SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM

Financial Statements and
Required Supplementary Information
(With Independent Auditor's Report Thereon)

Years Ended June 30, 2015 and 2014

MGO Certified Public Accountants

SAN FRANCISCO CITY AND COUNTY
EMPLOYEES' RETIREMENT SYSTEM
Years Ended June 30, 2015 and 2014

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MGO Certified Public Accountants

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San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of the San Francisco City and County Employees' Retirement System ("Retirement System"), a pension trust fund of the City and County of San Francisco, California, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the Retirement System as of June 30, 2015 and 2014, and the changes in its plan net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Macias Gini & O'Connell LLP
2121 N. California Blvd., Suite 750
Walnut Creek, CA 94596

www.mgocpa.com

Emphasis of Matter

As described in Note 1, the financial statements present only the Retirement System and do not purport to, and do not, present fairly the financial position of the City and County of San Francisco as of June 30, 2015 and 2014, and changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedule of changes in the net pension liability and related ratios, the schedule of employer contributions, and the schedule of money-weighted rate of return, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2015 on our consideration of the Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2015. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Retirement System's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 11, 2015

The management of the City and County of San Francisco Employees' Retirement System (Retirement System) is pleased to provide this overview and analysis of the financial activities of its cost-sharing multiple-employer defined benefit pension plan (Plan) for the years ended June 30, 2015 and 2014. We encourage readers to consider the information presented here in conjunction with the *Financial Statements and Required Supplementary Information*, which follow this discussion. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

Fiscal Year 2015

- The assets of the Retirement System exceeded its liabilities at the close of the year ended June 30, 2015. The Plan held $20,428,069 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 valuation rolled forward to June 30, 2015, the plan net position was 89.9% of the total pension liability.
- For the year ended June 30, 2015, the Retirement System's net investment income of $763,429 represents a 3.8% 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 declined by $2,465,760 as a result of lower returns in all asset classes relative to the prior fiscal year.
- Total net position held in trust for pension benefits increased by $507,462, or 2.5%, primarily as a result of 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 $301,682, an increase of $12,662 or 4.4% from the prior year. This increase is primarily a result of increases in the number of active employees contributing to the Plan and increases in employee contribution rates, which ranged from 7.5% - 13.0% in fiscal year 2014-15.
- In order to maintain the fiscal soundness of the Plan, required employer contributions to the Plan totaled $592,643, an increase of $59,761 or 11.2% from the prior year.
- Total deductions from the Plan were $1,150,292, an increase of 5.7% from the prior year due to the increase in benefits paid during the current fiscal year.

Fiscal Year 2014

- The assets of the Retirement System exceeded its liabilities at the close of the year ended June 30, 2014. The Plan held $19,920,607 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, 2013 valuation rolled forward to June 30, 2014, 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 $3,175,431 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 $1,114,498 primarily as a result of the strong returns in the equity markets.
- Total net position held in trust for pension benefits increased by $2,909,062, 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 $289,020, an increase of $30,294 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 $532,882, an increase of $90,012 or 20.3% from the prior year.
- Total deductions from the Plan were $1,088,271, 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 years – June 30, 2015 and 2014. They indicate the total assets as of June 30, 2015 and 2014, 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 years ended June 30, 2015 and 2014.
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 pursuant to legal requirements and benefits and refunds are recognized when currently due 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. Private equity 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.

(Dollar amounts in thousands)

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

Financial Analysis

The Plan's net position may serve over time as a useful indication of the Plan's financial position. The assets of the Plan exceeded its liabilities at June 30, 2015 and 2014. 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 position as of June 30, 2015, 2014, and 2013 are represented in the table below:

Net Position Summary – June 30, 2015, 2014, and 2013

	2015	2014	2013
Other assets	$ 305,801	$ 477,213	$ 450,504
Investments at fair value	21,540,021	20,735,639	18,049,488
Total assets	21,845,822	21,212,852	18,499,992
Total liabilities	1,417,753	1,292,245	1,488,447
Net position	$ 20,428,069	$ 19,920,607	$ 17,011,545

As of June 30, 2015, the Plan's total net position held in trust for pension benefits increased by $507,462 or 2.5% for the year, primarily due to positive investment returns. Payables to brokers increased by $17,011 and payables to borrowers of securities increased by $88,660 due to the timing of investment trades and lending activities.

As of June 30, 2014, the Plan's total net position held in trust for pension benefits increased by $2,909,062 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 $88,457 and payables to borrowers of securities decreased by $92,275 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 2014-2015 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, but at a slower pace than the prior year. Both consumer spending and consumer confidence reached levels not seen since 2007. There was continued improvement in the unemployment rate, which fell to 5.4% from 6.1% in the prior fiscal year. Outside the United States, economic growth remains low in the developed economies. In Western Europe, supportive fiscal measures from the European Central Bank has led to improving results. The export driven emerging economies, however, continue to struggle as GDP growth rates, although 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.

Highlights of Changes in Net Position – Years ended June 30, 2015, 2014, and 2013
(Dollars in thousands)

	2015	2014	2013
Additions:			
Member contributions	$ 301,682	$ 289,020	$ 258,726
Employer contributions	592,643	532,882	442,870
Interest	209,520	177,425	182,160
Dividends	214,636	195,503	188,644
Net appreciation in fair value of investments	378,519	2,844,279	1,729,781
Securities lending income	4,869	4,871	5,096
Investment expenses	(44,911)	(47,599)	(41,654)
Securities lending borrower rebates and expenses	796	952	523
Total additions	1,657,754	3,997,333	2,766,146
Deductions:			
Benefits	1,118,691	1,062,229	1,023,354
Refunds of contributions	12,339	10,297	9,453
Administrative expenses	18,108	14,550	14,169
Other administrative expenses - OPEB	1,154	1,195	1,349
Total deductions	1,150,292	1,088,271	1,048,325
Change in net position	507,462	2,909,062	1,717,821
Net position - beginning of the year	19,920,607	17,011,545	15,293,724
Net position - end of the year	$ 20,428,069	$ 19,920,607	$ 17,011,545

Fiscal Year 2015

- Member contributions for the year ended June 30, 2015 increased by $12,662 or 4.4% from the prior year. This increase is primarily a result of increases in the number of active employees contributing to the Plan and in employee contribution rates, which ranged from 7.5% - 13.0% in fiscal year 2014-15.
- In order to maintain the fiscal soundness of the Plan, $592,643 in required employer contributions were made during the year ended June 30, 2015. The increase of $59,761 in required employer contributions reflect an increase in the employer contribution rates, which ranged from 22.26% to 26.76% in fiscal year 2014-15 and 20.32% to 24.32% in fiscal year 2013-14.
- Net investment income decreased by $2,412,002 from the prior year. The majority of the decrease is attributed to the $2,465,760 decline in net appreciation in fair value of investments primarily due to lower investment returns in all of the asset classes that the Retirement System invests in. Interest income increased by $32,095, due mainly to the domestic fixed income market.
- Benefit payments to Plan participants increased by $56,462 or 5.3%, which is primarily due to an increase in service retirement benefits as a result of increased average benefit payments.

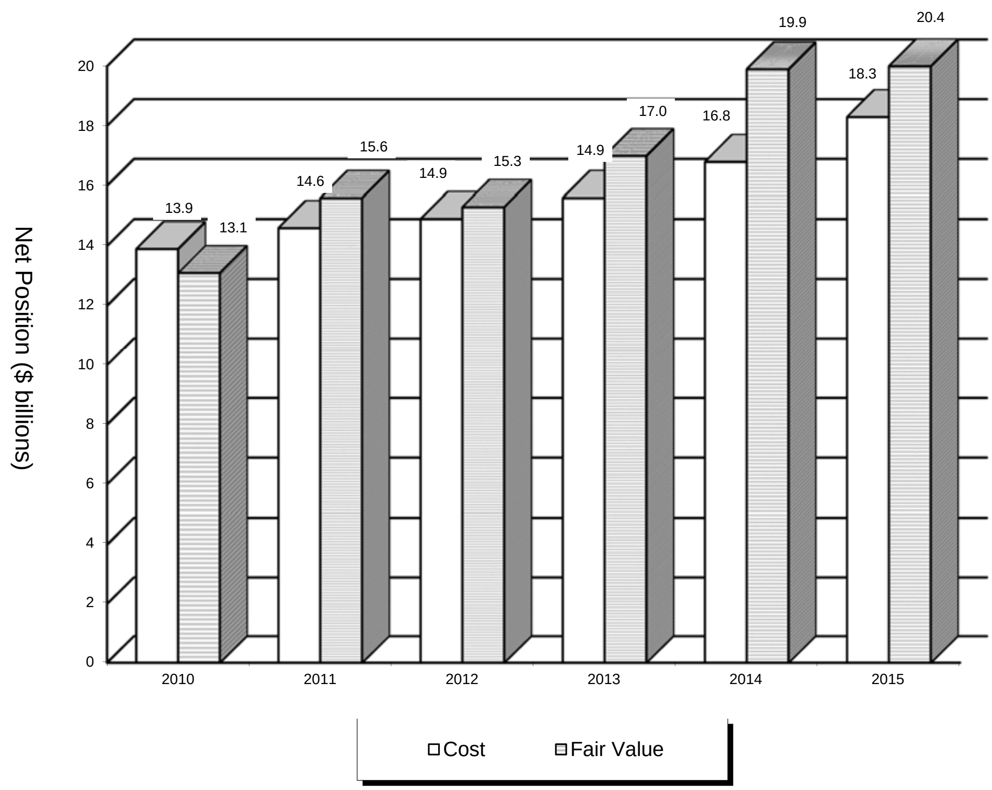
- Accrued DROP retirement benefits decreased by $1,605 reflecting the wind down of the program as a result of the program being closed to new participants as of July 1, 2011.

Fiscal Year 2014

- Member contributions for the year ended June 30, 2014 increased by $30,294 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, $532,882 in required employer contributions were made during the year ended June 30, 2014. The increase of $90,012 in required employer contributions reflect 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 $1,110,881 from the prior year. The majority of the increase is attributed to the $1,114,498 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 $4,735, due mainly to uncertainty in the domestic fixed income market.
- Benefit payments to Plan participants increased by $38,875 or 3.8%, which is primarily due to a $56,790 increase in service retirement benefits as a result of increased average benefit payments.
- Accrued DROP retirement benefits decreased by $20,062 reflecting the wind down of the program as a result of the program being closed to new participants as of July 1, 2011.

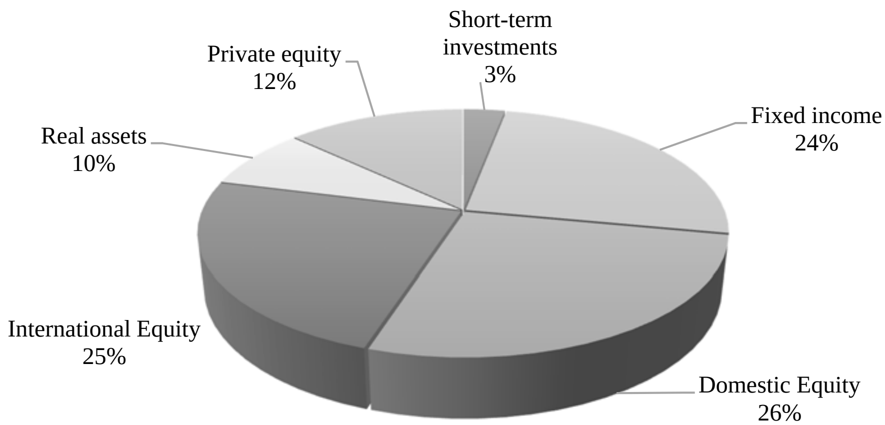
Plan net position as of June 30, 2010 through 2015 expressed at cost and fair value are represented in the chart below:

Plan Net Position as of June 30 ($billions)



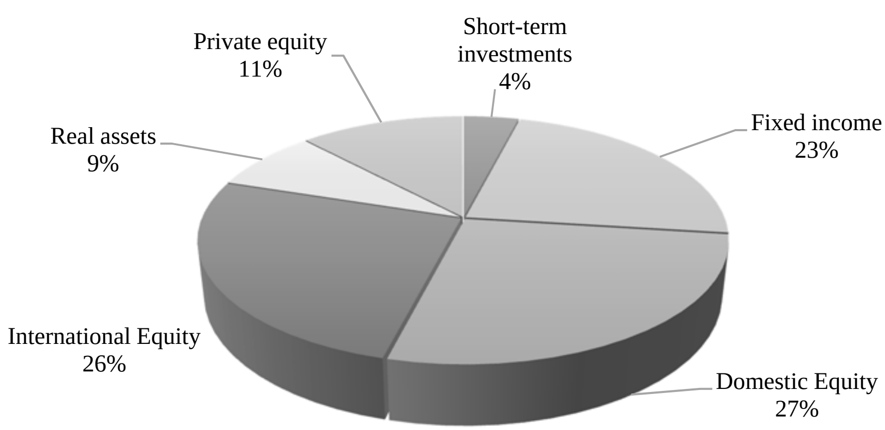
The asset allocation at fair value based on holdings (excluding securities lending collateral and foreign currency contracts) as of June 30, 2015 is represented in the chart below:

Asset Allocation as of June 30, 2015 - Fair Value



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:

Asset Allocation as of June 30, 2014 - Fair Value



Currently Known Facts and Events Affecting Next Year

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 years ended June 30, 2015 and 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

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
Statements of Plan Net Position
June 30, 2015 and 2014
(In thousands)

	2015	2014
Assets:		
Deposits	$ 31,969	$ 82,283
Contributions receivable - members	8,078	17,224
Contributions receivable - City and County	-	32,419
Investment income receivable:		
Interest	25,582	51,449
Dividends	13,358	11,800
Securities lending	613	719
Receivable from brokers, general partners, and others	226,201	281,319
Investments at fair value:		
Short-term investments	656,185	838,466
City investment pool	-	5,227
Debt securities:		
U.S. government and agency securities	1,074,204	882,574
Other debt securities	3,892,924	3,648,458
Equity securities:		
Domestic	5,320,353	5,225,847
International	5,134,177	5,215,814
Real assets	1,975,926	1,784,244
Private equity	2,484,299	2,222,603
Foreign currency contracts, net	722	829
Invested securities lending collateral	1,001,231	911,577
Total investments	21,540,021	20,735,639
Total assets	21,845,822	21,212,852
Liabilities:		
Payable to brokers	374,001	356,990
Deferred retirement option program	1,491	3,096
Other	40,715	19,273
Payable to borrowers of securities	1,001,546	912,886
Total liabilities	1,417,753	1,292,245
Plan net position – restricted for pension benefits	$ 20,428,069	$ 19,920,607

See accompanying notes to financial statements.

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
Statements of Changes in Plan Net Position
Years Ended June 30, 2015 and 2014
(In thousands)

	2015	2014
Additions:		
Member contributions		
Miscellaneous	$ 248,084	$ 235,797
Police	30,977	31,238
Fire	22,621	21,985
Total member contributions	301,682	289,020
Employer contributions		
Miscellaneous	494,353	443,773
Police	57,950	52,219
Fire	40,340	36,890
Total employer contributions	592,643	532,882
Investment income (expenses)		
Interest	209,520	177,425
Dividends	214,636	195,503
Net appreciation in fair value of investments	378,519	2,844,279
Securities lending income	4,869	4,871
Investment expenses	(44,911)	(47,599)
Securities lending borrower rebates and expenses	796	952
Net investment income	763,429	3,175,431
Total additions	1,657,754	3,997,333
Deductions:		
Benefits	1,118,691	1,062,229
Refunds of contributions	12,339	10,297
Administrative expenses	18,108	14,550
Other administrative expenses - other postemployment benefits	1,154	1,195
Total deductions	1,150,292	1,088,271
Net increase in net position	507,462	2,909,062
Plan net position – restricted for pension benefits		
Beginning of year	19,920,607	17,011,545
End of year	$ 20,428,069	$ 19,920,607

See accompanying notes to financial statements.

(1) Plan Description

(a) General

The San Francisco City and County Employees' Retirement System (the Retirement System) administers a cost-sharing multiple-employer defined benefit pension plan (the Plan) established to provide pension benefits for substantially all employees of the City and County of San Francisco (the City and County), certain classified and certificated employees of the Community College and Unified School Districts, and San Francisco Trial Court employees other than judges. The Retirement System provides service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and annual cost-of-living adjustments after retirement. While the Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), it is a tax-qualified plan under Internal Revenue Code provisions. The City and County Charter (the Charter) and the Administrative Code are the authorities that establish and amend the benefit provisions 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, 2015 and 2014, 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 San Francisco City 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

Miscellaneous Non-Safety Members who became members prior to July 1, 2010 qualify for a service retirement benefit if they are at least 50 years old and have at least 20 years of credited service or if they are at least 60 years old and have at least 10 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest one-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation.

Miscellaneous Non-Safety Members who became members on or after July 1, 2010 and prior to January 7, 2012 qualify for a service retirement benefit if they are at least 50 years old and have at least 20 years of credited service or if they are at least 60 years old and have at least 10 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest two-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation.

Miscellaneous Non-Safety Members who became members on or after January 7, 2012 qualify for a service retirement benefit if they are at least 53 years old and have at least 20 years of credited service or if they are at least 60 years old and have at least 10 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest three-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation.

Sheriff's Department Members and Miscellaneous Safety Members who were hired on or after January 7, 2012 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest three-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

Firefighter Members and Police Members who became members of the Plan before November 2, 1976 qualify for a service retirement benefit if they are at least 50 years old and have at least 25 years of credited service. The service retirement benefit is calculated using the member's final compensation (monthly salary earnable at the rank or position the member held for at least one year immediately prior to retiring) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

Firefighter Members and Police Members who became members of the Plan on or after November 2, 1976 and prior to July 1, 2010 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest one-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

Firefighter Members and Police Members who became members of the Plan on or after July 1, 2010 and prior to January 7, 2012 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest two-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

Firefighter Members and Police Members who became members of the Plan on or after January 7, 2012 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest three-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

(c) Disability Retirement

Miscellaneous Non-Safety 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. The disability retirement benefit is calculated using the member's average final compensation multiplied by the member's years of credited service times the disability factor (1.8) up to a maximum of 75% of average final compensation.

Firefighter Members, Police Members, Sheriff Members, and Miscellaneous Safety Members are eligible to apply for an industrial disability retirement benefit from their first day on the job in firefighter or police service if their disability is caused by an illness or injury that they receive while performing their duties. The industrial disability retirement benefit is based on the member's average final compensation multiplied by the permanent disability rating (from 50% to 90%) or the member's service retirement benefit if the member is eligible for a service retirement.

Firefighter Members, Police Members, Sheriff Members, and Miscellaneous Safety Members are eligible to apply for an ordinary disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that is not caused by their work, but that prevents them from performing their duties. The disability retirement benefit is calculated using 1.5% of the member's average final compensation multiplied by years of credited service subject to a minimum of 33.3% and a maximum (75% to 90%).

(d) Separation and Death Benefits

Separation from Employment

Upon separation from City employment, **Miscellaneous Non-Safety 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 contributions in the Plan and receive a vesting benefit that is first payable at or after age 50 for members hired prior to January 7, 2012 or at or after age 53 for members hired on or after January 7, 2012. Miscellaneous members hired before November 2, 1976 need 10 years of credited service to elect the vesting option.

Upon separation from City employment, **Firefighter Members, Police Members, Sheriff Members, and Miscellaneous Safety 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 contributions in the Plan and receive a deferred benefit that is first payable at or after age 50.

Death Benefits Prior to Retirement

Generally, upon the death of an active employee who is eligible for a service retirement, the Retirement System provides continuation benefits to a qualified surviving spouse or qualified domestic partner equal to 50% to 100% of the member's retirement allowance that the member would have received had he or she retired on the date of death.

For qualified surviving spouses and qualified domestic partners of **Firefighter Members, Police Members, Sheriff Members, and Miscellaneous Safety Members** who die prior to becoming eligible for service retirement and whose death is due to an injury received in or illness caused by the performance of duty, salary continuation is provided to the qualified survivor until such time as the member would have qualified for service retirement had he or she lived at which time a continuation benefit equal to 100% of the member's service retirement allowance is provided to the qualified survivor.

A lump sum death payment equal to 6 months' earnable salary plus the member's accumulated contributions is provided upon the death of an active employee not yet eligible for a service retirement to the member's named beneficiary or estate.

Death Benefits after Retirement

Generally, upon the death of a retired member, the Retirement System provides continuation benefits to a qualified surviving spouse or qualified domestic partner equal to 50% to 100% of the member's retirement allowance as of the date of death.

(e) Cost of Living Adjustments (COLA)

Basic COLA

Miscellaneous Non-Safety Members receive a benefit adjustment each July 1 equal to the percentage increase or decrease in the Consumer Price Index (CPI) rounded to the nearest 1%, to a maximum of 2% of the member's previous June 30 retirement benefit. If the CPI decreases in a particular year, however, the negative adjustment cannot reduce a member's monthly retirement benefit below the initial pension amount.

Firefighter Members and Police Members who became members of the Plan before November 2, 1976 receive a benefit adjustment each July 1 equal to 50% of the actual dollar increase or decrease in the salary of the rank or position on which the member's retirement benefit is based. Although decreases are possible in a given year, a negative adjustment cannot reduce a member's monthly benefit below the initial pension amount.

Firefighter Members and Police Members who became members of the Plan on or after November 2, 1976 and Sheriff Members and Miscellaneous Safety Members receive a benefit adjustment each July 1 equal to the percentage increase or decrease in the CPI rounded to the nearest 1%, to a maximum of 2% of the member's previous June 30 retirement benefit. If the CPI decreases in a particular year; however, the negative adjustment cannot reduce a member's monthly retirement benefit below the initial pension amount.

(Dollar amounts in thousands)

Supplemental COLA

The Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan. Effective July 1, 2012, voters approved changes in the criteria for payment of the Supplemental COLA benefit. Certain provisions of the voter approved proposition were challenged in the Courts. A decision by the California Courts modified the interpretation of the proposition. Effective July 1, 2012, SFERS members who retired before November 6, 1996 will receive a Supplemental COLA when there are sufficient "excess" investment earnings in the Plan and the Plan is also fully funded on a market value of assets basis. The "full funding" requirement does not apply to SFERS members who retired after November 6, 1996 and were hired before January 7, 2012. For members who were hired before January 7, 2012, all Supplemental COLAs paid to them in retirement benefits will continue into the future even where an additional Supplemental COLA is not payable in any given year. For members who are hired on and after January 7, 2012, a Supplemental COLA will be paid to retirees when there are sufficient "excess" investment earnings in the Plan and the Plan is also fully funded on a market value of assets basis. For this group, Supplemental COLAs will not be permanent adjustments to retirement benefits. In years when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

(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 held $1,491 and $3,096 pursuant to the DROP as of June 30, 2015 and 2014, respectively.

(g) Membership

Membership of the Retirement System consisted of the following as of June 30, 2015:

	Police	Fire	Miscellaneous	Total
Retirees and beneficiaries currently receiving benefits	2,587	2,067	22,823	27,477
Active members	2,120	1,486	27,233	30,839
Terminated members entitled to but not yet receiving benefits	148	74	6,897	7,119
Total	4,855	3,627	56,953	65,435

(Dollar amounts in thousands)

Membership of the Retirement System consisted of the following as of June 30, 2014:

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

(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 pursuant to legal requirements. Benefits and refunds are recognized when currently 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 $639,620, including $51,719 in recourse debt, as of June 30, 2015, and $964,931, including $93,667 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.

Private equity investments represent the Retirement System's interest in limited partnerships. The fair values of private equity 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, 2015 and 2014 was 61 days and 96 days, respectively. 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, 2015 and 2014, the weighted average maturity of the reinvested cash collateral account was 24 days and 33 days, respectively. 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) Reclassification and Presentation

Certain reclassifications of prior year's balances have been made to conform with the current year presentation.

(f) 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 net pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The Retirement System's implementation of GASB Statement No. 67 effective July 1, 2013 did not significantly impact the accounting for 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.

(3) Deposits

Deposits are carried at cost, which approximates fair value. Deposits in bank accounts were $31,969 and $82,283 as of June 30, 2015, and 2014, respectively. 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, 2015 and 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.

(Dollar amounts in thousands)

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

The Retirement Board's asset allocation policies for the years ended June 30, 2015 and 2014 are as follows:

Asset Class	Target Allocation through January 2015	Target Allocation since February 2015
Global Equity	47.0%	40.0%
Fixed Income	25.0%	20.0%
Private Equity	16.0%	18.0%
Real Assets	12.0%	17.0%
Hedge Funds/Absolute Return	0%	5.0%
	100.0%	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, 2015 and 2014, $503 million (or 50.2% of cash collateral) and $220 million (or 24.1 % of cash collateral), respectively, 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 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 provide 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, 2015 and 2014.

(Dollar amounts in thousands)

(a) Interest Rate Risk

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

Below are tables depicting the segmented time distribution for fixed income investments based upon the expected maturity (in years) as of June 30, 2015 and 2014.

Investments at Fair Value as of June 30, 2015

		Maturities			
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**10+ years**
Asset Backed Securities	$ 140,493	$ 2,605	$ 53,240	$ 18,596	$ 66,052
Bank Loans	115,885	3,192	82,628	30,065	-
Collateralized Bonds	969	-	-	-	969
Commercial Mortgage-Backed	647,322	-	16,138	6,330	624,854
Commingled and Other Fixed Income Funds	405,805	396,657	574	54	8,520
Corporate Bonds	1,937,753	690,752	337,996	542,131	366,874
Corporate Convertible Bonds	308,367	15,824	181,592	44,384	66,567
Foreign Currencies and Cash Equivalents	332,610	332,610	-	-	-
Government Agencies	335,438	317,253	9,861	6,338	1,986
Government Bonds	517,527	16,256	323,157	119,474	58,640
Government Mortgage Backed Securities	333,078	108,159	5,260	12,698	206,961
Index Linked Government Bonds	15,287	-	8,980	2,473	3,834
Mortgages	5	5	-	-	-
Municipal/Provincial Bonds	45,922	-	1,004	4,070	40,848
Non-Government Backed Collateralized Mortgage Obligations	162,844	-	1,894	7,318	153,632
Options	18	19	(1)	-	-
Short Term Investment Funds	323,267	323,267	-	-	-
Swaps	723	(2)	785	(17)	(43)
Total	$ 5,623,313	$ 2,206,597	$ 1,023,108	$ 793,914	$ 1,599,694

(Dollar amounts in thousands)

Investments at Fair Value as of June 30, 2014

		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 2013 – indicating the potential for a credit downgrade. The ongoing concern by the credit rating agencies about 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.

(Dollar amounts in thousands)

The following table illustrates the Retirement System's exposure to credit risk as of June 30, 2015. Investments issued or explicitly guaranteed by the U.S. government of $1,024,648 as of June 30, 2015 are not considered to have credit risk and are excluded from the table below.

Credit Ratings of Fixed Income Investments as of June 30, 2015

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	$ 212,642	4.6%
AA	148,151	3.2%
A	275,303	6.0%
BBB	792,990	17.2%
BB	346,598	7.5%
B	453,086	9.9%
CCC	83,710	1.8%
CC	2,245	0.0%
C	4,806	0.1%
D	4,033	0.1%
Not Rated	2,275,101	49.6%
Total	$ 4,598,665	100.0%

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 $836,800 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

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 19.8% for 2015 and 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, 2015 and 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, 2015 and 2014, $150,429 and $221,650, respectively, 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 years 2015 and 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, private equity investments, real assets, 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.

(Dollar amounts in thousands)

The Retirement System's net exposures to foreign currency risk as of June 30, 2015 are as follows:

Foreign Currency Risk Analysis as of June 30, 2015

Currency	Cash	Equities	Fixed Income	Private Equities	Real Assets	Foreign Currency Contracts	Total
Australian dollar	$ 544	$ 103,354	$ 8,020	$ 13,694	$ -	$ 60,897	$ 186,509
Brazilian real	714	30,380	29,679	-	-	(18,590)	42,183
British pound sterling	2,359	639,515	21,261	-	-	(139,036)	524,099
Canadian dollar	171	88,056	15,912	-	-	(30,971)	73,168
Chilean peso	-	1,148	-	-	-	140	1,288
Colombian peso	324	-	6,111	-	-	750	7,185
Czech koruna	-	1,579	-	-	-	-	1,579
Danish krone	401	45,755	-	-	-	(3,774)	42,382
Euro	6,890	899,087	111,446	195,466	383	(9,779)	1,203,493
Hong Kong dollar	(1,077)	242,251	-	-	-	3,444	244,618
Hungarian forint	243	372	615	-	-	183	1,413
Indian rupee	-	-	-	-	-	4,277	4,277
Indonesian rupiah	409	14,589	9,371	-	-	8,521	32,890
Japanese yen	12,571	675,019	-	-	16,215	154,642	858,447
Malaysian ringgit	16	19,398	7,587	-	-	2,637	29,638
Mexican peso	506	15,878	19,895	-	-	(6,239)	30,040
New Israeli shekel	(125)	8,130	-	-	-	3,927	11,932
New Romanian leu	-	-	1,408	-	-	879	2,287
New Taiwan dollar	1,288	64,514	-	-	-	(145)	65,657
New Zealand dollar	12	3,610	11,991	-	-	(20,255)	(4,642)
Nigerian naira	186	-	309	-	-	-	495
Norwegian krone	279	16,688	-	-	-	(30,421)	(13,454)
Peruvian nuevo sol	-	-	1,487	-	-	(326)	1,161
Philippine peso	69	2,689	571	-	-	(130)	3,199
Polish zloty	16	1,069	11,231	-	-	1,331	13,647
Qatari rial	-	6,256	-	-	-	-	6,256
Russian ruble	3	-	4,796	-	-	62	4,861
Singapore dollar	163	21,740	-	-	-	5,416	27,319
South African rand	1,306	29,314	9,244	-	-	309	40,173
South Korean won	750	95,641	-	-	-	(1,006)	95,385
Swedish krona	582	75,637	-	-	-	15,510	91,729
Swiss franc	886	234,990	153	-	-	(56,846)	179,183
Thai baht	(188)	6,871	2,220	-	-	4,261	13,164
Turkish lira	-	16,353	7,462	-	-	2,926	26,741
United Arab Emirates dirham	-	10,161	-	-	-	-	10,161
Total	$ 29,298	$ 3,370,044	$ 280,769	$ 209,160	$ 16,598	$ (47,406)	$ 3,858,463

(Dollar amounts in thousands)

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

Currency	Cash	Equities	Fixed Income	Private Equities	Real Assets	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

(Dollar amounts in thousands)

(f) Derivative Instruments

The Retirement System reports its derivative instruments under the provisions of Governmental Accounting Standards Board (GASB) issued 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, 2015 and 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 tables below present 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, 2015 and 2014:

As of and for the Year Ended June 30, 2015

Derivative Type / Contracts	Notional Amount	Fair Value	Net Appreciation (Depreciation) in Fair Value
Forwards			
Foreign Exchange Contracts	(a)	$ 749	$ 749
Other Contracts	(a)	(308)	(308)
Options			
Foreign Exchange Contracts	$ (6,939)	18	33
Swaps			
Credit Contracts	121,400	837	659
Interest Rate Contracts	40,315	(114)	(47)
Rights/Warrants			
Equity Contracts	6,059 shares	5,333	(2,407)
Total		$ 6,515	$ (1,321)

(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.

(Dollar amounts in thousands)

As of and for the Year Ended June 30, 2014

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	(4,108)	750
Interest Rate Contracts	385	5	5
Rights/Warrants			
Equity Contracts	1,975 shares	4,746	72
Total		$ (667)	$ (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 non-exchange traded derivative instruments that are in asset positions. As of June 30, 2015, the fair value of forward currency contracts (including foreign exchange contract options) to purchase and sell international currencies were $1,724 and $957, respectively. The Retirement System's counterparties to these contract held credit ratings of A or better on 99.3% of the positions, as assigned by one or more of the major credit rating organizations (S&P, Moody's and/or Fitch), while 0.7% was not rated. As of June 30, 2014, the fair value of forward currency contracts (including foreign exchange contract options) to purchase and sell international currencies were $2,150 and $1,337, respectively. The Retirement System's counterparties 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, 2015 and 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.

(Dollar amounts in thousands)

Interest Rate Risk

The tables below describe the maturity periods of the derivative instruments exposed to interest rate risk at June 30, 2015 and 2014.

Derivative Interest Rate Risk as of June 30, 2015

		Maturities			
Derivative Type / Contracts	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**10+ years**
Forwards					
Foreign Exchange Contracts	$ 749	$ 639	$ 110	$ -	$ -
Other Contracts	(308)	(308)	-	-	-
Options					
Foreign Exchange Contracts	18	19	(1)	-	-
Swaps					
Credit Contracts	837	1	879	-	(43)
Interest Rate Contracts	(114)	(2)	(94)	(18)	-
Total	$ 1,182	$ 349	$ 894	$ (18)	$ (43)

Derivative Interest Rate Risk as of June 30, 2014

		Maturities			
Derivative Type / Contracts	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**10+ years**
Forwards					
Foreign Exchange Contracts	$ 829	$ 829	$ -	$ -	$ -
Other Contracts	(2,123)	(2,123)	-	-	-
Options					
Foreign Exchange Contracts	(16)	(16)	-	-	-
Swaps					
Credit Contracts	(4,108)	8	(3,996)	-	(120)
Interest Rate Contracts	5	-	-	5	-
Total	$ (5,413)	$ (1,302)	$ (3,996)	$ 5	$ (120)

(Dollar amounts in thousands)

The following table details the reference rate, notional amount, and fair value of interest rate swaps that are highly sensitive to changes in interest rates as of June 30, 2015 and 2014:

Derivative Instruments Highly Sensitive to Interest Rate Changes as of June 30, 2015

Investment Type	Reference Rate	Notional Value	Fair Value
Interest Rate Swap	Receive Fixed 11.61%, Pay Variable 1-Day BIDOR	$ 1,586	$ (66)
Interest Rate Swap	Receive Fixed 12.055%, Pay Variable 1-Day BIDOR	334	(5)
Interest Rate Swap	Receive Fixed 12.18%, Pay Variable 1-Day BIDOR	370	(10)
Interest Rate Swap	Receive Fixed 12.23%, Pay Variable 1-Day BIDOR	718	(8)
Interest Rate Swap	Receive Fixed 12.36%, Pay Variable 1-Day BIDOR	4,754	(94)
Interest Rate Swap	Receive Fixed 12.85%, Pay Variable 1-Day BIDOR	370	18
Interest Rate Swap	Receive Fixed 13.68%, Pay Variable 1-Day BIDOR	3,899	(14)
Interest Rate Swap	Receive Fixed 13.775%, Pay Variable 1-Day BIDOR	414	(1)
Interest Rate Swap	Receive Fixed 13.82%, Pay Variable 1-Day BIDOR	2,447	(4)
Interest Rate Swap	Receive Fixed 2%, Pay Variable 6-Month WIBOR	160	(14)
Interest Rate Swap	Receive Fixed 2.12%, Pay Variable 6-Month THB	711	(15)
Interest Rate Swap	Receive Fixed 2.175%, Pay Variable 6-Month THB	669	3
Interest Rate Swap	Receive Fixed 2.58%, Pay Variable 6-Month THB	225	(2)
Interest Rate Swap	Receive Fixed 4.36%, Pay Variable 28-Day MXIBR	2,396	9
Interest Rate Swap	Receive Fixed 5.32%, Pay Variable 3-Month CIBR	635	2
Interest Rate Swap	Receive Fixed 5.33%, Pay Variable 3-Month CIBR	642	(16)
Interest Rate Swap	Receive Fixed 5.61%, Pay Variable 28-Day MXIBR	2,027	(4)
Interest Rate Swap	Receive Fixed 5.63%, Pay Variable 28-Day MXIBR	1,185	(6)
Interest Rate Swap	Receive Fixed 5.84%, Pay Variable 28-Day MXIBR	402	3
Interest Rate Swap	Receive Fixed 6.2%, Pay Variable 3-Month CIBR	162	1
Interest Rate Swap	Receive Fixed 6.22%, Pay Variable 3-Month CIBR	169	(1)
Interest Rate Swap	Receive Fixed 6.53%, Pay Variable 28-Day MXIBR	76	1
Interest Rate Swap	Receive Fixed 7.25%, Pay Variable 3-Month JIBAR	140	(3)
Interest Rate Swap	Receive Fixed 7.5%, Pay Variable 3-Month JIBAR	1,046	(27)
Interest Rate Swap	Receive Fixed 8.5%, Pay Variable 3-Month JIBAR	453	4
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 10.91%	290	13
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 11.16%	99	7
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 11.32%	1,305	12
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 12.225%	857	9
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 12.255%	4,805	49
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 13.9%	5,968	2
Interest Rate Swap	Receive Variable 28-Day MXIBR, Pay Fixed 5.66%	924	44
Interest Rate Swap	Receive Variable 3-Month CIBR, Pay Fixed 6.43%	77	(1)
Total Interest Rate Swaps		$ 40,315	$ (114)

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

Investment Type	Reference Rate	Notional Value	Fair Value
Interest Rate Swaps	Receiving fixed (6.3%), paying floating Mexican Interbank TIIE 28 Day rate	$ 162	$ 4
Interest Rate Swaps	Receiving fixed (6.2%), paying floating Colombian Interbank rate	223	1

(Dollar amounts in thousands)

Foreign Currency Risk
At June 30, 2015, the Retirement System is exposed to foreign currency risk on its investments in forwards, rights, warrants and swaps denominated in foreign currencies.

Derivative Instruments Foreign Currency Risk Analysis as of June 30, 2015

Currency	Forwards	Rights/ Warrants	Swaps	Total
Australian dollar	$ 116	$ -	$ -	$ 116
Brazilian real	565	-	(91)	474
British pound sterling	(4,585)	-	-	(4,585)
Canadian dollar	189	-	-	189
Chilean peso	(9)	-	-	(9)
Colombian peso	(18)	-	(14)	(32)
Euro	(60)	84	28	52
Hong Kong dollar	(517)	-	-	(517)
Hungarian forint	(3)	-	-	(3)
Indian rupee	5	-	-	5
Indonesian rupiah	96	-	-	96
Japanese yen	2,443	-	-	2,443
Malaysian ringgit	(26)	-	-	(26)
Mexican peso	219	-	47	266
New Israeli shekel	65	-	-	65
New Romanian leu	(1)	-	-	(1)
New Russian ruble	(1)	-	-	(1)
New Zealand dollar	1,505	-	-	1,505
Norwegian krone	152	-	-	152
Peruvian nuevo sol	8	-	-	8
Polish zloty	15	-	(14)	1
Singapore dollar	16	-	-	16
South African rand	83	-	(27)	56
Swedish krona	(257)	-	-	(257)
Swiss franc	374	-	-	374
Thai baht	(29)	-	(15)	(44)
Turkish lira	96	-	-	96
Total	$ 441	$ 84	$ (86)	$ 439

(Dollar amounts in thousands)

At June 30, 2014, the Retirement System is exposed to foreign currency risk on its investments in forwards, rights, warrants and swaps denominated in foreign currencies.

Derivative Instruments Foreign Currency Risk Analysis as of June 30, 2014

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, 2015 and 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 unless permitted within their specific investment management guidelines. 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 market 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 $5,434,400, which represented 27.3% of plan net position. For the year ended June 30, 2014, the currency management program lost $19,423 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 plan net position. As of June 30, 2015 and 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, 2015, the Retirement System has lent $1,442,293 in securities and received collateral of $1,001,546 and $496,053 in cash and securities, respectively, from borrowers. The cash collateral is invested in a separate account managed by the lending agent using investment guidelines approved by the Retirement Board. Due to the decline in the fair value of assets held in the separately managed account, the Retirement System's invested cash collateral was valued at $1,001,231. The net unrealized loss of $315 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.

(Dollar amounts in thousands)

The Retirement System's securities lending transactions as of June 30, 2015 are summarized in the following table.

Securities Lending as of June 30, 2015

Investment Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Non-Cash Collateral
Securities on Loan for Cash Collateral			
International Corporate Fixed Income	$ 14,704	$ 15,559	$ -
International Equities	40,737	43,286	-
International Government Fixed	1,952	2,110	-
U.S. Government Agencies	260	265	
U.S. Corporate Fixed Income	187,469	191,358	-
U.S. Equities	443,154	452,384	-
U.S. Government Fixed Income	290,880	296,584	-
Securities on Loan for Non-Cash Collateral			
International Corporate Fixed Income	6,415	-	6,776
International Equities	352,198	-	381,165
International Government Fixed	13,491	-	13,965
U.S. Corporate Fixed Income	12,370	-	12,624
U.S. Equities	78,423	-	81,279
U.S. Government Fixed Income	240	-	244
	$ 1,442,293	$ 1,001,546	$ 496,053

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, 2015.

Fair Value of Cash Collateral Account as of June 30, 2015

Investment Type	Fair Value	Maturity Less Than 1 Year
Commercial Paper	$ 51,095	$ 51,095
Negotiable Certificates of Deposit	401,996	401,996
Repurchase Agreements	503,000	503,000
Short Term Investment Funds	45,140	45,140
Total	$ 1,001,231	$ 1,001,231

(Dollar amounts in thousands)

The Retirement System's exposure to credit risk in its reinvested cash collateral account as of June 30, 2015 is as follows:

Credit Rating of Cash Collateral Account as of June 30, 2015

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AA	$ 165,124	16.5%
A	406,006	40.5%
Not Rated *	430,101	43.0%
Total	$ 1,001,231	100.0%

* Repurchase agreements of $430,000 are not rated, but are held by counterparties with an S&P rating of A.

As of June 30, 2014, the Retirement System has lent $1,327,008 in securities and received collateral of $912,886 and $466,777 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 $911,577. The net unrealized loss of $1,309 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

Investment Type	Fair Value of Loaned 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
	$ 1,327,008	$ 912,886	$ 466,777

(Dollar amounts in thousands)

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

Investment Type	Fair Value	Maturity Less Than 1 Year
Commercial Paper	$ 105,023	$ 105,023
Negotiable Certificates of Deposit	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 Account as of June 30, 2014

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AA	$ 491,535	53.9%
A	199,979	21.9%
Not Rated *	220,063	24.2%
Total	$ 911,577	100.0%

* Repurchase agreements of $220,000 are not rated, but are held by counterparties with an S&P rating of A.

(7) Investments in Real Assets

Real assets investments represent the Retirement System's interests in real assets limited partnerships and separate accounts. The changes in these investments during the years ended June 30, 2015 and 2014 are summarized as follows:

	2015	2014
Investments:		
Beginning of the year	$ 1,784,244	$ 1,639,130
Capital investments	255,252	305,987
Equity in net earnings	40,378	70,512
Net appreciation in fair value	258,911	167,414
Capital distributions	(362,859)	(398,799)
End of the year	$ 1,975,926	$ 1,784,244

(Dollar amounts in thousands)

(8) Benefits

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

	2015	2014
Service retirement benefits	$ 878,834	$ 827,311
Disability retirement benefits	175,620	172,619
Death benefits	7,492	7,998
COLA benefit adjustments	51,447	53,098
DROP accrued retirement benefits	5,298	1,203
Total	$ 1,118,691	$ 1,062,229

(9) Funding Policy

Contributions are made to the Plan by both the employers and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal years 2015 and 2014 as a percentage of gross covered salary were as follows:

	Fiscal Year 2015	Fiscal Year 2014
Participants entering the Retirement System prior to November 2, 1976		
Police and fire	11.5%	11.5%
Miscellaneous	8.0% - 12.0%	8.0% - 12.0%
Participants entering the Retirement System after November 2, 1976 and prior to July 1, 2010		
Police and fire	12.0%	12.0%
Miscellaneous	7.5% - 11.5%	7.5% - 11.5%
Participants entering the Retirement System on or after July 1, 2010		
Police and fire	12.5% - 13.0%	12.5% - 13.0%
Miscellaneous	7.5% - 11.5%	7.5% - 11.5%
Sheriff and Miscellaneous Safety hired on or after January 7, 2012	12.5% - 13.0%	12.5% - 13.0%

Beginning in the year ended June 30, 2006, most employee groups agreed through collective bargaining for employees to contribute all or a portion of the employee contributions, per memorandums of understanding (MOU's), on a pretax basis. As of July 1, 2011, substantially all employee groups have agreed through collective bargaining for employees to contribute all employee contributions on a pre-tax basis.

Prior to the early 1950s, all Retirement System members were covered by the Federal Old-Age and Survivors Disability Insurance provisions of the Federal Social Security Act. In the early 1950s, the City and County agreed to exclude uniformed police officers and firefighters from Social Security coverage. Prior to 1990, miscellaneous members covered by Social Security were able to elect to reduce the above stated rate of employee contributions in consideration of their anticipated Social Security benefit payments. All participants who elected such reduction must repay the amount of unpaid employee contributions with interest or there will be an appropriate actuarial reduction in benefits.

(Dollar amounts in thousands)

Participants terminating service with the employers may withdraw employee contributions plus interest. The interest rate applied to accumulated employee contributions is determined by the Retirement System's consulting actuary and recommended to the Retirement Board. The Retirement Board reviews and sets the crediting interest rate for the Plan on an annual basis. Interest for the years ended June 30, 2015 and 2014 accumulated at 4.00%.

The basic employer contributions are the amounts deemed necessary on an actuarial basis using the entry age normal cost method to provide the Retirement System with assets sufficient to pay the basic benefits that are not provided for by employees' contributions. Contribution rates used in fiscal years 2015 and 2014 are based on a schedule of rates determined from actuarial studies by the consulting actuary as of July 1, 2013 and 2012, respectively.

Required and actual employer contribution rates for the years ended June 30, 2015 and 2014 as a percentage of covered payrolls were as follows:

	Fiscal Year 2015	Fiscal Year 2014
Police plan members	22.26% - 23.26%	20.32% - 21.32%
Fire plan members	22.26% - 23.26%	20.32% - 21.32%
Miscellaneous Non-Safety members	22.76% - 26.76%	20.82% - 24.82%
Sheriff and Miscellaneous Safety members	22.76% - 23.26%	20.82% - 21.32%

(10) Net Pension Liability of Employers

The components of the net pension liability at June 30, 2015 and 2014 were as follows:

	June 30, 2015	June 30, 2014
Total pension liability	$ 22,724,102	$ 21,691,042
Plan net position	$ 20,428,069	$ 19,920,607
Net pension liability	$ 2,296,033	$ 1,770,435
Plan net position as a percentage of the total pension liability	89.9%	91.8%

(Dollar amounts in thousands)

(a) Actuarial Assumptions

The total pension liabilities as of June 30, 2015 and 2014 were determined by actuarial valuations as of June 30, 2014 and 2013, respectively, which were rolled forward to June 30, 2015 and 2014 using standard roll forward procedures.

The following is a summary of actuarial methods and assumptions used at the June 30, 2015 measurement date:

Inflation	3.25%
Salary increases	3.75% plus merit component based on employee classification and years of service
Investment rate of return	7.50%, 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 at the June 30, 2015 measurement date 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, 2014.

The probability of a Supplemental COLA as of June 30, 2015 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
2016	0.000%
2021	0.345%
2026	0.375%
2031	0.375%
2036+	0.375%

The long-term expected rate of return on pension plan investments was 7.50%. 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.

(Dollar amounts in thousands)

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	40.0%	5.1%
Fixed Income	20.0%	1.2%
Private Equity	18.0%	7.5%
Real Assets	17.0%	4.1%
Hedge Funds/Absolute Return	5.0%	3.5%
	100.0%	

The following is a summary of actuarial methods and assumptions used at the June 30, 2014 measurement date:

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 at the June 30, 2014 measurement date 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.

(Dollar amounts in thousands)

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 at June 30, 2015 was 7.46%. 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, 2015 actuarial valuation. Based on those assumptions, the System's plan net position was projected to be available to make projected future benefit payments for current members until FY 2075-76 when only a portion of the projected benefit payments can be made from the projected plan net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.85% to the extent that they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2015 is 7.46%.

The discount rate used to measure the total pension liability at June 30, 2014 is determined in a similar fashion (but based upon the contribution policy in effect for the July 1, 2014 valuation) and is 7.58%. The System's plan net position was projected to be available to make projected future benefit payments for current members until FY 2082-83 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. The single equivalent rate used to determine the total pension liability as of June 30, 2014 is 7.58%.

The municipal bond rates of 3.85% and 4.31% were used for the determination of the above discount rates, which represent the yields available at June 30, 2015 and June 30, 2014, respectively, on the Bond Buyer 20-Bond GO Index.

(Dollar amounts in thousands)

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

The following presents the net pension liability as of June 30, 2015 and 2014, calculated using the discount rate of 7.46% and 7.58%, respectively, as well as what the total net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the discount rates:

	Net Pension Liability	
	June 30, 2015	June 30, 2014
1% Decrease	$5,077,324	$4,385,495
Current Discount Rate	$2,296,033	$1,770,435
1% Increase	$(36,503)	$(425,497)

(d) Money Weighted Rate of Returns

For the year ended June 30, 2015 and 2014, the annual money-weighted rate of return on pension plan investments, net of investment expenses, adjusted for the changing amounts actually invested, were 4.03% and 19.10%, respectively.

(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).

The City and County has determined a City-wide annual required contribution (ARC), interest on net OPEB obligation, ARC adjustment, and OPEB cost based upon an actuarial valuation performed in accordance with GASB Statement No. 45, by the City and County's actuary. The City and County's allocation of the OPEB-related costs to the Retirement System for the years ended June 30, 2015 and 2014 based upon its percentage of City-wide payroll costs is presented below. Included in the Retirement System's payments for all health care benefits amounts are approximately $543 and $531 for the years ended June 30, 2015 and 2014, respectively, to provide postretirement benefits for retired employees on a pay-as-you-go basis. The OPEB expense for the Retirement System is included in other administrative expenses for fiscal years 2014-15 and 2013-14.

Plan Fiscal Year Ended June 30	**Annual OPEB Cost**	**Percentage of OPEB Cost Contributed**	**Net OPEB Obligations**
2012	$ 1,255	40.1%	$ 3,985
2013	1,349	39.6%	4,800
2014	1,195	36.0%	5,464
2015	1,154	35.0%	6,075

(Dollar amounts in thousands)

The following table shows the components of the City and County's annual OPEB allocations for the Retirement System, for the amount contributed to the OPEB plan, and changes in the Retirement System's net OPEB obligation:

	2015	2014
Annual required contribution	$ 1,112	$ 1,155
Interest on net OPEB obligation	253	242
Adjustment to annual required contribution	(211)	(202)
Annual OPEB cost	1,154	1,195
Contribution made	(543)	(531)
Increase in net OPEB obligation	611	664
Net OPEB obligation - beginning of year	5,464	4,800
Net OPEB obligation - end of year	$ 6,075	$ 5,464

The City and County issues a publicly available financial report that includes the complete note disclosures and RSI 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 assets in the amount of $1,076,729 and private equities in the amount of $1,524,713 totaling $2,601,442 as of June 30, 2015.

(b) Legal

Proposition C, a pension reform Charter amendment approved by voters in November 2011, included changes in the calculation of certain supplemental cost of living adjustments and was intended to reduce pension costs. These Proposition C changes in the calculation of certain supplemental cost of living adjustments were the subject of litigation and a decision of the California Court of Appeals. The California Court of Appeals held that the changes to the supplemental cost of living adjustments in Proposition C could not be applied to retirees who retired after November 1996. That decision was appealed to the California Supreme Court. On June 17, 2015, the California Supreme Court denied review of the Court of Appeals decision. On October 25, 2015, the San Francisco Superior Court entered an amended judgment consistent with the Court of Appeals decision. Issues around which Retirement System retirees and beneficiaries will be eligible for the supplemental cost of living adjustments under the amended judgment are currently under review by Retirement System staff and legal counsel. The amount of the retroactive cost of living adjustments to be paid to eligible retirees and beneficiaries cannot be reasonably estimated at this time.

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
Required Supplementary Information – Unaudited
Years Ended June 30, 2015 and 2014
(Dollar amounts in thousands)

Schedule of Changes in Net Pension Liability and Related Ratios

The following schedule shows the changes in the net pension liability for the years ended June 30, 2015 and 2014:

Schedule of Changes in Net Pension Liability and Related Ratios

	Year Ended June 30, 2015	Year Ended June 30, 2014
Total pension liability:		
Service cost	$ 523,644	$ 509,200
Interest on total pension liability	1,621,582	1,542,266
Differences between expected and actual experience	(197,981)	-
Changes of assumptions	216,845	(73,315)
Benefit payments, including refunds of contributions	(1,131,030)	(1,072,526)
Net change in total pension liability	1,033,060	905,625
Total pension liability - beginning of year	21,691,042	20,785,417
Total pension liability - end of year (a)	22,724,102	21,691,042
Plan net position:		
Contributions - member	301,682	289,020
Contributions - employer	592,643	532,882
Net investment income	763,429	3,175,431
Benefit payments, including refunds of contributions	(1,131,030)	(1,072,526)
Administrative expense	(19,262)	(15,745)
Net change in plan net position	507,462	2,909,062
Plan net position - beginning of year	19,920,607	17,011,545
Plan net position - end of year (b)	20,428,069	19,920,607
Net pension liability - end of year (a) - (b)	$ 2,296,033	$ 1,770,435
Plan net position as a percentage of total pension liability	89.9%	91.8%
Covered employee payroll	$ 2,640,153	$ 2,535,963
Net pension liability as a percentage of covered-employee payroll	87.0%	69.8%

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

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
Required Supplementary Information – Unaudited
Years Ended June 30, 2015 and 2014
(Dollar amounts in thousands)

Schedule of Employer Contributions

Year Ended June 30	Actuarially Determined Contributions	Contributions in Relation to Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2015	$ 592,643	$ 592,643	$ -	$ 2,640,153	22.4%
2014	532,882	532,882	-	2,535,963	21.0%
2013	442,870	442,870	-	2,393,842	18.5%
2012	410,797	410,797	-	2,360,413	17.4%
2011	308,823	308,823	-	2,398,823	12.9%
2010	223,614	223,614	-	2,544,939	8.8%
2009	119,751	119,751	-	2,457,196	4.9%
2008	134,060	134,060	-	2,376,221	5.6%
2007	132,601	132,601	-	2,161,261	6.1%
2006	126,533	126,533	-	2,052,862	6.2%

Schedule of Money-Weighted Rate of Return

Year Ended June 30	Money-Weighted Rate of Return
2015	4.03%
2014	19.10%
2013	13.91%
2012	0.81%
2011	22.65%
2010	14.53%
2009	-22.28%
2008	-4.09%
2007	19.81%
2006	13.22%

(Dollar amounts in thousands)

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

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 net position of the Retirement System. The discount rate was 7.46% as of June 30, 2015 and 7.58% as of June 30, 2014. 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* for the corresponding fiscal years.

Note to Schedule of Employer Contributions

Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year in which contributions are reported. Methods and assumptions used to determine contribution rates are:

Year Ended June 30	Valuation Date	Discount Rate	Salary Increase/ Amortization Growth	Mortality	Significant Changes in Assumptions from Prior Year
2015	7/1/2013	7.58%	3.83%	RP2000 Mortality projected with Scale AA	None
2014	7/1/2012	7.58%	3.83%		Investment return and wage inflation assumptions
2013	7/1/2011	7.66%	3.91%		Investment return and wage inflation assumptions
2012	7/1/2010	7.75%	4.00%		Wage inflation and demographic assumptions including salary merit increases based upon experience study
2011	7/1/2009	7.75%	4.50%	1994 GAM	None
2010	7/1/2008	7.75%	4.50%		Investment return
2009	7/1/2007	8.00%	4.50%		None
2008	7/1/2006	8.00%	4.50%		None
2007	7/1/2005	8.00%	4.50%		Asset smoothing method, disability mortality assumption and other assumption and valuation methodology changes
2006	7/1/2004	8.00%	4.50%		Demographic assumptions including salary merit increases based upon experience study

A complete description of the methods and assumptions used to determine contribution rates can be found in the corresponding actuarial valuation reports.