11.25% vs. 11.49%).

2009-10 EQUITY MANAGER CHANGES:

- Perimeter Capital Management. Retained in January 2010 for U.S. Small Cap Growth Equities with a mandate of \$132 million.
- FX Concepts. Retained as an active currency manager in January 2010 with a notional allocation of 20% of SFERS' international equity assets;
- Lee Overlay. Retained as an active currency manager in January 2010 with a notional allocation of 40% of SFERS' international equity assets;
- Blackrock. Retained as an active currency manager in January 2010 with a notional allocation of 40% of SFERS' international equity assets. Blackrock's mandate also includes a dedicated allocation to emerging market currencies.
- AXA Rosenberg Investment Management. In April 2010, SFERS was informed of an error in the quantitative modeling

process employed by AXA. In May 2010, the Retirement Board approved Staff's recommendation that AXA be terminated as an active international small cap equity manager. Concurrently, Staff began the process of seeking replacement managers. The assets (approximately \$298 million) are currently being managed by Northern Trust in a passive international small cap index portfolio.



FIXED INCOME

The Fixed Income Portfolio rebounded sharply in the Fiscal Year ended June 30, 2010. The bond portfolio posted a 19.84% return for the year, outperforming the policy benchmark by 9.24%.

During the Fiscal Year, approximately \$408 million was raised from various Fixed Income portfolios for the purpose of providing for the System's benefit payments and to fund other investment needs. Blackrock Investment Management was retained to manage a Barclays Capital Aggregate Index Fund, with funding anticipated to start in fiscal year 2010/2011.

Due to performance concerns and organizational issues, the Retirement Board elected to terminate Brookfield-Hyperion, a High Yield CMBS manager, in November 2009. For similar reasons, an investment in the TCW Special Mortgage Credits Fund was withdrawn in February 2010. In addition, in March 2010, SFERS terminated an investment in the Western Asset Management Levered Loan Opportunity Fund.

In September 2009, the Retirement Board approved changes in asset allocation policy, which resulted in an expansion of target ranges for the Fixed Income Portfolio target ranges with the objective of achieving more investment management flexibility. The role

of the Internal Fixed Income portfolio was also reviewed and the Retirement Board approved revised Investment Guidelines to enhance the quality and liquidity of this SFERS bond portfolio.

ALTERNATIVE INVESTMENTS

In December 2009, the Retirement Board approved the annual investment plan for the Alternative Investment Program recommending an investment pace of \$275 million for calendar year 2010. During the fiscal year, 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 13.5% of the total fund investments assets.

The alternative investment portfolio returned 20.27% for the fiscal year. Over a ten-year period, the portfolio earned a 6.48% annualized return, exceeding the performance benchmark (the S&P 500 + 5% over a rolling ten-year period) by 288 basis points.

FY 2009-10 ALTERNATIVE INVESTMENTS COMMITMENTS:

Buy Out:

- CHAMP III, LP, \$18 million; March 2010
- Bertram Capital II, LP, \$20 million: June 2010

Venture:

- Polaris Venture Partners VI, LP, \$20 million: March 2010
- IVP XIII, LP, \$30 million: May 2010

Special Situations:

- Energy Capital Partners II, LP, \$20 million: October 2009
- OCM Opportunities VIII, LP, \$30 million: August 2009

- Squadron Asia Pacific II, LP, \$20 million: December 2009
- ABRY Senior Equity III, L.P, \$20 million: March 2010

REAL ESTATE

In May 2009, the Retirement Board approved the Annual Real Estate Investment Plan and Strategic Plan for Real Estate. The Plans provide for a target allocation of \$300 million in private real estate investments and an additional \$50 million allocation in public real estate investments. In addition, the Retirement Board approved a search to potentially select and retain another separate account manager. A Request for Qualifications was issued to facilitate the search.

For the Fiscal Year ended June 30, 2010, the real estate portfolio had one-year and five-year returns of (21.65%) and (1.67%), below the benchmarks of (8.10%) and 5.69%, respectively. SFERS' benchmark is 1.5% above the NCREIF Property Index, as reported by the National Council of Real Estate Investment Fiduciaries ("NCREIF"). The underperformance reflects the impact of unrealized losses taken from appraisals during the year performed by certified professionals and the negative impact of leverage on assets with declining values. At fiscal year-end, the market equity value for the real estate investments was \$1.1 billion, or 8.1% of the total fund investment assets.

SFERS continues to review investment opportunities that fit strategically with the existing portfolio, anticipate global demographic, technological, and government regulatory trends, and offer competitive risk adjusted returns for the targeted hold period.

2009-2010 REAL ESTATE COMMITMENTS:

- AEW Partners VI, L.P., \$25 million
- AMB U.S. Logistics Fund, L.P., \$50 million

As of June 30, 2010, approximately 13% of SFERS trust assets were managed internally, including \$675 million in domestic bonds and \$1.03 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

at June 30, 2010

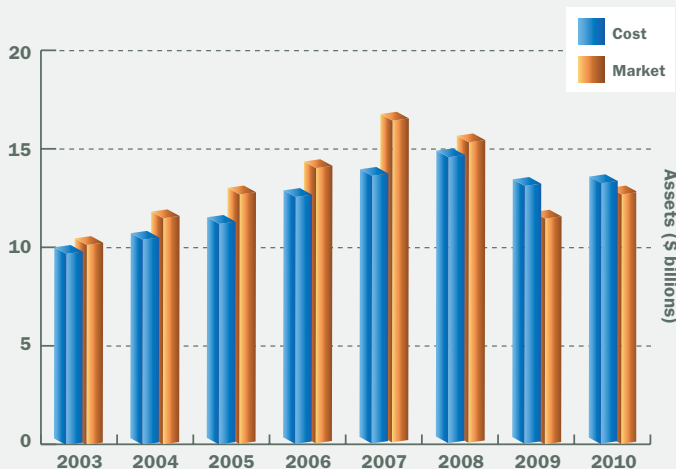
at June 30, 2009

Asset Class	Market Value	% of Portfolio	Market Value	% of Portfolio
Equities				
U.S. Equities	3,159,882	24.2%	2,982,072	25.1%
International Equities	2,838,828	21.8%	2,291,524	19.3%
Total Equities	5,998,710	46.0%	5,273,596	44.4%
Global Fixed Income	4,064,841	31.2%	3,557,122	29.9%
Alternative Investments				
Buyout	897,290	6.9%	737,490	6.2%
Venture	493,640	3.8%	479,066	4.0%
Special Situations	346,670	2.7%	294,694	2.5%
Total Alternative	1,737,600	13.3%	1,511,250	12.7%
Real Estate	1,055,932	8.1%	1,181,932	9.9%
Cash	186,035	1.4%	362,829	3.1%
Total Investment Portfolio	13,043,118	100.0%	11,886,729	100.0%

Investment portfolio totals are net of management fees and expenses and therefore does not foot to pension net assets reported in SFERS audited financial statements.

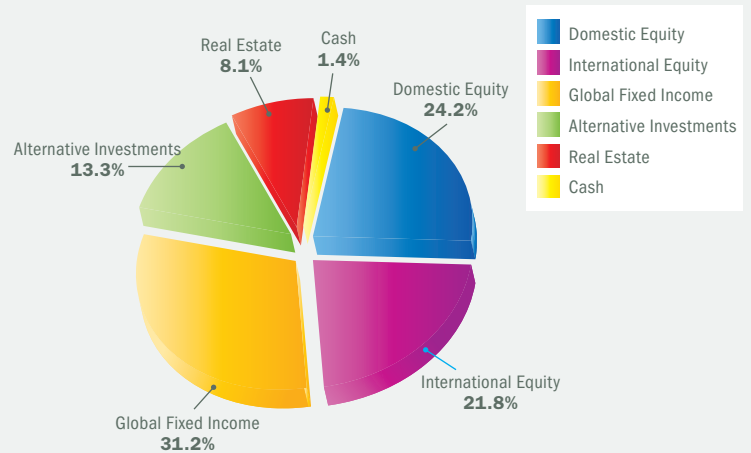
PENSION FUND NET ASSETS

as of June 30, 2010



ASSET ALLOCATION BY MARKET VALUE

as of June 30, 2010



For the Fiscal Year ended June 30, 2010, the Investment portfolio of the Retirement System enjoyed a strong rebound as markets continued to improve. With the exception of Real Estate (-21.65%), all of the asset classes rose – led by Alternative Investments (+20.27%) and Fixed Income (+19.84%). Total Equities climbed a more modest 13.61%.

INVESTMENT PORTFOLIO PERFORMANCE

Annualized Returns for the Periods ending 6/30/2010 (Net of fees and expenses)

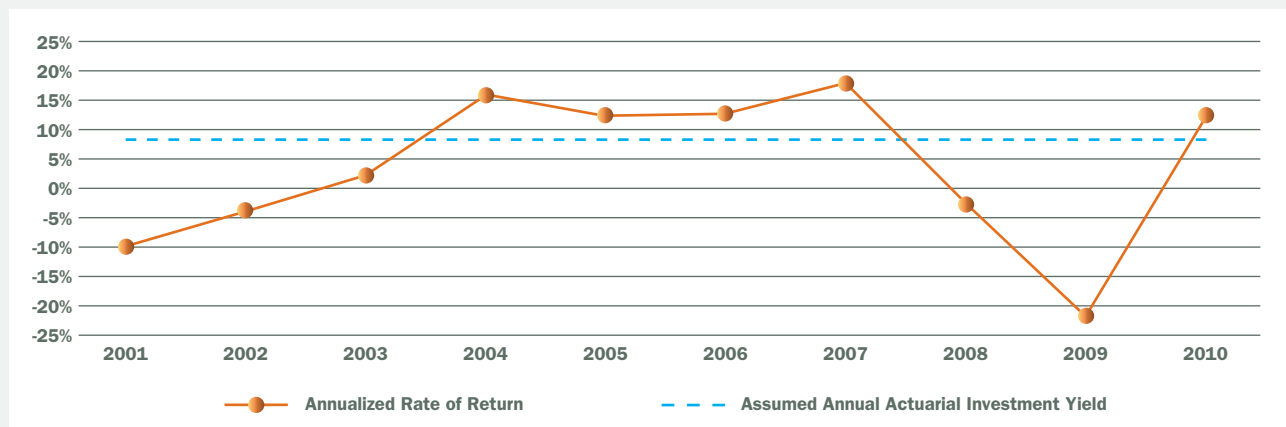
	1-YEAR	5-YEARS	10-YEARS
Domestic Equity <i>Benchmark: Russell 3000</i>	15.64% 15.72%	-1.00% -0.48%	-0.90% -0.92%
International Equity <i>Benchmark: International Equity Policy¹</i>	12.02% 11.49%	2.23% 3.80%	0.80% 2.09%
Global Fixed Income <i>Benchmark: Fixed Income Policy²</i>	19.84% 10.60%	4.17% 5.48%	6.78% 6.51%
Real Estate <i>Benchmark: Gross NPI +1.5%³</i>	-21.65% -8.10%	-1.67% 5.69%	3.73% 8.62%
Alternative Assets <i>Benchmark: Alternative Investments Policy⁴</i>	20.27% 20.09%	14.70% 4.18%	6.48% 3.60%
TOTAL FUND <i>Weighted Policy Benchmark⁵</i>	12.55% 11.38%	2.73% 3.40%	2.80% 3.28%

Source: The Northern Trust Company

1. Int'l Equity Policy consists of 100% MSCI ACWI IMI Ex-US (ND) from 09/30/08 through current, 100% MSCI ACWI Ex-US (ND) from 01/31/2001 through 09/30/2008, 100% MSCI ACWI Ex-US (GD) previous to 01/31/2001.
2. Total Fixed Income Policy consists of 100% BC Universal from 6/30/07 through current, 75% BC Universal/25% BC Global Aggregate from 9/30/05 to 6/30/07, 80%/20% from 9/30/02 to 9/30/05, 100% BC Universal 9/30/00 to 9/30/02, and 100% BC Aggregate previous to 9/30/00.
3. NPI (NCREIF Property Index) Returns are lagged one quarter. The benchmark NPI+150 bps applies to all return periods. For periods less than one year, the excess 150 basis points are prorated.
4. Alt. Inv. Policy consists of the S&P500 + 600 bps through 12/31/02, + 500 bps thereafter. For periods less than one year, the excess 500 basis points are prorated.
5. The current SFERS Weighted Policy consists of 26% Russell 3000, 23% MSCI ACWI IMI Ex-US (ND), 25% BC US Universal, 12% SFERS Real Estate Benchmark and 14% SFERS Alternative Investments Benchmark.

TEN-YEAR ANNUALIZED RATES OF RETURN

Periods ending June 30



Member Services Division



MEMBER SERVICES DIVISION

Providing members with information and education about retirement benefits and services

OVERVIEW

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



DIVISION REPORT

The member services team is the face of the organization—the front line and back bone of Retirement System operations, each year providing thousands of SFERS members with information and tools to help them effectively plan and prepare for retirement. SFERS strives to provide this flagship group the resources best suited to serve the needs of SFERS dynamic membership.

In addition to processing a record number of retirement applications during fiscal year 2009-10, Member Services staff enrolled over 1,500 new members, counseled more than 4,000 members on retirement and buyback opportunities, and conducted four educational seminars for 500 plus members planning to retire within five years.

Currently, SFERS is working to improve the SFERS website to provide members broader access to SFERS information, forms and services.

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.

In June 2010, voters approved a Charter amendment establishing a new level of Plan benefits effective for employees hired on or after July 1, 2010. Details of the benefits changes are highlighted in the Retirement Board Action During Fiscal Year 2009-10 section under Litigation/Legislation on page 9. A description of each Plan by Charter section is found on page 39.

SFERS members include employees of the City and County of San Francisco, the San Francisco Unified School District, the San Francisco Community College District, as well as Trial Courts.

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 BENEFITS STRUCTURE:

Membership Group	Service Retirement Benefit
<p>Miscellaneous Plan A8.509</p> <ul style="list-style-type: none"> Miscellaneous employees who became members before November 2, 1976 	2.3% @ age 62; maximum benefit 75% of final compensation
<p>Miscellaneous Plan A8.587</p> <ul style="list-style-type: none"> Miscellaneous employees who became members on or after November 2, 1976 	2.3% @ age 62; maximum benefit 75% of final compensation
<p>Miscellaneous Plan A8.600</p> <ul style="list-style-type: none"> Miscellaneous employees who became members on or after July 1, 2010 	2.3% @ age 62; maximum benefit 75% of final compensation
<p>Police Plan A8.559</p> <ul style="list-style-type: none"> Police officers who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003 	55% of final compensation; 4% each additional year over 25 years of service; maximum benefit 75% of final compensation
<p>Police Plan A8.559-14 and A8.586</p> <ul style="list-style-type: none"> Police officers who elected 1981 Proposition F (Buyout) benefits 	2.7% @ age 55; maximum benefit 75% of final compensation
<p>Police Plan A8.595</p> <ul style="list-style-type: none"> Police officers who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003 	3.0% @ age 55; maximum benefit 90% of final compensation
<p>Police Plan A8.597</p> <ul style="list-style-type: none"> Police officers who became members on or after November 2, 1976 and were eligible for Proposition H benefits effective January 1, 2003 	3.0% @ age 55; maximum benefit 90% of final compensation
<p>Police Plan A8.602</p> <ul style="list-style-type: none"> Police officers who became members on or after July 1, 2010 	3.0% @ age 55; maximum benefit 90% of final compensation
<p>Fire Plan A8.585</p> <ul style="list-style-type: none"> Firefighters who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003 	55% of final compensation; 4% each additional year over 25 years of service; maximum benefit 75% of final compensation
<p>Fire Plan A8.585-14 and A8.588</p> <ul style="list-style-type: none"> Firefighters who elected 1981 Proposition F (Buyout) benefits 	2.7% @ age 55; maximum benefit 75% of final compensation
<p>Fire Plan A8.596</p> <ul style="list-style-type: none"> Firefighters who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003 	3.0% @ age 55; maximum benefit 90% of final compensation
<p>Fire Plan A8.598</p> <ul style="list-style-type: none"> Firefighters who became members on or after November 2, 1976 and were eligible for 2002 Proposition H benefits effective January 1, 2003 	3.0% @ age 55; maximum benefit 90% of final compensation
<p>Fire Plan A8.601</p> <ul style="list-style-type: none"> Firefighters who became members on or after July 1, 2010 	3.0% @ age 55; maximum benefit 90% of final compensation

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, 2010, there were 29,990 members of the Miscellaneous Plans, 2,260 members of the Police Plans and 1,465 members of the Firefighter Plans.

SFERS ACTIVE MEMBERSHIP as of June 30, 2010

PLAN MEMBERSHIP GROUP	NUMBER OF MEMBERS			
	ACTIVE	VESTED	RECIPROCAL	TOTAL
MISCELLANEOUS PLAN A8.509 MEMBERS BEFORE NOVEMBER 2, 1976	223	58	5	286
MISCELLANEOUS PLAN A8.587 MEMBERS ON OR AFTER NOVEMBER 2, 1976	24,466	4,325	913	29,704
POLICE PLANS A8.559 & A8.595 MEMBERS BEFORE NOVEMBER 2, 1976	10	0	0	10
POLICE PLAN A8.597 MEMBERS ON OR AFTER NOVEMBER 2, 1976	2,129	83	38	2,250
FIREFIGHTER PLANS A8.585 & A8.596 MEMBERS BEFORE NOVEMBER 2, 1976	9	0	0	9
FIREFIGHTER PLAN A8.598 MEMBERS ON OR AFTER NOVEMBER 2, 1976	1,385	49	22	1,456
TOTALS:	28,222	4,515	978	33,715

RETIREMENT STATISTICS

Plan Year Ended June 30, 2010

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2009-10, as well as benefits payment summaries and comparisons.

The following table summarizes major activities of the SFERS Retirement Services Division during Plan Years 2009-10 and 2008-09:

Activity	2009-10	2008-09
Retirement estimates requests	1,227	938
Retirement appointments	2,734	2,199
Retirement applications processed	2,024	1,087
Buyback appointments	1,326	1,818
Personnel transactions:	1,557	1,822
New members (new hires)	700	941
New members (1040 hours membership)	634	626
Rehires	76	115
Police recruits	107	118
Fire recruits	17	22
Sheriff recruits	23	-
Pre-retirement seminars	4	6
Registered attendees at pre-retirement seminars	542	756
Mid-career retirement planning seminars	0	1
Registered attendees at mid-career seminars	0	90
New member retirement planning seminars	0	1
Registered attendees at new member seminars	0	62

The Retirement Services Division sponsored and conducted four pre-retirement seminars during Plan Year 2009-10. These seminars provided individualized benefits counseling for 541 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, 2010

MEMBER GROUP	SERVICE	VESTING	INDUSTRIAL DISABILITY	ORDINARY DISABILITY	TOTAL
MISCELLANEOUS	1,210	186	N/A	14	1,410
POLICE	55	3	5	0	63
FIREFIGHTER	63	0	4	0	67
TOTALS	1,328	189	9	14	1,540

The total number of new retirements effective during Plan Year 2009-10 was 37.3% higher than retirements in Plan Year 2008-2009. Service retirements represent 86.2% of the total of new retirements processed.

Miscellaneous retirements represented 91.6% of the total retirements processed in Plan Year 2009-10, an increase from 88.4% in Plan Year 2008-09.

Police retirements represented 4.1% of the total retirements processed in Plan Year 2009-10, a decrease from 5.5% in Plan Year 2008-09.

Firefighter retirements represented 4.4% of the total retirements processed in Plan Year 2009-10, a decrease from 6.1% in Plan Year 2008-09.

DEFERRED RETIREMENT OPTION PROGRAM (DROP)

Effective During Plan Year Ended June 30, 2010

RANK	ELECTED PARTICIPATION	TERM OF DROP	EXITED PARTICIPATION
POLICE OFFICER	66	36 months	9
SERGEANT	20	24 months	11
INSPECTOR	25	24 months	6
LIEUTENANT	6	12 months	4
CAPTAIN	6	12 months	1
TOTALS	123		31

1. Total service retirements in Plan Year 2009-10 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, 2010

MEMBER CATEGORY	SERVICE RETIREMENTS	DISABILITY RETIREMENTS ¹	DEATH IN LINE OF DUTY	TOTAL
MISCELLANEOUS	16,957	1,915	N/A	18,872
MEMBER	1,421	1,405	N/A	15,826
CONTINUATION	2,536	510	N/A	3,046
POLICE	1,367	801	40	2,208
MEMBER	1,018	517	-	1,535
CONTINUATION	349	284	40	673
FIREFIGHTER	1,028	989	32	2,049
MEMBER	746	711	-	1,457
CONTINUATION	282	278	32	592
TOTAL	19,352	3,705	72	23,129

MONTHLY RETIREMENT BENEFITS PAYABLE
Retired Members and Survivor Continuation Benefits
as of June 30, 2010

MEMBER	SERVICE RETIREMENTS	DISABILITY RETIREMENTS ¹	DEATH IN LINE OF DUTY	TOTAL
MISCELLANEOUS	\$ 39,033,226	\$ 3,161,264	N/A	\$42,194,490
POLICE	8,080,310	4,082,450	187,437	12,350,197
FIREFIGHTER	6,797,415	5,962,671	125,828	12,885,914
TOTAL	\$53,910,951	\$13,206,385	\$313,265	\$67,430,601

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

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, 2010.

HEARING OFFICER REPORT¹

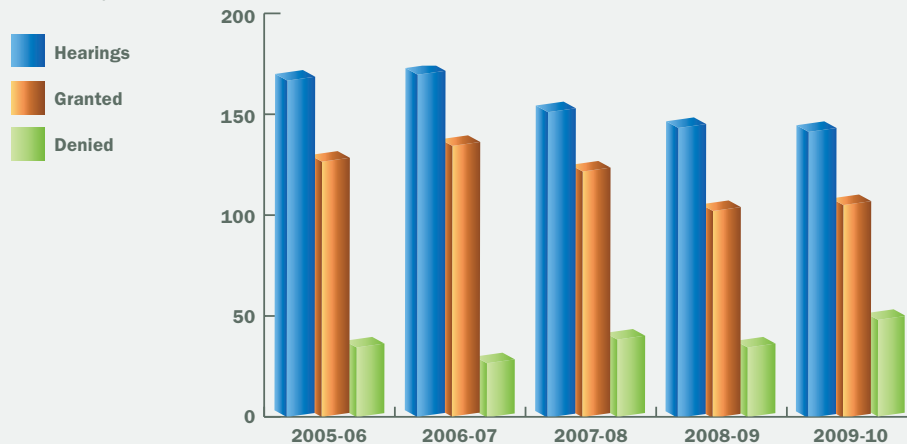
Fiscal Year Ended June 30, 2010

CASES	TOTAL # OF HEARINGS	TOTAL # GRANTED	TOTAL # DENIED
Industrial Disability Retirements	69	53	27
Ordinary Disability Retirements	71	50	9
Death Benefits	1	3	0
Petitions For Rehearing	2	0	12
CalPERS	5	4	2
Reinstatements	0	0	0
Total	148	110	50

1. The Hearing Officer Report represents cases processed in the period July 1, 2009 – June 30, 2010, and may reflect cases pending from prior periods.

HEARING OFFICER REPORT

Five-Year Comparison



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San Francisco

457(b) Deferred Compensation Plan

SAN FRANCISCO 457(b) DEFERRED COMPENSATION PLAN

Providing members with opportunities to maximize retirement savings

The San Francisco 457(b) Deferred Compensation Plan (SFDCP), was adopted in 1979 and allows City employees to voluntarily elect to 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 18 core investment funds plus access to a self-directed brokerage option.

The Deferred Compensation Division oversees and monitors the City's 457(b) Deferred Compensation Plan through a third-party plan administrator. Last year, SFERS conducted its customary five-year review of the third-party administrator (TPA) for the SFDCP. From that review, the Board selected Great-West Retirement Services (GWRS) as the new TPA for the SFDCP, replacing ING Life Insurance and Annuity Company.

GWRS offers SFDCP participants improved plan features including lower participant fees, an enhanced core lineup of investment options, a customized website and communications, enhanced online transactions and a local service center in San Francisco.



Additionally, the Deferred Compensation Division administers the hardship withdrawal program, qualified domestic relations orders, payroll deferrals, requests for proposals, SFDCP News, and review of investment fund assessments.

As of June 30, 2010, there were 24,005 participants in the SFDCP with Plan assets valued at \$1.7 billion. The tables on pages 48-51 provide detailed information about the 18 core investment funds that make up the City's 457(b) Deferred Compensation Plan, as well as customer service activity and participation for Fiscal Year 2009-10.

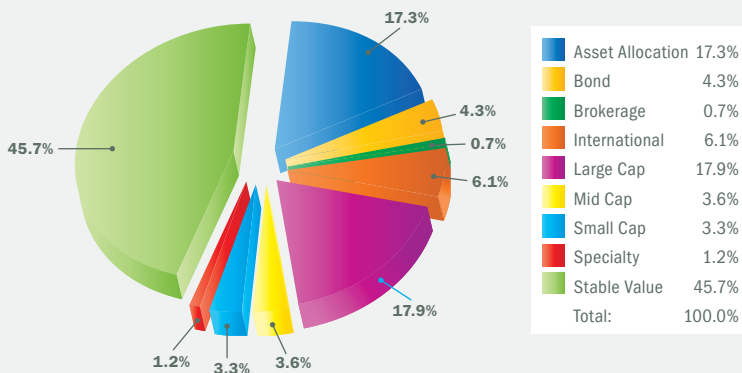
SFDCP VALUES AS OF 06/30/10

SFDCP Fund Name	Total Assets	Percentage of Assets	Annual Performance
SFDCP Long Term Portfolio	\$91,598,712.48	5.27%	16.02%
SFDCP Mid Term Portfolio	\$189,921,002.05	10.93%	13.85%
SFDCP Near Term Portfolio	\$19,591,986.25	1.13%	12.06%
SFDCP Stable Value Portfolio	\$793,852,253.39	45.66%	3.35%
SFDCP Core Bond Portfolio	\$74,330,126.21	4.28%	13.31%
SFDCP International Equity Portfolio	\$105,448,753.29	6.07%	9.81%
SFDCP Large Cap Core Equity Active Port.	\$18,650,483.48	1.07%	16.42%
SFDCP Large Cap Growth Equity Portfolio	\$187,732,814.67	10.8%	12.60%
SFDCP Large Cap Social Equity Portfolio	\$8,706,293.22	0.5%	18.44%
SFDCP Large Cap Core Equity-S&P 500 Index	\$77,273,148.05	4.44%	14.45%
SFDCP Large Cap Value Equity Portfolio	\$19,413,409.53	1.12%	15.64%
SFDCP Mid Cap Core Equity Portfolio	\$41,245,659.89	2.37%	21.12%
SFDCP Mid Cap Growth Equity Portfolio	\$8,625,350.59	0.5%	23.20%
SFDCP Mid Cap Value Equity Portfolio	\$12,173,901.26	0.7%	24.93%
SFDCP Real Estate Portfolio	\$20,250,392.04	1.16%	49.77%
SFDCP Small Cap Core Equity Portfolio	\$6,519,083.94	0.37%	22.30%
SFDCP Small Cap Growth Equity Portfolio	\$18,572,321.42	1.07%	20.51%
SFDCP Small Cap Value Equity Portfolio	\$32,549,597.22	1.87%	21.48%
TD AMERITRADE Self Directed Brokerage	\$12,112,827.71	0.69%	
Total Assets At Great-West Retirement Services	\$1,738,568,116.69	100.00%	
Total Retiree Annuity Assets At ING	\$1,583,881.95		
Total Retiree Annuity Assets At The Hartford	\$17,613,019.31		
TOTAL PLAN ASSETS	\$1,757,765,017.95		

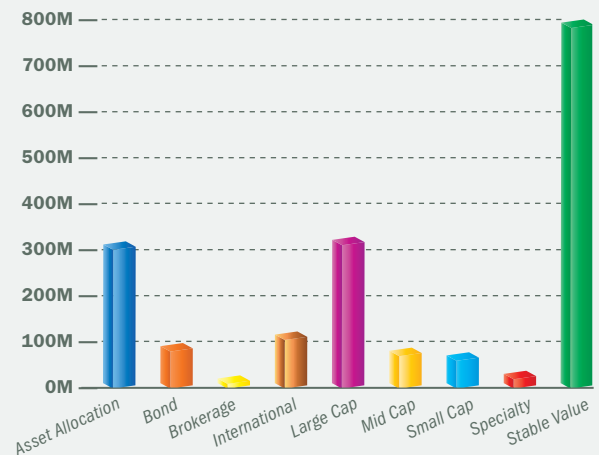
* Assets are rounded up to the nearest dollar

SFDCP ASSET SUMMARY AS OF JUNE 30, 2010

Participation by Asset Class - Percent of Assets



Participation by Asset Class - Investment Value



SFDCP PARTICIPATION BY DEPARTMENT

DEPARTMENT NAME	PARTICIPATION	DEPARTMENT NAME	PARTICIPATION
Academy of Sciences	31%	Human Resources	80%
Adult Probation	70%	Human Rights Commission	43%
Airport	50%	Human Services	64%
Animal Care, Control	70%	Juvenile Probation	42%
Art Commission	29%	Law Library	50%
Asian Arts Museum	62%	Mayor	21%
Assessor/ Recorder	62%	MTA Administration	53%
Board of Supervisors	63%	Parking & Traffic Commission	48%
Building Inspection Commission	51%	Permit Appeals	80%
Business & Economic	14%	Police	82%
Child Support Services	49%	Port of San Francisco	64%
Children & Family Commission	67%	Public Defender	65%
Children, Youth & Families	27%	Public Health	73%
City Attorney	65%	Public Library	16%
City Planning	66%	Public Transportation	43%
Civil Service	50%	Public Utilities Commission	61%
Clean Water Program	54%	Public Works	44%
Commission on Status of Women	67%	PUC - Water Department	61%
Controller	62%	PUC - Hetch Hetchy	58%
District Attorney	65%	Recreation & Park	44%
Emergency Communication	9%	Rent Arbitration Board	67%
Environment Commission	46%	Retirement System	73%
Ethics Commission	37%	Sheriff	66%
Fine Arts Museum	9%	Telecom & Info Services	57%
Fire	85%	Treasurer/Tax Collector	51%
General Services Department	81%	Trial Courts & County Clerk	52%
Health Service Systems	58%	War Memorial	18%

SFDCA CUSTOMER SERVICE ACTIVITY

GWRS LOCAL OFFICE ACTIVITY					
MONTH	PHONE CALLS	OFFICE APPOINTMENTS	GROUP MEETINGS	INDIVIDUAL MEETINGS	ACCOUNT REVIEWS
January	1,166	30	44	228	113
February	1,194	45	22	167	121
March	1,084	47	30	502	306
April	1,739	20	28	395	210
May	1,659	41	53	335	185
June	905	39	11	256	164
July	978	49	10	293	188
August	896	59	38	440	274
September	1,142	51	38	502	326
October	1,071	62	17	397	271
November	1,005	45	20	455	224
December	1,264	43	19	501	264
TOTAL	14,103	531	330	4,471	2,646

VOICE RESPONSE (KEYTALK)						
MONTH	ACCOUNT BALANCE	FUND TRANSFER	CHANGE PASSCODE	ORDER PASSCODE	TRANSFER TO REP.	TOTAL CALLS
July	218	7	16	72	178	491
August	275	13	7	28	92	415
September	268	20	15	33	120	456
October	262	20	11	44	122	459
November	240	13	5	26	88	372
December	267	19	8	27	3	324
January	270	20	6	45	5	346
February	181	8	4	24	64	281
March	277	15	6	39	141	478
April	353	26	6	53	160	598
May	169	18	5	39	113	344
June	181	6	3	32	93	315
TOTAL	2,961	185	92	462	1,179	4,879

INTERNET						
MONTH	ACCOUNT BALANCE	FUND TRANSFER	INVESTMENT CHANGE	CHANGE PASSCODE	STATEMENT REQUEST	TOTAL CALLS
July	2,877	348	187	612	1,854	5,878
August	3,042	510	232	537	1,801	6,122
September	3,043	466	172	498	1,907	6,086
October	3,062	504	223	532	1,960	6,281
November	2,724	356	153	400	1,641	5,274
December	2,498	309	120	364	1,509	4,800
January	3,177	512	198	528	2,196	6,611
February	2,085	329	134	296	1,386	4,230
March	3,139	438	149	417	2,205	6,348
April	4,064	541	225	507	2,933	8,270
May	2,947	638	188	386	1,933	6,092
June	2,029	317	119	265	1,519	4,249
TOTAL	34,687	5,268	2,100	5,342	22,844	70,241