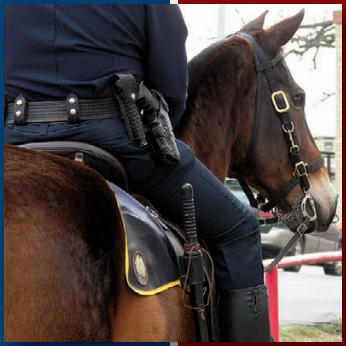
Police and Fire Department Retirement Plan



City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2010

Russell U. Crosby
Director

A Pension Trust Fund of
the City of San José, California

Department of Retirement Services
1737 North First Street, Suite 580
San José, California 95112-4505

Phone 408 794-1000
Fax 408 392-6732

www.sjretirement.com

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Board Chair Letter

November 24, 2010

The Honorable Mayor and City Council
Members of the Police and Fire Department
Retirement Plan
City of San José
San José, California

Dear Mayor, Council Members, and Plan Members:

On behalf of the members of the Board of Administration, I am pleased to present the Police and Fire Department Retirement Plan's (Plan) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010.

The Plan earned a time-weighted gross-of-fees return of 14.3% on investments, compared to a 12.2% return for its benchmark and a 13.1% return for the Independent Consultants Cooperative's (ICC) Public Fund Median. The Plan's performance for the year was in the top quartile of the ICC Public Funds Universe.

Additionally, the Plan earned a time-weighted gross-of-fees rate of return of (3.8%) and 3.4% for the three-year and five-year periods ending June 30, 2010, respectively, while the ICC Public Fund Median earned a time-weighted rate of return of (4.7%) and 2.7% for the same periods.

Net of investment, administrative, securities lending, and SRBR expenses, the Plan earned a time-weighted return of 13.7%, (4.4%), and 2.8% for the fiscal year, three-year, and five-year periods ending June 30, 2010 respectively. In contrast, the net rate of return assumed by the Plan's actuary is 8.0%.

Moreover, the net asset value of the Plan increased from $2,044,242,000 to $2,314,870,000, net of pending purchases and sales (see the Financial Section beginning on page 14). The net increase in Plan assets for fiscal year 2009-2010 was $270,628,000.

During the year, the Trustees decided to move to annual actuarial valuations, and with their external actuary refined a number of assumptions and, of note, the Plan moved up six positions toward conservatism in actuarial assumptions on the Roeder ranking for California public plans.

The Board approved a new asset allocation structure, further diversifying the investment portfolio. The Board also approved an increase to the alternatives allocation and the addition of inflation-linked assets and opportunistic strategies to this asset class. This new allocation reduced risk by 10% from the prior allocation. As part of the ongoing process of transitioning to the Plan's new diversified asset allocation targets, the Plan engaged in an asset transition unlike those usually undertaken by other public plans in California and most public plans nationwide. In one large transition over eight weeks, the transition manager moved $853 million from seven terminated active money managers into four index funds that replicate sectors of the financial markets. This single transition lowered the costs that would have been incurred in the transition process typically used by plan sponsors, and reduced on-going plan expenses for money managers by approximately $4 million per year.

After conducting extensive searches, the Board hired RS Investments as small capitalization value manager, Calamos Advisors as global convertibles manager, and Seix Advisors and Mackay Shields as credit dislocation and bank loan managers.

Lastly, during the fiscal year, the Board operated with fewer trustees as the Civil Service Commission representative's position remained unfilled.

The Board believes that the professional services rendered by the staff, the auditors, investment consultant, actuary, and the fund performance evaluators have produced a sound fund capable of continued growth. The Board of Administration and its staff are available to provide additional information as requested.

Sincerely,

David A. Bacigalupi, *Chairman*
Board of Administration

Table of Contents

This page has been intentionally left blank.

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2010

Introductory Section

Letter of Transmittal

November 24, 2010

City of San Jose
Department of Retirement Services
Board of Administration
Police and Fire Department Retirement Plan
1737 North First Street, Suite 580
San Jose, CA 95112

Dear Board Members:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Police and Fire Department Retirement Plan (Plan) for the fiscal year ended June 30, 2010. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the Plan's management. This CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions of the Plan are reported on the accrual basis of accounting. For an overview and analysis of the financial activities of the Plan for the fiscal years ended 2010 and 2009 refer to the Management's Discussion and Analysis on page 16.

Macias Gini & O'Connell LLP, the Plan's independent auditor, has audited the accompanying financial statements. Management believes internal controls are adequate and the accompanying statements, schedules, and tables are fairly presented and free from material misstatement. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

The financial audit ensures that the Plan's financial statements are presented in conformity with generally accepted accounting principles and are free of material mis statements. The Plan recognizes that even sound and well designed internal controls have their inherent limitations in that errors may still occur as a result of factors such as carelessness, faulty judgment, communication breakdowns, and/or that internal controls can be circumvented by internal or external collusion. The Plan continuously reviews internal controls to ensure that the Plan's operating policies and procedures are being adhered to and that the controls are adequate to ensure accurate and reliable financial reporting and to safeguard the Plan's assets.

Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. I am proud to report that the Government Finance Officers Association of the United States and Canada (GFOA) awarded its Certificate of Achievement for Excellence in Financial Reporting to the Plan for its CAFR for the fiscal year ended June 30, 2009. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. This report satisfies both generally accepted accounting principles and applicable legal requirements.

We believe this report continues to conform to the Certificate of Achievement Program Requirements and staff will submit it to the GFOA to determine its eligibility for another certificate for the fiscal year ended June 30, 2010. The Plan also received the Public Pension Standards Award in recognition of meeting professional standards for plan design and administration by the Public Pension Coordinating Council.

I encourage you to review this report carefully. I trust that you and the members of the Plan will find this CAFR helpful in understanding the Plan.

Letter of Transmittal *(Continued)*

Funding

The Plan's funding objective for both its defined benefit pension plan and its defined benefit other post-employment healthcare (OPEB) plan is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2009, the funding ratio of the defined benefit pension plan was approximately 86.7% based on the Actuarial value of assets and 66.4% based on Market value of assets. As of June 30, 2009, the funding ratio of the defined benefit OPEB plan was 7.3% based on the Actuarial value of assets and 5.6% based on the market value of assets.

During the year, the Trustees decided to move to annual actuarial valuations, therefore a valuation of Plan assets and liabilities as of June 30, 2010 will be prepared during the coming fiscal year.

For the valuation of pension and OPEB benefits, the actuarial assumption for the net rate of return to be earned by the Plan is currently 8.0% and 6.7%, respectively. The impact of the difference between the actual net rate of return earned by the Plan, 13.7%, and the 8.0% and 6.7% assumption will result in an investment gain that will be reflected in the pension and OPEB respectively unfunded liabilities in next year's CAFR. The net increase in Plan assets for fiscal year 2009-2010 was $270,628,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Assets on page 30. A three-year history of the defined benefit pension plan's funding progress is presented on page 53. A three-year history of the defined benefit OPEB plan's funding progress is presented on page 54.

Financial and Economic Summary

During the 2009-2010 fiscal year, key economic indicators recovered from the depths of the financial crisis in the prior two years with significant help from government stimuli. Global equity and fixed income benchmarks achieved solid returns in the last fiscal year. However, lingering fears about the possibility of a "double-dip" recession in light of anemic job growth continue to keep investors nervous and risk premiums and volatility elevated across asset classes. With this backdrop, it is of critical importance that the Plan continues to focus on low volatility and stability of returns going forward.

Investment Summary

The Board of Administration has exclusive control of all investments of the Retirement Plan and is responsible for the establishment of investment objectives, strategies and policies. Members of the Board serve in a fiduciary capacity and discharge their duties with respect to the Plan and the investment portfolio solely in the interest of, and for the exclusive purposes of providing benefits to, members of the Plan and defraying the reasonable cost of administration.

Over the past fiscal year, the Plan's gross-of-fees return was 14.3%, while the Independent Consultant Cooperative's (ICC) Public Funds median return over the same period was 13.1%. The Plan's performance was in the top quartile of the ICC Public Funds Universe for the year. Gross-of-fees return was (3.8%) and 3.4% for the three-year and five-year periods ending June 30, 2010 respectively, while the ICC Public Funds median was (4.7%) and 2.7% for the same periods. Additionally, the Plan's return, net of expenses, which includes investment, administrative, securities lending, and SRBR expenses, for the fiscal year was 13.7%, and for the three-year and five-year periods ending June 30, 2010 was (4.4%) and 2.8% respectively.

Moreover, the net asset value of the Plan increased from $2,044,242,000 to $2,314,870,000, net of pending purchases and sales (see the Financial Section beginning on page 14).

The Plan's outperformance relative to other plans was due to its adoption of a new asset allocation strategy with higher allocation to fixed income and alternative investments, which have performed well over the past fiscal year.

The Plan has changed its asset allocation to increase the allocation to alternative investments while reducing the allocation to equity investments. The diversification benefit that alternative investments add to the Plan is significant.

Major Initiatives

Following the market crash of 2008, the Board approved a new asset allocation that improved the diversification of the portfolio structure, which in fiscal year 2008-2009 had replaced a basic 59% equity, 24% fixed income, and 17% real estate and private equity allocation with a 49% equity, 23% fixed income, and 28% alternatives allocation that included private equity, real estate, absolute return, and real assets. The new fiscal year 2009-2010 structure reduced the equity exposure to 40%, increased the fixed income exposure to 25%, and increased the alternatives allocation to 35%. The Board also approved the addition of inflation-linked assets and opportunistic strategies to the alternatives asset class. This new allocation reduced risk by 10% from the prior allocation.

During fiscal year 2009-2010, as part of the ongoing process of transitioning to the new diversified asset allocation targets, the Plan engaged in an asset transition unlike those usually undertaken by public plans in California and most public plans nationwide. In one large transition over eight weeks, the transition manager moved $853 million from seven terminated active money managers into four index funds that replicate markets. This single transition lowered the costs that would have been incurred in the transition process typically used by plan sponsors, and reduced on-going annual expenses for money managers by approximately $4 million per year.

During the year, after conducting extensive searches, the Trustees approved RS Investments as small capitalization value equity manager, Calamos Advisors as global convertibles manager, and Seix Advisors and Mackay Shields as credit dislocation strategy and bank loan managers.

The Plan has engaged Macias Gini & O'Connell LLP, the Plan's external auditors, to apply and provide the Agreed-Upon Procedures ("AUP"), to determine whether the Plan and the City of San Jose's Finance Payroll Division have systems and controls established and operating to comply with the provisions of Chapter 3.36 of the San Jose Municipal Code related to the capture, transfer and recording of contributions. The accountant's report will also include agreed-upon procedures relating to the City's Fair Labor Standards Act (FLSA) pensionable earnings correction. This review of the City payroll and Plan's systems and controls was the first of its kind in San Jose. A final report is expected in December 2010.

The Plan provided information and cooperated with the City Auditor's Office in their *Audit on Pensionable Earnings and Time Reporting*. The audit reviewed the time-reporting and payroll processes in so far as they impacted pensionable earnings and pensionable hours; described City time reporting and earnings codes and their governance; and examined risks surrounding City earnings codes, with particular focus on FLSA codes. The audit identified issues and provided recommendations to the City, Plan, and City Council on payroll and time reporting system errors, code duplications/unclear definitions and general inefficiencies. The Plan is currently working with the City Auditor's Office and the other City departments to resolve the outstanding recommendations.

Over the last year, the Retirement Services Department processed 20% more service retirements without an increase in staff. A key focus during the fiscal year was the implementation of Retirement Group Counseling to address unprecedented levels of retirements.

Letter of Transmittal *(Continued)*

In addition, the Retirement Services Department offered 59 educational classes with over 1,408 Police, Fire, and Federated active and retired members participating. Staff began the implementation of MedExpert, organized wellness screenings for retirees, and participated in the health benefit consultant selection for the City in conjunction with the City's Human Resources and Labor Groups.

Due to the City's overall financial difficulties, critical positions were kept open and remain unfilled. As a result, the Retirement Services Department functioned with staff losses and was forced to take a passive stance on recruiting with the exception of the hiring of two investment officers.

Major accounting projects completed during the fiscal year include the following: the implementation of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments;* the complex reconciliation of the City's election to make lump sum payments of City required pension and other post-employment healthcare contributions to the Police and Fire Department Retirement Plan; the establishment of significant controls for staff and trustee travel; and the implementation of the City Auditor's recommendations to the Board and Plan in their *Audit of Retirement Services Travel Expenses*.

Conclusion

I would like to take this opportunity to thank the members of the Plan for their confidence in the Plan management during the past year. I also want to express my thanks to the Board of Administration for its dedicated effort in supporting the staff through this past year. I thank the consultants and staff for their commitment to the Plan and for their diligent work to assure the Plan's continued successful operation.

Respectfully Submitted,

Russell U. Crosby
Director of Retirement Services

Certificate of Achievement for Excellence in Financial Reporting

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Jose Police and Fire Department Retirement Plan California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Jeffrey R. Emer

Executive Director

Certificate of Meeting Professional Standards in Public Pensions

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2009

Presented to

City of San Jose
Police & Fire Department Retirement Plan

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

Board of Administration, Administration, and Outside Consultants

Board Of Administration

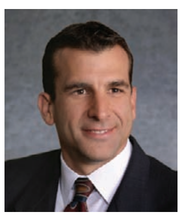
The Retirement Plan is administrated by a seven-member Board of Administration composed of two City Council members, a member from the Civil Service Commission, two Plan members – one from the Police Department and one from the Fire Department, a member who has retired under the provisions of the Plan, and a member who holds a position in the City Administration at a level of Deputy Department Head or higher and who has experience in the investment or management of public funds, retirement funds, institutional funds, or endowment funds, in accordance with Section 2.08.400 of the San Jose Municipal Code.

As of June 30, 2010, the members of the Board were as follows:

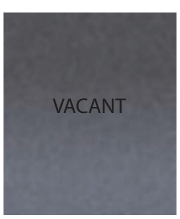
DAVID BACIGALUPI, CHAIR
Retired Plan member appointed to the Board in January 2009. His current term expires November 30, 2012.

CONRAD TAYLOR, VICE CHAIR
Employee Representative for the Police Department appointed to the Board in March 2009. His current term expires November 30, 2013.

SEAN KALDOR
Employee Representative for the Fire Department appointed to the Board in May 2010. His current term expires November 30, 2011.



SAM LICCARDO
City Council Member appointed to the Board in December 2008.



Civil service commission member. Current term expires November 30, 2013.

SCOTT JOHNSON
City Administration Member appointed to the Board in February 2007.

ROSE HERRERA
City Council Member appointed to the Board in December 2008.

Department of Retirement Services Administration

RUSSELL U. CROSBY
Director of Retirement Services

DONNA BUSSE
DEPUTY DIRECTOR

CARMEN RACY-CHOY
DEPUTY DIRECTOR

Outside Consultants

ACTUARY

The Segal Company
San Francisco, CA

ATTORNEY

Saltzman & Johnson
San Francisco, CA

ATTORNEY, INVESTMENT

Hanson Bridgett, LLP
San Francisco, CA

ATTORNEY, REAL ESTATE

Bingham McCutchen, LLP
East Palo Alto, CA

AUDITOR

Macias Gini & O'Connell LLP
Walnut Creek, CA

A LIST OF INVESTMENT PROFESSIONALS BEGINS ON PAGE 76 OF THE INVESTMENT SECTION OF THIS REPORT.

Standing Public Meetings

Board Meetings: First Thursday of the Month, 8:30 AM
Committee for Investments: Monthly
Committee of the Whole: Quarterly
Real Estate Committee: Quarterly

Agendas for all public meetings are posted on the bulletin board at City Hall and on the department's website at *http://sjretirement.com/PF/meetings/agendas.asp* or they can be obtained from the retirement office at 1737 North First Street, Suite 580, San Jose, CA 95112. **Meeting times and locations are subject to change; please call our office at (408) 794-1000 for current information.**

2010 Department of Retirement Services Organizational Chart

- **DIRECTOR**
  - **Deputy Director Chief Investment Officer**
    - **Retirement Investment Officer** (Absolute Return & Manager Selection)
    - **Retirement Investment Officer** (Actuarial)
    - **Retirement Investment Officer** (Risk Management)
    - **Retirement Investment Officer** (Public Securities)
    - **Retirement Investment Officer** (Quantitative Analysis)
    - **Retirement Investment Officer** (Real Assets)
    - **Financial Analyst** (Operations)
    - **Analyst** (Operations)
    - **Retirement Analyst** (Operations)
    - **Principal Accountant**
      - **Accountant**
      - **Accounting Technician**
      - **Senior Account Clerk**
      - **Account Clerk**
  - **Deputy Director Chief Operations Officer**
    - **Administrative Assistant**
      - **Secretary**
    - **Information Systems Analyst**
      - **Systems Analyst**
      - **Network Technician II**
    - **Support Services Supervisor**
      - **Analyst** (Education/training)
      - **Analyst** (Health Benefits)
      - **Senior Analyst**
        - **Benefits Analyst**
        - **Benefits Analyst**
        - **Benefits Analyst**
        - **Benefits Analyst**
        - **Staff Technician**
        - **P/T Staff Technician**
      - **Office Specialist**
      - **Office Specialist**

Department Of Retirement Services
1737 North First Street, Suite 580
San Jose, CA 95112

(408) 794-1000
(800) 732-6477
(408) 392-6732 FAX

www.sjretirement.com

Summary of the Principal Plan Provisions

Membership

Mandatory for all full-time safety employees.

Member Contribution

Police Department members contribute 12.96% and Fire Department members contribute 12.40% of their base salary.

City's Contribution

The City contributes 26.89% of the base salary of the Police Department members and 28.31% of the base salary of the Fire Department members.

Interest

Two percent annual interest is calculated each biweekly pay period and is added to employee contributions. This interest is derived from investments.

Termination Of Benefits

Upon termination, the member shall be paid all of his/her accumulated contributions and interest in full satisfaction of all rights and benefits under this Retirement Plan. The City's contributions and interest will not be refunded to the employee.

Military Leave Credit

If during employment with the City of San Jose a member has served in the military, the City will pay the member's contributions into the Retirement System for that period of time if the following conditions exist: (1) a time of war, a national emergency proclaimed by the President or the Congress, or (2) Service outside the United States as requested by the United Nations. This is not refundable to an employee who resigns and requests a refund of contributions.

Vesting Of Pension Credit

After 10 years of service, a member may resign his/her position with the Police or Fire Department and leave the accumulated contributions in the Retirement Plan. A member who vests in this fashion is eligible to retire later at age 55 or when 20 years have elapsed from the original hire date. For a deferred vested retirement, the monthly retirement allowance is calculated with the same formula as a service retirement (See Below).

Service Retirement

An employee who reaches the normal retirement age of 55 with 20 years of service; an employee of age 50 with 25 years of service; an employee of any age with 30 years of service; or an employee of age 70 with no service requirement is entitled to a monthly retirement allowance equal to the final compensation multiplied by 2.5% multiplied by years of service up to 30 years (Maximum benefit, 75% of final average salary) if the employee retired prior to February 4, 1996. After February 4, 1996 but prior to February 4, 2000, the monthly allowance consists of final compensation multiplied by 2.5% for the first 20 years of service, by 3% for the next ten years (Maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of final compensation multiplied by 2.5% for the first 20 years of service, by 3% for the next five years of service, by 4% for the next 5 years of service (Maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance for Police members only consists of final compensation multiplied by 2.5% for the first 20 years of service and by 4% for the next 10 years of service (Maximum benefit, 90% of final average salary). Effective July 1, 2008 for Fire members only, the monthly allowance for a service retirement consists of final average salary multiplied by 2.5% for the first 20 years of service. For Fire members with 20 or more years of service, allowance for a service retirement consisting of final average salary multiplied by 3.0% for each year (maximum benefit, 90% of final average salary).

Service Connected Disability

If an employee suffers a service related disability before retirement, an annual benefit is paid equal to 50% of final compensation. For members with more than 20 years of service, the monthly retirement allowance is the final average salary multiplied by 50%, plus the final average salary multiplied by 2.5% for each year over 20 if a member retires prior to February 4, 1996 (Maximum benefit, 75% of final average salary). After February 4, 1996 but prior to February 4, 2000, the monthly allowance consists of the final average salary multiplied by 50%, plus final average salary multiplied by 3% for each year over 20 years of service (Maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of the final average salary multiplied by 50%, plus final average salary multiplied by 3% for each year over 20 but less than 25 years of service, plus 4% of final average salary for each year over 25 but less than 30 years of service (Maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance for Police members only consists of final compensation multiplied by 50% plus 4% for each year in excess of 20 years of service (Maximum benefit, 90% of final average salary). Effective July 1, 2008

Summary of the Principal Plan Provisions *(Continued)*

for Fire members only, the monthly allowance consists of final average salary multiplied by 60%, plus final average salary multiplied by 3% for each full year of service in excess of 20 years (maximum 90%). For less than 20 years of service, the allowance consists of final average salary multiplied by 50%.

Non-Service Connected Disability

Retirement for a non-service connected disability with at least 2 years of service will provide the following benefit: For members with 2 to 20 years of service, the monthly retirement allowance is 32% multiplied by the final compensation for the first two years plus 1% for each additional year of service. After February 4, 1996 but prior to February 4, 2000, for members with over 20 years of service, the benefit consists of 50% of final average salary, plus final average salary multiplied by 3% for each year over 20 years of service (Maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of 50% of the final average salary, plus final average salary multiplied by 3% for each year over 20 but less than 25 years of service, plus 4% of final average salary for each year over 25 but less than 30 years of service (Maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance for Police members only consists of final compensation multiplied by 50% plus 4% for each year in excess of 20 years of service (Maximum benefit, 90% of final average salary). Effective July 1, 2008 for Fire members only with at least 20 years of service, the monthly allowance consists of final average salary multiplied by 3.0% for each year of service (maximum benefit, 90% of final average salary).

Early Service Retirement

Retirement at age 50 to 55 with at least 20 years of service: Members' retirement allowance shall be calculated as if the members were at least 55, and then reduced according to guidelines set forth in Section 3.36.810 of the City of San Jose Municipal Code.

Mandatory Retirement

Age 70.

Survivorship Allowance

The surviving spouse will receive 37.5% of the final compensation if the member dies while entitled to immediate retirement for service, dies at any age due to a service connected injury or illness, is retired for service, or is retired for service connected disability. Optional Retirement Allowances are available. For those that retire on or after February 4, 2000, the surviving spouse of a member who is entitled to a retirement benefit greater than 75% of final compensation gets a spousal benefit equal to 50% of the member benefit up to a maximum of 42.5% of final compensation. Effective July 1, 2008 for Fire only, the surviving spouse of a Fire member, who is entitled to a retirement benefit greater than 75% of final compensation gets a spousal benefit equal to 50% of the member benefit up to a maximum of 45%.

If the member dies before age 55 with two or more years of service due to a non-service connected injury or illness, or if the member is retired for non-service connected disability, the spouse will receive 24% of final compensation for two years of service and 0.75% for each year thereafter (Maximum: 37.5%).

In all cases above, Surviving child or children conceived prior to retirement will receive the following:

1 child receives 25% of the final compensation

2 children share 37.5% of the final compensation

3+ children share 50% of the final compensation

Unless the death is service connected in which case the eligible child or children will receive the following:

1 child receives 25% of the final compensation

2 children share 50% of the final compensation

3+ children share 75% of the final compensation

The maximum family benefit is 75% of the final compensation. If the sum of spousal benefit plus the children's benefit is greater than 75%, the children's benefit is reduced. Dependent children are paid to age 18 or to age 22 if full-time students.

Remarriage Of Spouse

If the employee is 55 at time of death and has twenty years of service, or the member is entitled to 30 years of service regardless of age, the spouse will retain allowance for life. If less than 20 years or under age 55, the spouse loses the allowance upon a remarriage, unless the person was an eligible surviving spouse as of October 1, 1999 or becomes an eligible surviving spouse of a member who had retired as of October 1, 1999.

Post-Retirement Marriage

Effective June 11, 2002, the Post-Retirement Optional Settlement allows for payment of an annuity to a spouse if a member marries after retirement. To do this, the member must take a reduced allowance to provide the spouse a benefit. The election of the Post-Retirement Optional

Summary of the Principal Plan Provisions *(Continued)*

Settlement must be filed within 30 days after the date of the marriage if a retiree marries after June 12, 2002. If the retiree marries after June 12, 2002, the election becomes effective one year from the date of marriage.

Management

The Plan is under the management of a seven-member Board of Administration consisting of two City Council members, a member from the Civil Service Commission, two Plan members – one from the Police Department and one from the Fire Department, a member who has retired under the provisions of the Plan, and a member who holds a position in the City Administration at a level of Deputy Department Head or higher and who has experience in the investment or management of public funds, retirement funds, institutional funds, or endowment funds.

The Board of Administration is a policy-making body and responsible for the proper operation of the Plan. The Plan operates as an independent trust, separate and distinct from the City and other entities. The administration of the Plan is under its guidance and direction and is subject to such rules, regulations and directives as it may adopt from time to time. Members, except for public members, serve without compensation. The City Attorney provides legal advice and counsel.

Administration

A full-time Director is employed by the Board. He serves as Secretary and Chief Executive Officer to the Board of Administration. The Plan pays the cost of the personnel who are employed for the purpose of managing the Retirement Plan. It also pays any directly related administrative costs.

State Street Bank and Trust is employed as custodian of fund assets and collector of investment income.

Actuarial Soundness

Plan and benefit provisions are periodically reviewed to assure continuing actuarial soundness.

Investment Authority And Policy

The investment authority is broad and flexible, allowing maximum utilization of the Plan's resources. Nationally known investment advisory services from managers listed on page 68 are retained for full-time investment counsel. NEPC, LLC is retained as the pension consultatnt.

Cost Of Living

The cost-of-living (COL) provision provides a maximum of 3% annual adjustment in February. Survivors will be paid their first COL increase as if they were a new retiree according to the above schedule.

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2010

Financial Section

MGO Certified Public Accountants.

Sacramento • Walnut Creek • Oakland • Los Angeles • Century City • Newport Beach • San Diego

mgocpa.com

To the Board of Administration of the City of San José
Police and Fire Department Retirement Plan
San José, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of plan net assets of the City of San José Police and Fire Department Retirement Plan (Plan), a pension trust fund of the City of San José, California, as of June 30, 2010 and 2009, and the related statements of changes in plan net assets for the fiscal years then ended. These financial statements are the responsibility of the Plan's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2(a), the financial statements of the Plan are intended to present only the plan net assets and changes in plan net assets of the Plan. They do not purport to, and do not, present fairly the financial position of the City of San José, California, as of June 30, 2010 and 2009, and the changes in its financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan, as of June 30, 2010 and 2009, 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.

3000 S Street
Suite 300
Sacramento
CA 95816

2121 N. California Blvd.
Suite 750
Walnut Creek
CA 95496

505 14th Street
5th Floor
Oakland
CA 94612

515 S. Figueroa Street
Suite 325
Los Angeles
CA 90071

2029 Century Park East
Suite 500
Los Angeles
CA 90067

1201 Dove Street
Suite 680
Newport Beach
CA 92660

225 Broadway
Suite 1750
San Diego
CA 92101

As described in Note 5, based on the most recent actuarial valuation as of June 30, 2009, the Plan's independent actuaries determined that, at June 30, 2009, the value of the defined benefit pension plan's actuarial accrued liability exceeded the actuarial value of its assets by $393.9 million. The most recent actuarial value of assets as of June 30, 2009 does not reflect the impact of $600 million of deferred investment losses that will be recognized in future valuations. As described in Note 6, based on the most recent actuarial valuation as of June 30, 2009, the independent actuaries determined that, at June 30, 2009, the value of the postemployment healthcare plan's actuarial accrued liability exceeded the actuarial value of its assets by $706.0 million.

As discussed in Note 2(f), the Plan adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, for the fiscal years ended June 30, 2010 and 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2010 on our consideration of the Plan'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 fiscal year ended June 30, 2010. 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the schedules designated as other required supplementary information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Plan's basic financial statements. The introductory section, other supplementary information in the financial section, the investment section, actuarial section and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information in the financial section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California

November 22, 2010

Management's Discussion and Analysis (Unaudited)

City of San José
Department of Retirement Services
Board of Administration
Police & Fire Department Retirement Plan
1737 North First Street, Suite 580
City of San José
San José, California 95112-4505

We are pleased to provide this overview and analysis of the financial activities of the Police and Fire Department Retirement Plan (the Plan) for the fiscal years ended June 30, 2010 and 2009. The Plan, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established to provide retirement benefits for sworn employees of the Police and Fire Departments of the City of San José (City). We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page 2 of this report, and in the financial section which follows this discussion.

Financial Highlights for Fiscal Year 2010

- The net assets of the Plan at the close of the fiscal year 2010 are $2,314,870,000 (net assets held in trust for pension benefits and postemployment healthcare benefits.) All of the net assets are available to meet the Plan's ongoing obligations to Plan participants and their beneficiaries except the supplemental retiree benefit reserve of $32,327,000.
- The Plan's total net assets held in trust for pension benefits and postemployment healthcare benefits increased by approximately $270,628,000 or 13.2%, primarily as a result of the Plan's transition to a new diversified asset allocation and overall improvement in the financial market. The new and improved asset allocation further diversified the portfolio structure and reduced risk by approximately 10% from the prior asset allocation.
- Additions to Plan net assets for the year were $415,669,000, which includes member and employer contributions of $94,346,000, net investment income before securities lending income of $313,579,000, and net securities lending income of $7,744,000.
- Deductions from Plan net assets increased from $129,476,000 to $145,041,000 over the prior year, or approximately 12.0% due primarily to increased retirement benefit payments and healthcare insurance premiums.

Overview of the Financial Statements

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

1. Statements of Plan Net Assets
2. Statements of Changes in Plan Net Assets
3. Notes to Basic Financial Statements

Please note, however, that this report also contains required supplementary information and other supplemental information in addition to the basic financial statements themselves.

The *Statements of Plan Net Assets* are a snapshot of account balances at fiscal year-end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

The *Statements of Changes in Plan Net Assets*, on the other hand, provide a view of current year additions to and deductions from the Plan.

Both statements are in compliance with Generally Accepted Accounting Principles (GAAP) as set forth by the Governmental Accounting

Standards Board. GAAP requires state and local government pension plan and postemployment benefit plan reports to use full accrual accounting and make certain disclosures. The Plan complies with all material requirements of these pronouncements.

The Statements of Plan Net Assets and the Statements of Changes in Plan Net Assets report information about the Plan's activities. These statements include all assets and liabilities using the full accrual basis of accounting, which recognizes contributions as revenue when due pursuant to formal commitments as well as statutory and contractual commitments and benefits and refunds of contributions when due and payable under the provisions of the Plan. All of the current year's additions and deductions are taken into account regardless of when cash is received or paid. All realized investment gains and losses are reported at the trade date, not the settlement date. In addition, both realized and unrealized gains and losses on investments are reported.

These two statements report the Plan's net assets held in trust for pension benefits and postemployment healthcare benefits (net assets) – the difference between assets and liabilities. Over time, increases and decreases in the Plan's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as the Plan's funding progress and funded status, should also be considered in measuring the Plan's overall health (see the schedules of funding progress and schedules of employer contributions on pages 53-54 of this report).

Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements (see Notes to Basic Financial Statements on pages 32-52 of this report).

Other Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning employer contributions and the Plan's progress in funding its obligations to provide pension and postemployment healthcare benefits to members (see Required Supplementary Information beginning on page 53 of this report).

The combining schedules of Defined Benefit Pension Plan net assets and changes in net assets, schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants are presented immediately following the required supplementary information.

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of the Plan's financial position (see Table 1a on page 19). The assets of the Plan exceeded its current liabilities at the close of fiscal year 2010 and 2009.

The funded status of the Plan should also be considered when evaluating the Plan's financial health. As of June 30, 2009, the Plan's most recent valuation date, the actuarial funded status of the Plan decreased from 99.7% to 86.7% for the Defined Benefit Pension Plan. On a market value of asset basis as of June, 30, 2009, the funded status of the Defined Benefit Pension Plan was 66.4% resulting in a variance of 20.3% between the funded ratios calculated under the two bases. A schedule of funding progress for the Defined Benefit Pension Plan on a market value of asset basis and a description of the variance between the actuarial value of assets and market value of assets is presented in the other supplemental information on page 55. The decrease in Plan's funding status was primarily due to a $591 million increase in the actuarial accrued liability (AAL). The increase in the AAL was due to demographic experience losses and changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2009 experience study. The Postemployment Healthcare Plan's actuarial funded status remained constant at 7%.

As of June 30, 2010, $2,264,050,000 and $50,820,000 in total net assets are held by the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively (see Tables 1a and 1c on page 19). All of the net assets are available to meet the Plan's ongoing obligation to plan participants and their beneficiaries, except assets held in the supplemental retiree benefit reserve (a reserve in the Defined Benefit Pension Plan), of $32,327,000, which is used to provide negotiated supplemental benefits to retirees.

The total net assets for the Defined Benefit Pension Plan and Postemployment Healthcare Plan increased by 13.1% and 18.8% from the prior year primarily due to the net appreciation in the fair value of investments of $256,176,000. The appreciation in the fair value of investments was due to the Plan's transition to a new and improved asset allocation strategy with higher allocation to fixed income and alternative investments, which have performed well over the past fiscal year. The Plan has changed its asset allocation to increase the allocation to alternative investments while reducing the allocation to equity investments. The diversification benefit that alternative investments add to the Plan is significant. The new and improved asset allocation further diversified the portfolio structure and reduced risk by approximately 10% from the prior asset allocation. The new asset allocation is discussed in detail in Note 2(c) of the financial statements on page 34.

In the previous year, the Plan held $2,001,459,000 and $42,783,000 in total net assets for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan, respectively (see Tables 1b and 1d on page 19). This total represented a decrease of 20.2% for pension benefits and 17.0% for postemployment healthcare benefits net assets over the prior year primarily due to the depreciation in the fair value of investments of $530,783,000 caused by the decline in the equity investment market.

As of June 30, 2010, receivables decreased by $14,719,000 or 26.6% and $251,000 or 11.6% in the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively, due to a decrease in receivables from brokers and others for year-end investment trades. In the previous year, receivables for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan decreased by $39,846,000 or 41.9% and $527,000 or 19.6%, respectively, also due to the amount of receivables from brokers and others for year-end investment trades.

As of June 30, 2010, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan increased by $167,869,000, or 56.0% and $4,055,000 or 64.8%, respectively, compared with June 30, 2009, due mainly to an increase in securities lending collateral due to borrowers and accounts payable for administrative expenses and real estate activity. In the previous year, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan decreased by $293,417,000 or 49.5% and $5,765,000 or 47.9%, due mainly to a decrease in securities lending collateral due to borrowers at year-end.

Management's Discussion and Analysis (Unaudited) *(Continued)*

POLICE AND FIRE PLAN'S DEFINED BENEFIT PENSION PLAN NET ASSETS (Table Ia)
As of June 30, 2010, and 2009

	2010	2009	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 40,587,000	$ 55,306,000	$ (14,719,000)	-26.6%
Investments at Fair Value	2,691,195,000	2,246,016,000	445,179,000	19.8%
Total Assets	**2,731,782,000**	**2,301,322,000**	**430,460,000**	**18.7%**
Current Liabilities	467,732,000	299,863,000	167,869,000	56.0%
Total Liabilities	**467,732,000**	**299,863,000**	**167,869,000**	**56.0%**
Net Assets	**$ 2,264,050,000**	**$2,001,459,000**	**$ 262,591,000**	**13.1%**

POLICE AND FIRE PLAN'S DEFINED BENEFIT PENSION PLAN NET ASSETS (Table Ib)
As of June 30, 2009, and 2008

	2009	2008	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 55,306,000	$ 95,152,000	$ (39,846,000)	-41.9%
Investments at Fair Value	2,246,016,000	3,006,773,000	(760,757,000)	-25.3%
Total Assets	**2,301,322,000**	**3,101,925,000**	**(800,603,000)**	**-25.8%**
Current Liabilities	299,863,000	593,280,000	(293,417,000)	-49.5%
Total Liabilities	**299,863,000**	**593,280,000**	**(293,417,000)**	**-49.5%**
Net Assets	**$ 2,001,459,000**	**$2,508,645,000**	**$ (507,186,000)**	**-20.2%**

POLICE AND FIRE PLAN'S POSTEMPLOYMENT HEALTHCARE PLAN NET ASSETS (Table Ic)
As of June 30, 2010, and 2009

	2010	2009	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 1,906,000	$ 2,157,000	$ (251,000)	-11.6%
Investments at Fair Value	59,229,000	46,886,000	12,343,000	26.3%
Total Assets	**61,135,000**	**49,043,000**	**12,092,000**	**24.7%**
Current Liabilities	10,315,000	6,260,000	4,055,000	64.8%
Total Liabilities	**10,315,000**	**6,260,000**	**4,055,000**	**64.8%**
Net Assets	**$ 50,820,000**	**$ 42,783,000**	**$ 8,037,000**	**18.8%**

POLICE AND FIRE PLAN'S POSTEMPLOYMENT HEALTHCARE PLAN NET ASSETS (Table Id)
As of June 30, 2009, and 2008

	2009	2008	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 2,157,000	$ 2,684,000	$ (527,000)	-19.6%
Investments at Fair Value	46,886,000	60,917,000	(14,031,000)	-23.0%
Total Assets	**49,043,000**	**63,601,000**	**(14,558,000)**	**-22.9%**
Current Liabilities	6,260,000	12,025,000	(5,765,000)	-47.9%
Total Liabilities	**6,260,000**	**12,025,000**	**(5,765,000)**	**-47.9%**
Net Assets	**$ 42,783,000**	**$ 51,576,000**	**$ (8,793,000)**	**-17.0%**

Reserves

The Plan is required by the City of San José Municipal Code to establish various reserves in the Plan net assets. The Plan net assets are allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan. Within the Defined Benefit Pension Plan Retirement Fund there are three reserves: the general reserve, employee contributions reserve, and supplemental retiree benefit reserve.

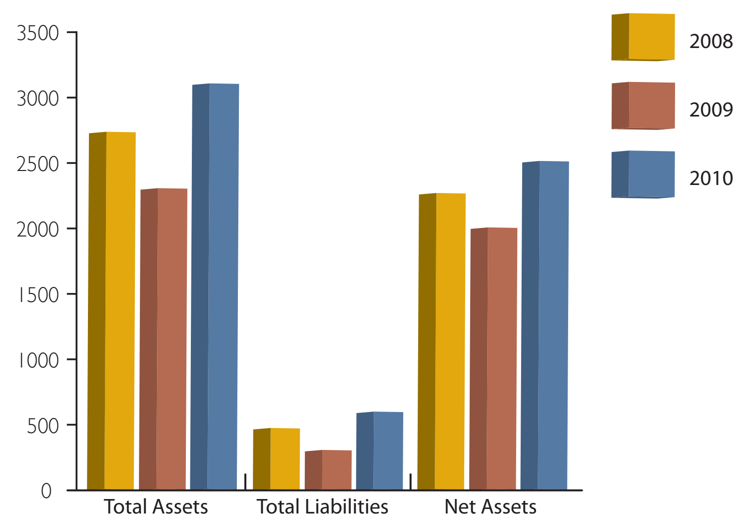
The Defined Benefit Pension Plan, the Cost-of-Living Fund, and the Postemployment Healthcare Plan each have a general reserve and employee contributions reserve. See the table on page 35 for a complete listing and year-end balances of the Plan's reserves.

The Plan's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses. Additionally, the appreciation in the fair value of investments is held in the unrealized gain/loss account, a component of the general reserve. As of June 30, 2010 and 2009, the "Unrealized Gains and Losses on Investments Held" resulted in a year-end gain of $70,833,000 and a year-end loss of $113,572,000, respectively, in the general reserve.

POLICE AND FIRE PLAN'S DEFINED BENEFIT PENSION PLAN NET ASSETS

(Table Ia and Ib)

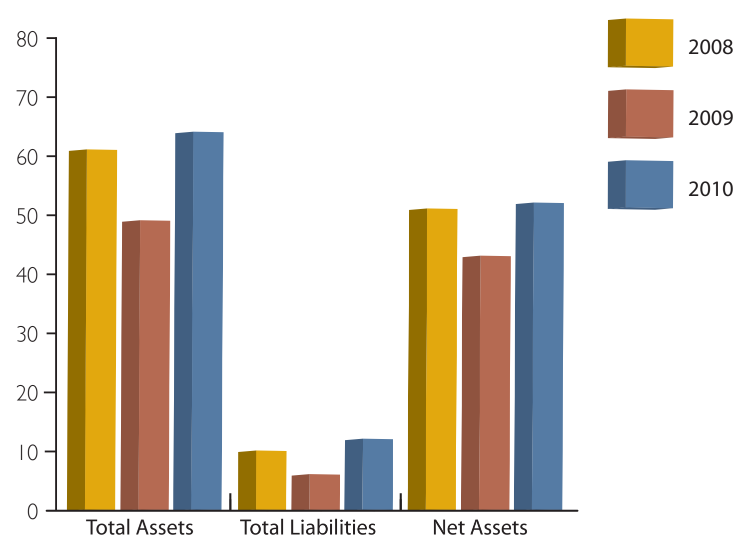
As of June 30, 2010, 2009, and 2008 (Dollars in Millions)



POLICE AND FIRE PLAN'S POSTEMPLOYMENT HEALTHCARE PLAN NET ASSETS

(Table Ic and Id)

As of June 30, 2010, 2009, and 2008 (Dollars in Millions)



CHANGES IN PLAN NET ASSETS FOR THE POLICE AND FIRE PLAN'S DEFINED BENEFIT PENSION PLAN (Table 2a)

For the Fiscal Years Ended June 30, 2010 and 2009

	2010	2009	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee Contributions	$ 20,097,000	$ 20,323,000	$ (226,000)	-1.1%
Employer Contributions	52,315,000	53,103,000	(788,000)	-1.5%
Net Investment Income*	306,878,000	(461,991,000)	768,869,000	166.4%
Net Securities Lending Income	7,575,000	(7,244,000)	14,819,000	204.6%
Total Additions	**386,865,000**	**(395,809,000)**	**782,674,000**	**197.7%**

** Net of Investment Expenses of $9,056,000 and $9,037,000 in 2010 and 2009, respectively.*

Retirement Benefits	114,604,000	102,363,000	12,241,000	12.0%
Death Benefits	6,519,000	5,982,000	537,000	9.0%
Refund of Contributions	196,000	363,000	(167,000)	-46.0%
Administrative	2,955,000	2,669,000	286,000	10.7%
Total Deductions	**124,274,000**	**111,377,000**	**12,897,000**	**11.6%**
Net Increase/Decrease in Plan Assets	**262,591,000**	**(507,186,000)**	**769,777,000**	**151.8%**
Beginning Net Assets	**2,001,459,000**	**2,508,645,000**	**(507,186,000)**	**-20.2%**
Ending Net Assets	**$ 2,264,050,000**	**$ 2,001,459,000**	**$ 262,591,000**	**13.1%**

CHANGES IN PLAN NET ASSETS FOR THE POLICE AND FIRE PLAN'S DEFINED BENEFIT PENSION PLAN (Table 2b)

For the Fiscal Years Ended June 30, 2009 and 2008

	2009	2008	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 20,323,000	$ 19,210,000	$ 1,113,000	5.8%
Employer Contributions	53,103,000	56,372,000	(3,269,000)	-5.8%
Net Investment Income*	(461,991,000)	(156,933,000)	(305,058,000)	-194.4%
Net Securities Lending Income	(7,244,000)	3,222,000	(10,466,000)	-324.8%
Total Additions	**(395,809,000)**	**(78,129,000)**	**(317,680,000)**	**-406.6%**

** Net of Investment Expenses of $9,037,000 and $10,786,000 in 2009 and 2008, respectively.*

Retirement Benefits	102,363,000	89,704,000	12,659,000	14.1%
Death Benefits	5,982,000	5,467,000	515,000	9.4%
Refund of Contributions	363,000	168,000	195,000	116.1%
Administrative	2,669,000	2,670,000	(1,000)	0.0%
Total Deductions	**111,377,000**	**98,009,000**	**13,368,000**	**13.6%**
Net Decrease in Plan Assets	**(507,186,000)**	**(176,138,000)**	**(331,048,000)**	**-187.9%**
Beginning Net Assets	**2,508,645,000**	**2,684,783,000**	**(176,138,000)**	**-6.6%**
Ending Net Assets	**$ 2,001,459,000**	**$ 2,508,645,000**	**$ (507,186,000)**	**-20.2%**

CHANGES IN PLAN NET ASSETS FOR THE POLICE AND FIRE PLAN'S POSTEMPLOYMENT HEALTHCARE PLAN (Table 2c)

For the Fiscal Years Ended June 30, 2010 and 2009

	2009	2008	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 10,650,000	$ 9,218,000	$ 1,432,000	15.5%
Employer Contributions	11,284,000	9,888,000	1,396,000	14.1%
Net Investment Income*	6,701,000	(9,649,000)	16,350,000	169.4%
Net Securities Lending Income	169,000	(151,000)	320,000	211.9%
Total Additions	**28,804,000**	**9,306,000**	**19,498,000**	**209.5%**

* *Net of Investment Expenses of $200,000 and $189,000 in 2010 and 2009, respectively.*

Healthcare Insurance Premiums	20,701,000	18,039,000	2,662,000	14.8%
Administrative	66,000	60,000	6,000	10.0%
Total Deductions	**20,767,000**	**18,099,000**	**2,668,000**	**14.7%**
Net Increase/Decrease in Plan Assets	**8,037,000**	**(8,793,000)**	**16,830,000**	**191.4%**
Beginning Net Assets	**42,783,000**	**51,576,000**	**(8,793,000)**	**-17.0%**
Ending Net Assets	**$ 50,820,000**	**$ 42,783,000**	**$ 8,037,000**	**18.8%**

CHANGES IN PLAN NET ASSETS FOR THE POLICE AND FIRE PLAN'S POSTEMPLOYMENT HEALTHCARE PLAN (Table 2d)

For the Fiscal Years Ended June 30, 2009 and 2008

	2009	2008	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 9,218,000	$ 9,151,000	$ 67,000	0.7%
Employer Contributions	9,888,000	10,618,000	(730,000)	-6.9%
Net Investment Income*	(9,649,000)	(3,093,000)	(6,556,000)	-212.0%
Net Securities Lending Income	(151,000)	64,000	(215,000)	-335.9%
Total Additions	**9,306,000**	**16,740,000**	**(7,434,000)**	**-44.4%**

* *Net of Investment Expenses of $189,000 and $214,000 in 2009 and 2008, respectively.*

Healthcare Insurance Premiums	18,039,000	15,974,000	2,065,000	12.9%
Administrative	60,000	56,000	4,000	7.1%
Total Deductions	**18,099,000**	**16,030,000**	**2,069,000**	**12.9%**
Net Increase/Decrease in Plan Assets	**(8,793,000)**	**710,000**	**(9,503,000)**	**-1338.5%**
Beginning Net Assets	**51,576,000**	**50,866,000**	**710,000**	**1.4%**
Ending Net Assets	**$ 42,783,000**	**$ 51,576,000**	**$ (8,793,000)**	**-17.0%**

The Police and Fire Plan Activities

Market returns were the main driver of the increase in the Defined Benefit Pension Plan and Postemployment Healthcare Plan net assets, which increased by $270,628,000, thereby accounting for a 13.2% increase from the prior year. Key elements of the Plan's financial activities are described in the sections that follow.

Additions to Plan Net Assets

The assets needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments (net of investment expense). Additions to the Defined Benefit Pension Plan and Postemployment Healthcare Plan for the fiscal year ended June 30, 2010, were $386,865,000 and $28,804,000, respectively (see Tables 2a and 2c on pages 21 and 22, respectively).

For the fiscal year ended June 30, 2010, overall additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plan had increased by $782,674,000 and $19,498,000, or 197.7% and 209.5%, respectively, from the prior year primarily due to increases of $768,869,000 and $16,350,000, respectively, in net investment income excluding securities lending income, which was as a result of the Plan's transition to a new diversified asset allocation and overall improvement in the financial market. The new asset allocation strategy increased the Plan's allocation to fixed income and alternative investments, which performed well over the past fiscal year. The Plan's asset allocation change increased the allocation to alternative investments while reducing the allocation to equity investments. The new allocation reduced the equity exposure by 9% from 49% to 40% of the Plan. The majority of the investment losses in 2009 were due to the decline in the equity investment market. In addition, as of June 30, 2010, the Plan's investment in securities lending activities had positive returns compared to securities lending losses in 2009. The Plan's time-weighted gross rate of return for the fiscal year ended June 30, 2010, was 14.3% versus negative 18.0% for the fiscal year ended June 30, 2009. On a net of expenses basis, the Plan's time-weighted rate of return for the fiscal year ended June 30, 2010, was 13.7% versus negative 18.6% for the fiscal year ended June 30, 2009.

Additions to the Defined Benefit Pension Plan for fiscal year ended June 30, 2009, were negative $395,809,000, which represented a decrease of $317,680,000, or 406.6%, from fiscal year 2008 primarily due to net investment income which decreased by 194.4% from the previous year due to the decline in the equity investment market (see Table 2b on page 21). As of June 30, 2009, the Postemployment Healthcare Plan additions were $9,306,000, which were a $7,434,000 or 44.4% decrease over the previous year additions of $16,740,000. The decline in Postemployment Healthcare Plan additions were also due to net investment income which decreased by 212.0% due to the decline in the equity investment market (see Table 2d on page 22).

Deductions from Plan Net Assets

The Plan was created to provide lifetime retirement annuities, survivor benefits, permanent disability benefits, and postemployment healthcare benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments and healthcare premium payments, as designated by the Plan, refund of contributions to terminated employees, and the cost of administering the Plan.

Deductions for the fiscal year ended June 30, 2010, totaled $124,274,000 and $20,767,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased by 11.6% from the previous year due to an increase in retirees and beneficiaries, and final average salaries (see Table 2a on page 21). Deductions for the Postemployment Healthcare Plan, of $20,767,000 increased by 14.7% over the previous year due to increased healthcare insurance premium costs (see Table 2c on page 22).

Deductions for the fiscal year ended June 30, 2009, totaled $111,377,000 and $18,099,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for Defined Benefit Pension Plan and Postemployment Healthcare Plan increased by 13.6% and 12.9% from the fiscal year ended June 30, 2008 (see Tables 2b and 2d on pages 21 and 22, respectively) due to increases in retirement benefits of $12,659,000 and healthcare insurance premiums of $2,065,000. Retirement benefits increased due to benefit enhancements and healthcare insurance costs increased due to higher premiums.

The Plan's Fiduciary Responsibilities

The Plan's Board is the fiduciary of the Defined Benefit Pension Plan and a Postemployment Healthcare Plan. Under the California Constitution and the San José Municipal Code, Plan assets can only be used for the exclusive benefit of plan participants and their beneficiaries.

Economic Factors and Rates Affecting Next Year

The Plan transitioned from biennial to annual valuations beginning June 30, 2010. The Plan's most recent valuation as of June 30, 2009, was used to determine the contribution rates effective June 27, 2010, for fiscal year 2010-2011. The annual required contribution rates calculated in the June 30, 2010, valuation will be adopted by the Board and become effective in fiscal year 2011-2012.

Defined Benefit Pension Plan

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. The Plan's actuarial valuation uses a five year smoothing method for investment returns. This means that the current year's gains or losses, as calculated at year-end, are smoothed with the results from the prior four years. The investment income, including securities lending, of $321 million for fiscal year 2010 will be smoothed and netted against the remaining 2009 actuarial valuation unrecognized investment losses of approximately $613 million ($600 million pension benefits plus $13 million postemployment benefits). The $613 million of deferred losses excludes approximately $45 million of deferred losses recognized in the June 30, 2009 valuation as a result of the one year increase in the Plan's 80-120% market value corridor to 70-130%, as approved by the Board of Administration on February 4, 2010. The market value of assets corridor limits the smoothing of assets to be no greater than 130% and no less than 70% of the market value of assets as of June 30, 2009. Under this practice, any investment gains or losses that would cause the smoothed assets to fall outside of this 70-130% market value corridor would be recognized immediately rather than be smoothed over the next five years.

Additionally, the June 30, 2009 valuation included a 0.45% or approximately $1.2 million reduction in the City's pension contribution rate effective June 27, 2010. The reduction in the City's contribution rate was a result of a transfer from the Supplemental Retiree Benefit Reserve (SRBR) due to poor investment earnings. Per San José Municipal code section 3.36.580(c), if the City's contribution rate as determined by the Board's actuary during any actuarial valuation will increase as a result of poor investment earnings in the retirement fund, the SRBR reserve will transfer an amount equal to ten percent of the City's increased contributions for the first twelve months following the increase in the contribution rates, but the transfer will not exceed five percent of the accrued balance in the SRBR reserve as of the date of the actuarial valuation.

The Plan is exposed to general market risk. In a pension plan context, this is the risk that the long-term rate of return earned on the pension plan assets could be below the actuarially assumed rate of return, which is 8.0%, net of SRBR payments and investment and administrative expenses. Underperforming the assumed rate of return would negatively impact the funded status of the Plan and the City's required contribution to the Plan.

In addition to investment market risk, the Plan is exposed to non-economic or demographic risk. The demographic assumptions which include rates of retirement, disability and mortality are often unique to the Plan's provisions and the specific demographics of the Plan participants. Deviations from these long term actuarial assumptions cause the Plan to experience gains or losses which in turn leads to volatility in the contribution rate. To minimize this risk every two years, the Plan's actuary conducts an experience study to assess whether the experience of the Plan is conforming to the long term actuarial assumptions. The actuarial assumptions may be adjusted where it is felt that current assumptions will not provide the best expectation of what may happen in the future.

The June 30, 2010 pension valuation is anticipated to include decreased covered payroll due to the City's recent budget cuts. The valuation will also reflect the one-time retirement contributions shift between the City and Police members of the Plan, as negotiated by the City and the bargaining unit representing the Police members of the Plan to make additional employee contributions that will be applied to reduce the City's required contributions towards the Plan's pension unfunded actuarial accrued liability. Based on information provided by the actuary, Police member contributions of approximately 5.25% will offset an approximate equivalent of 5.21% in City contributions, due to the estimated portion of the additional member contributions, which will be paid as refunds of member contributions upon termination of employment.

Postemployment Healthcare Plan

This year the Plan completed its third GASB Statement No. 43 compliant Other Postemployment Benefits (OPEB) valuation study as of June 30, 2009. A summary of the results is presented in Note 6 to the Financial Statements. The June 30, 2010 OPEB valuation will include increased OPEB contributions for Police members as a result of the Memorandum of Agreement (MOA) entered into by the Police members of the Plan and the City of San José, on June 29, 2009, to increase the contribution rates for retiree health and dental in order to phase-in to full funding of the GASB Statement No. 43 annual required contribution over the next five years. Fiscal year 2010 is the first year of the phase-in.

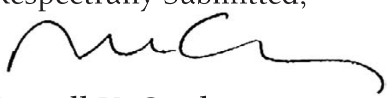
Effective June 28, 2009, the Police members of the Plan entered into a Memorandum of Agreement (MOA) with the City to increase the contribution rates for retiree health and dental in order to phase-in to full funding of the GASB Statement No. 43 annual required contribution over the next five years; fiscal year 2009-2010 was the first year of the phase-in. In the MOA the City and Police members of the Plan agreed that the Plan and member cash contribution rate shall not have an incremental increase of more than 1.25% and 1.35% of pensionable pay in each year for the members and City, respectively. Additionally, if the retiree healthcare contributions exceed 10% of the member and 11% of city contributions (excluding the implicit rate subsidy) the parties shall meet and confer on how to address the contributions above 10% and 11%.

Requests for Information

This financial report is designed to provide the Board of Administration, Mayor and City Council, our membership, taxpayers, and investment managers with a general overview of the Plan's finances and to account for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Police and Fire Department Retirement Plan
1737 North First Street, Suite 580
San José, California 95112-4505

Respectfully Submitted,



Russell U. Crosby
Director

This page has been intentionally left blank.

Basic Financial Statements

STATEMENTS OF PLAN NET ASSETS

June 30, 2010 and 2009 (In Thousands)

	2010		
	Defined Benefit Pension Plan	**Postemployment Healthcare Plan**	**Total**
Assets			
Receivables:			
Employee contributions	$ 1,031	$ 538	$ 1,569
Employer contributions	2,983	564	3,547
Brokers and others	27,880	613	28,493
Accrued investment income	8,693	191	8,884
Total Receivables:	**40,587**	**1,906**	**42,493**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	873,516	19,066	892,582
International fixed income	40,779	890	41,669
Pooled fixed income bond funds	89,547	1,954	91,501
Collective short term investments	199,997	4,365	204,362
Domestic equity	429,283	9,370	438,653
International equity	263,411	5,749	269,160
Pooled international equity	134,817	2,942	137,759
Private equity	104,027	2,271	106,298
International currency contracts, net	488	11	499
Commodities	(5,576)	(122)	(5,698)
Real estate	184,614	4,456	189,070
Securities lending cash collateral investment pool	376,292	8,277	384,569
Total Investments	**2,691,195**	**59,229**	**2,750,424**
TOTAL ASSETS	**2,731,782**	**61,135**	**2,792,917**
Liabilities			
Payable to brokers	80,558	1,772	82,330
Securities lending collateral due to borrowers	380,515	8,370	388,885
Other liabilities	6,659	173	6,832
TOTAL LIABILITIES	**467,732**	**10,315**	**478,047**
Net Assets Held In Trust For:			
Pension benefits	2,264,050	-	2,264,050
Postemployment healthcare benefits	-	50,820	50,820
TOTAL NET ASSETS	**$ 2,264,050**	**$ 50,820**	**$ 2,314,870**

See accompanying notes to basic financial statements.

(Continued)

Basic Financial Statements *(Continued)*

STATEMENTS OF PLAN NET ASSETS (continued)

June 30, 2010 and 2009 (In Thousands)

	2009		
	Defined Benefit Pension Plan	**Postemployment Healthcare Plan**	**Total**
Assets			
Receivables:			
Employee contributions	$ 939	$ 427	$ 1,366
Employer contributions	3,739	674	4,413
Brokers and others	42,781	892	43,673
Accrued investment income	7,847	164	8,011
Total Receivables:	**55,306**	**2,157**	**57,463**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	493,402	10,216	503,618
International fixed income	38,275	792	39,067
Pooled fixed income bond funds	65,059	1,347	66,406
Collective short term investments	73,182	1,516	74,698
Domestic equity	609,253	12,615	621,868
International equity	316,570	6,555	323,125
Pooled international equity	192,602	3,988	196,590
Private equity	74,365	1,540	75,905
International currency contracts, net	(4)	-	(4)
Real estate	178,481	4,045	182,526
Securities lending cash collateral investment pool	204,831	4,272	209,103
Total Investments	**2,246,016**	**46,886**	**2,292,902**
TOTAL ASSETS	**2,301,322**	**49,043**	**2,350,365**
Liabilities			
Payable to brokers	79,687	1,662	81,349
Securities lending collateral due to borrowers	215,318	4,490	219,808
Other liabilities	4,858	108	4,966
TOTAL LIABILITIES	**299,863**	**6,260**	**306,123**
Net Assets Held In Trust For:			
Pension benefits	2,001,459	-	2,001,459
Postemployment healthcare benefits	-	42,783	42,783
TOTAL NET ASSETS	**$ 2,001,459**	**$ 42,783**	**$ 2,044,242**

See accompanying notes to basic financial statements. *(Concluded)*

Basic Financial Statements *(Continued)*

STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the Fiscal Years Ended June 30, 2010 and 2009 (In Thousands)

	2010		
	Defined Benefit Pension Plan	**Postemployment Healthcare Plan**	**Total**
Additions			
Contributions:			
Employee	$ 20,097	$ 10,650	$ 30,747
Employer	52,315	11,284	63,599
Total Contributions:	**72,412**	**21,934**	**94,346**
Investment income:			
Net appreciation in fair value of investments	250,701	5,475	256,176
Interest income	37,204	811	38,015
Dividend income	21,597	472	22,069
Net rental income	6,432	143	6,575
Less investment expense	(9,056)	(200)	(9,256)
Net investment income before securities lending income	**306,878**	**6,701**	**313,579**
Securities lending income:			
Earnings	8,522	189	8,711
Rebates	(377)	(8)	(385)
Fees	(570)	(12)	(582)
Net securities lending income	**7,575**	**169**	**7,744**
Net investment income	**314,453**	**6,870**	**321,323**
TOTAL ADDITIONS	**386,865**	**28,804**	**415,669**
Deductions			
Retirement benefits	114,604	-	114,604
Healthcare insurance premiums	-	20,701	20,701
Death benefits	6,519	-	6,519
Refund of contributions	196	-	196
Administrative expenses and other	2,955	66	3,021
TOTAL DEDUCTIONS	**124,274**	**20,767**	**145,041**
NET INCREASE	**262,591**	**8,037**	**270,628**
Net Assets Held In Trust For Pension Benefits and Postemployment Healthcare Benefits:			
Beginning of year	**2,001,459**	**42,783**	**2,044,242**
END OF YEAR	**$ 2,264,050**	**$ 50,820**	**$ 2,314,870**

See accompanying notes to basic financial statements.

(Continued)

Basic Financial Statements *(Continued)*

STATEMENTS OF CHANGES IN PLAN NET ASSETS (continued)

For the Fiscal Years Ended June 30, 2010 and 2009 (In Thousands)

	2009		
	Defined Benefit Pension Plan	**Postemployment Healthcare Plan**	**Total**
Additions			
Contributions:			
Employee	$ 20,323	$ 9,218	$ 29,541
Employer	53,103	9,888	62,991
Total Contributions:	**73,426**	**19,106**	**92,532**
Investment income:			
Net depreciation in fair value of investments	(519,926)	(10,857)	(530,783)
Interest income	34,518	719	35,237
Dividend income	25,901	540	26,441
Net rental income	6,553	138	6,691
Less investment expense	(9,037)	(189)	(9,226)
Net investment loss before securities lending income	**(461,991)**	**(9,649)**	**(471,640)**
Securities lending income:			
Earnings	(2,869)	(59)	(2,928)
Rebates	(2,988)	(63)	(3,051)
Fees	(1,387)	(29)	(1,416)
Net securities lending loss	**(7,244)**	**(151)**	**(7,395)**
Net investment loss	**(469,235)**	**(9,800)**	**(479,035)**
TOTAL ADDITIONS	**(395,809)**	**9,306**	**(386,503)**
Deductions			
Retirement benefits	102,363	-	102,363
Healthcare insurance premiums	-	18,039	18,039
Death benefits	5,982	-	5,982
Refund of contributions	363	-	363
Administrative expenses and other	2,669	60	2,729
TOTAL DEDUCTIONS	**111,377**	**18,099**	**129,476**
NET DECREASE	**(507,186)**	**(8,793)**	**(515,979)**
Net Assets Held In Trust For Pension Benefits and Postemployment Healthcare Benefits:			
Beginning of year	**2,508,645**	**51,576**	**2,560,221**
END OF YEAR	**$ 2,001,459**	**$ 42,783**	**$ 2,044,242**

See accompanying notes to basic financial statements. *(Concluded)*

Notes to Financial Statements

For the Fiscal Years Ended June 30, 2010 and 2009

Note I – Description of the Plan

The following description of the City of San José Police and Fire Department Retirement Plan (Plan) is provided for financial reporting purposes only. Employees and members should refer to the City of San José Municipal Code for more complete information.

(a) General

The Plan, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established in 1961 and the last plan amendment was adopted by City Council on August 24, 2010, to provide retirement benefits for sworn employees of the Police and Fire Departments of the City of San José (City). The Plan is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as a pension trust fund. The Plan is administered by the Director of Retirement Services, an employee of the City, under the direction of a Board of Administration. The contribution and benefit provisions and all other requirements are established by City ordinance. The Plan is responsible for all direct administrative costs except for certain support services, which are provided by the City. Total direct administrative expenses and other expenses amounted to approximately $3,021,000 and $2,729,000 for 2010 and 2009, respectively. These costs are financed through investment earnings.

All sworn officers of the City's Police and Fire Departments are required to be members of the Plan. Participants of the Postemployment Healthcare Plan are also participants of the Defined Benefit Pension Plan. Total payroll amounted to approximately $273,937,000 and $271,541,000 for 2010 and 2009, respectively. Actual covered payroll amounted to approximately $239,571,000 and $243,196,000 in 2010 and 2009, respectively.

As of June 30, 2010 and 2009, employee membership data related to the Plan was as follows:

Defined Benefit Pension Plan:	2010	2009
Retirees and beneficiaries currently receiving benefits*	1,790	1,661
Terminated vested members not yet receiving benefits	78	75
Active members	2,026	2,087
Total	**3,894**	**3,823**

Postemployment Healthcare Plan:	2010	2009
Retirees and beneficiaries currently receiving benefits*	1,712	1,571
Terminated vested members not yet receiving benefits	11	5
Active members	2,026	2,087
Total	**3,749**	**3,663**

**The combined domestic relations orders are not included in the count above as their benefit payment is included in the member count.*

The Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

(b) Pension Benefits

An employee with 10 or more years of service who resigns and leaves his/her contributions in the Plan; an employee who reaches the normal retirement age of 55 with 20 years of service; an employee of age 50 with 25 years of service; an employee of any age with 30 years of service; or an employee of age 70 with no service requirement is entitled to a monthly retirement allowance equal to the final average salary multiplied by 2.5% multiplied by years of service up to 30 years (maximum benefit, 75% of final average salary) if the employee retired prior to February 4, 1996. After February 4, 1996 but prior to February 4, 2000, the monthly allowance consists of final average salary multiplied by 2.5% for the first 20 years of service, by 3% for the next ten years (maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of final average salary multiplied by 2.5% for the first 20 years of service, by 3% for the next 5 years of service, by 4% for the next 5 years of service (maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance for Police members only consists of final average salary multiplied by 2.5% for the first 20 years of service and by 4% for the next 10 years of service (maximum benefit, 90% of final average salary). Effective July 1, 2008 for Fire members only, the monthly allowance for a service retirement consists of final average salary multiplied by 2.5% for the first 20 years of service. If Fire members have more than 20 years of service, the monthly allowance consists of final average salary multiplied by 3.0% for each year of service (maximum benefit, 90% of final average salary).

Final average salary is the average monthly salary during the highest 12 consecutive months of service, limited to 108% of salary paid during the 12 months immediately proceeding the last 12 months of service. In addition, retirement benefits are adjusted for an annual cost-of-living allowance (COLA). The current maximum COLA increase is 3% per year.

If employees terminate employment and elect to receive a return of contributions, the accumulated plan benefits attributable to the City's contributions is forfeited; however, an employee's accumulated contribution plus 2% interest per annum is refunded. Refunds are paid out on a lump-sum basis. The forfeited amount of the City's contributions remains in the Plan.

(c) Death Benefits

Subject to a maximum of 42.5% of final average salary, the spouse or domestic partner receives the greater of 50% of the member's benefit or 37.5% to 42.5% of the final average salary if: (1) an employee's death is service related; or (2) an employee's death is non-service related and occurs with at least 20 years of service; or (3) a retiree dies who was retired from service or who received a service related disability. Optional retirement allowances are available. Effective July 1, 2008, subject to a maximum of 45%, the surviving spouse or surviving domestic partner of Fire members only that retired, receives the greater of 50% of the member's benefit or 37.5% to 45% of the member's final average salary depending on the years of services and if (1) an employee's death is service related; or (2) an employee's death is non-service related and occurs with at least 20 years of service; (3) a retiree dies who was retired from service or who received a service related disability.

Additionally, an annual benefit for dependent children up to 18 years of age, or up to 22 years of age if a full-time student, is paid at a rate of 25% of final average salary per child with a maximum family benefit of 75% of final average salary if death is service related.

If an employee's death is non-service related and the employee has at least two years of service, the Plan allows for an annual annuity of 24% of the employee's final average salary for the first two years of service, plus 0.75% for each year thereafter, to be paid to his/her surviving spouse or domestic partner until remarriage (maximum of 37.5% of final average salary or 50% of the member's benefit, whichever is greater). These benefits are also paid to the surviving spouse or domestic partner of a retiree on a non-service related disability.

Additionally, for situations other than for a service-related death, annual benefits for dependent children up to 18 years of age, or 22 years of age if a full-time student, are as follows:

- One child - 25% of final average salary
- Two children - 37.5% of final average salary
- Three or more children - 50% of final average salary

The maximum annual benefit paid to a family under any circumstances is 75% of final average salary. If the employee has no spouse or domestic partner or children, a lump sum equal to the greater of the employee's accumulated contributions or $1,000 is paid to his/her estate.

(d) Disability Benefits

If an employee suffers a service related disability before retirement, an annual benefit is paid equal to 50% of final average salary. For members with more than 20 years of service, the monthly retirement allowance is the final average salary multiplied by 50%, plus the final average salary multiplied by 2.5% for each year over 20 if a member retired prior to February 4, 1996 (maximum benefit, 75% of final average salary). After February 4, 1996 but prior to February 4, 2000, the monthly allowance consists of the final average salary multiplied by 50%, plus final average salary multiplied by 3% for each year over 20 years of service (maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of the final average salary multiplied by 50%, plus final average salary multiplied by 3% for each year over 20 but less than 25 years of service, plus 4% of final average salary for each year over 25 up to 30 years of service (maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance for Police members only consists of final average salary multiplied by 50% plus 4% for each year in excess of 20 years of service (maximum benefit, 90% of final average salary).

Effective July 1, 2008 for Fire members only, the monthly allowance consists of final average salary multiplied by 60%, plus final average salary multiplied by 3% for each full year of service in excess of 20 years (maximum 90%). For less than 20 years of service, the allowance consists of final average salary multiplied by 50%.

Retirement for a non-service connected disability with at least 2 years of service will provide the following benefit: For members with 2 to 20 years of service, the monthly retirement allowance is 32% multiplied by the final average salary for the first two years plus 1% for each additional year of service. After February 4, 1996 but prior to February 4, 2000, for members with over 20 years of service, the benefit consists of 50% of final average salary, plus final average salary multiplied by 3% for each year over 20 years of service (maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of 50% of the final average salary, plus final average salary multiplied by 3% for each year over 20 but less than 25 years of service, plus 4% of final average salary for each year over 25 (maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance for Police members only consists of final average salary multiplied by 50% plus 4% for each year in excess of 20 years of service (maximum benefit, 90% of final average salary). Effective July 1, 2008, for Fire members only with at least 20 years of service, the monthly allowance consists of final average salary multiplied by 3.0% for each year of service (maximum benefit, 90% of final average salary).

(e) Postemployment Healthcare Benefits

The City of San José Municipal Code provides that retired employees with 15 years or more of service, their survivors, or those retired employees who are receiving a pension benefit of at least 37.5% of final average salary are entitled to payment of 100% of the lowest priced medical insurance plan available to an active police and fire employee. However, the Plan pays the entire premium cost for dental insurance coverage.

Note 2 – Summary Of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of the Plan present only the financial activities of the Plan and are not intended to present the financial position and changes in financial position of the City of San José in conformity with accounting principles generally accepted in the United States of America (GAAP).

(b) Basis of Accounting

The financial statements of the Plan are prepared on the accrual basis of accounting. Contributions are recognized as revenue when due pursuant to formal commitments as well as statutory and contractual commitments (at the end of the pay period). Benefits and refunds of contributions are recognized when due and payable under the provisions of the Plan. Activities of the Defined Benefit Pension Plan and the Postemployment Healthcare Plan are accounted for separately. It is required by the Municipal Code that transactions of the Defined Benefit Pension Plan be accounted for in two funds: a Retirement Fund and a Cost-of-Living Fund.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

(c) Investments

The City of San José Municipal Code Section 3.36.530 delegates' authority to the Board of Administration to reinvest the monies of the Plan as provided in Section 3.36.540. The Board has adopted detailed investment guidelines consistent with conditions and limitations set forth in Section 3.36.540.

Following the market crash of 2008, the Board approved a new asset allocation that improved the diversification of the portfolio structure from the prior one, which in fiscal year 2008-2009 had replaced the previous allocation of 59% equity, 24% fixed income, and 17% real estate and private equity with a new allocation of 49% equity, 23% fixed income, and 28% alternatives allocation that included private equity, real estate, absolute return, and real assets. The new fiscal year 2009-2010 structure further reduced the equity exposure to a target allocation of 40%, increased the fixed income exposure to 25%, and increased the alternatives allocation to 35%. The Board also approved the addition of inflation-linked assets and opportunistic strategies to the alternatives asset class. This new allocation reduced risk by 10% from the prior allocation; the Plan's investment asset allocation is as follows:

Equity – Target of 40%, minimum 30% and maximum 50% of the fair value of the aggregate portfolio.

- U.S. Large Cap – Target 18%
- U.S. Small Cap – Target 5%
- Non U.S. Developed Markets – Target 12%
- Non U.S. Emerging Markets – Target 5%

Fixed Income – Target of 25%, minimum 15% and maximum 35% of the fair value of the aggregate portfolio.

- Core Fixed Income – Target 5%
- U.S. Treasury Inflation Protected Securities (TIPS) – Target 10%
- Long Duration Fixed Income – Target 5%
- Opportunistic Credit – Target 5%

Alternative Assets – Target of 35%, minimum of 10% and maximum 60% of the fair value of the aggregate portfolio. Funds allotted to the alternatives asset class are temporarily invested in other asset classes.

- Private Equity – Target 5%
- Real Estate – Target 10%
- Inflation-Linked Assets – Target 10%
- Absolute Return – Target 5%
- Opportunistic – Target 5%

The Plan's investment policy authorizes the Plan to invest in domestic equity, international equity, emerging market equity, domestic fixed income, global (international) fixed income, long duration fixed income, U.S. Treasury Inflation Protected Securities (TIPS), high yield/credit opportunities, international currency contracts, private equity, real estate, derivatives, securities lending, and short-term investments. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market, such as private equity, commingled real estate funds and certain pooled fund investments, are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. The fair value of the separate real estate properties are based on annual independent appraisals. As of June 30, 2010 and 2009, the separate real estate properties include: apartment complexes in Houston, TX, and Colorado Springs, CO; office

Notes to Financial Statements *(Continued)*

buildings in Denver, CO, O'Fallon, MO, San José, CA, near Chicago, IL, and in Anchorage, AK; and warehouses near Minneapolis, MN. As of June 30, 2010, the office buildings in O'Fallon, MO and Anchorage, AK had mortgage loans payable of approximately $20,400, 000. The outstanding mortgage loans payable do not exceed 50% of the assets as allowed in the Plan's Real Estate Investment Guidelines.

Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned. Rental income is recognized as earned, net of expenses.

(d) Plan Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits

The Plan is required by the City of San José Municipal Code to establish various reserves in the Plan net assets. The Plan net assets are allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan. As of June 30, 2010 and 2009, the net assets, totaling $2,314,870,000 and $2,044,242,000, respectively, are allocated as follows (in thousands):

	Retirement Fund	Cost-of-Living Fund	Defined Benefit Pension Plan	Post-employment Healthcare Plan	Total
June 30, 2010:					
Employee contributions	$ 186,322	$ 51,885	$ 238,207	$ 6,158	$ 244,365
Supplemental retiree benefit	32,327	-	32,327	-	32,327
General reserve	1,319,108	674,408	1,993,516	44,662	2,038,178
TOTAL	**$ 1,537,757**	**$ 726,293**	**$ 2,264,050**	**$ 50,820**	**$ 2,314,870**
June 30, 2009:					
Employee contributions	$ 184,069	$ 52,257	$ 236,326	$ 5,715	$242,041
Supplemental retiree benefit	32,327	-	32,327	-	32,327
General reserve	1,161,636	571,170	1,732,806	37,068	1,769,874
TOTAL	**$ 1,378,032**	**$ 623,427**	**$ 2,001,459**	**$ 42,783**	**$ 2,044,242**

Employee Contributions Reserve is a reserve that represents the total accumulated employee contributions of current active and deferred members plus credited interest. The reserve is accounted for separately due to the possibility of their return to the member upon separation from city employment.

The Supplemental Retiree Benefit Reserve (SRBR) is a reserve that represents funds required by statute to be set aside from investment earnings to provide supplemental benefits to retirees. The SRBR was established in December 2001, upon adoption of Ordinance number 26536 of the City of San José Municipal Code. SRBR excess earnings and interest transfers are calculated by the Plan's actuary, The Segal Company, per Ordinance number 26536 and are based on all of the Plan's assets (including the Retirement Fund, the Cost-of-Living Fund (COLA), and the Postemployment Healthcare Plan). However, excess earnings and interest transfers to SRBR are funded only by the Retirement Fund and not the COLA or Postemployment Health reserves.

Additionally, if the City's contribution rate, as determined by the Board's actuary during any actuarial valuation, will increase as a result of poor investment earnings in the retirement fund, the SRBR reserve off-set the City's contributions in an amount equal to ten percent of the City's increased contributions for the first twelve months following the increase in the contribution rates, but will not exceed five percent of the accrued balance in the SRBR reserve as of the date of the actuarial valuation.

General Reserve is a reserve that represents net earnings resulting from investment earnings, employer contributions, and realized and unrealized investment gains and losses. As of June 30, 2010 and 2009, the Plan had unrealized gains of $70,833,000 and unrealized losses of $113,572,000, respectively. General Reserve also represents an accumulation of funds necessary to pay all accumulated vested retirement obligations.

(e) Allocation of Investment Income

Earnings on investments, excluding unrealized gains and losses, are recorded first in the general reserve category of net assets. An allocation is made bi-annually from the general reserve category to the employee contributions category of net assets based on the balance in that account at an annual rate of 2%, as specified by the City of San José Municipal Code. After the close of each fiscal year, the SRBR will be allocated 10% of the earnings in excess of the assumed actuarial rate for the Retirement Plan. Any earnings in excess of 2% of the total employee contributions reserve balance and the SRBR allocation remain in the general reserve category. For fiscal years 2009, and 2008, excess earnings were $0 and $4,581,000, respectively. The SRBR distributions to retirees' for fiscal years 2009 and 2008 were $0 and $2,889,186, respectively. SRBR distributions are determined after the fiscal year end and are distributed to retirees in the following fiscal year. As of June 30, 2010, excess earnings and SRBR distributions for fiscal year 2010 have not yet been determined.

(f) Implementation of Governmental Accounting Standards Board Statements

In fiscal year ended June 30, 2010, the Plan implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* The Statement establishes accounting and financial reporting standards for all state and local governments that enter into derivative instruments. The Statement also provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions. The statement describes the general circumstances under which a derivative instrument is classified as an investment derivative or a hedging derivative instrument.

Statement No. 53 requires derivative instruments be reported at fair value, with a few specific exceptions, on the statement of net assets. The classification depends on whether they represent assets or liabilities. Changes in fair values of investment derivatives should be reported within the investment revenue income classification on the changes in fund net assets. As of June 30, 2010 and 2009, the Plan's derivative instruments are considered investments and not hedges for accounting purposes. As the Plan reported all investments, including investment derivative instruments, at fair value in prior fiscal years, the implementation of Statement No. 53 does not have a significant impact on the financial statements for the fiscal years ended June 30, 2009, and 2010. Details for investment derivative instruments can be found in the Derivative subsection of Note 3.

(g) Reclassifications

Certain amounts in fiscal year 2009 have been reclassified to conform to the fiscal year 2010 presentation.

Note 3 – Investments

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, foreign currency risk, and concentration of credit risk. The following describes those risks:

Interest Rate Risk – The fair value of fixed income investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, and other general interest rate conditions. Certain fixed income investments have call provisions that could result in shorter maturity periods. The Plan does not have a policy regarding interest rate risk. As of June 30, 2010, $442,000 of asset backed securities, $30,733,000 of bank loan securities, and $400,000 of U.S. denominated convertible bonds were floating rate securities tied to the London Interbank Offered Rate (LIBOR) or the 3-month Prime rate. The Plan also had exposure of approximately $242,348,000 in commodity swaps that are tied to 3-month Treasury bill rates as described in the Note 3 - Derivatives below. As of June 30, 2009, $10,204,000 of asset backed securities, $1,805,000 of collateralized mortgage obligations, $127,000 of corporate securities, $3,284,000 of Governmental National Mortgage Association (GNMA) obligations, and $899,000 of U.S. Government securities were floating rate securities tied to LIBOR and/or the 12-Month Treasury Average Index (MTA).

The following tables provide the segmented time distribution for fixed income investments based on expected maturity (in years) as of June 30, 2010 and 2009, concerning the fair value of investments and interest rate risk:

INVESTMENTS AT FAIR VALUE

As of June 30, 2010 (In Thousands)

	0-3 Months	3-6 Months	6 Months - 1 Year	1-5 Years	5-10 Years	More Than 10 Years	Total Fair Value	Cost
Fixed Income *Domestic Fixed Income*								
Asset Backed Securities	$ -	$ -	$ -	$ 238	$ 581	$ 841	$ 1,660	$ 1,383
Bank Loans	-	138	1,709	28,180	1,726	-	31,753	29,752
Collateralized Mortgage Obligations	-	-	-	1,328	3,005	27,254	31,587	30,145
Collective Short Term Investments	204,362	-	-	-	-	-	204,362	204,366
Convertible Bonds	-	-	-	18,309	532	11,046	29,887	29,369
Corporate Bonds	-	-	1,156	47,871	37,195	97,984	184,206	166,661
FHLMC	-	-	-	-	2,940	11,019	13,959	13,414
FNMA	-	-	-	-	4,929	36,850	41,779	40,978
State and Local Obligations	-	-	-	-	-	7,596	7,596	7,321
U.S. Treasury Inflation Protected Securities (TIPS)	-	-	-	124,935	127,106	81,765	333,806	324,654
U.S. Treasury Securities	-	11,150	19,968	131,737	30,516	22,978	216,349	212,911
Total Domestic Income Maturity	**204,362**	**11,288**	**22,833**	**352,598**	**208,530**	**297,333**	**1,096,944**	**1,060,954**
Fixed Income *International Fixed Income*								
International Convertible Bonds	-	1,321	464	6,916	238	795	9,734	10,513
International Corporate Bonds	-	-	-	316	323	-	639	656
USD Denominated Convertible Bonds	-	-	-	-	5,760	1,102	6,862	7,092
USD Denominated Corporate Bonds	-	-	732	9,102	6,334	8,266	24,434	23,902
Total International Fixed Income	**-**	**1,321**	**1,196**	**16,334**	**12,655**	**10,163**	**41,669**	**42,163**
Pooled Fixed Income Bond Funds	**-**	**-**	**-**	**-**	**-**	**91,501**	**91,501**	**82,212**
TOTAL FIXED INCOME	**$ 204,362**	**$ 12,609**	**$ 24,029**	**$ 368,932**	**$ 221,185**	**$ 398,997**	**$1,230,114**	**$1,185,329**

Notes to Financial Statements *(Continued)*

Note 3 – Investments (continued)

INVESTMENTS AT FAIR VALUE

As of June 30, 2009 (In Thousands)

	0-3 Months	3-6 Months	6 Months - 1 Year	1-5 Years	5-10 Years	More Than 10 Years	Total Fair Value	Cost
Fixed Income *Domestic Fixed Income*								
Asset Backed Securities	$ -	$ -	$ -	$ 2,015	$ 803	$ 13,340	$ 16,158	$ 17,857
Bank Loans	-	-	-	27,229	10,944	-	38,173	37,422
Collateralized Mortgage Obligations	-	-	-	-	2,464	39,325	41,789	46,267
Collective Short Term Investment Fund	74,763	(65)	-	-	-	-	74,698	74,485
Corporate Bonds	200	-	-	48,836	58,708	107,709	215,453	219,489
FHLMC	-	-	-	453	1,105	34,510	36,068	34,857
FNMA	-	-	-	490	189	95,866	96,545	94,111
GNMA	-	-	-	-	-	17,620	17,620	17,318
State and Local Obligations	-	-	-	-	361	4,092	4,453	4,486
U.S. Treasury Securities	-	10,859	724	4,874	9,415	11,458	37,330	37,223
U.S. Treasury Strips	-	-	-	-	-	29	29	30
Total Domestic Fixed Income	74,963	10,794	724	83,897	83,989	323,949	578,316	583,545
Fixed Income *International Fixed Income*								
U.S. Dollar Denominated Government Bonds	-	-	-	-	16	-	16	16
U.S. Dollar Denominated Corporate Bonds	-	-	-	10,925	14,312	13,814	39,051	40,835
Total International Fixed Income	**-**	**-**	**-**	**10,925**	**14,328**	**13,814**	**39,067**	**40,851**
Pooled Fixed Income Bond Funds	**-**	**-**	**-**	**-**	**64,889**	**1,517**	**66,406**	**65,659**
TOTAL FIXED INCOME	**$ 74,963**	**$ 10,794**	**$ 724**	**$ 94,822**	**$ 163,206**	**$ 339,280**	**$ 683,789**	**$ 690,055**

Note 3 – Investments (continued)

Custodial Credit Risk – Custodial credit risk is the risk that the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a policy regarding custodial credit risk. As of June 30, 2010 and 2009, all of the Plan's investments, excluding invested securities lending collateral, are held in the Plan's name, and/or are not exposed to custodial credit risk. Securities lending collateral are invested in the lending agent's investment fund (see Note 4 – Securities Lending Program).

Credit Quality Risk – Nationally recognized statistical rating organizations provide ratings of debt securities' quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. The Plan's investment policy dictates that all domestic and international bonds and notes in which the Plan's assets are invested, and which mature one year or more from the date of original issues, are required to carry a rating of "BBB" or better by two of the following three services: Standard & Poor's (S&P), Moody's Investors' Service (Moody's), or Fitch Ratings (Fitch). In the event that ratings are provided by only two agencies and the third is non-rated, the more conservative (lowest) rating will be assigned. If only one agency assigns a rating, that rating will be used; or, if unrated, the security shall be of equivalent quality in the judgment of the investment manager to a similar domestic issue. Investment managers may, with prior written authorization from the Plan, invest a maximum of 20% of their fixed income portfolio in bonds or notes that are rated B or BB. If bonds are downgraded below the minimum credit quality allowable in the Plan's investment policy at the time of purchase, the investment manager is permitted to hold up to 2% of the Plan's portfolio managed by the individual manager, using the lower of S&P, Moody's, and Fitch's rating in the event of a split-rated security. The Plan may hedge against the possible adverse effects of currency fluctuations on the Plan's portfolio of international fixed income obligations when it is considered appropriate. This is typically achieved using forward currency contracts. Short-term investments may consist of commercial paper rated at least A1 or P1, repurchase agreements, short-term U.S. securities, and other money market investments.

The following table provides information as of June 30, 2010 concerning credit risk. Investments issued or explicitly guaranteed by the U.S. government of $550,155,000 and $59,107,000 as of June 30, 2010 and 2009, respectively, are not considered to have credit risk and are excluded from the tables below.

RATINGS OF FIXED INCOME INVESTMENTS
June 30, 2010 (In Thousands)

S&P quality rating	Fair Value	Fair Value as a % of Total Fixed Income
AAA	$ 46,246	6.8%
AA	42,966	6.3%
A	84,346	12.4%
BBB	53,642	7.9%
BB	33,158	4.9%
B	22,392	3.3%
CCC & Below	3,375	0.5%
Not Rated	393,834	57.9%
TOTAL	**$ 679,959**	**100.0%**

RATINGS OF FIXED INCOME INVESTMENTS
June 30, 2009 (In Thousands)

S&P quality rating	Fair Value	Fair Value as a % of Total Fixed Income
AAA	$ 156,740	25.1%
AA	34,397	5.5%
A	94,324	15.1%
BBB	55,134	8.8%
BB	34,129	5.5%
B	19,291	3.1%
CCC & Below	6,595	1.1%
Not Rated	224,072	35.8%
TOTAL	**$ 624,682**	**100.0%**

Foreign Currency Risk – This is the risk that changes in the exchange rates will adversely affect the fair value of an investment. To mitigate this risk, the Plan's investment policy permits individual investment managers to defensively hedge currency to mitigate the impact of currency fluctuation on the underlying asset value.

The following tables provide information as of June 30, 2010 and 2009, concerning the fair value of investments and foreign currency risk:

Notes to Financial Statements *(Continued)*

Note 3 – Investments (continued)

FOREIGN CURRENCY RISK ANALYSIS

As of June 30, 2010 (In Thousands)

Currency Name	Cash	Equity	Fixed income	Pending Foreign Currency Exchanges	Total Exposure
Australian Dollar	$ 1	$ 1,405	$ -	$ 27	$ 1,433
Brazilian Real	4	7,156	70	226	7,456
Canadian Dollar	-	6,114	-	132	6,246
Chilean Peso	-	605	-	-	605
Danish Krone	-	2,715	-	18	2,733
Egyptian Pound	-	509	-	-	509
Euro Currency	1,017	65,063	3,600	(1)	69,679
Hong Kong Dollar	41	7,737	772	2	8,552
Indian Rupee	-	5,032	-	-	5,032
Indonesian Rupiah	-	3,831	-	-	3,831
Israeli Shekel	38	1,501	-	-	1,539
Japanese Yen	398	59,468	2,278	33	62,177
Malaysian Ringgit	-	220	-	-	220
Mexican Peso	4	1,320	-	-	1,324
New Taiwan Dollar	870	1,810	-	-	2,680
New Zealand Dollar	-	674	-	-	674
Norwegian Krone	-	1,801	-	18	1,819
Pound Sterling	-	43,842	2,332	27	46,201
Singapore Dollar	-	1,682	-	26	1,708
South African Rand	-	2,712	-	-	2,712
South Koren Won	-	2,214	-	-	2,214
Swedish Krona	-	2,501	-	(7)	2,494
Swiss Franc	-	16,018	1,321	(2)	17,337
Thailand Baht	-	338	-	-	338
Turkish Lira	-	1,475	-	-	1,475
TOTAL	**$ 2,373**	**$ 237,743**	**$ 10,373**	**$ 499**	**$ 250,988**

Notes to Financial Statements *(Continued)*

Note 3 – Investments (continued)

FOREIGN CURRENCY RISK ANALYSIS

As of June 30, 2009 (In Thousands)

Currency Name	Cash	Equity	Pending Foreign Currency Exchanges	Total Exposure
Australian Dollar	$ 8	$5,987	$ -	$ 5,995
Brazilian Real	(65)	5,263	-	5,198
Canadian Dollar	-	2,163	1	2,164
Danish Krone	-	4,579	-	4,579
Egyptian Pound	68	-	-	68
Euro Currency	965	78,745	-	79,710
Hong Kong Dollar	-	18,400	-	18,400
Indian Rupee	-	9,908	-	9,908
Indonesian Rupiah	9	2,371	-	2,380
Japanese Yen	197	57,895	(4)	58,088
Malaysian Ringgit	3	715	-	718
Mexican Peso	-	548	-	548
New Taiwan Dollar	1,036	2,487	-	3,523
New Zealand Dollar	-	1,153	-	1,153
Norwegian Krone	-	344	-	344
Pound Sterling	98	62,075	(1)	62,172
Singapore Dollar	-	4,976	-	4,976
South African Rand	-	4,951	-	4,951
South Koren Won	-	3,671	-	3,671
Swedish Krona	-	6,145	-	6,145
Swiss Franc	83	14,441	-	14,524
Turkish Lira	-	480	-	480
TOTAL	**$ 2,402**	**$ 287,297**	**$ (4)**	**$ 289,695**

Notes to Financial Statements *(Continued)*

Note 3 – Investments (continued)

Concentration of Credit Risk – The Plan's investment policy does not limit the amount that can be invested in a single issuer. However, it limits the aggregate amount that can be invested in each class of investments, limits the portion of the total Plan assets that a manager can hold in a single security with the exception of government backed securities and real estate equity to 5%, and limits the Plan assets placed with an investment manager to represent no more than 10% of that manager's total assets.

As of June 30, 2010, the Plan held Wisconsin Treasury notes of $130,853,000, which represented 5.7% of total Plan net assets. As of June, 30, 2009, the Plan did not hold investments in any one issuer, excluding U.S. government guaranteed investments that represented five percent or more of the total Plan net assets.

Derivatives – The Plan's investment policy allows for investments in derivative instruments that comply with the Plan's basic objective of achieving the highest return on investment funds, consistent with safety, and in accordance with accepted investment practices. Due to the level of volatility associated with certain derivative investments in general, the Plan specifically prohibits investment managers from using derivative or synthetic securities that expose the Plan to potentially high price volatility or are leveraged, or whose market-ability may become severely limited. Derivative investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market are reported at estimated fair value based the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. The fair value of derivative investments that are not exchange traded, such as swaps, rights and to-be-announced (TBA) securities are determined by the Plan's custodian based on the base market value of similar instruments. Futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. As a result, futures have no fair value as of June 30, 2010 or 2009. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

The fair values and notational amounts of derivative instruments outstanding as of June 30, 2010 and 2009, classified by type, and the changes in fair value of such derivative instruments for the years then ended as reported in the 2010 and 2009 financial statements are as follows (amounts in thousands):

	Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2010		*Fair Value at June 30, 2010*		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount**
Commodity swaps	Investment income/(loss)	$ (3,096)	Commodities	$ (5,698)	$ 242,348
Futures long/short (domestic and foreign)	Investment income/(loss)	225	Fixed income (domestic and foreign)	-	-
Futures options bought/written	Investment income/(loss)	107	Fixed income (domestic and foreign)	-	-
International currency forwards	Investment income/(loss)	2,604	International currency contracts, net	494	-
Rights	Investment income/(loss)	24	International equity	8	241
To Be Announced (TBA) securities *	Investment income/(loss)	2,442	Domestic fixed income	192	28,708
Total Derivative Instruments		**$ 2,306**		**$ (5,004)**	

** For To Be Announced (TBA) securities the Plan holds corresponding pending trade payables in the amount equal to the fair values as of June 30, 2010 and 2009*

Note 3 – Investments (continued)

	Net Appreciation in Fair Value of Investments through June 30, 2009		Fair Value at June 30, 2009		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount**
Futures options bought/written	Investment income/(loss)	*	Fixed income - collective short-term investments	$ (67)	$ -
To Be Announced (TBA) securities **	Investment incom /(loss)	$ 3,272	Domestic fixed income	60	29,872
Total Derivative Instruments		**$ 3,272**		**$ (7)**	

* *Information not readily available for comparative financial statement disclosure, however all derivatives held by the Plan were reported at fair value.*
** *TBA securities fair value reported net of trade payable.*

Derivative investments are subject to certain types of risks, including counterparty credit risk (non-exchange traded), interest rate risk, and foreign currency risk. The following describes the risks applicable to the investment derivative instruments that are reported as of June 30, 2010 and 2009:

Counterparty Credit Risk – The Plan is exposed to credit risk on derivative instruments that are in asset positions. As of June 30, 2010, the Plan held rights with a fair value of $8,000 and a notional value of $241,000 held by unrated counterparties. The Plan also held To-Be-Announced (TBA) securities with a fair value of $192,000 and a notional value of $28,708,000 all purchased in the over the counter market from broker-dealers with credit ratings of A or better. As of June 30, 2009, the Plan held TBAs with a fair value of $60,000 and a notional value of $29,872,000 all purchased in the over the counter market from broker-dealers with credit ratings of A or better. Additionally, the Plan had outstanding commodity swaps with a fair value of negative $5,698,000 and notional value of $242,348,000 held by three counterparties with AAA ratings. The Plan's investments in forward currency contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2010, total commitments in forward currency contracts to purchase and sell international currencies were $18,077,000 and $18,077,000 respectively, with fair values of $17,607,000 and $18,101,000, respectively, held by counterparties S&P rating of at least AA-. As of June 30, 2009, the Plan did not hold any forward currency contracts.

Interest Rate Risk – The Plan had exposure to interest rate risk on its fully collateralized commodity swaps and TBA securities. The fair value of the commodity swaps were marked-to-market daily based on the Dow Jones UBS Commodity Index values with unrealized gains and losses collateralized to minimize counterparty risk. The Plan receives the total return Dow Jones UBS Commodity Index, net of the 3-month Treasury bill rate. The Plan does not have a policy regarding interest rate risk, however, the Plan does settle on a transaction plus one day basis (T+1), therefore limiting the Plan's exposure to counterparty risk. As of June 30, 2010, the Plan had outstanding commodity swaps with a notional value of $242,348,000 that are tied to 3-month Treasury bill rates.

The following tables provide the segmented time distribution for derivative instruments based on expected maturity (in years) as of June 30, 2010 and 2009, concerning the fair value of derivative investments and interest rate risk:

Derivative Investments at Fair Value as of June 30, 2010 – Segmented Time Distribution (dollars in thousands)

2010

Investment Derivative Instruments	6 Months - 1 Year	More Than 10 Years	Total Fair Value
To Be Announced (TBA) securities	$ -	$ 192	$ 192
Commodity swaps	$ (5,698)	-	$ (5,698)
Total Investment Derivative Instruments	**$ (5,698)**	**$ 192**	**$ (5,506)**

Derivative Investments at Fair Value as of June 30, 2009 – Segmented Time Distribution (dollars in thousands)

2009

Investment Derivative Instruments	More Than 10 Years	Total Fair Value
To Be Announced (TBA) securities	$ 60	$ 60
Total Investment Derivative Instruments	**$ 60**	**$ 60**

Notes to Financial Statements *(Continued)*

Note 3 – Investments (continued)

TBAs and commodity swaps are highly sensitive to changes in interest rates. The tables below detail the reference rate, fair value and notional amount of these derivative instruments:

2010

Investment Derivative Instruments	Reference Rate	Total Fair Value	Notional Amouny
To Be Announced (TBA) securities	5.5% Fixed	$ -	$ 5,605
To Be Announced (TBA) securities	6.5% Fixed	192	23,103
Total TBA securities		**$ 192**	**$ 28,708**
Commodity swaps	Receive Dow Jones UBS Commodity Index, Pay 3-month Treasury bill rate plus a pay spread between 9-16 bps	(5,698)	242,348
Total Investment Derivative Instruments		$ (5,506)	$ 271,056

2009

Investment Derivative Instruments	Reference Rate	Total Fair Value	Notional Amouny
To Be Announced (TBA) securities	4.5% Fixed	$ 1	$ 900
To Be Announced (TBA) securities	5.0% Fixed	13	5,700
To Be Announced (TBA) securities	5.5% Fixed	46	10,000
To Be Announced (TBA) securities	6.0% Fixed	-	2,800
To Be Announced (TBA) securities	6.5% Fixed	**-**	**10,472**
Total TBA securities		**$ 60**	**$ 29,872**

Foreign Currency Risk – This is the risk that changes in the exchange rates will adversely affect the fair value of underlying investments. To mitigate this risk, the Plan's investment policy permits individual investment managers to mitigate the impact of currency fluctuation on the underlying asset value. The Plan's investment managers enter into international forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The Plan utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2010 and 2009, the Plan's net position in these contracts is recorded at fair value as international currency contract investments. The fair values of international currency contracts are determined by quoted currency prices from national exchanges. The Plan's commitments relating to forward currency contracts are settled on a net basis.

The following table provides information as of June 30, 2010, concerning the fair value of forward currency contracts and foreign currency risk (dollars in thousands):

Currency Name	Pending Foreign Currency Exchanges
Australian Dollar	$ 27
Brazilian Real	225
Canadian Dollar	132
Danish Krone	18
Hong Kong Dollar	2
Japanese Yen	33
Norwegian Krone	15
Pound Sterling	25
Singapore Dollar	26
Swedish Krona	(6)
Swiss Franc	(3)
Total	**$ 494**

As of June 30, 2009, the Plan did not hold any forward currency contracts.

Notes to Financial Statements *(Continued)*

Note 4 – Securities Lending Program

The Plan has a custodial agreement with State Street Corporation (State Street) which authorizes State Street to lend the securities in the Plan's investment portfolio under such terms and conditions as State Street deems advisable and to permit the lent securities to be transferred into the name of the borrowers. The Plan does not have a threshold for securities lending. As of June 30, 2010, the Plan had no exposure to borrower credit risk related to the securities lending transactions as State Street is responsible for replacement of the lent securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, State Street is required to credit the Plan's account with the market value of such unreturned lent securities if the lent securities are not returned by the borrower. The Plan receives a fee from the borrower for the use of the lent securities.

Securities lending collateral represents investments in State Street's Quality D Short-term investment Fund purchased with cash collateral, as well as securities collateral that the Plan may not pledge or sell without a borrower default. Securities lending transactions collateralized with securities that cannot be pledged or sold without borrower default are not reported as assets and liabilities in the statement of net assets. The Plan does not match the maturities of investments made with cash collateral with the securities on loan.

The loaned securities as of June 30, 2010 and 2009 consisted of U.S. Treasury securities, U.S. government agency securities, domestic corporate bonds, domestic equity securities, and international equity securities. In return, the Plan receives collateral in the form of cash or securities equal to 102% for domestic and 105% for international of the transferred securities plus accrued interest for reinvestment of the collateral.

The Plan authorized State Street to invest and reinvest cash collateral in State Street's Quality D Short-term Investment Fund which, effective April 15, 2009, seeks to maintain an average effective duration of 90 days or a maximum option-adjusted duration for variable rate securities of 2.5 years or less at the time of purchase, and all fixed rates instruments must have an option-adjusted duration not to exceed 18 months at the time of purchase. At the time of purchase, all securities with maturities of 13 months or less must qualify as first-tier securities and all securities with maturities in excess of 13 months will (a) be rated A or better by at least two nationally recognized statistical rating organizations (NRSROs), or (b) if rated by only one NRSRO, be rated "A" or better by such NRSRO, or (c) if unrated, be determined by State Street to be of comparable quality. Investments made prior to the April 15, 2009, shall continue to be permissible to the extent they complied at the time of purchase.

As of June 30, 2010, the cash collateral pool totaled $39.8 billion and the weighted average maturity was 29.64 days. The cash collateral pool included asset backed securities (22.07%), certificates of deposit (42.41%), corporate securities (1.52%), bank notes (9.34%), asset backed commercial paper (8.84%) and other securities (15.82%). As of June 30, 2009, the size of the cash collateral pool was $44.6 billion and the weighted average maturity was 42.64 days. The cash collateral investments included asset backed securities (46.66%), certificates of deposit (20.01%), corporate securities (5.61%), bank notes (13.10%), and other securities (14.62%).

As of June 30, 2010, the underlying securities loaned by the Plan as a whole amounted to approximately $379,912,000. The cash collateral and the non-cash collateral totaled $388,885,000 and $1,361,000, respectively, at carrying cost. The net asset value (NAV) of the cash collateral pool at June 30, 2010 was at $0.9889 or $384,569,000 on a mark to market basis. The NAV of less than $1.00 is due to the decline in the fair value of assets held by the cash collateral pool. The NAV of $0.9889 of the cash collateral pool results in an unrealized loss of approximately $4,316,000 for the Plan. The Plan's investment in the cash collateral investment pool is presented in the Statement of Net Plan Assets at the NAV of $0.9889, or $384,569,000. The unrealized loss of $4,316,000 is reflected in the securities lending income earnings line of the Statement of Changes in Plan Net Assets. The Plan is exposed to market risk including the possible loss of principal value in the cash collateral pool due to the fluctuation in the market value of the assets held by the cash collateral pool.

As of June 30, 2009, the underlying securities loaned by the Plan as a whole amounted to approximately $213,340,000. The cash collateral and the non-cash collateral totaled $219,808,000 and $1,016,000, respectively, at carrying cost. The net asset value (NAV) of the cash collateral pool at June 30, 2009 was at $0.9513 or $209,103,000 on a mark to market basis. The NAV of less than $1.00 was due to the decline in the fair value of assets held by the cash collateral pool. The NAV of $0.9513 of the cash collateral pool results in an unrealized loss of approximately $10,705,000 for the Plan. The Plan's investment in the cash collateral investment pool is presented in the Statement of Net Plan Assets at the NAV of $0.9513 or $209,103,000. The unrealized loss of $10,705,000 is presented in the securities lending income earnings line of the Statement of Changes in Plan Net Assets.

Notes to Financial Statements *(Continued)*

Note 4 – Securities Lending Program (continued)

Securities Lending – Investment and Collateral Received at Fair Value *(in thousands)*

	2010	2009
Type of Investment Lent		
For cash collateral:		
Domestic corporate bonds	$ 44,856	$ 20,762
Domestic equity securities	94,588	126,964
U.S. government agency securities	-	12,340
U.S. Treasury securities	218,541	18,511
International equity securities	20,605	33,770
Total lent for cash collateral	378,590	212,347
For non-cash collateral:		
Domestic equity securities	1,322	111
U.S. treasury securities	-	882
Total lent for non-cash collateral	1,322	993
Total securities lent	**$ 379,912**	**$ 213,340**
Type of Collateral Received		
Cash collateral	$ 384,569*	$ 209,103*
Non-cash collateral:		
For lent domestic equity securities	1,361	114
For lent US treasury securities	-	902
Total non-cash collateral	1,361	1,016
Total collateral received	**$ 385,930**	**$ 210,119**

**Amount represent the mark-to-market value of the cash collateral pool at 98.89% and 95.13% net asset value for fixed fiscal years 2010 and 2009, respectively.*

Notes to Financial Statements *(Continued)*

Note 5 – Defined Benefit Pension Plan: Contributions and Funding Policy

Pursuant to San José Municipal Code 3.36.1520, the Police and Fire Department Retirement Plan Board of Administration is authorized to determine the amount of monthly or bi-weekly contributions. On June 24, 2008, City Council adopted ordinance No. 28332 amending Chapter 3.36 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum payments of City required contributions to the Police and Fire Department Retirement Plan.

On July 2, 2009, the City paid the actuarially determined prepayment amount of $62,938,000, for bi-weekly contributions to be made for the 26 pay dates from July 3, 2009 through June 18, 2010. The City also paid $102,000 for the reconciliation of fiscal year 2009-2010 contributions per San José Municipal Code 3.36.1590(F), that requires the Board to determine whether the lump sum advance payment(s) and the payments that otherwise have been required in the absence of the lump sum advance payment are actuarially equivalent.

Contributions to the Defined Benefit Pension Plan for both the City and the participating members are based upon an actuarially determined percentage of each member's covered payroll sufficient to provide adequate assets to pay benefits when due. The Plan transitioned to annual valuations beginning June 30, 2010, from biennial actuarial valuations. The contribution rates for fiscal years ended June 30, 2010 and 2009 were based on the actuarial valuation performed on June 30, 2007, except for the period June 27 through June 30, 2010, which were based on the June 30, 2009 valuation. The actuarial valuation assumptions are presented below in the Schedule of Funded Status for the Defined Benefit Pension Plan.

The City and the participating member's contribution rates in effect for the Defined Benefit Pension Plan during the fiscal years ended June 30, 2010 and 2009 were as follows:

	City – Board Adopted[*]		*Employee*	
Period	**Police**	**Fire**	**Police**	**Fire**
06/27/10 – 06/30/10	38.32%	40.24%	9.81%	10.09%
07/01/08 – 06/26/10	21.61%	24.12%	8.18%	8.62%

[*] *The actual contribution rates paid by the City differed as a result of the City exercising their option to make annual lump sum payments.*

The funded status of the Defined Benefit Pension Plan as of June 30, 2009, the most recent actuarial valuation date, is as follows: (dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (AAL/UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c))
6/30/2009	$2,569,569	$2,963,482	$393,913	86.70%	$243,196	162%

The UAAL of $393,913,000 does not reflect the impact of approximately $600 million of deferred pension and health investment losses resulting from unfavorable investment returns in fiscal years 2005 through 2009. The Plan's actuarial valuation uses a five year smoothing method for investment returns. This means that the current year's gains or losses, as calculated at year-end, are smoothed with the results from the prior four years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and investment return. Experience studies are performed by the Board's actuary to determine continual revision to the actuarial assumptions as actual results are compared with past expectations and new estimates are made about the future.

As of June 30, 2009, the Plan's most recent valuation, the Plan's AAL increased by $591 million due to demographic experience losses and changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2009 experience study. The Plan's UAAL increased from $6.6 million as of June 30, 2007 to $393.9 million as of June 30, 2009. The change to the UAAL was primarily the result of (a) unfavorable investment returns during the last two years, (b) higher than expected salary increases, (c) earlier than expected retirements, (d) data corrections, and (e) changes in the actuarial assumptions. Changes in the actuarial assumptions include the one year increase in the Plan's 80-120% market value corridor to 70-130%, as approved by the Board of Administration on February 4, 2010, resulting in the immediate recognition of approximately $45 million of investment losses for the pension and health plans. The market value of assets corridor limits the smoothing of assets to be no greater than 130% and no less than 70% of the market value of assets as of June 30, 2009. Under this practice, any investment gains or losses that would cause the smoothed assets to fall outside of this 70-130% market value corridor would be recognized immediately rather than be smoothed over the next five years. The total unrecognized investment losses, for pension and health assets, were $658.2 million before the application of the 130% market value of

Notes to Financial Statements *(Continued)*

Note 5 – Defined Benefit Pension Plan: Contributions and Funding Policy (continued)

assets corridor and $613.3 million after the application of the market value of asset corridor. A listing of significant actuarial methods and valuation assumptions for the June 30, 2007 and 2009 valuations are presented below in the Schedule of Funded Status for the Defined Benefit Pension Plan.

Additionally, the June 30, 2009 valuation included a 0.45% or approximately $1.2 million reduction in the City's pension contribution rate effective June 27, 2010. The reduction in the City's contribution rate was a result of a transfer from the Supplemental Retiree Benefit Reserve (SRBR) due to poor investment earnings. Per San José Municipal code section 3.36.580(c), if the City's contribution rate as determined by the Board's actuary during any actuarial valuation will increase as a result of poor investment earnings in the retirement fund, the SRBR reserve will transfer an amount equal to ten percent of the City's increased contributions for the first twelve months following the increase in the contribution rates, but the transfer will not exceed five percent of the accrued balance in the SRBR reserve as of the date of the actuarial valuation.

Projections for plan benefits are based on plan provisions as adopted and incorporated into the municipal code at the time of the valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Plan transitioned from biennial to annual valuations beginning June 30, 2010. The contribution rates for fiscal years ended June 30, 2010 and 2009 were based on the actuarial valuation performed as of June 30, 2007, except for the period June 27 through June 30, 2010, which were based on the June 30, 2009 valuation; the significant actuarial methods and assumptions used to compute the actuarially determined annual required contributions and the funded status are as follows:

Notes to Financial Statements *(Continued)*

Note 5 – Defined Benefit Pension Plan: Contributions and Funding Policy (continued)

Description	**Method/Assumption**	
Valuation date	June 30, 2009	June 30, 2007
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll (assuming a 4.25% total payroll increase)	Level percentage of payroll (assuming a 4.00% total payroll increase)
Remaining amortization period	(1) Outstanding balance of unfunded actuarial accrued liability calculated through June 30, 2003 valuation amortized over the next 8 years; (2) Prior service cost for the February 4, 1996 benefit improvement amortized over the next 8 years; and (3) Future actuarial experience gains and losses, changes in assumptions, and benefit improvements amortized over 16 years from the date of each such event, beginning with June 30, 2005 valuation.	10 years, closed for unfunded pension liabilities; 16 years, closed for gains and losses between valuations
Actuarial asset valuation method	5 year smoothed market with a 70% to 130% Market Value Corridor	5 year smoothed market with a 80% to 120% Market Value Corridor
Actuarial assumptions:		
Assumed rate of return on investments	8% per annum (net of expenses)	8% per annum (net of expenses)
Post-retirement mortality		
(a) Service	RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set back 4 years) RP-2000 Female Combined Healthy Mortality Table with no collar adjustment, projected 10 years (set back one year)	RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set back 3 years) RP-2000 Female Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set forward 1 year)
(b) Disability:	RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years, set back 1 year.	RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years.
Rates of service retirement, withdrawal, death, disability retirements	Based upon the June 30, 2009 Actuarial Experience Analysis	Based upon the June 30, 2007 Actuarial Experience Analysis
Salary increases	0-5 years of service - 9.75% 6-7 years of service - 6.75% 8+ years of service - 6.00% Of the total salary increase, 4.25% is for the combined inflation and real across-the-board salary increase	0-6 years of service - 9.00% 6-8 years of service - 6.00% 8+ years of service - 5.00% Of the total salary increase, 4% is for the combined inflation and real across-the-board salary increase
Cost-of-living adjustments	3.00% a year of retirement income	3.00% a year of retirement income

Note 5 – Defined Benefit Pension Plan: Contributions and Funding Policy (continued)

The schedules presented as required supplementary information following the notes to the basic financial statements, present multiyear trend information. The Schedule of Funding Progress for the Defined Benefit Pension Plan presents information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Schedule of Employer Contributions for the Defined Benefit Pension Plan presents trend information about the amounts contributed to the plan by the City in comparison to the annual required contribution (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Note 6 – Postemployment Healthcare Plan Contributions, Funded Status and Funding Progress

Contributions to the Postemployment Healthcare Plan are made by both the City and the participating members. Contributions to the Plan for fiscal years ended June 30, 2010 and 2009 for the Fire members of the Plan were based on the Board's 10-year cash flow funding policy. Contributions to the Plan for Police members were also based upon the Board's 10 year funding policy for fiscal year ended June 30, 2009. The contributions are not sufficient to provide adequate assets to pay benefits when due in accordance with the requirements of GASB Statement No. 43. Effective June 28, 2009, the Police members of the Plan entered into a Memorandum of Agreement (MOA) with the City to increase the contribution rates for retiree health and dental in order to phase-in to full funding of the GASB Statement No. 43 annual required contribution over the next five years; fiscal year 2009-2010 was the first year of the phase-in.

In the MOA the City and Police members of the Plan agreed that the Plan and member cash contribution rate shall not have an incremental increase of more than 1.25% and 1.35% of pensionable pay in each year for the members and City, respectively. Additionally, if the retiree healthcare contributions exceed 10% of member and 11% of City contributions (excluding the implicit rate subsidy) the parties shall meet and confer on how to address the contributions above 10% and 11%.

The City and the participating member's contribution rates in effect during the fiscal years ended June 30, 2010 and 2009 for the Postemployment Healthcare Plan were as follows:

	*City – Board Adopted**		*Employee*	
Period	**Police**	**Fire**	**Police**	**Fire**
06/27/10 – 06/30/10	6.26%	3.92%	5.76%	3.61%
06/28/09 – 06/26/10	5.28%	4.19%	4.78%	3.78%
07/01/08 – 06/27/09	4.19%	4.19%	3.78%	3.78%

* *The actual contribution rates paid by the City differed as a result of the City exercising their option to make annual lump sum payments.*

The funded status of the Postemployment Healthcare Plan as of June 30, 2009, the most recent actuarial valuation date, is as follows: (dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (AAL/ UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c))
6/30/2009	$55,618	$761,604	$705,986	7%	$234,196	301%

As of June 30, 2009, the Plan's most recent valuation, the Plan's AAL increased by $95 million due to changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2009 experience study. The Plan's UAAL increased from $620.8 million as of June 30, 2007 to $705.9 million as of June 30, 2009. Changes to the UAAL were primarily the result of unfavorable investment returns during the last two years and changes in the actuarial assumptions including the one year increase in the Plan's 80-120% market value corridor to 70-130%. A listing of significant actuarial methods and valuation assumptions for the June 30, 2007 and 2009 valuations are presented below in the Schedule of Funded Status for the Postemployment Healthcare Plan.

Notes to Financial Statements *(Continued)*

Note 6 – Postemployment Healthcare Plan Contributions, Funded Status and Funding Progress (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the Plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Plan transitioned from biennial to annual valuations beginning June 30, 2010. The contribution rates for fiscal years ended June 30, 2010 and 2009 for the Fire members of the Plan were based on the Board's 10-year cash flow funding policy. Contributions to the Plan for Police members for fiscal year ended June 30, 2010 were based upon the Board's 10 year funding policy and a phase-in to full funding of the GASB Statement No. 43 annual required contribution over the next five years; fiscal year 2009-2010 was the first year of the phase-in. Contribution rates for Fire members for fiscal year ended June 30, 2009 were based in the Board's 10-year cash flow funding policy. The contributions are not sufficient to provide adequate assets to pay benefits when due in accordance with the requirements of GASB Statement No. 43. The Plan's contribution rates were based on the actuarial valuation performed on June 30, 2007; except for the period June 27 through June 30, 2010, which were based on the June 30, 2009 valuation; the significant actuarial methods and assumptions used to compute the actuarially determined annual required contributions and the funded status are as follows:

Description	**Method/Assumption**	
Valuation date	June 30, 2009	June 30, 2007
Actuarial cost method	Entry age normal, level of percent of pay	Entry age normal, level of percent of pay
Amortization method	30 years, level percent of pay	30 years, level percent of pay
Remaining amortization period	30 years as of June 30, 2009, open	30 years as of June 30, 2007, open
Actuarial asset valuation method	5 year smoothed market (with a 70% to 150% Market Value Corridor)	5 year smoothed market (with an 80% to 120% Market Value Corridor)
Actuarial assumptions:		
Discount rate	6.7% †	6.4% †
Inflation rate	3.5%	3.5%
Across-the-board pay increase	0.75%	0.5%
Projected payroll increases	4.25%	4.0%
Health care cost trend rate:		
Medical	Projected premiums for FY 2009-2010 and 8.25% beginning FY 2010-2011, decreasing by 0.50% for each year for seven years until it reaches an ultimate rate of 5%	12% in 2007-2008 plan year, 10% in 2008-2009 fiscal year, 8.25% for 2009/2010, decreasing by 0.50% for each year for seven years until it reaches an ultimate rate of 5%
Dental	5%	5%

† Determined as a blended rate of the expected long-term investment returns on plan assets and on the City's investments, based on the funded level of the plan at the valuation date.

Notes to Financial Statements *(Continued)*

Note 6 – Postemployment Healthcare Plan Contributions, Funded Status and Funding Progress (continued)

The schedules presented as required supplementary information following the notes to the financial statements, present multiyear trend information. The Schedule of Funding Progress for the Postemployment Healthcare Plan presents information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Schedule of Employer Contributions for the Postemployment Healthcare Plan presents trend information about the amounts contributed to the plan by the City in comparison to the annual required contribution (ARC) determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Note 7 – Contingency

Commitments – As of June 30, 2010, the Plan had unfunded commitments to contribute capital for private equity fund investments in the amount of $59,726,000.

Contribution overstatement – On January 14, 2009, the Plan was advised by the City's Finance Department that a portion of non-pensionable Fair Labor Standards Act ("FLSA") earnings for Fire members of the Plan had been erroneously transmitted and paid into the Plan by the Fire members and City for a period of approximately 10 years. The City has estimated the overstatement of member and City contributions at approximately $1,000,000. The impact of the overstated pensionable earnings, due to the FLSA transmittal error, on retirement benefits is undetermined at this time. The City has advised that as of February 2009, the transmittal error has been corrected on a go forward basis. The City's internal auditor has completed their review of the FLSA correction. The Plan has also engaged external accountants to perform agreed-upon procedures to assist the Plan in determining whether the estimated overstatements are calculated accurately.

Note 8 – Subsequent Events

Retirement Benefits – The Memorandum of Agreement ("MOA") for the International Association of Fire Fighters Local 230 ("Local 230"), which includes retirement benefits, expired on June 30, 2009. Local 230 and the City are currently in negotiations for a successor MOA.

Retirement Plan – Ice Miller has been retained as outside tax counsel to assist the City Attorney's Office in advising the Board on tax compliance matters and on whether to apply for an Internal Revenue Service tax determination letter.

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS – DEFINED BENEFIT PENSION PLAN (Unaudited)
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets [1]	Entry Age Actuarial Accrued Liability (AAL) [2]	(Overfunded) Unfunded (AAL/UAAL)	Funded Ratio	Annual Covered Payroll [3]	(OAAL)/UAAL as a % of Covered
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c))
06/30/2003	$1,826,287	$1,823,200	($3,087)	100.2%	$202,222	(2%)
06/30/2005	1,983,090	2,027,432	44,342	97.8%	210,018	21%
06/30/2007 [4]	2,365,790	2,372,386	6,596	99.7%	227,734	3%
06/30/2009	2,569,569	2,963,482	393,913	86.7%	243,196	162%

[1] *Excludes accounts payable and Postemployment Healthcare Plan assets.*
[2] *Excludes postemployment healthcare liability.*
[3] *Prior to 06/30/2009, annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year.*
[4] *After reflection of benefit improvements effective July 1, 2006 for Police members and July 1, 2008 for Fire.*

As of June 30, 2009, the Plan's most recent valuation, the Plan's AAL increased by $591 million due to demographic experience losses and changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2009 experience study. The Plan's UAAL increased from $6.6 million as of June 30, 2007 to $393.9 million as of June 30, 2009. Change to the UAAL were primarily the result of (a) unfavorable investment returns during the last two years, (b) higher than expected salary increases, (c) earlier than expected retirements, (d) data corrections, and (e) changes in the actuarial assumptions including the one year increase in the Plan's 80-120% market value corridor to 70-130%; see note 5 in the notes to the financial statements for further information on the actuarial changes and their impact on the Plan's funded status.

SCHEDULE OF EMPLOYER CONTRIBUTIONS – DEFINED BENEFIT PENSION PLAN (Unaudited)
(In Thousands)

Fiscal year ended June 30,	Annual required employer contributions	Percentage contributed
2005	$41,835	100%
2006	43,473	100%
2007	46,625	100%
2008	56,372	100%
2009	53,103*	100%
2010	52,315*	100%

**Amount represents the annual required employer contributions paid by the City based on the actuarially determined lump sum prepayment amount. The annual required contributions in absence of the City's elected lump sum prepayments are estimated at $54,162 and $54,780 for 2010 and 2009, respectively; see note five in the notes to financial statements for more information.*

Required Supplementary Information *(Continued)*

SCHEDULE OF FUNDING PROGRESS – POSTEMPLOYMENT HEALTHCARE PLAN (Unaudited)

(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c))
06/30/2006	$38,381	$851,217	$812,836	5%	$218,521	372%
06/30/2007	45,393	666,228	620,834	7%	227,734	273%
06/30/2009	55,618	761,604	705,986	7%	234,196	301%

Actuarial valuations have been performed biennially through June 30, 2009; effective June 30, 2010 the Plan transitioned to annual valuations.

As of June 30, 2009, the Plan's most recent valuation, the Plan's AAL increased by $95 million due to changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2009 experience study. The Plan's UAAL increased from $620.8 million as of June 30, 2007 to $705.9 million as of June 30, 2009. Changes to the UAAL were primarily the result of unfavorable investment returns during the last two years and changes in the actuarial assumptions including the one year increase in the Plan's 80-120% market value corridor to 70-130%; see note 6 in the notes to the financial statements for further information on the actuarial changes and their impact on the Plan's funded status.

SCHEDULE OF EMPLOYER CONTRIBUTIONS – POSTEMPLOYMENT HEALTHCARE PLAN (Unaudited)

(In Thousands)

Fiscal Year Ended	Annual Required Contributions (1)	Actual Contributions	Percentage Contributed
06/30/2007	$61,344	$9,082	15%
06/30/2008	61,344	10,618	17%
06/30/2009	50,119	9,888 (2)	20%
06/30/2010	50,438	11,284 (2)	22%

(1) Includes an interest adjustment to the end of the plan year, where actual contributions are varied due to the City's option to elect the periodic basis on which City contributions are paid to the Plan. Also includes the actuarially determined implicit subsidy amounts of $3,006 for 2007 and 2008; $3,175 for 2009; and $4,262 for 2010.

(2) Amount represents the annual required employer contributions paid by the City based on the actuarially determined lump sum prepayment amount. The annual required contributions in absence of the City's elected lump sum prepayments are estimated at $11,696 and $10,203 for 2010 and 2009, respectively; see note 6 in the notes to financial statements for more information.

Other Supplementary Information

The Plan's funded status prepared by the Plan's actuary is based on the actuarial value of assets. The actuarial value of assets differs from the market value of the Plan's assets in that the actuarial value of assets includes five year smoothing of investment returns and the use of a market value of assets corridor.
The market value of assets corridor limits the smoothing of assets to be no greater than 130% and no less than 70% of the market value of assets as of June 30, 2009. Under this practice, any investment gains or losses that would cause the smoothed assets to fall outside of this 70-130% market value corridor would be are recognized immediately rather than be smoothed over the next five years. As a result of recent investment losses the market value of assets exceeded the actuarial value of assets by 30% as of June 30, 2009. The divergence between the actuarial value of assets and the market value of assets has caused a variance of 20.3% between the funded ratios calculated under the two bases. As of June 30, 2009, the Plan's most recent valuation the funded ratio of the Defined Benefit Pension Plan was 86.7% compared to a funded ratio of 66.4% on a market value of assets basis. A schedule of funding progress for the Defined Benefit Pension Plan on a market value of asset basis as of June 30, 2009, is as follows:

MARKET VALUE OF ASSETS SCHEDULE OF FUNDING PROGRESS – DEFINED BENEFIT PENSION PLAN (Unaudited)
(In Thousands)

Plan Year Ending	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Unfunded (AAL/UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
	(a) [1]	(b) [2]	(b-a)	(a/b)	(c) [3]	((b-a)/c))
6/30/2003	$ 1,632,097	$ 1,823,200	$ 191,103	89.5%	$202,222	94.5%
6/30/2005	2,044,542	2,027,432	(17,110)	100.8%	210,018	-8.1%
6/30/2007	2,666,585	2,372,386 [4]	(294,199)	112.4%	227,734	-129.2%
6/30/2009	1,969,132	2,963,482	994,350	66.4%	234,196	424.6%

(1) *Excludes accounts payable and postemployment healthcare plan assets.*
(2) *Excludes postemployment healthcare liability.*
(3) *Prior to 06/30/2009, annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year.*
(4) *After reflection of benefit improvements effective July 1, 2006 for Police members and July 1, 2008 for Fire.*

Other Supplementary Information *(Continued)*

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET ASSETS

June 30, 2010 (In Thousands)

	Retirement Fund	Cost-of-Living	Total
Assets			
Receivables			
Employee contributions	$ 717	$ 314	$ 1,031
Employer contributions	1,594	1,389	2,983
Brokers and others	18,942	8,938	27,880
Accrued investment income	5,906	2,787	8,693
Total receivables	27,159	13,428	40,587
Investments, at fair value:			
Securities and other:			
Domestic fixed income	588,800	284,716	873,516
International fixed income	27,488	13, 291	40,779
Pooled fixed income bond funds	60,360	29,187	89,547
Collective short term investments	134,809	65,188	199,997
Domestic equity	289,361	139,922	429,283
International equity	177,554	85,857	263,411
Pooled international equity	90,874	43,943	134,817
Private equity	70,120	33,907	104,027
International currency contracts, net	329	159	488
Commodities	(3,759)	(1,817)	(5,576)
Real estate	137,607	47,007	184,614
Securities lending cash collateral investment pool	255,624	120,668	376,292
Total investments	1,829,167	862,028	2,691,195
TOTAL ASSETS	**1,856,326**	**875,456**	**2,731,782**
Liabilities			
Payable to brokers	54,725	25,833	80,558
Securities lending collateral due to borrowers	258,493	122,022	380,515
Other liabilities	5,351	1,308	6,659
TOTAL LIABILITIES	**318,569**	**149,163**	**467,732**
Net Assets Held In Trust For:			
Pension benefits	1,537,757	726,293	2,264,050
TOTAL NET ASSETS	**$ 1,537,757**	**$ 726,293**	**$ 2,264,050**

Other Supplementary Information *(Continued)*

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET ASSETS

For the Fiscal Year Ended June 30, 2010 (In Thousands)

	Retirement Fund	Cost-of-Living	Total
Additions			
Contributions			
Employee	$ 13,992	$ 6,105	$ 20,097
Employer	27,314	25,001	52,315
Total Contributions	**41,306**	**31,106**	**72,412**
Investment income:			
Net appreciation in fair value of investments	170,558	80,143	250,701
Interest income	25,296	11,908	37,204
Dividend income	14,705	6,892	21,597
Net rental income	4,452	1,980	6,432
Less investment expense	(6,238)	(2,818)	(9,056)
Net investment income before securities lending income	**208,773**	**98,105**	**306,878**
Securities lending income:			
Earnings	5,884	2,638	8,522
Rebates	(256)	(121)	(377)
Fees	(389)	(181)	(570)
Net securities lending income	**5,239**	**2,336**	**7,575**
Net investment income	**214,012**	**100,441**	**314,453**
TOTAL ADDITIONS	**255,318**	**131,547**	**386,865**
Deductions			
Retirement benefits	89,581	25,023	114,604
Death benefits	3,803	2,716	6,519
Refund of contributions	154	42	196
Administrative expenses and other	2,055	900	2,955
TOTAL DEDUCTIONS	**95,593**	**28,681**	**124,274**
NET INCREASE	**159,725**	**102,866**	**262,591**
Net Assets Held In Trust For Pension Benefits			
Beginning of Year	**1,378,032**	**623,427**	**2,001,459**
END OF YEAR	**$ 1,537,757**	**$ 726,293**	**$ 2,264,050**

Other Supplementary Information *(Continued)*

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2010, and 2009

	2010			2009
	Original Budget	Actual	Variance Positive (Negative)	
Personal services	$ 2,216,030	$ 1,802,733	$ 413,297	$ 1,815,850
Non-personal/equipment	834,345	603,829	230,516	450,901
Professional services	674,725	614,350	60,375	462,412
TOTAL ADMINISTRATIVE EXPENSES & OTHER	**$ 3,725,100**	**$ 3,020,912**	**$ 704,188**	**$2,729,164**

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2010 and 2009

	2010	2009
Equity		
Domestic equity	$ 1,034,449	$ 1,289,194
International equity	1,907,268	2,276,523
Emerging market equity managers	1,293,031	1,062,679
TOTAL EQUITY	**4,234,748**	**4,628,396**
Fixed Income		
Domestic fixed income	250,988	462,868
U.S. Treasury Inflation Protected Securities (TIPS)	101,187	-
Long duration fixed income	319,744	277,667
High yield/credit opportunities	1,488,323	729,770
TOTAL FIXED INCOME	**2,160,242**	**1,470,305**
Private Equity	1,315,034	1,287,422
Real Estate	544,927	641,359
TOTAL INVESTMENT MANAGERS' FEES	**8,254,951**	**8,027,482**
Other Investment Fees		
Investment consultant	598,143	461,126
Proxy voting	35,489	36,000
Real estate legal fees	113,051	288,046
Real estate appraisals	46,550	-
Investment legal fees	10,462	72,304
Custodian Bank	197,750	340,800
TOTAL OTHER INVESTMENT SERVICE FEES	**1,001,445**	**1,198,276**
TOTAL INVESTMENT EXPENSES	**$ 9,256,396**	**$ 9,225,758**

Other Supplementary Information *(Continued)*

SCHEDULES OF PAYMENTS TO CONSULTANTS

For Fiscal Years Ended June 30, 2010, and 2009

Firm	Nature of Service	2010	2009
Levi, Ray, & Shoup	Web Development and maintenance	$ 12,064	$ 12,638
Levi, Ray, & Shoup	Programing changes and business continuance services	17,759	11,207
Macias Gini & O'Connell LLP	External Auditors / Accountants	89,188	30,715
Financial Knowledge/Peter Sepsis	Educational Services	44,258	56,954
Robert Half Mangement Resources	Temporary Staff	5,535	-
Medical Director/Other Medical	Medical Consultant	147,266	177,764
Pension Benefit Information	Reports on Deceased Benefit Recipients	2,051	1,787
Saltzman & Johnson	Legal Counsel	42,519	31,803
The Segal Company	Actuarial Consultant	247,928	125,413
The Segal Company	Operational & HIPPA compliance Audit	-	8,250
Wilfred Jarvis Institute	Organizational Consultant	5,781	5,881
TOTAL		**$ 614,350**	**$ 462,412**

This page has been intentionally left blank.

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2010

Investment Section

Report of Investment Activity

NEW ENGLAND PENSION CONSULTANTS
900 Veterans Boulevard, Suite 340
Redwood City, CA 94063

650-364-7000 phone
650-364-7100 fax
www.nepc.com

October 8, 2010

Mr. Russell U. Crosby
Director of Retirement Services
City of San Jose Police & Fire Department Retirement Plan
1737 North First Street
San Jose, CA 95112

Dear Mr. Crosby,

The overall objective of the City of San Jose Police & Fire Department Retirement Plan (the "Plan') is to ensure continued access to retirement, disability and survivor benefits for current and future SJP&F participants. To insure a solid foundation for the future of the Plan, SJP&F carefully plans and implements an investment program designed to produce superior long term investment returns, while |prudently managing the risk of the portfolio. Investment policy and asset allocation are reviewed and revised by the Board of Administration, at least annually, to reflect the Plan's actuarial assumptions, the accrued liabilities, and the investment outlook. Following is a report on the performance of the fund for the fiscal year ending June 30, 2010.

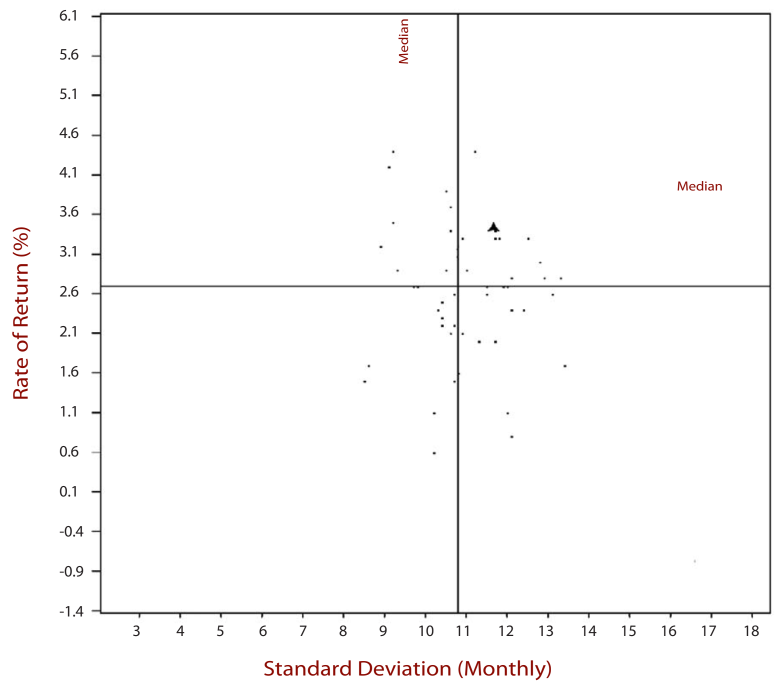
Many investors, including NEPC, expected stock and bond prices in 2010 to be driven by the underlying investment fundamentals. After two years of macro-driven markets (the credit crisis in 2008 sending all risky assets down, followed by an equally sharp recovery in 2009 beginning in March), 2010 was supposed to be a year when analysts and portfolio managers could distinguish themselves through fundamental and quantitative security analysis. Instead, broad thematic variables continue to drive markets – both positively (early in the year) and negatively (more recently). After a relatively benign beginning of the year, volatility has returned to markets with a vengeance, along with steeply declining global stock markets.

While sovereign risk and the resiliency of the economy have come into question recently, an additional source of uncertainly has arisen – the growing role of government in markets, both in the U.S. and abroad. There is no doubt that we are entering a new era of government regulation and intervention. The credit crisis of 2008 and the current debt crisis enveloping Europe have highlighted serious shortcomings in the global financial system. We do not believe that all government interaction with markets is necessarily problematic. Indeed, a well-functioning financial system requires a constructive relationship between market participants and those who ensure that appropriate rules are implemented and enforced. Nevertheless, a change in the regulatory regime creates significant uncertainty and uncertainty can be the enemy of investor (and business owner and operator) confidence.

The investment performance reported in this letter is in conformance with the presentation standards of the CFA Institute's Global Investment Performance Standards (GIPS). The Plan returned 14.0% net of fees for the fiscal year ending June 30, 2010, which ranked the Plan in the 25th percentile of the Independent Consultants Cooperative's (ICC) Public Funds Greater than $1 Billion Universe. By comparison, the median fund in the universe returned 13.1% for the period[1].

[1] As of June 30, 2010, the ICC Public Funds Greater than $1 Billion Universe was comprised of 73 total funds with approximately $1.0 trillion in assets. Universe rankings are based on gross of fee performance.

ICC PUBLIC FUNDS GREATER THAN $1 BILLION UNIVERSE
RISK-RETURN COMPARISON (GROSS OF FEES)
5 Years Ending June 30, 2010



For the five-year period ending June 30, 2010, the Plan returned 3.1% net of fees per annum, below the actuarial target of 8%. The portfolio has done well on a relative basis, however, ranking in the 16th percentile of the ICC Public Funds Greater than $1 Billion peer group universe. The Plan's five-year volatility, as measured by standard deviation, ranked in the 72nd percentile of its peers, however, the risk-adjusted return of the portfolio as measured by the Sharpe Ratio, ranks in the 13th percentile of the universe.

In uncertain markets such as these, diversification can help protect portfolios from experiencing significant declines. Diversification aims to reduce volatility and better equalize the contribution to overall plan risk across a variety of asset classes with uncorrelated return patterns. We continue to work with SJP&F staff and the Board to diversify the Plan across additional asset classes with the goal of lowering the risk of the portfolio while maximizing the potential for capital appreciation. NEPC provides the Plan with quarterly economic and investment market updates and performance reviews, investment manager monitoring and selection advice, and related investment services for traditional and non-traditional asset classes. In preparing our performance analysis for the Plan, we rely on the accuracy of financial data provided by the Plan's custodian bank.

Sincerely,

Allan C. Martin

Statement of Investment Policy

General Environment

Investments in the San Jose Police and Fire Department Retirement Plan are subject to the restrictions specified in the San Jose Municipal Code 3.36.540. Further investment management guidelines are imposed by the Board of Administration.

Investment Guidelines

General

The Board Shall:

(1) Require that the Retirement System be actuarially sound to assure that all disbursement obligations will be met.

(2) Attempt to insure that investment earnings be sufficiently high to provide a funding source, along with contributions from City employees and the City, in order to offset liabilities in perpetuity.

(3) Strive for the highest total return on invested funds consistent with safety in accordance with accepted investment practices.

(4) Have the authority to grant specific exceptions to any part of the Investment Policy Statement where in their judgment the exception may add value to the fund without undue risk.

Asset Allocation

The following policy has been identified by the Board of Administration as having the greatest expected investment return, and the resulting positive impact on asset values and funded status without exceeding a prudent level of risk. The Board determined this policy after evaluating the implications of increased investment return versus increased variability of return for a number of potential investment policies with varying commitments to stocks and bonds.

It shall be the policy of the Plan to invest its assets in accordance with the maximum and minimum range, valued at market, for each asset class as stated below:

Asset Class	Minimum	Target	Maximum
Equity	**30%**	**40%**	**50%**
U.S. Large Cap		18%	
U.S. Small Cap		5%	
Non-U.S. Developed Markets		12%	
Non-U.S. Emerging Markets		5%	

Asset Class	Minimum	Target	Maximum
Fixed Income	**15%**	**25%**	**35%**
Core Fixed Income		5%	
TIPS		10%	
Long Bonds		5%	
Opportunistic Credit		5%	
Alternative Assets	**10%**	**35%**	**60%**
Private Equity	0%	5%	10%
Real Estate	5%	10%	15%
Inflation-Linked Assets	5%	10%	15%
Absolute Return	0%	5%	10%
Opportunistic	0%	5%	10%

The Plan's asset allocation will be reviewed relative to the targets on a semi-monthly basis and action will be taken to re-balance to within the target ranges by means of asset transfers among the categories.

When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the Plan.

The general guideline for re-balancing the portfolio would be when the allocation to a particular asset class reaches 95-100% of the maximum or 100-105% of the minimum; the fund will be re-balanced to within the policy range over the following 60 days.

At any point in time, it is understood that the fund managers may not be fully invested. However, managers are expected to be fully funded and cash positions in excess of 7% require the manager to notify the Board of Administration in writing. While the Plan's assets may be partially invested in cash equivalents, for asset allocation purposes these funds shall be considered invested in the asset classes of the respective managers. In turn, each manager's performance will be evaluated on the total amount of funds under its management.

The asset allocation ranges established by this investment policy represent the long-term perspective. As such, rapid unanticipated market shifts may cause the asset mix to fall outside the policy range. Any divergence should be of a short-term nature. The Board of Administration will review the asset mix of the Plan on a quarterly basis and cause the asset mix to be rebalanced to within the policy range as necessary.

Investment managers may request temporary exemptions from guideline limits by submitting written requests to the Board of Administration for prior approval. For special situations, the Board of Administration can grant special exemptions from the guidelines. In no case can a manager actively exceed guideline limits without formal prior approval by the Board.

Diversification

Investment diversification is consistent with the intent to minimize the risk of large losses to the Plan. Consequently, the total fund will be constructed by the individual portfolio managers to attain prudent diversification in several asset classes. To ensure adequate diversification, no manager will hold more than 5% of its portion of the total Plan assets in any single security with the exception of government backed securities and real estate equity. As a general rule, Plan assets placed with an investment manager will not represent more than 10% of that manager's total assets.

Volatility

Consistent with the desire for adequate diversification, the investment policy is based on the assumption that the volatility (the standard deviation of returns) of the portfolio will be relative to that of the market. Consequently, it is expected that the volatility of a commitment-weighted composite of the market indices, e.g., S&P 500 Index for stocks and Barclays Capital Aggregate Bond Index for bonds and U.S. T-Bills for cash, will be commensurate with the Plan's volatility.

Liquidity

Presently there is not a requirement to maintain significant liquid reserves for the payment of pension benefits. The Board has authorized the Board of Administration Secretary to review the projected cash flow requirements at least annually and indicate to investment managers the required liquidity.

Contributions are expected to be in excess of net benefit payments over the foreseeable future, resulting in a positive cash flow, which will be reinvested by the fund manager who receives the cash flow.

Commingled Funds

Investment in any of the allowed asset classes may be implemented through an investment in a pooled or commingled fund. Pooled funds and other types of commingled investment vehicles provide, under some circumstances, lower costs and better diversification than can be obtained with separately managed funds pursuing the same investment objectives. Commingled investment funds cannot customize investment policies and guidelines to the specific needs of individual clients. Whenever an investment is made through a pooled fund, the statement of investment policy of the pooled fund will override this Plan's policy. However, the Investment Manager of the pooled fund shall advise the Investment Committee, in writing, of the sections of this policy that may be violated.

Fixed Income

The Board shall require that the majority of the fixed income portfolio be invested in high quality (investment grade) marketable bonds as provided in Section 3.36.540. Whether a global fixed income manager is employed, or separate domestic and international fixed income managers are employed, they are to invest in accordance with the following guidelines (please refer to section entitled INVESTMENT GUIDELINES, General (4) for exception policy):

(1) Portfolio investments will be composed primarily of fixed income securities (including short-term obligations) denominated in either United States or foreign currencies. Securities may be issued by domestic or foreign governments, domestic or foreign government agencies and instrumentalities, international banks or other international organizations, corporations or other forms of business organizations.

(2) The investment manager may also purchase securities of other categories. These investments may be used within prudent limits to manage risk, lower transaction costs, or augment returns as long as leverage is not applied. The manager will invest the assets at such times, in such amounts and in such investments as the manager shall determine in its discretion.

(3) Deposits in banks or banking institutions, domestic or foreign, may be made. Because the fundamental objective is to enhance the rate of return calculated in U.S. dollars, and currency exchange gains and losses are included in the calculation of total return, currency hedging shall be permitted, at the discretion of the manager, to protect the value of specific investments in U.S. dollar terms.

(4) All bonds and notes in which the assets are invested, and which mature one year or more from the date of original issues, shall carry a rating of "BBB" or better by two of the following three rating services: Standard & Poors, Moody's Investor Services, or Fitch. In the event that ratings are provided by only two agencies and the third is non-rated, the most conservative (lowest) rating will be assigned. If only one agency

assigns a rating, that rating will be used; or, if unrated, shall be of equivalent quality in the judgment of the investment manager to a similar domestic issue. Managers may, with prior written authorization, invest a maximum of 20% of their fixed income portfolio in bonds or notes that are rated B or BB.

(5) If bonds are downgraded below the minimum credit quality allowable in the guidelines at the time of purchase, the Manager is permitted to hold up to 2% of the Plan's portfolio managed by the individual manager, using the lower of S&P, Moody's, and Fitch's rating in the event of a split-rated security. The Manager will continue to notify staff of the downgrade and confer with staff as to whether the security will continue to be held or disposed. The Manager will also provide quarterly reporting on the downgraded securities.

(6) The fund will be valued in United States dollars on the last business day of each month and on such other "Valuation Dates" as the Board may deem appropriate. For valuation purposes, all foreign currency, foreign deposits and securities quoted in foreign currencies shall be converted into dollars pursuant to methods consistently followed and uniformly applied.

(7) The manager may invest a portion of the assets in commingled accounts with specific mandates such as high yield trust funds with prior approval by the Board. The average credit quality of the commingled account shall be a "B" or better rating.

Domestic Common Stock

The primary emphasis of the common stock portfolio will be on high quality, readily marketable securities offering potential for above average return as protection against inflation. Common stock investments are limited to those meeting all of the following criteria (please refer to section entitled INVESTMENT GUIDELINES, General (4) for exception policy):

(1) Investment in any corporation shall not exceed 5% of the outstanding shares of the corporation.

(2) Not more than 5% of the total assets at market may be invested in preferred stocks.

(3) Not more than 5% of any Investment Manager's portfolio at market shall be invested in the common stock of any corporation, except when:

- The security has a weighting greater than 5% in the manager's benchmark and
- The manager has received prior written permission from the Director of Retirement Services. The Director will then inform the Investment Committee of any exceptions that were granted.

(4) The manager will invest the assets at such times, in such amounts and in such investments as the manager shall determine in its discretion.

(5) Upon the Investment Committee approval, a manager may invest in convertible securities.

International Common Stock

The following are guidelines for International Equity portfolios (please refer to section entitled INVESTMENT GUIDELINES, General (4) for exception policy):

Developed Markets

(1) The portfolio will be invested in non-U.S. common stocks. Investment in American Depository Receipts (ADR's) is permitted but they will not be considered U.S. equities. U.S. equities are not permitted. The maximum amount of developed markets international common stock to be held is 20% of the Fund's total assets valued at market. The Board will cause the asset mix to be rebalanced to remain within the 20% restriction. A maximum of 20% of a manager's international equity portfolio may be invested in emerging markets.

(2) Holding cash or cash equivalents, either U.S. or non-U.S., for the purpose of protecting the portfolio against perceived adverse equity market conditions abroad, will not be permitted. However, while the manager is expected to remain fully invested over time, cash and cash equivalent holdings will be permitted up to maximum of 7% of the manager's portfolio for the purpose of making country and security adjustments to the portfolio. Cash positions in excess of 7%, except for pending transactions, require the manager to notify the Board of Administration in writing.

(3) To ensure proper diversification, the fund will be invested in a wide variety of economic sectors and countries. No one equity position will represent more than a total of 5% of the portfolio.

(4) Upon the Investment Committee approval, a manager may invest in convertible securities.

Emerging Markets

(1) The portfolio will be invested in non-U.S. common stocks. Investment in American Depository Receipts

(ADR's) is permitted but they will not be considered U.S. equities. U.S. equities are not permitted. The maximum amount of emerging international common stock to be held is 8% of the Fund's total assets valued at market. The Board will cause the asset mix to be rebalanced to remain within the 8% restriction

(2) Holding cash or cash equivalents, either U.S. or non-U.S., for the purpose of protecting the portfolio against perceived adverse equity market conditions abroad, will not be permitted. However, while the manager is expected to remain fully invested over time, cash and cash equivalent holdings will be permitted up to maximum of 7% of the manager's portfolio for the purpose of making country and security adjustments to the portfolio. Cash positions in excess of 7%, except for pending transactions, require the manager to notify the Board of Administration in writing.

(3) To ensure proper diversification, the fund will be invested in a wide variety of economic sectors and countries. No one equity position will represent more than a total of 5% of the portfolio, except when:

- The security has a weighting greater than 5% in the manager's benchmark and the manager has received prior written permission from the Director of Retirement Services. The Director will then inform the Investment Committee of any exceptions that were granted.

High Yield Bonds and Bank Loans

The High Yield Bonds and Bank Loans portion of the plan assets shall be invested predominantly in below investment grade securities and bank loans. The investment managers employed to manage high yield and bank loan instruments will have discretion in the day-to-day management of assets under their control. The high yield and bank loan managers shall have discretion to invest in all the instruments allowed for investment by the domestic bond managers, plus the investments that meet the following criteria:

(1) At the time of purchase at least 95% of the instruments must have a minimum rating of B- or B3, or if unrated, of a comparable quality rating as determined by the Investment Manager. Should more than 5% of a portfolio fall below this standard, the investment manager shall notify the Board of the downgrade immediately and submit a plan for returning the portfolio to the standard.

(2) U.S. corporate bonds, including zero-coupon, step-up, convertible, toggle and pay-in-kind bonds and Non-dollar corporate bonds (which should be hedged), Private placement securities, Bank loans, participations and assignments.

(3) U.S. dollar denominated bonds issued by entities not domiciled in the United States (Yankee bonds / euro bonds)

(4) U.S. Treasury futures, Currency forward or futures contracts, and Credit default swaps may be used for hedging purposes.

(5) No more than 3% of the portfolio shall be invested in obligations of a single non-governmental issuer.

(6) The number of issues held, the sector and the industry diversification constraints shall be detailed in each manager's investment guidelines. The portfolio shall be appropriately diversified as consistent with the manager's stated investment approach.

(7) Following is a summary of the manager's investment guidelines:

(a) Following the initial investment period, manager anticipates minimal turnover and the manager will be expected to hold the bonds to maturity. Sales or exchanges will only occur due to credit impaired assets or defaults.

(b) Following are the benchmarks to be used:

- Bank Loans: The CSFB Leveraged Loan Index with a maximum of 20% in High Yield Corporate Bonds.
- High Yield: Merrill Lynch High Yield BB-B Rated Index (HOA4).

(c) Bank loan securities should be purchased only from corporations that also issue high yield bonds and cannot exceed 20% of the portfolio (at the time of purchase).

(d) Diversification Requirements & Portfolio Construction:

The portfolio shall be managed within the following parameters:

- Maximum 5% of its assets in the securities of any single issuer;
- Maximum 15% of its assets in a single industry, with the exception of any one industry which may have up to 20% of the portfolio's assets;

- Maximum final legal maturity of any issue of 7 years;
- Maximum average life of 4 years;
- Bank loans should be purchased only from corporations that also issue high yield bonds.

Issuer limits are set at time of funding and can and will fluctuate as the client receives distributions from the portfolio.

In a situation in which a bond or loan has a put feature or is trading on a yield to call basis as a result of a potential corporate event that the manager views as a very high probability event (e.g., takeover, merger, asset sale, refinancing, etc.), the manager will treat the expected put date or event date as the final legal maturity.

(e) Concentration Allocation [Maximum, except U.S. Treasury/Agency and Bank STIF's]:

- Fixed Income Securities Maximum:
  - Per Issuer – Benchmark + 3%
- Short-term Instruments Maximum:
  - Per Issuer – 4% of Portfolio
- 20% maximum in Private Placement Securities without registration rights.
- 25% maximum in any one industry (Merrill Lynch level 4).

Convertible Bonds

The Convertible Bonds portion of the plan assets shall be invested predominantly in convertible securities. The Manager may invest in investment or non-investment grade rated U.S. and non-U.S. convertible securities, including convertible bonds; convertible preferred stock; bonds or preferred stock with warrants; and zero- and low-coupon convertibles across the entire credit quality spectrum. In addition, the investment manager can utilize convertible structured notes issued by third parties, as well as synthetic convertible securities created by the investment manager. The investment manager(s) employed to manage the convertible instruments will have discretion in the day-to-day management of assets under their control. The convertible bond manager(s) shall have discretion to invest in all the instruments allowed for investment by the domestic bond managers, plus the all investments that meet the following criteria:

(1) At the time of purchase at least 95% of the instruments must have a minimum rating of B- or B3, or if unrated, of a comparable quality rating as determined by the Investment Manager. Should more than 5% of a portfolio fall below this standard, the investment manager shall notify the Board of the downgrade immediately and submit a plan for returning the portfolio to the standard.

(2) U.S. Treasury Securities, U.S. corporate bonds, including zero-coupon, step-up, toggle and pay-in-kind bonds and non-dollar corporate bonds (which may be hedged), private placement securities, bank loans, participations and assignments.

(3) Non-dollar and U.S. dollar denominated bonds issued by entities not domiciled in the United States (Yankee bonds/euro bonds).

(4) U.S. Treasury futures, currency forward or futures contracts, and credit default swaps may be used for hedging purposes only.

(5) Equity securities obtained as a result of conversion must be liquidated within 60 trading days after conversion. This period may be extended upon approval by the Board.

(6) No more than 5% of the portfolio shall be invested in obligations of a single non-governmental issuer at cost, and 8% at market value.

(7) The portfolio shall be appropriately diversified by number of issues, geography and sector. In general, the portfolio will hold between 60-120 issues and be generally invested in a minimum of 5 countries. In addition, the portfolio allocation to any single sector will not exceed 1½ times the sector weight of the benchmark.

(8) The general position of the portfolio is to be hedged from a currency perspective.

Real Estate

The Fund is currently moving from direct ownership of Real Estate investments to pooled funds. The transition will occur over an extended time period.

Investable Instruments

Investment Vehicles

Real estate investments can be made through a variety of different vehicles. The following vehicles are allowed:

- Open-end pooled funds
- Close-end pooled funds
- Separate accounts

- Fund of funds
- Real Estate Investment Trusts

Co-Investment and Direct Placements

Investors' rights may include opportunities for additional capital participation such as co-investment or other side-by-side direct investments opportunities. Committing capital for exercising these rights is currently prohibited. Discretionary managers may exercise the co-investment rights with pre-approval by the Board.

Private Equity

Subject to specific approval of the Investment Committee of the Board of Administration, investments may be made for the purpose of creating a diversified portfolio of private markets. Examples of such private markets investments include, but are not limited to, venture capital partnerships, leveraged buyout funds, private debt, and private placements. While it is expected that the majority of these assets will be invested within the United States, a portion can be allocated to non-US investments, with a primary focus on Europe. Investments may be made in secondary investments on an opportunistic basis (please refer to section entitled INVESTMENT GUIDELINES, General (4) for exception policy).

It is expected that these investments will typically be structured through the use of Fund of Funds managers. Therefore, it is possible that those managers would engage in direct investments or co-investments, in which the Plan would purchase majority control in individual corporate entities.

Funds that are committed, but not yet drawn down, may be invested in the Plan's small cap equity funds, as the risk/reward characteristics of these funds most closely match those of Private Equities.

The following sub-category allocations were derived to be consistent with the investable universe within private markets. The ranges reflect long-term averages, once the 5% allocation to Private Equities has been fully committed. During the initial investment period, approximately four to six years, it is expected that sub-category allocations may fall outside the approved ranges.

Sub-Category*	Minimum	Target	Maximum
Buyouts	40%	60%	70%
Venture Capital	20%	30%	50%
Debt-Related	0%	10%	20%

**International allocations and secondary investments are reflected within each sub-category*

Opportunistic Strategies

Investment in any of the instruments or vehicles allowed in other sections is also allowed in this section. In addition, investment in the credit market is also allowed and may be implemented through:

1. Pooled funds; Separate accounts; Limited Partnerships; or Limited Liability Company;
2. Credit linked notes;
3. Direct investment.

Direct Investment may be implemented through investments in any of the following markets and securities:

1. High Yield Bonds;
2. Leveraged Bank Loans;
3. Sovereign Emerging Market debt;
4. Distressed Debt;
5. Collateralized bond, loan or debt obligations.

Absolute Return

Absolute Return Funds, also called Hedge Funds, are private investment vehicles that are not registered with the U.S. Securities and Exchange Commission (SEC); they are offered in Limited Partnerships or Limited Liability Company form.

The allowed Absolute Return Strategies are:

1. Any of the following single strategies:
    a. Equity long/short including Absolute Return Strategies specializing in Emerging Markets, Market Capitalization, Regional, Sectoral or Global Market subsets;
    b. Equity Market timing;
    c. Short or dedicated short;
    d. Distressed securities;
    e. Merger Arbitrage;
    f. Event driven or Risk Arbitrage;
    g. Fixed Income Arbitrage;
    h. Convertible Bond Arbitrage;
    i. Equity Market Neutral;
    j. Statistical Arbitrage;

k. Relative Value Arbitrage;

l. Global Macro or Global Tactical Asset Allocation;

m. Managed Futures and Commodity Trading Advisors (CTA's).

2. Multi-Strategy or Fund of Funds are also allowed and combine several single Absolute Return strategies into a single portfolio. The combination provides, in some circumstances, diversification of risk in a single investment.

Real Assets

The following strategies are allowed:

a. **Commodities**
The strategy targets liquid investments in the commodities markets via derivatives (e.g. futures and swaps). Certain strategies may also include, to a lesser extent, investment in physicals for forward delivery. Exposure includes four major commodity market sectors: Energy Agriculture/Livestock, Industrial Metals, and Precious Metals. Expected total return is due primarily to spot price appreciation; secondarily to contract roll forward dynamics, or the differential between spot and future price (between near and longer term contracts); and thirdly to modest collateral income.

The Real Asset program may employ both passive and active commodity management. Examination of cash collateral, in particular the quality of fixed income market exposure, will be considered in risk mitigation.

b. **Energy**
The strategy targets both public and private energy-related entities. The Energy investment strategy consists of three segments: upstream, midstream, and downstream businesses. Opportunities include core diversified global conglomerates that may span across segments and specific, concentrated satellite investments that may focus on a specific Energy market segment. Investments may include both traditional (oil, natural gas, coal) & alternative (wind, solar) energy sources.

The ***Upstream Investment Strategy*** focuses on the production of oil and gas, and includes petroleum Exploration and Production (E&P) businesses and power generation.

The ***Midstream Investment Strategy*** focuses on transporting the upstream products from the source to the end user, and includes storage and processing, as well as oilfield services (the equipment and services required to produce petroleum) and electricity transmission equipment and services. Midstream assets include pipelines, gathering and storage facilities, refining, power lines, and transformer stations. Services are also considered midstream elements, such as oilfield equipment like drill bits, drill rigs, well trees, and geologic and mapping services.

The ***Downstream Investment Strategy*** focuses on the end users of upstream production. Power generation is an end user of petroleum products, while households and businesses are the downstream users of power generation. Downstream assets can also be local distribution centers, such as home heating oil distributors or gas stations.

Each segment of the strategy has different investment characteristics, income profiles, and risks.

c. **Metals & Mining**
Public equities in the Industrial and Precious metals-related industries Investment opportunities include large core diversified global conglomerates and more specific, concentrated investments. Supply chain position may include upstream, midstream, and downstream companies. Expected total return is due primarily to appreciation and some income.

d. **Public Agriculture-related**
Invests primarily in Agriculture-related companies. Exposure may include both traditional agriculture and livestock investments and renewable energy sources. Supply chain position may include upstream, midstream, and downstream companies. Equity-based agriculture exposure ranges from upstream producing companies (i.e. growers) or those who are closely related to them, such as seed and agricultural chemicals companies, to downstream packaged foods producers. Opportunities include core diversified global conglomerates that may span across segments and specific, concentrated satellite investments that may focus on a specific market segment. Expected total return is due primarily to appreciation and some income.

e. **Timberland**
The strategy targets both public and private Timberland Investment Management Organizations, TIMO. The Investment strategy includes investing in entities that derive their returns from the growth and harvest of timber, a renewable and biologically growing asset. The investments may

include both plantations who utilize intensive management techniques to enhance biological growth and naturally regenerating strategies. The investment strategy has varying time horizons to liquidity, shorter term for softwoods (e.g. for pulp and lumber) to longer term time horizon (e.g. hardwoods).

f. **Infrastructure**
Public and private investments in direct physical assets, or a company that operates assets that provide essential services to society. Ranges from publicly held equities to very illiquid private partnerships. Exposure includes toll-oriented projects (e.g. roads, bridges, tunnels), transport-focused (e.g. railroads, airports, seaports); regulated utilities (e.g. gas pipelines; water/sewer treatment facilities); and social services (e.g. schools, hospitals). High toll-orientation offers inflation protection. Expected total return is due primarily to current income and to a lesser extent capital appreciation. Satellite strategies typically use more leverage than core.

Typically, infrastructure assets exhibit one or more of the following qualities: monopolistic or quasi-monopolistic, high barriers to entry, long term assets, and significant regulatory or permitting constraints.

g. **Emerging Sub-Strategies**
Growth in these sectors is expected to outpace inflation, due in part to evolving global macroeconomic trends. Investment in these emerging sectors may therefore help provide an effective hedge against inflation, as part of a well-diversified Real Asset strategy.

The Real Asset Program may seek modest exposure in these areas. Emerging sub-strategies may have a limited universe of qualified, institutional-quality managers.

h. **Climate Change**
An investment strategy that focuses on the global political and economic momentum in favor of reducing greenhouse gas emissions.

i. **Farmland/Agribusiness**
An investment strategy targets the market segment of agriculture. Farmland consists of two main property types: row and permanent crop properties. Row crops are harvested from soil and are categorized as commodity, (corn and soybean) and vegetable, (potatoes and lettuce). Permanent crops grow on trees and have three categories: citrus fruit, (oranges and grapefruits); fruit, (apples and grapes); and nuts.

Investable Instruments

Investment Vehicles

Real Asset investments can be made through a variety of different vehicles. The Real Asset Program will make diverse use, where appropriate, of the available investment options:

a. Open-end funds

b. Closed-end funds

c. Commingled funds

d. Fund of funds

e. Separate accounts

Derivatives

Exposure to economic risk through the use of derivatives must be consistent with the Plan's overall investment policy, as well as its individual manager specific investment guidelines. Investment managers are not authorized to use derivative securities, or strategies, that do not comply with the Plan's basic objective of achieving the highest return on investment funds, consistent with safety, and in accordance with accepted investment practices.

Managers are specifically prohibited from using derivative or synthetic securities that expose the Plan to potentially high price volatility or are either speculative or leveraged, or whose marketability may become severely limited.

Generally, the Plan allows for the following uses of derivatives:

- Equity and Bond index futures contracts are permitted.
- An international manager may defensively hedge currency as a part of the investment management and risk reduction process and as described in the section pertaining to the international equity and fixed income managers. Currency forward or futures contracts may be used in this process.
- New York Stock Exchange listed American Depository Receipts (ADRs) may be used by the domestic equity managers for up to 10 % of the portfolio investments at cost. The international equity manager may use ADRs in place of the foreign securities when their research indicates the ADR issues are more attractively valued.

- The fixed income investment managers may hold derivative securities known as Collateralized Mortgage Obligations (CMOs) collateralized by GNMA, FNMA, FHLMC mortgage-backed instruments. The CMOs must possess price risk characteristics consistent with, or superior to, the risk characteristics of the underlying conventional mortgage pass-through securities. Fixed income managers may also purchase securities of other categories, including options and financial futures contracts traded over-the-counter or on organized securities exchanges. Offsetting cash positions must be maintained against all delayed settlement transactions.
- Derivative securities should not be utilized by portfolio managers to materially increase a portfolio's duration or leverage as characterized by its stated investment style. Managers must be granted specific written authorization from the Plan in order to implement applications of derivative instruments not listed above.

Mini-Tender Offers

Mini-Tender offers are tender offers for less than five percent of a company's stock. As a fiduciary, a manager will deal with mini-tender offers with the diligence and good faith expected for any investment decision. Upon approval by the Board of a written agreement with the manager that the manager will indemnify the Board against any losses to the extent such losses were the result of the manager's negligence, a manager may participate in mini-tender offers.

Credit Unions

No retirement fund assets shall be deposited in any such institution in excess of an amount insured by an agency of the Federal Government, and shall be made only if the rate of return and degree of safety offered are competitive with other investment opportunities.

Manager Discretion

Any manager who is engaged in or has a direct pecuniary interest in a business other than investment counseling, such as a broker or dealer in securities shall not be permitted to use such business with regard to the Plan assets without prior written approval by the Board.

Subject to these guidelines and policies, the Fund's Investment Managers have full discretion to sell, substantiate, redeem or convert securities, as they deem advisable.

It is the intention of the Board to contract with an independent agency to vote domestic equity proxies according to the plan proxy voting guidelines. However, international equity proxies are to be voted by the investment managers or any agent or service selected by the investment manager.

With the consent of the Board, compliance with the foregoing guidelines may be waived, either with respect to a specific transaction or transactions, or generally. The Board will, in addition, consult with the investment manager from time to time, at the investment manager's request, as to the continuing applicability of the guidelines and whether amendments may be appropriate.

Performance Goals

In order to insure that investment opportunities available over a specific time period are fairly evaluated, the Board of Administration will utilize comparative performance statistics to evaluate investment results. Accordingly, each investment manager is expected to achieve the following minimum performance standards over a rolling five year time period or a full market cycle.

Domestic Equity Managers

(1) Performance within the top half of the appropriate ICC Equity Style Universe.

(2) Net of fees, manager performance shall exceed the return of the appropriate benchmark by the following:

100 basis points for active large-cap equity managers,

0 basis points for passive large-cap equity managers,

150 basis points for mid-cap equity managers, and

200 basis points for small-cap equity mangers.

(3) The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the manager's benchmark index without a corresponding increase in performance above that index.

Domestic Fixed Income Managers

(1) Performance within the top half of ICC Bond Funds Universe.

(2) Net of fees, manager performance shall exceed by 50 basis points, the return of the Barclays Capital Aggregate Bond Index.

(3) The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the Barclays Capital Aggregate Bond Index without a corresponding increase in performance above the index.

International Equity Managers

Developed Markets

(1) Performance within the top half of ICC International Developed Markets Equity Fund Universe.

(2) Net of fees, manager performance shall exceed by 150 basis points, the return of the Morgan Stanley EAFE Index for international equity managers.

(3) The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the MSCI EAFE Index without a corresponding increase in performance above the index.

Emerging Markets

(1) Performance within the top half of ICC Emerging Markets Equity Fund Universe.

(2) Net of fees, manager performance shall exceed by 200 basis points, the return of the MSCI Emerging Market Free Index for emerging markets managers.

(3) The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the MSCI EMF Index without a corresponding increase in performance above the index.

International Fixed Income Managers

(1) Performance above median in ICC International Bond Fund Universe.

(2) Net of fees, manager performance shall exceed by 75 basis points, the return of the Citigroup World Government Bond Index.

(3) The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the Citigroup World Government Bond Index without a corresponding increase in performance above the index.

Real Estate Managers

(1) Performance above median in ICC Real Estate Funds Universe.

(2) Net of fees, manager performance shall exceed by 150 basis points, the return of the National Counsel of Real Estate Investment Fiduciaries (NCREIF) Classic Property Index or the NCREIF Classic Property Pacific Index for the portfolio with the majority of properties in California.

(3) The risk associated with the manager's portfolio must not exceed that of the NCREIF or NCREIF Pacific Index without a corresponding increase in performance above the index.

Private Equity

The Private Equities portfolio is an illiquid investment with a five to ten year investment horizon. The return expectation for Private Equity managers is S&P 500 Index plus 300 basis points over time.

High Yield and Bank Loan Investments

The objective for the investment managers of the High Yield and Bank Loan component of the total portfolio are:

(1) Achieve rates of return, which exceed either the Merrill Lynch High Yield BB – B Rated Index (H0A4) or the CSFB Leveraged Loan Index by 150 basis points net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

(2) Achieve performance results that will rank in the top half of a broad high yield manager database.

(3) Achieve returns that will rank in the top half of investment managers which utilize a similar investment style.

Convertible Bond Investments

The objective for the investment managers of the Convertible Bond component of the total portfolio are:

(1) Achieve rates of return which exceed the Merrill Lynch Global 300 Convertible Index by 150 basis points net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

(2) Achieve performance results that will rank in the top half of a broad Convertible Bond manager database.

Periodic Reviews of Manager Performance

The performance of each manager will be reviewed versus its benchmark every quarter. These benchmarks consist of both asset class indexes and peer group universes. Each manager's performance should exceed their passive index benchmark and each manager should be above the median of an appropriate universe.

As good managers will occasionally have poor performance for several periods, there is some grace period permitted for performance to improve. Conversely, the performance will be reviewed with sufficient frequency to permit identification of substandard performance as quickly as possible.

Procedure:

1. Each manager is expected to produce performance equal to or better than their benchmark index for one year, three year, and five year cumulative periods.

   Managers are considered to achieve this objective if their performance exceeds their benchmark for two of the three periods of one year or longer.

2. The expectation to produce above median performance in an appropriate peer group for one year, three year, and five year cumulative periods will be factored in only when the majority of investment managers are underperforming the benchmark.

   Managers are considered to achieve this objective if they rank above the median manager for two of the three periods of one year or longer and the performance in the third period is not less than the 62nd percentile.

3. If a manager has less than five years performance, we will review the periods reported by the consultant, such as one quarter, one year and since inception. However, no action will be taken for placement on the watch list until two years after inception date.

4. If there is a failure to meet the performance objective, the following rules should be applied:

   a) A manager's (with at least two years of performance since inception) failure to meet their objective for four successive quarters will place the manager on the watch list. If a manager is consistently on the borderline, sometimes meeting objectives and sometimes failing to meet objectives, the manager may be placed on the watch list.

   b) During the next four quarters, the manager's performance will be closely monitored to see if it is warranted for the manager to be placed on probation.

   c) A manager placement on probation should result in review by the Investment Committee. Upon a critical review of the manager, the Investment Committee may grant up to one year further for improvement to take place upon officially recognizing the substandard performance and explicitly granting an extension of time for improvement. At the time of granting such extraordinary extension, the Investment Committee may delegate to the Director of Retirement Services, the authority to direct the manager to immediately suspend all trading except as specifically directed by the Director. If there has been improvement in performance, the Investment Committee may extend the probation beyond one year.

   d) During the period of any such extraordinary extension, the investment staff should monitor the portfolio and transactions of such manager to ensure that excessive risk is not being taken in an attempt to "catch up". If in the judgment of the Director, such manager is managing the portfolio in such a manner that indicates that excessive risk is being taken, the Director should use the previously delegated authority to terminate or restrict the manager's activities.

5. In order to be taken off probation and placed on the watch list, a manager must beat their benchmark for 2 successive quarters (i.e. March and June) OR beat their benchmark at one-year following four quarters of good performance.

6. In order to be taken off the watch list, a manager must beat their benchmark for an additional 2 successive quarters (i.e. September and December) OR have an additional four quarters of good performance.

Extraordinary Reviews of Managers

If an event occurs within a manager's organization that is likely to impact the manager's organization, the Director of Retirement Services, shall make a determination whether such event compromises the investment process or in any other manner might negatively impact the management of the Plan's assets.

Such events would include but are not limited to:

a) Loss of any significant investment professional directly involved with the management of Plan assets or of such significance to the manager's overall investment process as to call into question the future efficacy of that process.

b) Sale, offer for sale, or offer to purchase the manager's business to/by another entity.

c) Significant financial difficulty or loss of a sizable portion of the manager's assets under management.

d) Filing or announcement of regulatory action of non-trivial nature, particularly that involving violations of the Investment Advisers Act of 1940, the Securities Act of 1933, or the Securities Exchange Act of 1934, or any state Blue Sky Law to which the manager is subject.

e) Any other event which in the discretion of the Director appear to put the Fund's assets at risk of loss, either actual or opportunity.

Any of these events may trigger a due diligence visit to the firm by the Investment Committee, being placed on the watch list, being put on probation or termination depending on the seriousness of the event and the probability of impacting the management of the Plan's assets.

Please visit *http://www.sjretirement.com/PF/Investments/Investments.asp* for the most current and complete Statement of Investment Policy.

Investment Professionals

Domestic Equity

Rhumbline Advisers
Russell 1000 Index
Russell 1000 Growth Index
Small Cap Growth Index
Boston, MA

Robeco Investment Management
Large Cap Value
Greenbrae, CA

Russell Implementation Services
Small Cap Value Index Portfolio
(Former TCW)
Tacoma, WA

Private Equity

HarbourVest Partners
Boston, MA

Pantheon Ventures, Inc.
San Francisco, CA

Portfolio Advisors
Darien, CT

Siguler Guff & Company, LLC
New York, NY

TCW/Crescent
Los Angeles, CA

International Equity

Brandes Investment Partners
San Diego, CA

William Blair & Company
Chicago, IL

Emerging Markets Equity

AllianceBernstein
New York, NY

The Boston Company
Boston, MA

Fixed Income

Income Research & Management
Long Duration
Boston, MA

MacKay Shields
Opportunistic Strategies
New York, NY

PIMCO
Opportunistic Strategies
Newport Beach, CA

Seix Investment Advisors
Domestic Core
Opportunistic Strategies
Upper Saddle River, NJ

Commodities

Russell Investments
Transition Russell
Commodities
Tacoma, WA

Real Assets

Russell Investments
Transition Russell TIPS
Tacoma, WA

Real Estate

Kennedy Associates Real
Estate Counsel
Seattle, WA

MIG Realty Advisors
West Palm Beach, FL

Multi-Employer Property Trust
Bethesda, MD

Consultant

NEPC, LLC
Redwood City, CA

Custodian

State Street Bank & Trust Company
Boston, MA

Proxy Voting

Glass Lewis & Company LLC
San Francisco, CA

Gross Performance Summary By Asset Class

For Periods Ending June 30, 2010

	One Year	Three Years	Five Years
Total Fund (gross of fees)	**14.3%**	**-3.8%**	**3.4%**
Total Fund (net of investment expense)	**14.0%**	**-4.1%**	**3.1%**
Total Fund (net of investment, admin., securities lending, and SRBR expenses)	**13.7%**	**-4.4%**	**2.8%**
Benchmark	12.3%	-3.9%	3.5%
Allocation Index	13.6%	-3.8%	3.7%
ICC Public Funds Median	13.1%	-4.7%	2.7%
Total Domestic Equity	**14.1%**	**-10.1%**	**-0.9%**
S&P 500 Index	14.4%	-9.8%	-0.8%
ICC Equity Funds Median	17.4%	-7.9%	1.0%
	One Quarter		
Total Convertible Bonds	**-6.0%**		
ML Global 300 Convertible Index	-4.8%		
	One Year	**Three Years**	**Five Years**
Total International Equity	**15.1%**	**-9.2%**	**5.0%**
MSCI ACWI ex-U.S. (Net)	10.4%	-10.7%	3.4%
ICC International Equity Funds Median	10.6%	-10.5%	3.4%
	One Quarter	**One Year**	
Total Fixed Income	**4.3%**	**16.0%**	
Barclays Aggregate Bond Index	3.5%	9.5%	
ICC Core Bonds Median	2.8%	13.0%	
	One Year	**Three Years**	**Five Years**
Total Real Estate	**0.3%**	**-0.8%**	**4.9%**
NCREIF Property Index	-1.5%	-4.7%	3.8%
	One Quarter	**One Year**	**Three Years**
Total Private Equity	**3.4%**	**16.6%**	**6.6%**
Cambridge Associate Private Equity Index (Quarter Lag)	4.4%	22.5%	1.2%
	One Quarter		
Total Inflation-Linked Assets	**-4.8%**		
Dow Jones/UBS Commodities Index	-4.8%		

Basis of Calculation: Time-Weighted Rate of Return

Source: NEPC, LLC Investment Performance Evaluation Report dated June 30, 2010

Net Performance Summary By Investment Manager

For Periods Ending June 30, 2010

The table below details the rates of return for the Plan's investment managers over various time periods.

Returns for one year or greater are annualized. Each "+" represents a benchmark the manager has outperformed, each "=" represents a benchmark the manager has matched, and each "-" represents a benchmark the manager has underperformed.

	One Quarter		(Inception 12/09)
Domestic Equity			
Rhumbline Advisers (Russell 1000 Index)	**-11.4%=+**		**-6.4%=**
Russell 1000 Index	-11.4%		-6.4%
ICC Large Cap Core Median	-11.7%		N/A
Rhumbline Advisers (Russell 1000 Growth Index)	**-11.6%++**		**-7.5%+**
Russell 1000 Growth Index	-11.7%		-7.6%
ICC Large Cap Growth Median	-11.7%		N/A
	One Year	**Three Years**	**Five Years**
Rhumbline Advisors (Russell 2000 Index)	**21.2%--**	**-8.5%+-**	**0.4%=-**
Russell 2000 Index	21.5%	-8.6%	0.4%
ICC Small Cap Core Median	23.9%	-6.7%	2.6%
Robeco Boston Partners (Large Cap Value)	**14.4%--**	**-8.2%++**	**1.8%++**
Russell 1000 Value Index + 100 bps	17.9%	-11.3%	-0.6%
ICC Large Cap Value Median	16.4%	-11.8%	-1.1%
Russell Investments - *former SSGM, TCW Portfolio* (Small Cap Value)	**22.1%+-**	**-13.1%--**	**-2.7%--**
Russell 2000 Index	21.5%	-8.6%	0.4%
ICC Small Cap Core Median	23.9%	-6.7%	2.6%
	One Quarter		**(Inception 9/09)**
Convertible Bonds			
Calamos Investments	**-6.1%-**		**4.6%+**
ML Global 300 Convertible Index + 100 bps	-4.6%		4.0%
	One Year	**Three Years**	**Five Years**
International Developed Markets Equity			
Brandes Investment Partners	**6.3%--**	**-11.8%+-**	**2.2%--**
MSCI EAFE Net Index + 150 bps	7.4%	-11.9%	2.4%

Net Performance Summary By Investment Manager *(Continued)*

For Periods Ending June 30, 2010

	One Year	Three Years	Five Years
International Developed Markets Equity (continued)			
ICC International Developed Markets Equity Median	9.1%	-11.0%	2.9%
William Blair & Company	**18.2%++**	**-10.5%-+**	**3.8%-+**
MSCI AC World ex-U.S. Net Index +150bps	11.9%	-9.2%	4.9%
ICC International Developed Markets Equity Median	9.1%	-11.0%	2.9%

	One Year	Three Years	Five Years
International Emerging Markets Equity			
AllianceBernstein	**23.7%=+**	**-5.7%--**	**9.8%--**
MSCI Emerging Markets Free Net Index + 200 bps	25.2%	-0.5%	14.7%
ICC International Emerging Markets Equity Median	23.6%	-2.7%	12.4%
The Boston Company Asset Management	**21.9%--**	**-0.2%++**	**12.2%--**
MSCI Emerging Markets Free Net Index + 200 bps	25.2%	-0.5%	14.7%
ICC International Emerging Markets Equity Median	23.6%	-2.7%	12.4%

	One Year	Three Years	Five Years
Domestic Core Fixed Income			
Seix Investment Advisors	**10.3%+-**	**8.8%++**	**6.2%++**
Barclays Aggregate Bond Index + 50 bps	10.0%	8.0%	6.0%
ICC Core Fixed Income Median	12.1%	8.1%	6.1%

	One Year	Three Years	Five Years
Domestic Long Duration Fixed Income			
Income Research Management	**20.6%++**	**11.4%++**	**6.6%++**
Barclays US Government/Credit-Long Term Index + 50 bps	17.0%	9.9%	6.1%
ICC Long Duration Fixed Income Median	17.2%	8.2%	6.0%

	One Quarter		(Inception 12/09)
Treasury Inflation Protected Securities (TIPS)			
Russell Investments	**4.6%**		**4.9%**

Net Performance Summary By Investment Manager *(Continued)*

For Periods Ending June 30, 2010

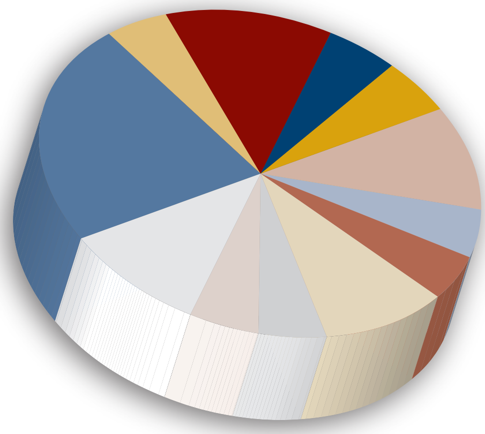
	One Quarter	One Year	(Inception 4/09)
Domestic Credit Strategies			
MacKay Shields	**-0.1%-**	**22.3%-**	**21.9%-**
ML US HY BB/B Index + 100 bps	0.5%	22.8%	27.6%
Seix Investment Advisors	**-1.3%-**	**8.7%-**	**9.9%-**
CSFB Leveraged Loan Index + 100 bps	-0.8%	18.8%	25.7%
	One Quarter	**One Year**	**(Inception 7/08)**
Opportunistic Credit Strategies			
PIMCO DISCO	**3.5%+**	**39.4%+**	**21.0%+**
ML US HY BB/B Constrained Index	0.3%	21.7%	8.6%
	One Year	**Three Years**	**Five Years**
Real Estate			
Kennedy Associates	**4.9%+**	**3.6%+**	**7.6%+**
NCREIF Property Index + 150 bps	0.0%	-3.2%	5.3%
MIG Realty Advisors	**-3.6%-**	**0.0%+**	**3.9%-**
NCREIF Property Index + 150 bps	0.0%	-3.2%	5.3%
	One Quarter	**One Year**	**Three Years**
Multi-Employer Property Trust (MEPT)	**3.2%-**	**-7.1%-**	**-11.6%-**
NCREIF Property Index + 150 bps	3.7%	0.0%	-3.2%
	One Quarter		**(Inception 12/09)**
Inflation-Linked Assets			
Russell Investments (Commodities)	**-4.8%=**		**-9.6%=**
Dow Jones/UBS Commodities Index	-4.8%		-9.6%

Basis of Calculation: Time-Weighted Rate of Return

Source: NEPC, LLC Investment Performance Evaluation Report dated June 30, 2010

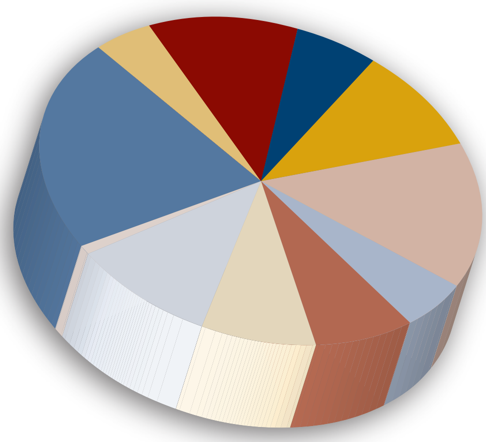
Investment Review

TARGET ASSET ALLOCATION *As of June 30, 2010*



Domestic Equity	23%
Private Market Equity	5%
International Equity	12%
Emerging Market Equity	5%
Domestic Core Fixed Income	5%
TIPS	10%
Long Duration Fixed Income	5%
High Yield/Credit Opportunities	5%
Real Estate	10%
Opportunistic Strategies	5%
Absolute Return	5%
Real Assets	10%

ACTUAL ASSET ALLOCATION (Dollars in Millions) *As of June 30, 2010*



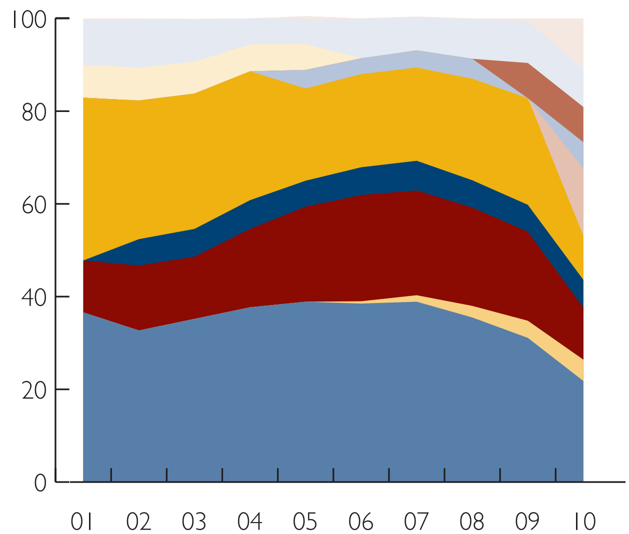
		$ in millions
Domestic Equity	21.8%	505.81
Private Equity	4.6%	107.20
International Equity	11.2%	260.50
Emerging Market Equity	5.9%	137.76
Domestic Core Fixed Income	9.5%	220.22
TIPS	14.5%	336.33
Long Duration Fixed Income	5.7%	131.75
High Yield/Credit Opportunities	7.6%	177.11
Real Estate*	8.3%	192.72
Real Assets	10.2%	237.43
Cash	0.6%	14.01
TOTAL		**$2,320.84**

*Includes leverage

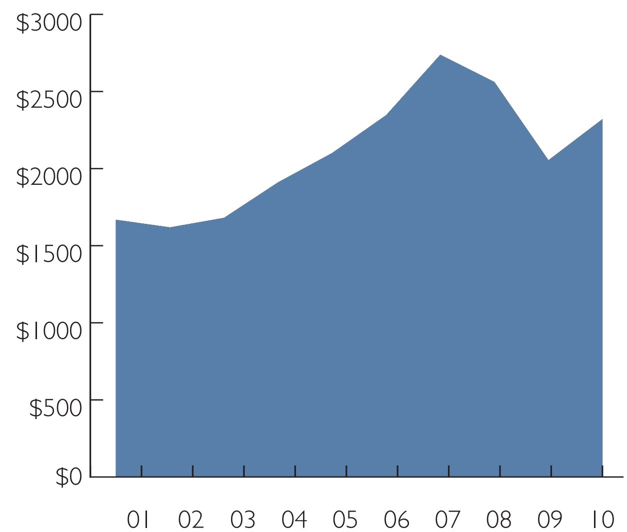
Non-GAAP Basis

Investment Review *(Continued)*

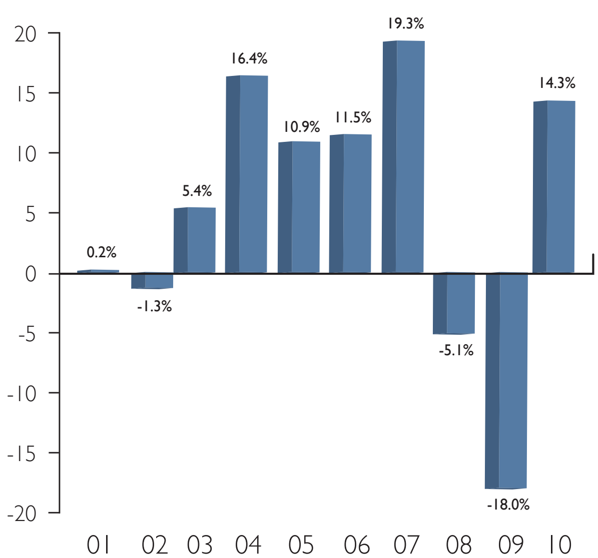
HISTORICAL ALLOCATION (Actual)
June 30, 2001- June 30, 2010



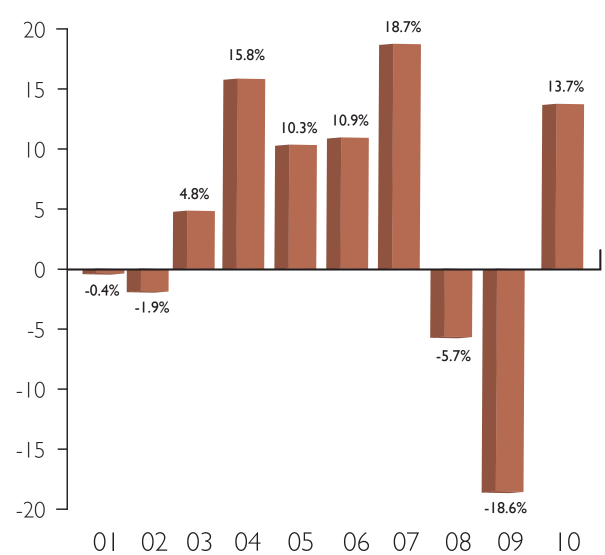
MARKET VALUE GROWTH OF PLAN ASSETS
For Ten Years Ended June 30, 2010 (Dollars in Millions)



HISTORY OF GROSS PERFORMANCE FOR FISCAL YEARS 2001 - 2010
(Based on Market Value)



HISTORY OF NET PERFORMANCE FOR FISCAL YEARS 2001 - 2010
(Based on Market Net Value)*



Performance is net of Investment, Administrative, Securities Lending, and SRBR expenses.

List of Largest Assets Held

LARGEST STOCK HOLDINGS (By Market Value)

As of June 30, 2010

Description	Country	Shares	Market Value ($US)
Exxon Mobil Corp	United States	93,060.00	$ 5,310,934.20
Nippon Telegraph & Telephone	Japan	115,000.00	$ 4,730,478.02
Jpmorgan Chase & Co	United States	128,545.00	$ 4,706,032.45
Apple Inc	United States	18,071.00	$ 4,545,398.63
Chevron Corp	United States	62,525.00	$ 4,242,946.50
Telecom Italia Rsp	Italy	4,560,170.00	$ 4,197,693.71
Bank Of America Corp	United States	261,240.00	$ 3,754,018.80
Canon Incorporated	Japan	88,100.00	$ 3,315,323.77
Wells Fargo & Co	United States	127,060.00	$ 3,252,736.00
Intl Business Machines Corp	United States	25,466.00	$ 3,144,541.68

A complete list of portfolio holdings is available upon request.

LARGEST BOND HOLDINGS (By Market Value)

As of June 30, 2010

Security Name	Country	Maturity Date	Par Value	Interest Rate	Market Value ($US)
WI TREASURY NB	United States	11/30/11	130,000,000.00	0.75	$ 130,487,500.00
TSY INFL IX N/B	United States	7/15/19	118,565,246.10	1.875	$ 127,105,500.78
SG061610 TRS USD R V 00MDJUBS	United States	12/16/10	91,556,485.00	1	$ 89,400,827.85
UNITED STATES TREAS BDS	United States	1/15/25	73,703,745.00	2.375	$ 81,759,564.33
TSY INFL IX N/B	United States	4/15/14	59,888,269.80	1.25	$ 62,522,155.91
UNITED STATES TREAS NTS	United States	7/15/14	58,033,170.00	2	$ 62,267,850.41
UNITED STATES TREAS NTS	United States	1/31/11	19,897,000.00	0.875	$ 19,968,430.23
US TREASURY N/B	United States	5/15/39	16,079,000.00	4.25	$ 17,000,969.86
FNMA TBA AUG 30 SINGLE FAM	United States	12/1/99	13,271,000.00	6.5	$ 14,496,444.14
UNITES STATES TREAS NTS	United States	11/15/18	13,160,000.00	3.75	$ 14,179,900.00

A complete list of portfolio holdings is available upon request.

Schedule of Investment Fees

As of June 30, 2010

	Assets Under Management at Market Value*	Fees	Basis Points
Investment Managers' Fees			
Domestic Equity	$ 505,808,000	$ 1,034,449	20
Emerging Markets Equity	137,759,000	1,293,031	94
International Equity	260,495,000	1,907,268	73
Private Equity	107,197,000	1,315,034	123
Domestic Fixed Income	220,225,000	250,988	11
High Yield/Credit Opportunities	177,113,000	1,488,323	84
Long Duration Fixed Income	131,749,000	319,744	24
U.S. Treasury Inflation Protected Securities (TIPS)	573,760,000	101,187	2
Real Estate	192,724,000	544,927	28
Cash	14,009,000	–	N/A
TOTAL	**$ 2,320,839,000**	**$ 8,254,951**	**36**

	Fees
Other Investment Service Fees	
Investment Consultant	$ 598,143
Proxy Voting	35,489
Custodian	197,750
Real Estate Legal Fees	113,051
Real Estate Appraisals	46,550
Investment Legal Fees	10,462
TOTAL	**$ 1,001,445**

**Includes Cash in Managers' Accounts; Non-GAAP Basis*

Schedule of Commissions

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
A			
ABG SECURITIES LIMITED	63,274	$ 2,017.78	$ 0.0319
ABN AMRO SECURITIES (USA) INC	39,018	1,472.63	0.0377
AGORA CORDE TITUL E VAL MOB	10,000	379.54	0.0380
AQUA SECURITIES LP	3,925	78.50	0.0200
ARBUTHNOT SECURITIES LIMITED	60,996	24.38	0.0004
B			
BAIRD ROBERT W. & COMPANY INCORPORATED	1,878,732	2,870.00	0.0015
BANCO ITAUSA	172,394	3,765.02	0.0218
BANCO SANTANDER CENTRAL HISPANO	164,880	3,058.61	0.0186
BANCO SANTANDER DE NEGOCIOS	174,200	735.94	0.0042
BANK J. VONTOBEL UND CO. AG	20,176	2,370.42	0.1175
BARCLAYS CAPITAL	6,143,812	1,274.87	0.0002
BARCLAYS CAPITAL LE	3,309,540	4,114.10	0.0012
BELTONE SECURITIES BROKERAGE	44,051	1,226.16	0.0278
BLAYLOCK & CO INC	14,000	560.00	0.0400
BLOOMBERG TRADEBOOK LLC	11,261	112.61	0.0100
BMO CAPITAL MARKETS	6,989	279.56	0.0400
BNP PARIBAS PEREGRINE SECURITIES	676,200	2,718.15	0.0040
BNP PARIBAS SECURITIES SERVICES	10,453	771.88	0.0738
BNY CONVERGEX	227,550	8,724.00	0.0383
BNY CONVERGEX LJR	188,699	1,891.01	0.0100
BRADESCO S.A CTVM	42,216	1,936.50	0.0459
BROADCORT CAPITAL (THRU ML)	155,265	6,210.60	0.0400
BROCKHOUSE & COOPER INC MONTREAL	823	32.40	0.0394
C			
CABRERA CAPITAL MARKETS	2,700	108.00	0.0400
CALYON SECURITIES	41,985	201.78	0.0048
CANACCORD ADAMS LIMITED	191,801	61.63	0.0003
CANACCORD GENUITY CORP.	27,554	823.72	0.0299
CANACCORO ADAMS INC	18,038	721.52	0.0400
CANADIAN IMPERIAL BANK OF COMMERCE	43,793	516.87	0.0118
CANTOR FITZGERALD & CO.	69,999	2,099.97	0.0300
CAPITAL INSTITUTIONAL SVCS INC EQUITIES	540,615	16,076.75	0.0297
CARNEGIE A S	6,624	92.15	0.0139
CARNEGIE BK	25,674	3,231.62	0.1259
CARNEGIE SECURITIES FINLAND	26,670	577.80	0.0217
CAZENOVE & CO	198,131	5,180.10	0.0261
CELFIN CAPITAL SA CORREDORES DE BOLSA	14,070	725.05	0.0515
CENKOS SECURITIES LTD	38,705	702.71	0.0182
CHINA INTRTNL CAP CORP HK SECS LTD	331,000	971.79	0.0029

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
C (continued)			
CIBC WORLD MKTS INC	15,482	$ 579.55	$ 0.0374
CITATION GROUP	556,273	16,278.20	0.0293
CITIBANK N.A.	46,800	351.61	0.0075
CITIGROUPGLOBAL MARKETS INC	5,167,833	4,855.21	09
CITIGROUPGLOBAL MARKETS INC.	4,690,308	9,297.68	0.0020
CITIGROUPGLOBAL MARKETS INDIA	40,312	2,169.56	0.0538
CITIGROUPGLOBAL MARKETS LIMITED	369,701	6,913.07	0.0187
CITIGROUPGLOBAL MARKETS UK EQUITY LTD	63,957	1,542.35	0.0241
CLSA SECURITIES KOREA LTD.	1,100	481.10	0.4374
CLSA SINGAPORE PTE LTD.	65,052	3,033.77	0.0466
COLLINS STEWART & CO	7,566	174.28	0.0230
CORMARK SECURITIES INC	2,486	95.64	0.0385
COWEN ANDCOMPANY, LLC	5,100	204.00	0.0400
CREDIT AGRICOLE INDOSUEZ CHEUVREUX	21,410	1,627.17	0.0760
CREDIT LYONNAIS SECURITIES (USA) INC	1,475,673	7,780.44	0.0053
CREDIT SUISSE	434	58.23	0.1342
CREDIT SUISSE FIRST BOSTON (EUROPE)	991	1,266.86	1.2784
CREDIT SUISSE FIRST BOSTON SA CTVM	150,959	4,098.39	0.0271
CREDIT SUISSE SECS INDIA PRIVATE LTD	388,272	4,677.17	0.0120
CREDIT SUISSE SECURITIES (USA) LLC	130,635,147	48,196.23	0.0004
CUTTONE &CO INC	69,525	1,390.50	0.0200
D			
D CARNEGIE AG	10,675	657.54	0.0616
DAIWA SECURITIES (HK) LTD.	386,000	2,047.68	0.0053
DAIWA SECURITIES AMERICA INC	153,177	1,850.57	0.0121
DANSKE BANK A.S.	5,325	238.69	0.0448
DBS VICKERS SECURITIES (SINGAPORE)	45,400	774.08	0.0171
DEUTSCHE BANK SECURITIES INC	45,097,444	23,520.50	0.0005
DEUTSCHE EQ IN PRVT LIM DB	4,487	253.21	0.0564
DIRECT TRADING INSTITUTIONAL INC	231,860	5,903.06	0.0255
DOWLING & PARTNERS	8,345	333.80	0.0400
DRESDNER BANK AG, LONDON BRANCH	2,929	44.58	0.0152
DSP MERRILL LYNCH LTD	30,405	3,972.12	0.1306
E			
EVOLUTION BEESON GREGORY LIMITED	44,568	757.35	0.0170
EXANE S.A.	554,719	5,302.95	0.0096
EXECUTION LIMITED	34,952	1,052.30	0.0301
F			
FATOR - DORIA ATHERINO S.A CV	417	21.12	0.0506
FIRST CLEARING, LLC	4,800	192.00	0.0400

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
F (continued)			
FOX PITT KELTON LTD	21,706	$ 470.12	$ 0.0217
FRIEDMAN BILLINGS & RAMSEY	27,710	1,108.40	0.0400
G			
GMP SECURITIES LTD.	947	35.93	0.0379
GOLDMAN SACHS (ASIA) LLC	11,446	5,757.75	0.5030
GOLDMAN SACHS (INDIA)	18,808	1,248.21	0.0664
GOLDMAN SACHS & CO	605,682,481	42,433.73	0.0001
GOLDMAN SACHS DO BRASIL CORRETORA	58,263	604.73	0.0104
GOLDMAN SACHS INTERNATIONAL	1,157,748	29,614.16	0.0256
GOODBODY STOCKBROKERS	33,630	1,312.28	0.0390
GUZMAN & CO	53,500	1,515.14	0.0283
H			
HEDGING GRIFFO COR DE VAL S.A	49,918	2,254.24	0.0452
HEEVERS &CO. INC.	54,100	2,088.00	0.0386
HEFLIN & CO LLC	8,715	174.30	0.0200
HONGKONG AND SHANGHAI BANKING CORP	67,000	520.17	0.0078
HSBC BANKPLC	21,284	1,897.96	0.0892
HSBC SECURITIES (USA) INC.	343,125	2,042.98	0.0060
I			
ING BANK N V	13,334	216.58	0.0162
ING BARINGS CORP	125,106	1,134.65	0.0091
INSTINET	1,018,719	18,027.18	0.0177
INSTINET AUSTRALIA CLEARING SRVC PTY LTD	112,641	7,926.67	0.0704
INSTINET PACIFIC LIMITED	5,595,807	23,121.76	0.0041
INSTINET U.K. LTD	11,902,925	77,643.26	0.0065
INTERMONTE SEC SIM SPA	12,986	793.18	0.0611
INVESTEC SECURITIES	5,330	26.03	0.0049
INVESTMENT TECHNOLOGY GROUP INC.	2,626,323	38,680.81	0.0147
INVESTMENT TECHNOLOGY GROUP LTD	42,597	528.72	0.0124
ISI GROUPINC	103,900	4,156.00	0.0400
IVY SECURITIES, INC.	7,200	288.00	0.0400
J			
JP MORGAN SECURITIES INC	3,433,752	6,452.37	0.0019
JP MORGAN CLEARING CORP.	3,207,105	11,276.43	0.0035
JP MORGAN SECURITIES (TAIWAN) LTD	1,345,000	5,366.81	0.0040
JP MORGAN SECURITIES INC.	5,886,992	9,524.74	0.0016
JP MORGAN SECURITIES (FAR EAST) LTD SEOUL	4,344	1,796.77	0.4136
JACKSON SECURITIES	83,500	3,340.00	0.0400
JEFFERIES & COMPANY INC	639,730,395	377,556.82	0.0006
JEFFERIES INTERNATIONAL LTD	45,762	666.01	0.0146

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
J (continued)			
JM FINANCIAL INSTITUTIONAL SECURITIES PR	15,560	$ 637.97	$ 0.0410
JM MORGANSTANLEY SECS PVT LTD	226,580	5,086.65	0.0224
JMP SECURITIES	6,080	243.20	0.0400
JOH BERENBERG GOSSLER AND CO	24,471	2,224.75	0.0909
JP MORGAN SECURITIES AUSTRALIA LTD	40,247	1,382.72	0.0344
JP MORGAN SECURITIES INC	50,000	226.76	0.0045
JP MORGAN SECURITIES LIMITED	392,038	12,669.86	0.0323
JP MORGAN CHASE BANK	88,687	481.62	0.0054
JP MORGAN SECURITIES (ASIA PACIFIC) LTD	1,930,848	7,548.51	0.0039
K			
KBC FINANCIAL PRODUCTS UK LTD	30,769,200	2,179.20	0.0001
KBC PEEL HUNT LTD	14,223	181.67	0.0128
KEEFE BRUYETTE & WOODS INC	21,025	841.00	0.0400
KEEFE BRUYETTE AND WOOD LIMITED	235	8.16	0.0347
KEPLER EQUITIES PARIS	25,754	2,645.60	0.1027
KEPLER EQUITIES ZURICH	916	82.24	0.0898
KEYBANC CAPITAL MARKETS INC	87,015	160.60	0.0018
KIM ENG SECS PTE LTD, SINGAPORE	39,000	210.08	0.0054
KNIGHT DIRECT LLC	5,250	136.50	0.0260
KNIGHT SECURITIES	6,320	252.80	0.0400
KNIGHT SECURITIES L.P.	388,513	2,458.07	0.0063
KOTAK SECURITIES LTD	18,149	1,654.14	0.0911
L			
LARRAIN VIAL	18,442	955.74	0.0518
LAZARD CAPITAL MARKETS LLC	10,000	400.00	0.0400
LEERINK SWANN AND COMPANY	2,385	71.55	0.0300
LIQUIDNET ASIA LIMITED	525,900	650.56	0.0012
LIQUIDNET INC	1,071,902	21,687.62	0.0202
LOOP CAPITAL MKTS LLC	11,000	440.00	0.0400
M			
MACQUARIE BANK LIMITED	44,716	1,675.36	0.0375
MACQUARIE CAPITAL (EUROPE) LTD	74,998	419.33	0.0056
MACQUARIE EQUITIES NEW ZEALAND	130,367	511.69	0.0039
MACQUARIE SEC NZ LTD	27,357	121.01	0.0044
MACQUARIE SECURITIES (INDIA) PVT LTD	146,976	5,858.69	0.0399
MACQUARIE SECURITIES (SINGAPORE)	991,000	905.62	0.0009
MACQUARIE SECURITIES (USA) INC	1,345	53.80	0.0400
MACQUARIE SECURITIES LIMITED	3,003,857	9,873.45	0.0033
MACQUARIES ECURITIES LTD SEOUL	31,251	1,657.76	0.0530
MAGNA SECURITIES CORP	26,300	1,052.00	0.0400
MERRILL LYNCH INTERNATIONAL	789,653	11,784.25	0.0149

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
M (continued)			
MERRILL LYNCH PEIRCE FENNER AND S	3,564,926	$ 13,853.40	$ 0.0039
MERRILL LYNCH PIERCE FENNER & SMITH INC	400,124,386	6,611.43	0.0000
MERRILL LYNCH PROFESSIONAL CLEARING CORP	46,290	1,851.60	0.0400
MF GLOBALUK LIMITED	99,096	1,154.85	0.0117
MIDWEST RESEARCH SECURITIES	1,600	64.00	0.0400
MILLER TABAK & COMPANY, LLC	11,345	226.90	0.0200
MITSUBISHI UFJ SECURITIES (USA)	187,775	2,210.44	0.0118
MIZUHO SECURITIES USA INC	29,373	2,917.82	0.0993
MORGAN STANLEY	9,850	592.50	0.0602
MORGAN STANLEY AND CO INTERNATIONAL	3,434	2,801.78	0.8159
MORGAN STANLEY AND CO INTL TAIPEI METRO	280,000	1,880.24	0.0067
MORGAN STANLEY CO INCORPORATED	191,055,968	26,965.43	0.0001
N			
NATEXIS BLEICHROEDER INC	13,469	1,370.93	0.1018
NBC CLEARING SERVICES INCORPORATED	6,850	264.91	0.0387
NESBITT BURNS	9,190	349.55	0.0380
NOMURA INTERNATIONAL PLC	170,343,400	283.24	0.0000
NOMURA SECURITIES INTERNATIONAL INC	3,569,136	14,177.27	0.0040
NUMIS SECURITIES INC.	359,988	4,422.85	0.0123
NUMIS SECURITIES LIMITED	17,793	86.91	0.0049
NYFIX TRANSACTION SERVICES #2	6,700	135.00	0.0201
O			
ODDO FINANCE	16,653	1,128.25	0.0678
OPPENHEIM, SAL., JR UND CIE KOELN	11,851	938.53	0.0792
OPPENHEIMER & CO. INC.	1,227,524	444.00	0.0004
P			
PACIFIC AMERICAN SECURITIES, LLC	86,800	3,387.00	0.0390
PENSON FINANCIAL SERVICES CANADA INC	44,810	1,377.82	0.0307
PERSHING DLJ S L	452,689	2,641.64	0.0058
PERSHING LLC	7,099,511	120.95	0.0000
PERSHING SECURITIES LIMITED	13,854	749.42	0.0541
PIPELINE TRADING SYSTEMS LLC	169,396	3,891.35	0.0230
PULSE TRADING LLC	177,987	3,717.49	0.0209
R			
RAYMOND JAMES AND ASSOCIATES INC	22,415	896.60	0.0400
RAYMOND JAMES TRUST COMPANY	3,089	521.89	0.1690
RBC CAPITAL MARKETS	33,112,867	1,126.00	0.0000
RBC DOMINION SECURITIES INC.	25,587	962.49	0.0376
RBS SECURITIES INC	302,524	3,604.00	0.0119
REDBURN PARTNERS LLP	147,886	7,645.69	0.0517

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
R (continued)			
ROSENBLATT SECURITIES LLC		$ 563.48	$ 0.0189
S			
S.S KANTILAL ISHWARLAL SECURITIES	245,500	1,067.81	0.0043
SAMSUNG SECURITIES CO LTD	366	203.24	0.5553
SANFORD C. BERNSTEIN LTD	716,743	8,350.61	0.0117
SANFORD CBERNSTEIN CO LLC	77,668	2,507.87	0.0323
SCOTIA CAPITAL (USA) INC	11,644	465.76	0.0400
SCOTIA CAPITAL MKTS	106,094	3,900.70	0.0368
SIX SIS AG	7,174	1,747.52	0.2436
SKANDINAVISKA ENSKILDA BANKEN LONDON	11,865	1,063.73	0.0897
SOCIETE GENERALE BANK AND TRUST	3,289	402.14	0.1223
SOCIETE GENERALE LONDON BRANCH	358,282	3,039.38	0.0085
SOCIETE GENERALE PARIS ZURICH BRA	7,526	2,706.91	0.3597
SOCOPA SOCIEDADE CORRETORA PAULISTA CLEM	7,700	374.55	0.0486
STANDARD CHARTERED BANK (HONG KONG) LIMI	249,900	627.19	0.0025
STATE STREET GLOBAL MARKETS	1,443,985	28,879.70	0.0200
STATE STREET GLOBAL MARKETS, LLC	407,965	16,121.95	0.0395
STIFEL NICOLAUS & CO INC	2,914,869	2,897.20	0.0010
STUART FRANKEL & CO INC	2,165	21.65	0.0100
SVENSKA HANDELSBANKEN	118,517	3,244.76	0.0274
T			
THE BENCHMARK COMPANY, LLC	52,815	1,060.38	0.0201
U			
UBS AG	3,344,381	33,086.59	0.0099
UBS AG LONDON	123,561	568.87	0.0046
UBS FINANCIAL SERVICES INC	169,100	2,084.00	0.0123
UBS SECURITIES ASIA LTD	2,583,206	9,944.91	0.0038
UBS SECURITIES CANADA INC	7,481	144.80	0.0194
UBS SECURITIES LLC	402,617,439	2,112.94	0.0000
UBS SECURITIES PTE.LTD., SEOUL	530	256.81	0.4845
UBS WARBURG LLC	79,203	1,139.95	0.0144
W			
WACHOVIACAPITAL MARKETS, LLC	7,142,200	480.00	0.0001
WEEDEN & CO.	76,700	1,782.30	0.0232
WILLIAM BLAIR & COMPANY L.L.C	7,400	296.00	0.0400
WILLIAMS CAPITAL GROUP LP (THE)	24,100	964.00	0.0400
WOORI INVESTMENT SECURITIES	2,493	1,056.09	0.4236
TOTAL	**2,764,965,035**	**$ 1,270,278**	**$ 0.00046**

Investment Summary

As of June 30, 2010 (Dollars in Thousands)

Type of Investment		Market Value	% of Portfolio
Equities			
Consumer Discretionary		59,406	2.56%
Consumer Staples		28,582	1.23%
Convertibles		33,741	1.45%
Energy		36,827	1.59%
Financials		80,475	3.47%
Health Care		53,271	2.30%
Industrials		53,563	2.31%
Materials		17,777	0.77%
Technology/Telecom Services		94,601	4.08%
Utilities		10,557	0.45%
Miscellaneous		172	0.01%
Foreign Equity		422,708	18.20%
Total Equities	**$**	**891,680**	**38.42%**
Fixed Income			
Bank Loans	$	31,753	1.37%
Domestic Corporate Bonds		309,260	13.33%
State and Local Obligations		7,596	0.33%
US Government Agency		55,738	2.40%
US Treasury		216,349	9.32%
US Treasury Inflation Protected Securities (TIPS)		333,805	14.38%
Foreign Corporate		25,144	1.08%
Total Fixed Income	**$**	**979,645**	**42.21%**
Real Assets			
Commodities	$	(5,698)	-0.25%
Total Real Assets	**$**	**(5,698)**	**-0.25%**
Other Investments			
Private Equities	$	106,298	4.58%
Real Estate		189,070	8.15%
Short Term		204,420	8.81%
Total Other Investments	**$**	**499,788**	**21.54%**
Pendings	**$**	**(44,576)**	**-1.92%**
Total (Non-GAAP Basis)	**$**	**2,320,839**	**100.00%**

Investment Properties

CAMELBACK POINTE APARTMENTS

258-unit luxury apartment community in Colorado Springs, CO. Acquired as sole owner in December 1997.

CITIBANK OFFICE PLAZA

100,303 square-foot five-story office building located in Oak Brook, IL. Acquired as sole owner in December 1998.

THE DEERWOOD APARTMENTS

186-unit mid-rise apartment community located in Houston, TX. Acquired as sole owner in January 1996.

CRESCENT VII

135,044 square-foot six-story office building located in the Denver Tech Center in Greenwood Village, CO. Acquired as sole owner in June 1998.

EAGLE USA WAREHOUSE

128,000 square-foot single-story distribution warehouse facility located in Eagan, MN. Invested as sole shareholder in January 2002.

FIRST AMERICAN OFFICE PLAZA

82,596 square-foot six-story office building located in San José, CA. Invested as sole shareholder in December 1999.

CALAIS OFFICE CENTER I & II

Two office buildings totaling 198,995 square feet located in Anchorage, AK. Acquired in a joint venture with a local developer, JL Properties, in March 2006.

PROGRESS POINT

123,055 square-foot three-story office building located in O'Fallon, MO. Invested in a joint venture with Kennedy Capital Investors, LLC, in December 2007.

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2010

Actuarial Section

Actuarial Certification Letter

SEGAL

THE SEGAL COMPANY
120 Montgomery Street, Suite 500
San Francisco, CA 94104-4308

415.263.8200 phone
415.263.8290 fax
www.segalco.com

September 30, 2010

Board of Retirement
City of San Jose
Police and Fire Department Retirement Plan
1737 N First Street, Suite 580
San Jose, CA 95112-4505

Re: City of San Jose Police and Fire Department Retirement Plan CAFR Certification for Pension Plan

Dear Members of the Board:

The Segal Company (Segal) prepared the June 30, 2009 actuarial valuation of the City of San Jose Police and Fire Department Retirement Plan. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

As part of the June 30, 2009 actuarial valuation, Segal conducted an examination of all participant data for reasonableness. Summaries of the employee data used in performing the current and the prior actuarial valuations are provided in our valuation report. We did not audit the Plan's financial statements. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over five-year periods.

One of the funding objectives of the Plan is to establish contribution rates that, over time, will remain level as a percentage of payroll unless Plan benefit provisions are changed. Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize any unfunded actuarial accrued liability (UAAL). Employees also contribute a portion of both the Plan's normal cost and UAAL contribution; however, employees' UAAL contribution rate is only with respect to the payment of certain retroactive member contributions from a benefit improvement in 1996 for all Police and Fire members and a benefit improvement in 2006 for Police members.

The UAAL is amortized as a level percentage of payroll over various periods which is equivalent to a single period of approximately 15 years.

For the Financial Section of the Comprehensive Annual Financial Report, Segal provided the trend data shown in the Required Supplementary Information. The schedules presented in the Actuarial Section have also been prepared and/or reviewed by our firm.

SEGAL

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on the June 30, 2009 biennial Experience Analysis. Actuarial valuations are performed on a biennial basis.

The ratio of the valuation assets to actuarial accrued liabilities decreased from 99.7% determined in the last valuation as of June 30, 2007 to 86.7% determined in the current valuation as of June 30, 2009. The employer's rate has increased from 22.50% of payroll determined in the June 30, 2007 valuation to 39.45% of payroll determined in the June 30, 2009 valuation, while the employee's rate has also increased from 8.34% of payroll to 9.91% between the two valuations. The 39.45% of payroll employer rate determined in the June 30, 2009 valuation is calculated without reflecting an offset of 0.45% of payroll due to a charge on the SRBR for the 2010/2011 plan year only.

Under the Actuarial Value of assets method, the total unrecognized investment losses are $613.3 million as of June 30, 2009. These investment losses will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years, and will offset any investment gains that may occur after June 30, 2009. This implies that if the Plan earns the assumed net rate of investment return of 8.00% per year on a market value basis, it will result in investment losses on the actuarial value of assets in the next few years. So, if the actual market return is equal to the assumed 8.00% rate and all other actuarial assumptions are met, the contribution requirements would increase in each of the next few years.

The deferred losses of $613.3 million represent 30% of the market value of assets as of June 30, 2009. Unless offset by future investment gains or other favorable experience, the recognition of the $613.3 million market losses is expected to have a significant impact on the Plan's future funded percentage and contribution rate requirements. This potential impact may be illustrated as follows:

- If the pension plan component of the deferred losses were recognized immediately in the valuation value of assets, the funded percentage would decrease from 86.7% to 66.4%.
- If the pension plan component of the deferred losses were recognized immediately in the valuation value of assets, the aggregate employer rate would increase from 39.45% to 59.17% of payroll. Again, these employer rates are before applying the charge to the SRBR to reduce the contribution rate by 0.45% of pay for 2010/2011 only.

The undersigned are Members of the American Academy of Actuaries and we have satisfied the qualification requirements to render the opinion contained herein.

Sincerely,

Paul Angelo

Paul Angelo, FSA, EA, MAAA, FCA
Senior Vice President & Actuary

Andy Yeung

Andy Yeung, ASA, EA, MAAA
Vice President & Associate Actuary

Schedule of Actuarial Methods and Assumptions

Defined Benefit Pension Plan

The following assumptions have been adopted by the Retirement Board as of June 30, 2009:

Assumptions

Valuation Interest Rate	8.00%	
Inflation Rate	3.50%	
Real Across-the-Board Salary Increase	0.75%	
Post-Retirement Mortality		
(a) Service		
	Males	RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years, set back 4 years
	Females	RP-2000 Female Combined Healthy Mortality Table with no collar adjustment, projected 10 years, set back 1 year
(b) Disability	RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years, set back 1 year	
Pre-Retirement Mortality	Based upon the 6/30/2009 Experience Analysis	
Withdrawal Rates	Based upon the 6/30/2009 Experience Analysis	
Disability Rates	1985 Pension Disability Table for Class 2 employees published by the Society of Actuaries with rates adjusted for ages 49 and above	
Service Retirements	Based upon the 6/30/2009 Experience Analysis	
Salary Increases	0-5 years of service – 9.75% 6-7 years of service – 6.75% 8+ years of service – 6.00% Of the total salary increase, 4.25% is for the combined inflation and real across-the-board salary increase	
Percentage of Members Married	85%	
Reciprocity	75% of all terminated vested members are assumed to be employed by a reciprocal entity	
Assets Smoothing Method	Five year smoothed recognition of total market return that differs from the 8% return target. In addition, total deferred losses that are in excess of 30% of market value of assets would be recognized immediately in the development of the actuarial value of assets.	

Funding Method

The Plan's liability is being funded on the Entry Age Normal Cost method with the previous Unfunded Actuarial Accrued Liability being amortized on a closed basis over the following periods:

(1) Outstanding balance of the unfunded actuarial accrued liability calculated through the June 30, 2003 valuation amortized over the next 8 years;

(2) Prior service cost for the February 4, 1996 benefit improvement amortized over the next 8 years; and

(3) Future actuarial experience gains and losses, changes in assumptions, and benefit improvements amortized over 16 years from the date of each such event, beginning with the June 30, 2005 valuation.

Probabilities of Separation Prior to Retirement

Age/Years of Service	Turnover 0-1	Turnover 1-4	Turnover 5-9	Turnover 10+	Service Connected Disability		Non-Service Connected Disability		Service Connected Death		Service Retirement*	
					Police	Fire	Male	Female	Male	Female	Police	Fire
<=20	0.0800	0.0100	0.0050	0.0040	0.0006	0.0006	0.0001	0.0001	0.0001	0.0001	0.0000	0.0000
21	0.0800	0.0100	0.0050	0.0040	0.0007	0.0007	0.0001	0.0001	0.0001	0.0001	0.0000	0.0000
22	0.0800	0.0100	0.0050	0.0040	0.0007	0.0007	0.0001	0.0001	0.0001	0.0001	0.0000	0.0000
23	0.0800	0.0100	0.0050	0.0040	0.0008	0.0008	0.0001	0.0001	0.0001	0.0001	0.0000	0.0000
24	0.0800	0.0100	0.0050	0.0040	0.0009	0.0009	0.0001	0.0001	0.0001	0.0001	0.0000	0.0000
25	0.0800	0.0100	0.0050	0.0040	0.0009	0.0009	0.0001	0.0001	0.0001	0.0001	0.0000	0.0000
26	0.0800	0.0100	0.0050	0.0040	0.0010	0.0010	0.0002	0.0001	0.0002	0.0001	0.0000	0.0000
27	0.0800	0.0100	0.0050	0.0040	0.0011	0.0011	0.0002	0.0001	0.0002	0.0001	0.0000	0.0000
28	0.0800	0.0100	0.0050	0.0040	0.0012	0.0012	0.0002	0.0001	0.0002	0.0001	0.0000	0.0000
29	0.0800	0.0100	0.0050	0.0040	0.0013	0.0013	0.0002	0.0001	0.0002	0.0001	0.0000	0.0000
30	0.0800	0.0100	0.0050	0.0040	0.0013	0.0013	0.0002	0.0001	0.0002	0.0001	0.0000	0.0000
31	0.0800	0.0100	0.0050	0.0040	0.0015	0.0015	0.0002	0.0001	0.0002	0.0001	0.0000	0.0000
32	0.0800	0.0100	0.0050	0.0040	0.0016	0.0016	0.0002	0.0002	0.0002	0.0002	0.0000	0.0000
33	0.0800	0.0100	0.0050	0.0040	0.0017	0.0017	0.0002	0.0002	0.0002	0.0002	0.0000	0.0000
34	0.0800	0.0100	0.0050	0.0040	0.0018	0.0018	0.0002	0.0002	0.0002	0.0002	0.0000	0.0000
35	0.0800	0.0100	0.0050	0.0040	0.0020	0.0020	0.0002	0.0002	0.0002	0.0002	0.0000	0.0000
36	0.0800	0.0100	0.0050	0.0040	0.0022	0.0022	0.0003	0.0002	0.0003	0.0002	0.0000	0.0000
37	0.0800	0.0100	0.0050	0.0040	0.0024	0.0024	0.0003	0.0002	0.0003	0.0002	0.0000	0.0000
38	0.0800	0.0100	0.0050	0.0040	0.0026	0.0026	0.0003	0.0003	0.0003	0.0003	0.0000	0.0000
39	0.0800	0.0100	0.0050	0.0040	0.0029	0.0029	0.0004	0.0003	0.0004	0.0003	0.0000	0.0000
40	0.0800	0.0100	0.0050	0.0040	0.0031	0.0031	0.0004	0.0003	0.0004	0.0003	0.0000	0.0000
41	0.0800	0.0100	0.0050	0.0040	0.0035	0.0035	0.0004	0.0003	0.0004	0.0003	0.0000	0.0000
42	0.0800	0.0100	0.0050	0.0040	0.0038	0.0038	0.0005	0.0004	0.0005	0.0004	0.0000	0.0000
43	0.0800	0.0100	0.0050	0.0040	0.0042	0.0042	0.0005	0.0004	0.0005	0.0004	0.0000	0.0000
44	0.0800	0.0100	0.0050	0.0040	0.0046	0.0046	0.0005	0.0004	0.0005	0.0004	0.0000	0.0000
45	0.0800	0.0100	0.0050	0.0040	0.0051	0.0051	0.0005	0.0005	0.0005	0.0005	0.0000	0.0000
46	0.0800	0.0100	0.0050	0.0040	0.0056	0.0056	0.0006	0.0005	0.0006	0.0005	0.0000	0.0000
47	0.0800	0.0100	0.0050	0.0040	0.0062	0.0062	0.0006	0.0006	0.0006	0.0006	0.0000	0.0000
48	0.0800	0.0100	0.0050	0.0040	0.0068	0.0068	0.0006	0.0006	0.0006	0.0006	0.0000	0.0000
49	0.0800	0.0100	0.0050	0.0040	0.0075	0.0075	0.0007	0.0006	0.0007	0.0006	0.0000	0.0000
50	0.0800	0.0100	0.0050	0.0040	0.0214	0.0214	0.0007	0.0007	0.0007	0.0007	0.2000	0.1700
51	0.0800	0.0100	0.0050	0.0040	0.0353	0.0393	0.0007	0.0008	0.0007	0.0008	0.2000	0.1700
52	0.0800	0.0100	0.0050	0.0040	0.0491	0.0571	0.0008	0.0009	0.0008	0.0009	0.2000	0.1700
53	0.0800	0.0100	0.0050	0.0040	0.0630	0.0750	0.0008	0.0010	0.0008	0.0010	0.2000	0.1700
54	0.0800	0.0100	0.0050	0.0040	0.0769	0.0929	0.0009	0.0011	0.0009	0.0011	0.2000	0.1700
55	0.0800	0.0100	0.0050	0.0040	0.0908	0.1107	0.0010	0.0013	0.0010	0.0013	0.3000	0.1700
56	0.0800	0.0100	0.0050	0.0040	0.1046	0.1285	0.0011	0.0015	0.0011	0.0015	0.3000	0.1700
57	0.0800	0.0100	0.0050	0.0040	0.1185	0.1464	0.0012	0.0017	0.0012	0.0017	0.3000	0.1700
58	0.0800	0.0100	0.0050	0.0040	0.1324	0.1643	0.0013	0.0019	0.0013	0.0019	0.3000	0.1700
59	0.0800	0.0100	0.0050	0.0040	0.1463	0.1822	0.0015	0.0021	0.0015	0.0021	0.3000	0.1700
60	0.0800	0.0100	0.0050	0.0040	0.1500	0.2000	0.0018	0.0024	0.0018	0.0024	0.5000	0.1700
61	0.0800	0.0100	0.0050	0.0040	0.1500	0.2000	0.0020	0.0028	0.0020	0.0028	0.5000	0.1700
62	0.0800	0.0100	0.0050	0.0040	0.1500	0.2000	0.0022	0.0032	0.0022	0.0032	0.5000	0.1700
63	0.0800	0.0100	0.0050	0.0040	0.1500	0.2000	0.0025	0.0036	0.0025	0.0036	0.5000	0.1700
64	0.0800	0.0100	0.0050	0.0040	0.1500	0.2000	0.0029	0.0041	0.0029	0.0041	0.5000	0.1700
65	0.0800	0.0100	0.0050	0.0040	0.1500	0.2000	0.0033	0.0046	0.0033	0.0046	0.5000	0.3500
66	0.0800	0.0100	0.0050	0.0040	0.1500	0.2000	0.0038	0.0052	0.0038	0.0052	0.5000	0.3500
67	0.0800	0.0100	0.0050	0.0040	0.1500	0.2000	0.0043	0.0058	0.0043	0.0058	0.5000	0.3500
68	0.0800	0.0100	0.0050	0.0040	0.1500	0.2000	0.0049	0.0064	0.0049	0.0064	0.5000	0.3500
69	0.0800	0.0100	0.0050	0.0040	0.1500	0.2000	0.0055	0.0071	0.0055	0.0071	0.5000	0.3500
70	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000	1.0000

** Applied to active members eligible for unreduced benefits.*

Years of Life Expectancy After Service Retirement

Age	Male	Female
50	35.10	33.62
51	34.15	32.67
52	33.20	31.72
53	32.25	30.77
54	31.31	29.83
55	30.36	28.90
56	29.43	27.97
57	28.49	27.05
58	27.56	26.14
59	26.63	25.24
60	25.71	24.35
61	24.80	23.47
62	23.90	22.60
63	23.01	21.74
64	22.12	20.90
65	21.25	20.07
66	20.39	19.26
67	19.55	18.46
68	18.72	17.68
69	17.90	16.91
70	17.10	16.15
71	16.32	15.41
72	15.56	14.69
73	14.80	13.98
74	14.06	13.28
75	13.33	12.61
76	12.62	11.94
77	11.92	11.29
78	11.24	10.66
79	10.58	10.05

Age	Male	Female
80	9.94	9.46
81	9.32	8.88
82	8.72	8.32
83	8.14	7.78
84	7.59	7.26
85	7.06	6.76
86	6.55	6.30
87	6.08	5.86
88	5.63	5.46
89	5.21	5.08
90	4.80	4.75
91	4.43	4.44
92	4.08	4.17
93	3.76	3.92
94	3.46	3.71
95	3.20	3.52
96	2.97	3.35
97	2.75	3.19
98	2.56	3.06
99	2.39	2.93
100	2.23	2.80
101	2.09	2.66
102	1.97	2.52
103	1.86	2.39
104	1.76	2.25
105	1.67	2.12
106	1.61	2.00
107	1.56	1.89
108	1.52	1.79
109	1.50	1.71
110	1.49	1.63

Male

RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years (Set back 4 years)

Female

RP-2000 combined healthy female mortality table with no collar adjustment, projected 10 years, with no set back.

Years of Life Expectancy After Disability Retirement

Age	Member	Age	Member	Age	Member
20	61.32	50	32.25	80	8.14
21	60.33	51	31.31	81	7.59
22	59.35	52	30.36	82	7.06
23	58.37	53	29.43	83	6.55
24	57.39	54	28.49	84	6.08
25	56.41	55	27.56	85	5.63
26	55.42	56	26.63	86	5.21
27	54.44	57	25.71	87	4.80
28	53.46	58	24.80	88	4.43
29	52.48	59	23.90	89	4.08
30	51.50	60	23.01	90	3.76
31	50.52	61	22.12	91	3.46
32	49.54	62	21.25	92	3.20
33	48.57	63	20.39	93	2.97
34	47.59	64	19.55	94	2.75
35	46.62	65	18.72	95	2.56
36	45.65	66	17.90	96	2.39
37	44.69	67	17.10	97	2.23
38	43.72	68	16.32	98	2.09
39	42.76	69	15.56	99	1.97
40	41.80	70	14.80	100	1.86
41	40.84	71	14.06	101	1.76
42	39.88	72	13.33	102	1.67
43	38.92	73	12.62	103	1.61
44	37.96	74	11.92	104	1.56
45	37.01	75	11.24	105	1.52
46	36.05	76	10.58	106	1.50
47	35.10	77	9.94	107	1.50
48	34.15	78	9.32	108	1.50
49	33.20	79	8.72	109	1.50

RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years (Set back 1 year)

Schedule of Active Member Valuation Data

June 30, 1999 to June 30, 2009

Valuation Date	Number	Annual Payroll	Monthly Average Pay	% Increase in Average Pay*
June 30, 2009	2,083	$255,222,552	$10,211	14.92%
June 30, 2007	2,136	$227,734,449	$8,885	1.68%
June 30, 2005	2,003	$210,018,219	$8,738	9.10%
June 30, 2003	2,104	$202,222,000	$8,009	17.88%
June 30, 2001	2.107	$171,799,000	$6,795	10.49%
June 30, 1999	1,953	$144,125,000	$6,150	11.05%

**Reflects the increase in average salary for members at the beginning of the period versus those at the end of the period, it does not reflect the average salary increases received by members who worked the full period.*

Changes in Retirants (Including Beneficiaries)

Time Period	At Beginning of Period	Added During Period	Removed During Period	At End of Period	Annual Retiree Payroll as of the Beginning of Period	Annual Retiree Payroll Added During Period*	Annual Retiree Payroll Removed During Period	Annual Retiree Payroll as of the End of Period	% Increase in Annual Retiree Payroll	Average Annual Allowance
6/30/1999-6/30/2001	1,060	145	41	1,164	$41,072,000	$10,272,000	$1,351,000	$49,993,000	21.72%	$42,949
6/30/2001-6/30/2003	1,164	159	52	1,271	$49,993,000	$13,806,000	$1,485,000	$62,314,000	24.65%	$49,028
6/30/2003-6/30/2005	1,271	161	47	1,385	$62,314,000	$15,619,000	$1,862,000	$76,071,000	22.08%	$54,925
6/30/2005-6/30/2007	1,385	143	51	1,477	$76,071,000	$15,913,000	$1,923,000	$90,061,000	18.39%	$60,976
6/30/2007-6/30/2009	1,477	276	53	1,700	$90,061,000	$27,537,000	$2,025,000	$115,573,000	38.33%	$67,984

** Includes the Plan's annual cost-of-living adjustment as well as payroll for new retirees.*

Actuarial Analysis of Financial Experience

(Amounts in thousands)

	2007 – 2009	2005 – 2007	2003 – 2005
Beginning of Period Unfunded Actuarial Accrued Liability	$6,596	$44,342	-$3,087
Expected Increase from Prior Valuation	-$9,912	$13,781	$124
Benefit Improvements	-	$70,653	-
Change in Methods and Procedures	-	-$10,408	-
Salary Increase Greater (Less) than Expected	$65,256	-$52,419	-
Asset Return Less (Greater) than Expected	$138,383*	-$97,135	$136,013
(Gain)/Loss from Withdrawal	-	-	-
(Gain)/Loss from Retirement	$39,567	-	-
Contribution Less (Greater) than Expected	-	-	-
SRBR	-	-$849	-
Other Experience	$8,672	$5,533	-$101,668
Change in Economic & Non-economic Assumptions	$145,351	$33,098	$12,960
End of Period UAAL	$393,913	$6,596	$44,342

**Includes an offset of about $200 million due to a change in the market value corridor from 80% -120% to 70% -130% used in determining the actuarial value of assets.*

Solvency Test

(Amounts in thousands)

	Aggregate Accrued Liabilities for				Portion of Accrued Liabilities Covered by Reported Assets			
Valuation Date	Active Member Contributions	Retired/Vested Members	Active Members (Employer Financed Portion)	Total	Actuarial Value of Assets	Active Member Contributions (1)	Retired/Vested Members (2)	Active Members (Employer Financed Portion) (3)
6/30/1999	$117,755	$595,196	$563,413	$1,276,364	$1,440,117	100%	100%	129%
6/30/2001	$145,166	$699,082	$648,484	$1,492,732	$1,713,812	100%	100%	134%
6/30/2003	$167,203	$881,064	$774,934	$1,823,200	$1,826,287	100%	100%	100%
6/30/2005	$194,008	$1,062,247	$771,177	$2,027,432	$1,983,090	100%	100%	94%
6/30/2007	$227,191	$1,240,126	$905,069	$2,372,386	$2,365,790	100%	100%	99%
6/30/2009	$243,302	$1,630,914	$1,089,266	$2,963,482	$2,569,569	100%	100%	64%

(1) Accumulated from member contribution account balances provided by the Retirement System
(2) Calculated based on assumptions adopted by the Board
(3) Calculated based on assumptions adopted by the Board and offset with Active member contribution account balances

Assumption Changes

Economic Assumptions:

Salary Increase

Real Wage Growth – Increase the across-the-board salary increase assumption from 0.50% to 0.75%.

Merit and Promotion – The assumption for annual Merit and Promotion salary increases based on years of service has been changed to more closely match the experience of the past two years.

Demographic Assumptions:

Member Turnover – Termination rates of members were changed to more closely match the experience of the past two years.

Pre-retirement Mortality – Death rates of active members were changed to more closely match the experience of the past two years.

Post-retirement Mortality – Improved mortality assumption creating a margin for future improvements in mortality.

Member Disability – Disability rates of Fire members were changed to more closely match the experience of the past two years.

Member Retirement – Retirement rates of Police members were changed to more closely match the experience of the past two years.

Major Provisions of the Retirement Plan

Briefly summarized below are the major provisions of the 1961 San Jose Police and Fire Department Retirement Plan, as amended through June 30, 2009.

Final Average Salary (FAS)

Final average salary is defined as the highest 12 consecutive months of compensation earned, not to exceed 108% of compensation paid to the member during the 12 months immediately preceding the last 12 months of service.

FAS excludes overtime pay and expense allowances.

Return of Contributions

If a member should resign or die before becoming eligible for retirement, his or her contributions plus 2% interest per annum will be refunded.

Service Retirement Benefit

Members with 20 years of service who have attained age 55 are eligible to retire. Members age 70 (no service requirement) and members with 30 years of service, regardless of age, are also eligible to retire.

The normal service retirement benefit for Police members is 2.5% of FAS per year of service up to 20 years of service, and 4.0% of FAS per year of service over 20, not to exceed 90% of FAS. The normal service retirement benefit for Fire members is 2.5% of FAS per year of service up to 20 years of service, and for members with 20 or more years of service, 3.0% of FAS per year of service is provided for all years of service, not to exceed 90% of FAS.

A special study was performed by the plan's prior actuary in 1992 (and subsequently adopted by the Board) which allows members with 25 years of service to retire at age 50 with unreduced benefits. Otherwise, members age 50 with 20 years of service receive their accrued service retirement benefit, reduced for interest below age 55.

Ten years of service are required for vesting purposes.

Disability Benefit

Non-Service Connected

Members with 2 years of service, regardless of age, are eligible for non-service connected disability. The benefit is 32% of FAS for the first 2 years of service plus 1% of FAS for each successive year. The maximum benefit is 50% of FAS. For members with 20 or more years of service, the benefit is the same as that for the Service Retirement.

Service Connected

Members may retire regardless of length of service, and the benefit is 50% of FAS. For Police members with more than 20 years of service, there is an additional benefit of 4.0% of FAS per year of service over 20 (subject to a maximum of 90% of FAS). For Fire members with more than 20 years of service, there is a benefit of 3.0% of FAS per year of service for all years of service (subject to a maximum of 90% of FAS).

Death Benefit (before and after retirement)

Non-Service Connected

Eligibility is based on 2 years of service, regardless of age. The spouse receives 24% of FAS for the first 2 years of service plus 0.75% of FAS for each successive year. The maximum benefit is the greater of 50% of the member's benefit and 37.5% of FAS. For members eligible to receive the Service Retirement Benefit, the spouse receives the greater of 37.5% of FAS or 50% of the member's Service Retirement Benefit, with a maximum continuance benefit of 42.5% of FAS for Police members and 45% of FAS for Fire members.

If a member has eligible dependent children (under age 18, or age 22 if a full time student), the benefits are as follows:

1 child 25% of FAS

2 children 37.5% of FAS

3 or more children 50% of FAS

The total benefits payable to a family shall not exceed 75% of FAS.

If a member does not have a spouse nor dependent children at death, a lump sum equal to the greater of the member's contributions or $1,000 is paid to the estate.

These benefits are payable for active member deaths and deaths after non-service connected disability retirement.

Service Connected

The spouse receives the greater of 50% of the member's benefit and 37.5% of FAS with a maximum continuance benefit of 42.5% of FAS for Police members and 45% of FAS for Fire members. Eligible dependent children receive 25% of FAS per child. The total benefits payable to a family shall not exceed 75% of FAS.

These benefits are payable for active member deaths and deaths after service connected disability retirement and service retirement.

Death Benefit — Inactive Members (After Retirement)

The spouse receives 1.875% of FAS per year of service, not to exceed 37.5% of FAS or the continuance benefit paid under Service Retirement, if greater. Eligible dependent children receive the following:

1 child 1.25% of FAS per year of service

2 children 1.875% of FAS per year of service

3 or more children 2.5% of FAS per year of service

The total benefits payable to a family shall not exceed 75% of FAS.

Cost-of-Living

The increase in retirement allowance is a maximum of 3% per year.

Post-Retirement Health and Dental

Retirees and survivors with 15 years of service, or receiving a benefit of at least 37.5% of FAS, receive the same medical coverage that the City pays for an active member. Members must have retired from active service to be eligible.

Members' Retirement Contributions

The members' contribution rates are recalculated on an actuarial basis at each actuarial study and equal to 3/11ths of the Normal Cost. Police members presently contribute at the rate of 12.96% of pay and Fire members contribute at a rate of 12.40% of pay.

City's Retirement Contributions

The City presently contributes at a rate of 26.89% of pay for Police members and 28.31% of pay for Fire members. The City rate is the percentage of salary necessary, on an actuarial basis, to provide for the payment of the benefits promised, also taking into account the contributions being made by the members and the assets on hand. These rates are changed in accordance with the results of each actuarial study.

SEGAL

THE SEGAL COMPANY
120 Montgomery Street, Suite 500
San Francisco, CA 94104-4308

415.263.8200 phone
415.263.8290 fax
www.segalco.com

October 4, 2010

Board of Retirement
City of San Jose
Police and Fire Department Retirement Plan
1737 N First Street, Suite 580
San Jose, CA 95112-4505

Re: City of San Jose Police and Fire Department Retirement Plan CAFR Certification for OPEB Plan

Dear Members of the Board:

The Segal Company (Segal) performed an actuarial valuation of the Other Postemployment Benefits (OPEB) funded through the City of San Jose Police and Fire Department Retirement Plan as of June 30, 2009. We believe that the actuarial valuation was prepared in accordance with generally accepted actuarial principles and practices. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 43.

As part of our valuation, Segal conducted an examination of all participant data for reasonableness. We did not audit the Plan's financial statements. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer and employee contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over five-year periods.

The Entry Age Normal Cost Method was used to determine the Annual Required Contribution (ARC) and the actuarial accrued liability. Under this method, the ARC provides for current cost (normal cost) plus a level percentage of payroll to amortize any unfunded actuarial accrued liability (UAAL). The UAAL is amortized as a level percentage of payroll over a 30-year open amortization period.

The method described above is only used for the purposes of fulfilling the Plan's accounting requirements because for funding purposes for the 2009-2010 plan year, the cash contributions are calculated so that the City and the employees will share in the contributions required to pay the projected benefits for the next ten years under the Aggregate Cost Method. For the members of the Police Officers Association, there will be a transition from the Aggregate Cost Method to fully funding the ARC over a 5-year period, commencing with the 2009-2010 Fiscal Year. However, the annual increase in contribution rates during the phase-in period are subject to certain limits.

Actuarial Certification Letter *(Continued)*

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SEGAL

The ratio of the valuation assets to actuarial accrued liabilities increased from 6.8% determined in the last valuation as of June 30, 2007 to 7.3% determined in the current valuation as of June 30, 2009. The employer's ARC has decreased from 20.51% of payroll determined in the June 30, 2007 valuation to 19.13% of payroll determined in the June 30, 2009 valuation.

The actuarial valuation reflects a long term perspective that involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. The assumptions used in this valuation were adopted by the Board based on the June 30, 2009 biennial experience analysis and in conjunction with the June 30, 2009 biennial actuarial valuation. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

The valuation was based upon the benefits provided under the terms of the substantive plan in effect at the time of the valuation. The schedules presented in the Actuarial Section have been prepared and/or reviewed by Segal.

The undersigned are Members of the American Academy of Actuaries and we have satisfied the qualifications requirements to render the opinion contained herein.

Sincerely,

Paul Angelo

Paul Angelo, FSA, EA, MAAA, FCA
Senior Vice President & Actuary

Andy Yeung

Andy Yeung, ASA, EA, MAAA
Vice President & Associate Actuary

Schedule of Actuarial Methods and Assumptions *(Continued)*

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The following assumptions have been adopted by the Retirement Board as of June 30, 2009:

Assumptions

Valuation Interest Rate	6.7%
Participation in Medical Plan	95% of current actives are assumed to elect coverage at retirement
Participation in Dental Plan	95% of current actives are assumed to elect coverage at retirement
Eligibility for Medicare	100% of retirees reaching age 65 are assumed to be eligible for Medicare
Health Care Cost Trend Rates	See section below

Trend is to be applied to premium for shown fiscal year to calculate next fiscal year's projected premium
First Fiscal Year (July 1, 2009 through June 30, 2010)

Plan	Blue Shield PPO/POS, Under Age 65	Blue Shield PPO/POS, Age 65 and Over	Kaiser HMO, Under Age 65	Kaiser Senior Advantage	Blue Shield HMO, All Ages
Trend to be applied to 2009-2010 Fiscal Year premium	10.89%	10.89%	9.54%	6.92%	9.97%

The fiscal year trend rates are based on the following calendar year trend rates:

Fiscal Year	Trend (Approximate)	Calendar Year	Trend (applied to calculate following year's premium)
2010-2011	8.25%	2010	8.50%
2011-2012	7.75%	2011	8.00%
2012-2013	7.25%	2012	7.50%
2013-2014	6.75%	2013	7.00%
2014-2015	6.25%	2014	6.50%
2015-2016	5.75%	2015	6.00%
2016-2017	5.25%	2016	5.50%
2017-2018 and later	5.00%	2017 and later	5.00%

Dental Premium Trend	5.00% for all years
Medicare Part B Premium Trend	*The 2010-2011 fiscal year premium is 2.50% higher than the 2009-2010 fiscal year premium. Premiums after 2010-2011 are assumed to increase with 5% annual trend.*

Schedule of Actuarial Methods and Assumptions *(Continued)*

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Per Capita Costs and Carrier Election Assumption under Age 65

2009-2010 Plan Year		*Single Party*			*Married/with Domestic Partner*			*Surviving Spouse/ Domestic Partner*		
CARRIER	**Assumed Election Percent**	**Monthly Premium**	**Maximum Subsidy**	**Subsidy**	**Monthly Premium**	**Maximum Subsidy**	**Subsidy**	**Monthly Premium**	**Maximum Subsidy**	**Subsidy**
Kaiser	50	$464.01	$464.01	**$464.01**	$1,155.33	$1,155.33	**$1,155.33**	$464.01	$464.01	**$464.01**
Blue PPO/POS	30	$710.22	$464.01	**$464.01**	$1,825.19	$1,155.33	**$1,155.33**	$710.22	$464.01	**$464.01**
Blue Shield HMO	20	$515.80	$464.01	**$464.01**	$1,325.04	$1,155.33	**$1,155.33**	$515.80	$464.01	**$464.01**

Per Capita Costs and Carrier Election Assumption Age 65 and older

2009-2010 Plan Year		*Single Party*			*Married/with Domestic Partner*			*Surviving Spouse/ Domestic Partner*		
CARRIER	**Assumed Election Percent**	**Monthly Premium**	**Maximum Subsidy**	**Subsidy**	**Monthly Premium**	**Maximum Subsidy**	**Subsidy**	**Monthly Premium**	**Maximum Subsidy**	**Subsidy**
Kaiser Senior Advantage	35	$422.05	$464.01	**$422.05**	$844.09	$1,155.33	**$844.09**	$422.05	$464.01	**$422.05**
Blue Shield PPO or POS	60	$551.93	$464.01	**$464.01**	$1,103.86	$1,155.33	**$1,103.86**	$551.93	$464.01	**$464.01**
Blue Shield HMO	5	$393.83	$464.01	**$393.83**	$787.66	$1,155.33	**$787.66**	$393.83	$464.01	**$393.83**

Implicit Subsidy Costs

	Kaiser			*Blue Shield PPO/POS*			*Blue Shield HMO*		
Age	**Blended Premium**	**Age-Based Cost**	**Implicit Subsidy**	**Blended Premium**	**Age-Based Cost**	**Implicit Subsidy**	**Blended Premium**	**Age-Based Cost**	**Implicit Subsidy**
50	$5,568	$5,883	$315	$8,523	$8,498	-$25	$6,190	$5,925	-$265
55	$5,568	$6,986	$1,418	$8,523	$10,092	$1,569	$6,190	$7,037	$847
60	$5,568	$8,297	$2,729	$8,523	$11,985	$3,462	$6,190	$8,357	$2,167
64	$5,568	$9,519	$3,951	$8,523	$13,751	$5,228	$6,190	$9,587	$3,397
65+	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Other Actuarial Assumptions — Same as those used for the retirement plan valuation and they are based upon the June 30, 2009 experience analysis.

Actuarial Cost Method *(For GASB 43/45 Purposes)*

The System's liability is being calculated under the Entry Age Normal cost method with the Unfunded Actuarial Accrued Liability being amortized on an open basis over a period of 30 years beginning on June 30, 2009.

Summary of Plan Benefits

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Eligibility	Retired for disability or service from active service with 15 years of service, or receiving a benefit of at least 37.5% of Final Average Salary. If a member separates from service after July 5, 1992, with 20 years of service, the member is eligible to receive a health benefit upon receiving a retirement benefit.
Medical Subsidy	For retirees not eligible for Medicare, the Plan pays the lowest non-Medicare HMO premium rate. For retirees eligible for Medicare, the Plan pays the retiree's premium plus the Medicare Part B premium, subject to the same maximums that apply to non-Medicare retirees.
Dental Subsidy	The plan pays the entire premium.

Fire (Based on Cash Flow Requirement for the Next Ten Years)

Employee's Contribution	Contribute 50% of the health premium subsidy and 25% of the dental premium subsidy as determined at each actuarial valuation based on the cash flow requirement for the next ten years.
City's Contribution	Contribute 50% of the health premium subsidy and 75% of the dental premium subsidy as determined at each actuarial valuation based on the cash flow requirement for the next ten years.

Police

Employee's Contribution

Contribute 50% of the health premium subsidy and 25% of the dental premium subsidy as determined at each actuarial valuation based on a weighted average of:

- The cash flow requirement for the next ten years, and
- The full pre-funding based on 1) 8.00% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability.

For the 2009-2010 fiscal year, the contribution rate is based on 20% of the full prefunding rate and 80% of the 10-year cash flow requirement rate. There is an annual cap for Member rate increase of 1.25% per year during the 5-year phase-in period.

City's Contribution

Contribute 50% of the health premium subsidy and 75% of the dental premium subsidy as determined at each actuarial valuation based on a weighted average of:

- The cash flow requirement for the next ten years, and
- The full pre-funding based on 1) 8.00% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability.

For the 2009-2010 fiscal year, the contribution rate is based on 20% of the full prefunding rate and 80% of the 10-year cash flow requirement rate. There is an annual cap for City rate increase of 1.35% per year during the 5-year phase-in period.

Statistical Section

The Statistical Section provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this fiscal year's financial statements, note disclosures, and supplementary information, which cover Pension Plan, Other Postemployment Medical Benefits, and Non-OPEB Benefits. This section also provides a multi-year trend of financial and operating information to facilitate comprehensive understanding of how the organization's financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for the Plan's net assets, benefits, refunds, contribution rates, and different types of retirement benefits. The financial and operating trend information is located on the following pages.

Statistical Review

CHANGES IN NET ASSETS FOR FISCAL YEARS 2001-2010 *(In Thousands)*
PENSION BENEFITS (Schedule Ia)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Additions										
Member contributions	$ 13,383	$ 14,737	$ 16,416	$ 17,233	$ 16,240	$ 16,432	$ 16,050	$ 19,210	$ 20,323	$ 20,097
Employer contributions	22,157	23,748	23,511	24,412	41,835	43,473	46,625	56,372	53,103	52,315
Investment Income*	(4,039)	(31,729)	80,225	252,431	202,320	230,225	440,999	(153,711)	(469,235)	314,453
Total additions to plan net assets	**31,501**	**3,756**	**120,152**	**294,076**	**260,395**	**290,130**	**503,674**	**(78,129)**	**(395,809)**	**386,865**
Deductions (See Schedule 2a)										
Benefit payments	45,699	54,113	55,342	61,449	69,102	75,189	81,953	89,704	102,363	114,604
Death benefits	1,772	1,771	3,732	3,976	4,226	4,803	5,042	5,467	5,982	6,519
Refunds	615	518	276	132	426	144	210	168	363	196
Administrative expenses and other	1,517	1,773	1,583	2,053	1,617	2,171	2,206	2,670	2,669	2,955
Total deductions from plan net assets	**49,603**	**58,175**	**60,933**	**67,610**	**75,371**	**82,307**	**89,411**	**98,009**	**111,377**	**124,274**
Change in Net Assets	**$(18,102)**	**$(51,419)**	**$ 59,219**	**$ 226,466**	**$ 185,024**	**$ 207,823**	**$ 414,263**	**$(176,138)**	**$ (507,186)**	**$ 262,591**

**Net of Expenses*

POSTEMPLOYMENT HEALTHCARE BENEFITS (Schedule Ib)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Additions											
Member contributions	$ 2,866	$ 2,159	$ 3,114	$ 3,521	$ 3,696	$ 5,673	$ 5,742	$ 7,989	$ 9,151	$ 9,218	$ 10,650
Employer contributions	2,120	2,515	4,367	4,251	4,492	6,418	6,529	9,082	10,618	9,888	11,284
Investment Income*	2,490	(756)	(556)	1,415	4,414	3,554	4,089	8,115	(3,029)	(9,800)	6,870
Total additions to plan net assets	**4,672**	**3,918**	**6,925**	**9,187**	**12,602**	**15,645**	**16,360**	**25,186**	**16,740**	**9,306**	**28,804**
Deductions (See Schedule 2b)											
Healthcare insurance premiums	4,649	5,685	6,740	7,772	9,528	11,093	12,880	14,794	15,974	18,039	20,701
Administrative expenses and other	23	33	67	32	36	33	42	45	56	60	66
Total deductions from plan net assets	**4,672**	**5,718**	**6,807**	**7,804**	**9,564**	**11,126**	**12,922**	**14,839**	**16,030**	**18,099**	**20,767**
Change in Net Assets	**$ 2,804**	**$ (1,800)**	**$ 118**	**$ 1,383**	**$ 3,038**	**$ 4,519**	**$ 3,438**	**$ 10,347**	**$ 710**	**$ (8,793)**	**$ 8,037**

**Net of Expenses*

Source: Pension Administration System

Statistical Review *(Continued)*

BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE *(In Thousands)*
PENSION BENEFITS (Schedule 2a)

Type of Benefit	2010	2009	2008	2007	2006
Age and Service Benefits					
Retirees – Service	$ 59,455	$ 49,004	$ 39,354	$ 34,772	$ 30,828
Retirees – Deferred Vested	1,481	1,337	1,030	946	892
Survivors – Service	986	826	713	606	741
Survivors – Deferred Vested	32	33	30	23	22
Death in Service Benefits	1,155	1,193	1,121	1,093	1,031
Disability Benefits					
Retirees – Duty	51,218	49,100	46,654	43,713	41,134
Retirees – Non-Duty	680	698	697	646	610
Survivors – Duty	3,634	3,784	3,459	3,184	2,876
Survivors – Non-Duty	136	146	144	135	133
Ex-Spouse Benefits	2,346	2,224	1,969	1,877	1,725
Total Benefits	**$ 121,123**	**$ 108,345**	**$ 95,171**	**$ 86,995**	**$ 79,992**
Type of Refund					
Separation	$ 196	$ 363	$ 168	$ 210	$ 144
Total Refunds	**$ 196**	**$ 363**	**$ 168**	**$ 210**	**$ 144**

Fiscal Year 2004-05 data not available due to system limitations.

Source: Pension Administration System

BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE *(In Thousands)*
POSTEMPLOYMENT HEALTHCARE BENEFITS (Schedule 2b)

Type of Benefit	2010	2009	2008	2007	2006
Age and Service Benefits					
Retirees – Service					
Medical	$ 8,313	$ 6,843	$ 5,366	$ 4,750	$ 3,871
Dental	859	684	589	550	492
Retirees – Deferred Vested					
Medical	180	146	137	131	119
Dental	21	17	17	16	15
Survivors – Service					
Medical	165	110	89	76	78
Dental	31	19	21	20	23
Survivors – Deferred Vested					
Medical	-	-	1	3	4
Dental	1	1	-	1	1
Death in Service Benefits					
Medical	214	208	190	186	165
Dental	37	33	34	36	35
Disability Benefits					
Retirees – Duty					
Medical	8,915	8,177	7,757	7,324	6,503
Dental	977	856	885	881	854
Retirees – Non-Duty					
Medical	200	172	173	162	147
Dental	26	21	22	21	21
Survivors – Duty					
Medical	643	603	527	483	408
Dental	154	119	137	127	118
Survivors – Non-Duty					
Medical	24	24	22	20	19
Dental	7	6	7	7	7
Ex-Spouse Benefits					
Total Benefits	**$ 20,767**	**$ 18,039**	**$ 15,974**	**$ 14,794**	**$ 12,880**

Source: Pension Administration System

Statistical Review *(Continued)*

EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR FISCAL YEARS 2001-2010
(Schedule 3)

	Police Department Rates		Fire Department Rates	
Fiscal Year	Employee Rate (%)	Employer Rate (%)	Employee Rate (%)	Employer Rate (%)
2000-01	9.79	15.70	9.79	15.70
2001-02	9.79	15.70	9.79	15.70
2002-03	10.25	14.22	10.25	14.22
2003-04	10.25	14.22	10.25	14.22
2004-05	11.16	24.59	11.16	24.59
2005-06	11.16	25.04	11.16	25.04
2006-07	11.67	28.51	11.26	25.22
2007-08*	11.67	28.90	11.26	25.61
2008-09	11.96	25.80	12.40	28.31
2009-10	12.96	26.89	12.40	28.31

**Special rate change effective 12/17/2006*

Source: Pension Administration System

Retired Member By Type of Benefit

PENSION BENEFITS

As of June 30, 2010

		Type of Retirement*								Option Selected**				
Monthly Benefit Amount	Number of Retirees & Beneficiaries	1	2	3	4	5	6	7	8	Unmodified	Option 1	Option 2	Option 3	Total
$1 - 1000	8	-	-	-	-	1	3	4	-	5	2	1	-	8
$1001 - 1500	15	-	-	-	-	4	5	4	2	11	-	2	2	15
$1501 - 2000	68	5	-	6	1	4	39	5	8	48	1	19	-	68
$2001 - 2500	101	37	-	-	2	12	35	9	6	75	1	25	-	101
$2501 - 3000	95	28	-	1	3	8	45	4	6	74	-	21	-	95
$3001 - 3500	86	54	1	5	1	2	18	3	2	75	6	4	1	86
$3501 - 4000	82	61	-	6	3	1	5	4	2	74	1	2	5	82
$4001 - 4500	94	71	2	-	10	1	7	2	1	85	1	1	7	94
$4501 - 5000	110	74	-	1	31	1	3	-	-	86	6	2	16	110
$5001 - 5500	107	60	-	-	41	1	4	1	-	79	6	2	20	107
$5501 - 6000	124	61	1	-	56	1	5	-	-	108	5	3	8	124
$6001 - 6500	147	73	-	-	74	-	-	-	-	119	10	-	18	147
$6501 - 7000	102	48	1	1	52	-	-	-	-	90	4	-	8	102
$7001 - 7500	103	35	-	-	67	-	-	1	-	87	1	-	15	103
$7501 - 8000	104	46	-	-	57	-	-	1	-	81	8	-	15	104
Over $8000	444	131	1	-	308	-	1	3	-	337	27	-	80	444
TOTAL	**1,790**	**784**	**6**	**20**	**706**	**36**	**170**	**41**	**27**	**1,434**	**79**	**82**	**195**	**1,790**

***Retirement Codes**

1 *Service Connected Disability*
2 *Early Service*
3 *Non-Service Connected Disability*
4 *Service*
5 *Survivor (survivor of active employee)*
6 *Continuance (survivor of retired employee)*
7 *Deferred Vested*
8 *Ex-Spouse*

****Option Descriptions**

Unmodified *Unmodified Joint & Survivorship (standard default for married)*
1 *Contingent Joint & Survivorship (increased percentage to survivor/reduce pension to member)*
2 *Unmodified/No Survivor (standard default for unmarried)*
3 *Joint & Survivorship Pop-Up (same as option 1 but if spouse predeceases member, pension goes back to original pension calculation)*

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2010

	Type of Subsidy	
Amount Monthly Benefit	Health	Dental
Ineligible/Deferred	113	78
$1 - 60	-	22
61 - 250	-	1,690
251 - 500	435	-
501 - 800	7	-
801 - 1000	151	-
1,000 - 1,250	1,084	-
TOTAL	**1,790**	**1,790**

Source: Pension Administration System

Average Benefit Payment Amounts

PENSION BENEFITS

	Years of Service Credit						
Retirement Effective Dates	0-5	6-10	11-15	16-20	21-25	26-30	31+
Period 7/1/2009 to 6/30/2010							
Average Monthly Benefit (Incl. COLA)	$ 2,152	$ 2,915	$ 3,184	$ 4,223	$ 5,372	$ 7,622	$ 8,242
Average Final Average Salary**	$ 1,585	$ 3,248	$ 4,532	$ 6,515	$ 6,599	$ 7,942	$ 7,938
Number of Retired Members***	6	46	70	96	242	653	157
Average Monthly Benefit (Incl. COLA) (for those whose FAS was unavailable)	$ -	$ 1,639	$ 1,419	$ 2,854	$ 3,779	$ 5,886	$ 6,570
Number of Retired Members***	0	3	5	12	36	129	30
Period 7/1/2008 to 6/30/2009							
Average Monthly Benefit (Incl. COLA)	$ 2,170	$ 2,779	$ 3,103	$ 3,937	$ 4,904	$ 7,158	$ 7,811
Average Final Average Salary**	$ 1,778	$ 3,087	$ 4,498	$ 6,066	$ 6,072	$ 7,492	$ 7,600
Number of Retired Members***	7	46	68	86	220	575	153
Average Monthly Benefit (Incl. COLA) (for those whose FAS was unavailable)	$ -	$ 1,591	$ 1,381	$ 2,712	$ 3,675	$ 5,710	$ 6,327
Number of Retired Members***	0	3	5	13	36	132	32
Period 7/1/2007 to 6/30/2008							
Average Monthly Benefit (Incl. COLA)	$ 2,120	$ 2,717	$ 3,068	$ 3,743	$ 4,563	$ 6,776	$ 7,319
Average Final Average Salary**	$ 1,778	$ 3,060	$ 4,097	$ 5,713	$ 5,644	$ 7,129	$ 7,147
Number of Retired Members***	7	47	64	79	204	521	140
Average Monthly Benefit (Incl. COLA) (for those whose FAS was unavailable)	$ -	$ 1,549	$ 1,319	$ 2,642	$ 3,639	$ 5,560	$ 6,123
Number of Retired Members***	0	3	5	13	36	134	32
Period 7/1/2006 to 6/30/2007							
Average Monthly Benefit*	$ 2,063	$ 2,618	$ 2,853	$ 3,576	$ 4,339	$ 6,461	$ 6,962
Average Final Average Salary**	$ 1,799	$ 3,023	$ 3,846	$ 5,567	$ 5,419	$ 6,924	$ 6,898
Number of Retired Members***	7	47	62	79	195	492	134
Average Monthly Benefit (for those whose FAS was unavailable)	$ -	$ 1,500	$ 1,239	$ 2,561	$ 3,526	$ 5,397	$ 5,938
Number of Retired Members***	$ 1,799	$ 3,023	$ 3,846	$ 5,567	$ 5,419	$ 6,924	$ 6,898
Period 7/1/2005 to 6/30/2006	0	3	6	13	36	137	32
Average Monthly Benefit*	$ 889	$ 1,424	$ 1,822	$ 2,633	$ 3,073	$ 5,092	$ 5,411
Average Final Average Salary**	$ 1,778	$ 2,934	$ 3,716	$ 5,290	$ 5,164	$ 6,674	$ 6,725
Number of Retired Members***	7	47	61	76	189	462	129
Average Monthly Benefit (for those whose FAS was unavailable)	$ -	$ 414	$ 735	$ 1,741	$ 2,405	$ 3,835	$ 4,103
Number of Retired Members***	0	3	6	14	36	137	32

* *Monthly benefit does not include cost of living increases ("COLA") of 3% per year.*

** *Final Average Salary not available for those that retired prior to April 1998, except for service connected disability retirees. Those without Final Average Salary are not included in Average Monthly Benefit.*

*** *Does not include Survivors and Ex-Spouses*

Information presented in the above table is not readily available prior to fiscal year 2006.

Average Benefit Payment Amounts *(Continued)*

POSTEMPLOYMENT HEALTHCARE BENEFITS

	Years of Service Credit						
Retirement Effective Dates	0-5	6-10	11-15	16-20	21-25	26-30	31+
Period 7/1/2009 to 6/30/2010							
Average Health Subsidy	$ 702	$ 853	$ 991	$ 951	$ 978	$ 1,023	$ 985
Number of Health Participants*	6	42	56	91	236	649	157
Average Dental Subsidy	$ 104	$ 104	$ 105	$ 104	$ 104	$ 104	$ 104
Number of Dental Participants*	6	45	60	93	239	652	157
Period 7/1/2008 to 6/30/2009							
Average Health Subsidy	$ 711	$ 807	$ 939	$ 898	$ 910	$ 963	$ 927
Number of Health Participants*	7	42	56	82	216	572	153
Average Dental Subsidy	$ 94	$ 94	$ 94	$ 94	$ 91	$ 94	$ 94
Number of Dental Participants*	7	45	60	83	220	575	153
Period 7/1/2007 to 6/30/2008							
Average Health Subsidy	$ 676	$ 778	$ 888	$ 866	$ 870	$ 916	$ 885
Number of Health Participants*	7	45	58	82	234	516	139
Average Dental Subsidy	$ 99	$ 99	$ 99	$ 98	$ 98	$ 98	$ 99
Number of Dental Participants*	7	49	61	83	239	520	139
Period 7/1/2006 to 6/30/2007							
Average Health Subsidy	$ 632	$ 736	$ 805	$ 813	$ 815	$ 861	$ 828
Number of Health Participants*	7	45	57	82	225	487	134
Average Dental Subsidy	$ 98	$ 98	$ 98	$ 96	$ 97	$ 97	$ 98
Number of Dental Participants*	7	49	60	83	230	491	134
Period 7/1/2005 to 6/30/2006							
Average Health Subsidy	$ 571	$ 662	$ 722	$ 735	$ 731	$ 772	$ 742
Number of Health Participants*	7	45	56	79	216	453	129
Average Dental Subsidy	$ 95	$ 96	$ 95	$ 94	$ 94	$ 95	$ 95
Number of Dental Participants*	7	49	59	80	222	461	129

**Does not include Survivors and Ex-Spouses*

Information presented in the above table is not readily available prior to fiscal year 2006.

Source: Pension Administration System

Retirements During Fiscal Year 2009-2010

SERVICE RETIREMENTS

Police Department

ALCANTAR, ERNESTO
ANDERS, DONALD
BOMAN, TRUMAN
BOWEN, GORDON
BOYLE, TERRANCE
BROWN, MICHAEL
BURKE, KAROL
CARDONE, LLOYD
CARRILLO, JOHN
CARROLL, MICHAEL
CHAVEZ, ROBERT
CONROY, MICHAEL
COOKE, BERTHA
CORTEZ, DARRELL
CRESCINI, MICHAEL
DALY, RONALD
DAMON, VERONICA
DECENA, PETER
DOLEZAL, DENNIS
DOMINGUEZ, ROBERT
DRAKE, GARY
DUDDING, WILLIAM
EDILLO-BROWN, MARGARET
EDWARDS, VAUGHAN
ESPARZA, JOHN
FERLA, ALFRED
FERNANDEZ, MICHAEL
FROESE, ROBERT
GALEA, ANDREW
GALVAN, ABRAHAM
GIULIODIBARI, CAMILLE
GOINGS, MARK
GONZALES, RAYMOND
GOULD, CHARLES
HAHN, MICHAEL
HAMPTON, MILLARD
HIGGINSON, ROBERT
HOLMES, LARRY
JACKSON, CURTIS
JONES, LAWRENCE
KNEIS, BRIAN
KONG, ERNEST
LEININGER, MICHAEL
MALVINI, PHILLIP
MARIN, JULIE
MARSH, SCOTT
MARTIN, JEFFREY
MARTINEZ, MANUEL
MARTUSCELLI, THOMAS
MASON, WILLIAM
MC ELVY, MICHAEL
MC LAREN, MICHAEL
MC LINDEN, MATTHEW
MELO, JAMES
MENDIOLA, ROBERT
MICOTTI, KARL
MILLER, ROBERT
MORGAN, DALE
MULDROW, MARK
OROK, WILLIAM
OVERSTREET, JACK
OVERSTREET, JAMES
PAPENFUHS, STEVE
PARKS, DONALD
PASSEAU, CHRISTOPHER
PINHEIRO, LUIS
PRYOR, STEVEN
RAMIREZ, PETE
RETUTA, RENE
RICKETTS, JEFFREY
RIEDEL, GUNTHER
ROCK, DOUGLAS
SANCIER, GREGORY
SHUMAN, PAUL
SHUPER, KIM
SILLS, ERIC
SMITH, MICHAEL
SMOKE, WILLIAM
SPRINGER, GEORGE
ST AMOUR, ROBERT
SUTCLIFFE, ALFRED
TARR, CRAIG
TORRES, GILBERTO
TORRES, NESTOR
TOVAR, ADAM
TREJO, SANTIAGO
UNGER, BRUCE
URBAN, THEODORE
VIDEAN, EDWARD
WEIR, ANTHONY
WILEY, BRUCE
WILLIAMS, RICHARD
WILSON, NEAL
WINDISCH, STEPHEN
YAZZOLINO, DAVID
YOUNG, ANTHONY

Fire Department

ARAUJO, PETER
BANTON, KEVAN
BELLUOMINI, ALAN
COX, DAVID
DIAZ, TOM
FELDER, STEPHEN
GUILLORY, EDWARD
HOM, CALVIN
JIMENEZ, DAVID
LUCCHESI, GEORGE
LYNN, GARY
MC CLURE, JAMES
OLIVETTI, JEFFERY
ORTEGA, RALPH
PALMA, GEORGE
REED, DANA
REINMUTH, DANIEL
REISCHL, THOMAS
SHAW, MICHAEL
VON RAESFELD, DARRYL

Source: Pension Administration System

Retirements During Fiscal Year 2009-2010 *(Continued)*

EARLY RETIREMENTS

Police Department

NONE

Fire Department

KEESLING, KEITH
RAMIREZ, LOUIS
SERR, APRIL

DEFERRED VESTED RETIREMENTS

Police Department

HARE, CAREN
WAGSTAFF, GREGORY

Fire Department

NONE

SERVICE CONNECTED DISABILITY RETIREMENTS

Police Department

BARNETT, VICTOR
CLIFTON, CRAIG
DAMON, ALAN
GALL, TIMOTHY
GRACIE, STEVEN
HIGHTOWER, DAVID
JOHNSON, CRAIG
LOVELY, KIRK
MARTINEZ, RICK
MULLEN, JESSICA
PETITJEAN, ROBERT
REYES, JUAN
SIMPSON, VALERIE

Fire Department

CUNNINGHAM, STEPHEN
MUELLER, ROBERT

NON-SERVICE CONNECTED DISABILITY RETIREMENTS

Police Department

NONE

Fire Department

NONE

Deaths During Fiscal Year 2009-2010

DEATHS AFTER RETIREMENT

Police Department

ADAMS, VIRGINIA
BALLARD, BUCK
BOUNDS, HAROLD
BRIDGES, RICHARD
CAMPOS, ARTHUR
CANNELL, GEORGE
CORNELIUS, JAMES
DARR, LAWRENCE
DAVIS, DONALD
KEISER, BETTY
KIRKENDALL, STEVEN
LOPEZ, DANIEL
MC KAY, EDWARD
MEHEULA, ROBERT
PERIMAN, JOHNNY
WISKEL, BILL

Fire Department

BERGSTROM, THOMAS
HIGGINS, THOMAS
JURADO, JOHN
KEYSER, ORVILLE
LE BEAU, RONALD
LONG, GEORGE
MALIK, EL-HAJJ
MEDRANO, LOUIS
POWERS, RONALD
RITCHIE, KENNETH
ROGERS, ALLAN
SILVERIA, GEORGE

DEATHS BEFORE RETIREMENT

Police Department

BUCK, JOHN

Fire Department

NONE

Source: Pension Administration System