CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Popular Annual Financial Report for the Year ended June 30, 2017
City of San Jose Police and Fire Department Retirement Plan

INTRODUCTION

The Police and Fire Department Retirement Plan (Plan) is pleased to present the Popular Annual Financial Report (PAFR) which summarizes the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017. The financial data presented in the PAFR is derived from the CAFR and is consistent with Accounting Principles Generally Accepted in the United States of America (U.S. GAAP). The PAFR provides a concise summary of the Plan's financial position, investment performance and key accomplishments throughout the fiscal year. The Plan consists of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan.

For fiscal year 2017, the Defined Benefit Pension Plan returned 10.3% gross of fees and 9.7% net of fees, while the Policy Benchmark return for the same time period was 9.5%. The Plan's fiscal year performance was greater than the actuarial rate of return of 6.875%. For fiscal year 2017, the Postemployment Healthcare Plan returned 7.0% net of fees.

The Plan engages an independent actuary to conduct annual actuarial valuations. The June 30, 2016 actuarial valuations show that the Defined Benefit Pension Plan and the Postemployment Healthcare Plan are 75.7% and 17.4% funded, respectively. The Defined Benefit Pension Plan sponsor paid 100% of the Actuarially Determined Contribution in fiscal year 2017, while the Postemployment Healthcare Plan sponsor paid the amount that was agreed between the Plan sponsor and the employee bargaining units.

This report is not intended to replace the CAFR, which provides a more complete overview of the Plan's financial position and operating results. For more in-depth information, we encourage you to read the CAFR by visiting **www.sjretirement.com** and clicking on the Reports tab.

Board of Administration

The Plan's Board of Administration oversees the Chief Executive Officer of the Office of Retirement Services and staff in the performance of their duties. The Plan's Board Members as of June 30, 2017 were:

Net Position Held in Trust

As of June 30, 2017, the Plan's total plan net position for the Defined Benefit Pension Plan totaled $3.3 billion, while the Postemployment Healthcare Plan net position totaled $149.7 million. The funded ratio for the Defined Benefit Plan and Postemployment Healthcare Plan was 75.7% and 17.4%, respectively, as of June 30, 2016, the date of the Plan's most recent actuarial valuation.

NET POSITION FOR THE POLICE AND FIRE DEFINED BENEFIT PENSION PLAN
As of June 30, 2017 and 2016 (In Thousands)

	2017	2016	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 19,014	$ 35,066	$ (16,052)	(45.8)%
Investments at fair value	3,277,084	3,010,391	266,693	8.9 %
Capital assets	1,488	920	568	61.7 %
Total Assets	**3,297,586**	**3,046,377**	**251,209**	**8.2 %**
Current liabilities	4,329	2,724	1,605	58.9 %
Total Liabilities	**4,329**	**2,724**	**1,605**	**58.9 %**
Plan Net Position	**$ 3,293,257**	**$ 3,043,653**	**$ 249,604**	**8.2 %**

NET POSITION FOR THE POLICE AND FIRE POSTEMPLOYMENT HEALTHCARE PLAN
As of June 30, 2017 and 2016 (In Thousands)

	2017	2016	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 3,859	$ 3,687	$ 172	4.7 %
Investments at fair value	145,935	119,806	26,129	21.8 %
Capital assets	25	16	9	56.3 %
Total Assets	**149,819**	**123,509**	**26,310**	**21.3 %**
Current liabilities	137	82	55	67.1 %
Total Liabilities	**137**	**82**	**55**	**67.1 %**
Plan Net Position	**$ 149,682**	**$ 123,427**	**$ 26,255**	**21.3 %**

Changes in Net Position for the years ended June 30, 2017 and 2016

As of June 30, 2017, the net position restricted for pension benefits increased by $250 million or 8.2% over 2016, primarily due to changes in the fair market value of investments. Net investment income for the year ended June 30, 2017, totaled $292,734,000.

CHANGES IN PLAN NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN
For the Fiscal Years Ended June 30, 2017 and 2016 (In Thousands)

	2017	2016	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee contributions	$ 20,580	$ 21,508	$ (928)	(4.3)%
Employer contributions	136,957	132,480	4,477	3.4 %
Net investment income (loss)*	292,734	(29,206)	321,940	1,102.3 %
Total Additions	**450,271**	**124,782**	**325,489**	**260.8 %**
Retirement benefits	184,596	176,029	8,567	4.9 %
Death benefits	11,072	10,083	989	9.8 %
Refund of contributions	364	828	(464)	(56.0)%
Administrative expenses	4,635	4,254	381	9.0 %
Total Deductions	**200,667**	**191,194**	**9,473**	**5.0 %**
Net Increase (Decrease) in Plan Net Position	**249,604**	**(66,412)**	**316,016**	**475.8 %**
Beginning Net Position	**3,043,653**	**3,110,065**	**(66,412)**	**(2.1)%**
Ending Net Position	**$ 3,293,257**	**$ 3,043,653**	**$ 249,604**	**8.2 %**

** Net of investment expenses of $19,288 and $21,081 in 2017 and 2016, respectively.*

As of June 30, 2017, the net position restricted for postemployment healthcare benefits increased $26.3 million or 21.3% over 2016, primarily due to an increase in investment income from favorable market conditions. Net investment income for the year ended June 30, 2017, totaled $12,453,000.

CHANGES IN PLAN NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN
For the Fiscal Years Ended June 30, 2017 and 2016 (In Thousands)

	2017	2016	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee contributions	$ 18,116	$ 18,007	$ 109	0.6 %
Employer contributions	20,667	21,065	(398)	(1.9)%
Net investment income (loss)*	12,453	(1,683)	14,136	839.9 %
Total Additions	**51,236**	**37,389**	**13,847**	**37.0 %**
Healthcare insurance premiums	24,799	23,449	1,350	5.8 %
Administrative expenses	182	139	43	30.9 %
Total Deductions	**24,981**	**23,588**	**1,393**	**5.9 %**
Net Increase in Plan Net Position	**26,255**	**13,801**	**12,454**	**90.2 %**
Beginning Net Position	**123,427**	**109,626**	**13,801**	**12.6 %**
Ending Net Position	**$ 149,682**	**$ 123,427**	**$ 26,255**	**21.3 %**

** Net of investment expenses of $434 and $438 in 2017 and 2016, respectively.*

The primary sources (additions) used to fund benefits provided by the Plan are accumulated through employee and employer contributions and by investment earnings (net of investment expenses). The primary uses (deductions) of the Plan's assets include benefit payments to retirees and beneficiaries, contribution refunds to terminated employees and the costs of administering the Plan.

Membership (as of June 30, 2017 and 2016)

	Retirees and beneficiaries currently receiving benefits*		Terminated vested members not yet receiving benefits		Active Members		Total	
PENSION	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Police Tier 1	1,336	1,304	239	234	747	789	**2,322**	**2,327**
Police Tier 2	-	-	49	37	150	122	**199**	**159**
Fire Tier 1	856	845	39	44	586	604	**1,481**	**1,493**
Fire Tier 2	-	-	6	2	61	67	**67**	**69**
Total	**2,192**	**2,149**	**333**	**317**	**1,544**	**1,582**	**4,069**	**4,048**
HEALTHCARE								
Police Tier 1	1,251	1,222	12	10	747	790	**2,010**	**2,022**
Police Tier 2	-	-	-	-	150	121	**150**	**121**
Fire Tier 1	810	798	1	1	586	604	**1,397**	**1,403**
Fire Tier 2	-	-	-	-	61	67	**61**	**67**
Total	**2,061**	**2,020**	**13**	**11**	**1,544**	**1,582**	**3,618**	**3,613**

** The number of combined domestic relations orders recipients is not included in the count above, as their benefit payment is included in the member's count.*

Average Benefit Payments

The Average Benefit Payment chart is a broad representation of average beneftis paid to retirees and survivors. All tiers are combined in the calculation. The chart includes all members who have retired through June 30, 2017.

PENSION	Years of Service Credit						
Time Periods	**0-5**	**6-10**	**11-15**	**16-20**	**21-25**	**26-30**	**31+**
Average monthly benefit*	$ 2,514	$ 3,724	$ 4,359	$ 5,451	$ 7,703	$ 9,851	$10,627
Avg final avg monthly salary (FAS)**	$ 5,836	$ 4,876	$ 7,204	$ 8,414	$ 9,110	$ 9,103	$ 8,482
Number of retired members***	12	50	121	170	436	788	161
Average monthly benefit (No FAS)*, **	$ -	$ 2,050	$ 1,696	$ 3,192	$ 4,778	$ 7,303	$ 8,374
Number of retired members***	-	3	2	9	29	105	22

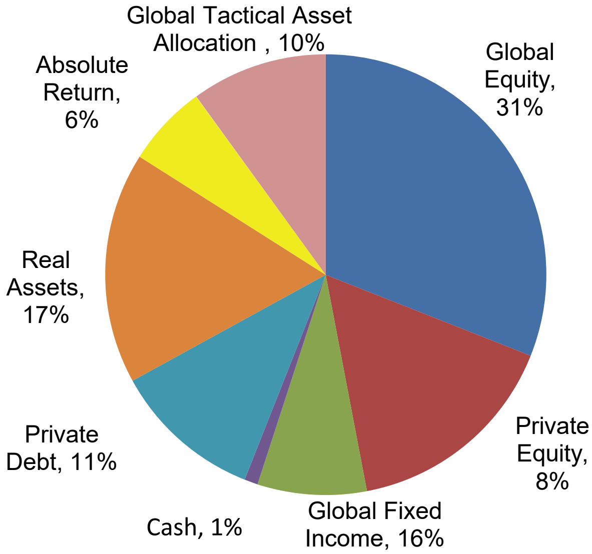
HEALTHCARE	Years of Service Credit						
Time Periods	**0-5**	**6-10**	**11-15**	**16-20**	**21-25**	**26-30**	**31+**
Average health subsidy	$ 910	$ 878	$1,060	$ 940	$ 949	$ 901	$ 743
Number of health participants	7	42	83	140	437	869	169
Average dental subsidy	$ 93	$ 103	$ 117	$ 113	$ 109	$ 110	$ 102
Number of dental participants	8	47	93	150	455	905	173

* *Includes cost of living increases*
** *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*

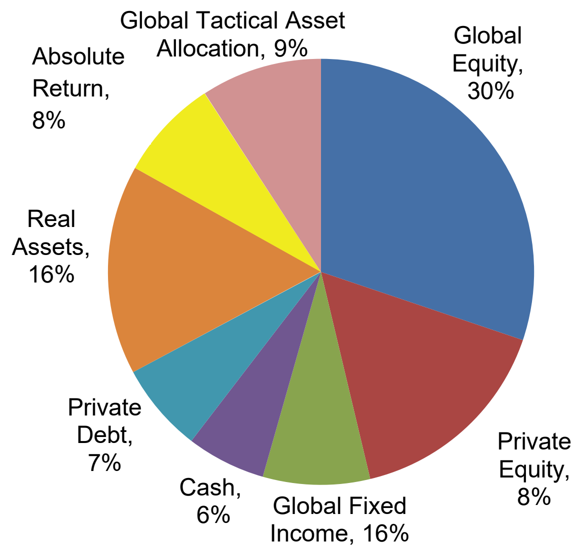
Asset Allocation (as of June 30, 2017)

The allocation of the Plan's assets is an integral part of the Plan's investment policy. As such, the Plan engages in frequent reviews of its asset allocation policy to ensure that assets are diversified in a manner which achieves the best risk adjusted returns for the Plan. In addition, the asset allocation is intended to minimize the volatility of the Plan's assets and mitigate the risk of large investment losses during times of prolonged market stress. The Plan's Chief Investment Officer and investment consultant, Meketa, assist the Board in designing the asset allocation and strategic diversification strategies within asset classes.

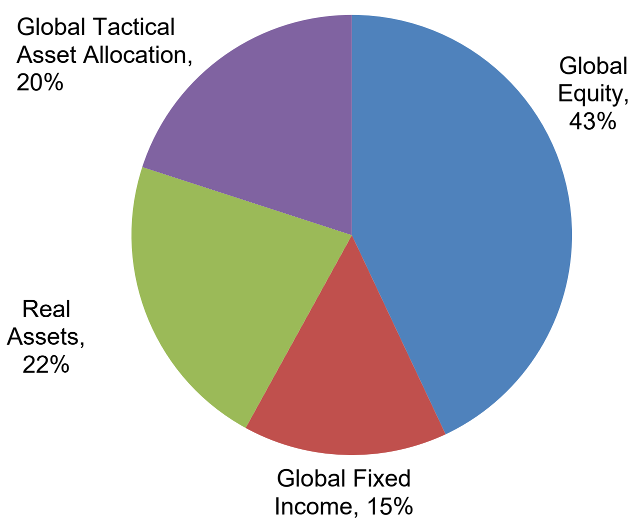
Pension - Target Asset Allocation



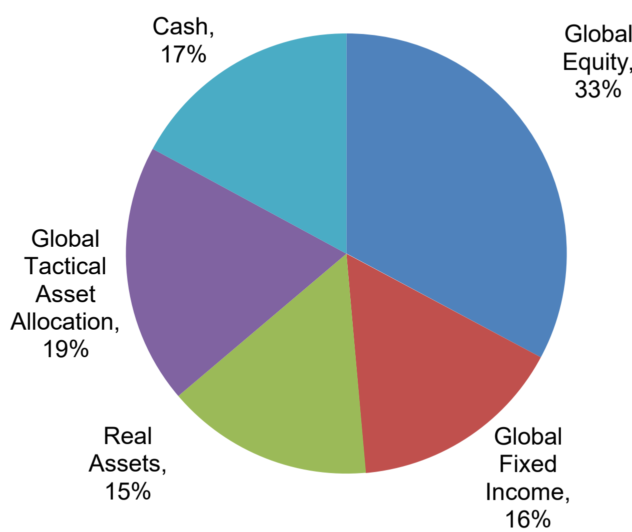
Pension - Actual Asset Allocation



Healthcare - Target Asset Allocation



Healthcare - Actual Asset Allocation



Real assets include real estate, commodities and infrastructure.

Absolute return includes hedge funds.

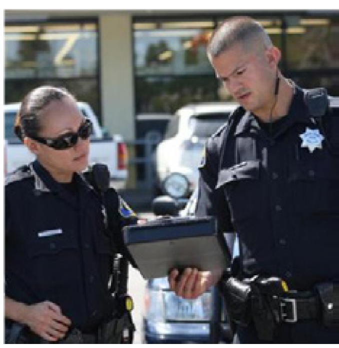
Investment Returns Based on Fair Value* **(as of June 30, 2017)**

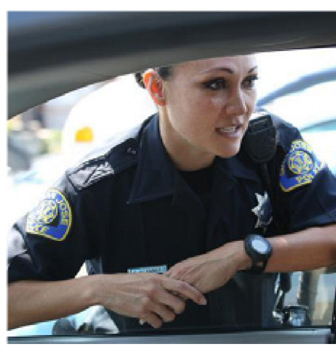
PENSION	One Year	Three Years	Five Years	Ten Years
Global equity	19.7%	5.2%	10.6%	N/A
Private equity	14.4%	8.8%	11.9%	9.6%
Global fixed income	6.0%	2.4%	4.3%	6.2
Real assets	3.2%	N/A	N/A	N/A
Private debt	9.5%	N/A	N/A	N/A
Absolute return	1.3%	1.2%	N/A	N/A
Global tactical asset allocation	7.6%	0.8%	N/A	N/A
Total fund (net)	**9.7%**	**2.6%**	**6.1%**	**3.2%**
Policy benchmark	**9.5%**	**3.1%**	**6.3%**	**3.7%**

HEALTHCARE	One Year	Three Years	Five Years	Ten Years
Global equity	19.1%	5.2%	N/A	N/A
Global fixed income	(0.4)%	2.4%	N/A	N/A
Real assets	(0.1)%	N/A	N/A	N/A
Total fund (net)	**7.0%**	**1.8%**	**4.9%**	**N/A**
Policy benchmark	**9.5%**	**3.2%**	**5.7%**	**N/A**

** Using time-weighted rate of return based on the market rate of return*

As stated in the Plan's investment policy, "the primary objective of the investment portfolio is to satisfy the Plan's obligations to pay benefits to members of the Plan and their beneficiaries. To do so, the Fund will seek to achieve long-term net returns in excess of the actuarial investment return assumption while maintaining a reasonable level of investment risk." In order to achieve this objective, the Investment Policy further states that "the Plan's fund will be managed as an ongoing concern with a long-term investment time horizon, consistent with the demographic profile of the Plan's members and beneficiaries." As such, "Investments shall be diversified with the intent to minimize the risks of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual asset classes, issues, issuers, geographics, or industries. Furthermore, assets will be assigned to a variety of investment managers that employ a range of investment management strategies." For the year ended June 30, 2017, the Defined Benefit Pension Plan returned 10.3% gross of fees and 9.7% net of fees, while the Policy Benchmark return for the same period was 9.5%.




Funding Status

The Plan hires an independent consultant to conduct annual actuarial valuations of pension assets and expenses. The actuarial values are compared to determine the annual contribution rates that the employer is required to pay to meet ongoing pension obligations. The actuarial value of assets differs from the market value of assets because gains and losses are "smoothed" over a 5 year period to minimize the effect of market volatility on contribution rates. The table below represents the actuarial report that was current as of June 30, 2016; please check the Plan's website for more current numbers and information on the Net Pension Liability calculation required by GASB 67.

SCHEDULE OF FUNDING PROGRESS - DEFINED BENEFIT PENSION PLAN (Unaudited)
(*Amounts in thousands*)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL	Funded Ratio	Covered Payroll	Unfunded AL as a % of Covered Payroll
June 30, 2016	$3,297,068	$4,355,990	$1,058,922	75.7%	$194,072	545.6%
June 30, 2015	$3,212,776	$4,058,410	$845,634	79.2%	$184,733	457.8%
June 30, 2014	$3,025,101	$3,813,825	$788,724	79.3%	$188,189	419.1%
June 30, 2013	$2,771,924	$3,578,031	$806,107	77.5%	$184,645	436.6%
June 30, 2012	$2,703,539	$3,397,792	$694,253	79.6%	$187,959	369.4%

SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE PLAN (Unaudited)
(Amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL	Funded Ratio	Covered Payroll	Unfunded AL as a % of Covered Payroll
June 30, 2016	$135,207	$778,871	$643,664	17.4%	$194,072	331.7%
June 30, 2015	$114,565	$739,753	$625,188	15.5%	$184,733	338.4%
June 30, 2014	$93,605	$706,710	$613,105	13.2%	$188,189	325.8%
June 30, 2013	$75,035	$700,525	$625,490	10.7%	$184,645	338.8%
June 30, 2012	$66,385	$997,321	$930,936	6.7%	$172,626	539.3%

Schedule of Employer and Employee Contributions

Employer and employee basic and COLA (Cost of Living Adjustment) contributions are based on statute and rates recommended by an independent actuary and adopted by the Retirement Board. The rates are set to provide a retirement benefit equal to a fractional part of the highest year(s) salary, depending on membership and tier.

(In Thousands)	PENSION		HEALTHCARE	
Year Ended	Employer Contributions	Employee Contributions	Employer Contributions	Employee Contributions
June 30, 2017	$136,957	$20,580	$20,667	$18,116
June 30, 2016	$132,480	$21,508	$21,065	$18,007
June 30, 2015	$129,279	$20,747	$20,910	$17,017
June 30, 2014	$123,583	$21,115	$17,267	$15,674
June 30, 2013	$105,234	$20,227	$15,808	$13,498

The Plan's actuarial valuations are calculated as of June 30 of each year. Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year.

Noteworthy Accomplishments

The Plan held its Annual Stakeholders' meeting in September 2016, with attendees receiving first-hand information about their retirement fund investments, the financial outlook and overall health of the Plan, and the impact of new legislation on retiree benefits.

The Office of Retirement Services kicked off the upgrade of its pension administration system in March 2015, the implementation of which is expected to last approximately 42 months and is estimated at $9 million. The implementation continued as planned during fiscal year 2017 and will be completed by the winter of 2018.

In November 2016, Measure F passed, and on March 31, 2017, the ordinance implementing the Alternative Pension Reform Settlement Framework and Measure F became effective. The provisions of the Framework include, but are not limited to, revising Tier 2 benefit, allowing rehired Tier 1 employees to remain in Tier 1, creating a Voluntary Employees Beneficiary Association (VEBA) for retiree healthcare and an irrevocable opt-out of the defined benefit retireed healthcare plan for eligible employees, defining the qualifications for members of the independent medical panel, and creating a Guaranteed Purchasing Power benefit for Tier 1 retirees. Both the City and the Plan are still waiting for approval from the Internal Revenue Service regarding several of the Framework provisions related to retiree healthcare. In addition, further discussions regarding the implementation of the Framework and Measure F are being held between the City and the bargaining units, which may result in additional modifications to the Framework.

Awards for Excellence in Financial Reporting

The Plan's CAFRs for the years ended 2000-2016, from which information on pages 1-7 has been drawn, were awarded the Certificates of Achievement for Excellence in Financial Reporting by Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement if the highest form of recognition for excellence in state and local government financial reporting. In order to be awarded a Cerfiticate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such a CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to conform to the Certificate of Achievement's Program's requirements, and we are submitting it to GFOA to determine its eligibility for another Certificate.

GFOA has given an award for Oustanding Achievement in Popular Annual Financial Reporting to the Plan for its PAFR for the fiscal year ended June 30, 2016. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the higest standards for preparation of state and local government popular reports. In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a PAFR, whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

An Award for Outstanding Achievement in Popular Annual FInancial Reporting is valid for a period of one year only. The Plan has received a Popular Award for the first time for the fiscal year ended June 30, 2016. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA to determine its eligibility for another Award.

The Plan has also earned the Public Pension Coordinating Council's (PPCC) Public Standards Award for 2003, 2007, and 2009 through 2016. The Public Pensions Standards are intended to reflect the minimum expectations for public retirement system management and administration, and to serve as a benchmark by which all defined benefit public plans should be measured.