SFERS
San Francisco Employees Retirement System

Annual Report

For Fiscal Year Ended June 30, 2013

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Introductory Section

LETTER OF TRANSMITTAL

On behalf of the Retirement Board and Retirement System staff, we are pleased to present the San Francisco Employees' Retirement System Annual Report for Fiscal Year 2012-13.

ABOUT SFERS

THE RETIREMENT SYSTEM

Initially established by approval of City voters on November 2, 1920 and the California State Legislature on January 12, 1921, the San Francisco Employees' Retirement System (Retirement System or SFERS) is deeply rooted in the history and culture of the City and County of San Francisco and is 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 60,796 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 City and County employees:

- City and County of San Francisco Employees' Retirement System pension plan, a defined benefit plan.
- San Francisco Deferred Compensation Plan, an IRC §457(b) defined contribution plan.

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

OUR MISSION

SFERS 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.

THE PENSION PLAN

The SFERS Pension Plan (Plan) is a tax-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.

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).

SFERS' assets under management grew by nearly $2.0 billion over the value for the same period last year. As of June 30, 2013, the Fund was valued at $17.0 billion, compared to $15.3 billion at June 30, 2012. Annual benefit payments totaled $1.023 billion paid to over 25,700 retirees and their beneficiaries.

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 eligible City employees to elect 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.

During the fiscal year, the Retirement Board approved two requests for proposals significant to the SFDCP; one for third party administration, and one for investment management services for a stable value/stable income product.

As a result of the RFP for third party administration, the Retirement Board selected Prudential Retirement Insurance and Annuity Company to provide third party administration for the SFDCP. The SFDCP will transition to the new third party administrator (TPA) in January 2014.

Last year, the Board adopted a Roth deferral option that will allow participants additional flexibility in tax structure for retirement income. The planned launch of the Roth provision is second quarter 2014, after the transition to Prudential Retirement Insurance and Annuity Company is completed.

OUR MEMBERS

SFERS members include eligible employees of the City and County of San Francisco, the San Francisco Unified School District, the San Francisco Community College District, and the San Francisco Trial Courts. Uniformed employees working for the City's Police and Fire Departments are covered by the SFERS Safety Plans. Eligible civilian (non-Safety Plan) employees of the City are covered by the SFERS Miscellaneous Plan.

The Sheriff, Undersheriff, and deputized personnel of the Sheriff's Department hired after January 7, 2012 are covered by the SFERS Sheriff's Plan. Probation Officers, District Attorney Investigators and Juvenile Court Counselors hired after January 7, 2012 are covered by the SFERS Miscellaneous Safety Plan.

In Fiscal Year 2012-2013, SFERS enrolled 2,411 new members and added 1,419 new retirees.

SFERS ADMINISTRATION

The Executive Director leads a team of senior managers who oversee each of the functional areas in the department. The leadership team manages the day-to-day activities of the Retirement System including:

- Member services, communications, and benefits administration
- Retirement Board administration, including preparation of meeting materials, minutes and public notice requirements for Board and committee meetings
- Responding to public records requests in accordance with the City's Sunshine Act, State of California Public Records Act, and Federal Freedom of Information Act
- Accounting and financial reporting
- Actuarial services
- Investment activities
- Recruitment and personnel management
- Records management and systems administration

THE RETIREMENT BOARD

The Retirement System and its members benefit greatly from the leadership of an experienced and knowledgeable Retirement Board. Within the scope of its fiduciary 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; approves disability benefit determinations; and approves actuarial assumptions used to fund long-term benefit promises of the SFERS Pension Plan.

The Retirement Board generally meets once each month to conduct 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 of the Board of Supervisors appointed by the President.

FINANCE AND FUNDING

FINANCIAL REPORTING

The accounting policies followed in preparing SFERS' financial statements conform to standards prescribed by the Governmental Accounting Standards Board (GASB). The audited Statements of Plan Net Assets and Statements of Changes in Plan Net Assets (pages 15 and 16) for fiscal years ended June 30, 2013 and 2012, provide a general overview of SFERS' finances for the Plan Year ended June 30, 2013.

Financial highlights and analysis can be found in the Financial Highlights preceding the financial statements. This transmittal letter, when taken into consideration with the Financial Section of this report, provides an enhanced picture of the activities of the organization.

Readers who have questions regarding the financial information provided in this report are encouraged to visit the SFERS website at www.sfers.org to view the full set of audited Financial Statements and Supplemental Schedule as prepared by the City's independent auditors, Macias Gini & O'Connell, LLP.

ACTUARIAL SERVICES AND FUNDING STATUS

The Retirement Board contracts with a consulting actuarial firm to produce and report to the Retirement Board and Retirement System staff, actuarial information related to the benefit structure and funding status of the Retirement System. The Retirement Board's current consulting actuarial firm is Cheiron, Inc.

The Retirement Board employs an Actuarial Services Coordinator to oversee the work of the consulting actuary, participate in the presentation of actuarial reports to the Retirement Board, and provide other in-house actuarial services.

Each year, the consulting actuarial firm conducts an actuarial valuation of the Retirement System's assets and liabilities in order to assess its funded status and to determine the appropriate level of employer contributions to the Fund for the next fiscal year. This report reflects the Plan's actuarial valuation prepared by Cheiron as of July 1, 2013.

The Retirement System's funding objective is to meet long term benefit obligations through contributions and investment income. Each year, the Retirement Board looks to the consulting actuary and staff Actuarial Services Coordinator to recommend appropriate actuarial assumptions to provide the required funding for the promised benefits. The recommendations are based on results from the Economic Experience Analysis conducted each year, as well as Demographic Experience Analysis conducted every three years.

To help sustain the long-term funding objective for the Plan, in Fiscal Year 2011, the consulting actuary recommended, and the Retirement Board adopted, a three-year phase-in of new actuarial assumptions as follows:

- Reduction of the investment return assumption from 7.75% to 7.50%
- Reduction of the price inflation assumption from 3.50% to 3.25%
- Reduction of the wage inflation assumption from 4.00% to 3.75%

Based on the results from the annual Economic Experience Analysis conducted for Fiscal Year 2013, the Retirement System's consulting actuary, Cheiron, recommended and the Retirement Board agreed, to continue with the planned phase-in of actuarial assumptions. As such, the Fiscal Year 2013 actuarial assumptions representing year two of the three-year phase-in are as follows:

- Investment Return Assumption: 7.58%
- Price Inflation Assumption: 3.33%
- Wage Inflation Assumption: 3.83%

The July 1, 2013 valuation determined SFERS is 80.6% funded on an actuarial funded basis, down from 82.6% in 2012. The funding status of SFERS is determined by an actuarial value of assets equaling $16.3 billion and the actuarial accrued liability amounting to $20.2 billion, resulting in an unfunded actuarial liability of $3.9 billion.

Included in the actuarial valuation is a 2% Basic COLA adjustment effective July 1, 2013, approved by the Retirement Board for retired miscellaneous members (new and old plans) and new plan safety members who retired on or before July 1, 2013.

INVESTMENTS

The Retirement System's investment objective is to maximize long-term rates of return on investments within prudent guidelines.

The professional Investment staff, supported by a group of professional consulting firms hired by the Retirement Board, analyzes, develops and recommends asset allocation mixes, manages investment portfolios, and monitors the activities and performance of external investment managers. For Fiscal Year 2013, the investment portfolio returned 13.5%, exceeding the investment return assumption of 7.58%.

During the year, the Retirement Board approved the following actions:

- Revised the annual Real Estate Investment Strategy replacing the NPI + 150 basis points benchmark with a multi-year (up to 15 years) net return goal of 8.0%, based on a projected realignment of the portfolio
- Approved up to $375 million in new commitments to the Alternative Investment Program during calendar year 2013
- Revised sub-asset class targets and ranges (see details in the Investments section on page 44)
- Revised the Investment Policy Statement to reflect changes to the sub-asset class allocation structure
- Lowered the investment return assumption target from 7.66% to 7.58%

Under the authorization of the Retirement Board, and in line with the 2013 Annual Investment Plan, the investment team committed a total of $665 million in new investments: $301 million in Alternative Investments, $264 million allocated to the Real Estate portfolio and $100 million invested in fixed income (see the Investment Section for a detailed schedule of these investments).

ACKNOWLEDGEMENTS

We would like to express our personal appreciation to the Retirement Board members who, without compensation, have provided the leadership, direction and support that have made all of our achievements possible. SFERS members and the citizens of the City and County have been well-served by their leadership.

We would particularly like to thank former Retirement Board member Brenda Wright who, after serving for nearly 15 years, left the Retirement Board in June 2013. Her contributions will be missed. In June 2013, SFERS welcomed appointed member Leona Bridges to the Retirement Board.

Finally, we would like to thank the SFERS staff for their hard work to support our mission.

Respectfully submitted,

Jay P. Huish
Executive Director

Wendy Paskin-Jordan
President

The Retirement System Organization as of June 30, 2013

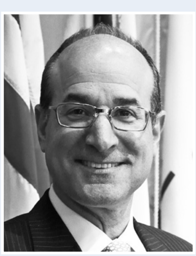
THE SFERS RETIREMENT BOARD

PRESIDENT

Wendy Paskin-Jordan
Chief Executive Officer
Paskin Capital Advisers, LLC
Appointed Member
Term Expires: 02/20/2014

Leona Bridges
Former Managing Director
Barclays Global Investors
Appointed Member
Term Expires: 02/20/2018

Malia Cohen
Member, Board of Supervisors
Appointed Member
Term Expires: 01/20/2014



Victor Makras
President
Makras Real Estate
Appointed Member
Term Expires: 02/20/2014

VICE PRESIDENT

Joseph D. Driscoll, CFA
Captain, Fire Department
Elected Member
Term Expires: 02/20/2016

Herb Meiberger, CFA
Retiree
Elected Member
Term Expires: 02/20/2017

Brian Stansbury
Officer
San Francisco Police Department
Elected Member
Term Expires: 02/20/2015

SFERS LEADERSHIP TEAM

Jay P. Huish
Executive Director

Caryn Bortnick
Deputy Director

Robert L. Shaw, CFA
Interim Deputy Director for Investments

Janet Brazelton, FSA, EA
Actuarial Services Coordinator

Jim Burruel
Finance Manager

Julia Durand
Deferred Compensation Manager

Alison Johnson
Communications Manager

Craig Lee
Information Systems Director

Vacant
Compliance Manager

Maria Newport
Retirement Services Administrator

Norm Nickens
Board Secretary

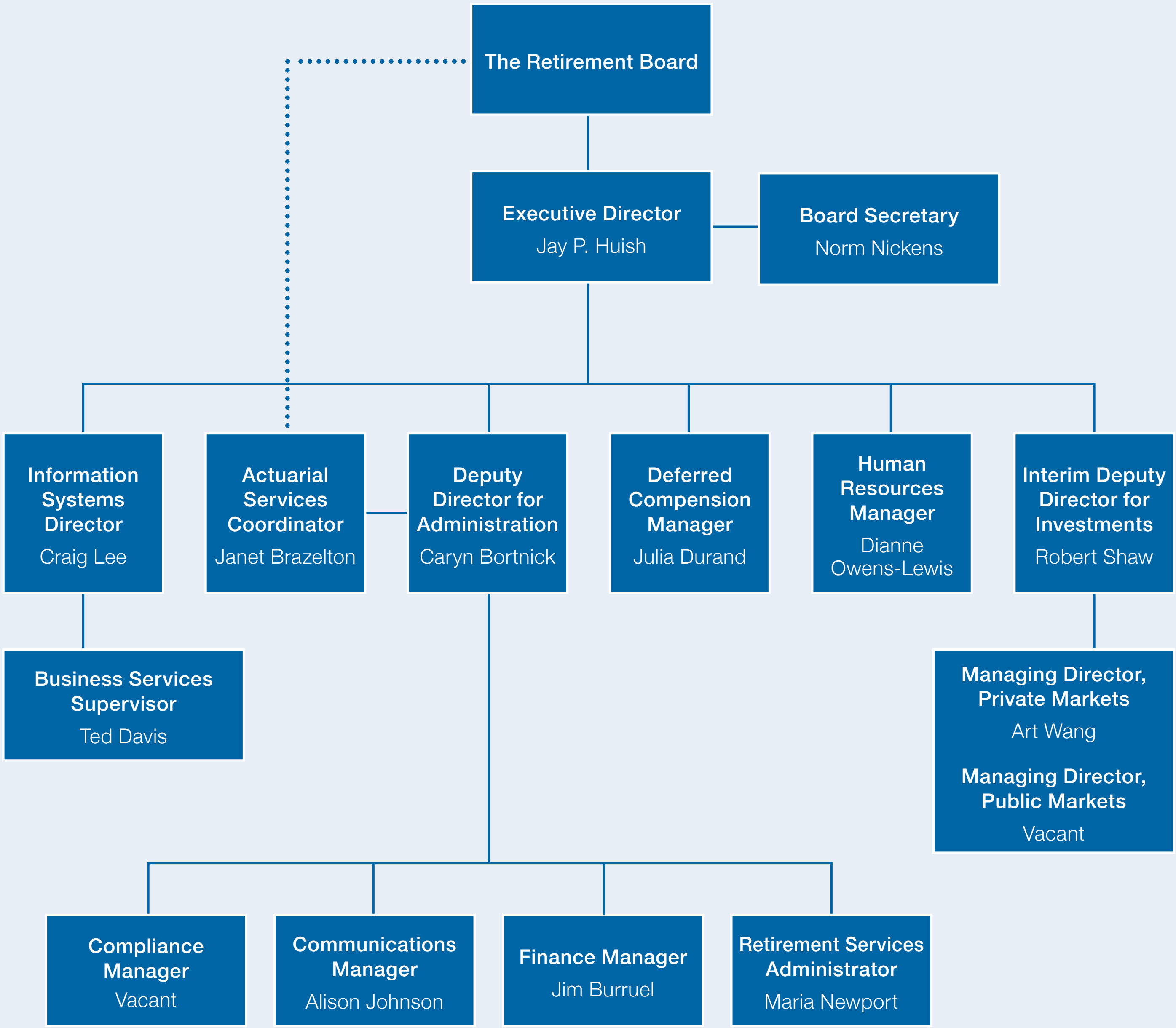
Dianne Owens-Lewis
Human Resources Manager

Art Wang
Managing Director, Private Markets

Vacant
Managing Director, Public Markets

SFERS ORGANIZATIONAL CHART

as of June 30, 2013



PROFESSIONAL CONSULTANTS

Consulting Actuary

- Cheiron, Inc.

Investment Consultants

- Angeles Investment Advisors, LLC
- Holland Park Risk Management, Inc.
- The Townsend Group
- Portfolio Advisors, LLC

Governance Consultants

- Cortex Applied Research, Inc.
- Institutional Shareholder Services, Inc.

Financial Section

SFERS DISCUSSION AND ANALYSIS

The management of SFERS is pleased to provide this overview and analysis of the financial activities of the Plan for the fiscal year ended June 30, 2013.

FINANCIAL HIGHLIGHTS OF FISCAL YEAR 2013

- The Plan held $17.0 billion 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, 2013, the date of the last actuarial valuation, the funded ratio for the Retirement System was 80.6%. In general, this indicates that for every dollar of benefits promised, the Retirement System has approximately $0.81 of assets available for payment.
- For the year ended June 30, 2013, the Retirement System's net investment gain of $2.065 billion represents a 13.5% 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 $1.718 billion or 11.2%, primarily as a result of market conditions and the net difference between contributions received by the Plan and benefit payments made from the Plan.
- Members' contributions to the Plan amounted to $258.726 million, an increase of $60.566 million or 30.6% from the prior year due to the implementation of floating contribution rates for some members under Proposition C approved by the voters in November 2011.
- In order to maintain the fiscal soundness of the Plan, required employer contributions to the Plan totaled $442.870 million for the year ended June 30, 2013, an increase of $32.073 million or 7.8% from the prior year.
- Total deductions from the Plan were $1.048 billion, an increase of 5.4% from the prior year due to increased benefits paid during the current fiscal year.
  - Benefit payments to Plan participants increased by $54.826 million, or 5.7%.
  - Administrative expenses increased by $508 thousand or 3.7%, consistent with SFERS budgeted positions that were filled during the fiscal year.
  - Other administrative expenses for OPEB increased by $94 thousand or 7.5%. 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 2013.

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 fiscal year – June 30, 2013 and 2012. They indicate the total assets as of June 30, 2013 and 2012, 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 fiscal years ended June 30, 2013 and 2012.
3. **Notes to Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements.

The Plan's net assets may serve over time as a useful indication of the Plan's financial position. All of the Plan's net assets are restricted to meet the Retirement System's ongoing obligation to Plan participants and their beneficiaries.

The Plan's net assets as of June 30, 2013, 2012, and 2011 are represented in the table below:

Net Position Summary – June 30, 2013, 2012, and 2011
(in thousands)

	2013	2012	2011
Other assets	$450,504	$413,955	$163,603
Investments at fair value	18,049,488	16,303,220	16,488,300
Total assets	$18,499,992	$16,717,175	$16,651,903
Total liabilities	1,488,447	1,423,451	1,053,064
Net assets	$17,011,545	$15,293,724	$15,598,839

As of June 30, 2013, the Plan's combined net position held in trust for pension benefits increased by $1,717,821,000 or 11.2% for the year, primarily due to strong investment returns as a result of the improvement in financial market conditions. Payables to brokers decreased by $17,939,000 and payables to borrowers of securities increased by $87,791,000 due to the timing of investment trades and lending activities.

The Retirement Board and the consulting actuary concur that the Plan remains in a strong financial position to meet its obligations to the Plan members and beneficiaries. Fiscal Year 2012-2013 saw a continuation of the economic recovery within the United States as the Federal Reserve's accommodative fiscal policy remained in place. Corporate earnings rose during the fiscal year as did consumer spending, while consumer confidence reached its highest level since early 2008. The unemployment rate also improved (falling to 7.6%). However, many workers have ceased looking for full time work – creating an artificially low labor force and resulting lower unemployment rate. Outside the United States, economic growth remains low in the developed economies. In Western Europe, supportive fiscal measures from the European Central Bank led to improving results. The export driven emerging economies, however, continue to struggle as GDP growth rates, although strongly positive, remain near recent lows.

As fiduciaries to the Plan members and beneficiaries, the Retirement Board, Retirement System staff, and our investment consultants continuously monitor the Plan's investment strategies, which comply with a "prudent expert" standard, to secure and maintain the sustainability of the Plan.

Changes in Net Position Summary – Years ended June 30, 2013, 2012, and 2011
(in thousands)

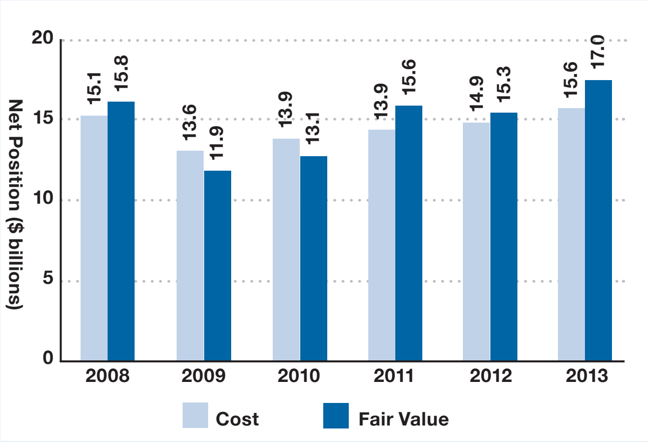
	2013	2012	2011
Additions:			
Member contributions	$258,726	$198,160	$181,755
Employer contributions	442,870	410,797	308,823
Interest	182,160	195,517	208,400
Dividends	188,644	170,759	159,671
Net appreciation (depreciation) in fair value of investments	1,729,781	(246,965)	2,557,950
Securities lending income (loss)	5,096	4,718	5,697
Investment expenses	(41,654)	(44,540)	(44,579)
Securities lending borrower rebates and expenses	523	913	436
Total Additions	**$2,766,146**	**$689,359**	**$3,378,153**
Deductions:			
Benefits	$1,023,354	$968,528	$889,744
Refunds of contributions	9,453	11,030	11,548
Administrative expenses	14,169	13,661	13,544
Other Administrative Expenses-OPEB	1,349	1,255	1,264
Total Deductions	**$1,048,325**	**$994,474**	**$916,100**
Change in net assets	$1,717,821	$(305,115)	$2,462,053
Net assets - beginning of the year	**$15,293,724**	**$15,598,839**	**$13,136,786**
Net assets - end of the year	**$17,011,545**	**$15,293,724**	**$15,598,839**

HIGHLIGHTS OF CHANGES DURING FISCAL YEAR 2013

- Member contributions for the year ended June 30, 2013 increased by $60.566 million or 30.6% from the prior year. This is primarily the result of the voter-approved Proposition C (November 2011) employee cost-sharing provisions which became effective as of July 1, 2012. For example, based on the required employer contribution rate of 20.71% set by the Retirement Board for Fiscal Year 2012-2013, many Plan members were required to pay an additional 2.5% or 3.0% in employee contributions.
- In order to maintain the fiscal soundness of the Plan, $442.870 million in required employer contributions were made during the year ended June 30, 2013. The increase of $32.073 million in required employer contributions reflect an increase in the employer contribution rate from 18.09% in fiscal year 2012 to 20.71% in fiscal year 2013, due to the continued recognition of investment losses from the year ended June 30, 2009.
- Net investment income increased by $1,984.148 million from the prior year. The majority of the increase is attributed to the $1,976.746 million increase in net appreciation in fair value of investments primarily due to strong investment returns as a result of the improvement in financial market conditions. Interest income decreased by $13.357 million, due mainly to uncertainty in the domestic fixed income market.
- Benefit payments to Plan participants increased by $54.826 million or 5.7%, which is primarily due to a $53.7 million increase in service retirement benefits as a result of increased average benefit payments.
- New COLA payments decreased $2.4 million or 4.2% because no Supplemental COLA was paid on July 1, 2012.
- Refunds of contributions decreased by $1.577 million or 14.3%, which continued the trend from the fiscal year ended June 30, 2012.

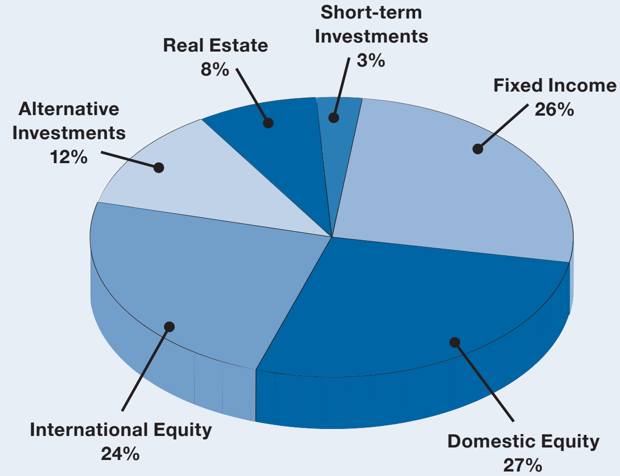
Plan net position as of June 30, 2008 through 2013 expressed at cost and fair value are represented in the chart below:

Plan Net Positions as of June 30 ($ billions)



The asset allocation at fair value based on holdings (excluding securities lending collateral and foreign currency contracts) as of June 30, 2013 is represented in the chart below:

Asset Allocation as of June 30, 2013 - Fair Value



CURRENTLY KNOWN FACTS AND EVENTS

The Retirement System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2013, the date of the Retirement System's most recent actuarial valuation, the funded status of the Retirement System on an actuarial value of assets basis was 80.6%, a decrease from the 82.6% funded status as of July 1, 2012. This decrease was primarily due to a loss on the actuarial value of assets reflecting the impact of the five-year smoothing of Fiscal Year 2008-2009 investment losses.

At its January 2014 meeting, after review of the analysis and recommendation prepared by the consulting actuarial firm, the Retirement Board voted to make no changes to the Retirement System's long-term investment earnings assumption (7.58%), long-term wage inflation assumption (3.83%) and long-term consumer price index assumption (3.33%). These economic assumptions together with demographic assumptions based on periodic demographic studies are utilized to prepare the actuarial valuation of the Retirement System each year.

The Retirement Board believes that the Retirement System remains in a strong financial position to meet its obligations to Plan participants and beneficiaries.

Requests for information

This financial report is designed to provide a general overview of the Retirement System's finances for the year ended June 30, 2013. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to:

Jay Huish, Executive Director
San Francisco City and County
Employees' Retirement System
30 Van Ness Avenue, Suite 3000
San Francisco, CA 94102

BASIC FINANCIAL STATEMENTS

STATEMENTS OF PLAN NET ASSETS

Years Ended June 30, 2013 and 2012
(in thousands)

Assets	2013	2012
Deposits	$60,874	$28,516
Contributions Receivable – Members	14,317	10,854
Contributions Receivable – City and County	25,276	23,234
Investment Income Receivable:		
Interest	22,618	23,080
Dividends	11,744	9,816
Securities Lending	599	571
Receivable from Brokers, General Partners, Others	315,076	317,884
Investments at Fair Value:		
Short-Term Investments	572,556	706,721
City Investment Pool	7,769	4,780
Debt Securities:		
U. S. Government Securities	966,411	1,036,859
Other Debt Securities	3,324,166	3,010,690
Equity Securities:		
Domestic	4,576,833	4,025,320
International	4,044,601	3,195,651
Real Estate	1,430,711	1,403,412
Alternative Investments	2,129,578	2,021,472
Foreign currency contracts, Net	(7,403)	(15,790)
Investments in Lending Agents' Short-Term Investment Pool	1,004,266	914,105
Total Investments:	**$18,049,488**	**$16,303,220**
Total Assets:	**$18,499,992**	**$16,717,175**

Liabilities	2013	2012
Payable to brokers	$445,447	$463,386
DROP (Deferred Retirement Option Program)	20,502	27,257
Other liabilities	17,337	15,438
Payable to borrowers of securities	1,005,161	917,390
Total Liabilities	**$1,488,447**	**$1,423,451**
Net Assets Held in Trust for Pension Benefits:	**$17,011,545**	**$15,293,724**

The accompanying Notes are an integral part of these financial statements.

STATEMENTS OF CHANGES OF NET PLAN ASSETS

Years Ended June 30, 2013 and 2012
(in thousands)

	2013	2012
Additions		
Member contributions:		
Miscellaneous	$211,545	$152,090
Police	27,633	27,258
Firefighter	19,548	18,542
Total Member Contributions	**258,726**	**198,160**
Employer contributions:		
Miscellaneous	364,503	344,942
Police	46,314	39,389
Firefighter	32,053	26,466
Total Employer Contributions	**442,870**	**410,797**
Investment income (expenses):		
Interest	182,160	195,517
Dividends	188,644	170,759
Net appreciation (depreciation) in Fair Value of investments	1,729,781	(246,965)
Securities lending income	5,096	4,718
Investment Expenses	(41,654)	(44,540)
Securities Lending Borrower Rebates and Expenses	523	913
Investment gain, net	**2,064,550**	**80,402**
Total Additions	**$2,766,146**	**$689,359**
Deductions		
Benefits	1,023,354	968,528
Refunds of Contributions	9,453	11,030
Administrative Expenses	14,169	13,661
Other Admin. Expenses - OPEB	1,349	1,255
Total Deductions	**$1,048,325**	**$994,474**
Net (Decrease)/Increase	**$1,717,821**	**$(305,115)**
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	**15,293,724**	**15,598,839**
End of Year	**$17,011,545**	**$15,293,724**

The accompanying Notes are an integral part of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 the 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 on the following page in the Notes to the Basic Financial Statements and in the Notes to Financial Statements of SFERS' full audited financial statements.

All costs to administer the Retirement System are borne by the Retirement System. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The Notes below provide a brief summary of the complete Notes found in SFERS' 2013 Audited Financial Statements issued in December 2013.

PLAN DESCRIPTION

The Retirement System administers a cost-sharing multiple employer defined benefit pension plan established to provide pension benefits for substantially all employees of the City and County, certain classified and certificated employees of the Community College and Unified School Districts, and San Francisco Trial Court employees other than judges. The Retirement System provides service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and annual cost of living adjustments after retirement. While the Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), it is a tax-qualified plan under Internal Revenue Code provisions. The City and County Charter and the Administrative Code are the authorities that establish and amend the benefit provisions of, and employer and member obligations to, the Plan.

The Retirement System is considered to be a part of the City and County's financial reporting entity and is included in the City and County's basic financial statements as a pension trust fund. The financial statements of the Retirement System are intended to present only the plan net assets and changes in plan net assets of the Retirement System. They do not purport to, and do not, present fairly the financial position of the City and County and the changes in its financial position in conformity with accounting principles generally accepted in the United States of America.

The City and County's basic financial statements can be obtained from City Hall, Room 316, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

The Retirement System is administered by the Executive Director, an employee of the City and County, in accordance with the provisions of the Charter, the Administrative Code and the policies and regulations of the Retirement Board. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City and County. The three main categories of Plan membership are:

- Miscellaneous Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.
- Firefighter Members – firefighters and other employees whose principal duties are in fire prevention and suppression work or who occupy positions designated by law as firefighter member positions.
- Police Members – police officers and other employees whose principal duties are in active law enforcement or who occupy positions designated by law as police member positions.

Total membership in the Retirement System included in the July 1, 2013 actuarial valuation dated March 2014 is as follows:

	Police	Fire	Misc.	Total
Active members (including DROP)	2,039	1,358	25,392	28,789
Terminated members entitled to but not yet receiving benefits	128	67	5,778	5,973
Retirees and beneficiaries currently receiving benefits	2,481	2,083	21,470	26,034
Total	4,648	3,508	52,640	60,796

FUNDING POLICY

Employer and employee (member) contributions are mandated by the Charter. The Charter specifies that employer contributions are determined as normal cost plus an amortization of the unfunded liability over a period not to exceed 20 years. Retirement Board policy determines the actual amortization period subject to the Charter limitation. Schedules of both employer and employee contribution rates may be found in the Statistical Section of this report. Schedules of funding progress and of employer contributions may be found in the Required Supplementary Information of this report. A summary of significant actuarial assumptions and methods may be found in the Actuarial Section of this report.

FUNDING STATUS

The provisions of the City and County Charter state that an actuarial valuation shall occur at least every even numbered year and that actuarial experience investigations shall occur as determined necessary by the Retirement Board. Actuarial valuations and a limited economic experience analysis are generally carried out each year. The latest actuarial valuation of the Retirement System was completed in March 2014 by the actuarial firm Cheiron and was based upon employee data and asset information as of July 1, 2013.

The schedule of funding progress, found in the Required Supplementary Information following the Notes to the Basic Financial Statements in this report, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about future events. As such, actuarial calculations reflect a long-term view. Actuarial determined amounts are subject to continual revision at each valuation date as results are compared to past experience and new estimates are made about the future. Calculations are based upon the benefits provided under the terms of the substantive plan at the time of each valuation, including the pattern of sharing of costs between employer and plan members. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Under current Retirement Board policy, the actuarial value of assets is smoothed over five years in order to mitigate the impact of investment performance volatility on employer contribution rates. For example, under the 5-year smoothing policy, the investment losses from Fiscal Year 2008-2009 were not fully recognized until the July 1, 2013 actuarial valuation, which determines contribution rates for Fiscal Year 2014-2015.

DEPOSITS

Deposits are carried at cost, which approximates fair value. Deposit and investment risk disclosures for the pooled funds with the City and County Treasurer are discussed in the City and County's basic financial statements. The Retirement System does not have a specific policy addressing custodial credit risk for deposits. As of June 30, 2013, the Retirement System's deposits in bank accounts were not exposed to custodial credit risk.

INVESTMENTS

The Plan's investments are invested pursuant to investment policy guidelines as established by the Retirement Board. The objective of the policy is to maximize the expected return of the fund at an acceptable level of risk. The Retirement Board has established percentage guidelines for types of investments to ensure the portfolio is diversified.

Investment managers are required to diversify by issue, maturity, sector, coupon, and geography. Investment managers retained by the Retirement System follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Any exemption from general guidelines requires approval from the Retirement Board. The Retirement System invests in securities with contractual cash flows, such as asset backed securities, commercial mortgage backed securities, and collateralized mortgage obligations. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate values, delinquencies or defaults, or both, and may be affected by shifts in the market's perception of the issuers and changes in interest rates.

The investment policy permits investments in domestic and international debt and equity securities; real estate; securities lending; foreign currency contracts, derivative instruments, and alternative investments, which include investments in a variety of commingled partnership vehicles.

The Retirement System is not directly involved in repurchase or reverse repurchase agreements. However, external investment managers retained by the Retirement System may employ repurchase arrangements if the securities purchased or sold comply with the manager's investment guidelines. The Retirement System monitors the investment activity of its investment managers to ensure compliance with guidelines. In addition, the Retirement System's securities lending cash collateral separately managed account is authorized to use repurchase arrangements. As of June 30, 2013, $326 million (or 32.5% of cash collateral), consisted of such agreements.

The Retirement System maintains its operating fund cash in the City's investment pool. The City's pool is invested pursuant to investment policy guidelines established by the City Treasurer, subject to review by the Treasury Oversight Committee. The Treasury Oversight Committee, established under California Government Code Sections 27130 to 27137, is composed of various City officials and representatives of agencies with large cash. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity.

The provisions of the City's investment policy also address interest rate risk, credit risk, and concentration of credit risk and provides for additional restrictions related to investments. The notes to the basic financial statements of the City provide more detailed information concerning deposit and investment risks associated with the City's pool of cash and investments at June 30, 2013.

(A) INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates may adversely affect the fair value of an investment. The Retirement System does not have a specific policy to manage interest rate risk.

Below is a table depicting the segmented time distribution for fixed income investments based upon the expected maturity (in years) as of June 30, 2013.

Investments at Fair value of June 30, 2013
(in thousands)

		Maturities			
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**10+ years**
Asset Backed Securities	$194,581	$305	$97,482	$9,221	$87,573
Bank Loans	22,143	6,320	15,311	512	-
City investment pool	7,769	-	7,769	-	-
Collateralized Bonds	17,250	-	379	-	16,871
Commercial Mortgage-Backed	594,746	2,271	81,163	23,140	488,172
Commercial Paper	3,765	3,765	-	-	-
Commingled and Other Fixed Income Funds	349,207	363,520	17	-	(14,330)
Corporate Bonds	1,587,605	577,150	357,728	475,067	177,660
Corporate Convertible Bonds	266,207	29,451	135,058	23,711	77,987
Foreign Currencies and Cash Equivalents	248,745	248,745	-	-	-
Government Agencies	301,281	276,122	17,776	6,682	701
Government Bonds	400,662	33,432	250,480	45,513	71,237
Government Mortgage Backed Securities	352,028	103,855	3,982	8,797	235,394
Index Linked Government Bonds	3,071	-	-	-	3,071
Mortgages	49	-	49	-	-
Municipal/Provincial Bonds	56,315	4,772	8,559	5,654	37,330
Non-Government Backed Collateralized Mortgage Obligations	146,051	-	7,459	2,239	136,353
Options	(261)	(261)	-	-	-
Short-Term Investment Funds	320,046	320,046	-	-	-
Swaps	(358)	-	161	-	(519)
Total	**$4,870,902**	**$1,969,493**	**$983,373**	**$600,536**	**$1,317,500**

(B) CREDIT RISK – INVESTMENTS

Credit risk is the risk that an issuer or other counterparty to an investment may not fulfill its obligations. Fixed income investment managers retained by the Retirement System follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Fixed income managers typically are limited within their portfolios to no more than 5% exposure in any single security, with the exception of United States Treasury and government agency securities. The Retirement System's credit risk policy is embedded in the individual investment manager agreements as prescribed and approved by the Retirement Board.

Investments are classified and rated using the lower of (1) Standard & Poor's (S&P) rating or (2) Moody's Investors Service (Moody's) rating corresponding to the equivalent S&P rating. If only a Moody's rating is available, the rating equivalent to S&P is used for the purpose of this disclosure.

The credit rating of the United States remains a point of concern for investors. In 2011, S&P lowered the credit rating for U.S. long-term debt to AA+ from AAA and continue to maintain that posture. Moody's and Fitch, the other two large credit rating agencies continue to maintain a AAA rating for U.S. long-term debt, although Fitch has recently placed the U.S. on negative watch – indicating the potential for a credit downgrade. The ongoing concern by the credit rating agencies over the credit worthiness of U.S. government debt has an impact on the credit risk and value of the Retirement System's investments in U.S. government agency securities, U.S. government bonds, and U.S. government mortgage-backed securities.

The following table illustrates the Retirement System's exposure to credit risk as of June 30, 2013. Investments issued or explicitly guaranteed by the U.S. government of $926 million as of June 30, 2013 are not considered to have credit risk and are excluded from the tables to the right.

Credit Ratings of Fixed Income Investments as of June 30, 2013
(in thousands)

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	$283,141	7.2%
AA	173,085	4.4%
A	298,781	7.6%
BBB	579,060	14.7%
BB	215,932	5.5%
B	312,311	7.9%
CCC	156,362	4.0%
CC	6,605	0.2%
C	5,064	0.1%
D	85	0.0%
Not Rated	1,914,364	48.4%
Total	**$3,944,790**	**100.0%**

The securities listed as "Not Rated" include short-term investment funds, government mortgage backed securities, and investments that invest primarily in rated securities, such as commingled funds and money market funds, but do not themselves have a specific credit rating. Excluding these investments, the "not rated" component of credit would be approximately 13.0% for 2013.

(C) CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of the Retirement System's investment in a single issuer. Guidelines for investment managers typically restrict a position to become no more than 5% (at fair value) of the investment manager's portfolio. Securities issued or guaranteed by the U.S. government or its agencies are exempt from this limit.

As of June 30, 2013, the Retirement System had no investments of a single issuer that equaled or exceeded 5% of total Retirement System's investments or net position.

(D) CUSTODIAL CREDIT RISK

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government may not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Retirement System does not have a specific policy addressing custodial credit risk for investments, but investments are generally insured, registered, or held by the Retirement System or its agent in the Retirement System's name. As of June 30, 2013 $76.726 million of the Retirement System's investments were exposed to custodial credit risk because they were not insured or registered in the name of the Retirement System, and were held by the counterparty's trust department or agent but not in the Retirement System's name.

For fiscal year 2013, cash received as securities lending collateral is invested in a separate account managed by the lending agent using investment guidelines approved by the Retirement System and held by the custodial bank. Securities in this separately managed account are not exposed to custodial credit risk.

(E) FOREIGN CURRENCY RISK

The Retirement System's exposure to foreign currency risk derives from its positions in foreign currency denominated cash, equity, fixed income, alternative investments, real estate, and swap investments. The Retirement System's investment policy allows international managers to enter into foreign exchange contracts, which are limited to hedging currency exposure existing in the portfolio.

The Retirement System's net exposures to foreign currency risk as of June 30, 2013 are as follows:

Foreign Currency Risk Analysis as of June 30, 2013 *(in thousands)*

Currency	Cash	Equities	Fixed Income	Alternative Investments	Real Estate	Foreign Currency Contracts	Total
Australian dollar	$1,244	$100,546	$31,709	$14,818	$-	$(45,951)	$102,366
Brazilian real	43	28,104	31,852		-	12,853	72,852
British pound sterling	180	540,682	7,525		-	(36,085)	512,302
Canadian dollar	50	47,750	8,794		-	(54,989)	1,605
Chilean peso	-	-	-		-	12,170	12,170
Chinese yuan renminbi	-	-	-		-	27,628	27,628
Colombian peso	-	-	-		-	2,614	2,614
Czech koruna	-	1,121	-		-	(18,854)	(17,733)
Danish krone	1	22,772	-		-	(1,265)	21,508
Euro	41,831	692,954	34,375	255,304	-	3,790	1,028,254
Hong Kong dollar	668	199,136	-		-	974	200,778
Hungarian forint	-	742	-		-	(509)	233
Indian rupee	-	-	-		-	12,374	12,374
Indonesian rupiah	35	24,623	-		-	8,788	33,446
Japanese yen	2,859	542,967	-		51,523	(59,515)	537,834
Malaysian ringgit	-	4,756	-		-	(13,055)	(8,299)
Mexican peso	24	16,164	31,347		-	20,576	68,111
New Israeli shekel	33	6,187	-		-	6,649	12,869
New Romanian leu	-	-	-		-	8,829	8,829
New Russian ruble	-	-	-		-	3,194	3,194
New Taiwan dollar	360	23,669	-		-	(49,985)	(25,956)
New Zealand dollar	(32)	-	-		-	(36,930)	(36,962)
Nigerian naira	-	-	-		-	-	-
Norwegian krone	221	22,987	-		-	12,895	36,103
Peruvian nuevo sol	-	-	-		-	(14,342)	(14,342)
Philippine peso	-	816	-		-	(27,181)	(26,365)
Polish zloty	-	181	-		-	3,075	3,256
Singapore dollar	197	50,585	-		-	(63,942)	(13,160)
South African rand	-	12,973	-		-	(240)	12,733
South Korean won	1,235	82,837	-		-	(14,449)	69,623
Swedish krona	638	58,933	-		-	222	59,793
Swiss franc	69	213,106	-		-	(15,707)	197,468
Thai baht	-	25,429	-		-	(18,238)	7,191
Turkish lira	-	18,414	-		-	13,987	32,401
Total	**$49,656**	**$2,738,434**	**$145,602**	**$270,122**	**$51,523**	**$(320,619)**	**$2,934,718**

(F) DERIVATIVE INSTRUMENTS

In June 2008, the Governmental Accounting Standards Board (GASB) issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, which became effective for financial statements for periods beginning after June 15, 2009. Pursuant to the requirements of this statement, the Retirement System has provided a summary of derivative instrument activities during the reporting periods presented and the related risks.

As of June 30, 2013, the derivative instruments held by the Retirement System are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized as incurred in the statement of changes in plan net position. All investment derivatives discussed on the pages following are included within the investment risk schedules, which precede this subsection. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

Valuation methods used by the Retirement System are described in more detail in the Summary of Significant Accounting Policies. The fair value of the exchange traded derivative instruments, such as futures, options, rights, and warrants are based on quoted market prices. The fair values of forward foreign currency contracts are determined using a pricing service, which uses published foreign exchange rates as the primary source. The fair values of swaps are determined by the Retirement System's investment managers based on quoted market prices of the underlying investment instruments.

The table below presents the notional amounts, the fair values, and the related net appreciation (depreciation) in the fair value of derivative instruments that were outstanding at June 30, 2013:

As of and for Year Ended June 30, 2013
(dollar amounts in thousands)

Derivative Type / Contracts	Notional Amount	Fair Value	Net Appreciation (Depreciation) in Fair Value
Forwards			
Foreign Exchange Contracts	(a)	$(7,411)	$(7,411)
Other Contracts	(a)	101	101
Options			
Foreign Exchange Contracts	2,837	(261)	(649)
Swaps			
Credit Contracts	81,450	(357)	521
Rights/Warrants			
Equity Contracts	890 shares	1,051	(30)
Total		**$(6,877)**	**$(7,468)**

(a) SFERS' investment managers enter into a wide variety of forward foreign exchange and other contracts, which frequently do not involve the US dollar. As a result, a US dollar-based notional value is not included.

All investment derivatives are reported as investments at fair value in the statement of plan net position. Rights and warrants are reported in equity securities. Foreign exchange contracts are reported in foreign currency contracts, which also include spot contracts that are not derivatives. All other derivative contracts are reported in other debt securities. All changes in fair value are reported as net appreciation (depreciation) in fair value of investments in the statements of changes in plan net position.

Counterparty Credit Risk

The Retirement System is exposed to credit risk on derivative instruments that are in asset positions. As of June 30, 2013, the fair value of forward currency contracts (including foreign exchange contract options) to purchase and sell international currencies were $5.606 million and $13.278 million, respectively. The Retirement System's counterparties to these contracts held credit ratings of A or better on 97.5% of the positions as assigned by one or more of the major credit rating organizations (S&P, Moody's and/or Fitch), while 2.5% were unrated.

Custodial Credit Risk

The custodial credit risk disclosure for exchange traded derivative instruments is made in accordance with the custodial credit risk disclosure requirements of GASB Statement No. 40. At June 30, 2013, all of the Retirement System's investments in derivative instruments are held in the Retirement System's name and are not exposed to custodial credit risk.

Interest Rate Risk

The table below describes the maturity periods of the derivative instruments exposed to interest rate risk at June 30, 2013. The Retirement System did not hold any derivative instruments that are highly sensitive to changes in interest rates as of June 30, 2013.

Derivative Interest Rate Risk as of June 30, 2013
(in thousands)

		Maturities			
Derivative Type / Contracts	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**10+ years**
Forwards					
Other Contracts	$101	$101	$-	$-	$-
Swaps					
Credit Contracts	(357)	-	161	-	518
Total	**$(256)**	**$101**	**$161**	**$-**	**$(518)**

No Derivative Instruments Highly Sensitive to Interest Rate Changes as of June 30, 2013

Foreign Currency Risk

At June 30, 2013, the Retirement System is exposed to foreign currency risk on its investments in forwards, options, rights and warrants denominated in foreign currencies.

Derivative Instruments Foreign Currency Risk Analysis as of June 30, 2013
(in thousands)

Currency	Forwards	Options	Rights/ Warrants	Total
Australian dollar	$1,139	$(270)	$2	$871
Brazilian real	(1,120)	-	151	(969)
British pound sterling	188	-	-	188
Canadian dollar	424	-	-	424
Chilean peso	(775)	-	-	(775)
Chinese yuan renminbi	200	-	-	200
Colombian peso	(28)	-	-	(28)
Czech koruna	36	-	-	36
Danish krone	15	-	-	15
Euro	(506)	-	-	(506)
Hong Kong dollar	1	-	-	1
Hungarian forint	(12)	-	-	(12)
Indian rupee	(920)	-	-	(920)
Indonesian rupiah	(264)	-	-	(264)
Japanese yen	848	-	-	848
Malaysian ringgit	(301)	-	-	(301)
Mexican peso	(294)	-	-	(294)
New Israeli shekel	(45)	-	-	(45)
New Romanian leu	(96)	-	-	(96)
New Russian ruble	(203)	-	-	(203)
New Taiwan dollar	(59)	-	-	(59)
New Zealand dollar	(235)	(32)	-	(267)
Norwegian krone	(876)	-	-	(876)
Peruvian nuevo sol	310	-	-	310
Philippine peso	(78)	-	-	(78)
Polish zloty	(230)	-	-	(230)
Singapore dollar	625	-	-	625
South African rand	(469)	-	-	(469)
South Korean won	(107)	-	-	(107)
Swedish krona	(398)	-	-	(398)
Swiss franc	(195)	-	-	(195)
Thai baht	213	-	-	213
Turkish lira	(490)	-	-	(490)
Total	**$(3,702)**	**$(302)**	**$153**	**$(3,851)**

Contingent Features

At June 30, 2013, the Retirement System held no positions in derivatives containing contingent features.

CURRENCY MANAGEMENT PROGRAM

As of June 30, 2013, the Retirement System's currency management program is managed by two investment managers. The objective of the currency management program is to produce a risk-adjusted return of approximately 100 basis points.

The Retirement System's international equity managers do not actively manage the underlying currency risk. Currency risk can be reduced through an active currency management program. Each currency manager manages currency risk through foreign exchange spot and forward contracts and currency options. Only international equities are subject to the currency management program. The Retirement System's international fixed income currency exposure is actively managed by four developed market bond managers and two emerging market bond managers. All four developed bond managers have discretion to invest in U.S. or international developed markets.

As of June 30, 2013, the Retirement System's allocation to international equities (including cash and other assets) was primarily denominated in foreign currencies and totaled $4,254 million, which represented 25.2% of plan net position. For the year ended June 30, 2013, the currency management program lost $11,207 million in value or 0.26% of the international equity portfolio (including cash and other assets) and 0.07% of the Retirement System's average total portfolio value.

SECURITIES LENDING

The Retirement System lends U.S. government obligations, domestic and international bonds, and equities to various brokers with a simultaneous agreement to return collateral for the same securities plus a fee in the future. The securities lending agent manages the securities lending program and receives securities and cash as collateral. Cash and non-cash collateral is pledged at 102% and 105% of the fair value of domestic securities and international securities loaned, respectively. There are no restrictions on the number of securities that can be loaned at one time. However, starting in the year ended June 30, 2009, the Retirement System engaged in a systematic reduction of the value of securities on loan with a target of no more than ten percent (10%) of total fund assets on loan at any time. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the corresponding collateral.

The Retirement System does not have the ability to pledge or sell collateral securities unless a borrower defaults. The securities collateral is not reported on the statements of net position. As of June 30, 2013, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes them exceed the amounts they owe the Retirement System. As with other extensions of credit, the Retirement System may bear the risk of delay in recovery or of rights in the collateral should the borrower of securities fail financially. However, the lending agent indemnifies the Retirement System against all borrower defaults.

As of June 30, 2013, the Retirement System has loaned $1,299 million in securities and received collateral of $1,005 million and $338 million in cash and securities, respectively, from borrowers. The cash collateral is invested in a separate account managed by the lending agent using investment guidelines approved by the Retirement Board. Due to the decline in the fair value of assets held in the separately managed account, the Retirement System's invested cash collateral was valued at $1,004 million. The net unrealized loss of $0.9 million is presented as part of the net appreciation (depreciation) in fair value of investments in the statement of changes in plan net position in the year in which the unrealized gains and losses occur. The Retirement System is exposed to investment risk including the possible loss of principal value in the separately managed securities lending account due to the fluctuation in the fair value of the assets held in the account.

The Retirement System's securities lending transactions as of June 30, 2013 are summarized in the following table.

Securities Lending as of June 30, 2013
(in thousands)

Security Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Securities Collateral
Securities Loaned for Cash Collateral			
International Corporate Fixed Income	$8,400	$8,873	$-
International Equities	77,863	82,809	-
International Government Fixed Income	3,846	3,970	
U.S. Corporate Fixed Income	160,374	164,134	-
U.S. Equities	437,396	448,319	-
U.S. Government Fixed Income	291,450	297,056	-
Securities Loaned with Non-Cash Collateral			
International Corporate Fixed Income	2,367	-	2,464
International Equities	295,696	-	314,030
International Government Fixed Income	10,047	-	10,534
U.S. Corporate Fixed Income	12	-	12
U.S. Equities	9,980	-	10,246
U.S. Government Fixed Income	1,125	-	1,146
Total	**$1,298,556**	**$1,005,161**	**$338,432**

The following table presents the segmented time distribution for the reinvested cash collateral account based upon the expected maturity (in years) as of June 30, 2013.

Fair Value of Cash Collateral Account of June 30, 2013
(in thousands)

Investment Type	Fair Value	Maturity Less than 1 year
Commercial Paper	$43,968	$43,968
Government Agencies	35,013	35,013
Negotiable Certificates of Deposits	204,013	204,013
Repurchase Agreements	326,400	326,400
Short Term Investment Funds	394,872	394,872
Total	**$1,004,266**	**$1,004,266**

The Retirement System's exposure to credit risk in its reinvested cash collateral account as of June 30, 2013 is as follows:

Credit Rating of Cash Collateral Account as of June 30, 2013

Credit Rating	Fair Value *(in thousands)*	Fair Value as a Percentage of Total
AAA	$35,013	3.5%
AA	485,749	48.4%
A	483,421	48.1%
Not Rated	83	0.0%
Total	**$1,004,266**	**100.0%**

INVESTMENTS IN REAL ESTATE HOLDINGS

Real estate investments represent the Retirement System's interests in real estate limited partnerships. The changes in these investments during the year ended June 30, 2013 is summarized as follows:

Investments	2013 *(in thousands)*
Beginning Of The Year	$1,403,412
Capital Investments	145,023
Equity In Net Earnings	80,643
Net Appreciation In Fair Value	62,011
Capital Distributions	(260,378)
End Of The Year	**$1,430,711**

COMMITMENTS AND CONTINGENCIES

(A) UNFUNDED INVESTMENTS COMMITMENTS

The Retirement System has unfunded commitments to contribute capital for real estate in the amount of $260 million and alternative investments in the amount of $1,051 million totaling $1,311 million as of June 30, 2013.

(B) LEGAL

During the year ended June 30, 2013, the Retirement System was involved in various petitions, lawsuits, and threatened lawsuits relating to individuals' benefits under the Retirement System, which management does not expect to have a material impact on the net position available for pension benefits. The results of such actions are included in the Retirement System's experience factors used in its actuarial valuations and accordingly, are eventually considered in establishing the City and County's required annual contributions.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
July 1, 2008	$15,941,390	$15,358,824	$(582,566)	103.8%	$2,457,196	-23.7%
July 1, 2009	16,004,730	16,498,649	493,919	97.0%	2,537,785	19.5%
July 1, 2010	16,069,058	17,643,394	1,574,336	91.1%	2,398,823	65.6%
July 1, 2011	16,313,120	18,598,728	2,285,608	87.7%	2,360,413	96.8%
July 1, 2012	16,027,683	19,393,854	3,366,171	82.6%	2,393,842	140.6%
July 1, 2013	16,303,397	20,224,776	3,921,379	80.6%	2,535,963	154.6%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(dollar amounts in thousands)

Year Ended	Annual Required Contribution (ARC)	Actual Employer Contributions	Percentage of ARC Contributed
2008	$134,060	$134,060	100%
2009	119,751	119,751	100%
2010	223,614	223,614	100%
2011	308,823	308,823	100%
2012	410,797	410,797	100%
2013	442,870	442,870	100%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated.

The Retirement Board selected the key assumptions for the July 1, 2013 actuarial valuation at its January 2014 meeting. The assumptions were unchanged from the July 1, 2012 actuarial valuation. Details of the funding methods and of other actuarial assumptions may be found in the Actuarial Section of this document and also in each respective valuation date's Actuarial Valuation Report. A summary of the methods and assumptions for the most recent actuarial valuation is shown below:

Valuation Date	July 1, 2013
Actuarial Funding method	Entry Age Normal
Amortization method	Rolling and Fixed depending upon the source
Equivalent single amortization period	13.1 Years
Asset valuation method	5-year smoothing of return over and under expected returns
Investment rate of return	7.58%
Inflation rate	3.33%
Projected salary increases due to inflation[1]	3.83%

Cost-of-living adjustments	Old Safety Plans – Charters 8.559 and 8.585	5.0% per year
	Old Safety Plans – Charters 8.595 and 8.596	4.0% per year
	Old Safety – Pre 7/1/75 Date of Retirement	3.0% per year
	Old Plans – Miscellaneous	2.0% per year
	New Plans – Police, Fire, and Miscellaneous	2.0% per year

The demographic assumptions were adopted by the Retirement Board in November 2010 based upon recommendations contained in the experience study covering the period from July 1, 2004 through June 30, 2009. The economic assumptions (price inflation, wage inflation, and discount rate) were adopted by the Retirement Board in January 2014.

The rate of employer contributions to SFERS is composed of the Entry Age normal cost and amortization of the unfunded actuarial liability (UAL). The portion of the UAL attributable to benefit changes is amortized over closed 20 year periods from the date the benefit change is reflected, and the remaining portion of the UAL is amortized over a rolling 15-year period.

1 Additional merit salary increases of 0.85% to 15.00% based on a participant's years of service and membership group are also assumed. These increases are not used in the amortization of SFERS' UAL.

OTHER SUPPLEMENTARY INFORMATION

PENSION FUND INVESTMENT INCOME

Fiscal Year 2012-13
(in thousands)

	Realized Gain/Loss	Unrealized Gain/Loss	Total
Income:			
Interest Earned			$182,160
Dividends Earned			188,644
Securities Lending Income-Net			5,619
Recaptured Commission Income			138
Real Estate Income			80,642
Alternative Investment Income			51,161
Investment Expenses			(41,654)
Total Income[1]			**$466,710**
Net Appreciation in Fair Values:			
Short-Term Securities	$(7,608)	$(617)	$(8,225)
Equities	383,171	898,934	1,282,105
Debt Securities	62,649	(30,900)	31,749
Real Estate	(13,503)	88,960	75,457
Alternative Investments	141,923	81,238	223,161
Other Assets	(32,504)	26,097	(6,407)
Total Net Appreciation:	**$534,128**	**$1,063,712**	**$1,597,840**
Total Income (including Net Appreciation)			**$2,064,550**

1 Total investment income excludes employee and employer contributions.

PENSION FUND DISBURSEMENTS

Plan Year 2012-13
(in thousands)

Payments/Expenses	Amount
Service Retirement Payments	$770,521
Disability Retirement Payments	168,365
Proposition C – Cost of Living Adjustment	54,816
Death Allowance Payments	3,965
Death Benefits	2,584
Normal Contributions Paid as Death Benefit	3,188
Retired Annuitant Rolls (Option 1 Death Benefit)	1,838
DROP Program Accrued Retirement Benefits	21,265
Refunds of Contributions	6,265
Administrative Expenses: Retirement Services/Administration	15,518
Total Payments & Expenses	**$1,048,325**
Increase From FY 2011-12:	**$53,851**

COMPARISON OF CONTRIBUTIONS

Employer Contributions
(in thousands)

Member Plan	Plan Year 2012-13	Plan Year 2011-12	Plan Year 2010-11
Miscellaneous Plan	$364,503	$344,942	$250,367
Firefighter Plan	32,053	26,466	23,569
Police Plan	46,314	39,389	34,887
Total	**$442,870**	**$410,797**	**$308,823**

Employee Contributions
(in thousands)

Member Plan	Plan Year 2012-13	Plan Year 2011-12	Plan Year 2010-11
Miscellaneous Plan	$211,545	$152,090	$149,148
Firefighter Plan	19,548	18,542	13,154
Police Plan	27,633	27,528	19,453
Total	**$258,726**	**$198,160**	**$181,755**

COMPARISON OF ACTUAL ADMINISTRATIVE EXPENDITURES

Retirement Services & Administration Divisions

(in thousands)

	Retirement Services/Administration		
Description of Expenditures	**2012-13**	**2011-12**	**2010-11**
Personnel Services	$10,314	$10,033	$9,763
Equipment Purchase	97	29	40
Materials and Supplies	204	139	139
Services of Other Departments	2,191	2,066	2,238
Other Services	2,712	2,649	2,628
Total	**$15,518**	**$14,916**	**$14,808**

Investment Division

(in thousands)

	Investment Division		
Description of Expenditures	**2012-13**	**2011-12**	**2010-11**
Personnel Services	$2,263	$1,726	$1,853
Equipment Purchase	0	0	0
Materials and Supplies	2	4	6
Services of Other Departments	414	152	298
Other Services	38,975	42,658	42,422
Total	**$41,654**	**$44,540**	**$44,579**

Investment Section

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 2012:

Asset Class	Policy Target	Policy Range	Actual
US Equity	23.5%	20-27%	28.0%
International Equity	23.5%	20-27%	24.3%
Global Fixed Income	25.0%	20-30%	25.1%
Alternative Assets	16.0%	10-20%	12.2%
Real Estate	12.0%	9-15%	9.2%
Cash	0.0%	0-1%	1.2%

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

INVESTMENT HIGHLIGHTS FOR FISCAL YEAR ENDED JUNE 30, 2013

The Retirement System investment portfolio returned a robust 13.01% for the Fiscal Year ended June 30, 2013, on target with the policy benchmark return of 13.05%. U.S. equities (+21.79%) and Non-U.S. equities (+17.05%) led the rally, while also outperforming the policy benchmarks at +21.46% and +13.91%, respectively.

EQUITY

Public equities (+19.41%) posted strong results for Fiscal Year 2013. The Retirement System's U.S. equities rose 21.79%, outperforming the Russell 3000 (+21.46%) by 33 basis points as most of SFERS' active managers outperformed their respective benchmarks. A strategic overweight to U.S. small capitalization stocks also helped – as the System's small capitalization managers (+27.84%) outperformed both large capitalization stocks (+21.48%) and the Russell 3000 benchmark. Additionally, Non-U.S. equities (+17.05%) outperformed the MSCI ACWI (ex-us) IMI benchmark (+13.91%) by 314 basis points as the System's active investment managers were able to add value.

2012-13 EQUITY MANAGER CHANGES:

- Global Equity Benchmark: In October 2012, SFERS moved to the MSCI-ACWI IMI as the benchmark for performance measurement. The prior benchmark was a blend of 50% Russell 3000 Index and 50% MSCI-ACWI IMI (x-us).

- Perimeter Capital Management: In August 2012, Perimeter Capital was terminated as a US Small Cap Growth Equity manager for SFERS. The assets, approximately $170 million, were transitioned to the Northern Trust Global Investment Russell 2000 Growth passive index account.

- Blackrock: In May 2013, Blackrock was terminated as a currency overlay manager for SFERS. The assets were transitioned to other managers within SFERS' currency overlay program.
- Zazove Associates: In December 2012, the investment guidelines for Zazove Associates' Convertible Securities mandate were changed from the BofA Merrill Lynch All Investment Grade to the broader BofA Merrill Lynch All Convertibles (excluding mandatory securities) benchmark. The benchmark change was made to more closely reflect the underlying investment opportunity set for convertible securities.

FIXED INCOME

The Fixed Income Portfolio returned 4.63% for the Fiscal Year - outperforming its benchmark (+0.24%) by 4.39%. During the fiscal year, approximately $375 million was raised from various Fixed Income Portfolios for the purposes of providing for the System's retirement benefit payments; funding fixed income opportunistic strategies and an aggregate index portfolio; and to adjust total Fixed Income assets to be in line with the asset allocation target of 25%.

2012-2013 FIXED-INCOME MANAGER CHANGES:

- Ares Capital Europe II, $25 million
- HayFin Opportunistic Credit, $25 million
- Highbridge Mezzanine II, $25 million
- Cerberus Levered Loan II, $25 million
- Ashmore Investment Management. In October 2012, the Retirement Board approved the liquidation of the Ashmore Local Currency Short Duration Mandate and the issuance of a Request for Proposals to seek investment managers for an emerging market debt mandate. The assets managed by Ashmore were transitioned to an emerging market debt exchange traded fund. In March 2013, the Retirement Board approved the hire of Pacific Investment Management Company as the new emerging market debt investment manager.
- The Retirement Board approved changes to the investment guidelines for Oaktree Capital Management, a High Yield Debt manager. The investment guidelines were modified to provide Oaktree with increased flexibility to invest in European High Yield securities.

ALTERNATIVE INVESTMENTS

In December 2012, the Retirement Board approved the annual investment plan for the Alternative Investment Program – recommending an investment pace of $375 million for Calendar Year 2013. During the Fiscal Year, new commitments were made by Staff in a broad set of private equity and venture capital limited partnerships and included investment management firms that currently managed assets for SFERS as well newly selected firms with strategies designed to improve the diversification and return of the portfolio. As of June 30, 2013, the market value for alternative investments was $2.1 billion or 12.2% of the total investment portfolio. The alternative investment portfolio returned 10.13% for the Fiscal Year. Over the past 10 years, the portfolio has earned 15.63%, exceeding the benchmark (S&P 500 + 5%) by 299 basis points.

FY 2012-13 ALTERNATIVE INVESTMENTS COMMITMENTS:

Buy Out:

- Advent International GPE VII, $40 million
- APAX VIII, $30 million
- TowerBrook Investors IV, $30 million
- RRJ Capital Master Fund II, $50 million
- Vista Foundation Fund II, $50 million

Venture Capital:

- Trinity XI, $20 million
- Knightsbridge Venture Capital VIII & VIIIa, $65 million
- Battery Ventures X, $10 million

Special Situations:

- ABRY Senior Equity IV, $30 million

REAL ESTATE

In May 2012, the Retirement Board approved the Annual Real Estate Investment Strategy. The Strategy provided for a target allocation of $400 million in value-add and opportunistic private real estate investments and an additional $50 million allocation to public real estate investments.

For the Fiscal Year ended June 30, 2013, the real estate portfolio had one-year and five-year returns of 9.01% and -1.82%, respectively. The portfolio's one-year return exceeded the 8% benchmark by 101 basis points, however, lagged by 402 basis points on a five-year basis. During Fiscal Year 2012, the Retirement Board approved a change to the benchmark for real estate – shifting from NCREIF (National Council of Real Estate Investment Fiduciaries) + 1.5% to a flat 8%. As a result, the five-year benchmark (+2.20%) represents a blend of the two benchmarks. The five-year return reflects the impact of unrealized losses taken from appraisals by certified appraisal professionals between the third quarter of 2008 and the fourth quarter of 2009 (1.5 years) and the negative impact of leverage on assets with declining values. As of June 30, 2013, the market value of SFERS' real estate portfolio was $1.6 billion and represented 9.2% of the total fund.

SFERS' investment staff continues to review investment opportunities for those that fit with the long-term real estate investment strategy and that are aligned with anticipated demographic, technological and regulatory trends while offering attractive risk adjusted returns.

2012-2013 REAL ESTATE COMMITMENTS:

- AEW Partners VII, $40 million
- Berkshire Multifamily Value Plus Fund III, $40 million
- Brookfield Strategic Real Estate Partners, $50 million
- Harrison Street Real Estate Partners IV, $50 million
- Rockpoint Real Estate Fund IV, $40 million and
- TriGate Property Partners II, $40 million

SUMMARY OF INVESTMENTS

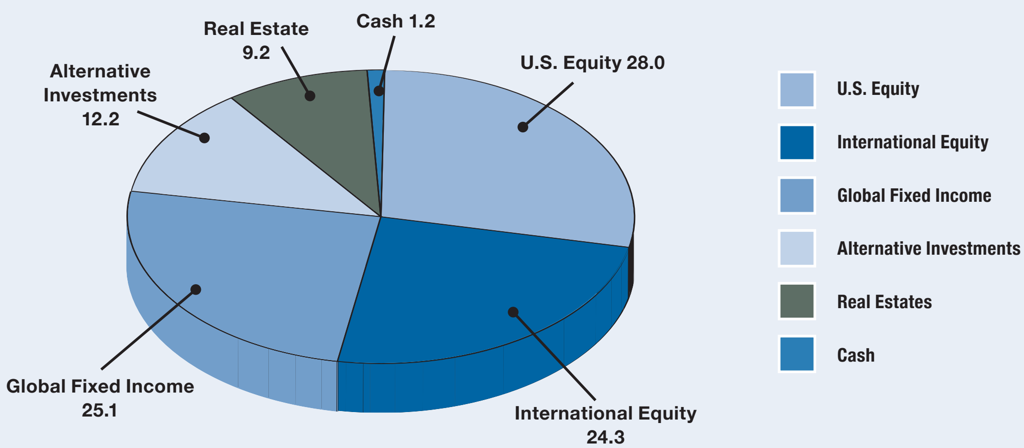
As of June 30, 2013, approximately 9.6% of SFERS' trust assets were managed internally. This consisted of $1.4 billion in domestic equities and $182 million in domestic bonds. The balance of the portfolio was managed by external investment management firms that specialized in specific asset classes – including domestic and internal equities, global fixed-income, alternative investments and real estate.

SUMMARY OF INVESTMENTS

Asset Class	Market Value *(in thousands)* June 30, 2013	% of Portfolio June 30, 2013
Equities		
U.S. Equities	4,718,616	28.0%
International Equities	4,099,529	24.3%
Total Equities	8,818,145	52.2%
Global Fixed Income	4,230,030	25.1%
Alternative Investments		
Buyout	1,008,597	6.0%
Venture	577,480	3.4%
Special Situations	477,647	2.8%
Total Alternative Investments	2,063,724	12.2%
Real Estate	1,558,109	9.2%
Cash	210,169	1.2%
Total Investment Portfolio	16,880,177	100.0%

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

Asset Allocation
as of June 30, 2013



INVESTMENT PORTFOLIO PERFORMANCE

For the Fiscal Year ended June 30, 2013, the investment portfolio of the Retirement System rose by 13.01% with all asset classes posting positive results. U.S. Equities and Non-U.S. Equities led the rally yielding 21.79% and 17.05%, respectively. These frontrunners were followed by Alternatives (+10.13%), Real Estate (+8.97%) and Fixed Income (+4.63%).

Annualized Returns for the Periods ending 6/30/2013

(Net of fees and expenses)

	1-Year	3-Years	5-Years	10-Years	20-Years
Domestic Equity Benchmark: Russell 3000	**21.79%** 21.46%	**18.26%** 18.63%	**7.09%** 7.25%	**7.51%** 7.81%	**8.63%** 8.76%
International Equity Benchmark: International Equity Policy[1]	**17.05%** 13.91%	**8.90%** 8.13%	**-0.61%** -0.32%	**8.64%** 8.88%	**7.69%** 5.93%
Global Fixed Income Benchmark: Fixed Income Policy[2]	**4.63%** 0.24%	**7.15%** 4.09%	**6.61%** 5.53%	**5.62%** 4.80%	**6.75%** 5.97%
Alternative Assets Benchmark: Alternative Investments Policy[3]	**10.13%** 26.53%	**12.64%** 24.29%	**5.74%** 12.34%	**15.63%** 12.64%	**N/A** N/A
Real Estate Benchmark: Gross NPI +1.5%[4]	**8.97%** 8.00%	**16.12%** 12.00%	**-1.83%** 2.20%	**6.25%** 9.21%	**N/A** N/A
Total Fund Weighted Policy Benchmark[5]	**13.01%** 13.05%	**11.87%** 12.67%	**4.19%** 5.66%	**7.69%** 8.01%	**8.13%** N/A

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.

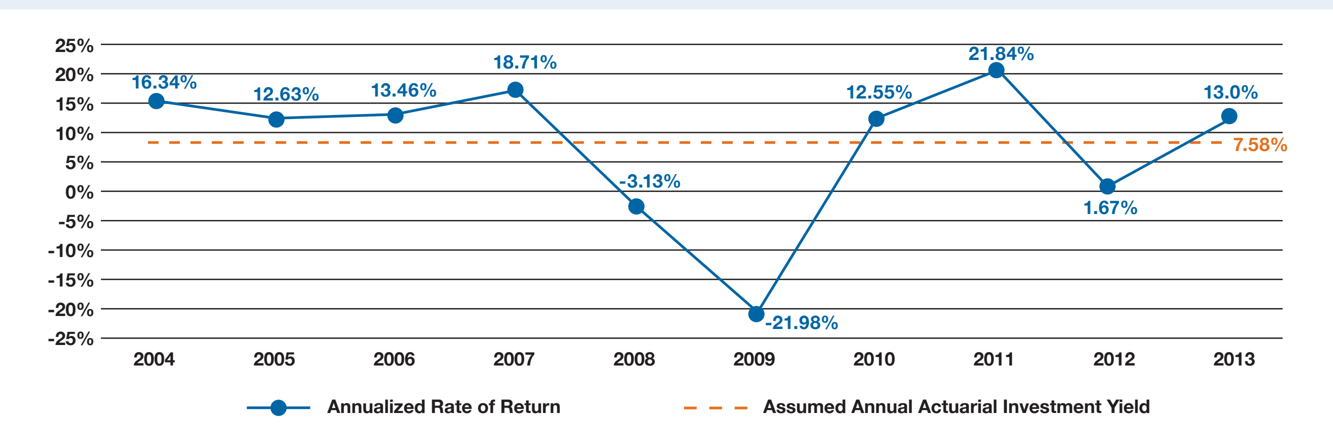
3. Alt. Inv. Policy consists of the S&P500 + 600 bps through 12/31/02, + 500 bps thereafter. For periods less than one year, the excess 500 basis points are prorated.

4. The Real Estate benchmark consists of NPI (NCREIF Property Index) +1.5% from inception to 09/30/2011 and a flat 8% thereafter.

5. The current SFERS weighted policy consists of 47% MSCI ACWI IMI (ND), 25% BC US Universal, 12% SFERS Real Estate Benchmark and 16% SFERS Alternative Investment Benchmark.

Annual Rates of Return Last Ten Years

Periods ending June 30



Actuarial Section

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

OVERVIEW

Actuarial assumptions and methods are adopted by the Retirement Board with input from the Consulting Actuary. Demographic assumptions are based upon the November 2010 Demographic Experience Study for the period covering July 1, 2004 through June 30, 2009. The study covered rates of retirement, termination, refund, disability, and mortality in addition to family composition.

ACTUARIAL ASSET VALUATION METHOD

The assets were valued using a 5-year phase-in of investment return greater than or less than the actuarial assumed investment return. This actuarial value is calculated by recognizing 20% of each of the past five years of actual investment experience relative to the expected return on the actuarial asset value. The expected return on actuarial value of assets is determined using actual cash flows and the actuarial rate of interest (7.58% for Fiscal Year 2012-13, 7.66% for Fiscal Year 2011-12, and 7.75% for the three fiscal years prior to 2011-12). The balance of the actual investment experience is recognized in a similar fashion in future years. This asset smoothing method started with the market value as of July 1, 2004.

ACTUARIAL COST METHOD

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed termination of employment. The actuarial liability is the difference between the present value of future benefits and the present value of future normal costs.

AMORTIZATION METHOD

The Charter specifies that the amortization period shall not exceed 20 years. Board policy specifies the period over which different components of the unfunded actuarial liability must be amortized.

The unfunded actuarial accrued liability due to net actuarial gains and losses and assumption changes are amortized as a level percentage of payroll over a 15-year period beginning with the valuation date. Additional liabilities generated by Charter amendments and Board-approved changes in the credited interest rate on member contribution accounts are amortized as a level percentage of payroll over a 20-year period beginning with the year the amendment is first reflected in the valuation.

INVESTMENT RETURN ASSUMPTION

SFERS' assets are assumed to earn 7.58% net of investment expenses. This assumption was adopted beginning with the July 1, 2012 valuation.

COST-OF-LIVING INCREASE IN BENEFITS

Old Plans - Police and Fire, Charters 8.559 and 8.585	5.00% per year
Old Plans - Police and Fire, Charters 8.595 and 8.596	4.00% per year
Old Plans - Police and Fire, pre-7/1/75 DOR	3.00% per year
Old Plans - Miscellaneous	2.00% per year
New Plans - Police, Fire and Miscellaneous	2.00% per year

FUTURE INTEREST CREDITING RATE ON MEMBER CONTRIBUTIONS

4.0% compounded annually.

ADMINISTRATIVE EXPENSE ASSUMPTION

There is a 0.45% of Payroll assumption included in the normal cost rates for administrative expenses.

SALARY INCREASE RATE

- Wage inflation component: 3.83%
- This assumption was adopted beginning with the July 1, 2012 valuation.
- The additional merit component:

Years of Service	Police	Fire	Muni Drivers	Craft	Misc.
1	11.00%	15.00%	15.00%	4.50%	7.00%
2	8.50	8.00	10.00	3.25	5.25
3	6.50	6.00	2.00	2.50	4.00
4	4.50	4.25	1.00	2.00	3.00
5	3.25	3.00	0.00	1.50	2.50
6	2.30	2.30	0.00	1.25	2.00
7	1.95	1.95	0.00	1.00	1.75
8	1.70	1.70	0.00	0.90	1.65
9	1.50	1.50	0.00	0.85	1.45
10	1.50	1.50	0.00	0.85	1.30
11	1.50	1.50	0.00	0.85	1.20
12	1.50	1.50	0.00	0.85	1.15
13	1.50	1.50	0.00	0.85	1.10
14	1.50	1.50	0.00	0.85	1.05
15+	1.50	1.50	0.00	0.85	1.00

Extra covered wages in the last year before service retirement are assumed to be as follows:

Safety	3.0% per year
Muni Drivers	6.0% per year
Craft Workers	4.0% per year
Other Miscellaneous	1.5% per year

MEMBER REFUNDS

Non-vested terminated members are assumed to receive a refund of their contributions with interest. The rates of refund for terminated vested members in the year of termination are shown below.

RATES OF REFUND FOR VESTED TERMINATED MEMBERS

Age	Police & Fire	Misc.
Under 25	100%	70%
25	75	55
30	50	40
35	30	35
40	20	30
45	10	20
50 & over	0	0

In estimating refund amounts, it is assumed that employee contribution rates are, on average, not changed by the floating contribution rate provisions of Proposition C.

FAMILY COMPOSITION

The percentage assumed to be married (including assumption for Domestic Partners, 1994 Proposition H) is shown in the table at the top of the next column. Spouses of male members are assumed to be three years younger than the member and spouses of female members are assumed to be three years older than the member. And, then the spouse is assumed to be an additional year younger in order to value continuance to children and dependent parents.

	Percentage Married
Safety Males	85%
Safety Females	48
Miscellaneous Males	75
Miscellaneous Females	48

RATES OF TERMINATION OF EMPLOYMENT

Sample rates of termination by age and service for Miscellaneous (excluding Muni drivers and Craft) members are shown below:

Age	0	3	5+
20	37.5%	12.0%	6.5%
30	24.0	9.0	5.5
40	17.5	6.0	3.0
50	15.0	4.5	2.6
60	15.0	4.5	4.0

Sample rates of termination by service for Police, Fire, Muni Drivers and Craft members are shown below:

Service	Police	Fire	Muni Drivers	Craft
0	10.00%	4.00%	12.00%	8.00%
5	1.00	1.50	3.25	3.25
10	1.00	1.00	3.00	1.75
15	1.00	0.50	3.00	1.75
20	0.50	0.05	3.00	1.75
25	0.00	0.00	0.00	0.00

30% of terminating employees are assumed to subsequently work for a reciprocal employer and receive pay increases equal to the wage inflation assumption.

In estimating termination benefits for Miscellaneous members, it is assumed that employee contribution rates are, on average, not changed by the floating contribution rate provisions of Proposition C.

RATES OF DISABILITY

Sample disability rates of active participants are provided below:

Age	Police	Fire	Muni Drivers	Craft	Misc. Females	Misc. Males
30	0.05%	0.06%	0.01%	0.01%	0.01%	0.01%
40	0.16	0.38	0.11	0.12	0.10	0.08
50	0.79	1.20	0.75	0.44	0.55	0.30
60	6.10	12.75	0.00	0.00	0.00	0.00

100% of safety and 0% of miscellaneous disabilities are assumed to be duty related. If projected disability occurs prior to service retirement eligibility, the level of duty disability is assumed to 55% of pay for Police and 60% of pay for Fire.

RATES OF RETIREMENT

Sample retirement rates of active participants are provided below:

Age	Police		Fire		Muni Drivers		Craft		Misc. Females		Misc. Males	
	<25	25+	<25	25+	<30	30+	<30	30+	<30	30+	<30	30+
50	.015	.030	.020	.020	.070	.030	.030	.030	.030	.030	.030	.030
55	.100	.120	.030	.225	.060	.300	.050	.075	.040	.075	.040	.075
60	.100	.220	.250	.350	.100	.300	.100	.300	.110	.250	.110	.300
65	1.00	1.00	1.00	1.00	.250	.450	.275	.300	.225	.375	.225	.250
70	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Safety and Miscellaneous inactive terminated vested members and actives who are expected to terminate are assumed to retire at age 55.

RATES OF MORTALITY FOR HEALTHY LIVES

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the sex distinct RP 2000 Mortality Tables. The Employee table is used for active employees and the Annuitant table is used for those receiving benefits. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables have been projected using scale AA to future years as follows:

Active Females:	2030
Active Males:	2005
Annuitant Females:	2020
Annuitant Males:	2020

The table below provides a sample of these rates.

Actives			Annuitants		
Age	Male	Female	Age	Male	Female
25	0.036%	0.014%	55	0.402%	0.301%
35	0.075	0.034	65	1.012	0.938
45	0.141	0.069	75	2.854	2.394
55	0.275	0.199	85	9.624	6.866
65	0.706	0.501	95	25.699	18.688

For active members, 25% of Safety deaths and 0% of Miscellaneous deaths are assumed to be duty related.

RATES OF MORTALITY FOR RETIRED DISABLED LIVES

For Safety, all disabilities are assumed to be duty related and therefore all death benefits of disabled members are assumed to generate duty death benefits. The table below provides a sample of the mortality rates for members with disability retirement.

	Police and Fire		All Miscellaneous	
Age	Male	Female	Male	Female
55	0.53%	0.50%	1.94%	1.56%
65	1.26	1.09	3.17	1.80
75	3.18	2.47	6.00	3.65
85	10.80	7.16	14.04	8.42
95	23.77	21.24	31.03	20.92

RECENT CHANGES

There have been no changes in plan provisions, actuarial assumptions, or actuarial methods since the July 1, 2012 valuation.

There have been no changes in retained actuary or actuarial firm.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Plan Type	Count[1]	Annual Covered Pay[1]	Average Annual Covered Pay	% Increase in Average Covered Pay
07/01/2008	Misc	26,878	$2,059,587,819	$76,627	1.5%
	Safety	3,772	397,608,369	105,410	2.6%
07/01/2009	Misc	26,205	1,981,788,543	75,626	-1.3%
	Safety	3,714	402,975,857	108,502	2.9%
07/01/2010	Misc	24,689	1,915,169,605	77,572	2.6%
	Safety	3,533	400,262,779	113,293	4.4%
07/01/2011	Misc	24,701	1,883,122,340	76,237	-1.7%
	Safety	3,255	380,458,039	116,884	3.2%
07/01/2012	Misc	24,878	1,928,148,586	77,504	1.7%
	Safety	3,219	395,842,540	122,971	5.2%
07/01/2013	Misc	25,392	2,031,987,811	80,025	3.3%
	Safety	3,325	417,543,208	125,577	2.1%

1 July 1, 2011, July 1, 2012, and July 1, 2013 exclude DROP members.

RETIREES AND BENEFICIARIES IN PAYEE STATUS

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Fiscal Year	Member Count	Annual Allowance	Member Count	Annual Allowance	Member Count	Annual Allowance	% Increase in Retiree Allowance	Average Annual Allowance
2007/2008	1,269	44,225,244	881	23,553,431	21,514	691,842,055	1.2%	32,158
2008/2009	1,545	60,356,100	765	20,550,523	22,294	755,029,081	9.1%	33,867
2009/2010	2,004	85,601,938	798	22,483,938	23,500	834,425,915	10.5%	35,507
2010/2011	1,672	66,575,560	880	24,641,442	24,292	905,053,471	8.5%	37,257
2011/2012	1,769	70,868,367	871	26,958,609	25,190	982,250,287	8.5%	38,994
2012/2013	1,577	66,437,220	733	22,406,077	26,034	1,045,547,799	6.4%	40,161

ACTUARIAL SOLVENCY TEST

(dollar amounts in millions)

Valuation Date	Actuarial Accrued Liability (AAL): (1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Employer Financed Portion	Actuarial Value of Assets	Percentage of AAL Covered by Assets: (1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Employer Financed Portion
07/01/2008	$2,411	$8,013	$4,934	$15,941	100%	100%	100%
07/01/2009	2,529	8,720	5,250	16,005	100%	100%	91%
07/01/2010	2,593	9,761	5,289	16,069	100%	100%	70%
07/01/2011	2,664	10,616	5,319	16,313	100%	100%	57%
07/01/2012	2,687	11,262	5,445	16,028	100%	100%	38%
07/01/2013	2,828	11,878	5,518	16,303	100%	100%	29%

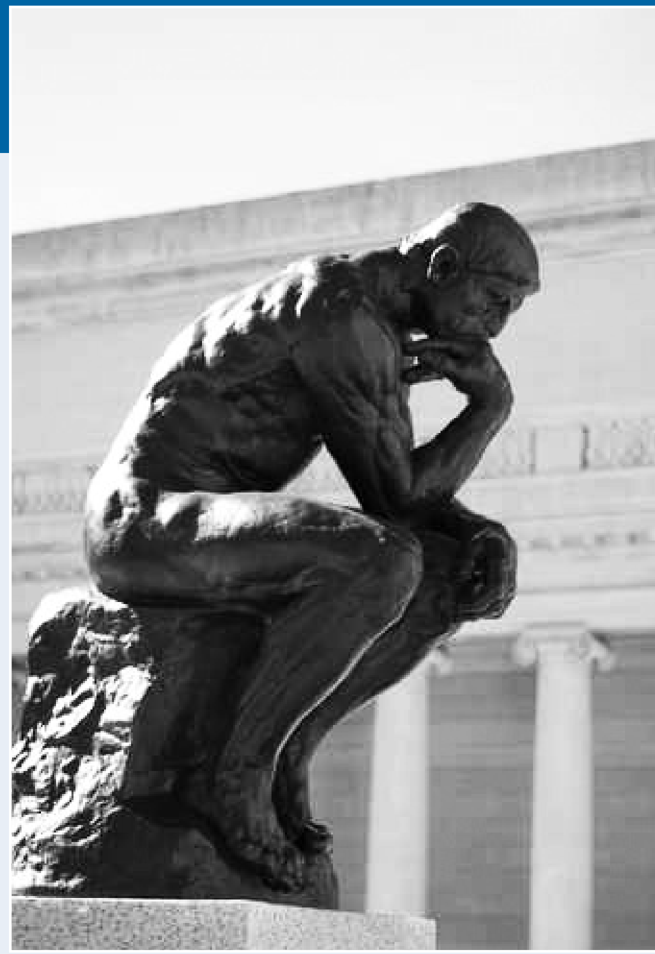
ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

(in millions)

As of July 1	2013	2012	2011	2010	2009	2008
Prior Valuation Unfunded Actuarial Accrued Liability	$3,366.2	$2,285.6	$1,574.3	$493.9	$(582.6)	$(1,387.9)
Expected Increase/(Decrease) from Prior Valuation	(80.1)	(58.3)	(51.9)	102.0	130.5	(11.4)
Salary Increases Greater/(Less) than Expected	(a)	(173.7)	(314.2)	(319.2)	(126.2)	(a)
Changes in Assumptions	0.0	135.5	148.8	353.4	0.0	433.3
Proposition Changes/ Supplemental COLA	0.0	0.0	112.6	164.0	0.0	750.2
Asset Return Less/(Greater) than Expected	579.6	1,135.0	559.6	755.6	722.7	(216.7)
All Other Experience	55.7	42.1	256.4	24.6	349.5	(150.1)
Unfunded Actuarial Accrued Liability As of Valuation Date	**$3,921.4**	**$3,366.2**	**$2,285.6**	**$1,574.3**	**$493.9**	**$(582.6)**

(a) Salary experience included with all other experience

Statistical Section



The following schedules provide statistical, financial, and operational information:

- Additions to Pension Plan by Source reflects the various sources of income to SFERS
- Deductions to Pension Plan by Type reflects the major expenses to SFERS which are benefits paid to members, refunds of employee contributions to members, and administrative expenses
- Benefit Expenses of Pension Plan by Type details the benefits paid during the fiscal year due to retirements, disability, death, newly granted COLAs, and accruals for DROP
- Average Pension Benefit Payments highlights benefit levels paid to newly retired and disabled members with differing amounts of credited service
- Active Members by Employer shows the active member counts for each SFERS cost-sharing employer
- Employer Contribution Rates details the components that comprise the employer contribution rates
- Employee Contribution Rates for Fiscal Year 2012-2013 shows the contribution rates for various member classes

ADDITIONS TO PENSION PLAN BY SOURCE

(dollar amounts in thousands)

Fiscal Year	Member Contributions	Employer Contributions	Gross Return on Investments	Investment Expenses	Total
2004	$170,550	$0	$1,735,588	$(24,700)	$1,881,438
2005	164,365	83,664	1,563,225	(28,228)	1,783,026
2006	162,693	126,533	1,719,504	(40,785)	1,967,945
2007	175,747	132,601	2,840,848	(44,009)	3,105,187
2008	185,123	134,060	(684,353)	(51,079)	(416,249)
2009	192,964	126,101[1]	(3,475,740)	(37,110)	(3,193,785)
2010	189,948	223,614	1,699,307	(44,206)	2,068,663
2011	181,755	308,823	2,932,154	(44,579)	3,378,153
2012	198,160	410,797	124,942	(44,540)	689,359
2013	258,726	442,870	2,106,204	(41,654)	2,766,146

1 Includes $6,350,000 transfer from CalPERS

DEDUCTIONS TO PENSION PLAN BY TYPE

(dollar amounts in thousands)

Fiscal Year	Benefits Paid	Refunds of Contributions	Administrative Expenses	Total
2004	$488,448	$7,935	$10,710	$507,093
2005	535,963	8,565	10,593	555,121
2006	586,245	8,719	11,222	606,186
2007	631,159	7,645	11,362	650,166
2008	682,230	8,449	12,594	703,273
2009	728,418	10,638	12,951	752,007
2010	792,776	11,997	13,833	818,606
2011	889,744	11,548	14,808	916,100
2012	968,528	11,030	14,916	994,474
2013	1,023,354	9,453	15,518	1,048,325

BENEFIT EXPENSES OF PENSION PLAN BY TYPE

(dollar amounts in thousands)

Fiscal Year	Retirement Benefits	Disability Benefits	Death Benefits	COLA Benefit Adjustments	DROP Accrued Retirement	Total
2004	$358,603	$96,254	$11,204	$22,387	$0	$488,448
2005	394,807	105,495	9,776	25,885	0	535,963
2006	431,915	114,348	10,577	29,405	0	586,245
2007	463,232	122,881	11,405	33,641	0	631,159
2008	500,398	132,134	11,721	37,977	0	682,230
2009	539,917	140,804	7,107	36,447	4,143	728,418
2010	593,048	149,122	8,325	35,287	6,994	792,776
2011	662,277	154,631	8,234	48,514	16,088	889,744
2012	716,744	161,782	8,198	57,234	24,570	968,528
2013	770,521	168,365	8,387	54,816	21,265	1,023,354

SCHEDULE OF AVERAGE PENSION BENEFIT PAYMENTS FOR RETIRED AND DISABLED MEMBERS

	Years of Credited Service					
Retirement Effective Dates	5-9	10-14	15-19	20-24	25-29	30+
7/1/11 to 6/30/12						
Average Monthly Benefit	$899	$1,769	$2,675	$3,373	$5,084	$7,308
Average Final Comp.	$7,543	$7,050	$7,044	$7,099	$8,258	$9,405
Number	138	228	179	207	235	331
7/1/12 to 6/30/13						
Average Monthly Benefit	$909	$1,776	$2,792	$3,579	$5,720	$7,340
Average Final Comp.	$7,225	$6,982	$7,409	$7,564	$8,699	$9,758
Number	116	195	120	193	253	275

ACTIVE MEMBERS BY EMPLOYER

Employer	July 1, 2013	July 1, 2012
City and County of San Francisco[1]	26,461	25,816
San Francisco Unified School District	1,205	1,180
San Francisco Community College District	628	686
San Francisco Trial Courts	423	415
Total	**28,717**	**28,097**

1 Excludes active DROP

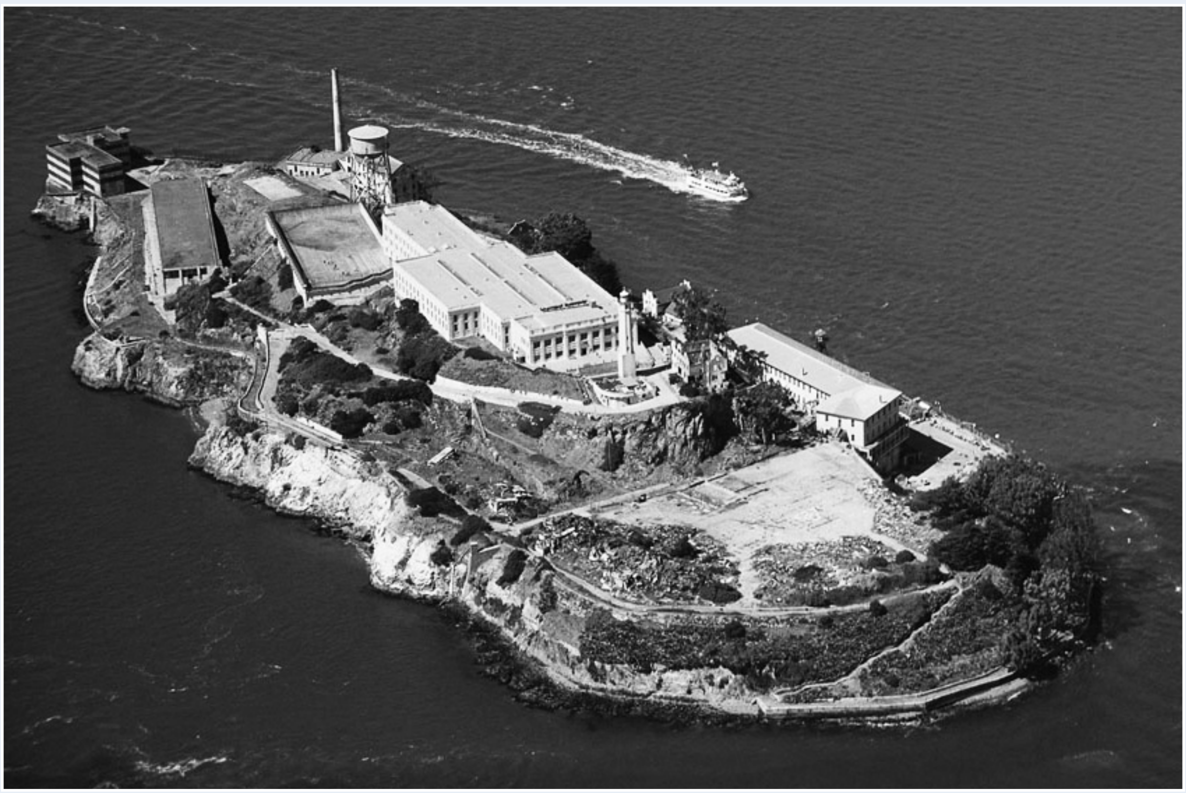
SCHEDULE OF EMPLOYER CONTRIBUTION RATES

Fiscal Year	Normal Cost	UAL	Remaining Cost of Propositions	Employee Contributions	Administrative Expenses	Total
2004	13.97%	(10.56%)	3.24%	(7.52%)	0.45%	0.00%[1]
2005	15.19%	(6.80%)	3.17%	(7.53%)	0.45%	4.48%
2006	15.06%	(4.51%)	3.10%	(7.52%)	0.45%	6.58%
2007	16.56%	(6.78%)	3.53%	(7.52%)	0.45%	6.24%
2008	16.60%	(7.15%)	3.52%	(7.51%)	0.45%	5.91%
2009	16.19%	(7.55%)	3.42%	(7.52%)	0.45%	4.99%
2010	18.16%	(7.03%)	5.41%	(7.50%)	0.45%	9.49%
2011	18.18%	(3.09%)	5.53%	(7.51%)	0.45%	13.56%
2012	17.90%	0.73%	6.51%	(7.50%)	0.45%	18.09%
2013	17.90%	3.66%	6.21%	(7.51%)	0.45%	20.71%

1 Contribution rate not less than zero

FISCAL YEAR 2012/2013 EMPLOYEE CONTRIBUTION RATES

Member Group	Base Rate of Pay less than $24 per hour	Base Rate of Pay at or above $24 but less than $48 per hour	Base Rate of Pay at or above $48 per hour
Miscellaneous Old Plans	8.0%	10.5%	11.0%
Miscellaneous New Plans	7.5%	10.0%	10.5%
Police and Fire Old Plans	10.0%	10.0%	10.0%
Pre 7/1/2010 Police and Fire New Plans	12.0%	12.0%	12.0%
2010 Prop D and 2012 Prop C Police and Fire	12.0%	12.0%	12.0%



Deferred Compensation Plan (SFDCP)

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.

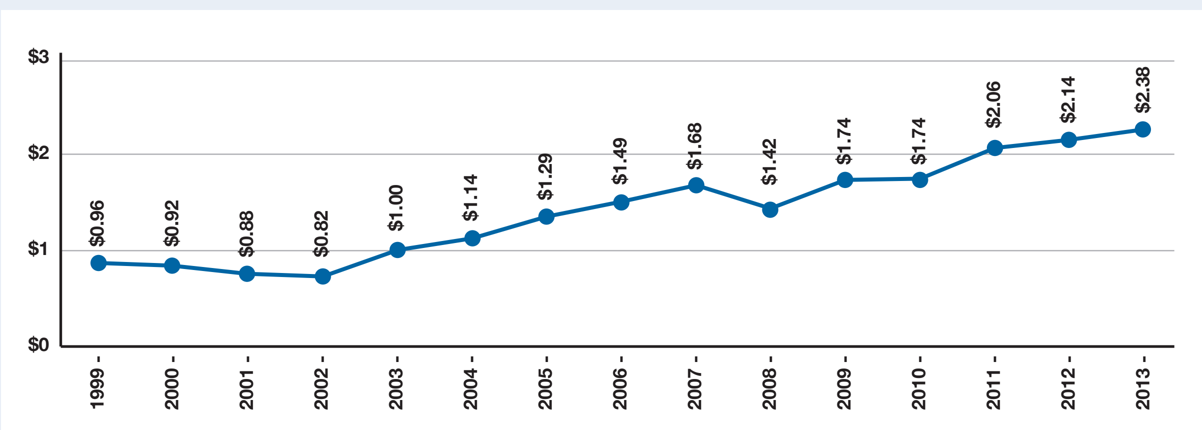
The Plan offers a diverse selection of 25 core investment funds including access to a self-directed brokerage option. During the past fiscal year, total assets for the SFDCP grew at approximately 11%, while the average account balance per participant grew to $88,750. The SFDCP also grew in deferrals.

The SFDCP is administered through a third party plan administrator. Beginning in January 2014, Prudential Retirement Insurance and Annuity Company will replace Great-West Retirement Services as third party plan administrator.

The SFDCP offers participants low fees, an enhanced core lineup of investment options, a customized website and communications, enhanced online transactions, and a local service center in San Francisco.

As of June 30, 2013, there were 24,601 participants in the SFDCP with Plan assets valued at $2.383 billion. The chart and table provide detailed information about the 25 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 2012-13.

SFDCP ASSETS UNDER MANAGEMENT



SFDCP VALUES AS OF JUNE 30, 2013

FUNDS	TOTAL ASSETS	PERCENT OF TOTAL ASSETS	ANNUAL PERFORMANCE
SFDCP Stable Value Portfolio	$964,382,255	40.47%	2.53%
SFDCP Large Cap Growth Equity Portfolio	$255,582,170	10.73%	16.69%
SFDCP International Equity	$124,579,515	5.23%	15.82%
SFDCP Large Cap Core Equity - S&P 500 Index	$133,947,456	5.62%	20.57%
SFDCP Core Bond Portfolio	$87,606,531	3.68%	1.20%
SFDCP Mid Cap Core Equity Portfolio	$65,808,555	2.76%	27.05%
SFDCP Small Cap Value Equity Portfolio	$52,879,327	2.22%	25.49%
SFDCP Small Cap Growth Equity Portfolio	$27,980,728	1.17%	21.18%
SFDCP Real Estate Portfolio	$43,687,585	1.83%	6.71%
SFDCP Large Cap Value Equity Portfolio	$37,935,566	1.59%	29.27%
SFDCP Large Cap Core Equity Active Portfolio	$30,478,214	1.28%	16.79%
SFDCP Mid Cap Value Equity Portfolio	$23,781,545	1.00%	26.63%
SFDCP Mid Cap Growth Equity Portfolio	$18,368,323	0.77%	19.32%
Target Date Funds[1]	$474,772,970	19.92%	N/A
TD Ameritrade	$13,098,609	0.55%	N/A
SFDCP Small Cap Core Equity Portfolio	$12,161,989	0.51%	23.52%
SFDCP Large Cap Social Equity Portfolio	$15,775,657	0.66%	27.69%
TOTAL PLAN ASSETS	**$2,382,826,996**		

** Assets are rounded up to the nearest dollar*

[1] Target Date Funds consist of a series of funds with professionally managed allocations designed to meet the needs of different age groups. Each of the 10 Target Date funds has a different performance and profile.

SFDCP STATISTICS SUMMARY

Plan Year Ended June 30, 2013

ASSET SUMMARY	
Beginning Assets July 1, 2012	$2,143,130,748
Contributions	143,793,617
Roll-ins	354,619,355
Earnings	194,027,387
Less Distributions	(452,646,900)
Ending Assets June 30, 2013	**$2,382,924,217**
PARTICIPANT SUMMARY	
Beginning Participants July 1, 2012	24,197
New Participants	1,112
Less Full Distributions	(708)
***Ending Participants June 30, 2013**	**24,601**
SERVICE SUMMARY	
Field Office	
Group Meetings	593
Field Individual Counseling Sessions	6,866
Office Individual Counseling Sessions	8,403
Phone Calls	17,667
Home Office	
KeyTalk Calls	**17,667**
Customer Service Calls	**5,669**
Web Logins	**231,325**

** Includes 16,164 active participants and 8,437 retired participants*