SFERS

San Francisco Employees' Retirement System

FY 2013-2014 ANNUAL REPORT

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INTRODUCTORY SECTION

LETTER OF TRANSMITTAL

February 11, 2015

San Francisco Employees' Retirement System
1145 Market Street, 5th Floor, San Francisco, CA 94103

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 2013-14.

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 62,800 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) deferred compensation plan.

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

Our Mission

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

The Pension Plan

The SFERS Pension 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. The defined benefit plan is 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 and independent retirement systems that have a reciprocity contract with CalPERS (listed on the CalPERS website).

SFERS' assets under management grew by more than $2.9 billion over the market value for the same period last year. As of June 30, 2014, the Fund had a market value of $19.9 billion, compared to $17.0 billion at June 30, 2013. Annual benefit payments totaled $1.1 billion paid to over 26,800 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 selected Prudential Retirement Insurance and Annuity Company to provide third party administration for the SFDCP. The Program transitioned to the new Third Party Administrator (TPA) in January 2014.

The Retirement Board selected Galliard Capital Management, Inc. to oversee the stable value/stable income products offered by the SFDCP beginning in January 2014.

The Board also adopted a Roth deferral option that allows participants additional flexibility in tax structure for retirement income. The Roth option became available to participants in May 2014.

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.

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.

Eligible general employees of the City are covered by the SFERS Miscellaneous Plans.

In Fiscal Year 2013-14, SFERS enrolled 2,993 new members and added 1,111 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 System including:

- Member services, communication 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 review and to approve important elements of Retirement System business. The Retirement Board is composed of seven members: three members elected by the active and retired members of SFERS; three members appointed by the Mayor in accordance with §12.100, 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 the SFERS financial statements by the City's auditors, Marcias, Gini & O'Connell, LLP, conform to standards prescribed by the Governmental Accounting Standards Board (GASB). The audited Statements of Plan Net Position and Statements of Changes in Plan Net Position provide a general overview of SFERS' finances for the fiscal year ended June 30, 2014.

Financial highlights and analysis can be found in the SFERS Discussion and Analysis 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.mysfers.org to view the full set of audited Financial Statements and Required Supplemental Information as prepared by the City's independent auditors, Macias Gini & O'Connell, LLP.

Actuarial Services and Funding

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 also employs an Actuarial Services Coordinator to coordinate 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, based on data through June 30, 2014.

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 Analyses conducted approximately every five years. The actuarial assumptions are included in the Actuarial Section of this report.

The July 1, 2014 actuarial funding valuation determined the pension plan is 85.3% funded, up from 80.6% on July 1, 2013. The funding status of SFERS is determined by an actuarial value of assets equaling $18.0 billion and the actuarial accrued liability amounting to $21.1 billion, resulting in an unfunded actuarial liability of $3.1 billion.

Included in the actuarial funding valuation is a 2% Basic COLA adjustment effective July 1, 2014, 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, 2014.

INVESTMENTS

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 2014, the investment portfolio returned 18.7%, exceeding the investment return assumption of 7.58%.

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

- Revised sub-asset class targets and ranges (see details in the Investments Section of this report)
- Revised the Investment Policy Statement to reflect changes to the sub-asset class allocation structure

Under the authorization of the Retirement Board, and in line with the 2014 Annual Investment Plan, the investment team committed a total of $1.5 billion in new investments: $706 million in Alternative Investments, $357 million in the Real Estate portfolio, $275 million in fixed income, and $500 million allocated to Global Equity (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.

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

Respectfully submitted,

Jay P. Huish
Executive Director

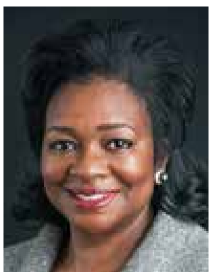
Victor Makras
President

THE RETIREMENT SYSTEM ORGANIZATION AS OF JUNE 30, 2014

The SFERS Retirement Board

President
Victor Makras
President
Makras Real Estate
Appointed Member
Term Expires: 02/20/2019

Vice President
Malia Cohen
Member
Board of Supervisors
Ex-Officio Member
Term Expires: 01/20/2015



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

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

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

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

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

SFERS Leadership Team

Jay P. Huish
Executive Director

Caryn Bortnick
Deputy Executive Director

William J. Coaker, Jr., CFA
Chief Investment Officer

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

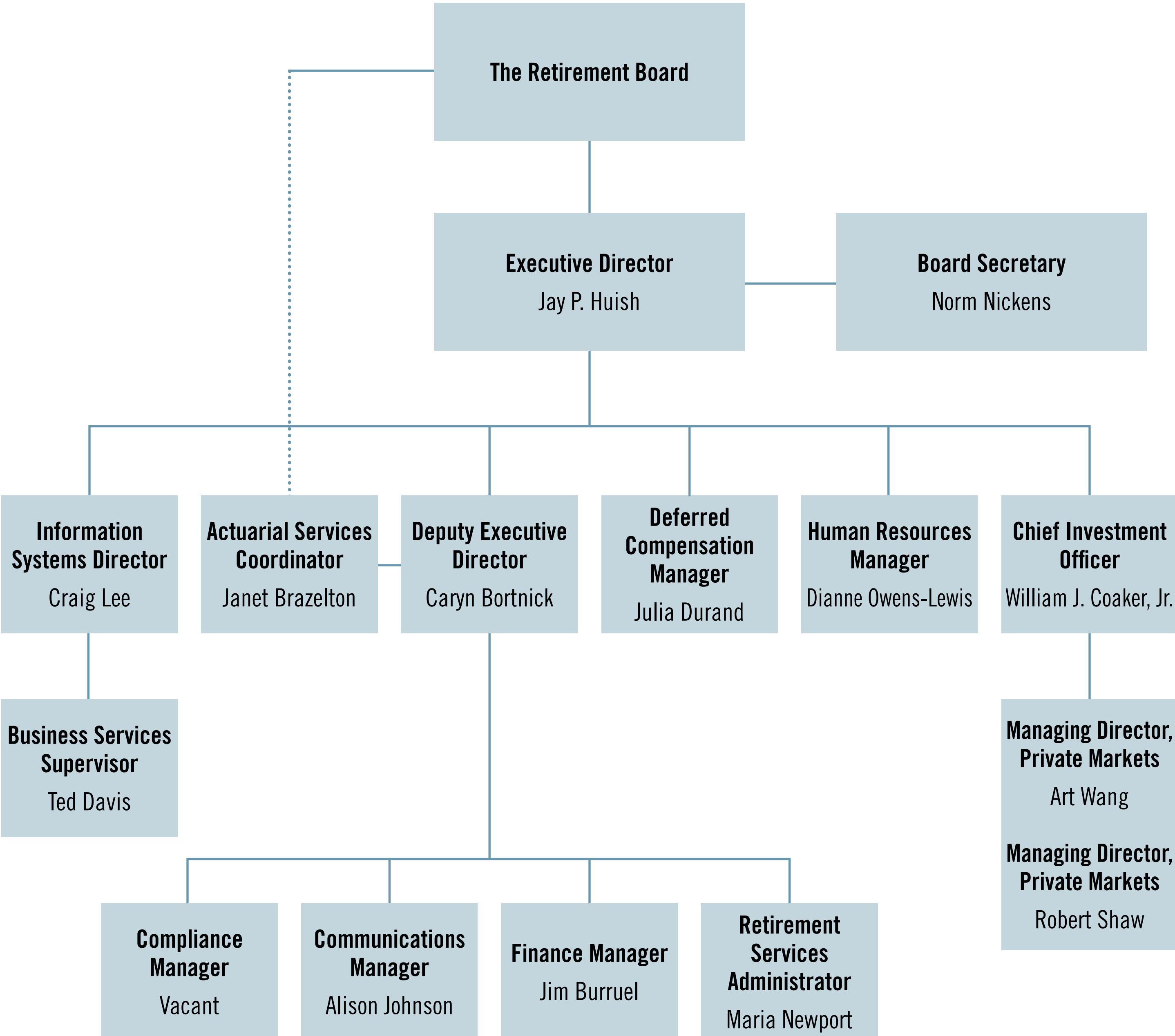
Norm Nickens
Board Secretary

Dianne Owens-Lewis
Human Resources Manager

Robert L. Shaw, CFA
Managing Director, Public Markets

Art Wang
Managing Director, Private Markets

SFERS ORGANIZATIONAL CHART
as of June 30, 2014



PROFESSIONAL CONSULTANTS

Consulting Actuary

- Cheiron, Inc.

Investment Consultants

- Angeles Investment Advisors
- Portfolio Advisors, LLC
- The Townsend Group
- Cambridge Associates, 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 its cost-sharing multiple-employer defined benefit pension plan (the "Plan") for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the Basic Financial Statements and Required Supplementary Information enclosed elsewhere in this report.

Financial Highlights of Fiscal Year 2014

- The Plan held $19.9 billion of net position restricted for pension benefits. All of the net position is 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. The Retirement System's plan net position as a percentage of the total pension liability should be considered when evaluating the Retirement System's financial health. Based on the June 30, 2014 GASB actuarial valuation, the plan net position was 91.8% of the total pension liability.
- For the year ended June 30, 2014, the Retirement System's net investment income of $3.2 billion represents an 18.7% increase in plan net position. (This return is based on plan net position as of the beginning of the fiscal year.) Net appreciation in fair value of investments increased by $1.1 billion primarily as a result of the strong returns in the equity markets.
- Total net position held in trust for pension benefits increased by $2.9 billion, or 17.1%, primarily as a result of strong investment returns which were slightly reduced by the net difference between contributions received by the Plan and increased benefit payments made from the Plan.
- Members' contributions to the Plan totaled $289.0 million an increase of $30.3 million or 11.7% from the prior year. This increase is primarily a result of increases in employee contribution rates, which ranged from 7.5% - 13.0% in fiscal year 2013-14.
- In order to maintain the fiscal soundness of the Plan, required employer contributions to the Plan totaled $532.9 million, an increase of $90.0 million or 20.3% from the prior year.
- Total deductions from the Plan were $1.1 billion, an increase of 3.8% from the prior year due to the increase in benefits paid during the current fiscal year.

Overview of Financial Statements

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

1. **Statements of Plan Net Position** are snapshots of account balances as of the close of the fiscal year – June 30, 2014 and 2013. They indicate the total assets as of June 30, 2014 and 2013, total liabilities at those dates and the net position restricted for future payment of retirement benefits and operating expenses.
2. **Statements of Changes in Plan Net Position** provide a view of additions to and deductions from the Plan during the fiscal years ended June 30, 2014 and 2013.
3. **Notes to Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements.

The statements of plan net position and the statements of changes in plan net position 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. Securities 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 and investment managers.

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

Additional information on the Retirement System's investments can be found in the Investment Section and Note 4 of the Notes to the Basic Financial Statements of this report.

Financial Analysis

The Plan's net position may serve over time as a useful indication of the Plan's financial position. All of the Plan's net position is restricted to meet the Retirement System's ongoing obligation to Plan participants and their beneficiaries. The Plan's net positions as of June 30, 2014, 2013, and 2012 are represented in the table below:

Net Position Summary – June 30, 2014, 2013, and 2012 (in thousands)

	2014	2013	2012
Other assets	$ 477,213	$ 450,504	$ 413,955
Investments at fair value	20,735,639	18,049,488	16,303,220
Total assets	21,212,852	18,499,992	16,717,175
Total liabilities	1,292,245	1,488,447	1,423,451
Net assets	$ 19,920,607	$ 17,011,545	$ 15,293,724

As of June 30, 2014, the Plan's total net position held in trust for pension benefits increased by $2.9 billion or 17.1% for the year, primarily due to strong investment returns as a result of the improvement in financial market conditions. Payables to brokers decreased by $88.5 million and payables to borrowers of securities decreased by $92.3 million 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. FY 2013-2014 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 6.1% from 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, 2014, 2013, and 2012

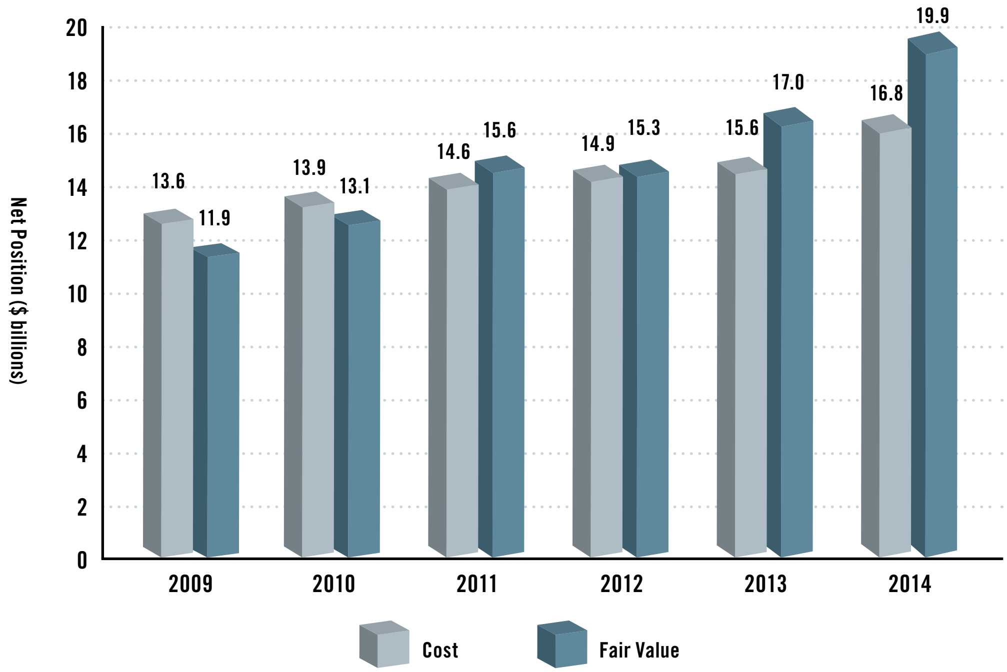
(in thousands)

	2014	2013	2012
Additions:			
Member contributions	$ 289,020	$ 258,726	$ 198,160
Employer contributions	532,882	442,870	410,797
Interest	177,425	182,160	195,517
Dividends	195,503	188,644	170,759
Net appreciation/(depreciation) in fair value of investments	2,844,279	1,729,781	(246,965)
Securities lending income	4,871	5,096	4,718
Investment expenses	(47,599)	(41,654)	(44,540)
Securities lending borrower rebates and expenses	952	523	913
Total additions	**3,997,333**	**2,766,146**	**689,359**
Deductions:			
Benefits	1,062,229	1,023,354	968,528
Refunds of contributions	10,297	9,453	11,030
Administrative expenses	14,550	14,169	13,661
Other administrative expenses - OPEB	1,195	1,349	1,255
Total deductions	**1,088,271**	**1,048,325**	**994,474**
Change in net position	2,909,062	1,717,821	(305,115)
Net position - beginning of the year	**17,011,545**	**15,293,724**	**15,598,839**
Net position - end of the year	**$ 19,920,607**	**$ 17,011,545**	**$ 15,293,724**

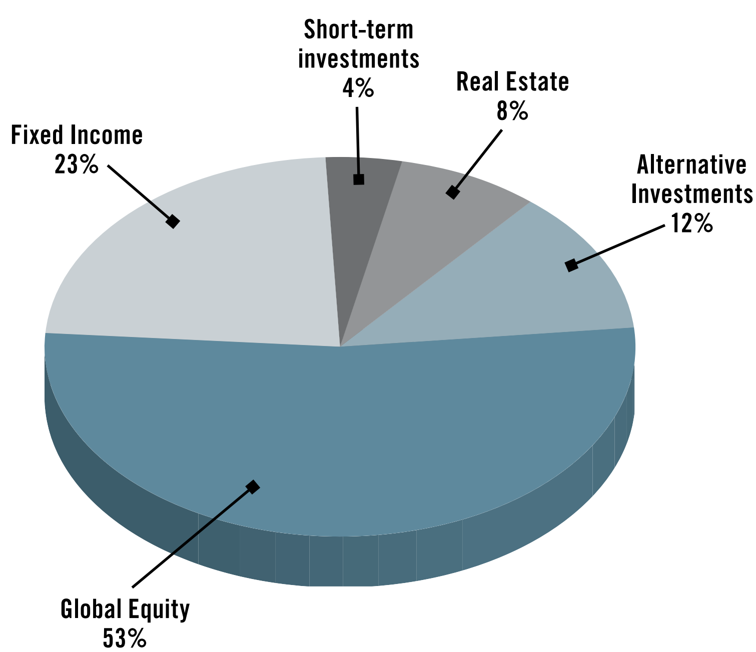
Highlights of Changes during Fiscal Year 2014

- Member contributions for the year ended June 30, 2014 increased by $30.3 million or 11.7% from the prior year. This increase is primarily a result of increases in employee contribution rates, which ranged from 7.5% - 13.0% in fiscal year 2013-14.
- In order to maintain the fiscal soundness of the Plan, $532.9 million in required employer contributions were made during the year ended June 30, 2014. The increase of $90.0 million in required employer contributions reflects an increase in the employer contribution rates, which ranged from 20.32% to 24.32% in fiscal year 2013-14 and 17.71% to 20.71% in fiscal year 2012-13.
- Net investment income increased by $1,110.9 million from the prior year. The majority of the increase is attributed to the $1,114.5 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 $4.7 million, due mainly to uncertainty in the domestic fixed income market.
- Benefit payments to Plan participants increased by $38.9 million or 3.8%, which is primarily due to a $56.8 million increase in service retirement benefits as a result of increased average benefit payments.
- Accrued DROP retirement benefits decreased by $20.1 million reflecting the wind down of the program as a result of the program being closed to new participants as of July 1, 2011.

Plan net position as of June 30, 2009 through 2014 expressed at cost and fair value are represented in the chart below:



The asset allocation at fair value based on holdings (excluding securities lending collateral and foreign currency contracts) as of June 30, 2014 is represented in the chart below:



Currently Known Facts and Events Affecting Next Year

During the year ended June 30, 2014, the Retirement System adopted the provisions of GASB Statement 67, Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25, which separates financial reporting from funding. Significant changes include an actuarial calculation of the total and net position liability. Additional information on the net pension liability of employers can be found in Note 10 to the financial statements.

The Retirement System's funding objective is to meet long-term benefit obligations through contributions and investment income. 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, 2014. 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
1145 Market Street – 5th floor
San Francisco, CA 94103

BASIC FINANCIAL STATEMENTS

Statements of Plan Net Position

June 30, 2014 and 2013

(in thousands)

Assets	2014	2013
Deposits	$ 82,283	$ 60,874
Contributions Receivable – Members	17,224	14,317
Contributions Receivable – City and County	32,419	25,276
Investment Income Receivable:		
Interest	51,449	22,618
Dividends	11,800	11,744
Securities Lending	719	599
Receivable from Brokers, General Partners, Others	281,319	315,076
Investments at Fair Value:		
Short-Term Investments	$ 838,466	$ 572,556
City Investment Pool	5,227	7,769
Debt Securities:		
U. S. Government And Agency Securities	882,574	966,411
Other Debt Securities	3,648,458	3,324,166
Equity Securities:	10,441,661	8,621,434
Real Estate	1,582,169	1,430,711
Alternative Investments	2,424,678	2,129,578
Foreign Currency Contracts, Net	829	(7,403)
Invested Securities Lending Collateral	911,577	1,004,266
Total Investments	$ 20,735,639	$ 18,049,488
Total Assets	$ 21,212,852	$ 18,499,992
Liabilities		
Payable to Brokers	$ 356,990	$ 445,447
DROP (Deferred Retirement Option Program)	3,096	20,502
Other	19,273	17,337
Payable to Borrowers of Securities	912,886	1,005,161
Total Liabilities	$ 1,292,245	$ 1,448,447
Plan Net Position – restricted for pension benefits	$ 19,920,607	$ 17,011,545

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

Statements of Changes in Plan Net Position
Years Ended June 30, 2014 and 2013
(in thousands)

	2014	2013
Additions:		
Member Contributions:		
Miscellaneous	$ 235,797	$ 211,545
Police	31,238	27,633
Firefighter	21,985	19,548
Total Member Contributions	$ 289,020	$ 258,726
Employer Contributions:		
Miscellaneous	$ 443,773	$ 364,503
Police	52,219	46,314
Firefighter	36,890	32,053
Total Employer Contributions	$ 532,882	$ 442,870
Investment Income (Expenses):		
Interest	$ 177,425	$ 182,160
Dividends	195,503	188,644
Net Appreciation (Depreciation) in Fair Value of Investments	2,844,279	1,729,781
Securities Lending Income	4,871	5,096
Investment Expenses	(47,599)	(41,654)
Securities Lending Borrower Rebates and Expenses	952	523
Net Investment Income	$ 3,175,431	$ 2,064,550
Total Additions	$ 3,997,333	$ 2,766,146
Deductions:		
Benefits	$ 1,062,229	$ 1,023,354
Refunds of Contributions	10,297	9,453
Administrative Expenses	14,550	14,169
Other Administrative Expenses - OPEB	1,195	1,349
Total Deductions	$ 1,088,271	$ 1,048,325
Net (Decrease)/Increase	$ 2,909,062	$ 1,717,821
Plan Net Position – restricted for pension benefits:		
Beginning of Year	17,011,545	15,293,724
End of Year	$ 19,920,607	$ 17,011,545

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

The Notes below provide a summary of the complete Notes found in SFERS' 2014 Audited Financial Statements issued in January 2015.

(1) Plan Description

(a) General

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 ERISA, it is a tax-qualified plan under Internal Revenue Code provisions. The 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 position and changes in plan net position of the Retirement System. They do not purport to, and do not, present fairly the financial position of the City and County as of June 30, 2014 and 2013, and the changes in its financial position for the years then ended 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 and Administrative Code, and the policies and regulations of the Retirement Board. The Retirement Board is composed of seven members: three members elected by the active and retired members of the Retirement System; three members appointed by the Mayor in accordance with Section 12.100 of the Charter; and one member of the Board of Supervisors appointed by the President of the Board of Supervisors.

The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City and County. The four main categories of Plan membership are:

- Miscellaneous Non-Safety Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.
- Sheriff's Department and Miscellaneous Safety Members – sheriffs assuming office on and after January 7, 2012, and undersheriffs, deputized personnel of the sheriff's department, and miscellaneous safety employees hired on and after January 7, 2012.
- 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.

(b) Service Retirement

Membership Group	Service Retirement Benefit
Miscellaneous Old Plan A8.509 Miscellaneous employees who became members before November 2, 1976	2.3% @ age 62; maximum benefit 75% of average monthly compensation (12 mo. avg.)
Miscellaneous New Plan Tier I A8.587 Miscellaneous employees who became members on or after November 2, 1976 and before July 1, 2010	2.3% @ age 62; maximum benefit 75% of average monthly compensation (12 mo. avg.)
Miscellaneous New Plan Tier II Plan A8.600 Miscellaneous employees hired on or after July 1, 2010 and before January 7, 2012	2.3% @ age 62; maximum benefit 75% of average monthly compensation (24 mo. avg.)
Miscellaneous New Plan Tier III Plan A8.603 Miscellaneous employees hired on or after January 7, 2012	2.3% @ age 65; maximum benefit 75% of average monthly compensation (36 mo. avg.)
Police Old Plan A8.595 Police officers who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003	3.0% @ age 55; maximum benefit 90% of average monthly compensation (12 mo. avg.)
Police New Plan Tier I A8.597 Police officers who became members on or after November 2, 1976 and were eligible for Proposition H benefits effective January 1, 2003	3.0% @ age 55; maximum benefit 90% of average monthly compensation (12 mo. avg.)
Police New Plan Tier II A8.602 Police officers hired on or after July 1, 2010 and before January 7, 2012	3.0% @ age 55; maximum benefit 90% of average monthly compensation (24 mo. avg.)
Police New Plan Tier III A8.605 Police officers hired on or after January 7, 2012	3.0% @ age 58; maximum benefit 90% of average monthly compensation (36 mo. avg.)
Firefighter Old Plan A8.585 Firefighters who were members on January 1, 2003, who did not elect Proposition H	3.0% @ age 55; maximum benefit 75% of average monthly compensation (12 mo. avg.)
Firefighter Old Plan A8.596 Firefighters who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003	3.0% @ age 55; maximum benefit 90% of average monthly compensation (12 mo. avg.)
Firefighter New Plan Tier I A8.598 Firefighters who became members on or after November 2, 1976 and were eligible for 2002 Proposition H benefits effective January 1, 2003	3.0% @ age 55; maximum benefit 90% of average monthly compensation (12 mo. avg.)
Firefighter New Plan Tier II A8.601 Firefighters hired on or after July 1, 2010 and before January 7, 2012	3.0% @ age 55; maximum benefit 90% of average monthly compensation (24 mo. avg.)
Firefighter New Plan Tier III A8.604 Firefighters hired on or after January 7, 2012	3.0% @ age 58; maximum benefit 90% of average monthly compensation (36 mo. avg.)
Sheriffs Plan A8.608 Sheriffs, undersheriffs and all deputized personnel of the Sheriff's Department hired on or after January 7, 2012	3.0% @ age 58; maximum benefit 90% of average monthly compensation (36 mo. avg.)
Miscellaneous Safety Plan A8.610 Probation Officers, District Attorney Investigators and Juvenile Court Counselors who hired on or after January 7, 2012	2.7% @ age 58; maximum benefit 90% of average monthly compensation (36 mo. avg.)

(c) Disability Retirement

All members are eligible to apply for a disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that prevents them from performing their duties. Safety members are eligible to apply for an industrial disability retirement benefit from their first day on the job if their disability is caused by an illness or injury that they receive while performing their duties.

(d) Separation and Death Benefits

Upon separation from employment, members may either elect to withdraw their accumulated contributions from the Plan or, if they have 5 or more years of credited service, elect to leave their accumulated contribution in the Plan and receive a vesting benefit that is first payable at or after age 50 for Safety members or members hired prior to January 7, 2012, or at or after age 53 for non-Safety members hired on or after January 7, 2012.

Prior to retirement, qualified surviving spouses or qualified domestic partners receive death benefits based upon a percentage of the service retirement benefit. Prior to eligibility for service retirement, a lump sum death payment equal to 6 months' earnable salary plus the member's accumulated contributions is payable to the members' named beneficiary or estate. For Safety members whose death is due to injury or illness caused by performance of duty, salary continuance is provided until the date member would have been eligible for service retirement.

Death benefits after retirement are contingent upon the form of annuity payment selected by the member.

(e) Cost of Living Adjustments (COLA)

Basic COLA: All retired members receive a benefit adjustment each July 1. The majority of adjustments are determined by changes in CPI with increases capped at 2%.

Supplemental COLA: Effective July 1, 2012, the Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan and the Plan is fully funded on a market value of assets basis. The maximum benefit adjustment is 3.5% including the Basic COLA. For members hired on or after January 7, 2012, Supplemental COLAs will not be permanent adjustments to retirement benefits. In any year when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

Ad-hoc COLA: There is no authority for granting ad-hoc COLA increases.

(f) Deferred Retirement Option Program

In February 2008, the voters of the City and County approved a Charter amendment to provide a Deferred Retirement Option Program (DROP) for certain Police members of the Plan to be effective July 1, 2008. An eligible police officer could elect to participate in DROP for a specified period of time up to a maximum of three years depending on the rank of the police officer. While participating in DROP, the police officer continues to work and receive pay as a police officer and accrues monthly DROP distributions posted to a nominal account maintained by the Retirement System. The monthly DROP distribution is equal to the participant's monthly service retirement allowance calculated as of the participant's entry into DROP. Interest at an annual effective rate of 4% and applicable COLAs are posted to the participant's DROP account during participation in DROP. Upon exiting from DROP, the participant receives a lump sum distribution from his or her DROP account and begins to receive a monthly service retirement allowance calculated using age, covered compensation, and service frozen as of the date of his or her entry into DROP. DROP was closed to new applicants on June 30, 2011.

The Retirement System had $3.1 million in DROP liabilities as of June 30, 2014.

(g) Membership

Total membership in the Retirement System included in the July 1, 2014 actuarial valuation dated March 2015 is as follows:

	Police[1]	Fire	Miscellaneous	Total
Active members (including DROP)	2,058	1,415	26,053	29,526
Terminated members entitled to but not yet receiving benefits	136	68	6,237	6,441
Retirees and beneficiaries currently receiving benefits	2,552	2,076	22,224	26,852
Total	**4,746**	**3,559**	**54,514**	**62,819**

1 Police counts include Miscellaneous Safety and Sheriffs.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

Member contributions are recognized in the period in which the contributions are due. Employer contributions and member contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

(b) Investments

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. Securities 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.

The fair values of the Retirement System's real estate investments are based on net asset values provided by the investment managers. Partnership financial statements are audited annually as of December 31 and net asset values are adjusted monthly or quarterly for cash flows to/from the Retirement System, investment earnings and expenses, and changes in fair value. The Retirement System has established leverage limits for each investment style based on the risk/return profile of the underlying investments. The leverage limits for core and value-added real estate investments are 40% and 65%, respectively. The leverage limits for high return real estate investments depend on each specific offering. Outstanding mortgages for the Retirement System's real estate investments were $964.9 million including $93.7 million in recourse debt as of June 30, 2014. The underlying real estate holdings are valued periodically based on appraisals performed by independent appraisers in accordance with Uniform Standards of Professional Appraisal Practice (USPAP). Such fair value estimates involve subjective judgments of unrealized gains and losses, and the actual market price of the real estate can only be determined by negotiation between independent third parties in a purchase and sale transaction.

Alternative investments represent the Retirement System's interest in limited partnerships. The fair values of alternative investments are based on net asset values provided by the general partners. Partnership financial statements are audited annually as of December 31 and net asset values are adjusted monthly or quarterly for cash flows to/from the Retirement System, investment earnings and changes in fair value. Such fair value estimates involve subjective judgments of unrealized gains and losses, and the actual market price of the investments can only be determined by negotiation between independent third parties in a purchase and sale transaction.

The Charter and Retirement Board policies permit the Retirement System to use investments of the Plan to enter into securities lending transactions – loans of securities to broker dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The collateral may consist of cash or non-cash; non-cash collateral is generally U.S. Treasuries or other U.S. government obligations. The Retirement System's securities custodian is the agent in lending the Plan's domestic securities for collateral of 102% and international securities for collateral of 105%. Contracts with the lending agent require them to indemnify the Retirement System if the borrowers fail to return the securities (and if the collateral were inadequate to replace the securities lent) or fail to pay the Retirement System for income distributions by the securities' issuers while the securities are on loan. Non-cash collateral cannot be pledged or sold unless the borrower defaults, and therefore, is not reported in the Retirement System's financial statements.

All securities loans can be terminated on demand by either the Retirement System or the borrower, although the average term of the loans as of June 30, 2014 was 96 days. All cash collateral received was invested in a separately managed account by the lending agent using investment guidelines developed and approved by the Retirement System. As of June 30, 2014, the weighted average maturity of the reinvested cash collateral account was 33 days. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the said collateral. Cash collateral may also be invested separately in term loans, in which case the maturity of the loaned securities matches the term of the loan.

Cash collateral invested in the separate account managed by the lending agent is reported at fair value. Payable to borrowers of securities in the statements of plan net position represents the cash collateral received from borrowers. Additionally, the income and costs of securities lending transactions, such as borrower rebates and fees, are recorded respectively as revenues and expenses in the statements of changes in plan net position.

(c) Administrative Expenses

All costs to administer the Retirement System are borne by the Retirement System.

(d) Use of Estimates

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.

(e) Implementation of GASB Statement

GASB Statement No. 67, Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25, addresses accounting and financial reporting requirements for pension plans. The provisions of GASB Statement No. 67 separate financial reporting from funding and require changes in the notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of the total and net position liability. It also includes comprehensive disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting of accounts receivable and investment balances. The total pension liability, determined in accordance with GASB Statement No. 67, is presented in Note 10 and in the Required Supplementary Information section. The Retirement System did not restate the financial statements for the year ended June 30, 2013 because the actuarial valuation used in the 2013 financial statements did not provide the required disclosures.

(3) Deposits

Deposits are carried at cost, which approximates fair value. Deposits in bank accounts were $82.3 million as of June 30, 2014. 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.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government may not be able to recover its deposits or may not be able to recover 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 deposits. As of June 30, 2014, the Retirement System's deposits in bank accounts were not exposed to custodial credit risk.

(4) Investments

The Retirement System'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 Board approved the following asset allocation policy in October 2012:

Asset Class	**Target Allocation**
Global Equity	**47.0%**
Fixed Income	**25.0%**
Private Equity	**16.0%**
Real Assets	**12.0%**
	100.0%

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, 2014, $235 million (or 25.8% 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 balances in the pool. The policy addresses the 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, 2014.

(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.

The table below depicts the segmented time distribution for fixed income investments based upon the expected maturity (in years) as of June 30, 2014.

Fixed Income Investments at Fair Value as of June 30, 2014
(in thousands)

		Maturities			
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**10+ years**
Asset Backed Securities	$ 130,486	$ -	$ 89,708	$ 8,216	$ 32,562
Bank Loans	110,626	1,208	54,992	52,541	1,885
City Investment Pool	5,227	-	5,227	-	-
Collateralized Bonds	8,657	-	-	-	8,657
Commercial Mortgage-Backed	630,324	-	12,273	18,027	600,024
Commingled and Other Fixed Income Funds	392,560	408,339	292	-	(16,071)
Corporate Bonds	1,793,247	632,941	353,908	511,932	294,466
Corporate Convertible Bonds	309,418	23,305	145,495	52,655	87,963
Foreign Currencies and Cash Equivalents	348,374	348,374	-	-	-
Government Agencies	215,757	211,029	4,728	-	-
Government Bonds	423,874	3,285	254,355	123,323	42,911
Government Mortgage Backed Securities	310,260	63,379	4,389	12,897	229,595
Index Linked Government Bonds	10,215	-	3,240	4,167	2,808
Mortgages	28	6	22	-	-
Municipal/Provincial Bonds	44,886	851	1,008	1,990	41,037
Non-Government Backed Collateralized Mortgage Obligations	154,813	953	3,878	4,084	145,898
Options	(16)	(16)	-	-	-
Short-Term Investment Funds	490,092	490,092	-	-	-
Swaps	(4,103)	8	(3,996)	5	(120)
Total	**$ 5,374,725**	**$ 2,183,754**	**$ 929,519**	**$ 789,837**	**$ 1,471,615**

(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 continues 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 placed the U.S. on negative watch in October of 2013 – 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, 2014. Investments issued or explicitly guaranteed by the U.S. government of $836.8 million as of June 30, 2014 are not considered to have credit risk and are excluded from the table below.

Credit Ratings of Fixed Income Investments as of June 30, 2014
(in thousands)

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	$ 241,871	5.3%
AA	172,653	3.8%
A	343,162	7.6%
BBB	656,696	14.5%
BB	271,044	6.0%
B	375,705	8.3%
CCC	147,817	3.3%
CC	2,117	0.0%
C	5,106	0.1%
D	1,517	0.0%
Not Rated	2,320,237	51.1%
Total	**$ 4,537,925**	**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 12.7% for 2014.

(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, 2014, 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, 2014, $221.7 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 2014, 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, 2014 are as follows:

Foreign Currency Risk Analysis as of June 30, 2014
(in thousands)

Currency	Cash	Equities	Fixed Income	Alternative Investment	Real Estate	Foreign Currency Contracts	Total
Australian dollar	$ 1,256	$ 126,880	$ 6,375	$ 12,873	$ -	$ 44,103	$ 191,487
Brazilian real	-	29,865	24,013	-	-	(15,799)	38,079
British pound sterling	7,830	702,809	22,194	-	-	(112,025)	620,808
Canadian dollar	502	89,041	6,679	-	-	(8,106)	88,116
Chilean peso	-	567	-	-	-	6,043	6,610
Colombian peso	80	-	2,792	-	-	570	3,442
Czech koruna	-	887	-	-	-	-	887
Danish krone	(4,858)	38,393	-	-	-	1,207	34,742
Euro	34,892	939,249	78,793	269,820	-	(26,178)	1,296,576
Hong Kong dollar	1,212	256,213	-	-	-	1,886	259,311
Hungarian forint	-	-	781	-	-	165	946
Indian rupee	-	-	-	-	-	540	540
Indonesian rupiah	25	15,521	4,278	-	-	270	20,094
Japanese yen	1,680	600,103	-	-	304	1,636	603,723
Malaysian ringgit	(697)	19,745	5,695	-	-	1,731	26,474
Mexican peso	550	22,857	18,257	-	-	1,392	43,056
New Israeli shekel	21	7,277	-	-	-	3,592	10,890
New Romanian leu	16	-	1,171	-	-	(158)	1,029
New Russian ruble	-	-	5,491	-	-	583	6,074
New Taiwan dollar	787	56,608	-	-	-	-	57,395
New Zealand dollar	-	621	9,497	-	-	124,375	134,493
Nigerian naira	86	-	1,251	-	-	(73)	1,264
Norwegian krone	350	25,342	-	-	-	34,681	60,373
Peruvian nuevo sol	-	-	638	-	-	(250)	388
Philippine peso	-	2,007	351	-	-	(220)	2,138
Polish zloty	-	449	7,200	-	-	783	8,432
Singapore dollar	453	40,843	-	-	-	850	42,146
South African rand	425	23,614	10,031	-	-	(3,180)	30,890
South Korean won	516	115,922	-	-	-	244	116,682
Swedish krona	758	66,256	-	-	-	(67,215)	(201)
Swiss franc	(8,295)	277,329	-	-	-	(25,203)	243,831
Thai baht	2	14,635	2,191	-	-	1,875	18,703
Turkish lira	-	15,813	3,829	-	-	2,853	22,495
Total	**$ 37,591**	**$ 3,488,846**	**$ 211,507**	**$ 282,693**	**$ 304**	**$ (29,028)**	**$ 3,991,913**

(f) Derivative Instruments

The Retirement System reports its derivative instruments under the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. 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, 2014, 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 below 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 Note 2(b). 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, 2014.

Derivative Instruments during the Year Ended June 30, 2014

(in thousands)

Derivative Type/Contracts	Notional Amount	Fair Value	Net Appreciation (Depreciation) in Fair Value
Forwards			
Foreign Exchange Contracts	(a)	$ 829	$ 829
Other Contracts	(a)	(2,123)	(2,123)
Futures			
Equity Contracts	$ 1	-	-
Options			
Foreign Exchange Contracts	(1,733)	(16)	2
Swaps			
Credit Contracts	105,435	(4,109)	750
Interest Rate Contracts	422,100	5	5
Rights/Warrants			
Equity Contracts	1,975 shares	4,746	72
Total		**$ (668)**	**$ (465)**

(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, 2014, the fair value of forward currency contracts (including foreign exchange contract options) to purchase and sell international currencies were $2.2 and $1.3 million, respectively. The Retirement System's counter-parties to these contracts held credit ratings of A or better on 99.5% of the positions as assigned by one or more of the major credit rating organizations (S&P, Moody's and/or Fitch), while 0.5% were not rated.

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, 2014, 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 tables below describe the maturity periods of the derivative instruments exposed to interest rate risk and the reference rate, notional amount and fair value of interest rate swaps that are highly sensitive to changes in the interest rates as of June 30, 2014.

Derivative Interest Rate Risk as of June 30, 2014

(in thousands)

		Maturities			
Derivative Type / Contracts	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**10+ years**
Forwards					
Other Contracts	$ (2,123)	$ (2,123)	$ -	$ -	$ -
Swaps					
Credit Contracts	(4,109)	8	(3,997)	-	(120)
Interest Rate Contracts	5	-	-	5	-
Total	**$ (6,227)**	**$ (2,115)**	**$ (3,997)**	**$ 5**	**$ (120)**

Derivative Instruments Highly Sensitive to Interest Rate Changes as of June 30, 2014

(in thousands)

Investment Type	Reference Rate	Notional Value	Fair Value
Interest Rate Swaps	Receiving fixed (6.3%), paying floating Mexican Interbank TIIE 28 Day rate	$ 2,100	$ 4
Interest Rate Swaps	Receiving fixed (6.2%), paying floating Colombian Interbank rate	$ 420,000	$ 1

Foreign Currency Risk

At June 30, 2014, 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, 2014

(in thousands)

Currency	Forwards	Rights/ Warrants	Swaps	Total
Australian dollar	$ 593	$ -	$ -	$ 593
Brazilian real	(397)	-	-	(397)
British pound sterling	(2,778)	-	-	(2,778)
Canadian dollar	(21)	-	-	(21)
Chilean peso	16	-	-	16
Colombian peso	(8)	-	2	(6)
Danish krone	9	-	-	9
Euro	(28)	-	-	(28)
Hong Kong dollar	(1)	165	-	164
Hungarian forint	(1)	-	-	(1)
Indian rupee	10	-	-	10
Indonesian rupiah	41	-	-	41
Japanese yen	(62)	-	-	(62)
Malaysian ringgit	28	-	-	28
Mexican peso	58	-	4	62
New Israeli shekel	36	-	-	36
New Romanian leu	(1)	-	-	(1)
New Russian ruble	23	-	-	23
New Zealand dollar	4,333	-	-	4,333
Nigerian naira	(1)	-	-	(1)
Norwegian krone	(887)	-	-	(887)
Philippine peso	(7)	-	-	(7)
Singapore dollar	10	-	-	10
South Korean won	5	-	-	5
Swedish krona	100	-	-	100
Swiss franc	(267)	-	-	(267)
Thai baht	2	-	-	2
Turkish lira	25	-	-	25
Total	**$ 830**	**$ 165**	**$ 6**	**$ 1,001**

Contingent Features

At June 30, 2014 the Retirement System held no positions in derivatives containing contingent features.

(5) Currency Management Program.

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. 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. This program was terminated during FY 2013-2014.

As of June 30, 2014, the Retirement System's allocation to international equities (including cash and other assets) was primarily denominated in foreign currencies and totaled $5,434.4 million, which represented 27.4% of plan net position. For the year ended June 30, 2014, the currency management program lost $19.4 million in value or 0.36% of the international equity portfolio (including cash and other assets) and 0.10% of the Retirement System's average total portfolio value.

(6) 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 lent, respectively. There are no restrictions on the number of securities that can be lent 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, 2014, 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, 2014, the Retirement System has lent $1,327.0 million in securities and received collateral of $912.9 million and $466.8 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 $911.6 million. The net unrealized loss of $1.3 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, 2014 are summarized in the following table.

Securities Lending as of June 30, 2014
(in thousands)

Investment Type	Fair Value of Loan Securities	Cash Collateral	Fair Value of Non-Cash Collateral
Securities on Loan for Cash Collateral			
International Corporate Fixed Income	$ 14,810	$ 15,502	$ -
International Equities	49,545	52,944	-
International Government Fixed	5,720	6,015	-
U.S. Corporate Fixed Income	212,491	216,958	-
U.S. Equities	436,568	445,944	-
U.S. Government Fixed Income	172,104	175,523	-
Securities on Loan for Non-Cash Collateral			
International Corporate Fixed Income	4,424	-	4,591
International Equities	409,483	-	439,560
International Government Fixed	6,232	-	6,682
U.S. Corporate Fixed Income	1,480	-	1,511
U.S. Equities	2,569	-	2,621
U.S. Government Fixed Income	11,582	-	11,812
Total	**$ 1,327,008**	**$ 912,886**	**$ 466,777**

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, 2014.

Fair Value of Cash Collateral Account as of June 30, 2014
(in thousands)

Investment Type	Fair Value	Maturity Less Than 1 Year
Commercial Paper	$ 105,023	$ 105,023
Negotiable Certificates of Deposits	224,993	224,993
Repurchase Agreements	220,000	220,000
Short Term Investment Funds	361,561	361,561
Total	**$ 911,577**	**$ 911,577**

The Retirement System's exposure to credit risk in its reinvested cash collateral account as of June 30, 2014 is as follows:

Credit Rating of Cash Collateral as of June 30, 2014

(in thousands)

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AA	$ 491,535	53.9%
A	419,979	46.1%
Not Rated[1]	63	0.0%
Total	**$ 911,577**	**100.0%**

[1] Repurchase agreements of $220,000 are not rated but are held by counter-parties with a S&P rating of A.

(7) 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, 2014 is summarized as follows:

(in thousands)

Investments	2013-14
Beginning of the year	$ 1,430,711
Capital investments	290,767
Equity in net earnings	58,123
Net appreciation in fair value	152,836
Capital distributions	(350,268)
End of the year	**$ 1,582,169**

(8) Benefits

Allowances and benefits incurred during the year are summarized as follows:

(in thousands)

	2013-14
Service retirement benefits	$ 827,311
Disability retirement benefits	172,619
Death benefits	7,998
COLA benefit adjustments	53,098
DROP accrued retirement benefits	1,203
Total	**$ 1,062,229**

(9) 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. A ten-year schedule of funding progress may be found in the Actuarial Section, while a ten-year schedule of actuarially determined employer contributions is in the Required Supplemental Information subsection of this Financial Section.

(10) Net Pension Liability of Employers

The components of the net pension liability at June 30, 2014 were as follows:
(in thousands)

Total pension liability	$ 21,691,042
Plan fiduciary net position	$ 19,920,607
Net pension liability	$ 1,770,435
Plan fiduciary net position as a percentage of the total pension liability	91.8%

(a) Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2013, which was rolled forward to June 30, 2014 using generally accepted actuarial procedures. The following is a summary of actuarial methods and assumptions used in the actuarial valuation:

Inflation	3.33%
Salary Increases	3.83% plus merit component based on employee classification and years of service
Investment rate of return	7.58%, net of pension plan investment expense, including inflation

Mortality rates for active members were based upon the RP-2000 Employee Tables for Males and Females projected using Scale AA to 2030 for females and to 2005 for males. Mortality rates for healthy annuitants were based upon the RP-2000 Healthy Annuitant Tables for Males and Females projected using Scale AA to 2020.

The actuarial assumptions used in the June 30, 2014 valuation were based upon the results of a demographic experience study for the period July 1, 2004 through June 30, 2009 and an economic experience study as of July 1, 2013.

The probability of a Supplemental COLA as of June 30, 2014 was developed based upon the probability and amount of Supplemental COLA for each future year. The table below shows the net assumed Supplemental COLA for members with a 2.00% basic COLA for sample years.

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

Fiscal Year Ending June 30	Assumption
2015	0.000%
2020	0.364%
2025	0.375%
2030	0.375%
2035+	0.375%

The long-term expected rate of return on pension plan investments was 7.58%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Target allocation and best estimates of geometric long-term expected real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	47.0%	5.3%
Fixed Income	25.0%	1.8%
Private Equity	16.0%	8.8%
Real Assets	12.0%	5.8%
	100.0%	

(b) Discount Rate

The discount rate used to measure the total pension liability was 7.58%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for the July 1, 2014 actuarial valuation. Based on those assumptions, the System's fiduciary net position was projected to be available to make projected future benefit payments for current members until FY 2082-2083 when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.58% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 4.31% to the extent that they are not available. Since the payments discounted at the municipal bond rate are relatively few and far in the future, the municipal bond rate does not affect the single equivalent rate when rounded to two decimal places. Consequently, the single equivalent rate used to determine the total pension liability as of June 30, 2014 is 7.58%.

The discount rate used to measure the total pension liability at June 30, 2013 is determined in a similar fashion based upon the contribution policy in effect for the July 1, 2013 valuation and is 7.52%. The System's fiduciary net position was projected to be available to make projected future benefit payments for current members until FYE 2072 when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.58% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 4.39% to the extent that they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2013 is 7.52%.

The municipal bond rates of 4.31% and 4.39% used for the determination of the above discount rates represents yields available at June 30, 2014 and June 30, 2013, respectively, on the Bond Buyer 20-Bond GO Index.

(c) Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.58%, as well as what the total net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.58%) or one -percentage-point higher (8.58%) than the current rate:

Sensitivity of the net pension liability to changes in the discount rate

(in thousands)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate	1% Decrease (6.58%)	Current Discount Rate (7.58%)	1% Increase (8.58%)
Net pension liability	**$ 4,385,495**	**$ 1,770,435**	**$ (425,497)**

(d) Investment Returns

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of investment expenses, adjusted for the changing amounts actually invested, was 19.10%.

(11) Postemployment Healthcare Plan

(a) Health Care Benefits

Health care benefits of the Retirement System's employees, retired employees and their beneficiaries are financed by the City and County through the City and County of San Francisco Health Service System (Health Service System). OPEB expense for these Retirement System employees is included in other administrative expenses. The City and County issues a publicly available financial report that includes the complete note disclosures and required supplementary information related to the City and County's postemployment health care obligations. The report may be obtained by writing to the City and County of San Francisco, Office of the Controller, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, California 94102, or by calling (415) 554-7500.

(12) Commitments and Contingencies

(a) Unfunded Investments Commitments

The Retirement System has unfunded commitments to contribute capital for real estate in the amount of $297.5 million and alternative investments in the amount of $1,379.0 million totaling $1,676.5 million as of June 30, 2014.

(b) Legal

During the year ended June 30, 2014, the Retirement System was involved in various petitions, lawsuits, and threatened lawsuits relating to individuals' benefits due 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 actuarially determined contributions.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in Net Pension Liability

(in thousands)

Year ended June 30	2014
Total pension liability	
Service cost	$ 509,200
Interest	1,542,266
Benefit changes	0
Differences between expected and actual experience	0
Changes of assumptions	(73,315)
Benefit payments, including refunds of member contributions	(1,072,526)
Net change in total pension liability	**905,625**
Total pension liability—beginning	**20,785,417**
Total pension liability—ending, (a)	**21,691,042**
Plan fiduciary net position	
Contributions—employer	532,882
Contributions—employee	289,020
Net investment income	3,175,431
Benefit payments, including refunds of member contributions	(1,072,526)
Administrative expenses	(15,745)
Net change in plan fiduciary net position	**2,909,062**
Plan fiduciary net position—beginning	**17,011,545**
Plan fiduciary net position—ending, (b)	**19,920,607**
Net pension liability—ending, (a) – (b)	**$ 1,770,435**

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Net Pension Liability

(in thousands)

	6/30/2014
Total pension liability	$ 21,691,042
Plan fiduciary net position	(19,920,607)
Net pension liability	$ 1,770,435
Plan fiduciary net position as a percentage of the total pension liability	91.8%
Covered employee payroll	$ 2,535,963
Net pension liability as a percentage of covered-employee payroll	69.8%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

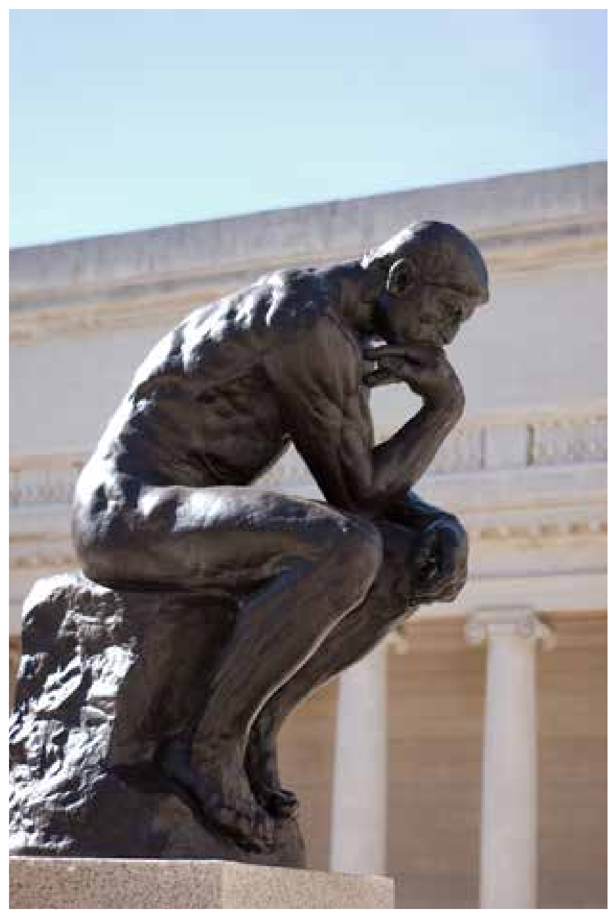
Schedule of Employer Contributions

(in thousands)

Year Ended June 30	Actuarially Determined Contribution (ADC)	Contributions in Relation to the ADC	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2005	83,664	83,664	-	2,155,252	3.9%
2006	126,533	126,533	-	2,052,862	6.2%
2007	132,601	132,601	-	2,161,261	6.1%
2008	134,060	134,060	-	2,376,221	5.6%
2009	119,751	119,751	-	2,457,196	4.9%
2010	223,614	223,614	-	2,544,939	8.8%
2011	308,823	308,823	-	2,398,823	12.9%
2012	410,797	410,797	-	2,360,413	17.4%
2013	442,870	442,870	-	2,393,842	18.5%
2014	532,882	532,882	-	2,535,963	21.0%

Schedule of Money-Weighted Rate of Return

Year Ended June 30	Money-Weighted Rate of Return
2005	13.28%
2006	13.22%
2007	19.81%
2008	(4.09)%
2009	(22.28)%
2010	14.53%
2011	22.65%
2012	0.81%
2013	13.91%
2014	19.10%



NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note to Schedule of Changes in Net Pension Liability and Schedule of Net Pension Liability

The total pension liability contained in the schedule was determined by the Retirement System's actuary, Cheiron, Inc. The net pension liability is measured as the total pension liability less the amount of the plan fiduciary net position of the Retirement System. The discount rate was 7.58% as of June 30, 2014 and 7.52% as of June 30, 2013. A summary of assumptions may be found in the Note 10 to the financial statements. A complete description of methods and assumptions may be found in the Retirement System's GASB 67/68 Report as of June 30, 2014.

Note to Schedule of Employer Contributions for FY 2013-2014

Valuation date	July 1, 2012
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year
Actuarial cost method	Entry age normal
Asset valuation method	5-year recognition of the difference between the actual investment earnings and the expected return on the actuarial value of assets
Amortization method	Unfunded actuarial accrued liabilities due to net actuarial gains and losses (including Supplemental COLAs) and assumption changes are amortized as a level percentage of payroll over an open 15-year period beginning with the valuation date. Additional liabilities due to Charter amendments are amortized as a level percentage of payroll over a closed 20-year period beginning with the year the amendment is first reflected in the valuation.
Discount rate	7.58%
Salary increases	3.83% plus merit component based on employee classification and years of service
Amortization payment growth rate	3.83%
Price inflation	3.33%
Mortality	Active members: Sex distinct RP-2000 Employee Mortality projected using Scale AA to 2030 for females and 2005 for males. Healthy Annuitants: Sex distinct RP-2000 Annuitant Mortality projected using Scale AA to 2020.

A complete description of the methods and assumptions used to determine contribution rates for the fiscal year ending June 30, 2014 can be found in the July 1, 2012 actuarial valuation report.

Table of Key Assumptions for Schedule of Employer Contributions

Year Ended June 30	Valuation Date	Investment return	Salary Increase/ Amortization Growth	Mortality	Change in Funding Methods or Assumption from Prior Year
2005	7/1/2003	8.00%	4.50%	1983 GAM	Investment return assumption
2006	7/1/2004	8.00%	4.50%	1994 GAM	Demographic assumptions including salary merit increases based upon experience study
2007	7/1/2005	8.00%	4.50%	1994 GAM	Asset smoothing method, disability mortality assumption and other assumption and valuation methodology changes
2008	7/1/2006	8.00%	4.50%	1994 GAM	None
2009	7/1/2007	8.00%	4.50%	1994 GAM	None
2010	7/1/2008	7.75%	4.50%	1994 GAM	Investment return and other minor changes in valuation upon change in actuary
2011	7/1/2009	7.75%	4.50%	1994 GAM	None
2012	7/1/2010	7.75%	4.00%	RP2000 Mortality projected with Scale AA	Wage inflation and demographic assumptions including salary merit increases based upon experience study
2013	7/1/2011	7.66%	3.91%	RP2000 Mortality projected with Scale AA	Investment return and wage inflation assumptions
2014	7/1/2012	7.58%	3.83%	RP2000 Mortality projected with Scale AA	Investment return and wage inflation assumptions

Complete descriptions of the methods and assumptions used to determine contribution rates can be found in each applicable actuarial valuation report. Salary increase assumptions in above table are shown before the addition of merit components based upon employee classification and years of service. Summaries of plan provisions used in each valuation can be found in each applicable actuarial valuation report.

OTHER SUPPLEMENTARY INFORMATION

Pension Fund Net Investment Income

Fiscal Year 2013-14

(in thousands)

	Realized Gain/Loss	Unrealized Gain/Loss	Total
Income			
Interest Earned			$ 177,425
Dividends Earned			195,503
Securities Lending Income-Net			5,823
Recaptured Commission Income			82
Real Estate Income			58,123
Alternative Investment Income			62,826
Investment Expenses			(47,599)
Total Income[1]			**$ 452,183**
Net Appreciation in Fair Values:			
Short-Term Securities	$ 7,438	$ (12,091)	$ (4,653)
Equities	114,369	1,714,695	1,829,064
Debt Securities	11,732	180,953	192,685
Real Estate	45,312	107,524	152,836
Alternative Investments	218,723	227,679	446,402
Other Assets	84,265	22,649	106,914
Total Net Appreciation:	**$ 481,839**	**$ 2,241,409**	**$ 2,723,248**
Total Net Investment Income (including Net Appreciation)			**$ 3,175,431**

[1] Total investment income excludes employee and employer contributions.

Pension Fund Disbursements
Plan Year 2013-14
(in thousands)

Payments/Expenses	Amount
Service Retirement Payments	$ 827,311
Disability Retirement Payments	172,619
Cost of Living Adjustments	53,098
Death Allowance Payments	3,799
Death Benefits	2,300
Retired Annuitant Rolls (Option 1 Death Benefit)	1,899
DROP Program Accrued Retirement Benefits	1,203
Refunds of Contributions – Death Benefits	2,979
Refunds of Contributions – Other than Death Benefits	7,318
Administrative Expenses: Retirement Services/Administration	15,745
Total Payments & Expenses	**$ 1,088,271**
Increase from FY 2012-13:	**$ 39,946**

Comparison of Contributions
Employer Contributions
(in thousands)

Member Plan	Plan Year 2013-14	Plan Year 2012-13	Plan Year 2011-12
Miscellaneous Plan	$ 443,773	$ 364,503	$ 344,942
Firefighter Plan	36,890	32,053	26,466
Police Plan	52,219	46,314	39,389
Total	**$ 532,882**	**$ 442,870**	**$ 410,797**

Employee Contributions

(in thousands)

Member Plan	Plan Year 2013-14	Plan Year 2012-13	Plan Year 2011-12
Miscellaneous Plan	$ 235,797	$ 211,545	$ 152,090
Firefighter Plan	21,985	19,548	18,542
Police Plan	31,238	27,633	27,528
Total	**$ 289,020**	**$ 258,726**	**$ 198,160**

Comparison of Actual Administrative Expenditures
Retirement Services & Administration Divisions

(in thousands)

Description of Expenditures	2013-14	2012-13	2011-12
Personnel Services	$ 10,636	$ 10,314	$ 10,033
Equipment Purchase	81	97	29
Materials and Supplies	179	204	139
Services of Other Departments	2,023	2,191	2,066
Other Services	2,826	2,712	2,649
Total	**$ 15,745**	**$ 15,518**	**$ 14,916**

Investment Division

(in thousands)

Description of Expenditures	2013-14	2012-13	2011-12
Personnel Services	$ 2,734	$ 2,263	$ 1,726
Equipment Purchase	2	0	0
Materials and Supplies	3	2	4
Services of Other Departments	1,184	414	152
Other Services	43,676	38,975	42,658
Total	**$ 47,599**	**$ 41,654**	**$ 44,540**

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
Global Equity	47.0%	40-54%	54.3%
Global Fixed Income	25.0%	20-30%	23.0%
Alternative Assets	16.0%	10-20%	11.7%
Real Estate	12.0%	9-15%	9.0%
Cash	0.0%	0-1%	1.9%

INVESTMENT PERFORMANCE HIGHLIGHTS FOR FISCAL YEAR ENDED JUNE 30, 2014

The Retirement System investment portfolio returned a robust 18.73% for the Fiscal Year ended June 30, 2014 and roughly 80 basis points ahead of the policy benchmark return of 17.91%. Global Equities (+23.41%) and Alternatives (+23.29%) were SFERS' top performing asset classes for the fiscal year.

Global Equity

Public equities (+23.41%) posted strong results for Fiscal Year 2014 – the second consecutive fiscal year with double-digit performance. The System's U.S. equities rose 25.13%, underperforming the Russell 3000 (+25.22%) by 9 basis points as just under one-half of SFERS' active managers outperformed their respective benchmarks. An overweight to U.S. small capitalization stocks hindered performance during the fiscal year – as the System's small capitalization managers (+24.71%) trailed both large capitalization stocks (+25.75%) and the Russell 3000 benchmark (+25.22%). Non-U.S. equities (+21.48%) lagged the MSCI ACWI (ex-us) IMI benchmark (+22.28%) by 80 basis points as the System's active investment managers, as a group, trailed their benchmarks.

2013-14 Global Equity Manager Changes:

- FX Concepts. In September 2013, FX Concepts, one of SFERS' currency overlay managers was terminated.
- Adrian Lee. In March 2014, Adrian Lee, one of SFERS' currency overlay managers was terminated.
- Intech: In April 2014, INTECH Capital Management, a US Large Cap Growth manager, was terminated and the assets were transitioned to other managers within SFERS' Global Equity portfolio.

Fixed Income

The Fixed Income Portfolio returned 8.09% for the Fiscal Year - outperforming its benchmark (+5.20%) by 2.89% as all of the portfolio's external investment managers topped their benchmarks. Allocations to High Yield / Banks Loans (+12.65%) and Emerging Market Debt (+13.99%) as well as increased commitments to the Opportunistic segment (+9.90%) were all additive to performance.

2013-2014 Fixed Income Manager Changes:

- ABRY ASF III, $25 million
- Fidelity Real Estate Opportunistic Income Fund, $25 million
- SJC Onshore Fund II, $25 million
- Sankaty Bank Loans. During the fiscal year, the Retirement Board approved the retention of Sankaty Capital Management to oversee a Bank Loan portfolio. In December 2013, the account was funded with $100 million.

- PIMCO. In December 2013, Pacific Investment Management Company was retained as an investment manager for emerging market debt – with an initial allocation of $100 million.

Alternative Investments

Private Equity

The Retirement System's private equity portfolio is designed to generate superior risk-adjusted returns that exceed those of comparable public markets over the long term. As of June 30, 2014, the market value of the Retirement System's private equity investments was $2.2 billion, or 11.2% of the total investment portfolio. The private equity portfolio achieved a 27.0% net Internal Rate of Return (IRR) for the Fiscal Year and a 15.3% net IRR for the ten years ending June 30, 2014.

Investments in the private equity asset class are achieved principally through fund partnership managed by investors who focus on particular segments of the market. Core private equity strategies include leveraged buyouts, growth equity, venture capital, distressed debt, turnarounds /restructurings, and other special situations. The Retirement System seeks to partner with exceptional investment managers who have the ability to consistently deliver superior returns, favoring those who pursue operationally-focused strategies that generate equity value through the fundamental improvement of a portfolio company's business. In addition to enhancing portfolio diversification across private equity managers and strategies, the Retirement System will seek to commit capital across various geographies, including to overseas investors who have the expertise to source attractive investment opportunities in emerging global markets and industries that show high potential for economic growth and capital appreciation.

Due to the meaningful performance dispersion across private equity partnerships, manager selection is critical in constructing a successful private equity portfolio and achieving top-quartile returns. The Retirement System is more likely to achieve the goal by committing to active asset class management, including frequent and direct interaction with investment managers to monitor performance and ensure proper alignment of interests.

The Retirement System made approximately $706 million in capital commitments to seventeen private equity partnerships during the Fiscal Year, including:

- $270 million in commitments to seven buyout partnerships
- $200 million in commitments to two growth capital partnerships
- $186 million in commitments to seven venture capital partnerships
- $50 million in commitments to one special situations partnership

Real Assets

The Retirement System's real assets portfolio is designed to provide powerful portfolio diversification, high levels of current income, and protection from unanticipated inflation. As of June 30, 2014, the market value of the Retirement System's real assets portfolio was $2.0 billion, or 10.1% of the total investment portfolio, comprised of $1.8 billion and $0.2 billion in market value for real estate and natural resources investments, respectively. The real assets portfolio achieved a 14.9% net Internal Rate of Return (IRR) for the Fiscal Year and an 8.2% net IRR for the ten years ending June 30, 2014.

The Retirement System will focus on higher returning private investment strategies in real estate and natural resources rather than publicly traded securities such as Real Estate Investment Trusts (REITs), commodities indices, natural resource equities and Treasury Inflation-Protected Securities (TIPS). Investments in private real estate provide the Retirement System with steady current cash flow through contractual lease payments as well as the potential for equity returns through the residual value of the property and land. Private investments in natural resources – energy, metals and mining, timberland and agriculture – provide attractive return prospects and significant portfolio diversification. Similar to its approach for private equity, the Retirement System will favor value-oriented, specialist managers who can take advantage of inefficiencies in the pricing and management of assets in relatively illiquid markets to add long-term value. The Retirement System views real assets as a global opportunity set and will seek to expand partnerships with exceptional investment managers in both foreign developed and emerging markets.

The Retirement System made approximately $357 million in capital commitments to six real assets partnerships during the Fiscal Year, including:

- $207 million in commitments to four real estate partnerships
- $150 million in commitments to two natural resources partnerships

Summary of Investments

As of June 30, 2014, 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 global equities, global fixed-income, private equity and real assets.

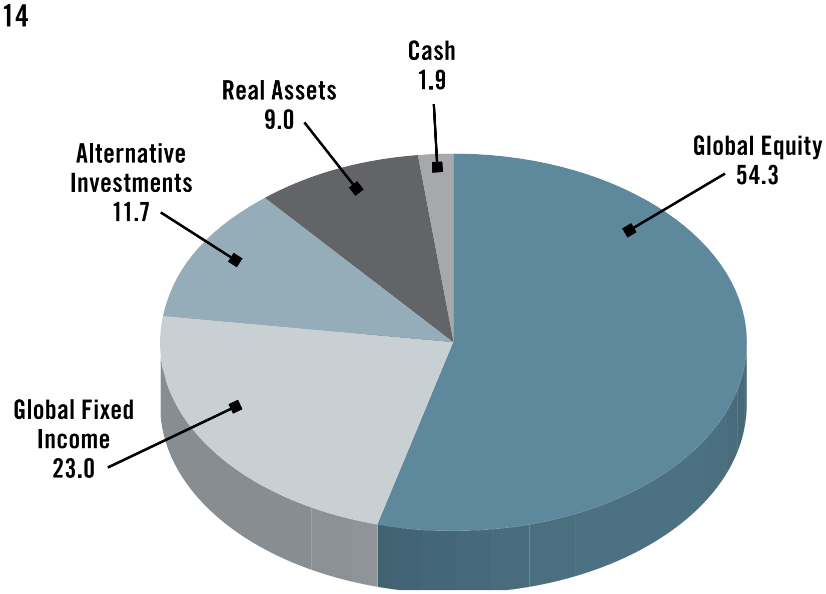
San Francisco Employees' Retirement System
Summary of Investments

June 30, 2014

Asset Class	Market Value (in thousands)	% of Portfolio
Global Equity	**10,681,661**	**54.3%**
Global Fixed Income	**4,531,828**	**23.0%**
Alternative Investments		
Buyout	1,070,669	5.4%
Venture	749,547	3.8%
Special Situations	486,709	2.5%
Total Alternative Investments	**2,306,925**	**11.7%**
Real Assets	**1,774,743**	**9.0%**
Cash	**371,808**	**1.9%**
Total Investment Portfolio	**19,666,964**	**100.0%**

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

Asset Allocation
as of June 30, 2014



INVESTMENT PERFORMANCE

For the Fiscal Year ended June 30, 2014, the investment portfolio of the Retirement System rose by 18.73% with all asset classes posting positive results. Global Equities led the rally - returning 25.13% and was followed by Alternatives (+23.29%), Real Estate (+17.66%) and Fixed Income (+8.09%).

Investment Portfolio Performance
Annualized Returns for the Periods ending 6/30/2014

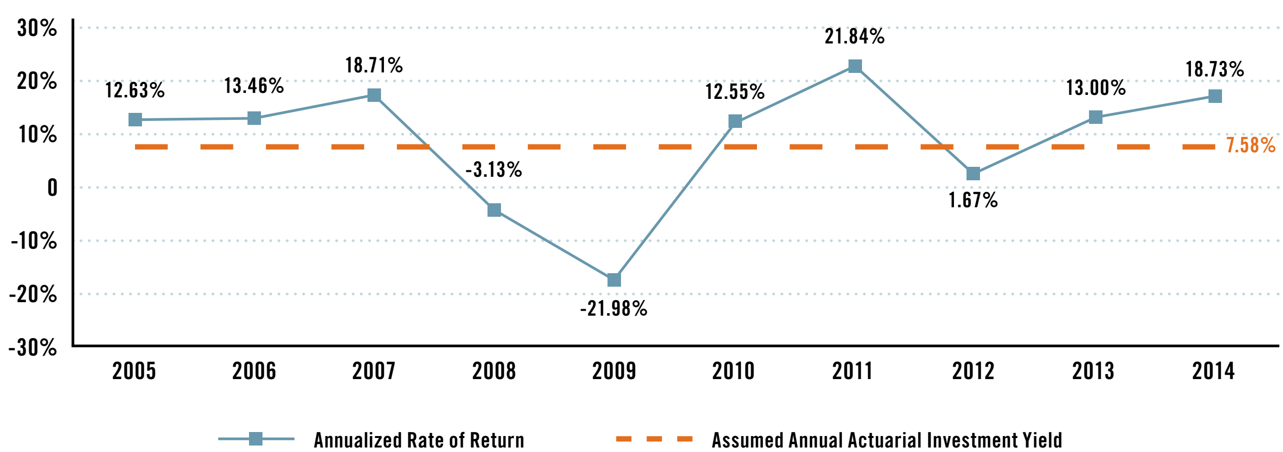
(Net of fees and expenses)

	1-Year	3-Years	5-Years	10-Years	20-Years
Global Equity	**23.41%**	**11.63%**	**15.73%**	**7.51%**	**9.07%**
Benchmark: Global Equity Policy[1]	23.35%	10.88%	15.32%	7.85%	8.48%
Global Fixed Income	**8.09%**	**6.69%**	**9.77%**	**6.11%**	**7.13%**
Benchmark: Fixed Income Policy[2]	5.20%	4.22%	5.58%	5.24%	6.30%
Alternative Assets	**23.29%**	**12.82%**	**16.21%**	**15.69%**	**N/A**
Benchmark: Alternative Investments Policy[3]	30.73%	22.34%	24.69%	13.15%	N/A
Real Assets	**17.66%**	**15.48%**	**7.61%**	**7.12%**	**N/A**
Benchmark: Real Assets Policy[4]	8.00%	8.83%	6.83%	8.88%	N/A
Total Fund	**18.73%**	**10.91%**	**13.34%**	**7.91%**	**8.91%**
Weighted Policy Benchmark[5]	17.91%	10.90%	13.44%	8.25%	N/A

Source: The Northern Trust Company

1. Global Equity Policy consists of 100% MSCI ACWI IMI (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 + 500 bps 1/1/03 through current; + 600 bps through 12/31/02.
4. The Real Assets Policy 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

Actuarial assumptions and methods are adopted by the Retirement Board with input from the Consulting Actuary. Key economic assumptions are reviewed annually. Demographic assumptions were last updated at the July 1, 2010 actuarial valuation and 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 for Funding Policy

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 2013-14, 7.58% for fiscal year 2012-13, 7.66% for fiscal year 2011-12, and 7.75% for fiscal years 2010-11 and 2009-10). 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 individual 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. Actuarial gains or losses arising from the deviation of actual experience from expected experience lead to decreases or increases in the unfunded actuarial liability.

This cost method meets the Charter requirement that normal cost be determined as a level percent of pay.

Amortization Method for Funding Policy

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

Beginning with the July 1, 2014 actuarial funding valuation, net actuarial gains and losses and assumption changes are amortized as a level percentage of payroll over 20-year closed periods. Charter amendments are amortized as a level percentage of payroll over 15-year closed periods, while Supplemental COLAs are amortized over closed 5-year periods.

Investment Return Assumption

SFERS' assets are assumed to earn 7.50% net of investment expenses. This assumption was adopted beginning with the July 1, 2014 valuation. The prior assumption was 7.58% net of investment expenses.

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

Supplemental Cost-of-Living Increases

There are no future supplemental COLAs assumed in the actuarial funding valuation.

Future Interest Crediting Rate on Member Contributions

4.5% 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

The wage inflation assumption is 3.75% effective with the July 1, 2014 Valuation. The previous assumption was 3.83%. The table of additional merit components are shown below.

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.

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 below. 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:

	Years of Service		
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:

	Police		Fire		Muni Drivers		Craft		Misc. Females		Misc. Males	
Age	<25	25+	<25	25+	<30	30+	<30	30+	<30	30+	<30	30+
50	0.015	0.030	0.020	0.020	0.070	0.030	0.030	0.030	0.030	0.030	0.030	0.030
55	0.100	0.120	0.030	0.225	0.060	0.300	0.050	0.075	0.040	0.075	0.040	0.075
60	0.100	0.220	0.250	0.350	0.100	0.300	0.100	0.300	0.110	0.250	0.110	0.300
65	1.000	1.000	1.000	1.000	0.250	0.450	0.275	0.300	0.225	0.375	0.225	0.250
70	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000

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 significant changes in plan provisions since the July 1, 2013 valuation. Effective for the July 1, 2014 valuation, the investment return, wage inflation and price inflation assumptions each declined 0.08% to 7.50%, 3.75%, and 3.25%, respectively. Also effective for the July 1, 2014 actuarial funding valuation, the amortization period for actuarial gains and losses and assumption changes was updated from 15-year open periods to 20-year closed periods. The remaining portion of the 2013 amortization of actuarial gains and losses and assumption changes was re-amortized over a 19-year closed period.

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

Plan Provisions and Contribution Information

A brief summary of the plan provisions may be found in the Notes to the Basic Financial Statements found in the Financial Section. A detailed summary of plan provisions may be found in the July 1, 2014 actuarial funding report issued in March 2015. A discussion of the funding policy may also be found in the Notes. A ten-year schedule of employer contributions may be found in the Required Supplementary Information of the Financial Section. Information on rates of employer and member contributions based on covered payroll may be found in the Statistical Section.

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

(in millions)

As of July 1	2014	2013	2012	2011	2010
Prior Valuation Unfunded Actuarial Accrued Liability	$ 3,921.4	$ 3,366.2	$ 2,285.6	$ 1,574.3	$ 493.9
Expected Increase/(Decrease) from Prior Valuation	(98.6)	(80.1)	(58.3)	(51.9)	102.0
Salary Increases Greater/(Less) than Expected	(214.6)	(a)	(173.7)	(314.2)	(319.2)
Changes in Assumptions	153.1	0.0	135.5	148.8	353.4
Proposition Changes/Supplemental COLA	0.0	0.0	0.0	112.6	164.0
Asset Return Less/(Greater) than Expected	(749.2)	579.6	1,135.0	559.6	755.6
All Other Experience	98.4	55.7	42.1	256.4	24.6
Unfunded Actuarial Accrued Liability As of Valuation Date	**$ 3,110.5**	**$ 3,921.4**	**$ 3,366.2**	**$ 2,285.6**	**$ 1,574.3**

(a) Salary experience included with all other experience

SCHEDULE OF FUNDING PROGRESS

(in thousands)

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)
7/01/2005	12,659,698	11,765,737	(893,961)	107.6%	2,052,862	(43.5)%
7/01/2006	13,597,646	12,515,463	(1,082,183)	108.6%	2,161,261	(50.1)%
7/01/2007	14,929,287	13,541,388	(1,387,899)	110.2%	2,376,221	(58.4)%
7/01/2008	15,941,390	15,358,824	(582,566)	103.8%	2,457,196	-23.7%
7/01/2009	16,004,730	16,498,649	493,919	97.0%	2,537,785	19.5%
7/01/2010	16,069,058	17,643,394	1,574,336	91.1%	2,398,823	65.6%
7/01/2011	16,313,120	18,598,728	2,285,608	87.7%	2,360,413	96.8%
7/01/2012	16,027,683	19,393,854	3,366,171	82.6%	2,393,842	140.6%
7/01/2013	16,303,397	20,224,777	3,921,380	80.6%	2,535,963	154.6%
7/01/2014	18,012,088	21,122,567	3,110,479	85.3%	2,640,153	117.8%

ACTUARIAL SOLVENCY TEST

(in millions)

	Actuarial Accrued Liability (AAL)				Percentage of AAL Covered by Assets		
Valuation Date	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Other Employer Financed Portion	Actuarial Value of Assets	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Other Employer Financed Portion
7/1/2007	2,252	7,424	3,866	14,929	100%	100%	100%
7/1/2008	2,411	8,013	4,934	15,941	100%	100%	100%
7/1/2009	2,529	8,720	5,250	16,005	100%	100%	91%
7/1/2010	2,593	9,761	5,289	16,069	100%	100%	70%
7/1/2011	2,664	10,616	5,319	16,313	100%	100%	57%
7/1/2012	2,687	11,262	5,445	16,028	100%	100%	38%
7/1/2013	2,828	11,878	5,518	16,303	100%	100%	29%
7/1/2014	3,008	12,506	5,609	18,012	100%	100%	45%

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
7/1/2007	General	26,608	$2,008,192,000	$75,473	–
	Safety	3,582	361,846,000	101,018	–
7/1/2008	General	26,878	$2,059,587,819	$76,627	1.5%
	Safety	3,772	397,608,369	105,410	2.6%
7/1/2009	General	26,205	1,981,788,543	75,626	(1.3)%
	Safety	3,714	402,975,857	108,502	2.9%
7/1/2010	General	24,689	1,915,169,605	77,572	2.6%
	Safety	3,533	400,262,779	113,293	4.4%
7/1/2011	General	24,701	1,883,122,340	76,237	(1.7)%
	Safety	3,255	380,458,039	116,884	3.2%
7/1/2012	General	24,878	1,928,148,586	77,504	1.7%
	Safety	3,219	395,842,540	122,971	5.2%
7/1/2013	General	25,392	2,031,987,811	80,025	3.3%
	Safety	3,325	417,543,208	125,577	2.1%
7/1/2014	General	26,053	2,109,100,013	80,954	1.2%
	Safety	3,463	429,618,756	124,060	(1.2)%

[1] July 1, 2011, 2012, 2013 and 2014 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
2006-07	N/A	N/A	N/A	N/A	21,116	683,909,608	–	32,388
2007-08	1,269	44,225,244	881	23,553,431	21,514	691,842,055	1.2%	32,158
2008-09	1,545	60,356,100	765	20,550,523	22,294	755,029,081	9.1%	33,867
2009-10	2,004	85,601,938	798	22,483,938	23,500	834,425,915	10.5%	35,507
2010-11	1,672	66,575,560	880	24,641,442	24,292	905,053,471	8.5%	37,257
2011-12	1,769	70,868,367	871	26,958,609	25,190	982,250,287	8.5%	38,994
2012-13	1,577	66,437,220	733	22,406,077	26,034	1,045,547,799	6.4%	40,161
2013-14	1,588	65,923,470	770	25,170,856	26,852	1,103,959,803	5.6%	41,113

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

(in thousands)

Fiscal Year ending June 30	Member Contributions	Employer Contributions	Gross Return on Investments	Investment Expenses	Total
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	(3,475,740)	(51,079)	(3,193,785)
2009	192,964	126,101[1]	(684,353)	(37,110)	(416,249)
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
2014	289,020	532,882	3,223,030	(47,599)	3,997,333

[1] Includes $6,350,000 transfer from CalPERS

DEDUCTIONS TO PENSION PLAN BY TYPE

(in thousands)

Fiscal Year ending June 30	Benefits Paid	Refunds of Contributions	Administrative Expenses	Total
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	732,342	6,714	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
2014	1,062,229	10,297	15,745	1,088,271

Together, the above two tables present the changes in net position during each of the last 10 fiscal years. Total additions less total deductions equal the net increase or decrease in plan net position. Details for the last two fiscal years may be found in the Financial Section under Statements of Changes in Plan Net Assets.

BENEFIT PAYMENTS OF PENSION PLAN BY TYPE

(in thousands)

Fiscal Year	Retirement Benefits	Disability Benefits	Death Benefits	COLA Benefit Adjustments	DROP Accrued Retirement	Total
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	11,031	36,447	4,143	732,342
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
2014	827,311	172,619	7,998	53,098	1,203	1,062,229

Benefit payments for the most recent fiscal year are provided in further detail in the Financial Section under Other Supplementary Information.

AVERAGE PENSION BENEFIT PAYMENT FOR RETIRED AND DISABLED MEMBERS

	Years of Service					
Retirement Effective Dates	5 - 9	10 -14	15 - 19	20 - 24	25 - 29	30+
07/1/11 to 6/30/12						
Average Mo. 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
07/1/12 to 6/30/13						
Average Mo. 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
07/1/13 to 6/30/14						
Average Mo. Benefit	$ 980	$ 1,971	$ 2,812	$ 3,826	$ 5,720	$ 6,927
Average Final Comp.	$ 7,866	$ 7,214	$ 7,530	$ 7,905	$ 8,656	$ 9,143
Number	138	181	170	155	212	257

ACTIVE MEMBERS BY EMPLOYER

Employer	July 1, 2014	July 1, 2013	July 1, 2012
City and County of San Francisco[1]	27,235	26,461	25,816
San Francisco Unified School District	1,265	1,205	1,180
San Francisco Community College District	605	628	686
San Francisco Trial Courts	411	423	415
Total	**29,516**	**28,717**	**28,097**

[1] Excludes active DROP

EMPLOYER CONTRIBUTION RATES

Fiscal Year	Normal Cost	Remaining Cost of Propositions	Other UAL	Employee Contributions	Administrative Expenses	Total
2005	15.19%	3.17%	(6.80%)	(7.53%)	0.45%	4.48%
2006	15.06%	3.10%	(4.51%)	(7.52%)	0.45%	6.58%
2007	16.56%	3.53%	(6.78%)	(7.52%)	0.45%	6.24%
2008	16.60%	3.52%	(7.15%)	(7.51%)	0.45%	5.91%
2009	16.19%	3.42%	(7.55%)	(7.52%)	0.45%	4.99%
2010	18.16%	5.41%	(7.03%)	(7.50%)	0.45%	9.49%
2011	18.18%	5.53%	(3.09%)	(7.51%)	0.45%	13.56%
2012	17.90%	6.51%	0.73%	(7.50%)	0.45%	18.09%
2013	17.90%	6.21%	3.66%	(7.51%)	0.45%	20.71%
2014	17.91%	6.11%	7.88%	(7.53%)	0.45%	24.82%

FISCAL YEAR 2013-2014 EMPLOYEE CONTRIBUTION RATES

Member Group	Base Rate of Pay less than $25 per hour	Base Rate of Pay at or above $25 but less than $49 per hour	Base Rate of Pay at or above $49 per hour
Miscellaneous Old Plans	8.0%	11.5%	12.0%
Miscellaneous New Plans	7.5%	11.0%	11.5%
Police and Fire Old Plans	11.5%	11.5%	11.5%
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	12.5%	12.5%	13.0%
2012 Prop C Sheriff and Miscellaneous Safety	12.5%	12.5%	13.0%

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.

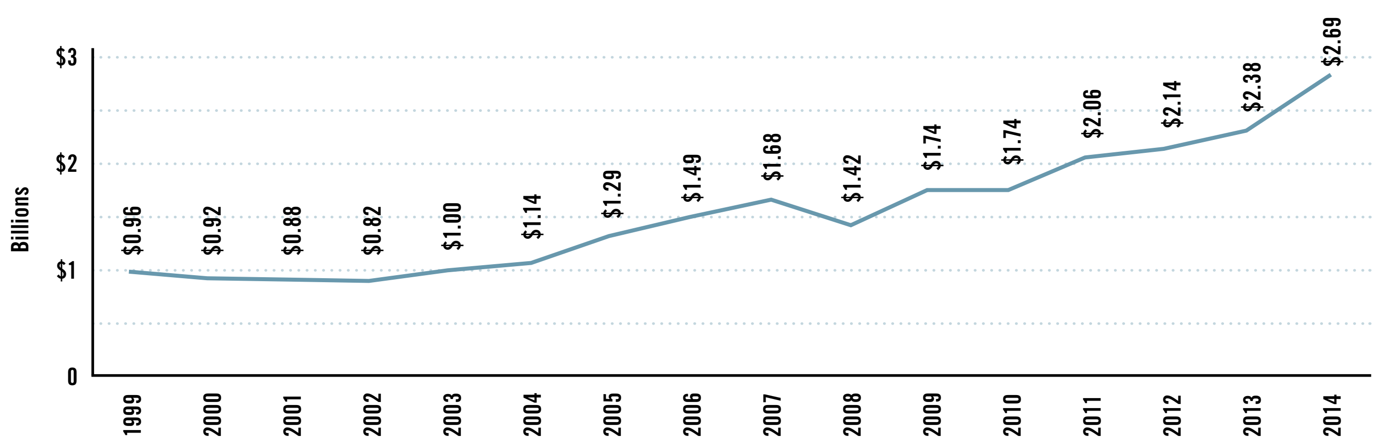
The Plan offers a diverse selection of 25 core investment funds including access to a self-directed brokerage option. During the past fiscal year, total assets for the SFDCP grew at approximately 11%, while the average account balance per participant grew to $108,779. The SFDCP also grew in deferrals.

The SFDCP is administered through a third party plan administrator. Beginning in January 2014, Prudential Retirement Insurance and Annuity Company replaced 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 service center located onsite in the SFERS office.

As of June 30, 2014, there were 24,701 participants in the SFDCP with Plan assets valued at $2.687 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 2013-14.

SFDCP Assets under Management



SFDCP Values as of June 30, 2014

FUNDS	TOTAL ASSETS	PERCENT OF TOTAL ASSETS	ANNUAL PERFORMANCE
SFDCP Stable Value Portfolio	$ 946,394,246	35.22%	N/A
SFDCP Core Bond Portfolio	$ 82,249,213	3.06%	4.88%
SFDCP Retirement Fund	$ 80,926,211	3.01%	10.42%
SFDCP Target Date 2015 Fund[1]	$ 74,320,401	2.77%	10.78%
SFDCP Target Date 2020 Fund[1]	$ 98,941,191	3.68%	12.21%
SFDCP Target Date 2025 Fund[1]	$ 106,126,852	3.95%	14.37%
SFDCP Target Date 2030 Fund[1]	$ 89,711,318	3.34%	17.00%
SFDCP Target Date 2035 Fund[1]	$ 63,742,688	2.37%	19.79%
SFDCP Target Date 2040 Fund[1]	$ 35,518,826	1.32%	19.87%
SFDCP Target Date 2045 Fund[1]	$ 18,225,108	0.68%	19.87%
SFDCP Target Date 2050 Fund[1]	$ 3,148,587	0.12%	19.86%
SFDCP Target Date 2055 Fund[1]	$ 2,192,648	0.08%	19.86%
SFDCP Large Cap Core Equity - Active Portfolio	$ 38,512,197	1.43%	25.69%
SFDCP Large Cap Core Equity - S&P 500 Index	$ 178,805,389	6.65%	24.57%
SFDCP Large Cap Growth Equity Portfolio	$ 317,469,031	11.82%	28.44%
SFDCP Large Cap Social Equity Portfolio	$ 26,022,168	0.97%	25.23%
SFDCP Large Cap Value Equity Portfolio	$ 55,299,389	2.06%	25.29%
SFDCP Mid Cap Core Equity Portfolio	$ 81,242,391	3.02%	22.20%
SFDCP Mid Cap Growth Equity Portfolio	$ 21,460,963	0.80%	21.57%
SFDCP Mid Cap Value Equity Portfolio	$ 37,874,177	1.41%	28.36%
SFDCP Small Cap Core Equity Portfolio	$ 16,386,360	0.61%	24.07%
SFDCP Small Cap Growth Equity Portfolio	$ 41,488,767	1.54%	24.43%
SFDCP Small Cap Value Equity Portfolio	$ 65,503,168	2.44%	23.64%
SFDCP International Equity	$ 150,979,852	5.62%	22.30%
SFDCP Real Estate Portfolio	$ 41,815,223	1.56%	14.69%
Self Directed Brokerage Account	$ 12,586,962	0.47%	N/A
TOTAL PLAN ASSETS	**$ 2,686,943,325**		

* 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, 2014

ASSET SUMMARY	
[1]Beginning Assets July 1, 2013	$ 2,382,924,217
Contributions	124,996,654
Roll-ins	24,839,876
[2]Earnings	300,178,427
Less Distributions	145,995,849
Ending Assets June 30, 2014	$ 2,686,943,325
PARTICIPANT SUMMARY	
[3]Beginning Participants July 1, 2013	24,601
New Participants	1,265
Less Full Distributions	1,165
Ending Participants June 30, 2014	24,701
SERVICE SUMMARY	
Field Office	
Group Meetings	562
[4]Field and Office Individual Counseling Sessions	6,279
Phone Calls	5,892
Home Office	
**KeyTalk Calls / IVR Calls	4,042
Customer Service Calls	13,817
Web Logins	221,592

[1] Equals Ending Assets June 30, 2013 as reported on 6/30/2013 Fiscal Year Report
[2] Includes earnings realized under Great-West
[3] Equals Ending Participants June 30, 2013; Includes 16,164 active participants and 8,437 retired participants (as reported on 6/30/2013 Fiscal Year Report)
[4] Combined Field and Office Individual Counseling Sessions (not reported separately at Prudential)
** Total Prudential IVR (Interactive Voice Response System) calls for SFDCP = 511